WINNIPEG HARVEST INC.
Fighting Hunger and Feeding Hope

From a Failed Plan to No Plan to the Old Plan: Hydro Entitlement v Regulatory Balance

CLOSING SUBMISSIONS OF THE CONSUMERS COALITION IN THE MANITOBA HYDRO 2019-20 GENERAL RATE APPLICATION

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MAY 1, 2019

Consumers' Association of Canada
Association des consommateurs du Canada
Manitoba

The "Access to Capital Crisis" of December 2017 seems so long ago

Central to the Application and the rate requests by Manitoba Hydro in this GRA is the Utility's assertion that the "old financial plan has now failed" as it was not adequate and was far too risky.

PUB Order 59/18, p. 43. See also p. 164-165

Manitoba Hydro Electric Board ("MHEB"):

- apprehended crisis at Manitoba Hydro as a result of "failed plan"
- access to the financial markets was imperilled
- Keeyask out of control – behind schedule – over budget - on the fast track to $9.6 B (absent productivity improvements)

MHEB:

- only 7.9% x 1 will do (or maybe only 7.9% x 6 will do)
- debt management strategy premised on 12 year Weighted Average Term to Maturity
- Voluntary Departure Program

The Emergent Low Water Challenge on November 2018 Seems so Long Ago

New MHEB:

- working on a new plan
- Manitoba Hydro faces an emergent challenge driven by low water
- a $31 M deficit is expected for 2019/20
- a 3.5% rate increase is necessary to get Hydro into the black
- consistent with its commitment in Order 59/18 (p. 63/65) the PUB directs a rate hearing

The Back to Average Situation of February 2019

New MHEB:

- working on a new plan
- based in large part on good rainfall in October and November 2018 – the emergent crisis is no more
- on track for $95 M in net income 2018/19
- best estimate of $64 M in 19/20 without a rate increase

The "Turning the Corner" Reality of April 2019

New MHEB:

- still working on a new plan
- Recent $1 billion dollar 5 year term debt issue at 2.19%
- Ultra long 49 year debt issued at 2.91%
- Bipole III on line and $270 M below control budget
- Keeyask on track for control budget and coming sooner than expected
- MMTP and GNTL on track and on budget
- greatest corporate build of all time – drawing to a close
- highest level of financial reserves in Corporation's history
- expected debt for 2019/20 over half a billion dollars lower than forecast a year ago
- Mr. Cormie is working hard in Saskatchewan
- VDP is complete

But:

- in the absence of the new plan and given the rejection of the 2017 plan, MB Hydro has "defaulted" to the old 2009 plan

The "new" Old Plan is Driven by Goal Seeking and Entitlement

Hydro has always asked for 3.5%

Since 2009, Manitoba Hydro's forecasts have projected indicative annual rate increases in the order of 3.5% or more. Exhibit 93, a scenario which was characterized in Order 59/18 as reflective of many of the PUB's decisions, contemplated 18 consecutive years of annual rate increases. In order to maintain the financial results as projected, those rate increases must be implemented each and every year.

COALITION/MH I-1a-ba)

A product of goal-seeking driven by the debt equity target

There was a similar indicative rate increases in these prior IFFs. The reason for that is that the indicative rate increases were first derived based on a goal-seeking exercise in IFF12 to achieve the attainment of a 25 percent . . . Equity ratio within the twenty (20) year IFF timeframe.

Transcript Page 712-713 – Rainkie

The "new" Old Plan Largely Ignores Recent Regulatory Guidance and Ratepayers

There is no need for a real process or a meaningful role for intervenors

It is Manitoba Hydro's position that Intervener participation should be limited to written submissions, and should not include the opportunity to ask Information Requests or to file evidence. Manitoba Hydro also submits that there should not be an oral hearing, and that Intervener final submissions should precede the Utility's final submissions.

PUB-1, Order 1-19, p 12/20

After the fact ratepayer engagement

Transcript Page 361-362 – Carriere and Williams. See also COALITION/MH I-3a

An Ongoing Reluctance to participate in a Technical Conference on Risk, Financial Targets and Rate Setting

Transcript Page 141-143 – Carriere, Peters, Fernandes and Pachal

Ignore the 5918 guidance regarding risk and rate setting

Back to Business as Usual for O, M and A

The 2019/20 Interim Budget of $511.1 million reflects an inflationary increase of 2% over the 2018/19 Outlook, which is aligned with the Manitoba Consumer Price Index.

PUB/MH I-13a-b (Revised)

Hydro is entering a new era

MHEB

As we prepare to . . .transfer that function to Efficiency Manitoba, it creates a new opportunity to take a close look at our organization from our customers' perspectives to understand their needs and how best to meet their expectations and drive efficiencies . . . To remain an industry leader, Manitoba Hydro must continue to modernize and enhance our customer experience.

MH-3, November 30, 2018 application, Appendix 3, MHEB Annual Report, p. 12

Mr. Bowman

We are in a major transition period now -- the facts have changed.

Transcript Page 606-611 – Bowman and Williams

The export markets aren't as lucrative as they were.

Transcript Page 606-611 – Bowman and Williams

We've got the retained earnings much higher.

Transcript Page 606-611 – Bowman and Williams

The picture looks very different . . . when you run the uncertainty tool that Hydro's now developed

Transcript Page 606-611 – Bowman and Williams

This is not a Business as Usual Era

Mr. Cormie

there's a whole bunch of forces out there that are beyond the business as usual that could affect the direction that Manitoba Hydro takes.

Transcript Page 144-147 – Cormie

because we do long-term planning, I think that's what were (sic) trying to identify and not to just assume that we'll continue to run the company as we have in the past.

Transcript Page 144-147 – Cormie

Our customer attitudes are changing. We want to make sure that we're not just assuming business as usual.

Transcript Page 144-147 – Cormie

Mr. Rainkie

Combining the PUB finding on the questionable use of equity ratio as a rate-setting target and the consideration of a minimum retained earnings target, . . . Represents the PUB signalling a significant shift in policy in the framework and target that is used to set rates and the potential pacing of these rate increases.

Transcript Page 729-730 – Rainkie

The Old Tools may not be the Best Tools for the New Era

<u>The PUB</u>

The Board finds that a particular equity level target and pace to achieve that target should not determine the rate increases approved in this GRA.

The Board is guided by two considerations. The first is: what "reserves" should Manitoba Hydro hold to manage risk and which risks should it take into account...The second is to place concerns about the amount of debt and retained earnings in a different perspective by also considering cash flow, using two long-standing financial metrics used by Manitoba Hydro: interest coverage ratio and the capital coverage ratio.

PUB Order 59/18, p. 61-62

The Board concludes that there is merit to gaining a better understanding of the financial reserves required for Manitoba Hydro under various circumstances. This would include 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...Consideration of the appropriate level of financial reserves for example a minimum retained earnings test, is best done through a collaborative approach with stakeholders.

PUB Order 59/18, p. 66

As Hydro enters a new era – there are alternatives to the "Old Plan"

From a rate setting perspective:

- Is the old plan the only viable plan?
- Is the old plan the best plan?
- Or do we have alternatives that will better balance consumer and monopoly interests while assisting MB Hydro in turning the corner and moving forward?

Alternative 1 – the 59/18 Path – Active Management – Rate Increase – a Modern Approach to Risk – Rainkie/Derksen/Harper

Mix of Cost Control and Rate Increases to Reach 2.8% in 2019/20

Manitoba Hydro can achieve its financial requirements through, number 1, more active cost control, and number 2, a lower 1.5 percent across-the-board rate increase for 2019/'20. . . .Both of these recommendations taken together equate to about a 2.8 percent rate increase, and can assist with the transition to Keeyask, and help to manage net income and cash flow considerations. . . You can manage costs, you can manage credit ratings through not only rate increases, but also through cost control. A dollar is a dollar. It doesn't matter if it comes from the customer, or if it . . comes from savings.

Transcript Page 707-708 – Rainkie

Enhance the Uncertainty Analysis Tool

So just before I move on to the options considered in the recommendation, I just wanted to add on one other recommendation that we make related to risks. One off for risk sensitivities have limitations for rate-setting, and there was no organized means to aggregate the probability, consequence, and residual risk facing Manitoba Hydro. So to remedy this situation we recommended that PUB direct Manitoba Hydro to enhance its uncertainty analysis for the next GRA to provide a robust quantitative tool to further guide the incorporation of risk and financial reserve considerations into rate-setting, and in accordance with the policy directions from the PUB from Order 59/'18 to consider a rule-based regulatory framework and a minimum retained earnings target or similar test for future GRAs..

Transcript Page 748 – Rainkie

Follow 59/18 Guidance Regarding Risk

This range is expected to generate net income for 2019/'20 of between a hundred and a hundred and fifteen (115) million if Manitoba Hydro can manage its O&A costs within a rate-setting target of 489 million. This range is expected to result in Manitoba Hydro key performance indicators, financial ratios for 2019/'20 that are consistent with or exceed those from the past GRA. This range protects against the risk of financial loss in 2019/'20 from non-water flow risk and is consistent with the PUB findings from Order 59/18 on how risk should be addressed in rate-setting.

Transcript Page 751-752 – Rainkie

Engage with Intervenors outside the GRA

Alternative 2 – the "Turning the Corner" Approach – Rate Smoothing and Rethinking Reserves and Modern Risk Practice

Hydro's evidenced, in my submission, leads to zero where customer interest leads to 1.5. I would . . . lean towards customer interest

Transcript Page 687-688 – Bowman

Should the Board determine that some inflationary increase is directionally appropriate, it would be most consistent with the evidence in the proceeding that such rate increase be directed into a deferral account for the in-service of Keeyask, as well as MMTP to the extent required.

MIPUG-5-1, Bowman evidence, p. 24

When you run the uncertainty tool that Hydro's now developed. . . , you can start to look at the future and say, you know, it's not a case where we're inevitably adding to reserves for tim[e] immemorial. It's . . a case where we have to think about when ... we've reached enough. . . What does enough look like? <u>What does, as the Board latched onto, a minimum retained earnings concept in this modern era look like?</u>

Transcript Page 606-611 – Bowman and Williams

There would be value in a technical conference on minimum retained earnings and uncertainty analysis.

Transcript Page 665-667 – Bowman and Peters

Alternatives 1 and 2 Ask Different Questions

MR. PATRICK BOWMAN: . . . *I think we each came at this and – and dealt with this unique set of facts by sort of boiling down our assignment to a different question. I boiled down the question to say, is 64 million enough? He'd boiled down the question to say . . . boiled down the question to say, if you really want a hundred and eleven million, there are other ways you could get it.*

Transcript Page 603 – Bowman

Roadmap of Consumers Coalition Submissions

- Reminder of how we got here
- Consumers Coalition
- Statutory and regulatory guidance, including PUB Order 59/18
- Considerations in weighing evidence & 3.5% application
- Health of the Corporation
- Prudence and reasonableness
- Forecast reliability is extremely challenging
- Revenue Requirement Recommendation
- Appropriate allocation of costs between customer classes and rate setting

A Reminder of How we Got Here

Hydro's letter states that it intends to seek the Board's approval of a one-year rate increase, effective April 1, 2019, sufficient to generate a minimum level of net income such that Hydro would avoid a projected net loss in the 2019/20 fiscal year (the "test year"). Hydro advises it is not in a position to submit a long-term integrated financial forecast ("IFF"). . .

PUB-1, letter of November 2018, p. 1

The Board notes that, as Hydro intends to seek a final rate increase, Hydro must file financial and economic information sufficient to satisfy its onus to demonstrate that the rate increase sought for the test year is just and reasonable.

PUB-1, letter of November 2018, p. 1

Hydro's long term financial plan and forecasts are out of scope of the review.

PUB-5, Order 1/19, p. 12

Consumers Coalition

CAC Manitoba

- Since 1947, volunteer, non-profit, independent organization working to inform and empower consumers and to represent the consumer interest in Manitoba.
- Over the past 30 years, rate regulation matters relating to Manitoba Hydro, Centra Gas, MPI, MTS, payday lending and the maximum cost of cashing government cheques.
- Every Hydro GRA, Cost of Services and Diesel Proceeding, 2014 NFAT (Manitoba PUB) and the Wuskwatim NFAT (joint panel).
- Environmental proceedings relating to Bipole III, Keeyask, LWR (CEC) and MMTP (CEC and NEB)

Consumers Coalition

Winnipeg Harvest

- Since 1984, a non-profit, community based organization committed to providing food to people who struggle to feed themselves and their families.
- Shares food with more than 50 Manitoba communities through the Manitoba Association of Food Banks
- Works in partnerships with more than 400 agencies to provide emergency food assistance to almost 64,000 people a month including approximately 27,000 children.
- Seeks to maximize public awareness of hunger while working towards long-term solutions to hunger and poverty.
- Advocated for affordable access to financial services, transit, telecommunications, energy efficiency programming and heating and lighting.

How the Consumers Coalition Developed its Position

- Retained three independent experts
- Conducted engagement sessions with Manitobans on key issues
- Considered the full record of the proceeding to develop ultimate recommendations

Real Consumers – Real Impacts

- $59 M annualized rate increase

Transcript Page 355-357 – Carriere, Bauerlein and Williams

- NPV for rate payers as a whole between $1.3 billion and $1.46 billion

Transcript Page 355-357 – Carriere, Bauerlein and Williams. See also COALITION/MH I-5

- Over 40 percent will be paid by residential ratepayers

Transcript Page 355-357 – Carriere, Bauerlein and Williams. See also COALITION/MH I-5

- NPV for residential rate payers $560 million and $628 million

Transcript Page 355-357 – Carriere, Bauerlein and Williams

Many Consumers Struggle at Today's Rates

- An estimated 12 percent of Manitoban ratepayers reduced spending on food between one and four times over the past two years to pay their Hydro bill

  Transcript Page 364-365 – Morrison and Williams

- An estimated 4.6% of Winnipeg ratepayers reduced spending on food at least four times during the past two years to pay for the hydro bill

  Transcript Page 364-365 – Morrison and Williams

- An estimated 9.7% of non-gas area ratepayers reduced spending on food at least four times during the past two years to pay for the hydro bill

  Transcript Page 364-365 – Morrison and Williams

Every Half Percent Matters

- Inter-provincial comparisons are irrelevant unless they take into account wages and poverty levels

COALITION/MH I-2

- For rate payers that are struggling to make ends meet – there is no such thing as just half a percent

COALITION/MH 1-30 a) b)

Statutory and Regulatory Guidance

Manitoba Hydro Act

- s. 39(1)(a): The prices payable for power supplied by the corporation shall be such as to return to it in full the cost to the corporation, of supplying the power, including
  - (a) the <u>necessary operating</u> expenses of the corporation [...]

See also s. 2 purpose and s. 40 reserves.

Statutory and Regulatory Guidance (cont.)

The Crown Corporations Governance and Accountability Act

- s. 25(1): [PUB approval for changes to rates for service]
- s. 25(4) (a) in reaching a decision, the PUB may take into consideration: [...]
  - (iv) reserves for replacement, renewal and obsolescence of works of the corporation,
  - (v) any other reserves that are necessary for the maintenance, operation, and replacement of works of the corporation, [...]
  - (viii) any compelling policy considerations that the board considers relevant to the matter, and
  - (ix) any other factors that the Board considers relevant to the matter.

Statutory and Regulatory Guidance (cont.)

Public Utilities Board Act

- s. 77 (a): [fix just and reasonable rates]
- s. 84(2): The burden of proof to show that any such increases, changes, or alterations are just and reasonable is upon the owner seeking to make the increases, changes, or alterations.

Public Interest – just and reasonable rates

"The PUB has two concerns when dealing with a rate application; the interests of the utility's ratepayers, and the financial health of the utility. Together, and in the broadest interpretation, these interests represent the general public interest."

Consumers' Assn. of Canada (Manitoba) Inc v Manitoba Hydro Electric Board, 2005 MBCA 55 at para 65

General Rate-Setting Principles from the PUB

- Ensuring that forecasts are reasonably reliable;
- Ensuring that actual and projected costs incurred are necessary and prudent;
- Assessing the reasonable revenue needs of an applicant in the context of its overall general health;
- Determining an appropriate allocation of costs between classes; and
- Setting just and reasonable rates in accordance with statutory objectives.

PUB Order 5/12 issued January 17, 2012 relative to Manitoba Hydro, see also PUB Order 98/14 relative to Manitoba Public Insurance

Key Rate Setting Guidance from PUB Order 59/18

Balancing Financial Targets and Rate Increases

PUB Order 59/18, p. 61-62

- a particular equity level target and pace to achieve that target should not determine the rate increases approved in this GRA

- in determining how large, long lived assets with large upfront capital costs and relatively low operating costs will be funded including the appropriate balance between rate increases and the level of debt, the PUB is guided by two considerations:
  - i) what "reserves" should Manitoba Hydro hold to manage risk and which risks should it take into account;
  - ii) consider cash flow having due regard for the long established interest coverage ratio and the capital coverage ratio.

Key Rate Setting Guidance from PUB Order 59/18

Risk and Rates

PUB Order 59-18, p. 63 to 66

- Retained Earnings should be used to manage drought risk in combination with regulatory action by the Board;
- The Board is prepared to consider regulatory action when required to address emerging risks facing Manitoba Hydro including drought;
- Interest rate and export price risks over the long term should be addressed with rate increases when those risks materialize. Rates should not be set to increase Retained Earnings to manage those longer-term risks;
- There is merit to gaining a better understanding of the financial reserves required for Manitoba Hydro under various circumstances. This would include 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.

Key Factual Finding from PUB Order 59/18

Capital Markets, Credit Ratings of the Province of Manitoba and Manitoba Hydro

PUB Order 59/18, p. 68-69

- While important, care must be taken to avoid placing too much weight on reports by credit rating agencies. The Board accepts that credit ratings and capital markets are related, but are not the same thing.
- Capital markets will be reassured by a long-term rate plan that acceptably manages Manitoba Hydro's risks and by this Board's regulatory action where required to address circumstances as they arise.

Key Factual Finding and Recommendations from PUB Order 59/18

O, M and A

PUB Order 59/18 p. 141 – 142 and 264

- The level of detail needed for a full testing of the O, M and A forecast is not available until the results of the Voluntary Departure Program are known
- The Utility's review of its operations, at a time of restructuring and transition, presents an opportunity to find further areas to reduce O&A costs.
- The Board recommends that Manitoba Hydro continue these efforts, both in terms of staff reductions and Supply Chain Management, after the Voluntary Departure transition concludes.

Key Factual Finding and Recommendations from PUB Order 59/18

Business Operations Capital

PUB Order 59/18 p. 110-113 and 264

- In a period of major capital spending on Keeyask and Bipole III, Manitoba Hydro should find savings in Business Operations Capital.
- The Board accepts the METSCO's evidence that Manitoba Hydro cannot demonstrate the proposed spending is necessary or has been optimized to any extent.
- Manitoba Hydro can no longer continue to fund Business Operations Capital at its historic levels unless and until it can demonstrate through mature asset management processes that those investments are necessary.
- Recommendation

  1. Defer $160 million of Business Operations Capital spending to a future period beyond 2018/19

  2. Continue to find reductions in Business Operations Capital spending during the current period of record spending on major capital projects such as Keeyask and Bipole III.

Key Factual Finding and Recommendations from PUB Order 59/18

Demand Side Management

PUB Order 59/18, p. 118 – 122 and 265

- The Board finds that Manitoba Hydro's revenue requirement should be reduced to reflect lower demand side management spending as a result of the new lower marginal value.
- Manitoba Hydro should review its demand side management programming for cost effectiveness and cease or modify spending on programs that are no longer cost effective, except for programs targeted at lower-income and First Nations on-reserve customers.

Order:

- "9. Review demand side management programming for cost effectiveness and cease or modify spending on programs that are no longer cost effective, except for programs targeted at lower-income and First Nations on-reserve consumers."

The Consumer Coalition and MIPUG Witnesses Place Heavy Weight on PUB Order 59/18

Rainkie, Harper, Derksen

- Rely on PUB Order 59/18 for approach to risk in rate setting as well as direction on cost control

Bowman

- Reliance on PUB Order 59/18 for approach to risk

Transcript Page 604 – Bowman and Williams

Transcript Page 657-660 – Bowman and Peters

- Hydro does not test the evidence of Mr. Rainkie on the PUB guidance with regard to risk in rate setting

- It simply ignores it – both in its own evidence and in cross examination of Mr. Rainkie

IF YOU CANNOT BEAT THE ORDER – IGNORE IT!

There are ample grounds to conclude that Manitoba Hydro is Passively Resisting PUB Order 59/18

- Ignore PUB findings regarding risk and adoption of conclusions of Morrison Park Advisors but bring no independent evidence to offer a new vision

  Transcript Page 369-370 – Carriere and Williams, Transcript Page 371-372 – Pachal and Williams

- Ignore PUB findings regarding BOC and adoption of conclusions of METSCO but bring no independent evidence to offer comfort that expenditures are optimized 59-18

  Transcript Page 359-361 – Carriere and Williams

- Ignore PUB findings regarding financial markets and bond rating agencies including adoption of conclusions of Morrison Park but bring no independent evidence to offer a new vision

  Transcript Page 359-361 – Carriere and Williams

- Ignore PUB findings on O, M and A and adopt an enabling, passive approach to expenditure growth

- No warm embrace of financial reserves, risk and rate making technical conference

  Transcript Page 373-374 – Pachal and Williams

Considerations in Weighing the Evidence and 3.5% Application

The Initial Rationale has been Abandoned

Absent the proposed rate increase for 2019/20, Manitoba Hydro is projecting a net loss of $28 million from Electric operations based on current assumptions.

MH-3, Initial MH Application, p 2/430

Key Supporting Evidence is Lacking

Manitoba Hydro operates in a complex environment with multiple interdependencies, which makes it difficult to deduce rate setting implications by looking at certain updated information in isolation of other factors and without a detailed assessment of their impacts.

COALITION/MH I-25c. See also Transcript Page 137-138 – Pachal and Peters – MH has never applied for a rate increase without an IFF

- No long-term financial forecast and rate strategy
- No up to date Debt Management Strategy
- No updated or detailed O&A forecast or budget for the test year
- No prospective Cost of Service Study (PCOSS)

Transcript Page 357-358 – Carriere and Williams, Transcript Page 345-348 – Stephen and Williams

Considerations in Weighing the Evidence and 3.5% Application

- <u>There are material gaps in the test year O, M and A evidence</u>

  Transcript Page 375-380 – Bauerlein and Williams

  - The details are not available (PUB/MH I-14a-e, PUB/MH I-16 (Revised), I-18a-b, I-19a-b, I-23a-b)

- <u>There are material gaps in the Keeyask in-service years evidence</u>
  - No information on debt schedule beyond 2019-20 Continuity for Debt Schedule (PUB/MH I-36(Updated), PUB/MH I-38a-e (Updated))

Evidence Gaps Enables Half Billion Dollar Cherry Picking Exercises and the Figure 2 "Fool's Game"

- *Manitoba Hydro testified on Day 1 of the hearing that missing a rate increase in 20019/20 would increase net debt and reduce retained earnings from those projected in the exhibit by $900 million roughly . . . in the ten-year period to 2028/29. . .But we have to be very careful*

Transcript Page 717-718 – Rainkie

- *So Figure 2 of the Manitoba Hydro rebuttal evidence has a starting net debt for 2019/20 that is overstated by $567 million . . . if you restated Figure 2 for this improvement in debt – in net debt, it may in and of itself eliminate any deterioration out to t. . . 28/29, that would result from a zero percent rate increase in 2019/20*

Transcript Page 718-720 – Rainkie

- *Figure 2 has not been updated for the . . . $270 million lower capital cost of Bipole III. This will reduce finance depreciation and capital tax expenses by 30 million in 2019/20, and by (17) million per year in the longer term after 2021/22*

Transcript Page 720-721 – Rainkie

- *My view is that trying to update the PUB based on outdated one-off and directional financial calculations is a fool's game. . . . My advice to the PUB is not to rely on outdated and one-off calculation for rate-setting purposes.*

Transcript Page 723-724 – Rainkie.

See also Transcript Page 810-811 – Rainkie and Ghikas

The Absence of a Corporate Strategic Plan is Not Trivial

There's the issue of at what pace -- what are the financial targets; what will they end up being; how will we address the issues with the rating agencies; what potentially is the rate at which we want to address our -- our debt; what's the pace at which we want to address that; and what, if any, new strategies or undertakings that come out of the strategic planning process change or alter the direction of the company in a way that would change or alter inputs in the IFF? I can't speak to what those are, but it is an issue of rates of -- of the pace and what those targets are, and until we have those we can't really provide an IFF to -- to test with -- with anybody within our organization or our board.

Transcript Page 128-129 – Pachal and Peters

The Absence of a Corporate Strategic Plan puts Hydro Witnesses in an Untenable Position

The role of a Hydro witness is to provide essential facts and accurately express and articulate the policy, plans and targets of the MHEB

Transcript Page 754 – Rainkie

But what MHEB plan are they defending:

- i) the MHEB that launched Bipole III and Keeyask back in 2014 under the "failed" Old Plan;
- ii) the MHEB that launched a 7.9% rate application in 2017 with dire projections of a bankrupt corporation; or
- iii) the new Board that is still thinking about a plan and has not retained an independent expert to consider the implications for risk and rate setting of Order 59/18?

Are they defending the "failed" plan, the 7.9% plan or the non-plan?

In the absence of a plan or a measured consideration of Order 59/18, by what criteria are they judging the 3.5% rate application?

Hydro cannot rely on the Old Plan to defend the 3.5%

- *Prior IFF's and indicative rate increases were prepared in consideration of a modified cost of service rate-setting approach based on the attainment of a 25% equity ratio in a prescribed timeframe*
- *MHEB is currently conducting a comprehensive review of MH's strategy, operations and finances and has not endorsed any form of long-term IFF (including the prior IFF's noted in the preamble) or rate strategy and the PUB ruling in Order 1/19 that the long-term financial forecast and financial plan is not in scope for the review in the current proceeding*
- *The implications of using a MRET or rules-based rate-setting test would be that proposed rate increases and forecast indicative rate increases may no longer be based on a goal-seeking exercise to meet an equity ratio target by a certain timeframe, as was the case in the last number of IFF's noted in the preamble*
- *All of these current circumstances result in the conclusion that the modified cost of service of rate-setting approach is not possible in the current proceeding given the absence of a reliable IFF and MHEB proposed rate strategy, and that prior indicative rate increases are not determinative to the application currently before the PUB*

MH/COALITION I-3

- Our clients and witnesses empathize with Hydro witnesses who were here last year to articulate and defend the 7.9% plan and who now have to defend a 3.5% rate increase in the context of a "non-plan"

Transcript Page 354-355 – Carriere, Bauerlein, Stephen and Williams

The Independent Evidence of the Consumer Coalition is Intended to Assist the PUB, MB Hydro and Ratepayers

- Multi-disciplinary team with over 90 years of experience combined, including over 40 years of experience at MH
- Explicit duty of independence:
  - Provide evidence that is fair, objective and non-partisan;
  - Your duty in providing assistance and giving evidence is to help the Public Utilities Board. This duty overrides any obligation to the Consumers Coalition.
- Very different role from the role of Hydro witnesses or Mr. Harper when he worked for Ontario Hydro or Ms Derksen and Mr. Rainkie when they worked for Manitoba Hydro
- Took their role seriously by offering an alternative equivalent to 2.8%, which:
  - builds on PUB findings from Order 59/18
  - focuses on risks in the test year, while emphasizing the need for a robust uncertainty and risk analysis to help guide minimum retained earnings and rule-based rate regulation
  - provides incentives to MH and MHEB, as it is conducting its long-term strategic plan, to reduce controllable costs by continuous active management

CC-10, Harper/Rainkie/Derksen direct evidence, slide 9

A Comment about Mr. Rainkie

Mr. Ghikas' lengthy cross examination was apparently for the purpose of suggesting that Mr. Rainkie should only be relied upon when he articulates MHEB policy

Our client asks you to draw a different conclusion:

- Mr. Rainkie was clearly a formidable corporate witness for Manitoba Hydro – faithfully discharging his duty to articulate and execute MHEB policy
- As an independent witness, Mr. Rainkie is free:
  - to look beyond MHEB policy;
  - to learn from past experience;
  - to adjust to materially changing circumstances;
  - to apply relevant PUB Guidance;
  - to exercise professional judgment; and
  - to sincerely try to help the PUB, Hydro and ratepayers.

From our clients' perspective, he has done just that

They thank Mr. Harper, Ms Derksen and Mr. Rainkie for their thoughtful evidence and expressly adopt it

What is the Health of the Corporation in 2019/20?

- Assessing the reasonable revenue needs of an applicant in the context of its overall general health

  PUB Order 5/12 issued January 17, 2012 relative to Manitoba Hydro, see also PUB Order 98/14 relative to Manitoba Public Insurance

Manitoba Hydro has undertaken a major juggling act since 2014

<u>The five challenges of IFF14</u>

Even if IFF14 . . . that was a scenario where Hydro is absorbing five (5) massive hits, each of which, on its own . . . was large compared to . . . the size of 5 the Corporation and . . . its revenues and its customer base. One (1) was Keeyask, one (1) Bipole, one (1) was the extent of reinvestment that Hydro was bringing forward in existing assets, one (1) was the scale of DSM that Hydro was undertaking and absorbing lost revenue it was causing, and one (1) was the major accounting changes . . .

Transcript Page 563-566 – Bowman

Despite those Challenges – Retained Earnings are at their Highest Level Ever

MR. BOB PETERS: *And it's now forecast whatever equity you came into this hearing at, it's now forecast to be up $64 million without a rate increase and maybe as much as a hundred and fifteen (115) with a rate increase.*

MS SUSAN STEPHEN: *Correct.*

MR. BOB PETERS: *So the equity of Manitoba Hydro was nosing in on $3 billion?*

MS SUSAN STEPHEN: *Correct.*

MR. BOB PETERS: *That's the highest it's ever been in the Corporation's history?*

MS SUSAN STEPHEN: *Correct.*

Transcript Pages 301-303 – Stephen and Peters

Net Debt is Materially Lower in 2019/20 than Forecast in Exhibit 93

- Compared to "*the outdated net debt projection from the last GRA of 22.628 billion*" for 2019/20 - "*Manitoba Hydro's own updated projection of net debt for 2019/20, without a 3.5 percent rate increase, is 22.061 billion.*"

Transcript Page 718-720 – Rainkie.

See COALITION/MH I-6j and Transcript Page 399 – Epp

- *This improvement in debt and net debt is due to the reduced borrowing requirements associated with a lower Bipole III capital cost and lower capital expenditures than forecast at the last Generate Rate Application.*

Transcript Page 718-720 – Rainkie.

BP3 is Operational at a Significantly Lower Cost than the Control Budget

- The fourth and final synchronous condenser at Riel was completed and turned over in November

Transcript Page 396-397 – Cormie and Williams

- Reduce the Bipole III control budget by over $270 million - moving the control budget from in the range of 5.04 billion to approximately 4.77 billion
- Whether or not Bipole III was a prudent decision or a well-managed project – many of the key risks are now completed at a lower budget than contemplated in PUB Order 59/18.

A Material New Reality in the Relationship between Drought Risk and the Level of Retained Earnings

- *In 2003 (IFF MH01-1), domestic revenues were forecast at $796 million (2002/03), while export revenues were $537 million (60% domestic, 40% export). A five-year drought had a net cost of approximately $1.2 billion at a time when reserves were at $1.29 billion.*

- *By 2009 (IFF09-1), domestic revenues were forecast at $1.160 billion (2009/10), while export revenues were $414 million (74% domestic, 26% export). A five-year drought had a net cost of approximately $2.405 billion at a time when reserves were at $2.183 billion.*

- *Hydro Exhibit 93 for 2017/2018 showed domestic revenues forecast at $1.615 billion, while export revenues were $514 million (76% domestic, 24% export). A five-year drought had seen a drop in net cost to approximately $1.218 billion at a time when reserves were at $2.749 billion.*

- *This reflects a material new reality compared to the earlier reviews, where parties can begin to consider whether the level of customer reserves had reached a level that could be maintained stable, rather than simply perpetually increased.*

MIPUG-5-1, Pre-filed evidence of Patrick Bowman, p. 10.

See also Transcript Page 606-611 – Bowman and Williams.

The Proof is in the Pudding - Markets speak more eloquently than credit rating agencies

When Standard & Poor's changed the self sustaining metric:

I seem to recall us after that doing some of the lowest debt issues in the history of Manitoba Hydro, . . . and there were questions from the Board about, . . . what the impact of that was and we used to measure that by looking at the different spread between Manitoba and Ontario, and my recollection was there was no change in the spread after that. So as it relates to credit ratings in the capital markets, the proof is in the pudding. When people are willing to, . . as we heard last week, . . . invest money in Manitoba Hydro for forty-nine (49) years at less than 3 percent when you're willing to do a global US debt issue for a 1 billion dollars, and they know -- the investors know where that money is going. . . So they understand that's being invested in assets.

Transcript Page 780-782 – Rainkie and Hacault

Markets speak more eloquently than credit rating agencies

MS. SUSAN STEPHEN: *When we can secure forty-nine (49) year debt at 2.91 percent, yes, I think that's favourable for Manitoba Hydro and our future ratepayers and our grandchildren.*

Transcript Page 221 – Stephen and Peters

MR. BOB PETERS: *Can you indicate to the panel what the rate is on that billion dollars that you're sitting on?*

. . .

MS. SUSAN STEPHEN: *The five (5) year 7 debt was borrowed at 2.19 percent and we're currently 8 investing at somewhere around 1.7 percent.*

Transcript Page 111-113 – Stephen and Peters

Markets speak more eloquently than credit rating agencies

- All of MH's debt is through Province of Manitoba

Transcript Page 339 – Stephen and the Chairperson

- *The Board finds that, while important, care must be taken to avoid placing too much weight on reports by credit rating agencies. The Board accepts that credit ratings and capital markets are related, but are not the same thing.*

  The Board does not accept that Manitoba Hydro's debt is leading to a higher cost of credit for the province. Neither Manitoba Hydro nor the Business Council of Manitoba chose to call any witnesses from the credit rating agencies, financial markets, or the provincial government to testify as to the impact of Manitoba Hydro's debt on provincial credit ratings. . . . The Board accepts the evidence of Morrison Park Advisors that the capital markets will be reassured by a long-term rate plan that acceptably manages Manitoba Hydro's risks and by this Board's regulatory action where required to address circumstances as they arise.

PUB Order 59/18, p. 68-69

But why isn't Manitoba Hydro working with ratepayers and the PUB to develop a plan?

Keeyask was the Number 1 Worry of 2018 and PUB Order 59/18

- In 2018, Keeyask appeared to be steaming past $8.7 B and headed to $9.6B unless something materially changed

  PUB Order 59/18, p. 82

- 59/18: the revised estimate (P50) of a total in-service cost of 8.7 billion with the first unit in-service date being 2 August 2021

  PUB Order 59/18, p. 78 and Transcript Page 399-401 – Cormie and Williams

- 59/18: the P-90 contingency, an estimated total in service cost of 9.6 billion and the Unit 1 in-service date of April 2022

  PUB Order 59/18, p. 78 and Transcript Page 399-401 – Cormie and Williams

Something Changed

- Keeyask is ahead of the 59/18 Schedule and has made needed budget improvements

- *And a number of the risks that they were planning -- or preparing for did not materialize, and so they are working on reorganizing the work and the way they're approaching the last months of the last year and half of the project. And so they're anticipating, now that, you know, all other things being equal, they should be able to get the first unit in service on October 2020.*

Transcript Page 236-238, Bauerlein

- Unit 1 for Keeyask is now projected to be in service starting October 2020 and tracking towards that 8.7 billion budget

Transcript Page 401-402 – Cormie and Williams

See also PUB/MH I-54U – Manitoba Hydro Update on Major Projects to the Public Utilities Board Keeyask Project Update Q3 Update ending December 31, 2018

- Actual expenditures of the end of March at 5.8 billion, which is 67 percent of the budget 8.7 billion

Transcript Page 401-402 – Cormie and Williams

Tracking Early is a Good News Story

- MR. DAVID CORMIE: *And, Dr. Grant, . . . it's costing us about $1 million a day to run that camp and keep those people on staff. . . The earliest possible in-service date will result in the least cost for the project.*

Transcript Page 411 – Cormie

Lower Depreciation and Finance Costs When Keeyask Comes in Service

- MR. BOB PETERS: *And . . .what this shows to this Board is that, if these rates continue at the level they currently are, or even further downward progression, that bodes well for the borrowing plans of Manitoba Hydro going forward?*
- MS. SUSAN STEPHEN: *Absolutely, it bodes well for Manitoba Hydro and our projects. But I just want to reinforce that for the 19'/'20 test year, we are essentially hedged in terms of movements in the interest rates.*
- MR. BOB PETERS: *And so any benefit that's going to come of this will not be seen until the subsequent GRA, for the '20/'21 year.*
- MS. SUSAN STEPHEN: ***And when Keeyask comes in service. We'll see that benefit through lower depreciation and finance.***
- MR. BOB PETERS: *Does it follow from those answers, Ms. Stephen, that the revenue requirement impacts of Keeyask would be expected to go down . . . in light of the interest rates that we see today regardless where the forecast is?*
- MS. SUSAN STEPHEN: *I would say I . . . wouldn't know to a degree, but to a certain degree, they would*

Transcript Page 227-228 – Stephen and Peters, emphasis added

Historic Rate Increases Kept Keeyask in Mind

- *I think all of the past rate increases that we've had discussions of before this Board have been set based on a long-term trend looking in an IFF that the a Keeyask in it. So, I don't think this -- that someone would say all these rate increases approved by the Board did not have . . . any eye to the fact that there was a Keeyask coming.*

Transcript Page 637-641 – Fernandes, Bowman

Hydro has Failed to Demonstrate a Daunting Cash Flow Challenge

- *And when Keeyask comes online we'll start paying some water rentals and we'll start paying some O&M costs; combined are about 30 million. So in Hydro numbers that show this supposed conveying, the post-Keeyask world, you would take that deficit at the bottom of 197 million. You'd say, well, there's another 67 million in cash that's also going to come out because of extra interest for the ongoing borrowing and the O&M to end with about 264 million negative cash before we add Keeyask export revenues. Well, Keeyask export revenues are about 360 million. So what that's telling me is that 2019's cash flows and 2019's rates are already sufficient to meet this cash test, meet this cash positiveness once Keeyask comes online. It only can't -- it -- it only fails to meet it in the years where you put in all of the worst parts of Keeyask, the cash outflows for interest, and none of the revenues that Keeyask will generate.*

Transcript Page 571-572 – Bowman, emphasis added

- *MR. PATRICK BOWMAN: Yes, but the numbers we just ran are numbers from four (4) years in the future. So you would need that 3 1/2 percent plus another 30 million at some point during the next four (4) years in order to be fully cash positive in the first year or full year of Keeyask operation*

Transcript Page 649-652 – Bowman, Fernandes, emphasis added

- Hydro unsuccessfully challenged Mr. Bowman on this point

Early Advancement of Keeyask was the Plan – not Ground for Panic

- *Now that's not to confuse this accounting detail about Keeyask earlier in-service with bad news. Keeyask earlier in-service helps control the cost of the project. Keeyask earlier in- service leads to export revenue sooner. . . . In the long-term, we're talking about benefits to . . . being able to achieve [the] project on time. And that's exactly why Hydro was appropriately trying to do that.*

Transcript Page 578-580 – Bowman

- *Manitoba Hydro proposed the advancement of Keeyask ahead of the need for domestic requirements, with the clear position that this advancement would benefit domestic customers by defraying a portion of the costs of the generating station. . . .Myself and many other Manitoba Hydro witnesses, a number of which are in the current panel, testified that the Corporation could manage the risks, including multiple years of . . . negative net income, and the credit rating implications, and <u>the Corporation would take all necessary actions to manage its costs to mitigate the impact of the Capital Development</u> --Plan on domestic customers to the extent possible*

Transcript Page 703-704 – Rainkie, emphasis added

- *The advancement of Keeyask is not a negative change in . . . circumstances that requires emergency regulatory action. It is the very delivery of the plan that was put forward by Manitoba Hydro at NFAT*

Transcript Page 704 – Rainkie

We do not have to agree that building Keeyask was the right decision at the time.

We are entitled to regret the significant cost over-runs.

But the reality is that the onset of Keeyask costs and revenues is manageable with rate increases far below 3.5%

Term sheet with SaskPower – was not included in Exhibit 93

- See MH 3rd Quarter report - PUB/MH I-7b Attachment (Updated) – p. 5/10
  - Manitoba Hydro to Sell 215 MW of Renewable Hydroelectricity to SaskPower
  - October 29, 2018, Manitoba Hydro announced a term sheet had been signed between Manitoba Hydro and SaskPower which will see up to 215 megawatts of renewable hydroelectricity flow from Manitoba to Saskatchewan beginning in 2022. The sale will last a minimum of 18 years with a potential extension up to a total of 30 years, bringing long-term benefits to electricity customers in both provinces. The sale is the largest of three recent major power deals between the two provinces. By 2022, Manitoba Hydro will be supplying up to 315 megawatts of hydroelectricity to Saskatchewan.
  - The sale to SaskPower will utilize capacity provided by a new 230 000 volt transmission line planned for construction between Birtle, Manitoba and Tantallon, Saskatchewan. When complete, the 80 kilometre line, announced in 2015, will also improve the reliability of the electrical grid, benefiting customers in both provinces. The line is anticipated to be in service in 2021.
- See also Transcript Page 103-104 – Cormie and Peters

While a Term Sheet is a not a final contract – it is a promising sign

Hydro's Material Deterioration Claim has not been Justified

- We cannot rely solely on the dated Exhibit 93 from 2017/18 & 2018/19 GRA
  - Net debt is $567 million lower (see Transcript Page 398-99, Page 718 - 721)
  - Bipole III capital costs are $270 million lower which reduces carrying costs by $17 million over the long term
  - O&A targets (representing about 30% of domestic revenue requirement) are outdated and overstated

CC-10, Harper/Rainkie/Derksen direct evidence, slide 5

Manitoba Hydro's financial position has not deteriorated since the last GRA

- The 2017/18 actual financial results do not represent a change in circumstances since the last GRA
- The reversion to a 20-year WATM debt management strategy was known at the last GRA and does not represent a change in circumstances
- Recognizing this reality - three financial ratios (debt to equity ratio, interest rate coverage ratio and capital coverage ratio) have not materially deteriorated since the last GRA, and two have slightly improved

CC-10, Harper/Rainkie/Derksen direct evidence, slide 11

Some risks have decreased in the 2019/20 test year given the passage of time and better available information

- Water levels – total energy in storage is above average in 2019 to date:
  - MR. BOB PETERS: *And what you're now saying to the Board is that if you look at the red line and the one (1) red arrow, where it's focusing on zero millions of dollars of net income, there is now an -- 78 percent chance that net incomes will be positive, even without a rate increase?*
  - MR. GREG EPP: *That's correct.*
  - MR. BOB PETERS: *Put another way, there's a 22 percent chance the Corporation could still lose money if the water flow conditions tur --excuse me -- turned unfavourable?*
  - MR. GREG EPP: *That's correct.*

Transcript Page 198-199, Epp and Peters

Some risks have decreased in the 2019/20 test year given the passage of time and better available information

- Due to the recently secured debt, interest rate volatility risk is minimal in test year

  Transcript Page 212-213

- Short-term export prices are close to 2019/20 interim budget

  Transcript Page 184-185: "MR. GREG EPP: *Mr. Peters, the on-peak price was almost unchanged, and the off-peak price was slightly lower.*"

- Positive net income can be achieved without a rate increase even if warmest year on record

  Transcript Page 209-210

- MH would still have a positive net income even if export prices drop unexpectedly.

  Transcript Page 210

A 3.5% rate increase is not required to reduce the risk of financial loss in 2019/20

- A 3.5% rate increase is not required to reduce the risk of financial losses in 2019/20 while adhering to the PUB's guidance on how risks should be addressed in rate-setting

CC-10, Harper/Rainkie/Derksen direct evidence, slide 10

- A 1% rate increase is sufficient to minimize the risk of financial loss in 2019/20 – with $22 million rate-setting adjustment to O&A – forecast to result in $100 million net income. 1% rate increase scenario and non-water flow risk sensitivities are expected to generate net income around or above the $30 million level in 2019/20.

CC-10, Harper/Rainkie/Derksen direct evidence, slide 13

- A 2% rate increase is sufficient to minimize the risk of financial loss in 2019/20 without the $22 million rate-setting adjustment. Even if the PUB accepts the $511 million O&A target, a 3.5% rate increase is not required to manage non-water flow related risks in 2019/20.

CC-10, Harper/Rainkie/Derksen direct evidence, slide 14

Manitoba Hydro's updated financial position negates the need for any rate increase based on its own desired level of net income

- MH-11, February 14, 2019 supplement, p 2:
  - MH currently projecting net income of $95 million for 2018/19 and $115 million for 2019/20 (with rate increase)
  - Compared to net income in the Application of $51 million for 2018/19 and $31 million for 2019/20 (with rate increase)
- For the test year 2019/20, Manitoba Hydro's updated net income of $64 million without the proposed rate increase exceeds the original November 30, 2018 financial objective of $31 million with a rate increase

CC-10, Harper/Rainkie/Derksen direct evidence, slide 10

Positive net income can be achieved without a 3.5% rate increase

- DR. BYRON WILLIAMS: *Now, I'm -- Ms. Carriere, this may go to you. If not, again you'll refer it. But recognizing that there are forecast limitations, Hydro's current best estimate of the 2019/20 net income resulting from a 3.5 percent proposed rate increase would be $115 million, subject to check?*
- MS. LIZ CARRIERE: *Yes. That's what was filed on February 14th.*
- DR. BYRON WILLIAMS: *And for 1-- a 1 percent rate increase would be 78 million, subject to check and the references coalition, Manitoba Hydro 1-88, agreed?*
- MS. LIZ CARRIERE: *Agreed.*
- DR. BYRON WILLIAMS: *And for 2 percent, 93 million, correct?*
- MS. LIZ CARRIERE: *Agreed.*

Transcript Page 368-369 – Carriere and Williams. See also COALITION/MH I-8

Projected net income in 2019/20 exceeds Exhibit 93 projection

- The updated net income in 2019/20 of $64 million without a rate increase exceeds the net income projected in Exhibit 93 adjusted for the 20-year WATM of $28 million

We Can't Wait for a Reluctant Hydro

- MH reluctant to support technical conference on retained earnings before MHEB review

Transcript Page 143 – Carriere, Pachal, Peters

- *And I wanted to emphasize that, if we are. . . running out of time on anything, it's how to start using Hydro's uncertainty analysis to determine the appropriate reserve levels post-Keeyask, the minimum retained earnings type of process, and to work on ensuring we find the right way to communicate this to stakeholders so that people understand what Hydro's finances are intended doing and what this Board is prepared to do to handle risk so that we don't run into this -- the -- the type of short-term focus that we're -- we're seeing.*

Transcript Page 585 - Bowman

Hydro's Reluctance Poses a Risk

- *My concern would be after Hydro's hires been completed that they may have come up with a set of financial targets that . . . they've now had to sort of publish and defend, rather than . . . , you know, have. . . any serious open debate about.*

Transcript Page 665-667 – Bowman, Peters

- *One off[s] for risk sensitivities have limitations for rate-setting, and there [i]s no organized means to aggregate the probability, consequence, and residual risk facing Manitoba Hydro. So to remedy this situation, we recommended that PUB direct Manitoba Hydro to enhance its uncertainty analysis for the next GRA to provide a robust quantitative tool to further guide the incorporation of risk and financial reserve considerations into rate-setting, and in accordance with the policy directions from the PUB from Order 59/'18 to consider a rule-based regulatory framework and a minimum retained earnings target or similar test for future GRAs.*

Transcript Page 748 – Rainkie

Recommendation

- Consumers Coalition recommends a collaborative process or technical conference with respect to reserves, risk and minimum retained earnings BEFORE the MHEB makes final decisions.
  - Engagement with stakeholders before final decisions are made, when there are still options on the table which can be assessed based on advantages and disadvantages. This is good engagement, not "after the fact" engagement.
- If MHEB chooses not to attend as a participant, it should be invited to attend as an observer.

Prudence and Reasonableness - Straw Men and Aunt Sallys

- Ensuring that actual and projected costs incurred are necessary and prudent

  Board Order 5/12 issued January 17, 2012 relative to Manitoba Hydro,

  see also Board Order 98/14 relative to Manitoba Public Insurance

PUB Order 59/18 found that MH should reduce controllable costs in an era of major capital projects

- *Hydro's review of its operations during a time of restructuring and transition, presents an opportunity to find further areas to reduce O&A costs both in terms of staff reductions and supply chain management after the VDP concludes*
- *In a period of major capital spending that MH should find savings in Business Operations Capital and that MH could safely decrease BOC by $160 million in the 2018/19 test year*
- *The PUB found that the revenue requirement should be reduced to reflect lower demand side management spending as a result of the new lower marginal value and that the adverse rate impacts that arise from MH's current DSM plan are not reasonable in the present context.*

CC-10, Harper/Rainkie/Derksen direct evidence, slide 7

See also PUB Order 59/18, p. 110-113, 118-122, 141-142, 264, 265

OM&A - A CPI Plus Budget

- *Manitoba Hydro's preliminary O&A target included in the 2019/20 Interim Budget is $511 million reflecting an inflationary increase of 2% over the $501 million of O&A expenses included in the 2018/19 Financial Outlook. The 2% increase is aligned with Manitoba CPI.*

  MH-3, November 30, 2018 Application, p. 28, emphasis added

- *The 2019/20 Interim Budget of $511.1 million reflects an inflationary increase of 2% over the 2018/19 Outlook, which is aligned with the Manitoba Consumer Price Index.*

  PUB/MH I-13a-b (Revised), emphasis added

  See also Transcript Page 105-107 – Bauerlein and Peters

An Inflated Baseline Replete with a One Time Only Expenditure

- *As discussed in the response to PUB/MH I-24a, the increase of $8.1 million in collection costs in 2017/18 was the result of an assessment of collectability of arrears.*

  COALITION/MH I-12a-c

- *There was an $8.1 million increase in collection costs in 2017/18 from the $4.3 million actual collection costs in 2016/17, for a total amount of $12.4 million . . . as a result of an assessment of collectability of arrears. It appears that this is a one-time occurrence as the annual forecast for uncollectible accounts in the updated response to PUB/MH I-15 reverts back to an amount of $4.3 million for 2018/19.*

  CC-7-1, Rainkie, Harper, Dersksen pre-filed testimony, p. 84/142

- *As MH's O&A targets use the ending 2017/18 O&A amount as the opening amount for the calculation of the 2018/19 target, this one-time expense should be normalized out of the calculation for rate-setting purposes.*

  CC-7-1, Rainkie, Harper, Dersksen pre-filed testimony, p. 84/142

Normalize the One Time Only Collection Cost

- Mr. Rainkie's first proposed adjustment to OM&A is collection costs, which is just a journal entry

- *You know, an increase in collection costs is an accounting journal entry based on an analysis of the collectibility of accounts receivable. There are no staffing implications of this adjustment. Manitoba Hydro didn't hire a hundred people. It simply made a journal entry in its general ledger to recognize that $8.[1] million in 2017/'18. So Manitoba Hydro does not have to reduce or sever staff on a go-forward basis to make this adjustment to its O&A targets. It's simply a journal entry.*

  Transcript Page 738 – Rainkie

- Mr. Rainkie's assertion was not challenged during cross examination

An Inflated Baseline Replete with a Plug

<u>The Plug</u>

- *The 2018/19 O&A budget includes $7.3 million to support transitional business requirements. . . The $7.3 million was not allocated to specific Operating/Corporate groups and held as a contingency.*

COALITION/MH I-15 d

- *There were no actual expenditures associated with the unallocated funding for transitional business requirements compared to a budget of $3.4 million to the end of September, 2018 and a budget of $5.4 million to the end of December, 2018.*

COALITION/MH I-15 e

Reject the Plug

- *The second adjustment is to remove the $7.3 million provision for unallocated transitional contingency funding for which there are no planned costs at all. It appears from the evidence that this amount was simply a plug to force the O&A target back to $501 million for 2018/19.*

  Transcript Page 738-740 - Rainkie

- *So there are no internal staffing implications of this adjustment for which there are no planned costs. Manitoba Hydro does not have to reduce or sever staff on a go-forward basis to make this adjustment to its O&A targets.*

  Transcript Page 738-740 - Rainkie

- Mr. Rainkie's assertion that this was a plug was not challenged in cross examination

Active Management is Hard but Necessary

- *Now, the third adjustment is to adjust the escalation assumptions in both years to 1 percent escalation. And this adjustment recognizes, number 1, the PUB findings in Order 59/'18 to further reduce costs in terms of both further staff reductions and 20 further supply chain savings. After all, you know, there's been tens of millions of dollars spent by Manitoba Hydro to get the VDP in the first place in terms of payments and millions of dollars spent on the supply chain initiative. So there is an expectation that those will continue to deliver savings for customers in the future.*
- *The second is to recognize the environment of provincial budget constraints and wage freezes in the public sector in Manitoba.*
- *And the third is the lower projected VDP and supply saving -- the chain savings compared to the last year rate. According to the evidence, those savings have been reduced by $47 million or about 41 percent.*
- *So one would expect that instead of doing things like pushing off the supply chain initiative, we would be advancing it quicker to make up for those lost savings that are no longer being recognized in operating costs.*

Transcript Page 740-741 – Rainkie

Ratepayers are Still Waiting for a Budget

- *Details supporting the 2019/20 O&A target are in the process of being developed. Manitoba Hydro will file details of the 2019/20 Approved Budget if available should the PUB require an oral hearing on this issue*

COALITION/MH I-15 c)

Transcript Page 105-107 – Bauerlein and Peters

Transcript Page 375-379 – Bauerlein and Williams

- *it's very complex 'cause, again, as I discussed yesterday, you're going down to -- in order to provide you with business unit information, we feel it down to what we call "cost 4 centres." Cost centres roll to departments; departments roll to divisions; divisions then roll to business units. So there's a lot of detail required to prepare the -- the line by line. But at the end of the day what's in revenue requirement -- that 511 million -- will not change, regardless of what the details tell you.*

Transcript Page 379-380 – Bauerlein and Williams, emphasis added

Straw Men and Aunt Sallys

- A **straw man** is a form of argument and an informal fallacy based on giving the impression of refuting an opponent's argument, while actually refuting an argument that was not presented by that opponent. https://en.wikipedia.org/wiki/Straw_man
- Straw man tactics in the United Kingdom can be known as an Aunt Sally, after a pub game of the same name https://en.wikipedia.org/wiki/Straw_man

Hydro's Straw Man

- A reduction of slightly over 300 employees would be required to achieve a $22 million reduction in O&A as suggested by COALITION.

MH-24, Manitoba Hydro Rebuttal Evidence, p. 6 of 17

A Journal Entry, a Plug and 1% will not cost 300 EFTs

- *This level of annual attrition -- 35 EFTs -- does not require another VDP program to sever 300 employees with severance costs and waiting for a year for the employees to leave, et cetera. . . . This is simply consistent with active management of staffing levels and vacancies which is a basic expectation of the management of a publicly-owned, regulated, Crown utility like Manitoba Hydro and consistent with the PUB findings in Order 59/'18.*

Transcript Page 742-743 – Rainkie

Hydro's Passive Approach is Concerning over the Short Term and the Long Term

- *Now, there is a concern that Manitoba Hydro's reversion to an O&A budget approach -- which was used for many decades, by the way, at Manitoba Hydro -- which is based on taking last year's actual cost plus 2 percent or more escalation, appears to suggest that Manitoba Hydro believes that its job of managing operating costs is largely finished after the VDP.*
- *Now, there is a hazard of referring to. . . cost control in general as a program. Managers take the message from that that a program has a beginning, a middle, and an end, and thereafter, we can return to a status quo*
- *A . . .policy of last year actual cost plus 2 more percent escalation is not active management of their O&A costs by Manitoba Hydro. It's passive management in our opinion, and that's not consistent with the PUB findings from the last major decision.*

Transcript Page 742-743 – Rainkie

Reducing the 2% escalation is an important rate-setting signal from PUB and would represent the equivalent of a 1.9% rate decrease

- *It's important that the PUB continue to provide this rate-setting policy signal to Manitoba Hydro to further reduce costs in a period of transition as part of the decision that flows from this regulatory proceeding. A 1 percent escalation target for O&A . . . would reduce the trajectory of the O&A costs for Manitoba Hydro Exhibit 93 by $32 million by 2022/'23. This is the equivalent of about 1.9 percent rate decrease for customers and would preserve a more reasonable portion of the VDP and supply chain savings of $68 million.*

Transcript Page 744 – Rainkie

The supply chain initiative appears to be underperforming

- *A number of projects anticipated in the estimated savings for waves 1 to 3 were cancelled or deferred given cost containment initiatives and corporate restructuring. As the savings estimates were based on historical spend, factors such as changes in commodity prices, and line management resource constraints to test or approve new products as well as participate in complex sourcing arrangements have resulted in lower than anticipated benefits.*

  MH-32, Manitoba Hydro Undertaking #4

- *The initiatives identified in waves 4 and 5 have, in general, medium to high barriers to implementation and the savings potential per initiative in many cases is estimated to be significantly lower than those seen in waves 1 to 3.*

  MH-32, Manitoba Hydro Undertaking #4

- *For these reasons it was deemed financially prudent to discontinue the consulting support and utilize internal resources to continue to implement the initiatives and assess the sourcing strategies for waves 4 and 5.*

  MH-32, Manitoba Hydro Undertaking #4

See also Transcript Page 380-385 – Bauerlein and Williams

Recommendation - MH's OM&A budget should not be adopted for rate-setting purposes

- The $511 million budget for 2019/20 should be reduced for rate-setting purposes by $22 million to $489 million
  - First proposed rate-setting adjustment is to make a normalization adjustment to remove the $8.1 million one-time non-recurring increase in collection costs from 2017/18 – the starting point for MH's O&A target – no further staff reductions necessary for this adjustment
  - The second proposed rate-setting adjustment is to remove the $7.3 million provision for unallocated transitional contingency funds for which there are no planned costs – no further staff reductions necessary for this adjustment

Recommendation - MH's OM&A budget – should not be adopted for rate-setting purposes

- The third proposed adjustment for rate-setting purposes is to adjust the escalation assumption to 1% - a reduction of $7 million annually or annual staff attrition of about 35 EFTs of 0.6% assuming 50/50 split between staff reductions / supply chain savings realization
  - The 1% escalation assumption recognizes PUB findings in Order 59/18 to reduce controllable costs, current circumstances with respect to lower projected VDP and supply chain savings and MB public sector wage freeze
- Total proposed downward adjustment is $22 million resulting in a recommended 2019/20 O&A for rate-setting of $489 million – reduces the O&A trajectory by $32 million to 2022/23
  - CC-10, Harper/Rainkie/Derksen direct evidence, slide 12

Business Operations Capital

- Despite adverse findings by the PUB in Order 59/18, Manitoba has not demonstrated improved asset management practices
- MH-11, February 14, 2019 Supplement, p 15: BOC was reduced in 2019/20 approved budget to $478 million (decrease of $33 million)
  - BOC reductions of $37 million in 2018/19 and $33 million in 2019/20 appear to be largely related to normal operational execution risks not optimization

See CC-7-1, Rainkie/Derksen/Harper evidence, p. 68-72

Hydro's Beliefs are not Evidence

- *And we really believe that further reductions will significantly increase the risks, the risk of public and employee safety, of system reliability, and as well as our ability to provide reasonable levels of customer service.*

Transcript Page 84 – Bauerlein. See also Transcript Page 85-87.

Hydro's beliefs do not refute the PUB findings based on expert opinion in the last GRA

Hydro's Beliefs are Difficult to Reconcile with its Annual Report

- *Aging infrastructure – Manitoba Hydro is in the process of implementing enhanced asset management tools to determine the optimal level of investment and prioritize projects to sustain existing infrastructure and address capacity constraints; may need to reassess investment levels.*

MH-3, November 30, 2018 Application, Appendix 3,

MHEB 67th Annual Report, p 48

MH is not helpless when it comes to reducing BOC expenditures – there are tools available

- MR. DARREN RAINKIE: *No, but I do note that there has been a – an asset management framework project at work at Manitoba Hydro for a number of years. I'm a bit concerned that it still is going to take a number of years for that to – to be rolled out as I'm – as I understand it. So, you know, there's a need to prioritize capital expenditures better in the future, and I note the findings of the Board and the last Order, that they didn't feel that Mani – Manitoba Hydro didn't have a – a robust process to – to do that. So there is – there are, as I said, earlier, technologies available that will help you plan your business better, sir. So we shouldn't' look at it as, you know, we're helpless. There are tools and things that we can do, priorities that we can set.*

Transcript Page 904 - Rainkie

Optimized BOC Spending is Not Trivial – it Offers Short and Long Term Benefits

- $11 M is significant
- It becomes increasingly important over time

Hydro Appears to be Trapped in Efficiency Manitoba Limbo

- *The marginal values shown in PUB/MH II-57 of the 2017/18 & 2018/19 GRA and exhibit MH-115 will not be used in the development the 2019/20 DSM plan.*

PUB/MH I-49a-b

- MS. LOIS MORRISON: *We did not undertake an analysis of our one-year plan from a cost-effective perspective…*

- *…reviewing the cost effectiveness, either of the one (1) year plan or the fifteen (15) year plan was not undertaken in light of the strange limbo that you're in.*
- MS. LOIS MORRISON: *That is correct.*

Page 393-394 – Morrison and Williams

But there are significant consequences both in necessary programming and in cost effectiveness flowing from this limbo.

Given Evidence Gaps and Process Challenges – Forecast Reliability is Extremely Challenging

- Ensuring that forecasts are reasonably reliable

  Board Order 5/12 issued January 17, 2012 relative to Manitoba Hydro,

  see also Board Order 98/14 relative to Manitoba Public Insurance

Forecast Challenges focus the Emphasis on the Test Year

- No Integrated Financial Forecast creates significant challenges in assessing the reliability of Manitoba Hydro's forecasts
- A long-term financial forecast is an essential tool in MH's "modified cost of service" environment
  - MS. LIZ CARRIERE: *The Integrated Financial Forecast is -- is the culmination of a number of assumptions that, when compiled together allows us to determine longer-term borrowing requirements, finance expense, cash flows, and provides a directional impact of progress towards achieving or maintaining financial targets, as it may be*.

    Transcript Page 99 – Carriere
  - An IFF brings together a number of component forecasts that are developed during an integrated planning cycle in a particular sequence, MH relies on the integrated financial forecast to forecast how it is expected to perform as compared to its key performance indicators, an IFF provides guidance in terms of rate increases necessary to maintain financial indicators, an IFF also helps guide borrowing requirements.

    Transcript Page 352-354 – Pachal and Williams

Forecast Challenges focus the Emphasis on the Test Year

- Importance of long-term forecast highlighted in Information Request PUB/COALITION-1
  - *MH's financial forecast is referred to as "integrated" because it brings together a number of component forecasts that are developed during the integrated planning cycle in a particular sequence (ie., the load forecast in an input into the power resource plan.) The IFF is also integrated as it is the only tool that is used to determine the overall borrowing requirements, forecast financial performance indicators and the rate increases required to maintain or attain financial performance indicators over time. As such, an IFF is inherently more reliable than stand-alone calculations which are not integrated in nature and are not designed to determine overall borrowing requirements, financial performance indicators and resulting required rate increases.*
- **The lack of IFF is why the Consumers Coalition recommends to assess this rate application consistent with the proposed approach of Harper/Rainkie/Derksen:**
  - **on the test year 2019/20; and**
  - **with guidance with respect to risk and reserves provided in Order 59/18.**

Revenue Requirement Recommendation

Recommending anything but Zero is Extremely Difficult

- Consumers are struggling
  - For some, what else is there to give up except food or clothing or heat or a phone?
- Consumers have a right to be frustrated given broken Hydro promises of cost control
- Consumers have a right to be frustrated given the sense of entitlement that drives Hydro's expectations of 3.5%
- Consumers have a right to be frustrated at the material evidence gaps in the record
- Consumers have a right to be frustrated given Hydro's failure to respect the guidance in PUB Order 59-19 regarding risk, rate setting and cost control
- Consumers have a right to be frustrated with Hydro's “after the fact engagement” model

But the Experts for the CC and MIPUG have made a Compelling Case

- The best way to assist Manitoba consumers in the long run is the 59/18 alternative proposed by Rainkie/Harper/Derksen of active management cost controls, a 1.5% rate increase and a technical conference on risk, financial targets and rate setting
- The 59/18 alternative respects the intent of the Order:
  - *a 1 to 2 percent rate increase would balance the financial health of Manitoba Hydro with its customers' interests. . .This range is expected to result in Manitoba Hydro key performance indicators, financial ratios for 2019/'20 that are consistent with or exceed those from the past GRA. This range protects against the risk of financial loss in 2019/'20 from non-water flow risk and is consistent with the PUB findings from Order 59/18 on how risk should be addressed in rate-setting.*

Transcript Page 751-752 – Rainkie

- If Hydro rejects inflated budgets and choose active management, the combination of a 1.5% rate plan and reduced O, M and A equates "*to about a 2.8 percent rate increase, and can assist with the transition to Keeyask, and help to manage net income and cash flow considerations.*"

Transcript Page 707-708 – Rainkie

Would a Keeyask Deferral Account Serve a Practical Purpose?

Deferral Accounts can have a Functional and Messaging Purpose

- While raising potential issues of intergenerational equity, deferral accounts can serve a functional (net income smoothing) and messaging purpose
- BP3 deferral account initiated at least 5 years before BP3 came on line and brought in substantial contributions to deferred revenue over parts of 6 years
- Roughly $392 million
- It was built up over longer than 60 months and will be amortized over 6 years (18/19 – to 23/24)

Transcript Page 592-601 – Bowman and Williams

The Functional Objective of Deferral Accounts will not be achieved for Keeyask

- Keeyask 16 month build up versus more than 60 month build-up for BP3
- *The Board might consider ordering a mechanism as part of . . . communicating . . . the purpose of any rate increase granted. . . . The . . numerical values would obviously be . . . much different and they'd be much smaller on . . . a much larger project. And as a result, you know, the mechanism may not be worth the trouble…*
- DR. BYRON WILLIAMS: *And in terms of the Keeyask tool, given the limitations in terms of function, ... you see it at least as a messaging tool.*
- MR. PATRICK BOWMAN: *I . . .I offer it as a messaging tool…*

Transcript Page 592-601 – Bowman and Williams

- Mr. Rainkie does not recommend a Keeyask deferral account

Transcript Page 976-978 – Rainkie and Peters

Consumers Coalition recommendation regarding a Keeyask Deferral Account

- If the PUB adopts the 59/18 alternative a deferral account is not recommended because the approach is intended to address risks in the test year in a manner consistent with Order 59/18 while building a buffer for future years through improved cost control
- If the PUB adopts the "turning the corner" era approach of Mr. Bowman, a deferral account would be appropriate for messaging purposes although not for functional ones

Cost Allocation and Just and Reasonable Rates after BPIII

- Determining an appropriate allocation of costs between classes;
- Setting just and reasonable rates

Board Order 5/12 issued January 17, 2012 relative to Manitoba Hydro, see also Board Order 98/14 relative to Manitoba Public Insurance

Threshold Legal and Public Policy Considerations

- Within a range or zone of reasonableness framework, the Consumers Coalition places a heavy emphasis on cost causation as a driving force of historic and modern ratemaking
- Within both traditional ratemaking frameworks as well as the existing statutory framework, the Consumers Coalition recognizes the Board's discretion in an evidence based approach to consider issues beyond cost causation including affordability
- While the Consumers Coalition does not support the creation of the First Nation Reserve Class, it does not contest the jurisdiction of the PUB to create a distinct class or to create a distinct class taking into account affordability considerations along with considerations of cost causation
- The Consumers Coalition does not contest the evidence on the record highlighting the vulnerability of First Nations persons living on reserve to hydro rate increases
- The Consumers Coalition acknowledges the applicability of *Charter* values in circumstances of statutory ambiguity
- The strong preference of the Consumers Coalition based on its extensive research in this field and equity considerations is for special energy affordability programs to be delivered through the graduated income tax system rather than through consumption based hydro rates
- Using the income tax system is less likely to have adverse and unintended effects on other vulnerable consumers

Leaving aside, specific issues relating to FNOR, Diesel and GSS ND, there is a general sentiment that any rate increase be across the Board

- See MH-3, November 30, 2018 application, p 1 as well as Transcript Page 586-588 and Page 612-613 - Bowman
- MH-3, November 30, 2018 application, p 34:
  - *The next PCOSS will reflect Bipole III coming into service. As this is anticipated to have a significant impact on customer class costs, pausing further differentiation until Manitoba Hydro can assess which classes may remain outside the ZOR once the impacts of Bipole III have been reflected will limit potential over-corrections that may be unnecessary following Bipole III coming into service. The across-the-board increase proposed as part of this Application will not negatively impact the migration of class revenues that has been achieved to date following the implementation of differentiated rates approved by the PUB in Order 59/18.*
- CC-10, Harper/Rainkie/Derksen, direct evidence, slide 21
  - PUB requires strong evidentiary foundation on which to justify a differentiated rate increase – but there is no updated Cost of Service Study
  - PUB/MH I-61 and AMC/MH I-5 cannot be relied upon for differentiation (comingles public policy and cost of service issues)

Transcript Page 926-930 – Derksen and Peters

  - In-service of Bipole III will have profound impacts – the only class RCCs anticipated to continue to be outside the ZOR are the Area & Roadway Lighting and GSS ND classes
    - ARL: insufficient evidence given the indiscernible impact of the current DSM treatment is not currently understood.
    - GSS ND: may consider a lower than average rate increase.

A PCOSS Should be Part of Every Rate Application Given Recent PUB Orders

- *A cost of service study is a basic and necessary tool used in ratemaking and the fundamental standard for. . .assessing a just and reasonab[le] rate.*

Transcript Page 760 – Derksen

Bipole III dwarfs other effects on the COSS

- *The in-service of Bipole III, the largest asset in Manitoba Hydro's history, will have profound impacts to cost of service given that it's nearly a $5 billion asset, given that it's a generation-related, and given that there is no offsetting incremental export revenue to mitigate its effects in cost of service.*

Transcript Page 761 – Derksen

- *It will dwarf any other cost changes in a . . . cost of service study. It's just that -- that big and it's . . . the magnitude of the cost, it's the type of the cost. It's . . .just so profound.*

Transcript Page 917-918 – Derksen and Peters.

See also Transcript Page 433-437 – Carriere and Hacault

- It brings residential ratepayers and GSL Large within the range of reasonableness PUB1-61.
- See also Transcript Page 403 – Carriere and Williams

While distribution investments will impact cost of service, these are much less impactful

- Bipole III, which is a generation-related asset for cost of service purposes, represents a 67 percent increase in generation-related investment compared to about a 17 percent increase related to distribution investment.

Transcript Page 764-765 – Derksen

An across the board rate increase is recommended except for GSS ND

- *what we did is look over the course of a number of cost of service studies going back a 5 decade, and this class is persistently outside the of zone a reasonableness. And even once you layer in Bipole III, it continues to be outside the zone of reasonableness. And, on that basis, we suggest that there may be some movement for the PUB to differentiate rates for that class by applying something lesser than an average rate increase.*

Transcript Page 767 – Derksen.

See also Transcript Page 915-916 – Derksen and Peters

There is no cost of service basis to freeze FNOR rates

- *Finally, we conclude that there is no cost of service basis to freeze rates for First Nations on reserve or diesel residential customers.*

Transcript Page 767-769 – Derksen

- *We looked very narrowly from a cost to serve perspective, and recognized that there are policy considerations beyond the cost to serve that this Board may take . . . into account to determine rates that are just and reasonable at the end of the day.*

Transcript Page 773 – Derksen and Shefman

- *The spirit of this class is not to isolate the cost to serve based on traditional cost characteristics associated with the class's energy, a class's demand and customer numbers. Rather, this class was created flowing from a public policy decision of this Board to begin addressing matters of bill affordability. So I don't agree that it is appropriate to apply traditional cost of service principles for purposes of rate differentiation to a class which has been created as a result of a social policy decision.*

Transcript Page 767-769 – Derksen

Within a Range of Reasonableness – customers are assumed to be paying their costs

- MS. KELLY DERKSEN: *Yes. A zone of reasonableness is also called a range of reasonableness, which is how I actually prefer to call it. And it's called a . . . range of reasonableness for a reason. It's saying that those customers . . . because cost of service is not exact. . . there's not one (1) true answer.*
- *Unity isn't better than someone's RCC who is 99 percent or [a] class . .. RCC that's 105 percent*

Transcript Page 926-929 – Derksen and Peters

- MS. KELLY DERKSEN: … there is no distinction to be -- to be drawn amongst RCCs of those customer classes that are within the zone of reasonableness.

Transcript Page 930 – Derksen

A review of rate-making principles is recommended

- Manitoba Hydro should re-examine its goals and objectives of rate making as part of its corporate strategic plan
- Social policy has become an issue that is more important to this regulator by virtue of Order 59/'18. The issue of social rate making or social goals doesn't even appear in Manitoba 6 Hydro's rate making objectives.
- We also have to be very careful in terms of the -- the tightness of the zone of reasonableness that exists.

Transcript Page 950-953 – Derksen and Peters

There is a Role for Interveners in Compliance Filing

- *if you're working . . . through a particular hearing, you're there, you're involved in 95 percent of it, and then the last piece happens, the order and the compliance filing, and then maybe several months later you come back and you . . . don't have an understanding of how the -- the last process ended. . .. I think it would be more efficient if Intervenors were there to help -- to help. They could point out issues. Intervenors always have been available to turn things around on a quick basis. . . . So that's the spirit of the recommendations -- if you know . . . how the last one ended, you're in a much better positioned to start the next one.*

Transcript Page 956-967 – Rainkie and Peters

Consumer Coalition Recommendations Regarding Cost Allocation and Rate Setting

- Any rate increase granted should be across the board with the exception of GSS ND which should receive a smaller than average rate increase
- The cost of any lower than average rate increase should be borne by all classes with the range of reasonableness as well as the ARL class
- Updated PCOSS for next GRA (and subsequent GRAs) – cost of service by class is a basic and necessary tool used in ratemaking.
- A review of Hydro ratemaking policy should be directed with a report back following the determination of any currently pending Court of Appeal matters
- Interveners should be involved in the compliance process recognizing the challenges of timeliness

Recognition of ongoing serious challenges on reserve

- Consumers Coalition recognizes ongoing challenges with respect to energy poverty on First Nations.

See AMC-3, Raphals evidence and

2017 REUS Attachment 1 to AMC/MH I-7

- High numbers of arrears and disconnections (Transcript Page 500-501), no access to natural gas (Transcript Page 503-504)

BUT recognition that other low-income consumers also face significant challenges

- Consumers Coalition also recognizes challenges for low-income consumers generally with respect to energy poverty

2017 REUS – Attachment 1 to AMC/MH I-7

Some residential consumers are reducing their spending on food and clothing to pay for their energy bills (Transcript Page 364-368)

Other consumers pick up the bill if FNOR rates are frozen

- MH must be kept whole: if the FNOR class does not receive a rate increase, all other residential consumers will get a slightly higher rate increase, including those low-income consumers who face similar challenges with respect to energy poverty
- MR. SENWUNG LUK: *Okay. Thank you. Now, even if the 3.5 percent rate increase was not granted for the FNOR, what I'll call the FNOR class, the First Nations on reserve class, if -- if it was not granted to that class, as long as that -- the burden of that 1.4 million was shared by other ratepayers, Manitoba Hydro would be kept whole. Is that fair?*
- MS. LIZ CARRIERE: *Yes. But in order to get the full $50 million revenue require -- or additional revenue requirement, we would have to recover those from other rate classes, yes.*

Transcript Page 530 – Carriere and Luk

Government is best placed to address energy poverty

- Consistent with its recommendation from the last GRA, the Consumers Coalition is of the view that government is best placed to address energy poverty through taxpayer-funded programs, given impacts of ratepayer-funded programs on those who do not qualify or do not participate
  - Closing arguments of Consumers Coalition in 2017/18 & 2018/19 GRA, slide 187:
    - Rejection of a ratepayer-funded bill assistance program.
      - PUB should recommend to government that a taxpayer-funded program to address energy poverty be established.

Conclusion - The 59/18 Alternative is Preferred

- While MH automatically goes to customers when they need cash, the PUB appears to have clarified that its job is to give MH the love they need when they need it, and no more – PUB Order 59/18
- The 59/18 alternative provides an opportunity for the PUB to build on Order 59/18 and help MH set out its path forward, based on risk analysis and reducing controllable costs

THANK YOU!