

Fourth Session - Thirty-Eighth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Ms. Marilyn Brick
Constituency of St. Norbert

Vol. LVII No. 1B – 3 p.m., Monday, November 21, 2005

ISSN 1708-6604

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Eighth Legislature

Member	Constituency	Political Affiliation
AGLUGUB, Cris	The Maples	N.D.P.
ALLAN, Nancy, Hon.	St. Vital	N.D.P.
ALTEMEYER, Rob	Wolseley	N.D.P.
ASHTON, Steve, Hon.	Thompson	N.D.P.
BJORNSON, Peter, Hon.	Gimli	N.D.P.
BRICK, Marilyn	St. Norbert	N.D.P.
CALDWELL, Drew	Brandon East	N.D.P.
CHOMIAK, Dave, Hon.	Kildonan	N.D.P.
CULLEN, Cliff	Turtle Mountain	P.C.
CUMMINGS, Glen	Ste. Rose	P.C.
DERKACH, Leonard	Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DOER, Gary, Hon.	Concordia	N.D.P.
DRIEDGER, Myrna	Charleswood	P.C.
DYCK, Peter	Pembina	P.C.
EICHLER, Ralph	Lakeside	P.C.
FAURSCHOU, David	Portage la Prairie	P.C.
GERRARD, Jon, Hon.	River Heights	Lib.
GOERTZEN, Kelvin	Steinbach	P.C.
HAWRANIK, Gerald	Lac du Bonnet	P.C.
HICKES, George, Hon.	Point Douglas	N.D.P.
IRVIN-ROSS, Kerri	Fort Garry	N.D.P.
JENNISSEN, Gerard	Flin Flon	N.D.P.
JHA, Bidhu	Radisson	N.D.P.
KORZENIOWSKI, Bonnie	St. James	N.D.P.
LAMOUREUX, Kevin	Inkster	Lib.
LATHLIN, Oscar, Hon.	The Pas	N.D.P.
LEMIEUX, Ron, Hon.	La Verendrye	N.D.P.
MACKINTOSH, Gord, Hon.	St. Johns	N.D.P.
MAGUIRE, Larry	Arthur-Virden	P.C.
MALOWAY, Jim	Elmwood	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McGIFFORD, Diane, Hon.	Lord Roberts	N.D.P.
MELNICK, Christine, Hon.	Riel	N.D.P.
MITCHELSON, Bonnie	River East	P.C.
MURRAY, Stuart	Kirkfield Park	P.C.
NEVAKSHONOFF, Tom	Interlake	N.D.P.
OSWALD, Theresa, Hon.	Seine River	N.D.P.
PENNER, Jack	Emerson	P.C.
REID, Daryl	Transcona	N.D.P.
REIMER, Jack	Southdale	P.C.
ROBINSON, Eric, Hon.	Rupertsland	N.D.P.
ROCAN, Denis	Carman	P.C.
RONDEAU, Jim, Hon.	Assiniboia	N.D.P.
ROWAT, Leanne	Minnedosa	P.C.
SALE, Tim, Hon.	Fort Rouge	N.D.P.
SANTOS, Conrad	Wellington	N.D.P.
SCHELLENBERG, Harry	Rossmere	N.D.P.
SCHULER, Ron	Springfield	P.C.
SELINGER, Greg, Hon.	St. Boniface	N.D.P.
SMITH, Scott, Hon.	Brandon West	N.D.P.
STEFANSON, Heather	Tuxedo	P.C.
STRUTHERS, Stan, Hon.	Dauphin-Roblin	N.D.P.
SWAN, Andrew	Minto	N.D.P.
TAILLIEU, Mavis	Morris	P.C.
Vacant	Fort Whyte	P.C.
WOWCHUK, Rosann, Hon.	Swan River	N.D.P.

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Monday, November 21, 2005

TIME – 3 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Ms. Marilyn Brick (St. Norbert)

VICE-CHAIRPERSON – Mr. Cris Aglugub (The Maples)

ATTENDANCE - 11 **QUORUM** - 6

Members of the Committee present:

Hon. Mr. Chomiak

Mr. Aglugub, Ms. Brick, Messrs. Dewar, Fauschou, Hawranik, Jha, Mrs. Mitchelson, Messrs. Penner, Reid, Schellenberg

APPEARING:

Hon. Jon Gerrard, MLA for River Heights
 Mr. Bob Brennan, President and Chief Executive Officer, Manitoba Hydro
 Mr. Vic Schroeder, Chairman, Manitoba Hydro-Electric Board

MATTERS UNDER CONSIDERATION:

Annual Report of Manitoba Hydro for the year ended March 31, 2003

Annual Report of Manitoba Hydro for the year ended March 31, 2004

Annual Report of Manitoba Hydro for the year ended March 31, 2005

* * *

Madam Chairperson: Good afternoon. Will the Standing Committee on Crown Corporations please come to order. We will now continue consideration of the Annual Reports from Manitoba Hydro for the years ended March 31, 2003, March 31, 2004, and March 31, 2005.

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

Hon. Dave Chomiak (Minister charged with the administration of The Manitoba Hydro Act): Well, I guess we should sit until 5 p.m., when I understand the room must be utilized, or earlier if we complete it earlier.

Madam Chairperson: Is that the will of the committee? *[Agreed]* Thank you very much. The floor is now open for questions.

Mrs. Bonnie Mitchelson (River East): I know the minister had promised to bring some reports this afternoon for me and I was wondering if he had those.

Mr. Chomiak: I have in front of me the book entitled "Promises to Keep Towards a Broad Area Plan for the East Side of Lake Winnipeg, Executive Summary," the same report the member has.

I guess the relevant points that I will make in the report are several that I said I would point out to the member. On page 49, I quote. The report says: "Manitoba Hydro has a legacy issue with which it has to contend. When the topic of Manitoba Hydro or the issue of the possible east side location of BiPole III was raised in communities through the ESPI process, reaction to the corporation and the proposed transmission line corridor on the east side of Lake Winnipeg was either uniformly negative, or contained significant overtones of mistrust and suspicion."

It goes on further. Under recommendations, the report essentially says on the next page on recommendations that, should any future discussions occur with respect to transmission, it should be subject to Protocols of Agreement with First Nations and Métis Nation residents on the east side of Lake Winnipeg respecting the Broad Area Plan between the Government of Manitoba and First Nations governments. So it makes recommendations that prior to any development—that is on page 50.

An Honourable Member: Which recommendation?

Mr. Chomiak: Recommendation 6.6.1.

The final two points I want to make are on page 51. On Recommendation 6.6.10, it says: "The Government of Manitoba encourage and mandate Manitoba Hydro to fully and publicly explore the viability of locating alternative energy source infrastructure, wind and solar, on the east side of Lake Winnipeg and create opportunities for east side residents and all Manitobans to benefit from these low-impact energy resources."

Finally, I note that on page 4 of the addendums on the East Side Planning Initiative it indicates that there was Hydro representation on the initiative.

So those are just my general comments on the report that I have not had a chance to review fully since we met this morning, but those are only highlights that I wanted to bring to the member's attention.

Mrs. Mitchelson: I guess that does beg a few more questions. The areas that the minister has pointed out indicate that the consensus was, I guess, that a transmission corridor not proceed unless and until Manitoba Hydro can clearly indicate that there are clear and permanent economic benefits to be accrued by communities on the east side.

Why, then, with the tabling of this report, was Manitoba Hydro not fully engaged with the east side working group? It appears to me that they opened the door to working with Manitoba Hydro, and it appears that Hydro has been sort of left out of the process and has not met for a considerable period of time with anyone on the east side.

Mr. Chomiak: That is why I specifically pointed out the next recommendation, that the committee indicated that prior to any developments occurring, Broad Area Planning protocols be entered into. I can indicate to the member, we are still in the stage of finalizing protocols with east side communities with respect to Broad Area Planning, resource planning, et cetera. It is a very complex process that has been undertaken, and I want to remind the member that the issue of Hydro, an issue of transmission, is only one component of a broad boreal forest framework, which is why to isolate the Hydro issue specifically from the broad planning is very, very difficult and garners a significant amount of discussion.

Mrs. Mitchelson: So is the minister indicating to me that work has already begun on the protocols of the agreement with First Nations and Manitoba Hydro?

Mr. Chomiak: No, Madam Chairperson. The recommendation says all future discussions, et cetera, as and when they are developed, the protocols of agreement with First Nations and Métis nation resident on the east side respecting the Broad Area Plan for the east side of Lake Winnipeg between the Government of Manitoba and First Nations and Aboriginal communities located on the east side of Lake Winnipeg.

My interpretation of that, Madam Chairperson, is that broad area protocols are a prerequisite to other

forms and other discussions, consultations and protocols being entered into between whatever agency. But this is essentially government-to-government negotiations that are recommended and that we are in the process of undertaking as we speak.

Mrs. Mitchelson: This report was transmitted to government in September of 2004. I guess my question is has there been any discussion between Manitoba Hydro and anyone on the east side since this report was submitted to government.

Mr. Chomiak: One only needs to read the correspondence or to read the media accounts to indicate that there has been a significant amount of discussion that has occurred with respect to developments on the east side, be it the discussions that are occurring concerning the broad-based protocols they were endeavouring to finalize with communities on the east side or the specific issues under that rubric concerning economic development in a variety of fashions, be it mining, be it trapping, be it conservation resource planning or hydro development.

Mrs. Mitchelson: Has the minister entirely ruled out a transmission line on the east side?

* (15:10)

Mr. Chomiak: I believe the member could probably find a quote from me in the *Winnipeg Free Press* where I have indicated that it is not our intention to run Bipole III down the east side of Lake Winnipeg.

Mrs. Mitchelson: In fact, then, the minister is indicating that all the work has been done. Could he indicate to me what has been spent over the years on development, the engineering studies, the engineering work, the environmental work on the east side in preparation for this line going down, which, I would venture to guess, would still be the priority for Manitoba Hydro? It was certainly in the experts' view at Manitoba Hydro that this would be the most cost-effective and prudent way to move forward with Bipole III.

With the stroke of a pen or the edict from on high from government, we are now seeing significant additional cost, additional security issues with the government's decision to unilaterally, contrary to what expert opinion was in the past, deny any opportunity for opening up the discussion on the east side or at least looking at the options. So I guess I

would question under what expertise or expert advice did the minister make that statement to the *Free Press*.

Mr. Chomiak: The issue of east side and bipole, when members sat around the Cabinet table, I am sure, came up in discussions. It was part of discussions during the member's tenure around the Cabinet table, and I note that it did not occur during the member's tenure, and has been under discussion for some time. The issues related to the Bipole and to east side are related to a complex series of discussions and issues that relate to beyond just the east side or just energy as it relates to the communities.

There are discussions concerning roads, discussions concerning resource planning, et cetera. Suffice it to say that the broad-based area planning that was undertaken by the government in conjunction with east side communities is precisely a process that I had thought that all members appreciated and all members wished to participate in, namely, to allow individuals in the community and individuals residing in the area to make decisions about their own future and make recommendations concerning that.

That is what the East Side Planning Initiative was all about with respect to that. As was indicated in the report, there was a strong consensus during the meetings that took place on the east side with respect to the difficulties concerning a transmission line on the east side of Lake Winnipeg.

I might add that there are alternatives that the Hydro board is looking at concerning alternative forms of transportation, and there are other options and other discussions that are taking place. Suffice to say that the environmental, the local, the sociological, the historical and the community consensus are all important factors in making a decision as to whether or not a transmission line should go in one area or another.

The member is quite familiar, I think, in her own caucus last round during standing committee where some of her own colleagues expressed concern about transmission lines going through their own individual communities, et cetera. It is always a very difficult decision.

At this point, the Hydro board has indicated they are looking at alternatives and the provision and the continuation of the broad East Side Planning Initiative is being undertaken. I want to also add that

the recommendation of the committee was that Hydro be mandated to look at alternative and options for energy development on the east side.

Mrs. Mitchelson: I guess, now that the door is closed on the east side of the lake, might I ask Mr. Brennan what is the process now to look at other options. It looks like we are back to the drawing board, so can you maybe indicate to me what the next steps are, or what steps have been undertaken to date to look at other options?

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): Yes, we have our planners looking at what other options are, and some of the options include the west side route. We are looking at seeing if we could come down between the lakes with some kind of a beefed-up transmission system in there, recognizing the concern for having transmission lines close together. We are also looking at gas combustion turbines in the event of a failure of the existing lines and purchase options for purchasing power, should it be available. We are looking at all those. There are other options as well, but those are the primary ones.

Mrs. Mitchelson: Mr. Brennan, when you talk about purchasing power, could you explain to me what that means?

Mr. Brennan: It will help us if we have additional plants on the Nelson that we want to use the transmission lines for but, until such time as that occurs, there is the possibility of just purchasing power in the event our lines go down. Now, you want to make sure it is available, so it is not as easy as it sounds. But that is an option, if we can find the right seller.

Mrs. Mitchelson: Mr. Brennan, maybe, could you explain to me now exactly what steps need to be taken in order to develop the other options and what the time lines for those might be?

Mr. Brennan: We have told the board of Manitoba Hydro we have done a preliminary review at this point, and at this point it would appear that the west side appears to be the best option, but we are thoroughly checking out all the other options. We expect to have this complete by October of 2006.

Mrs. Mitchelson: Mr. Brennan, can you indicate how many communities might be involved that would have to be negotiated with on the west side option?

Mr. Brennan: I would have to make that available to you. I did have the number, but I do not remember it.

Mrs. Mitchelson: Would it be the same number of communities, roughly, or are there less communities on the west side than there are on the east side?

Mr. Brennan: I am not 100 percent sure. I think it could even be more communities, but I am not sure.

Mrs. Mitchelson: I might ask the minister whether there is the same type of process going on on the west side with the communities that might be impacted as there was on the east side, with the Broad Area Plan. Has there been any discussion, or has this kind of an area plan been looked at on the west side and are communities working together on a Broad Area Plan on the west side of the lake?

Mr. Chomiak: The communities on the east side of Lake Winnipeg are a particular group of communities that are part of the continuous boreal forest, a type of forest that, in fact, has prompted both the east side processes, the governments of Manitoba, Ontario and Canada, to petition that there be a UNESCO World Heritage site located on the east side of Lake Winnipeg with respect to a site, because it is one of the last remaining intact types of boreal forest in the world that has that opportunity to be designated as such a site. The west side has less of those particular aspects to it.

* (15:20)

In addition, there are other issues relating to future development of hydro transmission lines, et cetera, that may have bearings on transmission locations, et cetera, that are being looked at and reviewed. With respect to the communities, it is premature at this point to begin consultations until some of the recommendations come back from the board of directors and Manitoba Hydro, with respect to alternatives to the east side transmission line.

Mrs. Mitchelson: Well, thank you very much, Madam Chair, but I am not sure I am satisfied with that answer.

I mean, when we talk about communities that are going to be significantly impacted, and we look at the process that has been undertaken for the last 10 to 15 years on the east side, and then we are at a point, after 10 or 15 years of environmental work, of engineering work, of consultation, we are abandoning all of that. I would like to ask Mr. Brennan whether, in fact, he could provide for us all

of the studies that have been done on the east side to date. I know there is probably a significant amount of paper that would be there, but it would be interesting to, at least, have an opportunity to look at what has been done on the east side. I would like some estimate of what the expenditures may have been over the last 10 or 15 years to do the kind of developmental work that was done that, by the stroke of a pen around the Cabinet table, has been wiped out. Hydro, against their best recommendations and the expertise that sits at Hydro and that has, for years, thought this was the best option, now has to go back to the drawing board and start all over again. For the minister to sit back and say that it is premature to consult with the communities when I just heard the president of Hydro say that, at first blush, anyway, the west side looks like the best option when they consider their alternatives, and the minister says, "Well, we are not going to talk to the communities yet on the west side," you know, I guess I wonder what the plan or the process is.

I would like to say to Mr. Brennan: Are you indicating that by September or October of 2006 you will at least explore the options and make a recommendation to government on which might be the best option for the transmission line? Is that a fair assessment of what you have said, or are you expecting to have work done in order to move ahead on development of the transmission line?

Mr. Chomiak: Madam Chairperson, I have the 1995 Hydro plan with respect to development in terms of northern dams and northern gas fire turbines, et cetera, and there is no mention, under the 1995 plan, of any bipole with respect to 10-, 15- or 20-year planning ahead, so I want to put the member's comments in context of historical analysis and also of 20/20 hindsight from the member, considering the 1995 developmental plan that do not include whatsoever, not only any bipole considerations, but any consultations whatsoever with respect to communities on either side or any side of Lake Winnipeg or, in fact, consideration of any bipole in general.

Mrs. Mitchelson: Well, I meant to ask Mr. Brennan: Are there any reports, or was there any work done, and when was the first year any work was done on the east side of Lake Winnipeg that might have been looking at a Bipole III, then? What year was that discussion started?

Mr. Brennan: Manitoba Hydro is to varying degrees. In some cases, they were not supported by a

lot of studies, but we have looked at the east side as being the option that we would recommend. Having said that, there are various stages of studies to support that. A lot of it comes about because it is just the shortest route, so we know, the technologies of that moment, it was the shortest route. It would just, you know, from our perspective appear to be the best route at that time. Certainly, other considerations have to come into play, though, so this is just a policy issue that management discuss with the board of Hydro.

Mrs. Mitchelson: I am wondering if you might be able to commit today to providing for us any work or any studies that have been done on the east side going back as far as they go back. Just for our information, could you do that? Is that information that could be provided?

Mr. Brennan: If that is the committee's wish.

Mrs. Mitchelson: Agreed?

An Honourable Member: Agreed.

Mr. Chomiak: We have been very open in this committee to provide information to members. Information that is not technically third-party or that complies with our usual requirements, I do not have a problem in providing.

Mr. Brennan: Can I just qualify that in one term? As long as there is nothing that prejudices our market position in any way.

Mrs. Mitchelson: Absolutely, and I would not want that. I want to thank the minister and Mr. Brennan for that commitment.

Again, if we can go back to looking at what the time lines would be for recommending back to the board or to government an option for Bipole III, did I hear you say that in October of 2006, was it September-October of 2006, would be a time frame that might be achievable?

Mr. Brennan: Madam Chairperson, it was October of 2006, and that was a recommendation as to which option management preferred.

Mrs. Mitchelson: So that is the fall of 2006. Then what would the process be after that, and what time lines might we be looking at?

Mr. Brennan: We would then have to start the environmental process, consultation with the communities, and come up with a route. Until such time a route is selected, which we do not have for the

east side either, we would have to then start design based on that.

Mrs. Mitchelson: So, then, what would be the earliest estimate of when a new transmission line might be built wherever it is?

Mr. Brennan: I would have to confirm the date, but I believe it was 2017. I could be wrong.

Mrs. Mitchelson: So, I mean, these questions do have an impact on potential sales through Conawapa to Ontario. Well, maybe it would not. You could maybe explain to me. But are we looking at this for domestic use or for export use or for both, Bipole III?

Mr. Brennan: The main reason why at this point, without a sale, we want an alternate line is just for the reliability of our own system, reliability and security of our system. So we would like a line to take care of that particular option. I am not sure about the 2017 date. I really will have to check that out because we have to make sure that any new facility we build, anything on the Nelson will require another line too.

If we had a line down the west side, we could then build a line in the Interlake, as an example, because we have the additional line for security at that point. So that would be something we could consider as well for an export sale.

* (15:30)

Mr. Chomiak: I just want to add that the member's discussion of Conawapa must also consider the fact that we are still in negotiations with Ontario and the federal government with respect to an east-west transmission line. The member will be aware that on the first part of the MOU our intentions are to upgrade the pre-existing transmission line between Ontario and Manitoba, but the additional voltage coming in the subsequent sales would require additional transmission, and on the table at that point are alternative sites with respect to transmission.

In addition, I think that the issue of east-west transmission, and depending upon how discussions go with the federal government and the development of east-west transmission, could have a bearing on all of these issues with respect to transmission reliability, et cetera, depending on where and how those discussions end up.

Mrs. Mitchelson: I guess, would it be fair to say, Mr. Brennan, that you had costed out a line on the east side and had some sort of a sense of how much

it would cost being, the most direct line, the shortest and the best, I guess, ability to produce without loss on the line, so the shorter the line, of course, the better the protection or less loss?

Mr. Brennan: That is correct.

Mrs. Mitchelson: Thanks, and did you have a cost associated with that?

Mr. Brennan: It was approximately \$450 million to \$500 million, if I remember correctly, for the line by itself.

Mrs. Mitchelson: That was for the line itself, and what other costs might there be?

Mr. Brennan: Well, at this point we are only proposing to build the line. Clearly, our recommendation would be forthcoming at some point to build additional conversion equipment, and that is in the neighbourhood of \$1.2 billion. That would be conversion equipment at both ends with a separate conversion equipment in the south, separate from Dorsey in the south.

Mrs. Mitchelson: So that would be \$450 million to \$500 million plus another \$1.2 billion for conversion, or was that \$1.2 billion including the cost of the line plus the conversion?

Mr. Brennan: No, it would be plus.

Mrs. Mitchelson: I know that you indicated earlier—I do not know if it was during the presentation or in questions after—that if we had a line down the west side, it is 60 percent longer. So it would probably be 60 percent more costly to build the line. Would the same conversion capacity still need to be built on the west side?

Mr. Brennan: Yes, it would. The one thing that we would require, we would require that immediately, that we built the west side option. So, on the east side, we are proposing to build it later. So there would be advancement costs with the west side which would be interests on the money for that period of time.

Mrs. Mitchelson: So, then, Mr. Brennan, we would be comparing apples to apples if we looked at a 60 percent additional cost for the west side line. So that will be 60 percent of \$450 million to \$500 million, but the conversion costs would be the same. We are still looking at \$1.2 billion for conversion on either side, but you have indicated that on the west side it would have to be done earlier and

therefore, then, borrowing, and the interest costs would be more significant up front.

Mr. Brennan: For the length of time, and I am not sure how many years that would be, because I am sure, as soon as the line was in, it would not be very long after. Once construction started, I am sure I would have a recommendation to build a bipole for the east side. It would not take very long. So I am not sure if it is one year, two years or whatever that we would advance the converter equipment, which would be the interest rate on the \$1.2 billion.

Mr. Gerald Hawranik (Lac du Bonnet): Would it be correct to say, Mr. Brennan, that Hydro recommends that the best option, the better option, considering reliability, considering cost, would be going with a transmission line on the east side versus the west side?

Madam Chairperson: Minister Chomiak.

Mr. Chomiak: Yes, thank you, Madam Chairperson.

When the member talks about costs, the member must consider the costs in terms of a hearing process, social costs and other related costs, when considering the recommendation with respect to any transmission line, the costs associated with regulation and with related costs of mitigation should lines run into specific sites, et cetera. So I think it is very difficult. Certainly, it has already been indicated that the straight economic costs in terms of a shorter line are more favourable, clearly, on a shorter route, and the Hydro board is now considering the options related to alternative routes. That has been answered on several occasions.

Mr. Hawranik: Simply from a corporate perspective, what would Manitoba Hydro recommend? The east side or the west side?

Mr. Brennan: Manitoba Hydro's board has had numerous discussions about management's view on this particular issue, and the board in their deliberations felt that management was not considering some issues the same way they were, but management's recommendation was clearly to go down the east side.

Mr. Hawranik: You mentioned that going down the west side is 60 percent longer and, obviously, going down the west side will also involve the cutting down of some boreal forest. Was there any evaluation done at all as to how many miles of boreal forest have to be cut down on the east side versus on the west side?

Mr. Brennan: We have those numbers. I do not have them at the top of my head.

Mr. Hawranik: Would you undertake to provide those numbers to me?

Mr. Brennan: We will try to make available what we have. I am not sure a hundred percent how accurate they are. I think they are just estimates, but we could try that.

Mr. Hawranik: My next question is to the minister in terms of, I think he brought it up, the UNESCO World Heritage site. My question to the minister is does he know what that really entails. Does anyone know what that really entails? Does it mean no winter roads if it becomes a World Heritage site? Does it mean no permanent road will be built on the east side because it is a World Heritage site? Does it mean no transmission lines because it is a World Heritage site? Has he looked into the implications of designating that area as a UNESCO World Heritage site?

Mr. Chomiak: What I do know is that the governments of Manitoba, Ontario and the Government of Canada all support the designation of that particular area as a World Heritage site.

Mr. Hawranik: Does that mean, then, Mr. Minister, that, in fact, if it becomes a UNESCO World Heritage site, we will not be able to continue to maintain the winter roads to connect the communities on the east side?

Mr. Chomiak: I do not think that that would preclude a development on the east side. It would be under the parameters and under the designation with respect to UNESCO and with respect to world bodies that did make those particular determinations. The member might be familiar with World Heritage sites in other parts of North America where road access, et cetera, is permitted and allowed, obviously, so that individuals can partake and participate in and enjoy the designation of the World Heritage site.

*(15:40)

Mr. Hawranik: Has the minister asked the question whether or not designation as a World Heritage site will preclude the development of an all-weather road to connect those communities on the east side?

Mr. Chomiak: I am not the minister responsible for highways, nor am I the minister responsible for the environment. That is not under my auspices in terms of this particular committee.

Mr. Hawranik: Well, certainly, the minister ought to know what the implications are of the designation as a World Heritage site. We have many communities that are remote. They are not connected by an all-weather road, and an all-weather road is extremely important, I think, to connect those communities to the south.

Certainly, before the minister would support the designation of a World Heritage site, he should know the implications. I ask the minister again; well, first of all, if he does not know, will he undertake to find out in order to provide those communities who are not connected with an all-weather road today with the information so they can properly make the decision as to whether or not it is in their best interests?

Mr. Chomiak: Madam Chair, the member might read the "Promises to Keep" document that deals with a variety of activities dealing with the east side that we are working at in partnership with communities on the east side.

Mr. Hawranik: My next question is to Mr. Brennan. I know that he had indicated that there was a contingency built into the \$188-million cost of the building itself, and then there was an additional contingency that he spoke of earlier this morning.

Is that contingency related to the difference between the total project cost of \$258 million and \$188 million, or is it outside the parameters of those two numbers?

Mr. Brennan: I am not sure I understand the question.

Mr. Hawranik: Well, Mr. Brennan said that in the \$188-million cost of the building there was a contingency. He did not indicate how much that was, but I indicated that as a matter of business to a great extent, there usually are engineering contingencies and so on generally between 10 percent and 15 percent.

But he indicated this morning that there was another contingency amount that he was not prepared to disclose. That second contingency, does that relate to the difference between the total project cost of \$258 million and the building cost of \$188 million? Is the contingency within that number, between \$188 million and the \$258 million?

Mr. Brennan: Yes, you are correct. The second contingency was in that number.

Mr. Hawranik: So the \$258-million total project cost includes the contingency for the building and the contingency between the \$188 million and \$258 million. There are no extra unexpected costs beyond the \$258 million.

The total budget of \$258 million for the total project is the total budget including all contingencies. There are no other contingencies, if I understand you correctly.

Mr. Brennan: You are correct.

Mr. Hawranik: I wonder if Mr. Brennan can tell me how much debt was added to the Manitoba Hydro debt to cover that special dividend taken by the Province a couple of years ago to balance its books.

Mr. Chomiak: Madam Chairperson, that was pretty intimately explored in the last round of the standing committee. The member might want to reference the discussion in the last round where that was explored and examined pretty extensively. I am just looking at time considerations.

Mr. Hawranik: Well, I will do that, Mr. Minister, but I was looking at I think it was the Public Utilities Board hearing that was held at the time at Pointe du Bois, and I have a further question with respect to Pointe du Bois.

Some of the testimony pointed to the fact that the power licence at Pointe du Bois is going to expire in 2011. Can Mr. Brennan indicate how much of a cost that will mean to Manitoba Hydro to ensure that it is upgraded to renew its power licence in 2011? Has there been an assessment done, and, if so, how much would that be?

Mr. Brennan: That is where I mentioned to you earlier that we have a consultant hired who is reviewing the options. The options vary, and it requires a fair amount of rehabilitation work if we do not totally rebuild it. We still have not come up with a management position on it or a corporate position, of course, if we have one.

Mr. Hawranik: In your presentation, Mr. Brennan, you indicated that Manitoba Hydro has the lowest rates in North America and that it is attracting new industries because of those low rates. Can you name some industries, in fact, that have come to Manitoba because of the fact that Manitoba Hydro rates are so low?

Mr. Brennan: I am not sure if that is fair to those industries. But can I consult with the chairman?

Mr. Chomiak: Yes, Madam Chairperson, perhaps I can indicate that there are industries that are and have expanded in Manitoba as a result of our lower rates. There are, as was indicated in Mr. Brennan's submission this morning, other industries that are contemplating coming and/or expanding based on our lower rates, but that Hydro has to evaluate the economic cost-benefit ratio of some of those industries vis-à-vis load requirements and cost to Manitoba ratepayers, et cetera, within the context of those particular businesses.

I actually, as a principal, do not like to negotiate in public with any third party at any time when we are in negotiations. That has been a rule that I have tended to want to follow and that I would prefer to follow as it relates to industry.

Mr. Hawranik: I disagree with the minister. We are not negotiating to get someone here. The statement was made that, in fact, industries have located in Manitoba because of our low rates. Talking to the Chamber of Commerce, they cannot think of one. While there may be businesses that, in fact, are here in Manitoba and have expanded, certainly you cannot always make the statement or take the position that they simply expanded because of low hydro rates. Certainly, there were other factors that are involved with respect to expansion and to location in Manitoba.

Would it be fair, then, to say that it is not necessarily the lower rates that caused them to expand or to locate in Manitoba? It might be one of the factors, but that does not necessarily govern their decision.

Mr. Chomiak: Yes, we tend to call that the Manitoba advantage with respect to low insurance rates with MPI, lowest hydro rates as indicated in the graph, Madam Chairperson, a lowering of the corporate tax rate, small business rates, et cetera, that have all developed in the past few years. I think we are quite proud of the Manitoba advantage and the impact that it is having. I concur with the member, there are numerous advantages to locating in Manitoba, not just the lowest hydro rates in North America.

Mrs. Mitchelson: I am just going back to the east side versus west side power lines. My understanding is that because the route on the west side is 60 percent longer, and the electricity has to travel further, that approximately \$250 million of electricity will leak from the transmission lines that

will be lost to the system on a yearly basis. Is that a fair assessment?

* (15:50)

Mr. Brennan: In actual fact, it is not quite a fair assessment. What happens is, by having another transmission line, the actual losses that we are experiencing on the existing line will be reduced dramatically. Okay? So there is a big saving there. It is very, very large over the life of the project. With a longer length, that saving would not be as significant. So I think where you are going was probably the same place I ended up, but we said it differently.

Mrs. Mitchelson: But would it be fair to say, then, that on a yearly basis—I know we are saving from, it would not matter which line went in, the east side or the west side, there would be significant savings on the lines that presently exist, but there would be more saving on the shorter line than there would on the longer. I guess I am looking to see what that difference would be.

Mr. Brennan: I think we are saying the same thing now.

Mrs. Mitchelson: Would it be a fair assessment, then? Because I have seen some media reports that have indicated that it would be about \$250 million a year that we might be able to save. Would that be a fair assessment, or are they off base with that number?

Mr. Brennan: They are off base with that number. The number is 250, but that is for the life of the project, okay? So that is not an annual amount. It is 250 for the whole project, forever.

Mrs. Mitchelson: I just want to thank Mr. Brennan for that clarification.

Mr. Brennan: Let me just clarify that. It is net present value of all the savings.

Mrs. Mitchelson: So, again, if we can just go back and recap a little bit, because I am not sure whether I have received the assurances of what might happen should we have a significant security issue with our power lines. Adding another line on the west side certainly would add a significant amount of risk. Have you got, and could you share with us, any risk analysis that has been done? I guess I know I represent and we all represent the province of Manitoba, but I do live in the city of Winnipeg where we have over 600 000 population, and if, in fact, there was something that hit our hydro lines, a

terrorist attack, or a storm or whatever, and the city of Winnipeg was shut down for a prolonged period of time in the middle of the winter, I think it would have some very dire consequences for our province. Would the risks be less if the lines were separated? I think you have indicated that already. Is there that kind of risk analysis assessment that might be available for us to look at?

Mr. Chomiak: Hydro obviously has and does do a risk analysis on all of its major operations and all of its major programs and is reviewed by the board on a regular basis. Appropriate attention is paid to those areas that are deemed to be of significant risk and the projections and the capital expenditures and the programming from Hydro develops as a result of those decisions.

Mrs. Mitchelson: I again would ask: Are there risk analysis assessments that have been done? And are those documents that could be shared so that Manitobans have some sense of what the increased risk might be should the lines not be separated? I think it is important for us as Manitobans, as Manitoba Hydro ratepayers and those who depend so dearly on our hydro-electricity, especially in the cold winter months. I would like to know whether there is any information that might help Manitobans to understand and know what the different risks are associated with, any new significant output of ratepayers' dollars to build any type of Bipole III. Any new transmission line is going to add significant cost and, therefore, significant debt to the ratepayers of Manitoba Hydro and to all Manitobans. So I think it is important that those facts are known. Would that be one reason for ensuring that an economic analysis is done, say, through a vehicle like the Public Utilities Board, before any transmission line is proceeded with?

Mr. Chomiak: When it comes to the area of security, risk analysis, et cetera, it is something that the corporation has at its highest priority and does review on a regular basis and makes decisions accordingly. Those are documentation, and that is information that is used by the board of directors and by the corporation to chart its plans and to prioritize the initiative that it is undertaking which ultimately are public documents done through the plans that are submitted to the PUB.

Mrs. Mitchelson: Well, thanks very much, but maybe I could ask the chair of the board, then, Mr. Schroeder, whether he has seen the documentation. Obviously, the minister has said that those kinds of

risk analyses are done on an ongoing basis and that they are shared with the board and that helps the board to make their decisions. Has the chair seen those kinds of analyses, and was there anything in those analyses that would have made the board determine that an east side option was out and a west side option might be a better option or alternative?

Mr. Vic Schroeder (Chairman, Manitoba Hydro-Electric Board): Yes, we have seen this type of material, and quite clearly there is a certain amount of risk. When we are looking at risk, we are also looking at market risk. The member is probably aware of what has happened with the project in Québec which did not proceed and resulted immediately—it was stopped by people like NRDC. It resulted immediately in a natural gas thermal plant in New York, wiping out an export. So the export issue is significant. We also have to recognize when we look at east side and west side that there are organizations out there, fairly strong organizations, who have targeted not the west side but very specifically the east side, and we would expect that any attempt along the east side would have resulted in very substantial public outcries, potentially long regulatory delays and, quite frankly, we also hear what the—we do not own the land. We need to get from the generating stations down here. We need to do it as quickly as we can. We believe that it is prudent for Hydro to take a good solid look at what the alternatives are, and that is what we have asked the management at Manitoba Hydro to do.

Mrs. Mitchelson: I guess some of the issues that were raised around the east side problems, or challenges, I guess, do we have any indication that a west side option might present less challenges?

Mr. Schroeder: Certainly, the indications we have are precisely that. That is, there are organizations which have targeted the east side as being where they anticipated one of their next North American struggles would be. You will appreciate that, from our perspective, security is important.

* (16:00)

We are also concerned about prices. The price the consumer pays in Manitoba is subsidized by our exports. That export market is very, very important, and there are players who are competitors who are outside of our borders who certainly are keeping a close eye. We are looking specifically at people in the coal industry.

Mrs. Mitchelson: I guess, when we are talking about transmission lines, I think the announcement about the Ontario deal that was just a few weeks back, I am just wondering whether I could have some clarification. What was signed was a memorandum of understanding, I believe. So are there any firm sales, or does the memorandum of understanding, I would believe, just set out some of the parameters for negotiation. So are the negotiations then just beginning on the first phase, or is there any firm sale at this point?

Mr. Brennan: We believe we have a firm sale for phase 1. It is a memorandum of understanding, but it sets out all the terms and conditions under which a sale would take place.

Mrs. Mitchelson: Has the price of the power sale been determined?

Mr. Brennan: Yes.

Mrs. Mitchelson: So, then, if I can understand, we have basically a deal signed that sells 150 megawatts of power to Ontario starting in 2006? I am just going back to the announcement and you can correct me if I am wrong? Then there will be upgrades required to the existing lines from 2006 to 2009 to meet the requirements of the first phase, am I correct?

Mr. Brennan: It is a six-year agreement. In 2009, we will up the sale to 400 megawatts. Then we will have the capacity to input or export 400 megawatts of power through that transmission line. That upgrading to the transmission line, I believe, will be very, very important to both sides and is not included in the benefits of the sale.

Mrs. Mitchelson: Thank you very much. Then that leads me to the question of who will pay for the upgrades to the line? Is there cost-sharing and has that been negotiated into the agreement?

Mr. Brennan: Yes, it has been agreed as to how the cost in each system will be paid for.

Mr. Chomiak: Insofar as the members working into the terms of the agreement, and certainly we are prepared to make as much information public as possible, but there are some third-party interests that are still at play with respect to both the short-term deal and the potential long-term deal. So, other than general discussion, I do not want to go too far. The member can read through what I am saying.

Mrs. Mitchelson: Yes, thanks, absolutely. But I guess I am just wondering, the \$500-million deal, is that for the first phase; or that is the six-year, 500?

So that is what we should anticipate generating in profit export sales from the sale to Ontario?

Mr. Brennan: That would be the revenue we would obtain from the sale and that is bottom end of the range.

Mr. Chomiak: Yes, I was just pointing out to the member that it is a conservative estimate of the revenue.

Mrs. Mitchelson: Thank you. That is not yearly; that is over the six years we are looking at realizing \$500 million?

Mr. Brennan: That is correct.

Mrs. Mitchelson: My understanding is that there is going to be some cost-sharing of the upgrades to the line. What is the cost, and can you indicate what the, and it does not have to be the exact cost, but what are we looking at in cost to upgrade, and what would be the cost-splitting formula?

Mr. Brennan: Depending on the option, we look at to upgrade. The costs are very close to the same for both the systems.

Mrs. Mitchelson: I had heard that the cost will be somewhere between \$120 million and \$160 million. Now, I am not sure whether that is for each side or both. Am I in the ball park?

Mr. Brennan: You appear to be in the ball park.

Mrs. Mitchelson: And would that, then, be the cost to Manitoba and a similar cost to Ontario, or is that the combined cost of the upgrade to the system?

Mr. Brennan: You were in the ball park with the combined cost.

Mrs. Mitchelson: So that cost, then, is not factored into the \$500-million deal that we are talking about. It would cost us, then, approximately \$80 million, and that has not been factored into the \$500 million. So there is a cost to us.

Mr. Brennan: You are talking two different items. One is a conservative estimate of \$500 million for six years; the other cost is a cost that is going to be upgrading a transmission line that is going to last for 50 years at least. So it is not a comparison. In addition to that, we are hopeful of some benefits through the federal government, but that has not been finalized.

Mrs. Mitchelson: I think I probably will answer my own question when I ask you this: Does there need to be any sort of an environmental assessment of the

upgrades? I would think there probably is not, but I might be wrong.

Mr. Brennan: In a lot of cases, it means putting in equipment with the existing transmission. The biggest cost we have is equipment costs. So that is in a substation, you plop down another expensive piece of equipment. That is a chartered accountant's way of describing it.

Mrs. Mitchelson: So, then, my question, there really is not any need, then, if it is just new equipment, for an environmental assessment on the upgrade.

Mr. Brennan: There would appear not.

Mrs. Mitchelson: Then, when we move to phase two, and I guess that is after the six-year period, which takes us to 2009, 2010, I guess, is when, well, I mean, there is no way we would have Conawapa up and running by that date so, then, we would just continue to look at the 400 megawatt sale until Conawapa came on stream?

Mr. Brennan: It would be a function of how much power we had available as to what we could sell, and some of it will be what happens to our demand-side management program, whether that is successful. We do have it factored into our load forecast and our generation sequence, but it will be a whole consequence of all those things. The output from Wuskwatim will be considered as well. Whatever we have available to sell, we now have another market to sell it in, up to 400-megawatts, so it will make our whole system a little more competitive.

Mrs. Mitchelson: I do not believe you could probably disclose today what we are selling the power to Ontario for, but I guess I was wondering whether there would be anything that would be built into the agreement to assure us, as Manitobans, that we are not selling cheap electricity to Ontario so that they can, in turn, export it from Ontario at a profit. Is there anything built into the agreement that prevents that from happening, because that is a concern. It is an issue. When we look at what happened with Labrador and Québec, Labrador was the loser in that deal, so I just want to make sure that Manitobans are not losers in this deal. So do we have anything that might be built into that agreement that would protect Manitobans from being gouged, I guess, in that way?

* (16:10)

Mr. Brennan: It is pretty hard for Ontario, with their prices of power, to gouge anybody. We think it is fair for the consumers in Manitoba. Certainly there

are escalators that we are happy with, and the like. It is a six-year agreement, so we are confident that we have a good deal.

Mrs. Mitchelson: But I guess I just want to make sure that it is the best deal for Manitoba, not just a good deal. So I guess my question becomes—again, I just want to be clear on this—will there be anything in the deal that will prohibit Ontario from selling the power that we give them at a certain cost for a higher cost and having them make a profit from our electricity. I would just like an answer to see whether, in fact, that can be built in or could be built into the agreement to protect Manitobans.

Mr. Chomiak: Madam Chairperson, the agreement has been several years in its making and has gone through considerable discussion with respect to the provisions for both sides. I think, generally, all sides in the transaction are confident that it is in the best interests of both jurisdictions.

In fact, when one factors in the federal government's initiatives vis-à-vis climate change in Kyoto with respect to meeting targets and the fact that it would be the single biggest greenhouse gas eliminator of any project in the country, all of those factors combine to make the deal one that is favourable to both parties.

Mr. Hawranik: I refer back to the \$500-million, six-year agreement with Ontario. I note that it is over six years. Are there any export contracts that Manitoba Hydro has existing today, supply contracts that will expire within those six years?

Mr. Brennan: There is no major one expiring in that period of time. The main, larger contract is a contract with NSP that goes out to 2015, I think. That is a larger one. It is a 500-megawatt sale on prime time. We have some diversity arrangements. All the other ones are smaller. But there probably are some that would expire.

Mr. Chomiak: Again, I do not want to restrict information, but we are in the process of finalizing the agreement for the first phase and negotiating the second phase of the Ontario sale. I am not certain if we want to, in this forum, discuss contracted volumes, et cetera, under the circumstances of negotiations.

Mrs. Mitchelson: Just one other quick question on this. Will there be anything in the second phase, and I know you have not started to negotiate the second phase. I mean, you probably have had some

discussions, but I am not sure if we are into anything final.

Is there any consideration being given to having Ontario share any of the costs for the construction of the Conawapa dam, or will that be built into the price of the sales, or can it be built into the sale price to Ontario? It looks to me like I have three different numbers. I think Hydro said it was what, about \$5.9 billion? The *Free Press* has said \$8 billion. Now I do not know if that was including transmission lines, but we are looking at a significant cost and a significant increased debt to the province of Manitoba. I am just wondering if there is any way if Conawapa is being built for export sales, if Ontario is going to be the major benefactor of those export sales, is there any indication on whether anything might be negotiated on some cost sharing of the capital costs of the dam?

Mr. Chomiak: Madam Chairperson, overall, in terms of the electrical generation system, it appears in the future that it is going to be more of a seller's market. It is going to be more advantageous to Manitoba Hydro, and there will be numerous entities and numerous organizations competing for power, be it in the short term or the medium term. That being said, it is obvious Manitoba Hydro and the Province of Manitoba have to look at the cost-benefit ratio as well as the involvement of the federal government and a national perspective, in terms of the advantages to security and transmission from an east-to-west link, as well as the diversity of supply if, for example, an east-west link were to be put in place, that would allow for the transmission both ways, east and west as well as north and south, which we presently have quite a bit of capability on.

So the negotiations are fairly sophisticated on the part of the planners both at Hydro and on the Ontario side, and I think that the benefits and the cost ratios are still being determined. Suffice to say that Manitoba Hydro will not sign on the bottom line unless we feel that it is a significant benefit to the ratepayers and the taxpayers of Manitoba. I think, similarly for Ontario. I think we should not disregard the issue of Kyoto credits and other environmental concerns that fit into the overall deal. That is a long way of saying that we are in negotiations with them on a long-term deal which they are looking at, actually, 3000 potential megawatts of power, and we are considering that with them at the time, right now.

Mrs. Mitchelson: Manitoba Hydro has applied to the Public Utilities Board, and I think I saw a notice in the paper this weekend for a 2.5 percent increase

in rates effective April 1, 2006, and another 2.5, April 1, 2007. Am I correct in that assumption?

Mr. Chomiak: If the member would have looked back to the previous sittings of the standing committee, it was indicated the last time the committee met that, as a matter of course, Hydro would be applying every year for, I call it a marker, in terms of rate increases with respect to years going out. I believe in the last sitting of this committee, it was indicated that Hydro would be applying in '04, '05, '06, '07, '08, '09, '10, et cetera. So that is a matter, of course, and if the member looks, it is specifically cited in Hansard debate.

* (16:20)

Mrs. Mitchelson: I believe that in their forecasting, Hydro has always, even when there has been no application to the Public Utilities Board for a rate increase, when Hydro projects out, they have always projected that there would be an increase in many, many years. There was no increase submitted to the Public Utilities Board because there was no requirement. Am I not correct in that statement, Mr. Brennan?

Mr. Brennan: You are correct.

Mrs. Mitchelson: So, in the long-range forecast, there always has been a notional allocation, but it has not always been applied for. But, obviously, given that Hydro has gone forward to the Public Utilities Board, and I know that they forewent the 2.25, I think, that was agreed to at the Public Utilities Board, or recommended the last time they went back, but now are going for 2.5 percent effective April 1.

If we are looking at those kinds of increases, we are looking at 1 percent is approximately \$10 million. So 2.5 would be \$25 million this April in additional revenue to Manitoba Hydro and another \$25 million on April 1 of 2007. So we are looking at a \$50-million increase in revenue and increase in domestic Hydro rates at the same time as we are looking at taking money out of Manitoba Hydro's coffers and cross-subsidizing into natural gas through legislation that has been introduced

I want to ask the minister where in the Public Utilities Board ruling did he get the language that he has put into his preamble to the legislation that says, "and WHEREAS the Public Utilities Board has encouraged—"

Madam Chairperson: Mrs. Mitchelson, I want to advise the committee that questions regarding the

content of Bill 11, The Winter Heating Cost Control Act, which is currently before the House, would best be addressed during the standing committee meeting considering that bill. The focus of the current discussion should be on the content of the three Hydro annual reports before us today. Thank you.

Mrs. Mitchelson: Well, thank you very much, Madam Chair. I guess it is unfortunate that we cannot discuss this here. Maybe I can just comment, rather than asking questions because nowhere—

Madam Chairperson: Mrs. Mitchelson, if you want, you can request leave from the committee. If you gain leave from the committee, then we can go ahead and proceed with that.

Mrs. Mitchelson: Can I ask the leave of the committee to ask a few questions on the legislation?

Madam Chairperson: Is there leave from the committee to ask questions on the legislation which would normally be considered at the time that that went to committee? Is there leave to consider that at this time?

Some Honourable Members: Leave.

Madam Chairperson: Leave has been granted. Please proceed, Mrs. Mitchelson.

Mrs. Mitchelson: Thank you, Madam Chair. I will just go back to asking the minister then. It says here "WHEREAS the Public Utilities Board has encouraged Manitoba Hydro to explore the possibility of using its electricity export revenues to fund programs that encourage consumers to reduce their levels and patterns of energy consumption."

Where in the report does it say that Hydro should use its electricity export revenues for this purpose? I thought I heard Mr. Brennan say earlier that there is no cash in the account and that any money that is generated does not sit around in cash within the corporation. So, in fact, where would we get the cash to set up a fund like the minister has talked about in this legislation?

Mr. Chomiak: Perhaps, this is fortunate because it allows me to correct the member in terms of some of the assertions that she has made in the House, and the Member for River Heights (Mr. Gerrard) as well, in terms of the interpretation of the legislation and, in fact, in terms of reading the PUB decision that was made. I did brief the member prior to the legislation being introduced and explained and indicated that I would point out within the ruling the references.

There are extensive references within the ruling with respect to going forward.

Now, it is very clear that the Public Utilities Board, and I think it was confirmed by a representative contrary to an assertion by the Member for Russell (Mr. Derkach) that, in fact, the spirit of the Public Utilities Board order had been reflected in the legislation that has been brought forward. The Public Utilities Board indicated that consumers were facing a rate spike of significant proportion. We are particularly concerned about low-income Manitobans and those Manitobans who are unable to switch over or to move into fuel efficiency with respect to the upcoming winter and cited in numerous pages, in terms of their ruling, concerns for consumers. As a consequence, they ordered Manitoba Hydro to limit the residential rate increases to 6.3 percent and then, as Mr. Brennan indicated this morning, allowed them to pass through somewhat higher rates of 12 percent to 17 percent for consumers to deal with the winter season. We subsequently determined that we would legislate and ensure that there was no rate spike occurring in February, which was the period of time that the PUB was quite concerned about, February 1, both for residential and for commercial accounts.

The Public Utilities Board indicated that the bill to do so for Hydro would be facilitated by two means: first, the positive hedging account that had occurred as a result of Manitoba Hydro's hedging program; and, secondly, the account balance with respect to Centra consumers. Based on those determinations, the government is introducing legislation in order to deal with the rate spike both this winter and next winter.

It also provides for a fund that is utilized by Hydro for Hydro from Hydro to deal with matters of energy efficiency, et cetera. I note that the federal government has set up, in the words of the Member for River Heights, quote, "a slush fund," to provide assistance to low-income earners with respect to winter prices, and we applaud the government for the setting up of that fund and would never use such words in public with respect to helping consumers deal with what is, in some cases, a necessity in our climate—not in some cases, in all cases a necessity in our climate—and that is dealing with spikes and historical highs for natural gas.

So the 99-page determination, I believe it is 99 pages, by the PUB, together with previous determinations by PUB and previous orders by PUB,

collectively have told Manitoba Hydro to beef up its DSM and energy efficiency programs and limit to the extent possible the spikes that are going to be received by consumers this year.

The member has already alluded to the fact that Manitoba Hydro, in addition, withdrew its October 2.25 percent rate increase. The PUB has ruled there will be no rate increase in terms of April 1 for electricity. The PUB, as I understand it, is going to review rates and related matters dealing with rates in the summertime.

Mrs. Mitchelson: So you are indicating that the PUB has already ruled that there would be no April 2006 increase of Manitoba Hydro rates. Is that fair to say?

Mr. Brennan: What the PUB did, they said that, before they would consider the rate increase, they wanted to do the cost service review first, the cost service study. We were proposing some major changes there, and they said that before we could even get to the rate—the rate increase would be in the summer, or, well, they said it would not be in the spring. It would be late spring or early fall.

Mrs. Mitchelson: I know in the Public Utilities Board ruling they indicated that there may be a business case for using electricity earnings in demand-side management. Has Hydro done an analysis or made a business case for that to happen? I know the Public Utilities Board was asking for a business case, and I guess my question would be was that analysis done. Is there a business case and has that been reported to the board and to government?

* (16:30)

Mr. Brennan: What we have done is we have put DSM money for gas customers right in our application for a rate increase. Our justification for doing that is, basically, based on the benefits to consumers. It means that all consumers are going to have to pay for individual consumers who take advantage of the program who are going to get the benefit, but we think it is worthwhile and it would appear that the Public Utilities Board does as well.

Mrs. Mitchelson: Madam Chairperson, so you can do that without legislation? I believe there was a program that was announced not too long ago that did provide support for natural gas home-owners to apply for a grant or subsidy to upgrade their facilities and you have done that without legislation.

Mr. Brennan: We did that particular one. There are some conservation efforts we would like to do for both electricity and gas customers that we do not think are the type of thing we would like all customers to bear; and, if that is the case, we need something to give us authority to do that. It is especially true in the case of trying to help people who are having a difficult time paying their bill for one reason or another. There are other conservation efforts as well.

Mrs. Mitchelson: Madam Chair, it would seem to me that those who are having difficulty paying their bills might be having difficulty paying their increased fees that this government has imposed upon them, whether it be driver's licence, vehicle registration, they have doubled that, I did not see any rate shock protection for low-income earners when the government made those significant changes. I did not see any rate shock protection when the government added 7 percent PST across the board to the old lady that lived in her house alone on a fixed income that had to pay an extra 7 percent because her hot water tank blew and she had to replace it and the government added a 7 percent increase to her bill. I did not see this government looking at supporting or doing anything for that woman who was on a fixed income. I did not see the government support or put anything in place to protect any person that had to pay an extra 7 percent when their will was probated.

I look at kinds of examples where this government has added cost and added user fees throughout government and did not put in place any protection. Now they have Manitoba Hydro who, rather than paying down the debt with their export revenues, which has always been the intent of export revenues, is now saying we will keep the debt high, artificially high, and siphon money out of Manitoba Hydro to cross-subsidize natural gas users.

Quite frankly, when you look at Hydro requesting a 5-percent increase in their rates over the next two years, and we look at cushioning rates for natural gas, and we saw Mr. Schreyer's comments in the paper, I think it was bang on, by the way. Quite frankly, if we are taking out of one pocket and putting into another pocket, the users are not going to benefit in any way. Their Hydro rates are going to be higher; their gas rates are going to be artificially low; and there is going to be no sense or feeling that they have to do anything to conserve on the natural gas side because we are artificially keeping their rates low. We have a situation here where we are robbing

Peter to pay Paul. You have got the same user seeing their Hydro rates go up while we are keeping their gas rates artificially low. This is bad public policy. It is bad for the long term for a renewable, clean energy resource, and it will come back to haunt this government. So I just wanted to put those few comments on the record.

I know the minister may have some comments, but I am prepared just to indicate to him that, in fact there are low-income individuals that need some protection from the fluctuation or the increase in natural gas rates, if the government so chose, they could look to their budget in March or April and look at increasing the threshold so that people on lower or fixed incomes do not have to pay as much income tax. Therefore, they might have money in their pockets.

Well, it is an option. I mean, if they truly wanted to deal with the issues surrounding low-income individuals, raise the income tax threshold. There is a way to do that within government without having hydro-electricity users subsidize natural gas prices. So I had to put those comments on the record.

I do know that, in the past when we had a truly independent Public Utilities Board, cross-subsidization was not in the cards. When we had a government, I know our government, and I know the board that was in place under our government, would never condone or support cross-subsidization. I think you will find that a lot of the consumer groups that are out there will take a very serious look at this because they are not interested in only the short term, they are interested in the long-term benefits for Manitoba. They will also be prepared to step up to the plate and make their views known.

So, anyway, I am sort of finished with my line of questioning on Hydro issues, but I do know that my colleagues have a few other questions on a few other issues.

Mr. Chomiak: Madam Chairperson, I thoroughly disagree both with the member's conclusion and some of her assumptions, which, I think, are inaccurate.

Quoting from the Public Utilities Board, I just want to note: "There are many winners and losers in the case of the current energy spike, and Manitoba Hydro's long-term export potential is but one and a relatively small winner at that. Producing provinces are enjoying massive lease sales, realty and corporate revenue, and corporations and investors are earning

large before and after tax gains. The federal government is also prospering from the situation, creating additional unexpected revenues that could be a source for the federal government's indications of coming assistance for low-income consumers. So there are many winners as a result of this situation, including oil and gas producing provinces and the federal government, and producing provinces and the federal government have been provided a ready source of new revenue to contemplate in offering assistance to consumers.

"On the other hand, net importing provinces such as Manitoba have experienced major rate shocks for one commodity after another and, as a result, the loss of internally generated provincial gross product to the producing provinces. Families note a reduction in truly disposable income, and with wages unable to keep up with the hyperinflation of energy costs along with the ramifications arising out of higher energy costs for hosts of goods and services, choices are made that are particularly difficult for low-income consumers."

Madam Chairperson, I think that the prudent decision has been made to allow for a two-year period of cushioning and rate spike to allow for Manitobans to adjust, not in the middle of winter, but to adjust to the changes that are occurring to determine whether or not, in fact, as most predictors indicate, gas and oil prices are going to stay high into the long term for Manitobans to adjust.

I had the honour today of announcing the EOI for wind power. We are producing ethanol. We are producing biodiesel. We are attempting to move and to assist in moving Manitobans to alternative forms. Hydro has been recognized as a leader in DSM, and Manitobans are smart enough to know what a resource they have in Hydro and to know they should and will conserve, and have conserved, and will assist in moving towards alternative forms of energy.

* (16:40)

The short-term solution in place is precisely the legislation that we have before the Chamber, to provide for short-term relief. As I indicated before, it is based primarily on the hedging policies and the customer account balances that are at a positive level right now and provide Manitobans who, going into a winter, now have very little opportunity to adjust to these "hyper-inflation rates," to quote the PUB.

Mr. Hawranik: I have a question with regard to Mr. Brennan. I take it that he could confirm that

Manitoba Hydro and Centra Gas do have, on occasion, contracts, advertising contracts and opinion poll contracts with private companies in Manitoba?

Mr. Brennan: That is correct.

Mr. Hawranik: Can Mr. Brennan indicate whether any of those contracts, whether it is advertising or public opinion poll contracts, were with Viewpoints?

Mr. Brennan: Viewpoints did some work for Centra Gas prior to our purchase and I think there was one small contract after. I am not sure if the work was done before or after. It seems to me the payment was after we purchased it. I think the amount was \$9,000. But I will have to get the exact details for you. So that would be the '99-2000 period.

Mr. Hawranik: Can Mr. Brennan indicate whether those contracts were on tender, or were they done just basically on a basis of a submission by Viewpoints to Manitoba Hydro or Centra Gas?

Mr. Brennan: I would have to check all the details. If I remember correctly, it was associated with work they had done with Centra Gas before the purchase, but I will have to get the details. I know it was a continuation of the same work.

Mr. Hawranik: Would you be able to provide details on a year-by-year basis from 1999 to date in terms of how much was spent with Viewpoints, both on the Manitoba Hydro side and Centra Gas side? On a year-by-year basis, would you be able to provide that information to me?

Mr. Brennan: We can do that for sure. I am almost positive the only one is that \$9,000 I am talking about though.

Mr. Hawranik: Okay, I have a couple of questions with respect to wind generation. I know he indicated that Manitoba Hydro has struck an agreement for 99 megawatts of wind power from a private company. Was there any Hydro money involved with respect to any of that capital investment or any ongoing expenses, ongoing support with that company?

Mr. Brennan: No, there is not.

Mr. Hawranik: What is the nature of that contract between the private-sector company and Manitoba Hydro? Is it simply a supply contract from the private company to Manitoba Hydro?

Mr. Brennan: Yes, it is.

Mr. Hawranik: Can Mr. Brennan indicate the terms of that supply contract in terms of what price

Manitoba Hydro is paying for that electricity that is generated through wind power?

Mr. Chomiak: We went down the same course of questioning during the Estimates debate that occurred recently with respect to cost and I would invoke third-party commercial confidentiality with respect to those particular issues.

Mr. David Faurschou (Portage la Prairie): Looking at the hour, it is getting short and perhaps maybe we can get into the short snappers here from myself.

I want to first begin, though, by saying that I am very proud to say about Manitoba Hydro and Manitoba that I believe that the corporation over the years has shown a progressive nature towards the business model as well as a very visionary look into the future needs to satisfy those needs.

As well, Manitoba Hydro is the envy of many electrical generation corporations, with the flexibility that hydro or dam and water power actually provide to the corporation so that you can generate when it is most cost-effective to generate, and it takes a long time to do a thermal electric or nuclear plant. You do not have that start-up and shut-down in a short time frame. But, having said that, though the headlines that were in *The Globe & Mail*, Drought threat looms over prairies, with the global warming which is noted in the recent report of *Nature*, that, coming off a \$428-million loss due primarily to the drought situation, I want to ask Hydro officials here today whether communication is taking place between Manitoba Hydro, the Department of Water Stewardship, the Department of Conservation in efforts to make absolutely certain that we do all that we can for water storage purposes in order to alleviate when the next drought does take place.

Mr. Schroeder: Actually, that very same article was passed around at our last board meeting last week, and certainly there is a concern, and we have asked officials from Manitoba Hydro to look at options in terms of getting a good understanding of what is happening in terms of our watersheds for our coming meeting in January of '06. Certainly, this is one of the long-term risks, and we believe that people internally have been working on these things prudently. I think Mr. Brennan wanted to—did you have anything to add?

Mr. Brennan: Yes, there is no doubt a concern. We seem to be getting warmer winters, and I guess most of our studies seem to indicate water will not be a

problem for us. Having said that, we are getting pretty big fluctuations. We have gone from a drought to now every reservoir being full. So it is an issue we have to stay totally on top of. We have to make sure that we do all our research, and we also make sure that we get as many external views to the corporation as possible, but it is something we are going to have to stay right on top of.

Mr. Faurschou: I appreciate the corporation is aware of what they are forecasting, but I know that there exist, within the Department of Conservation, very extensive storage locations of water throughout the province, and I hope that Manitoba Hydro has access to the Department of Conservation and their studies where the most cost-effective storage of water can take place and whether or not, looking at the long transmission lines, potentially in southern Manitoba, where small hydro-electrical generation could take place in more immediate proximity to consumption.

Mr. Brennan: We work very closely with the Department of Conservation and water resources generally. Our people are continually back and forth. One concern we have had in the past is that, where water goes through other provinces, there is a greater demand for the water within that province. There are treaties and there are limits as to what they can take, but some provinces have been taking more for various purposes, including irrigation and the like. So we have been watching the issue very, very closely, and with the hydro system, it is really, really important.

Mr. Faurschou: I appreciate Mr. Brennan recognizing that there are other consumers of water. That is a true concern of the industry as well as recreation, agriculture, all looking to see if we can store more water. I hope that Hydro has the communications with other departments that water is their primary need for their activity, agriculture being, certainly, in my background.

* (16:50)

Southern generation, I know the minister is looking at me. I have to mention the Holland No. 3 dam, which was brought forward by the Finance Minister at the time. Eugene Kostyra commissioned the study of where water could most feasibly be stored. The Holland No. 3 dam was identified. It had hydro generation capability, mind you, only of about 15 megawatts at the time, but the storage of water ultimately gives rise to opportunity further on the down the river system to generate more hydro. So I

will leave that with you, but I really and truly encourage, I think Hydro can show a leadership role in water conservation and water storage.

Wind power, you made an observation about wind power, other jurisdictions and how they are handling wind power to encourage more individuals, small corporations, to potentially generate power. I know that speaking to one jurisdiction and they said they actually had a zero base for their wind generation so as to encourage persons to invest in it, because when that wind generation came on-line, the corporation, hydro corporation or electricity corporation in that jurisdiction, whatever that power was dislodged, whether it was thermal generation, whether it was import or hydro generation, that is what was paid to the wind generation entity. I hope I am not losing you. So, if it dislodges importation, say, at 8.9 cents a kilowatt, then that is what the farmer with the wind generator would be receiving. If he was dislodging electrical generation with maybe only two cents, then he would only get two cents, but it was still something that encouraged more individuals and small corporations to get into the wind power generation.

Are you familiar with other jurisdictions and how they are encouraging more wind generation of a very environmentally friendly manner?

Mr. Chomiak: Just in general, I think I can indicate to the member that the expression of interest that was issued today had a specific mention in provision for smaller scale wind generation as part of the 1000-megawatt expression of interest today, so there was a component for small wind projects to be expressed through that process.

Mr. Faurshou: Just on a little different topic, the Trans-Canada Pipeline corporation has announced an almost \$2-billion conversion of some of their already existing pipeline to crude oil transmission. Will that involve the corporation having to supply some power to those compression stations that they are going to be constructing along the existing line, or are they still going to just use gas to use their compressors?

Mr. Brennan: Can I just go back to your wind question as well? We do have a policy right now that if an individual windmill wants to connect to our system and it is less than two megawatts we just allow the meter to run backwards, so the seller would get a really good rate. You know, farm rates for the most part are reasonably good, so it would be pretty attractive to them. We have not found all that many windmills that are attractive but, I guess, as the

technology keeps improving it is probably not that far away to get a really good one that work well. Now, there have been some farmers that have done it. They never seem to go for a long time, but they certainly try it.

Coming back to your other question about Trans-Canada, we do have a concern that they will convert from gas to electricity and we do have the concern that what we are doing is going to allow them to purchase electricity at a cheap rate and take away from our export sales and cost everybody a lot of money, so that is a concern. We talked about it at the meeting this morning and that is something we have to review, it really is. It is of concern to us.

Hon. Jon Gerrard (River Heights): It is my understanding that, from time to time, Manitoba Hydro has provided funds that would enable the Minister of Energy to hire a staffperson. Is that correct?

Mr. Chomiak: Madam Chairperson, insofar as the Member for River Heights, I believe, has made a formal inquiry to the Chief Electoral Officer in regard to this particular matter, I wonder if insofar as the member has taken that particular step and insofar as I am assuming there is a review of this particular situation, that we not be in a position to discuss these matters that are under review.

It just seems to make sense to me and to be prudent in that regard insofar as it is the member himself, I believe, who spawned the particular reference to the Chief Electoral Officer.

Mr. Gerrard: Well, the minister is correct that I have requested the Chief Electoral Officer to have a look at the situation. I would not have thought that that necessarily precluded asking the question here, but if the minister is determined to leave it in that forum, I will move on to some other questions.

My next question for Mr. Brennan is is there a formal agreement with regard to Conawapa between Manitoba and Ontario at this point, even, for example, for the initial plan to build Conawapa?

Mr. Brennan: No. As we mentioned earlier, at this point the only commitment we have is regarding the 400-megawatt sale, and we are continuing to discuss a larger sale that would trigger Conawapa?

Mr. Gerrard: I notice in the material that you presented that there were two options which would have transmission lines going through Ontario either to Thunder Bay or to Sudbury. Can Mr. Brennan

give us information about the status of investigation of those lines or the assessment of those possibilities?

Mr. Brennan: We are talking with Ontario as to what the preference is, and at this point both sides seem to have a preference but we are still talking about that.

Mr. Gerrard: Has any work been done in terms of the feasibility of either kind?

Mr. Brennan: The only three lines we have looked at are those three options that I presented to you.

Mr. Gerrard: There are interesting possibilities of in-stream turbines, I gather. Can Mr. Brennan give us some information in terms of how much power such turbines would generate, and what is the potential then in terms of electricity production from in-stream turbines that would not necessarily require dams, I gather?

Mr. Brennan: At this point, they are all very, very small units. This is a project where a professor at the university approached Manitoba Hydro with the support of some of our staff to get some research money to take a look at this concept. It is in the very, very preliminary stages, and we are not sure how it will materialize, but they are very small units.

Madam Chairperson: I have to, at this point, stop this, so I can put a couple of questions to the committee.

The first question is: Shall the Manitoba Hydro Annual Report for the year ended March 31, 2003, pass?

Some Honourable Members: No.

Madam Chairperson: The report is accordingly not passed.

Shall the Manitoba Hydro Annual Report for the year ended March 31, 2004, pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Madam Chairperson: The report is accordingly not passed.

Shall the Manitoba Hydro Annual Report for the year ended March 31, 2005, pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Madam Chairperson: The report is accordingly not passed.

The hour being five o'clock, what is the will of the committee?

Some Honourable Members: Committee rise.

Madam Chairperson: Committee rise.

COMMITTEE ROSE AT: 5 p.m.