Forecast Sustaining Capital Increases not Adequately Supported

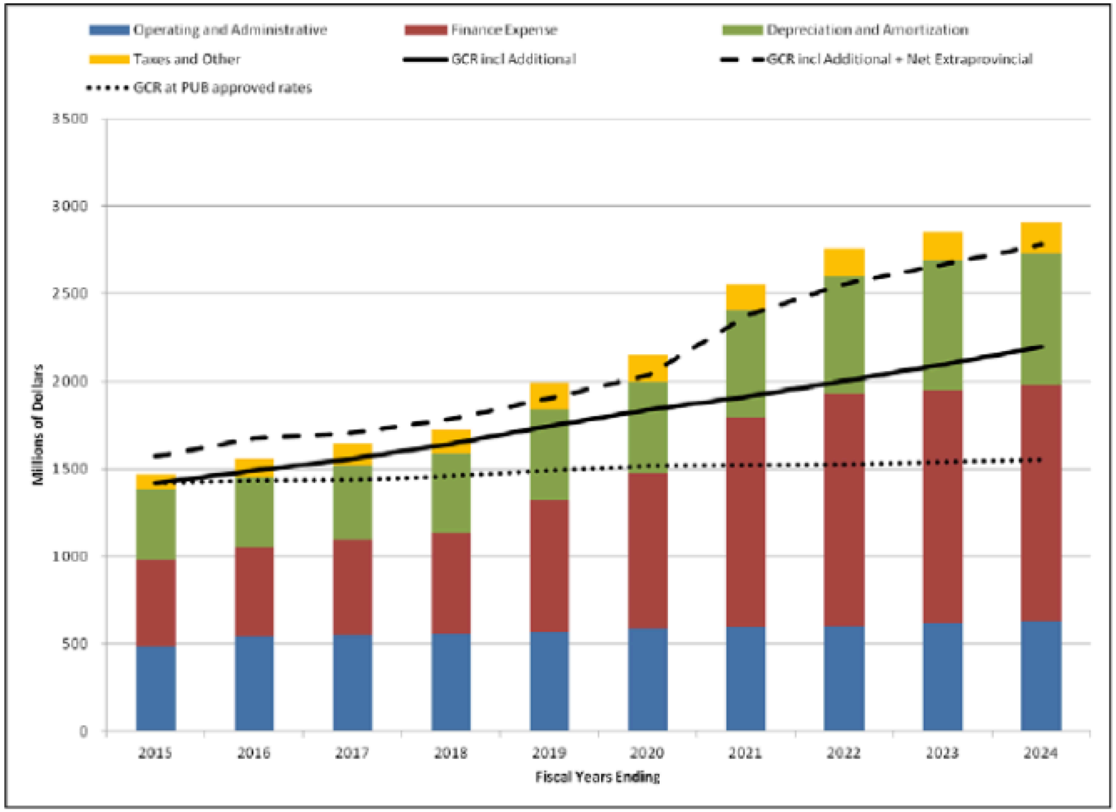
- MH has not clearly demonstrated that it proposed Sustaining capital expenditures have been appropriately prioritized and paced so as to maintain the current assets in the most cost-effective manner possible

- It is anticipated that proper attention to:
  - a) creating appropriate health indexes for all assets that go beyond just age of assets;
  - b) prioritize required spending based on risk (i.e. health and risk of loss/failure) and consequences of failure (i.e. asset criticality);
  - c) linking the prioritization results to the proposed budget (also considering maintenance and operations); and,
  - d) critically assessing the trade-offs/risks associated with different levels of capital spending will result in an ability to pace the spending better.

Chapter 4: Interest Rate The Prevalent Views have been consistently wrong (Recommendation 4)

Finance cost biggest driver of hydro expenses

Figure 2.17: Electric Expenses Compared to Revenues



- The forecast long term debt borrowing forecast for 2015/16 is about $2.4 B
  - (IFF14 – Appendix 3.3 – page 30)

Prevalent view has consistently overstated interest rate costs

- Without impugning motives, Corporation consistently overestimating short term and long term rates

90 Day T-bill	2006	2007	2008	2009	2010	2011	2012	2013	2014
Fiscal year	2007	2008	2009	2010	2011	2012	2013	2014	2015
2006	4.00%	4.05%	4.25%	4.25%	4.30%	4.50%	4.50%	4.50%	4.50%
2007		4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
2008			3.40%	3.95%	4.50%	4.50%	4.50%	4.50%	4.50%
2009				0.80%	1.90%	3.80%	4.20%	4.25%	4.25%
2010					0.95%	2.50%	3.10%	3.65%	4.10%
2011						1.60%	2.80%	3.45%	3.80%
2012							1.00%	1.45%	2.95%
2013								1.05%	1.45%
2014									1.00%
Actual	4.16%	3.83%	1.84%	0.22%	0.78%	0.91%	0.97%	0.94%	0.89%

Variance	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year
2006	-0.16%	0.22%	2.41%	4.03%	3.52%	3.59%	3.53%	3.56%	3.61%
2007	0.42%	2.41%	4.03%	3.47%	3.34%	3.28%	3.31%	3.36%	
2008	1.56%	3.73%	3.72%	3.59%	3.53%	3.56%	3.61%		
2009	0.58%	1.12%	2.89%	3.23%	3.31%	3.36%			
2010	0.17%	1.59%	2.13%	2.71%	3.21%				
2011	0.69%	1.83%	2.51%	2.91%					
2012	0.03%	0.51%	2.06%						
2013	0.11%	0.56%							
2014	0.11%								
Avg variance	0.39%	1.50%	2.82%	3.32%	3.38%	3.45%	3.48%	3.46%	3.61%
Avg Forecast	2.01%	2.79%	3.76%	4.11%	4.28%	4.38%	4.42%	4.38%	4.50%
Variance/AvgFcst	19%	54%	75%	81%	79%	79%	79%	79%	80%

Prevalent view has consistently overstated interest rate costs (cont'd)

- over 40 data points where actual interest rates lower than forecast
- only one where forecast was below the actuals
  - Coalition 1-108 (same phenomenon – long term rates)

Prevalent view has consistently overstated interest rate costs (cont'd)

- I guess what we're seeing is -- is the -- **the prevalent views have** -- have **consistently** been -- been **wrong** on -- on this.
  - (Tr, June 4, 2015, pg. 2336, Mr. Page)
- Maybe we've got it wrong. There's a - a new normal in terms of what that neutral rate is, and it's about 1 to 2 percent lower.
  - (Tr, June 4, 2015, pg. 2337, Mr. Page, attributing comments to Governor of Bank of Canada)
- So I think that that's -- that's sort of a correction that's been a bit -- bit overdue. If **-this table suggests that it's been long overdue.**
  - (Tr, June 4, 2015, pg. 2337, Mr. Page)

Rates plunge further still as oil prices plunge

- first drop in overnight rate in five years
  - (Tr, June 4, 2015, pgs 2338-2340, Mr. Page)
- PUB/MH II-88 shows the variance in finance expense between IFF14 and the January 2015 interest rate update – taking the results and both interest rates and export revenues updated the impacts are:
  - 2014/15 - $0
  - 2015/16 - $13 M
  - 2016/17 - $28 M
  - 2023/24 - $92 M
  - 2033/34 - $92 M
- 10 cumulative value (up to 2023/34) - $457 M
- 20 cumulative value (up to 2033/34) - $1450 M

Record setting low long bond issues - lower than updated interest rate forecast

- *Debt series FR-3 was issued in response to investors that had specifically requested a reopening of the Manitoba 2041 bond. At the time of issuance, with an all-in yield of 3.215% (excluding 1% PGF), FR-3 was* ***the second lowest*** *fixed rate long bond issue in the Corporation's 64 year history.*

- *Further downward movements in the all-in yield rates for Manitoba bonds occurred toward the latter part of the quarter. On March 2, 2015, Manitoba Hydro secured long term debt series GK for CAD $300 million and a September 5, 2046 maturity date. GK was issued at a discount with proceeds of $296.8 million (net of commissions), a fixed rate coupon of 2.850%, and an all-in yield of 2.902%. The debt was issued to finance new borrowing requirements and represented the inaugural tranche of Manitoba's new 30 year benchmark bond. Debt series GK, with an all-in yield of 2.902% (excluding 1% PGF),* ***set a new record*** *for the lowest fixed rate long bond debt issue in the Corporation's history (surpassing both FR-3 and the previous record holder C129, which had been issued in July 2012 at 3.178%).*

- similarly Debt series GK-2 set another **new record**

  - (PUB/MH II-88, emphasis added)

Record setting low long bond issues - lower than updated interest rate forecast (cont'd)

- *On April 16, 2015, Manitoba Hydro secured long term debt series GK-2 for CAD $300 million and a September 5, 2046 maturity date. GK-2 was issued at a discount with proceeds of $297.0 million (net of commissions), a fixed rate coupon of 2.850%, and an all-in yield of 2.898%. The debt was issued to finance new borrowing requirements. Debt series GK-2, with an all-in yield of 2.898% (excluding 1% PGF), set* ***another new record*** *for the lowest fixed rate long bond debt issue in the Corporation's history (surpassing GK issued in March 2015)*
  - (PUB/MH II-88, emphasis added)
  - **(Tr, June 4, 2015, pgs 2306-2307)**

June 4th was a pretty good day

- MR. BYRON WILLIAMS:. Were you able to share the interest rate at -- at which that issue was received?
- MR. MANNY SCHULZ: Yes. It was a ten (10) year deal, and the all-in before the 1 percent provincial debt guarantee fee was 2.5485 percent.
  - (Tr, June 4, 2015, pg 2313)

While Mr. Schulz suggested rates currently on way up - most recent results suggest somewhat lower than spring update

Manitoba Hydro Canadian Long-term Rate - %

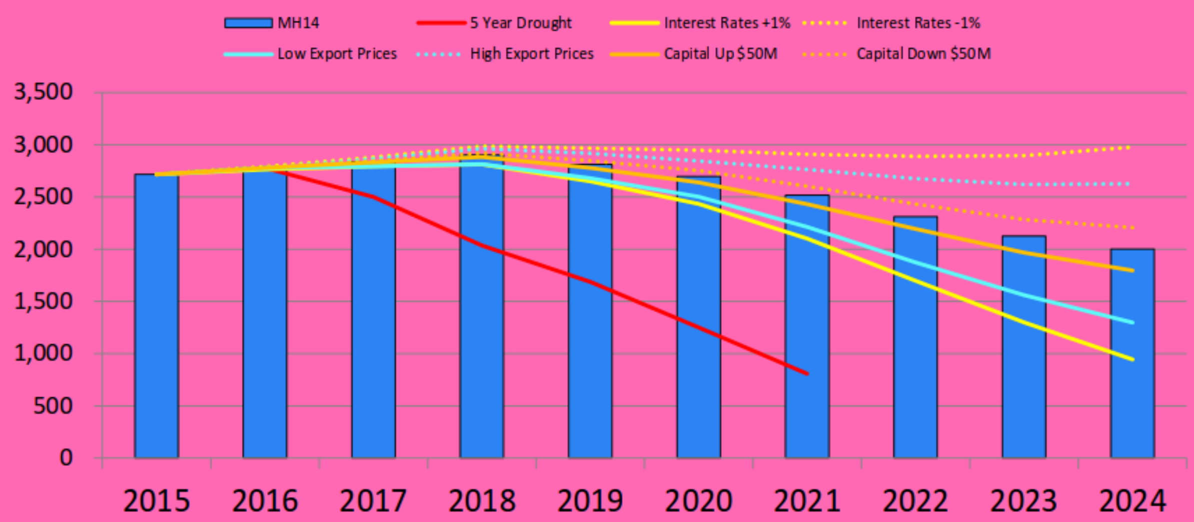
	Fall Update EO 2014 (IFF14)	January 2015 Update	Δ from Fall 2014	Spring EO 2015	Δ from Jan 2015	May/June 2015 Update	Δ from Spring EO 2015
2014/15	4.50%	4.20%	-0.30%	-	-	-	-
2015/16	5.10%	4.00%	-1.10%	4.00%	0.00%	3.95%	-0.05%
2016/17	5.50%	4.55%	-0.95%	4.70%	0.15%	4.40%	-0.30%
2017/18	5.80%	5.70%	-0.10%	5.80%	0.10%	-	-
2018/19	6.00%	5.75%	-0.25%	6.00%	0.25%	-	-
2019/20	6.20%	5.75%	-0.45%	6.10%*	0.40%	-	-
2020/21	6.20%	5.75%	-0.45%	6.25%	0.50%	-	-
2021/22	6.20%	5.75%	-0.45%	6.35%	0.60%	-	-
2022/23	6.20%	5.75%	-0.45%	6.35%	0.60%	-	-
2023/24	6.20%	5.75%	-0.45%	6.35%	0.60%	-	-

* The rate for fiscal year 2019/20 was reported incorrectly in MH Exhibit #58. The rate of 6.10% is the correct rate.

- Figures above include 1% guarantee fee
- Ex 82

Favourable interest significantly strengthen financial position

Sensitivity Analysis – Retained Earnings



- Drought reduces retained earnings well below $1B within the 5 year period
- Higher interest rates can reduce retained earnings to approx. $1B by 2024
- Near term interest rate and export price impacts are lower due to fixed debt and firm contracts
- Favourable interest rates and export prices significantly strengthen financial position
- Capex impacts are spread over long asset lives

Export price forecasts perpetually too high

- That if you do -- did a forecast of export prices, that you'd see a very, very similar outlook, that the forecast price -- fore – forecast export price was -- **was perpetually too high**, as well.
  - (Tr, June 4, 2015, pg 2340, Mr. Page, emphasis added)

Strengthening US economy and weakening Canadian Dollar improve prospects for Canadian exporters

- The effect of oil price decline felt unevenly between net exporters (Canada) and net importer (US)
  - (Tr, June 4, 2015, pgs 2296- 2299, Mr. Page, summarized)
- Hydro still challenged US marketplace - improved energy efficiency, distributed generation (solar PV), shale
- “We anticipate Canadian exporters to benefit from stable US demand in the second of 2015. The Canadian dollar is also likely to provide support with the currency forecasted to weaken against the US dollar once the US Federal Reserve raises the policy rate”
  - (Royal Bank, June 2015, p. 6, Hydro Exhibit)

Interest rate analysis

- Interest Rate Forecasts – Financing Costs
  - Updated (January 2015) interest rate forecasts were provided in PUB/MH I-75 c)
  - Impact on IFF provided in PUB/MHI-10 a). MH alleges updates to export price forecast would offset any net income gains from lower interest rates over the 2014/15-2016/17 period
  - Ex 58 recent and comprehensive economic update with interest rates slightly higher.
  - Recent debt placements since January 2015 (PUB Vol. 4 – tab 2) have been at lower rates than in IFF or even most recent forecasts for 2014/15 or 2015/16
    - April 2015 - $300 M at 2.898% - for 30 years
    - Tr, June 4, 2015, pg 2313 – June issue at 2.5485% for 10 years
  - Tr, June 4, 2015, pg 2328 – CAC II-58 – variance/accuracy of past forecasts
  - Tr, June 4, 2015, pg 2336 – prevalent views have been consistently wrong

Interest rate analysis, cont'd

- Based on Ex 82 the outlook for long term interest rates in the two year is now lower than in January
- MH has demonstrated that it has been able to borrow, in the first part of 2015/16 at rates lower than those in the updated forecast.
- Combine these facts with the fact that the forecasts prepared by MH have been consistently too high – CAC/MH II-54 (1-108) and there is reason to assume the outlook for 2015/16 and 2016/17 will be for lower financing expense than forecast –even net of any reductions in export revenues.
- For impact purposes reasonable to assume savings would be those equivalent to an interest rate reduction of at least 0.25% (allowing for just borrowing experience to date) up to 0.65% - if we consider the average error MH's forecasts 1 or 2 years out (and limit the analysis to forecasts post 2008 as suggested by MH – TR, 2325)
- Using 0.5% as rough middle point and MH's sensitivity analysis (Appendix 3.6, page 11) would increase net income by $7 M in 2015/16 and $15 M in 2016/17.

Interest rate forecast - capitalized interest

- MH acknowledges that it has not reduced its forecast capital spending to account for the impact lower interest rates will have on reducing interest capitalized.
  - (CAC/MH II-43 b))
- MH should directed to include such impact in future CEFs and resulting IFFs – including those submitted to support any rate increase request for 2016/17
- This will reduced future capital costs and the pressure for continuous 3.95% rate increases.

RECOMMENDATION 4

- interest rate forecasts source of substantial uncertainty with prevalent trend over estimation
- at very least, ability to lock in substantially lower than forecast rates suggests reduction of risk for a very substantial year of borrowing
- significant rate mitigation opportunity
- interest rate forecasting volatility a significant issue (risk) for major Crowns – consideration should be given to technical conference to assist the Board in development of unified approach

Chapter 5: Depreciation, Altruism, Principle or Self-interest

(Recommendation 5)

Coalition instructions

- just and reasonable ratemaking principles (1)
- be respectful of and responsive to Board's direction in terms of advice it requires (2)
  - recall Hydro was warned section
- seek reconciliation of rate making principles and accounting principles (3)

Altruism, principle or self-interest

- Two questions asked by our clients:
  - Are recommendations related to ELG and net salvage being put forward out of altruism, principle or self-interest?
  - Is this going to be a never ending saga – are we going to be debating ELG/ASL for the next ten years?

We cannot answer the altruism, principle or self-interest question

- But we can ask
  - What did Hydro say it would do in last GRA?
  - What did the PUB ask Hydro to do after last GRA?
  - Has Hydro done what it said it would do or what the PUB asked it to do?

What Hydro said in 2012

- Mr. V. Warden (Senior VP of Finance & Administration and CFO) in 2012:
  - "If rate regulated accounting were approved, or some form of rate regulated accounting by international board, then we would – at that point it would be a policy decision as to whether or not we wanted to continue to include net salvage value. We would also perhaps reconsider ELG as well."
    - (T:1650)
  - "Mr. Peters, given the situation we have with IFRS at this particular time, there's some uncertainty as to whether or not we'll move to ELG. In the interim period we are still using ASL. And, if we proceed down this path and IFRS continues to be deferred, we will continue to use ASL. And if we take it to the next depreciation study in five (5) years from now, in fact, we will be adding more componentization in order for ASL rates to be compliant. So we may very well get there anyway, but it would probably not be a worthwhile exercise at this juncture."
    - (T: 1712-1713)
- MIPUG, Exhibit 13, slide 56

Hydro did not comply with Directive 8 from Board Order 43/13

- Board Order 43/13, page 5/62
  - 8. That Manitoba Hydro file updated depreciation rates and schedules based on an International Financial Reporting Standards-compliant Average Service Life methodology with the next General Rate Application.
- The 2014 ASL based Gannett Fleming depreciation **study is not IFRS compliant** as the level of asset componentization is not at a sufficient level to satisfy the componentization requirements of IFRS due to the wide dispersion in service lives that exist in many asset groups.
  - (PUB/MH 1-39 c))
- To our knowledge, Hydro did not seek to review and vary the Board Order

Cross Examination of Mr. Hombach and evidence of Ms Lee casts doubt on the reliability of Appendix 11.49

- Board Order 43/13, page 5/62
  - 9.That Manitoba Hydro file with the Board, with the next General Rate Application, a chart showing a comparison of the impact on its Integrated Financial Forecast (i.e.'Budget') of asset depreciation pursuant to the Average Service Life methodology (without net salvage) and the Equal Life Group methodology (without net salvage), applying both methodologies to all planned major capital additions.
- Mr. Hombach's cross examination cast substantial doubt on the reliability and analysis in Appendix 11.49
  - (Tr, pgs 3609, 3612-3613, 3620)
- Ms. Lee also cast doubt on its reliability based upon allegation of selective analysis
  - (Coalition/MIPUG, Exhibit 2, slide 22)
- Hydro did not seek to re-examine Mr. Kennedy
- It is open to the Board and appropriate to draw an adverse inference

Net salvage

- Important policy issue – disputes we have observed in literature reflected in this hearing
- MR. SVEN HOMBACH: Does IFRS allow net salvage or does IFRS mandate that net salvage be removed?
  MR. DARREN RAINKIE: IFRS doesn't allow net salvage,
    - (Tr, pg 3572)
- Mr. Kennedy – appears to favour the non IFRS compliant approach
- Lee – Ms Lee appears to favour the IFRS compliant approach
  - retain ARO for legal obligations
- Mr. Bowman – removal of net salvage for generation and transmission – open to retention for distribution

Ms Lee offers the clearest rationale for no net salvage

- Utilities are generally not dismantling major generation sites but are rather using the site for other generation purposes. For example, it is not uncommon electric companies to convert a steam generating site to gas. While there will be retirements involved in this process, there is no “return to greenfield” and it has been recognized that the alternative of a new site with the costs for the required land, permits, licensing, rights of way, roads, etc. are too expensive. When this is done often the majority of the associated costs are recorded as new costs, not as retirement costs of the old asset. Therefore the reuse of existing sites has become more common. Any required dismantlement costs associated with the final retirement of the site can still be properly accounted for using an Asset Retirement Obligation (ARO).
  - (Patricia Lee’s Evidence – page 16)

RECOMMENDATION 5

- Find that Hydro has not complied with Board Directive 8 from Order 43/13
- Find that Hydro's response to Board Directive 9 from Order 43/13 inadequate
- Not accept ELG for rate setting purposes on the grounds that Hydro has failed to comply with Board Directives 8 and 9 of *Order 43/13*
- Direct Manitoba Hydro to provide a timeline by which it intends to comply with Board Directives 8 and 9 from *Order 43/13*

RECOMMENDATION 5 (cont'd)

- Determine that until such time as Hydro chooses to comply with Directives 8 and 9 from *Board Order 43/13* that is follow 2014 ASL study
- Impact of just retaining ASL rates as currently estimated (not demonstrated to be IFRS compliant) is to lower depreciation by $36 M in 2015/16 and $38 M in 2016/17 (Appendix 5.6 page 2) – grows to $69 M bh 2023/24 (PUB Ex 20-3, page 43)
- Continue to use ELG for reporting and create regulatory account to capture and amortize the difference (PUB/MH II-21 a) – Assuming the account is amortized over 10 years the reduction in depreciation expense would be $29 M in 2015/16 and $27 M in 2016/17. IN 2023/24 the reduction would be $17 M.

RECOMMENDATION 5 (cont'd)

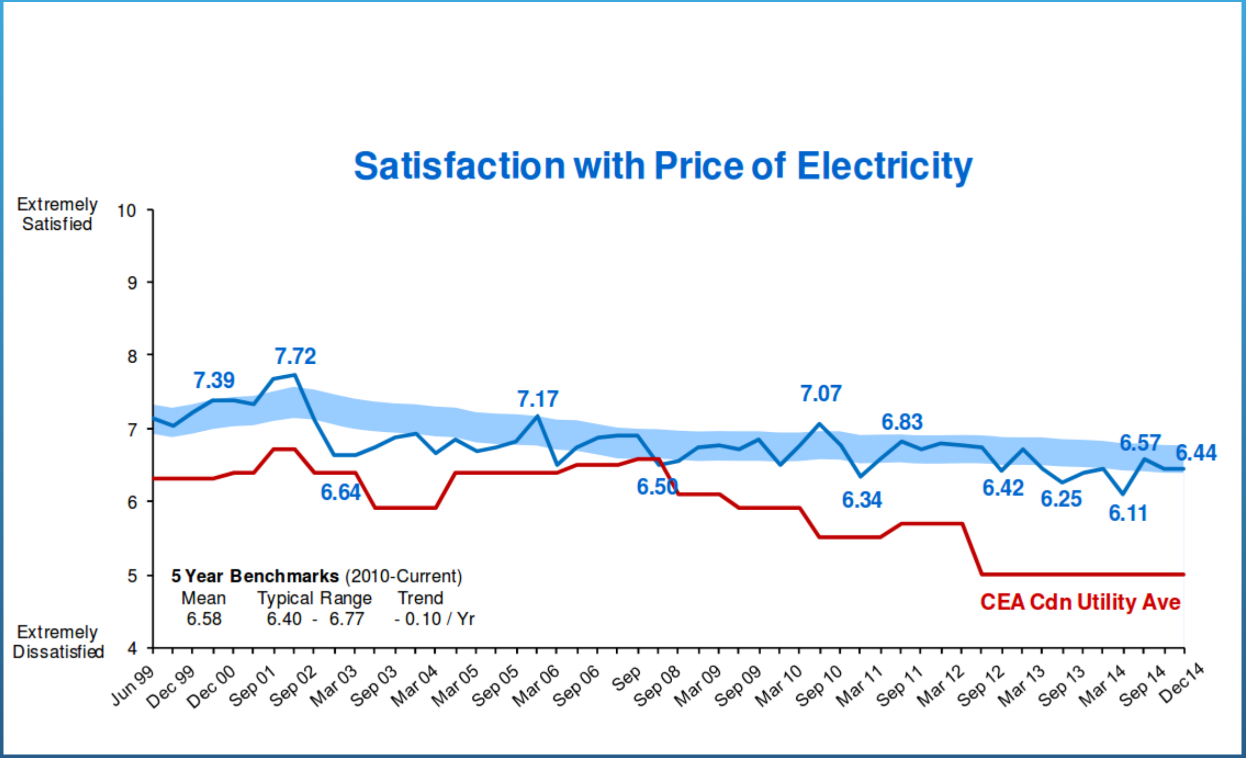
- Hydro to consider 4 options:
  - traditional ASL
  - ASL further componetization
  - ELG
  - ASL generation/transmission/ELG distribution
- No net salvage be adopted

Chapter 6: An Energy Inclusion Agenda

(Recommendation 6)

Significant downward 5-year trend

- Despite the recovery during the spring quarter, satisfaction with the Price of Electricity is still experiencing a significant downward 5-year trend.
  - (COALITION/MH I-6 c), attachment 1, pg 3/10)



- every residential intervenor expressing concerns with affordability

Affordable energy program strengths

- lower bills
- lower collection costs
- keeps home more comfortable
- reduces annual energy consumption
- **contributes to equitable access to energy efficiency programming**
- creates a more affordable base for any subsequent bill assistance program
- positive SCT
- performance better than planned 2013
- 1.8% participation projected although significantly lower than California targets
- there appears to be increasing Hydro interest in aftermath 2013 GRA and NFAT
  - MKO/Coalition 1- 9, Dunsky

Affordable energy program weaknesses

- terribly slow roll-out 2008 – 2014
- pace going forward leaves too many homes untouched for too long
- Multi-unit residential - largely excluded – although evolving
- still not reaching 70% of poor and fair insulation by 2026/27
  - (Coalition 1-69R attachment 2)
- rural All-electric Gap
- Neighbourhood Program – disappointing recruitment and completion rate
- costs for non participating low income persons likely to be increased
  - (MKO/Coalition 1- 9, Dunsky)

Bill assistance strengths

- slower bills for those who participate (Colton)
- those who participate tend to pay higher percentage of bill than those eligible who do not participate
  - Coalition Exhibit 23, p. 50.
- should lower collection costs related to those who participate (Colton)
- positive contribution to energy inclusion for those who participate

Bill assistance challenges

- many low income persons do not participate:
  - only 46% in PECO (Coalition Exhibit 24)
    - only 25% of the poorest of the poor participate in PEC
  - other Pennsylvania around 25% (Coalition Exhibit 24)
    - best of programs only reach around 50%
      - (Coalition/Colton – 3)
- do not address the bill affordability problem for non-participant low income persons
- costs for non participating low income persons likely to be increased:
- risk of drowning out – energy efficiency programs for low income people
  - Pennsylvania CAPS 800% higher than LIUURP
    - (Coalition exhibit 23)

The Pennsylvania experience

- Bill Assistance recipients paying 83% of bill
  - (Coalition exhibit 23, p. 50)
- record number of CSW
  - (Coalition exhibit 23, p. 50)
- customers in arrears barely a dint since 2004
  - (Coalition exhibit 23, p. 18, table 12)

DSM cutbacks do not belong in a pacing and prioritization strategy

- DSM program already challenged considerable uncertainty
- one of few robust mitigation tools available to consumers – good long term results
- consider merits of longer term amortization (does BC Hydro employ 15 years?)

RECOMMENDATION 6

- continue to recognize real affordability issues
- do not grant 3.95% or 5% rate increase
- support increased investment in AEP but seek report back on:
  - increase participation rates
  - California – 4% participation versus 1.8% Manitoba – what would it take to get to 4%? are the costs worth it?
  - improved opportunity for all electric and apartment dwellers
- bill assistance – potential tool – must not drown out AEP – may not be acceptable if cannot improve participation rates for low income people and acutely poor people
- consider merits of longer term amortization (does BC Hydro employ 15 years?)

RECOMMENDATION 6 (cont'd)

- collaborative process for Energy Inclusion Agenda – do not pre-ordain solution:
  - what are our energy inclusion objectives?
  - how should we measure energy inclusion?
  - tools for consideration
    - overall rate control
    - AEP
    - arrears management
    - emergency assistance
    - bill assistance
    - other measures (see Winnipeg Harvest NFAT)
  - what are alternatives including trade-offs between inclusion and rate impacts?
  - what are timing issues?
  - should pilot projects be considered?

Chapter 7:

Two Brief Jurisdictional Comments

Jurisdiction to implement bill assistance

- do not need to cross that bridge just yet
  - Collaborative Process aimed at an Inclusion Agenda should be open to all options including Bill Assistance
- PUB Act clearly applies, s. 26(1)
  - CCPRA, 26(3)
- s. 77 PUB Act
- Orders as to utilities
  - The board may, by order in writing after notice to, and hearing of, the parties interested, (a) fix just and reasonable individual rates, joint rates, tolls, charges, or schedules

Jurisdiction to implement bill assistance (cont'd)

- Recent CA decisions:
  - consider interplay (PUB, CCPRAA, Hydro (or MPI) legislation
- Not as confident as Mr. Gange but preliminary view – reasonably arguable case for jurisdiction (without prejudice to any position in future proceedings)

Jurisdiction to ask current ratepayers to pay for future projects in current rates

- analytical difference between contributing to reasonable reserves versus contributing to future projects in current rates
- the Board's jurisdiction although arguable is not self evident
- Coalition reserves the right to argue that the Board lacks the jurisdiction to ask current ratepayers to pay for future projects in current rates

Chapter 8: Do current results still matter?

(Recommendation 8)

Did Mr. Peters suggest a positive variance of close to $180M?

- my notes of Mr. Peter's calculation of the positive variance since the 2014/15 interim rate application suggest it was in the range of $180 M
  - (collectively for 2014/2015 and 2016 compared to what they forecast for the May 1 2014 interim 2.75%)
- TR 1981 Jun 3) for comment on current results vs. forecast used for Interim April 2014 Rate Application.
- Results to 2016/17 projection of net income and debt ratio better than IFF11-2
  - (Coalition Exhibit 18, page 1)
- *Argument*
  - Results forecast with 3.95% increase better than expected in IFF11-2 through to 2016/17.
  - Assists in affording a lower rate increase while MH addresses shortcomings

Conawapa Amortization

- *Argument and Impact*
  - IFF14 assumes that the $397 M is amortized over 30 years (PUB/MH I-23 d)). The annual impact is $19 M in 2016/16 (Appendix 11.15). It increases to $36 M the following year and then decreases each year by roughly $1 m due to reduced financing costs on the declining balance.
  - Given Conawapa was meant to address power needs for more than the next 30 years one could argue for a longer amortization period.

Capital FTE’s & OM&A

- *Argument and Impact*
  - MH’s OM&A control focus appears to be entirely on Operational OM&A. However, capital related OM&A will eventually show up in the capital costs of MH’s future facilities and, as a result, careful control and management of it is also important.
  - Order 99/11 (page 84) echoed as similar concern
    - In the meantime, OM&A expenses, particularly before the capitalization and deferral of a significant percentage of such expenses, have escalated well above inflation, in part due to MH’s Preferred Development Plan. The Board remains concerned with the escalation of operating expense, of which a large portion is being deferred (to be borne by future ratepayers). Such deferral has muted the OM&A increases reflected in MH’s annual accounts, its GRA rate requests and domestic rates.
    - OM&A costs have increased in part due to MH engaging hundreds of new employees involved, in one capacity or another, in implementing – ahead of regulatory approval – the Utility’s development plans. OM&A period costs are being accumulated and that accumulated amount, which grows by the day, faces the risk that it may have to be “written off” if the development plans now proposed by MH are either significantly amended or rejected. The Board questions the sincerity of MH’s commitment to rein in costs, without action rate increases above inflation remain a probable outcome. As previously indicated, MH continues to capitalize and defer a significant portion of its annual operating costs.

Capital FTE's & OM&A (cont'd)

- In the current application the number of capital-related FTE is increasing at 5.6%/annum between 2012/13 and 2016/17 (Appendix 5.5, page 8) and, over the same period, salaries and benefits charged to capital are increasing by 7.6%
  - (Appendix 5.5, page 15)
- In the next Application – i.e. the one for the 2016/17 rate increase – MH should be directed to demonstrate that it is effecting cost control measures around its capital programs as well

RECOMMENDATION 8

- conclude there are additional grounds to support a lower than requested rate increase
- for the 2016/17 rate increase – MH should be directed to demonstrate that it is effecting cost control measures around its capital programs as well.

Chapter 9 – Additional Process Recommendations

(Recommendation 9)

Positive steps

- Positive steps
- Standardized Interrogatory Format -. May be viewed as minor but it does help ensure a consistent approach to the creating the hearing record. Also, the addition of the "Reason for Question" section both imposes some discipline on the intervenors and helps MH understand why the question is relevant.
- Dealing with MH Objections to Interrogatories - The more formal process adopted in this proceeding for addressing MH objections to IRs was an improvement in two way:
  - The process had established timelines which allowed for timely resolution of the issues.
  - The process was written - and therefore more manageable and allowed for more thoughtful comment and consideration than an oral process.
- Expanded Minimum Filing Requirement - Appendix 11 - provided a considerable amount of "base" information and reduced the IR requests accordingly.

Our clients ask whether we taken a step back in terms of effectiveness and inclusion?

- PUB should consider inclusion strategy – generally outstanding rigour but other processes enable public to feel more engaged
- consideration be given to consumer panels – very challenging to draw consumers out
- not productive or healthy to oblige intervenors to assume leading roles – collaborative process to encourage minimizing duplication
- longer time frame between application and pre-hearing conference to facilitate collaboration, issues definition and expert recruitment
  - (CAC MB NFAT versus GRA)
- utilization of external engagement experts:
  - IRP
  - Energy Inclusion
  - Cost of Service
- combination of five day sittings and multiple hearing panels challenge budgets and cost effectiveness

Other possible considerations

- Dealing with "Technical Details" – As MH has indicated during the course of the proceeding, it operates in a complex environment and some of the tools and planning processes it uses, by necessity, are also complex. Its been clear during the course of this proceeding that sometimes written responses to IRs are not the most effective way to facilitate the understanding by parties (including the Board) of the processes MH uses to plan and operate in this environment. Other means should be introduced to facilitate the regulatory process including:
  - Access to models used by MH. - Allowing parties to work through the actual "planning" or "forecasting" models and seeing the linkages and actual formulae often provides a quick and better understanding that a "written" description and could actually avoid a lot of IRs.
  - Technical Conferences – Where MH walks through how specific forecasting or planning tools it uses work.

Other possible considerations (cont'd)

- Access to "Confidential Information" – To the extent models or information used by MH are considered to be proprietary and/or contain commercially sensitive information there should be:
  - A process whereby the PUB "validates" the confidentiality claim.
  - A process whereby parties (upon completion of appropriate confidentiality agreements) are allowed access to materials that are considered confidential. Note – It is important that access be granted to more than just parties' legal counsel.
- Timing and Scheduling – While it is recognized that MH often faces a herculean task in responding to all of the IRs it receives – the scheduling must ensure that "preparation" of 2nd round IRs cannot truly be completed until some time after ALL the first round IR responses are received. Equally, parties are not in the position to prepare comprehensive intervenor evidence until ALL the 2nd round IR responses are received.
- Minimum Filing Requirements – Should continue to evolve. PUB may wish to consider a separate process wherein the requirements could be reviewed.

Thank you