

Third Session - Thirty-Ninth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Mr. Daryl Reid
Constituency of Transcona

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Monday, June 1, 2009

TIME – 6 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Daryl Reid (Transcona)

VICE-CHAIRPERSON – Mr. Bidhu Jha (Radisson)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Mr. Selinger, Hon. Ms. Wowchuk

Hon. Mr. Blaikie, Messrs. Borotsik, Cullen, Jha, Ms. Marcelino, Messrs. McFadyen, Reid, Mrs. Stefanson, Mr. Whitehead

APPEARING:

Mr. Kevin Lamoureux, MLA for Inkster

Mrs. Leanne Rowat, MLA for Minnedosa

Mrs. Mavis Taillieu, MLA for Morris

Mr. David Faurshou, MLA for Portage la Prairie

Mr. Bob Brennan, President and Chief Executive Officer, Manitoba Hydro

MATTERS UNDER CONSIDERATION:

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2005

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2006

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2007

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2008

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Mr. Chairperson: Order, please.

Will the Standing Committee on Crown Corporations please come to order.

This meeting has been called to consider the annual reports of the Manitoba Hydro-Electric Board for the fiscal years ending March 31, 2005;

March 31, 2006; March 31, 2007; and March 31, 2008.

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

Mr. Cliff Cullen (Turtle Mountain): Mr. Chair, I understand we're going to have a short presentation tonight, so we'll certainly appreciate that, and, hopefully, we can hit the high points and we'll have, hopefully, a relatively straightforward question-and-answer period, and, hopefully, we can get out of here by 9 o'clock.

Mr. Chairperson: It's been suggested to the committee that we sit until nine this evening.

Hon. Rosann Wowchuk (Minister of Agriculture, Food and Rural Initiatives): I would suggest that we, at 8 o'clock, review how the process is going, and if we feel there is more time that we have to—that we should revisit at 8 o'clock as to how long we should sit.

Mr. Chairperson: We have two proposals on the table now; one for 8 o'clock and a review and another one for 9.

What's the will of the committee? Any further comment?

Hon. Greg Selinger (Minister charged with the administration of The Manitoba Hydro Act): Perhaps we'll just take a pause at 8 and see how we're doing, and if we want to go to 9, we could consider it then. Is that all right?

Mr. Chairperson: Is it the will of the committee then, we'll, we'll sit until 8 p.m., and then we'll review at that point in time to see how the questions are going?

An Honourable Member: Yeah.

An Honourable Member: Agreed.

Mr. Chairperson: Okay, that's the will of the committee. Thank you.

Are there any suggestions on which order we wish to consider the reports as I've previously

mentioned? Does the committee wish to consider them in a global fashion?

Mr. Cullen: Yes, thank you, Mr. Chair; that would be great with us if we could just review them in a global fashion.

Mr. Chairperson: Is the committee agreed to reviewing the reports in a global fashion then?

Mr. Selinger: Yes, are there any intentions to pass any of the reports tonight? Because if that's okay—if you're saying you're going to pass one or two of them, then I'm okay with global. If it's going to be an issue, then we'll take 'em one year at a time. Yeah.

Mr. Cullen: It depends on the answers to questions.

An Honourable Member: Well, I need to know the spirit of the meeting, whether we're gonna just go everywhere for, for the whole night or whether we're going to try and get at least one or two of the reports out of the way.

Mr. Cullen: Well, certainly, it's been our intent over the, the last few years, since I've been here to, at least, attempt to a pass a—one report and then, then maybe two and, you know, if we're having a good, constructive question-and-answer, we may look more favourable at passing additional reports.

Mr. Selinger: All right. Then I'm comfortable with global then.

Mr. Chairperson: Then it seems to be the will of the committee that we'll consider the reports in a global fashion.

Does the honourable Minister responsible for Manitoba Hydro wish to make an opening statement, and would you also please introduce your officials.

Mr. Selinger: Yes, because we have presentation, I propose to dispense with an opening statement, and I'd like to introduce the chairperson of the board, Vic Schroeder, and the CEO and president, Bob Brennan.

Mr. Chairperson: We thank the honourable minister. Does the critic for the official opposition have an opening statement?

Mr. Cullen: No. Thank you, Mr. Chair, we'll also looking forward to looking at the presentation, and we'll follow up with questions from there.

Mr. Chairperson: Thank the honourable member.

Do the representatives, Hydro, wish to make an opening statement or do you wish to do that via your PowerPoint presentation here this evening?

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): We can do it through the presentation.

Mr. Chairperson: It's been suggested that there be no opening statement from Manitoba Hydro other than the PowerPoint presentation, but I need to ask the committee: is it the will of the committee to have a PowerPoint presentation as a part of the proceedings here this evening?

An Honourable Member: Agreed.

Mr. Chairperson: Agreed? Thank you.

You may proceed, Mr. Brennan.

Mr. Brennan: You can ask questions as you go or whatever you want. It, it doesn't really matter. If, if it's going to be answered in another slide, I'll just mention it, so.

This is an outline of the presentation. I, I think it covers most issues that I think you might have. So that was the intent, in any event.

A little bit—and I took it right up to March 31 of 2009, even though the last annual report that we've issued is 2008. So it takes us right pretty well up to date.

As you're aware, Manitoba Hydro is a integrated electric and natural gas service provider. We've actually, since the purchase of Centra Gas, their, their operation is totally melded with the rest of the electricity operation within Manitoba Hydro.

We have \$12 billion of assets at original cost, and we are one of the largest energy utilities in Canada. We're a little further down the list since Ontario Hydro's divided theirs up. We have generating capability of about 5,500 megawatts. We have approximately 6,000 employees, 527,000—

An Honourable Member: They want you to speak up, so they can hear clearly.

*(18:10)

Mr. Brennan: Okay.

We have 527,000 electricity customers and 263,000 natural gas customers. We export to over 30 wholesale electric customers, the majority of which are in the United States. Our electricity rates are pretty well the lowest in North America.

Our projected results—these are not final at this point, but they should be pretty close. Our total revenues will be \$2.35 billion of which 1.775 is

electricity and 575 million in natural gas and our extra provincial sales are 620 million.

So our net revenue from domestic customers within the province is about 1.1 billion.

Our net income will approximate \$300 million, and our retained earnings are now up to \$2.12 billion, and we've now reached our debt-equity target with this year's net income.

This is a schematic that shows the generating stations within the province, including the gas combustion turbine in Brandon, the coal plant in Brandon and the, the gas-fired thermal plant in Selkirk.

It also shows the inner connections into Saskatchewan, into Ontario, and, and into the United States. The ones in the Canadian provinces are under very favourable conditions for the most part.

It also shows the DC line coming down from the north between the two major lakes.

One other thing, I should mention, is that you can see that 81 percent of the power comes out of the Nelson River. So the DC line is really, really important to us.

A little bit about our hydraulic generating capability. You can see that, in the last few years, we've had pretty good water conditions and, consequently, that results in high hydraulic generation. And that's good for the bottom line, of course.

You can also see the drought we experienced in 2004.

Some financial considerations. This is a graph that shows our history or our actual results for the last 10 years—a projection for the current year, which is March 31, 2009, and then a projection into the future. This is—all includes a forecasted rate increase of 2.9 percent every year, and it also includes the export sales to the extent there, there is some and which is just at the very end of the—you know, some firm export sales that I'll talk about in, in a minute or two. And it includes our—any capital expenditures that come into service near the end of that period of time.

This is a net extra provincial sales so it has net of fuel and power purchases and water rentals. And it pretty well follows the line of our net income.

This is a graph that shows our actual capital expenditures, and as you can see, it reflects the

capital expenditures associated with some new major generation which includes Wuskwatim, Keeyask, as well as Conawapa, the early stages of Conawapa. And it also includes the expenditures associated, associated with Bipole III.

This is our financial targets, I—we've recently reviewed them, and we've made some changes to them. Inasmuch as we have reached a, a debt-equity target of 75:25, and we reached it before our target which we had planned to achieve a couple of years from now. We would prefer to say rather than to make it, we'd like to maintain it.

As you'll see in the graphs in a few minutes, that the forecast indicates we could be modestly below it. So the challenge will be management to bring it in in line with what our targets are.

Our interest coverage remains the same of 1.2. So, we had to make sure our interest is covered at least 1.2 times and capital coverage means generating enough money internally to take a—take care of our capital expenditures with the exception of major new generation and transmission.

That used to be 1.0 and we increased it to 1.2. So our profits are going to have to be higher to make sure we get to that level.

Here's a forecast of what our equity ratio has been in the past. It shows us in 2009 getting there, and as you can see, as we bring in new generation near the end of the forecast, we're below the 75:25. So the challenge will be on management to do something to make sure that we hit that target.

This is a graph of our retained earnings and, as you can see by the end of the forecast, we reach \$4 billion—I guess in excess of \$4 billion.

The interest coverage ratio, based on the forecast we have now, shouldn't be all that hard to achieve. There's a couple of years that we're below it, but if we make our debt equity ratio and maintain that, we'll, I think, take care of this okay.

Some industry comparison: This is a graph that was made up by Edison Electric Institute for the most part, and it's a graph that compares the outage duration in terms of minutes and compares that to the average costs. Manitoba Hydro, being the lowest on the graph, both in terms of outages as well as cost, is a pretty good performance indicator for us. Manitoba Hydro has a lot of customers that are outside the major urban centres, and to maintain that, where the chance of outages are high, is a pretty good feat.

We're not supposed to talk about some of the other ones that are close to us, but the ones that—the one that's closest to us is a hydraulic utility in western Canada. The other one is a prairie province and Alberta won't disclose their information, their investor-owned utilities. So it's not too hard to figure out who they are.

Mr. Hugh McFadyen (Leader of the Official Opposition): Mr. Brennan has indicated that we could ask questions as we go along. I'm just—out of curiosity now that you've raised it, can you disclose who that is way over on the right side there?

Mr. Brennan: We're not supposed to disclose it, but they provide power to my cottage.

Some Honourable Members: Oh, oh.

An Honourable Member: Where's your cottage?

Mr. Brennan: If my cottage was in—it's on the same lake that the Premier's (Mr. Doer) is.

If the cottage was in Manitoba, the bill for the cottage would be 46 percent of what it is. I like recalculating my bill.

This is a graph that compares our rate—you know, I think the source is wrong here. Well, maybe not, maybe not. This is from the U.S. Department of Energy and Edison Electric, and it just compares the 10 lowest provinces or states. When you get the 10 highest on there, they're not even in the chart—like they're way up.

This is one chart that's made up by Manitoba Hydro, and it's for a thousand kilowatt hours. The three lowest there are always relatively close. I wouldn't think very much either in the timing of a rate increase or something like that for them to get quite close. But, as you go from there, the rest are quite a bit higher, and Ontario's not even on this one. Oh, yes, Toronto is. So, almost double, 2,000 kilowatt hours.

Because our rates are low, the more you use the more the gap becomes. Most of the other ones have a higher run-off rate as well, and that's something we're working toward, is trying to get the run-off rate higher, but we want to do it without impacting our customers very much.

* (18:20)

This is a commercial account. This would be a store in a strip mall, that sort of thing, 10,000 kilowatt hours.

This is a large industrial customer, and it would be a customer within the top five largest customers on our system, 31 million kilowatt hours a month is a pretty good-sized bill and, as you can see, it's almost a million dollars a month. That is in thousands of dollars.

You can also see the comparative advantage we have to Ontario.

A little bit about the Affordable Energy Fund. That was Bill 11 that was approved by the Legislature. We established a fund of \$35 million, which works out to approximately 6 percent of our gross extra-provincial revenue in the year 2006-07. The purpose of the fund as set out in the act was to encourage energy efficiency and conservation, basically in areas that Manitoba Hydro didn't think our act allowed us to do, and our main emphasis was to do more for low income people. Management wanted that, and I think everybody pretty well wanted us to see what we could do, including the Public Utilities Board. Wanted us to encourage the use of alternate energy sources, including earth energy, which is geothermal, and facilitate research and development of alternate energy services.

This is how we allocated that \$35 million, and we allocated interest to it as well on the unspent money, and so, as of last year, we had an extra million to spend as a result of that. We committed \$25 million of it and spent \$3 million. Most of the fund goes in the next two years.

Energy intensive industries. We talked about this at the last committee meeting. This is an example of what a hundred megawatts, which is a very large load, would do to Manitoba Hydro if it was added to our system. We would pick up \$22 million in new revenue. We'd lose \$40 million from the export sales and net costing all the ratepayers \$18 million, which works out to a 1.7 percent rate increase. As a result of that, we, I think, Manitoba Hydro was concerned. The Public Utilities Board was concerned, so we devised a new rate that would allow for growth within the province, but at the same time, make sure that we didn't have big rate increases as a result of new loads coming on our system.

We developed this rate and took it before the—and our idea was to try to get this new rate to be reflective of our marginal cost. So, as a result of looking at everything, we made the application to the Public Utilities Board in December 2008, and as of yet they haven't come up with a ruling. They've had

the hearing and we're just waiting for something to come out.

This is what the actual rates would be if you got above our projected baseline that provided for reasonable growth.

A little bit about export marketing. Manitoba Hydro is able to sell at market prices all that we can generate subject to our tie line limitations. In other words, at peak times when we'd like to sell it all, we can't because tie lines won't take it all. This is a portion of provincial generation that's exported to the U.S., and it compares us with Ontario, Québec and British Columbia, and you see that Manitoba Hydro is by far expressed as a percentage of generation. We're the largest exporter based on the size of our system. If you go in real dollars, some years we have been the largest exporter in actual dollars as well.

This is a graph that shows what's going to happen to our export sales if we don't build a new plant. The black line going across starting at 8 billion kilowatt hours a year is our transmission capability. It goes up because of an upgrade to the line between us and—it was originally, it's now an American transmission line that's opened to everybody, but it was a, a Northern States Power transmission line, and then we also had another upgrade which was another line between Glenboro and Harvey, North Dakota. That was a smaller line. And, of course, the proposed line of 1,500 megawatts that'll be built by us in Canada and by Wisconsin Public Service and Minnesota Power of 1,500 megawatts.

You can see the, the average energy coming out, based on average flows, based on the addition of a new plant to the system. It also includes, based on the way we operate the system, knowing that a new plant is coming into, into service. You can see that, even with Keeyask in service, we don't have enough energy to keep the tie lines filled under average flows, and with Conawapa, we have a surplus. It does suggest putting the exports I showed on the graph earlier. You can also see that the hydraulic utilities, with the exception of Ontario, that continually buys and sells into a pretty expensive market. They are continually buying and selling and trying to make a buck off it. But it was only two or three years ago that Ontario had the, the lack of power and they're telling people to take their air conditioners off, so.

Potential sales from—I guess these are more than potential sales, inasmuch as we have three term sheets that have been signed with NSB, Minnesota

Power and Wisconsin, and we did them one, one rate year after year, starting with, in 2006.

Xcel is for a different type of a product than we sold them before. We got a firm sale for 375, that edges up to 500, for a 10-year period starting in 2015. And then we have a diversity sale of 350 megawatts that starts in 2015. A diversity sale is one which we can sell to them when they need it and we can buy it back in the winter when we need it. Their regulator, it was actually legislation, as a result of legis—or regulating, regulator hearings, to take a look at some of the other forms of energy that was important to the state: DSM, renewable energy, things like wind and burning garbage, and the like. After they went through that exercise and they looked at what they were going to have to do to their system, they came back and wanted to continue to work out an agreement with us on the previously approved sale.

Minnesota Power, they have two sales as well. They have an energy sale, which is quite good for Manitoba Hydro. An energy sale means that over a fixed period of time, in this particular situation is 2008 to 2022, we can sell them 3.3 billion kilowatt hours of energy when we have, when we have the energy. So if we have a low-flow situation, we can't sell it, we don't have to, as long as by the end of the period, we sell them the 3.—or offer them the 3.3. The—we also have a system-participation sale, which is a firm sale for 250 megawatts. We have to build a new line of 1,500 megawatts, as well as we have to build a plant to make the sale.

Wisconsin, it's a 500-megawatt sale and, once again, it's the same conditions. Minnesota Power, Wisconsin, Public Service and Manitoba Hydro will be involved in the operation of the line.

*(18:30)

Ontario, we've been talking to, off and on, certainly, we talk with them continually. They're—at different times, they have different needs for different types of products and they have had a big drop in their load in northwestern Ontario. They've lost a lot of load to chemical companies, some of which I would like to relocate in Manitoba, and pulp and paper companies they've lost as well. And so they have a surplus in northwestern Ontario.

There's a limited amount of transmission capability between northwestern Ontario and southern Ontario, but they continue to look at surplus sales we have. We continue to sell power to them at

the present time, and I think their efforts are probably being looked at at nuclear, but certainly we can't meet their entire requirements so they look at us as an opportunity to help them if, in fact, all the conditions work out well for them. I think there'll always be a market for us. What we need is more transmission that would take us into the part of Ontario where the markets are more expensive—not northwestern Ontario, but southern Ontario.

Saskatchewan. Saskatchewan traditionally has not bought a lot of power from Manitoba Hydro. They have various reasons for that, but they now have a pretty large requirement by 2030. Their need is 3,000 megawatts which is almost their entire capacity right now, so, within 20 years, they got a pretty big problem, so they talk to us about surplus power for the short term and in the longer term, a firm sale out of—they know we've now committed a good part of Conawapa and Keeyask. Conawapa still has some firm that we can sell 'em.

Mr. Kevin Lamoureux (Inkster): I just have a question, Mr. Chair, in regards to the report. I appreciate the report and it's a very detailed report. Is it the intention of the committee to have the entire report presentation or is there—when would we be starting with questions? Just to get a sense of that.

Mr. Chairperson: At the beginning of the proceedings, the Chair asked committee members about proceeding with the PowerPoint presentation and the committee agreed to let the PowerPoint position—presentation—be part of the proceedings this evening and so I'm assuming that we're going to work our way through it and, at that point in time, Mr. Brennan has already indicated to committee members that we could stop the proceedings to allow any questions that might come to members, to the minds of committee members present here this evening. So at any time, you can ask your questions if you have such relating to the presentation or any other matter relating to the Hydro reports before us this evening.

Mr. Lamoureux: I'm just thinking that we're, I think, on page 20 of 48 pages, and in order to ensure that we get—maximize number of questions, the beginning was a very good outline Manitoba Hydro, but I don't know in terms of the benefits of having it continue through the details. Members can read the report as presented by Manitoba Hydro, and we can maybe get into questions and answers. My concern is that there's things that I would like to see dialogue on, the bipole, the construction, and so forth, and I

don't think that's in the latter parts of the report per se. So I'm just o—making the suggestion that if we can abbreviate the presentation so that we can get into questions and answers.

Mr. Brennan: I'll try to go as fast as I can too, but you know, the presentation is designed to take care of any of the issues such as Bipole III, new construction. All that should be covered.

Mr. Chairperson: Please proceed, Mr. Brennan.

Mr. Brennan: Now, I will try to go faster as well. Bipole III is the next one. As we all know, we need this line really, really extensively for reliability purposes and, as a result of the sale, we now need it to take power out with Keeyask and Conawapa. There's loss reduction benefits that will accrue to us as a result of the line, and we'll also have some conversion equipment that will help the reliability of the system as well.

The northern converters will be near Conawapa; the southern converters at Riel, with the line routed west of Lake Winnipegosis and Lake Manitoba. We've had, there's four series of consultations that are going to take place, two of which, the second of which is almost complete now.

We've reviewed—this is about the underwater proposal. We've reviewed Mr. Ryan's proposal quite, quite extensively. Mr. Ryan did an awful lot of work, even in reviewing it with us and certainly there are concerns ab—from Manitoba Hydro. We had external consultants look at it. The end of the day, it was really hard for—there's some major risks in it at this point in time for Manitoba Hydro to just take. We'd like to look at it through an extended period of time. Our, our risks are associated with timing; we're not sure if we could even get it built and the product manufactured and everything in time, even if it was feasible, and there still would be large reliability risks associated with it.

Mr. Ryan proposed a pretty unique way of transporting the cable and there are some issues associated with that, and we're looking at, at various ways of potentially getting around that. If, if we did it in the traditional way, there'd be too many splices to really make the, the whole exercise feasible. What we're proposing to do is work and study this in greater detail. I think if we study it well, this could be something. But certainly if it's a, it turns out to be feasible, it'd be a real boon to everybody, including most utilities that have a need to go underwater anywhere. So, we certainly want to look at it in more

detail, and we're going to get the help of Mr. Ryan as well. I've said that.

Another item that is on the agenda, as a result of the two sales at, to Wisconsin and Minnesota Power, we're proposing to build a new 500-kV line to the United States which would really increase our transfer capability both ways.

New generation: all our plants are designed to minimize flooding and environmental impacts, so that means the unit cost is going to be much higher for the plants. We're not going to get the same amount of energy out of the plants either.

Our, we have left to develop 5,000 megawatts of power that's undeveloped. Some of this is cheaper than others and at the end of the day, some of it would be relatively expensive as compared to something like Conawapa. But having said that, we have an asset here that most other provinces don't have.

Under our sales scenario, we require Cona's-Keeyask in 2018 and Conawapa in 2021. Keeyask, the earliest we can build it is 2017, and Conawapa, 2021. Under a no-sales situation, Conawapa is the next plant to meet our own load.

These are the plants: we have Wuskwatim under way now at 200 megawatts; Gull, we've looked at and we feel we can get more capacity out of the plant, and it's 695; and Conawapa, before, it-this is not the net impact on our system, but the gross amount resulting from this plant is about 1,500 megawatts. We lose about 150 to 200 megawatts in the, the plant that's already in existence. This shows the approximate cost. This shows the projected in-service date and it also indicates the amount of flooding.

*(18:40)

In the case of Gull or Keeyask, the 46 square kilometres has, has been agreed to, and as a result of a signing last Friday, they've agreed to the partnership agreement, the joint development agreement that we've worked out with 'em, and they've also agreed to an adverse impact agreement as well. So they've agreed to both of those.

Wuskwatim is well under way. We've poured the first concrete now, and the first unit is, is expected to be in service in 2011. I think I've talked about most of this.

In the case of Keeyask, we starting the environmental field studies are under way now, and

we've started the entire environmental process and that's with the input of the four First Nations.

Some of the development opportunities for our Aboriginal communities: They've participated in project planning, including environmental issues. We've worked out partnerships with 'em on both plants that we have-proposing to build now, Wuskwatim and Keeyask.

We've worked out a preproject training program of which \$30 million of the \$60 million was put in by the federal government, 10 by the Province and 20 by Manitoba Hydro. This preproject training was allow the First Nation people to get jobs on the project itself as well as to get training that they can use to-for other work throughout the province or on their own reserve. We also have employment within Manitoba Hydro, and we also have various types of business contracts that we've agreed to help them with.

Little bit about Power Smart: Energy conservation in Manitoba is the most cost-effective alternative for meeting our demand. If we have an export market, that if we save a kilowatt hour here, we can sell it on the export market and for every type of customer, get a better rate than we do within the province. So, it's quite good. This wasn't always the situation at Manitoba, and at first we used to do energy conservation as a means of deferring new gener-generation transmission distribution. You know, if we saved a kilowatt hour, we didn't have to build it. Now, we have that saving as well as make a buck on it immediately.

We have a program for every type of customer in our system. In the last 18 years, we've really come up with some pretty good programs.

We've got an A-plus rating from the Canadian Energy Efficiency Alliance, and we've done quite well in the last three years with that particular group. We've won various awards for Power Smart, and some of the advertising we've done is associated with Power Smart. It's, it's generally resulted in lower electricity rates for Manitoba. I guess generally is not the right word; it has. It's reduced customer bills by more than \$275 million, which is certainly good for our customers, and it has the impact of lowering greenhouse gas emissions by the people we selling to not have to burn coal.

This just shows the number of participate-participants in DSM. This just shows that with the investment we're getting, what kind of a savings

we're getting back. This is the, the results of the saving, and just what impact they are.

We've also, through our residential loan program, and it made almost \$200 million in loans now.

Little bit about geothermal: Manitoba Hydro is the leader across the country in geothermal installations. We're way more than our share of the population as a whole, and the provincial installations in 2000 were—in 2008, resulted in net energy and savings of 5.8 gigawatt hours a year, and you see the natural gas savings as well in cubic metres and the savings in terms of CO₂ equivalents. I don't think I have to go through all these—pretty good. And once again, we got all kinds of awards for our geothermal.

A little bit about emerging energy technologies. This is the landfill gases that we're trying to capture and to have some good use for. Certainly, we think a good option is generating electricity from it. Another one is to pipe the gas to the university for just heating purposes, and the discussions are ongoing and the city has to come to a conclusion. This is another project that is to capture, harvest biomass in the marsh and to actually help remove excess nutrients before they go in the river. There's other ones; we're looking at other energy alternatives to diesel generators. I think we'd prefer doing something with a distribution line first, but that capital cost is pretty high. Plug-in hybrid vehicles are something we're testing as well; we have a unit, we sponsored a chair at the university, they have a unit, and then the province has now got one as well. I think we talked about the hydrogen generator at Dorsey. We installed one; we're using it to produce hydrogen for our own use within the plant.

Little bit about wind. As you know, we got 99 megawatts of wind in our system. It's been in there for four years. We got an offer out on 300 megawatts of wind. We decided that the successful applicant should be Babcock & Brown that we're dealing with. They have some financial issues that they're dealing with with their parent, and the North American operations have been sold, and it's going to be announced shortly who the purchaser is, and they expect us to finalize a contract with them in the immediate future.

We continue to work with Aboriginal people that have been affected by our operations and generally I think we're doing reasonably well. We have been having difficulty with Cross Lake, and we continue

to experience that, as does the Province of Manitoba and the Government of Canada. We're really quite proud of what we're doing with Aboriginal people in terms of getting them employed within Manitoba and having various relationships with them. Our staff and self are quite understanding of some of the issues they face, and we've had various ways of trying to increase the economic opportunities with these communities as a result of them working with Manitoba Hydro. The \$60-million program has resulted in an awful lot of training for various people.

At the corporate level, we have targets to have 15 percent of our overall work force Aboriginal and 43 percent of our work force in the north. Depending on the time of year, we can exceed 43 percent. If it's in the summer when we get summer employment and like, it goes up relatively high, but our target was established for March of 2009 and at that particular time we're at 14.7 percent at the corporate level and 42 percent in northern Manitoba.

Little bit about our new building: 700,000-square-foot building. Our target is a LEED gold. We think we can make that; we think we can be at the top end of that, and hopefully we'll really exceed that, but our target is for gold.

* (18:50)

Mrs. Leanne Rowat (Minnedosa): Mr. Chair, just a couple questions back. It took me a little while to get the Chair's attention. With regard to Aboriginal training, Mr. Brennan, you had talked about 42.1 percent in northern Manitoba as of March. And you also spoke to percentages differ—being different in the summer and in the winter months. Can you do a breakdown for me on the percentages for the summer months and the winter months, as of March 2009?

Mr. Brennan: I'm not sure I quite understood the question. That's not for training. That's for number of employees actually employed by Manitoba Hydro. So 14.7 percent of our work force, corporately, was Aboriginal and, in the north, it was 42—whatever that number was—42.7.

Mrs. Rowat: Just clarification, it was 42.1. In your prior comments you had made that that is, those numbers fluctuate in the summer and in the winter months, and I was asking if you would be able to provide a breakdown of that 42.1 percent for summer months and also for the winter months.

Mr. Brennan: Yeah, we, we can do it for last summer and what it would be, the 42.1 is at March of 2009, so we can do it for last summer, though. It, it'll be close to 45, if not higher.

Mr. Chairperson: Any further questions from committee, committee members? Mr. Brennan, please proceed, sir.

Mr. Brennan: Okay, we've increased the budget on the building from 258 to 278. We expect that number to be marginally exceeded. The, the people who are responsible for managing the construction of the building have that as their target. They're expected to get to 278, although I know that they're having difficulty with that and we'll probably overspend it by 1 percent to 2 percent.

We have 1,542 employees working in the building right now, and while that's going, while they're working there, there is the odd issue with the building and we still have construction workers working there, and there're some floors that are not finished as well. The floor I'm supposed to be working on is not complete.

I have pictures of the building.

A little bit about Natural Gas operations. We—I guess the biggest thing that's an issue right now is we have a rate hearing that's starting tomorrow, whereby they'll consider a 1 percent rate increase effective February the 1st of 2010 and a 1 percent increase effective May the 1st of 2010. This is on the, this is a 1 percent rate increase to—on the distribution component. It's 1 percent overall, but it's for distribution purposes.

This is a rate that shows the increases and decreases since November 2007, and we have four rate changes a year for the primary gas cost, which is the cost of natural gas plus transportation.

This slide just shows that—and the gas prices are down right now, they're at the lowest point—but 57 percent of the cost of, an individual pays for natural gas is the primary gas cost itself, with a 9 percent being the transportation costs. If gas prices were higher, that'd be—number overall would be higher, as well. So it would be a higher percentage of the total would be natural gas costs.

We introduced a fixed-rate option for the first time in 2009. The options were for a one-year, three-year or five-year program. We sold out the one-year program quite quickly and we're now looking at, we started off as a pilot, now we're going

to go into it on a complete program and we're looking at coming up with another one-year product, as well as another product for three and five years.

So thank you very much.

Mr. Chairperson: Thank you, Mr. Brennan, for the presentation here this evening. The floor is now open for questions from committee members.

Mr. Cullen: Thank you very much, Mr. Brennan, for your quite detailed presentation tonight, and thanks for the hard copies that we'll have a chance to peruse that in the future.

I do want to, I guess from the outset, just make mention of, of your staff. Certainly have a fairly high number of employees across the province, I think, doing a great job for—on behalf of Manitoba Hydro and behalf of the residents of Manitoba, so I certainly want to pass on our congratulations for all the hard work they do, you know, day after day.

In terms of your office building, in fact, we had an invitation to attend the tour and unfortunately my colleagues, it wasn't a very good day this morning for us so we're hoping to reschedule that open house someday in the near future so we do look forward to getting over there and have a look at the new building.

When you talk about a little, about the budget in here. It looks like you could be potentially over budget a little bit there. In lieu of that, was there anything that had to be cut back or scaled back in terms of the building itself?

Mr. Brennan: Yes, one major thing, as a matter of fact. Originally, when we were planning to put in two levels of parking, and when we started looking at just what would be required for the geothermal system, we found that the water level was, water table was very, very high under the building, and it wouldn't be the right thing or we'd have to incur an awful lot in the way of cost to ensure that we wouldn't have any water problems so we cut out one floor and that saved us some money.

Mr. Cullen: I suppose, though, when you do that, you're entering into some more problems in terms of parking space for employees. Has that issue been resolved?

Mr. Brennan: Well, we did provide for the 160 that we have in the building, and then we provided to, I think the number is close to 160 as well, under the old mail order building in City Place there. The basement of that was not utilized and we worked out

another 160 spots there. At the end of the day, between what we're providing and what we already had as a result of being downtown at the Centra Gas building, I think the number worked out to 137, something like that, new, or additional spots downtown were required. So the increased demand for spots as a result of Manitoba Hydro worked out to 137 spots.

Mr. Cullen: Yeah, you alluded to some issues you're still having with the building. Could you elaborate on that? Does it have to do with electrical, heating, cooling, or what kind of issues are you having there at this point in time?

Mr. Brennan: As a matter of fact, I think the office where I work in now is probably hotter than the building. Today it was 26 degrees or something so we have our problems there as well. Right now the drapes and the like, the blinds have to be all installed to be operating, and the blinds work automatically, and so based on temperature and based on the sun primarily, based on the temperature, the sun—the blinds work. Well, until the building is finished, the blinds can't work, and there's other issues like that. So the building has to be totally operational to get some of the mechanical and electrical systems to work.

Mr. Cullen: So when do you anticipate the construction will be finalized? Do you have a final date locked in with your contractor?

Mr. Brennan: I think it would be hard for me to get, but I expect it to be this summer.

Mr. Cullen: So you've indicated you had about 1,500 employees there now. What percentage of, are you at in terms of the Manitoba Hydro's capacity? Where are you at in that regard?

Mr. Brennan: It's between 1,850 and 1,900 employees.

Mr. Cullen: You will be leasing out some of the 700,000 square foot. I'm just wondering what percentage of that property is going to be used for commercial occupancy.

* (19:00)

Mr. Brennan: It'll be the first floor, other than the gallery that you'll be able to walk right through—you know, the public walkway—the first floor and part of the second floor.

Mr. Cullen: So, when everything is said and done, you're going to have about 1,900 employees in that

particular building. How many employees do you have, then, scattered throughout the rest of the city?

Mr. Brennan: I'd have to get that number for you. I think I'd be guessing.

Mr. Cullen: I'd appreciate it if you could get that, that figure for us.

The other thing I would wonder if you could get for us and this, this comes out as a result of a recent PUB request, and the request is Manitoba Hydro file a report with the board by June 30, 2009, detailing the final all-inclusive capital cost of the corporate head office project. I wondered, obviously, there's a bit of a conflict there, because you're not going to be completely done at that point in time, but would you be able to forward us that report that you'll be forwarding to the Public Utilities Board?

Mr. Brennan: For sure. Yeah, there'd be no problem doing that.

Mr. Cullen: Thank you very much, and I certainly look forward to the, the completion of the building and then having a tour of it as well.

The, I guess the, the most recent announcement or signing was with the First Nations communities and the, the Keeyask development going forward just, just last week, and I, I know you, you put up some costs there for us on, on the screen. Are those the, the up-to-date costs? I think you quoted—is it \$4.6 billion? Is that, is that the accurate costs like you think it's going to be in today's value, or is that, that figure some time ago?

Mr. Brennan: No, those, those are the latest approved costs. They fluctuate, though. More recently, we've seen costs coming down, and certainly we're encouraged by the last contract we got for building a test facility we're building. We went out twice for that particular one, and we made some modifications in what we required, and we were a little concerned we might not proceed with it as the result of the cost of, of the, the items we added. At the end of the day it came in lower than the first cost, even though we'd added additional items. So, I'm, I guess we won't know till, till we actually, you know, commit the, the project. But those are the best we have right at this particular time. I'm hopeful they'll come down. Sorry.

Mr. Cullen: Well, I think there's a lot of people involved in infrastructure projects around the province hoping these, these costs will come down, 'cause they are, they are very substantial. And just

looking at the PUB report, they, they flagged the issue as well back in the March. And at that time they were indicating it was an extra \$900 million, basically year over year, for the increase in Keeyask. Well, that, that's a fairly substantial cost.

I guess you, you have to have a look at your costs and hope that they're going to very current when the time comes to build. Ah, like, do you have any contingencies built into the plan if, if costs are going to be, you know, far in, in excess of what you're pegging them at now?

Mr. Brennan: Engineers like contingencies, so there's a fair amount of them spread throughout, I would think. I think that is the, the best estimate we have right now. I, I still believe that I would look for a decrease rather than an increase in it right now. But before you commit to a contract for sale or commit the construction as itself, you would have to be real comfortable with everything. Otherwise, you wouldn't do it. So we have lots of time to do that.

Mr. Cullen: You know, you also referenced in the agreement that was signed, there was the adverse effects agreements. Now, I'm assuming that has to do with the flooding issues around Keeyask and if it is, can you, can you give us an idea of how that compensation package is, is going to work?

Mr. Brennan: Yes. This is similar to the, the problem we had when we built the plants during the '70s and caused, you know, with a fair amount of flooding. We've now designed our plants to minimize any flooding and before—we're not doing it the same way we did before. You build the plant and then try to settle with the First Nation communities after. That's certainly not the way we'd like to do business. And so in this particular case, everybody has agreed to what the impacts are, and their impacts are much more than flooding. They have a bunch of construction workers coming into their communities, their resource areas. They are concerned with just changing water flow conditions and that, even though there might not be flooding involved. They're hoping to get additional jobs out of it and training opportunities and the like, and they also want to try to improve their lives generally, which we all would like to help them with.

So what they've done this time, rather than get large amounts of money that they put in trust, they've, for the most part, worked out programs over the years that will help them. And these programs are part of the adverse effects agreements, and, and they all seem to be quite happy signing those agreements.

They—there's a couple of communities that have pretty high agreements from their members to the agreements.

So we're, we're quite pleased with it all.

Mr. Cullen: Yeah, some of the, the media outlets are referring to basically cash that these First Nations communities will end up with. In fact, there's one quote about \$53 million as compensation for flooding. Would you care to comment on that? Is that, is that a ballpark figure that we're looking at over the next number of years? It sounds like there's some kind of a long-term agreement. Is—just trying to get a sense of, of what kind of, you know, how that's going to work.

Mr. Brennan: Basically, the agreements go on forever. So the, th—there's no end to them, and the present value of that is what we looked at in terms of cost. What is the cost is based on, you know, a normal inflation and/or interest, and we were, we were satisfied that this cost was, was part of building the plant and should be taken care of, and—but, they, they—it would be a—depending on how you look at it, certainly, not a large number in terms of the cost of the plant, but to the First Nation communities, it will be significant for them, for sure.

Mr. Cullen: Are those agreements, are those public documents?

Mr. Brennan: I think they will be at some point, but I'd have to look at when.

Mr. Cullen: Just in, in, in the nature of the deal, I understand it's a, a profit-sharing arrangement, and I'm trying to get a sense of, of how this arrangement will work. They're, they're going to take an equity position in the facility, and then they're going to share in the profit. I'm trying to get my head around how they are going to purchase a portion of the equity, the capital—and we're talking about close to a \$5-billion project. Now, will the First Nations communities, will they be coming up with a percentage of that \$5 billion of capital? Is that how that's going to work?

Mr. Brennan: Well, the very first thing we'll do is between the partnership itself and Manitoba Hydro, we'll work out a power sale agreement from that particular plant to Manitoba Hydro. So this agreement itself, between the partnership, will provide for a profit for that plant. The profit for that plant will then, then be distributed between the partners within the plant—in the case of Wuskwatim, it'll be Nelson House—and get their share. And to do

that, they have to exercise the option to become a partner, which they'll do once they know the total construction cost and what the, what the situation is at that time.

And once they exercise that option, they have to come up with some cash. In actual fact, Manitoba Hydro will help them with some of that cash. You know, they can't raise—you know, in the case of Keeyask, it's up to 25 percent of the total cost; in the case of Wuskwatim, it's 33; they just don't have any kind of money like that at all. And so, Manitoba Hydro will loan them money. We are gonna charge them an interest rate that has a little bit of a risk premium attached to it, and they have to pay us back first before they start—out of the profits—before they start taking the money themselves.

*(19:10)

Mr. Cullen: I guess profit is probably the interesting term here, and when you look at the construction of the dam, when does the actual profit start on the dam? Is it the point you start selling electricity from the dam that the First Nations community will then be able to take a part of the, we'll call it a positive cash flow? Is that how, is that how, in essence, you envision this agreement to work?

Mr. Brennan: It'll be a positive net income rather than a cash flow, because there'll be more cash than net income because of depreciation. They're going to take their share the same way ratepayers see, take the share. So it's going to be as it flows through the books of Manitoba Hydro.

Mr. Cullen: And this is, in essence, the same agreement that has been set up with NCN at Wuskwatim?

Mr. Brennan: The one with Wuskwatim is along the lines of being the same. The concept is pretty close. They have another option that they can look at in terms of preferred shares, but the concept is pretty well the same.

Mr. Cullen: Just having a look at, I guess, the expense that Manitoba Hydro has had to date in terms of the, you know, the consultation process and the legalities of it. And bear in mind, this thing has been undertaken for the last 10 years, probably, and you know better than I will how long this has been going on. But, you know, when we look, basically, figures are of last September, so September 2008, Manitoba Hydro has paid out almost \$95 million, and certainly a portion of that has gone into the

community, but \$43 million has gone into the legal and consulting fees. I just—it seems like a lot of money, to me, for legal and consulting fees. I just want to get your opinion on that amount.

Mr. Brennan: It's a lot of money to me, too. No, it's a heck of a lot of money. They have to get good advice. They have to. One wonders about whether they always get good advice, but I guess that's somebody else sitting from the other side of the table. But, at the end of the day, they have to be confident that they have got all the advice they need from an environmental perspective, a legal perspective, a financial perspective, and that's what they're getting.

In the case of Keeyask, it was a unique situation with four different partners in that they weren't able to even share some of these consultants, and that led to increased costs as well. And, of course, spreading it out over the length of time it took wasn't good either.

So it's not something I favour. I do favour them being part of getting the benefit of the plant, for sure. In terms of finding the most effective way to do that, I would certainly like to look at other options. But I think, at the end of the day, what Manitoba Hydro is doing and trying to do, is really going to be something that is going to be good for everybody in the long term. Now, was it costly? It was much more costly than I would've liked.

Mr. Cullen: Just to clarify, the \$95 million paid to that particular point in time, that covered both your legal costs and the legal costs of the First Nations communities.

Mr. Brennan: No, it only included the costs from the First Nations side.

Mr. Chairperson: Mr. Cullen.

Floor Comment: I think, if I remember—

Mr. Chairperson: Sorry. Mr. Brennan.

Mr. Brennan: If I remember, it was a question that was asked through Freedom of Information, if I remember right, and that only represents the First Nations costs for all four communities.

Mr. Chairperson: Before we proceed to the next question, I'd like to remind committee members that, for the benefit of our *Hansard* folks behind us, the Chair has to recognize the questioner and the responder to allow the microphones to be turned on and off to have a verbatim recording of this

proceeding here this evening, so I'd appreciate your consideration of that. We will now proceed to the next question.

Mr. Cullen: Just so we're, we're on the same page here on this thing, I've got community costs for all, all the communities, so I'm assuming this is money that goes directly to the, the community, of \$51 million. And then I've got another column that is legal and consulting costs of \$43 million, for a total of about \$94 million. So that legal and consulting cost, then, are the First Nations' costs and expenses?

Mr. Brennan: I apologize, and I'm the problem and so I'll try to remember.

The \$43 million is the consultants, the lawyers and the like that the First Nation communities are using. The other money is for First Nation costs, including travel and accommodation in terms of a negotiating process.

Mr. Cullen: So then costs incurred by legal counsel within Manitoba Hydro would not be included in these figures. That would be included under a separate line in Manitoba Hydro's books.

Mr. Brennan: That's correct.

Mr. McFadyen: Mr. Chairman, I, I want to add to Mr. Cullen's comments in expressing appreciation for the very good work that you, Mr. Brennan, and the other employees of Hydro do every day for Manitobans.

I want to just ask a few questions about the longer term financial picture in terms of the projections that are contained in the report, knowing that it's always a basis for speculation, but these are the best projections that can be developed with the information you've got at hand, and I just want to ask, in terms of the calculation, so that I have a proper understanding of the, what goes into the debt-equity ratio.

When you—when Hydro reports a debt-equity ratio of 75:25, what that means in essence is that for \$3 of long-term debt, there's a \$1 of equity. And am I right in understanding that equity is, is defined as retained earnings, or something close to that?

Mr. Brennan: Conceptually, you're correct.

Mr. McFadyen: And, can you just outline, on the retained earnings' side, as I understand it, these are earnings that will have been set aside every year that Hydro has net income, and I'm wondering if you can just describe what form those, those retained

earnings take. Are they—are these funds that are on deposit? Are they, are they assets that are available for Manitoba Hydro's use? Or are they—I'm just wondering if you can describe those, the current state of those earnings.

Mr. Brennan: That—those are funds that are used to finance capital expenditures for Manitoba Hydro. So instead of borrowing that money, we used our own funds and, and allowed us to try to maintain that debt-equity ratio for future construction.

Mr. McFadyen: In just looking at the projections that are set out on pages 5 and 6 of the, of the presentation, on the chart that's headed net income, it projects forward to 2019, and it, it shows in that chart projected results for 2009, net income of, I think it looks like it's just shy of 300 million for 2009, and then as you look into the years ahead, it, it is sort of a U-shape. It declines for a number of years, comes back up, peaking in 2017 at about 300 million and then is projected to drop again for 2018 and 2019.

And I'm just looking at those, compared to the projections for capital expenditures over the same period of time which shows capital expenditures next year projected in the range of 1.25 billion, peaking at just shy of 2.5 billion in 2016, and then dropping again to about \$2 billion in the 2019 year. Those capital expenditures are significantly in excess of what's projected for net income. I think in the range of about, of about on average six times as much spending in those years as what you're projecting in terms of net income.

* (19:20)

I wonder if you could just indicate whether you have any concern about the level of projected expenditures compared to what's projected in terms of income and the capacity of Hydro to keep up with the, with the growing capital expenditures, and, in particular, to comment on projected revenues from sales over that time periods. We're just trying to get an understanding of how firm those projections are and how confident you are that the revenue side is going to, over the longer term, keep up with the expenditure side.

Mr. Brennan: There's all kinds of risks and, that the, you know, the corporation could face, but generally the biggest risk I concern myself with is water conditions. In the short term that really impacts us. If you, if you take a look you see what happened in 2004 there, and that was just horrific. You know

every month it was getting worse, and it was a real problem for us.

Having said that, when you compare the net income with the, with the dark green line on the capital expenditure one, you can see that our net income is taking care of those dark green expenditures, and that's important to us. Those are normal capital expenditures, and we're financing them by our, by Manitoba Hydro's operations and that's good. These lighter lines are our major capital expenditures for assets that are going to last 100 years. The question comes is who should be paying for those? Should it be the questions, or the people that are going to use them for the 100 years or our current customers, and it doesn't seem right. So I think the way we're doing it is right.

In the case of a company building a hydraulic generation, if you can cover the first five years of a hydro plant, you've got it made. The depreciation charges are the, well, the depreciation is equal but you have interest costs at the first, and you recover your interest through depreciation as you go. So the actual cost of, on a per unit basis, the power coming out of it because of interest costs going down, because of recovered depreciation, the unit cost gets lower and lower until at the end of the life of the plant, you know, you have it down to zero.

So it's a little bit of a problem for somebody that's, or for a utility that has buildings that are capital intensive thing as a hydro plant because the very first years are the most expensive. Yet inflation 100 years from now will be some humongous number, so it's not the best way to do it, but if, if you can afford it, you're laughing. And the hydro's the only thing that's virtually inflation proof, and yet we're charging the customers the highest amount that, right at the beginning.

Mr. McFadyen: Thank you and just so I understand the financing of those capital expenditures as we look to the light grid lines from 2010 to 2019, is the expectation that that will be financed through borrowing, and can you just indicate the types of lenders that you would be looking at dealing with to finance that construction?

Mr. Brennan: We borrow money in conjunction with the Province, and it would be the Province's traditional lenders such as insurance companies and the like.

Mr. McFadyen: I just want to ask then, as we look at increases—my understanding is the current debt

load of Hydro, is at about \$6.5 billion right now and we're looking at capital expenditures peaking at close to \$2.5 billion, just in the 2016 year if all of the projects in the light green areas go forward.

So can you just give an indication as to, in light of projections around income and expenditures, where you would anticipate the level of total debt at Hydro being as of 2019 based on these projections?

Mr. Brennan: I would have to get you that number. We certainly have it. If—I wouldn't be concerned with that number as long as we maintain our debt-equity number at 75:25, make sure our—we're getting our capital expenditure coverage of 1.20 and getting our interest coverage at 1.20. If we meet all those, that'd be comfortable. Now it's a—you know, like it's a challenge to do, for sure, but that's the goal management has.

Mr. McFadyen: Thank you, Mr. Brennan, and the, just the projected total debt as of 2019, and if you could, at the same time, just comment on, on your assessment of the ability to build up retained earnings that would be one-third of that total debt load in order to maintain the current debt-equity ratio. Are you, are you confident that the retained earnings are going to rise as rapidly as the, as the debt load over that time period?

Mr. Brennan: I'm comfortable based on the projections that we have before us that Manitoba Hydro—if, if we achieve this, at the end of the day, Manitoba Hydro would be in phenomenal shape. I think we are today, by the way. You know, like I, I don't like to, like I'd—sort of self-serving, but—Manitoba Hydro is definitely in real good shape. Like, there's no doubt about it.

Mr. Bidhu Jha (Radisson): Well, in light of the questions asked, I'm a little curious to know, Mr. Brennan, about—I see on page No. 2, you say that capital assets over 20—sorry, 12 billion at original cost. Now, any, anyone would know if a product or a particular asset is evaluated today at a value to borrow money at today's cost, then what do you expect the value of the Manitoba Hydro's assets? Just guesstimate, I don't expect you to give a number, but would you expect the value of today's replacement cost of that value versus what you owe or you'll be borrowing against that?

Mr. Brennan: That number would be absolutely huge. It really would. Like, just to give you an example, we built Kettle for \$324 million, and now—it came into service in '72, and then in '79 we built

Long Spruce, which is a smaller plant by, you know, 250 megawatts, and we built that for \$507 million. Then we built the Limestone, which came into service in '90 to '92, in that period, and that was at 1.45 billion, and now we're looking at a plant that's a little bit bigger, at 6 billion. So you can see the, the equity we have in those plants.

Mr. Jha: In other words, if we really have a financial institution from outside comes and say, here is a corporation which has these assets and they have this much of loan or debt. Are we comfortable?

Mr. Brennan: I'm real comfortable. That's where we get our competitive advantage. That's how come our rates are lower than everybody else. You know, they got assets that attract inflation, first of all, through fuel costs, and they also have assets that don't last as long.

Mr. Lamoureux: Thank you, Mr. Chair. I do have just a few questions in regards to—part of the presentation we talked about the underwater, under Lake Winnipeg for a bipole, supposed to go in east or west side.

Mr. Brennan, you made reference to a Mr. Ryan in his presentation, and you seem to have been of the opinion that you haven't ruled that option out. Is that a fair comment?

Mr. Brennan: I, I think—I haven't been able to come to a conclusion. Maybe we are saying the same thing, but I haven't been able to come to a conclusion that gives me complete confidence that we should let consumers in Manitoba face that. In other words, it just seems to me to be a pretty high risk at this point.

* (19:30)

But I haven't come to a conclusion that it's not workable, and so I think we have to do more work to convince, I think, even Mr. Ryan, who, by the way, through this process of—I got to know and quite enjoy. He's become a good friend, actually, through it all. But I think he would share my concern that, you know, there is some things we have to look at. Certainly, I don't think, I don't think I'm convinced it's something we should do and try to get into place for 2017 and be comfortable with it. I'm not.

Mr. Lamoureux: To what degree would Manitoba Hydro make contact with potential suppliers of an underwater line?

Mr. Brennan: I don't think anybody has studied it at the high voltage we would like to use it at for the distance we're talking about. Nobody's had

experience with it. So I think what you'd have to do is you'd have to find some way—and the other thing is the transportation of those cable—this cable is just huge. So I think more work has to be done for everybody to feel comfortable, including suppliers.

Mr. Lamoureux: And when you say that more work needs to be done because, you know, whether it's via train with regards to the cable, whether it's regards to the practicality where other countries have, from what I understand, gone under far deeper depths of water than Lake Winnipeg, then it seems to me that there does need to be, you know, more of an investigation as to whether or not it's doable. Fair assessment?

Mr. Brennan: I think that's my assessment. In the case of the countries that already have it and certainly they have it for relatively long distances as well, most of them manufacture the cable right as it goes into the ocean. And the second thing is the voltage is not usually a size what we're looking at doing.

But I think there's a nervousness. I think, I think we should know, and I think, I think we should try to get manufacturers involved in that review process as well, and I think it'd be good for everybody.

Mr. Lamoureux: I would agree. It would be in the public's best interest and that's why that I raised it. I wouldn't want for us to make a premature decision to the degree in we've overlooked something that might be practical and in the long term in the best interests of the province.

Do you have a date in terms of when Manitoba Hydro really needs to have a decision made, when we start, you know, lining up the cables, if I can put it that way? Is there a date in Manitoba Hydro's collective mind as to when this decision would have to be made, whether it's east side, west side or under the lake?

Mr. Brennan: Well, I think we're probably past that date. In the case underwater, we just—like, there's all kinds of work we'd have to do in terms of just trying to understand the environmental impacts in that. So I think I, I felt real comfortable when you were saying, you know, we should look at it in a great deal of detail. So all those type of things could be looked at. It'd be a real interesting project for somebody. Like, you know, engineers seem to get real excited by that kind of stuff. So I think we could make quite a few of them, really, quite job satisfied, if you will.

Mr. Lamoureux: And I guess, finally, is that is there—from Manitoba Hydro's perspective, have they made a decision as to where the line will be going to at this point?

Mr. Brennan: No. We do know it's going on the west side. We're going through a series of consultations. We've got a, you know, like a real wide swath right now that we're looking at, and through the consultation process, we come down with a, you know, some options for a line.

So I, I think in the—we come back for the third round of consultations, a series of routes, and let people look at that. And then on the fourth one, we actually end up with—well, at the end of the fourth one for sure, one, one route that we'd recommend. And the purpose of all the consultations is to make sure that we avoid sensitive areas for people, and we have a line route that meets the best needs of the people along the route as well as Manitoba Hydro.

Mr. Rick Borotsik (Brandon West): I wonder if I could give my time to the member from Morris. She has only one question and she wants to leave, and then I'll go back into the queue if you wouldn't mind—

An Honourable Member: I have two.

Mr. Borotsik: Oh, she has two questions. Then I'll go back into the queue, okay?

Mrs. Mavis Taillieu (Morris): Thank you, Mr. Borotsik. I have a couple of questions. I hope that's okay. I just have some specific questions about the Wuskwatim generating station. I'm just looking in the, the annual report from 2008, and you're talking about construction camps, 600 workers, also talking about a partnership with NCN, so that would be an agreement, as I understand, that would—there would be many aspects to that agreement but one would be the employment of Aboriginal people, northern people. Is that correct?

Mr. Brennan: Sorry, that's correct.

Mrs. Taillieu: Can you indicate then, in the book here, it says two-thirds of the workers are Aboriginal. Can you confirm then that, on the Wuskwatim site, that two-thirds of the workers today are Aboriginal?

Mr. Brennan: I don't think that's the case. I think—can you tell me what page you're on?

An Honourable Member: Thirty-four, 35.

Mr. Brennan: Okay. I can't find page numbers on here. Do I have the right two?

Okay, okay. The first contract that we issued were for building the campsite and the road itself. The contract for the road was with Nelson House, and they were the contractor and they were—did it in conjunction with a joint venture partner. And the statement would have been correct for that particular project at that time, which was a year end of March 31, 2008. So that's, it's correct.

Right now, I think the last numbers I heard, it was something like 40 percent were Aboriginal. Forty some-odd.

Mrs. Taillieu: Can you confirm that in the agreement there's a policy to hire Aboriginal people first, northern Manitobans, and all Manitobans and then out-of-province employees?

Mr. Brennan: Conceptually, that's correct, but it starts, first of all, we start with Aboriginal people in the vicinity, which in this case, would be Nelson House. Then we have Aboriginal people in the north. Then we have Aboriginal people in the province. Then we go to—I think that's correct. I'll confirm it, but and then we have—there's workers in the north that are non-Aboriginal as well in that sequence somewhere, and then we have people in the province as a whole, and then they go outside the province.

Mrs. Taillieu: Can you confirm then how many people are employed from outside of Manitoba at the present time?

Mr. Brennan: I'd have to get you that number, but we can get it for you.

Mrs. Taillieu: Could you also say where the out-of-town workers are coming from or out-of-province because it seems that there are a lot of—I've been told that there are a lot of people working on the project that have come from out-of-province.

* (19:40)

Mr. Brennan: Well, one of the concerns probably is the contractor itself is from Québec and Newfoundland. There's three companies involved, and their management staff and supervisory staff are probably from outside the province, from the provinces they're in, and I think that might be somewhat of a concern to people working on the project. But the actual workers on the project will be looked at first from Manitoba, and the Aboriginal sequence has to be looked at first as well. So there's a difference between the management of a—the

contractors' management and supervisors than trade workers.

Mrs. Taillieu: You also indicated that part of the strategy was training recruitment retention. So how many Aboriginal people were trained and how many have been retained on the project?

Mr. Brennan: At different times throughout the project. At this point, we're in the preliminary stages, but, like, I'd have to get you actual numbers. I know that in terms of training, there was something like in excess of 2,000 people that were trained, or something in that neighbourhood, but we can give you those numbers.

And, right now, it'll be what type of skills do you need at the project at this particular time. Like, I know, people working in the catering operation will be quite predominantly Aboriginal. Security staff will. You know, the camp staff will be. And then, once you get into some of the skilled things, like carpenters and that, that's where we're aiming for the pre-employment training, and there'll be people that will be non-journeymen, and as well as journeymen. But we'd give you the breakdown as of a particular point in time, like, right now, if you want it or whenever.

Mr. McFadyen: Just on labour relations, Mr. Brennan, Bill 8, which is before the House now, deals with enhancement of benefits to Hydro employees on the pension side. And I wonder if you can just indicate in terms of timing when the commitment to enhanced benefits was originally made to the union involved.

Mr. Brennan: Union negotiations of about three years ago was when we first talked about the need for it and there was an agreement that we'd provide that.

This enhancement allows Manitoba Hydro and the union to enhance benefits through the negotiating process and, in fact, they've set aside some money on their side to do that.

Mr. McFadyen: And I know you'd be disappointed if I didn't ask any bipole questions tonight, so I'll ask a couple. They're pretty friendly, but I'm just, just again to—you'd indicated in the presentation that on Bipole III, it will originate at a converter station, roughly in the vicinity of the proposed Conawapa site. Is that correct?

Mr. Brennan: That's correct.

Mr. McFadyen: And that site, as I understand it, is roughly due north of Kenora, Ontario?

Mr. Brennan: I really didn't know that, but I'll check that, but it's certainly possible.

Mr. McFadyen: And you indicated that the proposed converter station at the south end is east of Winnipeg at Riel?

Mr. Brennan: I see where we're going. That is correct.

Mr. McFadyen: And, with the route being proposed to go on the west side of the province, west of Lake Winnipegosis, can you just indicate whether the proposal is to pass Winnipeg north or south of the city of Winnipeg in order to reach the proposed Riel station?

Mr. Brennan: That's continually under review, but it's the south side at this point.

Mr. McFadyen: And I'm just wondering whether, as part of the analysis of that route, obviously you're traversing the Red River Valley in that case, with that route, which wouldn't be the case if the line had come down the east side of the province. I'm wondering if, if there are any considerations as to what happens in flood situations such as the one we had this year, when you've got towers that would be in that scenario, under water south of Winnipeg.

Mr. Brennan: Manitoba Hydro would not design a system where a tower would be under water.

Mr. McFadyen: No, I think I'm good. Thank you.

Mr. Borotsik: Welcome, Mr. Brennan. This is, indeed, a pleasure. We go a long, long way back and I would echo some of the comments of some of the other speakers prior to me. Manitoba Hydro certainly does a wonderful job for our province, and I know you've been at the head of it for a long, long time and we appreciate seeing you here at this committee, and we certainly appreciate your work you do.

When people have a tendency of travelling or—throughout other jurisdictions, even in Canada but perhaps internationally, I don't think we realize just how good we have it with respect to Manitoba Hydro and the service that's provided. Certainly, we don't have the brownouts and the blackouts and the loss of service that they have in other jurisdictions. So I thank you and your thousands and thousands of employees out there on behalf of Manitobans, but I do have some interesting questions, I think.

I'd like to go back to debt-to-equity. At the last statement your debt-to-equity was around 77:23; 77 percent to 23 percent equity. You say in this fiscal year, which we haven't got the financials as yet, you're going to achieve that 75:25. It's a target that you have identified in the financials. Why that target, why 75:25? Is it a, is it a requirement of the financial institutions? Is it just something that you, yourself and your staff decided, that 75:25 is the right number? Can you give us some indication as to why the target of 75:25?

Mr. Brennan: I, I think it was a judgment thing on the part of professionals within Manitoba Hydro and the public utility board and their consultants seem to agree to that and subsequent were able to convince audit committees of the Manitoba Hydro board that that was a reasonable number as well. That 75:25 was a, a target that we seemed to be able to never achieve. We always seemed to be two or three years out.

When I first became the president of Manitoba Hydro, we had less than \$100 million in retained earnings and so we've now got to this point that I wondered if it'd ever really happen, is to get to 75:25, but we got there this year and we're quite pleased with that. Now the goal is to maintain this and don't let it drop.

Mr. Borotsik: Yes, as a matter of fact, in 2004 the debt-to-equity was—you only had 13 percent equity at that point in time and that was a bad year, obviously, with the drought. The 23 percent is the highest that's been achieved and the reason I mention that is Hydro-Québec currently has a debt-to-equity of 64:36, B.C. has a debt-to-equity of 70:30, and that's why the 75:25 seems to be an arbitrary number. I don't know if there's a right number or a wrong number but, needless to say, from my own financial perspective the higher equity in the corporation and the less debt, it, that's, that's certainly laudable and should be tried to be achieved.

Is the 75:25 the maximum that you would look at at this point in time or, Mr. Brennan, as a legacy would you like to see that equity higher than the debt?

Mr. Brennan: You've got to remember that that 25 percent equity came from ratepayers, and I, you know, I, although I would like to see it get higher, I do have some concern for ratepayers, especially when you're buying—building assets that are lasting 100 years. I mean, do we really want to take 40 percent of the cost of those assets before you even

build them? Like, if you want to maintain that debt-equity target of whatever it is, it means you've got to continue to maintain that 25 percent, and so you build a \$6-billion asset. If you don't come up with, you know, your 25 percent, you're going to be in trouble. You know, you're not going to be able to achieve it.

So I think it's a, considering the assets we're building, it's a, it's a, I think we're going to have a big challenge to keep it where it is, and I'm happy with that. I would like to correct the number: when I took over it was in the high 90s for debt equity.

*(19:50)

Mr. Borotsik: Thank you, and there's two ways of achieving a better debt-to-equity ratio. One is to, to remove the debt or to lower the debt, and, obviously, that is retained earnings or net earnings, and to achieve that, you had indicated that in order to achieve the net earnings, it would be the ratepayers. True to a degree, but some of those ratepayers are international ratepayers. A lot of our export or a lot of our revenue generated, is export revenue. Is that not correct? So we would not be looking at—and you've identified in your financials that you are looking at generating substantially more revenue from the Wisconsin and the Minnesotas of the world. Do you not feel that that should generate more revenue so that you can achieve a better debt-to-equity ratio?

Mr. Brennan: I'd agree with your comment, for sure, appreciating that that is a market situation, but I do agree with you.

Mr. Borotsik: It doesn't necessarily have to be Manitoba ratepayers. It's going to increase the equity in the corporation. It well could be achieved by other, other individuals internationally that would be paying for those rates as opposed to Manitoba ratepayers.

Mr. Brennan: If the market allows us to do that. Right today, the market's not doing it, just because of a, a low price in natural gas. But you are correct.

Mr. Borotsik: Yeah, let's, let's talk about the market, and then legitimately so, you've done some projections into the future. We're talking 2018, 2019, in some cases, for market sales to Minnesota and Wisconsin; you've entered into some agreements with them at the present time. Can you just help me with this? We have capital requirements to generate the, the electricity in the first place, and you've identified the cost of that capital. How do you arrive

at a cost of the product? Have you, have you tied Manitoba Hydro into agreements that in fact do have set, set rates that you'll be selling the power into, into Wisconsin and Minnesota?

Mr. Brennan: Yes. What we do is we take a look at the cost of our facilities, and we say, okay, what kind of revenue would we need to cover the cost of those facilities and make a profit for us? And in the case of these sales, we got a real good price.

Mr. Borotsik: I don't suppose you'd share that price with this committee at this time?

Mr. Brennan: I think that'd be detrimental to Manitoba Hydro.

Mr. Borotsik: I knew that was the answer before I even asked the question, Mr. Brennan.

Can I say that we do know that construction costs are going up quite substantially as we've identified in the Wuskwatim and Keeyask? When projecting out to 2017, 2018 on the actual cost of production of that power, are you confident that you've identified the true cost of the, of the cost of that power aside from the revenues that you're going to be generating from those agreements that you've entered into?

Mr. Brennan: I think I'm, I'm so confident that I talked to the minister about the possibility of getting somebody external to review this before we commit ourselves totally, and we look at the PUB utility quotas, that, that option. It hasn't been decided yet, but that's what my recommendation would be.

Mr. Borotsik: Thank you. You also talk about the potential for sales. Ontario, you just said, is actually entering the export market, where, in fact, that hadn't been the case previously. Saskatchewan and Alberta have both identified opportunities in the nuclear power, and I, I, I assume that those developments are some time off. Needless to say, nuclear power is going to require quite an in-depth study, not only thrum-through clean environment commissions and environmentalists, environmentalists and the likes, but do you see Saskatchewan and Alberta becoming a, a competitor in providing electricity into our marketplace that we certainly have, that we have at the present time?

Mr. Brennan: They potentially could be. Hydro is, is certainly cost competitive with nuclear, if not better. It certainly seems to be better. Nuclear, traditionally, has not been a, a generation source that's easily controlled. Certainly, if Ontario Hydro is

any example, they've had all kinds of problems. Like, if our costs went the same way Ontario's did on Darlington, we'd be in similar type problems. I mean, you commit a plant and then it ends up costing more than four times what you committed it at, you know, we'd be in big trouble too. So I think Hydro, we have more comfort with and everything like that, so I'm, I think we're competitive with anybody.

One of our problems is just overcoming the transmission distance and the long cost of transmission. Like getting to southern Ontario is a long transmission line.

Mr. Borotsik: One of the, one of the issues that Manitoba Hydro deals with on a regular basis is risk management. There are a number of risks that have been identified, potential impacts, and, for the most part, some of those are out of your control. The drought that we've identified in 2004 was quite dramatic in your bottom line, quite dramatic in not only bottom line, but, obviously, the debt-to-equity ratios.

One of those basic uncontrollables that we have—and I do know that you have the ability to hedge to a certain degree—is interest rates, and I do know that the Province of Manitoba borrows the money on behalf of Manitoba Hydro and then they charge you a premium for those rates as they have over the last numbers of years.

It says in your financial report that a 1 percent change over the forecast period ending 2017-2018 could, in fact, be worth up to \$170 million based on your capital requirements going forward. I'm not—I don't have a crystal ball and I'm not a futurist, but I can almost bet you that interest rates are going to increase from where they are at the present time. Have you, have you identified the risk, the cost of risk, to Manitoba Hydro and the amount of borrowings that you are anticipating over the next five to 10 years as to what that interest rate risk is going to be?

Mr. Brennan: Yeah, Manitoba Hydro can tell you what happens if we get a 1 percent rise in interest rates, a 2 percent rise in interest rates, whenever that increase occurs. Manitoba Hydro's long-term borrowing is done over a period of years, and so, you know, like, if you're talking about a 1 percent rise in interest rates, you have to—and you want the impact of every year of that rise, you know, like, some of it will already be borrowed. Like, this would be a real good time to borrow a whole bunch of money now, like, tons, like—yeah—but, well, we don't want to

spend the money anyway, but so we'd have it to reinvest, but right now, interest rates are—I've never seen them—long-term money at really, really effective rates. Though—but, there's no doubt, over the life of building a plant, it'll go up and it'll go up quite high, but the rates we're selling at provide for that kind of return as well. It's reflected in the escalation of the prices.

Mr. Chairperson: The hour being nearly 8 p.m., this committee agreed to review the sitting time when we approached the 8 p.m. hour. What's the will of committee?

Ms. Wowchuk: I think that if there's—I think we should continue if there's movement to getting some of these reports passed as the member indicated earlier and go along this line of questioning and I—that's—could we continue until 9 o'clock and then review then?

Mr. Cullen: Well, yeah, I think we've had a very civil dialogue tonight and had some good feedback both ways, and, you know, if Mr. Brennan would like to take a five-minute break, we certainly would entertain that and if we could go till 9 o'clock following that, that would be great.

Mr. Selinger: I propose we break for five and come back till 9 o'clock.

Mr. Chairperson: The will of the committee, we'll take a five-minute recess and return and the sitting time adjournment will be 9 p.m.

The committee recessed at 7:59 p.m.

The committee resumed at 8:11 p.m.

Mr. Chairperson: Order, please. Will the committee come back to order. We were continuing with the questions and the floor is open for questions.

Mr. Borotsik: Just a couple more questions, if I could.

Back to the Wuskwatim Power Limited Partnership: I know that there were some questions about that. As I understand—and correct me where I'm wrong—but Manitoba Hydro's gonna borrow the money to complete the Wuskwatim dam. They're gonna lend money to the partnership, and then the partnership will receive a portion of the profits when generated by Manitoba Hydro.

I'm, I'm a little confused as to how that, how that profit margin is going to be identified off of the Wuskwatim dam; maybe you could just expand a little bit on that arrangement that you have with the Wuskwatim partnership?

Mr. Brennan: This is what cost us the \$95 million, so it's not a simple thing to describe, but basically, we came up with a power purchase agreement that allows the partnership to sell power to Manitoba Hydro, and that's at a price that is calculated based on the return Manitoba Hydro gets for power. And at that basis, there's a profit figure in there for—that will result, based on all the calculations we've come up with, that will accrue to both Manitoba Hydro and to the other partner, being Nelson House. And because they won't have all the money and they'll have to borrow some of their cash investment, will have to pay back Manitoba Hydro before they start getting money and that, you know, depending on what happens and the type of flow conditions that occur, could be a shorter or longer period, depends on what actually happens.

Mr. Borotsik: I, I know it cost you \$95 million to come up with that solution. Did you look at the possibility of entering into a partnership with the, with Nelson or with the First Nations, based on a water rental rate as opposed to purchase agreements of the utility itself, payback on debts—would've that not perhaps been a more simpler method of calculation of return for the First Nations in the area?

Mr. Brennan: We did talk about options like that. We thought, at the time, the most defensible one would be some kind of a partnership arrangement. I think having gone through the process, I would certainly like to look at another option, but that's hindsight.

Mr. Borotsik: I appreciate that; it is hindsight, there's no question. You have the arrangement, you have the agreement and it obviously has to be lived with at the present time.

Just quickly, I have the three-quarter report—the, the third-quarter report ending December 31st, 2008, and there's just a couple of items perhaps you could clear up.

When you're showing your assets, you show the capital assets, which I can, I can accept quite readily, you have current assets, which I can, I can deal with. It says other assets at \$1.5 billion. Can you tell me just what your calculation of those other assets would be with respect to your assets—and this is

important because that goes to your debt-to-equity position as well—but can you tell me what \$1.5 billion of other assets would, would be?

Mr. Brennan: If you give me a minute, I'll try to find it, but—

I think I found it. Sinking fund assets, pension assets, deferred charges and, and good will—good will is on the purchase of Centra Gas.

Mr. Borotsik: And if memory serves me correctly—I don't have it in front of me—I think the good will's about \$108 million, if memory serves me correctly?

Floor Comment: You're right on.

Mr. Chairperson: Mr. Brennan.

Mr. Brennan: You're right on again.

Mr. Borotsik: So your other assets are 1.5 billion. On your long-term debt, you show \$7.3 billion and this is as at December 31st, 2008. That's, that's net, it shows. Can you tell me what the gross debt would be if you're showing this as net debt at 7.335?

Mr. Brennan: The—from that—from the gross, you take off the sinking fund investments to get a net figure, so I do know what it is at the end of the year. It's 7 billion and you take off 666—or add on, because the, the net is after deducting it, so if you add it back, you get a total of 7.661.

Mr. Borotsik: Based on this statement here, if, if you're showing the sink—shrinking—sinking funds on the other assets with a net debt of 7.3, if you add the 1.5, you're looking at about \$8.8 billion in debt. Is that, is that close to the truth?

Floor Comment: No.

Mr. Chairperson: Mr. Brennan.

Mr. Brennan: No.

Mr. Borotsik: So it's 7.—

Mr. Brennan: What you have is you have your assets over here and you got your equity and your liabilities, which balance them out. So that's not true.

Mr. Borotsik: Yes, you have, you have retained earnings of about 1.8 billion. You do have sinking fund, but you're, you're saying now, Mr. Brennan, that your actual net debt for Manitoba Hydro—and again, at December 31st—would be about 7.6 billion. Is that what I hear? Or 7.8 billion?

Mr. Brennan: It, it—the end of the year, the gross debt works out to 7.7 or 7.661, and then take off the sinking fund investments and you get the 7 billion.

Mr. Borotsik: Yeah, on that same—same statement, you have current liabilities and then you have other liabilities of \$1.3 billion. What would those other liabilities be?

Mr. Brennan: Say that again? Sorry.

Mr. Borotsik: You have identified other liabilities of \$1.3 billion, 1.376 billion on this statement. Are those the pension liabilities as well as other liabilities? Or maybe you could fill in the blanks for the 1.3 billion in other liabilities.

Mr. Brennan: It's the pension obligation to all employees—like, that's our pension liability—and that's offset by pension assets and then we also have the purchase obligation to—on Winnipeg Hydro. If you remember, we purchased Winnipeg Hydro by making annual payments to the City rather than putting up cash, and so that's the purchase obligation that we put on the books. And the other one is some deferred liabilities, so that'd be deferred employee benefits and the like.

Mr. Selinger: Yeah, just wanted to follow up on the Member for Brandon West's comments. I'm, I'm working off the annual report, March 31st, '08. Are you—is that the doc—you're working off the third-quarter report at the end of '08? Okay.

* (20:20)

Mr. Borotsik: The—hang on. Mr. Brennan, in your presentation, you had indicated that Ontario was exporting hydro right now, and there were some difficulties with some of the industry in Ontario. You had mentioned the chemical industry and the pulp and paper. It's in your report, or in your presentation, and at that time you'd indicated that there were some of those corporations that would like to locate in Manitoba. Have you and your organization been discussing and dealing with any of those organizations at the present time?

Mr. Brennan: Yes, one of them is a chemical company that we weren't anxious for them to come because what they do is they use all kinds of power and don't produce very many jobs at all.

Mr. Borotsik: There are a couple of chemical companies that are already located within the province at the present time who provide substantial economic impacts to certain communities through

capital investment as well as operating and maintenance on their plants.

Are you suggesting that because there may not be a substantial amount of employment, that those types of industries would not be welcome in Manitoba?

Mr. Brennan: I think, I don't think my job is to welcome them or not welcome them. I think it's to do what's right for Manitoba Hydro ratepayers, and I think our concern was that, if you bring them here in, everybody should know what that's going to cost other customers in the province. And if it's the wish of policy people that I report to to do that, so be it, but it's, it wouldn't be my recommendation to continue to sell them power at a rate that would cost other people money. And, in a lot of cases, that would be the case and we're not talking about little bits of money. It's a lot of money.

Now, having said that, we do want people that are already here to thrive, and we'd like to help them succeed, but just to bring in a new company that would use all kinds of power and cost everybody else money is not something that I would recommend.

Mr. Borotsik: If revenues that are anticipated at the present time from export, exports to the U.S. don't come to fruition, I'm sure that a domestic industry would be a welcome opportunity for Manitoba Hydro to sell those excess—that excess power. Is that not in the long-term planning of Manitoba Hydro to try to develop some of that internal domestic use?

Mr. Selinger: Yeah, I just wondered if I could, I'm working with the member of Brandon West. In the presentation, and if you think I'm trying to misguide your question, let me know, but I think the presentation was trying to indicate that the intensive industry—they wanted to have a rate structure that allowed them to do everything they're doing now and, in the case of a new one, have a base rate. But they also wanted to make sure that if they're going to have a big demand on power, that the price they pay for that power is not less than the marginal cost of providing that power, because if the marginal cost is higher than the rate that they're expecting, that means all the other ratepayers are, in effect, subsidizing them. And that was the concern of Manitoba Hydro. And, if it's okay with the member from Brandon West, I just want to ask Mr. Brennan if that's what he was driving at in his presentation.

Mr. Brennan: Very definitely. Any new customer costs us money. That's, that part's a given because

the marginal cost of power as we've talked about earlier is much higher than that which we already have installed. I guess the real question is there's some people that are coming to Manitoba Hydro only for the power situation, and that's going to cost everybody else money. And they should pay something higher than that, and that's what we applied to the public utility board for. They had a hearing on it, and we'll wait and see what they come up with.

Mr. Borotsik: Last question, Mr. Brennan. In the last Public Utilities Board there was concerns about the operating, maintenance and administration costs that have been quite excessive in Manitoba Hydro and they've going up at a fairly reas—at a fairly excessive rate. In fact, I think the declaration was, now I can't read it at the present time, but it was a rate that was higher than what they had expected. Have you got a handle on the O, M and A costs going forward over the next year to two years?

Mr. Brennan: I find that is a part of my job that I have to do, otherwise things will, it, it is very much of a concern to me as well. But you've got to remember in there we've done, we've purchased Centra Gas, as an example. We purchased Winnipeg Hydro, and, and those costs factored out. I don't think the cost increases have been totally unreasonable and I think it's our job to make sure that the public utility board knows why our costs are going up. But our system's getting older. There are maintenance costs that are getting higher. But if you take a look at our costs in the last five years, I don't think they're excessive.

Mr. Borotsik: The term I found wasn't excessive. It just says, shows a significant increase over previous years, and I appreciate if, if your stock is getting older, it sometimes takes more money to operate and to maintain that stock, but also included in that is administration costs. Are your administration costs expanding at a significant rate at the same time?

Mr. Brennan: I compare our operating and admin costs to the rate of inflation. The last time I looked over, I think it was a nine, 10-year period, they were less than the rate of inflation.

Mr. David Faurshou (Portage la Prairie): Just in relationship to your earlier comments about the revenues go with the amount of water available. I know that Lake Manitoba is now at a level exceeding its operating height recommended by the Lake Manitoba Water Stewardship Board. Where is Lake Manitoba and maybe you could just give a quick

synopsis of what you see is in the, in the reservoir, so to speak, for power generation.

Mr. Brennan: All our reservoirs are in pretty good shape. They're all relatively close to—no, they're all at, at average or above, and most of them are above. So water is not an issue for us at this particular time.

One of the issues we do have, though, is the export market is based on natural gas as being an alternative to purchasing power from Manitoba Hydro, and the price of natural gas is quite low right now. So that impacts our export price, but that changes pretty quickly.

Mr. Faurshou: So there's a lot of, a lot of volatility in the market, shall I say, when it comes to the natural gas and oil. Now on, on that pre—premise, I read avidly the comparison of industrial-residential rates and they are well graphed within your report here. Is it possible to include within the report a similar comparison with natural gas and whether, you know, our residential and industrial consumers are, are, how do they stack up, the prices they pay versus elsewhere in the country. Is that possible?

Mr. Brennan: It is. It gets pretty, pretty meaningless because people have rate increases that, so often in, in natural gas, that it gets quite hard. Because the price of the natural gas that consumers pay is primarily the price of the product itself, like in our case, 70 to 80 percent usually. Right now it's less just because the price of natural gas is less, but that's—I think that's one of the real reasons why it's good that the Crown owns natural gas is, we should be able to manage those prices for the benefit of consumers and we did when we first purchased it.

Now the public utility board, in its wisdom, have come up with a different way, but my view is in doing what we did when we first purchased them is the way to go. We deferred over \$100 million in, in gas prices and the, you know, some people would say we were just lucky, but the price of natural gas came down and we were able to recover that \$100 million from customers and they didn't even notice that that they picked it up when the price was coming down. And now we're—we have prices that go up and down like a yo-yo. Nobody even knows what the price of natural gas is. You know, they don't have a clue, and—but, apparently, that's transparency.

* (20:30)

Mr. Selinger: It is true that PUB recommended a different method of price setting, and one of the methods that they suggested would benefit customers

is the ability to lock in a gas price for one, three or five years. And, with gas prices being at a historical low and this option being available, do you think that's a useful method for customers to be able to manage prices for the next five years?

Mr. Brennan: Yeah, but that wasn't their idea; that was our idea. But, having said that, they went along with the idea. Yeah, no, that is a good option. It, it, it is a good option, especially when you buy gas prices right now. Like, you buy long-term contracts right now. It's a really good. So that option should be available for consumers for sure.

Mr. Faurshou: You're really perceptive 'cause you went to where I was, was headed in the first place because the—obviously, the oil prices and the huge consumer of natural gas, being the tar sands or oil sands producers. And they're slightly curtailed by today's oil, oil prices and so natural gas is coming down. But also to, to emphasize and allow the ability to emphasize our low-cost energy, whether it be natural gas, like when it gets down to the actual consumer, the industrial or residential rates, and that way, then, another opportunity to promote Manitoba is where I was going with this.

Now, another question I was wanting to ask here being on, on power generation and current project coming our way is the TransCanada Pipeline conversion of one of their mainlines from natural gas to crude oil, and that will require significant power. Where are you with that project?

Mr. Brennan: That's one of the ones we want to catch by this new rate. Like, what they are doing is stopping using natural gas and use electricity, and they want to do it at our rate that's really quite low. And, like our industrial rate, this is by far the lowest in the country. Well, just take our power that we're going to sell at a price that's, you know, when we looked at it, more than twice as high and then they are going to use and take it away from all other ratepayers. And all we're doing is subsidizing TransCanada. I mean, we should—like, that's one, Mr.—I should have used with Mr. Borotsik because that's a real good example because there the money's going right out of the province and everything, and there's no added value. Like none, you know.

Mr. Faurshou: They—how—

Floor Comment: And I forgot that one.

Mr. Faurshou: Yes, well, it's out my backdoor so I know where the compressor stations is—are.

What—just in relationship to the TransCanada Pipeline, did they not make a proposal to help offset their power consumption by way of constructing wind turbine generation on site? Was any of that discussed with you?

Mr. Brennan: I wasn't party to that.

Mr. Faursehou: That's what I understood they did in Québec. That they had to bring onto the grid the same amount of electricity to which they were consuming. By—and their proposal was, I think, 750-megawatt wind generation through their proposal. And I think they followed through with that, if I'm not mistaken, but I best not be quoted on that.

Just two other different topics here. A lot of headlines with the Grand Rapids Chief Mercredi sitting in the spillway because of the debris hampering the fishers. Maybe give an update as to how, how that's progressed or regressed or not, not—nothing happened.

Mr. Brennan: We've continue to talk with the chief and try to, you know, try to help him with his, his issues, and we, we have, I don't think we've, certainly, satisfied the chief for the long term, but we have helped him in the short term and we have a reasonable relationship with him. I think he, he honestly believes that the agreements we've settled with the, with the First Nation are not what he would think would be acceptable, and so we think we have an agreement with him and he doesn't like it. So what do you do in those cases?

Mr. Faursehou: Well, the relationships that Manitoba Hydro have with First Nations chiefs does have a way of spilling over into other relationships. And I do know you're aware of the proposal for a new national park in the Interlake area around Little Limestone. When in, incident took place, it pretty well derailed any negotiations and progress on that proposal. So I'm hoping that the relationships will improve, and maybe we can get the other restarted and focussed because—for the Interlake park proposal.

Mr. Brennan: I think we have a good relationship with the chief, by the way. I enjoy talking to him, and I think our relationship is very good. He has issues with the Province on the park issue, and I think his issues with Manitoba Hydro, I think he'd probably like to settle them both to his satisfaction.

Mr. Selinger: I just want to say I think that the relationship between the Crown, Manitoba Hydro

and First Nations is fundamental to the future of the province. And there are a number of excellent chiefs out there that are passionate advocates for their people to improve their quality of life, which is why we've changed the way we do business with First Nations when we develop new Hydro projects.

I think Bob Brennan referred to that earlier. Instead of doing the project first and then dealing with all the negative externalities or the negative outcomes after through compensation agreements, it's our belief that we can enter into a respectful partnership in the beginning before a project launches and resolve many of the issues before the project starts. Then everybody's better off in terms of planning for the project and minimizing the impact on the environment or the communities—making sure the communities benefit in terms of the employment and an ownership stake in the project and adverse effects agreement.

So it's about starting with a respectful relationship at the beginning. The chief we've referred to in Grand Rapids, he's referring to an older agreement that, at the time, seemed like a fair agreement. It was acceptable to both parties, but now is looking for ways to improve his community and would like the government, federal, provincial and the Crown corporation, to be helpful to him in improving the conditions of his community. And we can do nothing but respect that and try to support those kinds of goals for his community because they're Manitobans as well. So we take those requests and demands very seriously and try to find constructive ways to move forward on that, as we do with all chiefs inside of Manitoba. And it's just, this is part of the ongoing relationship we want to have with that, those people that represent those Manitobans.

Mr. Faursehou: Thank you, and I do appreciate the approach. The other question I had was some years ago, not that long ago, there was a very substantive amount of money offered up by the federal government for a east-west power grid, I think somewhere in the neighbourhood of half a billion dollars. Where is that money and where is, where are those discussions right at the present time?

Mr. Selinger: There has been, there is a study going on in western Canada to look at an east-west grid between—in the Alberta, Saskatchewan, Manitoba reason—region. *[interjection]*

Ontario was interested until, as we sa—Mr. Brennan said in the presentation earlier, they saw a

reduction in demand for electricity in northwestern Ontario with the dramatic decline of pulp and paper as a viable industry, given what's happening in the North American economy and the reduced demand for that product, so they didn't feel the need to have as much power going into that region. The Ontario situation, if I understand it correctly, there's a very significant future demand gap between what they have and what they're going to need to supply their own population of between 10 and 20,000 megawatts; it's, like, huge.

* (20:40)

So I think they've turned their attention to domestic renewables inside their province. That's the first move, and they've done some very ambitious things there and set very high feed-in tariffs that, if we did those in Manitoba, people might find the cost extremely high, because, really, Ontario ratepayers pay for those feed-in tariffs to subsidize those new renewables. But they're also, at, at their fundamental base, they're really looking at nuclear as a central and major portion of their future power supplied requirements. And, so, that's where they'd been focusing a lot of their energy.

And we, we have had a good relationship with them and a good discussion with them and continue to do that, about what we can supply them, but they weren't at a place where they can make a long-term commitment, given what was happening with pulp and paper in northwestern Ontario. And other customers came along, that Manitoba Hydro had been working with, in Minnesota, Wisconsin, who wanted the power now, and were prepared to make a long-term commitment through a term sheet.

So the door isn't closed to providing power to them, but the firm-based power has been requested through term sheets in these other jurisdictions just to the south of us. And, in terms of climate change, the one thing we know is, is that if you reduce carbon emissions anywhere, it helps us all. I mean, there is no real border on this problem.

Floor Comment: Five hundred million.

Mr. Selinger: The 500 million is, you know, I think that was a number in the federal budget and a portion of that was potentially available to Manitoba, but we haven't seen any significant activity or push to deploy that money from the federal government at this stage of the game. And we haven't seen huge interest from Ontario to pursue that with jurisdictions

to the east or the west of them at this stage of the game.

Mrs. Heather Stefanson (Tuxedo): Thank you, Mr. Brennan, for your presentation this evening. I had a number of questions but a number of them have already been asked, so I wo—I will be short. But I did want to ask a couple of questions with respect to the Bipole III proposal that you outlined today in your presentation, the underwater proposal, the review that was done, I gather, by Manitoba Hydro, of Mr. Ryan's proposal. And I wonder if you could just outline for us, or indicate what prompted the review. Was it Mr. Ryan coming to you and presenting you with a proposal and you decided to do a review of the proposal yourself or your organization?

Mr. Brennan: Well, I think on the surface of it, when you get an option like that, that seems plausible, there's an obligation on us to take a look at it.

When I asked our people what they thought of it, it didn't, it seemed to be pretty obvious to engineers, but it wasn't obvious to me. And it was something that we had to look at, I thought, just to feel comfortable. And I'm glad we did, and I think the fact that we're going to look at it in more depth, I think, will be helpful to everybody.

Mrs. Stefanson: Is this an ongoing review, though, then, or has the review been completed and is there a review that we could look at, that we could have a copy of, as well, a review that you have done on this proposal?

Mr. Brennan: The, the review we did didn't leave me with a feeling that we had solved anything. Like, we had comments to the extent that, that it didn't seem feasible, the transportation issues were, were issues that didn't really have a conclusion to them. If you went to the traditional way, it wasn't feasible either because there was too many splices, and I came to the conclusion that we needed a complete review that was the terms of reference for which were acceptable to everybody, including Mr. Ryan, and we haven't even started that.

But the end result of where I was, I was uncomfortable, I knew that we couldn't get it done in time for Bipole III, so I, I thought that the right thing was to, well, a good look at it from all sides. And, and I, I think it'd be real good for Manitoba Hydro, as well as, as the engineering community as a whole.

Mrs. Stefanson: And I noted, Mr. Brennan, that you said that it's incumbent upon you and your organization to, if there's an option that seems plausible, that a review would, would take place with respect to that option. And I'm just wondering if, if there was also a review that would have taken place on the east side of Lake Winnipeg, as well.

Mr. Brennan: Certainly, Manitoba Hydro spent a lot of time looking at the engineering benefits, and I think there was clearly a concern as to whether we did a good enough look at the environmental benefits, and—but having said that, it would appear we weren't going to get a licence to do that no matter what, so we better get with the policy.

Mrs. Stefanson: And you mentioned that there, with respect to this proposal, that there were concerns expressed by Manitoba Hydro engineers with respect to this proposal. Where there also concerns brought forward by Manitoba Hydro engineers with respect to anything with the west-side proposal—any concerns that were brought forward by the engineers on that side as well on that proposal?

Mr. Brennan: Yes. The extent that it was a longer line meant that they had all kinds of concerns about that. If you look at just the engineering technical issues associated with it, I can see how they would have concerns.

Mr. McFadyen: Mr. Brennan, just back on the, on the longer-term forecast for Hydro. I think the, on the capital cost side of things as they're mapped out in the report that you've presented tonight, we see a pretty significant increase in capital costs going forward from, essentially, this year to 2019 in the projections.

The side that is, it seems from the comments that have been made to be more speculative is the revenue side of that picture as we go forward, and I understand that we will build on the assumption that revenues will follow. Very often that's been the history of Hydro and, so, I'm not necessarily saying that is the wrong way to approach it. But the comments made tonight would indicate, certainly in the short run, that we're not particularly bullish about our prospects for major sales to Ontario, at least in the short run. That there is some potential in Saskatchewan which is in need of additional power, but that Manitoba is one of several potential options for Saskatchewan to pursue given their uranium deposits. There's quite a lot of study and interest in the idea of exploring nuclear power generation in Saskatchewan. We've got some existing power sale

agreements to the south of us, Minnesota and Wisconsin in particular. I just wonder if you can elaborate more on the revenue side of things.

Where are the export sales going to come from in order to pay for all of the capital expenditures that are set out in the report tonight?

Mr. Brennan: Yes, as a matter of fact that concern that you raised is exactly what we did when went out and got a sale to Minnesota, Wisconsin Public Service and Xcel. There the amount of money we're getting back is way more than the capital cost of the facilities over that period of time, and yet, at the end of the day, we have the, the facilities.

You know, we think not getting a firm sale is putting us in the position that you're talking about—you know, just waiting for, see what the market does and I—now other people by the way have a different opinion and are prepared to take that risk. I don't think it's the right thing. I think lock it up and make sure that economically you recover your costs, and these sales do that. Now having said that, before you actually commit and sign the contract and commit the plant, you better be real comfortable with what you're doing is the right thing and Manitoba Hydro will do that.

Mr. McFadyen: I'm glad to hear you say that because I think we all are optimistic about Hydro and our ability to pay for all the expansion that's planned, and so I'm pleased that that's the approach that's being taken.

I wonder if you can just comment on the—there was a reference in the report to transmission limitations that exist presently so that if sales are entered into, obviously, there's added transmission capacity that's going to be required.

Can you indicate whether on the transmission side, beyond Bipole III, what other transmission investments are going to have to be made in order to fulfil these contracts, and are these built into the capital expenditure plans that are presented in the report?

* (20:50)

Mr. Brennan: Yeah, I'd like to just find that one. There's a—

An Honourable Member: With transmission. There's a reference on page 17—pages are different.

Floor Comment: Yeah, I don't have numbers on mine. *[interjection]* That's the one, but there's one

that shows the generation and the transmission—oh, here it is. The energy available for export.

An Honourable Member: Right.

Mr. Brennan: Okay. There you can see that includes the 1,500 megawatt—you know, the last bump in the transmission line there? That includes that increase for the line that's going to—it goes to basically Minneapolis. And that allows us to export another 1,500 megawatts. Well, that—our, our cost of that transmission line is included in our forecast, but we only pay to the border. So, you know, we only have a hundred kilometres. They have all the cost.

Mr. McFadyen: So I understand it, then, the reference you're making is—on, on the chart it says energy available for export. You're referring to the bump that refers to the proposed WPS/MP interconnection. And you're saying that our portion of that is the portion from the converter station in southern Manitoba to the Canada-U.S. border, is that right?

Mr. Brennan: Or from the substation. It doesn't have to be a converter station. It can be from a, an, any substation that's large enough to handle that kind of power. But the, the real point of this is that you can see that, prior to that, we're not filling it on prime time, on peak times. And then when we get Conawapa, we have a surplus energy we can sell. That, that it's available on a firm basis and—now this is average flow conditions. But we all—always are going to have some surplus after we get Conawapa.

Conawapa, it's good to have some kind of firm sale, even if we need it for our own load, because you're going to get all kinds of power coming on the system that we won't be able to export at all. In this case, we're getting another transmission line. That'll take our total export up to 3,700 megawatts. That's almost our peak load in Manitoba today.

Mr. McFadyen: Can I just—in connection with the, the north-south DC lines, Bipole III, being the third one, as we move forward with the added generating capacity in the north, will there be a need for a Bipole IV, and at what point does that need arise?

Mr. Brennan: When you get into a plant after Keeyask and Conawapa, you're probably going to need another transmission line from the north of some sort and, at that point, we should be ready to talk about under water, if it's needed.

Mr. Chairperson: Any further questions?

Mr. Lamoureux: Yeah, I—Mr. Chair, I just had a couple more questions. When Manitoba Hydro starts—and it already has started filling its new facility—is there a place on the Internet that shows surplus land for Manitoba Hydro or buildings? What's happening to the current properties and buildings on those properties that Manitoba has been occupying?

Mr. Brennan: I'm not sure I quite understood your question. The ones that our employees are in today that are moving into that office building?

Mr. Lamoureux: Yeah, the employees that are in the new facility today would have come from somewhere. What would have—what, what's happening with those buildings that—where they, where they came from?

Mr. Brennan: Most of that is leased accommodation, rented accommodation. If you drive down Waverley, as an example, there's a good number of facilities there, including a full series of warehouse accommodation that we went in, in during the '70s as a temporary accommodation. And we're now getting out of there.

It's a—and we also, in addition to that, we've vacated 444 St. Mary's, where the gas company was, and that was a leased accommodation. So most of it was rented accommodation.

Mr. Lamoureux: Does Manitoba Hydro have any surplus properties or buildings in the city of Winnipeg or in the perimeter—Capital Region, I should say?

Mr. Brennan: We have various land within the city that—most of it is relatively small pieces. The last large piece we had was land we had at the corner of Wilkes and Kenaston that we sold recently, right across from the IKEA location there, but that was the last relatively large piece.

Mr. Lamoureux: Do you have a listing of the, the properties? This is one—I didn't know about that particular sale. Do you have a listing of the, the properties that Manitoba Hydro's had, what's in that Capital Region, that you might be able to provide committee members, in particular if there has been other properties sold by Manitoba Hydro in the last couple of years?

Mr. Brennan: We can—we can make a list of property available.

Mr. Lamoureux: And finally, it's in regards to advertising. How much money would Manitoba

Hydro spend on advertising in any given year, on average?

Mr. Brennan: I think there's different kinds of advertising, but we can get it for you. Like we have Power Smart advertising, we have some image advertising—we just had a program recently—we have recruit—job recruiting advertising, all these. But we can get it for you.

Mr. Cullen: I see there's very little time left on the clock here, and I certainly have a number of questions, but I know there was an agreement to, to end tonight's proceedings at 9. And I, I think the members opposite are getting a little weary, and I do appreciate Mr. Brennan's time tonight. *[interjection]*—in my humble opinion—but we do thank you for your time tonight. I hope that I can maybe follow up by letter with some direct questions that I would have and hope that maybe we'd have another committee meeting, you know, sometime not too far down the road; it was quite some time since we, we had our last committee meeting. So, certainly, if we're, we're in favour of passing a couple of reports here and, hopefully, given in mind our House leaders might be able to negotiate a, another committee meeting sometime in the near future, we'd, we'd certainly appreciate the chance to get together and ask some more of these questions, and as we go on, we always seem to develop more questions, so I do thank you for your time.

Mr. Faurichou: Just—when we have the president here—when could we expect the March 31st, 2009, report being tabled?

Mr. Brennan: We will have that available to the minister by the end of July.

Mr. Faurichou: Yes, well, that would be the hope, perhaps, that we could convene not there, not too far after that and be able to be right up to, to speed because we are a little, little behind in reviewing the reports.

Mr. Chairperson: Any further questions, committee members?

Seeing none, shall the Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31st, 2005, pass?

Some Honourable Members: Pass.

Mr. Chairperson: The report is accordingly passed.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31st, 2006, pass?

Some Honourable Members: Pass.

Mr. Chairperson: The report is accordingly passed.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31st, 2007, pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: Chair hears a no.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31st, 2008, pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: The Chair hears a no. The report is not passed.

The hour being 9 p.m., what is the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: We thank members of Manitoba Hydro for their attendance here this evening, and will members of the committee, if they do not require the annual reports that are before them, please leave them for subsequent committee meetings.

Thank you to everyone for your participation, and committee rise.

COMMITTEE ROSE AT 8:59 p.m.

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