

WITH GRAHAM LANE



Graham Lane, a retired CA, has had a multi-faceted career spanning almost 50 years in the public and private sectors of seven provinces as a Senior Executive and Consultant. In the public sector, before concluding his career as the Chairman of PUB, he consulted for three provincial governments and was employed by four provinces. In Manitoba, he was the CEO of Credit Union Central, bringing in online banking, a Vice-President of Public Investments of Manitoba, the interim President of MPI, reorganizing the corporation after its massive losses of 1986, a Vice-President of the University of Winnipeg, and the CEO of the WCB, restructuring the insurer and returning it to solvency. His experience with Crown Corporations go well beyond Manitoba's, he was the Comptroller of Saskatchewan's Crown Investments Corporation, and a consultant reviewing government auto insurance in BC and workers compensation in Nova Scotia. He received the gold medal in Philosophy as an under-graduate, and a Paul Harris fellowship from Rotary International for excellence in vocational service. Throughout his career, and wherever he worked, consulted or volunteered, he maintained an external objectivity. He was interviewed after his speech to Lunch on the Frontier in Winnipeg on June 5, 2013.

Frontier Centre: Why is the government proceeding, why wouldn't it act in the best interests of Manitobans?

Graham Lane: Having developed the plan before the 2008 credit crisis and global recession, it has been reluctant to change despite the changes in the economic environment. Instead it has had Hydro proceed to spend a couple of billion, enter into partnerships with First Nations, hire hundreds of employees and trainees, and make commitments with American utilities. If it stops now, it has to admit an error in judgement, and have to repeal commitments and write off a couple of billion, also lose the extra revenue flow from the debt guarantee fee and capital tax it gains from Hydro regardless of Hydro's results. A big hit on the government's own summary accounts will occur if they stop.

FC: You were Chair of PUB, why didn't you come out swinging then?

GL: Our orders contained no end of warnings and identification of risks with the government's plans, they also include demands for information from Hydro that were never responded to. As well, we took the unprecedented step of issuing a subpoena, that withdrawn by the new PUB after my retirement. I must admit I underestimated the stubbornness of the government, I thought logic would end up driving them to do the right thing, which is to slow down and open up the books and plans, and allow options to be pursued before waste was irrevocable.

FC: Why shouldn't First Nations have a share in Wuskwatim and Keeyask?

GL: I don't have a problem with a real partnership, but not one where the utility lends the money, rigs the books and when things still don't work out go back to amending the partnerships' terms to ensure the First Nations gain even when losses occur. Remember, Hydro has already spent an acknowledged \$250 million talking the First Nations into the plans, not counting the hundreds of trainees they have hired. Now, what to do when it seems clear a pause is required.

FC: What's wrong with building Bipole 3 ahead of approving Keeyask and or Conawapa?

GL: If they build Bipole 3, you can immediately expect a 30% rate hike; so the only way they can claim the rate hike isn't needed is to proceed with a new dam, as then they can defer Bipole's full cost until the new dams are in place and operating, the shock in rates can be delayed at least a decade, two elections come and go.

FC: As construction costs keep rising, doesn't it make sense to go now with export contracts expected to bring in \$7 billion?

GL: Hydro has a terrible record of estimating construction costs, export demand and sales prices as well for that matter. Anyway, \$7 billion is a drop in the bucket over 20 years when the finance and capital tax charges for the new construction will far exceed that level of revenue before even considering the amortization of the new construction and the operating costs as well.

FC: Why a gas plant rather than clean hydro power?

GL: You can build a combined cycle gas plant for a fraction of even Bipole 3's cost, let alone the costs of Keeyask and Conawapa. And, a gas plant can be more easily sized for demand. Further, if a drought comes, which it will, you don't have to import high cost coal-fired generated electricity from the United States. Further, the extra gas flowing down the line will reduce the toll charges from TCPL for Centra and its ratepayers.

FC: Should Hydro be privatized?

GL: First, it is important to note that it would be difficult to garner any demand for the Utility from an investor unless the Utility's arrangements with the Province were altered.

As well, a private investor would have to take into account the bloated bureaucracy and money losing plans of the current operation, and be assured it could deal with those issues. Personally, I favour a private operator as at least the goals of the Utility could be returned to serving the needs of its ratepayers, not a government driven by ideology and past mistaken commitments. A private operator regulated by an independent and expert rate body could produce

rates well below what the current set up is likely to provide. With a private operator, benchmarking and regular reviews of capital asset conditions would be regular events, and paying the expenses and meeting the commitments of the Province would no longer be the case. The private operator, properly regulated and no longer tied to non-utility goals of an ever dominant government could seek to bring about lower cost bills for ratepayers through efficiency, and careful consideration of all open future options.

FC: How do you conclude rates will triple?

GL: In PUB's 2011 order, PUB opined that Hydro's rate increase projections were too low, and that based on what was then in front of PUB could be out by 140%. Hydro was then projecting rate increases of 3.5% a year for twenty years.

Since then, Hydro has upped its forecast for capital expenditures from \$20 B to \$33 B, 60% increase over what was known in 2011, only two years earlier. Hydro repeatedly has increased its cost forecasts with every update. As well, spot export prices have remained in the toilet, the current week's average price, as posted by PUB, is 2 cents, even below the 3 cents per kWhr that has been the experience.

And, there have been press reports that suggest Hydro and the government has been marketing low industrial rates to potential new industry, without a special rate for new industry the other ratepayers will subsidize new entrants.

It is not difficult to get to 20 cents, triple the current residential rate.

FC: The Government has claimed \$7 billion and \$20 billion worth of export contracts; won't that justify their development plans?

GL: Firstly, no one outside of government and, perhaps Hydro, knows the basis for those claims – over how many years, what level of demand, what is the pricing schedule,

how secure are the contracts, what other terms are important, is the transmission to the Canadian border there for the Americans to take additional power.

Secondly, with the forecasts of export revenues and constructions costs seemingly in continuous flux, how can one attach creditability to the claims? And, as well, leaving aside the annual amortization costs associated with construction of new dams and transmission, and the levies government will make plus the interest and operating costs, and without knowing the new terms of the partnerships with First Nations, it is impossible to assess the implications of government's current export forecasts.

The forecasts seem to just come out of the air.

FC: Are you associated with either of the opposition parties, the Liberals or the Conservatives?

GL: No, I am speaking out of a sense of obligation.

I spent eight years of intense consideration of Hydro matters and another year, in retirement, considering my thoughts about the government's plans, and with friends, children and grandchildren living in this province, and my concern for the Province's future, let alone the problems that I see ahead for lower income, rural and northern residential customers and industry, I feel obliged to speak out.

I see the 'bus going over the cliff', taking the ratepayers and the economy with it.

The NFAAT should have been held before Hydro began its spending spree on the government's development plans, now almost a decade since the plans were conceived, and the NFAT now to be held by PUB cannot be seen as anything else than a sham, as PUB cannot review the plans for Bipole III, the contracts with First Nations and the Wuskwatim experience, let alone table the export contracts with their terms.