



Second Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

31-32 Elizabeth II

Chairman
Mr. A. Anstett
Constituency of Springfield



MG-8048

VOL. XXXI No. 3 - 10:00 a.m., TUESDAY, 3 MAY, 1983.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Brian	Ellice	NDP
COWAN, Hon. Jay	Churchill	NDP
DESJARDINS, Hon. Laurent	St. Boniface	NDP
DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	NDP
DOLIN, Mary Beth	Kildonan	NDP
DOWNEY, James E.	Arthur	PC
DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virden	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNES, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
SCOTT, Don	Inkster	NDP
SHERMAN, L.R. (Bud)	Fort Garry	PC
SMITH, Hon. Muriel	Osborne	NDP
STEEN, Warren	River Heights	PC
STORIE, Jerry T.	Flin Flon	NDP
URUSKI, Hon. Bill	Interlake	NDP
USKIW, Hon. Samuel	Lac du Bonnet	NDP
WALDING, Hon. D. James	St. Vital	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES

Tuesday, 3 May, 1983

TIME — 10:00 a.m.

LOCATION — Room 255, Legislative Building, Winnipeg

CHAIRMAN — Mr. Gerard Lecuyer (Radisson)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Lyon, Mackling and Parasiuk;
Messrs. Doern, Eyer, Fox, Lecuyer, Orchard,
Ransom, Scott.

APPEARING: Mr. S. Cherniack, Chairman of the Board;

Mr. J. Arnason, President and Chief Executive Officer;

Mr. A. K. McKean, Assistant Vice-President, Finance.

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Hydro-Electric Board.

* * * *

MADAM CLERK, Carmen DePape: Committee come to order. Since our former Chairman, Mr. Anstett, is no longer a member of the committee we have to proceed to the election of a new Chairman. Are there any nominations?

Mr. Parasiuk.

HON. W. PARASIUK: I nominate Monsieur Lecuyer to replace Mr. Anstett.

MADAM CLERK: Any further nominations? Seeing none, Mr. Lecuyer would you please take the Chair?

HON. W. PARASIUK: Félicitations.

MR. CHAIRMAN, G. Lecuyer: The meeting will come to order.

The Member for Turtle Mountain.

MR. B. RANSOM: Thank you, Mr. Chairman. When the committee rose last Thursday we had been discussing the relationship of the Jobs Fund to Manitoba Hydro.

I had asked a question to the Minister whether or not he and the government would be directing Hydro to undertake projects that would have greater job creation impact rather than those that might promote the economy and efficiency of the utility. The Minister didn't really give a direct answer to that question when he spoke in response to it and the committee then rose at 12:30.

So, I'd like to place that question again to the Minister: Does he expect that the government is going to be directing Manitoba Hydro in that way?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Mr. Speaker, through the Department of Crown Investments we've asked all Crown corporations to give us lists of projected capital projects. We are asking them to refine these to give the employment component in the capital projects and this is something that the ERIC Committee will be reviewing. They will be passing on these comments and results of the review to the Jobs Fund. There may be opportunities for projects that could be cost-shared with the Federal Government.

For example, we've been pressing for the Hydro transmission line to Churchill. That's something that we hope we can get the Federal Government to make a positive response on. Again that would be something that the Jobs Fund certainly would be in favour of. It's something that in a sense pays for itself, but it has the added feature of providing employment right now and providing long-term stability, or greater stability to the Port of Churchill, which to date has relied on diesel power. We feel that would add to the longer term development of Churchill.

That is for the government to look at that overall package. Hydro can, and we hope will play a significant role in the future long-term development. So it is a relationship that exists; it's not something that one can specify with great exactitude right now, because one's involved in a negotiating process with the Federal Government and with other parties. That's always the case with employment projects.

We have stated that one of the objectives of the Job Fund is to try and maximize the amount of input by all parties. So we have a process of discussion and negotiation with municipalities; we have a process of discussion and negotiation with the Federal Government, all geared to try to get the greatest input possible with respect to employment projects, doing these things in a manner which would not be inconsistent with Hydro's short, medium and longer-term objectives.

Now, I might point out that there are a number of factors which in a sense have to be taken into account by Hydro and by the government, when the issues that Mr. Ransom raised regarding the purpose of Hydro listed on Page 5; namely, to provide for the continuance of the supply of power adequate to the needs of the province and to promote economy and efficiency in the generation and distribution of supply and use of power.

We have the whole question of mitigation in northern employment under the Northern Flood Agreement. That's something that is a much larger, very complicated issue, that may have implications for the purposes of Hydro that have to be considered on an ongoing basis

and we have an arbitrator involved in that process. It means that this will have to be an evolving process of consultation with Hydro and with northern communities and with affected parties and with the arbitrator. So it is a complicated, complex process that may have some impact on that.

We have the whole question of the Buy Manitoba objective of the Manitoba Government, whereby, within limits, we'd like to try and encourage Manitoba suppliers. We think again that'll have an employment impact that is beneficial to Manitoba. Again, judgments have to be made and we hope that these will be considered judgments. We want them to be considered judgments, but there will have to be a dialogue and consultation between the Crown corporations and the government and the boards in this respect.

We have the whole question, as I said, of any type of export sales, which are negotiated by the government, which may have some longer-term impact on the sequence of new construction undertaken by Hydro. If export commitments are made for a plant like Limestone that has a lower cost than Conawapa, then when the needs of Manitobans require that Conawapa be built, there is an implication for the future ratepayers that has an impact, at least for a period of time, that might influence that stated purpose of Hydro.

Those are ongoing processes of consultation and dialogue that, I believe, have to take place between the government, the board of Manitoba Hydro, and through them, the management of Manitoba Hydro.

So we aren't going to be directing Hydro as such. What we want to do is have a process of consultation so that Hydro has a clear understanding of what the larger objectives of the Manitoba Government are with respect to employment, and that Hydro within that context can make judgments that are important and beneficial to Manitoba Hydro ratepayers, both in the short, medium and long-term.

MR. B. RANSOM: Mr. Chairman, the Minister says that they're not going to be directing Hydro to do this sort of thing, but through discussion and understanding with Hydro, he seems then to be hopeful that Hydro may undertake some projects which would have a greater employment impact than otherwise might be the case in the direct pursuit of economy and efficiency. Will those decisions then depend upon the board? Have the discussions been with the Chairman of Manitoba Hydro and will the board be responsible for making those decisions, and will Hydro participation in projects with greater job creation depend upon outside funding? The Minister made reference to outside funding, perhaps through the Federal Government, that only if there's outside funding would they undertake projects of this nature.

HON. W. PARASIUK: This is an evolving process. We are talking about trying to deal with a long-term unemployment problem that exists in North America, exists in Canada, and exists in Manitoba. When one has unemployment in the order of 9 to 10 percent in Manitoba, and something over 12 percent nationally; obviously this is a problem that has to be addressed. It isn't addressed and dealt with immediately in a one or a two month period, it's something that has to be

looked at in the longer term and we are setting up a process whereby we feel we will have a more refined systematic way of looking at these things. And sure, if we can get federal participation with respect to a Hydro transmission line to Churchill, and we are negotiating that with the Federal Government and we are involving Hydro to provide technical backup when we undertake those negotiations with Hydro. I think that is beneficial to Manitoba and it is certainly beneficial to Hydro because they have been suggesting that would be a good thing for Manitoba Hydro. But the point is that unless we can get federal contribution, it's something that may in fact be deferred for a few years.

Well, if we can get federal participation through our employment effort, then maybe that would be a good thing. It certainly is within the context of Hydro - Hydro's objectives. It is a good thing for Hydro and it's a good thing for Manitoba.

We are pursuing negotiations with the Federal Government with respect to extending transmission lines to other Indian Reserves in Northern Manitoba. Again, that certainly is within Hydro's long-term objectives. It's a question of timing and we are trying to do everything we can to move up some of those projects which are beneficial to Hydro, which are beneficial to Manitobans in the long-run and which may, in fact, be stimulated by some federal contributions, which we are putting forward as part of our employment thrusts in our dialogue with the Federal Government.

So I expect this to take place. The decisions with respect to specific projects obviously have to be made by the board. The context is provided by the government. We certainly wouldn't want to impose something that wouldn't make sense to Hydro. That's why we say that there are certain things we are negotiating, we think they make sense, but the board will have to make those final decisions because they are the ones responsible and accountable for the specific projects.

MR. B. RANSOM: A couple of questions for Mr. Arnason and perhaps Mr. McKean would want to answer them, having to do with the Capital Program of Hydro in the year under review, the year ending March 31st, 1982. I understand that there were some changes in the Capital Program made during the course of the year. I wonder if Mr. Arnason could give us an indication of roughly what the initial program was and what the changes were.

MR. J. ARNASON: Mr. Chairman, I am not aware of any major changes to the capital program.

MR. B. RANSOM: Does that mean then that the amount of money expended on the capital program in 1981-82 was approximately what had been planned?

MR. J. ARNASON: The budget year referred to was underspent from the forecast for that year.

MR. B. RANSOM: Would Mr. Arnason just repeat that, please?

MR. J. ARNASON: The expenditure for the fiscal year referred to was underspent compared to the original forecast for that year.

MR. B. RANSOM: If that's the case, Mr. Chairman, why were the capital requirements of Manitoba Hydro increased in the year under review?

MR. J. ARNASON: We haven't got the numbers handy, but we can get back to that question, Mr. Chairman.

MR. B. RANSOM: All right, Mr. Chairman, I would be happy to return to it when we can get some answers to those questions.

The utility frequently makes comparisons between Manitoba Hydro costs of power and power costs in other jurisdictions across Canada. I would be interested in knowing what comparisons they have made in terms of the costs, say, in the area of administrative costs that Manitoba Hydro incurs as opposed to some other utilities across the country. How efficient then is Manitoba Hydro relative to some of these other utilities in terms of administrative costs?

MR. J. ARNASON: There has been no study made of the comparative administrative costs between our utility and other utilities in Canada.

MR. B. RANSOM: That would seem to me as a layman, Mr. Chairman, to be a reasonable thing to do, to make some assessment of how our utilities stacked up against others. I note in the Annual Report, for instance, on Page F3, that the operating and administrative expenses are up, '82 over '81, by roughly 13.1 percent, whereas recently a news release from the Saskatchewan Power Corporation, dated April 22nd, indicates that operating, maintenance and administrative expenses were held to an increase of 6.5 percent over 1981. So in the one case then, Manitoba Hydro is a little better than 13 and Saskatchewan Power Corporation is 6.5. What would account for that kind of difference between Saskatchewan Power Corporation and Manitoba Hydro?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I might just add a bit to Mr. Ransom's previous question. One of the objectives of the Department of Crown Investments, indeed, is to work with Crown corporations in looking at those particular questions: How efficient are we administratively with respect to our particular Crown corporations? How do we compare to other utilities in Canada? How do we compare with other utilities in North America? The department is a very new department; we are just staffed up, and certainly over the course of the year, a year and a half, depending upon the various items that emerge, that would be one of the things that we certainly want to look at.

I've had some discussions in a very general way with some of the major investment banks in New York, who do have analytical staff who review the performance of firms in particular sectors, be these mining companies in the mining sector, pulp and paper companies in the forestry sector, or utilities in the utility sector. We haven't gone into the specifics, but it's certainly our intention to start developing ways of looking at the particular performance of individual utilities and doing comparisons with others. There are certain ratios that

they have been developing, looking at the number of, say, administrative staff for field staff, looking at the number of administrative staff in relation to buildings and things like that, and we certainly want to pursue this.

MR. B. RANSOM: Well, I would certainly hope so, Mr. Chairman. I'm surprised actually that it's taken the Crown Investments Department to direct the utility in that direction, because there have been comparisons made repeatedly in terms of the costs of power.

I'd like to return just a minute to the Hickling-Johnson Study which was undertaken within Manitoba Hydro. The indication last Thursday, when we met, was that there was no report available, even though when I had filed an Address for Papers in the House, it was accepted by the Government House Leader at that time, subject to saying that the report had not yet been completed. There also was an article in the Winnipeg Free Press, dated February 10, 1983, where Mary Anne Fitzgerald had been interviewing Mr. Cherniack, the Chairman of Manitoba Hydro, and he had made reference to the development of a strategic plan for future direction of the corporation in terms of hiring. That strategic plan was in quotation marks. Then the article says that, "Although the report is not complete, Cherniack said it points to some overstaffing at the top level, because of the postponement of the \$2 billion Limestone generating station."

It would certainly indicate from the events in the House and from this article that indeed Hickling Johnson have prepared or will be preparing a report. I would like to ask Mr. Arnason if indeed there will not be some type of report prepared, or whether this is simply a verbal input that Hickling Johnson is having for Manitoba Hydro?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Mr. Chairman, I undertook to check into that Address for Papers by Mr. Ransom, and I have a copy of the February 10th press statement - I believe you have that as well - but I undertook to get these from Mr. Lyon last meeting. I have them here. I can send them over to him.

The answer that was given in the House to the questions were that, "I am informed" - and this is Mr. Penner who gave the answers - "I am informed by the Minister responsible for Manitoba Hydro that there is no such report referred to in the Address for Papers; namely, a report by Hickling Johnson. However, Hickling Johnson recently assisted Manitoba Hydro management in the preparation of a study not yet completed on corporation strategies which will, upon completion, be made available by the Minister for Manitoba Hydro."

So I did say that I would make that available on completion, on final review and assessment by the Board of Manitoba Hydro. Then at that particular stage, I would be making that report available. I made that undertaking in the House, and I certainly will follow it up.

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, I want to clarify again. I am not aware of any study made by Hickling

Johnson nor that they are to prepare a report. What I want to make clear is that there is a study or a corporate strategic plan in the stage of development nearing its completion, and that is done by Hydro staff with the consultative assistance of Hickling Johnson. I am informed and I believe that there is nothing in writing from them, they just participated in some of the review that was taking place in preparation for that plan, but that plan is one of internal Hydro people.

MR. B. RANSOM: I understand then from Mr. Cherniack's answer that Hydro has engaged this firm of Hickling Johnson and they don't get anything in writing from them; that the entire input from that consulting company is done on a verbal basis.

MR. S. CHERNIACK: It is my understanding that they were employed to assist in the developing of the corporate strategic plan which is being done by Hydro, and that they participated in conferences, meetings, development of research and review. I don't even know if they're involved in the writing of the corporate strategic plan.

MR. CHAIRMAN: The Honourable Member for Turtle Mountain.

MR. B. RANSOM: Mr. Chairman, in the opening statement that was made by Mr. Arnason, he refers on page 12 to work being done at Cross Lake on an indoor hockey arena. I wonder if Mr. Arnason could tell us when the work began, when planning began for this arena, and when they would expect that it would be completed?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: Work has been in the planning stage for some time. At the moment construction is under way and it's anticipated that the earliest completion date would be November 1983.

MR. B. RANSOM: The President says that it has been under way for some time. Does that indicate six months or a year?

MR. J. ARNASON: The planning studies on this have been going on for about a year, or a year-and-a-half, and as I say construction is well under way.

MR. B. RANSOM: What is it expected that the final cost will be?

MR. J. ARNASON: The total cost will be approximately 3.5 million.

MR. B. RANSOM: 3.5 million for an arena. Is this a curling rink and skating rink as well, Mr. Chairman?

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: It's an arena, Mr. Chairman. It's an arena with - the arbitrator ordered that it should make room for expansion of that recreational area. But what is now being constructed is an arena.

MR. B. RANSOM: It's strictly a hockey and skating arena? It doesn't have any curling ice attached to it?

MR. S. CHERNIACK: That's my understanding.

MR. B. RANSOM: 3.5 million is an awful lot of money to build an arena, Mr. Chairman.

Those of us who come from rural areas, where most towns have their own arenas, have some idea of what the costs involved would be in building an arena. It certainly wouldn't be expected to be 3.5 million. It might be expected to be in a range of substantially less than \$1 million if one was simply going to put up an arena.

Understandably, it might be easier to build one in a town in southern Manitoba than it is in northern Manitoba. But to what does Mr. Arnason attribute this vast spread in the cost of this arena at Cross Lake as opposed to what one might expect somewhere else?

MR. S. CHERNIACK: Mr. Chairman, may I, although Mr. Arnason may want to add to it, but I would like Mr. Ransom to know that the board is in entire agreement with his view. We found that there was an order, a consent order it is true, but an order made by the arbitrator which spelled out the extent of that facility and provided also that there shall be input from local labour. The costs were fiercely looked at by the board, and by the administration, and there was an effort made to, well there were bids called for, but in accord with the qualifications in the arbitrator's order which provided, for example, the size of the viewing stands for an arena, which in our estimation was a very elaborate, and you know, as Mr. Ransom says, very great for the area but it was in accord with the order of the arbitrator and was negotiated with the Steering Committee which consists of the federal-provincial Hydro representatives and those of the five Indian Bands which are covered by the Northern Flood Agreement.

I can only say that the original plans and orders involve something more elaborate than we ended up with, but certainly the cost is very high and it involves both the nature of the building that was required to be built, and the fact that it was built in the north, and the fact that it was required to have northern labour input; the last of which is recognized as being a contribution on the basis of mitigation and for employment assistance and training in the north.

MR. B. RANSOM: Mr. Arnason said that planning studies have been under way for at least a year-and-a-half. How have these studies been carried out? Who has carried out the planning studies then to take it the next step from the arbitrator's decision?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: The plans have been continually under review by a Steering Committee.

MR. B. RANSOM: Well, I would hope they would be under review by the Steering Committee, Mr. Chairman, but who prepared them? What plans are we speaking about here?

MR. J. ARNASON: The committee hired Eshmade Consultants who prepared the original plans.

MR. B. RANSOM: Are those the plans that are now being used to build the arena?

MR. J. ARNASON: Those plans have being modified and reduced from the original proposals.

MR. B. RANSOM: Is Mr. Eshmade involved in the reduction and modification of his plans?

MR. J. ARNASON: He's no longer involved in that project.

MR. B. RANSOM: What would the cost have been then to have Mr. Eshmade prepare the plans?

MR. J. ARNASON: I have no idea.

MR. B. RANSOM: Could we expect to get that information, Mr. Chairman?

MR. J. ARNASON: It would be very difficult to provide it, Mr. Chairman.

MR. B. RANSOM: Manitoba Hydro has engaged Mr. Eshmade to design an arena and we now are unable to get the cost of what Hydro expended to have him prepare those plans?

MR. S. CHERNIACK: Mr. Chairman, that's not the question that I understood from Mr. Ransom. The question I thought he was asking was how much would it have cost to build an arena such as Eshmade originally planned? Since that was reduced, the plans were reduced, we don't know what it would have cost. We just know that it's costing less than it would have. The payment to Eshmade, my recollection is that it was something under \$100,000 for all the preliminary work done by Eshmade.

MR. B. RANSOM: Well, again, I would hope that it would be under \$100,000, Mr. Chairman. We're talking about designing an arena of which there are dozens and dozens and dozens throughout Manitoba. They surely don't present any great architectural challenges. It would be interesting if we could have a more accurate figure, then, and I would hope that it would be substantially under \$100,000.00.

Had Mr. Eshmade simply been retained by Manitoba Hydro; had proposals been asked for? How did he come to be doing the work?

MR. S. CHERNIACK: Mr. Chairman, I agree with all that Mr. Ransom has said in this last statement as to the cost and nature. Mr. Eshmade was employed by Hydro on the recommendation of this steering committee, which I have already described, consisting of representatives from the four parties to the Northern Flood Agreement.

MR. B. RANSOM: How has Hydro, then, gone about actually getting the arena constructed? They now have taken his plans and are modifying them to some extent and they have now to proceed to actually get an arena on site. Has the project been tendered as a whole; how is it being handled?

MR. S. CHERNIACK: Mr. Chairman, the board reviewed quite extensively the proposed plan as prepared by Eshmade and then insisted that it could be reduced in various respects. The administration then prepared, over a period of time, plans in greater detail with proposed reductions, each of which had to be reviewed with that four-member steering committee to receive their approval. Otherwise, it would bounce back into the lap of the arbitrator but, finally, when it was felt that the specifications and plans were reduced to the lowest possible cost in the light of the requirements of the arbitrator's award, the specifications were put out to tender and a number of tenders were received - I'm guessing six or eight - and the lowest tender was accepted.

MR. B. RANSOM: Mr. Cherniack says that it was tendered and the lowest tender was accepted. Are we speaking now about the entire package to complete the arena?

MR. S. CHERNIACK: That's my understanding, Mr. Chairman. There was certain input that was coming from a federal job - I don't remember the name of the program - but there was money coming in for job training, and there was certain preliminary work involved in clearing the site that was done under Hydro supervision, but my general impression is that the final contract that was entered into was for completion. If it proves to be incorrect, I expect staff will inform us after review of this hearing and, certainly, I will notify the Minister of any further work that has to be done over and above the tender.

MR. B. RANSOM: Can Mr. Cherniack or Mr. Arnason tell us then what the tender was, or what all the tenders were, for that matter, for the completion of this arena?

MR. S. CHERNIACK: Mr. Chairman, of course, we can supply all that information. We don't have it with us. I suppose the proper way is for us to supply it to the Minister and within whatever confines the information ought to be kept private. I don't see any reason to keep any of it private, but I'm not quite sure how one handles the announcement as to tenders, but whatever is proper would be done.

MR. B. RANSOM: Well, this seems to be a circumstance where the costs are extremely high. The chairman has assured us that it has been tendered and that they have accepted the lowest tender to complete the arena. Therefore, we would appreciate then having information as to the tenders, and I would think that those could be provided by Manitoba Hydro. I don't exactly see why the Minister himself should be in a position of judging whether or not the committee could know what the tenders were. So I would just like the assurance from the chairman that they can provide that information to us.

MR. S. CHERNIACK: Mr. Chairman, of course, Mr. Ransom would have that assurance. I just thought that the proper way is for Hydro to report through the Minister, and that's why I suggested that it be sent to the Minister. If the committee wants it dealt with in any

other way, that's up to the committee and not up to me. The information is available and will be provided.

MR. CHAIRMAN: The Honourable Leader of the Opposition.

HON. S. LYON: Mr. Chairman, on Thursday last, Mr. Arnason gave an overview of Hydro's operating situation and indicated to us that there would be a budget deficit this year of approximately 18 million, although that's still an estimate. He indicated as well that even with, as I understood it, the increase in the rates of 9.5 percent to take effect May 15, that they were predicting a budget deficit for 1983-84. Could he refresh my memory and just tell me what that predicted deficit is for 1983-84, even with the 9.5 percent rate increase?

Perhaps - I'm looking at Page 13, and I see here

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: Approximately 23 million.

HON. S. LYON: So we're looking for a budget deficit in the current fiscal year of \$23 million; that will be after a rate increase of 9.5 percent; that will be after a subsidy from the Provincial Government to take account of extra borrowing costs incurred because of dubious off-shore borrowings that were made over the last period of time, which will amount to how much this year? How much do you expect that provincial subsidy will be, Mr. Chairman?

MR. J. ARNASON: In the year just ended, Mr. Chairman, it was approximately \$6.5 million.

HON. S. LYON: In the year just ended it was \$6.5 million. In the year that we're currently in, 1983-84, what do you expect it will be? I realize that's a guesstimate.

MR. J. ARNASON: I have no number, Mr. Chairman.

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, it's just that those would be in Provincial Estimates, and Hydro's projections involve Hydro's expectation of interest costs and inflation costs and do not take into account that item that Mr. Lyon is referring to.

HON. S. LYON: Mr. Chairman, I would expect that somewhere in Hydro's budget projections for 1983-84, they would have anticipated a figure, even though it would have to be a guesstimate as to what kind of a subsidy they would be receiving from the Province of Manitoba from the provincial taxpayers under the legislation that was put into place - when? 1980 or thereabouts, just as a revenue item. I realize that it would vary.

MR. S. CHERNIACK: Mr. Chairman, my understanding is that that amount is not paid to Manitoba Hydro. That is an amount which is used by the Department of

Finance to balance books between the payments they make and the charges they make to Hydro. The charges they make to Hydro under that Act, as I recall it, are related to the Canadian equivalent cost and that would be the figure that would be produced by Mr. McKean's department. That's my understanding.

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I'm speaking from memory now and I believe that it's something in the order of \$20 million this year because there is a lot of refinancing that has to be done. I believe it's in that order. It could be \$22 million, \$20 million - I'm just not sure of the exact order of magnitude, but my recollection is that there is a lot of refinancing this year, so that that will be a larger sum than last year. I believe it's in the Department of Finance's Estimates and I don't have my Estimate Book with me, but I think it's in that order of magnitude.

HON. S. LYON: Well, Mr. Chairman, I thank the Minister for that estimate. In any event, regardless of how the bookkeeping is maintained, Hydro will be the beneficiary of a certain amount of money, made available by the taxpayers of Manitoba, which otherwise Hydro would have had to make available out of its rate base or whatever. That's my understanding.

HON. W. PARASIUK: If I can just - on Page 71 of this year's Estimates, it's projected at \$25,185,000.00. That is, I guess, on the assumption of certain interest rates holding through the year.

HON. S. LYON: So it would be \$25 million. With the predicted deficit of \$23 million, that in turn is going to presumably reduce the contingency fund down to approximately what - \$60 million or thereabouts?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: Approximately \$60 million.

HON. S. LYON: At this stage, what rate increase will Hydro be recommending therefore to the government? What rate increase, if any, will Hydro be recommending to the government?

MR. J. ARNASON: Manitoba Hydro hasn't made any decision as to what rate increases we will be recommending. That will come in due course, after we've seen the final figures and made some further assessments.

HON. S. LYON: When, in the ordinary course of events, Mr. Chairman, would we expect that recommendation to be considered and passed along to the Minister and presumably made public almost concurrently?

MR. J. ARNASON: Any recommendation that we would make would very likely be in December of 1983.

HON. S. LYON: Such a recommendation would presumably be one that would take effect, not

retroactively after December, but some time in 1984. Would that be a reasonable expectation?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUUK: Yes, just for clarification. Under the agreement between Manitoba Hydro and Winnipeg Hydro, 90 days notice is required for a rate change, so that would have to take effect 90 days after any rate changes were actually made.

HON. S. LYON: Mr. Chairman, given the fact that Manitoba Hydro made a recommendation to the Minister in December last, I guess it was, for 15.7 percent rate increase to be effective April 1, 1983, because of its concern for the deterioration of the reserves, and the Minister reflected upon that and the government apparently reflected upon that and ordered an end to the Hydro rate freeze and an imposition of 9.5 percent rate increase effective May 15th. Given that background, on the concern that the Hydro Board expressed about the deterioration of reserves, the rate of deficits, even with provincial subsidy in place, and so on, what could we expect that the Hydro recommendation would be this year; that is, assuming normal water flows and so on? Would it be less than 15.7 percent, or more than 15.7 percent?

HON. W. PARASIUUK: Mr. Chairman, on one of the background pieces that was provided by Mr. McKean last week, there is rates of inflation versus forecasted rate increases and in that chart is May 15, 1983, 9.5 percent, assuming everything being equal in a sense, April 1, 1984. This is just a projection. It's not something that's been confirmed by Hydro. It's something that will be reviewed by the end of the year, because this is done on a rolling basis, is 15.9 percent and then after that they're projecting a 4.4 percent, 3.2 percent. This would be to maintain the reserves at \$61.7 million.

Now the whole question of reserves and what constitutes an adequate level of reserves is one where there's not total unanimity or certainty on it, or certainly not total unanimity. It depends whether, in fact, one would let the reserves go to \$50 million or \$45 million. There's where one has that flexibility, but at the same time I think there is agreement that it would be unwise to have the reserves to go zero, or in a sense to have the reserves a minus number.

HON. S. LYON: I'm sorry, I don't seem to have in front of me Mr. McKean's - I had it last week. Thank you, if that's a spare one.

HON. W. PARASIUUK: It's the fifth-last page.

HON. S. LYON: I saw the projection, yes. Now looking at Mr. McKean's presentation of last week, Mr. Chairman, these scenarios were based, for instance, on a 27.8 percent increase as at April 1, 1984.

MR. S. CHERNIACK: It's the next page.

HON. W. PARASIUUK: It's the third page, actually.

HON. S. LYON: Just out of curiosity, what was that scenario based on, the 27 percent increase on May 1, 1984 or April 1st?

HON. W. PARASIUUK: That was based on a continuation of the rate freeze and lifting the freeze at the end, and having to bring in a 27 percent increase to maintain the level of reserves at \$35 million. The reserves would have sunk to a very low level by March 31, 1983, and that would have required a 27.8 percent rate increase in order to keep some flexibility within reserves because, if you can recall the presentation of last week, variances in water levels can mean a plus or minus in revenues to the company in the order of up to \$80 million.

HON. S. LYON: Based on this projection, Mr. Chairman - and I realize that Hydro doesn't want to be anchored into this figure exactly - but based on this projection, ratepayers in Manitoba should be looking at Hydro's possible recommendation in December of this year of a rate increase of about 15.9 percent, 16 percent. That would be a reasonable guess, Mr. Chairman?

HON. W. PARASIUUK: No, I'm sorry. I won't answer that. That's for Hydro.

MR. J. ARNASON: I think it's premature, Mr. Chairman, to try to predict what we might be doing in December. That particular scenario simply indicates that, if we are to maintain the reserves at the \$60 million level, that kind of an increase is necessary, but that may not be the rate that we would be recommending to the Board.

HON. S. LYON: Mr. Chairman, has Mr. Arnason or the Hydro Board changed their point of view that a reduction of the reserves below \$60 million would not be desirable?

MR. S. CHERNIACK: Mr. Chairman, we discussed this last year. Nowhere do I find any Board decision ever as to what is a desirable debt-equity ratio. Certainly one recognizes that you reach a point where there has to be an equity ratio, although I think it was Nova Scotia that dipped into a negative position. But the Board would like to maintain a reserve, as any board would, to take care of rate stabilization in the event of some unexpected either physical, because of water requirements, or fiscal, because of interest rates or inflation, to maintain a desirable debt-equity ratio which means a reserve. But the Board has not reached the stage of doing more than informing, since there was a freeze, of informing as was done to the Minister and to the government therefore, that if there were to be no rate increase until 1984, then the April 1, 1984 ought to be 27.8 percent. I'm looking at the sheet that was attached to Mr. McKean's presentation.

The next sheet, which shows 15.7, was the recommendation that we made to the Minister showing that in order to maintain the same level, there ought to be a 15.7 percent increase.

The following sheet is the projection based on the increase which was decided on by government as of May 15, 1983, where the decision was 9.5 and the projection was made that, with the assumptions of the rate of inflation, the rate of interest costs and normal water flows, to maintain the same reserve level would, in expectation, bring about a 15.9 percent requirement for April 1, 1984. But since there is no need to make that decision at this stage, Hydro has not spent the

time or energy to make that kind of detailed review which it can't make until it has more information. That's why, by the end of the year, the reviews are completed and the recommendation could be made to the government.

HON. S. LYON: Mr. Chairman, my recollection is - and I'm sure the paper is around from last year's meeting of this committee - my recollection is that Hydro last year, that is in January of 1982 or thereabouts, made a recommendation to the Minister at that time that the Hydro rate freeze should be abandoned, and that an increase should be put in place in 1982. There were some rather startling figures used at that time to indicate the deterioration of the reserve position and as Hydro described it the need at that time, speaking of 1982, for a rate increase which the Minister and the government subsequently, I think in the light of circumstances, rightly refused to grant.

Now what has accounted for the relative appreciation or improvement in the Hydro figures of last year which were rather startling, which would indicate that Hydro, having made a recommendation of 15.7 percent I think it was, the Minister agreeing with 9.5, that the rather startling figures that we were given last year as to Hydro's rate requirements do not appear to have been borne out by the facts as they developed?

MR. S. CHERNIACK: Mr. Chairman, last year, the recommendation was 27.8 percent as shown on this chart attached to Mr. McKean's presentation. The year before that, it apparently had been 31.3 percent. This year, it's 15.7 percent. The reason for that is that interest rates were lower than previously calculated. Inflation had been reduced from that which had been expected it to be, and we had slightly better than average water conditions.

Now each time these projections have been made, they've been made on the basis of the reserve as at the time. There has been deterioration in the reserve, but the figures that we have been giving are based only on the amount of the reserves. So that in itself would bring it down year by year. The lower the reserve, and our projections being based on maintaining a reserve as it was at the end of the year, would in itself bring down the percentage. I think that's the explanation for it.

The main thing is that all we could do up to now was to make projections and inform the government for it to make the decision.

HON. S. LYON: In the light of circumstances, Mr. Chairman, however it would appear that the decision of the government last year to prolong the rate freeze - not to prolong it, but to leave it in place - for the fourth year was a satisfactory decision.

MR. S. CHERNIACK: Mr. Chairman, it's whoever looks at it comes to his own conclusion, as Mr. Lyon says. It would appear to him that way, and to the extent that Hydro is involved, our reserve has been reduced, but we did have the fortunate occurrence of lower interest rates, lower inflation increase level, and slightly better than average water conditions.

HON. S. LYON: Again, realizing that there are a number of variables that go into the rate-making process, but

assuming as we must always on these projections, normal water flows and at least a notional idea of what interest rates will be and inflation, given what their presents rates are, is there not a possibility that the Minister might have been able to leave the Hydro rate freeze in place for the fifth and final year of its intended span, thereby benefiting the people of Manitoba for the full spread of that desirable rate freeze and that great inflation helper, particularly the people on low incomes? Is it not possible that could have been left in place for one more year for the benefit of people, even though I realize, Mr. Chairman, that the Minister and the current chairman of Hydro or people who said that the rate freeze was never needed when it was brought in, in 1979, and that the provincial subsidy for Hydro borrowings was equally not needed? Those are two historical facts that will remain emblazoned on the record, but even given that miscalculation, misjudgment, by the present Minister and by the chairman of Hydro when they were in opposition when this plan was brought in, is it not possible in the light of the scenario that I have just mentioned that the Hydro rate freeze might have been allowed to run its full course without the kind of sort of worst prospect scenarios that Hydro was talking about as recently as last year?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I'll check through Hansard to begin with; I'm not sure whether, in fact, I passed comment on the Hydro rate freeze at all, and I'll certainly do that.

Secondly, I think that what existed five or six years ago was a whole set of projections regarding load growth, regarding interest rates, regarding inflation, water levels, that indeed didn't hold. I think that's the history with projections, if one tries to make five-year projections with respect to the economy, with respect to load growth. I think if one looks back in the late '60s and early '70s, there were projections of load growth in the order of 7-8 percent.

In my discussions with other utilities and with public service commissions in American states, they have found that it's been an historical fact that the projections by all utilities in the late '60s, early '70s, were in a sense very optimistic or they proved optimistic on the basis of hindsight. Now, in these instances, in these circumstances, hindsight's a lot better than foresight, but this has been a general condition with electrical utilities all across North America. So we have a situation where it's difficult to make long-term projections.

I indicated in the House last year that we would hold the freeze for one more year, that we would review the circumstances in the next year on the basis of recommendations that I received, judgments that I had to make and that I recommended to Cabinet and Cabinet concurred with, and I think I was fairly open in saying that I go around praying for rain, that I hoped that the interest rates go down, that I certainly don't want to put the agricultural community in bad straits by having too much rain, but certainly, everytime it rains I smile. We hope that interest rates will go down; they are going down. A year ago, that wasn't that certain. There's still uncertainty as to whether they might

go up again, and when one talks to the investment banks in New York, they're not completely certain where interest rates will end up. There's a feeling that inflation may be somewhat stabilized but, again, people aren't quite sure there.

So I think this is a matter that requires ongoing monitoring and requires judgments on a yearly basis, and we've indicated when Hydro will be completing their next round of integrated analysis, when they might be supplying this material to the government, and that's toward the end of this year. The government at that stage will have to look at this material and again make judgments as to the present and as to the future, and these are difficult judgments. I guess one in the future can look back on these judgments and criticize them from a position of hindsight, but I might say that from a position of hindsight, given the water levels that we've experienced, given the interest rate escalation that we experienced, given the escalation that we experienced, it would have been better had we not had a five-year rate freeze imposed in the first instance, but that rather this was looked at on a year-to-year basis.

I didn't get any information about the deterioration of Hydro's position. It was because of increased interest rates, because of increased inflation, because of lower water levels, until I became a Minister, and I was sorry that the general public wasn't aware that these things can in fact change; that they aren't inscribed in stone and that one has to in fact maintain the flexibility, keeping in mind the longer term interests of Hydro as an entity and keeping in mind the longer term interests of Manitobans as consumers of Manitoba Hydro.

HON. S. LYON: Well, I find that non mea culpa of the Minister rather interesting in the light of historical fact when he says that he now has the view that perhaps the five-year rate freeze wasn't necessary. I remind him that the position of his party whilst in opposition, in irresponsible opposition if I may say, was that the rate freeze wasn't necessary because the rates weren't going to go up, that things were so jolly over at Hydro that the rates weren't going to go up and that, indeed, the rate freeze was just a political action on the part of the former government. That, as I recall, was the thrust of the irresponsible argument that was put forward by the opposition, which now is the present Government of Manitoba, when the desirable rate freeze was brought in. So I find this - can we call it "Hydro speak" or "Minister speak" that we've heard this morning by the Minister - rather interesting against the historical factual record of what actually was said at the time by people who should have known better.

Mr. Chairman, on the question of hindsight, the Minister will recall, and so will the chairman of Hydro, that as early as 1970 and 1971, there were people advising the then-Premier of Manitoba, the then-chairman of Manitoba Hydro, of the course of ruin upon which they had embarked this utility in the early 1970s, and there was no question of hindsight that was needed to have Hydro avoid the debacle of hundreds of millions of dollars that were wasted on it in the middle '70s, as now documented in the Tritschler Report, but, you know, we can debate that another time. — (Interjection) — I heard some croaking from the Minister of Resources.

MR. CHAIRMAN: Order please.

HON. S. LYON: If the Minister of Resources sometime wants to debate the cost of that report compared to the wastage that was perpetrated by his government in the decade of the '70s, I'd love to debate that anytime.

Well, Mr. Chairman, on the question of Hydro rates, a number of variable factors that go into the rate structure, one, of course, is the question of the operating capital account that is maintained by Hydro when certain projects are in the construction stage and when those projects are completed as I understand it, and I'm subject to correction by hydro, then that operating capital account is transferred over to the rate base so that its costs are then absorbed into the rate structure of Manitoba Hydro.

That being the case, I'd like to ask a series of questions about the whole Limestone construction operating account. We recall, of course, that there was a cofferdam that was started about 1976 or thereabouts at a cost, as I recall it again, a ballpark recollection, of about \$100 million; that the cofferdam was completed on about 1978 or thereabouts; that there was a townsite that was constructed by Hydro in the vicinity of the cofferdam, which townsite was subsequently mothballed; that there were additional costs of several millions of dollars, or at least a few millions of dollars, with respect to that townsite.

As reported by the former President of Manitoba Hydro in his report, his final report, the final report of Mr. L.D. Blachford as the President and Chief Executive Officer, he made reference to the fact that - and I am quoting now from the second last paragraph - "Certain expenditures were incurred on Limestone during the fiscal year, relating to engineering work required to protect the earliest possible in-service date should current government negotiations result in significant requirements for additional firm supplies of electrical energy."

That, of course, refers to the process, I take it, whereby Hydro in the days when it was expected that the Western Power Grid Agreement would be consummated and so on, Hydro, along with the then Government of Manitoba, was looking to the demothballing, to use an awkward expression, of the townsite and a revitalization of the Limestone area in preparation for the construction which would be necessitated by the Western Power Grid and concurrently also by the prospect of the Alcan Smelter, both of which are now lost in the sands of time regrettably for the people of Manitoba.

That being the case, and it being my assumption unless I hear evidence to the contrary that Limestone is now firmly mothballed and nothing is being done there, and it's not anticipated to be done there at least until 1988 based on present projections;

No. 1 What is the amount of money in that capital cost account, that operating account, with interest accrued since it first started in 1976 or thereabouts?

No. 2 When, if not already, will that amount be transferred to the rate base?

No. 3 What is the expected impact of that account when it is passed through into the rate base?

MR. J. ARNASON: Mr. Chairman, the expenditures to December 1982 at Limestone are \$143 million. The

project is still in our Capital accounts and accruing interest and will not be transferred to the operating accounts until the project is completed. As the units are being completed they'll be transferred to the operating accounts. This presumably then, based on our present forecast for completion of 1992, it will be in that general period when the impact of the Limestone costs will be felt in the operating accounts.

HON. S. LYON: This 143 million that is attributable to Limestone; is that inclusive or exclusive of the work that is being done that was mentioned by the President to the converter stations, mentioned by you, Mr. Arnason, to the converter stations at the present time?

MR. J. ARNASON: The costs that we've given you cover the previous costs associated with all the cofferdam work, and the camp, and the townsite but that the work at Henday is a separate charge.

HON. S. LYON: The 143 million then is limited to those items that you've mentioned, cofferdam, campsite, townsite and any maintenance or whatever that's required of those buildings, security and so on?

MR. J. ARNASON: Yes, and the interest on the account annually.

HON. S. LYON: What would the normal practice be either in Hydro's experience, or in the experience as your accountants might advise you from other utilities of a similar nature, for having this kind of an overhang? By way of debt, I realize, that in relation to the total Hydro debt it's not a large percentage at all, but it is still \$143 million which in anybody's language is still a lot of money. What advice or guidance do precedents give Hydro, Mr. Chairman, with respect to this long carry-over of this item without working it into the rate base which would ordinarily be done? If the plant had been constructed it would ordinarily be done when the plant comes on-line.

MR. J. ARNASON: Limestone is within the 10-year projection of our Capital budget. We anticipate it'll be the next plant onstream, and because it's within the 10-year forecast we include it in the Capital accounts.

HON. S. LYON: When were these expenditures first entered into with respect to the cofferdam, the townsite? I made a recollection of 1976, perhaps you could firm that up, Mr. Chairman.

MR. J. ARNASON: Yes, as I recall, it was in that general period of 1976-77 when we undertook work on the cofferdam.

HON. S. LYON: Mr. Chairman, looking at it, as I'm sure accountants must from time-to-time, from the standpoint of the 10-year projection we're now, or at least we will be by that 10-year time when the money was first committed before 1988, or close to it. What are the advantages and/or disadvantages from the standpoint of the presentation of this kind of an overhang in Hydro's accounts? What are the advantages or relative disadvantages to the course of

action that is apparently being pursued by Hydro; that is, not to meld it into the rate base?

MR. CHAIRMAN: Mr. McKean.

MR. A. McKEAN: This is always a problem, Mr. Chairman, of what to do with - it's a relatively new problem to utilities in the last few years on this question of deferrals. I think I'm quite comfortable, at this point, where we still have a fixed or an estimated date for Limestone and the fact that it is going to be the next plant to continue to capitalize it. But I will agree with you that it is a concern the further it goes out.

Now I think your question was what would be the impact? The interest on that \$143 million, I think, is approximately about \$15 million a year. Fifteen million a year is roughly the equivalent of about a 5 percent increase in rates, and so, I guess if you transferred that interest to our operating account, it would be the equivalent of what a 5 percent additional need for rate increase is at the present moment.

HON. S. LYON: Well, the question then arises whether Hydro or the Government are doing the ratepayers a favour or a disservice by, in effect, continuing to capitalize this growing debt and trying to pretend that it does not represent a fixed and lasting charge upon Hydro obligations, until such time as the plant comes on line. I'd appreciate Mr. McKean's reaction to that query.

MR. A. McKEAN: Well at the present moment, as you probably realize, the rate increases are not sufficient to break even without the additional interest, so that as long as the rate increases are less than the amount to cover the other expenses, it would just add to the loss, which would have to be financed anyway, so that it wouldn't make any difference.

I think another concern you've got to consider too, is the fact that negotiations are proceeding to try and sell Limestone, extra-provincially and I would hope that wouldn't be forgotten. Although the interest during construction is an additional cost, the construction that was done on the cofferdam and on the two townsites were built at times when costs were lower than they will be in the future. So, as a partial offset to that interest during the construction, I would hope that it would be a saving of inflation and costs, but I'm not trying to in any way, minimize the fact that it is a concern to myself and I think every utility in Canada is having that same concern in reviewing the situation of what happens when plants that were projected, based upon prior rates of growth, are being deferred, or in some cases, I guess we're luckier than some bases, in a lot of cases some of the utilities are actually cancelling the full project. That has recently been done in B.C. and there's also been a number done in Ontario.

HON. S. LYON: So, in effect, when we're looking at a Hydro recommendation for a rate increase of say 15.9 percent, which is possible for next year, in reality we should be reading that as 20.9 percent, if we were to work in the real capital debt of the corporation into the rate base.

MR. A. McKEAN: Well, I don't think it would be proper for me to give an opinion on what the policy of board will be. Certainly . . .

HON. S. LYON: Just to interject, Mr. McKean. I'm not talking about policy. I'm talking about reality.

MR. A. McKEAN: I think what our chart was to represent for information to the board and to the government was that in order not to draw down reserves next year, our present estimate is that it would require 15 percent increase, and certainly, if a decision was made to not continue to capitalize interest on Limestone, that same chart would come out with an additional 5 percent. But that recommendation hasn't been made by the administration, and therefore, I don't think the board is . . .

HON. S. LYON: Mr. Chairman, if, as we had all around this table, I'm sure, devoutly wished for, Limestone had proceeded ahead, 1982-83, as was anticipated when the Grid negotiations were being finalized, then this would not be the kind of esoteric matter that it is now becoming. Because, of course, we could see a date for the completion and in the ordinary course of events from 1976 say to 1987, there would be a period of nine or ten years the operating account, or the capital that we're talking about - \$143 million plus interest, would have been worked through and then when the utility came on line, it would be worked into the rate base.

But instead, we're now really looking at the deferral of \$143 million and a capitalization of interest on that amount for a full nine years ahead of us, because we don't anticipate on the basis of the statement made by Mr. Arnason on Thursday last, that the next addition to generating capacity to serve the Manitoba load will not be needed until 1992. Presently it is expected that the next plant will be Limestone.

Well, here we are then, nine years before that event, saying that we're going to continue to capitalize the carrying charges on that growing and substantial debt for another nine years, at which time, given normal rates of interest, whatever that statement means nowadays, I don't know if there is such a thing as a normal rate of interest - but given projected rates of interest, we could be looking at a very, very sizeable fund that will have to be worked into the rate base for those ratepayers in 1992.

That's why I asked the question and I ask it from the standpoint of good business practice, as well as the standpoint of keeping the ratepayers advised of what their ultimate obligations are going to be. Would there not be some merit, given the rescheduling that has had to take place in Limestone, because of the failure of the Western Power Grid, Alcan and so on, would there not be some merit in closing off that account at the present point, working it into the rate base, so as to avoid this kind of traumatic impact on the rate base in 1992, which is under the present scheme of things, bound to happen. I ask that in search of information.

HON. W. PARASIUK: Yes, I think that the Leader of the Opposition has a point that I think is worthy of consideration, if indeed, the Limestone plant does not come in service until 1992 and it's certainly one that I would raise prior to that period. At the same time, I think it's important to note other factors, which Hydro is not directly responsible for.

First, it has been stated by the Minister responsible for utilities in Alberta, that they do wish to discuss the issue of the Western Grid after two years. It should be noted that there are discussions taking place with utilities to the south of us, which may entail the construction of Limestone prior to that time. Given the depth of the recession right now, I wouldn't want to raise any false expectations, as to the immediacy of any of those types of developments, but if there is any turnaround in the North American economy, you can get a change in load growth projections from 1 percent to 2 percent which is really a 100 percent increase in that load growth projection. If you extrapolate that out over a five or a six-year period, changes in people's load growth projection vary very dramatically in a short period of time.

Those are uncertainties that exist out there. There are these discussions taking place. There are detailed studies taking place with the utilities in the Wisconsin-Minnesota area. They are in the second year of a detailed study. We are into a very detailed study with the Western Area Power Administration. The Northern States Power contract for interruptible power expires in 1992.

All of these are factors that I think have to be considered, as well, when one looks at the future way in which one might treat the expenditures to date for Limestone. It is certainly one that I think has been raised at this particular meeting; it's one that I think merits consideration on an ongoing basis and ongoing review. I certainly will be doing that over the course of the next year or two, and I would expect that the Leader of the Opposition, or other members of his party, will be raising this issue as well, as something that has to be considered, should be considered, in the light of all overall circumstances.

MR. CHAIRMAN: The Leader of the Opposition.

HON. S. LYON: That figure, which is now identified as being \$143 million, what can we expect that, with a crude interest, to be next year? About 10 percent?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: Mr. Chairman, there will be an increase of about \$18 million, so that will bring it up 143 plus 18, 161 approximately.

HON. S. LYON: So next year when the committee meets, barring some dramatic change that, as the Minister says, we can't logically anticipate at this stage, we're looking at a growth in that figure right up to 161 million, which at that stage will be least two-and-a-half times as big as the level of the reserve we would like to see maintained for Manitoba Hydro. All the time this Capital debt is growing like Topsy. I don't like to use an exaggerated analogy, but almost like a slow-growing cancer if we don't deal with it.

That's why I ask the question. I was happy to have the Minister's assurance that he, and his colleagues, would be looking at it as well because, should the negotiations on the Western Power Grid be renewed in two years, which we would all hope would be the case; should the government and/or Hydro be

successful in the western area of the United States negotiations, which we would hope would be the case provided a good deal could be made; if any of these things happen it would be helpful, one would expect in the long term, for the Utility. But if they don't happen, if we can expect, as the scenario given by Mr. Arnason and Mr. McKean as laid before us, if we can expect status quo to be maintained, then I agree with the Minister that we are in a position, and Hydro is in a position of having to deal with this growing tumor of debt before it gets out of control and before it represents an overhang on the rate base that could be very, very deleterious for every Hydro user in Manitoba.

Indeed also, it could also become a matter of discussion among those who lend money to us and those who rate our credit as, indeed, that is the case. They look at things of that nature; they identify them, and they can indicate to us from time-to-time that we have something that is out of whack. I'm not suggesting that at this moment it's out of whack, but it is a growing problem.

HON. W. PARASIUK: I am just saying that I don't think we're disagreeing on that particular issue. I think that, in terms of what Hydro looks at, Hydro looks at that which is within its mandate. In terms of the extra-provincial negotiations that are undertaken by the government, I'm responsible for those and I have to think about the overall context, but I do acknowledge that's a point worthy of consideration and certainly one that will be considered. I can't say anything more at this particular stage, but to see how things develop over the next year, over the next two years. I think at that stage, hopefully, we will be able to negotiate a satisfactory arrangement for all parties in the future but, failing that, and one can't predict the state of the economy.

In North America right now, we've experienced something in the United States, for example, that they have never experienced since the Second World War, namely, an absolute decline in the amount of electricity consumed in the United States. That's a rather startling thing, if one looks back to the days of the '60s and early '70s, and if one would have predicted at that stage that, come 1982, there would be an absolute decline in the amount of electricity consumed in the United States, I think they would have thought that you were crazy.

Yet, when I talked to members of the Public Service Commission in Wisconsin, they indicated that they often take up to 12-14 years lead time in looking at the needs and the construction requirements for a new plant. That's how much lead time they think is required. But when one starts looking at those things one obviously realizes that the future is very uncertain. I think we are going to have to play it by ear on a yearly basis. I certainly don't duck the issue; I say that it's something that does have to be kept in mind.

HON. S. LYON: Mr. Chairman, I think, because the Minister has mentioned it, it is worth noting that in Mr. Blachford's message in the 31st Annual Report, he points out and I quote, "When yearly consumption figures are corrected to account for the colder winter

this year" - speaking of last year - "and adjusted for the new industrial load, actual growth was only in the order of 0.3 percent." So we're getting relatively close to the Wisconsin experience ourselves in Manitoba.

In the report that was given by Mr. Arnason he mentioned, on Page 9, that Capital expenditures for the expansion of the high voltage direct current transmission system at Dorsey and Heday amounted to about \$26 million in 1982-83; and he said, larger expenditures will be made in the next two fiscal years to complete this work, improving the performance and reliability of the high voltage direct current transmission system, which is vital to the security of the system.

I am wondering, Mr. Chairman, to what extent these Capital expenditures, \$26 million 1982-83, and the increased ones that Mr. Arnason anticipates, are devoted to anticipating Limestone coming on line and to what extent they are to, as he said, improving the performance and reliability of the B.C. transmission system. How much is capacity and how much is performance, if that is quantifiable?

MR. J. ARNASON: The present DC system is capable of taking the output of Kettle, Long Spruce, and the majority of Limestone, but in that situation there is no recognition of any spare capacity and one of our criteria on that DC system is to have a spare pole available and, therefore, about the time that Limestone is completed, we require to have that surplus capacity in the DC system.

One of the problems we did have was the fact that we are probably taking more power down the DC system because the Northern load hasn't grown as rapidly as anticipated, so there is an added burden on that DC system. But as we develop Limestone we will gradually deteriorate the criteria of the spare pole requirement in our DC. So some of these expenditures are to take care of the spare pole requirement and to take care of the completion of Limestone.

HON. S. LYON: What studies or opinions have Hydro had, Mr. Chairman, with respect to the advisability of putting any kind of spare pole or increased capacity in place when the utilization of that spare capacity is not expected to be needed until 1992? In other words, I would hope that we are not getting ourselves into another situation where we were building a cofferdam - starting to build it in 1976 - and then finding that that is an unproductive Capital investment which we have to carry until 1992, because we're building in anticipation of our future needs, rather than building something that is utilizable at the time and will make the system more efficient and carry its own debt load as part of the overall operating system.

MR. J. ARNASON: We had a consultant, actually from overseas, Preece, Cardeux and Rider, who studied this question and strongly recommended that we proceed with the installation.

HON. S. LYON: Was their study done at a time when it was known that the Western Power Grid Development was on hold, and that there would not be other customers, such as, Alcan, coming into the scene for Manitoba? In other words, was their study based on

the scenario, Mr. Chairman, that the President, Mr. McKean and others give to this committee; namely, that based on domestic load growth, which is the only sound criteria we can use, we're not going to be in need of any power until 1992.

MR. J. ARNASON: That study was conducted prior to the discussions on the Western Grid.

HON. S. LYON: Prior to?

MR. J. ARNASON: Yes, that is correct.

HON. S. LYON: So that would have to be prior to 1978? The discussions on the Western Power Grid started in the spring of 1978 between the governments involved.

MR. J. ARNASON: I would have to check that date then. I would estimate now that the study was made just after 1978, certainly after 1978, but I would have to check that out, Mr. Chairman. I didn't realize that the Western Grid Study started way back in 1978.

HON. S. LYON: Well, I can assure Mr. Arnason of that one datum because the Premier of Alberta came to Manitoba, I think, it was April of 1978; we had a joint press conference announcing that the three prairie provinces and then B.C., as a matter of fact, were going to be in the initial stages of the study.

HON. W. PARASIUK: I'd just like to add one thing in this respect. We are conducting negotiations with other parties and we are doing so, saying that we do have the capacity and we will have the capacity to provide power to them on a reliable basis, so that we will have to make sure that when we conduct negotiations, on that basis, that we can produce. The same thing held true, I think, that if one started looking at things in 1978 or 1979 or 1980, there were a lot of bridges crossed in any type of discussion with Western Power Grid, or with respect to any possible sales one might have envisaged at that time, just as there are a whole set of bridges to cross in discussions that are being undertaken right now.

HON. S. LYON: Getting back to the first part of this series of questions, Mr. Chairman, I take it, hearing no advice to the contrary from anyone from Hydro, I take it that Limestone is, at this moment, mothballed; I mean there's nothing doing up there.

MR. J. ARNASON: Yes, we are winding up the project and we were working towards mothballing at the end of March, so I would say it's completed.

HON. S. LYON: In his presentation, Mr. Chairman, the President of Hydro, on Page 11 of his comment said, "Planning studies continued with respect to a number of projects, such as, other potential generating station sites, which are smaller capacity and lower Capital cost than the lowered Nelson alternatives." Could Mr. Arnason explain and name what those sites are, upon which planning studies are taking place?

MR. J. ARNASON: We were studying the Burntwood River system. We have a number of potential sites there:

Wuskwatim and First Rapids and Menauhswun, and when we refer to lower Capital costs we're talking in terms of gross Capital costs. These projects are in the area of 200 megawatts or larger. At the moment, we are studying the Whitemud site downstream from Cross Lake. We want to be in a position to have some of these estimates at a same level of accuracy, at the time the decision is needed to be made for Limestone. In other words, whether we should be building a smaller site or proceeding with Limestone, depending on the circumstances, when that decision is needed.

HON. S. LYON: I don't have the original old map, which was so helpful, in front of me but looking at the one on the inside cover of the Annual Report I take it that the sites - Mr. Arnason can correct me if I'm wrong - the sites that he was referring to initially are those sites which might be, in layman's terms, as described as being along the course of the Churchill Diversion. Is that correct?

MR. J. ARNASON: That is correct, Mr. Chairman.

HON. S. LYON: As opposed, Mr. Chairman, to the sites on the lower Nelson, being Limestone and then the subsequent sites as we go toward the Bay, Conawapa and so on.

MR. J. ARNASON: Yes, we completed some studies at Conawapa, as well, during this period.

HON. W. PARASIUK: Mr. Chairman, I believe that Whitemud is on the Nelson River, as well.

MR. J. ARNASON: Whitemud is on the Nelson River, downstream from Cross Lake.

HON. W. PARASIUK: Mr. Chairman, again, just for the record, it's before . . .

MR. CHAIRMAN: The Honourable Leader of the Opposition.

HON. S. LYON: Referring to the matter of the 143 million that Mr. Arnason has identified this morning, could we have advice as to whether or not the chartered accountants who do the audit for Manitoba Hydro-Electric Board have given any internal opinion to Manitoba Hydro as to the manner in which this debt should be handled?

MR. CHAIRMAN: Mr. McKean.

MR. A. MCKEAN: Mr. Chairman, we had no comments from the auditors last year on the way we were handling it. We haven't discussed the matter with our new auditors this year, yet, but I think, in general, I wouldn't expect any great concern at this point, except for the fact that somewhere along the line it will be have to be added into a rate base, but so far our basis has been that Limestone has not been cancelled; it has been deferred. It was done over a period of time and this is not unusual but, at some point, it will be a problem that we've got to look at.

HON. S. LYON: Mr. Chairman, we know from discussions with the Minister of Finance that Coopers

and Lybrand are no longer the auditors for the Manitoba Hydro-Electric Board. Who are the new auditors for the Hydro-Electric Board?

MR. A. McKEAN: Peat Marwick Mitchell.

HON. S. LYON: And was that a decision that was made by the Hydro Board or its Audit Committee, or was it made unilaterally by the Government of Manitoba?

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, the Act provides, as does The Corporation Act, that the shareholders determine who the auditor is. In this case, it's the Minister of Finance who makes that decision.

HON. S. LYON: Was the decision referred to the Audit Committee of the Board? I presume that Hydro has an Audit Committee, because they were established before the government changed.

MR. S. CHERNIACK: The answer is, there is an Audit Committee; and it was not referred to any of the Hydro Board Committee or the Board itself.

HON. S. LYON: Something as fundamental as a change in auditor, which happens very seldom in the private sector, something so fundamental was not even referred to the Hydro Board or the Audit Committee?

HON. W. PARASIUK: This was looked at by the Provincial Auditor. I can undertake to determine whether, in fact, the previous administration consulted with the Board and with the Audit Committee before they took that function away from the Provincial Auditor who had performed it quite well in the past, and passed it on to a private company. I can undertake to get that information for the Leader of the Opposition, as well.

HON. S. LYON: Quite happy to get the information! For the sake of the record, though, Mr. Chairman, let the record show that, from time immemorial, until the first NDP Government came into office, the audit of Manitoba Hydro was done by private auditing firms. By some quirk of philosophy, the NDP saw fit to transfer the audit of Hydro over to the Provincial Auditor. That's no reflection on the Provincial Auditor. Subsequently, when our government came into office in 1977, we returned the auditing system to normality which was to have outside audits done on Crown corporations.

I just don't want the record to indicate that what our government did was out of skew with normality. What our government did was to return normality of auditing practice to Manitoba Hydro. What the previous government had done was esoteric, to say the least, and in response, I deduce, more to the anti-professional attitudes of certain members of the government than to anything else.

HON. W. PARASIUK: Again, we can partake in debate which might be best done under the Department of Finance Estimates Review. One can debate what's normal and what is not normal. An audit is normal; it can be performed by a public auditor, or it can be

performed by a private auditor. Both audits to me are equally good. One can use a certain process to make that change and that may be seen by some people to be abnormal in 1977 or 1978. One might use a different process in 1981 or 1982 to make those changes, and that might be viewed as being abnormal by other people, but the point is that audits that are reputable are being conducted.

The question is one of cost. I believe that the Provincial Auditor did look at the aspect of cost. Who would provide the best value for money in terms of the audit? That, I believe, was the consideration used by the Provincial Auditor when he discussed this matter with different auditing firms. I believe that they put forward proposals entailing what they would do at a certain cost. I believe it was, not quite a tendering process, but there was a process whereby the Provincial Auditor was satisfied that the best value for money would be received if the award was given to Peat Marwick Mitchell.

If one wants to debate that matter one can, I guess, take that up with the Provincial Auditor, either through Public Accounts or through the Department of Finance Estimates. It's certainly something that the Hydro Board did not have an involvement in.

HON. S. LYON: I take it, for the record, that the Hydro Board was not involved in it, there was then no recommendation from the Chairman of the Hydro Board putting forward his usual well-known adversity to any private auditing firm doing any government audit at all.

HON. W. PARASIUK: Mr. Chairman, as I indicated, this was a matter that was handled by the Department of Finance and by the Provincial Auditor. Certainly we, in government, respect the work done by the Chairman of Hydro and his opinions. When we ask for his opinions, Mr. Chairman, he provides those opinions on the basis of integrity and I would expect that any opinion that we asked of the Chairman of Hydro would be provided on that basis.

MR. CHAIRMAN: The Minister of Natural Resources.

HON. A. MACKLING: Mr. Chairman, I just want to register my concern that the Leader of the Opposition, in a backhanded way, reflects, I think, on the integrity of the Provincial Auditor when he talks about normality. Mr. Chairman, I want it to be clear that we respect the role of the Provincial Auditor; he has security of tenure; he is someone who is free to criticize and has criticized government practice. To suggest that it is abnormal for the Provincial Auditor, charged with responsibility to check on government accounts, to somehow not be the one chosen to look at probably the biggest area of public spending in this province is, I think, abnormal. So to suggest that the Public Auditor somehow should not play this role is, I think, an aberration on the part of the Leader of the Opposition.

HON. S. LYON: Mr. Chairman, I'm usually not terribly helpful at responding to non sequiturs. If the Minister had been around, and if he'd been listening, and I don't know that he was able to meet either condition, he would have known that I, specifically, said that I was

making no reflection upon the Provincial Auditor whatsoever. I was setting the record straight because of a comment that was made by the Minister. But, rather than deal with trivialities like that, I think we'll get back to the substance of this and ask, if I can, Mr. McKean, if he considers it helpful, from the standpoint of the corporation of which he is Assistant Vice-president, to have a change of auditors every four years when the government changes?

MR. A. MCKEAN: I don't think I really want to give an opinion. I'm used to be audited, and I respect the Provincial Auditor; I respect the two firms we've had, and really, from my point of view, I guess I'm the last one who should be consulted who should be auditor; I'm the one being audited.

HON. S. LYON: The point is that in the private sector, as I'm sure Mr. McKean is aware, it's a very unusual procedure for a public corporation to change its auditor. In fact, there are certain hurdles set up by the company law of Canada and of Manitoba because of the dangers that are implicit in an organization saying to an audit firm, well, we don't like what you did this year, so we're going to change you. You can see what the dangers are. I'm not suggesting, in any way, that is what happened at Manitoba Hydro, but one can understand why Legislatures and Parliaments in times past have built in these restrictions against public corporations changing auditors the way they would change their overcoats. I'm merely asking the professional question of Mr. McKean, as a chartered accountant, and I'm sure I know the answer, that in the best of all possible worlds it would be better, from his standpoint, from the corporation's standpoint, and from the public standpoint, if auditors were not changed like overcoats.

MR. A. MCKEAN: Again, I say I don't think I should comment on that because I'm the one being audited. But I might say that I think the only factor that comes in here is the professional code among the chartered accountants where, when there is a change of auditors, they consult each other; but, in this case, I happened to participate in supplying information to the people who were audited, and I never heard any concern, however, as the man being audited I don't think I should be the one participating in commenting on who should audit me.

HON. S. LYON: I certainly accept, Mr. McKean, your statement that the Provincial Auditor, Coopers and Lybrand and Peat Marwick if, indeed, they're the current auditors, are all extremely reputable people and so on. We're not talking about reputation, we're talking about continuity, and I take it then, from what you've said, that you have no objection as a professional to the law that is enacted by the Parliament of Canada and by the Legislature of Manitoba which prohibits the changing of auditors like overcoats, even though that may be done in Crown corporations for political reasons.

HON. W. PARASIUK: Mr. Chairman, I think, again, it's important for the record to indicate that this whole process was done by the Provincial Auditor checking with firms and making recommendations as to who

should audit what. Now, if what the Leader of the Opposition says is true, then I think it's a matter that really should be taken up with the Provincial Auditor. He's implying, I think, that somehow some law was broken or stretched when auditors were changed, and I certainly don't believe that to be the case. I can check that up with the Provincial Auditor to determine whether, in fact, that's the case, but I do know that companies do change auditors, I know that Crown corporations change auditors, and I think that what they are doing is auditing the books that I hope are presented in the best possible way to the auditors and, frankly, what's really very important is to make sure that the books are presented in a good state so that the auditor's task is made as easy as possible. If there are difficulties a reputable audit firm will point those out.

I'm not sure whether in fact continuity, as such, is necessarily the best thing. There may be instances where familiarity could, in fact, possibly lead to a type of acceptance of things that maybe someone new on the scene would be more careful about. But these are things that I think are best dealt with with the Provincial Auditor if the Leader of the Opposition has a grave concern, because this was done under the aegis of the Provincial Auditor.

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, just for information. The Manitoba Corporations Act provides that there shall be an appointment of the auditor at every annual meeting. The reason being, I assume, that the shareholders have to be given the point on the agenda to review whether or not they wish to change auditors.

For the information of the committee, my impression is, and that of staff who is present here today, is that the Peat Marwick appointment is a three-year appointment.

MR. CHAIRMAN: The Honourable Leader of the Opposition.

HON. S. LYON: Mr. Chairman, I don't disagree with the Chairman of Hydro in what he says about the law. Of course, it comes up every year in the information circular that goes out to all public corporations. It is also the exception, rather than the rule, in my experience, that public auditors are changed like overcoats. It's regrettable that it's been happening in Crown corporations with changes of government. I think, if we can judge by the statement made by the Provincial Treasurer the other day, that some of the ideas which animated this kind of thing in the 1970s have now been leached through and common sense is taking over again. So, I think that perhaps, from the standpoint of Hydro and the standpoint of the corporations and of the public interest, we're now sailing in calmer and more sensible waters.

MR. CHAIRMAN: The Member for Rhineland.

MR. A. BROWN: Mr. Chairman, I would like to ask whether anything has been done as far as controlling or stabilizing the water level at Cross Lake?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: There is a study under way to determine ways and means, or make recommendations as to how that might be accomplished, Mr. Chairman.

MR. A. BROWN: Has there been any demand from the Cross Lake community in the last two years requesting that the water level be stabilized on Cross Lake?

MR. J. ARNASON: Yes, there are continuing discussions with the people at Cross Lake about this problem.

MR. A. BROWN: Are the people demanding that something be done within the near future?

MR. J. ARNASON: They have been very vocal in their demands in the past.

MR. A. BROWN: Does the President of Hydro see any progress being made in that particular area within the next while, or can he give me a date as to which they hope to be in a position to go ahead with the stabilizing of the water level on Cross Lake?

MR. J. ARNASON: This report that we've commissioned is due in 1984, and we will wait the recommendations in the report to see what action they might suggest. In the meantime, Mr. Chairman, on a longer-term basis, the study of the Whitemud site was chosen, not only because it has a potential of some 250 megawatts, but we're anxious to see whether, in fact, that site might assist in the problems that have been experienced at Cross Lake.

MR. A. BROWN: What was the amount of compensation that was paid to the Cross Lake community during the last year?

MR. J. ARNASON: We are looking for the numbers, Mr. Chairman. We should have them in a minute.

MR. A. BROWN: While we are looking for those numbers, then, maybe we could also then take a look at some of the settlements, compensation paid to some of the other Native communities like Nelson House, South Indian Lake and the other communities in which we are involved with mitigation.

MR. J. ARNASON: I'm not sure if I caught the full impact of the question but the settlements under the Northern Flood Agreement; was that one of the questions being asked?

MR. A. BROWN: That is correct, Mr. Chairman.

MR. J. ARNASON: In terms of the Northern Flood Agreement, for the period from 1977 till December 1982, the total compensation that has been paid for various projects is in the order of \$ 10.7 million. That includes, not only the Native communities that come under the Northern Flood Agreement, but also the non-treaty group that live in the general area.

There was question relative to Cross Lake. We have a total number of \$2.6 million.

MR. A. BROWN: That \$2.6 million, that is for the five-year period that Mr. Arnason was talking about?

MR. J. ARNASON: Yes, that's for that period of time.

MR. A. BROWN: Is there any indication that a settlement will be made in the near future where we'll be able to get away from the annual compensation payments and have these communities again operating on their own?

MR. J. ARNASON: There's no termination date on this Northern Flood Agreement and I would assume that Manitoba Hydro will be paying compensation of some magnitude for many years to come.

MR. A. BROWN: Mr. Arnason tell me what the water levels are, not exactly but the levels on each lake, but are we in a good water position on all the lakes in this coming year? Are we looking at good water levels?

MR. J. ARNASON: As a general answer to that question, we've been very fortunate in the latter part of this past year just completed to have slightly above average water conditions. So, at this point in time, we are in a very favourable position. The snow conditions and water conditions in the north have been probably above average. More recently, in the southern system, it's been relatively dry but right at the moment we're quite optimistic as we move into the summer period. We're anticipating average water conditions.

MR. A. BROWN: So, Mr. Chairman, that means that we should be exporting quite a bit of electricity in the coming year?

MR. J. ARNASON: Under normal water conditions we can generate about 21 billion kilowatt hours and we use about 14 billion of that within Manitoba so we will have a fair amount of energy to export and we anticipate our export revenues to be substantial in the coming year.

MR. A. BROWN: What price are we receiving for the power that we are exporting at the present time? I would like a breakdown, if I could, from all the areas that we are exporting to, Saskatchewan, Ontario, and the U.S.

MR. J. ARNASON: While someone is digging out the details I can report, Mr. Chairman, that the average that we are receiving from exports to the USA is 14.2 mills. Our total average, that covers the Canadian export, as well as the USA, is 13.8 mills.

We do have a breakdown here, we'll just take a minute to find it. The exports in the past year to Saskatchewan has been \$3.7 million; to Ontario 8.8; so to the Canadian systems that's a total of 12.6 million.

A breakdown of our sales to the American utilities - Minkota Power Co-Operative 11.9 million; Minnesota Power and Light 2.9; Ottetail Power Company 11.8; and the Northern States Power Company 65.9 million.

That makes a total of 92 million to the U.S. utilities, and when we add the 12.6 from the Canadian utilities we have a total of \$105.3 million for the past fiscal year.

MR. A. BROWN: What is Manitoba paying for power at the present time? I believe that's still about 28 mills if I am right. With the increase which is expected May 15th, I suppose, that's going to rise by about 10 percent. Is that correct?

MR. J. ARNASON: The increase will be, on average, 9.5 percent.

MR. A. BROWN: So we'll be talking about 31 mills for Manitoba? Close.

MR. J. ARNASON: Yes, that's fairly close. The figure I recall was average on our system would be about 2.8 mills and you add 9.5 to that. Yes, your numbers are fairly close, yes.

MR. A. BROWN: I notice that the Minister was saying that there had been some discussion going on with Wisconsin as to power sales and, I suppose, that the objective is to maybe at some time or other hit the Chicago market.

I wonder if Mr. Arnason could tell me how much more, because that is higher priced power over there, approximately how much more we should be receiving for our power if we were to take that route than going down to Nebraska?

MR. J. ARNASON: The discussions with the Wisconsin people are at a very preliminary stage and I don't think we can precisely answer that question.

MR. A. BROWN: So you couldn't hazard a guess at this time whether we should be receiving equal to power what we're paying in Manitoba or whether we'd be within 20 percent or whatever?

MR. J. ARNASON: Until the terms and conditions are known we can't really give you a number but the sale to Wisconsin is a firm power sale. That's the difference between the sale that we have to, for example, Northern States Power where a majority of that is surplus energy.

MR. A. BROWN: One of the reasons that we were looking at going ahead with the MANDAN line was for the sake of selling firm power down to the Nebraska area. Now that the Western Power Grid is not going ahead how feasible, really, is the MANDAN line at the present time, because we will always be selling them power at a much lesser rate than what Manitobans are paying?

MR. J. ARNASON: The Nebraska Project, the MANDAN line, was not based on a firm power sale; the concept is seasonal diversity and surplus energy.

MR. A. BROWN: We would have been able to sell a firm power, though, if the Western Power Grid would have gone ahead; is that not correct?

MR. J. ARNASON: No, not necessarily.

MR. A. BROWN: Some of the concern that is being expressed, and it certainly is a concern of mine when we, in Manitoba, are paying 28 mills and will be paying close to 31 mills shortly, and we will still be selling our power down to the United States at 14.2 mills. I think that we must take a look at what effect this has, as far as business in Manitoba and manufacturing being comparative with the United States. This is a large concern of mine. Surely we cannot sell power to them and, as a result of that, make Manitoba manufacturing and business uncompetitive, with business and industry in the United States that we have to compete with.

MR. J. ARNASON: I think you're comparing apples and oranges. When we're talking about sales to the USA at 14.2 mills, you're talking about an interruptible supply of energy that's surplus to our requirements. We deliver it at the border at 230,000 or 500,000 volts; it is the responsibility of the U.S. utilities to take that power, transmit it to their centres, and distribute it. They have a great deal of added costs, over and above what they pay us for the power and, when they're buying our power, they're actually replacing their fuel, whatever that fuel might be.

In the case of the people to the south of us, that normally is coal, so it's a replacement of their fuel costs and they still have their plants that they're paying capital costs on, if they're not being used while they're buying our power. So these are considerations that have to be made and certainly the price they're paying is not far off the energy rates that we charge in our power rate in Manitoba.

HON. W. PARASIUK: Yes, I just wanted to confirm for Mr. Brown that I had raised this question with Manitoba Hydro and I was assured that the price that our industrial users pay is substantially less than what the Americans pay, because we sell this power at the border and they have their own added distribution costs which may, in fact, take that up by another 8 or 9 mills, maybe even more than that. So, we certainly are competitive in that respect and I think it's important that we maintain that.

I just wanted to get a clarification of Mr. Brown's last comment, in a sense, as the Minister responsible for Hydro, and as the Minister responsible for Energy, is he saying that we should do everything possible to try and make sure that Manitoba industry is competitive vis-a-vis Americans when it comes to energy prices. Is that correct?

MR. A. BROWN: That's right. My concern is this, that by exporting power at a low cost, that it's going to be difficult for our industry and our manufacturing to compete when we are paying 28 mills in Manitoba and when that power is going down there at 14.2 mills. Now, I realize that the distribution cost has to be added to that 14.2 mills. I would still like to see if I could get a comparison of the power rates in the States where our power is going to; well we know what we are paying over here.

HON. W. PARASIUK: Yes, I certainly will undertake to provide that, because the British Electrical Utilities Commission did a survey of industrial rates for all major industrialized countries in the Western World and found

that we have virtually the lowest electrical, industrial rates in the entire Western Industrial World, which I think is a good thing for our industrial users. We certainly think that that's a wise approach and that's one of the reasons why we believe that the price of oil in Canada should be 75 percent of the world price of oil, because our costs of oil production are lower and predictable, and we believe that if the price of oil was kept at 75 percent of the world price of oil, as is the agreement right now between Ottawa and Alberta, that would be of benefit to Canadian manufacturers; that would be of benefit to Manitoba manufacturers and, if, in fact, the world price of oil stabilizes, or even drops, that maybe that 75 percent of world price agreements should be maintained. That's the position that we have taken as a government.

I've known that some members of Mr. Brown's party have asked me in the House on this and basically have implied that we should be paying a world price for oil in Manitoba. I know that's the position of the Conservative Party in Alberta. I believe that this is a matter of great debate within the National Conservative Party, as they conduct their leadership race right now. I know that Mr. Lougheed, for example, says he's going to interview every Leader to determine what his position on energy pricing is and if, in fact, there is a consistent position on the part of the Manitoba Conservative Party on this respect, which basically says that when it comes to electrical energy we should make sure that our electrical energy provides a competitive advantage to Manitoba manufacturers, and we agree with that. That's the position that Manitoba has, the present Manitoba Government, and indeed, if that is the position of the Conservative Party of Manitoba and the position that Mr. Brown has just articulated with respect to electrical energy, if that is the general position of the party, with respect to oil prices, we'd certainly like support in that respect because we believe that there should be a coherent energy policy within the entire country, which treats our energy resource as something that is of long-term significance, which is something whereby we do have some comparative advantage, and whereby is something that we should ensure that we can get the greatest possible employment impact for Canada. And that means we have to look down the line, maybe 5 years down the line, 10 years down the line, and 15 years down the line, to ensure that Manitoba and Canada maintain some type of comparative advantage, with respect to energy costs.

We've been doing that with respect to electrical energy. This is a publicly-owned utility, it's governed by utility pricing, which means that its prices are set on the basis of what it costs to produce. You have a

stable price for electricity because it's related to the cost of old oil or old electricity. When you bring your new electricity onstream then it's brought into the rate base. That's the position that we generally have taken with respect to all energy pricing in Canada, and we have found that we haven't received consistent and wholehearted support from other political parties in this country. If we, in fact, applied the same pricing philosophy and mechanism to oil pricing then oil prices in Manitoba, and in Canada, would be significantly lower and that would give the Manitoba manufacturers, the Canadian manufacturers, even more of a comparative advantage, and hopefully, would be decreasing our unemployment rate from something in the order of 12 percent nationally, possibly to something in the order of 9 percent, or 8 percent nationally, and that would have significant impact on the rest of Manitoba and on the consumers and on the employees.

So, I'd like to get clarification from Mr. Brown if, whether the policy that he holds for Hydro should be applied generally and consistently with respect to all energy pricing in Canada.

MR. J. ARNASON: I have some information here, Mr. Chairman, just for clarification. I have before me a list of some 24 utilities in the U.S.A., indicating their costs or their prices, as of April 1982, for power customers, and these numbers range from 3.73 cents to 11.04 cents. In other words, from roughly 37 mills to 110 mills. Our energy rate for the power primary is roughly 12.3 mills. I just want to make that comparison.

MR. A. BROWN: Are some of these power utilities, or did the power utility that we are selling our electricity to, mainly Minneapolis, I suppose would be our largest competitor, our nearest major competitor as far as manufactured goods are concerned; can Mr. Arnason tell me what the power rate would be in Minneapolis?

MR. J. ARNASON: I haven't got that at my fingertips, Mr. Chairman, but certainly we can supply it.

MR. A. BROWN: Mr. Chairman, I was going to go into a different area now, but I see that it is 12:30.

MR. CHAIRMAN: I understand the committee will meet again on Thursday.

MR. A. BROWN: Public Utilities will, it may not . . . ; it could be MPIC at that stage.

MR. CHAIRMAN: The Committee of Public Utilities meets again on Thursday.