

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES
Tuesday, 14 April, 1987

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Birt (Fort Garry)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Harapiak (Swan River),
Parasiuk

Messrs. Birt, Enns, Filmon, Maloway,
Manness, Scott, Baker

APPEARING: Mr. G.H. (Garry) Beatty - President
and Chief Executive Officer, Manitoba Hydro

Mr. Bob Brennan, Vice-President of Finance,
Manitoba Hydro

Mr. M. Eliesen, Chairperson, Board of
Directors, the Manitoba Hydro-Electric Board

Ms. Linda Jolson, Vice-President of Corporate
Relations, Manitoba Hydro

Mr. Will Tishinski, Vice-President of
Operations, Manitoba Hydro

Mr. R. Lambert, Vice-President, Customer
Services.

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Hydro-Electric
Board for the fiscal year ended 31, March 1986.

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CLERK OF COMMITTEES, Ms. S. Clive: The
committee will please come to order. First of all, we
have to elect a chairman. Do we have any nominations?

A MEMBER: We nominate Mr. Birt.

MADAM CLERK: Mr. Birt has been nominated. Do we
have any further nominations?
Mr. Cowan.

HON. J. COWAN: Yes. I nominate Mr. Maloway.

MADAM CLERK: Mr. Maloway has been nominated.
Okay, we'll have to take a vote. All those in favour
of Mr. Birt, please raise their hands. (4) All those in
favour of Mr. Maloway, raise their hands. (3)

MR. CHAIRMAN: The committee will come to order
and we can proceed.

HON. W. PARASIUK: I'd like to introduce the
Chairperson of Manitoba Hydro, Mr. Marc Eliesen; and

I'd like to welcome to these proceedings, as in his
capacity as President and Chief Executive Officer, the
recently-appointed President and CEO of Manitoba
Hydro, Garry Beatty.

I'd like now like to call on, I believe it's going to be
Mr. Eliesen who will make a statement, and then Mr.
Beatty will be making a statement as well.

MR. CHAIRMAN: Mr. Eliesen.

MR. M. ELIESEN: Mr. Chairman, thank you.

On behalf of the Board of Manitoba Hydro, I welcome
the opportunity to make our annual presentation to
members of the Public Utilities Committee of the
Legislature on recent operations and activities of
Manitoba Hydro.

Briefly, the current directors of Manitoba Hydro are:
Mr. Charlie E. Curtis, Deputy Hydro Chairperson, and
Deputy Minister of Finance of the Province of Manitoba;
Mr. Saul Cherniack, former Chairperson of Manitoba
Hydro; Dr. Edmund Kuffel, Dean of Engineering,
University of Manitoba; Professor Jack London, Faculty
of Law, University of Manitoba; Mr. Clyde McBain,
President and General Manager, Ancast Industries Ltd.,
Winnipeg; Dr. Nora Losey, Associate Dean of Science,
University of Manitoba; Mr. Roy Minish, retired
businessman, Swan River, Manitoba; Mr. Steve Ashton,
MLA, Thompson, Manitoba; Mr. Rod Beaudry, Employee
Representative; Mr. William Cheater, Employee
Representative.

In 1986, Manitoba Hydro celebrated its 25th
anniversary of service to Manitobans. The past year
has been a busy and successful one for the corporation.
We have continued to fulfill our primary obligation of
providing Manitoba's 350,000 residential, business and
agricultural customers with low cost, reliable electrical
service.

To this end, work has continued to extend hydro
service to more customers through the Gillam to
Churchill transmission line and the connection of
communities like Poplar River, Pauingassi and Little
Grand Rapids into the main system. We have also made
progress on the implementation of our five-year plan
to combat ice storms, thereby minimizing service
interruptions and improving service reliability.

As members of this committee are aware, Mr. John
Arnason retired as President and Chief Executive Officer
of Manitoba Hydro last year. Over his 37 years of service
to the people of this province, Mr. Arnason contributed
significantly to the development of one of the most
reliable and economic electrical systems in Canada. In
September, the board unanimously approved a
recommendation to the Government of Manitoba that
Mr. Garry Beatty, then Vice-President of Finance and
Chief Financial Officer of Manitoba Hydro, be appointed
to President and Chief Executive Officer.

Prior to Mr. Beatty's presentation, I would like to take
this opportunity to announce to members of this

committee some new information on the estimated cost in building the Limestone Generating Station. This new estimate indicates a substantial reduction in the overall cost of the project.

Since the late 1970's, Manitoba Hydro management's official estimate for the Limestone Generating Station was about \$3 billion for a 1992 in-service date.

By advancing Limestone to 1990 to meet export opportunities, including the 500-megawatt hydro sale to the Northern States Power Company of Minneapolis, Minnesota, the estimated cost of the project was decreased nearly \$500 million, to \$2.52 billion, primarily due to reduced inflation and interest charges on construction expenditures.

One of the factors considered by the board of Manitoba Hydro in 1984 in recommending to government the advancement of the Limestone project, was the judgment that in a hungry and underutilized construction industry environment, competitive bids would further reduce our overall cost estimates for Limestone.

In June of 1985, project costs decreased another \$420 million, from \$2.52 billion to \$2.1 billion. In January of 1986, project costs were further reduced to \$1.94 billion.

Continuing reviews have been undertaken this past year as additional contracts have been awarded. With about 85 percent of the value of contracts awarded to date, Manitoba Hydro management have again reduced the Limestone cost a further \$210 million, making the current figure \$1.73 billion.

In summary, from figures of \$3 billion to \$2.5 billion to \$2.1 billion to \$1.9 billion to 1.7 billion, the cost of building Limestone has dropped dramatically, a reduction of about \$1.3 billion or 42 percent from the original \$3 billion estimate.

This result is unprecedented among utilities in Canada and the United States in the construction of generating stations. In fact, in the past, major overruns have been the general rule.

At Manitoba Hydro, we believe a true success story has resulted from our export sale and the related decision to commence the building of the Limestone Generating Station.

The Manitoba Hydro Board would like to recognize the diligent efforts of the corporation's management and staff in implementing employment training, purchasing and tendering policies which have resulted in unprecedented levels of Manitoba participation in Limestone, while at the same time bringing the project in along the scheduled time frame and at the lowest possible cost.

Mr. Chairman, I would now like to introduce Mr. Garry Beatty, President and Chief Executive Officer of Manitoba, who will review the corporation's activities over the past year.

MR. CHAIRMAN: Mr. Beatty.

MR. G. BEATTY: Thank you, Mr. Chairman.

It is just under one year since I joined Manitoba Hydro, and it has been a very interesting and challenging period. I am pleased, on behalf of the corporation, to make a presentation on the 35th Annual Report for the year ended March 31, 1986. As is the custom, I

will make some comments on the preliminary results of the 1986-87 fiscal year.

I am accompanied by a number of staff members who may add to the presentation and will assist in responding to questions: Chris Goodwin, Senior Advisor; John Funnell, General Counsel and Corporate Secretary; Ralph Lambert, Senior Vice-President, Customer Service and Marketing; Murray Fraser, Senior Vice-President, Energy Supply; Don Duncan, Vice-President, Engineering and Construction; Bob Brennan, Vice-President, Finance; Linda Jolson, Vice-President, Corporate Relations; Will Tishinski, Vice-President, Operations; Art Derry, Vice-President, Business Development; and Paul Thompson, Division Manager, Marketing.

For the year ended March 31, 1986, Manitoba Hydro experienced an extremely good water year resulting in an increase in energy produced from our hydro-electric plants. It allowed energy to be sold on the export market to achieve a record of \$112.8 million in export revenue. The production of firm energy for Manitoba customers increased by 2.5 percent to 15,366,000 kilowatt hours, and net revenues of over \$30 million were transferred to reserves, increasing reserves to approximately \$124 million. This level is substantially below the minimum target level of \$180 million which is necessary if the corporation is to withstand the financial impact of a prolonged drought.

At this point, the final results are not available for the fiscal year which ended on March 31, 1987. Once again, water conditions have been generally good, although not as bountiful as they were for the year ending March 1986. The exceptionally mild winter recently has resulted in domestic revenues being substantially reduced. It has been possible to offset the shortfall to some extent through export revenues which have exceeded, as I've said, \$100 million for a fifth successive year. In addition, the corporation has made every effort to contain costs, and I am anticipating that the corporation's net revenue at the conclusion of the year will be in the order of \$8 million to \$10 million.

In early January, we announced a 5 percent increase in rates, which has recently come into effect. This rate increase was required as a result of an expected increase in our operating costs of 4.8 percent, increased water rentals, as well as providing a modest increase of approximately \$13 million to our financial reserves. Currently, Manitoba Hydro's reserves are the second-lowest among Canadian public utilities.

Our forecast of general inflation for this year is 5 percent, so that this rate increase is in accord with our intention to keep rate increases closely aligned with the rate of inflation. Last year, we had a rate increase of 2.8 percent, and inflation for the year turned out to be over 4 percent.

The Energy Rate Stabilization Act, which came into force on April 1, 1979, provided for the Province of Manitoba to assume the currency translation risk of Manitoba Hydro's foreign debt. At the same time, a five-year rate freeze for electricity sales in the province was instituted. The rate freeze contributed to serious financial difficulties for the corporation. Four successive years of revenue deficiencies, totalling \$63.3 million, were incurred. As a result of a recommendation from Manitoba Hydro, the government shortened the term of the rate freeze to four years.

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The province has continued to assume foreign exchange losses for Manitoba Hydro, and the total cash outlay for this program is expected to be over \$200 million.

As a result of the amendments to The Energy Rate Stabilization Act announced by the government in its recent Budget speech, Manitoba Hydro will assume total foreign exchange translation risk on all new debt, effective April 1, 1987. In addition, Manitoba Hydro will assume the cost of foreign exchange fluctuations on interest and principal payments on all existing U.S. debt.

To mitigate financial impact of these actions on the corporation, the government announced a 4.7 percent increase in power rates, in addition to the 5 percent for Manitoba Hydro's requirements that was announced in early January and a reduction in water rental fees. Even with this rate increase, Manitobans will still have a rate structure which, for most categories, is the lowest in North America.

Manitoba Hydro has completed its implementation of a new Customer Service System. Transition from the former centralized batch billing system to the new Customer Service System has required conversion of 345,000 accounts and associated records, beginning with Transcona in October, 1985 and concluding with Dauphin in March of this year. On-line computer terminals, located at 33 Manitoba Hydro offices throughout the province, provide instant access to customer information. This system will improve customer service substantially.

The Limestone project is now entering its third year of construction and we are on schedule for our in-service date of 1990 for first power. The major activities at this time are being undertaken by the main civil contractor. We expect that the first concrete for the 1987 season will be poured within the next few days.

As Mr. Eliesen has just told you, the cost estimate for the Limestone Project has been further reduced from \$1.94 billion to \$1.73 billion. There are a number of factors which have led to this decrease in the cost estimate. First, a number of contracts have been let at less than our estimated price, which we attribute to economic conditions. Second, our estimates of future inflation of costs have been reduced, together with the expected interest rate on borrowed money. These factors tend to compound and have reduced the estimated total cost of the project. Additionally, with many of the contracts now let, we are more certain of our costs and, therefore, our estimate for contingencies has been reduced.

Employment preference goals ensured that northern residents, particularly those of Native ancestry, participated in the project in unprecedented numbers during the 1985 and 1986 construction seasons. We expect that these favourable participation rates will continue for the duration of the project and we expect that many Northerners will achieve skills through training and experience on this project that they would not otherwise have achieved. We also expect that many Northerners will be able to secure journeyman status over the full course of Limestone by advancing through the apprenticeship programs.

When we have called for bids for equipment and apparatus for the Limestone Generating Station, we have made clear our preference for increased Manitoba content. Of the 57 major contracts awarded for

Limestone, 55 were placed using our regular practice of buying at the lowest price for technically acceptable goods and services. This has been a success and the overall Manitoba content of this generating station will be substantially larger than that of any other generating station constructed in the province.

The transmission line from Gillam to Churchill is now in the final stages of completion, having been delayed by the unseasonably warm weather of the past few months. However, we expect to meet our scheduled in-service date of May, 1987. This project will allow us to provide central station power to Churchill and to retire some of the diesel-electric generators at that location.

Manitoba has now completed a five-year program to bring central station electric power to communities along the east side of Lake Winnipeg. Earlier this year, a line was completed to Little Grand Rapids and Pauingassi, which enabled the diesel generators to be retired. There are now only 14 isolated communities still being supplied with diesel-electric service. We are continuing to work with the Government of Canada on possible cost-sharing arrangements which would enable us to transfer some of these remaining communities to central station power.

A number of improvements to strengthen the power supply to communities in the southern part of the province were made during the year.

Steady progress has been made on meeting our obligations under the Northern Flood Agreement. Last fall, an advance of \$5 million was made to the Northern Flood Committee on account of future claim settlements, which is intended for use in advancing works on the Reserves which the five Bands have as a priority. Also, at the request of the Northern Flood Committee, we have prepared for negotiations to lead towards a global settlement of the outstanding obligations of both governments and of Hydro concurrently.

While it is sad to refer to the fatal airplane accident in which two of our employees died on their way to make repairs to a transmission line, the corporation's safety record is a good one. For the calendar year 1986, Manitoba Hydro had the second-best safety record for overall operations among the major utilities in Canada. This is the 23rd consecutive year in which the corporation has ranked among the top three utilities in Canada. In the subcategory of vehicle safety, Manitoba Hydro achieved the best record.

During the period 1985 to December 1986, women increased their representation in all areas excluding clerical, but primarily in management and administration. Natives increased their representation in most major occupational groupings with significant gains in operating and construction areas.

Special measures have been developed to support affirmative action objectives. Twelve scholarships were awarded to target group students entering university and community college studies; 17 female university graduates were recruited for in-house engineering, commerce, and computer science training programs; and a career development program was developed for in-house clerical employees.

My predecessor, John Arnason, retired at the time of the committee's hearings last year, after 37 years with the utility. During the year, two regional managers

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retired with over 35 years of utility service each. I'm referring to Bob Thompson from our eastern region, and Don Keith from our central region.

In the short time that I have been with Manitoba Hydro, I have come to appreciate the skills and dedication that our staff bring to the responsibility of providing efficient electric service to Manitobans. We have had a good year. Construction work is progressing well, productivity is good, and so on. I look forward to guiding Manitoba Hydro as it moves forward in discharging its very important responsibility.

That ends my review, Mr. Chairman. I would like to thank members for their attention. In addition to Mr. Eliesen, the staff and I will do our best to answer any questions.

MR. CHAIRMAN: Thank you, Mr. Beatty. The Minister wishes to make a few comments.

HON. W. PARASIUK: At the last meeting of the Public Utilities Committee when the Manitoba Energy Authority was reviewed, we undertook to provide answers to specific questions that were asked by the Member for Lakeside, and the staff have done an analysis which has been provided to me. Perhaps Mr. Eliesen would like to have this distributed, and we could roll into the questions that would arise during the course of questions on Manitoba Hydro.

MR. H. ENNS: But, Mr. Chairman, just to be clear, through you to the Minister, it was I believe accepted and understood by the Hydro officials that there would be some rolling back and forth. Some of the questions may have pertaining, may be more pertinent to the spirit of activity of the Manitoba Energy Authority, although we will be asking them today with respect to the Hydro . . .

HON. W. PARASIUK: Right, we understand that.

MR. CHAIRMAN: Any questions? Mr. Filmon.

MR. G. FILMON: Thank you, Mr. Chairman.

I'll look forward to receiving the information with respect to the pricing and the economic status of the NSP Agreement, but I'll begin by just questioning those who have given opening statements on a couple of matters in their statement.

Is there any anticipation, firstly of Mr. Eliesen, of changes in the board of directors of Manitoba Hydro? Are any of the members not very active, or do they all attend meetings regularly?

MR. M. ELIESEN: Mr. Chairman, all the members of the board of the Manitoba Hydro attend quite regularly and are quite active, and of course any change in the composition of the board of Manitoba Hydro purely rests with the Minister responsible for Manitoba Hydro.

MR. G. FILMON: I wonder if the Chairman could provide us with a copy of the original estimate of cost of Limestone, an estimate that I guess initially - was it 3 billion?

MR. M. ELIESEN: Mr. Chairman, that information was tabled last year at the committee proceedings, and we

can certainly dig it up. In fact, there was a question asked, I believe, by Mr. Enns at the last committee, for an historical tabling of all the estimates on Limestone and a detailed table was provided, giving the estimates for the various years in which Limestone was thought to be able to come on stream.

MR. G. FILMON: Do those estimates provide the detail as to the estimates, construction costs, interim financing, inflation rates, so on, so on?

MR. M. ELIESEN: There were two breakdowns given. One was the historical information for the Seventies and the Eighties when Manitoba Hydro was considering reconstruction of the Limestone Generating Station, so there is a table which indicates, for example, from 1977, each year on the estimated costs of Limestone. In addition, there was a breakdown provided for the last estimates given of the total categories of costs associated with Limestone and that was provided last year, as well as provided the year previously to the committee.

MR. G. FILMON: So that was just for the last one, the 1.94 was it perhaps?

MR. M. ELIESEN: Mr. Chairman, I'll have to check exactly, but the breakdown of categories was provided.

MR. G. FILMON: And was it provided for the original 3 billion as well as the 1.94 billion, or just for the 1.94?

MR. M. ELIESEN: I'd have to check on that, Mr. Chairman.

MR. G. FILMON: What I would like, if you can, is if you can do that for me, where the categories have dropped, changed.

HON. W. PARASIUK: Could I just add one qualifier there? There are still, I think, about 15 percent of the contracts have to be let, and one doesn't want to put out to the general public what the estimate . . .

MR. M. ELIESEN: Oh no. I wouldn't want on individual sections, so that a bidder could identify that you are estimating. I would say that if you have a remaining amount of . . . that you have a provision for that remaining amount, not individual breakdowns.

MR. G. FILMON: Mr. Beatty has indicated in his report that, although final results are not available for fiscal year 1987, March 31, 1987, the exceptionally mild winter has resulted in domestic revenues being substantially reduced. I wonder if he could give an indication of the current projection of how much domestic revenues were reduced as a result of that exceptionally mild winter.

MR. G. BEATTY: Mr. Chairman, a rough estimate for the winter months, January, February, March of reduced revenue over estimates would be about \$12 million, but that was offset to some extent by our export revenues.

MR. G. FILMON: Is Mr. Beatty indicating that export revenues increased then by some portion of that 12 million over what was originally projected?

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MR. G. BEATTY: There were other offsetting factors, but I think export revenues is a principle one. If I may just check that, Mr. Chairman.

MR. CHAIRMAN: Yes.

MR. G. BEATTY: Over seven million is an offsetting factor.

MR. G. FILMON: I wonder if Mr. Beatty can just indicate what the export revenues have been for the last three years for Manitoba Hydro.

MR. G. BEATTY: Yes, they have been substantial, Mr. Chairman. I haven't the exact numbers. I believe this year they will probably reach in the neighbourhood of \$113 million, that is the year ended March 31, 1987. I think last year, as I gave my report, the number was \$112.8 million and the previous year was less than that but over \$100 million. They have been over \$100 million in each of the past five years.

MR. G. FILMON: Mr. Chairman, so it was \$103 million in fiscal '85; \$112.8 million in fiscal '86; and estimated to be \$113 million in fiscal '87, which means that '86 and '87 are about the same.

MR. G. BEATTY: About the same, yes.

MR. G. FILMON: Then I don't understand how you're saying that they have increased to offset the loss of \$12 million if they're the same as last year.

MR. G. BEATTY: The increase, I was referring to the last quarter in which we had revenues reduced below estimate on account of weather. If we pick it up at that point, January 1, we had estimated lower final revenues for export purposes than \$113 million, and they came along very well in those last three months, particularly February and March.

MR. G. FILMON: So that the corporation is actually anticipating that export revenues would have been down this year by seven, but they in fact came in about the same as last year as a result of the last quarter experience.

MR. G. BEATTY: Yee, Mr. Chairman, I think down slightly, I believe. I'm just not absolutely sure of the estimate we began with at the beginning of the year, but if I may check. Mr. Chairman, I'm informed the original estimate was \$104 million.

MR. M. ELIESEN: Just as a general comment, Mr. Chairman. As we proceed on to Limestone, the amount that we will have available for export obviously becomes less as we utilize more for domestic purposes, and that is why the forecast for the future and the forecast was just given by the president of \$104 million was less than the previous year's because we anticipated we would be using more for domestic purposes.

Because of the warm winter period, obviously we had more energy available, of which we took advantage given our existing interconnections, to sell in export markets. But normally speaking, if we'd had other things

being equal in the context of climate, our export revenues would have been down and we would have had increased domestic consumption.

MR. G. FILMON: On page four of Mr. Beatty's report, he says: "Our forecast of general inflation for this year is 5 percent." What is the general inflation rate? Is that equivalent to the CPI because, quite frankly, estimates of inflation that I've seen have not been that high.

MR. G. BEATTY: That is an estimate of average inflation over the year, Mr. Chairman, over what we expect will be the inflation rate on average over the year, the coming year.

MR. G. FILMON: CPI?

MR. G. BEATTY: Yes, Mr. Chairman.

MR. G. FILMON: Well, Mr. Chairman, I could be wrong, but Conference Board estimates and others that I've seen have not been that high, but obviously Mr. Beatty has other sources.

MR. G. BEATTY: Well, I suppose for our purposes, what's really important is the differential between interest rate levels and escalation or inflation. That differential is 5 percent, and that is really the number that counts. There are varying views; we have selected five. I wouldn't attempt, wouldn't try to argue with the Conference Board or with anyone, but we have thought it provident in the year ahead to estimate 5 percent.

MR. G. FILMON: Mr. Chairman, that estimate couldn't have been just simply to coincide with the increase in rates that Hydro is projecting, could it?

MR. G. BEATTY: No, Mr. Chairman, we've had that estimate for some time.

MR. G. FILMON: Did that estimate come out of the Department of Finance, Provincial Department?

MR. G. BEATTY: No, Mr. Chairman, it does not. I believe, Mr. Chairman, the Department of Finance estimate is somewhat lower.

MR. G. FILMON: Mr. Chairman, these aren't, I'm not suggesting that these are major areas, but it seems to be that when you're dealing with rather large numbers that a difference in rate of inflation of close to 1 percent - because I think most of the estimates are projections and I've seen some perhaps at 4.2 percent. But most of them are at around 4 percent by economic forecasters.

It certainly amounts to a great deal of money in terms of a corporation's projections, just as a difference of .5 percent on load growth rate does. I think that it would be important that the source of that estimate be identified so that we know the basis upon which the corporation is making those estimates.

MR. M. ELIESEN: Mr. Chairman, just in general, the Board of Manitoba Hydro, when it reviews its recommendation to government on rate increases,

looks very closely at the inflation and interest rate forecast for the future, keeping in mind, when the board has to make its decision 90 days in advance.

In other words, normally we do it at the beginning of the year because the rate increase takes effect April 1. So we're trying to forecast a combination of inflation and interest rates scenarios, from April 1, let us say, 1987 to March 31, 1988. That is the context upon which the board itself tries to, taking into account water conditions and other factors, come up with a rate that we believe is appropriate for the time.

The previous year, clearly the 2.8 percent increase that we had recommended and was applied was significantly less than the rate of inflation that actually took place. It is still the board's long-term policy to have rate increases at or less than the rate of inflation, and we believe that can take place.

MR. G. BEATTY: Mr. Chairman, I think as I mentioned - I could perhaps repeat this - the critical factor - and this is a very important assumption, there's no doubt about it - but the critical factor really is the real interest rate, which is to say the differential between rates and inflation. So, if today we're looking at 9 percent and 4 percent for those two numbers, we're still looking at a differential in the order of 5 percent which, as I say, for purposes of the application of these large numbers we're talking about is really the critical factor.

MR. G. FILMON: Mr. Chairman, I just want to point out that last year when Hydro applied for an increase in rate of 2.8 percent, they did not say that was their estimate of inflation. That was what they were applying for, and clearly here we're talking about an estimate of inflation of 5 percent when, as I say - and it may not be a major matter to the Chairman - that is not what I'm reading in other forecasts.

MR. M. ELIESEN: Just for clarification, Mr. Chairman, our forecast last year was for a 4 percent inflation rate, when we made our decision of 2.8 percent. This year, the board's judgment was to recommend a rate increase of 5 percent, which was the rate that the management of Manitoba Hydro had on their books then and still do now with regard to that fiscal year.

MR. G. FILMON: Clearly, I accept that what you're projecting is what you need. But I don't say that you're projecting it because you project - I wouldn't say that you're projecting it because you're projecting inflation rates at 5 percent, when clearly there isn't evidence there. You're projecting it because you need 5 percent. Inflation may be 4.2, according to most economic forecasters. Say that, don't try and make it so that it coincides with somebody's political promise.

MR. M. ELIESEN: Mr. Chairman, there's no political promise here. This is a policy by the directors of the board of Manitoba Hydro to bring in rate increases that are at or less than the rate of inflation. That is our long-term policy, and the facts reflect it.

MR. FILMON: I agree with the Chairman that is the policy, so let's say that you're projecting a 5 percent increase this year even though inflation may only be

at 4.2 percent. That's fair ball. At least we know that's what's happening. Last year, you were projecting a 2.8 percent increase when inflation was expected to be 4 percent, fair ball. But let's not try and make the figures adjust to meet what your promise was.

MR. M. ELIESEN: Mr. Chairman, we are not trying to do that at all. If the corporation's forecast was 4 percent, we would tell you. If it's 3 percent, we would tell you that. Right now on the books of Manitoba Hydro, management have decided that it's prudent to forecast for the fiscal year 1987-88 a general inflation rate of about 5 percent. The president has already indicated the main factor for that 5 percent because it's the real interest rate that is significant to Manitoba Hydro in the context of its borrowing. That is the difference between the interest rate and the actual level of inflation.

MR. G. FILMON: Did Mr. Curtis, who's on the board of Manitoba Hydro and the Deputy Minister of Finance, agree with that forecast of 5.2 percent inflation or 5 percent inflation?

MR. M. ELIESEN: The board of Manitoba Hydro accepted in general the forecast that management brought before it.

MR. G. FILMON: Mr. Chairman, I would like to ask Mr. Beatty, he refers to the foreign debt load of the utility with respect to the amendments to The Energy Rate Stabilization Act, and he indicates that all new foreign exchange translation risk from April 1, 1987 onwards will be the responsibility of the utility, and that also all fluctuations on the U.S. debt will be the responsibility of the utility. What percentage of the current debt load is not U.S. debt?

MR. G. BEATTY: Mr. Chairman, of the existing long-term debt of Manitoba Hydro, the total non-U.S. would be in the order of 70 percent. I believe it's just slightly above 70 percent.

Sorry, I may have misled. I meant to say that about 70 percent of the outstanding foreign long-term debt is U.S. for the remainder. The remainder is non-U.S. debt. I'm sorry about that.

MR. G. FILMON: Can we just maybe go through the numbers to what's the total debt load of the utility, approximately?

MR. G. BEATTY: It would be in the order of \$3 billion. As of March 31, \$3.2 billion.

MR. CHAIRMAN: His answer was \$3.2 billion, the total debt.

MR. G. FILMON: I'm sorry. It is 3.2 billion? Yes, all right. That does not include Limestone?

MR. G. BEATTY: Well, it would partially include monies that have been spent for Limestone.

MR. G. FILMON: It does?

MR. G. BEATTY: Partially.

MR. G. FILMON: It includes spending today?

MR. G. BEATTY: Spending today, yes.

MR. G. FILMON: How much of that is Limestone? It's over \$400 million, something in that range between \$400 and \$450 million. I'll accept that. I'm not looking for close figures. Three point two billion and, of that amount, how much is Canadian debt?

MR. G. BEATTY: The Canadian pay . . .

MR. CHAIRMAN: Couldn't he get it quickly? Or should we go to the next - Mr. Filmon.

MR. G. FILMON: \$1 billion is Canadian?

MR. G. BEATTY: \$1 billion is Canadian, the remainder foreign.

MR. G. FILMON: The remainder foreign and, of that remaining 2.2 billion, the president is then saying that 70 percent of that is U.S.

MR. G. BEATTY: U.S. pay, yes.

MR. G. FILMON: So that's about 1.5 billion then that is U.S. and then we have about 700 million other foreign, which remains the responsibility in terms of any currency fluctuations of the Province of Manitoba?

MR. G. BEATTY: Yes, Mr. Chairman.

MR. G. FILMON: What is the estimate of the utility of, let's say what that 700 million represented in terms of foreign exchange losses that had to be picked up this past year by the Government of Manitoba? What was contained? What I'm looking for is: What was contained within that portion and what was contained within the U.S. currency fluctuation foreign exchange loss?

MR. G. BEATTY: That is a Department of Finance number, but I believe we have it. I'll only take a minute. We can certainly get that number, Mr. Chairman.

MR. CHAIRMAN: While we're waiting for that information, perhaps we could proceed. Mr. Filmon, do you have other questions?

MR. G. FILMON: Okay. I do want to come back to that because I think it's important.

I'm into another fairly complex matter, Mr. Chairman. It's to do with the new estimate of cost for Limestone at \$1.73 billion, and the reasons given for the reduction are, firstly, and I'm quoting from Mr. Beatty's report, "A number of contracts have been let at less than our estimated price which we attribute to economic conditions." And secondly, "Our estimates of future inflation of costs have been reduced together with the expected interest rate on borrowed money." Thirdly, "And then additionally that, because most of the contracts have been let, 85 percent, as I understand, we now have an opportunity to deal with our estimate for contingencies and reduce that." Because, obviously,

the unknowns have been removed as we award most of the contracts.

I wonder if Mr. Beatty can indicate how much of the reduction that has taken us from \$3 billion to \$1.73 billion can be attributed to each of those reasons. The contract's estimated at less than the estimated price; the estimates of future inflation and, in fact, interest rates going down; and then 3, the contingency removal. What would he attribute each one of those to?

MR. G. BEATTY: Mr. Chairman, I believe that is the same question that was asked earlier, and I believe that we were going to find that information.

I can give the committee an indication for the difference in the most recent reduction from \$1.9 billion, but I think we would have to take notice and obtain the information from the original estimate, down to \$1.7 billion.

MR. G. FILMON: Yes, that's what we're after.

MR. CHAIRMAN: So then you will be providing that at a later time. Okay? Do we have the information on the earlier question?

MR. G. FILMON: Let's just take, for example purposes, because I'm still waiting for the answers on the foreign exchange debt liability for that reduction from \$1.94 billion to \$1.73 billion, how much were on direct costs, how much were on the indirect costs that are really inflation and interest related, and how much were on the contingency reduction.

MR. G. BEATTY: Mr. Chairman, in these four major areas, the direct cost reduction of \$64 million, indirect cost, \$28 million; interest, \$88 million; and contingency, \$29 million.

MR. G. FILMON: So of that overall reduction, 28, 29, 88 have to do with other factors, and 64 is on direct cost production.

MR. M. ELIESEN: Just to clarify that. Those figures given by the president relate to the reduction of \$1.94 billion to \$1.7 billion?

MR. G. FILMON: Yes.

MR. M. ELIESEN: Okay, good.

MR. G. BEATTY: Mr. Chairman, I wonder if we could ask Mr. Brennan, who is vice-president of Finance to run us through those cost increases.

MR. CHAIRMAN: Just for the record, could you state your name so we know who is speaking.

MR. B. BRENNAN: Bob Brennan, Vice President of Finance. The increased finance expense associated with the foreign exchange rates on American debts on interest payments is \$17.6 million, and amortization of maturity losses are \$14 million.

MR. G. FILMON: That was on the U.S. portion?

MR. B. BRENNAN: Yes.

MR. G. FILMON: And what was it on the foreign, outside of U.S.?

MR. B. BRENNAN: That is a Province of Manitoba concern, and we don't have that.

MR. G. FILMON: You don't have that? Okay.

MR. M. ELIESEN: Just to clarify, we do not have the information related to the 30 percent figure, which I believe you're after, on what is the remaining cost to the Province of Manitoba for retaining that 30. We don't have that information; that would be Department of Finance information.

MR. G. FILMON: Could we get that for the next meeting? I know that the way it occurs in the Estimates and the way it occurs in the legislative process, it comes from the department. But really it pertains to Manitoba Hydro, and so I wonder if we could have that for the next committee meeting.

HON. W. PARASIUK: I'd just like to clarify one other thing though. There's an assumption that somehow Manitoba Hydro benefits from the low interest rates that the Manitoba Government borrows at, and that's not the case. Manitoba Hydro pays the Department of Finance the going corporate rate for its financing, so the point about it is that what it is doing is paying a corporate rate that is equivalent to that rate that other corporations or Crown corporations in Canada would pay.

MR. G. FILMON: I just want to, for the Minister's sake, that it has nothing to do with the question I'm asking, so I'm not making any assumption in that area. I'm not even pursuing that area. Fair ball that he's put that on the record, but that's not the point I'm after.

MR. M. ELIESEN: Well, I thought we had the latest budget because there's a line in the Estimates which gives the figure that the member is after.

MR. G. FILMON: If I may move to page 10 of the CEO's presentation. Steady progress has been made on meeting our obligations under the Northern Flood Agreement. I wonder if he can indicate to us now what the current estimate of cost of settlement of the outstanding damage claims under the Northern Flood Agreement is?

MR. M. ELIESEN: If I can, Mr. Chairman, just to give a summary overview since this is a follow-up from the last time I reported to this committee - and I'd indicated at that time that we had been in discussions with the Department of Indian Affairs questioning the estimates that had been reported in the Neilsen Report, which gave a range from \$350 million-\$550 million for all four parties of the agreement. I indicated at that time that was the first time we had ever heard any reference to those figures being made.

We've had discussions. There was a suggestion made at the committee that we write to Indian Affairs; this

I have done. There have been communications back from the Department of Indian Affairs who, first of all, (1) disown the \$550 million reference which was contained in the Neilsen Report, they do not know the source of that higher; (2) they do confirm the \$350 million figure, and then they proceeded to give us quite substantial detail on what was included. And what was included, clearly, are items that we had assumed would be part of normal programming operations. In other words, they included expenditures for the next six or seven hydro generating stations that would be built by Manitoba Hydro.

In other words, when you eliminate those areas which they had included which we at Manitoba Hydro had always assumed to be part of regular programming, for example, expenditures for employment and training etc., then our figures are quite comparable. Perhaps I can ask Linda Jolson, vice-president in charge of that area to give some more detail.

MR. CHAIRMAN: Ms. Jolson.

MS. L. JOLSON: We have actually paid to September '86, \$30.7 million in claims and outstanding obligations, and our estimates - I think you may recall that in 1984 we proposed a package settlement to the bands which was rejected at that time, but it was in the vicinity of \$31 million, so our estimates have not changed appreciably.

MR. CHAIRMAN: Mr. Beatty, were you going to make some comment in relation of the question?

MR. G. BEATTY: What was the question?

MR. G. FILMON: The question was what is the current estimate?

MR. CHAIRMAN: Who could answer it?

MS. L. JOLSON: I believe that I just answered it. We have paid to September '86, \$30.7 million, and we had estimated and proposed a package settlement to the bands in 1984 of \$31 million, so those two figures would comprise -(Interjection)-

MS. L. JOLSON: Yes, but we have not changed our estimates beyond that.

MR. G. FILMON: The current estimate is \$61 million?

MS. L. JOLSON: That's correct.

MR. M. ELIESEN: Just to clarify, that's Manitoba Hydro's own obligations that we perceive at the Manitoba Hydro.

MR. G. FILMON: Which is one-third of the partnership?

MR. M. ELIESEN: Well it's not, there are four parties to the agreement and we've estimated what we believe to be our responsibilities under the agreement.

MR. G. FILMON: And Manitoba Hydro is absolutely satisfied that \$61 million is all that its obligations are under the Northern Flood Agreement?

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MR. M. ELIESEN: Well, as we reported last year, the amounts that we paid out had been around \$30 million. We had been in very serious negotiations with the five bands and, I believe at that time, I quoted from correspondence from some of the leadership of the bands on the package that we had put together, and we believed that we were in the ball park then, and we still believe we're in that ball park.

MR. G. FILMON: Mr. Chairman, I'll have my colleague proceed on a couple of items and then come back.

MR. CHAIRMAN: Mr. Enns.

MR. H. ENNS: Mr. Chairman, through you to possibly the Minister and/or senior Hydro officials, recently in the Legislative Assembly, the Premier of the province indicated that an agreement had been reached with respect to settling the long outstanding issues of land with our Native communities generally.

Mr. Chairman, I appreciate this is not directly in the purview of this aspect of Mr. Beatty's report. It may in some way impinge on some of the participants in the Northern Flood Agreement, but I'm taking this occasion to ask a more general question with respect to an issue that has long been at bay in the province, that is, settling outstanding Native land claims. The Premier of this province, prior to leaving for the Constitutional Conference in Ottawa discussing aboriginal rights, indicated very clearly in the House that, as far as the province was concerned, the province had reached an agreement with the Native community with respect to these outstanding land claims.

Now, Mr. Chairman, I'm also well aware that I think the province is also saying that the Federal Government may not concur with the agreement inasmuch as they will be called upon to do the major funding that is involved in any transfer of lands that would take place, particularly if those lands are now privately held, and obviously significant amounts of money are involved. I don't want to ask that question.

My specific question to this committee, while we have Hydro with us, is that I'm aware that Manitoba Hydro is one of the principle agencies that has historically maintained reserves on substantial areas of land in the Province of Manitoba, not just in Northern Manitoba but throughout Manitoba for potentially future hydro purposes, lands usually adjacent to waterways; lands adjacent to some of our larger lakes that may, in the future, be subject to flooding should a hydro development project be undertaken. Manitobans would be surprised how much land Manitoba Hydro has under reserve, under these circumstances.

My question to the committee, Mr. Chairman, is: If the Premier of the province can indicate to the Assembly that the province has reached an agreement with respect to these lands, to what extent was Manitoba Hydro consulted? Has Manitoba Hydro, from their point of view, are they in agreement with that statement they made that they foresee no difficulties with the future land transfers that may take place to Indian bands, the Native community generally, under this agreement from a Hydro point of view.

HON. W. PARASIUK: The matter is appropriately dealt with by the Minister responsible for Treaty Land

Entitlement. There are a set of negotiations under way. The province felt that it had a deal. The Federal Government has raised objections, I think, subsequent to their initialising an agreement some few years ago that I think caused grave concern for the province, especially since they felt that a deal was at hand. I would really not want to tread into that particular area since those are the subjects of another Minister's responsibility.

I can indicate to the Member for Lakeside that the Northern Flood Agreement does include within it a provision that the province will provide four acres for each acre taken from any of the Indian bands for the hydro project. The selection of that land is under discussion between the parties. That is subject to a fair amount of discussion in terms of whether in fact it's going to be contiguous pieces of land or non-contiguous pieces of land; those get very detailed. Outside of the reserve lands and adjacent to reserves, Manitoba Hydro is purchasing private land and structures within the severance area to ensure private structures and land are not endangered by water levels associated with the project.

So in terms of the Northern Flood Agreement, we are basically subsumed, in terms of what we are doing, by that agreement. The agreement is four acres to one, and it's a matter of discussing with the bands whether it'll be contiguous or not contiguous. That's an ongoing process, I believe.

MR. M. ELIESEN: Just to add, with regard to the specifics of the question, yes, we have been consulted and we are satisfied with our involvement in that exchange.

MR. H. ENNS: Manitoba Hydro is indicating that they have been consulted and that they see no difficulty in future land transactions taking place, should the agreement that has been referred to by the First Minister be concluded.

MR. M. ELIESEN: On the basis of our discussions, we do not see any difficulties.

MR. H. ENNS: Can the chairman of Manitoba Hydro or staff give any indication as to whether or not specific areas of land of interest to Hydro have been released by Hydro for the purposes of coming to this agreement with the Native communities?

HON. W. PARASIUK: Just to clarify, are you asking whether Hydro has released land?

MR. H. ENNS: But just for the purposes of clarification, my understanding is that, for instance, a claim has been among the lands that the Native community wanted. Are those lands surrounding the future construction site of the Conawapa Dam, both sides of the river, to be transferred over to Indian bands for them to govern in their proclaimed self-government style. Has Manitoba Hydro given up potential - any reservations with respect to any sites of that kind?

As I can recall, Mr. Chairman, in early, early discussions of land claims that were set out by different Indian groups, Native groups, there were in fact detailed

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maps of potential sites that they had a specific interest in, sites naturally that were of economic interest to the Native community, sites that would have provided, hopefully, future economic benefits for tourism or for fishing, and as well for negotiating positions perhaps with a utility like Manitoba Hydro, in terms of improving their economic lot.

I'm simply saying . . .

HON. W. PARASIUK: Hydro has not give up any of that land.

MR. H. ENNS: I appreciate, Mr. Chairman, that I have to choose another forum then to raise this issue. I just wanted to take this advantage. This government and these Ministers from time to time make statements that we in Opposition feel warrant some further examination. I just want to put on the record while Hydro staff are present, this government is on record as having reached a full agreement with the Native community with respect to all land transfers, all land claims that Indians have put forward from time to time.

I happen to know that Manitoba Hydro is one of the agencies perhaps most directly involved in settling those claims. I won't pursue this further, I'll pursue it in the House. But I find it strange, hard to believe, for a First Minister to be able to make that statement prior to going to a Constitutional Conference.

Mr. Chairman, that's a nice statement to make if you're currying favour with our Native voters. That's a comforting statement to make, to walk into a Constitutional Conference to Ottawa with. But, in fact, the homework hasn't been done at home. In fact, I'm now being told that Manitoba Hydro, a principle agency involved in having proprietary concern about some of these lands is in fact indicating to this committee that they have not given up any such lands in question upon which there may be conflicting claims.

HON. W. PARASIUK: I believe, and this is I think best pursued in the other forum, but I believe - and I'd rather be speaking with respect to specifics.

But I believe that the Land Entitlement Agreement had to do with terms and conditions of transfer, and then that set out a process for the actual transfers to take place over a period of time. And within that process, Manitoba Hydro would be part of that longer-term process, but it's certainly not given up land and it certainly has the right with respect to its specific needs to protect the land that it needs for its specific needs.

MR. H. ENNS: Mr. Chairman, it's not my intention to pursue this matter in this forum. I will pursue it . . .

HON. W. PARASIUK: I will pass on the member's interest in this area to the other Ministers.

MR. H. ENNS: Thank you for your generosity, Mr. Minister.

Mr. Chairman, it I know exists. It's been a practice of Manitoba Hydro and quite appropriately so, to furnish and to have available maps of Manitoba indicating these power reserves. They're of use to municipalities, to other land users or potential purchasers of land, so

that they are aware that land purchased in a certain area - it could be land around Lake Dauphin, Lake Manitoba, around Cedar Lake Development, and I can recall seeing some of these maps which clearly designate areas that are, I believe the term was, held under a power reserve or some such terminology, which meant simply that a local government or indeed provincial departments and of course private citizens would be made aware of the fact that land purchased or leased in that area had specific caveats in place, placed there by the utility for potential reasons.

I can recall, Mr. Chairman, during my all too brief tenure as Minister of Mines and Natural Resources, involved in Crown lands, that it was always my opinion that Manitoba Hydro, as indeed as I recall, as a rule had been their custom to be safe and generally ask for considerably more than was required, but that was prudent management on the part of Hydro.

I can recall them once suggesting that we really needed a few extra feet on South Indian Lake for storage capacity rather than what they settled for. By the way, I thought that was prudent too at that time.

The point of the question I'm trying to make is that I can recall seeing these significant and large areas, and I can remember particularly cattlemen, ranchers and others would come in conflict when policies were changed that allowed for the sale, the privatization of some of this Crown land because of these power reserves. I can recall having discussions with the utility and with the people involved in Crown lands about whether or not some of these, particularly some of the older reserves that had been on the books, should be reexamined, reevaluated to today's conditions, as to whether or not the Manitoba Hydro still had a legitimate reason for placing this caveat against those lands.

Mr. Chairman, this is a long-winded way of coming to my request. I would like to have presented to this committee at its next meeting whatever maps Manitoba Hydro has available that indicate where, in Manitoba, Manitoba Hydro has placed land under some reservation.

HON. W. PARASIUK: That will be possible.

MR. H. ENNS: Thank you, Mr. Chairman.

MR. J. DOWNEY: Mr. Chairman, I want to deal a little bit more. I didn't hear the last question and it may be repetition and repetitious and, if so, I would ask the guidance of the Chair.

There is some confusion as to the current status of the land claims, and I'm not sure whether the Minister or the Hydro can make any further clarification or bring any further clarification to this. These were questions dealing with answers, I should say, by the Minister of Northern Affairs and Native Affairs, and this was in response to a question.

This falls on some of the comments that the Member for Lakeside had indicated, that the First Minister had indicated that agreements had been initialled by the major parties, tabled as a report or a statement to the Legislature, and then following on the questions to Mr. Harper - and I'll just quote - "Yes, negotiations have not been completed. They have not been finalized. There was one portion of their agreements which had to be

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finalized, which is the contribution arrangement. We have to settle the entire package," really meaning that the whole identification of properties has been done, but the answers refer to the Federal Government not having settled the financial amount that will be brought forward by them.

So there is an extreme amount of confusion, particularly brought forward by the Premier anxious, as the Member for Lakeside said, to go to Ottawa with what would have appeared to the public to have had some advancements in support of the Native community and the land settlement claims. We get back, and now have the Minister of Northern Affairs saying there really isn't an agreement because the Federal Government have not settled on the amount that they'll be bringing forward. But really we need clarification on this.

It appears that there has in fact been an identification of some properties. There's an agreement initialled except for the funding package. Now there are maybe some other things that are in these answers - it's not totally clear - but that's really what I would like to get.

Has there been and is there, whether it's Hydro and Provincial Government lands, is there not a clear identification or a map of those properties which have been settled, initialled, at least a preliminary outline of them? And we would appreciate it, Mr. Chairman, if we could have that information from Hydro or the Chairman, as far as Hydro are concerned.

HON. W. PARASIUK: As I explained before, the Treaty Land Entitlement is an agreement on the principles to be used in land selection. It is not the actual agreement on land selection. So that's where we're at, at the stage of establishing what the principles will be for selection of lands. So I would think that the questions being raised by the member in terms of what are the actual parcels are premature.

MR. J. DOWNEY: What I'm understanding the Minister is saying is that it is the policy which will be put forward by Hydro? Do they not have, has there not been an original agreement when the lands were used, taken over? Was there not a policy at that time? Was there not a commitment made to the Native community as to how they would be dealt with? Are we now having a policy change, rules changed as far as the negotiating process? Because I thought, Mr. Chairman, I was of the understanding that had been done, and that we were now down to the stage of the dollars and cents and the identification of properties. But there really isn't a clear-cut policy on the process of negotiation?

HON. W. PARASIUK: There are two items that I think the member may in fact be mixing up.

One of these is the question of the Northern Flood Agreement, which has in it a provision that the province will provide four acres for each acre taken from any of the five Indian bands, for the Hydro project. That is one provision that exists in that . . .

MR. J. DOWNEY: I couldn't quite hear you, Mr. Chairman.

HON. W. PARASIUK: I'm sorry.

MR. J. DOWNEY: Speaker a little louder.

HON. W. PARASIUK: I may not be speaking loud enough.

MR. J. DOWNEY: I've got it now.

HON. W. PARASIUK: There are two agreements that the member may in fact be mixing up. One is the Northern Flood Agreement, which exists and includes the provision that the province will provide four acres for each acre taken from one of the five Indian bands for the Hydro project. That is the formula that's in place, and there are discussions taking place as to whether in fact this would be contiguous or non-contiguous parcels of land. That process is still under way.

There is a more general agreement called the Treaty Land Entitlement Agreement that goes back to treaties that have outstanding land entitlements to them, going back I think to 1920 or 1904 or 1890. I'm not sure of the exact dates. But the Federal Government signed treaties with bands and did not complete the task of transferring land over to them as part of these treaties. That is a process that is being pursued with respect to the entire province or with respect to those bands that have not yet received or completed their treaty land entitlements, and these are outstanding.

That agreement was arrived at, at least from the provincial perspective, and included principles as to how this land would be selected. That was initialled, people assumed that it would be proceeded with. That occurred some two years ago, and that is the one that is still being discussed with the Federal Government.

MR. J. DOWNEY: Well, following on that, Mr. Chairman, then the Minister has made it helpful in one way. Under the Northern Flood Agreement which involves Manitoba Hydro, the formula has been established that they will receive four acres for every one of their acres of land that was used with the Hydro development. Is that correct?

HON. W. PARASIUK: Yes.

MR. J. DOWNEY: Well then, what is the confusion, what is the holdup as far as getting that settled? Is it a problem identifying the lands? Is that the difficulty? At what stage is that at because the formula seems fairly clear-cut?

HON. W. PARASIUK: Exactly. As I indicated earlier, the difficulty is trying - and the bands themselves have difficulty in determining whether they should go for land masses that are contiguous or non-contiguous land masses, whether it encompasses some trapping lines or some trapping areas in this particular area, particular fishing area in that particular area. They themselves have been trying to determine what this four for one means in terms of their own selection process. There has been a process of discussion and consultation with the bands, and that has not yet been concluded but the process is under way.

MR. J. DOWNEY: So in other words, if I'm clear on what the position the Minister is putting forward as far as the government is concerned, it's really not Hydro or the government that's holding up the process but

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it is the Native communities that cannot decide what they want. Is that really it? It's really in the ball park of the Native community.

HON. W. PARASIUK: I wouldn't want to make a blanket statement like that, it may turn out that beauty is in the eye of the beholder on this particular issue and it may be that Hydro has - I'll just check on that.

Apparently, on a tentative basis, some lands have been chosen and identified, but that process has not been concluded yet and people are breaking new ground. I think this process will take possibly a bit more time. At the same time, I think it's the intentions of all parties to proceed as expeditiously as possible to try and consummate this which is a difficult area. It's a difficult area, not only in Manitoba, but is certainly an area that seems very volatile in a number of other provinces.

MR. J. DOWNEY: Well, we're getting a little further. The Minister indicates that there are some tentative identifications, meaning that they must be coming closer to some form of a conclusion. I maybe should have this knowledge or it may be in the report, or it may have already been put on the record. What has Manitoba Hydro put forward as far as the financial compensation package, or are they allocating in this regard for the settlement of the Northern Flood Agreement? What are the dollars and cents that Hydro has put aside or has in a fund to settle this as far as money is concerned?

MR. M. ELIESEN: Mr. Chairman, I believe we provided that information just recently in questions raised. In a summary way, we've already paid out about \$30 million and we have on the table for an overall package settlement of an additional \$31 million.

HON. W. PARASIUK: That's not all land entitlement?

MR. M. ELIESEN: No, but I believe the question dealt with the whole Northern Flood obligations, excluding of land. That relates to what Manitoba Hydro perceives to be its responsibilities under the Northern Flood Agreement.

MR. J. DOWNEY: So that I'm clear, there is \$30 million in cash monies already that has been paid out and there is a contingency of another \$31 million or a fund. Is the money in a fund or how are they to do it? Will it be charged to the users at this point? Will it be part of the rate structure? Has it already been set aside? At what stage is the \$31 million? How is it considered, as a debt owing, or how is it recorded by Manitoba Hydro?

MR. G. BEATTY: It's capitalized, Mr. Chairman.

MR. J. DOWNEY: As part of the capital of the whole of Hydro.

MR. G. BEATTY: Right.

MR. G. BEATTY: Pardon me?

MR. J. DOWNEY: It doesn't apply to the rate base yet.

MR. G. BEATTY: No, it's not applied to the rate base yet. It will as units come on and are picked up in the operating statements then.

MR. J. DOWNEY: I would like to know, Mr. Chairman, when can we expect to have - he talks about a tentative identification of lands, of properties which are part of this agreement - the Minister or Hydro project that could be closer to final and will there be the opportunity for the public, which I feel they should have the opportunity to be made aware of, of the lands that are being discussed. I think it is public funds that are being dealt with; it is public property that's been dealt with.

I'm sure there are many within the Native community itself that would like to have a clear understanding of the kinds of deals that are being made by the representatives that are sitting around the table in these negotiations. It's just not the people, the public on the side who are paying through Hydro, or working through Hydro as a public Crown corporation. But I'm sure that, in talking to quite a few Native communities and Native individuals, they as well would like to know what is being negotiated on their behalf.

So I ask the question: When will that be made available or when will it be made public so there is clarification for all parties involved?

MR. M. ELIESEN: Mr. Chairman, just to be perfectly clear, the land exchange is not the responsibility of Manitoba Hydro. It is the responsibility of the Province of Manitoba.

With regard to the compensation matter, as I summarized earlier and as I provided to the committee last year, we at Manitoba Hydro have been allocating a lot of time and resources of trying to settle the issue of compensation. We are having significant progress with the five bands on the offer that we had on the table and there is a new negotiating strategy that's been put forward on behalf of the five bands. We are now sitting down for intensive discussions and negotiations with the five bands and with the other two parties to the agreement. But we at Manitoba Hydro very clearly would like to resolve our obligation under the agreement, and we have been allocating our resources towards achieving that objective.

MR. J. DOWNEY: Mr. Eliesen indicates that it's the responsibility of the province. Maybe he could be helpful. Who is the lead Minister as far as the province is concerned on negotiating this four-for-one settlement and the identification process? I think I'm clear that Hydro have a responsibility to pay for some of the loss of land and that there is a compensation responsibility there on their behalf, but I've just been told that it is the Provincial Government's responsibility to finalize and to sign any land claim - the four for one.

Who's the lead Minister, so I can further pursue it with the Minister who is responsible for the negotiations?

HON. W. PARASIUK: The other signatory was the Province of Manitoba represented by the Minister of Northern Affairs.

MR. J. DOWNEY: Okay, thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNES: Mr. Chairman, before I ask questions emanating from Mr. Beatty's report, could the Minister tell me, given the discussion we've just had with respect to the liability in due course associated with the Northern Flood Agreement, whether this is a contingent liability or an unfunded liability, seeing that we have a lot of jargon floating around these days with respect to liabilities and deficits?

HON. W. PARASIUK: I will certainly ask the accountants, the firm that does the books for Manitoba Hydro, as to how they'd specifically define that. I would assume that at present one of these is funded, is capitalized, and the other I think is a contingent liability depending upon the negotiations that take place.

MR. M. ELIESEN: As a general observation, Mr. Chairman, it's not a liability until we agree it's a liability. We have included in our annual reports and on the latest annual report on the appendix under F13, under commitments, there is a summary there with regard to the reporting of this information, under note 7.(b) on Mitigation, Northern Flood Agreement.

MR. C. MANNES: Mr. Chairman, many of the questions that I have as a result of the report centre within the foreign exchange loss area and, therefore, I'll have to also wait until some further information is provided to the committee.

But page 3, Mr. Beatty indicated that, in the fiscal year that is just being completed, the corporation is anticipating a net revenue in the order of \$8 million to \$10 million. Can Mr. Beatty indicate when he says net revenue whether he's talking about profit, net profit, taking into account foreign exchange losses, even though I know they are up to fiscal year '87 being covered by the province? Is that a net profit projection?

MR. G. BEATTY: Mr. Chairman, the estimate here of \$8 million to \$10 million refers to the year ended March 31, 1987, and the changes to the URSA program do not take effect until April 1 of '87 so that this is an estimate of the existing regime which is as you understand it. So the changes haven't taken place. I'm not sure that answers your question.

MR. C. MANNES: I'm just a little confused with the word, or I want to be more certain of the meaning of net revenue. Of course, this is an unaudited statement. We won't see the year-end statement for six months hence. Can you lead me to believe though at this time that, unless the auditor finds something out of order, indeed it would be your anticipation, your point of speculation, as of today that there will be a profit figure of around \$8 million to \$10 million?

MR. G. BEATTY: Yes, Mr. Chairman, in excess of revenue over expense in total of - in the neighbourhood of \$8 million to \$10 million. It is still too early for us to have a definite figure on all of our costs, but we think it's in that neighbourhood.

MR. C. MANNES: Mr. Chairman, I'd asked Mr. Beatty, and maybe he was going to provide this information

in response to the question asked by my leader, but can he tell me whether the forecasts of the government within the main expenditures, as they related to the Hydro rate stabilization plus the additional required as spoken to within the quarterly reports of the Minister of Finance, whether indeed these are the accurate amounts required to support the foreign exchange losses of Manitoba Hydro.

Were these the sums and totals - and I don't have the total figure. Maybe Mr. Beatty does and he can provide them.

MR. G. BEATTY: Mr. Chairman, no. Well I don't have those figures with me at the moment. I think we can get them, but they are Department of Finance figures and we take them as given to us by the Department of Finance.

MR. C. MANNES: Mr. Chairman, I notice for the first time since I've been involved in this committee over the last three or four years - and I refer to page 6 of Mr. Beatty's report, at the end of the first paragraph, and I'll quote, it says this: "Even with this rate increase, Manitobans will still have a rate structure which, for most categories, is the lowest in North America."

Mr. Chairman, this is the first time I've seen a qualifier that has come into that statement. Now, I may have missed it on other occasions, I'm used to the phrase amongst the lowest, I've seen that many times. But this is the first time I've seen the qualifier "for most categories."

Is the author of the report, Mr. Beatty, beginning to tell us that our rate regime is now, in some areas, not amongst the lowest in North America?

HON. W. PARASIUK: Yes, I just wanted to qualify that, and I'll let Mr. Beatty answer the specific question that is being raised by the Member for Morris.

But there have been instances in the past where one has basically said, we have the lowest rate structure, and then the Member for Lakeside has got on television pillorying us because he came across an instance in the Kootenays or in Medicine Hat where there was this category or that category where in fact we didn't have the lowest, and as I correctly expect him, and if I would have had that information I would have done the same thing. So I recognize that as part of the process.

The difficulty is he doesn't then go on to explain - and I might not have done the same thing as well - that you have a special circumstance in the Kootenays or you have a special circumstance in Medicine Hat, where the community is sitting right on a field of natural gas, and certainly those rates would not extend beyond the confines of the Town of Medicine Hat. Therefore, if you compare apples to apples, we do have, by and large, the lowest rate structure.

The other thing that occurs is that often you have rate increases just as you have this when you start comparing budgets. You have somebody coming down with their rate increase ahead of somebody else, and other people then come down with their rate increase three months later, or five months later. That then changes the relationship for a three- or five-month period. But in longer terms, I would still expect that we have the lowest rate structure. There may be

exceptions to that, but I'll certainly let Mr. Beatty answer the specific of Mr. Manness' question.

MR. G. BEATTY: Yes, Mr. Chairman, the situation is as the Minister suggests, generally. When I say rates, I really added that point to be absolutely precise, and that is true, that there are points within the structure where, at a particular level of consumption, we might not be the lowest; we might be second lowest, or third lowest. But for the vast majority of the points in the structure, we are lowest and the situation has not changed from the report that you got in this time last year. That is to say, the structure is the same in terms of where we are in relation to other communities and other utilities.

HON. W. PARASIUK: I just wanted to add one personal anecdote in this respect. I can recall upon becoming Minister responsible for Hydro back in the fall of '81, I think it was in 1982 that I had a session with senior management of Manitoba Hydro and they made presentations. Amongst them was a presentation on rate comparisons right across the country. There were one or two instances where the Manitoba Hydro rates for a particular level of consumption, given the way they handle industrial versus residential versus commercial and versus others, it was higher. But in about 95 or 98 percent of the instances, the Manitoba rate structure was indeed the lowest. But that is a historical thing and I think it may be for purposes of clarity that one says we have the lowest rate structure. That doesn't mean that you wouldn't have one or two instances, even with the larger systems, where that might not be the case. I'm not sure whether that was the situation when the Honourable Member for Lakeside was involved.

MR. C. MANNES: Mr. Chairman, other years, at this committee, we have been presented with those types of - I can't remember whether they were rate comparisons or whether they were comparisons based on usage in Canadian cities in other utilities. As a matter of fact, in other years, we have been provided with a whole host of information, also load growth forecasts - I imagine that's coming basis the other committee - and trend lines measuring a number of areas. Is it the intent of Manitoba Hydro to present to us that type of presentation at this committee, as has been done in the past?

MR. M. ELIESEN: That can be done. We can table that information; we can provide you with the rate comparisons, as has been done in the past, showing where Manitoba Hydro is relative to the other utilities. We can also table with the committee the load forecasts. We can do that now, or whenever the member would like.

MR. C. MANNES: Mr. Chairman, if Mr. Eliesen is saying it can be tabled now, that is fine. We, of course, would probably want to review it and ask questions on it at another meeting. I think that information does provide for some interesting comment and observation and, if it is available, yes, I would like it to be tabled.

MR. M. ELIESEN: We'll table that information and have it circulated to members of the committee.

HON. W. PARASIUK: We could probably come and make presentations and it could take 8 to 12 hours. In the past, I've heard commentary from people saying you're taking up too much time with the presentations. In the past, for example, we've tabled the Northern Flood Committee; in the past, one year, we've had a presentation; another year, we tabled the projections; another year, we've had a presentation on rate comparisons and then the subsequent year, we tabled it. That's all here, I think, on a contingent basis, or most of it is here on a contingent basis. We can probably table it, because I think in that sense it does save some time, rather than going through overheads and the presentations.

Again, we're trying to shape this in such a way that committee members feel that they're not being, in a sense, swamped with information and are getting an opportunity to ask the specific questions they want to raise.

MR. C. MANNES: Tabling is most acceptable to me, Mr. Chairman.

Mr. Chairman, further on in that page, mention is made of the transition from the former centralized batch-billing system to the new Customer Service System. I don't know if the question I'm about to pose is related to this or not. I represent a rural riding where there is a new billing system in effect. As a rural customer of Manitoba Hydro, we now are obliged to phone in the meter reading on a monthly basis. I can tell officials of Manitoba Hydro that I've had some number of complaints . . .

HON. W. PARASIUK: Can I just interject to make sure? I think the form isn't quite in tabling form. I'll undertake to, as I indicated to the Member for Lakeside on another matter last week, I think I can get the material copied and put together and given to the members of this committee at two o'clock or sometime through the course of today, so they'll have it for the subsequent meeting.

MR. C. MANNES: Prior to the next meeting, that's all.

HON. W. PARASIUK: Yes, we'll get it out today.

MR. C. MANNES: I wanted to ask a question specific to the new billing system in place in rural Manitoba. I want to know how many complaints Manitoba Hydro has received and I want to know, secondly, whether there has been a trial period in effect. Is the system that is in place now one that Manitoba Hydro contemplates will be in existence for years to come? For the edification of other members who are non-rural, what we have in place today is a system whereby we are given notice on our previous hydro billing, when it is we should phone in in the future so as to report the latest meter reading, reporting our consumption of kilowatts?

I've had some number of complaints. I guess, in some respects, constituents would consider this a radical departure from the old system where it was either read on a Saturday afternoon or it was forgotten and not read at all. I want to enter into some kind of discussion surrounding the new billing system, if I can.

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MR. G. BEATTY: Mr. Chairman, the new Customer Service System is a modern, fairly sophisticated system and we believe that, when it has been operating for some time, it will improve our service to customers very considerably. I really welcome the opportunity to get into this a little bit because I think it is an area that deserves a bit of exploration, because there have been a few difficulties as we have gone to implement the system.

What I'd like to do, Mr. Chairman, if I may, is ask our Senior Vice-President, Customer Service and Marketing, Ralph Lambert, to perhaps run us through an explanation of the characteristics of the system and some of the difficulties we've run into with customers in introducing it.

MR. CHAIRMAN: Just before Mr. Lambert makes his comments, is it the will of the committee to rise at twelve o'clock, or do they wish to go through to 12:30 p.m., or do you just want to finish this and then rise? What's the will of the committee?

MR. C. MANNESS: Twelve o'clock, Mr. Chairman.

MR. CHAIRMAN: Mr. Lambert.

MR. R. LAMBERT: We have, over the past several months, been implementing a new customer service system. It was intended to satisfy two requirements: one was to update our billing system to a more current state of the art system, and the other purpose was to provide our district offices in the local communities with the information that's on the billing system, so that they could deal more effectively with customers and answer customers' enquiries.

Generally, we are fairly satisfied with what we've accomplished to date with the system. It is all on stream and running. We do recognize that we've had a number of teething problems with the new system, as we suspect most people do.

The difficulties are in two or three areas. One is the phone-in system for self-read customers, which comprises about 20 percent of all our customers, who are on what we call self-read, who previously mailed in a card, are now asked to phone the meter readings in. The reason for moving to that phone-in system was that, in the investigation of the new system, we had determined that the phone-in system would be at about one-half of the cost of the card system.

A number of people seemingly have expressed some concern about the phone-in system. In particular, they expressed concerns when we first implemented, in the various parts of the province - the implementation of this system was staged by area and, as a result, there were about a dozen or so stages over a course of about 13 or 14 months when we implemented it. The last stage was in Dauphin just in this last month.

It appears, although we don't have exact numbers of how many complaints we get in total numbers, it appears to us that the complaints do decrease quite dramatically once a customer is on the system for a period of a month or two or three months. As a result, it's our intention to continue with the phone-in system in light of the reduced cost and also recognizing that, where customers are having particular difficulties with

the phone-in system, we do provide the provision for them to go back to the card system.

MR. J. DOWNEY: Mr. Chairman, that area is one which I've had a lot of phone calls from Manitoba Hydro customers as well. It seems somewhat strange, and maybe you could help me with the numbers. It seems to me that some people's hydro bills for the period of a month, what they considered a catch-up period - was it a catch-up of six weeks of something like that, that there was a drag billing of six weeks? What would be the percentage or the maximum increase that would be suffered by or would be incurred onto the customers? What would be some of the highest bills that would be incurred - increases?

MR. R. LAMBERT: I can't give you specifics in terms of the highest bills, but in fact, with the old system, some of the bills were going out as much as maybe 10 weeks behind the actual reading dates, whereas with the new system we have provision to be able to bill the system much quicker. As a result, as we implemented or put the new areas of the province on the system, there was a catch-up, as you have referred to.

In some cases, it has extended beyond six weeks up to, I think, about ten weeks at the maximum as catch-up. In terms of implementing that and in recognizing that we gave the customer some options in terms of how they paid that catch-up, for customers who chose to want to spread that over a period of time, we've made that provision for them. But initially, when the bill went out, it's fair to say, and we accept that they were a little taken aback at the size of them because of the catch-up.

MR. J. DOWNEY: I'm not making any real personal attack on anyone, but that was not overplayed by any way shape or form, that was the ability to spread it out over a period of time.

The constituents which I represent felt very much that there was a tremendous jump in their bill by hundreds of dollars, not just a few dollars. It had a major impact, particularly in January, February, when hydro bills were substantially higher because of the weather conditions, in view of the fact that this hit them during Autopac month and many other excessive things. There was not an overplay, certainly by Hydro or anywhere that I heard, that there was the other option.

This Legislature, I have to tell you, gave leave not too long ago, to pass a special bill to absorb some of the increases in taxes, which allowed the city to manoeuvre to take some of the shock. I'm disappointed that the government did not see fit to do the same thing for people who probably saw increases of even substantially greater amounts, that there wasn't some action taken in a more public way. This whole area - it's all money, it all comes out of the pockets of consumers. I'm extremely disappointed that there wasn't any, I would say, compassion when it came to the introduction of higher hydro bills on those people. I say it happened at an unfortunate time.

If the phasing-in had taken place in July, catch-up in September, we'd have come out at the summer months. But I can tell you for a fact, Mr. Chairman,

there were some serious difficulties. I don't think it put anybody out of business, but I know a lot of farmers who are in a cash-flow shortage, got faced with a pretty heavy increase in the billing, not enough explanation.

I know that it was staged throughout the different areas of the province. Some of my colleagues, when I brought it up to caucus' attention, had indicated that, yes, it had taken place in their regions last fall. But I happened to be in one of those areas that had the misfortune to have it hit in the middle of the winter season. I have to say on their behalf it was an extremely difficult situation to deal with. I say this possibly may have been in either the hydro bills or some other public notification that there was a phasing-in by Hydro, which they have referred to, but that wasn't overplayed. I wasn't able to tell constituents who called me that, yes, there is a phasing-in.

As I say, all we're asking for is fairness and when it comes to increases, whether it's taxation or whether it's hydro, that hydro bills - now it's not uncommon to see them run in the \$300 to \$700 a month for heavy users of hydro throughout rural Manitoba in the farm community. If you double that or give them 2.5 times that for one month, it can have a pretty major impact, as I'm sure the Member for Swan River can appreciate. They have somewhat a budget laid out for their monthly expenses, and that can cause problems.

All I'm saying is that it's unfortunate that the impact was not eased a little bit more or at least the information provided a little better.

I have one question and it deals more with a broader issue. I raise it and the Minister may have a little bit more opportunity to get some information on it.

A lot has been said and we hear a lot recently about the negotiations and the discussions and the concern about acid rain. I wonder if there has been any testing done by Hydro, seeing as we have three thermal generating stations in the province, if there has been any testing done by Hydro, or what information is available or are the plants equipped with the proper scrubbers? Where do we stand as a provincial energy body, Manitoba Hydro, when it comes to the whole question of acid rain and those thermal plants?

By asking this question I'm not suggesting in any way, shape or form that they should be shut down, but I would like to know because, as I indicate, it's a major international issue between Canada and the United States. We do have some generating stations in this province that use coal. I'm sure those backup plants, in case of short water years, they're important to have.

But I wonder where we stand as far as Manitoba Hydro is concerned and acid rain, what we're doing to protect the environment and if in fact there are any problems here in the province due to the use of coal.

MR. M. ELIESEN: Mr. Chairman, as the member knows, we are primarily on a hydraulic system and do have two thermal stations at Selkirk and Brandon, but which are not used with considerable frequency. In fact, they're used very little, except to assist us in peaking periods, significant peaking periods during the winter in particular.

But the whole area of SO2 omissions really comes under the Clean Environment Commission and we follow the Environmental Control Centre established by that Commission. But maybe I can ask Mr. Tishinski whether he can add more in that area.

MR. CHAIRMAN: Mr. Tishinski.

MR. W. TISHINSKI: Mr. Chairman, all I can do is just elaborate on Mr. Eliesen's comments, and that is that we have sampled our smoke stack emissions from the limited operation that we do have of our generating stations. This information is submitted to the Provincial Environmental Department and, with the precipitators that we have in operation, there's been no problem. We have been operating well within the designated limits.

MR. J. DOWNEY: Thank you, Mr. Chairman. I'll have further questions when it comes to the next sitting of the committee.

MR. CHAIRMAN: What is the will of the committee? I'm sorry, Mr. Enns.

MR. H. ENNS: Well, Mr. Chairman, I think we had agreed to rise at twelve. I just want to indicate, I think particularly to Mr. Beatty who is appearing before this committee for the first time, that this committee is not always conducted in such a genteel and civil manner.

Undoubtedly committee members will agree with me, that it is to a large part due to the moderating influence of our Chairman.

A MEMBER: And the fact that your leader's position is now secure.

HON. W. PARASIUK: Yes, I was just saying that I thought we'd take some photos and send them out through the constituency of Fort Garry with the caption, "Building Limestone Together," but I'm not sure that would be the will of all members of the committee.

MR. CHAIRMAN: Committee rise.

COMMITTEE ROSE AT: 12:00 noon.