

ELECTRIC GENERAL RATE APPLICATION 2015**Manitoba Hydro Undertaking #4**

Manitoba Hydro to request ministerial approval to file letter to Public Utilities Board regarding the NFAT Report recommendations.

Response:

The Corporation has received consent from the Minister responsible for Manitoba Hydro to file the letter of July 2, 2014, from the Province of Manitoba to the Manitoba Hydro-Electric Board and Manitoba Hydro with respect to the Public Utilities Board's recommendations on the Needs from and Alternatives To Review.

Please find a copy of this letter attached.



**MINISTER RESPONSIBLE
FOR MANITOBA HYDRO**

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

JUL 0 2 2014

Mr. William Fraser
Chair
Manitoba Hydro-Electric Board
7 Kronstal Place
Winnipeg MB R2G 3J8

Mr. Scott Thomson
President and CEO
Manitoba Hydro
P.O. Box 815 Stn Main
Winnipeg MB R3C 2P4

Dear Mr. Fraser and Mr. Thomson:

The Public Utilities Board (PUB) Panel submitted its Report on the Needs For and Alternatives To (NFAT) review of Manitoba Hydro's Preferred Development Plan to Government on Friday, June 20, 2014. We appreciate the significant work and commitment of all Panel members in completing this important review process. The NFAT review was the most thorough financial and economic evaluation of a major industrial development in Manitoba history.

As noted by the PUB Panel, early decisions to develop our Province's rich hydro-electric resources have resulted in many decades of affordable, reliable and renewable electricity for Manitoba families and our growing economy. In more recent times, Manitoba Hydro has greatly enhanced its development model by forging meaningful Aboriginal partnerships over the course of many years, resulting in better environmental stewardship and important socio-economic opportunities and benefits for Aboriginal people. Moving forward, we remain committed to this approach of partnership and reconciliation with Aboriginal people through environmental and resource management, and community and economic development.

We are pleased that the NFAT review has recommended building the next generation of hydro-electric development. The PUB Panel has concluded that new hydro generation is needed in order to meet Manitoba's own power needs and to take advantage of profitable export opportunities. By helping to pay down the cost of new generation, new power export agreements help keep rates low for all Manitobans for the long-term.

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Specifically, the NFAT review has recommended proceeding with immediate construction of Keeyask to meet domestic and export requirements with an advanced in-service date of 2019. Keeyask will be built within the Split Lake Resource Management Area and developed as a ground-breaking partnership between Manitoba Hydro, Tataskweyak First Nation, York Factory First Nation, War Lake Cree Nation and Fox Lake Cree Nation, creating more than 8,000 person-years of employment.

We note that in reaching this favourable recommendation on Keeyask, the NFAT review has concluded that an all-gas alternative would not be acceptable, as it would be significantly less economic and produce greater greenhouse gas emissions than hydro-electric power. The PUB Panel also noted that natural gas would not support Manitoba Hydro's firm sales contract with Minnesota Power, putting those export revenues at risk, along with new transmission to the United States. Building early to take advantage of export opportunities – as was done successfully with Limestone – is a proven strategy for keeping rates low.

The NFAT review has also recommended constructing the new Manitoba - U.S. Transmission Interconnection for a 2020 in-service date. The PUB Panel concluded that this project will add value from an economic and financial perspective by enabling expanded power exports from Manitoba Hydro to U.S. customers. Additionally, the PUB Panel noted that the project will benefit Manitoba Hydro's customers within the Province by strengthening the reliability of our power system, adding greater export and import capability and protection during periods of drought or emergency.

We note that the Obama Administration has cited this international transmission project as an important part of "building a 21st century infrastructure" and that the U.S. Department of Energy has committed to work closely with the lead U.S. proponent, Minnesota Power, and state regulators to move the project through the regulatory approval process. These are positive developments that further underscore the immense opportunity that comes with expanding our access to export markets.

The NFAT review has also made important recommendations on the need to move forward with a new integrated resource planning process, with effective public input, to properly assess future resource options. The energy market is evolving rapidly, and we agree that so too must long-term energy forecasting and planning. Emerging sources of renewable energy are becoming more competitive, demand side management (DSM) programming is being tailored to consumer trends, technological innovation is continuing at a rapid pace, and new U.S. emissions standards are changing historic market dynamics. We accept the PUB Panel's recommendation on the need for a new integrated resource planning process, including proper consideration of DSM, and over the next few months we will work with Manitoba Hydro to prepare an implementation plan for this process. We also agree that this process should be undertaken prior to moving forward with other major capital projects beyond Keeyask and the new Manitoba - U.S. Transmission Interconnection.

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With respect to Conawapa and associated transmission upgrades, Manitoba Hydro has been clear that a decision to proceed is not required at this time. While Manitoba Hydro's contract for a 308 MW power sale to Wisconsin Public Services (WPS) is dependent on building Conawapa, more time is available and required to finalize additional power sale arrangements to strengthen the business case for more power resources.

We note also that following the conclusion of the NFAT hearings, the U.S. Environmental Protection Agency (EPA) released new greenhouse gas emissions standards for the power sector. These standards are widely expected to put greater pressure on utilities in Manitoba Hydro's customer jurisdictions to replace aging coal-fired generating stations with renewable sources of energy. This recent development, in combination with the new Manitoba - U.S. Interconnection, has great potential to open up even larger export market opportunities for clean energy resources, like Conawapa and DSM, as customers look to secure clean, reliable power to diversify their energy portfolios and manage their exposure to environmental issues.

Our Government continues to regard Conawapa, located within the Fox Lake Resource Management Area, as a vitally important component of Manitoba's energy future with the potential to create 10,000 person years of employment and produce far-reaching opportunities for Aboriginal engagement and northern development. However, following from the NFAT review, it is clear that more time is required to secure additional profitable export sales in order to build a stronger business case to justify moving forward with Conawapa and other energy resources beyond Keeyask. We therefore accept the need to freeze expenditures planned for pre-construction work on Conawapa at this time. As additional export sales are confirmed and a stronger business case is developed, a further independent review of Conawapa can be undertaken in the future.

You have advised that Manitoba Hydro remains confident in its ability to secure additional profitable export sales, to justify a stronger case for additional future resource development. We understand that further to recent Memorandums of Understanding (MOUs) negotiations are progressing with both SaskPower and Great River Energy and that new talks are scheduled to begin with long-time customer, Northern States Power, for additional power resources after 2020.

You have also advised us that there are certain activities that are currently underway which relate to Conawapa but which also have broader and enduring value to the corporation, to local communities and to the environment. These include technical environmental studies and analyses required to preserve knowledge gained through extensive fieldwork and Aboriginal traditional knowledge (ATK) studies that help to shape local community development and resource management plans. We agree with you that these limited in-progress activities should be continued, as they are consistent with the Clean Environment Commission's emphasis on the importance of attaining the highest standards of environmental stewardship and continuing to work toward reconciliation with Aboriginal peoples. Carrying on with this limited set of activities will allow Manitoba Hydro to capture the value of many years of work that would be lost if they are halted mid-stream and will protect the corporation from exposure to higher costs in the future if this work has to be re-started from scratch.

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We also urge Manitoba Hydro to continue to review Conawapa construction cost estimates, with the benefit of 'real-time' experience from Keeyask, and make every effort to identify efficiencies as part of ongoing work that will be required for integrated resource planning.

The NFAT review has made a number of significant conclusions respecting Manitoba Hydro's assessment and delivery of DSM programming. Manitoba Hydro has a history of strong leadership in this area and the corporation's new 15-year Power Smart Plan represents a substantially enhanced commitment to DSM programming. Nonetheless, the PUB Panel has expressed concern about current long-term DSM planning, and about the way in which DSM is compared to supply side resources, concluding that a new independent DSM entity should be established. We accept the recommendation that a new DSM entity be established arm's length from Manitoba Hydro, and over the next few months we will investigate different organizational models to strengthen DSM and provide expanded opportunities for all Manitobans to lower their hydro bills. Affordable electricity for Manitoba families and businesses must remain a central component of Manitoba's overall affordability advantage.

In the interim, we are requesting that the Manitoba Hydro-Electric Board oversee a special priority initiative to develop and implement without delay enhancements to DSM programming in areas identified as priorities in the NFAT review, including special outreach to low income families, Aboriginal and northern communities and customers presently excluded from eligibility due to overdrawn accounts. These enhancements should build on recent improvements to Manitoba Hydro's Affordable Energy Program which take a community-based approach to retrofitting homes in low-income communities and on the Aki Energy program, which is lowering bills on First Nations by switching homes from electric heat to geothermal. These models have the additional benefit of creating skills training and job opportunities for local residents – benefits which the NFAT review has suggested should be better accounted for. The Manitoba Government will also consider the Panel's specific recommendation respecting Government revenues from new hydro development, as well as potential alternatives to support vulnerable consumers to reduce their bills.

The NFAT review has also raised the unique needs of large industrial power users. In response we request that Manitoba Hydro advance measures such as curtailable rates and load displacement programs which meet the needs of large power users like manufacturers and resource industries that create jobs and grow our Province's economy.

Also consistent with the PUB Panel's advice we request that the Manitoba Hydro-Electric Board review its current 75/25 debt-to-equity ratio target with the aim of moderating rates for consumers while ensuring strong financial health for the corporation including maintaining sufficient retained earnings. We further urge the corporation to maintain tight cost controls overall to support strong financial performance and low rates for all Manitoba Hydro customers.

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Finally, we note that the PUB Panel has highlighted the significant load growth associated with expected crude oil pipeline expansion. Given the magnitude of these demands there may be merit in considering a special rate design for these customers. We would ask that Manitoba Hydro consider this issue and prepare recommendations if appropriate.

In conclusion, we are pleased to be proceeding immediately with construction of Keeyask and a new Manitoba - U.S. Transmission Interconnection grounded in firm power sales to the United States. This development model will support lower hydro rates for Manitoba families and businesses for years to come creating jobs, training, investment and growth opportunities throughout our Province and laying the foundation for a new generation of northern development. DSM will be strengthened to help Manitobans reduce their hydro bills and a new more comprehensive integrated resource planning process will be undertaken to chart Manitoba's energy future. Manitoba Hydro will prioritize the finalization of additional export contracts needed to strengthen the business case for further resource development beyond Keeyask so that Conawapa and other resources can be reviewed again in the future.

Sincerely,



Stan Struthers
Minister