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PUBLIC UTILITIES
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The Honourable Harry E. Graham
Speaker*



FRIDAY, 13 JUNE, 1980, 2:00 p.m.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty - First Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES
Friday, 13 June, 1980

Time — 2:00 p.m.

CHAIRMAN — MR. WARREN STEEN
(Crescentwood).

MANITOBA HYDRO

MR. CHAIRMAN: Committee come to order. To either Mr. Walding, or Mr. Cowan, whoever wishes to lead off between the two of you. Mr. Walding.

MR. D. JAMES WALDING (St. Vital): Mr. Chairman, I was asking a few questions on the matter of a Canadian power grid at the last meeting. I understand that there was a national study done on the matter by something called IPACE, — I don't know what that stands for — on such a topic in the Sixties, and it was further updated a few years ago. I don't know when. I assume that Hydro was aware of them and has copies of them, and maybe someone could just expand a little and tell me a bit about them.

MR. CHAIRMAN: Mr. Blachford.

MR. BLACHFORD: We don't really know anything about this, Mr. Walding.

MR. WALDING: So I ask if Hydro has done any other studies on a grid as it would affect the west?

MR. BLACHFORD: No.

MR. WALDING: I would like to refer to a February 1979 report on western electric power system study, and ask what input Manitoba Hydro had to this report.

MR. BLACHFORD: What is the title of the study, please? And the date, February 1979. I believe Hydro collaborated with the consultant who did this study and gave him the basic information to carry it forward.

MR. WALDING: Hydro provided some information; did they co-operate on the research or calculations or anything to that effect?

MR. BLACHFORD: They did co-operate on the calculations, yes.

MR. WALDING: So Hydro takes partial responsibility for this report, I presume.

MR. BLACHFORD: No, the consultant does.

MR. WALDING: Can I ask you whether Hydro has the technical expertise to do such a study as this?

MR. BLACHFORD: I would say yes.

MR. WALDING: That rather than do the study or take part in it, Hydro's position was only that of a

supplier of information — would that be correct to say?

MR. BLACHFORD: Hydro was asked to supply the information, yes.

MR. WALDING: Can you tell me when Hydro received copies of this report? Or can I ask you, was it just recently, or was it in February 1979 when it was published?

MR. BLACHFORD: I don't believe we had it before approximately four months ago.

MR. WALDING: Has Manitoba Hydro's staff carried out a study and a review, and did they report on this study?

MR. BLACHFORD: No.

MR. WALDING: So although it dealt very much with Manitoba Hydro's interests, including Manitoba Hydro's sovereignty, there was no review done of the report?

MR. BLACHFORD: Manitoba Hydro's sovereignty does not extend outside the province.

MR. WALDING: When I mentioned sovereignty, I was referring only to Manitoba sovereignty within the province. Was there a review done by staff on this report?

MR. BLACHFORD: No official review was made of the study.

MR. WALDING: So Hydro has not considered, then, the effect such an interconnection or a grid, call it what you will, would have on Hydro?

MR. BLACHFORD: Except for the initial input, which would have taken into consideration the assumptions made for the study.

MR. WALDING: I understand that when the report was finished, it was presented to the four provinces and that British Columbia reviewed it or studied it, or did whatever they wanted, and then indicated that they were not longer interested in proceeding any further.

I also understand that Alberta, having received the report, commissioned their own study — I believe it is called the Foster Report or Foster Study — to ascertain where Alberta's interests lay in such a power grid.

I would like to ask you whether you have received a copy of the Foster Report and if you have any comment on it.

MR. BLACHFORD: We have seen a copy of this report but we have no comment on it.

MR. WALDING: Are you aware of whether or not Saskatchewan has also carried out a study to see

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how Saskatchewan's interests are affected by such a grid?

MR. BLACHFORD: No, I'm not aware of any such report, Mr. Walding.

MR. WALDING: Is it the intention of Manitoba Hydro to carry out a study to see the effect of such a grid on Manitoba Hydro, and the power interests of Manitobans?

MR. BLACHFORD: A study will be carried out in this respect, yes.

MR. WALDING: Will this study be carried out by Manitoba Hydro staff or do you intend to retain a consultant to do the work?

MR. BLACHFORD: Manitoba Hydro staff will collaborate in the study but it will be done by a consultant.

MR. WALDING: Can you indicate to us when this study will commence, or has it been started already?

MR. BLACHFORD: It has been initiated.

MR. WALDING: So you have retained a consultant to do the work. May we ask who the consultant is that is doing the work for you?

MR. BLACHFORD: We have hired Gordon Spafford to do this.

MR. WALDING: Wasn't that the gentleman that is doing the ongoing study for the three prairie provinces?

MR. BLACHFORD: I don't believe so.

MR. WALDING: But that was the same person . . .

MR. BLACHFORD: He did a study in this connection, yes.

MR. WALDING: That was the original WEP Study. And this gentleman is not now working on the continuation of studies

MR. BLACHFORD: We have to divide this up because this study is being done in various parts, and he is, in fact, doing something on one of these parts. The work that he is doing in this respect is part of that study.

MR. WALDING: Mr. Chairman, I'm not clear here. The Minister has told us before that this was a preliminary study, having been accepted by Alberta, Saskatchewan and Manitoba, that a paper has been signed to authorize a further ongoing study to be completed around September time. Perhaps it was just an assumption on my part that Mr. Spafford's group was doing that ongoing study, as far as the system is concerned, and that Teshmont were doing the transmission line work. Now, perhaps if my understanding was incorrect, could I be corrected?

MR. CRAIK: Mr. Chairman, I don't know where the member gets his information. It didn't come from me. The main study is being done by Teshmont, and

there is a steering committee made up of a representative from each of the three provinces, and then there is a costs and benefits type of group over and above the engineering group, that is again made up from professional personnel from each of the three provinces. Whether or not Mr. Spafford is involved in it, I don't know. He may be in a private way, but if he is, I have no knowledge of it. I hope he is, somewhere.

MR. WALDING: Let me see if I can clarify that further. Mr. Blachford tells me that there are different parts to the study that is going on and that Manitoba's portion — are you saying that it's part of that, or is it a separate study commissioned by Hydro that's only to examine Manitoba's interest?

MR. BLACHFORD: It's part of a study for Manitoba's interests that he is doing, but will fit into the overall study from Manitoba's point of view.

MR. WALDING: So he has been retained and is being paid, or will be paid by Manitoba Hydro?

MR. BLACHFORD: That's right.

MR. WALDING: And he will then assess the effect of such a prairie power grid on Manitoba's interests?

MR. BLACHFORD: That's correct.

MR. WALDING: I see. Let me ask a hypothetical sort of question now. Assume that I was running a uranium refinery in northern Saskatchewan; I came to Manitoba Hydro and said, I want 1,000 megawatts of power on a firm basis for a certain time. How would you go about negotiating the terms, particularly the price of that power?

MR. BLACHFORD: I'm afraid we'd send you to Saskatchewan Power to ask them for the power, Mr. Walding.

MR. WALDING: Suppose the request came through Saskatchewan Power? Would you sell them 1,000 megawatts if you had it spare at an average price, the average export price, or some other arrangement?

MR. BLACHFORD: He would probably negotiate a price with them.

MR. WALDING: What would you want the basis of that price to be? The average going price of electricity, or full coverage of whatever costs, or is there some other basis that you start negotiating from?

MR. BLACHFORD: You have to start from the basis of one's costs.

MR. WALDING: So if you had to build new facilities to provide that power and a new transmission line, which of course would be needed, would all of those costs be built in to what you would want to get back when you sold the power?

MR. BLACHFORD: Certainly.

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MR. WALDING: So even if Saskatchewan Power or this uranium plant were to put up the money in front for a transmission line, they would be paying for it that way. If Manitoba Hydro would have built all of that, you would presumably build that into the rates.

MR. BLACHFORD: That's the normal way of doing it, yes.

MR. WALDING: So you would want that back. Is it possible for Manitoba Hydro to provide facilities to produce power at anything less than the last generating station?

MR. BLACHFORD: I don't foresee that this is possible, no.

MR. WALDING: A figure was given out here the other day at three cents a kilowatt hour for the next large generating station that would be produced. Does that sound reasonable?

MR. BLACHFORD: It sounds reasonable.

MR. WALDING: So even if it were not Limestone, would you expect the cost of power from some other generating station to be in this same order of magnitude?

MR. BLACHFORD: It would probably be more expensive.

MR. WALDING: More than three cents?

MR. BLACHFORD: More than Limestone.

MR. WALDING: If you are then to add the cost of a transmission line at, what was the figure, 330,000 a mile, that presumably would be added on to that cost and built into the cost that you would want to return from, from Saskatchewan.

MR. BLACHFORD: If one built that line, that's the way it would be looked at, yes.

MR. WALDING: I see. Has Manitoba Hydro had any discussions with Sask. Power and the Alberta Utilities in regard to a prairie power grid?

MR. BLACHFORD: No, they haven't.

MR. WALDING: Can you tell me why you have not approached your sister utilities since such a thing is now under discussion?

MR. BLACHFORD: Manitoba Hydro's mandate is only to sell power within Manitoba, and anything outside the province is beyond Hydro's mandate at this stage.

MR. WALDING: So if you negotiate a contract to supply firm power to Ontario or to interconnect with Saskatchewan or to sell power to Minneapolis, is that not Hydro's concern?

MR. BLACHFORD: It is Hydro's concern in some ways, but the negotiation is not sprung from Hydro at this stage.

MR. WALDING: When you negotiated to put in that last transmission link from The Pas to somewhere or other, didn't that come about as a result of discussions between Manitoba Hydro and Sask. Power?

MR. BLACHFORD: Yes, I believe it did. That was negotiated some time ago.

MR. WALDING: The discussion we were having yesterday about HBM&S at Flin Flon, didn't you or someone tell me yesterday that there were negotiations between Manitoba Hydro and Sask Power, with regard to that situation?

MR. BLACHFORD: Yes, that is correct, but in this case we are dealing with the Manitoba load.

MR. WALDING: With?

MR. BLACHFORD: A Manitoba load in HBM&S.

MR. WALDING: As far as the latest interconnection with Minneapolis, the discussions for that, were they not carried out between Manitoba Hydro and northern states power?

MR. BLACHFORD: Yes, they were. Again, this was negotiated some time ago.

MR. WALDING: Then I am trying to understand why you say that you cannot or would not talk to Sask. Power and the Alberta utilities about a grid, which is an interconnection arrangement, I understand.

MR. BLACHFORD: Simply because the provincial government has a entity now which is going to be responsible for export of power from Manitoba.

MR. WALDING: And they have told you to leave those arrangements to that group and not to talk to them directly?

MR. BLACHFORD: In this particular case, that is the way it is working, yes.

MR. WALDING: Thank you, Mr. Chairman.,

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Perhaps on one point, on one question, I think there was a meeting with the Sask. Power people here. I recall Mr. Ursel, the head of Sask. Power, was here at that meeting himself, perhaps before Mr. Blachford was involved, but there was a meeting on this question on the Western Grid, so it isn't that they are not involved in the picture.

MR. CHAIRMAN: Mr. Parasiuk.

MR. WILSON PARASIUK (Transcona): I have been able to get some information from my colleague, so I won't have to ask a number of questions relating to the same topic again.

My questions relate to another item to do with the way in which utilities and, in particular in this instance Manitoba Hydro, goes about acquiring land for a right-of-way. I am talking about the right-of-way for the transmission lines to the United States, which

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land has been acquired for east and southeast of Winnipeg. The technique used has been one, in my estimation, which has created a lot of controversy amongst local people in and around the Anola area, and really, in my estimation, is not a satisfactory manner of land acquisition. Hydro has gone out and has bought certain pieces of land.

In other instances it has used its power of expropriation to expropriate land and then, in other instances, has used its power to expropriate an easement for the same right-of-way. So you have three types of methods used by Manitoba Hydro, and I would assume by other utilities, to acquire land for, you know, what could be argued as a needed public purpose; I am not arguing that, I am just arguing about the method because I think it leaves a sour taste in the mouths of local people, and frankly, can and, in my estimation in this instance, probably is unfair to certain individuals.

Land assembly is always a very tricky process. I can appreciate that it is tricky, but I think if people go out, some people assume that they are being offered a fair price because Manitoba Hydro, after all, is a public entity and therefore people assume that they are getting a fair price, so some people sell fairly quickly when they are approached. They then find out that some of their neighbours, who have held out, who might be right beside them, have held out for a few more months and they get a price that might be substantially higher than the price they received from Manitoba Hydro. Other people then hold out for a longer period and they are taken through a court process of expropriation, and the price then is set by a judge, but may be higher or may be lower than the price negotiated between seller and buyer.

Then failing that, and I think this is where I am quite critical of Manitoba Hydro, they were involved in some negotiations to acquire land and instead of them going and expropriating, filing for expropriation, which I think would have led to a higher price being paid to the individuals for that land, comparable to prices that Hydro voluntarily paid for pieces of land along the Hydro right-of-way, they filed, which is within their power, for an expropriation of easement.

I haven't raised this in the House, because I thought it would be more appropriate for me to raise it here in Committee. I would like the Acting Chairperson of Manitoba Hydro to indicate whether in fact he has received complaints about this matter. I know that the Minister responsible for Manitoba Hydro has indeed received complaints about this matter and has said that it is not within his jurisdiction to look into this matter, so he didn't intervene in this process. So it has been left entirely with the Board, and I assume the staff of Manitoba Hydro, and these people feel that they have no recourse. I think it is important that this matter be looked into, perhaps it has been already, but I think it is important that this whole matter of the way in which Manitoba Hydro has acquired or assembled land for the transmission line be looked into, and I think it is important for the government as a whole to look at the whole question of how utilities assemble land for their own particular purposes.

The reason why I say that is that I believe that we will have a continued need for Crown corporations,

especially in the field of utilities, to continue to exist. I feel that they have a tremendous need. They have served Manitoba very well, and I certainly expect that they will continue to serve Manitoba well in the future. But at the same time, they do have powers that private companies do not have, and I think it is important that those powers are used very carefully and I think it is important for the public to feel that those utilities and the government are not misusing those powers. It may turn out that what was done was legal, but I am not sure whether, in fact, the way in which it was done was morally correct. That is why I am asking the Acting Chairperson if he has received complaints about this matter, if he has investigated this matter, and if he has anything to report on it?

MR. CHAIRMAN: Mr. Curtis.

MR. CURTIS: Mr. Chairman, it has not been a major problem as far as Hydro is concerned. We have gone out of our way to endeavour to pay market price for land as we have approached the individuals that have owned the land. There was one case where there was an action taken against Hydro and I understand it went to Supreme Court and apparently was lost in Supreme Court against the owners of the land.

But it has been our understanding, certainly the Board has understood that we have tried to pay fair value. We have negotiated with individual owners, we paid market value, in our estimation, and where we have had concerns or complaints from owners of land, we have tried to negotiate in good faith with them.

MR. PARASIUK: Mr. Chairperson, I don't believe that that is good enough and I would hope that the Minister, then, would look into this matter on behalf of the government. I would suggest that it is important for government and government agencies like Manitoba Hydro, that have special powers that a private corporation wouldn't have, to try and develop a consistent approach with respect to assembling land. Because I would think that in the first instance, the individual approached by a corporation like Hydro and told that this is what we think is a fair market value, will trust Hydro implicitly, may respond; other people may say, well, I'm going to hold out. You get caught up in that whole process of holding out; and I think it is dangerous and I think it creates a lot of dissatisfaction. That holds true not only with respect to the assembly of land by Hydro, but the assembly of land for a park, and I know that with Bird's Hill Park there were a lot of questions raised and a lot of controversy developed at that time when the land was being assembled, and this usually happens.

What I would recommend as a policy, and I think it was being established as a policy by the previous administration, is that land required for public purposes, and I would say Hydro is a public purpose, should in fact be acquired by filing for expropriation for the entire right-of-way, and having it dealt that way. Therefore, every parcel of land that is being assembled is treated exactly the same way and the process is exactly the same and you have an objective, supposedly objective at least, party,

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namely a judge, setting a price. I think it would be a lot easier in the long run for Hydro, and I think it would be a lot easier for us as politicians. Because people do raise these complaints. They look for some type of appeal mechanism. I know that they have approached the Minister of Finance responsible for Manitoba Hydro, asking him to get involved in this particular process. I think that it is important for Hydro to do this, but I think this is certainly not something that Hydro alone is faced with. Manitoba Telephone System, Manitoba Highways Department certainly goes out and acquires land in a similar vein.

So I am hoping that the government will deal with this particular matter and rather than take up more time of the committee, I will send the particulars I think to the acting chairperson of Hydro, plus a copy to the Minister responsible for Hydro, perhaps some of our files are similar on this particular matter, and I would hope that I could get some indication from the Minister or from the chairperson of Hydro, as to values paid people along the right-of-way. I certainly am not in any position to make a final judgement as to whether justice has been done. The fact that a person took a case up to the Supreme Court and lost means that legally you followed the correct procedures, but I would suggest morally, if you have a very big variation in price paid between people who have had their land assembled, that really is unfair from a public point of view.

I guess to get down to one specific, perhaps you can give me an answer on this: Is there a difference in price given to land which is expropriated and that land for which an easement is expropriated? I guess it comes down to that particular question.

MR. CURTIS: Mr. Chairman, my understanding of the procedure is that, on easement, where the land, of course, is still owned by the individual, Hydro will pay 70 percent of the market value of that land. Certainly we are trying to be fair with the holder of the land. In all cases where we buy property directly from the owner, we are trying to pay market value and there is a fair block of evidence as to the market value. As far as easements are concerned, we are prepared to pay 70 percent of the market value for the right to use that land, even though the owner is still the farmer or the individual.

MR. PARASIUK: Just to follow up on this. So there is a differential in price paid to a farmer for expropriated easements as opposed to land which is expropriated, but I think the problem is that land has been expropriated by Hydro, the ownership has been transferred from the farmer to Hydro, but then the farmer has been allowed to continue farming the land. So that creates an anomaly. I don't know if Hydro charges that farmer rent sufficient to make up for that differential, but can you see the difference in the anomaly that exists in the minds of the people there. Someone has had their land expropriated, they're still farming the land; another person has an easement expropriated, he can still farm the land but the price paid him is 70 percent what the other person received. That doesn't take into account the matter of whether in fact someone negotiated a better price or not in negotiating with Hydro.

Is that the case, though, that land has been expropriated and then the farmer has continued to farm it?

MR. CURTIS: Mr. Chairman, we have been looking at the policy of use of land that has been expropriated, and one of the areas that the Board has been considering is whether or not the individual in that area, the former owner, would have the first right to continue to farm that land, and if that's the case, whether a fair rental should be assessed against that particular person.

MR. PARASIUK: Just to get down to a specific, I believe that in East Selkirk there is a Hydro line, a smaller Hydro line that goes across some land. I believe that that land is owned by Hydro but I know it is being farmed by people. Were they the ones whose land was expropriated when Hydro assumed ownership of that land? There are a whole set of precedents that exist right now and I know land on Hydro right-of-ways and near Hydro right-of-ways owned by Hydro is in fact being farmed by farmers right now.

MR. CURTIS: Mr. Chairman, I think Hydro, in large, has taken the view that it tries to bend over backwards, in fact, to allow a farmer to continue to use a land to the extent he can with a line going over his adjoining property. We haven't a firm policy on whether or not a rental should be assessed against the farmer if he has sold the land outright to Hydro, there's no choice but, of course, to allow a farmer to use the land if we only had an easement on it. We're trying to develop a consistent policy with respect to land that we've acquired, we now own, that is adjacent to the farmer's existing property.

MR. PARASIUK: Well, I've brought this matter to the particular attention of the Chairperson, I believe that there are anomalies, I believe that there are people in that area who feel that they have been unfairly treated. I would hope that the Board would take a look at this matter, again, review it and determine whether, in fact, in those instances where there are anomalies between people who have had their land expropriated and aren't being asked to pay any rent and those people who have had easements expropriated, and there are those differences, that maybe they might come up with something a bit more consistent, because it is still within their power to make some adjustments. So I would hope that I could get that type of assurance from the Chairperson.

MR. CURTIS: Mr. Chairman, we are prepared to bend over backwards to allow farmers to have the maximum use of the land that's available to them.

MR. PARASIUK: You still haven't told me whether in fact you'd review the whole matter to see if there are anomalies.

MR. CURTIS: It's presently under review with staff in Hydro, we're looking at that whole aspect of land use.

MR. PARASIUK: If it is determined that there are these anomalies, will there be some attempt, or will

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at least Hydro consider making some adjustments to make the entire land assembly there somewhat consistent, because I would think that it's still within Hydro's power to do so and they can do that within a year, and I think there would be far more goodwill towards Hydro in that particular area. Right now there are farmers in the area who feel that somehow they have been quite unfairly treated by Hydro. Not treated illegally, but very unfairly treated by the big boy on the block, and that's what you are.

MR. CURTIS: Mr. Chairman, certainly the board of Hydro is concerned about the opinions of the farmers that are affected, and we have instructed staff to advise us of the various problems they've encountered and the anomalies that exist therein.

MR. PARASIUK: I'd like to ask a question to the Minister responsible for Hydro whether, in fact, this matter of land assembly, policy with respect to land assembly, is an item that will be dealt with solely by Hydro, or is the government developing an overall policy instead of practices for its utilities and for its departments so that Hydro may, in fact, develop something that will be consistent with government policy generally. Because the average citizen tends to view government, and Hydro as an agency of government, and MTS as an agency of government, so that if we have a number of Crown corporations going their own separate way and developing their own set of practices with respect to land assembly, I think it would be quite unfortunate.

So I'm wondering if the Minister could indicate whether the government is looking at this and whether, in fact, they are working with Hydro in trying to develop a common policy for the entire set of government departments and agencies.

MR. CRAIK: Mr. Chairman, the government is looking at the question, not specific to Hydro, although it would have a spillover or an inclusion, I would think, on some aspects of the Hydro operation. We've, as you know, indicated in the Throne Speech that we intended to act on surface rights legislation and, to a certain degree, this will have an impact on cases where we have surface rights used for purposes other than usually agriculture, and Hydro hasn't been, at this point, involved in it. It's emerged mainly because of the concerns in the southwestern part of the province with oil operations and so on. But it would not necessarily exclude any other uses of it, and it has emerged this way in other jurisdictions where surface rights legislation has come into play.

MR. PARASIUK: I think I'm just about at the end of my questions on this matter. Since it was announced in the Throne Speech, can we then expect legislation in this session on this matter?

MR. CRAIK: That's still the intent, Mr. Chairman, if we don't run out summer.

MR. PARASIUK: Or winter.

MR. COWAN: Thank you, Mr. Chairperson. I'd like to ask Mr. Curtis, or whomever else believes that they could better answer the question, if there has

been any consideration given to reactivating a turbine that is now turning at Kanuchuan Rapids in the Island Lake area? It was a turbine that was put in to power the God's Lake gold mine a number of years ago in the 1930s, and it has since been de-activated, of course, and I believe the line is probably down, although the path is probably still there. I understand that there was a small dam that backed up the Goose Lake and Beaver Lake, I believe, it might have been and/or, one or the other, and I have been approached on numerous occasions, as I'm certain the representatives of Hydro have been approached on numerous occasions, in regard to perhaps doing a feasibility study on re-activating this particular turbine so that line power could be brought into that area which then would serve, I believe could be made to serve, seven or eight communities. I would ask him what the status of that project is at present.

MR. BLACHFORD: Mr. Chairman, this matter is currently being studied by Hydro. There are no answers. But a feasibility study is being made to see whether it's worthwhile re-activating this particular plant.

MR. COWAN: I would ask then if there could be a date given at which we could expect some announcement on the study either way?

MR. BLACHFORD: Mr. Chairman, I don't believe we can give a date for any of these things. The study is composed of two parts, (a) is it worth doing, either at the site or somewhere else, and (b) if it's someplace else, it may take four or five years, or never, to arrive at a decision as to where it might go.

MR. COWAN: Well then as to the actual study of the economic feasibility of the Kanuchuan turbine itself, when could we expect an answer on that, because that would seem to be the logical first phase of the study, one would determine whether or not that turbine could be put back into operation in an economical way, and then if not, one would pursue the other studies, but if so, one would then begin to develop mechanisms to ensure that happens. So I would ask him when we could expect the first phase, or what would appear to be the logical first step in this study to be completed?

MR. BLACHFORD: An answer on this should be forthcoming before the end of the year.

MR. COWAN: I would ask then if the band councils or the representatives of the band councils and Metis communities in the area have been approached and been informed that this study is ongoing and have been asked to participate in any manner with the study?

MR. BLACHFORD: The answer is no, Mr. Cowan.

MR. COWAN: Then I would like to suggest that as soon as is possible, that Manitoba Hydro does initiate conversations with the band councils and representatives of the Metis community in the area. I am somewhat disturbed that you have not already because it is my understanding that the motivation

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for that study probably came from those community representatives and leaders and that they probably have brought those concerns forward on behalf of their constituents, the members of their bands, the members of their communities, and that puts them in the position of not being able to report back — well yes, our activities have resulted in some positive steps being taken by Manitoba Hydro and it also keeps them into the dark as to what is happening in their own area and I'm certain that there are a number of reasons why that should not be allowed to continue. One of course is the position that it puts them in, as I have explained.

The second is a point that I've tried to make throughout and I think we have reached agreement on in almost every instance, and that is people who reside in the area and have resided in the area for long periods of time, have developed a knowledge of the area that can be beneficial to any person doing a study. We've come across the situation time and time again where those people are ignored. It is a historical situation. I can almost, at times, understand some of the reasons for it, but in the long run I come back to the conclusion time and time again, that if we continue to ignore that type of input we will not be performing in as efficient a method as we would hope to perform. We will be losing the beneficial aspects of some positive statements from long term residents who not only can present you with a better understanding of the need and the desire for line power coming into their communities, but also know the terrain, know the history, and know many instances of failures in attempts of this nature that have been undertaken, and they could provide you with that sort of experience, that no study, no study, will be able to develop on its own without having the benefit of long term residency in the area.

I would ask if I could have a commitment from Manitoba Hydro that they will immediately involve, to a significant extent, representatives of the communities in this particular study?

MR. BLACHFORD: I'm afraid I can't give you a commitment like that, Mr. Cowan. The first part of the study is to determine whether or not the machinery is worth reviving, and I am not aware, nor is Hydro aware of anyone in that area who is able to come up with this kind of information. But I can say to you that when Hydro feels that the people in the area can give us some assistance in refurbishing this plant, or helping in the feasibility of what should be done there, they'll be approached.

MR. COWAN: I can't understand what the problem would be in informing them, number one, that the study is ongoing. Can I have a commitment first that they will be immediately informed that such a study is ongoing? I can give a commitment from myself that they will be made aware of the proceedings of this committee hearing, but I would like an official announcement and a meeting in regard to exactly what that study is attempting to do, and the time framework in which that study has been developed, and why this study is being done at this particular time. I am certain they will have more questions to ask than I am presenting here, but those are used as an example of the types of questions that they may

have. Can I at least have a commitment that Manitoba Hydro will now inform them that such a study is being done and try to arrange meetings in the communities so as to better explain the purpose and the methodology behind that particular study?

MR. BLACHFORD: We can give you a commitment that we will inform them that a study is being done.

MR. COWAN: Does that mean that we won't have a commitment that meetings will be held in the communities?

MR. BLACHFORD: That's correct. At this time.

MR. COWAN: My question then is, does that mean that at this time meetings will not be held in the communities?

MR. BLACHFORD: That's correct.

MR. COWAN: I would ask why you feel it necessary not to hold those meetings in the communities.

MR. BLACHFORD: This is a very technical study at this stage. It may result in nothing happening. It may result in taking the machine from wherever it's installed at this moment and moving it someplace else, and I don't think that we need get into that at this stage. We will have to finish our initial study to see whether anything is worthwhile doing.

MR. COWAN: Oh, I would disagree, I want to make that disagreement a matter of the record. I do believe that there is a need at all phases of this sort of study to involve local people because it avoids misunderstandings down the road. Let me give you an example of what the misunderstanding could be in this particular instance.

You decide to move that particular turbine which you have just suggested may in fact be an option that is being reviewed at the moment. You then go into the community and you say we have decided to remove that particular turbine. That community or those communities that are affected by that potential movement are going to be quite understandably upset, and you will have a very difficult time explaining to them that you didn't pull a fast one on them. You may not have intended to pull a fast one on them, but I can guarantee you that they will not accept your assurances that such was not the case.

Whereas if you bring them into the situation at the beginning, and if you involve them in the process, and if you keep them advised — and they can understand technical details as well as anybody, and if they can't individually understand some of the more exotic technical details, as I can't from time to time, they have consultants that will provide them with explanations in terms that they would find acceptable.

So I would suggest that the fact that it is a technical study is indeed no excuse for keeping that information from them. I would also suggest that if you do not involve them and you do have to make the sorts of decisions that you anticipate may have to be made, you will be at that point up against a very hostile wall, and justifiably so. I would be hostile

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in their position, and I would encourage them to make their concerns vocal in that regard. They have to be involved. There is nothing wrong with involving them. It can only have positive aspects and in fact the opposite is true. If you don't involve them, I will suggest that it can only have negative impacts. If you decide to leave the equipment there and develop a line into the communities then, you will have lost out on the benefit of their knowledge of the terrain. So that is in fact a disadvantage. If you decide to move the equipment, you will have created a hostile environment and that is a disadvantage.

If you decide to do nothing, then they will quite justifiably wonder just how far that study went; what was the commitment of the Manitoba Hydro in initiating that study in the first place, and you will have created a sense of disillusionment. So again I suggest that you not only inform them, but I suggest that you involve them to whatever extent possible in the entire process of that survey, and I hope that is done.

I know that I could talk on this for a number of hours and that they can talk on it for a number of hours, but I hope that that is not necessary, that Manitoba Hydro in reviewing the situation will decide to call those community meetings. It's a simple matter. It's an inexpensive matter to send a person in. The Band makes all the arrangements for the meeting itself. You have the meeting in their hall. It is not a costly process, and it's not a time consuming process. We are talking about the communities at God's Lake Narrows, Gods River, perhaps Oxford House, Garden Hill, Ste. Therese Point, Waasagomach and Red Sucker Lake, to my knowledge. There might be others in the area that might benefit from this later, but those would be the ones that would benefit immediately. So we are talking about seven communities, unless you want to extend that westward, and then you would pick up a number of other communities. The seven communities I have mentioned, by the way, are those in my constituency, there may be others in other constituencies that would be involved. Even if it's a dozen communities I don't think it is a onerous task, and I hope that you encourage that process to begin immediately.

On Tuesday when we met we had a discussion about Cross Lake, and Manitoba Hydro — at that time, Mr. Curtis, you assured me, I believe it was you — that Manitoba Hydro would be doing everything they could to insure that the conditions there did not deteriorate; to ensure that the community was being well represented. I have had opportunity since that time to talk to a person representing the community and also I believe that person appeared on TV on the news and suggested that they were still not satisfied with Manitoba Hydro's activities in this event. Is Manitoba Hydro prepared to meet with that individual to explain fully exactly what options they are pursuing and what procedures they are following, just in order to clarify any misunderstanding, if such a misunderstanding does exist, and if it is not a matter of a misunderstanding, in order to seek input from that individual as to how they can better serve the needs in the Cross Lake community.

MR. CURTIS: I did have the opportunity of reviewing this to some greater extent and the

committee that was referred to, which is an informal committee, is being spearheaded by the Department of Northern Affairs, with full support and cooperation from Manitoba Hydro, who is prepared to provide total support to this group in making certain that any problems that have arisen at Cross Lake will be rectified to the largest extent possible.

As an example, I mentioned the water supply was endangered and the Department of Northern Affairs initiated a major improvement to the quality of the water very quickly.

This particular group, which includes Manitoba Hydro, is reviewing on a continuing and urgent basis any of the problems that arise and that they are made aware of. They have had discussions, I understand, with the Cross Lake Band, the mayor of the area, and are, as I understand again, in constant touch with him and his people to assess whatever problems arise during this period of time.

MR. COWAN: I thank Mr. Curtis for that information. Rather than go over the remarks that I had given him previously in regard to not only consultation but also being an active part of the decision-making process, I would just refer back to the Hansard on Tuesday of the proceedings. I don't feel it is necessary to put them on the record again but I do feel it is necessary to remind Manitoba Hydro of my concerns in that regard. I will pursue that matter further, I would suppose, with the Minister of Northern Affairs.

MR. CURTIS: It is his department that has had the main control of the situation.

MR. CHAIRMAN: Mr. Walding, it was my understanding yesterday morning when we met that you had indicated you had some questions pertaining to the financial report in itself and to financial matters pertaining to the Hydro. Is that correct?

MR. WALDING: Mr. Chairman, I did have a couple of other questions on the . . .

MR. CHAIRMAN: General area?

MR. WALDING: Yes, further to the questions I was asking earlier about a prairie grid. I would like to ask, if I may, you mentioned that Mr. Spafford had been retained to do a survey or a review for Manitoba Hydro on Hydro's position in such a prairie grid. Can I ask you how Mr. Spafford was retained.

MR. CHAIRMAN: Mr. Walding, I wasn't paying 100 percent attention. Who did you direct that question to?

MR. WALDING: Whoever can answer it, Mr. Chairman.

MR. BLACHFORD: He is retained through Hydro, Mr. Walding.

MR. WALDING: Was there a tendering process or various consultants asked to . . .

MR. BLACHFORD: No, there was not.

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MR. WALDING: . . . make proposals, as with the Burntwood River Study?

MR. BLACHFORD: Mr. Spafford has been asked to provide us with a draft term of reference for this study and we will negotiate with him on how he will be paid. The reason for being specific on this is that he was instrumental, as you know, in doing earlier studies on the matter and to ask someone else to do it would only involve much more cost than making a review of this study.

MR. WALDING: But, surely, when he does such a review and analysis as far as Manitoba's interest is concerned, what he is doing is reviewing his own report. How can you expect . . .

MR. BLACHFORD: That makes it cheaper.

MR. WALDING: Yes, but do you expect to get a completely objective report, objective and unbiased, when you are asking a man to review his own work of a few months ago, if he would be that . . .

MR. BLACHFORD: Yes, we do, because we also have expertise in this matter and we can review what he is doing and if we don't agree with it, we can say so.

MR. WALDING: I must confess I am a little surprised. Can I give you a quotation from the Foster Report, further to the remarks that you were making before about full recovery of costs. This is from Page 325 of the report, and it says: "The formation of a power grid would result in the marketing of surplus Manitoba and British Columbia hydro energy in Alberta and Saskatchewan, thus leaving available for export surplus thermal power generated in Alberta and Saskatchewan. It appears to be reasonable that such power would not," and it's underlined, "be sold at less than the average cost, 2.15 cents per kilowatt-hour."

It says further down on the page, "For the sake of analysis in this report, it is assumed that all sales from any province are priced at .5 cents per kilowatt-hour above the average cost of generation transmission within the province."

From the facts that you gave me earlier on, would it be possible for Manitoba Hydro to supply power in Alberta for 2.65 cents a kilowatt-hour?

MR. BLACHFORD: Surplus power, yes.

MR. WALDING: When you say surplus power, how is that defined?

MR. BLACHFORD: I believe you referred to surplus power in the report you have.

MR. WALDING: When you say as far as surplus power, surplus in Manitoba, how is that defined?

MR. BLACHFORD: It is surplus to Manitoba's needs and prior commitments.

MR. WALDING: Would that be sold on a firm basis at that price?

MR. BLACHFORD: At which price, 2.5?

MR. WALDING: The 2.65 that you say that you could sell it . . .

MR. BLACHFORD: Not if it's surplus power, no.

MR. WALDING: Pardon me?

MR. BLACHFORD: Not likely, if it's surplus power.

MR. WALDING: Would it be then likely sold at a higher price or a lower price?

MR. BLACHFORD: I understood the question was, would it be sold on a firm basis?

MR. WALDING: Yes, at this price.

MR. BLACHFORD: At this price. It would depend on the circumstances.

MR. WALDING: Do we have 1000 megawatts of surplus power now that we could sell to Alberta?

MR. BLACHFORD: Today, the 13th of June, possibly not, considering the commitments already outstanding.

MR. WALDING: Since this is not likely to go into effect for another eight or so years, are we even less likely to have surplus power of that magnitude for sale?

MR. BLACHFORD: Yes.

MR. WALDING: Can you explain why, if we don't have that surplus now . . .

MR. BLACHFORD: We expect Manitoba's load to grow and therefore there will be less surplus than there is now.

MR. WALDING: I see. So if you haven't got that amount to spare now and you will have to build more for it, will it then not be surplus, since you are building it for that purpose?

MR. BLACHFORD: It would not be surplus if we were building it for that purpose.

MR. WALDING: I see. So if you are building it for that purpose, would you not expect to get back the full costs of generation and transmission for that additional power, as you indicated to me a little while ago?

MR. BLACHFORD: That's correct, under those circumstances.

MR. WALDING: Could that power be sold in Alberta at 2.65 cents a kilowatt-hour?

MR. BLACHFORD: Probably not, unless it were surplus, as your report specifies there.

MR. WALDING: I see. Would it be correct to say that if they wanted a small amount of power that we now have surplus, that you would sell it to them at the surplus price; but if they want a larger amount and we have to build something new to supply it,

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that would be sold at a different and full recovery price?

MR. BLACHFORD: That would have to be sold on a firm basis, yes, at least a part of it.

MR. WALDING: There was one other question I wanted to raise with you. I had asked earlier, I think it was yesterday or the day before, about Manitoba Hydro or any provincial utility having control of that utility within its borders. I would like to quote another page of the Foster Report that says: "It appears prudent to Foster Research that potential grid partners, before proceeding with more definitive studies, recognize and accept the fact that each participant will be required to surrender a certain degree of provincial autonomy in the electric power field in order to enable the grid to operate effectively."

I would like to ask you whether you accept the fact that there will be a surrender of some autonomy.

MR. BLACHFORD: I can't really think how the province would surrender some of its autonomy, other than entering into an agreement to sell power under whatever circumstances they are. If one assumes that an agreement is some sort of a surrender of autonomy, then I guess one can say that is correct, but an agreement, you will not sign an agreement if it is going to prejudice your circumstances.

MR. WALDING: So what you would attempt to do in such a contract is to protect Manitoba's interests to the full?

MR. BLACHFORD: That's correct.

MR. WALDING: But since you are interconnected with other people who will have a demand on our system, it would seem logical that there would be some loss of autonomy involved.

MR. BLACHFORD: It will be a contractual demand on your system. There will be no other demand on the system.

MR. WALDING: Contractual demand meaning that the receiving province can seek power under the terms of the contract.

MR. BLACHFORD: Correct.

MR. CHAIRMAN: Mr. Cherniack.

MR. SAUL CHERNIACK (St. Johns): Mr. Chairman, I would like to get a little bit more clarification, since I missed the earlier discussions on the grid. Does the Hydro export power other than surplus?

MR. BLACHFORD: Yes, there is a contract to the province of Ontario, which is a firm contract to sell power.

MR. CHERNIACK: Is it demand or is it . . .

MR. BLACHFORD: It is demand and a certain amount of energy to go with it.

MR. CHERNIACK: And the rate there is quite different from the 2.65?

MR. BLACHFORD: Yes.

MR. CHERNIACK: How much different?

MR. BLACHFORD: 1.46 cents.

MR. CHERNIACK: Are you now in negotiation for a renewal of that contract?

MR. BLACHFORD: No, we are not.

MR. CHERNIACK: I understand that it is a five-year contract and expires . . .

MR. BLACHFORD: It expires in April, 1982.

MR. CHERNIACK: 1982, and that's the price. Not quite two years. It's not for a large amount then?

MR. BLACHFORD: Up to 200 megawatts.

MR. CHERNIACK: Is there any other export power sold other than surplus?

MR. BLACHFORD: On a firm basis. Only on a diversity basis, that is during the summer period.

MR. CHERNIACK: Is it considered surplus in the summer?

MR. BLACHFORD: It is to Manitoba, yes.

MR. CHERNIACK: I mean Manitoba. Well, Manitoba exports power on a surplus, which is surplus.

MR. BLACHFORD: Correct.

MR. CHERNIACK: If for some reason like a terrible drought and there isn't enough power to service Manitoba, then you are not required to export it?

MR. BLACHFORD: Yes.

MR. CHERNIACK: And the present rate for that?

MR. BLACHFORD: It varies. Firm summer power is being sold at the moment for about two cents a kilowatt-power and the interruptible power is being sold at about one-and-a-half cents a kilowatt-hour.

MR. CHERNIACK: I am confused now. You said firm, but I understood it was surplus.

MR. BLACHFORD: Firm, but for six months.

MR. CHERNIACK: It is firm for the six months?

MR. BLACHFORD: Yes.

MR. CHERNIACK: Well, then I suppose we just don't produce enough power for our province, are you still bound to sell?

MR. BLACHFORD: No.

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MR. CHERNIACK: How is it firm then? What makes it firm?

MR. BLACHFORD: Only when you have got it. There is a special clause in these contracts that say that if this Manitoba Hydro System, which is basically a hydraulic system, does not have the power due to drought conditions, you are out.

MR. CHERNIACK: So it is firm unless you don't have it, but if you have it, you must sell it?

MR. BLACHFORD: That is right.

MR. CHERNIACK: You can't store it?

MR. BLACHFORD: That is correct.

MR. CHERNIACK: That is always a matter of judgement isn't it, whether you have to store or not?

MR. BLACHFORD: Not altogether.

MR. CHERNIACK: No. The engineering aspect is clear as to whether or not you have to store?

MR. BLACHFORD: Reasonably so.

MR. CHERNIACK: This power grid study is, of course, at the stage where you don't know what terms you will be negotiating. It is only the feasibility now, but is it related only to the sale of surplus power?

MR. BLACHFORD: I don't know, but I don't believe so.

MR. CHERNIACK: Mr. Chairman, I am sorry if I am expressing surprise. The General Manager of Hydro doesn't know?

MR. BLACHFORD: May I say this, Hydro is not negotiating this matter on the western grid.

MR. CHERNIACK: Mr. Chairman, is Hydro a participant in the negotiations?

MR. BLACHFORD: Hydro is a participant in the basis for the negotiation.

MR. CHERNIACK: But you mean when there is a meeting to discuss the review or study that a Hydro representative is not present at such a meeting?

MR. BLACHFORD: Hydro has representation in arranging the data for such a study.

MR. CHERNIACK: That was not a direct answer to my direct question. Does Hydro not have a representative at the discussion level on negotiations?

MR. BLACHFORD: No.

MR. CHERNIACK: Is Hydro a party to this study?

MR. BLACHFORD: In supplying information, yes.

MR. CHERNIACK: But is Hydro a party with a capital P, has Hydro signed this contract in any way?

MR. BLACHFORD: No.

MR. CHERNIACK: So that Hydro has no responsibility for the study either?

MR. BLACHFORD: No.

MR. CHERNIACK: Or for the outcome of the study?

MR. BLACHFORD: That is correct.

MR. CHERNIACK: So that you are sufficiently objective, so that if you don't like it you can say so?

MR. BLACHFORD: That is correct.

MR. CHERNIACK: And so that when it is being done by the, may I say non-professional from the standpoint of Hydro's engineers, by the non-professional part of Manitoba, then you have no responsibility for that at all?

MR. BLACHFORD: Non-professional as far as Manitoba Hydro is concerned, that is correct.

MR. CHERNIACK: I mean that, yes. I assume you mean the government is going the negotiating.

MR. BLACHFORD: No, there are consulting firms in Manitoba who are in the study too.

MR. CHERNIACK: Negotiating?

MR. BLACHFORD: Studying.

MR. CHERNIACK: I understand that, but the negotiation then means that it is the government of Manitoba that has worked the study, contracted for the study, that has selected the expertise that it thinks it needs for that purpose, and included in that expertise is such information they want from Hydro that they think Hydro can give. Is that correct?

MR. BLACHFORD: That is correct?

MR. CHERNIACK: And Hydro therefore has no input into the study other than what it is asked to give of a calculation nature?

MR. BLACHFORD: That is correct at this stage.

MR. CHERNIACK: Mr. Chairman, I just want to clarify something else with the Chairman of Hydro, and I want to preface it by saying that I believe that Manitobans are entitled to have the best available possible servants and should be prepared to pay the price for it. Having said that, I would like to explore the contract, the agreement apparently made between Hydro and its General Manager, and ask Mr. Curtis whether he negotiated this contract?

MR. CURTIS: Mr. Chairman, I was involved in the negotiation with Mr. Blachford.

MR. CHERNIACK: So that the Hydro Board, through at least the Chairman of the Board, was involved in the terms that were negotiated.

MR. CURTIS: Yes, that is correct.,

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MR. CHERNIACK: Good, then we can clarify it. The base salary, as I understand is 65,000 a year. What does it mean by base salary? Because later on I note that there is an adjustment to be made annually. Is that what base means?

MR. CURTIS: Well, the base salary that was agreed upon for the first year was 65,000. The adjustment in subsequent years will depend on negotiations between Mr. Blachford and the Hydro Board.

MR. CHERNIACK: It means not less than. Base to me means not less than.

MR. CURTIS: Well the base is the starting point. We would expect that there would be a need to increase his salary as well as other staff salaries in the subsequent years.

MR. CHERNIACK: Because of the inflationary trend of economy. Is there a formula for the future negotiations?

MR. CURTIS: There is not an agreed upon formula, no.

MR. CHERNIACK: What happens if you don't agree?

MR. CURTIS: Then it could go to arbitration.

MR. CHERNIACK: Is that provided for in the agreement?

MR. CURTIS: It is referred to, yes.

MR. CHERNIACK: Okay. The superannuation, I suppose that the General Manager is not eligible to be a participant in the pension fund?

MR. CURTIS: Mr. Chairman, this is a three-year contract and as such, if the contract were terminated after three years, the superannuation clause wouldn't be of value to Mr. Blachford, therefore we allowed and we agreed to accept an alternative arrangement to the value of the superannuation to him.

MR. CHERNIACK: That is fine. It is the equivalent percentage rate . . .

MR. CURTIS: It would be worked out on an equivalent basis, yes.

MR. CHERNIACK: It sounds very familiar to me, Mr. Chairman. It takes me back some years, but the terms look familiar.

The loan that was advanced to Mr. Blachford, when is it repayable and what security is there on it?

MR. CURTIS: It is a demand loan, Mr. Chairman.

MR. CHERNIACK: What security is there?

MR. CURTIS: No security.

MR. CHERNIACK: How would it be enforced?

MR. CURTIS: It would be a normal demand loan requirement based on whatever assets Mr. Blachford had at the time.

MR. CHERNIACK: Including the house, I suppose?

MR. CURTIS: Including the house.

MR. CHERNIACK: But there is no mortgage?

MR. CURTIS: There is no mortgage, no.

MR. CHERNIACK: What is the value of the staff benefits, you must have the percentage relationship?

MR. CURTIS: Not really. Mr. Blachford has the opportunity to be involved in whatever normal benefits, such as insurance plan or hospital, or whatever.

MR. CHERNIACK: Let me put it differently, Mr. Chairman, if I may. I have heard in government circles that fringe benefits are worth, I don't know, 20 plus percent of salary, and I am wondering whether there is some percentage figure that would be related to other employees of Hydro from which would be deducted things like pension payments and holiday pay?

MR. CURTIS: Mr. Chairman, what was contemplated here is ordinary staff benefits that may be available to other members of Hydro.

MR. CHERNIACK: You mean participation in group plans?

MR. CURTIS: Group insurance or whatever.

MR. CHERNIACK: Okay. I see that Hydro is paying the professional organizations.

MR. CURTIS: That is correct.

MR. CHERNIACK: Anything else being paid for, no non-professional fees or dues or anything being paid?

MR. CURTIS: No, no.

MR. CHERNIACK: Now, the one thing that surprised me really in all of this, and I just wanted this on the record, but the one thing that surprised me frankly is that not only is a no-cut contract, but there seems to be provision for continuing payment in the event of death or disablement.

MR. CURTIS: That is correct.

MR. CHERNIACK: I am not familiar with that kind of a contract. Could Mr. Curtis explain?

MR. CURTIS: Mr. Chairman, our understanding is that that is a very common arrangement in a contract that is of a short term duration in that there is no normal group life or disability provision, as we have in the provincial service, where if Mr. Blachford were totally disabled or died during the period of service he wouldn't have the availability of the kind of insurance that we have internally in the service, in the provincial service anyway.

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MR. CHERNIACK: Mr. Chairman, I am sorry, I don't really understand that. I don't know whether any person who works for government has any guarantee of continuing payment of his salary in the event of his death.

MR. CURTIS: I am sorry, I was referring, in the provincial service, to the kind of insurance that provides a lump sum payment, and there is that in the provincial service. Externally, in short term contracts, there quite normally is provision for a lump sum payment, or a payment which equates to the salary that otherwise would have been earned.

MR. CHERNIACK: When you mention staff benefits, does that not include group insurance, Mr. Chairman?

MR. CURTIS: I was thinking of unemployment insurance, medical, that sort of thing.

MR. CHERNIACK: I am sorry, neither medical nor unemployment takes care of death.

MR. CURTIS: No.

MR. CHERNIACK: There is a finality to death that you can't really insure for, except by way of life or death insurance.

MR. CURTIS: Yes.

MR. CHERNIACK: I am still not familiar with this. Does Hydro not have the opportunity to share in group insurance like you and I do?

MR. CURTIS: Yes, it has a form of insurance. My understanding, in normal short-term contracts, there often is a provision to provide for lump sum payments as a result of disablement or death that otherwise wouldn't be available.

MR. CHERNIACK: Mr. Chairman, has Hydro taken out insurance because of this eventuality?

MR. CURTIS: No.

MR. CHERNIACK: So Hydro is an insurer in this respect?

MR. CURTIS: No, Hydro is not insured, it doesn't have . . .

MR. CHERNIACK: Is an insurer . . .

MR. CURTIS: In the contract, as a result of . . .

MR. CHERNIACK: In the contract. Does Hydro have any other contract with anybody else that has this kind of provision?

MR. CURTIS: Not that I am aware of, Mr. Chairman.

MR. CHERNIACK: It says Mr. Curtis, who is also Secretary of the Treasury Board, is he aware of anybody in the employment of the government of Manitoba or any of its agencies that has this kind of a clause.

MR. CURTIS: Not to this nature, Mr. Chairman.

MR. CHERNIACK: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Parasiuk.

MR. PARASIUK: This matter may have been raised before, but I will go over it very quickly, because I was not able to be here. It concerns Island Falls Generating Station, which is in Saskatchewan supplying Flin Flon and, in particular, Hudson Bay Mining and Smelting. Hudson Bay Mining and Smelting has announced some additional activity. I am wondering if I can quickly find out how much power is generated by Island Falls. Is it all consumed by Flin Flon and Hudson Bay Mining and Smelting, and how long does the agreement last, whereby Flin Flon, Hudson Bay Mining and Smelting will get power from Island Falls Generating Station, which is located in Saskatchewan?

MR. CURTIS: Mr. Chairman, Mr. Blachford can respond to that question.

MR. CHAIRMAN: Mr. Blachford.

MR. BLACHFORD: The capacity of the Island Falls Plant is in the order of 100 megawatts, 100,000 kilowatts. All of this power is consumed in the vicinity of Flin Flon, with HBM&S, the town, etc.

MR. CHAIRMAN: Mr. Parasiuk, I might point out that Mr. Cowan, your colleague, went through that line of questioning with Mr. Blachford and the senior engineers yesterday fairly extensively.

MR. PARASIUK: I think I will only take a couple of minutes, Mr. Chairperson.

MR. CHAIRMAN: All right.

MR. PARASIUK: I still haven't found out when the agreement expires.

MR. BLACHFORD: The HBM&S has concession from the province of Saskatchewan, it expires next April 1st, 1981.

MR. PARASIUK: Okay, thank you very much. I just wanted to raise one comment on that. Given the expansions by HBM&S, given the fact that some mining companies have announced finds in the Flin Flon area, I would expect that the demand for hydro-electric power in the Flin Flon area will increase beyond the 100 megawatts, while at the same time I know that northern Saskatchewan is undergoing some pretty phenomenal growth in the mining sector, and in mining processing. I know that they have very little capacity for the generation of hydro-electric power in northern Saskatchewan, so I would expect that this undoubtedly will be the subject of some fairly intensive negotiations. Are these negotiations being conducted by Manitoba Hydro and Sask Power?

MR. BLACHFORD: And HBM&S.

MR. PARASIUK: And HBM&S. So that when it comes to negotiating Island Falls Generating Power

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and in a sense the buying of power by one province from another province, with respect to the Island Falls case, negotiations in that instance are being handled by Manitoba Hydro, in terms of Manitoba's interests.

MR. BLACHFORD: That is correct.

MR. PARASIUK: While in the case of the western power grid, those negotiations are really not being handled by Manitoba Hydro.

MR. BLACHFORD: That is correct.

MR. PARASIUK: At the same time the negotiations relating to Island Falls Generating Station, and the agreement which expires on April 1st, 1981, which is not that long from today, will in fact have some impact on the western power grid, or at least will have impact on the requirements for hydro-electric power or power, electrical power on the part of Saskatchewan, on the part of Manitoba. In the case of Saskatchewan, they will surely be wanting to get this back I would expect; while in the case of Manitoba it would be of some benefit for it to retain the Island Falls Generating Station power, in that I do not believe that Manitoba Hydro has transmission lines to Flin Flon from its hydro-electric stations right now on the Nelson River. Is that correct?

MR. BLACHFORD: That is correct. May I just say what I said yesterday morning. The general idea is that power from Island Falls will continue to feed the Flin Flon area. Manitoba Hydro will, in taking that power from the Island Falls plant, return it back to southern Saskatchewan or through Squaw Rapids until such time as Saskatchewan Power needs this power for their northern mining activities or for something else, and until Manitoba Hydro gets a 230 kV transmission line built from The Pas to Cranberry Portage which will connect into Flin Flon.

MR. PARASIUK: Is Manitoba presently building a 230 kV line?

MR. BLACHFORD: No this line is under study at this time.

MR. PARASIUK: It's under study.

MR. BLACHFORD: Yes.

MR. PARASIUK: It's a matter of whether in fact Saskatchewan needs that power quickly enough because of the expansions that are taking place, and the developments that are taking place there at places like Bluff Lake and Key Lake and Wooliston Lake and Reindeer Lake and many of them associated with the uranium mining; many of them announced already and possibly ones that can't be postponed that much from Saskatchewan's point of view.

MR. BLACHFORD: That could be a factor, yes.

MR. CHAIRMAN: Mr. Curtis.

MR. CURTIS: Mr. Chairman, I wonder if I could just clarify a point that I was making with respect to Mr. Cherniack's question on the contracts.

I was reflecting on the arrangements and there was one other situation, as I recall, that took place on a contract basis with a former employee of one of the Crown corporations and that was Flyer Industries. There was a contract for a term, I think it was three years but I'm not sure. Again it was a no-cut contract, so there is a similarity in the two kinds of contracts.

MR. CHERNIACK: Was there death insurance?

MR. CURTIS: I don't recall that, Mr. Chairman, but there was a similar kind of a contract.

MR. CHERNIACK: Mr. Chairman, Mr. Curtis gives me the opportunity to make the comment that knowing the track record of the present government, I don't blame anybody for asking for a no-cut contract.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: In the reference made to the — that Mr. Curtis has advised of, that contract was negotiated by the former government and it was for 90,000, no-cut, for three years.

MR. CHAIRMAN: Mr. Walding, have you any more general questions before you want to move on into the finance area.

MR. WALDING: Yes, Mr. Chairman, just one general question if I may arising from Mr. Curtis's report on Tuesday, and that had to do with the price of export power.

I recall last year when Dr. Wedepohl was speaking to the committee, making the point that the price of interruptible export power had gone up quite dramatically in a fairly short time, something like 2 mills to 12 mills, or figures in that order of magnitude. You give an average price of 13 1/2 mills per kilowatt-hour. Can you advise what has happened to that figure this year from last year? Has there been the same sort of increase? Is it levelling off? Is it stable? What is the situation there?

MR. CURTIS: Mr. Chairman, this is the last year up to March of 1980. Are you referring to the current year, 1980-81?

MR. WALDING: No, this figure that you quote here being for 1979-80, the figures that Dr. Wedepohl was speaking of were I presume for the 1978-79 year. I am asking what has been the experience since Dr. Wedepohl reported to us on sharply increasing prices?

MR. CURTIS: My understanding, Mr. Chairman, is that the information that we provided is for the following fiscal year, the year after Dr. Wedepohl reported upon.

MR. WALDING: I don't understand. Would you say that again?

MR. CURTIS: Dr. Wedepohl reported on the 1978-79 fiscal year. That is the year after the report that was tabled at the session of this particular committee, and we are reporting on the 1979-80,

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which is the next year following his report. It's the same information, but a year later.

MR. WALDING: So what happened in that year later? Is it better, worse, or the same?

MR. CHAIRMAN: Mr. Blachford.

MR. BLACHFORD: It's about level, it's about the same, Mr. Walding.

MR. WALDING: Would that come about because of some moderation or stabilization in the price of oil and coal and uranium in the States, that they no longer have the demand and are willing to pay higher prices for our electricity?

MR. BLACHFORD: Yes. This is sold into mainly a coal-burning area, and the price of coal has not appreciably changed in the interim, nor has there been any appreciable increase in the facilities built on either side of the border.

MR. WALDING: Are you conscious of any problems that these coal-burning jurisdictions would have with the environmental lobby, which I understand is quite powerful in some areas of the States and is cutting back on their use of these polluting fuels?

MR. BLACHFORD: We are certainly aware of their general problems, but we are not aware of any specific problems that our interconnections have.

MR. WALDING: It hasn't caused any significant impact on any of your customers?

MR. BLACHFORD: No.

MR. WALDING: I didn't have any other questions. If you wanted to go the report, Mr. Chairman, and would you stop at the financial figures?

MR. CHAIRMAN: Just before we go to the report, Mr. Craik has a few general questions.

MR. CRAIK: Mr. Chairman, I want to ask a couple of questions about the information we received yesterday on the projections. The rate for, perhaps I think the gentlemen are here that were here yesterday and whoever wants to answer, I presume will. On the projections that were made yesterday, the export sales, can you indicate what the assumed mill rate was in calculating those? There is a revenue item shown of 21,789,000.00.

MR. CHAIRMAN: Mr. Curtis.

MR. CURTIS: I wonder if Mr. Gunter could respond.

MR. CHAIRMAN: Mr. Gunter, would you like to join us at the table and perhaps you can answer Mr. Craik's question?

MR. GUNTER: The mill rate assumed for the sales during the winter period was 20 mills and for that during the summer period at 10 mills.

MR. CRAIK: Winter is assumed at 20 and the summer at 10. Can you also on the last item in your expense side, No. 7 where you show carry-over storage in Lake Winnipeg for subsequent years, last year 1980-81 you show a benefit of, or an evaded loss, I guess, of 10,220,000. Does that figure depend on the weather conditions and rain principally, that might occur from hereon in?

MR. GUNTER: Yes it does.

MR. CRAIK: That assumption is made on the basis that we would have a continuing drought for the remainder of the year.

MR. GUNTER: It is based on the assumption that we could sell that energy during the summer at 10 mills.

MR. CRAIK: If the weather changed, that 10 million figure might change as well?

MR. GUNTER: That is correct.

MR. CRAIK: Is it based on this assumption that you made an average inflow of 28,000 cfs into Lake Winnipeg from all sources; 28,189, an average during 1980-81?

MR. GUNTER: No, it's not based on that. That particular mill rate and the 10,200,000 is based on what we would consider an expectation for next year, and it's not connected with the fact that there could be a continuing drought.

MR. CRAIK: Your assumptions that you are making though at the present time from your information shows an average, 28,189 cfs average flow into the lake, and I noticed from the Water Resources people that that assumed flow will be the second lowest in 68 years of recorded history.

MR. GUNTER: Yes, that's correct. The present drought that we're in at the moment is approaching the severity of the 1940-41 conditions, which was the lowest in recorded history. We would expect certainly, unless there's a marked improvement in the Winnipeg River basin, that the Winnipeg River flows will be extremely low this year.

MR. CRAIK: Your assumptions that you're making here are on a continuing very severe drought.

MR. GUNTER: Yes.

MR. CRAIK: Do you use the water resources branch computer model for your calculation of things with regards to Lake Winnipeg?

MR. GUNTER: We have two computer models for Lake Winnipeg. We have our own, which is what we call a state of nature plan that we have kept up just to run comparisons of the regulated versus the state of nature conditions, but we also have our own computerized regulation program for Lake Winnipeg.

MR. CRAIK: Do your state of nature calculations that you get from your computer program jibe

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normally with those done by the Water Resources Branch?

MR. GUNTER: We haven't checked them to my knowledge.

MR. CRAIK: In the course of questioning this week, a question was asked by the Member for River Heights, I think in the first day, as to whether without Lake Winnipeg control it would be possible that the level without control in Lake Winnipeg could be as high or higher than it is with control as it stands at the present time. I believe Mr. Tishinski at the time said yes, that could be possible. I think subsequently you gave information that would indicate that the your assumption, certainly based on your stuff you gave out yesterday, was that they would have been equal on March 1. I have asked the Water Resources Branch to run their computer model which they've had for a number of years, which I gather has some technical validity, and the indications are that as of June 1, this month, ten days ago, that in fact the level of Lake Winnipeg would have been just slightly higher than it is at the present time.

MR. GUNTER: I think I said when we assumed them both to be the same that they were approximately the same. They weren't identical. They were then about .2 feet on our program versus the actual; the state of nature versus the actual condition.

MR. WALDING: I think you said that your calculations were based on a fairly rapid manual calculations, and the figure that I took from your calculations was that you said natural conditions would have yielded 712.91 feet, whereas the water resources computer program that has now done it shows a foot higher, and in fact, is just about identical today with the controlled condition, in fact to the nearest 1/100 of a foot, and as of June 1st was an inch or two higher, under natural conditions. What I am wondering about is, to come back to the question, it was answered but seems to fall between differences in information, is if there were a less level on the lake of one foot as you appear to think there would have been under natural conditions, what is the value of a foot of water on Lake Winnipeg now? Does it represent a certain number of cubic feet that will eventually go through the system?

MR. GUNTER: It works about 100,000 cubic feet per second through the various plants on the Nelson River.

MR. CRAIK: For what period of time?

MR. GUNTER: For one month.

MR. CRAIK: For one month. How many dollars would that represent?

MR. GUNTER: At this stage, it would just be an educated guess without working out each individual plant, and the conditions — some of it may be spilled, I don't know. We'd have to look at it. An educated guess could be round about 10 million.

MR. CRAIK: 10 million is a lot of money and makes a lot of difference to speculation. Don't you think, Mr. Gunter, that before producing something like this that it would be wise to go to your computer and run it properly?

MR. GUNTER: The study that was done, we were asked the question, our State of Nature Program is a computer run, and we did run the computer for the State of Nature Program. There was absolutely no guessing on that, that was taken from a program; and the computer run for the regulated condition, it was a computer run.

MR. CRAIK: In overall terms, the further information I have been able to get since yesterday indicates that the current carrying charges on the combined control generator plant are 35.3 million a year, without attributing any additional amounts on a proportionate basis for foreign currency losses or other things that have been assumed by the provincial government, which would presumably put it up higher, perhaps over 40 million, which is not Hydro's concern, naturally, but nevertheless, from a taxpayer's point of view is a concern. What we're saying is, under the assumed conditions of the second worst drought in a 68-year history, and assuming that there is a foot of water saved which the Water Resources Branch computer says is open to some question, which presumably represents about 10 million, with that still in question you're showing a 33 million saving in this year, and that if you had gone to last year you may have been able to shift your production period to again make some gains. We still want to get some information on the amount of spillage. We may have to check with Water Resources Branch on that as well.

But in any case, if you went back to last year, you still have your carrying cost on the combined plant of 40 million; we had a flood condition last year, and we found that the lake level went above its control height, about 715, as I recall, by about .8 of a foot.

MR. GUNTER: I believe that's correct.

MR. CRAIK: So we did get a benefit on Lake Winnipeg to the extent of 8/10 of one foot of water for that investment, but other than that we may have been able to shift our production period from one time to another to gain more out of our exports to some amount, that we may have had to spill at the same time. At any rate, it would appear likely that the losses, although the net may not have been a negative, would certainly probably have been a plus, that in the drought period, by your speculation, we could, under these assumed conditions, save 34 million; and under other assumed conditions last year, we may be down around 10 million, which means that our losses on the investment last year would have been approximately 25 million in a year.

So I think, Mr. Chairman, that the information that we've got here may have been a little bit misleading in terms of the overall benefits of this structure. If we go back one year to the opposite kind of a year, there were some unquantifiable benefits in keeping the lake down by 8/10 of a foot to its control level, offset this year by substantial improvement, but still under the carrying costs of the structure.

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I don't think I have any more to add, Mr. Chairman.

MR. CHAIRMAN: Perhaps, Mr. Walding, we can go to the annual report now.

MR. WALDING: Mr. Chairman, I wonder if the Minister would be prepared to table the figures he's using, at least give us the benefit of them?

MR. CRAIK: I'll see if I can get a copy of this, Mr. Chairman.

MR. WALDING: I wonder if it would be appropriate to indicate to Mr. Tishinski and Mr. Gunter that we would be very interested in seeing next year's figures when this committee meets again next year so that we can compare the situation with the new transmission line in place.

MR. CHAIRMAN: Mr. Parasiuk, did you have a question on the report?

MR. PARASIUK: Yes, I do. I've got the report before me. Page 2 has the senior management staff of Manitoba Hydro, they've got the board members and the senior management people, I see a number of different faces here. I'm wondering if the Acting Chairperson could just take a quick rundown of that list, because this is a very important entity and indicate what changes have been made?

MR. CHAIRMAN: I can mention to Mr. Parasiuk that when the Chairman of Hydro made his opening remarks he gave the members of the committee a list of the new board members. As you can see for yourself, we're dealing with the annual report of March 31, 1979, and as the Chairman indicated on Tuesday morning of this week, yes, there have been a number of changes in his report, which I believe is going to be given to you right now. He did indicate who new board members were and mentioned the name of the new general manager. Is that the information you were wishing to receive?

MR. PARASIUK: Well, there are people here — I don't see Mr. Mills, Mr. Goodwin, I don't know about the corporate operations group, but those are the senior people, they have seen fit to mention them in the report that I'm looking at, but I don't see them here and I'm wondering if there have been major changes in the senior management of Manitoba Hydro? —(Interjection)— I'm sorry, I wasn't here yesterday, but I know that the Minister has just taken half an hour to harass one of his own staff members, and when I ask him questions about a report, the Minister now interjects by saying, it's Friday afternoon and we shouldn't presumably waste time. The Minister has just taken about half an hour, won't produce the figures that he is using, I don't know what force he has on some of his department to come up with the number of figures which he wants to use to contradict his own staff member's statements.

MR. CHAIRMAN: Mr. Craik said that he would supply the figures. He has one copy with him, on which he has written a lot of hand notes.

MR. PARASIUK: That's not what he said.

MR. CHAIRMAN: No, he gave Mr. Walding the undertaking that he would get him the figures that he was referring to. —(Interjection)— I would assume that he's going to get him a copy of them. He can't obviously have the figures that he has in front of him reproduced because he's got some personal notes on there.

Mr. Parasiuk. Mr. Craik.

MR. CRAIK: Mr. Chairman, I think I could straighten out the matter. The reference to Friday afternoon was in reply to the member's question as to the presence of other members from Hydro, and I indicated that they were here yesterday and they were here Tuesday, and today was Friday afternoon.

MR. PARASIUK: Okay, I take that . . . Is it possible for me, I don't see it on this list here, is it possible for me — I don't need it right now — to get a list of the changes as per page 2 of the annual report? That's all I'm asking for.

MR. CURTIS: Mr. Chairman, I provided the committee with the details of the changes in the board members specifically, and the dates and the Orders-in-Council that provided their appointments. We didn't reflect on management, except to the extent that Mr. Blachford has been appointed as President and Chief Operating Officer during this period of time, and that's after this report.

MR. PARASIUK: But they have a list of names here. Is it possible to just see what changes have been made on this list of names?

MR. CURTIS: Mr. Chairman, we're prepared to provide the committee with the changes in the corporate structure.

MR. CHAIRMAN: Mr. Walding, you indicated yesterday you had some questions relating to finance. Is that still the case?

MR. WALDING: Yes, Mr. Chairman. I believe the Minister insisted we wait until we get to that part of the book before answering, Page 1—pass.

MR. CHAIRMAN: Page 1—pass; Page 2—pass; Page 3—pass; Page 4—pass; Page 5—pass; Page 6—pass; Page F1—pass; F2—pass; F3 — Mr. Walding.

MR. WALDING: Mr. Chairman, I would like to ask whomever can provide the answer as to how much was paid to Coopers and Lybrand for the auditing of the books for this year?

MR. CURTIS: Mr. Chairman, the amount that was paid to the auditors last year was 55,000 for the 1979-80 fiscal year, for the fiscal year ending March 31, 1979.

MR. WALDING: Can you advise the committee how much Manitoba Hydro paid to the Provincial Auditor for the previous year's auditing work?

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MR. CURTIS: Mr. Chairman, I'm advised that the amount that was paid to the Provincial Auditor was 28,000.00.

MR. WALDING: So Manitoba Hydro is looking at an increase from 28,000 to 55,000 in one year?

MR. CURTIS: That's correct, Mr. Chairman.

MR. WALDING: Almost double, my colleague mentions to me. Mr. Curtis, one of the reasons given for the selection of this company to do the auditing was that they had some special expertise and knowledge of the utility's industries and that this benefit would accrue to Hydro. Can you give the committee an example of how their expertise has benefited Manitoba Hydro in this year?

MR. CURTIS: Mr. Chairman, I think it's quite correct that the firm has a reputation in utility audit. Not taking away from the Provincial Auditor, but the firm has computer capacity for reviewing programs that are in effect within Hydro systems.

MR. WALDING: Are you then saying that this was part of the services they provided, to do some computer analyses?

MR. CURTIS: They have provided that type of review during their audit.

MR. WALDING: Can you point to any benefit accruing from that computer work, or was it more in the area of checking on things?

MR. CURTIS: Mr. Chairman, my own view is that I think a fresh approach and a different band of expertise that was available has been beneficial to Hydro. I think the board was well satisfied with the work that was undertaken on behalf of the board.

MR. WALDING: Can you point out any changes or benefits that accrued because of this computer work?

MR. CURTIS: It's difficult to pinpoint specific benefits in that respect. I would say that it's an advantage to the board to know that systems that are in effect are being reviewed and commented upon by the auditors in that respect.

MR. WALDING: Would that not have been done the previous year by the provincial auditor?

MR. CURTIS: I'm not sure, Mr. Chairman, the extent to which the provincial auditor had undertaken reviews of the computer programs. I think it is our view that the work that was undertaken was done by auditors that have a very high reputation in the field of computer audits.

MR. WALDING: Why was it necessary or why was it deemed advisable to go to a computer auditor as opposed to whatever the other sort of audit that was done previous years?

MR. CURTIS: Mr. Chairman, I think the main advantage, or one of the main advantages to the board would be the fact that there was an additional

or independent audit undertaken by other auditors and that the review was from an approach different than the former auditor. There is no criticism of the provincial auditor, but the fact of the matter is that it's another firm, if you like, it's a review by an entirely different group of auditors.

MR. WALDING: So you found the provincial auditor perfectly competent to do the books and you also find this company competent to do the books?

MR. CURTIS: I have no complaint against the provincial auditor, Mr. Chairman.

MR. WALDING: Can you advise if your finance department, if that's the correct term, has instituted any change in their accounting systems or methods because of these reviews that have been done?

MR. CURTIS: Mr. Chairman, I understand that there is nothing of a specific or particular nature that has resulted in changes at this point in time.

MR. WALDING: Mr. Curtis, in answer to a previous question, you used the words, "an independent auditor" when referring to this company. I trust that that does not reflect on the independence of Mr. Ziprick, who does not work for Hydro, he works for the Legislature.

MR. CURTIS: Mr. Chairman, I meant another independent auditor.

MR. CHAIRMAN: (f)(3)—pass; (f)(4) — Mr. Walding.

MR. WALDING: Mr. Chairman, Mr. McKean answered a number of questions for the committee last year and was most helpful in leading us through some of these statistics and numbers. He also provided some sheets of projections over the next four and five years that again were helpful to the committee. I wonder if similar projections would be available this year for us, and if it is any help, they're labelled Projected Operating Statements for the Years Ending March 31, 1979-83, and another one showing Statement of Effect on Reserves and Cash Requirements at different percentage rates for the Years Ending March 31, 1980-83.

MR. CHAIRMAN: Perhaps we can have Mr. McKean, if it's all right with the committee, to sit at the table with us.

Mr. Walding, do you have a specific question for Mr. McKean?

MR. WALDING: I see that according to the financial statement for the year under question, that there was an excess of revenue of some 45 million as against a deficit of the year before and that there was some 82 million that came in revenue. The sheet giving the various percentage increases indicated a loss of some 30 million to be expected for the 1980 year.

MR. MCKEAN: You are talking about the sheet, Mr. Walding? To make sure that we're . . .

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MR. CHAIRMAN: Mr. Walding, is there an identification on that sheet as to a date or page number out of some report?

MR. CHERNIACK: 1979-03-07. March 7.

MR. McKEAN: What I've got in my hand is what was attached to the Hansard last year.

MR. WALDING: No, I think it's the other paper.

MR. CHAIRMAN: Would you pass it over to Mr. McKean so he can familiarize himself with it.

MR. McKEAN: Could I perhaps see it? I think we're all right but I just want to make sure I'm making reference to the same piece of paper. I see, it's the second sheet here. It never got attached to Hansard and I was having trouble finding it, so could I borrow yours for a minute?

MR. WALDING: Yes, except that you are asking me now to go from memory. I can remember the figure, Mr. Chairman. It indicated that Hydro expected to make a loss in the year ending 1980 of 30.-something million.

MR. McKEAN: 30.4 is on here and I think that's the one you are talking about.

MR. WALDING: But we are now looking at an actual surplus of 45, which would indicate that Hydro has done 75 million better than they expected as of a year ago.

MR. McKEAN: That's right.

MR. WALDING: That's a pretty dramatic turnaround. Does that cast into question your forecasting ability?

MR. McKEAN: Yes, it does. It is a problem we have in a hydro system, that we have a very wide variation of results in actual as compared to projection. Reference was made earlier to the fact of average flows and drought conditions at better than average flows, so we have a very wide variation in any projection we give. Perhaps I could explain the main variations here, if that is your question.

MR. WALDING: Please do, yes.

MR. McKEAN: First of all, in that column — I think I can do it easier if you look at that sheet, which is the same figure, which is just a summation.

That 30.4, you will notice, projected loss, actually ended up to be 45.4 profit. But 35.8 of it is right on that bottom figure, which is the unreal loss or gain on foreign debt maturities, and that was eliminated completely by the move, the government policy which relieved Manitoba Hydro of all foreign debt losses. So a better comparison, if we disregard that fact, is the fact that we improved from a 5.4 profit to a 45.4 profit.

MR. WALDING: I'm sorry, would you say that again.

MR. McKEAN: The 35.8 was eliminated by the fact that the government took over the liability foreign exchange.

MR. WALDING: Yes.

MR. McKEAN: So we then get back to a comparison of an expected 5.4 profit as compared to an actual 45.4.

MR. WALDING: Okay. So on that basis . . .

MR. McKEAN: I am saying 35.8 was accounted for by the fact that the government took over the loss in foreign exchange.

MR. WALDING: 35 out of the 45 that is shown in the figures for this year.

MR. McKEAN: Yes, I was making reference right on that sheet. So the loss of 30.4, which is at the bottom of that second column, the actual has turned out to be 45.4 profit, so that is the difference of your 75 million.

Now, the first large explanation is the 35.8 was eliminated by the assumption of the government of all foreign exchnage debt. So we then move up to the accounting for the 5.4 versus 45.4.

If you look at the revenue side on the top . . .

MR. CHERNIACK: Mr. Chairman, I wonder, could we interrupt, to understand . . .

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: That still means that there is a 45 million better picture than you projected?

MR. McKEAN: Yes, we are 45 compared . . .

MR. CHERNIACK: 40 million better.

MR. McKEAN: Yes, 40 million. Now, I will try and explain the 40 million.

MR. CHAIRMAN: Just before you start, Mr. McKean, remember gentlemen that the committee is being taped for Hansard and we can't have two people talking at one time. The recorder does try to give the name of the person who is speaking so that the unknown girl typing knows whose name to put beside the conversation.

Mr. McKean.

MR. McKEAN: The revenue side increased from 353 million to 374 million, and the large increase there was in the extraprovincial revenue. The extraprovincial revenue, you will notice, is shown as 72.8 in the projection; the actual turned out to be 95.9.

MR. WALDING: This is in a flood year.

MR. McKEAN: We had good water conditions and certainly the extraprovincial revenue was at a higher level than we expected at that point. I think if you go back to Hansard of last year, we explained we thought the 72.8 was going to be low then because we already knew that the year before had been

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higher. But we left that alone because it was the projection we had turned out earlier.

But the actual 72.8 turned out to be 95.9, so that was the large increase in revenue.

MR. WALDING: And not 82?

MR. McKEAN: The 82 was the year before, but in the year we are talking about, the 72.8 went up to 95.9.

MR. WALDING: I understand.

MR. McKEAN: In the expense side, the expenses actually dropped by 20 million. It was a combination of, I would hope, good management, etc., where in general it's scattered through all the expenses. The interest dropped by 10 million, the depreciation dropped by 3 million, the wages and salaries dropped by 3 million. They are the main items. In total, they dropped by 20 million.

To sum up, the improvement of 40 million was a combination of an improvement of 21 million in revenue and an improvement by a decrease in expenses of about 19 million.

MR. CHERNIACK: May I ask, how is the interest reduced by 10 million? What dramatic thing happens?

MR. McKEAN: Part of that decrease was also a result of the action taken by the government by a conversion away from interest on the debt as shown to the Canadian equivalent. Part of the cost to the government, as pointed out in the Budget Speech, I think they pointed out their extra cost was 37 million, I think in the Budget Speech. That was a combination of a loss of maturity of debt plus the extra cost to them of interest as a result of replacing our debt by a Canadian equivalent. And of course, by being an extra cost to them, it was a saving to Manitoba Hydro.

MR. CHERNIACK: Mr. Chairman, that's in addition to the 35 million in the unrealized losses?

MR. McKEAN: The 35.8 was our unrealized loss or gain on foreign debt maturities.

MR. CHERNIACK: But was that 35 million overestimated?

MR. McKEAN: Yes, if you remember rightly, Mr. Cherniack, last year we got into the question of amortizing unrealized losses versus realized losses, but at this point, this was our estimate of the unrealized, or amortization of the unrealized loss. In actual fact, I think the province realized a loss of 29 million, I think it was shown in the Budget Speech.

MR. CHERNIACK: How much?

MR. McKEAN: It was 29 million in the Budget Speech of the total of 37, I think, Mr. Curtis, but the loss the province has shown in the budget as their loss on the policy of taking over the debt, I think was a total of 37 million or 36 million, and that was a combination of approximately 29 million on matured debt and about 8 million in extra costs of interest, as

compared to what the actual was because of the replacement of our debt by Canadian equivalent, as at the date of the loan.

So that saving mainly accounts for that change in interest, coming back to your original question, Mr. Chairman.

MR. CHERNIACK: Mr. Chairman, Mr. McKean is now trying to explain the difference between the projection and the actual, but should he not then make the other change under the 35 unrealized loss, which turned out to be what, 25, or so?

MR. McKEAN: It was 29 that the province showed as unrealized.

The only reason I'm not mentioning that is the actual figure to Hydro is zero.

MR. CHERNIACK: I know. But if you were to revamp, as you will, the 1980 column then, rather than show a 10 million excess of revenue over expense, as indicated by what you've told us up to now, surely you would have to add back about 7 million or 8 million of unrealized loss to make it 17 million, approximately.

MR. McKEAN: Oh, the '79 one.

MR. CHERNIACK: 1980.

MR. McKEAN: The '80 one. Well, in place of that expected 35.8, the actual was zero to Hydro. Now, I agree completely, it was offset by a cost to the government, but these are Hydro's figures, and from Hydro's point of view, it's zero.

MR. CHERNIACK: My point, Mr. Chairman, is that the cost to government, the reduction to Hydro, is much less than the 35.8 million shown.

MR. McKEAN: Again, the government is showing that on the basis of realized loss. Our projection was based upon the amortization policy, which long reference was made last year on, the CICAs, etc., which became non-applicable to us because we no longer had a loss.

MR. CHERNIACK: Mr. Chairman, I am not now questioning the validity of the projection, I am just trying to visualize the new 1980 statement. And as I see it, this new 1980 statement shows 45 million excessive revenue, of which the government's contribution, if I can use that expression, is, did you say 27 then?

MR. McKEAN: The government has, in their Budget Speech, declared that their extra cost as a result of rate freeze was 37 million . . .

MR. CHAIRMAN: Mr. Curtis can maybe answer that question.

MR. CURTIS: The value of the gain to Hydro was computed at roughly 36.7 million for the current year.

MR. CHERNIACK: Then the 36.7, is close to the 35.8, but that includes the 10 million that Mr. McKean referred to under interest, is that right?

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MR. McKEAN: Part of it would be interest, yes. Our estimate of that cost would be a combination of the 35.8 plus some part of that interest expense, because we had estimated our interest expense on that basis of the existing loans which were at the foreign debt rates.

MR. CRAIK: Just on that point, the Manitoba Telephone System which went to the Public Utilities Board just prior to that, on the basis of what was thought at that time was going to be the CICA requirement, if you had had to follow the CICA amortization formula, do you recall the figure that you would have had to account for under that kind of a formula?

MR. McKEAN: Our estimate we're referring to here was done on the basis of the CICA.

MR. CRAIK: It was CICA.

MR. McKEAN: Our policy at that point was that we were going to follow the CICA amortized method and this projection we're referring to was done on that basis. Of course when there was no loss the board changed the policy.

MR. CHERNIACK: Another question, Mr. Chairman, relating to CICA, I'd like to ask Mr. McKean, I've been, for obvious reasons, interested in looking at financial statements that come to hand, like Great-West Life, Investors Syndicate, . . . Noranda, and I don't know how many others, and none of them are actually showing anything different than the present Hydro report does, only a footnoted statement as to the present long-term indebtedness. They don't actually include it in their statements. Do you confirm that is the case?

MR. McKEAN: I would say companies are doing both. For instance, I think Manitoba Telephones amortize, Saskatchewan Power Corporation follow the CICA amortization. I am led to believe, although I haven't seen their statement yet, that Calgary Power were following the amortization, and I might say that the Canadian Electrical Association, which is an association of all utilities, and we joined it, have sent a brief to CICA recommending that they implement that recommendation right away. But I agree with you, it is in a state of — the recommendation is still there, but the date of implementation, requirement for implementation has not been declared by CICA. So I would say it's now a recommendation that companies can either accept or not accept at this point and still be deemed to be following generally accepted accounting principles.

MR. CHERNIACK: What are you doing for 1980?

MR. McKEAN: As I say, from our point of view, once the foreign exchange loss was taken away — I'd hate to say we lost interest — the matter became academic and therefore the board reversed the policy that we had on it because we no longer had need to declare the policy because we no longer had a loss.

MR. CHERNIACK: Nevertheless, you do show that in your footnote.

MR. McKEAN: We did, because if you go to our statements we show it because we're also disclosing the fact that there was an important subsequent event in our Note 4. The Budget Speech actually took place after the year end, and therefore it was a very important subsequent event that affected our financial statements and is disclosed for that purpose.

MR. CHERNIACK: It also shows on Page 7. Not F7, 7. The slick version.

MR. McKEAN: That's incorporating into the word of the report reference to finances which should be compatible to our financial statement.

MR. ARNOLD BROWN (Rhineland): On F4, under Assets, it's listed at 2,592,000,000.00. On the next page, under Liabilities we have the same figure, and this always makes it look as if we have just as many liabilities as assets. I realize that depreciation has to be taken into account and that some of these plants would be just about depreciated by now. Could you give us some kind of figure as to what the worth of Hydro's assets would be?

MR. McKEAN: First of all, similar to most, I think, all organizations today, although the CICA have this matter under revue at the present moment too, but your plant is stated at original cost, so in no way is the statement of the electric plant at cost indicating a value or a replacement value. That matter, I might say, is receiving some attention from the accounting profession at the present moment, but we are following what all companies are at the present moment, and therefore the electric plant shown up in the left hand side, of 2,412 billion is not an attempt to show the value of the plant, it's an attempt to show the original cost less depreciation. I was quoted in one body that we had done a rough estimate that probably, on a replacement basis, that our plant would probably cost at least 2 billion more to replace today, but that is a very rough off the top of the head estimate.

MR. BROWN: So we're looking really at a total plant value then of 4 billion rather than 2 billion.

MR. McKEAN: Yes, I would estimate, on a rough basis that to replace our plant today would cost an extra 2 billion, but I am not a professional evaluator, and I'm not an engineer, so I won't try and pretend that is anything more than a ballpark estimate.

MR. BROWN: Thank you.

MR. WALDING: Thank you, Mr. Chairman. The annual report indicates that the reserves, total reserves are 96 million. The single sheet that you gave us last year that doesn't appear in Hansard indicated that you expected the total reserves for the year ending 1980 would be 9.9 million. Now, as at the end of 1979 you're already up to 96 million in total reserves.

MR. McKEAN: I would say that in 1980, which is the year that we just went over in detail, we are adding another 45 million to those reserves, and

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therefore our reserves at March 31, 1980, will be approximately 45 plus 96, or 140 million.

MR. WALDING: As opposed to the 10 million that you were expecting last year.

MR. McKEAN: Yes, because at that point we expected to lose 30 million for this year and it would have taken away from the 96.

MR. WALDING: Then perhaps I can ask you, while you've got the sheet, as to why you were still showing very little increase in the total reserves in the forthcoming years?

MR. McKEAN: Again, if you look to the other sheet, we were expecting that in 1979 we were going to draw on reserves by 10 million. Instead of that we added to reserves by 45 million. In 1980 we expected a draw on reserves by 30.4 million. Instead of that, we added to reserves of 45 million. Now do you want to talk 1981?

MR. WALDING: No, let me stop you just for a minute. In other discussions I think the Minister had indicated that total reserves in the neighbourhood of 100 - 120 million were a comfortable level for the utility to be at. This sheet that you were just quoting from gives total reserves of 120 million being reached in 1983. Now that we've already passed that three years early, is that the point where it should level out, or do you see the benefit of reserves continuing to increase, if in fact that is what you're projecting?

MR. McKEAN: The year we are just entering, our latest projection is that, or our original projection was that we were going to continue to add to reserves. We have a concern about weather, and I think it was mentioned earlier that the effect in weather which could dampen that enthusiasm — we'll put it that way — but certainly our projection at the present moment is that we will continue to add to reserves in the current year.

MR. WALDING: For example, if I may, again on this sheet, you were showing that in 1981 your extra provincial sales would jump by 40 million to a figure of 110. Now granted that the two previous figures were out, are you still projecting an increase of 40 million.

MR. McKEAN: We have actually increased that in our latest projection to 128 million. Now when I say our latest, this was done last fall and based upon average water conditions. It must be remembered that when we project that under average water conditions, we are recognizing the fact that if you had drought, that there is about a potential 70 million deterioration possible; and of course if you have above-water conditions, there's a possibility of 30 or 40 million additional. That's the variation we are talking about. We have now had two-and-a-half months of this year that we are talking about, and certainly they are not encouraging, but the year isn't over yet.

MR. WALDING: Did you have an updated sheet of these figures that you could give to us?

MR. McKEAN: I haven't got it in this form. I have some figures here that I could show you if you want to write them down.

MR. CHAIRMAN: Mr. Walding do you want them in that form or do you want Mr. McKean to perhaps forward them through the Chairman to you?

MR. McKEAN: I could give them in a couple of minutes and you could write them down.

MR. WALDING: Will they be related to the form we are using?

MR. McKEAN: Exactly the same form, I happen to have it written.

MR. WALDING: So we can just use this form.

MR. McKEAN: In 1981, general consumers revenue, 256.3; Winnipeg Hydro 24.9; bulk sales 9.7; extra-provincial 128.9, other 3.6; Total 422.8, as compared to 400.2; interest 192.9; depreciation 53.9; wages and salaries 71.8; other admin. and operating 33.0; capitalized overhead, a credit of 14.4; lease rentals payments and allowances 9.2; water rentals 5.0; fuel 6.2.

MR. CHERNIACK: Oh, just a moment, I made a mistake. Could you hold it just a moment please? Water rentals — fuel, I mean.

MR. McKEAN: Fuel 6.2; Total 369.6. And the excess of revenue then becomes 53.2.

MR. CHERNIACK: Would you then add that?

MR. McKEAN: There is no unrealized loss or gain in foreign debt.

MR. CHERNIACK: Would you then add that to the 140?

MR. McKEAN: If we realized this amount you would add it to 140. Now I want to emphasize when we made this plan up last year, we pointed out that drought conditions could have an additional cost or reduced revenue of approximately 70 million and better than average water conditions could improve the situation about 40 million, so there is a variable in this figure compared upon whether or not water conditions is there. And it is not too encouraging that we are going to realize average water conditions at the present moment.

MR. CHERNIACK: Are we getting the others, Mr. Chairman?

MR. McKEAN: I don't know whether this is sufficient.

MR. CHERNIACK: Mr. Chairman, I . . .

MR. McKEAN: I just wrote down the one year.

MR. CHERNIACK: I appreciate that. While he is looking for that, and recalling vaguely last year's conversation, I want to get it fixed in my mind as to what Hydro believes should be the reserve in the normal course that it should have. When I say normal, of course reserves are there for the

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abnormal or the other than normal — what reserves do you aim at now?

MR. MCKEAN: I think to answer your question, there is no correct answer. We felt and we expressed it, that we had inadequate reserves two years ago when we had deteriorated our reserves to a 98:2 debt equity ratio. Not only did we think so, but certainly the consultants of the Tritschler Commission thought so and I think in general we agreed they had deteriorated too far.

I think our answer on what was adequate reserves was that we felt the reserves should be such that we can maintain the ability to borrow at reasonable rates, and that is a very vague term. Other utilities such as Quebec Hydro and Ontario Hydro have much higher reserves. Quebec Hydro has a debt equity of about 70:30, and Ontario Hydro about 85:15. Most other utilities across Canada are running close to 94:6, and I know that the committee that was Mr. Spivak's task force reviewed the situation and suggested that an objective might be to have a 90:10 debt equity ratio. But I think to answer your question, there is no absolutely correct answer and personally I think it relates very much to the position of your lender money. I think I would have to ask Mr. Curtis to comment on that at that point.

MR. CHERNIACK: Mr. Chairman, since to my knowledge Hydro has never paid interest rates excessively high related to any other utility and I think it was sort of second to Ontario Hydro only, I would like to remind you, Mr. Chairman, that the big argument we had during the rate freeze is that it was completely unnecessary that Hydro could finance it on its own, and for this one year, and knowing that we're in a drought situation, our prediction proved to be correct. Therefore, I think we should be most interested in getting the projections for the next few years.

It so happens that the 1981 figures just given to us by Mr. McKean show a conservative approach to the projections, and I mean a small "c" conservative, in that there seems to have been a greater revenue and a lesser expense in almost each of the items which I don't fault or question for a moment, Mr. Chairman. I think that when one deals with matters of this magnitude, then one has to be cautious. Do I direct a question to Mr. Curtis or Mr. McKean or Mr. Blachford as to when the ratepayers are entitled to a reduction in rates in hydro-electric rates sold to them by Hydro based on the surpluses that appear to be about to accumulate and are now at about 140 million, if I'm correct, and are now projected for this coming year at 193 million less the problem created by the drought. Who can answer that question, Mr. Chairman?

MR. CHAIRMAN: I would think either Mr. Curtis or Mr. Craik.

MR. CHERNIACK: Mr. Chairman, I think we're asking Hydro. Hydro is the one that sets rates, I think.

MR. CHAIRMAN: You said either the chairman of the board, or the Minister.

MR. CHERNIACK: All right, I would rather direct it to the chairman of the board.

MR. CURTIS: Mr. Chairman, when the board reviewed the budget for the current year, we felt that we were entering into an exceptionally good year relative to revenues and sales. We are now concerned with the extent of the drought of course. It's been the board's view as well that it would like to see the debt ratio improve. We have had, not criticism, but we've had concerns expressed by the Securities Exchange Commission in the US that we're not maintaining our reserves at high enough levels and that's a vital concern with us. If the drought does prove to be a serious one this year, then we would have to review the existing level of the reserve towards the end of the year and see if we were in fact maintaining an adequate level of reserve.

MR. CHERNIACK: Mr. Chairman, since I have the impression that the credit rating of Manitoba Hydro is very good and good to a large extent because it's backed by the province, I have to go back to asking my question to Mr. Curtis, and knowing that eventually I'm going to get an answer to my question, and that is, at what level of reserve should Hydro consider seriously the reduction of charges to its ratepayers?

MR. CURTIS: Mr. Chairman, we've not looked at it from that point of view because we don't feel we've come up to an adequate level. If you take 90:10 as an example as being an adequate level, certainly we're not to that level at this point in time. The board has not set a specific level at which point it would feel that the reserves were adequate or more than adequate.

MR. CHERNIACK: Mr. Chairman, could Mr. Curtis give me what the 10 figure is so I could figure out what the 90 is?

MR. CURTIS: The 90:10 reserve . . .

MR. CHERNIACK: I know, I know. I want to know what the numbers are.

MR. CURTIS: It would be 90 percent of the amount at the end of 1979, 2,330,000.00.

MR. CHERNIACK: Could you repeat it?

MR. CURTIS: Sorry. It would be 90 percent of — for 1979 then — 2,330,000.00.

MR. CHERNIACK: 2,330,000 and it would be . . .

MR. CURTIS: That would be the 90 percent, 10 percent ratio.

MR. CHERNIACK: So it's ten-ninths of that figure?

MR. CURTIS: That's right.

MR. CHERNIACK: Is that right?

MR. CURTIS: Well, it's 10 percent of that figure.

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MR. CHERNIACK: What reserve would they want to show, where you now show 96 million in this statement we are looking at.

MR. CURTIS: If one were to accept 10 as being a reasonable reserve, then it would be 233 million.

MR. CHERNIACK: 233 million?

MR. CURTIS: Yes.

MR. CHERNIACK: And how many have reached that stage, and how long since Hydro itself has been at that stage?

MR. CURTIS: As Mr. McKean mentioned, our position in Canada is really on the high side. Ontario was 80:20 —(Interjection)— That's right, their objective was 80:20 and they are presently around the 85. Certainly the experience in the U.S. is for much higher than those levels. That's always the concern we have. In the States — mind you, they are largely private utilities — but nonetheless, we are compared against the performance of U.S. utilities when we are selling our bonds in the States.

MR. CHERNIACK: Mr. Chairman, is not a very important factor, the fact that in the States they are controlled by Utility Boards and here you are not yet controlled, are you?

MR. CURTIS: That's quite right.

MR. CHERNIACK: Isn't that the important feature, that your lenders always know that you can pump your rates in a monopoly situation to take care of your needs.

MR. CURTIS: That is certainly a major consideration. Nonetheless, Mr. Chairman, we have had that complaint or criticism or suggestion that our reserves, relative to other utilities in Canada, are low.

MR. CHERNIACK: Mr. Chairman, since it is a publicly-owned institution which has the backing of all the people of Manitoba, who are its only . . .

MR. CURTIS: Shareholders.

MR. CHERNIACK: Well, I don't know. I wouldn't say they are shareholders but they are certainly the only — they have no choice but to deal with Manitoba Hydro, so they are a captive market in Manitoba. It certainly makes a very big difference to the credit rating of Manitoba Hydro.

So I come back to the question, which I don't want to belabour too much because we all would like to go home, but nevertheless the province of Manitoba has provided that the Manitoba taxpayers should subsidize Manitoba Hydro by paying a certain amount of Manitoba Hydro's otherwise liabilities. By doing that, the taxpayers of Manitoba, having shelled out, what is it, 37 million or some such money in this last year, when the expectations were that Hydro would be suffering very badly and would take four years to attain a level in reserve less than they are now, is it not the obligation of Manitoba Hydro, who does set the hydro rates to the customer, to look very carefully at the fact that they've got the

Manitoba resident both subsidizing Hydro and helping it build a reserve substantially greater and in advance of the projections on the basis of which the government sold itself on the idea of freezing rates?

Is it not the responsibility of Hydro Board, and I mean the Hydro Board, to start looking at whether or not it is building an excessive rate and start saying to its ratepayers that we are going to review, reconsider and possibly reduce the rates which we are charging because, Mr. Chairman — and I want to be corrected on this because I don't want to make a great big mistake without being corrected — because it seems to me that rather than a year ago or so the ratepayers being told, "You are safe, come to Manitoba, you need not fear; stay in Manitoba, you need not fear escalating rate increases," whether they are not now entitled to be told that we have substantially exceeded our wildest expectations in our reserves and you are now entitled to expect a reduction as long as the taxpayers in Manitoba are subsidizing Hydro.

MR. CURTIS: Mr. Chairman, as a board we haven't set a level at which we say the maximum reserve has been reached. We don't feel that we are at that stage yet.

You have to take also into account the fact that down the line you are looking at a rising rate of cost, a growing cost. If you are faced with conditions as we are this year, with a drought, then you can't afford to not have adequate reserves, and the question of adequate reserves is a matter that the board hasn't defined per se. Certainly we don't feel that the present level is an excess position as far as reserves are concerned.

MR. CHERNIACK: Mr. Chairman, the rising costs of Hydro, I always thought, were substantially less in the increase than any other form of energy production.

MR. CURTIS: That's quite right.

MR. CHERNIACK: And that the projections, you know them now pretty well. You can look ahead and see that and that's why every so often you come along and you impose a rate increase. I am questioning very seriously whether, when you try to justify the rate increase, and when I say "you" I know Mr. Curtis was not part of it, but it's a continuing process, to justify a rate increase to the public on the basis of projections which showed that it would be 1983 before the reserves were at 120 million. Now they are 140 million. Why is not Hydro prepared to make a statement which is meaningful, not, we are not yet ready, but rather an indication of when you will be ready. Mr. Chairman, as a taxpayer of Manitoba, I am not prepared, really, and I wasn't, as was shown by my vote, to subsidize Hydro because I believed then that the whole thing was a farce. Mr. Chairman, at least, we can't prove that it's a farce; it will take longer to prove that it's a farce, but for this period of time, it was really phony, it was unnecessary in the light of what has happened.

Now, it may be various reasons as to why it happened and there may be all kinds of justifications saying, well, we had no right to expect these things to happen. That's fair game although we sitting

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around this table, a few of us, predicted very clearly, with figures, why it was unnecessary to put that freeze. So we imposed on the taxpayers of Manitoba an obligation to finance, subsidize Manitoba Hydro.

So, as a taxpayer, I'm complaining, because I don't think I should have been required to subsidize Hydro, which includes subsidizing Hydro's buyers of export surplus power. You know, I am subsidizing them as well.

Now, as a ratepayer in Manitoba, I am not yet being given an opportunity to look forward to a rate reduction to in some way compensate me for this dollar shuffle. I assume that I am contributing more as a residential ratepayer and as all MLAs are in the high income tax bracket, I'm probably contributing more to subsidizing Hydro than I would get if there were rate reductions, but at least there are many other people who would be looking for it who would have a different balance.

I think it's only fair to ask Manitoba Hydro, and Mr. Curtis called us, the taxpayers, shareholders — I think it's fair to ask of him, at what stage are you going to be able to say reductions are necessary? Are you aiming for 80:20? Or are you satisfied with 90:10? If so, can he ask Mr. McKean when we'll reach 90:10.

MR. CURTIS: Mr. Chairman, I think I mentioned that the board has not reached a conclusion at what level it felt adequate reserves were in fact in place. So at this point in time, there is no specific level that has been set as a target by the board of Manitoba Hydro.

MR. CHAIRMAN: 4.—pass — Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, we are running out of discussion because Mr. Curtis says, "We don't know; we haven't looked at it." So my question to him is: will he, and when will he, have the board look at this very question against whose validity have I heard any argument? I just want to know, am I wrong in looking at it a year wiser, with a year's more experience before us, am I wrong in saying that this is the time, or surely it is time, or surely within the next six-month period it will be time, depending on what we know about the drought situation, to know when we can start expecting a rate decrease?

So my question doesn't need more than a yes, and I'm sure I can't get anything but a yes to this question: is the Hydro Board prepared to take it under advisement quickly and start studying the question of rate reduction?

MR. CURTIS: Mr. Chairman, the board does look at the ratios and the rates annually and approves rates. My own view is that I would want to see the effect of the balance of this year before we considered any recommendations with respect to rates.

Again, if you want my personal view, I would favor at least a 90:10 ratio as being an objective.

MR. CHERNIACK: Mr. Chairman, when is the next round for a rate review?

MR. CURTIS: Our normal procedure, Mr. Chairman, is to review the rates in November.

MR. CHERNIACK: In November?

MR. CURTIS: In November.

MR. CHERNIACK: Well, then, Mr. Chairman, Mr. Curtis said he wouldn't really like to do that until he sees what happens in this year. If he means calendar year, then November is awfully close to that, but surely . . . Yes, he is agreeing with that. That's fine. That then means, Mr. Chairman, to me, that we have yet to get from Mr. Kean his projections, which he says he has done for the next four years, I guess, and I hope we'll get it. But if it indicates such a dramatic change between the projection of last year to the knowledge of this year and shows that kind of increased reserve, partially at the expense of the Manitoba taxpayer and partially without benefit, immediately benefit to the ratepayers, then I would like to think that next November we'll hear something from Manitoba Hydro justifying even a continuation of the same rate. Because it seems to me, Mr. Chairman, that unless I don't see the whole picture, that Hydro has accumulated a reserve way in excess of what it was aiming at and that the people who own Hydro, or let's say the people who use Hydro, the customers of Hydro, who are largely the same people, are very much entitled to know why they are not getting a rate reduction so that the expected projection over the next four years is maintained.

In other words, Mr. Chairman, if last year they were saying, well, it will take us five years to get to a certain stage and now they are beyond it, then surely there should be some compensation to the existing ratepayers who are now being charged for an accelerated increase in revenue, to benefit from it. You talk about shareholders — how about a dividend, Mr. Chairman? Because when there's a good year in a privately-owned corporation, the one thing you could expect is that private corporation to start paying a little bit of dividends. Here, in this case, I don't expect dividends as a shareholder. I resent very much paying into the coffers of Hydro, as a taxpayer, because the government has forced me to do it, wrongly, ill-advisedly and against our advice last year. So I resent that, but at least as a ratepayer, how about a dividend in terms of rate reduction?

Mr. Curtis is now saying, as I understand it, in spite of the fact that they have now reached beyond the objective stated last year that would be reached in five years, that they will look at it next November. That is little solace to a current ratepayer. You know, we are paying today for the future — and I have no objections of paying for the future in terms of building schools or hospitals or anything else — but when it comes to building Hydro, when we were told it will take five years to get somewhere, and we are already past that now, then I really insist that Mr. Curtis, as a spokesman for his Board, attempting to rush this situation too dramatically and too quickly, and that is a lack of consideration for both the owners of Hydro and the users of Hydro. The only benefit I can see is that there is no profit in the background somewhere, where somebody is sitting elsewhere and creaming the profits. At least we know they are going to stay there. But it is the present ratepayer who should have consideration especially

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since, to a large extent, he is also required to subsidize Hydro, as I have said so many times.

I would think that by next November we should get a pretty up-to-date report. Of course, we won't be in Committee with Hydro then, but I would think it is up to the Hydro management and Hydro Board to make a pretty loud and clear statement as to why Hydro is maintaining the rate, increasing it, or reducing the rate come next November. Is that a fair suggestion?

MR. CURTIS: Mr. Chairman, I would like to think the Board is sensitive to comments from Hydro users, and certainly in my experience, I think that the Board members have had the same experience, the reaction to a freeze of rates has been most favourable. The fact is that if you could term the freezing of rates as a real reduction annually, because the inflation rate increases, but the Hydro rates haven't increased, and I think most of the comments we have received have been certainly in favour of the rate freeze, and the fact that we haven't increased our rates over this period of time when the government has authorized the freeze.

MR. CHERNIACK: Mr. Chairman, I have tremendous respect for Mr. Curtis' accounting capacity as an accountant, but I would venture to say that he personally is paying more for the rate freeze than he is benefiting from the rate freeze directly, and especially since the justification for the rate freeze was a projection which has proved to be very very conservative, and especially when the figures show that it was not necessary to have that rate freeze in order to maintain rates. There isn't the slightest doubt now that for this year's statement that we have before us, and the information given by Mr. McKean, there was absolutely no need whatsoever to freeze rates. Now we said that, we said it publicly, and we said the people are being fooled, because we didn't accept the figures then, and we said it wasn't necessary. Now what it is is a psychological thing that Mr. Curtis is reacting to and that is fine.

It is right to recognize that a psychological thing can make people feel good, but the fact is that is all it is, because they are told you have a rate freeze and they were told by the opposition, which is in minority and had made less of an impact obviously, that they wouldn't have had a rate increase anyway in this coming year, because the statement of Hydro didn't justify that rate increase, therefore the rate freeze. We called it a farce, and we proved it to be a farce, for this year anyway, but psychologically I do believe a lot of people reacted favourably, and especially since they didn't know that they were really paying. As I say, in Mr. Curtis' case, he is paying more for the rate freeze than the benefit he has derived from it, because he has derived no benefit, there would not have been a rate increase. And at the same time he is paying substantially towards that freeze by helping to build the surplus of Hydro much more rapidly than Hydro predicted would be the case.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I can't avoid making comment when the rate freeze is referred to in those

terms. It seems to me that over the five-year period of the freeze, as I recall it, the interest at the currency exchange rates that existed last year, a year ago, that the amount involved over that period of time was about 115 million that was shifted from Hydro to the province, which would have come effectively off the reserves, not assuming a CICA formula, but assuming a debt service, meeting the payments, the due dates.

But the year after the freeze comes off, it seems to me, and I would have to check, there was a fairly massive hit of foreign currency dues, and over the entire life of all of the issues, the foreign exchange would have cost Hydro, over the life of all of them, some 400 million . . .

MR. WALDING: If nothing changes.

MR. CRAIK: If nothing changes, but nothing has changed in 18 months in that regard, and if you have to make your best guess, of course it is a guess, you would probably have to assume that as being as good a number to use as any.

So how it can be said that 400 million lifted off of the shoulders of Hydro, over the period of those debts, is a farce is more than I can digest. The fact is that the Hydro position has stabilized substantially and the utility, despite what the various opinions may be on its equity ratio, what it should be, the utility is going to be in a much better position to move off into the next construction phase as a result of having those reserves in position. They will all be used, in fact, they are all used now.

MR. CHAIRMAN: Just before we carry on, the Clerk has just asked me if he should arrange for the staff to be here for 10:00 tomorrow morning to carry on with this Committee or do members of the Committee feel fairly confident that we can finish this afternoon? Can I get some indication?

Mr. Walding, you and Mr. Pawley are both members.

MR. WALDING: Mr. Chairman, I would expect that we can finish this afternoon.

MR. CHAIRMAN: All right. Mr. Cherniack, did you wish to ask a question?

MR. CHERNIACK: Yes, yes, Mr. Chairman, just to say this. The Minister says, well, but after the five years we are going to be in trouble. The fact is that the freeze is only for five years, and in that five years he was projecting 150 million cost; and the fact is that at that time they were talking about the possibility or the projection that in five years they would have a reserve of 120 million, and now they have a reserve of 140 million, which is not much, what it is, 130 million more than was expected for this year. I may be way out on that. Yes, it is, it is 135 million more as I see it. What is a million as they say? My arithmetic may be wrong, but certainly we are today way ahead of the prediction where we would have been last year, what the projection would be four years from now, which was the lifetime of that freeze. We are so far ahead that we could level off right now and we would be further ahead than we would have been at the end of the 1983 year

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The only thing that can stand in the way is the continuation of a heavy and serious drought situation, which we recognize, which in itself is not that disastrous.

The freeze is taken care of already, and, Mr. Chairman, the point we made last year, the point I make now, is that if the freeze was designed to attain the objectives set out in this projection, we are beyond it, and therefore the government could take off the freeze right now and the ratepayers would know that they would not be facing a rate increase for the next four years. That is the point I am making, and that's why I called it phony last year, and that is why I call it phony this year. No, a farce, last year, and that's why I call it a farce this year, at least by the time we have gone through. And I am saying that, based on the projections, the ratepayers are entitled to a reduction or the taxpayers are entitled to a reduction, but not both. The government is now taking both from the taxpayer and from the ratepayer, and it is taking money which it did not plan openly last year that they would be taking, and that is the point I am making.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, the only valid thing that was said by the Member, Mr. Cherniack, was that it was his point, and that is all it is, is his point. How he can ignore 350 million worth of potential costs to the utility on the foreign currency, only he can work out.

MR. CHAIRMAN: Mr. Filmon.

MR. GARY FILMON (River Heights): The other point, Mr. Chairman, that Mr. Cherniack made was based on one wet year, that is a great way to make a projection.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: It's not true, not just the one. I have just have a comment to make in response to the Minister, that I have to recognize that he treated me much more gently than he did Mr. Gunter.

MR. CHAIRMAN: (f)(4)—pass; (f)(5)—pass; (f)(6)—pass; (f)(7)—pass; (f)(8)—pass; (f)(9)—pass.

MR. CHERNIACK: I am sorry. Did we understand from Mr. McKean that we would be getting these projections that he has?

MR. McKEAN: I can read them out to you, I've got them right here.

MR. WALDING: If you would like to pass the report, Mr. Chairman, I would just say that I would like to thank the Chairman, General Manager, and all the staff for their help to the Committee and their patience in sitting through three long sessions.

MR. CHAIRMAN: Mr. Cherniack asked a question.

MR. CHERNIACK: Mr. McKean said he can read us the figures, or we can ask him to send them to us.

MR. WALDING: He can send them to us.

MR. CHAIRMAN: Mr. Walding, I believe, has indicated that he would like them sent to the members.

MR. McKEAN: Could I ask, would we have it like last year included as part of the Minutes which will allow it to go to all members?

MR. CHAIRMAN: Yes, we can have it included as part of Hansard. If you send it to the Clerk it can therefore be part of Hansard as it was a year ago.

(f)(10)—pass; (f)(11)—pass; (f)(12)—pass.

Do we have the wish of the Committee to pass the report in its entirety? (Agreed)

That concludes the hearing on the Manitoba Hydro-Electric Board for Public Utilities and Natural Resources.