

**Manitoba Hydro 2016/17 & 2017/18 General Rate Application
MH-MIPUG (OSLER-FORREST)-1**

Section:		Page No.:	1-1 - Introduction
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PREAMBLE TO IR (IF ANY):

The Report states: “This evidence has been prepared for the Manitoba Industrial Users Group (“MIPUG”) under the direction of Mr. C.F. Osler (InterGroup consultants Ltd.) and Mr. G.D. Forrest (Forkast Municipal and Regulatory Consulting).

QUESTION:

For each of Mr. Forrest and Mr. Osler,

- a) Please provide a copy of your written retainer agreement. Please also provide any instructions received with respect to your retainers.
- b) Please advise whether issues regarding your evidence were identified by yourself and/or MIPUG.
- c) Please identify which sections of the report you were responsible for preparing by topic/finding.
- d) Please provide the name and qualifications of any additional people who worked on each of the topics/findings by topic/finding, including a list of the previous projects or proceedings which the individuals participated in related to the topic and his/her role in the project or proceeding.
- e) Did the writers meet with members or representatives of MIPUG? If so what information did they provide to you? If in written or electronic format, please file.

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RESPONSE:

(a), (b) and (e)

Neither Mr. Osler nor Mr. Forrest have a written retainer agreement with MIPUG, and no written instructions have been provided. Issues regarding this evidence were identified by Mr. Osler and Mr. Forrest, in discussion with Mr. Bowman.

Mr. Osler worked intensively with MIPUG from the late 1980s (when it was created) to the late 1990s, and also provided limited internal advice and guidance to MIPUG members, legal counsel and InterGroup team members in preparation of submissions in the previous Hydro GRA (2015) and in the earlier 2008 proceeding addressing proposed EIIR rate changes for large industrial customers.

Mr. Forrest was first engaged by MIPUG as a resource to the members in 2008. Mr Forrest's role has been as a senior advisor to the members, and has not previously been engaged for regulatory proceedings or hearing matters.

Mr. Forrest regularly meets with the MIPUG members individually and collectively, to review issues and provide advice. Mr. Osler has also participated in MIPUG meetings over the past few years, though did not participate in the most recent major member update and planning meeting that occurred in May 2017. No information was provided by MIPUG members with regard to the evidence prepared by Mr. Osler and Mr. Forrest.

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(c) and (d)

Mr. Osler drafted the report, following discussion with Mr. Forrest. The report was then reviewed and commented on by Mr. Forrest. The evidence was finalized by Mr. Osler, through discussion with Mr. Forrest.

The evidence of Mr. Osler and Mr. Forrest utilized information developed by Mr. Bowman and InterGroup staff, working under his direction, as pre-filed Testimony for this proceeding, including the related Supplementary Background Papers. InterGroup staff also assisted Mr. Osler in review of the earlier MIPUG evidence and PUB reports and orders relating to the 1980 and 1990 periods addressed in this evidence. The qualifications of Mr. Bowman, the previous projects or proceedings he has worked on, and his role in such proceedings is information on the record in the current proceeding (see Attachment A to Mr. Bowman's pre-filed testimony).

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PREAMBLE TO IR (IF ANY):

General policy goals to avoid material adverse impacts on customers and the Manitoba economy.

QUESTION:

- a) Please identify where these policy goals, as they relate to the setting of Manitoba Hydro rates, are expressed.

RESPONSE:

(a)

In approving Hydro rate changes, the PUB has broad responsibility as a regulator to balance the interests of the utility, the ratepayers and the general public from a policy vantage point.

Section 1 of the pre-filed evidence of Mr. Osler and Mr. Forrest reviewed the range of factors the Board may take into consideration under the Crown Corporation Governance and Accountability Act, including Section 25(4)(a) viii which gives the Board significant latitude in respect of any compelling policy considerations that the Board considers relevant. Section 3 of Mr. Bowman’s pre-field evidence reviewed principles of utility rate regulation, including the well-accepted guidance of James Bonbright for tribunals to discharge their responsibilities in setting pricing policies to ensure just and reasonable rates for all classes of ratepayers.

The general policy goals to avoid material adverse impacts on customers and the Manitoba economy are often referenced in PUB proceedings and orders in the discussion of “rate shock” avoidance, as well as not letting rate increases be higher than inflation. Recent Provincial policy in Manitoba has focused on restraint to make Manitoba taxpayers more competitive with neighbouring jurisdictions – and it is reasonable for the Board to assess, in this context, the conflicting impacts on the economy of very high rate increases for Manitoba ratepayers.

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The relevance of assessing unintended consequences from very high and unexpected rate increases constitutes a basic review element required for any such rate proposals. Hydro forecasts of revenue gains from such proposals need to address potential adverse impacts on forecast loads (and thus on forecast revenues), on all customers and most notably for major industrial loads. Overall adverse impacts on the Provincial economy would also frustrate stated objectives. Longer term losses in loads, reduced competitive priced services and possible reduced future development from such proposals are also relevant given the stated desire to secure longer-term financial objectives and economic prosperity.

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PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please provide a list of year to year percentage rate changes implemented through the years 1961/62 through 2017/18 (or as far back as possible).
- b) Please re-create the Figure at 3.95% rate increases to include PUB/MH I-34 Attachment 2 and PUB/MH II-21b.

RESPONSE:

(a)

Please see the table below for annual rate percentage increases dating back to April 1, 1979. Prior to this time period consistent rate information was not readily available, however from the History of Electric Power in Manitoba report, there was a 57 year rate freeze until 1968 (this would include the years 1961/62 – 1967/68) when a 6% rate increase was approved in rates.¹ Substantial rate increases were implemented in the 1970s but consistent rate increase data is not available for this period.

¹ A History of Electric Power in Manitoba, Page 32. Available online:
https://www.hydro.mb.ca/corporate/teachers/pdf/history_of_electric_power_book.pdf

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Year Ending	Rate % Requested ²	Rate % Approved Final/Interim ^{1,2}	Reference
1979			
1980	MB Government imposed rate freeze Apr 1/79 to May 15/83		MIPUG Final Argument: PUB Review of MB Hydro Rates April 1 1986, 1987 and 1988
1981			
1982			
1983			
1984		9.5% May 15/83	
1985		7.9% Apr. 1/84	MIPUG Final Argument: PUB Review of MB Hydro Rates April 1 1986, 1987 and 1988 - Schedule A
1986		5.0% Apr 1/85	
1987	2.8% Apr 1/86	2.8% Apr 1/86	
1988	9.7% Apr 1/87	9.7% Apr 1/87****	
1989	4.5% Apr 1/88	4.5% Apr 1/88	
1990	6% Apr. 1/89	5% Apr. 1/89	Order 42/89
1991	4.5% Apr. 1/90	4% Apr. 1/90	Order 43/90
1992	4.1% Apr. 1/91	3.1% Apr. 1/91	Order 29/91
1993	3.5% Apr. 1/92	2.65% Apr 1/92	Order 25/92
1994	4% Apr. 1/92	0%**	Order 29/91
1995	1.5% Apr 1/94	1.2% Apr 1/94	Order 62/94
1996	1.5% Apr 1/95	1.2% Apr 1/95	Order 62/94
1997	2% Apr 1/96	1.5% Apr 1/96	Order 51/96
1998	2% Apr 1/97	1.3% Apr 1/97	Order 51/96
1999	n/a - 0%	-	
2000	n/a - 0%	-	
2001	n/a - 0%	-	
2002	n/a - 0%*	-1.92% Nov 1/01	
2003	n/a - 0%	-	
2004	n/a - 0%	-0.72% Apr 1/03	
2005	3% Apr 1/04	5% Aug 1/04	
2006	2.5% Apr 1/05	2.25% Apr 1/05 ***	
2007	2.25% Feb 1/07	2.25% Mar 1/07 ***	
2008	0% Apr 1/07	-	
2009	2.9% Apr 1/08	5.0% Jul 1/08	PUB MFR-12 2017/18 and 2018/19 MB Hydro GRA
2010	3.9% Apr 1/09	2.84% Apr 1/09	
2011	2.9% Apr 1/10	2.8% Apr 1/10 ***	
2012	2.9% Apr 1/11	2.0% Apr 1/11 ***	
2013	3.5% Apr 1/12; 2.5% Sep 1/12	2.0% Apr 1/12 ***; 2.4% Sep 1/12***	
2014	3.5% Apr 1/13	3.5% May 1/13	
2015	3.95% Apr 1/14	2.75% May 1/14 ***	
2016	3.95% Apr 1/15	3.95% Aug 1/15	
2017	3.95% Apr 1/16	3.36% Aug 1/16 ***	
2018	7.9% Aug 1/17 prop	3.36% Aug 1/17***	
2019	7.9% Apr 1/18 prop	n/a	

Notes:

* Implementation of Uniform Rate Legislation.

** Rates requested and denied during the in Order 29/91 from the 1991/92, 1992/93/ 1993/94 Hydro rate application

*** Interim-approved rate increases as per footnote below.

****increase imposed as a result of ERSA Amendment (source: MIPUG Final Argument PUB Review of MB Hydro Rates April 1 1986, 1987 and 1988; pg. 54

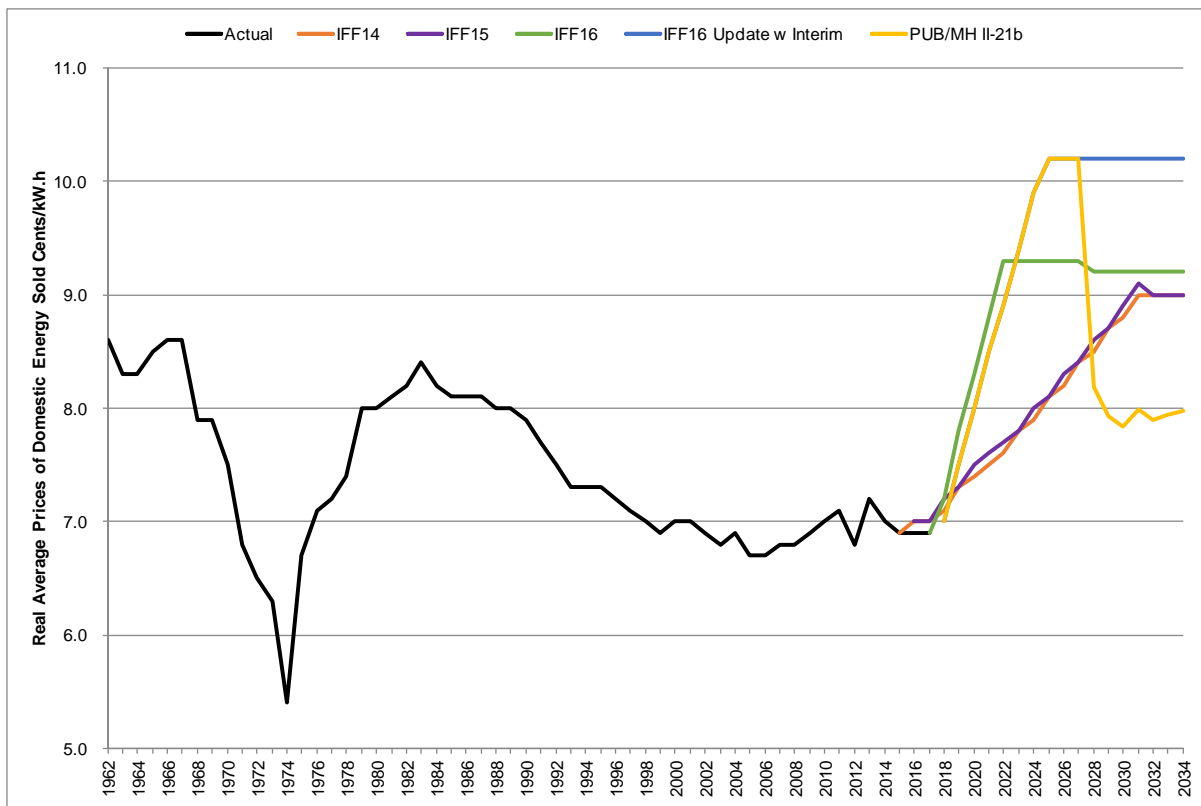
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(b)

The chart below recreates the chart provided by Manitoba Hydro in MH/MIPUG II3b for real average prices of domestic energy sold by year with the added rate increase scenario estimate for PUB/MH II-21b.

There is no need to update for PUB/MH I-34 Attachment 2 as this scenario is designed to almost precisely match the IFF15 rate increases (with the small exception of the rate increases in 2017 and 2018 being 3.36% rather than 3.95%, which would lead to a result that is nearly indistinguishable from IFF15).

Table 1: Real Average Prices of Domestic Energy Sold by Year 1961/62 – 2033/34 (cents/kWh)²



² MIPUG/MH II-3b and PUB/MH II-21b.

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PREAMBLE TO IR (IF ANY):

At page 2-3, lines 11-13, the evidence states “At a high level; however, review of IFF forecasts as provided by Hydro does not indicate any new lower minimum equity level expected to occur over the next decade compared to what was provided to the PUB in the last GRA.”

QUESTION:

- a) Does MH16 Update with Interim with 3.95% rate increases (PUB/MH I-34 Attachment 2) indicate a higher level of maximum debt over the forecast period than under MH15? And if so, by how much?

RESPONSE:

(a)

The below response has been provided, as requested, comparing to MH15; however, note that MH15 was not the primary forecast underlying the last GRA – it was IFF14 (MH 15 was the forecast used for the previous interim rate increase). Of note, Appendix 3.4 from the previous GRA (MH14) showed a maximum long-term debt of \$24.476 billion in 2028/29, a minimum equity ratio of 10% for 5 straight years (2022/23 to 2026/27) and a minimum retained earnings of \$1.924 billion at 2025/26.

MH16 Update with Interim with 3.95% rate increases (PUB/MH I-34 Attachment 2) has net debt levels peaking in 2026 at \$24.595 billion. Comparatively MH15 net debt levels peak at 2022 at \$22.589 billion, a difference of \$2.006 billion.

However, debt levels are only one side of the equation. The corresponding total equity in the PUB/MH I-34 Attachment 2 scenario for 2026 is \$3.302 billion compared to the \$2.999 billion in 2022 in MH15. This is a difference of \$0.303 billion. From the Table below, this

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equity level in the MH16 scenario with 3.95% rate increases ensures a minimum equity ratio of 12% for the peak debt year and over the total forecast horizon. For MH15 the minimum equity ratio over the forecast horizon is also 12%.

**Table 1: Debt and Equity Comparison – MH16 Update with Interim and 3.95%
Rate Increases to MH15¹**

Year Ending	MH16 Update (3.95% rate increases)				MH15			
	Net Debt	Total Equity	Debt Ratio	Equity Ratio	Net Debt	Total Equity	Debt Ratio	Equity Ratio
2016	-	-	-	-	13,741	2,508	85%	15%
2017	15,427	2,856	84%	16%	16,662	2,653	86%	14%
2018	18,473	3,163	85%	15%	19,052	3,120	86%	14%
2019	20,806	3,447	86%	14%	20,725	3,223	87%	13%
2020	22,609	3,567	86%	14%	21,818	3,263	87%	13%
2021	23,717	3,718	86%	14%	22,419	3,268	87%	13%
2022	24,349	3,916	86%	14%	22,589	2,999	88%	12%
2023	24,557	3,600	87%	13%	22,579	3,014	88%	12%
2024	24,547	3,529	87%	13%	22,449	3,089	88%	12%
2025	24,547	3,439	88%	12%	22,282	3,235	87%	13%
2026	24,595	3,302	88%	12%	22,112	3,380	87%	13%
2027	24,577	3,240	88%	12%	21,838	3,629	86%	14%
2028	24,472	3,253	88%	12%	21,463	3,964	84%	16%
2029	24,273	3,374	88%	12%	20,978	4,421	83%	17%
2030	23,979	3,577	87%	13%	20,372	4,964	80%	20%
2031	23,671	3,816	86%	14%	19,733	5,575	78%	22%
2032	23,254	4,152	85%	15%	18,983	6,279	75%	25%
2033	22,767	4,557	83%	17%	18,168	7,060	72%	28%
2034	22,185	5,042	81%	19%	17,312	7,922	69%	31%
2035	21,572	5,621	79%	21%	16,504	8,880	65%	35%
2036	20,940	6,224	77%	23%	-	-	-	-

¹ MH16 Update with Interim at 3.95% rates from PUB/MH I-34 Attachment 2, MH15 from COALITION/MH I-25a in the 2016/17 Interim Rate Proceeding.

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PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Mr. Osler has not actively participated in a Manitoba Hydro rate review since 1998. Please advise to what extent, if at all, Mr. Osler has participated as a behind the scenes contributor to MIPUG's submissions at rate reviews since that time, identifying the hearing and topics covered.

- b) Mr. Forrest has not actively participated in a Manitoba Hydro rate review since 2004. Please advise to what extent, if at all, Mr. Forrest has participated as a behind the scenes contributor to MIPUG's submissions at rate reviews since that time, identifying the hearing and topics covered.

RESPONSE:

(a) and (b)

Please see response to MH-MIPUG (OSLER-FORREST)-1(e).