The Consumers Coalition Position on an Oral Hearing

Overview

The Consumers Coalition recommends an oral hearing take place given:

i. the magnitude of the rate increase sought by Manitoba Hydro (MH);
ii. the $92 M swing in circumstances since the original application and the shifting sands of justification in support of the rate increase;
iii. the weak evidentiary underpinning for the PUB deliberations including the absence of an Integrated Financial Forecast (IFF);
iv. material differences in the evidence on the appropriate rate setting framework advanced by MH as compared to witnesses for the Consumers Coalition (CC) and the Manitoba Industrial Power Users Group (MIPUG);
v. material differences in the recommended rate between MH as compared to witnesses for the CC and MIPUG;
vi. material outstanding issues related to the evidence including a $22 M difference in perspective on appropriate O&A costs between MH and the CC witnesses;
vii. the need for a mechanism to test any rebuttal evidence proposed by MH; and,
viii. the public interest in a transparent rate setting process in which material rate increases are tested in a live forum where Manitobans can observe and participate.

Background

Assuming a June 1, 2019 starting date, MH seeks a $50 M rate increase for the 2019/20 fiscal year with an estimated NPV of $600 M.[1] Since the filing of the original rate application, there has been a $92 million improvement in the updated projected financial results for 2019/20.[2] Contrary to long standing regulatory practice, no IFF has been filed in support of the plan.

Distinct Evidence regarding the Rate Setting Framework

Manitoba Hydro appears to be employing a modified cost of service rate setting analysis despite its failure to file an IFF.[3] The MH application focuses on the overall level of retained earnings and appears to disregard its 3 traditional key financial indicators.[4] It also appears to disregard PUB guidance in *Order 59/19* regarding the treatment of risk for rate setting purposes as well as the necessity of increased vigilance over costs.

Recognizing "it is not possible for the PUB to use the modified cost of service rate-setting framework to set rates for 2019/20 in the absence of a reliable and updated long-term financial forecast",[5] witnesses for the CC place heavy reliance on the direction of the PUB in *Order 59/*19 regarding balance, cost control and risk while addressing the 3 traditional financial indicators of MH.[6]

Witnesses for MIPUG note that "there is no empirical or sensible way to assess Hydro's proposal on a one-year basis" without a detailed understanding for the long-term financial considerations and risks. In

1 PUB I-62 b).
2 Rainkie et al, 6.
3 Rainkie et al, 47.
4 Rainkie et al, 33.
5 Rainkie et al, 7.
6 Rainkie et al, 7-8, 10 and 61.

contrast to the MH focus on retained earnings, they observe “it becomes increasingly an item of debate as to when reserves have reached a sufficiently high level that there is little to no further benefit to customers to keep adding to reserves (through additional net income).”[7] They also note a number of positive developments in the longer term horizon for Manitoba Hydro.[8]

Evidence regarding Appropriate Rate Increase and Deferral Account

MH recommends a 3.5% rate increase. Witnesses for the CC recommend a 1.5% rate increase with no recommendation for a deferral account.[9] Witnesses for MIPUG indicate that “an inflationary increase at no higher than 1.5% should not be taken lightly”. They suggest that should the Board “view 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.”[10]

Recommended Priority Issues to be Examined in the Oral Rate Setting Hearing

1) The accuracy of Hydro's claim that its financial position has materially deteriorated;[11]

2) Whether, in the absence of an IFF and historic variations between IFFs, it is appropriate to use MH Exhibit #93 to apply a modified cost of service rate-setting framework for the 2019/20 rate;

3) Which O and A target is consistent with the record of this proceeding and the intent of *Order 59/19* - the $511 M proposed by MH or the $489 M proposed by the CC witnesses;[12]

4) An update of 2019/20 Net Export Revenues (NER) based on March 31, 2019 water flow conditions[13] as well as any update to 2018/19 Revenues flowing from colder than expected weather post-December 2018;

5) The potential for positive upside on the 2019/20 Finance Expense due to further underspending in major capital projects and Business Operational Capital;[14]

6) The inconsistency of Hydro's view that it now needs $115 million net income in 2019/20 to protect from the impacts of potential downside risks with the PUB findings from *Order 59/18* with respect to how risks should be addressed in rate setting;

7) The implications for rate setting that an in-service Bipole 3 will have on the next PCOSS - with the best available information on the current record bringing both the Residential and GSL classes RCCs into the ZOR.[15]

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7 Bowman, 10.
8 Bowman, 3-4.
9 Rainkie et al, 10.
10 Bowman, 26.
11 Rainkie et al, 44.
12 Rainkie et al, 80.The projected O&A costs was the only line item in the projected revenue requirements for 2018/19 and 2019/20 that was not adjusted in the updated application filed on February 14, 2019 (other than the Bipole III reserve account). The last time that the detailed O&A budgets were reviewed by the PUB in a comprehensive oral hearing process was part of the 2014/15 & 2015/16 GRA in May and June of 2015, almost four years ago. (Rainkie et al, 77)
13 Coalition/MH 25.
14 Rainkie et al, 72.
15 PUB MH 61 a).