



Fifth Session - Thirty-Fifth Legislature

of the

Legislative Assembly of Manitoba

**Standing Committee
on
Public Utilities and Natural Resources**

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



Vol. XLIII No. 5 - 10 a.m., Tuesday, June 21, 1994

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fifth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
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
KOWALSKI, Gary	The Maples	Liberal
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MACKINTOSH, Gord	St. Johns	NDP
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCORMICK, Norma	Osborne	Liberal
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda, Hon.	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
ORCHARD, Donald, Hon.	Pembina	PC
PALLISTER, Brian	Portage la Prairie	PC
PENNER, Jack	Emerson	PC
PLOHMAN, John	Dauphin	NDP
FRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROBINSON, Eric	Rupertsland	NDP
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
SHELLENBERG, Harry	Rossmere	NDP
STEFANSON, Eric, Hon.	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary, Hon.	Fort Garry	PC
WOWCHUK, Rosann	Swan River	NDP

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

Tuesday, June 21, 1994

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

**CHAIRPERSON — Mr. Marcel Laurendeau
(St. Norbert)**

ATTENDANCE - 10 — QUORUM - 6

Members of the Committee present:

Hon. Mr. Orchard

Messrs. Ashton, Edwards, Helwer,
Lamoureux, Laurendeau, Pallister, Reimer,
Mrs. Render, Mr. Rose

APPEARING:

Bob Brennan, President and Chief Executive
Officer, Manitoba Hydro

John McCallum, Chairperson, Manitoba
Hydro-Electric Board

MATTERS UNDER DISCUSSION:

Manitoba Hydro-Electric Board 42nd Annual
Report for the year ended March 31, 1993

* * *

Mr. Chairperson: Good morning. Will the Standing Committee on Public Utilities and Natural Resources please come to order.

This morning the committee will be considering the March 31, 1993, Annual Report of the Manitoba Hydro-Electric Board. Did the minister responsible have an opening statement, and would he please introduce the representatives present from Manitoba Hydro?

Hon. Donald Orchard (Minister charged with the administration of The Manitoba Hydro Act): Mr. Chairperson, members of the committee, I would like to introduce officials of Manitoba Hydro with me today. Immediately in front of me, Mr. John McCallum, Chairman of the Board of

Manitoba Hydro; next to Mr. McCallum, Mr. Bob Brennan, President and Chief Executive Officer of Manitoba Hydro; next to Mr. Brennan, Mr. Ralph Lambert, Executive Vice-President, Engineering and Environment.

Mr. Chairperson, the Annual Report of Manitoba Hydro-Electric Board being reviewed by this committee today pertains to fiscal year ending March 31, 1993. At that time, Limestone Generating Station was just being fully reflected in Manitoba Hydro's rate base, and consequently, a loss on operations was incurred for that year. Since that time, the finances of the utility have improved considerably, and, as Mr. McCallum and Mr. Brennan will discuss later, Manitoba Hydro is moving towards becoming a much stronger and financially healthier organization.

It is significant that Manitoba Hydro is achieving its improved financial strength within a rate structure that is very favourable to the residences and businesses of Manitoba. Following a year in which there were no electricity rate increases in Manitoba, the corporation is implementing modest rate increases over the next two years, average rate increases of 1.2 percent for the current year, and the next fiscal year, Manitoba Hydro, we anticipate, will be below the projected rate of inflation. To further help improve the competitiveness of industry in our province, electricity rates for large industrial customers will reflect a very nominal increase of 0.1 percent over each of the next two years.

As was announced in the Honourable Eric Stefanson's Budget Address of April 20, 1994, there was a further boost to the mining and manufacturing sector with a phased removal of the provincial sales tax on electricity. Effective June 1,

1994, the electricity tax on mining and manufacturing will be reduced by one-half to 3.5 percent, and on April 1, 1995, mining and manufacturing industry will in Manitoba be completely sales tax exempt for their electricity use in the mining and manufacturing process.

Mr. Chairperson, these very positive steps will assist industry and commerce in Manitoba to maintain a competitive position for their enterprises, particularly those export-oriented enterprises that are competing on the global market. We believe that not only will these measures help existing businesses grow and prosper, but they will attract new industries to Manitoba for the benefit of all Manitobans. For the mining industry in particular, this measure can significantly improve their competitive advantage in the global marketplace.

This tax relief, i.e., sales tax on electricity, coupled with other initiatives such as the 7 percent capital investment tax credit and the processing allowance doubling to 20 percent, make our taxation on new mining investment drop from the highest nationally to the fourth lowest.

There are other significant benefactors to the sales tax relief. For example, Canadian Oxy in Brandon and Manitoba Rolling Mills in Selkirk, both major users of electricity, now receiving sales tax relief on their electric purchases. Both firms have indicated that this measure significantly improves their competitive advantage in the marketplace.

The 1994 Budget Address also rescinded the exemption from the corporation capital tax which Manitoba Hydro previously received. This treatment brings Manitoba's capital tax provisions in line with other provinces and accords the same treatment to Manitoba Hydro as other companies providing energy services in Manitoba. The tax will increase Manitoba Hydro's cost by about \$12 million per year, but I am informed by the corporation that this amount is manageable within the existing rate structures that were approved by the Public Utilities Board.

Mr. Chairperson, it is noteworthy that the men and women who provide electric service in

Manitoba often do so under hazardous and inclement conditions, and I would like to extend my thanks and appreciation to them for the high quality of service that we enjoy in our province.

Mr. McCallum has some comments on Manitoba Hydro's operations from a board perspective, following which Mr. Brennan will present a number of slides on the specific operations of the corporation. With that, Mr. Chairperson, I recommend passage of the Manitoba Hydro-Electric Board report for the year ended March 31, 1993. Thank you.

Mr. Chairperson: We thank the minister. Did the critic from the official opposition party, Mr. Ashton, have an opening statement?

Mr. Steve Ashton (Thompson): Mr. Chairperson, as the critic for Manitoba Hydro, I will be asking a number of questions. I do want to begin with a number of comments, though. One is to note the generally good financial position of Manitoba Hydro as outlined in the report, which deals, of course, with the previous fiscal year. I would note that we are dealing in particular with record sales, record export sales of Manitoba Hydro, and one of the significant factors, apart from water conditions which, obviously, is one factor in terms of the ability of Manitoba Hydro to export, has been the Limestone dam which is currently in place and, of course, the NSP power sale, which I must take some great pleasure in indicating was negotiated by the previous NDP government.

In fact, the NSP power sale and Limestone were both a subject of very much controversy. It is more than a question of saying, I told you so; it is a question of congratulating all those who worked on that particular development. I want to say this publicly in terms of Manitoba Hydro as well, I had the privilege of sitting on the board in that period in the latter part when construction was underway, and I would note that we are seeing the proof, Mr. Chairperson, of the fact that the Limestone dam and NSP power sale were positive economic developments for Manitoba.

Not only that, but the dam was constructed on schedule. It was constructed well under cost, and I

know the Conservatives were quite critical at the time. There is some irony, too. I think that the previous minister at the time was quite critical of the Limestone development. I remember that one of his concerns was that not enough southerners would get jobs on Limestone. I am hoping that now he is in a position of being Minister responsible for Hydro, he will show some interest, as we did, in terms of northern employment, both generally with the corporation and with any other possible developments.

I note, too, that the current Liberal leader is here as the critic, and I do remember the Liberals at the time saying that Limestone would be lemonstone and predicted that the Limestone dam would cost \$5 billion to build. The minister, I am sure, can correct me if I am wrong, but I believe the final figure was approximately \$1.4 billion.

* (1010)

Mr. Chairperson, I think it is a testament to the farsightedness of those who made the decision to proceed with the negotiations in terms of the NSP power sale and with the Limestone dam that we are in a position of having reports that are starting to reflect the revenue flow from Limestone and the NSP power sale in particular and that the transition period, with which we were dealing with the previous report where there was a paper loss because of the financing of the construction, is now in the position where Manitoba Hydro is going to be expecting a significant revenue flow over the next 10 years and perhaps longer as well if the NSP power sale or other sales are negotiated, if the NSP power sale is extended.

So I think that backdrop is important. That is one of the reasons why Manitoba Hydro is in a position of being able to have had rate increases at or below the rate of inflation and is predicting the ability to do so in the future.

That, of course, is important. One of our great strengths in this province is in terms of our hydroelectric potential, particularly in terms of business, also, of course, residential consumers. But we do have either the lowest or amongst the lowest rates depending on the rate category, and I

am sure we will have a presentation in a few minutes indicating that being the case.

I will be asking questions in terms of the corporation's current plans in terms of possible future sales, including extensions of the NSP power sale. I will be asking questions in terms of current projections of load growth and how that impacts in terms of the transmission sequence, in terms of construction of new transmission facilities, both for domestic need and other scenarios involving possible export sales.

I will also be raising some questions in terms of hydro rates. Last year at committee, I thought we were able to get to the point where we would be seeing equalized hydro rates based on discussions in the committee. Unfortunately, since that time there have been a number of developments that have now led to the situation where we are not likely to be seeing equalized residential rates for customers across the province. We currently have three zones which do have differential rates, and I will be asking some questions in terms of that.

I will be asking some questions in terms of progress on the Northern Flood Agreement. There have been a number of agreements signed, either final signing in the case of Split Lake or else signing in terms of principle in terms of a number of other communities. I have been requested by Northern Flood communities to raise some of the concerns, because there is an ongoing frustration, even in communities that have signed the Northern Flood Agreement, about what happened in terms of previous flooding. I know this has been very well recognized by Mr. Brennan publicly and on behalf of Manitoba Hydro, that there is a different approach and there is an honest and sincere effort to right some of the historic wrongs that have taken place in terms of the communities.

I will also be asking some questions in terms of staffing. There has been some major downsizing in Manitoba Hydro, and I will be asking in terms of the impact of that and Bill 22.

I will also be asking some questions in terms of transmission lines. There have been a number of recent studies, one in particular that has indicated some possible health problems from exposure to

high-voltage transmission lines. It is an issue that I have raised in the past in this committee, and I will be seeking Manitoba Hydro's opinion, what they are currently doing and what their particular knowledge is of that.

I will also be raising some questions about the future of Manitoba Hydro because there has been some discussion in recent weeks of possible deregulation of hydroelectric and other power utilities similar to what has happened in Telephones. I would be greatly concerned about that.

I transposed the possibility of the deregulation and the kind of chaos we are seeing in certain areas of the telecommunications industry, particularly the Manitoba Telephone System, and with the very healthy financial situation that Manitoba Hydro is in, which I outlined before.

I believe it is an issue that we should all be aware of. I know there has been some discussion, and I will be seeking advice from the minister and Manitoba Hydro as to what its position is and where discussions are.

I would also, by the way, like to conclude by paying tribute to Manitoba Hydro. I think Manitoba Hydro is a classic example of the best in public ownership. It is a public utility. It is very well run despite any policy disagreements we may have in this House. I mentioned in the minister's Estimates that there is a long tradition of debate over hydroelectric policy. It is one of the more defining issues or certainly has been of many Legislatures of the past.

Despite any of those disagreements, I think we all agree that Manitoba Hydro is in general a very well-run utility, has dedicated management and staff and really is one of the major assets of this province. Certainly there are times when we, in looking at financial matters, often look at the other side of the coin in terms of the debt that has been incurred, but the debt that has been incurred in terms of Manitoba Hydro is more than balanced off by a very significant asset, a very healthy asset.

Financially it is producing significant revenues for the province, and I think we should pay tribute

to the corporation, because they indeed have proven that they are one of the leading power utilities in this country, and that deserves comment on the public record.

Mr. Chairperson: Thank you, Mr. Ashton, for those statements.

Does the critic for the Second Opposition Party, Mr. Edwards, have an opening statement?

Mr. Paul Edwards (Leader of the Second Opposition): Mr. Chairperson, I look forward to hearing the presentations of the officers who have joined us today. With the exception of putting on the record my rejection of some of the partisan comments of the former speaker, I look forward to those presentations and will be pursuing a number of lines of questions in addition to some of the areas that the member for Thompson has raised.

Mr. Chairperson: Mr. McCallum, as chairman of the board, did you have a statement you wanted to put on the record?

* (1020)

Mr. John McCallum (Chairperson, Manitoba Hydro-Electric Board): Members of the committee, I am pleased to have this opportunity to present the 42nd Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 1993.

Following my opening remarks, Mr. Bob Brennan, Manitoba Hydro's president, will take you through a slide presentation which will provide specific information on the important issues of the corporation.

Mr. Chairperson, my remarks will identify some of the major policy issues dealt with by the board of Manitoba Hydro over the past year.

First of all, the Ontario Hydro sale termination, an ongoing issue that is being closely monitored by the Hydro board is the status of the terminated Ontario Hydro 1,000 megawatt sale agreement.

Ontario Hydro has filed a statement of claim in the Court of Queen's Bench of Manitoba contesting the amount of the certificate of costs issued by Manitoba Hydro. A statement of defence and a cross claim is presently being prepared by our legal counsel.

Secondly, aboriginal settlements. The corporation continues to make substantial progress towards settling its outstanding obligations associated with the Northern Flood Agreement of 1977.

Of the five Indian bands that were signatories to the NFA, the Split Lake Cree First Nation was the first to conclude a comprehensive settlement agreement. An agreement in principle was reached with Nelson House First Nation in 1993, and we have recently achieved an agreement in principle with York Factory First Nation. Discussions for establishing a settlement model towards a comprehensive settlement with Cross Lake First Nation are also progressing well.

In addition, Norway House First Nation have initiated discussions with the other parties to the agreement. All parties are committed to a timely settlement of claims.

Number three, electricity rate increases. Manitoba Hydro did not increase electricity rates to general consumers in 1993.

In 1994, following an intensive two-week hearing by the Public Utilities Board, rates were increased by an average of 1.2 percent effective April 1, 1994. A further average increase of 1.2 percent will be implemented on April 1, 1995.

As will be demonstrated later in Mr. Brennan's slide presentation, Manitoba Hydro has the lowest rate structure of all major electrical utilities in Canada. With no rate increase in 1993, and very modest rate increases in 1994 and 1995, Manitoba Hydro will further enhance its position as the lowest cost provider of electricity.

Fourth, retained earnings and equity. Manitoba Hydro's level of equity is the lowest of all electrical utilities in Canada. We are, however, on course towards substantially improving the corporation's equity position. This is being achieved with strict adherence to cost-control measures and with electricity rate increases below the projected rates of inflation.

The corporation's short-term retained earnings target of \$370 million should be attained by 1996-97. The longer-term financial target of a debt

equity ratio of 85 to 15 will be attained by 2004-2005.

Mr. Chairperson, I would like to take this opportunity to recognize the dedicated efforts of Manitoba Hydro employees over the past year in providing a high quality of electrical service to Manitobans. Manitoba Hydro employees often work under very adverse conditions. They continue to provide one of the highest standards in the country for reliability of service and safety of operations.

Mr. Chairperson, that concludes my opening remarks.

Mr. Brennan will now take you through the slide presentation providing further details on the important issues of the corporation.

Mr. Chairperson: Thank you very much, Mr. McCallum. Is there leave of the committee to allow Mr. Brennan, the president and CEO of Manitoba Hydro, to give us a slide presentation? Leave? [agreed]

Mr. Brennan, whenever you are ready. Can we get the lights please?

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): Just before I start, I would also like to introduce our Public Affairs Manager, Glenn Schneider, who is with us today, as well.

I have a short presentation that will cover our corporate mandate, an overview of the system itself, a financial overview of Manitoba Hydro, some of the corporate issues that we face and some corporate performance measurements that compares Manitoba Hydro to other utilities in the country and some of our rate comparisons.

This is a corporate mandate that has been approved by the board of Manitoba Hydro. It is taken right out of the act for the most part and the only addition to that is that Manitoba Hydro will interpret that legislative mandate within the context of contemporary values of society and will be responsive to policy direction from the government of Manitoba.

Manitoba Hydro is the fourth largest electric utility in Canada. We have fixed assets of \$6.2

billion. Our 1993-94 revenues will approximate \$925 million. We have approximately 4,000 employees, who are involved in both operating and construction activities, with a gross payroll of \$184 million. Manitoba Hydro, without considering the customers of Winnipeg Hydro, has 385,000 customers.

This is a schematic of the Manitoba Hydro system. It includes the plants on the Winnipeg River that were built first within our system. It also includes the two plants that are owned by the City of Winnipeg: Pointe du Bois and Slave Falls.

It includes the two thermal plants, one of which is in Brandon and the other one in Selkirk. It includes the Grand Rapids Generating Station, as well as the plants along the Nelson, including the Kelsey Generating Station, which was the first plant built on the Nelson. It also includes the D.C. line, from Heday and Radisson in the north to Dorsey in the south.

It also includes all the interconnections with our neighbouring utilities, three transmission lines into the United States, with a total capability of about 1,950 megawatts. We have three lines into Ontario and four into Saskatchewan. The total capability into Ontario approximates about 300 megawatts and about 375 into Saskatchewan.

This is a picture of the Limestone Generating Station that Mr. Ashton referred to, the last plant that came on to our system.

This is the total generating capability within the Manitoba Hydro system. It also includes the total system, which includes Winnipeg Hydro. Winnipeg Hydro's two plants equate to 140 megawatts. Their total load is about 440 megawatts, and they purchased the remaining 300 from Manitoba Hydro. It also includes the two thermal plants.

This is the undeveloped hydraulic potential within the province of Manitoba. Some of it is least costly in terms of the unit costs than others, and some requires some flooding where others do not. But as you can see, the total undeveloped capacity exceeds the developed hydraulic capacity.

This is our forecasted electricity load growth based on our 1993 load forecast. We are just in the planning process for the current year's revision to our financial plans. We have completed the 1994 load forecast, and it is very, very similar to the 1993 load forecast. You can see that we are forecasting energy to go up in the next 10 years at 1.7 percent each year and capacity or peak demands on our system at 1.6 percent.

This slide shows what type of capacity we will have in the winter, what sort of surpluses, as well as energy surpluses. This gives consideration to our existing plant, a plant coming out of service as a result of it meeting its useful life, and also provides for energy guarantees under export agreements. I guess that pretty well takes care of it.

You can see that in the year 2010 we have an energy deficiency that we will have to provide for in some form, presumably new generation. Our system supply requirements forecast new generation and transmission in 2010.

A short financial overview. This is, in the case of 1994-95, where revenue will be coming from in the various sectors, and you can see that export provides 26 percent of our total revenue.

* (1030)

This is an allocation of our revenue in terms of cost, and you can see that the biggest majority is made up by finance and depreciation charges that equate approximately 60 percent.

These are our financial results. It includes our actual results of 1992-93, which is in the annual report the board is considering, and it indicates a loss of \$24 million. The projection for '93-94, we have now completed our financial statements and it will be in our audit, and it will be included in our annual report that will be given to the minister in July, but that indicates a profit of \$69.5 million, and we are projecting in '94-95 a profit of \$56 million. This will have the impact of improving our reserve levels and try to get to the targets Mr. McCallum referred to. It will also improve our equity within the company, and we are projecting to get, by the end of '94-95, 92-8.

Those are the two financial targets. The short-term target is to protect ourselves in the event of drought and to get to a target of \$370 million by '96-97. That represents two years of the lowest flow on record or the equivalent thereof, as well as the largest liability claim we can forecast in our system. In the case of the longer term, we would like to get to 85-15, and 15 percent equity and 85 percent debt by the year 2004 or 2005.

This is the debt equity ratio of other Canadian utilities as of March 1993. It will include, in some cases, December '92 year-ends and, other cases, March of '93. In some cases the equity of other utilities have been, again, not through customers paying the equity component through rate increases but through the sale of assets such as gas distribution systems, transit systems and the like. That is certainly the case in the case of Saskatchewan power and B.C. Hydro. I guess the only other one is Nova Scotia Power that had been privatized within the last couple of years. TransAlta is an investor-owned utility.

This is a forecast of our capital expenditures in the next three years. This has nothing from the case of new generation or transmission.

Some of the corporate issues the corporation is facing—

Mr. Edwards: Can Mr. Brennan make copies of this available to members?

Mr. Brennan: The biggest single item on there is mitigation issues, and those are issues associated with the Northern Flood Agreement.

Can I go on, Mr. Edwards or—Mr. Chairperson, we will make them available.

The Ontario Hydro sale termination and where we sit with that, Mr. McCallum talked about, and as you can see, we billed Ontario Hydro \$133.4 million. They paid us \$82.4 million, and they still owe us \$51 million. What we are doing, in terms of the accounting for these costs within our records, is the costs associated with our work to date on Conawapa and the related transmission facilities, we are amortizing over the next 15 years. In addition to that, the payments from Ontario Hydro, we are also amortizing over 15 years.

The next issue is the financial strategy. We would like to aggressively pursue the attainment of financial targets while maintaining electricity rate increases below the rate of inflation. As you will see shortly, we can do that and increase our long-term target and achieve it with rate increases that are very low and actually achieve the target before the year 2005.

We have recently gone through a corporate restructuring program to streamline our operations to improve corporate efficiency. We have reduced 480 staff positions as of June of this year, and that has been achieved through early retirements, the completion of construction in term projects that were projects that were going to end, and the people who were hired for that particular project, the elimination of vacant positions—I believe the number is 67 of those. We also are achieving it through attrition and staff layoffs.

Productivity and quality improvement program. Our objectives are to continuously improve our efficiency of our operation, to have more decentralized decision making and to further improve customer service.

Mr. McCallum talked about our settlements with the aboriginal communities under the Northern Flood Agreement. In the last few years we have been very successful in working with the aboriginal communities to achieve settlement. Split Lake, we have completed a comprehensive arrangement with them, with the Province of Manitoba and the Government of Canada. In the case of Nelson House, we signed an agreement in principle, and we are very, very close to having a final agreement signed by all the parties. In the case of Cross Lake, we are very close to an agreement in principle with them. In the case of York Factory, York Factory have signed an agreement in principle and we are working toward a final agreement with them as well. In the case of Norway House, we have just rekindled, if you will, discussions with them, to get on with some process to see what we can do to settle the joint obligations to that community as well. The outstanding liability that we have set up on the books of

Manitoba Hydro, as of March 31, 1994, is approximately \$66 million.

The Power Smart program, the objective is to capture all cost-effective electricity conservation in Manitoba by promoting the economic end use of electricity wisely. The current target is to save 285 megawatts of demand and 822 million kilowatt hours of energy by the year 2001. The programs are continually being reviewed and based on the benefits to Manitoba Hydro. In 1993-94 the forecasting spending was reduced from \$380 million to \$300 million to achieve those targets by 2001.

We also have an objective to help with the development of industry within the province through the use of electrical energy, and we are pursuing opportunities for any industry advancement. With our industry allies we are developing innovative rate structures to increase the competitiveness of our industrial rates. We have been working with some of our industrial customers to achieve that.

* (1040)

Environmental protection is certainly an issue with most electric utilities across the country, and Manitoba Hydro is doing a weekend in that area as well. Our goal is to protect the environment in all our corporative operations, no matter where they are, and to encourage the implementation of sustainable development practices throughout the industry generally.

Some performance measurements, we have a few of these. This one is customer satisfaction. Manitoba Hydro, the CEA composite is a composite of all electric utilities across the country. This is a survey that is done by the Canadian Electrical Association. Manitoba was previously done with other prairie provinces and was only recently started to be done by itself starting in 1990. You can see that the satisfaction of Manitoba Hydro compared to the composite is very good. There are individual utilities that make up the composite that could be better or worse, of course, than the composite.

This is the Customer Outage Frequency for Manitoba Hydro compared to the CEA composite,

and it shows on one side of the graph the number of outages per customer by year. You can see that where Manitoba Hydro goes up, those are usually years where there have been ice storms and that causes the number of outages, especially in the rural part of the province, to go up.

This is the average minutes of outage per customer for Manitoba Hydro as compared to the Canadian Electrical Association composite, and you can see that we also have peaks there as well. It is usually about in the neighbourhood of 120 minutes, something like that, per customer on average, the majority of which is in the rural part of the province which does not have the same sort of reliability as some of the larger centres in the province.

This is the duration of outages and the minutes per outage of Manitoba compared to the outage. You can see that per outage, especially from '89 on, Manitoba Hydro is not doing as well as the CEA composite, and that is something we are going to have to look at. It probably means capital expenditures in some parts of the province, and capital expenditures, of course, we have been trying to keep down as low as possible.

Employee and public safety. Manitoba Hydro has always been one of the leaders in this area and the last year was no exception. Manitoba Hydro ranked No. 1 in Canada for the lowest frequency employee accidents per million hours work. We ranked No. 2 in Canada for low severity of employee injuries. We ranked No. 1 in Canada for the lowest number of vehicle accidents per million kilometres driven, and there were no public fatalities in Manitoba due to electrical contact since 1991. We are especially proud of that particular achievement.

This is a system unit cost of Manitoba Hydro compared to other utilities in the country. It compares reliability on the one access and the system unit cost on the other. There is a municipal utility that is lower than Manitoba Hydro in terms of unit cost. We cannot identify the other utilities without their expressed approval to do so, but you can see that Manitoba Hydro has pretty well the highest reliability and the lowest unit cost.

This is a unit cost by year compared to the composite, and you can see that peak there in '87-88 is a result of flow conditions; and '92-93, it is mainly reflecting the capacity units of Limestone coming into service without creating additional revenue.

This is a slide that was made up by RBC Dominion Securities for a report that was made up in September of '93 for Hydro Quebec, and you can see that Manitoba Hydro has pretty well the lowest operating costs on a per kilowatt-hour basis for '91—that was the years that RBC Dominion made up—and were relatively good in the capital area. The capital does not include the large profit figures that people like TransAlta would have for return for their shareholder. The same thing would apply to B.C. Hydro, of course, because they have larger profits than Manitoba Hydro.

This is the debt equity ratio of Manitoba Hydro, and Manitoba Hydro is definitely concerned about this particular fact or function. We definitely want to improve our equity, and we want to improve it in a fashion that does not impact our customers untoward.

This is a rate comparison. We have a few slides on this. This is 750 kilowatt hours per month, based on May 1, '93 rates. So the rates are a year old. Since then we have had the average rate increase of 1.2 percent, but this shows the rate increase of all the utilities at that particular point in time. You can see that Winnipeg for that particular consumption level has the lowest rates.

This is 1,000 kilowatt hours a month, and it was made up by Ontario Hydro. It shows July 1, '92, and once again Manitoba Hydro has the lowest rates.

This is 2,000 kilowatt hours a month, which is the average use on a monthly basis, averaging a total annual consumption for an electric heat customer. You can see that Manitoba Hydro has the lowest rate, followed relatively closely by Quebec Hydro. This is a small general service customer of 100 kilowatt hours. It is something like a small school, that sort of a comparison.

This is a larger customer. It would be something like a strip mall, and it is 300 kilowatts and 120,000 kilowatt-hours a month. Once again Manitoba Hydro is the lowest.

This is a larger load. It is quite a large load, almost 20 megawatts, and you can see that Manitoba Hydro now has a significantly greater difference in the competitive advantage. This is the second largest customer in the Manitoba Hydro system, and this is in thousands of dollars. That up there shows millions of dollars, but that is not correct. That should be thousands of dollars. I just noticed it now, but it is \$1.799 million a month.

This is an Ontario Hydro survey that they made up. It needs a little bit of focusing there, but you can see that around '91-92 Manitoba Hydro crossed over with TransAlta in terms of the cost per month for 10 megawatts of power, approximately 10,000 kilowatt, and they must have factored out a load factor to come up with that.

This is a rate increase of Manitoba Hydro as it relates to the industrial power users. We had a rate increase of 2.4 percent for industrial power customers in '92. We did not have a rate increase in '93, and as a result of the order of the Public Utilities Board they have a .1 percent rate increase for large industrial customers, and we are projecting a very low rate increase in the future.

This is a comparison of firm and curtailable rates for a 20 megawatt load at an 82 percent load factor. We have the firm price in cents per kilowatt-hour as well as the curtailable rate. Alberta has a lower curtailable rate than Manitoba Hydro, and that is a function of the type of system they have where they have a thermal system and they only charge for fuel costs depending on load factor.

This is based on their 1993 financial forecast what is proposed to happen to Manitoba Hydro rates, and as you can see, we can increase our equity position and get to our targets by having virtually no rate increases in the future after we get by the next two years, assuming all our assumptions in that forecast materialize. That red line is the inflation that we use in our financial forecast. So you can see that—[interjection] I think

it is 3 percent in the long term. It is lower than that in the short term.

* (1050)

This is a rate increase of other Canadian electric utilities starting in '92, average rate increases. You can see that the emphasis on no rate increases in the future is definitely looked at by other utilities. Nova Scotia have committed themselves to no rate increases in the next two years. Ontario Hydro, nothing in '94. So Manitoba Hydro's efforts in maintaining low rate increases has to continue, but it also shows you that Manitoba Hydro has had pretty well the lowest rate increases up to now.

That ends the presentation, Mr. Chairperson. Thank you very much.

Mr. Chairperson: Thank you, Mr. Brennan.

How did the committee wish to proceed with the report this morning? Shall we consider it in its entirety?

Mr. Ashton: I certainly agree with that.

Mr. Chairperson: Okay, it is agreed.

Mr. Ashton: I have a number of questions, and once again, I thank Manitoba Hydro for the presentation. The information is extremely useful to the committee. I would certainly appreciate copies of the particular slides that were prepared.

I want to begin by discussing some of the issues in terms of load growth and need for potential new transmission, status of further sales, et cetera, to try and get some idea of where we are going to be going in the next 10, 15 years in terms of Hydro.

I just want to begin in terms of the load growth. The projections, according to the presentation for load growth, were 1.7 percent, 1.6 percent in comparison to the 10-year average of 2.4 and 2.1 percent. I would like to ask what the current projected load growth figures are in comparison to the previous year. Are we looking at the same type of load growth projections, increased, decreased?

Mr. Brennan: I believe there is slightly less than that on a weather-adjusted basis.

Mr. Ashton: I am just wondering on what basis they would be slightly reduced. Is this in terms of

lower than anticipated load growth on the current scale? Is it other economic projections?

(Mr. Bob Rose, Acting Chairperson, in the Chair)

Mr. Brennan: Its two factors—and I will confirm this, Mr. Ashton—our industrial customers are not using as much power as we forecasted they would, and the second one is the average use for a residential customer is less than what we thought it would be. But I will confirm those numbers for you.

Mr. Ashton: The current projection in terms of need for new generation capacity is 2010. How does that compare with the previous years?

Mr. Brennan: As a result of that forecast, I believe it was deferred three years from what we had before. So that would have been three years from what the committee considered last year.

Mr. Ashton: In terms of that, I am just wondering what assumption the year 2010 is based on particularly in regards to the NSP power sale which runs till the year 2003. Is that based on an extension of the NSP power sale or no extension?

Mr. Brennan: No extension.

Mr. Ashton: So in other words, if the NSP power sale was not extended beyond the current term, then that would extend the need for new transmission because that power would then be available for the system in Manitoba.

Mr. Brennan: I am not sure if I understood your—what it would do is if we extended the agreement with Northern States Power, it would advance generation from that which is in the forecast.

Mr. Ashton: Yes, that is just reversing what I was asking, whether obviously if the NSP power sale was not renewed, then we are dealing with a later deal, but you are saying the 2010 is based on the assumption of no renewal.

Mr. Brennan: Yes.

Mr. Ashton: I would like to ask some questions and they do relate to the load growth in terms of the Power Smart initiative. I note the demand-side management and Power Smart are listed in terms of the capital side. There was some indication that

the targets would result in a slightly lower cap over the next number of years because the target is being achieved. What is the current status of Power Smart and what has its impact been in relation to the targets Manitoba Hydro set for the particular initiative?

Mr. Brennan: Could you repeat your question for me? I just want to make sure the answer is right.

Mr. Ashton: Yes, I am trying to get some idea of the conservation programs, Power Smart, et cetera, what impact it has been having on load growth with the experience it has been and how Manitoba Hydro is proceeding in terms of its targets for the Power Smart and other initiatives related to demand-side management.

Mr. Brennan: What we do annually is we take a look at just how much on a kilowatt hour basis we can afford to invest either in new plant or demand-side management. What we do is we spend whatever is the lowest. If the lowest amount is to spend money on new generation, we would do that. What we do is, we take the most cost-effective programs in the case of DSM and factor out a unit cost for that and spend money on DSM.

Our experience to date has been that we have achieved all our targets. I believe it is in the neighbourhood of 18 megawatts we have achieved so far with some of our programs. We are not very far into the programs at this point in time.

Mr. Ashton: Has Manitoba Hydro looked at any expanded demand-side management conservation initiatives, particularly in terms of retrofitting of residences? In that regard, was there any discussion with Manitoba Hydro by the government prior to the announcement in the budget of the current Home Renovation Program, which does not target energy conservation but presumably could deal with some aspects of that?

Mr. Brennan: I was not personally involved in discussions associated with the Home Renovation Program. The staff of the various departments within government deal with staff within Manitoba Hydro to get experiences and views and that sort of thing. So that probably was just an ongoing exercise.

Mr. Ashton: Has Manitoba Hydro in any way looked at major retrofits of houses? The reason I ask that is that one of the significant problems many people have is, despite the fact we have low hydro rates, people in older accommodation, given the weather conditions—it is a greater problem particularly in northern Manitoba where there are much harsher weather conditions and people end up running up significantly high hydro bills. They do not have the financial capability to finance the renovations that would necessarily improve the energy efficiency, in some cases quite considerably.

So I am wondering if Manitoba Hydro has had any analysis of that. I know, for example, the Carpenters' Union has put forward a proposal. Others have as well, suggesting some sort of program that goes beyond perhaps the previous CHEC type of program, which was more focused on windows, doors, et cetera, but looks at some significant energy retrofitting.

Mr. Brennan: We do have in the plans—it is a costly program. The way we identify our programs is to take the most cost-effective programs first. In terms of achieving our overall targets, there is a residential retrofit program included in that package. They are only looking at the preliminary aspects of the plan at this point.

As a result of the government's initiative in terms of its modernization program, we are looking at the possibility of getting into some kind of educational program for contractors and that sort of stuff, but that is only at the very preliminary stages, and we would like to talk to the government about that aspect.

To answer your question specifically, that is a more costly program, and it is only in the preliminary stages at this point in time.

Mr. Ashton: When you say costly, is that in the sense of the overall cost of the program? Is it in terms of the return, in terms of conservation vis-à-vis expenditures? What do you mean by costly?

(Mr. Chairperson in the Chair)

Mr. Brennan: It is both. The benefit for the cost incurred are one of the lower programs. In addition

to that, in the total package one, it is relatively expensive.

* (1100)

Mr. Chairperson: Order, please. Mr. Ashton, could I ask you to put your questions through the Chair so that we do not give a problem to Hansard?

Mr. Ashton: Yes, Mr. Chairperson. What I would like to do is ask a further question in terms of that. I am wondering if the calculations in terms of the energy retrofit program, in terms of residences, include even the indirect impact of the government program, which has not targeted energy conservation but does provide a grant to those who can come up with the \$5,000—\$1,000. Has that in any way, shape or form been calculated in terms of the current economics of that particular option?

Mr. Brennan: We are only looking at that at this point in time. I think it has had some impact on whether we try to advance the educational component of it, and that is, making sure that people have contractors who are qualified and have some basic standards to do it, but that is the only thing we have looked at so far, I believe, Mr. Ashton.

Mr. Ashton: I would certainly encourage that, Mr. Chairperson, because when the Home Renovation Program was announced, it was not particularly targeted and does exclude obviously those who cannot raise the \$5,000, but presumably for those that could there is a \$1,000 grant that is going to be available. It would seem to me that not only does that change the curve, so to speak, for individuals but any particular plans of that nature that are current before Manitoba Hydro would obviously be affected by this \$1,000 grant that has been put in place.

I would urge Manitoba Hydro and perhaps the minister to take a leadership role and perhaps see if there is some way of getting at least some benefit from the current program in terms of energy conservation and some focus on that energy retrofit area. In fact, I would like to ask if there has been any discussion in terms of financing, because that was one of the previous roles that Manitoba Hydro played in terms of providing low-interest loans.

In many cases there may be people who do not have the \$5,000 sitting in their bank account, but obviously if they could obtain the financing, particularly with the \$1,000 grant, would be in a position perhaps to, in some way, shape or form, access this particular program and do some significant energy retrofitting. Obviously if you are dealing with \$5,000 plus the \$1,000 grant, \$6,000, you could do a significant amount in many houses.

I am wondering if that has been considered at all in some sort of a program that would allow a sort of a bridge to people to access the Home Renovation Program.

Mr. Brennan: Manitoba Hydro currently has a financing program for electrical facilities generally within the home. In addition to that, the province did have a program that looked after conservation efforts within the home, and the program was a provincial program using Manitoba Hydro's billing system to collect. That has been done away with. Our longer-term program does provide for a combination of, as I understand it, they will be looking at financing options as well as potential subsidies.

Mr. Ashton: Mr. Chairperson, I would strongly urge that, and I look to the minister as much as I look to Manitoba Hydro because I recognize that they are essentially in the delivery position in terms of any programs that are developed in addition to whatever programs they could develop internally. It seems to be, if we are going to be proceeding with a home renovation program, we should try and get as one of the results an improvement in terms of energy conservation that will not only impact on Manitoba Hydro's position but also the position of individual homeowners. There are many homeowners that are, as I said, currently in a position, being in older houses and not necessarily having the funds to be able to upgrade to current energy standards. With all due respect to the low hydro rates we face, one of the problems is, if you actually punch in the actual consumption, given Manitoba winters, many people face considerably higher hydro bills than are reflected strictly by the rates.

I realize that is not Manitoba Hydro's fault, it is just a fact of reality, but there are things that can be done. So I would strongly urge the minister and the government to work with Manitoba Hydro to perhaps advance some of the work that is being done in terms of energy retrofits for residences in conjunction with the program, so that we end up with not a province full of brand new bathroom suites but a province with improved energy efficiency and something that will have a return to individuals on an ongoing basis in reduced hydro bills.

I want to ask some further questions, and I want to bring these together because I am trying to get some ideas of—or if the minister wants to respond at this point that is no problem.

Mr. Orchard: Mr. Chairperson, as part of the Home Renovation Program, it is fully expected that a number of Manitobans will access that program to advance energy conservation retrofits to their homes. The program was not specifically targeted to only energy efficiency. It was a somewhat broader approach because not all families are in the same circumstances. Some families simply need more space because of larger family considerations and/or renovation of a basement to accommodate larger family circumstances.

Nothing in the program precludes full access of the \$1,000 which could be 20 percent of the \$5,000 renovation or 10 percent of a \$10,000 renovation to be accessed through energy conservation. The contractors and those individuals in the private sector delivering the program are fully aware of that. I would fully expect that we will see, as part of this program, an analysis of who undertook and accessed the program. There will be a significant amount of the energy efficiency retrofitting as part of the program.

Mr. Ashton: Mr. Chairperson, I appreciate that just as many family circumstances are different in terms of what people would like to be able to construct. Many families do not have the \$5,000 and I am looking for some creative ways, even given the limitations of the program, to be able to bridge that because many Manitobans do not have

the \$5,000 even though they have residences that are in need of retrofit improvement generally. What I am suggesting is that the minister, Manitoba Hydro should develop a program, using Manitoba Hydro billing system as one example that has been done previously, was done for energy conservation, the CHEC program.

There is a precedent, and to my mind, considerable returns. Considerable uptake of the program could be anticipated if that gap could be bridged. There are a lot of people do not have the \$5,000 and financing, low-interest financing which is a model that has been used before, can bridge that. That is why the program was put in place previously, and it focused on energy conservation.

So that is where I am focusing in on. I mean, I understand that the program could be used for that. It can be used for new bathroom suites. What I am suggesting is that there be a bridge so that there is a greater accessibility to the public and also that that bridge be targeted strictly towards energy conservation and that we use the Manitoba Hydro billing system. Not only that, it would also be tied in with the demand-side management, Power Smart initiatives which are aimed at increasing the amount of reduction in power consumption that we are looking at from that particular source, from energy conservation.

* (1110)

So that was my suggestion, Mr. Chairperson, that Manitoba Hydro and the minister and the government bridge that gap and use the current program but allow for some ability for individuals to finance the \$5,000 that is necessary to access the \$1,000 grant.

Mr. Orchard: Mr. Chairperson, I appreciate my honourable friend's suggestion, and I think if I can summarize what he is saying is, that the \$1,000 grant towards a \$5,000 renovation is not enough, that there should be an opportunity for further subsidization of this program and that Hydro or others or Housing or whomever might carry further subsidization. I simply remind my honourable friend that in proposing this modest program of a \$1,000 rebate on \$5,000 renovations,

my honourable friend and all of his colleagues voted against that measure in the budget. I find it a little interesting that now after voting against it, he is wanting this, plus more.

Mr. Ashton: This is typical of the minister's distortion of what happened, and having been in this Legislature long enough, he should understand that we voted against the budget based on many factors, including the government's health care policy, the government's education policy, its lack of economic policy. We can get into a partisan debate on the budget all over again.

Mr. Chairperson, he should also be aware, as well, because I find it very unfortunate, he being a Minister of Energy and Mines, a full-time Minister of Energy and Mines, that he has not listened to what we have said from the beginning in terms of this particular program. He did not even bother to listen in terms of what I suggested.

I said, given the fact that the government brought in this program, and quite frankly, I was very clear in indicating—I have said for a number of years, our caucus has said for a number of years, that there is need for a home repair initiative, a home retrofit initiative. I have said, given the fact the government brought in the program, why do they not make sure it works to the utmost ability? I talked about financing, using the Manitoba Hydro billing system. I talked about using Manitoba Hydro's current initiatives in terms of Power Smart and their current internal plans, and the minister should know that.

He may wish to get into redebating the budget; I am quite prepared to do that. In fact, I anticipate we will probably have the opportunity in a number of months to debate the budget and other initiatives by the government.

Mr. Chairperson, will the minister not take the initiative to recognize the fact that what we are talking about here, as I said, was bridge financing targeted for energy retrofitting, for home retrofitting? This would improve the current program, which has some advantages but, to my mind, has some significant flaws, but I am taking it as a given. It was passed in the Manitoba Legislature. It was their design of a program. I am

trying to make it better. It is not a question of more; it is a matter of bridging the gap that many people are faced with currently. They do not have \$5,000; they have got the needs to upgrade. Manitoba Hydro has got stuff on the books in terms of its own plans.

Will the minister at least do that, look at Manitoba Hydro's existing preliminary plans in that area, its options, and perhaps take some suggestions and some advice for a change and look at a way of making the current program that the government brought in—and we can debate that any time the minister wants—work better by making it more accessible to people and making it more targeted towards one of the real needs in terms of home renovation, which is energy conservation?

Mr. Orchard: Mr. Chairperson, as I am normally inclined to do, I will always accept my honourable friend's suggestions that we further subsidize home renovations and energy conservation.

In the ensuing months, as my honourable friend indicates, no doubt he will put forward on behalf of the New Democrats what the source of funds ought to be for that increased subsidization of renovations for Manitobans who, my honourable friend indicates, may not be able to access the current program.

I am pleased that my honourable friend seems now to be repenting his vote against the budget that brought this in.

Mr. Ashton: Mr. Chairperson, I am glad the minister has woken up. It seems some reference of the budget has gotten his usual political blood circulating. I am glad to debate the budget again. I think the minister is selectively deaf, because I was quite pleased to vote against the budget, but we are not debating the budget here, nor are we talking about greatly increased subsidies. I mean, the government has brought in the subsidy of \$1,000.

What I am saying is, why cannot the minister recognize that through the provision of financing—it can be financing that is made available through the Manitoba Hydro billing system, that does not necessarily involve a huge subsidy. Financing, loans, we are not talking about

grants. The government brought in the grant of \$1,000. That is the biggest subsidy we are talking about in this particular area. What we are talking about is loans.

Is the minister willing to put aside some of the partisan rhetoric now and at least look at some of the proposals Manitoba Hydro may have at this very moment, which are in a primary stage of development, work with Manitoba Hydro and see if there is not some system that can be developed that can allow Manitobans to access the grant they brought in through a loan system? Not a grant system, Mr. Chairperson, a loan system that allows them to bridge the gap that has been developed of the \$5,000 by this government.

It is their criteria, their program. I am making a suggestion on how it can be improved. I am not talking about great subsidies. The minister knows that. We are talking about loans. Can the minister at least do that, or is he fundamentally opposed to that?

Does he believe there is no role for Manitoba Hydro in terms of that approach in terms of energy retrofits, no role using the billing system, no role using what Manitoba Hydro has done in the past? Because if that is the case, if he has got some difficulty with that, we can end the discussion at this point, but I am wondering if he can put aside the partisan rhetoric for one second and just answer, is he willing to look at that on the basis of loans, on the basis of bridging the gap?

Mr. Orchard: Mr. Chairperson, now that my honourable friend seems to be compromising his original position, that he is not talking about further huge subsidies to home renovations to individuals that cannot afford it, my honourable friend appears now to be suggesting that Manitoba Hydro assume the role of the banking community in terms of providing loans at interest rates that are favourable. That is an interesting prospect my honourable friend has proposed.

I would think, and I may be wrong, and of course I am not as well versed in high finance as my honourable friend from Thompson is, but it seems to me that a \$5,000 renovation with the prospect of a \$1,000 immediate rebate might well make the

prospect of that loan to a home which is real property and subject to the security instruments of real property, might be an attractive financing option for our current financial institutions of credit unions, banks and others.

Mr. Ashton: I have one more question, and we will leave it at that. The minister said no; that is fair ball. I disagree, and Manitoba Hydro has done it in the past. We will continue this another venture.

But I want to bring together some of the questions before—and I have many more questions—the Liberal Leader I am sure has some questions. What I want to deal with—and this is very much based again on the report, the generation sequence, the presentation this morning. What I want to focus in on is what the current status is in terms of that mix of low growth, potential sales, et cetera, and ask what the current status is of first of all the NSP power sale, if there are any discussions ongoing with Northern States Power.

I note this spring, there was significant controversy in Minnesota related to disposal of nuclear waste. A bill was passed through the state Senate and the House at that time, very much tied into the ability of their nuclear generation capacity, which coincidentally is, it would be effected around the same time as the expiry of the NSP power sale. So the logical question is raised as to whether we are in discussions with Northern States Power for the extension of the NSP power sale either for other factors or as a possible replacement to nuclear. So that is the first question.

The second question on generation or, pardon me, of potential sales, et cetera, is I would like to ask whether there are discussions ongoing in relation, following from what happened in terms of the Ontario Hydro sale, the possible cancellation there, et cetera, and whether there are discussions ongoing with any other utilities, and without giving away any commercial negotiations—I am not asking it that detailed—if we can get some sense in the committee as to where we are at in terms of possible future export sales.

Mr. Brennan: We meet continually with the utilities that we are interconnected with, the largest

one being Northern States in the United States. They will have to replace the sale we have with them one way or the other either through a combination of energy conservation, some of their own load or purchases. We know that, and I guess it is a matter of both sides working out an arrangement that provides the best for their sides. But we have ongoing discussions with all the people we are interconnected with and any opportunities, we take advantage of. It is an ongoing process.

Mr. Edwards: Mr. Chairperson, I notice from the slide that the capital expenditures for the three years that were noted on the slide were \$330.2 million, and I believe that probably is the '93-94 year, although I was trying to write it down from the slide. The following year, \$341.3 million, and the following year after that, \$253.9 million. Do those totals include the new capital tax which was imposed in the last budget by the provincial government?

Mr. Brennan: Those represent capital expenditures. The capital tax is an operating expenditure.

Mr. Edwards: Those funds do not reflect that in those particular figures that were brought up as capital expense, but those are reflected in the operating expenditure increases for those coming years?

* (1120)

Mr. Brennan: Yes, they were reflected in that one forecast that showed, I believe, \$56 million as a profit figure in the future.

Mr. Edwards: Mr. Chairperson, with respect to the increased expenditure as a result of the new capital tax, I received a letter from Mr. McCallum in response to a question about what that would be. I do not have that letter in front of me, but as I recall, there was an assessment of several millions of dollars that would result in additional operating expenses. Can we have information on that three-year perspective as to what the additional operating cost will be, given these capital expenditures?

Mr. Brennan: Yes. Now we are back in our talking about operating expenditures, and we are

advised that the additional cost to Manitoba Hydro annually will be in the neighbourhood of \$10.7 million to \$12 million, in that range. It could cost as much as \$24 million for the next two years then.

In relation to that which we reviewed with the Public Utilities Board, we did not have in our projections the benefit of the wage reduction program. We think that is going to benefit the corporation by about \$5.7 million in terms of reduced operating expenses. Some of it goes to capital, but in terms of operating expenses, it will reduce them by \$5.7 million in the current year.

In addition to that, in 1993-94, we are going to make approximately—I guess it will be about \$23 million more than what we forecasted at the time we took our forecast to the Public Utilities Board. In it, we also considered the reduction in our rate increase that the Public Utilities Board changed, from 1.5 to 1.2 on average.

So by the time we take a look at all that, our reserve figure works out to about the same approximately as that which we thought it would be at the end of the two-year period when we reviewed it with the Public Utilities Board.

Mr. Edwards: Just to clarify the wage reduction figure. That \$5.7 million as a result of Bill 22, that is for the '93-94 year that is speculated?

Mr. Brennan: 1994-95.

Mr. Edwards: Mr. Chairperson, so that represents approximately half or a little greater than half of what the capital tax amount payable to the province will be for that same fiscal year.

Mr. Brennan: Approximately half.

Mr. Edwards: With respect to the mitigation figures listed on the chart that was part of this presentation, approximately \$55.2 million was listed for the first year and ending up two years hence at \$2.3 million. What is the explanation for the reduction in mitigation costs?

Mr. Brennan: Those are the outlays—now, I will have to confirm this for you—related to the agreements that will be settled in the future. Those will be the ones that will have been completed. Once we have completed the arrangements with the bands, there will be no need for additional

expenditures of any consequence because we are hoping to have a form of comprehensive arrangement that will allow us to effectively get out of the—well, to implement the agreement as we see it today. There might be still the odd thing that might materialize that we had not provided for in the agreement, and, you know, with some exception that nobody knows about today or something like that.

Mr. Edwards: However, it is my understanding that there has not been final agreement with all of the five bands. Maybe we can just take this opportunity to get a brief update on what the status of the negotiations is with those.

Mr. Brennan: The first one is Split Lake and we have a completed agreement with them, a comprehensive settlement with them. In the case of Nelson House, we have an agreement in principle, and we virtually have concluded an agreement. It has now got to be agreed to by all four parties and taken back to their respective companies, or principals, I guess would be the best way to say it. We expect that fairly soon.

In the case of York Factory, they have agreed to an agreement in principle and we expect to have an agreement sometime in the '94-95 fiscal year.

In the case of Cross Lake, we are very close to an agreement in principle. An agreement in principle sets out the quantum and some of the other conditions under which the various parties would feel comfortable with, getting on with trying to work out a complete agreement. We expect that to be done reasonably soon. An agreement there would probably take a little bit longer than the York Factory one, so it could go into the next fiscal year.

In the case of Norway House, we have been talking to them recently and we are not sure what the process might take there, but we have not been talking as aggressively as we have more recently and we are quite optimistic as it relates to Norway House.

Now that takes care of the five bands.

Mr. Edwards: Mr. Chair, however, with respect to Norway House in particular, the discussion has

not been narrowed down to one of quantum in any reasonably accurate way. Would that be safe to say?

Mr. Brennan: You are correct.

Mr. Edwards: So with respect to the prospect of mitigation payments as set out in the chart, does that include a certain amount for Norway House? If so, in what amount? If not, is it also reasonable to assume that that number may be significantly off?

Mr. Orchard: Can I interject at this moment? I do not think that we want to get into negotiations with quantum figures in agreements. I think that would be not appropriate and potentially could exacerbate the negotiations.

I think it is fair to say that the progress on settlements with the five bands has been very good to date. This is, what, almost a two-decade-old issue that has been before us. I think, with considerable credit to all of the players that have been around the table in the last four and a half years, we can see a resolution of this issue where we have met our obligations, we the shareholders of Manitoba Hydro, the people of Manitoba, the citizens of Manitoba, in terms of our obligations for damages incurred in making a pretty reliable hydroelectric resource.

I just caution my honourable friend in terms of the last settlement that is yet to be advanced to specific numbers that we maybe avoid those specific details.

Mr. Edwards: Mr. Chair, I accept the caution. Let me rephrase it. Let me withdraw then the specific part of my question about what amount may have been set aside to deal with Norway House, but let me ask whether or not contingency for whatever amount in contemplation of a settlement with Norway House was reflected in the mitigation figures as set out in the slide presentation?

Mr. Brennan: Yes, they have been. It includes our obligation for all the NFA communities based on an estimate that we have come up with.

Mr. Edwards: One of the other things that I noticed from the slide presentation was that the debt equity ratio which was projected had in fact in

the last couple of years been getting worse as opposed to better. At least that is what the slide appeared to show, that the debt side was climbing in the last couple of years. Has that in fact been the case?

I do not have the benefit of a copy of the slide that I saw, and I do not have the prior annual reports, but it did look like it was going in the wrong direction as we are trying to head to the 2004, 2005 year target.

* (1130)

Mr. Brennan: In 1993, when we experienced the loss of \$24 million, it went the wrong way that year. Any year where we have a profit figure, it increases the equity component to a greater ratio than the debt. In actual fact, we are improving our targets after the '93 fiscal year. So in terms of a ratio, we are improving it after that point in time.

Mr. Edwards: Did I read the slide correctly, that in fact not just '92-93, but '91-92 were years in which debt equity did not improve but in fact either stayed at the same rate or worsened?

Mr. Brennan: It would have worsened in '93; in '92 it improved.

Mr. Edwards: Currently, the target is to get to the 85-15 ratio. I noted again from the presentation that projected for '94-95 was at 92-6. Now, it may be a very silly question. Why was it 92-6? Why did that only add up to 98 percent? Everything else on that slide added up to 100. Is there some reason for that, or is the slide just incorrect?

Mr. Brennan: The slide was incorrect.

Mr. Edwards: Was it supposed to be 92-8?

Mr. Brennan: That is correct.

Mr. Edwards: With respect to the prospect of needing additional power by the year 2010 to meet our contract obligations for export of power, as well as to meet our current needs based on current projections, which is the favorite project of Manitoba Hydro at this point based on current data of the projects that were listed in the available power sources?

Mr. Brennan: That is an ongoing process that our planners review continually. It is not only a unit

cost determination; it is also an impact on the ratepayers.

If we have low load growth, no major firm sale, we would try to add a smaller plant so the impact on the ratepayers would not be the same. If we had higher load growth, a firm sale, that we would absorb some of the larger plants, then it would favour a plan like Conawapa. There might even be the need for an independent or an in-between plant, from a small one to a large one. So it is an ongoing process that we will not commit ourselves to until we actually have to commit a plan.

Mr. Edwards: Mr. Chair, clearly, depending on the size of the project, the timetable for commitment is also going to vary. I assume that the bigger the project, the earlier the start up has to begin. Maybe that is a simplistic view of it, but certainly all of those projects that were listed as available future power sources do not have the same run-up time.

What is the current plan of the corporation, to seek for outside purchasers, to build a larger-scale project like Conawapa? Is that the preferred option at this point, or is the goal of the board to focus, at this point, on internal domestic use in focusing on a project that is going to meet that need and that need alone?

Mr. Brennan: I think the focus is to make sure that we can react to all eventualities. The lead time is anywhere from eight to 10 to—well, eight to 12 years, maybe even longer in some cases.

In some cases, a smaller plant with an awful lot of environmental impacts might have a longer lead time just because of the environmental processes that we would have to go through. So I think it is incumbent upon Manitoba Hydro to make sure that we take care of every opportunity and every option that is available to us so that we end up with the option that is best for our ratepayers at the time we have to make a decision.

Mr. Edwards: I recognize that Manitoba Hydro is continually looking for, and prepared to discuss, the sale of power with other jurisdictions. Is that the first priority of the board at this point, to actively recruit external purchasers to assist in the financing of a project which would ultimately be

used to service our own needs as in the Conawapa scenario?

Mr. Brennan: I think the focus is on trying to work with the province to see if we can have some development within the province, you know, like a large energy intensive customer—in that area. We have talked with the province and talked to perspective customers quite extensively, and that is probably a greater focus than export opportunities.

Having said that, we are still talking to all our export customers with the view of trying to take advantage of any opportunities in that vein as well.

Mr. Edwards: Mr. Chairperson, are there particular customers in that respect that the province has focused in on in co-operation with Manitoba Hydro in terms of coming to the province and using a high level of electric power?

Mr. Orchard: There are currently in that regard—the most immediate one that we are discussing is Dow Corning's plant at East Selkirk. At the end of this month they will have completed their last commercial run of their new technology, and barring any unforeseens they believe that they will be, within the next number of months, shortly pursuing joint venture partnership. Their intention is not to own the commercial plant but rather to find a venture partner with a guarantee of sale of a product. So that is one of the immediate customers.

Several other customers that are expressing interest in emerging niche markets are master alloy producers. Manitoba has some strength in terms of master alloy production because of nickel sourcing, chromite deposit which is quite developable in the Birds Lake area, and there may be a fit with the Manitoba Rolling Mills with even the Dow Corning test plant itself. We are under a MEIP, the Exploration Incentive Program grant currently taking the Pipestone Lake titanium-vanadium deposit from a proven deposit of some, I think it is, 10 million to 12 million tonnes through current exploration up to, if the results of the next series of exploration which will be undertaken in the next two months are as successful as the first 26 holes, every indication would lead us to believe that we will have a

world-class deposit identified. There has been substantial interest in that. Development of that titanium project is electric intensive, very electric intensive, and that is a customer that we certainly would be much encouraging to locate the value-added processing, not just the mining initiative.

Then towards the turn of the century two projects, in particular potash, as the world market appears as if it is going to accommodate new production and Falconbridge. I think my honourable friend has had that presentation on Williams Lake and the preliminary finds, the encouraging preliminary finds. If that was to prove out to be a world-class deposit, I think we could conceivably see—and I am not obviously able to be any more optimistic than that—another electric customer the size of Inco in the Falconbridge presence.

Several other initiatives are currently being explored. The recent sales tax relief on electricity for mining and manufacturing has made Canadian Oxy in Brandon the second lowest cost producer in their Canadian network. That has caused them to increase their production from about 80 percent to closer to 100 percent, No. 1.

Now you will have noted on the slides that our largest competitor is TransAlta in terms of the manufacturing electric rate, and so that additional capacity in that industry is going to be between ourselves, as we understand it, and Alberta, with ourselves having an advantage in that we are closer to the midwest U.S. market and the transportation advantage of finished product may well lead to some increased investment in production with Canadian Oxy.

* (1140)

So those are the immediate, and when I say immediate, even a successful conclusion of, for instance, the silicon project with Dow Corning is probably two and a half years out before commercialization, but those are the ones that we are targeting to bring rather intensive electric users to the province.

Mr. Edwards: Mr. Chair, I appreciate that answer from the minister. With respect to external

projects, and we have talked about the work to recruit external purchasers of power, there are also obviously projects that Manitoba Hydro is involved in around the world. Most notably I noted from the Premier's (Mr. Filmon) trip to the Far East last fall that there was a lot of talk at least in the press releases about Hydro's work in China.

Can the officers of Manitoba Hydro give us a similar rundown perhaps of some of the projects that Manitoba Hydro is involved in in foreign markets, not so much in terms of the sale of power but the sale of technology and information and joint venturing any projects?

Mr. Brennan: We are in a series of contracts. I will have to provide a list to you of the ones we presently have underway. Our aim in our Export Services area is to support the local consultants as much as reasonably practical.

In addition to that, we also obtain an awful lot of training assignments whereby people either come to us or we go over there whereby we train their staff in areas right from planning to operating and finance areas, that sort of thing. So we have two separate contracts in China right now. We have contracts in Africa, primarily Uganda, and there is a series of those.

All of our contracts are on a cost-plus arrangement in terms of wages.

Mr. Edwards: I asked a question of the Premier (Mr. Filmon) in Question Period the other day about Crown corporations being active in foreign markets to for profit on a cost-plus basis work with other countries, other investors. In that context I was talking about the Manitoba Telephone System, but obviously Manitoba Hydro is in the same set.

Are there guidelines internally at Manitoba Hydro or externally from the government governing the criteria to be used when going into external arrangements, contracts? Are there guidelines because, of course, we all know there have been some very difficult and costly ventures, in particular the MTX deal with the Manitoba Telephone System? Are there guidelines in place that could be shared with members governing the

venturing of Crown corporations into foreign markets?

Mr. Brennan: We are in no investment-type arrangements of any sort.

Mr. Edwards: I understand that.

Mr. Brennan: We do not do any of those. We are in no joint ventures other than joint ventures on a cost-plus recovery basis. Most of them are financed by external agencies such as CEDA, the World Bank, that sort of arrangement. What we do within Manitoba Hydro is, most of the contracts have been relatively small, so what we do is, we take a look at whether we, from a management perspective on an individual basis should participate in each proposal. We have been doing it that way rather than establish guidelines and just let staff do it.

We are finding the hardest part is not making judgments on the benefits of the contract as much as being able to have the staff get involved. That has probably been sort of the item that has held us back more than anything.

Mr. Edwards: I understand it, then, that what Manitoba Hydro does consider is the sale of services, of knowledge, of ability rather than joint venturing or investments, the sale of what we know, and obviously on a for-profit basis that is, at least in my view, certainly a good idea.

Is that, in and of itself then, the guide? Is the sale restricted to those sales of services and information and knowledge, or are there any independent written guidelines which might be shared with members of the committee?

Mr. Brennan: Those are the only type of contracts we have. We take a look at each contract before we make a proposal on it, and the biggest problem we have experienced to date is having staff available to bid on the contracts. We have a fixed rate, as well, that applies to how much we can add on to the basic wage cost, and that is probably the only criteria of how we manage that particular component to ensure we either get the contract or not get the contract.

Mr. Edwards: Mr. Chair, I am sure my friend, as well, has a number of other lines of questions. I recognize that time is moving on.

I want to move to one other, which is a number of years ago, probably a couple of years ago when I was at this committee, there was discussion raised by me about the whole issue of what health impact, if any, the presence of high voltage lines has on human population within reasonably close proximity. At that time the answers, and I do not have Hansard in front of me, but the answer was that Manitoba Hydro was in fact researching that and was at least maintaining a pretty vigilant approach to watching what current research was. What has happened on that? Has there been further research, and is Manitoba Hydro studying it on its own, or what is the current state of knowledge about that?

Mr. Brennan: We are continuing to monitor the situation. There have been a couple of studies since the last time we have talked about the issue. I guess the biggest study, from a Manitoba Hydro perspective, is one that Ontario Hydro and Quebec Hydro and the French utility looked at. In this particular case, it was one with exposure DMFs for people actually working with the utility. I think, although there were some instances of some forms of cancer that were higher than normal, I think that generally they found that those studies were inconclusive, as well.

CEA, the Canadian Electrical Association, of which Manitoba Hydro is a member, is still monitoring the situation, as well as individual utilities. I think, generally, we are still of the view that all studies so far are still inconclusive as to whether there is a direct relationship.

Mr. Edwards: Mr. Chair, the studies that have been mentioned, obviously one commissioned by various Hydro companies, the other commissioned by the Canadian Electrical Association, being inconclusive, does not sort of give me a lot of comfort about this and perhaps not members of the Hydro board either. The study of people working for utilities is a different issue, I think, than people living, residing in fairly close proximity. I know that there is a continuing concern out of the Grosse

Isle area with respect to the Winnipeg-Neepawa-Brandon line, which has come to the attention of members of the Legislature as well as, I am sure, the Hydro board.

How is this issue going to be resolved? Is Manitoba Hydro intending to do any independent medical analysis of this, or what is the plan?

Mr. Brennan: Right now, Manitoba Hydro provides a service where anybody who lives close to a transmission line or would like their home checked—we go out and perform a service whereby we will actually try to make a judgment through a machine. The machine actually indicates the impact of these fields. We are finding that as you get away from the right-of-way itself, the actual impacts are relatively low from the fields themselves. We are finding that the actual fields within a home, in some instances depending on where you are in the home, are much greater. So it is our view that it is not a problem at this point in time at all.

* (1150)

Mr. Edwards: So even in view of the fact that the studies that have been done are inconclusive, Manitoba Hydro's current position has been to conclude that there is no health risk.

Mr. Brennan: In almost all cases, if you go to the edge of the right-of-way, the amount of the fields will be relatively low, and in most cases the homes are a significant distance away from the edge of the right-of-way. So at this point in time, we do not see that as a big problem. Certainly, people farm under the lines and that sort of stuff, but their contact is relatively minimal. But people definitely farm directly under the lines.

Mr. Edwards: When you mention "relatively low," I just want to confirm that in fact through these lines there is an electromagnetic impact of some sort, low or high or however you want to judge that. Living in proximity to these does put you within—I am certainly not a technician or scientist, that is clear—a higher range of exposure to electromagnetic fields. However you want to define that as high or low, it is increased the closer proximity you live to those lines. Would that be accurate?

Mr. Brennan: I believe, in general terms, that is accurate. I think by the time you get to the edge of the right-of-way, though, the amount of the fields is very, very low at that point and probably less than what you have in your own home.

Mr. Edwards: Just, finally on this, with respect to the specific concerns of a number of the residents in the Grosse Isle area and in particular the Kemenade—for Hansard that is K-e-m-e-n-a-d-e, I believe—family, what is the status of those discussions with those people?

Mr. Brennan: We are having ongoing discussions with the people. The latest letter, we offered to meet with them further with more senior people within the corporation to see if we could discuss the issue in a little greater detail. I guess our view is that we have looked at all the options associated for the line, and we know we are going to impact somebody somewhere. We believe we have come up with the option that has the least impact overall. Certainly, some people feel harmed by that and inconvenienced by it. Overall, though, we believe we have the least harmful impact in terms of the impacts on people.

I guess we believe we are following a process that is a pretty good process. We have to get a licence for the line, and we have to go through a process where we have to defend the particular option we have taken before an independent body. We think we have the best option. I guess it would be incumbent upon Manitoba Hydro to show that.

Mr. McCallum: I think, on this issue, this is an emerging science, and the field is called epidemiology that studies this kind of thing. I would be confident, from the point of view of the board, that the corporation is monitoring that literature as responsibly as it can. Certainly, the board has had presentations on it. In fact, a few years ago, we brought in an expert from New York City that was on the staff of Rockefeller Medical Center. So the board takes the issue seriously.

Could Manitoba Hydro undertake its own scientific investigations of these things? I think with this and any number of other issues there are a huge number of reasons why, at least at this time, that would be unlikely, if for no other reason, to do

this kind of research, you need huge samples. Manitoba does not have huge samples. That is why with the Ontario-Quebec-European study they got together to get the numbers that would give them something to work with.

From the point of view of the board, we take this very seriously, and we monitor it, and I talk to Bob about it, and we are on top of the literature. Beyond that, I think I can assure the committee of that.

Mr. Edwards: Are there then current other studies with large enough samples for them to be reasonably reliable, ongoing currently, that either of the gentlemen here can advise us about?

Mr. McCallum: My understanding is that there are a number of places in the world that are working on this problem and that the scientific literature on this is not finished at all. We will come back here and talk about this from year to year, and I suspect, as the years go on, there will be emerging evidence. What we should get for you is a copy of the study that was in the American Journal of Epidemiology, and that is the study that you are referring to that got all the visibility.

Mr. Edwards: I would appreciate receiving that as well as, if it is available, a copy of the presentation given to the board by the Rockefeller Institute expert, and I do not know if that is something which might be on file which could be shared as well.

Mr. McCallum: This was done about '89, and my recollection is that it was a verbal presentation in which the scientist, who had academic rank at the time at this particular institution, took us through the scientific literature as it existed at the time. Now, I do not recall ever getting a written thing from him, but we will check into it. We will also get a copy of that article that was in the journal that we just talked about.

Mr. Edwards: I would appreciate that. What stage is this particular dispute at? I appreciate the comments that Manitoba Hydro is going to be meeting with the people involved and trying to work out some solution. Ultimately, if things are not resolvable, is the solution that Manitoba Hydro foresees moving towards simple expropriation of the property to put the line through? Is that

ultimately what is going to happen, if things do not work out?

Mr. Brennan: I think that is not in Manitoba Hydro's hands. That is in the hands of the licensing authority and not Manitoba Hydro.

Mr. Edwards: I appreciate that. Just by way of conclusion, when Mr. Brennan indicates there are meetings ongoing with this family and this group of residents in the Grosse Isle area, are those ongoing currently, or it is hoped that those will be established in the near future?

Mr. Brennan: With the individuals you are referring to, the last communication we had with them, I wrote myself to these people and offered to

have our senior people go out and meet with them and see if the issue can be resolved. It is my understanding that they have not got back to us at this point.

Mr. Chairperson: The hour now being twelve o'clock, what is the will of the committee?

Some Honourable Members: Rise.

Mr. Chairperson: Is it the will of the committee at this time to pass the report?

Some Honourable Members: No.

Mr. Chairperson: Committee rise.

COMMITTEE ROSE AT: 12 p.m.