



Third Session - Thirty-Seventh Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Utilities and Natural Resources

Chairperson
Ms. Bonnie Korzeniowski
Constituency of St. James



MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Seventh Legislature

Member	Constituency	Political Affiliation
AGLUGUB, Cris	The Maples	N.D.P.
ALLAN, Nancy	St. Vital	N.D.P.
ASHTON, Steve, Hon.	Thompson	N.D.P.
ASPER, Linda	Riel	N.D.P.
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DOER, Gary, Hon.	Concordia	N.D.P.
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REIMER, Jack	Southdale	P.C.
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LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES

Monday, July 8, 2002

TIME – 10 a.m.

LOCATION – Winnipeg, Manitoba

**CHAIRPERSON – Ms. Bonnie Korzeniowski
(St. James)**

**VICE-CHAIRPERSON – Mr. Gregory
Dewar (Selkirk)**

ATTENDANCE - 10 – QUORUM - 6

Members of the Committee present:

Hon. Mr. Selinger

Mr. Dewar, Ms. Korzeniowski, Messrs.
Loewen, Maloway, Penner (Steinbach),
Reimer, Schellenberg, Mrs. Stefanson, Mr.
Struthers

APPEARING:

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

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Hydro-
Electric Board for the year ended March 31,
2000

Annual Report of the Manitoba Hydro-
Electric Board for the year ended March 31,
2001

* * *

Madam Chairperson: Good morning. Will the Standing Committee on Public Utilities and Natural Resources please come to order. This meeting has been called to consider the following reports: the Annual Report of the

Manitoba Hydro-Electric Board for the year ended March 31, 2000, and the Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2001.

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

Mr. Stan Struthers (Dauphin-Roblin): Madam Chairperson, I would suggest that we sit until noon today.

Madam Chairperson: Is that agreed? [*Agreed*]

Are there any suggestions from the committee regarding the order in which we should consider these reports?

Mr. Struthers: Madam Chairperson, I would suggest that we pass the 2000 report first and then move on to the 2001 report, beginning with the 2000 report.

An Honourable Member: Agreed.

Madam Chairperson: Agreed. Shall the Annual Report of the Manitoba Hydro-Electric Board for the year ended March 31, 2000, pass?

Mr. John Loewen (Fort Whyte): Madam Chair, I am wondering if we are going to have any opening statements from the minister or from the representative of Manitoba Hydro.

Madam Chairperson: In response to Mr. Loewen, yes, of course we will be coming back to that. It was just suggested that this be passed, and if you wish to leave it till later, we can do that too. That is not a problem.

Okay, we will pass it later. Is that agreed? I will recognize Mr. Reimer first.

Mr. Jack Reimer (Southdale): I was just going to state with the 2000 report, if we are going into the 2001 report and questions relate back to 2000, they still will be answered in the sense, even though the 2000 has been passed, under that understanding, with that understanding that we pass 2000?

Madam Chairperson: Yes. I believe that was understood before. Is that the will of the committee? *[Agreed]*

Would you like to pass it now or later? What is the will of the committee? Pass?

Some Honourable Members: Pass.

Madam Chairperson: Okay, the report is accordingly passed.

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

Hon. Greg F. Selinger: (Minister charged with the administration of The Manitoba Hydro Act): Good morning, Madam Chairperson. I would like to introduce Vic Schroeder, the chairperson of Manitoba Hydro; Bob Brennan, the president of Manitoba Hydro; and Rhonda Orr, who is the special assistant to the president of Manitoba Hydro. They are all with us today to deal with matters relating to Hydro.

I would like to thank them for their diligent and hard work during the last year, as well. For the last several years, they have done an excellent job stewarding and managing the resource that we know as Manitoba Hydro, for the benefit of all Manitobans.

This morning, I understand, we are reviewing the reports for 2000-2001. I appreciate passing the 2000 report. We should have passed it last year. Certainly, I think we would be prepared to take questions relating to it now, even though we have passed it, particularly questions that bear on anything relating to the next report, the 2001 report. We will get this in a presentation, hopefully, that will be coming forward right away. But Manitoba does have 5000 megawatts of electricity capacity that it uses to generate its business every year, over 5000 employees, soon, with the acquisition of

Winnipeg Hydro. That legislation is before the Legislature right now; hopefully, it will pass, and for the year 2000-2001, about \$480 million in extra-provincial sales.

As you know, and we will have more information on this, we are working on new generation projects in partnership with First Nations for the export market and we have, probably, one of the most aggressive Power Smart programs in North America, one of the few electrical utilities that actually continued to provide Power Smart programming through the entire period of the nineties when many of those programs tailed off. They were strong in the eighties, but Manitoba Hydro has kept going with Power Smart types of programming, and we have expanded it tremendously in the last couple of years.

There have been some significant initiatives in the last year. First of all, the Selkirk fuel switching. We have switched from coal to gas, and that project is completed and actually operational, as we speak. There will be an official opening soon.

As well, the Brandon combustion turbine will be in service soon. This will increase reliability to the system and firm up exports, and, as you know, we have a bill before the Legislature on the acquisition of Winnipeg Hydro.

I think we can deal with the rest of the items that may come up as a result of the presentation. With that opening statement, I turn it back to you, Madam Chairperson.

Madam Chairperson: We thank the honourable minister. Did the critic for the Official Opposition have an opening statement?

Mr. Loewen: Thank you, Madam Chair. Maybe, just before an opening statement, I understand from the minister's comments, and it looks like from the technology at the table that we are preparing for another presentation similar to last year. Is that accurate?

Mr. Selinger: The committee has asked leave to go ahead.

Mr. Loewen: Just a brief opening statement. I would just like to congratulate the staff of

Manitoba Hydro. Obviously, the two reports we are going to be examining today—very successful years under their belts in terms of profitability and, certainly, a lot of, as the minister mentioned, projects on the go. We are looking forward to discussing some of the issues that we see arising out of these reports with yourselves. Congratulations.

Madam Chairperson: We thank the member for his statement. I understand the representatives from the Manitoba Hydro Board wish to include a PowerPoint presentation as part of their statement to the committee. Is there leave from the committee to allow the PowerPoint presentation? *[Agreed]*

Mr. Loewen: We do not have any problems with the presentation from Manitoba Hydro. I am just curious as to how long they think it will take.

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): Three-quarters of an hour to an hour.

Mr. Loewen: Given that we are limited to an hour and fifteen minutes, I am wondering if there is any way we could ask that presentation be limited to, roughly, about half an hour.

Mr. Brennan: Okay.

Mr. Loewen: Thank you.

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

* (10:10)

Mr. Brennan: Yes. I am ready.

Madam Chairperson: Please proceed.

Mr. Brennan: What I am going to do is just go through the presentation everybody has got. Our technology expert seems to have got a problem, and it is definitely not the power source. The first page just signifies what we are trying to do, covered by the outline itself. Go to page 4, where we set out the corporate vision. It is pretty well the same as what we have had before, and that is to be recognized as the best utility in North America with respect to safety. That is

both for employees and the public, rates, reliability, customer satisfaction and environmental management, and to be considerate of all people with whom we have contact.

The corporate mission is pretty well right out of the act, and it is to provide for the needs of the province, and to promote economy and efficiency in the development, generation, transmission, distribution and supply and end use of energy, and to provide market energy and related products and services within and outside the province.

The corporate goals, I do not think there is any need for me to go through them in detail, but they are all set out there. Basically, we consider the very first one to be the most important goal the corporation has.

A little bit about Manitoba Hydro: This is just the electric side of the business, and it does not consider Winnipeg Hydro. It is one of the largest electric utilities in Canada. The assets are within the top 50 companies in Canada, and revenue within the top 15 businesses in Manitoba. We have over 406 000 customers and over 5000 employees for the both the electric and gas companies. Last year was a pretty good water year, and we generated 31.5 billion kilowatt hours of power. Forty-two percent of our total revenue came from extra-provincial sales, and that is a new record. We have 12 hydro-electric generating stations. There are 14 in the system, including the 2 with Winnipeg Hydro that we will be acquiring. We have a coal-fired thermal station at Brandon, which is 105 megawatts, and then we have the natural gas-fired thermal station that is now operational at Selkirk. We have a combustion turbine in Brandon. Actually, there are two turbines attached to the Brandon generating station, and 4 diesel sites.

Centra Gas has 250 000 customers, 8100 kilometres of pipeline, and their total revenue is \$479 million, of which 77 percent is the cost of natural gas. The rest of the costs are operating the system, including the distribution system and providing all services to customers. They have assets in excess of \$618 million.

The next graph shows where all of our generating facilities are, all of our hydraulic

generating facilities. It also shows our export, and, for the most part, the import capabilities are almost the same, with the exception of the United States. The import capability is quite a bit less. You can also see that we are adding a 200-megawatt transmission facility into the United States that is intended to be in service in the fall of this year. That adds 200 megawatts both to our export and import capability. So that is about a 10% increase in our total export capability at a relatively low cost.

The next chart shows the franchise areas, in the shaded areas, for natural gas.

Some industry comparisons: This is a comparison of retail average rates, and it shows the 10 lowest cost utilities in North America. As you can see, Manitoba Hydro is the lowest cost utility in the country. This comparison was made by Edison Electric on July 1, 2001.

This is a survey that is done by Manitoba Hydro, and it was done on May 1 of this year. It compares residential rates, and, once again, you can see that Manitoba Hydro has the lowest rates.

The next one is a small commercial account. It is typical of a small bank, a small drugstore-type operation, a florist shop and the like. For 10 000 kilowatt hours in a month, a 40-kilowatt load, you can see that the bill is \$576, compared to the next lowest, which is Vancouver at \$670.

The next one is an industrial customer, a 20-megawatt load, which is a relatively large load. We have two or three customers approximating this load, and the bill in Manitoba is \$352,000 compared to B.C. next at \$400,000 a month. You can also see that, for the most part, the hydraulic utilities are the lowest-cost utilities.

The next chart compares the reliability of our system with the cost. As you can see, Manitoba Hydro pretty well has the lowest reliability and the lowest cost of any utility in the country.

Floor Comment: Would it not be the highest reliability?

Mr. Brennan: Yes, the highest. Did I say the lowest reliability? I definitely want to correct that. As a matter of fact, I should probably say—

this is a good time for a commercial anyway—Manitoba Hydro, when we make our comparisons with other utilities, almost every—well, virtually every comparison we make, Manitoba Hydro is the best.

So now we can go to the slides. It might be a little easier, at least it is for me. Our total revenues on a consolidated basis are \$1.8 billion. Our extraprovincial sales are \$588 million last year. Our capital assets in service are \$9.1 billion. We are on target for achieving our financial targets. Our net income on a consolidated basis is \$214 million, and our retained earnings are \$1.3 billion.

* (10:20)

This is a chart that shows our net income since '97-98, and it also projects our net income into the future. You can see that we are projecting a relatively positive net income all the way along, certainly in excess of \$50 million every year. This does and we have shown it for some time, to make our comparisons comparable from one year to the other, we show rate increases in there starting in 2003-2004 of 2 percent for five years.

This is just for purposes of our projections, and we have no intention of increasing rates in that way until such time as we actually take a look at our forecast.

Every year we come along and we take a look at just what our rate increase scenario should be. In this particular case, we have made it the same as last year, just to make the forecast look comparable.

I should give you an update on water conditions because earlier on in the year, water conditions were relatively bad. Now we have a record or close to a record of river flows on the Winnipeg River. Lake of the Woods is high. Lac Seul is high. Lake Winnipeg is coming up dramatically, and in addition to that, the Saskatchewan River system is coming up dramatically.

Our water supply for generation purposes will likely be above median for the remainder of the fiscal year.

This is an historical and projected debt ratio and includes the distribution to the Province of \$288 million based on our projected profits.

Winnipeg Hydro, the acquisition of Winnipeg Hydro, this sets out the payments that we agree to make to the City: \$25 million for five years; \$20 million a year for the next four years; followed by \$16 million a year from 2011 and on. We also agree to allow the City to benefit from about \$800 million a year from Power Smart savings, and then we are going to help them out with some Christmas lighting situations, Madam Chair.

We also committed ourselves to building a minimum of 400 000-square-foot building in downtown Winnipeg within the next five years.

The benefits of Winnipeg Hydro and the acquisition of it, certainly the net revenues of Winnipeg Hydro have been very profitable in the past, and we think that with the management of Manitoba Hydro, we can make that look good in the future as well. We have estimated financial savings of over \$8 million per year from our combined operations. We certainly expect to see improved customer service as a result of our one-call emergency response system, our combined billing system, our collection and metering, and certainly the most significant item is we will be offering Power Smart activities both for industrial-commercial and residential customers within the city of Winnipeg.

As I mentioned, the improved efficiency in the operation of the overall integrated system will be a benefit to the city and to the province as a whole. Overall, the revenue stream to the City exceeds the revenue from operating Winnipeg Hydro by themselves, because now we can take advantage of the synergies that are available to us.

This is just a description of where we came up with our \$8 million a year. We expect that to be achieved, and we expect to go higher than that.

We got an external opinion from BMO Nesbitt Burns as to what the value of Winnipeg Hydro should be, and they have calculated it to be in the range of \$275 million to \$325 million,

which is greater than the net present value of the payments to the City, which are in the range of \$245 million to \$260 million.

Winnipeg Hydro employees have been provided with some commitments and the assurances that their pay and benefits will not be reduced. They also, as a result of their collective agreement, can stay with the City of Winnipeg, and we actually worked out an agreement with their union and the unions of Manitoba Hydro whereby we provided an offer to them all as to where they would fit into Manitoba Hydro. Out of the 599 employees, only one active employee chose to stay with the City of Winnipeg. We are extremely pleased with that and think it is a good indication of most employees thinking it is certainly something that should proceed and proceed as quickly as possible. The commitments to the employees are reinforced in the legislation that has been introduced.

The distribution to the province of Manitoba, \$150 million payable on Royal Assent of the bill that is before the Legislature. In addition to that, the bill provides taking another 75 percent of our income for the year 2002-2003 and then the same thing for the next year. The total is not to exceed \$288 million.

The distribution to the province of Manitoba will be a charge against retained earnings of Manitoba Hydro. It is considered to be a distribution of export profits and certainly will not result in higher domestic rates.

We will achieve our financial targets, debt equity targets, by 2009-10. To change any achievement of financial targets we do not consider to be a problem, nor do we think our rating agencies will.

The actual net income from some of our previous forecasts, compared to what we actually got, you can see that the financial forecast in '97-98, for the various years on the right, have been set out, and then it also shows the actual net income. What this does show is our forecasts have been exceeded each and every year and, in some cases, quite dramatically.

This graph sets out our projected debt ratio before and after the distribution to the province.

These projections were based on no other management actions taking place other than the distribution. So, as a result of this impact on Manitoba Hydro, we will look at our capital expenditures, we will look at all our operating expenditures, we will once again look at what our water conditions are because right now they are in very good shape. We also will look at how we can take care of these payments by looking at sinking fund withdrawals and the like.

This shows our interest coverage before and after the distribution to the province.

Some of the current considerations we are looking at right now are set out here. I think the restructuring that is impacting the industry is something we should talk about quite briefly. Certainly I will get to that. Export sales are doing very, very well for Manitoba Hydro. Power Smart, we are definitely a leader in the country, there is no doubt about that. If anything, the distance between us and the next utility is getting further away.

Aboriginal relations: I would like to talk briefly about that and some of our new generation of major transmission projects and then the natural gas operations.

This is a graph that sets out our service territory in MISO. It sets out some of the people that are already signed up in MISO. Right now, we sell to in excess of 35 different utilities and brokers, and that is expanding all the time. We are still, for the most part, selling at the border, but we are getting more and more customers. That is impacting price and is generally good for Manitoba Hydro.

Export sales: This graph sets out what has happened to our volume from '92-2002. It also shows what has happened to the actual number of dollars in revenue. You can see that in the last three years or four years our total export revenue has improved dramatically.

Some of the various types of export sales we have, we have one large contract that we are in the process of extending with Northern States Power. The contract has been negotiated, including all the rates, and we are just waiting for approvals. Manitoba Hydro Board has approved

it. We are waiting for word that the NSP's board or Xcel's board has approved it, and then we will go through any other regulatory improvements.

We have other long-term firm sales and we have short-term firm sales. We have opportunity sales and we have diversity arrangements whereby we exchange capacity. We need power in the winter and our neighbours to the south need power in the summer, and we exchange at basically no cost capacity which is good for both of us.

A little bit on the 500-megawatt sale. In 1984, we signed a contract to export 500 megawatts of power from the period '93 to 2005. In '99, NSP issued a request for proposals for new generation resources after that and, April 6 of 2000, they selected Manitoba Hydro as one of their suppliers. They recommended that to the regulator and the regulator approved it in principle.

* (10:30)

We have now reached agreement on the contract itself, as I mentioned, and I did mention our board has approved it. We still need the Public Utilities commission in Minnesota to approve it as well as the National Energy Board in Canada. The revenues associated with that sale are \$1.7 billion.

Power Smart: As I mentioned earlier, we have one of the most aggressive demand side management initiatives in North America. We have a type of a Power Smart program for every type of customer, no matter what type of customer they are. Our current plant expects to save 356 megawatts of capacity and 1.27 billion kilowatt hours of energy annually by the end of 2011-12. That is a very aggressive target, and it is the amount of electrical energy that meets the requirements of Brandon, Portage la Prairie, Thompson, Steinbach and Flin Flon, all combined.

Our existing success rate, up to now, is 189 megawatts and that is almost the equivalent of the Wuskwatim generating station that I will talk about shortly. It is 200 megawatts. So we have already saved almost the capacity of that plant and 445 gigawatts hours of energy. That amount

of energy is enough energy to power Winkler, Dauphin, Selkirk and Morden.

Some of the new initiatives we went through in the last year: Last February we announced a Power Smart Home Comfort program whereby we would offer loans, we would do audits and the like. As at the end of May we have loaned out over \$20 million, with 6111 loans; we have done 1100 self-energy audits and 617 in-house audits that were actually completed.

We also had a Power Smart Student Program that was designed for assistance for seniors by doing an audit for them and it has worked out very well. We intend to do it this summer again. We have a Religious Buildings Initiative to do audits with religious institutions and we have also announced more recently a residential heat program which involves education for contractors as well as increasing our loan amount for people putting in residential heat pumps.

In industrial development we are working with Manitoba Industry, Trade and Mines on an energy intensive industries initiative. The purpose of it is to identify immediate opportunities for companies to relocate in Manitoba or to expand within the province. In all cases we need to look at each situation to make sure we get a balance between the revenue we would get on the export market and the export we would get within the province and then the overall impact in the province as a whole through economic benefits.

Aboriginal relationships: Within Manitoba Hydro, we have created a new division on Aboriginal Relations. It is basically to coordinate what we are doing within the company to make sure that all our programs have the input of the entire company, but also have a corporate focus. The new division includes the Mitigation Management Department, as well as a new Policy Development Department and a new community relations group.

We have come to mutually accepted agreements with all claimants or have a framework in place to settle with everybody, with the exception of Cross Lake. On Cross Lake we have spent over \$60 million already on mitigation compensation and implementation activities. In

May of '98 we signed a protocol along with the Province of Manitoba and the Government of Canada to work with Cross Lake on an obligation-based proposal. I should not say that. We worked out a protocol that will allow us to work with them to see if we could settle some of the obligations we thought we had with the community. That has not worked well, and now we are looking at an obligation-based proposal. We are also looking at other opportunities to see what we can do with initiative created by the governments and Manitoba Hydro. We also have a special committee of the Manitoba Hydro-Electric Board and also, of course, that committee works with a Cabinet committee on the Cross Lake issue as well.

Regardless of our attempts to work with Cross Lake, they continue to work towards impairing our export sales and especially those in the United States, and other environmental groups within the United States are taking advantage of that to further their own initiatives. That is for other sources of energy, and it is certainly not something we are very happy about at all. The agreements that are presently being negotiated are set out on this page, and for the most part, we have agreements in place that need to be signed or ratified by the communities in all these cases.

Some of our Aboriginal initiatives: We have preferential purchasing guidelines in place when we do work in the vicinity of certain Aboriginal communities. We also have within the company an Aboriginal preplacement training program. We have corporate support for Aboriginal educational initiatives, and that includes bringing up people to the type of level that we require from minimum education within certain classifications within the company, and we set up working groups to promote employment with the Association of Manitoba Chiefs and the Northern Association of Community Councils. We are also working with the Métis Federation as well. Right now our total level of employment represents 8.3% Aboriginals within our current levels and in the North 27.4 percent of our workforce is Aboriginal. We have targets to get to by 2005 and we want to get to 10 percent Aboriginal by that period of time for the company as a whole and one-third in the North of all our employees.

That is only three years away, and it means that when we have to replace people we have to be very aggressive in getting Aboriginal people.

A new generation, a major transmission: I will talk briefly about a future hydraulic generation combining gas combustion turbine in Selkirk. The new transmission line that I talked about as well as a new DC line from the north to the south.

As the minister said, we have more hydraulic generation that is relatively easily accessible than we have in place now at 5000 megawatts, and our current projections show no need for new generation within the province until 2019 to 2020.

This is a graph that just shows out the potential. It sets out the existing system of 4840 winter capacity. Now this is just Manitoba Hydro's system, and when you add Winnipeg Hydro's of 138 it gets close to 5000. It also shows what is remaining on the Nelson River and the Burntwood River and there we are almost at 5000 right there, and we have other potential opportunities of about another 4000.

* (10:40)

These are the ones we are currently looking at. Certainly, Conawapa is included in the list, but the one we are going at quite aggressively, with an in-service date of 2009, is Wuskwatim, 200 megawatts. The cost is about \$1 billion, and I will get into where we sit in that particular review.

We are also looking at Gull with 620 megawatts, Notigi with 100 megawatts and Conawapa with 1250 megawatts.

We signed AIPs with Split Lake as well as Nelson House to develop these plans within their particular areas. We have taken them in as partners. In the case of the Gull plant, we are also working with War Lake, Fox Lake and York Factory as well as Split Lake to allow them to be partners in our facilities that we are proposing to build.

We expect to have a project development agreement in place sometime in the winter of

2002-2003 as it relates to the Nelson House community for Wuskwatim. We are also looking at Gull, and we expect to get that done in mid-2003. Having said that, we are not committed to the plants at this point in time at all. We will continue to work with them to get the agreements in place.

The schedule for approvals: We expect to take to our board in the August to October period, the approval to proceed with getting environmental approvals as well as going before the Public Utilities Board to give their opinion on the need and justification for those facilities. Once we get those done, we expect to take it back to the board of Manitoba Hydro and get any other approvals that are required by December 2003, at which point, with the licences, we will start construction at 2004. The earliest possible date at this point in time for Wuskwatim is the winter of 2009. The earliest in-service date for Gull at this point is 2012.

As I pointed out, Manitoba Hydro is committed. We have a series of commitment dates that we will go through. We have authorized an environmental assessment, and we are in the preparation of making up a detailed business case that will allow us to decide whether we want to proceed or not. We are doing an awful lot of work in getting us to the position where we would like to be.

Future development discussions with the communities include pre-employment training, on-the-job training, employment preferences for those Aboriginal people, as well as individual business contracts for those communities.

The combustion turbines of Brandon, there are two units worth 260 megawatts. It is natural gas fuel generation. They have been constructed with a total capital cost of \$183 million, which includes the cost of the gas pipeline into those facilities. Unit No. 7 was placed in service on June 24 and Unit No. 6 on July 6.

The Selkirk generating station has been converted to natural gas and is actually operating. The cost was \$30 million which includes a pipeline up to the facility as well as a decommissioning cost. We are also looking at the licence. The present licence we have expires in

2005, and we are looking at spending another \$29 million for environmental improvements that will extend the life to 2020.

We stopped using coal in March 2002, and the two units were placed in service on June 7 and May 31. The switch from coal to natural gas has virtually eliminated emissions of mercury, sulphur dioxide and particulate matter. It has significantly reduced emissions of carbon dioxide and nitrogen oxides. It has actually helped us make sure that we can operate the plan within the environmental regulations that are available to us. We are in preliminary work in trying to decommission the ash lagoon and the coal pile that is there.

The transmission line from Glenboro to Harvey in North Dakota, is a 230 kV transmission line. It allows us to import and export 200 megawatts of power at a relatively low cost of about \$25 million for our side of the line. We received the National Energy Board licence in March and have been aggressively working toward putting it in service in the fall of 2002.

Alternate energy from forms we are looking at: We have been looking at wind, and we did a preliminary survey of what the wind impacts are in Manitoba. We are going to do some monitoring. The Province is helping us with that in terms of financial assistance. We are also looking at landfill gas within the city of Winnipeg. We are monitoring and looking at various hydrogen activities. Biomass and burning of garbage and the like to make thermal is something else we have under review. We have also agreed to co-fund a study on mini- or micro-hydro in the North with the Keewatin Tribal Council.

Natural gas operations: Natural gas prices have declined dramatically from those record highs of 2000 and 2001. A lot of things have happened in the last year, including weather, but it has had the impact of moderating gas prices. This is a graph that shows what happened in the winter of 2000-2001, and you can see the spike from what it was from July 1 or even August 1 of 2000 where it was down at \$4.65. It went up almost three times in price. The red line shows what has been embedded in the rates, and you can see that Manitoba Hydro assisted consumers

by not passing on the entire cost. We are quite proud of what we did in that particular area and allowed us to moderate the price and now the price has come down. The amount that we deferred in not charging customers was in excess of \$100 million, and we are now recovering that over two years with moderate impact on customers. Things worked out very, very well for consumers as a result of that, so in hindsight it makes us look pretty good. This graph just shows what has happened to prices. You can see that prices were going up dramatically without us even passing on the total cost in the winter of 2001, the spring of 2001, and then the prices have been coming down. We have a proposal before the Public Utilities Board now to reduce it by 4.7 percent further.

We came up with a methodology whereby gas rates are going to be reviewed every three months. The Public Utilities Board did not like the way we were only passing on 50 percent. They did not think the rates were transparent enough, and so subsequently now we are getting price increases and price decreases that we are not particularly happy about, but we are trying to do what we can to hedge prices to make sure that those changes are not reflected in customers' bills.

Madam Chairperson: Thank you, Mr. Brennan. The floor is now open for questions.

Mr. Loewen: I want to thank Mr. Brennan for that excellent presentation. I know you rushed through it. We certainly appreciate that, but we do have limited time here.

I will just take you back to page 19, the financial projections, if I could. I assume those are based on the March 31 financial statement that was approved by the board on June 13?

Mr. Brennan: That is correct.

Mr. Loewen: Thank you—

Mr. Selinger: Hold it. I just want to be absolutely certain. Has that financial statement been passed by the board?

Mr. Brennan: It was approved by the board in a qualified way based on the legislation being

introduced. We were going to wait and see what the introduction of the legislation did to our financial statements before we finalized them. So there was a qualification to the approval.

Mr. Loewen: I assume Manitoba Hydro knew at least as early as April 24, if not earlier, what the implication of the legislation was going to be. Anyway, having said that, could you give us the cash position of the corporation at March 31?

Mr. Brennan: Yes, I would have to dig it out. Cash, of course, for Manitoba Hydro, when we are generating the amount of cash we are, is not a particular problem, but we can dig it out for you.

Mr. Loewen: The reason I ask was your third-quarter financial statements, I believe December 31, indicated the corporation, I think it was \$14 million in cash at that point. Has it changed dramatically since then?

Mr. Brennan: The cash position within Manitoba Hydro, first of all we generate an awful lot of cash. I think for the year ended 2002 it was in excess of \$550 million. So cash is not something that we have trouble getting. Certainly, you know, we have a pretty good line of credit. We never try to keep much cash around. We try to manage our cash as best we can. So I would think you will find, Mr. Loewen, that we do not have a lot of cash ever sitting around.

* (10:50)

Mr. Loewen: Well, I can appreciate it, and certainly the 2000 financial statement ending March 31, 2001, would indicate that the corporation does generate a substantial amount of cash. For example, that year when I believe net earnings were \$270 million, there was a decrease in cash position which indicates that you also have a lot of requirements for cash. So, again, I would ask if you do not have it, if you hear right away, if you could get it to us quickly, the amount of cash in the company's account as of March 31, 2002.

Mr. Brennan: We will have to get you that. Once again, though, I should point out that that is not a particular concern to me, how much cash is there.

Mr. Loewen: Well, I appreciate it may not be of particular concern to you. I am a little surprised

at that because it was the Public Utilities Board who in '96, I believe, issued, might have been '95, no, court ordered in '96, the Manitoba Hydro was to apply itself to reduce its long-term debt with urgency. Can you tell us where you are at with that? Has long-term debt been reduced since 1996?

Mr. Brennan: I would not think it has been reduced. We have grown dramatically. Having said that, I will come back to my original statement. The amount of cash we have in the company is not related to long-term debt. You know, the amount of cash we have available at any one point in time is just an amount of cash. I would hope in most cases that the amount of cash we have sitting around is very, very minimal at any one point in time.

Mr. Loewen: Well, thank you. I appreciate that and the history, the financial records will show that there is very little cash sitting around at any one time and primarily because of the huge amount of capital investment that is required to continue building the corporation. Again though, I would ask at the end of March 31, 2002, I appreciate you may not have the exact number, will those statements show that there is \$150 million of cash in Manitoba Hydro's bank account at that time?

Mr. Selinger: I just want to say to the member from Fort Whyte Manitoba Hydro is happy to try and answer your questions, but technically we are not dealing with the '02 report. We are only dealing with the '01 report. You are ahead of yourself.

We are willing to answer those questions, but I just want to put you on notice that this is not Question Period. This is not a place to be overly political. We are dealing with the information put in front of us for the years 2000 and 2001. We have passed the 2000 report. We are now dealing with the 2001 report, and the president has answered your question twice already. I also put you on notice that repetitive questions are not really appropriate according to *Beauchesne*.

Mr. Loewen: Well, I appreciate the minister's interjection. Actually, I am not even questioning the report. I am having questions based on the

question in discussion period that we are in with regard to the presentation that we have just seen. I assume that is relevant.

On page 19, we see some significant financial information, some very positive financial information from the corporation as a result of their year ended March 31, 2002. Simply trying to find out a little more information, I just would assume, when the chairman and the president are here indicating that a financial statement was approved on June 13, less than a month ago, that they would have had some idea what the cash position of the company was at that time. I just thought it would be a fairly innocuous question to answer.

Mr. Brennan: We will make it available for you, Mr. Loewen. One thing I will say, though. I sure hope there is not \$150 million in cash sitting around.

Mr. Loewen: Thank you, I appreciate that. Just for the record then, I guess, if the minister would like to go back to the 2001 annual report, and we will skip back and forth, because we have more questions on the presentation, and I am assuming that is fair ground. Just for clarification, the profit for the year ended March 31 was \$270 million, I believe, as is shown in those statements. In spite of the fact that there was a record profit, there was a \$17-million decrease in the cash position of the company. Is that accurate?

Mr. Brennan: Yes, it is.

Mr. Loewen: Thank you. The point I am getting to, and I certainly appreciate that the company generates a lot of cash, both from export sales and from sales within Manitoba, both retail and to an industrial basis. It is obvious, from the statements of the year before, that, although there was \$214 million in income, there very well may have been a negative cash position and may very well be with the March 31, 2002, statements. Is that a fair comment?

Mr. Brennan: That certainly is. Besides the profits of Manitoba Hydro and the cash-flow position, which would take care of any amortization of asset values, like depreciation and the like, there are other things, such as our capital investment opportunities, and the like, that we

continually have to monitor. Our cash position is not one that, as long as it is well managed, it is not something I really am overly concerned about.

Mr. Loewen: Well, with regard to that cash position then, would you be able to confirm the statements that were given to the Public Utility Board by both Ms. Wray and Mr. Warden, the chief financial officer, that, as a result of the payment to the Province, the corporation will have to go out and increase borrowing in order to make those payments?

Mr. Brennan: No, I do not agree with that, and I am not sure they agreed with that either, by the way.

Mr. Loewen: Well, so what you are saying is that the statement made by Ms. Wray and Mr. Warden that was shown in the interim financial forecast that the corporation would be borrowing the \$288 million is not accurate.

Mr. Brennan: I think both those people qualified what they said at the Public Utility Board. Basically, what they said was they took a look at a forecast that only provided for a change in the distribution to the Province. Manitoba Hydro will look at all its other activities to find out what we will do to manage that impact. We will take a look at our capital. We will take a look at our operating expenditures. We will take a look at whether we can take some money out of the sinking fund. So I do not necessarily agree that it will impact debt. All we did was take a look at one item and left everything else fixed. That is not the way we manage Manitoba Hydro.

Mr. Loewen: With regard to your indication that you would look at how you would finance capital expenditures, you have indicated to the Crown Corporations Council that, in fact in 2001-2002, you did achieve your three main financial targets, one of which was including the funding of capital expenditures from internal sources, can you confirm that was met in 2001-2002?

Mr. Brennan: Yes, I will.

Mr. Loewen: So, based on that, one would have to assume that, at least for 2001-2002, all capital

expenditures were done without increases to borrowing.

Mr. Brennan: For purposes of capital, that is correct. We have to make a sinking fund payment as well, which we might have borrowed money for. We probably did.

Mr. Loewen: Well, that is certainly fair. So, having said that, I guess I will just ask one more time, just for clarification, at the end of the year, would there have been \$150 million in cash in the corporation at year end?

Mr. Brennan: As I said, I sure hope not.

Mr. Loewen: Well, with regard then to, if we can move on to the—

Mr. Brennan: Can I just qualify that? If there was, there would have been an action to utilize it very shortly thereafter, if there was, but I would hope there is not. The management of cash is a very important activity within Manitoba Hydro, and we certainly do not want cash lying around.

* (11:00)

Mr. Loewen: I appreciate that. Mr. Brennan indicated that the board, on June 13, passed the March 31, 2002 financial statement subject to getting further clarification from the Province in terms of the exact nature of the payments that were announced in the Budget. Could you indicate for us when Manitoba Hydro first became aware that the Province would be asking Manitoba Hydro to make special payments to the Government?

Mr. Brennan: The minister met with the chairman and me quite a few times in the last fiscal year to look at what the implications of taking money out of Manitoba Hydro were like. We knew that was one of the options that the Government was looking at. We did not know for sure whether they would proceed on that. We thought there was probably a pretty strong likelihood, but we did not know for sure, and we did not know the exact amount if they in fact were going to do it.

Mr. Loewen: So that, in my mind, I guess, confirms what Mr. Warden said at the Public

Utilities Board, that early in January the corporation started running different scenarios and preparing different analyses of what effect varying amounts of withdrawals of cash from Manitoba Hydro would have on the corporation. Is that a fair comment?

Mr. Brennan: Yes, we looked at quite a few options. We had no idea, of course, what the Government was going to do, but we knew that the Government was considering various options, and the distribution of retained earnings from Manitoba Hydro was one of those options.

Mr. Selinger: I just want to confirm, once again, that information was clarified as exactly the amount that we were considering on budget day, as I have confirmed in the House prior to this.

Mr. Loewen: With regard to the graph on page 20, the consolidated operating and actual forecasts, I have not had a chance to compare it, is that the same information that was filed with the Public Utilities Board in their hearings this spring?

Mr. Brennan: I do not believe it was. I believe, based on the Budget, some of the \$150 million would have come out of 2001 and 2002. Once we saw the legislation and \$150 million is based on distribution in the current year, that it now is reflected in 2002-2003, but with that qualification, everything else is the same, Mr. Loewen.

Mr. Loewen: So, with that clarification and with the legislation, I am assuming you have had a chance to see the legislation that was tabled in the House last week and that your people have done some analysis of it. But would you confirm that the Government, in terms of cash this year, will take, at a minimum, \$225 million of cash out of the corporation, being \$150 million plus the \$75 million payment for this year in terms of the special payments, and that, in the year 2002-2003, \$225 million will flow from Hydro to the corporation for special payments?

Mr. Selinger: Just a couple of points. First of all, that legislation is before the House and discussion of the specifics of that legislation really, properly, occurs when that legislation goes to committee.

Secondly, I do not think it is appropriate to ask the president of Hydro what the Government of Manitoba plans to do until the Government actually passes the legislation and makes its intentions specifically clear to Manitoba Hydro.

Mr. Loewen: Well, once again, you know, we are in an unusual situation where we have had information given under oath to the Public Utilities Board. I am just trying to confirm at the committee level that, in fact, what information has been given to the Public Utilities Board is an accurate reflection today now that legislation has been presented to the House.

So, certainly, there has been some discussion about it, at the board level of Manitoba Hydro. We are looking at forecasts that have been given to us by Manitoba Hydro. The president of Manitoba Hydro has just confirmed that the \$150-million dividend will not be taken out of last year's cash, so it will be indicated in his previous answer that it will be taken this year. There is another, at least, \$75 million, could be as high as \$138 million that could be taken out of Manitoba Hydro this year, based on the legislation before the House. So I guess I am just trying to confirm the information that was given to the Public Utilities Board that, this year, the Government of Manitoba will take a minimum, in terms of the special payment, of \$225 million from Hydro in excess of the amount it gets from water-rental rates and the debt-guarantee fee, and others.

Mr. Selinger: I think we have to be careful. The legislation was tabled in the House last week. Testimony given to the Public Utilities Board was prior to the legislation being tabled. So they would have only been speculating on what the projected impact would be of Hydro transfer or special payments.

Once again, we have that legislation before the House and the proper place for that kind of questioning, specific to that legislation, is when we deal with that legislation at committee. I am not sure it is appropriate to press the president of Manitoba Hydro, or the chairman, on the specifics of what the Government's final draw will be until we actually make that final rendering of a decision upon passing of the legislation. I would ask the member not to put

people on the spot for decisions going to be made by government.

Mr. Loewen: Well then, maybe, I can ask the minister the question. Is it his intention once the legislation passes that, this year, the \$150-million retroactive payment will be paid during this fiscal year, and, in addition to that, a minimum of \$75 million and possibly as high as \$138 million? Will Manitoba Hydro be asked to pay that and that is in relationship, but once again, to the forecast that we have been presented with this morning from Manitoba Hydro?

Mr. Selinger: I thank the member from Fort Whyte for that question. The legislation is very clear that we will take a total of \$288 million and we will do it over with respect to the three financial-performance years indicated in the legislation. There is some flexibility, as the member has correctly noted, within the legislation about the exact nature of how the draw will occur. That final decision will be made upon passing of the legislation and receipt by the Government of the '02 annual report from Manitoba Hydro, which has not been received yet. It will be received at the end of July, as it has been in all previous years.

So I appreciate the question. The intention is clear, \$288 million, roughly in the amounts of 150, 75. But there is some flexibility there, and we would like to see the details of how the year is worked out. This morning's presentation went beyond what was required for today, of discussing the 2001 report. It indicated an expected net profit on a consolidated basis of about \$214 million. If that number is finalized, then we will use that as a basis for a final decision.

Mr. Loewen: Based on 2003, the indication that we have from this financial forecast is that profit will be \$100 million, which is certainly substantially less than the \$214 million that is indicated this year. Could you provide us with a little bit more information as to why the significant drop in profit?

Mr. Brennan: It is a function of a lot of items. Number one, our capital spending, which is in excess of \$300 million a year, and bearing the interest and depreciation related to that on our operating statement, is an issue. The fact that our

own load is growing and our export sales are dropping off is another function. I think it is a whole combination of all kinds of items that result in the drop. Hopefully, our actual results are in excess of that, and that is the way we hope to manage the company to do that.

Mr. Loewen: I certainly appreciate that. With regard to that projection, we are now just past the first quarter. Are you as comfortable as any CEO can be in the magnitude of the organization that you run, that \$100 million is still a reasonable amount that we should expect the corporation to earn in the year that we are presently in?

* (11:10)

Mr. Brennan: I like those projections.

Mr. Loewen: Well, based on that then, if the legislation was at a bare minimum, the Government has indicated, and you have indicated, that they will take \$150 million in cash out of the organization, an organization that does not have lots of cash sitting around at the end of the year and is only going to generate \$100 million in profits.

So would it not be a safe assumption that borrowings will increase next year as a result of this special payment to the Government of somewhere between \$150 million and \$288 million?

Mr. Selinger: In the 2001 report, which is the report we are dealing with, in the year 2001 they generated \$334 million of cash. Yes, they do draw on that cash and make use of it and deploy it for capital investments or capital assets that they develop within the organization.

I am referring to page 64. I think you are on the same page. I think the president of Manitoba Hydro has indicated that their corporation does produce a lot of cash on an annual basis. I am assuming that they will have produced a good amount of cash in the year 2002, as well. Certainly, the last couple of years has indicated that they are very strong cash producers. The president has also indicated that they deploy that cash for the benefit of the corporation in capital asset and investment activity. That will be the case on the go-forward basis as well.

The other thing that has to be said is that, if they did not have any capital requirements on a go-forward basis, they would not have to do any borrowing at all, given their cash position. But it is a prudent decision and we have indicated that in the presentation. There will be future investments in Hydro, to expand its capacity and to continue its ability to provide a product to the export market, as well as a cleaner product with respect to cleaning up the Selkirk generating station. So you can see that the corporation is using its capital borrowing authority and its cash to strengthen the organization's ability to be profitable.

Mr. Loewen: Well, I appreciate that answer from the minister. I would like him to look at the total statement, though, where, in the normal course of operation, in 2001, a year in which the corporation had record profits of \$270 million and met their key financial targets, as they have indicated to the Crown Corporations Council, that, in fact, they had a decrease in their cash position of \$17 million just through their normal operation without the Government reaching in for any extra in terms of a special dividend payment. So, while it is fine to say that the corporation does generate a fair bit of cash, it has also the need for significant cash just to keep and not for expansion, but just for investment in terms of maintaining the equipment and the plant they have.

I would ask the minister: Has he indicated to Hydro that they should change their key financial targets and that they should not for the foreseeable future expect to fund their capital expenditures from internal sources? Is he asking them to fund capital from external sources?

Mr. Selinger: No, I am not. I am simply pointing out to the member that Hydro, and they indicated that clearly in their presentation, manages the corporation based on the reality in front of them. When they have the cash available, they have used it for capital expansion, but they make those decisions on a go-forward basis.

We have seen in the presentation that there is the possibility in the next few years of ramping up capital investment in the Wuskwatim project, which could be up to a billion dollars, but that investment will generate significant

increases in capacity and an ability to meet export potential.

One of the things that I think is important is on page 68 in the presentation. We skipped over that slide. I just want you to have a look at that. That slide shows that the energy available for export will start to decline based on domestic growth unless we get ahead of the curve and start expanding our overall capacity through either Power Smart activities, which we have talked about in the presentation, or new generating capacity, as indicated here with the Wuskwatim project. So Manitoba Hydro plans, and has to plan, many years ahead in order to be able to retain its proportional capacity to service the export market, which generates good profits for the organization, as well as meeting domestic demand. That is why that chart or graphic basically is important here for us.

The Member for Fort Whyte has often said in the House that there should not be any future investments in expanding generating capacity of Manitoba Hydro without firm power sales being in place, and we have a responsibility to look at how the domestic demand curve will increase, and therefore, what we need to do to maintain our proportionate capacity to service the export market, including not only firm sales, but opportunistic sales and short-term firm sales in the future with good-quality product at a good competitive price. That is why that graphic is very important to understand. I think that is why Manitoba Hydro put it into the presentation.

Mr. Loewen: Well, I appreciate that. Just for clarification, I would like to for the record indicate that I am not opposed to expanding generation and never have been. I am not saying it has to be limited to fixed contracts, but there certainly needs to be very careful analysis before \$8-billion worth of debt is put on a corporation that already has over \$6-billion worth of debt. If that analysis shows that it is all based on spot markets, then I am probably not the only one that would question it. Hopefully, there would be some chartered accountants in the room that might question it as well.

At the same time, I would like to just mention a couple of questions on the 2000 report. It largely revolved around our committee last year.

Mr. Brennan, if you recall, I asked you for some information regarding the analysis that had been done with regard to some of the future power generation. I still have not received it. So I just ask you if you can maybe go back to that and have your staff update me with information. I will provide you with the transcript so your staff can do that, but I would appreciate getting that as soon as possible, particularly since Wuskwatim is moving ahead.

Just for clarification, just one more further point for clarification for the minister and for Mr. Brennan, because my understanding is that the chart consolidated and actual forecast that we are seeing on page 20 does not include interest costs on the capital required for the major generation plants that were indicated, I do not have the exact page, but it was roughly \$8 million. I understand that, in this chart on page 18, there are no interest costs in the numbers. Am I mistaken?

Mr. Selinger: I am assuming the member is referring to page 20, not page 18.

Mr. Loewen: Sorry, page 20. Right.

Mr. Selinger: Just before I get to that, I would like to go back. First of all, I appreciate the member from Fort Whyte putting on the record a clarification of a statement under what conditions we should expand future generating capacity. I think the member knows that there has been some pretty dramatic changes in the shape and operation of all markets throughout North America, including the electricity market. There has been considerable deregulation going on in the North American market.

I think the member from Fort Whyte and I would probably agree that, if you can have guaranteed firm power sales for 100 percent of your product, that is the ideal, but the reality is that the markets are not necessarily only purchasing power on that basis. They are purchasing power on a variety of bases. Some are long-term contracts. Some are medium term and short term. Some are strictly opportunistic sales. Hydro has to be positioned to be able to offer a competitive product in all of those market configurations while, at the same time, mitigating risk. That is why that graphic on page 68 is

important, because market conditions have changed in the last 10 years and will change in the next 10 years. Domestic demand will also continue to grow in Manitoba. We want it to grow in Manitoba for economic activity which will benefit the province.

As that activity grows and requires more of our own source energy, we also have to be ahead of the curve in planning for the future for a variety of market conditions. The question that always has to be asked when you look at those market conditions, regardless of whether they are short term, long term or even immediate, overnight sales: Is the product a desirable product in terms of its basic characteristics of reliability and quality in terms of its cleanliness? Secondly, is it competitive on a price basis? Most purchasers will look at all of those characteristics, but if they can get a good price and those other two conditions are met that I have just indicated, they will take our product. We want to be in a position to offer that product in the marketplace, particularly the American marketplace, but also to the east and west of us into other jurisdictions in Canada. That has a lot to do with where we finally wind up on Kyoto in Canada, because Manitoba Hydro, and there has been a document released on that just in the last two weeks, is very well positioned in a Kyoto scenario, approving Kyoto, to be a solution to allowing Canada to meet its Kyoto targets. That might create opportunities for us to be able to make power available to the provinces to the east and the west of us and generate other market opportunities. So we want to be ahead of the curve in planning for all of those things coming down the pipe.

* (11:20)

As the member knows, when the American presidency changed in the United States, there was a dramatic shift on the part of the new president on whether or not he was comfortable signing Kyoto. Regardless of whether or not any American president signs Kyoto, one thing we know for sure is that demand in the American marketplace is going to outstrip supply over the next 10-year horizon. Particularly, we believe and know, and I think the president will provide that to you, demand into the Midwestern United States is projected to grow quite dramatically over the next 10 years. We also believe demand

will grow within the Canadian context, as well, and we want to be in a position to be able to offer neighbours to the east and west and to the south of us what Manitoba Hydro has to offer, which is a clean product at a very competitive price, which is highly reliable.

I know it is a bit of a long answer, but it is to put in context some of the questions answered. It actually is an answer that puts it in context, and I hope the member will take note of that.

Mr. Brennan: First of all, I do not think it is fair to say that we are going to spend \$8 billion. What we will do is that we are looking at Wuskwatim first. Then we will look at whether we proceed with Gull. Certainly, we will not build Gull and Conawapa, you know, at the same time. It would be one or the other.

Conawapa is a very large plant with lots of energy, and the impact of interest and depreciation on our operating results would be significant. The only thing that will impact this particular grab will be after the plant comes into service, which is 2009-10. So you have two years of interest on Wuskwatim. That would be '10-11 and '11-12. So the impact would not be all that significant. It would be just at the end of it. All the other plants are projected to be after the end of this grab, as it reflects on our operating statement.

Mr. Loewen: Well, yes, and I appreciate that, but just for clarification, if Wuskwatim does proceed, there will be, I assume, well, based on your information, it is about a billion dollars in capital expenditure. If the plant was to come into being, be operational for '08-09 or '09-10, presumably the billion dollars is spent prior to that in order to bring the plant on line. I am just wondering are the interest costs on that included in this scenario or not, I mean, just curious, just want clarification.

Mr. Brennan: We capitalize the interest as part of the cost to the plant. So that billion dollars will include interest cost. Once it comes into service, then we start expensing the interest and depreciation related to that facility. So the only two years, if it comes into service in 2009-10, then the interest and depreciation will be reflected in the next two years.

You are right. That is not included in this point until we decide whether we proceed or not. Now we have three decision points, one of which will be to proceed to get the environmental licence and go through that process, which we expect to do this fall. We also want to get everything ready to go before the Public Utilities Board. The material you asked for last year will be that material we give to the Public Utilities Board, once we decide to do it. At this point, it is probably a little premature to give it to you, on the basis that it is changing continually, but once we finally decide to take it to the Public Utilities Board, that will all be public. Then, once we get the results of the environmental review, as well as the Public Utilities Board, well, then it may take another recommendation to both Manitoba Hydro and the Government.

Mr. Loewen: Well, thank you. I appreciate that and particularly your clarification, and quite properly so, that the Public Utilities Board will be the final, I guess, adjudicator in terms of what makes sense to proceed with or not, based on information provided to them.

Just to go back there because, in an undertaking to the Public Utilities Board, the undertaking 39, the financial forecast and projected operating statements were presented to the Public Utilities Board, which, from as close as I can tell, do pretty much parallel what we are seeing here today, and at that point, the information given to the Public Utilities Board indicated that Manitoba Hydro's expectation, in terms of cash, was that the Government, in the year ending March 31, 2003, would take \$225 million in terms of special payment. Is that still what is expected by the corporation?

Mr. Brennan: That is the function of what the Government decides to do. We are not privy to that. What the forecast provides is just the \$75 million in the current year, and then it is followed by 63, but that is a function of what the Government actually makes a decision on later. This is just a projection, but that is the basis on which the projection was made. The actual result will be a government decision, not Manitoba Hydro's.

Mr. Loewen: Well, I would ask the minister then: Would you confirm that at a minimum you

will be asking Hydro to pay \$225 million to the Government of Manitoba, consisting of \$150 million plus at least \$75 million for this year's payment as indicated in the legislation?

Mr. Selinger: As indicated in the legislation, our upper limit that we project to take is \$288 million. Once the legislation is passed and we have received the '02 annual report, we will make a final determination as to the exact amounts that will be taken for the specific time frames under discussion. But, as the member has correctly noted, there is some flexibility here with a cap on it to protect Manitoba Hydro as to the total amount, but some flexibility as to the specifics of when the draws will occur and how much will be drawn at that particular time.

Mr. Loewen: Well, and that is reasonably accurate to the extent that any future government could go in and raise the cap, so, again, Manitoba Hydro, I think the floodgates are open. They are pretty much at the mercy of this Government in terms of what is needed as opposed to what the \$288 million is. With regard to the forecast, though, again I do not think I have received an answer to the question. Is one of your three key financial targets still the funding of capital expenditures from internal sources, given that we are aware that, if major developments such as Wuskwatim proceed, that will be done externally? But is it still one of the key financial tenets of the organization to fund all of its capital expenditures from internal sources?

Mr. Brennan: That is our current target. We have an exception there, though. We do not include major generation transmission.

Mr. Loewen: Based on that, in these projections, as I see the debt ratios going up, it certainly does not appear that Manitoba Hydro will be able to fund, at least for the next three years, its capital expenditures from internal sources. Is that accurate?

Mr. Brennan: What we have here is a forecast that provides only for the distribution of money to the Province. I think it is my job as the president and chief executive officer of Manitoba Hydro to look at what alternatives we have to manage within our targets. I will continue to

do that, and we have all kinds of options. One is, take a look at what actually happens because our profits could be better than we are projecting, or worse. We can look at our capital expenditures and see if we can do some trimming. We have an opportunity to take more money out of the sinking fund than we otherwise do. That is an opportunity for us. All those things, I think it is incumbent upon me and my management colleagues to look at, and we will do that. But the target is still the same. We will do our best to achieve it.

Mr. Loewen: I noticed in the undertaking that was given to the Public Utilities Board there was, in fact, a sinking fund deposit projected. Are you planning to refile this information with the Public Utilities Board?

* (11:30)

Mr. Brennan: No, not really. Every year, by law, we are required to make a deposit. As long as we are repaying debt and the like, we can take out based on what is available to us. But the deposits are required by law.

Mr. Loewen: Well, I appreciate that. It is certainly indicated in the financial forecast that I have to assume parallels the one that we are looking at on page 20, and there is no indication in there in terms of funds from operations that there is any intent to withdraw funds from the sinking fund. I am just a little curious as to how I can compare the forecast on page 20 to the information given to the Public Utilities Board based on your previous statement.

Mr. Brennan: I think I made it clear that these two projections, and I did qualify the difference between the two because I believe the information we gave the Public Utilities Board provides for the withdrawal of 150 in last year and in the projection you have before you it goes through 2002-2003. So, with that qualification, all it is is a forecast that provides for the distribution to the Province of Manitoba. Any other actions on behalf of management are not reflected in this forecast. That includes reviewing capital, reviewing operating, the opportunity to look at how much we could take out of the sinking fund.

All of those things are actions we will take once we have to make the distribution, and before that. So all it is just a forecast with that one assumption. We could make all kinds of other assumption changes that would change that. The only thing we did was put the assumption on the distribution to the Province. I think you should leave it up to management to manage within the target we have, and we will do our best to do that.

Mr. Loewen: Well, just for clarification, the numbers that were filed with the Public Utilities Board do include the payment to the Province.

Floor Comment: They what?

Mr. Loewen: They do include the payment to the Province.

Floor Comment: Yes.

Mr. Loewen: Clearly.

Mr. Brennan: They are the very same as the ones you have before you, with the exception of that 150 going out incoming in this one in 2003, and that one shows 2002. That is the only difference, but it only includes the one change and that is the distribution to the Province.

Mr. Selinger: I just want to remind the member from Fort Whyte we are answering these questions here and now, but there is a bill before the Legislature and we are really discussing the specifics of the bill. There will be a full opportunity to do that. We are trying to focus on passing the 2001 annual report.

Mr. Loewen: I would just indicate to Mr. Brennan that, just so we know we are talking about the same thing, and I am not attempting to criticize anything that is being done, the numbers given to the PUB were adjusted to reflect the \$150 million being paid in this year and, in fact, his numbers show 225.

Mr. Brennan: I think there was an earlier one given than Mr. Warden and Ms. Wray were talking about, and that showed in last year.

Mr. Loewen: I am sorry, I should have clarified that to begin with. I guess, just one final attempt

to clarify this. If, as the projection indicates, that has been updated, the Government will take a minimum of \$225 million out of the corporation this year, as part of the \$288-million special payment, that, in fact, the corporation will not meet its financial objective of funding capital expenditure from internal sources.

Mr. Selinger: The member from Fort Whyte has asked that question more than once, and I think the president of Hydro has tried to answer that forthrightly. He has indicated that he would like management to have the opportunity to take a look at all the options, to meet all their targets as well as provide the distribution to the Government of Manitoba. We will have a chance to discuss this when the bill comes to committee stage. I am just wondering how many times we have to repeat the question. He has given a forthright answer, and I think you should move on.

Quite frankly, it is out of the jurisdiction of this meeting, which is to deal with the 2001 annual report. I think people have been quite patient in trying to answer your questions.

Mr. Loewen: Well, I will leave it up to the president if he wants to answer or not.

Mr. Selinger: Actually, it is up to the minister to decide who answers the question under the principle of ministerial accountability, and I have just answered it.

Mr. Loewen: So my interpretation is that the minister is refusing to answer that question that I asked.

Mr. Selinger: We have answered it thoroughly and repeatedly on more than one occasion, both in the House and here, and I think it is time to move on.

Mr. Loewen: Does the minister believe that this year, based on information filed with this committee that we have before us today that we have just clarified, it will be possible for the corporation to meet its internal target of funding capital expenditures from internal sources?

Mr. Selinger: Well, as I have indicated earlier, the final shape will depend on a decision we

make once the legislation is passed. We will leave it up to the management of Hydro, in consultation with his board, to best determine how they can meet all of their targets, including the distribution to the Province of Manitoba. They will be fully accountable for all the decisions they make in next year's annual report and on an on-going basis through questions you may wish to ask me in the Legislature.

Mr. Loewen: I do not seem to have much luck getting an answer there either. I just want to reiterate to the president of Manitoba Hydro that in no way am I suggesting ways that we should try to micromanage your organization. I am fully confident in the abilities of you and your management team to manage the corporation. I am just trying to get a clearer understanding of what is being foisted upon you by the Government and how in fact that will affect your ability to operate the company and obviously the very competent way that it has been operated for a considerable period of time.

I mean, the last time the corporation lost money goes back to the eighties. I just want to make sure that we do not end up in that mess again as a result of any actions on behalf of this Government.

I would ask the president then if he could give us a bit of an update in terms of, I know there were dramatic concerns with regard to water levels and drought which have been alleviated by the recent rains, good news for the corporation on one hand, bad news for other people in Manitoba on the other hand, particularly those that are being affected by flood waters very, very significantly. It is not a matter to be taken too lightly.

Could you indicate where you are at, in terms of your projections, with regard to export power sales for the year?

Mr. Selinger: Just a couple of points, the member alluded to some situation in the eighties. I just want to point out for the member, and it is actually illustrated in the presentation this morning, that export sales took off upon the completion of the Limestone project, if you will remember that graph. The Limestone project was the one, the leadership came from a previous

New Democratic government to build that for export purposes, brought it in on target and below budget with the excellent management of Manitoba Hydro. So I think we have to keep that in perspective, that we are in the fortunate position of having strong profits based on far-sighted decisions by previous governments working with Manitoba Hydro.

On the issue of water levels, I think we are all abundantly clear that water levels have dramatically increased in the last several weeks due to the precipitation we have experienced in Manitoba. Clearly, we do not want any of those precipitation levels to disrupt the lives of Manitobans, and we have seen some overland flooding in southeast Manitoba. The member knows that the Government has moved with great swiftness to address the concerns of those people that have been affected.

* (11:40)

I know the Minister for Transportation and Government Services this year has moved rapidly to provide relief and support to those people, and I read in the paper on the weekend that there had been payments already processed for several of those people affected. So, obviously, we do not want any of those precipitation levels to have a negative impact on Manitobans. We have moved to address their concerns very rapidly, I think in record time.

Precipitation levels are strong right now. We are in the first quarter of the year, and it is probably conjecture to indicate what export sales would be because the busiest time and the highest demand is really just starting. It is usually the summer months when the highest demand occurs for export sales. We are just at the cusp of that right now, but the president of Manitoba Hydro has indicated earlier that he sees no reason to change his profit projections at this stage of the game.

Mr. Loewen: Perhaps the minister could bring a little further clarification because we have seen in both the latest reports from the Department of Finance that certainly, I think it was, in the first three months of this year that export profits fell by 35.9 percent. I am not sure if that was related to demand, related to low water supplies, but we

are just trying to get a feel for where things are headed, given that the first three months of the year, for whatever reason, have shown a very dramatic decrease in export profit sales, which certainly will have a very dramatic effect on the corporation if they continue, particularly with regard to the fact that, in addition to that, they might have to deal with the Government trying to take \$238 million out of the corporation this year.

Mr. Selinger: Those first three months where export sales were down were the last quarter of the '02 financial year. Manitoba Hydro officials have indicated this morning that they are still projecting a \$214-million net profit for that year on a consolidated basis, including Centra Gas.

So that period of slow export sales has been taken into account in the projected year-end that Manitoba Hydro has put in front of you this morning as their best estimate of what that will be. So, in effect, financially that is behind us, and we still know we have a healthy net profit for that fiscal year where that slowdown in export sales occurred.

I mean, a couple of things are obviously important here. First of all, that is the period of highest internal demand for Manitoba customers and the period of lowest demand for our export customers where they tend to see their greatest demand during the summer period that we are just at the beginning of.

Secondly, water flows were down for that quarter and there was less product available, less generating capacity available.

So I just want to make it absolutely clear that that slow period is taken account of in the year-end projections for the '02 financial year in Manitoba Hydro.

Mr. Loewen: Well, I certainly appreciate that. I just remind the minister that they are not projections; they are actual because they have been approved by the board, not subject to changes in revenue and not subject to changes to what the Government wants.

What I am trying to find out is if that trend which compares the first three months of this

year versus the first three months of last year on a calendar basis has continued for the next three months. It should be a relatively easy question for the president of Hydro to answer.

Mr. Brennan: No doubt earlier in the year, we were concerned about water conditions. We started to conserve water, cut back on export sales and actually purchased energy. Now, with the rains that have occurred, we have above-average flows.

So we are totally confident that our projections for the year are appropriate.

Mr. Loewen: Thank you. I would just like to ask the minister if he could indicate whether or not the \$47 million in spending that was projected by the senior officials at Manitoba Hydro with regard to spending that will be done by Manitoba Hydro in connection to its agreements in the North will be fulfilled or not.

Mr. Selinger: I am going to ask the chairperson or the president to answer that question. I just want to clarify, when you are talking about agreements in the North, what specifically are you referring to?

Mr. Loewen: Well, there was a document—and maybe we should just let the president answer—filed with the Public Utilities Board, document PUB R156, which identified \$47-million worth of improvements that were to be paid for northern developments. I am just wondering if the plan is to continue with those.

Mr. Brennan: I am not sure I know 100 percent. I would like to see the context of it.

But having said that, if it is associated with our planning studies and associated with new development, we are probably going to be underspent that particular amount, but we are still proceeding if, in fact, it is pre-development expenditures.

Mr. Loewen: This may not identify it any further, but it is information that was filed by the Public Utilities Board on behalf of Manitoba Hydro, which indicates that there was some \$97.8 million undertaken with regard to the northern development projects and that, in fact,

up to now about \$50.8 million has been expensed from '96 to 2001 and that there is still \$47-million worth to fund in the future, \$47-million worth of funding to do in the future.

Mr. Brennan: This amount could not be for new development because, in 2001 you only have \$2.2 million, and that seems low to me. So I am not sure. Maybe it is mitigation payment, is it?

Mr. Loewen: Yes, I am sorry. I should have clarified. They are in terms of mitigation payments. As the president knows, there was a freeze in the water rental rates, and part of the conditions of that was that Manitoba Hydro would undertake to pay some of that development, 50.8 million, which was done between '96 and 2001. I just want confirmation that the 47 million that has been confirmed will still be paid, will still be undertaken.

Mr. Brennan: First of all, I should point out that all those payments that we are making on behalf of obligations have been set up on the books of Manitoba Hydro already. So it will not show as expenditures. They are already capitalized, and the liability is set up.

I think I would like to see the context under which this is set out. It says in the annual report, page 77, so maybe that would help us, if we could take a look there. But I am not sure I am totally clear on what it is.

Mr. Loewen: My understanding, these are payments for northern—and if you want to refer to the page, if that gives you any further indication.

Floor Comment: What page?

Mr. Loewen: It is 77.

Mr. Brennan: This relates to two activities. One is the obligations of Manitoba Hydro in relation to the obligations we have as it relates to the Province. Both with the previous government and the current Government, we entered into agreements to pay some of their expenditures for freeze in water rounds. In addition, we also have some of our own costs included in here as well. The amounts, to date, as you can see, are

relatively dramatic, 441 million in total. *[interjection]* In the second paragraph, p. 77.

Mr. Loewen: Yes, I appreciate that.

Quite frankly, the reason I am asking this is because I just want to get a clear understanding that Manitoba Hydro is going to proceed with those commitments because on June 11 the minister indicated to a reporter that, and I quote, we ended the arrangement because it lacked transparency, and just charged a market rate and paid for these projects ourselves.

Basically, what he is answering were questions around the doubling of the water rental rates, and admitting that they doubled the water rental rates but saying that, in doing so, the Government then took over responsibility for these projects. I am just trying to get clarification whether Manitoba Hydro is still paying or whether the Government is paying, because again the testimony at the PUB seems to contradict what the minister has indicated to a reporter.

Mr. Selinger: I think that I need to clarify that this amount that has been set up here is for obligations previously made and then on a go-forward basis. Now that we have entered the water power rental agreement, northern projects will be looked after by the Government because they are government-initiated projects.

* (11:50)

So I do not want the member from Fort Whyte to read into my statements something that in fact is not the case. Clearly, the water power rental agreement was wound up in such a way that obligations or commitments that had been made would be covered under that agreement as it wound up, and then, as we go forward in the future, the Government will have to take responsibility for new activities.

Mr. Loewen: Well, I guess I would ask the president if that concurs with the testimony given at the Public Utilities Board, that Hydro will, in fact, still pay for that \$47 million in future projects.

Mr. Brennan: The statements that the minister made were correct. We will continue to make

payments for the obligations that were set up, for the obligations under the agreements that were set up by the previous government, as well as the current Government, until such time as it is ended, as well as any of Manitoba Hydro's future obligations.

Mr. Loewen: With regard to the debt equity ratio, there was an indication given in the presentation we received last year. I apologize. I have so much paper here that I am having trouble—here it is—finding it, but could you indicate to the committee what effect the special payments will have on your ability to reach your debt equity target as we saw in the presentation last year?

Mr. Brennan: If we assume that the only change we make is associated with the special distribution, which is not factual, it would have the impact of delaying it. If you allow management to do the type of activities we intend to do, then we are not sure. I am hopeful that we will be able to manage our way around this and have no impact on customers as the bottom line. That is what we intend to do.

Mr. Selinger: I just want to point out to the member from Fort Whyte, when the water power rental agreement was entered into in '95, around in that area, the original projection was 75 to 25 in their first integrated financial forecast, and after the water power rental agreement was entered into, that debt equity ratio shifted to 79 to 21. So it is not unprecedented, when arrangements are made with government, that there is a change in the debt equity ratio, but the one thing we do have to bear in mind is that ratio has continued to improve steadily over the last past several years, and it is now well within the standards across the industry for electrical Crown corporations.

Mr. Loewen: Well, the reason I ask is, of course, last year, before there was any indication that the Government would be raiding Manitoba Hydro, we received in our presentation a nice little chart which indicated that certainly Manitoba Hydro would be able to, and the exact title of the chart is Ability to Internally Fund Capital Expenditures. It shows a nice yellow line indicating the amount of funds generated and a red line below that indicating the capital

expenditures. I am just a little curious why we did not receive the same chart this year, and one can only assume it is because, as a result of the raid on Hydro, quite likely, the lines will be reversed at some stage.

Would the minister or the president be able to answer that?

Mr. Selinger: Yes. First of all, I think characterizing it as a raid is colourful but not accurate language. It is standard practice across the country for Crown corporations to provide a dividend to governments. In that sense, Manitoba Hydro is the exception, not the rule. It is one of the, maybe the only Crown corporation in the country that does not provide a dividend, as a hydro-electricity utility, to its respective government. So there is nothing unusual about that in terms of Canadian practice.

I am just searching in the presentation. There was, I believe, in the financial section, indications about the debt ratio on page 36, which indicated what the impact would be of the projected distribution. So there is information provided to you there. That is page 36.

Mr. Brennan: One other thing I would like to point out. When we talk about the current distribution, the act provides for the Government to take up to 75 percent of our profit for the year 2002-2003. It seems to me that, if they are going to take a look at what our profits are, any distribution for 2003 will probably have to take effect in the next year. So the maximum, it seems to me, just off the top of my head, the maximum that can come out in the current year would be 150. Now, we may book it in the current year, but I cannot see the cash coming out. You are going to need to know our profits.

Mr. Loewen: Well, just for your edification, Mr. Brennan, you should be aware, it is unfortunate you are not, that the legislation allows the Government to take the money beforehand, and if you do not meet your profit target, then they will pay you back. Maybe the minister can clarify the word. It is somewhat nebulous. But, certainly, the intent of the legislation is that not only will the Government take \$150 million this year, but they will take at least a minimum of \$75 million, assuming that your profit is over \$100 million, which I am sure you will be able

to get it there, and, possibly, \$138 million. But, again, the legislation clearly indicates that they are going to take it in advance.

Floor Comment: That is not the way I interpret it.

Mr. Loewen: Perhaps, the minister could clarify that, if he knows it.

Mr. Selinger: Well, once again, the legislation does have a Timing of distributions section 43(6), which indicates: Amounts payable under clause 5(b) and (c) shall be estimated and remitted to the government before the end of the fiscal year to which they relate. As soon as practical after the amount payable for the year is determined, the government shall refund any excess to the corporation and the corporation shall remit any shortfall to the government.

So there is the ability to do an estimate there.

As we have indicated earlier, and the member has agreed with, there is some flexibility in the way the legislation is drafted. There is a cap, as well, of \$288 million. So there is an upper limit and then flexibility on how the distribution will be handled, including the timing of it, but, you know, it is protected by the cap.

Mr. Loewen: Well, just for clarification, I do not agree with anything that is in that legislation, just so we get that on the record, but I find this is absolutely incredible. Quite frankly, Mr. Brennan, I feel for you. I mean, here we are, the legislation has been introduced in the House. We have bumped into each other on the stairs on two occasions in the last week. I should have worn my trench coat today, but I can assure the minister, if he stepped outside of his office once in a while, he might see some people in the hall. In any event, you know, neither has the minister had the courtesy to ask, apparently, for the statements that were approved by your board, nor has he had the courtesy to tell you exactly what effect this legislation is going to have on your corporation. I find that absolutely incredible.

First of all, in the private sector, any time that a board approved an annual financial

statement, it would be available to the public within half an hour. That is how they react. For the minister to sit on that statement and, furthermore, for instructions to be given that the Public Utilities Board could not receive the statement as they gave in an undertaking because the minister has told them that Hydro is to keep that statement confidential at least until the end of July, is just—I mean, it indicates what a hopeless morass this Government has got itself in.

Point of Order

Mr. Selinger: Well, once again, the member is lapsing into the behaviour he displays so often in the Legislature, and he is not using questions to seek information, but he is using questions to make accusations and charges which have no substance and no basis on the facts. It is standard practice for Manitoba Hydro to distribute its annual report at the end of July. The record is absolutely clear on that, and the member knows that. I think he should try to, at least, respect the basic procedures of committees and House in terms of the rules that we operate under.

We have given a wide degree of latitude this morning on allowing questions not based on the 2001 financial report. We are happy to answer any questions, again, when the bill comes to committee. Of course, we have answered questions for several weeks in the House, and the rules have been broken many times in the way those questions have been asked. They have been repetitive. They have been accusatory. They have not, in any way, tried to seek out accurate information, but they have been part of the member's end game to make false accusations.

Madam Chairperson: On that point of order, it was a dispute over facts. It was not a point of order.

* * *

Madam Chairperson: As the hour is approaching 12 noon, does the committee wish to pass the report on 2001? *[Agreed]*

The hour being 12 p.m., committee rise.

COMMITTEE ROSE AT: 12 p.m.