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August 15, 2018

The Public Utilities Board of Manitoba
Attention: Mr. Darren Christle
Executive Director and Board Secretary
400-330 Portage Avenue
Winnipeg, MB R3C 0C4

Dear Mr. Christle:

Re: Consumer Coalition comments on the scope and timing of the technical conference

On behalf of Winnipeg Harvest and CAC Manitoba (the Consumers Coalition), we appreciate the invitation to offer comments on the scope and timing of the proposed technical conference. Based on the PUB letter of August 9, 2018 as well as our reading of *Order 90/18* and *Order 59/18*, it is our understanding that the purpose of the technical conference is:

to gain a better understanding of the financial reserves required for Manitoba Hydro under various circumstances, including consideration of risk tolerances, what risks should be protected by reserves, and the circumstances which would guide the need for more aggressive rate increases to continue full cost recovery for Manitoba Hydro.

Our comments on behalf of the Consumers Coalition are divided into recommendations regarding:

- Process Objectives;
- Scope; and,
- Process and Timing.

Our client's comments are based upon its experience with MPI technical conferences led by PUB advisors and legal counsel, the Hydro cost of service workshop led by an independent facilitator hired by the PUB, the Bill Affordability process supported by Hydro hired advisors and Hydro workshops led by Manitoba Hydro.

Process Objectives

Consistent with PUB direction that it expects the technical conference to be about “better understanding” not the setting of financial targets, the Consumers Coalition recommends the PUB adopt a number of process objectives:

- promote an open, without prejudice dialogue between Manitoba Hydro, PUB staff and Intervenors on key issues related to risk and rates;

- provide a better understanding of key issues to Manitoba Hydro, PUB staff and Intervenors;
- identify areas of common ground and agreement;
- identify areas of disagreement or uncertainty;
- highlight areas where further research or information is required,
- identify means by which to directly solicit the views of Manitoba Hydro ratepayers; and
- articulate next steps.

Given the role of the PUB as the ultimate adjudicator of issues, our client would recommend that PUB members not attend the workshop. Our client also is of the view that a “without prejudice” dialogue is best suited to promote mutual learning.

Scope

Our client's comments regarding scope are driven by many years of experience in addressing issues related to risk and rate setting both for Manitoba Hydro and Manitoba Public Insurance.

Threshold Issues

a) for the purposes of rate setting and taking into account the overall statutory mandate, what are the purposes of reserves (ie rate stability, confidence of the financial markets) and for whose protection are they intended (ie Manitoba ratepayers)?

b) for the purposes of rate setting and taking into account the overall statutory mandate, what constituencies is the regulator seeking to communicate with in terms of demarking the relationship between risk, significant adverse events, reserves and (rule based) ratemaking (ie rate payers, Manitoba Hydro, financial markets and the Province of Manitoba)?

Key Issues

c) for the purposes of rate setting and taking into account the overall statutory mandate, what are the material risks faced by Manitoba Hydro and which of these risks are appropriate to protect against in whole or in part through the setting of financial reserves (ie drought, capital cost overruns, export market price variation, interest rate risk and disruptive technologies)?

d) for the purposes of rate setting and taking into account the overall statutory mandate as well as modern econometric practice, what are the potential tools for estimating and communicating the magnitude and probability of the material risks facing Manitoba Hydro and its ratepayers (ie MPA and Daymark (La Capra) risk analysis during the NFAT process, econometric good practice, existing Hydro methodology, KPMG analysis, Kubursi recommendations, Dynamic Capital Adequacy Testing employed by MPI) and what are the strengths, weaknesses, trade-offs and practical limitations of those tools? What are possible approaches to estimating the likelihood of an adverse outcome across a full range of possible outcomes (positive and negative)?

e) recognizing competing objectives of transparency, procedural fairness and commercial confidentiality, how can the potential tools for estimating the magnitude and probability of risks best be employed in a rate setting context?

f) for the purposes of rate setting and taking into account the overall statutory mandate, what factors should the regulator consider in developing risk tolerance guidelines (ie ratepayer perspectives, Hydro perspectives, statistical confidence levels) and what means are available to seek meaningful input from both stakeholders and Manitoba ratepayers directly?

g) for the purposes of rate setting and taking into account the overall statutory mandate as well as the potential interests of the various constituencies the regulator is trying to communicate with (see b) above), what are the some of the potential measures of short term and long term financial adequacy (metrics) that might be employed (ie historic targets considered by the PUB in rate setting, Bonneville Power metrics, MRET)?

h) taking into account both potential short term and long term metrics, how, if at all, will the potential measures of short term and long term financial adequacy interact for the purposes of rate setting?

i) what are the type of circumstances in which more aggressive rate increases might be considered (ie Is it an amount in relation to a specific potential scenario, such as a five-year drought, or can it be driven by any negative scenario of any kind? Is it a dollar amount, or a percentage?)?

j) in considering rate increases in response to circumstances of financial distress what consideration should be given to other alternatives (ie operational changes, staff management, changes to capital spending plans, new arrangements with export markets) over the short and medium term? and,

i) next steps including next General Rate Application.

Process and Timing

Our client's comments are based upon its experience with MPI technical conferences led by PUB advisors and legal counsel, the Hydro cost of service workshop led by an independent facilitator hired by the PUB, the Bill Affordability process supported by Hydro hired advisors and Hydro workshops led by Manitoba Hydro. Based upon these experiences, it is our clients' view that the most qualitatively effective, cost effective and efficient are those led by PUB advisors and legal counsel.

For the purposes of promoting discussion, the Consumers Coalition recommends that the PUB initiate a process for a without prejudice technical workshop led by PUB advisors. Not being fully familiar with the regulatory calendar of the PUB, our recommendations regarding timing are focused on what our clients consider a plausible (but aggressive) time frame. While the proposed schedule is mindful of the current MPI proceedings, it is not based upon a consideration of the ongoing Centra Gas process. Our clients also would note that the

Manitoba Industrial Power Users Group (MIPUG) was kind enough to share its comments about a proposed process with the Consumers Coalition. While the Consumers Coalition prefers an alternative process, it also sees considerable value in the proposed MIPUG approach:

- i) September 14, 2018 – PUB issue an order setting out terms of reference for process as well as draft schedule for comment. The process could include a series of questions (proposed questions) on which the PUB solicits comments similar to the ones presented by the Consumers Coalition under the heading of scope;
- ii) October 1, 2018 – Intervenors seeking to participate in the process provide the PUB with a proposed budget for legal counsel and expert assistance;
- iii) October 8, 2018 - Manitoba Hydro provide its comments on the proposed intervenors and their budget;
- iii) October 11, 2018 – Intervenors reply to Hydro comments on proposed intervention and budget;
- iv) October 22, 2018 – PUB issues an order on intervenor status and PUB advisors provide a preliminary recommended reading list (ie past evidence before the PUB and excerpts from prior PUB orders as well as recommended academic literature and examples of “rule-based” ratemaking from other jurisdictions);
- v) November 5, 2018 – PUB advisors meet with Manitoba Hydro and intervenors to develop a (numerically limited) draft list of key information requests to be submitted by PUB to Manitoba Hydro;
- vi) November 12, 2018 – PUB advisors submit information requests for Manitoba Hydro;
- vii) December 17, 2018 – Manitoba Hydro provide information responses to PUB and intervenors;
- viii) January 14, 2019 – Intervenors and Manitoba Hydro provide preliminary, page limited (ie 20 pages to 30 page) comments on the questions set out by the PUB including a list of and link to references;
- ix) January 21, 2019 – PUB advisors circulate a draft agenda for a 2 to 3 day workshop for comment by January 24, 2018 and finalization by January 28, 2019;
- xi) February 4, 2019 – PUB advisors host a 2 -3 day workshop to canvass issues;
- xi) March 4, 2018 – PUB advisors provide a draft summary of workshop.

How will technical conference results feed into a deliberative process

An important issue for the PUB is how will the results of the technical conference feed into its deliberations.

In some jurisdictions, Board staff summarize the information, prepare a “Board staff paper” which proposes a policy, and then provide time for additional comment. After such commentary, the Board would then state a policy position on the issue. However, this process does not seem consistent with the role played by PUB staff in Manitoba.

Alternatively, the information could simply inform a future GRA process whether the 2019/20 GRA or the 2020/21 GRA.

Conclusion

Thank you for your consideration of these comments.

Yours truly,

BYRON WILLIAMS
DIRECTOR
BW/ab

cc: Board Counsel
Manitoba Hydro
Approved Interveners