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Standing Committee

on

Public Utilities

and

Natural Resources

Chairperson
Bonnie Korzeniowski
Constituency of St. James



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Seventh Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES

MONDAY, JUNE 18, 2001

TIME – 10 a.m.

Mr. Daryl Reid (Transcona): If I might make a recommendation to this committee to sit until 12 noon today.

LOCATION – Winnipeg, Manitoba

Madam Chairperson: Is it the will of the committee we sit until 12 noon today? [*Agreed*]

CHAIRPERSON – Ms. Bonnie Korzeniowski (St. James)

VICE-CHAIRPERSON – Mr. Gregory Dewar (Selkirk)

We will now proceed with consideration of the Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2000. I would ask the honourable Minister responsible for Hydro to please introduce the officials in attendance from the Manitoba Hydro-Electric Board.

ATTENDANCE - 11 – QUORUM - 6

Members of the Committee present:

Hon. Mr. Selinger

Messrs. Dewar, Gilleshammer, Jennissen, Ms. Korzeniowski, Messrs. Loewen, Maloway, Reid, Reimer, Schellenberg, Tweed

Hon. Greg Selinger (Minister of Finance): Good morning. We have with us the Chairperson of the Manitoba Hydro Board, Vic Schroeder. We have the President and Chief Executive Officer, Bob Brennan. I think we have some support staff with him. We also have the Deputy Minister of Finance, Pat Gannon; my special assistant, Shaun Loney; and the gentleman with the technology in his hand is Randy Ptosnick. Also, Gerard Jennissen is the MLA appointed to the board of Manitoba Hydro as well.

APPEARING:

Hon. Jon Gerrard, MLA for River Heights,

Mr. Robert B. Brennan, President and Chief Executive Officer, Manitoba Hydro

Madam Chairperson: Thank you. Does the minister have an opening statement?

MATTERS UNDER DISCUSSION:

The Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2000.

Mr. Selinger: What we have is an opening presentation, which we would like to offer to the committee.

Madam Chairperson: Will the Standing Committee on Public Utilities and Natural Resources please come to order. This morning, the committee has before it the Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2000. Prior to consideration of this report, are there any suggestions as to how long we should sit this morning?

Madam Chairperson: Does the official Opposition critic have a statement to make?

Mr. Harold Gilleshammer (Minnedosa): Thank you, Madam Chairperson. We are anxious to hear the presentation from the corporation. We certainly have some questions on some of the issues before it. We would like to

proceed and hopefully, we will get our two hours in.

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

Mr. Gilleshammer: May I ask the minister how long the presentation will be?

Mr. Selinger: Between half an hour and three quarters of an hour.

Mr. Gilleshammer: We would like to perhaps have you restricted to the half hour so we can ask some questions.

Mr. Selinger: I would also like to note that Chief Jerry Primrose from Nelson House is in the audience as well. Thank you very much, Chief. He has some staff with him as well.

Madam Chairperson: Please proceed.

Mr. Robert B. Brennan (President and Chief Executive Officer, Manitoba Hydro): What I propose to do very quickly is review our vision, mission, goals, say a little bit about the profile of Manitoba Hydro, both from the electricity and gas side, and review our financial projections. We came up with a preliminary one. Ordinarily, we review them every fall. We came up with a preliminary one that took care of some recent changes that we thought we should look at for the benefit of the committee.

Then we have some industry comparisons that we would like to look at, and then some of the current considerations or issues, depending on how you look at them, how the industry restructuring has affected Manitoba Hydro, some new generation major transmission development that we are looking at, how we are dealing with some of our Aboriginal people that we have come in contact with in the past, a little bit in Power Smart, export sales, Winnipeg Hydro, natural gas operations generally, and we will briefly talk about how we made out with integrating Centra Gas into our operations. The other thing is the rapid increase in the price of

natural gas from Manitoba Hydro's perspective, a little bit about the Dorsey-St. Vital transmission line, uniform rates, and the administrative agreements that we have signed with the Province, and some of our subsidiary operations.

* (10:10)

Our corporate vision is to be recognized as the best utility in North America with respect to safety, rates, reliability, customer satisfaction, and environmental management, and we want to be considerate of all people we come in contact with.

This is a mission, and it is right out of our act. As committee members are aware, the act was changed in '97 and the act was updated at that point in time. Our corporate goal that we are trying to achieve is to continuously improve safety in the work environment. That is our number one goal. All the other goals are balanced off with each other—but that one is not—to provide customers with exceptional value, rates, reliability, service, public safety and power quality. We want to be a leader in strengthening our relationship with Aboriginal peoples, and we want to improve our corporate financial strength. We have been doing quite well in that area in the last 10 years or so.

We want to increase our gas-customer base, wherever it is economic to do so. We want to increase our export-net revenues. We want to have highly skilled innovative employees and a diverse workforce that reflects the Manitoba labour market. We want to be proactive—as a matter of fact, that particular goal, I believe, we have changed to reflect the Manitoba population rather than the labour market itself, so that is one change I just noticed there—in protecting the environment and be a recognized leader in doing so. We want to be an outstanding corporate citizen and recognized by other corporations and the public in doing so. We want to support agencies responsible for business development within the province.

Manitoba Hydro, on the electric side, is one of the largest electric utilities in Canada. We have assets within the top 50 companies in Canada, the revenue within the top 15 of the 100 largest businesses in Manitoba. We have

403 000 electric customers and 4200 employees. That includes both operating and construction employees. Last year was above average water-flow year. This is on March 31, 2001. We generated 31.6 billion kilowatt-hours of power. Thirty-eight percent of our revenue came from extra-provincial revenue, and that is basically keeping the rates down in Manitoba. In terms of volume, it is over 40 percent of the total volume in terms of kilowatt hours. We have 12 hydro-electric generating stations on our systems, 2 thermal stations, and 4 diesel sites. We have a gas-turbine plan to be in service next year.

Centra Gas itself has 250 000 customers. They have 600 employees, and about 7200 kilometres of pipeline. Their total revenue, which is a function of gas prices for the most part, is in the neighbourhood of \$500 million. Their total assets are in excess of \$696 million.

This chart indicates where all our hydraulic generating stations are. It also shows our export capability outside the province. We can export 2050 megawatts outside the province at the present time. We have 300 megawatts going into Saskatchewan and 260 going into Ontario. In Ontario, we have a pretty high load-factor sale to Ontario that takes up 200 megawatts of that.

The preliminary projections for March 31, 2000, this will be put through with our annual report that will be tabled at the end of July, but at this point our revenues will be in the order of \$1.8 billion, extra-provincial sales \$480 million, and that is at a designated exchange rate for which our sales and interest and debt maturities are pegged at. Our gross capital assets and service are \$8.8 billion. We are achieving all our financial targets, and did so last year. Our net income is going to be in the neighbourhood of \$269 million, which will be another record for Manitoba Hydro. Our retained earnings now will be in the neighbourhood of \$1.1 billion. That gives a debt equity target of about 80 to 20. Our target overall is to get to 75 to 25. This compares some actuals for the last four years and a projection into the future for the next 10 years.

We continue to show rate increases starting April 1, of 2002, of 1.5 percent and 4 years thereafter. Those rate increases we have had in for the last two or three years now, and we just

leave them, more for comparison sake than anything else. But before we have those rate increases, we take a look and see whether we really need them. At this point, it does not look like we will, but, certainly, at the front end for sure.

As you can see, if we do that, we get to our debt-equity target a couple of years earlier. We get there in March 31, 2004. We hit the 75 to 25 and then with no rate increases at all, we are still continuing to improve our debt-equity ratio, to the point where, in 2011, it gets down to 67% debt, and that would be 33% equity. In all cases here, we have our capital-expenditure coverage met. At this point, we only have planning expenditures in there. If we go into new development, at the time we make the decision to proceed with new development, we will then reflect it in our capital forecast.

This is an electricity forecast, by itself, and it pretty well influences what happens to the consolidated one. So I do not think there is much need in my going through it. It pretty well indicates the same thing.

This is the gas one, and it shows us coming out of the current fiscal year that we are in and indicates that, without covering the cost of gas itself, we need modest increases to take care of our operating costs of the gas utility. We have 1.3 followed by 0.3 all the way through. That does improve our debt ratio pretty considerably, and it gets us on the road to where we would like to be with the gas portion of our operations.

This is our ability to internally fund capital expenditures, and you can see that all the way through we cover that. In 2005, it comes close, but we still do cover it. That is with internally generated funds, in other words, profits plus depreciation.

This is our projected debt ratio and it shows where we cut through in 2004, in the 75% range.

This is a comparison of some average retail rates across the country. This is made up by Edison Electric Institute. It was their survey, and it was dated January 1, 2001, and you can see that Manitoba Hydro has the lowest cost of any utility. It also includes Minnesota Power on

there, which is one of the lower-cost American utilities.

This only compares Canadian utilities and Manitoba Hydro's own survey. It was done May 1 of this year, and once again it shows that for a residential customer, with a 2000-kilowatt-hours in a month, that is primarily an electric-heat customer averaged out over the year. You can see we are followed closely by BC Hydro and Hydro Québec.

A small commercial—this is a 10 000-kilowatt-hour-type customer and this is like a small corner store, florist shop, small bank, that type of operation, and you can see that the bill in Winnipeg is \$576, and then the gap rises between us and the next ones, pretty materially.

This is a relatively large customer, certainly not the biggest customer on our system by far. The bigger customers are five to six times that size, but it is a pretty good sized customer and 20 megawatts is a really good sized load. Twelve million kilowatt hours in a month, and this is in thousands of dollars. So you can see where, in Manitoba, the bill would be \$352,000, in B.C. \$400,000, and if you go right to Toronto Hydro, it is \$752,000. It does make Manitoba a pretty competitive place from the power perspective.

* (10:20)

This is a graph that compares outages and cost. This is always a trade-off for Manitoba Hydro in that the more money you put into capital and operating, the higher your reliability is going to be. As you can see, in the graph, Manitoba Hydro has pretty well the lowest cost, and the duration, in terms of minutes of outage on average, is the best in the country. This is especially good considering the fact that Manitoba Hydro serves a pretty sparse area in a lot of cases. You know, some other utilities have a more densely populated area, and we do know that in some of the rural parts of the province where we have radio-feed lines, that is a problem. So we are really quite proud of where we sit on this particular graph.

The composite there is all the utilities across the country. We are not supposed to identify who the other ones are. We signed a confidentiality agreement in coming up with

them, but the ones that are closest to us there are western utilities, one of which serves a municipal area. Total customer unit cost, this was taken right out of annual reports, and it shows that, in 1999, cents per kilowatt-hour and, once again, Manitoba Hydro leads.

This is a chart that was prepared by the Dominion Bond Rating agency, and it was made up in January of 2000. It shows the fixed cost and the variable cost. The high fixed cost of utilities that have hydro plants where their operating costs are low, but, as you can see, Manitoba Hydro has controlled its variable costs quite well. The fixed cost result is mainly the result of our debt-equity ratio, but that has been improving.

One of the current considerations is the restructuring of the industry. I went through all these earlier. So I will just get right into them. Let me just back up to industry restructuring before I start on this one. Basically what has happened, and it started with the United States, is people have opened up their transmission systems in the expectation that it would create lower cost for utilities. One of the problems that people did not anticipate was people not building a new generation because of the uncertainty in the system. That is what has happened in California, and that is what has happened in Alberta and the northeastern part of the United States. People have not built up a new generation because of uncertainty in the system.

So this uncertainty, because people have not done it, has taken place in areas even that Manitoba Hydro sells into, and the net impact has been an increase in costs rather than a decrease. So it certainly has not worked the way most people wanted it to. I think it reaffirms what we wanted to do in Manitoba Hydro when we looked at the act in 1997 and decided that it was in our interest not to have retail competition in the province. We were better to do it the way we planned, and it certainly seems to have worked out for the better, for sure for us. It protects all consumers at this point in time and it really has been quite good.

New generation, major transmission. I briefly would like to talk about four things. New hydraulic generation that we are working on in various forms for about the last three or four

years. Brandon gas combustion turbine out in Brandon, the conversion of Selkirk from coal to natural gas, and then the new transmission line that is in the process of being licensed and built from Glenboro to Harvey and North Dakota.

Right now we have more undeveloped hydro than we have developed, and we have no need for new generation for Manitobans' requirement based on last year's load forecast. It will vary year by year, but we do not need it until March 31, 2020 for our own use. So anything we develop will be for export purposes.

This shows our potential. Our existing plants, including Limestone, total 5115 in the case of hydraulic. Then the remaining Nelson plants that are on the system are almost 4000 megawatts; Conawapa is the biggest one in there, with 1300. The Burntwood river system—we are looking at two of them right now, Wuskwatim and Notigi. I should have mentioned we are also looking at Gull as a possibility right now as well.

The first of three plants we are in the process of looking at is Notigi at 110 megawatts. Basically, that is right at the control structure, where we have it coming out at South Indian Lake into the Burntwood river system. The total cost of that, including transmission, is half a billion dollars.

Wuskwatim is 200 megawatts, and that is going to cost us about \$1 billion. Then we have Gull, at 675 megawatts, with a total cost including transmission—and that would require a new DC line—of \$3 billion.

Right now, we have signed an AIP with Split Lake. That was signed October 17 of last year. We are in the process of looking at signing an agreement that has been ratified by the community of Nelson House. We are looking at ratifying that in July.

After that, we will have to come up with a project development agreement with the communities. That we hope to do early in the new year.

Then, getting environmental licences and all other regulatory processes we will have to go through will take us another two to three years, after which construction, depending on the size of the plant, will be anywhere from four to seven

years. We will not make a decision on the plant until late December of this year, or early into the next year, as to what we will recommend to the board of hydro and then to the government.

A future development consideration we are looking at with the communities is a hiring and referral protocol for people working on the project, as well as on the job training. We would like people to see if they could get more skilled jobs than they did in any of our previous projects. That would be some of the jobs that they can get certificates out of, or journeyman status out of.

The combustion turbine project in Brandon: This plant is primarily designed to back up our hydraulic system. In the case of a low-flow year we are going to be able to sell hydraulic power as firm power, even though we cannot count on it because of the low-flow situation. If that ever happens we can turn on a gas turbine. It is our hope, and this is a plant we never want to use because we always are going to have average flows or above. It is a little unrealistic but we expect to use it only in a low-flow condition.

It would then be used to allow us to pre-sell some firm power using interruptible power that would otherwise be sold at a lower rate. It also allows us to manage our reservoirs a little better. That is good for us as well. So there are real benefits to it. We have received our licence for this particular project on February 19 of this year, and we have started. We expect the plant to be in service next year. The cost of the plant is \$183 million. It provides 260 megawatts of capacity.

I would also like to point out that there was somebody employed by Cross Lake that was critical of the price. When we checked into it, the price that was being compared was for the turbines by themselves. Ours stacked up very well in terms of the turbine price, by itself. It did not include the building, or any of the electrical mechanical work, or anything like that. We are quite comforted by that after we looked into it.

The Selkirk generating station and the conversion to natural gas: as you all know, we were restricted this year from operating a plant, the way we would like to, and were only allowed by the Department of Conservation to use the

plant for reliability in our system. We could not use it to back up any sales outside the province. This causes a great deal of discomfort, especially in the low-flow years. Low-flow years are of two types: one, where we impact the amount of exports we have, and then there are other more serious droughts that impact the ability to meet Manitobans' requirements. The only time we could use it is if Manitobans were endangered in any way. This was going to cost us a fair amount of money.

* (10:30)

We do know that the operating costs, depending on the year, are cheaper for coal. But, in the case of Selkirk, it does not have any environmental considerations on it at all. So we are going to have to completely rebuild it, pretty well. We looked at one of the options being natural gas. Certainly, we expect to use this plant about 10 percent of the time, overall, over its life. In our analysis, we indicated that, by far, the best thing to do was go to natural gas. I think it impacts our image much better as a clean utility. We are certainly trying to get that image wherever we can, with our hydro operation. The plant at Selkirk was definitely hurting us.

The estimated cost of the conversion, which is being done in two parts: one, to get us up to the end of license period, is \$30 million. That includes a pipeline out to Selkirk, which would be available for the system as a whole. Then another \$29 million, for additional environmental considerations, after 2005, which would take the life of the plant out to 2020. We hope to have it in service by next year.

The use of natural gas will virtually eliminate emissions of mercury and other metals, sulphur dioxide and other particulates, and it will significantly reduce the emission of carbon dioxide and nitrogen oxides. The need for an ash lagoon will be completely eliminated.

Right now, there are about 75 to 80 people at Selkirk, and the number of people will be reduced by 30 to 35 people. We have offered an early retirement plan. Some of the people are taking advantage of that, both out of the Brandon operation, as well, to some degree. We hope to get by this without having to lay off anybody.

The Glenboro to Harvey transmission line has a 230 KV transmission line. It will allow us to input into the province another 200 megawatts, as well as to export 200 megawatts. The regulatory process is underway for that. The cost is relatively minimal, from Manitoba Hydro's perspective. It is \$16 million and the U.S. portion 38. We are looking for a projected in-service date of the fall of 2002.

Aboriginal considerations: anybody that has made a claim at Manitoba Hydro, we either have an agreement in place or a process to settle in place, with the exception of Cross Lake. Cross Lake, we are experiencing difficulties. We have been for some time. Those difficulties have not changed. Cross Lake, we spent about \$52 million up until now in various mitigation, compensation exercises. We are looking with the Province and the federal government to see what we can do to meet their needs. We are having a great deal of trouble in trying to satisfy them. There is no doubt about that. They are also working against us, at the same time, trying to do everything possible to impact our exports. We find that quite distasteful, but they seem to think that kind of pressure is what is needed to get things done from their perspective.

Fox Lake is a community that is right at Gillam. We have concluded an AIP with them. Discussions are continuing, and we hope to have a final agreement completed in the fall of this year.

War Lake is a community that is close to Split Lake. We hired a consultant to look at whether there were any adverse impacts on the community. We have determined that there are some, and we have ongoing discussions with that community and we hope to have either an AIP or an agreement completed in the summer. I thought we could go right into the agreement rather than go through the AIP stage. I am hopeful of that happening. We still have some non-status communities outstanding. The non-status communities of Nelson House and Norway House and Cross Lake: in the case of Nelson House we have a settlement agreement in the final drafting stages. Norway House and Cross Lake discussions are ongoing. The Grand Rapids Forebay: there are still some outstanding issues on Moose Lake and Chemawawin and

they are being discussed. We fixed the quantum on that pretty well, I think, and it is one of just making sure all the details are fixed. Grand Rapids town: the discussions are continuing, and I am hopeful of having an agreement there fairly soon. We settled an agreement with the Grand Rapids fishermen just recently, and we have ongoing discussions with Mathias Colomb and Marcel Colomb bands as a result of Laurie River plants that we took over from Sherritt Gordon.

With Aboriginal people, we generally have some preferential purchasing policies in place, that allow us, if we are in the resource area. We have talked to them. As long as we can work out an agreement with them, that is within our estimates, we try to give them the work if it is at all possible. We have a series of employment initiatives. We have signed an agreement with the Association of Manitoba Chiefs and the Northern Association of Community Councils to work with them to generally improve hiring of Aboriginal people within Manitoba Hydro. We do have some pretty aggressive targets: 10 percent at the corporate level virtually right away, and 25 percent in northern Manitoba by 2005. This results in pretty high hiring for new recruits, you know, assuming the number of people on our staff overall do not increase. Right now, we have about 7% Aboriginal people in our system.

Power Smart. Under the current approved plan that we have, our current planting is out to 2011/2012. It saves about 1.2 billion kilowatt hours a year and 347 megawatts of capacity. This is enough energy, almost, for the city of Brandon. To date, we have saved 154 megawatts and 426 gigawatt hours and that is enough energy to power the towns of Steinbach, Winkler and Dauphin combined.

Manitoba Hydro is pretty well the leader in conservation across the country, and it would be fair to say, I think, we are in North America, generally. Some of the new initiatives we have just come out with this year: the home comfort program for residential customers, and that has been progressing very well. We have approved loans for \$5.6 million and there are 1600 loans approved at this point. We have just recently announced the religious buildings initiative, for churches and synagogues, and the like. That

seems to be doing quite well. Just within the last two weeks we announced a student employment program, whereby students are going to do preliminary audits for seniors. Within two days of announcing that program, we have had 200 requests for people to go in. So that looks like it is going to be quite attractive as well.

Industrial development, generally. We are partnering with Industry, Trade and Mines to identify immediate opportunities for companies to relocate to Manitoba. We are looking at it to be done by sector and pursuing site locations within the province. There is always a good balance between export sales and industrial benefits within the province, and we try to keep that in mind at all other times. Certainly, we all want the economic activity and jobs within the province for our children, and the like, to make sure they stay in Manitoba.

Export sales. We are in the final stages of completing an agreement with Xcel, which is the former NSP, of 500 megawatts. They went out into the market to see what was available and we got selected as one of their suppliers. We are looking at other long-term firm sales. We are looking at some short-term firm sales, summer sales primarily and other opportunity sales of various sorts. Mostly everybody knows about this particular one, and it is basically the history on the sale to NSP and going into Xcel. This is the one we hope to have completed. We have to take the contract back to the regulator in Minnesota and to our board as well. The National Energy Board would have to approve it as well. The revenues associated with that sale would be in the neighbourhood of \$1.5 billion.

* (10:40)

We have had concerns expressed by Cross Lake before the regulator, and this caused us a great deal of anguish, but up until now we have won all the considerations there. But it is a painful exercise for sure.

Winnipeg Hydro, as you know, our agreement expired at the end of last year. We have had a series of meetings with them. Discussions are continuing, and we are coming close to the end of those discussions. We will have to, at some particular point in time, take our

cost of service and our wholesale rate to the Public Utility Board if we cannot reach agreement. We are hopeful of reaching agreement, every time something comes up, to extend that. We do think we are offering them a pretty attractive rate. They do not seem to think so.

Natural gas operations. Centra integration has been going very well. All customers now receive both energy bills in one envelope. They can pay their hydro and gas bills at any of our offices. In most locations, we can go out and identify underground services with one locator. That has helped customers quite a bit as well. When they come in to talk to us, we have one person now able to talk on both gas and electricity. We are looking at an integrated billing system, our customer information system, within the next two or three years. We identified, prior to the acquisition, \$12 million in synergies. Up to the end of March, we have achieved that in an annualized basis. For 19 months since we acquired them, we achieved \$14.7 million in benefits.

The price of natural gas has been a real concern for everybody. This particular price shows the white line is the monthly average price in Alberta. It shows what has happened to the price, especially since January 1, 2000, where it was less than \$3 a gigajoule. It went up to a peak of \$12.91 a gigajoule. It is now coming down. The red line indicates how much Manitoba Hydro put in rates. The difference between those two lines, we have been deferring.

What we did was we put them in one account, whereby customers did not have to pay it, and we were going to continually roll it over. We have a price management plan that said that we would pick up 50 percent of the amount, the difference between the next 12-month strip, and charge that to customers and defer the balance. In this particular case, it has worked out quite well for us in that the price has now come down. The \$100 million that we have deferred, we are proposing to take over customers over the next two years. It comes down to a pretty modest increase if you do it that way. The Public Utility Board has now approved that, as of last week.

It did work out well. Certainly it worked out probably as good as we ever could have

expected. No doubt, the good Lord was on our side because nobody knew what was going to happen to the price of natural gas at all, anywhere along the way.

This just sets out the various price increases we had, and they were quite significant. The Dorsey-St. Vital transmission line, we are in the process of attempting to build a 230 kV transmission line on a double circular line to improve systems, security and reliability for the St. Vital area. It is no different than any other project underway and complete in other parts of the city. We did receive a licence in March of last year.

From the land-use planning perspective, Manitoba Hydro is maximizing the use of existing rights of way in facilities. Approximately 31 kilometres of the 52-kilometre project are in place and were in place before we started the planning. The right of way has been in place for over 30 years. The first 230 kV line was built in a 400-foot corridor, and that corridor was originally designed for three 230 kV lines. We subsequently changed that, and enlarged the corridor by 75 feet to the north and by 90 feet to the south. So it now has a total of 565 feet, and the design was changed to allow for two 500 kV lines one that is currently in place and one more 230 kV line.

The overwhelming evidence to date suggests there is no link between electric and magnetic fields and negative health effects. We have looked at this nationally. We have looked at it individually. The utilities have looked at it, and in addition to that, the Minister responsible for Manitoba Hydro asked the Clean Environment Commission to look at it and their conclusions were similar to what Manitoba Hydro has come across in the past, as well.

Uniform rates. The Government intends to pass legislation to implement a uniform rates policy. There are three types of rate zones: Winnipeg, medium density which are typically towns and villages, and then the low-density, which are basically your farms and rural residences. They are applied in the same way in the north and south, except for all customers in diesel communities that are served at full cost rates. That is, nobody up to 60 amp, which are

residential; they still get the uniform rates as well. The people in towns and villages, and the like, are going to see a rate reduction of \$2.69 a month on their bill. The people on farms and isolated residents are going to see a reduction of \$10.11 a month. The uniform rates total reduction will cost Manitoba Hydro, in terms of total revenue, about \$14.4 million.

Administrative agreements. This is an agreement that Manitoba Hydro worked out with the government of the day around the year 2001. With the previous government, we worked out that Manitoba Hydro would pay, on behalf of the government, expenses associated with some of the NFA communities, and people that have been impacted by Manitoba Hydro's operations. On behalf of the former government, we paid \$101 million of their expenses under these agreements and fixed water rental rates. We then entered into new agreements with the current Government, for \$50 million, and that includes the South Indian Lake road settlement, which is a commitment that was made under a previous agreement that was paid for, under the \$100 million. So it was a consistent type application and they were covered by those agreements.

One of the things these agreements did in working it out with the former government was that it allowed Manitoba Hydro to not only settle with communities that were anxious to settle with Manitoba Hydro, but allowed us to fix some of our future planning at the same time. It was a good agreement from Manitoba Hydro's perspective.

Some of the subsidiaries that Manitoba Hydro has: CHES, which is a company that was set up to perform mainly metre reading services, and it was before we entered into the purchase of Centra Gas and we worked it out with Centra Manitoba, at the time, to do metre reading in areas where we had a fair population in each community. We have now taken that and made it a wholly owned subsidiary of Manitoba Hydro, once we bought Centra.

Manitoba Hydro International is a company—we mainly sell professional services overseas. It will never be a really big, flourishing company, but it really cannot cost us much money. We have relatively small overheads and all the revenues on a cost-plus basis.

The HVDC Research Centre used to be a not-for-profit company, that was owned by a bunch of sponsors. In the best interests of the research centre in terms of getting the type of research activities going on most of which were requested by Manitoba Hydro, it was decided to make it a subsidiary of Manitoba Hydro.

* (10:50)

Meridium Power is a company that Manitoba Hydro purchased the Canadian rights for, a company that makes single-phase motors. Now, about two months ago, this company had a full range of product and can meet our requirement. In dealing with this company, we got the Canadian rights for distributing it. We intend, in the longer term, to be able to get this going and possibly make a dollar in terms of flipping it.

The types of motors this company can make are large motors that can be fed on single line rather than three-phase power. So it allows farmers, primarily for irrigation and grain drying and the like, to use a motor like this, rather than get into the cost of three-phase power. So it is good for Manitoba Hydro. It is good for the community. This came out of a review we did with potato farmers who had real concerns about the cost of three-phase power in providing irrigation services. One of the options was this particular motor.

The one, two, three, four, five, Delaware is just an American shell at this point and would be activated if we got into a marketing licence in the United States.

That is the end of my presentation, Madam Chairperson.

Madam Chairperson: Thank you, Mr. Brennan.

The floor is now open for questions.

Mr. Gilleshammer: I wanted to ask Mr. Brennan about the uniform rates. On February 22, a barrister and solicitor for Manitoba Hydro, Patricia J. Ramage, had applied to go to the Public Utilities Board and sent over considerable documentation about Manitoba Hydro rates.

Was this a decision made by management and staff at Manitoba Hydro?

Mr. Brennan: I think I have been doing this for twenty years, and I still do it. This was a decision at that point that we thought we would have to go through; in the fact, we thought that the legislation required it. So we did apply at that particular time.

Mr. Gilleshammer: This is consistent with the legislation, The Crown Corporations Public Review and Accountability Act and a process that Hydro has been through many times; that is, to submit to the Public Utilities Board any application for variance of rates.

Mr. Brennan: I am sorry.

Mr. Gilleshammer: Some two weeks later, you wrote a letter to Mr. Forrest of the Public Utilities Board, indicating that you wanted to cancel this process, that the Government, in fact, was going to override the process and go straight to legislation instead of the public process that is in place. Was this a decision made by the board, or was this directed by the minister?

Mr. Brennan: It was a Government decision that was relayed to both the chairman and president of Manitoba Hydro.

Mr. Gilleshammer: When was the last time, then, that Hydro was before the Public Utilities Board?

Mr. Brennan: I believe the last time we had a rate increase, a rate adjustment was, which would have been a rate increase, would have been 1996.

Mr. Gilleshammer: So this rate change directed by the Premier, Cabinet and Government to override the Public Utilities Board flies in the face, then, of providing hydro at cost for customers.

Mr. Brennan: I certainly do not want to get into any kind of political debate over it, but from my point of view, I think if legislation is there, it is something that Manitoba Hydro does not have to do.

Mr. Selinger: As we have discussed in the Legislature, it was the Government's decision to proceed by legislation for uniform rates, and that is because it is a change, not an adjustment to the existing rate structure. It is a change, a policy-driven change to the rates themselves, to go to a uniform or universal rate for all Manitobans. That decision was made by the Government in the election run-up as one of their promises and recommitted to in the Throne Speech and followed through by legislation.

I would just like to remind the Hydro critic that election promises are something that are debated through the election period and understood by Manitobans and voted on accordingly. Similarly, throne speeches signal the intentions of government. I would ask him to imagine the following: What if Hydro had submitted to the Public Utilities Board a new rate structure to increase rates on rural residents in Manitoba? I think the Opposition would have asked for that to be debated and discussed in the Legislature, because it would not be just an adjustment to an existing rate, but a new rate structure. That is exactly what is going on here. We are proposing a new rate structure, a uniform rate structure, a single rate structure, if you will. It is a policy change the Government is taking responsibility for in the pre-election period and in the post-election period through legislation.

Mr. Gilleshammer: The rates that have been established for Manitoba Hydro reflect the cost of providing the service. Public Utilities Board rulings in the past have respected that and now what we are going to see is a cross-subsidization of rates. I am wondering if Mr. Brennan could confirm that.

Mr. Brennan: There is no doubt if you have three rate zones: Zone 1 and 2 as a cost of service is always relatively close; there was the odd year where Zone 2 provided more revenue to cost than Zone 1, but Zone 3 has always had a greater revenue subsidy than the other two.

Mr. Gilleshammer: In previous discussions with the Public Utilities Board, it is my belief that they have always opposed cross-subsidization. I wonder if Mr. Brennan could confirm that.

Mr. Brennan: By rate zones, they certainly have and they have by classification. They always wanted all rate zones to be closer to equity than what we had, and certainly, Manitoba Hydro would have tried to get there. In previous rate increases, we did try to influence the run-off rate in the block structure such that subsidy would have been minimized or become smaller.

Mr. Gilleshammer: Given that the Government now seems to believe in the cross-subsidization of rates, I am wondering if the minister would indicate whether they would follow a similar pattern with other Crown corporations.

Mr. Selinger: Well, first of all, I think we have to understand that the ability to offer a uniform rate to all Manitobans is one that is provided by the fact that we have strong export sales. Export sales are allowing all Manitobans to benefit by having lower energy rates, regardless of what classification they are in. Secondly, we have to understand that we would have never had electrification in Manitoba if the ability of some consumers was not there to support other consumers, and that was before export sales occurred.

So we are not back in the situation where government proceeded to electrify the rural areas through cross-subsidization of existing domestic customers within Manitoba. We are in the fortunate situation where we can bring forward a universal, uniform rate because we have the benefits of surpluses generated through export sales, so we are not asking other Manitobans to pay more to provide this uniform rate. We are moving the rate to the lowest level already provided to all Manitobans. So, we are in a better situation than we were when electrification occurred, which was a government decision at that time. It seemed to be in the public interest to treat all Manitobans fairly, to allow all Manitobans to have the economic opportunities that electricity provides. We are doing a similar thing today but with the advantage of not having to ask anybody to pay more but moving the top rate or the higher rates to the lowest rate and paying for that through the surpluses we generate through export sales.

That was an election promise that was made and was followed through on with this legislation.

* (11:00)

Mr. Gilleshammer: The same argument could be made at MPIC, where the excess revenue is generating substantial revenue for the corporation, and they would have that same ability. The fact of the matter is the Public Utilities Board would not agree with cross-subsidization. I think the Government discovered between February 22 and March 9, when this application was revoked, that their election promise would not be kept by the Public Utilities Board, thus they had to override the process and go the legislative route.

My comments have nothing to do with lower rates. I think all Manitobans are looking forward to that. But it is process, and the fact is there is an established process. Your legislation is overriding that because you know the Public Utilities Board would not agree with the cross-subsidization and the lowering of rates the way you want them to be lowered.

Mr. Selinger: I think the Member for Minnedosa is making an assumption there, that that would be the outcome of the Public Utilities Board. It is purely hypothetical and speculative on his part and has no basis in fact or evidence.

The reality is that there is a difference between MPIC and Manitoba Hydro. The difference is Hydro generates revenues off export sales. It does not require any domestic ratepayers to carry an additional burden to lower the rates for northern and rural members. MPIC, if they were to go to some form of uniform rate structure between different classifications of vehicle owners and operators, would have to look at equity issues related from one customer class to another customer class internal to the Manitoba consuming public. This is not the situation with Manitoba Hydro. It is a different set of circumstances. It is an opportunity we have as a government promised in the election to deliver uniform rates to all Manitobans to create a greater sense of inclusiveness and fairness and equal treatment for all Manitobans.

Mr. Gilleshammer: The reality is that the minister and his Government could not rely on

the Public Utilities Board to keep his promise. Therefore, he had to override the process.

Floor Comment: I would like to make a comment on that statement.

Mr. Gilleshammer: Well, I think I have the floor.

The fact of the matter is Manitobans have come to expect a public process through the Public Utilities Board, and other groups other than people in the Legislature, are calling for that process. The Manitoba Society of Seniors, the Manitoba Consumers' Association, the utility group that is your biggest customers, the major users of hydro-electricity, are all asking for a public process. I would ask, given the fact that revenues have been buoyant, whether in fact rates could not be lowered for all Manitoba users, and perhaps you would be able to go to the Public Utilities Board and make that request.

Mr. Selinger: Once again, the uniform rates we are proposing which lower electricity rates for rural and northern customers are ones that were promised in an election. It is a change in policy. It is not an adjustment to an existing rate structure. A change in policy is the responsibility of the Government, and the Government is taking that responsibility in the Legislature and in this committee, presenting you with that information and proceeding on that basis. That is a completely legitimate role for government.

I ask you again to consider what would have happened if a new classification would have been added by the Public Utilities Board, in other words, a new policy taken for a specific class of customers. Let us say, hypothetically, it would have been rural customers. I believe you would have been here asking me to be accountable for that in the Legislature and to have a public discussion, and you might have even suggested that should have been legislatively necessary, that we should not have shunted our responsibility off to the Public Utilities Board for a new rate structure that they may have decided to introduce or Hydro may have proposed. We are doing that here, but in a positive way. We are reducing rates for all Manitobans. We are doing it to the lowest level that presently exists. We are following through

on our election promise, and we are doing it on the basis of export revenue so no Manitoba customers have to pay an additional amount to make this policy a reality.

Mr. Gilleshammer: What the minister is saying is that he is avoiding the Public Utilities Board process for fear of some negative consequence that might happen by going before the Public Utilities Board. This has been a very open process in the past where all manner of Manitobans can come forward and make a presentation to the Public Utilities Board. I respect that the minister did make an election commitment. The only way that commitment can be realized is by going the legislative route. That is clearly the prerogative of government to do that. But what I am saying is: Do not ignore the Public Utilities Board where this corporation has not been since 1996, I believe.

You have got consumer groups out there, the seniors' society, the Consumers' Association of Manitoba, the major power users and other Manitobans, saying that given the fact that your export revenues are, in fact, as buoyant as they are, this is an opportunity to lower rates for all Manitobans. I would urge the minister to take the rates before the Public Utilities Board and have that group look at revenue, look at expenditures and see if, in fact, rates for all Manitobans could be lowered.

Mr. Selinger: Once again, during the election, the former premier promised that he would generate a dividend for northern Manitoba from Manitoba Hydro. He did not indicate that he would ask PUB to approve that. He indicated that he would take a dividend from Manitoba Hydro and provide it to northern Manitobans. He made no commitment whatsoever that he would have PUB put a stamp of approval or disapproval on that. It was a policy-driven commitment that is exactly parallel to what we did during the election with bringing in uniform rates. We made a policy-driven commitment. We are not increasing the rates for any other consumer of hydro power in Manitoba. We are having a full legislative debate by the law-making body of this province where the public and any group can make a full representation, either at the committee level, here, or during the legislative process at second reading, and full

public accountability is available to any group that wishes to exercise their rights to be heard.

Mr. Gilleshammer: Would the minister indicate whether he is prepared to, not today or tomorrow, but in the near future, take the rates of Manitoba Hydro to the Public Utilities Board with the express view of looking at some rate changes for major users, for all Manitobans, given the fact that revenues are quite buoyant now and into the future?

Madam Chairperson: I would just like to remind people that the din can be distracting. Please members, on both sides of the committee, respect the person who is speaking.

Mr. Selinger: We are following through on this policy commitment with respect to a structural change in the rates. If there are any other rate adjustments or any category of power user, that will follow the normal procedure. That usually requires Hydro to make a recommendation to their board, the board to deliberate on that and make a recommendation, and then for a review if there are any adjustments to existing rates.

The structural change to go to a uniform rate is one that is driven by the Government who has the majority in the Legislature and has made that election commitment.

Mr. Gilleshammer: I find it interesting that the member wants to avoid going to Public Utilities Board on this issue, and we have had that debate, but now he wants to hide behind the board and the structure of Manitoba Hydro. I am asking whether he will encourage the board and the executive at Manitoba Hydro to look at the possibility of lowering rates for all Manitobans and taking an application to that effect to the Public Utilities Board, or is it his mind to avoid the Public Utilities Board at all costs?

Mr. Selinger: Well, once again, the member is packing a lot of assumptions into his question. The presentation that the president of Manitoba Hydro just presented showed our costs for retail rates being among the lowest in North America and, consequently, the monthly bills being among the lowest in North America for residential, for commercial, as well as for industrial. We enjoy a significant rate advantage

in Manitoba for a highly reliable source of energy.

* (11:10)

On the presentation, which I know the member has, on page 12, he will note that not only is the cost among the lowest, but the reliability is among the highest, and that is an advantage we plan to preserve here in Manitoba. It is a unique selling point. We plan to promote that selling point to existing and new businesses that may want to take up those opportunities in Manitoba and generate jobs and investment. As we go forward, we will preserve Manitoba Hydro's price and reliability advantage.

There is a mix there, as the president and CEO indicated to you. You could lower prices at the cost of reduced reliability. You can increase reliability further at perhaps some modest increases in price. We will find the right mix of policies that will position Manitoba Hydro as a low-cost, highly reliable, environmentally responsible, community responsible utility.

Mr. Gilleshammer: I have some other colleagues who would like to ask questions. I think Mr. Tweed has to leave shortly. Maybe we will turn it over to him.

Madam Chairperson: Mr. Gerrard was next on the list.

Mr. Gilleshammer: Well, I wonder—proceed.

Mr. Selinger: If the Member for Turtle Mountain has to leave, I was wondering if we could ask the Member for Flin Flon (Mr. Jennissen) to defer and allow the Member for Turtle Mountain.

An Honourable Member: Jon Gerrard.

Mr. Selinger: Jon Gerrard, okay. Similarly, the Member for River Heights, if he has to leave, I wonder if—*[interjection]* We use Misterters here. If Mr. Gerrard has to leave early, I was wondering if Mr. Jennissen would allow him the chance to put some questions.

Mr. Mervin Tweed (Turtle Mountain): I do have some questions more related to the

Brandon and Selkirk plants. I am of the understanding that the age of the plants, with the conversion that is going on, I am just wondering if there will be any major cost to continue the life after the upgrades, or will there be increased costs of operating over the next 15, 20 years? This would be to Mr. Brennan, I am sure.

Mr. Brennan: Let me make sure I break it down so I answer your question properly from your perspective. The gas conversion, although it is being built adjacent to the Brandon coal plant, is a separate facility, and on that we are proceeding so that it will be in service next year. We are looking at extending the life of Brandon coal plant.

We have a fair amount of environmental protection associated with that plant. We have a pretty big investment in there now, and we are going to have to spend some more money on it. We would like to do that to preserve the investment we have already made. So we are going to try to extend the life of Brandon.

In the case of Selkirk, we are going to have to spend an awful lot of money, whether it was coal or gas, to make it acceptable from the regulator's perspective. Certainly, if we spent and got them both rated up to snuff, so to speak, environmentally, probably coal would be cheaper than gas. We do not expect to use it very much, as I mentioned, about 10 percent of the time overall. We definitely believe gas was the best choice.

Mr. Tweed: You have mentioned that there will be increased costs in Brandon. Do you have an estimate on that?

Mr. Brennan: No, but they are not massive. The decision to extend the life will be a very positive one just because the costs are relatively low.

Mr. Tweed: We know that the generation of power from these two plants is higher cost. I am understanding that correctly?

Mr. Brennan: It is a higher cost than our system average. But a few years ago, we started using a cleaner coal, a powder river-type coal from the United States, and the coal costs are reduced

quite significantly. So it is pretty close to our average cost of our system at this point in time.

We do burn Brandon for regional support within the system in the western part of the province in the wintertime. We like to do that. Now that will be taking place, depending on the price of natural gas, with the gas combustion plant. We will be able to play one off against the other. Brandon would be used more than Selkirk. We are allowed to use Brandon for export purposes, where we cannot at all for the Selkirk plant, to date. So I think I have answered your question, Mr. Tweed, but I am not sure.

Mr. Tweed: Will the costs be higher then, after the conversion?

Mr. Brennan: In the case of which plant?

Mr. Tweed: Either or both.

Mr. Brennan: In the case of Brandon, it will go up marginally. It will not be a significant increase in costs at all. In the case of Selkirk, the costs will go up because we will have interest and depreciation on all the rehabilitation costs. That will make the unit cost quite a bit higher.

Mr. Tweed: I am wondering: Would you be able to provide the committee, at some point, with the historic costs, and then, I guess, more as a base point for the future so we can see the changes and the increases?

Mr. Brennan: I would be happy to do that.

Mr. Tweed: With the new technology available for the coal-fired, did Hydro consider that at all?

Mr. Brennan: Yes, we did consider that. We did also look at regulatory considerations, both provincially and nationally, as it relates to coal plants and that did provide us with a fair amount of concern, actually.

Mr. Tweed: Do you have anything in writing that would show a cost comparison?

Mr. Brennan: We could provide some kind of comparison. What we got were ranges and the gas was in the range of both, but we can provide you with some numbers.

Mr. Tweed: I think we know the numbers show that Alberta is increasing their number of plants and their using of coal. I guess I am just wondering why is there such a difference in direction in one province going directly to the coal side and us going to the natural gas, with the difference in cost, particularly.

Mr. Brennan: They are expanding using both natural gas and coal. In the case of Alberta, it is a little different situation, of course. Not only are they sitting on top of both the gas and the coal and will not have any real coal freight costs or anything like that—it would be cheaper for them—they also do not have the concern about their image, as it relates to having a clean product like a renewable hydro. That was something that was very much a concern to us, as well. But they are doing both, and they are independent companies, not a Crown corporation doing it, either.

Mr. Tweed: We know that the province has a commission right now that is studying the protocols for energy use and pollution and environment, and I am just wondering: Does natural gas not increase that amount? Have you been called before them, or are you going to present to that board to put Manitoba Hydro's position on it?

Mr. Brennan: Yes, Manitoba Hydro has made two presentations before the committee, one of which I was supposed to do personally, but I could not do it because of a doctor's appointment on my arm. I think that in terms of actual emissions, natural gas has much less emissions than coal, no matter what you do to it.

Mr. Tweed: I noticed in your presentation you talked about partnerships with the Aboriginal communities. Does Manitoba or the Province have any involvement in the guarantee of the loans to the partnership?

* (11:20)

Mr. Brennan: At this point, we have only signed an agreement in principle. The communities will be expected to come up with their equity. Presumably, we would probably be able to do it based on the agreement that this joint venture company will work out with Manitoba Hydro, but at this point, we are not proposing to guarantee their loan or their equity.

Mr. Tweed: Then I would ask the same question of the minister.

Mr. Selinger: There has been no discussion of that during the agreement in principal process.

Hon. Jon Gerrard (River Heights): My question is for Mr. Brennan. In the presentation, you indicate as follows: That the overwhelming majority of evidence to date suggests there is no link between electric and magnetic fields and negative health effects. It seems to me that the critical question here is whether there is an association between high-voltage power lines and living near high-voltage power lines and negative health effects. Regardless of the mechanism, the important thing to establish, first of all, is whether, in fact, there is any link in terms of proximity to high-voltage power lines and health.

Mr. Brennan: We do know that the closer you get to a transmission line, the rate of EMS gets higher the closer you are to it, and it drops off extremely quickly. So if you are right underneath it, it would be relatively high. If you come out some distance from it, it will drop off and drop off materially. It drops off quite quickly, and usually by the time you get to the end of the right of way, it is down to very, very low limits.

Mr. Gerrard: The question here is not solely whether there is a relationship between electromagnetic fields and cancer. The real question is: Do people, children, who live close to power lines have a higher incidence of leukemia?

Mr. Selinger: On that, I am sure the member is aware that there is a public meeting tonight on this matter, EMF by the Clean Environment Commission. One of the people that is going to be in town to address that question is Dr. M. McBride from cancer care B.C., who has studied this matter. I hope you will take advantage of that opportunity to discuss that matter with her. She has studied this relationship.

Mr. Gerrard: I thank the minister for those comments, but I think it is important to clarify what the fundamental question is when one puts in a power line. The question is: Is there or is

there not in proximity to a power line, a higher incidence of leukemia or childhood cancer?

Mr. Brennan: The overwhelming evidence we get from any studies is that there is no direct link. We have looked at a fair number of studies or a good number of studies. We have had consultants look at it, and the recommendations or the comments we always get back is that there is no direct link at all.

Mr. Gerrard: Just to get it very clear, what you are saying is that there is no evidence, any shape or form, that living close to a power line is associated with a higher incidence of leukemia or childhood cancer.

Mr. Brennan: Yes, that is the information given to me.

Mr. Selinger: That is why I hope you would talk to Dr. M. McBride, who has studied this question. I think she will provide some insight from her own research on that.

Mr. Jack Reimer (Southdale): Madam Chairperson, I just have a few quick questions to Mr. Brennan. Firstly, I believe that you are celebrating your 50th anniversary with Manitoba Hydro, not you personally, but I mean, Manitoba Hydro's 50th anniversary.

Mr. Brennan: Since Manitoba Hydro-Electric Board was formed?

Mr. Reimer: Yes.

Mr. Brennan: That is correct.

Mr. Reimer: You mentioned that you were there, most of that, I would think, almost.

Mr. Brennan: It was the chairman. I think he thought he was being funny.

Mr. Reimer: I understand that you are looking at a new building or relocation of Manitoba Hydro within the city of Winnipeg. Have there been any further developments on that end?

Mr. Brennan: No, the only thing we have looked at, at this point in time, is how much

space we would require if we consolidated all our people in rented space, and that is all we have done at this point in time.

Mr. Reimer: Could you give us an update as to your labour contracts with your employees? I notice that was not in your presentation.

Mr. Brennan: Last year we signed three-year agreements with all of our unions. We have three unions within Manitoba Hydro: on the electricity side, IBEW, the electrical workers in the field; our office workers are represented by CUPE, the Canadian Union of Public Employees; and then we have a staff and supervisory union. All three parties signed an agreement last year for three years, so we are good for another two years after this.

In addition to that, CEPU, which is the union representing natural gas workers, has an agreement that goes forever sort of thing unless one side wants out. What we are trying to do is integrate them into Manitoba Hydro's negotiation process, and we are negotiating with them. They do have a formula in their agreements that provide for future increases, and that is part of the agreement. So, from a labour stability point of view, it looks like we are okay.

Mr. Reimer: Just as a matter of clarification, do very many of your employees fall under The Essential Services Act presently?

Mr. Brennan: I do not think any of them do at this point in time. I think I am correct in saying that. None do at this point in time.

Mr. Reimer: You answered a question by my colleague from Turtle Mountain (Mr. Tweed) in regard to the agreement with Split Lake. Am I right in assuming that, if there is an agreement set up between Split Lake Cree and Manitoba Hydro, a separate entity has to oversee and manage that project, being in itself because it is in partnership with a second party? Or how would that agreement in principle be managed?

Mr. Brennan: It will be managed by Manitoba Hydro. Manitoba Hydro forces would manage and operate the plant, and the owners of one particular plant would be Manitoba Hydro and the Cree. They could only sell the output of the plant to Manitoba Hydro.

Mr. Reimer: Yes, I recognize that, but the agreement in principle would be with, theoretically, a third party. Is that not right? Because of the set-up of the association between Manitoba Hydro and Split Lake Cree, they would be sort of a branch off of Manitoba Hydro. Is that right?

Mr. Brennan: The majority owner would be Manitoba Hydro, and there would be a minority owner of one plant that would have involvement from the Cree. At this point, we have only signed an agreement in principle with Split Lake, but we are hopeful of bringing in other bands within the area as part of their share.

Mr. Reimer: On a different topic, you mentioned in your presentation that any expansion of Manitoba Hydro for additional generating capacity would be for export only, I believe you said in your presentation. If you are looking at export only, you are looking at the fluctuations of the American market presumably because that would be our biggest customer. Under NAFTA, your pricing of your product has to be competitive. If you are relying on a huge amount of export into the United States controlled by NAFTA which sets the prices, and you are going into a very, very competitive market where competition drives the prices up, indirectly are you not going to be raising the prices here in Manitoba?

* (11:30)

Mr. Brennan: NAFTA does not say that we cannot go and negotiate the best deal we can for Manitoba Hydro, and we intend to do that. So the market will determine what the prices are. If the market is such that we can get a good price, we will try. The market prices have been going up quite significantly in the last few years, and we have been taking advantage of that. We do think that it is a good opportunity to look at some of these, you know, smaller plants, if you will, where the risk is not that high.

But, before we make a firm decision on these plans, we will take a look at all the risks and just see what we think the potential of them materializing are. That will be part of our due diligence, if you will, in terms of deciding

whether we should proceed. So far it looks pretty good for at least some of the plans.

Mr. Reimer: I am in full agreement that we have to go after as much market as we can. I am just relating the fact that when you are going into a very, very competitive market, one of the largest consumers of energy in the world, which is the United States, and the market will dictate the price, and you as a responsible corporate entity want to maximize your profitability of what you are selling into the United States, that profitability is tied into an agreement of competition within our own country.

Indirectly, our prices may be going up because of the aggressiveness of going after the market in the United States.

Mr. Brennan: There is nothing in NAFTA that says we have to increase our prices to do that, nothing at all that says our prices have to keep pace. What we are trying to do is get the additional revenue to keep our prices down.

The only thing we have to do is go out into the market and be fair. When we offer something to the States, we have to make sure that it is available for Canada, you know, Ontario, if they want it, Saskatchewan, or whatever. In most cases they will not want it at that price. But the National Energy Board as well as NAFTA suggests that we are in a competitive environment, and we should do what is best for all of us.

So NAFTA, really, from our perspective, we think it helps us.

Mr. Gilleshammer: There have been discussions in the media recently, and I think the minister has made comment on it, and Mr. Brennan has, about new projects and new expansion in the North, the building of some new dams. What is the process government will go through in determining where to build, when to build and how big they should be?

Mr. Selinger: Well, in the first instance, Manitoba Hydro as the responsible Crown corporation is undertaking the consultations and negotiations with the communities to come to an agreement in principle. Once they have an

agreement in principle that they can recommend administratively to the board of Manitoba Hydro, they do so, and then Manitoba Hydro board brings that to me as the minister responsible, and I take it to Cabinet for consideration.

That general set of steps I think will be followed at each stage in the process. Once the agreements in principle provide a framework for negotiating a project development agreement, then I think the same procedures will unfold.

But under The Hydro Act any new generating facility at the end of the day will have to go through that process and will require a Cabinet decision to proceed.

Mr. Gilleshammer: Is there any point in this decision making that the members of the general public will have an opportunity to have some input?

Mr. Selinger: Yes, there is going to be on any of these projects a full environmental review, and, as I understand it, abundant opportunity for the public to have input into that. Of course, we can have public input at this stage, at the committee stage, the Standing Committee of the Public Utilities at the Legislature, and, of course, there are opportunities through members opposite at the legislative level itself. So all the regulatory requirements for new generating facilities coming online will be followed, and it starts with the negotiation process, but also a clean environment or an environmental review process. Then, for export purposes, there is the National Energy Board which has some jurisdiction as well.

Mr. Gilleshammer: The environmental process will be specifically on whether the projects do any damage to the environment, and people will have an opportunity to bring expert testimony to that. But I am referring to just the general public in terms of whether these projects are needed at this time, whether they have an opportunity to examine the documentation brought forward by the corporation before Cabinet makes that decision. Will there be any other process that is available?

Mr. Selinger: Once again, as I understand the environmental review process, it is need and necessity for the project, so that that would require them to make the case for why they need new generating capacity, as well. So that opportunity would exist there.

Mr. Gilleshammer: I believe that, before the Government should go ahead with these, there have to be some contracts signed to show that the corporation has some sales locked up that would justify this. Are we on a path to consolidate some additional sales, some additional use, that would justify the building of these dams in the next few years?

Mr. Brennan: As the minister said, we have to be able to justify that the projects are good for Manitobans. Certainly, I do not think we always need firm contracts to do them. The interruptible prices are getting really good. In some cases, with some of the short-term firm contracts we have locked into, the interruptible sales are keeping pace with them.

I think we have to be able to demonstrate to anybody, and certainly, there are regulatory bodies in place to take care of that, that we can demonstrate that the project is good, or where we should not do it, and Manitoba Hydro does not want to take any more risks than we absolutely have to, for sure.

Mr. Gilleshammer: Someone from the corporation indicated, and I quote: We are at the point where we can build these new projects on spec, no contracts.

Is that the view of the minister and of the executive of the corporation that you can build these on spec?

Mr. Brennan: That person was probably myself. I believe that the prices are getting such that we can build them on spec. Last year, the price of interruptible power, the opportunity sales, went up by 60 percent, and if they continue like that, it will not be a problem at all. But we will make sure that all the risks, even if it is just opportunity sales, that we are able to demonstrate that the risk is very minimal.

Mr. Selinger: From a government point of view, we would want to ensure that any proposal put forward by Manitoba Hydro and its board would have a risk sensitivity analysis done, and it would ensure that the project would be viable, feasible from an economic and an environmental point of view, over the lifetime of the project.

Now the member might know that there is quite a bit of change going on in the way utilities are regulated or deregulated in the North American marketplace. The deregulated environment has created a situation where prices have gone up in certain jurisdictions quite dramatically where deregulation has occurred, and I think that is what the president and CEO was referring to, where the spot market is very healthy, but at the same time we would want to ensure that those market opportunities are sustainable over a reasonable period of time, or that the price was so good you would get a payback in a fairly short order to cover the capital investment required.

Usually it is a mix of the two. Usually it is a mix of good short-term prices and reasonable medium- to long-term prospects for the product in the wider marketplace. I should also add that I am planning to meet with other ministers of energy and utilities across the country this week in Calgary to discuss how we can support each other for energy supplies in the domestic marketplace of Canada.

* (11:40)

Mr. Gilleshammer: Would it be right to assume that the new sales of energy from Manitoba Hydro would be largely dependent on the American market?

Mr. Brennan: I think that is probably a fair statement to make. The cost of transmission between us and both Ontario and someplace like Alberta has to be recovered in the cost, and we know they are sitting on top of oil and gas. That has to be recovered in some way, and that will make them uncompetitive as it relates to the American market.

What we have to do is to build something really large. We need additional transmission out of the province. Right now with the smaller

plants, we can probably keep the existing three lines to the States full. If we go beyond that, then we will require more transmission out of the province anyway. The best market for sure is the American market.

Mr. Gilleshammer: From what I read from the American side, all sources are on the table with them, including getting back into nuclear power, also finding other power within their ability to do so. This would lead me to believe that you need some signed contracts before we go ahead with billions of dollars of new construction. Would that not be the case?

Mr. Brennan: I would love to compete with a new nuclear plant. It would take them 12 to 15 years to build one. They have not built one for a good period of time. The regulatory process they would go through would be unreal and I think we are sitting pretty. I hope they do look at a few nuclear plants. We are in good shape no matter what we do, and I think if we can take advantage of a new development, and we will only do it if there is minimal risk, but I think we are going to be able to compete with anything new. Anything new now represents a pretty big increase. We have not always had the type of inflation we have these days, but if you compare some of the plants we have built to what they would cost today, we are sitting pretty just because we have built them.

Mr. Gilleshammer: On that, the Limestone project was projected to cost in '85-86 \$1.9 billion, and I think your annual report says it came in at \$1.4 billion. Is that correct?

Mr. Brennan: When we commissioned the plant, the estimate was actually \$2.45 billion, and we brought it in for \$1.45 billion, so it is a billion dollars less. The good part about Limestone was we did not require much in the way of transmission to get it down south.

Mr. Gilleshammer: The annual reports show a reduction year after year from that early price that was put on the table at the front end of the process and that it came in at \$1.43 billion.

Mr. Brennan: You are correct. As a matter of fact, some of the decrease in price came about because of reduced interest and escalation that

we thought would occur, so as we experienced those, I am sure the number \$1.9 billion was used in one of our annual reports as we went through the process.

Mr. Gilleshammer: To the minister: The Premier (Mr. Doer) is on record saying that the public will get a say in the new hydro dams, and in this particular interview on June 13, he would not identify just how that public debate would take place, but now the minister is speaking on behalf of Cabinet. The main opportunity will be through the Clean Environment Commission. Is that correct?

Mr. Selinger: We still remain open as to the best opportunities for the public to participate. The Clean Environment Commission is sort of a fail-safe position. It is required and is there, but other opportunities may come available as well and will remain open to all possibilities to meet all the regulatory requirements and provide for public input.

Mr. Gilleshammer: I would urge the minister to consider the Public Utilities Board. I think they have some expertise on this. I know that we have had that debate this morning, that the Government likes to avoid the Public Utilities Board, but I think there is some opportunity there to bring forth that special expertise to look at these possibilities. I am going to turn it over to one of my colleagues, and I have some further questions.

Mr. Selinger: As I said, we will consider all the options. It was the previous government that did not go to the Public Utilities Board for three years. We have been in office not that long yet. We will consider all options. Even though the Public Utilities Board, as the member has pointed out, is only responsible for rates on the existing rate structure, adjustments to rates, they do not have jurisdiction over major capital projects. It might be worth considering, along with the Clean Environment Commission and, of course, the National Energy Board, with respect to export sales. All the regulatory procedures and how they can contribute to the proper due diligence for any future projects will be considered.

Mr. John Loewen (Fort Whyte): I have some questions surrounding the financial information

that was presented to committee today that I think primarily will be directed to the president of the organization. I have got the printout of the charts we saw earlier on the PowerPoint presentation. I am on page 8, the ability to internally fund capital expenditures, particularly in that chart. A quick add of the numbers indicated that from 2001 to 2011, indicate the capital expenditures of roughly \$3.6 billion, which compares to about roughly \$3.4 spent over the course of the last 10 years. So one can assume from this chart that this is ongoing typical capital expenditure without any major projects.

Mr. Brennan: We traditionally spend, just to meet our ongoing capital requirements, between \$300 million and \$400 million a year. Anything over and above that, we would have to be able to either recover internally or go to the market for. Our policy is to fund all our capital expenditures with the exception of major generation transmission out of internal funds. If we start to build Conawapa, we would not be able to do that, and probably Gull would be a problem. I think we could probably do a pretty good chance of covering the Burntwood River plant, though.

Mr. Loewen: Would that chart of capital expenditures include the other projects that were identified, Brandon, Selkirk, those type of projects you identified in your presentation. Are they included in the numbers in that chart?

Mr. Brennan: It includes the gas combustion turbine in Brandon. It includes any renovations to the coal plant in Brandon to extend the life. It does not include the new generation, on the basis of we have not made a decision on that. Once we make a decision, it would be reflected in the chart. I think I said that as we went through.

Mr. Loewen: I believe you did. I just wanted to clarify what is included in that chart and what is not, as we do not have a separate breakdown of it. So, in addition to what is included in that chart, you are presently in discussion and negotiations on capital projects that might total another \$4.5 billion.

Mr. Brennan: Approximately, that is correct.

Mr. Loewen: Can you tell us what effect that proceeding with those projects, a total of about

\$4.5 billion, can you tell us how much of that would have to be funded by debt?

Mr. Brennan: I cannot off the top of my head, but obviously the difference between the yellow line and the red line, I hope they are the same colour as the ones you got, is the amount we can fund internally. Anything external to that we would fund by debt.

Mr. Loewen: Maybe he could get those numbers back to the committee, but, roughly, I think, at the most, if one looks at the chart, you might come up with a billion dollars. It would mean probably at least \$3.5 billion financed by debt for these projects. Is that, in the roughest of terms, reasonably accurate, do you think?

Mr. Brennan: It looks like there are four years there of more than—you are probably right, but we will get it for you.

* (11:50)

Mr. Loewen: I appreciate that. At the same time, can you explain to the committee what effect spending another \$3.5 billion on these projects—how that would affect the debt ratio that you identified in the chart titled "Consolidated Operating Actuals and Forecasts"? I have that on page 7 of the report.

Mr. Brennan: It would, obviously, increase the debt component to the extent that we go to the market, and that would be offset, certainly not immediately, but over the life of the project, by the benefit of the project. So building hydro plants—they are being very, very capital intensive, as is a nuclear plant when you get involved with capital up-front and very low-operating costs. So we would have to plan for what the impact would be like on customers, and as part of our analysis, we would do that.

Mr. Loewen: Well, I am a little bit surprised, because I understand from a letter from the chairman, Mr. Schroeder, published in the *Free Press*, that plans and negotiations for these projects are moving along. Are you saying that these negotiations have proceeded without the type of financial analysis that would demonstrate to you as a corporation what it would do to your debt equity ratio?

Mr. Brennan: There are two processes we are going through. One, we are trying to arrive at a development agreement as to how we would work out the arrangements with the Cree. At the same time, we are analyzing all the details so as to be in a position to make a recommendation to the board of Manitoba Hydro and to the Government by the end of this year, and probably going over into the new year. But that analysis would include everything. We will not come up with an agreement that is totally dependent. It will be dependent upon the project proceeding.

Mr. Loewen: Well, I am a little bit surprised, because I think business, by its very nature—you project things and you forecast things. Some of them come true, some of them do not. But, certainly, before entering negotiations, I would hope that the corporation would do the financials. In my estimation, it might take 10 or 15 minutes of someone's time to crunch the numbers and determine what the debt ratio would be if one, two or three of the projects that you have identified move forward.

Are you telling the committee that none of that has been done so far?

Mr. Brennan: Oh, no, we do lots of sensitivity analysis and before we would even go and start talking to the communities, we have to make sure we have a viable project. The only way you have a viable project is you look at it ahead of time to make sure you are in that position. Now, we are in the position of trying to work something out with the communities and, at the same time, making sure we do have a viable project.

We know for sure that we cannot work out an arrangement with the communities that is going to be such that the projects are not viable. So they are done hand-in-hand. You have to remember. We want to make sure that Manitoba Hydro is protected, and we also want to make sure we deal something that is fair to the communities. It will be a balancing thing that we will have to do. Who knows? Not all the projects might be viable. We know from the work we have done in the past that some of them are. One, especially, is pretty close to the edge.

Mr. Loewen: Well, thank you. I appreciate that information. I guess I would like to say where

my interest in particular lies is the economic viability of the projects you have talked about because we have seen from Mr. Schroeder's letter to the *Free Press* that certainly negotiations are moving along fairly rapidly. In fact, his own quote is that Manitoba Hydro is now in the process of negotiating with communities that will be affected by these projects. They not only include compensation agreements with Hydro, but as potential investments. So, to reach that stage, one can only draw from that that these negotiations are fairly far along in their progression.

Certainly, if Hydro is to proceed with these projects, I would hope that it would be done on a sound financial basis. The problem I have is when I read the chairman writing that type of letter indicating to the public that, and again he is quoted in this letter, his words exactly, saying four stations, we expect, will be built in the future. So certainly it seems that the chairman, at least, is expecting the projects to be built. Weigh that with the fact that this is the same individual who, when as Minister of Finance, and I am appreciative of the fact, Mr. Brennan, that you are a chartered accountant, indicated, when the Auditor refused to sign the financial statements of the Province, that to him, as Finance Minister, it was not a big deal because, after all, it was only an accountant, and he was responsible for the finances of the Province.

I am just a little fearful that maybe now we are getting into the same situation, where we have a policy being driven by the chairman of a board with regard to his directions and his discussions directly with government that maybe is not in the best financial interests of the people of Manitoba, particularly when I look at the fact that Manitoba Hydro might have to increase its borrowing to complete these projects in the neighbourhood of \$3.5 billion. Add that on top of the \$6.2 billion of debt, I think, that the corporation presently carries; we are getting close to carrying \$10 billion of public debt in our Crown corporation. We are hearing, at the same time, that these projects at this particular time might be able to proceed on spec, that in fact they may not be backed up by long-term contracts. At the same time, we are hearing from the Minister of Finance that he is unwilling to take this information before the Public Utilities

Board and in fact put this information in the public realm in the way that it should be dealt with so that all of the information gets out to the public.

I hope, putting all that information together, the minister, in particular, can understand why we are having such considerable difficulty with the process that is being undertaken by Manitoba Hydro. As you stated in your presentation—and I think my interpretation quite proudly and quite rightly so that the debt-to-equity ratio—the debt ratio—of the corporation was going to get down to its target of 75 percent well before the original goal was set. I think that is definitely a goal worth working towards. But all of a sudden we are faced with a situation where that debt-to-equity ratio could skyrocket, taking on approximately 50% more debt than is on the books right now.

So, when I look at those three factors, that we are not seeing a thorough financial analysis of what the extra debt might do to the ratios when we are faced with a situation where apparently it is public policy over good, sound accounting, particularly when we see that, in addition to that, it is public policy over what is, at least until this point, by law a necessary review by the Public Utilities Board. When you put all three of those together, it is very disconcerting to receive this type of information in this fashion. So I guess I would ask the president if we could have presented to this committee, the sensitivity analysis that he has indicated has been done internally and in particular, with regard to the debt-ratio and how it will be affected by moving forward with any one of these projects, or two or three of them at the same time.

* (00:00)

Madam Chairperson: Order, please. As the hour is approaching 12 noon, shall the annual report of the Manitoba Hydro-Electric Board for the year ended March 31, 2000, pass?

Some Honourable Members: Pass.

Madam Chairperson: The hour being 12 noon, committee rise.

COMMITTEE ROSE AT: 12 p.m.