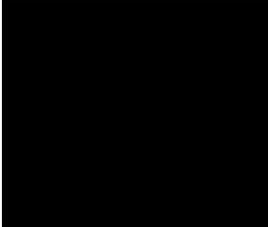


October 19, 2018



Dear 

Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-211-2018)

On October 15, 2018, the Department of Natural Resources received your request for access to the following records/information:

Any briefing notes relating to the Manitoba Keeyask Generating Station.

I am pleased to inform you that a decision has been made by the Department of Natural Resources, confirmed by the Deputy Minister, to provide access to the requested records. The records are attached.

As set out in section 42 of the Act you may ask the Information and Privacy Commissioner to review the department's decision to provide access to the requested information. A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your request should identify your concerns with the department's response and why you are requesting a review.

The request for review may be addressed to the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P.O. Box 13004, Stn. A
St. John's, NL. A1B 3V8

Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500

Pursuant to section 52 of the Act, you may also appeal directly to the Supreme Court Trial Division within 15 business days after receiving the department's decision.

Please be advised that responsive records will be published following a 72 hour period after the response is sent electronically to you or five business days in the case where records are mailed to you. It is the goal to have the responsive records posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.

For further details about how an access to information request is processed, please refer to the Access to Information Policy and Procedures Manual at <http://www.atipp.gov.nl.ca/info/index.html>.

If you have any questions, please feel free to contact me at 709-729-0463 or rhynes@gov.nl.ca.

Sincerely,

A handwritten signature in cursive script that reads "Rod Hynes".

Rod Hynes
ATIPP Coordinator

Information Note
Department of Natural Resources (NR)

Title: Status Update on Manitoba Hydro's Keeyask Project

Issue: To provide a status update on Manitoba Hydro's (MH) Keeyask Generating Station

Background and Current Status:

- The Keeyask Generating Station consists of a 695 megawatt hydroelectric generating station located near Gull Rapids on the Nelson River in Manitoba, and approximately 130 kilometres of transmission lines.
- The Keeyask Project was originally estimated to cost \$6.5 billion and was expected to be in service by November 2019. In September 2016 MH raised its cost estimate to \$7.8 billion for the Project. In March 2017 the cost was further increased to \$8.7 billion and the in service date of its generating station was delayed by 21 months to August 2021.
- An independent review commissioned by Manitoba's Public Utilities Board (PUB) as part of hearings on MH's 2017/18 and 2018/19 General Rate Application (GRA), publically released December 8, 2017 found that the rising cost of the Keeyask project was the result of the "contractor's poor productivity and increased indirect costs" associated with the project.
- The review also found that while MH staff are competent, they lack construction management experience and skills to direct the contractor, which has led to a failure in keeping the project on track. The review notes that there is opportunity for MH to implement contract management improvements to drive the contractor to higher levels of performance, to accelerate project schedule, and to lower the likely forecasted final cost.
- The review estimates that the final project could cost between \$9.5 billion to \$10.5 billion due to the contractor not meeting revised productivity factors, adding further cost and schedule pressures to the likely forecasted final cost and completion date.
- The review advises that should MH address current issues, the final cost will be at the lower end of the range. Should work proceed at the status quo, the review advises that the final cost will be at the upper end of the range. A winter 2018 newsletter on the Project, prepared by the Keeyask Hydropower Limited Partnership (MH and four MB First Nations), states that the Project is on track to meet the projected in-service date and control budget.
- In responding to the review, an MH spokesperson noted that some of the numbers present a "worst-case scenario" and are not necessarily the projected outcome. MH maintains the project will finish within the \$8.7 million budget as of August, 2021. The spokesperson stated that MH planned to present its rebuttal of the review during GRA hearings (the company overseeing the independent review is scheduled to appear in late January or early February to present oral evidence and face questions as part of the hearings).

Effect on Rates

- In its current GRA, MH notes that proposed rate increases need to occur in part due to the costs of completing major capital projects such as the Keeyask Project.
- The GRA states MH expects the Keeyask Project will be cash flow negative and contribute a net loss to MH until at least the mid to late 2030s as the domestic load growth forecast has significantly deteriorated delaying the need for Keeyask well into the 2030s and lessening the opportunity for MH to look to growth to cure its financial challenges.
- MH's GRA is seeking approval of a 7.9 per cent interim rate increase effective August 1, 2017 as well as an additional 7.9 per cent rate increase for April 1, 2018.
- While MH has been increasing rates by 3.95 per cent per year (proposing to do so until 2028/29), the GRA explains that the increases are no longer adequate to fully address MH's revenue requirements. As such, the GRA requests 7.9 per cent increases per year over the next five years. The GRA explains that at the end of this five-year period, rates need to increase to a position where the Keeyask impact can be absorbed.
- On a cumulative basis, the proposed rate increases would represent a cumulative increase over the 12 year period of 68 per cent compared with a cumulative increase of 59 per cent based on the prior forecasted 3.95 per cent rate increases over 12 years.
- The GRA adds that should rates be approved that are less than the requested 7.9 per cent, that there will be an increased pressure on future rate increases, which could see rates increase by as much as 8 to 18 per cent higher than what is being proposed.
- The GRA notes that even with proposed rate increases, MH will continue to have competitive rates compared to other jurisdictions.

Analysis:

- MH's 2017/18 and 2018/19 GRA is currently being heard by MB's PUB (running December 2017 through February 2018). A CBC News article covering the hearings indicated that the Consumers Coalition (MB's analogous Consumers Advocate) organized a panel of ratepayers to speak in opposition of the proposed rate increases. One ratepayer argued for lower rate increases over a longer period of time, while a Manitoba representative of the Canadian Federation of Independent Business said that a survey of its members indicated members felt the increases would severely impact their businesses and employees.
- In addition to the Keeyask Project, there have been cost overruns in other ongoing major hydroelectric projects in Canada. BC's Site C hydroelectric dam project is also estimated to cost more than its original forecasted cost of \$8.3 billion according to a November, 2017 review of the project by the BC Utilities Commission (BCUC). The review stated it expected completion costs to exceed \$10 billion and that it was not persuaded the project would be on schedule for a November, 2024 in-service date.

Action Being Taken:

- NR will continue to monitor and provide analysis on the Keeyask Project and MB's proposed rate increases.

Prepared by/Reviewed by: L. MacDonald / M. Janes / C. Snook / J. Cowan

Ministerial Approval: Received from Hon. Siobhan Coady

January 23, 2018