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September 18, 2017

Kevin T. Williams
Taylor McCaffrey LLP
900-400 St. Mary Avenue
Winnipeg, MB R3C 4K5

Delivered via email
kwilliams@tmlawyers.com

Dear Mr. Williams:

Re: Request for Information on Proposed Evidence

Thank you for your letter of September 14, 2017.

My understanding is that you are considering the merits of challenging a PUB decision relating to your proposed intervention. You have asked Intervenor to share their intention in terms of evidence as it may relate to Hydro's financial targets including broader implications for the Province of Manitoba.

Given that our legal team is facing a number of court and regulatory deadlines over the next two weeks, our response will be relatively brief. However, if you require additional details, or you wish to explore discussions with our experts, you are more than welcome to telephone me at 204-985-8533 or 204-668-4921 or to review the Intervenor application of the Consumers Coalition.

Witness Search and Witness Retainers

As you may be aware, in January through April 2017, our client undertook an extensive search for potential expert witnesses relating to the proposed financial targets of Manitoba Hydro and the broader implications of the proposed Hydro rate increases on Manitoba. After extensive discussions with a number of potential witnesses, our client ultimately selected Mr. Pelino Colaiacovo to provide evidence relating to Hydro's financial targets, and Dr. Wayne Simpson and Dr. Janice Compton on issues relating to the implications of rate increases on the Manitoba economy.

These witnesses were retained with a reminder that "Your duty in providing assistance and giving evidence is to help the Public Utilities Board. This duty overrides any obligation to the Consumers Coalition."

Mr. Colaiacovo's Current Scope of Work

As you will know, Mr. Colaiacovo is part of an investment banking firm. He has extensive insight into the energy industry as well as issues related to the financial marketplace. He has shared this expertise with industry, government and regulatory bodies on numerous occasions.

In reviewing your questions, they appear to be generally consistent in content

with the questions we understand Mr. Colaiacovo will address.

Among the issues that he will canvas are:

- Taking into account regulatory principles, the legislative framework and North American good practice, what are the appropriate ratemaking considerations for an entity such as Manitoba Hydro?
- Given the capital intensive nature of Manitoba Hydro's activities, what is the significance of debt to its historic, current and future operations?
- From the perspective of financial markets, what are the key considerations in measuring the likelihood that the Province of Manitoba (and by implication Manitoba Hydro) will be able to meet its debt obligations?
- From the perspective of financial markets, what are the important considerations relating to Manitoba Hydro as they may inform the Provincial credit rating? What are the implications of Manitoba Hydro's current financial status and risks (including the risk of material, unforecasted adverse events) on the Provincial credit rating?
- What are the implications of the current state of the energy marketplace in North America for the operations of Manitoba Hydro?
- What are Manitoba Hydro's current financial targets? What are the insights and limitations of the KPMG review of financial targets? What are the insights, benefits and limitations of credit rating agency reports?
- What are the appropriate financial targets and tools for an entity such as Manitoba Hydro?
- How should appropriate financial targets be integrated into the rate setting process in a manner that appropriately balances the interests of the Corporation, consumers, and the Province of Manitoba as guarantor of the Corporation's debt?
- What are the implications of Hydro's proposal with regard to the weighted average term to maturity of MH's new debt issuance?

As you will be aware, the determination of an appropriate overall rate increase is the function of an analysis of the entire record including the reasonableness of current forecasts, the necessity and prudence of forecast expenditures and the overall well-being of the corporation taking into account the public interest.¹ In my respectful view, it would be premature to ask an

¹ PUB Order 5/12, p 26/27.

expert charged with only part of the analysis to pronounce an opinion on an appropriate rate indication without a better understanding of the entire record.

Dr. Compton and Dr. Simpson

As you may be aware, Dr. Compton and Dr. Simpson are well regarded experts in applied econometrics and applied micro-economics. They will examine the potential direct and indirect impact of the proposed Hydro rate increases on Manitoba consumers and firms. They will consider the implications of these proposed increases on electricity usage, total spending on electricity and the spending on other goods and services. They also will consider the implications, if any, on provincial GDP and employment.

Thank you for your consideration of these comments.

Yours truly,



BYRON WILLIAMS
DIRECTOR

BW/km

cc: Consumers Coalition
PUB Board Counsel
Intervenors on Record

