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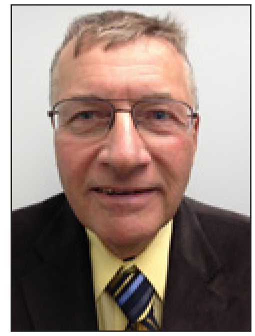
Manitoba Hydro: The Elephant in the Room

SO WHY THE SILENCE OF THE POLITICAL LAMBS?

BY GRAHAM LANE & PHILIP BLAIN

About the authors



Graham Lane, a retired Chartered Accountant, is Chair of Manitoba Forward, a non-partisan policy-orientated discussion group. He has had a multifaceted career spanning 50 years in the public and private sectors of seven provinces as a Senior Executive and Consultant. In the private sector, he held executive positions in financial companies. In the public sector, before concluding his career as the Chairman of the Public Utilities Board of Manitoba, he consulted for three provincial governments and was employed by four provinces. In Manitoba, he was the Chief Executive Officer of Credit Union Central, bringing in online banking, a Vice-President of Public Investments of Manitoba, the interim President of Manitoba Public Insurance, reorganizing the corporation after its massive losses of 1986, a Vice-President of the University of Winnipeg, and the Chief Executive Officer of the Workmen's Compensation Board, restructuring the insurer and returning it to solvency. His experience with Crown Corporations goes well beyond Manitoba, he was the Comptroller of Saskatchewan's Crown Investments Corporation, and a consultant reviewing government auto insurance in British Columbia and workers compensation in Nova Scotia. He is currently a weekly columnist for the Winnipeg Sun. He received the gold medal in Philosophy as an undergraduate, and a Paul Harris Fellowship from Rotary International for excellence in vocational service. Throughout his career, and wherever he worked, as a consultant or as a volunteer, he maintained an external objectivity.

Philip Blain, a fifth generation Canadian now retired, has had over 40 years commercial experience, mainly in international telecommunications, electronics services and power distribution. A native of Winnipeg, he progressed his career in the United Kingdom for two decades with J. Walter Thompson, London, Standard Telephones and Cables (ITT), Cray Electronics and British Telecom. With BT, he was an executive adviser to senior management establishing new ventures and commercial re-structuring in wireless mobile communications, electronics manufacture and telecommunications value added services. In New Zealand, from mid-1988 until April 2012, he led the senior management of Telecom New Zealand for re-structuring into long distance and regional operating companies. He was also founding Managing Director and CEO of Telecom Networks and International, prior to NZ Telecom's pre-IPO sale to Bell Atlantic and Ameritech. As a founding Board Director and commercial architect for NZ Telecom Mobile, he helped to lay the foundation for the exponential growth of Telecom's wireless customers and revenues. Before returning to his home town of Winnipeg, Canada he served for six years as an 'active' member of the Board of Directors for Counties Power Limited, a New Zealand electricity network lines company operating just south of the city of Auckland.

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WITH THE ASSISTANCE OF PHILIP BLAIN

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About Manitoba Forward

Manitoba Forward came into existence in late 2012. Its founding members, coming from diverse spheres of political and philosophical thought, and individually having become concerned with policies being pursued by provincial and municipal governments, policies generating poor outcomes (too often at increasing costs and future risk), sought out others of similar inclination and motivation.

The discussion group that formed now rigorously identifies, reviews and debates significant public policies. This, for the purpose of, having first forming sounder views, disseminating its outlooks and recommendations.

The objective of the group is to assist politicians, parties of all 'stripes' and the electorate to better understand the implications of public policies towards improving public policies, engendering a sounder fiscal and socially progressive society.

Manitoba Forward, a federally incorporated not-for-profit discussion group, has an elected board of directors and offers membership to all those interested in improving public policy in the public interest.

To join as a member, or to further understand how to improve public policy, please visit:

ManitobaForward.ca

FOR A VIBRANT AND PROSPEROUS MANITOBA

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Manitoba Hydro:
The Elephant in the Room

Overview

The social and economic significance of Manitoba Hydro cannot be underestimated. Its monopoly services — to keep the lights on and heat family homes — are essential and ubiquitous to all citizens of Manitoba. Its corporate power is unparalleled, too, with its ability to help generate an economic, overall environment for prosperity — or otherwise.

Sadly, under an NDP Government as its master, Hydro has begun to sink under seas of debt and burgeoning costs from mammoth capital programs and questionable contracts. Before its out-of-control corporate behaviour mortgages further many future generations of Manitobans, concerted political action must surely now be taken by the incoming provincial government.

This analysis notes that the next Manitoba government should have the courage and resolve, without delay, to call a 'time out' to halt the expansion of Manitoba Hydro's infrastructure. The new government should also mandate a swift and comprehensive independent review of the expansion program and determine available options, with implications for the way forward.

Included in the review should be expert examination of recent construction and of expansion plans, including related contracts and actions, seeking whether there has been value for money in the public interest and whether or not government involvement and control has been productive or dysfunctional.

Whether or not Manitobans are aware that the NDP provincial government has been directly behind the planned and now ongoing massive expansion of Manitoba Hydro's northern hydroelectric generation and transmission facilities, few Manitoba citizens will really understand the negative implications for their own pocketbooks, as well for the Province overall.

During the many recent years of NDP government, Hydro's books and have moved from the 'black' to deeply in the 'red', with huge annual losses to come. Being in the 'red' is expected to continue for many years to come, even with ever-increasing rates and bills for Manitoba's households and industry.

Along with ongoing losses come deteriorating financial indicators, lower credit ratings, major currency losses and, eventually, higher interest costs.

With apparent hemorrhaging of expenditure, Hydro is rapidly being brought to a near basket case level of financial difficulties. Some examples showing Hydro's financial position, out of control capital spending and escalating costs, could be summarized, as follows:

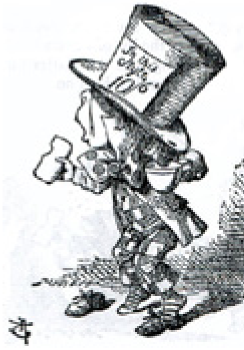
Retained earnings and net income projections from 'Electric Operations' ($M):

2016 IFF14 forecast = $2,778 and $115

2019 IFF14 forecast = $2,812 and $-90

Current debt-to-equity ratio, is over 90-to-10 with no prospects for improvement in the foreseeable future.

Manitoba consumers and taxpayers will be footing the total bill for Hydro's financial profligacy, including massive cross subsidy for exports and large corporate users. Families will see at least double inflation annual increases to power bills for decades to come (see 'exports').



Only at a mad hatter's tea party could this appear to make commercial sense!

With Manitoba Hydro capital expenditure plans that are likely to end up costing $40 billion — with about $7 billion already spent — every man, woman and child in Manitoba will be debt for around $33,000.

The current NDP government is taking almost $1 million in cash, per day [$341M p.a.], in levies alone, for 'capital taxes', 'debt guarantees' and 'water rentals'; this excludes other taxes, such as PST.

Other finance costs are running at about $2 million per week and climbing fast [$97 million p.a.]. Current annual operating (OM&A) costs of $370 million (43% of total) are being capitalized as "deferred assets" to be amortized over 78 years after projected future assets go into service.

Runaway capital expenditure and operating costs: Bipole III coming in at over $4.6 billion with future operating costs projected at over $1 million per day [$385 million p.a.]. These Bipole III annual running costs, projected to be $4 billion over 10 years, will not be offset by any related revenues!; Wuskwatim overbuild costs, with ongoing losses at $140 million p.a. along with first nations 'equity' partnership charges at $14 million p.a., in perpetuity; Conawapa with absolutely no requirement in the foreseeable future, to cost at least $10.7 billion and Keeyask, costing $6.5 billion, not needed at least until 2030/31, by which time it could prove to be a white elephant.

Export revenue from USA utilities more than halved from 2005 to 2013 [$828 million to $357 million] at export power prices 60% less than for Manitoba citizens [4c/Kwh in 2016 vs 15c/Kwh]. Spot prices south of the border are now as low as US1.8c/Kwh, where generating costs from Hydro are at 12c/Kwh. At best, export prices to be realized by Manitoba Hydro are currently planned to be around 3c to 5c per Kwh, from total capital expenditure projected at $18 billion for Wuskwatim-Bipole III-Keeyask, delivering power at 12c per Kwh.

Only at a mad hatter's tea party could this appear to make commercial sense!

Striking examples of hemorrhaging cost over-runs include: Hydro's Head Office, from a $75 million initial estimate to $283 million; Wuskwatim, estimated cost $900 million, actual $2 billion; Pointe du Bois, from modest 'repair bill' to as much as $2.4 billion make-over; BiPole III, with cost estimate moving from $1.9 billion to $4.6 billion; Keeyask, from $3.7 billion to $6.5 billion and Conawapa, from $5 billion to $10.7 billion.

Bipole III alone is a dangerous, gargantuan example of profligate spending. It will challenge the courage and resolve of a new provincial government to make the right tough decisions to correct a 'creeping commitment' of monumental proportions: The fact that over $2 billion has already been spent does not justify carrying on to completion of this capital project, which would cost at least another $2.6 billion.

Projected operating costs for Bipole III, with no related revenues planned to cover them, are estimated at $385 million per annum. This represents ongoing costs of another $4 billion or so in just the first 10 years. One doesn't need to be a rocket scientist to calculate huge savings to Manitoba taxpayers from applying an immediate tourniquet to curtail capital spending on Bipole III, writing off costs to date, and correcting future capital plans of Hydro, accordingly.

Competition and alternative energy sources are being totally ignored by Manitoba Hydro. For example, export sales to the USA are in jeopardy where major Minnesota customer Xcel Energy is investing US$6 billion in wind and solar and US Federal subsidies for wind are running at over US$6 billion per annum. Manitoba competition for Hydro of course does not exist, and any alternatives to hydro generation are being stifled beyond anything but a 'pilot' stage (eg from wind farms).

Since the Government's plans for Hydro expansion began the energy market has changed dramatically.

Through new technology (fracking leading to a collapse in natural gas prices, developments in solar and wind alternatives, etc.), increased emphasis on energy efficiency, and through efforts to influence consumer-industry power demands, not only overall demand has flattened in North America but spot prices for electricity exports have collapsed. The historic need for new large generation stations thousands of kilometres from export markets has declined significantly.

It now appears that with concerted efforts to undertake major energy efficiency measures and by employing time of use rates, Manitoba's demand for electricity — from Manitoba Hydro — could flatten even further, following the developments in the United States.

Let alone Conawapa, allegedly now mothballed, even Keeyask may be unnecessary for decades to come, if ever. Without a need for new northern generating stations, Bipole III, at least in its current configuration, is uneconomic and may also be unnecessary.

With the Canadian dollar down to 76 cents US or less, debt incurred by the Province and Manitoba Hydro in US dollars has increased dramatically. Hydro, alone, in its second quarter 2015-16 report, has indicated that a currency 'loss' of over $800 million has developed. Why the NDP government chose not to hedge risks of a declining Canadian dollar remains a salient question.

This currency loss is further aggravated by increased costs for equipment and services that are being purchased from American suppliers.

The current government's plans to spend more than $C25 billion in major capital expenditures is based on further borrowing of tens of billions more in Canadian dollars. The cost estimate of $25 billion excludes the current forecast of another $10 billion for constructing Conawapa, a generation project allegedly 'mothballed' but still being pursued by the government.

Without Conawapa and the $5 billion already spent on questionable projects, the $25 billion capital development plan includes only the 'wrong-routed' and over-build construction of the Bipole III, a new Manitoba/Minnesota transmission line, Keeyask (to be the next new northern generating station, now in the preliminary stages of construction), the refurbishment of a dilapidated dam on the Winnipeg River (acquired in Hydro's purchase of Winnipeg Hydro), the renewal of assets at the end of or past their normal service lives (some of those assets 'tired' when bought from Winnipeg Hydro), and the undertaking of 'normal' and smaller capital asset projects.

All Manitobans, as Hydro's ratepayers, will be required to meet the skyrocketing costs of Hydro resulting from the NDP government's direction. Levels of openness, transparency and accountability with respect to these plans under government direction have long been absent. 'Under the radar', so to speak, Hydro has already spent billions of dollars, making commitments to First Nations, American utilities, contractors, manufacturers, employees and trainees — all without any independent, expert reviewing of the plans and various options for best ways forward.

In a real corporate world, Hydro's non-performing assets would be written down, if not written off. This just hasn't happened, resulting in an exaggeratedly positive view of the Province's overall fiscal deficit. This, in turn, falsely props up Manitoba's credit rating and serves to mask the weak financial position of both Hydro and the Province of Manitoba.

The underlying financial position and prospects of the Province and Hydro, combined with the risks inherent in the current government's plans for Hydro expansion, certainly would not appear to support an ongoing gamble of tens of billions of dollars on questionable capital investment plans.

Following the election of a new provincial government in April 2016, the new government should freeze Hydro's spending and contract making related to major capital projects and mandate a thorough review of the situation, options and implications.

With $5 billion or more already spent by Hydro on major capital projects (including the in-service Wuskwatim), and possibly with another $2 billion of commitments, the review should evaluate the grounds to write-down and then transfer Hydro's non-economic costs and related debt to the government itself. By doing so, current and future ratepayers (households and industry) would not be penalized through increased rates for the mistakes of the provincial government. The Manitoba Advantage, low electricity rates, would thus remain intact, serving to assist current and future households and industry.

The costs and debts thus transferred should be amortized with interest against future provincial budgets, allowing for a continuing reminder of the mistakes made by Hydro under the control of a past provincial government.

Outlook

If a new provincial government was to implement the current plans for Hydro, domestic ratepayers will be paying, within just 20 years, a total of $2.5 to $3 billion for their annual electricity bills. Current aggregate Manitoba electricity bills are $1.5 billion, having been only $1 billion a year before the expansion plans became a factor in rate increase decisions. As noted above, $341 million of the current total (leaving out payroll taxes, income taxes and provincial sales tax) flows annually into the provincial government's pocket, as 'levies'.

Without an urgent review leading to some 'real world' changes — initiated by a courageous, committed new government — residential consumers throughout Manitoba are destined to have their power bills tripling within the current planning horizon of Manitoba Hydro. Hydro's plans call for rises from roughly 8 cents per Kwh to up to 24 cents. This could have dire consequences, especially for lower income households, rural residences (with electric heating), local industry and the provincial economy, as a whole.

Utility Regulation, Rates and Risks

Some background is needed, so that readers can really understand the seriousness of the risk to all of Manitoba's electricity ratepayers, if the new provincial government continues to expand Hydro's generation and transmission plan — the plan that is based on the faulty premise that export contracts and 'profits' will be sufficient to keep rates down.

First, a short primer on Manitoba Hydro and utilities in general.

First, On Rates

It is important to recognize that Hydro's present, apparently low rates are similar to two other provinces reliant on hydro generation, British Columbia and Quebec. The rates are not due to operational efficiency, far from it. They are relatively low because they have relied primarily on low sunken costs and historic debts associated with pre-Wuskwatim developments and past hydro-generation projects. In the past, hydro-generation has been less expensive than other sources of energy. This is no longer the case in today's world.

Since 2004, there has been more than a 40% increase in rates — twice the rate of inflation — for all customer classes (ignoring cost of service differentials existing between customer classes). This has provided Hydro with an increase of $400 million in annual revenues, ongoing, which has now largely been swallowed up by massive new debts, interest costs (at just under $100 million per year) and government levies (running at $341 million per annum).

Other provinces have experienced higher domestic growth demand — from industry as well as residential — than Manitoba, driving new plant development and naturally higher attendant costs and rates.

New plant development always 'pushes up' rates in all jurisdictions, regardless of the means of power production. In the cases of Manitoba and British Columbia — both still served by Crown Corporation — the practice of deferring large amounts of current period expenses holds down rates, pushing rate-recognition of the costs away into the future power bills of later generations.

Commercially competitive utilities — either government owned or from the private sector — are much more likely than monopoly Crown Corporations to write off period costs in the year of incurrence, and also to recognize non-performing assets with write downs. The results of Crown Corporations, like Hydro, flow into the summary accounts of their respective governments, providing a reason for the governments to want to defer the recognition of utility costs as far into the future as possible.

Rate models also differ by provincial jurisdiction, driven by differences of approaches to matters such as: attributing costs to customer classes; time of use rates; the level of basic monthly charges; the distribution of rate requirements between energy consumption and capacity demand and the employment of marginal cost rates for new and expanded high-consumption customers.

For example, in Manitoba Hydro's 2012 rate application to the Public Utilities Board (PUB), the Utility ignored a previous PUB directive to provide rate proposals recognizing cost of service differences between customer classes. This was to prevent large prospective losses on export sales to American utilities and very low large-industry rates from making Manitoba consumers foot the bill with surging increases in rates for their power bills. This failure by Hydro to treat Manitoba domestic consumers fairly remains to this day, in 2016.

In 2016, the PUB has had another opportunity to address this issue of Hydro's cross subsidy of rates to the detriment of the consumer, but hasn't done so. Neither has Hydro, which seems to indicate that the hopefully outgoing NDP government still supports sub-cost rates as subsidies for new and expanded industry, at a painful cost to consumers and existing domestic businesses.

The availability of different forms of electricity generation plays a major role in rate differentials between provinces for electricity supply. Natural gas plants, for example, have much lower construction costs than hydroelectric generation, but have annual fuel costs which vary with market price swings. Nuclear plants, on the other hand, have low annual input costs but massive construction costs and ongoing liability risks.

Manitoba Hydro's rates:

- are based on historical cost, both annual operating costs and the amortization of capital expenditures;
- reflect financing costs associated with the capital expenditures that are a major factor with high-initial-cost hydro plants; and
- are not based on wholesale market prices (applying only to imports and exports, which differ widely by jurisdiction).

Finally, for the customers of electricity utilities, bills are affected not only by rates and rate models, but also by weather, ie temperature 'degree days'. The lower the average temperature (or higher in the summer) in a province, the higher the bills will be. This means that residential customers of the provincial utilities of British Columbia and Quebec pay, on average, less than Manitoba ratepayers, assisted by less extreme temperature differentials.

In summary, the efficiency of an electricity utility cannot be assessed by a simple comparison of rates between it and the utilities of other provinces.

The bulk of Hydro's major assets are up to 100 years old, and very low depreciation is based on historic cost and estimated service lives.

In previous PUB rate hearings, given the major risks associated with Hydro's planned new capital expenditures (risks not only of cost escalation but also market demand fluctuations), it was recommended that Hydro's annual depreciation rates should be accelerated, at least doubled. This was to reduce the risk that technology and/or market changes could easily reduce the economic service life of newly constructed hydroelectric plant. This advice has been ignored.

Instead, Hydro's annual depreciation expense is still very low, due to the high average age of its assets and the low finance costs associated with debts incurred in acquiring or constructing these legacy assets. These costs are low, at least in comparison with new higher-cost plants, when reflecting the fact that debts attributable to historic plant have already been paid down to a considerable extent.

Another major accounting factor in rate setting by Manitoba Hydro arises from the practice of deferring what has been over 40% of Hydro's annual operating, maintenance and administration costs (OM&A). This unrealistic accounting practice has occurred every year now for a decade or more. A recent PUB filing by Hydro in 2016 suggests that more than 43% of OM&A costs are still being deferred, pushed out into the future.

This represents over $370 million a year of actual operating (OM&A) costs are being recorded as a "deferred assets", to be amortized over 78 years once the asset in question is in service.

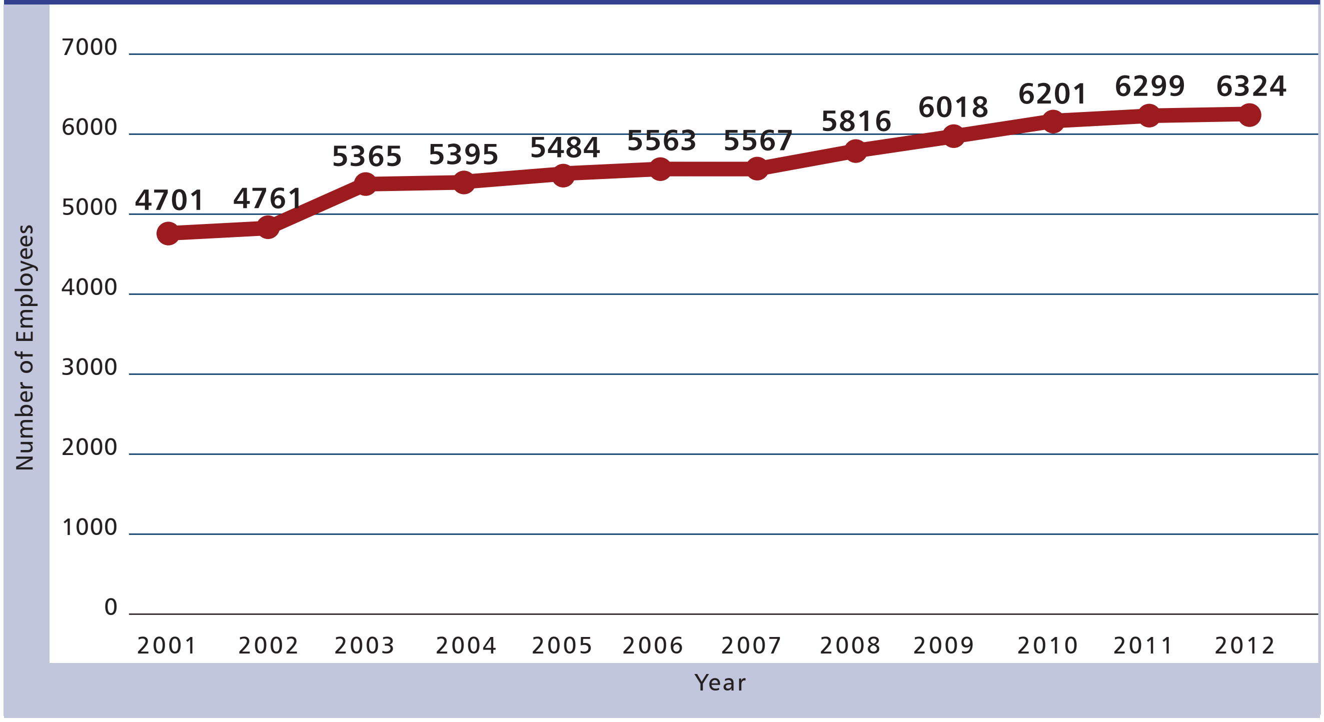
These deferred costs will certainly 'come home to roost' when new assets come into service and they become "amortized costs" (over 78 years) to be recognized thereafter in Hydro's Income Statements.

OM&A costs are primarily composed of personnel costs, where Hydro's staff levels have soared from about 3,600 to well in excess of 6,900, since the Year 2000. This excludes employees of engaged contractors to Hydro, with, according to the current government, more to be added as the 'build scenario' becomes fully implemented.

The graph below shows the number of Hydro employees from 2001 to 2012, representing a 35% increase. There is a 47% increase from 2001 to 2015 staff levels. The cost of this massive personnel build-up, plus consulting, engineering and other development related costs have all been deferred or capitalized every year now for over a decade, thus moving costs and rate increases out in time to the power bills of future generations.

Manitoba Hydro's November 2015 General Rate Application indicates further employment growth (6,756 for 2013/14, 6,713 for 2014/15, and a projection of 6,902 for 2015/16. Presumably employment

CHART 1 | Manitoba Hydro's Total Number of Employees 2001 to 2012



Source: Manitoba Hydro Annual Reports

numbers for Hydro's private contractors are not included.

The acquisition of Centra Gas and Winnipeg Hydro by Manitoba Hydro accounts for only a relatively small part of Hydro's rapid growth in personnel.

It is reasonable to assume that a good proportion of now-deferred costs would have long been written off if Hydro were a commercially run corporation in the public or private sector (or a combination of the two). As it is, rather soft accounting practices embellish the Utility's annual net income, while transferring costs and further rate hikes well into the future.

It is an interesting fact that while Hydro is deferring regular period costs — including the provincial government's annually levied capital taxes and debt guarantees associated with plans for new construction — the NDP government is, itself, taking those same amounts into its accounts upon receipt, as income. By the time the new major assets come into service and deferred and capitalized costs start being recognized at that time, the Province will have already recorded them as income… billions of dollars of income! One might well conclude that such practices are just some kind of a grand 'shell game' or 'mad hatters tea party', where the only losers are Manitoba consumers and taxpayers.

Therefore, in previous PUB-approved rate increases, only 'recognized' costs (not costs deferred) affected rates. New and refurbished assets could drive up costs and rates only after lengthy deferral periods ahead of the assets coming into service.

While this has been, and largely still is, the practice, one significant exception has occurred with PUB's post-2012 rate orders, where a portion of new rate increases are being put in place expressly to pre-fund Bipole III. With this exceptional if not extraordinary change in approach, the anticipated cost, of at least that planned new asset, is already affecting current rates.

Increased demand and consumption are supposed to drive the construction of new plant for Manitoba Hydro — with demand coming not only from Manitoba's residential, commercial, industrial and institutional sectors but, also from firm export contracts.

The growth of electricity consumption by large industry — now accounting for about one-third of Hydro's annual domestic sales — has been slow, however, with no new major industry coming to Manitoba since the 1990s. This has left about 28% of Hydro's generation as excess, to be sold on the export market.

Within export sales, less than 30% of the volume of power is being sold at fixed contract prices, and the rest (70%) is sold on the wholesale, much lower 'spot market'. Also, the current government's reference to ongoing growth in residential use, in defence of its expansion plans for Hydro, simply doesn't stake up. The facts are that annual residential consumption is languishing well below that of industry and exports, both of which are also lagging.

Another serious issue that pushes up consumer power prices is the pronounced slowness by Hydro, government and even the PUB, to accept what are called 'Energy Intensive Industrial Rates'. The risk is that a new or expanded energy-intensive industry will consume massive amounts of electricity while providing few jobs. This will require the advancement of capital asset expansion, without the newcomers paying their fair share. This will result in high marginal costs associated with the new assets thus pushing up general rates for everyone.

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What should happen is that, recognizing the high cost of new production, new or expanded 'power hogs' (the term used for industry demanding high levels of electricity but offering few jobs) should be assessed to pay much higher rates — rates that reflect the cost of constructing and operating new plant and transmission essentially for their usage. Otherwise, current ratepayers will be forced to subsidize the new entrants.

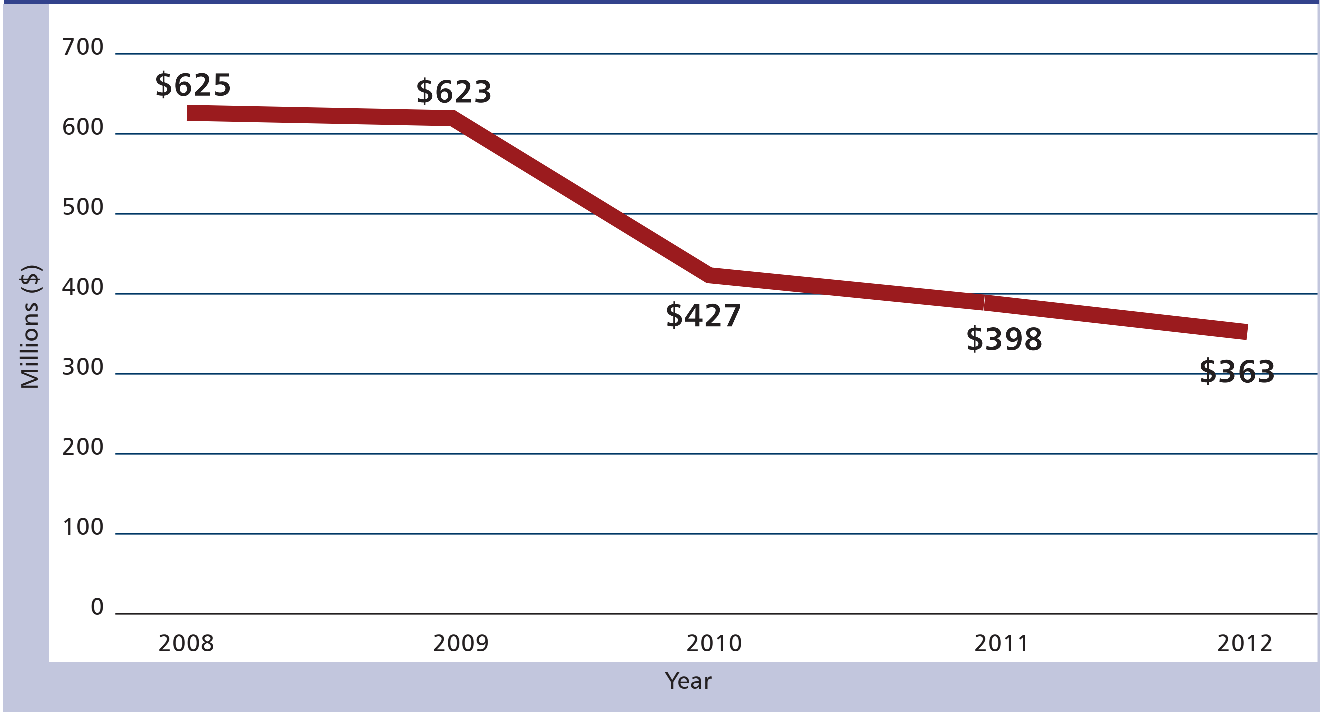
As reported in the media, Facebook contemplated operating a major computing centre in Manitoba, presumably expecting to draw enormous power, at low industry rates. The same situation, but on a lesser scale, is likely in place given recent Canadian Tire and MTS computing operations announcements.

The current government is trying to attract members of the large-power-consuming industry as new customers, offering low industry rates as a draw, but ignoring the growing subsidy existing ratepayers would end up having to pay if the new 'power hogs' did indeed come.

While power from the Winnipeg River generating stations comes in at, say, as low as 1 cent per kWh — this does not take into account the $2.4 billion now expected to be required to fully refurbish

CHART 2

Manitoba Hydro's Extra-provincial Revenue 2008 to 2012



Source: Manitoba Hydro Annual Reports

Since 2008, Hydro has been losing money on exports, which in turn has contributed to domestic rate increases. On a full-cost basis, American utilities have been heavily subsidized by Manitoba Hydro domestic consumers, throughout the province.

Pointe du Bois. This is clear testimony that Manitoba Hydro massively overpaid to acquire Winnipeg Hydro. Also, the cost of power derived from Hydro's new Wuskwatim dam is now coming in at a price of 10 cents per kWh, even before adding another 2 to 3 cents for the cost of transmission.

So, unless special, higher rates are established for new major industrial demand, existing ratepayers will end up subsidizing every new entrant. Existing large industry rates only represent one-third of the marginal costs required to create generation for new major users.

To meet dramatically increased demand, other options exist and have been identified, apart from Hydro's dyed-in-the-wool approach which depends on the construction of dams and new transmission lines.

For example, a combined-cycle natural-gas-fired plant would cost a fraction of Keeyask and Conawapa's estimated costs; and the province would not require Bipole III, at all. Such an investment would also provide diversity of supply — an important strategy that is adopted by virtually all other utilities. Alternative generation would also allow Hydro to cope with future drought-caused challenges. As it now stands, only coal-fired — so-called 'dirty' — imported power from the United States is available to meet drought conditions or equipment failures which cause a hydro power shortages.

Since 2008, Hydro has been losing money on exports, which in turn has contributed to domestic rate increases. On a full-cost basis, American utilities have been heavily subsidized by Manitoba Hydro domestic consumers, throughout the province.

Extra provincial revenue was $353 million, $439 million and $384 million for 2012/13, 2013/14 and 2014/2015, respectively. Export revenue is not expected to increase in 2015/16 even with current devaluation of the Canadian dollar by some 30% against the greenback.

Oversight

There are a number of oversight authorities that Manitoba consumers and ratepayers rely upon to regulate Hydro. Such regulation is vitally necessary, given Hydro's well documented track record of making poor forecasts and commercial decisions well beyond normal margins of error.

Ratepayers have only the provincial government, the provincial legislature, Hydro's Board of Directors, the PUB, the Clean Environment Commission, and the Auditor General for protection.

Regulation is the weak proxy for competition, and Manitoba Hydro is a long-standing monopoly. Unfortunately, Manitoba ratepayers have not been able to rely on any of the oversight bodies. Conflicted, diverted, with executives often closed-mouth, there has proven to be no body to truly check up on an inefficient Hydro. Ratepayers need watchdogs with teeth, evaluating Hydro's business plans to avoid risky gambles, ensuring transparency and full accountability.

The NDP government has been driven by ideology, other commitments and a desire to avoid admitting mistakes. Also, it looks forward to receiving torrents of new revenue that will come its way when Hydro follows government direction to build more dams and transmission lines, with further government borrowing.

Furthermore, each member of Hydro's current Board of Directors has been appointed by the Government, without competition, with no relevant industry expertise or experience required. All current Hydro Board members therefore serve at the pleasure of the Government...

As for the Public Utilities Board, it only has a limited mandate, with no authority over Hydro's capital development.

Recently, for example, the PUB let the public down by approving large across-the-board rate increases without verifying the presence of just and reasonable costs. The PUB even withdrew a subpoena demanding production of Hydro's export contracts, and agreed to hold, in the writer's considered opinion, a sham NFAT (Needs For and Alternatives To) review.

The Clean Environment Commission also has no real regulating powers. While it has reviewed Wuskwatim, Bipole III and Keeyask, operating with a limited government mandate, the Commission has always recommended that projects go ahead, despite noting innumerable problems associated with them.

As for the Auditor General, the most recent past office holder was obliged to recuse herself. She walked away from investigating Hydro to avoid a perception of a conflict of interest due to her previous involvement as a Board and Audit Committee member. Prior to her appointment, a former Deputy Auditor General was passed over. Subsequently, she became Auditor General for Ontario and has overseen a full, penetrating review of 'Hydro One' — just the type of review that is long overdue for Manitoba Hydro.

The replacement Auditor General for Manitoba has given no public indication of having a real interest in reviewing a Hydro's actions or plans. Thus, Manitoba's largest economic gamble in history is carrying on with the Auditor General on the sidelines.

Furthermore, each member of Hydro's current Board of Directors has been appointed by the Government, without competition, with no relevant industry expertise or experience required. All current Hydro Board members therefore serve at the pleasure of the Government, with the Chair of the Board hardly ever speaking in public about Hydro's progress or development plans.

Risk and “Ownership” of Utilities

Historically, public utilities have each served a particular geographical area, operating as monopolies. Why monopolies? The rationale has been to recognize the high cost of entry required and the presumption that a monopoly will bring about economies of scale. Where a monopoly exists, consumers have no choice of supply.

In most countries, the ‘owners’ of monopoly utilities are normally private stock companies, with shareholders carrying the risk and providing the capital. In Canada, while utilities are often owned by private stock companies, a number of jurisdictions, such as Manitoba, have Crown or Municipal Corporations. Regardless of whether the owner is a Crown Corporation, a municipality or a private firm, rate setting involves, in almost all cases, an administrative tribunal, like Manitoba’s PUB.

The usual basis for setting rates for private firms incorporates allowable costs plus a regulated rate of return on the capital invested. For a Crown Corporation, rates are also based on allowable costs, plus a provision for establishing and maintaining reasonable reserves of capital. Allowable costs are costs that the regulator has determined to be reasonable.

What then does the owner receive for providing the service and taking on the risks? For private firms, the return is restricted to a regulated rate of return on its capital. This is firmly set by a regulator, guided in accordance with various industry and market standards. The so-called ‘reserves’ that are allowed for Crown Corporations (‘retained earnings’ in the case of Hydro) are required to meet the expectations of the bond market as to the amount of ‘equity’ (as opposed to borrowed money) that must be available to ensure that bondholders are properly compensated. The other reason for ‘reserves’ is to avoid future rate shocks caused by unexpected events, for example, equipment failures, natural disasters or other adverse conditions, such as droughts, that drive down the utility’s reserves causing likely sharp rises in rates.

For crown corporations, the definition of ‘equity’ is more generous than is found with private firms. Besides retained earnings, Manitoba Hydro considers capital contributions by industry to partially fund service extensions and the balance of Other Accumulated Comprehensive Income as equity components.

Bondholders of provincial debt issues for Hydro purposes rely not on the crown corporation, but on the Government, for security. The government, on the other hand, does not intend to invest a cent in Hydro. Instead, it relies entirely on the ratepayer and rate increases (a view shared by the credit rating agencies). While the Government ‘guarantees’ Hydro’s debt, the reality is that the ratepayers stand behind the debt. The Government has no intention to pick up any costs arising out of Manitoba Hydro’s operations.

As mentioned above, apart from inclusion of Hydro’s net income in the Government’s summary accounts, the government levies huge cash charges on Manitoba Hydro: water rentals, capital tax, and a debt guarantee fee. The latter, alone, amounts to $341 million per annum, or almost $1 million cash, per day, for the government.

If Hydro were in the private sector (or a public/private partnership), government would garner provincial corporate income tax, and, most likely, collect other levies against the firm. These levies would be consistent with the more ‘real world’ approach taken by competitive industries in the private sector. In the case of the levies of Government on Crown Corporations, the levies can exceed what would arise for private owners through the mechanism of a regulated rate of return.

The $1 million a day levies on Hydro by the current government are independent of Hydro’s profitability, and the Government fully expects Hydro to recoup these costs through rates. It is a sad fact that the government's annual levies on Hydro have regularly exceeded Hydro's net income and any profit that would have otherwise been allowed to a power utility in the private sector.

Privately owned utilities run risks that usually don't face Crown-owned utilities. The main risk is that some of the costs incurred by private utilities will not be 'allowed' by a regulator to be reflected in their rates. The disallowance of some costs for private firms results in a 'hit' on shareholders, there being a prohibition of disallowed costs being recovered from ratepayers.

The problem of 'no' disallowed costs for a Crown Corporation, such as Hydro is really only hypothetically covered by the provincial government's nominal commitment to rebate ratepayers any excess cost incurred by them. This only takes place when the cost of a so-called basket of Crown services (electricity, natural gas and car insurance premiums) exceed the costs of a similar basket of another province.

Such a 'basket of services' comparison has proven only to be a case of 'smoke and mirrors' on the part of the government, with no such applications having ever been attempted or made.

In summary, while the parties at risk in private sector firms are their shareholders, for Crown Corporations, those at risk are solely ratepayers and taxpayers.

As for rate-setting itself, it is an art, not a science. Both the attribution of costs to various customer classes and the objectives of rate-setting differ widely among utilities. In the case of Manitoba Hydro, the rate model involves a plethora of factors, including: the distribution of customers/ratepayers into various classes based on consumption and capacity; costs of generating the power; transmission and distribution to various classes of users; division of cost responsibilities between energy consumption and 'demand' or required capacity; basic monthly charges; service extension policies; judgments as to reasonableness of differences among the classes and so on, and so on.

As well, Hydro rate-setting is affected by:

1. the risk of rates so high that large industrial ratepayers leave (remember, 30% of domestic electricity usage is by industry); and,

2. general and environmental factors.

In many other jurisdictions, rate models are also employed to improve energy efficiency and to reduce ongoing consumption and demand.

Reducing energy consumption and demand allows for deferrals and/or delays in building new generation and transmission lines, or, in the case of jurisdictions that have excess supply, enhancing incremental export revenues. Reducing energy consumption also helps to prevent importation of power, when necessary. For Manitoba Hydro this has historically meant buying power from coal-fired generation in the United States.

Manitoba Hydro: an Overweight Elephant

Controlled by the government, Hydro is Manitoba's largest corporation. It enjoys a monopoly, providing both electricity and natural gas to Manitobans. Hydro has accounts numbering approximately 562,000 for electricity and 274,000 for gas.

The Board of Directors is government-appointed, its members appointed without a competition and not required to have industry experience. Hydro follows the government's objectives which, in recent years, the main objective have not been to maintain the lowest electric rates possible for domestic consumers - let alone to show any concerns for lower-income households, future industrial demands or growth.

Hydro lacks capital stock and has no cash reserves. The majority of its retained earnings are illiquid, non-performing assets, including approximately $370 million per year of operating costs that are being deferred and not expensed.

As indicated earlier, if write downs, proper expensing and recording of all liabilities were to take place, Hydro would have no equity at all. This is a position that certainly does not support a massive development gamble involving billions of dollars in debt and unnecessary higher electricity rates.

At present, One-third of all government debt (some $35 billion) in Manitoba is from Hydro borrowings through the Province. This debt would grow substantially if the development plan is fully implemented.

To produce an annual 'profit', which is required by the bond market, Hydro is now fully reliant on both rate increases and its creative accounting practices. Since 2008, Hydro has consistently lost money on exported power, and there is no certainty that the situation will change if current development and export contract plans are implemented. Far from it, today's plans for Hydro will require massive new borrowings and rate increases.

Hydro's latest estimate is that it will require at least $25 billion in capital expenditures over the next twenty years. This excludes another $10 billion for Conawapa, ostensibly mothballed but still having costs incurred and then deferred. Probably $5 billion has already been spent on questionable projects.

Existing Hydro plans involve risky export commitments, no diversification of supply, and a partnership with First Nations supported by policies and accounting practices that are open to question.

As mentioned earlier, the common view is that Hydro paid far too much to acquire Centra Gas and Winnipeg Hydro. For these acquisitions, Hydro had no cash reserves and relied solely on creating more debt. Significant support for the assertion that Hydro overpaid for Winnipeg Hydro has been evidenced in several ways.

First, Hydro committed to upgrade the City's energy efficiency with limits on how much Hydro apparently needed to spend. In reality, Hydro far exceeded its obligation. The power saved then had to be sold on the export market — at half or less than half of what was previously being earned from the City. And, given that the terms of the purchase required Hydro to build a new head office downtown, the result was construction of an excessively lavish $283 million 'palace'.

Hydro also had to make plans for refurbishing Pointe du Bois at an unexpected cost of $2.4 billion when, at the time of the acquisition, there were no major expenses anticipated for the plant's refurbishment. This further highlights the commercial failure of Hydro to be able to 'buy smart' in its acquisition of Winnipeg Hydro.

The Gamble

Hydro's latest estimate of its capital cost expenditures over the next twenty years is more than $25 billion (an amount more than Manitoba's overall current debt.

This excludes the projected cost of constructing Conawapa, allegedly mothballed for lack of demand. Yet, Hydro has still not written-off the $400 million apparently already spent on that project. Further major expenditure is expected.

Hydro's plans are based on questionable projections of not only construction costs but also export sales and revenue. These plans represent the largest gamble in the history of Manitoba.

Even ahead of required approvals, Hydro incurred more than a billion dollars in costs and made commitments with First Nations, American utilities and employees that will prove difficult to reverse.

Export contract provisions should be included in a public review, as do the legal, training, and other development expenditures and contracts that have been signed between Hydro and a number of First Nations.

Hydro's plans are based on questionable projections of not only construction costs but also export sales and revenue. These plans represent the largest gamble in the history of Manitoba.

Wuskwatim is a Financial Disaster

Recent experience involving poor forecasting leading to terrible results is useful in considering the merits of Hydro’s massive development plan.

The construction of Hydro’s Wuskwatim generating station was ‘sold’ through the auspices of a review conducted by the Clean Environment Commission. The project was to cost $900 million, with the production to be sold on the export market at a price of approximately 8 cents per KWh.

Unfortunately for ratepayers, the new dam’s just-reported actual cost has doubled, to $2 billion. On the other side of the ledger, the spot export prices that have been charged to pay for this facility have turned out to be 3 cents per kWh or less - well below the much greater 13 cents per kWh cost of generating and transmitting electricity from Wuskwatim. On the basis of 1,000 GWh of annual generation, an economic loss of $100 million a year can be expected for years to come. A loss of that level is equivalent, on its own, to an overall domestic rate increase of about 6%.

The Wuskwatim project is a partnership involving Hydro and the Nisichawayasihk Cree Nation (NCN). The deal is that NCN will hold one third of the ownership, or ‘equity’, paid for with cash largely borrowed from Hydro. Hydro, in turn, borrowed this amount from the bond market. The commercial terms for this equity partnership provide for annual payments to NCN, *even in “loss years”.*

Both Hydro and government assert that the NCN deal should serve as a template for another equity deal with Tataskweyak Cree Nation (TCN) and neighbouring communities for the construction and operation of the Keeyask project. It quickly became apparent that the NCN deal would be a poor model for Keeyask.

It was no surprise, therefore, that the Government directed the PUB not to review the unfortunate Wuskwatim experience — or the ownership terms of partnerships with First Nations — when there was a subsequent NFAT review to consider the plans to construct Keeyask and Conawapa.

An independent audit and review of the Wuskwatim experience still needs to occur.

Winners and Losers

'Follow the money' is an often used recommendation when one is attempting to discern motives and actions, specifically for large corporations and for governments.

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If the current Government's plans for Hydro continue to be implemented, within the timeframe projected by Hydro, the biggest winner, at least for the short term, could be the incoming government:

1. More economic activity will result as new dams and transmission lines are constructed and present assets refurbished, generating higher personal and corporate tax revenues, a stimulated economy and political talking points;
2. As for the massive borrowing required, it should not be forgotten that, for every dollar borrowed by Hydro, the provincial government gains an additional 1 cent each year from its debt guarantee fee, every $10 billion borrowed generates another $100 million a year for the Government;
3. Every dollar increase in Hydro's capital base, which includes borrowings, also generates additional capital tax revenues for the Government and, with a tripling of Hydro's Balance Sheet, the Government's annual capital tax from Hydro would also triple;
4. And, for every kilowatt-hour produced through water flow, for every dam the water flows through, the Government earns additional water rental fees of about one third of a cent.

Better still for the government, whatever rate hikes are required to keep Hydro in the black will be met by ratepayers, not by the Government. And, while the government rakes in hundreds of millions of dollars from increased capital tax and debt guarantee fees, as the projects are undertaken, Hydro defers the costs until the assets are in service.

Consequently, while the Government will 'enjoy' the increased flow of the charges it will make against Hydro as the capital tax and debt guarantee fees are levied and received, ratepayers will not begin to pick up the tab until long after the projects are finished and after additional financing charges accrue into debt, perhaps two or more elections from now. From the Government's and Hydro's perspective, it is a good strategy for avoiding responsibility for the decisions that have been made.

Unfortunately, there will also be losers, and the losses will be for the long term, not just for the short term:

1. **Hydro consumers** — rates are already rising ahead of the construction phase, so much for Hydro's previous assurances that current consumers would not pay for benefits to be derived by future consumers;
2. **Households depending on electric heat** will pay much higher rates, will incur much higher bills, this to be particularly problematic for lower-income households; and
3. **Taxpayers** — the building of large hydro projects by crown corporations results in massive debts for the provincial government's balance sheet, bringing the potential for economic harm to the economy, credit downgrades affecting the provincial government's debt, potentially bringing higher taxes and or reduced services.

4. **Farmers** — the mass expropriation of land from hundreds of farmers was unprecedented in Hydro's history. The expropriation was carried out against the will of many farmers and implemented by Government edict 'in the middle if the night', the farmers learned of the actions in their rural newspapers.

With little diversity of supply, and full reliance on water flow, a drought could, as it has in the past, devastate Hydro's already weak finances. Hydro has been fortunate in 15 of the last 17 years because there has been median or higher water flow. But, in the longer-term future, drought is a virtual certainty, bringing with it potentially high losses and even more pressure on domestic rates.

The most widely felt impacts on the Manitoba economy will present themselves as a depressant on the disposable income of ratepayers of all customer classes and a reduced attractiveness of Manitoba to industry.

What Can Go Wrong?

Construction cost estimates are almost certain to be too low. This has, over the years, been a consistent problem for both Hydro and the Government.

As suggested above, while the NDP Government has enthusiastically attempted to sell its plans through Hydro paid advertisements, there is much that could and will go wrong.

Construction cost estimates are almost certain to be too low. This has, over the years, been a consistent problem for both Hydro and the Government.

Can anyone remember the last time when a Government or Hydro cost forecast proved to be accurate?

Consider the following cost forecasts and 'actuals':

- Hydro Head Office, the initial 'place-marker' of $75 million became an eventual cost of $283 million;
- Wuskwatim, estimated to cost $900 million, actual $2 billion;
- Pointe du Bois, from an initial 'repair bill' to a $2.4 billion make-over;
- BiPole III, the cost estimate has gone from $1.9 billion to $4.7 billion;
- Keeyask, from $3.7 billion to $6.5 billion; and,
- Conawapa, from $5 billion to $10.7 billion.

Equally likely are that export demand and pricing will be lower than projected, which has been a common experience in recent years. As for export sale prices, 70% of sales are now at spot prices, which have averaged from below 1 cent/KWh to 4 cents. Over the past four or five years, the marginal cost of new Hydro supplies is now estimated to exceed 10 cents per KWh, not including transmission costs.

The current government cites as a major advantage of its plans the expectation of Hydro receiving billions of export contract revenues in the years ahead. Claiming that to be sufficient to hold down domestic rates below the level rates would be without the new developments and export contracts.

Leaving aside amortization and operating costs, as well as the share of the export revenues that would flow to Hydro's First Nation partners, the annual interest and debt guarantee fees on the estimated $25 billion of major new capital projects and another $13 billion of overall planned 'normal' capital expenditures will far exceed the expected export revenue.

In 2011, Hydro defended a twenty-year forecast for export revenue of $12 billion. One to two years later, with no major change in real-time export conditions, Hydro cut the forecast by half — to $6 billion. In reality, the prospects for profitable export revenue are no better today. In fact, in Hydro's 2016 PUB filings Hydro has reduced its forecast for export revenues yet again.

And, not only might export revenues be lower than projected, domestic demand too will almost certainly be lower than forecast: There have been no major new industries for Manitoba since the 1990s, and none are on the horizon.

Meanwhile, Tembec has shut its pulp and paper mill while San Gold is in receivership. Hudson Bay Mining & Smelting has closed its smelter. And Vale plans to close its smelter and refinery. As a result, fifteen years' worth of forecasted industrial demand growth has evaporated.

There have been no major new industries for Manitoba since the 1990s, and none are on the horizon.

A drought is overdue and, in the history of the utility, there have been both five- and seven-year droughts. Imagine what a major drought will do to a utility dependent on water flow without a natural gas plant as a back-up.

Given that interest rates are now rock bottom, higher rates are, eventually, inevitable. Hydro will have even more debt going forward. A credit downgrade would mean a higher interest rate spread over Canadian bonds, pushing up Hydro's and the provincial government's cost of borrowing.

Also, there could be plant or transmission and distribution failures; further turbulence in currency markets, etc. And, of course, there are potentially unknowable events that could affect the transmission of power. A hundred years, the projected service life of a dam, is a long time, far longer than the average term of a bond issued to finance a project or the length of an export contract.

Another risk lies with Hydro's rate model. It may well fail to share adequately the cost burden between the various customer classes. Also, it may already be failing sufficiently to motivate customer behaviour to become more energy-efficient to lower consumption, which, if achieved, would slow the timeframe for needed new capacity.

Financial Impacts:
The Results Fail to Meet Hydro Forecasts

As a result, there is a strong likelihood that American utilities will continue to be subsidized by Manitoban ratepayers while First Nations, through beneficial contract terms, will also gain regardless of what happens.

What will be the financial impacts if Hydro's forecasts are not realized, as is likely to be the case?

1. Hydro rates for Manitobans will continue to rise, by much more than the 4% per year Hydro currently forecasts. It is not known how an average rate that could swiftly triple the current average rate would affect consumers and the economy.
2. Assuming the PUB continues to approve rate increases attempting (but failing) to keep Hydro's debt-to-equity ratio at 'acceptable' limits, rates for consumers could well increase at 8% per annum, twice the 4% a year Manitoba Hydro forecasted.
3. While the deferral of ratepayer revenue directed by the PUB to cushion the rate shock when Bipole III comes into service doesn't save ratepayers a dime, it does give Hydro another excuse for a further rate hike.
4. Lower income households could easily end up paying more than 10% of their disposable incomes for their energy and people in rural and northern areas who do not have access to natural gas will, on average, pay far more than urban customers.
5. New industries may avoid Manitoba as the Manitoba Advantage shrinks or disappears into 'disadvantage'.

As a result, there is a strong likelihood that American utilities will continue to be subsidized by Manitoban ratepayers while First Nations, through beneficial contract terms, will also gain regardless of what happens.

Twenty years from now, if new governments implement Hydro's full plan, Hydro residential rates of 24 cents per KWh or more — three times current level — are likely to be the minimum result.

One might well wonder what would be the rates and demand prospects if low-cost and reliable power for domestic customers returned as the over-riding, primary objective? Unfortunately, neither the Government nor Manitoba Hydro will venture to answer this question.

Timing is Crucial

The NDP government's plans for Hydro were developed before 2008 when the economic environment was very different than it is at present. At that time, Premier Doer claimed: "hydroelectricity is Manitoba's oil".

Both Hydro and the Government expected:

- Natural gas prices would stay high and increase beyond $10 a GJ (not the $2 per GJ or below current market price);
- There would be a high price on carbon, providing for a premium price for hydro power;
- Rather than industrial closures, new and expanded industry would develop to drive demand growth;
- Higher spot and fixed export prices would develop, not the one to three cents per KWh for spot sales which are a growing component of export sales in recent years;
- Construction costs were expected to increase with inflation — now, the initial forecasts are recognized as being far too low;
- A western route for BiPole III could be built at little additional cost and without troublesome engineering concerns; and
- Much higher rates could be established and charged for new or expanded energy-intensive industries.

The Reality Today is Different

Since that time, a global credit crisis and a recession have led to an industrial slow-down, with the Americans focused on their economy and not on climate change. In addition, Americans have begun using more renewable energy by subsidizing wind and solar power.

Furthermore, new technology has dramatically reduced the cost of wind and solar power while Americans move to generate more jobs at home in the USA.

New production technology has unlocked huge reserves of shale gas which has driven natural gas prices much lower. There is now greatly increased use of gas turbine generating stations in Hydro's export market region.

The Canadian dollar is now well below par (recently in a range of 68-76 cents to the US dollar). This has exacerbated already dramatic increases in construction costs. The 'model' first dam, Wuskwatim, has proven to be an economic disaster. Also, the NDP government has forced a western Bipole III route at over three times the cost of a better eastern route, as well as ignoring opportunities to diversify energy supply. Increased export revenue attributable to the low Canadian dollar has been more than offset by much lower sales from export volumes that have failed to reach forecast levels. There have also been serious and avoidable costs due to badly managed overexposure to the strong US dollar in the money markets.

The current strategy of Hydro involves spending a considerable amount of money ahead of final approval of the projects, thus forcing up rates to keep Hydro's bottom line technically in the black.

Bipole III will require either new net revenue of about $475 million annually, just to cover its operating costs — or a 30% rate hike — if and when it comes into service. Only one sixth of that requirement has been levied and deferred. Paying no heed to inherent weaknesses of its revenue forecasts, Hydro still relies on forecasted phantom revenues from exports to justify its building of Keeyask and the rebuilding of Pointe de Bois — a 'doubling down' of these big bad bets.

To assist these plans, the Government has allowed Hydro to withhold critical information from the PUB, as the costs and risks of its development plan continue to grow. This strategy seems to conceal the real impact on rates for consumers by deferring increased rates into the future.

To assist these plans, the Government has allowed Hydro to withhold critical information from the PUB, as the costs and risks of its development plan continue to grow. This strategy seems to conceal the real impact on rates for consumers by deferring increased rates into the future.

We are already seeing the plan unfold, rates are climbing and forecasts of further rate increases are gradually being accepted, while costs incurred are being deferred, allowing for the 'feathering in' of inevitable, swinging rate increases to consumers.

So who really backstops the risks from Hydro's blunders? Only ratepayers! Who then protects ratepayers? Not Hydro. Not the PUB. Not the Auditor General. And, certainly not the NDP provincial government.

Unanswered Questions

Before even more massive expenditure of ratepayers' money, there are many questions that need to be asked.

1. What are the commercial provisions in the export contracts — volumes, prices, relief from export commitments in the case of drought, penalties for withdrawal from contracts, etc?
2. While dams are built for a century and amortized over many decades, export customers are not tethered to Manitoba Hydro. What contract renewal provisions are in place?
3. What are the actual commitments of the American utilities and what are those of Hydro: for building the necessary additional transmission lines south into the United States from the Manitoba border?
4. What are the projected results for Hydro for operations without Keeyask? With the construction, instead, of natural gas plants?
5. What would be the value, in a drought scenario, of diversification and reduction in risk with construction of a modern high-efficiency natural gas plant?
6. What, if any, are the implications for a natural gas plant in Manitoba if the conversion of an existing TCPL gas pipeline to the east to carry oil is realized?
7. What is the present value cost to non-First Nation ratepayers of contracts with First Nations? How much has been spent on training in the north?
8. If Hydro's intangible and deferred costs — more than 43% of the Utility's operating, maintenance and administrative were written off against Hydro's retained earnings, would any retained earnings be left?
9. If Hydro's uneconomic assets were written down, including existing single-cycle gas turbines, coal plant assets and Wuskwatim, what then would be left in retained earnings? Nothing?
10. What are the implications for the Province's books if Hydro expensed intangibles, deferred costs and wrote down uneconomic assets?
11. Given that Hydro has failed to file regulator-ordered risk reports, including those of a consultant, which only surfaced after the consultant blew the whistle, what other reports have been buried or left in draft form, perhaps because findings were contrary to the views sought by Hydro? What about climate change scenarios that could raise the prospect of more droughts in the future?
12. How much has Hydro actually spent on Bipole III, Keeyask, Conawapa and First Nation negotiations, concessions and inducements? What would be the write-off if the development plan is mothballed?
13. What is the real economic loss on Pointe du Bois?
14. Why is there no Energy Intensive Industry Rate to protect consumers?
15. What plans do Hydro and the PUB have for reviewing Hydro's current rates model - with a view to ensuring fairness among customer classes and motivating customers to achieve improved energy efficiency and reduced consumption?
16. Whatever happened to setting rates based on a PUB-approved distribution of utility revenues and costs among rate classes, assisted by consideration of other factors such as consumer

affordability, retention of industry customers, the environment and the avoidance of rate shocks for consumers?

17. If future Hydro rate increases were held to no more than inflation, how would Hydro's 20-year financial forecasts look?

18. Since the route of Bipole III and the building of new dams to meet export and First Nation commitments came by way of a thinly veiled political edict, should not the future provincial government be held accountable for and meet any losses incurred by Hydro in the future? Is there any point in transferring the cost to taxpayers? Should there not be some protection of lower-income households and the industrial base which is not within Hydro's responsibilities, and lastly,

19. How much revenue will the Province have accumulated in its accounts by the date that Keeyask is expected to be in service, for increased capital tax and debt guarantee fees (above and beyond current revenue levels for both levies)? How much of that total from Hydro will the Province have expensed in its books?

A Vignette About ‘Smoke and Mirrors’

Hydro’s most recent submission to PUB, in support of requesting yet another 3.95% rate hike for April 2016, rests on innumerable, rather shaky assumptions.

The problem is that Hydro’s past assumptions have invariably been proven wrong. Perhaps resembling, somewhat, a game of ‘smoke and mirrors’, the complex set of assumptions used by Hydro, include the following:

What if the higher interest rate scenario provided in Hydro’s IFF 2014 projection was applied in the recent projections? And, what if export prices do not soar from the current average of 3.8 cents US to 5.29 cents US in 2017, and what if prices don’t continue on a steady rise to 8.29 cents US by 2025? Instead, what if export prices continue to decline as they have for several years now?

And, what if domestic electricity consumption does not increase at 1.5% for capacity and 1.8% for energy as assumed by Hydro? What if net annual load increases at the current rate or the 0.5% to 0.67% range predicted by the US Energy Information Agency?

And, given Hydro’s current strategy of advancing their schedules for its capital expenditure plan, what if it’s assumptions for currency exchange rates on US debt and interest paid on US debt proves unduly optimistic?

As well, what if construction costs soar well higher than currently forecast? Hydro’s history on forecasting construction costs is far short of adequate.

The ‘development bus’ of Hydro needs to slow down and pull over. The best immediate action, from a public interest perspective, would be for the new government to halt the expansion in its tracks and to initiate an independent, comprehensive review of ‘where we are, and where we should go from here’.

An investigative approach similar to that which resulted in a comprehensive report and recommendations for future options and prescriptions for ‘Hydro One’ in Ontario would easily do the job.

When determined, the ‘cost’ and debts arising from the NDP’s Hydro misadventure should be transferred out of Hydro to the provincial government’s account, allowing the Manitoba Advantage to continue, providing assistance to households and an incentive for business/industry.

ManitobaForward.ca
FOR A VIBRANT AND PROSPEROUS MANITOBA

Principles for a Vibrant and Prosperous Manitoba

Throughout the history of Canada the people of Manitoba have helped shape the direction and destiny of the nation. Manitoba has always been blessed with an abundance of natural resources and strong people with an entrepreneurial spirit. Manitoba's citizens, whether born here or arriving from other places around the globe, share a common desire to enrich their lives and the well being of their families. Manitobans believe their fellow citizens should be able to benefit from the opportunities and abundance the province has to offer.

The following are the building blocks upon which a vibrant and prosperous future for Manitoba will be built:

Funding for Government

1. Structural deficits are destructive to the long term health of the Manitoba economy. Deficits should only occur in times of real economic crisis and should be eliminated as quickly as possible if they do occur.
2. Taxes are necessary to fund the public services and infrastructure investments deemed important by Manitobans. But they are also a drain on economic growth and innovation. Government should minimize, simplify and optimize taxes to attract investment, jobs and opportunity and encourage our private sector entrepreneurs to flourish.
3. We reject the stereotype of Manitoba as a "have-not" province and will strive to make transformational policy changes that will make the province a self-sustaining "have" province.

Free Flow of Goods and People

4. Manitoba should be a society whose economic opportunities and quality of life encourage its residents to stay, rather than continue to be a regular net exporter of people to other provinces.
5. Manitoba depends on the free flow of goods, services, and people. We will work to keep our borders open with all of our neighbours, particularly those closest to us; British Columbia, Alberta and Saskatchewan. We will also actively encourage free trade on the international level.
6. The inflow of investment and people is necessary for the long term health of the Manitoba economy. The Government of Manitoba should encourage immigration in a way that helps the Province meet the demand for labour, skills and investment.

Public Assets

7. Public assets must be managed with full public reporting, transparency and competitive neutrality. Public ownership should not imply a competitive advantage that is not available to Manitoba's entrepreneurs and business leaders (small and large).

8. Crown corporations should operate transparently and in the best interests of the public. Their goals should be defined clearly in legislation, their performance should be regularly assessed, and there should be no behind-the-scenes political interference with them.
9. Government must not compete with the entrepreneurs and business leaders (small and large) who drive our economy. Unless there is a clear and demonstrated public benefit derived from government ownership, the Government of Manitoba should not take an ownership position in new commercially viable enterprises.

Healthcare

10. All Manitobans, regardless of where they live or their income level, should have access to a sustainable, high quality health care system.
11. There should be a strong publicly funded health care system that offers a variety of options for patients and providers in which there is freedom to criticize and advocate for change, and that is centred on patients and front line providers rather than an ever expanding and controlling bureaucracy. Education
12. Educational institutions need room in which to innovate and provide diverse programs and opportunities, and not have the pursuit of excellence impaired by rigid provincial policies.

Aboriginal Empowerment

13. Working with the government of Canada and aboriginal communities, Manitoba must help to address, on an urgent basis, the issues of addressing economic development, greater educational opportunities and providing effective public services, including child and family services.

Local Government

14. There should be a new deal for local government. Cities and municipalities must have a reasonable measure of autonomy, and reasonable access to growth taxes, so that there is an incentive to sound policy-making.
15. Local government will operate at the highest levels of transparency and competitive neutrality consistent with best international practice.

Social Safety Net

16. Manitobans support an effective and sustainable social safety net to protect those who need help while providing people with the tools to become self-sufficient.

Justice and Crime

17. Public policy on crime reduction should be practical, effective, and respectful of civil liberties.

Public Services

18. Citizens have the right to the highest quality of public services that are provided in the most cost effective, neutral and efficient manner available with transparency and public reporting.
19. The size of the public sector should be brought into reasonable balance with the overall size of society. This objective should be achieved first and foremost by encouraging the growth of

strong commercial and non-profit sectors outside of government, rather than cutbacks that would impair the effective delivery of public services or place an undue burden on those currently working in the public sector.

The Environment

20. Development without consideration for environmental sustainability is destructive to the economy, the health of the citizens of Manitoba, and the natural richness with which we have been endowed. Environmental sustainability must be a prime consideration of both the Government of Manitoba and the business community.
21. Environmental decisions will be based on sound verifiable science, and measurable results based on risk and cost benefit analysis.

Personal Choice

22. Governments and political leaders should, by example, foster high ethical standards and moral values within society, but leave questions of personal belief, faith, and conviction to its citizens.

Robust Civil Society

23. Provincial policy should leave room for diversity, vitality and innovation in the rest of society, rather than having a provincial government exercise excessive and politicized control.
24. Government decisions must be responsive and transparent to the people of Manitoba. Democratic reforms will focus on increasing citizen's input into the decisions of government and providing citizens with the tools necessary to keep government accountable.
25. The political playing field should be leveled. Governments should not be permitted to use taxpayer money, in the guise of government information campaigns that in effect amount to partisan political advertising. The independence of the offices of the Provincial Auditor, Chief Electoral Officer and other democratic watchdogs must be scrupulously maintained.
26. Appointments to provincial agencies should be on the base of stated criteria and emphasize selection on the basis of merit.
27. Manitoba needs a strong and diversified business sector in which there is free competition, rather than a subsidy culture in which success depends on political favour. The means to achieving this end could include an adoption of core principles along these lines by existing parties, merger, or creation of a new party. However accomplished, the people of Manitoba need and deserve a political alternative that is positive, based on ideas and vision, and has the potential to win support from a very wide range of Manitobans with different backgrounds and personal beliefs.

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