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August 27, 2018

Public Utilities Board of Manitoba
400-330 Portage Avenue
Winnipeg, MB R3C 0C4

Attention: Kurt Simonsen, Associate Secretary

Dear Mr. Simonsen:

Re: Draft Preliminary Issues List – 2019/20 Hydro General Rate Application

Overview

On behalf of CAC Manitoba and Winnipeg Harvest (the Consumers Coalition), we appreciate the chance to comment on the draft preliminary issues list for the 2019/20 Hydro General Rate Application (GRA). As noted in our process letter for the 2019/20 GRA filed on this date, the Consumers Coalition takes the position that the issues list for the Manitoba Hydro GRA should be driven by three factors:

- Hydro's judgment of the elements necessary to support its application based upon circumstances as they evolve;
- the input of ratepayers including input provided during a stakeholder engagement process; and,
- the ultimate judgment of the PUB following its review of the application and consideration of the comments of Hydro and of ratepayers.

At this early stage of the timing for the 2019/20 GRA when no consumer engagement has been undertaken and there is no application, the Consumers Coalition would recommend that any preliminary issues list developed be primarily for the information of Manitoba Hydro and not considered binding. The comments of the Consumers Coalition are preliminary and the Consumers Coalition reserves the right to amend its preliminary position after consumer engagement and review of the application.

Issues requiring more detailed consideration at the 2019/20 GRA

On a preliminary basis, the Consumers Coalition has identified the following issues as priorities for the 2019-20 GRA.

Hydro's strategic direction and Key Performance Indicators

The Consumers Coalition has added this as an issue and identified it as a matter requiring more detailed consideration.

As compared to recent applications, there was a notable lack of discussion in Tab 2 of Hydro's application from the last GRA of the relationship between the Crown Monopoly's key performance indicators (KPIs) and the Corporate Strategic Plan (CSP). Given its potential to offer insight into prudence and reasonableness at the strategic level, other jurisdictions consider this an important element of public accountability¹ and rate setting. The downplaying of Hydro's CSP in its last rate application raises concerns about the overall strategic direction of the Corporation as it may affect rate setting and how that performance is being measured. Moreover, the suggestion by the Boston Consulting Group that Manitoba Hydro was performing in the third or fourth quartile in some of its productivity measures suggests a need for heightened scrutiny.

Risk Assessment and Risk Management - Update of Risk Management Report

The Consumers Coalition has added this issue to list of matters requiring more detailed consideration.

Given Hydro's appointment of a new Board of Directors, it is possible that the Corporation's risk tolerance may have changed. Recognizing the importance of a "rules-based approach" to rate-setting, this type of analysis requires an understanding of major risks and their potential impacts on Hydro's financial outlook.

Impact on consumers and bill affordability

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues as a priority given both the capital expenditure pressures the Corporation is experiencing as well as the significance of rate increases to customers particularly vulnerable customers.

Macro-economic impacts

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues as a priority.

Independent consultant assessment of the development of an asset management program further to *Order 59/18 Directive 14*

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues as a priority.

¹ For example of public accountability through key performance measures, please consider the Tennessee Valley Authority - <https://www.tva.gov/>

Changes in Management Structure and Operational Staffing Levels and *Order 59/18* Directive 12 including:

**MH management structure
Staffing levels after Voluntary Departure Program (VDP)
Potential impacts of VDP on customer service levels
Potential impacts of VDP on safe and reliable service**

The Consumers Coalition has added this matter to the priority list and recommended that the matter of “OM&A update since *Order 59/18* and *Order 59/18* Directives 12 – 13 and Recommendation to Manitoba Hydro 4” be considered within the scope of the proceeding.

By making this recommendation, the Consumers Coalition is attempting to delineate an important distinction between the impact of the VDP on customer service and safe and reliable service before seeking to understand the detailed cost impacts.

Implementation of First Nations Residential On-Reserve Customer Class

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues as a priority for the GRA

Rate design including time-of-use (TOU) rates (*Order 59/18* Directive 29) and declining block General Service rates (*Order 59/18* Directive 28)

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as a priority for the GRA. It disagrees with Manitoba Hydro's suggestion in its letter of July 26, 2018 that it be addressed as part of a written public process. However, to address this issue necessarily involves consideration of the “marginal costs calculation methodology” which is currently presented on the issues list as out of scope. For that reason, if TOU rates are to be addressed then consideration of appropriate marginal costs also is essential.

The rationale behind a particular utility’s proposed introduction time-of-use rates will vary, depending upon the circumstances of the utility. However, generally the objectives in introducing such rates include:

- sending price signals that better reflect system conditions/costs;
- encouraging the efficient use of electricity/conservation, particularly in the peak period; and,
- encouraging customers to shift their use from peak to off-peak periods.

Indeed, it was these considerations that underlay Manitoba Hydro’s proposal for TOU rates for large industrial customers that was filed as part of its 2015/16 & 2016/17 General Rate Application (see Tab 6, pages 7-9 of the Application).

However, properly designing TOU rates requires information regarding the utility’s costs and how/why they vary over time throughout the year. Of particular relevance in these

considerations is the utility's marginal costs (e.g., the cost savings that will occur due to reduction in on-peak load and the cost increases that will occur if there is an increase in off-peak load). The reason is that these are the "cost" changes that the system will experience if customers respond to TOU rates. If rates are to reflect system costs and encourage consumption decisions that are efficient (from an economic perspective) the rates should be reflective of these costs.

Given the role that marginal costs play in these considerations, it is difficult to see how the "Marginal cost calculation methodology" can be excluded from the scope of issue to be considered during the 2019/2020 GRA as suggested by the PUB Staff's draft issues list. For the stakeholders (including the large industrial customers that will be charged the rates, other Manitoba Hydro customers who will share in the revenue and cost when these customers respond to time of use rates and the PUB who will be asked to approve the rates) to find the rates "acceptable", they will need to understand how the marginal costs used in the "rate design" are determined and that the basis for their determination is appropriate.

In a letter dated July 26, 2018, MH is proposing TOU (directive 29) be dealt through a separate process with consultation only with GSL. Hydro Board approval would be provided in Feb 2019 (at the earliest). Hydro recommends a written "public" review process to follow.

The Consumers Coalition does not agree with Hydro's recommendation. Issues like TOU are complex because of the interrelationships between rates, loads, costs (cost to serve) and revenue requirement. It is important to note that changing rate structures results in impacts that extend beyond participating customer classes. They also impact total revenue requirement to be recovered from rates and the allocation of cost to all classes. Among the key issues raised are:

- What is MH's intention in terms of price signal considering significant new hydraulic infrastructure and low export prices? What are MH's objectives of TOU and pricing goals?
- What are the terms and eligibility of TOU?
- TOU can shift cost responsibility to other customers within a class, to other classes, can impact load, export revenue and ultimately revenue requirement. These impacts may be exaggerated in times of significant cost shifting (i.e. Bipole III, possibly VDP, common costs) and changes in marginal cost. What are the impacts to the participating classes, non-participating customers and other customer classes?
- MIPUG appears to have argued for optional TOU which the PUB is silent about in *Order 59/18* with the potential shortfall of revenue being absorbed through the reduction in RCC to the participating classes and non-participating classes absorbing the cost. Given the movement of RCC into 95-105 ZOR already directed, who would absorb the cost of an optional TOU?
- There appears to be a potential incongruence between a number of issues including: COS allocators, MH's perspective of the importance of demand rates, TOU (where utility costs are recovered primarily through energy charges), and a narrow ZOR

Given technical complexity, it would not be appropriate to address these issues through a

written review process and consideration should be given to broadening the scope of consultation.

The Solar Energy Program and the sale by non-utility generators of excess power to Manitoba Hydro, including load displacement, bidirectional metering, and Demand Side Management programs (*Order 59/18 Directive 30*), and the Board's jurisdiction to set the rate paid by Manitoba Hydro (*Order 90/18*)

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as a priority for the GRA. Among the issues that should be considered are the implications of shifting cost responsibility between customers and classes including: impacts that result from the shifting of costs to non-participants (such as low income customers), the impact on cost to serve and ensuring participating customers contribute fairly to costs they impose to the system, and costs of generation, transmission and distribution that are not avoided.

The following issues will be considered within the scope of the 2019/20 GRA in the normal course

Rate increase requested including:

Key business drivers of requested rate change

Consistency of requested rate change with regulatory principles

Balancing of the impact on customers with the financial integrity of the utility

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope. We suggest further sub-issues be added to this issue to reconcile Hydro's application with rate making principles.

Financial targets and pacing including:

Changes in MH financial targets since last GRA

Any variance from PUB findings in *Order 59/18* (p.64) that a particular equity level should not drive the rate increase

Update of MH's forecast financial outlook in 20 Year MH18

MH's view's on the appropriate pacing of financial targets in MH18

implications of Risk and uncertainty analysis on proposed rates

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope. We suggest further sub-issues be added to provide greater clarity regarding how Hydro financial targets will be used to set rates for 2019/20 because:

- there is a potential that the recently appointed Hydro Board could change the financial targets from the last GRA or specify a different target for year of attainment of the target;
- in the absence of the establishment of a "rule-based" rate-setting methodology for the next GRA, it appears that rate-setting in the next GRA will continue to be a function of judgementally selecting a rate increase that balances the pacing of attainment of MH's

- financial targets with the impact on ratepayers; and
- assuming that consensus is not reached at the Technical Conference on an agreed upon approach to rule based rate making, issues of risk and uncertainty are always likely to be in play.

Cash flow and *Order 59/18* Directive 10 (Information on other cash payments in next GRA)

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues as within scope.

**Changes in finances and financial assumptions since *Order 59/18* including:
Sensitivity analysis of key financial assumptions
Variances between actual and budgeted operating results from 2017/18 to 2019/20**

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope and have added the 2 sub-issues to provide greater clarity.

OM&A update since *Order 59/18* and *Order 59/18* Directive 13 and Recommendation to Manitoba Hydro 4

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope.

Hydro did not provide O&A details at the last GRA. Given the VDP was largely completed in January 2018, an operational plan and detailed forward looking O&A forecasts should be provided at the next GRA. This is not only an issue of revenue requirement but a significant issue in the preparation of a robust cost of service study.

**Interest rate forecast including:
Changes in interest rate forecast since last GRA
Is MH's interest rate risk increasing or decreasing with the passage of time?**

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope and have added the 2 sub-issues to provide greater clarity.

We note the significant debate at the last GRA regarding whether Hydro's interest rate risk was increasing or decreasing as it was borrowing to fund major capital projects and locking in the interest rates of the associated debt. We also note the PUB does not appear to have produced findings on this topic which is an important issue to consider in any assessment of major risks.

**Debt management strategy changes since *Order 59/18* including:
How has MH managed its debt portfolio since the last GRA?**

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope and have added the sub-issues to make it clear that this is still an issue for the GRA even if the PUB does not want to re-examine MH's previous plan to shorten its term to maturity.

**Export revenue forecast including:
Update of price forecast
Changes in approach to price forecasting since last GRA**

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope and have added sub issues for clarity. We note in *Order 59/18* (p.128) that the PUB expresses concern about the overly conservative export price forecast.

Load forecast and *Order 59/18* Directive 11 (IEC's recommendations of load forecast)

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope.

**Depreciation expense (revenue requirement) changes since *Order 59/18* including:
Status update of next deprecation study**

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope and has added a sub-issue for clarity. On page 3 of 12 of its August 1, 2018 Directive's Status Update, Hydro indicates its intent to engage consultants to prepare ELG and ASL studies as part of a "future GRA".

Major new capital update since *Order 59/18* and *Order 59/18* Directives 15 (IEC's recommendation on major capital projects) and 16 (major capital projects quarterly reporting) and Recommendations to Manitoba Hydro 5 -8

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope.

In the view of the Consumers Coalition, there would be value in providing the major capital quarterly reports provided to Intervenors.

Business Operations Capital update since *Order 59/18* and *Order 59/18* Recommendations to Manitoba Hydro 1-2

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope.

DSM Deferral Account review of disposition of the regulatory asset and liability and

Order 59/18 Directive 23 (discontinue DSM deferral account)

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope.

**DSM spending in the test year, assumptions in the forecast, and Order 59/18 Recommendation to Manitoba Hydro 9 including:
Status of Efficiency Manitoba**

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope and has added a sub-issue for clarity and to assist in the development of the rate regulation calendar.

Differentiated rates and Order 59/18 Directive 5 (to begin movement into ZOR)

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope. We also note there was no articulation of how differentiated rates were derived flowing from Order 59/18 as part of MH's compliance filing.

**Cost of Service Study and compliance with Orders 164/16 and 59/18 (directives 24-27) including:
Understanding and treatment of Common Costs and Service Drop
Treatment of Conawapa**

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues List as within scope and have added sub categories for indications of priority.

The matter of common cost is a candidate for a technical conference contrary to Hydro's representation at the last GRA. This may be material and has not been dealt with to any significant degree since the late 1990s. Common costs include any operating expenses or assets that are not directly related to generation, transmission and distribution infrastructure.

It also appears that the cost of service treatment of Conawapa was not addressed in the last GRA.

Special rates

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues as within scope but cannot reconcile this inclusion with the exclusion of the Curtailable Rates program.

Compliance with Board Orders and Order 59/18 Directive 37

The Consumers Coalition agrees with the inclusion of this issue on the Draft Preliminary Issues as within scope.

The following issues may be deferred from the 2019/20 GRA to future applications, or will be the subject of a technical conference or another process

Risk and uncertainty analysis and *Order 59/18 Directive 9*

As noted under issues within scope, the Consumers Coalition is of the view that matters of risk and uncertainty are central and always at play in the rate setting process. The relevance to the GRA of the outcome of the technical conference on Directive 9 will depend upon the pace at which the technical conference and GRA are advanced. For this reason, no final determination regarding Directive 9 should be made until there is a better sense of the technical conference and GRA timing.

Our understanding of the current state of issues flowing from *Order 59/18*, *Order 90/18* and Hydro's July 26, 2018 letter to the PUB regard TOU rates is that:

- the PUB has not abandoned the use of financial targets for rate-setting. It is just not prepared to approve rate increases at such a high level of 7.9% to meet a particular equity target in 10-years closely on the heels of the major investment period;
- the PUB is interested in the concept of a “rules based” rate-setting methodology more focused on a minimum retained earnings level (determined based on risk assessment & scenario analysis) with appropriate management and regulatory responses (much like the MPI DCAT analysis);
- the PUB has expressed a desire to “streamline” the next GRA;
- Hydro does not want to go into another GRA process without an understanding of the “rules” by which the PUB is going to set rates; and,
- there is significant risk that MH will dig-in and wait for the results of the MRET technical conference before it files its next GRA and be forced to request an interim rate increase for 2019/20.

At this point in time, it is uncertain how the PUB sees the discussions from the technical conference interplaying with the timing of the the next GRA proceeding.

From the perspective of the Consumers Coalition, Hydro's Board has the responsibility and is fully capable of establishing its views on the pacing of attainment of its financial targets and resulting requested rate increase taking into consideration the extensive PUB findings/direction provided in *Order 59/18*. All ratepayers would benefit from clarity from Hydro on when it intends to file a 2019/20 GRA.

Diesel zone rates and *Order 59/18 Directive 36*

The Consumers Coalition agrees with the deferral of this matter to a future GRA or technical conference but notes that it is unclear given the passage of time since the preparation of the Agreement whether the terms may be at odds with current diesel rates or Order 164/16 (Cost of Service methodology review) which directs the allocation of NER (excluding variable costs only) be allocated proportionately with the allocation of each class' G&T costs.

Manitoba Hydro performance measurement

The Consumers Coalition does not agree with the deferral of this matter to a future GRA or technical conference given Hydro's neglect of the strategic plan and key performance indicators in the last GRA as well as Benchmarking concerns flagged by Boston Consulting Group.

Hydro should clarify the current status of its CSP and KPIs for the next GRA. Intervenors and the PUB can then review this information and consider if MH's current KPIs are satisfactory for rate-setting purposes or if additional KPIs should be produced for rate-setting purposes.

Disruptive Energy Resources and potential future effects on rates and ratepayers including:

Intermittent and non-firm energy, and the potential of increased utility cost (i.e voltage control and frequency response

Shifting of costs between customers within a class, between customer classes, impact on low income customers: the impact to cost of service and ensuring customers contribute fairly to costs imposed yet encourages innovation

Rate design (for example, the adequacy of a two-part rate design, avoidance of "super-compensation")

Cost associated with generation, transmission and distribution costs largely not avoided and the pressure placed upon the recovery of sunk costs (uneconomic bi-pass)

The Consumers Coalition applauds the PUB for identifying this critical issue for future discussion and agrees with the deferral of this matter to a future GRA or technical conference

We have provided some sub-issues to clarify that this matter extends beyond rate design. These kinds of longer term issues are likely best addressed in a non-adversarial workshop with appropriate subject matter experts and appropriate consultation with ratepayers.

The following issues will be out of scope at the 2019/20 GRA

Interim rate

The Consumers Coalition agrees this matter should be out of scope unless there is an emergency.

Fiscal health of the Province of Manitoba

The Consumers Coalition agrees this matter should be out of scope given the PUB findings in *Order 59/18*.

Appropriate capital structure and debt-to-equity target for Manitoba Hydro rate setting

We interpret this issue as suggesting that while issues of pacing are in scope, the PUB does not intend to revisit the following key findings from pages 63/64 of *Order 59/18*:

- the PUB accepted the view of MPA that debt-to-equity is a questionable metric for a vertically integrated monopoly Crown utility with a debt guarantee from the provincial government;
- the concern regarding the value of this target is compounded by an unprecedented major investment period that will double the value of MH's assets in the next 4 years;
- the PUB is not prepared to look at the issue of pacing to achieve a particular debt-to-equity target until the current phase of major capital construction is completed; and
- the PUB does not accept consumer rate increases should be granted at the level proposed by MH to achieve the MH self imposed target within a 10-year time frame.

The Consumers Coalition sees little value in revisiting these findings in the next GRA in the absence of new and compelling evidence.

CFO to Capex ratio analysis

The Consumers Coalition agrees this matter should be out of scope given the PUB findings in *Order 59/18* that the the PUB does not accept the new cash flow analysis for rate-setting purposes.

Credit rating, absent changes from *Order 59/18*

The Consumers Coalition believes that any recent credit ratings relevant to Manitoba Hydro should be filed as part of the next GRA. It does not agree that they should be excluded from discussion at the hearing but agrees that they should likely be given lesser emphasis give the PUB findings (*Order 59/18*, p.68-69):

- that while credit ratings are important, care must be taken to avoid placing too much weight on them as they are not the same thing as the capital market; and,
- the PUB did not accept that Hydro's debt is leading to higher cost of credit for the province.

Credit rating information is a basic part of any regulatory filing and does provide important information on external parties' assessment about the financial outlook of MH.

Previous plan to change debt strategy re shorter term to maturity

Absent a renewed commitment by Hydro to adopt a materially shorter term to maturity, the specific strategy adopted in the last GRA would appear to be of limited relevance to the GRA. However, the current strategy of debt management is always relevant to rate setting in the view of the Consumers Coalition.

Treatment of Conawapa costs

The Consumers Coalition agrees this matter should be out of scope for revenue requirement purposes given that the PUB accepted the proposed treatment of these costs (59/18 p.149). However, the treatment of costs for cost of service purposes was not undertaken. Given the magnitude of the dollars, it probably requires an understanding at the next GRA (i.e generation or R&D).

Ineligible overhead

The Consumers Coalition agrees this matter should be out of scope given that the PUB dealt with in 59/18 (p.151).

Depreciation methodology (ELG vs ASL) unless Manitoba Hydro has complied with Order 43/13 Directive 9

The Consumers Coalition agrees this matter should be out of scope given the PUB's determination in *Order 59/18* (p.146-147) that the PUB will not make a final order on this issue until MH has completed an IFRS compliant ASL depreciation study. .

Results of Bill Affordability Working Group unless further developments since *Order 59/18*

The Consumers Coalition is of the view that there should be an update on the status of the PUB Recommendation in *Order 59/18* (p.262) that a comprehensive bill affordability program funded by revenue in part, from government payments, be established with stakeholder group to build on the analysis undertaken by the working group.

Disposition of the Bipole III Deferral Account

The Consumers Coalition agrees this matter should be out of scope given that the PUB dealt with this issue in *Order 59/18* (p.153-154) .

Marginal cost calculation methodology

Given its comments regarding TOU rates, the Consumers Coalition does not believe this issue should be out of scope. It does note that in *Order 59/18* (p.118-122), the PUB appears to have implicitly accepted the new approach to the calculation of the marginal cost of generation.

Curtable Rate Program

The Consumers Coalition does not agree that this matter is out of scope and notes its comments under special rates.

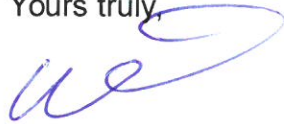
DSM Program Design

The Consumers Coalition agrees this matter should be out of scope given its understanding that the overall level of spendings and savings is in scope. There also will be value in providing an update on the status of Efficiency Manitoba.

Conclusion

Thank you for your consideration of these comments.

Yours truly,



BYRON WILLIAMS
DIRECTOR

BW/