

WikiLeaks reveals Hydro's troubles

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Diplomatic cables uncovered by WikiLeaks depict a "decades-old logjam" that has hampered Manitoba's efforts to market its untapped hydro potential. Three confidential documents, sent from the American Embassy in Ottawa to officials back in Washington between 2003 and 2008, add to the rising doubt about Manitoba Hydro's plan to spend \$18 billion in the next decade on new export-dependent projects.

American officials describe Manitoba Hydro as a utility that has long "stared enviously" at U.S. markets but struggled to find buyers for its 5,000 megawatts of undeveloped hydropower. This history of market reluctance is especially informative now, as Hydro intends to increase its generation capacity by 2,180 megawatts (MW) even though it has only 350 MW of confirmed new export deals.

Last year, Wisconsin Public Service scaled-back a previously announced sale, a sale that U.S. Embassy personnel thought to be essential to Manitoba's hydro expansion.

While exports from existing dams have been lucrative -- bringing \$5.4 billion into Manitoba in the last decade alone -- new dams face a different reality.

The cables show Hydro's enthusiasm about the proposed \$5.6-billion Keeyask dam (695 MW), \$7.8-billion Conawapa dam (1,485 MW) and related transmission lines has simply not been shared by prospective customers for most of the last few decades.

The documents also serve up a few blunt comments that Tim Sale -- minister responsible for Hydro in the Doer government from 2002 to 2004 -- shared with American officials. In 2003, then U.S. ambassador Paul Cellucci wrote that Sale "admitted" dams constructed in the 1960s were built "too big" and caused "extensive environmental damage."

Then Sale, who retired from politics in 2007, weighed in on the role of the Pimicikamak Cree of Cross Lake, who were waging a publicity campaign in the U.S. over impacts of dams.

According to Cellucci's cable, Sale "speculated" the Cross Lake Cree were "being 'used' by U.S. environmental groups," who Sale said "oppose any and all hydroelectricity expansion as a matter of principle."

The overall focus of the cables is the likelihood of such expansion and the likely destination of any new power.

American officials identify the main obstacles to new dams as limited transmission capacity on both sides of the border and the fact that American utilities have not been "interested in the long-term contracts Manitoba Hydro would need to justify the construction of new dams," as Cellucci put it.

Cellucci wrote that additional hydropower from Manitoba would help "guarantee energy security for U.S. consumers from a close-by, clean, secure and relatively inexpensive source," and he noted further the eagerness of the provincial government to find a way past the barriers -- "Tell us what we have to do," Sale is reported to have said. But even so, a deal remained illusive.

Meanwhile, American officials kept tabs on Manitoba's efforts to export energy to the other envied market -- southern Ontario, which according to one cable was "long thought to be the most likely destination for Manitoba's excess hydroelectricity."

In 2003, Cellucci noted then premier Gary Doer's strong backing of the Chrétien government's Kyoto agenda had created "goodwill" in Ottawa and Doer hoped to use this as "leverage" to obtain federal support for a Manitoba-Ontario transmission line.

Though Chrétien reportedly "expressed interest in this idea," Cellucci wrote that the prime minister's preference was "a privately financed new north-south connection to the U.S."

Though Premier Greg Selinger was lobbying the feds for a Manitoba-Ontario line as recently as last December, his chances appear limited at best, which means the U.S. remains at the front of a very short line of cautious prospective hydro customers.

That caution appeared to ease in 2008, when Hydro announced two new 15-year export deals. One was for 250 MW to Minnesota Power beginning in 2020. The other was for 500 MW to Wisconsin Public Service starting in 2018, said to be worth \$2 billion. Both deals were subject to various approvals.

A cable from David Wilkins, U.S. ambassador at the time, said "the decades-old logjam preventing the development of Manitoba's extensive hydroelectricity potential may have been broken." Wilkins noted construction of new cross-border transmission would be required.

But since 2008, logs have begun piling up again. Last year, Wisconsin Public Service scaled back the 500-MW deal to 100 MW.

According to an email from company spokesman Kerry Spees, the constraint is "continuing transmission limitation in the U.S."

Existing transmission lines can handle 100 MW, but 500 MW would require additional capacity. Negotiations for the additional 400 MW are ongoing but obviously the company's reduced commitment indicates a significant degree of uncertainty.

There is reason for concern about transmission. Siting new transmission lines is complicated and contentious. The 350-kilometre Arrowhead-Weston transmission line, which was completed in Wisconsin in 2008, was dogged and delayed by protests and

legal challenges. The project was not completed until nine gruelling years after it was announced.

Further complicating the current situation, Manitoba and Wisconsin do not share a border, so any transmission solution would need to cover the roughly 400 kilometres of Minnesota that lies between the two.

The uncertainty around hydro expansion is compounded by the roughly 10-year lag between the point at which a utility must commit to a project and the time when the dam starts producing power.

While natural gas-powered plants -- the main competition for new generation -- can be built relatively quickly and inexpensively (and located near demand), hydro projects require a massive capital commitment based on projections of export prices, interest rates, foreign exchange rates and construction costs well into the future.

Keeyask and Conawapa would go into service in 2021 and 2023, respectively, at the earliest.

In 2008, then Hydro CEO Bob Brennan reportedly told American officials, "Right now is definitely a bad time to build anything."

Unfortunately, Hydro was in the middle of building the 200-MW Wuskwatim dam at the time. Construction costs had escalated since the project began and the final cost of \$1.6 billion is more than 75 per cent higher than the \$900-million estimate of 2004.

To make matters worse, with Wuskwatim set to go online later this year, export prices are well below what they were when Hydro committed to the project. Hydro profits this year are also dipping and the company plans on 3.5 per cent hydro rate increases every year from 2012-13 until 2029-30.

Compare Manitoba Hydro's situation with Canada's largest utility, Hydro Quebec, which also has ambitious expansion plans.

Last year Hydro Quebec increased net export sales by \$100 million, payed a "dividend" of nearly \$2 billion to the Quebec government and cut customer rates by 0.4 per cent. It's been a while since we've seen headlines of that tone about Manitoba Hydro.

Despite some dim realities -- transmission constraints, a mere 350 MW of confirmed new export deals, a history of market reluctance, the inherent risks of hydro in today's unpredictable market -- the provincial government and its utility remain glowingly optimistic, at least officially, about hydro expansion.

If our government, upon whose shoulders these decisions ultimately rest, lets its politicized optimism override sober evaluation of the risks of new export-dependent

development, future cabinet ministers may again be admitting to foreign officials that we built "too big," that ambition got the better of judgment.

And, in a reversal of minister Sale's accusation levelled at the Cross Lake Cree's supporters, others may accuse this government of being in favour of any and all hydro expansion as a matter of principle.

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