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May 26, 2017

VIA E-MAIL

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

Attention: Kurt Simonsen
Associate Secretary

Dear Sirs/Mesdames:

Re: Green Action Centre's Position on an Interim
Rate Increase for Manitoba Hydro
Our File No. 17161 WSG

In its May 5, 2017 Letter of Application, Manitoba Hydro requested a 7.9% interim rate increase to all components of the rates for all customer classes, effective August 1, 2017.

The Board, in its May 17, 2017 letter to Interveners and Manitoba Hydro, asked "Interveners of Record [to] provide written submissions on whether the Board should consider a request for an interim rate process and, if so, what that process should be."

Green Action Centre is of the view that the PUB does have jurisdiction to make an order granting an interim rate increase pursuant to s 47(2) of the Public Utilities Board Act.

Green Action Centre (a) agrees that some rate relief should be granted to Manitoba Hydro on August 1, but with the proviso that (b) MH adopt at the same time a targeted strategy to address impacts on its low-income customers with the highest energy burdens. Finally, (c) we offer suggestions for a process to address these matters.

A. There is a *prima facie* case that Manitoba Hydro should be granted an interim rate increase on August 1, 2017.

If Manitoba Hydro is not financially healthy, its customers suffer, potentially twice-over - first as customers responsible for assuming the utility's risk and making up its revenue requirement and second as citizens of the utility's shareholder, the Province. For example, lowered credit ratings of the utility and the Province can adversely affect the borrowing costs of both highly indebted entities.

Green Action Centre has consistently argued that, to achieve relative stability and predictability, rates should be set on a trajectory over several years, rather than year-by-year, with sufficient reserves to address Manitoba Hydro's variable income and rapidly increasing debt load.

We know that Manitoba Hydro is incurring significant costs that were approved by the Board in the NFAT and that these costs must be met by further rate increases over a number of years. Any pause in rate increases will have to be made up by accelerating future increases. We hear that the costs are greater than expected at the last GRA. At this point, however, before evidence has been reviewed and tested and various considerations balanced, we don't know what an optimal rate trajectory for the future is. An interim rate process would allow an accelerated review of evidence and judgment regarding the need for and appropriate magnitude of an interim increase and any further provisos that should accompany it.

B. In GAC's view, an interim rate increase, like subsequent rate increases, must be accompanied by an adequate strategy for addressing unaffordable energy burdens created or aggravated by the increase.

This point requires some elaboration to demonstrate the need and the availability of solutions.

1. The need.

- a. We note that the 7.9% requested is twice the previous 3.95% indicative annual rate increase and four times the rate of inflation.
- b. In Order 73/15, the PUB notes: "In light of above-inflation rate increases projected by Manitoba Hydro for the next 17 years, the affordability of electricity bills to lower-income ratepayers will become an ever greater concern" (25). Further the PUB finds that subsection 43(3) of The Manitoba Hydro Act "does not prohibit the creation of a rate class that pays less than the average cost to serve such customers," that "affordability is a factor to consider when setting just and reasonable rates," and that "it is the

Board's intention to evaluate any future proposals for bill assistance programs from a comprehensive policy perspective rather than through the lens of jurisdictional constraints..." (29-30).

- c. In supporting research for the Bill Affordability Working Group, Prairie Research Associates ("PRA") found:

Quantitative modelling of potential rate increases suggests that these increases could increase energy burdens among ratepayers, especially over the next decade, and particularly if Manitoba Hydro introduces large increases over a short period of time, rather than introducing more moderate increases over an extended period. Increases in household energy burden are expected to be most pronounced for households that are already allocating significant proportions of their budgets to energy expenditures (Appendix 10.5 of the MH GRA filing, p. 48/242).

2. History and progress in developing solutions.

- a. In its April 12, 2017 letter to the PUB, MH wrote:

- *Implementation of conservation and time-of-use proposals will have the impact of negatively affecting certain customer groups while benefiting others. Notably, conservation rates may serve to amplify the negative impacts of rate increases on certain low income customers, such as those with electric heat.*

- b. GAC notes that the potential impact of conservation rates on low-income customers with electric heat and the consequent need for conjoint measures to mitigate the impact is a perennial issue recognized by the PUB and MH for many years.

- c. For example Board Order 5/12 (p. 220) states:

The Board requires MH to file preliminary reports (and status updates on):

- *Inverted Rates, with a view to creating a significantly higher-priced second energy block, but providing an accommodation to electric heat customers, some of which do not have access to natural gas for heating....*

- d. Over the past year or so, MH and stakeholders have engaged in two separate processes (on Bill Affordability and on DSM) to consider potential measures to make bills more affordable for lower-income and electric heat customers.
- e. The Bill Affordability process and outcomes are reported in Appendix 10.5 of the MH GRA filing. Participants in the process were invited to submit a response to the report. MH's response is Appendix 10.7. GAC's response and recommendations are attached.¹ Note that inclined (inverted, conservation) rates were not evaluated as an affordability strategy on the grounds that they would be addressed in the DSM consultation (GRA Appendix 10.5, p. 230/242).
- f. In the DSM process, looking specifically at the impact of conservation rates on electric heat customers, MH has modeled examples in which the average LICO125 customer with electric heat is ~3.3% better off with conservation rates than without them.² Thus, with the right rate design, there is no necessity that conservation rates will "serve to amplify the negative impacts of rate increases" on low-income electric heat customers.
- g. Indeed, in the shorter term or as an emergency measure, inclined rates could be designed exclusively as a bill mitigation measure for a targeted group of electric heat customers, whether that be all LICO125 electric heat customers or only LICO125 electric heat customers who are also in energy poverty with an energy burden exceeding 6% of household income.

3. Deferral is not a solution.

- a. In its response to the Bill Affordability Report, MH defers any potential solution to the Province:

As noted on page 53 of Tab 2 of this filing, Manitoba Hydro is of the view that issues of poverty and distributional effects are complex and ought to be addressed through the setting of social policy which is within the purview of government. As such, Manitoba Hydro is of the view that of the provision of social assistance programs directed to low income customers is appropriately reserved for the Province of Manitoba (Appendix 10.7, p. 4).

¹ GAC response to the Bill Affordability Working Group report UPDATED & CORRECTED 5-15-2017.pdf.

² Conservation rate design example 1 in DSM Meeting Nov 7 2016 Final Presentations.

b. In reply, GAC notes

- This point was contested in the last GRA and the PUB, having heard evidence of many kinds of utility-based programs in other jurisdictions, responded:

It is the Board's intention to evaluate any future proposals for bill assistance programs from a comprehensive policy perspective rather than through the lens of jurisdictional constraints ..." (30).

- Institutions other than utilities regularly set their own policies to address customer impacts. For example, when a university raises its tuition fees, it also beefs up its bursary program to provide continuing affordable access.
- The PUB's 2014 NFAT report recommended that that "a portion of the incremental capital taxes and water rental fees from the development of the Keeyask Project be used to mitigate the impact of rate increases on lower-income consumers, northern and Aboriginal communities" (recommendation 12). Unfortunately that stream of funding will not be available until the in-service date of Keeyask, which is now scheduled to begin in August 2021 in time for the fifth year of MH's projected accelerated rate increases. That is no solution for existing and aggravated rate impacts over the next four years.

C. Suggestions for a process to explore and adjudicate items A. and B.

As noted in the conclusion of Green Action Centre's final submission at the last GRA, we face the dilemma of (1) establishing rates sufficient in the aggregate to return to Manitoba Hydro in full the cost of supplying power and ensuring a healthy utility when those costs are dramatically rising and (2) addressing customer impacts, particularly for those in energy poverty who cannot afford to pay more.³

The interim rate process should provide all parties the opportunity to respond to this dilemma in two phases: (1) the identification and analysis of options, and (2) argumentation for and adjudication of options.

Phase 1 might best be done at a facilitated workshop in which all parties can present and discuss potential responses to the above dilemma, without prejudice, and identify what

³ http://www.pubmanitoba.ca/v1/exhibits/mh_gra_2015/gac-6.pdf (p. 25).

further analysis is required and who will conduct it. We are not starting from scratch. Thanks to the Affordability and DSM consultations conducted over the past couple of years, much of the spadework has already been done, so that a major part of the task will be to consolidate, highlight and extend that work and have a common understanding of the alternatives among the parties.

Green Action Centre would expect that at a workshop Manitoba Hydro would be able to provide information that would establish the effect upon the utility of no rate increase as opposed to a rate increase as Manitoba Hydro has requested along with other scenarios such as the last interim rate increase of 3.36%. This information ought not take long to generate. It would provide the Board with an evidentiary foundation to make a fair determination on an interim basis for the need for an interim rate increase.

The nature of this task can be explored at the May 31st workshop, but will likely require further interactions and work products to complete.

Phase 2 can consist of written submissions (or written and oral) before the PUB on recommended combinations of interim rates and interim mitigation strategies. Green Action Centre would be prepared to provide its thoughts on interim mitigation strategies to deal with the consequences of the interim rate increases.

Yours very truly,

GANGE COLLINS HOLLOWAY

Per:



WILLIAM S. GANGE

WSG

Attachment

Green Action Centre comments on the Bill Affordability Working Group Report

January 31, 2017

Updated & corrected May 15, 2017

Green Action Centre is pleased to have played a role in the Manitoba Hydro Bill Affordability Working Group and are proud of its achievements. We support the consensus recommendations of the report and appreciate the opportunity given to participating organizations to provide further comments and recommendations. In our remarks we provide our perspectives on Manitoba Hydro, address the question of Manitoba Hydro's mandate and business cases for affordability measures, and offer our recommendations and comments.

Green Action Centre perspectives on Manitoba Hydro

Green Action Centre is guided by an inclusive vision of sustainability: *All Manitobans Living Green, Living Well*. We note that sustainability includes social justice – meeting human needs now and in the future – and efficient use of resources. Manitoba's hydro system provides a hugely valuable resource of reliable, renewable power, which energizes our lives and economy. More than any other institution, Manitoba Hydro has enabled Manitobans to lower their climate impacts and it has the potential to do more. But our hydropower comes with ecological damage and social costs to hydro-affected communities, which require mitigation and compensation. And it is not affordable to all. Thus we promote policies and practices that ensure that power is sustainably produced and used and able to meet the needs of all Manitobans, including low-income Manitobans. Green Action Centre has sponsored evidence before the Public Utilities Board to support greater demand side management (DSM) efforts, conservation pricing of energy, and cost-mitigating strategies to make energy more affordable to lower-income households.

We encourage smart policies that achieve multiple goals and values together through creative, synergistic solutions and believe that Manitoba Hydro cannot fulfill its mandate without them. The ideas for such policies and practices often originate from a search for best practices found in other jurisdictions¹, but they must be shaped, adapted and evaluated to become "made in Manitoba" solutions. We proposed the creation of a collaborative process for that purpose.

Manitoba Hydro's mandate and business cases for energy affordability

It is important to distinguish a relatively lower average cost of energy in comparison with other

¹ E.g., [Seattle City Light](#) exemplifies a sustainable utility with [steeply inclined conservation rates](#), strong affordability commitment ([60% discounts for low-income customers](#)), and a [City Light Review Panel](#) of appointed knowledgeable unpaid stakeholders, who work with the utility to create a [strategic plan](#) and supporting rates.

jurisdictions and affordable energy. Either can exist without the other. Historically, Manitoba Hydro and the Province have blurred the distinction by using the latter expression to describe the former condition, but more recently “affordable energy” has become the name for auxiliary services to lower-income customers. GRA applications still present customer cost impacts in monetary terms as a \$x.xx/month or \$y.yy/year bill increase for a fictitious average or typical household without consideration of a ratepayer’s ability to pay bills as reflected qualitatively in the Bill Affordability Working Group’s definition of energy poverty and quantitatively in terms of the size of the ratio of household energy bills to household income. One hoped-for outcome of the bill affordability project is that future GRAs will provide data on customer bill affordability and the affordability impacts of rate increases.

Unaffordable energy has obvious negative implications for individual and family well-being in terms of comfort, health, disruptions of education, work and continuing dwelling occupancy. These in turn affect Manitoba’s health, education, employment and economic outcomes and social welfare burden.²

A fundamental policy question is whether energy affordability should have any bearing on rate-setting and if so how? A traditional response is that home energy fuels are commodities to be supplied to each and every customer at a common price without regard to ability to pay, like gasoline at the pump. Another response is to accept the common price rate perspective and use the negative impacts of increases on high-energy-burden households, in a regulated context, as grounds for containing or lowering the price for customers at all income levels even though the impacts may be negligible for high-income, low-burden households. Such an approach creates a trade-off between affordable energy burdens for low-income households and raising sufficient revenues for the financial well-being of Manitoba Hydro, which has implications for longer-term risks, costs and rate shocks. The trade-off approach runs the risk of either facilitating unaffordable energy burdens by rejecting rate discount solutions or risking the financial health of Manitoba Hydro by low-balling Hydro’s revenue requirement or both. A third response, which we considered in the Bill Affordability Working Group, is to design alternative rates or rate discounts to make bills more affordable for income-eligible customers.

Green Action Centre has long argued that this third response and other bill mitigation strategies for low-income, high-energy-burden customers are consistent with and even implied by Manitoba Hydro’s legislated mandate as regulated by the Public Utilities Board.

The Manitoba Hydro Act prescribes a mandate for Hydro, “*to provide for the continuance of a supply of power adequate for the needs of the province, and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of power....*” Green Action Centre argues that affordability solutions are critical to providing power efficiently and economically to Manitobans. The argument has several links.

1. **Least-cost planning requires an aggressive DSM program.** The PUB’s NFAT report observed that Manitoba Hydro’s 15 year DSM plan would achieve over 80% of the capacity and 85% of the dependable energy that Conawapa would add, but at 8% of the cost. Hence the PUB recommended

² See Roger Colton’s April 24, 2015 Direct Testimony Part 3 at http://pub.gov.mb.ca/exhibits/mh_gra_2015/gac-3-1.pdf and Appendix C at http://pub.gov.mb.ca/exhibits/mh_gra_2015/gac-3-2.pdf.

that electricity DSM be targeted at 1.5% of domestic load (a target also adopted by both the previous provincial government's *Climate Change and Green Economy Action Plan* and the current government's Bill 19, *The Efficiency Manitoba Act*).

2. **More aggressive levels of DSM require enhancements beyond the usual programing discounts and rebates, including conservation rates.** Manitoba Hydro identified Codes & Standards, Fuel Choice, Conservation Rates, and Load Displacement (e.g. through solar on your roof) as enhancements needed to achieve higher levels of DSM.
3. **Conservation rates can have a disproportionate impact on high-consuming, lower-income customers.** Conservation rates are designed to make high usage more expensive and low-usage less expensive. They thus would have a favourable impact on low-income customers with lower-than-average usage but, unless designed to mitigate the impacts, would add to the burden of high-consuming low-income customers, in particular those with electric resistance heating systems.
4. **Hence the PUB, guided by a public interest interpretation of "just and reasonable rates," has repeatedly asked MH (a) to implement conservation rates and (b) to implement bill mitigation for low-income customers, especially those with electric heat.** MH did introduce a minimal-inversion conservation rate in 2010, but without special measures to mitigate bills for electric heat customers. For that reason, in 2011 the PUB turned the inclined conservation rate back into a flat rate.
5. **In addition, steadily rising rates required by Manitoba Hydro's capital investment program will compound low-income energy burdens.** Order 73/15 notes: "In light of above-inflation rate increases projected by Manitoba Hydro for the next 17 years, the affordability of electricity bills to lower-income ratepayers will become an ever greater concern" (25). Further the PUB finds that subsection 43(3) of The Manitoba Hydro Act "does not prohibit the creation of a rate class that pays less than the average cost to serve such customers," that "affordability is a factor to consider when setting just and reasonable rates," and that "it is the Board's intention to evaluate any future proposals for bill assistance programs from a comprehensive policy perspective rather than through the lens of jurisdictional constraints..." (29-30).
6. **Hence we conclude:**
 - Without a satisfactory bill affordability program, the PUB has been unwilling to approve conservation rates that contribute to the highest levels of energy savings.
 - Without the highest levels of savings, Manitoba's load growth will necessitate the construction of additional expensive generation (Conawapa?) sooner rather than later.
 - If expensive new generation is required, all rates will rise even more than is currently forecast to pay for it and the impacts on lower-income customers (and all others) will increase even further.
 - The current and future environment of rising rates intensifies the need for an affordability program able to achieve just and reasonable rates.

Thus the PUB has indicated in general terms the test for an acceptable suite of affordability strategies – do they together solve the affordability problem for an expected growing number of lower-income ratepayers in a just and reasonable way? Let's call this the "economic and efficient supply and end-use of power" business case or, for short, ***the Manitoba Hydro core mandate business case*** for making energy bills affordable.

Green Action Centre's expert witness, Roger Colton, proposed a narrower **customer maintenance and improved collections business case** for making energy bills affordable. Experience in other jurisdictions indicates that when customers are presented with affordable bills, bill payment behaviours improve. That is customers are more likely to make complete, prompt, regular, unprompted, continuing payments, with corresponding efficiency and productivity improvements in collections and reduced write-offs and disconnections. In addition, Colton cited examples from two jurisdictions in which the improved payments and reduced costs were sufficient to more than offset the bill discounts given to yield a positive netback.³ We can call this a **positive netback business case** for making bills affordable. On the other hand, Colton doesn't guarantee that outcome.⁴

Green Action Centre's core recommendation – a strategic plan to cap and reduce energy burdens

Manitoba Hydro's new Board Chair, Sandy Riley, has signaled the likelihood that Manitoba Hydro will be requesting accelerated rate increases beyond the 3.95% previously indicated.⁵ Appendix A - PRA's Bill Affordability Research Services Final Report indicates that forecast rate increases "could increase energy burdens among ratepayers, especially over the next decade, and particularly if Manitoba Hydro introduces large increases over a short period of time, rather than introducing more moderate increases over an extended period" (iv).

Green Action Centre recommends that, at the next electric GRA, alongside any requested rate increases, Manitoba Hydro also file a strategic plan to cap and reduce energy burdens of LICO125 customers that exceed 6% (or 8% or 10%) of household income. Such a filing would be, in effect, a *Manitoba Hydro core mandate business case* for creating rates and supporting programs that (a) meet the utility's revenue requirement and (b) are affordable, so as to satisfy the requirement for just and reasonable rates.

The recommendations, discussion and supporting research found in the Bill Affordability Working Group reports provide a rich set of resources to guide the strategic plan. One might expect the strategic plan to include measures such as the following.

- Manitoba Hydro's existing suite of affordable energy programs.
- Enhancements drawn from the recommended complementary measures.
- Some level of targeted rate relief. The most satisfactory, from our review, would be a form of Percentage of Income Payment Plan (PIPP) administered as fixed bill credits, as described in the Working Group report, p. 28 and Appendix F, pp. 3-4.
- Better targeting of DSM, whether AEP or otherwise, to the highest consumers. Such targeting should be beneficial to both arrears and high energy burden customers. As PRA notes in Appendix A, "On average, those who are energy poor and those in arrears consume more kWh of electricity on an annual basis than the general Manitoba Hydro customer base" (27).

³ Colton's Direct Testimony pp. 46-47.

⁴ Colton's Direct Testimony pp. 38-39.

⁵ <http://www.winnipegfreepress.com/local/manitobas-cheap-electricity-rates-to-rise-394641831.html>. MH has since applied for 7.9% annual increases for this year and next.

- An effective integrative strategy for the suite of affordability tools that would ensure that customers presenting with payment problems would receive appropriate forms of bill assistance and weatherization and efficiency services as needed.⁶
- Establish a task force that engages MMF, MKO, INAC and the Province to address structural and other issues in remote northern communities standing in the way of improved customer/utility relationships characterized by better access to DSM and AEP services, affordable bills and normalized customer payments.⁷
- Development and implementation of monitoring metrics, e.g. as reflected in section 5.8 of the Working Group Report. The metrics could be used to test *the customer maintenance and improved collections business case* and *the positive netback business case* as well as to guide program evaluation and management. Preliminary estimates indicate that rate relief programs that are most effective and equitable at containing energy burdens at the 6% level are unlikely to yield positive netbacks even if they were to perform well on the other metrics.

Costs and funding

The Working Group adopted a set of evaluative principles (31) including:

Financial sustainability: Manitoba Hydro is, by law, a financially self-sufficient enterprise whose revenues (primarily from domestic and export customers) must cover its costs over time. This means that any increase in costs that Manitoba Hydro incurs for its suite of affordability programs must be balanced by (1) other cost savings; and/or (2) additional revenue from other ratepayers; and/or (3) another revenue source.

Although there might be some offsets realized from improved payment performance and collections efficiencies when bills are made more affordable, we cannot count on operational cost savings sufficient to create a positive netback. Hence there needs to be some reliance on alternatives (2) and/or (3). This is not to deny, though, that affordable energy might be a component in a package of policies that create longer term net cost savings, as described in *the Manitoba Hydro core mandate business case*.

The funding source for bill assistance and other affordability measures that is most attractive to the Working Group is incremental provincial revenues arising from the Keeyask project, as recommended in item 12 of the PUB's NFAT report.⁸ However, if that does not materialize, an alternative source of funding could be an Affordable Bills Fund in parallel with the Affordable Energy Fund, which in turn, under the new COSS, is sourced from export revenues.⁹ In any case, absent an external funding source, net costs will find their way into the Cost of Service and become the responsibility of ratepayers, as is common in other jurisdictions (e.g. Seattle City Light).

Notes on cost refinement

PRA modeled program cost estimates for three rate subsidy programs with simplifying assumptions of (a) 100% uptake, (b) equivalence between cost of subsidy and amount of rate discount rather than

⁶ See Colton's Direct Testimony, 120-21.

⁷ See Appendix A, section 3.3.4, pp. 33 ff.

⁸ See Working Group Report, p. 28.

⁹ PUB Order 164/16, p. 93.

difference in actual receipts under unsubsidized and subsidized scenarios, (c) no administrative costs or collection efficiency offsets, and (d) no reductions in energy consumption from other affordability measures. This last item is particularly important, since efficiency measures applied first might significantly reduce the level of discount required to make bills affordable, especially since, as already noted, high energy burden households have higher than average electrical consumption.

Another cost refinement would be to get a better estimate of administrative costs. For example, Appendix F says of the Fixed Credit Approach:

Similar to the PIPP, this option is likely to generate high administration costs; these relate to the resources required to both implement and maintain an income-qualified program (i.e., to access income data that verifies a household's eligibility for the discount), as well as to calculate each customer's individual energy burden. (4)

This description of administrative costs appears to assume a non-automated computation process by customer service personnel to calculate energy burdens and classify customers. However, Manitoba Hydro regularly automates estimates of consumption and bills to create estimated bills when the meter is not read and to set monthly Equal Payment Plan bills. And Hydro already collects information on household income and number of occupants to determine LICO125 eligibility for AEP. If that information is input into the customer's account, an automated calculation of program eligibility, energy burden, rate discount eligibility, and size of the credit or discount on the bill should be possible with no further effort by customer service. Although customer service costs per applicant might be comparable to current administrative costs, a wildly successful program with many more enrollments than at present would multiply that effort. In any case, the cost of the customer benefits themselves are likely to far outstrip the administrative costs.

Acknowledgments

Finally, I wish to recognize the outstanding work of our facilitator and rapporteur Michelle Kuly Holland and Katie Krahn of First Person Strategies and of the PRA research team, Natalie Baydack, Matthew Stargardter, Greg Mason, Paul Simpson and colleagues. Without their professional guidance, participation and support, this voyage of collaborative discovery, deliberation and judgment would not have been possible and we would lack the substantial body of work found in the reports.

I would also like to thank my fellow collaborators for their support for the process, perseverance, insights and candor and in particular Manitoba Hydro folks for taking on the risks of a collaborative project and providing admirable engagement and support.

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