MANITOBA HYDRO 2019/20 GENERAL RATE APPLICATION
MANITOBA HYDRO
INFORMATION REQUESTS OF THE CONSUMERS COALITION
(RAINKIE, DERKSEN, AND HARPER)
APRIL 12, 2019

MH/COALITION I - 1

Reference:

Section 1.0, pages 6-13

Question:

For each conclusion and recommendation, please identify the name and qualification of each person who worked on each of the conclusion and recommendations, including a list of the previous projects or proceedings which the individual participated in related to the topic and his/her role in the project or proceeding.

Response:

The Evidence filed with the PUB on March 29, 2019 on behalf of the Consumers' Association of Canada (Manitoba Branch) and Winnipeg Harvest was prepared by Mr. Rainkie, Ms. Derksen and Mr. Harper. As detailed in the Consumers Coalition Budget Letter of January 11, 2019, the three Consultants focused on discrete but complementary areas of MH's Application working collaboratively as to draw upon their multi-disciplinary expertise from 90 years of collective experience.

In particular, Sections 3.0 - 10.0 of the Evidence was led by Mr. Rainkie with support by Ms. Derksen and Mr. Harper; Sections 11.0 – 13.0 was led by Ms. Derksen with support by Mr. Rainkie and Mr. Harper; and Appendix A was led by Mr. Harper with support by Mr. Rainkie and Ms. Derksen.

The detailed qualifications and relevant proceedings particular to each Consultant, Mr. Rainkie, Ms. Derksen and Mr. Harper were attached as Appendices B-D of the Evidence.

MH/COALITION I - 2

Reference:

Section 2.0, pages 13-17

Question:

a) Please provide a copy of the retainer letter for each consultant. Please also provide any instructions received with respect to each retainer.
b) Please advise which areas raised in the evidence were identified by the consultants, specifying which consultant(s) identified the specific area, and which areas were identified by the Consumers Coalition.
c) Please advise whether the consultants met with the membership of the Consumers Coalition of Canada or Winnipeg Harvest. If so, what information did the membership provide to the consultants? If in written or electronic format, please file.

Response:

a-c):

The attached letters retaining Mr. Rainkie, Ms. Derksen, and Mr. Harper on behalf of the Consumers Coalition provide the instructions received but exclude the financial terms which are not relevant to the question or to the Board's deliberations. In each case, the instructions stated that:

> "It is your duty to provide evidence that:
>
> a) is fair, objective and non-partisan;
> b) is related only to matters that are within your area of expertise; and
> c) to provide such additional assistance as the Public Utilities Board may reasonably require to determine an issue.
>
> Your duty in providing assistance and giving evidence is to help the Public Utilities Board. This duty overrides any obligation to the

> Consumers Coalition. By signing this letter of retainer, you confirm that you will comply with this duty. "

Consistent with these instructions, the evidence was developed collaboratively by the experts. See also MH/Coalition 1-1.

The Consultants met on a couple of occasions with representatives of the Consumers' Association of Canada (Manitoba Branch) and Winnipeg Harvest and Legal Counsel from the Public Interest Law Centre to provide a client briefing on the MH 2019/20 Rate Application as well as the Update to MH's Application. This included providing a summary of MH's Application and its rationale, a discussion of the process and timing, and potential issues to be explored. No written or electronic information was provided by the Consumers Coalition to the Independent Experts.

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Email: kadil@pilc.mb.ca

February 15, 2019

Darren Rainkie
39 Edenwood Place
Winnipeg, MB R3X 0E5

Dear Mr. Rainkie:

RE: Manitoba Hydro – 2019/2020 General Rate Application

I am writing on behalf of the Manitoba Branch of the Consumers' Association of Canada (CAC MB) and Winnipeg Harvest, together the Consumers Coalition, to formally retain your assistance with respect to the Manitoba Hydro – 2019/2020 General Rate Application (GRA).

Background

In November 2018, Manitoba Hydro applied to the Public Utilities Board (PUB) for approval for its 2019/20 GRA. Our clients, the Consumers Coalition, applied for intervener status on December 18, 2018. On January 2, 2019 the Consumers Coalition was granted intervener status. The hearing into Manitoba Hydro's GRA is anticipated to begin in the spring of 2019.

Terms of Retainer

On behalf of our clients, we confirm that we are retaining your services to assist our clients with their participation in the PUB review of the Application.

Your duties will include:

- Review Manitoba Hydro's initial filing and prepare memo to PILC on issue identification, case theory and areas for additional inquiry;
- Assist PILC with the Coalition response to Manitoba Hydro proposal letter;
- Assist PILC with initial pre-hearing conference;
- Review Manitoba Hydro responses to PUB IRs, identify key themes and prepare additional IRs, review Manitoba Hydro responses to Intervener IRs;
- Prepare analysis of key issues, prepare independent expert evidence and assist in client briefing of key themes;
- Review other intervener's evidence (MIPUG and AMC), prepare IRs and respond to IRs of other parties;
- Review Manitoba Hydro rebuttal evidence, prepare oral evidence

including power point, witness preparation and attendance; and

- Respond to undertakings and follow up on key themes identified in cross-examination.

Duty to the Public Utilities Board

It is your duty to provide evidence that:

- is fair, objective and non-partisan;
- is related only to matters that are within your area of expertise; and
- to provide such additional assistance as the Public Utilities Board may reasonably require to determine an issue.

Your duty in providing assistance and giving evidence is to help the Public Utilities Board. This duty overrides any obligation to the Consumers Coalition. By signing this letter of retainer, you confirm that you will comply with this duty.

Financial Terms

[Financial terms have been omitted as they are not relevant to the question as posed or to the determination of a just and reasonable rates]

Reporting and Hours Incurred

In the event that you expect there to be a material increase in your actual number of hours, I would ask that you contact me at your earliest convenience to discuss this matter and to receive my approval for any material increase.

Conclusion

If you find the terms of this retainer acceptable, I would ask that you sign and return to my attention one copy of this letter. Please keep another copy for your own records.

Thank you for your consideration of this request. If you have any questions, please feel welcome to telephone me at (204) 985-5220.

Yours truly,

[Signature in original]

Katrine Dilay
Attorney

KD/ab

cc. *CAC Manitoba*
Winnipeg Harvest

I accept the terms of this retainer this day of , 2019.

[signature and date in original]

Darren Rainkie

PUBLIC INTEREST LAW CENTRE

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Writer's direct line: (204) 985-5220
Email: kadil@pilc.mb.ca

February 13, 2019

Sent via email: bharper.consultant@bell.net

William Harper
107 Baker Avenue
Richmond Hill, Ontario L4C 1X5

Dear Mr. Harper:

RE: Manitoba Hydro – 2019/2020 General Rate Application

I am writing on behalf of the Manitoba Branch of the Consumers' Association of Canada (CAC MB) and Winnipeg Harvest, together the Consumers Coalition, to formally retain your assistance with respect to the Manitoba Hydro – 2019/2020 General Rate Application (GRA).

Background

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Terms of Retainer

On behalf of our clients,CAC Manitoba and Winnipeg Harvest, we confirm that we are retaining your services to assist our clients with their participation in the PUB review of the Application.

Your duties will include:

- An initial assessment of Manitoba Hydro's application;
- Drafting information requests (IR);
- Reviewing IR responses, updating the initial assessment and formulating recommendations;
- Preparing evidence, if applicable; and
- Identifying themes from the oral hearing for closing submissions in relation to your analysis.

Duty to the Public Utilities Board

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Yours truly,

[Signature in original]

Katrine Dilay
Attorney

KD/ab

cc. *CAC Manitoba*
Winnipeg Harvest

I accept the terms of this retainer this day of , 2019.

[Signature and date in original]

____

William Harper

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Email: kadil@pilc.mb.ca

February 13, 2019

Kelly Derksen
14 Timberwood Place
East St. Paul, MB
R2E 0M4

Dear Ms Derksen:

RE: Manitoba Hydro – 2019/2020 General Rate Application

I am writing on behalf of the Manitoba Branch of the Consumers' Association of Canada (CAC MB) and Winnipeg Harvest, together the Consumers Coalition, to formally retain your assistance with respect to the Manitoba Hydro – 2019/2020 General Rate Application (GRA).

Background

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Terms of Retainer

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Thank you for your consideration of this request. If you have any questions, please feel welcome to telephone me at (204) 985-5220.

Yours truly,

[Signature in original]

Katrine Dilay
Attorney

KD/ab

cc. *CAC Manitoba*
Winnipeg Harvest

I accept the terms of this retainer this day of , 2019.

[Signature and date in original]

Kelly Derksen

MH/COALITION I - 3

Reference:

Section 5.3, page 50

Question:

Please confirm that all the long-term financial forecasts (MH12 to MH15 and Exhibit 93) assume even annual rate increases above 3.5% for at least 10 years beginning in 2017/18.

Response:

The question fails to recognize the unique circumstances of the 2019/20 Rate Application, MH's own evidence that the MHEB is currently conducting a comprehensive review of MH's strategy, operations and finances and has not endorsed any form of long-term IFF (including the prior IFF's noted in the preamble) or rate strategy and the PUB ruling in Order 1/19 that the long-term financial forecast and financial plan is not in scope for the review in the current proceeding.

It is confirmed that the prior IFF's mentioned in the preamble to the question contained indicative rate increases of 3.95% and 7.9% in the case of MH16, with the express caveat noted in Section 6.2 of the Evidence that actual future proposed rate increases would be based on the circumstances and outlook at the time and would be subject to review and approval by the MHEB. MH Exhibit #93 was a scenario presented in an undertaking that had the assumption of indicative rate increase of 3.57%, which MH acknowledged in its original Application, page 8, line 25, as having been filed for information purposes only.

As was noted in more detail in the response to PUB/Coalition 7, MH has filed a one-year rate application for 2019/20 with the PUB and has not provided an updated IFF or rate strategy for the PUB to consider. Prior IFF's and indicative rate increases were prepared in consideration of a modified cost of service rate-setting approach based on the attainment of a 25% equity ratio in a prescribed timeframe and by varying the time when inflationary rate increases of 2.0% would commence.

In Order 59/18, the PUB questioned the use of the debt to equity ratio as a metric for a vertically integrated monopoly Crown utility with a debt guarantee from the provincial government. The PUB also concluded in Order 59/18, that there was merit to gaining a better understanding of the financial reserves required by MH under various circumstances, including the consideration of a rule-based regulation such as a minimum retained earnings test (MRET). While the PUB set aside Directive #9 from Order 59/18 to have a MRET technical conference due to process concerns, it found at page 11 of Order 126/18, that "parties remain free to raise matters of rule-based regulation in the course of scoping any future GRA proceeding."

It is noted that on pages 8 and 9 of Mr. Bowman's evidence on behalf of MIPUG, he expresses the view that it becomes increasingly an item of debate as to whether MH's financial reserves have reached a sufficiently high level that they could be maintained at a stable level, rather than simply perpetually increased through additional net income. Mr. Bowman went on to observe that with the refinement of more advanced probabilistic tools by MH and the PUB, the focus regarding building up reserves should begin to change and that the discussion at the previous GRA began to coalesce around increased risk modelling as to what might be required in the future in terms of reserves to ensure rate stability.

The implications of using a MRET or rules-based rate-setting test would be that proposed rate increases and forecast indicative rate increases may no longer be based on a goal-seeking exercise to meet an equity ratio target by a certain timeframe, as was the case in the last number of IFF's noted in the preamble.

All of these current circumstances result in the conclusion that the modified cost of service of rate-setting approach is not possible in the current proceeding given the absence of a reliable IFF and MHEB proposed rate strategy, and that prior indicative rate increases are not determinative to the application currently before the PUB.

The question also fails to recognize that MH has the onus as applicant to prove to the PUB that its rate proposals are just and reasonable and that observations with respect to levels of past indicative rate increases included by the MHEB in IFF's or PUB approved rate increases do not satisfy this onus of proof and do not constitute justification for a rate increase, based on a one-year rate application, in the absence of an IFF (These principles are outlined in Section 6.2 of the Evidence).

MANITOBA HYDRO 2019/20 GENERAL RATE APPLICATION
MANITOBA HYDRO
INFORMATION REQUESTS OF THE CONSUMERS COALITION
(RAINKIE, DERKSEN, AND HARPER)
APRIL 12, 2019

MH/COALITION I - 4

Reference:

Section 5.3, page 51

Preamble:

On page 51, the evidence states “The projected cumulative financial results for the six-years (2022/23 to 2027/28) after the in-service of Keeyask in MH Exhibit #93 (MH16 Updated) was $418 million of losses.”

Question:

Please confirm that if MH-Exhibit 93 was adjusted for 20-year WATM, the projected cumulative losses of $418 million for the six years (2022/23 – 2027/28) would be higher considering the $250 million of savings embedded in MH-Exhibit 93 attributable to the 12-year WATM.

Response:

In the current regulatory proceeding, MH has filed a one-year rate application (for final rates) for 2019/20 and has not provided an updated and integrated financial forecast or rate strategy for the PUB to consider in setting rates for 2019/20. The MHEB is currently conducting a comprehensive review of MH’s strategy, operations, finances (including the MH debt management strategy) and has not endorsed any form of long-term IFF or rate strategy.

Sections 5.1 and 5.2 of the Evidence concludes that the modified cost of service rate-setting framework is dependent on a long-term financial forecast and that it is not possible for the PUB to use the modified cost of service rate-setting framework to set rates for 2019/20 in the absence of a reliable, long-term and integrated financial forecast.

Sections 5.4 and 5.5 of the Evidence provide additional analysis outlining that MH Exhibit #93 is not a reliable basis for the PUB to set rates in 2019/20 given the variability of MH's IFF's when updated for more current information and planning assumptions and that the MH IFF could change significantly as a result of the comprehensive review of the recently appointed MHEB, including MH's debt management strategy.

In addition, the PUB has ruled in Order 1/19 (page 12) that the long-term financial forecast and financial plan is not in scope for review in the current regulatory proceeding.

Under the circumstances and limitations of this regulatory proceeding, MH Exhibit #93 can be used in a limited fashion to assess the short-term changes in financial results and financial ratios since the last MH GRA and assess MH's assertion of deterioration of past financial results as a reason for a 3.5% rate increase in 2019/20.

However, considering the potential changes in the longer-term of MH Exhibit #93 on a one-off and incremental basis does not serve any purpose at this one-year regulatory proceeding as this will ultimately not remedy the inability to use an outdated forecast for rate-setting purposes.

It is confirmed that the assumption of a 20-year WATM throughout the entire timeframe of the exhibit would directionally result in deterioration of the financial outlook, however, it is also observed that the improvement to the financial outlook in MH Exhibit #93 as a result of the actual lower Bipole III capital cost would more than offset the potential deterioration. However, as noted in the prior paragraphs, to what end would one make this observation. It is uncertain how the many other IFF forecast components will change, what the long-term financial direction of MH will be and what the long-term debt management strategy will be (20-year

WATM or otherwise) until the MHEB finishes its comprehensive review and the new plans/strategies are evaluated for rate-setting purposes at the next GRA.

MANITOBA HYDRO 2019/20 GENERAL RATE APPLICATION
MANITOBA HYDRO
INFORMATION REQUESTS OF THE CONSUMERS COALITION
(RAINKIE, DERKSEN, AND HARPER)
APRIL 12, 2019

MH/COALITION I - 5

Reference:

Section 8.3, page 78 and 79

Preamble:

On page 78, the evidence states “The variance between the actual 2014/15 O&A and MH13 forecast (that was developed late in 2013) was $13 million or 2.6% underspent. The variance between the actual 2014/15 O&A and MH14 forecast (that was developed late in 2014) was $5 million or 1.0% underspent.” And on page 78 and 79 “…the principle is demonstrated that high-level O&A targets developed two years prior to the test year may not be reliable for rate-setting purposes.”

Question:

a) Given the variance of actual O&A to the targets noted are between 1 and 2.6%, please explain on what basis Mr. Rainkie concludes that the targets may not be reliable for rate-setting purposes?

b) What would Mr. Rainkie consider to be a reasonable percentage range for variance between actual O&A and an O&A target developed two years prior to the test year?

Response:

a) The Consumer Coalition experts conclude in Section 8.3 of their evidence that the $511 million O&A budget is not reliable for rate-setting purposes as it is based on a high level and outdated set of calculations and assumptions from 2017. The basis for this conclusion can be summarized as follows:

   - Review of past performance of O&A forecasts developed two-years in advance of the test year (MH’s O&A targets were developed in 2017) that would indicate that the accuracy of MH's O&A forecasting is not within the 1% level asserted by MH;

- The inclusion of a high-level contingency for restructuring of $12 million to apparently force the O&A targets back to their previous amounts when the labor savings from the VDP were adjusted by a similar amount. MH has confirmed that there are no actual or planned expenditures related to this contingency item;
- The O&A target setting analysis fails to normalize the one-time increase in collection cost in 2017/18 out of the calculation of O&A targets for 2018/19 and 2019/20;
- The O&A variance analysis to December 31, 2018 that contains numerous offsetting larger favorable and unfavorable variances, with one individual variance as high as $24.1 million or 9.8%;
- The fact that O&A was the only expense item not updated by MH for the 2019/20 rate application and that there is no detailed budget to support the $511 million O&A target for 2019/20, which represents almost 30% of MH's revenue requirement; and
- The expectation that with a corporation of the size and complexity of MH that there would be changes from the forecast O&A developed two years ago.

The analysis in Section 8.4 of the Evidence suggests that MH 2019/20 O&A forecast is overstated by $22 million or 4.3% ($22/$511). This $22 million represents a rate reduction of about 1.3% ($22/1,699) in 2019/20. At a social discount rate of 5%, the present value of this rate reduction in perpetuity represents a savings to customers of approximately $440 million ($22/.05).

b) The Consumer Coalition experts have been retained to assess the reliability of MH's forecasts for rate-setting purposes and provide the PUB will rate-setting recommendations, not specify internal performance objectives of MH for forecasting accuracy.

As noted in the response to PUB/Coalition 3, the difference between MH's projected O&A trajectory in MH Exhibit #93 and the rate-setting recommendations of the Consumer Coalition experts will grow to about $32 million by 2022/23 which would represent a 1.9% rate reduction at that time. At a social discount rate of 5%, the present value of this rate reduction in perpetuity represents a savings to customers of approximately $640 million ($32/.05).

While MH may consider this difference to be immaterial or inconsequential (as per the preamble to the question), the reality is that this level of difference on an expense item that represents close to 30% of MH's revenue requirement has material consequences to MH's customer base.

MH/COALITION I - 6

Reference:

Section 8.4, page 82

Question:

Please confirm, assuming staffing levels remain the same, that a change in the deployment of resources between operations/maintenance and construction will have an impact on O&A costs?

Response:

The question appears to relate to the portion of page 82 of the Evidence that outlines the $16 million of reduction in the labor savings from the VDP as a result of a change in the assumption of the mix of savings that will be recorded to O&A versus capital expenditures. This change in the mix has not been explained or supported by the evidence of MH.

The question appears to be posed from a financial reporting perspective and requests an obvious confirmation that costs (and by extension cost savings) will be either be recorded to O&A or capital.

However, the question fails to recognize the impact on rate-setting of such a material reduction in VDP savings that will be recorded in O&A. A $16 million reduction in VDP savings recorded to O&A represents approximately a 0.9% ($16/$1,699) increase in the revenue requirement for the 2019/20 fiscal year.

In contrast, a $16 million increase in the VDP saving recorded to capital expenditures will be recognized in revenue requirement over the life of the associated asset which may be 30 to 50 years or longer. As such, customers will receive the $16 million of savings through the amortization of lower capital costs in the range of $0.3 million ($16/50) to $0.5 million ($16/30) per year.

In addition, it is not clear if MH's budgeting system is designed to flow the VDP capital savings through to customers for rate-setting purposes in the form of reduced Business Operations Capital (BOC) forecast. When asked to reconcile the claims of savings from the last GRA that will be recorded in BOC in Coalition/MH I-30 h, MH indicated there was no quantitative basis to do so.

MH/COALITION I - 7

Reference:

Manitoba Hydro's 2019/20 Electric Rate Application, page 23

Appendix A, page 17

Preamble:

On page 23, of Manitoba Hydro's Application, Manitoba Hydro's states "Manitoba Hydro has relatively small levels of unsold dependable energy and capacity in 2019/20. In forecasting the net interchange revenues and generation for both the 2019/20 Interim Budget and Exhibit 93, the Corporation has not projected incremental revenues associated with surplus dependable capacity."

On page 17 of Appendix A, the Evidence states "In forecasting export revenues for the remainder of 2018/19 and 2019/20, Manitoba Hydro does not attribute any incremental revenue to the sale of surplus dependable capacity over and above what has already been contracted. However, since IFF16 was issued additional (short-term) contracts have been executed with the Minnesota Municipal Power Agency and incremental revenues earned. Even with these additional contracts there still remains something in the order of 1,000 GWh of surplus dependable generation in 2019/20. Since recent experience has shown that additional sales of surplus dependable capacity do occur, it would be reasonable for the PUB to incorporate some allowance for such revenues in determining the level of rate increase required for 2019/20."

Question:

a) Please provide the reference and calculation for the 1,000 GWh of surplus dependable generation in 2019/20.

b) Please explain how the 1,000 GWh of surplus dependable generation supports the assertion that surplus dependable capacity revenue for 2019/20 is understated.

c) Please confirm the reference to surplus dependable capacity (page 17 of Appendix A) was intended to reference surplus capacity as outlined in Attachment 4 (i.e. 396 MW in summer 2018/19 and 303 MW in summer 2019/20, last line of the table found on page 2 of Attachment 4).

d) Please confirm that for Manitoba Hydro to receive capacity revenues from the MISO market for 2018/19 and 2019/20, those transactions would have had to be in place in the February/March 2018 and 2019 timeframe respectively, prior to MISO's planning year. Please confirm that bilateral capacity sales to the MISO market must be registered by February 1 of the prior year (i.e. February 1, 2018 for 2018/19 planning year) and that the MISO capacity auction window closes at the end of March for each year.

e) Please confirm that the MISO capacity auction clearing price for the zone Manitoba Hydro transacts (Zone 1) in for 2018/19 was $1USD/MW-day (see slide 6 of MISO's 2018/2019 Planning Resource Auction Results found here: https://cdn.misoenergy.org/201819%20PRA%20Results173180.pdf).

f) Using the 2018/19 capacity clearing price referred to in part (d); the surplus capacity provided in Attachment 4; and a U.S.-Cdn exchange rate of 1.31, please estimate the potential "allowance for revenues" for 2018/19 associated with surplus capacity.

Response:

a) to f)

The referenced portion of Appendix A is not addressing the opportunity for additional revenue from the sale of capacity in MISO's capacity auction. Rather it is addressing the fact that, for the MH16 and MH16 Update forecasts Manitoba Hydro assumed that surplus dependable energy would be marketed as opportunity energy as opposed to being marketed as a firm sale of energy and capacity (i.e., as a dependable product) as was done prior to 2016. In doing so the MH16's (and the current Application's) forecast revenues from the sale of any surplus dependable energy exclude any premium for the value of generation capacity as a component of the price attributed to the sales of surplus dependable energy. It was the fact that the sale of dependable energy also involves the commitment/sale of capacity that led to the reference to "surplus capacity" in Appendix A. The reference to 1,000 GWh of surplus dependable energy reflects the fact that this capacity would be sold as a component of a dependable energy product and can be found in Attachment 4, page 3 of Manitoba Hydro's Application. The key point being made in the Appendix is that, since additional dependable sales have been contracted for since the MH16 Update (e.g. with the Minnesota Municipal Power Agency), it is reasonable to assume that further such sales will occur and to make allowance for them in considering the rate increase required for 2019/20.

MH/COALITION I - 8

Reference:

Appendix A, page 29

Preamble:

On page 29 of Appendix A, the evidence states "At the start of this year the Bank of Canada issued its January 2019 Monetary Policy Report wherein it downgraded its outlook for Canadian economic growth in 2019. At the same time the Bank of Canada decided to maintain its current key interest rates. Subsequently, in a March 6, 2019 press release, the Bank of Canada noted that 'it now appears that the economy will be weaker in the first half of 2019 than the Bank projected in January' and announced that it was maintaining its key interest rates. The next interest rate announcement is expected in April when the Bank releases its next Monetary Policy Report. Similarly, the US Federal Reserve has maintained its target interest rates over the first quarter of 2019. Overall, this would suggest that interest rates for 2019/20 are likely to be lower than those used in the Application".

At the Baffin Regional Chamber of Commerce speech on April 1, 2019 Bank of Canada Governor Poloz indicated: "Recent economic data have been generally consistent with our expectation that the period of below-potential growth will prove to be temporary."

(https://www.bankofcanada.ca/2019/04/canadas-export-sector-shows-promise-challenging-environment/)

For the months of October and November 2018, the average borrowing cost for Manitoba 30 year debt was 3.44% (PUB-MH I-40a) which was just 0.16% lower than Manitoba Hydro's forecast used in the Application for 30 year debt of 3.60%

(Coalition-MH I-7a) for 2018/19. At the time, the median of Bloomberg economic forecasters called for two rate hikes in 2019 which would be in line with Manitoba Hydro's forecast used in the Application for 30 year debt of 3.90% (Coalition-MH I-7a) for 2019/20.

Question:

a) Should this period of below-potential growth prove to be temporary, as the Bank of Canada believes it to be, is it feasible that bond yield rates will increase in 2019/20?

b) Is there anything preventing the Bank of Canada from raising interest rates after March 6, 2019?

c) Confirm the Bank of Canada raised its key interest rates 25 bps on two occasions in calendar 2018 after March 31, 2018?

Response:

a) Yes, it is feasible. It is also feasible that rates will not rise as soon or by as much as indicated in the various forecasts underpinning Manitoba Hydro's consensus forecast. In this regard it is interesting to note that several of the forecasts used by Manitoba Hydro in preparing its consensus forecast called for increases in the Bank's overnight rate in the first quarter to 2019 – which did not occur. Furthermore, several of these same sources (e.g. CIBC[1], Laurentian[2], and TD Bank[3]) are now forecasting lower overnight rates during 2019 than in their forecasts referenced in PUB/MH I-34.

b) As Bank of Canada Governor Poloz indicated at the press conference following his April 1st speech: "how long it (the temporary slowdown) lasts

[1] https://economics.cibccm.com/economicsweb/cds?ID=6873&TYPE=EC_PDF
[2] https://www.vmbl.ca/portal/documents/49798/77d22521-66d7-4754-a6cc-414ed9cdc1e4
[3] https://economics.td.com/domains/economics.td.com/documents/reports/qef/2019-mar/2-ca-rates.htm

is a bit of question". It is understood that the Bank of Canada's decision whether or not to raise interest rates in the future will be based on future updates to its economic forecasts and its view as to what is best for the Canadian economy.

c) Confirmed. However, the timing and extent of key interest rate increases in 2018 is unlikely to be a useful predictor of what will occur in 2019. See the response to parts (a) and (b).

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Reference:

Section 10.2, page 104

Preamble:

On page 104, the evidence states “As outlined in point #6, there are a number of qualitative rate-setting observations that should be considered by the PUB for the purpose of setting 2019/20 rates:…

2. Potential for lower BOC spending in 2018/19 and 2019/20 as a result of a track record of past underspending (See Section 8.1 and Section 4.5 of Appendix A);
3. Potential to lower DSM spending based on a review of the cost effectiveness of programs in accordance with the PUB rate-setting findings in Order 59/18 (See Section 8.2 and Section 4.1 of Appendix A); and…”

Question:

a) Please confirm that a $100 million reduction to BOC spending in 2019/20 results in a $4 million reduction to the revenue requirement 2019/20 per Coalition/MH I-30 a-b.

b) Please confirm that a reduction from the $61 million of DSM spending 2019/20 amortized over ten years would have no revenue requirement impact in 2019/20 given that amortization commences in the following fiscal year.

Response:

a) Confirmed. However, it is important to note that such a reduction will lead to continuing (and even higher) savings in subsequent years as evidenced by the impact provided in the same interrogatory response of a $100 M reduction in BOC spending in 2018/19. Furthermore, it should be noted that the track record of past underspending was only one of the issues flagged in the Evidence regarding Manitoba Hydro's proposes BOC spending. The other issue[4] was the fact that Manitoba Hydro has not demonstrably responded to the PUB's direction in Order 59/18[5] that "Manitoba Hydro should continue to find reductions in BOC spending" and that the Business Operations Capital spending could be safely reduced by $160 M in the test year – 2018/19.

b) Confirmed. However, it is important to note that the Evidence also speaks[6] to Manitoba Hydro's failure revise its 2018/19 DSM spending to reflect the new lower marginal cost value in accordance with Board Order 59/18[7]. Reductions in 2018/19 DSM spending would have reduced the revenue requirement for DSM costs for 2019/20 by more than 10% given the 10-year amortization period used by MH for DSM costs and the related savings in finance costs.

[4] Coalition Consultants evidence, page 69 and Appendix A, page 24
[5] Pages 21 and 110
[6] Page 74 and Appendix A, page 24
[7] Page 118