

SOME ASPECTS OF THE 2020 BRAD WALL REVIEW OF THE BIPOLE III AND THE KEYASK PROJECTS

In November 2020, Brad Wall (the former Premier of Saskatchewan) delivered his 172 page review of Manitoba Hydro's Biopole III transmission project and the Keeyask power dam project.¹ He begins the review with the fundamental question of what were the motivating goals that led to decisions that resulted in the combined cost of \$9.4 billion for the two projects rising to \$13.4 billion with no change in the generating capacity.

Decisions by Manitoba Hydro Were “Constrained”

Commissioner Wall was clear that the two projects were driven by the government.

What has become clear through this review is that all too often the otherwise thorough and insightful analysis, presentation, and decision-making functions for major capital projects proposed by Manitoba Hydro were constrained. These constraints influenced the path to a decision to the point where decisions became questions of “how can it continue?” rather than questions of “does this still make sense?” The constraints were put into place much earlier than one would expect and were supported throughout the past decade by action and sometimes inaction.²

He noted that the initial decision to proceed with the new generation dam and the new transmission line was based on the assumptions that domestic demand would grow, and that the shift from coal generation in the United States would create a large market for Manitoba Hydro's power. However, new technology permitted the production of much more natural gas at much lower prices. Many US utilities switched to gas fired generation instead of coal.

The NDP government of the day did not re-evaluate the need for the projects when the economic justification changed. “No matter how commendable a vision from elected leaders may be, it can lead to negative unintended and lasting consequences if unchecked by changing assumptions and blinkered by confirmation bias and locked in by contract, policy, or government direction.”³

¹ https://manitoba.ca/asset_library/en/proactive/2020_2021/ERBK-Report-Volume1.PDF

² Ibid., p. 8.

³ Ibid., p. 11.

Tunnel Thinking

The Commissioner criticized the fact that the projects were locked-in at an early date despite the changing economics.

The decision history of Bipole III and Keeyask exemplifies errors common to mega-projects around the world with optimism bias, estimating tunneling, and “locked in” decision making among the contributing factors.

The Commission saw evidence of tunneling* that did not seriously consider sources of uncertainty outside of the proposed development plan itself. The falling price of natural gas, the cancellation possibility of major industrial projects, and the discounting of alternative generation options to meet domestic needs were examples of this tunneled thinking.⁴

This led decision makers to commit to an outcome far too early in the process without due consideration to the complexities and risk inherent in projects of this scope and size. When the inevitable realities began to appear as the projects progressed, the decision makers could see no way out and were forced to defend escalating costs, slipping timetables, and eroding financial benefits. This can lead, and in this case certainly led, to narrow, incremental decisions rather than a step back to look at the project holistically and with a firm resolve to ensuring that proceeding remained in the public’s interest.⁵

Further direction was given in the 2012 Clean Energy Strategy where Keeyask, Conawapa, and Bipole III were specifically mentioned as priority actions. It is appropriate and helpful for the Government to provide direction to its Crown corporations in matters of policy, but it should not pre-determine what projects should proceed before they are fully vetted. The Clean Energy Strategy provided no doubt that the Government was fully in support of the Bipole III and Keeyask projects before they were approved.⁶

Improving Integrated Resource Planning

Commissioner Wall recommended that Manitoba Hydro develop a robust plan to forecast future load requirements and how these requirements will be met. “If this is done objectively and transparently it can negate the potential for pre-determined outcomes and reduce the duration of regulatory hearings by encouraging up-front debate and acceptance of Manitoba Hydro’s key planning assumptions.”⁷

⁴ Ibid., p. 13.

⁵ Ibid., p. 14.

⁶ Ibid., p. 26.

⁷ Ibid.

Summary

Commissioner Wall provided a number of recommendations to improve project planning, oversight, and accountability. His executive summary could be applicable to other hydro power projects, including Site C.

Manitoba Hydro is a key asset for Manitoba. It has provided reliable service at low rates for decades. However, through over optimism with respect to the opportunities in the export market and a pre-determined development path with no available off-ramps, the company has overbuilt the generation assets needed for domestic use for many years. The company is now more exposed to risk and, as always, the ratepayer stands as the guarantor.⁸

©Richard McCandless November 7, 2022. <https://www.bcpolicyperspectives.com>

The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He was an intervener in the BC Utilities Commission's current review of B.C. Hydro's rate request.

⁸ Ibid., p. 33.