

MANITOBA HYDRO 2017/18 AND 2018/19 GENERAL RATE APPLICATION PRELIMINARY BUDGET SUBMISSION FOR THE MANITOBA INDUSTRIAL POWER USERS GROUP

As requested by the Public Utilities Board in Procedural Order 70/17 regarding Manitoba Hydro's 2017/18 and 2018/19 General Rate Application (GRA), the Manitoba Industrial Power Users Group (MIPUG) has prepared and submits a preliminary budget for its participation in this proceeding. MIPUG's submitted fee budget totals \$480,920 plus PST (legal), GST and \$4,200 for expenses and \$25,000 (5%) for contingency.

This budget reflects the approved scope of work and timeline as set out in Order 70/17 and includes the necessary preparations, discussions and coordination anticipated with other intervenors as directed by the PUB to reduce duplication and coordinate intervention where appropriate, in addition to a GRA with a planned extensive scope.

The budget submission is contained in two parts:

- 1) Basis for cost recovery, including eligibility and efforts at efficiency
- 2) Estimate of costs

Basis for Cost Recovery

As the Board is aware, MIPUG is an association made up of large power users from the three General Service – Large classes (>100kV, 30-100kV, and 0-30 kV). The combined classes total approximately 8,000 GW.h of power purchases (or 35% of Manitoba Hydro's domestic energy sales) and 377 accounts. This is a change since the most recent MIPUG interventions, when MIPUG had no representation of the GSL 0-30 kV class, and consequently covered only 56 accounts (with some individual customers having multiple accounts so in practice this is less than 56 individual customers – in practice MIPUG had typically had direct membership covering the majority of the usage by the two classes).

MIPUG has seen increased representation over the past year, growing from eight members to eleven members to date. MIPUG has broadened by covering the interests of energy users with somewhat different load characteristics than the largest industries, with Maple Leaf Foods, Integra Castings, and Winpak Ltd. recently joining. The recent increased representation in MIPUG is correlated to concerns regarding Manitoba Hydro's proposed rate increases.

The increase in scope also has shifted the cost responsibility distribution. MIPUG has no access to direct communication (or financial support) from the vast majority of the 377 accounts in the classes it represents, making outreach efforts both more necessary and more costly. Further, the seminal nature of this hearing has broad implications for Manitoba's competitiveness and for future customers in the industrial class who obviously are not directly participating today.

Part of MIPUG's interest-based representation (as opposed to strictly client-based representation) includes ongoing discussions and consultation with industry groups, associations and, to the extent possible, large users who are not members but share similar characteristics for energy use and similar concerns. This has also resulted in serious interest from at least two other potential members - one an existing agricultural company with operations throughout southern Manitoba, the other who is not yet a Hydro customer but is

proposing the development of a significant facility (\$400 million) in the agricultural protein processing sector.

The Board, in Order 70/17, set out its criteria for cost recovery in the current proceeding. Specifically, the Board noted that intervenors will be assessed for cost recovery “without consideration of the sufficiency of financial resources of the Intervenor”¹. Consequently, MIPUG understands that the following three criteria will apply (per the Board’s Rules of Practice):

43. In any proceeding the Board may award costs to be paid to any Intervener who has:
 - a) made a significant contribution that is relevant to the proceeding and contributed to a better understanding, by all parties, of the issues before the Board;
 - b) participated in the hearing in a responsible manner and cooperated with other Interveners who have common objectives in the outcome of the proceedings in order to avoid a duplication of intervention;
 - ...
 - d) a substantial interest in the outcome of the proceeding and represents the interests of a substantial number of the ratepayers.

It is understood that criteria 43(a) and 43(b) will be assessed at the time of the final cost claim, but to assist the Board MIPUG has set out in this submission (and in its original intervenor request form) its expectations regarding contribution, relevance and cooperation.

Regarding criteria 43(d) “substantial interest in the outcome” and “interests of a substantial number of ratepayers”, MIPUG submits that these criteria are readily met by the large industrial cohort. The classes make up 377 accounts in total, and 35% of Hydro’s domestic sales (the largest of any intervenor group). A large proportion of these accounts are likely to be exposed to electricity pricing pressures that cannot be made up from price increases to customers, as competitors reside outside the province and would not face Manitoba Hydro’s price changes. It is not possible at this time to fully estimate the employment of GDP impacts of the three classes, but it is known that a large number of major centres outside Winnipeg have facilities in these classes as a major employer and mainstay of the community, in fields from mining and petroleum to agriculture processing to forestry to electrochemicals to steel.

In terms of coordination, to date MIPUG has undertaken dialogue and coordination with the General Service Small and General Service Medium (GSS/GSM) intervenor with regard to both client interests/overlap and hearing coordination, as well as had considerable exchanges with the Consumer’s Coalition regarding hearing coordination. The budget reflects ongoing coordination with intervenors where appropriate throughout the process to improve efficiencies and avoid duplication. However, it should be noted that while collaboration with other intervenors can add to hearing efficiencies, it is also time consuming,

¹ Order 70/17 page 23

especially in light of the enhanced scope of this proceeding assigned in OIC 92/2017 and the magnitude of potential rate impacts being proposed. MIPUG's budget reflects the anticipated efficiencies and benefits of coordination.

Estimate of Costs

MIPUG's proposed budget includes calling expert evidence on behalf of MIPUG, as well as a proposal to jointly (with the Consumers Coalition) call the expert evidence to be produced by Morrison Park Advisors. MIPUG anticipates its expert witnesses will coordinate with Morrison Park to ensure reviewed areas avoid duplication and provide efficiency in preparations. Further detail on this proposal is set out below.

Pending the discovery process, MIPUG assumes a lead role (including producing evidence where required) in the following topics as identified in PUB Order No. 70/17 Appendix A. MIPUG does not view its lead role as necessarily implying others will have a subservient role – the unique perspectives or customer interests in some areas may necessitate multiple leads:

- **Topic 2 – Rate Increases and Rate Impacts:** these areas impact all customer classes, including the GSL classes uniquely;
- **Topic 7 – Load Forecast:** specifically in relation to industrial customer load forecasts and elasticity matters;
- **Topic 10 – Operating, Maintenance & Administrative (OM&A):** focused on a “top down” assessment of testing for forecast spending;
- **Topic 11 – Regulatory Deferral Accounts:** in coordination with the Coalition and the representatives of the General Service Small/General Service Medium;
- **Topic 13 – Rate Design:** topics specific to GSL classes;
- **Topic 14 – Demand Side Management:** including assumptions and timing of spending in the long-term financial forecasts, and any short-term matters in scope regarding industrial DSM and the curtailable rate program;
- **Topic 15 – Depreciation:** testing of Board-approved methodology and recovery of differences between ASL and ELG. MIPUG does not intend to lead on matters related to calculations of accumulated depreciation accounts.

MIPUG highlights the following topic areas where MIPUG will coordinate lead or expect others to take the lead:

- **Topic 3 – Financial Targets/Capital Structure:** MIPUG would see aspects of coordinated lead with the Consumers Coalition, including the areas identified within this topic for Morrison Park Advisors' review of financial targets underpinning rate requests;
- **Topic 4 – Debt Management:** MIPUG would similarly coordinate lead with the Consumers Coalition (including Morrison Park Advisors) on considerations regarding access to capital for Manitoba Hydro for rate setting and uncertainty analysis, shorter terms for maturity of new debt, etc.;
- **Topic 6 – Export Forecasts:** MIPUG expects Consumers Coalition will lead, with possible exception of dependability premium issue and changes in forecast methodology;
- **Topic 8 – Major New Capital:** MIPUG would look to others to lead on details of control budgets, with the exception of revenue requirement and rate mitigation;

- **Topic 9 – Sustaining Capital:** Consumers Coalition will lead, MIPUG will focus on forecast assumptions for timing of spending in financial forecasts; and,
- **Topic 17 – Risk and Uncertainty Analysis:** MIPUG will have a primary focus, but will also coordinate with the Consumers Coalition where appropriate to avoid duplication.

The MIPUG budget has been prepared to reflect the PUB's scale of costs effective January 1, 2016 with the exception of Morrison Park Advisors. As such the budget does not fully recover MIPUG's forecasts costs of participation related to counsel hourly rate (capped at \$285/hour plus PST), nor administrative and secretarial costs. MIPUG's budget provides cost efficiencies by using consultants with longstanding experience with Manitoba Hydro issues. MIPUG also manages cost efficiencies by using research and analysis support staff where possible with a lower hourly rate than either expert witnesses or legal counsel. The vast majority of expert and consultant services in MIPUG's proposal is at an hourly fee that is lower than the maximum allowed by the PUB. As has always been MIPUG's practice, MIPUG assumes efficiencies in its involvement in the discovery portion of this proceeding, with a focus on limiting the number of requests for information and the topics to be addresses to high value and relevant matters that have a direct implication on rates.

As per PUB Order 70/17, MIPUG has prepared its budget to reflect that it will not attend hearing days or seek cost awards on issues for which they have not received approval by the Board. For example, MIPUG did not attend the workshop on July 13 regarding bill affordability and residential rate design for these reasons, but rather communicated with Hydro in advance to confirm expected meeting content and monitored written exchanges related to the session. MIPUG understands that the Board will structure the oral public hearing to the extent possible by specific topics and has reflected assumed efficiencies from this approach in overall time commitment. As a result, MIPUG's budget assumes it will attend a large number, but not all, oral hearing days (currently the schedule for oral hearing allows for 10 weeks of hearing, assuming one week hiatus over the holiday break. Sitting four days a week could result in maximum of 40 hearing days).

The budget is based on MIPUG participating in 30 days of hearing, with a total 37 days including workshops/technical conferences (this includes a possible rate design workshop for GSL customers and the base/sustaining capital workshop), 2 days for pre-hearing conferences (including the one that took place in June and an additional to establish oral hearing scope), and 1 day for oral final argument submissions. It also includes 2 days for planned oral submissions in the 2017 interim rate process, identified as in scope by the Board in Order 70/17 page 26.

The budget, which totals \$480,920 plus PST (legal), GST and \$4,200 in expenses, is broken down as best possible into the following components: Discovery (including Pre-Hearing Process), Preparation of Evidence, Preparation and Attendance of Oral Hearings, and Preparation of Written and Oral Final Argument (see Table 1). The budgets per allocated resource are developed as follows:

- **Counsel (TDS Law):** Antoine Hacault, legal counsel for MIPUG, qualifies in the 'over 20 years of legal experience in related areas' category. The estimated budget for Antoine Hacault has been developed based on past experience where preparation approximately equals time spent in the oral hearing. Assuming 37 days for participation in hearing or workshop days, the total budget for MIPUG counsel at PUB established hourly rates is estimated at \$168,720 plus PST and GST.

- **Experts, Analysts and Hearing Support (InterGroup Consultants Ltd.):** Total budget for InterGroup Consultants Ltd. includes services related to expert witness services and analysis in the areas listed above, as well as hearing support, coordination with other intervenors and their respective experts, and GSL customer outreach. Specifically this includes work on preliminary filings and participation in the pre-hearing conference from June and again at a date TBD, participation in workshops and technical conferences, preparation for and attendance at the oral hearing on interim rates for August 1, 2017, review of evidence and filing of information requests on areas deemed in scope, financial analysis and research to test Manitoba Hydro's General Rate Application, filing of intervenor expert evidence on matters deemed in scope for the General Rate Application, filing and responding to any information requests on evidence, development of a written submission on issues not subject to the concurrent oral evidence (if required), expert testimony preparation and participation for the oral evidence for the General Rate Application, filing of written submission and any follow-ups or undertakings required within the process, and written and/or oral final submissions.

 - Expert evidence from InterGroup will be filed by Patrick Bowman and Cam Osler on matters related to rate increases and rate impacts, Manitoba Hydro's financial forecast (including review as related on OM&A and other operating costs, regulatory deferral accounts, DSM forecast spending, depreciation, etc.), risk and uncertainty, load forecast, Manitoba Hydro's mandate as a Crown utility versus private entities, and issues related to setting revenue requirement/rates tied to major new capital development.
 - Total hours are 640 for Patrick Bowman, 110 for Cam Osler, and 665 for research, analysis and hearing support. Patrick Bowman has 20 years' experience in utility rate regulation and his hourly billing rate is below the maximum fee schedule at \$210/hour. Cam Osler also qualifies in the 'over 20 years' experience in utility rate regulation' category with an hourly billing rate that is at the PUB prescribed rate of \$240/hour. Total budget for expert witness services hourly rates from InterGroup Consultants is \$160,800 plus GST. The research and analysis support will be undertaken at a maximum hourly bill rate of \$125/hour which is at or below the maximum allowable fee for that level of experience (5-9 years). Total budget estimate for research and analysis support is \$83,125 before GST.
- **Expert Witness (Forkast Consulting):** MIPUG will be calling evidence from Gerry Forrest of Forkast Consulting related broadly to scope areas of Crown utility risk, regulatory principles applicable to ratemaking and major projects, and provincial/economic effects. Gerry Forrest qualifies in the 'over 20 years' experience in utility rate regulation' category with an hourly billing rate that is at the PUB prescribed rate of \$240/hour. Total budget estimate for expert witness services from Forkast Consulting is \$14,400 before GST.
- **Shared Expert Witness (Morrison Park Advisors):** Total forecast fees are estimated at approximately \$107,750, plus GST and expenses, of which MIPUG has included 50% in its total budget submission (\$53,875). Coordinating on the retention of this expert witness will allow for better avoidance of duplication and allow for efficiencies in information sharing, analysis and in providing recommendations. Morrison Park Advisors are experts in investment banking and credit markets, and are well-known to this Board from their appearance during the Need For and Alternatives To hearing in 2014. As addressed by Mr. Williams' (Coalition) submission of June 12,

2017, while the hourly rates for Morrison Park Advisors are outside the maximum allowable fee structure, the Coalition conducted a national search for experts in this field and received other estimates for this type of expertise. They concluded that Morrison Park was the most qualified and found Morrison Park's rates and total costs to be price competitive. In the event that MIPUG's proposal to jointly call the evidence of Morrison Park Advisors is not considered eligible for full cost recovery by the Board, MIPUG encourages the Board to remove this item from MIPUG's cost claim and instead ensure that the Coalition budget is revised to include 100% of the Morrison Park budget, to permit this important submission to be presented as intended. Further information on the intended Morrison Park testimony and budget is contained in the Coalition's cost claim.

- **Expenses and incidentals:** Estimated at \$4,200 total, largely to cover 50% of the travel expenses for Morrison Park Advisors to attend the oral hearing and for printing of filings as required for participating parties. Expenses and incidentals will be billed as incurred at cost or standard firm charge out rates.

On overall budget, MIPUG can confirm that the overall budget is very comparable to hearings of similar import and magnitude for MIPUG participation (approximately 35-40 hearing days for MIPUG), such as both the 2013 NFAT and the 2010 Risk hearing both of which were in this range. As was the case for the 2016 Cost of Service review, MIPUG will manage the budget as best as possible and in the event the hearing scope or timeline extends, will submit for budget increase approval.

Table 1: Estimated 2017/18 and 2018/19 General Rate Application Budget for MIPUG Intervention (\$)

Estimated Labour								
	TDS	InterGroup Consultants			Forkast Consulting	Morrison Park Advisors (100% estimate; only 50% of cost included in total)		
Task Outline	Antoine Hacaault Legal Counsel (20+ yrs experience)	Cam Osler (20+ yrs experience)	Patrick Bowman Consultant (20+ yrs experience)	Research Support (5-9 yrs experience)	Gerry Forrest (20+ yrs experience)	Pelino Colaiacovo (20+ yrs experience)	Support Staff	
Discovery and Pre-Hearing Processes	72		100	125				
Preparation of Evidence	60	85	160	140	50			
Preparation and Attendance of Oral Hearings	400	20	320	320	10			
Preparation of Written and Oral Final Argument	60	5	60	80				
TOTAL HOURS	592	110	640	665	60			
HOURLY BILLING RATE	\$285	\$240	\$210	\$125	\$240			
TOTAL LABOUR DOLLARS	\$168,720	\$26,400	\$134,400	\$83,125	\$14,400	\$91,250	\$16,500	
MIPUG TOTAL LABOUR DOLLARS	\$168,720	\$26,400	\$134,400	\$83,125	\$14,400	\$45,625	\$8,250	
Total Professional Fees							\$	480,920
Expenses (Printing, 50% approximate MPA etc.)							\$	4,200
PST on legal (8%)							\$	13,000
Contingency (5%)							\$	25,000
Total Professional Fees & Expenses (with PST, excludes GST)							\$	523,120