

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES

Tuesday, 27 May, 1986

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present: Hon. Ms. Hemphill, Hon. Mr. Schroeder

Messrs. Brown, Dolin, Enns, Filmon, Maloway, Manness, Santos, Scott, Smith (Ellice)

APPEARING: Mr. Marc Eliesen, Chairperson, Board of Directors, Manitoba Hydro-Electric Board
Mr. Murray Fraser, Executive Vice-President, Corporate Services, Manitoba Hydro
Mr. Chris Goodman, Executive Manager, Corporate Planning, Manitoba Hydro

MATTERS UNDER DISCUSSION:

The Annual Report of the Manitoba Hydro-Electric Board

* * * *

MR. CHAIRMAN: The Committee will please come to order.

Before this meeting begins, I'd like to remind all members that smoking is not allowed in committee meetings. The no-smoking policy was adopted by the House on July 11, 1985 when the Report of the Standing Committee on Rules of the House was concurred in. If anybody has the insatiable urge to do some smoking, the hallway is always open.

The Minister of Health in the Federal Government was saying the other day in the newspaper that by the Year 2000 Canada will be smoke free.

MR. H. ENNS: I want to debate this thing, Mr. Chairman.

MR. CHAIRMAN: The Member for Kildonan.

MR. M. DOLIN: I want to move to suspend the rules on non-smoking.

MR. CHAIRMAN: It's out of order because it is against policy. It is against the standing policy. We didn't have agreement.

MR. M. DOLIN: We haven't had a vote.

MR. J. WALDING: Mr. Chairman, if there is unanimous consent, the . . .

MR. CHAIRMAN: There is none. The Minister is objecting, I suppose?

There is no point in making rules if we violate them. The meeting is now open for questions or comments or whatever, otherwise the report will be passed. The Member for St. Vital.

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

I didn't want to monopolize the time of the committee. If other members do have questions, I will defer to them of course, but I did have a few more questions remaining from last time and if there is no other member wishing to speak . . .

Did Mr. Eliesen have any of the answers to the questions that he took under advisement last time?

MR. CHAIRMAN: Mr. Eliesen.

MR. M. ELIESEN: No, Mr. Chairman. We were going to wait until the blues came out so we can provide the full and comprehensive answers to some of the questions we took as notice.

MR. CHAIRMAN: There is an interruption right now. The Member for Kildonan.

MR. M. DOLIN: Yes, I just wanted to do a summary of some of the questions brought up.

My understanding is that the costs contributed to the power sale to Northern States Power of basically the difference between the costs originally stated and the costs of moving it up two years to meet that contract, is that correct?

MR. CHAIRMAN: The Member for St. Vital.

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

I was just going to point out that we don't have any blues but Hansard is available for last Thursday. I've read it over and I'm not sure if Mr. Eliesen has. Maybe he would like a copy if he hasn't seen it.

MR. M. ELIESEN: This last Thursday, no. We had asked for a copy of Hansard. We have not received it. Yes, we certainly would like to get our hands on it so we can provide the written answers to any of the questions which we may not have answered during the discussion last time.

MR. J. WALDING: I believe the Clerk of the Committee is going to get some copies for members of Hydro so they can read it.

I wanted to ask about the moving forward of the Limestone date. Does it cost less to build or does it cost more to build because the starting time is advanced?

MR. M. ELIESEN: Mr. Chairman, as we've pointed out many times in the past — I believe Mr. Arnason, the

President and Chief Executive Officer of the corporation, went into this last year and the year before — the estimate for Limestone for a 1992 first power in-service date had been estimated by Manitoba Hydro at approximately \$3 billion. Now, these are as-spent dollars including interest and inflation. By advancing Limestone first power for the year 1990, the estimate was reduced to \$2.52 billion and the reduction is clearly the less in interest and escalation for those two years. That, I may say, was the estimate upon which the decision was made to go ahead.

As I mentioned in my opening remarks a few meetings ago of the committee, the board in its consideration had hoped that the estimates for Limestone could come in lower than that given the tremendous underutilized construction industry and the hope that Manitoba Hydro and the Government of Manitoba would be receptive to favourable bids. That is, in fact, what's taken place. We have received now much lower bids than what we had anticipated getting on the major contracts for goods and services with the result that our current estimate is about \$1.94 billion, a reduction from the estimated costs of about 25 percent. That, to us, represents a true success story. There are very few major projects, major construction projects which are undertaken, that can claim to have a significant reduction in overall costs after one-and-a-half years of working into the project; and I will emphasize that most of the contracts have been awarded, a number of them on fixed prices. So these are real savings to the ratepayer of Manitoba and to the people of Manitoba.

I hope that summary provides some clarification in terms of the estimates related to Limestone.

MR. J. WALDING: The answer then is yes?

MR. M. ELIESEN: I'm sorry, yes. I indicated that by advancing Limestone from 1992 to 1990 that the reduction in the estimates really related to the reduction in the interest and escalation that would have taken place during those two years.

MR. J. WALDING: The NEB Report indicates that there would be additional revenues of \$20 million if the advancement were two years over the one year. So if it's cheaper to build Limestone two years earlier than it is one year earlier, would it be even cheaper to build it three years earlier than two years earlier?

MR. M. ELIESEN: I guess the general point that could be made, Mr. Chairman, to the degree that you can build things today, as opposed to 5 years or 10 years from today, and to the degree one believes that there will always be inflation, or the degree of inflation that we've experienced in the past, or the interest rates to which we have been subjected to, then it will always be cheaper, relatively speaking, to build things today.

In actual practice, we never do because we never have sufficient capital to allocate, in the context of the future, and we have choices to make among competing demands, and so there's an economic assessment that has to be undertaken when you require things to be built.

In Manitoba Hydro's case, our load growth forecasts indicated that Manitoba would have required power

from Limestone in 1992; and because these large generating stations are not indivisible, we either have to build it in total or not at all. The fact that we are able to consummate a very successful and profitable 500 megawatt sale took a large element of the risk out of our load forecasting for the future, which meant that a large chunk of the output of Limestone would be taken up immediately for export sales.

MR. CHAIRMAN: The Honourable Minister.

HON. V. SCHROEDER: Further to Mr. Walding's question, and if I am wrong, I would certainly appreciate Hydro people telling us as well — my understanding is that the two-year advancement doesn't mean a \$20 million reduction in cost but rather a \$20 million increase in net revenue; that is, a one-year advance provides net revenue after costs associated with it of \$365 million, to Manitoba Hydro. A two-year advance means \$385 million in net revenue to Manitoba Hydro, as opposed to the 365 for one year.

MR. J. WALDING: I thank the Minister for that. The same question then still applies, whether it is cheaper to build Limestone one year earlier and cheaper still to build it two years earlier?

MR. M. ELIESEN: Mr. Chairman, as we mentioned in the past, and the evidence contained within the application to the National Energy Board, it depends on your revenue flow. What we were able to do is present, on the basis of our economic studies, information to the National Energy Board which indicated that, first of all, on a must-add basis, and that's an engineering concept which indicates that we had inadequate capacity — on a must-add basis, we required first power from Limestone in 1991.

We further showed information to the National Energy Board that it would be profitable to Manitoba Hydro to further advance it to 1990. Why? Because the revenues to be obtained from that one-year advancement were higher than the estimated costs associated with that advancement. In our particular case, and I will quote again from the National Energy Board, they agreed that the one-year advancement to 1990 would mean a profit for Manitoba Hydro, and they have verified Manitoba Hydro's estimate of the size of that profit. A quote from the report. "The board notes that for the sale sequence, from Manitoba Hydro's perspective, the excessive revenues over costs for the two-year advancement would be about \$20 million more than the one-year advancement."

So the National Energy Board independently agreed with Manitoba Hydro's assessment on the calculations of revenues and costs and estimated revenues.

MR. J. WALDING: As the Minister of Energy has pointed out, that concerns the revenues. I will ask a third time whether it is cheaper to build Limestone two years earlier, one year earlier than the actual date? It would seem logical to me that it would be but I am asking you, as the expert, is that a fact?

MR. M. ELIESEN: Mr. Chairman, I believe I answered that question right at the beginning. I said it is cheaper

to build anything today than it is five years later on or ten years later on. It all depends on inflation and interest. To a degree that there is no inflation and no interest in the future, no, it is not less expensive to build today than in the future, but to the degree that we experience inflation of 4, or 5, or 6 percent and have interest rates of anywhere from 9, 10, to 11, yes, it is more expensive.

MR. J. WALDING: The next question that I had was when was Limestone first started? I think it was the mid-Seventies, but I'm not quite sure just when.

MR. CHAIRMAN: Mr. Goodwin.

MR. C. GOODWIN: The Limestone construction was begun in 1976.

MR. J. WALDING: And suspended in '77 and cancelled in '78.

MR. C. GOODWIN: Suspended in 1978 after three years of construction.

MR. J. WALDING: At that time the estimate on the cost of construction was, as I recall, \$1.2 million. Can you confirm that?

MR. C. GOODWIN: No, I can't, Mr. Chairman.

MR. J. WALDING: Can you tell me what the estimate of its cost was at that time, approximately?

MR. M. ELIESEN: Mr. Chairman, as far as I can recall, over the last four or five years now, the estimate on Manitoba Hydro's books has remained the same of around \$3 billion. The member referred to something of a million something or other, but the \$3 billion estimate has been with Manitoba Hydro for the last four or five years.

Now, we can look back over time and provide to the member and to the committee the different estimates related to what the future had been anticipated in the context of inflation and interest, which obviously would have either brought up or brought down the total figure. But the base case without any, in other words on a discounted basis without any inflation or interest involved, has remained the same on Manitoba Hydro's books. We can check back to see whether there have been any changes over the years.

MR. J. WALDING: I can recall it being less than that, and the figure that comes to mind as of the time that it was suspended and cancelled back in '77 was \$1.2 billion. A little bit later on when it was one of the four mega projects that was being discussed, I heard a cost estimate then, I suppose from Hydro, as being \$1.5 billion, which makes sense if the price goes up with time. I assume that the price has gradually escalated with the delays in the building of hydro up to an estimated \$3 billion. Now that makes sense to me.

MR. M. ELIESEN: Mr. Chairman, we will check and provide that historical background to the member and members of the committee.

MR. J. WALDING: I assume then if Limestone had not been suspended back in '77, '78, that it would have

been completed by now. Would that be right, around '81, '82?

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

MR. CHAIRMAN: The answer is yes.

MR. J. WALDING: In which case, Hydro would have oodles of excess power which they would try to get rid of at the best possible price?

MR. M. ELIESEN: That's correct, Mr. Chairman. If I may add, Mr. Chairman, that is why the decision to go ahead with Limestone was only made after a firm power sale had been consummated, a very successful and profitable one.

I can refer to, for example, the Province of British Columbia which came up last time where, for their own load growth, they had assumed that they would require the Revelstoke Dam which has a capacity of about 1,800 megawatts. They have no requirement for that domestically, and they are trying to sell it in the U.S. market on the interruptible market. That is not the case obviously with Limestone.

MR. J. WALDING: Just to put it in perspective then, if Limestone had been built at that time, it would have produced some 1,300 megawatts, and the surplus at that time was somewhere around 1,000 approximately?

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

MR. J. WALDING: So it would have approximately doubled the amount of excess capacity that Hydro had. Would that be reasonable?

MR. M. ELIESEN: Yes, Mr. Chairman, and I assume that's the reason why the decision was made at that time, given the existing surplus for domestic considerations and the fact that there were no firm export sales to be serviced, plus the fact that there hadn't been a significant sunken investment that had already taken place with regard to Limestone. All those factors obviously were brought to bear to not go ahead at that time.

That was not the situation with regard to other hydro development facilities that were being built in the country. I made reference to Revelstoke as one of them. Other cases include James Bay in the Province of Quebec. Even though their load growth had come down significantly, they had required extensive lead times, as anyone knows, anywhere from eight to 10 years, but they had allocated sufficient investment, which was already sunken, and required to go ahead.

Another example would be really what's happening in Ontario with the Darlington Nuclear Plant, which has been deferred a number of times. But given its large size, there have been decisions made in the past, because the investments had been already made, to complete the plant as quickly as possible. That is still a decision that has to be made by the Ontario Government.

MR. J. WALDING: Mr. Chairman, I would assume that was the reason why it was discontinued too and Hydro acted in the way that it did.

Still on that hypothetical case, then that large block of energy would hopefully be sold by Hydro on an interruptible basis, and it could be reasonably expected to bring in about the same amount as the present capacity.

MR. M. ELIESEN: No, Mr. Chairman. There is a limit in the degree to which we can have successful interruptible sales. One, of course, is limited by the interconnections we have with other utilities so there is a limitation on capacity.

But No. 2, more specifically, is really our ability to flood the market and therefore to drive down our price quite significantly. Those would be significant factors which obviously would make that kind of hypothetical situation quite different than what actually took place. To the degree we have that much more surplus available for interruptible sales then we do dramatically impact that map which is the group of utilities in about a dozen states adjacent to us. We do dramatically impact that market and the pricing of that market.

So any new generating station which would be serviced solely for the interruptible market, in that hypothetical situation, obviously would have not been able to get the same kind of rights that normally would have taken place.

MR. J. WALDING: But since Limestone is now being built, that power will be made available to Hydro, which they will sell, the difference being that it's either firm power or which would otherwise be interruptible power?

MR. M. ELIESEN: There are two new factors which obviously are taking place: No. 1 is that a little more than 40 percent or around 40 percent of the total output of Limestone is committed for that 12-year period; and No. 2 is that we know we are successful in the interruptible market today and as we gradually go down between now and the year 1990, because we will require more of that power which normally is being sold in the interruptible market for domestic consideration, we know the market is there and we know we are competitive in it, so we know that we have the capacity of being very, very competitive and making those interruptible sales together with our firm power sale at the time Limestone generation comes into full operation.

MR. J. WALDING: So what we are talking about then is the difference in the cost between interruptible and firm power, for at least those 12 years that we can see. Firm power, I take it, is coming in at somewhere between 67 mills and 98 mills per kWh over the course of the contract. What then would be the best estimate on the difference in the cost between selling that power at firm, as opposed to selling it on an interruptible basis? I take it that's the basis of the whole application to the NEB and that's what it is based on.

MR. M. ELIESEN: We can get that information available. Estimates have been made in terms of peak and off-peak at the time the sale comes into play. We don't have the figures available today but certainly when the Manitoba Energy Authority comes forward before the committee, we can bring forward that information again.

MR. J. WALDING: I want to thank Mr. Eliesen for giving me that information over the couple of days. It's starting to come clearer now and I'm getting a better idea of what the situation is. I have one or two other questions that I wanted to ask about too.

Can you tell me what the effect will be on Hydro of the increase in water rental rates announced in the Budget last week?

MR. M. ELIESEN: Mr. Chairman, the Budget just came down and we haven't done our complete assessment. Clearly, each year the Board of Manitoba Hydro has to look at a number of factors in the determination of rates. Now there will be an additional onus on Manitoba Hydro to the degree of at least \$15 million, if I recall correctly, for this calendar year.

I guess the only summary comment I can make is that each year it is important for the board to review the current conditions which relate to interest and inflation, conditions which relate to water factors. Those are the important determinants vis-a-vis that annual rate.

For the information of the member of the board, we had forecasted, for example, about \$11 million profit in the last previous fiscal year. The Budget came down and water rentals reduced our net revenue or our profitable position to about \$5 or \$6 million. That was the forecast upon which we went into the last fiscal year. The water conditions and the increased demand and lower interest and escalation were such that we experienced, as the president indicated in his first report to this committee, a net revenue of approximately \$30 million.

So you can see from a forecast of \$5 million, we ended up \$30 million. So those factors are obviously quite important in determining the overall fiscal position of Manitoba Hydro.

It is important for us, though, to gradually improve our reserve position. We have no set date per se, but the reserves were allowed to be drawn down considerably by about \$63 million or \$64 million over a four-year period, and it's important for the board to be in a position of having a fund sufficient to withstand any drought conditions for two years, which is roughly about \$180 million. We are gradually on our way, attempting to reach that kind of objective and hopefully doing it in such a way as to bring in rate increases at or less than the rate of inflation which will, as far as we are knowledgeable about what is happening with other utilities, will further enhance Manitoba's competitive position and remain the lowest hydro or electricity rate structure in Canada — as well as North America, for that matter.

MR. J. WALDING: According to the press, Winnipeg Hydro has estimated its additional cost of \$4.7 million. I take it that would be direct charges that Winnipeg Hydro will pay, and that any increased water rental charges paid by Manitoba Hydro would be incorporated in the rates that it charges to Winnipeg Hydro. Is that right?

MR. CHAIRMAN: Mr. Fraser.

MR. M. FRASER: We believe that the number being quoted by Winnipeg Hydro includes that which would

be passed on through our billing to them, but we haven't fully assessed the agreement as it's fairly complex and it takes time to work through it. But we believe that's included.

MR. J. WALDING: I see, thank you.

I wanted to ask, incidently, the Budget mentioned water rates in terms of horsepower produced and I don't hear that term used by Hydro at all. How does that relate to either power or water consumption or energy or whatever it is that you use?

MR. M. FRASER: There is a numerical connection between horsepower and kilowatts, so it can be done.

MR. J. WALDING: It would be capacity or energy?

MR. M. FRASER: Yes, capacity.

MR. J. WALDING: Capacity. Thank you.

MR. CHAIRMAN: I would like to interrupt and give a chance to the Member for Rhineland who has been trying to signify.

MR. A. BROWN: I'll wait awhile with my questions, Mr. Chairman.

MR. CHAIRMAN: Okay. The Member for St. Vital.

MR. J. WALDING: I had almost finished, Mr. Chairman.

I wanted to ask about the reserves that had been mentioned a week ago, and I think it was mentioned there that the reserves were attempted to be raised to \$180 million to \$200 million. How did that come about? Is that just an arbitrary figure, is it a percentage of revenues, and is it or was it a decision of the board? How did they arrive at that figure?

MR. M. FRASER: I believe, Mr. Chairman, that Mr. Arnason, when he spoke, outlined the basis of what we refer to as minimum target reserve level, and that is that it would allow us to withstand the effects of two consecutive years of drought conditions without interrupting the pattern of projected rate increases. So the basis of it is to allow us to withstand the two years of drought conditions and, as you know, our revenue is very much tied to the availability of water.

MR. J. WALDING: Is that a new policy that Hydro has adopted?

MR. M. ELIESEN: It is a policy of Manitoba Hydro for the last three or four years to gradually increase our reserve position, which I mentioned was allowed to deteriorate significantly over quite a number of years.

The reserve position, as of the fiscal year ending March 31, 1980, was \$141.6 million, and gradually, over a five-year period, went down to about \$78 million for the fiscal year March 31, 1984.

We have now started the process of gradually increasing our reserve position. It was \$93.5 million at the end of the fiscal year '85, and now is \$124 million, approximately, for the fiscal year ending 1986.

With regard to the objective of \$180 million, that's a long-term objective. The board itself has not decided that it shall be accomplished in year X or year Y. Our main long-term orientation is to build up the reserve to withstand the possibility of two consecutive years of drought and to do it in such a manner without causing any onerous burden on the ratepayer, and we believe we will be able to do that with rate increases at or less than the rate of inflation.

MR. J. WALDING: Is there an integrated financial plan that shows the anticipated expense of revenues over the next five years?

MR. M. ELIESEN: The Board of Manitoba Hydro is presented by management with these forecasts each year, and the termination of the financial position of the corporation, so we do receive these forecasts which obviously change, given the kind of factors that I mentioned earlier, change as well.

MR. J. WALDING: Those statements have been presented to the committee, I believe, in the past. Any reason why it shouldn't be done now?

MR. M. ELIESEN: No reason, Mr. Chairman. We can present that kind of report. If it's the interests of members of the committee, we can present that kind of detailed information that normally has been presented.

MR. J. WALDING: There's one other question that I had; a minor one, I believe. It referred to the high voltage direct transmission line on Page 11 of your report. When it talks about the "long-term statistical measurement and analysis of corona-related phenomena on the Nelson River HVDC lines," what does that mean?

MR. C. GOODWIN: The corona is an electrical phenomena arising on all high voltage transmission lines or from all high voltage equipment. It represents a loss of energy.

MR. J. WALDING: Can you tell me a little bit more about it? That really doesn't mean very much to me.

MR. C. GOODWIN: Corona is a discharge from a conductor which is at a high potential or a high voltage, and electrically charged particles are leaving that conductor in a random manner, and that phenomenon is known as corona.

MR. J. WALDING: Is that the power loss into the atmosphere that any transmission line will experience?

MR. C. GOODWIN: Yes, that is a loss of energy to the atmosphere. The amount of energy lost is normally not large. However, during fog conditions, high moisture in the atmosphere, that corona will become visible as a light source and the energy loss at that time will be larger and you may have seen that phenomena during those conditions, but it's somewhat unusual.

MR. J. WALDING: How will you use statistical measurement and analysis on that phenomena?

MR. CHAIRMAN: Is the member asking how they measure the loss?

MR. J. WALDING: No. Mr. Goodwin has told me that there is a loss there. What is the long-term statistical measurement that is referred to in the report? It obviously must be important enough to put it in the annual report. How do long-term statistics come into that power loss?

MR. C. GOODWIN: Mr. Chairman, the point of the research project is to utilize the lines in Manitoba which operate at one of the higher voltages available in the world, and there is an opportunity to gather information which will be of use to us for future design of high voltage transmission lines, such as the third line from the Nelson to Winnipeg.

This has been a project which has been partially funded by Canada's National Research Council and it is a major research project. The long-term analysis is extending over several years. The information is being gathered virtually continuously and it's being assessed through a computer gathering system. It doesn't involve people so much. The computer is used to gather this information, and place it in statistical terms which will be useful to those who want to use the information.

MR. J. WALDING: Thank you for that information, Mr. Chairman. I have no further questions.

MR. CHAIRMAN: The Member for Rhineland indicated first. Does he yield to the Leader of the Opposition?

MR. A. BROWN: Right.

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Thank you, Mr. Chairman. May I just begin by saying that we have been patiently and, with great interest, following the questions of the Member for St. Vital, and I compliment him on taking us through the review of the various aspects of the decision-making on Northern States Power.

But at the time that the floor was taken away from me at last meeting, I was still pursuing a line of questioning, at which time you interrupted my line of questioning to allow the Member for Ellice to interject a couple of questions that seemed to be almost an attempt to contradict some of the things I was asking.

I just want to know from you, Mr. Chairman, what your procedure is going to be with respect to allowing people to pursue their line of questioning and to complete the thought that they have or is it a question that, at some point along the way, you will decide that a person has asked enough questions and interrupt by turning the floor over to somebody else? How are we going to proceed in this committee? It would help me a great deal to plan my own time and the process of the questions that I have to ask.

MR. CHAIRMAN: The Chair will proceed on the standard of reasonableness.

MR. G. FILMON: The standard of reasonableness. Now may I ask whose standard of reasonableness we will be using as the yardstick?

MR. CHAIRMAN: Of reasonable people who can agree reasonably.

MR. G. FILMON: Does that mean, Mr. Chairman, that I am going to have to provoke a confrontation with you at each time that I believe that you've been unreasonable in turning the floor over to someone else?

MR. CHAIRMAN: Of course, there are different notions of reasonableness, but reasonable people generally will come to a consensus.

MR. G. FILMON: Mr. Chairman, I'm wondering if we couldn't, for the benefit of everybody here, adopt the procedure that had been adopted in the past. That is that, as long as someone wanted to pursue a line of questioning, they were allowed to continue to pursue it until they were prepared to yield the floor to somebody else for questioning.

MR. CHAIRMAN: I think the more reasonable view is to allow, if you want more specificity as to what is reasonable, generally half-an-hour for a member to pursue a line of questioning and ask all the relevant, related questions. Allow an interruption every now and then, and then return to the person again if there is still a reasonable line of related questions. That will be the general pattern that we shall follow.

The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, may I ask, have you arrived at that method of operating the committee or chairing the committee on your own volition, or have you had discussions with the Speaker to attempt to arrive at this line of authority in terms of how you're going to recognize speakers?

MR. CHAIRMAN: I assume that the Chairman of any committee will have a reasonable measure of discretion in order to make the committee as effective as it could be and give equal and reasonable chance to every member of the committee to express their own opinion or ask questions.

The Leader of the Opposition.

MR. G. FILMON: Is there no account for previous practice in committees, Mr. Chairman, or is each Chairman allowed to impose his own rules and standards of reasonableness?

MR. CHAIRMAN: Of course, the Chairman is bound by the traditions and practices, but not to a certain extent that he will surrender the Chairman's discretion.

The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, may I state for the record that I believe that your exercising of discretion is unreasonable? I'll proceed with my questions.

MR. CHAIRMAN: The member is entitled to his belief. There are other people who believe otherwise.

MR. G. FILMON: Mr. Chairman, I'm certain that's the case. There is always support for any opinion, I'm sure. Mr. Chairman, I wanted to return to the questioning about the method of appointment of senior officers for

the corporation. We were told at the last meeting that Mr. Gary Beattie, formerly of the Department of Crown Investments in Saskatchewan, has been appointed the Vice-President of Finance.

Has the Manitoba Hydro ever recruited out-of-province for senior executive staff other than the President? I am aware that Mr. Cass-Beggs and Mr. Blachford previously had been recruited out-of-province.

MR. M. ELIESEN: I am informed, Mr. Chairman, that there have been times in the history of Manitoba Hydro, in fact going as far back as 1966, in which senior executives have been chosen outside of the utility.

MR. G. FILMON: Other than the President?

MR. M. ELIESEN: That is correct, Mr. Chairman.

MR. G. FILMON: Is this a practice that, under Mr. Eliesen's chairmanship, the corporation will now be pursuing, that most senior-level positions will be recruited for country-wide?

MR. M. ELIESEN: Mr. Chairman, it isn't a practice that either I instituted or the board instituted. In the specific cases where there was a gap or a position identified, the board in its judgment felt it would be desirable to have the most broad kind of competition, both internally and externally. We note that is certainly a practice that is experienced by most utilities in Canada today.

MR. G. FILMON: Mr. Chairman, with respect to the recruitment for a presidential candidate for the utility which is now under way under the Woods Gordon executive search, as I understand it, I just wanted to ask Mr. Eliesen why the board would not have first reviewed the in-house options prior to making the decision to spend 25,000 on the executive search for Woods Gordon.

MR. M. ELIESEN: Mr. Chairman, the board in its judgment felt, just like the board of Ontario Hydro and the board of B.C. Hydro, that the position of President and Chief Executive Officer should demand the most competitive kind of environment for a selection process. We believe that there are people within the corporation who have such ability but like other utilities we thought it important to get all interested candidates to have the most competitive situation that the board could look at.

As I had indicated, Mr. Chairman, at the last meeting, we have established a process for that with a board committee, with the assistance and support of Woods Gordon to help us in those deliberations.

MR. G. FILMON: In the last meeting, we had some discussion of the repeal of The Energy Rate Stabilization Act. At that time, the Chairman of Manitoba Hydro indicated that the Act was in place and had been brought in concurrent with the hydro rate freeze by the former provincial administration and that, really, the two were hand-in-glove as brought in concurrently. The Energy Rate Stabilization Act and the freeze. It was intended to allow for the utility to be compensated,

in effect, for the freeze by getting the foreign exchange money on foreign loans, the foreign exchange portion paid for by the taxpayer at large.

We then had a brief discussion of the fact that the freeze had, of course, been lifted and yet The Energy Rate Stabilization Act remained in place. The Minister indicated that the government was prepared to look at a repeal of that Act.

Would the board of Manitoba Hydro object to the repeal of The Energy Rate Stabilization Act now that the hydro rate freeze has been removed?

MR. M. ELIESEN: Mr. Chairman, the board has not had a discussion on this matter. I have no hesitation in giving my own personal view on the matter and that is, as long as there is no retroactive component related to the obligations that had been assumed particularly during the rate freeze, I personally feel that it is a matter that should be the proper responsibility of the ratepayer in the future.

I note in passing that the kind of water rate increases that have taken place over the last two years will mean, in a very short period of time, that the kind of costs that have been associated on behalf of the taxpayer for the ratepayer, will no longer take place in the foreseeable future.

So in summary my answer is, personally I have no objection to the ratepayer assuming that obligation in the future, together with the assumption, of course, that there is no retroactivity and that we assume that obligation as of today or in the future, whenever the government decides when that policy should come into play.

MR. G. FILMON: Mr. Chairman, can the Minister now indicate the amount that he was unable to estimate at the last meeting, that will be transferred from the taxpayer to Manitoba Hydro under The Energy Rate Stabilization Act for this year? For the Budget year that was announced on Thursday evening, the figure \$36 million strikes me, is that correct?

HON. V. SCHROEDER: I have heard a number in that range but I wouldn't want to . . .

MR. G. FILMON: If somebody can share the Estimates, it's right in there.

HON. V. SCHROEDER: Then why are you asking me?

MR. G. FILMON: I don't have it with me and I thought perhaps that the Minister had it at his fingertips.

MR. CHAIRMAN: Does the Member for Inkster have the answer?

MR. D. SCOTT: Yes, the number is \$36.3 million, Mr. Chairman.

MR. G. FILMON: I wonder if I could then ask the Minister if it is the intention of the government to bring in an act repealing The Energy Rate Stabilization Act this year?

HON. V. SCHROEDER: It's something that, overall, we are reviewing. But as the Chairman indicated, what we

have done with respect to water power rental certainly has to be taken into consideration when we are making these kinds of moves. The fact that we have moved in that area would, I am sure everybody would agree, have an impact on the decision in the other area.

MR. G. FILMON: Does Hydro have a ballpark estimate as to what that measure would be? Surely the government must have had some indication. What are the increased revenues that it's provided for in the Estimates?

MR. M. ELIESEN: Mr. Chairman, I'm not sure I understood the question correctly. Manitoba Hydro itself does not estimate, nor do we have the information for estimating the amounts under the ERDA, or The Energy Rate Stabilization Act, that is in the Department of Finance.

MR. G. FILMON: I beg your pardon, Mr. Chairman. I am speaking of the amount that is estimated for increased revenues as a result of the change in water power rental rates.

MR. CHAIRMAN: The Member for Inkster, do you have the answer?

MR. D. SCOTT: I'm not sure that I have the answer. The total amount allocated, or expected for this year is \$31.267 million. Last year it was \$14.8 million under Water Resources But that is not only water power rentals; that is other charges that the Department of Natural Resources collects as well, so the total . . . it will be in the budget here, I'll take a look for it.

MR. M. ELIESEN: What I understand, Mr. Chairman, is that for the calendar year, it's approximately \$15 million.

MR. G. FILMON: For a calendar year, or just the remaining months of this year?

MR. M. ELIESEN: Mr. Chairman, this is the area we are looking at. The government accounting basis is on a cash basis; Manitoba Hydro is on accrual basis and that's why we had to, since the Budget has come down, we have to more fully evaluate the difference between the cash and the accrual basis because obviously it has different impacts on Manitoba Hydro as compared to the government accounts.

But my understanding is that the impact in terms of government receiving revenues for their fiscal year, is that it will mean an additional \$15 million.

Now, for Manitoba Hydro itself, because we operate on an accrual basis, my understanding is — and I'm just trying to go back in memory last year when the water rates also went up — is that the impact was much greater on Manitoba Hydro because we are on an accrual basis. It may have an impact of \$18 million or \$19 million on our budget account as a result of the increase, which takes place effective in May.

So you also have to take into account that you are looking at seven-twelfths and the full impact on a year. That is the exercise that we are now looking at.

MR. G. FILMON: Would that figure \$18 million be net of any that would be passed along to Winnipeg Hydro?

MR. M. ELIESEN: No. Mr. Chairman, I wouldn't want to make any more remarks on specific figures in this area until we complete all our analysis.

MR. G. FILMON: Mr. Chairman, I have a question for the Minister then. Is he suggesting that the repeal of The Energy Rate Stabilization Act is somehow interconnected with the decision to increase water power rental rates?

HON. V. SCHROEDER: Clearly if we're going to add on a significant burden in that particular area, that's something that we would look at in the overall. Because if we were to do both at the same time, if we were to move fully with respect to the hydro rate stabilization, we would be putting Hydro in the position where we would be not moving along with adequate financing of Hydro, or we would be looking at increases in rates beyond what we've said we're going to do. Over the long term our intention is to keep hydro rate increases at or below inflation costs, so that's something we would look at overall. Keep in mind though that when you stop a utility for a number of years from raising rates at all, and those rate increases have really not been made up, in terms of inflation numbers — I don't recall the exact numbers of the increases — but if you had gone with increases and inflation rates over that period of time, it would be able to absorb it in a fashion that would not cause significant increases at this time. So clearly those two factors are interrelatable.

MR. G. FILMON: Mr. Chairman, I'm troubled by the suggestion by the Minister that, in effect, all of these charges: The Energy Rate Stabilization Act that transfers part of what should normally be the cost of Manitoba Hydro in terms of currency fluctuation costs onto the taxpayer, and the water power rental rates which then transfers back part of the cost of Hydro's — it takes money away, I suppose, out of the Budget and puts it onto Manitoba Hydro — that all of these are being juggled in order for the government to keep its promise on hydro rate setting. Shouldn't we strip away all of this and have Manitoba Hydro pay what is its fair share of operating costs and everything that should reasonably accrue to Manitoba Hydro should be paid by Manitoba Hydro? Shouldn't we be getting away from this opportunity for the government to, in effect, politically set the rates of Manitoba Hydro?

HON. V. SCHROEDER: Well, talk about politically setting rates — we have a member of a former government which politically set, froze rates, put the burden onto the taxpayer with respect to the rate charges, set Hydro in a position of a deficit, stripped away the reserves it had, and he's suggesting that we are politicizing the rates? That is sheer nonsense. What we're attempting to do is to get back over a period of time, reasonably, to some kind of stability, where we are back in a position where we were before the Lyon Government fiddled with the whole arrangement, and we'll do that. It'll take us a little bit of time and we will do that within, what we have said we are going to do.

MR. G. FILMON: Mr. Chairman, could the Minister then indicate to us what the net effect was over that period

of the freeze — the three-and-one-half or four years that rates were frozen — of the difference between what Hydro would have gotten from an increase annually versus what it did get from The Energy Rate Stabilization Act? Because my recollection is that there were some years that they were receiving a transfer of in the range of \$35 million to \$40 million. Is the Minister suggesting that rate increases would have been in excess of that?

HON. V. SCHROEDER: The Leader of the Opposition is suggesting that we're somehow trying to juggle things. What I'm telling him is that we're trying to put things right, the way they were before the Lyon Government started fooling around with those numbers. If you want to get into specific numbers, we'll have to take it as notice and we'll get back to you next meeting.

But clearly, if they had not politicized the whole issue in the first place, we wouldn't be in a position where we're trying to get out of it now. But what we are doing now is doing it on a basis where we can tell Hydro, specifically or roughly, what numbers they are going to be charged for the year as opposed to the other area where it really is much more of a ball-park guess and it depends on what happens with the fluctuations in values of currency and interest rates.

MR. G. FILMON: Mr. Chairman, I'm not suggesting that juggling take place. I'm suggesting that there were two concurrent parallel moves that took place when the rate freeze took effect. That was not only suggested by me; that was confirmed by the Chairman last meeting in acknowledging why The Energy Rate Stabilization Act was in place. It was to offset a loss of revenue to Manitoba Hydro for the rate freeze, and the two were done in tandem and only one part of the equation was removed; and, that is, that the freeze was taken off but The Energy Rate Stabilization Act was never repealed. Now, I'm only suggesting that if the two were done in tandem, they should be removed in tandem, and, if not, then the Minister should bring figures to indicate why there was a significant loss to Hydro over that period of time, that has to be made up of further leaving in place The Energy Rate Stabilization Act, and if he can't justify it or if he has no figures to back up his contention, then he has no argument to make.

HON. V. SCHROEDER: Well, it's not that simple to put an egg back together — you broke it. What you're saying is that four years later, with no increases in hydro rates for that four years, suddenly in the fifth year, you're supposed to take the full shot of the costs of the exchange rates without having those increases in the interim which would have had an entirely different rate of costs for hydro-electric power to the consumer and it's going to take a bit of time to get it back into place. Clearly, right now, there's a fairly significant proportion of that \$36 million, which is being estimated now as being a cost to the government of that stabilization program, a clearly significant portion of that is being paid back by way of water power rentals.

MR. G. FILMON: Mr. Chairman, is the Minister suggesting now that the water power rentals are seen as an offset to The Energy Rate Stabilization Act, and we've now introduced a third juggling on the act and

a third opportunity for political influence of the rates of Manitoba Hydro?

HON. V. SCHROEDER: We're looking at it as one part of the whole. It's always been a part of it. When the Leader of the Opposition was in office, they also raised water power rental rates. We've raised them and when they raised them, they will, just like we did, have looked at the impact on Hydro and what the impact would or could be on rates to the consumer. We're concerned about the whole package.

MR. G. FILMON: Mr. Chairman, last meeting the chairman of Manitoba Hydro alluded to the topic of project financing for Limestone. I wonder if he could indicate whether or not any final decision has been made with respect to going the route of project financing and maybe just give us an idea of the pluses and minuses of project financing versus the conventional system of financing it by the government on behalf of the system as a whole.

MR. M. ELIEN: Mr. Chairman, I can provide an overview and a summary. It may be a bit premature to get into some of the actual specifics while discussions are continuing with financial advisors but, in a summary kind of way, the Department of Finance and the Manitoba Energy Authority, following a competitive review with about 25 financial institutions who had expressed an interest in providing their services to the province on this particular area, three financial advisors were chosen and made up of Merrill Lynch, Wood Gundy and the Bank of Montreal. The Energy Authority and the Department of Finance have been working with these financial advisors over the last number of months attempting to ascertain whether or not the contract that had been negotiated with Northern States Power of 500 megawatts could be utilized, to some degree, in the financing requirements of the Limestone Generating Stations.

The preliminary report by the financial advisors indicated that yes, there were positive features associated with such financing. They commented more specifically that, given the economic robustness — that's the term that they used. I looked it up in Oxford, I couldn't find it but that's the term that some of the financial people use. Given that description of the contract, they felt there would be no difficulty in undertaking project financing, utilizing the contract for financial requirements. They pointed out that the contract with Northern States Power meant you had a contract with a utility which had a AAA rating, an even higher rating than the Government of Manitoba upon whose backs normally the financing of generating stations have been undertaken in the past, and furthermore, that NSP had a AAA rating by the rating agencies in New York, one of the very few utilities what had such a high financial performance.

We've been meeting with the financial advisors and possible lending institutions on the pros and cons really of going that particular route. There's no question that the province could continue the way it has done before and finance it through a Provincial Government guarantee, no difficulty, a very positive response from the rating agencies which I mentioned at the last meeting of this Committee.

The question is, does project financing offer alternative forms of financing which the province normally wouldn't be involved in? Does it open up a new market, for example, of capital funds? If so, what is the premium associated with going into such market? Is it X number more basis points? These are some of the considerations that are now being looked into both by Finance and the Manitoba Energy Authority with the three advisors. It's my understanding that some decision would be made in this area within the next three or four months.

MR. G. FILMON: In referring to what is the premium going into project financing, is the chairman suggesting that it would cost us more in the way of a higher interest rate to go for project financing?

MR. M. ELIESEN: Project financing by definition normally involves a higher rate than normally would be financed through a Provincial Government guarantee.

The question that would have to be addressed is that you would be tapping a market; that is, the Provincial Government would be tapping a market which normally would not be available to them. It would be a new capital market. The question is whether these additional costs associated with tapping this new market is worth it in the long run. These are some of the considerations that are now being looked into.

Clearly, if you project finance, you would transfer the entire debt of the amount of what's involved. Let's assume it's 35 or 40 percent of the financial requirements associated with the Limestone Generating Station, but you would transfer that kind of debt off the books of Manitoba, which obviously would be considered a plus, and on to the backs of lenders. Lenders would assume the risk. In other words, they wouldn't have bricks or mortar or water rights or anything of that, but they would have a contract as their collateral. To us that was a positive kind of evaluation and commentary not only by the investment bankers and the other financial institutions we've been dealing with, but also by the rating agencies on the nature of the contract that we had negotiated, that it can, if it is our desire to, it can be used very, very successfully as a method of financing.

Again, to repeat, it's a question whether removing some of the debt from the books of the province; whether some additional costs that may be associated with the financing because you would be tapping a market that Manitoba wouldn't normally have available for itself; whether these considerations are worth it to go the route of project financing. Those are some of the considerations in a broad summary way that are being looked at right now.

MR. G. FILMON: If one of the major considerations is that we'd be tapping a new market for capital, does that imply that the province is experiencing difficulty in obtaining capital under its conventional market sources?

MR. M. ELIESEN: Mr. Chairman, none whatsoever. The government and the Deputy Minister of Finance, in particular, has been told many, many times that there is no difficulty in attracting the kind of financing

necessary for Hydro construction at present or in the future. As in most of these things, there's a question of an attempt of diversification and trying to see whether you can make available for yourself capital markets that you wouldn't normally. These are some of the considerations that are being looked into.

MR. G. FILMON: Why would you willingly go to pay more money just so that you could tap a new source of funds if you have plenty of capital available to you from conventional sources?

MR. M. ELIESEN: Mr. Chairman, there's always some element of risk associated with long-term financing, as we find out today, in the context of exchange rate fluctuations. That's obviously a major consideration that you would want to look at. Again, the more predominant feature really is associated with a positive feature of removing a significant element of debt off the books of Manitoba, albeit a self-sustaining debt, but still to the degree that you can remove such debt from the provincial balance sheet because of the economic nature of a contract that has been consummated, then, clearly, you would want to evaluate that for the long run and that is currently what we are attempting to do.

MR. G. FILMON: What's the positive feature of removing some debt off the provincial balance sheet?

MR. M. ELIESEN: One assumes, in a general way, the less debt you have on the books, the better it will be to the degree that you can enter into a transaction which, because of its economic nature, is so attractive that lenders will assume any risk associated with the financing. Well, that's a positive feature that clearly you would want to investigate and that's what we are doing.

MR. G. FILMON: Presumably we'd be paying a higher rate of interest for it?

MR. M. ELIESEN: Mr. Chairman, that's still to be determined and that's part of the ongoing discussions and evaluations that we have under way now.

MR. G. FILMON: What collateral would be put up for this project financed loan? Would it just be the contract with NSP?

MR. M. ELIESEN: Yes, Mr. Chairman. As I indicated, that is the basis of the kind of financing that we are looking at. The only thing put up would be the actual contract which comes into play between 1993 to 2005.

MR. G. FILMON: In view of the fact that the contract is only for a 12-year period, how would it be financed beyond there?

MR. M. ELIESEN: Mr. Chairman, I'm not sure I follow the question. The project financing, let us assume, would mean 40 percent of Limestone requirements. So let's hypothetically refer to it as \$700 million, \$800 million Canadian, and you would utilize the NSP contract. The revenues flowing out of the NSP contracts are such that you would have more than sufficient revenues to

have that kind of financing over a 12-year period. But I'm not sure I fully understood the question.

MR. G. FILMON: If the revenues are flowing for just 12 years, the loan would be for just 12 years, wouldn't it?

MR. M. ELIESEN: That's one possibility, yes, Mr. Chairman.

MR. G. FILMON: Is it possible that they would accept as collateral a contract that stops paying any money in the year 2005, but they give you the loan until the year 2020?

MR. M. ELIESEN: No, Mr. Chairman. But there are a number of options and a number of alternatives associated with the kind of financing for that 12-year period. What we are looking at specifically is for that 12-year period and the basis upon which we can through transferring the risk to other lenders for that percentage of the Limestone Generating Station is really the nature of the exercise.

MR. G. FILMON: Isn't the utility going to have to face then going back into conventional financing at the end of the contract in 2005?

MR. M. ELIESEN: I'm not sure I fully understand the question, Mr. Chairman. Manitoba Hydro's past generating station had been financed through a provincial government guarantee. If the province were to consider project financing, let us assume it's 40 percent, so the remaining 60 percent would obviously be financed on the same basis. The reason why it is 40 percent is that it is roughly 500 megawatts of the 1280 megawatts. You could pay off over a 12-year period what normally you could pay off over, let's say — what? — 20 or 30 years even though the stations are amortized over 67 years.

MR. G. FILMON: So the entire capital cost of the 40 percent of the Limestone Generating Station would be paid off over that period of 12 years, plus the interest?

MR. M. ELIESEN: That is one option, Mr. Chairman.

MR. G. FILMON: How would that affect the proposal to have 50 percent of the revenues of the NSP sale go into a heritage fund?

MR. M. ELIESEN: In principle, Mr. Chairman, it wouldn't impact it at all.

MR. G. FILMON: The Chairman said, not at all?

MR. M. ELIESEN: That's correct, Mr. Chairman.

MR. G. FILMON: Mr. Chairman, I just wanted to pursue a line of questioning that the Member for St. Vital raised, and I believe that in response to questions from that member, the Chairman said that the system required Limestone first power in 1992, but NSP required it in 1993. Is that correct?

MR. M. ELIESEN: Mr. Chairman, what I said and what is contained in the information that we made public over the last three years is that the sale to Northern States Power starts in 1993 and we have to deliver in 1993, some 500 megawatts of power. In order to make that sale starting in 1993, it was necessary, because there was inadequate capacity which is reflected in the figures that we have produced before the National Energy Board, an advancement for first power, that is the first two units coming into operation in November and December of 1991.

MR. G. FILMON: According to the figures given to us by Manitoba Hydro at the last meeting, the time between the first power and the putting into service of Unit 4, which would mean at 130 megawatts per unit, 520 megawatts in the first four units, there is only five and a half months. Doesn't the NSP sale just move it ahead by five and a half months rather than a full year?

MR. C. GOODWIN: In order to construct a project like Limestone, we have to operate by complete construction seasons, and although the units may come in service five and a half months apart, then an advancement would require one complete season or one complete year of advancement.

MR. G. FILMON: Mr. Chairman, Mr. Eliesen also made reference in terms of the comment on advancement that the National Energy Board said that the best plan would be the two-year advancement to give an additional year of interruptible power to Manitoba Hydro. Is that correct?

MR. M. ELIESEN: That's correct, Mr. Chairman.

MR. G. FILMON: How many different development sequences did Manitoba Hydro provide the National Energy Board with in terms of — did they give them a sequence, for instance, that involved not constructing the generating station at all, but over a short period of time buying peak power requirements for a short period of time just to meet our peak demands over a couple of winter seasons? Did they give them options of that nature?

MR. M. ELIESEN: Mr. Chairman, in the three volumes of material that we submitted before the National Energy Board, we provided Manitoba's load growth forecast and sensitivity analysis related to those load forecasts in the future, whether it's on the high side or low side. We were asking for approval from the National Energy Board for an export sale, and I can quote again because it's been quoted many times before, whether or not the approval of the National Energy Board of our export sale meant approval of Manitoba Hydro's own generating sequence development.

The point that they did confirm is that it was the most profitable for Manitoba Hydro, and I will quote. It stated that although it was outside their jurisdiction to sanction an in-service date for Limestone, they could find no fault with Manitoba's advancement plans. This is quotations: "In the circumstances, the board would not accept any contention that approval of this export licence application is tantamount to approval of the

advancement of the in-service dates of the Limestone, Wuskwatim and Conawapa Stations as being Manitoba Hydro's best course. The board's assessment of the export proposal has not, however, turned up anything to suggest that the utility's expansion decisions are wrong." That is the reference from the National Energy Board.

So the National Energy Board wasn't called upon to give us any particular stamp of approval except on the export sale, and to confirm that, by our generating sequence, that sale would mean the most profitable for Manitoba Hydro and that's in fact what they did do.

MR. G. FILMON: The most profitable of the sequences presented to the board, is that correct?

MR. M. ELIESEN: Mr. Chairman, I do not know how the National Energy Board or the staff evaluated all the evidence that was submitted before the hearings. There were suggestions being made at the hearings with regard to other forms of arrangements, including some that the honourable member has mentioned in the past, imports, etc., and I would assume that the board, and the board staff, in particular, would have done their homework well enough to come out with the kinds of judgments which they did.

In our particular case, given the competitiveness of our situation, given our own reserve requirements, there was no question in our minds that we had to add additional capacity in order to make the sale. What is surprising and what is happy for us, that in making that decision, we have been very fortunate; that is, the people of Manitoba have been very fortunate so far in obtaining the benefits of a generating station which right now is running 25 percent under cost. Again, I mention this because it was one of the considerations considered by the Manitoba Hydro Board in making its recommendation to government.

MR. G. FILMON: Mr. Chairman, there's nothing that I have seen, nor that has been read by the chairman, that indicates that the National Energy Board did pursue a computerized analysis of other sequences of development other than the two that were presented to it by Manitoba Hydro. Does the chairman have any reason to believe that they did do a very extensive analysis of anything other than the two sequences that were presented to them by Manitoba Hydro?

MR. M. ELIESEN: Mr. Chairman, I would assume that the National Energy Board would do their homework quite seriously, that they would take very seriously evidence and information that has been submitted to them by a number of groups and individuals at the inquiries which made arguments in a whole variety of areas for difference kinds of generating sequence developments.

I guess that's a matter that one would have to ask specifically the National Energy Board what kind of detailed analysis they did undertake, but I would assume that evidence is being brought forward, and that there's a hearing process and people having different or alternative points of view the National Energy Board staff and the National Energy Board commissioners

would listen to and would form evaluations based upon that evidence.

MR. G. FILMON: Does the National Energy Board have a computerized capacity and the technical capacity to run through its own sequence of development and produce all of the figures . . .

HON. V. SCHROEDER: Well, if I could just respond to that; I was going to add something in after the chairman. The board, in its decision, stated that it did its own analysis. They used the terminology "to verify the reasonableness of the applicant's cost recovery and cost benefit analysis." They verified the reasonableness. The board indicated that it also conducted social cost benefit analysis and economic analysis, and so on. Now I'm quoting directly from the report, 7.3.1, heading, Cost Recovery Analysis. "In the board's cost recovery analysis, the approach taken, as in the applicant's analysis, was to determine the difference in net revenues to Manitoba Hydro between the export sale and the no-export sale cases."

Now they took this same approach but they didn't have to. They took that approach to, in their own mind, verify the reasonableness of the analysis made by the applicant, Manitoba Hydro. Any suggestion that they didn't do a thorough job of it is a reflection on the National Energy Board who were required to determine that very issue, to determine whether it was in the interests of Canada and Manitoba to make that export sale.

MR. G. FILMON: That's exactly right. It was their job to determine whether it was in the interests of Canada and Manitoba to make the export sale, not to advance the construction of Limestone or to present another sequence of development, and all of those comments that the Minister makes are with respect to the two sequences presented to it by Manitoba Hydro, not to any other sequence of development.

MR. M. ELIESEN: Mr. Chairman, to answer the original question posed by the honourable member, yes, the board does have individual capacity for computer models and the kinds of simulation developments that normally are assessed in these kinds of things.

I can simply repeat what the board itself has stated, that their assessment of the export proposal has not turned up anything to suggest that the utility's expansion decisions are wrong. I have a lot of respect for the professionalism of the National Energy Board, and of its commissioners. And, obviously, when they confirmed independently Manitoba Hydro's own analysis, we were quite pleased.

In addition, I may add, that in order for this export sale to take place, it also required approval of the Government of Canada. Presumably, the Government of Canada, in its deliberations, took the advice of the National Energy Board, plus the Federal Department of Energy, Mines and Resources, who have been actively involved in assessing what's been taking place, and made similar positive recommendations in this area.

HON. V. SCHROEDER: The National Energy Board may well not have looked at proposals other than the one

or two year advancement, but they did look at what would happen if there was zero advancement, from the perspective of the board, and I'm quoting again, "The result of the board's analysis for the sale sequence showed that Manitoba Hydro could be expected to derive net revenues of about \$385 million from the two-year advancement case."

You can say that they didn't look at what would have happened had we purchased that hydro. You can say they didn't look at what would have happened had we built a coal plant to produce that hydro and so on, and that's very true; but what they also did say is that we were going to make a profit to Manitobans of \$385 million beyond what we would have made had we not had the two-year advance.

MR. G. FILMON: Based on the two options that were given to the board to analyze by Manitoba Hydro.

HON. V. SCHROEDER: Based on basically three options, the option being no advance at all, which would have lost the taxpayers of Manitoba \$385 million, without some other proposal, which the Opposition hasn't put forward and without some other proposal that Hydro certainly hasn't come along with to say that they could make more money than \$385 million.

A second proposal was a two-year advancement which would give us \$385 million; and a third proposal was to give us a one-year advancement which would have given us \$365 million. Those were three options.

If the Leader of the Opposition has one that would have made us a larger profit, let him put it on the table.

MR. CHAIRMAN: The Member for Lakeside.

MR. H. ENNS: Mr. Chairman, I'd like to return for a moment to the unresolved question of outstanding liabilities facing Manitoba Hydro, indeed the government, as well as the Government of Canada. That is the ongoing liability set out in the Northern Flood Agreement to the Northern communities.

I think it ought to be of concern to us, Mr. Chairman. I think we're sitting on a ticking time bomb. I'm somewhat disturbed that Hydro officials are or the government is taking a rather casual attitude toward this problem.

I refer to Mr. Goodwin's statement of some time ago, initial statement to the committee, generally bringing us up to date on what has happened under the Northern Flood Agreement, indicating a number of package settlements that are under way, specific mitigating costs that have been met by Manitoba Hydro.

The one particular line of conclusion which Mr. Goodwin left with the committee was that negotiations with each of the five bands are at different stages but, in general, we consider that we are progressing at an adequate pace.

Mr. Chairman, when you put that against the kind of information we have from the Chairman of the Northern Flood Agreement, Mr. Keeper, which as late as May 20th of this month, '86 sets out in a rather lengthy letter to Dr. W.L. Everett, Environmental Services Department of Manitoba Hydro, which really, among other things, seems to indicate that far from progressing at an adequate pace, the ground rules have yet to be

arrived at under which the liability question will be settled.

There's particular references, with reference to negotiated and mediated settlement, means exactly what it says, except the mediator is not a person, but a process. The process referred to is environmental assessment and review process — EARP. It would seem to indicate to me that as far as the Northern Flood Committee is concerned, we haven't agreed, or the government or Manitoba Hydro hasn't agreed to that very fundamental question of establishing the process at which we can arrive at resolving the outstanding liabilities.

We're not unaware that attempts are being made, both by the former Minister, by Hydro at resolving these questions. I think serious attempts were made to bypass the committee, to go directly into the communities, with rather disastrous results. Hydro's proposals have been rejected by all communities visited.

We have on record the fact that Manitoba Hydro has, and that's somewhat nebulous, whether it's a \$30 million figure or a \$42 million figure or just what figure is Hydro's last offer. We have surprisingly little curiosity or challenge by Hydro officials or Manitoba Government officials, the Nielsen Report which talks about a potential liability of \$550 million or \$560 million.

It would seem to me that for a number of reasons, any private project financing of the project would want to have the liability question clearly resolved before they know what it is they are financing or what it is they are talking about.

I think the fact that we have acknowledged relatively eminent people in the form of one Jean Chretien, who is not inexperienced in dealing with these matters, speaking and working for and on behalf of the Northern Flood Agreement, should indicate to us that we can expect some very tough negotiating on that whole question.

My specific question is to the Hydro officials or indeed to the Minister, what is being done specifically to meet the request of the Northern Flood Agreement to establish the environmental process review or what they call EARP process?

MR. M. ELIESEN: Mr. Chairman, I'll ask Chris Goodwin in a minute to give some background on that, but let me make some general observations related to the member's comments.

This is one area which has been deemed to be among the highest of priorities of Manitoba Hydro. The Board of Manitoba Hydro has deemed it such. We reject any notion whatsoever that somehow we are taking a cavalier approach, in terms of trying to settle some of our ongoing obligations.

In fact, the proof is always in the pudding, they say, and I would only ask members of the committee to review what has taken place over the last three or four years, compared to what took place previously when the agreement was signed in 1977 with no action being taken by all parties. Very little action has been taken by the Government of Canada in the last eight years and that's what the Nielsen Report specifically addresses; but in the last three or four years, a heck of a lot of activity and resources have been allocated by Manitoba Hydro of trying to sit down and negotiate our commitments.

Let me deal with two specific things because they keep coming back to the \$550 million obligation which is contained within the Nielsen task force.

No. 1 — and we've rechecked this — in 10 years, sorry, '77 - in nine years since this agreement first was signed, no one but no one has seen any figures or has tried to produce any figures related to the obligations of the four parties, and there were four parties involved, the Northern Flood, the five bands themselves, Manitoba Hydro, the Government of Canada and the Government of Manitoba.

The first time we ever saw any reference to figures — and there are reasons behind that which I can go into detail why no one has tried to put an estimate on some intangible — but the first time we saw anything related to it was contained in the Nielsen Task Force Report and it states there: "Indian Affairs has indicated that the potential range of cost to all parties is the following . . . "Then they have, ". . . specific compensation program, \$160 million to \$250 million; general obligations, \$100 million to \$200 million; damages default charges, \$80 million to \$100 million; for a total obligation to all parties of \$340 million to \$550 million, \$550 million being the upper limit."

This was the first time we had ever seen any estimate. We were unaware that the Department of Indian Affairs had ever attempted to put something down. So yes, we've asked them at meetings and we followed up the suggestion made at the last meeting. We put it down in writing. We are going to get some kind of answers trying to confirm, does this really come from Indian Affairs? Because they've never mentioned it to us. No. 2, they haven't made one iota of really trying to implement their major obligations under the agreement. So we will try to find out this general reference, the estimate of \$340 million to \$550 million, of all parties.

Now with regard to Manitoba Hydro, in a very serious way — and one can simply check the record how we've been accelerating our time and our resources of trying to meet our obligations, that is Manitoba Hydro's obligations — we've spent, in terms of compensation benefits under the agreement, \$22 million already. We had a package on the table for the five bands. Why? Because they came to us and indicated they were interested in the package.

So we have been negotiating — and members will appreciate that I am not going to negotiate Northern Flood at this committee hearing itself — but to reflect the seriousness we did put on the table an estimated \$31 million and we have received positive references from the people that we are negotiating with on our approach, as well as the specific amounts.

Now that has been the approach taken by Manitoba Hydro over the last three or four years, and that is the approach we are going to continue in the future, of trying to ensure that our obligations are fully met and we try to meet the aspirations of the five bands, together with the involvement of the Province of Manitoba and the Government of Canada which, up until recently, has not been involved in trying to settle its obligations.

Now I can ask, specifically on the environmental reference that the honourable member made, if Chris Goodwin could address that point.

MR. C. GOODWIN: I think, Mr. Enns, the letter you refer to from Keeper to Dr. Everett relates to the

Limestone Environmental Study. That study is now completed. At a number of points during the conduct of the study, the Northern Flood Committee was invited to participate. They did not do so until approximately last year and they requested funding in order to hire a consultant to assist them in participating. Manitoba Hydro did pay for that consultant and we have had some comment from the Northern Flood Committee.

The essential point, I think, of the Limestone Environmental Study is to show to everybody, not just the Northern Flood Committee, and particularly to the government regulators that we have investigated the environmental impact of the project; that these will be monitored; that mitigation of effects will be put into place and that is all dealt with in that study.

I don't understand what the problem is of the Northern Flood Committee on this. They have had a chance to participate. They have given some comments, and the study is now complete.

MR. H. ENNS: Mr. Chairman, I just want to assure the members of Hydro that it is not my purpose of raising these issues or debating with the members of Hydro there, but it seems to me that we are signatories to an agreement. If the signatories to that agreement have difficulty in agreeing to even the process under which negotiations will commence or conclude, then we are in serious trouble.

I suspect that some of the trouble arises from the fact that the Premier of this province as late as a few months ago makes these kinds of statements, and I quote verbally. A question was asked with respect to environmental concerns that were related to the Limestone Project. "No, you're quite right . . ." — this is on the Peter Warren show — "As I mentioned earlier, there is only one square mile of actual flooding that would take place as a result of Limestone, and so there is no environmental concern." That's the Premier of the province speaking about environmental management with respect to the Limestone Project.

Now the Chairman of the Northern Flood Agreement says that he's not even prepared to come to the table and talk until he has an EARP process in place and he's hired a hot-shot lawyer from Quebec by the name of Jean Chretien to help him. I think Manitoba Hydro faces the distinct possibility of a court injunction that could stop all construction on the Limestone site in the next few months, or whenever.

Has Manitoba Hydro considered these possibilities and what are we doing about it?

MR. M. ELIEN: Mr. Chairman, the fact that we have been actively involved in the process that the member refers to over the last three or four years, the fact that there have been ongoing and dynamic negotiations taking place which is reflected in correspondence between ourselves and the bands, clearly reflects the developments and the positive nature of Manitoba Hydro's obligations under the Northern Flood Agreement.

We would not be receiving letters from members of the bands which state: "Our detailed review of your offer has given us a considerable appreciation of the seriousness of the proposal which is reflected in the size of the monetary compensation and the scope of

the works, programs and services outlined. In our view, the Province of Manitoba and Manitoba Hydro have made a considerable contribution to the positive atmosphere necessary for us to consider substantially and in earnest the basis of settlement of our entitlements under the Northern Flood Agreement."

We welcome the involvement of Mr. Chretien to the degree that he can hurry us along and move all parties — and when I say all parties I mean the Government of Canada more specifically — because there has been little activity from them over the last eight to nine years. If he can hurry the process, all sides will be much happier and certainly on behalf of Manitoba Hydro, we would be much happier.

We have referred this to this arrangement that was enacted as really a form of guaranteed annual income for lawyers. We want to do away with the degree to which members of the legal profession have received benefits that perhaps should not be deemed a priority. The priority is benefits towards the five bands themselves and our priority is to fulfill our obligations under the Northern Flood Agreement.

MR. H. ENNS: I question whether we are succeeding in reducing the number of the lawyers involved, I think maybe if we just upped the price of the lawyers a little bit, in the form of Mr. Chretien.

My specific question to Mr. Goodwin probably, accepting what you indicated just a few moments ago about the environmental work that Hydro and you people have done, regrettably without the full consultation of the communities involved, am I reading Mr. Keeper's comments right? Are you telling me that the study you just referred to, is that being accepted by the Northern Flood Agreement communities as being the environmental assessment and review process that they talk about in this letter of May 20, 1986?

MR. C. GOODWIN: The Limestone Environmental Study deals with the immediate area of Limestone and the communities in that immediate area are Gillam, Sundance, and the Fox Lake Band community at Bird.

Those communities have been brought into the discussions and have contributed a great deal to the ongoing progress of that environmental study. It was a lot of input from those people and it was very positive and very useful input to the study. It had a bearing on the conduct of the study and the design of the monitoring programs that are being put in place.

The Northern Flood Agreement communities did not take a significant part in that study. They stood back, hired a consultant to make some comments to us and we have noted those comments. That is the extent of their participation.

MR. H. ENNS: What does Hydro have in terms of information or what kind of systems studies have they done to analyze the effect of Limestone's operation on the entire regime, the whole system right down to Lake Winnipeg regulation? Is that not part of the problem that the Northern Flood Agreement people have in dealing with Limestone as a separate issue? The question really is Limestone. The operation of Limestone surely affects the entire system.

MR. C. GOODWIN: Mr. Enns, I think we explained to the NFC group, the five bands quite early on, that the

Limestone operation would not have any hydraulic impact above the Limestone forebay itself.

The Limestone plant is immediately below the Long Spruce and Kettle plants. There is very little storage of water between those plants. The storage of water is in Lake Winnipeg and, to some extent, in the forebay of the Kettle plant.

So once the flow of water is set down the river, through the Kettle Dam, that water has to flow through the Long Spruce and Limestone dams within a matter of hours.

So the operation of Limestone does not have any back impact on the upstream reservoirs and therefore does not have any impact on the communities of the five bands in the Northern Flood Agreement.

MR. H. ENNS: You are saying that means that putting into service a major station like Limestone does not in any way affect the regime of the system? I don't argue with your physical description of the area and I can appreciate, having witnessed the physical conditions of the river and I can imagine the water flowing through, once getting through Kettle, Long Spruce and Limestone, but it seems to me that management decisions affecting the whole system, backing all the way back to Lake Winnipeg, must be affected to some degree, by the knowledge that you are now wishing to keep a certain regime of water flowing through the three plants on the Nelson — Kettle, Long Spruce, and Limestone.

MR. C. GOODWIN: The technical people who will plan our system operation have indicated that what I've said is correct. The Limestone plant will just operate in tandem with Kettle and Long Spruce.

When we discussed this with advisers to the Northern Flood Committee, it was my understanding that they understood and accepted that.

MR. H. ENNS: Mr. Chairman, coming back to the original question about the state of the negotiations, allow me to simply satisfy myself that my information is essentially correct. It refers to Hydro's efforts, indeed that of the government — and I compliment Hydro and the government, the fact that I do believe it's certainly in their interests, the Manitoba Government's, to resolve these issues. Perhaps there has been more concern about them than some of the other signators, namely the Government of Canada, with the new agreement.

It seems with little or no success, from a person who was present at some of these meetings, it was my understanding that the last offer of some \$30 million, \$31 million, was given to the Northern Flood Committee on a kind of a take-it-or-leave-it basis. My information is that the then Minister, the former Minister of Energy and Mines, the Minister responsible for Hydro, in effect threatened the committee that this was the case, who then challenged the leaders of these committees that, well, we'll take it over your heads; we'll take it into the individual committees, and he was welcome to do that.

That is precisely what happened. What then flowed is that Hydro and government people did try to communicate essentially the \$31 million offer to the communities affected and were rejected in all of the communities, including the last one, the Cross Lake

Band community, which was successful in negotiating some specific arrangements, arenas and so forth, or a bridge.

But we are not really progressing on the overall resolution that forms up the major part of the liability.

MR. C. GOODWIN: Mr. Enns, the package proposal that Manitoba Hydro and Manitoba put forward to the five bands was generated in concert with advisers to the Flood Committee. It began as an offer of compensation for certain resource damage, damage to the fisheries and the trapping industry.

It was extended to a number of other areas, including recreation. It was extended, in time, from just compensation for historic damage, damage which had occurred, to a long-range proposal to compensate for future damage. This had an advantage, we felt, to the bands and their advisers believed it was an advantage, that this would provide capital sums of money which those bands could use for economic development or whatever they wished to use the money. It would give them more substantial amounts of money early in history.

The bands appeared to be somewhat concerned at the risk they might be taking in accepting compensation for future damage when they perhaps were not fully aware of what that future damage would be.

The end result has been that the complexity of the package required a long time for the bands to assess. They have formally rejected the offer but, in fact, negotiations proceed virtually on a daily basis on each element that was in that package.

The element that perhaps has made the most progress was one dealing with the ability to travel. The ability to get out to the trapline, the ability to get out for hunting and recreation purposes is somewhat impacted in those communities because water levels have been changed or are changed through the year due to Hydro's operations.

Early in the package negotiations, the flood committee representatives, I believe, proposed that a system of trails be developed whereby the resource users in the area would have options to travel by skidoo on land trails rather than on the edge of lakes. We worked over the last couple of years, I guess, to develop this proposal. It is in the package deal. It is, in effect, for all five bands. My last report was that the program was 71 percent complete. The budget that we established and placed in the package offer is substantially what is being spent on this work, so we feel we're about on budget. We feel that it will provide a very sensible alternative transportation arrangement for those members of the bands that wish to use it. That will provide an illustration, I think, to all the residents that we're serious about this and that we are making progress. That's one matter.

Other matters that are moving forward effectively at the present time are a request from the flood committee bands that more emphasis be devoted to communication. The agreement speaks to a community liaison committee being set up and that committee, which has representation from all five bands, has proposed that key communicators in each community should be paid by Hydro and the government. We are approaching the resolution of that issue through which

one person in each of four communities, and one person a part-time in the fifth community, could be paid by the other parties to the agreement to assist with the communication process.

Another area that is moving forward well is the compensation of the fishermen at Cross Lake. They fish on Cross Lake itself and on Pipestone Lake which is associated with it. We have tentatively reached settlements extending at least a year or so into the future, and compensating for past damages to those fishermen; and they have advised they want to discuss a 10-year settlement which is essentially what the package deal is all about, to try and extend the time range of these settlements so that we don't have a large and a long-term administrative expense of managing these things and, at the same time, the bands have funds which they can use for whatever purpose they wish.

We are talking this morning, or have been talking this morning, with the trappers from Pikwitonei. Some of these come from Cross Lake, some of them from Split Lake, and they reside at Pikwitonei. I am hopeful that we will be reaching an agreement with them. That agreement, when it's reached, will be filed with the arbitrator and will tick off one more of those arbitration claims.

On an interim basis, we've reached agreement with the Nelson House fishermen to provide them a matter of \$15,000 which they want to use for support of their fishing in the 1986-87 year. This is evidence that we're willing to continue working with them and that both parties wish to reach agreement, and we expect that we will reach agreement.

I could go on with the Split Lake fishing and the trapping discussions and so on that are going on, but perhaps I've taken rather long in that response. Perhaps Mr. Enns would want to have another question.

MR. H. ENNS: Mr. Chairman, I don't doubt for a moment that these things are happening as indicated in Mr. Goodwin's opening report to the committee when he was giving us a general overview of the actions on the part of Hydro in meeting its responsibilities and in attempting to resolve those resolvable issues one at a time. It doesn't seem to, however, address the overall question that I raised at this particular time with Hydro that is raised in the letter to Dr. Everett on May 20 by the chairman of the Northern Flood Agreement, Mr. Keeper.

I would ask, just to try to bring us back on that track for a moment, although I appreciate what Mr. Goodwin is putting on the record, but let me ask this specific question again. The letter refers to a specific request of Hydro, whether or not, after shutting out the central thrust of the committee's desire to establish the EARP process, and is simply asking from Hydro — and this is where I see the danger lies. I quote directly from the letter. "If you think likewise, a letter to this effect would be the nicest thing in tomorrow's mail, at least for some of us. If it is not the approach you favour, we would still be grateful to you if you would give us a clear no."

In other words, I read a potential confrontation in there. If Hydro's answer is no, or the Manitoba Government and Hydro's answer, as signatories to this

agreement, is no to this request for establishing an EARP process, then I have to ask myself what are the Northern Flood Committee's counsel going to advise them to do in response? Are they going to advise them to become more militant about their demands? Are they going to advise them to dig in their heels and stop all further negotiations with Hydro, even on some of these questions that Mr. Goodwin just read into the record that are progressing reasonably well and are within grasp or within range of being solved?

It seems to me that the committee is circling its wagons on trying to get a process developed that will, in fact, provide the framework for which these intangible matters, the whole heart of the issue, can be resolved. I don't see from what I'm getting in response from Mr. Eliesen or Mr. Goodwin an indication that you see that in the same light as the letter from Mr. Keeper of May 20, '86 indicates.

MR. M. ELIESEN: In a general way, Mr. Chairman, I can just repeat what I indicated earlier. If the process that we've established over the last three years has been very positive to both sides — and if it weren't positive then we wouldn't be settling some of the longstanding issues to the degree we have been, and there is quite a list — furthermore, we wouldn't be developing packages for their consideration if they weren't interested in package kind of settlements.

The ongoing negotiations and discussions, including the references that I've read into the record, are a reflection of the positive environment. Now that's not to say that you will not find issues in which there is disagreement either on process or on principle, and that's part of negotiations.

In the particular area that the honourable member is raising on the environmental study, as Mr. Goodwin indicated, many, many months ago we asked for their input into the process and for about a year or more, there was no response. Now, we have our own obligations in the context of the provincial environmental process which we had to assume and to continue. But notwithstanding that, even though they came at us later on, we still wanted to accommodate them, and we did, to get their input.

The technical information is there for the record in the context of any environmental impact of Limestone itself, which I believe is what the letter attempts to address. We have a run of the river system. We are not like Quebec or B.C. Hydro, of building up flooding major lands again in the context of building up huge reservoirs. We all know exactly where the new generating stations are supposed to be developed and certainly in the contexts of Limestone which had been started, as mentioned earlier, at the committee in 1976. All that public information was on the record, very specifically.

Now maybe Mr. Goodwin can add any additional notes on it.

MR. C. GOODWIN: I would only say that the Northern Flood Committee is questioning the process being followed by the government in the approval of the Limestone environmental statement. That is a process that has been in place in this province for 10 years now. I don't think Manitoba Hydro can change it. The

Flood Committee may be addressing the concerns of the government and the process may be changed. That's not Hydro's business. I don't see any threats in there that are significant and I see in most areas, as Mr. Eliesen has said, that there is very considerable progress being made toward completing our obligations under the Northern Flood Agreement.

MR. H. ENNS: What alternatives does Hydro have, what contingency plans does Hydro have if the talks do break down?

MR. M. ELIESEN: Mr. Chairman, that is a hypothetical matter which we have not addressed specifically, mainly because of the progress over the last three or four years. We are hopeful that we can continue and build upon the progress of the past. Certainly, the indications from the Northern Flood Agreement in the context of a recent letter that all parties have received from them, that is the Manitoba Hydro, the Government of Manitoba and the Government of Canada, for a new thrust in negotiations is something that we look forward to and certainly we'll be prepared to sit down at the table and start more meaningful discussions, if that is a new kind of direction that the Northern Flood Committee wants to address in the form of its new chief negotiator, Mr. Chretien. But we look forward to continuing and accelerating the process as quickly as possible.

I'll add a personal note, the addition of Mr. Chretien, certainly in my judgment, given his appreciation of the federal system and the federal bureaucracy and the relationship of the decision making process that takes place in Ottawa, will be a tremendous advantage of ensuring that the Federal Government gets much more involved, more meaningfully involved, in carrying out its obligations under the Northern Flood Agreement.

MR. H. ENNS: Mr. Chairman, I have this uneasy feeling that these kinds of matters tend to take sudden turns when least expected and that Manitoba Hydro and, indeed, the Government of Manitoba may find themselves in some difficult situations unless these questions get resolved and resolved as soon as possible.

Earlier on, Mr. Chairman, the Minister chose to put on the public record allegations and accusations that of course it was the Conservative Party's meddling in Hydro affairs that to some extent politicized some of Hydro's decisions. I just can't leave those charges on the record without some response and there is a purpose for this response, because I would like to ask a question from the Hydro officials that might get responded. I appreciate the Chairman wasn't involved at that particular time.

It's my contention, of course, and always has been my contention, Mr. Chairman, that Manitoba Hydro's initial decisions with respect to carrying out the mandate of their act, to provide hydro in the most efficient, economical manner possible for the people of Manitoba was correct and that they were the experts in so advising the government how to do it. Their initial position, upon massive evidence of millions of dollars worth of studies, rejected the concept of using Lake Winnipeg as a storage reservoir. They asked for somewhat more

optimum levels of water in the South Indian Lake basin and, in my judgment, would have avoided a great deal of the environmental damage that is now under consideration that is caused by maintaining the bigger system.

With the Lake Winnipeg regulation in place, we would not have had to buy the untendered Russian horizontal turbines that aren't really the epitome of efficiency in terms of hydro production. We likely would have distressed and caused far less damage to a number of these communities now who are threatening us or, quite legitimately, are expecting considerable compensation for our disrupting of their lives. True, there would have been greater environmental damage in the South Indian Lake basin, not to the extent that perhaps is talked about by us politicians. To that extent, perhaps Manitoba Hydro was wrong in those days of the late Sixties when environmental matters didn't have quite the profile that they should have had and asked for optimum licensing levels which called for the potential of 30 or 32 feet of flooding which my colleague opposite likes to remind me of upon occasion in the House.

When I speak of an optimum level, I'm told that an optimum level of some additional three or four feet, which the government finally opted for, would have provided the flow through the diversion that could have carried on the development of the Lower Nelson as we are now progressing without involving the communities that are affected by the Lake Winnipeg Regulation and without affecting the regimes in those areas.

That, Mr. Chairman, in my judgment, was the proper sequential development of the Northern development and Northern hydro in the North. That was what Manitoba Hydro experts of the day recommended to government and then politicians interfered. Then politicians on election campaigns said, no, we won't flood South Indian Lake. Of course, that's precisely what happened. Then once that group got elected, then somehow we had to, the government had to, materially interfere with Hydro decisions. So they said we won't flood South Indian Lake as much as the other groups. We'll just flood it so many feet.

I always like to use the example in my constituency, you know, when I talk to people, well, does it really make a great deal of difference putting six inches of muddy Assiniboine water on your hardwood floor, on your rugs, or eight inches? The environmental damage is done with the first six inches.

The tragedy is that we denied Hydro the best sequential development process that could have saved us, as Judge Tritschler pointed out, some \$500 million could have prevented the 140 percent increase in Hydro rates that Hydro had to impose in four short years, which then called upon the next incoming regime to do some meddling in Hydro affairs and to freeze Hydro affairs; because by that time Hydro had to go to the foreign markets to borrow a great deal of money offshore, to keep on this hydro dam-building binge that they were on during the Seventies, when we were building Lake Winnipeg Regulation, Jenpeg and the Churchill River Diversion all at the same time; jeopardizing Hydro's fiscal arrangements because at the same time currency fluctuations were beginning to rear their ugly heads.

And yes, the Conservative administration under Mr. Lyon as the present chairman and the Minister of Energy

and Mines indicates, yes, politically we interfered in Hydro decisions by freezing hydro rates, at the same acknowledging past sins of previous governments by taking off the backs of Hydro, giving them some guarantee in the vast fluctuating currency markets by introducing The Energy Stabilization Act, or stabilization rate.

But, Mr. Chairman, just for the record, the egg was not broken by us, as the Minister indicated. The egg was broken in 1969 by the incoming New Democratic Government of that day which on the election stump, were making Hydro decisions and we can read them back to you, and on the basis of which certain people got elected. "Elect me, and we will tell Hydro what to flood, and when to flood, and how to flood." That's when very fundamental errors were made with respect to hydro development in this province and we are still suffering from some of the costly errors of those days.

So my question generally is, would someone from hydro dare to answer? Would not the environmental, the mitigating damage, the compensation costs we are now facing, or Manitoba Hydro are now facing, be considerably less if original plans of Manitoba Hydro had been allowed to continue, which meant no touching of the Lake Winnipeg regime, no touching of the Jenpeg station in the upper Nelson River between Lake Winnipeg to the diversion site?

HON. V. SCHROEDER: When the member was referring to past sins, I was expecting that he was going to tell us that he was on the road to Damascus and maybe he'd seen the light. But my recollection of the late 1960s is somewhat different from that of the Member for Lakeside — and I can appreciate one always looks at things from different perspectives, the outs and the ins and so on — I would acknowledge that there were some political decisions made.

I recall that 1969 election campaign, not probably as vividly as the honourable member who was personally involved, but my perception of what was happening in Northern Manitoba at the time was that the Roblin Government had given away half the North to CFI and now the Weir Government was attempting to flood the other half. I think that was an exaggeration; it wasn't quite that bad, but there was an element of truth in that and we didn't particularly like the policies that were being followed by that government. Maybe the NDP did interfere in the management of Hydro, I would acknowledge that.

I would also say that in the end, we have now the lowest hydro-electric rates in North America, and there are many other jurisdictions with similar or greater amounts of hydro-electric power or availability of power. So I believe that over that period of time, given the logical measure that you should measure us by, looking at other jurisdictions, we have done very, very well. I think Hydro is to be congratulated, having had to work with all us politicians to make these kinds of decisions.

Now you've acknowledged some of the sins of the Lyon Government in terms of having interfered again — you're using that terminology so I thought it would be appropriate to use it again. — now a confession. Now maybe if we could get the Member for Lakeside to make one more confession; that is, that they were going to break another egg had they been elected this time.

They promised during the election campaign, as the Member for Inkster pointed out to me earlier, and I'd forgotten this — see how quickly one forgets promises that one never expected would have been implemented — a \$35 million cost of giving away hydro-electric power to a segment of Manitobans over a period of time.

You had already begun to make a further political decision which would have impacted very clearly on the rates consumers, "ordinary Manitobans" would have paid, and again it wasn't based on something wrong with the current structure. You were meddling with the rates; you were trying to bring them down; yet you had your Leader here this morning trying to work out a way of building up the rates. He wanted us to eliminate that subsidy, and that's what it is — the Rate Stabilization Program, it's a subsidy for right now — he wanted that eliminated so that rates would go up and then he could attack the NDP Government, so very clearly there are some politics being played even today. I want to give the member the last word.

MR. CHAIRMAN: The Member for Lakeside may have the last word. There might be other questions though, before we go into this political debate of a factual nature. The Member for Inkster.

MR. D. SCOTT: Yes, I had a couple of questions but I suspect the members opposite don't want to carry on and bring hydro people back another time, so I'd like to get a couple of questions going back to some of the points that were raised earlier in regard to hydro rate stabilization.

In past years I've been collecting and trying to keep a running scenario of how much the hydro rate stabilization has cost the general rate on the taxpayer. I think I'm correct in that 1979-80 was the first year, it was \$36.6 million; 1980-81 was a further \$10.8 million; 1981-82 was \$29.1 million; 1982-83 only \$6.5 million; 1983-84, \$21.9 million; 1984-85, \$17.5 million; 1985-86, the forecast was \$19.2 million; and 1986-87, as provided in the Estimates, is \$36.3 million.

I add that up to equal approximately \$177.9 million so far of a direct subsidy to the corporation, following a policy that was made by the previous government to freeze hydro rates and to transfer effectively the cost of power generation and the capital cost associated with that power generation, from the corporation through to the taxpayer.

In the report here this made mention — and the Chairman had made mention earlier in regard to — if it was to be done away with, it would not be done away with retroactively. I note in Note 1(b) on Page F10 of this year's financial statement, it refers to the total amount of money covered by the hydro rate stabilization or money affected at least by it, as being \$428 million.

I'm wondering if you could give a clearer definition than is provided here to me, as to the linkages between the stabilization fund and the amount of money I believe — at least it's covered under it here — or am I correct in my assumption?

MR. M. FRASER: Mr. Chairman, actually there isn't a very close linkage. The \$428 million figure I believe is what the debt would be if it were restated as of the date of this book, which is March 31, 1985.

Now what The Energy Rate Stabilization Act pays is based on the maturities that fall due within one year. So that 428 will come due any time in the next 20 years or however they're spread out over that period of time. The payments from ERSA are dictated by what happens in the particular year under study. You can see that two years are reported. They have 17.5 million in the year under review here, and 21.9 million in the previous year. So they don't follow any particular trend. It is dictated entirely by what matures in that year. The 428 is not scheduled in any particular way. It is just the sum of everything outstanding.

MR. D. SCOTT: That means essentially that if the Hydro Rate Stabilization was discontinued, it would mean that in future years there would be no money required from the province, and you would . . .

MR. M. ELIESEN: . . . time, and I really think we have a commitment to give the Member for Lakeside the last word.

MR. H. ENNS: Oh no, it's no problem, really.

MR. CHAIRMAN: We have a commitment to the Member for Lakeside and . . .

MR. H. ENNS: 12:30, committee rise. The last word you have is, committee rise.

MR. CHAIRMAN: Committee rise.
Before we rise, the Member for Lakeside.

MR. H. ENNS: Mr. Chairman, just as a matter of courtesy, there is one more area of Hydro from my point of view — that is the summer sale contract that was just recently announced. We could well begin the Energy Authority when next we meet.

MR. M. ELIESEN: Can we do that, Mr. Chairman, for Thursday then, on the Manitoba Energy Authority?

MR. CHAIRMAN: Yes.
The committee will meet next Thursday at the same time, same place . . .

MR. M. ELIESEN: But it's on the Energy Authority, not Hydro.

MR. CHAIRMAN: On the Energy Authority.

MR. M. ELIESEN: Fine, thank you.

COMMITTEE ROSE AT: 12:32 p.m.