

# Manitoba Hydro and the Public Utilities Board

An Uncertain Future

Lynne Fernandez



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ERROL BLACK CHAIR

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IN LABOUR ISSUES

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## Introduction

A STRING OF news releases and media stories about Manitoba Hydro, starting in the spring with the attempted passing of Bill 44,<sup>1</sup> is leaving a trail of questions that are calling out for answers. It is possible that the soon-to-be-completed Brad Wall inquiry report — if made public — will offer clues.

The inquiry itself is a mystery. It isn't clear why the provincial government called for it, how it is being conducted, if the finding will be made public and why they chose the commissioners they did.

In October 2019, the provincial government announced that former Saskatchewan Premier Brad Wall would take over as commissioner of an inquiry into Manitoba Hydro's Bipole III transmission and converter station project, and Keeyask Generating Station. Wall took over from former BC Premier Gord Campbell who stepped down after only five months, for which he billed Manitoba tax payers almost \$600,000.<sup>2</sup>

Campbell was appointed as commissioner in October of 2018 pursuant to the Manitoba Evidence Act. According to the government news release, Campbell will "... review actions taken prior to and during the construction of those projects (Keeyask and Bipole III). We have asked Mr. Campbell to

make recommendations to ensure future projects are developed and managed in the best interests of all Manitobans”.<sup>3</sup> Upon his resignation, Wall was tasked with finishing the job.

Given the considerable amount of criticism the current government has already publicized about these projects, many speculated that the whole exercise was politically motivated. The Conservative-commissioned, highly publicized 2016 Boston Consulting Group report was critical of how the decisions were made, particularly with respect to the placement of Bipole III on the west side of Lake Manitoba.<sup>4</sup> The report gave them the verdict they wanted, but it did not include a fulsome discussion of environmental concerns, or discuss the urgent need for reconciliation with Manitoban’s First Nations who have suffered deeply from hydro development. Now another \$2.5 million of tax payer money is being spent on one more report. Why another inquiry, which will likely provide no new information, and why now, four and half years after the Pallister government took power and six years after the Public Utility Board released its own report based on a major set of public hearings?

There could be much more afoot with Mr. Wall’s inquiry than partisan mudslinging. We will examine recent and upcoming events, such as the tabling of Bill 44, The Public Utilities Ratepayer Protection and Regulatory Reform Act, and the mysterious goings on around Manitoba Hydro Telecom, the Manitoba Hydro subsidiary that maintains the fibre optic network connecting the utility’s transmission lines and relay stations. It will also gather information about the nature of the inquiry, and how and why it is been conducted.

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## Bill 44

The Public Utilities Ratepayer Protection and Regulatory Reform Act, or Bill 44, was part of an emergency package of legislation the government tried to pass in April, 2020, ostensibly to deal with COVID 19. The opposition NDP convinced the government to only deal with legislation that was relative to the pandemic, but we can expect to see it tabled when the legislature sits again in October.

The bill introduces sweeping changes to The Public Utilities Act, The Manitoba Hydro Act, The Manitoba Public Insurance Corporation Act and The City of Winnipeg Charter. Of concern for purposes of this update are the changes to the Public Utility Board (PUB) and Manitoba Hydro (MH).

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## Manitoba Hydro Act

Changes to the Manitoba Hydro Act will break up the utility’s monopoly over the sale of electricity, allowing for the sale of power to recharge vehicles at public charging stations. It also authorizes landlords, condominium corporations and housing cooperatives to produce and sell power to tenants. It is not clear what rate residents will pay, or what guarantees they’ll have in the case of system failures.

This change raises many concerns, especially in the context of MH president and CEO Jay Grewal’s comments about the coming end of Hydro’s monopoly and a future of “fierce competition” in the sale of power. As noted by Liberal leader Dougald Lamont:

“When the CEO of Hydro says there’s going to be a point when we’re no longer going to be a monopoly when that is what Hydro is, it is a public monopoly, and it’s owned by all of us – we all need to understand exactly what that’s supposed to mean.”<sup>5</sup>

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## The Public Utility Board (PUB)

Working for Manitobans since 1913, the PUB regulates retail electricity rates and oversees approval of capital projects such as the Keeyask Generating Station. It also holds public hearings to allow intervenors to present concerns and analyses of concern to Manitobans such as proposed rates for electricity.

During the hearings on Keeyask, intervenors included the Manitoba Métis Federation, Manitoba Keewatinowi Okimakanak Inc., the Green Action Centre, the Manitoba Industrial Power Users Group and the Consumers’ Association of Canada (Manitoba). Independent expert consultants were appointed to examine MH’s Preferred Development Plan. Eight of them gave evidence at the hearing, and the panel heard 43 days of evidence.<sup>6</sup>

The 2014 report that came out of these hearings (*Report on the Needs For and Alternatives To (NFAT) Review of Manitoba Hydro’s Preferred Development Plan*) provides a comprehensive analysis of the considerations that went into approving Keeyask. An in-depth review of the key issues of the report was covered in CCPA MB’s report: *Manitoba Hydro, The Long View*,<sup>7</sup> arguing that the analysis provided in the 2014 NFAT report was robust, and in terms of MH’s debt/equity ratio forecasts, has stood the test of time.

Nonetheless, the Boston Consulting Group (which had participated in the NFAT process and hearings) was hired to prepare another limited report

that the Conservatives were able to use to discredit the decisions made by the Hydro and the PUB. Premier Pallister went so far as to claim that Keeyask had not been properly vetted, although he didn't specifically say if he thought that the PUB process had been deficient or tampered with.<sup>8</sup>

The focus of the Pallister government's ire continues to be the debt MH took on to build Keeyask. Since taking office and changing the Hydro board, they have argued adamantly to significantly increase hydro rates in order to pay that debt down. Their appeals to the PUB to allow for hefty increases have failed, with the PUB ruling in favour of those intervenors who advocated for lower increases. Importantly, the PUB did not agree that Hydro's debt would be unmanageable, a conclusion that was initially articulated in the 2014 NFAT report.

Given that Keeyask is now nearly completed and poised to become operational,<sup>9</sup> worries about MH's ability to service its debt remain unfounded, especially in light of the new firm power export contracts with SaskPower.

Differences between what the PUB's 2014 NFAT report recommended and what Bill 44 is proposing reveal a decidedly different approach to how MH can and should balance rate increases, debt-equity and payments to the province. The PUB estimated that the 78 year Net Present Value of water rentals and capital taxes that would be paid to the province from Keeyask and the 750 mega watts interconnection was \$6.1 billion.<sup>10</sup> It acknowledged that rates would have to increase to pay for the cost of the capital expansion, although rate increases were set far lower than what Bill 44 is proposing.

Based on the considerable payments that will flow to the Province, the panel found that ratepayers faced more risk than the Province, and accordingly recommended:

1. "that the Government of Manitoba direct a portion of the incremental capital taxes and water rental fees from the development of the Keeyask Project to be used to mitigate the impact of rate increases on lower income consumers, northern and aboriginal communities.
2. That MH relax its 75/25 debt-to-equity ratio to moderate its proposed electricity rate increase.
3. That MH implement cost containment measures to moderate its proposed rate increases."<sup>11</sup>

The changes in Bill 44 stand in stark contrast to the PUB's recommendations by putting the risk back on ratepayers through much higher rate increases than the PUB forecasted would be necessary. Significantly, Bill 44 brings in a

transitional period ending March 31, 2024, during which time Cabinet — after consulting with the Minister and the PUB — can increase hydro rates to any level. Public input will not be sought, and rates could be increased as much as 7.5 per cent/year, as per Hydro’s 2017 proposal, rejected by the PUB. Such an increase would fly in the face of the PUB’s expectation of a 3.95 per cent increase to pay for the capital expenditures. Once actual construction costs, historically low interest rates and the new firm export revenues (discussed below) are considered, the *required* rate increases will likely be closer to 3.5 per cent — a far cry from 7.5 per cent.

Bill 44 also explicitly does not allow for the diversion of incremental capital taxes and water rental fees to lower rates for low-income Manitobans. The different approaches between the PUB and Bill 44 are further analyzed in the Privatization Section.

A coalition of concerned organizations and individuals submitted an open letter to the Premier, outlining their concerns with Bill 44 and the top concern is that if the bill is passed, we will have a government monopoly controlled directly by whichever government is in power, with no public oversight. The letter notes the “massive rate harm” caused during the period when BC Hydro was not regulated.<sup>12</sup>

None of the changes to the PUB or Manitoba Hydro were raised by the Conservative in the election they called a year ago.

As well as concerns about the amount of debt taken on, criticism over Keeyask has included expert opinion concerning the future of export opportunities — criticism found in the NFAT review, the Boston Consulting Group report and a variety of media reports.<sup>13</sup> The validity of this criticism waxes and wanes according to the volatile energy market which itself is reliant on world events.

## **A Moving Target**

MH’s finances change according to demand for its electricity, weather conditions — including droughts and floods, and adverse weather events like last October’s massive snow storm which cost the utility \$79 million in repairs;<sup>14</sup> the price of other forms of energy; global demand to decrease greenhouse gases; fluctuations in interest rates (influenced by dramatic economic slowdowns); and, declines in fracking and fossil fuel production overall.<sup>15</sup> The completion of Keeyask will be an important chapter in the utility’s fiscal story, as will details about the new export contracts signed with Saskatchewan.

So will the Pallister government announce the completion of Keeyask which will come into commercial use this fall?<sup>16</sup> They did not announce when Bipole III became operational in 2018:

It was one of the biggest construction jobs in North America — a \$4.7-billion project that took five years to build — *with the laudable goal of increasing the security of Manitobans' power supply*<sup>17</sup> (author's italics). But there was no public fanfare when Manitoba Hydro flicked the switch to turn on its Bipole III transmission line July 4.<sup>18</sup>

Manitobans need to know these details in order to come to their own conclusions about the nature of Keeyask and Bipole III.

### **Firm Export Sales**

Information about the value of future firm export sales is impossible to access, but we do know that significant firm contracts have been signed with SaskPower that improve MH's long term financial outlook while helping Saskatchewan to reduce its use of gas and coal.<sup>19</sup> These new contracts are in addition to the \$6.9 billion of contracted firm energy anticipated between 2015 and 2036.<sup>20</sup> They also lock in a lucrative revenue stream, reducing MH's exposure to uncertain spot market prices.

As noted, the decline in Hydro's load forecast that occurred after the PUB review has been a key part of the criticism around the building of Keeyask,<sup>21</sup> but the additional firm-export contracts to SaskPower offset that decline and increase the \$6.9 billion figure substantially, protecting Manitobans from most of the additional costs of Keeyask while it has surplus production capability. A reliable source advises that these contracts with SaskPower and other utilities in the US will use much of the surplus firm power available from Keeyask and the inter-connection to the US for almost the next two decades, and will more than make up for the loss of revenue from the cancellation of the Energy East Pipeline pumping station.

Mr. Wall was premier of Saskatchewan until February, 2018 and is well aware of the importance of these contracts. His inquiry should be including reference to them so as to as to better answer the questions set out in the Terms of Reference, as discussed in the next section. It would also be helpful if he noted the contracts' pricing in his report.



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## The Inquiry

### Why so Secretive?

According to the Order in Council, the “commissioner may hold proceedings in public or private as he considers advisable in the course of the inquiry”.<sup>22</sup> There is no public information about the inquiry, so Mr. Wall has clearly chosen to keep proceedings private.

The nature of this inquiry is in stark contrast to the Manitoba tradition of holding public inquiries. Take for example, another Hydro inquiry conducted in the 1970s which resulted in the Tritschler Report. The controversy of the day was similar to the one the Pallister government is trying to foment today. Premier Sterling Lyon appointed retired chief justice George Tritschler to examine the economic argument around MH’s decisions around the Churchill River Diversion and Lake Winnipeg Regulation.<sup>23</sup> The proceedings were public and transparent. Another example is the 2015 Phoenix Sinclair Inquiry, conducted by Justice Ted Hughes.<sup>24</sup>

The extensive 1990 PUB hearings into the possibility of a very large long-term export sale to Ontario and construction of the Conawapa generating station, approximately twice the size of Keeyask, provides another example. These hearings took place under the Filmon Conservative government. The PUB’s activities were and are fully transparent. This is not the case with the Wall inquiry.

The public will never know who said what, or if the report rendered by the commissioner is an accurate representation of what they said. There is nothing preventing the report from downplaying testimony that contradicts the tone of the Terms of Reference, and highlighting testimony that is more in line.

The tone is transparent enough in the Terms of Reference of the Order. For example, take the leading first question:

“1. With reference to the actual or proposed in-service dates of Keeyask and Bipole III, to what extent did Manitoba Hydro pursue these two projects when they were not necessary, or not necessary at the time, to meet the province’s then-anticipated electrical needs in a timely and cost-effective manner?”

The way this question is framed suggests that the projects were not necessary and requires the commissioner to probe the witnesses accordingly. One must ask if any testimony stating that the projects were necessary will make it into the report, or how they will be balanced with different opinions.

There are also a series of questions which probe the approval process — in other words, the PUB hearings and 2014 NFAT report. For example:

“4. To what extent did the Keeyask and Bipole III planning and approval processes of Manitoba Hydro and the government, and *any other applicable approval or review processes*, (author’s italics) appropriately

- (i) Evaluate the commercial risk associated with each project and the risks of the two projects proceeding concurrently;
- (ii) Assess the allocation of the risks among those involved in the construction of the projects;
- (iii) Consider the immediate and long-term fiscal implications of the projects for the province and Manitoba taxpayers and Manitoba Hydro and its ratepayers?

Depending on the testimony Mr. Wall receives and reports on, the answers to these questions could justify the stripping of the PUB’s powers and significant increases in Manitobans’ MH bills. It is not clear what such testimony could add to the highly-priced Boston Consulting Group report, other than to bring the narrative to life again at a time convenient for the tabling of Bill 44.

Much has changed since MH presented its preferred development plan, and the PUB 2014 NFAT report, which was researched with the best information available at the time. The inflation-adjusted cost overruns for both Keeyask and Bipole III were below industry averages<sup>25</sup> and their significance will diminish as they are amortized over the coming decades of service. Critics have pointed to the decrease in the price of power, the rise of shale natural gas, and the rapid growth of wind and solar generated power. But the shale gas industry is now in free fall,<sup>26</sup> and wind and solar will always need a complementary source of power, like hydro. Will Mr. Wall include these developments in his analysis? Will he reference the growing climate crisis and the September 23, 2020 Speech from the Throne, where the federal government noted the need to reduce Green House Gases and extend the regional energy networks while transitioning to a greener economy? Will his claim that the need to transition from fossil fuels is “misguided dogma that has no basis in reality”<sup>27</sup> cause him to downplay climate change? Finally, will he note the historically low interest rates being applied to MH’s debt?

The test of the preferred development plan should be taken once Keeyask is up and running, and all the firm export and financial information is available, although realistically speaking, the true value of these investments won’t be known for decades. Mr. Wall also needs to consider that in an

increasingly uncertain world facing climate change, Keeyask and the new interconnections provide significant additional energy security benefits regardless of whether the electricity generated by Keeyask is exported or not. Case in point: last October's massive snow storm decimated the southern Manitoban transmission grid, an event MH could not have anticipated or planned for.

It is not clear why Mr. Wall was chosen to lead this inquiry. Although his predecessor Gordon Campbell was likely uncommitted to the idea of keeping MH public,<sup>28</sup> he was at least familiar with the sector. Mr. Wall has no experience with hydroelectricity, and won't be familiar with the arcane world of international energy markets or with the complicated technical aspects of hydroelectric generation, transmission and distribution. This lack of experience could make it difficult for him to ask the right questions and interpret witness' responses.

Wall's insistence on pushing a now defunct carbon-capture project with SaskPower would also point to a less than stellar record on energy/environmental issues. Despite the poor record of carbon-capture projects in neighbouring Alberta, Wall remained optimistic about the technology's ability to green Saskatchewan's coal industry. James Glennie, former president of SaskWind noted that "It's (carbon capture) not economic, and it was clear at the time it wasn't economic."<sup>29</sup> That did not stop Mr. Wall from using SaskPower resources, paid for by tax payers, to help fund the project.

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## Manitoba Hydro International

At the same time as the public is wondering about Bill 44 and waiting for Mr. Wall's report to be released, disturbing reports are coming out of Manitoba Hydro International (MHI). MHI is a subsidiary of MH, consulting in over 120 countries with expertise in energy generation, transmission and distribution.<sup>30</sup> According to the *Winnipeg Free Press*, "Although staff at MHI are waiting for some kind of Manitoba Hydro board decision to decide their fate on Oct. 8 there now seems to be little doubt of Hydro's intention to wind down the enterprise."<sup>31</sup>

It is impossible to understand why Hydro would want to shut down a profitable, highly respected subsidiary that enhances Manitoba's reputation around the world. Experience gained by seconded MH engineers and other employees working around the world adds immeasurably to MH's corporate knowledge and to employees' pride and morale.

The Premier himself is reportedly puzzled as to the developments,<sup>32</sup> but he has done nothing to stem the news of job losses and threats seeping out of MHI.<sup>33</sup> Statements made by Hydro president and CEO Jay Grewal in response to the media reports shed little light on MHI's future.<sup>34</sup>

Adding to the stress over MHI are the developments with Manitoba Hydro Telecom (MHT), a division of MHI in charge of the fibre optic cable infrastructure that services MH's transmission network. The network could be worth as much as \$1 billion and provides the base from which to connect remote northern communities to broadband services.<sup>35</sup>

It was recently revealed that a lucrative contract to provide inter-office data connectivity was coming to bid this year, one that local internet providers were hoping MHT would bid on so they could jump on board. In a move characterized as interference, the Treasury Board's director Paul Beauregard (a one-time executive with Manitoba Telecom Service Inc. and BCE/Bell Canada) announced that MHE was not allowed to bid on the contract.

Later it was revealed that the Request for Proposals was never issued, and Bell MTS's lucrative existing contract was extended for 30 months.<sup>36</sup> In the words of David MacKay of the Coalition of Manitoba Internet Service Providers: "Without the competition we move more towards an environment of either privatization or, worse yet, complete monopoly."<sup>37</sup>

All and all, October 2020 promises to be a busy month: more information about MHI's fate could be released at the MH board meeting, Mr. Wall's report is due by the end of the month and Bill 44 will be tabled when the legislature sits next, also this month. It's difficult to dismiss the concern that change, made without public input or support, is coming to MH.

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## Privatization

Privatizing public utilities is not unheard of in Canada: Gordon Campbell gave it a go in BC, and so did Ontario.<sup>38</sup> Having been burnt by the privatization of Manitoba Telephone Services (MTS), Manitobans can be forgiven for being twice shy on the topic of privatizing crown corporations.

In the 1990s the ruling Filmon Conservatives promised they would never privatize MTS. But they did. The story of how their actions belied their promises is well known.<sup>39</sup> What may be less known is that Premier Brian Pallister was an MLA at the time, and he voted in favour of privatization in the 3rd Reading of Bill 67, *The Manitoba Reorganization and Consequential Amendments Act*.<sup>40</sup>

It won't be as easy to privatize MH as it was to privatize MTS. There is now legislation in place that requires a provincial referendum be called to put the privatization question to the public. Nonetheless, it would be naïve to expect that MH would be privatized in such a way as to trigger a referendum, or to forget that legislation can easily be changed.

Efficiency Manitoba, which handles MH's demand side management, has already been carved out, removing it from the purview of the referendum legislation.

The analysis in the Bill 44 section above notes the different approach the PUB took to rate setting, debt/equity and payments to the Province when compared to Bill 44. The PUB approach makes sense within the context of a publicly owned utility whose mandate is to provide reliable, affordable energy to all citizens.

The Bill 44 approach makes more sense within a privatization strategy. Keeping rates high and more aggressively reducing the debt/equity ratio makes the corporation much more appealing to private interests.

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## Conclusions

It must be acknowledged that no discussion of MH would be complete without an in-depth look at the damage it has inflicted on First Nations. Our 2019 report on Hydro provides that information and the steps MH has and is taking to begin to rectify the damage, such as the inclusion of First Nation partners in the Wuskwatim and Keeyask generating stations and the consultations around Bipole III.<sup>41</sup> Reconciliation with Manitoba's First Nations is a work in progress, and the considerable benefits we realize from MH must be extended to these communities as we all adapt to a rapidly changing world. How much is the world changing?<sup>42</sup> Even cautious observers like The Economist are noting the shift:

There have been oil slumps before, but this one is different. As the public, governments and investors wake up to climate change, the clean-energy industry is gaining momentum. Capital markets have shifted: clean-power stocks are up by 45% this year. With interest rates near zero, politicians are backing green-infrastructure plans. America's Democratic presidential contender, Joe Biden, wants to spend \$2trn decarbonising America's economy. The European Union has earmarked 30% of its \$880bn covid-19 recovery plan for climate measures, and its president, Ursula von der Leyen, used her state-of-the-union address this week to confirm that she wants the EU to cut greenhouse-gas emissions by 55% over 1990 levels in the next decade.<sup>43</sup>

Closer to home, a 2018 report by Canada West Foundation recommends that Canada urgently move to integrate its energy systems:

Canada's energy future will require significant changes to the ways Canadians produce and use energy to reduce emissions. The transformation will include widespread electrification — using electricity in place of fossil fuels where possible. But for electrification to reduce emissions, Canada will need to produce much more clean electricity than it does today.

A more integrated grid can be a key tool to produce abundant clean electricity in a cost-effective way. When it comes to electric grids, bigger is often better. By creating geographically larger and more interconnected electricity systems, more integrated grids enable the cost-effective development and integration of high-value clean electricity resources.<sup>44</sup>

And it notes the need to:

Increase the diversity of electricity resources, bringing together complementary resources that work better together. In the West, hydroelectricity and wind generation work synergistically.<sup>45</sup>

These changes put Manitoba in an enviable position. We have made visionary investments in Manitoba Hydro that can continue providing us with reliable (thanks to Bipole III), affordable (thanks to the firm export sale contracts we have with our neighbours and the major new two-way interconnection with the US markets and generation system), and renewable energy that will be more and more in demand as the world shifts away from fossil fuels. It puts us in place to aggressively electrify our transportation system and become world leaders in cleaner energy.

Manitoba's ability to take advantage of the situation described in *The Economist* and the Canada West report did not occur because of good luck. It happened because of the expertise, vision and dedication of Manitoba Hydro staff and board, whose development plans were rigorously tested by the PUB. We hope that this is made clear in Mr. Wall's report, and that he acknowledges the new world MH must operate in — one that is increasingly carbon-restrained, facing historically low interest rates, and aggressively switching to renewable energy sources.

Should Mr. Wall's report simply provide support for Bill 44, should the PUB lose its ability to protect Manitobans and/or MH start being carved up and privatized, we will lose a tremendous public asset, one that is poised to pay all Manitobans great dividends for decades to come.

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