

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

Chairperson
Ms. Marilyn Brick
Constituency of St. Norbert

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Eighth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Monday, November 21, 2005

TIME – 9 a.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Ms. Marilyn Brick (St. Norbert)

VICE-CHAIRPERSON – Mr. Cris Aglugub (The Maples)

ATTENDANCE - 11 QUORUM - 6

Members of the Committee present:

Hon. Messrs. Chomiak, Robinson

Mr. Aglugub, Ms. Brick, Messrs. Hawranik, Jha, Mrs. Mitchelson, Messrs. Penner, Reid, Schellenberg, Schuler

APPEARING:

Hon. Jon Gerrard, MLA for River Heights

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

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

MATTERS UNDER CONSIDERATION:

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

Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2004

Annual Report of Manitoba Hydro-Electric Board for the year ended March 31, 2005

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Madam Chairperson: Good morning. Will the Standing Committee on Crown Corporations please come to order.

Your first item of business is the election of a Vice-Chairperson. Are there any nominations?

Mr. Harry Schellenberg (Rossmere): Yes. I nominate Cris Aglugub, MLA from The Maples.

Madam Chairperson: Mr. Aglugub has been nominated.

Are there any other nominations?

Hearing no other nominations, Mr. Aglugub is elected Vice-Chairperson.

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Madam Chairperson: This meeting has been called to consider annual reports from Manitoba Hydro for the years ended March 31, 2003, March 31, 2004, and March 31, 2005.

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

Hon. Dave Chomiak (Minister charged with the administration of The Manitoba Hydro Act): Well, I was going to suggest why do we not sit till noon, and then determine at that point.

Mrs. Bonnie Mitchelson (River East): Madam Chair, you know we have significant issues to cover. We have not had a meeting for a couple of years. I have difficulty thinking that we are even going to get through half of the questions that we have in three hours. I know that standard procedure is that we have a presentation up front and then we will be able to ask questions.

I am wondering whether there is any will by this committee or can this committee make a decision for us to assess things at 12 o'clock, and if there are a lot of issues that are still outstanding, could we look at another date and another meeting? I do not think three hours can do justice to Hydro, when we are looking at Hydro doubling their debt over the next number of years when it comes to hydro development. So I would just ask that some consideration be given to a subsequent meeting in the not-too-distant future should we not be able to get through all of the issues this morning.

Mr. Chomiak: Madam Chairperson, I agree. Hydro is on the pinnacle. It is one of the best managed and developed, and it is on the pinnacle of being of huge significance to all Manitobans. So my suggestion holds that we try to get through as much as we can between 9 and 12, and that we re-assess at 12 what our position is, and discuss at that time. So, maybe we can by, almost, what is the word, standing order,

sort of break at 10 to 12, sort of stop and have an assessment of where we are at and discuss at that time. Would that be acceptable to committee members?

Mrs. Mitchelson: Yes, I think that is a good suggestion. I would agree to that.

Madam Chairperson: Are there any suggestions as to the order in which we should consider the reports?

Mrs. Mitchelson: Yes, I think if we could listen to the presentation, have a global discussion, and then determine how to deal with the reports at the end of that.

Mr. Chomiak: Yes, I concur. I think Mr. Brennan has a fairly useful—and it is the usual course of this committee—presentation and probably the best course would be to do that. So, if committee concurs, I certainly concur.

Madam Chairperson: We thank the honourable members.

Does the honourable minister wish to make an opening statement, and would he please introduce the officials in attendance?

Mr. Chomiak: Madam Chairperson, in attendance are the chairman of the board of directors of Manitoba Hydro, Vic Schroeder, and the president and CEO of Manitoba Hydro, Bob Brennan.

Madam Chairperson: Does the honourable minister wish to make an opening statement?

Mr. Chomiak: Madam Chairperson, in light of the Member for River East's comments, I think I will defer from making any opening comments, and just move the floor in order to expedite matters, and move the floor to Mr. Brennan to make his presentation.

Madam Chairperson: Does the critic for the official opposition have an opening statement?

Mrs. Mitchelson: No, Madam Chair, I think the minister and I are both in agreement. Not always are we in agreement, but we are now that we should forgo our opening statements.

I am hoping that the presentation can come in under a half an hour. I know that there is a lot of information that needs to be provided, and we certainly want to be fully informed on where Hydro is at and what their plans are for the future. But I would hope that it would be kept within the half hour so that we can get into questions.

Madam Chairperson: We thank the member.

Mr. Chomiak: I think, having reviewed past committee hearings, the presentation usually garners a fair amount of comment. I think, if we all discipline ourselves, and that is not an attempt to—we could probably get through the presentation in a reasonable period of time, then proceed to a more in-depth questioning.

Madam Chairperson: I understand the representatives from the Manitoba Hydro-Electric Board wish to include a PowerPoint presentation as part of the statement to the committee.

Is there leave from the committee to allow the PowerPoint presentations? *[Agreed]*

Please proceed.

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): We also have two other representatives from Manitoba Hydro here today. One is Glenn Schneider, the division manager of Public Affairs. We also have with us Rhonda Orr, whose main function is to make sure I can operate the machine. She is the manager of the Government Relations Department.

I will try to go through the presentation as quickly as possible. I tried to anticipate as many issues that you might want to consider. So, if questions do come out of it, I will react to the wish of the committee in terms of questions or whatever. This is just an outline of the presentation itself so we can go on to the next line.

Just a little bit about Manitoba Hydro. This is as presented in the March 31, 2005 Annual Report. As you know, we are an electric and natural gas integrated utility right from the generation of power and the purchase of gas to the distribution to our customers.

A lot of utilities have started to disfunctionalize themselves. Certainly, Ontario has, as we are all aware. That is not the case in the case of Manitoba Hydro. We find that it works out very well at this point.

Our capital assets are in excess of \$10 billion at original cost, and we are one of the largest electric utilities in Canada. Our generating capability is 5500 megawatts, the majority of which, 5000 megawatts aside. *[interjection]* Hydro.

* (09:10)

We have 5800 employees, 510 000 electricity customers and 255 natural gas customers. We export to over 50 electric utilities in the States and Canada, the majority being in the U.S. We definitely have the lowest rates in North America.

You can find some utilities that are like the inner city of Winnipeg used to be, where they do not have any load growth, and load growth causes rates to go up, because you have to build new generating facilities at current cost to supply it.

The financial results for the year ended March 31, 2005: revenue was \$2 billion; net income \$136 million, which was a reversal from the year before where we lost \$436 million. Extra-provincial sales were \$554 million; and retained earnings had built up as a result of the \$136 million to almost \$900 million dollars.

Mrs. Mitchelson: I am only going to ask some clarification questions. Could I just ask, in extra-provincial sales, of \$554 million, how many megawatts would that be?

Mr. Brennan: Megawatts is a capacity question, and you want megawatt hours. We will have to get that for you. I do not have that on the top of my head.

Mrs. Mitchelson: Okay.

Mr. Brennan: But we can get that. I can get it pretty fast, if I just take a look at my records.

Mrs. Mitchelson: Okay.

Madam Chairperson: You are finished? Okay.

Mr. Brennan: I always have a hard time. I apologize.

Madam Chairperson: That is okay.

Mr. Brennan: This is a schematic that shows all of the generating stations throughout the province. It also shows the diesel locations, the four diesel locations in the North. It also shows our export capability to Saskatchewan, Ontario and the United States. The United States has by far the most capability to export power. Our goal is to make sure that there is no restrictions in terms of total capability outside the province.

Financial: The 2003-04 water levels were among the lowest on record, which certainly has limited our ability to generate power which reduced our export sales. We rely very, very heavily on our export sales to keep our rates down. The overall storage in the reservoirs on the Nelson-Churchill watershed

reached a record low, a 27-year low, in September of 2003.

In 2004, conditions started to change and improve quite a bit, especially in the winter of 2003-04 and then the spring of 2004. Then, during the fall of 2000, we were operating at near-maximum outflows and inflows into our reservoirs.

In the spring and summer of 2005, we had an abundance of rain, which really helped. Virtually all our reservoirs were full. Most years we get some diversity in water in our reservoirs. But in this particular case there was no diversity at all; all of them were full.

This is a graph that shows our hydraulic generation in terms of kilowatt hours, and you can see what happened with the drought years. The last time we had a drought was in the '90-91 period. At that time we had Limestone coming into service and that helped us dramatically. In this case, we are going to have a new record in terms of generation in the current fiscal year, which will help us immensely. The first yellow line there is the loss year, and all the blue lines are actual results, and the two yellow ones are forecasted.

Rate increases: the Public Utilities Board approved two rate increases for us. One was the 5 percent that we implemented April 1 of 2004 and then a further one on April 1 of 2005 of 2.25 percent. We also were given another one for October 1, 2005, and we did not implement that one on the basis that we thought that the 7.25 percent would be a pretty good hit for customers during the winter of 2005-06. Even with those rate increases, we have the lowest average rates in North America.

This is a graph that shows our projected net income and it shows our actual and projected and, once again, you can see the dramatic loss. The same thing with net extra provincial sales and you see that they are improving dramatically with average flows in the future. Retained earnings start going up dramatically to the end of the forecast period. We are getting close to our targets.

Capital expenditures: We are spending money now to protect in-service dates for some new generation. We, of course, have the complete construction of Wuskwatim in these numbers. Equity ratio once again returns to the desired level by the end of the forecast period, even though we did experience a drought.

The interest coverage ratio, that is the ability to cover our capital expenditures out of operations, is covered and that does not include new major generation or transmission. That is not included in our forecast. It would be pretty hard to take care of a new generating station out of the cash generated through operations.

Here is a financial comparison to other utilities. It shows capital coverage, interest coverage and equity concerns. We are very comparable to the other hydraulic utilities, Québec and B.C., with the exception of our equity and we have got to gradually build it up.

Mr. Bidhu Jha (Radisson): Manitoba Hydro, which colour is that?

Mr. Brennan: Blue. We are the blue. The first one in each set is Manitoba Hydro.

This is a graph that compares the cost of the energy that we are producing to the reliability of our system and, as you can see, this compares us to other utilities across the country and you can see that Manitoba Hydro has the lowest cost and the highest reliability, and that is despite the fact we are serving pretty sparsely populated areas throughout the province, so I am quite proud of this graph. There is one utility that is pushing us there and that is the hydraulic utility. So that is the one we want to stay ahead of.

Mrs. Mitchelson: Do we have hard copies of this presentation?

Mr. Brennan: Yes, we will give you some.

Mrs. Mitchelson: I am wondering if we could have them now just as we go through the slides, because we are not asking a lot of questions. Maybe we could just highlight to remind us to go back and ask those questions for clarification at the end of the presentation.

Mr. Brennan: That would be super. Should I keep on going?

Madam Chairperson: Mr. Brennan, you can proceed.

Mr. Brennan: I have got quite a few graphs here. I will go through them quite quickly. Do you want me to wait until you find them?

Mrs. Mitchelson: What page is this presentation on right now?

* (09:20)

Mr. Brennan: I am not sure of the numbers. This graph was not made up by Manitoba Hydro. It is made up by EPRI, and it compares Manitoba Hydro with other utilities across the country. *[interjection]*

Okay? So this is not our graph. It was made up by Edison Electric and compares all the various utilities, but it shows Manitoba Hydro with the lowest rates.

This is a graph that compares us with Canadian utilities, and you can see how we compare, and I will go through these real quickly. But this is a residential customer with a thousand kilowatt hours in a month. This one is, for the most part, an electric heat-type customer and you can see the difference there.

A commercial customer, 10 000 kilowatt hours; this is a business in a small strip mall or something like that, 10 000 kilowatt hours in a month.

I will go back to the industrial one. This is a large industrial customer. It is a fairly heavy load, and it has got, it looks like, 31 million kilowatt hours in a month, so the bill is pretty intensive. But you can see how competitive Manitoba is, compared to other utilities.

Energy-intensive industries, that was one of the issues that was in the media recently here. Manitoba Hydro has been looking at our rates. We have been attracting an awful lot of industries, and a large new industry is going to cost consumers in the province a lot of money, and we want to be able to know how to deal with that. At this point, we are just reviewing what our options are. They are half of the rates in Ontario, and, certainly, with the exception of the hydraulic utilities in the country, we are quite a bit cheaper. It is causing some industries to come to Manitoba, and as they come, two things will happen: No. 1, we will no longer be able to export that energy because it will be consumed within Manitoba at a rate that is probably a half of what it would be on the export market, and I will get to a graph that I made up just to illustrate that point. The other thing it does, it forces us to build new generation transmission and distribution for that load. Rates will have to come up to take care of both of those eventualities.

What I assumed in this case is a hundred megawatts of additional new load, which is a real good-sized customer, there is no doubt about that, with a high load factor. And I estimated the revenue from that customer would be about \$22 million. This same amount of energy, if it was sold in the export

market, would be \$40 million. Therefore, customers have to make up that \$18 million, which would require a rate increase of about 1.8 percent to serve that customer.

We are looking at options as to how to take care of that. This problem is not unique to Manitoba. It is unique to all hydraulic utilities where the rates are relatively low. So, at this point we have no idea how we should handle it. We are looking at various options, and once we have done that we will consult with our major customers and just see what their views on the whole situation are, and appreciating the fact that it will impact their existing rates, as well. So I am sure they will have strong views, depending on whether they want to add load or not.

I think I have talked to this particular graph. A little bit about export marketing: Manitoba Hydro as an exporter, expressed as a percentage of our total generation within the province, is pretty well the largest exporter for the size of the utility. Manitoba Hydro's line is at the top. There is a red line on there that shows the Canadian average, but you can see that exports are really, really important to keeping our rates low in Manitoba.

This is a graph that shows the energy available for export. Just like the heavy energy-intensive industries have the impact of taking away the kilowatt hours available for export, so does our own load within the province. That is why our energy efficiency efforts on the electricity side are so important. We have the ability, so easily to justify in Manitoba, because if we save a kilowatt hour, the customer wins and Manitoba Hydro's customers as a whole win, because we can export that power on the export market at a better rate or equally as good a rate.

That black line going across the graph is our transmission capability. What we want to do is try to get as much energy available to export up to that line. You can see that when we had Wuskwatim, we are below the line still, so we can export all that power. Keeyask is a little above the line, but gradually as our own load growth goes up, we can absorb that as well.

In the case of Conawapa, Conawapa is a very large plant. The unit costs are the best in our system and the lowest on the system, but you have to sell all that energy to take care of the carrying costs. That is the problem. We need some additional export capability outside the province to make Conawapa attractive.

For the first time in, well, forever, we now have Conawapa as the next plant in our sequence, but that is not required until 2024 with Wuskwatim in our system. So at that point our own load will have gone up quite a bit and our export capability will have gone down, so we will have room on the transmission lines to take a good part of that generation and be able to export it.

Mrs. Mitchelson: If I could just ask, did I hear right when you indicated that Conawapa is the next plant in your plan?

Mr. Brennan: For the Manitoba load. We are protecting for an earlier service date than 2024; 2017 we are protecting for in the event of a major export sale.

I would briefly like to talk about the new generation and transmission that we are looking at in the future. So I will look at all the future hydraulic generation. We also want a new DC line from the North. For some time now, Manitoba Hydro has been considering that to be a problem. As our own load grows, we have more and more power being served from the North. We are now to the point that we have about 76 percent of our generation coming from the North, and we want to make sure that if anything happens to those two transmission lines, there is an alternate source for power to come down.

At this point we have not looked at the conversion equipment, although some of the options we are looking at to the east side require conversion equipment. Conversion equipment adds reliability at the north and south end. The south end is quite important to us because we only have the one converter station in the south.

I will briefly talk about the Manitoba-Ontario sale. All our new hydraulic stations are designed to minimize flooding. We made that decision a few years ago, and, consequently, although the unit cost goes up dramatically because of that, it is in Manitoba Hydro's view the right thing to do, just so we do not impact the environment as much as we have in the past.

* (09:30)

As I mentioned earlier, we have more undeveloped hydro than we have developed, and that is hydro that is a relatively low-cost hydro. There is more than that, but some of it is at quite high cost, and some of it also has environmental impacts that we might not find totally acceptable.

I already mentioned the fact we do not need a new generation or system until 2024.

This is a graph that shows the three plants we are looking at. Wuskwatim at 200 megawatts, 630 for Gull or Keeyask and 1250 at Conawapa, on a net basis. It also shows the extent of the flooding associated with those facilities and also shows the cost.

Wuskwatim, we are hoping to get approval from environmental authorities later in the year. We would also like approval from the Nelson House band to continue construction, or start construction, I guess start construction is the right way to say it, and in addition to that, the Hydro Board and government approval is also required before we will start construction.

Keeyask, a little bit about Keeyask. Keeyask is Gull, which is sort of a medium-sized plant on the Nelson. We are dealing with four bands on that community in a partnership situation, and that is Split Lake, War Lake, Fox Lake and York Landing. Dealing with four different First Nations is not an easy task, but we seem to be getting there. I am quite pleased with, generally, what we are trying to do in trying to take them in as partners.

Conawapa, at this point, some of these dates are the earliest in-service dates, but some of them are being pushed now. You know, it is getting harder and harder to meet them. Conawapa, a 2017 date, and a lot of that will depend on the transmission associated with how we get the power out in terms of the in-service date. As I mentioned earlier, on a per-unit basis, Conawapa has the lowest cost, but it has got a lot of energy associated with it, so you want to get it all out so you can pay the carrying cost of the plant, you know, interest and depreciation charges. We have engineering and environmental studies underway and these are just updating the previous ones we had, as well. We are going into the next stage of engineering studies as well. We have started the consultation process with the First Nation bands as well.

In the case of the Manitoba-Ontario sale, we have signed an agreement, or an MOU, It is not an agreement, it is an MOU, to transfer over \$500 million worth of energy to Ontario. We are proposing that the agreement goes for six years and starts next year. We start with 150 megawatts and go up to 400, and we have to upgrade our transmission capability to Ontario to do that. We expect that to be all complete by 2009.

We are also looking at a major sale as a result of that to Ontario as well, in two different phases. The first phase is for an additional 1500 megawatts and then that followed by another 1500 megawatts. That is a pretty ambitious program and, certainly, Ontario has serious problems and we think we can be part of the solution to those problems.

There are three transmission routes we are looking at. One is a direct route from the north to Sudbury, and that is a DC line; another DC line from the north to Thunder Bay and then AC from then on and then another is a DC line from the north to Winnipeg and then an AC line across to Thunder Bay and then going on to Sudbury. This last transmission capability is the same one that we proposed to build before, with an in-service date of 2000 for Conawapa. If we had have proceeded, and Ontario had not cancelled the last time, we would have a line for 1500 megawatts of service today as well as Conawapa built now for five years.

Manitoba Hydro, we want to be a leader, and I think we are, in strengthening our relationship with Aboriginal communities. I think Manitoba Hydro is doing as much as any utility in the country, and I am really pleased with what we are doing. Certainly, we do have some difficulties, and that is difficulties that we have been experiencing for a good number of years, and that is primarily in the area of Cross Lake. We cannot seem to get on board as to reconciling what we think our obligation is, and what they think our obligation is. We were able, in the case of the Northern Flood Agreement, to get agreement with four other bands, but Cross Lake is really challenging us.

We have some policy program areas that I would like to talk about, and that is to co-ordinate the implementation of Aboriginal policies throughout the communities we come in contact with. We have some implementation agreements with some of the settlements we have already made, and that requires work on Manitoba Hydro's part.

We have community relations generally, working with these communities. We want to create increased job opportunities for Aboriginal people. That is both as a result of our construction work of any kind, as well as our operations generally, as well as employment within Manitoba Hydro. We want to enhance training opportunities for Aboriginal people, both within the company and outside and, of course, our future development of partnerships.

Adverse effects, I touched on briefly. We continue to work in that area. There are people who believe that they have been impacted by Hydro. In some cases, it is very hard for them to get a handle around what it is. I know it sounds silly, but we try to help them as much as possible to get a handle on what they think the problem is so that they can put these things behind them as much as possible.

I have talked about the Northern Flood Agreement. There are 20 other communities where we have agreements-in-principle. We spent \$571 million on mitigation, and mitigation works as well as compensation to settle the agreements we have had. That was up to March 31 of 2005.

Some of our various initiatives. In the case of Aboriginal employment, we have been doing quite well there. Within the company, we have an Aboriginal pre-placement training program, where people come in in various areas, they take a look at some of our training programs to decide if they think that is the opportunity they would like to work. They actually provide services to Manitoba Hydro for a year, after which we expect them to go into one of our training programs, and it has worked out very well for us.

We also support the Aboriginal initiatives such as bursaries, scholarships and the like, and those are working out quite well. I really believe that to help us with any Aboriginal issues, as far as a company's perspective, education seems to be the answer from our particular vantage point.

We have a cultural awareness training program for our employees that we continually have every year. We try to update various employees on that sort of thing. We have preferential purchasing guidelines in place as well.

* (09:40)

We have some corporate goals for Aboriginal people. By 2007 we want to have 12 percent of our total workforce Aboriginal, and in the North, 3 percent. Right now we are at 11.7 percent as a company, as a whole, and 35.1 percent in northern Manitoba.

This is the partnership arrangement we are looking at. Aboriginal people have a fair amount of concerns with what we are doing. They certainly want to know everything from an environmental perspective. They want to know how it is going to impact in terms of training and the like. That usually

requires costs on both sides, and of course they do not have the money to do that with us.

In the case of Wuskwatim, as you all know, we are waiting for a project development agreement to be completed shortly. We expect that any day and then they will vote on that overall development in late January.

Keeyask. We are working with the four bands and we have been working on that for some time. It seems like that is going to come to fruition shortly.

Conawapa. We are coming close to it. We have just started the consultation process.

We also have them involved in project planning, the partnerships in the project, as well as, we have entered into an agreement with the Government of Canada and the Province of Manitoba for a \$60-million fund for pre-employment training on the projects. That is going reasonable well. Manitoba Hydro put in 20 million of the 60.

The purpose of reimbursing community costs is to ensure their communities are in a position to make informed decisions regarding the project's physical, economic, environmental and cultural costs and benefits. They actually have to certify that decisions are based on reasonable independent, legal, professional and technical advice, and we also want to take their knowledge into the environmental impact statement. We have joint regulatory submissions with them, and during the process as well, we identify mitigation methods. So we should have an agreement on any adverse effects. We do not exercise direct control over their costs, but we do process them through a system in Manitoba Hydro and I think I have talked to that one. There have been some concerns by other band members about the costs, and the board of Manitoba Hydro has referred the issue to our audit committee.

We have an audit committee that is composed of four individuals, three of which are chartered accountants. The chairman is Carol Bellringer. The other members are Bill Fraser, the president of MTS, who is a C.A.; Jim Husiak with the Exchange Group, who is also a C.A.; and David Friesen, the president and CEO of Friesen Printing. The audit committee reviewed the effectiveness of our control systems. They looked at the governance issues generally, and they found that the framework and procedures were that payments were appropriate and were followed. They thought the expenditures were properly authorized, and the checks and balances are in place

for reviewing and reimbursing expenditures for the costs incurred by First Nations. They thought that it was a reasonable and responsible approach to getting their involvement, as well as making sure that they are aware of what our obligations will be in the future.

Another thing I would like to briefly talk about is another line from the North. For years Manitoba Hydro has looked at the possibility of having another line from the North. We have been looking at the east side of the lake. We require another line for the reliability and security of our system. As a matter of fact, there are significant loss reductions as a result of building that line. Loss reductions mean we will have more power for export purposes as a result of building the line.

The board of Manitoba Hydro has asked management to look at other alternatives than the east side. We are in the process of doing that. It will take us until, to really have a good finalized report available, October of next year to do that. At this point in time we are putting a route in our financial forecast or have done that along the west side.

Alternate Energy: I will go through these quite fast. We have been looking at working with the Government of Canada, the Province of Manitoba and Keewatin Tribal Council to see if we can put a run-of-the-river mini hydro-electric plant available for Brochet and Lac Brochet. That is certainly feasible and with the increased cost of diesel fuel it makes it all the more feasible all the time. It is a question of how do we come up with the money to do that.

We are also working with the City of Winnipeg and the Province to study the feasibility of collecting landfill site gases to see if we can generate power from that or if there are other opportunities to use that gas. We are also looking at all other alternatives. We have installed a small hydrogen generator at Dorsey. We need hydrogen out there and we have a small hydrogen generator out there to do that. It was just installed within the last year or so.

Wind: As you all know we have been studying wind capability within the province for two years now, and we do feel that hydro is a good support for wind in that wind does not blow all the time and we can use our reservoirs to back it up with hydro. Although there is a cost to that, we think it is a good mix. Some of our wind resources are quite good.

We have worked on an agreement with one wind supplier for 99 megawatts of wind power, and that will be completely installed in the new year. We are also issuing today, in conjunction with the Province, an expression of interest for 1000 megawatts of wind over the next 10 years, and that probably has been issued as we speak. We are also looking at another 50 megawatts of wind energy for local people to see if they can get involved in opportunities for wind supply as well.

A little bit about Power Smart. Everybody knows about Power Smart so I will try to go as fast as I can before Bonnie has a heart attack. The real benefit of conserving energy in Manitoba is we have the export market, so we can export. Conservation allows us not to build a new plant for our own load to the extent that we have kilowatt hours that are reduced, so we do not have to supply. So it saves us in two ways. We do not have to build new facilities to supply our own load.

Manitoba Hydro is a real leader in energy conservation. In the early nineties most utilities backed off from it. At one point we did have a national company that was set up called Power Smart that every province across the country became part of. The name itself is owned by BC Hydro, and Manitoba Hydro purchased the right to use the Power Smart name. The recognition of the name now is very, very strong in Manitoba. The other utilities backed out with the exception of us and BC Hydro, and now they are all getting back into the game.

I have no idea where I am in the slides because I just talked. A little bit about geothermal. Geothermal is another good heat source of Manitoba, and once again it sounds like a commercial but it is all true, and that is that Manitoba Hydro is a leader in geothermal as well. We are doing more than most utilities across the country, and provinces, as well.

* (09:50)

One of the problems we have had in the past is there has not been enough good accredited installers of geothermal systems. We have been training and working with the industries. We have a financing program and we are looking at opportunities to enhance that even further.

A little bit about the new building. The purchase of Winnipeg Hydro committed us to build a new building in downtown of 400 000 square feet. We have looked at our requirements and are now proposing to build a new building in excess of

630 000 usable square feet. It will eliminate all the rented space we have throughout the city. If one drives down Waverley, on the east side, in most buildings, we are in there, warehouse space and the like. It is going to be an energy efficient building that will be a real leader in energy efficiency in the country.

This is the construction schedule. We hope to have people in the building in the fall of 2007. The cost of the construction itself will be \$188 million. With everything else, including all the security systems, the walkway system and the like, including capitalized interest and that sort of stuff, will bring the total cost to 258.

These are some views of the building. They are in your package. They come from different areas. The building will be something I am sure the whole city will be proud of.

I should say that Manitoba Hydro has had virtually no cost increases for the costs that Manitoba Hydro control. Madam Chair, Seventy-six percent, or in that neighbourhood, of our costs represent the costs of natural gas purchases and transportation of that gas. The remaining part is the amount we can control.

The first general rate increase of 0.4 percent we had was April 1, 2003. We also have applied for a rate increase of which the Public Utilities Board accepted for residential customers that limited the cost increase to 10 percent of primary gas, primary gas being only part of the cost of the bill, so that resulted in 6.3 percent for residential customers. If we applied that to commercial customers, most commercial customers would have been under 10 percent, all of them would have been under 10 percent, commercial and industrial. The Public Utilities Board in its wisdom felt that they should appeal the actual cost of gas and let that go, so some of them got assessed 14 percent or so. As a matter of fact, it is 12.4 to 18.4.

The only other thing I would like to talk about, when we purchased the gas company in '99, right after we purchased it, the price of natural gas went up virtually as high as it did in the last year. It spiked. Manitoba Hydro did not really want to pass that cost on to consumers, so we deferred it. We deferred about \$100-million worth of cost. When prices started to come down, we asked the Public Utilities Board to approve a rate rider. The rate rider we applied to all customers at the same time as prices were coming down so consumers did not feel

the impact of recovering that \$100 million. It is now expired and things have worked out very well.

The Public Utilities Board did not feel, at that time, that it was the right thing for Manitoba Hydro to do. They told us not to defer any costs anymore, and said that we should work out a system, which we did, and they approved of, which was adjusting gas prices every three months, and let it reflect the actual cost. So we did that until this last rate increase, and we were not sure if they were going to accept it or not. They did accept part of it, but not that for commercial and industrial customers.

I think the deferral system, definitely, has merit, and I certainly favour it. The Public Utilities Board seems to have changed its stance and allowed us to do it for part of our customers but not all. Subsequent to that, of course, as we all know, the province brought in a bill that is going to allow us to defer costs so, from our perspective, there are no more discussions that will have to take place with the Public Utilities Board, you know, as long as the bill is in place.

Mrs. Mitchelson: Are we done?

Madam Chairperson: Not quite.

Mr. Brennan: There is what has happened to the price of natural gas, and you can see the two spikes. Thank you, Bonnie.

Mr. Chomiak: Yes, I just want to thank Mr. Brennan, and I think the committee would, for the very in-depth—there is a lot of material in there, and it is in-depth, and I appreciate that it was sped through. There will be, I am certain, a lot of questions, but I do want to thank Hydro for the extensive information that has been provided.

Mrs. Mitchelson: I just want to thank Mr. Brennan for the presentation. I know he had to go very quickly, and I just want to thank him for highlighting the key issues that he felt needed to be brought forward. I just want to say at the outset that I really appreciate the expertise and the work that Manitoba Hydro does on behalf of all Manitobans to try to, you know, develop a business plan that will keep our hydro rates low. So I just want to say, on behalf of our party anyway, that we appreciate the work that officials at Manitoba Hydro do.

If we might now get to questions, I would like to just start off by asking Mr. Schroeder whether there have been any changes in the board make-up or membership since the annual report was tabled.

Madam Chairperson: Mr. Schroeder—oh, just a moment. Minister Chomiak.

Mr. Chomiak: Yes, Madam Chairperson, just to make clarification, we are dealing with three annual reports during the course of this hearing, so if there are any difficulties that arise from that, we should clarify that that is, in fact, the case. We are dealing with three annual reports.

Mrs. Mitchelson: It was the last annual report that I asked Mr. Schroeder about.

Mr. Vic Schroeder (Chairman, Manitoba Hydro-Electric Board): I believe that since the issuing of this report there have been no changes in the membership of the board. There were, over the last year or so, several outsiders placed onto the audit committee. They are not members of the board of Manitoba Hydro. That is Husiak and Fraser.

Mrs. Mitchelson: So we have the board composition. Can Mr. Schroeder indicate whether Garry Leach, a board member, still resides in Manitoba?

Mr. Schroeder: No, Mr. Leach resides in British Columbia.

Mrs. Mitchelson: How long has he been in British Columbia?

Mr. Schroeder: I believe it is approximately a year.

Mrs. Mitchelson: Does he attend regular meetings of the board?

Mr. Schroeder: Yes, he does.

* (10:00)

Mrs. Mitchelson: So he does come. He commutes from B.C. to attend board meetings. Could you indicate to me what committees are structured under your board? I guess I will ask a few questions, and then maybe you can answer. What committees presently exist? How often do they meet, and who might be on those committees?

Mr. Schroeder: You had a report on the audit committee in Mr. Brennan's report.

We have the human resources committee which is chaired by Ken Hildahl. Garry Leach is on that committee and I am on that committee. Our next meeting is in January of 2006. Over the course of the last several years, this committee has overseen the implementation of development planning for employees at Manitoba Hydro. We believe it is a state-of-the-art program, and we are giving all of our

employees the opportunity to move forward, that is either training or specific experience that would allow them to move forward in their careers.

We have the Cross Lake committee. It sort of goes on the basis of whether there are issues ongoing or not. We tend to have our meetings of both the Cross Lake committee and the human resources committee around the time of board of directors meetings because we have people coming in from out of town.

The members are Ken Paupanekis, he is a retired superintendent from Norway House; Mike Spence, who is the mayor of Churchill; Phil Dorion, who is with the Swampy Cree Tribal Council, has been involved with a number of business issues up in The Pas, OCN area; and myself. But all members of the board are always invited to that meeting, and very often there is substantial attendance because it is probably the most difficult long-term issue facing us. Those are the active committees of the board at this point.

I am sorry, I missed one member and that is Gerard Jennissen. He is on the Cross Lake committee as well.

Mr. Gerald Hawranik (Lac du Bonnet): Thank you very much, Mr. Brennan, for that presentation.

Madam Chairperson: Mr. Hawranik, if you could just move your mike a little bit more forward. Thank you.

Mr. Hawranik: Sure. I refer to page 88 of the March 31, 2005 financial reports and Annual Report of Manitoba Hydro. I would like Mr. Brennan to confirm to me, with respect to the liabilities and retained earnings, it is about two thirds of the way down on the page, that the actual liabilities of Manitoba Hydro include long-term debt, current debt and contributions to native construction. Could he confirm that to me?

Mr. Brennan: Yes.

Mr. Hawranik: In terms of 2005, those three numbers add up to over \$9 billion. In 1999, they were \$7.2 billion. Can he explain to me why there has been that increase in debt, generally speaking, from 1999 to 2005?

Mr. Brennan: Yes, the majority of debt is incurred to finance new capital construction. If you look, you can see what happens to property and plant and equipment over that period of time.

Mr. Hawranik: Is that new capital construction or is it simply maintenance that is required in order to keep a generating plant operating?

Mr. Brennan: It is what we consider to be new capital. Operating and maintenance would be reflected in the operating statement.

Mr. Hawranik: In 2002, Manitoba Hydro purchased Winnipeg Hydro. Can you confirm to me how much debt was added as a result of that purchase?

Mr. Brennan: I would have to get the complete numbers for you. If I go back to the annual report, though, I can dig them out. As soon as we get a break, I will try to find them for you.

Mr. Hawranik: I notice also the retained earnings in 2005 were \$870 million. Does this mean that Manitoba Hydro has \$870 million in cash?

Mr. Brennan: There is no cash invested. That is, the cash that resulted in that is the cash that we have invested in a new plant, that we talked about earlier.

Mr. Hawranik: I recall when, first when Manitoba Hydro paid a dividend to the provincial government years ago, that the Premier continued speaking about taking the money out of the retained earnings account. Is there any money to be taken out of that retained earnings account? Was there any cash taken out?

Mr. Brennan: There is no cash set aside in retained earnings.

Mr. Hawranik: How much cash does Manitoba Hydro have, effective March 31, 2005? How much cash does it have?

Mr. Brennan: We will have to take a look at the detailed financial statements. There is money in the sinking fund in both cases which we can utilize. The sinking fund is money available for the prepayment of debt. In addition to that, I am not sure if there is cash or a bank overdraft at the end of the year. I would have to check for you. We will do that.

Mr. Hawranik: Thank you very much. At the time when Manitoba Hydro took over the operations of Winnipeg Hydro, was there a business case or business evaluation done at that time?

Mr. Brennan: Yes.

Mr. Hawranik: Would you undertake to provide us with a copy of that business evaluation?

Mr. Brennan: As a matter of fact, we went through an exercise with the Public Utilities Board, so we

will go back and find out what all information they did look at. We did have a couple of evaluations, though, to look at that.

Mr. Hawranik: Now in hindsight, of course, in 2002 that deal took place, I understand September 3, 2002. In hindsight, considering what the Province paid for Winnipeg Hydro in terms of the assumption of any debt that they had, in terms of the age of the plants that were there and the cost of maintenance of those aging plants—I understand Point du Bois was the first; I think it was the oldest plant on the Winnipeg River—in hindsight, do you believe that it was a good deal?

Mr. Brennan: I think it was a phenomenal deal for the people of Manitoba. I really do. Manitoba Hydro clearly does maintain our operations differently than the City did. There is no doubt on that. I think that from a provincial perspective we definitely did the right thing.

Mr. Hawranik: Are there any projections as to how much debt will be added to Manitoba Hydro as a result of the new Manitoba Hydro building?

Mr. Brennan: That is not one of the exemptions. We allow for our capital, our construction ratio—we want to finance out of earnings all capital construction, including buildings, out of our operations, and only finance new generation transmission. So I expect that to be financed out of operations.

* (10:10)

Mr. Hawranik: You just mentioned that you want to finance out of operations, in terms of profits, I suppose, or revenues of Manitoba Hydro, you want to finance the Manitoba Hydro building out of that?

Mr. Brennan: Out of net revenues, plus adding back any operating expenses that did not require a cash outlay, and that would be depreciation of our capital investments. In other words, any cash generated out of operations we would use for capital construction, other than new generation transmission.

Mr. Hawranik: How do you expect to finance the Wuskwatim dam? Is it going into debt, or how much of that will be going into debt?

Mr. Brennan: The majority of that will be financed by debt, and we expect to repay that through the benefits of the plan.

Mr. Hawranik: Any projections as to how much the debt will increase as a result of Wuskwatim construction?

Mr. Brennan: Yes, we have those available. I can make them available for you.

Mr. Hawranik: How does Manitoba Hydro expect to finance the construction, or how much do you project to add to the debt with respect to the Keeyask generating plant?

Mr. Brennan: I would have to make those numbers available to you as well, but the majority of that will be through debt.

Mr. Hawranik: With respect to Conawapa, can you also provide me with that information, in terms of how much debt will be added to Manitoba Hydro as a result of the construction of Conawapa dam?

Mr. Brennan: Yes, if you take a look at the graphs we provided for you, it shows what our capital construction activity is in total. It also shows what the increase in our debt is, but we can make it available for you as well.

Mr. Hawranik: What is the lifespan of the Pointe du Bois dam and the Slave Falls dam?

Mr. Brennan: The existing facilities?

Mr. Hawranik: Yes.

Mr. Brennan: In the case of Pointe du Bois, Pointe du Bois, the city, had plans to rehabilitate it and we are looking at what our options are. We took a fresh look at it, and the question comes down to whether we want to rehabilitate it or completely build a new one. It is an underdeveloped plant based on the flow of the river, and we have not decided at this point in time. But we do think a leading contender will probably rebuild the plant.

Mr. Hawranik: Can you indicate since 2002 what the cost of renovations or improvements have been to the Pointe du Bois power generating station?

Mr. Brennan: We have held off doing anything major to the facility because of the review going on, but we can provide the number you are asking for and we will do that. Most of the expenditures we have made are related to something we had to do, physically or for safety reasons.

Mr. Hawranik: I would like you to also provide me with the revenues that have been generated from that plant in the same period of time.

Mr. Brennan: Because we have an integrated system, all of the power goes into the system. We sell out of the system, so we cannot identify which power was sold on the export market attributed to Pointe du Bois, but we can tell you how much energy was contributed by Pointe du Bois and you can plug your own numbers into it.

Mr. Hawranik: Has Hydro done a projection in terms of what it would cost to replace the Pointe du Bois dam should Hydro feel that it is necessary to do that rather than to renovate or to refurbish it?

Mr. Brennan: As I mentioned, the studies are still going on, so at that point in time we have hired a consultant to look at it for us and not all the numbers are complete at this point in time. I am not sure what I can give you, but I will take a look.

Mr. Hawranik: I have a few questions with regard to what you had indicated during your presentation. I noticed in, of course, 2003-2004, Manitoba Hydro lost over \$400 million, and at the same time it generated about, it looks like about 18 billion kilowatt hours of electricity.

What is the break-even point for Manitoba Hydro, given that they lost \$400 million in 2003-2004 and generated around 18 billion kilowatt hours? What is the break-even point in terms of the billions of kilowatt hours required before Hydro will break even?

Mr. Brennan: I do not think there is a break-even number. It is going to be a function of what values we get on the export market, what our costs are and what our own revenue is internally, and that fluctuates by year. I do not think there is a break-even number.

The fact of the matter is, under average flows, we count on 40 percent of our revenue to come from extra-provincial markets. So any time you are below average, it is going to cost us something, and the extent will be just how bad the flows are.

Mr. Hawranik: Well, surely, for 2003-2004 you know you had 18 billion kilowatt hours that were generated, and you lost \$400 million. How many more billion kilowatt hours would be required in that year to have broken even in that year?

Mr. Brennan: I do not think it is as simple as that. I can try to look at models to try to give you the answer to that, but we buy and sell on the export market. When your reservoirs are low like that, we can buy overnight and sell back in the day and stuff

like that. So much is a function outside of just our own system. So it is really hard to pinpoint it for you.

Mr. Hawranik: Obviously, in 2003-2004, you had to replace that energy that you were under contract to supply and you were not able to supply. Where did you get that energy from? Is it a variety of sources or where would you have gotten that from?

Mr. Brennan: You know, you are correct. I am not sure what the load was that year. So we could figure it out, what the Manitoba load was, and the difference we would have to get from somewhere. In addition to that, we have firm export contracts, as you suggest, that we would have to supply as well.

Some we would purchase on the export market as it was available. Some would come from our coal facility at Brandon, our coal plant. We also have a gas-powered thermal station at Selkirk that would be used depending on price, and we also have a 260-megawatt gas-combustion turbine in Brandon that we would use as well.

What they do is they take a look at all those and try to determine what the lowest cost is, and we would use that all the time including any purchase from outside the province. So it would depend on the day and the weather and the whole like as to where it came from, but it would be a combination of all those.

Mr. Hawranik: Between 2003-2004, I suspect you would have purchased some energy from outside of Manitoba, that was generated outside of Manitoba.

Can you give us an idea as to what the cost of that energy would be as opposed to what we sell it for to the export market?

Mr. Brennan: I could give you an average of what we paid. That just does not mean we bought it for our own system. Some of it will be we bought and we sold again. But we can give you the average cost of both for that year.

Mr. Hawranik: I am not sure what page it is in your presentation, but there is a chart with respect to the equity ratio. I note that you want to get to the 0.25 desired equity ratio, and you are not going to do it until 2016.

Can you give me an idea as to what effect that government special dividend had on the debt equity ratio, and if that dividend had not been taken, how that would have accelerated the possibility of getting to the 0.25 level?

* (10:20)

Mr. Brennan: We have a financial forecast every year that we make up, and it goes before the Public Utilities Board. That will be available, so we could, right after the—There were two things happened. Of course, we had the dividend to the Province, and then we had the major loss, but it will show you what happened. Clearly, the attainment of our equity was not achieved. Now, that is going to be offset by the current year, where we are forecasting real good flows.

Mr. Jha: Mr. Brennan, I would like to know, in 2002, in the financial statement, we see Current and Other Assets of \$2.2 billion and Current and Other Liabilities of \$1.69 billion, so the difference is about \$550,000. Would that be in the form of cash?

Mr. Brennan: I do not think we can say that. Current and Other Assets includes cash, so I am just not sure how much is in there and I do not think it is possible to just subtract the two and call it cash.

Mr. Jha: What I want to clarify in terms of the dividends paid in, it was not borrowed money, it was real cash available in different forms, but it was not something like a building or current assets and current liabilities which to me are something which are liquid, so current assets of \$2.26 and current liability of \$1.6 gives an indication of that, the difference was something that would be liquid, available to.

Mr. Brennan: Actual cash on hand, Manitoba Hydro's goal is to never have any cash on hand. Like it really is, we try to manage our affairs so we do not have an asset that is not working, so our goal will always be to just sort of manage right to that number if we can. Cash management is extremely important to us and, like, there is a big cost if, you know, we can do things just to improve everybody paying their bill one day earlier, we would have a real amount of cash that would offset a lot of things. But I can tell you how much cash was available at the end of 2002-03, and I would hope it is very, very little.

Mr. Jha: Thank you. I just wanted to clarify that the current asset, current liability is that liquid. It is not something which is fixed assets or it is not something that is capital. It is something that is available in a different form, whether it is term deposits or payables, or all, but they are liquid in terms of the current assets and current liabilities.

Mr. Brennan: Yes, you are correct. Current assets represent assets that will be turned into cash within a

year, usually, and current liabilities are liabilities that have to be paid within a year.

Mr. Jha: Thank you.

Mrs. Mitchelson: Madam Chair, I think, if I heard Mr. Brennan correctly, he said that the Hydro building downtown is going to be financed out of operations, and that is net revenues, so there is no borrowing associated with the \$188 million. That is the cost of the building, and maybe I could just ask, over what period of time would that be paid, then. Are the buildings going to be up in 2007?

Mr. Brennan: Well, we are spending money in the 2005 year, 2006 year, 2007 year, and it will be the 2008 year.

Mrs. Mitchelson: Could Mr. Brennan tell me, have all the contracts been tendered now, have they all been let for the building?

Mr. Brennan: No. A very few of them. We are just working on the foundation at this point.

Mrs. Mitchelson: So the foundation is the only one. What did that estimate come in at, or what was the contract for, for the foundation work?

Mr. Brennan: I would have to get it for you. I do not know off the top of my head.

Mrs. Mitchelson: I guess, is there any breakdown of what the \$188 million does? Like, how much would be foundation, and then what are the other stages? How many contracts will have to be let in order to complete the building?

Mr. Brennan: There are a good number of contracts in there and a good number of components. We do have it all broken down. I am not sure what that will do to make that available to you, though. It probably would not make it very good for us from a competitive point of view.

Mrs. Mitchelson: I do understand that. I mean, if you are tendering for work to be done, I know you have got ballpark figures in your mind, and I guess you have to see what the tenders come in at.

Mr. Brennan: I hope they are more than ballpark figures.

Mrs. Mitchelson: Well, I guess that leads me to the foundation work then. I guess, can Mr. Brennan indicate whether we are on target or whether there are any cost overruns to date for the foundation work?

Mr. Brennan: What we have included in the \$188 is a contingency as well. It seems to me it was over the estimate, you know, and consumed some of our contingency.

Mrs. Mitchelson: How much of a contingency would be in that \$188 million price?

Mr. Brennan: I prefer not to say if I could, but there is a contingency in there.

Mrs. Mitchelson: Thanks. I guess, I have some concern because the only tender then that has been let is the foundation work, and I am hearing that there are significant cost overruns with that foundation work. I am wondering if Mr. Brennan could confirm, or has he had a report on what is happening with the first phase of the new building.

Mr. Brennan: I do not think I said "significant." That was not my word. I did not say "significant."

Mrs. Mitchelson: No, I did not indicate that Mr. Brennan had said significant. I am indicating that I am hearing that there are significant cost overruns as related to the foundation work. So I am just wondering whether Mr. Brennan has any information that might indicate whether those rumours are founded.

Mr. Brennan: I think it is too early to say at this point. There have been other contracts as well, like there are drilling contracts and that sort of thing. I think they did some drilling for the geothermal system and stuff like that. Some of them are over. They also came out with a tender for an elevator. You know, the elevators have already been tendered. Apparently, somehow that is on the critical path. That was under.

So I think it is premature to say whether we have an issue here or not. Certainly, we are all concerned about the competitive market we are going into though. I think that is probably where the concern is, rather than where we are today. If people are talking, I think that is where the discussion would centre around.

Mrs. Mitchelson: Can Mr. Brennan indicate, and I do not know whether he will have the answer to this, but maybe he could try to find out what the costs of steel are: I know there has been a real run on steel and China is certainly using a lot. Do we have an adequate amount of steel here in order to do the foundation work? Are we finding that the prices are higher than what might be anticipated because of any shortages?

Mr. Brennan: No, for sure the cost of steel has gone up dramatically in the last couple of years. There is no doubt about it. Our estimate reflects some of that. Whether it reflects it all or not, we will have to wait and see. But it has been going up for about a year and a half now, so it is an issue, for sure.

* (10:30)

Mrs. Mitchelson: Can Mr. Brennan indicate, and I know that the cost of the building was \$188 million. The additional resources that are required, I believe, are another \$70 million for certain things that I know are outlined, I think, even in the presentation, but is there any breakdown on that \$70 million? We talked about new security and those kinds of issues. We talked about a walkway, and those are not included, and I believe, if I can recall, some preliminary design work. So can we have a breakdown of that \$70 million?

Mr. Brennan: Can I take that under advisement and just see if we think it will hook us up?

Mr. Chomiak: I am not certain, but I believe the briefing notes that the member got with respect to the building do include those costs. We might reference, not this briefing note, but the previous package that Hydro had provided to the member as a result of requests, so somewhere between that, the answer will be provided.

Mr. Ron Schuler (Springfield): To Mr. Brennan, I spoke with the developer yesterday who indicated that cement is actually being rationed in the city, and I understand that Calgary right now is out of cement. China seems to be buying a lot of the world's supply. I think in Calgary right now it is up to a four-week waiting period to get concrete poured.

The question that the committee has is was the cost of building supply increases, steel being one obviously and cement and the other things, factored into the original price. Do you have a certain cushion in the price that is given of 188 plus-plus, is that built into there?

Mr. Brennan: We would have used the price for concrete that we thought was probably the best price, or the price that we thought it would be in the future. In addition to that, we have a design and contingency and then we have an overall project contingency. So, with it all, I certainly want to make sure that we build a building within that.

Mr. Schuler: So, as it stands right now, you are still comfortable that the building should come in at the

projected \$188 million and then for a total price that you gave us here on the slide, factoring in the security and all that kind of stuff, you see those numbers as being something that you can rely on, or are you going to be looking at a 10 percent one way or the other, or is there sort of a footnote somewhere that says, "based on current prices," again, the concern being that ratepayers in the end are going to be paying a hefty price some day down the road if the projections are off. And again, back to steel, concrete and all the other items that go into a building like this, if you went at the current rate of that day, today those would be considerably more. So my question is are those numbers something that you are comfortable with.

Mr. Brennan: The numbers that the project team has are the numbers that we are allocating for that building. So, if we experience problems in some of the future prices, somebody is going to have to cut back somewhere because that is all I want the building to cost, period.

Mr. Schuler: Because time is very short, I have one more question, which is a little bit off of where we are right now, and that has to do with what are the plans for all the other buildings. You mentioned that you are in warehousing space, et cetera. I take it those are short-term lease agreements. You are going to live out those agreements and then just let them lapse, and the buildings that you own, for instance, the big building, what are your plans for that building? Is it going to sit dormant? Are you looking at selling it? What are the plans for that building and the other lease agreements?

Mr. Brennan: What we did before we came up with the ultimate design, we identified 800 000 square feet as our total requirements. The head office building we have now is about 200 000 square feet and we are looking at another 630 with the downtown building. So we have to retain, at this point in time, the building on Harrow, and we expect one business unit to be located in that building. All the other buildings for the most part are leased buildings, and all the leases we have tried to time so they come due in 2007-2008, that period of time.

Mr. Hawranik: Can you confirm to me that that \$188-million estimated cost for the building is the current estimated cost? It is not an outdated cost estimate?

Mr. Brennan: When we came up with the cost figure, that was the cost figure that we gave the project team to build the building in. That was the

estimate at the time and we expect the building to be built out of that. That means they are going to have to manage the construction of the building to produce that. Hopefully, they can, and that is what I am looking for.

Mr. Hawranik: I know you indicated that you did not want to indicate this time what the contingency was on that in terms of the construction costs of \$188-million building, but is it safe to say that the contingency is already included in the \$188 million, that it is not extra beyond the \$188 million?

Mr. Brennan: We have two types of contingency, one of which is in the 188 million and one is outside. The one within the 188 is available to the project team, and the other one they have to come to me to utilize or the senior people at Manitoba Hydro.

Mr. Hawranik: Will you indicate how much the contingency is that is outside the \$188 million? How high is that? How much is that contingency?

Mr. Brennan: That was the one I told Mrs. Mitchelson that I would like to take a look at before I decided that.

Mr. Hawranik: Can you tell me what plans are for that contingency outside the \$188 million? What does it really cover?

Mr. Brennan: A contingency covers unexpected cost increases in the building, so I would love to have it as a reduced cost of the building at the end. Whether it will be available or not, I would probably doubt it, but that is what I would like to see happen.

Mr. Hawranik: As a matter of in the course of construction business, you normally build in a contingency into the cost of any building. Can you confirm that the cost, that the contingency within the building cost of \$188 million is roughly in the neighbourhood of 10 to 15 percent as is the case with most buildings?

Mr. Brennan: I would think, we deem it to be a normal contingency.

Mr. Hawranik: You indicated that there is an extra cost to steel. In what you mentioned earlier, there is going to be an extra cost to steel. Would the extra cost of steel be within that contingency for the building, for \$188 million?

Mr. Brennan: As I mentioned, cost increases in steel have gone up over an extended period of time, some of which would be reflected in the estimate directly. By the time we go to tender on steel, I am

hopeful that the steel will be the same price we have in the estimate.

Mr. Hawranik: Well, you indicated that the cost of the foundation, the extra cost of the foundation was within the contingency for the \$188-million building. Do you believe that the cost of steel will also be within that same contingency?

Mr. Brennan: I guess I just do not know at this point in time. I would hope it would be in the base estimate, but I am not sure it will be. I do not think I know.

Mr. Hawranik: You indicated that the building will not increase the debt of Manitoba Hydro. Can you confirm then that there will be no interest paid by Manitoba Hydro in the construction of this building?

Mr. Brennan: Assuming we do not go into a low-flow year or something like that, I would think it is a reasonable thing to do, yes.

Mr. Hawranik: Is the pace of construction of this building, is it on schedule in terms of Manitoba Hydro's requirements and Manitoba Hydro's expectations?

* (10:40)

Mr. Brennan: Finally, I got that right. Yes, it is right on schedule at this point.

Mrs. Mitchelson: Just one more question on the building. Mr. Brennan. You indicated that in 2005, '06, '07 and '08, money will come out of net revenues to pay for the building. My calculations would be that—I mean, we are looking at \$258 million because that would be the total amount of cost that would come out of net revenues. That would be approximately \$60 million per year for four years. I am just averaging it out.

When you are talking about net revenues, I guess that would mean export sales that would generate the revenue to pay, through operations, the cost of the building?

Mr. Brennan: It would be net income, plus depreciation we would have to add back, so whatever net income. Net income would produce the net cash that we would have available for construction, plus the depreciation expense.

So, if we take a look at the current year as an example, we have \$322 million in the case of electrical operations and depreciation is \$302 million. So we would have over \$600-million worth of cash available for construction in 2005-06.

The current fiscal year would give us over \$600 million. So it would come out of that.

Mr. Cris Aglugub, Vice-Chairperson, in the Chair

Mrs. Mitchelson: I wonder if we could maybe move on, and I could ask some questions on the Wuskwatim dam and where we are at. My understanding is, I read in the paper, that the federal Oceans and Fisheries report will be out today for public comment.

I am just wanting you to sort of help me through the process here. When that report comes out, if it is today or tomorrow, whenever, my understanding is that there are thirty days for the public to look at that report and make any comments back to the federal department or the federal minister if they have any issues or concerns about the report. Can you confirm that?

Mr. Brennan: My understanding is the same as yours.

Mrs. Mitchelson: Then I guess the federal government or the minister would take a bit of time to look through those concerns or issues raised and then get back with an answer on whether it is a go or not, based on the feedback. Is that a correct assumption?

Mr. Brennan: Yes.

Mrs. Mitchelson: Can I ask then whether that final report would need to be available before there is a vote in the community on the project development agreement? Would that be a correct understanding?

Mr. Brennan: I do not think it has to be. They are scheduling that now in late January, the vote. So I think it would be helpful to the community to have all the licences in place. I do, but it is not in our control.

Mrs. Mitchelson: But I guess my question would be whose control is it in if it not in Hydro's control? Who would make the decision to hold a referendum vote in the community on the proposed project when all of the environmental licences are not in place? Who would make that decision?

Mr. Brennan: The leadership of the First Nation decides when they want to take it to their community for a vote and they are satisfied with the environmental impacts. They have consulted with the community extensive times as to what the issues are associated with the environmental issues associated with the project. These communities are, obviously,

very concerned about environmental impacts because of the work Manitoba Hydro has done in the past. I think that the work they have done to try to make themselves feel comfortable with the project is probably much more important.

They do see the report and the report seems to be quite good from our perspective. We knew that the Clean Environment Commission thought it was a reasonable project and, you know, they asked us to do some monitoring issues that we, of course, will do, but I think everybody is comfortable with the environmental impacts, including the people we talked to.

Mrs. Mitchelson: Well thanks, Mr. Chair, but I do have some difficulty, you know, I mean this is all about process and licensing and the environment, and I have some difficulty with members of a community being asked to vote on a project when all of the environmental checks and balances have not been approved. So I have some concern, and I would believe that the community itself would have some concern on those issues.

Can Mr. Brennan indicate whether any work has begun in the community, either on the road or the campsite to date, before the vote has been taken by the community? Is there any work ongoing right now.

Mr. Chomiak: Mr. Chairperson, it is obvious I am trying to keep my interjections to a minimum to allow members to have adequate and ample time to ask all the questions.

On the specific general issue of the licensing, the environmental licensing, be it of Natural Resources Canada, Fisheries and Oceans or the Department of Environment, we just, within the last six weeks, had a meeting of all provincial and federal participants on all of the environmental licensing processes. The same frustration that has been expressed by the member was expressed by all jurisdictions regardless of type of project or regardless of political orientation with respect to the process. There has been a commitment from the federal government to try to attempt to expedite processes with respect to, and I will make it very clear, Fisheries and Oceans seems to have been a problem for every single jurisdiction with respect to allocations and licensing because of processes that are following.

We have been given an indication from the Minister of Environment that matters of this kind will be modernized from a more mechanistic 1930s

and 1940s type process to move it into a more functional process. That process has been endorsed by all ministers of natural resources or all ministers of environment across the country and the federal government with respect to how the licences are applied and what process is followed, because the issue of process has resulted in a lot of delays for a lot of projects that, for example, would not, by any stretch of the "environmental viewpoint," have any need for Fisheries and Oceans, for example, to really be involved. So it is a much larger issue than just applying to Wuskwatim.

Mrs. Mitchelson: Mr. Chair, then I will ask the minister who has responsibility for Hydro development, but the government that has responsibility for ensuring that the environmental process is followed: Does he condone the project development agreement being voted on before all of the environmental licences are approved?

*(10:50)

Mr. Chomiak: Mr. Chairperson, the member can appreciate that I, as minister, am not responsible for the issuance of the environmental licence, that the environmental licences are independent of the proponent, in this case, Manitoba Hydro and NCN, with respect to the particular licences.

It is very clear that, as a result of the CEC commission, there was significant work that was done and a significant go-ahead, as well as two referendums, I might add, two referendums held in the community with respect to the agreement.

Since this is a new process that we are moving into, we are attempting to enter an era where we are not, as Mr. Brennan indicated in the slides, mitigation and related efforts have cost Manitoba Hydro \$572 million, what we are trying to do is to proceed in a process that has approvals and has buy-in from communities and other organizations prior to the construction. I think that the process that is being followed is proceeding along those lines.

The past history of whether environmental licences were issued or not, we are still stuck with a bill of \$572 million of mitigation. The process that we are entering into, working with the local communities and trying to deal with issues prior to development of a project, I think, is much more favourable for both the First Nations community and the Province and Hydro with respect to these developments.

Mrs. Mitchelson: The minister says they are going through a brand-new process. I guess this process will indicate and set the precedent for other processes to be followed on hydro development. So, again, just a very simple question to the minister, because when we are looking at hydro development, when we are looking at sustainable development, we have to look at examining the economic benefit and the environmental issues. It is a combination of both and there must be a balance.

So is the minister saying today that the environmental process and the environmental checks and balances do not need to be put in place and ratified and licensed before they go ahead with these kinds of projects, because we are setting a precedent here with this project that will have significant implications for future hydro development?

So I would like to get some sort of a sense of where the policy direction from this government is coming. Are they saying that the environmental issues are not a concern? Are they not important? Is it not important to have the environmental processes completed and licensed before these kinds of significant developments move ahead?

Mr. Chomiak: It goes without saying that developments cannot move ahead without environmental licences. Of course, I concur. The member is right. I want to advise the member that, in fact, the extensive CEC hearings recently completed outlined those processes and outlined the development. So I do not see what point the member is making. I think we are in concurrence on that.

Mrs. Mitchelson: Well, those will be interesting comments for members of the public to read.

Mr. Chair, I would like to ask Mr. Brennan when the project development agreement will be released for members of the community to have an opportunity to read and provide their input, when there is a plan for that to be released, because my understanding is, and I believe Mr. Brennan has said in the past that from the time of the release of the project development agreement there should be a couple of months at least for the community to have some input before it comes to a vote.

A couple of questions people are asking: Will it be translated into Cree, would be one, because I believe there was a commitment previously for that to happen; and will the side agreements, the financial agreements, the training agreements and all of that—

will those side agreements also be released for public input before the vote takes place?

Mr. Brennan: I am not sure what the schedule is for all the other agreements. The main project development agreement is expected to be done any day. I expected it a month ago. There have been delays, individuals got sick, and one thing or another. But I expect it any day. The community should have a good length of time to discuss it. Consultation is quite important. They have been doing it for some time now. I do agree with you that they need to get the agreement out so they can talk about it in the community. This whole process is led by the community itself, not Manitoba Hydro. We would like them to take what they deem as the appropriate amount of time. But I do expect the project development agreement to be finished any day.

Mrs. Mitchelson: Then are the side agreements a part of that project development agreement or are they separate agreements, and where are we at with the financial and the training agreements that would be side agreements? Are they finalized? Have all of the issues been dealt with and has there been agreement on the cost sharing issues and the training issues?

Mr. Brennan: The project development agreement will take care of all major issues that the community should be concerned about. There are details on how things will work, and in other agreements, and those are more process agreements and do not have the same sort of principal intent, if you will.

But the project development agreement is the main agreement that requires all the financial details and the like. That is where all the issues are coming about, is in the project development agreement.

Mrs. Mitchelson: So then we are clear that the agreement that the community will be asked to vote on will be the financial arrangements; all of that will be included in detail in that project development agreement. Will there be commitments on the training side? Will that all be spelled out in the project development agreement that is released prior to the vote?

Mr. Brennan: Yes.

Mrs. Mitchelson: I think I did ask a question just before the minister and I got into a little bit of dialogue around whether there has been any work that has started on the site, whether any road construction has started or any campsite activity has

taken place. I wonder if Mr. Brennan could indicate for me if there is anything happening right now.

Mr. Brennan: We have people all lined up to start construction, assuming we get all the approvals we require. I would hope, by the way, that the environmental licences come quickly, regardless, myself, as well. So I do hope that they would come soon.

In terms of actual work, there has been some surveying done, but that is the only physical work, I think, that has been done. But we are ready to move if the community, in fact, approves it, and we get all the required licences.

Mrs. Mitchelson: I think we all would want to see the environmental process move forward. I just want to make sure that all of the checks and balances are in place before an actual agreement to move ahead happens.

Are we still on track for the \$900 million which was the estimated cost of Wuskwatim, or has that changed?

Mr. Brennan: I have the number in the presentation, I believe. It is 958 or something like that. But that is the latest number.

Mrs. Mitchelson: I think Mr. Brennan did indicate that this project will be funded by debt.

Mr. Brennan: You are correct. The majority of it will be funded. Unless we have some real humongous years in the next little while, it will be.

* (11:00)

Mrs. Mitchelson: I know that there has been a significant amount of expenditure on training, pre-training. There was some concern that the federal government, who was supposedly in for \$30 million for training, had not really come to the table yet with their money. Can Mr. Brennan indicate whether the federal government has approved, and whether the \$30 million is there for training?

Mr. Brennan: They have committed to the \$30 million, and you are correct that they did not come to the table as fast as I would have liked in the current year, but we talked to the communities and we talked to the federal government and the Province and we were able to persuade the federal government to come to the table with their money and they did.

Mrs. Mitchelson: Can Mr. Brennan indicate, and it might be in the presentation somewhere, how many jobs will be created during the construction, and

then, I guess, the next question for me would be how many permanent long-term jobs will there be in the community after the dam is up and running.

Mr. Brennan: The numbers you are looking for are not included in the material. We will provide them, both from a capital construction point of view as well as an operating point of view. Manitoba Hydro is always looking for qualified people, though, and, certainly, we believe that through the pre-employment training we are going to get tradesmen in a lot of areas that will be able to get jobs in employment and construction work other than Manitoba Hydro.

By the way, some of the things we are doing here are going to be real leaders that are going to force other people to follow our way of doing it, I think. I could be wrong, but I am quite proud of what we are trying to do, anyway.

Mrs. Mitchelson: Thank you very much, Mr. Chair, and I do not argue with that all. I think that you have been extremely responsible in trying to develop and work with communities to ensure that there is employment opportunity during the construction period. I would like to know, though, how many permanent jobs will be available with Manitoba Hydro after the construction is completed and whether those that are trained to work on Wuskwatim would have the opportunity to move to, you know, the Gull project or the Conawapa project. Will there be that ability? I know there is some concern by other communities, the four that would be associated with Gull and then whatever happens with Conawapa, on whether, in fact, there would be training and opportunities for their own band members. So there is some issue, you know, as we get people, skilled workers, trained, will they be able to move or will we have to start all over again with training of new people for the new projects?

Mr. Brennan: We do hope to get trained, skilled people with journeymen licences that will be able to go from one project to the other in all cases.

Madam Chairperson in the Chair

There is a concern, as you suggest, by one community and another, that they are going to be competing for the same jobs as skilled tradesmen and, I guess, to some degree that would be true. We are trying to allocate jobs between the communities. But what we will do is give numbers by each project

and how many ongoing jobs as well. We will give that to you.

Mr. Jack Penner (Emerson): I appreciate the response that Mr. Brennan has offered so far.

I wonder, as far as the training of people for this project is concerned, are you embarking on a similar kind of process that was established by the previous government when the previous hydro dams were built? I only ask that question because, when we took government in 1988-89, there was a very significant inventory of equipment left behind that was scattered around in the bush and all over the place.

I know Mr. Derkach and I travelled out to the site at the time, and the huge amounts of parts and equipment that were stored, Quonsets full. I am wondering whether the process for job training will be similar to what was embarked upon at that time.

Mr. Brennan: We are using a completely different process this time altogether. There are training agencies that the communities are accessing to provide training. So, although some of them are providing their own facilities right in the community—Nelson House is one of those—for the most part, Manitoba Hydro is not involved in the training per se and neither is the government. They are managing it themselves.

They seem to be doing a reasonably good job. Some communities are ahead of other communities and that sort of thing, but some of the training programs, of course, are available to them all and that is good. So it is a different way of doing it, but it seems to be going well so far.

Mr. Penner: Previously, the job training, I believe, and I stand to be corrected here, but I believe was initiated by the Province and done by the Province and the NDP government at the time. You are saying now that the training will be done by communities within the communities, and experts or educational staff will be brought in to train these people by the communities. Who is financing and funding that?

Mr. Brennan: The training plans are approved by the funding partners. Each community comes out with what kind of training they want to do. Then the funding partners approve that and the money comes out of the fund that is available. They access, for the most part, existing opportunities for training rather than setting up an agency like the one you referred to.

Mr. Penner: The equipment required to train these people, for instance, for heavy equipment operators, training them in that respect, who will own that equipment and what will happen to the equipment after the project is finished and the training has terminated?

Mr. Brennan: It is my understanding that the equipment will be part of the people providing the training services.

Mr. Penner: Who, in fact, Madam Chairperson, will be doing the training? Who are the agencies that are doing the training? If they are, in fact, the agency that also owns the equipment, who are they?

Mr. Brennan: I will have to get them for you, Mr. Penner. I do not know them all off the top of my head. I remember the Métis Federation was providing some of the training out of one of their training programs. I remember that one specifically, but I do not know them all. I am not close enough to it, but I will get it for you.

Mr. Penner: I would like to ask the minister then. Is the government providing any equipment and/or are they providing funding to buy equipment and/or is the government involved in setting up these training centres?

Mr. Chomiak: We are involved, as I understand it, through other government departments, and I will take that question as notice and provide that information back to that member.

Mr. Penner: Is the government, again, going to be providing the equipment to do the training?

Mr. Chomiak: I think we are very fortunate to be in a position where, as we face a skill shortage going into the next decade, which is evidently apparent to all western provinces and certainly across the country, skill shortages and the ability to match skill shortages with chronic underemployment situations is a circumstance which we are all hoping to use to both economic and social advantage. So I am very pleased that we are in an opportunity where we can do that.

With respect to the issue of specific purchases of equipment per se, I will take that as notice and determine whether or not it is in the auspices of this committee. I will get back to the member on that.

Mr. Penner: I find this passing strange that the minister would not even know who is buying the equipment to do the training and who was going to

own the equipment after the training has ceded. I would suspect that the training program would be underway as we speak. Is that correct?

* (11:10)

Mr. Chomiak: Yes, there is training ongoing as we speak.

Mr. Penner: So the minister cannot answer the question then: Who owns the equipment?

Mr. Chomiak: Yes, as I indicated I will get back to the member with respect to the specifics, or perhaps the member and Mr. Derkach would like to take a tour or something, and we could perhaps arrange that.

Mr. Penner: Well, thank you very much. Again, this sounds like we are into the similar process that the former NDP government found itself when they were doing the training on the previous projects. Again we have grave concern that at the end of the project that we will not again, when we form government again, go out there and find almost brand new maintainers sitting in the bush, new caterpillars with one track off sitting in the bush and Quonsets full of repairs sitting there at the cost of the taxpayers of this province, when those kinds of initiatives—and I am really concerned when the minister cannot even answer the question as to who owns the equipment.

Mr. Chomiak: I just want to assure the member of two things. Firstly, he can be assured he will not find Quonsets and Caterpillars off in the bush after this regime. I can assure him of that and I will put that on the record.

Secondly, I certainly hope for the sake of the province that the second realization, and I do not want to appear to be arrogant here, but I certainly hope that there will not be a Conservative regime in place for some time, because I would not want the Province to turn back to the 11 lean years. I do not want to get into—so I will leave it at that, Madam Chairperson.

Mr. Penner: Madam Chairperson, I just want to say to the minister that somebody has come in to clean up after you guys.

Mrs. Mitchelson: Madam Chair, if I could just ask a couple of questions on the Gull-Keeyask Dam. It may have been in the presentation, I just do not remember what the cost is. I know in 2003 we talked

about the cost being \$3.3 billion, including the transmission lines. Is that still a fair estimate or has it changed since then?

Mr. Brennan: That number did not include transmission. I think it is 3.5, but I think it is in the presentation, but I will check it. It is 2.9 billion.

Mrs. Mitchelson: So, that is 2.9 billion for construction of the dam. Is there a transmission line cost on top of that, or is that total?

Mr. Brennan: Transmission is extra.

Mrs. Mitchelson: How much is that anticipated to be?

Mr. Brennan: It will be a function of the route we take, so at this point we do not know. Well, we know what the cost would be based on the transmission option that would be selected, and depending on how we take care of our reliability concerns, other options could be available for us. So at this point we do not know which route it would take.

Mrs. Mitchelson: Thank you, and I know that in the presentation there was some comment made about the internal audit that was done by Manitoba Hydro. I know that the presentation indicated that Hydro was satisfied that there were checks and balances in place and that there were enough details around the expenditures to be satisfied that expenditures had been dealt with appropriately.

Is there anything that might be made public that would, I mean is there going to be a report that has been prepared by the audit committee, or is what we saw in the presentation all we are going to receive? What might be available for public consumption to assure the hydro ratepayers that the money that has been spent? I will refer, specifically, to the \$14 million that was spent over the last two years; I would imagine that was part of what the auditors looked at. You know, can we just get any more clarification, or are we going to see anything publicly that would assure us, other than just the comments in the report?

Madam Chairperson: Mr. Chomiak—oh, Mr. Brennan.

Mr. Brennan: Does the minister want to go first?

Mr. Chomiak: Yes, thank you, Madam Chairperson. I will be writing to the member in the latter part of this week with specific details corresponding to the member in response to her letter.

Mrs. Mitchelson: I will look forward to those comments. The letter was written in April, so I am kind of glad that we have looked into this, or the minister has looked into it, and that I will get some answers.

On Conawapa, again, I would like to ask what the price is for construction of the dam. I know the last price we got from Hydro, I believe, was \$5.9 billion, and that would have been transmission plus the dam construction itself. Can Mr. Brennan indicate where we are at with that number now?

Mr. Brennan: The number is 3.6 billion. All these numbers are a function of what the in-service date is. So that is with a 2017 in-service date. The transmission would be added to that number and, once again, it would be a function of the route.

Mrs. Mitchelson: But in the last committee report, we did have the transmission line numbers presented along with the dam construction, and I would presume that that would have been based on an east side power line, transmission line. That would have been the analysis that was done on the east side. Has there been any analysis done on whether an alternative route is chosen whether the costs would be more or less?

Mr. Brennan: Okay, we know what the cost of the line would be if it came down the east side. We have got an estimate of what it would be on the west side. It is 60 percent longer, so the cost of the actual transmission line would be 60 percent higher. That is the transmission line itself. In addition to that, there is some converter equipment that we believe would have to be added sooner than we would add on the east side, and that advancement would have to be considered as well as the cost.

Mrs. Mitchelson: I guess maybe we can move because I know that for the construction of Conawapa we certainly will need to look at a new transmission line, a Bipole III.

I know that there has been a significant amount of work done on examining the east side of Lake Winnipeg, and I wonder if Mr. Brennan could indicate what kinds of preliminary work was done with the east side communities. I mean I know this has been going on for many, many years, so probably there was some engineering work. Was there any environmental work, and could Mr. Brennan indicate what the costs to date might have been on trying to develop the east side option?

Mr. Brennan: I would have to dig those costs out. There is no doubt some of these costs go back an awful long way because when we originally looked at Conawapa with a 2000 in-service date for the original Ontario sale, we were coming down the east side at that point.

So I think most of the work we have spent in more recent years would be along the lines of consulting with people. We consulted with the communities in the east side. Then the east side planning review that the Province had initiated was conflicting with our work. So we made the decision to stop until after their work was complete. So, at that point, we stopped, and we have not got back into it, of course, because the board of Manitoba Hydro asked us to look at other options.

* (11:20)

Mrs. Mitchelson: So can Mr. Brennan indicate the last time anyone from Hydro had any discussions at all with anyone on the east side around transmission lines?

Mr. Brennan: Our staff, for the most part, has not been talking to people on the east side. I have met, myself personally, with some groups that were interested in trying to develop it for themselves and that sort of thing, you know, getting your own group, and I just at that point listened to them and told them at this point we are not going down the east side. But that is the only communication that has taken place more recently.

Mrs. Mitchelson: The work that the Province decided to undertake, and I will ask the minister some questions, with the east side communities, is Hydro, in fact, funding any of that process today, or have they been since discussions with Manitoba Hydro have not been taking place? Is there any line in the budget of Manitoba Hydro that is paying for any of the east side planning initiative that the government is undertaking?

Mr. Brennan: No, there is not.

Mrs. Mitchelson: So it is fair to say, then, that there is no money being expended in any of the east side planning initiative that have been undertaken by government. It is solely a government responsibility, and that there is no money today in Hydro's budget that is doing anything on the east side?

Mr. Brennan: As a matter of fact, we are spending virtually no money on the east side at all right now, like, just nothing, as far as I know. Usually, the

expenditure of money I am usually right on top of, so I do not think there is anything.

Mrs. Mitchelson: I wonder if Mr. Brennan could indicate whether there has been any risk analysis reports done on a new Bipole III going down the east side or the west side of the lake. What risk analysis, are there any reports that could be made public that would quantify the different risks of having three lines on the one side versus two lines on one and one on the other? Are there reports that Manitoba Hydro has done and could we have access to them if they have been?

Mr. Brennan: I would like to take the access part under advisement, because I am not sure what is in them or that sort of thing. As I mentioned, we do have concerns about another line coming down the east side, or the Interlake route, right away. There are a couple of bottlenecks along the way that cause us some problems. If some kind of weather event took place, it might take all our lines out. That is what the concern is now.

So we would like to have some distance between the lines so that it could not occur, and that means either the east side or the west side. But once you have built another line, though, and first of all, you would build more capacity than you would probably need or, at least, enough to take care of all the existing transmissions, that also means that you also have room now for additional generation to come. That would be quite good.

The big thing we would have, though, is the reliability of our system, should the line go down that is in the Interlake now. But various engineering groups have looked and I think the main reliability concerns are another transmission line in the Interlake.

Mrs. Mitchelson: What risk analysis studies have been done to quantify what the security of Manitoba Hydro's power supply is to the city of Winnipeg? Has there been risk analysis done? What kinds of studies have been done, and how can we guarantee the best security for Winnipeg Hydro, those that live within the city of Winnipeg?

Mr. Brennan: I do not want to be any kind of alarmist or anything. The main area of risk is—like, the cheapest way to take care of—there are two reliability issues. One is the line and one is the converter equipment at both ends.

We have two converter stations now in the North, Radisson and Henday, and we only have the one in the south. The one in the south is also the interconnection point for a major transmission line going to the States, of which we can import power on that line as well. That is all hooked up with Dorsey. Dorsey is a major concern for us as well. When we were building the east side, we were only building the line, not the conversion equipment, and the conversion equipment would help us with some security concerns as well.

The probability of the line going down is very, very low. We have done studies to indicate the probability is low. Having said that, the consequence of it coming down are extremely bad, like extremely bad. So certainly if anything is going to happen, it better be after I retire.

Floor Comment: Me, too.

Mrs. Mitchelson: I was just going to say, me too.

Can Mr. Brennan indicate whether there has been any change in the risk associated with the security system? Has it been upgraded in any way to indicate that internally within Hydro there might be a greater risk to security today than there was in the past?

Mr. Brennan: For sure there is. As our own load grows, the risk gets higher. In other words, we have more and more of a problem should something happen. Our own load is going up 1 percent to 1.5 percent a year. So it does become an issue.

By the way, I got the answer. The export sales were \$554 million in the U.S. and you asked how much energy would that have been, and it is 9.6 billion kilowatt hours. The actual number is 9569 million kilowatt hours.

Madam Chairperson: Mr. Brennan, is that with a "b" or an "m"?

* (11:30)

Mr. Brennan: 9.6 billion and it is 9569 million kilowatt hours.

Mrs. Mitchelson: I would like to ask the minister a few questions on the east side of Lake Winnipeg and the planning process that was established. Maybe the minister could indicate to me who has been involved or who has been on the committee from the government's side to undertake the process of consultation with the site communities.

Mr. Chomiak: A fairly sophisticated several-year process was undertaken by the government. It consisted of a leader—[interjection] I was not minister responsible during a large part of the process. I will want to confirm all the dates and numbers for the member so what I will do is give the member a general assessment and get the specifics back, if I am inaccurate.

Several years ago a process involving several Cabinet ministers in several areas and the leadership of every community held a series of 80 meetings on the east side where meetings were held with the local leadership and discussions took place. As a result of that, a report was provided to government that was submitted several months ago that outlined a further process that should take place, and we have now restructured into an ongoing process whereby, I believe, 12 of the 14 First Nations have signed agreements to participate in a continuing planning process that involves not just Hydro, but all east side issues related to resource, economic development, et cetera. So there is an ongoing planning process with the communities whereby, if memory serves me correctly, every two months meetings are held with the leadership of the entire community, and there is an ongoing executive committee that meets regularly with a subcommittee of Cabinet that discusses the issues in general. I will provide the member with written documentation about the east side planning process for purposes of clarity and time.

Mrs. Mitchelson: The minister indicated that there was a report prepared after the first phase. Was this before this minister's time that the report was prepared, or was the report provided to government after this minister became the Minister responsible for Hydro?

Mr. Chomiak: The report came after, and I will provide the member a copy of the report.

Mrs. Mitchelson: So there is a report then that was prepared for government and we can have that. Good. Okay.

It says, and I know the minister, and I am quoting from the minister's words on a radio station. He said, "The overall consensus that came back from the east side communities was that they did not want a hydro line going through their territories, disrupting hunting, trapping, and traditional ways of life." Is that in the report that was prepared for the government?

Mr. Chomiak: That was certainly the consensus of the meetings that took place. The report itself indicated that there should not be a transmission line without significant further discussion, and I am just quoting roughly from the report, but, again, when the member has a copy of the report, she will be able to see the specific. The member may have a copy right there, if my eyes serve me correctly.

Mrs. Mitchelson: Yes, I do have a copy of a report, but it was a report that would have been transmitted to the Minister of Conservation (Mr. Struthers). I am just looking through the report, I have not got the pages here, but my understanding that this report was the round table First Nations report, and I do not see any ministers' names as a part of the round table.

Mr. Chomiak: By this afternoon, I will provide the member with the most current documentation and annotate for the member the comment that I referred to. I have it in my office.

Mrs. Mitchelson: Thank you very much, that would be very helpful, because I have not seen anything public, anyway, that would indicate that communities on the east side did not want a hydro line going through their communities. I think the recommendations that are in this report, anyway, indicate that they certainly wanted to have input and discussion and be a part of the process, but I do not see anything in this report, anyway, that would indicate as strong a statement as the minister articulated publicly. So the minister, then, is indicating that there is a different report and that we will get a copy of that this afternoon, so I will await that to see what it says.

If I could just go back to the open house, and maybe I will just hold it up for Mr. Brennan, the open house to discuss Manitoba Hydro's future transmission line plans on the east side of Lake Winnipeg could he just indicate, because I do not see a date on it, when this was done?

Mr. Brennan: I would have to check. I am not sure I know. It would have to go back three or four years, though. It is not a current document.

Mrs. Mitchelson: I wonder if I might ask the minister why Hydro has been excluded completely from any discussion on the east side option for power transmission lines. Mr. Brennan indicated earlier that Hydro has not been involved in the process at all, and I wonder what expertise the government, in the absence of any officials from Manitoba Hydro, has, being at the table, what expertise the government

would have to discuss Hydro transmission with the community. What experts were around the table when questions arose that would have been able to answer those questions?

Mr. Chomiak: Madam Chairperson, my understanding of the process, that it was a community-based process that brought together leadership and representation from all of the communities to discuss a wide variety and a wide range of aspects as it affected the east side, not just Hydro. The member might be aware that issues of construction of a road have come up, issues of resource management, issues of trap lines and fishery development have all been part of the process, so it was actually a response and it has been recognized, actually, across the country.

* (11:40)

I note that in the most recent report by the Canadian environmental commission that they noted the east side planning process was a model to be followed with respect to community consultations and to discussing with communities their role, their participation and their input into matters that affect both their lands and their adjoining territories.

So it was a separate process that was entered into by government with communities to try to determine, and not simply to be determined by a transmission line, but rather to look at the social, economic and cultural aspects of all forms of development and future growth and future participation in the economy of all communities on the east side. As I say, it has been recognized within the most recent publication of the Canadian environmental organization as one of the many government practices and public practices that have been entered into across the country in order to allow communities and First Nations, in particular, to fully participate in development.

Mrs. Mitchelson: If I go back to the original planning process and the open house that Hydro did on the east side of Lake Winnipeg, and I would presume that this open house was a process that was part of a process that had been endorsed by the board of Manitoba Hydro and the Manitoba government, otherwise, I do not think Hydro would have been out making this kind of presentation. It looked at a significant process that Hydro, along with the community, would go through. It also talked about the next steps, and it talked about what the East Side of Lake Winnipeg Planning Initiative was, which

was bigger than just the Hydro piece. I understand that and I think it is probably a good process that was undertaken. It talked about the East Side Round Table. It talked about the First Nations council which I think, again, is the kind of process that the minister is talking about and indicating is a very positive process and one that many others may be adopting.

I have no argument with that, but the third part of that was Hydro co-ordination with the East Side of Lake Winnipeg Planning Initiative. As well as those other, the round table and the First Nations council and everything that was being undertaken, there was a piece in the open house document that talked about: Manitoba Hydro is actively participating in the East Side of Lake Winnipeg Planning Initiative, that the corporation has and will continue to co-ordinate its planning, public involvement and communications activities related to future transmission development with the East Side Round Table. The round table will provide regional guidance to Manitoba Hydro regarding future transmission line development within the planning area.

This is a public document. This was a document that was obviously prepared by Manitoba Hydro, endorsed by the board of Manitoba Hydro and endorsed by the minister and the Government of Manitoba. When did this piece of the process get withdrawn and who made the decision that Hydro would no longer be a partner on anything that happened on the east side of Lake Winnipeg?

Mr. Chomiak: The process is still continuing as we speak, and meetings are still taking place as we speak and, I, as Minister responsible for Hydro, am a participant in those meetings and discussions.

Mrs. Mitchelson: Is Manitoba Hydro, or any official at Manitoba Hydro, a part of those discussions?

Mr. Chomiak: There are a number of initiatives with respect to the discussions that are ongoing and continue and will involve Hydro.

Mrs. Mitchelson: I am not sure exactly what that answer meant, Madam Chair, so I will ask for a little clarification. Is Hydro along with the Minister responsible for Hydro at the table in discussions on the east side? Maybe we will just start there, just keep it simple, and then I will ask a subsequent question.

Mr. Chomiak: Madam Chairperson, development on the east side of Lake Winnipeg, development in

northern Manitoba, development on the west side will all involve Manitoba Hydro.

Mrs. Mitchelson: The operative word there was "will." My question is this: Because the minister has said that he has been involved in a process on the east side, can he tell me today, yesterday, last week, last month, I am not talking about the future, has Hydro or any official from Hydro been involved with the minister in discussions on Manitoba Hydro on the east side of the lake?

Mr. Chomiak: Yes.

Mrs. Mitchelson: When was the last time that officials from Hydro and the minister then would have met jointly with the east side round table or council?

Mr. Chomiak: The officials from Hydro and the minister have not met with the Wabanong agency that has now been set up with respect to the discussions that are ongoing at this point.

Mrs. Mitchelson: Was it under this minister or the previous minister that Hydro was asked to step out of any communication or consultation on the east side of Lake Winnipeg?

Mr. Chomiak: I am precluded actually, Madam Chairperson, because of negotiations that are ongoing, from being specific with respect to that answer because there are negotiations that are ongoing as we speak. So I am not in a position to specifically answer that question.

Hon. Jon Gerrard (River Heights): To Mr. Brennan, I notice that the equity ratio for Manitoba Hydro is now about 0.15, which is considerably less than Hydro Québec or BC Hydro. Clearly, you have an objective to have that above 0.25.

Can you tell us why it is so important that you have that equity ratio above 0.25?

Mr. Brennan: We believe, based on the risks the company faces, that we should have some buffer within the company, and we believe that 0.25 is the right retained earnings to have.

We agree that getting there should be one of moderation so it does not hurt our customers, but we believe that that is the right number. The cost of a drought alone now is getting really, really quite high. That by itself would cause us to have a number close

to that by itself really, but to take care of all risk, we believe that is a reasonable number.

Mr. Gerrard: You mentioned, I think, the cost of debt alone is getting quite high?

Mr. Brennan: Drought.

Mr. Gerrard: Drought. Okay. The potential for a rise in interest rates would also be a concern, I presume.

Mr. Brennan: Yes, interest rates are a risk for sure, but one of the things that mitigate that is the fact that most of our debt is for a longer term and it is at a fixed rate, so that helps us quite a bit.

Mr. Gerrard: In the report, you project a net income this year of about \$300 million. Is that the latest up-to-date estimate?

Mr. Brennan: The latest estimate we have is, I believe 326 or something like that, and we are running favourable to the forecast.

Mr. Gerrard: Now, if one considers the net income from '03-04, '04-05 and projected for '05-06, then the net income for those three fiscal years will be, based on your 326 projection, about \$26 million. Is that correct?

* (11:50)

Mr. Brennan: Without going through the numbers, that sounds reasonable.

Mr. Gerrard: One of the questions, recently there was an application to transfer the water licence to Wuskwatim to a numbered company. This sounded very unusual, because my understanding is all the water licences have been held by Manitoba Hydro. Can you explain to us why you would transfer this to a numbered company?

Mr. Brennan: The numbered company, there is a series of companies, actually, that we have set up for the partnership to operate in, and that is one of them.

Madam Chairperson: Prior to proceeding with the next question, what is the will of the committee? We had agreed to take a look at time at 10 to 12, which it now is. What is the will of the committee?

Mr. Chomiak: I think we have a concurrence to adjourn at 12 and return at 3, concurrent with the sitting of the House. That is, I think, subject to some

agreement. But from nods around the table I suspect we have agreement.

Madam Chairperson: Okay, with that agreement, Mr. Gerrard.

Mr. Gerrard: There were some concerns raised about the expenditure money around, I think, \$14 million in Split Lake. I think there were comments about Manitoba Hydro doing an audit. Has that audit now been completed and what was found?

Mr. Brennan: I am sorry. I did point out in the presentation. What happened is the board of Manitoba Hydro was concerned about the issue as well and asked our audit committee to take a look at it. The audit committee reviewed it and asked management to provide information to them. They asked our internal audit department to provide some information to them, and the conclusions that the audit committee reported to the board were set out in the presentation.

Mr. Gerrard: The 14 million, I believe, was for about a three-year period. What would have been the total spent in Split Lake over the last 10 years, for example?

Mr. Brennan: It was significantly more than that. I think, if I was right, the 14 million only included the Gull project, so there was Nelson House's involvement too. It would have been significantly more than that, but we will give you the number.

Mr. Gerrard: One of the issues that comes up from time to time is the proportion of power that actually is allocated for standby power, and I think North America-wide it is the range of 15 to 25 percent. What measures are being taken to manage standby power and to minimize that and to increase the revenue?

Mr. Brennan: I believe we are talking about reserves. Is that what we are talking about?

Mr. Gerrard: My understanding is that utilities operate so that they have standby power so you always have to have excess in case there is a sudden increase in demand.

Mr. Brennan: It is reserves, and there is a spinning reserve as well. In the case of a hydro system, that reserve capability is lower than it is for a thermal system. The big cost of your reserve is planning in how much generation you have to build so you have

it available. It is a trade-off between the reliability of the system and making sure you can meet your load versus building new facilities.

We are somewhat fortunate by having an export market that if we got surplus power, we can sell it. Other utilities do not have that same capability. In a lot of cases, they are not hydro utilities either.

Mr. Gerrard: What would be the amount or the proportion that would be reserve or standby power for Manitoba Hydro? What kind of range do you work in?

Mr. Brennan: We have two criteria and I will provide the exact criteria to you. One is capacity and how much capacity we have to build in our planning. The other one is we have to meet the low flow criteria, and whatever dependable flows are we use that as the criteria to build a new plant. The planning criteria is predicated on energy and not capacity, so it is a low-flow criteria that causes us to build new plants.

Mr. Gerrard: But what sort of proportion would you work, or you expect to operate at, for standby power or reserve proportion?

Mr. Brennan: We do not have plants actually spinning, as far as I know, that are now producing power but I will have to confirm that. We can bring on plant though very, very quickly.

Mr. Gerrard: With the Nelson House First Nation, is that project development agreement finalized now?

Mr. Brennan: We talked about that earlier and I expect it to be finalized any day. Last week, there was one of the representatives from Nelson House community, for the Nelson House community, was not available, became sick and slowed everything down, but last week there were two outstanding issues that we thought could be resolved quite easily. Most of the documentation is done so it is just a matter of solving those two items. We expect it to be completed any day.

Mr. Gerrard: I wonder if Mr. Brennan would tell us about the consultation process with the Métis and how that worked in Wuskwatim and what the planning is for the future for future hydro-electric projects.

Mr. Brennan: The Métis had a fair number of concerns about the process. I met with the president of the Métis Federation and we have set up a group within Manitoba Hydro and the Métis Federation to work together to ensure that issues of consultation and the like are taken care of. There are ongoing issues that happen in terms of operating a system as well as new planning that seem to require constant attention, but I think we have it under control.

Mr. Gerrard: November 2003, there was a \$24-million allocation for waste water services, water upgrades and so on for First Nations. Can you give us an update on what has happened with those expenditures and where that stands?

Madam Chairperson: Mr. Brennan, just excuse me for one second. Before people leave if you could leave your reports here please or bring them back, whichever is your choice, but we will not have time to collect more reports. Also, this committee will reconvene, provided that the House calls the committee to reconvene. It is up to the House to do so, so I just want to make sure everybody was aware of that.

Mr. Brennan: The agreement you are talking about is an agreement between Manitoba Hydro and the federal government. We have been in court proceedings for some time and we negotiated a settlement with the federal government. The federal government agreed to take any of the money they got and to turn it over to the five bands. So we had a schedule of payments and we are going to make this schedule of payments. In the case of one of the communities, and there will be more because they seem to like the concept, they wanted us to settle out that obligation and discount it and we have agreed to do that. We will do it for any community. Norway House has taken advantage of that.

Mr. Gerrard: The Nelson House First Nation, the agreement that you have got—how many years will it be before the Nelson House First Nation sees revenues from the Wuskwatim Dam?

Mr. Brennan: They will see revenues right away. One of the provisions of the agreement is that Manitoba Hydro will advance them money for part of their investment. There is an interest rate associated with that and it will require some time to repay that. We have asked that to be repaid before they start taking dividends. So, out of the profits, they will pay Manitoba Hydro and then they will

start seeing money flow to them. I do not know the exact date but I think the development agreement will probably have that in it.

Mr. Gerrard: Are we talking a couple of years, or five, or ten years?

Mr. Brennan: I think it would be closer to the latter number.

Mr. Gerrard: For the development agreement with Nelson House First Nation, the equity investment that Nelson House First Nation is putting in, that is coming from where?

Mr. Brennan: I am not sure where-all they are

going to get the actual cash from. I know that they do have a trust that was set up by Manitoba Hydro's compensation, so I presume some of it will come from there. They also have other income-producing assets such as a hotel in Thompson and the like, so some of it will come from there, and then the rest will come from Manitoba Hydro through that loan I referenced earlier.

Madam Chairperson: The hour being twelve noon, subject to agreement of the House, then this committee will now recess and reconvene at three o'clock. Thank you very much.

COMMITTEE ROSE AT: 12 p.m.