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March 28, 2017

Mr. Darren Christle  
Executive Director  
Public Utilities Board of Manitoba  
330 Portage Avenue  
Winnipeg, MB R3C 0C4

*Delivered via email*

Dear Sir:

**Re: Manitoba Hydro 2017 General Rate Applications – Letter of  
Manitoba Hydro dated March 24, 2017**

The Consumers Coalition<sup>1</sup> has received a copy of Manitoba Hydro's March 24, 2017 letter in which the Crown monopoly sets out its plans regarding the filing of a General Rate Application (GRA), as well as certain elements of its proposed procedure for the hearing.

The Coalition would appreciate the opportunity to comment on the specifics of Hydro's procedural recommendations. It awaits direction from the Public Utilities Board (PUB) on the appropriate time to share its views.

However, our clients have expressly asked us to underscore their perspective that the pending rate application is of critical importance to all Manitoba consumers especially in light of recently disclosed adverse developments with capital projects, as well as incendiary comments made to the Manitoba media about potential rate increases.

At a time when Manitoba consumers and businesses are demanding to understand what is happening with major capital projects and the implications of these projects on the bills they pay, the Coalition believes it is important to highlight its commitment to a robust regulatory process as a primary safeguard to all Manitoba consumers, including the most vulnerable.

In particular, the Coalition has asked us to focus on two key points:

**1) The pressures facing Manitoba ratepayers are a product of unreasonable actions by MB Hydro, not the regulatory system** – A first time reviewer of Hydro's March 24, 2017 letter might conclude that burdens from the regulatory process are at the roots of the rate pressures that Manitoba consumers have faced in recent years and are likely to face in future years.

However, a dispassionate review of the evidence would suggest the primary causes of the challenges faced by consumers and the monopoly are:

- excessive risk taking in capital expenditures by MB Hydro at a time of significant economic uncertainty, especially in the US marketplace;

<sup>1</sup> Winnipeg Harvest and the Consumers' Association of Canada, Manitoba Branch.



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- material forecasting challenges by the Corporation with regard to export prices, capital expenditures and domestic load;
- an imprudent magnitude of expenditures on Keeyask and Bipole III prior to the NFAT process, which had the practical effect of biasing the NFAT deliberations in favour of Keeyask pathways;<sup>2</sup> and
- a failure to undertake integrated resource planning by the Corporation leading to an earlier than necessary need date for new generation and lost opportunities on demand side management as well as non-Hydro alternatives.

For much of the past decade, it has been the Public Utilities Board through the regulatory process as well as certain intervenors including the Coalition,<sup>3</sup> who have raised the red flag relating to excessive and unnecessary risk taken by the Crown monopoly.

Put bluntly, it has been the actions of MB Hydro that have imposed excessive risks and rates upon Manitoba consumers and the regulatory process that has been a primary means for defending consumer interests.

**2) There is a risk that alleged “efficiency” arguments may inadvertently immunize MB Hydro from effective regulatory oversight** – A second overarching concern of our client is that process arguments may inadvertently assist in immunizing the Crown monopoly from effective regulatory oversight.

A recent example of how process arguments serve to shield the Crown monopoly was during the 2014/15 GRA pre-hearing process in which MB Hydro successfully opposed efforts by CAC Manitoba to present an expert witness focused on the bias in the Crown monopoly's interest rate forecasts.

As the Board will recall, MB Hydro presented interest expense forecasts in that proceeding which were roughly \$700 M higher over a decade as compared to the Integrated Financial Forecast of the Corporation provided a few months after the GRA was completed. In the absence of contradictory expert opinion, the regulator lacked the evidence to adjust a significantly overstated expense line.

The Coalition would caution that so called efficiency recommendations of MB Hydro may have the counter productive impact of denying the regulator and consumers vital information and shielding the Crown monopoly from effective oversight.

Given Hydro's monopoly over the retail sale of power in Manitoba, Manitoba consumers depend on the regulatory process both to defend their interests and to provide them with vital information about what has gone right, as well as what has gone wrong with their Crown corporation.

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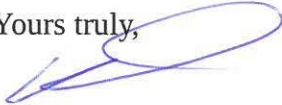
2 Because pre-NFAT expenditures on Bipole III and Keeyask were already sunk, they were excluded from certain economic evaluations with a resultant understatement of the costs of pathways which included Keeyask.

3 CAC MB participated in the NFAT as well as in CEC proceedings relating to Keeyask and Bipole III. In all three processes, CAC MB recommended that the proposed projects including Bipole III and Keeyask not be approved at this time.

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Thank you for your consideration of these comments.

Yours truly,



BYRON WILLIAMS  
DIRECTOR

BW/km

cc The Coalition  
MB Hydro  
Registered Intervenors from the NFAT and 2014/15 GRA Process  
PUB legal advisors

