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FAST FACTS

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The Implications of the Public Utilities Board Report on Manitoba Hydro

On July 29, 2011, the Public Utilities Board (PUB) of Manitoba issued an interim Order denying Manitoba Hydro requests to “finalize existing interim rates and for an additional 0.9% rate increase for all customer classes, effective August 1, 2011.” The Order also notes that these requests “...will be further considered and may be adjusted on a final basis in a subsequent Order of the Board.”

The PUB report is a preliminary assessment of Manitoba Hydro’s future investment and development. The documentation supporting the report is extensive, but not complete. Missing are: “...export contracts, financial projections, alternative development scenarios and other information requested by the Board.” Apart from whether the PUB should have access to export contracts with Minnesota and Wisconsin [contracts that were available to the experts consulted by the PUB and therefore reflected in their testimony], which is to be determined in the courts, much of the information requested will no doubt be forthcoming from Manitoba Hydro.

The statement of findings deals specifically with the Keeyask and Conawapa generating stations and the Bi Pole III transmission line. Of particular concern are Manitoba Hydro’s plans relating to market conditions, pricing arrangements

and risk management. While some of the questions raised in the statement may merit a response, the statement also includes observations that are acknowledged as highly speculative, and subject to qualification. At no time does the PUB state that its findings are in anyway definitive.

The investment and development plan referred to in the interim Order is one that Manitoba Hydro has been developing for the last decade. It includes major hydro-electric projects that will meet the growing needs of Manitoba and export markets. Wuskwatim, a \$1.3 billion project, will be completed in 2012. Keeyask, a \$5.6 billion investment, and Conawapa, a \$5 billion project, are slated for future development. A new Bi Pole III transmission line (\$3.3 billion) to accommodate increases in sales and improve the security of the system is planned for the west side of the province.

Following completion of the East Side Planning Initiative, the Province announced that it would not allow construction of transmission lines through the east-side Boreal Forest, and then announced its intention to protect the Boreal Forest and pursue a UNESCO World Heritage Site designation for the area. CCPA has explained in several publications why this strategy makes sense.

The Keeyask generating station got the go-ahead in May upon completion of contracts



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with utilities in Wisconsin and Minnesota. It is important to note that since all such projects are subject to regulatory approval on both sides of the border, the Province must carry out an alternative hearing before final approval is given. If the project does get final approval, it will be completed by 2021. Conawapa has an estimated in-service date of 2023, but it too must get regulatory approval. Conawapa will only proceed if a transmission line is constructed in Minnesota to carry power to U.S. markets.

The PUB expresses concerns about the sluggish US economy which may reduce the demand and price for hydro power, and the increasing output of shale gas which could also decrease future demand for hydro exports. According to the PUB, this situation may result in Manitoba Hydro ratepayers subsidising the price of hydro power exported to other jurisdictions and states that it may be prudent to defer construction of future projects until we have a clearer idea how these forces will evolve.

However, given existing export commitments already made with Wisconsin and Minnesota and the long-range planning required for new hydro infrastructure, it would be unwise to delay construction. Even if the global economy continues to stumble for the short term, over the medium term it will improve, leading to rising interest rates and a weaker Canadian dollar. Borrowing and construction costs would continue to churn during the time projects are put on hold and may eventually end up significantly higher. Moreover, any delay in our construction plans will result in US utilities seeking alternative suppliers, which could dry up opportunities for export sales in future.

The PUB acknowledges that shale gas extraction is controversial and that the shale gas 'revolution' may not unfold as anticipated. The impact of extraction on "the environment, energy, toxic hazards, worker safety, pollution and climate

change" continue to proliferate and are likely to curtail, if not derail, the current shale-gas frenzy.

The Board acknowledges the vulnerability of southern Manitoba to outages caused by the failure of Bipole I and/or II and the need to address reliability. But then it justifies delays in construction because there is no guarantee that net export profits will be sufficient to cover the costs of the new transmission, leaving domestic customers to absorb costs through higher rate increases. But if Bi Pole I or II failed, the costs to ratepayers and/or taxpayers would be far greater than any rate increases. Exports and reliability are separate issues; one should not be made contingent on the other.

In spite of the preliminary nature of the PUB report, some pundits are brandishing it as proof that the government is forcing Hydro to make unwise business decisions. Nothing could be further from the truth. The report asks legitimate questions, and in doing so, the PUB fulfills its mandate to protect Manitobans' investments. But its recommendation to halt construction on major projects—required to meet our contractual obligations with two U.S. states and to secure southern Manitoba's power supply—should not be heeded. Two major export contracts and a plan to deliver energy security trump speculation about a volatile economy and questionable fracking technology.

We are puzzled as to why the PUB is seeking information that deals with plans for the next ten or fifteen years in order to make a determination on rate increases required to deal with current circumstances. The Board has committed to reassess its findings in a subsequent Order; we suggest that the reassessment focus on Manitoba's present situation so that Manitoba Hydro can move forward with its long-term plans.

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