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24 July 2017

The Public Utilities Board of Manitoba
Attention: Mr. Kurt Simonsen
Associate Secretary
400-330 Portage Avenue
Winnipeg, MB R3C 0C4

Dear Mr. Simonsen:

Re: Response to Manitoba Hydro's Comments on Proposed Intervener Budgets

Thank you for this opportunity to respond on behalf of the Consumers Coalition to Manitoba Hydro's comments on proposed Intervener budgets, dated 21 July 2017.

Overall Consumers Coalition Budget

On page 2 of its comments of 21 July 2017, Manitoba Hydro states that the anticipated costs for intervention in the 2017/18 & 2018/19 General Rate Application ("GRA") are expected to be at the same level as those incurred during the 2014 Need For and Alternatives To ("NFAT") proceeding. The Consumers Coalition notes that the costs it has proposed for its intervention in the 2017/18 and 2018/19 GRA are projected to be well over \$300,000 **less** than it was awarded during the NFAT.¹

The overall budget presented by the Consumers Coalition in the current General Rate Application is consistent with the expected duration of the hearing and the breadth of challenging issues it proposes to undertake. As the Consumers Coalition demonstrated during the Cost of Service process, it is able to mount significant interventions at costs that are very competitive with other Interveners operating at a similar scale.²

As seen during the interim rate submissions, the Consumers Coalition is prepared to play a lead role in this proceeding in close collaboration with the Manitoba Industrial Power Users Group ("MIPUG"). The Board will have observed during the interim rate proceedings that the arguments presented by the Consumers Coalition and MIPUG were complimentary rather than duplicated. This reflects the efforts of these organizations to efficiently test

- ¹ See PUB Order 133/14, online: http://www.pubmanitoba.ca/v1/nfat/pdf/board_orders/133-14.pdf. Please note that during the NFAT, only the Manitoba Branch of the Consumers' Association of Canada was an Intervener as Winnipeg Harvest did not participate. In the NFAT, the Board approved a total cost award of \$924,155.29 to the Consumers' Association of Canada (Manitoba). This represented \$416,738.84 (over 2,200 hours) of legal costs and \$507,416.75 of consultants costs.
- ² The scale of the Consumer Coalition intervention was comparable to other interveners with costs being somewhat lower.

Manitoba Hydro's case.

The overall costs of Interveners is reflective of the scope of the process. As noted by Hydro, this hearing involves an expanded consideration of major capital issues pursuant to the mandate of the provincial government in Order in Council 92/2017. Additionally, there have been dramatic changes in forecast methodology and in the approach to financial targets in the current Manitoba Hydro application which invite vigorous challenge.

Finally, as made evident by the UMS report found in Appendix 5.1 to the Application, Manitoba Hydro is experiencing significant challenges in its management of its day to day capital expenditures. Given the major gaps identified by UMS as well as the dearth of support presented by Hydro for its test year sustaining capital expenditures, a significant investment of time is required for this issue.³ Recognizing that the Consumers Coalition has been focused for roughly a decade on this important issue, it is natural that it would invest a significant amount of time on this matter.

The anticipated total Intervener costs for the 2017/18 & 2018/19 GRA also reflects the context of the current Manitoba Hydro application where the utility is proposing rate shock level (7.9%) rate increases over a number of years. The potential impact of rate increases of this magnitude on Manitoba consumers has led to a larger number of Interveners in this process. When the increased number of Interveners is coupled with greater openness by the Board to funding certain types of Interveners, it is foreseeable that the costs of intervention in this proceeding would be significant.

The Consumers Coalition also notes that Manitoba Hydro spent \$4,345,528 (including taxes) on the report from the Boston Consulting Group, which was prepared at the end of 2016.⁴ This amount represents almost double the proposed combined costs of all Interveners in the 2017/18 & 2018/19 Electric GRA (which Manitoba Hydro notes is \$2,235,040). The report from Boston Consulting Group represents one expert report, whereas the costs for Interveners in the 2017/18 & 2018/19 GRA will produce a multitude of perspectives and expert evidence, with the goal of having a process that is robust, transparent and accountable to the provincial government and to all Manitoba consumers.

In response to Table 2 on page 3 of Manitoba Hydro's 21 July 2017 comments, while the Coalition included the total number of days for Morrison Park Advisors in its budget, a note was included both in the Overview and in the detailed table on Morrison Park Advisors,

3 UMS Group Report, "Asset Management Gap Assessment: Report of Findings to Manitoba Hydro", December 15, 2016, Appendix 5.1 of Manitoba Hydro GRA. Page 10 of the UMS Group Report found that, using a 0 to 4 scale where 0 = Innocence, 3 = Competence (in compliance with the standard) and 4 = Best Practice, overall, Hydro scored a 1.5 with the individual Business Unit Scores as follows: Generation Operations (GO) = 1.7, Transmission = 1.6, and Customer Service & Distribution (CS&D) = 1.3. Pages 10-11 of the UMS Group Report found that Manitoba Hydro is currently assessed at a Novice Asset Manager level, with the recommendations of the report aiming to take Hydro to a Competent level. Page 12 of the UMS Group Report found that Manitoba Hydro "is on the cusp of moving from the Novice to Competent state, a process which takes most companies 3-5 years."

4 Manitoba Hydro-Electric Board Boston Consulting Group (BCG) Engagement Details, November 3, 2016, online: https://www.hydro.mb.ca/corporate/news_media/pdf/boston-consulting-group-engagement-details.pdf

indicating that the Consumers Coalition would be sharing the cost of this Expert Consultant with MIPUG. This sharing of costs was reflected in the costs proposed in the Coalition's budget.

Hydro's comments regarding hourly rates, GST and issue leadership

At page 3 and 4 of its 21 July 2017 letter, Manitoba Hydro takes issue with the rates for certain Interveners being above the hourly tariff set out by the Board. Hydro does not acknowledge that three of the experts proposed by the Coalition are working at rates considerably below the tariff. Any assessment of the reasonableness of the hourly rates proposed by the Coalition should take into account the overall reasonableness of its budget.

In terms of Morrison Park, Hydro does deny the facts that:

- the rates proposed are consistent with those paid by the Board to Morrison Park during the Need for and Alternatives To ("NFAT") process;
- Morrison Park is the best firm for the job as acknowledged by the joint sponsorship of its evidence by the Consumers Coalition and the MIPUG; and,
- given the knowledge garnered Morrison Park during the NFAT process, the total budget estimate is comparable to or lower than other estimates received by the Consumers Coalition.

Taking a purposeful view of the process, the Consumers Coalition was faced with the choice of selecting the best witness for the issue at a total cost comparable to or lower than other estimates received or paying somewhat more in total costs for witnesses whose evidence might be less edifying.

In terms of METSCO, Manitoba Hydro mistakenly asserts that the firm entirely consists of engineering experts. The lead analyst of METSCO is Dr. Alexander Bakulev who holds a Ph.D in economics. The hourly rate quoted by METSCO of \$260 is consistent with the hourly rate they charge to the Ontario Energy Board. While we would recommend that hourly rate, the experts from METSCO have indicated that they are prepared to work at a rate of \$240 an hour should the Board determine that is more appropriate.

At page 4, Manitoba Hydro observes that the budgets for a number of consultants do not include GST. It should be noted that the Public Interest Law Centre is GST exempt and the experts retained by it are not charging GST.

At pages 2 and 3 of its 21 July 2017 letter, Manitoba Hydro also speaks to the issue of leadership. The Consumers Coalition believes the collaboration shown by all Interveners during the interim rate submission offers practical proof that Interveners are working to minimize duplication.

To the extent that numerous Interveners express interest in the same issues, such as rate impacts, this may be a reflection of the particular constituencies they represent or the

differences in perspective that they bring to different issues. For example, issues relating to rate design and bill affordability offer complex trade-offs between electric and all electric, low income and other as well as competing visions of efficiency and conservation. One could not reasonably reflect a single perspective or a single lead Intervener on issues of common concern that may invite competing or nuanced perspectives.

Consumer Engagement

On page 4, of its 21 July 2017 comments, Manitoba Hydro is critical of a budget item relating to consumer focus groups. Hydro fails to acknowledge that while direct consumer engagement through focus groups was included on the task list for the Bill Affordability Collaborative Process, it was never conducted. That by itself constitutes a gaping shortcoming in the Bill Affordability process and highlights the necessity of further engagement using modern social science techniques.

The use of focus groups is a qualitative research method, which significantly differs from comments sent in directly from consumers or presentations made to the PUB. While all three tools are valuable, the benefits of qualitative research methods, such as focus groups, were discussed in the Executive Summary of the Consumers Coalition pre-filed evidence in the 2016 Payday Loans Review.⁵

Qualitative research methods are best suited for endeavors such as deep engagement with small numbers of people on particular topics, which can lead to new insights and theories. By contrast, quantitative methods are best suited to confirm hypotheses and to measure the magnitude of known causal relationships. Using both types of methods can boost a research project's ability to understand real people and their situations, to gain accurate measurements of the strength of causal factors, and can therefore lead to new insights.

During the course of this proceeding, the Consumers Coalition has been in contact from a variety of stakeholders and community groups who have identified distinct issues related to the impacts of Manitoba Hydro rate increases on their community. Our clients have heard from First Nation seniors in certain communities who will be exposed to significant risks related to Hydro rate increases; they have been advised of distinctive use patterns by certain all electric consumers which will leave them very vulnerable to rate increase; and, they have heard different consumers share different perspectives on the costs, benefits and risks associated with different bill affordability approaches. These are the types of questions that are best tested through qualitative research through focus groups.

5 Consumers Coalition Exhibit CAC-3 in the 2016 Review of Payday Loans, p 6-7, online: http://www.pubmanitoba.ca/v1/payday_loan_review2016/cac_3_tab_1_executive_summary_and_intro_j_buckl_and_and_g_henderson.pdf.

Bill Affordability

At page 4 of Manitoba Hydro's 21 July 2017 comments, Hydro notes that any work undertaken by Interveners relating to bill affordability should build on work already undertaken through the Collaborative process. The Consumers Coalition thanks Manitoba Hydro for this advice and notes that the Collaborative process is a central launching point for Dr. Simpson's evidence.

That being said, as noted in a letter by the Public Interest Law Centre dated December 2016 to the Manitoba Branch of the Consumers' Association of Canada and to Winnipeg Harvest, there were limits to the analysis undertaken during the Collaborative process. These limitations included the regression analysis⁶ and mandated considerable caution in relying on the results of the regressions analysis.

The December 2016 letter also identified a number of additional issues regarding energy poverty, including unresolved questions relating to changes to the *Manitoba Assistance Regulation 404/88* as well as broader policy questions. The Consumers Coalition does not believe that these issues were adequately addressed through the Bill Affordability Collaborative Process and may require research and analysis in the 2017/18 & 2018/19 GRA that go beyond the findings from the Collaborative Process.

Conclusion

The Consumers Coalition appreciates the opportunity to provide this response to Manitoba Hydro's comments of 21 July 2017. Please do not hesitate to contact Byron Williams at (204) 985-8533 or Katrine Dilay at (204) 985-5220 if you have any questions.

6 The concerns expressed by PILC included:

1. The conclusion that income does not significantly affect consumption of electricity or gas appears to rest on the assumption that income is uncorrelated with the other included variables (size of home, housing type, types of heating and cooling systems, age of heating and cooling systems, number of residents in the household, etc.). However, that is clearly not the case. In particular, we would expect that income affects the size and type of home (and the age of home and hence the age type of the heating and cooling systems).
2. The arrears regression seems more likely to capture affordability than the consumption regressions. Here income is significant and low income is associated with a higher likelihood of arrears. PRA claims that the size of the effect is negligible but this is not clear from the results, (i.e. what is the predicted probability of arrears for various values of household income - mean, mean plus or minus one standard deviation, mean plus or minus two standard deviations, etc. or just income by deciles). Moreover, we would again like to see the results and a similar interpretation when only income is included or at least when variables like size and type of home and age of home and heating/cooling system (that are driven by income) are excluded.
3. We would think that an ordered logit regression or count data models would be a better way to proceed when dealing with the days late on payment variable since days late is both ordered (more days late is worse) and a count. Again, we need to see a variety of results, including those where income is not combined with all these other variables that might be correlated with it.
4. We would appreciate an explanation in terms of slides 7 and 8 why usage was not included as an explanatory variable.
5. To the extent there is any suggestion by PRA that the number of persons in the household does not materially affect the amount of consumption, we would note that conclusion would appear to be at odds with analyses done by BC Hydro and FortisBc. Further exploration of these contradictory results may be necessary.

Sincerely,



Byron Williams
Director
Public Interest Law Centre



Katrine Dilay
Attorney
Public Interest Law Centre

BW/KD/km

cc Consumers Coalition
Manitoba Hydro
Interveners in the Manitoba Hydro General Rate Application