Notes for Pre-Hearing Conference 2015-02-05

MIPUG

- The Manitoba Industrial Power Users Group (MIPUG) is an association of major industrial companies operating in Manitoba (generally served at 100 kV or greater).
- Members consume over 5,000 GW.h of electricity that costs over $200 million annually, representing over 20% of domestic energy sold.
- The association was formed in the late 1980s to work together on issues of common concern related to electricity supply and rates in Manitoba.
- MIPUG has participated as an intervenor in Manitoba Hydro hearings since 1988.
- MIPUG companies represent a rate class that accounts for almost a quarter of Manitoba Hydro's domestic sales. Industry provides a stable load during Hydro's decade of investment.

Membership includes:

- Canexus Chemicals, Brandon;
- HudBay Minerals Inc., Flin Flon;
- Tolko Industries Ltd., The Pas;
- Koch Fertilizer Canada ULC, Brandon;
- Gerdau Long Steel North America – Manitoba Mill, Selkirk;
- ERCO Worldwide, Virden;
- Amsted Rail - Griffin Wheel Company, Winnipeg;
- Enbridge Pipelines Inc., Southern Manitoba; and
- TransCanada Keystone Pipeline.

MIPUG's membership is currently facing major challenges related to the expected level of hearing costs. The PUB will note that Vale is not currently a member, which forces costs higher for remaining customers despite all customers (whether in MIPUG or not) benefitting from the intervention. This is a new development – impacts are still being felt. As a result there is some fluidity in MIPUG's potential level of involvement given possible challenges with funding.

MIPUG views this as significant evidence towards PUB funding criteria test #3 – insufficient financial resources. As a group, MIPUG has no resources. The group only receives financial resources that are made available voluntarily by industrial customers.

There is not yet clarity as to how this will be addressed by the group. MIPUG's Intervenor Application form indicates MIPUG is not yet at the point of electing to apply for costs, but is being considered by the group. The ability to fully cover all highlighted areas remains under review.

SCHEDULE

No suggested changes to the revised schedule.

MIPUG'S ISSUES:

- Key concerns: Rates that are cost-based, stable and predictable and are regulated on a transparent basis, and fair to all classes of customers. Low cost electric power is a factor which can provide a competitive advantage and help attract investment, jobs, and benefits for communities and business in our province.
- MIPUG members have been faced with large rate increases over the past 10 years. MIPUG members are unable to pass the full impacts on to customers as often contracts are locked in and/or companies are price takers in the market. Uncompetitive electricity prices can adversely affect potential expansion decisions.

PROCEDURAL INFORMATION:

- On Tuesday, MIPUG provided the Board with Intervener Request Form electronically and circulated an edited table showing the preliminary issues for MIPUG's proposed involvement. This list is based on Hydro's original hearing scope table.
- At this time MIPUG intends to participate through all phases of the process, including the preparation of evidence as in past proceedings.

KEY ISSUES FOR HEARING SCOPE

MIPUG has reviewed the previous Board Orders to identify the core issues identified by the PUB for this hearing. MIPUG also attended Hydro's scoping workshop.

- MIPUG will review the merits of the proposed rate increases and any other rate issues affecting general consumer rate levels and, in particular, industrial rates. Priority issues to review are highlighted on the circulated table, and include:
    - MIPUG is concerned about setting rates in the present environment where Hydro has been directed to review its financial targets to provide for rate relief to customers, but that review is not yet completed. MIPUG has been an active intervenor on matters of Hydro's financial targets through many GRAs and views this as a high priority area for rate setting in a normal GRA. MIPUG would encourage a substantial and thorough review of Hydro's long-term financial

targets at such time as the report and proposals are ready. However, it is clear this is not practical at this hearing.

    - Discussion of practical approaches for rate-setting and defining revenue requirement in the near-term in the absence of financial targets and long-term guidance. This includes a review of borrowing cost and credit rating implications for ratepayers.
    - Concerns regarding the reasonableness of cash flow targets for rate setting purposes.
    - Hydro's approach to budgeting and cost control methods including the allocation of costs between operating and capital for rate making purposes.
    - Appropriateness of Hydro's approach to depreciation for ratemaking (and any requirement or preference for consistency between the regulatory and financial reporting approaches and/or implications of maintaining differences). Review of accounting policy and estimate changes. This intervention may be coordinated with CAC.
    - Review of industrial customer impacts, relationship to other classes, Time of Use rates and the Curtailable Rate Program changes.
- Lesser Importance but included in the review:
    - In conjunction with CAC: A Top down review of justification and timing of capital spending levels per year in light of near-term increases.
    - The estimates and implications of changes in major areas of revenue requirement such as: net extra provincial revenue, finance expense, general consumer revenue, electric load forecast and supply and demand summary; generally reviewed for issues that may merit more detailed review (if any).
    - Status of Hydro's actions regarding NFAT recommendations.

PROCESS:

- MIPUG may call witnesses, which may include Patrick Bowman, and potentially a specialist depreciation expert. No other expert witnesses will be called by MIPUG.
- Cooperated in the past with all parties, continue to do so. Have met with CAC to ensure areas of review do not overlap, and will continue to work collaboratively on areas of mutual interest in this review.

BACKGROUND RE: HEARING SCOPE

MIPUG has expressed concern that the GRA hearings have excessively moved towards topics that are at best tangentially related to a GRA rate increase and the application of appropriate regulatory standards. In addressing GRA scoping, the Board's primary concern has to be issues that are exclusive to PUB and are not reviewed by any other public body (some of these issues relate to GRA, some to COS and Rate Design):

- Is Hydro's spending (capital and operating) reasonable?
- What costs are incurred to serve each customer class?
- How should these costs be recovered in rates (e.g., this year or deferred)?
- How much reserves should ratepayers be expected to fund today for their own benefit in terms of stable rates in the future?
- What rates are required to fairly recover those costs and reserves from each class?
- How should class rates be designed to recover the measured cost level, and to appropriately reflect matters such as the Bonbright criteria (as described on P 383-384 Second Edition in Principles of Public Utility Regulation) and encouragement of conservation?

No other body in Manitoba has any role doing this job. The PUB must make this its prime function.

There is a need for clarity in the issues that should be examined by the Board when arriving at its decisions:

- Issues of importance derive from making sure that Manitoba Hydro's costs included in revenue requirement for a given year are proven to be "used and useful" for that year to avoid intergenerational equity issues, and that costs are incorporated at a level that reflects "prudent investment".
- Proper use of reserves and net income need to be reflected in rates such that serious risks to ratepayers are avoided (and stable rates for the future are likely) while not overpaying.
- Assets should be depreciated at a rate which reflects a fair balance between today's customers and future customers.
- For cost of service matters, a fair allocation of Hydro's approved costs to the various classes needs to be based on a consistent set of principles, allocating costs based on the appropriate level for each customer class as outlined by the usage and demand requirements of each customer class.
- Issues of provincial policy for which many other departments are routinely engaged should not be the Board's priority. For example, if the right rate to recover costs for residential ratepayers is calculated (given the COS results), there are many agencies and bodies who are enabled to deal with the implication for these costs for special groups, like low income, rural consumers, First Nations, municipal governments, recipients of social assistance, etc.
    - The Board can and should receive evidence on the implications of rate increases from advocates for these groups, but this evidence should go to helping balance the need for

funds in Hydro, versus in ratepayer hands. That is the balance the Board must consider. The Board must be cautious in deciding to reallocate from some customers to intentionally pay what is effectively a tax above costs, so others can receive subsidies to pay below costs as a result of some characteristics not related to their use of power, on matters that are the purview of the provincial or federal government.

- Matters that are already determined by provincial regulations/directives should not be the focus of the Board, such as:
    - Hydro's DSM energy level, which is already required to be reviewed and approved by the Minister under the provisions of the Energy Savings Act. There would remain a role for the Board ensuring that the DSM programs are prudently designed and managed (e.g., management effectiveness and efficiency).
    - Hydro's capital plans, when not enabled by the Lieutenant-Governor-in-Council (e.g., in a GRA outside an NFAT) – many hours were spent on these topics in about 2008-2011 period despite the Board having no jurisdiction.

Anything that is a rate needs to be completely and actively within the scope of the Board's review. This would include the usual rates for things such as demand, energy and customer charges etc., plus matters such as interruptible and curtailable rates, and the charges imposed for service extensions to new customers (how much it will be paid by customers to extend a new or expanded connection).

Some specific items that must guide analysis:

- Appropriate economic concepts for determining who pays for hydro assets (much more valuable later in their life in dollar terms, due to inflation and other factors, so one must be diligent in ensuring that they are not being overly levied on the current ratepayers). [contrast to "cash flow" priorities]
- Reserves need to be set aside at a level that helps fully address the need for ratepayers to have stable rates. Ratepayers generally and industrial companies specifically cannot absorb large rate increases just because of a year with less rain. There is a need to have reserves and rates at a level that is durable in good times and bad. At the same time, there is no reason for ratepayers to pay rates to fund reserve levels that are higher than needed to meet this purpose. [central to financial targets issues]
- Tools must focus on this being a Crown utility with no direction or purpose to pay profits to government. The hearing is not about normal accounting or issues like achieving a fair Net Income for the "investor". The system is intended as a closed loop – all costs that are accepted by the PUB will be paid by ratepayers, it's just a question of when. There are real and substantial downsides to this occurring both "too soon" and "too late". Accounting standards are only one relevant factor that can inform this major issue of timing, but must be balanced with other perspectives as well, and no single factor should not drive all. [can give rise to "2 sets of books" issues]
- Operating and Maintenance expense - how to encourage/ensure efficiency? What levels of control does the PUB really have? Over a decade of concerns from the PUB that Hydro has added

too many staff on O&M (over 1000) and grown budgets too fast, but what is the consequence before the PUB if this continues? [core revenue requirement review]

- How to deal with assets that aren't yet in service (like costs for Capital Taxes on Keeyask) or that are in their adverse early stages of their life (like Wuskwatim). This is particularly a key focus in Cost of Service – who pays for these as yet unused costs? [potentially of less focus in GRA than in COS, but does relate to such GRA issues as accounting and capitalization policies]