

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

Tuesday, 4 June, 1985

IE — 10:00 a.m.

CATION — Winnipeg, Manitoba

AIRMAN — Ms. Phillips

TENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Harapiak, Parasiuk,
Hon. Mrs. Smith

Messrs. Ashton, Enns, Filmon, Fox, Manness,
Ms. Phillips, Mr. Ransom

PEARING: Manitoba Energy Authority - Marc
Eliesen, Chairman

TTERS UNDER DISCUSSION:

1984 Annual Report - Manitoba Energy
Authority

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ERK OF COMMITTEES, Ms. T. Manikel: Committee,
me to order. As our former Chairman, Mr. Santos,
no longer a member of this committee, we must elect
new Chairman. Are there any nominations?

ON. W. PARASIUK: Myrna Phillips.

S. CLERK: Are there any further nominations? Seeing
none, Ms. Phillips, will you please come to the Chair?

ADAM CHAIRMAN, M. Phillips: I call the committee
to order. I will invite the Honourable Minister to make
an opening statement on the report we are considering
the Manitoba Energy Authority.

ON. W. PARASIUK: Thank you, Madam Chairperson.
Obviously, the Manitoba Energy Authority has had a
tiring and busy year. It would be my intention to have
the Manitoba Energy Authority presents its report, have
the Annual Report reviewed, and then do Hydro
business to that.

Given that, I would like to now call on the Chairperson
and Executive Director of the Manitoba Energy
Authority, Mr. Marc Eliesen, to make a statement to
the Public Utilities and Natural Resources Standing
Committee of the Legislature.

ADAM CHAIRMAN: Mr. Eliesen.

R. M. ELIESEN: Thank you.
On behalf of the Board of Directors of the Manitoba
Energy Authority, I am pleased to present to you
information on the activities of the Authority this past
year. I note that the 1983-84 Annual Report of the

Authority has been tabled in the Legislature, and I
believe additional copies are available from the Clerk
of the Committee.

Since this is only the second time that the Authority
has made a presentation to this legislative committee,
it may be useful to provide committee members again
with a brief outline of the Manitoba Energy Authority's
legislative mandate.

The Authority was established by The Manitoba
Energy Authority Act which came into effect on July
2, 1980. In general, the Authority is responsible for
formulating and putting into place policies that ensure
the long-term energy security of Manitobans. More
specifically, we are charged with negotiating the export
and import of electrical energy from and into the
province. Finally, the Authority performs duties in these
and related areas as directed by the Minister of Energy
and Mines or the Lieutenant-Governor-in-Council.

The first Board of Directors of the Authority was
appointed March 18, 1981, and was chaired by Mr.
Paul Jarvis, the then Deputy Minister of Energy and
Mines. The present Board is chaired by myself with Mr.
Saul Cherniack as Vice-Chairperson. Other members
serving on the Board include Mr. John Arnason, the
President and Chief Executive Officer of Manitoba
Hydro; Mr. Alan Puttee, the former Assistant Deputy
Minister of Energy for the Department of Energy and
Mines; and Ms. Patty Park, Special Assistant to the
Minister of Energy and Mines.

In addition to a small professional staff that it employs
directly, the Board is assisted in its activity by the staff
of the Manitoba Department of Energy and Mines, and
Manitoba Hydro.

Today I have with me a number of staff members
knowledgeable in the field of electrical export
negotiations and government policy related to the co-
ordination on the construction of the Limestone
Generating Station. If there are any matters that we
can't fully address today, then certainly we would
attempt to, in writing, provide those detailed replies.

I want to begin by outlining the MEA's principal
activities during the past year. First, the National Energy
Board decision on the Northern States Power contract
will be reviewed. Then a report will be provided for the
committee on the status of MEA activities in the field
of power export negotiations. Also, a brief outline will
be provided on discussions that have taken place
between the Energy Authority and representatives of
energy-intensive industries seeking to locate in
Manitoba. Finally, I will conclude with a synopsis of the
Authority's responsibility for the co-ordination of
government policy surrounding the construction of the
Limestone Generating Station.

Northern States Power Contract.

This past year has been an important one for the
Energy Authority. Following successful negotiations
between the MEA and Northern States Power Company of
Minneapolis, Manitoba Hydro applied to the National

Energy Board of Canada in August of 1984 for a licence to export 500 megawatts of electricity to Northern States Power Co. for a 12-year period beginning in 1993. The Board held hearings into the application in November, hearings during which 17 groups intervened. The NEB rendered its decision on March 18th of this year, approving the agreement and granting Manitoba Hydro a licence allowing it to meet all of the terms of its contract with NSP.

Members of the committee will recall last year's discussion of the NSP contract. I would like to review with the committee the analyses we presented to you last year, and that undertaken by the National Energy Board in its March, 1985 decision:

1. General Evaluation.

In bringing the NSP contract before the committee, I stated that there were many economic benefits and that: "This was a good business deal for Manitoba."

When put to the test of the National Energy Board's own independent analysis, the Board agreed, stating that: "The Board was satisfied that the revenues from this export would accrue to the benefit of not only Manitoba but Canada as a whole."

2. Profits from the Sale.

Information was presented last June which showed that Manitoba could expect to receive around \$400 million (discounted to 1984 dollars) or \$1.7 billion, when expressed in "as received" dollars, in profits over the life of the 12-year agreement.

The National Energy Board examined our work carefully and concurred with the estimates we put forward by stating that: "The export sale is expected to yield net revenues of about \$400 million (1984 discounted dollars) over the term of the contract."

3. Costs of Making the NSP Sale.

Information on the costs incurred by Manitoba Hydro in making the NSP sale was presented to the committee last year. This showed that the capital and interest costs incurred by advancing the next three stations in Manitoba Hydro's generating sequence, together with the associated operating and maintenance costs and the costs arising from the reduced surplus sales occasioned by the sale were some \$305 million (1984 discounted dollars). I reported our view that the costing methodology was the appropriate one to use in the circumstances, and was that followed by other Canadian utilities when evaluating similar projects. I also noted that we looked forward to evaluating the views of others regarding costing methods and results.

These matters were fully discussed at the NEB hearings where witnesses from Manitoba Hydro were available for cross examination.

In their decision, the National Energy Board agreed with our assumptions and methodology on cost apportionment, concluding that the advancement costs were "in the Board's view the appropriate costs to be assessed against the export."

4. Sensitivity Analysis.

Last year we informed this committee that while there were certain risks involved in the NSP deal, these had been fully analyzed and sound provisions had been negotiated into the contract to protect Manitoba's interests. In estimating the \$1.7 billion profit base case,

cautious assumptions had been used in the analysis. A full range of inflation rates, interest costs, construction costs, load growth, exchange rates, coal prices, etc had been examined in 15 separate sensitivity tests. In all cases, benefits would accrue to Manitoba.

The National Energy Board in their decision agree that we had assessed the risks properly and had negotiated appropriate protection for Manitoba.

"In the case at hand the Board notes that a sensitivity analysis has been concluded in the applicant's cost recovery analyses. The Board accepts that the sensitivity analysis addresses risks and demonstrates that under conditions of lower or higher interest rates an escalation rates, and different load growth rate: benefits to the applicant remain substantial. The Board also notes that the export contract and the pricing formulae contain features and provisions which would minimize the impact on the applicant's revenues of significant reductions in Sherco 3 costs resulting from the United States Government actions or changing economic and financial conditions.

"Based on these considerations, the Board is satisfied that there is sufficient evidence to show that the risk associated with the proposed export have been adequately examined and are within acceptable bounds."

5. Load Forecast.

Some questions were asked by committee member during our last appearance before you concerning the load growth forecasts which underlay Manitoba Hydro conclusion that Limestone would be required to meet Manitoba's own needs and requirements for electric use in 1992.

Manitoba Hydro's load growth estimates received thorough review by the National Energy Board. "The Board notes that the June 1984 load forecast, which was filed during the hearing, predicts slightly lower load growth during the requested period, an correspondingly larger surpluses. The Board is satisfied that the load forecast methodology used in these forecasts is reasonable."

6. Sequence of Generation.

Information was presented at last year's committee hearings showing the impact on the starting date of the Limestone Generating Station as a result of the NSP sale. Manitoba Hydro in their application before the National Energy Board provided their analysis which showed that a \$21 million (1984 discounted dollar) additional profit would result from the one-year advancement to a 1990 first power date for the Limestone station.

The National Energy Board agreed that the one-year advancement to 1990 would mean a profit for Manitoba Hydro and verified Hydro's estimate of the size of the profit. "The Board notes that for the sale sequence from Manitoba Hydro's perspective, the excess revenues over costs for the two-year advancement would be about \$20 million more than the one-year advancement."

The NEB further stated that although it was outside their jurisdiction to sanction an in-service date for Limestone, they could find no fault with Manitoba advancement plans and again I quote: "In the circumstances, the Board would not accept a

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attention that approval of this export licence application is tantamount to approval of the advancement of the in-service dates of the Limestone, Muskrat 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."

7. Price to NSP vs. Price to Manitoba Hydro customers.

We provided information to the committee last year showing that due to the profits resulting from the NSP sale, the rates paid by Manitoba customers will be lower with the sale than without the sale. Furthermore, additional material indicated that the rates that will be paid by Northern States Power will be significantly greater than the rates that will be paid by the average ratepayer in Manitoba during the sale period, 1993 to 2005.

The National Energy Board in their report stated that while it was difficult to compare rates at which power was sold to another utility and those at which it was delivered to a customer they were confident though that Manitobans would pay less for Manitoba Hydro electricity than NSP would.

Again I quote from the Board's report: "The Board is aware that the export price would be substantially greater than the rates paid by the applicants' large industrial customers.

"The evidence showed that the proposed export price is from 67 to 98 mills per kWh over the life of the contract would far exceed Manitoba Hydro's domestic rates for large industrial customers of approximately 0 mills per kWh in 1984 and 34 mills per kWh estimated for 1993."

8. The Price Paid by NSP.

Finally, when the Manitoba Energy Authority came before you last year we argued that we had negotiated a deal with NSP and were satisfied that we had obtained a good price, a fair price for the electricity Manitoba planned to export. This was in our view the real test of the contract with NSP.

I must say we were pleased to have the National Energy Board verify that in their words, and I quote: "The Board is satisfied that in the circumstances of this case the export price is the best price that could be negotiated by the applicant in its particular United States market."

The National Energy Board conducted its own independent analysis about the NSP sale. Their analysis confirmed that which was presented to this committee last year which showed that the NSP sale is a sound business deal that will bring benefits to Manitoba for years to come.

9. Current Export Sale Negotiations.

With a sound deal in place with Northern States Power we can now go forward to other Canadian and American utilities and bargain from an established position of strength in electricity export sales.

Significant progress was made in negotiations for future export sales over the past year. While important advances were made these are sales and multi-year commitments requiring both time and prudence.

We continued discussions with the Western Area Power Administration (WAPA) of Golden, Colorado, for the sale of 1,200 megawatts of power for 35 years.

In April of this year, we signed "a principles of negotiation" document with the Wismintoba Group - a group of eight utilities primarily in Wisconsin - for the sale of 1,200 megawatts of power for a 15 to 30-year period.

We are continuing negotiations with the Minnesota-Wisconsin Power Suppliers Group - a group of seven, primarily Minnesota utilities - for a 500 to 1,100 megawatt purchase for a 15 to 30-year period.

During the past year, both Ontario Hydro and the Saskatchewan Power Corporation approached Manitoba regarding the sale of electrical energy on a firm basis. Saskatchewan Power has indicated an interest in discussing the purchase of 300 to 500 megawatts over the long term beginning in the early 1990's.

I am now pleased to announce that the Manitoba Energy Authority and Ontario Hydro have agreed in a Letter of Intent to undertake studies and to enter into negotiations regarding a proposed power sale which could take one or more of the following forms:

- a sale over existing transmission;
- a sale of firm capacity and energy in the 300 to 500 MW range for a period of up to 20 years with additional capability added to existing interconnections; and
- a sale of firm capacity and energy of about 1,000 MW for a period of up to 35 years with new transmission added from Manitoba to Ontario.

Copies of this recently signed Letter of Intent are available to members of the committee, and I believe they are currently being circulated.

Manitoba is pursuing thus a number of options and, in this way, we have sought to avoid putting all our eggs in one basket. We have kept each potential buyer informed of the other negotiations and of the fact the province will conclude one and, at most, two more deals. We feel that by having a number of competing sales options in play, Manitoba has established a solid bargaining position that will bring the largest possible benefits to the utility and to the province. We expect that a contract will be signed with one of the potential buyers within the next 12 to 18 months.

The conclusion of another major power sale would necessitate the advancement of the construction of the 1,300 MW Conawapa Generating Station. Conawapa would require a 10-year development schedule, creating 9,000 person years of direct and 16,000 person years of indirect employment.

During the past year, the Nebraska Public Power District decided they could no longer pursue the MANDAN Line Project. Nebraska had acted as the lead utility in the United States for the project. In their judgment and in ours, the MANDAN Line continues to be a viable proposition offering significant benefits to utilities on both sides of the border. However, Nebraska decided that, due to lower than expected load growth, there was not sufficient interest amongst their partners to continue with development of the line. Nebraska Public Power invested about \$35 million - that should be in U.S. dollars - in MANDAN over the past 10 years. Manitoba Hydro has spent about \$5 million to \$6 million Canadian on the project, largely to plan the route the line would take. These plans will be used as we examine options for future transmission routes to our American customers.

In view of the MANDAN Line cancellation, we have commenced discussions of establishing seasonal diversity exchanges with other summer-peaking neighbours. The benefits of this kind of arrangement have long been recognized on both sides of the border.

Energy Intensive Industry Discussions.

The Manitoba Energy Authority has also been charged by the Minister of Energy and Mines with responsibility for encouraging energy-intensive industries to invest in Manitoba. To this end, we engaged in a joint study of the construction and operation of an aluminum smelter in Manitoba with the Aluminum Company of America. In December of last year, Alcoa decided to withdraw from the study, citing as reasons changes in its corporate priorities resulting from a poor international market in aluminum.

At the time of its withdrawal, Alcoa noted that Manitoba is amongst the leading contenders in the world for the establishment of a greenfield smelter. Mr. Fetterolf, the President of Alcoa stated: "Alcoa's decision to end plans for the smelter is not related to the specifics of the Manitoba site. The province would be among leading contenders in the world as a site for a greenfield smelter." Since this is our view as well, the Authority is continuing discussions with a number of European and Asian aluminum producers who have expressed interest in locating in Manitoba.

In August of last year, Manitoba signed a Memorandum of Understanding with the Federal Government in which Canada agreed to co-operate with us in encouraging an aluminum smelter to locate in the province. Discussions have commenced on possible federal support in this area.

Limestone Co-ordination.

The Manitoba Energy Authority has been charged by Cabinet with the co-ordination and implementation of government policy related to training and employment, purchasing and tendering, industrial offsets, and communications for the Limestone project.

I would now like to give members of the committee a brief outline of our activity on each of these fields.

Training and Employment.

In January of 1985, amendments to the Nelson-Burntwood Collective Agreement were signed by the Hydro Projects Management Association representing Manitoba Hydro and major project contractors, and the Allied Hydro Council representing construction unions.

The agreement itself has been in place since 1972 and has guaranteed labour peace on major hydro projects since that time. The amendments which were negotiated and agreed to by union and management representatives enhance opportunities for qualified northern Native and other northern residents on major hydro projects including Limestone. The agreement also improves working conditions at the site.

To ensure that Northern Manitobans have a fair chance to become qualified for jobs at Limestone and future stations, a Northern Training Program has been introduced. To co-ordinate that training, the Limestone Training and Employment Agency has been established. The agency will co-ordinate the delivery of training provided by Provincial and Federal Government departments, as well as initiate training where none currently exists.

The training program is designed to meet the job requirements and construction schedule at the site. Trainees will receive simulated training at centres Thompson and Lynn Lake for some occupations, and community based training in others. Most classroom work will be conducted through Keewatin Community College.

Purchasing and Tendering.

New purchasing and tendering policies to encourage the participation of Manitoba business in Limestone were also introduced in January. The Energy Authority co-ordinated the work of government departments and Manitoba Hydro to design these new guidelines and is now helping to put them in place.

While the open competitive tendering system will remain the first principle of Limestone purchasing, these policies set out local content as a component in the evaluation of contract bids. To begin, Hydro has designed contracts that are within the scope of Manitoba companies. Sourcing material to help contractors identify Manitoba subcontractors and suppliers has been published.

In certain limited circumstances where social and economic benefits outweigh costs, the Provincial Government, through the Manitoba Jobs Fund, prepared to pay a price differential on contracts to enhance Manitoba content.

As well, Manitoba Hydro may, under limited and special circumstances, restrict calls for tenders to northern companies. It may also enter into negotiated contracts with northern Native groups.

To help inform Manitoba business about the opportunities these new policies will produce, six information seminars were held in centres around the province with about 800 representatives of local business in attendance.

Industrial Benefits.

The Manitoba Energy Authority recently signed an industrial benefits agreement with the Canadian General Electric Company related to the Limestone turbine and generators. The CGE contract is a good deal for Manitoba.

Manitoba Hydro will be purchasing turbines and generators at a price significantly below their initial estimates. The Province of Manitoba will be receiving an industrial benefits package worth \$150 million, which will provide continuing benefits beyond the term of the turbine and generator contract through lasting investment and job creation. In addition, 2,300 persons will be created, the same as would have been created if the turbines and generators had been manufactured in Manitoba.

Two previous governments and two previous Hydro Boards initiated discussions with CGE to negotiate such a package. However, this is the first time an industrial benefits package such as this has been signed in Manitoba.

The Industrial Benefits Package is made up of five components. First, CGE has agreed to ensure that \$1 million is invested in viable and long lasting business operations in Manitoba. Second, between 100 to 16 permanent new jobs will be created in the province's high technology industries. Third, CGE will fund two research projects at a level of \$100,000 each at the

Manitoba High Voltage Direct Current Research Centre and at the Manitoba Microelectronics Centre. Fourth, CGE guarantees that the turbines and generators used at Limestone will contain a minimum 15 percent Manitoba content, about twice the Manitoba content achieved at Long Spruce. CGE will endeavour to increase this to 25 percent. Finally, CGE will invest \$2 million in an economic development program with Northern Native entrepreneurs involving joint ventures in fields of CGE expertise.

Communications.

None of these new programs which enhance Manitoba participation in Limestone can be effective unless accompanied by a communications plan which informs Manitobans about these opportunities.

To facilitate this, the MEA has opened two information offices, the Manitoba Jobs Fund Limestone Development Office in Thompson and in Winnipeg. These offices serve as the first point of public access for individuals and businesses interested in receiving information on Limestone. Five informational brochures on various aspects of the project have been produced and thousands have been distributed.

In conclusion, this has been a busy year for the Manitoba Energy Authority. In the coming months, we hope to conclude another major hydro-electric export sale, make progress in encouraging energy intensive industries in the province and will continue our role as overall co-ordinator of government and Manitoba Hydro policy around the construction of the Limestone Generating Station.

Thank you.

MADAM CHAIRMAN: Thank you, Mr. Eliesen.

How would the committee like to proceed? Page-by-page, or the report as a whole?

The Leader of the Opposition.

MR. G. FILMON: Madam Chairman, I wonder if we could achieve some agreement. We're dealing with, I believe, the report of the Manitoba Energy Authority and the report of Manitoba Hydro, that we will attempt from our perspective to discuss each of these separately, but we won't pass anything until the end. So if we go over to Manitoba Hydro and we find that the question we're asking should, in fact, more properly be addressed to the Energy Authority, that we could ask it under those circumstances, and not be restricted to being told, well we should have asked that when we were in the last discussion.

HON. W. PARASIUK: I have no problem with that. It's just that I think just in terms of allocations of staff, this would be the one for basically Manitoba Energy Authority, that we would move on to the Manitoba Hydro when people feel that they're finished with the Energy Authority. But if there is something that people want to raise, it certainly wouldn't be cut off on that understanding.

MR. G. FILMON: All the staff here are staff of the Energy Authority?

HON. W. PARASIUK: No, there are a couple of people from Hydro as well.

MADAM CHAIRMAN: Is that agreed? (Agreed) Okay, proceed.

The Leader of the Opposition.

MR. G. FILMON: Madam Chairman, I wonder in going through the lengthy address provided by the Chairman, perhaps I can go back to front and just ask a few questions that come to mind.

There seems to be an interrelationship of funding and responsibility on a number of aspects of the Energy Authority. For instance, in the field of communications there is a reference to the Manitoba Jobs Fund Limestone Development Office - offices I presume that should be - in Thompson and Winnipeg. Under which budget would these appear? Would they be under the budget of the Manitoba Energy Authority or under the Jobs Fund?

MR. M. ELIESEN: Madam Chairperson, the funding for the Limestone-related activities come under the Jobs Fund, and the source of financing is from the Jobs Fund. So it is not directly sourced from the Manitoba Energy Authority.

MR. G. FILMON: Why would that be, Madam Chairman? Doesn't that just sort of confuse the lines of authority and responsibility? Shouldn't it all be centralized under either Manitoba Hydro or the Manitoba Energy Authority? Why do we need to get involved with the Jobs Fund on this particular thing?

HON. W. PARASIUK: That certainly exists with other departments and agencies where the thought was that there could be greater spinoffs, some greater maximization by using Jobs Fund funding. That's the reason why the Jobs Fund was set up to try and expand the employment opportunities for Manitobans.

In the first instance there was a lot of funding in relation to community assets and community projects and some government projects. As was clearly stated last year the strategy then was, there were some opportunities that appeared for longer term developments to try and ensure to the fullest extent possible, there be an attempt to maximize long-term jobs and long-term employment. This is the approach that, as a result, was tabled.

MR. G. FILMON: Madam Chairman, I wonder if I could ask, the Minister refers to greater spinoffs and greater benefits. Is the Minister saying those benefits that are there as a result of the Limestone Project would not be there if it were not for the presence of the Jobs Fund?

HON. W. PARASIUK: I'm saying that every little bit helps, and I think that this is part of a co-ordinated effort. For example, there may be some opportunities for the Manitoba Jobs Fund to work in concert with CGE through the Department of Industry, Trade and Technology. There are some possibilities there that have already been communicated to a number of firms in Manitoba.

Indeed I think by taking this co-ordinated approach, by involving various departments, by having the Jobs Fund involved, I think that we will indeed achieve a

greater spinoff from the Limestone development for Manitobans than hitherto has taken place when we've had the Long Spruce developments or the Kettle Rapids developments or developments before that time.

MR. G. FILMON: Madam Chairman, during Long Spruce and Kettle and others, we didn't have for instance the Manitoba Energy Authority. I am concerned that rather than co-ordinating we're dispersing the efforts and, in fact, multiplying the bureaucracy in an effort to try and maximize the awareness of the advertising spinoff on the Jobs Fund and the promotional spinoff on the MEA and so on and so forth that, in fact, I can't see that there are additional jobs that are being created other than perhaps in the Manitoba Jobs Fund. But those jobs that will be created by Limestone will be created by Limestone, not by the Manitoba Jobs Fund.

If there were a concern to try and have an overall umbrella co-ordination, why couldn't that function be performed by the Manitoba Energy Authority. And since they're dealing in the negotiation of agreements, as has been laid out here with CGE, if that is the objective of the government, as stated and put forth, why could that mandate not be carried out by the Energy Authority instead of getting now, yet, a third party involved in the whole process.

HON. W. PARASIUK: Well, I don't think there's a great point of disagreement between myself and the Leader of the Opposition, and the coordinating function, indeed, is being carried out by the Manitoba Energy Authority. There are particular types of funding for that being provided by the Manitoba Jobs Fund to ensure that task is achieved, and that is nothing unusual in the way in which the Jobs Fund operates. We've had instances of departments receiving particular funding from the Jobs Fund to carry out a particular task within its ambit, and this is what is happening here. I think the proof of the pudding will be in the eating.

I believe that there are significant improvements being made in terms of maximization of jobs. I think by communicating to the general public, in a whole variety of ways, we have increased the interest and the awareness of the Limestone potential to Manitoba business people. I think that one of the points that were raised here is that there were seminars that were held around the province and you had about 800 representatives of local business in attendance. In fact, my understanding is that we had to schedule more seminars because the business community was so interested. And I think that all augurs well.

MR. G. FILMON: Surely the Minister isn't suggesting that those seminars couldn't have been organized and those 800 people wouldn't have attended if the Jobs Fund hadn't been involved. You know, surely that could have been done by the Manitoba Energy Authority under direction from the Minister and under government policy stating this is what we want to do, and we want to get the small businesses involved, and we want to have the seminars to create the awareness and inform people of our objectives and of the opportunities. Surely that could have been done by the Manitoba Energy Authority, or even Manitoba Hydro for that matter.

HON. W. PARASIUK: We, in fact, are having those things done, it's a matter of how one wants to fund them, and it is certainly legitimate to have those types of broad government objectives pursued by having the Jobs Fund providing funding to try and achieve those objectives. That is the function of the Jobs Fund and in fact, it fits in very well with the approach of trying to maximize spinoffs and maximize long-term job opportunities for Manitobans and I believe that, through a combination of instruments, Hydro; Manitoba Energy Authority; Jobs Fund, being an entity or instrument that is used to add here or provide a bit of a catalysis there; the Department of Industry, Trade and Technology, that a great deal more is being achieved now than has been the case to date. We have said that as a matter of policy and we certainly are doing our best, more so than I think has ever been done in any other province, more so than has been done in this province to date, to try and achieve that maximization of spinoff benefits to Manitobans.

MR. G. FILMON: The statement by the Chairman indicates that the Manitoba Energy Authority has opened two information offices, but those offices are Jobs Fund offices so who really has opened those offices and under whose jurisdiction do they exist?

HON. W. PARASIUK: Well, in terms of accountability the accountability and the responsibility for them lie with the Manitoba Energy Authority. There have been a number of activities undertaken in this province with public agencies, or through community agencies, or with the private sector, where Jobs Fund has provided funds for certain types of activities geared to promoting longer-term economic growth in long-term job development in this province. This is one such activity and I don't think there's confusion with respect to other types of activities as to the Jobs Fund being a funder but an entity being the deliverer and being accountable for the delivery.

MR. G. FILMON: So the Energy Authority has opened the offices and is responsible for them, but the Jobs Fund is staffing them and providing the funding, is that how it works?

HON. W. PARASIUK: The Jobs Fund provides funding, but the Manitoba Energy Authority is responsible for staffing them.

MR. G. FILMON: How many staff, Madam Chairman, are in each of these two information offices?

MR. M. ELIESEN: In response to the question, I should first note that one is not a new office. The office in Winnipeg is really utilizing the office space available of the Department of Energy and Mines Information Offices, and what we've done there is take over a part of that space in order to provide that kind of service to requests that have been made. There are approximately four individuals involved in Winnipeg, and three in Thompson who are involved in this area.

MR. G. FILMON: What are their position classifications and responsibilities?

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MR. M. ELIESEN: We can make that information available in a few minutes.

MR. G. FILMON: What are the budgets for each of these offices, and what are the budgets for advertising for these offices, or can that be separated? Should we be talking more on global terms of the overall budget for the Limestone project, the MEA's role in it and the Jobs Fund's role in it?

HON. W. PARASIUK: I have said that when it came to the information and communication program relating to the overall Limestone development that I expected that that whole package would come in at less than a million dollars, and that what we had was a project of continuous consultation with the various groups that I spent quite a bit of time in the northern working group on Hydro involvement, or the working group on northern involvement and Hydro development. We spent quite a bit of time before we launched anything to consult with the business groups in this province; to consult with community groups; to consult with labour organizations, and to get from them what they thought were very important feedback with respect to this project. And we were informed that information and communication would be very important.

We have attempted to meet those information and communication requirements with a budget overall that we think will be less than a million dollars, and we continue to monitor this, try to get feedback from the groups. And when the Session ends I certainly expect to meeting with more of them on an ongoing basis, because we have said that the consultation process should be ongoing and should be continuous because this is a major project and it will take eight years to complete. Certainly the information communication requirements are greater at the beginning of the project than they are towards the end or even in the middle and it's important to monitor to see whether in fact the various groups feel that they're getting sufficient information. That is why in overall terms we have said that we expected the budget to be less than \$1 million and will monitor the situation over the course of the next three months to determine whether there will be changes to that.

MR. G. FILMON: Madam Chairperson, we know the Minister's and the government's view that information communication are very important. We saw that from a Cabinet document of September, 1983, in which it is one of the two important things in the mind of this administration. But what I want to know is, does the \$1 million include the information communication expenses that will be paid for out of Manitoba Hydro's budget, out of the Jobs Fund budget and out of the Manitoba Energy Authority budget, all three budgets to do with the Limestone development, do they collectively come in under \$1 million in direct advertising?

HON. W. PARASIUK: Yes, they do.

MR. M. ELIESEN: Madam Chairperson, I can provide the information in terms of the classification, so while I don't have the actual salary levels, those certainly can be communicated in writing.

With regard to Winnipeg, there is an overall management co-ordinator and I don't have his classification handy. There is a secretary to the co-ordinator who is an AY3. There are two information officers at a Clerk 4 level - that's in Winnipeg.

With regard to Thompson, there is an overall management co-ordinator and we'll make available his exact classification; a secretary at the AY2 level and an information officer who is classified as a Clerk 4 level.

Both Winnipeg and Thompson, since these offices have been open, have had to deal with over 7,000 individual requests from Manitobans dealing with jobs, dealing with business opportunities, etc., and the people who have been supplying this basic information are the people who I've referred to now.

MR. G. FILMON: I thank the Chairman for that. I am curious, Madam Chairman, as to why, if the principal function of these offices is to assist people in knowing about the employment opportunities and in fact the job creation opportunities and the opportunities for contracts and spinoff benefits, why, if those are the major thrusts of those offices, the major staff complement is information officers and secretarial? There are no employment counsellors and there are no economic development specialists involved who can really relate the opportunities to the people.

MR. M. ELIESEN: Madam Chairperson, the Information Office deals directly with some of those basic requests for information on employment opportunities, how to be referred to Canada Manpower, etc., as well as dealing with specific requests from business in terms of contract opportunities.

They also have available which they refer then to the specialized departments for the detail that is required. For example, in the case of small business or medium business seeking opportunities for subcontracts, upon initial contact with the Limestone development office, they would be referred to specific individuals either in Manitoba Hydro with regard to purchasing policy, or people in the department of Industry, Trade and Technology who have put together the various sourcing directories available for the main contractors or people who are bidding on the main contracts. So there are follow-up individuals with more specialized knowledge who are referred to after an initial contact with the development office.

MR. G. FILMON: Madam Chairperson, I wonder if I could ask, what is the principal purpose of spending \$1 million advertising the Limestone project? Is it to try and persuade the public of Manitoba that it is a good deal for Manitobans? That it will enhance the people's opinion of the government for having entered into this agreement? That it will give a sense of development for the province of major development in job creation? What's the purpose of spending \$1 million in advertising Limestone?

HON. W. PARASIUK: We believe that there are tremendous opportunities for spinoffs for Manitobans from the Hydro development. I have met with over 30 groups. They have all indicated that information and

communication is critical, that Manitoba firms need to have the information about these possibilities, what the timetable of them might be. They have to get involved in that tendering process and we have done everything possible on the other side to ensure that Manitoba firms are at least heard from.

In the past a lot of the tendering took place in such a way that there was leakage. The investment was being made in Manitoba but the employment opportunities or the subcontracts took place outside the province.

When you are talking about a project that over its life will in fact be a project in the \$2.2 to \$2.5 billion range, that has a tremendous potential, then what we would like to ensure is that the spinoff does take place and \$1 million - and I expect it will be less than \$1 million - but \$1 million and we'll be able to check over the course of this project the involvement of Manitoba firms and the participation of Manitobans in the actual employment opportunities, but we are talking about a great number of jobs.

We're talking about the potential of 19,000 jobs and that type of spinoff and the objective of trying to ensure that without setting up price preferences and a whole set of other things which we think aren't that good for this country, but by being aggressive in terms of letting Manitobans know ahead of time, having them get geared up for a contract ahead of time, and we've been talking to people now for almost a year, that we believe we put Manitobans in a better position to benefit from this type of project. We think that the \$1 million investment will be recovered many many times over by Manitobans, by Manitoba business firms, by local communities and ultimately by the taxpayer of Manitoba.

MR. G. FILMON: I wonder if the Minister or the Chairman of the MEA could tell us what firms have been involved in the development of the advertising program for the Limestone project.

MR. M. ELIESEN: Madam Chairperson, we've had two firms involved in the development of the advertising program for the Limestone project.

MR. M. ELIESEN: Madam Chairperson, we have had two firms involved in the development of the project. Dunski Advertising is one firm and Westcom Corporation is the other firm. These are the two firms that have assisted us in preparing the program.

Dunski mainly was involved in the broad conceptual development of the program which we were looking at of attempting to achieve three objectives; the three objectives being to inform the broad population of Manitoba about the project, what it is, where it's located, and the major government policies associated with it.

The second objective was to inform specific groups who are likely to benefit directly from Limestone about the project, and government and hydro policies which can assist them; and the third objective was really to improve the access of Manitobans to Limestone opportunities.

MR. G. FILMON: The Dunski firm was involved in the broad conceptual development of the project, I think the Chairman said. When did they do their work?

MR. M. ELIESEN: Madam Chairperson, the Dunski firm undertook their work in 1984-85 and completed the last fiscal year. At that particular time we were about to terminate the successful termination of the discussions with Northern States Power. We saw the benefits of an earlier startup in Limestone, and we thought it necessary to obtain professionalized service to assist us in developing an informational program to maximize the benefits related to the Limestone project.

One of the main areas really relates to attempting to do a significantly better job than what was done earlier. While the records weren't fully prepared at the time, our rough estimates showed that only 40 to 45 percent was sourced from the Long Spruce Generating Station which is the last major hydro development that took place in Manitoba. We realized that we could do a much better job this time around, and our objective really is to try to double that to around 80 to 85 percent.

In order to do this though, one of the basic gaps was trying to ensure that Manitobans had full knowledge of the opportunities that would be available, given the highly technical nature, given the fact that it is up North given the fact that people don't know - when you say Limestone - what is Limestone all about? We thought it useful at that stage to bring in some specialized people to assist us in developing the major concepts.

MR. G. FILMON: The Dunski firm did its work in the '84-85 fiscal year. What specifically did they do? Did they develop any of the advertising itself, or was their role more of a strategy development?

MR. M. ELIESEN: Madam Chairperson, I can provide some detail. The Dunski Advertising Agency was asked to undertake the following:

(1) develop themes as well as sub-themes around which to build an information campaign;

(2) identify the different medias most appropriate to use when targeting information to different groups;

(3) recommend appropriate forms of communication directly with individuals and groups who could benefit from Limestone;

(4) provide an integrated schedule, including media and non-media vehicles of communication that could most effectively inform the general public and targeted groups about Limestone;

(5) make recommendations on a budget and cost estimates that would be involved in an informational campaign, including creative production and placement;

(6) identify personnel agency requirements associated with the comprehensive program and make recommendations on which ones should be selected;

(7) provide the basic creative format for the Limestone related communications.

Just to follow up with more specific information, a contract was signed with the Dunski Agency in May 1984 to provide these services for \$100,000.00. The contract stipulated the fee; \$50,000 was paid at the beginning and \$50,000 upon satisfactory completion of the work which took place.

MR. G. FILMON: So the Dunski people didn't produce any advertising themselves. They were all the strategic development and identifying the agency requirements the basic format, the vehicles for best providing the

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communications, integration of schedules and all of those, the best means of communication, the media identification, all of that, but they didn't produce any advertising?

MR. M. ELIESEN: Madam Chairperson, that is correct, other than developing some particular ideas, but they didn't produce the advertising. Westcom are the Manitoba firm which did produce the advertising.

MR. G. FILMON: I am glad the Chairman reminded me by referring to Westcom as a Manitoba firm, because I understand that Dunski is from out of the province and they are principally located in Montreal or elsewhere.

I think the Chairman said that Dunski was paid \$100,000 of which \$50,000 was paid in advance. Is that a normal thing to do on a contract of this nature, that the government should pay them 50 percent up front? That sounds very unusual to me.

MR. M. ELIESEN: Madam Chairperson, I am advised that these are the usual practices associated with this particular area.

Obviously, we had full knowledge of Dunski's professional services and there was no difficulty in entering into this general agreement and we were more than satisfied with the work that was performed. At the end it was a very difficult task as I indicated earlier.

The whole idea of trying to ensure that you can develop a communication program, the results of which you are attempting to really maximize the benefits which would be double those of the last generating station that was built, and there were obviously many areas and many subgroups that have to be considered of trying to get that information to and we were satisfied with Dunski's work.

MR. G. FILMON: Madam Chairman, the Chairman is saying that it's normal practice to pay an advertising agency who is doing work of this nature, 50 percent of their fee in advance, before they've begun to work on it, before we have any evidence of results or anything? Well, I find that difficult to believe.

Does he have a similar arrangement, for instance, with Westcom on this?

MR. M. ELIESEN: Madam Chairperson, sorry, I didn't want to give the impression that we gave \$50,000 right at the beginning. Right before Dunski started to undertake the work, he had started into the project, and the first \$50,000 was provided. I can check the records and provide the information. It was after three or four months had developed of his analysis and we had received some reports. It was just that he was with us for a number of months and \$50,000 was provided more towards the beginning of the project, but it wasn't a case of him being provided with \$50,000 before he actually started the project.

HON. W. PARASIUKE: Yes, I certainly could check over Manitoba Energy Authority contracts that were entered into with advertising companies and public relations companies prior to November of 1981 to determine whether in fact there has been any discrepancy in the

way in which the contracts were arranged or signed after 1981, as before 1981.

MR. G. FILMON: How much of the cost of advertising, for instance, from Westcom will be in terms of creative and how much of the cost will be in terms of the booking of actual time for television, radio, newspaper and magazines, etc.?

MR. M. ELIESEN: That information can be provided. I don't have the specific breakdown with me today, but we are working within a budget restriction and we have clearly restraints in this area and the breakdown can be provided.

MR. G. FILMON: Did Westcom require any payment in advance before their work was produced?

MR. M. ELIESEN: Madam Chairperson, I just want to emphasize again that we did not provide - just for clarification, just to make it clear, and I apologize if I gave that impression - any money to Dunski Advertising before they actually started the work. They got part of the contract proceeds after they were into the project for three or four months.

Now, with regard to Westcom, I believe similar kinds of arrangements have been made, but I can check and we can provide that information together with any of the specific breakdown that has been requested.

MR. G. FILMON: What had Dunski done before they got their first payment?

MR. M. ELIESEN: Madam Chairperson, Dunski had provided very specific ideas on conceptual development in those seven areas that I had mentioned earlier. There were detailed charts, detailed descriptions, different creative ideas that had been put forward for our consideration prior to them receiving one cent.

MR. G. FILMON: Is it possible that detailed conceptual and suggestions were basically a proposal which most firms normally put together in order to get a contract?

MR. M. ELIESEN: Madam Chairperson, not in this particular case. Dunski was hired for a specific purpose and the purposes I indicated.

MR. G. FILMON: So, in fact, nobody else was considered and no other proposals were put forward?

MR. M. ELIESEN: That is correct, Madam Chairperson. We had knowledge of Dunski's ability and specialized services in this area and that is why we undertook a contract with him and his firm. As most people are aware, in the area of advertising, there is a particular creative or innovative component which really relates to individuals and their ability in this area. We had a fair and good appreciation of his talents and that is why he was specifically selected.

MR. G. FILMON: From what I understand, they weren't hired to do creative; in fact, that the creative has been done by Westcom. I wonder if the Chairman could indicate why a Manitoba firm wasn't hired to this work.

Are there no Manitoba firms capable of doing this sort of work?

HON. W. PARASIUK: I certainly have indicated that I will get the information to see whether there have been discrepancies because on taking office in 1981, I was presented with the bill for something over \$32,000 from Toronto consulting companies that have been hired by the Conservative Government to provide something, as yet I haven't been able to fully decide, conceptual and creative input I think in the months of September and October, and I'm not sure whether it was in November of 1981, to the government as a whole and the contract had been signed with the Manitoba Energy Authority. But certainly I would check, as I indicated, to see whether there have been differences in approach or discrepancies, certainly with respect to the particular matter of how one could best communicate an overall program to maximize benefits while at the same time one is involved in negotiations. For purposes of commercial confidentiality are best kept confidential, Dunski certainly was seen as a very logical viable alternative to use.

MR. G. FILMON: I just think it seems rather ironic when all we've been talking about is maximizing benefits to Manitoba and sourcing purchases and contracts and all of these employment opportunities for Manitobans, and the first thing we do is to hire a Montreal firm to tell us how to do it. It just seems ironic. That is the only point I leave on the record, Madam Chairman.

MADAM CHAIRMAN: The Member for Lakeside.

MR. H. ENNS: Just before we leave, just to get a bit more detail on the information role of the agency and/or the Jobs Fund, the second last page of the energy report specifically refers and we've been advised that we are operating two offices with a staff of seven. It would be interesting to get the total staff salary complement that will be charged to those offices. In addition to that, five informational brochures have been produced of which thousands have been distributed. Can the Chairman of the Energy Authority or the Minister be a little bit more specific, just how many thousands and where are they being distributed to, and at what cost?

HON. W. PARASIUK: We can get the list of the people who this has been sent to. There are various business organizations, the ones I have spoken to, various seminars that have been held where people have come forward and taken the material. There is one that is printed in Cree that has been put out. I'm not sure whether this is the first of its type in Manitoba's history, but it certainly reflects an intention to provide information to as many people as possible. But we can get that information and bring it back to the committee.

MR. H. ENNS: I think it would be helpful not only to members of this committee but, indeed, to members. If thousands are being distributed, that same courtesy would be shown to the members of the House?

HON. W. PARASIUK: Let me just interject on that. I'm sorry then, I assumed that when you in fact had people

go off to the seminar, which we I think arranged for you to have people attend, I would have assumed that what they would have done was picked that all up. If you want I can in fact table material in the House every two weeks if we put out a brochure or pamphlet.

If I do that, I certainly don't want to be accused in the House of making meaningless statements or providing further information that doesn't say anything new about Limestone because I had been accused of doing that by, I think, yourself in the House when made a few announcements in the Legislature, but would certainly be pleased to provide this information to you as I provided information yesterday about Potash. Certainly, I'll provide it all to you.

MR. H. ENNS: Madam Chairman, I just note we are the recipients of many packages of some of his colleagues, the Minister responsible for Employment Services, any time there's a new youth program directed we get a nice package laid out to every MLA on the desk. It doesn't seem to be forthcoming as readily from this Minister on this subject. We have determined that we are spending upwards to \$1 million on this informational program and we're simply trying to get a handle on it.

HON. W. PARASIUK: If I haven't been as forthcoming then I certainly apologize to the Member for Lakeside and let me assure him, that in the future months he may in fact receive a great deal of information and hope that he will be appreciative of it.

MR. M. ELIESEN: Madam Chairperson, just to clarify the reference to the thousands distributed in my presentation to the committee, what I was referring to were the requests that were received by mail and by phone, over 7,000, and in a variety of areas. And that's why the brochures that I refer to, for example, one on Training Opportunities for Northern Manitobans; another general brochure dealing with labour and jobs; another brochure on the Limestone Generating Station accommodations and services; one dealing with purchasing policies, contract opportunities and assistance programs; and one general pamphlet dealing with the entire project itself. These have been distributed in response to the requests that have come in by phone and by mail.

MR. H. ENNS: Let me just put on the record, Madam Chairperson, that for once I agree with the Minister. When he says that we will be inundated with many brochures and a great deal of information, every second week as I believe he said it, for once I believe him.

I do want to tell him though seriously, we are the recipients of many calls from constituencies, particularly myself representing an Interlake constituency, many of whose residents have looked to northern projects for employment. They are calling me regularly in hoping for some of the job opportunities that they see advertised on TV and I suppose are recipients of some of these specific brochures. It would be helpful to me in carrying out my responsibility as an MLA to have that information available, without having to register or attend a seminar, which is sometimes difficult to get at.

The Minister refers to a specific case, it wasn't so much for myself it was for a Manitoba businessman who was told that he was not able to go to that seminar. I did ask and intervened directly with the Minister's office, to try and get him access and the Minister did respond, and I appreciate it, and I thank the Minister for it.

HON. W. PARASIUK: I think we announced the office; we announced the phone numbers for the office; but certainly I will provide the packages of information to the member. In fact I quite appreciate his wanting to be involved in ensuring that we maximize spinoffs to Manitobans. As I said, if he felt that somehow it wasn't forthcoming, I accept responsibility for that and I apologize.

MR. G. FILMON: Madam Chairman, I can tell you that having started our endeavours to maximize benefits and spinoffs in Manitoba by spending \$100,000 on an advertising agency from Montreal, we are concerned to ensure that the government is indeed true to its principles. But moving along from back to front in this report, hitting the next section called Industrial Benefits, there's a reference here to the Industrial Benefits package with CGE being made up of five components and I wonder if the Chairman of the Energy Authority can indicate whether or not any of the components of that Industrial Benefits package might involve CGE participation in the F-18 project?

MR. M. ELIESEN: Madam Chairperson, at the present time there are a number of alternatives available to CGE from what they refer to as their family, the CGE family, in which they will attempt to meet the obligations that were spelled out in the agreement with us.

Some of those alternatives are involved in the high technology industries, Aerospace Industries being one of them, and there are a number of discussions which I am aware of that are currently taking place. It would be inappropriate for me to comment any further in this area, other than indicating that obviously this is one of the serious areas that CGE are attempting to meet their commitments in this particular area which will impact beneficially on a number of Manitoba aerospace firms.

MR. G. FILMON: I understand that CGE had some obligations previously as a result of the F-18 contract, or had some possibilities of creating employment in Manitoba in any case, is it possible that they'll be able to kill two birds with one stone and satisfy both intents by this?

MR. M. ELIESEN: Madam Chairperson, not in accordance with our agreement, very specifically. We've attempted to ensure that any commitments that CGE has to Manitoba as a result of contractual undertakings with the Federal Government or any spinoffs related to that particular area, are not double counted. And that's why we've gone to a lot of detail to ensure that we have this legal undertaking, with penalties involved may say, of ensuring that Manitoba does maximize its benefits from this undertaking.

MR. DEPUTY CHAIRMAN, S. Ashton: The Leader of the Opposition.

MR. G. FILMON: What sort of legal requirements are there that ensure what CGE's benefits to Manitoba under this agreement, aren't a duplication of CGE's already agreed-to benefits through the Federal Government for its offsets on the F-18 contract?

MR. M. ELIESEN: Well we do have a contract with CGE which is a very detailed one and we believe that we are fully protected from the description or the situation which you describe. That's part of a legal undertaking by CGE and all I can say is I believe we're fully protected as a result of that contractual obligation.

MR. G. FILMON: The Chairman's Report refers to the fact that CGE guarantees that the turbines and generators used at Limestone will contain a minimum of 15 percent Manitoba content and as well, CGE will endeavour to increase this to 25 percent. We'd assume then that in one case it's a guarantee and the other case it's simply an intent or a desire on the part of the government but nothing to which CGE is contractually obligated?

MR. M. ELIESEN: Mr. Chairman, that particular provision legally obligates CGE to ensure that 15 percent is sourced in Manitoba, which is almost double of the kind of sourcing that took place in Long Spruce which was around 8 percent.

The orientation to further maximize that Manitoba content relates to a particular program that is currently being developed with the Department of Industry, Trade and Technology on the technology transfer side, in which both CGE and a Manitoba company will attempt to get together, with support from the Department of IT and T to source a particular component which they had not been involved up until then, but which involves CGE technology and technological transfer. That's what the reference means there to the 25 percent, that there is an area in a government program that was announced by the Minister of Industry, Trade and Technology to try to ensure that there would be a maximum of the benefits associated with this agreement.

MR. G. FILMON: Is the Chairman saying that with other government grants and program supports, financial supports, that CGE might increase further job creation here, but it would cost us some more money through other government programs?

MR. M. ELIESEN: Yes, Mr. Chairman, I believe the Minister of Industry, Trade and Technology did make an announcement in this area about four or five weeks ago, indicating that there would be a limited amount of support provided by the government in this industrial technology transfer side to try to further maximize the benefits to Manitoba firms.

HON. W. PARASIUK: If I could just add a clarification, there would not be funding to CGE, as such. What it would be, there are some companies who may need to make some investments to do a bit of R and D, or some development, or some tooling, or what have you, and they may be coming to the Jobs Fund asking for some assistance to bring them up to quality control level, so that they might be doing the sourcing. A

number of companies have indicated that they certainly would be interested in trying to develop that type of expertise. It seems to fit well within the objectives and the guidelines of the Jobs Fund in terms of longer-term, private sector employment and that is the context in which this might occur.

MADAM CHAIRMAN, M. Phillips: The Leader of the Opposition.

MR. G. FILMON: So, in effect, we would be buying the jobs by investing in something else to assist CGE in sourcing some additional components here.

HON. W. PARASIUK: No. What we would be doing, we would be working with the private companies and I would think that, given the private investment involved to try and gear up, or tool up, for some type of work relating to this particular possibility, there could be something in the order of, I don't know, five to one or a seven to one leverage, so the private sector would be increasing its investment in the plant and capability of this province very significantly; not only to put it in a position, I would think, to provide some subcontract, or some supplies to CGE - they couldn't do that right now because they just don't have the technology, or they aren't geared up sufficiently to do that.

If one just did what was done in the past there would be a very good likelihood that this could be sourced outside the province, as it has been in the past. But if there is some co-operation between the government and the private sector to try and take better advantage of a CGE contract, that strikes us as being right within the strategy and, I would have thought within the strategy of all people in Manitoba.

MR. G. FILMON: So the Manitoba companies either lack the technology or lack the investment in manufacturing equipment capability to be able to supply this to CGE now. So CGE would ordinarily buy it outside the province but, if we subsidize it and, in effect, subsidize CGE, they'll buy it inside the province.

HON. W. PARASIUK: We won't subsidize CGE at all. They are doing it all within a price, so there is no subsidy to CGE; they get nothing. There is no price premium at all for the 15 percent.

If one wants to go beyond that and you have - and I won't name the companies - but we've had the companies already to us indicating that they believe that they've got the nucleus to provide greater sourcing to CGE. They, themselves, have said that they may need assistance; they may not. It may be on capital investment; it may be on some research and technology; it may be some development costs.

But we have said that, as a government, this is part of the feedback that we received from various business groups and business companies that we had discussions with over the last nine months. They have indicated that, in instances, they certainly feel that they could, not only take advantage of some opportunities related to CGE, but establish a base or a ratchet from which to go on to other types of economic activity. We think that this is very much a part of the building block in establishing long-term, competitive jobs in this province.

MR. G. FILMON: Normally these companies, if they see an opportunity, would tool up and provide the sourcing of components, or parts, or whatever material to CGE here, but they lack the capital to do it and they're, in effect, being assisted by grant or subsidy to be able to tool up and provide it. But, normally, there is a business opportunity, that they see an opportunity to undertake and fulfill, then they would do that with their own funds, except in this instance there are government funds available for them to do that.

HON. W. PARASIUK: I think there are government funds available in a number of areas, but this is certainly one where we think that the spinoffs are pretty significant in that we expect that there will be future hydro activity and development within this province, so why not establish a bigger base. If we can go from 8 percent to 15 percent and then move it up to 25 percent, and move it from that point to 40 percent, I think that has tremendous spinoffs for this province.

Furthermore, we also are having a number of foreign countries becoming much more interested in Manitoba's technology and experience with respect to hydro electric development and transmission. When one thinks that only 4 percent of China's hydro potential has been developed, or only 20 percent of India's hydro potential has been developed, that we have received some CIE contracts already to do some research in the countries with respect to their potential, I think that one does start laying the foundation for something that not only is beneficial to Manitoba over the course of the next eight years, next 15 years, but also has the potential of increasing our export trade in an area that we have proven experience in and history.

MR. G. FILMON: But the bottom line is that the companies see the opportunity exists, know that they could fulfill the requirements of CGE, but can't do without subsidy by way of grant to get them involved. So we are, in effect, saying that, yes, those opportunities are there, but we can't compete unless we give them the grants that will allow them to compete. That's basically an indirect subsidy to CGE.

HON. W. PARASIUK: Well I can't leave on the record that there is a subsidy to CGE. There is a contract, fixed-price contract, there is no subsidy to CGE. I've said that, for 15 percent sourcing, there is no price premium.

MR. G. FILMON: But to move it up to 25, it would involve some additional investment by the Province of Manitoba.

HON. W. PARASIUK: That's right. We have said, and that isn't the subsidy to CGE, that would be establishing

MR. G. FILMON: Indirectly, it is.

HON. W. PARASIUK: Well, if in fact the intent to move from 15 to 25 percent, and it does not entail a subsidy to CGE, it may entail some assistance to a number of other firms that I think are long-standing Manitoba firms

at want to establish a base. If, in fact, the Leader of Opposition is somehow saying that isn't a good thing, then we on this side of the House obviously say that we are prepared to pursue that because we think that it does establish a good foundation for long-term bids in this province.

MR. G. FILMON: Madam Chairman, the Minister doesn't need to put words in my mouth. I am quite capable of saying what I believe and he doesn't have to try and reorient my thinking in words to something that I didn't say.

Madam Chairman, the indication has been, both in his report and in the past, that this negotiated agreement with CGE for turbine generators was below Manitoba Hydro's estimates for the supply of that particular equipment; therefore, it is a good deal. What evidence does the Minister have or does the Chairman of the Manitoba Energy Authority have that, for instance, those turbine generators for which I believe we are paying \$102 million could not have been supplied by somebody on a competitive tender basis for, say, \$70 million?

MR. M. ELIESEN: Madam Chairperson, it may be useful simply to take a few moments to review the history of Manitoba Hydro and the Government of Manitoba that have attempted since 1977 to negotiate the supply of this equipment with Canadian suppliers. There was an agreement signed between the Government of Manitoba and the Government of Canada as a result of extensive financial support provided by the Federal government, about \$200 million at low interest rates, or assistance in long-distance transmission from the Nelson River, and in return, as a result of that written agreement undertaken by Manitoba Hydro and the Government of Manitoba, that Manitoba Hydro would use its best efforts to negotiate the supply of this equipment from Canadian suppliers. That is why the way we proceeded, as I have made reference to, Hydro boards and two previous governments attempted to see whether it would be possible to negotiate a satisfactory agreement.

A third time around, this is what we attempted to do, and in our particular case we are satisfied that getting \$150 million in a comprehensive industrial benefits package for Manitoba is one of the most attractive industrial offshoots that we have ever seen put in place for a province in any major contractual obligation.

I guess the second factor is Manitoba Hydro has lived with estimates all along with regard to what it would cost and the price that was negotiated was significantly under that particular price. For those two main reasons, plus the obligation under a federal-provincial agreement signed in 1977, were the factors that led to the successful culmination in this area.

MR. G. FILMON: What evidence does the Chairman have that we, for instance, wouldn't have got the turbine generators for 70, 75, 80 million and that we would have had 20 or 30 million dollars of saved cost that could have been invested in Manitoba in other ways?

MR. M. ELIESEN: One has some way of assessing what one's estimates have been. These estimates were

drawn from the low cost tender relating to Long Spruce. CGE was the low cost tender and there were certain indices used to project what that might be in today's prices. The prices came in under that substantially and at some stage they can be - since there are other tenders being presently looked at, I think it would be premature to say what those savings are, but they have been substantial.

I might say that I know that the members of the opposition have acted as if somehow this is some type of unusual departure. It was done by the Hydro Board under the Schreyer administration; it was done by the Hydro Board under the Lyon administration. In fact, there is an instruction or a Board decision, I think it's in 1981, instructing Hydro to negotiate, not to tender, but to negotiate with CGE. One of the attendees at that Board meeting was Mr. Brown, the Member for Rhineland, who was the government representative on the Board at that time. So I am surprised that somehow the members of the opposition say that we are doing something that again was rather unusual.

MR. G. FILMON: Madam Chairman, I would like to correct the Minister in saying that it is merely the members of the opposition. I think people throughout this province who are involved in business, in construction, in manufacturing, who are used to bidding on contracts, who are used to being invited to tender on contracts, have expressed concern. In fact, they have expressed serious reservations about awarding without tender a contract in excess of \$100 million on any project whatsoever, but particularly something of this magnitude has aroused the interest, concern and in fact criticism. Surely the Minister is not suggesting that the only people who have raised this matter have been the members of the opposition.

MR. M. ELIESEN: Madam Chairperson, I want to go back really to the basis of why Manitoba Hydro and the Government of Manitoba actually negotiated this particular agreement because the main policy is, as what it has been referred to, a competitive tendering policy and that is the basis of Manitoba Hydro policy. The only reason why there was an attempt to negotiate this particular equipment is because of a federal-provincial agreement.

On March 25, 1977, agreement was signed between the Province of Manitoba and the Government of Canada related to Bi-pole Two financing and I'll read specifically from a clause in that agreement, Clause No. 18 states: "Manitoba undertakes, as a condition of this agreement, to make every reasonable endeavour to support Canadian technology through maximizing Canadian participation and to supply of turbines and generators for the Limestone Hydro-Electric Generating Station and will make every reasonable effort to complete negotiations for the purchase of said equipment from Canadian Suppliers."

That has been the basis upon which three Hydro Boards now have attempted to see whether or not it would be possible to negotiate the supply of this equipment. The Manitoba Energy Authority, as the coordinating agency, was not given any instructions from the government to break that agreement between Canada and Manitoba. That is why, for both areas,

Manitoba Hydro set up its own negotiation with the prices; and the government, three times now, has set up separate negotiating units to negotiate an Industrial Benefits package. So we were coming out of that historical context and that obligation, as a result of very favourable federal financing during the late '70s, to attempt to negotiate the supply of the equipment from Canadian suppliers.

Again in our judgment, what we have been able to do, we have been very very satisfied in the context of the maximum kind of industrial benefits that we have been able to negotiate for Manitobans.

MR. G. FILMON: Would it not have been possible to put the contract up for tender and then, having reviewed the tenders, be able to maximize Canadian content?

MR. M. ELIESEN: No, Madam Chairperson. That was not our understanding, nor the understanding of the previous two Hydro Boards or the previous two administrations. Every time that there was a possibility of the Limestone Generating Station was about to be commenced again, teams were established, both of Manitoba Hydro and in the Government of Manitoba - Manitoba Hydro on the prices, the government on industrial benefits - to attempt to negotiate with CGE, only one supplier.

I must say, the only difference that we attempted to do this time was to attempt to expand it to another possible Canadian supplier. There are only two, CGE and Marine Industries, who are based in Montreal. We attempted to do this but, unfortunately, the kind of industrial disputes that they were being subjected to then and which are still ongoing did not allow them to fully participate in arrangements with us.

MR. G. FILMON: So just in conclusion, the Chairman is saying that there was no possibility within the context of the intent of that sort of agreement that Manitoba Hydro, by virtue of the argument that it could have had massive benefits to Manitobans, to Manitoba taxpayers, ratepayers - by virtue of that, there was no possibility that they could have gone to tender on this?

MR. M. ELIESEN: Madam Chairperson, no. That is not the position or the policy that was provided down to me to attempt to implement. If we were obviously not able to negotiate a satisfactory arrangement, since there is no mandatory provision in the undertaking between the Government of Manitoba and the Government of Canada on the provision of this equipment, then clearly one would have gone to international tendering as Manitoba Hydro has done consistently.

But as I said, since 1977, no one has suggested - in fact, the policy of the day then, over three administrations and three Hydro Boards, was a moral obligation to attempt to see whether it's possible to live up to the undertakings that were provided in 1977 between the Government of Canada and the Government of Manitoba. Clearly, that's what we attempted to do. I guess, at the end result, both Manitoba Hydro was very well satisfied with the price they were able to negotiate and, on the government's side, we were exceptionally pleased with the

tremendous kind of industrial benefits package that we were able to negotiate.

MR. G. FILMON: Was the price estimate based on what Manitoba Hydro had paid previously for the CGE turbines in Long Spruce?

MR. M. ELIESEN: Madam Chairperson, I am aware that there was a basis obviously for your price determination, and CGE were the lowest tenders for the Long Spruce. So there was a basis going back to that period of time. It was an international tender, and they were the most competitive. CGE do have the experience with regard to Nelson River provision of equipment.

I am sure more questions could be addressed to Manitoba Hydro when they appear before this committee, but obviously there is a basis upon which you make your comparisons and your estimates for every particular component related to the generating station itself. In this particular case, they were very pleased with the kind of price that they were able to negotiate which, as I emphasized, is significantly under their estimates which we take as given actually when we present our benefits and costs ratio on the whole project.

MR. G. FILMON: But if the estimates were based on what CGE had bid on a previous tender and the previous developments, then all you have to do is get in better than that and you are satisfied with it. If CGE had been competitive the last time around against other companies on an international tender basis, what would the concern be that they shouldn't be competitive this time around, that you had to restrict it only to them and discuss it and negotiate it only with them?

HON. W. PARASIUK: What the Leader of the Opposition forgets is the fact that the government that he was part of from 1977-81 had established a negotiating committee at the government level to negotiate with CGE, not to do a tender bid but to negotiate. Maybe he is not aware of that, but that negotiating committee of officials existed — (Interjection) — yes, it did.

MR. G. FILMON: Madam Chairman, that doesn't mean that you are committed to go that route. You are examining options, and we are always talking about examining options.

MR. H. ENNS: Madam Chairman, just a bit further on purchasing and tendering, on Page 16 of the Chairperson's report of the Manitoba Energy Authority it states that: "In certain limited circumstances where social and economic benefits outweigh costs, the Provincial Government, through the Manitoba Job Fund, is prepared to pay a price differential on contract to enhance Manitoba content."

My simple question is: what price? Has the government or the Manitoba Energy Authority established some outside parameters as to what the paragraph particularly means?

MR. M. ELIESEN: Madam Chairperson, no, we have not been advised of this. This was a general policy

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statement that was agreed to by the government at that time in order to ensure that no subsidy really is provided by Manitoba Hydro as a responsibility of ensuring that the generating station is built at the lowest possible cost.

There may be particular areas or at particular times, and this is included in the tendering documents that are forwarded by Manitoba Hydro, asking those bidders to indicate if certain premiums are required in the provision of certain work on that project. We have not established any parameters on that.

Let's assume, hypothetically, if there was a significant premium of, let's say, 5 percent or 10 percent more on the job implications as a result of that work taking place here in Manitoba, then there is an opportunity, if the government decides, of paying that particular premium in order that the job or the work is performed here in Manitoba. But all we have done is simply to establish a mechanism. If that possibility exists, then show that possibility to perhaps take place. I do emphasize that it is limited and exceptional circumstances where that kind of reference is being made.

R. H. ENNS: Madam Chairperson, just so that I understand it, I think what the Chairman is saying is that Manitoba Hydro will not be involved in any subsidization, but that the Jobs Fund will be. Is that a correct description if he indicates that decision will be made?

R. M. ELIESEN: Madam Chairperson, there may be limited and exceptional circumstances by which the government, through the Jobs Fund, are perhaps prepared to pay a premium as a result of that work being performed in Manitoba related to the Limestone generating tendering process, but that is correct, Manitoba Hydro will not get involved. Manitoba Hydro's current practices will exist with the Limestone station.

R. H. ENNS: Okay, I think we understand each other. What is that, if additional costs for social and economic benefits are being considered, those costs could be additional costs of affirmative action programs or others, as determined from time to time by the government. It will be through their agency, the Manitoba Jobs Fund, that will pay these additional costs. Those costs won't be charged to the construction of Limestone.

R. M. ELIESEN: Madam Chairperson, that is correct.

R. H. ENNS: Just a little further on the same subject matter, the second paragraph says: "As well, Manitoba Hydro may, under limited and special circumstances, restrict calls for tenders to northern companies." Madam Chairperson, you see some of the difficulty that I have, which my leader pointed out right at the beginning.

Now we are talking about Manitoba Hydro may, under limited and special circumstances, restrict themselves to their normal tendering and purchasing procedure. At a moment ago we established, I thought, with some understanding that the Manitoba Jobs Fund, presenting the government, would be doing it. So

the same question applies on the second paragraph on Page 16, second from the bottom that is, when it says: "Manitoba Hydro may, under limited and special circumstances, restrict calls for tenders to northern companies."

My question is: what are the "limited and special circumstances"?

MR. M. ELIESEN: Madam Chairperson, I can indicate to members of the committee that 95 percent to 99 percent of all contracts tendered will be subject to the competitive process with everyone having the opportunity to bid. Just as the current case, there is no change in terms of Manitoba Hydro policy. Manitoba Hydro, today, may restrict a tender to the North or to particular companies, perhaps those of Native ancestry, because of the importance of developing and ensuring that some benefits, as a result of the hydro development work does, in fact, take place in that area, and the benefits are accrued to those Northerners.

They are very limited, and they are exceptional circumstances, and they do involve very small negotiations with Native bands in that particular area who, normally speaking, would not have an opportunity of bidding, or may be restricted through bond performance, obligations of being involved in the competitive tendering process.

Manitoba Hydro, itself, has adopted an affirmative action policy of its own as a cost of doing business, of attempting to ensure that its hydro development projects that do take place in the North take place on a fair basis. This is one aspect, albeit a small aspect, related to ensuring that perhaps some benefits are accrued to Northerners of Native ancestry.

MR. H. ENNS: Madam Chairperson, I am simply trying to get the information on the record as to how costs will be allocated in this very substantial project and that is the purpose of the questioning.

If I understand the Chairperson for the Manitoba Energy Authority right, Manitoba Hydro will also, under special and limited circumstances, deviate from the normal purchasing and tendering practices which could add to the overall costs of the project. We have established that the Manitoba Jobs Fund and the government will do so under special circumstances; what the Chairman of the Manitoba Energy Authority is indicating is that it is also Manitoba Hydro's practice to do so. So we will end up with some pretty fudged costs I would say, Mr. Chairman.

HON. W. PARASIUK: It is our intention to make sure that we try and keep a clear idea of the costs; and secondly, one should take a look at what those benefits are. If, in fact, we can increase Manitoba involvement in that project - and we talk about something in the order of \$1.5 billion in contracts - if we can double that, we go from 40 percent to possibly 80 percent, what we're talking about is \$600 million for the Province of Manitoba. That's a very significant sum. If you then start looking at what the multiplier impacts of \$600 million more within this province are it's very exciting.

If I might just comment, there have been instances in the past where Hydro has, indeed, contracted specifically with a northern group or with a Native group. That's been done from time to time in the past.

MR. H. ENNS: Madam Chairperson, I am not attempting to enter into a debate about the value of maximizing job opportunities, economic opportunities, particularly for our Northern residents, but I am attempting to get the bookkeeping he's using straight. I just take this occasion because I happen to have a Manitoba Hydro information sheet in front of me, "Public Affairs," which clearly sets out - you know, it quotes directly from the act. "The intent, purpose and object of this act is to provide for the continuance of supply of power adequate to the needs of the province, and to promote economy and efficiency in the general distribution, supply and use of power," The Manitoba Hydro Act.

Mr. Chairman, Manitoba Hydro, in itself, is not constituted as an employment agency, as an agency to deliver social benefits; the government is. I'm not faulting the government for using this vehicle to do so, but I would like the books to be kept reasonably straight so that we can ascertain to what extent Manitoba Hydro is fulfilling its responsibility under its act, and to what extent the Government of the Day is adding to those costs of any particular project because of other objectives of the social benefits that the Minister, or the Government of the Day sees as being appropriate ones.

MR. M. ELIESEN: Madam Chairperson, that in fact is what Manitoba Hydro is attempting to do with its own affirmative action policy of trying to generate electricity in the province at the lowest cost possible. Part of those costs that are associated with attempting to achieve that objective include, in the judgment of the Board of Manitoba Hydro, the necessary orientation of trying to ensure that there be some spinoffs and some benefits accrue to those in the North, particularly of Native ancestry; just in the same way as Manitoba Hydro signs a long-term agreement with 17 or 18 unions because labour peace is a necessary condition of any hydro development, whereas perhaps one could get a better price by going with non-union personnel - perhaps, I said, over the short term.

But over the long term, Manitoba Hydro doesn't go that route because it recognizes that, in the long run, it is necessary to have labour peace in any hydro project up north and, therefore, it obligates itself under a long-term contractual agreement to enter into this agreement with 18 unions, at least, as opposed to people who are not involved in unions.

In the same context it is important for Manitoba Hydro to ensure that there is some, albeit limited, very very limited opportunity for people in the North and particularly those of Native ancestry to have an opportunity of obtaining some of the benefits as a result of hydro development and that's what that particular reference in my presentation relates to.

MADAM CHAIRMAN: The Member for Morris.

MR. C. MANNESS: Thank you, Madam Chairman.

The Minister made reference to a 40 percent estimate of the benefits going to Manitoban companies and individuals, is that a purely subjective estimate or has there been some significant degree of analysis worked toward that projection?

HON. W. PARASIUK: There was some analysis done but records really weren't kept. People were trying to look at it after the fact of Long Spruce and 40 to 45 percent were the estimates that I had heard and people are trying to take that up much higher, and also assess whether in fact that's happening or not. So we'll have a good opportunity now to see whether in fact there is a lot of leakage from our economy when this type of development takes place. And we say that the benefits are very very high if one can get the percentage up.

MR. C. MANNESS: The reason I posed the question would cement for instance, in the supplying of the cement would that be included within the estimate of 40 percent or not?

MR. M. ELIESEN: Madam Chairman, just going back there were very rough and crude after-the-fact analyses made on what amount was sourced in Manitoba as a result of the Long Spruce Generating Station and the estimates from 40 to 45 to 50 percent. Now what was included in those various estimates, I guess we'd have to go the detailed records.

If the cement were here sourced in Manitoba, yes that would be included. There was a lot of obvious leakage, but more specifically there was never a comprehensive effort made to try to ensure without jeopardizing your competitive tendering system to try to maximize Manitoba content and you do notice particularly in the construction industry, there are usual tied arrangements because Manitoba firms are not large enough to bid on the project and there are international firms that are involved who have their own supplies and their own tie-ins from way back. Therefore the government don't look closely at Manitoba firms who are competitive, but basically don't have the opportunity to bid.

What we've tried to do without as I say jeopardizing that competitive tendering process, and it's reflected in the tender documents which we can make available to you, is try to force those bidders to specify very clearly what subcontracts they will undertake here in Manitoba if they awarded the contract and who those firms would be. This is the first time that it's ever taken place in Manitoba and on the basis of preliminary results that we've seen so far, I can inform members of the committee that we are delighted with the seriousness in which the bidders without as I say jeopardizing that price competitive factor have gone out and have attempted to greatly source Manitoba content as a result of their bids on the project itself.

MR. C. MANNESS: Madam Chairman, I asked the question and I refer specifically again to that paragraph that says the Jobs Fund is prepared to pay a price differential in contracts to enhance Manitoba content. I'd like to know roughly what the cement component would be of the total cost of building; but more importantly, given that there's only one producer at the time, Manitoba producer of cement, to what degree will it be given an opportunity to bid and come in with a bid maybe higher than an outside supplier and I guess the specific question, what is the price differential that would be in place?

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MR. W. PARASIUKE: Obviously, what you're asking is one to give some indication to a Manitoba firm as what might be its range of tolerance. Obviously, in commercial type of transaction with a bidding process, we can't do that. One does take into account a number of aspects, price, Manitoba content and spinoffs. Those are things that will in fact have to be looked at as per the tendering guidelines that have been established and all firms bidding on that know what that is.

I must say that we've just gone through a two-day economic conference where there were a lot of Manitoba businesses, where you had a number of international groups and the response we got, because it was laid out as was the CGE contract.

The response that we got from Manitoba businesses, as well as businesses outside the province, was very positive, because we haven't gone the route that a number of other provinces have gone. They've seen us all in a positive light rather than, you know, there are certain restrictions. There are certain companies that can't bid because they're not from the right province in other provinces. We've not gone that route. I think that people are trying to maximize these benefits in a way I think provides some fairness and reasonableness to all parties participating in that tendering process and I can't give the specifics that a Member for Morris would like at this particular stage, apart from saying that obviously the government and the Hydro will have to explain the decisions and arguments that they make through this process.

MR. C. MANNES: I understand what the Minister is saying, ultimately who makes that decision? Is it the Minister, is it the Energy Authority, or is it Hydro, or is it a combination of all three?

MR. M. ELIESEN: Madam Chairman, clearly it is a decision made by Manitoba Hydro. That decision was made by Manitoba Hydro as it has done in the past. In competitive tendering, to answer your question specifically on cement, the cement bid is already in for the province and Manitoba Hydro are presently evaluating the bids that they receive and when a decision is reached, it will be announced and made public in the usual course of events.

MR. C. MANNES: Then what Mr. Eliesen is saying is that given that the local supplier may bid at a price little higher than outside supplier, Manitoba Hydro will then make that decision and if they favour the local supplier, then it will be up to the Manitoba Jobs Fund to put up the additional amount?

MR. M. ELIESEN: No, Madam Chairman, Manitoba Hydro will look at the bids that they've received for a supply of certain goods, the services related to the project. Obviously the bottom line is still the price. Now at the same time that they're looking at the price, they will look and evaluate the Manitoba content aspect. There are aspects there that obviously they want to bring to the attention of the government which would result in some economic stimulus or enhance Manitoba content in the overall provision of the project, they will do so. But the bottom line is that the decision on price is primarily, taking other factors into account, will be made by Manitoba Hydro.

MR. H. ENNS: Madam Chairman, we'll move on to another subject for a moment. We'll come back to all aspects of the report. But I just want to cover one particular aspect that was presented to the committee again this morning.

Again quoting from this Manitoba Hydro information sheet which is an informative piece of information coming from the Public Affairs Department. Among other things they have is a definition, a glossary of terms, an electrical terminology which helps lay people like myself understand the subject matter a little better, give you a definition of such commonly used electrical terms as amperes, interconnections, megawatts, high voltage transmission, direct current, etc. But missing from this glossary are the terms that we've become very accustomed to in the last little while and that is Letters of Intent, a Principle of Negotiations document, a Memorandum of Understanding.

This morning at committee we received yet another Letter of Intent, this time with Ontario Hydro. I would ask the Chairman to help us a little bit in sorting out just what the Energy Authority and Manitoba Hydro is up to. For instance, in my understanding, referring to your report of last April, you signed a Principles of Negotiations document with the Wisconsin Group. Today you announced you've signed a Letter of Intent. We are pleased to announce that Manitoba Energy Authority and Ontario Hydro have agreed to a Letter of Intent, I believe with the WAPA, that is the Colorado Group. Your affairs there are simply described as continued discussions. It is my memory, I think, that with the now defunct MANDAN Line, that was a Memorandum of Understanding.

How can we assess where the Manitoba Energy Authority and the government is at with these different terminologies that you apply to your negotiations; specifically, what is different to the Letter of Intent that you presented to the committee with today with respect to Ontario Hydro and the document that you signed entitled Principles of Negotiations with the Wisconsin Group, a group of eight utilities primarily in Wisconsin, for the sale of 1,200 megawatts?

MR. M. ELIESEN: Madam Chairperson, yes, I would be pleased to go into that particular area.

For two sides to get together and negotiate such an obvious important area, having significant implications dealing in multibillion dollar figures, there has to be a basis upon which both sides can sit down and attempt to negotiate certain agreements in this area. We would argue that a necessary condition - not a sufficient condition, but a necessary condition - is for both sides to show good faith, that they are serious of what they are talking about and normally that is reflected after preliminary - and sometimes these preliminary discussions take a much longer period of time - that is reflected in what is known as a Letter of Intent setting out the obligations or the purpose between the two parties. They are either Letters of Intent or Memorandums of Understanding.

Sometimes it takes place very quickly and other times there is a heck of a lot of discussion which leads up to it. In our case it certainly is a lot of discussion because, obviously, we don't want to waste our time and resources, nor do we want the other side to waste

their time and resources. So there has to be a serious intent and the serious intent is reflected in a formal undertaking called a Letter of Intent or a Memorandum of Understanding.

This is what we have now been successful with the Ontario Hydro following numerous previous discussions on whether or not Ontario Hydro was interested or not interested in short-term or medium-term or long-term sales and that has been ongoing over the last year or so. We have reached a satisfaction, both sides have, that both sides are serious about the options, so both sides now reflected in the signed Letter of Intent are going to allocate time, effort and resources to see whether or not it is possible to come up with a satisfactory agreement that will be beneficial for the parties. Now that is an overview in terms of the definition of either Letters of Intent or a Memorandum of Understanding.

With regard to the Wismintoba Group, that has been a long long process going back for the last two-and-a-half years in which we didn't sign anything with them, but we involved ourselves into a significant cost-benefit analysis of which there were two significant phases we had to go through, trying to see whether or not it would be useful to get into meaningful negotiations between ourselves.

So we went through, first on a preliminary basis, the economics and then in-depth with a Phase 2 and finally, the results of both those phases, which I say took over two years to do, reflected a conclusion that both sides felt comfortable that we can now proceed into some major negotiations dealing with a proposed transaction. That culminated itself in April on the signing of a Principles of Negotiations and we are now heavily involved into negotiations with the Wisconsin Utilities.

I hope that gives an overview of the nuances that are involved on the Letters of Intent. But for our side, it is important for us to have these signed documents because it means we are not wasting our time and resources and neither are the other groups because we've done sufficient preliminary work on both sides in order for both sides to put their signature on these pieces of paper, hopefully leading to a successful conclusion.

MR. H. ENNS: Madam Chairperson, again for my benefit, as I understand the Chairman, the signing of a Principles of Negotiation document therefore would represent a second more serious step with respect to hopefully concluding a deal as compared to what the Chairman just described as the signing of a Letter of Intent with Ontario.

MR. M. ELIESEN: Madam Chairperson, no, not necessarily. In this particular case the Wisconsin Utilities requested and we responded to having a greater articulation on principles that would be involved in our ongoing negotiations. With the others on the Letters of Intent, no principles were required.

For example, with the Western Area Power Administration, we signed that Letter of Intent in 1984 and we do not require any principles. Both sides are satisfied with what we have been discussing under that Letter of Intent and the Letter of Intent is broad enough for us to have those meaningful discussions.

But with regard to the Wisconsin Utilities, following those extensive cost-benefit studies, they want greater specificity in terms of the parameters of an proposed arrangement and we agreed to that kind of agreement on the negotiation principles.

HON. W. PARASIUK: One other aspect, if I just might add, is that in some instances you are dealing with one entity. You are dealing with Ontario Hydro which is one entity or you are dealing with the Western Area Power Administration or you are dealing with Northern State Power. In other instances, you are dealing with a group of nine investor-owned or co-operatively-owned or municipally-owned utilities and they themselves are one entity so they want to have an understanding in a sense as to their negotiating parameters and principles. That is why you have some variation in terminology given the particular entity that one is involved with.

MR. H. ENNS: Then with the MANDAN Nebraska Group, Nebraska Public Power District, with whom we had a Memorandum of Understanding and a project under which we have invested upwards to \$5 to \$6 million, and Nebraska Public Power invested about \$3 million then that didn't proceed any further, Madam Chairperson, what I am just trying to do is establish for the committee some qualitative definition to the terms that are being used, or are we just going through a public relations exercise realizing that coming in with a Letter of Intent every month becomes boring so we change it to a Memorandum of Understanding. Once that has been used, then we sign the Negotiating Principles documents.

Then we can refer back to a Letter of Intent as we have done this morning. The point that I am making it doesn't seem to matter, a Memorandum of Understanding at which upwards to \$14 million have been expended, \$5 or \$6 million by Manitoba Hydro 35 by Nebraska. Obviously, with negotiation considerably further advanced than any that we are speaking of with the WAPA group or with Ontario with whom we are signing Letters of Intent and principle of negotiation documents, that we are at this point living in hope rather than any firm potentials with respect to energy sales.

MR. M. ELIESEN: Madam Chairperson, what I would like to convey to members of the committee that when we're dealing with Letters of Intent or Memorandum of Understanding is that the way we look at it and the way the people who were sitting down opposite us is that it is quite serious. I want to reemphasize, we wouldn't waste our time and resources and neither would the other side if there wasn't a serious attempt to come to a satisfactory conclusion.

We sit down with these groups, and it's not as if there are dozens involved, we have limited market obviously, but we have well positioned ourselves, quite frankly, in the current context of negotiating, and have serious efforts involved with five separate groups at the present time. That effort is reflected in a signed Letter of Intent, which means both sides are prepared to allocate sufficient resources to try to see whether a satisfactory arrangement can be consummated.

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We do have the experience of a signed contract with Northern States Power behind us. We are working on a rat basis and we have a number of options to consider as we proceed through the negotiations. As I have indicated in my prepared text, we are fairly optimistic that within the next 12 or 18 months we will sign one of those contractual obligations with one of the groups here. We hope that we will have negotiated the best possible deal, given the fact that there is a competitive environment at the present time and interest in Manitoba Hydro.

MR. H. ENNS: Madam Chairperson, on Page 13 of the Chairman's address, dealing with energy intensive industry discussions, the President of Alcoa is quoted in your report in saying that: "'The province would be among the leading contenders in the world as a site for a greenfield smelter.' Since this is our view as well, the Authority is continuing discussions with a number of European and Asian aluminum producers who have expressed interest in locating in Manitoba."

Again, Madam Chairperson, we've been subject to similar general hopeful comments, whether it's potash or whether it's aluminum, in this case. Can the Chairman be more specific when he says in his report discussions are ongoing with a number of European and Asian producers? How many and can he name some?

HON. W. PARASIUK: Madam Chairperson, it would be premature to name companies when one is at a stage where the companies want to be anonymous, but we certainly have had discussions as recently as about two weeks ago with respect to Manitoba's potential as a site for aluminum smelting.

MR. H. ENNS: But the Minister can't name the particular company of which there aren't many in the world that are primary producers of aluminum. He is not prepared to name any specific companies that would support the quote that is attributed to Mr. Fetterolf with respect to the province's ideal position as a site and/or the statement that the Authority is continuing discussions with a number of them.

HON. W. PARASIUK: As I said, it would be premature to do so at this time. These companies are looking at Manitoba as well as other sites. I think that they would like that undertaking to be kept confidential until such time as they would say, yes, we don't mind if the public knows that we are looking. I think that's a normal way of doing business with people who are looking at potential competitive sites.

MR. H. ENNS: Madam Chairperson, I have to accept the Minister's statement. I just want to assure him and put on the record that my constituents at Balmoral are as interested as ever in a future development of this kind, and persist in asking me whether or not this government is doing anything about it.

MR. M. ELIESEN: Madam Chairperson, just to provide some additional information without naming names of companies, I can confirm that we have had and we are continuing today to have discussions with a number of potential companies who would be interested in

establishing an aluminum smelter in the Province of Manitoba.

What is encouraging, without raising expectations too much, in the context of the future is further confirmation of Manitoba being a very attractive site for the establishment of such a facility. This has been confirmed not only by our own studies and our previous discussions and negotiations, but unfortunately due to a change in priorities by Alcoa, they decided basically to further remove themselves from the primary aluminum business and go into more of the fabricating side and go into other non-aluminum business, which they are presently doing, of a diversification and that was a decision that they took in a very short period of time. But they did confirm, and it's reflected in the statement made by the president, that from their own analysis - and they spent a heck of a lot of money looking at us jointly together - that Manitoba has to be one of the leading contenders for the establishment of a smelter in the future.

This will in the future, increase because of what's happening with the aluminum industry today which is, of course, in a cyclical downturn with the prices following the kind of development that took place with copper. But more and more high-cost capacity is being squeezed out, squeezed out in Japan, squeezed out in the United States and, particularly, in the northwest where they have established historically quite a large capacity of aluminum smelting, that continues to be squeezed, and you will see greater competitiveness for a Manitoba site develop servicing North American markets as developments proceed.

MADAM CHAIRMAN: The Member for Pembina.

MR. D. ORCHARD: In your negotiations on aluminum smelting and the possibility of locating a smelter in Manitoba with Alcoa's withdrawal from further negotiations, your indication is that you are pursuing European and Asian aluminum producers; have there been no further discussions with Alcan, the Canadian Aluminum Company?

MR. M. ELIESEN: Madam Chairperson, we have from time to time raised the possibility of having discussions with Alcan. For the information of members of the committee, Alcan have changed a lot of their plans with regard to the long-future smelting in Canada, and developments which they had announced would take place in the Province of British Columbia at Kitimat have now been cancelled completely. They had two or three smelters that they had announced they were going to build. The only major aluminum building that is taking place in Canada today is in Laterriere, in the Province of Quebec, where they are building a smelter to replace some of the old smelter facilities at Arvida as a replacement.

Even in that context just recently, last week, I noticed that they deferred major capital expenditures, that is, are stretching out that schedule. So they, like other aluminum producers, are presently watching the kind of cyclical developments that are taking place in the world with aluminum and, from time to time, do have discussions with us.

HON. W. PARASIUK: I might add, last autumn I had a meeting with senior people in Alcan in Montreal, and

they in fact confirmed that, after having spent I think some \$52 million on looking at British Columbia, given the situation at the markets, that they have decided not to proceed and, in a sense, not to have that contingency on their books. That was in line with the explanation that they had given us with respect to not having any type of contingent liabilities on their books with respect to Manitoba.

One of the reasons why companies are doing that is that when they are dealing with major institutional investors who do make large purchases of stocks, they try and keep their books looking as lean as possible, especially in this difficult time, because aluminum prices right now are in the order of 50-51 cents. They had thought that at this stage they would be 80 cents a pound, so there is that type of difference.

They also explained the Laterriere situation where they have been under a long obligation to provide a new plant to replace an old one that has a lot of environmental problems. When they were replacing that plant they were bringing in some improvements to their technology which allowed them to be more energy efficient, which meant that, for the same amount of energy, they would be building a plant that would be somewhat larger than the plant that they were replacing at Arvida.

But they also informed me that, given the market situation, they would be postponing the completion of that particular facility and stretching out its building program over quite a bit longer time period than they originally envisaged. We certainly agreed to keep each other informed from time to time as to what has been transpiring. Just the other day, for example, I saw a senior Alcan official at the Economic Conference that was held in Winnipeg just last week.

MR. D. ORCHARD: The Minister mentioned earlier on, in response to some questions as to the tendering process that Manitoba Hydro is using, did I hear the Minister correctly in saying that the guidelines for the tendering process are being formulated right now?

HON. W. PARASIUK: There is a publication we could give to you right now on tendering guidelines that has been formulated, it has been announced to the public, and businesses have been sent copies of this information. We have had a chance to have discussions with them. As I said, the feedback that we have received from Manitoba firms has been excellent.

MR. D. ORCHARD: Yes, I would appreciate seeing that document. The Telephone System back approximately 18 months ago, I believe that does not exist any longer, but they had a 5 percent Manitoba preferential in their tendering. Has your tendering procedure, and I trust that this document will not indicate that, but do you have a guideline which you are following similar to what the Manitoba Telephone System had formalized in their tendering?

MR. M. ELIESEN: No, Manitoba Hydro does not have a formalized basis, other than the competitive tendering system. It does look at, obviously, Manitoba-sourced items when bids come in, but there is no formalized figure related to this area.

MR. D. ORCHARD: So then, presumably, the guidelines are open enough that if a supplier could indicate that by receiving approval to sell a given component to the Limestone project that his employment and economic activity in Manitoba would generate several hundred thousands of dollars in terms of payroll tax, in terms of sales tax, in terms of personal income tax paid, that that would be of significant importance to Manitoba Hydro and influence their decision?

MR. M. ELIESEN: Madam Chairperson, I am sorry, certainly didn't want to leave the impression that there was no tolerance with regard to the decision-making process on the actual tenders. There is always a slight tolerance, keeping in mind that we try to get the best kind of product for the less costly price. At the same time, and particularly now in the context of Limestone where we are attempting to maximize Manitoba benefits, Manitoba sourcing, there is an opportunity for Manitoba Hydro to look quite seriously at this area and to make decisions related to it.

MR. D. ORCHARD: The figure that was mentioned earlier in the discussion today was that, in analysis of the Long Spruce construction project, some 40, 45 or possibly 50 percent of presumably the total project cost was sourced in Manitoba. Now that because there are many components which complete the total project labour being one of them, interest costs, reinforcing steel, gravel, machinery rentals, a myriad of inputs, but if you have already awarded the contract basically for the turbines, the turbines are representative of what percentage, first off, roughly of your completed project cost?

MR. M. ELIESEN: Madam Chairperson, at the time the announcement was made, we indicated it was roughly about 10 percent.

MR. D. ORCHARD: The turbines represent 10 percent of your project cost?

MR. M. ELIESEN: The total project cost, yes.

MR. D. ORCHARD: And your negotiated agreement with CGE would require them to place some 15 percent of that 10 percent total cost in Manitoba.

MR. M. ELIESEN: Madam Chairperson, there were five main components which resulted in an economic benefit to Manitoba of about \$150 million in 1984 terms. The five areas are the ones that I quickly summarized, or of which is a guarantee by CGE that they will source 15 percent compared to roughly - in fact, they were the one area where we had a better grip on with regard to sourcing Long Spruce, because we had the actual figures on the sourcing for the turbines and generator there. There it was 8 percent. Now, there is a guarantee by CGE that they will commit themselves to 15 percent sourcing without any premium whatsoever.

MR. D. ORCHARD: That's an interesting analogy. My memory indicates that \$100 million was the figure that was bounced around on the cost of the turbines.

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IR. M. ELIESEN: Yes, Madam Chairperson, about 102 million. That's correct.

IR. D. ORCHARD: The economic spinoff from that deal is we spend 102 million and we have 150 million calculated benefits to Manitoba?

IR. M. ELIESEN: That is correct, Madam Chairperson. That's why we were so pleased with the Industrial Benefits Package. Here we had negotiated equipment which was required for the Limestone Generating Station, obviously, which we believed, or at least Manitoba Hydro management believed, was very very attractive. In addition, we were able to negotiate an agreement in which the benefits were one-and-a-half times the value of the contract.

IR. D. ORCHARD: That's an interesting discussion that we may have to pursue next meeting. Fifteen percent is the guaranteed minimum value of \$102 million contract, which is \$15 million, which is now into \$150 million of benefits.

ION. W. PARASIUK: Can I invoke what was called yesterday a Section 46? Fifteen percent of sourcing was one aspect. The \$10 million investment was another aspect. The \$2 million Northern Fund was another aspect, plus the 100 to 150 new jobs in a highly technical field, probably the aerospace industry. So those are the different components that make that up.

MADAM CHAIRMAN: The time now being 12:30, what is the will of the committee?
The Member for Lakeside.

MR. H. ENNS: Just for our own information with respect to the next sitting of this committee, it is my

understanding that the Minister had agreed to the suggestion of our leader that we would not pass formally the Report of the Energy Authority, because of the special relationship of the Authority with Manitoba Hydro, and would enable us without breaking our rules to perhaps have to refer back to some questions to the Energy Authority when next we sit which, I presume, we'll have Manitoba Hydro officials before us.

HON. W. PARASIUK: I would just like a clarification on that. If you want, I can bring all the MEA people here and have them here. We may go a bit further, or we can go into Hydro and I'll have some of the MEA people here but certainly not all of them. There may be some specific points that are raised that we may have to take a day or two to get to.

MR. H. ENNS: My request to the Minister would be to proceed with Manitoba Hydro. There would be the occasion . . .

HON. W. PARASIUK: Sure, I don't disagree with . . .

MR. H. ENNS: . . . to cross-reference with the Energy Authority as we're going through the Hydro.

HON. W. PARASIUK: Exactly, exactly.

MR. H. ENNS: Thank you.

MADAM CHAIRMAN: The committee will continue its deliberations on Thursday at 10:00 a.m.
Committee rise.

COMMITTEE ROSE AT: 12:32 p.m.

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