

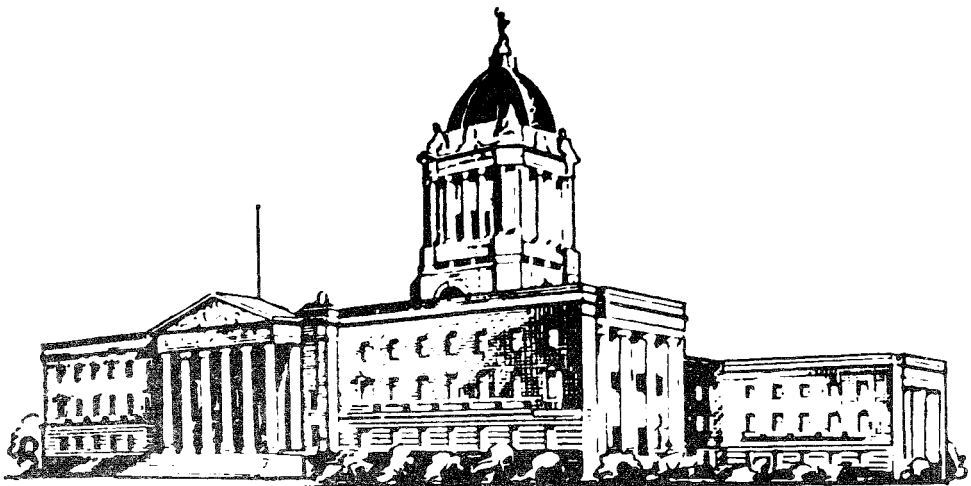


First Session — Thirty-Fourth Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

37 Elizabeth II

Chairman
Mr. Harold Gillehammer
Constituency of Minnedosa



VOL. XXXVII No. 2 - 10 a.m., THURSDAY, OCTOBER 13, 1988.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fourth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	LIBERAL
ANGUS, John	St. Norbert	LIBERAL
ASHTON, Steve	Thompson	NDP
BURRELL, Parker	Swan River	PC
CARR, James	Fort Rouge	LIBERAL
CARSTAIRS, Sharon	River Heights	LIBERAL
CHARLES, Gwen	Selkirk	LIBERAL
CHEEMA, Gulzar	Kildonan	LIBERAL
CHORNOPYSKI, William	Burrows	LIBERAL
CONNERY, Edward Hon.	Portage la Prairie	PC
COWAN, Jay	Churchill	NDP
CUMMINGS, Glen, Hon.	Ste. Rose du Lac	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DOER, Gary	Concordia	NDP
DOWNEY, James Hon.	Arthur	PC
DRIEDGER, Albert, Hon.	Emerson	PC
DRIEDGER, Herold, L.	Niakwa	LIBERAL
DUCHARME, Gerald, Hon.	Riel	PC
EDWARDS, Paul	St. James	LIBERAL
ENNS, Harry	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Laurie	Fort Garry	LIBERAL
EVANS, Leonard	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen Hon.	Viriden	PC
GAUDRY, Neil	St. Boniface	LIBERAL
GILLESHAMMER, Harold	Minnedosa	PC
GRAY, Avis	Ellice	LIBERAL
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HEMPHILL, Maureen	Logan	NDP
KOZAK, Richard, J.	Transcona	LIBERAL
LAMOUREUX, Kevin, M.	Inkster	LIBERAL
MALOWAY, Jim	Elmwood	NDP
MANDRAKE, Ed	Assiniboia	LIBERAL
MANNES, Clayton, Hon.	Morris	PC
McCRAE, James Hon.	Brandon West	PC
MINENKO, Mark	Seven Oaks	LIBERAL
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold, Hon.	Rossmere	PC
OLESON, Charlotte Hon.	Gladstone	PC
ORCHARD, Donald Hon.	Pembina	PC
PANKRATZ, Helmut	La Verendrye	PC
PATTERSON, Allan	Radisson	LIBERAL
PENNER, Jack, Hon.	Rhineland	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren	Lac du Bonnet	PC
ROCAN, Denis, Hon.	Turtle Mountain	PC
ROCH, Gilles	Springfield	LIBERAL
ROSE, Bob	St. Vital	LIBERAL
STORIE, Jerry	Flin Flon	NDP
TAYLOR, Harold	Wolseley	LIBERAL
URUSKI, Bill	Interlake	NDP
WASYLYCIA-LEIS, Judy	St. Johns	NDP
YEO, Iva	Sturgeon Creek	LIBERAL

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON
PUBLIC UTILITIES AND NATURAL RESOURCES

Thursday, October 13, 1988

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Harold Gilleshammer (Minnedosa)

ATTENDANCE — QUORUM - 6

Members of the committee present:

Hon. Messrs. Cummings, Neufeld, Orchard

Ms. Charles, Messrs. Doer, Driedger (Niakwa),
Gilleshammer, Harper, Praznik, Storie, Taylor

APPEARING: Mr. G.H. Beatty, President and CEO,
Manitoba Hydro

Mr. K.R.F. Adams, Corporate Planning Officer,
Manitoba Hydro

Mr. R.M. Fraser, Senior Vice-President,
Energy Supply, Manitoba Hydro

Mr. A.B. Ransom, Chairman, Board of
Directors, Manitoba Hydro

Mr. W.A. Derry, Vice-President, Business
Development, Manitoba Hydro

Mr. P.R. Thompson, Division Manager,
Marketing, Manitoba Hydro

MATTERS UNDER DISCUSSION:

Manitoba Hydro-Electric Board Annual
Reports ending March 31, 1987 and March 31,
1988

* * * *

Mr. Chairman: I call the Committee of Public Utilities and Natural Resources to order to consider the Annual Reports of the Manitoba Hydro-Electric Board.

I believe Mr. Beatty has some information that was requested at our last meeting.

Mr. Garry Beatty (President and Chief Executive Officer): Thank you, Mr. Chairman. Before the committee resumes its review of the Annual Reports of Manitoba Hydro, I would like to deal with a number of matters which arose from the discussions on Tuesday last. Those matters are, first, a couple of clarifications of statements which I made during the discussion, answers to questions and so on; and, secondly, the tabling of further information which was requested by Members of the committee; and finally, a short presentation of information on the load forecast and the determination of the timing and scale of new generation, which I think had been agreed would be presented. So with the committee's indulgence, I would like to deal with these matters at this time.

To begin, I would like to clarify a response which I gave during the committee proceedings on Tuesday. I indicated that Limestone would be coming on stream with first power in November of 1990, and that is correct. But I now understand that the Member's question was with regard to the requirement for additional generation for domestic purposes, excluding the firm export commitments.

At the time the NSP sale, the 500-megawatt sale, was concluded, the corporation was projecting that first power from Limestone would be required for domestic load in late 1992. As a result of the NSP 500-megawatt sale, it was necessary to advance the in-service date by one year. Further study showed some additional economic benefit to be obtained if construction was brought forward a further year. As a result, the corporation restarted construction of Limestone on a schedule to achieve first power in November of 1990. There have been some shifts in the load forecast in the intervening years, but the requirement for Limestone to meet domestic load, based on the 1988 load forecast, would still be for first power in 1992.

Also, I wish to make more clear some of the statements which I made yesterday on environmental studies to the committee. First of all, in my prepared statement, I indicated that environmental studies have begun on the Conawapa Generating Station, Bipole 3 transmission line, and the Wuskwatim Generating Station. Work on the environmental impact assessments for the first two projects commenced this summer. For Wuskwatim, a study plan has been prepared and is to be considered by the Board of Manitoba Hydro, as a matter of fact at its meeting later today. Subject to approval of the study plan, environmental studies and public consultation related to Wuskwatim will begin. None of these studies should be construed as a commitment by the corporation to any particular project. They are part of our planning.

Secondly, I would like to advise the committee that, as part of its study of the future of the Brandon and Selkirk Thermal Generating Stations, the corporation has engaged a specialist to investigate what additional environmental measures might be required at the plants in the future. It should be noted that the plants are currently operating within the standards set for them by the Clean Environment Commission.

Finally, in responding to a question, I believe, from the Honourable Mr. Taylor, concerning social and environmental factors in cost-benefit analysis, I indicated that the corporation confined itself, for the most part, to direct economic and financial analyses of projects.

* (1005)

The corporation does conduct environmental impact assessments, as I indicated yesterday and again a minute ago. In addition, any costs to meet existing environmental standards are included in the economic assessment of a project. Similarly, any costs required to mitigate the impacts of a project on local residents would be considered in the economic evaluation. I simply want to make it clear that Manitoba Hydro recognizes its responsibility to the community and wishes to be and be seen to be a good corporate citizen.

On behalf of our Chief Financial Officer, Mr. Brennan, I believe in responding to a question from Mr. Driedger, I would like to confirm what we indicated last day, and that is that the change in the reported expense for Operating and Administration, resulted from a change in accounting policy which removed water rental charges to a separate category.

We had undertaken to provide to the committee a breakdown of the number of employees by category for the last 10 years. This material is available for distribution.

In response to the committee's desire to get a clearer picture of the course of the UMPG negotiations, the Upper Mississippi Power Group negotiations, we have prepared a brief chronology which outlines the major steps in that process. That chronology is also available for distribution to members of the committee at this time.

As we indicated Tuesday, we have with us the staff who represented Manitoba Hydro during the negotiations with the UMPG utilities, and of course these men are available to answer any other questions which members may have about the history or process of these negotiations. At the conclusion of Tuesday's session, I believe it was agreed that the corporation would bring forward a presentation or explanation on the closely related subjects of the load forecast and the required timing for additional generation to open the discussions today.

We have this material ready, Mr. Chairman. I would suggest that it be presented at this time. Information about the load forecast—and we will try to keep these presentations very short. As I understand, that is the committee's wish. Information about the load forecast will be presented by Ken Adams, our Corporate Planning Officer. His explanation will be followed by one on the timing and scale of additional generation by Murray Fraser, our Senior Vice-President, Energy Supply. To assist Members in following that latter explanation, copies of a generation sequence graph are available for distribution. So we are prepared to go ahead if you wish.

Mr. Chairman: It was my understanding that we would proceed with that presentation. Just before we do, I think Mr. Ransom wants to introduce some of the board members. Mr. Ransom.

Mr. Brian Ransom (Chairman of the Manitoba Hydro-Electric Board): I would just like to draw to the attention of the members of the committee and other MLAs who are here that we have some of our board

members with us this morning. We have Ken Patino, Harold Perkins, Darlene Hildebrand, John McCallum and William Cheater are with us this morning.

Mr. Chairman: We will proceed with the presentation then, starting with Mr. Adams.

* (1010)

Mr. Ken Adams (Corporate Planning Officer): Good morning, Mr. Chairman. Manitoba Hydro prepares a load forecast of electrical energy requirements every year. We prepare it in the period March to June each year, and incorporate the actual consumption for the fiscal year ending in that March.

Our current forecast is known as the 1988 Forecast, and was adopted by Manitoba Hydro on June 14 of this year. This forecast is then used to reassess the generation additions required to meet the future load and is one of the bases for the integrated financial forecast which, as Mr. Brennan said on Tuesday, is prepared and presented to the board in November each year.

What I plan to do today is spend a very few minutes explaining the procedure that we use to develop the load forecast, the major assumptions that the forecast is based upon and then a very brief summary of the results of the forecast.

With respect to procedure, the first thing that we do is that our customer base is divided into about 150 separate components based on geographic location and customer class. The historic load growth characteristics of each of these components are examined to determine their relationship to a wide range of factors such as population, income, relative energy prices, appliance saturations, weather, and so on and so on.

Secondly, information on market trends and changes is collected, and known customer intentions such as factory expansions or closures and new housing developments are tabulated.

Thirdly, assumptions are developed with respect to future economic growth, population growth, housing starts, relative prices for various energy sources, inflation, and similar factors which we have found to influence the load demand in the province. Then we apply these assumptions to the historic relationships and develop predictions for future loads. These calculations are extremely complex and are almost exclusively done by computerized econometric models.

The final activity we do is for loads or potential loads which do not lend themselves to this sort of econometric modelling, which would include large industrial customers such as Inco or Manfor or potential electro-technology loads, and includes Winnipeg Hydro. These are forecast individually. In these cases, discussions are held with the customers themselves where possible to try to determine their intentions. If that is not possible, then we would discuss these events with people, knowledgeable people, who might be in the Energy and Mines Department or in the Manitoba Energy Authority. Based on all of the above, we develop the forecast.

The key assumptions, which is one of the steps, is probably the most important determinant in coming up with the load forecast, so I want to share with the committee the six major assumptions in the load forecast.

Firstly, real economic growth in Manitoba will average 2.6 percent per year over the next 10 years. Secondly, oil heating costs will remain higher than electricity heating costs. There will continue to be conversions from oil to electricity at a declining rate from what we have experienced over the last five years, because most of the oil heating households have already converted. The third assumption is that natural gas heating costs will remain lower than electricity heating costs over the forecast period, which means that there will be very few conversions from natural gas to electricity.

A related assumption is that natural gas will not be available in any significant areas of the province where it is not available today. The fourth assumption is that electricity price increases will remain at or below the rate of inflation. A fifth assumption is that many of the industrial conservation practices which our customers employ will tend to favour the use of electricity and the interfuel substitution will favour electro-technologies and electrical consumption.

The final key assumption related to the demographic in the province is that net housing additions will average about 5,000 per year over the next 10 years.

* (1015)

Based on these key assumptions, we then prepare two forecasts, one for annual energy consumption and one for the annual peak load. The forecast is prepared over a 21-year period but, for comparative purposes and illustrative purposes, the one that we most commonly refer to is the 10-year forecast. Our current 10-year base forecast is for an average annual growth in both energy and in peak of 2.3 percent, and this is the figure that the people responsible for the generation planning use to build into their plans.

The one important qualification that I would add to that forecast is that we prepare all of our forecasts on what we call a weather-normalized or weather-adjusted basis. That is, we assume that weather conditions in the future will be average. We know that you very seldom get average weather conditions, and our experience is that both energy and peak requirements may vary by as much as plus or minus 6 percent in the event of abnormally warm or abnormally cold weather.

Once the forecast is prepared, it is then used by everybody in the corporation to contribute to their part of the work, including the IFF and the generation sequence. Thank you.

Mr. Murray Fraser (Senior Vice-President, Energy Supply): Mr. Chairman, we would be at the disposition of the committee. If they wanted to discuss questions now, we are prepared to do that, or we can continue, if you wish, with the generation sequence?

Mr. Chairman: Is it the will of the committee to complete the report or to have questions at this time?

Mr. Jerry Storie (Flin Flon): Providing our friend from Manitoba Hydro can remain with us, there may be some questions after the presentation of Mr. Fraser.

Mr. Chairman: Yes, I would presume that the members are here for the duration of the committee meeting. Mr. Fraser.

Mr. Fraser: I would like at this time to hand out a chart which we have prepared in response to a question that was raised at the last Session. The purpose of the chart is to disclose some of the methodology that is used in moving from the load forecasts for Manitoba customers that Mr. Adams has described to determining the timing of when additional generation is required for our system.

The lowest line on the graph that has been handed out is identified as the Manitoba load, and that is a representation of the forecast that is developed, as Mr. Adams has described. The horizontal axis here is simply time. You will notice that this has been extended to 25 years. The last five years is a straight arithmetic progression that has been extended. There is nothing different between this and what Mr. Adams referred to for 20 years. On the vertical axis is capacity or peak load.

In addition to the Manitoba load, we know that we must meet certain commitments which have been made and you will see that they have been added, a load to Northern States Power which starts in 1992, and then there is additional load to Ontario that starts in 1998.

That then gives us the heavy line that you see starting in the lower left and shows us the total load that we must be prepared to meet. Our own capacity within Manitoba is represented by the white area under the curve. You will notice that is identified as Manitoba generation.

* (1020)

In addition to our own capability, we can call on adjacent utilities to provide capacity through negotiated contracts. Those have been added and they are shown in the shaded areas. If you start at the lower left with the total load line and we then add the impact of the Northern States sale and we add the impact of the Ontario sale, taking into account the diversity that is available through contracts, you will notice that the two lines cross at about 1998 or they are coincident at 1998.

As we proceed then into the years '99 and on, the load line is above our capacity line. This is the basic methodology that is used that tells us that by the 1999 we must have some additional capacity from some source. There are obviously a number of options to meeting that. But I believe this was the question that was asked for a brief discussion of the methodology that allows us to arrive at the required date. That is what we have attempted to show.

Mr. Chairman: Thank you, gentlemen. We will open it up for questions then. Mr. Taylor.

Mr. Harold Taylor (Wolseley): With the information we have had from the planning officer, I think it starts to

give us a bit of an understanding of the complexity of your forecasting exercise. The graph starts to give an indication to a lay person as to the peak demands. Can that then be translated into looking at lines of information that say line at year—we will just pick a year 1999, for example, there is a shortfall in capacity. The shortfall is so much quantified and therefore the sort of dam or the sort of thermal generating capacity that is the likely fit to that missing block of power generation? Can you then give a relationship and, say this year, this is likely the solution, this much capacity and say therefore that is the threshold year that we are looking at and then down the road five more years there is a similar sort of thing happening? Can we then see a translation in that sort of a fashion that says in a series of lines out for 20, 25 years that this would be the best guess you could possibly give?

Mr. Beatty: Yes, at any point in time, given the current load forecast, the then current forecast, we do have an estimate, a most probable additional capacity required. Recognizing load forecast is prepared with a range, a range that the upper limits of which and lower limits have high probability. Recognizing that forecasts can change as we get additional information, as we draw closer, we are interested therefore to protect all our options. Whether that is a large plant or a small plant, that is what we are doing at the moment.

Mr. Taylor: Will you be presenting later then in this presentation or in subsequent ones, a sheet detailing those sorts of fits that you expect or would feel most comfortable with in recommending to your board as the way Hydro would want to go in the couple of decades?

* (1025)

Mr. Beatty: At the moment our base case, the option that is built into our integrated financial forecast is Conawapa for '99. Although under slightly different assumptions, it comes up Wuskwatim as the most economic plant. I am saying that the economics of those plants at the moment, given available current information, are very close. If we got a significant change in the load forecast, for example, next spring, next June, it could conceivably make a difference. If there were some major new uncertain load that is not factored in at the moment, that could make a difference immediately. But I think—does that explanation suffice, or is there more specific information that would be wanted?

Mr. Taylor: Yes, I would, Mr. Beatty, like more information. The solution we are looking at for the immediate capacity shortfall forecasted for the late 1990s is tending toward Conawapa from what you are saying. You are saying though, in the back of your mind is Wuskwatim. I can remember getting a briefing from a very senior Government official about three, four years ago that also said the same thing, and maybe had a slight push towards Wuskwatim at that time. What I would like to know is, in that there are very different generating capacities between the two stations—

Mr. Beatty: Absolutely.

Mr. Taylor: —which way, okay?

Mr. Beatty: I can only say that given the assumptions at the moment, our estimates at the moment, the most realistic estimates we can prepare that the two are very close at this moment. We have to make a selection for purposes of our integrated financial forecast which is a very important strategic document, and that is Conawapa. But as I say, and I recognize I am repeating myself, a change in some major element of the load forecast affecting the forecast seriously to, for example, drop it significantly could turn the most economic option to Wuskwatim. But we are watching this very closely. We are protecting against both options in what we do.

Mr. Taylor: Mr. Chairperson, given the very different generating potentials of the two stations—if I understand what you are saying, Mr. Beatty—it sounds like you are sort of on the point of making a decision and hopping one way or the other. But it would appear, in all fairness, that maybe there is a little bit of a quandary, which to go to, the larger capacity of Conawapa or back off and drop down to a smaller capacity station like Wuskwatim. I wonder what is the big thing that has the corporation in that quandary and is trying to make that sort of decision. We know there are obvious differences between the two stations in other ways. But can you share with us at this time what it is that has you at that point? If not, will you be able to bring it to this committee in this Session?

Mr. Beatty: No, there is really no change I think in the last period of time, number of years, in the basic factors here. These two options have been very close for some time, and we have continued to protect them, depending on your view, your particular assessment of particular assumptions, you can make a stronger case one way or the other. We have selected our base case as Conawapa.

* (1030)

Mr. Taylor: Just to follow up, in looking at Wuskwatim and it being a close competitor, as you say in coming to a decision, was the additional potential generating capacity out of the two thermal stations coupled with Wuskwatim or is that regarded as not part of adjoining and looking at total capacity as an aside in both cases?

Mr. Beatty: The possibility of extending the life of the thermal plants, as we mentioned on Tuesday, is being investigated and that, depending on changes in the load forecast that any changes that we might have in the load forecast, they combine with a confidence in our ability at a reasonable cost to extend the life of the thermal plants could favour the smaller plant.

Mr. Taylor: In looking at the Wuskwatim plant as an option in particular, was there or have there been yet—and I know you are undertaking environmental work shortly on both plants—any warning signs to you to date as to the likely greater environmental sensitivity at the Wuskwatim plant? And has that been part of deliberations at the corporate level today?

Mr. Beatty: I guess we will not really know until we have done these environmental studies, but perhaps

there are potentially greater environmental concerns on the Burntwood than there was on the Wuskwatim plant. We will not know. We are talking about extremely large dollars here in terms of the outcomes we choose and we have to be very confident before we eliminate any option. Management is not about to change its view on that until we have more information.

Mr. Taylor: I will ask question on the forecasting. One of the factors that is in your roughly 150 components, it is very large in industries and Winnipeg Hydro. In dealing with the forecasts, is there any looking at pulling of additional power out of any of the city's facilities and in particular relating to what involvement there might have been in the looking at having a new thermal generating station in the city itself.

Mr. Beatty: Shortly put, no. But I would ask Murray Fraser to comment on that question.

Mr. Fraser: The degree to which we depend on their plants to provide energy into the integrated Manitoba system is agreed during the planning process.

Mr. Taylor: If I could follow up, Mr. Chairperson, to Mr. Fraser. The point then I am looking for is is there additional capacity available out of those older City of Winnipeg plants that would be of benefit to Manitoba Hydro and are you working along those lines and, second, part B would be is, has there been any work with Manitoba Hydro vis-a-vis a new thermal generating station in Winnipeg itself?

Mr. Fraser: We have discussed with them the possibility of redevelopment of the Winnipeg River plants, our own as well as the Winnipeg plants. We have not discussed an additional thermal plant in the city to date. What we have been talking about up until this point is only the maintenance of the existing thermal capacity that we have on the system. It is not expanding.

Mr. Storie: Mr. Chairperson, a couple of questions to Mr. Adams to begin with. I believe he said that the load growth forecast for the next 10 years is estimated to be somewhere in the neighbourhood of 2.3 percent. That is the current estimate. I guess the question is what domestic factors—and I am not talking about large scale projects—could be implemented? What things could happen in the next six months, 12 months that would make a significant change to that load growth factor? It seems to me that we had estimated load growth at somewhere in the range of 2.6 percent. It is now at 2.3 percent. What smaller factors could account for that change and is it likely or possible that load growth could change domestically in a reasonably short period of time?

Mr. Adams: It is not likely that there will be dramatic changes in the load growth in short periods of time. The sort of thing that can is, we find there is a fairly high degree of price elasticity in that if the price goes up, the consumption goes down. One of the problems that we do have is in dealing with percentages, in that the percentage is often sensitive to where you are starting from. So if you are coming off a cold year, the

percentage is down; if you are coming off a warm year, the percentage is up. We do try to account for that by weather normalizing all the figures. Our experience over the last eight or nine years is that the long-range forecast does not change very much, although various components of it do. That is one of the reasons we look at it each year.

Mr. Storie: Mr. Chairman, I gather you would agree that the forecasts of five years ago have not changed too dramatically, that in fact the 10-year forecast from 1984 or 1985 has not changed too dramatically to the present day?

Mr. Adams: The forecast we made in 1984 for consumption in the period 1997-98 is almost identical to the forecast that we are making today.

Mr. Storie: Moving on then, so we have a forecast of 2.3 percent growth. There is the possibility that will fluctuate. Perhaps we will have an exceptionally cold winter this year which would affect on an average, only minimally, but would affect the load growth in a positive way in that it would increase. Mr. Fraser and Mr. Beatty referenced the fact that the projections did not include any significant additional power user, some heavy power user, whether it be in an energy intensive industry or an additional sale. I am wondering what magnitude of sale or energy intensive use would be required to move up the construction date, the current construction date of the Conawapa Generating Station? What is the magnitude that sparks that change?

* (1040)

Mr. Adams: I would like to clarify one point. Included in the forecast there is an allowance for some additional major industrial capacity. In effect, we are assuming that major industrial customers over the next 10 years will increase their consumption by the same amount as they have increased it over the last 10 years. We do not include anything of the size of an aluminum smelter. As to the magnitude of the load that might accelerate the date for the next generation, I think that is best handled by Mr. Fraser.

Mr. Fraser: One way we could look at that is if we could see what the load growth anticipated per year would be. I think from memory it is in the neighborhood of 100 megawatts. So that what you could say is if we had an additional load over forecast of 100 megawatts, that would shift the date by a year.

Mr. Storie: Mr Chairperson, if I am reading you correctly, then if an aluminum smelter was to use 400 megawatts or if we were to achieve a sale of 400 megawatts firm power a year, that would in effect advance the project for a year?

Mr. Fraser: It would depend on the timing. If it were to come just at the time that a plant were required, yes, you are correct.

Mr. Storie: So it would depend on what surplus existed in the system?

Mr. Fraser: Exactly, yes.

Mr. Storie: A question to the Minister, I am assuming that if one of these energy-intensive projects was to come about, that if in fact we did get an aluminum smelter, if we did have a major renovation of the Manfor complex which required an energy-intensive process, if we achieved a sale of some magnitude to Ontario or Saskatchewan or Upper Mississippi, that it would require an earlier start-up of Conawapa. What consideration has been given to the costs of delaying the start-up of Conawapa, even though we anticipate one of those projects coming to fruition?

Hon. Harold Neufeld (Minister responsible for Hydro): Well, I do not think you can consider accelerating or advancing the project the size of Conawapa simply because you think that a later start date will be more expensive. We have no way of knowing what the future costs will be, although there are estimates that Hydro has and are preparing. But the increased costs are probably close to the interest rate which would be charged and may be somewhat less, so I do not think we can consider advancing Conawapa simply because a later start date would be more expensive. I do not think that would be prudent.

Mr. Storie: I agree. I was not suggesting that was the case. I was asking whether if you delayed it, if you had moved past, there must be a point of no return at which time Manitoba Hydro will not have sufficient power because of the length of time that is required to bring new generation on stream, where in fact if a project were to go ahead it would be extremely expensive for Manitoba Hydro. Is that not correct?

Mr. Neufeld: Yes, it is correct that a project is expensive. I think we should say first of all, we should make clear that the Government does not interfere with Manitoba Hydro's forecasts and does not interfere with their plan for new generation. We ask only that they examine all alternatives and come up with a recommendation to the Government when that time comes, when they have examined all the alternatives.

Mr. Storie: Mr. Chairperson, No. 1, the Minister did not answer the question and No. 2, while I accept that this Minister and Governments generally do not interfere with the forecasts of Manitoba Hydro, the Government does have considerable control, if not ultimate control over whether new projects, energy-intensive projects, proceed in the province; that the Government does control the agenda when it comes to whether an Alumax plant is here or whether we have a major forestry complex, or whether we have a major sale. The Government does have control over that. I guess the question is have you given up on that? Have you given up on the potential for those kinds of projects? Are you saying that the economics of those are not good for Manitoba?

Mr. Neufeld: The quick answer to that would be no. Of course we are examining areas where we might expand industry in Manitoba be it energy intensive or not energy intensive. Yes, we are looking forward to

negotiating more sales but there has to be a customer available before you can negotiate a new sale. The sales have to be negotiated at a price that will allow the corporation to make a profit. As far as energy-intensive industries are concerned the same would apply. We are examining industries that may wish to locate in Manitoba. We will continue to but we have to first find someone that finds Manitoba the preferable place to locate.

Mr. Ransom: Perhaps I could just point out that the sequence, the decision-making time line is quite tight. If there is to be a load such as Alumax to come on in '92 or '93 and we are presently looking at next generation at '99, then there is a period of time where there are energy shortages and we will have to proceed quite quickly if that happens. That is one of the reasons why we are attempting to proceed as quickly as we can to decision-making.

Mr. Storie: Which leads me to my next question to the Minister. The signals that we heard from Mr. Ransom when he was appointed, I think were quite clear, that he was putting new hydro development on hold. The signals that we have seen from the Minister are quite clear. I think—and actions speak louder than words—that there has been very little initiative shown when it comes to pursuing extra-provincial sales, whether it is to Ontario or to NSP, or perhaps to pursuing energy-intensive industries. I guess the question I would like to ask is whether the Minister has involved himself at all in the pursuit of extra-provincial sales which have been extremely lucrative? We have heard the Chief Executive Officer, the President of Manitoba, indicate that is the fact. I think all rational analysis of sales like Northern States Power or the Ontario sale of 200 megawatts would say that they are beneficial. Is the Minister pursuing those kinds of sales in an active way?

Mr. Neufeld: The Manitoba Energy Authority has not in any way reduced its efforts in pursuing sales. I think Mr. Storie will understand that it is not like a vacuum cleaner salesman going door to door. We have to locate the customers and they must be willing to purchase and we must have available the energy to sell. We must have it at a price that they are prepared to buy it at.

Mr. Storie: I recognize that. I do not know about the analogy of a vacuum cleaner salesman. I would like to think that somehow the Minister is a salesman for Manitoba Hydro. I guess my question is perhaps to the Minister and the Chairman of Manitoba. When the 200 megawatt sale to Ontario was signed, there was an agreement to continue to negotiate a larger sale. Has the Minister, has the Chairman of Manitoba Hydro contacted Mr. Franklin, the Chairman of Ontario Hydro? Have they moved in that direct way to pursue those kinds of things?

* (1050)

Mr. Neufeld: I have not personally been in contact with Mr. Franklin of Ontario Hydro, no. The Manitoba Energy Authority people are continuing their search for customers for Manitoba Hydro as they have done in the past.

Mr. Ransom: From a policy perspective, what we are attempting to do is to preserve as many options as we can at the moment. We are looking potentially at a number of rather heavy users of power which would change our plans significantly from what is dictated by the domestic load growth. We do not wish to pursue sales that would cause the advancement of the plan.

We are basing our primary planning on domestic load growth, and if included in domestic load growth should be 300 or 400 megawatts for an aluminum plant, then clearly that is going to change our decision-making. We are not out attempting to make a large sale that would result in the construction of another plant.

At this point in time there simply are too many uncertainties about what is the best course of action from an economic point of view. There simply are too many uncertainties to proceed on that basis. All of the negotiations that were under way at the time of the change in Government have been pursued on the same basis that they were being pursued before.

As we offered previously, we can have Mr. Derry come to the table and the Honourable Members of the committee can ask Mr. Derry about how those negotiations have proceeded and he can give you the details.

Mr. Storie: I think Mr. Ransom's comments are symptomatic of the problem, that there is no leadership in Manitoba Hydro in the Chairman's role or in the ministerial role.

I have not heard any evidence and I would be interested to see evidence that would suggest that the pursuit of an export sale to, for example Northern States Power, Ontario, was anything but good for Manitoba and Manitoba Hydro and Manitoba ratepayers. We have heard exactly the contrary from the President of Manitoba Hydro, and I fail to see how any Government can misuse our natural resources in that way.

Governments across the country—the Quebec example I think is illustrative—have said we have a natural resource which we intend to export where we can in a profitable way, and why would we not be pursuing that? The suggestion that somehow we become hidebound and not outward thinking when it comes to a resource that important, I think, is contrary to the wishes of Manitoba, who see hydro resources as our oil and gas as our potential.

It concerns me that the Minister seems prepared to take a back seat, to take no active role, unlike the previous Ministers and certainly the previous Chairman of the Manitoba Energy Authority, who took a very active role in pursuing sales that were beneficial.

Are we saying that we have nothing to sell? Is that what we are saying, to the Minister?

Mr. Neufeld: Your question then is, do we have anything to sell? At the present time, if we are to look at the cost of Conawapa, then we have to get a price that is greater than the Northern States Power sale. At this point in time I am not sure there are any buyers out there for the price that we would have to charge for

Conawapa power. Mr. Ransom may have something to add to that.

Mr. Ransom: The only comment from a policy point of view, because the analysis of the situation comes from management, in our approach to managing Manitoba Hydro we see it as the Hydro Board's responsibility to provide policy direction and not to provide the day-to-day management of Hydro.

I think it should be understood that there is quite a difference between the decision that was faced by Hydro a few years ago as to whether to proceed with Limestone or not, because there were already a lot of sunk costs and the line was basically in place for bringing the power south. The line was in place to export the power to the United States. We are now faced with a situation where, if we are looking at Conawapa, the combination of the dam and the line to Winnipeg alone is close to \$5 billion. I do not think that the people of Manitoba would regard it as prudent for us to rush into that type of decision making when there is potentially another option, when the management at Manitoba Hydro are telling us there is potentially another option that could result in power being provided more cheaply to Manitobans. We do not want to get into another situation where the political masters control the direction of Manitoba Hydro.

I see it as my responsibility to pursue all of the possibilities here and do what is—we are pursuing a low power cost is what we are pursuing. If at the same time we can bring about development in Manitoba by encouraging development here, whether it is an Alumar or whether it is some other intensive user, then by all means. We are pursuing those situations vigorously but, right at the moment with respect to export sales, what we are doing is preserving our options. That is only likely to be a period of perhaps a year to 18 months maybe until the situation is significantly clearer than it is today, and then the Government and Hydro will be in a better position to know what direction they should pursue.

Mr. Neufeld: As new generation comes on stream, there is always an excess amount of energy generated, and it is at that point in time that sales should be made in our view. That would be in keeping with what Mr. Ransom said, that we want to deliver secure power to Manitobans at the lowest possible rate.

Mr. Storie: Mr. Chairman, Mr. Ransom's caution is duly noted, but I think there is also an unfortunate lack of vision and a lack of direction coming from the Minister and perhaps the Government. Mr. Ransom talked about the different circumstances that came about with respect to the decision to proceed with Limestone. We have a billion dollar profit from that sale, certainly in that ball park. The ratepayers are benefiting from that sale. I guess the question is, can Mr. Ransom both pursue vigorously extraprovincial sales and the establishment of energy-intensive users and be cautious at the same time, or not be cautious, but preserve his options. There does not seem to be any feeling on the part of the Minister in particular that the kinds of sales that were negotiated are worthwhile. I am wondering what leads him to that conclusion.

Mr. Neufeld: Before we put on the record that there is a billion dollars in profit on the sale to Northern States Power, let us deal with the arithmetic of arriving at numbers such as that. Those are numbers based on inflation into the future, based on prices you think you may get in the future, based on the escalation of inflation starting in 1993 to 2005. The present day numbers and present day profit would be probably closer to \$100 million than to a billion. If you do not understand how those numbers are arrived at, you can come to my office and I will show you.

* (1100)

Mr. Ransom: From a policy point of view, Mr. Chairman, I should point out to the committee, as I am the chairman of the Electrical Energy Marketing Committee established under the Manitoba Energy Authority, at the first meeting that I had with that committee I asked if there was a written statement of the guidelines, the terms of reference, that the committee was using to guide itself in pursuing sales. There were no guidelines written down so I asked the committee, I said, will you please, to the best of your ability, write down what guidelines you were pursuing. Interesting that one of the statements that the committee came back with was that the recent focus has been on sale prospects that alone or in combination do not advance the required in-service date for the next plant. I see that position as being entirely consistent with the position that I have just outlined to the committee.

Mr. Storie: Mr. Chairperson, I would not want the impression to be left that the goals as seen by the committee were somehow to move with Wuskwatim, as opposed to Conawapa. I think the decision was at the policy level, because of the environmental problems in Wuskwatim, to see Conawapa as a preferred option.

I am still perplexed about how we are going to preserve our options, not make any decisions, and pursue the power sales that exist. I do not know whether the Minister is interested in a firm power sale to Ontario, but I would like to know whether in fact he has called or met or will meet? Is he pursuing in any active way, or are we sitting on our options?

Mr. Neufeld: I have already indicated that I have not spoken to Mr. Franklin of Ontario Hydro, and I have not spoken to any of the principals of Northern States Power. I do not think it is the Minister's job to go out and sell the power himself. I think that is the task that has been given to the Manitoba Energy Authority and to Manitoba Hydro, and I am satisfied that they are pursuing whatever options they have, and the Government is encouraging them to keep their options open.

Mr. Ransom: Mr. Chairman, I could ask Mr. Derry to speak to the committee on the progress of various sales, if it is the wish of the committee to have the update on those sales.

Mr. Chairman: Is it the will of the committee to hear from Mr. Derry at this time?

Mr. Storie: Mr. Chairman, on a point of order.

Mr. Chairman: On a point of order.

Mr. Storie: Mr. Chairperson, I do not know that the committee needs to hear a diary of the negotiations. What we need to know is that either the chairman of Manitoba Hydro or the chairman of MEA or the Minister is really interested in concluding a sale. That is what we need to know.

Hon. Donald Orchard (Minister of Health): But you do not want to hear about the sales we are working on?

Mr. Storie: What we have heard -(Interjection)- Mr. Chairperson, the Member for Pembina says you do not want to hear . . .

Mr. Chairman: On the point of order, please.

Mr. Storie: Mr. Chairperson, the committee I think has many more questions about whether there is any leadership. We have heard what I think are very contradictory statements from the chairman of Manitoba Hydro, the chairman of MEA. They are not pursuing their options, yet they are vigorously pursuing sales. We need to get a straight answer from the Minister. Is he seriously interested in a sale of power to Ontario, to Northern States, to any other group which would see the advancement of Conawapa if it was a good deal for Manitoba?

Mr. Chairman: I thank the Honourable Member on the point of order. I believe it is the will of the committee to hear Mr. Derry at this time, and I would ask Mr. Derry to come to the table.

Mr. Gary Doer (Leader of the Second Opposition): Mr. Chairman, on a point of order.

Mr. Chairman: On a point of order, Mr. Doer.

Mr. Doer: I certainly respect the competence of the Manitoba Hydro staff on negotiations and would want to hear them at a stage in this committee hearing. I do think it is important for this committee. I believe that there is also the issue of the Government priorities and the leadership and that is the issue we are pursuing. I recommend that we deal with the priorities of the Government through the elected and responsible Minister first and then, if we could get the operational components which I am sure is very competent and the Hydro staff are extremely competent, we have all a degree of confidence in their competence in this area.

Mr. Chairman: I would again thank the Honourable Members for their input. I believe it is the will of the committee to hear from Mr. Derry at this time, and I would invite him to come to the table.

Some Honourable Members: Oh, oh!

Mr. Chairman: Order, please. We have at the table Mr. Derry and Mr. Thompson to provide information

on this subject, but I would call on Mr. Derry at this time. Any questions to Mr. Derry?

Mr. Storie: I have a question to Mr. Derry. Did the MEA, the negotiating team, meet with the Upper Mississippi Power Group in January and February of this year?

Mr. Art Derry (Vice President, Business Development): No.

Mr. Storie: When was the last time that one of the negotiating members met with any of the representatives from that power group?

Mr. Derry: In July of this year, July 1988.

Mr. Storie: To Mr. Derry, were there not meetings in late 1987?

Mr. Derry: There was a meeting in December of 1987.

Mr. Herold Driedger (Niakwa): I will ask some questions here as well, although I was hoping to have my questions relating more to Mr. Beatty. I thought this was a presentation as opposed to questions and answers. So I will have some questions for Mr. Beatty and the Minister as well.

With respect to this particular negotiation, could you identify essentially what the market area is that you are actually looking at? Is that within the purview of these two people right now who we are questioning? What is the size of the market area that Manitoba Hydro can actually legitimately hope to invade where there is a cost benefit to export sales?

Mr. Chairman: On a point of order, Mr. Storie.

Mr. Storie: I thought that Mr. Derry, in particular, was here to discuss the negotiations, not the marketing strategy of Manitoba Hydro. I do not know, perhaps I am mistaken. But I am not sure that he was the person who deals with the market export.

Mr. Chairman: On the point of order, Mr. Orchard.

Mr. Orchard: On the same point of order, not that I want to defend my honourable friend from Niakwa because he is quite capable of doing that but, if you are pursuing negotiations, you have to know how large an area you can successfully pursue sales and I believe that was the nature of the question. If that is offensive to the Member for Flin Flon (Mr. Storie), then maybe he ought to absent himself while the questions go on for legitimate information.

Mr. Chairman: I thank the Honourable Members for their input. I believe that the Members of the committee are pursuing some information and I feel it is proper. Related to the question of Mr. Driedger, Mr. Derry.

Mr. Derry: The map area is 25,000 megawatts approximately. That is not the exact number, but I could get the exact number, in that area. We have Ontario

Hydro, which would be about 1,500 megawatts in the western system, and Saskatchewan Power which is about another 2,000 or 2,500 megawatts. That is their total generation there that they have.

Mr. Herold Driedger: That is actually not precisely the direction I wanted to go in because, if you want to make a sale, you have to have, as the Minister indicated before, a buyer. If there are competing sources of energy, it determines very much the kind of pricing that you can get for the energy that you are attempting to sell.

The size of the market area, as you said, is 25,000 megawatts? Now what is the kind of competition that you are facing in this? If you are looking at Saskatchewan, I understand that they have thermal generation competition. If you are looking to the United States, again, we have a market area that is not as industrially developed south of us as the market area to the south of Hydro Quebec. Am I correct in that assumption?

Mr. Derry: That is correct.

Mr. Herold Driedger: All right then. In that case, basically we are not going to be able to achieve the same kind of revenues from the sale to our market area as Quebec Hydro can to theirs. Is that correct?

Mr. Derry: That is correct. Hydro Quebec is selling into a market that burns oil and higher cost coal. We were selling into a market that burns lignite coal.

Mr. Herold Driedger: Another area that was referenced by either the chairman or the previous question of Ontario, and I think you mentioned as well western Ontario, the only market we can legitimately invade to the east of us is northwestern Ontario or can you actually conceivably—I use that word advisedly—think of exporting energy to, say, southern Ontario?

Mr. Derry: At the present time, the eastern and western Ontario systems are interconnected with two 230 kV lines which have a capability of about 300 megawatts transferred between the two systems. We are interconnected with Ontario's western system with two 230 kV lines which have about a 400-megawatt interconnection capability. Under some options, there is a possibility that we could send power from Manitoba down into southern Ontario but under those restraints of transmission capability.

Mr. Herold Driedger: So essentially what you are saying is that, if Manitoba Hydro was to advance the construction of Conawapa for the purposes of making export sales, you would have to have in place not only—if it is south, you would have to have the transmission line in place south; if you are going to be transmitting east, you are going to have a new transmission line in place necessary? Is that correct?

Mr. Derry: If I take the question that we are going to advance—I think this is what you said.

Mr. Herold Driedger: I am not suggesting that you will. I am just simply asking, if you have a sale, it is

going to cause the advancement of the construction, which I believe is a direction that the other questions were moving in. You need export sales to advance construction, that this is a decision that was made ahead of time that it is a good thing.

Mr. Derry: We can make a sale and also make a diversity exchange at the same time that does not advance a plant. However, we would more than likely like to have a line as well at that point in time. It would be energy that we would want to ship south.

Mr. Herold Driedger: Just a point of clarification, I understood that if Conawapa was to be built part of the infrastructure necessary, if I understand Mr. Ransom correctly, is that you would have to have a new line built. You have got capacity but you cannot ship it. Am I incorrect on that?

Mr. Derry: If we built it for sale in advancement over Manitoba's loads, we would need a new transmission line.

Mr. Herold Driedger: That is all I am trying to determine. If the construction is export driven, you need a line, whether the export sale is east or south. Is that correct?

Mr. Derry: That is correct.

* (1110)

Mr. Herold Driedger: Specifically, this was not the case with the Limestone sale. The Limestone sale essentially had sufficient transmission capacity in place, that you could actually make the sale without any new infrastructure. Is that correct?

Mr. Derry: Mr. Chairman, that is correct.

Mr. Orchard: Just on a point of clarification, with Conawapa, is it not—I did not want the impression to be left that only for export sales was a new DC line required. If Conawapa is built "period" you have to parallel the line, is that not the understanding?

Mr. Derry: With Conawapa we will require what is called Bi-pole 3 from the North into Winnipeg. So there is a new line required in Manitoba of course.

Mr. Herold Driedger: I have some other questions along the same particular line that I wish to come back to later.

Mr. Taylor: I would like to ask Mr. Derry some questions in regard to the actual chronology of the negotiations with the Upper Mississippi Power Group. My understanding is from this briefing note that we have got here is that the deal was concluded in February '86. Then there was subsequent negotiation for at least one other component which was a 200-megawatt diversity exchange with the Northern States, and that there was a separate signing of that component in November '87. I wanted to know, first of all, what other things took place between the signing of the original

MOU and the end of '87? What else was going on at that time? What was the tone of the communications that you had between the Upper Mississippi Power Group and Manitoba Hydro?

Mr. Derry: From the 1986 period we had, if you look down in September of 1987, Northern States Power requested that they have more time to consider the sale. We granted them, us as well as the UMPG, other utilities that were in the package, granted Northern States Power until June of this year to decide whether they wanted to be in the large sale of 550 megawatts and 300 megawatts of diversity. I would like to mention that the 200 megawatt of diversity with Northern States Power by themselves, as part of this package, that would allow us to not have to advance the next plant, because the diversity cancels out the sale portion.

Mr. Taylor: Could Mr. Derry please explain in a little more detail that last point? That seems rather significant.

Mr. Derry: Mr. Chairman, maybe I should start with the diversity exchange. A diversity exchange is an exchange between a utility, like ourselves in Manitoba, who has the peak in the wintertime and the southern utilities who have their peak in the summertime. Under this condition we would share the generation that is already installed on our systems. In other words, we have excess in the summer, they have excess in the wintertime. Okay?

So that exchange then would allow us, you might say, if we took it by itself, to add 500 megawatts to our system, like a generating plant, which then would say we do not have to add any new generation on our system until we use up that diversity. But if you turn around now and make a sale, and make a package out of it of 500 megawatts, then they have cancelled each other out. In other words, we have the capability in the summertime to supply the 500 megawatts but in the wintertime when we did not have it, we now have it because they are supplying it. They are supplying us with 500 megawatts so they cancel each other out in the wintertime.

Mr. Taylor: Are you saying then that, by the agreement which was signed on November 16, '87 which was the 200 megawatt diversity exchange, in effect in November '87 there was then no longer a need for new generating capacity on the part of Manitoba Hydro? Is that what I am hearing you say?

Mr. Derry: As I noted earlier, the 200 megawatts diversity was part of the package of the UMPG group and we wanted—the 200 plus the 300 megawatts of the UMPG cancelled out the 550 and it was understood in our talks with these people. Because Northern States is a larger utility, they wanted to have 200 megawatts by themselves in a separate agreement, which we agreed to. They would take part of the other 300 megawatts diversity as well with the UMPG people.

Mr. Taylor: Just to get to the salient point though, Mr. Chairperson, you have got two diversity aspects to an

agreement with the Upper Mississippi Power Group, a 300 and a separate 200 with Northern States, one of the component groups. The question is, as that totals 500—we were originally talking a 550-megawatt sale, I understood—is that with the summation of those two diversity agreements, are you saying that therefore that postponed the requirement for new generating capacity on the part of Manitoba Hydro?

Mr. Derry: That package together would result in no new generation having to be put on for that package. The generation would be required for Manitoba load.

Mr. Taylor: Okay. Given that point on the table then, Mr. Chairperson, and Mr. Derry is that we really had a maximizing of the efficiency of both systems it would sound like, as opposed to having to finance and build new capacity. Where did that leave you as negotiators at that point? What further work did you feel that you had to do at this point on this deal? Just wait for the conclusion by the Americans as individual components of the group, or the group as a whole to come to a final yes, is that where you were at after November '87.

Mr. Derry: That is correct. We had to wait for, like I said before, the one year that we gave to Northern States Power.

Mr. Taylor: Mr. Derry, did you feel that you had anything else that you had to do as a salesperson and negotiator on the part of Manitoba Hydro in those intervening months? Was there anything else that you could have or should have done during that intervening—it looks about a six- to eight-month period, to have assured the completion of this arrangement?

Mr. Derry: There were no further negotiations to be done. However, we did work on having the agreements prepared to be ready to sign the summer of 1988, and we worked on that during that winter period.

Mr. Taylor: Mr. Derry, what in your view, as being very intimate with this whole development of this arrangement, what was the basic reason why the agreement came apart at the review date this summer?

Mr. Derry: We gave Northern States Power one year to look at their options. They studied their options. They came back to us with the indication they did not want to participate in such a large sale plus the 500-kV line. However, they threw in an alternative. They were not going to just back off the whole thing. The alternative was that we would go for a smaller line, a 230-kV line that did not have as big an investment in it, and look at other sale and diversity possibilities.

Mr. Taylor: Before getting into that smaller sale, what were the changed circumstances, technology, other influences that were brought to bear on a change after these long negotiations had taken place? What were the actual reasons offered, or were you given reasons? If you were given reasons, what were the reasons that those various American power companies said no to this agreement, which was originally negotiated in February '86?

Mr. Derry: The other options, and this is from my own point of view, that I think they were looking at were peaking gas turbines which can be put in within a couple of years, these types of thing, fluidized bed boiler plants which can be built in about six years—

Mr. Taylor: I did not hear that last . . .

* (1120)

Mr. Derry: Fluidized bed boiler plants. It is a new technology. Indications from NSP were that they could put a plant in service within six to seven years.

Mr. Taylor: With the comment that came back from the Upper Mississippi Power Group that, notwithstanding they did not want as a group to proceed with the original larger deal and they offered the idea of a 230 kV interconnect instead, what is the state of our negotiations on this?

Mr. Derry: As indicated in the information I passed out, we first discussed this opportunity at the July meeting. We set up a group to do transmission planning on this new interconnection and, at that same meeting, we had decided that we would have the first negotiating meeting in October. Now, if you look at what has been passed out, there is a meeting planned for October 19 in Minneapolis.

Mr. Taylor: I want to find out from Mr. Derry if this is very speculative or this set of negotiations which you are about to continue here on the 19th is something that is rather more concrete. What is your view of it at this time?

Mr. Derry: The 230 kV interconnection has an in-service date of '94 or '95, and it is of benefit in the Fargo-Moorhead area. There are some problems. This is one of the alternatives that NSP has, is to have an interconnection with us or build an interconnection from the coal fields in North Dakota. So I can only tell you, maybe it has a 50-50 chance. Again, we are competing against another alternative.

Mr. Taylor: Mr. Derry, we were earlier given a presentation on forecasting and different demand years for capacity. From your viewpoint, involving negotiation and sales, how big an export sale is necessary before there should be a go-ahead with Conawapa?

Mr. Derry: In answer to that question, the sales we were working on did not advance any plant. We were trying to optimize the use of the system by making a sale diversity exchange.

Mr. Taylor: Yes, I understood that quite clearly from Mr. Derry. The question is that, given the situation, it is a further interconnect that is being talked about here. I understand that it is a diversity concept. Still, there has been much talk around this table the last two times we got together about Conawapa, its need, and I for one am very concerned about whether the need is there and the payment of the necessary interest payment that will be quite extensive and will impact Manitobans.

What sort of scale of export sales—now we are not talking diversity, we are talking sales, net export of hydro power—justifies the proceeding of that major project?

Mr. Derry: Mr. Thompson will answer that question.

Mr. Paul Thompson (Division Manager-Marketing):

I do not know if I can answer it. It is difficult to answer because, first, the price that you get for the sale will dictate whether it is worth doing or not. But as was indicated earlier, our own load growth is approximately 100 megawatts a year. If on our own we were planning to put a plant, say Conawapa, in in 1999, then theoretically you could get a sale as low as 100 megawatts which might make it economical to put it in a year earlier, in the '98 year. It is theoretically possible. It would depend on the price.

Mr. Orchard: On these export arrangements, it is interesting to read out of the March 31, 1987 Annual Report the fact that the Government in February 1986 indicates that three export arrangements were signed and announced. First was with the Upper Mississippi Power Group, a group of six American utilities for 550 megawatts of firm power over 16 years starting in 1996. I guess, of the three export arrangements that were indicated in the '87 report, I guess the logical question, when do these arrangements become reality, of the three of them?

Mr. Derry: Can I have them in order, please? Which one do you want?

Mr. Orchard: Going from page 10 of the Annual Report, March 31, '87. I presume it is the Upper Mississippi Power Group and then the diversity exchange and then the Northern States 200 megawatt are the three.

Mr. Derry: We know about UMPG. The second one, the Northern States 200 megawatt summer sale from 1993-96 was signed on the 25th day of February, 1986. The Northern States Power 200 megawatt seasonal diversity exchange was signed in November 1987.

Mr. Orchard: The largest sale, the 550 megawatts of firm power over 16 years, the Upper Mississippi Power Group, that one is no longer even being negotiated, I take it?

Mr. Derry: Those amounts are not being negotiated. I cannot say whether it will come back to some combination on this 230 kV line.

Mr. Orchard: Mr. Chairman, to Mr. Beatty, presumably senior management of Manitoba Hydro have been involved in these negotiations as well? Is that correct?

Mr. Beatty: Yes, Mr. Derry and Mr. Thompson were our management representatives assisting the Manitoba Energy Authority, which is mandated to take the lead in export sales. Yes.

Mr. Orchard: Particularly with regard to the Upper Mississippi Power Group, the allegation was made by

the Member for Flin Flon, Mr. Storie, that the negotiations have been bungled. Would you concur that your staff and representatives of Manitoba Hydro bungled negotiations?

Mr. Chairman: Order, please. Mr. Storie, on a point of order.

Mr. Storie: I never suggested for a moment that anyone at Manitoba Hydro, anyone at the Manitoba Energy Authority had bungled negotiations. What I said and what has been shown today clearly is that they have received no direction, no direction to renegotiate, no direction to try and solve some of the problems, the snags in negotiations. What I said was that the Minister responsible and the chairman of the Manitoba Energy Authority have bungled negotiations. They have blown an opportunity, refused to get involved.

I reject categorically what the Member for Pembina (Mr. Orchard) is suggesting. I did not intend it nor do I want it to be left on the record that it should reflect on anybody from Manitoba Hydro. They have done an exceptionally professional job in all instances, including incidentally the negotiations for the Limestone sale which the Conservatives opposed, said it would not make a profit, it would create sky-rocketing hydro rates, none of which came to pass. They have been wrong historically. The problem is not with Manitoba Hydro, it is with the Minister responsible.

* (1130)

Mr. Chairman: On the point of order, Mr. Doer.

Mr. Doer: I think it is customary in committees to allow the people who disagree on policy and leadership to disagree, and not to require staff of any Crown corporation to have to make judgment calls, as Mr. Orchard has requested. He knows those rules, we know those rules, and we certainly are willing to abide by them and direct our policy issues that way, not the other way.

Mr. Chairman: I thank all Honourable Members for their input. A dispute over the facts is not a point of order.

Mr. Orchard: Mr. Chairman, I am pleased with the death-bed repentance of both Members from the NDP in terms of their outrageous statements of bungling.

A question to Mr. Beatty, the Wuskwatim option is still an option being considered in the generation planning for the future by Manitoba Hydro?

Mr. Beatty: Yes, Mr. Chairman.

Mr. Orchard: Mr. Chairman, the Free Press on October 11 reports Mr. Doer as saying: "Doer said an option that came before the former NDP Cabinet a year ago to promote Wuskwatim instead of Conawapa was killed instantly due to environmental concerns." Can I ask Mr. Beatty if that decision was ever communicated to the management of Hydro?

Mr. Beatty: No, not to my knowledge.

Mr. Orchard: You mean that Mr. Doer in Cabinet is saying that an option of Wuskwatim was instantly killed by Cabinet over a year ago, that decision was never communicated to management of Hydro and discussions have continued along as if it is part of the option? That means there was some lack of communication between Mr. Eliesen and Government and senior management of Hydro. That is most interesting.

Mr. Chairman, a further question to Mr. Beatty in terms of the environmental impact studies that Hydro does, indication had been made by individuals that Manitoba Hydro does no environmental impact studies. Is that a correct assumption of Manitoba Hydro's responsibility for environmental impact studies?

Mr. Beatty: I tried to clarify our position at the beginning of proceedings today, Mr. Chairman, on that point. I think I did indicate that we certainly do environmental studies.

Mr. Orchard: A question to Mr. Beatty, the question has been posed to our Minister of Environment (Mr. Connery) in terms of whether, in dealing with alternatives before Government, i.e., Wuskwatim project, that he wants to have tabled environmental impact studies. Can I ask Mr. Beatty whether you or any of the staff ever recommended to the Hydro Board or to Mr. Eliesen that environmental studies of the Wuskwatim project or option be undertaken?

Mr. Beatty: It was certainly our plan to bring forward at the appropriate times environmental studies dealing with the Conawapa option, which included Bi-pole 3 and Wuskwatim and we have moved a pace in bringing those forward.

Mr. Orchard: As you have indicated earlier, the Wuskwatim planning was an option that even though the Cabinet killed it instantly, that was not communicated to Hydro, remained part of the future planning process for Hydro from the management standpoint. Can you indicate whether in terms of Wuskwatim a recommendation was ever made by management of Hydro yourself, for instance, to undertake the environmental studies on Wuskwatim?

Mr. Beatty: It was certainly always management's intention to carry out these studies on Wuskwatim, the environmental studies. There were changes made at various times as to the timing of the studies but there has never been any doubt about our determination to have them carried out. I have to say that I do recognize that some people would be very concerned about the environmental aspects of Wuskwatim but it has always been management's intention to bring these environmental studies for both options forward to the board and to proceed with them.

Mr. Orchard: Then is it fair to assume that because Wuskwatim was part of the planning options that when you indicate changes were made to the process, was the environmental study on Wuskwatim one of the changes that were brought to focus in terms of the planning process for Conawapa versus Wuskwatim?

Mr. Beatty: I think—I cannot recall the exact timing but I think originally we had planned to go earlier with all three environmental studies. The decision to proceed to the board, I think, originally was in the latter part of 1987 and was deferred to '88 in discussions with the chairman on timing and taking account of his views.

Mr. Orchard: Am I to conclude from that last answer that the former chairman of Hydro, Mr. Eliesen, recommended postponing an environmental study on Wuskwatim as part of the development options of Manitoba Hydro?

Mr. Beatty: Yes. In discussions it was agreed to delay timing. I believe it was November or December that we were thinking of having the board deal with that and it was agreed that it could be delayed until April on a timing basis. That was the chairman's wish and we delayed it.

Mr. Orchard: That is indeed interesting. We have a range of options being investigated by Manitoba Hydro. We wish to pursue those options and part of that pursuit, environmental impact studies are part of the requests, contrary to allegations by some individuals and those environmental studies were asked to be put off by the chairman of Hydro, Mr. Eliesen, after Cabinet, without communication to the senior management of Hydro, through Mr. Eliesen, had, as Mr. Doer said on October 11, "instantly killed Wuskwatim without communicating that to Manitoba Hydro senior management." What a tangled web we weave this morning, Mr. Chairman.

Mr. Herold Driedger: If I may just follow up. I am not ready at this moment yet to take a look at policy with respect to whether to export or not to export. If one of the options that Hydro is investigating, which is the Wuskwatim option, is in final analysis determined to be the one that will be followed, does that necessitate new transmission facilities?

* (1140)

Mr. Beatty: I am sorry, Mr. Chairman, I just missed that question.

Mr. Chairman: Could you repeat the question, Mr. Driedger?

Mr. Herold Driedger: Assuming that Hydro, the powers that be, determine that Wuskwatim, of all the options is the option to choose, does Wuskwatim require a transmission line to be added to the current system?

Mr. Beatty: Yes, it requires AC transmission, but of course that is nothing on the order of the cost of a DC line, the kind of DC line that we would have to build with conversion facilities if we went with Conawapa, but it does require some transmission, yes.

Mr. Herold Driedger: Okay. By transmission, I suppose I should make myself more clear. I am not referring just to connect it to the current system, but I am referring to a separate line right from point of source to point of use.

Mr. Beatty: No, Mr. Chairman, it does not.

Mr. Herold Driedger: Whereas Conawapa, on the other hand, in order to be used, either domestically or for export purposes, requires a separate transmission facility?

Mr. Beatty: Yes, Mr. Chairman.

Mr. Herold Driedger: All right. I am still exploring the export or not export option. Assuming that, for whatever reason—maybe I should back up a little bit. If Conawapa is a decision that is made, and once you have Conawapa on line, on stream, and you have excess capacity available for sale and the negotiations proceeds and this excess capacity is sold, when you determine your load forecasting does that load forecasting then, by virtue of the sale agreements, not get slightly skewed by the fact that, okay, you have these firm power sale commitments, because normally we are talking excess capacity, this firm power, and would this not perhaps advance later decisions, another option, to have to come on line more quickly than it would be anticipated to satisfy domestic requirements?

Mr. Beatty: Well, Mr. Chairman, every element of history of growth and demand, whether it is domestic load or a sale, export sale, affects every subsequent decision. Management has to plan on a basis of firm information. But apart from that kind of general answer, I do not think I could comment.

Mr. Herold Driedger: All right, then I will work at something else.

Back in the Sixties, a major philosophical change was made with respect to electricity development and electricity provision in Manitoba. The decision was made to abandon the thermal option, which I think was being considered, and to go North. Having gone North, I mean I think if we go back in time and take a look at all of the costs involved, the capital structure, the development, the current situation where we are now looking at the next station after Limestone—I am not sure what the numbers are for Wuskwatim—but we do know that if Conawapa is to be brought on stream in 10 years time we are looking at an investment of \$5 billion.

Has there been, just for the sake of cost-comparison, based upon domestic need and not for export sale now, a cost-benefit analysis done to perhaps re-explore the thermal option—and when I say thermal option, I do not mean just for the sake of the cheapest thermal option, but rather with fully the most up-to-date environmental controls and everything else that is listed in it—because I understand that Hydro in Ontario has done some investigation as to what their thermal option would cost with the new scrubbers and the new gasification technologies and things like that. The reason I ask this is because a thermal plant, if it was environmentally acceptable, could be located closer to market and would not require transmission capability.

Mr. Beatty: Yes, Mr. Chairman, every increment of capacity, every new increment of capacity is examined

from the point of view of all possible sources of supply and certainly including thermal plants. So that is done as a matter of course. If the question is whether or not the decision to go to the Nelson with development as opposed to the earlier plans in the Fifties, to develop with thermal generation, I do not think there has been a recent re-assessment of that decision. But it would certainly favour the Nelson, the development in the Nelson as opposed to a thermal generation route, but I do not think we have any numbers at the moment. I might ask Mr. Derry if he could comment on that one.

Mr. Derry: The only comment I would make is that we have been making sales into thermal utility areas and beating out their cost. So we do have in our simulation program, where we look out into the future for what options we would have available, and put them into this program. We do include a possibility of a new thermal plant, but it has not come up as one of the leading contenders, let us say, for the next step that we might have to make.

Mr. Herold Driedger: Would it be possible, and there is no hurry on this, to have some of these numbers provided for the committee, because I think Manitobans need to know what the alternative options might end up costing, because if we are looking at—I think the Minister referenced that we are looking at 84 mills for the cost of power out of Conawapa, to get back the costs incurred in that particular construction. I think it would be very useful, at least for ratepayers and taxpayers being able to sort of understand the situation.

Mr. Beatty: Mr. Chairman, we will have a look at what we can produce to supply additional information there. I am just not sure at this moment what we have that would supply some light on it, but I will have a look at it.

Mr. Herold Driedger: I am not looking now for the cost of the transmission line. Let us just assume, just factor in the same cost of—I do not suppose a thermal station can produce as much megawattage as Conawapa could. But if we are looking at similar generating capacity just to see—we do know that no matter what we do, environmental costs have to be borne and some of the environmental costs that we bear are much higher than others. I think it is useful to know that when a cost must be borne it is the best cost option that we want, not so much the best but also it is worth the costs that we are paying, to make certain that we do not address, cause greater environmental damage.

Mr. Beatty: It would involve estimates of fuel costs which might be a bit precarious but out that far. But I think we could provide something. Mr. Derry might again comment, please.

Mr. Derry: We could provide costs and mills per kilowatt hour. But you have to be very careful when you start comparing a thermal plant to a hydro plant, the outputs and so forth, just on a mills per kilowatt hour basis. That is why we put these options into our simulation program, to see how it fits with our system. So just to

give you these numbers, I warn you not to think that you can make a choice on the next generation.

Mr. Herold Driedger: I would not want to suggest that I would like to make a choice like that. But I think there is some degree of comparison that can be made, particularly with the environmental costs associated with either option.

With respect to your export negotiations, most of the negotiation at the moment has been made with the Southern States at this moment. Are you exploring seriously with Ontario?

* (1150)

Mr. Derry: Mr. Chairman, we are presently exploring options with Ontario Hydro which we have been doing. We signed the 200-megawatt 1998 sale in August of 1987. In that agreement it indicated we would continue negotiating on a larger sale in the range of 400 megawatts to 1,000 megawatts. We have continued this. We have had meetings. In fact we had a meeting in August of this year. We are meeting on October 27 in Toronto to talk further on these negotiations.

Mr. Herold Driedger: Are these firm power or diversity exchanges?

Mr. Derry: No, this would be a firm sale. We do not have diversity because we are both winter peakers.

Mr. Herold Driedger: Then if these particular negotiations do bear fruit then this would again be very important in advancing the Conawapa option?

Mr. Derry: The time frame that we are looking at for further sales is around the year 2001, 2002 at which time we have assumed that at that point in time we would have another plant on the Manitoba system for the Manitoba load and have this excess that you talked about. We would try to tailor our sale in that way.

Mr. Herold Driedger: With your going into these negotiations and if a decision is made, and again you are talking 2001 forward, right now we are doing forward thinking and forward negotiating and forward contracting and we need to know, I understand also from one of the first comments made by Mr. Beatty that essentially that—or it was Mr. Ransom—a decision for no go on Conawapa for 1999 in-service needs to be made—what, next year?

Mr. Beatty: Probably during the summer of next year, '89.

Mr. Herold Driedger: And a power sale would have no bearing on that particular thing? Actually what you are assuming right now in the negotiations is that you do have this kind of capacity surplus to your needs that you will be able to deliver on?

Mr. Beatty: Yes, as Mr. Derry pointed out, the negotiations centre around a contract beginning well after the date that we expect additional generation to be in place by.

Mr. Darren Praznik (Lac du Bonnet): My question is directed to Mr. Beatty, and it has to do with maximizing existing capacity in Hydro's production system. It was alluded to earlier about some additional capacity along the Winnipeg River. I was wondering if Hydro had an estimate of how many megawatts yet could be extracted from the existing dams on river.

Mr. Beatty: I will have to consult with Mr. Fraser on that point. It is not large. If I could just take a moment, Mr. Chairman.

Mr. Fraser advises me that we do not have a number but it is very small. He just reminded me that in years like the summer just past, we did not have enough water in the Winnipeg River to even use the plants. So what we are talking about there in terms of potential are really very small.

Mr. Praznik: Again a question to Mr. Beatty, the existing dams on the Winnipeg River are some of the oldest dams in the Manitoba Hydro system. Is there the possibility of making those facilities more efficient with existing water flows? What cost would be incurred in doing so?

Mr. Beatty: I believe there is some room for efficiencies. I do not have, again, the cost number. If I may consult once again with Mr. Fraser. We do not have the numbers here I am afraid, but there has been some investment in the past in a couple of plants to produce some greater efficiency. Our engineers are currently looking at a couple of others, but I do not have the numbers at the moment and neither does Mr. Fraser.

Mr. Praznik: Mr. Chairperson, I take it then the Winnipeg River option of providing any significant electrical power additions to the system is really not there, that the system on the Winnipeg River is really at its maximum now, and given current technology there is not too much upgrading that can be done on these dams?

Mr. Beatty: Taking into account the economics, that is correct.

Mr. Storie: Mr. Chairperson, a couple of issues perhaps more directed at the Minister. First, Mr. Orchard's comments have to be put in context. I am not sure that Mr. Orchard understands what he is talking about when he talks about environmental damage. I would hope he would be aware of the environmental damage that was done to the northern part of Manitoba that disrupted the lives of the people in South Indian Lake, Nelson House and those communities, which have ended up costing us or will cost us hundreds of millions of dollars in compensation payments and damage payments.

The Wuskwatim option, while it needs to be maintained as one of the options Manitoba Hydro has, is an extremely expensive option in many respects, socially not the least of which. The Cabinet did in fact indicate that was not the preferred option, and I believe the Manitoba Hydro Board, while they were continuing their review of the option of Wuskwatim, was more than

aware of our concerns over that option. It is also true that the Upper Mississippi Power Group negotiations were premised on the Conawapa because of the magnitude of the sale, so we should not lose sight of that.

No. 2, I think it is also instructive that what we heard here refutes a lot of the rather frivolous comments we heard over the last few years from both the Conservatives and the Liberals. When it came to the question of the need for additional generating capacity, we have heard that Conawapa will be required at some point for domestic use. The current figure being used, given all of the basic assumptions, is 1999. The fact is that we will need additional transmission facilities. Whether it is Bi-pole or Conawapa or some other facility for a smaller project, we do need those things. Manitoba will need those things.

No. 3, contrary to what the Member for Niakwa (Mr. H. Driedger) seems to assume, the hydro-electric option is the best option for Manitoba. It has proven to be a winner for other people with whom we have had negotiations and sales. I would ask Mr. Derry whether any of the options that any of the groups involved in the Upper Mississippi Power Group, whether any of their options would be more cost beneficial than the Manitoba Hydro option?

Mr. Derry: Mr. Chairman, I cannot really answer that question because I do not know all the options that somebody else has. For me to say yes or no would not be right either, so I cannot answer it.

Mr. Storie: Mr. Chairperson, perhaps I can be more specific. I am assuming that Mr. Derry has some knowledge of what fluidized bed combustion units are. Certainly we know what thermal generating units are. Are either of those options less expensive? Can Manitoba Hydro not compete very effectively with the known options at this point?

* (1200)

Mr. Derry: We could compete with the fluidized bed option. In our negotiations, that was one of the options that we were looking at.

Can I just add something to that? Of course, there is transmission involved in this option as well that is quite costly, that has to be added to that cost when we are competing.

Mr. Storie: I believe the president of Manitoba Hydro made it clear and Mr. Derry did as well that we have been very successful in the last few years in negotiating extra provincial sales to areas of the continent that currently use thermal generation as one of their primary options. We stand to be successful into the future. I think that is the opinion of Manitoba Hydro staff. I think it is most independent observers opinion as well.

A follow-up question, could the Minister indicate whether after May 9, before the July meeting or subsequent to the July meeting if the Minister wants to discuss it, he had any direct discussions, involvement with the negotiations with the Upper Mississippi Power Group?

Mr. Neufeld: It should be noted that the negotiations had ended in a Memorandum of Understanding by February of 1986.

From February of 1986 to September 1987, there were numerous meetings in which concerns were expressed by the Upper Mississippi Power Group. In September of 1987, they requested more time to consider their alternatives. Between September of 1987 and May 9 of 1988, when Mr. Storie left office, it was ample time for him to have pursued the Upper Mississippi Power Group and negotiate. From May 9 to June of 1988 or July of 1988 when the meeting was held, and we knew there was to be a meeting, so, no, we would not. We waited for that meeting. That was within a month and a half away. If that constitutes bungling, I suggest that the waiting from September to May also must constitute bungling.

Mr. Storie: First the Minister is incorrect when he suggests that there were no other meetings. Mr. Derry indicated that in fact there were meetings in December. There was a draft prepared and the Minister has seen a copy, I believe, as of January 12, 1988.

My question to the Minister is, given that negotiations appeared to be in trouble as of July, did the Minister instruct the negotiating committee to ascertain what problems existed, what Manitoba Hydro, Manitoba might do to alleviate them, what we could do to get negotiations back on track? Did the Minister take any constructive action whatsoever?

Mr. Neufeld: I discussed with both Manitoba Energy Authority and the Manitoba Hydro personnel these matters. My instructions were, business as usual. The negotiations with whomever they were in whatever area they might be for Manitoba Energy Authority, there were many other negotiations as well, that they should continue in the same manner as they had until further notice. I am not going to come into the office on May 9 and immediately issue instructions for changes. I do not think that is very bright.

Mr. Storie: I think we are becoming a little more perplexed here. The Minister has now said, despite the fact that he knew negotiations were failing, he said business as usual. I think that a representative of the people of Manitoba and responsible for Manitoba Hydro, knowing that a \$4 billion sale was in jeopardy, would have involved himself. My question was, did you issue any specific instructions to Mr. Derry or anyone else asking for the stumbling blocks of negotiations, asking for potential options to overcome those stumbling blocks, did you ask or involve yourself in any of those issues? Did you ask to meet with anybody involved in the negotiations? Were you not concerned that a \$4 billion potential revenue agreement with Manitoba Hydro was going down the tubes?

Mr. Neufeld: Again, Mr. Chairman, Mr. Storie picks numbers out of the air. The \$4 billion is again an arithmetic equation that comes from less than a billion dollars of sale multiplied by years of inflation to come up to \$4 billion.

I reject that somebody coming into office on May 9 should immediately issue instructions to anyone. I think

the first duty of a new Minister is to acquaint himself with the department and acquaint himself with the problems and have confidence in his staff. I wonder, if in those six weeks when we knew there was another meeting coming, if in those six weeks I should have issued instructions of any kind, what should the former Minister have done in his previous six months and what did he do? I think that we did exactly what he did. He left and we left it up to the Manitoba Energy Authority and Manitoba Hydro to do the negotiations, and that is as I think it should be.

Mr. Storie: The Minister is intentionally missing the point. The point is that he knew negotiations were floundering in July. He had from May to July to acquaint himself with the difficulties. My question was, did he make any effort to acquaint himself with the difficulties? After it became apparent the negotiations were floundering, did he do anything to salvage them? Did he take any action on behalf of Manitoba Hydro? Did he take any action on behalf of the people of Manitoba and the ratepayers to salvage a deal worth \$4 billion?

It is not playing with numbers. It is in as received dollars, real dollars to be received by Manitoba Hydro. Mr. Chairperson, the question remains. Did he take any constructive, rational action that any executive in any corporation would have done to salvage a deal of this size? Did he do anything?

Mr. Neufeld: The problems in the negotiations were not that there were obstacles that Manitoba Hydro could do anything about. The problems in negotiations were that the Upper Mississippi Power Group were looking at alternatives. If they have got an alternative to power that is less costly than what Manitoba Hydro can provide, then how can we issue instructions to change the negotiations so that they might again continue their negotiations to purchase the power at a cost which was greater than what they can get alternatively.

I might say that information in the files that were turned over to me indicate much sooner than September there were suggestions by Upper Mississippi Power Group that alternate sources of power may be less costly and they might want to look at alternatives. If it were necessary to change the direction of the negotiations, the Minister might well have done it.

Mr. Storie: If the Minister's final comments do not indicate bungling, then I do not know what does. He is now suggesting that the stumbling block may have been price. It is obvious that he does not understand negotiations. Northern States Power or any group that is negotiating a deal with Manitoba Hydro is not going to come and say, yes, that is fine. We will pay that price. They negotiate in what is their best interests, and to get a lower price is in their best interests. That is obvious.

My question was, did the Minister take any action to find out what the problems were? Did he make any counterproposals? Was there room for counterproposals? Certainly if the benefit-cost ratio was 2.3 or 2.2, there is some room for Manitoba Hydro here. It would still be a tremendous deal for Manitoba

Hydro. The question remains, why did the Minister not take any action? Why did he not attempt to resolve some of those problems?

A further question arises, is the same process now in place, the same demoralizing process in place with Ontario Hydro? Are we bungling another? Has the Minister involved himself in any of the questions that relate to those negotiations? Are we satisfied that we are on the right track when it comes to those very important negotiations? Or is it more the case that this Minister for his own particular ideological reasons does not want these sales to proceed, wants to maintain the status quo, as the chairman of Manitoba Hydro has suggested, wants to continue to have Manitoba Hydro hidebound and inward looking, rather than looking at a resource which has the potential to create wealth for Manitoba? Is that the problem?

* (1210)

Mr. Neufeld: I do not think that my record has to be defended at all. I will not come into office, into any office, and immediately issue instructions for change. I think that is utter nonsense. If that is what the Member for Flin Flon (Mr. Storie) is suggesting, then I cannot agree with it.

We came into office and we looked for the—we have to find our way first of all. The first thing you do is you get to know your department, and then you discuss with your people the kind of problems there may be, and you instruct the people who have been negotiating in this case to carry on. You do not get involved in negotiations as a newcomer, and I do not think you get involved in negotiations as a Minister at any time, because that is something that the professionals should be doing.

Mr. Ransom: Perhaps, Mr. Chairman, I could just cast a little light on what happened here, in that it was last fall that the Upper Mississippi Power Group asked for a period of time through to the end of June 1988 to come to a decision as to whether they wanted to proceed with this agreement.

At the time that the Government left office, I had the opportunity to participate in the transition team and we were asking for outstanding issues that had to be dealt with right away, plus there were briefing materials provided to the Minister as to what action would have to be taken with respect to some of these issues.

I can tell the committee that Mr. Eliesen did not recommend that any action be taken with respect to the Upper Mississippi Power negotiations, that they would respond at the end of June. They responded at the end of June and for various reasons—and I think Mr. Derry or Mr. Thompson can correct me if I am wrong—not just price, but it was matters of internal problems within the the group of power companies that are involved in that Upper Mississippi Power Group. They came back to us and said, we do not want to proceed with this arrangement. Is that a correct interpretation, Mr. Derry, that they did not want to proceed with the arrangement?

Mr. Derry: It was Northern States Power, one of the group, that indicated that they would not be participants

to this arrangement. Now you have got to realize they are one of the biggest of the group. The other smaller ones could not pick up such a large commitment on their own. Therefore, the project of that size was put off, let us say. As an alternative, Northern States offered this 230 kV line alternative with some of these people participating.

Mr. Ransom: That is what is now being pursued, Mr. Chairman, is that for an arrangement, for a deal to be made, it takes more than simply announcing one. There has to be a willing buyer and a willing seller. In this case there were no willing buyers for that deal contrary to it having been announced in February of 1986. By the end of June 1988, they did not want to proceed. We are now proceeding with the next best arrangement that can possibly be negotiated with that group. That is where we are at now and that is what the committee has been informed of earlier.

Mr. Storie: Mr. Chairperson, I remind the chairman of Manitoba Hydro (Mr. Ransom) that in fact there was a Memorandum of Agreement duly signed by the Government and the Upper Mississippi Power Group. Including all of the then participants there was an understanding that we would negotiate a deal. I acknowledge that there have been problems. My question was not what happened between September and July. From May 9 to July, I would have hoped that the Minister responsible was familiarizing himself with some of the potential problems. After July, I would have hoped that in light of the fact that he is the chief executive officer of Manitoba Hydro, the leader of Manitoba Hydro, that he would have involved himself in those failed negotiations, that he would have tried to get them back on track.

I know for a fact that if Investors Syndicate had a \$4 billion contract on the line and it was failing, that the chief executive officer would have said, what the heck is going on, and done something to try and settle it, trying to get it back. Any company dealing with a sale of that magnitude would have had some involvement from the top. What we have had is saying, well I did not want to get involved. That is not good enough and it begs the question, is the Minister not getting involved in setting policy and in being aggressive in promoting the interests of Manitoba Hydro? When it comes to sales to Ontario Hydro, is he taking the same kind of hands-off approach, bury-the-head-in-the-sands approach to those negotiations, or is there any interest in becoming involved and providing leadership on this question? To the Minister.

Mr. Neufeld: I hesitate, but I am not quite certain what Mr. Storie expects someone to do when the buyer has said no. I mean it is not, as I said earlier, like a vacuum cleaner salesman running to the door and fast selling. As you said, it is a major contract and people think a long time before they enter into such a contract. If they decide for their own reasons that they do not wish to proceed, then they do not wish to proceed and there is nothing that can be done to encourage them to proceed, except to keep the door open for negotiating a contract in the future, and that has been done.

Mr. Storie: Mr. Chairperson, I hope the Minister responsible for Hydro is not suggesting for a minute

that every time one party in a series of negotiations says no, that nothing happens. Many, many sets of negotiations have been concluded after there has been a snag. My question was did the Minister do anything to attempt to resolve the current stalemate in negotiations, the existing problem since July? The answer is obviously no. He did nothing and he seems prepared to suggest that kind of an attitude toward something as important as Manitoba Hydro is acceptable. I do not think it is.

Mr. Chairperson, I would like to move on to another question, perhaps to Mr. Beatty or Mr. Derry. Perhaps either one of those gentlemen or the Minister can provide the answer then. I would certainly accept that. Can the Minister indicate then what the value, what the revenue is in as received dollars, what will the value be of the contracts, the Northern States Power contract, the Ontario firm power sale, and the NSP summer sale? Can we have a ballpark figure of the revenue value of those in as received dollars?

Mr. Beatty: I would ask Mr. Paul Thompson to address that question for those sales.

Mr. Storie: Just a ballpark, I am just looking for a ballpark. I will not hold you to the penny.

Mr. Thompson: I was hoping you were going to pick Mr. Derry.

Mr. Storie: Well, I gave all three of you a chance.

Mr. Thompson: I am afraid I do not have that information off the top of my head.

Mr. Storie: Ball park, give or take \$50 million.

Mr. Thompson: I will just say one thing, you interchanged value and revenue. I want to make it clear that what I am going to speak to is the revenue, not the value of the sale, which is the difference between that and cost.

* (1220)

The revenue, to the best of my recollection, the last estimate that we made say for the Ontario Hydro, 200-megawatt sale, in as received dollars was pretty close to 500 million, .5 billion. The revenue in as received dollars for the 500-megawatt sale to Northern States Power is approximately \$2.3 billion. The 200-megawatt summer sale to Northern States Power from 1993 to '96, it is a lot smaller. I think it is something like \$40 million. Like you suggested, I am including escalation. They are as received dollars, and I think the escalation that we are using is around 5 percent.

Mr. Storie: So what we are talking about then is roughly \$3 billion worth of export sales having been concluded since 1984.

Mr. Chairperson, then the follow-up question I guess is the current dilemma that you have with respect to the Upper Mississippi Group is that the arrangement that NSP was involved with the other partners has not

been deemed to be satisfactory, and there are some other problems perhaps. You did indicate in the piece of information we got with respect to the negotiations, indicated that a potential sale of 350 megawatts is possible using a different transmission arrangement and so forth. Is it your view that sale, if it was concluded, would necessitate the construction of another generating plant, Conawapa?

Mr. Beatty: I would ask Mr. Derry to comment on that in detail.

Mr. Derry: As a question, we take it as if we had a 350-megawatt sale, just a sale on that new line, would it advance or start Conawapa at the next plant, let us say? Again it would depend upon when the sale began and when the requirement for the new generation in Manitoba would be. If we negotiated it to fall one year after the requirement, then I would say, no, it did not advance.

Mr. Storie: It was in the 1994-95 range.

Mr. Derry: If it was in '94-95, I would have to say I would expect that it would advance the in-service date for the next plant.

Mr. Storie: My next question is to the Minister. Given that it is still possible that an extra-provincial sale, and I would say hopeful, let us hope that happens, is possible, and would require another generating station, is the Minister now prepared to say that what Mr. Ransom suggested, that they are not going to pursue extraprovincial sales to require generation, would that be set aside, would that view be set aside and would we see the construction of Conawapa, which would create something like 20,000 jobs as well as tremendous revenue for Manitoba Hydro?

Mr. Neufeld: I have said before and I will say it again, as Mr. Ransom has said, we are keeping all options open. If a sale should be negotiated that makes another generation worthwhile, we would certainly have to look at that as an option, yes.

Mr. Beatty: I would just like to point out some of the questions that are being asked now involve a number of dependencies and are very difficult to answer. Some of them are extremely difficult to answer on the timing.

Basically, I want to point out that we plan for Manitoba load. Basically that is the situation. Our circumstances in terms of available capacity, what is available for export will differ this year from the situation we are in five years from now. Export sales must fit our basic planning. That is to say the tail is wagged by the dog, not vice versa. Those circumstances are going to change as we move through our load growth, as we move through time. That perhaps causes some of the confusion here, I think, on some of these points. Having said that, I wonder if I could ask Paul Thompson to make a clarification on the recent discussion.

Mr. Thompson: It is our belief that the most advantageous arrangements that we could come up

with are ones that would not require the advancement of the next generating station, Conawapa -(Interjection)-advancement from when it would be needed to meet Manitoba's load. In other words, we believe in our negotiations that would be the most advantageous arrangement that we could come up with. If a utility is interested in purchasing, say, 350 megawatts, we think that the best arrangement we could make with them would be one that would time that so that it did not advance Conawapa. Hence the reason for our direction, which we said is not try to advance the next generating station. However, if in our negotiations, a utility was interested in something and would pay a good premium that would require the advancement of Conawapa, we would certainly bring that back for discussion.

Mr. Beatty: Just to add to Mr. Thompson's point, the possibilities of a revised deal with the UMPG group based on a 230 kV interconnection are just currently being examined by our technical people. These have not even begun to move up into the senior management decision process. That has just begun at this point in time. So we have not done any thorough evaluation of this.

Mr. Kevin Lamoureux (Inkster): A question for Mr. Beatty concerning when Manitoba Hydro goes out to pursue future sales of our power, what are they basing their sales pitch on in terms of the cost? Are they selling it on our cost of Limestone? I understand that Conawapa Dam is going to be costing double what Limestone costs. Should we not in fact be selling basing on the cost or future sales based on realistic costs that Manitobans would be expected to pay in the future?

Mr. Beatty: All those considerations are taken into account. This is getting into an area that involves a number of parts. I wonder if I could ask Mr. Thompson to just outline briefly the basis under which our business development people approach sales.

Mr. Thompson: Well, obviously we try to get the highest price we possibly can. Certainly, our costs are considered in that. The terms of an agreement could take any form. The one that we have with Northern States Power is related to their alternative cost, which we have assured ourselves is substantially above our cost. That does not mean that in a future negotiation we would not base it on, say, the cost of the Conawapa plant. It just depends on the form the negotiations take.

Mr. Lamoureux: Through Mr. Thompson, maybe he can answer, if we had the costs of Conawapa on Limestone, do you think Northern States Power would have made the purchase?

Mr. Thompson: The evaluation that we made—Limestone was only part of that evaluation. In the evaluation, there were also the effects that it had on subsequent stations and, in our evaluation, it advanced the Conawapa plant and the Wuskwatim plant. The price that was set related to their alternative cost included all of those effects. In other words, our evaluation included that, and we have satisfied ourselves that the price was high enough that it more than covered all of those costs.

Thursday, October 13, 1988

Mr. Chairman: Shall the reports of the Manitoba Hydro-Electric Board pass?

Mr. Chairman: The hour being 12:30 p.m., is it the will of the committee to rise? (Agreed) Committee rise.

An Honourable Member: No.

COMMITTEE ROSE AT: 12:30 p.m.