MANITOBA INDUSTRIAL POWER USERS GROUP

Opening Comments Bill Turner

Introduction

Mr. Chairman and members of the Board.

My name is Bill Turner and I am the Chair of the Manitoba Industrial Power Users Group, and the former Plant Manager at Canexus in Brandon. With me today is Dale Bossons of Canexus - Dale is the Brandon Canexus Plant Manager and the Co-Chair of MIPUG.

I have been the Chairman of the Manitoba Industrial Power Users Group since 2000. As Chair of MIPUG, my responsibilities include communicating the interests of MIPUG related to electricity rates and rate-setting. On behalf of MIPUG I would like to thank you for the opportunity to address those present in the hearing, including the other intervener groups and the Manitoba Hydro panel. We will be happy to answer questions from the Board after the presentations.

MIPUG is an association of major industrial companies operating in Manitoba that belong to the GSL >100 kV class and the GSL 30-100 kV class. Presently, MIPUG Member companies and their locations are as follows:

- HudBay Minerals Inc., Flin Flon;
- Tolko Industries Ltd., The Pas;
- Canexus Chemicals, Brandon;
- Koch Fertilizer Canada ULC, Brandon;
- ERCO Worldwide, Virden;

- Gerdau Long Steel North America – Manitoba Mill, Selkirk;
- Amsted Rail - Griffin Wheel Company, Winnipeg;
- Enbridge Pipelines Inc., Southern Manitoba; and
- TransCanada Keystone Pipeline, also in Southern Manitoba.

Background on MIPUG

MIPUG members work together on issues of common concern related to electricity supply and rates. MIPUG has participated as an intervener in each of the Board's reviews of Hydro rates since 1988, as well as the Board's review of Hydro's Major Capital Projects in 1990 and the recent NFAT review.

The association's key concerns related to electricity costs are: 1) stability and predictability of rates; 2) ongoing transparent regulation of Manitoba Hydro's rates and major capital spending; and 3) ensuring rates for all customer classes reflect the fair cost to serve the class.

Past presentations to the PUB have explained that the cost of power is very important to the operations and growth of member companies.

MIPUG members compete in a global marketplace, and attractive, cost-based electricity rates allow industry to remain competitive in Manitoba by offsetting some of the geographic, climate and other disadvantages faced by industry in this province – including distance to market. The decrease in the cost of power in the USA produced by natural gas is making it more difficult for some major Canadian and Manitoba companies to be as competitive in the export of finished goods. Also, many MIPUG members compete globally where the cost structures are far more difficult to match.

Competition for the MIPUG members is internal to each company, as well as external. Most MIPUG members have sister plants in other jurisdictions that compete for capital investment. Businesses make location and capital investment decisions based on cost and predictability. Industry takes a long-term view when making these decisions - it is not just today's rates, but also tomorrow's rates that are of interest. Once you have invested many millions in a plant and its staff, the exposure to electricity pricing changes is high.

MIPUG Economic Contribution

MIPUG companies are significant contributors to the provincial economy. Eight out of nine MIPUG industries are located outside of Winnipeg. In several instances, they are the principal employer in the community.

MIPUG in the spring of 2012 completed an assessment of the economic impact of its members. Total spending on salaries and benefits in Manitoba for MIPUG industries was $457 million annually and another $72 million for contract labour. That represented approximately 4,300 direct, full-time, high paying jobs and nearly 1,300 contract jobs. The average salary at a MIPUG company before benefits was about $91,000 per year, which was more than twice the provincial average of $42,000.

Municipal, Provincial and Federal governments benefit from MIPUG industries. Combined MIPUG companies contributed an estimated $261 million to the 3 levels of government.

In addition to direct spending, MIPUG industries bring numerous secondary economic benefits to communities. MIPUG industries spend more than $260 million on goods and services in the province every year. In addition, workers earning high industrial wages help support the retail, hospitality, and service sectors in their communities. That is particularly significant in northern regions, since areas of

Northern Manitoba have an unemployment rate many times as high as Winnipeg's. Industries such as Tolko and HudBay and their subcontractors are directly or indirectly responsible for a significant percentage of the existing employment opportunities in the north.

Total gross expenditures in Manitoba as a result of MIPUG industries is almost $4.2 billion, while MIPUG industries contribute an estimated $2.3 billion to the province's GDP.

The MIPUG Economic Impact Assessment has been filed in previous hearings before the Board, and is available for review.

MIPUG Concerns in this Proceeding

The current proceeding raises a number of issues for MIPUG members related to the Curtailable Rate Program, Industrial DSM and overall trends for further and higher rate increases going forward.

I will deal first with the Curtailable Rate Program. MIPUG has concerns regarding Hydro's proposal to reduce caps on the Curtailable Rate Program.

The Curtailable Rate Program was developed in the early 1990's through joint efforts of industry and Hydro, and supported by the PUB. The program provides capacity for the benefit of the system, helps with reliability and is one of the few DSM options available to industrial customers in Manitoba. In order to participate in this program, companies, such as Canexus and others, have invested significant time and attention to having the necessary equipment, procedures and staff training in order to respond as required when a curtailment occurs. This investment in time and resources has paid off for these companies as well as for Manitoba Hydro and its customers. The merits of this program were even noted during the recent NFAT hearing where the PUB recommended that DSM programming be increased and noted that the Curtailable Rate Program had potential to result in additional capacity savings and merited further review. Given all this – Hydro's move to reduce caps on the availability of Options A and R is surprising. It is MIPUG's view that Manitoba Hydro continues to undervalue the long term benefits of the Curtailable Rate Program. MIPUG is concerned about this development and encourages the Board to assess whether the lower interim caps sought by Manitoba Hydro for the program are required. Members do not want to see the value of the program diminished, but also do not want to see this option taken away from new participants.

In prior MIPUG presentations to the PUB, MIPUG members have spoken about significant rate options that exist in other locations which result in member companies having access to lower overall costs for power than they have in Manitoba. Members who own plants with operational flexibility understand that their sister operations in other parts of Canada or the US can alter their loads to access low daily or seasonal market prices and avoid or capture the benefits at times of high market prices. For companies that generate some portion of their own power, other jurisdictions offer the opportunity to receive economic price incentives on that generation.

Overall, there are minimal programs or rate options available in Manitoba to help industry manage their power costs. As a result, Manitoba's position with respect to power costs has changed. For many MIPUG members, Manitoba was among the lowest cost jurisdictions for power – but it is not anymore. In a number of locations in North America with only a limited degree of participation in alternative program offerings, customers can achieve overall power costs lower than what is available in Manitoba.

With regard to DSM, MIPUG members have in the past worked with Manitoba Hydro to develop programs to help industry manage costs. Following the NFAT review, the PUB recommended that an arms-length entity be established to develop and implement a plan to meet mandated DSM targets. This presents a further risk element to MIPUG members regarding uncertainty in how programs are developed in the future and the ability for members to access programs to shave or shed load.

MIPUG is very concerned about industrial DSM being removed from Manitoba Hydro. Industrial DSM opportunities are customized to suit each individual load, and require an in-depth knowledge and understanding on each customer's energy usage and operations. Manitoba Hydro has the in-depth knowledge and longstanding individual relationships with industry regarding load profiles, power needs and customer operations. This model has proven successful for delivering industrial DSM programming in the past. Replicating this understanding in a separate external agency or third party would be inefficient, and duplicate efforts which are already required internally at Manitoba Hydro.

Additionally, the intimate knowledge of a company's operations required for effective industrial DSM programming usually contains a high degree of confidential and commercially sensitive information. Adding an additional relationship with a newly formed agency or third party would result in this information being spread more broadly, creating an additional element of risk for industry, which may have a damping effect on new capital investment in Manitoba.

Finally, among the largest industrial DSM programs are programs that help curtail the capacity used by eligible industrial companies for short periods (hours) at times of acute system demand. It is not clear how such programs could be managed in any form by any entity other than Manitoba Hydro.

Given the outcomes of the recent NFAT proceeding, MIPUG members were also surprised by the requirement in this GRA for an additional 3.95% rate increase at this time. MIPUG intervened in the NFAT proceeding and is aware of the arguments put forward by Hydro at that time. Hydro argued that, with 3.95% rate increases each year well into the future, it could undertake massive investments in future generation while maintaining a safe and reliable system. Now, with the $10 billion Conawapa put on hold – there are no savings for ratepayers – and Hydro still needs 3.95% rate increases each year well into the future.

Following a period of recession, industry in Manitoba has continued to be challenged by steady rate increases (more than 40% since 2004). In the past, rate increases were presented as a decade of investment followed by a decade of returns. With each subsequent financial forecast these returns eroded. Now Hydro indicates that we can expect ongoing and sustained proposals for rate increases that are well above inflation for the next decade or more in order to meet ongoing operational and reliability requirements. For MIPUG members to survive in Manitoba we cannot have another decade of similar rate increases.

Throughout this period, Manitoba Hydro also produced cost-of-service studies that show industry paying 10% or more above its costs, yet all rate changes were implemented on an across the board basis. It must be noted that with a 3.95% rate increase applied on an across the board basis, the industrial customers' share of that increase is larger than the balance of ratepayers. Industrial customers also own and maintain their own transformation – which is an additional cost.

MIPUG companies are expected to manage costs and prioritize spending in order to survive in increasingly competitive cost environments. In MIPUG's view, there is a need at this time to review Hydro's practices in order to ensure – in a way that is transparent to all parties - that Hydro is pacing, prioritizing and controlling its expenses so as to control and pace rate impacts on customers.

Overall, MIPUG members are concerned about persistent electricity rate increases that undermine the advantage of operating in Manitoba. Especially in an environment where Hydro is offering minimal programs or rate options to industrial customers that would help to manage power costs. Electricity prices matter greatly to industrial customers, and without a cost-based, stable and predictable regulated rate environment, there is a risk that investments will occur elsewhere, taking along hundreds of millions of dollars in capital investment, reinvestment and upgrades with the associated construction and permanent high-paying jobs.

Closing

MIPUG companies' involvement in the Manitoba economy reflects past benefits of competitive, cost-based rates and of clear and transparent regulation.

The industrial customers of Manitoba Hydro have been well served by this utility and the PUB in the past. Hydro is a good company to deal with, and we would not want our comments to be read as criticism of the professional and competent staff that we work with at Hydro.

I ask the Board to consider the presentations made by MIPUG in light of the competitive challenges faced by industrial power users in Manitoba, and to help us retain our competitive position in Manitoba and in North America. Dedication to providing reliable firm power at fair and reasonable rates, ensuring rates reflect cost of service, and developing innovative rate options that benefit both industry and Manitoba Hydro are important for the future growth of large industry in Manitoba.

MIPUG's detailed position on the various issues in this GRA will be communicated by Mr. Hacault in our final argument. For today, the members wanted to relay to you the customer perspectives on Hydro's rates and regulation.

Dale Bossons will now provide information on the importance of cost-based predictable rates for the Canexus plant.