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February 23, 2016

by email

The Public Utilities Board of Manitoba
Attention: Mr. Kurt Simonsen
400 – 330 Portage Avenue
Winnipeg, MB R3C 0C4

Dear Mr. Simonsen:

Re: Response to Manitoba Hydro Cost of Service process letter

Thank you for the opportunity to respond to Hydro's letter of February 22, 2016 regarding the Cost of Service model. The Consumer Coalition appreciates the leadership shown by the PUB in making the Cost of Service (COS) process more open, transparent and efficient in the face of what appears to be significant resistance by Manitoba Hydro.

A Hydro Developed Model is not the Only Option

Our client appreciates the fact that the PUB and Intervenors have another option in the event it is determined that the process related to using a Hydro developed model will not be sufficiently open and transparent. Daymark Energy is a well regarded firm with extensive experience in the development of robust modelling tools. Given Hydro induced delays in the development of a robust, accessible model, it is certainly open to the regulator to use the services of Daymark in developing an appropriate COS model.

Company Produced Calculations are not Synonymous with Error Free Calculations

It also may be helpful to remind the PUB that a similar COS review is being undertaken in British Columbia in which BC Hydro has made a "model" available. In the course of first round information requests, circumstances were identified where:

- the BC Hydro model was incorrect (i.e. not doing the allocation the way it was intended) which required the filing of a revised model, and
- BC Hydro chose not do the allocation precisely as outlined in the written application for purposes of simplicity or materiality

The BC experience highlights the reality that while Crown utilities may have a monopoly in the retail sale of power they do not have a monopoly in the development of robust, error free analytical tools.

The experts retained by the Intervenor along with Daymark Energy bring a deep experience to this process informed by insights from many different jurisdictions. They tend to be careful analysts who are at least as capable of managing a modelling tool as the in house staff of Manitoba Hydro.

The BC Hydro experience also confirms the importance of providing an opportunity for Intervenor and PUB staff to carefully examine the Hydro model through information requests and iterative use.

Our Understanding of the Manitoba Hydro Proposal

As we understand Hydro's letter of February 22, 2016, Hydro is proposing that:

- it will provide participating parties (or at least their experts) with a copy of the model that will be used only for purposes of the current COSS review. It is not clear whether Hydro seeks to restrict access to the model to experts or whether it is open to a more defensible process in which legal counsel are provided with the opportunity to develop insight into the tool
- the Crown monopoly would undertake all "runs" that would form the evidentiary basis for the proceeding but that parties would be free to do other runs. Hydro proposes there be a meeting of Hydro, Intervenor "experts" and the PUB facilitator to define the scenarios required and prioritize critical analysis

Response to Hydro Submissions

to be used only for COS review

Our client has no issue with the recommendation by Hydro that Intervenor's commit to using the model only for the purposes of the COS review. We expect that an undertaking by legal counsel and by the expert would be sufficient to satisfy that commitment.

who may have access to the model

Hydro's letter is opaque in terms of who among the Intervenor's team may have access to the model. From the perspective of the Consumer Coalition, access should be available to the expert and to the legal team.

Given limited resources, the expert and legal team for the Consumer Coalition work in an interchangeable and intimate fashion on technical and analytic issues relating to an Intervenor's participation in a regulatory file. As just one example, when legal counsel for the Public Interest Law Centre is looking at actuarial loss projections (loss triangles), it is essential that legal counsel be given access to the Independent expert's spreadsheets so they can better understand the implications of the tool and analysis.

As we understand it, a key purpose in obtaining the model is to gain insight into how Hydro's COS methodology actually works (i.e. precisely what methodologies are applied to what costs). Based on the extensive experience of Mr. Harper and Mr. Williams, there are likely to be circumstances where it is necessary for counsel to have access to the model in order to

understand the issue and to receive informed instructions from the client. It also would be important for legal counsel to be engaged in any discussions relating to prioritizing evidentiary scenarios or runs.

should Hydro be granted a monopoly on scenario evidence?

The Coalition is not confident that Hydro should be given a monopoly on developing scenario evidence.

As the experience from BC indicates, there is no certitude that the Corporation will get it right. The Coalition also expects it may be cumbersome to get consensus among parties for the purposes of prioritizing alternative analysis. Even if Hydro develops scenarios to be used for evidence, provision will then need to be made for parties to review the "runs" done by MH and confirm that they were performed as requested.

An alternative and likely less cumbersome approach might be for parties to run their own scenarios for the purpose of evidence with provision made for discussions between Hydro, Board Experts and Intervenors in the event that there is a dispute regarding the output of the runs.

the process should allow for lrs to clarify how the model is employed

A key reasons for wanting to see the models is that by reviewing the formulae it is possible to get a better understanding of how the COSS works (i.e. how costs are classified and allocated) than by simply reading an explanation. Parties will need an opportunity to confirm how the model works and to ensure that it works in a manner that is consistent with their understanding of the written explanations Hydro has provided.

A useful mechanism to clarify how the models works is through an information request process. Mr. Harper notes that a first round information request process in British Columbia allowed parties to identify areas where:

- the BC Hydro model was incorrect (i.e. not doing the allocation the way it was intended)
- BC Hydro chose not to do the allocation precisely as outlined in the written application

In the event the Board determines that a scenario definition meeting should be held, it will not be possible for parties to be in a position to "define" scenarios until after they fully understand the model and its capabilities and also fully understand Hydro's proposed approach.

This suggests that the scenario definition cannot take place until after:

- there has been at least one round of lrs with sufficient time for parties to develop their thinking on what scenarios are required

Without such pre-thinking, the proposed meeting would not be productive

scenarios as an iterative approach

The creation of scenarios is often an iterative approach. Seeing the results of one scenario often triggers ideas for others.

In the event a scenario definition meeting is held, one approach would be to allow time for

parties to test their own scenarios using the model and then have them request MH do the "runs" they are interested in having tabled for evidentiary purposes.

parties may not reach consensus on priority runs

Our client expects there will be challenges in reaching consensus on "priority" alternative runs. We would anticipate that MIPUG would have little interest in the allocation of distribution costs. But for Residential consumers the distribution costs allocated to the class are greater than transmission.

The Coalition sees the potential for significant concerns if a party's proposed scenario is not included (i.e. does not make the priority "cut"). Presumably evidence could still be filed regarding the issue but there would be no evidence available regarding the impact or implications of the proposed change in approach

By prioritizing and limiting the "runs", MH can effectively limit and control the scope of the proceeding.

Recommendations of the Coalition

Based on the information available to them, our clients would respectfully conclude that:

- it is open to the PUB to conclude that employing Hydro developed models would be inefficient or lack sufficient transparency. If the Board reaches that conclusion, Daymark developed models could be employed
- it is open to the PUB to conclude based on the BC experience that there is no certitude that Hydro developed evidence would be error free
- it is appropriate to seek an undertaking from legal counsel and by the expert that use of a Hydro produced model would be limited to the COS review
- it is important that legal counsel as well as experts be granted access to the model and to any deliberations in terms of prioritizing evidentiary scenarios
- the prioritization process suggested by Hydro is likely to be cumbersome and inefficient
- it is reasonable to conclude that by prioritizing and limiting the "runs", Hydro can effectively limit/control the scope of the proceeding
- parties should run their own scenarios for the purpose of evidence with provision made for discussions between Hydro, Board Experts and Intervenors in the event that there is a dispute regarding the output
- the process should allow for information requests to clarify how any model is employed
- in the event a scenario definition meeting is held, parties should have sufficient time prior to that meeting to test their own scenarios using the model
- it is reasonable to conclude that parties may not reach consensus on priority runs

Conclusion

Thank you for your consideration of these comments.

Yours truly,



**BYRON WILLIAMS
DIRECTOR**

BW/sk

c.c. The Coalition (CAC MB and Winnipeg Harvest)
 Manitoba Hydro, Ms Patricia Ramage and Ms. Odette Fernandes
 Fillmore Riley, Mr. Robert Peters, Board Counsel
 Other interested parties