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Via e-mail: manderson@mkonorth.com

Michael Anderson
Research Director
Manitoba Keewatinowi Okimakanak, Inc. (MKO)
Natural Resources Secretariat
6th Floor, 338 Broadway
Winnipeg, Manitoba R3C 0T2

Dear Mr. Anderson,

Re: MANITOBA PUB NFAT REVIEW FOR MANITOBA HYDRO'S PROPOSED PREFERRED DEVELOPMENT PLAN FOR THE KEYASK AND CONAWAPA GENERATING STATIONS, THEIR ASSOCIATED DOMESTIC AC TRANSMISSION FACILITIES AND A NEW CANADA-USA TRANSMISSION INTERCONNECTION OPIONION LETTER

As requested, we have reviewed the materials on the record in this proceeding and offer the following review and opinions on MKO's main concerns of socio-economic impacts on communities and customer rate impacts.

Because this proceeding is a Needs For and Alternatives To (NFAT) review, the issue at hand is to determine which Manitoba Hydro (MH) development plan is in the best long-term interests of Manitobans. Among the issues identified by MH in its application,¹ the PUB's role is to (among other things) review and address the impact on domestic electricity rates as well as socio-economic impacts.

Chapter 11 of the MH application provides a long-term projection of rate impacts for a number of alternative development scenarios, but does so at a high-level without specifically commenting on the impact to each rate class. At a high-level, MH concludes that the preferred development plan may in the first decade have the greatest impact of all the development scenarios. The trade-off, however, is that the preferred development plan may ultimately have the lowest impact on rates beyond the first decade.² Of course, this analysis does not represent a final proposal for end-user rates, and as MH indicates: "It is important to recognize that the projected rates are provided for the purpose of comparative rate analysis and are not intended to convey the specific revenue requirements in future General Rate Applications before the Public Utilities Board."³

The purpose of this proceeding is to determine whether the proposed development is in the public interest overall and it is understandable why MH does not fully model the specific rate impacts for each class of customers. However, even if the PUB finds that the Preferred Development Plan (PDP) is in the public interest, this does not necessarily mean that all Manitobans are necessarily made better off

¹ See MH application, chapter 1, page 2.

² See MH application, figure 11.1, chapter 11, page 8.

³ See MH application, chapter 3, page 7.

in terms of the socio-economic impact. As far as the socio-economic impact on rates, some groups may be made worse off depending upon how the financial cost impact is ultimately reflected in specific rate schedules. There are linkages between this NFAT proceeding and future regulatory processes (e.g. revenue requirement and rate making). We agree with MKO that an outcome of this proceeding is PUB acknowledgement of these linkages and that there will be future regulatory processes to address these issues.

Neither MH nor the TyPlan evidence fully addresses the development plan's impact on low-income, low-use consumers. Moreover, we agree with MKO that the full socio-economic impact on local communities is not fully acknowledged and not fully measured by either MH or TyPlan. The development and operation of the proposed projects could have numerous impacts on many Manitobans, which could include:

- environments, ecosystems, fisheries, wildlife and plants;
- source water supplies;
- community infrastructure and resources, such as water and wastewater systems and recreational and community facilities;
- the abundance and quality of locally sourced "country foods" and medicines and to access and to the costs of harvesting these foods and medicines;
- average incomes and employment levels, including in comparison to other Manitobans and Canadians and to other communities nearby major energy resource developments;
- housing and related infrastructure including in comparison to other Manitobans and Canadians and to other communities nearby major energy resource developments; and
- health and education services and outcomes, including in comparison to other Manitobans and Canadians and to other communities nearby major energy resource developments.

It is our understanding that a majority of Manitoba Hydro's customers in northern First Nation communities are on fixed or limited incomes and are accordingly sensitive to any increases in rates. The evidence is not certain as to whether the forecast employment and income benefits of the PDP will offset or mitigate this sensitivity through an overall increase in household disposable incomes for all First Nation customers or increases in funding available to the First Nation governments, which are all General Service customers.

The evidence before the Board is also that Manitoba Hydro considers the matter of addressing the First Nation Residential and General Service customers in arrears to be of significant concern. It is our understanding that First Nation customers are sensitive to service disconnections, as many First Nation homes are occupied by more than one family and may also have significant supplies of game and fish in the home in frozen storage. MKO notes that while Manitoba Hydro's service disconnection policy in the non-gas areas in the north, including along the Developed Waterway, is not subject to regulation by the Board, that Manitoba Hydro generally limits disconnections to the warmer period between April 1 and October 31. However, there remains a linkage between the pressure on limited incomes resulting from a steady upward trend in rates resulting from the PDP and the establishment of a service disconnection policy which takes into account the specific circumstances of northern First Nation customers and households which are arguably significantly different from most non-First Nation customers and households.

It is expected that, absent measures to ensure universal availability and effective capture of energy efficiency, low-income customer programs and loan programs by First Nation customers and absent appropriate measures to mitigate rates for local communities adversely affected by development, the steady upward trend in rates resulting from the PDP will put pressure on fixed and low-income First Nation customers and is expected to result in increases in arrears accounts and service

disconnections. Arguably, the increases in arrears accounts and service disconnections in First Nation communities would be a socio-economic impact of the PDP.

In this regard, the evidence before this Board is that, while efforts have been relatively recently underway to create a First Nation Power Smart program and to identify other measures which are intended to be available to First Nations, much more can and should be done to ensure widespread delivery of these measures to all First Nation customers and to ensure actual implementation of these measures by First Nation customers.

Therefore, we agree with MKO that any PDP must expressly incorporate as elements of the Plan means to ensure effective capture by First Nation customers and particularly by low-income First Nation customers of effective energy efficiency, low-income customer programs and loan programs and that appropriate measures to mitigate rates for local communities adversely affected by the PDP.

It is our opinion that it is not necessary for the purposes of this proceeding to fully resolve appropriate mitigation measures for all of the potential socio-economic impacts on potentially project impacted persons, whether they are MH customers or not. We assume that appropriate compensation, above and beyond adjustments to MH rates, will be negotiated and resolved in another forum. It is our opinion that a full compensation package for potentially impacted persons should be fully resolved before the PUB approves these projects for construction.

It is also our opinion that it is not necessary for the purposes of this proceeding to fully resolve rate mitigation issues, but it is important to acknowledge the potential that some groups of consumers will be worse off. The preferred development plan requires a substantial up-front capital investment and will potentially generate substantial benefits in the future in the form of export revenue. Other alternative options considered by MH have a much lower up-front investment and fewer potential back-end benefits.

Whether some groups of consumers will be worse off, and if so by how much, greatly depends on establishing some resolution on the socio-economic impact on local communities. Beyond local communities, the socio-economic impact on low-use, low-income consumers will depend on how MH intends to design rates to recover capital expenses and operating expenses net of future export revenue. If, for example, MH depends upon higher fixed monthly charges to recover the higher capital expenses (higher compared to gas-fired generation options) and returns the benefit of export revenue through a usage (i.e. ¢/kWh) charge, then low-use, low-income consumers may be bearing a disproportionate burden of the risk without sharing in any of the benefits. This is an issue that is more appropriately addressed in a future process where the detailed rate impacts of the final approved development plan can at least be compared to a single, next-best alternative as identified by the PUB. MH's application provides a number of alternative development scenarios and it would be unwieldy and unnecessarily complex to develop detailed proposed rates for each scenario.

Therefore, we suggest the PUB in this proceeding should provide a direction to MH to specifically and explicitly address the future socio-economic rate impact of the final development plan. This includes both the socio-economic rate impact on low-use, low-income customers in general as well as potential rate mitigation for local communities adversely affected by development.⁴ This future process could be the next GRA, but given the potential complexity, we would suggest this issue be addressed in a separate, stand-alone proceeding. For example, a separate rate class for project affected customers

⁴ See Wang, Chaogang. 2012. A guide for local benefit sharing in hydropower projects. Social development papers; no. 128. Social sustainability and safeguard. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2012/06/16465910/guide-local-benefit-sharing-hydropower-projects>

could be developed, as suggested by MKO in the past.⁵ Another option could exclude the allocation of water rental fees in the cost of service study to the new rate class of hydro affected customers.

A stand-alone proceeding would also afford opportunity to examine the impact of other findings and directions made by the PUB, including but not limited to such issues as long-term debt financing, methods or strategies for levelizing rate impacts over the life of the project so as to improve intergenerational equity, incorporating any outstanding issues raised by the Christensen evidence filed in the previous GRA,⁶ and any improvements to MH's load forecast as directed by the PUB in this proceeding.

Furthermore, the socio-economic rate issue is not just limited to how MH will ultimately propose a cost allocation and rate design. Even if MH were to adequately and fairly address the flow through of capital costs and export revenues, low-use, low-income consumers may still be bearing a disproportionate burden from the final development plan. Evidence submitted by TyPlan indicates that "low-income households and those on fixed incomes such as low-income seniors, being the most impacted",⁷ and it suggests that "energy efficiency and reduction initiatives" is the best means to mitigate this problem.⁸ However, TyPlan did not conduct any study of Manitoba and instead arrived at this conclusion by reviewing other studies from various jurisdictions.

Specifically as this issue relates to Manitoba, we agree with MKO's concern that there are fewer opportunities for a low-use, low-income customer to reduce energy consumption in the future. MH has promoted a DSM program for 20 years, and MH reports that the program has been successful to date.⁹ However, MH's application forecasts declining returns for energy efficiency.¹⁰ Furthermore, MH's application indicates there is a negative net benefit for DSM programs targeted at low-income consumers.¹¹ It appears that opportunities for low-use customers to reduce energy use further are already exhausted or soon to be exhausted. This is particularly of concern for the MH customers in the diesel communities.

Arguably, any institutional limitations or barriers which result in the differential availability and implementation of energy efficiency and affordable energy initiatives between customers in First Nation communities and customers in non-First Nation communities would exacerbate the rate impacts of the PDP and so would arguably be a socio-economic rate impact of the PDP.

⁵ Order 117/06, August 2, 2006, being the PUB's acknowledgement of MKO's previous position and recommendations regarding the matter of rate mitigation for Hydro Affected Customers:

MKO advised that rate design changes should take place concurrent with a new COSS model. MKO sought the removal of mitigation costs from the aggregate costs allocated to northern customers through the means of a 4% reduction in rates. The basis for the reduction would be that those customers should not incur any electricity charge related to mitigation costs.

MKO also favoured the creation of a new class for Hydro-affected customers residing on the waterways utilized by MH, a class to 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. The change is, as previously indicated, the reliance on export sales; initially, the basis for northern generation plants was electricity for Manitobans.

⁶ MH 2012/13 & 2013/14 General Rate Application, Volume II, Cost of Service, Tab 13

⁷ See TyPlan evidence, page 41.

⁸ See TyPlan evidence, page 47.

⁹ See MH application, chapter 4, page 18.

¹⁰ See MH application, figure 4.9 of chapter 4, page 20, which shows cumulative electric savings increasing at a decreasing rate

¹¹ See MH application, figure 4.13 of chapter 4, page 28.

Therefore, we agree with MKO that PDP approval should include the following elements to mitigate rate impacts on northern First Nations:

- Establish objectives for the widespread inclusion of and delivery to all First Nation customers of the home insulation program, refrigerator retirement program, water and energy saver program, First Nations program, and the on-going residential loan and Affordable Energy Program, particularly to those First Nation communities affected by the PDP;
- Establish objectives for the widespread inclusion of and delivery of commercial programs to all First Nation facility and commercial General Service customers;
- Establish, monitor and measure the effective capture of these programs by First Nation customers; and
- Design and implement appropriate rate mitigation measures for local communities adversely affected by the PDP.

Therefore, it is our opinion that the PUB should in this proceeding should provide a direction that clarifies the roles and responsibilities of Government, PUB, and MH as they relate to ensuring continued effort and focus on providing effective energy efficiency and loan programs and appropriate measures to mitigate rates for local communities adversely affected by the proposed developments. We considers this direction to be critical for ensuring accountability going forward and to ensure that socio-economic impacts on low-use, low-income consumers are not inadvertently overlooked after this particular NFAT proceeding concludes.

Sincerely,

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