

LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES

Thursday, 6 June, 1985

ME — 10:00 a.m.

CATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Santos

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Harapiak, Parasiuk,
Plohman

Messrs. Ashton, Enns, Filmon, Fox, Manness,
Ransom, Santos

APPEARING: Manitoba Energy Authority:

Marc Eliesen, Chairman and Executive
Director

Manitoba Hydro-Electric Board:

Marc Eliesen, Chairman

J.J. Arnason, President and Chief Executive
Officer

R.M. Fraser, Executive Vice-President,
Corporate Services

C.J. Goodwin, Executive Manager,
Corporate Planning

MATTERS UNDER DISCUSSION:

1984 Annual Reports of the Manitoba Energy
Authority and Manitoba Hydro-Electric Board

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REPORT OF COMMITTEES, Ms. T. Manikel: Committee,
I come to order. Our former chairman, Ms. Phillips, is
no longer a member of this committee, therefore, we
must elect a new chairman. Are there any nominations?
Mr. Harapiak?

MR. H. HARAPIAK: I nominate Conrad Santos, the
Member for Burrows.

S. CLERK: Are there any further nominations?

S. CLERK: Seeing none, Mr. Santos, will you please
take the chair?

R. CHAIRMAN, C. Santos: This is like a banana
public, we elect by coup.
Committee, please come to order.

MANITOBA ENERGY AUTHORITY

R. CHAIRMAN: The Member for Lakeside.

R. H. ENNS: Mr. Chairman, I think with that
understanding we had not concluded, when last we

met with the Manitoba Energy Authority, that there
would be some further questions put to the Authority;
indeed, there might even be some cross-flowing of
questions later on.

But, at this particular time, just before we conclude
with the Manitoba Energy Authority, in the chairman's
brief he lists, of course, the number of ongoing
negotiations - the announcement with Ontario, a
potential interest shown by Saskatchewan, the
Minnesota-Wisconsin group, the Wismintoba group, the
WAPA group - and using your maximum figures that
were applied in the report that is, of course, a substantial
amount of power.

I further understand, and further on in his address,
the chairman seems to indicate that it's the intention
of the Authority to conclude at least one, or possibly
two, further sales. Is that a correct reading of what the
Authority is proceeding with?

MR. CHAIRMAN: Mr. Eliesen.

MR. M. ELIESEN: Mr. Chairman, to answer the
question, I will simply repeat what I had indicated to
the committee last Tuesday. After I had summarized
the five particular options that the Authority was
pursuing, I did indicate "that Manitoba is pursuing a
number of options and, in this way, we have sought to
avoid putting all our eggs in one basket. We have kept
each potential buyer informed of the other negotiations
and of the fact the province will conclude one and, at
most, two more deals. We feel that by having a number
of competing sales options in play Manitoba has
established a solid bargaining position that will bring
the largest possible benefits to the utility and to the
province. We expect that a contract will be signed with
one of these potential buyers within the next 12 to 18
months." That is the end of my quotation provided last
Tuesday from my address.

Our objective, at least the objective that was handed
down to us by the government, was to try to achieve
a decade of hydro development, a minimum at least,
of a decade of hydro development taking place within
the province. We believe that one, or possibly two,
more deals will result in the construction of the
Conawapa Generating Station. I have expressed in the
form of one or two more deals because there are
possibilities that we could strike deals for, let's say,
two 500-megawatt deals, as opposed to one major
1,000 or 1,100 or 1,200-megawatt deals. But it is in
that context that my remarks should be looked at. I
hope that answers the intent of the question.

MR. H. ENNS: Would any of these deals be possible
without the necessity for additional transmission
capacity to be developed? I'm particularly referring to
the indication last week of the Letter of Intent or the
discussions going on with Ontario Hydro with whom
we have some transmission capacity. So my question
is: could any of these negotiations follow without the

involvement of substantial transmission facilities having to be constructed?

MR. M. ELIESEN: Mr. Chairman, yes.

MR. H. ENNS: Would the chairman indicate where and how?

MR. M. ELIESEN: Mr. Chairman, I think it would be a bit premature to get into any of the specifics related to our ongoing negotiations except to indicate that, for example, with regard to our interconnections to the United States, we do have three lines going into the U.S. area, two 230 kV lines and one 500 kV line all the way to Minneapolis, capacity of approximately 1,500 to 1,600 megawatts. So there is obviously capacity on some of our interconnections which could facilitate some arrangements along our firm basis without involving additional construction. Now clearly in some other areas, for example, Wisconsin, that would necessitate a new line.

To the degree that Ontario Hydro is interested in consummating a sale the equivalent of the output from Conawapa, that would require a new transmission requirement, although some of the other considerations that they have asked us to look into with them perhaps could be accommodated given the existing interconnections. The same kind of remarks can be applied to the Saskatchewan area.

MR. H. ENNS: Thank you, Mr. Chairman.

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, we are not opposed necessarily to having the Manitoba Hydro development made. Is it the choice of the Minister to have Hydro make their introduction and then, beyond that point, we can vary back and forth between MEA questions and Hydro questions? We aren't finished with the MEA questions. I have quite a few backlogged from the other day, but I am quite happy to let the Hydro presentation go ahead and then look at them both.

MR. CHAIRMAN: The Honourable Minister.

HON. W. PARASIUK: Well, at the end of the last committee meeting, we had thought that we would go with the Manitoba Hydro. I was prepared to have the MEA people come back in today, more of the MEA people. As you know, for these presentations you have large conglomerations of staff. These are primarily Hydro people today.

MR. G. FILMON: Yes, fine. Well, we're happy to go along with that as long as we're not restricted from going back to the MEA questions at some point in time.

HON. W. PARASIUK: No, you're not.

MR. G. FILMON: Okay, good.

MANITOBA HYDRO-ELECTRIC BOARD

HON. W. PARASIUK: With that, I think we could proceed now to make the Hydro presentation. I would then call

on Mr. Eliesen who will then make an introduction gather, and policy statement.

MR. M. ELIESEN: This is the first time that I've cor before this committee as the Chairperson of t Manitoba Hydro-Electric Board after assuming t position in October of last year. I look forward reviewing with the committee the corporation's Ann Report for the year ending March 31, 1984, and ho that we will be able to provide members with a bett understanding of the report and Hydro's operatio during the past year.

I would first like to, on behalf of the Manitoba Hyd Board, express our thanks . . .

MR. G. FILMON: Mr. Chairman, do we have a co of Mr. Eliesen's opening remarks? We have M Arnason's I think, but I don't think we have Mr. Eliesen

MR. M. ELIESEN: I would first like to, on behalf the Manitoba Hydro Board, express our thanks an appreciation to Mr. Saul Cherniack for the guidan and dedicated service he has provided throughout t tenure of his chairmanship. The bright future Manitoba Hydro owes much to his hard work an leadership. I am grateful that Mr. Cherniack has agre to stay on as a board member so that we can contin to rely on his counsel.

Mr. Chairman, the Manitoba Hydro-Electric Boa has two new members: Mr. Rochmond Beaudry an Mr. William Cheater. They are the first employ representatives to be appointed to the board and v welcome them. Other members of the board includ the Deputy Chairman, Mr. Charlie Curtis, Depu Minister of Finance; Mr. Peter Fox, an engineer an member of the Provincial Legislature; Dr. Edmur Kuffel, Dean of Engineering at the University Manitoba; Mr. Jack London, a lawyer; Dr. Nora Lose Associate Dean of Sciences at the University Manitoba; Mr. Clyde McBain, an engineer an businessman from Winnipeg; and Mr. Roy Minish, businessman from Swan River.

Manitoba Hydro is on the threshold of a decade hydro-electric development which promises widespre benefits for the people of Manitoba. During the pa year, the utility has improved its economic performan in a number of important areas. I expect the: favourable trends to continue with the result th Manitobans will continue to pay for their electricity rates that are the envy of other jurisdictions.

In June of 1984, Manitoba Hydro, together with th Manitoba Energy Authority, signed a 12-year contra for the sale of 500 megawatts of power with Northe States Power of Minneapolis, beginning in 1993. Th National Energy Board has approved the sale. The sa will bring in total revenues of \$3.2 billion, of which \$1 billion will be profit. These profits will be used, in pai to maintain Manitoba Hydro's rate structure below thos of nearly every other utility in North America.

In addition to the profits that will accrue fro expanded export sales, economic benefits will flow fro the construction of the Limestone Generating Statio stimulating business activity and creating thousanc of jobs for Manitobans.

First power from Limestone would have been require in 1992 to meet Manitoba's own electrical needs. Th

3P export sale advanced start-up by one year and hydro economic studies, confirmed independently by the National Energy Board, show that the most profitable in-service date to be 1990.

The cornerstone of our policy on Limestone is that, like the other generating stations in our sequence, it will be built to the most exacting standards of quality. In the past, limited discretion will be exercised to benefit Manitoba firms and industry while competitive pricing remains the first principle of Manitoba Hydro purchasing and tendering around Limestone. Manitoba Hydro, recognizing its responsibilities to its shareholders, the people of Manitoba, is actively working with government and community representatives to fulfill broader social, economic and environmental goals on major projects such as Limestone.

In line with the utility's focus on maximum northern involvement in Limestone construction, Manitoba Hydro has strengthened its efforts to provide equal employment opportunities in the organization for women, Native people, and handicapped persons. Recent Hydro organizational changes will facilitate the development and implementation of affirmative action programs.

Inexpensive hydro-electricity is a birthright enjoyed by Manitobans. As Manitoba Hydro positions itself to meet future challenges, the citizens of Manitoba will continue to enjoy low hydro rates while sharing in the socio-economic benefits that come with the prudent development of Manitoba's vast hydro-electric sources.

Mr. Chairman, I'd like now to call on Mr. John Arnason, the President and Chief Executive Officer of Manitoba Hydro, who will report to you on the utility's operations and activities over the past year.

R. CHAIRMAN: Mr. Arnason.

R. J. ARNASON: Thank you, Mr. Chairman and committee members.

It is that time of year again when I, as President and Chief Executive Officer of Manitoba Hydro, have the opportunity to come before this committee to review the corporation's activities. It is the objective of management and staff at Manitoba Hydro to provide a economical and reliable utility service to the people of Manitoba. The process of reviewing the corporation's activities will assist us in doing our job better.

I have with me a number of staff members who will assist with the presentation and help with the questions that may arise during this session. Murray Fraser, Executive Vice-President of Corporate Services, will provide information on rates and financial forecasts as part of my presentation. Chris Goodwin, Executive Manager of Corporate Planning, will provide an overview of activity related to the Northern Flood Agreement. Last year, this report was tabled, and this procedure will be followed again with your concurrence.

In addition, with us today is Don Duncan, Vice-President, Engineering and Construction; Will Tishinski, Vice-President of System Planning and Operations; Ralph Lambert, Vice-President, Customer Service; Art Perry, Senior Department Manager in the Power Supply Planning Group; Paul Thompson, Interconnection

Planning Engineer, Power Supply Planning; Bob Brennan, Divisional Manager, Financial Services; and Verne Prior, Manager of Public Affairs.

We will do our best to respond to your questions when they are asked. If we do not have all the information with us, it will be provided either at a later meeting of the committee or by way of a written response.

The purpose of the committee meeting, as I understand it, is the consideration of the 33rd Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31, 1984. As has been the custom, however, the committee will be provided with preliminary results from the fiscal year just ended on March 31, 1985.

Manitoba Hydro, being primarily a hydro-electric utility, relies heavily on water flows for generating the bulk of the customers' energy requirements. Consequently, the financial results of the utility's operations are substantially influenced by weather conditions. Fiscal year 1984-85 was an average year for hydro generation, with water conditions being close to the long-term average. The average water conditions provided an opportunity to produce about 21 billion kilowatt hours of energy per year from the hydro-electric plants. The fiscal year ended with total hydraulic generation of 21 billion kilowatt hours, compared to the record 21.9 billion kilowatt hours established in fiscal year 1983-84.

The corporation's revenue is enhanced through the ability of the utility to sell to extra-provincial markets. Increased demand within Manitoba and somewhat reduced water conditions still allowed significant surplus energy sales to neighbouring utilities in Saskatchewan, Ontario and the United States for the fiscal year just ended for a revenue of \$103 million. This is the third year in succession that extra-provincial sales yielded revenue of more than \$100 million. The increased unit price offset the lower volume of export energy this year. The major export market was the United States, which accounted for over 80 percent of the total exports of approximately 5.8 billion kilowatt hours for the fiscal year just ended.

Adequate water conditions resulted in over 99 percent of all energy for the integrated system having been generated from hydraulic sources. At the year-end, the Nelson River plants had contributed approximately 75 percent of the total hydraulic energy. Of the total energy generated in Manitoba, 63 percent was transmitted over the high voltage direct current transmission system.

With the implementation of a 7.9 percent rate increase last year, Manitoba Hydro had forecast a small surplus for the 1984-85 fiscal year after four consecutive years of expenses exceeding revenue. I am pleased to announce that preliminary financial results for the fiscal year ending March 31, 1985, indicate revenues of approximately \$506 million and expenses of approximately \$495 million. That is an excess of revenue over expenses of about \$11 million.

Two years ago, I established the objective of matching revenue and expenses by March 31, 1985, and this has been accomplished by:

1. a continuation of management's efforts to control expenditures;
2. continued adequate water conditions;
3. continued growth in the domestic load; and

4. improved prices in the export market.

While our reserves will increase to \$93.4 million, they are substantially below the \$142 million level reached in the 1979-80 fiscal year. I am concerned that the current level of reserves is not sufficient to withstand a period of low water conditions. Prudent management and fiscal responsibility require us to gradually build up reserves to meet our minimum criterion which is to absorb the financial impact of two consecutive years of drought, and to gradually increase this minimum to maintain rate stability during periods when major generation and transmission facilities are added to the system. With the approval of a management recommendation of a 5 percent rate increase in general consumers' revenues effective April 1, 1985, we are forecasting a \$5 million net revenue for the 1985-86 fiscal year after allowing for the recent increase in water rentals.

Energy generated to serve Manitoba customers was 15.0 billion kilowatt hours compared to 14.4 billion kilowatt hours in the fiscal year ended March 31, 1984, an increase of 4.2 percent. A year ago, the increase was 8.5 percent, and the average increase over the past five years was 3.2 percent.

Our present forecast of future load growth at 2.8 percent per year is the lowest rate of increase ever projected. Load growth over the last two years has averaged 6.3 percent each year and, when adjusted to reflect average weather conditions, the growth would have been 5.2 percent each year.

The system peak demand to supply Manitoba customers during fiscal year 1984-85 was 2,952 megawatts which occurred on Saturday, January 19, 1985. This was an increase of 2.2 percent over the 1983-84 fiscal year's peak. The extreme weather conditions on that Saturday caused this peak demand. We estimate that, if it had occurred on a weekday, industrial demands would have caused a substantially greater peak demand.

We are pleased with the ruling of the National Energy Board which was received in March. This ruling will enable Manitoba Hydro to fulfill all of its obligations in the contract with Northern States Power of Minneapolis for the supply of 500 megawatts of firm power from 1993 to the year 2005. More specifically, net revenues from this sale will enable Manitoba Hydro to have lower rates to its customers than without the sale taking place.

Based on our forecast of increasing power demands, together with the 500 megawatt sale to Northern States Power, it has been decided that the in-service date of Limestone should be 1990. This requires an immediate start on construction.

Our current budget estimate for the Limestone project is slightly over \$2.5 billion for first power in 1990 and completion by 1993. The final cost will depend on such factors as cost escalation and interest rates in the next eight years. Prices on recent major contracts have been excellent and below our estimates. Should this trend continue, there could be a reduction in the current budget estimate of \$2.5 billion.

Even with the addition of the first unit of Limestone in-service in 1990, our projections indicate that annual rate increases at or below the projected long term rate of inflation will be sufficient to ensure an annual positive net revenue. This means that the "real" price of

electricity in Manitoba will further decrease in the future and help to maintain our position in having the lowest electricity rate structures in Canada and the United States.

Consistent with the overall thrust of Limestone Manitoba Hydro has undertaken the following major steps related to local opportunities for business and employment at Limestone.

- A) Requirements for apprentices, trainees and northern Native employment preference have been negotiated with the unions and employers and included in the Nelson-Burntwood Agreement. This agreement covers all contracts at Limestone.
- B) Purchasing guidelines have been developed for use on the project which, while maintaining the general principle of competitive tendering, will assist Manitoba businesses, and in particular northern and northern Native businesses to compete for the work.
- C) Where possible work has been broken into packages to permit more and smaller companies to bid on them.
- D) Manitoba Hydro has awarded a contract to Canadian General Electric Company for the supply of turbines and generators for Limestone. This company has supplied most of the turbines and generators for the Manitoba Hydro system, including the Long Spruce project. These negotiations were initiated in 1977, using experience at Long Spruce as the basis. Negotiations are a consequence of the March 1977 Federal-Provincial Agreement and will ensure that the business remains in Canada.

Manitoba Hydro has extended these general principles to apply to all other northern projects, in order to enhance local business and employment opportunities.

Within Manitoba we presently operate 17 diesel electrical installations serving isolated communities which are primarily located in the northern part of the province. Construction of a 70 kilometre extension from the Laur River to Fox Lake transmission line enabled 16 customers at Pukatawagan to be supplied with central service on March 20, 1985; also 25 customers at Granville Lake were connected to the central system in March. In addition, conversion to central service will continue up the east side of Lake Winnipeg eliminating diesel installations at Poplar River by March 1986 and at Little Grand Rapids and Pauingassi by March 1987.

Manitoba Hydro is constructing a 270 kilometre transmission line from Gillam to Churchill to provide central station power to that community. Clearing of the northern section of the right-of-way was completed early in 1985. The scheduled in-service date for the line is 1987.

Expansion of the high voltage direct current transmission system at Dorsey and Henday has continued during the year. The first section was placed in commercial service last fall and the work will be completed this year. This will improve the capacity performance and reliability of the high voltage direct current transmission facilities which are vital to the security of the system. This facility will be capable of transmitting the output of the Limestone Station without further addition.

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At last year's meeting of this committee I reported at Manitoba Hydro had experienced the worst ice storm in its history during the month of April 1984. The total cost of that ice storm was \$5.2 million and final repairs resulting from it were not completed until December 1984. I reported on this in detail last year. As a result of repeated experience with ice storms with total cost of approximately \$8 million in the past two years, a special task force was set up to report on the measures which should be taken in future to lessen the impact of ice storms. Its report has been approved by management and new measures will be implemented as follows:

- Improved response time - resulting from improved weather information.
- Replacement of overhead distribution lines with underground lines and reinforcement of primary supply lines.
- Advancement of previously planned new lines.
- Additional facilities to improve ice melting from lines.

Implementation of these recommendations will take place over a five-year period beginning in 1985, at pending levels of approximately \$5 million per year. Approximately \$5 million of the total is for the advancement of the in-service date of presently planned station and transmission facilities which will reinforce the supply into ice prone areas.

It is expected that in the long term at least 50 percent of future storm damage costs in the ice prone areas could be eliminated, and the longest service interruptions in major towns reduced to the 20 hour range from the 72 hours experienced during the 1984 storm.

During the fiscal year ended March 31, 1985, Manitoba Hydro purchased approximately \$87.7 million worth of goods and services of which 68.6 percent was placed with Manitoba companies.

In 1984 the utility ranked first of 14 major electrical utilities in Canada in safety for electric utility operations. For the combination of operations and heavy construction we ranked second. This is the 21st consecutive year in which Manitoba Hydro has ranked amongst the top three best utilities. Manitoba Hydro ranked first in vehicle safety amongst the 12 reporting utilities. The above safety particulars are based on the calendar year statistics which are published by the Canadian Electrical Association.

Employment during the fiscal year just ended peaked at 3,805 in July, 1984, including temporary employees working on ice storm repairs. The maximum was 3,778 for the previous fiscal year. Minimum staff levels of about 3,600 occurred in January 1985. Staffing levels are now essentially steady at approximately 25 percent below the level of the mid-1970s. I expect an increase of approximately 220 in staffing during the next few years as a result of increased construction activity.

We are making steady progress with the development of an Affirmative Action Program. We have made a commitment to modify existing systemic discriminatory barriers that affect women, Native people and the disabled. A Corporate Affairs Department has been set up to implement the Affirmative Action Program, and to develop policies for major northern projects in the areas of community relations, resource impact and business development.

For many years, Manitoba Hydro has provided occasional assistance to electric utilities in other countries in connection with projects where we have skills and the people that they require. These have often been paid for by the Canadian International Development Agency. It is now evident that there is a significant export market for such skills and steps have been taken to promote this service. I expect this business to gradually develop, and it will provide additional challenges to our staff. We intend to work with local businesses and to support their endeavours in the export market.

Recently, we have been negotiating with our three official bargaining units. I am pleased to report that negotiations with two of these bargaining groups, namely, IBEW, Local 2034 and AMHSSE have been satisfactorily completed, subject to ratifications by their members and our board. Negotiations with CUPE Local 998 are in progress.

Mr. Fraser will now make his presentation on rates and financial forecasts as a part of my presentation, Mr. Chairman.

MR. CHAIRMAN: Mr. Fraser.

MR. M. FRASER: Thank you, Mr. Chairman.

I would like to start with a number of bill comparisons, similar to those displayed the past few years. Then I would like to touch on some of the factors that impact our financial projections and the results of those considerations.

Slide 1 Residential 750 kW.h

This first chart compares monthly bills of residential customers using 750 kW.h hours in a month in nine different provinces. The province not shown here is Prince Edward Island where there is no city of comparable size. A bill in Charlottetown would be higher than any of those that are shown here. Manitoba Hydro is at the low end of the chart. This level of consumption is average for a residential customer who does not have electric heat as a primary source.

Slide 2 Residential 5,000 kW.h

The second chart again refers to residential customers. This level of consumption is intended to represent an average monthly consumption of a customer using electric heat. Again, we're at the low end of the chart and by a significant margin.

Now the next few charts represent monthly bills of non-residential customers. Basically, customers are classified either as residential or non-residential. The non-residential are then subdivided into those whose demand does not exceed 50 kilovolt amperes and those with greater levels of demand. The smaller demand customers are referred to as General Service, the larger customers are referred to as Power Customers.

Slide 3 General Service 750 kW.h

The first of the non-residential charts represents the monthly bill of a low usage, 750 kW.h per month, General Service customer. Here, as was the case last year, we are not low, we're in this position.

Slide 4 General Service 10,000 kW.h

However, when we compare the bills of relatively high usage General Service customer in the same class,

you'll see that we are again low, and again by a significant margin. This chart is comparing bills at a consumption of 10,000 kWh in a month.

Slide 5 Power 111 kVa, 25,000 kWh

A comparison of monthly bills for a relatively small consumer in the Power category shows Manitoba Hydro at the low end.

Slide 6 Power 1 111 kVa, 400,000 kWh

A comparison of monthly bills for larger customers in the same class shows us again in the same position.

Slide 7 Canada and USA Residential

A comparison of residential bills with some from major United States cities, at a monthly consumption of 1,000 kWh, shows the Canadian utilities in generally favourable positions, here, and here, and here. As we have seen from earlier slides, Winnipeg is at the low end of the major Canadian cities. It shows New York. There are east coast and west coast cities, New York being the highest.

Slide 8 Grand Forks/Minneapolis Residential

Perhaps a little closer to home, a comparison of the Grand Forks and Minneapolis residential bills with those of Manitoba cities indicates the spread between rates in Manitoba and in our adjacent United States.

Now, I would like to review a few of the assumptions used in the financial forecast. These assumptions are important because a change in any one of them could have a significant impact on the forecast of operating results. In fact, it is virtually certain that actual conditions will differ from some of our assumptions and the financial forecast will have to be adjusted accordingly. Because we recognize actual conditions will differ from assumptions, we do a considerable amount of sensitivity analysis as a part of our financial forecast process to determine the impact of changes in these assumptions.

Slide 9 Integrated System Load Growth

One of your basic assumptions is always the forecast of growth in our own system. This is important, because it's a major factor in determining the need for capacity. Growth has moderated since the sixties and early seventies when we experienced growth rates between 6 percent and 12 percent every year. Over the past 10 years, there have been quite significant year-to-year fluctuations, as you can see from the chart, but the growth can be argued as having averaged 3.2 percent, as is shown by the red line. The energy growth of 8.5 percent that we spoke of last year represented a recovery from the previous year when actually a decline in demand was experienced. In 1984-85, load growth was 4.2. Over the next 10 years, load growth is forecast to average 2.8 percent per year, as shown by the black line.

The Federal Department of Energy and some others have noted that, despite the growth experienced in 1984, most utilities have reduced their long-range demand forecasts. The department's own forecast is somewhat higher than that of the utilities.

Another extremely important factor is our ability to generate hydraulically, and Mr. Arnason referred to this a few moments ago.

Slide 10 Hydraulic Generation - Integrated System

This slide shows the Manitoba firm energy requirement in terms of millions of kilowatt hours per

year, and that's the blue-shaded portion of the bar also shows the amount of energy available for export under actual and forecast water conditions a generating capacity, that's the red portion.

In the fiscal years of 1977-78, drought conditions were experienced and very little hydraulic energy was available for export. The following two years, river flow conditions were close to optimum and additional energy was available from Long Spruce, which started commercial generation in October, 1977. In 1981-82 these were again low water condition years and exports were curtailed.

The purpose of reviewing the history is to demonstrate how dramatically Manitoba Hydro's fortunes can be affected by weather conditions and to point out that although we forecast the future, that is from this point onward, assuming average water flow conditions, you can see from the early part of the chart that there will be significant year-to-year exceptions. The large increase in 1991-92 is due to Limestone coming into production.

Slide 11 Potential Range of Net Interchange Revenue

To further demonstrate the significant impact of water conditions on our financial results, this graph, which is called "potential range of net interchange revenue" has been prepared. In 1985-86, the first bars, the difference between the average flow, as indicated by the red bar, and minimum flows, that little black piece is approximately \$90 million. That difference between average and minimum flows increases to approximately \$150 million when Limestone is added to the system.

Slide 12 Total Capital Expenditures

This chart indicates 10 years of actual capital expenditures and 10 years of forecast expenditures. Expenditures are expressed in current dollars, that's the red bars; and in constant 1984-85 dollars, the black bars. As you will see, expenditures are expected to increase sharply as Limestone construction commenced. However, in terms of constant dollars, total expenditures will not reach the levels of the mid-70s.

Slide 13 Interest and Escalation Rates

Interest and escalation rates are important and they are impossible to predict with any degree of certainty. The financial forecast incorporates long-term interest and escalation rates of 7 percent and 12 percent respectively.

Again, I should point out that this is just one combination of interest and escalation rates that we consider, and that we do consider other combinations in order to determine the financial impact of alternative assumptions.

Slide 14 Net Revenue at Alternative Rate Increase

This chart shows net revenues for the past 10 years as well as forecasted net revenues at alternative regular annual rate increases. Similar to the earlier chart on hydraulic generation, this chart clearly shows the effect of two years of good water flows in 1979 and 1980 followed by two years of below normal water conditions. By that time, we were in the third year of the rate freeze and in the midst of an economic downturn which negatively affected net revenue.

Rate increases of 9.5 percent in May of 1983; 7 percent in April of 1984; and 5 percent in April of 1985

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ing us to where we are today with revenues slightly ceeding expenses right at this point.

In the future, it is quite obvious that annual rate creases will be required. The red line indicates how astically net revenues would be affected without any dditional rate increases. With 4 percent rate increases, e black line, there are years where revenue deficiencies ould be incurred. Annual rate increases of 5 percent e represented by the green line on this chart. It should e noted that that 5 percent is 2 percentage points low the annual rate of escalation assumed in the recast.

Our requirement for rate increases is reviewed ually, based on current conditions, and with the ctual rate of inflation taken into consideration.

Slide 15 Reserve Balances

The cumulative effects on reserve balances of the ternate net revenues is indicated on this graph. One dditional line has been added. That orange line is belled "target minimum reserves." The purpose of rowing this line is to indicate the minimum desired ervice level. That minimum level is calculated as the ount necessary to withstand two consecutive years f drought. It amounts to approximately \$200 million ntil Limestone comes into service, after which it radually increases to approximately \$400 million by 994. I should emphasize that this is a minimum level nd reserves should be increased beyond that point r reasons other than protection against low water onditions.

I thank you, Mr. Chairman. That completes the points at I wish to draw to the committee's attention.

Please see Charts at end of transcript.)

MR. CHAIRMAN: Thank you, Mr. Fraser.
Mr. Eliesen.

MR. M. ELIESEN: Mr. Chairman, as I indicated earlier, ve have a report on the Northern Flood Agreement. r. Goodwin is prepared to cover that in detail. Last ear this was provided to the members and tabled. I will leave it to your decision as to how you want to andle that.

MR. H. ENNS: If copies are available it would certainly e appreciated, Mr. Chairman.

MR. CHAIRMAN: Can we ask the Minister?

ION. W. PARASIUK: Yes, I think that it's possible with ansard, if we agree, to have this report incorporated nto Hansard.

MR. CHAIRMAN: Is that agreed? Agreed.
Mr. Amason.

MR. J. ARNASON: Mr. Chairman, this concludes my resentation, and I take this opportunity to thank all the employees of Manitoba Hydro for their record of dedicated service to the people of Manitoba.

MR. CHAIRMAN: Thank you, Mr. Arnason.
The Leader of the Opposition.

MR. G. FILMON: Thank you, Mr. Chairman. I will begin by echoing Mr. Arnason's words of thanks to the dedicated employees of Manitoba Hydro for their continued loyal service to Manitobans. I will also take the opportunity to congratulate the corporation on the continuing excellent record of safety in utility operations that's pointed to in Mr. Arnason's report.

I wonder if Mr. Arnason could indicate for me if there was any way of quantifying the terms that are referred to, both in his statement and in the chairman of the board's statement, with reference to the limited discretion to be exercised to benefit Manitoba firms and industry outside of the principle of competitive pricing for work on Limestone and other Hydro work.

I guess what I am looking for is a statement of policy that lays out the limits of discretion that can be exercised on awarded tender contracts, whatever have you, that goes beyond the principle of competitive pricing.

MR. J. ARNASON: Mr. Chairman, we are not publishing any specific premiums relative to work that is allocated to northern firms, or northern Native firms. We will be reviewing these on a special-circumstance situation.

As we indicated, our basic approach is a competitive tendering system and there will be rare occasions when we will deviate from that where we feel that it is in the interest of pursuing our policy of affirmative action and enhancing the opportunity of people in the North to get involved in the Limestone project.

MR. M. ELIESEN: Mr. Chairman, if I can simply add to what Mr. Arnason indicated, the policy of the Board of Manitoba Hydro is basically to follow a policy that has been in place for many many years over many other Hydro boards, and that is to use limited discretion in the awarding of contracts where Manitoba firms are involved. But the main principle of price competitiveness has been the main orientation for Manitoba Hydro purchasing with or without Limestone and the board certainly, with regards to Manitoba firms, while we are making a very significant effort this time around as I indicated in my remarks on Tuesday, to attempt to maximize the Manitoba content with regards to Limestone purchasing, we are still looking at the price factors to assist us in our final determination.

MR. G. FILMON: Mr. Chairman, while the chairman spoke of this policy prevails and exists with or without Limestone, I wonder if the president of Manitoba Hydro could indicate any circumstances not related to Limestone, other normal contracts and work that Hydro has been doing over the past four or five years in which tenders were awarded based on something other than the principle of competitive pricing.

MR. M. ELIESEN: Mr. Chairman, we, without being specific about citing cases, there has been the odd situation where the management of Manitoba Hydro has reviewed with the board and made recommendation where some preference be given to local manufacturers for reasons other than low prices; for example, the ability to supply the equipment or the services on an excellent schedule and factors such as inspection, where the cost of inspection might be relatively minimal for

Manitoba manufacture compared to inspection services outside the province.

MR. G. FILMON: Those are quantifiable costs. When it costs you more money to inspect the work in progress, those are quantifiable and that still becomes a matter of competitive pricing and that schedules of supply in competitive price tenders, in sealed bid tenders, there's always the aspect of schedule; and obviously corporations and clients want to be able to achieve the purchase or the construction in a shorter period of time, and that's a quantifiable savings in order to have it done in a shorter period of time; savings in supervision and contract administration, all sorts of things.

Looking at other factors because we're talking about awarding based on something other than competitive pricing and those factors that the president referred to can, in fact, be termed as part of the competitive pricing process. I'm looking for something outside of that that he's referring to obviously in his remarks and wanting to know when and under what circumstances and if he can give us examples over the past half dozen years of Hydro awarding it on some other basis, other than competitive pricing.

MR. M. ELIESEN: Mr. Chairman, at the moment I cannot give you specific examples of that situation.

HON. W. PARASIUK: Yes, I've asked the Hydro maybe for the next Session to look through the files and determine whether in fact any line clearing jobs, brush cutting, clean up of land, was done on that basis over the last 10 years. I think there were instances where that might have been done along the Burntwood River and supply of poles, those types of things. Maybe if that could be looked at and we could see if they would bring back material for you at the next meeting.

MR. G. FILMON: Aside from the normal disclaimer that goes on tenders that any and all tenders not necessarily accepted, are the suppliers to Manitoba Hydro generally aware of the fact that Hydro is operating on principles other than competitive bid pricing now and that they normally expect to have to qualify on other bases for supply of material or services, or construction to Manitoba Hydro?

MR. M. ELIESEN: Mr. Chairman, I want to state emphatically and certainly we wouldn't want to give the impression, and as I indicated in my opening remarks which it may be helpful to repeat, as in the past limited discretion will be exercised to benefit Manitoba firms and industry while competitive pricing remains the first principle of Manitoba Hydro purchasing and tendering around Limestone.

We do not believe it is useful for the utility and the Board of Manitoba Hydro would go further, is it useful for the Province of Manitoba to get involved in what has been referred to as beggar my neighbour policies by awarding Manitoba firms with contracts for goods or services by having to pay higher costs.

It is our conviction that Manitoba depends, given the limited market that we have domestically here in the province, we depend extensively on trade and we

require access to outside markets. In fact, Manitob Hydro for some time now has deplored the practice by other utilities in Canada, as well as other governments, which have established very significant preferential in-house purchasing policies, which have caused Manitoba firms tremendous difficulties in gaining access to those markets. In fact, we have lost extensive markets as a result of that. So for our part we certainly don't want to get engaged in that kind of practice.

At the same time while we are reviewing the various bids, and there are some factors as has been pointed out that can be quantified and others cannot be quantified and we do take a look. Let us assume hypothetically you have two low bids coming in and a Manitoba bid is, let's say, 1 or 2 percent higher than an outside bid we'd look very seriously at whether or not a prudent judgment can be exercised with regard to maximizing the benefits to the Manitoba firm. In that sense, I would apply the limited discretion, but we still rely, as in the past, on the competitive pricing system as the determinant in our purchasing and tendering policy.

MR. G. FILMON: Mr. Chairman, I am well aware of the concerns that have been expressed and the example that have been raised by members of the Canadian Manufacturers' Association located in Manitoba about their inability to obtain contracts from utilities elsewhere in the country because of their policies that dictate local preference purchase clauses. The chairman has indicated 1 percent or 2 percent. Is 2 percent the limit upon which discretion will be used for this local preference form of purchase that is referred to both in the chairman's opening statement and the president's opening statement?

MR. M. ELIESEN: Mr. Chairman, emphatically no, and I referred specifically to a kind of hypothetical example. There are no figures that are specifically spelled out. We look at each particular contract that comes in and with the guideline that the competitive pricing objective is the determinant, we do evaluate the various bids in front of us and try to exercise that judgment using very limited discretion. I am emphasizing the limited discretion.

We feel it is incumbent upon ourselves, that is the Board of Manitoba Hydro, to try to maximize where it can be economically justified the Manitoba content that goes into the goods and services. Obviously, it would be our preference if the price is right for firms and industry in Manitoba to be awarded with contracts as compared to those outside. But we still look at the bottom line, and we seek various ways and means. This is reflected in the purchasing policies for Limestone that we are trying to maximize the Manitoba content.

MR. G. FILMON: Mr. Chairman, the Minister of Government Services across the table says to me, that's part of the Buy Manitoba policy that was instituted by this government for the past three years. Well, the chairman says that 2 percent isn't the limitation, so I guess we must assume that it is greater than 2 percent. So what is the limitation upon which discretion will be utilized to give contracts, award contracts, on a local preference basis to improve Manitoba content or Northern or Native Manitoba content on the project?

MR. M. ELIESEN: Mr. Chairman, yes indeed, that would be an incorrect assumption that it is higher. As I stated, and I repeat, where we look at bid prices that come in for particular goods or services, our main objective is the pricing and competitive system. At the same time though, we do exercise a limited discretion in evaluating the various bids between a Manitoba-based bid and that outside. Only in limited and exceptional circumstances, as I mentioned earlier, do we exercise that kind of limited discretion. The limited discretion, we believe, is in keeping with our corporate responsibility to the citizens of Manitoba and to the firms and industries which operate here in the province. That is no different today than it has been for many many years at Manitoba Hydro.

MR. G. FILMON: Mr. Chairman, that's precisely what I am trying to get at. What are the limits to this limited discretion? What are the limits and the exceptions to these limited and exceptional circumstances?

I was at a gathering just the night before last with the Minister of Government Services, the Minister of Energy and Mines and the Minister of Finance, attended by people primarily in the construction industry of Manitoba, none of whom are in a position to have bid on the major civil contracts, for instance, of this Manitoba Hydro Limestone Generating Station Project; almost all of whom though, in one way or another, are going to be smaller players, hopefully, in this project, because they are entering in on a sub-contract or a consortium basis with various of the different major bidders from outside of this province.

They have no idea what will be the guidelines used in deciding Manitoba content and what form Manitoba content will take in the discretionary powers going to be used. It seemed as though all of them were trying to better quantify and better present their positions in an effort to try and determine just exactly what would be motivating the decision makers in Manitoba Hydro when they chose the best bid for Manitoba's purposes for the Limestone Generating Station. They all had the distinct impression, of course, that it wasn't necessarily the low bid. The one who had succeeded in trying to get more Manitoba content apparent in the way in which it structured its bid would have the inside track. It was a very confusing situation that they presented, saying that they had absolutely no idea and no confidence that the bids would be awarded on the basis of what was the best price for the ratepayers of Manitoba Hydro and the shareholders of Manitoba Hydro.

HON. W. PARASIUK: Mr. Chairman, I was at the same function and, I must say, I never heard those concerns, and I met with virtually all the contractors. I heard a number of other statements made to me - well I could get into other statements, but I'd rather not. I'd rather keep it to the particular subject at hand.

They have been clearly informed through consultation process that price is the major factor. The material that's gone out to them says that: "Manitoba Hydro is committed to an open competitive tendering system. Where technically and economically feasible, Manitoba Hydro will develop work packages which are within the scope of Manitoba firms."

We had discussions with the Manitoba firms about whether, in fact, it was possible to break down that

general civil contract. The advice from them was that it would be best not to break down the general civil contract, that you are going to have to go with the big contract. They wouldn't be the bidder by themselves, but they might be part of a consortium. Attempts were made and, I think, genuine attempts on out-of-province firms and Manitoba firms to develop consortium whereby proposals could be made.

It says: "Where price and quality are comparable, Manitoba Hydro will show preference to those tenders which have greater Manitoba content." It defines Manitoba content, and it says that: "Potential tenderers will be told in advance that Manitoba content is an important factor in the evaluation of their bid. Companies wishing to bid on Limestone contracts will be encouraged to consider how Native and northern firms might be included. All firms will be required to list the names and addresses of all sub-contractors and suppliers contained in their tender. In some cases, tenderers may be invited to submit an alternative bid, one which increases the level of Manitoba content by including additional Manitoba firms that are acceptable to the tenderer. These local content provisions will encourage companies to search out local firms to perform some of the subcontract work.

"If you wish, you may contact the Winnipeg Construction Association or Manitoba Hydro to find out which companies have received tender documents. With this information, you can contact these companies directly and offer to participate with them as a subcontractor. It also indicates that there is assistance to small business.

So that whole process was geared to have people search out Manitoba firms to the best of their ability and not indeed, as might have been done in the past, follow the path of least restraint. The big companies have their own network of suppliers, equipment dealers, and it's very easy to get a bid. I mean, we could have conceivably received a turnkey bid from a Korean firm and then fly everyone in, do it completely on a turnkey basis as they did in Saudi Arabia. But we think that within this type of competitive tendering process, say that Manitoba content is important, that the companies should search out Manitoba content, we believe that we will in fact achieve the objective of an excellent price. We will see what happens over the course of the next month, month-and-a-half, as the general civil contract is evaluated. The indications are, as the president indicated, that the costs are very good; also, it would appear that the Manitoba content is very very good. So the objectives are indeed being met.

I have had cases where out-of-province contractors have indicated that they came to Winnipeg for a couple of days thinking that they might talk to Manitoba suppliers or Manitoba subcontractors, and spent weeks because they found a lot more than they anticipated. I have been told by contractors, again from out of the province, that they went up to Thompson to spend the day talking to local contractors, and spent a week because they didn't realize there were as many northern contractors or suppliers and subcontractors as there was.

All of that has taken place in a competitive tendering process. We think it's increased the knowledge of Manitoba potential by these firms. It's not just Hydro jobs that are going to be taking place up North, or in

Manitoba; there are a lot of other jobs. We think that all augurs well for the long-term development in the province and it's not being done at any premium as such.

The firms that I have talked to, I have asked them, how has this process worked? They have been interested to ensure that there will be training programs and people will be supplied. That's our responsibility; we certainly intend to meet our responsibility in terms of the training programs. They were concerned about that and rightly so. But we believe that there will be a qualified pool of workers. Secondly, we were anxious that they came to realize that Manitoba does have a lot of very good construction skills, or construction suppliers or subcontractors, and they have come to that conclusion themselves. But it still is the competitive tendering process where price will be the major factor.

MR. G. FILMON: Mr. Chairman, did I understand the Minister to say that the process would be, and they were informed that after the bids are open they might be invited to submit an alternate bid that would increase the Manitoba content?

HON. W. PARASIUK: In the tender document, it said, "In some cases, tenderers may be invited to submit an alternate bid."

MR. G. FILMON: Would that be before or after?

HON. W. PARASIUK: That's before, because all of these contractors have had detailed discussions with Manitoba Hydro in the course of their developing their tenders.

MR. G. FILMON: So did anybody submit dual bids; in other words, a bid based on their lowest best price and a bid based on more Manitoba content?

I wonder if I could ask Mr. Arnason that because you may not be aware of that.

MR. J. ARNASON: Mr. Chairman, I haven't analyzed the bids myself. I am aware of the range of prices that came in. I think possibly we should ask Don Duncan who is more intimately involved in the analysis of the bids to see whether he can elaborate a bit on that question.

MR. CHAIRMAN: Mr. Duncan.

MR. D. DUNCAN: We are analyzing the bids at this time, and it's not public information. I might say that in the tendering process, in the call for tender, we asked all tenderers to provide any alternates that they might wish, including possible financing packages. We asked them to list all the Manitoba content that they employed within their bids and additional Manitoba content that was not contained in their tender but might be optional. All that information has been received from the tenderers and is currently being analyzed.

MR. G. FILMON: Mr. Chairman, if I may clarify with Mr. Duncan, then some of them did submit alternates that indicated what their best price would be and what their alternative price would be to increase the Manitoba content.

MR. D. DUNCAN: Yes, there was a provision in the specifications for them to do that and some of them have done it.

MR. G. FILMON: In that case, does that not therefore say that it would be done at a premium if you had to accept the alternate price for additional Manitoba content?

MR. CHAIRMAN: Mr. Eliesen.

MR. G. FILMON: Mr. Chairman, could I ask the contractor manager to answer that? That's his job; it isn't Mr. Eliesen's job to answer that.

MR. CHAIRMAN: The Chairman recognizes who will speak.

Mr. Eliesen.

MR. M. ELIESEN: Mr. Chairman, I thought it would be helpful if I could focus in on the question. Certainly Mr. Duncan can easily answer those questions, but thought it would be useful in the context of the question to repeat a statement which I made on Tuesday to show the relationship between the tendering document and any possible Manitoba premiums that may be considered in the context of the Limestone job with the Provincial Government.

If you recall, I indicated on Tuesday, "In certain limited circumstances where social and economic benefit outweigh costs, the Provincial Government, through the Manitoba Jobs Fund, is prepared to pay a price differential on contracts to enhance Manitoba content. It's in that context where, if there is a premium related to a Manitoba-source job, it is not the Manitoba Hydro who would consider paying such a premium. There is a mechanism for limited circumstances where the Provincial Government may, if they desire, to do so."

Now Mr. Duncan can add, if you would like, to my remarks.

MR. D. DUNCAN: The chairman is correct.

MR. G. FILMON: The chairman is always correct, I am sure, Mr. Duncan.

Mr. Chairman, in that case, then, the chairman is acknowledging that there would be premiums despite the fact that the Minister said there wouldn't be premiums. It's just that it would come out of a different pocket.

HON. W. PARASIUK: Well, you know, I don't like having words put in my mouth by the Leader of the Opposition. Let's make it clear. The Manitoba Government is trying to maximize spinoffs for Manitobans. We will do that within a competitive tendering process, by and large. We will identify what those extra costs are if extra costs will be incurred, and they will be paid by the Manitoba people to encourage the extra benefit. It may total, we in fact can increase the Manitoba content from, say, 45 percent to 85 percent, we can have an increase and a spinoff to Manitobans of something in the order of \$500 or \$600 million. Now this government is prepared to do that. What I'm hearing from the Leader of the Opposition, he's saying that this is a premium

to pay; we shouldn't look at this; we shouldn't do this; this is confusing; we shouldn't try to do that. Now, let's make it clear. We will try to do that; we will do it.

MR. G. FILMON: Mr. Chairman, I just want the Minister to put his comments on the record in an accurate form. Earlier when he was speaking and Hansard will verify it, he said it's not being done at any premium. That was his words; not mine. I'm not putting them in his mouth. I'm saying that it's now being acknowledged that it is being done at a premium. I'm not arguing whether it should or it should not, but it shouldn't be said on a basis that it's not being done at any premium and now we find it is being done at a premium, but it's a premium that we're prepared to pay through the Jobs Fund. As long as that's on the record, I'll accept it.

HON. W. PARASIUKE: What we are talking about, this is the interesting thing, we're talking about tendering process; we've talked about no specific instance yet where that's been brought to the government because the Hydro is still assessing it; we think that through the competitive process we should be able to achieve this because of all the things that have happened over the course of the last nine months. My expectation is that will be achieved within the pricing process. If there are instances they will be identified. But for someone then to somehow say, well this is being done and that there will be premiums and there will be extra costs, is jumping to a conclusion before the assessment of the tenders has been made and before that information is made public.

All I can say though, because some of this arose out of what the Leader of the Opposition said he heard as hearsay, we spent a lot of time working with the construction associations and with other groups trying to work towards maximizing content. We've worked with them very very closely. They, themselves, are saying that they think this is the best approach to go, the right approach, and what they are trying to do to ensure that we go beyond that.

I'm getting letters from businessmen saying, your creative program to translate Hydro brings credit to Canada and jobs to Winnipeg in plants such as our facility. They have been part of this process; they're very supportive. They know and if the Leader of the Opposition will say, yes this is a more difficult process; one has to work harder to try and achieve the spinoffs to Manitobans and that it's not as simple a tendering process as the past, we can see that is the truth. We can see that that is so.

We have said when we went out to deal with the various construction groups and business groups we said to them, we have to be like Avis, we have to try harder to achieve these objectives; that people might have mouthed some of the objectives in the past but unless one went the extra mile, tried to do these things, the success rate wouldn't be that high. We thought that was a legitimate objective.

We asked the companies, is it a legitimate objective? They said yes. We said to them, we do not believe we need price preferences to do this. We believe that it can be done, by and large through the competitive process apart from instances where it won't be, and

we will identify that to you. And their response was, that is the way to go about it. They acknowledged that there will be instances where we might not go as a tender. But by and large, it's going to take place within a competitive tendering process. They all said this is a legitimate approach, the right way to go about it. They all acknowledged that we are breaking new ground and that we are trying to achieve that which has not been attempted before in other provinces and of course we will see what happens over the course of the next few months or over the course of the next year or two, in terms of trying to achieve objectives which I'm happy to say, the Manitoba business community is in agreement with the government that we should try and achieve.

Secondly, I am happy to say that the Manitoba business community by and large - and there have been some instances where people have argued that we should take a different approach - some of them have come in and said, we'd like to have a whole set of negotiated contracts. Others have come in and said, we'd like to have price preferences. But by and large I am saying the very large majority have said, this is the way to try and do it.

MR. G. FILMON: I wonder if I could ask the President of Manitoba Hydro whether or not Hydro will continue its past practice of making the bids on the tender portions of the Limestone project public after they've been evaluated, assessed and a contract awarded?

MR. CHAIRMAN: The president passes it on to Mr. Duncan.

Mr. Duncan.

MR. D. DUNCAN: Yes, we will continue to call for tenders and award on low prices as we have in the past.

MR. G. FILMON: My question was whether or not the past practice of making the bids public would carry on, after they've been evaluated and the contracts awarded?

MR. D. DUNCAN: Yes, we'll continue it. Yes, we will do that.

MR. G. FILMON: And would the various alternates - in other words this is the price based on maximizing Manitoba content; this is the price based on our best low price. This is based on using alternate supplies or financing, etc., etc., that if they give three different alternatives, that those three different alternative prices would be made available.

MR. D. DUNCAN: Mr. Filmon, the base bid for the project is the lowest cost alternative. The other alternates are minimal and I think probably what we would announce in that case would be the lowest cost bid that we got, the base bid.

MR. G. FILMON: So, Mr. Chairman, if the lowest price bid is accepted, it seems as though there's an intention to utilize some of the other aspects of it as a financing concerns and the Manitoba content concerns. So why

wouldn't you give the three alternates that they put forward and the one that you chose?

MR. D. DUNCAN: I think when you look at the alternates, there are no complete alternates, in other words, a bid on one scheme and a bid on the other scheme. Any alternates they have proposed are incremental and they are not large in proportion to the total.

MR. G. FILMON: But those surely could be made public?

MR. D. DUNCAN: I don't see any problem, really.

HON. W. PARASIUK: Yes, certainly, I would want that to take place. I might just add one thing for the comfort of the Leader of the Opposition.

When the bids were received, they were opened in the presence of a chartered accountant and a company has a record of what those bids were so that everyone can be assured that this is what actually took place when the bids were open; there's a period of analysis and assessment and then Hydro will make its decision. If they feel that there are any instances where there might be some requirement from the Jobs Fund, the government would be contacted.

From my discussion with the contractors, they've taken the whole bidding approach very seriously and I'd like to commend their effort at trying to maximize spinoffs for Manitobans and at the same time, recognizing that it's a competitive world out there and coming in with bids that would appear to be very advantageous from the point of view of Manitoba Hydro and from the point of view of Manitobans generally.

MR. G. FILMON: Mr. Chairman, I wonder if the president would indicate when they are anticipating the major civil contract will be awarded.

MR. J. ARNASON: Mr. Chairman, we are, as Mr. Duncan has indicated, deeply involved in the process of analysis. We are hopeful that we can take a recommendation to the next board meeting which is on June 20th and, if we are successful in that respect, then in due course the announcements will be made by the board.

MR. G. FILMON: I wonder if the president could indicate what the latest estimate of cost of the Limestone project is. There is a figure of \$2.5 billion indicated today. I'm not sure if that includes engineering design costs, accumulated costs. We have heard the figure, 3 billion, in the past, and I'm wondering whether there has been an update on that estimate.

MR. J. ARNASON: Mr. Chairman, I'm pleased to have the opportunity to clarify these numbers that have been used in the press and other locations, everything from 2.5 billion to over 3 billion.

Our estimate at the present time for Limestone is 2.52 billion. The estimates that have been used, which are 3 billion, are for a different schedule. They were used for a 1992 schedule. There was another number of 2.7 billion that was used for a 1991 schedule. So I

simply want to confirm that the estimate that we are using for a 1990 date is 2.52 billion. If we continue to get the kinds of prices on competitive tendering that we've got in the last three major contracts, we'll be looking at our estimates again to determine whether they stay at the same level or whether we'll have the opportunity to reduce those estimates.

MR. G. FILMON: Mr. Chairman, the figures utilized then are in as-spent and in accumulated dollars with all of the carrying charges, the interim financing and everything till the point that it becomes in-service, and that is why the difference. As you bring it forward in service each year, you have less carrying costs to that point in time. The interest costs on that, of course, revert then to become interest costs on the system the minute it becomes in-service.

MR. J. ARNASON: Yes, it's an all-inclusive cost, as-spent dollars. After the project is finished, then they become part of the operating costs. Your interpretation is correct.

MR. G. FILMON: So that difference that keeps being brought forward of \$200 million to \$300 million each year you bring it forward is really the interest costs that are no longer carried in the project, but do not become charged to the system as it is incorporated into the overall system cost.

HON. W. PARASIUK: Escalation as well, just . . .

MR. G. FILMON: Yes, Mr. Chairman, I overheard the Minister indicating that there is some escalation of cost of course, in bringing it forward each year, some saving in escalation of costs in bringing it forward each year which we know to be estimated as 6 percent or 7 percent a year according to the figures.

Okay, so the current estimate of \$2.52 billion, I wonder if the president could indicate - he didn't respond. He can, as a part of this second question, respond as to whether or not that includes engineering, design and support costs that have gone to this point in time. I wonder if he could indicate what are the accumulated costs to date, and break that down into engineering and design and the construction that did take place back in 1977, I guess it was, or '76-'77, which led to the cofferdam and partial site preparation.

MR. J. ARNASON: I'll answer part of the question. The accumulated costs to date are approximately \$19 million. The 2.52 billion that is the total cost for Limestone includes all of the engineering and design costs, and will include the costs that have been spent to date.

MR. G. FILMON: So that does include the 1990 Engineering and design costs - I should be familiar with this, but I presume that Hydro's project design staff all of that goes in. It's not just the outside consultants. It is everything in total that goes in.

MR. J. ARNASON: It includes all of the project staff, the design people internally that are involved in the project, as well as our consultants.

MR. G. FILMON: What portion of the 190 million to date is on engineering and design costs?

MR. J. ARNASON: I do not have that breakdown. I'm looking at Don Duncan to see whether he has the detail of the breakdown or not.

MR. D. DUNCAN: I don't have a breakdown of that cost to date. We can make that available to you, if you wish.

MR. CHAIRMAN: They don't have the figure. It will be made available.

The Leader of the Opposition.

MR. G. FILMON: What portion of the 2.52, do you have an estimate as to how much of that 2.52 billion will be engineering and design costs?

MR. D. DUNCAN: We have a number here but it is not purely engineering costs. It includes site inspection and some site supervision. However, that pure engineering cost also can be given to you.

MR. G. FILMON: Mr. Chairman, I think that normally in project costs, they consider site supervision of construction and all of that inspection to be part of the engineering and design costs. If not, that is what I assumed it to be so, when you come forward with those figures, if you would include all that.

Mr. Chairman, I wonder if the president of Manitoba Hydro could give an indication as to what will be the effect of the recent reduction in Manitoba's credit rating on the interest costs during the course of the construction, and the overall debt servicing cost of the project on completion.

MR. J. ARNASON: Mr. Chairman, I can't give a precise answer to how that will affect the costs on Limestone. I think that question is probably better answered by the Department of Finance.

MR. G. FILMON: Well, is the project going to be financed by the Department of Finance or Manitoba Hydro?

MR. M. ELIESEN: Mr. Chairman, Manitoba Hydro generating stations in the future, as well as in the past, are financed primarily by the fiscal agent of Manitoba Hydro which is the Department of Finance. Manitoba Hydro informs the Department of Finance when we require certain funds, etc., and it really is the Department of Finance is the fiscal agent for the utility, as it is the fiscal agent for all the other Crown agencies, to determine the financing mechanisms and availability of the particular cash.

I can though, Mr. Chairman, provide some general background, if it's of some use, to committee members relating to financing. This arose really out of the recent conference that was held here in Winnipeg where practically all of the major financial institutions in the world were attending. Both public and private statements made by them indicate that there was no difficulty whatsoever in seeking very attractive financing for both Limestone and Conawapa generating stations.

They certainly didn't indicate that there would be any difficulties in this area.

In the context of the credit rating, I simply mention that most of Manitoba Hydro's generating stations were built when the province only had an A rating, the same rating as we have today.

MR. G. FILMON: Mr. Chairman, the Chairman of Hydro referred to the remarks that were made by various people during that conference, and one of them was the speculation and discussion of whether or not Manitoba Hydro and the Provincial Government would be better off financing it on a project basis, in which the project itself would be, I presume, pledged as security. Is this under consideration right at the present time by the MEA or the government or Manitoba Hydro?

MR. M. ELIESEN: Mr. Chairman, yes, very much so. The province has received numerous very interesting and creative proposals on project financing related to Limestone. Most of the financial institutions in the world regard it as a very attractive form of financing, given the fact that we have a contract with a utility in the United States which has a AAA rating. Either limited or in the whole, a number of proposals have been put forward to the province to consider project financing the basis, as opposed to it being on the books of the province, or guaranteed by the province, which is the usual course.

Just to conclude, Mr. Chairman, that is being looked at very carefully by the Department of Finance.

MR. G. FILMON: Did the drop in credit rating change Hydro's calculations at all as to what the costs would be for financing the project?

MR. M. ELIESEN: No, Mr. Chairman.

MR. G. FILMON: If the Hydro chose the project financing route to go, would they have to pledge the contract with NSP as security?

MR. M. ELIESEN: Mr. Chairman, it really is not Manitoba Hydro itself that is considering the financing alternatives; it is the Department of Finance primarily who are looking into project financing. Those alternatives are really being evaluated primarily by the Deputy Minister of Finance. As far as I'm aware, there has been no contact directly with Manitoba Hydro.

The proposals are, I understand, still coming forward as a result of, in part, the conference and some of the additional information that was passed over last week. The Department of Finance, I understand, is presently evaluating those proposals as they come forward.

HON. W. PARASIUK: I just might add, I've had some sent to me as the Minister which have been passed on to the Department of Finance. I have had a chance to meet with some of these financial institutions.

The one thing that I was pleased with was that they, in fact, had a chance to do their own detailed analysis of the contract to determine, in a sense, the extent to which one could finance from it. The early proposals that I have seen all basically conclude that the contract is strong, the benefits are there, the return is there.

The buyer is a very solid buyer, and this offers interesting possibilities.

The thing is that there are a number of proposals from all parts of the world that have come forward, very reputable institutions from around the world. This process hasn't cost us anything, they have done a lot of detailed work on their own. They have spent time in Manitoba; they have gotten to know Manitoba. They know, not only about the hydro, but they now know a lot more about the nickel, they know a lot more about potash, they know a lot more about all the other possibilities of Manitoba, because they spent a lot of time trying to assess Manitoba's strength.

I think that, in a minor way, is still a substantial spinoff to this exercise. I would think that, since there are a number of firms putting forward what they think are competitive proposals, there will be some time spent with them assessing the very detailed work that they have done at this stage. They have indicated that there will be a lot more work done on their part over the next months, or even years, because the big question is, what's the best time. What's the best time, if one looks at project financing, to take it in longer-term dollars? Or does one, in a sense, borrow shorter term through a period? Those are strategic considerations that have to be weighed, and are being weighed by the Department of Finance now.

MR. G. FILMON: Mr. Chairman, I have no idea why the Minister would be surprised when lending institutions are interested in examining projects that require major capital borrowings. They make their profits, their money, based on lending money, based on making sure that their capital is utilized, employed, is secure. Why would they not spend a great deal of time in evaluating that? I can't understand.

I'm not surprised whatsoever that they're interested in it or they would take a good deal of time in evaluating it. The converse, of course, to what the Minister says - and he's giving their interpretations of the fact that they find it a good contract and a good deal - the converse is, of course, that one of our major credit rating agencies lowered Manitoba's credit rating within the past month. One of two reasons cited, next to the continuing unacceptably high deficits of this province, was the commitment of major capital financing to this Limestone development project. Since that resulted in a reduction in credit rating, one has to question whether or not everybody thinks that it's an incredibly good deal, and that the sequence of development and everything else is a favourable one for the province.

Mr. Chairman, here is the comment, I guess, from the report of Moody's on the project. It says, and I quote: "Although low cost hydro-electric power is presently attractive, the long-term feasibility of the financing must be demonstrated, especially when its magnitude is considered in light of the province's own borrowing needs and potential foreign exchange costs."

So the Minister's enthusiasm and exuberance for the view of the financial people of this arrangement and this province's financial circumstance is, I think, more than a little overstated.

HON. W. PARASIUK: I would really hate to overstate anything, and the Leader of the Opposition knows that.

That exuberance was actually put forward (displayed by the business community, the industrial community, and the international financial community not only through the economic conference that we held in Winnipeg just last week, but in other meetings that we've had. That's been shown by people in senior government levels in the United States; it has been shown by congressmen; it has been shown by other people as well and I was surprised, frankly, at the number from different parts of the world who were paying as much attention because there have been instances in the last 10 years where utility deals haven't gone well, so I expected to have some companies take a look.

What we found was that a number of companies asked for the information regarding the contract, and then having looked at it and done their own analysis they have not quite become a flood tide, but they are certainly a substantial group far more than I think Manitoba has really dealt with in the past. I think that's good for Manitoba and I am pleasantly surprised at that. I wasn't surprised that they would come to those good conclusions in the analysis because we felt that last year.

We, of course, felt that when we made application to the NEB, I would think that the group that should be surprised with the analysis and with the outcome of the analysis would be the Conservative Party because their analysis has always indicated that the Northern States Power deal wasn't a good deal, that they wouldn't be profits, that those things weren't stated properly, that the assumptions weren't right. They raise point after point after point after point of concern. They went on radio broadcasts saying that this wouldn't be workable and I could dig all those out, but I don't think now is the time for it.

But I must say that the business community, the industrial community and the financial community think that the Conservatives are grasping at straws on this particular issue and are on the wrong side of it. They're pretty hard-nosed businessmen. They're not just looking to make a loan. They want to make sure that they'll get their loan repaid.

I think credit ratings are looked at within a context of trends over a period of time and we've gone through a period of recession as a country, as a North American continent. We have gone into situations where there has been a transfer or a withholding or a cutback of funds on transfer payments from the Federal Government to the Provincial Government that was taking place with the last administration.

Canadians assumed that they had voted for a new approach, a new deal for the west and now they are finding that new deal is going to cost provincial governments a lot of money, and they are also finding that it's going to cost them a lot of money when you have a philosophy that is based on the premise that there aren't enough rich people in this country.

So that's the context in which we have to look at something like a credit rating. I certainly would expect that over the course of the next few years, as Moody's does more work on this, they will in fact come to realize what a solid deal this is.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: Thank you, Mr. Chairman.

The only seemingly independent appraisal of the province's position and Manitoba Hydro's position relative to the financing of this project would be Moody's Investment Rating Agency because they, of course, are not actually involved in the financing of such a project; whereas bond dealers and financial institutions that might be expected to put money into the project, are naturally interested in either selling the bonds or investing their money and making a profit at it.

So it's not a question of whether or not the money would be available. It's a question of what the cost will be and there may be lots of people willing to finance the project but at a higher cost than might otherwise have been the case.

Since the only objective comment we have is the one that was read into the record by my leader, and I'll read it again. This is what Moody said on May 9, 1985: "Although low cost hydro-electric power is presently attractive, the long-term feasibility of the financing must be demonstrated especially when its magnitude is considered in light of the province's own borrowing needs and potential foreign exchange costs." Now that would seem to indicate at least a mild note of caution as to the financing of this project.

So I guess I would have a couple of questions for the Minister. Firstly, have they met with Moody's since this report came out on May 9th to demonstrate to them the long-term feasibility for the financing of the project; and secondly, has Hydro considered the possible impact that this rating change could have on their borrowing costs?

It's my understanding from discussion in the House during the Finance Estimates, that it is not generally expected that this would have much impact on the cost of borrowing either in Canada or in Europe, perhaps not in Japan, but it might well have an effect in the United States. Even a very small difference in the interest rate paid makes a tremendous difference in the amount of money that it's going to cost.

I did a calculation on what 15/100 of 1 percent interest would do on \$3 billion for 12 years, that's the period of time of the Northern States Power sale and it comes to over \$120 million in that period of time. So has Hydro not done any kind of analysis of the potential impact of this? The interest costs that they assume, is there such a latitude attached to the interest cost that that kind of potential change is insignificant, that it just falls within the range of variation that they would have assumed to begin with?

HON. W. PARASIUK: I certainly don't disclaim this statement made by the Member for Turtle Mountain, when he says that when one undertakes the financing of a project of the magnitude of Limestone that one approaches that with caution.

I think it is important to check out all the options and look at the difficult choices that one makes between short-term borrowing and long-term borrowing with something like this because who can predict where interest rates will end up. One might have some ideas about trends, but you always want to freeze or try and get your longer-term freeze at the right time. There have been a number of discussions with people as to what is the best time.

Now when Moody's says the financing has to be demonstrated, that's true. There are a whole set of different approaches that one would undertake with respect to financing that are being investigated and will indeed require some investigation over some time into the future. Because they have said we put it into a category, we intend to demonstrate and show that there are a lot of different ways in which this can be approached. But it's incumbent upon us to sit down with the various institutions that have been coming forward with us, I think with interesting proposals, to assess them and to have ongoing discussions with Moody's. We have not had the opportunity to date, and we didn't think it was necessary right now to have the discussions with Moody's when the Session ends. We certainly would expect to be having further discussions with rating agencies and with other agencies, but certainly with the rating agencies. It's just that, you know, the pressures of the House and the fact that we do this firstly, but certainly later on in the year we will be having further discussions with them.

We would expect that when we get a better idea of the cost side, and we're talking about some major contracts, that if in fact we achieve significant savings, will change that side of the component very dramatically. It would be at that particular stage and one has a better handle on those costs, we're talking about the physical costs of construction costs, that I think that another set of runs should be done, although my impression is that the sensitivity analysis did have variance built in within it that would have accommodated this type of, and I still think it's a minor change in interest-rate cost. But I'd like to just check with the chairman just to see whether in fact that was done with the sensitivity analysis.

MR. M. ELIESEN: Mr. Chairman, if I can add some additional information in this area related to Moody's. It would be our intention, as soon as we can practically arrange it, to go back and have discussions with Moody's. It would appear, notwithstanding the fact that the report by Moody's was issued May 9th, I believe, that the report had been written some time earlier because in the context of the report itself it refers to a National Energy Report and analysis that was still forthcoming. As most of us are aware, the National Energy Board Report was released in March, so it would appear that the written text, at least, and the analysis had been undertaken prior to the release of the National Energy Board Report.

Clearly, with regard to the most indepth independent analysis on the Northern States Power Contract, that had been undertaken by the National Energy Board. As I indicated in my opening remarks on Tuesday, all the areas that had been raised and subject to discussion had been independently analyzed by the National Energy Board, including sensitivity analysis and interest rates, and it confirmed our own analysis and information. So it would be our intent clearly to go back and have discussions with Moody's and make available to them the details of the National Energy Board Report and any other factors that they would like to raise dealing with the Limestone project.

MR. B. RANSOM: I agree with Mr. Eliesen that the report doesn't seem to acknowledge the receipt of the

National Energy Board Report, although it does make reference to the Minister's budget and to borrowing that's been done in fiscal '85-86.

But it seems to me that the government would have wanted to and should have been in touch immediately with the rating agency, and if they've based their rating on any type of incomplete information, it seems to me that they would have wanted to have that corrected immediately because of the fact that even a very small change in interest rate on \$3 billion can easily run into the hundreds of millions of dollars over the life of this project, and that the expenditure of a few thousand dollars to meet with them immediately to try and correct any false impression that they have. Perhaps their impression wouldn't change, but it seems to me an oversight on the part of the government if they feel that Moody's has not had the benefit of all the information available. It seems to me an oversight that the government hasn't been in touch with them immediately to try and correct that.

HON. W. PARASIUUK: Information has indeed been sent to Moody's after their May 9th statement and we certainly intend to be meeting with them. I think that there's sufficient time to do that. There are two rating agencies involved. There are other budgets coming down. I would be wanting to try and understand what that context is, because they're just not going to talk about Hydro, they'll talk about other matters as well, what is a range of budgets within Canada.

I think the Member for Turtle Mountain might have had meetings with the rating agencies before himself to get some idea of the range of topics that they want to discuss and we certainly think that some time after the Session ends would be an appropriate time to go down and have a follow-up meeting with them. But if he disagrees on the nuance to the timing, fine, I'll take that as advice given.

MR. H. ENNS: Mr. Chairman, I have a series of other questions to ask on other subject matter, but I just want to go back to the one that we spent some time on last Tuesday and again this morning. I'm referring to the fact that we seem to have established Tuesday last that some of the cost, the offices, staff, most of the staff, that some of the informational material that is coming out of the informational offices, for instance, was being supplied and paid for by the Jobs Fund. The chairman of Manitoba Energy Authority on Page 20 of the last Tuesday's transcript is on record as having said the following: "Madam Chairperson, there may be limited and exceptional circumstances . . ." and I remind you this is what we are talking about, those limited and exceptional circumstances we're trying to tie down. This is the chairperson of Manitoba Energy Authority and Manitoba Hydro's putting on the record last Tuesday: "There may be limited and exceptional circumstances by which the government, through the Jobs Fund, are perhaps prepared to pay a premium as a result of that work being performed in Manitoba related to the Limestone Generating tendering process, but that is correct, Manitoba Hydro will not get involved. Manitoba Hydro's current practices will exist with the Limestone Station."

Well, Mr. Chairman, I think that's what my leader was trying to get at with some difficulty earlier on this

morning. I think that statement by the chairman of Manitoba Hydro is perhaps a more acceptable one and one that I hope Manitoba Hydro would pursue. It seems to me it would make Manitoba Hydro's job, the job of Mr. Duncan and others, a great deal easier; they could do their work. And I'm not putting on the record, I'm not disputing the government's desire to maximize whatever other beneficial impact they want to accrue as a result of this project, but then to have that clearly delineated so that good business practice doesn't get fudged up with, what I call social tinkering, in mixing up, you know, social engineering and social tinkering with what Manitoba Hydro's been able to do reasonably well up to now, and that is to build dams.

Now, if you have as your chairman now indicates and last Tuesday put on the record, and you've put it on the record and it hasn't been quarrelled with in the House on numerous occasions, that through another agency, such as the Jobs Fund, the government is prepared to direct Hydro to pay a premium, and I may well agree with, that they ought to in circumstances. I can think of a number of instances where, through the direction of the Minister and through the direction of the government as a whole, under - to use the term that we often use - limited and exceptional circumstances, maximized the opportunities in Manitoba to acknowledge the particular circumstances of our Northern residents, particularly our Native residents, that that is a desirable end result that ought to be acknowledged and ought to be included in the overall planning and building of this project.

But this morning we have had a controversy develop between the questioning of my leader and the answers that he has been getting between members of Hydro and the Energy Authority and/or the Minister himself. What my leader specifically asked - was there a premium to be paid? I believe he asked that question of Mr. Duncan, he didn't get a clear answer.

Yesterday, or last Tuesday, the Chairman of Manitoba Hydro was quite prepared to acknowledge that, yes indeed, under limited and exceptional circumstances - and then he indicates the source - the government, through the Jobs Fund, are perhaps prepared to pay a premium.

I suggest to you, Mr. Minister, or to the chairman, that that seems to be an appropriate way of doing it. It identifies the extent to which the government may well wish to pay particular credit, take particular credit for at some future date, but it at least keeps the bookkeeping a little more straightforward, and it lets Manitobans know what the hard costs of the project are, and to what extent they have been added to by an intervention, well-intentioned as they may be, and deserving as they may be, and as acceptable as they may be but, nonetheless, premium costs to the project, which is already of substantial scale, by various forms of intervention, affirmative action deviating from the normal tendering practice, etc.

HON. W. PARASIUUK: Well, I think that there has been no change in what was said back on Tuesday, in fact, the Chairperson of Hydro read that back in terms of that being the policy. Sometimes on an interchange you get caught up with is there a premium, and then who is the premium. Hydro was not paying the premium.

If there is a premium, then that's an "if" at this particular stage. He said there may be instances, there may not be, it may be that the whole tendering process has achieved all these things. But there may be instances and, in that sense, it's the government, not Hydro, it's the government.

I don't disagree with what the Member for Lakeside has said at all but, in that context, again, I haven't . . . I just got this this morning, I haven't had a chance to go through it with as fine a tooth comb as possibly the Member for Lakeside, but I will look at that and I will look at today's transcript as well before we meet next time. Because I do recall last Tuesday the Leader of the Opposition raising the question; well, why isn't Hydro paying for some of this, or why isn't this group or that group? And we said, no, it will be the Jobs Fund. I think, in that connection, that is identifiable.

We have said that that's what we will do, and I think we should be able to tell the people this is the cost and this is the benefit if there are instances where an extra cost is involved. Of course, obviously, one would hope that the benefits would far outweigh the costs, or at least equal the costs if one undertook an extra effort. As I said, at this particular stage that's hypothetical because we have said that there may be limited circumstances.

MR. H. ENNS: Mr. Chairman, I don't wish to pursue that any further, I am satisfied. I believe that the Minister has acknowledged that there is some value in clearly separating the two, and I think that's of some value to those who will be charged with the responsibility of running the day-to-day business of Manitoba Hydro, and those people that do business with the Manitoba Hydro who would know precisely the ground rules that are followed under which they hope to participate in this large a project.

Mr. Chairman, in the chairman's message of the annual report, in the first paragraph it indicates that about 90 percent of the claims registered against the Manitoba Hydro have been settled. Perhaps Mr. Goodwin or somebody can be of assistance to us here. I am assuming that is 90 percent of the registered claims; can we have any idea? I noticed in Mr. Goodwin's report that we have circulated, and will be putting into Hansard, the last page indicates very substantial negotiations that have yet to be concluded with respect to the damage done as a result of Hydro flooding; retroactive compensation for losses to commercial trapping; compensation for present and future losses; funds to construct additional trails, etc., I am referring to his second last page of his report.

Could Manitoba Hydro give us some idea about what precisely does that 90 percent of the registered claims mean as a start? I am not asking for individual situations, to give us some idea of the scale to which these costs are and how they have to be figured into the overall Hydro development plans in the North.

MR. CHAIRMAN: Mr. Goodwin.

MR. C. GOODWIN: Mr. Chairman, first, with regard to the number of claims filed in the statement in the last Annual Report that 90 percent were settled, this refers, in my report of today at the top of Page 2, and to

update the Annual Report, it says, "To March 31, 1985, Manitoba Hydro has settled 1,256 of the 1,398 claims which have been filed generally by individuals." These are for, typically, loss of fishing nets, damage to equipment and so on suffered by a fisherman or a trapper in the course of his work in an area that's been impacted by the Hydro project. So, typically, we are running about 90 percent of these claims settled. Now that does not deal with the arbitration claims.

MR. H. ENNS: Can Mr. Goodwin provide the committee with a figure of costs that are involved in the settlement of these claims?

MR. C. GOODWIN: During the past year these claims, in total, would have been in the order of \$200,000.00.

MR. H. ENNS: Mr. Goodwin is referring to the past year. What I am referring to, trying to relate it to the 90 percent. Mr. Chairman, I would be happy to have these questions be taken as notice and perhaps they can be provided. I repeat, I am not interested in any detail of it, but I would like some global cost estimates.

MR. J. ARNASON: Mr. Chairman, if we're looking at a global number - and I am not sure whether this will help you, but we'll try it on for size - our costs for the Northern Flood Agreement, that goes back a number of years, to December, 1984, the total costs have been \$21.7 million. That covers all of the various communities that are affected and under control of the Northern Flood Agreement.

We can further break down into treaty groups off that total. There was 20.2 million, and non-Treaty groups, 1.5 million. That's a global figure, if that's what you are looking for.

MR. H. ENNS: 1.2 non-Treaty?

MR. J. ARNASON: 1.5 non-Treaty, and 20.2 Treaty.

MR. H. ENNS: Certainly the Treaty group would all be signatories to the Northern Flood Agreement.

MR. J. ARNASON: Yes, they would be.

MR. H. ENNS: Is it the belief that as far as individual claims are concerned, having dealt with 1,256 out of the 1,398 who have been formerly registered, where are we at? Are we anticipating another 1,000 claims next year, or are we resolving the individual claims, leaving aside the bigger issues yet to be decided upon by Band or under the Northern Flood Agreement?

MR. C. GOODWIN: Mr. Chairman, if the bigger issues are settled, then the number of claims will drop very significantly.

MR. H. ENNS: Mr. Chairman, during the course of the year, we have heard different figures discussed in the media, both by representatives of the Indian communities and, I may be mistaken, I thought a very substantial offer was made by Manitoba Hydro representatives to settle with a particular group. I appreciate Manitoba Hydro is in a negotiating position

with respect to these outgoing unresolved issues, and don't wish to jeopardize Manitoba Hydro's negotiating position, but I would assume we are still talking very substantial sums of money, at least in the range of what Manitoba Hydro has already paid?

MR. C. GOODWIN: Yes, that is correct. Offers to the five Indian Bands, which are the signatories of the Northern Flood Agreement, total \$31 million.

MR. H. ENNS: Pardon me. The claims total \$31 million.

MR. C. GOODWIN: No, the offer for a one-time total settlement of the majority of the arbitration claims.

MR. H. ENNS: As of today that offer has not been accepted, it is still being negotiated?

MR. C. GOODWIN: That is correct.

MR. H. ENNS: I wonder, Mr. Chairman, if we have any indication of how much of the \$20.2 and \$1.5 million that has been paid out by Manitoba Hydro to compensate for the disturbance in these communities and individuals as a result of Hydro development. Is there, again, a general kind of breakdown as to percentage of terms or actual dollars that went into what I would call community assets, such as better community halls or skating rinks, as compared to individual compensation? And I have three areas directed toward the difficulties that resulted in terms of the resource, the chairman said I think the Hydro understands my questions.

MR. C. GOODWIN: Mr. Chairman, it is perhaps difficult to know how some of the money would be used. The compensation payments that we have made have been on the basis of the damage that we feel has been suffered. I can give figures on that. How it has been used we don't fully know. There have been, of course, indirect benefits perhaps from reconstruction of water pump houses which were required because of changed water levels, resulting in a better pump house than there was there before. Compensation payments, basically to individuals of the five bands, and the associated non-treaty communities adjacent to them total just over \$800,000.00.

MR. H. ENNS: Would Manitoba Hydro have available to them population numbers that we are talking about?

MR. C. GOODWIN: Certainly, but I don't have them immediately. The four biggest communities would be about 2,000 people each, so the total number of people is in the order of 8,000 to 9,000 people, I believe.

MR. H. ENNS: We have made out roughly some \$800,000 in individual compensation monies paid to some of the 8,000 or 9,000 people in the area, right?

MR. C. GOODWIN: Mr. Chairman, just quickly averaging that - \$800,000 for 8,000 people, over 10 years, is about \$10 per head per year; but that is perhaps not a very useful figure to you.

MR. H. ENNS: In terms of what I described as . . . you talked about pumps and pump stations. We also

built some fine skating rinks I understand. Manitoba Hydro has become . . . What have we done in the North under the broad heading of community assets - halls, meeting halls, curling clubs?

MR. C. GOODWIN: I think that the only facility that we know of as being built as part of the compensation package is the Cross Lake Arena, \$3.7 million.

MR. H. ENNS: In terms of the major resource disturbance which I take it is commercial fishing; appreciate the fur industry is equally involved, but how does Manitoba Hydro attempt to resolve compensation some of the losses? I would assume that you work closely with either the Department of Natural Resources and their biologists, as well as with the Freshwater Fish Marketing Board, are they your main supplier that you rely on for stats?

MR. C. GOODWIN: Mr. Chairman, for statistics certainly, the fish marketing people, Department of Natural Resources, the biologists, both of the Provincial Government and the Federal Freshwater Institute and private consultants.

Mr. Chairman, Mr. Enns also asked if the fishing was the major matter. I think perhaps fishing and trapping are essentially equal in value.

MR. H. ENNS: What portion of this money is being utilized, or is there some progress in terms of reclamation of some of the damage done to the floodplain basin, I'm thinking particularly of South Indian Lake. Is there an ongoing kind of program, or is nature taking its course?

MR. C. GOODWIN: Mr. Chairman, essentially nature is taking its course. The fishing or trapping resource has been impacted. We are paying compensation to the individuals impacted. We are undertaking some programs of measurement, and governments have done some research into finding ways to manage the impacted resource.

In the case of Southern Indian Lake, we have bought out the fishery entirely. We are leaving it to the Provincial Resource Managers to determine how best to manage what's left of that resource.

In the case of trapping, our offer for settlement with the trappers deals with the impact to trapping which in almost all cases, is not a matter of a lack of fur or a problem with access to that fur. The major part of the package is money to cut trails and find better way of getting to the traplines. That is the major impact of those trappers.

MR. H. ENNS: I appreciate that it's slightly more so the responsibility of a line department like Natural Resources to monitor and to write the whole story about what has transpired when an area such as the one we're discussing, disturbances caused by the Churchill River Diversion in raising the waters of South Indian Lake. I'm wondering though, is Manitoba Hydro of its own - of course, we keep a certain record of data and costs and so forth - but are they, on their own, writing a history and keeping a diary of the events as they have occurred in this whole arena for their own future

benefit, and indeed, from what I would continue to be, not a third party but certainly a very interested major player, the major player industry, for its own records.

I suppose what I'm getting at, I would like to, of course, live so long as to see that the major environmental damage that has occurred in that area would be ameliorated in due process of time, as I know they have done in other basins. I think it would simply be good business on the part of Manitoba Hydro to have in its history book a reasonably accurate and detailed accounting of what transpired, the precise damage to the environment, the recovery of the environment, the steps that were taken to hasten that and help it along. Hopefully, some person questioning around this committee in 10 or 15 or 30 years will be able to be told that the resource damage, that once occurred is no longer there and that, indeed it is quite possible to say that, in some way, Manitoba Hydro's activity has enhanced the area for one reason or another.

HON. W. PARASIUK: I believe that Hydro indeed probably has volumes on this whole issue and I think that's the proper thing to do.

I might, just for the benefit of the member who is the critic for this area, indicate that for a few years there was a bit of frustration in the sense that the various groups impacted by Hydro development only seemed to concentrate or focus on what they considered to be negative impacts; that's to be understood.

One of the things that I found quite encouraging over the course of the last nine months was the fact that, although various groups want to still deal with the compensation aspects related to negative impacts, they also see that Hydro development offers potential for them in developmental terms. One has to then start becoming more forward-thinking and looking at what are these developments? Are there possibilities for us? Can we be part of that developmental process?

Although the government is picking up those types of costs, as we have indicated, I believe a beneficiary through that process is Hydro itself. I think Hydro itself has tried to, within cost parameters, see what can be done to ensure that there are developmental opportunities. That's the other side of the coin, I guess, when one looks at how one calculates costs, because a lot of these costs indeed, in a sense, can be kept out of Hydro's side and built onto someone else and yet, at the same time, they are being incurred, in part, because of the Hydro development itself.

That's when you get into some of the difficulties of exactly keeping an account of costs and allocating them to the right group. You run into some grey areas there, and I certainly don't take away at all from what I said earlier when I agreed with the Minister that it's important to try and calculate those costs, keep a record of them, and try and allocate them fairly between the various parties.

We have gone past 12:30. It would be the intention to resume next Tuesday. I guess we would be then raising both Hydro and MEA matters. Did you have any particular lines of thought? There is no sense having 50 people . . .

MR. CHAIRMAN: Order, order. We have not set any date yet. The announcement, as said, is only up to this

date. It will be duly announced by the House Leader in due course, I don't know whether Tuesday will be free or not.

MR. G. FILMON: Can I just, for the assistance of the committee, suggest that I think we could go the entire next session on Hydro still, and then we'll decide at that point whether we want to go on one, or either, or both.

HON. W. PARASIUK: Sure.

MR. CHAIRMAN: Committee rise.

BRIEF PRESENTED BUT NOT READ:

Presentation to Standing Committee on Public Utilities and Natural Resources 1985

**By: C.J. Goodwin
Executive Manager
Corporate Planning
Manitoba Hydro**

Northern Flood Agreement

The Northern Flood Agreement is between the Government of Manitoba, Manitoba Hydro, the Northern Flood Committee Inc., which represents the Indian Bands of Nelson House, Norway House, Cross Lake, Split Lake and York Factory and the Government of Canada.

The principal threat of the agreement is that Manitoba Hydro has developed the Lake Winnipeg Regulation and Churchill River Diversion Projects; these projects have modified the water regime; modification of the water regime has some adverse effects on the residents on the Reserves; the adverse effects of the projects must be compensated for fairly and equitably; and because the adverse effects were not completely known at the time the agreement was signed, and the possibility existed that disagreements could arise as to the cause or extent of alleged adverse effects, there was a need for an Arbitrator to resolve disputes and to fashion just and appropriate remedies as necessary.

Compensation for claims under the NFA is available to individuals who are members of one of the five Indian Bands and to groups such as trappers associations where the membership is substantially comprised of individual Band members. The significant part of the agreement as it affects Manitoba Hydro is the right of these persons and groups to compensation from Manitoba Hydro. To March 31, 1985 Manitoba Hydro has settled 1,256 of the 1,398 claims which have been filed, generally by individuals. One hundred and forty-five claims of many different types have been submitted to the Arbitrator, of which 127 involve Manitoba Hydro. Of those claims, 59 have been settled outside of arbitration; 41 are in a process of negotiation as part of a proposed "package settlement;" four of the seven heard by the Arbitrator have been settled; one other claim has been discontinued, and 22 are outstanding.

A settlement of a number of other claims for compensation is being negotiated at present. These are principally for fishing and trapping losses.

It is evident that the Office of the Arbitrator is being used to a greater extent than was expected when the agreement was signed. In some cases, the filing of a claim with the Arbitrator is done as a matter of record prior to negotiations being undertaken by the parties. It has been our experience that many claims can be settled without a hearing before the Arbitrator. Such hearings are very expensive for the various parties and every effort is made to avoid them.

Three arbitration decisions made in 1983 were appealed to the Court of Appeal on matters of law. Firstly, a ruling by the Arbitrator that Manitoba Hydro must pay one-third of the Northern Flood Committee's core costs, that is, salaries, office costs and administration, was successfully appealed. Manitoba Hydro pays its share of legal fees and disbursements related to specific claims but not the core costs of the committee. Secondly, a ruling by the Arbitrator that Manitoba Hydro must provide the Northern Flood Committee with a particular report and in general must produce "any reports or studies whether identified or not, in all cases where there is a possibility that the Claimants may in any way be adversely affected" was successfully appealed. Manitoba Hydro also appealed an award of costs to counsel for a claimant on the ground that the costs were unreasonable, but this was unsuccessful.

Only one new arbitration claim was filed during the year ended March 31, 1985, and this was settled through negotiation.

The first Arbitrator appointed under the Northern Flood Agreement, His Honour Judge Patrick Ferg, served from 1980 to 1984, and has resigned. During the period when a successor Arbitrator is being selected, Judge Ferg has agreed to endorse any order which is agreed between all parties and does not require hearings to take place. This allows the parties to formally conclude negotiations by agreement approved through an Order of the Arbitrator. Manitoba Hydro, the Manitoba Government and the Northern Flood Committee agreed upon a successor Arbitrator in 1984, but the agreement of the Government of Canada to this person has not yet been received.

The other significant articles in the agreement, as far as Manitoba Hydro is concerned, deal with the minimization of damage, the mitigation of the effects of damage, the implementation of the applicable recommendations of the Lake Winnipeg, Churchill and Nelson Rivers Study Board, the provision of information on operations and consultation on, and future planning of, its projects.

Negotiations toward an agreement were initiated in 1974 when the Northern Flood Committee was formed at Nelson House. It was evident that the Churchill River Diversion would lead to flooding of Indian Reserve land which Manitoba Hydro could not expropriate because title was held by Canada. This need for an agreement extended to the Government of Canada and the Government of Manitoba as well as to Manitoba Hydro, and the agreement covers the provision by Manitoba of additional land in exchange for the land affected by the projects in the amount of four acres for each acre affected. Additional clauses in the agreement affecting

government rather than Manitoba Hydro deal with employment, training, economic development, the provision of services, enhancement of resource harvesting, etc. With regard to employment and training Manitoba Hydro's projects have provided some opportunities, and the construction of Limestone will of course, provide more opportunities for the residents of the Reserves.

It is Manitoba Hydro policy to try to negotiate compensation on a "package" basis for fishing and trapping damage claims which involve long-term payment for the damage or loss. During the past year the parties to the agreement have been negotiating toward a comprehensive settlement for long-term compensation for the five Bands. Negotiations commenced on the basis of compensation for damage or loss to fishing or trapping operations, but later appeared advantageous to extend this. Good progress has been made toward this "package settlement." The package would include:

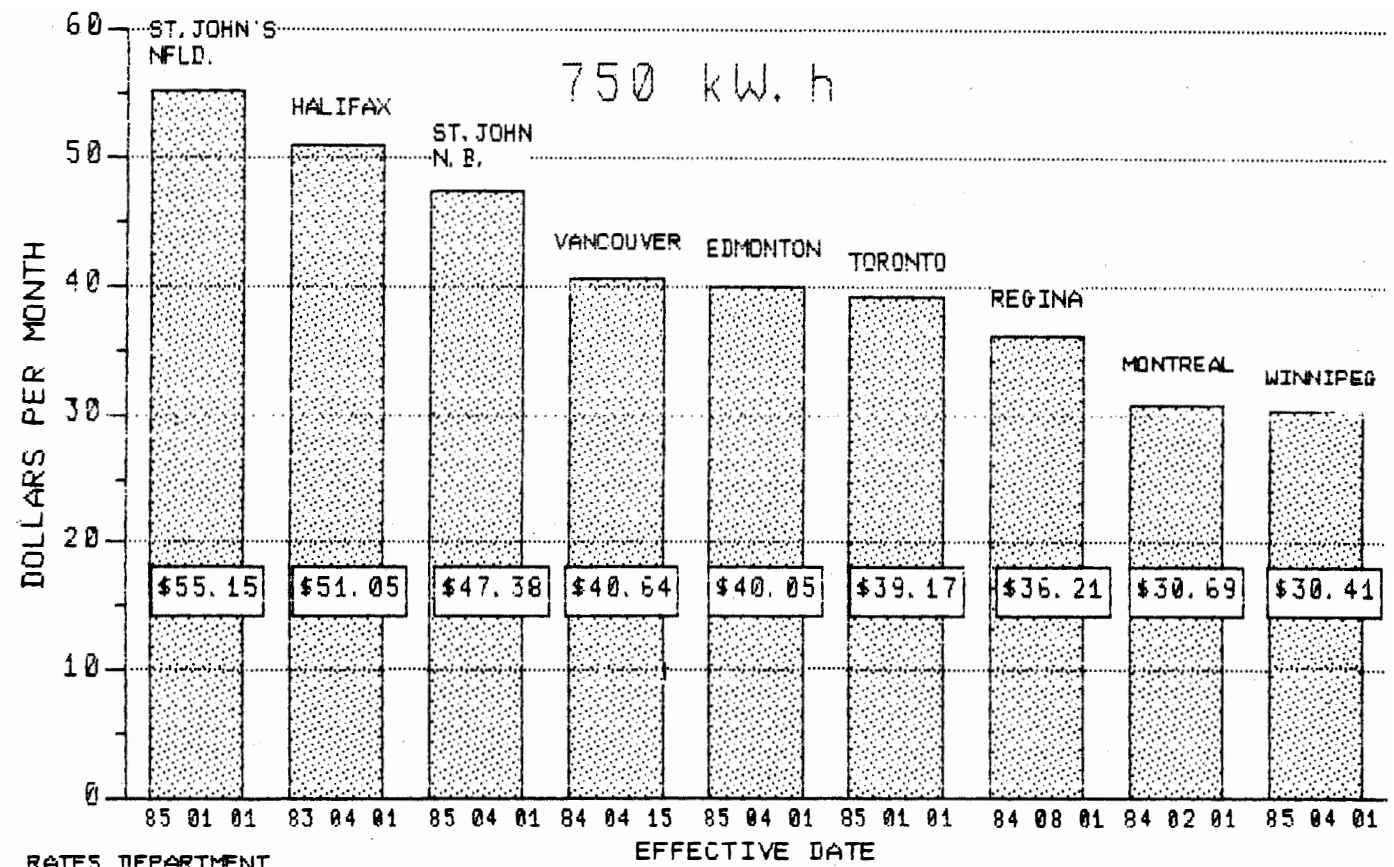
1. retroactive compensation for losses to commercial trapping, community traplines, domestic fishing and commercial fishing;
2. compensation for present and future losses to the above;
3. fund to construct additional trails away from the affected lakes and streams for trapping, hunting and recreational access;
4. funds for each Band to undertake maintenance of mitigation works, clearing of debris, marking safe ice trails, placing navigation aids, etc.; (These are activities which are being paid for each year by Manitoba Hydro.)
5. development funds as a source of capital for local community initiatives and for assistance to secure funding from government sources for resource development;
6. compensation for damage to hunting and recreation;
7. compensation for low water levels at Cross Lake in lieu of constructing a weir which would restore the lake to its prediversion level;
8. compensation for possible future loss and damage to resources due to the planned utilization of higher water level at the proposed Wuskwatim generating station;
9. engineering services to a value of \$250,000 where Manitoba Hydro can provide such services when required by a Band, e.g. concrete production.

Negotiations with each of the five Bands are at different stages, but in general we consider that they are progressing at an adequate pace.

In the past fiscal year (1984-85) Manitoba Hydro expenses relating to mitigation in total, including Northern Flood Agreement-related matters, were \$700,000 charged to ongoing operations, and \$5.1 million which was capitalized because it pertains to future operations. Recent expenditures include \$2 million for the fishing compensation agreement with Southern Indian Lake, and \$1.1 million for the Cross Lake bridge.

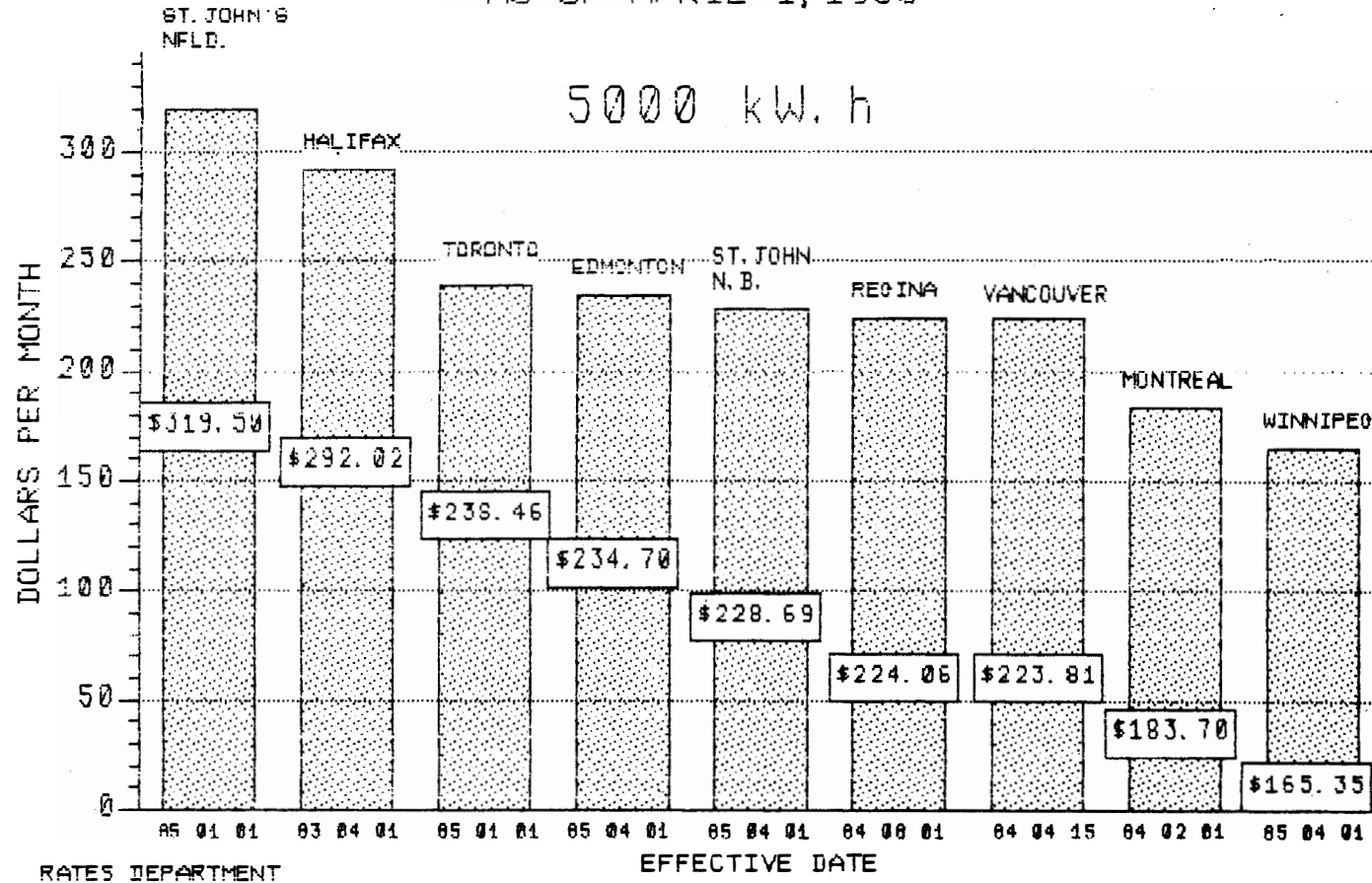
COMMITTEE ROSE AT: 12:32 p.m.

CITIES OVER 80000 POPULATION
BILL COMPARISONS
RESIDENTIAL RATES
AS OF APRIL 1, 1985



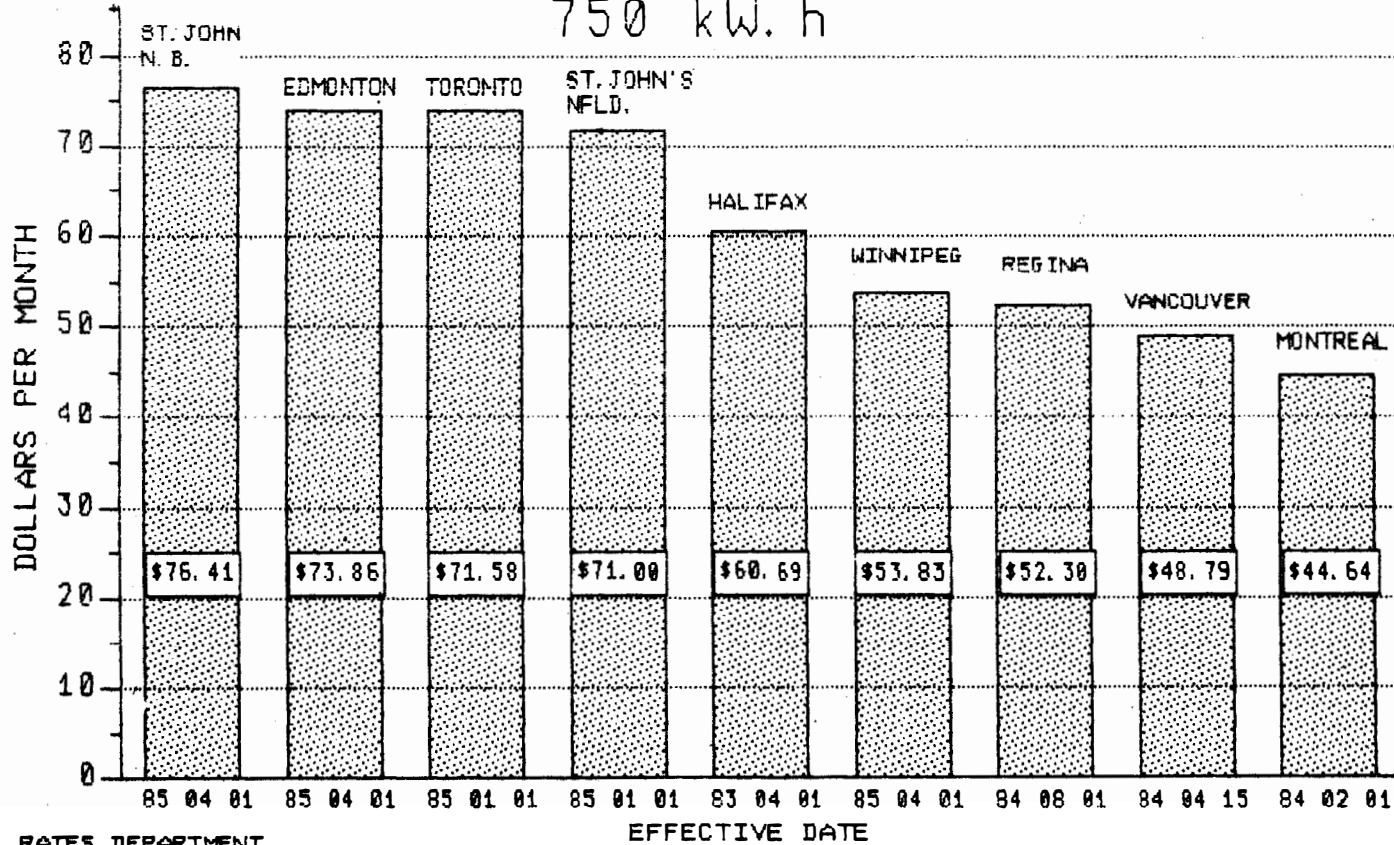
121

CITIES OVER 80000 POPULATION
 BILL COMPARISONS
 RESIDENTIAL RATES
 AS OF APRIL 1, 1985



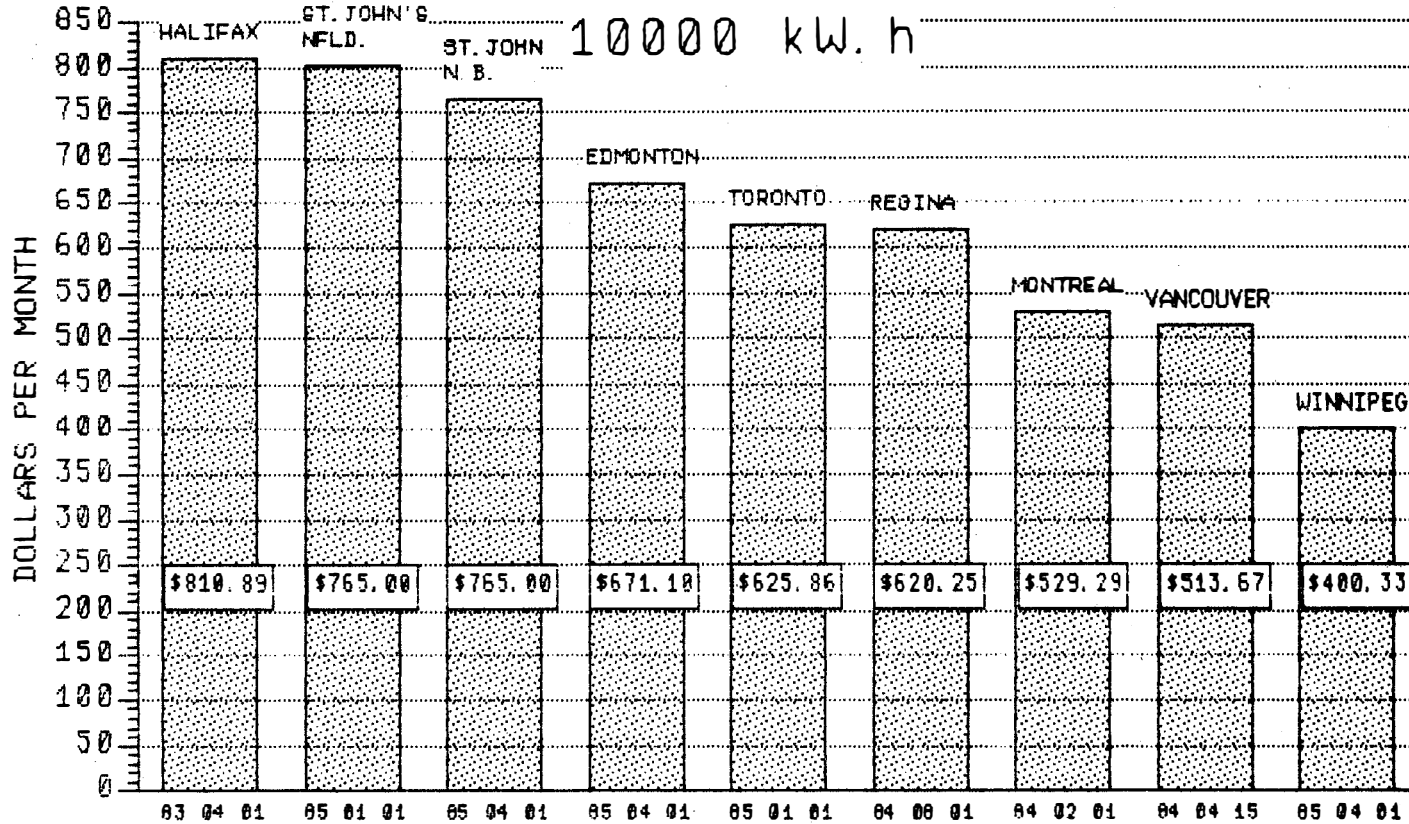
CITIES OVER 80000 POPULATION
 BILL COMPARISONS
 GENERAL SERVICE RATES
 AS OF APRIL 1, 1985

750 kW. h



123

CITIES OVER 80000 POPULATION
 BILL COMPARISONS
 GENERAL SERVICE RATES
 AS OF APRIL 1, 1985



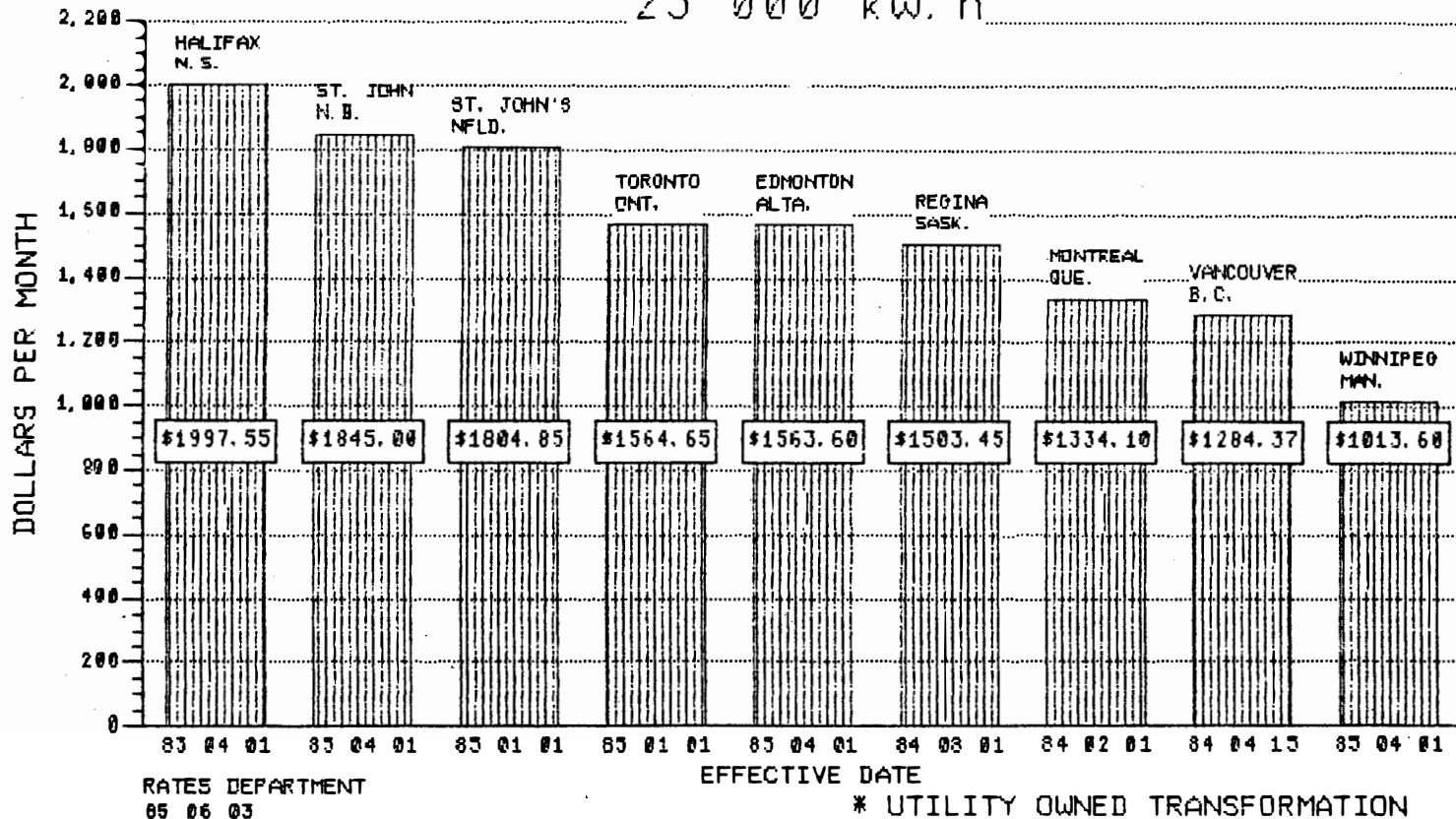
BILL COMPARISONS

POWER - STANDARD*

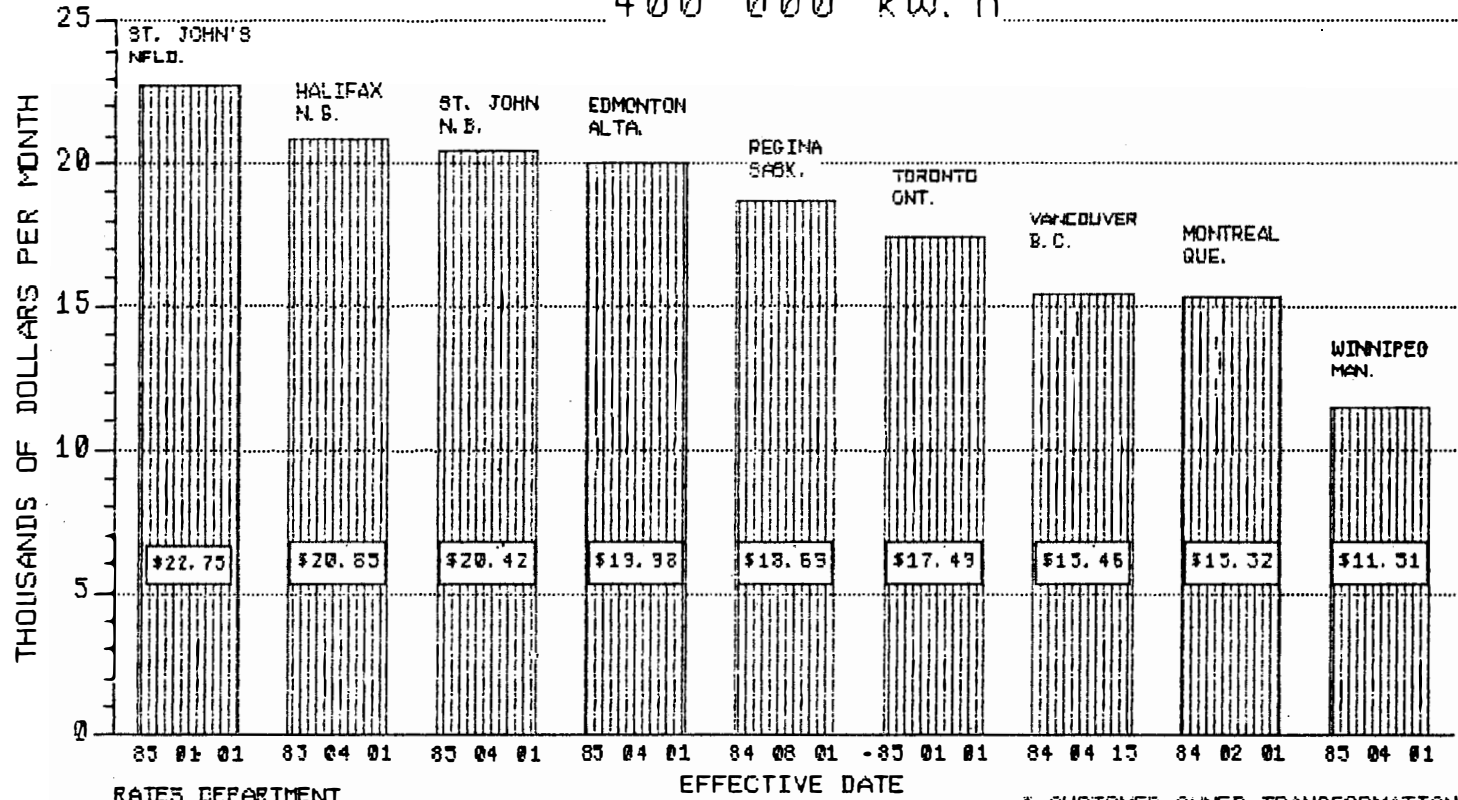
100 kW (111 kV.A @ 90 % P.F.)

RATES AS OF APRIL 30, 1985

25 000 kW. h



BILL COMPARISONS
 POWER - PRIMARY*
 1000 kW (1111 kV.A @ 90 % P.F.)
 RATES AS OF APRIL 30, 1985
 400 000 kW. h

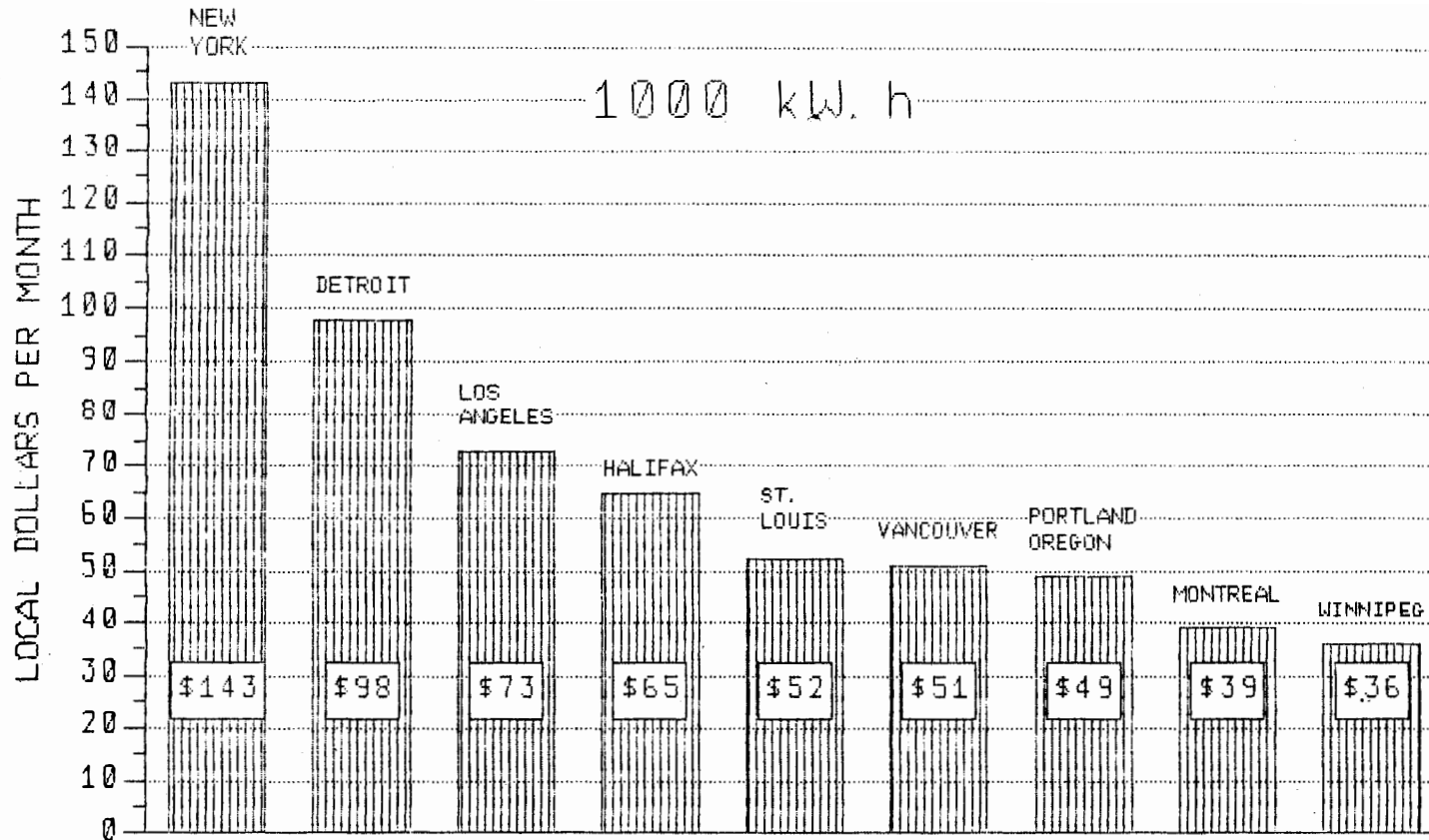


RATES DEPARTMENT
 85 06 03

EFFECTIVE DATE

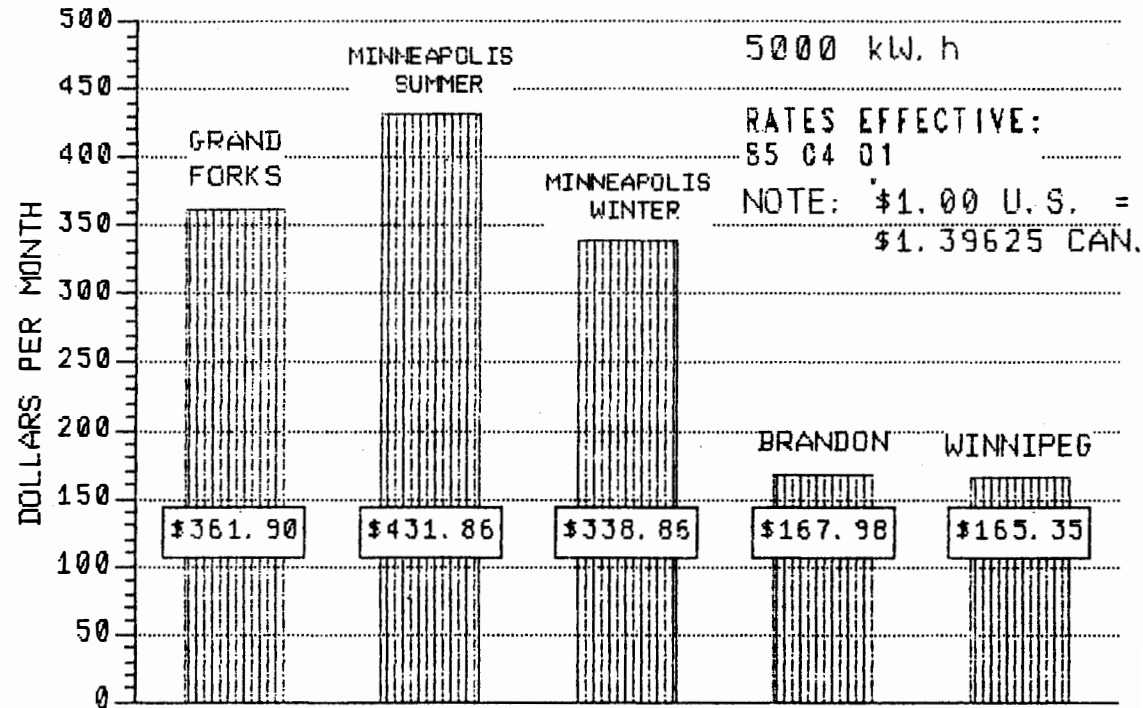
* CUSTOMER OWNED TRANSFORMATION

CANADA & U.S.A.
 MONTHLY RESIDENTIAL ELECTRIC BILLS
 AS OF JANUARY 1985



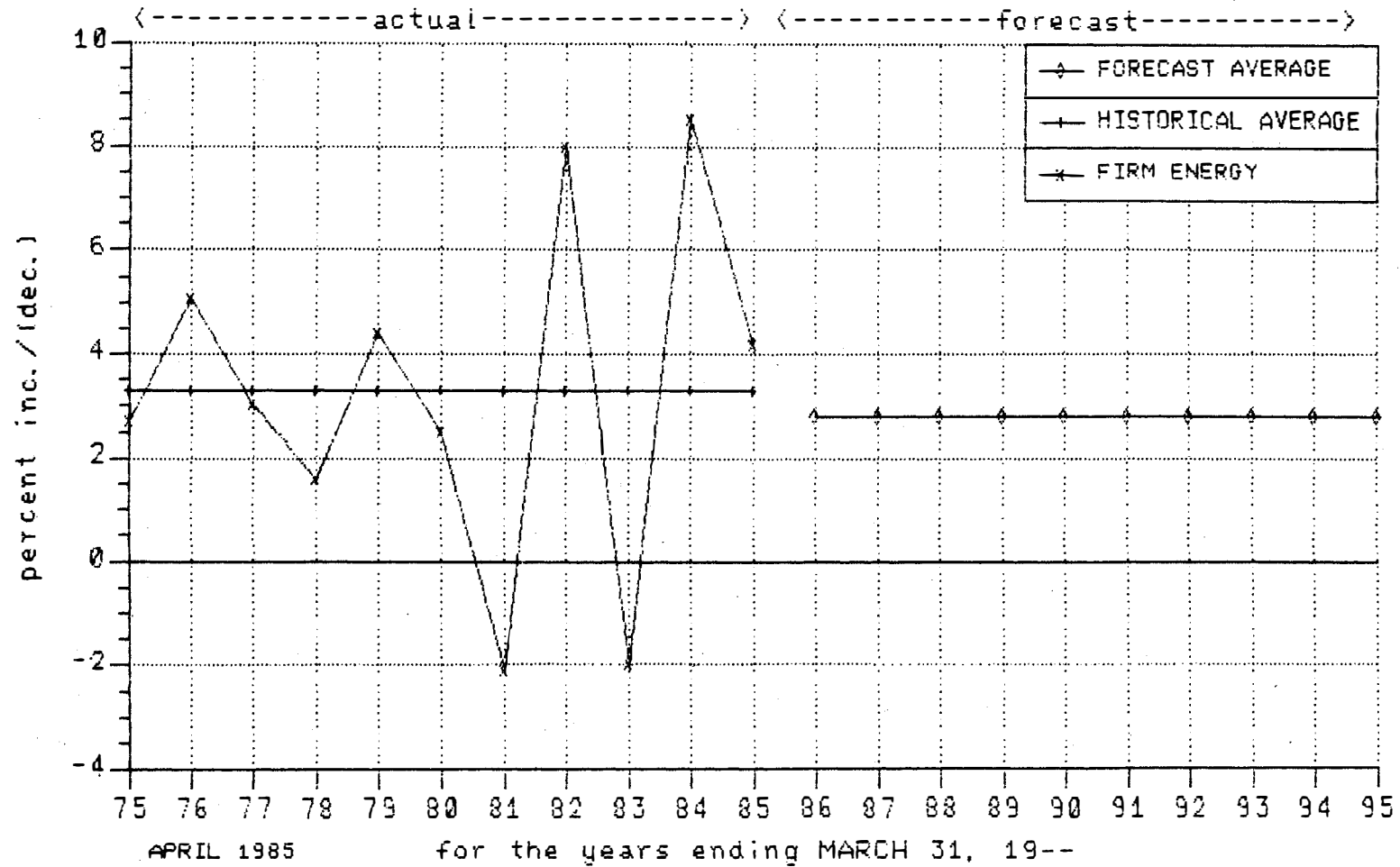
127

MONTHLY BILL COMPARISONS
 (CANADIAN DOLLARS)
 RESIDENTIAL
 AS OF MAY 1985



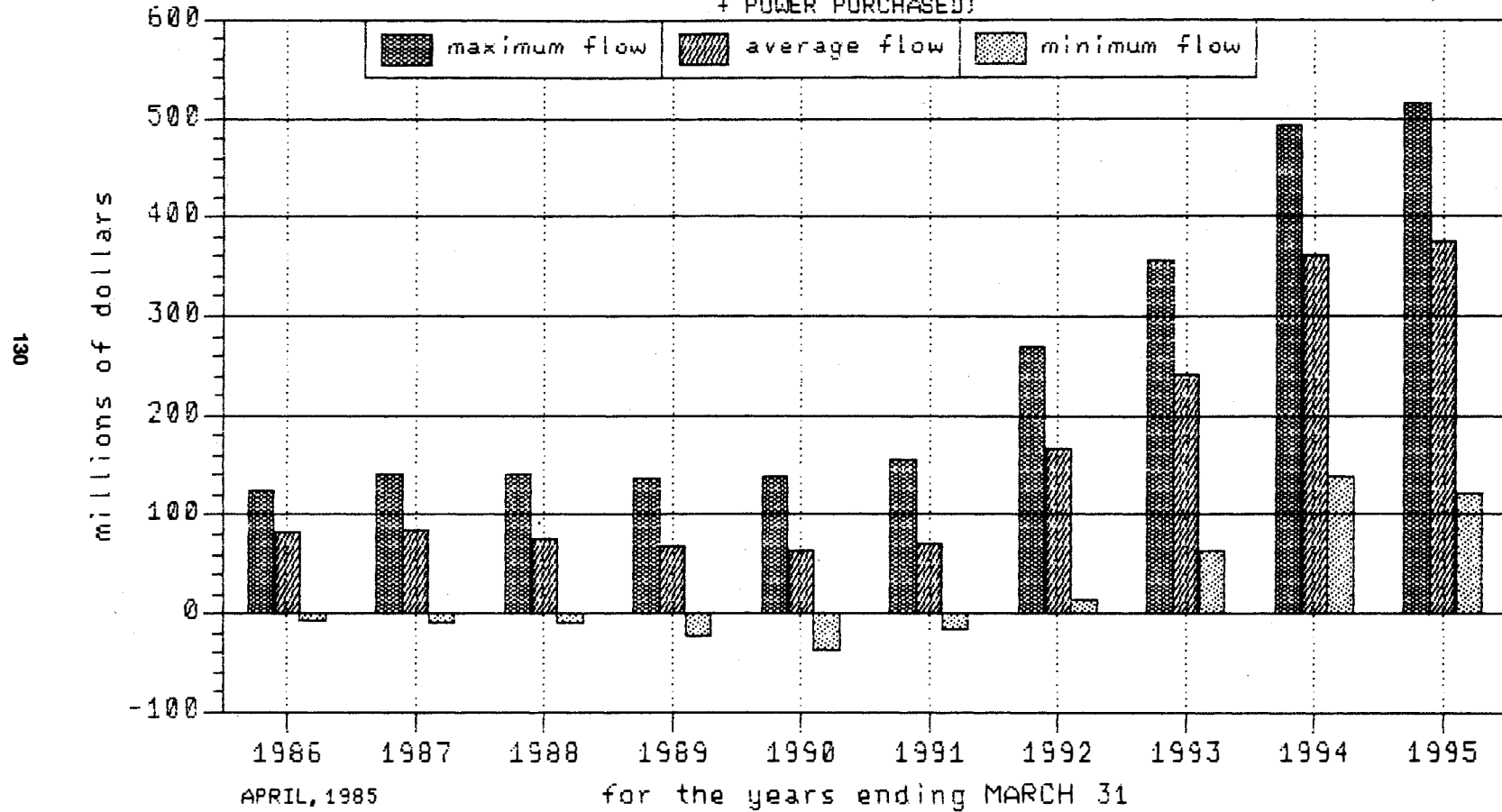
RATES DEPARTMENT
 05 06 04

ENERGY LOAD GROWTH
(integrated system)



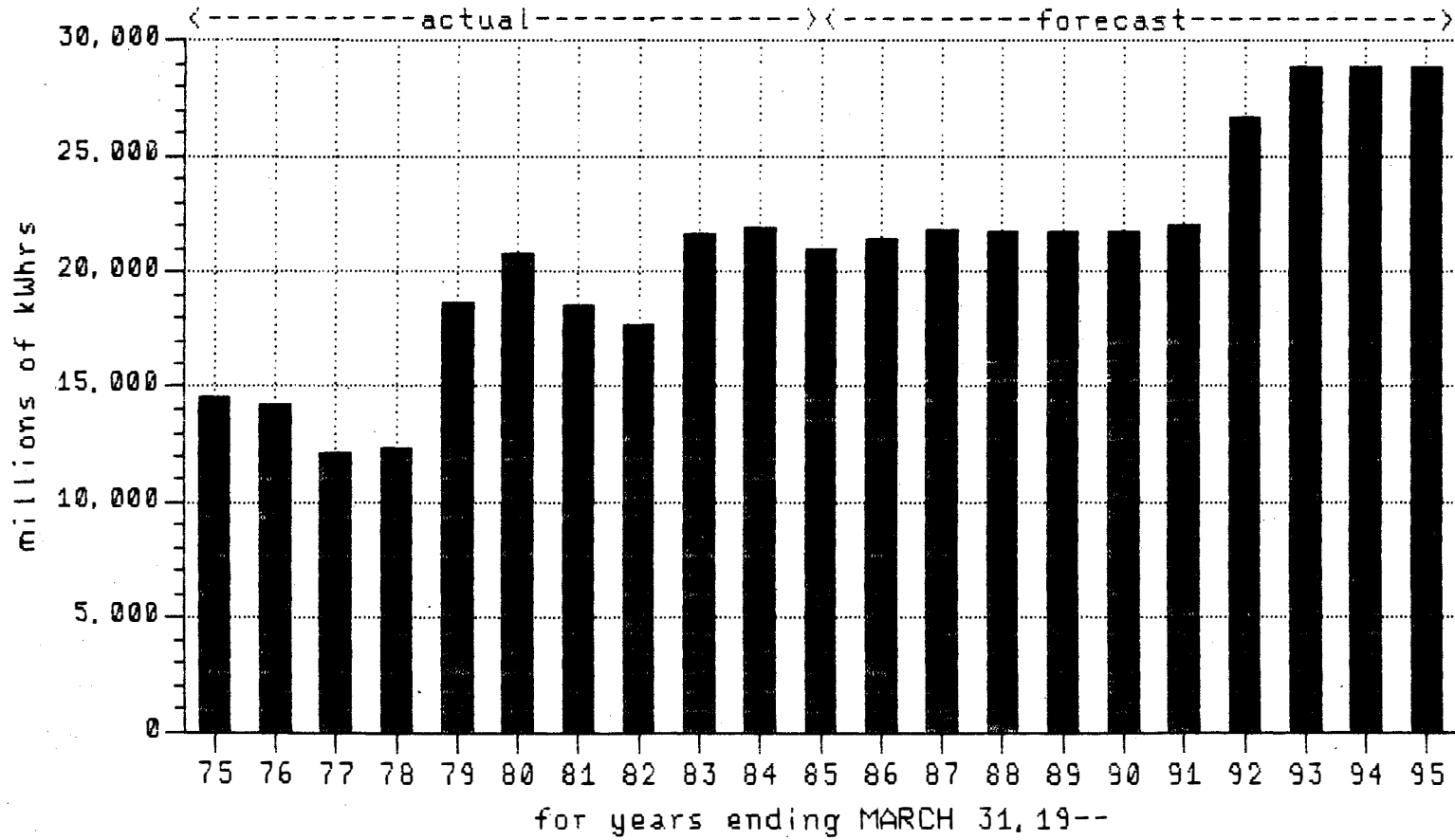
POTENTIAL RANGE OF NET INTERCHANGE REVENUE

NET INTERCHANGE REVENUE = EXPORT SALES - (WATER RENTALS + THERMAL FUEL
+ POWER PURCHASED)

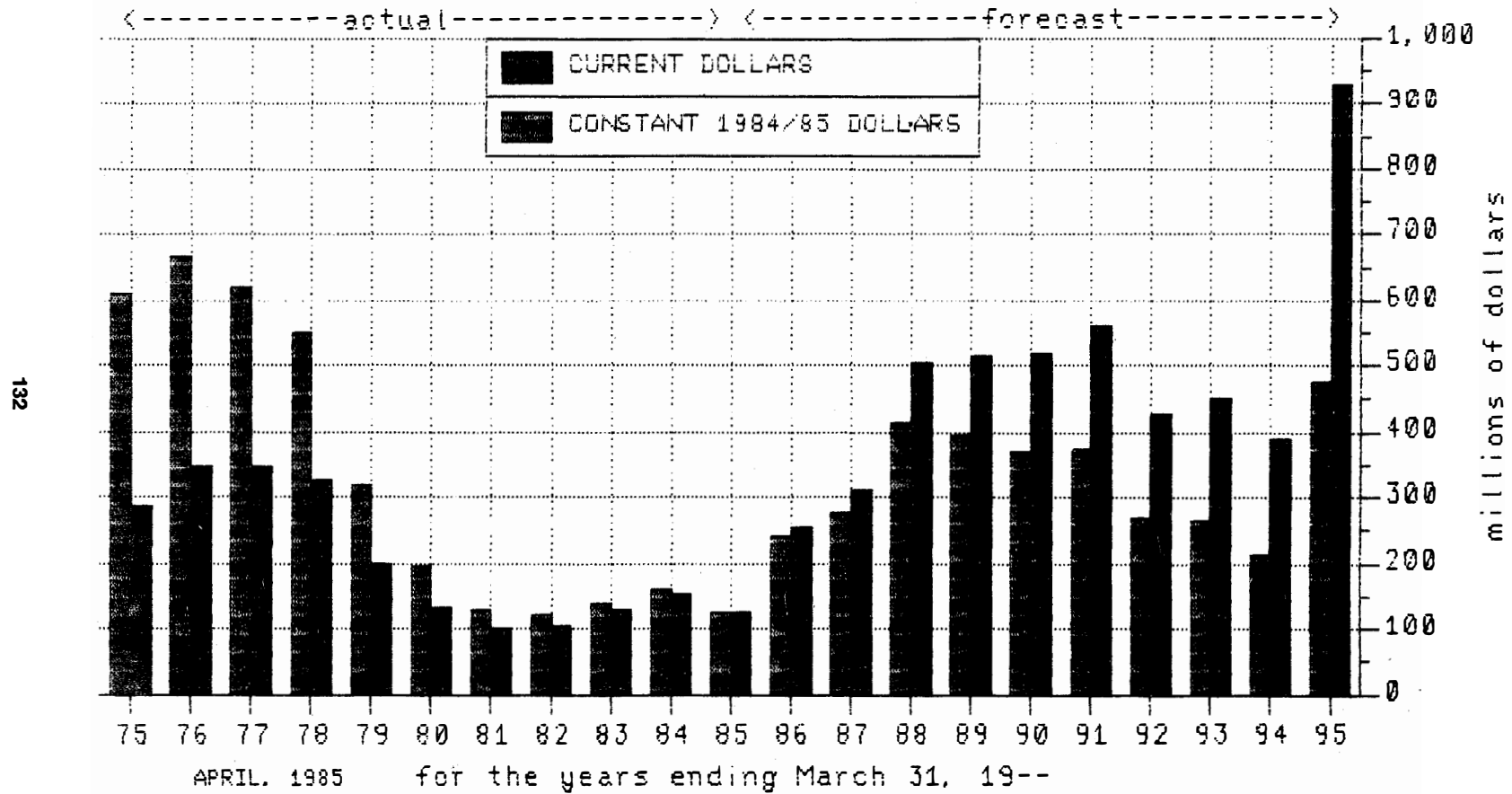


HYDRAULIC GENERATION-INTEGRATED SYSTEM

MANITOBA FIRM ENERGY REQUIREMENT



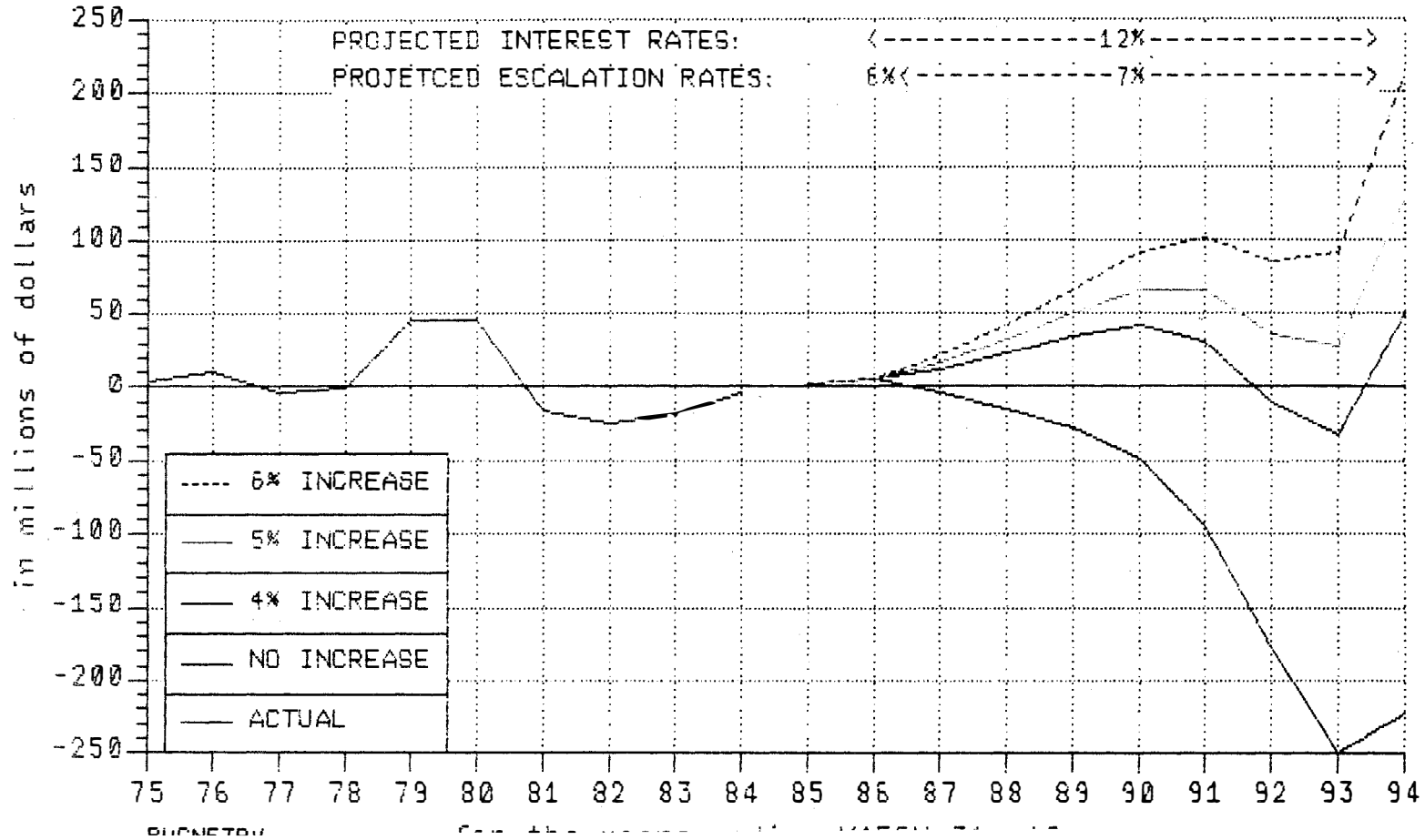
TOTAL CAPITAL EXPENDITURES



PROJECTED INTEREST & ESCALATION RATES

	<u>Interest</u>	<u>ESCALATION Operating Expenses</u>	<u>Capital Expenditures</u>
1985/86	12%	5%	6%
1986/87 (and on)	12%	7%	7%

NET REVENUE (REVENUE DEFICIENCY)
 AT ALTERNATIVE RATE INCREASES
 (rate increases commencing APRIL 1, 1986)



RESERVE BALANCES
AT ALTERNATIVE RATE INCREASES
(rate increases commencing APRIL 1, 1986)

135

