

SUPPLEMENTARY
BOOK OF DOCUMENTS

Manitoba Hydro
2017/2018 and 2018/2019 General Rate Application

General Service Small / General Service Medium Customer Classes and Keystone
Agriculture Producers

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TAB 1

1 It exacerbates them. Maintaining that rate path in
2 the face of worsening business conditions would send
3 the wrong message to investors and the credit
4 agencies. The 7.9 percent rate path doesn't resolve
5 Manitoba Hydro's financial health challenges either,
6 at least not immediately, but that doesn't matter.
7 What is more important is that we make a strong start
8 by granting 7.9 percent for 2018, and send the right
9 signals.

10 Now, I'm going to move onto a bit of a
11 new topic here and address operating and
12 administrative cost. As part of this application,
13 Manitoba Hydro has demonstrated that it -- it has
14 implemented effective cost measures towards reducing
15 the operating costs of the Corporation. Those cost
16 measures include the elimination of approximately four
17 hundred (400) operating positions between 2014/'15 and
18 2016/'17; the elimination of a further nine hundred
19 (900) staff positions through a voluntary departure
20 program; and lastly, the reduction of 30 percent in
21 executive and 40 percent in senior management
22 positions.

23 Overall, these cost measures have
24 resulted in a total decrease of 1.8 percent in annual
25 operating costs over the five (5) year period 2014/'15

1 through 2018/'19, as compared to one (1) point -- to a
2 1.7 percent annual increase in Manitoba CPI over that
3 same period.

4 In addition to the cost measures,
5 Manitoba Hydro is committed to achieve annual
6 procurement savings through supply chain management
7 initiatives. To date those initiatives have achieved
8 savings of approximately \$8 million, with estimated
9 future savings between 20 to 50 million over the five
10 (5) year period beginning 2718 -- 2017/2018. It is
11 expected that approximately 7 -- 70 percent of the
12 savings will be capital related and 30 will be
13 operational.

14 Slide 54. As part of their written
15 evidence to this application, London Economics
16 recommended that Manitoba Hydro's rate increase --
17 Manitoba Hydro's request for a rate increase should be
18 held in abeyance until further analysis of operating
19 expenses is performed. Manitoba Hydro is very
20 concerned with this recommendation, particularly given
21 it's based on very preliminary and very inconclusive
22 evidence.

23 In his oral testimony at page 6820 of
24 the transcript Mr. Goulding from London Economics
25 acknowledged that further analysis would be required

1 to -- would need to be performed before any
2 conclusions could be drawn. Manitoba Hydro is also
3 concerned with the key performance indicators used by
4 London Economics in their analysis comparing the
5 Corporation's operational efficiencies with other
6 utilities. We note that in making those comparisons
7 London economics failed to provide any information as
8 to whether the utilities' employee bases are
9 comparable in nature to that of Manitoba Hydro.

10 It is of note that several of the
11 metrics they had selected for making the comparisons
12 will improve instantaneously once the Keeyask plant
13 comes into service, and they reveal little about
14 operational efficiencies. Overall, Manitoba Hydro
15 would like to emphasize that the analysis as prepared
16 by London Economics has limited value, as comparisons
17 amongst utilities are typically very difficult due to
18 the complex nature of utility operations and the
19 myriad of factors that can influence the
20 organizational structure, operations, and decisions of
21 the utility.

22 The complexity in making comparisons of
23 utilities is discussed by Dr. Yatchew at page 4475 of
24 the transcript, where he stated:

25 "I mean, for Manitoba Hydro to

TAB 2

DRAFT: Suggested Scope of work for Benchmarking Study: DRAFT

The _____ is seeking to retain the services of an expert consultant (the “Consultant”) to prepare a total cost benchmarking analysis of Manitoba Hydro (“MH” or the Company”) for purposes of establishing the relative efficiency of MH’s utility business in support of regulatory decision-making.

MH is a provincial Crown Corporation and one of the largest integrated electricity and natural gas distribution utilities in Canada. MH currently serves 573,438 electric and 279,268 natural gas customers throughout Manitoba, with a total electricity capability of 5,679 MW. With over 86,600 km of transmission and distribution lines, and 10,180 km of natural gas lines, MH’s capital assets-in-service at original cost exceed \$22.3 billion. MH generates much of its electricity using 15 hydroelectric generating stations, primarily on the Winnipeg, Saskatchewan, Burntwood and Nelson rivers. MH also offers a wide range of energy services and programs to its customers, and trades electricity within three wholesale markets in the Midwestern United States and Canada: the Midcontinent Independent System Operator (“MISO”), Southwest Power Pool (“SPP”), and Independent Electricity System Operator (“IESO”).

Timeframe: Consultant shall prepare a multi-year total cost benchmarking analysis of MH’s utility operations relative to its peers. The timeframe for the analysis will rely on the latest available information for MH and its peers, but at the minimum it should include data for at least 3 years over the 2012-2017 timeframe. Studies that propose to add additional sample windows will be preferred. An extended timeframe with multiple sample windows should be able to report on and explain changes in relative efficiency over time.

Peers: The Consultant shall select the peers most appropriate for benchmarking MH. At the minimum, selected peers will have vertically integrated utility operations similar to MH, including ownership and operation of large hydroelectric generation plants. There will need to be a minimum number of peers to establish meaningful differential ranking of performance of MH relative to its peers. The _____ expects that peers will be predominantly from North America. Peers from other jurisdictions will be acceptable as long as the Consultant can show that there is sufficient compatibility of the data to allow for comparability.

Techniques: The Consultant shall choose techniques for benchmarking that allow for incorporation of all costs of operation and asset management – capital and non-capital. The techniques chosen will need to be consistent with industry practices for benchmarking, with specific consideration for consideration of the long-lived nature of fixed assets and cyclical nature of capital spending. The _____ expects that the Consultant will use at least two techniques.

Data: The Consultant will be responsible for collating the appropriate data for the benchmarking analysis, including selection of the cost metrics for consideration, as well as output metrics that reflect the service that MH and its peers provide to consumers. In identifying the costs and output metrics, the Consultant shall keep in mind that the benchmarking study is intended to reflect all aspects of the costs of provision of electric service to consumers. The _____ will direct MH to provide its best effort to assist the Consultant with provision of data for MH’s operations. Nonetheless, the Consultant should expect to have to complete the data compilation exercise for the selected peers on its own.

Process & Deliverables: The _____ seeks to have the benchmarking study complete within 4-5 months of project kickoff. The _____ expects the Consultant to regularly update the _____ on progress, through regularly scheduled meetings/conference calls and monthly project update report. The _____ expects that the benchmarking study will be filed and that the Consultant will make all its work papers available and key personnel will also attend regulatory hearings and respond to questions from the regulator and stakeholders on the substance of the benchmarking study during such regulatory hearings.