



Legislative Assembly of Manitoba

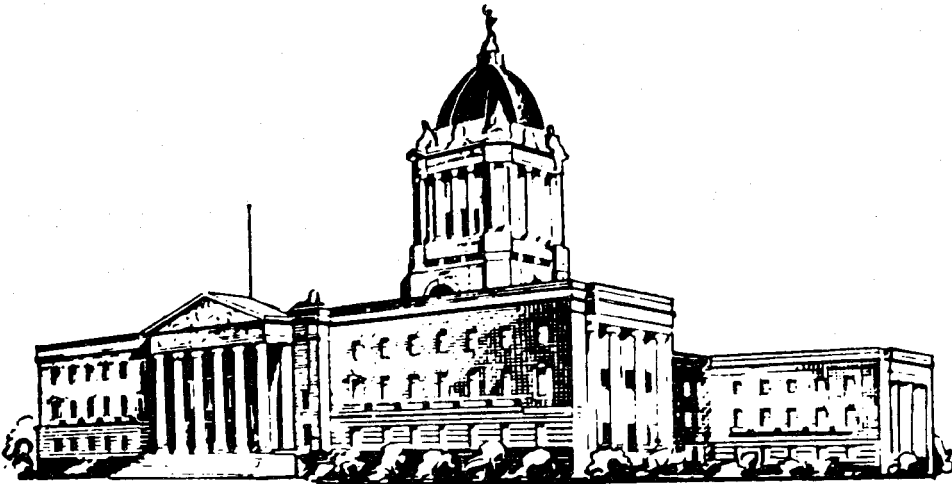
STANDING COMMITTEE

ON

PUBLIC UTILITIES AND NATURAL RESOURCES

Chairman

**Mr. Warren Steen
Constituency of Crescentwood**



Saturday, June 9, 1979 10:00 A.M.

**Hearing Of The Standing Committee
On
Public Utilities and Natural Resources
Saturday, June 9, 1979**

Time: 10:00 a.m.

CHAIRMAN, Mr. Warren Steen.

MR. CHAIRMAN: Members of the committee, we do have a quorum. Can we come to order? Public Utilities and Natural Resources, to deal with the Manitoba Hydro-Electric Board's 27th Annual Report.

We'll start by referring to the Minister responsible for Manitoba Hydro, Mr. Craik. Mr. Craik.

MR. CRAIK: Mr. Chairman, perhaps just as an introduction, I can introduce first of all, Dr. Wedepohl, who is the Vice-Chairman of the Board of the Manitoba Hydro-Electric; and Murray Fraser, who is the Chief Operating Officer and one of the General Managers and Mr. John Arnason, who is also here, who is the other General Manager.

I think, Mr. Chairman, Dr. Wedepohl wants to give his presentation, and probably also call on Murray Fraser for support in the questions that are likely to arise following his statement.

So, with that, Mr. Chairman, I'd like to introduce Dr. Wedepohl for his statement to the committee.

R. CHAIRMAN: Dr. Wedepohl.

R. WEDEPOHL: Thank you, Mr. Chairman and Mr. Minister.

What I intend to do today, since the Report is somewhat out of date now, is to simply take you through the events which relate to the Report, but to the present time, and then to allow you to ask myself, or if need be, Mr. Fraser, some questions for clarification.

So, without further ado, if we could work through the situation as it is. First of all, we, as you may know, in the past few years, we experienced a very serious drought, which had an adverse impact on the Manitoba Hydro situation. That came to an end about two years ago, and since then we've been experiencing good and increasingly good water conditions.

The effect of this has been partly, and for other reasons as well, has led to an increase of generating in the order of 50 percent of our total generation in the past year or two.

In terms of Manitoba firm energy, there are signs that things are turning up. As you know, we experienced a number of years of very poor load growth relative to the year in question. The Report that we're dealing with, the load growth year was 1.6 percent. But in the past year, this has moved up to 4.3 percent, and the indications that we have is that it will probably be getting better than that now. In other words, there's a definite up-turn.

In the year ended March, 1979, there was a 35 percent revenue increase in the Corporation. Part of this was due to the improved water situation, but the other, of course, significant effect was extra provincial sales.

The extra provincial situation is very interesting. In the current fiscal year, we had forecast a revenue, I believe in the first instance, of \$55 million in the financial plan. That was upgraded to, I believe, somewhere around \$65 million and the final outcome was \$83 million and this was undoubtedly due to two major factors. One was the abnormally cold winter but the other one was probably due to the political aspects of the oil crisis in the United States, because our energy export situation is not following the normal pattern.

Over a period of years, there had been a decrease in our reserves. This situation is now turned around and there are two reasons for this: part of this is because of the buoyant export position of Manitoba Hydro and the small increase in load, but the other thing, which has had a manifest impact on the reserves, is the decision by the Manitoba Government to assume the responsibility for the exchange rate fluctuations of Manitoba Hydro's debt. And the effect of this was almost immediately to raise our reserves from \$46 million to \$96 million as of 31st of March, 1979 and

the current position is even better than that, because of our buoyant export situation.

My information from Mr. Fraser yesterday was that our reserves had now exceeded \$100 million. I must just say that these figures are not yet audited, but I believe they are fairly accurate.

Now, again referring to the debt, because of the position of the Canadian dollar and this figure varies by the day so I've got a figure here of \$372 million. Our debt, due to exchange rate fluctuations has increased by \$372 million over the year, over the figure that it would have been if the exchange rate had been constant. But that figure will vary by the day. I think a one cent change in the value of the Canadian dollar will change our debt position by something in the order of \$25 million. So as the dollar pumps up and down, that pumps up and down as well, but in this case the big thing is that these fluctuations no longer will appear in our financial balance because the government has assumed the responsibility for these.

Capital Construction is well down and this is to be expected, because the major part of our Capital Program, the present Capital Program, has come to an end. We're down from \$324 million of capital last year to about \$200 million this year and that figure will continue to decline as the capital works come to an end.

The current position with Long Spruce Power Station is that the generators are being installed steadily. There are eight currently in service and by the end of this year, the power station will be fully operational with ten generators in service.

Likewise with Jenpeg Power Station, we have currently five generators in service and the six others, to complete the construction of the power station, will be done later this year as well.

Because of the staticness of our load growth over the past several years, we had to defer the in-service date of Limestone Power Station from 1984 — the current in-service date is 1987. This is notional, because it's a long time away and this could be affected, either advanced or retarded according to many factors. Work is being suspended at Limestone and the townsite has been shut down indefinitely. As far as our DC link is concerned, we've extended this. The capacity has been increased by 50 percent by the addition of the thyristor/ equipment on the second, and currently depending bi-pole/ on the time of the year or the season and so on, something like 54 percent of our energy is coming down the DC link from Kettle and Long Spruce power stations.

Closer to home, on the Winnipeg River, rehabilitation is begun at Great Falls. This is one of our older power stations, and with the passage of time ingress of moisture into the walls, and temperature cycles between summer and winter, inevitably there's some degradation of the concrete and it's now necessary to do some rehabilitation work there. This has begun at Great Falls and at Seven Sisters, which have been carefully monitored, have suffered some considerable degradation this winter so that there's an accelerated program to look after the problems at Seven Sisters and it's probable that some rehabilitation work will have to be begun this year.

The next item of interest is the 500,000 volt transmission line from Winnipeg to Minneapolis. Construction began in January of this year and the scheduled in-service date for this line is March 1980. Although we have had a little bit of adverse news in that respect in the last day or so because the Aluminum Company of Canada has gone on strike, and if the strike doesn't get settled quickly this might well affect the in-service date because of difficulties in obtaining the necessary aluminum to make the conductors.

We are well under way with our third tie-line to Saskatchewan. We have two currently, and the third tie-line construction is well under way; this is from Squaw Rapids in Saskatchewan to Tisdale, Saskatchewan and there's a scheduled in-service date there for November of this year and we don't see any particular problem at this time.

In terms of residential in the past year, something like 4,500 lots underground that have been brought into service by March, 1979, in the past year.

The next item which is of considerable interest at the present time is the fact that negotiations are well under way with Nebraska Power to build another 500,000 volt line from Winnipeg somewhere near Omaha. A letter of intent has not yet been signed but it's probable that that will be too far off and in due course the negotiations will begin to fix the wayleaves and so on.

The whole method of exports is in fact of very great interest at the moment. We sit in a favourable position because of our Hydro in the face of declining fossil fuel reserves in the world. There are export negotiations. These are being spearheaded by the Manitoba Government with co-operation by Manitoba Hydro.

In terms of labour relations, the situation is very good in Manitoba Hydro. We've successfully renegotiated all our contracts on time and without any disputes, there is great cordiality between the people in the unions and the managerial side of the corporation which is very pleasant to see.

Finally, just one last small point. In terms of safety, in the past year, we stood out of the fourteen utilities we were in the third position as far as safety record is concerned, and we have been in the top three for the past 15 years. Indicative of this is the fact that one million accident-

hours we worked at Grand Rapids and this is a very remarkable achievement. So, Mr. Chairman, with those brief remarks, that is the summary of my report. Thank you.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Yes, Mr. Chairman, I just first of all would like to make sure that I'm understanding correctly. You have indicated to us that the present situation is that you are able to increase your reserves from the \$50 million which is shown on your last fiscal statement to over \$100 million. Is that correct?

MR. WEDEPOHL: That is correct, yes.

MR. GREEN: So that I take it that the operating income and expenses means that with existing rates, that pays for itself plus provides money for reserves.

MR. WEDEPOHL: This is to an extent true, Mr. Green, but what you have to recognize is that the immediate impact of the government decision to assume responsibility for the exchange rate fluctuation put a once off immediate increase in our reserves of the order of probably \$40 million, and then some additional reserve increase due to our buoyant export position.

MR. GREEN: Yes, I understood that, I just wanted confirmation of it, that your operating expenses and your revenues, your revenues take care of your operating expenses and provide an additional \$10 million, at least, to put into reserves, without the government assistance.

MR. WEDEPOHL: That's my understanding, if I could — Mr. Fraser — yes, that is correct.

MR. GREEN: So without one cent of government money, existing rates pay the way for your operations plus provide \$10 million for reserves?

MR. WEDEPOHL: This is if we take the exchange rate fluctuations out of the picture.

MR. GREEN: Yes, the government has given you another \$40 million which in effect will all go into reserves.

MR. WEDEPOHL: Yes.

MR. GREEN: So the \$40 million has nothing to do with stabilizing the rate; it provides you with an additional \$40 million reserves in addition to the \$10 million which you can generate without the government.

MR. WEDEPOHL: Is that a question, Mr. Green?

MR. GREEN: Yes. I want to make sure that I am hearing correctly.

MR. WEDEPOHL: Well, I'll come back to the point that the stabilization of the exchange rates and immediately change our reserve picture, that is quite correct.

MR. GREEN: Let me have it exactly right, that your existing picture without the government, without the stabilization of the rates, which I'll deal with later on in my question, the existing situation is that your operating income and expenses picture is such that with the existing rates you are able to take care of your expenses plus pay an additional \$10 million into reserves.

MR. WEDEPOHL: I think that's correct, yes.

MR. GREEN: And you say that the government stabilization is providing \$40 million? We have been told \$31 million. Is it \$40 million that . . .

MR. WEDEPOHL: Mr. Green, the picture is fluctuating all the time, so one can only talk about orders of magnitude. Mr. Fraser, could you tell me roughly what the picture is at the moment?

MR. CHAIRMAN: Perhaps for the benefit of the members of the committee, I feel as chairman,

that since Mr. Fraser and Mr. Arnason are Co-General Managers, that they could sit at the table and participate in the answering of questions. Dr. Wedepohl is the Chairman of the Board and these two gentlemen are the General Managers, so if they wish to sit at the table and participate in the answering of questions, we would much prefer to have them speak into the mike so it will be recorded.

MR. GREEN: Let's not deal with that figure for the moment. What you're telling me is that if the government didn't give you one cent for rate stabilization — and I'll deal with that because there is a potential that they are taking money away from you, but I will deal with that — if they didn't give you one cent, the existing rates last year provided for payment of all operating expense and enabled you to put \$10 million in addition to the \$50 million reserves that you already have.

MR. WEDEPOHL: Mr. Green, I would like to make a comment and then perhaps Mr. Fraser could confirm that. The difficulty we find ourselves in is the frightening uncertainty with respect to the export situation in the States. Currently it's buoyant. Our forecast was, and this was round about March this year, that we would have perhaps needed one more rate increase with a reduction in 1980-81 of our reserves down to \$10 million. We'd have had to have run them down.

Now that forecast was made before the political situation changed with respect to oil and we got this very buoyant export position, so I would like now to call upon Mr. Fraser to perhaps to and quantify these numbers more accurately. It's extremely uncertain because of the difficulty

MR. GREEN: I just want the figure. I will be able to argue just as well as you as to the projection and what have you.

MR. WEDEPOHL: Our projection was for a decline in rate, prior to the government assuming responsibility.

MR. GREEN: My impression is, from what you have told us, and all I want is to know whether I'm correct, that the existing operating revenues take care of all of your expenses for the last year and provide an additional \$10 million to add to the \$50 million reserves that you have on last year's statement. Is that correct?

MR. WEDEPOHL: If I could get Mr. Fraser to . . .

MR. CHAIRMAN: Before I recognize Mr. Fraser, I'll recognize Mr. Craik, the Minister responsible for Hydro.

MR. GREEN: No, Mr. Chairman, why?

MR. CRAIK: If Mr. Green doesn't object, I want to try and be helpful to him.

MR. GREEN: Thank you, I am always needing help.

MR. CRAIK: Mr. Fraser, at my request in February sent an analysis over for the five-year projection of Hydro operations and . . .

MR. GREEN: Mr. Chairman, I'm not asking for the five-year projection and I object therefore to the intervention. I have the floor and I want an answer from the Manitoba Hydro. Is my question and the analysis — Mr. Chairman, I object. I am asking, I have the floor, I am in the process of asking questions, I want to know whether it is correct that on last year's statement, the revenue provides for payment of all expenses, plus provides for \$10 million to go into reserve.

MR. CHAIRMAN: As Chairman of the committee, I recognize Mr. Craik who is the Minister responsible.

MR. GREEN: I object, Mr. Chairman, I object. You are definitely out of order.

MR. CHAIRMAN: If Mr. Craik wants to yield to Mr. Fraser, that's Mr. Craik's . . .

MR. GREEN: Mr. Chairman, I object to your taking the floor away from me and giving it to another

person. That is unheard of.

MR. CHAIRMAN: Mr. Doern has a point of order.

MR. DOERN: If I could make a point of order, I believe that Mr. Green has put a question to Hydro, and that it would be in order for them to answer. Perhaps at that point, a comment from the Minister might be in order, but I don't believe the Minister should interfere with the question put to Hydro, which I believe they are capable of answering.

MR. CHAIRMAN: In reply to Mr. Doern, I've chaired this committee on a number of occasions, and the Minister responsible for the utility that is before the committee, I have on many cases in the past referred to that Minister to answer questions. Mr. Doern, you were present during Telephone's annual report and you saw many times that I referred to Mr. McGill, so I see nothing wrong with referring to the Minister responsible for the given utility on that given day. I am not yielding the floor, I still have Mr. Green as the questioner. Mr. Craik is to answer, not to question.

MR. GREEN: But Mr. Craik is now giving us projections that he received some months ago. I haven't asked for projections. I've asked for actual. I've asked for the performance of Manitoba hydro.

MR. CHAIRMAN: I say, Mr. Green, if you're not happy with the answer you get from Mr. Craik, ask your question and maybe Mr. Fraser at that time will answer.

MR. GREEN: Mr. Chairman, it's not that I am not happy, I have not asked Mr. Craik a question, I've asked a question of the utility which they are willing to answer, which doesn't deal with what Mr. Craik is going to give me. Mr. Craik says he is going to give me projections of the Hydro that were supplied to him some months ago. I'm not asking for projections.

MR. CHAIRMAN: Mr. Craik on a point of order.

MR. CRAIK: Mr. Chairman, on a point of order, my only reason for interjecting was that the information that was supplied to me by Hydro at that time, of course, is considered of a confidential nature, but I would have no hesitation if Dr. Wedepohl and Mr. Fraser and so on wanted to use the same information for distribution to the committee, and that is the reason for entering the picture. And if you feel, in answering your question you would wish to use the same information you supplied me, that's perfectly okay.

MR. GREEN: I assume that the Chairman is over 21 and can understand that, but I am not asking for the projection. I am asking for the performance.

MR. CHAIRMAN: Mr. Craik I believe has clarified the reason he wanted to interject as the Minister responsible.

MR. GREEN: That's fine. Now, Mr. Chairman, I want to put the question, and make it quite clear. I don't want to deal with what you thought was going to happen. I want to deal with what did happen, you know it now. And what I am suggesting, from what you've told us, and I'm really just trying to make sure that I understand correctly, that your operating revenue for last year, that is fiscal year 1979, paid for all of your expense, expenses, and provided an additional \$10 million, approximately, which you could add to last year's reserves of \$50 million, without any government help. That's my question.

MR. CHAIRMAN: Dr. Wedepohl.

DR. WEDEPOHL: Mr. Green, I think in the main you're correct. I'm going to get confirmation from Mr. Fraser, but what you do have to realize is the frightening uncertainty of this past year.

MR. GREEN: I appreciate all of that.

DR. WEDEPOHL: And so our answer has to be then, are you asking us to answer in hindsight, or with foresight a year ago?

MR. GREEN: I am asking you to answer what the actual situation is, and you say that in the main I am correct.

MR. WEDEPOHL: Mr. Chairman, would it be in order for Mr. Fraser to quantify the picture, is it is, with hindsight.

MR. CHAIRMAN: Mr. Fraser.

MR. R. M. FRASER: The realized excess revenue over expenses was approximately \$46 million.

MR. GREEN: \$46 million, and of the realized, revenue over expenses of \$46 million, is that before the government gives you anything?

MR. FRASER: The government hasn't given us anything.

MR. GREEN: Well, of the 46, apparently only 10 can go into reserves, or can the whole 46 go into reserves?

MR. FRASER: The whole 46 can go into reserves.

MR. GREEN: Oh, well I'm glad that I found that out. In other words, you can add the reserve without the government giving you one cent. Your reserves will go up from \$50 million last year to \$96 million on last year's statement.

MR. FRASER: Yes. But if the government had not said that they would relieve us of the requirement to amortize the unrealized losses, approximately \$38 million of the \$46 million would have had to be set aside for that purpose.

MR. GREEN: Oh, so that's why you would only put \$10 million into reserves. So then my answer is correct, having given you this assurance, before they give you one cent, your reserves go up to \$96 million, with the \$31 million that they give you, if they do, or they don't give you any money they just give you an assurance, I gather. Okay. I'm clear on that, and now I want to go, Mr. Wedepohl to something else. There has been certain bizarre statements made about what Lake Winnipeg regulation is supposed to do. I have a problem, since I was one of the Ministers responsible in dealing with what it was going to do. I want to see whether I get the same answers from you to what it was supposed to do and what I told the people of Manitoba, because it's a very concern to me. As a politician I want to know that I told them correctly. And I want to see whether you would concur that what I and other representatives of the public service told the people. In February of 1972, Mr. Davis Cass-Beggs said as follows, and I want to know whether this is also your understanding.

"But the level of Lake Winnipeg will be held to a smaller variation than normally or that has occurred in the past. Lake Winnipeg has been as high as 7.7.5 feet in 1966." And then this translated into Cree, that's why I said "Cree". "If the 1966 flood occurred again, we would expect to be able to keep it down to a level of 715.5 feet or 2 feet lower than it would have been." That's what we said to the people. Would that be your understanding as well?

MR. WEDEPOHL: I think, Mr. Green, this is correct. I think the current forecast is with this flood situation, that we would have gone up to about 718.5 and I think the forecast now is about 711 but by the cutting of the canals we can get water out quicker.

MR. GREEN: But you will not that Mr. Cass-Beggs said that we keep it down to a level of 711 and he told us in transcript to the people, and you would say that that was what your understanding is . . .

MR. WEDEPOHL: In the main, because with the present water situation we will go a foot above that level, but certainly not as high as we would have done . . .

MR. GREEN: We'll get to the foot above that level as well, because there's no doubt that I thought these things were so obvious that anybody except a particularly obtuse and malicious journalist would understand it. But I want — and I'll check it because I said these things to the people of this province and I am very sensitive about what I say — I said in February, 1972 as follows: "

can control the previous levels between two levels, where it used to be 17, when we can bring it down to 715. If a flood comes like we never saw before, that brings the water at the level of 720, we can't bring it down to 715. We can only bring it down by about two feet." Would that be correct?

MR. WEDEPOHL: Yes, I think this figures because we will be two feet lower than this year, when we would have been without the regulation.

MR. GREEN: Now, Mr. Wedepohl, does this statement sound to you like I am saying that we can keep the water down to 715 feet when I say, "If a flood comes like we never saw before that brings water at the level of 720, we can't bring it down to 715." Does that sound to you like I'm saying we can bring it down to 715?

MR. WEDEPOHL: No, I agree with that statement.

MR. GREEN: Now let's just go on, because I said this on numerous occasions and I am very sensitive about people suggesting that politicians claimed that we would forever end the danger of high waters on Lake Winnipeg. I said the following and I want to know whether it's correct: "And the licence goes on to make it clear that if and when the level of Lake Winnipeg would rise above 715 feet and the licence clearly expects that it would on occasion, then we must open the outlet gates fully" — this is Mr. Cass-Beggs — "To release the maximum water to hold it down as far as possible to 715." Now we find that for all flood conditions of the past, with the exception of 1966, if we had this control in operation the level would have been at or below 715 feet. And in 1966 it would have been about 715.5. And these figures, generally speaking, are two feet less than they have been in the past.

Now of course we can't guarantee that the flows in the future will be no more than they have been in the past, but we can guarantee that if past flows are repeated, these are the conditions, that the floods will be two feet lower, that the 1966 flood, if it were to recur after the system is in operation, would provide a level of 715.5 instead of 717.5. You would agree with Mr. Cass-Beggs' statement?

MR. WEDEPOHL: I think that is the way the thing is working.

MR. GREEN: Just to make sure that we just didn't make this statement once and then tried to pass it through some people, these meetings were held in front of the people of Manitoba in all of the areas surrounding Lake Winnipeg, and fortunately we transcribed them so that people can't say we said other than what we said.

I want to ask whether this is correct. "Now that being the case, Mr. Chairman, it should be obvious that although benefits can accrue from regulations, the benefit that accrued from regulations to others than Hydro users are really going to be — and I want to make this quite plain at the time — to take second place to Hydro benefits that are achieved." This is again Mr. Cass-Beggs.

And that the real benefit that is guaranteed for Lake Winnipeg regulation which is completely consistent with the Hydro program, is that those peaks over 715 would be for most practical purposes removed, and even if they were not removed we would be two feet lower, approximately, than a peak that would be achieved.

"For instance, and this is pretty clear, if the water came in in such amounts as to result in a lake level of 719 feet under natural conditions, we would not be able to reduce it to 715, but it could be better than under natural conditions in that we would bring it down to approximately 717 feet. So no matter how bad the lake got, regulation would make it better at its highest point. When I say "better", I mean that if under normal conditions it would have reached 720, then we would have it some place around 718. If under natural conditions it would have reached 717, then we would regulate it down to 715, but the same is true at the lower levels." Now that's my statement and therefore I want to make sure that I wasn't fooling people. Does that sound correct?

MR. WEDEPOHL: Yes.

MR. GREEN: And does that sound to you like I am telling people that I can keep the lake at 715? Would you understand that if you heard that?

MR. WEDEPOHL: I understood what was said there.

MR. GREEN: Yes. Would you understand me to be saying that I can keep the lake at 715?

MR. WEDEPOHL: No.

MR. GREEN: Only an obtuse, stupid and malicious person would take that interpretation it seems to me, from what I read here. "And then with regard to saying that there are great flood benefits from Lake Winnipeg regulation." Does this sound to you like great flood benefits? I want to react to this to you. This is again myself. Tell me whether I'm selling flood benefits. "I don't want to exaggerate these benefits. They are modest flood benefits which I have indicated. We have indicated that these are modest benefits for the fisheries and we have indicated that there is some concern in the area of erosion, but the province has also undertaken a program, and I want to indicate it, that it is not a program that is merely undertaken because of Lake Winnipeg regulation." Does that sound like I'm suggesting that there are great flood benefits? To you?

MR. WEDEPOHL: No. I think not.

MR. GREEN: Nor does Hydro claim that there are great flood benefits from Lake Winnipeg regulation.

Sorry I'm putting you through this, but it's been suggested that I said that we sold Lake Winnipeg regulation on the basis that we could guarantee levels of lower than 715 feet.

Again. Page 71. "If we suddenly had water at the level of 720, regulation would bring it down to 718." Does that sound like I'm going to keep it at 715?

MR. WEDEPOHL: No.

MR. GREEN: Now this is Mr. Cass-Beggs, who is alleged to have said that he can guarantee that the flood levels would be removed. Now, he has asked a specific question, Sir, and I want to know whether Hydro would now change his answer. "Can you guarantee that it will not go over 715? This is at Page 74.

"Mr. Cass-Beggs: The kind of guarantee that you are asking for really is that there will never be Acts of God. Now, what we have determined is that as far as the historical records of Lake Winnipeg are known, and this is a matter of 40 or 50 years only, there was only one occasion in recorded history in which, if our controls had been in operation, the level would have gone over 715. On that occasion it would have gone some six inches higher, on that one occasion corresponding with the 1966 Flood, but every other recorded case would have been well, for practical purposes, 715 plus or minus one inch, and this is all that we can do. One can't guarantee that there will be no floods greater than have occurred in the past, and all we have said in relation to what might occur in the future is that we can cut two feet off of them." Does that sound like Mr. Cass-Beggs is saying that you can keep the water below 715 feet?

MR. WEDEPOHL: No.

MR. GREEN: "Mr. Green:" Also publicly and transcribed. "The fact is that if 715, plus seven feet comes out to 724, then 715, add seven, is 722, and the real question of whether we are benefiting you during a time of wind level or not, depends on what the lake would have been under natural conditions, and we say that if we can get it down so that under natural conditions it is never more than 715, except when more water would have come, etc. — if I must qualify each time, then we are offering a definite flood benefit to that lake." Does that sound like I'm saying that we can always keep it under 715?

MR. WEDEPOHL: No.

MR. GREEN: Now, Mr. Wedepohl, again I'm sorry that I'm putting you through this but . . .

MR. WEDEPOHL: You don't have to apologize, Mr. Green.

MR. GREEN: I offered to resign on this very question, and I want to know whether I should have resigned, whether you would have said, on the basis of your offer you would resign. I said, and I made this statement on January 31st, 1972, "So certain am I that regulation between 711 and 715 feet does not mean, and was never intended as a guarantee that the lake would be held within those two levels, that I am prepared to stake my job on this assertion. It should be obvious that if the Red River stopped flowing, we would not be able to prevent the water from going below 711 feet, and if Noah's flood came back, we would not be able to maintain the water within 7

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feet. If the Opposition Leader can present one accredited hydraulic engineer, with a sanity certificate, and who would be able to retain his certificate afterwards, who supports their position that regulation between 711 and 715 means a guarantee that the water would never go outside of these limits, I will hand in my Portfolio."

Now, on the basis of my having made that undertaking, that I would resign if there was any sane hydraulic engineer who said that 711 to 715 regulated means that the water will never go below or above those figures, should I have resigned at that time?

MR. WEDEPOHL: I'm sorry, you said a lot of things . . .

MR. GREEN: I'm asking you whether any hydraulic engineer would support the contention, who has a sanity certificate, would support the contention that regulating between 711 and 15 guarantees that the water won't go below 711 or above 715?

MR. WEDEPOHL: I think I know what your're saying, Mr. Green, and what you're saying in effect is it would go off those limits sometimes and I agree with you.

MR. GREEN: And that no hydraulic engineer would say anything to the contrary unless he was insane.

MR. WEDEPOHL: Well, I know some who might.

MR. GREEN: You know some might. Would they be able to retain a certificate upon making such statement?

MR. WEDEPOHL: No, I guess not.

MR. GREEN: And all of these things were said repeatedly in the Legislature, transcribed on Lake Winnipeg Regulation reports. Does it sound to you that the government was selling a program on the basis that they could keep the water between 711 and 715, and were prepared to guarantee that that would occur?

MR. WEDEPOHL: No.

MR. GREEN: Can you imagine why anybody would be so malicious in the face of what I have told you, to make such a contention that Lake Winnipeg Regulation, as I've heard from members of the opposition, is now not working because the water is over 715 feet? Wouldn't that be a disgrace?

MR. WEDEPOHL: Is that a question, Mr. Green?

MR. GREEN: Yes.

MR. WEDEPOHL: Well, I guess it would be a bit silly.

MR. GREEN: Because Lake Winnipeg regulation is working now.

MR. WEDEPOHL: Yes. Well, it's working in a sense.

MR. GREEN: And the water is over 715 feet?

MR. WEDEPOHL: Yes.

MR. GREEN: As it was always anticipated could be the case with Lake Winnipeg regulation?

MR. WEDEPOHL: Yes.

MR. GREEN: Mr. Wedepohl, my information, as the program that regulates Lake Winnipeg came finally, and I'm not talking about Jenpeg Generation, it came in finally at roughly \$120 to \$150 million, and I'm going on the outside, what was the . . .

MR. WEDEPOHL: Mr. Green or Mr. Chairman, would it be in order for me to consult on this one

because I'm not familiar with the figures?

MR. GREEN: Yes, sure.

MR. WEDEPOHL: Bear with me for the moment.

MR. GREEN: Sure.

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: I'm sorry for that delay, Mr. Green. Yes, the control part of the contract was \$126 million.

MR. GREEN: I don't even like to be wrong on the good side, so I said a maximum of \$150 million but \$126 million is considerable . . .

MR. WEDEPOHL: Yes, I would think those figures are fairly accurate.

MR. GREEN: So, \$126 million is the cost of Lake Winnipeg regulation which was the first program pursued. Sometime afterwards the Hydro Board decided to put in a generating plant at that place as well, is that correct?

MR. WEDEPOHL: This is correct, yes.

MR. GREEN: Which is a separate program. Lake Winnipeg regulation could have been proceeded with without the Jenpeg Generating structure, and I gather that what the Hydro people thought was : since they are working up there, since there is a head of water, that a generating plant could be feasible, and proceeded on that basis.

MR. WEDEPOHL: Correct.

MR. GREEN: Was there any pressure from any outside source to your knowledge to build a generating plant at Jenpeg?

MR. WEDEPOHL: Mr. Green, here I would have to speculate because I only came on the Board in 1974 when it had been committed, so I don't know the background to that question. I just can't answer it without speculating.

MR. GREEN: In any event, you are aware that the Jenpeg Generating Plant is a structure different than the Lake Winnipeg Regulation Control Program.

MR. WEDEPOHL: Yes.

MR. GREEN: And any engineer who tries to say that they are both the same thing, would have a bit of a problem.

MR. WEDEPOHL: There would be a little bit of work involved; in other words, that section of the wall which is now a power station would have to have been built and I don't know what allocation of cost there would have been.

MR. GREEN: But of course you tend to try to utilize whatever facilities are there in order to facilitate the generating plant; that was one of the ideas; but they are separate and distinct facilities.

MR. WEDEPOHL: No, the point I was making is that probably the figure might have been a more than \$126 million. Had the power station not been built in order to build that section of the wall because the cost allocation to the power station also constitutes a wall, so it may have been near your figure of \$150 million . . .

MR. GREEN: Okay, yes, let's . . . they are separate and distinct facilities, not separate and distinct structures.

The Lake Winnipeg regulation structure is a structure to regulate the flow of water; the generating facility is to generate power. And when Lake Winnipeg regulation was decided upon, it was decided

upon without any reference to a power station.

MR. WEDEPOHL: Yes.

MR. GREEN: So that you could have proceeded with Lake Winnipeg regulation completely without a power station?

MR. WEDEPOHL: Yes.

MR. GREEN: And what you're telling me is that if you had done that your Regulation Program might have cost you some more money?

MR. WEDEPOHL: Yes.

MR. GREEN: You might have allocated more money to the Regulation Program?

MR. WEDEPOHL: Yes.

MR. GREEN: You're not saying that for sure, but it might have been.

M. WEDEPOHL: Yes, I would have to speculate. It would have been a little bit more, but I can't say how much.

MR. GREEN: Now, somebody who I don't believe, but I'll test it with you anyways. Somebody says that Lake Winnipeg regulation, and I'm not even sure whether I can believe him, provided you with \$19 million worth of electricity last year, last winter.

MR. WEDEPOHL: Are you asking me how much it produced?

MR. GREEN: I'm asking whether that's correct.

MR. WEDEPOHL: Mr. Chairman, May I again get the question again?

MR. CHAIRMAN: Yes.

MR. GREEN: Because I can't believe the one who wrote it.

MR. WEDEPOHL: If I can just get a point of clarification from Mr. Green. Mr. Green, could I just get your question clarified?

MR. GREEN: I'm talking about the regulation, and I don't want to include the power station and don't want to include Jenpeg — provided you with \$19 million worth of electricity last year.

MR. WEDEPOHL: In what way, Mr. Green? I'm sorry to be of . . .

MR. GREEN: That it made available \$19 million worth of electricity which you otherwise would not have had, to sell.

MR. WEDEPOHL: Where? At Jenpeg or elsewhere?

MR. GREEN: Lake Winnipeg Regulation.

MR. WEDEPOHL: No, but you can't generate money in Lake Winnipeg regulation; you can only generate it in power stations.

MR. GREEN: I understand that. I'm talking about the entire value of having the power to control the lake, gives you X-millions of dollars more than you would have if you didn't have that power.

MR. WEDEPOHL: I'd like to clarify exactly your question, and then I'll try and get you the information you need.

MR. GREEN: I understand that.

MR. WEDEPOHL: We cannot create energy on the lake.

MR. GREEN: I understand that.

MR. WEDEPOHL: Except at Jenpeg itself. In other words, water that flows past Jenpeg, the energy is contained in the water and the regulation doesn't do anything for it. What the regulation does do is it defers the time at which the peak availability of energy is there. In other words, we could shift the peak from say, June, July time to maybe September time, and use that power at a time when our own load is picking up. Now, are you asking me whether — I'm not quite sure . . .

MR. GREEN: What is the dollar value of what you have just described? What was the dollar value last year of what you have just described?

MR. WEDEPOHL: Well, I don't know the answer, Mr. Chairman. If I could again confer with Mr. Fraser?

Mr. Green, first of all, without Jenpeg being fully operational, we'd realize something in the order of \$10 million worth of revenue last year. Additionally, because we could displace the peak to late in the year when it's of more benefit to us, there was some supplementary benefit, but I have to tell you that we can't quantify at this moment. We'd probably have to do an analysis of this to tell you precisely how much value that was. The value would accrue at Kelsey, at Kettle Rapid and there's generators running at Long Spruce, but I can't put a number to it. So it's \$10 million for Jenpeg itself, plus some additional benefits.

MR. GREEN: So it's \$10 million for the Jenpeg Generating Station, which gets power as a result of Lake Winnipeg.

MR. WEDEPOHL: Yes.

MR. GREEN: And it's an additional amount which you cannot specify with regard to the entire other system?

MR. WEDEPOHL: Yes, there is benefit but I can't put a number to it.

MR. GREEN: But the interest on Lake Winnipeg, if I accept your figures, would not be \$35 million a year on Lake Winnipeg. The interest for Lake Winnipeg regulation as distinct from the power station, would be interest on about \$125 to \$150 million.

MR. WEDEPOHL: Yes.

MR. GREEN: Which would be \$15 million a year if we calculate it at 10 percent, and therefore you're telling me that that's from Jenpeg you got \$10 million?

MR. WEDEPOHL: Yes.

MR. GREEN: If you were able to generate \$19 million from Lake Winnipeg regulation, and I'm not suggesting that you were and I'm glad you're showing that even that figure doesn't have a basis, but it would be a very viable project.

MR. WEDEPOHL: I didn't say that figure of 19 didn't have a basis; I said I don't personally know and my colleagues don't know what the figure is. It would require an analysis.

MR. GREEN: But if you could get \$19 million out of Lake Winnipeg regulation and your interest charges — not only interest but interest and amortization were about 15 million, then that's a very good project.

MR. WEDEPOHL: Yes, but are you talking about Jenpeg or the total project now?

MR. GREEN: I'm saying that if Lake Winnipeg regulation did generate \$19 million a year, which you haven't accepted as a figure and I fully understand that, then it would certainly be paying for itself.

MR. WEDEPOHL: I think in fairness, if we take the 10 million figure from Jenpeg, then to look at the interest charges we must take the cost of Jenpeg Power Station as well, and that brings the total to 330 million, so we would be looking at something like 33 million in interest charges on the entire project, taking a 10 percent interest factor. So we would be looking for that kind of value in its entirety.

MR. GREEN: Now, one of the things that Lake Winnipeg regulation is supposed to do is to provide you, as you have indicated, with a storage so that you can have the power in the winter rather than the natural conditions which would give you higher levels in the summer time when you are not using that much power. And as your power load increases, your power demands in Manitoba increases, you get more money from the power than if you sold it as surplus power to the United States.

MR. WEDEPOHL: Are you asking whether we could use it in-house?

MR. GREEN: No, I'm asking you whether it is not the fact that to the extent that you are using more of your capacity domestically, you make more revenue, that the amount of money that you get for your surplus power is less than the amount that you are selling at domestic rates?

MR. WEDEPOHL: I would like to make a point about that, Mr. Green. I think there has been a tendency, certainly by the media and some other quarters, to misunderstand this point. I have had many people, my own neighbours included, tell me that we're ripping off our Manitoba customers to sell cheap power to the United States.

MR. GREEN: I haven't said that.

MR. WEDEPOHL: No, you didn't say it, but I wanted to clarify a point here, that we must compare like with like.

MR. GREEN: I understand.

MR. WEDEPOHL: There is one quality of power and that's the power that comes out of the socket in your wall. It comes in at 110 volts and it's usable, and that costs us currently at the run-out rate, I believe, 2.56 cents. We do sell power to the United States and this fluctuates. If it's the small hours of Sunday morning, it might be something over one cent; if it's peak hour on Monday morning at the industrial hour in Chicago, it might be approaching 2 cents currently at today's figures. But you have to recognize that that power can't be compared, that 2 cents cannot be compared with what's coming out of the wall here.

It is low quality power. First of all, it's interruptible, but much more important it is metered at Pembina at 220,000 volts, and by the time that power gets to Minneapolis or Chicago, it's not costing 2 cents; it might be 5, 6 or 7 cents, who knows, because they've got to pay for the transmission plus distribution costs. So when you say, would we get a better price domestically, think you have to be more specific. What do you mean by a better price, because I think 2 cents, for example, that we are currently getting at peak hours in the day is a very good price. It's better than the 2-½ we get from our own customers.

MR. GREEN: Mr. Wedepohl, I hope that I appreciate what you have just said, and I have never criticized Hydro for getting money from the Americans on power that I'm not going to use, to reduce my power bill. I have never criticized that. I think it's almost as obtuse as this article, so I'm not saying that. I'm saying that as your domestic needs increase and you sell less interruptible power, that if you added the increased load to your domestic revenues, that those revenues would be higher than if the power was being sold, as you say, interrupted and surplus, coming out of that socket.

MR. WEDEPOHL: I must confer with Mr. Fraser, with the Chairman's permission, because I'm not sure that that statement is correct. I think currently we are actually getting — I think if you take the quality of the power — we're probably getting a better price now than we would get domestically. In other words, I think when we pay for all our losses and so on, it might turn out to be advantageous. Well, now, I'm going to have to confer with Mr. Fraser because it's a very very complicated question you have asked.

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A MEMBER: We have no objection to Mr. Fraser speaking into the mike.

MR. GREEN: I have no objection to him answering.

MR. WEDEPOHL: Mr. Green, I think — it's an extremely complicated question — but I think I can understand the point you are making. Basically, if we can shift the peak to a more advantageous time of the year, and winter time for us is more advantageous, then I think for both domestic and export, it's advantageous.

MR. GREEN: What I am trying to say, Dr. Wedepohl, and I want to be corrected if I'm wrong, is that the value of the storage on Lake Winnipeg increases with the increase in domestic load, and I'm getting a nod from Mr. Fraser.

MR. WEDEPOHL: Yes, I think it's both; it increases for both domestic and export.

MR. GREEN: So that your long-term value, if your load increases, is that Lake Winnipeg becomes more and more valuable.

MR. WEDEPOHL: Yes, this is correct.

MR. GREEN: That's all I'm trying to say. And it did generate something in excess of 10 million last year?

MR. WEDEPOHL: Yes.

MR. GREEN: But that's Jenpeg, I'm not talking about the regulation. The regulation, you weren't able to give me a figure on.

MR. WEDEPOHL: No, there was value and we don't know what it is.

MR. GREEN: And that value increases every year that the domestic load goes up?

MR. WEDEPOHL: Yes, all load, I would say.

MR. GREEN: Now, Dr. Wedepohl, I want to go to a different area here. I understand that there was a time when you were required by CICA rules on foreign exchange to put money into reserves with respect to the value of your foreign exchange loan. Have those rules been changed; am I right and have those rules been changed?

MR. WEDEPOHL: I believe yes. This was a fairly short-lived period. I think it came in about a year ago and I think consequential on the government decision to assume responsibility for our foreign exchange fluctuations, that there is a difference. But again, if I may confer with Mr. Fraser just to make sure that I'm absolutely accurate on that point. Mr. Chairman, if Mr. McKean could answer that particular one, please.

MR. CHAIRMAN: Yes, would you just identify yourself into the microphone, please.

MR. A.K. McKEAN: First of all, the CICA, the Canadian Institute of Chartered Accountants, who do make recommendations on generally accepted accounting principles, have reviewed that matter in the last couple of years. They first of all put out a summary of recommended action. They have deferred the date where it is required to be done, but they haven't actually withdrawn the whole situation. Now, there is a long story on why this has happened. They are negotiating with the American institute of similar accountants, but I might say the recommendation action by Manitoba Hydro, which I recommended to the Board, was really related to implement that plan earlier than we would have had to anyway, and it was because we were faced with the fact that there was a potential loss of \$372 million as calculated the 31st of March, 1979, and certainly in my opinion it would have been putting our head in the sand if we didn't take some action. We did recommend that we should amortize that in accordance with the provisions of the CICA regulations.

Now, we also recommended to the Board that that amortization be not continued once the government, of course, wiped out our potential liability of debt at maturity. That's a very short answer to it.

MR. GREEN: I thank you for the answer. My suggestion is that you were projecting. You were previously projecting to put \$33 million to unrealized foreign exchange loss as a reserve.

MR. McKEAN: It was a little higher than that.

MR. GREEN: All right, how much was it?

MR. McKEAN: It was actually — in our plan when we calculated it last fall, it was an amount of about \$55 million, but in the meantime the exchange rates improved and at the 31st of March, 1979, we would have amortized about \$38 million to operating, based upon the value at that point.

MR. GREEN: But my impression is, Sir, that although this was the recommended reserve that was to be put aside, that the CICA does not now require that reserv . . .

MR. McKEAN: And didn't require it, I might say, for the past year, because the date that their implementation was . . .

MR. GREEN: Okay, didn't require that reserve, and it wasn't the government's undertaking with regard to foreign exchange that eliminated that requirement, that eliminated it from the recommendation of Manitoba Hydro, but that the requirement was not there. It was considered prudent to do, as you said, but it wasn't a requirement and the government didn't relieve you of that requirement. The government make it possible for you to deal with the matter in a different way, because the requirement was never there in the first place.

MR. McKEAN: We no longer had the unrealized loss and therefore there seemed to be no need to amortize it.

MR. GREEN: So therefore, by the government standing by you, instead of putting \$33 million into a reserve for that problem, you are increasing your reserves from \$50 million to 100 million without any revenue passing from the government to you.

MR. McKEAN: There is no revenue passing from the government to us. What is passing is the act that we are not faced with the liability for this debt when it matures, and one part of it was maturing very quickly.

MR. GREEN: Okay, Mr. McKean. Dr. Wedepohl has told us that for every cent of the Canadian dollar going out, your problem decreases by \$25 million; that's what he said.

MR. WEDEPOHL: It's approximately. It's not linear but it's in that order.

MR. GREEN: Let's not get excited, let's make it 20 to 25.

MR. WEDEPOHL: Yes.

MR. GREEN: I used your figure, I didn't use my figure; I never heard this before. For every cent, you said \$25 million. If you don't like that, make it 20.

MR. WEDEPOHL: It's about \$400 million, about a 20 cent drop or thereabouts; it's somewhere that region.

MR. GREEN: Okay, \$20 million to \$25 million. Now, if the Canadian dollar was where it was in November of 1976, which was \$1.03 American, that would wipe out this requirement.

MR. WEDEPOHL: Yes, I think that's correct.

MR. McKEAN: This is a figure that the actual liability will depend upon what the value of the Canadian dollar is at the date of maturity of each individual debt, and it can go either way.

MR. GREEN: Now, I'm also of the advice that therefore the government has relieved you of this problem, but that the government now is the one who will be the beneficiary if the dollar happens strengthen. If the dollar strengthens, they will be the beneficiary of this and you will be paying

a higher interest rate than you had to pay under those foreign loans; you will be paying the interest rate as if it had been borrowed on the Canadian market, not on offshore, but at Canadian current interest rates.

MR. McKEAN: I think the only thing I can say is the net result of who gains and how much you gain will not be determined until all the present debt matures, which is close to, I think, the year 2006.

MR. GREEN: Is what I am saying possible, that the fact is that the higher interest rate may offset the benefit of this speculation that the Government of Manitoba is going into on the bonds that they are relieving you of and charging you a higher interest rate?

MR. McKEAN: This is always a possibility. I think that is recognized that depending upon what the exchange rate does in the next 20 years will determine what is the loss.

MR. GREEN: Now if the government really wants to benefit Manitoba Hydro, why don't they let you choose the better of the two positions? In other words, if the Canadian rate is better, then it's the Canadian rate. If your previous borrowings happen to be more advantaged, that you should be able to take that, if they're really interested in Hydro. Wouldn't that be a better situation from the point of view of Manitoba Hydro, that you would have the offer to take the better result of the two situations?

MR. McKEAN: I have no comments, that would be government policy.

MR. GREEN: I'm not asking you about — I'm asking you, if it was your money, wouldn't it be an advantage to you to have the best of both worlds? —(Interjection)— That's right. Would you say that that's wrong?

MR. McKEAN: I always like the best of . . .

MR. GREEN: So what the government has done is, it's said, that we'll gamble on the dollar and you'll gamble on the interest rate, and we'll see who comes out best in the end.

MR. McKEAN: Well, the two are tied in. However, I just repeat what I said earlier that the actual amount will depend upon what happens to . . .

MR. GREEN: So we do not know, in the last analysis, on the basis of the present program, as to whether the government will gain at the expense of Hydro, or Hydro will gain at the expense of the government, and by the way, I am not making a great issue out of it either way because it's the public's money both ways, but what I am trying to indicate is that the treasury, to use the words of a famous Manitoba politician, "It might not cost the treasury one red cent." Is that correct I am using the words of a famous Manitoba politician. "It might not cost the treasury one red cent."

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I think, on a point of privilege, because I recognize who the honourable member is alluding to, the famous politician, the red cent statement was exclusive of the repatriation of the foreign debt. Mr. Chairman, and that also was said in the Budget statement, it's in the Budget that the expectation was that with the removal of the foreign debt — let me on the same point though, Mr. Chairman, just state that over this five-year freeze period, as of April 1, the estimated cost of the foreign currency repayments over that period was 110, and even the shifts in the current since April 1 has raised that up to about 120. Now, it may go back down again.

MR. GREEN: Mr. Chairman, to Dr. Wedepohl, you know, more and more information is better and better for all concerned. I gather that if the Canadian dollar had stayed at the level of 1976, then the system that you are operating would have been a very good system, and that any shortfall you've had to do with your installations or what have you, but have to do with the fact that the Canadian dollar depreciated rapidly between the time that the borrowing was done and the present time.

MR. WEDEPOHL: Well, it's not quite as straightforward as that. First of all, I have to stand correct

When I did my calculation on the \$25 million, that was related to the U.S. dollar. But one has to be reminded that there are other borrowings that we've got where the exchange rate fluctuations have been considerably more severe. The Swiss franc, I think, is one, and the Japanese Yen is the other. But the other point is that the . . .

MR. GREEN: But that would make the figure higher. In other words, it would not be \$25 million, it would be \$35 million.

MR. WEDEPOHL: Well, it depends which currency you're looking at. That is correct.

MR. GREEN: That is right. So it could be higher.

MR. CHAIRMAN: Mr. Green, would you let Dr. Wedepohl finish, please.

MR. WEDEPOHL: There is another factor that very adversely affected our revenue picture, if you take the year 1976, and that was the drought. We were in very, very serious trouble because of this. We had to baseload Selkirk and Brandon stations for the first time in our history, and furthermore, the two U.S. tielines, the two 20 kV lines, were fully loaded with power flowing northward, so that the revenue picture wasn't entirely due to the dollar. It was unfortunate that the two occurred at the same period.

MR. GREEN: But those type of situations are supposed to be put into computers in advance, and they work out either way. In the last year, given the last year, which is based on a stable borrowing figure, which the government says it has now given, you earned \$10 million over and above expenses, without considering stable revenues, and \$50 million if you had stable revenue.

MR. WEDEPOHL: I think that's about the correct order of magnitude.

MR. GREEN: Well, earnings of \$50 million, with your present reserve situation of \$50 million, means that you wouldn't have to have a rate increase right now, would you?

MR. WEDEPOHL: Mr. Chairman, could I confer with Mr. Fraser, if you could bear with me.

Mr. Green, yes, I think this is correct. We thought we would have needed one more rate increase, based on the assumption that we were going to make \$55 million in exports in this past year. The fact is that we made \$83 million, and so the buoyant export situation probably means that that statement is correct.

MR. GREEN: I'm going to ask you one more question and then take a rest and let some of my colleagues, who are anxiously waiting to ask you, but the statement made by an important past representative of Manitoba Hydro, who said as follows: "Excellent foundations have been laid, I anticipate that by proper management of reserves over the next year, and the favourable Canadian dollar, further rate increases may be unnecessary." Would you quarrel with that statement?

MR. WEDEPOHL: No.

MR. GREEN: That statement was made by Mr. Bateman. You wouldn't quarrel with it.

MR. WEDEPOHL: No.

MR. GREEN: By the way, he made it when he was retiring from, I believe, Manitoba Hydro. It's Thursday, March 8, 1979, in a Hydrogram. —(Interjection)— Well, I used a euphemism.

MR. CHAIRMAN: Mr. Craik is next.

MR. CRAIK: Mr. Chairman, I know that there are others who want to ask questions, there were a few relevant to the points that have been brought up. With regard to the rate freeze and the shift of the foreign currencies, to get back to the foreign debt, maybe I can just ask for or have some sort of repeat of discussions of course, that we've had during the period of time with the Hydro people. The shift in the currencies, maybe I can give this for information — out of the total at the date of one of the calculations in which we were examining this, and this one is late 1978, the total for Hydro was \$410 million in foreign currencies. Offshore portion of that was 231 and the U.S. part of it was 179. So that the largest half of it was offshore. So we can shift in relation

to the U.S. but unless the offshore issues change to our favour in their relationship to the U.S. our shift with regard to the U.S. can only go so far in rectifying the problem, and we may well have to go beyond the point that Mr. Green has referred to as the 1976 level to get back, which in the view of most of the economists for this month's projection anyway, it may change next month — I'm being facetious in that — they do revise their forecast periodically, but pretty consistently they're suggesting that there's not going to be vast changes in the currency relationships. . So that a change in relationship to the U.S. currency does not solve the problem.

There seemed to be also some possible misunderstanding with regard to adding 50 and 50 and coming up with \$100 million reserve. The reserve would be \$100 million if you assume the fact that the \$40 million roughly of relief that the provincial government assumed this year is removed before you do the addition. So that your hydro reserves now will be at the 100, but would have been probably down around the 00-60 level, had the move not been made by the government to relieve this year's foreign currency exchange payment.

Mr. Chairman, Dr. Wedepohl, you've mentioned that the foreign sales part of it is providing a windfall, and I think we all recognize that. You did make mention of the 1976 drought, and having to run the thermal stations full out and import. I do recall a figure being used at some point other than that the effect of that drought was an impact of about \$40 million, as far as Hydro could calculate.

MR. WEDEPOHL: Yes.

MR. CRAIK: Maybe I could ask you, what sort of warning, lead time, is it possible to see a water shortage period coming on gradually? Can you predict it two years, three years ahead, or is it something that's likely to happen over a twelve month period?

MR. WEDEPOHL: I think it's very difficult to predict accurately, Mr. Chairman, both the coming of the drought and also the breaking of the drought. I don't think you can predict two years ahead that there's going to be a drought. You get a bad year, and your water levels decline, and you just hope that you won't get a second bad year in a row, but you won't really know that until right at the end.

And if I can explain to you the breaking of the drought, how dramatic it is, in the year that the drought broke we did have a fairly substantial amount of rain, but it really wasn't good enough to bring our lake levels back. But then an unprecedented thing happened, I don't think it has happened in Manitoba's history before. We had a mean rainfall of six inches of rain from Calgary and Edmonton to Thunder Bay, which is our watershed, and it all fell in a 24 hour period. And because of the wet preceding months, there was no way that that water, coming down at that speed could do anything other than get into the lakes, and the drought was broken immediately, on that particular day. We could then forecast that within six months after the spring thaw, that our lake would be full, and they were.

But the point is that this was an unprecedented act of God and there's no way it could have been forecast, that you could not get six inches. We can get six inches of rain on the prairies but to get it over a million square miles is something different. And so I don't think it's really possible to forecast these things. You have a pious hope that it's not going to be as bad as it is, but if the rain doesn't come, well, you're in trouble.

MR. CRAIK: In regard to this, if your reserves can be maintained in the 100 million range, and I know that the forecasts that were used on the basis on which the freeze was made is that you would tend to have a hump and toward the end of the five year period, if your assumptions hold that have been made that the reserves will start to back down again slightly, unless there is, of course, a change in the export market that can't be predicted as has occurred over the last few months. But if you can maintain reserves of \$100 million, is this likely to be able to see you through a drought period? Is it possible to forecast that?

MR. FRASER: That's really like trying to forecast rain. It's a matter of how long the drought is. I think the \$100 million figure would probably do us for one year, if the drought did not last in excess of 12 months. Now, they have an unhappy pattern of lasting roughly 17-18 months, and it will depend entirely on how our pattern of load growth unfolds as to what our exposure is between drought conditions and very adequate water conditions.

MR. CRAIK: Well, Mr. Chairman, the point I'm trying to make is the government's action in a of this, in the removal of the foreign debt and what-not is really to provide a form of an insurance program, and the insurance program really is a fairly rapid increase to the level of reserves that

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allows Hydro to be in the position to fight off the unforeseen, such as the drought.

Can I ask you, with regard to the discussion on Lake Winnipeg control, it's been indicated, you've been running to try and bring the lake down all winter, to keep the level down to the 715, or that range, as low as possible. Are you at the present time, and have you in the past, at the Jenpeg structure are you spilling water over the spillway in addition to through the turbines?

MR. WEDEPOHL: Yes, we are.

MR. CRAIK: Can you indicate what portion, roughly, in very round terms, percentage of that water you are turning into energy and what is being spilled?

MR. WEDEPOHL: That's one of my colleagues

MR. CHAIRMAN: Mr. Tishinski.

MR. W. J. TISHINSKI: At the very moment, there are 140,000 cubic feet per second of water leaving Lake Winnipeg, of which 20,000 is flowing down the east channel, and 120,000 is flowing via the west channel, which is through Jenpeg. Of the 120,000 approximately half is being spilled and half is being harnessed by the generators at Jenpeg, so that's 60,000 spilled and 60,000 being harnessed.

MR. CRAIK: Can I ask you then, you are spilling that down through Cross Lake and the other channels. Are you having to, in order to keep them under control, spill at the other stations, Kelsey, Millam Plant, Long Spruce, all the way down to maintain your reservoirs? Or can you indiscriminately spill Lake Winnipeg and store the water for future use in the other reservoirs?

MR. TISHINSKI: No, our reservoir capacities in the downstream plants are very limited, almost insignificant, so we are spilling at all three Hydro plants on the Nelson River downstream of Jenpeg.

MR. CRAIK: So, Mr. Chairman, the point that I wanted to get clarified is that when you get into a position of high water in Lake Winnipeg, above the selected level of the maximum of 715, if you can keep it there, but in order to try to get Lake Winnipeg down to 715, you have to spill this water, which really is in many cases lost to you from the point of view of generation.

MR. TISHINSKI: Yes.

MR. CRAIK: Mr. Chairman, I'm not trying to get into the technical arguments that might go on Lake Winnipeg versus non-Lake Winnipeg, but if the Jenpeg structure weren't there, I think it is realized of course that there would be a higher level on Lake Winnipeg under natural conditions. I'm not trying to suggest there wouldn't be, but that's an Act of God rather than an act of man. The type of situation on Lake Winnipeg in which case, if that were the case, you may under some circumstances retain more storage in Lake Winnipeg under natural conditions than you can hold there for winter use under man-made conditions.

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: Mr. Chairman, what you say is absolutely correct. This is because of the licence we have, that says we must undertake to keep the 715. We could shut those sluice gates now and shut the generators and we could allow the lake level to rise, but I don't think we would be allowed to do that under the current terms of the licence. The licence would have to be renegotiated and changed in order to get the storage up.

MR. CRAIK: Well, Mr. Chairman, the only real point I'm trying to establish here is that there are circumstances where, under your man-made conditions, you are going to have to spill the energy that it going through the power turbines, simply spill it all the way down the line through the stem.

The other thing, and if it's too difficult to work with, I'll understand it completely, but at the present time we have this generating capacity. We have a load growth that hasn't lived up to the expectations over the last few years and we have some tie lines to the United States. The tie lines are running at full capacity and have been roughly since the first of the year and are still doing so, I gather. Apart from having to — I suppose you can't say apart from — but from having to

spill the water without using it through the whole system, if we had the tie lines in place at this point that were adequate to carry our extra generation capacity, what additional sort of tie line would be required?

MR. TISHINSKI: I guess now we're not sure of the question. Could you repeat it please?

MR. CRAIK: Perhaps I could put it another way. With the Long Spruce in operation and the last unit in place in Jenpeg in July or the completion date, we're going to have a generating capacity that is going to exceed what we can use here plus what we can export, even if the lines that we have are loaded. I'm assuming that we're not going to sell very much to Saskatchewan or Ontario other than what's contracted. But in the U.S. tie lines in particular, where you are taking advantage of these opportunity sales and running them at full capacity, I'm trying to get down just so the committee will have some idea of the excess of our generating capacity compared to what we can sell.

MR. CHAIRMAN: Mr. Tishinski.

MR. TISHINSKI: Well, keeping in mind that the summer time is the period during which we do most of our maintenance, so a number of units would be down for maintenance and unavailable to harness the water. Our best estimate would be that if we had an unlimited outlet to the U.S. we could probably harness something in the vicinity of 500 megawatts additional power to what we are doing today.

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: Mr. Chairman, just to qualify as well. There are two other factors that have to be taken into account. One is the energy capacity as distinct from the power capacity, but the most significant thing is that in winter time, we must be ready for our peak capacity, and that means because of load factor variations and so on, that technically you can't use your full power capacity 24 hours a day for 12 months of the year. You do need to cope with the peak situation which is going to occur sometime in January or February. So there has to be a reserve there.

MR. CRAIK: Mr. Chairman, I was assuming by the answer that Mr. Tishinski gave probably meant that you could — I was thinking in terms of foreign power — that you would have that spare capacity even, say, in January, that if you had the lines, the connections, you could this year at least, maybe perhaps not another year or two or three down the line, but at the current time.

MR. TISHINSKI: That is correct, yes.

MR. CRAIK: I wonder also if I could ask you whether Hydro can sense any change that has taken place since the announcement of the rate freeze? Is there anything you can tie in to it? Is it having any impact on indicated connections, I'm thinking within the Province of Manitoba, not exterior to it?

MR. WEDEPOHL: I have to be very cautious to speculate on a very short-term event, but we are very encouraged and I'm going to ask Mr. Fraser for the specific figure, but our big encouragement at the pre-Board meeting yesterday, when we were looking through the figures, was to see the domestic and farm, which have been reasonably buoyant all along, the forecast in domestic and farm have been quite accurate. The thing that has hurt us has been our major customers and our bulk power sales, and this is reflected very badly on the Hydro forecast. I think I'm right in saying that but I'll get Mr. Fraser to confirm this, but I think in this past month, INCO is up 3-½ percent, which is significant because that was the thing that really did us a great deal of harm a few years back. But our bulk power sales are up 9 percent.

Now, when we did the breakdown on this, this generally seemed to indicate that there was an upturn in activity in those areas. I think Hooker Chemicals were up, our oil company load was up, I think some of the foundries were up, and so on. But, Mr. Chairman, if I could get Mr. Fraser because I think he has some knowledge of these detailed breakdowns, but it is an indication of an increased activity in the industrial sector.

MR. CHAIRMAN: Mr. Fraser.

MR. FRASER: Yes, I think, to answer the question in two parts, I think it is a little early for us

to have seen any change in attitude of new customers or any rapid increase. If you will notice in the annual report figures, the number of customers last year increased by 3 or 4 percent or something, and that has been fairly consistent, and I think it is a little too early to see any great change in that, but as Dr. Wedepohl is referring to, and through this, the residential and farm sector has been fairly consistently quite active.

But the larger customers are definitely showing and in the month of April he is correct, the increased number is about 9 percent for that month. Now, some of that has to be recognized that April of 1979 was not a good month as far as weather is concerned, so there would be some offsetting portion of that as a result of weather. But definitely that is a much greater increase in that month than we have seen, with that same group of customers, for the last couple of years. So it appears to be showing up more in the consumption of existing customers than in the attraction of new customers to date.

MR. CRAIK: Do you have any rough figure on new home construction, what percentage of the province have been going electrical as opposed to . . .

MR. FRASER: I don't think we have accurate numbers available, but I'm going to guess that it's around 30-odd percent, somewhere between 30 and 40 percent.

MR. CRAIK: Would they tend to be primarily rural Manitoba?

MR. FRASER: Yes.

MR. CRAIK: And where there is gas available, they still would tend to, probably the majority, go that direction?

MR. FRASER: To date, yes.

MR. CRAIK: Do you foresee changes in that pattern from here on in?

MR. FRASER: I would expect, but this has to be speculation, that in those areas that are served by oil as their alternative fuel, I would think that probably the percentage will continue to rise. I have no knowledge of what will happen to the gas price, but I would not expect in the immediate future to see a big shift in those areas that are connected to the pipe gas systems. That may, in two or three years if gas prices continue to rise, that could become evident, but I wouldn't expect that immediately. I think we're into more of a long-term reaction here than anything immediate.

MR. CRAIK: Mr. Chairman, if I can shift to another topic with Dr. Wedepohl, I know that he has some thoughts that because of his background rather than association with Manitoba Hydro in the electrical business, about the export of power out of Canada. Since Manitoba is facing a period where export to the United States or tie ins, diversity exchanges or whatever, are going to be a fairly major consideration I think it's important that the Public Utilities Committee have as much background information as possible from people who have been involved in it. I would like to take the opportunity to ask Dr. Wedepohl what his own views are on the idea of Canada, and namely Manitoba Hydro, getting tied in with connections to the United States, and perhaps to the tie ins that hopefully will occur in Canada through the likes of the Western Power Grid and so on?

MR. WEDEPOHL: You are asking me for an opinion now, so I'll give it. It's my own personal opinion. We have seen the world history change in the past six months. We are never going to get back to where we were six months ago. When I first came to Canada I predicted that this would happen. I thought it would take 10 years for the oil crisis to become really manifest; in fact it has come five years earlier than I expected. It has puzzled me, in Manitoba at least, to find that its prosperity was built on the export of wheat, which is a solar renewable resource. It is there because the sun shines and it is renewable for that reason.

I see hydro electricity in exactly the same way. Now, it has been to me strange that we have set up as virtuous the fact that Alberta is exporting its oil to become rich when this oil will never come back again, and we get very excited at a major discovery of oil, and then we're told it's one year's supply for Canada. This is how serious the problem is, and I think everybody ought to be pulling together in the full recognition of how serious this is because I fear for the future, that there's going to be chaos and anarchy. We've already seen signs of this in Los Angeles.

If I was the Premier of this province, I would systematically develop every single hydro resource

in a controlled way, to optimize the employment of this province to bring great prosperity here. It would require massive capital investment, but I think it would sow the seeds for such an incredible future, that if I was going to choose where I was going to live in Canada, the two provinces, or possibly the three I'd choose, but one I'm excluded from because I can't speak the language, is Quebec, British Columbia, or Manitoba. I would not choose to live in Alberta, and possibly Saskatchewan, because they don't have hydro-electric reserves. I think you have such a priceless asset here, but what has happened is, there was a thinking at a certain time in the history of this province, and the country as well, where it was almost considered wrong to sell power, electric power, to the United States. There was paranoia; there were great arguments against it, and so on, I think possibly because of some unwise contracts that were made. Now, if I was to do this, I would add the safeguard that I would tie the export price of the electricity that I was negotiating with an escalator to the price of oil.

The big mistake that was made by Churchill Falls, Newfoundland and Labrador, and by British Columbia in its export to Bonneville Power Administration, is that they went in for very long term fixed price contracts, two mills, I believe, which looked very attractive in the mid-sixties, but is an absolute dead loss now. But if you could — and I'm sure that the American thinking, when we spoke to the senators the other day and the people from Washington, they said, "For heaven's sake, there you've got this stuff. Why don't you harness it instead of throwing it into Hudson's Bay, and sell it to us. We'll take everything you can send us." What we have seen is a complete shift in history. The world has changed, and I think this fact should be taken into account, and in the same way as Alberta has built its wealth on oil, this province ought to build its wealth on electricity, but that's purely an opinion.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, Mr. Chairman, there may be one further question on that to Dr. Wedepohl, do you think it might be as well to tie up these contracts and sales, and know what the price is before we build all those plants?

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: Yes, I think you have to be extremely cautious because the Americans are astute businessmen, and I don't blame them for that, so you have to be equally astute, but I think what you have to do is step by step negotiate. You build the plant after you negotiate at some contract settlement which is agreeable both to the United States and yourselves, where they will find the price acceptable, but I think the crucially important thing is the inflation factor. You have to find some index whereby you can say, year by year we will charge you this amount of money according to the value of this commodity, and the thing I would choose is oil because they've got so many oil-fired power stations.

MR. CRAIK: In these connections, do you differentiate between firm power sales, both to diversify exchange, and do you see a shifting scene in that respect?

MR. WEDEPOHL: Yes, I do see a difference and if, again, and this is very speculative because it may not be possible to do it, if I could get the money to do it, I would go in for the kind of sale that we've got on Afghanistan tie lines. In other words, I'd gamble on the fact that the energy crisis is permanent, and that every drop of hydroelectricity which can be sent southwards will be taken in order to keep fossil fuel reserves in the ground, that there's almost a paranoia to get as much electricity as they can from us right now, and I think this is not only going to continue I think it's going to intensify. I would almost be willing to take a gigantic gamble and try to have interruptible power sales on all the future developments, like we have now. We have very few. I don't know whether we've got — have we got any fixed price contracts? Only with Ontario. As our sale to the U.S. is the ideal form of sale because it's low quality in the sense that we can chop them off at any moment's notice when we need that power, and so, if you could get away with that . . . Now, you may say, and it's quite right to say in the short term, that by doing that you're going to get less cents per kilowatt hour than you would get if you went in for a firm price contract, but the great advantage of the interruptible is that it's tied to the price of oil automatically.

We've seen our offbeat price rise from two mills to about 1.2 cents in a very short period of time, and I think that'll continue.

MR. CRAIK: Just to underscore that, what you see is a fairly rapidly changing picture then with

regard to the nature, or type, of the agreement. Maybe I could ask you a question. In the agreements you have now, there is a base amount that is back and forth exchange. Your so-called opportunity sales are the sales that utilize the remaining capacity of your tie lines, as I understand it. In the January prices that you were getting, which tended to be higher and better as far as Manitoba was concerned, I gather that came from the opportunity part of it rather than from . . . because your base costs, your base prices, are fixed and are not speculative; they're back and forth, diversity, so you're pretty well tied right down to the price in that case. But are you referring then to the remaining capacity? If you have a 500 megawatt line, and 300 is committed for diversity, and you can sell the other 200 either as opportunity or as fixed, that Manitoba's advantage would lie, you think. . . at this point in time the trend would be to keep it open for opportunity rather than on a fixed basis.

MR. WEDEPOHL: I'll have to ask clarification here because my understanding is that if we've sold diversity, we could use that capacity — we've got capacity, diversity capacity — we could use that for opportunity sales unless the diversity was needed, and I'd like Mr. Fraser to confirm that. —(Interjection)— That is confirmed.

MR. CRAIK: Well, Mr. Chairman, I think it would be valuable to the Committee to perhaps know, is the revenue that Manitoba Hydro is likely to experience, in terms of the improving picture, likely to come from these opportunity sales as opposed to the fixed agreements on the diversity exchange? A so-called windfall revenue.

MR. WEDEPOHL: If we could just confer for a minute, please. Mr. Chairman, the current situation is that we are dependent on opportunity sales, but we see no diminution in these. As long as we've got energy and capacity we'll be able to do it.

MR. CRAIK: And when you were referring to tying it to the price of oil, that would be in reference, of course, to a firm power sale, that if we were to get into some sort of firm power agreement, tie it into an escalator such as that.

MR. WEDEPOHL: Indeed. I think it's vital that you do that.

MR. CRAIK: Yes.

MR. WEDEPOHL: Otherwise you're in the same problem that Newfoundland and B.C. are at currently.

MR. CRAIK: Mr. Chairman, I won't take up any more time at this point then.

MR. CHERNIACK: Thank you, Mr. Chairman. I was just sitting and listening to Dr. Wedepohl, and remembering so similar words being said by David Cass-Beggs, and I had to look twice to make sure to whom I was listening today. —(Interjection)— Even the accent.

I might even say, Mr. Chairman, repeat what was said by my neighbor on my left, that if Dr. Wedepohl was indeed the Premier of Manitoba, with what he's said he's likely to become at least senator and probably Governor-General of Canada.

MR. WEDEPOHL: Mr. Cherniack, that's not possible, I think, under the rules.

MR. CHERNIACK: Well, things have happened in the past, so you can look forward to the future. I'm wondering whether Hydro people, when they sit around during a coffee break, ever speculate on what would be the value on the market, on the free enterprise market, of Manitoba Hydro? I'm just wondering — I look at a statement which shows assets of \$2.5 billion, I'm wondering, what are they really worth? Is there ever an occasion when Hydro people have said, "Well, if we were going to sell shares to the world on a free market basis, have anybody to your knowledge in Hydro come up with some idea of what Hydro is worth?"

MR. WEDEPOHL: Yes, Mr. Chairman and Mr. Cherniack. I personally have discussed this with many people because one of the things that always puzzles me is, we look at our debt, and I think currently it's somewhere around the \$3 billion mark, but in fact that's not what Hydro is worth, because for example, we built Kettle Rapids Power Station at a cost of \$350 million, but that's not what it's worth; it's worth about \$1.2 billion, I would guess at least, and so if you take the entire worth of Manitoba Hydro, the older the power stations are, such as on the Winnipeg River, we reflect

them in our statements each month at the cost that we built them at, but that's not what they're worth, and I don't know what Manitoba Hydro's worth, but I've heard figures of anywhere between \$5 and \$7 billion mooted, as the value to replace all the power stations at today's costs. —(Interjection)— Well, but the point is it's worth a lot more than we show on our books. We're simply following standard accounting practice on procedures here, and that the corporation is worth far more than that.

MR. CHERNIACK: Of course. And that then means, when you say \$5 to \$7 billion, that could . . .

MR. WEDEPOHL: It's a guess.

MR. CHERNIACK: Of course it's a guess, but it's certainly probably closer to being a realistic valuation than the accounting method of presentation of the statements of Hydro as they appear before us, and I'm glad you jumped ahead of me by pointing out that to the public they are too often told what the debt is, and what the burden of debt is, and the impact of debt, and not told of the great asset that Manitoba Hydro has, for which we have to give credit to the earliest pioneers in Manitoba, who made sure that Manitoba Hydro was a publicly-owned enterprise, rather than an enterprise that would be privately owned and would not belong to the people of Manitoba.

Well, with that background, and I'm so glad you jumped at that point so quickly, then I come back to the question Mr. Green asked of Mr. McKean, as to what would happen if you had the best of both worlds, and I'm just thinking that if I and Mr. McKean wanted to look ahead to what is the best of both worlds, and knowing in my mind that Hydro is really worth \$5 to \$7 billion and owes you say, what, \$3 billion, according to statements less than that, that the best of both worlds would be for me to take advantage of lower interest rates and continue the concern about fluctuating foreign rates, knowing full well that in the event of an unexpected drought, or an unexpected reduction in revenues, or an unexpected increase in expenditures over, say, the next five years, that my assets are of such a nature that I could readily weather — weather the weather I guess — I could well protect myself even if I said I don't need a rate increase for the next five years, by having that tremendous resource, that tremendous equity of assets over liability, to be able to handle it, and that to me would probably be the best of both worlds when Mr. McKean said, "Well, of course, we all want the best of both worlds." Did you face with tremendous trepidation the future of Hydro last March and April, and are you that much relieved now after you've heard the decision of government in its Budget Address? Is there that much difference to the equanimity of the Board in facing the future?

MR. WEDEPOHL: Mr. Cherniack, I think all of us a year or more ago were wearing sackcloth and ashes. We were really concerned. We'd had the drought. There was the stagnant economy. There was the decline in the dollar. It was not a happy time for Manitoba Hydro. At the moment we've got two things: We've got a very buoyant export situation with a considerably more rosy, domestic situation than we had a year ago. There are signs of activity, particularly in the industrial sector. So that is cause for jubilation.

The thing I am particularly heartened by is the fact that the government has assumed the debt load, because I'm an engineer; I'm not a gambler, and basically what the government has done is, they've assumed the position of a gambler to take these fluctuations, because we like to be able to plan ahead, and we have enough uncertainties as it is without having to see month by month these figures riding up and down according to the fortunes of the Canadian dollar.

So to me, the two heartening things that have happened this year are: (1) the very buoyant situation with regard to our revenue picture; and secondly, the fact that the government has assumed the debt load. As was said earlier on, there are advantages and disadvantages, but basically for us, as engineers and corporation officials, it removes this awesome uncertainty each month of having to watch these figures bump.

MR. CHERNIACK: The fact is, you really had to watch them in terms of your annual interest payments, and the due dates of the various loans which I gather will last until 2006.

MR. WEDEPOHL: Yes.

MR. CHERNIACK: Just for a moment, going back to what Mr. Fraser said, and I became confused in the discussion this morning about the reserve. As I understood Mr. Fraser to say — well you said there was \$50 million added to reserve, and I think Mr. Fraser spelled it out as something like \$46 million received less \$38 million reserved for foreign exchange, netting out, according

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my arithmetic, at \$8 million. That \$38 million which was to be set aside for exchange rate amortization — was that money to be paid out or to be put into reserve?

MR. McKEAN: No, it was a reserve against foreign debt maturity.

MR. CHERNIACK: So, starting from the statement before us, which is a year old, at \$50 million reserve, adding to it \$38 million reserve, adding to it \$8 million reserve, I get \$96 million of reserve.

MR. McKEAN: No, except the \$38 million, if we had set it aside as an amortization, it would actually be to increase the book debt or the amount of our debt closer to what it would have been based upon the valuation at 31st of March. In other words, our debt is stated in our accounts calculated at 31st of March at \$372 million less than if what it would have been if it all had matured that day. And the idea of this amortization is that you would gradually increase the amount of the debt so at maturity you would bring it up to the amount that you actually had to pay at that point. So it wouldn't be a true reserve to that extent.

MR. CHERNIACK: On the other hand, it really wouldn't be a true picture from the standpoint that you don't know what you're going to pay. Mr. McKean said that he didn't know what it was going to cost them, so upgrading it to today's foreign exchange rate would not be a picture you can rely on, except to say, however with qualification, this is what it would be if we had to pay it off now.

MR. McKEAN: Yes. This is the problem. And yet, it did not seem the right way to go, and I myself, I did not think the right way it will go was to leave your debt at what it was when you incurred the debt; I would be putting your head in the sand, in my opinion, to forget about that \$372 million, although I recognize what it was actually going to be is going to depend upon the date, the amount at maturity.

MR. CHERNIACK: Mr. McKean, if I may, Mr. Chairman, to Dr. Wedepohl, through Mr. McKean. The depreciation that is shown on your statement of assets, how is it arrived at?

MR. McKEAN: Just the amortization of the original cost over its life.

MR. CHERNIACK: Over the life of the cost or the life of the asset?

MR. McKEAN: The life of the asset.

MR. CHERNIACK: All right. Now, when we talked about foreign exchange reserve, we understand what that means. When we hear that the true value of the asset according to the Chairman is \$5 billion, it would not be unreal to say that the asset side could well be increased by at least the amount of the foreign exchange reserve to reflect a minimal basis of the increased value that inflation has caused to all sorts of assets that we have which cost us much less than they do now, and I think the example was Kettle Rapids. So that would also be realistic, wouldn't it?

MR. McKEAN: I must say, I used the same argument before the Tritschler Reports.

MR. CHERNIACK: I see. Well, we'll see how Mr. Tritschler understood it.

Now, looking at the liabilities side of the statement, I see that long term debt paid out and payable in various currencies; it shows a total, then it says "less sinking fund on deposit with Minister of Finance of \$142 million" — it could have a line under that saying "plus contingency for rate fluctuation \$38 million," giving a total, and somewhere else it could show, and we have that in reserve on the asset side, possibly as being a counterbalance — that wouldn't be unreal would it?

MR. McKEAN: No, except for the fact that we've got to recognize that with a debt, the person who loans us the money wants his interest paid in cash, and at maturity he wants to be paid the principal, and so from that point of view, it is a more real cash figure than to artificially increase the value of the plant say, for \$3 million.

MR. CHERNIACK: You have a loan which falls due next June; it is a loan which was in Swiss

francs, and it falls due next June — if the government hadn't intervened, and you had to pay the loan next June, how are you going to pay it?

MR. McKEAN: We, first of all, would have recognized that loss.

MR. CHERNIACK: But how would you have paid it? Where would you have gotten the money?

MR. McKEAN: Well, as you know, under our Act, it would be a decision of the Minister of Finance who is the fiscal agent for Manitoba Hydro.

MR. CHERNIACK: Could the Minister of Finance say to you, "Pay it in cash."?

MR. McKEAN: Yes.

MR. CHERNIACK: And where would you get the money?

MR. McKEAN: There's only one way we get money; it's in the long term, from our ratepayer.

MR. CHERNIACK: From where?

MR. McKEAN: From our ratepayer.

MR. CHERNIACK: And in the short term, like next June, where would you get the money?

MR. McKEAN: Go and borrow more money.

MR. CHERNIACK: Of course, you would borrow the money. So that when you say that your creditors, your bond holders, expect to be paid on due dates, you know very well that they do but you would also borrow the money with which to pay it at the then current rates, correct? So that it's really not, again I suggest to you, fully realistic to prepare a statement on the assumption that you're going to pay off the debt without, bearing in mind, the fact that you will be borrowing it and, possibly, in currencies other than Canadian. That's a fair assumption, isn't it?

MR. McKEAN: There's many an assumptions that I agree. . .

MR. CHERNIACK: Well, then, just before I leave that one point, I've now got you at a reserve of \$96 million made up theoretically of \$38 million for rate fluctuation, and the difference for just general reserve. Now that was not created by anything the provincial government has done, how is it? I understood . . . where I became confused was that I somehow thought that the \$100 million which apparently is really \$96 million was because of government decision, and I don't see that because I still see the same kind of dollars making up \$96 million, and the government is not paying one dollar out of its coffers into Hydro's coffers. How am I wrong?

MR. CHAIRMAN: Dr. Wedepohl, perhaps.

MR. WEDEPOHL: Could you repeat the question? I think you're asking a corporation employee a matter of policy. I think that's perhaps a little unfair.

MR. CHERNIACK: By all means. I'm glad you interrupted me just to make sure, because you take the responsibilities now and you know what happens if you don't carry them out in the minds of some people.

My question was that the \$96 million that we arrived at, I understood to consist of a reserve of \$38 million as being a potential liability payable in the event that the exchange rate does not improve, and \$58 million in general reserve, so the total reserve is \$96 million. Now, when you answered originally in your very first statement, you said "Well, we start with a \$50 million reserve we now have a \$100 million," I'm sure you meant \$96 million.

MR. WEDEPOHL: Well, I was rounding off.

MR. CHERNIACK: Yes, I know. You then gave me the impression that this was because of the government's decision to take over the debt. And yet, it seems to me that the reserve is the

out of your own funds.

MR. WEDEPOHL: Yes, I take your point. I'm seeing this perhaps as an engineer and not as an economist, but I think the answer is right, anyway. The \$38 million we would have had to set aside, according to CICA rules, or rather our self-imposed rules —(Interjection)— I stand corrected, Mr. Green, you're quite right, it's the Board decision that we would assume that, and so the action of the government freed that money. It was no longer committed to look after that portion of the exchange rate fluctuations, so that money then became available to reserve. So, in that sense, you're quite right in saying that the government didn't give us any money, but it allowed us the freedom to put that money into reserve, where previously we had not been able to do it.

MR. CHERNIACK: But, you would have taken that money and put it into another column called reserve?

MR. WEDEPOHL: Well, it would have been put into the unrealized debt; it would be the commitment against our foreign borrowing, and would still be on the balance sheet.

MR. CHERNIACK: And in effect, a reserve. It changed the title.

MR. WEDEPOHL: I may be wrong here, but I think it did more than that, because each time that we have to repay a debt, as I understand it now, the government assumes that portion due to exchange rate fluctuation, so we would pay out of our coffers the repayment of the loan as it was originally in those dollars, and the government would pay the difference.

MR. CHERNIACK: I am looking forward to finding out how much that will be, and I trust we will get around to that. I just wanted to know whether this statement still applies: "The Board (that's The Public Utilities Board) concurs with Manitoba Hydro that while the recommendation of the Canadian Institute of Chartered Accountants may well be acceptable for accounting purposes, it is not necessarily appropriate for rate setting purposes. If the rates were set each year to recover in full amortized unrealized losses or gains, undesirably wide fluctuations and rates could occur as flexible exchange rates can be subject to such fluctuations. In addition, Manitoba Hydro as a matter of course, will refinance some foreign debt as it matures, thereby achieving a longer term levelling of the effects of foreign exchange losses."

Is that a statement with which you agree, or disagree?

MR. WEDEPOHL: I agreed with that at the time it was made, yes.

MR. CHERNIACK: Do you disagree with it now?

MR. WEDEPOHL: No, except that I see a different situation now, Mr. Chairman. I would have disagreed but the ground rules have changed by the action of the government assuming the responsibility for the exchange rate fluctuations, so I think that whether I agree or not is irrelevant now, because the situation doesn't apply any more. By the action of the government, I don't think it's whether I agree with it now or not, I don't think it's a point of debate.

MR. CHERNIACK: Well, I'm sorry to sort of suggest that we could conjecture that if the government had not made the announcement it made, then the statement of the Board of October 31, 1978 would be applicable today, and that is, that although Canadian Institute of Chartered Accountants as a certain recommendation, "it's not appropriate for rate setting purposes and that wide fluctuations in rates would occur as flexible exchange rates can be subject to such fluctuations, that Manitoba Hydro as a matter of course will refinance some foreign debt as it matures, thereby achieving a longer term levelling of the effects of foreign exchange losses."

Surely that statement is a valid statement of a picture effecting rate changes?

MR. WEDEPOHL: It does, Mr. Cherniack, but the problem is that all the time one has to be responsible about these things, and had we been in a situation where the government hadn't assumed the responsibility for the fluctuations, we would have had to consider, over a long period of time, was the Canadian dollar coming back, and the indications at the moment are that if it's going to come back, it's going to come back very very slowly. We couldn't, for the foreseeable future trade it on the assumption that it was one day going to be back to \$1.05, or even \$1.00 S., or ever get back to where it was relative to the Japanese yen or the Swiss franc, and undoubtedly in that case it would have had some bearing on the rates. Whether we'd like to do

it or not, it would have been a burden that the people would have, in the long run, have to have assumed.

MR. CHERNIACK: I understand that. Well, dealing with rates then, is it correct — well, I'd like you to confirm that it is correct — that as of last January 1978, Hydro requested from the Utility Board confirmation and approval of the following rate increases: 1978-79, 20.8 percent; 1979-80 21.4 percent; 1980-81, a reduction of 5.3 percent; 1981-82, a reduction of 2.3 percent; 1982-83 an increase of 7.2 percent. I'm taking this off a statement presented by Hydro to Utility Board which is shown as Exhibit 28, and the statement is dated January 13, 1978.

MR. WEDEPOHL: I believe the figures to be correct. I can't remember precisely but the pattern is certainly . . . and I assume that those are correct.

MR. CHERNIACK: And it also projects statement of operations showing a revenue transfer to reserve of, in each of the years, 1978-79, \$15 million, next year \$18 million, next year 18.9 million next year 19.7 million, and in the fifth year, 20.6 million, which I calculate to be a total of some \$19 million over the five years, as being a net revenue transferred to reserves. Do you confirm that?

MR. WEDEPOHL: Yes.

MR. CHERNIACK: Mr. Chairman, it is correct, Mr. Craik says, "with rate increases". Quite right. Now, can we confirm that the Utility Board approved of, in February of '78, approved of a 14. percent increase instead of the 20.8 percent requested ?

MR. WEDEPOHL: Yes.

MR. CHERNIACK: . . . And in the following year a 15 percent increase in face of a 21.4 percent requested?

MR. WEDEPOHL: I think there was a slight difference there. Mr. Chairman, may I just consult with . . .

Mr. Chairman, that particular point, it's a technicality but we never requested it so they didn't approve it. But essentially we did get the 15 percent increase.

MR. CHERNIACK: I remember the difference of opinion as to whether or not Hydro has to request it, and I agree that Hydro shouldn't have to request it, although other people don't share that opinion.

Well then, I refer back to the board order of October 1978, which is what, six, seven months ago, and I read from Page 10 of its order — where it says, in comparing the two forecasts that two forecasts of Hydro, two different years — revenues are noted as having been increased to 5.6 million beyond the \$27 million revenue increase anticipated as a result of Board Order No. 127. In other words, just to clarify it, as I understand it, after the board agreed or approved of an increase in January of 1978, it was expected that revenues would increase by \$27 million. Can we confirm that that is correct?

MR. WEDEPOHL: I believe that figure is correct, yes.

MR. CHERNIACK: And the board, in its finding in October, said that revenues had increased 5 million beyond the \$27 million.

MR. WEDEPOHL: Yes, that is correct.

MR. CHERNIACK: Then there's one other statement I have here which I'd like confirmed and that Exhibit 64. My copy doesn't bear a date, which means that the board copy, the public copy doesn't bear a date, but it's a projection of operations for fiscal years ending March 1979 to 1983, with high flow conditions. Now, the Hydro was asked to give answers as to low flow, I guess medium flow and high flow, and I'm looking at high flow, obviously looking at an extreme but one that is within the contemplation, possibility of Hydro, . . . I assume, otherwise why present it at all.

According to that the prediction for revenue transferred to reserves in each of the years, 1978- to and including 1982-83 were the following: \$20.1 million, \$26.8 million, \$54.1 million, \$53.6 million, \$59.9 million, which according to my arithmetic, totals some \$214 million of revenue increase.

based on the prediction of the increases, the rate increases which would be expected or desired within that five-year period, \$214 million.

Now I come back, Mr. Chairman, to ask confirmation that so far we've been blessed by high low, we know that.

MR. WEDEPOHL: Yes.

MR. CHERNIACK: Also confirmation that even with average flow the prediction was that in 1980-81, 1981-82, there would actually be a reduction of need totalling 7.6 percent, this we've already confirmed with you, as against, in the final year of 1982-83, a predicted increase of 7.2 percent, totalling actually somewhat less than the total of the decrease for the previous two years.

MR. WEDEPOHL: I think I would confirm, my head's reeling a bit because you're throwing percentages.

MR. CHERNIACK: Well, I have the advantage, I'm looking at the figures, I could give them to you but I think it's clear, I am reading from it. Well then, it seems to me, and I'd like confirmation, that the only possible reason that could be projected for rate increases in Hydro, of any appreciable amount over the next period of time, I don't know whether it's five years or three or four years, the only possible predicted reason would be foreign exchange rate fluctuation.

MR. WEDEPOHL: Mr. Cherniack, I think I would have to disagree with you there, and if I could well at some length on this. I think the parameter, and all of us in Hydro are very familiar with what was happening, if I could tell the saga as it happened. In November of this year we had a record export of electricity, but it was an exceptionally cold month. In December, we exceeded that. In January we exceeded again. And the argument was, I began to feel, well, this is a record cold winter, we're getting this money but it's because of the weather. But then February came, and although it was still a very cold month, it was noticeably warmer than January, but furthermore, it's only a 28 day month.

And when we then had a further record export, it was \$9.3 million for that month, my conclusion was that we were now in a political situation which related to the Shah of Iran, the Iranian oil situation and so on. Now, this was confirmed in my opinion beyond any shadow of a doubt in March. I went to Hydro's control room on a particular day, it was the first or second week in March where the temperature — we thought we were getting a thaw, we found out later on that we weren't — but in any case, it was plus 4 in Winnipeg, plus 12 in Minneapolis, and 14 in Chicago, and it was 3 o'clock on a Saturday afternoon. I went into the load despatching office, and I asked the load dispatcher what the tie line situation was, and he said it was 510 megawatts, or 520, which is roughly our tie line capacity, so I immediately assumed that because it was such a warm day and there was no demand for electricity in the United States, that we were doing what we had always done in the past, it was absolutely traditional, to buy nuclear at the weekend, pond our water and then buy it very, very cheap and then sell for a high price during the week.

And I said, "I suppose we are ponding," and he said, "what are you talking about, we're exporting 10 megawatts." And at that point, I was absolutely convinced that we were going to baseload those lines forever and a day. Now, this point became increasingly apparent, because when the thaw came, a block of ice took one of the poles out of one of our tie lines and we had to drop 250 megawatts. The estimate for repair was, I think, six to eight weeks, because there was 12 feet of water where the pole foundation had been. But I believe with the help of the U.S. Army, a temporary rig was put in within 18 days, at considerable expense to the Americans, and immediately a load jumped back up to 530 megawatts.

Now, I dwelt at some length about this, and this is my disagreement with you on the point you made a moment ago, because when those calculations were done, we didn't know this. We see total change in the ground rules which nobody foresaw when those figures that you mentioned were given. And sirs, I remind you again that this year we estimated at the beginning of the fiscal year \$55 million worth of exports, we actually exported \$83 million. Next year we'll export more, because the real upsurge started in about October or November of this year. This coming fiscal year it's going to be better. My forecast is that we might, with luck, export \$100 million, because we'll be baseloading those lines for the foreseeable future.

But then it will go up again; in May of 1980 when we get the 500,000 volt line, we'll see a further increase in our revenue, because my belief is that the U.S. are going to just take everything that we can throw at them. So to me, the thing that changed my thinking about our financial picture and made me buoyant was this total political change in the attitude of the United States to electrical energy. In other words, it was no longer a matter of price, it was a matter of keeping their oil

market because they worried about the winter oil stocks for heating purposes.

I'm sorry to have taken so long about that, but I disagree with your statement.

MR. CHERNIACK: I appreciate that very much. I'm learning from that. I'm also beginning to wonder about your statement that engineers are not speculators. It seems to me that speculation is playing a big role and will redound to our great benefit as Manitoba producers of energy.

I take what I think I understood you to say now, related to what you said about the future and the great exporting asset that we have in Manitoba, and relate it also to Mr. Craik's statement in the last week that he thinks that oil prices should rise to a level which is beyond what they are now, as I understood him, to a level of what would make the tar sands viable. And on the basis of his own wish, I think I would describe it as an expressed wish to have the cost of oil rise, that would make your product all the more saleable, wouldn't it?

MR. WEDEPOHL: And more valuable.

MR. CHERNIACK: And more valuable, to the extent where I think now that I am prepared to say with no background or experience in this field at all, but only from what I learned this morning that a rate increase in the next five years if highly unexpected or unneeded, regardless of the government's decision, and I say that because I think we can predict tremendous increases in revenue beyond what was expected, and I also have in mind the fact that we have established that the equity of the Manitoba people in Manitoba Hydro is such, and so great, that fluctuations in rate can be postponed and adapted for some period of time.

I go a little further, by saying that when Mr. McKean said, yes, he would like the best of both worlds, wouldn't we all, that the best of both worlds could well be a guarantee from the province of Manitoba to ensure that there not be a rate increase, which I don't believe there would be anyway but a guarantee that there would not be a rate increase by a subsidy that would be available as and when it was required in each of the next five years to take care of any potential excessive expenditure over revenue, which is so unlikely. Am I clear to you how I would envision a frozen rate without a taking away of beneficial interest rates from Hydro and without taking away from Hydro the risk of fluctuation, just that guarantee?

MR. WEDEPOHL: I'm going to speculate again. I may not have got your question quite correct and if I didn't, please correct me. Could I speculate again and say that supposing the Canadian dollar was worth 50 cents U.S. next year, I think we'd be in very serious trouble. And it could happen. I hope it doesn't, but it could happen.

MR. CHERNIACK: On the other hand, on that basis you would be exporting like mad, wouldn't you? You'd be sending so much power and so much wheat and so much everything else to a great extent, and who knows what our export . . .

MR. WEDEPOHL: Up to our tie line capacity, Mr. Cherniack. We can't export . . .

MR. CHERNIACK: You're quite right. What do you think would happen to Manitoba and to Canada if the Canadian dollar went down to 50 cents? Would you agree that that problem might be much greater than that of Manitoba Hydro alone?

MR. WEDEPOHL: Oh, certainly.

MR. CHERNIACK: All right, Mr. Chairman. I would like to trace the impact of the government's decision of taking over the debt. I would hope that Hydro has readily available the projection cost to Hydro of the differential in interest rates between what it is now liable to pay on the interest rates of the various loans made on behalf of Hydro, as compared with the cost to Hydro of the interest rates imposed by the Manitoba government related to the then rates of the Canadian market at the time of the loan, which I understand is the intent. Has Hydro not done that calculation?

MR. WEDEPOHL: Mr. Chairman, if I could confer with my people.

Mr. Cherniack, it's fairly soon since the announcement was made. Hydro is working on that but we don't have the information at this time.

MR. CHERNIACK: Was Hydro not involved in discussions with the government about the impact of the government's decision on Hydro?

MR. WEDEPOHL: Mr. Chairman, I think the discussions were done by Mr. Fraser and Mr. McKean with the Minister.

MR. CHERNIACK: Well then, we take away the board entirely and say, the board was not involved in any discussions but the administration was. Is that the picture?

MR. WEDEPOHL: I was personally involved, but the announcement was through the board after the . . . last week.

MR. CHERNIACK: Well, I understand. It was a government decision. It was a Budget time decision, so it had a certain element of secrecy attached to it. But was not Hydro consulted as to the impact on Hydro of this change, the dollar impact?

MR. WEDEPOHL: Well, I was certainly, I had discussions with the Minister, and I believe Mr. Fraser and Mr. McKean. And we were supportive of what was done.

MR. CHERNIACK: Yes, that's almost the best of both worlds, but not quite. Was the Hydro administration given any alternatives in connection with what I think would be the better of two worlds in the manner in which I described could have been done, and that is a guarantee for whatever subsidy was needed to prevent Hydro falling into a loss position in the next five years?

MR. WEDEPOHL: I think I know the answer to that, but I would like to confer, with your indulgence, Mr. Chairman.

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: Yes, Mr. Chairman, a number of alternatives were discussed, certain rates were assumed, but in the end it was a government decision to make this part of the Budget Speech his year.

MR. GREEN: Yes.

MR. WEDEPOHL: We presented some of the alternatives and these were discussed and the government made its decision.

MR. GREEN: The government decided which of the alternatives it wished to carry on.

MR. WEDEPOHL: Yes.

MR. GREEN: Since I don't quite understand the transaction that is about to take place, retroactively think to last April 1, I'm wondering if we could trace the impact on Hydro of the most recent Swiss loan, new loan used to pay off the old loan a year ahead of time; and how that will react on Hydro for this coming year as compared to how it would have been for Hydro had Hydro borrowed the money itself, through government of course, for the one year at the beneficial interest rate this year and take the burden of the ½ percent penalty, and last year take the burden of a 1 percent penalty?

MR. WEDEPOHL: Mr. Chairman, Mr. Fraser and Mr. McKean discussed this with me, the impact of this particular negotiation, but I would like, in this case, to ask if Mr. Fraser could answer because I'm not an economist and I can't remember the details.

MR. CHAIRMAN: Mr. Fraser.

MR. FRASER: I don't really think I can answer the question because I don't know what rate we're going to end up paying in place of what rate we might have paid under the various scenarios that you've presented. We have received a proposal and we're looking at the rate calculations now but don't know the number. I assume that what you're trying to get at is that I think the rate on the loan was 8-½ or something and now we will pay a Canadian equivalent rate which might be 9 or something like that, so there will be a difference, but I can't tell you specifically what that difference is as I sit here right now.

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MR. CHAIRMAN: The hour being past 12:30, what is the wish of the committee, to come back as scheduled at 2:30 or at a time earlier? Mr. Craik has indicated he'd like to comment.

MR. CRAIK: Mr. Chairman, I think, as stated in Votes and Proceedings, it is scheduled to meet at 2:30.

MR. GREEN: I recognize that his wishes are stronger than my wishes, to get more votes.

MR. CRAIK: Well, Mr. Chairman, we can shorten the argument then drastically on that note. I think we should meet this afternoon. If 2:00 o'clock is better, it's not a normal day so perhaps we can shorten up the break to an hour and a half and be back at 2:00 o'clock.

MR. CHAIRMAN: 2:00 o'clock. Committee rise.