

First Session - Thirty-Eighth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Mr. Daryl Reid
Constituency of Transcona

Vol. LIV No. 1 – 6:30 p.m., Wednesday, September 24, 2003

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MANITOBA LEGISLATIVE ASSEMBLY
First Session—Thirty-Eighth Legislature

Member	Constituency	Political Affiliation
AGLUGUB, Cris	The Maples	N.D.P.
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OSWALD, Theresa	Seine River	N.D.P.
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TWEED, Mervin	Turtle Mountain	P.C.
WOWCHUK, Rosann, Hon.	Swan River	N.D.P.

LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON CROWN CORPORATIONS

Wednesday, September 24, 2003

TIME – 6:30 p.m.

LOCATION – Winnipeg, Manitoba

**CHAIRPERSON – Mr. Daryl Reid
(Transcona)**

**VICE-CHAIRPERSON – Ms. Christine
Melnick (Riel)**

ATTENDANCE - 11 – QUORUM - 6

Members of the Committee present:

Hon. Messrs. Sale, Smith

Messrs. Bjornson, Cummings, Dewar, Jha,
Loewen, Ms. Melnick, Mrs. Mitchelson,
Messrs. Reid, Tweed

APPEARING:

Mr. Bob Brennan, President and Chief
Executive Officer, Manitoba Hydro

Mr. Vic Schroeder, Chairman, the Manitoba
Hydro-Electric Board

Hon. Jon Gerrard, MLA for River Heights

Mr. Ron Schuler, MLA for Springfield

Mr. Jack Penner, MLA for Emerson

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Hydro-
Electric Board for the year ended March 31,
2002.

Annual Report of the Manitoba Hydro-
Electric Board for the year ended March 31,
2003.

* * *

Clerk Assistant (Mr. Rick Yarish): Good evening. Will the Standing Committee on Crown

Corporations please come to order. The first item of business for the committee is the election of a Chairperson. Are there any nominations for this position?

Mr. Gregory Dewar (Selkirk): I nominate the Member for Transcona, Mr. Reid.

Clerk Assistant: Mr. Reid has been nominated. Are there any other nominations? Hearing no other nominations, Mr. Reid, will you please take the Chair.

Mr. Chairperson (Mr. Daryl Reid): Our next item of business is the election of a Vice-Chairperson. Are there any nominations?

Mr. Dewar: I nominate the Member for Riel, Ms. Melnick.

Mr. Chairperson: Are there any other nominations? Ms. Melnick has been nominated. Ms. Melnick will be the Vice-Chair of the committee.

This meeting has been called to consider the following reports: the Annual Report of Manitoba Hydro-Electric Board, for the year ended March 31, 2002; and the Annual Report for Manitoba Hydro-Electric Board, for the year ended March 31, 2003.

Before we get started, are there any suggestions from the committee as to how long this committee should sit this evening?

Mr. Mervin Tweed (Turtle Mountain): I think it was suggested that we set a time of ten o'clock, with a review at that time.

Mr. Chairperson: Mr. Tweed has suggested ten o'clock. Is the committee agreed? *[Agreed]*

To be reviewed, Mr. Tweed?

Mr. Tweed: Sure.

Mr. Chairperson: Thank you.

Are there any suggestions as to the order in which we should consider the annual reports?

Mr. Tweed: We would like to review them just as global questions, and then we will make consideration on the '02 at the end of the evening.

Mr. Chairperson: Is it the will of the committee to consider the reports together? *[Agreed]*

Does the honourable minister responsible for Hydro wish to make an opening statement, and would he please introduce his officials as well?

Hon. Tim Sale (Minister responsible for The Manitoba Hydro Act): I am joined by Vic Schroeder, known to many of you as my first boss and as the Chair of Hydro; and CEO and President of Manitoba Hydro, Bob Brennan.

An Honourable Member: Many years ago.

Mr. Sale: It was many years ago. Vic taught me all that I know.

An Honourable Member: That is encouraging.

Mr. Sale: Or thereabouts.

Mr. Chairperson, if I may make just a few opening remarks, and then, I think, Mr. Brennan has a presentation for the committee to give us some orientation to the issues that Hydro has faced and is facing. They are always very helpful presentations.

It is a great honour that I have shared with many ministers past on all sides of the House to be the minister responsible for Manitoba Hydro. Regardless of party persuasion, Manitoba Hydro is known throughout the province as a very well-run corporation, prudent, an excellent employer, a corporation whose staff in every community in Manitoba are seen as contributing, not just through their work to the community, but in many cases through tremendous volunteer engagement in all the communities in which they live.

I think all of us know that history. We are honoured by their work and by the tremendous

contribution this Crown corporation has made over its many years of service to our province.

I want to speak reasonably briefly about the particular opportunities that we have before us, which are only beginning to be grasped. The abundant hydro-electricity that we have available to us in Manitoba exceeds what is now installed. In other words, we have about 5000 megawatts installed. There is about 5500 available to us, not counting what we might save through aggressive demand-side management and what we might generate through increased wind power.

Put most briefly, this is sufficient power, when used in a future economy based on hydrogen, to provide for all Manitobans' needs without any diminishing of our standard of living or our ability to be a competitive economy. That, quite frankly, is unique in the Western world. There is no other jurisdiction that could generate clean electricity, turn that electricity into hydrogen, and store the energy in the form of hydrogen for use as a motive fuel or as a fixed-point fuel for non-mobile uses.

This is quite clearly a precious capacity for not you and me sitting around this table today and perhaps not in 10 years, but undeniably that next decade from ten to twenty years from now. That is why we positioned ourselves as the clean energy province. That is why we endorsed Kyoto. That is why we have signed an agreement with Iceland most recently to capture the opportunities that will come both in Canada and in our neighbouring country to the south to build out the new economy.

In the meantime we are exceedingly well served by a corporation that has planned prudently and over all of its time as a corporation to be able to supply Manitobans with reliable, high-quality power without interruption, regardless of the season, regardless of the flow of water, and regardless of the conditions that we find ourselves in.

There is no denying that in this past 12 months we have found ourselves in a drought that is extremely severe. We will be very pleased to talk about the drought and how we have planned to deal with it in the present, how we

prepared to deal with such contingencies in the past, so that when we arrived at that situation, we would have more than ample reserves with which to meet the situation that we are facing this year.

The corporation's plans for the future have always been based on an extremely prudent set of assumptions. I think that you will see that in Mr. Brennan's presentation to us. In the interest of giving the committee as much time to ask questions as possible, we should have that reasonably brief presentation and ask Mr. Brennan to share the information that he has with us now.

Mr. Chairperson: Does the Official Opposition critic have a statement to make?

* (18:40)

Mr. Tweed: Mr. Chairperson, we are here to ask some questions of the chairman and president of Manitoba Hydro. We agree that Hydro is a well-run company. I think that in recent years our concerns and our issues have been driven by the fact that we have a concern that Hydro is no longer basically serving the people of Manitoba as much as they are serving the Government of Manitoba. Many of our questions will revolve around that. We are anxiously awaiting the presentation and look forward to the questions that follow.

Mr. Chairperson: Thank you, Mr. Tweed.

I understand that the representatives of Manitoba Hydro-Electric Board wish to include a PowerPoint presentation as a part of their statement to this committee this evening.

Is their leave of the committee to allow the PowerPoint presentation to occur? *[Agreed]* Thank you. Please proceed.

Mr. Tweed: I think history would suggest that I should ask here how long this process will take and ask for it to be shortened by a few minutes.

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): Mr. Chairman, about half an hour or so. I will try to go as fast as I can.

Mr. John Loewen (Fort Whyte): Just for clarification. In previous years, we have asked ques-

tions as we have gone along rather than hold them all to the end. Is that the process we are going to follow? Obviously, there is a lot of information here. It is kind of hard to keep it all until the end.

Mr. Brennan: I have no trouble with that.

Mr. Tweed: Could we ask, I presume, as in the past, there have been hard copies.

Mr. Brennan: Yes, we have hard copies.

Mr. Chairperson: So hard copies will be presented to members of the committee then. Thank you. Mr. Brennan, please proceed.

Mr. Brennan: This is just an outline of the presentation. I will not go through that.

This is a corporate vision of Manitoba Hydro. It is a vision that was developed by management and approved by the Hydro board. It is to be recognized as the best utility in North America with respect to safety, rates, reliability, customer satisfaction and environmental management and to be considerate of all people that we come in contact with.

This is our corporate mission. It is pretty well right out of the act. It does reflect the changes that were made to The Manitoba Hydro Act in 1997.

These are the corporate goals. I think I would like to go through them quite briefly. The first goal we have is to continuously improve safety in the work environment. The product we deal with is a very safe product if you use it properly. Every now and then we do have the odd electrical accident. Once we do have one, the impacts are pretty severe. So it is very important for us to continually keep safety in the forefront.

We want to provide our customers with excellent value. When we talk about value, we are talking about rates, service, public safety, safety to the public generally—and that is especially important in the farm environment—reliability and power quality. We want to be a leader in strengthening our working relationship with the Aboriginal people. We want to improve the corporate financial strength. We want to

maximize our export power net revenues. We want to have a highly skilled, effective, innovative and diverse workforce that reflects the demographics of the province.

We want to be proactive in protecting the environment and be a recognized leader in doing so, and we want to be an outstanding corporate citizen. We want to proactively support agencies responsible for business development within the province, and we want to be a leader in implementing cost-effective energy conservation and alternate energy programs.

This is a small profile of Manitoba Hydro. As at the end of March of 2003, our total revenues were \$1.869 billion, extra-provincial sales \$463 million and a net income of \$71 million. This was a year when our hydraulic generation was less than average, and we still had a pretty respectable year.

With retained earnings at \$1.2 billion, achievement of our financial targets were taking place, and we had gross capital assets in service of \$10 billion.

This is a graph that shows all our generating facilities. I will not go through it all. It also shows our interconnection capability outside the province. You can see that the majority of our export capability is to the United States.

Some industry comparisons: This is a graph that I have especially liked myself. It compares the reliability of our service to the cost of the product. It is always a balancing act to make sure that we have high reliability because it usually means increased cost to do that, and at the same time we compare that reliability to our rates. As you can see, we are the lowest in the country, both in terms of reliability as well as the cost.

This is a graph that was not made up by Manitoba Hydro but it was made up by Edison Electric institute. It compares the 10 lowest cost utilities in North America, and as you can see Manitoba Hydro is the lowest.

This is one that Manitoba Hydro made up. It was made up as of May 1, 2003, and it compares the various utilities across the country for a

residential customer with a usage of 2000 kilowatt hours in a month.

This is a small commercial account and it compares the bill for 10 000 kilowatt hours in a month with a load of 40 kilowatts, and Manitoba Hydro is the lowest there.

This is an industrial customer and I am not sure the name should have been on there. We try to keep individual customers and not identify them. It is something I missed in reviewing the presentation, but you can see the size of the load, 20 megawatts is a pretty good-sized load. There are other customers about that size and it uses 12 million kilowatt hours in a month. But you can see if that same customer were in a different province how much the bill would be. In our service area that is \$352,000.

Mr. Tweed: I am just going through this and I guess I got stuck on the residential monthly bill. You use your source—one-month bill in a city with a population of 70 000 or more. Is that relevant in Manitoba with the rates being equalized?

Mr. Brennan: No, but it is in other provinces.

Mr. Tweed: So they have zone rating.

Mr. Chairperson: Sorry, gentlemen, but the process is, for the purposes of Hansard, we have to identify the speaker, so if you could give me the opportunity to introduce you and then allow you to place your comments on the record.

Mr. Tweed: Basically, then, the reason you have used Winnipeg is so that you can get into the same size of community because of the zones of costs in other provinces.

Mr. Brennan: Yes, in Manitoba's case, the rate is the same for that consumption.

Mr. Chairperson: Please proceed, Mr. Brennan.

Mr. Brennan: Here are some current considerations that I would quickly like to go through with you. The first one is just that, and we have talked about it at previous meetings, the world is restructuring both in the United States and Canada. It is deregulating generally. Certainly

when we looked at The Manitoba Hydro Act in '97, at that point we looked at what extent Manitoba Hydro should deregulate, and it was at that point that we opened up our transmission facilities to any customer inside or outside the province that wanted to use our transmission lines. They just had to pay Manitoba Hydro a tariff.

At that point we did not deregulate the retail market. We were generally of the view, and I guess the government of the day was of the view, that it would not be in the interests of all residents of the province to do that. Other provinces have, and you have seen the impacts in some provinces. Certainly, Ontario has been having its difficulties, and Alberta at one point was going through some difficulties as well.

* (18:50)

What it has done for Manitoba Hydro, though, is it has created a market that has been very, very good to us. We are now getting a lot of customers. People are able to use other transmission lines. We have a single tech tariff within the area, a transmission tariff for using transmission facilities for any of the areas marked in blue. This has really helped our extra-provincial sales in the last few years and allowed us to take the surplus energy we have in our system to markets. It has given us pretty attractive rates.

Water conditions. Water conditions right now are really quite difficult for us. It looked like last year we were going to have real difficulty. We started the spring last year, in the last fiscal year, with a problem. It looked like it was going to be bad for us. Then, I think it was the weekend of June 11, we had a real downpour that lasted the whole weekend and it really helped us that year.

Since then it has not rained of any consequence at all and it has caused us a fair amount of concern. We always keep thinking we are going to have some more rain and it seemed to me that every time I went to the lake they were talking about rain, but it never seemed to rain. I do not think I ever was hoping for rain at the lake, but I was this year.

Manitoba Hydro, in designing its system and planning its system, we design our system so we

have adequate power in the event of low flows, so that in the event of low flows we always have power adequate for the needs of the province. We are in that position now. We do not need any new generation for our own load and committed export sales till getting into the 2020 period, despite the current low flows. Reliability therefore is not in question at all. We always have adequate power.

We forecast our revenue, despite the fact we plan our system on low flows, we forecast all our revenue based on average flows, and in the long term we are going to get average flows. We are going to have high flows, low flows, and right now we are in a low-flow period.

Last time we had a low-flow situation was in the '88 to '91 period and at that point we were just adding Limestone. The first units of Limestone came in, the first unit was September, 1990 and the first units really helped us quite significantly. They were 100% load factor units and so every time you put on one unit you got 100% capacity capability out of that unit for the first six units.

These are just some current conditions. Winter precipitation on Lake of the Woods basin was the second-lowest on record in 100 years over the winter of 2002-2003. The spring and summer water supply conditions have been below normal for most of Manitoba and North-western Ontario.

The Winnipeg River system and the reservoir supporting the Winnipeg River is very, very important to us. Water that comes down the Winnipeg River goes through all the Winnipeg River plants and it also then goes into Lake Winnipeg and then down the Nelson, so we get to use that same water more than once. Record dry conditions exist in other parts of the province.

Precipitation has been normal in Saskatchewan and parts of Alberta, especially the southern part, but it is not enough to reverse the dry conditions we are experiencing in the East. We have seen in the last week or so some pretty good rains in the Lake of the Woods and the eastern part of the province, but it is not going to help us as much as we would like unless we get a heck of a lot more. The overall reservoir

storage in the Nelson-Churchill River watershed is a record 27-year low.

Up to seven billion kilowatt hours of energy we are going to have to purchase or use terminal power for the whole fiscal year that we are in now. That is an awful lot of power.

Here is the historic energy by year from our inflows. As you can see, we have to go back all the way to 1940 to experience the one we are experiencing today.

This is a distribution of historic annual energy from inflows. If you compare a 12-month period, one shows the annual energy in kilowatt hours. In this case it is a trillion kilowatt hours. It shows the percentage of time it can occur. Right now we are in the 5 percent area. You can see that it is about 5 percent that is all we are getting right now for the period of September 1 of last year to August 31 of this year.

This is the energy and reservoir throughout the system. It is by month and it compares the 26 year average, which is the top line going across, last year, which is lower than our average, and then where we are this year.

This is Lake Winnipeg and the elevation of Lake Winnipeg with wind being eliminated. This is the same graph for Lake of the Woods and compares once again, this one has 2002 on it, 2003, the average from '74 to 2002, and then the current year. You can see that 2002, we had pretty good water flows that particular year.

The distribution to the Province, as everyone knows in 2002-03, the Government passed a bill whereby Manitoba Hydro was required to give the Government \$150 million plus 75 percent of our net income, and that works out to about 202-point-some-odd million, rounded to 203. In the current year, we are projecting a loss, so the Government is not going to get any money.

Mr. Tweed: If I understood the legislation properly, the money was presented to the Province at the start of the year, then at the end of the year the differences were worked out give or take whatever amount that is. Are you saying this year you have not flowed any money to the Province?

Mr. Sale: Mr. Chairman, I think this is a point on which we really have to be very clear that when we had earnings of about \$220 million we took \$150 million of the earnings in that year as a dividend. The next two years, in order to protect Hydro, we said we would take no more than 75 percent of the profit. There was a profit of \$71 million in the next year, so we took I think it is 52 or say 75 percent.

There is no profit projected for this year, so we will have no draw, because that is the way the legislation reads. It is 75 percent of profit. There has not been any profit. We do not have any money and we do not expect to have any coming this year. That is the way the legislation was written quite deliberately because I think we understand that you cannot take a dividend where there is no profit to take it from. That is important for the members to understand that was how the legislation was crafted.

Mr. Tweed: I am not sure that the minister understood my question. I believe the legislation reads that Manitoba Hydro is to advance to the Province at the beginning of each fiscal year, in this case it would be the balance that would bring it up to the \$288 million. If I understood the legislation properly it was advanced by Hydro at the start of the year, then at the end of the year it was worked out based on what that percentage ended up being, give or take whatever the number is.

I guess the question is, clearly: Is the minister saying they have received no payment from Hydro for this fiscal year?

*(19:00)

Mr. Sale: That is correct. There has been no payment and we do not expect to receive a payment.

The member may recall that in anticipation of potential continuation of the drought, we reduced our estimate at the beginning of the budget period.

The Budget was obviously finalized in the early winter of '03, when the member will recall we were already into low flows and low snow cover. We had, in spite of that situation in the

previous year, been pleasantly surprised that Hydro, in spite of a difficult year, had attained a \$71-million profit, was projecting that level of profit. We reduced the anticipated draw from \$69 million to, I believe, \$52 million this year. We do not expect that that will happen, because subsequent to the Budget's preparation and presentation, the drought has unfortunately continued. The previous minister responsible, who is still the current Finance Minister (Mr. Selinger), and I are extremely clear on this point: no profit, no dividend. There is not going to be a profit this year unless something absolutely amazing happens. So there will be no dividend and no money has been taken for this year.

Mr. Tweed: I thank the minister for those comments. The question that would follow, and I think he has opened the door: Does the provincial government see that they will have a shortfall at the end of the year based on no revenue from Hydro this year.

Mr. Sale: I think that that most properly is the question to be put to the Finance Minister, but I can say in general terms that out of a budget of \$7 billion, the member may recall that when his party was in power it was not at all unusual to have a little letter arrive from the federal government in the late fall. Certainly the member from Russell will recall this, maybe November 30 or December 15 or at the latest early January, you get a little letter from the feds saying, oops, your equalization revenue that you put in your Budget for last year has declined by \$100 million, deal with it. In a good year, you get a letter that said, good news, your equalization revenue has gone up \$100 million, sort of like, collect, pass go, and everything is well.

In each of the years in which our Government has been in power, Mr. Chairperson, we have had unexpected changes during the year, some good, some bad. It is the job of a government, any government, to retain the management of the Budget throughout the whole period. You do not just stick a budget in place and hope that at the end of the year that is what happens. You put your best estimates in place, which is what we finished up this afternoon in Estimates process, and we recognize that in any fiscal period there is going to have to be adjustments,

because the reality will very rarely turn out to be exactly what was forecast.

We were very, very pleased last year that our expenditures turned out to be almost exactly what was forecast, but our revenues due to the fallout from 9-11, the subsequent decline in tourism, and all the other things that followed certainly changed our revenue picture. We did our very best to deal with that.

Since we have known for some time, we released the first quarter statement some time ago, and it was clear to all of us that with the continuing drought we would need to deal with this issue. We have been managing our resources accordingly. If you ask the Finance Minister in Concurrence, he will tell you that this is something which is not unknown to previous Finance ministers or to the current one. A variance of less than one tenth of 1 percent up or down is not at all unusual during the year and even 1 percent is not unheard of. We are dealing with this problem. I do not anticipate that we will be terribly off from our estimates when the final word comes in a year from now.

Mr. Loewen: Just for clarification, because I believe the minister said that there was some money taken out of the corporation by way of dividend in '01-02 and then he is saying another amount was taken out in '02-03, that is contradictory both to the presentation we are receiving as well as to the financial statement. I wonder if the minister could clarify that.

Mr. Sale: The total of \$203 million was actually removed, I believe, one day after the year-end. There was an issue with the Auditor around the question of the timing of the actual payment. Those total dollars, however, have been removed and I think the member may recall that they were credited and debited through the Fiscal Stabilization Fund and that all those transactions are clear from our annual report. Maybe Mr. Brennan could also clarify that further.

Mr. Chairperson: Mr. Brennan, did you have a comment to add?

Mr. Brennan: Sorry again, Mr. Chairman. The legislation provided for 2002-03, and that is when we made the payments.

Mr. Loewen: Could I ask Mr. Brennan then, the money that was taken out in '02-03, that you are indicating here, the \$203 million, what percentage would that have been of your profit for '02-03?

Mr. Brennan: Mr. Chairman, \$150 million was the dividend, and the 75 percent of our profit of \$71 million or some such number, which, as the minister said, was in the neighbourhood of 52 point somewhat million dollars.

Mr. Loewen: I guess I am looking for clarification because the intent of the Government and the minister, just reiterated, was never at one time to take more than 75 percent of the net income of the company in order to protect the company. Quick math in my head tells me that when you are taking \$203 million, and I look at the financial statements and your profit is—sorry, just get the right page here; it is a little dark—net income of \$71 million. It seems to me that 203 is a little higher than 75 percent of profit.

Mr. Sale: Thank you, Mr. Chairman. Through you to Mr. Loewen. The 2001-02 profit was about \$220 million if my memory serves me. Bob, you might need to correct my number by a couple of million, but it is in that order. Of that profit, we took a dividend of \$150 million.

The actual transfer, for reasons related to provincial Auditor's oversight was made after the year end, but it was charged against the profit of 2001-2002. It had been discussed in the Legislature and the legislation had been prepared with that in mind. Subsequent to the passage, the provincial Auditor, for reasons which I, frankly, would leave to an auditor to explain, expressed the view that the transfer should be following the year end, and so that is what in fact happened.

The way the legislation was framed, and the discussion in the Legislative Assembly was that Hydro had made a profit, and we took 75 percent roughly of that profit. I think I actually have the number. The estimated profit was 209; 214 was the final, 214 consolidated. So, 75 percent of 214 is slightly more than \$150 million. We took the 150, and then in the subsequent year the profit was 71, and we took 75 percent of that. So, in both cases, Hydro had net profit remaining after the Province had taken the special dividend.

I am sure I do not need to remind the member that the purpose of that dividend was to bridge over an utterly unforeseen accounting error, which began during the Filmon government. It was undetected by either the federal or provincial Auditor and continued into the first couple of years of our Government and was finally brought to our attention on one very unhappy January day, 10 months into the fiscal year, when we were faced with a \$165 million hole. Balanced budget legislation requires us to meet the tests of that act, and so obviously all the decisions that followed from that are the ones that the member knows about.

His real question is: Did we take more than 75 percent? The answer is no; 2001-2002 profit consolidated basis 214. Seventy-five percent of that is greater than 150, which is what we took. The same is true in the subsequent year, 71 million. We took 52, 75 percent.

Mr. Loewen: I thank the minister for that answer.

He indicated this all happened because of an oversight by the Auditor. Could he explain what type of mistake he feels the Auditor made? The Auditor General, sorry, his new title.

* (19:10)

Mr. Sale: To the best of our understanding, what happened was that in the corporate income tax assessment the corporate income tax—

An Honourable Member: I am talking about something different. If you want to go on, that is fine, but we are going to come back to it.

Mr. Sale: I am explaining the error, Mr. Chairperson, that led to the shortfall in provincial revenue, which is what I thought the member was asking. You said what error did the Auditor make and that is what I was attempting to provide him with an answer to.

Mr. Loewen: If you want to finish your answer, go ahead.

Mr. Chairperson: Did you wish us to proceed with the presentation?

Mr. Sale: I would be glad to finish the answer. For the record, it had to do with the accounting for the profits of large mutual funds which had been treated by one part of Revenue Canada as credited entirely to the province in which they were accrued by virtue of the head office of that corporation being domiciled there, whereas in fact what should have happened would be that the profits would have been appropriately attributed to each province in which the mutual fund holder lived. In effect, there was double-counting of the profits of big companies such as Investors.

The Province of Manitoba, the Province of Alberta and the Province of Québec were all beneficiaries of that mistake because they were credited with the full benefit of the mutual companies' earnings in those provinces and when that mistake was discovered and the proper attributions were made the impact was worst for Manitoba because we happened to be the home of Canada's largest mutual fund, Investors life, or Investors Syndicate. Yet of course we are a small province and so it had a tremendously disproportionate effect on our accounts. The solution of that problem took several years to work through our accounts, but in the short run we had a shortfall which we bridged with the Hydro draw.

Mr. Loewen: Just for clarification, I hope the minister understands the difference between Revenue Canada and the Auditor General. What he said in his statement was because of an oversight by the Auditor, which is the provincial Auditor, the Government was not allowed to take the \$150 million out of '01-02. That was the statement you made. I am just asking you what mistake do you think the Auditor made?

I can assure the minister the Auditor General had nothing to do with Revenue Canada and the federal overpayment.

Mr. Sale: The member may have misunderstood but certainly the words he has now put in my mouth I did not say. I did not indicate that the provincial Auditor made any mistake. The provincial Auditor made a ruling that the funds should be transferred subsequent to the year-end. That I did not say was a mistake. I said it was a ruling of the provincial Auditor.

The mistake to which I referred was the fact the error in the federal accounting and transfer of revenues under the corporate income tax sharing arrangement was signed off by the federal Auditor General year after year in the public accounts and was undetected at all levels, including our provincial level who signed off on our accounts. So it was an undetected error. Yet it had been signed off in the accounts past without that error being detected.

I am not blaming anybody for that. I am simply saying that it passed through subsequent governments and subsequent auditors general without being detected. When it was detected it was not a trivial issue facing our Government 10 months into a fiscal year.

Mr. Loewen: I thank the minister for that clarification. We will have to check Hansard, but I do believe he referred to it originally as an oversight by the Auditor. Anyway I appreciate his clarification and I am certainly glad to hear he thinks the Auditor is within his bounds to make a ruling.

Having said that, I am assuming he has abided, and obviously the Finance Minister at the time was willing to abide by the Auditor's ruling, which was that the dividend from an accounting and from a legal perspective could not be backdated, would have to come out of the current year. I guess I am trying to clarify again the minister's statement versus the annual financial statement and the presentation we are now getting, because both the annual financial statement and the presentation that Mr. Brennan is in the process of giving us indicates that the Government took over \$200 million out of the corporation in 2003 when in fact the profits of the corporation were 71 percent, \$71 million.

I was simply asking Mr. Brennan what percentage of the profits the company made in 2002-2003 the Government withdrew in terms of a dividend. Obviously it is more than 75 percent. I am just looking for a number. I would assume the CEO of the organization probably knows it off the top of his head. Maybe he could answer.

Mr. Sale: It is very clear from when our Budget was introduced to the House and what the entire discussion during this debate was that the charge

for the \$150 million was against the fiscal year in which we were then still engaged. The decision of the Auditor was because by the time the Budget was actually passed the fiscal year had ended.

So, rather than having a back adjustment, the Auditor directed that it be taken out in the fiscal year following the year in which it was introduced as a measure that was part of the Government's Budget. So I think we are at risk of splitting hairs here in terms of what was done.

The corporation, over the period of time in question, earned approximately \$470 million more than it forecast. Our total draw is \$202 million to \$203 million out of those earnings that were over and above forecasted earnings. The draw was clearly introduced as a three-year measure, understood as a three-year measure against three fiscal years.

The Auditor chose to direct us to make the transfer at the time we did. That is what we did. If the member wishes to portray it in some other way, obviously he will do so, but it would not be a fair reflection of the history or of the debate or of the clear intent of the Budget that was introduced by our Government in that year.

Mr. Loewen: Just for clarification, I realize the minister was not responsible at the time, but he took \$150 million out of the rainy day fund and then in addition took \$203 million out of Manitoba Hydro. We are here to examine the financial statements. I am just looking for a simple answer, which I am sure that either the chairman or the president of the organization could answer quite quickly if the minister would let them.

What the financial consolidated statement of income on page 77 indicates is that there was profit of \$71 million and the distribution to the Province was \$203 million. I am just curious to know if anybody can tell me what percentage of net income that distribution would account to.

Mr. Brennan: What we did was exactly what the legislation required, which was \$150 million plus 75 percent of our profit for that year, which worked out to 52-point-some-odd million dollars.

Ms. Christine Melnick, Vice-Chairperson, in the Chair

Mr. Loewen: I thank the Chair for that answer. I have since done quick math and I guess we are not quite 300 percent of the profit in 2002-03 according to the financial statements, but it is probably 275 percent of profit that has come out of the corporation in that one year. Realizing that the organization has been run on a very sound basis for a number of years and since '88, I think, was the last year that the corporation showed a loss on its books, certainly the profit picture has been good.

But just for clarification, is that 275 percent roughly what the numbers look like for this year?

Mr. Brennan: We had total reserves of \$1.4 billion and we took off \$203 million, which represents what the legislation said, of \$150 million plus 75 percent of our profit.

Mr. Loewen: Well, I thank Mr. Brennan for that answer, and your profit for the year was?

Mr. Brennan: \$71 million.

Mr. Loewen: So based on standard accounting principles and I assume that—

Madam Vice-Chairperson: We are going to have to, just for Hansard, we are going to have to—yes, okay.

Mr. Loewen: Sometimes we get a little ahead of ourselves and I apologize.

Madam Vice-Chairperson: I will pull you back. I promise.

* (19:20)

Mr. Loewen: Just for clarification, your financial statements are produced according to generally accepted accounting principles. In this year, what they show is that the Government took \$203 million as a special distribution over and above their normal demand from the company in a year in which you made \$71 million. Is that accurate?

Mr. Brennan: It is accurate that that is what went through retained earnings.

Mr. Loewen: Thank you.

Mr. Sale: I just want to point out that there are many ways of doing percentages. Hydro earned \$470 million more than it projected to earn from 1999 to 2001-2002. One might equally say that the total draws of the Province were about 40 percent of the excess earnings unprojected by Hydro over that same period of time.

One can aggregate numbers in a myriad of ways, and I would simply restate for the record and hope we might go on with the presentation, that the \$150 million was very clearly, in the legislation and in the Budget, being drawn from the '01-02 fiscal year. The intention was extremely clear. The fact that the Budget flew over a year-end, the provincial Budget flew over a year-end caused a bookkeeping attribution.

The CEO and president, Mr. Brennan, is quite correct that having accumulated excess earnings from exports, the corporation was more than able and continues to be more than able to meet all of its obligations. When the Province decided to bridge a very difficult situation by taking some of those earnings from the wise decision of a previous government to build Limestone and to allow us to not have to close hospitals or foreclose services but to maintain the services Manitobans deserve and expect, the impact of that was to reduce the retained earnings by the cumulative amount of \$203 million.

The question of the attribution we can portray in a variety of different ways. The member has chosen to portray it in one particular way, which I do not believe accurately reflects what the Budget said or what, in fact, was said in the Legislature at the time. But if he chooses to do that, obviously that is his right. I think it would be helpful, though, if we could move on through the rest of the information that is in this presentation.

Mr. Loewen: Well, is the minister somehow trying to lead us to believe that the consolidated statement of income as presented in the Manitoba Hydro-Electric's annual report is not an accurate reflection of what happened?

Mr. Sale: No, I am not attempting to do that at all. That is what happened.

Mr. Loewen: So what happened was in a year that the net income of the corporation was \$71 million, the Government of Manitoba took a \$203-million special distribution from the corporation, and that is over and above the \$150 million that they took out of the rainy day fund to manage their shortfall in 2001.

Mr. Sale: It is equally true to say that in a year in which Hydro made \$214 million, that money was added to their bottom line and was available to the Province to meet a situation that nobody had foreseen for 10 years that was creeping up on us, and we used that capacity to bridge over a very difficult situation for three years.

When the previous government decided that they needed some money, they sold a Crown corporation, Manitoba Telephone. Unfortunately, the result of that was that rates skyrocketed 41 percent in the city, 71 percent in the rural areas. The result of our decision is that rates have not gone up. They have been flat for, depending on categories, 10 or 7 years, and we still have that Crown corporation. It still has \$1.2 billion in retained earnings. It still continues to meet the needs of Manitobans in a wide variety of ways, not simply in terms of the bottom line which, unfortunately, is the situation with Manitoba Telecom.

So I think we should recognize that when we were faced with a difficult decision, we kept the silverware. When the previous government was faced with a situation and they decided it was important to make a decision, they sold the silverware. The consequences are that all Manitobans are poorer as a result.

Mr. Loewen: Not being here, I certainly appreciate the minister's view of history. I guess really what we are here to do is review the financial situation with regard to Hydro.

I am just trying to clarify all of the comments that I am getting from the minister and trying to see how they tie into what is presented in front of me in terms of the audited financial statements. So, I guess the minister is saying, or what I hear him saying is that the \$150 million

that was taken out of Hydro was used to pay back the federal government?

Mr. Sale: I think that the details of that are best asked of the Finance Minister (Mr. Selinger), but it was to deal with the contingency of the short-fall that was announced to us about 10 weeks before our year end and very seriously impacted our ability to meet the requirements of the balanced budget legislation, but I suggest he should probably spend some time tomorrow morning with my colleague, clarifying that issue with him.

Mr. Chairperson in the Chair

Mr. Chairperson: Are we ready to proceed with the presentation? Mr. Brennan, please proceed.

Mr. Brennan: We are now getting into the finances. Each year we go through the process of updating our financial forecast. We have a 10-year running financial forecast, and we update it every year, add a year, and revise all the numbers accordingly. We are in that process right now. We present the forecast to our board in November. We have a model that incorporates all our financial activities, whether they are capital or operating, and the end result is the output of the financial statements.

We change our assumptions based on current conditions, whatever they are at the particular time. We make up the forecast and all our forecasts are based on those assumptions and the outputs as are forecasted, operating statement, balance sheets and sources, application of fund statement.

This is a forecast of last year's IFF, adjusted for the current year's results in terms of net power sales, extra-provincial power sales, this is net of fuel, power purchase and water rentals, and as you can see, in 2003-2004, the impact of low-flow conditions in the current year.

Mr. Loewen: Thank you, and again, I just want to clarify because the information we are getting this year has a lot less detail than the information that you provided for the last couple of years, so I just have some questions to clarify, if that is okay. What you gave us last year was a pro-

jection of roughly, a profit I believe of over what looks like close to \$75 million or \$80 million, a little hard to tell from the chart. And what you are saying is that has been revised downward this year to \$165 million loss?

Mr. Brennan: One thing, one thing I did, I should just point out that this year we did a little different. Last year when we did it, the last time we did it before the committee, we used the previous year's forecast. In this particular case, we updated it for the current year to indicate the impact of the low-flow conditions on our operations. So, we would not have shown the profit for the current year. We updated it. But this is extra-provincial sales, net of any cost of getting that generation.

This is what we are forecasting for the current year, and we are indicating a loss in the neighbourhood of \$200 million to \$350 million, and the whole loss is created by low-flow conditions and the resultant lower hydraulic generation. Then the rest of the forecast is what we had in IFF02.

Mr. Loewen: Just for clarification then, I am sorry, I got ahead of myself on the last line, but this is comparable in some regard to what we got last year, but then the '04-05, '05-06 and future forecasts, that is all based on a return to normal flow?

Mr. Brennan: It is taking the forecast of last November which was based on average flows, average in-flows.

* (19:30)

Mr. Loewen: I am assuming this comes off some fairly complex computerized models. Has a modelling been done of what it would look like if it was low flow?

Mr. Brennan: Yes, we do for Manitoba Hydro's board in the fall. We have not done it this year. As I mentioned, we are in the process of updating our forecast, but we do show the board the impact of low-flow conditions on Manitoba Hydro's operations.

Mr. Loewen: Is that something that you can share with the committee at this time?

Mr. Brennan: No, it is based on an output of the forecast we have once we change all our conditions, and then we run a run that shows what happens if we have low flows. Now, having said that, we are definitely in low-flow conditions this year.

Mr. Loewen: What I am trying to get a feel for is that often these cycles last more than one year and, in fact, your official stated before the Public Utilities Board that under a worst-case scenario, which they could predict, which would be a five-year drought, that the cost to Manitoba Hydro would be in the neighbourhood of a billion dollars, almost as much as the Province takes out of Manitoba Hydro over the course of five years. I am just trying to get a feel if that is still the magnitude of what could be facing you, given a possibility of a five-year drought. You already are saying it could be \$350 million in one year. If I take that over five years and just multiply it out, we could be in the neighbourhood of \$1.5 billion. I am just trying to get a bit of a feel between what we heard, the evidence that was given at the Public Utilities Board hearing versus what we are seeing here.

Mr. Sale: I think what we have to recognize is that you can project worst-case scenarios of a drought that lasts for longer than five years, but the point is that the normal conditions generally return after a couple of years. We are now in the second year of this situation. If it were not for that one very enormous June rain, where some communities in southern Manitoba and northern Minnesota got as much as 12 inches of rain at one time, we would essentially have had now two full years of that drought. I think most forecasters would not forecast that to continue for a great deal longer.

Obviously, it could. In that kind of situation, then we would have to deal with that, but you do not start to deal with it in ways that would upset the equilibrium of the system until you are actually faced with it. Hydro have always projected lower flows than we experienced in the middle and late nineties and early 2000 where we had very high flows and were able to build up our retained earnings to a level of a total of \$1.4 billion at that point. That was a deliberate, modest projection based on prudence. The corporation has historically been accurate in providing sufficient reserves built up.

I think one of the things that the corporation is very proud of is that in 1990 or so, we had about \$90 million in retained earnings. By 2002, we had \$1.4 billion in retained earnings. So we have built up the kind of cushion that will allow us to deal with a drought. If it lasts another year at this rate, then we have still room to do that without adjusting rates and without changing any of our contractual obligations. We certainly hope, and I would assume the member hopes, that that is not the case.

Hon. Jon Gerrard (River Heights): I have a question for Mr. Brennan. It has to do with the fact that a fair amount of water is stored in Lake Winnipeg and when you have a drop in Lake Winnipeg levels of, say, about two feet from what it is most years, it takes a while when you have rains to fill up the storage in Lake Winnipeg again. One would expect that that would have two impacts. One is that you can have some sort of estimate of how long it will take to fill up Lake Winnipeg given the standard average rain conditions, for example. Second, I think that, when you have low levels on Lake Winnipeg, your head on the dams is not as great and so that your ability to generate electricity is also reduced a little bit. Is that true?

Mr. Brennan: If the head is lower, there is less capability to generate at the plant, but that is calculated in our calculations.

Rains can turn things around pretty quickly. I do not know if anybody remembers the June rains of last year, where it rained that one weekend. I mean, that was one weekend, and I am not even sure if you were at the lake this last weekend, but Lake of the Woods is up a fair amount just from the rains last week.

So I am hoping it is going to rain between now and the freeze-up and we are going to be in high flows next year. We were not supposed to have low flows from this year until I retire.

Mr. Loewen: Perhaps Mr. Brennan is re-evaluating his decision not to take early retirement, I do not know, and, quite frankly, I will be interested to see, as it plays out, whether that might be sparked by drought or by the Province's demand for funds. But, anyway, we will see that over time.

I want to just lay the groundwork for why I am asking these questions, and, as a matter of fact, I was at the Lake of the Woods Sunday. We do have a place down there and it did rain most of Sunday. The water did not come up much at my place, so hopefully it is coming up after that for both of our benefits but more so for the benefit of the people of Manitoba who rely on Manitoba Hydro, obviously, to not only provide power but to generate good financial results as well.

Just, again, to go back to 2002, I want to clarify sort of in my own mind what the risk is here to the Province and to Hydro, and I will quote from Harold Surminski, and this is a Public Utilities Board hearing, May 27, 2002: It is estimated that with the worst drought on record, if the worst drought on record were to occur, the cost to Manitoba Hydro would be in excess of \$1 billion over a five-year period.

In subsequent testimony, this was confirmed, and, again, under questioning from Kathy Kalinowski, the question was, did you also agree that the five-year drought would have an impact to Manitoba Hydro of a billion dollars, and Vince Warden the CFO of the organization, I believe, indicated the answer was yes.

Later on he did indicate again under a question from Ms. Kalinowski and the question was: Then, in fact, these payments to the Province over the next five years have a net adverse effect to Manitoba Hydro that is more negative than a drought, and I am paraphrasing Mr. Warden's answer, but also quoting: Yes, a five-year total would exceed the risk of a drought, yes.

So, again, what I am seeing in this scenario is that based on a one-year drought, Manitoba Hydro could possibly face a loss of \$350 million, and its own officials have admitted that droughts do come in cycles. We could see low flow for up to five years, which I agree would be a worst-case scenario, but I am sure the president and CEO agrees and probably is presenting his board with worst-case scenarios. I am now wondering if the worst-case scenario that his officials could envision, a five-year drought, is now going to cost the organization \$1 billion or \$1.5 billion, a pretty significant difference if we just take the 350 and extrapolate it over five years.

I am wondering if Mr. Brennan could give us a feel for that.

* (19:40)

Mr. Sale: Just briefly before Bob responds, I think it is probably important that we recognize that the last big rain was in June of '02. We now are in September of '03 and this forecast which the corporation is providing you with today takes you to the end of '03-04, that is March 31. So for all intents and purposes we are talking about two years now of where the corporation is after the last significant rain. The member is absolutely right. There is nothing wrong with the question, but I think when you look at and talk to any farm people about drought and moisture, we had one aberration in June of '02. The rest of the time has been a serious problem in most of our watershed, the northern watersheds in the west as well as across the Prairies through Saskatchewan and Alberta in those years. Anyway, I do not want to detract from the question, but I think we have to bear in mind that we had one tremendous dump and please let us have another one and then we will all be happy. We have had some pretty abnormal weather for the best part of two years now. I did not mean to interrupt Mr. Brennan, but I just wanted to put that perspective in.

Mr. Brennan: There is no doubt the last two years we have had below-average generation. Last year it was the case and again this year. Having said that, it has been raining pretty good in the last little while. Last week during the week it rained pretty good and Lake of the Woods did go up. There is no doubt about that. If it continues to rain in the fall, we will be in good shape.

Mr. Loewen: I appreciate that and I appreciate the answer. Hopefully, for Mr. Brennan and his retirement plans and the people of Manitoba, the rainfall will continue except for those of us that are trying to get in a few last games of golf.

Mr. Brennan, you indicated that you are doing some projections. My understanding from reading the PUB testimony is that this is a very sophisticated forecasting system. With all due respect, Mr. Minister, it takes us out to '07-08, not '03-04. That is what we are dealing with in front of us. What I am trying to get through in my own mind, which I am sure you are going to

have to explain to your board of directors, I would assume that one of them is going to ask, what is the worst-case scenario? The worst-case scenario that we can see, under oath, that your officials have seen, is a five-year drought. I am trying, on behalf of the people of Manitoba, to find out what the worst-case scenario is.

Mr. Brennan: I think the number that you had, our people have run in the past to determine what the impact of the worst drought on record would cost us today. I would think that the number, if that occurred, would be a number that would be close to that. That is the worst that has ever occurred.

Point of Order

Mr. Chairperson: Point of order, Mr. Jha.

Mr. Bidhu Jha (Radisson): I would like to make this statement that what the member from Fort Whyte is stating is perhaps a negative impression of the future. If that happens, I would think that the member should be thinking that we should go to PUB and ask for a raise for the hydro rates. If the disaster happens for the next five years, I think the people of Manitoba deserve the need to protect the Hydro, the utility and the people. The question should be tailored to reality. If the disaster happens, what do the members think? PUB should be given the authority to rate increases. That is what my point was.

Mr. Chairperson: That is not a point of order. It is a dispute over the facts.

* * *

Mr. Loewen: Just by way of comment to the point of order, I certainly appreciate the comment from the Member for Radisson. I can assure him I think I am competent enough to ask my own questions. In any event, I am pleased to hear that there is actually a member from the opposite side who has the same belief that I do that all these things should go to PUB. Maybe he could explain that to his caucus members around the caucus table a little bit. We would see more of these issues go before the PUB. So, again, I appreciate the input from the member.

I appreciate your answer, Mr. Brennan, because that does indicate, again, that you still

have confidence, confidence may not be the right word, but given the worst-case scenario, that we are looking at \$1 billion in possible exposure as opposed to a \$1.5 billion. So that is, I guess, good to know that the situation has not changed from the testimony that was given to the PUB back in 2002.

Again, I just have to stress that for the last two years or, you know, since I have been a member of the Legislature, we have a fair bit more detail in terms of projections, which in my view or I guess my understanding would have come directly from the financial forecast that your people run. I am curious to know why we did not get that information this year.

Mr. Brennan: We could have done it. What would have happened, you would have got outdated information for the current year. So we took last year's information and updated it for the current portion to make it more relevant for you. We are trying to help you.

Mr. Sale: Just so the record reflects clearly that last year Manitoba Hydro spent an enormous amount of time in hearing days and dollars at the PUB because we requested that they, the PUB, review Hydro's situation. It was not a request for a rate change. It was simply a detailed review at great length and at significant cost.

I think if the member wishes information about the number of days that Hydro presented to the PUB or the depth of those presentations he need only refer, I am sure, to the printed record that he is often quoted from.

I think it is also important to note that Hydro appears regularly several times a year at the PUB around gas rates because of the way in which the corporation is currently regulated and that we spend more per capita on regulation and regulatory hearings than most other jurisdictions, certainly in Canada and in much of North America.

I just think it is important the committee understand that, far from avoiding the PUB, we in fact have been before them for a rate review that encompassed an enormous amount of work, volumes and volumes of material, and had intervenors able to raise questions, and resulted in a summary of findings by the PUB which ran

to some 80 pages, which I had the pleasure of reading in detail. So I think it is important that the record show that our corporation has been diligent in going to the regulator with extremely full information, particularly over the last year.

Mr. Loewen: Well, I certainly give the corporation credit for the information they have given to PUB, as I give the PUB credit for requesting that the review be undertaken. It is very valuable information that comes out, not only for PUB but I am sure for the officials at Hydro who have to be put through this laborious process. I realize it is time-consuming, cumbersome and expensive, but I am sure the president would agree that it is also a value to Manitoba Hydro in terms of ensuring themselves that they are not making any miscalculations or mistakes.

I guess what I am really after here is, it has been very useful to the committee in the past to get the type of information in terms of the debt ratio, the interest coverage, the capital expenditure coverage and other information that has been included in past presentations. While I appreciate the fact that we have an update for this year in terms of where the organization appears to be headed, I am just wondering if we can get some of the background information that we got in prior years that once again proved very helpful in terms of the longer term direction the organization is taking.

Mr. Brennan: I think IFF02 is already public but we will get a copy of it for you, which shows all that information. We are also coming to—
[interjection]

An Honourable Member: It is not the detail that is here, though.

* (19:50)

Mr. Brennan: We are coming to debt equity ratios.

Mr. Loewen: Thank you and I appreciate it. We will look forward to getting that information.

I just notice, sorry, I am still on the net income and loss slide. There is a statement that IFF02 assumes rate increases equal to the rate of inflation. Could we have an indication of what those projected rate increases are?

Mr. Brennan: I believe they were 2 percent.

Mr. Loewen: So if I go back to last year's presentation, were there 2% projections for rate increases in years 2004, '05, '06, '07, '08, and '09, that that is still applicable?

Mr. Brennan: Yes. What we have been doing is just pushing those two percent back each year without actually asking the board to approve a rate recommendation for the two percent. In other words we did not have it but we kept leaving the two percent in there.

Mr. Loewen: I thank Mr. Brennan for that. I am going back to some previous projections we have received, projections that were done under different, I will assume that IFF is the vernacular that is used within Hydro, which I understand is for interim financial forecasts, but one was prepared in June 2001.

According to the information I have, the projected rate increases of 1.5 percent in 2003, basically a 1.5% increase until 2006, which would have resulted in a 6% increase. In May 2002, there was another IFF produced which showed a 2% increase from 2004 to 2009, which is the one we just referred to, for a total increase of 13.2 percent. Then in November 2002, at the request I think of the Public Utilities Board, there was another IFF produced which showed a 2% increase from 2004 to 2012, which, cumulatively, basically added up to about a 20% increase.

I would like to know from Mr. Brennan, is the November 2002 IFF, is that the latest rate projections the organization has done, or has something been done since 2002 to update those numbers?

Mr. Brennan: What we do is once a year we make up the forecast. We are in the process of doing that now. We take it to our board in November. The last one had 2 percent in it for every year, starting with the first year after the current year. What we have been doing, you are probably right in the numbers you quote, whether it is 1.5 or 2, what we have been doing is taking out the very next year because we were not asking for a rate increase and then leaving the rest in with a rate increase that would have been equal to or less than the rate of inflation.

Mr. Loewen: I thank Mr. Brennan for that clarification. Again, just for my own clarification, when we look at the projections we have in front of us that go through to '07-08, those projections would have incorporated the rate increases that were in the IFF, I would assume? That is part of the model?

Mr. Brennan: Yes. An IFF stands for integrated financial forecast.

Mr. Loewen: I appreciate the clarification. Again, just to clarify, the IFF that we took this off showed a 2% increase in 2004, a 2% increase in 2005, 2 percent in 2006, 2 percent in 2007, 2 percent in 2008, basically 2 percent a year right up to 2012, which on a cumulative basis over eight years would amount to a 20% increase. Just for clarification, does that correspond with Mr. Brennan's understanding of the last rate projections?

Mr. Sale: I think the math is inescapable that if you add those together then you would come to the number the member has spoken of, but I think it is also equally true that forecasts have always included a prudent factor based on conservative, cautious, prudent assumptions and on those assumptions Hydro has outperformed in the past and has rapidly built up its retained earnings and has not required any of those rate increases. The projection for increases is not a new thing.

What is new this year is the degree of the drought. We would be foolish to suggest that Hydro could sustain that level of loss indefinitely without a rate adjustment. We would be equally foolish to rush in and say that a rate adjustment is justified until we actually know what happens with the precipitation this winter because at a return to normal flows, then we would expect a stable picture. If flows do not return to normal, then we will have to deal with that.

I think it would be inappropriate to suggest that at this point any rate increases can be projected as real. I think the corporation would be soundly and properly criticized if it provided a Pollyanna forecast that said we will never need another rate increase. That would assume that you could absorb increases, costs of capital

equipment, all of the other normal increases that we all face and assume those costs and subsume them through either productivity or increased sales. We have done very well over the past decade by increasing the productivity of the corporation and in a very major way, largely thanks to Limestone, increasing the export sales.

We intend to continue that pattern of capitalizing for Manitobans on our competitive advantage in Hydro, but it would be foolish to suggest that if current conditions persist, we could continue to operate the corporation appropriately and profitably without rate adjustments. As I said, it would be equally wrong to rush in and say that such adjustments are needed now until we know what the precipitation levels are over this winter, because that will determine the next year. How the snow cover and the spring runoff is experienced at the March, April, May period will tell us the degree of either difficulty or the degree of surprising happiness that we are experiencing.

Mr. Brennan: The other things I would like to point out, No. 1: If, in fact, we have a rate increase in the forecast and do not get it, it really has a pretty serious impact on the forecast. If you have a rate increase in the very first year and then do not implement it, that rate increases every year thereafter, and we now have taken it out. So that is a pretty significant item.

The second item is we give our board, as well as management, in looking at any rate recommendation, a series of forecasts with all kinds of different rate increase scenarios associated with it. That is just a forecast. There are all kinds of other forecasts management and the board look at.

Mr. Loewen: I appreciate those responses. The reason I am asking the question is because I realize it is a very, very significant item, whether that rate increase goes through or not. That, again, just for clarification for the minister, I am not making a political statement here saying there should or should not be a rate increase. I would hope he would have the good sense to take the advice of the Member for Radisson (Mr. Jha) and leave that decision between Hydro and the PUB, as opposed to indicating as he just has that somehow we will set the rates. We have the

PUB. Despite the fact that his own leader has indicated his disdain for the PUB publicly in the last few days, again I would urge him to take the recommendation of the Member for Radisson.

As Mr. Brennan has indicated, these are very significant numbers. I guess the simple question is how much would a 2% rate increase translate into in terms of revenue to Manitoba Hydro?

Mr. Brennan: Approximately \$16 million to \$17 million, something in that neighbourhood.

Mr. Sale: I do not want to escalate debate, but I really have to ask you, Mr. Chairman, to recognize that I at no time suggested it was appropriate for a provincial government of any stripe to set the rates. You will not find that in my words.

* (20:00)

What I said was we would be foolish to assume that if conditions continue to deteriorate or continue to be negative that Hydro could be appropriately managed, could be prudently managed without a rate increase. That is not something that I am suggesting I would make that decision. Of course, the PUB would pass on Hydro's request. The mechanism, as the member probably well knows, is that Hydro proposes and the PUB disposes. That is as it should be and it is as it will be.

Mr. Gerrard: Just a clarification, did you say 16 to 17 or 60 to 70, and is that annual, and does that increase as you go down from year to year?

Mr. Brennan: Domestic revenue is about 800-and-some-odd million dollars, so 1 percent is \$8 million. That is all I did.

It is a little over \$800 million, I think. So it would be 16 to 17, in that neighbourhood. As low growth grew at that rate, annually you would get more.

Mr. Loewen: I certainly appreciate the fact that the minister has made a very strong statement that he does believe in the PUB process and will follow it. That certainly should give some comfort to people in Manitoba. Perhaps he could pass that on to his Leader.

In any event, I just want to make absolutely sure that we have got this right. We are looking at a 2% increase which would translate into \$16 million or \$17 million to the top line of the corporation and that would flow directly to the bottom line.

Mr. Brennan: If we had a 2% hypothetical rate increase, I think it would be about \$17 million.

Mr. Loewen: I thank Mr. Brennan for clarifying that, and we can go on to our next chart.

Mr. Chairperson: Please proceed, Mr. Brennan.

Mr. Brennan: This shows the impact of our net income.

Mr. Ron Schuler (Springfield): My question was back to the last few slides, in that you project in the next four years after a fairly severe drop in income, \$55 million, then you to \$63 million, \$79 million, but each one of those is based on a 2% increase which then if you flip to the next one, to the retained earnings, that is how you build up your retained earnings.

Yet what I find fairly confusing is that at no point in time is there any indication that we are looking at a rate increase, yet the assumptions are based on a rate increase. So how far do your retained earnings have to drop before you bring in an increase and thus live up to your assumptions that you are making in your net income loss statement?

I mean, it is all based on a false assumption because from what I hear at this table there is no planned increase. So, then, how can you say in '04-05 there is going to be \$55 million in income when that is based on a 2% increase, and that, then, offsets your retained earnings, how you would like to see your retained earnings grow.

Mr. Brennan: As I mentioned to Mr. Loewen, this is a forecast. It was presented to our board last November. We had no rate increase for the fiscal year '03-04, but we had a forecast with 2% rate increases in it thereafter.

If you took that forecast with 2% rate increases, those are the net income numbers you get. If you wanted to use 1 percent, we would have another net income figure, and we gave that to the board.

So it is just a mathematical model that pops out the answers, so to speak.

Mr. Schuler: Well, I would call it the rose-coloured glasses, the net income chart, because it is all based on a false assumption. My question to whomever, then, is: How far do your retained earnings have to drop before you start to get uncomfortable? How far does that go down before the corporation starts to discuss a rate increase?

Mr. Sale: Very briefly, that is why we have a board and why we retain very competent accountants to audit the corporation and why we have senior staff who would provide advice to the board. I think if you want to ask Mr. Schroeder to respond to that kind of question, there is no absolute answer. It depends on the circumstances.

But as to how far, it is a question of prudence, management and advice in terms of what is going on. What you are seeing here is a projection of what the current reality will be, assuming the current assumptions. Obviously, those assumptions may need to change, but I think Mr. Schroeder might provide some insight in terms of the governance of the corporation and how this sort of thing is dealt with.

Mr. Vic Schroeder (Chairman, The Manitoba Hydro-Electric Board): Just going back to some earlier statements, there was a reference to the fact that back in about 1990 there were about \$90 million in retained earnings. That has moved up to in excess of a billion dollars and in each year there has been a profit until this current year. When I became chair of the board when the new board was appointed in 2000, the integrated financial forecast suggested, which was passed on from the previous board, rate increases for each year. My understanding is that that is what they had done in each of the previous years when they had not raised rates. So this is something that has not started in the last couple of years; it has been going on for some time and the issue is when we come up with a year like '03-04, when do we start looking at what we are going to do for the future? Mr. Brennan has indicated that we are going to be reviewing the new integrated financial forecast sometime before the end of the year 2003. Of course, we want to determine or get a better feeling for what

happens with the winter. Let us hope we get a lot of rain, let us hope we get a lot of snow and maybe we can avoid increases into the future.

The other point I would like to make is that other than for this year there have been a number of years where we have had a vastly larger net income than we had projected beforehand, and of course that is a factor of the amount of water we get and a factor of what the price is that we make on the export of our power which is where the charts show that we make our income.

Mr. Schuler: Clearly the board was presented, as per Mr. Brennan's comments, with several scenarios. I suspect one would have been a 0% increase. So my question then to Mr. Brennan is why was the model of a 2% increase included instead of a 0% increase? Is it because it obviously makes the corporation look better? Clearly your income looks better and your retained earnings look better based on a 2% model, or is it because that is something that is seriously being looked at? Is a 2% increase now going to be looked at for '04-05 because of the severe drop in '03-04, or is it just because you want to make the numbers look better?

Mr. Brennan: This is the same process we have used for years and years and years. We have used it now for about 10 years. We usually have some rate increase in the forecast. It is always not more than the rate of inflation, something less, but we do give our board—one was zero and we show them what it is and they always have the recommendation from management and of course the board in their wisdom decides on what we should have. But it has been going on like that forever. We do give them a package with other rate-increase scenarios, and the board has the option of looking and changing any assumption, and we will give them what the results are. So, no matter what assumption you want to change, we will change the forecast to reflect that. One of the biggest uses we have of the forecast is to compare alternate scenarios against that, and you need a constant base, and you want to be able to compare from one year to the other. So, for the most part, we try to keep it consistent and we also want to use it as a base to compare other alternate scenarios should we want to use it to evaluate a capital expenditure proposal.

Mr. Sale: I just ask the member to look at the chart on retained earnings for a minute because I think it would be helpful for him to realize that the yellow bars represent actual, the green bars represent forecast. The yellow bars, when they were forecast, were much lower than they actually are. In other words, Hydro has exceeded its forecast for the last number of years, substantially.

* (20:10)

In some ways this chart might be clearer if there was a line on the yellow bars showing what the forecast had been for those years. The member would then see that the progression to the green bars was more or less a straight line. Basically, as I said in my introduction, Hydro always projects on the basis of average, or slightly less, conditions and then is pleased when things are great to build up the equity, and is prepared when things are not great to draw down that equity, without, in either case, necessarily, affecting its application for rates to the PUB. I think it is important to recognize that the yellow and green bars are representing two different situations, and that the forecast, which underlies the yellow bars, is quite a bit lower than the top of those bars.

Mr. Schuler: My question is through you to Mr. Schroeder. It is very straightforward, very simple. Clearly, we have seen the corporation seeing a substantial decline in income.

Is it the intention of the board of Manitoba Hydro to go in front of the Public Utilities Board and ask for a rate increase for the next year? Is it the intention of Manitoba Hydro to ask for a rate increase?

Mr. Schroeder: There has been no decision made on that, as I explained previously. We have yet to see the integrated financial forecast. That decision is never made until after that point in time in a year.

Mr. Schuler: Then I would like to ask through you, Mr. Chairman, to Mr. Schroeder. Has there been discussion of a rate increase? Are there ongoing discussions about a rate increase and the final decision to be made in November?

Mr. Schroeder: No, there has not been any discussion about a rate increase. The last discussion

we have had, had to do with appealing the rate decrease which was ordered by the PUB this past year. So, certainly, we have not been in a mode of thinking in terms of rate increase until this point in time. There has been no discussion at the board about a rate increase.

Mr. Loewen: Well, again, I am just trying to get some clarification here, because, once again we have a situation where testimony, given under oath, where someone has raised their right hand and sworn to tell the truth in terms of the officials of Manitoba Hydro, is a little bit contradictory to what we are hearing here.

Again, I go back to the evidence given at the Public Utility Board, June 3, 2002, and then a question from Mr. Byron Williams. The question is, and I quote: "Although personally speaking, you believe that there is more than a 50% chance that Hydro will be seeking one"—and by that he is talking about a rate increase—"Is that correct?"

Ms. Carolyn Wray, who, I believe, is the—she may have a different title now, which is the business—and Mr. Brennan, maybe, can clarify that—she is business analyst or business manager, I am not sure. Her response was: "Certainly, that was my belief, up until now, yes."

So we have officials at Manitoba Hydro indicating that it is their belief that there was more than a 50% chance, and I might add that this was before the drought hit, that they would be looking for a rate increase. I am just curious as to, if the board is not there, where the senior officials, the administrative officials of Manitoba Hydro are now. Maybe, Mr. Brennan, you could give us some indication.

Mr. Schroeder: Yes, that testimony, certainly, is not, in my view, contradictory to what I have been saying. What I have been saying is that the board has not discussed any increase in rates. No consideration will be given until we go through the integrated financial forecast for the following year. What happens within management is something that clearly is outside of that issue. That is, certainly, if there is that kind of discussion, presumably that means that at some time it will come to the board with a recommendation by management, and the board would at that time give consideration to it, but it has not come to the board to this point in time.

Mr. Loewen: I appreciate that. I realize we have both the chairman of the board and the president of the organization as well. I am trying to get a feel for what is going on at the staff level, because it is quite likely that the staff level will raise the issue to the board, and the board, I realize, will make the ultimate decision in terms of where Manitoba Hydro wants to go, and the PUB, hopefully, will be allowed to make the ultimate decision as to whether what Hydro asked for is appropriate or not.

But again, this is prior to the drought. It is prior to the knowledge that the Government was going to take or attempt to take \$288 million out of Manitoba Hydro by way of a special dividend. We have Ms. Wray, whose title at the time, and this is June 2002, was division manager of Business Analysis and Regulatory Affairs, saying under oath that it was her belief that there was over a 50% chance that the corporation would be looking for a rate increase.

What I am trying to figure, what I am trying to determine and understand is if it was more than a 50% chance before drought and before the special dividend of over \$200 million was taken out of the corporation, maybe Mr. Brennan could indicate what that percentage is this day. Is it still over 50 percent? Is it an 80% chance that he would like to ask his board for a rate increase?

Mr. Brennan: Let me answer the question. First of all, that was in June of 2002, correct? In the fall, in November of 2002, management made a recommendation to the board of Manitoba Hydro through myself that we should not have a rate increase on April 1 of 2003. So whatever Ms. Wray, who is the treasurer now, whatever her opinion was did not materialize, but that is fair.

Mr. Schroeder reaffirmed to you or told you again what the process was. We take a look at the forecast in November. Management will make a recommendation to the board and the board, in its wisdom, will consider that recommendation.

Mr. Loewen: Well, thank you, and I certainly appreciate that clarification. Ms. Wray, later in her testimony, went on to say that there would not be a rate increase in fact, because gov-

ernment had set a policy not to have a rate increase. That again kind of flies in the face of what the minister has told us, that they do not set rates at the Cabinet table.

But I would ask the minister if he could clarify for us: At the time that the dividend was taken, was it the Government policy that Manitoba Hydro would not have a rate increase?

Mr. Sale: Mr. Chairperson, the PUB responds to Hydro's requests for rate reviews, rate increases, rate changes. That is the policy of the Government and has always been the policy of this Government. I remind the member that the last increases to Hydro were during the Filmon government's time in 1992 and 1996 and that no application has been made by the corporation. The testimony to which he is referring was testimony that was during a hearing that did not have any rate-increase request attached to it.

We as a government welcome the fact that Hydro has built up substantial reserves, has exceeded its profit projections very substantially by some \$470 million in the period since we formed government, and that in the light of the tremendous earnings of the corporation, way above its projections, it is pretty clear that there was no requirement for a rate increase at that time. That was obviously the judgement of the board of the corporation and presumably must have been the finding of the PUB at the time, because they did not recommend a rate increase either in spite of the fact that no application had been made or has been made or at this point is contemplated, because, as the chairman has told you, the corporation has not yet received the annual integrated financial forecast and any recommendations of management that might accompany that forecast. The policy of the Government is and has been that rates are a matter that is determined between the corporation and the Public Utilities Board and that that is as it should be and as it will be.

* (20:20)

Mr. Loewen: I thank the minister for that clarification. I am just a little curious why, under oath, an individual who is now the treasurer of Manitoba Hydro—I think you would agree a very significant role; it is in senior management of the

organization—would indicate that, first of all, it was her belief prior to the dividend that there was a greater than 50% chance that Hydro would be going for a rate increase.

Again, I will quote directly from the PUB testimony of June 3 and this is Ms. Carolyn Wray responding to a question from Byron Williams, and I quote, "I think if anything, my belief that we would be going for a rate increase might be slightly weakened by the fact that money has been taken by the Province just because of perceptions. Nonetheless, I believe, prior to the payments being required by the Province, that there was more than a 50% chance that we would be coming forward for a rate increase simply because the rates are so low and there are a number of reasons why it might be better to have a rate increase of a small nature now than leave it off to the future."

So again, we have a very senior official at Manitoba Hydro indicating under oath to the Public Utilities Board that it is her belief that there is a greater than 50% chance that Hydro would be seeking a rate increase and in fact indicating that, in her belief and again under oath, that because the Government had attempted to take \$288 million out of Hydro, the Government was also indicating that, because of perceptions, her words not mine, Hydro would be told not to go for a rate increase.

At the same time that we are seeing projections which indicate rate increases of 20 percent over the course of the next eight or nine years, I am just trying to get a feel for the balance of what might be in store for the people of Manitoba. That is why I am directing my questions to the CEO of the organization, because senior staff are indicating that it is their belief that it is in the best interest of the organization to seek these small, incremental rate increases, and I would remind the minister once again, this was before there was any indication of drought. This was before the Government tried to take \$288 million out of Hydro and succeeded in taking over \$200 million out of Hydro.

So I would like some input from the CEO on what the thinking of management is today.

Mr. Brennan: I do not think it was any different than it was when Ms. Wray made her comments. We take a look at the forecast each year, all the way out. We make a judgment as to what we believe is in the best financial interest of Manitoba Hydro, and it was management that made a recommendation to the board not to have a rate increase. That was me and my colleagues at Manitoba Hydro.

We made that recommendation and the board accepted it. We do have a guideline we use for rate increases and the guideline is basically we like to manage our affairs such that we have rate increases that are below the rate of inflation. That is the only guideline we have.

Mr. Sale: Mr. Chairman, I think that the member should probably recognize that until June of that year we were in a very low water situation. We had a deluge that lasted about a week, which we were all very glad about.

I think that it is also the job of staff, when they are asked questions, to give their best guess. But it is the job of management, and it is the job of the corporate governance of the board to inform the major policy decisions of a board with a broadly based, well-thought-out situation. What I am hearing from the CEO is that five months later, in the light of a new forecast, there was a recommendation made by management, including presumably the employee that you are speaking of. The Province had no role in that, no voice in that, nor should it have.

Mr. Loewen: Does the minister expect us to believe that the fact that the Premier (Mr. Doer) stood up in the House and said there would not be a rate increase, and the Finance Minister (Mr. Selinger), who was also in charge of Hydro at the time, stood up at the time and said there would be no rate increase. Does he not think that has any influence at all over at Hydro?

Mr. Sale: Well, I think I have already more than adequately answered that question. It is self-evident that when the corporation has exceeded its financial forecast by some \$470 million in the previous four years that the corporation is in an incredibly strong position to deal with a whole lot of contingencies, which it obviously has.

I think that the Finance Minister, the Premier, myself, and many others were simply reflecting the reality that the corporation had had an incredible five years previous and was in the strongest position that it had ever been in history, far stronger than when the previous government was looking at the fact that it had retained earnings of under \$100 million and was just at the beginning of the benefit of the Limestone dam.

Thank goodness for Limestone, because even in that first few years when the last drought was making its effect on that corporation, the earnings from that new dam allowed us to survive that down period and then to prosper in a way that shows an incredible earnings record and an incredible improvement in the debt to equity ratio directly as a result of Limestone.

The reflection of that history, I think, would teach us that rate increases in the light of that history and those conditions would be difficult to understand. That is simply all that has ever been said, that in those conditions with that incredible earning pattern, why in the world with our export earnings at record levels would one want to guess that there might be a rate increase?

I will invite the CEO if he wishes or the chair of the board to elaborate on that. I do not think there is anything particularly related to rocket science in that observation.

Mr. Loewen: Well, just for clarification, this is an important point, which obviously the Member for Radisson (Mr. Jha) realizes and perhaps the minister does not. When someone goes before the Public Utility Board and raises their right hand and swears to tell the truth, I can assure you they do not give best guesses. They give the truth.

Now, maybe when you are answering questions in Question Period you give best guesses. They give the truth and there is a big difference between that. I hope the minister would recognize that.

All I am trying to get further clarification of and what I am trying to understand is what effect the fact that the Finance Minister (Mr. Selinger) stood up in the House on more than one occasion

and said there will not be a rate increase after they had put forward the proposal of \$288 million to come out of Hydro and after the Premier had stood up in the House and said there will not be a rate increase, does the minister actually expect the people of Manitoba to believe that that would not have an effect on the thinking of senior management at Hydro in whether or not they would recommend to their board a wage increase. Is he that naive?

Mr. Sale: When we stood up in the House, we were in possession of the information which the member also has, and that is that Hydro's net income was 209. It was estimated. It turned out to be \$214 million in that year, an incredibly good performance. It seems to me, as I have said before, it is hardly rocket science to suggest in the light of net income of \$214 million that there would be any necessity for a rate increase. Indeed, as it turned out, management recommended and the board recommended that there would not be a need for such an increase some six months later, when they did their IFF in that fall. When you are looking at a company that has had income, net income of \$200 million on revenues of about \$1.8 billion, you are looking at a pretty healthy return on equity and a very nice addition to your retained earnings.

I think that we felt very good about that and very grateful to both the weather and the corporation for the tremendous performance that year.

Mr. Loewen: Well, I would simply like to ask the minister: If he is so confident that statements made by the Minister responsible for Hydro, the Finance Minister and by the Premier (Mr. Doer) of this province did not have any effect on the officials at Hydro, then why under oath would Ms. Wray indicate that it was her belief that it was government policy not to have a rate increase?

* (20:30)

Mr. Sale: I cannot answer for what may have been in her head, but I can assure the member that government policy is that the need for rate increases is determined by the management of the corporation recommending to the board and then either applying or not applying to the Public Utilities commission for an adjudication of the need for any rate increase or rate adjustment.

That is the policy of the Government, has been and will be.

Mr. Brennan: Manitoba Hydro has built up its equity over the years, as indicated on the graph, and they have gone up pretty dramatically over the 10-year period or 12-year period.

We built it up. We did not indicate at any-time that we should have a rate decrease. We allowed the equity to be there for situations such as low flows. We knew that at some point low flows were going to come. We did not know when they would come, but we knew for sure they were going to come.

We treated the withdrawal of funds the same way as a low-flow condition. We thought that over time we will take care of it again. We were not concerned with the type of equity we had in the company. That is my opinion as a chartered accountant.

Mr. Loewen: Well, thank you, Mr. Brennan for that clarification. I hope you can appreciate that I am just trying to sort through this. Obviously, we are getting mixed messages at PUB versus what is said in the House versus what happens, and we are just trying to sort out what lies ahead for the people of Manitoba and, in fact, for Manitoba Hydro.

I presume Mr. Brennan would like to proceed with the—you are always ahead of me. I am still back on the retained earnings.

Mr. Chairperson: Are we ready to proceed with the presentation?

Mr. Loewen: If we are still on retained earnings, I have a couple of questions on retained earnings. I can assure Mr. Brennan, in my mind, he has lots of time. We always find his presentations very interesting.

With regard to the retained earnings, certainly the minister has indicated that during the period in the early nineties, perhaps as early as 1989 from the numbers I have looked at, the organization has certainly had a very healthy run, as it would be, in terms of profit and building equity.

I see, though, that this year in the projection—and I would just like clarification—the equity of the organization will fall to \$970 million or \$820 million?

Mr. Brennan: It depends whether you take the \$350-million figure as a loss or the \$200-million loss, but it will be in between those, I would suggest, somewhere.

Mr. Loewen: I also noticed from the chart that in '02-03 which is the year we are examining, there was a drop in retained earnings, I think, for the first time since the eighties.

Could Mr. Brennan explain what caused that drop in the retained earnings figure?

Mr. Brennan: I thought I had on an earlier chart when we talked about the reduction of retained earnings as a result of the draw from the Province plus the addition of our net income for that year.

Mr. Loewen: I thank Mr. Brennan for that clarification. On numerous occasions the Finance Minister (Mr. Selinger) has stood up in the House and indicated the dividend that the Government has requested, the \$202 million that they have so far, maybe all they get, time will tell, I guess, the \$202 million has come out of retained earnings. I am just a little curious as to how much cash is in retained earnings.

Mr. Brennan: No cash in retained earnings.

Mr. Loewen: Maybe Mr. Brennan could explain to me where the cash came from then.

Mr. Brennan: The cash came from whatever cash we had on hand. It came from any investments on hand. It could have come from the sinking fund and it could have come from short-term borrowing, and of course it will come in from internally generated funds.

Mr. Loewen: I just want to be clear on this because my understanding of the sinking fund that is at Manitoba Hydro is that sinking fund is strictly set aside to reduce debt. Are you indicating that there are other uses for that sinking fund other than reducing the debt of the organization?

Mr. Brennan: Sinking fund assets have been sold at various times and the cash goes into the general cash of the corporation. That is just one of the examples. I am not sure if it happens or when it happens. It happens throughout the year.

Mr. Loewen: Back on the consolidated statement of cash flows, there is an indication there that \$200 million flowed to the Province of Manitoba by way of distribution. I am just looking for clarification as to why that number would appear as \$200 million on the audited financial statements and then show up in all the reports we have as \$203 million. For clarification, I am on page 80, the consolidated statement of cash flows.

Mr. Brennan: We will get you the answer.

Mr. Loewen: Okay, I would appreciate that. It is a small amount in the grand scheme of things. It is just my curiosity sometimes gets the better of me.

Mr. Brennan: Manitoba Hydro does not make mistakes.

Mr. Loewen: Even if you do, I assume the auditors would pick up on it. Sorry, I could not resist.

I did notice again on this statement that there were sinking fund withdrawals of \$644 million. Could you indicate what those funds were used for?

Mr. Brennan: They went into the general cash requirements of the Province, or the utility, so I will have to take a look at where it went.

Some Honourable Members: Oops.

An Honourable Member: You had Tim's attention.

An Honourable Member: I was hoping. We would get a balanced budget, no problem.

An Honourable Member: You will find a way to spend it.

Mr. Brennan: I get accused of trying to run everything.

Mr. Loewen: The same thing happens to me.

In any event, I just want clarification again. For my own edification, my understanding was, according to reading the notes, and I went back a number of years, back to I think it was the mid-1990s when the sinking fund was, the first time I noticed it on the books of the organization, it was quite clear in there that the sinking fund was to be used to match up to repay debts of the organization as they came due. Maybe you could just clarify if I am missing something there.

Mr. Brennan: It goes back to the act started out in 1961. It was in there. It told us how much we had to put aside annually for the sinking fund, which was 1 percent of the outstanding debt plus 4 percent. If you do that, it is designed to make enough money available that in 41 years you would be able to retire that specific debt, but we do make the sinking fund withdrawals. They are mainly related to debt retirements, but every now and then we will sell investments to take advantage of market conditions and the like, and that cash will go into general cash for the corporation.

Mr. Loewen: I appreciate that clarification. Maybe, again, just to clarify, if the distribution had not been made to the Province, would it be the expectation of the CEO that the cash at the end of the year would have been \$230 million? We will assume that the \$200-million number that is in the audited statements is accurate.

* (20:40)

Mr. Brennan: No, we would not manage to have \$200 million in cash at the end of the year.

Mr. Loewen: Can you give us some indication of what you would have done with that cash?

Mr. Brennan: We probably would have invested less or borrowed less or whatever.

Mr. Loewen: You are the FCA here, and my limited accounting knowledge would indicate to me that what you have just said is that if you did not give the \$200 million to the Province of Manitoba, you would have borrowed less.

Mr. Sale: I think that the thing that is important to keep before us is that the Province determined under specific circumstances to take up to three years of dividends from Manitoba Hydro

through an amendment to The Manitoba Hydro Act. The dividends were taken from earnings that were far in excess of what had been projected and on which was based Hydro's needs, ability to finance its capital program, and so forth. In the first case, the profits in the year that the \$150 million was taken against were over \$200 million, \$214 million as it turns out. In the second year the profits were \$71 million of which 75 percent was taken. The third year there do not appear to be any profits so there will not be any draw. So, in all likelihood, as the member said a few minutes ago, the total take from Hydro will be \$203 million rounded.

The thing that I think all of us who have ever invested in the market understand or have ever benefited from somebody's investment on our behalf is that when a company pays out a dividend, it pays it out of the earnings that it made in that year. And clearly, when you pay out a dividend, then at the bottom of your financial statement your retained earnings will show the fact that you paid out a dividend. If you had not paid it out, retained earnings would be higher. Whether Hydro then chose to do capital projects on its 10-year rolling capital plan that were based on a reasonable return on the investment of the capital, whether it was improving the performance of a dam or a turbine or a transmission system, they would make the determination through their board with their management as to whether to invest specific sums of money or not, and they would forecast the cost of that investment to include a rate of return and include the repayment of the capital invested for that purpose.

So I think it is very important for the record and for the member to understand that when any corporation, whether it is public or private, pays a dividend, it normally pays it out of the earnings for the year in which the dividend was paid. There are a few exceptions to that. Some corporations have chosen to continue to pay dividends even when they may not have positive earnings, may only have positive cash flow, and a very few of them might choose to increase their indebtedness when they had neither positive cash flow EBITDA nor net earnings. In the case of this corporation, it had net earnings of \$214 million in the year in which we indicated our requirement for \$150 million, and it had net

earnings of \$71 million in the year in which we took 75 percent of that.

So in both cases the requirement for the dividend by the shareholder was, for all intents and purposes and very clearly in the legislation, came from the earnings of the corporation which were cumulatively far in excess of their forecasts.

The member is absolutely right. If you pay a dividend, whether it is Bombardier, Bell or Manitoba Hydro, the effect of that payment will be to lower the retained earnings of the corporation. That is not rocket science. It is not new.

The consequences of having retained earnings that are higher than your forecast but lower than they would have been are obviously equally predictable. But you would only choose to decide, choose to make a decision to invest in a capital project on the basis of the return for that investment and on the basis that the investment would fully cover the costs by virtue of its reward to the corporation either in terms of reliability or in terms of power output, et cetera.

Let me just be very clear that the profit for the years involved totalled some \$285 million. The draw for the years involved total some \$203 million, and, obviously, then, the retained earnings would reflect that.

Mr. Loewen: Well, I thank the minister for that and I can assure him the reasons I was asking the questions of Mr. Brennan is that he has had years of training as a chartered accountant, in fact has performed so well that he received the designation of a fellow of the chartered accountants, which is a substantial honour which I congratulate him for. Obviously, I do not have the same type of training. Neither does the minister but I can tell the minister from where he sits, the debits are closer to the window.

So I am asking the president of the organization these questions because I think it is important for the people of Manitoba to understand, not the Government's spin on it but from the opinion of a FCA, where the cash came from. He has indicated that the organization, if they had not distributed the cash, would not have \$230 million in the bank. They would have

borrowed less. No one is disputing the fact of whether or not the capital expenditures were, in fact, justified. If they were not justified, they would not have been made.

So I just ask a simple question of Mr. Brennan. If the Government had not taken the \$200 million as indicated in your consolidated statement of cash flows, would your debt be less?

Mr. Brennan: I got an answer to the 202, so I will answer that after.

I think all kinds of different things would have happened during the year. I am not sure just what we would have done, whether we would have taken less out of the sinking fund or what would have happened. So I really cannot answer your question directly that way.

We know that all kinds of activities based on the statement on page 80, some are different than others, and I am not sure where we would have ended up with debt. I really do not.

Mr. Sale: Mr. Chairman, I wonder if the committee would consider a short recess, maybe 10 minutes or even slightly less.

Mr. Brennan: Can I just put on the record the 200? This was the question of how come the consolidated statement of cash flows indicates only a distribution of \$200 million to the Province. That is all we paid them. The \$3 million was paid the next year.

Mr. Chairperson: Is it the will of the committee to take a 10-minute recess? *[Agreed]* We will resume in 10 minutes then.

The committee recessed at 8:46 p.m.

—————
The committee resumed at 8:58 p.m.

Mr. Chairperson: Would the committee please come to order.

Mr. Loewen: I appreciate the answer, Mr. Brennan, and again I am just trying reconcile in

my mind because, under oath to the Public Utilities Board—the minister can put his political spin on it. I realize that that is his job, but what we are trying to get here is the facts the way they are for the people of Manitoba and for Manitoba Hydro.

I will remind members opposite that this is under oath, and I see that the member from Radisson is not here anymore, but at his favourite place, the Public Utilities Board, and I agree. Under oath—*[interjection]* Exactly.

Ms. Kalinowski is asking Carolyn Wray, now Treasurer of Manitoba Hydro, and again I will quote Ms. Kalinowski: "So, in other words, Manitoba Hydro has to make a payment of \$288 million and to make that payment of \$288 million, they not only have to pay \$288 million but they have to borrow money, and the cost of borrowing that money is going to be \$276 million."

Answer from Ms. Carolyn Wray: "That is correct."

That was on May 27 at the Public Utilities Board. June 3, Public Utilities Board, Mr.—I hope I got the pronunciation right—Jurgen Feldschmid, and I quote, "I understand as well, Mr. Warden, that Manitoba Hydro will be financing the special payment and that the financing costs for the life of the current IFF is some 260 to 276 million dollars. Is that correct?"

Mr. Vince Warden: "Yes."

Mr. Feldschmid: "Is that the entire cost of the financing or just the cost of the financing through the life of the current IFF that is before the board? It would be over the term of the IFF."

So again we have two senior officials, both well versed in the financial situation of the corporation, indicating that the dividend will have to be borrowed which corresponds, I believe, to the information that we have been given by Mr. Brennan tonight. I just wanted to clarify that and appreciate that, and on the basis of that we are prepared to move on to the next slide.

* (21:00)

Mr. Sale: Mr. Chairperson, I just again need to remind the member that when the Bell Telephone Corporation or BCE, Bell Canada Enterprises, has a profitable year and they pay out a dividend to their shareholders, nobody talks about them having to borrow money to pay out the dividend or to cover the fact they paid out the dividend. They reduced their profit in the year in which it was paid out. The corporation then, like any other major corporation, decides what capital investments it needs to make, how it is going to deal with a variety of opportunities and challenges that it has, and it makes those decisions on a business case basis.

I say again for the member, Manitoba Hydro paid out of its profit for '01-02 and '02-03 a total of 203 million, 200 having been transferred in the year under question and 3 in a subsequent period and thereby reduced its retained earnings over what they would have been. I want to remind the member— and I hope the member is actually paying attention, and I am sure he is, out of his left ear, which is a good ear, Mr. Chairman. I want to remind the member that had Manitoba Hydro not earned \$470 million more than it forecast, then clearly it would also have been in a different position in terms of its ability either to pay out the dividend or to make decisions in regard to capital expenditures.

The member can prognosticate one way or the other and run interest rates depending on varying assumptions and come up with fantastical sums. The bottom line is that out of the earnings in a given year, the corporation paid a dividend to its shareholders. The option in regard to its shareholders' needs because of balanced budget legislation and because of our commitment to fiscal prudence would have been to close some hospitals or lay off a bunch of staff or shut down some schools or cut university grants or any other list of ors that added up to \$150 million. I am sure that the member would not want to see every single small hospital in Manitoba closed, the total budgets of which would not have come up to \$150 million.

So we were faced with a situation that was unprecedented, unforeseen, and we were faced with the fact that a corporation which thankfully is still and I deeply trust will always be the crown jewel of our Crowns had more than

exceeded its most optimistic forecast, had earned an extra \$470 million in the previous five years and was in a position to meet the needs of Manitobans in the situation in which we found ourselves and to enable the corporation to continue to meet those needs with retained earnings of over \$1.2 billion.

When the previous government inherited the corporation, having decried the decision to build Limestone, they were immediately rewarded and very fortuitously rewarded with earnings each year that exceeded the effects of the drought and ultimately built the corporation from having less than a hundred million dollars in equity to having, as the slide before us shows, equity well in excess of a billion dollars, which is what allows us to deal with unforeseen but clearly predictable weather changes when they happen. We do not know when a drought is going to happen but we sure know historically that it will happen. It is happening now. We have equity to allow us to weather that drought. If it is of the same kind of extent and duration as previous droughts, we will emerge from it within this coming year or so and we will continue to enjoy the kind of growth that was seen in the late 1990s and early 2000s.

Mr. Chairperson: Mr. Brennan, did you have a comment? Mr. Loewen?

Mr. Loewen: Well, two points that I think the minister needs to clearly understand and I guess if he had a little clearer understanding of PUB and maybe a little clearer understanding of how business works, he would understand and not make these kind of remarks. No third party goes to Bell Canada and demands that they pay them a dividend. Their board figures that out independently. That is what they are there for.

For his second comment, I can assure him that I did not make up any wild interest costs. Those were numbers given under oath, and I repeat for the minister's benefit, under oath, at the Public Utilities Board. So for him to somehow intimate that I am making up numbers here, I mean, it is totally ridiculous.

I just asked the minister, I mean, obviously we are trying to get through this presentation. We do have questions. I can assure him that

what we are interested in are answers from Mr. Schroeder and Mr. Brennan, according to their presentation. We get enough of his political spin in the House, so on the basis of that we would like to move on to the next slide.

Mr. Chairperson: Mr. Brennan, would you please proceed with the presentation.

Mr. Brennan: There is one thing I would like to make about the comments about the calculation of that interest number you gave. I think we mentioned it at a previous discussion here. That was just a mathematical number that would arise assuming no other assumption was changed, obviously knowing that that would occur, other assumptions would change. But I should make sure that is on the record.

This is a comparison of our financial ratios that you were talking about earlier. We compared our capital coverage, interest coverage and equity with other Crown-owned utilities, and this is how we stacked up. You could add other ones as well, but we took some of the bigger ones. Ontario is now in a little different situation because of the changes they made. There are other ones. You could put SaskPower on, and that sort of thing. Yes.

*(21:10)

Mr. Loewen: I appreciate those numbers. They do look very good compared to other utilities. Again, that is a sign of good management. I appreciate that. I guess what I would be more interested in, are the debt ratio numbers in terms of, you know, that we have been given in the past and, maybe, you could just give that number to us verbally. I believe the target, at one point, was a debt ratio of 0.75.

Is there an update in terms of where the corporation is in terms of meeting that?

Mr. Brennan: We can give you that right off the IFF02. That will show, and it is available. So we will make that available to you.

Mr. Loewen: Just off the top of your head, do you know when it is now projected? It has, certainly, been stretched out from where it was

two years ago. I am just wondering when you might reach your goal for your debt—

Mr. Brennan: I forget what year it is, but I will get that for you.

Mr. Loewen: In terms of your interest coverage, do you have the same information? I mean, do you have information here with you that you could give us in terms of where the corporation sees itself going in terms of interest coverage?

Mr. Brennan: Yes. As a matter of fact, when we give you the forecast, it will show everything right on it. Okay?

Mr. Loewen: Just for clarification, that IFF, does it incorporate the fact that we are in a drought situation?

Mr. Brennan: No, it does not. That is why we took out the one year, and put the one year in. So, no, it does not. It includes the projected profit for this year.

Mr. Schuler: On page 94 of the March 31, 2003 annual report, is that the debt ratio? It showed in 2002, it would be 0.77, and for 2003, 0.80? Bottom of page 94, is that the—

Mr. Brennan: Yes, it shows what has happened to interest coverage in each of those fiscal years. It also shows the improvement in our debt ratio.

Mr. Loewen: Just for clarification, I think I do have some information in my file here, regarding the November 2002 IFF, which indicates that, as a result of the draw out of Hydro by the Province of Manitoba, reaching your goal of 75-25, which prior to the dividend was projected to be reached in '05-06, is, in fact, now. Again, I want to clarify, my understanding is this is after the dividend, but does not incorporate numbers for the drought situation. That would be pushed out to 2011-2012, sort of, in the IFF according to, you know—so a move back of six years in terms of reaching that goal of debt equity of 75-25. Is that accurate?

Mr. Brennan: I believe that is accurate, based on the assumptions that were included in that forecast.

Mr. Loewen: Just for clarification, the interest coverage of 1.20, which in '99 was 1.23, and you were projecting reaching that goal by 2005. The latest IFF that we have seen in 2002 indicates that, after the dividend, you will not reach that goal until 2011?

Mr. Brennan: We will not get to 1.20. I believe we might meet our target before that, but I think that is correct.

Mr. Loewen: Again, just for clarification, I mean, that was not assuming a drought, that was assuming average flows. So one would expect that, in fact, when you do an IFF for the next one they will be pushed out even further. Would that be accurate?

Mr. Brennan: I think that is reasonable. When one says that, though, one should take into consideration how we have improved to where we are. Our financial performance since 1990 has been remarkable.

Mr. Loewen: I do not want to make any bones about that. I think that I have said that every year. Certainly the financial performance of the organization over the course of the last decade, 12 years, has been phenomenal. I am not trying to indicate that I feel it is responsibility of management that they do not get enough rain. That is a difficult situation that you are dealing with as best you can. I might tend to blame it on the minister or the chairman from time to time, but I assure you I do not blame it on management.

In any event, I guess what I am just trying to make clear is that I understand that as a result of primarily the forecast, the difference in the forecast was primarily the draw-off by the Province of Manitoba. I realize that it was estimated at \$288 million. They will not reach that. It did have the effect of moving the target dates when these goals would be met significantly.

Mr. Brennan: It had an impact.

Mr. Loewen: I thank Mr. Brennan for that. We look forward to getting the updates as soon as possible and hopefully we will even see some with the effect of the drought in it before too, too long. On that basis, we are ready to proceed.

Mr. Chairperson: Are we ready to proceed? Please proceed, Mr. Brennan.

Mr. Brennan: The next one we are going to talk about is Power Smart. This is our current plan. We are proposing to save 1.3 billion kilowatt hours a year by the end of 2012. That is the amount of energy that meets the requirements of Brandon, Portage, Thompson, Steinbach and Flin Flon. That is the actual energy saved by that year.

The existing success is enough power, and that is actual saved power, to power Steinbach, Dauphin, Carman, Neepawa, Morden and Beausejour. I will go through these real quickly. Manitoba Hydro is one of the most aggressive Power Smart demand-side management programs in the country, actually in North America.

Here are some of our initiatives. Clearly our Power Smart Home Comfort Program in the residential area has been a real success. The number of loans that have been taken out is pretty dramatic at \$35.5 million. In addition to that, just recently we announced a decrease in the interest rate from 8.5 to 6.5. A good number of audits and home assessments have been completed.

We also had a student program that provided energy efficiency assistance for seniors. We had a religious building initiative.

One of our more important programs within the province is our geothermal heat program. The big part of that is the way we have got contractors involved, the education of contractors, and the way the program has been promoted generally.

We have agreed to loan up to \$15,000 over 15 years, and 66 loans have been approved.

We have facilitated the establishment of the Manitoba chapter of the Earth Energy Society. The association has accredited two courses that have been sponsored by Manitoba Hydro. That represents 50 percent of all the accredited installers in Canada.

We have the highest number of geothermal installations in Canada. In 2002 approximately

30 percent of all the units installed in the country were done in Manitoba.

Mr. Jack Penner (Emerson): Regarding the geothermal installations, can you explain what kind of a program that was announced a while back. Are there any grants available for home owners that install geothermal heat pumps and the likes?

Mr. Brennan: We have no actual assistance programs, no assistance programs in terms of actual grants. We do have the loan program that is quite helpful. We do have good, accredited contractors and that is one of the real big issues is making sure that the insulation is proper and done well. For the most part, that is the type of thing we have done, making sure people are aware of the benefits of a geothermal system.

Mr. Penner: Was there not an announcement a while back of a grant or an advance or something like that of \$800 to \$1,200?

Mr. Brennan: No, there is not from Manitoba Hydro.

Mr. Penner: Not through government then as well? Was there a program announced by government?

* (21:20)

Mr. Sale: The member may be thinking about the federal announcement that was made about I guess it would be two months ago now of up to \$1,000 for homeowners who undertake an energy audit and then make an investment of—I think to realize the \$1,000, the requirement was \$5,000. I think it is in that area, but I am not absolutely sure about the required level of investment, Mr. Chair, the \$1,000 is not a grant. It is a variable amount depending on the assessment of the home and the type of investment that is made.

Manitoba Hydro has had staff in Ottawa to work with Energy Canada to try to make sure that the Canadian program for homeowners announced under the Kyoto implementation process would dovetail, fit clearly and easily with Manitoba Hydro's activity because Manitoba Hydro is certified as an energy efficiency

energy audit operation. So we will hopefully get an answer from Canada soon about how those programs will fit together so that Canadians are not trying to figure out how to deal with two different programs at the same time.

Mr. Schroeder: My understanding is that at the current time the federal grant is applicable to energy savings, not changes in the type of energy, so the geothermal does not qualify.

Mr. Tweed: Just on your Power Smart program, you talk here about \$1 million being accessed under the heat pump program and \$2.8 million under the total Power Smart. Is that capped? Is there a maximum amount when you hit the wall that you do not lend out any more money?

Mr. Brennan: The maximum loan in the case of customers for their homes is \$5,000. In the case of a heat pump, it is \$15,000.

Mr. Tweed: I think I probably did not clarify myself. Is the pool of money capped?

Mr. Brennan: No, it is not.

Mrs. Bonnie Mitchelson (River East): As we are getting into Aboriginal relations, I guess there might be part of the presentation that Mr. Brennan would like to go through, but I am interested in the pre-training projects that Hydro has committed to or made some investment already into. Is this the right place in the presentation to ask those questions?

Mr. Brennan: I think we are coming to it.

Mr. Chairperson: Are we ready to proceed with the presentation?

Please proceed, Mr. Brennan, oh, sorry, Mr. Loewen.

Mr. Loewen: Just one quick question and I should have asked this before. I am sorry. The chart on capital expenditures, that includes Wuskwatim?

Mr. Brennan: No, it only includes planning studies for 2002; 2003 will.

Mr. Loewen: I am sorry. Are you saying in 2002—

An Honourable Member: No.

Mr. Loewen: No. So there is nothing for Wuskwatim in the figures you have placed before us?

Mr. Brennan: Other than the preliminary planning studies, yes, not the construction of the plant.

Mr. Chairperson: Please proceed with the presentation, sir.

Mr. Brennan: Aboriginal relations, and I will try to go as fast as I can. We signed two memorandums of understanding with the Manitoba Métis Federation and the Aboriginal Council of Winnipeg to assist the corporation itself in its employment of Aboriginal people. These are in addition to the current agreements we have with the Assembly of Manitoba Chiefs and the northern Aboriginal community councils. The results of those partnerships are reflected in our numbers of staff we have that are Aboriginal people.

We have some outstanding agreements that for the most part are in the process of being negotiated. Most of these are in the final stages of negotiation with the exception of Cross Lake. Cross Lake, we have been having difficulty. We have spent a fair amount of money along with the Province and the Government of Canada to see what we can do about trying to work with them in trying to implement the Northern Flood Agreement. We have been having difficulty in doing that, but we are still trying very, very hard.

Mr. Tweed: Obviously Cross Lake has been in the news and in the stories. I am told, if I understand it correctly, that for the Wuskwatim development the band is trying to get some information in regard to the terms of reference. I am getting from them that they do not think that the terms of reference are broad enough. I am just wondering if Mr. Brennan would like to comment on that as far as the concerns that they are raising.

Mr. Sale: Mr. Brennan certainly can comment as well but for the member, the Pimicikamak Cree Nation, PCN, applied to the Clean Environment Commission for a hearing on whether the

terms of reference to the commission should be varied. That hearing will take place on the 30th of September I think it is scheduled for. I do not think that we can presume to discuss what might happen at that hearing. That will be something the Clean Environment Commission as a quasi-judicial body will have to adjudicate, and I do not think that any of us are in a position to express an opinion about the appropriateness of the terms of reference which under The Clean Environment Act are set by the minister and are given to the commission to guide its hearing. We have to be cautious about commenting on whether that hearing on the 30th will produce a different outcome, whatever. That is clearly now in the hands of the commission and that body needs to be allowed to make its own decision.

Mr. Tweed: Are those terms of reference public?

Mr. Sale: There is a very, very detailed process for environment hearings in Manitoba and there is essentially a public record. It is a registry and all documents pertaining to a particular commission process are in the public registry. They have to be put in the registry and made available to all potential interveners, all interested parties. That registry for the Wuskwatim process has been in existence for—ask the CEO of Hydro—several years now in terms of the initial scoping process. It is a very thick file, and so the short answer is yes, and they have been on the registry for some time now.

Mr. Chairperson: Mr. Brennan, are you ready to proceed?

Mr. Brennan: Aboriginal initiatives within the corporation, we have preferential purchasing guidelines in place. Employment, we have an Aboriginal pre-placement training program. We have Aboriginal educational initiatives through bursaries, scholarships and awards and then I mentioned the working agreements. Right now, as of June '03, we had 10 percent of our employees overall were Aboriginal and in the North there are 32.6. We have targets that we are in the process of reviewing because we basically have made them. Our numbers during the summer are a little higher because of summer employees that increase them over what they would be in the wintertime.

Mrs. Mitchelson: I did want to talk about the \$20 million that Hydro has approved for pre-training for the new Hydro projects, for Wuskwatim, and I do not know what the other one was. I think there is a couple, but I do know that Hydro has a commitment to \$20 million for training for the new construction.

Mr. Brennan: When we start talking about the new projects we have, it will be mentioned there.

We have set aside \$20 million for pre-employment training for the two projects. That is the Wuskwatim and the Kiask or Gull project. The Province has agreed to fund \$10 million as well, so that makes \$30 million. We are talking to the federal government about them putting in \$30 million. Right now, the Western Diversification Fund has committed five of that.

* (21:30)

Mrs. Mitchelson: Can I ask Mr. Brennan what time frame, what commitment has been made, the \$20 million over how many years?

Mr. Brennan: It is pre-employment prior to the jobs being required in the plant, so it is a function of when we can start construction for those plants. So it is a floating number.

Mrs. Mitchelson: Has any money been expended of the \$20 million? Was there anything in the '02-03 fiscal year that was spent on the pre-training initiatives?

Mr. Brennan: Yes, the last two years we have spent money on pre-employment training. I will have to get you the exact number, but I believe it is just over a million dollars. But I will have to confirm that. For the two years.

Mrs. Mitchelson: I would really appreciate it if we could have that information.

I would like a little bit of detail too, then, on the million dollars that has been expended. Where was that training done, and who did Hydro negotiate agreements with to provide the training?

Mr. Sale: I know that we will endeavour to get you that detail as quickly as the corporation is able to supply it, but I did want to, I think, underscore, and I suspect this is the member's point as well, that this is an incredible achievement on Hydro's part.

If all of our northern employers had managed to reach 33 or 35 percent Aboriginal employment in their efforts to do whatever it is they do, we would be in a much stronger position with our First Nations and Métis communities in the North. I think that Hydro's commitment at the overall corporate level and in the North is very, very commendable. I know that the target was set some time ago, and they have used a whole process of pre-employment training and all the things that Mr. Brennan indicated to achieve that target.

But the fact that they have achieved it I think is remarkable and should be a subject of commendation from all of us on all sides of the Legislature, indeed, from all parts of Manitoba, because, as the member knows, one in four labour market entrants in the next decade will be an Aboriginal person. Our ultimate financial, economic and social well-being as a province is deeply, deeply connected to opportunities for those people to find their way into the kinds of skilled jobs that Hydro offers.

So I want, at this point, to urge us all to commend Hydro for tremendous work over the past decade to reach this target.

Mrs. Mitchelson: I thank the minister for those comments. Nobody questions the work that Hydro has done. Certainly, they do have to be commended.

I am speaking specifically now, though, about the training initiatives for the new Hydro development that the Government, certainly, through the Department of Advanced Education and Training and Hydro, in partnership—and I would imagine there will be significant dollars from the federal government. Mr. Brennan just talked about another \$30 million. So we are talking about a \$60-million pot of money that will go towards training individuals for the new projects that the Government hopes to undertake or pursue.

So I think it is very important that we understand what has happened to date on those initiatives, how much money has been expended, what kinds of training are being done in preparation for the new dams to get up and running. I am just interested in knowing what to date has been done, because we know we do not have the approval process. So, of the million dollars that have been expended to date, what kinds of training are being undertaken? Who is delivering that training? What arrangements or agreements has Manitoba Hydro made with whom to deliver that training? And are we seeing graduates today that are trained with some skills that are needed today in order to do the preparatory work for the new construction that will be undertaken?

Mr. Brennan: That number, by the way, now that I think about it, was for two bands together, because I just met with the two bands recently. So it is a higher number than that, and it is administered with the Province.

For the most part, all the trades that lead to journeyman status that will be used on a plant, and that includes some non-designated trades, and some of the examples, I think, would be some of the ones that you do not get a journeyman licence, or you get one, but the type of training is not as extensive. So there are a good number of those. The training programs themselves have been worked out with the communities. The communities have to identify through their band membership what kind of skills people have, what type of skills they are going to need in the future, both for our project as well as some of their own requirements. But we can make it available to you.

Mrs. Mitchelson: Yes, just thanks. I thank Mr. Brennan for that. I would like to know, for the million dollars that have been expended to date, the number of people that have been trained, in what communities, for what kinds of job opportunities that will be available, and are they presently employed as a result of the money that has been expended? If I could have that information, it would be great.

Mr. Brennan: I want to make it clear that that million-dollar number, by the way, was just for the two bands. It is higher than that. I am not sure how much higher, but the two bands in

question were of the ones that got involved from the beginning, so they are probably the biggest ones. We will make that available for you.

Mr. Chairperson: Is the committee ready to proceed with the presentation? Mr. Brennan, please proceed.

Mr. Brennan: Yes. We are going to talk now about new generation major transmission. The type of new generation is hydraulic. We are looking at wind as well, and then we are looking at a new DC line from the North by 2010.

Mr. Gerrard: Mr. Brennan, is the new DC line to be completed by 2010 in the capital expenditures that you showed earlier?

Mr. Brennan: Yes, it is.

Mr. Tweed: Just a question for Mr. Brennan, I am wondering, there was some discussion with Ontario on an east-west, and I noticed that is not in your future. Can you tell me or tell the committee where those negotiations are at?

Mr. Brennan: Yes, we signed, or the Province, the Premier of Manitoba (Mr. Doer) and the Premier of Ontario signed a memorandum of understanding to go into the next phase of review, which we are in the process of doing now, to look at the feasibility, and this is an advanced feasibility, of supplying them with at least 1000 megawatts of power, and building the appropriate transmission to get it to southern Ontario. We are looking at various route options to do that.

Mr. Tweed: Can I just ask Mr. Brennan: Are you somewhere in the process? Are you halfway through? If you can tell me just how much the two provinces have committed to do this study?

Mr. Brennan: We are hoping to have something by the end of the year. It appears to be somewhat on schedule. Some of the people are distracted by an election in Ontario, but we are still working toward that date.

Mr. Gerrard: Just on the new DC line from north to south, is that on the east or the west side of Lake Winnipeg?

Mr. Brennan: Our preferred option is on the east side, but there are other options as well.

Mr. Gerrard: When do you expect to have the decision made as to which side of Lake Winnipeg it would be on?

* (21:40)

Mr. Brennan: I guess we will not be the one that will make the final decision. It will be somebody that gives us an environmental license. We want to consult with the various communities and that will take us awhile. Certainly, the preferred option. So that will take us awhile to do.

Mr. Sale: I am sure the member is aware of the EastSide Wide Area Planning process. The group is preparing—in fact, it will be, I suppose—actually it has just begun the community consultation round that is scheduled for September–October. Hydro is part of that process of sharing with the community the inputs that have been given and getting feedback from the community. Ultimately, as the member I think knows, this is an incredibly complex process with many stakeholders, many of whom share divergent views on the desirability of different options.

It involves woodlands. It involves roads, involves tourism, involves Hydro, involves the boreal forest and the protection thereof. It is a very complex process, but I think it has gone, considering the magnitude of what we are trying to do, very well. Hydro has been an integral part of that. Their decisions will ultimately be conditioned by the wide area plan that is adopted. Then, of course, ultimately, we will have to go before a full panel for any approval.

Mr. Gerrard: Referring to the environmental approach, do you have any schedule for what would be happening in terms of the environmental licensing approach?

Mr. Brennan: At lot of it will appear on the results of the planning review that the minister referred to, as well as our own consultations with the affected communities. We do have a schedule. It is probably going a little slower than we

would like. I am not sure of the exact date. We would make a recommendation.

Mr. Gerrard: Will the MOU and the results of the study with Ontario and Hydro I and the Government of Manitoba, will that impact, I mean the decision to go ahead with Conawapa, would impact the direction and the location of this line or not?

Mr. Brennan: This particular line that we are looking at is for our own reliability purposes. It is not really related to Ontario. We are proposing to do it without the Ontario situation. Having said that, a line down to Winnipeg and then across is one of the options we are looking at for Ontario, down to Winnipeg and then Winnipeg to Northwestern Ontario.

Mr. Loewen: Does the corporation anticipate presenting a business case to the Public Utilities Board prior to proceeding with those projects?

Mr. Brennan: It is not required by legislation right now. In the past, we did it in the case of our proposed sale last time to Ontario. I think that will be a government policy decision.

Mr. Sale: I think, as the member knows, we are into somewhat new territory with the federal Environment Act and the Manitoba acts, Sustainable Development Act. The attempts on the part of both governments to figure out how to get an integrated review that takes into account need and demand, environmental issues, and is a comprehensive and full review—

I think that the question of the particular mechanism that will be chosen in Ontario and in Manitoba and with Canada, will obviously have to involve Fisheries and Oceans and the federal government in a major way because transmission, no matter what route is chosen, whether it is direct across the top or whether it is down through and across through Thunder Bay, will involve major waterways, major river crossings and simply could not be contemplated without Fisheries and Oceans and federal environment involvement. I think that, if the member sort of thinks back, I cannot think of a Canadian project of that kind of magnitude since, perhaps, the construction of the trans-Canada pipelines, in

terms of the numbers of issues that would have to be dealt with.

I do not think we want to, at this point, presume exactly what the right mechanism for doing that is, but the member can be assured that in either case, in any case, there will be a clear, economic need and demand component.

The member should also, and I am sure he does understand that there is commercial, confidential information involved for both the purchaser and the seller, who are both in a whole lot of different power markets. The kind of disclosure that would be done there will be the same kind of disclosure that has been done in the past to the PUB or to the CEC, where there is commercial, confidential information.

I just want to sort of put on the record the fact that this would be a very broad and very intensive review. But our hope, and I have discussed this with my federal colleague, a number of federal colleagues, is that we will find ways to have integrated reviews, so that the public is satisfied that there has been all the appropriate due diligence, but is also satisfied that it does not take 10 years to get something done that needs to be done, or to turn down something for which we have to find a substitute.

We need orderly, but we also need reasonable processes and reasonable time lines. I think, as my Premier has reflected recently, it seems strange to us that you can review a coal plant and commission it in a year, but you cannot deal with a very clean hydro project, anything like this, as reasonably.

There is a disproportionate regulatory process. It is not just in Manitoba. It is in the United States; it is in Canada. We have not figured out yet how to do these things in the most appropriate way. That is why Wuskwatim, I think, is going to be a very interesting case, because it is an integrated review. It is, clearly, going to take longer than we thought it might, but I think it will be done right. I am happy that the Clean Environment Commission has decided that that is how it has to go.

Mr. Loewen: Can the minister give us some assurance then that, if they are going to bypass

the Public Utilities Board, at least, the process they set up will involve funding of interveners and the taking of testimony under oath?

Mr. Sale: From Manitoba's perspective, I can give the member that complete assurance. I cannot speak for Canada. I cannot speak for Ontario. But I can speak for Manitoba.

Mr. Tweed: For Mr. Brennan: Can you give us an update on the projects as far as where they are at at this point? What we read in the paper, I mean, they are talking about hearings being put on hold, but, obviously, your company is moving forward in certain areas.

Can you just tell me where you are at on the road, and also the money that, to date, has been spent on each?

Mr. Brennan: Maybe I can just go to the next line. There it is. Okay. We are looking at four plants right now. Construction has not started on any of the plants at this point in time.

Wuskwatim is the one where we have applied for the environmental licence. The proximate cost is \$900 million. The area flooded is .4 square kilometres. That is as a result of the way the plant has now been designed. We have designed the plants in such a way as to minimize any flooding.

Gull, we are looking at an in-service date of 2012, with a total capital cost, including transmission, of \$3.3 billion. Conawapa, we are looking at, with that sort of in-service date, \$4.3 billion and, once again, minimal flooding of 5 square kilometres, for a net planned addition to our system of 1250 megawatts.

That is where we sit right now. Certainly, all three plants would be required over time with a major Ontario sale. Certainly, it would result in pretty good activity within Manitoba Hydro and within the province, generally.

Notigi is a plant that is, the economics are not as good as some of the other plants, and it is later on in the sequence. It is a relatively small plant, though.

Wuskwatim? I think we have been through these before. I have briefly talked about them. Conawapa, we are not projecting any in-service date at this point, but we are doing work, especially as it relates to our estimates and the like to make sure that they are critically defined. We have gone through that. We have filed the foreign environmental licence for Wuskwatim, and the schedule has been out by the Clean Environment Commission.

* (21:50)

Mr. Glen Cummings (Ste. Rose): On the information that has been filed with the Clean Environment Commission, and because of the proposed process that seems to avoid the PUB, where witnesses are required to provide information under oath, I do not think the minister quite answered my colleague's question on the process. Is he prepared to make it a condition of his Government's participation in a joint process that, if he is insisting on avoiding the PUB, he can require the elements of that process to follow the same track that the PUB would, i.e., requiring information under oath.

Mr. Sale: I believe, actually, Mr. Chairperson, that the powers of both bodies are roughly similar in terms of they are both quasi-judicial in nature, and they have that capacity. Just, not wanting to be argumentative, but there is nothing in the current legislation that requires us to go to the PUB for Wuskwatim, for example. What we did, I think, was to in fact exceed what is required, and that is by combining the function of need and demand with the function of environmental review. We have assured, for the first time in Manitoba's history, that a project is reviewed in its entirety, and that we do not get into the situation where you have one body looking at one part and another body looking at another part and a lot of argument about what is in the middle.

So I think we have actually strengthened the process. We provided generous intervenor funding, and both are quasi-judicial bodies. So I think that we have more than met the test of a sound review. I am not particularly dismayed that CEC has said that they need more time than initially they thought they might. That is as it should be.

Mr. Cummings: Well, the minister has neatly avoided the issue of whether or not the PUB will be able to completely and fully have the same type of review under this process that it had when they looked at the economic side of the proposal. We have already seen early in the presentation here that this will—intentions that this would be built for export purposes. That really requires that there be need and justification, and impacts on the corporation, and on the investment of the public in this province clearly undertaken. What assurance is the minister prepared to provide as part of this process that it would be equally as scrupulous, and equally as in-depth as what we see at the PUB? That is one of the things that the public has come to expect from the PUB, extremely detailed information gathering, and requiring experts to appear, or asking and hiring experts to appear, pardon me, to provide outside analysis of the information that is being presented. Is the minister prepared to indicate, and I only need a simple yes or no, but does he believe that his process will, in fact, answer that same requirement?

Mr. Sale: Well, I will give the member the answer yes. I will further just remind him that the function of the PUB is rates. It is to either approve of, or not approve of, requests for rate adjustments made by the utility. When a piece of the utility's program is entirely based on exports and export sales that are in hand, then there is no effect on rates on a prima facie case. That said, the same disclosure, and the same level of disclosure will be given to the CEC as was given to the PUB when rates are reviewed. Further, we strengthen the CEC by putting very experienced and senior members of the PUB on the panel that is hearing Wuskwatim.

So the answer, I believe, is yes.

Mr. Schuler: My question is to Mr. Brennan. Could he tell us which hydro lines from which dam are earmarked to go through the right of ways through West St. Paul and East St. Paul?

Mr. Brennan: None of them. That is a part of a ring around the city. But the transmission direct into the system would come depending on which plant we are talking about, and where it would be; it would be a function of further reviews;

but, certainly, it would have to come into a new substation somewhere in Winnipeg.

Mr. Schuler: To Mr. Brennan: Is there in the near future, within the next 10 years, any plan to use the two right of ways that exist through West St. Paul and East St. Paul, or are those for long-term development?

Mr. Brennan: Within 10 years is a long time. I am not sure if there is anything within that 10-year period or not. I would have to check. It would not surprise me if there were.

Mr. Schuler: I will narrow that down. Is there any plan in the next five years to use the right of way going through West St. Paul and East St. Paul for a transmission line?

Mr. Brennan: I do not believe there is anything in the next five years, but I will have to confirm that.

Mr. Schuler: Mr. Brennan, would you be willing to send me a letter indicating what the long-term plan is for the right of way going through West St. Paul and East St. Paul, five-year, ten-year, fifteen-year?

Mr. Brennan: I guess, until such time as we make a commitment of a plant, they fluctuate continually. The use of the various transmission lines are something that until such time as you commit a transmission line, it is not really a fixed option. So it would be pretty hard for us to do.

Mr. Schuler: The last time that a line went through there was a considerable amount of concern in the community. Is the corporation planning on handling the situation a little bit better, or are they just planning on doing like they did last time and just brushing aside any concerns? With all the millions and millions of dollars they have spent on everything else, perhaps a little bit more careful thought and planning could be used to work with the community. On that matter, there were some commitments made by the minister responsible, of which none of them were lived up to, though that hardly comes as a surprise.

I think the citizens of West St. Paul and East St. Paul would appreciate if they would have a little bit more of a working relationship with Manitoba Hydro rather than what existed the last time a line went through.

Mr. Brennan: I guess it seemed to me that the discussions associated with that line came pretty late in the process. It seemed to me it was going along well at first, and then things seemed to run into difficulty. Certainly, from my perspective, I like to see the construction line take place in a better fashion than that. What the answer is I am not sure, but we will look at options.

Mr. Loewen: Mr. Brennan, just a quick calculation indicates that the projects you have listed total \$9.2 billion.

Mr. Brennan: That is probably true.

Mr. Loewen: Would you anticipate that most of those would be financed by debt?

Mr. Brennan: To maintain our debt equity ratio, it would be a combination of internally generated funds and debt.

Mr. Loewen: I have a Dominion Bond Rating report from 2001 indicating that the challenge that the corporation has is that its high debt level weakens most financial ratios. Would you anticipate that as a result of taking on the amount of debt that is going to be necessary for these projects, that you are going to be looking at a possible reduction in your rating?

Mr. Brennan: All these projects are done based on the economics associated with the project. If anything, I would hope that they would help our rating.

Mr. Loewen: These projects, I understand, are primarily for export sale, to generate power for export sale?

Mr. Brennan: That is correct.

Mr. Loewen: Will there be fixed sale contracts in place prior to moving ahead?

Mr. Brennan: For those smaller projects, whereby we would want to maintain our export

capability and make sure that the existing transmission lines are utilized as much as possible, we do not necessarily need them at the time we are planning to proceed. By the time the plan is completed, there will be firm contracts in place. In the case of a major facility such as Conawapa, before you start it, you would want a fixed contract in place.

Mr. Loewen: I appreciate that answer. Given that Gull is also estimated at \$3.3 billion, would you recommend that that not proceed unless fixed contracts are in place as well?

Mr. Brennan: It will be a function at that point of just what our financial forecast looked like and the whole economics of the facility. It is hard to say whether we need one or not. If our own load goes up dramatically, we would certainly want to make sure that we kept our export level up. Our exports have been keeping our rates relatively low. We would want to continue that.

So I think it would be a function of just what our situation is like at the time. I would not necessarily preclude starting a plant without firm contracts, but I think it would be a function of what happens at the time. It would be hard to say.

Mr. Sale: I think it is important for all Manitobans to recognize that it is the building of Wuskwatim, for example, that will allow us to keep our rates low. The risk is not in building it; the risk is in not building it. As our domestic load grows and our sale of power at rates cheaper than we are exporting it then grows, we essentially lose the buffering that our exports are now giving us. So I think often we worry about whether we should build something on the base of impact on rates. The truth of the matter is that, if we do not build, there will be an impact on rates, because we are now getting about a 40% subsidy on our rates from export. So exports are vital to keeping the rates down.

Mr. Chairperson: The hour being 10 p.m., at the start of these proceedings this evening, the committee indicated that we would review the sitting time here this evening, and we have arrived at 10 p.m. What is the will of the committee?

An Honourable Member: Half an hour.

Mr. Tweed: I think I guess we are not completely through the presentation. I think it has progressed very well. We have asked questions as they arose, and Mr. Brennan has been very co-operative. I think that as soon as we get through this we have a few wrap-up questions. We would just ask for whatever time that would take. I assure you it will not be the small hours of the morning.

Mr. Chairperson: Is it the will of the committee then to proceed with the presentation and the questioning. *[Agreed]*

Mr. Sale: Could we check again at 11 if necessary, or do you want to set an earlier time?

Mr. Tweed: Okay. We will review it again at 11.

Mr. Chairperson: Okay, if it is the will of the committee, then we will continue with the presentation.

* (22:00)

Mr. Loewen: Well, just a comment to the minister. Once again I realize he thinks he has all the answers. No doubt he firmly believes in his mind that if we do not build these dams, power rates will go up. I would once again encourage him to take the advice of his colleague from Radisson and take it to the Public Utilities Board. That is the one independent body that will sort through the details of whether it makes sense to move ahead and what effect it will have on rates.

Again, I would strongly urge that the minister go back to the Cabinet table and back to his leader and indicate the strong support he has for the Public Utilities Board process.

Mr. Brennan: The only other thing that I would like to say about Bipole 3 is we talked about the business plan for it, and it can be justified on reduction of losses alone.

We are committed to developing 250 megawatts of wind by 2010, provided it is economic and technically feasible. It is right in our generation sequence right now.

Mr. Schuler: I was reading through your annual report. You mentioned that you now have a joint venture agreement with Shell Canada. How much money does Manitoba Hydro have in the joint venture agreement?

Mr. Brennan: No money at all. What we are doing is independently looking at opportunities. We meet with Shell periodically. There has been no investment made other than our independent internal reviews.

Mr. Schuler: Is Manitoba Hydro at all looking at getting involved in wind energy themselves and putting up wind generators?

Mr. Brennan: Yes, Manitoba Hydro is looking at all options. We are looking at options of purchasing wind generation. We are looking at options of opportunities to work with other companies and at the same time any potential opportunities that are available for Manitoba Hydro itself.

Mr. Tweed: Just on the wind plan, is Mr. Brennan aware of other jurisdictions that have gone through this process of studying it, doing the feasibility. I guess what I am concerned with, living close to the North Dakota border, I can cross the border and see windmills standing that have not turned for years basically because the economics are not there. I am just wondering if there are other jurisdictions that Hydro might look at as a resource for information and how far they want to take this or how far they want to proceed.

Mr. Brennan: First of all, North Dakota is a relatively good area for wind. Our studies and certainly our discussions with people in North Dakota indicate North Dakota is a pretty good wind area, actually. I am not sure about the ones you are specifically referring to.

Saskatchewan has developed some wind, and they have plans for more wind. Quebec Hydro has some and of course BC Hydro has gone out with all kinds of options. We know that there is an awful lot of wind development that has taken place in Alberta.

Mr. Cummings: Is there a relative cost comparison that you can give us? Obviously there is lots of work being done in this area. I saw some announcements this summer that Hydro was embarking on projects to do sampling. There seemed to be a lot of talk at that time about this would be additional power into the system. My question is, if it is more expensive than what we are getting out of our dams, what is the point?

Mr. Sale: I thank the member for the question, and it is a very important one. Obviously if you cannot make money selling the resulting power, then it is not a good deal. The current experience in the United States is that, without any subsidies, in other words, net of gross true costs as opposed to post-subsidy costs, is coming in, depending on the site, at between 3.9 and 5.4 cents per kilowatt hour. There are American subsidies that bring that down significantly. The thing that is happening extremely rapidly, which I am sure the member is probably aware of, is that the height and size of the turbines is increasing very, very quickly. I think things we did not know about wind a few years ago, the higher you go there is a very major increase in not just the velocity but in the constancy of the wind, the overall capacity.

The member may have seen on CBC about 10 days ago, P.E.I. have just installed a 2.3 megawatt turbine which dwarfs the 1.6 megawatt ones that are now sort of the standard size. They in turn dwarf the ones of only three or four years ago that were .75. So the curve of costs is coming down very rapidly still. I do not think that we yet know where it is going to bottom out. I think that is the best we can tell the member in terms of costs. There is no sense in going into a generation project you are going to lose money on, and we will not do that.

On the other hand, wind has some great advantages. It twins beautifully with hydro because when the wind is blowing you do not use your hydro reservoir, but when the wind stops you have your turbines there.

Secondly, it works well with our peak season because the best wind is in the wintertime and our peak demand is in the wintertime.

Thirdly, it is scalable. You can add 100 megawatts of wind in a matter of a year. You cannot add 100 megawatts of hydro. You know how long it takes to build a dam.

So there are a lot of advantages, and there are also corresponding disadvantages. You cannot use probably more than about 20 percent wind in your system. Denmark is up to around 24 or 25 percent, and they do not think they are going to get much above that with the current technology. Given that we are at zero at this point, it would seem like we have some room to grow. You know and I know the advantages to farmers of having turbines in their area, the advantages to rural communities of having the maintenance and operation of wind farms as an adjunct to the rural economy. We see this as something we have to be very, very diligent in exploring and make sure that when we make a decision, it is a good decision. We can see an awful lot of benefits.

I think finally the member probably knows that across the Prairies there is more than 1000 megawatts of wind contemplated right now. That is 3000 blades. Winnipeg is the only place on the Prairies that makes composite materials. There are some very significant opportunities for our industry, not just for our electrical generation. So it is our job to be on top of all of these opportunities but not to try and push them in a way that puts the corporation or the Province at any kind of risk.

Mr. Cummings: Very briefly, in that I cannot let that long dissertation go by without one additional question. That question is what the first one was: If we see lots of examples of where this is not as competitive as what we are already producing and selling, we are not anywhere near capacity yet. We are really a long way out if this cannot come down to being close to our prices. That was really my question.

Mr. Brennan: Manitoba Hydro will make sure it is to our economic advantage to add one before we will, or to buy it.

Mr. Chairperson: Is the committee ready to proceed with the presentation?

An Honourable Member: Proceed.

Mr. Chairperson: Mr. Brennan, please proceed.

* (22:10)

Mr. Brennan: I will try to go a little faster.

Alternate energy, we have talked about it quite a bit here, but we have a couple of studies going on now. Together with the Government of Canada and Keewatin Tribal Council we are funding a review of using small hydro wind power at remote locations that are currently served by diesel. We are also looking at the feasibility of collecting landfill gases to reduce the greenhouse gas emissions from landfill sites.

Natural gas operations. We all know about the relatively high price of natural gas today, and it looks like its stabling up there. We continually have rate adjustments that occur quarterly, and we all have opinions as to whether that is the best way to make the rate adjustments.

I guess we believe that as a result of us purchasing the gas company—we have talked about the purchase of the gas company at earlier sessions here, but we have not had any distribution rate increases at all since we have owned the gas company. The first one we are having is the one of April 1, 2003, with a .4% rate increase.

This is how the actual gas bill is distributed. Seventy-one percent of the gas bill is the cost of gas and the cost of transportation. The administration and depreciation and carrying costs of the distribution system itself is 29 percent.

This is what has happened to the price of natural gas. You can see the big peak it had, and it is still relatively high.

Mr. Loewen: Just a quick question on the gas, you certainly hear lots of ads these days for fixed-price contracts. Are you anticipating that that will have any effect one way or another on your side of the business?

Mr. Brennan: It has now. Certainly some people are taking advantage of that. It is an individual consumer's decision as to whether he wants to take advantage of a fixed-price contractor or go with Manitoba Hydro's floating price.

We have done pretty well and if you compare it, I think Manitoba Hydro is probably the best option, but I am biased. Certainly some of the prices, if you bought at the right time, you would be okay. Buying right now is not.

Mr. Loewen: I think more what I was looking for is just a feel for the business going forward, if you feel that those types of services are going to encroach upon your traditional customer base in any significant way that we need be concerned about.

Mr. Brennan: I guess it certainly will not be the end of the world because all customers still have to pay their share of the 29 percent of the total bill anyway, so we would buy less gas.

One of the problems is if a good number of them took it, we are the supplier of last resort, so if you had some problems with a supplier, Manitoba Hydro would have to provide the gas and that is always a risk, or a concern more than a risk.

Mr. Chairperson: Please proceed, Mr. Brennan.

Mr. Brennan: The new building, everybody knows about that, the commitment we made when we purchased Winnipeg Hydro to build a new building of at least 400 000 square feet. That is in addition to the space we have at head office at 820 Waverley.

We are proposing to build a really environmentally strong building with a major commitment to sustainable development, and we are looking quite forward to this new building. We are hoping to make a decision in the fall of 2003, this fall, to select a site and start construction in the spring.

Mr. Chairperson: Does that conclude the presentation? *[interjection]* Thank you, Mr. Brennan, for the presentation this evening.

Mr. Loewen: Well, I thank Mr. Brennan for finally finishing his presentation. It has been very informative.

Just with regard to the new building, any indication so far what a rough cost per square foot might be?

Mr. Brennan: We have a pretty big range at this point. It is going to be a function of the site, the type of building and the types of features that go into the building, so I do not think I would want to give one right now.

Mr. Loewen: Well, in that case, would you care to share with us the cost of the new sign in front of the old building?

Mr. Brennan: I quite like that new sign. I will have to get you the cost of it. I did have it.

Mr. Loewen: I appreciate that. I like the sign too. I am just curious about how much a sign like that with the reader board and the time and everything would cost. I will appreciate hearing back from that.

Mr. Brennan: Oh, you are talking about the one on Taylor.

Mr. Loewen: On Taylor, yes, sorry.

Mr. Brennan: Oh, I thought you were talking about 444 St. Mary's which was a little cheaper cost than the one in front of our building. By the way, I think that was a real good investment, that sign. I really do.

Mr. Loewen: Well, I am not sure whether it was such a good investment because I do not know how much it cost. Maybe Mr. Brennan could get that information to me as soon as possible. I appreciate that.

I have few more questions on the financial side, just on the financial statements. In particular I would be interested to know how much a one cent change in the dollar would affect the organization, given that you have significant, and I am comparing U.S. dollar versus Canadian dollar and the rise in the Canadian dollar, how much that type of rise would affect the profitability of the organization.

Mr. Brennan: It will not be a significant number. We try to keep ourselves hedged where the inflows equal the outflows.

Mr. Loewen: We are also obviously in a time of very low interest rates historically. Could you give us some indication of what a rise in interest

costs of 1 percent or 2 percent, how that would affect the organization, given the substantial amount of debt?

Mr. Brennan: Once again, it will not have a big impact either because the majority of our debt is fixed cost debt now and it will not have an immediate impact. You have to have a change in rate at a time when a lot of debt matures and we, for the most part, have ours pretty evenly planned out.

Mr. Loewen: Can Mr. Brennan indicate how much the rate reduction that was ordered by the Public Utilities Board, what the annual cost of that is to the organization?

Mr. Brennan: I believe it was \$4 million. People are scratching their heads but I thought it was that. We will compare. I am getting in a fair amount of detail and still answering. I am not sure if that is good or not.

Mr. Loewen: You are doing very well and I certainly appreciate your frankness with the answers.

With regard to the money the Province has taken out of Manitoba Hydro over the years, do you have the numbers at the tip of your fingers for say the last seven or eight years, how much the Province has taken in total out of Manitoba Hydro?

Mr. Brennan: No, I would have to get it to you.

Mr. Loewen: I guess I have some information from the Utilities Board that maybe I will run by and see if, to your recollection, I am in the ballpark. According to the IFF in 1996, the total was \$96 million; in 1997 it was \$102 million; in 1998 it was \$108 million; in 1999 it was \$104 million; 2000, \$115 million; 2001, \$128 million; 2002, the IFF showed \$354 million, but with the change in the Auditor's oversight it actually I think turned out to be \$204 million. I am quoting the minister on that. In 2003, it was, assuming the number is 200 and not 203, that would be \$390 million; and in 2004 the projection without a dividend will be \$183 million.

Do those numbers sound reasonable still?

* (22:20)

Mr. Sale: Mr. Chairman, I am having trouble hearing the members. I thought he had two years in which it appeared he might have double-counted the 150. I am not sure. I could not hear the last year and the second last year.

Mr. Chairperson: Mr. Loewen, do you wish to clarify?

Mr. Loewen: I will be glad to repeat those. In 2002, \$204 million; in 2003, \$390 million; and the projection for 2004, and I have excluded any dividend given what you have told us tonight on your profit situation, is—I am sorry, I am going to have to do some quick math here. I may have said \$283 million; correct that, \$183 million for 2004.

Mr. Sale: I think those numbers are probably correct or nearly so. I will not comment on the numbers, but I just think the member needs to understand that when you have record water flows, as we had in some of those years, you have high water power rentals. Now, when you have large refinancing if a major bond comes due, then there is a larger guarantee flow. So, the numbers apart from the three-year-plan dividend, which actually only will occur in two periods, reflect two things. They reflect the amount of water going through the turbines, and they reflect the amount of refinancing and therefore the guarantee fee. But I think the member's numbers are certainly probably at least very close to correct, if not absolutely correct.

Mr. Loewen: Well, then I would ask Mr. Brennan, the numbers that came from the IFF indicate that in 2001, the water rentals were \$50 million and in 2002 they were \$107 million. Was that the result of the doubling of flows in those two years?

Mr. Sale: No, there was an increase in the water power rental rate which was in the budget at that time, and I am sure that the member was part of the debate about that process at that time. There was also more water in that particular year, but the major impact of the change was the change in water power rentals.

Mr. Loewen: Well, I thank the minister for that, and I do now recollect that water rental's rate

was doubled, I believe, in 2002. Also, 2001 the provincial guarantee fee was \$49 million. In 2002 it was \$65 million. Was the minister indicating that that was a result of the corporation taking on more debt?

Mr. Sale: I do not recall the debt figure, but I can tell the member the guarantee fee was raised so that Hydro still got a benefit from the provincial borrowing rate, but the Province also, essentially, got a fee for Hydro's access to that rate, and then, of course, they would reflect those numbers in all of their forecasts.

Mr. Loewen: So the water rates were doubled. The guarantee rate was increased. There is also a sinking fund administration fee which kicks in in 2002. Was that also a budgetary change?

Mr. Sale: I would have to take that question as notice. I am not familiar with whether the sinking fund fee was changed. Perhaps Mr. Brennan knows that. It was before my time in this portfolio.

Mr. Brennan: Yes, there was a modest charge for administration of the sinking fund.

Mr. Loewen: I guess I would ask Mr. Brennan then, and the minister keeps referring to these three-year averages, but according to my calculations, in the years '02-'03, and I am using I think a modest loss projection this year on the lower side of \$250 million, in the three years that the profits of the corporation totalled \$35 million, the Province of Manitoba took out \$777 million from their organization. I would ask the chairman if he would like to see that type of ratio going forward, if he thinks that would be good for the health of the company.

Mr. Brennan: Manitoba Hydro has had a very good net income in the last five years after those costs, and our equity has gone up dramatically, and I am quite proud of the performance of Manitoba Hydro.

Mr. Loewen: Well, then again, just for clarification, I am not at all indicating that the performance of Manitoba Hydro is not good. I am just wondering if going forward into the future there are concerns by management that in

a period when they have been affected by a drought and will be affected by a drought and their profits over the course of three years have been \$35 million, if there are concerns that going future there will be a negative impact by the Government taking out \$777 million at the same time as the corporation's earnings are \$35 million.

Mr. Sale: Mr. Chairman, I am simply asking for clarification. What period of time is the member referring to in terms of profits of \$35 million?

Mr. Loewen: I am looking at the years '02-'03 and I am taking a number of \$250 million which I believe is in the lower side of the estimates that we have seen for this year's loss.

Mr. Sale: I think, first of all, the member has confused apples, oranges and bananas. When a corporation of any sort, whether it is private or public, in Canada or in the United States generates power, they pay fees for use of the resource that they use to generate the power. They essentially pay water rental in one form or another, so it is a cost of doing business like wages are a cost of doing business. When a corporation accesses the bond market, it pays a fee.

Now in the private sector it will pay a finder's fee to an underwriting consortium that will charge it a fee for finding it whatever hundreds of millions or billions of dollar that it requires to undertake a project or to do whatever its capital projects are. So water rental fees and guarantee fees are a normal cost of doing business. Whether the corporation makes a profit or does not make a profit in a year, it will stay pay those fees, as was the case in the previous government when the corporation made smaller profits than it has made in many of the years more recently. So water power rentals are simply like light, heat and power. They are what you pay in order to get access to the resource to make the money to provide the service that you provide. Though they are not related to profit or loss of the corporation, they are the costs of doing business. One would expect that the corporation, if it were not raising enough revenue from its business, would do something to affect that. It would either increase its sales or it would seek a change in its rates, but it would

do something. But it cannot avoid the cost of wages, it cannot avoid the cost of light, heat and power, and it cannot avoid the cost of the water that runs down the river.

So I think it is misleading to talk about rentals that are paid because they would be paid whether the corporation were private or public. That indeed is the case in other provinces that have power corporations, and whether or not they make money does not really matter in that sense because they will have to figure out how to survive with whatever water power rental rate is charged to them, and they will have to do that through their revenue.

But I just point out that in the years that are disclosed on page 94, the net income of the corporation is well in excess of a billion dollars over that period of time. Its gross incomes are well in excess of around \$15 billion. So the water power rentals are a very small amount of that, and they will continue to be a source of revenue for the people of Manitoba as they would be if the corporation through some benighted act by some other government were a private corporation. They would still be charged water power rentals and they would still have to make money at the end of the day.

Mr. Loewen: The minister's statements are so totally contrary to the actual way that business practices are followed. It is mind boggling, quite frankly. I am going to have to take a look at Hansard tomorrow and just try and sort out where the minister is going. But for him to indicate that the water rental rates and provincial guarantee fees are not a cost of doing business—

An Honourable Member: It is exactly what I did indicate. They are a cost of doing business.

* (22:30)

Mr. Loewen: A cost which his Government totally, totally controls and as a matter of fact which they doubled. I would ask Mr. Brennan if either the decision to double the water rental rates or the decision to increase the provincial guarantee fee were dealt with through the Public Utilities Board.

Mr. Brennan: When the Public Utilities Board looked at our rates and came up with a decision to decrease rates, I presume they considered it.

Mr. Loewen: That is a fair comment. I would ask Mr. Brennan, then: Does he not have any concerns at a time when his corporation is looking at \$35 million in earnings that the Government of Manitoba is stripping out \$777 million, no concerns about that going forward at all?

Mr. Brennan: I believe that my job is to manage Manitoba Hydro within the business conditions that the company is impacted by. I think I am doing that.

Mr. Loewen: I think you are doing it and I think your management team is doing it very well. Again, just for the record, the minister keeps telling us that they are limiting themselves to 75 percent of the corporation's profit. As we can see from the numbers, they are obviously not, over the course of the last three years, in terms of the total take and in fact the increased take out of Manitoba Hydro.

Just as a matter of course, I would ask Mr. Brennan to indicate to the committee whether he feels that it is an advisable strategy going into the future for the government of Manitoba to continue to look at taking 75 percent of the Corporation's profit as a dividend?

Mr. Brennan: That is not my job. My job is not to make policy decisions like that. My job is to run Manitoba Hydro.

Mr. Sale: Just for the record, the dividend was a three-year act that was passed by the Legislature last year. It took \$150 million, which was less than 75 percent of the profit in the year for which it was designated; it took \$51 million, which was 75 percent of the profit in the second year. There will be no profit this year. There will be no dividend this year. It is a three-year, does not persist into the future, I think the member knows that.

Mr. Loewen: Well, is the minister willing then to give his assurance that there will be no more special payments asked of Manitoba Hydro in the future?

Mr. Sale: That is a policy decision that will be discussed and would be discussed if it were contemplated by Cabinet. Obviously, I am not in a position to make any decisions myself in that regard. That is probably the best that I can tell the member, that the payment of dividends is clearly a matter of provincial policy. It is a policy in a number of other provinces that a dividend or payment will be required on an annual basis. It is not the policy of Manitoba.

Mr. Loewen: I am finished with my questioning, but just in closing I would like to congratulate Mr. Brennan and his staff for once again managing this prize of Manitoba in a very efficient and well-run manner. Congratulations, sir.

Mr. Tweed: Just a couple of questions. If I understand it correctly, with the low water, Hydro has been forced into buying power from other corporations, I am assuming, into the United States to resell, basically to maintain contracts. Is that correct?

Mr. Brennan: Yes. In a lot of cases, that is right. We do have the opportunity to even buy power overnight and resell it during the day. We have that just because of where our reservoirs are and we are doing an awful lot of that.

Mr. Tweed: Is that done at a direct cost to the company as far as, obviously, when you are out there negotiating on an overnight basis, you are probably paying a premium, or are you getting a better deal?

Mr. Brennan: Overnight it is a time when people are not using power and people are using nuclear plants and thermal plants when they want to keep it running 24 hours a day. So the price of power is usually pretty cheap then, and you buy it overnight, and then either resell it or use it to store in reservoirs for a time when you require it. There is power we have to buy, though, to make firm contracts that we have made all the money we have in the last four or five years, certainly the NSP sales. We have also tried to manage our system so we go into the winter with a fair amount of energy in storage we can use.

Mr. Tweed: I appreciate the answer and again, just more for my clarification, basically the power that you have to buy right now, to meet your contractual obligations, is not costing you any more than it would than to produce it and export it?

Mr. Brennan: I do not think I would say that, as some of it would definitely be a higher cost than Manitoba Hydro. Hydraulic generation does not cost us very much money despite the water rentals we just talked about. Compared to the price we get, that is pretty small.

That is the only variable cost we have, is water rentals. Hydraulic generation goes right to the bottom line. If you get good flow years, it is right in the bottom line and we can export it. We try to manage to sell it at a time when it is best for us.

Mr. Tweed: Can you just advise us, with the contract settlement that has been negotiated with the Hydro workers—I am not even sure if it has been voted on yet, but it sounds like they are recommending it. Any idea of what kind of cost impact that is going to have on Hydro's expenses?

Mr. Brennan: One of the problems we have, I will give you the agreement. It is going out for a vote, but it is basically 3 percent a year for the first two years and a COLA for the third year, and with a fringe benefit component about a third of a percent for almost all three years. That is close enough, I think.

Manitoba Hydro's actual costs do not all impact the operating statement. Our labour cost is capital and operating. The impact on the operating statement is only a fraction of the total payroll cost.

Mr. Tweed: Can you tell us if Manitoba Hydro has any outstanding Workers Compensation claims, legal claims coming forward or already in the system?

Mr. Brennan: We always have some outstanding claims. There is not anything real major that I know about other than the ordinary ones that occur all the time.

Mr. Tweed: One of the things that I am hearing, I guess, from your employees that I have associated with over the last several years, in the deal with Winnipeg Hydro, I am sure that there was an assessment done on what we were buying and what goods we were getting with the deal. I keep hearing from many of the employees that the transfer of equipment and assets perhaps was not as good or up to the same value as may have been presented. I am just wondering if you would like to comment on that.

Mr. Brennan: I am sure some employees of Winnipeg Hydro might take offence to this, but I do not think very many of them would. I think the physical plant of Manitoba Hydro is better maintained than the City of Winnipeg's. I think that is a pretty easy statement to make. We did know, by the way, when we purchased the utility that we thought our plant was better than theirs.

Mr. Tweed: Then it would be a safe statement to suggest that you are still satisfied with the deal?

Mr. Brennan: Yes, I really believe it was in the interest of the people of Manitoba.

Mr. Sale: I just want to thank the committee, Mr. Chair. We had a very good exchange, and I want to thank Hydro for a lot of work in putting together a useful presentation. It was a good process and thank everybody for that.

Mr. Chairperson: Thank you, Mr. Sale.

* (22:40)

Mr. Tweed: And I too. I know Mr. Loewen made that comment. But we do think Manitoba Hydro is a great company. I think we all share the pride in it. It is just how we look at how it should be operated. I think on this side of the House, we believe that Government should get out of your way and let you become a bigger and stronger company than you already are. That is where we will differ all the way throughout the whole process.

We wish you well and we are prepared to pass that.

If I am correct, it is '01?

Mr. Chairperson: Thank you, Mr. Tweed.

Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2002—pass.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2003 pass?

An Honourable Member: Pass.

Some Honourable Members: No.

An Honourable Member: Not that one.

Mr. Tweed: Mr. Chairman, we were just prepared tonight to pass the '02.

Mr. Chairperson: The hour being 10:42, committee rise, with the will of the committee? *[Agreed]* Committee rise.

COMMITTEE ROSE AT: 10:42 p.m.