



**Third Session - Thirty-Sixth Legislature**

**of the**

**Legislative Assembly of Manitoba**

**Standing Committee**

**on**

**Public Utilities**

**and**

**Natural Resources**

*Chairperson*  
*Mr. Jack Penner*  
*Constituency of Emerson*



**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Sixth Legislature**

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MIHYCHUK, MaryAnn	St. James	N.D.P.
MITCHELSON, Bonnie, Hon.	River East	P.C.
NEWMAN, David, Hon.	Riel	P.C.
PALLISTER, Brian	Portage la Prairie	P.C.
PENNER, Jack	Emerson	P.C.
PITURA, Frank, Hon.	Morris	P.C.
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**LEGISLATIVE ASSEMBLY OF MANITOBA**

**THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES**

**Thursday, March 20, 1997**

**TIME – 10 a.m.**

**LOCATION – Winnipeg, Manitoba**

**CHAIRPERSON – Mr. Jack Penner (Emerson)**

**VICE-CHAIRPERSON – Mr. Ben Sveinson (La Verendrye)**

**ATTENDANCE - 11 – QUORUM - 6**

*Members of the Committee present:*

Hon. Mr. Newman

Messrs. Ashton, Gaudry, Laurendeau, McAlpine,  
Ms. Mihychuk, Mr. Penner  
Mrs. Render, Messrs. Rocan, Sale, Sveinson

**APPEARING:**

Mr. Robert Brennan, President and Chief Executive Officer, Manitoba Hydro  
Mr. John McCallum, Chairperson, Manitoba Hydro-Electric Board

**MATTERS UNDER DISCUSSION:**

March 31, 1996, Annual Report of the Manitoba Hydro-Electric Board

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**Mr. Chairperson:** Committee, come to order, please.

This morning the committee will be hearing the Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31, 1996. This report had previously been considered by the committee on October 25, 1996, and March 18, which is just a few days ago.

Does the minister responsible have an opening statement or does he wish to introduce the officials that are in attendance of the Hydro-Electric Board?

Before we allow the minister's opening statements, first of all, I would like to pose a question, whether we can, at the end of the day, pass this report, whether we are willing to do that; and secondly, what is the time limit that you want to put on the committee? Do you want to rise at twelve or what are the wishes of the committee?

**An Honourable Member:** We are prepared to pass it.

**Mr. Chairperson:** You are prepared to pass it? So whenever you are through with the questioning, we will deal with the—we will go no later than twelve. Is that agreed? [agreed] Okay. Thank you. We agree that we will go no later than twelve and that we are going to pass this report. Mr. Minister, did you have an opening statement?

**Hon. David Newman (Minister charged with the administration of The Manitoba Hydro Act):** I think we should get right down to business. The only new thing that has happened since the last day which is relevant to the business of this committee is that the representatives of Hydro, Mr. Brennan and Mr. McCallum, have brought with them responses to the questions which we had taken notice of last day on March 18. So I think they would be prepared to distribute those now to committee members. Other than that, I am certainly ready to proceed.

**Mr. Chairperson:** Is that the wish of the committee? Ms. Mihychuk, did you want to make an opening statement?

**Ms. MaryAnn Mihychuk (St. James):** Thank you very much. I would like to thank the committee for supporting us for another meeting in a short time and pleased that the government has rescheduled the meeting. This has not been typical of the record of the government. Either they are very late in starting, or the committees are scheduled so quickly that people do not have an opportunity to prepare or attend.

Again, I would like to thank Manitoba Hydro for preparing the responses in such a timely manner, and we appreciate that very much.

The situation in regard to the committee hearing on Tuesday has led to a whole series of additional questions. We are going to be delving, hopefully, further into the reorganization of Manitoba Hydro, the four business units; and looking, in greater detail, the deregulation component.

For the record, I would like to state that we too are supportive of deregulation. We understand that this is an issue or an opportunity for Manitoba Hydro. We see that given that the Crown corporation has been rated by governments and by the bond-rating agencies as probably the most efficient, most valued utility in North America. We recognize that and are very pleased, and the opportunity is there for us to use Manitoba Hydro to bring in revenues, hopefully, to the Province of Manitoba eventually, and we are very proud of the work that Manitoba Hydro has accomplished.

Our concerns about deregulation are not with Manitoba Hydro's ability to work in it and be successful. It is with the opportunity for this government to use that as an excuse to go through with its own ideological agenda of privatization, as we have seen with the telephone company, with Manitoba mineral resources, with virtually every other Crown corporation that Manitoba had.

So it is an opportunity that Manitobans can understand. We also want to make it clear that we view deregulation as having nothing to do with ownership, that it can be a Crown corporation working through the process of deregulation, and we are asking the government for a clear commitment that before they do any type of privatization or such moves that they go to the people of Manitoba first in a general election.

This issue is in the forefront for Manitobans and whether the minister hopes to or wishes to suggest that we are raising the spectre of fear, I would argue that indeed it is the government's record that has Manitobans fearful. They have just gone through a process where over 70 percent of Manitobans opposed the sale of MTS, but it was pushed through anyway. The loyalty and commitment that Manitobans have for

Manitoba Hydro is even higher. The stakes are much higher. As I have said previously, Manitoba Hydro is a gem, is the diamond of utilities, hydro utilities, and I am sure that there are international corporations which would be very pleased to take over or have the opportunity to come into the Manitoba hydro business.

So there is going to be intense pressure on the government, and what we are striving for is a clear commitment from this minister, from the government, that they will hold back and at least go to the people of Manitoba before anything on that sort of change of ownership occurs.

Many people have suggested that we be opposed to deregulation on the grounds that it would provide an opportunity for ideological arguments to actually win and that the government would use that as an opportunity to sell. I have difficulty doing that. Clearly, we want to be moving towards the future. It has always been our hope that Manitoba Hydro would be used to provide economic stimulation and revenue for our province to help support health and education and build our province.

We will challenge the minister's statement from, I believe it was Tuesday, to the media where he suggested that, in fact, there would be no further construction of capital projects. It is very difficult to logically understand how we expect to benefit and expand our hydro servicing, hopefully to other markets, whether they be Saskatchewan, Ontario, further into the United States, when we have tied the hands of Manitoba Hydro in terms of generating additional resources, and we are not talking only about—we do have sufficient resources, we understand that, for the domestic market. What we are looking at is an opportunity through these changes to benefit from the investment that Manitobans have made, benefit from the belief that Manitobans have in Manitoba Hydro and see that what we have built together now works for Manitobans.

Indeed, we have serious concern, given that since this government has taken office, we have not seen additional sales into the United States. We are hopeful that with this change in deregulation that this indeed will occur. We are still in a situation where we have a commitment with the Northern States Power contract,

and it goes on to the year 2006. That commitment is there and we benefit from that, reaping in revenues of between \$200 million and \$300 million annually. That type of revenue is significant, and we believe should be expanded.

\* (1010)

The opportunities that Manitoba Hydro and other decisions that this government has made has sometimes in the short run looked like cost-saving or efficient, but I would like to cite that this is the same ministry that decided to pull the Department of Energy out of the Eaton's building, resulting in a dramatic loss of revenue for the Eaton's complex and helped, I am sure, to make a less viable operation in the downtown core of Winnipeg.

Such short-sighted decision making leads in the long run to harm the core of Winnipeg and the economy of Manitoba, so that the short term may look like the better opportunity, but in the long run we have seen numerous examples where it has actually been very detrimental to Manitobans.

Comments from the minister and the Premier (Mr. Filmon) over the last two days have basically convinced most Manitobans that it is not a question whether this government would sell Manitoba Hydro. As I have said, I have had numerous calls, actually as a result of the past couple of days, the publicity and the stories in the media, people who are desperately anxious about the situation with Manitoba Hydro, that there is actually the belief that the government will move ahead.

Until the government is prepared, and I think it rightly should if it has an agenda, it should come forward with it. If it does not, then clearly state that Manitobans have nothing to worry about. We will be going to the next provincial elections. We have a strong Crown corporation working in a deregulated market. So we are asking for a clear leadership on behalf of the government in this issue. We have seen them in the very recent past sell off the Manitoba Telephone System using the same vernacular, the same denials and posturing by the Premier, then in fact dumped the telephone company. So it is clearly not surprising that Manitobans are very concerned about the status of Manitoba Hydro.

In addition, I would just like to express my concerns about some of the comments that the minister made on the previous committee. It is indeed appreciated that the minister has toured the North and been to the communities. He has only taken the office very shortly, so I must commend him on that. I am sure he has got a very hectic schedule. For the people who can only have a couple lights on and not be able to cook, or they cannot do their laundry and cook a meal, that is very little gratitude or it is very little substance to those words to those people and families who are doing without what we consider basic services.

I think the suggestion that it is a more natural environment, that the people there need to look at it as a positive, that is fine and good for those people that choose to go back to the nature or choose to live in a lifestyle without what we consider modern conveniences and the basics. I would like to suggest that the people in the North should have that opportunity of choice as well. Far from us to decide that the people in the North do not deserve clean water, electricity to operate the basic appliances that we all take for granted, and employment. Those are all challenges that I hope the minister, given his portfolio is Hydro and northern development, that it is indeed a very large challenge. I hope that he will sincerely work on it and provide northern Manitobans with the opportunity to choose indeed whether they wish to live in a more simple—I think the word that the minister used was “simple”—lifestyle or not.

We are thankful for the opportunity to put the following comments on the record, my colleague has a couple of questions, and I have a series of areas that I would like to delve into, including the implications of deregulation on retail competition, the amount of contracting out that Manitoba Hydro is doing now, the actual charges that would be levied if we worked on a cost-for-service basis, and some of the plans that Manitoba Hydro may have for a U.S. subsidiary company, and further analysis, as I said before, of deregulation and the reorganization. I look forward to working with Manitoba Hydro and the minister to answer these questions.

**Mr. Newman:** I will respond very briefly just to put a few points on the record because of the remarks made by Ms. Mihychuk. I am not inviting debate.

First of all, with respect to the alleged ideological agenda of my government in relation to Crown corporations, there is no such agenda. We are not governed by ideology. We are governed by what is in the best interests of the people of Manitoba, in the judgment that we have as a government, a judgment for which we are accountable to the people. The people elect us and have elected us to exercise our judgment conscientiously and in their best interests. We believe that we have done that without exception. We are never perfect in what we do, and we are not always right, but we try to be. We try always to do it in the best interests of Manitobans.

It would be, as I have said many times, irresponsible of us—as it would be irresponsible for you—to commit to something like your coming to the table or going to the media and suggesting to the people of Manitoba that you will take state ownership, will exercise powers or begin an agenda to buy private sector corporations. I do not believe you would suggest to the people of Manitoba that you would before doing that have a general election.

I do not also think that you would go to the people and suggest in what circumstances you would call a general election. It simply is not a responsible way to conduct business in the province or exercise your responsibility.

However, having said that, the issue of ownership is not relevant to these discussions, because it simply is not in the cards. That is not an issue which is going to relate to any amendments that I understand are in a state of preparation and with full explanations by Manitoba Hydro. So, enough said on that, and it simply is not an issue.

With respect to an alleged comment that I made about no further construction of corporate projects, the only thing I can think of that I have said in the last few days in that respect is, and I use the exact words, I said we are not as likely to have to build major power dams at the expense of taxpayers. That is a statement I stand by. In the foreseeable future, there are no major power dams in the cards. Part of that is attributable to what Hydro is now doing in terms of the way it conducts its business.

Another point that I felt I must address is something that is pulled right out of left field and brought into this hearing to my amazement—

**Mr. Chairperson:** Sorry to interrupt you, Mr. Minister. Some of the members at the far end of the table have a difficult time hearing. Could we increase the volume a wee bit? Thank you very much, Mr. Minister.

**Mr. Newman:** My apologies. I will speak up.

The suggestion is that somehow or other a branch of my Energy and Mines department is somehow responsible for the failure of Eaton's in the city of Winnipeg in the province of Manitoba. I do not know the details of that, but I would be very interested in following this one through—not today.

I just want to put on the record, in the world that I came from, when you are starting to suggest things like that, that verges in legal terms almost like a defamation. Is there some evil intent? Some sort of reason that you advance something like that? It strikes me as so peculiar.

\* (1020)

Let us just follow it through a little bit. I hope you know exactly where those offices were located. [interjection] So you knew that this was in Eaton Place, was it? In Eaton Place? I hope you have checked that. Do you know who owns Eaton Place? Because if you do not, I just suggest you check that. If you discover that Eaton Place is not owned by Eaton's, I would expect an apology. Okay?

Even if Eaton's did own it, just to bring this in and suggest because a tenant has left, I would be very interested in knowing who the tenants have been in Eaton's over the past five years or 10 years. I take it you are suggesting that any tenant who has left has in effect contributed to the demise of Eaton's. So my department is not alone in the criticism that you have directed and the attribution of responsibility. I just ask you to take a look at that, maybe rethink. If you are wrong, maybe you should apologize to others as well.

I would now welcome proceeding with the real issues at hand and with a kinder note and gentler note, I would just like to say I am very pleased to hear that the official opposition does support the approach I believe that Manitoba Hydro has stated it must take. That gives me great comfort that the process of amending our laws to allow Manitoba Hydro to protect and enhance its markets is going to be guaranteed and certain without a whole bunch of obstructions. So, I am very pleased about that position.

**Ms. Mihychuk:** Just very briefly, on the issue of the department's decision to move out of Eaton Place, clearly the minister will, I am sure after this meeting, investigate about the move of Energy and Mines in the recent history and its impact on that facility. But it was not very long ago, and it did have a fairly traumatic effect on that facility; and the decision, as I was told in Estimates, was based on the rental of the property, so it was a bottom-line decision in the short term.

My first question to the minister is related to deregulation. There has been considerable speculation and discussion about the effects of deregulation on the ability of retail sales. Now, can the minister tell me will it be possible in the new environment for a private corporation, private company, to provide energy and other services to perhaps a large energy user in Manitoba, for example, Inco or a mining company?

**Mr. Newman:** As I did yesterday, I will direct those kinds of questions to Hydro, which is developing those kinds of answers and the business plan which we will be using to guide us in amending the legislation.

**Mr. Robert Brennan (President and Chief Executive Officer, Manitoba Hydro):** An independent power producer could come in, or another utility, and develop a gas turbine and attempt to sell power to Inco, as an example. They would have to do it without using our transmission facilities. They would have to build it very close to Inco's requirement and there is no gas line there, so it is probably a bad example, but you could probably change it to—[interjection] Sure, or a chemical company in Brandon or something like that, which is right on the gas line.

In those particular cases, if in fact they were competitive and only sold to the one customer, the one

customer could obviously buy from who he wanted to. They cannot go and market it by law, and we certainly would not encourage that. What would happen at this point in time is that people would just cherry-pick whatever customers they wanted, and Manitoba Hydro would be left with the more remote customers and that sort of thing. But right now they are not competitive anyway, so the whole thing is sort of an academic type of question because we are the lowest, and they just cannot compete with a gas turbine today.

**Ms. Mihychuk:** Would Mr. Brennan consider that a retail sale?

**Mr. Brennan:** It is the equivalent of a retail sale.

**Ms. Mihychuk:** I have some very simple questions, and this one relates to the quarterly report for nine months that just came out. We again celebrate that Manitoba Hydro is seeing record profits and is forecasting a net income of approximately \$88 million.

My questions are going to relate to the pay-down of the debt and the decision to accelerate the debt payment. That decision, if I remember correctly, was made last year. Can we perhaps get an explanation of why it was necessary at this time? Given that we have no major capital projects on the books right now, why it was necessary to have an accelerated debt-payment plan when we were already working on a debt-repayment program that was successfully bringing down the costs and the debt to Manitoba Hydro?

**Mr. Brennan:** One other question I would like to go back to, and that is the diesel generation in the North, at the end of this question. I meant to do it earlier and I forgot.

Coming back to your question, in our financial targets, we had a target for equity, how much equity we wanted in the company, we had a target for the level of earnings as it related to cash flow and interest coverage. We never had a target before for how much we wanted to take care of our debt, whether we wanted to lower it or do anything with it at all. What we did was we came up with a policy that we recommended to our board, and our board approved, whereby all our internally generated funds should be used for our capital construction with the exception of times when we get

into a major generation, or generation and transmission projects. In those cases, we felt that internally generated funds, it would not be fair to have consumers pay for that before the facilities came on line.

Just one other thing is right now all our forecast was very, very minimal rate increases could take care of that.

**Mr. Chairperson:** Mr. Brennan, did you want to speak to the northern generation?

\* (1030)

**Mr. Brennan:** Could I? This is a problem that Manitoba Hydro probably has not explained well enough it would seem. Because if you go to page 61 of our annual report, about 1989 or '90, it probably was 1990, we instituted a policy of converting all our diesel locations from 15 amp service to 60 amp service. That particular policy allows people to use all appliances, even though it is produced by diesel generation. They can use all their appliances and have no trouble. The only thing they cannot do is get involved with space heating electrically, but anything else they can do within their homes. That was a policy to help the aboriginal communities and the Metis. It was 1990, I think, we instituted it.

It was a phased-in policy, so I would like to review with you some of these ones that are marked "D." Those are the diesel generation ones if you look on the map. If we start on the left-hand side there at the top, we have Brochet, Lac Brochet and Tadoule Lake; they have all been converted to 60 amp service. If we come down to Thicket Portage and Pikwitonei, right now we have landlines going into those two communities, They are in the process of being constructed and any day now they will be complete; April sometime, I think, the completion date is expected.

Then we go from Kelsey generating station down into the communities of Oxford House, Gods River, Gods Lake Narrows, Red Sucker Lake, Wasagamak, Ste. Theresa Point and Garden Hill. There is a line that is going to come down there which is a north-central line that you asked questions about yesterday, and they will all be served by a landline.

That leaves us with the question of Shamattawa, and Shamattawa want a line from our facilities in the North there—the Long Spruce situation or Kettle would appear to be one of the closest ones— and that was in the neighbourhood of \$35 million. We offered them the 60 amp service and they refused us, and that was the question Mr. Robinson was asking us as to whether we could get together and talk with that community. We are more than happy to do that.

So right now, by the time the north-central project is finished, Shamattawa will be the only one that will not have 60 amp service and hopefully we can talk to them.

**Ms. Mihychuk:** My question to the minister and through to Manitoba Hydro: when you look at the Statement of Operations or perhaps in the annual report, what area will show the transfer of funds to pay down the debt and, just subsequently, can we see how much was put down against the debt?

**Mr. Brennan:** Could we go to page 44 of the annual report.

**Ms. Mihychuk:** Page 44.

**Mr. Brennan:** If you take a look—the cash provided from operations. We take the net income, the depreciation, the noncash working capital change and we generate it, in effect, there, about \$270 million, 201 and then 70. If you go down and take a look at our additions to fixed assets net of contribution, it is 266. So the modest different there would be the amount we are going to pay down debt. So it was very, very minimal that year.

In the future, it depends on the year as to how much we have, but each year we have a little to start paying down debt. In addition to that, there is a sinking fund payment we have to make that is outside of that that we have to consider.

**Ms. Mihychuk:** The long-term debt as indicated on the December 31 unaudited statement that is provided in the quarterly report indicates that the long-term debt has dropped from \$4.166 billion to \$3.866 billion. Can we have an explanation for that?



**Mr. Brennan:** What happens there is the current portion of the long-term debt goes up as well. I do not have that particular statement in front of me, but you can see the same thing occurring on our annual report. What happens is the current portion of long-term debt would go up. You also have to realize that sometimes in a particular year we could have a debt maturity occur that we finance by short-term notes of some sort, just to take advantage of market conditions.

We have done very, very well in refinancing debt and getting a lower rate. The last time I looked, when I took over as the president, it seemed to me the average cost of embedded debt was around 10 and a half percent. Now it is just marginally less than 9 percent when I looked. I like to think it is good management, but that is a change in conditions and associated with interest rates, as well as trying to manage it properly.

**Ms. Mihychuk:** My question to the minister through to Manitoba Hydro: can the minister tell us if there are plans to establish a U.S. subsidiary company from Manitoba Hydro?

**Mr. Brennan:** We have no plans at the immediate time to do that. We are continually looking at various alliances with other people, either customers or other energy providers, to see if there are opportunities that the corporation can have a profitable venture with to either reduce our costs or help our net revenues.

**Ms. Mihychuk:** It is my understanding that other provinces have done this. Can Manitoba Hydro, perhaps, tell us the benefits of that?

**Mr. Brennan:** It depends on the province. Various provinces have different motivations in that regard. As you know, in the case of Hydro Quebec, they just bought a partially Crown-owned gas company and merged it with Hydro Quebec. They are going to use that as a vehicle to market their gas and electricity operations in the United States.

In the case of Ontario Hydro, they have incorporated one too, and they are going to be getting in the business of brokering power.

**Ms. Mihychuk:** The president of Manitoba Hydro was quoted in a Hydrogram discussing convergence. I would assume that this example of Quebec Hydro

assuming or taking over a gas company is a model of convergence. Perhaps the president could expand or elaborate on the benefits of convergence.

**Mr. Brennan:** Manitoba Hydro provides services to the same company as the gas company. Certainly there are some services we know we are already providing. People look to Manitoba Hydro to provide certain services. People ask us what is the best kind of product to use in certain cases, what is most cost-effective for them, what are the advantages and disadvantages of certain products? There are services we can provide as a one-stop shopping centre, so to speak, or a utility can. There is the belief that by doing that you can save consumers money and make additional money for the utilities.

**Ms. Mihychuk:** Just to put on the record, does the president of Hydro believe that Hydro could operate in a deregulated market as a Crown corporation successfully?

**Mr. Brennan:** I think that is very much of a policy issue, and I am a little afraid to go too far in it. Certainly Manitoba Hydro today can operate very, very efficiently in the environment we are as a Crown corporation. All our plans are being made on that basis.

**Ms. Mihychuk:** Perhaps Mr. Brennan can explain what he meant when in the Hydrogram it states that we are beginning a challenging time in the utility industry—obviously we are seeing a lot of different challenges, and we agree—for those of us, electric utilities which are government-owned monopolies. We realize that generally speaking governments do not want to be in the electricity business, but they want their constituents to continue to enjoy energy services at the lowest prices possible. Has the president of Manitoba Hydro had any indication that this government does not want to be in the electricity business?

**Mr. Brennan:** First of all, I would like to make sure that everybody realizes the context of which I was making those comments as. I am the chairman of the Canadian Electrical Association, and as such I was making them as a representative of their association, not as the president of Manitoba Hydro, albeit I am the president of Manitoba Hydro. I think generally most

governments want to be in the business of providing the type of goods and services that they normally do and let power utilities provide and focus on the services they provide. That is what I meant. Certainly, I think, for the most part, it was taken in that context.

\* (1040)

**Ms. Mihychuk:** We would like to ask some questions. The statement, and I want to put on the record that there is absolutely—the quote that I had cited from the Hydrogram clearly states that Bob Brennan is the president and he is the chairman of the Board of the Canadian Electrical Association. I understand that he was talking in general about utilities and government, so I just locally want to just ask, again, if he has had the impression or an indication from this government of whether they are indeed not interested in being in the electricity business.

**Mr. Brennan:** I would just like to answer, if anything, I think it would be the other way around. All the indications to me are that we are going to be a Crown corporation and we should make our plans accordingly.

**Mr. John McCallum (Chairperson, Manitoba Hydro-Electric Board):** Mr. Brennan reports to the Board of Hydro, and he has had no discussions with us in any way on that subject.

**Ms. Mihychuk:** Has the Board of Manitoba Hydro had any indication from government representatives, or in terms of a policy factor, that indeed government should not be in the electricity business?

**Mr. McCallum:** No, we have had no discussions at all.

**Ms. Mihychuk:** Indeed, that is not surprising as we saw a similar situation with the telephone company, that one of the last people to know about the future of the Telephone System was the board and the corporation itself.

Moving on to the restructuring of Manitoba Hydro, can Manitoba Hydro provide for us some clarification or analysis of the new structure that you have now completed, I understand, into the four business units?

**Mr. Brennan:** When we went through the presentation at the last meeting, I dealt with this issue and had a few

slides on it, if I remember correctly. Basically, Manitoba Hydro has gone from an area where we are pretty capital oriented, to one of providing more customer service, concentrating more on that, more of an operating type utility. We thought it made an awful lot of sense to divide the company into three particular business units with a corporate support group, corporate unit itself. There are all kinds of reasons. I think it has worked out extremely well. Other utilities are going in the same direction. Some faster than us, and some who have gone through a series of organizations have ended up in the same position we are. I think it is a good organization and well suited for the challenges Manitoba Hydro faces today.

**Ms. Mihychuk:** Could we, through the minister, have a report as to the number of employees and financial statement of every business unit, or the four business units?

**Mr. Brennan:** We can give you the number of employees by business unit. We do not keep financial statements by business unit.

**Ms. Mihychuk:** Are the business units self-sustained? Do they determine their own annual goals? What is the reporting structure to you as CEO of Manitoba Hydro?

**Mr. Brennan:** All the vice-presidents are part of the executive management of Manitoba Hydro. They are all involved in the corporate planning for the corporation. All recommendations to the Board of Manitoba Hydro are made as a collective group with the heads of the individual business units. Any plans that they have are based on a corporate plan. From that perspective, they are no different than the way we were operating before. What it does do, it relates related functions within a particular business, so now one individual is responsible for everything that happens within that business unit, and actually makes it much more efficient and effective.

At the same time we did that, it gives an opportunity to look at the levels of management we had. Our attempt was, and in some cases we have not completed it, but our plans are to complete it everywhere to reduce the reporting levels from the individual working, the

lowest individual, so to speak, to the president to be no more than five levels, five reporting levels.

**Ms. Mihychuk:** In terms of this restructuring, can Mr. Brennan give us some indication as to the percentage or the number of management staff in the new model versus the old, the number of employees reporting to those management people?

**Mr. Brennan:** I would have to get that for you, but there clearly is less. I will provide it.

One other thing, the last time—it was not the last time we met, but the time before that—back in October, a question was asked of me how many division managers we had and what it went from. I said it went down to 19. In actual fact, it went down to 17, and we have removed one of those, so it is down to 16 now. That was just to correct the record.

**Ms. Mihychuk:** If the president of Hydro could also include the salaries of those individuals, and tell us for the record whether the new structuring has meant a significant increase, or was it the same level of compensation to the senior management?

**Mr. Brennan:** The people back at Manitoba Hydro will love to hear this answer. Nobody has been—unless somebody's job changed dramatically and went into a job with a specific area—have received raises for an extended period of time.

**Ms. Mihychuk:** One more question on the restructuring, in terms of employees we have seen considerable downsizing in Manitoba Hydro through greater efficiency and completion of capital projects. What are the future projections for employment in Manitoba Hydro? Are we planning to see even further layoffs?

**Mr. Brennan:** I guess the challenge of Manitoba Hydro is to make sure that we continue to be in the future the same kind of utility we are today, which is just a No. 1 utility. That means we are going to always have to be very, very concerned about staffing levels, costs, and making sure that we do things in the most efficient way. We are always going to have to be aware of staffing levels and costs to make sure that we are as efficient as we can be. Having said that, we are also

looking for opportunities to grow in terms of profitable opportunities. Manitoba Hydro has an awful lot of expertise that can be marketed. I think in a lot of cases we have a competitive advantage. We know that we can provide services that are not otherwise provided in the province. People come from out of province to provide those services. We know that we can provide them outside the province as well, and we are looking at doing that as well.

**Mr. Tim Sale (Crescentwood):** Mr. Chairperson, I just have one question in this section, and I would go back to our critic. A question to Mr. Brennan or Mr. McCallum. I am puzzled about the restructuring when you indicated that you do not report your business units financially. That just puzzles me because presumably one of the purposes of restructuring, at least in terms of some of the deregulation issues, is so that you do meet some of the requirements that a deregulated environment imposes on a supplier, and it just does not make sense to me that you are not reporting on a business unit basis in a financial sense. Can you perhaps clarify that a bit? Are you simply saying you are not reporting publicly or are you saying you are not reporting at all financially?

**Mr. Brennan:** We, of course, have corporate reporting, and we know that we can identify costs within certain areas. So if you wanted to know our transmission cost or if we wanted to know what our cost for transmission capabilities were, the cost per kilowatt hour moved on our transmission system, we can obtain all that. Transfer pricing is a very, very complex issue, and we did not move into it immediately. What it means is we would have to take the revenue that our generation area is producing, transfer it over to the Customer Service area and then the transmission cost would also be moved over to the Customer Service area. That will come.

\* (1050)

We had the type of a financial reporting system that was extremely old, and it was not adaptable to that. We are in the process of implementing a new system which will be effective in April that will give us more flexibility to do it. It is something that will come, but it is not there right now. All our reporting, we can get any cost we want in a certain area. So maybe I left the

impression that the costs were not able to be obtained, but we are not at this point saying this certain area has a profit and loss statement.

As a matter of fact, I do have a little bit of concern about that in that we do not want any decisions made that are solely in the best interests of the business unit and not Manitoba Hydro. One of the concerns we have with the restructuring is that that does not come about. You can see at times it is starting, and it is something we are all aware of and trying to make sure it does not happen.

**Mr. McCallum:** In the board's view, I think it was desirable to proceed with the reorganization. There were benefits in that. The company was not ready in terms of its financial reporting structures to do what you are talking about. As Bob has mentioned, there is a huge transfer pricing issue of division A passes it on to division B and what is the number because it has to be some kind of an artificial number because there is not a market between the two companies. In due course, this will come, and we will be pushed into it, partly because of the deregulated market and also because it is desirable for us. Bob, you wanted to talk a bit about the new financial system that is—

**Mr. Brennan:** No. I do not have much to say about it other than it is going to be a more responsive system. It is going to have flexibility to do the type of things that we would like to do. We can identify cost any way we want. We can structure them so they will report in a fashion like that, but I do not want to leave the impression that right now we cannot determine what the costs are because we certainly can, whether they are transmission or—we can make sure we can meet any kind of reporting requirements today.

**Mr. Sale:** Mr. Chairperson, I appreciate the answers from both officials. It does seem to me though that Mr. McCallum is indicating that that is the direction that you are moving with the evolution of a financial system which gives you more flexibility and is a more, I would say, up to date or modern internal accounting system.

It just seemed to me to be difficult to be able to say that we can hold one person or one officer accountable for the operation of a unit if we do not, in fact, report on the basis of that units' results to a business plan. It

also seems to me that in the long, well, not in the long run, in the quite short run we are going to be pushed into being able to do that transfer pricing in order to deal with the American market. I am not suggesting you were not putting correct information on the record, but I am glad to have the opportunity to kind of clarify that at least internally you are moving to the point where your four units will be able to be reporting not just on a business plan basis, but ultimately, within however much time it takes you to get the accounting side up, on an accounting basis too.

So let me just ask the end of this question and then we will go back to the critic. Are you intending at some point—maybe it is three years from now, I do not want to put a time frame on it—but will you be reporting in the same way that ultimately MTS will be reporting with its separate bodies each under a CEO and with a financial statement that breaks apart the operations by major subsidiary company?

**Mr. Brennan:** I am sorry, Mr. Chairman, maybe I was not too clear in the way I originally—right now we will be reporting by business unit all costs, so our capital costs, our operating costs will be all by business unit. The vice president of each business unit will be responsible for his cost. There is no doubt about that, and they will be reported that way.

In terms of revenue and that sort of thing, we are not transferring the costs from one to the other, and that is what is required for a financial statement total, you know, right until we get to the bottom line. That is something we will look at. I do not want to spend an awful lot of money and resources to go through these sophisticated reviews of transfer pricing, but it will happen. Whether it is three years or four years, I do not know. It just does not seem to be a real high priority today.

**Ms. Mihychuk:** I would like to explore the issue of rate zones. At the last meeting the president of Hydro cited three rate zones, and they seem to be somewhat different than those cited—or it is perhaps my misunderstanding—in the documents that were given to us in October. There is a slide that shows rate zones, I believe it is page 50, yes, which cites that these are the approved rates for '96-97, that zone 1 residential class is 102.6; zone 2, 96.0; and zone 3, 81.6. Perhaps the

president could clarify if this is what the president was talking about at the last meeting. I think the numbers are somewhat different.

**Mr. Brennan:** I forgot about the one we did present. This was a prospective one for '96-97, and it indicates what we were projecting the cost to be for those three rate zones. We do an actual cost service periodically, and we mainly do it at the request of Winnipeg Hydro. Winnipeg Hydro and the city have a concern about street lighting rates, and they are continually after us to do an actual cost-of-service study, and we did one for the year end of March 31, '96. That particular cost-service study indicated that for zone 1 it was approximately 98 percent, zone 2 was 96 percent and zone 3 was 80 percent, and I think those were the numbers I gave. So one refers to an actual cost-service study, going through actual costs, for the year end of March 31, '96, and this is a prospective one for '96-97.

**Ms. Mihychuk:** Thank you for the clarification. It was not clear, given that the presentation, the slide presentation that Hydro presented to us actually says these are the approved rates. So it almost gives the indication that the charges will be adjusted to this ratio. So I thank the president for that.

Has consideration been given, in fact, to change the rate zones to provide more subsidy for zone 3, which is very small communities that do not have access to programs of energy conservation as easily as Winnipeggers, perhaps do not have as energy-efficient homes as we do here in Winnipeg?

\* (1100)

**Mr. Brennan:** No, in actual fact we are trying to do the reverse, except it is going to take us forever. What we are trying to do is we are trying to lower the amount of the subsidy for zone 3, so that we are not subsidizing it to the extent we are. In some cases, that subsidy would be larger. That is the average for the whole zone, and some customers, you know, the cost of serving them is a little better than that, and there are some that are much worse. What we have been trying to do is through the runoff rate primarily, but we have been looking at both areas, including the front-end blocks and the service charge to see what we can do to diminish that. But based on the fact we have extremely

low rate increases, you know, it is hard to make any dent. You can see that at this point we were projecting that some of these were going to be better than they actually were when we looked into the actual from March 31 of '96. It is a very, very slow process, and all kinds of things happen. You can incur some costs in a certain zone in a particular year, or the usage changes dramatically in one zone versus another, and they impact the way we thought it was going to go from what actually happens. That seems to be going on all the time.

**Ms. Mihychuk:** Can the president of Hydro give us the average cost, the average residential cost in zones 1, 2 and 3? I know that I keep a record of my hydro bills, and I figure out what it is annually, and I am sure that Hydro has got an average for urban areas and small towns and then rural Manitoba.

**Mr. Brennan:** What we can do is because—yes, we can provide it for sure. We can give you the revenue and the cost for each zone. I would have to go back to the office and get something together for you, but we can do that.

**Ms. Mihychuk:** The information, as I understand it, would mean that the costs would equal the actual cost of service in the various zones, that less subsidy would be available. Unfortunately, that will probably mean to those areas that already face enormous electrical bills—and my colleague Mr. Robinson cited \$400 not being unusual for a monthly bill in northern Manitoba on reserves—that that could even rise. The decision to go towards actual cost servicing versus the subsidized model is indeed very disturbing to us. I would like to ask the minister if it was a policy decision on behalf of the government to change or to renege on the previous Minister Orchard's promise to equalize rates. Why are we now moving in exactly the opposite direction? Was this a government decision?

**Mr. Newman:** I do not have any information on that at all at my fingertips or in my mind, so I can simply undertake to dig into what the policy has been and is now in that respect and provide that to you, and I would be pleased to do that.

One thing that occurred to me is that when you spoke of a northern rate being that per month, you are

probably thinking of your city rate. I am not sure what the people in the agricultural, other rural areas of the province would say about rates, but it may be that your way of thinking about this is different from others in other parts of the province outside the city of Winnipeg. However, I have undertaken to respond and will.

**Mr. Chairperson:** Mr. Brennan, would you like to add to that?

**Mr. Brennan:** If it is appropriate, Mr. Chairman.

**Mr. Chairperson:** It certainly is.

**Mr. Brennan:** First of all, I would like to point out that most Indian reserves are in zone 2, not zone 3, okay. Most of them are pretty large communities and they are in the second density area. The question of having a universal rate for everything means almost the same thing as eliminating subsidies. It means the same thing because you are going to have one rate and they are all going to be the same so as we move, like in the case of a zone 3 one, they would have to come up, the other ones would come down and what we are doing is just gradually moving one closer to the other. As you can see, when we are at 98 and 96, as the other ones come up, we are in effect doing that.

**Ms. Mihychuk:** Just in terms for clarification, on page 51 of the document that illustrates some of these rates, Residential Rates effective April 1, 1996, we can see that in zone 1, which I understand is based on population, which is in fact Winnipeg, the monthly basic charge is \$6.05, the zone 3 is \$13.45, and zone 2 is \$7.43, so the Chairman pays more for his hydroelectricity in his rural environment than I do here in the urban city. I think that is a concern for rural Manitobans and isolated communities. I understand that this is basically a policy decision, but given our access to more energy efficient services and the fact that Winnipeg and Brandon are in a warmer climate, not from the Chairman whose constituency is in Emerson so he is actually in the banana belt, but many other rural Manitobans are north of Winnipeg so have a harsher climate. You know, we are envious of the Chairman who lives in such a moderate climate all the way down south in Emerson.

But in all seriousness, the rate structure now would seem to indicate that Winnipeg and Brandon and maybe

Portage la Prairie or the urban centres get the best deal. I would like to suggest that equalized rates would be a fairer system and provide some easement to rural Manitobans and isolated communities.

**Mr. Chairperson:** Ms. Mihychuk, I would like to just comment very briefly that I believe it is the warmth of the people that generate the heat.

**An Honourable Member:** Okay, we will allow that. We were going to rule you out of order.

**Ms. Mihychuk:** Heavy on the sugar, yes.

**Mr. Brennan:** We have to remember that Manitoba Hydro is a regulated utility and the Public Utilities Board is the one that ultimately decides on our rates. Mr. Ashton did appear before the Public Utilities Board advancing that particular case as well.

**Ms. Mihychuk:** Is the decision to equalize rates one in the realm of government policy decision or the PUB?

**Mr. Brennan:** I would hope it would start with the management of Manitoba Hydro making a recommendation. Now certainly the Board of Manitoba Hydro could talk to management and say we would like you to review this and see what the impacts of it would be and how to implement it or something like that. At this point, we have not done that.

There has been discussion about it certainly over the years, as to the merits. What you find, though, is because of the very small rate increases we have, it gets very, very hard to implement no matter what, because we cannot make very large adjustments. Like it takes such a long time to do anything because of the small rate increases.

**Mr. McCallum:** In answer to your question, the Public Utilities Board determines, we propose, and they make a judgment on what our rate should be, and then we implement the rates that they approve. So they are the final authority on rates in the province.

**Ms. Mihychuk:** My question is to the chairman of the Board of Manitoba Hydro. Has consideration been given by the board to equalizing rates?

**Mr. McCallum:** I believe the answer to that is no. There was a discussion of it, and it is a few years ago. Do you remember?

**Mr. Brennan:** Yes. The Board of Manitoba Hydro—

**Mr. Chairperson:** Mr. Brennan.

**Mr. Brennan:** I am sorry, you would think by now I would know.

We have talked about it at the board, and certainly Mr. McCallum and I personally talked about it. Now one of the real concerns though, even if we did implement it, would be like just what kind of strategy you would have for implementation, and how much different would it be from that which we are doing today. It would appear it is a pretty moot point.

**Ms. Mihychuk:** Would the minister give thought to urging the board to seriously consider the issue of equalization, given the various factors that I have cited? Those are the most obvious ones to me, but I am sure that there are others. If we delved into it, and I asked the minister to, indeed, look at this issue on the basis of fairness. Is it fair that northern, remote communities which are very small, may be very close to the hydro generation facilities, have to pay or have to bear the highest costs? So I would urge the minister to consider this and, in terms of fairness, consider equalization.

**Mr. Newman:** I am always prepared to consider whether something is fair or is not fair, but I just would comment that there always is a concern, and I think there should be, about the degree to which government should interfere with the business decisions, if you will, what is best for all stakeholders in Manitoba Hydro.

The governing mandate is found in the language of the statute. Beyond that, they have guidance from the Public Utilities Board as to what they must consider. They have some sorts of indications often that things are at risk, and that comes from the Crown Corporations Council, like the very serious debt-equity ratio. Sometimes the extent that there is an interference by government, you might, with the best of intentions, do more harm than good—like an aerosol spray, making you smell good but at the same time destroying the

ozone layer. I just would offer that by way of a caution.

Since this issue has been raised, and I will acknowledge that I have not applied my mind or heart to the issue, I will do so, and thank you for raising the point. I should have a position on this.

\* (1110)

**Ms. Mihychuk:** I am going to move on because I think I made my case for fairness, and I urge the minister to set the policies which will govern, in fact, this Crown corporation and use it to benefit Manitobans.

Manitoba Hydro can be proud of its track record in terms of Power Smart and other innovative programs that they have initiated. I know that they are experts in the area of energy conservation, sometimes to their own detriment, because as they are saving energy, they are not selling it to us. I suppose they are selling it to others, I hope, and looking for other markets. So Power Smart has been very significant. I have had the opportunity to be present with the president of Hydro at a celebration of a new lighting system for a public school, which is going to save that school a considerable amount of money. It is a better, more efficient light, and it is a nicer light, so there are all types of innovative things happening at Manitoba Hydro.

What programs are available in rural and northern Manitoba like we have seen for these electric light bulb changes and other programs?

**Mr. Brennan:** It depends whether it is an industrial, commercial or residential customer. We have different types of programs. You know, the lighting program is anywhere throughout the province. All our programs are universally applied, so whatever is applied in the south is applied in the North, and we did arrange to go to some of the native communities and bring in people to talk to those communities. One of the problems is, we can make recommendations in the communities, but they need the resources to follow through on them. That appears to be a problem for them in that, if the home is not well insulated and you make a recommendation to insulate the home, then the poor people in the home have to come up with the capital to

do that, and that has been a problem to date. I think it is something that we have to work more with the two levels of government and the communities and just see what we can do, and it is sort of an ongoing challenge to all of us to see what we can do to help. But we have provided the same programs everywhere whether they are in the North or the south.

As the benefits of saving energy come down as a result of our not requiring any new generation for extended periods of times, there are less and less subsidies we can provide because we are not getting the benefits of deferring generation. So that is also a problem that is occurring a little bit each year, and, as time goes on, we will not see those benefits as much as they have been in the past. But Power Smart is a good program. It is very effective. It is part of our overall resource planning exercise, and we will continue to use it and use it effectively.

**Ms. Mihychuk:** In this area of questioning, I had an individual call me asking for assistance, as they were very upset with the recent dramatic rise in propane costs, looking to convert from propane to electric servicing. But the capital cost in this case, it was in rural Manitoba, I believe Sandy Lake, was an inhibiting factor. This person was a senior citizen on actually a declining income, as basically their incomes do not go up and the cost of living does, and wanted to know if the government had a program, or Manitoba had a program, to help change over to hydro. The situation, as I understand it, is that a program—there is one that is fairly limited and the costs of financing are considerable, which basically meant that this customer did not access that opportunity. The financing level was at or, I believe, above commercial institutions.

Is there any consideration given to providing a more accessible program to bridge that type of capital funding? I know that Manitoba Hydro was very cooperative when it came to the school divisions, public schools. I believe that they forwarded the changes and that the school division could pay back Manitoba Hydro with the savings. Is that available for residential consumers, and is that something that they would consider?

**Mr. Brennan:** We do have a financing program for those types of conversions, and the rate is a competitive

market type rate, slightly higher than a good credit rating customer could get, and we do provide that. So the individual, if one took advantage of that, could pay us back through the savings, should that occur. I guess the whole question of what has happened in the propane areas generally is a matter of concern to us all, and if it continues to go the way we are, we are going to have to look at other programs to see if we can be more helpful.

**Ms. Mihychuk:** My question to the minister—this has raised a whole spectre of concern, and particularly in the North where we are seeing drastic poverty: Would the minister consider enhancing its ability or enhancing opportunities for rural and northern individuals who are impoverished and not able to upgrade and insulate and go into the different programs? Would the government consider initiating a program to help individuals?

**Mr. Newman:** I, of course, will entertain any proposal that comes through you or anybody else that is going to be a possible way of addressing poverty and lack of economic opportunities in the North. So, certainly, I welcome any ideas from you in that respect—the more developed, the better. I will examine any ideas like that, and I will get back to you with my reaction to them.

**Ms. Mihychuk:** The Power Smart programs and the lighting program—I am not even sure if that is part of Power Smart—[interjection] Oh, it is, thank you—are readily available here in Winnipeg, since Manitoba Hydro's offices are in Winnipeg, and they are often on display in various industrial and commercial building shows and advertisements, but I am wondering about the availability of that type of information in rural and northern Manitoba. How often or how many employees do you have that actually travel to the North? Are they able to generate as much level of awareness in northern Manitoba as they are here in Winnipeg?

\* (1120)

**Mr. Brennan:** You send specialized people to the North. In actual fact, we have a pretty strong contingent up in the North. In the Customer Service area we have a general manager north and a general manager south, so we think we are already servicing the



North extremely well. We have very capable people up there; specialized individuals would go up and deal. Some of our biggest customers, of course, are in the North, so we try to do whatever we can to make sure that the customer service we provide is provided as best we can. So I think we are doing a good job in that particular area.

There is just one other thing I would like to add just to clarify the record. We have been talking about the business units, and I think I have been calling them three business units and you call them four. What we have is, we have three specific business units: one in the generation area, Power Supply; one, Transmission Distribution; and then one that is Customer Service. Then we have support groups that are part of a corporate unit.

**Ms. Mihychuk:** Just to follow up on that, that is a little bit different than our Power Smart, and I want to continue on Power Smart in just a second, but I thought there were four business units. Is there not a fourth unit that deals with export sales or something to do with international activities?

**Mr. Brennan:** Well, when we say international activities, if it is providing professional services outside the province, that is one group, and right now it is located in Power Supply. Our overall plans are to have it separate from any of the business units. Then there is the one that looks after just selling power outside the province, and that is part of Power Supply, and if there are any transmission issues that involve utilities outside the province, that is part of Transmission Distribution.

**Ms. Mihychuk:** I would like to go back to the issues of conservation and energy management. Can the president of Manitoba Hydro tell us if the information or brochures that are available to explain Power Smart and the options—have you got the information translated into Cree or Ojibway?

**Mr. Brennan:** I do not believe that we have.

**Ms. Mihychuk:** Has consideration been given by Manitoba Hydro to become culturally sensitive and include that type of information translated, perhaps staff people who are able to converse in native languages, so that, indeed, the access to these important

programs is real and is available in many northern communities?

**Mr. Brennan:** We have a good number of our staff, almost 6 percent of it, that have identified themselves as being aboriginal, and we do have people that can talk in those languages. I think that we are very, very sensitive to the native people, and we will make sure that they do understand our programs as best we can.

**Ms. Mihychuk:** I am confident in Manitoba Hydro moving towards more sensitivity and do hope that they will look at additional avenues of making these programs more accessible and, hopefully, include more northern people in terms of promotion of the programs. However, I acknowledge also that a serious problem is that many of these communities are not able to access the programs because of a lack of capital and look to the leadership of the minister in that area.

I would like to just turn over the questioning and move back. Yesterday I asked a series of questions in terms of Winnipeg Hydro, and I appreciate the candid answers. My questions were quite general in nature, exploring what had happened. My understanding is that the recent city budget has seriously depleted the Hydro reserves, and so we may see Winnipeg Hydro coming forward sooner than perhaps we had talked about just a couple of days ago. But my colleague Mr. Sale has got some specific questions about Winnipeg Hydro.

**Mr. Sale:** Mr. Chairperson, my questions may not be as specific as all that, but let us hope that maybe they will help shed a little light on this.

Is it correct that a firm, I believe it was Nesbitt Burns, was retained by the corporation to do an initial look at the value of Winnipeg Hydro from the point of view of acquisition, the issues involved in this? Am I basically correct in that regard?

**Mr. Brennan:** The way we did it was we did some work internally. What we wanted was some external help to determine whether we were doing it the right way, whether the approach we were using was appropriate or not appropriate. We hired Nesbitt Burns to help us in that area, and they did.

**Mr. McCallum:** I think, just to elaborate on that a bit, Manitoba Hydro has really never done a transaction of this nature. It became apparent to us, Bob and I, early on that we needed some coaching, some help with how you even look at a situation like this, so they were brought on to help us with how we would look at it if it was available; and if it is available, we sure have an interest.

**Mr. Sale:** Mr. Chairperson, if I am duplicating a question, I hope that the Chair will tell me and I will not take the committee's time. Have there been meetings with the board of commissioners and the mayor or senior council members to ascertain whether it is, in fact, available at this time?

**Mr. McCallum:** We have certainly talked with some of the commissioners, and we have talked with the mayor about it. We certainly do not have an answer as to whether it is available or not. At the moment it is with them. I think you recall during the mayor's campaign, there was a suggestion that they wanted to look at it. We had been thinking about it already, and we picked up on that and tried to get ourselves in a position that if they were interested, we were interested in looking at it. We have sure indicated to them that we are interested in looking at it and that is where it is.

**Mr. Sale:** Mr. Chairperson, what is the legal situation here? Does Manitoba Hydro have a right of refusal on Winnipeg Hydro? When The City of Winnipeg Act was put into place, there were certain rate-balancing guarantees imposed on the situation, so that inner city residents and suburban residents would have the same rate structure. Winnipeg Hydro, on that basis, is a fairly profitable little operation for the city of Winnipeg. Are we looking at a situation here where the city could conceivably sell Winnipeg Hydro as a going concern on the market, and Manitoba Hydro would be a bidder, among others, assuming there was a market for this relatively small utility?

I see at least a real possibility, if that is legal case, that other firms with an interest in the energy field might well see this as a toe hold, and we would then be certainly not in a monopoly market anymore; we would be in a duopoly at best. So could you shed some light on the legal situation, if there is any, and just where we

are going with this? Because it seems to me to be a little more real and potentially a little more imminent than perhaps publicly has been spoken of.

**Mr. Brennan:** It is my understanding from the work we have done up to now that it can be sold to anybody. Right now the only people that can provide additional generation, at least certainly hydraulically, in the province is Manitoba Hydro. The rate that was fixed throughout the city that had to be the same as Manitoba Hydro was part of The City of Winnipeg Act when it was formed in one act, but they could sell it.

**Mr. Sale:** Then just to summarize this area so that I am clear, the corporation has taken a serious, if preliminary, but a serious look at the value and the issues involved in the acquisition of Winnipeg Hydro should it become available for acquisition. The corporation has had initial discussions, indicated evidence interest to the board of commissioners and to the mayor. That at this point any decision to proceed any further is essentially in the hands of the city at this point to indicate whether they are interested in entering into discussions, and that if the city were so interested, there are no requirements that Manitoba become the purchaser. It would be an asset of the city for sale essentially to the highest bidder, as it were, and the province does not have a prior right. Is that a fair summary of the situation?

\* (1130)

**Mr. Brennan:** That is my understanding.

**Mr. Newman:** The only thing that I would add to that, and they would have far more knowledge than I would about this issue, but there, of course, is an agreement between Winnipeg Hydro and Manitoba Hydro.

**Mr. Brennan:** I guess that is something. Whoever the purchaser was, if it was not Manitoba Hydro, would have to make sure they had some kind of a purchase agreement in place or provided the generation themselves. Right now, Manitoba Hydro, their total demand is about 440 megawatts, in that neighbourhood. They produce in themselves about 140, so we supply about 300. They would have to provide that from some other source.

**Mr. Sale:** I have a short question and an observation. The observation is that if another company wished to buy this utility from Winnipeg, it would be subject to the Public Utilities commission regulation, all those other things. Nevertheless, under the environment in which you are moving, they could, I think, purchase power at either off-peak or at whatever rates they wished, transmit it over your lines to Winnipeg, and you would not necessarily have to be the source of the purchase of their power, if this scenario took place.

So that if someone had cheap, excess power and could beat your price, in effect, or could internally price themselves through transfer pricing or whatever mechanism, they would not necessarily be dependent in the new environment; they could ship power over your lines in effect. It is just an observation. If that is incorrect, you could correct it. My question is really to the minister.

**Mr. Newman:** If we could first get a response to that.

**Mr. Sale:** Okay, sorry.

**Mr. Brennan:** Yes, if they joined MAPP, they could do that.

**Mr. Newman:** I was just going to say, there was a condition to what you have said, and they would have to be party to the same scheme to allow the American members' MAPP to access.

**Mr. Brennan:** They also have to get the same kind of rival power. You can take power and you can get it at off-peak times at a lower rate than what the city is paying, but to get the same type of power under the same conditions is what they would have to do. I guess, you know, without getting into negotiations.

**Mr. Sale:** A question for the minister. The City of Winnipeg is a creature of the province. Its ability to do things at least derives from the province. Would it be the minister's view that the province would require the sale of this asset to come to the province if the asset were for sale, and if the price, if it made sense on a business case basis, would the province exercise its rights as the creator of the city to require the city to sell the utility to Manitoba Hydro as a first option or first opportunity?

**Mr. Newman:** I have not addressed that, nor has my government addressed that point. I would not want to put anything on the record which would give any sense that we have (a) given any thought to it, or (b) any tentative approach to the issue even. Having said that, I would be very interested in what your views are on that. I would be very interested in what the views are of the people in the city of Winnipeg. I would be very interested in the views of the mayor, council, and commissioners.

There is a very, very, I think, long-standing relationship. There are lots of sensitivities. Whatever was done by the provincial government would have to be very wise and thoughtful and respectful of not just the business of the issue but also the feelings of the issue.

**Mr. McCallum:** Your summary earlier was absolutely correct of where things are. We have done at Manitoba Hydro as much as we can do on this until there is an interest on the other side. We believe from our preliminary—a little more than back of the envelope—but preliminary analysis that this is a very attractive proposition, potentially a very attractive proposition for Manitoba taxpayers and for Manitoba ratepayers, that in a combination there would be enough efficiencies that would benefit all of the people who are a part of this. Now that is a belief. It is not confirmed by the kind of analysis you do when you actually get inside a company and see what is going on. We believe there is enough, we believe there are strong reasons to believe that there are benefits that make it worthwhile going to the next step, which is to look hard at the situation.

**Ms. Mihychuk:** Thank you. I would like to move the line of questioning now to the situation with the operations of Manitoba Hydro. Manitoba Hydro has often been a favoured employer by people and has a history of treating its employees well, providing good professional development and opportunities. We congratulate Manitoba Hydro on that. We want to see it continue to be an excellent employer.

It is my understanding that Manitoba Hydro has decided to contract out certain venues or aspects of its operation. Would Manitoba Hydro provide for us the information as to the amount spent on contracts, the consultants hired over the past three years and the cost

of that, so it would be who, for what, and for what amount?

**Mr. Newman:** Always my instincts as a labour lawyer jump right out at me. That is almost like an impossible task, if not an enormously, I would think, difficult one, but I am sure Mr. Brennan can respond to that and be as helpful as is reasonable for someone running a corporation which is supported substantially by Manitobans and rates they pay and everything else, but maybe he can respond in some way that will be responsive and helpful.

**Mr. Brennan:** I think if you could restrict the question in some way or any particular areas or something like that, it might make it easier, but we will try to be as helpful as we can. Reduce the time period or something like that. You know, if you could do something like that or the type of areas you would like us to look at, we would try to help you any way we can if you try to get the scope in a way that would be easier for us to provide.

\* (1140)

**Ms. Mihychuk:** Perhaps I need a little bit more information. Can we have an overall estimate of the amount of outsourcing of services which now occurs in 1996-97 versus what occurred in, let us say, 1990?

**Mr. Brennan:** In general terms, we could do that for sure. You have to remember that Manitoba Hydro, over the years, has contracted out an awful lot of services. We never looked after the design of any of our hydraulic facilities. The only thing we really did was look after the project management of them. All the contractors were external contractors for virtually every service that was involved, so nothing has changed there.

More recently, some of the things we have contracted out, we have contracted out meter reading a few years ago. It was an item where we had people that were pretty reasonably or highly paid for the function, and the function we knew we could get outside significantly cheaper. We also knew that that was an area where automation was going to occur, and it was just a matter of time before the jobs would be eliminated or certainly

significantly reduced through some form of automation, so it was a good one to look at.

We have also contracted out some services that we knew we could provide, but I will try to find a list of those for you.

**Ms. Mihychuk:** Thank you. I do not mean to go back to everything that Hydro contracts out. Primarily what I am trying to get at is, are there services that you had provided that now you have decided to contract out?

**Mr. Brennan:** I can provide that too.

**Ms. Mihychuk:** Thank you. I know that in a previous meeting we had the president mentioned something about, I think, caretaking of the facilities in some generating stations. I am aware also or I believe that Manitoba Hydro has a contract with Linnet in terms of drafting services, is that correct?

**Mr. Brennan:** I do not believe it is drafting services. This is part of our geographic mapping. I do not know if I got the name right, by the way. It is a mapping system. They provide the conversion of our maps for us, and they do a lot of work for us. This is a very, very cost-effective operation to get into it. Our problem is not having the money to do it as fast as we would like.

**Ms. Mihychuk:** So I would like, if possible, to have a history of the association of Manitoba Hydro with Linnet as well.

**Mr. Brennan:** We, of course, do not consider that to be contracting out. That is a service we never had inside, but that is fair.

**Mr. Newman:** I guess there are so many—we should maybe clarify the terminology. You have, of course, a concept of contracting in, which is your starting to doing things with your own employees that used to be contracted out, which is one kind of issue, and you are not addressing that at all. But you are addressing, as I understand it, the issue of having outsiders do work that was formerly done in-house by employees. The Linnet situation does not fall in that category according to what Mr. Brennan has said. This was something that they would never have had the in-house expertise to do, so if you want to get into that area, that means

everything from the people working on hydro dams over the years to engineering services, external engineering services, to supplement internal and all of these kinds of things, so it would be helpful, maybe, if you could be more specific. You have now asked for the history of the relationship with Linnet. I take it—do you still want that?

**Ms. Mihychuk:** Yes.

**Mr. Newman:** Okay. So maybe you can do it in that specific way, and then they can respond helpfully and accurately.

**Ms. Mihychuk:** Perhaps I am misunderstanding, but I was of the understanding that Manitoba Hydro actually had certain individuals working in terms of a mapping or a drafting component, and those individuals have actually now moved from Manitoba Hydro and are in the employ of Linnet.

**Mr. Brennan:** It seems to me you are bringing up an issue that one of our unions was complaining about. I think I read something about that, so I will have to take a look at that. But, as far as I am concerned, the services that Linnet is providing were not the type of services we were providing internally, but I will take a look at it for you.

**Ms. Mihychuk:** For the record, I would like to just delve into one other area, well, two. I will follow up on the minister's suggestion that if it is not too cumbersome—are there significant areas that Manitoba Hydro is actually now contracting in? Are there things that are expanding that you are including significant employees now doing something new that has not been done in the past? Would that be difficult for you to include in your report?

**Mr. Brennan:** No. As a matter of fact, I think, although the amount is quite small, that the list is getting pretty big, and we are trying to do more and more. Those are the types of things that I was talking about previously where I believe Manitoba Hydro is at a real competitive advantage and can help people in this competitive environment.

**Ms. Mihychuk:** One more area of contracting that I wish to delve in, and that is the tendering process. I

have had some calls in terms of Manitoba Hydro's process of tendering. Now this could be from somebody who wishes to get the contract, obviously. Being able to provide services for Manitoba Hydro is very attractive to the commercial sector, and this could be just sour grapes. So I would like to just establish what the procedure of tendering is. What is the base amount which is used for which then contracts are put into a tender process?

**Mr. Brennan:** I would have to guess at what levels, and I should not do that, but I will be able to provide that for you. We have a certain level where they have to go into a centralized purchasing area and where they have to get prices. Then there is another threshold where they have to go out and get formal tenders coming in, and there are other ones, we have to make sure that we have a very exhaustive supplier list and that sort of thing. There are some where we can also, if somebody is like a crew doing work, where they can, if they need a backhoe or something right away, they can just get one and use a fuel purchase order, and there are opportunities for that.

If you give me a particular type of a situation, I can investigate it further. We do get the odd complaint where people think or where somebody thinks, especially in construction work, we are favouring one particular individual or something like that. I would look into it and try to make sure that is not the case, and if it is, we try to take appropriate action. Periodically, you can find that somebody seems to be awfully convenient at times, and it takes work on our part to make sure that our people are really doing the type of work we would like them to and to be as ethical and as good for the corporation and for the ratepayers as we can.

\* (1150)

So, if you think you can give me the help—

**Ms. Mihychuk:** Sure. One area of concern that was raised was the terms of the contract, the length of time that a certain unit would be contracted for. A short term, obviously, or the argument goes that a short-term use of, particularly, construction equipment would be significantly more costly than a long-term contract, and so I would ask the president that he review that, that the

suggestion was that several short-term contracts may be awarded for a substantially larger or higher cost than a longer term contract. So that is one area that I would ask the president to review and so that I am able to then reassure the individuals that are calling me on that issue.

**Mr. Brennan:** I will look at that for sure. As a matter of fact, sometimes some of our staff are doing that. I should not say "are." There is a possibility that they could do it to ensure that the dollar value is within their range of authority. So they might be keeping it short. Yes, I will definitely review it, and if you can give me any information that will allow me to narrow the area I am looking at, it would help too.

**Ms. Mihychuk:** I am going to turn over the questioning to Mr. Sale.

**Mr. Sale:** Just in general, I would like to say I am very grateful and pleased with the responses. I just think that it is a good committee and that we are getting helpful responses, and I want to thank Mr. Brennan and Mr. McCallum and the minister for that.

I have some, I think, pretty simple questions. They are not political. The year 2000 problem, that is, the computer issue of the millions of lines of code that are sitting out there with date-sensitive lines in them. MTS's estimate from their consultant was that this was a \$30-million problem for MTS. Now MTS is in a different kind of field and there is, I would suspect, more date-sensitive code in there because of all sorts of different reasons. What is the scale of the problem for Manitoba Hydro? What is your plan currently, in brief, to deal with that?

**Mr. Brennan:** We had one major area. That was all our financial reporting information and material management one. That is the system we are talking about replacing. So we sort of, once again, good management I guess. We definitely were extremely fortunate in being in a position where that system got replaced and eliminated the majority of our problem for us. We still have it now on an awful lot of other systems. The cost, there is definitely going to be a cost to it, but it is nowhere in the neighbourhood of \$30 million. In all cases, ours are manageable.

The big thing was making sure that we had the resources that we could do it in a good phased way in that we were not right up against the wall. I think we have taken care of the problem, Mr. Sale.

**Mr. Sale:** Thank you. That is good to hear. I know that the public sector, in fact, in Canada is well ahead of the private sector in this regard, according to the industry people I have spoken with, and that is good.

A simple question about the pension fund. The state of the actuarial balance, surplus, deficit, where are we at in the overall pension fund? I find it referenced in here, but I do not see any detail on the pension obligations and surplus.

**Mr. Brennan:** If you go to the balance sheet, on page 43, Mr. Sale.

**Mr. Newman:** That is referring to the annual report, March 31.

**Mr. Brennan:** Yes. On pages 42 and 43. As you are aware, Manitoba Hydro is part of the Superannuation Fund, just like provincial government employees. So the employees' share of the fund is put into the fund, and Manitoba Hydro's share, we, in 1989 booked the liability for. So the liability which was set up under Other Liabilities, that \$71.7 million on page 43, is the actual liability we have to a fund that we set up on our own and is managed by the Superannuation Board as a separate fund for us. What we have been doing is we set up the entire liability. Then we set up a deferred pension expense which we amortized over a series of years, so our consumers would not see the hit of all the past contributions. I think that expires in 2003. That, we are just amortizing annually. Now the theory is that by the time that is amortized, we will have enough money in the fund to take care of the entire liability.

Subsequent to that, we are looking at how we managed our cash, and we have actually paid off the liability and put the money in the fund. It actually was a super time to do it because subsequent to that we got into the fund at the right time, and the funds made us all kinds of money. It was just good timing and everything like that to do it. We did it back in June. It has worked

out real good. The bottom line is ours is totally funded now.

**Mr. Sale:** Thank you, Mr. Chairperson. I will try to give the—sorry.

**Mr. Chairperson:** Just as a reminder here, four minutes from the time that—

**Mr. Sale:** Mr. Chairperson, I will try and lob some more soft pitches so that you can hit some more home runs, because those are the kind of home runs we like to see, that the public sector pension fund is doing well, and that the year 2000 problems have been well in hand.

In terms of the Treasury function within the corporation, has there been any discussion of selective buy-backs of bonds that have high coupons that are held offshore, held outside of Manitoba, to reduce the flow of public funds, in effect, offshore, when the market opportunities are appropriate? Sometimes the spreads make sense, sometimes they do not. Does the corporate Treasury do that kind of selective purchase? Has it been investigated or thought about?

**Mr. Brennan:** We have not a written-down policy, it is a management policy that we will not go offshore at all. We have no offshore liabilities of any sort. Our liabilities are long-term bonds either in American dollars or in Canadian dollars. In the case of American dollars, we are offset by the revenue flow we have on export provincial revenue. So we try to keep that in match, and we try to make sure that our debt obligations and our interest payments equal our future revenue streams, so we do not have any foreign exchange exposure there. We do on an annual basis but not overall, and we have been very successful in keeping that in line.

**Mr. Sale:** Mr. Chairperson, I understand the corporation has done very well in hedging its exposure, and that it has essentially hedged against its American sales. That is fine, but there is still the question of the opportunity at different points to retire some of the higher coupon bonds that are held by American bondholders or by—I mean, you may not be denominated offshore, but you are sending interest payments offshore nevertheless. I would rather owe money to Manitobans and keep the money circulating in this economy than shipping it to somebody else's

economy. So it seems to me that there are times when you could selectively purchase in the market and reduce some of those flows, but you would essentially be interested in purchasing bonds that are held outside of Canada in particular. I know you hedged the—do you understand the separation of the issue that I am talking about here?

**Mr. Brennan:** Well, first of all, we have no debt outside North America. So no interest payments go outside of—

**Mr. Sale:** The United States.

**Mr. Brennan:** Yes, okay. The second thing is your question about whether we are trying to redeem high coupon bonds and to replace them with shorter ones. We try wherever the opportunity is available to do that, and we have been reasonably successful. I am not sure what year I started watching the cost of embedded debt as to when it started, but I remember it was about 10.5 on average, and now we are down to below, just, just marginally below nine. You know, it is 8.9-something, but that was the last time I looked. So we are getting there, and we are taking advantage of any opportunities there are to do that. [interjection] That is a fair comment, and some of our debt still has pretty high rates. We, of course, would like to take all of our outstanding debt and replace it with current stuff if we could.

**Mr. Chairperson:** Shall the March 31, 1996, Annual Report of the Manitoba Hydro-Electric Board pass?

**Some Honourable Members:** Yes.

**Mr. Chairperson:** It is accordingly passed.

The time is now twelve o'clock. Committee rise.

**Mr. Newman:** I just, if I may, express appreciation for the co-operation of the committee and the forthrightness of the representatives of Manitoba Hydro, Mr. Brennan and Mr. McCallum, and the civility extended by all members of the committee. Thank you.

**Mr. Chairperson:** Thank you very much.

**COMMITTEE ROSE AT:** 12 p.m.