



Fourth Session - Thirty-Fifth Legislature
of the
Legislative Assembly of Manitoba

**STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES**

42 Elizabeth II

*Chairperson
Mr. Marcel Laurendeau
Constituency of St. Norbert*



VOL. XLII No. 8 - 7 p.m., TUESDAY, JULY 6, 1993

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fifth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	Liberal
ASHTON, Steve	Thompson	NDP
BARRETT, Becky	Wellington	NDP
CARSTAIRS, Sharon	River Heights	Liberal
CERILLI, Marianne	Radisson	NDP
CHOMIAK, Dave	Kildonan	NDP
CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	NDP
DOER, Gary	Concordia	NDP
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	Liberal
ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Clif	Interlake	NDP
EVANS, Leonard S.	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	NDP
GAUDRY, Neil	St. Boniface	Liberal
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
GRAY, Avis	Crescentwood	Liberal
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda, Hon.	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
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PALLISTER, Brian	Portage la Prairie	PC
PENNER, Jack	Emerson	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
STEFANSON, Eric, Hon.	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary, Hon.	Fort Garry	PC
WASYLYCIA-LEIS, Judy	St. Johns	NDP
WOWCHUK, Rosann	Swan River	NDP
<i>Vacant</i>	Rossmere	
<i>Vacant</i>	Rupertsland	
<i>Vacant</i>	The Maples	

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

Tuesday, July 6, 1993

TIME — 7 p.m.

LOCATION — Winnipeg, Manitoba

CHAIRPERSON — Mr. Marcel Laurendeau (St. Norbert)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Mr. Gilleshammer, Hon. Mrs. McIntosh,
 Hon. Mr. Manness, Hon. Mrs. Mitchelson

Mrs. Carstairs, Messrs. Edwards,
 Laurendeau, McAlpine, Santos, Storie,
 Sveinson

APPEARING:

Steve Ashton, MLA for Thompson

James Downey, MLA for Arthur-Virden

Kevin P. Kavanagh, Chairperson, Crown
 Corporations Council

Douglas Sherwood, President and Chief
 Executive Officer, Crown Corporations
 Council

MATTERS UNDER DISCUSSION:

The Annual Reports of the Crown
 Corporations Council for the years ended
 December 31, 1990, December 31, 1991, and
 December 31, 1992.

* * *

Clerk of Committees (Ms. Judy White): Good evening. Will the Standing Committee on Public Utilities and Natural Resources please come to order.

I have before me the resignation of Mr. Reimer as the Chairperson of the Standing Committee on Public Utilities and Natural Resources. I will now read the letter:

I would like to resign as Chairperson from the Standing Committee on Public Utilities and Natural Resources effective July 6, 1993, signed Mr. Jack Reimer.

The floor is now open for nominations.

Mr. Ben Sveinson (La Verendrye): I nominate the honourable member for St. Norbert (Mr. Laurendeau).

Madam Clerk: The honourable member for St. Norbert has been nominated. Are there any other nominations? Seeing no other nominations, would Mr. Laurendeau please take the Chair.

* * *

Mr. Chairperson: We have before us the following reports to be considered: the three annual reports for the Crown Corporations Council for the years ended December 31, 1990, December 31, 1991, and December 31, 1992. Copies of the reports are available to the committee members on the table behind me.

I would invite the honourable minister responsible to make his opening statement and introduce his staff present this evening.

Hon. Clayton Manness (Minister responsible for the administration of The Crown Corporations Public Review and Accountability Act): Mr. Chairperson, it is a pleasure once again to see called the committee and at this time asking it to deal with annual reports of the Crown Corporations Council. Other times there has been good dialogue around certain elements as presented within the annual report, and I am sure today's sitting will not be any different.

I would like, at this time, to introduce individuals associated with the council. Firstly, Chair of the Board, Mr. Kevin Kavanagh, and I know most people around the table know Mr. Kavanagh. Joining us, I believe for the second time on an annual report, is Mr. Doug Sherwood, president of the Crown Corporations Council and chief executive officer, and also Mr. John Singleton, who is a vice-president with the council.

I will not have an awful lot to say, Mr. Chairperson, other than when we brought forward the concept of the council, enshrined in legislation I believe in our first session, 1988, we, too, as a

government were pretty convinced that this monitoring approach but also resource-based approach and support of our Crowns would turn out to work—we hoped it would work as well as we had conceived.

After a year of growing and indeed the best part of two years, I think and I believe we have a mature council at this point that is working fairly closely with the Crowns, monitoring, watching, but far beyond that, providing resource and support, certainly to all of the Crowns, maybe to a larger extent to the smaller Crowns, but nevertheless, giving government the greater comfort that government needs when you are dealing with entities that are not only spending, in lots of cases, hundreds of millions of dollars, but beyond that, are borrowing.

Certainly, that independent review is required. I have found the Crown Corporations Council most supportive in helping me, and I would dare say all of government, derive the greater comfort that is needed with respect to decisions surrounding our valued Crown corporations.

So, Mr. Chairperson, with those very few remarks, I will close. However, I will invite Mr. Kavanagh, as chair of our council, to make any opening remarks that he may wish to make.

Mr. Chalrperson: I thank the honourable minister for that.

Would Mr. Kavanagh like to make an opening statement?

Mr. Kevin P. Kavanagh (Chairperson, Crown Corporations Council): Thank you. By way of opening remarks, they can be relatively brief. I thought I would speak a little bit about the role of the council and, secondly, talk a little bit about a more recent preoccupation of council, namely, the financial self-sufficiency of the Crown corporations as a general matter. Then Mr. Sherwood was going to talk a little bit more specifically about the varied areas of the Crown.

Insofar as the role of the council is concerned, we see it as being essentially to strengthen the ownership accountability of government without undermining the basic accountability that exists from the minister to the chairman to the board of directors.

In seeking to fulfill that role, we see ourselves as, in a sense, being a member of the board of each of the Crown corporations. Now, it is true that the Crown Council does not have a vote as a director of

each of these boards nor is it present at their meetings, but we receive pretty much all of the information that is made available to directors of each of the Crown corporations. We are in a position to query the data that we do receive. We most particularly have a strength in the fact that, unlike every other board member, we have a small but very effective analytical staff that assists us in reviewing the information.

So if you could visualize being a board member of, for example, Hydro, and having eight analysts to assist you before you attend each meeting, then you might have a sense of the mind-set that we have about how we go about addressing our responsibilities.

So all of that really, in our heads, is a bit of a re-creation of the kind of behaviour you see in the private sector by a major or controlling shareholders who approaches their task of ownership. They do it typically by having a significant and strong staff to assist them in evaluating what is taking place.

Under the heading of financial self-sufficiency, I thought I would address that because reference was made to it in a most recent report. It is kind of, a bit new as a Crown corporation preoccupation, and so why have we focused on it?

In my role, my first interest was in the operating statements of each of the Crowns, but during the course of my association and that of Mr. Sherwood's with the council we have been much more attentive to the balance sheets of each of the Crown corporations, and why? Well, we have an innate sense that the '90s are going to be different possibly than the '80s and '70s in respect to the financial strength of Crown corporations.

We fuss a bit about the risk agenda that exists for various of the corporations, and I guess that I would not be telling the truth if I did not say to you that our perception of Ontario Hydro has quickened our interest in balance sheets and Crown corporation strength.

What I am getting at in that particular respect is that in very recent times Ontario Hydro, heretofore seen as the strongest credit aside from the federal government in this country, has been confronted with many financial difficulties, largely associated with the financing of their nuclear installations.

Nevertheless, with \$32 billion worth of debt and with earnings that are melting like snow, the fiscal

integrity of the province is compromised by a Crown corporation with that much debt and with a trend toward losses.

* (1910)

So, in one fashion or another, we have said to ourselves, gee, we had better be more attentive to the financial self-sufficiency of Crown corporations.

What we mean by financial self-sufficiency is we mean greatly minimizing and hopefully eliminating the extent to which the public purse is called upon to subsidize a Crown corporation and indeed to look at Crown corporations and say, can they not be strengthened to the point where on their own name they could be raising whatever finances they need?

We probably are quite far distant from that ideal circumstance but long journeys are always begun someplace. So we have been researching this and talking about the nature of self-sufficiency and what might have to be done over time with various of the Crown corporations, particularly the Telephone System and particularly Hydro which are so very major in the affairs of the province and in the Crown corporations.

Somewhere in our reports you will see us talking about self-sufficiency, and I just wanted to background a little bit why there was that new note. It is not that we see that there is a new and frightening vulnerability in Manitoba as I think there is with respect to Ontario Hydro. It is not because we see that, but because defences against that kind of scenario begin when you start to pay attention to it.

Those would be my opening remarks. Mr. Sherwood is with us, and if you wish, you might ask him to supplement those opening remarks.

Mr. Chairperson: Thank you, Mr. Kavanagh. Mr. Sherwood, did you have a few words you wanted to add?

Mr. Douglas Sherwood (President and Chief Executive Officer, Crown Corporations Council): Mr. Chairperson, I would like to take this opportunity to outline council's general perspectives on the status of their Crowns under our purview.

There are 10 Crowns over which we have monitoring responsibility. Seven of these Crowns are ranked in the top 100 of Manitoba corporations in terms of revenue. Four of those seven rank in

the top 20 of Manitoba companies. Those four are Manitoba Hydro, Manitoba Telephone, MPIC and the Manitoba Liquor Control Commission.

Of the 10 Crown corporations we are responsible for, five are presently profitable and five are not. Of those that are, Manitoba Liquor Control Commission and the Lotteries Foundation are highly profitable.

McKenzie Seed has shown good increases in its level of profitability over the last four years. Manitoba Hydro, which has reported a loss for its fiscal year ending March '93, is forecasted to show a significantly improved financial performance during its next fiscal year as a result of revenues from export sales.

MPIC, which has experienced a rapid financial deterioration due to increased claims expense, is forecasted to return to profitability in its next fiscal year.

Communities Economic Development Fund, which is a lender of last resort to entrepreneurs outside Winnipeg, has a significant social aspect to its mandate which requires ongoing government subsidy.

Venture Manitoba Tours, Manitoba Hazardous Waste Management Corporation are presently losing money although the latter company is seeking outside equity capital in a prospective joint venture arrangement. Losses are projected to end shortly after the company's proposed new facility in Montcalm has become fully operational.

Council's activities during the past year have focused on ensuring that the Crown corporations have appropriate strategies and programs in place which will minimize government financial exposures, both short and long term. In this context we have noted council's prospectus regarding the Crowns in our annual and quarterly reports.

Specifically, although MTS is currently profitable, it faces many business risks. It is in an industry facing tremendous technological, competitive and regulatory change. It is a small player in an industry which is being dominated more and more by the very large, global telecommunications companies, such as BT, PLC—that is the old British Telecom—and AT&T.

In addition to dealing with significant and rapid changes, the company is burdened by one of the weakest balance sheets of any telephone company

in Canada with close to \$1 billion in debt. We have encouraged the company to urgently address these pressures through an aggressive review of expending in all categories, new marketing strategies, new business alliances and, if necessary, rate increases.

MPIC has been faced with increased losses arising from substantial increases in the severity and frequency of bodily injury claims. This is a trend being experienced by most auto insurers in North America.

In addition to continuing its focus on efficient operations the company's only other options are to either contain its claims liabilities through program changes or to request substantial rate increases. The proposed no-fault program addresses the need in a manner which should produce satisfactory financial results for the company while maintaining insurance premiums at or near current levels.

Venture Manitoba Tours, the Crown responsible for operating the Gull Harbour Resort and Conference Centre and the Hecla Island Golf Course, has been experiencing increased losses in recent years arising from a combination of poor weather, a generally depressed economy and considerably greater resort and golf course competition. The company has responded through an aggressive marketing program and expansion of customer-related activities while focusing and trying to contain its costs.

Unfortunately, the outlook for this company remains poor, with the result that council has recommended that government ownership of the resort be re-evaluated.

Manitoba Mineral Resources also faces a number of industry risks. Although this company has fulfilled its mandate in a most effective manner, it is facing a somewhat uncertain future resulting from the lack of new mineral finds in the province for a number of years together with pending mine closures as known reserves are depleted.

Council supports the company's current strategy of proceeding with caution and supports the expansion of framework which will encourage private mining companies to carry out new mining exploration and development.

Manitoba Lotteries Foundation has been expanding rapidly in a manner consistent with good business practices. As its growth slows in the

future it must continue to strengthen its systems and controls, as well as further its development of a proactive program for dealing with gambling addiction.

Manitoba Hydro is in the advantageous position of having the lowest cost for electricity generation of almost any utility in North America. Although it has just experienced a loss with the activation of the Limestone Generating Station, it will be moving rapidly into a period of forecasted significant profitability as revenues from export sales materialize. Council recommends that Hydro take advantage of its present strong position in order to improve its financial self-sufficiency by more aggressively reducing its \$5-billion debt level.

The three remaining Crowns, Manitoba Liquor Control Commission, McKenzie and Communities Economic Development Fund do not present significant unplanned risks.

In summary, reasonable progress is being made in reducing the business and financial risks facing Manitoba's Crown corporations. I am pleased council has been able to play an active role in this progress by increasing the awareness of all appropriate parties to the diverse issues facing the Crowns and to facilitate dealing with these issues on a timely basis. Thank you, Mr. Chairperson.

Mr. Chairperson: Thank you, Mr. Sherwood. Would the critic for the official opposition party have an opening statement?

Mr. Steve Ashton (Thompson): Our critic is also in the other committee, but I just have a few brief comments as acting critic.

First of all, I want to indicate that I found the presentation and the statements that were just read, and also the current form of the report of the council, to be quite effective, certainly an improvement over previous years in terms of detail and in terms of dealing with strategic issues. I do not know who is necessarily responsible. I certainly commend the Crown Corporations Council for that. I found this particular document is far more appropriate for a report and I think would be of particular use to many Manitobans who wish to get a fairly good overview of the strategic situation facing our Crown corporations. So I certainly commend the Crown Corporations Council for that.

* (1920)

We are going to be asking a number of questions related to specific Crown corporations tonight and perhaps look at it in a different perspective than we do when we deal with each Crown corporation in committee, and deal particularly with the strategic planning issues of long-term issues.

I can indicate we will be asking some questions on a number of Crown corporations, particularly dealing with, obviously MTS, Manitoba Hydro and MPIC, the larger Crown corporations. We also have a number of questions on the Hazardous Waste Corporation dealing with analysis that has been made in terms of the Hazardous Waste Corporation and what future the Crown Corporations Council sees for that particular body.

In general, we wish to deal with some of the strategic issues that the Crown corporation will be faced with the next number of years. I note with interest the varied situation the Crown corporation is dealing with. Obviously, we have Manitoba Hydro, which is looking at a hundred million dollars-plus in way of additional revenue from export sales over the next period of time, and is in a very good position certainly on the income side, recognizing the comments in the Crown Corporations Council report about the debt-equity ratio which has been ongoing, historic at Manitoba Hydro, and then looking at the comparison of that with MTS where certainly, I think we are all aware of the difficulty MTS is already facing in terms of its revenues and income and the impact that the introduction of long distance competition with Unitel is going to have on the corporation which is going to be very, very significant.

So with those comments, we certainly have quite a few questions and look forward to an interesting committee.

Mr. Chairperson: I thank the member for those statements. Does the critic for the second opposition party have any opening statements?

I would appreciate some guidance from the committee. Shall we pursue a general discussion of all the annual reports or shall we pass some?

Mr. Manness: Mr. Chairperson, I would recommend that we pass the two old ones, those being year ending 1990 and '91, and that we concentrate, as Mr. Ashton said, then on the relevancy of 1992's annual report.

Mr. Chairperson: Is it the will of the committee then that we shall pass '90 and '91? [agreed]

The Annual Report of the Crown Corporation Council for the year ending December 31, 1990—pass.

The Annual Report for the Crown Corporation Council for the year ending December 31, 1991—pass.

We will now deal with the 1992 report.

Mr. Ashton: Mr. Chairperson, I have a number of questions related to the strategic reviews that have taken place with different Crown corporations.

I want to begin with Manitoba Hydro. I note that the review has fairly well indicated the relatively enviable position Manitoba Hydro is in, given its low rate structure, and that despite the notation here that the Public Utilities Board has actually even rolled that back in terms of recent rate applications and the oncoming revenues that in fact are on stream as of May of this year in terms of Limestone.

I am just wondering if the Crown Corporations Council has reviewed Hydro's analysis in terms of the export sales and the impact of Limestone and can indicate what level of certainty applies to those figures. Is it satisfied with the figures that I believe show approximately \$100 million a year over the next 10 years?

Mr. Sherwood: Yes, we are. The projections for Manitoba Hydro for the next few years actually look very good, very strong, with a high level of profitability for the company. That profitability is driven very much by the profits from the export sales.

Mr. Ashton: I wondering if also the Crown Corporations Council has assessed the cost factors related to Limestone itself in looking at that.

Mr. Sherwood: Specifically, I would say not because we would look at the company's overall financial position.

Mr. Ashton: So basically you have not netted out the specific analysis of Limestone but you are satisfied with the impact that Limestone does have on the other side too when the debt is brought in, that, overall, Manitoba Hydro with the Limestone development and the export power sales, the largest of which is the NSP power sale, is in a fairly healthy position over the next 10 years.

Mr. Sherwood: We would have looked at Limestone from the perspective of the forecasted load demands for the company. That demand curve basically would necessitate the building of

Limestone in order to serve increasing Manitoba domestic consumption. From that perspective, we would certainly support its construction and its economic viability.

The incremental revenue generated from Northern States Power arising from the activation of the Limestone generating station is a short-term phenomenon which will gradually diminish as domestic consumption increases.

Mr. Ashton: That is correct. It is a 10-year sale in the case of NSP, and that is a period over which presumably there will be some load growth although those are being constantly reduced.

I am just wondering, in terms of the latest developments of Manitoba Hydro, the internal restructuring, whether the Crown Corporations Council has looked in any way, shape or form at their recent announced reorganization, elimination of 480 positions and analysis of a number of in-house activities.

Mr. Sherwood: One of the recommendations we made in our mandate and strategy review report on Hydro was that they needed to review all facets of their operations to eliminate any redundancies, particularly coming from the cancellation of the Conawapa contract.

We feel this is a very significant and good step that the company has taken, in reducing head count.

Mr. Ashton: I am just wondering, in terms of analysis of Manitoba Hydro, if there has been any analysis in terms of Manitoba's announced policy in terms of rate structure. I notice there are some comments here in terms of reserve levels, but at the most recent committee in March the Manitoba Hydro Board indicated that they foresaw no increase in rates beyond the rate of inflation. In fact, because of the export power sales, they feel they are in a position to maintain rates at or below the rate of inflation. I am wondering if there has been detailed analysis on the rate structure side.

Mr. Sherwood: We spend some time obviously in looking at Hydro's forecasted levels of profitability and its various financial targets, which would include its overall debt-equity levels and its debt-equity targets. With the significantly increasing level of profitability of the company, again coming from Northern States Power sales, the company's profits become quite good even with no rate increases in the near term.

Having said that, our position is that the company needs to work more aggressively at reducing or improving its debt-equity ratios. With \$5 billion of debt on its balance sheet and good times facing it, this is the perfect opportunity for it to reassess its position to determine if there is a good trade-off, a good reconciliation, if you will, of reducing debt, while at the same time maintaining some rate stability for Manitobans.

Mr. Ashton: I note this reference to the Public Utilities Board action. I am wondering if the Crown Corporations Council has reviewed the Public Utilities Board's decisions. Obviously, on the one hand you are suggesting that reserve levels should be increased—I know Manitoba Hydro Board has indicated they have a target of \$370 million I believe, which is quite above the historic target level. The previous level was I believe \$180 million.

Have you reviewed the Public Utilities Board's decisions, because obviously that has to be probably one of the major factors when they are looking at their rate applications, is the acceptability of those rate applications with the Public Utilities Board? I wonder if that has been considered in the analysis at all.

Mr. Sherwood: Yes, it has. We have had extensive discussions with the Public Utilities Board and have reviewed their rulings in considerable detail. At this point in time, I would say that we would have to agree to disagree.

* (1930)

Mr. Ashton: I suspect that might be the case, and it will be a matter of debate. I know it has been a considerable matter of debate currently within Hydro for years in terms of the appropriate level of reserves. It certainly is, I think, something that has been indicated in terms of the Public Utilities Board. Obviously, if they have rolled back existing rate applications, which have been lower, minimal or nonexistent in the case of the current year, with far lower rates of reserves than certainly are being contemplated by Hydro now and I assume by the Crown Corporations Council, that obviously that is going to be a consistent pressure.

I appreciate the comments of the Crown Corporations Council, but obviously you are reviewing strategic activities of PUB who makes the decision. While there may be agreement to

disagree, obviously the PUB seems to have the final say in this.

I am just curious though in terms of some comments that were made in terms of Ontario Hydro. I just want to make it clear though, I see what you are saying is they have sort of a worst-case scenario where you have a generation plan that was developed to include a lot of nuclear developments that were over cost, were not required in the end, and you stated very clearly on the record though that not only is Manitoba Hydro not in that position, but in fact the generation sequence combined with the power sale to NSP has contributed toward a healthy financial situation. Are you using that more as a case of what can happen when things go wrong and Manitoba Hydro, I assume, not being anywhere close to an Ontario Hydro?

Mr. Kavanagh: Four years ago, I do not think that there would have been any financial analyst in this country who would have anticipated the difficulties that Ontario Hydro has now confronted. You know, our preoccupation is to try to avoid that kind of dramatic surprise.

I think that with respect to the PUB, the attitude of all players with respect to the issue of self-sufficiency, that is a hurdle that I think is worth addressing. I say a hurdle because from the time of its beginning the Hydro has not been financially self-sufficient. It has not sought urgently in that direction, so we are coming to the party with a point of view that we ought to stop and we ought to think about whether it is not time to move from where we are at to a point of greater self-sufficiency or financial integrity.

I do not think that we are going to be persuading the PUB overnight to abandon a track of quite a number of decades, but we do think that it is necessary to stop and consider the future as to whether it is not different than the past and so we are going to hang in there in those kinds of discussions, and we are anxious to make the PUB itself and Manitoba Hydro participants in any examination of the self-sufficiency issue.

Mr. Ashton: I appreciate the comments, and I also would put forward the argument that you are in an interesting situation with any of the Crown corporations, particularly those that are, in the case of Manitoba Hydro, clearly a public utility, a monopoly and where it cuts both ways. You can

argue in terms of self-sufficiency, and also Manitoba Hydro, because of the existence of the PUB, cannot generate a profit in the truest sense. It has a responsibility to the ratepayers under the structure and there have been various times at which governments, most notably through the rate freeze in the early 1980s and also in terms of covering bond issues, covering exchange rates, have interfered one way or the other. In fact, in that particular case, limiting Hydro's ability for self-sufficiency on the downward side. It is certainly a unique position.

I guess what you are suggesting is from your perspective you are going to be continuing to meet with the PUB and perhaps continue to agree to disagree or perhaps involving a greater understanding between the two perspectives.

Mr. Kavanagh: Yes, in the shorter range, agree to disagree, and to see if we cannot collaborate with the PUB and others who have a great interest in the question of the issue of self-sufficiency.

Understandably, the PUB's traditional preoccupation has been assuring that the price that is charged to the customers of the utility is the lowest conceivable cost. But the point of view we are pursuing is that within the context of the lowest conceivable cost, the financial viability and strength of Hydro ought to be a consideration of greater importance than it was heretofore.

This is a huge operation, and \$5 billion worth of debt is a lot of money. Having additional sort of, buffers, between the financial integrity of the province and a Crown corporation of that magnitude and weight is really worth study and we think probably, judicious consideration, in the rate-making process.

It has not been thought to be as major a factor heretofore as we think it probably should be, so we will be persisting until we are called off.

Mr. Manness: Mr. Chairperson, I just wanted to say I am enjoying this discussion, and I hope all members are. I am struck by the fact that, from time to time, people say that our Crowns Council and our Public Utilities Board are under great political influence.

I think the discussion here tonight so far indicates that when you have people of the very high calling within our community appointed to these organizations, that you can have a cross-view, you can have various indications of philosophy and

discussion between almost our two most senior groups, the Public Utilities Board and the Crown Corporations Council, without a fixed philosophical agenda.

I think it just demonstrates what a healthy situation we have at present. I just was struck by the—I will not call it the “irony,” but the reality of where we are at this point in time.

Mr. Kavanagh: Of two entities running on the street unsupervised.

Floor Comment: Your words.

Mr. Kavanagh: I am just kidding.

Mr. Ashton: I think one would expect a difference, too. I mean, obviously the mandate of the Crown Corporations Council is considerably different than the mandate of the Public Utilities Board.

The Crown Corporations Council is obviously looking at the long-term strategies, looking at the perspective perhaps from the corporate side of the Crown corporation, whereas the Public Utilities Board is obviously dealing with the regulation of rates of a monopoly and is looking at the interests of the ratepayers. It does get rather confusing, I realize, but I see the pushes and pulls.

I just have a couple of other questions on Hydro that I want to deal with here.

Mr. Kavanagh: Mr. Sherwood had made much of the fact that Hydro is in, sort of a favourable opportunistic phase, where things are in good shape and the auguries in the shorter term are really positive, and that this is an opportunity to do some balance sheet strengthening that would stand the province in good stead in the face of unspecified terrors ahead.

I say “unspecified terrors” because that is how you would have characterized four years ago a utility like Ontario Hydro, where the terrors were not identified and they were not specified. So there is a bit of an opportunity here, and we want to pursue that as a timely factor in the whole thing.

* (1940)

Mr. Ashton: I certainly appreciate the debate. As I say, it has been an ongoing debate within Hydro as to what are appropriate reserve levels, what are appropriate debt-equity ratios. I do not think there has been a Manitoba Hydro board meeting or a presentation to the legislative committee where that issue has not come up where I know internally,

within Hydro, people have always argued for higher reserve rates.

The question is what is the appropriate level, what is the tradeoff with rates, what is the tradeoff, too, with the sort of double dilemma I think you have in the way you have a utility that is operated basically for the ratepayers, but then you also have the shareholders, so to speak, which is the Province of Manitoba. So you even have some contradiction in terms between those two.

I want to deal with a couple of other comments though which are both very relevant to the strategic plan of Manitoba Hydro. One is I read with interest the comments on society’s changing attitude toward the environment; in fact, I think very strong wording in here that, and I quote it, added emphasis has been placed on alternatives to central supply options, and you list a number of them.

(Mr. Gerry McAlpine, Acting Chairperson, in the Chair)

I just want to ask the question here, are you suggesting—and I notice there is a caution here and I understand that. When you are dealing with any new technology which obviously plays a part in terms of some of the options or alternative mechanisms, you are dealing with differences related to not only the cost, but also the ability of Manitoba Hydro to deal with it. Manitoba Hydro has, for the last number of decades, built dams. It knows how to build dams. It knows how to build them well and knows how to get them in ahead of schedule and under cost. It is different when you are dealing with conservation. The co-generation aspects are listed.

Am I to understand that you are suggesting that despite some of the pratfalls, Manitoba Hydro should be aggressively pursuing other options including conservation, co-generation, et cetera?

Mr. Sherwood: Clearly, the construction of large generating facilities has the potential for significant environmental impacts, although certainly I would add in the same statement that Conawapa, we feel, was well within acceptable limits.

However, in recognizing any environmental threat—and clearly, almost any economic activity generates some environmental threat—we feel it is appropriate for the company to look at the various options that it can avail itself of that may generate

electricity at both effective costs, as well as in an acceptable environmental manner.

The ones we have listed we feel would do that. Demand-side management is one of the most important ones today because what that does basically is focus on the reduction of energy consumption. To the extent that any utility, electrical utility, can achieve that means that future generating stations will not have to be built. That is a goal every organization should strive for.

Mr. Ashton: Well, I certainly appreciate that particular comment. I am wondering if there has been any review by the Crown Corporations Council of the ongoing environmental questions related to its future strategic planning. Manitoba Hydro at committee in March indicated it is reviewing its long-term planning, particularly in terms of generation of new plants, following the cancellation of the Ontario Hydro sale and basically cancelling Conawapa.

One question that arose at committee at that time, that we raised, was the concern that any new strategic plans look at, say, options such as conservation on one hand or even between different plants, whether it be Conawapa or some of the other plants which would be fairly close, Wuskwatim being another obvious one, and should include an analysis of environmental problems, Wuskwatim being an obvious example where there is significant flooding that would be entailed on the Burntwood River if that dam was to be developed under the existing plan.

I use that as an example because prior to the NSP sale and the Ontario sale coming in, and of course the Ontario sale being cancelled, Wuskwatim was, under some circumstances, considered to be the option by Manitoba Hydro, dependent on a number of factors.

I am just wondering if you reviewed the extent to which Manitoba Hydro is including possible environmental cost benefits in its analysis of corporate planning related to such things as development of new generating facilities over the next decade.

Mr. Sherwood: Yes, we have. Basically, whenever Hydro is looking at a new generating station, as part of our assessment of the implications of construction of that facility, we will look at the environmental impacts, as well.

We would agree with your assessment on Wuskwatim, and frankly, that is why I would come back to say that we find Conawapa, particularly for a station of its size, to be environmentally friendly.

Mr. Ashton: I am just wondering, just on Wuskwatim, because there has been some analysis of Wuskwatim—you were saying that Crown Corporations Council's view is that it would have significant negative consequences that would obviously have to be factored in, not only in terms of environmental costs in the abstract but would have financial implications, too, as a result of mitigation, particularly in terms of potential claims of aboriginal people in the area.

Mr. Sherwood: I think you may be putting a few words in my mouth on that one. I did not say that. What I said was we found Conawapa to be environmentally friendly. Wuskwatim may still be within acceptable environmental constraints.

At this point in time, it has not been put forth as the next generating station. Until such time as it is, we would not have a detailed analysis completed.

Point of Order

Hon. James Downey (Minister of Northern Affairs): Mr. Acting Chairperson, on a point of order, are we doing the Crown Corporations Council, or are we doing all the future potential projects of Manitoba Hydro in this report? It seems that the report, I think, is a little more focused than what the member is asking questions on.

It is just a question. I have no difficulty with it, but it seems to be pretty wide-ranging as to the areas on which the member is asking questions of the council.

The Acting Chairperson (Mr. McAlpine): The honourable member does not have a point of order.

* * *

Mr. Kavanagh: Specifically, with respect to Wuskwatim, we have not at council immersed ourselves in an environmental perspective on it. The issues have to do with what are the environmental problems and then how would they be addressed. Those definitions of problems and the conceivable way they might be addressed have not been part of our analysis to this point.

As a more general thing, many of you would have probably struggled through the Tritschler report, which I think is a major sort of juncture point

in the affairs of Hydro. In that report, there is very, very little environmental consideration.

We have found in our working with Hydro executives and working with Hydro's board that unlike the tenor of the Tritschler report, there is a very great preoccupation with environmental issues in terms of defining the problems and trying to generate ways to address what the problems are.

I would think that members of the committee might find some comfort in the behaviour and the capability of Hydro management in environmental matters. I am not saying that is going to eliminate the very real and probably appropriate controversy on environmental matters, but there is a very, very great difference, as measured between the time of Tritschler and currently, on these matters.

* (1950)

Mr. Ashton: Mr. Acting Chairperson, I appreciate the comment, and to the Minister of Northern Affairs (Mr. Downey), I am asking questions directly related to the report. I do not know if he has had a chance to read it yet, but it goes into some detail and it does have a significant impact in terms of Manitoba Hydro.

We are talking about the environment and to be quite frank, the concern that has been expressed is—and I tend to agree with the comments in terms of Manitoba Hydro—since Tritschler, there is a far greater awareness of environmental issues but Manitoba Hydro has been geared for the last several decades to building dams. For the last number of years it was geared to building dams and paying more concern to environmental factors.

The question, I think, that has to be asked is what era are we entering, and also, whether there is not an internal dynamic that can develop when planning is done, changes are made in the sequence and then the environmental processes are put in place. There is a certain amount of momentum that develops out of that process.

The concern I am asking is in terms of strategic planning, whether one reviews, puts in place, whatever it may be in terms of the strategic plan and then does the environmental reviews as a series of hoops that one has to pass through, or whether one does some corporate planning early on and tries to account for those factors.

I will be very specific in terms of the next question I am going to ask because it is right in the report.

The report states: Unsettled aboriginal claims and potential future claims may present significant financial liabilities over and above current provisions or place constraints on future development.

I mean, historically, those claims were not factored into the cost of development, period. They are still being dealt with. Am I to take it from this that you are saying there has not been adequate accounting even as of this date, as I read this, for the impact that some current claims may have, or are you referring more to new claims if Wuskwatim or whatever kind of development was to be put in place?

Mr. Sherwood: The first inference is definitely not the case. We feel that Hydro has made adequate provision on its books for all possible claims that may be outstanding at this time. What we are referencing there is that it is extremely difficult to anticipate what might be coming down the road, particularly with new projects and the nature and extensiveness of those claims. Because not all claims under the Northern Flood Agreement have been resolved at this point in time, there is still some uncertainty as to the extent of those claims.

Our assessment of the provisions the company has made are that they are adequate. I would add in the same breath that it is virtually impossible for anyone to know at this point in time. They have made what we would consider to be the most likely types of provisions.

Mr. Ashton: I appreciate that statement, because it is certainly something that I feel Manitoba Hydro has to include in any future planning and partly, obviously, because of the financial implications but also, I think, it is very clear if one looks at the history of hydro development, it has only been recently that there has been any concern put in terms of the impact on aboriginal people in surrounding areas, outside of employment. They are clearly trade-offs, and I think one of the reasons fortunately we have been able to have such cheap power in Manitoba sometimes is not that there have not been other costs in the system. I think sometimes the cost has been in some of the aboriginal communities on the assumption that they are the benefits of jobs, which they are. I am not arguing for or against development per se on that basis, but I appreciate the fact that that has to be included in the corporate planning.

I have a number of other questions, but I know there are probably other committee members who have questions so I will defer and deal with those later.

Mrs. Sharon Carstairs (River Heights): Mr. Acting Chairperson, in the opening remarks on Manitoba Hydro, the council said the legislative mandate of Manitoba Hydro is, and then quotes what is indeed the legislative mandate of Manitoba Hydro. I think a good case can be made with both Limestone and the proposed Conawapa, now cancelled, that both went far beyond the mandate and that there was a desire almost principally to sell power outside of the province and to provide power to Manitobans as a secondary adjunct to those agreements. Is it the council's opinion that it is time to review the legislative mandate of Manitoba Hydro?

Mr. Kavanagh: No, it is not. I cannot really, with any kind of satisfactory depth, discuss Limestone, but I would have to say that the council in its study and analysis of Conawapa did not see it as being beyond the existing mandate of Manitoba Hydro. We saw that as a situation in which it was possible to get somebody else to build a very great capital facility that in due course could be put to low-cost power for domestic consumption over a very, very long period. So, rightly or wrongly, Mrs. Carstairs, we did not see it as being beyond the mandate of Hydro at the time.

(Mr. Chairperson in the Chair)

Mr. Manness: Mr. Chairperson, I do not want to interrupt, and certainly I hope this questioning continues, but I would say to Mrs. Carstairs in the presence of the Minister of Hydro (Mr. Downey), at nights when I lay awake wondering how it is we could more usefully use our time in the Legislature, I say I would just love to see a three- or four-day debate as to looking at the legislative mandate of Hydro. Let us throw it open some day and say, should one of the objectives be to export power?

I mean, I would love to see a debate on that. We use our natural resources to ultimately export wheat. I would be one who was to say, let us use them to export power. Others would disagree, and maybe in time we will find the time to throw that as a resolution forward and let us debate it.

Mrs. Carstairs: Well, I am obviously in full agreement with the minister that indeed that is exactly what we should be debating in the

Manitoba Legislature, and the next time I get the opportunity I will introduce a matter of urgent public importance, and the minister will agree with my motion and we will have the debate. I look forward to that debate taking place.

My question, however, to the council with respect to the mandate of Manitoba Hydro is indeed a very serious one, because I think that we are going to be looking at future deals and I think that we should indeed be doing that kind of evaluation. If the Legislature is not going to do it, then I recommend that maybe the council take a look at the legislative mandate of Manitoba Hydro and examine whether it is indeed appropriate for the '90s and the 21st Century to have a legislative mandate which is, quite frankly, narrow in its definition at the present moment.

I was surprised in the comments, however, with respect to Manitoba Hydro that the word "conservation" was not mentioned by the council, and I wonder why.

Mr. Sherwood: It is a tough question for me to answer, to be honest with you. The only way I can answer it is to say that the company has a very, very great sensitivity for addressing environmental issues in its operations. It knows that for any major project, any new generating station, it must go through environmental reviews that are very thorough and very detailed, and clearly it is in the best interest of any company to anticipate that type of review and to be sure you are going to satisfy the needs of the environmental legislation.

Now, in addition to something like that, Hydro, through its demand-side management program, has focused extensively on the fact that by reducing demand, it is not having to build anything new. I think that is perhaps a very significant indicator in the fact that the company is trying to be as environmentally friendly as it can.

Mrs. Carstairs: Well, I think it is a little bit like the chicken and the egg. Is Manitoba Hydro concerned with conservation because it has now been forced to be concerned with conservation, or are they concerned with conservation because they feel keenly about conservation? I think it would be difficult, quite frankly, to prove one or the other.

I think that it is a chicken and egg debate we could enter into here, but the figures for conservation that are put forward by Manitoba

Hydro are considered now among some utilities to be very low, that they could in fact have a higher targeted conservation figure. I wonder if that is something that the council has examined.

* (2000)

Mr. Sherwood: Yes, we have, once again. We have done some benchmarking with other utilities throughout North America in terms of where Hydro is at as far as its energy conservation programs are concerned. The approach Manitoba Hydro has taken, we think, is a good business approach which is basically to be thorough and cautious in determining the overall effectiveness of some of these demand-side management programs.

The best example I could give you, again, is Ontario Hydro had spent literally hundreds of millions of dollars in terms of energy conservation that ranged up to and including programs where they gave away free light bulbs to virtually anybody who wanted them—enormous cost and virtually no payback. These were energy efficient light bulbs, but it ended up costing the company a lot of money, and with hindsight, they have cancelled a very substantial part of their energy conservation programs.

Manitoba Hydro, I think, has taken a more conservative approach in terms of doing some pretty thorough assessments up-front to determine the overall benefits of such programs, and that is really where they are at this point in time. They are behind where Ontario Hydro was two years ago, but they have not made the same mistakes at great cost to the Ontario taxpayer, that Ontario Hydro has made either.

So we would basically concur with the approach they have taken to this point in time. They must and they will, they are planning to at least, increase their focus in this area and their expenditures in this area.

Mr. Maness: Well, Mr. Chairperson, I would only comment to this extent in support of what Mr. Sherwood said. When members of the Legislature have an opportunity to review The Loan Act, they may want to ask the question, how many dollars that were in the capital account of Hydro were being directed toward demand-side saving, in other words conservation? I do not know if there is an allocation this year, but a year or two ago, there was roughly \$22 million.

When we put Hydro through the paces as to what it was going to be used for, given all the knowledge of what other utilities had done in the land and found wanting almost in every element without virtually a payback, our Hydro was somewhat hard-pressed to say with certainty whether or not this would be money well spent.

I mean, we understand what conservation means. We know where we want to take it or at least where we want to go, but getting there by all of the practice, certainly none of the utilities that were supposedly far ahead of us—all those evaluations have proven for the most part failures.

So I think our timing is right as a utility, because nobody has the perfect understanding of ultimately how to get to the end goal at this point.

Mrs. Carstairs: Well, I am interested that the council used Ontario as a basis as opposed to B.C. that has had more success than Ontario has had. I do not think I am misquoting Mr. Sherwood, and if I am I am sure he will correct me, yet I think what he said was, quote, Conawapa, for a project this size, is environmentally friendly.

Conawapa has been cancelled for the present time, but if we ever go on a megaproject again in the history of Manitoba Hydro, in all likelihood it will be Conawapa.

Does the council see any point then in doing an environmental impact assessment without having the corporation under the gun, as it was going to be, for any kind of environmental assessment done after the contracts were already signed? Has the council considered the possibility of that kind of environmental assessment taking place somewhat in isolation to signed, sealed and delivered contracts?

Mr. Sherwood: The contract terms specified that Conawapa could not proceed without environmental approvals with both parties. So that gave us certainly plenty of comfort that it would be addressed in the proper manner in terms of—again there is a little bit of the chicken and the egg here—as to the approach you take. My personal experience in dealing with very major contracts is that you get into very protracted and detailed negotiations with the party on the other side of the table.

It is very difficult to have all of the framework specified and agreed to by third parties before you can consummate the terms of your contract. So,

typically, what you do is to say, we will agree to do this provided the other key party, in this case the Clean Environment Commission, for the environmental approvals required in Ontario are obtained, and if we cannot get them then it does not proceed. From a business perspective that would seem to me to be perhaps most logical and a reasonable approach. I would agree with you from the perspective that if you can do it that way, great. I am just not sure that you always can.

Mrs. Carstairs: No, I do not think you always can. I think that is clear. But we have a very specific project here, and we know the parameters of that project, perhaps not for the purchaser in another province, but we do know the parameters of the project as it pertains to Manitoba. We also know that what has happened in a number of other major megaprojects across the nation has been the projects have continued to proceed and continued to proceed, and all of a sudden the environmental impact assessment study comes down and then a court in the land says, oh, well, it is 90 percent built, what can you do?

That is what I would like to see avoided here in the province of Manitoba, and that is why I wonder if it is not now a good time to be doing the kind of economic assessment so that the council can be perhaps proven correct, that it is environmentally friendly. I do not know, quite frankly, whether it is or it is not, and I would suspect neither does anybody else in real terms until the study has been done.

Mr. Sherwood: I believe there is a fundamental assumption in your statement, and that is that Conawapa will definitely proceed. I am not sure our position would go quite that far. As we have mentioned in our report, and was referenced by Mr. Lamoureux, there are still quite a number of options available to the company that need to be explored thoroughly before determining whether another megaproject is the appropriate way to go. It will probably be quite some time before those options are well defined and the extent of generating capacity is known. Only until they have been thoroughly studied will we really know if Conawapa is the best alternative.

Mrs. Carstairs: My final area that I wanted just to ask a couple of questions on is with regard to the debt-equity ratio, which you state, of course, in your report that Hydro has the lowest reserve levels of any electrical utility in Canada.

In your evaluation of Hydro, what hope do you hold forth that this is going to change in the next five to 10 years, because it is not going to change in a year, let us be realistic, but in the next five- to 10-year scenario what is your best forecast in this particular area?

Mr. Sherwood: The company has targets for itself in terms of reducing its debt-equity ratio. We feel that they will achieve those targets. However, we would also certainly support a position by the company to move more aggressively as well.

Where council is coming from is that, you have a company right now that is in an extraordinarily strong position, strong from the perspective of low-cost producer, very little business risk, export sales generating higher profit levels. What we are saying is, and I think what Mr. Kavanagh said earlier is, seize the opportunity today to try to move as aggressively as you can at improving that situation, because you do not know what will happen tomorrow. There may be some new technological revolution that makes hydroelectric generation uneconomic.

To specifically answer your question, I think they will achieve their targets.

Mr. Conrad Santos (Broadway): Mr. Chairperson, in general, Crown corporations are created by government in order to achieve that business flexibility in order that they can do certain activities in the private sector as well. Like any other entity, a Crown corporation it seems to me is a mixture of both the public and the private in the sense that it must also achieve some kind of financial stability as in the private sector. At the same time, its public nature constrains people to accept the fact that there is an element of public interest that it is supposed to promote.

* (2010)

That seems to me the reason why there is a tension between the position of the Crown Corporations Council and the Public Utilities Board which acts as the vanguard of the public interest. It appears then that the most appropriate forum to start analyzing this relationship is the enabling statute itself, the Crown Corporations Council act, which created this entity.

The duties of the council, the mandate given by the Legislature has been reproduced on page 2 of the report. It came from 6(1). It says: "The Council shall (a) facilitate, in co-operation with each

corporation, the development of a clearly defined mandate and a clear statement of purpose for the corporation."

My question with respect to this is, since the creation of the Crown Corporations Council, has this been realized yet, the development of a clearly defined mandate?

Mr. Sherwood: Is your question addressed specifically to Manitoba Hydro or to all of the Crowns?

Mr. Santos: It will have to start with the Crown Corporations Council itself and then the individual Crown corporations.

Mr. Manness: Mr. Chairperson, I will answer with respect to the council itself.

Because the member is asking for an opinion—

Mr. Santos: No, no. I am asking, the interpretation of the legislative mandate.

Mr. Manness: No, he is asking staff of the council whether or not, in their opinion, the objectives as set forward in the act with respect to their own activities are being followed, are being met. I think that is a policy question, and I will answer that.

I would say they are being met at this point extremely well with a limited staff. We brought into being a new entity, the Treasury Board of Crowns. We gave it the objectives, as the member indicates, as shown on page 2. Over the period of time, more and more focus has been directed towards asking all of the Crowns that are situated under the Crown Corporations Council, to more accurately spell out their strategic plans associated with their legislative objectives.

So I think there is a greater crystallization of what it is our Crowns are expected to do and to follow it within their legislated mandate. The No. 1 question was directed specifically to Crown Corporations Council itself, and as it is overseeing the act, I would report on its behalf that it is doing the job.

Mr. Santos: Mr. Chairperson, now, if that is the case, then we have to go to the other Crown corporations which are being monitored by the Crown Corporations Council. In terms of the degree of clarity of individual mandate of each particular Crown corporation, with respect, what Crown corporation has there been a definitely clear definition or statement or purpose?

Mr. Sherwood: The very first thing we look at in our reviews of the Crown corporations in our

purview is their mandates. We comment in every report that we issue whether or not we feel those mandates are appropriate, and with almost no exception, and we feel they are actually quite good mandates for each Crown corporation.

Mr. Santos: In case there is a difference of opinion or emphasis about the particular corporation's perception of its own mandate and the Crown corporations' interpretation of the particular mandate, which one is being followed?

Mr. Kavanagh: Could I answer that?

Maybe this is not answering it directly, but it is a preoccupation of the council to examine each Crown corporation to determine whether the Crown corporation is within its mandate. Now, if we found in a particular instance that we did not think that it was operating within its mandate, our obligation would be to report that to the Minister of Finance (Mr. Manness) in our report which, of course, is public information.

Presumably, in an instance of conflict as to whether or not the Crown corporation was in conformity with its mandate, the government itself, in public, as a matter of public process, would have to address the issue. So the arbiter in the final analysis would be the government, as part of its public process.

So that is the best way I can think of to answer your question which I think was what if there is a conflict as to whether they are within their mandate or not.

Mr. Santos: Mr. Chairperson, I am positing a conflict of interpretation or emphasis, and if the final arbiter is the government, should it not be the Legislature itself?

Mr. Kavanagh: You gentlemen are much more familiar with government legislative processes than Mr. Sherwood or myself, but our accountability is to the government.

Presumably, the government, because it is part of a public process, would address the matter in whatever way it thought was legal and proper. Perhaps the minister might want to comment on it.

Mr. Manness: Mr. Chairperson, I certainly do want to comment on it. I have listened over the years to the views of Mr. Santos, and I have heard him talk about democratically elected governments and accountability and responsibility of that democratically elected government.

I say to him, these are not financial matters. These are legislated objectives and mandates. Ultimately, somebody has to take responsibility and therefore be held accountable in the development of this legislation. In the democratic system, that is the government, duly elected by the majority of the citizens of the province.

That is not a legislative mandate. Somebody brings forward a bill, almost always a government which seeks the support of the Legislature and, therefore, I would say to him that you could not have a reporting group or the Legislature per se through a consensus trying to arrive at mandates for Crowns.

Mr. Santos: Mr. Chairperson, in the nature of our parliamentary system, of course, the Legislature is dominated by whoever is the majority in the Legislature and all its committees, but the entity that throughout the legislation expresses intent, its purpose, is the Legislature itself. That has been stated in the very terms of the statute itself. Should a government have a different opinion from what the legislative intention was, the government, of course, will reinterpret that legislative mandate, being the dominant power or influence inside the Legislature.

My question is with respect to the second one. It says the council shall facilitate, in co-operation with its corporations, the development of consistent and effective criteria for measuring corporations' performance. That is the legislative mandate of the Crown Corporations Council. It must facilitate, not in antagonization with other corporations, but in co-operation with the development of consistent and effective criteria for measuring corporate performance.

My question is, could you please describe to the members of this committee what essentially are those criteria that are consistent and effective in order to gauge the corporate performance of any particular Crown corporations?

* (2020)

Mr. Sherwood: That is a pretty broad question which makes it somewhat difficult to answer. Perhaps the best answer I can give you is to say that we do quite a lot of what we call benchmarking of the Manitoba Crown corporations with other comparable corporations throughout Canada and, in some cases, North America and perhaps even the world, in some.

What we are looking at is how does the company compare with the other players in its industry to determine whether its performance is good, bad or average. For the most part, and this is again a very broad statement, we find the Manitoba Crown corporations compare quite well. There are exceptions. You can take any large one and you can always find some things where any large company is a little better or a little worse than its peer group, but those specific types of financial measurements really vary so much, it would be very difficult to answer your question in a short period of time.

Mr. Kavanagh: I think, for example, we consistently look at each Crown corporation's expense behaviour. In the instance, say, of the Manitoba Public Insurance Corporation, we are concerned to observe the expense being incurred in relation to the premium income. In respect to the Liquor Control Commission, we are concerned to examine the expense that is being incurred in their distribution and marketing activity. In other Crown corporations, we are similarly preoccupied with the expense element of their business activities.

We have in recent times, in respect to such a business input factor as expense, begun to benchmark their performance against comparable activities elsewhere; for example, in the Manitoba Telephone System, to observe the number of people per unit of output and the Public Insurance Corporation, to observe its performance in relation to the Saskatchewan government insurance program, the British Columbia insurance program and so forth.

So we try to consistently address business issues in pretty much the same sort of way. We are concerned, for example, because there are plenty of other elements in business success or failure than expense. What is charged to the public? We do not want to be in a circumstance where one Crown corporation is charging to the public or affecting charges to the public on bases that are dissimilar in concept and principle from another Crown corporation.

We attempt in that way to get some kind of consistent perspective across the several Crown corporations. Mr. Sherwood, for example, fusses about the employment of generally accepted accounting principles, and much effort has been made to assure that all the Crown corporations are using in full measure generally accepted

accounting principles. I think there are some few exceptions to the application of those principles that are sort of on the agenda of unfinished business, but do you see conceptually what we mean by trying to affect consistency in evaluating the Crown corporations?

We look at them as a business. We consider what the input factors are, what the sales are, and the criteria we use are commonly accepted business concepts, commonly accepted standards of accounting. We try very hard to identify activities that are aberrant in respect to those universal principles.

We are most recently very concerned to try to comprehend the affairs of the Crown corporation in the context of other corporations doing the same kind of businesses. Hydro, for example, is looking at its operation, not just as a stand-alone absolute, but rather in comparison with other hydroelectric generating companies in both the United States and Canada. I think the sophistication of that self-analysis is improving to the point where I think it will be a substantial motivator in improving their performance.

So those are ways in which we seek to affect consistency and to facilitate it.

Mr. Manness: Mr. Chairperson, I cannot add to the very comprehensive answers, but, again, I remind Mr. Santos that when we brought in this legislation and I sponsored this bill, this was fully discussed in the House.

What we said was in government, we acknowledged that even though we came from different walks of life and that in Executive Council or indeed whatever committee of cabinet where we sat and tried to pass judgment as to how well the Crowns were doing, we did not necessarily have the inherent skills.

That is why we put into place the council and brought forward the best business minds in our community to the extent they would serve on this group and apply their judgment of these criteria of measurements, because there is nothing today that is more devastating to a government than to find out a year too late that a Crown is falling into difficulty, because the impact on the government and ultimately the taxpayer is too great if you do not get that early warning.

That is why point (b) shown on page 2 may be vague in its writing, but certainly when it is put into

practice by people of a business acumen, it is fully understandable, and that is why we have been so well-served over the course of the last number of years.

Mr. Santos: I think Mr. Kavanagh had mentioned the critical word, universality of standards, and I would say objectivity, as well. I fully agree with Mr. Sherwood that the generally accepted accounting principles, because it is recognized by the profession in the accountancy area, should be one of those measurable standards of performance. But when we compare, let us say, Hydro with other Crown corporations like Ontario Hydro and we pick and choose which to compare to, without any objective or universal standards, we will be deluding ourselves.

For example, as was pointed out by the member for River Heights (Mrs. Carstairs), why are we not comparing Manitoba Hydro with B.C. Hydro, for example? Why are we comparing it with Ontario Hydro? There must be some kind of objective set of criteria that are universally recognized as guideposts in order to determine whether or not the corporate performance is acceptable or not.

Mr. Kavanagh: Mr. Chairperson, in respect to Hydro, the electrical generating companies in Canada have an association that aggregates performance data from all of these companies in respect to a whole wide range of business tasks and business output performances.

Through that, you get a wide universe of data that enables Manitoba Hydro to evaluate how it is doing in relation to these competitive companies. It is a relatively sophisticated process of benchmarking in that particular business.

* (2030)

Now, it is not perfect. Benchmarking is never perfect, and it is very hard to create data that offers management a guide path in changing its approach to issues, but I would have to say, as an instance, that the Hydro data, a universe of performance data they are using, is very good. It does provide a window through which they can make an assessment of what they are doing.

Nothing is perfect. Public ownership is very complicated, you see. If it was private ownership, the market would make these judgments. They would apply very consistent principles and make judgments in the marketplace. It is harder in the public sector to do that, but to the extent that it is

practical, the council is very much on the side of promoting the idea of corporations understanding themselves in the context of the business performance of peer-like companies.

I think it is a great stimulus for management in consequence to initiate a trend of improving performance from year to year in relation to these benchmarks.

Mr. Santos: Mr. Chairperson, I think this complication of the public interest element has been perceived by the honourable Minister of Finance (Mr. Manness) when he stated on page 3, and I quote: "As creatures of the Government, there are certain public policy initiatives which Crowns much achieve which are not necessarily compatible with the strict profit motive of the private sector. That is why the job of managing a Crown is, in my view, often more demanding than in the private sector."

I say, amen, because as I said before, this is a quasi-public, quasi-private kind of entity with a mandate to protect not only the public interests of Manitobans, but also certain accepted business standards like the one you are emphasizing now which is financial self-sufficiency and integrity.

There will be a constant balancing of all these objectives that will test the ingenuity of managers, their foresight and their visions in how to achieve all these objectives. The bottom-line profit is nowhere stated as the primary objective. I do not see financial self-sufficiency in the statute itself as an objective. Where did the council get this except from the conventional private sector management objectives?

Mr. Kavanagh: Where did I get it? Gee, I find it—I am nonplussed. I think every Crown corporation has a balance sheet. Every Crown corporation has an operating statement. Every Crown corporation has an array of different devices to instruct the government as the owner of the corporation and to instruct management as to how things are going.

If we see a balance sheet that is lacking in financial strength which when combined with business risks that might arise going forward, we feel it is fundamental to address the issue of financial strength to avoid collapse and to avoid calamity and disaster.

So, I guess when you ask the question, where do we get the idea of financial self-sufficiency, I guess it is a very basic sort of instinct of business

governance and, indeed, governance of public enterprise, to avoid disaster. It is not legislated, but it is fundamental business common sense to address issues of that character.

Mr. Santos: Mr. Chairperson, I am not objecting to that standard. It is a very desirable standard. All I am saying is that these should be balanced with the public interest element that is inherently a component of any Crown corporation, to carry out certain policy in the public interest.

So when they cited, for example, that Ontario Hydro had been giving lifetime light bulbs and objected to it because it is lost to the company without any return, maybe it is an aspect of the public interest that people in Ontario are enjoying and conserving their energy.

Mr. Manness: Mr. Chairperson, I do not mind the philosophical musings of the member. It is his right to bring them up, but if he wants me to engage, instead of getting actual hard-line information from Messrs. Kavanagh and Sherwood, I want to indicate to him that to the extent any Crown, any entity, any government, is debt free or freer than debt, then they have the luxury of making these social choices.

To the extent that any government, any Crown, any business, has a balance sheet which says they are beholden to some lender, they then do not have that same luxury. That is all I read into the comments of what the members have said, indeed, what the staff has said.

So we can talk about giving away free light bulbs, and we can talk about what is in the greater social good. We can spend hours talking about that and the balance that Crowns have to bring, but the reality is, once you are in greater debt, I do not care if you are a Crown or not, you then give away a lot of your freedoms with respect to social engineering, to social planning, because the laws of economics will not be defied. I do not care if it is a Crown, I do not care if it is a government, I do not care if it is a business.

So I do not know if we are disagreeing or we are agreeing, but I am saying, as I listen to Mr. Kavanagh, he has said over and over again that the great concern the Crown Corporations Council has is to the financial viability, not the profitability that may be in existence in the year, in the short or the intermediate term, but, ultimately, right now, the focus from the Crown Corporations Council will be

that there will be greater financial security with respect to our Crowns, so that they can engage if they so wish in greater social engineering. Without it, they cannot.

Mr. Jerry Storie (Flin Flon): Mr. Chairperson, when you review, I guess, some of the reports from the Crown Corporations Council, you get a rather startling picture of a shrinking empire. I note that in the comments in this annual report, Venture Manitoba Tours—it is being recommended by the council that perhaps this venture will never be successful in the hands of government.

We have some questions about the government's intentions with respect to the Hazardous Waste Management Corporation. We are not sure about its intentions with Manitoba Mineral. There is a serious question.

I guess it raises the question of what the role of council has been, in that since the creation of the Crown Corporations Council, we are losing our Crown corporations. It is certainly not evident, since the creation of the council, that there has been any significant improvement in their financial situation. I just wonder, given the fact that we have gone from a council that cost us \$211,000 in 1989 to a council that is now pushing the \$1-million mark, how do we judge whether in fact the council is doing any good?

* (2040)

Mr. Kavanagh is an experienced business person and is familiar with the concept of, I guess, judging an entity by its results. I am wondering if the Crown Corporations Council has sat back and said, what impact are we really having? Who is listening?

Mr. Manness: Mr. Chairperson, I take the prerogative to respond to the question. If Mr. Kavanagh wishes to, I invite him to do so.

In the first instance, the member talks about the empire. In the bill that the Legislature passed, The Crown Accountability Act, setting up the Crown Corporations Council, the main duties of the council are shown on page 2, and nowhere in that mandate or those objectives was it mandated to maintain the "empire," to use the term of the member for Flin Flon. That was never the mandate of the Crown Corporations Council. That is purely a prerogative of the shareholder, and the shareholder, of course, is the government of Manitoba entrusted to look after the activities by the people of the province.

So I would not expect the Crown Corporations Council to pass judgment as to how large the empire, again to use the term of the member for Flin Flon, should be. That is not their role.

With respect to how effective the Crown Corporations Council is, in fairness, when the member compares \$200,000 to \$1 million, he takes a part of a year, first year. The first full fiscal year, I believe the budget was much more closer to \$650,000, \$670,000, the first full-year allocation, and yes, that number has increased as it was budgeted to do, indeed, as I indicated it would when I brought forward legislation, to a little bit larger amount, and stayed within the \$1-million range.

I can tell you that I believe at this time in the existence of Crowns. As I said in my earlier remarks before the member joined the committee, I believe the council is following its mandate. It has taken the best part of two years I believe for the council to fully define and understand its role and carry it forward, but it is doing that now.

In a perfect world, I do not know if there would be a need for a Crown Corporations Council. In a perfect world, Mr. Storie's colleagues, when he sat around the cabinet table, would all have the very same qualities that Mr. Kavanagh and Mr. Sherwood have and would have been able to make the judgments on their own. Failing that, the people whom they appointed to run these Crowns would have had all of those skills—in the perfect world. But the reality is none of us, individually or collectively, have all those skills, and that is why we brought forward our best skill set within the community to help us make the decision.

So I am, quite frankly, convinced that we are receiving good judgments, good analysis, from the council and that government is certainly much more comfortable with many of the decisions that are made within the Crowns as a result of an independent party passing judgment. I invite Mr. Kavanagh to comment further if he so wishes.

Mr. Storie: Mr. Chairperson, before Mr. Kavanagh comments, I want to make it very clear I am not suggesting that Mr. Kavanagh and Mr. Sherwood are not giving good advice. The question is, is it being listened to? I am saying we have a Crown Corporations Council that is spending a considerable amount of money and certainly, I think, raises legitimate questions in its annual

report and has done. The question is where is the evidence that anyone is listening?

I mean, the report says that Manitoba Hydro has the highest debt-to-equity ratio and the lowest reserve level of any electrical utility in Canada. Is the government moving? Is the Manitoba Hydro board moving to correct that problem?

The Crown Corporations Council has known that for many years. How do we judge whether, in fact, this group is having any impact or whether this is a very pleasant way for the government to appear to be doing things in a businesslike fashion without heeding any of the advice?

Mr. Manness: Mr. Chairperson, what you have now for the first time in history, you have an independent group, and I will seize the word "independent", which is making public, for the first time ever—these are not minutes of cabinet now, and these are not minutes of Treasury Board. This is a public report which is making some pretty specific recommendations and providing a specific overview.

In the process over the last two or three years, I have basically stayed out of this discussion, one of the very few areas in government where that happens, letting members of the committee put their questions directly to the Crown Corporations Council.

I am saying that system, when it is written and when it is spoken in Hansard and when you are drawing out commentary from people who will not be held back—and that is the system. It is open. That is the noninfluential political system everybody is crying for. Then, when you look at the government action, and if the government action is not in keeping with the council recommendation, then chastise and criticize the government—

Mr. Storle: I was just going to get to that.

Mr. Manness: That is fair game, but I am saying, too, it is not improper to ask Mr. Kavanagh, well, is the government listening? Is the government listening, and are you upset with the government? Well, that may be the next question. Those are unfair questions, and I quite frankly will answer them.

Mr. Storle: Those are unfair questions? I would like to know whether Mr. Kavanagh thinks that his advice, his counsel is being taken. Is the council having any impact in terms of the thinking of the Crown corporations or the ministers responsible?

Mr. Kavanagh: Yes.

Mr. Storle: Well, perhaps we can go through some of them, and Mr. Kavanagh can show me where that is the case.

For example, we have talked about it the last time we met, I think it was two years ago, when the last time, or at least a year ago, when we talked about the debt-equity ratio that Manitoba Hydro has.

We heard Mr. Sherwood earlier talking about the relative financial strength, the relatively good financial position Manitoba Hydro is in. Given that they are expecting additional revenue of \$110 million annually, would it not be prudent to begin to reduce our debt? Would it not be prudent to be talking to the government about either amending the mandate or dealing with the PUB's perception of what the mandate of Manitoba Hydro is so we can begin to address that problem, because, I mean, you also reflect on the fact the PUB has rolled back each of the last four rate applications?

Point of Order

Mr. Manness: On a point of order, Mr. Chairperson, there is nothing wrong with the question. I would only point out to the member—and it is not his fault, because I know he was on another committee—there was a 15-minute discussion on these very points.

Mr. Storle: Okay.

Mr. Manness: Mr. Kavanagh very clearly pointed out the council's viewpoint that over the next intermediate term, undefined, that this should be the full focus of Manitoba Hydro, looking at the balance sheet and what it can do to try and reduce its indebtedness.

Mr. Chairperson: Order, please. The honourable minister did not have a point of order.

* * *

Mr. Kavanagh: It was also the case that Mr. Sherwood spoke in respect to Manitoba Hydro with respect to the considerations that are being taken into the longer range planning of Hydro to move steadily toward a more acceptable debt-equity ratio.

You know, I think that within the context of meeting like this once a year—this being the first anniversary of the first meeting—if an immediate and dramatic improvement in Hydro's debt-equity

ratio was to be sought in the last 12 months, the only way you could do it would be to ram up the rates to the consumers in some very, very dramatic way. This is a problem and an issue that really has not been addressed very aggressively heretofore, and it is a problem of size. It needs time and it needs persisting effort.

I have a strong sense that we have defined the problem properly, that we have been given a good audience and reception by management and by the government, and that progress is going to be made toward this end. You know, gratuitously, I will say to you, I think this is pretty good legislation, the accountability act.

* (2050)

It is a very difficult thing to be successful in public enterprise. There are lots of very different considerations, as Mr. Santos has pointed out and others, between public and private sector ownership, but I think that the legislation here does facilitate some very useful analysis and very useful input from an objective source that can positively influence the outcome of Crown corporations. So I am not in the slightest discouraged by the nature of the legislation or by the responsibility that we have experienced so far. It is after all very fledgling legislation. We have not been around that long. I think that if we persist with council and with a good degree of responsibility, we will achieve our ultimate purpose, which is, first of all, to avoid disaster, to survive, that is to say the various major Crown investment.

I say that gratuitously. I know that it is beyond, sort of, my brief, but I felt good about this legislation and I feel good about the beginnings of the work to give it life. I feel good about the prospects for it to help the Province of Manitoba manage these very, very large investments and the financial risks that relate to them.

Mr. Storle: Well, dealing specifically with the debt-equity ratio, have you made a recommendation to Manitoba Hydro in terms of a longer term reduction in that ratio?

Floor Comment: Perhaps Doug would repeat some of the things that you have already stressed.

Mr. Sherwood: We have approached it from quite a number of different perspectives. One is that we are undertaking a major study of this issue, the Hydro people with the Public Utilities Board and with some independent and expert advisers. We

are trying to get everybody in the same room to sit down and really give this a very thorough airing. Having said that, we have talked earlier about the competitive benchmarking with other equivalent types of organizations throughout Canada.

We feel that, and we comment on the fact, that Hydro does not measure up in this particular area, that the others have in fact, I would say, lower debt standards than Manitoba Hydro does, so yes, we have made specific recommendations on it. I would add that Hydro themselves have initiated a task force to study this issue internally. We feel that is a major step for them, that they want to be sure they fully understand the issues and the tradeoffs between what I think Mr. Santos was referring to earlier, the social aspect of the mandate versus the financial aspect of the mandate.

Mr. Storle: Dealing with another issue that is unrelated, I think, to the long-term stability of Manitoba Hydro is the question of export. There is a comment in here that, obviously, I guess, relying too heavily on export creates additional risk for Manitoba Hydro. I am wondering whether there is a sense that Manitoba Hydro has the capacity to be an aggressive marketer of hydro. Certainly, in the decade of the '80s, Manitoba Hydro was not particularly effective. If it had not been for the Manitoba Energy Authority, in my opinion, many of the sales that were consummated would not have been consummated. I am wondering if there is any sense that there is strength or weakness.

Mr. Kavanagh: I hate to regurgitate Conawapa, but I will do it anyway. It seemed to me that was really quite a remarkable marketing story. I know that not everybody seems to accept that, but I thought or we all thought at the council level that the—you know, you can sell anything at the wrong price.

What happened there was a massive sale at a price that was profoundly positive for Manitoba Hydro and for this province. I thought that it demonstrated a very sophisticated capacity to do what was in effect an export sale. In viewing the capability of that company, I see it as being very positive, that they have real capability. The identification of risks associated with exports, I think it is very important that it be understood that this report does not condemn export because there are risks associated with it. The plain fact of the matter is that any business activity or virtually any business activity does entail risk. What must be

done is that the risks have to be understood, and they have to be carefully managed. That is really what was implicit in the identification of these risks associated with exports.

For example, a risk of exporting power to the United States is implicit in the currency risks. The Manitoba Hydro has elaborately addressed the hedging of those risks. The raising of finance in foreign currencies is another risk, and you can live with that risk if you properly define the risk and have taken steps to ameliorate its injurious impact on you. I just wanted to clarify that.

Mr. Storle: I could not agree with Mr. Kavanagh more in terms of the net benefit that would have accrued to Manitoba and will through the Limestone sale and the 200-megawatt sale to Ontario and to the sale that culminated in the need for Conawapa, but I would argue that much of the impetus for those sales and ultimately negotiating those sales did not come from Manitoba Hydro. That is my concern. There is a whole range of activity that is currently not taking place to my knowledge, either within the Ministry of Industry, Trade and Tourism or Manitoba Hydro, which would target the export of energy or the attraction of energy-intensive industries to the province.

The question was, more specifically, whether you sense—I mean, the history of the Conawapa sale is quite unique. The person that actually negotiated on behalf of Manitoba ended up signing on behalf of Ontario, but the ground work was actually done by the Manitoba Energy Authority. They went out and did the marketing. They went out and aggressively pursued customers day after day, spent years, more than five years in some cases pursuing those sales. Who is doing that in Manitoba Hydro? Is there anybody doing it, to your knowledge?

(Mr. Gerry McAlpine, Acting Chairperson, in the Chair)

Mr. Kavanagh: Well, this is getting a little complicated because I will take it back to the mandate. I do not think that, in and of itself, Hydro has a mandate to export, to be in the business for the export of power. I think the mandate of Hydro is to deliver, to the customers of Hydro, power at the lowest conceivable cost. It is the case, and it is there page after page in the Tritschler Commission, that if you are going to exploit it, the hydro capability of this province, it comes in big chunks, with big

project staff. In order to make it viable you have to find export customers to take the early volume of what you produce so that in the end you can use it to address domestic consumption.

I am not really finding it aberrant or unusual that Hydro does not have some very aggressive export sale program, because its mandate is not to produce electricity for export, it is to produce electricity at the lowest possible cost for its customers, and, parenthetically, export is necessary in the development of these big projects. If it is the determination as a policy matter by the government of Manitoba to go more—to go aggressively into the export of power as a matter of first priority, business priority, rather than parenthetical input to making it viable for domestic consumption—if it is not that, but rather aggressive export, then that is a different thing. We would start to look for the establishment of dedicated marketing capability within Hydro.

* (2100)

So, I mean, listen, I am attempting to give a business answer to a policy question. Okay?

Mr. Storle: I accept your explanation. I think the explanation is excellent. My point is simply, even if we assume that your parenthetical hypothesis, that it does not have to be the main goal of Manitoba Hydro, the fact is that the marketing itself, defining the market and negotiating the contract takes many, many years. Manitoba Hydro will ultimately find itself, regardless of how slow the load growth is, in a position where it needs to construct another dam.

It will find itself in that position with no available, obvious export market, unless it is doing the negotiating now, unless it has that capability, unless it makes those contacts and makes the small—and we may disagree about whether in fact Manitoba Hydro has to see incremental jumps in terms of the production of energy. There is also the potential for demand-side management, which could produce exportable energy in 50-megawatt or 100-megawatt bundles which could then be sold on long-term contracts.

So I think there is all kinds of other potential out there if Manitoba Hydro were to exploit it. My sense is, and you have not dissuaded me from that sense, that Manitoba Hydro has not yet seized on the importance of, either in terms of parenthetical sales or for pure export for profit.

Mr. Kavanagh: You have identified that you see in retrospect the Manitoba Energy Authority as being a very needed device to, long-term, generate markets for possible sale later on, in the context of making these projects viable.

Well, you know, to be really honest, we at council have not examined the Manitoba Energy Authority and its former role and so forth and so on. We simply have not done it. You provoke my curiosity about it, but I simply have not, nor has Mr. Sherwood, addressed that. Perhaps it is something that we should be better informed about. Perhaps you are, Doug, better informed about it than I am.

Mr. Sherwood: No, I am not, Mr. Acting Chairperson, but I would just like to make the point that the company is, and has been for quite some time, developing those types of contacts that you talk about. Clearly, aggressive marketing cannot be done because there is nothing to market at this point in time, but we recognize the long-term aspects of this type of thing. We are well aware of the fact that Hydro is talking to other consumers outside of Manitoba at this point in time, not from the perspective of saying, we want to specifically sell you power right now, but in terms of developing the contacts in the long-term types of business and possible business arrangements that could ensue from that.

So I think they are taking what would be considered to be appropriate steps at this point.

Mr. Storie: Just so we put it in perspective, Manitoba Hydro, Winnipeg Hydro, whatever, Winnipeg power, Manitoba Power Commission, have been producing power since 1906. The first firm export power occurred in 1984, 1985 with Northern States Power sale. The fact is that Manitoba Hydro does have power to sell right now. The production from Limestone, the Northern States Power sale finishes in the year 2005. If Manitoba Hydro can line up a customer for that 500 megawatts now for the year 2005, then you can start price negotiating.

If Manitoba Hydro sits on its hands and then goes to Northern States Power in 2003 and says, well, can we negotiate—I mean there is a whole dynamic in marketing. [interjection] The guy that bungled Conawapa, we do not want to talk.

The fact of the matter is that we are talking about a serious issue here. There is no guarantee that

Manitoba is going to need that 500 megawatts, given the load-growth scenario that Hydro presented to us some months ago. So I do not think the marketing exercise simply has to be based around the construction, necessarily, of another generating station, Waskada or Conawapa or whatever. We have hydro to market right now.

Up until 1985, we had been selling on the spot market for basically what we could get. It certainly becomes a lot more valuable to Manitoba when you do the long-term work and establish a firm market.

Mr. Kavanagh: Well, I simply hear with interest your comment. I would not pursue it any further.

Mr. Storie: Mr. Acting Chairperson, if we could, I guess, move on to the Telephone System. I recall a debate with the minister responsible about the impact of deregulation and at least the perception that long distance revenues were going to decline and, of course, that did not appear to be happening, that the introduction of faxes and a new wave of telecommunication devices, I think, artificially increased long distance revenue for MTS.

My concern now is we are going to see several years of significant decreases in long distance revenue and identify that as part of the problem MTS faces. I am wondering whether there is a sense, or perhaps you can tell us, whether, in fact, that decline in revenue is a trend that you expect to continue for a number of years. If that is the case, what does MTS plan to do about it? Have you spoken to them about the prospects for the next three to five years?

(Mr. Chairperson in the Chair)

Mr. Sherwood: Yes, we do expect the decline in long-term rates to continue, and I emphasize the word "rates" as opposed to revenue, because the company is working aggressively at developing new plans and programs that will increment their revenues to us at the lower prices they charge for those long distance tolls. We feel they have taken many steps and are taking many steps to try to address some of these competitive and technological pressures the entire industry faces. In fact, they are budgeting for an improved year in 1993 compared with 1992.

The advent of competition in Manitoba is very near at hand at this point in time, and that is going to put further pressures on their revenues, there is no question about it. The company has responded to that through changing some of its marketing

programs, increasing advertising, adding new products.

I am sure everybody in this room is well aware of the barrage of new products that are being offered by the company. They have gone through significant belt tightening, cut back on the number of employees they have, certainly have left no stone unturned in terms of trying to reduce their expenses in this type of an environment, and that will continue. We would expect, in fact, want to see that continue. But in terms of answering your question, is it happening? I would say the answer is, yes, it is.

Mr. Kavanagh: Can I supplement that? I think you are seeing quite a large corporation moving out of a long-term environment as a public utility in a monopoly into a scene of competition, and they are very different cultures, and it is a very sensitive, complex task to move from where you were to where you need to be to survive in a competitive environment.

We take some encouragement from a lot of the things they have done, but I think great attention has to be paid to the passage of this movement. It is a risk scene, inevitably, in moving from where it is to where it needs to be. It needs a lot of careful attention on the part of the government who is the financial stakeholder.

I do not say that to be negative or down-putting. I am just saying that it is a complex, challenging, risky task to move from where it is at to where it needs to be.

Mr. Storle: I recognize what Mr. Kavanagh is saying. Unfortunately, they live in a different environment than Manitoba Hydro. The rivers are not moving out of Manitoba, but, of course, the telecommunications network and highways can move anywhere.

The difference, of course, is that MTS has a huge albatross around its neck when compared to its competitors, and that is local phone service. The concern here is that the regulators, in their wisdom, have decided to exonerate the competitors from sharing that burden. I am sure there will be and I am sure MTS is gearing for higher local phone service rates, but I am wondering whether MTS's new marketing approach to share in the long distance revenue is going to be able to keep local phone rates within reach for the average person.

* (2110)

Mr. Kavanagh: Are you saying, do we think that domestic rates are going to stay the way they are?

Mr. Storle: I do not think that is a hope. The question is how uncomfortable it is going to get. My understanding is that some of the local telephone services in the United States, in smaller states, telephone rates have doubled since deregulation. Is that what we are talking about? Is it going to get worse?

Mr. Manness: Mr. Chairperson, I do not think it is fair to ask Mr. Kavanagh to speculate. We know local rates are going to increase. We know that. As a matter of fact, I think I saw an article here just a month ago that Bell Canada of Ontario was applying for a 30 percent rate increase, with its incredible plant and with a debt-equity ratio in the high 40's percent, so we know higher rates are coming in some fashion, but that is not going to make the decision any easier.

I think what Crown Corporations Council is saying to the government and ultimately to the people of the province is that some decisions are going to have to be made, because there is such an incredible exposure on the indebtedness side that you had better come to grips with the problem. Nowhere, though, do I read, or as I have been in private discussions with Mr. Kavanagh and Mr. Sherwood, have I heard them say, well, push back the forces of deregulation, this is a province of one million people, because that cannot be done.

So if the member is asking individuals to speculate how high rates may go, I would say that is out of order, and I would ask staff not to respond.

Mr. Storle: No, Mr. Chairperson, if Mr. Kavanagh or Mr. Sherwood have some suggestion or some view on where rates may end up, I would certainly like to hear it. I certainly do not want to put them on the spot.

My question more was, would there not have been, could there not have been, a way to encourage a level playing field amongst the competitors, a word the minister is very familiar with, that what has happened is that the interlopers, really, have been allowed to skim off the profitable portion of the telecommunications system, and what has been left is MTS, and I am not disagreeing that they have been slow to recognize that competition was coming, even within what is within their own mandate, but, I guess, is it not possible for regulators to ensure that that burden is

shared, that Cantel to operate in the long distance market has to service local residents and let them do that in competition with MTS?

Mr. Sherwood: The regulator does ensure that, Mr. Storie. The interlopers, as you would call them, the competition, has to pay a substantial fee to the telephone companies for accessing their system. That fee is determined by the CRTC, but it is designed to recompense the telephone companies for the costs incurred in providing access to their system to the competition. So I think it is considered, and considered at great length, at all of the CRTC hearings with the telephone companies.

Mr. Storie: I recognize there was some payment to access the highway, but is it your view and MTS's view then that this adequately compensates MTS?

Mr. Sherwood: There is a great raging debate across the land on this particular question. If you listen to every telephone company, they all say the access fee is too low. If you listen to every competitor of the telephone companies, they will all say the access fee is too high.

The CRTC has studied the issue, as I say, at great length and has concluded that at this point in time, it looks like the most reasonable level that will put everybody on a level playing field.

So the best way I can answer it is to say it is the best estimate anybody can make after great consideration, and if it is incorrect, it will be adjusted in future upward or downward.

Mrs. Carstairs: I would just like an explanation from council for their opening statement with regard to the Manitoba Telephone System.

The council is concerned that government is facing major exposure with this corporation due to the risks facing both MTS and the telecommunications industry in this country. Just exactly what kind of exposure for this government are you anticipating?

Mr. Kavanagh: Perhaps I will begin on that.

I think there is a tremendous technological change taking place here that is a major business challenge for anybody in the telecommunications business, whether it is in the private sector or in the public sector, and it is a major exposure on technological grounds.

Secondly, the second exposure is the revenue impact of greatly reduced long distance charges

and the risk there. I mean, the management response to that kind of scenario is to do two things. One is, in measures over time, to increase its domestic revenue, and secondly, to downsize its organization and to achieve quantum gains in productivity. To compete, those are the risks and there are no guarantees.

The only thing I would say by way of certainty is that it is inevitable that major productivity gains have to be made, and it is inevitable there will be pressure on domestic rates. Beyond that, I do not think there are any certainties, and in consequence, there are major exposures.

* (2120)

Mrs. Carstairs: With the greatest respect to Mr. Kavanagh, those are exposures for the corporation. You have specifically said in your report exposures for the government. I want to know in what context you mean that. Are you talking about the debt of MTS specifically with regard to the holdings of the Manitoba government? Just what is that exposure you are anticipating over the next few years?

Mr. Sherwood: The government is obviously the sole shareholder of the company. It is also the sole guarantor of the company's debt obligations. The company is not financially self-sufficient. In other words, it cannot raise money on its own without that government guarantee.

If the company's financial position, and I am not saying it will, I am saying if it should deteriorate significantly as a result of these various technological, competitive and regulatory changes that the entire industry is facing, recognizing that MTS is a very small player in that industry and has a very substantial debt load on its balance sheet, if all of that happens and all of these things materialize in a worst-case scenario, then the government as shareholder will have to step in and shore up the company financially. That is the type of exposure we are referring to.

Mrs. Carstairs: Well, I presumed that from the statement. What I would like to know from the council—I mean, the council has opened their comments on MTS by saying they are concerned that the government is facing major exposures with this corporation.

Have you done some forecasting on that? I mean, are you concerned that the government is going to have to accept no payment for any of this borrowing? Are they going to have to, in fact, give

out large sums of money in order to keep the creditors at bay? Just what is the exposure you are forecasting here?

Mr. Sherwood: There is no specific exposure we are forecasting. What we are saying is that on the basis of all the evidence we see in this industry and with this company, it is facing such a high level of risk, tremendous risk. The industry, and the company in particular in that industry, has a very low level of profitability, \$6 million last year, which is nothing for a company of that size.

If the rate pressures we have talked about should continue, if the company does not stay at the leading edge of technological change, if the Stentor alliance should come apart and the revenues fall, if they make any miscues at all, then that company will move into a very substantial loss position. As I said before, it only survives today because of its ownership and its parental guarantees.

There is nothing more I can add. There is no hidden meaning, if you are trying to suggest there is, in that statement. We are just very, very concerned that there is a financial exposure to the government as a shareholder and the guarantor of the company's debt, should the company fall into a significant loss position, and that with all the pressures facing the company and the industry in which it operates, there is some probability, not insignificant probability, that this could happen.

Mr. Manness: Mr. Chairperson, I would just like to indicate that certainly the Crown Corporations Council has not quantified the uncertainty and the potential risk. That is impossible, as Mr. Sherwood said.

But as their mandate is to report publicly as to the concerns they have as they survey the landscape, they have afforded to us in this fashion, and I take it to mean that if all the circumstances, as Mr. Kavanagh has indicated, the technological, the debt and if everything turns in the wrong direction, the combination of that could potentially call upon the provincial government to come forward with tens of millions of dollars. Although that number has never been used, I say that is the interpretation I would take out of it, and consequently the government is acting accordingly.

Mr. Kavanagh: Mrs. Carstairs, I think, just to try to add some perspective on it, in the most recent business period, MTS made, its earnings were \$6

million, down from a double-digit number of the prior year that I cannot remember. My associate—

Floor Comment: \$14 million.

Mr. Kavanagh: Fourteen. Okay, you go from 14 to six, and the current business plan is for 18, to bounce back up to 18.

So I think the appropriate strategy is to view the current business period as a very significant acid test and to be very attentive to the onward progress during the current business period to see whether there is slippage from that level and to assure that those things that are necessarily done to move it to 18 are being done.

Now, if these things do not work, then the 18 will melt like snow, and there could be \$5 million worth of loss, \$10 million of loss, something of that order. Of course, bear in mind that one of the components is the charges that are made domestically. You know, that is not beyond the pale as part of a response to very difficult circumstances.

But there is a very, very high level of interest debt service or debt service. A lot of money has to be paid for the indebtedness of the corporation. Then, what is left over is a pretty narrow margin. In this big an operation, \$8 million or \$6 million, whatever it is, is really quite small.

So perhaps those numbers might give you a little bit more perspective on it. I think that everybody who is interested in the onward progress of this Crown corporation must, necessarily, view the current period with a lot of attention, and its board and its management, to generate tactics to keep them on that track of achieving their current business plan.

Mrs. Carstairs: Well, far from being critical, I greet this particular report with a greater sense of value of a corporation than I have ever seen before, because I think you have reported it exactly as, in fact, it is. This is a very highly exposed company to this government. Anyone who has been watching the telecommunications industry in this country knows that.

So I just congratulate the council quite frankly for putting it as frankly as they put it, because I think to do otherwise would have done the council a disservice. But having done it this way, you have earned your director's fees, Mr. Kavanagh.

Mr. Kavanagh: Thank you, and the pay cut.

Floor Comment: They were reduced, by the way, Mrs. Carstairs.

Mrs. Carstairs: Yes, I understand that.

Mr. Santos: I will resume where I left off, because I am always the last given the opportunity to ask questions. But without prejudicing the progress of the proceedings, I will ask the questions where we were.

On page 6, on MTS, on the right-hand column, third paragraph from the top, saying that operations—that is the second sentence—and administration expenses are forecast to decline by 4.3 percent in 1993. It is almost the end of 1993. Has that been realized so far? What is the present situation? Have we succeeded? Has the forecast been fulfilled, that the operations and administration expenses will be reduced, in the magnitude that it was forecasted?

Mr. Sherwood: The company's first-quarter results indicate that it is achieving its budgeted levels for this year. In that regard, they are on target as far as achieving that forecast.

Mr. Santos: The second sentence says: "The Corporation is planning to reduce its staff complement by 300 positions in 1993, which will bring the total reductions over a two year period of 550 positions."

If this is being implemented, how can productivity be increased, in order to cope with the pressure of competition from the outside world, if you are laying off people?

Mr. Kavanagh: Well, Mr. Chairperson, if I might answer that question, productivity has in part to do with the use of capital equipment in doing work. It has to do with a very introspective examination of what work you do and how you do it, and digging for better and more effective ways of doing it. That is what productivity is all about, trying to do more with less, trying to make necessity the mother of invention.

That is the story in all of Canadian business and, indeed, almost worldwide, in the current period. So that is what I would say to you is the nature of productivity and the nature of the challenge. Doug, do you want to supplement that?

Mr. Sherwood: I would just add, Kevin, that one of the significant areas of productivity is attributable to improved technology. The best way I can characterize it is that if you think of the old

telephone company and all of the switchboard operators lined up with their little headsets, plugging in wires at a board, those people are all being replaced through advanced switching systems that do not need a high number of people.

So you are able to gain a tremendous additional capability through the advanced technology, while not requiring the same number of people.

* (2130)

Mr. Kavanagh: Maybe I could give you an example of productivity in the telecommunication field. It is said, in respect to telecommunications in the United States, that if the technology of 1945 was combined with the volume of telecommunications of 1993, then all of the women in the United States between 20 and 45, or something to that order, would be necessarily employed to run it.

Mrs. Carstairs: That is pretty sexist.

Floor Comment: Or equivalent.

Mr. Kavanagh: You know, as soon as I said "women," I knew I was in difficulty. But I mean, it is a vivid characterization of the impact of productivity gains, and they are going to have to be found.

Think about Xerox. Xerox came to the end of some of its patents. Its preferred position in the marketplace was greatly impaired, imminently, and in order to survive, that company, they did it by digging deep for new measures of productivity. They adopted quality management. They did everything they could to restructure the company and to reinvent itself.

That is the character of the challenge for MTS. That is what they have to do, in every way try to address the challenge.

Mr. Santos: Mr. Chairperson, there is no doubt that society itself is changing. We are now entering a new threshold, what they call the informational society, a technologically advanced society. I perceived what Mr. Kavanagh was saying was that MTS seems to be like a chameleon. It has to change with its environment.

It was previously a public utility monopolist with regulatory power. Now it finds itself, suddenly, a small player in a global competitive environment. In order to survive, I am suggesting it has to look at its own mandate, its objectives, how it adapts to the changing situation of its existence. Any kind of organization that fails to adapt to the changing

environment, being a part of society and part of the global environment, will find it hard to survive.

What I am asking is, although we have to be aware all the time of financial stability and viability, still we should not forget that balancing of concern that the Minister of Finance (Mr. Manness) has perceptively pointed out. MTS also has an obligation to its own people here in Manitoba, to its own shareholders, and therefore should also be concerned about the unemployment problem in this province.

If people are as much a part of investment as money, I would suggest that if we hire what Mr. Kavanagh suggested, that if we hire all women here, it would be good for the economy of Manitoba because they would have money to spend and would contribute to economic activity.

My question is, specifically how do we balance the financial sufficiency objective of the private sector component of MTS with the social aspect of its mandate, of its public sector responsibility and obligation to the public? Is that always considered by the Crown Corporations Council when they look at any particular problem?

Mr. Sherwood: The company has been quite successful at doing that, in fact. They have the Rural Service Improvement Program which is basically bringing touchtone telephones to all residences in rural Manitoba. They have decentralized part of their operations into smaller communities outside of Winnipeg. They are taking many steps to address the social aspect of their mandate, while keeping their eye focused on their financial well-being at the same time.

Obviously, if they go too far one way or the other, it will not be satisfactory performance, but I think they are fulfilling their social mandate in a quite acceptable manner as well.

Mr. Santos: Mr. Chairperson, I am intrigued by the phraseology of Mr. Sherwood in his portion of the President's Report, when he talks about "developing the leading edge thinking on complex and difficult business." I suppose that one of those leading edge thinking will be the total quality control that was starting by Professor Denning [phonetic], as applied in Japanese corporations. Has that been looked at by MTS or any other Crown corporation to increase productivity?

Mr. Sherwood: Yes, it has. In fact, virtually all Crown corporations have embraced Total Quality Management in one form or another.

Mr. Santos: What is the observed impact of this seminar, if any?

Mr. Sherwood: It is a very difficult question to answer in a succinct manner. The quality improvement programs that the companies have introduced have resulted in productivity improvements, but, specifically, I cannot step you through all of those details.

Mr. Kavanagh: I think, Mr. Chairperson, if I may, that Total Quality Management is a very difficult notion to introduce and make effective, that there is probably in various Crown corporations much difficulty experienced in its implementation. Some will be successful; some less so. Some will have to go back to the beginning and try again. This is not a magic deal. It requires a lot of effort and, I think, some failure before you find success. So you are not looking for an overnight solution from that, but it is very, very desirable to incorporate that in varying degrees into Crown corporations. At least, that is our advice that we are giving to Crown corporation managements.

Mr. Santos: I want to go the Manitoba Public Insurance Corporation, on page 7, the bottom left column: "Council believes that MPIC is generally well managed." That is a statement. On what basis does the Crown Corporations Council make this statement?

* (2140)

Mr. Kavanagh: Mr. Chairperson, I spent my lifetime in the insurance business, and I have made most of the mistakes that they might have been making.

We believe that it is important to find good performance in respect to the amount of money extracted from each premium dollar for expenses. We compared those to peer operators, such as the B.C. and Saskatchewan insurance corporations, in respect to automobile coverage. We looked at an array of performance measures in the private sector. We found that, generally speaking, although there was room for improvement, we are among the better performers in that particular respect.

We were interested to gain a sense as to whether there was a permissive approach to claim settlement, in which event, if there was, it would

have done financial injury to the corporation. We did not find that. We examined their planning in respect to the computerization of the business, to be contemporary and, indeed, to be responsive to their customer surveys and so forth, and we gained an altogether favourable impression of how they were conducting their business on the basis of those examinations and those kinds of comparisons.

Mr. Santos: On page 15 in the graphs there, it says, in 1992, the corporation experienced a net loss of \$17.7 million. This is composed of a \$25.5 million loss on automobile insurance and a \$7.8 million profit on its discontinued general insurance line.

I was thinking that if profit was achieved on what was discontinued, the general insurance line, is this not an admission that there was a management error to discontinue that general insurance line?

Mr. Kavanagh: I would say no.

Mr. Santos: Why is that?

Mr. Chairperson: Order, please. Could I ask the honourable member to come through the Chair, so Mr. Kavanagh or Mr. Sherwood have the chance to complete their answers?

Mr. Kavanagh: Well, I do not have in my head the detailed history of MPIC's excursion into the general insurance business, but my recollection is that some years ago, they did become very heavily involved in personal liability insurance and reinsurance, and that it was calamitous in its financial impact. It really is a scene in which the corporation strayed from its core business into areas that were unfamiliar to it, and a judgment was made to get out of the business because a great deal of money had been lost, and there was very little confidence that if they persisted in the business, they would enjoy success with new business.

So I think the profit that is being taken now is probably—and I have not analyzed this very specifically, but it looks to me very much like evidence of the book of business being purged of many risks that were inappropriately taken before and you have the profitable residue, finally, coming through in later years.

So let me tell you, Mr. Santos, absolutely the last thing in the world that MPIC should do at this stage is to venture back into the personal liability reinsurance business, an area that has proven to

be very expensive in earlier times and in which they have very little expertise.

Mr. Santos: I agree generally, that in the reinsurance business, that was the Achilles heel they entered into without knowing too much about it. Initially, they made a profit and not knowing they were tied to long-term contracts, they had to pay out money later on. But is that reinsurance business separable from the general insurance line?

Mr. Kavanagh: Well, general insurance can be done either by a primary insurer, where you take all of the risk or most of it, or it can be done as a reinsurer, where you are, in effect, secondary. Somebody else is underwriting the business and laying off the bets, so to speak, against you. So, yes, you can be a primary insurer and a reinsurer in the general insurance business.

Mr. Sherwood: I would just like to add the point that \$7.5 million of that \$7.8 million profit came from the special risk extension business. In other words, it had nothing to do with the general insurance side at all. Special risk business is insuring things like motorcycles and campers and things like that.

Mrs. Carstairs: In the opening paragraph on MPIC, the council again refers to the mission statement of the corporation and it says, to protect Manitobans from the human and economic cost of automobile accidents. Then it says that if there is, in fact, going to be a no-fault insurance program, that it be placed in the context of maintaining financial integrity. Well, I think everyone would like some financial integrity, but surely, it is also part of the mandate of MPIC to protect the human and economic costs, and those are not necessarily one and the same.

Why does the council feel that if the government goes into no-fault, their only consideration, which is how I read this paragraph, should be the maintenance of financial integrity?

Mr. Kavanagh: Well, boy, life is filled with difficult choices, I guess, and the choice here is either follow a track of, in the near-term horizon, double-digit increases for the next three or four years or ameliorate the level of claims that are being paid.

Perhaps not everybody would agree with me, but I think that those are the strategic choices for MPIC, either significantly and with some persistence

increase the premium rates so they are sufficient to pay the claims and the expenses or do something to constrain the level of the claims.

I would have been happy with either one of them, but it seemed to me that the government would address the question of the affordability of these benefits and saw in the no-fault approach a reasonable way of achieving affordability.

But I think you have to go backward from that decision and consider what are the choices, and I think those were the choices.

Mrs. Carstairs: It is not up to this Crown Council to defend what the government is going to do, and I do not intend to get involved in that debate here tonight. The minister will be delighted.

What I do want to touch on, though, is when the Crown Council indicated it had done its comparisons, it specifically mentioned both British Columbia and Saskatchewan, which are both provinces, of course, that have not gone to a no-fault model as proposed by the government.

Did they do any evaluation of the Quebec model? If they did, what did they perceive as its strengths and weaknesses vis-à-vis a comparison with Manitoba?

* (2150)

Mr. Kavanagh: Mr. Chairperson, if I could just take the first piece, the comparisons I alluded to with respect to the public insurance corporations in British Columbia and Saskatchewan were with respect to expense, the cost of running the thing. We found that MPIC in relation to those organizations was doing a good job. We did not get into the question of no-fault in relation to those two jurisdictions.

With respect to the Quebec item, perhaps my colleague, Mr. Sherwood, might have some things to say about that. Do you have anything to add on that, on the Quebec scene?

Mr. Sherwood: Just a brief comment, and that is the key difference between the existing program in Manitoba and the proposed no-fault program is the elimination of awards for pain and suffering. Now that is the fundamental difference that basically contains a lot of the liability.

The problem that MPIC has, as every other auto insurer in North America has been facing, is that bodily injury claims have been skyrocketing, and specifically, soft tissue, as they call it, the whiplash

type of claims. They are very difficult to prove or disprove as to their authenticity. You go to your doctor and you say you have whiplash resulting from an auto accident. The doctor has to put some credence in what you say.

The result is, as Mr. Kavanagh stated, any insurer in this situation is faced with really only two remedies to that problem because it cannot contain the claims experience that it is getting. It can try to control the level of award that it makes, or it can continue to pay as it has and increase the premium cost to its customers.

In this case, no-fault and the Quebec no-fault plan does this very, very substantially. No-fault puts a limitation on the liabilities the companies face.

Mr. Kavanagh: I do not want to leave the impression that the council did significant analysis of no-fault. We were certainly aware of it, but we did not see that it was part of our mandate to be the policy bureau in this particular respect.

We felt that our mandate was to make sure that government, as the major stockholder, understood what the financial circumstance was. We certainly expressed a point of view as to the themes of alternative solution, but we are not a policy-making group. We are the tiresome people who identify problems and suggest alternatives.

So, anyway, I did not want to leave the impression that we were experts on no-fault and its variations.

Mr. Sherwood: If I could just add one brief comment, and that is the fact that we are talking about a program that is yet to be passed in the Legislature. Because it is just happening at this point in time, a lot of our work, and I agree with Mr. Kavanagh's statement, a lot of our work is very preliminary.

Mr. Manness: Mr. Chairperson, from time to time, I ask council for opinions on views. Certainly, the government did not ask this time around. This was very much a public policy matter. I mean it is at the highest level of political decisions, and I can tell you as other caucuses are wrestling with the legislation that is before the House, certainly our caucus wrestled this issue over several, several months.

The tradeoffs were very clearly a limitation to claims as compared to, in the view of some, a privilege versus a right to drive, depending on

whether or not you can afford, ultimately, a premium associated with driving.

So we would not ask the council for their view.

Mrs. Carstairs: I did not expect that the government had, quite frankly. All I was interested in knowing is what kind of evaluations they had done with regard to this corporation vis-à-vis other corporations so that they could give their evaluation here tonight.

MPIC, according to the council, is generally well-managed, but you did note that you had some concern with the inappropriateness of budgeting for a loss in the '93-94 insurance year. Would you like to just elaborate on that?

(Mr. Gerry McAlpine, Acting Chairperson, in the Chair)

Mr. Sherwood: It is simply a matter of one segment of the business, which is a competitive segment, cross-subsidizing the monopoly side of the business. We felt the two business segments should stand on their own two feet.

Mr. Santos: Proceeding on, I am going to the Manitoba Liquor Control Commission. At the top of page 8, it says that the council noted that the Manitoba Liquor Control Commission has adopted generally accepted accounting principles except with respect to fixed assets and pensions.

I do not quite understand the exceptions. Could somebody explain that?

Mr. Kavanagh: I was going to suggest Mr. Sherwood might—I defer to my chartered accountant colleague here.

Mr. Sherwood: The company tried to put this in laymen's language. The company expenses its capital assets. It charges the cost of its capital assets directly against its income in the year those acquisitions are made. Generally accepted accounting practices is where you capitalize the asset on your balance sheet and you depreciate it over its useful life.

That is a very conservative approach, I might point out. In other words, in fact, the company could increase its level of profitability in this case if it followed generally accepted accounting principles.

On its pensions, it goes the other way. It does not recognize all of its unfunded pension liabilities. Accepted accounting practices state that if you have a pension liability, you should show it as a

liability on your balance sheet. The company does not do that at this time.

Mr. Santos: That reminded me of the unfunded liability of the government for pensions.

Mrs. Carstairs: I would like to move on to MMR if that is all right with the other critic. Has the council done any evaluation of the \$16 million that was taken from MMR by the government and the effect on the viability of MMR of that confiscation, if I could put it that way?

Mr. Sherwood: The company maintained a very large cash balance that it did not have any immediate use for. What was done was that the shareholder basically looked at that and said, you do not need it for the foreseeable future, so we are taking a significant portion of that, which is what they did and what you are referring to.

We do not see any great issue as far as that is concerned. The only result is if there are no further changes to this company's operations in a much shorter time frame, the shareholder will have to fund the company's operations instead of its relying on its own cash reserves for quite a number of years.

* (2200)

From a business perspective, frankly, it is probably a good decision. You use the cash where it is most needed, and then you draw it back when you need it yourself.

The Acting Chairperson (Mr. McAlpine): Order, please. The hour being ten o'clock, what is the will of the committee?

Mr. Manness: Mr. Acting Chairperson, I do not want to push the opposition party members. If they sense that we might be able to complete if we sit a little bit longer, certainly I think we will be prepared to do so.

Mrs. Carstairs: I only have a couple of more questions. I do not know about the member, I think we can clear it up in about 15, 20 minutes.

If I can just add, of course, that obviously means that MMR has the potential of reclaiming that money; however, it is not quite as simple as that. If the government does not want them to reclaim their money, the government can simply say, sorry, the money is not available for reclamation purposes. I mean, what does that do to the mandate of MMR?

Mr. Sherwood: There is no question it puts it on a much shorter time horizon as to when the company runs out of funds.

Mr. Santos: Proceeding on to Communities Economic Development Fund, on page 9, the last paragraph, it says: "Council believes that the Board and management of CEDF have taken many positive steps to address the challenges facing the company."

Can we have some elaboration about what those challenges are, and what are the positive steps?

Mr. Sherwood: The most significant challenge the company is faced with is, basically—let me provide a little background. CEDF is a lender of last resort to entrepreneurs, typically in the northern part of the province. By definition, they are fairly high-risk borrowers.

The company will not lend them money if they have gone to a regular lending institution or bank and applied for a loan and been obviously granted it. They will only be a lender of last resort. So that puts them in a very difficult situation in terms of lending money but expecting to have it repaid at the same time.

The big issue, again, is recognizing the social aspect of its mandate, which is to lend money to entrepreneurs, to encourage and foster economic growth and development in northern communities, while at the same time not exposing the company to excessive bad debt levels.

The company has embarked on a program to tighten up on its credit review, its loan-granting procedures, to ensure that the loans it makes have a reasonable expectation of repayment. That is perhaps the single biggest area that they have had to address. As a result, their bad debt levels are being restrained and in fact reduced from those of prior years.

(Mr. Chairperson in the Chair)

Mr. Santos: Again, there is a balancing to be done here between the social objectives and financial stability. It seems to me that this tension between these two competing objectives is present in all the Crown corporations.

Mr. Sherwood: I was just going to agree with that statement and say that of all of the Crown corporations in our purview this one has the strongest social mandate. It is recognized that this

company will not make money, that there will be an ongoing government subsidy required.

The objective is to try to keep that subsidy to a reasonable level, which is basically the current levels of just in excess of \$1 million a year, while still expanding its lending programs. But there is a definite, very fine and difficult line that has to be walked here between the social aspect of its mandate and maintaining some reasonable financial responsibility.

Mr. Santos: It just occurred to me that this balancing sometimes has to be weighed in favour of social objectives, heavily in some specific cases, and, in other specific cases, in favour of financial integrity. It depends from case to case.

It seems to me that this particular Crown corporation is comparable to any social welfare agency whose function is to give away money in order to achieve some kind of social purpose. I am not saying that they should do so with no caution or safeguards; I am just saying that sometimes the social objective may dominate over the financial stability objectives.

Proceeding on, with respect to this same corporation, I noticed that the council noted that there was a conflict between the CEDF Act and the Crown Corporations Public Review and Accountability Act in appointing the chairperson as chief executive officer.

Indeed, the council—at the top of the left column—"recommends that this conflict be resolved by amending the CEDF Act to appoint the General Manager as the Chief Executive Officer, consistent with all other Crown corporations."

In the other committee that I attended, the same situation was happening when in the Manitoba Hazardous Waste Management Corporation they were hiring the chair of the board of directors as president and chief executive officer without relinquishing the position as chairperson of the board.

It seems to me what is objectionable in one should also be objectionable in the other in the sense that there is a conflict of interest there.

What is the minister going to say about this situation?

Mr. Manness: There are certainly many precedents for this happening. This is not the first time that this has occurred. With a fledgling Crown

like this, which was on the path of potentially spending tens of millions of dollars, the government wanted to ensure that there was stronger and more definitive direction with respect to the future plans of the Hazardous Waste Corporation.

I know it is not the convention that the same individual who chairs ultimately is in the chief operating position of the company; nevertheless, for a short period of time, given the circumstances around this Crown, it is the way the government as the shareholder representing the people wants that Crown to conduct its affairs.

Mr. Santos: I suggest this is not only improper in the sense that the spokesman of the policymaking body is also the chief of the implementing body. This is the very definition of tyranny where the policymakers are the ones who also execute the policy that they make. There would be no restraint.

That is why it is not conventionally accepted, even in the private business world, that the chief executive officer occupy the position of chairman of the board.

* (2210)

Mr. Manness: Mr. Chairperson, I said it is not conventional to see that. I guess the tyranny the member is referring to is the same tyranny that occurred when Mr. Eliesen, when the NDP were in government, was the chair and also the chief executive officer of Manitoba Hydro. It is the same tyranny, I imagine, that Mr. Santos is talking about, using his word.

Mr. Santos: I am talking about principles. I am not talking about personalities. I am talking about proprieties, what is morally right, what is proper. Anything that is improper cannot be justified on the grounds that it saves money.

Mr. Manness: I do not accept it as improper. I accept that it is unconventional, but nobody can say it is improper.

Mr. Sherwood: I would just like to make the point here that I think this is really splitting hairs. From a practical perspective, the general manager of Communities Economic Development Fund is the chief executive officer. The chair is a part-time chair. He does not have the time or will not spend the time in terms of conducting what will be considered to be the CEO's role. The general manager does that.

Conversely, if you look at any chair's role, and I would take the liberty of using council's own example. I mean, the chair for Crown Corporations Council is ultimately the boss. You can argue that I am the CEO, but if you think that I—how can I diplomatically say this—am going to contravene the wishes of my chair, from a practical perspective, I would not do it.

Mr. Santos: Although you have the expertise and the knowledge.

Mr. Sherwood: I would do everything in my power to persuade him of my perspective like any other CEO would, but in the ultimate real world, the chair is the boss, so I do not think it makes much difference as to what the titles actually are.

Mrs. Carstairs: I understand that not only did the Manitoba Hazardous Waste Management Corporation develop a business plan, but, in fact, the Crown Council has examined that business plan.

Would they like to tell the committee what they found in that business plan?

Mr. Sherwood: Certainly. We reviewed the plan quite extensively from the perspective of trying to determine if it met the criteria we would expect for a plan of this nature, and that meant, was there a good marketing assessment, product lines and financial projections and so on.

Our conclusion was that it met all, in fact—and I emphasize the word all—the criteria. The only reservation we had with regard to the plan was whether or not the financial projections would support an attractive investment return for a private investor which the company is seeking.

We felt, however, that the marketplace would be the ultimate determinant of that, and as a result, we recommended to the minister that the company proceed with seeking outside investors.

The only way you will ultimately know whether those numbers make sense or not is through testing the industry experts themselves. They can bring something to the table, for example, some expertise, some particular knowledge, a better way of doing things than the company itself had defined. They may feel that the rate of return, expectation, that they could get from such an investment would be excellent.

The numbers that the company has presented, frankly, do not support that position. That is our position.

Mrs. Carstairs: No, I do not have any more questions.

Mr. Santos: In a related manner, on page 3— [interjection] Well, I was interrupted by Mr. Storie. Even within the family, there are certain differences of opinion.

In the right-hand column, about the middle of the second paragraph, it says there: I am pleased that in two recent instances, Manitoba Public Insurance Corporation and Venture Manitoba Tours Ltd., appointments have included individuals with experience unique to the operations of this corporation.

I just want to ask whether this referred to persons who are still related actively or actively involved with respect to the Crown corporations in some other capacity.

Mr. Kavanagh: Could you phrase that question again? I am not sure—

Mr. Santos: Mr. Chairperson, I just want to know whether the appointees, who are individuals with experience unique to the operations of their particular Crown corporations, are also actively involved as part of the same Crown corporation in some other capacity?

Mr. Kavanagh: No, the Manitoba Public Insurance Corporation's directors that are alluded to here are Mr. Rod Pennycook, who is a fellow of the Society of Casualty Actuaries and a former colleague of mine in recent times. His professional expertise in casualty insurance was very pertinent, I thought, to the affairs of the corporation.

The other director was Mr. Don McCarthy, who had, before he retired, been secretary for many years of the Monarch Life Insurance Company. So he had had an opportunity to participate and observe proceedings of another insurance company.

So I thought that these two persons were very timely to buttress the strength of that particular board.

Venture Manitoba Tours Ltd. was of the chairman, and Doug had considerable experience in the hotel business.

Mr. Sherwood: With Venture, there were, in fact, three directors, all of whom had considerable hotel

industry experience which we thought was a very strong representation for a board operating a resort and conference centre.

Mrs. Carstairs: Yes, I think we have finished the body of the report.

When I look at the members of the council, and the committees are getting used to my asking this particular question, I see a number of directors. I can only identify possibly one being female. Is that correct?

Mr. Manness: Mr. Chairperson, at this time, certainly there were two. Barbara McFarlane was on council and now has gone to the Public Schools Finance Board.

Mrs. Carstairs: Well, I am glad she has moved on to another appointment. The reality is that only one out of seven on this particular board happens to be female. Can the minister tell me what he is doing to correct that in the near future?

Mr. Manness: Well, that is a hard one. I can tell you, I have spent a lot of time in trying to work toward a greater balance. An announcement will probably be made in the course of the next two months. At this time, I am almost certain we have found a woman who is prepared to serve on the council, having approached many. I am certain once those announcements are made, we will be back to a number of two.

We are looking hard to even increase that number but without success at this point in time.

Mrs. Carstairs: I can accept then the assurance from the minister that he is, indeed, looking to increase the participation of the female gender on this particular board as on all other government boards over which he has responsibility.

Mr. Manness: Well, I am one of the favoured ministers. I only have, in essence, control or responsibility for one board, and this is it. I will do what I can to improve the balance.

Mr. Santos: Mr. Chairperson, page 15—

Mr. Manness: Excuse me, Mr. Chairperson, I just want to say to Mrs. Carstairs, because I think maybe she is leaving, and this will sound hopefully not patronizing and not too gratuitous.

Sometimes I have been criticized for not providing compliments. But I would like to provide a compliment to the Liberal Party of Manitoba and the support it has provided to the concept of the Crown Corporation Council and the manner in

which it has come forward to these hearings and put forth very direct questions.

* (2220)

I think, over the years, not only Mrs. Carstairs but certainly colleagues and her former colleague, Mr. Carr, particularly, saw how good government could work. I saw how it could work, and I have seen it with respect to the Crown Corporation Council. I just wanted to put that on record and thank Mrs. Carstairs.

Mr. Santos: I withdraw that question, I have another question on the last page on the bottom. Head office, who is the owner of 320-530 Kenaston

Boulevard, which is rented premises for the Manitoba Crown Corporation Council?

Mr. Sherwood: Sun Life.

Mr. Santos: Thank you.

Mr. Chairperson: Shall the Annual Report of the Crown Corporation Council for the year ended December 31, 1992, pass?

Some Honourable Members: Pass.

Mr. Chairperson: The report is accordingly passed.

Committee rise.

COMMITTEE ROSE AT: 10:22 p.m.