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Reforming the Jurassic Crown

Manitoba's chronic reliance on transfer payments, its ever-inflating public sector and its increasing concentration of sectoral decision-making power in the hands of a few on Broadway is having an enervating effect on the province, law professor **Bryan Schwartz** argues in *The Supplicant Society*. It doesn't have to be that way; Manitoba can change for the better, Schwartz demonstrates in this series published by the Winnipeg Free Press and the Frontier Centre for Public Policy. The series started Jan. 22 and continues weekly on Saturdays, ending on March 5. Footnoted versions of this article can be found at winnipegfreepress.com and at www.fcpp.org

Manitoba Hydro has a monopoly on the retail supply of electricity in Manitoba. As a Crown corporation, Manitoba Hydro is exempt from federal and provincial corporate income taxes. Yet it produces comparatively little profit for its government owner or for the people of Manitoba. Manitoba is squandering the potential of Manitoba Hydro to be an engine of economic growth.

Manitoba Hydro is a Jurassic Crown, stuck in a bygone era.

Part of the problem relates to Manitoba Hydro's mandate. Manitoba Hydro is directed by legislation to supply energy to meet Manitoba's needs and to promote economy and efficiency. Instead of promoting energy efficiency, Manitoba Hydro's non-residential rate structure discourages conservation by rewarding heavy or wasteful users of power.

Although the provincial government includes Manitoba Hydro's net income for purposes of Manitoba's balanced-budget legislation, Hydro has rarely paid a dividend from its cash profits to its government owner.

The provincial government has also off-loaded major public policy expenses onto Manitoba Hydro that should have been part of the provincial budget.

For example, instead of the much shorter and cheaper route along the eastern side of Lake Winnipeg Hydro initially favoured for its new BiPole III power line, at the government's behest Hydro now plans to build it on the western side of the province.

Hydro's estimate of the added cost for the west-side line over the east-side route is \$410 million, while critics assert the cost could be as high as \$1.75 billion.

If, for public policy reasons, the Manitoba government wants Hydro to build its new power line on the more expensive west-side route, it should be a budgetary expense of the government, not a Hydro expense.

Part of the problem relates to Manitoba Hydro's governance. Hydro's board is appointed by the government. The process is not transparent. Though its board is supposed to provide strategic oversight and direction to Hydro management, board appointees are not required to have any particular industry expertise.

The disclosure of Manitoba Hydro's governance practices in its annual report does not measure up to standards expected of publicly traded corporations. Despite having nearly \$12 billion in assets at March 31, 2010, Hydro has no return on equity or dividend targets.

Manitoba Hydro states its shareholders are the public of Manitoba but no shareholder in a publicly traded company would tolerate such treatment. Neither should Manitobans.

Manitobans deserve better.

There should be a thorough review and clarification of Manitoba Hydro's mandate and governance. Among the reforms that would improve Hydro's governance, transparency and accountability are:

- Amending Manitoba Hydro's legislation to make it clear its board and management have a fiduciary responsibility to act solely in the best interests of the corporation;
- Requiring Manitoba Hydro board appointees to have relevant financial or industry expertise;
- Giving the provincial government explicit legislative authority to issue written directives to override or substitute for decisions made by the Manitoba Hydro board. The directive and the government's reasons for issuing it should be public, as would Hydro's impact analysis, including any material financial, environmental, labour or system implications. A directive would not take effect until after Hydro's impact analysis is made public;
- Publishing industry-comparable capital structure, solvency and return on equity targets to facilitate evaluating Manitoba Hydro's financial performance against its industry counterparts;
- Ensuring the rate structure for non-residential users promotes energy efficiency and economy;
- Periodic evaluation of Manitoba Hydro by independent experts to determine whether its board and manage-

ment have maintained or enhanced the market value of the public's investment;

-- Ensuring Manitoba Hydro's public financial accountability documents, such as its annual report and quarterly updates, meet or exceed standards for publicly traded corporations; and,

-- Ensuring the costs of any public policy activities carried out by Manitoba Hydro that a publicly traded corporation would not undertake without compensation are first approved and appropriated by the Manitoba legislature.

Manitoba Hydro is a key component of the provincial economy. It touches the everyday life of every Manitoban.

It is a major employer. Manitoba Hydro could help reform Manitoba from a supplicant society into a vibrant one, but Manitoba Hydro itself needs to be reformed.

In the meantime, the Jurassic Crown remains an obstacle to a rejuvenated society.

Footnoted versions of this article can be found at winnipegfreepress.com and at www.fcpp.org

Next Saturday: Underachieving fails us all

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