

Betting the farm on Keeyask and Conawapa: Risk and Affordability in an Era of Uncertainty

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Three dice are scattered across the bottom half of the slide. One is in the foreground, showing a 1, 2, and 3. Another is behind it to the left, showing a 1, 2, and 3. The third is to the right, showing a 1, 2, and 3. The dice are white with black pips.

It all seemed so easy...



It all seemed so easy (cont'd...)

- **Wuskwatim was low risk**

- We've got a relatively low risk project. All the risks are manageable and the Wuskwatim economic benefits are very robust with respect to the risk factors.
 - (Transcript Volume #1 – March 1 2004, Page 108, Mr. Wojczyski)
- And what we have projected here into the future is a low export price forecast and a high export price forecast. . . . I'm going to particularly focus on the low because even under the low, we've still got a good project.
 - (Transcript Volume #1 – March 1 2004, Page 122, Mr. Wojczyski)

It all seemed so easy (cont'd...)

- **The 2020s were “the decade of returns”**
 - The ten-year period to 2020 is being referenced as “the decade of investment” in which major investments, totalling \$16.5 billion, are being made to Hydro’s generation, transmission and distribution systems. The decade following 2020 is being referenced as “the decade of returns” in which significant benefits are returned to the energy ratepayers of Manitoba.
 - This is accomplished with domestic rate increases which, over the longer term, are closely aligned with projected rates of inflation.
 - (2011-12 GRA Application, Tab 2, page 3)

Is the analysis of Hydro
credible?

of
qualifications / KREC
credibility
thing has credibility
trust them no He
shouldn't about it

Unprecedented Risk – The future seems even more uncertain

- Three uncertainties
 - Long run environmental policies (carbon tax)
 - Evolution/revolution in low carbon technologies (wind and solar)
 - Price effects of unconventional gas (shale)

Unprecedented Risk – The future seems even more uncertain

- The changes underway in the 21st century electric power sector create a level and complexity of risk that is perhaps unprecedented in the industry's history.
 - (Binz et al, Practicing Risk-aware Electricity Regulation, April 2012, PUB/CAC-GAC, 006a)
- Recently, the future seems even more uncertain than usual.
 - (Brattle Group, slide 10)
- La Capra Associates has concluded that MH's review of the alternative development plans has several shortcomings, including an overly narrow range of potential development plans and the use of outdated or inappropriate generation cost assumptions.
 - (LC 3A-25)

Is the Hydro plan an artifact
from a more simple time?

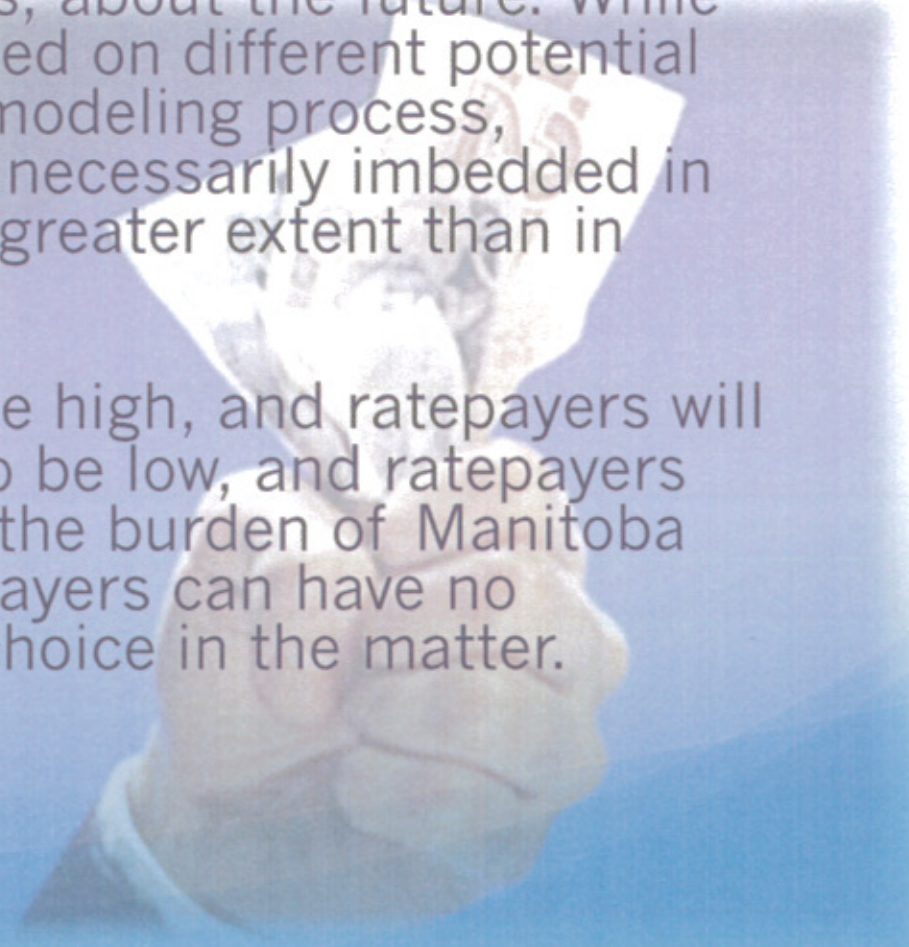


Is Hydro's analysis
"skewed" against certain
alternatives?



Betting with ratepayer's money

- In this respect, Manitoba Hydro is acting as a “merchant” investor, taking substantial market risk based on expectations, or bets, about the future. While “probabilities” have been placed on different potential futures through the scenario modeling process, fundamental market risks are necessarily imbedded in some Resource Plans to a far greater extent than in others.
- Prices will either turn out to be high, and ratepayers will benefit, or they will turn out to be low, and ratepayers will have to shoulder more of the burden of Manitoba Hydro costs. Either way, ratepayers can have no certainty in advance, and no choice in the matter.
 - (Morrison Park, p. 69)



Is the gamble on export
sales too risky?



Is the risk imposed on
ratepayers by the Hydro
plan appropriate?



Are risks appropriately shared between ratepayers and the province?



Are there less risky
alternatives?



Betting in the face of environmental uncertainty

- Manitobans should anticipate, and prevent or mitigate, significant adverse economic, environmental, human health and social effects of decisions and actions, having particular careful regard to decisions whose impacts are not entirely certain but which, on reasonable and well-informed grounds, appear to pose serious threats to the economy, the environment, human health and social well-being.
 - (Principles of Sustainable Development)



Betting in the face of environmental uncertainty (cont'd)

- It is uncertain, even with the mitigation measures proposed by MH, that caribou will return to the area once Keeyask is in operation. . . .Impacts to local resident caribou are of significant concern. . . .Further disruption could have substantial impacts on the ability of current and future generations to hunt in areas affected by the projects.
 - (MNP, 76)
- It is difficult to ascertain whether strategies proposed by MH aimed at preserving or enhancing the lake sturgeon population will be sufficient due to lack of data on the effectiveness of stocking methods and reliance on constructed habitat.
 - (MNP 77)
- If this region and its peoples are already at a 'breaking point', then any further development may unexpectedly cause the 'death' or total demise of the existing socio-ecological system or key components of it. This is a phenomenon known as 'death by a thousand cuts'.
 - (MMF-CAC Gunn, 07A)

Can the Nelson River sustain further Hydro development?



Can we afford the Hydro Plan?

- The ratepayer impacts are not acceptable
 - (Higgin, February 4, 2014, 3)
- ...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.
 - (Desiderata Energy Consulting Inc. & Chymko Consulting Ltd., February 4, 2014, pgs 2 – 3)

Are any of the plans
affordable?



A flawed process

- Sense of inevitability
- Failure to hold BiPole3 NFAT
- The “black highlighter”
- ...the undertaking effectively silences the voices of interveners on many important issues.
 - (Bowman correspondence, February 26, 2014)

Can our advice be credible?



The role of CAC Manitoba

- The human impact
- Affordable access to basic necessities
- Transparency
- Sustainability



Thank you.