



Second Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

31-32 Elizabeth II

Chairman
Mr. A. Anstett
Constituency of Springfield



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Brian	Ellice	NDP
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DOERN, Russell	Elmwood	NDP
DOLIN, Mary Beth	Kildonan	NDP
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DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virден	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNES, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
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STORIE, Jerry T.	Flin Flon	NDP
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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES

Thursday, 28 April, 1983

TIME — 10:00 a.m.

**LOCATION — Room 255, Legislative Building,
Winnipeg**

CHAIRMAN — Mr. Andy Anstett (Springfield)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Lyon, Mackling and Parasiuk

Messrs. Anstett, Doern, Eyer, Fox, Orchard,
Ransom and Scott.

APPEARING: Mr. Saul M. Cherniack, Q.C.,
Chairman of the Board

Mr. John Arnason, President and Chief
Executive Officer

Mr. A.K. McKean, Assistant Vice-President,
Finance

MATTERS UNDER DISCUSSION:

Annual Report of Manitoba Hydro-Electric
Board

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MR. CHAIRMAN: Order. The meeting this morning is called to consider the Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31st, 1982.

I call on the Minister responsible for Manitoba Hydro to introduce proceedings today.

Mr. Parasiuk.

HON. W. PARASIUK: Mr. Chairman, I'd like to call on Saul Cherniack, the Chairperson of the Board of Manitoba Hydro to introduce Hydro's presentation.

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Thank you, Mr. Chairman, I want only to report to the committee that there's been no change in the constitution of the Board. The Board of Directors are the same as they were last year; Dr. Ed Cuffel, Mr. Clyde McBain, Mr. Charles Curtis, Dr. Nora Rosey, Mr. Peter Fox and Mr. Roy Minish.

Mr. John Arnason, the President of Manitoba Hydro, is prepared to make a presentation updating the report that you are considering today which is as of March 31, 1982, and he has material which you could use to update it.

MR. CHAIRMAN: Mr. Arnason.

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

As President and Chief Executive Officer for Manitoba Hydro, I appreciate the opportunity to come before this committee to review the corporation's activities.

As a result of our discussions, I hope we'll develop a better understanding of your concerns about the utility's operations, with the ultimate objective of being able to provide the best possible electric utility service to the people of Manitoba.

I will do my best to respond to your questions, but if more detail is required, answers will be provided either at a later meeting of the committee or by way of a written response.

Alex McKean, Assistant Vice-President of Finance will provide information on financial results as a part of my presentation and will assist with questions relating to that area.

A number of other staff members are also here today and we have Murray Fraser, Executive Vice-President of Corporate Services. We will have Will Tishinski, Assistant Vice-President of Operations; Chris Goodwin, Executive Manager, Corporate Planning; and Vern Prior, Manager of Public Affairs.

My understanding is that the purpose of the committee meeting is to consider the 31st Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31st, 1982. Preliminary figures for the year ended March 31st, 1983, are now available, and as has been the custom, the committee will be provided with preliminary results of the fiscal year just ended.

Manitoba Hydro's operations are critically influenced by the weather. Being primarily a hydro-electric utility, we rely on water flows for generating the bulk of our customers' energy requirements. The fiscal year 1982-83 started on the dry side as a result of two previous consecutive years of drought conditions. As the year progressed into the fall, water conditions improved significantly and year-end data have confirmed slightly above-average flows. Average water conditions provide 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 21.7 billion kilowatt hours. The previous fiscal year's hydraulic generation amounted 17.7 billion kilowatt hours.

Good water conditions enhance our ability to sell to extra-provincial markets, thereby increasing the corporation's revenue. Sales of surplus energy to neighbouring utilities in Saskatchewan, Ontario, and the United States for the fiscal year just ended totalled approximately \$105 million. This is \$33 million higher than the previous fiscal year ending March 31, 1982, when the total export revenues were \$72.4 million. The major export market is the United States which accounted for over 85 percent of the total exports of approximately 7.6 billion kilowatt hours by year end.

The slightly better than average water conditions resulted in over 99 percent of all energy having been

generated from hydraulic sources. At the year end, the Nelson River plants contributed about 77 percent of the total hydraulic energy. Of the total energy generated, 61 percent was transmitted over the high voltage direct current transmission system.

Final financial results for the fiscal year ending March 31, 1983, are not yet available; however, it is anticipated the bottom line will show an excess of expenses over revenue of about \$18.0 million. As a result, the reserve position of the corporation will decrease to approximately \$83 million at March 31, 1983. This compares with a reserve position of \$101.2 million at March 31, 1982.

Energy generated to serve Manitoba customers was below expectations, at 13.3 billion kilowatt hours, down approximately 2.0 percent from that of the corresponding period a year earlier. Residential and farm consumption was in the order of 4.0 percent higher than the previous year. In part, this is due to the conversion from oil to electricity as the energy source for space heating in those areas of the province where natural gas is not available. An offsetting influence this past winter was the warmer weather.

During the year just ended, it is expected about 4,000 customers will have switched from oil to electrical energy for space heating. They have made their decisions to convert on factors such as the relative cost of heating with electricity as compared to oil, and various government subsidy programs.

Energy sales to general service and power customers softened considerably because of the level of economic and industrial activity. Electrical energy usage by some of the larger industrial customers was down from the previous year, as a result of their operating at reduced levels or shutting down for designated periods. Sales of energy to the 30 largest customers, who represent about one-quarter of the Manitoba load, was approximately 89 percent of the previous fiscal year's sales.

The peak demand on generators to supply Manitoba customers last winter was 2,543 megawatts, occurring at 5:25 p.m. on December 8, 1982. This was 7 percent below last year's peak of 2,735 megawatts which occurred on January 15, 1982 at 5:30 p.m.

The utility experienced the worst ice storm in its history during the month of March, 1983. The number of customers affected exceeded 24,000 with outages lasting from a few minutes to several days. Approximately 4,500 customers were without electrical service for more than one day. The storm covered a significant area of the province, from the Saskatchewan boundary to just east of Winnipeg, and from the United States border to a line running from Riding Mountain National Park to Gimli. Approximately 1,400 poles required replacement, along with broken crossarms and damaged hardware, such as, bolts and insulators. The resources of the corporation were severely taxed, in terms of manpower and equipment, in attempting to restore service to customers as quickly as possible.

Approximately 950 workers were involved in the repair work. The extent of the area affected was unlike previous years when storms were localized and large resources of personnel and equipment were assembled to concentrate on a smaller area of damage. The diligence of the staff and the patience of the customers, under these trying circumstances, are greatly appreciated.

The fiscal year just ended has been a bad one for the Utility from the point of view of ice storms. Somewhere on the system, storm damage was experienced in each consecutive month from November through to March. In my 34 years with the Utility, I don't recall a winter quite like it! Final costs of the March storm are not presently available as repair work is not yet complete, but we expect the storm damage to cost the Utility in the order of \$2 million. As is normal practice, staff are reviewing the nature of this damage resulting from the ice storm in relation to the Utility's design standards and operating practices.

The total installed winter capacity of the integrated system (Manitoba Hydro and Winnipeg Hydro) is 4,091 megawatts, the same as last year. Based on forecasted average annual load growth, the next addition to generating capacity, to serve the Manitoba load, will not be needed until 1992. Presently, it is expected the next plant will be Limestone.

There are 20 diesel electric installations serving isolated communities which are primarily located in the Northern part of the province. This number includes the addition of an installation at Tadoule Lake and the transfer of the community of Jackhead from diesel to central supply. Work is progressing on the extension of the central station power to five communities served by diesel on the east side of Lake Winnipeg. The first of the five communities, Bloodvein, was connected to the central system on March 24, 1983; the other four communities will be connected over the next four years. This program is being partially funded by the Federal Government.

Capital work associated with rehabilitation of Seven Sisters and Great Falls generating stations continue. Total costs to date are \$20 million and \$34 million respectively. The present work is expected to be completed at Seven Sisters in 1983 and at Great Falls in 1984, and we expect an additional 50 years of useful life from these plants.

Capital expenditures in the fiscal year 1982-83, for the expansion of the high voltage direct current transmission system at Dorsey and Henday amounted to approximately \$26 million. Larger expenditures will be made in the next two fiscal years to complete this work, improving the performance and reliability of the high voltage direct current transmission system, which is vital to the security of the system.

On April 19th, a 230,000 volt transmission line between The Pas and Flin Flon was placed in service. The line and an associated new terminal station at Flin Flon will provide a firm supply to the Flin Flon area and also result in a fourth interconnection with Saskatchewan Power Corporation, in this instance, with their Island Falls Generating Station on the Churchill River. Saskatchewan Power Corporation will contribute two-thirds of the annual costs of these facilities. The sharing of costs is based on the relative benefits to each of the two utilities.

Modifications are being made to the generators at the Selkirk Generating Station so that they can be operated as synchronous condensers to provide for voltage regulation in the southern part of the system.

Additions, modifications, and service extensions to customers account for approximately \$38 million in capital expenditures. Twenty-three million dollars is associated with changes to the distribution system to

serve Hydro's customers. Activity associated with these expenditures is spread throughout the system.

Planning studies continued with respect to a number of projects such as other potential generating station sites which are smaller capacity and lower capital cost than the Lower Nelson alternatives.

The total cost of mitigation and compensation for the harmful effects of Northern Hydro projects in the last year was \$5.5 million. In addition to trapline and fishing programs, this includes remedial works, such as new portages and bank protection plus administration and legal costs associated with the Northern Flood Agreement. Partial compensation to the residents of Cross Lake, is in the form of an indoor hockey arena which is being constructed by Manitoba Hydro under the terms of an Interim Order of the Arbitrator appointed under the Northern Flood Agreement.

During the most recent fiscal year, Manitoba Hydro purchased approximately \$90 million worth of goods and services of which 58 percent were for goods manufactured in Manitoba or for services performed in Manitoba.

According to the calendar year statistics published by the Canadian Electrical Association, 1982 was the best year on record for Manitoba Hydro in terms of work injury frequency. For the fifth consecutive calendar year, there were no on-the-job worker fatalities. The utility had the third best overall injury record of 14 major electrical utilities in Canada. This is the 19th consecutive year in which Manitoba Hydro has ranked amongst the top three best utilities. Hydro had its second best year on record for motor vehicle safety and had the best record of the 14 major Canadian utilities.

Employment during the fiscal year just ended peaked at 3,859 which is relatively unchanged from the previous year.

In view of the deterioration in Manitoba Hydro's financial position stemming from years during which expenses exceeded revenues, management recommended to the board a 15.7 percent rate increase effective April 1, 1983, one year prior to the end of the five-year rate freeze. When the recommendation was made in December, 1982, financial projections indicated expenses exceeding revenues by roughly \$16.0 million for fiscal year 1982-83 and \$49.0 million for fiscal year 1983-84. Based on this, reserves would have dropped to approximately \$36 million by March 31, 1984, and a rate increase in the order of 28 percent would have been required then to maintain reserves at that level.

On February 3, the Honourable Wilson Parasiuk announced a lifting of the rate freeze and a 9.5 percent increase in electricity rates effective May 15, 1983.

I would now call on Alex McKean, the Assistant Vice-President of Finance, as part of my presentation to provide more detailed financial information.

MR. A. MCKEAN: Mr. Chairman, and committee members, Mr. Arnason has asked me to update you on the finances of Manitoba Hydro. In May, 1982, I appeared before this committee as part of the presentation made by Mr. Blachford to outline the information and the financial data that led him to make

the recommendation to increase electric rates at that time. The government did not approve the rate increase in 1982, but stated the issue would be reviewed again this year following a revision of the forecast made at that time.

In November, 1982, the financial forecast was revised based on the best information available at that time. Although conditions had improved from the year previous, a recommendation was again made to the Minister to lift the rate freeze and to approve an increase in rates sufficient to provide revenue to recover expenses for the year ended March 31, 1984 which was 15.7 percent increase as at April 1, 1983.

In the recommendation, it was estimated that if the rate freeze was continued for another year, a revenue increase of 27.8 percent would be needed effective April 1, 1984, in order to break even in 1984-85; this compared to an equivalent estimate of 31.3 percent made a year ago.

In order to break even in 1983-84, a revenue increase of 15.7 percent was needed effective April 1, 1983; whereas a year ago the equivalent increase was estimated to be 20 percent.

The improvement was the result of lower interest rates, reduced levels of inflation, and slightly better than the average water conditions that had been forecast a year ago. The government has approved an increase in electricity rates of 9.5 percent effective May 15, 1983.

The following charts will be presented and commented upon in order to inform you about the financial forecast of Manitoba Hydro at this time.

First of all, I would like to comment on the most important assumptions that affect any forecast made for Manitoba Hydro. The No. 1 assumption that affects the long-term forecast is the load forecast. On this chart, I show a percentage increase over the previous year of the Manitoba firm energy load. The last 20 years actual are shown to March 31, 1982, and the 20 years forecast to the March 31, 2002 is shown.

This chart does not show any firm exports and, if any firm exports were negotiated, any contracts would have to be added to this forecast. My observations on this chart are that, No. 1 that the load increases have reduced from an increase of approximately, back in 1974, of 11 percent to the current year we just finished to an increase that was forecast to be a plus 2 percent, but actually ended up a minus 2 percent.

In general, electric utilities are very capital-intensive, therefore, interest and depreciation are the largest portion of the expenses of Manitoba Hydro; they account for approximately 65 percent of our expenses.

Most of the increase in debt costs results from the borrowing required to finance new construction. The amount of new construction is principally dependent upon load growth. The forecast, has shown, results in no need for additional generation which is estimated to be Limestone Generating Station until 1992. Of course, that date can be revised annually, dependent upon future changes to the load forecast and the change can really be made up until major construction is commenced, which is estimated to be in approximately 1988.

Due to inflation and higher interest rates, the construction costs of new plant is substantially more costly than the average cost of an existing plant.

Therefore, the higher the rate of growth in Manitoba, the earlier a new plant will be required and, therefore, the earlier the average cost of our plant will increase. To cover the resulting higher average debt charges, higher rates will be required at an earlier date. Conversely, if load growth in Manitoba is at a lower rate, the reverse condition applies; rate increases should not be as high. The higher the load growth, the faster we'll need rate increases.

The second assumption that affects us is the amount of hydraulic generation. On this chart I'm showing the hydraulic generation for the years ending 1973 to 1982, and the forecast hydraulic generation for the next 11 years. You will notice, in 1983 and 1984, we're projecting slightly higher than average water generation because of the actual conditions we now know but, from there on in, it's projected at average generation until, in 1993, it increases because, as expected, there will be additional generation from Limestone at that point.

Each year the actual or forecast Manitoba firm energy load is shown in red, and the actual or forecast export sales of surplus power are shown in green. The variation in generation, due to river flows, directly affects the amount of export sales, which are interruptable, whereas the Manitoba firm load is served regardless of water conditions.

My observations on this chart are that the improved water conditions this past year are very apparent, as compared to the drought conditions we experienced for the last two years. The improved water conditions added approximately 4 billion kilowatt hours, with a net revenue increase to Manitoba Hydro of approximately \$38 million. Now, although the forecast is prepared using the average water flows or better, in the first two years, the actual water conditions will cause very substantial variations in financial results, as compared to the forecast, which I'll show on the next chart.

On this chart, the variation and net interchange revenue between average flows used in the forecast, and they're shown in red, and the maximum flows shown in purple, and the minimum flows are shown in green, and the difference of those are shown in millions of dollars for each year from March 31, 1984 to March 31, 1993. I draw to your attention that the variation between maximum and minimum flows amounts to approximately \$90 million in 1983-84, and increases to approximately \$170 million in 1991-92.

One of the purposes of accumulating reserves and having reserves in the Utility is to provide protection against the heavy losses that will occur in less than average water flow years and, therefore, maintain some stabilization of rates regardless of water conditions.

The other main variable that affects our forecast is our assumed interest and escalation rates, and in our forecast we are using the rates as shown in the chart. In 1983-84 you'll notice we're using 13 percent in interest and 10 percent in escalation. Thankfully, I think those probably look a little on the high side at this point. I might say these assumptions were arrived at about last August and they have improved slightly.

My observations on these rates are that any variation in escalation, to that as shown on the chart, will effect the cost of new Capital construction and the Operating and Administrative Costs of the corporation. Any variation in interest rates will affect cost of new debt

concurrent to finance new construction, or to refinance mature debt issues.

Because of our present large investment in plant that was made over the last 60 years, and the present long-term bond issues with future maturities, the corporation has a partial hedge against the adverse effect of high inflation and high interest rates. Therefore, it is reasonable to forecast that our total expenses should increase at a lower rate than the assumed rate of inflation, at least until major new generation is added to the system to serve the Manitoba load.

As a result of those assumptions, our forecast shows the following, and this chart is showing our total Capital Expenditures. The actual Capital Expenditures are shown for the last 10 years and the forecast for the next 10 years are shown in red, for each year in millions of dollars. The blue line - each year we have converted to an equivalent 1983 dollar value and that is shown in the blue line in order to be able to compare the expenditures in a common dollar value so as to indicate the size of the workload in each year. My observations on this chart are that the construction program, since 1981, and continuing until 1987, is relatively small compared to previous years and future years, until construction is forecast to recommence in 1988 at Limestone to complete the project by 1992.

I point out to you that even when Limestone is under construction, the actual workload is less than was experienced in the mid-70s when a number of projects were being built at the same time. Any expenditures to serve possible additional interconnections are not included, such as, Mandan or any firm contracts with outside utilities.

The next chart is showing a comparison of our operating revenues versus expenses. Again, they are shown in millions of dollars. The red line shows the total actual expense, and that includes the total of interest, depreciation and operating expenses for the years 1973-1982 and the total forecast expense for the years 1983-1993. The blue line shows the total actual and forecast revenue for the years 1973-1993 at present rates, and the green line shows the total forecast revenue for the years 1983-1993, including provision for the rate increase that has been approved at 9.5 percent effective May 15, 1983.

In addition to these operating expenses, during this period the losses on foreign debt are being absorbed by the province in accordance with an Act of the Legislature. These losses have cost the province approximately \$83 million over the last four years and the calculated unrealized loss at maturity of present foreign debt as at March 31, 1983, is still approximately \$320 million. My observations on this chart, I will point out to you that during the period of the rate freeze, for the year ended March 31, 1988, Hydro had a profit of \$45 million. Now that was the first year after the rate freeze and was the result of good water conditions, and also the fact that no provision for the loss in foreign debt had to be provided for.

On March 31, 1981 we had a loss of \$16 million. We had drought conditions that year and without those drought conditions we would have, in my opinion, ended up in the black.

For the March 31, 1982 we had a loss of \$24 million; again, we had drought conditions that year and, again, in my opinion, if we'd had average water conditions we would have ended up in the black in that year.

For the year that we just finished I'm estimating that our loss is approximately \$18 million. We have not closed the books and we haven't finished with the auditors, but the loss appears to be about \$18 million. That is based upon having slightly better than average water conditions and so that is the first year where we've had a loss and had average water conditions or better.

For March 31, 1984 we are estimating a loss of \$23.1 million. Now that is assuming slightly higher than average water conditions because of the state of the present reservoirs, and includes proceeds from the 9.5 percent rate increase effective May 15, 1983.

Beyond that year, future results will mainly depend upon the amount of future rate increases and the degree to which actual conditions are the same as assumed in the forecasts, such as, load forecasts, water conditions, interest rates, and rates of inflation. Of course, later forecasts will be prepared before any additional requests for rate increases will be made.

The next three charts we'll show you is comparison of what we expect in the way of revenue increases based upon these results.

The first chart is the comparison of revenue increases in order to cover costs, if the rate freeze had continued to April 1, 1984. The blue line on the chart indicates the revenue increases since 1979, if the increases had equalled the rates of inflation experienced since 1979, and the rates of inflation assumed in the forecast. The red line indicates the revenue increases required each year to cover costs with no increase in reserves. The reserve balances are shown for each year at the bottom of the chart.

I point out to you that it was forecast that if the rate freeze was maintained until March 31, 1984, reserves would have been reduced to \$35.9 million. At that time a revenue increase of 27.8 percent would have been required to cover costs for 1984-85. Now, following that first year, we were predicting that would be followed by rate increases of 4.4 percent in 1985; 3.2 percent in 1986; and 3.5 percent in 1987, strictly to maintain the reserves at that same level.

The second chart is the recommendation that was made to Hydro originally and that was based upon the revenue increases in order to cover costs, with no reserve provision; with the rate freeze discontinued April 1, 1983. Again, the blue line indicates the revenue increases if the increases had equalled the rates of inflation experienced. The red line indicates the increases that we predicted in this five-year period.

If the rate freeze had been lifted on 1st April we predicted that the reserves would have been maintained at \$84.8 million on the assumption that there was a rate increase of 15.7 percent on that date. That then would be followed by 8.9 percent; 4.6 percent; 3.2 percent; and 3.5 percent increases in the following years.

The third chart in this connection I have is our estimate based upon a rate increase of 9.5 percent on 15 May 1983. Again, the chart is drawn up the same way as the preceding two charts and it is predicted that at the end of March 31, 1984 the reserves will be decreased to \$61.7 million. It also shows that to break even in the next four years, increases on April 1, 1984 of 15.9 percent; in 1985 of 4.4 percent; '86 of 3.2 percent; and '87, 3.5 percent would be needed to break

even and maintain those reserves. I, again, emphasize that before any future increases would be recommended, a further forecast would be made. That generally shows the rate position.

I'd like to then show you how we compare with other points in Canada with our rates. The first chart I have here is a chart we prepared, and this is the bill comparisons of residential rates as at May 15, 1983. In other words, after our rate increase has been put in place on May 15, 1983. This example is based upon a consumption of 750 kilowatt hours in a month which is a representative usage by a non-electric heating customer. You will notice that, even after the rate increase, Winnipeg rates will be lower than other large Canadian cities for this residential usage.

Now I might say we will be doing a complete comparison of all our rate structure as at May 15, 1983, and should be available in the not too distant future. We have done enough comparison to, again, be satisfied that after the rate increase that Manitoba rates will continue to be among the lowest in Canada.

The next chart I'll show is the same comparison between Winnipeg and other representative cities using the consumption of 5,000 kilowatt hours in a month. Now 5,000 kilowatt hours a month is a representative monthly consumption by an electric heating customer in a winter month. You will notice on the chart that, again, Winnipeg rates are lower than any of the other representative cities.

The last chart I'd like to show is - because that chart showed Winnipeg only, you might say how does it compare with the other parts of Manitoba - so I've prepared a chart here which compares Winnipeg rates with the other main rate areas that we charge for Manitoba. We have four rate zones in Manitoba that we charge. There's the City of Winnipeg; there's a group that we call cities, that includes Brandon, Dauphin, Flin Flon, Portage, Selkirk and Thompson; there's a general towns category which includes Morden, Neepawa, Steinbach, The Pas and many other towns of that magnitude; and then we have the rural which includes farms as a fourth category for residential.

You will notice on that chart that in both the 750 kilowatt hour consumption, which is shown in green, and the 5,000 kilowatt hour consumption, which is on the top part of the chart, the difference is consistent in both cases. Cities are \$2.46 per month higher than Winnipeg; towns are 80 cents higher than cities; and rural is \$6.16 per month higher than towns. The reason the difference is consistent, regardless of consumption, is that there's a common runoff rate for all customers in Manitoba of 2.7 cents per kilowatt hour, regardless of where you live.

Thank you, Mr. Chairman, that is my part of the presentation.

MR. J. ARNASON: Mr. Chairman, before closing I want to take the opportunity of thanking all of the employees of Manitoba Hydro for their record of service to the people of Manitoba, and I particularly want to commend their efforts during a most difficult year in terms of dealing with the forces of nature.

That concludes my review of the 1982-83 fiscal year, Mr. Chairman!

MR. CHAIRMAN: Thank you, Mr. Arnason. Questions, comments or discussion from members of the committee.

Mr. Lyon.

HON. S. LYON: Mr. Chairman, first of all, I would like, on behalf of the opposition, to congratulate Mr. Arnason on his new appointment as the Chief Executive Officer of the Manitoba Hydro. He has had a long and distinctive career with the Utility and we know that he will carry on in that fashion as the Chief Executive Officer of the corporation.

Some initial questions to be directed, either to the Chairman or to Mr. Arnason, perhaps, more appropriately to the Chairman, with respect to the senior management of Manitoba Hydro. Could we have an update upon any of the senior management changes that have been made since the Annual Report which we have in front of us which is now some 13 months old, March 31, 1982? I know that there have been other changes, that is changes other than the present Chief Executive Officer.

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Other than the change in the present Chief Executive Officer. Yes, I see Mr. Lyon is looking at Page 4 of the Annual Report which indicates the senior management. Of that group Mr. Fraser has become Executive Vice-President; Mr. Duncan is Vice-President; Mr. Arnason, of course, is President; Mr. Jarvis resigned; and Mr. Funnell is General Counsel; Messrs. Prior, Sharman and Pydee are in the same positions.

The next row below Mr. Dahl has become Vice-President Operations; and the other gentlemen are all Assistant Vice-Presidents. Mr. Goodwin is Executive Manager Corporate Planning, otherwise I'm not aware of any change, unless Mr. Arnason can add to that; I think not.

MR. J. ARNASON: That covers the major changes, Mr. Chairman.

MR. CHAIRMAN: Thank you. Mr. Lyon.

HON. S. LYON: Mr. Goodwin's title, again?

MR. S. CHERNIACK: He is the Executive Manager, Corporate Planning.

HON. S. LYON: Mr. Fallis remains as Executive Engineer, and all other people shown on the executive chart are in the same capacities?

MR. S. CHERNIACK: Yes, I don't know if there's any change in titles of any of them, I think not. Yes, this is it.

HON. S. LYON: Would there be any additional executive personnel not mentioned or shown on that page?

MR. S. CHERNIACK: No, Mr. Chairman.

HON. S. LYON: Mr. Goodwin's position as Executive Manager Corporate Planning, is that a replacement for Mr. Jarvis' position, or how does it relate to the vacancy of Mr. Jarvis?

MR. S. CHERNIACK: Mr. Jarvis' position was absorbed within the organization. Mr. Goodwin, as a result, is continuing what he was doing in regard to mitigation claims, but he has taken over the responsibility that Mr. Macatavish reported to before. In other words Mr. Macatavish was reporting to Mr. Jarvis and he now reports through Mr. Goodwin.

HON. S. LYON: What would the total number of personnel at Manitoba Hydro be now; if that figure is available to us we'd be interested in it?

MR. S. CHERNIACK: I think it's already referred to in Mr. Arnason's report this morning, it's approximately 3,600, I think we can find the exact number in this document which has been distributed by Mr. Arnason.

Till I find it Mr. Arnason might be able to give a more correct number although I think mine was correct.

MR. J. ARNASON: The numbers in my report, Mr. Chairman, were 3,859, which include hourly people.

MR. CHAIRMAN: Thank you, Mr. Arnason. Mr. Lyon.

HON. S. LYON: How does that figure compare with, say, over the last five years? Is there a comparison chart available in one of the Annual Reports that we can refer to, or could the figures be given to us, if not now, a little later in the proceedings?

MR. J. ARNASON: As a general comment, Mr. Chairman, in terms of numbers, if we go back a little further than the five-year time frame, in 1976 when we were at the peak of our construction activities, the numbers were just below 5,000, in fact, they were 4,993. So with the levels now of 3,800, that represents a reduction of somewhere in the area of 22 percent from the peak employment of 1976.

MR. S. CHERNIACK: Mr. Chairman, I'd just point out it's the last line on Page 16 of the report.

HON. S. LYON: Yes, thanks, I've just reminded myself as to where it was. So we're at 3,859, as at March 31, 1983. This is at a time when there is no major construction going on, other than the usual work that you're doing and the renovation of the two Winnipeg River plants. What has been happening to the construction engineering staff; what number of personnel would you have in there, say, compared to 1976 which was a peak construction year?

MR. J. ARNASON: The total construction design group, we had a peak of between 1,200 and 1,300 and that level is down to between 500 and 600 at the moment.

HON. S. LYON: It was anticipated by the Utility, and certainly by the Government of the Day 1980-81, that we would be moving into Limestone Construction in 1982-83, or thereabouts, in anticipation of Western Power Grid, and the possible completion of the Alcan arrangements and so on. As a result of the failure of those negotiations, and the levelling off of the energy requirements of the province, can the President indicate to the committee, Mr. Chairman, whether we can

anticipate some sizable reduction in this construction staff because really there is nothing being constructed, and there won't be anything constructed, according to the estimates that we heard last year, and again this morning, until starting about 1988, I guess it is, for Limestone.

MR. J. ARNASON: The construction group has been reduced substantially over the last few years. At the moment, we have projects at Great Falls and Seven Sisters doing some clean-up work on the Nelson River. I don't anticipate a major change in the numbers that I gave you. There will be some paring down but it won't be a major change. I believe we've made the major changes in staff reductions in that construction group at this point in time.

HON. S. LYON: When were those major changes made in the construction group?

MR. J. ARNASON: As we completed the projects there was a gradual reduction over the years in the construction staffing. I would expect that there is about 700 people, in total, that either left the organization or completed their tasks as a result of the major construction program.

HON. S. LYON: Has the Utility, Mr. Chairman, had a study done into its personnel requirements over the last year or so.

MR. J. ARNASON: One of the first tasks I took on when I became president was to ask for a review of the resources that we have within the corporation, that is, the human resources, and compare those human resources with the workload that we're anticipating in the short term, in order that we can either match the human resources to the workload or make adjustments where necessary. That study is under way at the moment.

HON. S. LYON: Was there any other study done in the last year or so by outside consultants with respect to Hydro staffing?

MR. J. ARNASON: No, there was no other studies done in that respect by outside consultants. I might just add, Mr. Chairman, that while this study is under way, I have placed a staff freeze on additions to new complement positions.

HON. S. LYON: I know that the problem that the Utility has to grapple with from time-to-time with having a competent engineering staff on hand, as part of the overall complement of the Utility for major project construction and so on, and then when that construction is turned off there arises a problem as to how those competent people are disengaged, or whether they can be kept on in anticipation of work still to be done; how does Hydro go about resolving this kind of a dilemma, Mr. Chairman?

MR. J. ARNASON: With the change in the load growth, and the starting date for Limestone being 1992, we have basically, through discussion with the board, made

the decision that we would not be maintaining a major group within Hydro in anticipation of earlier dates for Limestone.

So, we're paring down in terms of the dates that we have based on Manitoba load growth. We expect that if there is any advancement then we can gear up in a hurry, and our experience has been that many of the people that have worked with the Utility in the past will come back with the Utility in a short period of time once any announcements are made.

HON. S. LYON: Could you give us some idea, by way of breakdown, as to the number of professional staff, that is professional engineers, people who have other specialities, in the employ of Hydro; in other words, how many civil engineers would you have; how many electrical engineers would you have; what categories of pay are we looking at for these people?

MR. J. ARNASON: I don't have a breakdown just handy, Mr. Chairman. As I recall the numbers, in terms of total professional engineers, we would have in the neighbourhood of 220 professional engineers, but I cannot give you a breakdown at the moment in terms of their specific expertise. That can be provided at a later date.

HON. S. LYON: Thank you, that would be helpful if it could be provided. We have, of course, within the inner Civil Service the pay ranges and classifications and so on, I presume that a similar book exists or pamphlet exists for Hydro with the different categorizations, if that could be made available, as well, just for reference purposes it would be appreciated?

MR. J. ARNASON: Yes, that can be provided.

HON. S. LYON: This is perhaps to be directed to the Chairman, rather than Mr. Arnason. During the past year, Mr. Blachford, who was formerly the President and Chief Executive Officer of the Utility, his contract came to an end and was not renewed, I wonder if the Chairman could give us his version as to what brought that situation about?

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, on behalf of the Board, I discussed with Mr. Blachford plans for the future organization of Hydro. Mr. Blachford indicated by letter that he would leave upon the termination of his contract.

HON. S. LYON: Is that the full answer to the question, Mr. Chairman?

MR. S. CHERNIACK: Yes, thank you.

HON. S. LYON: Mr. Chairman, I have never known the Chairman of Hydro to be afflicted with such an economy of words before. Would the Chairman care to amplify upon his discussions with Mr. Blachford? Did they deal with his being a satisfactory president and general manager? Was there some divergence of opinions, or otherwise, as between the chairman and the then

president as to the future of Manitoba Hydro? Why did Mr. Blachford decide not to ask for a renewal of his contract, or was he told that his contract would not be renewed?

MR. S. CHERNIACK: Mr. Chairman, I have a high regard for Mr. Blachford both as a personal and professional person. I find that he is a private person and I did not attempt to intrude on his plans or thinking, anymore than was necessary to discuss what our plans were, and what his plans were.

HON. S. LYON: Are we to take it then that the decision not to renew the contract was a reflection of Mr. Blachford's desire not to remain as president?

MR. S. CHERNIACK: It was a reflection of the result of discussions we had and the mutual understanding we arrived at.

HON. S. LYON: Well can we ascertain from the chairman, Mr. Chairman, what it was that brought about this mutual understanding? Surely, Mr. Blachford didn't just say one day, well I don't want to stay around here. What led up to this? What is the real cause of Mr. Blachford's departure?

MR. S. CHERNIACK: Mr. Chairman, we had occasion to discuss what would happen on the termination of the contract. The result of our discussion was that Mr. Blachford formerly informed me that he would leave upon the termination of the contract.

HON. S. LYON: Well what was the discussion about what would happen when the contract terminated? What was involved in that? Was he told that he would not be maintained as president, that somebody else was going to be put in, or what?

MR. S. CHERNIACK: The discussion was that the termination of the contract was something that we recognized, and that he was leaving, and of course someone else would fill the role of president, chief executive officer.

HON. S. LYON: Well did the Board or the Chairman of Hydro, Mr. Chairman, offer to renew Mr. Blachford's contract before these discussions took place?

MR. S. CHERNIACK: Mr. Chairman, the discussions that took place were open and straightforward and it was understood that, upon the completion of Mr. Blachford's contract, he was leaving and he so stated in his formal letter.

HON. S. LYON: I'm merely trying to illicit information, Mr. Chairman, is the chairman trying to leave the implication with the committee that Mr. Blachford unilaterally decided to retire and that the Chairman of Hydro was distressed at this, did he try to encourage him to stay on, or what were the circumstances?

MR. S. CHERNIACK: Mr. Chairman, I thought I've repeated that we'd discussed what would happen with Hydro on the termination of the contract. We discussed

the future of Hydro, whether it would be operated at the top management level by committee forum, by chief executive officer forum. I have tremendous respect for Mr. Blachford, I think we had an open and friendly discussion, there was nothing unfriendly in any way whatsoever. Frankly, I did not pry into Mr. Blachford's plans for the future; the contract came to an end.

HON. S. LYON: Well, Mr. Chairman, I judge then that the Chairman of Hydro would like us to believe that Mr. Blachford left of his own free will unilaterally in response to his own personal desires, and that it had nothing to do with the Board of Manitoba Hydro, with the future plans of Manitoba Hydro or anything like that at all? Is that what the chairman wants us to believe?

MR. S. CHERNIACK: Mr. Chairman, I don't want you to believe anything other than what I've told you is what has happened. What has happened is that Mr. Blachford completed his contract, gave formal notice that he was leaving upon the termination of the contract. As I say, there was discussions about the future of Hydro in terms of its organization. Clearly, as has been shown, there has been a reduction and there is a planned reduction of the number of top level people in order to create a leaner organization. As a result of Mr. Blachford's indication that he was leaving at the end of his contract, the Board looked into the personnel that it would like to see in Hydro to succeed Mr. Blachford and to change in any way the structure of it and proceeded to make those changes and announced them.

I consider Mr. Blachford a person who is entitled to his privacy just as anybody else. The decision that was arrived at was a mutual one supported unanimously by the Board. That's the impression I want to give because that is the fact.

HON. S. LYON: Well then, Mr. Chairman, the Chairman of Hydro just said that the decision arrived at then was a mutual decision so it was not a unilateral decision by Mr. Blachford just to take his leave.

I ask the question again, at any stage in the discussion since Mr. Cherniack became the chairman, was Mr. Blachford offered a renewal of his contract?

MR. S. CHERNIACK: Mr. Chairman, Mr. Blachford never asked for renewal and was never offered a renewal.

HON. S. LYON: That's the question; he was never offered.

MR. S. CHERNIACK: And he never asked for one. I said he never asked for one, he was never offered one.

HON. S. LYON: The question was was he offered one; the answer is he was not offered a renewal of his contract.

MR. S. CHERNIACK: The answer is that he never asked for one, he was never offered one.

HON. S. LYON: If the chairman will answer the questions with a bit more directness, Mr. Chairman,

perhaps we can get on with our proceedings a little bit better. We're still fussing around playing with words trying to find out a very simple thing of which the committee and the people of Manitoba are entitled to know. Why did Mr. Blachford leave Manitoba Hydro? It's a very simple question. We're not trying to reflect upon Mr. Blachford's privacy, upon the chairman's privacy, that has nothing to do with it. Why did he leave?

MR. S. CHERNIACK: Mr. Chairman, Mr. Blachford was engaged by a previous Board, I assume, with the co-operation or intervention of the government of the day; he entered into a three-year contract. Before the contract ran out, on behalf of the Board, with the unanimous approval of the Board, I discussed with Mr. Blachford what would happen on the termination of his contract. As a result he gave me a formal letter confirming that he was leaving at the end of the contract.

During the discussions there was no indication that he planned to stay on or wanted to stay on, nor was there any effort made by the Board to have him stay on.

HON. S. LYON: What else went on in the discussion, Mr. Chairman, that caused this set of circumstances to come about whereby he was not offered a renewal and, subsequently, he submitted his resignation? What took place in that conversation that led to that result?

MR. S. CHERNIACK: Mr. Chairman, Mr. Blachford did not offer his resignation. Mr. Blachford informed me formally that at the end of the contract, he would be leaving and he indicated the time he had, vacation time to which he was entitled, that he would leave physically earlier than the termination of the contract in order to take advantage of his accumulated vacation time. I suppose one could say that what led to the termination was the fact that there was a termination in the contract entered into between Mr. Blachford and Manitoba Hydro.

HON. S. LYON: I'm trying to direct the chairman's attention, Mr. Chairman, to this discussion that he tells us he had with Mr. Blachford at which they discussed the future of Manitoba Hydro and, as I understand his comments to the committee, following upon that discussion, Mr. Blachford formally resigned subsequently and so on. What took place in that discussion? What did the chairman indicate to Mr. Blachford about the future of Manitoba Hydro and his role in it, if any?

MR. S. CHERNIACK: Mr. Chairman, Mr. Blachford never resigned. Mr. Blachford did not resign from Hydro. Mr. Blachford indicated that on the termination of his contract he would be leaving. What was discussed was the plans of Hydro, the fact that load growth was such that there would not be an immediate proceeding of new construction. What was discussed was the fact that we thought there ought to be a leaner organization within Hydro; that, frankly, the management was somewhat top-heavy; that there would be an effort made to reduce the number of people at the top level. That was the discussion.

HON. S. LYON: For the sake of some precision, the reduction of people at the top level presumably did not involve the position of the present chief executive officer. That is, you weren't thinking of reducing that position, because obviously you subsequently appointed Mr. Arnason whom we've congratulated here this morning on the assumption of that position. What kind of leaner organization was discussed with Mr. Blachford? Did it relate in any way to his job?

MR. S. CHERNIACK: No, Mr. Chairman, it related to the structure of the top management of Hydro. I don't say that was an integral part of the conversation, but that was part of the conversation.

HON. S. LYON: Was there any difference of view between Mr. Blachford and the chairman of Hydro about the future that the chairman and the board had planned for Manitoba Hydro?

MR. S. CHERNIACK: I can't say there was a difference of view. I don't think there was that much elaboration on any precise plans. We hadn't developed any precise plans. All the board wanted at that stage was to ensure that there would be a sitting down and therefore a greater efficiency at a lesser cost of the operations of the Hydro Board, which is something we are aiming at and I think we are going to accomplish.

HON. S. LYON: Was Mr. Blachford opposed to this planning of the board for a leaner organization in any way? Did he not go along with those suggestions?

MR. S. CHERNIACK: I don't think he was opposed to it, no.

HON. S. LYON: Was there any attempt by the chairman and the board - and this may be repetition, but I'm merely trying to get the flavour of what surrounded Mr. Blachford's departure from Hydro on the termination of his contract. Was there any disagreement between Mr. Blachford and the chairman and/or the board about future policy? Did that contribute in any way to his contract not being renewed?

MR. S. CHERNIACK: Mr. Chairman, we never reached the stage where there could be a disagreement. We were talking in generalities about the future of Hydro in itself. It had nothing to do with the fact that Mr. Blachford did not request a continuation of his contract.

HON. S. LYON: Mr. Chairman, were there discussions between the chairman of Manitoba Hydro and the Minister and members of the government about Mr. Blachford and about the desirability or otherwise of his contract being renewed?

MR. S. CHERNIACK: Mr. Chairman, there were discussions within the board. The Minister was kept informed of the board's discussions about the future of Hydro.

HON. S. LYON: Was it the desire of the Minister or the government, to the knowledge of the chairman of Hydro, that Mr. Blachford, that his contract should not be renewed?

MR. S. CHERNIACK: Mr. Chairman, the Minister at all times indicated that he was desirous that the board make decisions which were beneficial to the operations of Hydro. He has been supportive of the board, and the board on the other hand has kept him fully informed and aware of the board's major plans in all respects.

HON. S. LYON: Mr. Chairman, we're still trying to deduce what appears to be a simple matter, but it's elusive in the answers that we're getting. What is eluding us is: Why did Mr. Blachford leave Manitoba Hydro?

MR. S. CHERNIACK: Mr. Chairman, Mr. Blachford's contract, which was entered into some time before I or half the members of the board were involved, was a three-year contract. It came to an end.

HON. S. LYON: These senior management changes that were discussed with Mr. Blachford and presumably with Mr. Arnason, his successor, judging from the rundown that was given to us this morning, there has been no major change in numbers or function of the senior management of Hydro with the exception, as I recall, of the resignation of Mr. Jarvis. Is that assumption correct?

MR. S. CHERNIACK: Mr. Chairman, the discussions with Mr. Blachford did not involve the extent of the discussions that we've had with Mr. Arnason, that the board had, and the plans have been developed by Mr. Arnason since he was appointed president and chief executive officer, but the plans which have been publicly announced especially within Hydro are that the line which I have indicated, our assistant vice-presidents, will within a year be removed and that there would be one management level less at the top level of Hydro.

HON. S. LYON: So Messrs. Birston, McKean, Manning, March, Dahl and Tishinski, is that the line, Mr. Chairman, that the chairman of Hydro is referring to?

MR. S. CHERNIACK: Mr. Chairman, that is the line, but it's not those people. That is the line though. I mean, I am not suggesting that they will be eliminated - I am just saying the line will be eliminated - because they are all prized management people within Hydro who have given many years of service and who are respected. It is expected that with retirements and shifting of responsibility, that management line will in itself be eliminated.

HON. S. LYON: In this reorganization that is apparently under way - and we're, of course operating at a disadvantage because the report that we're looking at is better than a year old - is there a management sheet now showing what reduction - slimming down, I think was the word Mr. Cherniack used - has or will be taking place in the senior management of Hydro?

MR. S. CHERNIACK: Yes, Mr. Chairman, I'd be pleased to try to develop in using the Page 4 of the report by indicating that the position of Mr. Blachford is now occupied by Mr. Arnason. The line below, leading from the President's role, of course, goes to Funnell and Prior and Sharman and Pydee, as before, and Mr.

Goodwin, whom I mentioned. The line beneath the President goes to Mr. R.M. Fraser, the Executive Vice-President, and to Mr. Dahl who is now Vice-President Operations.

The line for Mr. Duncan, reports now as Vice-President through Mr. Fraser, and the lines which are shown here as Assistant General Manager, which are now Assistant Vice-Presidents, are that Mr. Birston, Mr. McKean, Mr. Manning report to Mr. Fraser direct as Assistant Vice-Presidents; Mr. March reports through Mr. Duncan; Mr. Dahl is now Vice-President, he's not an Assistant Vice-President and he reports to Mr. Arnason; Mr. Tishinski reports to Mr. Dahl.

With that description, the line which reads Assistant Vice-President is expected to be eliminated and the roles will be filled. What they do will be either assumed by people above them or below them. I hope I've made that clear.

HON. S. LYON: Yes that's helpful, Mr. Chairman. I notice that Mr. Cherniack is reading from a document of some sort. If he could indicate to us, just with an ordinary management sheet, how this works for the sake of the record that would be helpful; not at the moment, but if he could give us the management chart with the new titles, positions and occupants of those positions, in due course, that would be helpful, just so that we're up to date.

MR. S. CHERNIACK: Mr. Chairman, I was not reading from anything; I was speaking from memory, but of course we can pass that on. Is this one you can spare? If it's acceptable to committee, I could pass on to Mr. Lyon a copy of the present organizational chart. I'd be glad to do that.

HON. S. LYON: That would be very helpful. Thank you.

MR. S. CHERNIACK: I'm sorry we don't have copies for other members of the committee.

MR. CHAIRMAN: Mr. Cherniack, could I ask that additional copies be provided or that copies be made by the Clerk, so that all members have copies and so the Clerk has a copy for file?

MR. S. CHERNIACK: Of course.

HON. L. LYON: Did the firm of Hickling Johnson do a study on Manitoba Hydro in recent times?

MR. S. CHERNIACK: Mr. Chairman, within Hydro, and started some time ago, was a review of the corporate strategic plan for Hydro. It was an internal study, but my understanding is that Hickling and Johnson were employed by that internal group as advisors in some respects. I don't know the extent to which they were involved, but they were certainly involved in advising how to go about this study. I think they had greater input than that, but they did not independently do a study nor was it strictly on the employment structure. It was rather the broader question of the corporate strategic plan.

HON. S. LYON: Mr. Chairman, my colleague, the Member for Turtle Mountain has filed an Order for

Return in the House, or Address for Papers, I believe it is, which the Minister will be familiar with, with respect to any reports by Hicking Johnson and the government has accepted that order. I don't recall if there are any conditions to it.

HON. W. PARASIUK: Well, I'll check back. I thought it was raised as a question and I reported back to the Member for Turtle Mountain that there were no - but, I'll just check on that. If there is the Order for Return I'll look into it, because when I checked with Hydro on that, I had been informed by management that Hicking Johnson had been advisors to an internal study and I think I reported that in the House. But I'll check through Hansard on that.

MR. S. CHERNIACK: Mr. Chairman, I've never seen nor heard of a report from Hicking Johnson. I do know they were consulted, but I'm sure that there was a formal report. My impression is, they sat in on meetings that were being held by the internal group, and whether they reported in writing - I don't know that they did. My impression is that they were consultants rather than doing an independent report.

HON. S. LYON: I thank the Minister for undertaking to look into this. I'm not sure either what conditions were attached, or whatever, when the Address was discussed in the House. So as not to involve anybody in any repetitious work, if we could find out, either through the Minister or through the Chairman of Hydro, if such documentation or material is available in response to that Order, if Hydro or the Minister could produce it during the course of one of these committee meetings that would be helpful. It's immaterial to us whether it comes through the Minister or from the Chairman.

MR. S. CHERNIACK: Mr. Chairman, I'm told that there is no report. If I find there is, then, of course, I'll notify the Minister.

HON. S. LYON: I believe it was in late fall or December of 1982, there was a renewed recommendation from Manitoba Hydro to the Minister with respect to termination of the Hydro rate freeze and a recommendation, which has been mentioned here this morning by the Hydro Board, of a rate increase of some 15 percent. Subsequent to that time, if my memory serves, there was an announcement by, I believe, the Chairman of Hydro, to the effect that some personnel studies were under way or were going to be put into action, even though that was not related to the rate freeze recommendation that the board had given. For the record, can we be assured by the Chairman or by Mr. Arnason that these studies into what some would regard as a top heavy management load at Manitoba Hydro, started before the rate recommendations were made? Can we have some light thrown on that topic?

MR. S. CHERNIACK: Mr. Chairman, I'm now in the position of not remembering just what reference was made to studies of top management structure. I just don't remember what statement may have made that Mr. Lyon is referring to.

HON. S. LYON: I don't have a document in front of me, but there was some mention made. The Minister is indicating that perhaps he was the one who did it. There was some mention made from either Hydro or a government source to the effect that management hiring and slimming of staff at Hydro was going to be looked at. This was subsequent to the recommendation re the rate.

HON. W. PARASIUK: Mr. Chairman, again, I'll check through my files on that. I look at the clippings related to Hydro and I believe there was some mention of this in the Press early in 1983. I could be wrong with my dates, but I do believe it was early in 1983.

HON. S. LYON: That's my recollection too.

MR. S. CHERNIACK: Mr. Chairman, I can elaborate a little on that now. Mr. Arnason took on as one of his first tasks, even before he assumed the formal responsibility of president, that kind of a review. I don't believe there was a study made other than by Mr. Arnason. We have here - Mr. Arnason has a copy of a hydrogram, which is dated February 24, where the structure that I have already described is announced. It was done by Mr. Arnason. The structure was effective February 18th, but certainly he started the study himself - if you call it a study. He started elaborating his own plans immediately after he was informed that he would be appointed the president. It may be that that was the reference Mr. Lyon is suggesting I made. It may well be that I did, in that connotation.

HON. S. LYON: What I would like to have, if possible, is some assurance that the current study that is now under way after the recommendation was renewed for a rate increase, that the current study has been really in operation for some time prior to the recommendation for the rate increase, because the cause and effect seem to be this: that if a utility of the nature of Manitoba Hydro is coming to the government asking that a rate freeze be removed, that utility, of course, would want to come to the government and say, we're running as tight a ship as we can; we've done everything we can internally to lessen expenses; now we have no alternative but to recommend to you that the rates be increased. Was that the situation when the recommendations were made to government?

MR. S. CHERNIACK: Mr. Chairman, as far as I believe, there was never a connection between any plans for restructuring the management team and the rate structure. Mr. Lyon referred to a current study. I'm not sure just what he's referring to, but I'm not aware of any current study other than the Corporate Strategic Plan Study which is not really structural to that extent, which was commenced, I believe, last spring - I learned about it after it was commenced, but I believe it was last spring - it's an extensive study that has been going on; or the plans that Mr. Arnason has developed that I've already described.

HON. S. LYON: If I am wrong, and I hope I'm wrong, I had formed the impression from the announcement that was made - we haven't got our hands on it -

sometime in January of this year, which appeared in the press in any event, that Hydro was looking at a slimming down process. I had formed the impression from what Mr. Arnason, Mr. Cherniack, said here this morning that Hydro was looking at a slimming down process not only of senior management, but of the total operation, and I merely wanted to have the assurance that before the Board of Manitoba Hydro made the serious decision to renew a request that it had made last year to the government to remove the hydro rate freeze, that Hydro would, of course, be able to assure the government and the people of Manitoba that it was running as tight as ship as possible in terms of its own internal operating expenses. Can we have that assurance from the chairman and/or the president?

MR. S. CHERNIACK: Yes, from the Chairman.

MR. J. ARNASON: Mr. Chairman, the slimming down process has been going on for some time. What we're doing in terms of my thrust is to try to accelerate that process and put it under a microscope to make sure that we have the most efficient staffing operation, recognizing our workload, and that is a continuing thing. So I can give you that assurance that that is happening.

HON. S. LYON: Well, the figure that was given this morning by Mr. Arnason on Page 13 would indicate that employment as at March 31, 1983, peaked at 3,859 people, relatively unchanged from the previous year. That would not seem to indicate that there was much slimming down going on in numbers of personnel, Mr. Chairman.

MR. J. ARNASON: Those numbers include not only bi-weekly but hourly people, and the hourly group can change fairly considerably depending on the workload. For example, during the ice storm we hired on a few hundred people and they would show somewhere in the new statistics that we're producing. But despite the fact that construction is slacking off, we still have a large system to operate and the number of people in the operating group has a tendency to increase slightly as the age of the plant increases and greater maintenance is required.

HON. S. LYON: I take it that the figure Mr. Arnason gave us this morning on Page 13 of his presentation - 3,859 - I take it that figure is able to be compared with the table on Page 16 of the Annual Report, 3,850 for 1982, 3,899, etc. For comparative purposes, that's the way to look at it. It's peak employment during the year?

MR. J. ARNASON: Yes.

HON. S. LYON: I don't want to be in the position of comparing apples and oranges.

MR. J. ARNASON: Yes, that is a comparable figure.

HON. S. LYON: Assuming that there is no fundamental change in Hydro's operations during the forthcoming fiscal year, could the chairman or the president give us some indication as to what they expect that peak

number of employees to be at the end of fiscal 1983-84? What are you aiming toward?

MR. S. CHERNIACK: Mr. Chairman, I will let Mr. Arnason, of course, speak about the indirect response, but all I've spoken about so far has been top management. Numbers of people aren't that many that will be affected by the change we expect to see in about a year's time in top management. Mr. Arnason can speak more directly to the question which is the overall.

MR. J. ARNASON: Well, until our studies are completed, it's very difficult to make that kind of a prediction, but hopefully they'll be down slightly from those numbers.

HON. S. LYON: Well, the Government of Manitoba a few months ago announced that it was not going to be filling any new positions, that the process of attrition would be allowed to take place within the Civil Service. There was a freeze on firings under the agreement with the Manitoba Government Employees Association and so on. Can Hydro tell us whether or not any similar types of control over staff, personnel, have been imposed at that utility?

MR. J. ARNASON: I mentioned earlier, Mr. Chairman, that I had placed a freeze on new hirings; any new hirings would require the president's approval. Relative to the question of hourly staff, of course, that is delegated down to the lower levels. The hourly staff change from time to time and the assistant vice-presidents have the authority to add hourly staff.

The freeze that we have in effect will be for the duration of the study and I don't expect that we'll continue with a freeze indefinitely. We want to take a look at what's going to happen relative to the staff taking advantage of this early retirement plan that is available to them through the window that is open until the end of June. We'll be interested in seeing what that does relative to our staffing levels, and generally we are trying to see whether we can get by with not filling some of those positions as people take early retirements.

Our objective also would be to consolidate departments where that can be achieved. Hopefully, we can give greater responsibility and challenges to people and generally make the organization more effective. That's the thrust that is taking place at the moment, Mr. Chairman.

MR. CHAIRMAN: Mr. Lyon.
Mr. Ransom.

MR. B. RANSOM: Thank you, Mr. Chairman. I'm interested in the figures on page 16, the peak numbers of employees.

I wonder if Mr. Arnason could provide the committee with a breakdown of the general categories of employees within that group - professional employees, administrative employees, hourly, some rough grouping according to that sort of category.

MR. J. ARNASON: Yes, I believe we could supply that - possibly not today, but at a future time.

MR. B. RANSOM: Well that would be useful if that could be done, Mr. Chairman.

A couple of further questions about the staffing. Has hydro received any kind of directive from the government with respect to layoffs, for instance? We know that the government has itself renegotiated an agreement with the Manitoba Government Employees Association which contains a provision that the government will not be laying off people during the course of that collective agreement. Has there been any type of directive given to Hydro with respect to management of their employees?

MR. J. ARNASON: I am not aware of any directive in that respect. Any thrusts that we're taking are at the direction of senior management.

MR. B. RANSOM: Well, I take it then, Mr. Chairman, that should Mr. Arnason or his staff make any recommendation with respect to layoffs, either temporary or otherwise, that they would not expect to have some direction from Treasury Board or from the Minister prohibiting that course of action.

MR. J. ARNASON: I would hope that we can manage our affairs in that respect, yes.

MR. B. RANSOM: Well, I would hope so too, Mr. Chairman, but we know from the experience of Manitoba Telephone System that they were indeed constrained by actions on the part of the Minister and so I'm pleased to learn that Manitoba Hydro is not being constrained in that way.

I believe though that the government has given some directives to their Crown corporations with respect to salary negotiations and wage negotiations. I assume that applies also to Manitoba Hydro?

MR. J. ARNASON: Yes, that applies to Manitoba Hydro.

MR. B. RANSOM: In a different area, Mr. Chairman. We had some discussion of this last year and I would like to return to it again.

My questions are based on the assumptions made by Hydro where they're assuming certain interest rates and they are assuming certain cost escalation.

Can I first of all ask whether it's fair to say that escalation, what you term escalation, is an inflation rate?

MR. J. ARNASON: Mr. Chairman, it's basically our inflation in costs within the utility.

MR. B. RANSOM: One of the charts provided - in fact a number of the charts provided say rates of inflation versus forecasted rate increases, for example. Is the escalation figure provided, the figure then that's used in calculating what is called the rate of inflation on the other charts?

MR. J. ARNASON: In terms of the charts that you saw, the word inflation and escalation are synonymous.

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

Now then what I would be interested in knowing is what effect that a 1 percentage point change in interest

rates has on the projected expenses of Hydro, which are shown on one of the charts? They're not identified by a number, but there is a charge showing revenue versus expenses and expenses seem to be just inexorably going up. What does the 1 percentage point change in interest rates have upon that increase in expenses? What does a 1 percentage point change in the inflation rate or escalation rate have on expenses? Because it seems to me that this is crucial to Hydro's estimation of what they are going to require for rate increases in the future. Presently, it would hopefully appear that Hydro's estimates of inflation are substantially above what they might be.

So first of all with inflation, let's deal with that.

MR. J. ARNASON: Mr. Chairman, I'd ask Mr. McKean to respond to that question.

MR. DEPUTY CHAIRMAN, D. Scott: Mr. McKean.

MR. A. McKEAN: Mr. Chairman, what I can answer here is, from a sensitivity point of view we do a forecast based upon a plus or minus 2 percent of both inflation and interest. I can give you those figures.

For example, our base case, which is based on the inflation and interest rates as quoted, I said earlier that if the rate freeze had continued to the 1st of April 1985, it would have required an increase, to break even that year, of 27.8 percent.

Now our sensitivity study shows that if both the interest and inflation had been 2 percent higher, that would be 32.4 percent increase instead of 27.8 percent increase. If it had been 2 percent lower for both interest and escalation, it would be 24.1 percent. So from a sensitivity point of view, the 2 percent plus or minus would make that much difference.

MR. CHAIRMAN, A. Anstett: Mr. Ransom.

MR. B. RANSOM: Just let me get that straight. That was 2 percent on just inflation or on both?

MR. A. McKEAN: Both. That is 2 percent, both the interest and the inflation being 2 percent higher. In order to break even for the year ending March 31, 1985, it would have required an increase of 32.4 percent instead of 27.8 percent.

MR. B. RANSOM: It seems at the moment then, we're in 1983-84, and the inflation rate is at the moment running perhaps around 7 percent as opposed to 10 percent. Hopefully, it could be going lower than that. Has Hydro done calculations then of what it would look like if we, instead of going from 10, 9, 8, 8, 8 and 6, it was to go to, say, 7 percent and then stay three points below that all the way down the list, what sort of an impact that would have on the projection for rate increases over the next five years?

MR. A. McKEAN: The reason we did this plus or minus 2 percent was to give us that feel of what the difference would make. We felt that if interest and escalation was wrong, they probably both would be wrong relatively equally. These tests of plus or minus 2 percent were done really to give us the sensitivity so that, if the

difference was 4 percent, you can double what we said for 2 percent. Most of the difference is in the long term, not in the short term.

As I explained earlier, our expenses are very heavily dominated by our fixed charges on our existing plant and interest. The changes in interest rates don't affect any of the existing long-term debt, just new borrowings. Of course, most of our inflation costs are related to our future costs of capital construction, and we're quite at a low ebb at the present moment. So that the effect of the plus or minus 2 percent or the inflation rates have a far more dramatic effect when you start looking out five or six years, rather than in the short term of one or two years.

MR. B. RANSOM: But would it not make sense at the moment and on the basis of the economic circumstances today, that there should be a different base for projections now, or would Hydro, if they were updating their projections today, still stick with the information which we have before us?

MR. A. McKEAN: We might say, this projection we make, we do a complete reprojection in the corporation every year. We're in the process of preparing for the next projection at the present moment. A very important part of that projection is projecting what inflation and interest rates. The one that I am showing you is the one that was done last November. We're in the process of already starting for the one that will be done for next November, and it certainly would be available prior to any recommendation that would be made for any future rate increase.

MR. B. RANSOM: Can Mr. McKean give any indication at the moment of the base figures that will be used in the present calculations, or has he not proceeded that far?

MR. A. McKEAN: We are interested in inflation. No, we haven't arrived at that figure finally. We have taken a preliminary look at it. We've obviously reached a conclusion that they have lowered in the last few months, but because our objective is to do the complete projection next November, we like to put off that decision on what we're going to use in the projection as late as possible. So that at the present moment, we probably will arrive at the projection, what we'll use in our next projection, around about August or September.

MR. B. RANSOM: In that regard, I would like to make a suggestion to the Minister, Mr. Chairman. Here we are today almost into May, and we're reviewing Manitoba Hydro's report for the end of March, 1982, some 13 months after it's over and many months after the report was available. It would seem to me to be more useful and instructive to have this committee meet in October or November soon after the report is available so that we can be discussing relatively current information, rather than trying to mix the discussion of a report that is already past being a year old, as well as trying to talk about some preliminary figures which we get, of course, from Hydro people here, presented both verbally and in print form this morning,

but it's very difficult then for members of the committee to try and digest that material instantaneously and have some sort of reasonable discussion of it.

HON. W. PARASIUK: I think that's a very valid request that I will certainly give very serious consideration to. I won't commit myself to it now, but I certainly will give very serious consideration to it. I think that Hydro over the last two years has presented, I think, a great deal of information to the committee, coming to it, which I think is a good thing. It may mean that we have an extra session or two here in Public Utilities Committee, but Hydro is a very important institution in this province and I think it's important to provide that depth of information, rather than treat the committee as something to get through quickly. I will certainly take that request under serious consideration.

MR. B. RANSOM: I would thank the Minister for those comments, and I do find some of the information that's presented to be very useful, no doubt, but in order to deal with it intelligently, I guess the sooner we have it, the fresher it is and the better it will be.

I may have missed something this morning in the presentation concerning the load growth that is used in the calculations of revenue shown on some of these charts we have as well. Could Mr. Arnason or Mr. McKean just fill me in as to what load growth assumptions are included here?

MR. A. McKEAN: I'm sorry. We'll have the background for you in a moment. I'll put the chart back on that I showed you earlier. I might say, I could read them out to you, Mr. Ransom, if you want.

MR. CHAIRMAN: Please proceed, Mr. McKean.

MR. A. McKEAN: Load growth, we are showing for the future starting the year ended March, 1983, you'll notice is at plus 2 percent. We said earlier this morning that the actual figure for that year is actually shown up as minus 2 percent. From there on in, we are expecting a 5.8 percent increase in 1984; then a 4.9, a 5.1, 3.1, 4.7, 3.2, 3.3, 3.2, 2.8, 2.9. For the ten years, we are using an average of 3.7 percent.

I apologize for going too fast there, Mr. Ransom.

MR. B. RANSOM: I see we have the chart before us, Mr. Chairman. I should have caught that.

How are these figures arrived at? Does Hydro use some base that's provided by the province or by the Federal Government? Do you do your own projections in terms of the economic performance of the province?

MR. J. ARNASON: It's a combination of just about every input we can get, Mr. Chairman. We do our own market surveys; we talk to the major customers. We obtain information at both the federal and provincial level, so it's really a combination of many factors.

MR. B. RANSOM: Is there some figure in here for performance of the provincial economy, for instance? Does this figure assume a steady state? Does it assume, say, in 1982-83 that the economy is not going to be growing, but that in 1983-84, it's going to be growing by 3 percent or 5 percent?

MR. J. ARNASON: Included in there are estimates for such factors as housing starts, population growth - those factors are included.

MR. B. RANSOM: Where does Hydro get those figures from?

MR. J. ARNASON: We would get that information from Stats Canada, Statistics Canada, and provincial input as well.

MR. B. RANSOM: I'm wondering then if Mr. Arnason then would be adjusting some of these figures on the basis of Mr. Lalonde's recent projections? He says that the Canadian economy is going to grow with a real growth of 5 percent next year. Is that a higher rate than is built into these assumptions?

MR. CHAIRMAN: Would you care to comment on that Mr. Arnason?

MR. J. ARNASON: No, not particularly, but we do adjust these figures on an annual basis. We're in the process now, Mr. Chairman, of looking at these forecasts and new forecasts are brought out every year in the month of May and June. Certainly the forecast that we have now, if you had asked me a week ago, I think my gut feeling would have been that they're a little high, but conditions change. Conditions such as the Trans Canada Pipeline, what their plans might be, certainly can affect these figures substantially because that is a substantial load.

MR. B. RANSOM: All I'm trying to determine, Mr. Chairman, is just how sensitive the forecasts of the utility are to changing conditions, because what we are presented with is one set of figures and there are a great many assumptions behind those figures. They can clearly be wrong by quite a bit and it would seem to me to be more useful, certainly to members of the committee, to see some sort of range of estimation. That if you are assuming that inflation is going to run somewhere between 3 percent and 7 percent and the various combinations of growth, and even with some of the factors involved in things that contribute to growth being shown as to the impact it has. Because I'm sure that people in government, when they're planning, want to have some idea of the impact of the actions that the governments initiate. So, first of all, does Hydro have that kind of information for itself; and secondly, how difficult is it to provide that information for the committee?

MR. A. McKEAN: Mr. Chairman, we are very conscious of these variations and I think this is one of the reasons, in my presentation, I was pointing out the principle variations, which, in our opinion, is low growth, water conditions, interest and escalation rates. As far as the interest and escalation rates, we do do a sensitivity based upon plus or minus 2 percent. I think we indicate to you what the extreme large variation that can take place because of water conditions. The load forecast effect is much more important from a long-term point of view. In general, what we generate by hydraulic, we can sell, and if we don't sell it in Manitoba, we'll sell

it export. I think from a much longer-term point of view, the firm Manitoba load determines when we have to add new plant and it is a much longer-term effect than a short-term effect. But those are, by far, the biggest variables and we are very conscious of those variables, and I guess one of the purposes of my presentation this morning was to emphasize those variables to the committee.

MR. B. RANSOM: I assume Hydro must have a computer program where they simply can kick in a different figure on inflation, and it'll more or less instantly give you back a different projection then on what sort of a rate increase you'd be requiring, if everything else remains constant.

MR. A. McKEAN: I haven't found computers quite as exact, but we do do studies on these variables. That's why we do this plus or minus 2 percent, and certainly when we get into the question of what various rate increases will do, I guess I can say we've done dozens of them to see the effect of various levels of rate increases. Certainly there's an unlimited number of variables you can do. I think the important thing is to have an understanding what the effect will be when your assumption proves to be wrong, because in a lot of cases it will prove to be wrong.

MR. B. RANSOM: I'd just like to confirm a couple of figures that Mr. McKean gave earlier having to do with the cost of foreign borrowings. He gave a figure to date, a net figure of the actual increased cost of foreign borrowings, I believe he said that had been picked up by the government through the Rate Stabilization provision, and another figure of an evaluation still outstanding. Could he reconfirm those?

MR. A. McKEAN: Yes, Mr. Chairman. The accumulative loss picked up the government up to the 31st of March, 1983, is approximately \$83 million. Our calculation in what the potential loss at maturity of the present debt would be, if it all matured on the 31st of March, is \$320 million. I must emphasize a lot of that maturity is far out in time.

MR. B. RANSOM: Thank you, Mr. McKean. The chart that I find very informative is the chart that shows the total capital expenditures based on 1982-83 dollars and actual forecast dollars, which shows that the expenditure of Hydro in today's dollars, that was taking place back in '75, '76, '77, even into 1978, was coming close to averaging about \$600 million a year, being injected into the economy through Hydro construction, as compared to say the next four years, where perhaps we're looking at something in the range of between \$125 million, \$150 million of capital construction, so that there was a tremendous amount of capital, an additional \$470 million, \$450 million, \$475 million going into economic activity in the province during that period of time.

Now the government presently has established a \$200 million Jobs Fund and I'll only accept their figure for the sake of argument - I don't want to get into the details of that in this committee - but assuming it is a \$200 million Jobs Fund, it is rather a small amount

of money compared to the amount of money that was being spent by Hydro at that time. I gather that the capital spending of Hydro is being considered as part of not directly of the Jobs Fund, but certainly the capital spending of Hydro is now being talked about as contributing to jobs more than it did last year because the total capital spending of Crown corporations is going to be up in 1983-84.

I would like to ask then, first of all, if there has been discussion between the government and Manitoba Hydro in terms of the government directing the capital spending of Hydro into job creation activities as opposed to Manitoba Hydro simply proceeding with the kinds of capital expenditures that they normally would be planning in the course of their regular operations?

MR. J. ARNASON: No, I'm not aware of any discussions, Mr. Chairman, in that respect. We're proceeding on the basis of constructing to meet the load growth of the province, and that's the way we're moving at the moment, and the next generating plant will be 1992, based on our present load forecasts. Other than that, we're not advancing any projects for any reasons.

MR. B. RANSOM: So, then, none of the capital spending of Hydro in this present year is going to be spent in any other way than Manitoba Hydro would themselves recommend without regard to the initiatives that the government itself is undertaking in the area of job creation. That is my understanding then from what Mr. Arnason has told us. I assume that's a correct understanding.

HON. W. PARASIUK: I think the member remembers from his days as Minister of Finance, that Hydro does put forward a capital expenditure plan for financing by the Government of Manitoba, and that the Government of Manitoba has final approval with respect to that capital expenditure plan, because they have to go out and raise the money within the full parameters of everything. Certainly, the capital expenditures put forward by Manitoba Hydro this year, even though there is a great amount of borrowing to be done by the Department of Finance because of a lot of refinancing, was approved on the basis that a fully approved capital expenditure program would have beneficial impacts on employment; but that decision was not taken by Hydro, who looked at putting forward that set of capital expenditures which they felt were needed.

MR. B. RANSOM: I assume that capital spending by Hydro has always contributed to job creation to a greater or lesser extent, depending upon the type of activity they were undertaking, and certainly contributed to job creation to a very great extent back in the last term of the Schreyer government when there was close to 600 million of capital going in each year, but that's ongoing.

A further question to the Minister would be: Has the Minister any intention of providing direction to Hydro in terms of their capital spending to say that they should undertake some activities that would be more job intensive than others, or does the Minister intend to

simply allow Manitoba Hydro to proceed as Mr. Arnason has indicated it has to this point?

HON. W. PARASIUK: The Government of Manitoba through the Economic and Resource Investment Committee, of which I am the chairperson, have been working with government departments to do assessments of their capital expenditures to determine which of those are more labour intensive. We are starting that process with the Crown corporations. That is under way. That is being done with all of them. We are in the process of refining that information because as we get more refined information, we will be able to make better judgments as to what type of capital expenditure will have the best, the greatest, employment impact. We're at a stage right now where if one had to choose between, in a sense, capital-intensive capital expenditures and labour-intensive capital expenditures, one would probably opt for the latter, but one has to develop to a greater sensitivity of information in order to carry that out, and that is being done.

MR. J. ARNASON: In that respect, Mr. Chairman, we did supply a listing of projects as input to that study.

MR. B. RANSOM: Who is having discussions then with Manitoba Hydro right now with respect to this matter?

HON. W. PARASIUK: If I could, this is being co-ordinated by the secretary to the Economic and Resource Investment Committee and two staff people within the Department of Crown Investments.

MR. B. RANSOM: Who is that secretary, please?

HON. W. PARASIUK: The secretary's name is George Ford.

MR. B. RANSOM: At what level are these discussions taking place with Hydro?

HON. W. PARASIUK: My understanding is that they are taking place - I would have to check specifically - I think they were certainly authorized at a senior level, but I think they take place between those people who supply the financial information to Crown Investments and to Finance, as has been traditionally done. What's being requested is a refinement on those capital expenditure estimates that come forward so that the employment impact is clearly identified, and that's the process that is being undertaken.

MR. B. RANSOM: Might this then lead to directives to Manitoba Hydro from the government that they undertake activities which are more job intensive than other activities?

HON. W. PARASIUK: When one looks at the whole question of allocating scarce resources, and capital is a scarce resource, certainly that would be a factor that would be looked at and certainly communicated to Hydro for their consideration. At the same time, we want the board and the management to be making judgments as to what they think is important from their particular perspective. There is a communication and

a dialogue that takes place between government and Crown corporations as to the particular requirements of a Crown corporation in isolation and what the Crown corporation itself might consider in the context of what the government is trying to achieve in terms of overall policy.

MR. B. RANSOM: Page 5 of the Annual Report, it says and I quote, "Manitoba Hydro is a Crown corporation owned by the Province of Manitoba. It's purpose is . . ." - and here there are further quotations within the quote that I am giving you - "Its purpose is 'to provide for the continuance of a supply of power adequate for the needs of the province, and to promote economy and efficiency in the generation, distribution, supply, and use of power.'"

The answer that Mr. Arnason gave to me with respect to any direction from the government would be consistent with the purpose of Manitoba Hydro to promote economy and efficiency in the generation, distribution, supply, and use of power, that the decisions made by Manitoba Hydro would be those that Manitoba Hydro felt were consistent with their objectives. The answers that I'm getting from the Minister would seem to indicate that there might be directives given to Manitoba Hydro to undertake projects other than those which Manitoba Hydro would regard as promoting the economy and efficiency of the operation. I would like to know how those two seemingly conflicting objectives can be achieved.

HON. W. PARASIUK: I don't think I said that I would be providing directives that are contrary to what is stated on Page 5. Indeed I said that the government would in fact dialogue with the Crown corporation to give an indications, say, of the depth of the unemployment situation. There are particular areas in Northern Manitoba, for example, where the unemployment might be higher. There is a question of how one might time capital expenditures.

Those are dimensions that one might ask the Crown corporation to look at, but the decision as to what makes sense from Hydro, that is a decision that is clearly in the hands of Manitoba Hydro. They are entrusted to do that. The Board has a mandate, but that there will be communication between government policy and individual Crown corporation policy to try and get the best possible meshing of the two is indeed something that we have said that we would undertake on an ongoing basis.

MR. B. RANSOM: If Hydro then is to undertake some different activity on the basis of, as the Minister says, their dialogue with government, some different activity than they would have normally undertaken given their own set of decision-making criteria, presumably that will incur a cost to Manitoba Hydro because we must assume that Manitoba Hydro always operates to promote economy and efficiency in generation and distribution of supply and use of power. If Hydro is being asked to undertake some activity that is out of sequence from what they normally would do in following their objectives, there would be a cost involved. Are we to assume then that cost will be identified and that money in the Jobs Fund will go to Manitoba Hydro to

cover the additional cost that would be incurred by Hydro then in departing from their normal pursuit of economy and efficiency?

HON. W. PARASIUK: It's a very interesting question and it, in fact raises much broader issues that one could look at if one looked at the whole arrangement which was established by the previous administration, whereby the Government of Manitoba would undertake and could undertake a number of decisions respecting Hydro and Hydro production that could indeed, at least in the short term - and the short term could be measured over periods of 35 years - lead to a situation whereby lower cost additional power output would be dedicated to another province, which would then lead to a situation where the needs of Manitoba would have to be met by bringing on stream higher cost new power, say, the difference in cost between Conawapa and Limestone. That is something that is a very serious consideration and obviously one that the government has to look at very carefully, as I assume the previous administration was doing as well.

So, implicit in the whole arrangement whereby export sales are made by the Electrical Energy Marketing Authority which was established by the previous administration - I forget the exact date, possibly some time in 1980 - is that type of scenario. We haven't had that bridge to cross yet. Certainly we would hope that it would be possible, through good longer range planning, more sensitively developed information, to come to projects whereby it might be possible to meet employment needs and at the same time meet objectives of the corporation.

We are undertaking a number of things, for example, in consultation with the Federal Government. We are trying to get a line put through to Churchill. We are pursuing that, saying that it makes sense from the Federal Government's point of view. They, in fact, are the largest consumers of power in the Port of Churchill. We think that would help them directly. We think it would help Western Canada in a much larger way if we could, in terms of a whole systems approach, improve that whole port possibility.

That entails the whole question of the rail line. That entails the whole question of the port itself, the port facilities. Does it have adequate power? Does it have to rely on diesel-generated power or, if they had a transmission line through it, does that in a sense put Churchill into another quantum for consideration by the National Harbours Authority and by other people around the world as a bona fide port facility?

Another aspect that we have to look at is the whole question then of how that mixes in with the question of insurance. There is an insurance limitation for the port.

So I use that as an example of how people might be working with the government to do something which would have a significant employment effect, which would be a saving for Manitoba Hydro over the longer run, and would also have a very major economic development impact on Northern Manitoba, certainly on Manitoba, certainly on Saskatchewan and Alberta.

So that's the type of relationship which we hope to refine and develop further with the Crown corporation so that one can try and meet the objectives of

employment, economic development and these particular objectives that are listed here on Page 5. That's the approach that we want to take.

I use that as one example with the case of Churchill. That was on the list of projects put forward for consideration by the Federal Government. It is something that my department - I am presently negotiating with the Minister of Energy. I've had discussions with Mr. Chretien, the Minister of Energy, on this matter. I am hoping that we can facilitate a decision. One can't be precise as to when one could facilitate a federal decision in this respect, but certainly we would hope that we would get a decision by the fall.

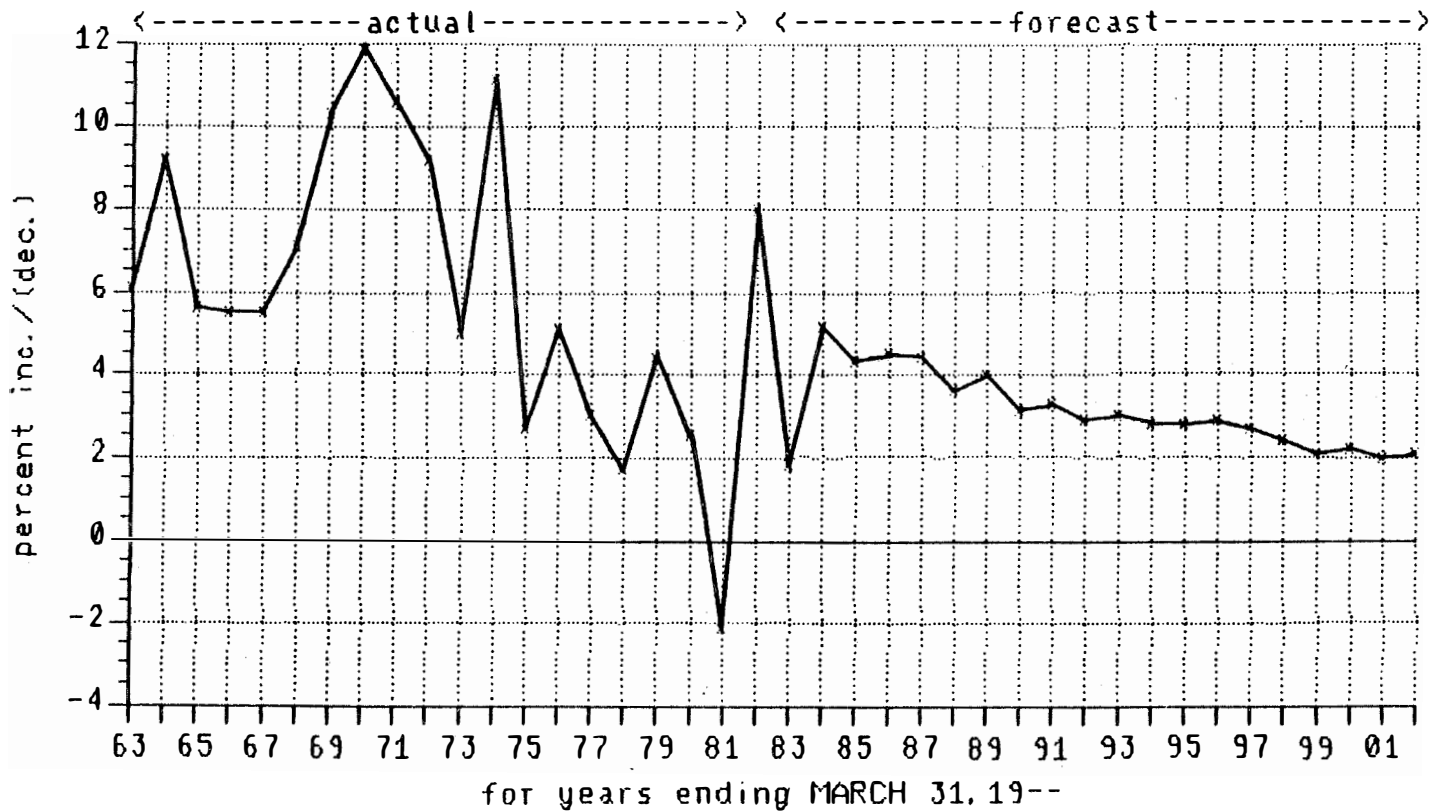
Other areas that people have looked at and people come forward sometimes to me are things relating to

ways in which, say, some of the biomass in the North could be used for the generation of electricity. Various people have come forward in that respect; it may make sense; it may not make sense. It may not be, strictly speaking, within the domain of Hydro, but is something whereby the two could be combined to link those two objectives.

MR. CHAIRMAN: Order please. The time being 12:30, there is an additional meeting scheduled to consider the Report of Manitoba Hydro next Tuesday. I take it, it's the will and pleasure of the committee not to conclude consideration now, but to return on Tuesday. (Agreed)

Committee is adjourned until 10:00 a.m., Tuesday morning.

INTEGRATED SYSTEM FIRM ENERGY DEMAND



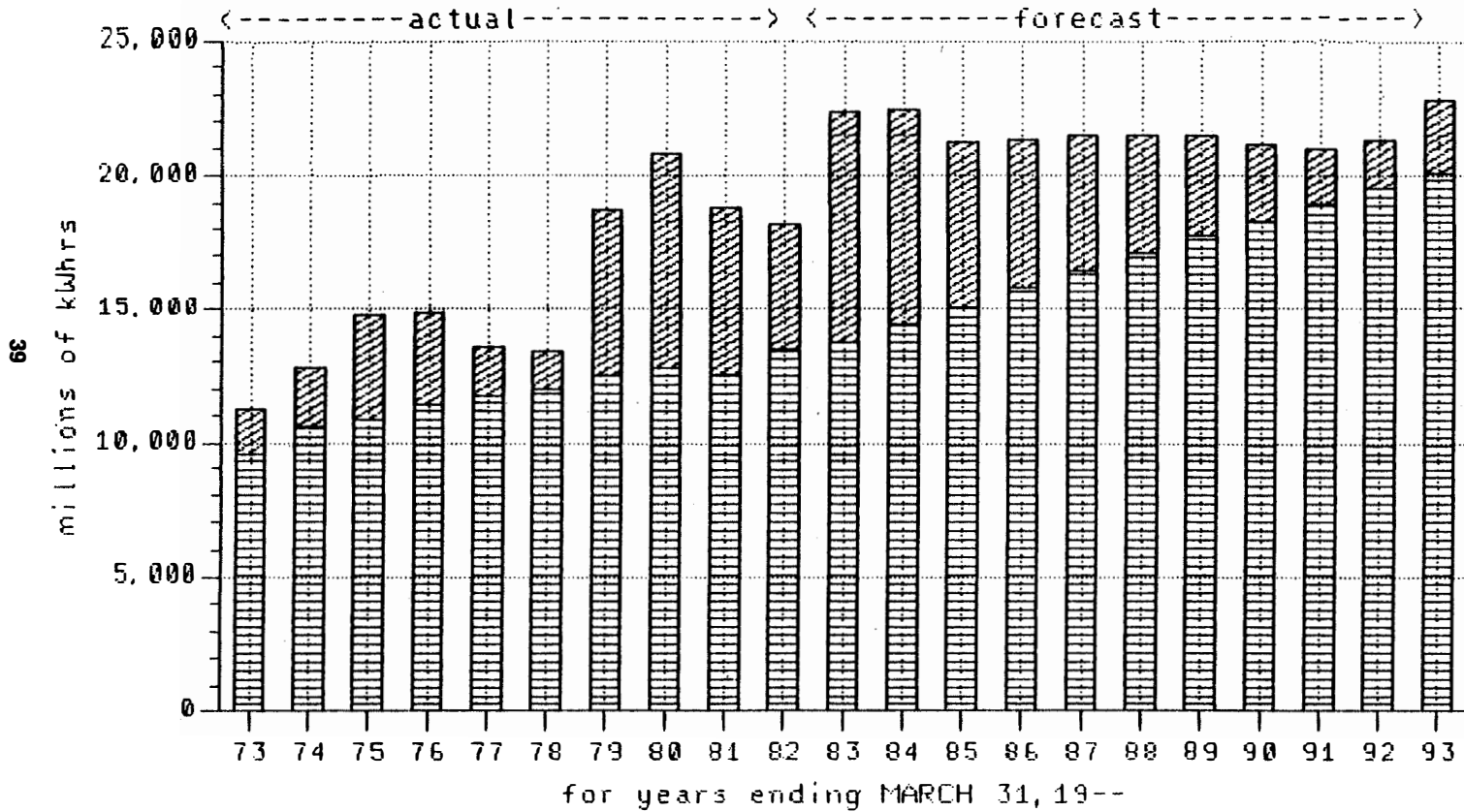
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CHART 1

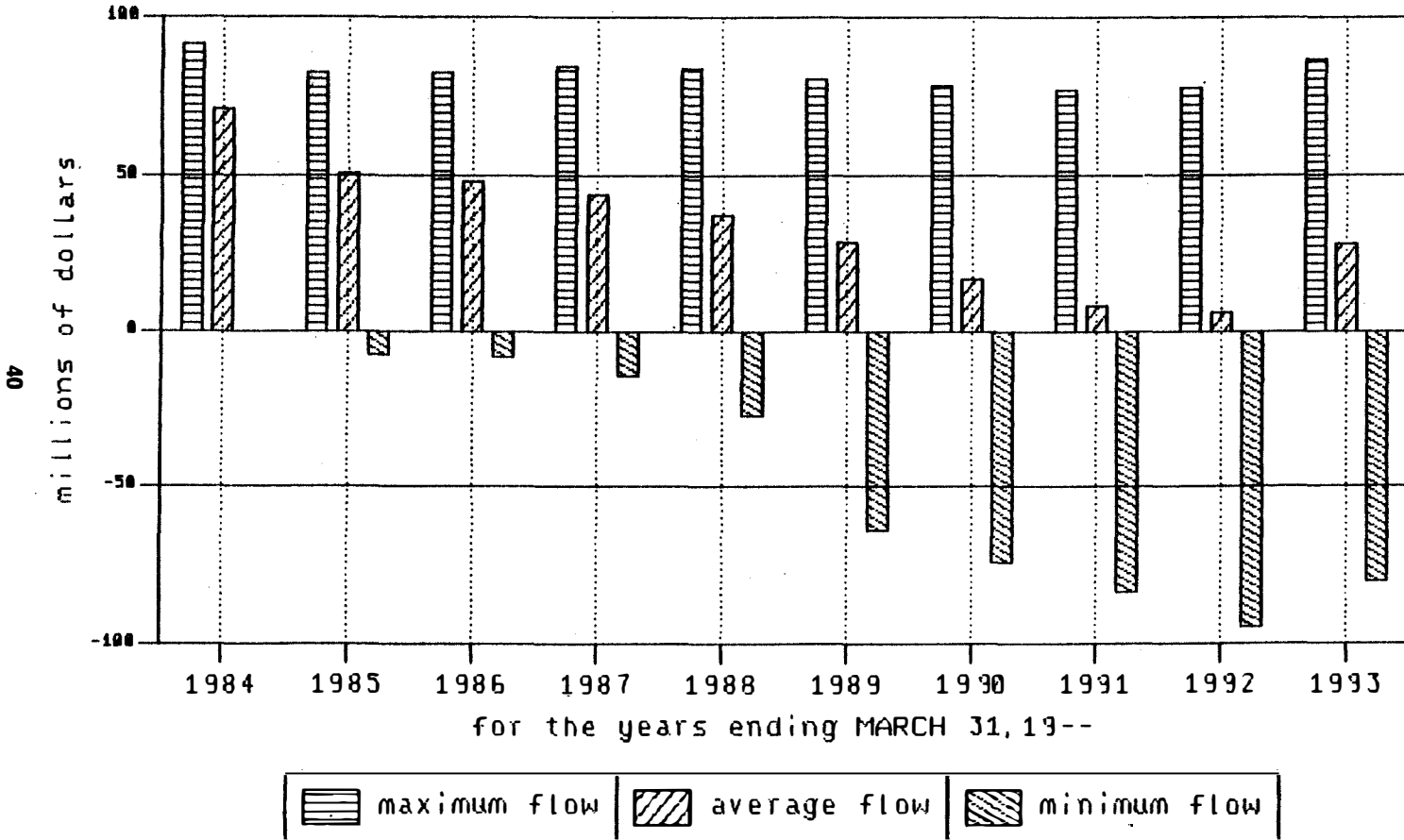
Thursday, 28 April, 1983

HYDRAULIC GENERATION-INTEGRATED SYSTEM

MANITOBA FIRM ENERGY REQUIREMENT 



POTENTIAL RANGE OF NET INTERCHANGE REVENUE

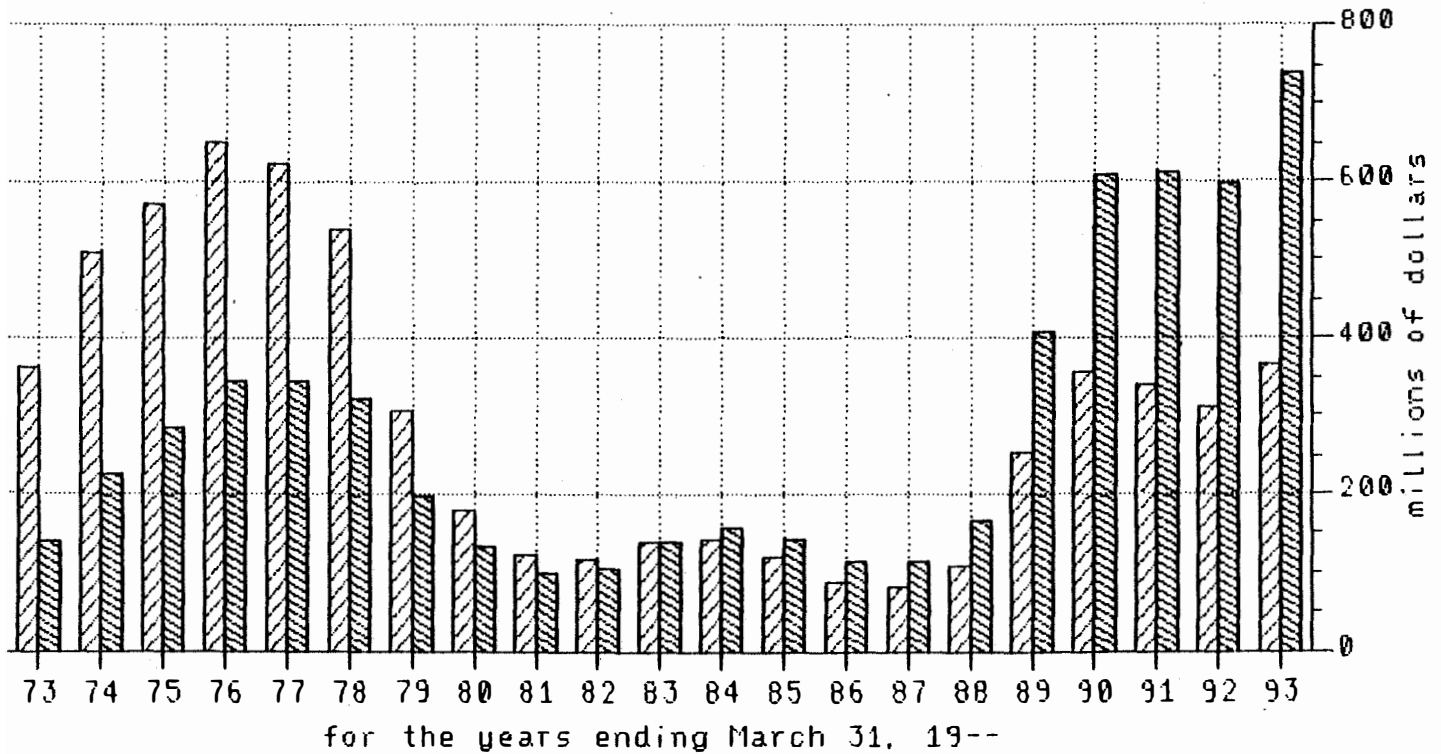


PROJECTED INTEREST AND ESCALATION RATES

	<u>INTEREST</u>	<u>ESCALATION</u>
1983/84	13%	10%
1984/85	11%	9%
1985/86	10%	8%
1986/87	10%	8%
1987/88	10%	8%
1988/89 (AND ON)	9%	6%

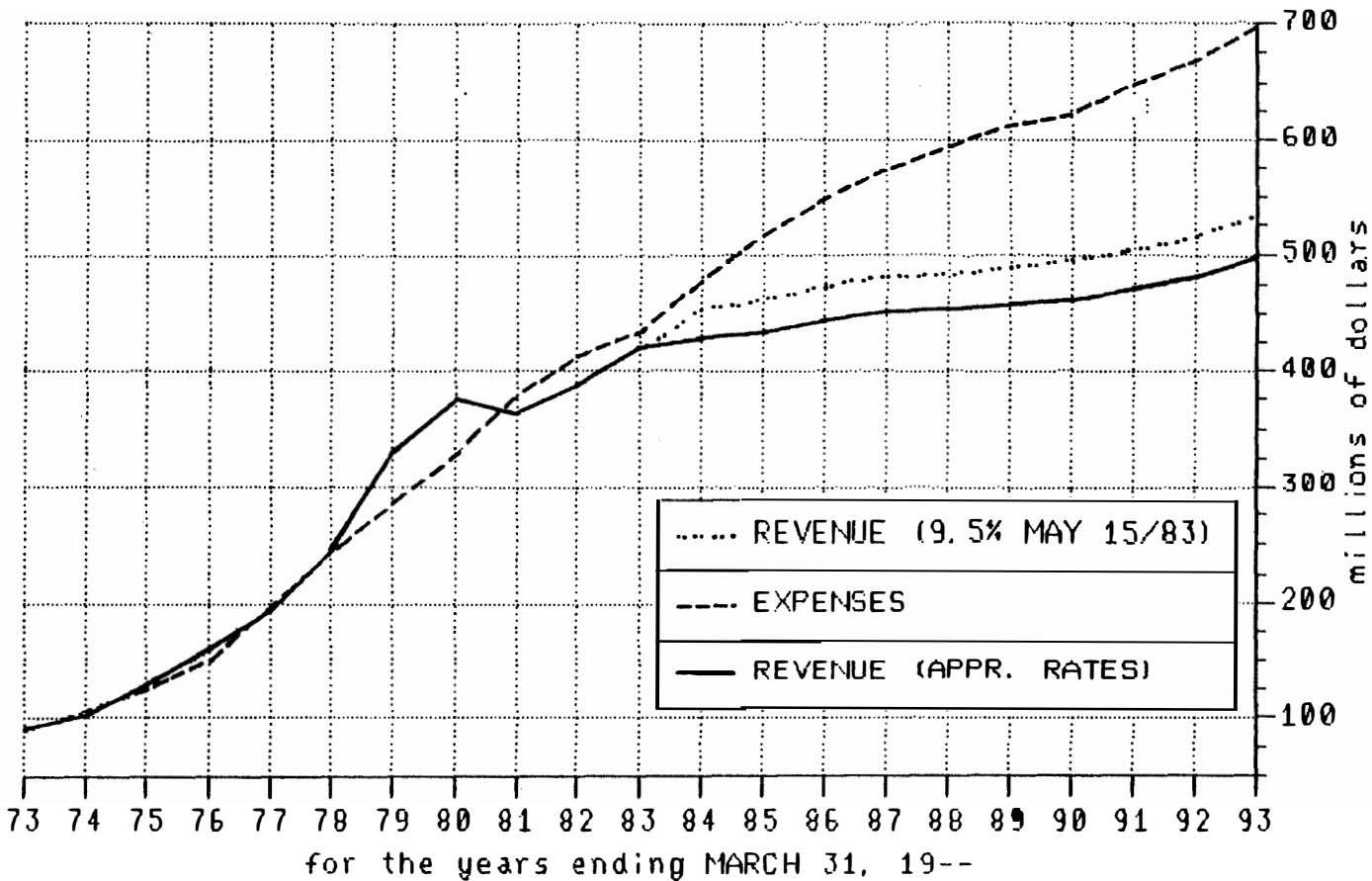
TOTAL CAPITAL EXPENDITURES

←-----actual-----> ←-----forecast----->



1982/83 dollars
 actual/forecast dollars

REVENUE vs EXPENSES

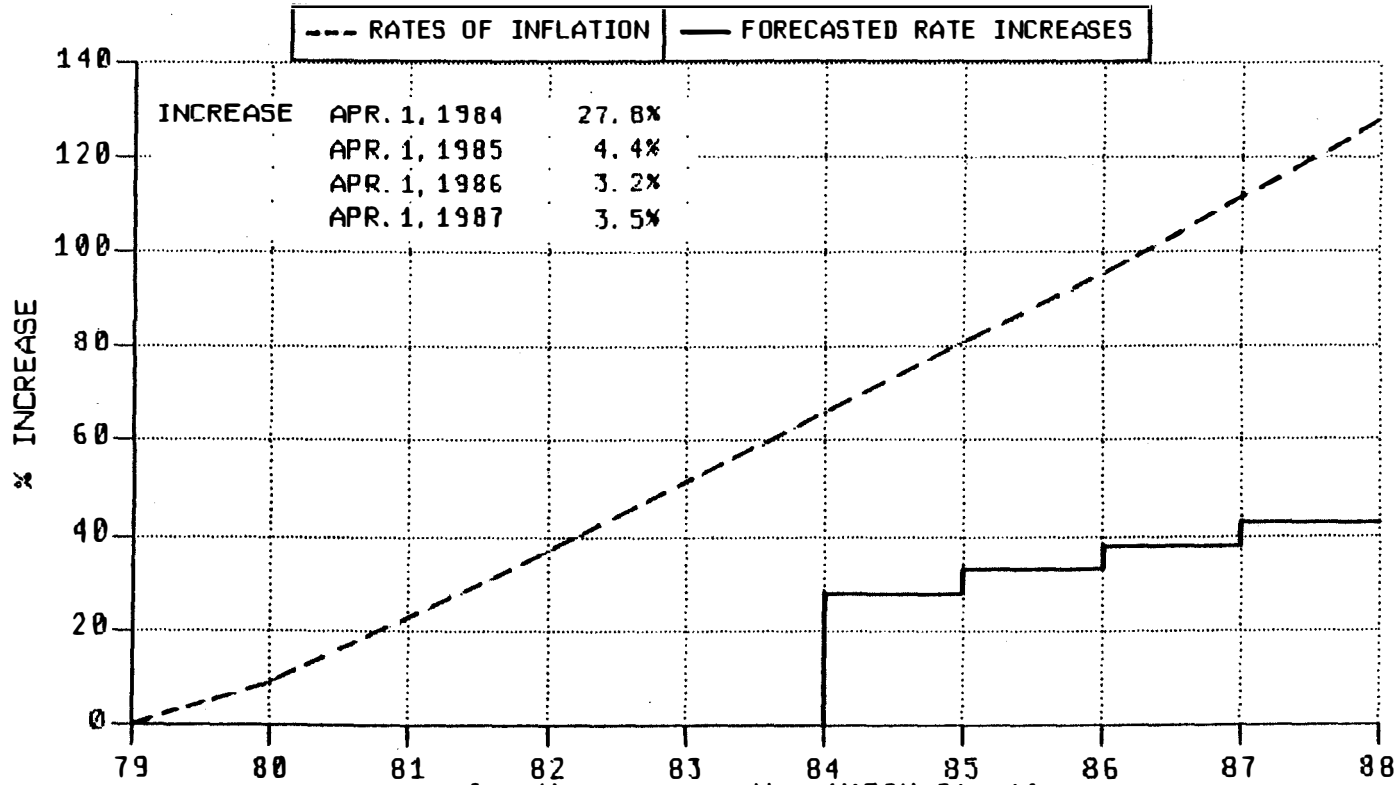


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CHART 6

Thursday, 28 April, 1983

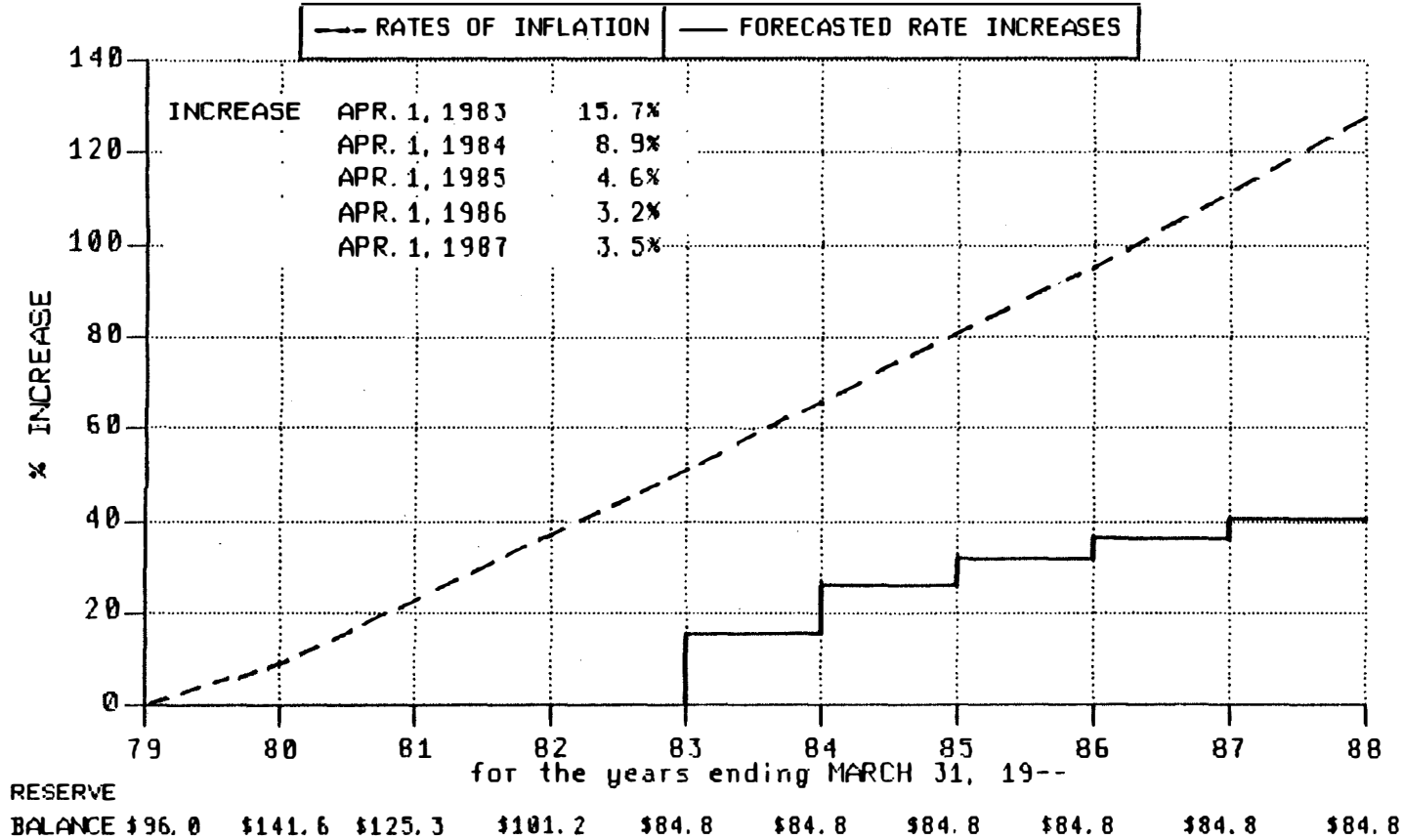
RATES OF INFLATION
 vs
 FORECASTED RATE INCREASES



INCREASE	APR. 1, 1984	27.8%
	APR. 1, 1985	4.4%
	APR. 1, 1986	3.2%
	APR. 1, 1987	3.5%

RESERVE	79	80	81	82	83	84	85	86	87	88
BALANCE	\$96.0	\$141.6	\$125.3	\$101.2	\$84.8	\$35.9	\$35.9	\$35.9	\$35.9	\$35.9

RATES OF INFLATION
vs
FORECASTED RATE INCREASES

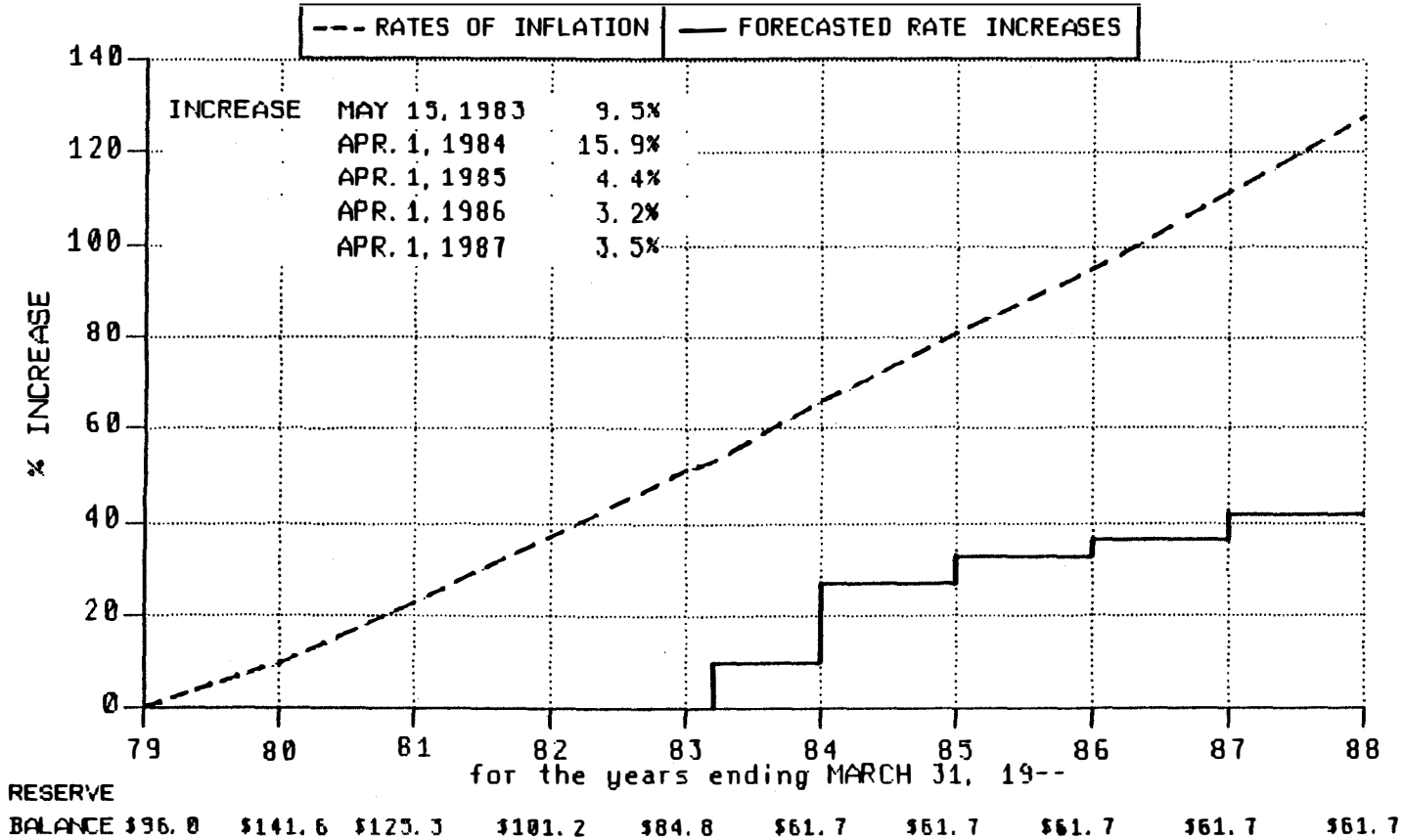


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CHART 8

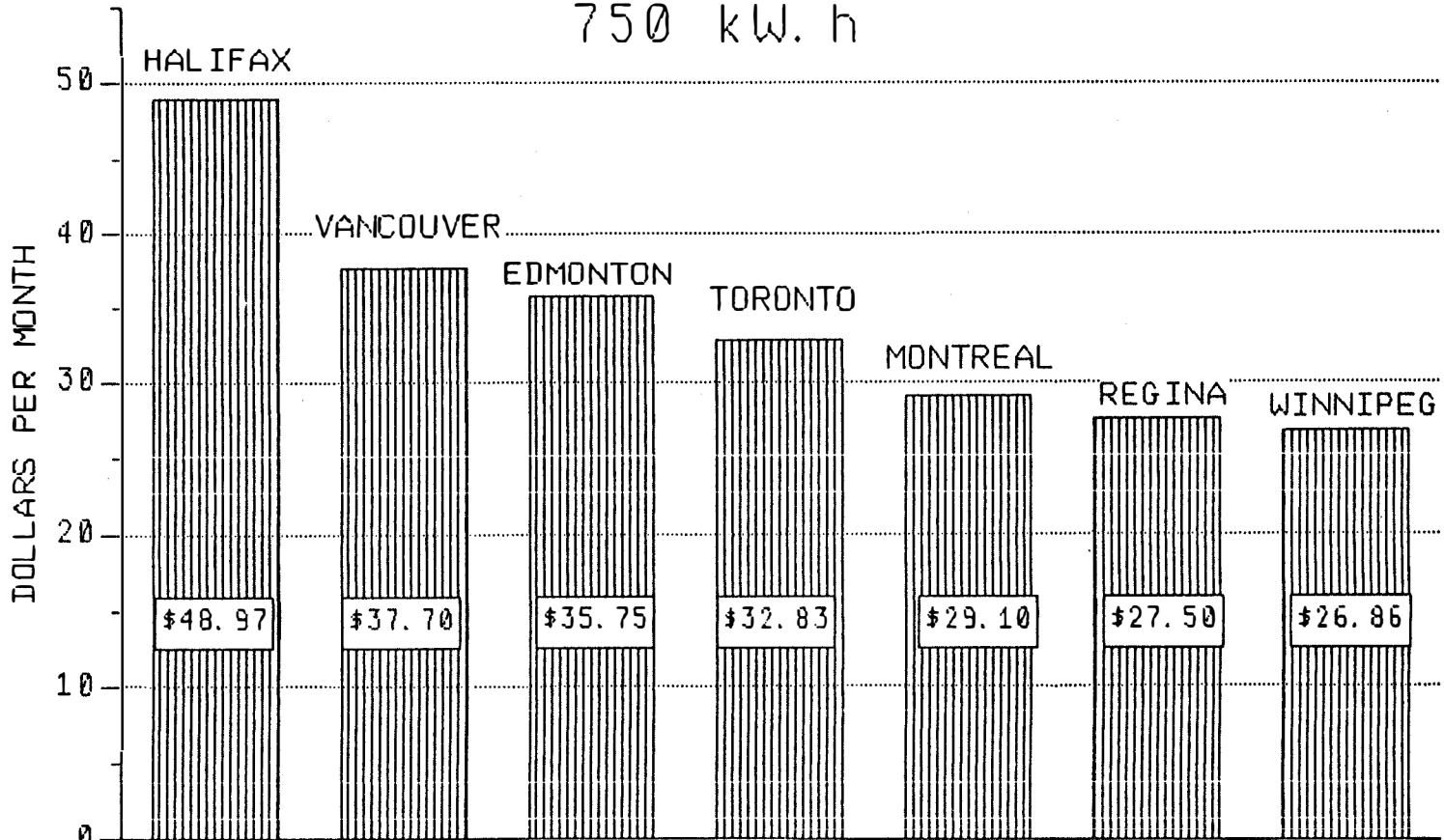
Thursday, 28 April, 1983

RATES OF INFLATION
 VS
 FORECASTED RATE INCREASES



BILL COMPARISONS
RESIDENTIAL RATES
AS OF MAY 15, 1983

750 kW. h



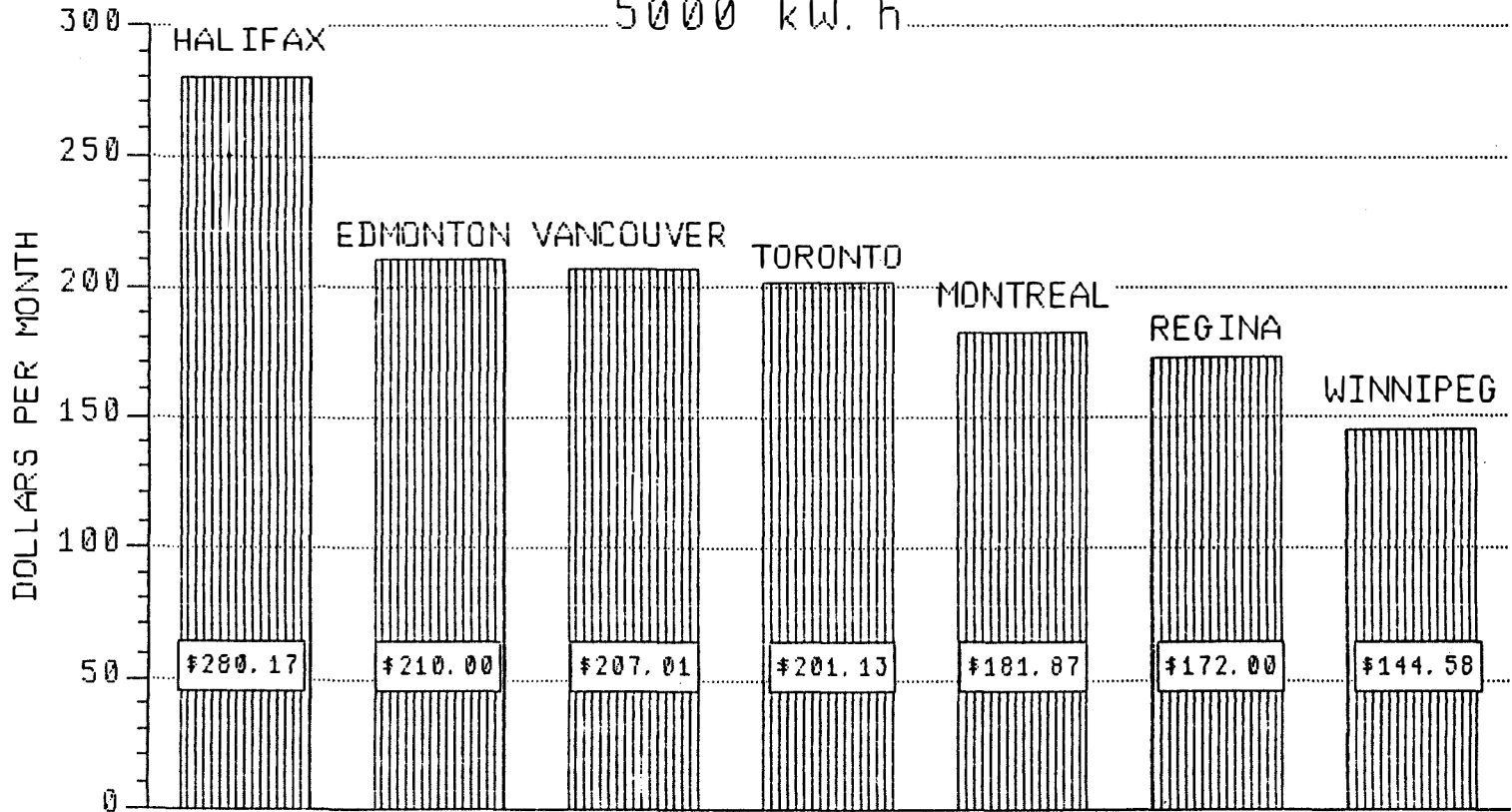
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CHART 10

Thursday, 28 April, 1983

BILL COMPARISONS
RESIDENTIAL RATES
AS OF MAY 15, 1983

5000 kw. h



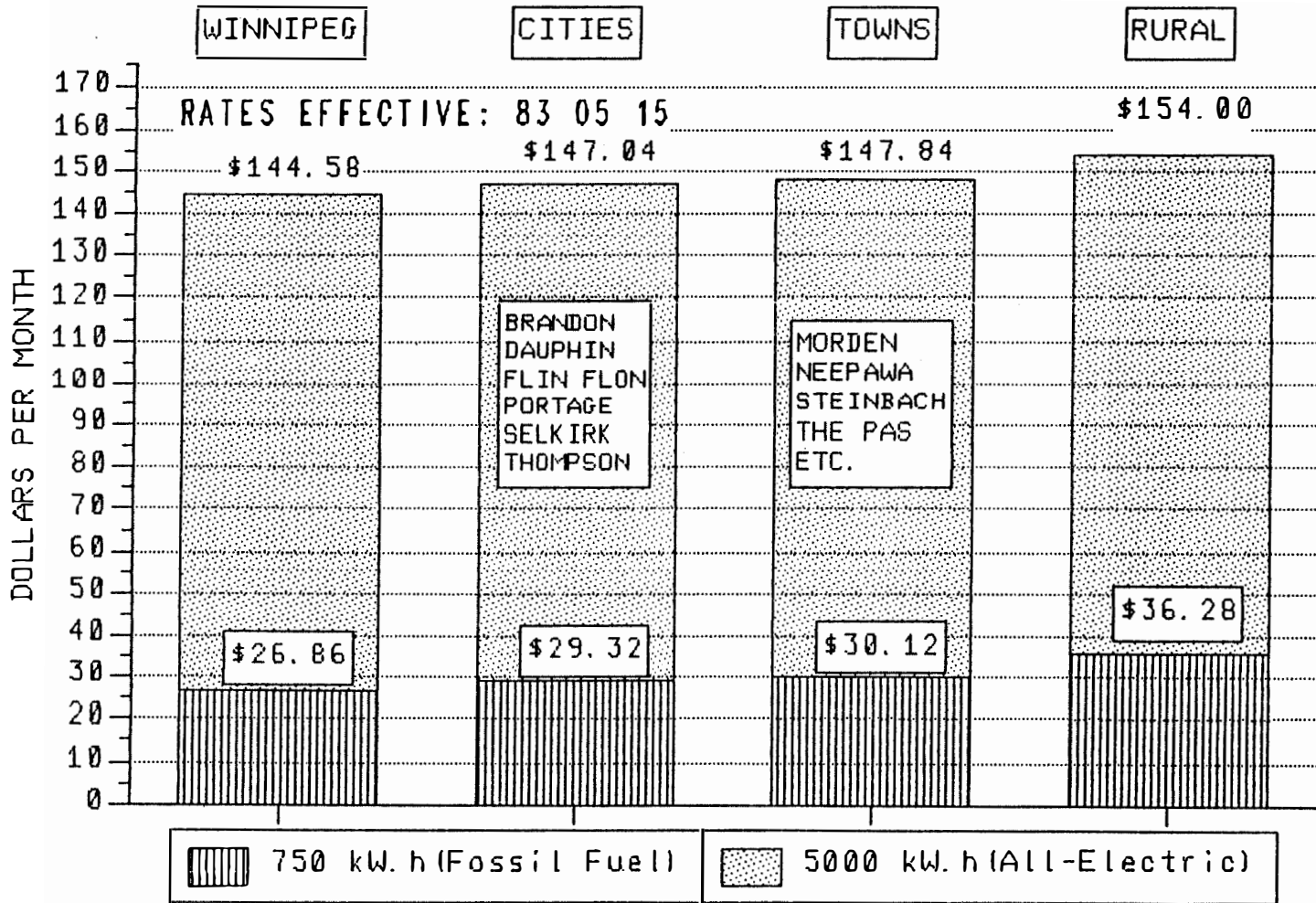
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RATES DEPARTMENT
83 04 21

CHART 11

Thursday, 28 April, 1983

MANITOBA HYDRO
RESIDENTIAL BILL COMPARISONS



RATES DEPARTMENT
83 03 28