

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

Chairperson
Mr. Bidhu Jha
Constituency of Radisson

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MANITOBA LEGISLATIVE ASSEMBLY
Fortieth Legislature

Member	Constituency	Political Affiliation
ALLAN, Nancy	St. Vital	NDP
ALLUM, James, Hon.	Fort Garry-Riverview	NDP
ALTEMEYER, Rob	Wolseley	NDP
ASHTON, Steve, Hon.	Thompson	NDP
BLADY, Sharon, Hon.	Kirkfield Park	NDP
BRAUN, Erna, Hon.	Rossmere	NDP
BRIESE, Stuart	Agassiz	PC
CALDWELL, Drew, Hon.	Brandon East	NDP
CHIEF, Kevin, Hon.	Point Douglas	NDP
CHOMIAK, Dave, Hon.	Kildonan	NDP
CROTHERS, Deanne, Hon.	St. James	NDP
CULLEN, Cliff	Spruce Woods	PC
DEWAR, Greg, Hon.	Selkirk	NDP
DRIEDGER, Myrna	Charleswood	PC
EICHLER, Ralph	Lakeside	PC
EWASKO, Wayne	Lac du Bonnet	PC
FRIESEN, Cameron	Morden-Winkler	PC
GAUDREAU, Dave	St. Norbert	NDP
GERRARD, Jon, Hon.	River Heights	Liberal
GOERTZEN, Kelvin	Steinbach	PC
GRAYDON, Cliff	Emerson	PC
HELWER, Reg	Brandon West	PC
HOWARD, Jennifer	Fort Rouge	NDP
IRVIN-ROSS, Kerri, Hon.	Fort Richmond	NDP
JHA, Bidhu	Radisson	NDP
KOSTYSHYN, Ron, Hon.	Swan River	NDP
LATHLIN, Amanda	The Pas	NDP
LEMIEUX, Ron, Hon.	Dawson Trail	NDP
MACKINTOSH, Gord, Hon.	St. Johns	NDP
MALOWAY, Jim	Elmwood	NDP
MARCELINO, Flor, Hon.	Logan	NDP
MARCELINO, Ted	Tyndall Park	NDP
MARTIN, Shannon	Morris	PC
MELNICK, Christine	Riel	NDP
MITCHELSON, Bonnie	River East	PC
NEVAKSHONOFF, Thomas, Hon.	Interlake	NDP
OSWALD, Theresa	Seine River	NDP
PALLISTER, Brian	Fort Whyte	PC
PEDERSEN, Blaine	Midland	PC
PETTERSEN, Clarence	Flin Flon	NDP
PIWNIUK, Doyle	Arthur-Virden	PC
REID, Daryl, Hon.	Transcona	NDP
ROBINSON, Eric, Hon.	Kewatinook	NDP
RONDEAU, Jim	Assiniboia	NDP
ROWAT, Leanne	Riding Mountain	PC
SARAN, Mohinder, Hon.	The Maples	NDP
SCHULER, Ron	St. Paul	PC
SELINGER, Greg, Hon.	St. Boniface	NDP
SMOOK, Dennis	La Verendrye	PC
STEFANSON, Heather	Tuxedo	PC
STRUTHERS, Stan	Dauphin	NDP
SWAN, Andrew	Minto	NDP
WIEBE, Matt	Concordia	NDP
WIGHT, Melanie, Hon.	Burrows	NDP
WISHART, Ian	Portage la Prairie	PC
<i>Vacant</i>	Gimli	
<i>Vacant</i>	Southdale	

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Tuesday, September 15, 2015

TIME – 2 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Bidhu Jha (Radisson)

VICE-CHAIRPERSON – Mr. Rob Altemeyer (Wolseley); Mr. Jim Maloway (Elmwood) as of 4:06 p.m.

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Ms. Marcelino, Hon. Messrs. Robinson, Saran, Hon. Ms. Wight

Messrs. Altemeyer, Briese, Eichler, Jha, Maloway, Pedersen, Schuler

Substitutions:

Mr. Schuler for Mr. Martin

Hon. Mr. Chomiak for Mr. Altemeyer at 4:01 p.m.

Mr. Cullen for Mr. Pedersen at 5:35 p.m.

APPEARING:

Hon. Jon Gerrard, MLA for River Heights

Mr. Bill Fraser, Chair, Manitoba Hydro-Electric Board

Mr. Darren Rainkie, Interim 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, 2011

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2012

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2013

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2014

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Mr. Chairperson: Good afternoon. Will the Standing Committee on Crown Corporations please come to order.

Our first business is the election of a Vice-Chairperson. Are there any nominations?

Mr. Jim Maloway (Elmwood): Mr. Chairman, I'd like to nominate the member for Wolseley.

Mr. Chairperson: The member from Wolseley has been nominated as Vice-Chair. You accept that? Thank you. So Mr. Altemeyer has been nominated. Are there any other nominations?

Seeing no other nominations, Mr. Altemeyer is elected Vice-Chairperson.

This meeting has been called to consider annual reports of the Manitoba Hydro-Electric Board for the fiscal years ending March 31, 2011, March 31, 2012, March 31, 2013, and March 31, 2014.

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

Mr. Ralph Eichler (Lakeside): Mr. Chair, thanks. I think we should maybe sit 'til 7 o'clock, and then we'll have a review of it at that point and determine where we're at in the line of questions and see how much longer we might want to sit after that.

Mr. Chairperson: Is that agreed?

Mr. Rob Altemeyer (Wolseley): That sounds excessive, to be perfectly honest, Mr. Chair. Why don't we say 4 o'clock and reconsider then?

Mr. Chairperson: Suggestion is for—yes, Mr. Eichler.

Mr. Eichler: We know there's going to be a report by the Hydro board. We also know the questions that I have here and we know we sat from 2 until 7:30 last year, and I can assure the committee that I have far more questions now than I had last year. So I think 7 o'clock is fine, but we'll certainly agree to re-evaluate at 5 if that'll make the member happy.

Mr. Altemeyer: That re-evaluation might be rather abrupt at 5 o'clock, but sure. Let's try 5 o'clock, and then close it off then.

Mr. Chairperson: Okay. Thank you. So—yes, Mr. Eichler.

Mr. Eichler: We're not closing off at 5; we'll re-evaluate at 5 where we're at, far as the timelines are concerned.

Mr. Chairperson: Mr. Pedersen, do you have any questions?

Mr. Blaine Pedersen (Midland): No.

Mr. Chairperson: Okay. So—Mr. Altemeyer.

Mr. Altemeyer: To be clear, Mr. Chair, people have lives. Suddenly, asking them to stay, our honoured guests and everyone else, until 7 o'clock in the evening is out of the range of reasonableness.

I would propose we sit 'til 4 o'clock. We can keep—I'm happy to go back and forth here for two hours if the member would like. I would propose we go 'til 4, we re-evaluate then. Two hours is a perfectly reasonable starting point for any standing committee for Crowns or anything else. It's well within the range of what we normally do here.

Mr. Chairperson: So 4 o'clock is suggested and we will evaluate at 4 o'clock what the committee needs. Is that okay? *[interjection]*

Mr. Chairperson: Mr. Eichler, kindly again repeat what you said.

Mr. Eichler: We'll re-evaluate at 5.

Mr. Chairperson: So is it 4 or 5? *[interjection]*

Mr. Chairperson: Mr. Eichler. Sorry, Mr. Altemeyer.

Mr. Altemeyer: We don't look that much alike.

I would be interested to hear the rationale for the extended time being requested. I note there are lots of reports available to be reviewed. If the member had questions spanning four different fiscal years, perhaps some of the reports could have been passed at previous meetings. But it's not the fault of the people sitting around the table right now that we have four different fiscal years to pass, which the opposition has had the opportunity to pass at previous meetings if they wanted to. They didn't. And now they suddenly want, you know, a re-evaluation to possibly extend the sitting of this committee, to only begin discussing that at 5 o'clock?

I think if the opposition members would be willing to finish at 5, I'm okay with that. Failing that, we're going to re-evaluate at 4, and my position on that's not changing.

Mr. Chairperson: So why don't we, then, agree to—for now, to 5 o'clock as the consensus is—okay. So I understand that Mr. Altemeyer is suggesting we evaluate at 4 o'clock and Mr. Eichler is suggesting we evaluate at 5 o'clock, so let's come to a

conclusion and agreement of evaluating time to be 4 or 5.

It looks like that it's not a bad idea to evaluate at 4, and then we can go as long as the committee wishes and everyone agrees. So is that all right? *[Agreed]*

Thank you. So for now, we are considering 4 o'clock to be the time to evaluate the committee's conclusion.

Now, before we—are there any suggestions in which order the committee should look at the reports?

Mr. Eichler: Global.

Mr. Chairperson: Global. Agreed? *[Agreed]*

Committee Substitution

Mr. Chairperson: Does the—I'd like to inform the committee that, under our rule 85(2), the following membership substitution has been made for this committee effective immediately: Mr. Schuler is sitting for Mr. Martin. Thank you.

* (14:10)

Mr. Chairperson: Does the honourable minister wish to make an opening statement?

Hon. Eric Robinson (Minister responsible for Manitoba Hydro): Yes.

Mr. Chairperson: Yes, Honourable Minister. Go ahead.

Mr. Robinson: Yes, Mr. Chair, very briefly.

Good afternoon, colleagues. I'm pleased to be here along with our officials from Manitoba Hydro for this committee today. I'd like to make a few brief opening remarks.

The well-being and prosperity of this province is directly linked to an abundant and reliable supply of energy. It is a commodity that we would be hard-pressed to live without, given our current lifestyles.

To continue to provide as abundant and reliable supply of energy, Hydro is in a period of unprecedented growth, and Hydro needs to grow to keep up with our growing needs for energy. It powers everything we do and fuels the businesses that drive our economy.

In the media we've been hearing about how Canada has been in a recession and Canada has, in

contrast, been described as having a bullet-proof economy. I think that this is due to Manitoba's diverse, economic sectors which contribute to our province with greater stability than other provinces.

With \$9 billion in committed power sales, including the just around 100 megawatt deal with Saskatchewan that was announced yesterday, export revenue from surplus energy that would otherwise be spilt continues to contribute to keeping rates lower for Manitobans. And we know that clean, renewable energy is desired by other jurisdictions, and we have the ability to provide that and to, in turn, provide Manitoba with that financially secure future.

We also benefit from Hydro right here at home. Manitobans have among the lowest hydro rates in Canada. Manitobans pay over \$700-a-year less per year from using—for a home using 1,000 kilowatts per month other—rather than someone with the same home in Saskatchewan or in Ontario and \$500 less than the national average.

Manitoba Hydro is also committed to working with indigenous communities to ensure that they share in the benefits of hydro development, and I need not tell this committee that in years gone by things weren't done properly with respect to our indigenous populations.

In the 2014-15 fiscal year, Manitoba Hydro exceeded its target for hiring indigenous employees at the corporate level and also in northern Manitoba. Currently, one in five Manitoba Hydro employees is indigenous and 46 per cent of Hydro employees in northern Manitoba are indigenous.

Hydro has entered into a \$184-million contract—or in contracts with indigenous communities—companies during the 2014-15 fiscal year alone. Earlier this year, along with the Premier (Mr. Selinger) and then-Hydro president Scott Thomson, I was pleased to meet with each of the five northern flood First Nations to officially apologize for damages caused by past hydro development.

The Premier (Mr. Selinger) also met with and extended the same apology to the Manitoba Metis Federation. Our reconciliation efforts go beyond an apology, and these include settlements with communities affected by past hydro development and a new way of developing future projects.

Manitoba Hydro partnered with Nisichawayasihk Cree Nation to develop the Wuskwatim project, the first such partnership in this country.

As members of the committee are aware, Manitoba Hydro is in partnership with several First Nations on Keeyask project currently under way. Manitoba Hydro has also made great efforts to ensure that indigenous communities along the way are benefiting from the bipole project.

We're also very proud of Manitoba Hydro's Power Smart program which will reduce our projected load growth by two thirds.

Manitoba Hydro has partnered with indigenous communities such as Peguis First Nation and the Fisher River Cree Nation to make energy savings accessible for those communities. As a result, there are over 100 geothermal systems at Peguis and 120 at Fisher River through a partnership with Aki Energy.

Tied to Manitoba Hydro's construction of Keeyask and bipole is the creation of more than 10,000 jobs right here in Manitoba, and Manitoba Hydro's power line technician program is one of the best in Canada.

Manitoba Hydro is making investments now, including investments in the renewal, rehabilitation and expansion of existing assets so that we can continue to deliver on its mandate of providing renewable, reliable and affordable energy for future generations. Not building for the future is not an option.

Mr. Chair, I'd like to now turn the floor over to the chair of the Manitoba Hydro board, Mr. William Fraser, who's here today along with the acting CEO, Darren Rankie. And I'd just like to remind colleagues around the table that Mr. Rankie's new to the job and he's only been there a month, so I would ask for the consideration of committee members in that respect.

Mr. Chairperson: Thank you, Honourable Minister. Now, do you wish to introduce other staff in attendance today from the Hydro board?

Mr. Robinson: Yes, I will. We have Scott Powell, communications, and we have Dori—yes. We'll get the name for Hansard in a moment, and we also have—we'll get the names for Hansard in a couple moments.

Mr. Chairperson: Thank you very much. So kindly go ahead, chair—I'm sorry—okay.

Does the critic from the official opposition have an opening statement?

I'm sorry that—we have to recognize the member from the opposition to make an opening statement.

Mr. Eichler, kindly go ahead.

Mr. Eichler: First off, welcome. It's good to have everyone here today in regards to Manitoba Hydro. The real owners of Manitoba Hydro have expressed a number of concerns that I've been listening to and I'd be happy to present those questions as we go forward.

And in light of the member from Wolseley wanting to get out of here quicker, sooner than later, I'll end my comments there and ask that we skip through the presentation from Manitoba Hydro and go directly to questions.

Mr. Chairperson: I understand the representatives from Manitoba Hydro-Electric Board wish to include a PowerPoint presentation as part of their statement to the committee. Is there leave from the committee to allow the PowerPoint presentation? *[Agreed]*

So, Mr. Rainkie, kindly proceed. *[interjection]*
Or Mr. Chair, Mr. Fraser, yes, please go ahead.

* (14:20)

Mr. Bill Fraser (Chair, Manitoba Hydro-Electric Board): The overview of Hydro, which has 5,700 megawatts of generating power, 99 per cent of it is electricity produced in Manitoba and is renewable hydro power. There's approximately 6,500 full-time-equivalent positions and roughly 562,000 electricity customers and roughly 275,000 natural gas customers. And Hydro exports to three wholesale markets in Canada and the Midwest US. And Hydro's rates are among the lowest in North America.

The net income for the year ended March 2015 was \$114 million, which is down \$60 million over the previous year primarily as a result of increased financing expense. The retained earnings reached \$2.83 billion. The net income was extremely close to the actual plan of \$115 million, although on a go-forward basis the forecast is for less income as a result of the Public Utilities Board creating a deferral account and a significant portion of the rate increase goes into that deferral account and will be utilized when Bipole III comes on line.

Hydro operating and admin expenses showed an annual increase of less than 0.2 per cent as a result of the corporation's ongoing commitment to carefully managing its costs. On a go-forward basis, target increase in operation and admin costs are

significantly less than the average annual increase projected for the CPI of approximately 2 per cent.

The average retail price of electricity: This slide shows the weighted average retail price across all rate classes for the 10 lowest North American electric utilities. Manitoba's rates are affordable for Manitoba families and support the competitiveness of Manitoba businesses. Overall we continue to be in a position to provide ratepayers with very low average electricity prices.

The first bar in this slide shows monthly electricity bills for a residential customer using 100 kilowatts a month which would not typically involve electric heating. Winnipeg is second lowest in Canada for 100—or 1,000—kilowatt consumption.

The second bar shows a residential monthly bill comparison for 2,000 kilowatts, which may be more representative of a customer using electricity for home-heating purposes as well as general usage. Winnipeg is the lowest in Canada at this consumption rate.

Manitoba's commercial customers enjoy a distinct advantage over customers in other Canadian jurisdictions as you can see from the comparison on the chart.

Residential customer bills increased slightly in 2'15 due to the timing of the recovery of gas costs incurred during the very cold 2013-14 winter. Natural gas prices remain at the lowest-lower end of the range experienced over the past 14 years.

Manitoba Hydro is entering an extensive investment period in its infrastructure in order to meet the growing needs of Manitoba, replace aging utility assets that are approaching the end of their service lives, address capacity constraints on its existing system. The level of total investment will be significantly higher in the next 10 years than in the prior 10-year period.

The Keeyask generating station will be a source of renewable energy providing approximately 695 megawatts of capacity and producing an average of 4,400 gigawatt hours of electricity each year. The renewable hydroelectric energy produced will be integrated into Manitoba Hydro's electric system for use in Manitoba and for export.

A partnership involving Manitoba Hydro and four Keeyask Cree nations have come together in terms of partnering on this project. TCN, War Lake, Fox Lake and York Factory are the other partners.

The project is currently on track for the 6.5-billion control budget and to meet the control schedule of a first unit in-service on November of 2019. Construction progress is generally on track.

The Bipole III project: Once completed in 2018, Bipole III, a high voltage direct current transmission project, under construction in Manitoba will strengthen reliability of Manitoba's electricity supply by reducing dependency on existing high-voltage direct-current transmission lines and the Dorsey Converter Station. These facilities are relied upon to deliver 70 per cent of the electricity produced in the province.

Bipole III will also provide additional capacity to deliver renewable energy from the Keeyask generating station currently under construction on the Nelson River near Gillam. In delivering renewable energy to southern markets, including the United States, Manitoba Hydro is helping reduce reliance on fossil fuels.

Clearing for the 500 kV transmission line is primarily done through direct negotiated contracts with various First Nation communities. Total clearing progress to date on the full transmission line is approximately 85 per cent, with clearing work to continue in the winter of 2'15-2'16.

The Manitoba-Minnesota transmission project will be a second 500 kV transmission line from Manitoba to the US and will increase the firm transfer capability to 883 megawatts. The project in-service date is planned for 2020 with a budget of \$350 million. New transmission line from Dorsey station to the Canadian-US border, the line will cross the border south of Piney, Manitoba. Approximate line length is 235 kilometres, and the line will connect to the Great Northern Transmission Line constructed by Minnesota Power. A number of station upgrades at Dorsey, Riel and Glenboro will also be required. The project's schedule: The anticipated regulatory review process runs from September 2015 through the fall of 2017, construction is planned from 2017 to 2020, with an in-service date planned for 2020.

Given the legacy of earlier northern hydro development, today we are taking a responsible and respectful approach. We're working closely with First Nations and other communities to reduce environmental impact and ensure local communities benefit from development. This approach, which began with Wuskwatim and has been continued for Keeyask, results in better projects to supply

Manitoba's growing demand for electricity, projects which reduce environmental impacts, lower compensation costs through investigation of impacts up front and greater local benefits. Projects also benefit from the knowledge and experience of local elders and resource users who, through the provision of their Aboriginal traditional knowledge, enhance project planning, environmental assessment processes and long-term monitoring of the project development and mitigation.

Over the years, substantial costs have been incurred to address the impacts of past development, approximately \$1 billion. Some commentators have been critical of the costs of engaging First Nations and Metis people as we plan for and develop new projects. It has become increasingly apparent that without engaging First Nations and Metis early and often it is doubtful that projects will move forward. Agreements with communities are just the beginning. We have committed to working with communities over the long term to develop mutually beneficial relationships. Getting it right up front will pay dividends in the long term.

Manitoba Hydro's approach to developing new projects focuses on creating local benefits, primarily through training, jobs and business opportunities. This has included funding and implementing training programs before and during construction, preferential hiring practices and the direct negotiation of contracts with Aboriginal businesses that are uniquely suited to their capabilities. On our new generation projects Wuskwatim and Keeyask, in-vicinity First Nations have also been provided the opportunity to become business partners in project development. We are working together collaboratively as partners for project planning through project operations.

*(14:30)

We have also dramatically increased Aboriginal representation in our workforce from 7 per cent in 2001 overall to about 18 per cent today. Manitoba Hydro is striving to have a workforce that is representative of the demographics of the province.

The demand for electricity in Manitoba continues to grow. This is primarily due to a forecast annual population growth of 1.1 per cent and due to continued economic growth in the province. A growing provincial economy needs more electricity, and Manitoba Hydro is planning to meet the needs of its customers.

Renewable resources are primarily being used to meet Manitoba's growing electricity needs. We're currently constructing the Keeyask generating station, which is a renewable resource.

In addition, and just as important, we are continuing to ramp up our energy conservation efforts. We plan to invest over \$1 billion in aggressive Power Smart programs, which will meet two thirds of the province's future electricity load growth. Over the next 15 years, Manitoba Hydro's energy conservation efforts are targeting electricity savings of approximately 1,100 megawatts and 4,000 gigawatt hours, natural gas savings of 108 million cubic metres and combined global emission reductions of 2.9 million tons by 2028-29.

Due to conservation efforts, customers currently save \$86 million annually on their energy bills, and this saving will increase to \$277 million annually by 2029.

Manitoba Hydro recognizes increases to electricity rates could result in a financial burden to some of our customers. To address this concern, we've implemented a very aggressive affordable energy program designed to assist lower income customers. Through this program, lower income customers are provided free basic energy-saving measures, free insulation and, where applicable, an upgrade to high-efficiency natural gas furnaces for \$9.50 a month for five years or for only a total of \$570.

To date, Manitoba Hydro's Affordable Energy Program has assisted approximately 12,000 lower income customers and has involved an investment of \$39 million. The investment in this program is now approximately \$9.5 million annually, with the program targeting to assist a total of over 45,000 lower income customers by 2029.

In addition to investing in DSM and major projects, Manitoba Hydro must increase its capital investment in its existing infrastructure in order to continue to provide safe and reliable service to customers and address anticipated load and customer growth. A considerable amount of Manitoba Hydro's assets were installed prior to 1960, and, as such, many of the components of the generation transmission and distribution system are coming due for replacement. Although assets are being continually maintained, current levels of system reliability will not be sustained without significant reinvestment. As shown in these pictures, some of the Manitoba Hydro assets are in poor condition and

present a significant risk of failure which can result in customer outages and load shedding.

In addition to the impacts of aging infrastructure, Manitoba Hydro is facing significant capacity issues as electricity load is increasing in a number of service areas. Significant investment is also required in distribution systems in Winnipeg and rural Manitoba, as a large number of stations are currently overloaded. For example, there are 97 distribution stations supplying the city of Winnipeg; 37 stations are currently loaded beyond their maximum capacity. The issue of significant concern, not only as it limits Manitoba Hydro's ability to supply electricity reliably to existing customers, but also in light of the expected load additions in many areas of the province, including downtown Winnipeg, where load additions are much larger than anticipated.

In addressing these concerns, Manitoba Hydro is working towards reducing the percentage of overloaded distribution stations in Winnipeg to 20 per cent by 2020, with a long-term objective of ensuring that no station exceeds their maximum rating.

Addressing these issues requires significant investment today and in the coming years. The magnitude of this investment is approaching a total of 5.7 billion by 2024 and is broad based, with significant capital investment required in the operational areas of generation, transmission and distribution.

The need for sustained investment for system reliability and renewal is not unique to Manitoba Hydro. Utilities across North America face the same challenges, which will put pressure on electricity rates across the country. The Conference Board of Canada estimates that over the next 20 years, approximately \$350 billion must be invested in our electricity systems across Canada. Like most energy utilities in Canada, we need to begin replacing those assets that are at the end of their service lives. Rates in other Canadian provinces must also rise in the coming years to fund the reinvestment in electricity infrastructure.

Manitoba Hydro continues to undertake a number of initiatives that are intended to result in both operating and capital costs savings, ultimately, improving financial results and easing pressure on rates for customers. Reduction of 330 operational positions over a three-year period from 2014 through 2017—staff reductions are being achieved by leveraging attrition opportunities through the

application of technology and the consolidation and elimination of work processes, where appropriate. Manitoba Hydro has demonstrated excellent progress on staff reductions in 2014-15 and achieved a total reduction of 232 operational positions to March 31st, 2015.

Supply-chain management initiatives include stronger procurement practices, improving inventory management processes, optimizing distribution networks, and optimizing Manitoba Hydro's vehicle fleet. Consolidation of rural district offices, which entail the closure of 24 rural district offices, their consolidation into the existing 20 customer service centres; this effort is expected to enhance customer service through improved field crew deployment, improved system reliability by increasing distribution maintenance efforts and economizing on customer-base administrative tasks. Implementation of mobile workforce management systems to effectively manage field activities for both the electric and natural gas business—this system optimizes the planning, scheduling and dispatching functions in order to derive cost efficiencies and improve timelines of service to customers. Asset management strategies—including optimization of maintenance programs based on equipment condition performance and reliability, enhanced condition assessments and economic analysis to better determine economic end of life, as well as implementation of various software systems that support asset-management processes.

Export revenues are used to keep rates low in Manitoba. Last decade export sales contributed \$4.9 billion or 29 per cent of total revenues. New export contracts are an important component of our plan. We've signed \$9 billion in contracts with utilities, with over \$4 billion hinging on the development of Keeyask. We're continuing to explore additional export sales both in the US and Canada.

* (14:40)

To sum up, the challenge facing Manitoba Hydro is to balance the needs of investment in our system with maintaining the financial health of the corporation and providing quality service and stable, predictable rates for our customers. By meeting this challenge, we will ensure the next generation of Manitobans will continue to enjoy the same affordable, reliable and renewable energy that we do, thanks to the development of our hydroelectric resources over the last century.

Thank you.

Mr. Chairperson: Thank you, Mr. Fraser, for your presentation.

Now the floor is open for questions.

Yes, Mr. Eichler.

Mr. Eichler: In regards to the presentation on Keeyask, could we get an update on how much has been spent to date, and what is the anticipated budget at this point for the total cost of the Keeyask project?

Mr. Fraser: Okay, on Keeyask, the total forecast to date is 1 billion, 911.9, and the actual spent to date is 1 billion 903.2.

Mr. Eichler: So we're clear, the cost of the Keeyask dam you're saying is 1.9 million?

Floor Comment: That's what's been spent.

Mr. Eichler: Been spent.

Mr. Chairperson: Mr. Fraser, kindly be recognized for Hansard purposes.

So, yes, kindly go ahead.

Mr. Fraser: Yes, the budget to date is 1 billion 911.9, and the actual amount spent to date is 1 billion 903.2.

Mr. Eichler: And the total project cost?

Mr. Darren Rainkie (Interim President and Chief Executive Officer, Manitoba Hydro): The total project cost is \$6.5 billion.

Mr. Eichler: Moving to Bipole III, how much money has been spent to date, and what is the projected cost?

Mr. Rainkie: Spent to date is \$1.2 billion, and the projected cost is \$4.6 billion.

Mr. Eichler: What assurances have you taken to ensure that these costs are accurate for budget purposes? And what steps have you taken to secure contracts to ensure that they are?

Mr. Rainkie: Right now, there is a—we have a high degree of the cost of the contract that's already under contract. And we've made a number of organizational changes in terms of lessons learned from past projects such as Wuskwatim. We have a new business unit that's responsible for major capital projects. We now have a new member of the senior executive that's responsible for major capital projects. We have looked at best practices in terms of developing control budgets, risk assessments of

contingencies—that was actually reviewed by an independent consultant of the Public Utilities Board at the recent NFAT hearing that happened a year or so ago. So we've done a number of things to adopt best practices in the industry and change organizations—organizational structure.

Mr. Eichler: With the—that's roughly \$3 billion that's been spent on Bipole III and Keeyask, and, of course, Conawapa before the issue of the PUB NFAT report.

What were Hydro's reasons for spending these money well before govern of approval, and did the board approval sanction those approvals prior to the PUB approval?

Mr. Fraser: The planning process and the various regulatory reviews that have been carried out over the last decade for some of these projects, and those, the work involved in terms of getting the licensing and being able to bring it forward to the stage for final approval required significant investment and significant time. But that was following the—certainly the rules and it was—those plans were approved by the board, and they were known to the PUB, and the NFAT process was created over and above that as kind of another objective look to ensure that the preferred development plan was the appropriate one for Manitoba.

Mr. Eichler: So let's assume that the PUB did not approve of this, what would've happened with that expenditure? Who would've been on the hook for that? Manitobans, would it not be?

Mr. Fraser: If the PUB hadn't approved what?

Mr. Eichler: The approval of the Bipole III and Keeyask. Typically, the PUB has the authority to either allow or not allow, but having spending \$3 billion of Manitoba Hydro's ratepayers' money, that was putting an awful lot of pressure on the PUB. Would you not agree with that? *[interjection]*

Mr. Chairperson: Mr. Fraser, kindly make sure that you are recognized because of the answer.

Mr. Fraser: The PUB doesn't approve Hydro's capital plans. The PUB, in the normal course of events, approves rate requests for it. So, I mean, if the NFAT process had determined, and it did determine, that Conawapa should be at least delayed for the time being until there was significant enough revenue generation against that project to justify it, then there—those costs would've gone into the general requirements for Hydro in terms of rate increases.

Mr. Eichler: Correct me if I'm wrong, but did the PUB not instruct the Hydro—Manitoba Hydro to stop Conawapa in regards to the requirements that it was not needed at this point in time? *[interjection]*

Mr. Chairperson: Mr. Fraser, kindly—yes. Sorry.

Mr. Fraser: The NFAT process did recommend to the government, and the government accepted the recommendation, to cease further work on Conawapa at this point.

Mr. Eichler: Well, the PUB has a very important role to play in development of Manitoba Hydro and the rates paid by Manitobans and those that really own Manitoba Hydro. Are you saying that the PUB really has no say whether or not Manitoba Hydro moves forward with a project or not, and if so, how would that be related to the real ratepayers of Manitoba? They—somebody has to have a say on it other than the board of directors.

Mr. Fraser: Yes, the PUB deals with the rates. They don't, in and of themselves—they review the capital plans as that in—that Hydro has and that have been approved by the board, but they do not have the authority to determine which plans go forward. Their authority lies in terms of determining the rates that are necessary. And, in the case of the recent NFAT hearings to take another look at it beyond what the PUB does on a regular basis, they were given special powers by the government in terms of reference, in terms of making recommendations to the government on these projects.

Mr. Eichler: Were there any expenditures incurred or commitments made to prior by the board of directors of approving the expenditures?

Mr. Fraser: Specifically for what?

Mr. Eichler: For Bipole III or Keeyask.

Mr. Fraser: Yes, there were. They've been built into the annual budgets over the last number of years that have been part of the board approval and that have been part of the information provided publicly here and provided to the PUB as background in rate increases.

* (14:50)

Mr. Eichler: Would it be possible to get a line by line of the listing of the expenses that were spent before the regulatory approval for Bipole III, Keeyask and Conawapa projects?

Mr. Fraser: There were no expenditures that were outside of the regulatory approval process.

Mr. Eichler: So, for the record, then, what you're saying is that any expenditures that were made by Manitoba Hydro prior to the PUB approval was money that was spent on these projects and with no authority. Is that correct? *[interjection]*

Mr. Chairperson: Could I request both sides to raise hands so that I may not each time interfere and the Hansard knows who is speaking.

Mr. Fraser, yes, kindly go ahead.

Mr. Fraser: I'm saying that all the necessary approvals were in place on an ongoing basis. Hydro has a process of preparing an annual budget and a five-year and 10-year capital program that gets approved by the board every year, then gets presented to the Public Utilities Board, but the Public Utilities Board deals with rates. They don't determine that this turbine or that turbine should be replaced in any particular order. They rely on the engineering skill and capabilities of Hydro to determine those needs.

Mr. Eichler: I'd like to move over to the minister and ask the minister, in regards to Hydro's Board of Directors, I've done an analysis that seems to be of a bit of a disturbing trend on the Hydro directors' side-donating to the New Democratic Party. I'll highlight some of these for you.

In 2005, Director Leslie Turnbull has given more than \$15,000 to your party, as well as Dudley Thompson has also given more than \$12,000 to the NDP party.

Is this a prerequisite for becoming a board member, that donations be made to the NDP party?

Mr. Robinson: You know what, Mr. Chair? I don't know that that question's worth responding to. Let me say that these people that sit on the board of directors of Manitoba Hydro are highly qualified Manitobans. They are upstanding citizens, and perhaps I can get a list of the Hydro board of directors and I could give the member from Lakeside a rundown of their capabilities. We have people like Michael Spence on the board; we have people like Mr. Fraser, who is a chair, and Mr. Spence is the co-chair. I don't believe that Mr. Fraser is a contributor of the New Democratic Party of the province of Manitoba, nor are several other board members, but the member from Lakeside ought to know, Mr. Chair, that, depending on the government of the day, that these are practices that occur.

So I just want to indicate that it is quite curious that a question like this would be raised which, to me, questions the ability of these very capable board members of the Manitoba Hydro-Electric Board to be questioned in this way, and I'm very disappointed in the member from Lakeside. I thought this member had more respect for his fellow citizens. And I deeply resent that observation that he made, and obviously he's not interested in the development of the province of Manitoba. He's not interested in the issues that deal with Hydro. He's not interested in the advancement and the opportunities for Aboriginal people in any projects in the province of Manitoba. He'd rather work in the gutter and I'm not interested in debating such issues.

Mr. Eichler: Mr. Chair, \$90,000 in donations is a substantial amount of money for anybody, in particular those that are on the board. If he thinks that's making light of it, it is certainly not. That's a substantial amount of money.

In regards to Hydro's outlooks in regards to the integrated financial forecast and consumer revenue was \$1.4 billion in 2013-14, it's expected to rise to \$2.5 billion by 2026-2027, would you prepare—be prepared to provide me a breakdown of what portion of that billion-dollar increase is solely on the result of the rate increases, noting that the fact—financial forecast—I would note the financial expenses are expected to rise sharply from \$435 million in '13-14 to \$1.3 billion by 2026. Can you provide some general reasons—reasonings for that staggering increase?

Mr. Fraser: We'll take that as an undertaking and get back to the member.

Mr. Eichler: Thank you. We would, you know, ask for it to be, of course, in writing in a timely manner, so we do have that information for us.

In referencing the 2014 integrated financial forecast, the corporation's debt-to-equity ratio will reach 90 to 10 in 2023, a sharp departure from the 75-25 goal. Is the corporation concerned about that number?

Mr. Fraser: Certainly, the corporation has set, in conjunction with the PUB, a long-term target of 75-25 for debt equity. And, at the present time, they're very close to that, but with the significant capital program going forward and the debt financing required, that is going to increase, as you say, up to about 90 per cent. The—there is a number of things that are being traded off in terms of the

aggressiveness of the capital plan, the affordability of rates and rate increases, and so, I mean, it is a concern. It is a risk, but when we look at all the factors that contribute to the financial well-being of Hydro and the rates to customers and the service requirements to customers, that's the balance that has been struck. And it—the debt equity does improve subsequent to that. I mean, it deteriorates for a while during the investing period, and then once the facilities are put on stream, it comes back up. So it is a temporary situation.

Mr. Eichler: So, by 2022-23, that decline is, in your estimation, one that is secure, in fact, for Manitobans, and no further rate increases after that? Based on your presentation to the PUB of 3.95 per cent for the next 10 years, is there any concerns whether or not that number will change?

Mr. Fraser: We feel it's manageable, but, undoubtedly, there will be changes in the numbers. They are estimates based on assumptions going forward, and there are a number of variables: the Canadian dollar versus the US dollar, interest rates, salary rates, the consumer price index numbers that affect our purchasing and so on. So, I mean, there are a number of things that could impact it, but every effort is being made to manage and control those expenditures. And, as we get better information, we'll reconsider and make whatever adjustments are necessary in the circumstances.

I would just—while I have it, I mean, getting back to the earlier comment about capital spending and authorizations and so on, I did indicate that those are included in Hydro's annual financial plan, their five-year plan, their 10-year rolling plan that gets reviewed by the board, gets reviewed here, gets reviewed by the PUB. It also is part of The Loan Act. It gets reviewed by Treasury Board and the Legislature, and it also gets reviewed by the Crown Corporations Council. So any—the capital plans are authorized through a broad array of oversight in the system.

* (15:00)

Mr. Eichler: Hydro's objectives used to provide reliable power for Manitobans at the lowest cost. Recently, both Hydro and government additional objectives, global environment goals, economic development in the North and increase in employment. Where does the objective lowest cost rank in the long list of objectives now with these changes?

Mr. Fraser: As you can see, I mean, Hydro's rates are still amongst the lowest not only in Canada but in North America and even in the world. So, I mean, they have been doing an excellent job in terms of balancing those things.

But I think, as the minister indicated in his opening statement and I indicated in the slide presentation, that, you know, if there are not consultations with legitimate parties that have interest in the North, these projects won't go ahead and Hydro will be in a much worse position in terms of being able to provide reliable power to Manitobans at reasonable cost.

So it's a balancing act in terms of trading off. It's not one thing in terms of being driven to the lowest rates possible without considering the other things that could undercut that and create a much larger problem.

Mr. Eichler: Manitoba Hydro's preferred development plan is a plan that will maximize payments to government, of course, and additional money will be flowed to the government coffers, paid for by consumers and industries through higher rates. Is it Hydro's understanding that government support for Hydro's preferred development plan is going to be reaped by the government through plans of implementation such as debt guarantees, water fees, et cetera? What's the take on Manitoba Hydro there in regards to government reaping a number of those benefits financially?

Mr. Fraser: Those benefits were outlined in detail and discussed in detail in the NFAT hearings, and the NFAT panel recommended to government to look at that revenue generation and maybe there was opportunities in terms of using it, in whole, in part, to offset some of the issues around rate increases with particularly affected low-income households. So I think, as this moves forward, I mean, the government is in a position to continually review and assess how they're going to utilize those resources and what priorities they're going to put on spending them.

Mr. Eichler: If an alternative plan, perhaps one based on a more aggressive energy efficient measures or this construction of a lower cost gas generator had been chosen, would the government's expectation for new revenues from Hydro not be reduced and less pressure put on ratepayers?

Mr. Fraser: The NFAT review process and all the other reviews that have taken place, I mean, did not come to that conclusion. They—you know, we've

indicated in the presentation material that part of the issue in terms of investing \$17 billion over the next 10 years is the fact that an awful lot of Hydro's infrastructure, both generation, transmission and distribution, was built prior to 1960, so it's 55 to 70 years old. And one of the benefits of hydroelectric power and dams is that the dams can last 70, even 100 years, whereas gas plants only last about 30 years and they're subject to fluctuation in gas prices. So there's far less economic security in investing in gas plants than there is in hydroelectric plants, when you're looking forward 100 years and trying to anticipate how many of these plants you're going to have to rebuild and how much gas is going to cost 100 years from now.

So, I mean, I think that the deferred—that the preferred development plan of Hydro is one that has been agreed upon by virtually everyone that's looked at it, and I don't think anybody, other than maybe media commentaries, are suggesting that there's a better natural gas plan than Hydro's hydroelectric plan.

Mr. Eichler: In recent years, Hydro's increased its 20-year forecast for the so-called normal capital expenditures from under \$5 billion to \$12 billion. The major jump has apparently taken place without an asset condition report, one that was called for by the PUB earlier in the rate application hearings to the most recent.

Would you care to comment on that, Mr. Chair?

Mr. Rainkie: I can comment on that. Actually, we filed a asset condition assessment with the most recent general rate application that was filed in January of this year. So there was a fairly substantial review of that at the last hearing that just ended in June.

Mr. Eichler: Would the—would we be able to get a copy of that asset condition report?

Mr. Rainkie: Yes. It's on the public record as part of the Public Utilities Board hearing.

Mr. Eichler: The increased cost for Pointe du Bois to \$566 million for the spillway alone and \$2.4 billion for the complete reconstruct, isn't such an expenditure extremely high given the low capacity of the plant, which is below 80 megawatts now? Or are there other options that could have been considered the high cost of reconstruction?

Mr. Fraser: I actually had the opportunity to visit the project with one of the people who was

advocating to use a less dramatic expensive way of refurbishing that facility. And when you walked out on that facility, because, which is, you know, over 75 years old, and the concrete was leaking and the water was creeping underneath it, and the argument that was being made, and it was by a planning engineer, was that it should be based on a probability analysis of how much it cost versus how—what the risk of how many lives might be lost if there was a catastrophe there. And Hydro's response to that was that we don't want even a single life lost and that that analysis of probability and tying dollars to human life is not the way that they assess the need for refurbishing these facilities. And I certainly agreed with them one hundred per cent.

Mr. Chairperson: Mr. Eichler—I'm sorry, Mr. Rainkie.

Mr. Rainkie: Sorry, can I just add to the second part of that for your question?

Mr. Rob Altemeyer, Vice-Chairperson, in the Chair

The total rebuild of the plant was in the latter part of our 20-year forecast. It was a bit of a placeholder in terms of just going forward and seeing how we can meet up our supply with demand, but, more currently, we're looking at not making that large refurbishment of the whole plant and looking at just replacing units as they are—come due, so to speak.

Mr. Eichler: Hydro and government have long asserted that renewable power, rather than energy produced from fossil fuels, are its mandate, prospects and full focus. How does Hydro reconcile that view with the utility's diesel generators for four northern and remote communities?

Mr. Fraser: Certainly, the government and the board would like to be in a position to eliminate the diesel in those diesel communities. Unfortunately, a large portion of the responsibility and the cost for putting a line in there falls on the federal government, and the costs are estimated at \$200 million and the total population impacted by it is 1,000 people. And so it's very hard in terms of finding agreement, certainly, with the federal government in terms of contributing the funding for that.

* (15:10)

Hydro has worked diligently in terms of looking at other alternatives. They looked at wind power, and one of the things they found—or a couple of things

they found was that wind doesn't work below 30° below and that when it stops and in winter weather, that ice accumulates on the blades, and then when it starts up again, it throws that ice and it's extremely dangerous to anybody in the vicinity. And so—but they have looked at other ways of providing other technology, and they continue to do that, and they're working to get agreement on a pilot project with one of those communities to take them off diesel.

Mr. Eichler: Swan Valley Gas Corporation, the recent purchase from SaskEnergy, what was the business model that you were trying to establish by purchasing that, and was it a good investment for Manitoba Hydro?

Mr. Fraser: I'm sorry. I was being corrected that, if I could just go back a bit, that the cost to put the lines into those four diesel communities is not \$200 million; it's, in fact, \$400 million. So, while I was listening to that, I didn't catch your question.

Mr. Vice-Chairperson (Rob Altemeyer): Mr. Eichler, to repeat the question.

Mr. Eichler: Yes, I was referring to the Swan Valley Gas Corporation and the purchase from SaskEnergy. What was the business model that Manitoba Hydro was undertaking in order to buy this corporation from SaskEnergy, and what's the business model that you're going to try and utilize it for with that purchase?

Mr. Fraser: There was a number of things. SaskPower was wanting to sell it to Manitoba. These are Manitoba residents and they were, in fact, paying, I believe, in the order of twice as much for their natural gas service as what Manitobans pay. So there was an inequity there in terms of Manitobans.

One of the reasons that the price was so high was that there had been—and there's a significant employer in that area who had shut down for a while and that reduced the customer base significantly. So, I mean, fundamentally, Manitoba Hydro got that business for next to nothing. I think it was basically a dollar and there was an equity issue there in terms of fairness on rates. What the business plan was was that because the rates had been so high with SaskPower, very—a very small percentage of the population in that area actually utilized it. They were 'utilizing' electric heat and other means, and so the idea was that if we gave them comparable rates to other Manitobans that there would be a larger pickup. And so they were going to market it very hard to get that up. In fact, what has happened since

then is that the plant that had closed down and had stopped using the natural gas has now reopened. And so, I think, with the benefit of hindsight and probably a little bit of luck, it's turned out to be, I would say, a much better business deal than we had anticipated.

Mr. Eichler: Is there currently export sales into Saskatchewan out of that plant?

Mr. Vice-Chairperson (Rob Altemeyer): Clarification required?

Mr. Fraser: The plant itself, I mean, I would have to—I forget the name of plant and even what product they produce. It's—*[interjection]*—Louisiana Pacific. So, I mean, whether there's—whether they do business with Saskatchewan or not, I don't know.

Mr. Eichler: Has Hydro purchased Stittco who distributes propane through the pipelines in Thompson?

Mr. Rainkie: No, that's a propane business. We're in the natural gas distribution business.

Mr. Eichler: Yes, I know it's a propane distribution, but, you know, in light of natural gas and propane having some of the same characteristics, there's been rumour mills that have said that it's up for sale and Manitoba Hydro was one of the prospective bidders. So we just want to get clarification on that. *[interjection]*

Mr. Vice-Chairperson (Rob Altemeyer): Mr. Fraser.

Mr. Fraser: That's not happening. I've never seen anything come to the board with regard to that or had any discussions on it.

Mr. Eichler: Does Hydro retain its coal-fire capacity and single-gas turbines if coal and rural gas are undesirable due to carbon emissions? What would be the reasoning for retaining those?

Mr. Fraser: As I understand it, historically, I mean, it's been for backup. I mean, in terms of if there was a drought or if there was some catastrophe that those are maintained in working condition, but that they're not a main part of the daily operation. They're a backup. They're an emergency plan to come in.

Mr. Eichler: What would be the operating cost to keep those maintained for that backup?

Mr. Rainkie: We'd have to undertake to give committee that.

Mr. Chairperson in the Chair

Mr. Eichler: Thank you. If Bipole III had been routed down the east side of Lake Winnipeg, would it have been able to handle the power generated from Keeyask and Conawapa?

Mr. Fraser: You know, I certainly don't have the answer to that, but, I mean, and I suspect Hydro doesn't have the answer to that either. I mean, the only side that was available to Hydro for Bipole III was the west side, and so, I mean, the plans and have—are based on that. That's what was available, and that's what was done.

Mr. Eichler: Bipoles I and II have lots of capacity left. Do we really need Bipole III to transfer the power south when we have enough capacity with I and II?

Mr. Fraser: I think, as we talked about earlier, I mean, if you look at hydro, the development, it takes about a dozen years in terms of going through the various approval processes, in terms of conservation, in terms of getting the various people that are going to be impacted by development to buy into a plan or a variation of a plan and so on. So, I mean, hydro has extremely long planning timelines. I mean, they can't turn on a dime in terms of building these things, whether they're transmission or generation, because the actual physical construction of them is a small part of the timeline in terms of getting the proper approvals from the various authorities that have to—and regulators that have to provide those authorities.

So, I mean, I think one of the benefits of Bipole III is that, again, in terms of when it's tied into the line, the Minnesota-Manitoba line that crosses the border, it provides a huge increase in the availability of not just being able to sell power into the US, but, if we had a drought or an extended drought or a catastrophe in terms of our own production capabilities, that, I think, that there's a significant amount that could now be brought up from the States and purchased from the States and utilize that line.

So, again, in terms of diversity, which Hydro is often criticized for in terms of relying to a large extent on hydroelectric, I mean, that line provides diversity in terms of being able to get power, if there was a shortage from the States, and purchase it.

Mr. Eichler: Using realistic and justified—justifiable input data, Manitoba Hydro will undertake a detailed, probability-based reliability assessment on Bipole III and compare with alternatives, including installing low-cost, low-use gas peaking generations,

as well as MMTP line. In chapter 2 of the EIS Hydro submitted to the CEC, for Bipole III, capital costs for two alternatives that were evaluated with the least cost, of the alternative being \$696 million more than Bipole III, when Bipole III was to cost \$3.2 billion.

* (15:20)

With Bipole III costs now jumping to \$4.6 billion, at least that's what you said earlier, will a lower alternative reliability and Keeyask power brought south on existing Bipole I and II be able to 'substantiate' the use of Bipole I and II and not have to use Bipole III?

Mr. Fraser: We're building Bipole III. We'll be using Bipole III. We're going to need it in terms of reliability within the province. And, I mean, like I said, you can't increase the capacity, the generating capacity of Manitoba Hydro on small increments; you have to do it in large increments. So when you do that, there is idle capacity in the first number of years as you move into that, and it's a very long planning time frame in terms of building it but also in terms of going from the point where it's needed to the point where it's completely utilized.

Mr. Eichler: When is Bipole III expected to be in service?

Mr. Fraser: Two thousand and eighteen.

Mr. Eichler: What is the total expected compensation costs for all organizations and individuals impacted by Bipole III?

Mr. Fraser: We'd have to take that under advisement and get back.

Mr. Eichler: If new generation is needed by the mid-2020s, what type of generation will that look like?

Mr. Fraser: Well, I mean, it's difficult for me to answer that question. I mean, it—there's—we'll be continually reviewing what technology is available, what the cost points are and so on.

So, I mean, I don't think we're in a position at this point in time—I mean, the previous plan had included Conawapa. Conawapa, at least for the time being, has been deferred based on the recommendation which was accepted by the government from NFAT. Basically, what they said was, come back when you have an economic plan that justifies it at this point in time.

And so, if there are significant additional export sales to Saskatchewan, to Northwest Territories, to

the US, to Nunavik, all of the above, I mean, Hydro could come back and be looking for authority to go forward with that. Whether it would be the same plan as it was previously, I mean, would depend on the advances in technology and the prices of various alternatives.

Mr. Eichler: The PUB estimates of operating costs are in cents a kilowatt, including fixed and variable costs?

Mr. Rainkie: Sorry, could you just clarify that question? *[interjection]*

Mr. Chairperson: Mr. Eichler, kindly be recognized first.

Mr. Eichler: The estimates by the PUB for operating costs in cents a kilowatt, including fixed and variable costs, is that way it's calculated?

Mr. Rainkie: Well, we tend to—the calculations at the PUB tend to be the first year in service and thereafter. But the way we do the integrated resource planning, which is the process Mr. Fraser just talked about, continually updating our plans, looking forward 20 or 30 years and looking at different—all different types of resources in terms of how we can meet Manitobans' needs, we look at what's called a levelized cost. So we take a levelized cost over 20 years, because what happens as these plants are in service, you pay down the debt. So it's not realistic to look at the first-year cost, so we tend to have a different metric than the PUB in our resource planning.

Mr. Eichler: Would you care to share with us how that calculation is done, then?

Mr. Rainkie: Without getting too technical, it's a net present value calculation where you take all the costs over the whole life of the plant and then discount it back, so it's kind of levelizing it across, you know, as Mr. Fraser said, these plants can run 80 or 100 years in the case of a hydroelectric generating station. So it's just something that takes all of the costs across the whole life and brings it back to one common denominator in present value dollars.

Mr. Eichler: And, currently, what is that rate?

Mr. Rainkie: Subject to check, my recollection is in the 80 to 90 dollars per megawatt or 8 to 9 cents per kilowatt hour range.

Mr. Eichler: The development plan presented to the PUB for the 2015-2016 and 2016-17 general rate

application made no mention of the eventual development in Manitoba of distributing generation systems. Has Manitoba Hydro now begun to investigate how distribution generation will be incorporated and how it will impact the need for Conawapa?

Mr. Rainkie: Interestingly enough, this morning I had a presentation with the executive committee on that very topic, and we are looking at a number of options, as I said, in our integrated resource planning, which includes renewables. Currently, the technology and the cost isn't something that we would implement right away, but in the next 15 to 20 years, by the time we would need another resource past Keeyask, it's very, you know, there's some likelihood that the costs and technology—cost could come down and the technology could improve, so we continue to look at all of those, all the options, not just hydro.

Mr. Eichler: With Conawapa on hold and perhaps indefinitely, we don't know—I have that crystal ball—the Bipole III converter, which is rated at 2,300 megawatts at Keewatinow, it's poorly sited, 100 kilometres downstream from Keeyask. To reduce adverse financial impact on the poor siting and oversize of Bipole III converter station, will Manitoba investigate a way to reduce the rating of Bipole III converters?

Mr. Fraser: We could take that under advisement and get back.

Mr. Eichler: With respect to landowners and Bipole III project, what is the general state of expropriation process and could you provide us an update? *[interjection]*

Mr. Chairperson: Mr. Fraser, sorry, yes.

Mr. Fraser: In total, 360 of the 450, or 80 per cent of the landowners impacted by Bipole III entered into voluntary easement agreements with Manitoba Hydro. Only 88 properties' files are in the expropriation process, and Manitoba Hydro has title to all lands required for Bipole III, including those in the expropriation process.

Mr. Eichler: How many landowners are currently involved in the expropriation dealings with Manitoba Hydro? *[interjection]*

Mr. Chairperson: Mr. Fraser. Mr. Fraser, did you answer the question?

Mr. Fraser: Yes, 88.

Mr. Eichler: Out of the 88, where are they at and what's the anticipated timeline of which they're hoping to have these resolved or is there a timeline of which you're trying to reach in order to have settlement on those?

Mr. Fraser: Well, I think, as I've indicated here, that Manitoba Hydro has title to all lands required for Bipole III, including those in expropriation process.

Mr. Eichler: This spring, did Hydro define the limits of the right-of-way for expropriated lands so landowners would be aware of where to stop their seeding and fertilizer operations? If not, what expectations are placed on landowners from Hydro with respect to this issue?

Mr. Fraser: We'd take that question under advisement and get back.

Mr. Eichler: Of the land being expropriated, approximately how much of it was planted or fertilized? In these circumstances, who owns the crop?

Mr. Fraser: We'll take that under advisement.

* (15:30)

Mr. Eichler: With respect to the expropriated farmlands, what action did Hydro take to control weeds on these properties to avoid weeds into adjacent lands?

Mr. Fraser: We'll take that under advisement and get back.

Mr. Eichler: In regards to general sense, Hydro's experience with expropriation, of its 100 years of history, for example, how many properties have been expropriated for what projects? I'm looking for that kind of general information.

Mr. Fraser: We'll get back with that.

Mr. Eichler: I believe that, looking back in history, and I would hope you could do a little more detailed analysis on it, my understanding is that there's only been five expropriations prior to Bipole III. So I would like to see if Manitoba Hydro would undertake to see if this information is, in fact, correct and, if so, out of the expropriation for Bipole III, how many of those are being expropriated as well?

Mr. Fraser: We'll take that under advisement. *[interjection]*

Mr. Chairperson: Mr. Rainkie?

Mr. Rainkie: Just on one of your previous questions, my understanding is that we've entered into easement agreements so that the land could be used for farming, and that even for those that are expropriated we would be willing to do that.

Mr. Eichler: Is that a written agreement or a verbal agreement? How is that outlined for those farmers that are impacted?

Mr. Rainkie: Given that it's an easement agreement, I assume it's—we can check to clarify, but I assume it's written.

Mr. Eichler: It's my understanding that Hydro has contracted KPMG to undertake a review of the corporation's financial targets. Has that been completed and, if so, would you provide me a comment on that?

Mr. Rainkie: Yes, the report has been completed by KPMG. It's phase 1 of the work. What we're doing right now is we're doing some more internal financial analysis so that the finance folks at Manitoba Hydro can make a recommendation to the board this fall. As we indicated on the public-procured at the PUB, the—and, generally, the review indicated that our financial targets are reasonable when they—in relation to other comparable utilities across the country.

Mr. Eichler: When will that report be made public for others to have a look at? *[interjection]*

Mr. Chairperson: Mr. Rainkie, please to be recognized. Thank you.

Mr. Rainkie: Sorry, it's my first time here, so hopefully I get at least one—

Mr. Chairperson: You're doing fine.

Mr. Rainkie: Thank you.

We would anticipate after the review is completed with the Manitoba Hydro-Electric Board we would file it with the Public Utilities Board somewhere later in 2015 or early 2016.

Mr. Eichler: In regards to that report, how was that contracted? Was it a bid system? Was it sole source? How did you arrive at using KPMG's services?

Mr. Rainkie: Yes, it was through an RFP process.

Mr. Eichler: I want to talk about rates. Hydro now forecasts annual rate increases of 4 per cent throughout the construction of its preferred development plan. With Conawapa now deferred, will the forecast annual rates be decreased as a result of that?

Mr. Rainkie: The—given that Conawapa was so far out in the original forecast, any rate impact of Conawapa was past our 20-year forecast to begin with. So the rates that we're projecting in the next 15 to 20 years won't be impacted by Conawapa being wound down at this point.

Mr. Eichler: With respect to Conawapa, is that going to be—how's that going to look on the financial statement? Is that going to be as a debt that's outstanding or is it going to be written off in one lump? What's the accounting practice that's used on those?

Mr. Rainkie: Because Conawapa is one of the most economic sites in Manitoba, there's a lot of value still to the expenditures that we've made to date. So we believe that that would still stay on or books until a firm decision would be made not to pursue Conawapa. And if we ever made such a firm decision, we would ask that the Public Utilities Board treat it as a rate-regulated account that would be amortized over a fairly long period of time, let's say, perhaps 20 or 30 years. So the costs would be expensed over a long period of time.

Mr. Eichler: Wuskwatim ended up costing twice his projection amount when put forward to the CEC once they vetted the project in 2004. Meanwhile, the estimates for Wuskwatim, Hydro's head office, the refurbish of the existing infrastructure doubled. Should we anticipate further estimated increases for Bipole III and Keeyask and the other assets renewals as they come forward?

Mr. Rainkie: As I mentioned earlier, I think the circumstance is a bit different with Keeyask and Bipole III. We have a significant portion of our costs already contracted. The increases in Wuskwatim that you mention were from the earlier estimates, and during that period of time there was a significant increase in materials and labour given the market conditions at the time. So, and in a sense, as I mentioned earlier, we've also improved our processes in—changed our processes in terms of having earlier contractor involvement. So we believe that we're in much better footing at this point in terms of future cost changes. Of course, these are very large complex projects that—and so there's always some potential.

Mr. Eichler: Yes, I'm just looking at the chart that Manitoba used for looking at the expenses, and once we look at Wuskwatim, Conawapa and Keeyask, one would think that, based on past experience usually repeats itself, maybe the 4 per cent rate increase is

not going to be near enough and, if so, how would that be presented in the next rate increase proposal to the PUB?

Mr. Fraser: I—we're certainly not aware of anything that would require a significant change in rates other than what has already been laid out at this point in time.

Mr. Eichler: Hydro's financial forecast involved a simulation of a great number of possible outcomes for various assumptions. What is the highest rate increase forecasted for the next 20 years based on what you've said earlier and now? Do you feel those 4 per cent annual rate increases are going to be able to back up your plan financially the way it's laid out at this point in time?

Mr. Fraser: Yes, we do, and as I said, those plans have been vetted internally by Hydro. They've been vetted by the board. They've been vetted by the Crown Corporations Council. They've been vetted through the loan act. They're looked at by the Auditor General's office, and to the best—and they're reviewed by the PUB and the NFAT process, and to the best of anybody's knowledge with the most current information we have available, the estimated 3.9 per cent rate increases are what is required to go forward.

Mr. Eichler: Hydro's net income results over the past decade, from the rates of March 31st, 2003, to rates of March 31st of 2014, what has the overall rate increase been?

Mr. Fraser: We could take that under advisement and get back with it.

I would make the comment, though, that, I mean, if you look at the charts earlier that, I mean, the rates are the lowest in the country and beyond, and the challenges that Hydro has with regard to reinvesting in infrastructure that's 70 or 75 years old are the same challenges that other utilities, certainly in Canada, are faced with at this point in time, because basically the country was electrified at the same time. I mean, so those investments, the history and the age of them is generally the same. Any investment requirements indicated the Conference Board was projecting \$350 billion nationally across Canada needed to refurbish the infrastructure. So the rates that are going to be required in other provinces in other parts of Canada are going to be at least as challenging as is Manitoba Hydro's rate increases.

* (15:40)

Mr. Eichler: How much of Hydro's overall net income, electricity only, for the physical period 2004-05 through to and including 2014-15 was attributed to rate increases? If you don't have that, would you be able to undertake to get that for us?

Mr. Rainkie: In fact, I think we provided that to the Public Utilities Board, so we could.

Mr. Eichler: How much lower would the accumulated net income for that 10-year period be if rates had only risen by the rates of inflation?

Mr. Rainkie: We'd have to undertake to give you that figure.

Mr. Eichler: In the brief submitted by the Bipole III Coalition to the PUB, it presented that about 12 years or so the 3.95 rate increase would cause Hydro rates to exceed the falling price of solar generators as is now happening in other regions. Does Manitoba Hydro see this an opportunity to keep consumers' rates low as possible providing with—providing them with reliability?

Mr. Fraser: I'm sorry, I [*inaudible*] looking at the utility rate changes in terms of this chart. Could I ask you to repeat the question, please?

Mr. Chairperson: Mr. Eichler, please repeat the question.

Mr. Eichler: Sure I will, yes. In a brief submitted by the Bipole III Coalition to the PUB, it presented that in about 12 years or so the 3.95 rate increase will cause Hydro rates to exceed the falling price of solar generators that is now happening in other regions. Does Manitoba Hydro see this as an opportunity keep consumer rates low as possible while providing them with reliability?

Mr. Fraser: Certainly, Hydro continues to look at the opportunities with solar. The latest information that I have seen is that, I mean, the—with more implementation of more solar the price points are expected to come down. But they're not expected to be economically viable from Manitoba's perspective until well into the 2030 decade.

Mr. Eichler: To extend the effectiveness of the Power Smart, will Manitoba Hydro offer incentives to ratepayers to incorporate solar panels and batteries for residents and corporations to reduce consumer overall electrical rates?

Mr. Fraser: The Power Smart initiatives and structure and so on was something that went through extensive review during the NFAT hearings. The

NFAT panel made certain recommendations to government in terms of the structure and mandate, independence of it, and also asked that significantly more investment be channeled towards that. So, although I can't give you a specific answer, I mean, I think that certainly there is going to be a significantly increased investment in demand-side management and that these issues will, I'm sure, be part of what is looked at. And if there's a sensible case for promoting them, then, I assume they will be promoted.

Mr. Eichler: What was the average spot price secured by Manitoba Hydro over the past year?

Mr. Rainkie: It would—I'll give you a range. I don't have a point figure right in front of me, but it'd probably be in the range of \$25 a megawatt to \$27 a megawatt, so more in that range for a—spot sales.

Mr. Eichler: What was the cost of generation and transmission from Wuskwatim?

Mr. Rainkie: I'd have to go back and look at the levelized costs for Wuskwatim to answer that. I mean, we look at our system as a whole; we don't paint the electrons, as we say, in terms of figuring out what went where. But—and so we look at our overall system cost as opposed to looking at the cost of one particular plant.

Mr. Eichler: Would you be able to provide that for the kilowatt as opposed to the megawatt?

Mr. Rainkie: Sure. [*interjection*]

Mr. Chairperson: Mr. Eichler, sorry, be recognized, sir. Thank you.

Go ahead, Mr. Eichler.

Mr. Eichler: Thank you. Does Hydro maintain a target average export price per kilowatt? If so, what is that price and how often is it calculated?

Mr. Rainkie: Sorry. Just to clarify, is that—are you talking about spot sales?

Mr. Eichler: That is correct.

Mr. Rainkie: Given that those sales are made in the competitive market, we certainly have a plan. We have a forecast. We use a number of independent forecasters to tell us what they think the price is going to be and we incorporate that in our financial forecast, but—so that we have a plan. But, of course, these are sales made in the open market, so they're subject to market fluctuations.

Mr. Fraser: Yes, it might be useful just to kind of explain—some members may not know what the spot market is.

When Hydro makes a contract like with SaskPower like they announced yesterday or Minnesota Power, it's called a firm sale, and so there's—it's for a number of years and it's at a specific price that's negotiated, and that price is significantly, very significantly higher than the cost to produce that power. But because there are variables in terms of how much power is available at any one point in time and to make sure there's enough power to supply to Manitobans, they only sell a conservative amount of available power.

So what happens, if there's good water flows you can have excess power, and the spot market is basically an overnight market so that if there's a heat wave in Minnesota and they're using their air conditioning and they need more power and they want to buy it, they have alternatives where they can get it, so they'll offer a price. The alternative for Manitoba Hydro is to spill that water.

So the spot market prices are generally much lower, although they can sometimes be higher, depending on the demand, than the firm-price contracts. It's the firm-price contracts that kind of determine the viability of economic investments.

But, I mean, if Hydro's selling on the spot market, if they don't sell it, then they just spill the water and waste the opportunity for power. So it's really only the marginal economic cost of getting that power to, let's say, Minnesota or Saskatchewan that is relevant in terms of looking at the profitability of selling on the spot market.

Mr. Eichler: In regards to the—in your report on export volume price, 2015, I believe, is forecast to be \$34.67; 2019, \$61.50; and 2024, \$87.12. Are those numbers correct?

Mr. Rainkie: Sorry, sir, can you indicate what the source of that material is?

Mr. Eichler: GR appendix 11.19.

Mr. Rainkie: Sir, we'd have to—I think we'd have to—we filed 20 three-inch binders of material during that hearing, so I think I'll take that reference, if you like, and we can get back to you.

Mr. Eichler: That would be fine.

At the last PUB hearing, Hydro had talked about projected cost savings in the operation and

maintenance and governance supported by service units, but at the same time noted a 5 per cent increase in capital construction costs.

Are you concerned that any of those cost savings in operation areas are effectively being completely erased by capital construction costs that continue to rise with the rate of inflation?

* (15:50)

Mr. Fraser: Well, certainly we're obvious—always concerned about rising costs in any aspect of the business, and as I indicated earlier, I mean, it's trying to balance the investments that we make and the costs of those investments, the opportunities to save money and—by modernizing the way that we do business and the amount of rate increases that is acceptable to the ratepayers. So, I mean, it's always a balancing act and we're concerned about any cost increases on any line item.

Mr. Ron Schuler (St. Paul): On the Bipole III line, I understand that a contract has been let for the steel for the towers to carry the electricity. Can the corporation confirm that that company was a US-based company?

Mr. Fraser: We can get back to you on—who the—

Mr. Chairperson: Mr. Schuler.

Mr. Schuler: Was a deposit made by the corporation, but—Manitoba Hydro, to the company? Was a deposit made on the steel?

Mr. Fraser: We'll have to get back to you on that.

Mr. Schuler: Is Manitoba Hydro confident that the US company, or the company that's been contracted to supply the steel, that they are financially and fiscally sound?

Mr. Fraser: We'll get back on that as well.

Mr. Schuler: Could Manitoba Hydro tell us, the steel that was purchased, is it galvanized?

Mr. Fraser: We'll include that as well.

Mr. Schuler: If it's not galvanized, can Manitoba Hydro tell us who would be doing the galvanizing? Would that be a Manitoba company or would that be a—someone in Canada?

Mr. Fraser: We'll get back to you on that.

Mr. Schuler: Obviously, to assemble the towers there's a need for nuts and bolts. That's how you put it together. Could Manitoba Hydro tell us, those nuts and bolts, have they been sourced from China?

Mr. Fraser: We'll have to get back to you on that.

Mr. Schuler: And is there any concern in regards to the nuts and bolts and their ability to withstand a certain length of time, or is there some problems with them?

Mr. Fraser: We'll get back to you on that.

Mr. Schuler: I've a couple of questions on—in regards to 335 Railway Ave. in Gillam. It's called the Gillam mall. Could the corporation tell us, what is the final cost of building the Gillam mall?

Mr. Fraser: We'll take that under advisement and get back.

Mr. Schuler: I do have other questions. I am surprised that questions that—like these should, I would have thought, should have been easily answerable. These are pretty straightforward, but I'll continue it. If we could also get what the direct cost versus the indirect costs of the Gillam mall is, and I'll lay that out: Direct cost is, of course, brick, mortar, nails, carpet, that kind of stick—stuff, as compared to the indirect cost which would be architects, engineers, that kind of stuff. Could we have that, whatever the final cost is? Could we have it broken out to—down into direct and indirect costs? Would that be possible?

Mr. Fraser: We'll undertake that.

Mr. Schuler: Could the corporation tell us what the gross square foot rent is of the Gillam mall?

Mr. Fraser: We'll undertake to do that.

Mr. Schuler: As committee would know, the gross square foot would also include corridors, hallways, that kind of stuff. So that is—it would include nonrentable space. Could the—could Manitoba Hydro tell us what is the exact rentable area? So as compared to the gross area, which we'd like to know, what is the actual rentable area? Could we know that as well?

Mr. Fraser: We'll undertake to do that.

Mr. Schuler: Could Manitoba Hydro tell us, and I know this gets into areas we want to be careful on, divulging individual contracts. I understand Canada Post is a client in the mall as well as some others. Can we get from Manitoba Hydro what the space is being rented at without divulging individual contracts? Is it possible to get what the rent—a rental rate, an average rental rate, whatever? We understand that we can't get specifics by tenant, but what the average rental rate would be?

Mr. Fraser: We'll undertake to do that.

Mr. Schuler: Can Manitoba Hydro tell us, has there been a appraisal done on the Gillam mall now that it is built and appraised according to the kind of leases that are currently in place? What would be the appraised value if Manitoba Hydro's actually done one?

Mr. Fraser: We'll undertake to get that.

Mr. Schuler: On the second and third floor of the Gillam mall, could Manitoba Hydro confirm that there are seven units of luxury-style two- and three-bedroom suites?

Mr. Fraser: We'll undertake to do that.

Mr. Schuler: Could Manitoba Hydro also let us know, those suites, are they approximately 1,800 square feet for each suite?

Mr. Fraser: We'll undertake to do that.

Mr. Schuler: There's an apartment block called Evergreen Apartments in Gillam. It's approximately eight to 10 suites. Is Manitoba Hydro negotiating to purchase that building?

Mr. Fraser: We'll undertake to answer that.

Mr. Schuler: If Manitoba has, in fact, purchased Evergreen Apartments, could Manitoba Hydro tell us what they paid for it?

Mr. Fraser: We'll undertake to do that.

Mr. Schuler: Could Manitoba Hydro—I want to go back to the appraisal. It—and, again, because we don't know if there was, but if there was one, could that appraisal be made public or is it best that we would get that through a FIPPA request?

Mr. Fraser: We'd have to get back with that answer to you.

Mr. Schuler: While we're on the topic, could we also know who was the builder designated for the Gillam mall, and Gillam—the 335 Railway Avenue, Gillam mall, who was the builder?

Mr. Fraser: We'll undertake that.

Mr. Eichler: Sorry, I just had to do some negotiations in regards to time, and I'm sure the House leader for the government will update us here shortly.

Just a couple of more questions in regards to cost estimates. In 2003—no—the NFAT process, there was a number of risks that could be realized in the

execution of Hydro's preferred development plan. These include interest rate increases, the recent credit downgrade by the Province, by Moody's, construction 'cost'—cost increases and drought and, of course, equipment failure. As drought is certainly one of those things that's going to come, and we've enjoyed high water levels, what are the plans in place of mitigating through drought and those risks, what is the plan that Manitoba has put in place for those times?

Mr. Fraser: Certainly, Hydro goes through on a continuous basis in terms of assessing the risks and produces an annual report, which prioritizes the risks, and 'drought' is—or drought is certainly one of the most significant. There are a number of mitigating actions that Hydro takes in terms of dealing with that, certainly, not the least of which is being a profitable, stable corporation and having 2.83, I believe is the number, billion dollars in retained earnings that—and part of the rationale for that, those retained earnings, is to be able to ride through a drought period. And that's also—the flipside of that is the equity and the debt ratio and so on that—but there's also in terms of as we've commented on during today's discussion, there's backup facilities that have been maintained, although we do not use them on an ongoing basis, and through the contracts with the US, there's reciprocity in terms of not only do we sell power to these various clients, but generally part of those deals is that it also gives us a right to, if there isn't power available, then we're not required to provide it and it's not a breach of contract. Plus, there are arrangements in terms of being able to buy power and use the transmission facilities that are there and the ones that are being planned and being built to be able to bring power into Manitoba. So those are some of the major mitigating plans that Hydro has in relation to droughts.

* (16:00)

Mr. Chairperson: Now the hour being 4, what is the will of the committee?

Hon. Dave Chomiak (Minister of Mineral Resources): I want to thank the member for Lakeside (Mr. Eichler), members of the opposition, Liberal Party and my own party with respect to timing on this. I know that there's a lot of questions that the members wish to ask and it's important they have the opportunity to ask those questions. And it's also important that in the spirit of the movement towards new rules in the House that the leader of the third party also have some time. So, in the spirit of

that, I'm very—I want to announce that I believe there's an agreement that this committee will sit until 6 o'clock.

Mr. Chairperson: Another comment—oh, Mr. Eichler, on that point, yes?

Mr. Eichler: Yes, Mr. Chair, we concur with the Government House Leader (Mr. Chomiak). If at all possible, I can prioritize a few more of these. If I can, I'll try and get through earlier if possible but I have put hours and hours of work into this, and, you know, on behalf of all Manitobans, and I thank the Government House Leader for that opportunity.

This is our only chance; we only meet once a year and we may have to look at alternatives to this, going forward, but certainly prepared to work to get through sooner than 6 if possible, but we will agree to rise at 6.

Mr. Chairperson: So is this agreed to sit about—'til 6 o'clock? *[Agreed]*

Committee Substitution

Mr. Chairperson: Now, I'd like to inform the committee that under rule 85(2), the following membership substitution has been made for this committee, effective immediately: Honourable Chomiak will be replacing minister Altemeyer.

* * *

Mr. Eichler: Glad that that's behind us and moving forward. Is it possible that the demand in Manitoba and the IM—or MISO market will be less now than what it was forecasted going forward? Is there that possibility and, if so, what impact will that have on our budgetary process for revenues going forward?

Mr. Fraser: Well, certainly, the forecasts are based on a number of assumptions and there's always the possibility that the forecasts could be lower for various reasons. That's something that's looked at by a number of experts and that Hydro utilizes outside independent experts, in terms of those forecasts. And, in fact, I mean, it averages out the forecasts, so. But recognizing that, I mean, any forecast is subject to variability, that it's an ongoing process and they're continually looking to see if their expectations and assumptions are correct. And if not, if they have to adjust them, and they do adjust them and whatever impacts that might have, in terms of revenue, rates, costs, pulling back on certain things, delaying certain things; you know, those are the things that would have to be done as a result of that.

Mr. Eichler: As we know, the solar power has really taken off, in particular California and in Minnesota. Doing your calculation for the export prices in Minnesota region of the I—or MISO, has Manitoba Hydro taken into account the increasing installation of solar farms such as the 21 solar farms now being constructed across the state at Xcel Energy substations? We know those grow fairly quickly and, of course, that takes a huge load off Manitoba Hydro as far as sales are concerned and the impact. Is there any penalty clauses that would also be calculated into that if, for some reason, that they do expand their solar power capabilities, that Manitoba would be compensated for any of those loss in sales?

Mr. Chairperson: Now I'd like to get the attention of the committee that now the Vice-Chair has been excused to leave, the next business is to elect a new Vice-Chairperson.

Are there any nominations?

Hon. Melanie Wight (Minister of Children and Youth Opportunities): I would like to nominate the excellent Mr. Jim Maloway.

Mr. Chairperson: Is there any other nominations? Seeing no other nominations, Mr. Jim Maloway is elected as Vice-Chairperson. Thank you.

Now we will continue the questions and answers.

Mr. Fraser: The—as we've discussed earlier, I mean, certainly Hydro continues to monitor and to look at solar, to look at the price points and to look at the implications. So far what the experts are saying is that, you know, sort of the price points in terms of viability on a large-scale basis as a competitor to hydroelectric at least is a couple of decades away.

When we talk to regulators and customers in Minnesota, they indicate that currently the US produces about 40 per cent of its electricity with coal and that under the new Obama requirements in terms of reducing emissions and so on that they're going to have to close down these coal plants and that there are, as a result of that, potentially significant opportunities for Manitoba hydroelectric, not only in terms of volume but in terms of potentially attractive prices. So when we talk to the customers and the regulators, they're—you know, they're not indicating any concern about diminishing their requirements for hydroelectric power, quite the opposite, in fact.

There was an interesting article in The Globe and Mail that goes back to, I think, May the 1st of

this year, US off-coal plans could benefit Canada, and it talks about Manitoba Hydro and the fact that, you know, 40 per cent of the US hydro generation is in terms of coal plants and that they're going to be forced to close those down and it's going to create a huge problem for them and a potentially significant opportunity for Manitoba Hydro.

Mr. Eichler: In your presentation you had talked about low-income households, and I believe the number you used, there's about 30 per cent of Manitoba Hydro customers are of low income and about 35 per cent of the consumers that use electricity to heat their homes. Also understand that thousands of consumer accounts are behind in payments each month, in particular the winter months.

Is that correct, or what are the right numbers in regards to those that are delinquent on their accounts and behind on their payments and the impact that the rate increases are going to have on the lower income households?

Mr. Fraser: I'm not sure where you got those statistics from, but they weren't from my presentation. I don't recognize those statistics.

Mr. Eichler: Then, of the 30 per cent of low-income householders, assuming that that is right, would you be able to confirm if that is correct? And also, of the consumers that are behind on their heat bills in the winter is about 35 per cent, would you be able to confirm that, yes or no?

Mr. Fraser: Well, those numbers sound high to me, but we could take that under advisement and get back to you.

* (16:10)

Mr. Eichler: With respect to the northern communities not attached to the grid, what is the delinquency experience on outstanding payments and the commitments made by them to pay Manitoba Hydro back? What is that in the northern communities?

Mr. Fraser: Well, again, I mean, it's an individual customer-by-customer basis where if there's an issue with bill collection that there's one-on-one negotiation with the customer in terms of trying to come up with a payment plan that they can handle and that—to pay off their bill. So there's not kind of one formula fits all. It's kind of—it's an individual, one-on-one negotiation to do the best we can where there is a problem.

Mr. Eichler: Since the cap of consumption was taken off in those northern communities, what has an increase in consumption been and is there new agreements in place with those users in order to utilize the hydro since the cap has now been taken off for those northern communities?

Mr. Fraser: We can take that under advisement.

Mr. Eichler: Hydro has revealed that a number amounts of money have been expended on northern mitigation, contract negotiations, northern First Nations training, employment contracting and community development. Would you confirm that all costs incurred ended up and reflected in the rates and the bills of the hydro consumers, business and institutional customers, and can Hydro validate the sums that—expended on these measures for the ratepayers of Manitoba?

Mr. Fraser: All those amounts are included in Hydro's financial statements which are audited by an external audit firm and they're reviewed by the Auditor General. They're reviewed by the Public Utilities Board and—in determining rates, so all that information is in Hydro's financial statements.

Mr. Eichler: And the firm that does the audit on those?

Mr. Fraser: Ernst & Young is currently the auditors of Manitoba Hydro.

Mr. Eichler: It's been reported in the media that Hydro has expended \$1 billion on mitigation, \$251 million on negotiating partnerships with First Nations. With respect to the \$251 million, what is the breakdown between covering consulting and legal expenses for First Nations, payments to individuals within the First Nation and on community development?

Mr. Fraser: We could provide that. We'll take that under advisement.

Mr. Eichler: We do appreciate that.

Has Hydro's expenditures and commitments to First Nation governments, communities, residents and firms, including mitigation negotiations and other matters, been subjected to independent audits on those or are they included in your blanket summary?

Mr. Fraser: They are separated in the financials. They're not summarized under other things. I mean, there is mitigation costs that are identified and, as I say, they are audited by the external auditors who are

independent. They're audited by—reviewed by the Auditor General and by the Public Utilities Board on an annual basis.

Mr. Eichler: Is there a breakdown on that that's available to the general public or is that, again, a lump sum that's put into the audit or is it broken down on an individual basis?

Mr. Fraser: There would be information in terms of the nature of the amounts, but it's not broken down by individual or individual community. It would be in a lump sum for mitigation costs or community development costs and so on.

Mr. Eichler: Recently, the taxpayers federation revealed a leaked document apparently presented to Hydro's audit committee. The document suggested a number of problems with respect to the inadequate support for some payments. What follow-up has occurred, any of the questionable payments been turned over to the RCMP for investigation?

Mr. Fraser: You'd have to be more specific. I'm on the audit committee. I don't recall such an issue being raised with the audit committee. I mean, if I knew what the item is—the Auditor General has been involved in reviewing some of these costs, but, I mean, it wasn't—you know, and that's certainly public knowledge. I'm not sure what the status of that review is or what the recommendations will be, but, I mean, they have in the past done some and I think they continue to do some.

Mr. Eichler: Has there been any payments or question of payments turned over to the RCMP for investigation?

Mr. Fraser: Not that I'm aware of. I mean, maybe by the Auditor General's office there may be, but, I mean, there isn't anything that I'm aware of through the audit committee.

Mr. Eichler: With respect to Hydro's employing members of First Nations and First Nation contractors, could you indicate the volume of such expenditures not subject to personal or corporate income tax due to workers and contractors on reserve land? How is that established and what is it based on?

Mr. Fraser: Well, certainly there is—I mean, what it's based on, I mean, there is an objective in terms of, to the greatest extent possible, providing economic development opportunities, training opportunities, job opportunities for the people in the North that are impacted by these projects and to

provide them with those opportunities. So, I mean, that is a priority.

Mr. Eichler: Two things: I'd like to table for the acting CEO a chart that I referred to earlier on the outlook cost. It might help him in his determination of the rates that we talked about earlier. It might be helpful.

Still on the First Nations, how do you allocate revenues and expenses to its First Nations partnerships? How do you determine that? What's it based on? Is it done through negotiations, and how are those expenses come about and how's revenues with that as well? How is that allocated?

Mr. Rainkie: Yes, it is done through negotiations. There's a certain amount of information that's on the public record at the Public Utilities Board on that.

Mr. Eichler: Earlier on Mr. Fraser had regard—talked in regards to the diesel plants in one of our questions, and I believe the number was about \$400 million in order to bring in the grid into northern communities which are left off the grid.

How dependent are they upon this diesel generation? What are the health and economic and environmental issues that arise with these communities with diesel generation, and have there been diesel spills from trucks delivering fuel, and if so, how is that looked after in regards to those communities for the environmental impact and, of course, checks and balances in place to prevent it from happening again?

Mr. Fraser: I can provide a—perhaps a partial answer, but—and we can undertake to get back with further, but the support for those communities is a federal government responsibility, so the diesel fuel and the cost of the diesel fuel and so on is an expense of the federal government in terms of dealing with that. But, I mean, we can undertake to get you more detailed information.

* (16:20)

Mr. Eichler: I would certainly appreciate that.

Taking into account the cost of the fuel and, of course, there's transportation to get it there, what is the subsidy being provided by ratepayers to allow the four communities to receive diesel-generated electricity at province-wide rates? In other words, what is the cost for the rest of Manitoba to provide diesel power for those four communities? What is it costing those ratepayers?

Mr. Fraser: Okay, I would again point out that it is a federal responsibility, but we can get back to you with more specifics on that.

Mr. Eichler: Treaty 2 First Nations have an appeal before the provincial government and the courts with respect to Bipole III. What is Hydro's involvement in these matters and is Hydro opposing Treaty 2 claims? Is Hydro attempting to negotiate a settlement with Treaty 2 First Nations?

Mr. Fraser: We can get back with specific details on that.

Mr. Eichler: Would the—would Mr. Fraser care to elaborate on whether or not we're attempting to negotiate a settlement and, if so, when would that be?

Mr. Fraser: We're continually working to negotiate settlements and we would never prefer to have to go to the courts to settle these things. So, I mean, we are continuing to negotiate where that exactly stands. I'd have to get the specific details for you.

Mr. Eichler: I do appreciate that.

Administrative expenses rose by over \$9 million from 2010 to 2011 to \$472 million while your net income has gone down to \$89 million to \$61 million. Would you care to comment on that?

Mr. Rainkie: During the period, particularly from 2009 on, we've made several changes to accounting policies during that period of time that I think are in the order of over \$100 million. So the figures that we quoted earlier in our presentation in terms of our operating costs, being able to bring them in around 1 per cent or more, is net of those accounting changes. So it's not that we're spending more money; it's simply more money's being expensed versus capitalized to assets.

Mr. Eichler: I'm sorry, I was discussing an issue with the House leader for the government. Would you care to repeat that? I'm—I apologize. *[interjection]*

Mr. Chairperson: Yes, Mr. Rainkie.

Mr. Rainkie: Don't know if I can do it for verbatim, but I'll try with my little accounting lesson there.

We made a number of changes to our accounting policies over the last number of years in anticipation of moving to international financial reporting standards, and that has resulted in over \$100 million moving from what used to be capitalized assets to being expensed. So the figures we were talking about

earlier in the presentation, pull those out so we have an apples-to-apples comparison about what our real cost changes are. So most of that in that period is noise. We actually have been quite successful in managing our operating costs.

Mr. Eichler: I do appreciate that.

I want to talk about Tiger Dams. Are you familiar with the flood mitigation product, Tiger Dams?

Mr. Rainkie: No, sorry. You have me on that one.

Mr. Eichler: Well, the makers of the product list Manitoba Hydro as an existing customer in the large corporations category of their website under their testimonies. I can provide you with a copy of that if you like. Were you aware that Manitoba Hydro name appeared on that website?

Mr. Rainkie: No, sorry. I've been on the job for about five working days so haven't got quite to that level of detail yet.

Mr. Eichler: Can you give me a sense of Hydro's current stock of Tiger Dams? How many Tiger Dams are in Hydro's possession?

Mr. Rainkie: We can undertake to do that, sir.

Mr. Eichler: Maybe I'll go back and maybe Mr. Fraser can share some light on this, but we'll go back to the NFAT process and independent experts.

The PUB engaged in several independent expert consultants to assist in its review of Hydro's preferred development plan; the Metis Federation, the Consumers' Association also engaged in independent utility experts. On what basis has Hydro dismissed the views of the expert testimony of those experts which question and criticize assumptions made by Hydro and concluded Hydro's preferred development plan was unsound and high risk for ratepayers?

Mr. Rainkie: I don't think that Manitoba Hydro dismissed. That was a public hearing and the purpose of a public hearing is to have a wide range of discussion from different experts. I think there was general concurrence with what Manitoba Hydro's actually moving forward with in terms of the Keeyask dam and the 750–new 750 kV line to the United States. I suppose the point of disagreement, if you like, might have been around Conawapa and whether there was a good enough business case to move forward on it. But most of the experts that I recall—I had a part in the hearing, a financial part in

the hearing—in the end were reasonably accepting of moving ahead on Keeyask in the US timeline.

Mr. Eichler: In regards to the NFAT process, are you aware of Dennis Woodford's contention that Bipole III overhead line could be avoided by adding engineering measures involving the converter stations, thus saving billions if not marring the province's agricultural landscape? These are poles that go right down the side of the road. We talked about this last year with Mr. Thomson who was—who at that point said he was familiar with them, but it is being used in Europe and the United States widely. Would you care to make a comment on that and whether or not that option has been looked at since?

Mr. Fraser: I believe that the comments that Mr. Thomson made last year are still relevant. It has been looked at, and the distances that are covered in terms of the Manitoba geography are far more significant than they are where these are used in other places, and the number of poles, as I recall, would have to be substantially more. And I forget the exact distances, but with the higher towers the distances are a certain amount; with the smaller towers there'd have to be that many more of them. So the economics of it comes unravelled because of that.

Mr. Eichler: So in regards to the farmers and the impact on the world economy and especially in particular in Manitoba as a result of the lost revenue for the cropland that's going to be taken out of production, did you at least do a cost analysis on it to determine whether or not it was feasible, and, if so, what that analysis would look like taking into account the loss of productivity based on the agricultural loss as well? Because it's significant and I think it would be incumbent upon Hydro to at least look at this option because you're taking that land—agricultural land out of productivity, and is it an option for us and also for the irrigation systems for aerial spraying and a number of factors that come into play? So have you determined just that it's not feasible or what are you basing that decision on?

Mr. Fraser: We can get back to you with the details on the agricultural land.

Mr. Eichler: Would you also get back to us on the suggestion in regard to the cost and what that benefit may look like for Manitobans, and—as opposed to the tower structure? Is that an option?

Mr. Fraser: Yes.

Mr. Eichler: I do want to come back to the Tiger Dams in regards to what we had talked about,

unfortunately. Are you familiar with the flood mitigation product, Tiger Dams?

Mr. Fraser: Only the little bit I've seen in the news media. I mean, I only know they're used, I mean, in terms of flooding as a diking system.

Mr. Eichler: The reason I bring this up, Mr. Fraser, is the makers of the product list Manitoba Hydro as an existing customer in large corporations category on their website which I provided a copy to you. Were you aware that Hydro's name appeared on that website?

Mr. Fraser: No, I was not.

* (16:30)

Mr. Eichler: Can you give me a sense of Hydro's current stock on Tiger Dams?

Mr. Fraser: We'd have to undertake that.

Mr. Eichler: Also, if you could tell us where they're located and where they were purchased and, of course, you know, when you purchase something, you have the opportunity to either tender that or sole source it. And, of course, what are these projects used for—products used for and how long has Hydro been using Tiger Dams, I think, would also be quite important. They are using Manitoba Hydro as one of their main customers. I think Manitobans would want to know, you know, what investment has been made on behalf of Manitoba Hydro for those ratepayers.

Mr. Fraser: We can do that.

Mr. Eichler: I'd like to ask the Minister responsible for Manitoba Hydro, was he aware of these purchases of these Tiger Dams and, if so, when was he brought up to date on it?

Mr. Robinson: On both questions, Mr. Chairperson, no and no.

Mr. Eichler: In regards to the Tiger Dams, obviously, it's a pretty big deal for this company to list Manitoba Hydro. So we would love to be able to get a copy of that information and the questions I had asked. So I'll just repeat, then. I would like to know: how many you currently have in stock; where they're located; when they were purchased; were the purchases tendered; and what are the products used for? Are they used for Keeyask? Are they used for flood mitigation? We know that they're pretty serious about making Manitoba, you know, flood-proof, but if you're using it for flood or for construction,

certainly it would be useful, and the amount of money that's been spent on them as well.

Mr. Fraser: We'll undertake that.

Mr. Eichler: Thank you. We appreciate that, and I look forward to that getting back to us.

Mr. Jim Maloway, Vice-Chairperson, in the Chair

Back to the NFAT process, the process that we went through with the approval of Keeyask, and Bipole III was not allowed to be discussed at that time. What was the—what was the direction given by Manitoba Hydro to the PUB and how was that determination made?

Mr. Fraser: Well, Manitoba Hydro wasn't in the position to give direction to the NFAT panel. The terms of reference for the NFAT panel were, I believe, developed by the government. Hydro wasn't—is not in a position to tell a regulator what they should or shouldn't be doing.

Mr. Eichler: But without input from the general public, and for those that wanted to comment on it, was it not important enough for that to come, and Hydro feel it was important to have that input in regards to Bipole III?

Mr. Fraser: Well, as I say, I mean, the NFAT panel was made up of a number of independent objective people appointed to that position. They were certainly in a position to negotiate the terms of reference to their satisfaction and that—Hydro had no part in that, nor should Hydro have a part in that. I mean, if we could tell a regulator what to do we'd probably tell them to take a holiday.

Mr. Eichler: I would certainly hope not.

But in regards to executive salary increases at the level, I think it's important that we touch on this because Manitobans who are paying the salaries of Hydro employees and, indeed, we appreciate the work that Manitoba Hydro employees do. I'll focus on just two individuals in terms of the increases and wait for your answers.

According to a document filed with the Public Utilities Board earlier this year, most divisions with Hydro would see between 2 and 4 per cent increases with a few exceptions, notably the office of the president and the CEO. That division was set to see, by the former CEO's own admission, a 7 per cent salary increase. In reality, though, the increase appeared much higher in real terms. I'll provide you those two examples: Mr. Thomson's salary in 2012,

which we looked through the public disclosure, was \$373,571. By 2014, his salary was \$485,279. That's an increase of \$111,000 or a compound increase of nearly 30 per cent just over two years. In regards to Mr. Rainkie, his salary in 2012 was \$183,886. By 2014, it was \$217,170, or an increase of \$33,000 just over two years.

These increases are grossly higher than inflation. Do you believe these increases are appropriate, given the fact that Manitoba Hydro is a public entity, and, of course, these increases are exceptionally higher than the rate of inflation? Just to keep Hydro afloat, you know, this is a large amount of money and been brought to the attention of the general public, and I'd like your comments on that.

Mr. Fraser: Okay, one of the things that creates some confusion with regard to these numbers is that Hydro executives and division managers have, for literally decades, had two line items: a salary and what they call a standby allowance. And in the case of Mr. Thomson, his standby allowance was 11.2–\$11,200. And they range between \$9,500 to \$11,000, in that vicinity. Part of streamlining the process with regard to salaries was it was determined that it no—and to explain what the standby allowance is: These people are on call seven-24, and they, you know, there's no overtime or anything, but, I mean, it's a standby allowance in terms of if you got to come out in the middle of the night, if you got to deal with something in the middle of the night, that's what that payment is for, and it has been there for decades. That was rolled into the salary. So there was no longer two line items; there's no longer a standby allowance. So that inflates the salary.

So that was one of the items. If you're looking at year-over-year comparisons, there was also in terms of in 2'14 there was an extra pay period because if, for example, the first pay period of the year was January the 3rd, or something, of the new year, you'd end up—and that happens to all civil servants and all Crown corporation employees; they're all on the same payroll system. It shows up in their T4 and whatnot, but it can distort it when you're looking at kind of year over year, that, kind of, one year has 27 pay periods in it and another year has 26 or even 25 pay periods in it, depending on how you're looking at it. So when you take out those anomalies, the average pay increase was 7.2 per cent. Now, again, there's no question that's a significant pay increase.

Hydro executives have not had their pay reviewed in terms of their comparable group for

15 years. The board and the HR community of the board decided that for a number of reasons, it was appropriate to have an outside independent consulting group. And they had Hay come in and look at it and compare Hydro's salaries to other comparable corporations in Manitoba, including Crown corporations, and found that Manitoba Hydro was in the bottom 10 per cent quartile. And so, I mean, and there was compression with people moving up underneath and managers, kind of, there not being any sort of significant incentive to be a manager or an executive. There was also, certainly, when we went outside, and we've had to go outside for the CEO; we've had to go outside for a couple of vice-presidents, that in order to get the best people, that there was an increase given to those new people. It wasn't felt that it was fair that the only way you get kind of comparable salary was to be recruited from outside. So we asked Hay to look at everybody, and what they found was that they were in the bottom 10 percentile. What the committee determined was that ideally we'd like them to be at least at the 50 percentile and—recognizing that that couldn't happen overnight but that that was the target.

*(16:40)

So, I mean, there was on average a 7.2 per cent increase, not some of the numbers that have been—showed up in the media and whatnot in terms of—because of the—some of these other anomalies: the extra pay period, the standby allowance, in some cases vacation payout and those types of things. So that is the explanation. There's no question that 7.2, I mean, is a significant number.

But, having said that, I think, to my mind at least, Hydro is the most important corporation in this province. None of the businesses, none of the consumers, none of us in our personal lives would be able to operate very well without electric power, and even short outages cause huge problems. So I think we have to be able to recruit and retain talented people and I think we have to be fair with them.

So, I mean, we have had some turnover. It's not a huge issue, but I think in this case it's a fairness issue.

Mr. Eichler: Thank you for that explanation. So, at this point there's no standby pay for the CEO; it's all been compressed into the salary that's been reported, at least at this point. Is that correct?

Mr. Fraser: That is correct.

Mr. Eichler: The—is there any contracts for Mr. Thomson since he's left or leaving? Is this—is there a severance package for him? What does that look like?

Mr. Fraser: No. There's no separation; there's no consulting; there's no anything. He's—and he—the only thing he was entitled to was whatever vacation pay he had left that he hadn't used.

Mr. Eichler: The Civil Service Superannuation Fund, is that what his package was under, or was it a separate package by Manitoba Hydro?

Mr. Fraser: It was a separate package, as I recall.

Mr. Eichler: And that was negotiated with Manitoba Hydro, or was it through department of—through the minister's office—or through Treasury Board?

Mr. Fraser: It was negotiated directly with Manitoba Hydro, and Manitoba Hydro at the time, as I recall, hired an actuary, and it was all done by Manitoba Hydro.

Mr. Eichler: The committee that you referred to that negotiated these increases, who's on that committee?

Mr. Chairperson in the Chair

Mr. Fraser: I'm an ex officio member of that committee. John Loxley's on it. Eugene Kostyra's on it. A lady by the name of Karen Milani, who is an outside professional in personnel, and she's not on the board but she serves on that committee because of her knowledge and expertise. I'm drawing a blank right now. But, I mean, we can certainly get you the members of that committee.

Mr. Chairperson: Mr. Eichler.

Floor Comment: And ultimately it was approved by the board.

Mr. Chairperson: Oh, sorry.

Floor Comment: Sorry.

Mr. Chairperson: He raised a hand, so—Mr. Fraser, are you complete?

Mr. Fraser: Yes. The initial review and so on went through the HR and governance committee, and the recommendation was made to the board and it was approved by the whole board.

Mr. Eichler: Mr. Chair, I did agree to let the member from River Heights ask a few questions and he wanted to do that before he had to leave, so we'll turn the floor over to him for a while.

Hon. Jon Gerrard (River Heights): Welcome to this meeting. After only five days, I'm sure it's a bit of a challenge.

Now, the first question that I have relates to the Keeyask dam. What is the anticipated cost of the electricity that will be produced if you put it into kilowatt hours, cents per kilowatt hours numbers?

Mr. Fraser: We'd have to take that under advisement and get back to you with that.

Mr. Gerrard: Yes, okay. I thank you.

Now, just a question where you're dealing with—on figure 8 the average retail price of electricity, is that the average price of residential plus commercial plus extra provincial sales?

Mr. Rainkie: The figure of 6.3 I think is derived by taking our total revenues and divided by our total throughput, but it excludes any export sales. So it's just domestic revenues divided by kilowatt hours to get an average calculation.

Mr. Gerrard: Now, by domestic revenue, does that include revenue from within Canada or just all—exclude all revenue from outside of Manitoba?

Mr. Rainkie: It's just domestic. It is just revenue in Manitoba.

Mr. Gerrard: Thank you for that clarification.

Now, I'd like to go to page 28 on your meeting Manitoba's electricity needs. There's two lines there, one is the supply resources one is the green line which is listed as conservation efforts. Is—just for clarity on the green line, is that the amount of electricity demand which would be decreased by the demand-size management or is that—what is that?

Mr. Rainkie: Yes, that's our savings and gigawatt hours from our demand-side management programs cumulative since the start of this. I think, 1991-92 I think it is.

Mr. Gerrard: So, you know, say, from 2010 through 2026, which is about the right size, you would have growth of about 4,000 gigawatt hours in new supply, but you would also have about 4,000 gigawatt hours in decreased demand because of demand-size management? Is that roughly—I mean that's a very rough estimate but.

Mr. Rainkie: Yes, I think I agree with that order of magnitude just interpolating the spots. I think what this chart was trying to do was to demonstrate that demand-side management can be quite a powerful

thing in terms of saving electricity so that the equivalent of what our plans are out to 2026 is roughly the same as the dependable energy out of both Keeyask, Wuskwatim and the Brandon thermal plants.

Mr. Gerrard: Okay. Now, if you could go back to page 27, which is the forecast 1.6 per cent growth, is that forecast 1.6 per cent growth before or after the demand-size management?

Mr. Rainkie: That 1.6 is before a demand-side management. It includes the effects of building codes and standards. But after DSM we forecast the growth would be about 0.8 per cent, so about half of that 1.6 per cent based on the plan that we just looked at on the previous chart.

Mr. Gerrard: So you are suggesting or hoping at least for a curve which would come down some way from that current red line which is a projected line based on the demand-side management.

Mr. Rainkie: That's correct; demand-side management or Power Smart has always been a part of Manitoba Hydro's supply-and-demand mix and it always will be.

*(16:50)

Mr. Gerrard: In terms of demand-size management, to achieve, you're suggesting that there's much more potential in demand-size management, and that certainly would be the experience in other jurisdictions. But what are the specific plans to improve demand-size management and to decrease the use of electricity?

Mr. Rainkie: I don't profess to be a total expert in all of it, but we have numerous, numerous programs and have plans both for residential, commercial, industrial customers. We have plans—low-income programs, as Mr. Fraser mentioned in his presentation. We are doing a lot of exciting things with First Nations in terms of interaction with them, so we have a large slate of plans. The whole plan is probably 100 pages long, with numerous initiatives across those—all those different categories.

Mr. Fraser: I have some examples noted here that I could give you. Manitoba Hydro's enhanced many of the offerings specifically for residential customers using electricity for heating.

For example, a home insulation program on April the 1st, 2014: Manitoba Hydro increased incentives through the home insulation program for

homes heated with electricity. Previously all homes received the same level of incentive.

Then a second program, in-home energy efficiency review: Select customers using electricity as their sole heat source are being offered a free in-home energy efficiency review. These reviews include the installation of basic energy efficiency items such as water-saving measures, energy efficiency light bulbs, insulation upgrade recommendations and other Power Smart program information and no-cost, low-cost tips.

In the last 16 months, Manitoba has approached electrically heated customers in 237 communities throughout Manitoba through a direct mail campaign.

And then another program is water and energy saver program. A free water and energy saver kit is provided to residential homeowners to reduce water heating energy consumption. The program will be initiating a direct-install door-to-door campaign in rural all-electric areas beginning in September 2'15 in Thompson, St. Laurent, Lundar, Eriksdale and Ashern.

In addition, a direct mail campaign is being developed specifically targeting rural all-electric multi-unit residential buildings.

Another program is solar hot water tank pilot. Twenty solar hot water heating systems are being installed on Peguis First Nation using the PAYS financing model as the means to pay the up-front costs of this system. The systems will be monitored for one year, and based on the savings, the systems could then be offered to other First Nations as part of the community program.

And then there's another program called residential smart-thermostat pilot. Manitoba Hydro is initiating a smart-thermostat pilot program to evaluate the savings potential in electric-heated homes. If successful, the pilot data will be used to model a full-scale residential smart-thermostat program. The pilot will be introduced in the fall of 2'15 and a total of 300 smart thermostats will be installed in homes heated with electricity. Data will be collected over the course of approximately 12 months.

Mr. Gerrard: I'd like to move to one of the issues which is replacing the aging infrastructure, and I understand that one of the items that has to be replaced is a large number of existing telephone poles which were put in some time ago. I just would

like to know what the situation—current situation is with that replacement program, how far along it has got and what the plans are for this coming year.

Mr. Rainkie: You know, I think perhaps the asset condition report that we've already undertaken to file might have some of those specifics. As I recall, we have over 1 million poles in our system and I think we're only replacing five or 10 thousand a year—that might—subject to check. So I think we'd have to undertake to provide further details on that.

Mr. Gerrard: I look forward to receiving that in due course.

The—there's already been a question about the low-profile or compact-line technology, and one of the questions which has come up is whether there may be some use for this in short distances where there are situations either in—agriculturally or in other areas where there could be a benefit to farmers or to others if this were done for short distances within in the span of the Bipole III total length. Not suggesting that, you know, a large portion would be used, but is there potential to use it in certain short distances in some instances?

Mr. Fraser: We could take that under advisement and get a professional explanation back to you.

Mr. Schuler: I want to go back to the salary increase. In 2012, Scott Thomson's salary was \$373,571. By 2014, his salary was \$485,279 which is an increase of 30 per cent. At the same time, Manitoba families, single parents, seniors are paying, at a minimum, 4 per cent a year increase on their hydro bills. Sometimes those increases come twice a year while Manitobans who are, at best, maybe getting cost of living, certainly not going to get 4 per cent increase on their pay, but are forced to pay a 4 per cent increase on their hydro bill.

Look up at the top of the pyramid where executives are giving themselves an increase over two years of \$111,000, and I would like to ask Mr. Fraser where in any of that is that fair?

Mr. Fraser: Well, as I indicated, Mr. Chairman, we had Hay look at this and look at comparable companies in Manitoba, and for—with comparable responsibility. And, in fact, the Hydro employees in this group were in the bottom 10 per cent of that. So, I mean, I accept all the other things, that 4 per cent rate increases are a challenge and can be a challenge certainly for low-income families, but there's a number of trade-offs being made in terms of trying to mitigate those things.

Mr. Schuler: Interestingly enough, in the last couple of weeks we had the Manitoba Liquor & Lotteries commission in front of this committee. And I asked, did MLL give the same kind of increases to their executives, and the answer was, no, cost of living was their increase. So we asked, because of that—the argument you made here is we want to attract executives and keep them here—we asked if because of giving a cost-of-living increase, did MLL experience a loss of their executives? And they said, no, actually, money is not the only reason why people decide to go or stay. A lot of it has to do with environment.

So the question, then, is why Crown corporation Manitoba Liquor & Lotteries, no issue, seem to be able to attract, seem to be able to keep their executives, and Manitoba Hydro gives over two years a pay increase of \$111,000 while they are going to Manitobans, single parents, seniors, families and asking for a minimum of a 4 per cent increase on their bills every year.

Why is it that MLL seems to be able to keep it to cost of living and Manitoba Hydro couldn't?

Mr. Fraser: I can't speak for MLL, but I think, at least from a distance, to me, there would seem to be a significant difference in terms of the complexity of the operations of the two corporations.

* (17:00)

Mr. Schuler: And that's why the executives at Manitoba Hydro also earn more. But we're talking about the increase, and I would suggest that perhaps that when Hay looked at comparables, Hay would've also have looked at the comparables, say, with corporations within Manitoba, Crown corporations. And I don't think earning \$373,000 is grossly underpaid. And perhaps there had to be an adjustment, but 30 per cent over two years when you're going to the ratepayers continuously and asking for 4 per cent, 4 per cent, sometimes twice a year?

My question, then, is to the corporation: Is there a disconnect at the top? When you're going to the ratepayers, when you're going to single families and seniors and parents and people struggling, trying to make a go of it, and saying to them, you know, I understand that your pension doesn't go up, understand that you might have a cost-of-living increase if you're lucky, but your hydro rates are going up 4 per cent every year as a minimum, if not twice, but while we're at it, we're going to take some

of that money, some of that hard-earned money that now you're paying increasingly more on on hydro rates and we're all—we're going to go out and give ourselves a 30 per cent increase over two years.

Is there a disconnect between what's going on out there and what's taking place in that beautiful shiny new building on Portage Avenue? Because how could you not have seen that there was—that there could conceivably be a problem with the people out there who pay this? And I know I'm hearing about it in my office, and somehow I'm being asked, how could you let that happen?

So all of us are here. This is an accountability session. We as MLAs are here to speak on behalf of the ratepayers, and the ratepayers are saying to us, how is it that you could let this happen? How could our Manitoba Hydro be so grossly disconnected from what's going on out in our communities? Is there such a disconnect between the top of Manitoba Hydro and its ratepayers?

Mr. Fraser: Well, I think that's more a statement than a question, and that's fair enough. I accept the statement.

But, having said that, I think there—in part, and I tried to analyze that, that some of the information that's been out there in the media and some of the percentages have been inaccurate. And there—I would say to you, and I'm sure this isn't going to sit well with you, but I sit on a number of boards. I sit on charitable foundations that have 30 employees where the CEO makes more than the vice-presidents under the new plan do at Hydro. And I would say, based on the talent, the dedication and the culture of Hydro, that at the wage rates that they're being paid, people may not like them, and I can understand that, but my personal opinion is they're getting good value for their money.

Mr. Schuler: My last question is, is it possible to get a copy of the severance agreement, the severance agreement between Manitoba Hydro and Mr. Scott Thomson?

Mr. Fraser: There is no severance agreement. He decided, for personal family reasons, to return to Vancouver, and there is no special provisions.

Mr. Pedersen: I want to ask a couple of questions about rural office closures. And can the corporation give us an update with respect to rural office closures that started in 2014 in terms of number of offices closed and what the plans are for the next round of closures?

Mr. Fraser: The rural office closures—and again maybe just step back a bit and explain.

Most of those offices have existed for—well, probably since the province was electrified, so they've, you know, been there for 50, 60, 70 years in some cases. The workflows in Hydro at that point in time were significantly different. They were bill payment centres. They were information centres for customers. They were a dispatch centre for field staff to go in and be assigned work in the morning.

The nature of the business functions at Hydro has evolved with the evolution in technology. They've instituted mobile workforce dispatch so that people don't have to come into a field office; they can be dispatched to a customer in—immediately from their home. Very few people ever go into these district offices anymore to pay their bill because they can pay online. They could pay through automatic banking. If they want information that they used to get brochures and whatnot in these local offices on Power Smart opportunities and programs, they can go on the Internet and they can go on Hydro's website.

So the functionality of these district offices that once existed in terms of the way Hydro did business doesn't exist anymore, and so that's the reason for the consolidation. There is a saving so far of approximately a million dollars a year in operating costs and an avoidance of \$50 million in capital costs because most of these offices, because they are so old, needed to be refurbished—\$50 million—refurbished. So there's a million a year in operating, \$50 million in capital, and the fact of the matter is that by consolidating into larger services centres and utilizing mobile computer dispatch to dispatch people, the service levels have gone up. The capability to respond to larger outages such as significant storms and so on is better than it used to be. So the cost has gone down and the service levels and responsiveness has gone up as a result of that.

Having said that, I understand that the communities are never happy. These are good jobs, and there's a loss of some jobs in some local communities.

The future ones, there isn't specifics that I can give you at this point in time because it's still a work in progress in terms of looking at how that's going to be done.

Mr. Pedersen: Well, I'll grant you, technology's changed, but the geography has actually become

much larger in terms of servicing outages or regular service.

Has the corporation done—you're talking about savings, million-dollar savings, but can you provide us with actual numbers in terms of overtime, travel costs for—whether it's regular service or whether it's emergency outages. I know in my area there that the distance travelled by the technicians who are on call is much larger. So there is cost, operating costs to the corporation even though you perhaps have less employees or less service centres.

But has the corporation done—can you provide us with those—where you've saved that million dollars in terms of less overtime, less travel costs, response times, how your response times compare?

Mr. Fraser: We can undertake to do that.

Mr. Pedersen: And, then, so how many employees were impacted by these closures?

Mr. Fraser: We can undertake to give you that number.

Mr. Pedersen: And finally on this, you did talk about \$50 million capital. I know first-hand we've got—the corporation has a really nice building in Shoal Lake, a really nice building in Carman, a really nice building in Stonewall—those are just the three that I know off the top of my hand—sitting empty.

Is there any plan to sell these buildings to get them back in the community? Because I know in my own area, which is south-central Manitoba, the Town of Carman has been asking Hydro repeatedly to open up that building so that they can redevelop that space.

Mr. Fraser: Yes, there is plans to sell those buildings and they're working on the details to make sure that the process is fair and equitable. And the numbers that I give you don't include the revenue that would come from selling those properties.

* (17:10)

Mr. Eichler: In regards to the Shoal Lake building, I had an opportunity to be up looking at it, and my understanding is they had to send two employees for two days up there to upgrade the telephone system even though the building was being shut down. That's a significant cost and, of course, you know, Manitoba ratepayers had to pay for that cost as well. So, you know, I think that those office closures will have a significant impact. And in regards to the

tendering process for these, could you outline how that will look to dispose of those assets?

Mr. Fraser: That's currently being worked on. I don't think they have kind of created the plan. The latest update I saw was that that's what they were working on to make sure that it's a fair and equitable process.

Mr. Eichler: How will the general public be made aware of these in the communities? I know I've met with a number of those communities asking for us to raise this in the House, which we have, and, of course, making sure the public's aware of that opportunity once it becomes available.

Mr. Fraser: I'm sure the communication plan is a significant part of that to make sure that any interested parties, particularly in the local community, would be knowledgeable about what the process was.

Mr. Eichler: Thank you and I do appreciate that, Mr. Fraser.

Export contracts with respect to the Minnesota-Manitoba transmission line, could you please outline the total cost for the project and the portion Manitoba is responsible for?

Mr. Rainkie: Sorry, I just wanted clarification. You said the Minnesota—the line down the United States or the portion on the other side of the border or both?

Mr. Eichler: Both, please.

Mr. Rainkie: The portion to the border is about \$350 million, that was in the presentation, and our share of the capital cost on the US side of the border is about \$540 million, if memory serves me correctly.

Mr. Eichler: Could you repeat the last number again please? *[interjection]*

Mr. Chairperson: Mr. Rainkie, repeat that, kindly.

Mr. Rainkie: Four hundred—sorry—\$540 million, sir.

Mr. Eichler: Could you outline the terms of the sale specifically provided in the cost of production and the sale price of the power to be exported?

Mr. Rainkie: Sorry, sir, could you just repeat that question again?

Mr. Eichler: Could you outline the terms of the sale specifically provided in the cost of production and the sale price of the power to be exported?

Mr. Rainkie: I think we indicated in the presentation the export sales that we have in terms of \$9 million and \$4 billion—over \$4 billion depending on Keeyask. But the particulars of any one particular sale are commercially sensitive. I mean, these are all negotiated in the public market. So you can understand that if one party knows what you're paying, one party knows what you're willing to accept, that can negatively influence future negotiations, also your reputation in the marketplace if you disclose details like that. Then there'll be no counterparties that will want to come and have sales with you. So those are—that's why we proof the sales in terms of larger amounts so that there's no release of commercially sensitive information.

Mr. Eichler: Is it not part of the US agreement that those numbers have been made public, at least in the United States, but not necessarily here in Manitoba? Is that correct?

Mr. Rainkie: You know, I haven't looked at the details of all the contracts, but usually they have nondisclosure arrangements associated with them, legal arrangements that—so that we don't breach those confidences. You know, in our case we have provided some information in in-camera sessions to the Public Utilities Board that isn't in the public domain so that our regulator can understand the types of arrangements we're entering into so that there's some balance there between, you know, a public entity like the Public Utilities Board understanding the revenues but not—that not being on the public record so that it jeopardizes future sales. So there's a balancing act then.

Mr. Eichler: The ratepayers are going to pay two thirds of the cost of the line for the construction of that line to Minnesota and to Wisconsin while retaining only 49 per cent of the ownership. Is that statement correct?

Mr. Rainkie: This is a fairly complex arrangement in that there's also a 133-megawatt sale purchase agreement associated with that, so we're paying for our portion of the line plus the costs of that portion, so Minnesota Power is paying for the portion of the line, only the 250 megawatts that it needs for the sale with Manitoba Hydro, so we're picking up the rest of it. So there's kind of two parts to it. Sorry, I'm forgetting what your original question was, sir.

Mr. Eichler: My question was is that ratepayers are paying for two thirds of the cost to the line of construction line, while we only own 49 per cent. Is that correct? Is that factual? *[interjection]*

Mr. Chairperson: Mr. Rainkie.

Mr. Rainkie: Sorry. We're owning 49 per cent, but we're also using 18 per cent to either sell power or buy power under another arrangement, so we're actually using two thirds of the line, if you like, for Manitoba Hydro purposes. That's why we're paying for two thirds of the cost of it.

But the real—what we want is the transmission rights. We want the ability to be able to ship power down to the United States to make export sales as well as bring power, import power into Manitoba when we need it for drought or other purposes. We were talking earlier about, you know, what are our plans for drought preparations. Well, I think this line, if I remember correctly, doubles our import capability into Manitoba, so we're definitely using—making use of two thirds of the line. That's why we're paying for it.

Mr. Eichler: So the cost recovery, then, is that on a one-time basis? Is that on a kilowatt charge, or is that—how is that calculated?

Mr. Rainkie: Yes. The portion—the 18 per cent portion that we're paying for under the 133-megawatt arrangement is essentially the carrying costs associated with that, the capital and operating costs associated with that portion of the line.

Mr. Eichler: In regards to the maintenance of that line, Manitoba Hydro is responsible for that maintenance, is my understanding, and it's a cost recovery basis. Are these costs incorporated into the cost of power or is there a separate maintenance levy from another fee that's going to be associated? How is that calculated and how is it going to be paid or maintained, whether by Manitoba Hydro or Wisconsin power or Minnesota Power?

Mr. Rainkie: We're not responsible for the—just to be clear, we're not doing the maintenance ourselves. The MP—Minnesota Power, who own the line, we will have the transmission rights going back and forth, so that's the real prize here, is not owning the line, but being able to have a pathway for power down to the United States and a pathway back, so there's a—oh, there's a word for it. The calculation of the fee on the 18 per cent is based on the revenue requirements that Minnesota Power would have that it would file with its regulator in Minnesota.

Mr. Eichler: So we're retaining ownership as far as maintenance is concerned. They're providing the maintenance. How is the taxation and the taxes that

are paid for land taxes and so on, how is that calculated and who pays those?

Mr. Rainkie: So we're picking up all of the costs of that. We're not owning the line and we're not responsible for the maintenance. Minnesota Power will be, but we are paying the—all the freight on that line, if you like, any type of property taxes, operating costs, et cetera. One of the reasons we don't want to have ownership in the United States is for tax purposes, as you mentioned. We don't want to carry on a business. If we own part of the line in the United States, there's a risk that the IRS will deem us to carry on a business in the United States and that would expose our existing export revenues to taxation, so this is about the transmission rights and being able to sell power down to the States and import for our own requirements here.

* (17:20)

Mr. Eichler: What is the anticipated budget line for that? What are you anticipating for cost of—for that line and the maintenance to transport hydro back and forth?

Mr. Rainkie: As I said, our share—and this is information we put on the public record with the Public Utilities Board last year—or this year. Our share of the capital costs was \$540 million. I'm trying to remember what the present value of the 18 per cent cost is. It's on the public record. I can find it for you and under—and provide that to you.

Mr. Eichler: Certainly, I would appreciate that.

Has anybody come forward and—with the interest of purchasing Manitoba's 49 per cent share of this line? If so, who was it, and it—will it be made available to them?

Mr. Fraser: No.

Mr. Eichler: In terms of the—where the line crosses into the US, what are the sites are—that were considered and would—they were both by Minnesota Power and Manitoba Hydro, I believe. What's the process in determining that site?

Mr. Rainkie: We'd have to undertake to summarize that for you, sir.

Mr. Eichler: It's my understanding that Manitoba Hydro requires approval of the natural—National Energy Board in the terms of the routing and the line, given that it'll cross the Canada-US border. Is that correct? Is that part of the process?

Mr. Rainkie: My understanding is there is an NEB approval, yes.

Mr. Eichler: Would you be able to update the committee in that respect and where it's at and what the next steps will look like?

Mr. Rainkie: We can add that to the previous undertaking.

Mr. Eichler: Currently, the locations where landowners' distress will be extended to the construction of the Manitoba-Minnesota transmission line, will Manitoba Hydro consider a low-profile-design transmission tower to share existing rights-of-way to achieve greater public acceptance that is done in Europe and the United States, or are you determined that it's going to be a tower structure regardless of the benefits that would benefit those that don't want to be impacted by the construction of bigger towers?

Mr. Fraser: We'd take that under advisement and get back to you.

Mr. Eichler: If we could get a breakdown on the cost for that as well, I think that would be very beneficial. I know I've had a number of people in that area express concern to me about the tower construction, and, of course, if we could do a right-of-way along the public access, that would be far cheaper for acquisition of property and so on.

So I think it's something that should be discussed before a final decision is made, which leads me into the next question. Would—where is the discussion right now with that site, which it's going to be going down or the route that it's going to be going down? Where is the current status of that?

Mr. Fraser: We can get back to you with that information.

Mr. Eichler: In regards to gas operations, does Hydro consider natural gas to be in competition with hydroelectricity, or is it complementary to it?

Mr. Rainkie: I think natural gas is complementary. Natural gas is great and low cost for heating purposes, and electricity is best for electricity purposes. So it's, in my mind, a complementary fuel.

Mr. Eichler: In your presentation earlier, you made reference to natural gas and the switchover. What is Hydro's forecast for the number of customers that will convert from electricity to gas over the next five years?

Mr. Fraser: We can get back to you with that.

Mr. Eichler: If I recall, from the NFAT, electrical heating was forecast to fall from over 60 per cent to under 40 per cent, while heating with natural gas was expected to rise from about 30 per cent to double that 'rasher'-ratio. Am I correct in that general sense? Does that make about sense of the conversions as opposed to electrical use?

Mr. Fraser: We would have to get back to you with those numbers.

Mr. Eichler: Also, I believe Hydro's advised consumers that over a 25-year period heating by gas rather than electricity would save consumers about 50 per cent as opposed to use of hydroelectricity. Is that assumption correct?

Mr. Rainkie: Sorry, sir, could you provide the source of that figure?

Mr. Eichler: I cannot. I don't know who it is. But that calculation was given to me, and I believe it—of the consumer associations provided that information. But with the falling gas prices it would stand to reason that—and, of course, with the increase of 4 per cent per year and with the potential of hydro either doubling or tripling over the next 20 years it would make a substantial difference to the average home. So that's significant. And, of course, what would that impact do and have on Manitoba Hydro as a result of that?

Mr. Rainkie: I think we'd have to check the source of that and provide a response back to you.

Mr. Eichler: Is restricting the expansion of the gas grid a factor in regards to its calculation?

Mr. Fraser: Yes, until we do the calculation or see the numbers, I mean, I think it's impossible to answer that. But, I mean, on the surface it would seem logical that extending the grid would certainly be a significant capital cost.

Mr. Eichler: I know you put an awful lot of work into developing the Keeyask proposal and, of course, Bipole III. Did you look at the combined gas plant, say, in Brandon instead of looking at Bipole III and Keeyask as far as economic sense, lower provincial debt, diversity, and we talked about drought earlier? Was that ever contemplated or looked at as far as cost is concerned and what impact it would have on hydro rates with or without that discussion?

Mr. Fraser: Yes, that was all part of the NFAT submission, and I think there was—don't hold me to this number, but around 27 different scenarios that were put before the NFAT panel and that was one of

them. I mean there was a lot of them looking at different alternatives and gas and so on was certainly one of them.

Mr. Eichler: If we could get a copy of that, that would be very useful, I think, going forward, you know, looking at different projects. I think that if it's already done, if you're prepared to share that, I think it'd be helpful for us to look at those options in order for us to have that viable alternative.

Mr. Fraser: All the NFAT information is on the public record and is publicly available.

Mr. Eichler: We'll certainly look at that then.

What is the projected average monthly electric bill for home heating as of now?

Mr. Rainkie: In the—it's in the presentation, sir. Just let me find the actual slide.

So 100—so for 2,000 kilowatt hours, which is with electric heat, it's in Winnipeg \$155 per month.

Mr. Eichler: And then, based on the calculation with the 4 per cent that was presented to the PUB, we can then assume that that in all likelihood will double those rates going forward. Is that an assumption that can be assumed? [*interjection*]

Mr. Chairperson: Mr. Rainkie.

Mr. Rainkie: Sorry, in accordance with the forecast, yes, over 20 years, that math would work, and at that point we would just be reaching the bills of places like Saskatchewan. So after 20 years we would be getting to the current bills that they have right now.

* (17:30)

As Mr. Fraser indicated, there is billions and billions of—\$350 billion of infrastructure that's estimated by the independent Conference Board in terms of investment in electric systems in Canada. So the types of rate increases we're seeing in other jurisdictions are as high or higher than what we're projecting in Manitoba. We'll maintain that—we expect to maintain that significant benefit for Manitobans far into the future.

So I think you have to look at it in relation. We can do the calculation and say, yes, you know, there's 155 times two, \$300, but in 20 years from now Manitobans would be paying what people are paying for now without any rate increases in their own jurisdictions, which is usually eclipsing ours. I think you have to put that in perspective.

Mr. Eichler: And that's assuming there's no hiccups in the cost of Keeyask or Bipole III or other changes that come about from forecasts as well.

The overall per kilowatt cost associated with the production and transmission of power from Wuskwatim and Keeyask, does it or will it exceed 10 cents per kilowatt on an annualized basis? Is that an assumption that can be made?

Mr. Rainkie: That's going back to an earlier undertaking. I think what we need to do is refresh our memory on the levelized cost over time as opposed to a one-year calculation when the plant goes in service.

Mr. Eichler: What percentage of exported power does Hydro expect to sell over the term of the existing export contracts based on spot wholesale pricing, and what has been the average spot price over the past year? What was the average spot price as of last week?

Mr. Rainkie: We can pick up the transcript and provide those figures.

Mr. Eichler: Thank you. Manitoba Hydro's annual report, the total average export market prices, including contracts and spot market, were 6.5 cents a kilowatt in 2009 to 4.8 cents a kilowatt in 2015, and yet Manitoba Hydro domestic rates have to increase by 3.95 per cent while export sales prices are actually coming down.

Does that rationale make sense, and how would it be better for Manitobans for an investment view on this?

Mr. Rainkie: That's a multi-part question, no doubt. I'm not sure—I can't verify the figures on the fly that you've thrown out in terms of last number of years, but, of course, the prices in the spot market have come down, largely because of the advent of shale gas, a cheap gas supply in North America. So there's no doubt that prices on the spot market have come down, but the prices of firm power, where we have firm deals, are still very attractive to us and are higher than the price that we charge to domestic customers. So, to the extent that we can continue to negotiate those firm deals, they should help to keep our rates low here in Manitoba, so that part makes sense.

As well, as Mr. Fraser said, many—a couple hours ago, spots—spot market sales, the alternative would be to spill the power and derive no revenue out of it. So, as long as you can obtain more in the

spot market than the price of generating that additional unit of electricity, you might as well go ahead and take it for Manitobans. So, you know, if it's \$25 a megawatt, if it costs us \$4 for water rentals and a little bit of operating costs, probably less than \$10 a megawatt, we're still making \$15 a megawatt on that, so I don't know why you would not accept that.

We build a system for Manitobans that will deliver dependable firm power under low flows. When we have average water flows, we know we're going to have surplus, and why wouldn't you sell it? So both opportunity sales and firm sales make sense. It's been part of our business model, and it's the reason that on that chart you see, you know, the average monthly bills for Manitobans being so low.

Committee Substitution

Mr. Chairperson: I'd like to inform the committee that under rule 85(2) the following membership substitution has been made for this committee effective immediately: Mr. Cullen is replacing Mr. Pedersen for this committee. Thank you.

* * *

Mr. Chairperson: Yes, Mr. Eichler.

Mr. Eichler: Just to follow up on that. The spot sales, as opposed to the firm sales, what impact does that have on your firm sales with—by selling spot market sales as a result of that on your firm sales? What is the relationship or the correlation between the two? Is there any?

Mr. Rainkie: Well, so the idea behind a firm sale is that the counter party on the side of the sale can expect the power to be there unless we have a severe drought and we curtail it. So, just like a mortgage, if you have a fixed rate you pay a premium for that, whereas a spot market sale is a day-ahead sale, so it's somebody taking, you know, needing some—a small amount of energy the next day, so, obviously, you're just going to pay more of a runoff rate for that. So the two are quite different animals. One's firm, can be for five, 10, 20 years; the other is a short-term sale for a day or two. So they're not, you know, comparable in that regard.

Mr. Eichler: On the firm contracts, how many are set to expire in the next five years?

Mr. Rainkie: We'd have to get a listing of that for you, sir.

Mr. Eichler: If you could also include the 10-year project, as well, anticipation on those contracts and when they'll expire as well, would also be useful.

Mr. Rainkie: We can do that, sir. I mean, we would note that we're continuing to market power, so simply because the sale's falling off doesn't mean that another one can't be obtained later on. But with that caveat, we can provide the information.

Mr. Eichler: In regards to those same contracts, what has been the norm as far as negotiating those rates? Have you seen a decline in the rates with more efficient dams and more efficient ways of generating electricity? Is it on a downward trend or an upward trend?

Mr. Rainkie: Well, our export price forecasts that we derive from a number of independent consultants still have an upward trajectory, so we're still expecting that the price for firm power will increase as time goes on.

Mr. Eichler: In regards to accounting practices, how does overall operating, maintenance and administrative costs be allotted—allocated to First Nations partnerships? What is the formula that you use, and can you tell me what analysis Hydro has done with respect to the impact of the credit downgrade on the part of the Province of Manitoba? Would you be able to share results of those reviews?

Mr. Rainkie: Let me comment on the second one first. What you have to remember is that there are three credit rating agencies that rate Manitoba, and Moody's was at the top. It was a little bit higher than Standard & Poor's, so when they did the downgrade, they pretty much came into the average of Standard & Poor, so there—we haven't seen a lot of change in the price of debt since then. There's been quite a bit of volatility simply because of the marketplace has been volatile, as you know, as you read in the papers, and those folks that provide the money are favouring Ontario and Quebec a little bit more than some of the other provinces just because they're bigger and they have bigger debt offerings. But you have to keep in mind, with the whole Moody's thing, that there's a split rating in Manitoba; there's not just one rating agency. So when Moody's came down, it kind of came in line with the other two.

And, sorry, sir, could you repeat the first part of the question?

Mr. Eichler: Sure. Hydro's overall operating maintenance and administrative costs, will that be

allocated to the First Nations partnerships, and if so, what is the formula and how do you calculate it?

Mr. Rainkie: Yes, we have a process for allocating reasonable costs to the partnerships. So we go through and we estimate—of course, we have a plan. We estimate what those cost allocations will be, and then when it comes time to charge the actual costs, we do it based on actual costs that are expended or hours expended. We have a extensive time-carding system in the corporation to take care of those and the extensive set of accounts that we charge costs to. So it'll be based on actual costs incurred.

* (17:40)

Mr. Eichler: So the calculation for the partnerships, and we don't need to get into the formula about how that is calculated because it's confidential, of course, I'm sure, but what guarantees do you have for a rate of return, and what investment was made by the First Nations as a result of the agreement?

Mr. Rainkie: Well, there's varying arrangements. Some are common share ownerships, so they share in the operating results of the partnership. Others have options for preferred shares, so they can move from a common shareholder to a preferred shareholder. So there's very complex arrangements around this. Manitoba Hydro itself, the way it's regulated, doesn't look for a rate of return on its projects like a private company would. We want to cover—recover our cost to service plus a reasonable contribution to financial reserves so that those financial reserves help us to maintain stable rates and help us to weather circumstances like drought. So that's kind of our formula.

Mr. Eichler: Of course, Hydro's going to incur some debt-guarantee fees and, of course, capital tax related to both Wuskwatim and Keeyask. Will those costs be assumed in those partnerships as well?

Mr. Rainkie: I'd have to check on the capital tax side because it is a partnership. The cost of debt includes the—to the partnerships does include the provincial guarantee fee, but I'd have to check on the capital tax side, just thinking how that works.

Mr. Cliff Cullen (Spruce Woods): First of all, I want to welcome the new interim CEO. Certainly thrown into the fire here in your first few days at the job. But appreciate you being here with us today.

In terms of the previous CEO, I understand there was an agreement reached with him through some kind of a negotiated settlement. Can you explain a

little more in detail in terms of the arrangement there that was undertaken in terms of hiring the independent—was it an independent person that was brought in to negotiate a severance package, if you will?

Mr. Chairperson: Mr. Fraser.

I'm sorry, are you completed your question, sir?

Mr. Cullen: Yes.

Mr. Fraser: I think we've had this question about three times this afternoon in different ways. And I've said, I think, each time, there is no severance package for Mr. Thomson. He resigned of his own volition. He was entitled to his paycheque up until the day he left, and whatever vacation pay he might have accrued that he hadn't taken, he would get. But other than that there was no outside consultant. There's no agreement, and there's no severance.

Mr. Cullen: I appreciate the response there.

So he would be, I guess, same as any other employee there under the—any other employee with Manitoba Hydro in terms of his position, in terms of when he left the corporation.

Mr. Fraser: Yes.

Mr. Cullen: Okay, well, thank you very much. I do appreciate that, certainly, that response.

You can maybe touch a little bit on this, but, clearly, rural Manitoba, I think, are looking for some other economic development, and I know there was some little bit of discussion about alternative energy. Is there a real interest in developing some more wind energy in Manitoba in the short term?

Mr. Fraser: Yes, I mean, that would depend on, you know, on the proposal, you know, and unless we saw the proposal, it'd be impossible to comment on it. I mean, there is benefits to wind and it does provide diversity in terms of power but it also has drawbacks. I mean, it's intermittent. It often isn't there at the times that we need it most in terms of when it's 30 below and so on. So it's not a perfect solution, but it does have its place.

The arrangements—and it continues to evolve and the price points in terms of production are coming down and the economics may improve. But at this point, I mean, I'm not—would have to look at a specific proposal. I mean, the deals that were made with the existing wind farms, I mean, are highly subsidized by Hydro. Hydro has arranged to buy all

the power at a certain price, irregardless of whether at that particular point in time it's needed.

So, I mean they have a guaranteed buyer at a guaranteed price, and that's what kind of allowed them to, you know, be able to move forward. I don't think that's a model that we would want to continue to pursue, and, you know, we've spent a lot of this afternoon talking about the magnitude of rate increases and the affordability for Manitobans and so on. I think that, you know, when we're looking at some of these deals we'd have to ensure that they weren't going to cause a rating issue as well.

Mr. Cullen: Well, there were some promises made by previous governments not too long ago in terms of enhancing and adding to the wind farm here in Manitoba, but it sounds pretty evident that Manitoba Hydro has no—nothing in the short term, at least in terms of adding to the wind power generation of Manitoba.

Mr. Fraser: The—it's—we commented on a short time ago, in terms of the NFAT hearing there was a whole number of scenarios that were evaluated in terms of their costs and benefits and so on, and wind was part of that as well. So, I mean, it is something that's continually looked at. I mean, and it's a matter of, you know, the economics being sensible for us to pursue that further.

Mr. Cullen: In terms of getting back to the CEO position, what's the undertaking of the board? What's the process, going forward, in terms of hiring another CEO?

Mr. Fraser: The—there's a personnel firm, a head-hunting firm has been hired. They have advertised and kind of gone through their—in terms of seeking out candidates inside Manitoba and outside Manitoba. The board has formed a sub-committee. We've held two days of interviews. We've got another day set up next week, and, you know, hopefully, maybe even next week we'll be able to come to a recommendation to move forward on.

Mr. Eichler: I understand that Hydro has yet to accept the PUB's direction with respect to the methodology arrived—to arrive at an acceptable cost. Is this correct?

Mr. Rainkie: Sorry, sir. I don't think I—I spent a lot of time with the PUB but I didn't understand what particular formula you were talking about.

Mr. Eichler: It's referred to as COSS, and I understand that the PUB's direction, that they had

asked that the methodology be applied to arrive at a acceptable cost. Is that correct?

Mr. Rainkie: Now I'm with you. Yes, actually we're going to—this fall we're going to actually do—make a filing with the Public Utilities Board and do a review of our cost-to-service study, and that, of course, is used to take our total revenues and figure out how much we would charge each customer class, and it's been a bit of a source of frustration for all parties in the last 10 years. There's some disagreement on methodologies and we're hoping that we can bridge that difference this year. The hearing will probably occur later this year or earlier—early in 2016.

* (17:50)

Mr. Eichler: So the PUB has directed Hydro to create this export class and to allocate revenues and costs to it. These costs would include operating costs associated with exports and allocation of fixed annual costs arising out of the generation and transmission infrastructure. Is that correct?

Mr. Rainkie: It's similar to a discussion we had a few minutes ago. The debate is, on an export class, is, would you allocate fully allocated costs to the opportunity sales, given they're—as we called—as we talked about earlier, they're on-the-spot sales? So that's the debate. I don't think there's been much debate about allocating fully allocated costs to firm sales, but on the spot side would you allocate that same level of cost? That's basically what it comes down to.

Mr. Eichler: Will Hydro be bringing forth a reapplication involving time use of rates to the PUB and, if so, when?

Mr. Rainkie: In fact, we do have a time-of-use proposal for our general-service large customers, our very large industrial customers. It was severed from the last hearing just because there was lots going on in the last hearing. It's supposed to occur during this cost-of-service review later this year or earlier in 2016.

Mr. Eichler: So will Hydro bring forward in regards to an application for energy-insensitive industry rate and EIIR has been outstanding now for five years? Will there be a proposal brought forward on that?

Mr. Rainkie: The time-of-use proposal for the large customers is a replacement for the energy-intensive rate. There were lots of discussion and dissension about how that should be structured, so essentially

the time-of-use rates are the next generation of that proposal.

Mr. Schuler: There was something that came up and it's come up a couple of times and we just need a little bit of clarification, and it might involve some confusion on our part because we may not have understood the answer, and it has to do with payments that were made to the former CEO Scott Thomshon—Thomson.

Were there payments made to his pension upon his departure outside of the terms of the Civil Service Superannuation Fund? It wasn't quite clear. Were there payments made into his pension over and above the superannuation fund? Is that a clear question?

Mr. Fraser: He was not part of the superannuation fund, so there may have been, I don't know that. But there was no special treatment as severance, I do know that.

Mr. Schuler: So were there extra payments made on his departure into his pension fund?

Mr. Fraser: Why don't we undertake to get back to you with that answer? He wasn't part of the Civil Service Superannuation Fund, so he had a separate pension provision, and I mean there, you know, there would've been some payments based on his contract that he—that was agreed to at the front end.

Mr. Eichler: Thank you for that. We appreciate it.

The PUB has called for the filing of an asset condition report, a report that would assess the condition of the utility's existing infrastructure. What's the timelines on that report, and when do you expect it to be tabled?

Mr. Rainkie: Just to clarify, as we talked about earlier in the process, we filed a asset condition assessment with this last January application that was filed in January of 2015. The—coming of the—this latest decision is to do a more comprehensive asset condition assessment. The time frame that the Public Utilities Board indicated was coming back for the next January application, so probably sometime late in 2016.

Mr. Eichler: Certainly, I appreciate that, and I'm sure everybody's looking forward to getting that.

So what was the outage experience over the last three completed physical years?

Mr. Rainkie: It is in our annual report, so we can round that up and summarize that for you, sir. It's

usually in the management discussion and analysis section of our annual reports.

Mr. Eichler: I know recently—I know I'm kind of all over the map here trying to rush through two or three hours of question here, so forgive me—but I understand recently on Bipole III there was a fire that got out of control and the fire department had to be called in to put out that fire. Who pays for that cost and how is it determined? Is it done by the municipality? Does Hydro reimburse the municipality, or is there insurance to protect those that are in range of fire?

Mr. Fraser: We'd have to take that under advisement and get back to you.

Mr. Eichler: I do want to finish off by saying that we appreciate this opportunity. I know that we've done an awful lot of questions in a very quick time and there's a large number of requests that have to come back. We hope that you can get back to us very, very soon on those responses. We know that it's going to take a little bit of time, but certainly your efforts there would be much appreciated to get it as quickly as we possibly can.

I did have some questions for the CEO, an exit interview that I had forwarded to Mr. Thomson. Unfortunately, he refused to do that.

Do Manitoba Hydro normally do an exit interview with top-end officials? I know even in my small, little business I always did exit interviews. I think it's a model of which we all can learn from and grow and prosper, so I'll leave it at that.

Mr. Fraser: I did an exit interview with Mr. Thomson. Basically, that—what came out of that, I mean, I asked him if there was, you know, things that he thought should be changed or that he was unhappy with or things that he was proud of and that sort of thing and, you know, what he felt was his biggest achievement while he was here for the three-and-a-half-year period.

He came into the position, if you'll recall, replacing the previous CEO, Bob Brennan, who had been there for—I think it was something like 20-plus years, and the whole executive, for the most part, was of a similar vintage. So there has been a huge change in terms of the executive of Hydro, which was a huge risk played, honestly, four years ago in terms of having a great deal of knowledge and experience retire and leave the organization.

And Scott felt very strongly that he had recruited and promoted from within and selected selectively outside the corporation, created a very strong young team that he was very proud of and that will serve Manitoba Hydro and the province well for a long period of time. He did indicate that, you know, most of those people were—have been in their position for a relatively short period of time, so from a succession planning perspective it's still, you know, somewhat of a challenge, that I think if it was another two years down the road we'd probably have, you know, a selection of, you know, three or more vice-presidents to pick from the—for the CEO. I think the challenge now is because, you know, whether anybody is ready yet or whether there's still a maturation period to—so we'll have to resolve that in the next little while.

But he was—I think he felt very good about that. I think he enjoyed his time here. I think, from my perspective, I thought he did a wonderful job.

It's a very complex organization with a wide array of stakeholders. And, I mean, producing the power and so on is kind of the table stakes, but, I mean, dealing with the complexity in terms of the stakeholders, this process, I mean, the challenges in terms of the communities that are affected by bipole and Keeyask and all of these projects is extremely complicated. And the CEO job is a challenging one, and it's not so much that you need—you know, they have excellent technical people—engineers, accountants, customer service people—but, I mean, what's needed is somebody that can see this whole field that Hydro has to operate in and all the stakeholders and manage to get agreements in all the regulatory bodies, get agreements to get things accomplished, which, you know, as I've indicated, I mean, some of these major projects, from the time somebody decides that they should be done until they're completed, it does over 15 years.

* (18:00)

Mr. Eichler: I ask the committee not to see the clock in order that we can deal with the financial reports, and I do have one final question I would like to ask Mr. Fraser if we have leave to do that.

An Honourable Member: Leave.

Mr. Chairperson: Okay.

Mr. Eichler: Thank you for your comments, Mr. Fraser. I think they were bang on, and, of course, if you could share that exit interview with us, I think it would be beneficial as well. *[interjection]*

Mr. Chairperson: Mr. Fraser, kindly be recognized. Thank you. Yes, Mr. Fraser.

Mr. Fraser: Sorry. That was intended as a summary of the exit interview.

Mr. Chairperson: Thank you very much.

Thank you, Mr. Eichler. Thank you, Mr. Fraser. And seeing no further questions, now,

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2011—pass.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2012, pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Mr. Chairperson: The report is not passed.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31st, 2013, pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Mr. Chairperson: The report is not passed.

Shall the Annual Report for the Manitoba Hydro-Electric Board for the fiscal year ending March 31st, 2014, pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Mr. Chairperson: The report is not passed.

Please leave the copies of the reports that did not pass on the table.

Now this concludes the business we have before us.

The hour being three minutes past 6, what's the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: Committee rise. Thank you.

COMMITTEE ROSE AT: 6:03 p.m.

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