

MANITOBA HYDRO 2017/18 & 2018/19 GENERAL RATE APPLICATION
MANITOBA HYDRO
INTERVENER EVIDENCE INFORMATION REQUESTS
COALITION (METSCO)
NOVEMBER 15, 2017

MH/METSCO I – 1

Reference:

Section 1, page 12

Preamble:

At page 12, METSCO states “In reviewing Manitoba Hydro’s evidence, METSCO sees numerous examples of meaningful steps that the Applicant has commenced taking in the direction of asset management competence. However, the pace of its progress to date, and the extent to which the current capital plan reflects these targeted new capabilities, suggest that the most critical components of a plan that would signal competence are not yet in place.”

Question:

- a) Based on METSCO’s study of other jurisdictions, how long does it take a corporation of similar size (production, customer base, employment, asset inventory and asset condition), history (in operation since 1901) and organizational structure (past and present) to implement a strategic asset management system with the effective change management, consistency and governance associated to gain competence while in the midst of a downsizing and corporate restructuring?
- b) Please provide examples of utilities that have implemented a strategic asset management system with similar organizational characteristics.

Response:

- a) Implementation of new asset management capabilities is a complex and time-consuming endeavor that may often take longer than originally estimated. The pace of implementation can vary significantly according to

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a number of factors, including the scope, and nature of contemplated changes, the status quo level of capabilities, and multiple other issues that make head-to-head comparisons impractical.

- b) Based on METSCO's understanding of Manitoba Hydro's current capabilities and the latest status of ongoing strategic initiatives, we estimate that Manitoba Hydro may require three to five years of concerted efforts to enhance its asset management capabilities in the manner consistent with industry best practices. Initial results of this work can be expected to be seen as early as three years into the commencement of implementation, subject to specific insights gained from regular progress reports and evaluations completed at the time of attaining key milestones.

For context, the UK regulator Ofgem prescribed a two-year timeline for the utilities under its regulatory purview to achieve voluntary certification with the PAS 55 certification.¹ It is notable, however, that many of the UK utilities were already taking steps towards a formal certification or alignment of their key practices with the certification requirements.

1 <https://www.ofgem.gov.uk/ofgem-publications/52172/13523-0167.pdf>

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Reference:

Section 2, page 32 and 33

Preamble:

At page 32, METSCO states “Although periodic comparisons to industry peers can be informative, utilities with advanced asset management capabilities are moving towards using reliability indicators to set specific performance targets underlying their investment plans, which subsequently enable them (and their regulators) to assess the effectiveness of the plans being delivered. Most utilities use reliability as a planning outcome (for instance, many Ontario utilities), with only few having advanced reliability forecasting capabilities”

At page 33, METSCO states “However, these utilities’ use of reliability data entails, at a minimum, an annual review of the variance between the current year and past year performance. Judging by the level of detail of Manitoba Hydro’s responses to METSCO’s requests to disaggregate the reliability data by Outage Cause Code and Equipment Failure type,⁶⁵ the utility possesses sufficient data management capabilities to integrate reliability planning and forecasting into its asset management processes but has not done so to date. METSCO recommends that the process of setting specific targets and regular variance analysis review be integrated in PUB’s oversight framework of Manitoba Hydro’s performance going forward.”

Question:

- a) What has METSCO observed to be the industry standard timeframe for utilities to develop a mature asset management program? What is the

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average cost of development? Please provide examples of utilities that have received ISO 55000 certification.

- b) Has METSCO worked to develop asset management plans with utilities that are part of unregulated industries?
- c) If so, please provide list of unregulated utilities that have developed asset management plans.

Response:

- a) For timelines estimates, see METSCO's response to MH/METSCO-I-1b. As to the companies that have received ISO 5500x certification, Pacific Gas and Electric's Gas Operations have been certified in 2014. Being a relatively new standard, not many utilities have currently implemented ISO 5500x. However, a number of utilities have implemented its predecessor PAS 55 standard, including Scottish Power, London Underground, Fingrid, Western Power Distribution (UK), and others.² METSCO is unaware of any published figures that would quantify the "cost" of achieving asset management maturity.
- b) and c) METSCO has not developed asset management plans for unregulated utilities.

2ftp://ftp2.cpuc.ca.gov/PG&E20150130ResponseToA1312012Ruling/2014/05/SB_GT&S_0266409.pdf

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MH/METSCO I – 3

Reference:

Section 4, pages 46 and 47

Preamble:

At page 46, METSCO states “Having discussed our specific observations and recommendations with respect to the Applicant’s Sustainment portfolio, this section of our report provides recommendations on the specific steps that the PUB could take to effectively oversee and incent Manitoba Hydro’s improvements in asset management capabilities. In general, and on balance of all evidence METSCO reviewed to date, it is our recommendation that *greater outcome-oriented accountability should be at the core of Manitoba Hydro’s relationship with the regulator going forward.*”

Question:

- a) Please provide a listing of the Regulatory models utilized within the Canadian utility industry and provide METSCO’s definition of them.
- b) Please identify the regulatory model that Manitoba Hydro operates within and explain how METSCO’s regulatory oversight recommendations would be implemented within the current regulatory model.
- c) For each of the utilities referenced in the METSCO report, what regulatory model exists in those jurisdictions?

Response:

- a) METSCO respectfully declines to provide the requested listing of the regulatory models utilized across Canada on the basis of relevance to the current proceeding and METSCO’s role within it.

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The Coalition adds: METSCO has expertise related to sustainment portfolio good practice. In the course of developing that expertise, it has acquired insight into how specific regulatory bodies have used the tools at their disposal to incent better portfolio management practice. The question as posed seeks a much broader exploration of “Regulatory models utilized within the Canadian utility industry”. It lies outside the scope of METSCO's research focus and, as posed, is not relevant or necessary to the more limited question of asset management good practice and available regulatory tools. It also cannot be answered within current time and budget constraints.

- b) Among other tools, METSCO understands that the PUB has at its disposal a directive-making authority with respect to the information that Manitoba Hydro must provide at the time of its requests for rate increases. Moreover, METSCO understands that the PUB has the authority to set Manitoba Hydro's rates at a particular magnitude based on the information it reviews as a part of the rate proceedings. In METSCO's assessment, the combination of these two regulatory instruments may be sufficient to establish a variation of accountability tools that our report advocates, to ensure that the Applicant makes tangible and verifiable progress against its stated plans to enhance its asset management capabilities.
- c) In all jurisdictions referenced throughout the report, utilities' rates are set on the basis of a variation of a “Forward Test Year” method, where rates are set on the basis of a Regulator's examination of an Applicant's expenditure forecasts.

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Reference:

Section 4, page 46 and 48

Appendix B, page 54

Question:

- a) Who proposed that METSCO make the recommendations made on page 46-48 of the report?
- b) Was this within the scope of the ? And if so, where is it described?
- c) Please identify any other reports METSCO has prepared for other clients and which have been filed in regulatory hearings where the reports contain recommendations to the regulator for oversight. Please identify the regulatory model in place in the associated jurisdictions.
- d) If METSCO has made “oversight recommendations” to regulators in other proceedings, please identify any proceedings which resulted in that oversight being accepted.

Response:

- a) As with all contents of its report, METSCO made the decision to propose the referenced recommendations on its own motion.
- b) METSCO submits that regulatory oversight recommendations provided fall within the scope of our obligation to “assist the Consumers Coalition... on issues ... including a good practice consideration of Hydro’s management of its portfolio,” as described on p. 53 of METSCO’s report.

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c) and d) While METSCO has made regulatory oversight recommendations to regulators it was assisting in the past, these have always been made outside of the context of formal reports, and typically involve discussions with the regulators' staff on potential means of ensuring that targeted programs or initiatives were implemented as planned. In making such recommendations, METSCO drew on its staff's extensive background in the areas of project management, preparation of regulatory evidence, and implementation of regulatory decisions. In all cases, this advice to the regulators has been provided on a confidential basis.

MH/METSCO I – 5

Reference:

Appendix B Pages 50 – 53 and Page 53/54 – Duties of the METSCO team

Preamble:

The Public Interest Law Centre retained METSCO's services to assist the Consumers Coalition with its participation in the Public Utilities Board review of Manitoba Hydro's Application on issues related to Manitoba Hydro's sustaining capital, including a good practice consideration of Hydro's management of its portfolio.

Question:

a) Who developed the list of duties referenced? And in particular the tasks identified?

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- b) Was that the complete set of duties agreed upon by METSCO and Public Interest Law Centre and/or Consumers Coalition? If not, please identify any additional duties METSCO has undertaken.
- c) Please provide a copy of METSCO's retainer letter.
- d) Are any portions of the report written by anyone other than those individuals listed on pages 50, 51 and 52 of the report and if so, please identify those individuals, their qualifications and what portions of the report were prepared by that individual.

Response:

- a) The list of duties and tasks identified have been developed by the Public Interest Law Centre.
- b) and c) Two retainer letters are attached as Attachments A and B.

The Consumers Coalition adds: We have provided the letters but deleted the financial terms which are not relevant to the question or to the Board's deliberations. Given the PUB's retention of the Independent Expert Consultant MGF, coupled with issues related to confidentiality and in conversation with PUB advisors, it was determined that evidence related to major new capital would be duplicative of the IEC role.

- d) No portions of the report were written by individuals other than those identified on pages 50-52.