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June 3, 2014

Mr. H. Singh
The Public Utilities Board
400 - 330 Portage Avenue
WINNIPEG, Manitoba R3C 0C4

Dear Mr. Singh:

RE: NFAT – Manitoba Hydro Undertaking #49

Please find attached Manitoba Hydro's response to Undertaking Number 49, which includes tables summarizing the projected costs by major capital projects and pro forma financial statements. When reviewing the attached tables, it is important to note the following information (which was also generally discussed in our letter of June 19, 2013):

The addition of a single new generation source into the Manitoba system will alter how the system as a whole operates including how other generation sources (hydro and thermal) operate and how imports and exports over the interconnections are managed. As such, a new generation source's operating revenue cannot be meaningfully isolated from the rest of the generation system for the purposes of evaluating the proposed resource.

In the specific situation of the NFAT, the main plans being evaluated involve a package arrangement of new generation, new long term export contracts and new import/export interconnection capacity. This further makes an attempt to determine costs and revenues for an individual new generation project even less feasible and meaningful. By way of example, in the Preferred Development Plan the addition of Keeyask not only enables more energy production from the Keeyask Generating Station itself but also enables the addition of the new interconnection in 2020. Without Keeyask the interconnection would not be added. As such, in this circumstance Keeyask can only be evaluated by including the operational impacts and benefits associated with the new interconnection.

It is significant that Manitoba Hydro is both the developer and the operator/owner of the electrical system in the province. Manitoba Hydro acknowledges that a

methodology which is focused on individual projects costs and revenues could be applicable to a situation where an Independent Power Producer (IPP) company is evaluating whether to proceed with a project or to select between different project possibilities. The IPP project revenues can be clearly identified as payments to the IPP from its PPA with the purchaser and does not need to consider any revenue and cost impacts from the project that would result in the rest of the generation and transmission system.

Also, it should be recognized that adding generation is not a discretionary investment for Manitoba Hydro. Manitoba Hydro has an obligation to serve the domestic load. Projected load growth demands the addition of new supply for the time frame in question. As such, there is no “do nothing” option available and all options have an associated impact on costs and revenues.

The appropriate methodology to evaluate the plans presented in the context of the NFAT is to evaluate a sequence of development such as the Preferred Plan by comparing its costs and revenues to an alternative sequence of development. This is standard industry practice. It is the methodology used consistently by Manitoba Hydro to evaluate all forms of resources whether hydro, thermal, wind or DSM. It has been used by Manitoba Hydro and tested in all the related regulatory forums and accepted by the regulators including the PUB 1990 Capital Plans review and CEC Wuskwatim Review. Manitoba Hydro notes that no expert retained by the PUB or Intervenors criticized the use of the methodology involving comparison of development plans against other development plans.

While Manitoba Hydro is providing the requested information in its response to Undertaking 49, Manitoba Hydro submits that the appropriate approach to the evaluation of Keeyask is through the use of development plan comparisons.

Yours truly,

MANITOBA HYDRO LAW DIVISION

Per:



ODETTE FERNANDES

Legal Counsel

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