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By email, original to follow by mail

Public Utilities Board
400-330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

Attention: Rachel McMillin, Associate Secretary

Dear Sirs/Mesdames:

Re: Manitoba Hydro 2023/24
 and 2024/25 General Rate Application
 April 6, 2023 Prehearing
 Our Matter No. 0194440 AFH

The Manitoba Industrial Power Users Group ("MIPUG") submits the following comments in support of submissions to be made April 6, 2023 to the Manitoba Public Utilities Board ("Board") in respect of the Manitoba Hydro ("Hydro") 2023/24 and 2024/25 General Rate Application ("GRA").

MATTERS IN SCOPE FOR ORAL HEARING

O&M, Sustaining Capital, Reliability, and Customer Service Responsiveness

Industrial customers have consistently indicated to the Board that their primary concern is achieving stable and predictable rates, and reliable service which includes good power quality (e.g., voltage fluctuations) and responsive customer service and connection times. Only if these criteria are met does the focus turn to achieving the lowest rates reasonably consistent with these objectives. It is far more costly to industrial customers to be delayed in getting their new service connected, or to suffer from outages, or voltage instability, or other power quality issues that arise, than it is beneficial to have the lowest rates.

It should be noted that contrary to some of the evidence provided in the proceeding, the experience of industrial customers is that reliability, power quality, and customer service responsiveness have declined in recent years. This is a top concern for large customers, and is a matter that requires exploration in the oral proceeding.

In this proceeding, the industrial customers have proffered the evidence of Mr. Bowman that highlights general support for the overall level of increases proposed by Hydro, based largely on the spending forecasts prepared by Hydro in the Financial Forecast Scenario (“FFS”). The MIPUG evidence indicates that, on the basis of Hydro’s forecasts, the overall proposed rate increases are reasonable.

However, MIPUG also takes note of evidence filed by the small commercial intervenor (“GSS-GSM”), and the Consumers Coalition (“Coalition”) that challenges aspects of Hydro’s forecast related to operating and maintenance costs, and spending on normal sustaining capital. Pursuant to general coordination between the intervening parties, these are areas where the Coalition and GSS-GSM were to take the lead. As a result, the industrial customers have not called their own evidence, nor have they reviewed in the same detail, evidence from Hydro in these areas.

If the evidence from the other intervening parties is sustained, it remains possible that the industrial customers may conclude that the broad financial forecast performance outlined in Hydro’s financial forecast (and supported in Mr. Bowman’s evidence), can be achieved with a rate increase overall that is less than 2%. However, in no way should the proposals for lower overall rate increases be accepted if the level of these increases is undermining a regime of stable and predictable rates, and more importantly, in any way that accelerates the erosion that customers are experiencing in Hydro’s reliability, power quality, and customer responsiveness.

For this reason, at the outset, MIPUG is highly concerned with the evidence of the Coalition and GSS-GSM in respect of O&M and sustaining capital spending¹. MIPUG sees a need for thorough testing of proposals to cut O&M and sustaining capital, to ensure that these will not come at the expense of reliability. The matters that MIPUG recommends being in scope for this proceeding relate to this balance.

At the same time, it appears that increases to Hydro’s operating costs and sustaining capital may be driven by corporate strategy, and not by core utility requirements regarding reliability. Thorough testing of Hydro’s forecast for operating and maintenance costs and sustaining capital, and intervenor proposals to reduce spending these areas, is required through a lens of impacts on reliability, customer service, the timeliness of new connections, and the impact on stable and predictable rates.

¹ Board Order 130/22 indicated that parties should notify the Board if parties have differing perspectives on common issues, at page 16.

It is also noted that under Bill 36, this is the last proceeding under which the Board may have the jurisdiction to provide detailed review and commentary on capital spending (*Manitoba Hydro Act*, s. 39(5)(3)) and operating and maintenance costs (s. 39(7)). For this reason, testing on these matters in the hearing should be thorough, and included in the oral section.

System Resources/Exports/Relative Balance of Demand and Energy Needs, Availability and Cost

The overall financial condition of Hydro, as set out in the FFS, is dependent on the relative balance of load and supply, including the evolving balance between energy and demand. Changes in the relative forecast costs and availability of resources to meet energy and demand also underpin Hydro's rate proposals and the need for good price signals to customers. Further, spending on energy efficiency, focused primarily on energy, but only to a much smaller degree demand, are becoming increasingly delinked from the system needs.

It is not yet known what aspects of this issue may be addressed by Daymark as it reviews the export market opportunities and prices, but these forecasts too reflect evolving energy industry positioning relative to energy and demand.

While the Hydro Integrated Resource Plan ("IRP") is out of scope, and is not yet ready for testing, the present utility positioning in respect of resource needs (as reflected in the FFS) and price signals (as reflected in rate proposals, and further directions required regarding future rate design evolution) requires attention at this time in the oral portion of the proceeding.

Bill 36 (The *Manitoba Hydro Amendment and Public Utilities Board Amendment Act*), Financial Targets and Uncertainty Analysis

The evidence filed by Hydro and various intervenors take materially different perspectives with respect to Bill 36. MIPUG has assumed that Bill 36 is not strictly applicable to rate setting in this proceeding, but it is the law of the province, and must be taken into account in assessing the Financial Forecast Scenario ("FFS"). Other parties appear to assume that Bill 36 being not operative at this time suggests the requirements under the Act should not be taken into account in reviewing the long-term forecast. The different interpretations reflect divergence on the manner in which Bill 36 is to be interpreted. In order to arrive at a credible rate proposal and long-term forecast, resolution of this matter appears to be required.

In respect of financial targets, Bill 36 prescribes certain long-term debt:equity ratios, but provides little guidance on interim targets except that rates are to be

generally stable and predictable (*Manitoba Hydro Act*, s. 39.1(1)(d)). Testing of the application of these principles, including the role and use of other financial targets outside of debt:equity is merited.

Further, the lack of an updated uncertainty analysis prevents probabilistic and risk-based assessments of the likelihood of achieving financial targets. It is important that the Board address the need and benefits of probabilistic forecasting and receive oral testimony regarding how and why this analysis is critical to future rate proceedings, especially under Bill 36.

Depreciation

The topic of depreciation appears to be potentially the most complicated and wide-ranging technical evidence that the Board will receive. The impacts of the decisions in this proceeding are likely to be material and long-lasting, and relate to a lengthy record of evidence and interim decisions covering over a decade.

At the same time, it is possible there are considerable areas of potential agreement among the parties, if an appropriate forum is available to explore technical topics.

Full adversarial testing of all areas covered in the Application, IRs and evidence will require extensive cross-examination and multiple witnesses. An additional complication is the need to address specifics of claims regarding IFRS requirements, which is an accounting expertise that is not generally possessed by most independent depreciation experts in the proceeding, with the exception of Mr. Madsen (none of Mr. Bowman, Mr. Watson or Mr. Kennedy are accountants; Mr. Rainkie's evidence is limited to depreciation deferral accounts).

It is not clear to MIPUG the best approach to proceeding with this topic. Obviously, the scale of impacts merits attention in the oral portion of the proceeding. At the same time, absent careful scoping of the topic, it is possible depreciation could overtake the hearing time and process available. It is possible further discussion among counsel is required to carefully scope and expedite the hearing focus, before recommendations for an efficient process can be developed.

The Board may also wish to allow for discussion among counsel with respect to the merit having all independent expert evidence on depreciation adduced and tested as a distinct portion of the hearing (Hot tubbing of experts).

Finalization of the Interim 3.6% Rate Increase, and Hydraulic Generation Forecasts

To date, the Board has issued only interim approvals on the 3.6% rate increase necessitated by the 2021 drought conditions. That decision was driven by evidence of Hydro relying on hydraulic forecasting methodologies, assumptions regarding risks, and the appropriate balance between rate increases and reserves.

It is important for the overall regulatory framework in Manitoba that interim increases are later properly confirmed by the Board, based on review of the facts underlying the decision. This matter merits attention in the oral portion of the hearing.

Cost of Service and Differential Rate Increases

The evidence provided by MIPUG addresses a number of proposed required revisions to the Prospective Cost of Service Study (“PCOSS”) methodology to reflect facts that have changed since the last PCOSS methodology review seven years ago. Hydro has also provided limited methodology recommendations. No other party has provided methodology recommendations. This matter appears well suited to written evidence and submissions.

Many relatively minor rate design proposals have been included in the hearing that are not opposed in intervenor evidence. This includes Curtailable Service, Surplus Energy, LED Lighting, GSS-GSM redesign. These topics appear well suited to written evidence and submissions.

The redesign of the large industrial rates (GSL >100 kV and GSL 30-100 kV) to rebalance energy and demand will be the subject of presentations by industrial customers. The Board should engage on the questions of customer impact. This can be addressed either in writing or orally.

The Hydro Application proposes differential rate increases that lead to significant departure from previous Board Directives regarding rate rebalancing between classes. MIPUG considers that the issue of differential rate increases merits attention in an oral proceeding.

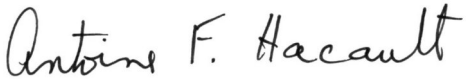
ADDITIONAL PROCEDURAL COMMENTS

Mr. Bowman’s Recommendation 4 addresses approvals that, in order to be of effect, must be issued by the Board prior to Hydro’s finalization of the 2022/23 financial year. The issues were originally raised in Information Requests from numerous parties. In its answers to those queries, Hydro has not, to our knowledge, put a firm date on when such Orders would be required. MIPUG seeks confirmation from Hydro and Board as to how these matters may be dealt with in a timely way.

In review of Mr. Bowman's evidence, it is noted that one footnote was omitted, related to Revenue:Cost Ratios over time. MIPUG will file errata to provide that footnote in the next few days.

Yours truly,

THOMPSON DORFMAN SWEATMAN LLP

Per: 
Antoine F. Hacault*

AFH

cc: Board Counsel (all via e-mail)
Manitoba Hydro, Interveners

*Services provided through A. F. Hacault Law Corporation