Manitoba Hydro Needs for and Alternatives To (NFAT) Review
Manitoba Public Utilities Board

Outline of Final Argument of MKO
May 21, 2014 – Thompson, Manitoba

MKO represents more than sixty-five thousand (65,000) treaty First Nation citizens in Northern Manitoba. MKO has been in existence for over thirty-two (32) years, and is a nonprofit advocacy organization governed by the elected Chiefs of the thirty (30) sovereign First Nations in Northern Manitoba.

The Board granted intervenor status to MKO to deal with the two following issues:

- the socioeconomic impacts and benefits of the Preferred Development Plan and alternatives in respect to the MKO First Nations; and
- the impact of domestic electricity rates over time with and without the Preferred Development Plan and with alternatives.

MKO once again wishes to share with the Board the instructions provided to legal counsel, experts and technical support on behalf of MKO. In accordance with the MKO Constitution, and given the fact that MKO is an organization of sovereign First Nations, MKO has directed its legal counsel and its experts that the position to be taken by MKO at this hearing is not to compromise or contradict the position of the four (4) First Nations, being the York Factory First Nation, War Lake First Nation, Tataskweyak Cree Nation, and Fox Lake Cree Nations, the partners.

In accordance with the areas of scope granted by the Board, together with the direction of the MKO Executive Council, MKO has focused its attention on the matters of rates and the impact on rates upon the citizens in the MKO First Nations and on the facilities operated by the MKO First Nation governments.

As mentioned in MKO's opening comments, MKO was not allowed to substantively intervene with respect to macro-environmental considerations. Lake Sturgeon and caribou are iconic species and are integral to the cultural identity of the MKO First Nations.

The macro-environmental considerations associated with the protection and recovery of Lake Sturgeon and boreal woodland caribou is of importance to the MKO First Nations, and MKO would argue, is also important to this Board, Manitoba Hydro and the province of Manitoba. MKO remains keenly interested in how the Board will address the high-level macro-environmental policy considerations, including macro-environmental considerations which may potentially affect the cultural identity of First Nations. MKO's unique perspective in this area would have been of value to these proceedings.

All of the citizens of the MKO First Nations and the MKO First Nation government facilities receive electrical service solely from Manitoba Hydro.

The citizens of the MKO First Nations are residential ratepayers and the First Nation governments are general service ratepayers. The three (3) diesel First Nations which pay electricity bills for the schools are also First Nation Education Rate customers. MKO is perhaps the only intervenor in this proceeding which represents both Residential and General Service customers.

In terms of the potential impacts of the Preferred Development Plan on future Manitoba electricity rates and bills to be paid by ratepayers, MKO recognizes the advice given by the independent expert consultants retained by the Public Utilities Board, which have indicated that the plan is expected to result in annual electricity rate increases of about 4 percent, or about double the rate of inflation, for the next eighteen (18) to twenty two (22) years or more. One (1) of the independent experts, Morrison Park Advisors, stated in its written evidence:

> "For the Preferred Development Plan, maximum rate increases are applied until 2032, when they reach 100 percent above 2013 rates."

Of primary importance to MKO is the fact that these high rate increases will have a disproportionate impact on the Residential and General Service customers in First Nation communities.

This is because most of the citizens in the MKO First Nations are regarded in the low-income category. This is a category which spends a higher percentage of income on electricity than higher-income citizens. Experts' reports have indicated that raises in electrical rates to low-income ratepayers results in their not reducing their electricity, because electricity is a fundamental need. It results in them reducing food, education, and other necessities.

Income to pay for Manitoba Hydro bills in many cases comes from the federal government. MKO has seen no evidence, nor has it been told, that there is an obligation on the part of the federal government to match the projected rate increases through increases in various federal contributions. If the budgets of First Nations families and First Nations governments remain the same, or are increased at only approximately at the rate of inflation, the difference between the electricity bills payable by the First Nations at the present time and those that they will pay in the future as a result of the Preferred Development Plan will not be able to be absorbed by the economies of these First Nations communities.

MKO is concerned about the inequitable distribution of the overall financial benefits of the Preferred Development Plan that are to be received by the MKO First Nations in the future. First Nations historically have been caught in the middle of arguments between the province and the federal government as to who has responsibility to provide and pay for services. If the financial benefits in the future from the payment of these rates goes primarily to the province of Manitoba and so to mainly non-First Nations communities, then MKO feels there should be some adjustment as to what the increased rates should be and how they should be paid by First Nations.

Part of MKO's approach to the NFAT has been to explore measures to mitigate the effect of the expected rate increases on Northern First Nations, including establishing objectives for the widespread inclusion of and delivery to all First Nations customers of programs such as the Home Insulation Program, Refrigeration Retirement Program, Water and Energy Saver Programs, First Nations Programs, and ongoing Residential Loan and Affordable Energy Programs.

It is very important that clear objectives are established to ensure the widespread inclusion of and delivery of commercial programs to all First Nation facility and commercial general service customers. MKO recommends that the Board call for the establishment, monitoring, and measurement of the effective capture of these programs of First Nation customers.

MKO is also recommending the design and implementation of appropriate rate mitigation measures for First Nations communities adversely affected by the plan, particularly those in northern Manitoba.

During the proceeding, MKO explored the importance of establishing effective long-term relationships, arrangements and mechanisms which can maximize an effective sharing of development benefits in order to achieve a legacy of real, measurable improvements and pre-project baseline conditions. Such equitable post-project outcomes are also a foundational principle of emerging international sustainability criteria, good practice and the best practice regarding Hydro power projects.

1.0 Mitigation of Effects on MKO Ratepayers of Rate Increases Consistent with the Manitoba Hydro Preferred Development Plan

MKO wishes to highlight the potential effects of projected rate increases that are consistent with Manitoba Hydro's Preferred Development Plan on the Residential, General Service and Diesel Service customers of Manitoba Hydro in the MKO First Nations.

Ideally, there should be no increase in customer rates or bills in the MKO First Nations, in particular for "Hydro Affected Customers" in the MKO First Nations. In fact, MKO continues to pursue certain rate reductions for MKO First Nation customers, including the Hydro Affected Customers and Diesel customers. However, MKO appreciates that Manitoba Hydro is facing complex financial and operational circumstances, including those associated with the Preferred Development Plan, which circumstances have been affected by the reduction in previously forecast revenues from extra provincial sales.

In terms of the existing and forecast cost of electricity in the MKO First Nations, Elder Flora Beardy stated as part of the MKO Panel [Transcript 10809]

> It is my understanding that there will be a Manitoba Hydro rate increase of about 4 percent every year for the next twenty (20) years or so. The proposed Manitoba Hydro rate increases will be a hardship, especially for those who are on fixed incomes, such as senior citizens.
>
> I do not recall Manitoba Hydro talking with us about these rate increases. I spend on our groceries a little bit less than what we pay for Hydro all year. Our grocery bill would exceed our Hydro bill if I shopped in the community of York Landing.

However, although Manitoba Hydro recognizes that there are a disproportionate number of low-income customers in First Nation reserves and that costs in northern Manitoba are higher than in the south, Manitoba Hydro acknowledged that it did not differentiate the effect of rate increases on low-income First Nation customers in determining the effect of the rate increases associated with the Preferred Development Plan: [Transcript 4332]

> MR. ED WOJCZYNSKI: We -- we did not differentiate on that basis, but we're also aware that rate increases of whatever they are, 2 percent real, we'll use that 'cause that's what the discussion is centering on, that that would be difficult for all low income people, and we recognize there's a disproportionate number of low income people on -- on the reserves.
>
> And we also recognize that in Northern Manitoba costs are generally higher compared to some of the other jurisdictions, say, in Southern Manitoba. We are -- we are very aware of that, but we did not see as part of the scope of the -- of this exercise to differentiate between the customers on that basis.

The impact of the projected rate increases on the bills of MKO First Nation customers should be mitigated to the fullest extent possible through the determined and effective application of all available measures.

In this regard, MKO notes that the Board recently addressed a proposed across the board interim rate increase of 3.94% to be effective April 1, 2014 by instead approving in Order 49-14 an interim rate increase of 2.75% for all customer classes, effective May 1, 2014. The Board approved a 2% interim increase, to approximate the annual rate of inflation, plus a further 0.75% interim rate increase, with the revenues from the 0.75% rate increase to flow into the existing Deferral Account established in Board Order 43/13 to assist with the payment of in-service costs of the Bipole III transmission project.

It is well established in this proceeding that projected annual rate increases at approximately two times the rate of inflation for approximately the next two decades are associated with the Preferred Development Plan.

MKO recommends that the Board recommend that Manitoba Hydro should pursue a two-tracked approach to address and reduce the effects on the bills of First Nation customers resulting from proposed rate increase and any future increases, which includes:

a) Bill Reduction through Demand Side Management

b) Bill Reduction through Rate Mitigation Measures

In respect of both arms of this two-tracked approach, MKO notes with concern the apparent information provided by Manitoba Hydro in the response to an MKO information request in the 2014 Manitoba Hydro Interim Rate Application at MKO/MH I-1 a) and c) and at MKO/MH I-3 that of the total 9,855 Residential and General Service accounts in the MKO First Nations, 8,507 accounts are in arrears as of April, 2014, or 86.3% of all Residential and General Service accounts. These references also appear at Tab 1, Tab 2 and Tab 3 of the MKO NFAT Panel Book of Documents.

Clearly, there is a significant existing issue with the ability of MKO First Nation customers to pay the present electric rates, let alone to pay any approved interim rate increase or the projected two decades of future rate increases. MKO will make further comments on this.

2. Bill Reduction through Demand Side Management

MKO views efforts by Manitoba Hydro to reduce bills by ensuring the availability of DSM programs, particularly to low income, fixed income and remote Residential customers and to General Service customers in First Nation communities, to be of the highest importance.

Any future rate increases should be conditional on Manitoba Hydro's Demand-Side Management (DSM) programs being universally available and practically accessible to First Nation customers. These DSM programs should be provided by Manitoba Hydro on a turn-key basis to First Nation customers, as previously and recently recommended by Mr. Dunsky, including in Mr. Dunsky's April 24, 2014 submission to the Board in this proceeding.

Manitoba Hydro should immediately incorporate Mr. Dunsky's recommendations into Manitoba Hydro's DSM programs to ensure that the DSM programs will reach low-income MKO customers.

MKO recommends that the Board recommend that Manitoba Hydro be directed to regularly measure and report on the actual availability and penetration of the low-income DSM programs to First Nation customers - particularly to low-income First Nation customers - and on the success in reducing the bills of Manitoba Hydro's low-income First Nation customers due to the implementation of such programs in the MKO First Nations.

As noted in MKO's comments on the 2014 Interim Rate Application and in MKO's comments as part of the MKO Panel, MKO continues to remain watchful as a result of Manitoba Hydro's statement in the 2008 proceedings at T1533/7-21 that the home audit program for low income individuals would not apply to homes in the MKO communities where Manitoba Hydro perceives that the benefits would ultimately flow to Department of Indian Affairs and Northern Development Canada.

MKO notes the development since 2008 of Manitoba Hydro's programming in the MKO First Nations. Manitoba Hydro should ensure that DSM programs are universally available to all customers in all MKO First Nation communities, including in the case of those low income customers where it may appear that the government of Canada is an indirect beneficiary.

There is value in Manitoba Hydro personnel working with First Nation customers to regularly meet with MKO and the MKO First Nations to resolve any concerns, misconceptions or lack of information on the part of Manitoba Hydro (T1530-1532 of the 2008 proceedings), including regarding the ultimate beneficiaries of DSM programs in the MKO First Nation communities.

In terms of the relationship between Manitoba Hydro and First Nation customers, Elder Flora Beardy recommended [Transcript 10812-10813]:

> Hydro should come into the community and do workshops, and help us understand the options and opportunities for their Power Smart and low income programs. The brochures really do not give us all the information that we need, and it would be -- it would be good to have this information explained in Cree. Hydro should work with us to deliver the home insulation and other Power Smart Programs for every single house on the reserve. This would help
>
> reduce our Hydro bills.

However, Councillor Roger Ross revealed in his presentation that Manitoba Hydro will not deliver Power Smart programs to accounts that are in arrears [Transcript 10817]

> I have reviewed a list provided to MKO by Manitoba Hydro of the number of residential and general service accounts in each of the MKO First Nations and the amounts that are in arrears as of April 2014, like under Tab 3 of the MKO Panel book of documents.
> Just listen, he said there are a total of one hundred (100) -- a hundred and twenty thousand (120,000) -- a hundred and twenty (120) residential accounts and thirty (30) general service accounts at Manto Sipi, for a total of a hundred and fifty-six (156) electrical service accounts. Of these hundred and thirty-three (133), or 85 percent point two (.2) are in arrears of April 2014. According to Manitoba Hydro, the amounts in arrears as of April 2014 for all electrical accounts of Manto Sipi, over nine hundred and sixty-two thousand (962,000).

Councillor Ross continued at Transcript 10818:

> When Manitoba Hydro worked with Manto Sipi on phase 1 of an Home Insulated Program, Hydro only selected the houses that paid their electricity bills. Manitoba Hydro told us that people who are in arrears don't qualify. When Manitoba Hydro asked Man -- Manto Sipi, asked Manitoba Hydro about doing a phase 2 Home Insulation Programs,

> Manitoba Hydro said there are too many accounts in arrears, so there will be no phase 2 Home Insulated Programs. With such a high percentage of accounts in arrears, the very people who need Power Smart programs the most to reduce their bills, don't get the help they need. Manitoba Hydro has to do everything it can to help reduce our electricity bills, particularly for low-income people and people who are in arrears.

Elder Beardy also said [Transcript 10814]

> If we do not qualify because we are in arrears, then maybe this program should change in some way.

MKO recommends the “aggressive” application of DSM as discussed by Dr. Higgin in his evidence [Transcript 9547] and the “turnkey” delivery of DSM measures as recommended by Mr. Dunsky [Transcript 8121 and 8122], particularly to the disproportionate number of limited or low-income customers in the First Nations of northern Manitoba.

To achieve this objective, MKO further recommends that an entity independent of Manitoba Hydro be established with a mandate and with the necessary resources to deliver DSM programs in Manitoba. MKO further recommends that this entity place a particular emphasis on the aggressive delivery of turnkey DSM programs in First Nation communities in order to ensure that those most in need of Power Smart and related measures will be demonstrably be able to access these measures.

MKO also recommends that no rate increase greater than the rate of inflation and that would be applicable to the ratepayers in the MKO First Nations be approved by the Board unless and until Manitoba Hydro or the recommended independent DSM entity makes DSM and Power Smart universally available to all customers in the MKO First Nations and that universal penetration of these programs in the MKO First Nations can be monitored and confirmed.

3. Bill Reduction through Rate Mitigation Measures

MKO submits that the Manitoba Hydro’s Residential and General Service customers in the MKO First Nations, as a group, are entitled to be treated differently from other Manitoba Hydro customers. As MKO has noted throughout the proceeding, there are at least three reasons to accord a distinct treatment to the ratepayers in the MKO First Nations:

1. The Residential and General Service customers in the MKO First Nations pay the same level of rates as other Manitoba Hydro customers, but do not share in the same level of benefits as other Manitoba Hydro ratepayers in terms of provincial programs and services.

2. A significant proportion of the Residential and General Service customers in the MKO First Nations have limited incomes or operating revenues, respectively, with the level of these limited incomes or operating revenues being determined by the government of Canada.

3. A significant proportion of the Residential and General Service customers in the MKO First Nations are described by MKO as "Hydro Affected Customers" and are in communities which have been and continue to be affected by the projects and operations of Manitoba Hydro.

MKO recommends that the Board recommend that Manitoba Hydro give effect to rate mitigation measures for First Nations that incorporate the following elements:

a) Removal of Mitigation Costs from Rates
b) Allocation of Greater Share of Net Export Revenue to First Nation Customers
c) Establish "Equivalent to Gas" Rate for Heat Portion of Bills
d) Allocation of Net Export Revenue to Reduce Diesel Cost of Service
e) Removal of Water Rental Fees from Rates

a) Removal of Mitigation Costs from Rates

As set out in Order 117/06, August 2, 2006, the Board acknowledged MKO's previous recommendations regarding the matter of rate mitigation for Hydro Affected Customers. MKO continues to recommend that rate design changes should take place in the form of a revised COSS model.

Specifically, MKO sought and continues to seek the removal of mitigation costs from the aggregate costs allocated to northern First

Nation customers who are affected by Manitoba Hydro’s operations. The basis for the reduction would be that the “Hydro Affected Customers” should not incur any electricity charge related to mitigation costs.

b) Allocation of Greater Share of Net Export Revenue

Also as acknowledged by the Board in Order 117/06, MKO favours and continues to pursue the creation of a new class for Hydro-affected customers residing on the waterways utilized by Manitoba Hydro, which class would receive a specific sharing of net export revenue based on recognition of a fundamental change having occurred with respect to the understanding in place when First Nations entered into treaties and signed mitigation agreements with the Province, Manitoba Hydro and Canada. This change is the increased reliance on export sales, as initially, the basis for building the northern generation plants was to provide electricity for Manitobans.

c) Establish "Equivalent to Gas" Rate for Heat Portion of Bills

Manitoba Hydro confirms at MKO/MH I-4 that no MKO First Nation receives natural gas services or supplies from the Manitoba Hydro/Centra Gas natural gas distribution system. Therefore, the MKO First Nations are not able to benefit from a reduction in their bills by switching to natural gas as the primary source of home heat.

On April 25, 2014, and in response to the Elders and Traditional Land Users Panel presented by CAC (Manitoba) during the Manitoba Hydro NFAT proceedings, Manitoba Hydro circulated MH-181 which confirmed that the dwellings of Manitoba Hydro employees in Gillam are equipped with two meters in order to separately meter electricity used for home heating. [Tab 8 of the MKO NFAT Panel Book of Documents]

Based on a review of MH-181, MKO understands that the purpose of this dual metering is to apply a preferential electricity rate which charges Manitoba Hydro employees a “flat rate for heat”. MH-181 states that this “flat rate” is “derived from the lowest average heating costs in Winnipeg, adjusted annually”.

Subject to further clarification by Manitoba Hydro, it would appear that the determination of the “lowest average heating costs in Winnipeg” as set out in MH-181 in this proceeding would be based on the cost of using natural gas as a source of home heat, as it is well established that natural gas is the lowest cost source of home heat in Winnipeg.

In order to maintain equity in electricity rates and bills amongst Manitoba Hydro's customers in Winnipeg and in the MKO First Nations, particularly for those MKO First Nation customers north of the 53rd parallel, MKO recommends that the Board recommend that Manitoba Hydro should establish a flat "Equivalent to Gas" rate for electric heat for northern First Nation customers, which rate is calculated to be equivalent to the lowest average heating costs in Winnipeg, as adjusted annually.

Elder Flora Beardy said in her presentation as part of the MKO Panel [Transcript 10814]:

> If every house in York Landing had two (2)
> Hydro meters like the Hydro employees so that we paid
> the same heating costs as the lowest average heating
> cost people pay in Winnipeg, this would really help us
> lower our Hydro bills.

Councillor Roger Ross also called for the Manitoba Hydro Gillam "Equivalent to Gas Rate" in his presentation as part of the MKO Panel [Transcript 10820]

> I have reviewed Manitoba Hydro Exhibit
> 181 from NFAT hearings about the two (2) electrical
> meters used on a hou -- houses of Hydro employees
> living in -- in Hydro Corporation housing north of 53rd
> parallel. If every home and facility in Manto Sipi
> were equipped with two (2) meters and charge a flat
> rate that is based on the lowest average heating cost
> in Winnipeg, this would go a long way toward reducing
> our Hydro bills. It would be fair to charge the same
> flat rate for heating to all Northern First Nations
> which are north of the 53rd parallel.

d) Allocation of Net Export Revenue to Reduce Diesel Cost of Service

In MKO's comments on Manitoba Hydro's proposed rates to be effective April 1, 2014 and following, MKO noted that the proposed rates should take into account that commencing May 1, 2014, in accordance with the tentative Diesel Settlement Agreement and subject to PUB approval, a portion of Net Export Revenues is to accrue to the benefit of the Diesel Communities and be applied so as to reduce the revenue requirement in the Diesel Communities and that the Diesel Communities will receive such an allocation of Net Export Revenues based on the same principles as applied to the similar Grid Customer class.

The mechanism to address the application of net export revenues to the Diesel Communities was addressed in Order 117/06, at paragraph 1(e) of page 76, which states, "(n)et export revenue is to be allocated to the domestic customer classes, including diesel customers, using the methodology recommended by Manitoba Hydro."

The reduced cost of service and the revised rates would likely result in the removal of the 2,000 kWh "step" in the rates of the Diesel General Service Customers and reduce the First Nation Education Rate.

e) Removal of Water Rental Fees from Rates

The public accounts of Manitoba as presented in the 2014-2105 provincial budget indicates that the single largest source of resource revenue for the province of Manitoba is the forecast $125,000,000 in Water Rental fees forecast to be paid by Manitoba Hydro. These fees are arguably largely a form of indirect taxation of Manitoba Hydro's electricity customers, including First Nation customers.

Similar to MKO's rationale acknowledged by the Board in Order 117/06 regarding the removal of mitigation costs from the aggregate costs allocated to northern First Nation customers who are affected by Manitoba Hydro's operations, MKO also recommends that Water Rental Fees be treated in a similar manner. The basis for the reduction would be that the "Hydro Affected Customers" should not incur any electricity charge or indirect provincial tax related to Water Rental Fees.

One approach to the sharing of the value of Water Rental Fees with First Nations has been referenced in the sharing by Manitoba of a portion of Water Rentals Fees with the Nisichawayasihk Cree Nation and potentially with the Keeyask Cree Nations should Keeyask proceed. [Transcript 4205-4206]

However, in addition to any direct sharing of Water Rental Fees that Manitoba may engage in with other MKO First Nations, in respect of the recovery of Water Rental Fees through Manitoba Hydro's electricity bills, MKO would further argue that Water Rental Fees represent a form of provincial tax for which First Nations persons and entities are, or ought to be, exempt.

f) Creation of a First Nation Customer Class

Finally, taking into account the the reduced baseline level of rates which result from the implementation of each of these five (5) rate mitigation measures as proposed by MKO, MKO further recommends that a separate customer class be established for First Nations customers in northern Manitoba, of which the "Hydro Affected Customer Class" would potentially be a sub-class.

4. Other Considerations

a) DIAND O&M Funding Mechanism

In accordance with the DIAND Capital Facilities and Maintenance Operation and Maintenance mechanism, electrical costs are funded based on a percentage of the estimated electricity costs based on a Cost Reference Manual and not by comparison to actual Manitoba Hydro bills. The percentage of the estimated costs which are funded is based on the use and classification of a capital asset. The resulting funding contribution of a percentage of the estimated cost is described as the Net Funding Requirement (NFR) [Tab 6 of the MKO NFAT Panel Book of Documents].

Councillor Roger Ross of the MKO Panel stated in his presentation [Transcript 10820-10821]:

> Another important issue when it comes to
> rising electrical cost is AANDC's O&M funding policy.
> Under the O&M policy, in most case, except for schools,
> AANDC only contributes a percentage or estimate cost of
> operating our buildings and of providing services,
> including electrical costs.
> For example, AANDC only contributes 20

percent of the estimated electrical costs for what AANDC describes the category 3 assets, such as the band office and arena. In addition, AANDC only contributes 80 percent of (estimated)costs for category 2 assets, such as water and wastewater treatment system and 90 percent of the estimate costs (for) category -- category 1 assets, such as roads. In the case of the school, AANDC contributes a hundred percent of estimated operating costs, including electricity cost. It is -- it is AANDC's policy that a First Nation must use own-source revenues and user fees paid by citizens to make up the gap between AANDC's estimate of operating cost and a percentage of estimate O&M costs that is actually contributed by AANDC. Manto Sipi is a remote community without all-weather road access. Manto Sipi Cree Nation does not generate or receive sufficient own-source revenue to cover the gap betwee -- between AANDC's estimate of their operating costs and the percentage of estimate O&M costs that is actually contributed.

In the event that a First Nation is not able to generate these levels of own-source revenues from user fees or other revenues, a funding shortfall would be expected to result, including in respect of the revenues available to pay electricity bills.

The effects of the DIAND O&M funding policy are further discussed at Tab 5 of the MKO NFAT Panel Book of Documents for an additional discussion of the potential effect of the DIAND Capital Facilities and Maintenance Operation and Maintenance mechanism on the ability of the MKO First Nations to address the projected rate increases.

MKO understands that the evidence of DIAND’S Fred Mills which was provided by MKO as CAC/MKO 7 – Attachment continues to generally reflect the circumstances regarding DIAND’s limited funding envelope and funding priorities in relation to rate increases affecting both First Nation Diesel customers as well as First Nations customers served from Manitoba Hydro’s integrated system.

Councillor Ross also commented on the likelihood of DIAND matching the projected rate increases consistent with the Preferred Development Plan with a corresponding increase in O&M funding [Transcript 10822-10823]:

> All of this affects our ability to pay Hydro bills in our community. As well, Manto Sipi does not expect that AANDC will automatically increase the annual electricity cost component or the O&M contribution to match Manitoba Hydro rate increases at double the rate of inflation. In fact, the O&M funding envelope at AANDC Manitoba region is increased at an average of only about 2 percent per year.
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> The AANDC funding envelope for Manitoba is limited. If AANDC decide to match an annual Manitoba Hydro electricity rate increase of what, like, 4 percent per year. This may mean that AANDC will cut funding -- will cut funding to other programs and services. There may be less funding to address investment, infrastructure, or emergencies.

In the event that the rate increases are not matched for the purpose of calculating the O&M funding contributions for electrical costs, an increasing gap between O&M contributions for estimated electrical costs and actual Manitoba Hydro bills may result, in addition to any shortfall between the net-funded O&M contributions and First Nation own-source revenues.

As part of the MKO Panel, Michael Anderson said [Transcript 10836-10837]

> So many of the most recognizable facilities in a First Nation like the band office and the arena, only receive 20 percent of every dollar of estimated operating costs in O&M funds. So for every dollar of estimated cost the band is funded twenty (20) cents. So it has to make up a shortfall in funding based on the estimate of eighty (80) cents for every dollar of operating costs. And as Councillor Ross had pointed out, this is never compared to the actual Hydro bill. So to begin with, for every dollar of operating cost the First Nation has a shortfall of 80 percent of its operating cost, even as estimated by Indian Affairs using the National Cost Reference
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> manual. And then the actual bills are considerably higher by a factor, as Councillor Ross pointed out, of

> 40 percent.
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> So there's a substantial operating go forward shortfall now in the revenues available to pay Hydro bills because of an institutional mechanism for funding First Nation accounts. I would also point out in this that there isn't a mechanism where these accounts are trued up. And so, therefore, this process continues with only a 2 percent top-up, as we would call it, for the Manitoba regional envelope every year.

b) The World Bank Framework and Capturing Benefits of Existing Manitoba Hydro Projects

Securing an equitable share of the benefits of resource developments within the ancestral lands of the MKO First Nations for each of the MKO First Nations affected by these developments is core objective MKO.

At Transcript 8866 and 8867, Dr. O’Gorman agreed that the principles of the World Bank framework for local benefit sharing in hydropower projects could potentially be applied to those MKO First Nations which are affected by existing Manitoba Hydro developments:

> DR. MELANIE O'GORMAN: So again, we're comparing the PDP to the World Bank framework. And as you note, the PDP doesn't include the thirty (30) First Nations communities in -- in MKO. And in our report we argue that given the World Bank's recommendations, that upstream/downstream indirectly affected communities
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> should be included, then indeed some of the MKO communities would be part of that group.
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> MR. GEORGE ORLE: Okay. And the manner in which those benefits are spread around, you had set out in your report both as non-monetary and monetary benefits.
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> And I believe one (1) of the monetary benefits was an allocation of portions of royalties or taxes that are received by the government to then be attributed to community funds or something to be administered by the communities that are affected and that that would be your position in regards to the type of benefits that might be available to -- to the communities that I represent?

DR. MELANIE O'GORMAN: Yes.

Similarly, in the discussion at Transcript 9257 and 9258, Dr. Gibson agreed that the “past wrong” of excluding First Nations from the benefits of previous projects could potentially be addressed by these First Nations receiving a portion of the project benefits in the future:

MR. GEORGE ORLE: And so it might not be inconceivable that where Manitoba Hydro is currently making partnerships on future dams, that there may be some thought as to making First Nations partners in the previous dams that are already successful?

DR. ROBERT GIBSON: That's conceivable. I'm not necessarily proposing it. I don't have the expertise on what the best options are, but I wouldn't see any reason for precluding that possibility.

MR. GEORGE ORLE: And certainly if today's First Nations are receiving a portion of the benefits in the new dams, then there would be no reason why past First Nations that were impacted wouldn't receive either from the past projects, or from the current project, a portion of the benefits?

DR. ROBERT GIBSON: I -- I don't see any reason why that can't be on the table.