

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

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Preamble:

In the METSCO Final Report, page 46, METSCO notes that successful capital project planning and implementation should include “clear and consequential accountability frameworks between the utility and its regulator”. However, METSCO also noted at page 29 that “ratemaking considerations are outside of METSCO’s area of expertise”.

Question:

Given his expertise in the regulation of Manitoba Hydro’s rates, has Mr. Harper reviewed the work of METSCO and developed any views or ideas as to how the concept of “clear and consequential accountability frameworks between the utility and its regulator” could be applied, in practice?

Rationale for question:

- a) To rely on Mr. Harper’s expertise in ratemaking, particularly in a Manitoba context, to set out ideas that could apply the METSCO cited concepts for improving regulatory review of Manitoba Hydro capital plans.

Response:

- a) Prior to receipt of the MIPUG interrogatory, Mr. Harper had not reviewed the work of METSCO. Subsequently, Mr. Harper has only had the opportunity to undertake a cursory review the materials but will offer the following preliminary thoughts:
- There are two different contexts in which frameworks for regulatory accountability with respect to capital spending and asset management can be established. The first is from a planning perspective and involves the utility

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being accountable to regulator to demonstrate that its capital spending plans are prudent and will produce needed outcomes. The second is from an actual spending/outcome perspective and involves the utility being held to account for delivering the capital projects as planned (i.e., on budget and with the desired outcomes).

- The current scope of the PUB’s oversight of Manitoba Hydro is only with respect to rates and does not include (apart from the unique circumstance of the current proceeding) review or approval of Manitoba Hydro’s capital programs.
- Furthermore, even if such oversight was provided, Manitoba Hydro’s rates are not set/regulated on a rate of return basis such that the “shareholder” can be held financially accountable after the fact for poor performance. In the same vein, financial incentives for “good performance” do not fit with Manitoba Hydro’s current cost-of-service/maintain financial soundness approach to setting rates.
- The result is that while there should be after fact accountability in the form of public reporting of results against pre-determined budgets and expected outcomes, real improvements are more likely to result from accountability frameworks that focus on the capital planning and approval stages.
- There are at least two ways in which such accountability could be framed:
 - i. The PUB could be given responsibility for reviewing Manitoba Hydro’s overall capital plan and making a determination as to whether it is in the public interest. This would not involve detailed review of budgets for each individual capital project but rather a broader based review as to whether the Company has identified what its priorities and needs are

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(including how they were established) and then adequately demonstrated that the proposed plan met these needs, in conjunction with any legislative or government policy directives.

Such plans need not be filed every year but rather periodically. The frequency required could be addressed as part of the initial capital plan “application”.

It is within the context of these proceedings that the PUB would monitor and comment on Manitoba Hydro’s progress in developing and applying its various capital planning tools and asset management practices.

- ii. The PUB could also be given responsibility for reviewing and approving individual capital projects with budgets above a certain spending level as well as any specific project in the overall capital plan that the PUB determines should be subject to review. The spending level trigger would be set with a view to subjecting projects of significant materiality to review but be such that the quantum of projects would be administratively manageable by the PUB. These reviews would focused on matters such as project need, alternatives considered, veracity of the project budget along with the risks associated with completing project as planned and mitigation plans. It is in the context of these reviews that the PUB would monitor and comment on Manitoba Hydro project planning and budgeting practices.

The Coalition adds: Please also see the response to:

- PUB/COALITION I – 7b) (METSCO)
- MH/METSCO I – 3b)