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Attention: The Public Utilities Board
400 – 330 Portage Avenue
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NFAT Submission

I was the Chairman of the Public Utilities Board (PUB) for an eight-year period ended March 31, 2012.

During that period, PUB dealt with a succession of Manitoba Hydro (MH) rate applications, which required and allowed PUB members, particularly those that sat on the panels that heard the Utility's applications, to become very familiar with not only issues related to MH but also the energy industry and the overall context within which MH operates.

Prior to taking up my post at PUB, I had exposure to the operations of Crown-owned and private utilities, first as Comptroller of Saskatchewan's Crown Investment Corporation, where I had oversight of the accounting and financial reporting practices of Saskatchewan Power. Later in my career, as Vice-President of Manitoba's Public Investment Corporation (PIC was the precursor to Crown Corporation Council), I had involvement related to MH and analyzed the results and plans of MH for PIC.

Through the Hydro (electricity and gas) hearings over which I presided, three dominant and troublesome factors persisted, reducing our confidence in the operations and plans of MH. Those were (1) the withholding of critical information by MH, (2) consistent under-estimation by MH of its major project construction costs and over-estimation of overall load and export pricing, and (3) the employment of accounting practices deferring significant costs (and rate increases) to future periods.

The general understanding of the objectives set for MH by Government and the Legislature, those being the provision of reliable electricity for Manitobans at the lowest cost, changed over the length of my time with PUB. Increasingly, new goals surfaced, goals established by the NDP Government, some of which were not transparently stated - a move away from fossil-based energy, a seemingly desire to maximize revenue for the Consolidated Fund, an effort to provide economic benefits to First Nations, and a desire to achieve a World Heritage designation for the eastern boreal forest. The original two objectives – reliability and low cost - appeared to of lesser concern to Government, and Hydro was clearly extending its 'interests and reach'.

I also noted and experienced structural restrictions on PUB's authority with respect to MH. First, despite PUB’s consistent recommendation to Government that PUB's authority be extended to include approval of MH's capital expenditures - capital expenditures are the major driver of Hydro rates and customer rates - PUB was left with having to accept MH's capital expenditure activities and costs as a given. This contrasted and continues to contrast with the situation with respect to MH's subsidiary, Centra Gas, for which PUB can refuse to reflect in rates capital expenditures if PUB concludes those expenditures are not prudent.

Secondly, PUB's terms of operation require it not to countermand either legislation or Government policy that has been transparently expressed. Thus, while PUB could, and did, issue, through its Board Orders, expressions of concern related to MH's plans and actions, it could not, in essence, refuse to finance the Utility’s plans through rates.

PUB was, and is, primarily, a sounding board, one that while useful more a calculator rather than a decision maker.

Prior to 2008 and the global credit crisis and recession, MH, apparently with the full support of the provincial government, developed a plan to expand the Utility's hydro-electric generation through the construction of three new northern dams (Wuskwatim, Keeyask and Conawapa) and a new HVDC transmission line.

The new transmission line was originally planned, by MH, to be constructed down the eastern side of the province, a plan that was scrapped by a Government edict that the route be relocated to the western side of Lakes Winnipegosis and Manitoba, a much longer and more expensive route compared to the original design. The timing of the planned new construction was then affected by expectations for export sales and prices, forecasts that have not been realized.

The credit crisis and economic slow-down (particularly in the U.S.) coincided with the employment of technologies that allowed for the extraction of natural gas from shale deposits on both sides of the U.S. border. This led to an enormous increase in natural gas supplied and a 'collapse' of natural gas prices. (The recent increase in the price of natural gas is clearly due to the unusual cold spell, extending far south. The increase may well be helpful to restraining natural gas pricing in the future, as the current price allows for producer profits, thus likely to generate more extraction.) Because natural gas generation is used by American utilities for peaking energy and, to some extent, for satisfying basic load, a similar collapse occurred in wholesale spot electricity export prices.

That period of time also included the realization of massive under-estimations by MH of the construction costs expected for its major 'build' plans. Wuskwatim costs rose to double the initial estimate, and similar cost explosions have occurred for the other major plans. Furthermore, then-relatively low estimates for upgrading the current infrastructure have also been overtaken by a major increase in the projected cost for that effort, now exceeding $10-billion.

Despite the changes and events that occurred during, as a result of the events of the 2008-09 period, and later, MH, continually urged on by the Government, did not change its ‘build’ plans.

Nor did MH change its approach to PUB, it continued to refuse to provide export contracts, benchmark data comparing its operations with other similar utilities, and an asset condition report, the latter necessary to allow for a better understanding of the condition and effectiveness of MH's capital assets. (In past years, Pointe du Bois was expected to need an overhaul; the initial cost estimate now exceeded by a factor of six, with the cost of replacing the spillway alone reaching $566-million.)

MH also did not follow through on placing before PUB a proposal for a new rate classification, one that would provide for higher rates for new and expanding large industry firms. Such rates were to be more reflective of the cost of new infrastructure – the large industry classification currently pays about 4 cents per kilowatt hour even though the overall forecast cost of new generation and transmission exceeds 12 cents. The lack of such a rate means that consumers, including lower-income households that are dependent on electricity for heat, are and will subsidize major new industry.

Following my retirement from PUB, I continued to monitor MH, Canadian and broad energy developments.

I was shocked when PUB, with a new panel sitting for MH applications, withdrew a subpoena PUB had previously issued seeking the filing of Hydro's export contracts. My shock was intensified when, within days of withdrawing the subpoena, PUB agreed to hold a NFAT review with terms of reference that considered Bipole III as a sunk cost - obviously, without Bipole III there cannot be a Keeyask or a Conawapa. If neither of those two dams are built the full costs of Bipole III will fall on ratepayers (those costs then to require an overall rate increase in the order of 30% or more, perhaps spread over as few years as the ratepayers could withstand).

By considering Bipole III as a given, the 'case' for Keeyask is enhanced, prejudicing the effectiveness of the NFAT. Finally, I was shocked and dismayed when the PUB, without receiving the information MH had been directed to file with PUB or being able to conduct a NFAT without restricting conditions, then finalized an overall 8% rate increase.

About then, I was asked by the Frontier Centre for Public a Policy, a western Canada independent think tank, if I was willing to make a public presentation of my views and concerns with respect to MH and the oversight of MH. In the public interest, I agreed and the presentation occurred on June 5, 2013. Ahead of that, I informed the Minister of Finance, through a submission on the Government’s then-approaching 2013-14 budget (submissions from the public were invited by the Government) of many of my Hydro-related concerns.

Since then, the Government's version of a NFAT is underway, presided over by PUB. In reviewing Hydro's 5700-page initial submission including appendices, I failed to note any focus on the affordability and risks of the plan for ratepayers, though I did note the recognition in the document of the 'value' of the plan for Government. In doing so, I offered to present my views by way of an oral presentation, but that offer was not taken up.

As I recall, even with today's relatively low rates, Hydro has tens of thousands of delinquent accounts each month. What will happen if rates climb at twice the rate of inflation for even two decades, particularly for lower income households employing electricity to heat their homes? What will the implications be if, not only for households but also for industry, and given Hydro's sorry history of forecasting, rates end up tripling over twenty years?

Also since June 5, I noted that despite CEC's long list of concerns with respect to the environmental licensing of Bipole III, it still recommended that Government issue the licence dismissing the Bipole Coalition's engineering solution to reliability that allowed for a deferral of constructing the line. And, as for consideration of the construction of a combined cycle gas plant as an alternative to the 'big build' scenario, little attention is paid to the risk management advantages of diversification of supply, let alone the potential for resource extraction from Manitoba's portion of the Bakken field. Finally, with respect to Hydro's NFAT submission, I note no exploration of the potential for more aggressive energy efficiency and load suppression measures, rather what I see is, once again, exaggerated load forecasts.

I now provide, under separate cover, provide a copy of the brief that supported my June 5, 2013 presentation. Despite the passage of time, it still reflects my views with respect to MH's plans and risks. It also still reflects my perspective of Government's financial conflict of interest (Government's coffers increase significantly with higher-cost development involving much more borrowing than would be the case of lower cost development. While Government could mitigate its financial conflict by waiving the debt guarantee fee and capital taxes related to the ‘big build’, it has not.)

I firmly believe that, when a publicly owned Utility plans to expend $34 billion (likely the cost estimate for MH's plans has increased further since last June and will increase further if implementation continues to proceed), roughly three times its current balance sheet and the Government plans to borrow tens of billions of dollars to support the Utility's plans in the context of a deficit-ridden high-debt provincial situation, a proper review should be held well before undertaking to implement the plan.

And, that review should not be conducted by a body that is restricted in its work and staffed (the panel members) by people not expert in the field and appointed by a government that has been cheer-leading the Utility's plans for a decade. No disrespect intended. (While I note PUB has longstanding capable advisors, and has engaged additional consulting expertise to assist the panel, in a matter of such importance it would be best if the panel members have significant experience and knowledge in and of the energy industry, inclusive of MH, and were to be appointed by an all-party committee of the Legislature.) There should not be even a 'whiff' of the perception or risk of the perception of bias when a $34 billion proposal is being contemplated.)

I fear for consumers, particularly lower income households heating their homes by electricity. I also fear for the province's economy; if rates soar will industry stay let along come? I also fear for the loss of flexibility that lies ahead for future governments, with the level of borrowing necessary to implement the present plan.

In short, I hold that the present government lacks a social license to proceed as it is now doing with respect to Manitoba Hydro. Before 'betting the farm', those that live here deserve a proper say. I recommend a read of my June 5, 2013 paper, which I provide under separate cover.

Yours sincerely,

(Original signed by Graham Lane, January 30, 2014)

Graham Lane, CA

p.s. I welcome comments and questions, my email address is grahamlane@shaw.ca .