

PACING, PRIORITIZATION AND
ACCOUNTABILITY:
REGULATORY REIMAGINING
AND CONSUMER PROTECTION
IN THE POST NFAT ERA

Presented by the Public Interest Law Centre
on behalf of Winnipeg Harvest and CAC Manitoba

May 25, 2015

The Coalition Members

* Winnipeg Harvest

- * Since 1984, a non-profit, community based organization committed to providing food to people who struggle to feed themselves and their families.
- * Shares food with more than 50 Manitoba communities through the Manitoba Association of Food Banks.
- * Works in partnerships with more than 380 agencies to provide emergency food assistance to over 60,000 people a month including approximately 27,000 children.
- * Seeks to maximize public awareness of hunger while working towards long-term solutions to hunger and poverty.
- * Advocated for affordable access to financial services, transit, telecommunications, energy efficiency programming and heating and lighting.



The Coalition Members

* CAC Manitoba

- * Since 1947, volunteer, non-profit, independent organization working to inform and empower consumers and to represent the consumer interest in Manitoba.
- * Over the past 25 years, rate regulation matters relating to Hydro, Centra Gas, MPI, MTS, payday lending and the maximum cost of cashing government cheques.
- * Every Hydro GRA, Cost of Services and Diesel Proceeding
- * 2014 NFAT (Manitoba PUB) and the Wuskwatim NFAT (joint panel)
- * Environmental proceedings relating to Bipole III, Keeyask and LWR (CEC)



Statutory Context

- * *Hydro Act*, s. 2
 - * *provide for the continuance of a supply of power adequate for the needs of the province, and to engage in and to promote **economy and efficiency** in the development, generation, transmission, distribution, supply and end-use of power.*
- * *Crown Corporation Public Review and Accountability Act*, s 26(I)
 - * *no change in rates for services shall be made and no new rates for services shall be introduced without the approval of The Public Utilities Board.*
- * *Public Utilities Board Act*, s 77 a)
 - * fix **just and reasonable** rates.

Regulatory Approach

- * In the past, the Board has characterized the key elements of its independent review function and rate-setting role as follows:
 - * *Ensuring that forecasts are reasonably reliable;*
 - * *Ensuring that actual and projected costs incurred are necessary and prudent;*
 - * *Assessing the reasonable revenue needs of an applicant in the context of its overall general health*
 - * *Determining an appropriate allocation of costs between classes; and*
 - * *Setting just and reasonable rates in accordance with statutory objectives.* (Board Order 5/12 issued January 17, 2012 relative to Manitoba Hydro)
 - * *The Board's rate-setting role includes the consideration of evidence that is relevant to these key factors; evidence that can assist the Board in the determination of the issues, including the setting of just and reasonable rates.* (PUB Order 98/14, p 26)

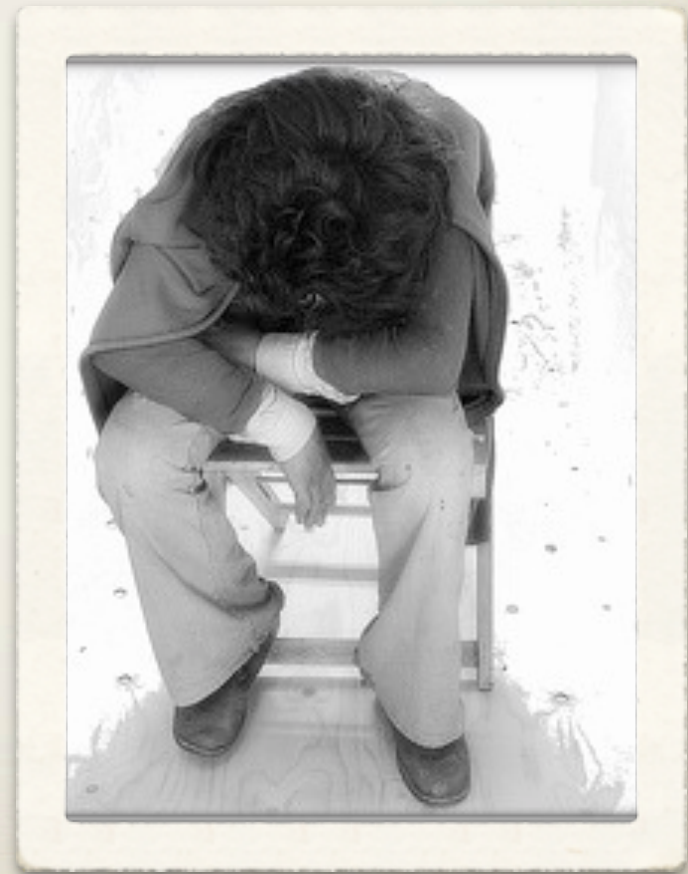
Are these regulatory roles
still meaningful
in the post NFAT era?

* BP₃ - \$4.65B

* Keeyask - \$6.5B

Is there a Legitimate Role for Regulation in the Post NFAT world?

- * Look on these capital costs ye regulator and despair.



Is there a Legitimate Role for Regulation in the Post NFAT World?

- * What remains of the regulatory role (rate pressures from new capital projects - lack of jurisdiction capital programs)
- * Has the necessary and prudent test been left in the dust?

Is there a Legitimate Role for Regulation in the Post NFAT World?

- * Is the PUB simply a rate smoothing entity in the post NFAT world?
- * The Teflon 3.95%

Is there a Legitimate Role for Regulation in the Post NFAT World?

- * Is the regulator's role in the post NFAT world restricted to the mitigation of adverse rate impacts on vulnerable populations?
- * Can the PUB even consider bill assistance for vulnerable populations?

Is there a Legitimate Role for Regulation in the Post NFAT World?

- * Is there a legitimate stewardship role to play in:
 - * demanding accountability
 - * promoting modern capital and resource planning
 - * disciplining imprudent or impatient pacing and prioritization
 - * protecting all ratepayers?

Big challenges- unimaginative responses

- * Is the 1% solution (O,M, and A) a sufficient response to deteriorating export unit prices, capital cost overruns and a rapidly evolving marketplace?

Big challenges- unimaginative responses

- * Didn't the NFAT findings call for a revisioning of financial target, robust integrated planning and a renewed commitment to cost control?
- * Is there a role for modern integrated capital planning in protecting consumers?
- * Can pacing and prioritization help us manage Bipole III and Keeyask pressures?

- * Has the test year ceased to matter?
- * What happened to Hydro's 30 year to 60 year view from the NFAT?
- * Has there been a robust exploration of measures to manage the capital cost pressures of 2019 through 2024?

Would you Buy a Forecast from this Corporation?

- * What happened to the Bipole III cost forecast relied upon in the NFAT?
- * What happened to the sustaining capital forecasts relied upon in the 2013 GRA and the NFAT?
- * What can we say about the reliability of the Corporation's capital cost forecasts over time?



Would you Buy a Forecast from this Corporation?

- * What change factors drives the material variance in forecast results from the 2013/14 GRA (IFF 11-2) and the 2015/16 GRA (IFF 14)?
- * What can we say about the reliability of the Corporation's interest rate forecasts and debt costs?
- * Are power production forecasts reliable in the face of climate change?
- * What is the status of the short term NFAT targets for DSM?

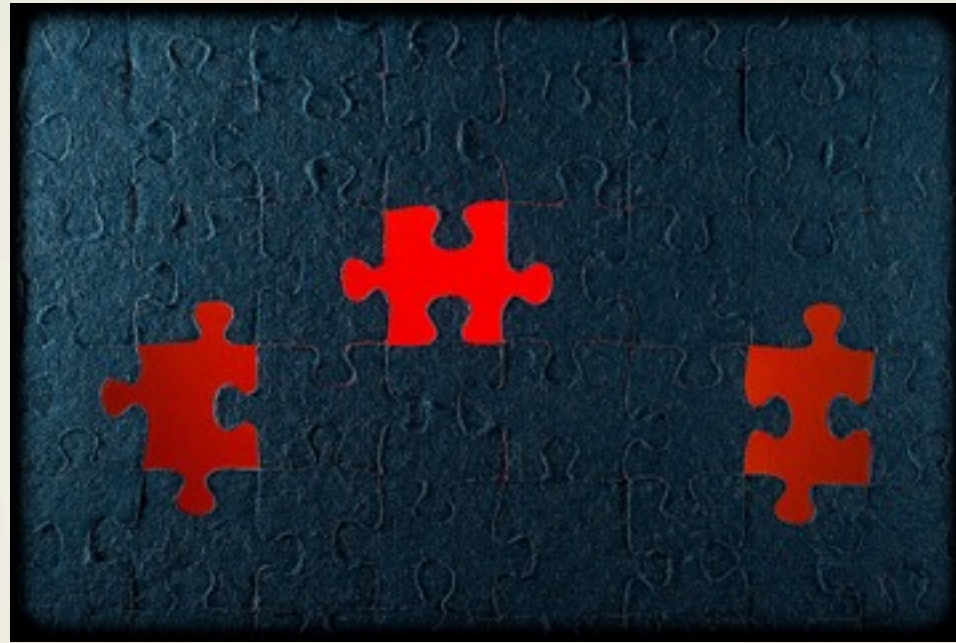
Transparency/Openness and Forecast Confidence

- * Has there been any change in our treatment of confidential information since the NFAT?
- * Are re-imagined approaches to the treatment of modelling and confidential information part of the solution to greater confidence in forecasts including sustainable capital expenditure forecasts?

Capital Expenditure Trivia

- * Who, if anyone, suggested curtailed capital spending was one mechanism by which Manitoba Hydro might prudently manage debts, mitigate risk and continue as a self-sustaining corporation?

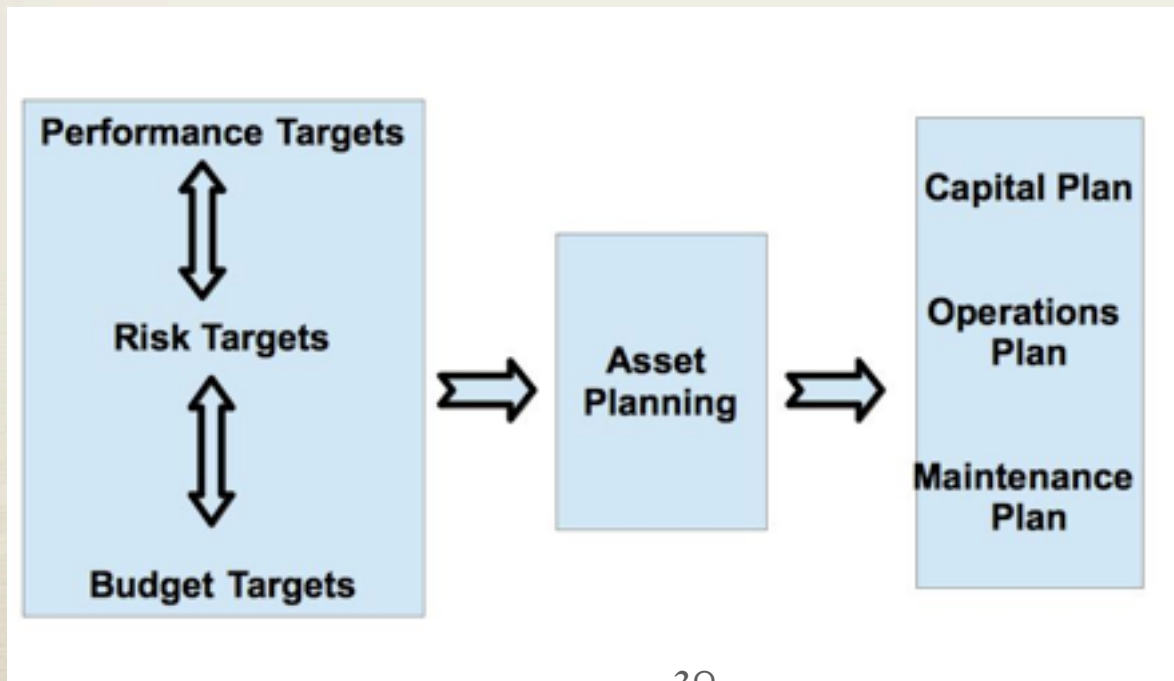
Sustaining Capital and the Aspiration/Explanation Gap



* A puzzle without all the pieces

Sustaining Capital and the Aspiration/Explanation Gap

- * What inferences can we draw from the alleged challenges of Hydro in providing a meaningful explanation of its integrated capital management plan?



La Capra Associates

Sustaining Capital and the Aspiration/Explanation Gap

- * Aspirations versus Explanations- are they walking the talk?

Aging Capital vs. Effective Capital

- * Are we missing the key points of capital asset management?
- * Have robust and credible analytical tools been widely developed or is there still an excessive reliance on simplistic approaches such as age?

Frontloading and Intergenerational Equity



- * Has Hydro made too many choices that front load costs?

Is Regulatory Reimagining Part of the Solution?

- * Promoting effectiveness and efficiency through pre-filing guidelines (Appendix II.15) (capital asset management, pacing and prioritization)
- * Improved approaches to understanding models?
- * Improved approaches to commercially sensitive information?
- * Can we use hot tubbing to bring clarity to the regulatory dialogue?

Is Regulatory Reimagining Part of the Solution?

- * Is regulatory accounting a meaningful tool for bridging occasional gaps between the accounting and regulatory world?
- * Maintaining and enhancing the fragile DSM consensus.
- * Promoting a turn to integrated capital asset management and integrated resource management.
- * Preparing for potential game changes in the market place.

Is Regulatory Reimagining Part of the Solution?

- * Helping the Corporation to help consumers- incenting monopolistic vigour in the face of big challenges.
- * Avoiding the easy ratepayer solution.
- * Positions versus solutions.

Giving Voice to Manitoba Consumers

- * Coalition values- sustainability, transparency, affordability
- * Meaningful two-way engagement as a mechanism to good policy solutions - before, during and after the hearing process

Giving Voice to Manitoba Consumers

- * Consumer vulnerability - monopoly, lack of voice, budgetary stress.
- * Disposable income versus disposable health.
- * Hydro's choice, Hydro's debt - Our rates, our risk.

Giving Voice to Manitoba Consumers



- * Openness to collaboration
- * Regulatory reimagining as a response to legitimacy and consumer protection issues