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**Frontier Centre:** You have written that Manitoba Hydro's low prices are a direct cause of the Province's high level of debt. What is the connection?

**Michael Benarroch:** The connection is that the Government of Manitoba has undervalued its most important asset and as a result has not been able to generate the kind of revenue from Manitoba Hydro that they should. If you charge market value, you get high revenue for electricity and a portion of that could be transferred to the Government of Manitoba in terms of general revenue which would allow them to reduce the amount that they would have had to borrow over time.

**FC:** In 1994 you estimated that Manitoba's provincial revenues would have contained another 600 hundred million dollars if we had priced electricity properly. Do you know the figure today, after any estimate?

**MB:** No, but it will be higher.

**FC:** By one estimate the amount of money that Manitoba loses by under pricing electricity is roughly 70% of our equalization transfers from the federal government. Are we a "have" province in disguise?

**MB:** We have the potential to be a "have" province. Absolutely, especially as energy demands start to increase, we have the potential to be able to generate a lot of revenue and become a "have" province.

**FC:** You've written that low electricity prices effectively confer subsidies on large industrial commercial power users. If the subsidy is large, why don't we have more large plants in Manitoba? Would we lose the existing ones if the subsidy ended?

**MB:** We don't have more large plants in Manitoba because electricity costs are just one of the costs faced by companies. While they might be an important cost they're just one of many different costs and so when firms are looking at locating in Manitoba they look at overall costs and if they're not huge energy users, then Manitoba is not very attractive to them because we just aren't competitive. I don't believe we would lose the existing ones because there's a huge sunk cost to locating in particular areas. Again even though energy costs would rise companies

would make adjustments in terms of reducing their energy use. The true cost to these companies would be below the rate of increase in energy costs or electricity costs.

**FC:** Why should power prices be set in a market, what's wrong with the idea that a utility owned by the people should be dedicated to the public it serves.

**MB:** The issue here is - how do we structure a provincial economy that can attract high rates of economic growth and attract new business. By having just one sector of the economy charge lower price c.o.d. the public utility, it throws off the competitive balance and to compensate for that, the provincial government has to raise revenues in other ways. Most of those ways have been higher taxes which hit a broader spectrum of businesses than just electrical prices.

**FC:** How do we move up to market prices when politicians are scared to double prices?

**MB:** While this is a difficult question from a political stand point, I think there are a number of things we have to do. First, we have to educate the public that a 50% increase in electricity prices does not mean a 50% increase in your electricity bill. We could use, in the early stages, the revenue or a large part of the revenue to help Manitobans make the transition and become more energy efficient. It would lower our electricity use by, I would say, 30 to 50%, thereby reducing the cost. Second, we phase it in over time so that the cost doesn't increase in one period. The third thing is that we make it part of an overall approach that says we're not just going to raise electricity prices but we're also going to make our tax rates lower because we are going to compensate for the additional revenue we get from Hydro. So it becomes an overall approach, rather than just one individual factor changing a number of costs change.

**FC:** From an environmental perspective, what has been the result of keeping pricing below market?

**MB:** From an environmental perspective it's been a disaster. Manitoba, with Quebec, is among the highest users on a per capita basis of electricity in the entire world, well above the Canadian average. Yes we have a cold climate so we consume more, but our consumption rates are twice those of the rest of the world if not more and

considerably higher than the Canadian average, so from an environmental perspective, we've just gobbled up electricity.

**FC:** From a Kyoto, "save the environment" viewpoint, would it not be smarter to raise prices than put subsidies into ethanol, wind power, mass transit etc.

**MB:** From a Kyoto perspective, I think if we went to a market-based pricing system we would have incentives to conserve energy. With a market-based pricing system we would be able to then concentrate on forms of energy which are cleaner. It seems that Manitoba has a comparative advantage in electricity and so we should take advantage of this asset.

**FC:** If electricity were priced at market levels, what kind of opportunities would open up for Hydro electric exports? Would we simply export a new surplus from domestic conservation or would we be able to capitalize new dams?

**MB:** Well, I think both. Since Manitoba consumers would over time become more energy efficient, we would gain excess production, given our current capacity, to export. In addition because Manitoba Hydro would generate more revenue, and I would imagine some of it would stay with Manitoba Hydro, it would open up opportunities for them without taking on the incredible amount of debt that they going to incur in the future. So it may open opportunities but I think at the same time it might delay the need for building new dams because we would have excess capacity within the province.

**FC:** Peak load pricing is generally not used across Canada, what it is and what is the advantage?

**MB:** Peak load pricing is when you charge different prices at different times during the day, so in a period of time when there is very high demands on electricity you would charge a higher price. That would be during the daylight hours and in evening hours when demand is much lower you would charge a lower price. It is essentially just a supply – demand problem and as demand rises you would charge a higher price. It's not used extensively, but I think it's important to implement it and again this would part of

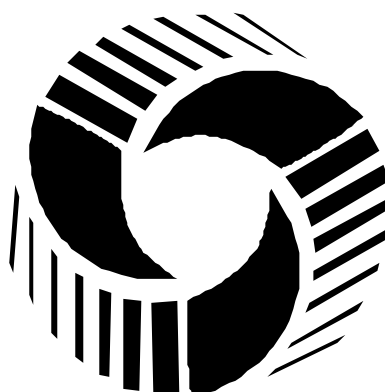
reducing the cost for the individuals. Manitoba Hydro could charge considerably higher prices during the day than in the evening and we'd try to get consumers to transfer consumption from the high peak periods to the lower periods of time thereby lowering their costs. The goal is to create an incentive to balance energy use over the course of a day rather than having it very intense over a short period of time.

**FC:** Do you think that Manitoba Hydro's status as a crown owned enterprise is necessary? What would be the advantages or disadvantages of selling it?

**MB:** Let me think about this. At this point, I don't think that Manitobans, in general, are ready to sell Manitoba Hydro. The point I was trying to make during the talk, was that this is an important asset for Manitoba and we could increase revenue for the province through the sale of electricity from Manitoba Hydro. There may be some advantages to selling it privately in that it would then act in a more efficient economic matter. However, you would then have to give them the freedom to charge complete market price and you couldn't restrain the company, as they have in California, from charging market prices.

**FC:** Last question. What do think of the use of Hydro profits to balance the provincial budget?

**MB:** I have no problems with revenue being transferred from Manitoba Hydro to the province to balance the budget. If Manitoba Hydro is given the ability to raise revenue based on market prices, rather than what the Government is doing today which is transferring debt to Manitoba Hydro. I have a problem if at the end of the day what happens is the debt appears on Manitoba Hydro's balance sheet as opposed to the government of Manitoba's balance sheet. Under the current situation that's what will be happening if we transfer revenue because we're not allowing Manitoba Hydro to generate the revenue that they have potential to.



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