

Statement of Bill Turner, Chair, Manitoba Industrial Power Users Group (MIPUG)
To the Clean Environment Commission Regarding the Wuskwatim Generation and
Transmission Projects Application

Mr. Chairman and members of the Commission.

My name is Bill Turner and I am the Plant Manager at Nexen Chemicals Canada Limited Partnership Brandon plant. Since November of 2000, I have been the Chair of the Manitoba Industrial Power Users Group (MIPUG). I would like to thank you for this opportunity to address you today.

MIPUG has been involved in electricity and rate regulation issues in Manitoba since 1987. MIPUG's primary focus has been to support a strong, regulated Crown-owned utility in Manitoba, offering rates that reflect the costs to provide service to each customer class. We have participated in every major hearing before the PUB for Manitoba Hydro's rates, as well as reviews of other matters including new capital projects (the 1990 PUB hearing that reviewed Conawapa). We have not been active participants in this process as our group has not traditionally appeared in Clean Environment hearings, but given some of the issues that are before the Commission today, we felt it important to make a few comments to assist the Commissioners.

At the outset, I want to note that based on our brief review, MIPUG is supportive of the proposed Wuskwatim development. The project appears likely to provide long-

term benefits. The risks appear to be manageable, and we expect that they will be managed by Hydro, under the watchful eye of the PUB. Enhancing other supply options, such as demand-side management and non-utility generation, does not appear to be a reason to forego the opportunity that Wuskwatim can provide to all domestic ratepayers.

Secondly, as it is Hydro's ratepayers who are ultimately assuming most of the risks of the project, MIPUG wants to ensure all ratepayers will in fact realize the benefits. This can only be assured if strong rate-regulation is continued in Manitoba, and if Hydro and the provincial government affirm their commitment to a cost-based rate structure that emphasizes Manitoba use of power as a first priority. Although it is ratepayers that are taking the risks of the project, increasing government charges and levies over time will undermine the extent to which ratepayers ever see benefits from the risks they bear.

I should also note that as the Commission makes its appearances in other locations, large industrials local to the north who are also members of MIPUG may take the opportunity to provide further comments on specific aspects of the application.

Background on MIPUG and Power Rates

MIPUG consists of eight of the largest industrial companies in Manitoba. Current members include the following:

- Nexen Chemicals Ltd.
- INCO Manitoba Division
- Hudson Bay Mining & Smelting
- ERCO Worldwide
- Enbridge Inc.
- Tolko Manitoba Kraft Papers
- Simplot Canada Ltd.
- Griffin Canada Ltd.

These companies have made substantial long-term investments in Manitoba and view stability and predictability as key to their operations. The group was formed in 1987 to promote issues of common interest to energy intensive industry in Manitoba.

Collectively, MIPUG members:

- annually purchase about 4,000 GW.h of energy from Manitoba Hydro representing about 20% of the energy sold to Manitoba Hydro's domestic customers
- directly employ upwards of 4,500 people
- primarily sell to the global marketplace; over 90% of the production of our members is exported out of province

Before I address today's application specifically, it is important to note that for the MIPUG members, global competition is a reality. If we are to remain competitive, electricity rates in Manitoba must help offset some of the geographic and climatic disadvantages we face here. This is particularly true for my own plant at Brandon, where 60% of our manufacturing cost is the cost of electricity (upwards of \$30 million a year). In times when our industry is not operating at 100% capacity, the plants with the lowest costs of production run full load and the plants with the highest costs of production are cut back. Our Brandon plant competes with our external competitors and with the other Nexen sodium chlorate plants. We are now the second largest sodium chlorate plant in North America and, upon completion of our expansion, we will be the largest plant in the world. Manitoba's low and regulated electricity rates are one of the major contributing factors to this reality.

Other MIPUG members are in similar situations, whether in mining, forestry or other industrial operations. Fair rates that reflect Hydro's costs, and diligent attention to ensuring those costs are as low as possible while ensuring a financially healthy utility, are an essential part of ensuring that Manitoba industry continues to survive and grow. This is critical in maintaining and enhancing the long-term investments, jobs and other benefits that come from having these operations in Manitoba.

As a final note, those participants here today that have experience with PUB rate-setting will be well aware of a long-standing and well-recognized need to have all

customers pay rates that reflect the costs to serve them. Over a long period, industrial customers in Manitoba have faced rates that are higher than the costs to serve them (the extra amounts being almost \$25 million each and every year). Much has been done to try to address this imbalance, including a recent 2% rate decrease to Hydro's larger customers, a move in the right direction and an important signal to our members that Manitoba remains committed to fair rates. Without assurance that PUB rate regulation will continue, including continued movement over time towards rates that more closely reflect Hydro's costs to provide service, we have a lot of difficulty determining whether a project such as Wuskwatim will ever result in benefits to Manitoba ratepayers. The continuation of PUB rate setting is central to our ability to support the project.

The Wuskwatim Project

Against that backdrop, it is no surprise that MIPUG is attentive to the impact that projects such as Wuskwatim will have on the long-term level of Hydro's rates. We recognize that this is a small project in the Hydro system, but the costs are not small (upwards of \$1 billion). Even a small burden on domestic ratepayers as a result of this project would be a material concern to Manitoba industry, where a small percentage increase can mean hundreds of thousands if not millions of dollars in extra costs.

Although we have not done our own detailed technical analysis, there seems to be a reasonable basis to conclude that the concerns MIPUG would normally have in regards to the risks of the project, and the impact on the level of future domestic rates, have been adequately addressed by Hydro. We note that Hydro has concluded the project is likely to have a small and long-term positive impact on the level of domestic rates, and we note that others seem to at least agree that the project will not raise rates. Given the risks, the project seems to provide a reasonable, but not overly robust, level of return.

MIPUG members and all Manitobans can likely see many additional benefits from Wuskwatim outside of rates, so long as the rate impacts are neutral or better. From MIPUG's perspective, the other benefits of Wuskwatim, such as providing local development, better training for Manitoba workers, increased investment in Manitoba, and increased tax revenues from workers, should not be ignored.

On balance, given the information we have been able to review from Hydro and others in this proceeding, MIPUG sees that there will likely be benefits to proceeding with the project. It is clear that this is not a windfall project – even the small risks must be managed. We are confident that Hydro can and will manage these risks.

Like any project of this type, the risks that can be assessed in this hearing are those that are known today, based on the information available, and reflecting the best

plans that can be developed today for dealing with all sorts of forecasts and expectations. In reality, managing these risks and ensuring the best possible outcome is not a one-time exercise, it is an ongoing process of adaptation and reassessment, particularly during the construction phases when most of the dollars will be spent. In other words, although MIPUG sees no reason today for the Commission to conclude that the risks are too great to proceed, this does not mean ratepayer interests can be assured without an ongoing level of regulatory oversight throughout the project. MIPUG sees that the primary role for such oversight should fall to the PUB, to ensure ratepayers are not adversely impacted. We ask that the Commission give this matter careful consideration in its recommendations, including reaffirmation of the role of the PUB to regulate Hydro's rates and assess its ongoing capital program.

Manitoba Hydro's Future

Manitoba Hydro has put in considerable effort to create a strong utility and develop a domestic power system that can deliver high-quality and low-cost power to Manitobans. It has made a difference in the face of Manitoba today – resulting in more jobs, greater economic development and increased local investment.

We have heard from Hydro that Wuskwatim is only one piece of a long-term expansion plan in the north. This plan emphasizes what MIPUG sees as a potential contradiction within Hydro's ongoing mandate and vision.

- On the one hand, we see Manitoba Hydro as a domestically-focused utility which first and foremost serves and supports Manitobans, and encourages growth and development of Manitoba, for all of the local benefits it provides.
- And on the other hand, we have seen Manitoba Hydro as an export-dependent utility that aggressively pursues opportunities to create and free-up power for export, and to profit from these sales.

We can all likely agree that there is a need for a balance between the two.

MIPUG's concerns with this divergence go to the issues at hand in this hearing, but also go well beyond the present hearing. Some materials Hydro has produced in recent years suggest a shift in this balance in a disconcerting direction. In particular, Hydro has indicated that it has perceived a "danger" that "profitable export sales" may have to be diverted to supplying growing domestic industry, and that low domestic rates are the problem. I don't imagine there are many quarters in this province, outside of these suggestions by Hydro, where growth in domestic industry may be seen as a problem (as opposed to an attractive and desirable opportunity). As chair of MIPUG, there is one thing I can say with a great deal of certainty and gravity - domestic rates that are higher than necessary, and a Hydro corporate culture that may view growth in Manitoba as less attractive than shipping power south of the border, will most certainly achieve reduced Manitoba load. However, the associated consequences in terms of lost jobs, investment and local development

may not in the end be what was intended. In contrast, enhancing Hydro's past achievements by maintaining electricity rates at the lowest level consistent with a financially healthy utility is a key component of the Manitoba advantage to maintain and attract investment in the province.

In this proceeding, the Commission is being asked to recommend a licence for a project that is not today required for domestic service. This project can be reasonably viewed as potentially fitting into either of the Hydro mandates I noted earlier – either as an opportune means, albeit slightly outside of Hydro's core obligation to domestic supply, to help keep domestic rates down, or in the alternative as a chance for Hydro to pursue a preference for marketing power for profit outside Manitoba. In the end the difference is subtle, but very important.

Today, the Commission has the ability to ensure that an approval of this project comes with a clear affirmation:

- that Hydro remains focused on a Manitoba-first priority, for both use of power and customer care, and
- that the benefits of export revenues be made available to ratepayers first and foremost, to pay down the investment in the generation and transmission plant used to create the exportable power, and to aid in maintaining or enhancing the competitiveness of domestic rates.

The Commission should carefully consider the benefits of ensuring clarity on this point.

Other Matters

Three other specific matters have arisen in our brief review that merit comment.

On ***Demand Side Management*** (or DSM), Manitoba industry is very supportive of properly run DSM programs. Despite being less than one-quarter of Hydro's domestic load, industry is the largest source of existing DSM capacity savings in the province, and makes up nearly half the existing DSM energy savings (from Hydro's May 2003 PowerSmart review). This DSM is achieved at a very low cost to Hydro, and as a result, benefits accrue to both the customer who participates (through lower bills) and all other ratepayers (through selling the freed-up power at higher export prices). DSM in this fashion is a win-win proposition, and should clearly be pursued.

However, it is not sensible to undertake DSM programs that increase the level of rates that need to be charged to other ratepayers. Some of the more aggressive DSM programs require incentives and program costs that make the program more costly than the benefits they achieve, resulting in higher domestic rates. Indeed that kind of DSM can have dramatic impacts on the loads in Manitoba, as the higher rates that result will have impacts on the amount of electricity used here to run industries, create jobs, and pay taxes. Reducing Manitoba industrial activity is not typically

thought of as part of a sensible DSM plan, but it is certainly a potential impact of the more aggressive spending on DSM.

MIPUG supports continued pursuit of win-win DSM opportunities, potentially including negotiating an optional time-of-use tariff for large industrials if Hydro chooses to pursue that option. However, more relevant to this hearing, continued pursuit by Manitoba Hydro of appropriate economic DSM opportunities does not seem to be a reason to forego the development of Manitoba resources such as Wuskwatim.

In regards to **wind generation**, MIPUG is not persuaded that there is any justifiable reason for Manitoba Hydro to be taking risks on this technology. If private developers with experience in this area can agree to a purchase power contract with Hydro containing all necessary commercial terms and protections for Hydro's ratepayers, then wind may be an interesting resource for the province. This would mean that the wind plant operator takes the risks on price and output, and Hydro largely passes through the equivalent export price it receives (with appropriate adjustments for transmission losses and firming). Otherwise the material on wind does not seem to indicate likely benefits for domestic ratepayers compared to the risks it entails and it should not be pursued further by Hydro at this time.

More generally, the comments in regards to wind should apply equally and without prejudice to all potential *non-utility generators*. As far back as the 1990 PUB hearing into Hydro's Capital Plan (the Conawapa hearing) the PUB found that "Non-utility generation is endorsed by the Board and Manitoba Hydro is encouraged to pursue this supply option vigorously". For industrial customers engaged in forestry activities in particular, there is a significant potential to generate renewable power using what would otherwise be waste material. However, unlike the prospective wind power developers that have recently arrived in Manitoba, the large industrials who have made a long-term commitment to Manitoba are not being offered a price for their potential power that is representative of export market prices. For power producers new to Manitoba, Manitoba Hydro will offer them a price for their power that is based on exports (which I understand to be in the range of 5-6 cents per kW.h and potentially higher). However, for existing industrials, the price Hydro will offer is effectively 3 cents per kW.h (as the first power they produce will be effectively netted off their power bill).

Absent a consistent approach to non-utility generation, *without distinction between new generators and existing industrial customers*, it is clear that Hydro will not in future achieve the vigorous NUG supply that it has failed to attract now for the last 14 years.

Summary

In summary, MIPUG takes very seriously its responsibility as major customers of Hydro and as business citizens of Manitoba. MIPUG is strongly supportive of development and long-term investment in Manitoba, and sees the Wuskwatim project as a beneficial component of the Hydro system. The benefits from Wuskwatim appear to arise for domestic ratepayers only to the extent that strong rate regulation and cost-based rates continue in Manitoba.

Exports are clearly a key component of any hydro-based utility, and although they come with some risks, there are ways to balance these risks. For advancement of a small facility such as Wuskwatim, these risks appear to be manageable and well within Hydro's capabilities to address. Exports can serve to lower costs to domestic ratepayers, but domestic use of power must continue to be Hydro's first priority.

Enhanced policies to encourage development of NUGs and continued pursuit of economically-sensible DSM would seem to be a valid pursuit for the utility, but need not come at the expense of developing the Wuskwatim project to the benefit of domestic ratepayers.

Thank you for the opportunity to discuss our views with you. We trust that our participation in this hearing will assist the Commission in carrying out its responsibilities regarding the application.