

2019/20 ELECTRIC RATE APPLICATION

Manitoba Hydro Undertaking #4

Manitoba Hydro to file the original business plan for the Supply Chain Management Initiative (if any) upon which the initial savings estimate were developed as well as any revisions to the business plan. Specifically, provide the expected savings to be achieved included in the most current plan, the time period upon which the savings are expected to be realized, and how the savings will be tracked and reported.

Response:

Correction to COALITION/MH I-13a-h:

The response to question g) (ii) incorrectly states that the Supply Chain initiative will generate annual O&A savings of \$150 million from 2017/18 to 2019/20. It should state that the Supply Chain initiative will generate \$105 million over the 3 year period from 2017/18 to 2019/20. As such, cumulative O&A savings would equate to approximately \$31.5 million (30% of \$105 million). Manitoba Hydro will file a revised response.

The original Supply Chain Performance Management Program contemplated a six-stage approach with gated approvals. Stage 1 and 2 was an assessment phase to understand the context and business drivers, an assessment of the current state operating model, identification of a future state operating model with improvement initiatives and implementation plans for identified initiatives.

On completion of Stage 1 and 2, a range of savings opportunities were identified. In order to confirm the value and further refine the benefits estimates, a gated process with proposed "waves" of initiatives was implemented. This included an annual review of estimated savings and associated costs of implementation.

To date, Manitoba Hydro has implemented the majority of initiatives identified in waves 1 to 3. These initiatives provided the greatest potential for savings and had low to medium barriers to implementation. During this time, the consultants provided skill development and knowledge transfer to Manitoba Hydro staff.

A number of projects anticipated in the estimated savings for waves 1 to 3 were cancelled or deferred given cost containment initiatives and corporate restructuring. As the savings estimates were based on historical spend, factors such as changes in commodity prices, and line management resource constraints to test or approve new products as well as

participate in complex sourcing arrangements have resulted in lower than anticipated benefits.

The initiatives identified in waves 4 and 5 have, in general, medium to high barriers to implementation and the savings potential per initiative in many cases is estimated to be significantly lower than those seen in waves 1 to 3.

For these reasons it was deemed financially prudent to discontinue the consulting support and utilize internal resources to continue to implement the initiatives and assess the sourcing strategies for waves 4 and 5.

Manitoba Hydro's response to 2019/20 Electric Rate Application PUB/MH I-17a-b included a summary of savings realized to date (FY2017/18) and Estimated Savings by Category to FY2019/20. As noted in COALITION/MH I-13 g) (ii), it is estimated that 70% of the saving relate to capital expenditure reductions and 30% relate to O&A expenditure reductions.

	Realized Savings by Category (in thousands of dollars)			
	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Building, Facility, Construction and Maintenance Services & Goods	\$17	\$958	\$5,321	\$270
Information Technology and Communication	0	3	90	251
Infrastructure Equipment and Core Components	0	513	2,866	4,897
Logistics, Transport & Fleet	0	548	1,393	514
Maintenance, Repair, Operations (MRO) Goods	1,471	511	291	447
Management and Business Professionals and Administrative Services	0	0	4	10
Travel, Hospitality and Catering	153	555	605	549
Total Annual Realized Savings	\$1,642	\$3,087	\$10,569	\$6,938
Cumulative Savings	\$1,642	\$4,729	\$15,298	\$22,236

	Estimated Savings by Category (in thousands of dollars)		
	FY2018/19	FY2019/20	Future
Building, Facility, Construction and Maintenance Services & Goods	\$1,750	\$2,149	\$7,079
Information Technology and Communication	1,500	1,500	2,000
Infrastructure Equipment and Core Components	3,586	3,586	5,086
Logistics, Transport & Fleet	444	1,544	4,964
Maintenance, Repair, Operations (MRO) Goods	1,297	3,772	6,347
Management and Business Professionals and Administrative Services	200	1,600	6,000
Software Maintenance & Support			1,500
Travel, Hospitality and Catering	720	720	1,510
Building and facility construction, maintenance and repair services			1,400
Total Annual Estimated Savings	\$9,497	\$14,871	\$35,886

Current information indicates that actual savings achieved for the 2018/19 fiscal year are tracking higher than the estimated annual savings of \$9 497 (in thousands of dollars).

Included in the future estimated savings in the table above is a high level estimate of \$14 million in savings for waves 4 and 5. The categories in these waves require further analysis which is currently being undertaken. From this analysis, a revised savings forecast and timeline for initiatives within these categories will be developed. It is anticipated this analysis will be completed by the end of September 2019.

The hard savings are tracked at the category and/ or initiative level and are reviewed regularly. In addition to hard savings, Manitoba Hydro documents soft savings (benefits) associated within these initiatives, however as these do not correlate to hard dollar savings these savings are not quantified. As noted in the response to PUB/MH I-17b *"in addition to hard savings, a number of efficiencies and other soft benefits are realized through the strategic sourcing initiatives. This includes management/ administrative time savings as a result of contract consolidation, as well as process improvement initiatives to reduce the administrative burden/ create process efficiencies related to work flow and information management."*