



April 21, 2023

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The Public Utilities Board of Manitoba
400 – 330 Portage Avenue
Winnipeg, MB R3C 0C4

Attention: Dr. Darren Christle, Executive Director and Board Secretary

Dear Dr. Christle:

Re: Consumers Coalition Comments – Offsetting 2022/23 Net Income Against RDA Balances

In response to the Public Utilities Board's ("PUB") invitation in Order 42/23, the below comments regarding Recommendation No. 4 from the Pre-Filed Testimony of Mr. Patrick Bowman are provided on behalf of the Consumers Coalition.

The Consumers Coalition finds that it is not appropriate to write off Board-approved regulatory deferral accounts (RDAs) against 2022/23 net income. The Coalition recommends that Recommendation #4 in the evidence of Mr. Bowman filed on behalf of MIPUG not be adopted by the Board.

First, the proposal requires a departure from the principled use of RDAs consistently applied by the Board in past practice. Second, due to this proposal having arisen through intervenor evidence, there is insufficient information on the record about its potential impacts on residential ratepayers to adequately inform evidence-based decision-making. Finally, despite the lack of opportunity to canvass the impacts through information requests asked of Manitoba Hydro, the Coalition identifies a reasonable likelihood of direct and detrimental impacts on the



residential customer class through future differentiated rates. Each of these matters will be discussed below in turn.

Bowman Recommendation #4

As explained in section 3.2 of Mr. Bowman’s evidence, the proposal under consideration is to write off to income in 2022/23 approximately \$382 million in costs associated with the planning of the Conawapa Generating Station, losses on the retirement of generating station assets including the Selkirk Generating Station, and asset removal costs associated with the corporation’s transition to IFRS.

These costs are presently subjected to regulatory deferral, with the substantial majority (approximately \$316 million in Conawapa planning costs) having approximately 25 years of amortization remaining.

Mr. Bowman views Manitoba Hydro’s unprecedented net income in 2022/23 as presenting a unique opportunity to dispose of these costs. He explains that taking advantage of this opportunity is prudent because these costs “do not represent any enduring value to ratepayers.”¹

If endorsed by the Board, an Order respecting the treatment of these RDAs would need to be issued by the Board before June 7, 2023.² It is also the Coalition’s understanding that writing these costs off to income in 2022/23 would not lead to a reduction in Manitoba Hydro’s revenue requirement or overall rate request in the present application and would have negligible effects on Manitoba Hydro’s proposed future rate path.³

Regulatory Principles Justifying Deferral Continue to Apply

The deferral of costs is an integral element of setting just and reasonable rates. It is a direct product of the regulatory principles of intergenerational equity and matching as applied by the PUB,⁴ and as noted by Manitoba Hydro, is also relevant to rate smoothing.⁵ These principles were applied in the creation of Board-approved RDAs and call for the continued deferral and

¹ Pre-Filed Testimony of Patrick Bowman (April, 3 2023) at page 22.

² PUB Order 42/23 at page 7.

³ PUB/MH I-33(b).

⁴ Manitoba Public Utilities Board, “Regulatory Principles” (undated), online: <http://www.pubmanitoba.ca/v1/about-pub/regulatoryprinciples.html>.

⁵ Manitoba Hydro 2023/24 & 2024/25 General Rate Application, Appendix 4.3 at page 7.



amortization of the costs in question here. Further, departing from these principles creates risk of uncertainty and inconsistency in Manitoba Hydro’s treatment of costs, which will be of concern to present and future regulatory processes.

Using the Conawapa planning costs as an illustrative example, the Board found in Order 59/18 that the deferral of Conawapa planning costs and the amortization of these costs for ratesetting purposes was consistent with its regulatory principles and contributed to rate smoothing. The Board noted that this treatment of these costs was “appropriate because the decision to discontinue Conawapa construction was part of the NFAT review of the Utility’s long-term system planning for long-lived assets.”⁶

For this reason, the Consumers Coalition strongly disagrees with Mr. Bowman’s assertion that these costs represent no “enduring value” for ratepayers. The decisions flowing from the NFAT review process were made with a view to achieving “the best long-term interest[s] of the Province of Manitoba”,⁷ and this included decisions both to pursue and not pursue certain projects.

The proposed Conawapa Generating Station was not considered in isolation from other proposed developments, and the decision to halt the project continues to affect ratepayers in the same manner as the accompanying decision that allowed Keeyask to proceed. Just as future ratepayers would have shared in the costs and benefits of Conawapa had it been built, the Board elected in Order 59/18 to ensure that they would also share in the risk undertaken by the corporation by investing in the project’s planning phase.

The regulatory principles cited above called for the deferral of these costs for ratesetting purposes to align the time period of expenditures with the ratepayers who should equitably be responsible to pay for them. Ratepayers and regulated entities require certainty which can only be provided through consistent actions by regulators. Manitoba Hydro’s anomalous 2022/23 net income is no justification for abandonment of these principles and does not support the writing off of these costs to income.

⁶ PUB Order 59/18 at page 149.

⁷ Public Utilities Board, “Report on the Needs For and Alternatives To Review of Manitoba Hydro’s Preferred Development Plan” (June 2014) at 18.



Insufficient Information to Assess Impacts

Due to this recommendation having formally arisen through intervenor evidence, neither the PUB nor Interveners have had an opportunity to canvass its potential effects through information requests asked of Manitoba Hydro. Due to the time-sensitive nature of the proposal, parties will also not have an opportunity to obtain necessary certainty through cross-examination during the hearing.⁸

The Consumers Coalition cannot endorse this proposal without this necessary clarity, particularly regarding its potential effect on differentiated rates as described in greater detail below.

Risks for Residential Ratepayers through Differentiated Rates

While the effects of the proposal in question are not certain and cannot be clarified through information requests to Manitoba Hydro, the Consumers Coalition identifies a reasonable likelihood that writing off these deferred costs to income will have a detrimental effect on residential ratepayers through rates.

The Consumers Coalition assumes that the costs associated with Conawapa and the retirement of Selkirk and other Generating Station assets have to date been treated as Generation costs for the purpose of Manitoba Hydro's cost of service study. The Coalition also understands Generation costs to be weighted more heavily (i.e. forms a greater portion of allocated costs) to the General Service Large customer classes than to residential ratepayers. Conversely, net income is a cost allocated on Manitoba Hydro's total rate base, including distribution investment, the costs of which impact the Residential class more heavily (compared to GSL classes).

Writing off deferred Generation expenses to net income will serve, in each of the years remaining in the current amortization periods, to reduce costs associated with Generation and create an equivalent implicit increase in net income, all else equal.⁹

The Consumers Coalition expects that for the purpose of future differentiated rate proposals, the end result of Mr. Bowman's Recommendation #4 will reduce costs that are weighted more

⁸ The Consumers Coalition notes that cross-examination alone is unlikely to yield the information required, which would include modeling of the impacts on rate differentiation throughout the Conawapa amortization period.

⁹ PUB/MH I-33(b).



heavily to the General Service Large classes. The increase in net income will then be shared among customer classes but will impact the Residential class most significantly, resulting in a net benefit to General Service Large and a detriment to residential ratepayers in every year that remains in the currently-approved amortization period.

While these effects cannot presently be quantified, the Consumers Coalition finds them reasonably likely to occur based on the assumptions stated above. Due to the risks posed specifically for residential ratepayers, the Consumers Coalition cannot endorse the proposal under consideration.

Conclusion

In deferring costs for ratesetting purposes, the PUB has previously applied the regulatory principles underlying just and reasonable rates to ensure certainty, fairness and equity for regulated entities and their customers.

While Manitoba Hydro and the PUB are presented with a unique opportunity to respond to the corporation's unprecedented net income, departing from the tested principles underlying regulatory deferral cannot be justified by anomalous financial circumstances.

Regulatory principles call for the continued deferral of the costs in question, and consistent application of these principles is in the best interests of all stakeholders. Further, neither the PUB nor interveners have sufficient information to confidently make an evidence-based decision to depart from past practice. However, despite uncertainty, there is reasonable risk of long-lasting negative impacts on residential ratepayers, Manitoba Hydro's largest customer class.

The RDAs associated with Conawapa planning costs, the retirement of Selkirk and other Generation assets, and asset removal following the transition to IFRS should not be written off to income in 2022/23, nor should the contents of other Board-approved RDAs.

The Consumers Coalition thanks the Board for its consideration of these comments.



Chris Klassen
Attorney*

*Chris is an independent lawyer retained by the Public Interest Law Centre in this matter.



cc: Manitoba Hydro
PUB Counsel
Manitoba Hydro 2023/24 & 2024/25 GRA Registered Interveners



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