

Public Utilities Board

Final Argument of the GSS/GSM Customer Class Representatives

Manitoba Hydro 2023/24 & 2024/25 General Rate Application

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Gange Collins & Associates

760 – 444 St. Mary Ave

Winnipeg, MB R3C 3T1

Thomas K. Reimer / Robert J. Walichnowski

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INTRODUCTION

1. This General Rate Application (“GRA”) is about how to protect and foster the financial health of Manitoba Hydro so that it can continue to meet its mandate of providing Manitobans with safe, reliable electricity at the lowest possible price.

2. Manitoba Hydro and the interveners have different views of how this can be accomplished. To paraphrase a question that was asked during the oral hearing, Manitoba Hydro believes it needs to “reach into the pockets of its customers” to ensure that it can continue to meet its objective of providing safe, reliable electricity in a changing energy market. In different ways and to varying degrees, the interveners submit that Manitoba Hydro does not necessarily need the requested rate increases because it can meet its objective by becoming more efficient.

3. The major reason for Manitoba Hydro’s request is its dramatic new strategic vision, Strategy 2040. The animating factors for Strategy 2040 are the “3 D’s”: digitalization, decentralization, and decarbonization. Undoubtedly, these three factors are driving, and will drive, changes in the energy sector. However, with respect, it is not clear that these factors require Manitoba Hydro to so significantly and so quickly overhaul its operations and increase its forecast expenditures, most notably in operation and administration.

4. The reality is that it will be difficult to plan for the changes that Manitoba Hydro is predicting. The prudence of crystallizing higher spending and staffing levels in the face of this uncertainty is therefore open to question, especially following the decade of investment and debt that has just passed, the huge fluctuation in water flow experienced in the past two fiscal years, and the increases in interest of the past year.

5. With that said, this Board’s jurisdiction does not extend to managing Manitoba Hydro’s operations. Therefore, the question in this GRA, as in any GRA, is whether Manitoba Hydro has satisfied its onus to establish that its requested increases will result in just and reasonable electricity rates.

6. GSS/GSM respectfully submits that Manitoba Hydro has not met its onus. For the reasons that follow, GSS/GSM submits that Manitoba Hydro can set itself on a course to meet the targets prescribed by Bill 36 by adjusting its forecasted expenses and by using the ALG depreciation methodology, rather than ELG as it proposes. Balancing and controlling both sides of the equation (i.e., both revenues and costs) is essential to efficiently and effectively achieving these targets.

7. Ultimately, although Manitoba Hydro is “only” requesting 2% increases for each of 2023/24 and 2024/25 test years, this request comes on the heels of the interim rate increase of 3.6%. That 3.6% interim increase – much of which appears not to have been required by the drought, especially given last year’s record income – has already set Manitoba Hydro on track to meet the targets set by Bill 36. GSS/GSM therefore submits that the full 2% annual increases requested for each of the next two fiscal years are not needed to fund Manitoba Hydro’s operations.

8. Reliable electricity is vitally important to the members of GSS/GSM. GSS/GSM agrees with Manitoba Hydro that the frequency and duration of service outages should be reduced, despite the impact that maintaining reliability and service may have on rates. With that said, many of Manitoba Hydro’s cost increases do not have a clear connection

to reliable service or even to operations in general, and it is for that reason that GSS/GSM submits that rate increases lower than Manitoba Hydro's request would be appropriate.

9. GSS/GSM has focussed its evidence, and will focus its written and oral submissions, on four main areas: 1) operating and administration expenses; 2) IT-related issues; 3) depreciation; and 4) rate design. In addition, GSS/GSM will also provide its positions with respect to Bill 36, how the interim rate increase should be dealt with by the Board, and what a reasonable increase for each of the test years would be.

OPERATING & ADMINISTRATION (“O&A”) EXPENSES

10. Because Manitoba Hydro is a monopoly, the PUB's regulatory mandate requires it to act as a surrogate for market competition.¹

11. This does not mean that it is the PUB's job to manage Manitoba Hydro's expenses. However, if Manitoba Hydro determines that it requires a rate increase, it must adduce sufficient evidence to enable the Board to conclude that the requested rate increase would lead to just and reasonable electricity rates.

12. A central animating regulatory principle for the PUB is the “prudence standard”, which provides that customers should be charged only for prudently incurred costs.² Dictionary definitions of prudence connote a sense of caution, carefulness, shrewdness, and the avoidance of risks.

¹ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 66, lines 5 to 7

² Manitoba PUB Regulatory Principles (<http://www.pubmanitoba.ca/v1/about-pub/regulatoryprinciples.html>)

13. With this definitional guidance in mind, GSS/GSM submits that three over-arching questions should guide this Board's consideration of Manitoba Hydro's requested rate increases:

- a. Is Manitoba Hydro tracking and managing its O&A costs in sufficient detail to provide the Board with confidence that costs are being prudently controlled?
- b. Is Manitoba Hydro reporting its O&A costs in sufficient detail to allow the Board to make apples-to-apples comparisons between year-over-year spending levels in various areas of Manitoba Hydro's budget?
- c. Where O&A costs have increased materially, has Manitoba Hydro presented sufficient evidence to satisfy the Board that the increases are prudent and reasonable?

14. In the context of these three over-arching questions, GSS/GSM shares the concerns raised by Mr. Madsen in his pre-filed and oral evidence about Manitoba Hydro's proposed O&A cost increases.³

15. In the remaining paragraphs of this section, GSS/GSM will expand upon these concerns and argue that Mr. Madsen's concerns are legitimate and largely unchanged by Manitoba Hydro's pre-filed rebuttal evidence or the oral testimony of its witnesses. The conclusion GSS/GSM submits the Board should reach is that the proposed increases in

³ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, p. 65, lines 6 to 12. GSS/GSM acknowledges that some further information has been provided during the hearing that has clarified some, though not all, of these concerns.

O&A expense are not prudent and would not lead to just and reasonable rates. GSS/GSM provides its recommendation at the end of this section.

“What is Not Tracked Is Not Managed” & Lack of Supporting Evidence

16. One of the themes of Mr. Madsen’s testimony was “what is not tracked is not managed, and what is not managed is not tracked.”⁴ In other words, Manitoba Hydro’s ability to understand and explain – not to mention contain – its O&A requirements depends on the detail and quality of its projected and actual expense data.

17. During the course of this GRA, Manitoba Hydro has provided the Board with high-level information about its forecasts and its budgeting process. However, it has not provided the level of detail that would be needed to establish that its proposed O&A increases are prudent.

18. Examples of this include not providing or tracking headcount information, failing to provide detailed explanations for changes in costs, failing to provide business cases to support FTE additions, and not being able to provide activity-based information (i.e., rate and volume analysis) to support the forecast changes in costs.⁵

19. Although some of the cost changes, such as materials and tools,⁶ were better explained by evidence provided during the GRA, on the whole Manitoba Hydro’s evidence

⁴ Oral hearing transcript, June 2, 2023, page 2888, lines 16 to 24.

⁵ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, p. 67-68, s. 4.1.4.

⁶ The increase from 2022/23 to 2023/24 was 6% and largely driven by inflationary pressures, which is understandable, explainable, and objectively verifiable to some extent.

fell short of what would have been required to permit this Board to find that its projected increases are prudent. As Mr. Madsen testified:

What we're seeing here is in many cases significant escalations, some of which are explainable and some of which are not. And when you're faced with significant changes, I think – and – and this is just my opinion – the Board should have an equivalent amount of information and data to support the nature of the change to be able to comfort itself with the revenue its approving.⁷

20. Mr. Madsen opined that Manitoba Hydro had additional information that could have assisted the Board “in determining the reasonableness of the applied for forecast for Manitoba Hydro”.⁸ However, that information was not presented on the record.⁹ It is trite to say that what the Board cannot see cannot be relied upon to support the reasonableness of the applied for costs.

21. Instead, Manitoba Hydro has taken a “trust us” approach. GSS/GSM submits that this is not appropriate where such significant increases are being sought. For example, as shown in Table 3 of Mr. Madsen’s evidence,¹⁰ several cost lines increased by more than expected inflation from 2022/23 to 2023/24 including:

- a. net employee-related expenses, including wages and salaries (\$33.7 million or 7% increase);
- b. consulting and professional fees (\$22.8 million or 91% increase);

⁷ Oral hearing transcript, June 2, 2023, page 2953, line 22 to page 2954, line 14.

⁸ Oral hearing transcript, June 2, 2023, page 2870, lines 16 to 20.

⁹ Oral hearing transcript, June 2, 2023, page 2954, lines 7 to 12.

¹⁰ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, p. 64.

- c. construction and maintenance services (\$3.7 million or 12% increase);
- d. building and property costs (\$3.4 million or 10%);
- e. equipment maintenance and rentals (\$2.7 million or 13%); and
- f. computer services (\$4.1 million or 49%).

22. In order to establish that these expenses are prudent and would contribute to just and reasonable rates, the evidentiary standard ought to be commensurate with the magnitude of the increases. For instance, it is possible that more high-level evidence would be adequate to justify increases that simply tracked inflation.

23. In this case, however, the increases are material, in several cases unprecedented, and in most cases unsupported by adequate objective justification. GSS/GSM therefore submits the Board should be provided with more detailed evidence in support of the requested increases before they are incorporated into the revenue requirement.

Zero-Based Budgeting

24. The concern about the lack of detailed evidence in Manitoba Hydro's filings dovetails with Mr. Madsen's suggestion that Manitoba Hydro could have benefited from a zero-based budgeting technique.

25. The benefit of a zero-based budgeting technique is that it provides a granular level of detail which enables management to fully understand where and why spending increases may be required. More importantly for the present context, such a technique would enable Manitoba Hydro to explain to this Board where and why spending increases

are required. This is because zero-based budgeting is both “a budgeting and a tracking tool.”¹¹

26. Mr. Madsen has not suggested the immediate, enterprise-wide adoption of zero-based budgeting. As he states, zero-based budgeting is “a concept that can be implemented in its entirety or certain discrete elements of the process can be adopted.”¹²

27. If Manitoba Hydro were to adopt elements of a zero-based budgeting approach, it would likely improve Manitoba Hydro’s ability to forecast costs. This would in turn increase confidence in those forecasts, especially when they are projected to increase. Candidly, the benefits of improved budgeting and tracking for Manitoba Hydro are obvious. Not only would it likely result in cost savings, it would also improve regulatory efficiency and transparency, making it easier for all parties to understand and test Manitoba Hydro’s projected costs.

28. Although the method of budgeting employed by Manitoba Hydro is a management decision, not a regulatory one, GSS/GSM submits that the Board would be within its jurisdiction to direct the level of supporting evidence it would require in the future for expense increases beyond a certain threshold. For instance, detailed business cases could be required for significant departmental FTE increases at a threshold of \$1 million or a 10% variance or at some other threshold determined by the Board.

29. Additionally, GSS/GSM submits that it would also be appropriate for this Board to recommend to Manitoba Hydro a trial of the zero-based budgeting technique outlined by

¹¹ Oral hearing transcript, June 2, 2023, page 2889, lines 1 to 4.

¹² Oral hearing transcript, June 2, 2023, page 2889, lines 1 to 4.

Mr. Madsen in one or more departments, for instance in finance or IT. This could allow a more concrete discussion about its merits for Manitoba Hydro at a future GRA.

Lack of Transparency in GRA Filing

30. In its rebuttal evidence, Manitoba Hydro was critical of Mr. Madsen's conclusions regarding O&A increases because, it said, Mr. Madsen had not accounted for general wage increases (GWI) for 2022/23 that resulted from collective bargaining and arbitrations between Manitoba Hydro and its unions. In fact, Mr. Madsen could not have known about GWI for 2022/23 because it was not recorded as GWI but was instead mixed into the overall FTE increases projected for 2023/24.¹³ This approach to forecasting costs makes it difficult for the Board and interveners to assess the reasonableness of the proposed increases.

31. Two other examples of inadequate accounting transparency relate to costs for consulting fees and computer services for cloud computing and SAP S/4 HANA. Clarity remains elusive surrounding the reason for the sizable actual and projected increases in these areas. For example, in Slide 25 of its direct evidence presentation (MH-42), Manitoba Hydro provided a waterfall chart of the change in costs from year-to-year including increases due to "Cloud-Computing". However, the waterfall chart does not explain what specifically the increases are for or why they are reasonable.¹⁴

¹³ MH-24, Manitoba Hydro Rebuttal Evidence, p. 14 of 131, lines 3 to 7.

¹⁴ MH-42, Slide 25

32. This lack of clarity is problematic as it makes it difficult for parties and the Board to isolate changes in consulting and computer services costs that are not due to cloud computing.

33. In its written argument, Manitoba Hydro takes issue with Mr. Madsen's recommended reductions to consulting costs.¹⁵ It suggests the reductions will not permit other forecast work to be completed. This is a good illustration of the problem: no one other than Manitoba Hydro has a detailed understanding of the nature of the costs that are being incurred. Detailed evidence was sought through the interrogatory process and no new information was provided.¹⁶ It is inappropriate for Manitoba Hydro to now shield itself against the removal of costs from the revenue requirement when it has failed to provide support for those costs, despite invitations to do so.

34. Mr. Madsen recommended pragmatic and reasonable modifications to Manitoba Hydro's reporting methods that would aid this Board and interveners to better understand Manitoba Hydro's forecasts in the future:

In the short-term I recommend reporting enhancements including tracking and reporting actual and forecast costs at a greater level of detail.

For example, consulting fees should be tracked and forecast at a program or activity level of detail, such as audit fees, regulatory legal fees, corporate legal fees, depreciation consulting fees, et cetera. This level of detail will provide for increased transparency into the drivers of cost increases or decreases going forward.

¹⁵ MH-57, Final Written Argument at pp. 139 and 140

¹⁶ See e.g. GSS-GSM/MH II-3b, 6b) & c).

Position based forecasting should also be adopted in addition to FTE forecasting so that the two can be reconciled.¹⁷

35. Providing this additional level of detail would not be unreasonably onerous for Manitoba Hydro, given the assistance it would provide the Board and the interveners in understanding Manitoba Hydro's projections. It should not be necessary for the parties to go through an onion-peeling process through information requests and cross-examination just to understand how costs are changing and why. Understanding should flow from Manitoba Hydro's filed material.

36. If an incremental cost is necessary and would materially impact the revenue requirement, Manitoba Hydro should demonstrate that necessity at the outset. The alternative is really a lack of reasonable transparency into the drivers of cost increases, which in turn increases the regulatory effort expended by all parties, reduces confidence in Manitoba Hydro's forecasts, and creates the potential for confusion.

Increasing FTE Costs Not Supported or Accounted For

37. In his pre-filed evidence, Mr. Madsen recommends that Manitoba Hydro's labour costs should be reduced by \$7.8 million in 2023/24 and by \$11.1 million in 2024/25, as shown in Table 9.¹⁸ In response to an undertaking requested by Board counsel, Mr. Madsen modified Table 9 (provided at GSS-GSM exhibit 11) to allow an "at-a-glance" comparison between his recommendations and Manitoba Hydro's projections, as follows:

¹⁷ Oral hearing transcript, June 2, 2023, pages 2891 and 2892.

¹⁸ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 83, Table 9.

(\$ 000s)	2022/23 MH Forecast	2023/24 MH Applied	2023/24 Madsen Proposed	2024/26 MH Applied	2024/25 Madsen Proposed
Prior year balance	448,464	458,803	458,803	482,838	475,073
Merit/Progression (@ applied for rate)	6,121	5,958	5,958	6,764	6,655
GWI and provisions for GWI (@ applied for rate)	0	5,724	5,724	7,593	7,471
Change in Vacancy Allowance	(49,679)	(21,972)		7,495	
FTE Normal Operating Changes & Other	53,897	34,326		319	
Net increase in FTEs (FTE additions - vacancy)			4,588		4,751
Recommended wages & salaries	458,803	482,838	475,073	505,009	493,950
Applied for wages & salaries	458,803	482,838	482,838	505,009	505,009
Difference	0	0	(7,765)	0	(11,059)

Adjusted Recommendation of FTE Increases

38. As noted above, Manitoba Hydro advised during its oral evidence that the general wage increase for 2022/23 was actually included in the 2023/24 forecast increase. Mr. Madsen testified during his evidence¹⁹ that this was not best practice given that when Manitoba Hydro presented its filed evidence to the Board it knew or should have reasonably expected that there had been a GWI for 2022/23.²⁰

39. In any event, based on clarifying evidence provided by Manitoba Hydro regarding the GWI for 2022/23, GSS/GSM is prepared to adjust its position on FTE expense, as follows.

40. Manitoba Hydro could not confirm the final 2022/23 labour costs for inclusion as the opening balance for Mr. Madsen's recommended labour cost adjustment. However, the outlook for Q3 and Q4 of 2022/23 was for total FTE expense of \$461.7 million, rather than the forecast of \$458.8 million.²¹

¹⁹ Oral hearing transcript, June 2, 2023, pages 2893 and 2894.

²⁰ MH-24, Manitoba Hydro Rebuttal Evidence, PDF page 19, lines 3 to 7.

²¹ Oral hearing transcript, May 30, 2023, page 2452, line 19 to page 2453, line 8.

41. GSS/GSM proposes to use this number as the opening prior year balance for Mr. Madsen's table. Leaving all other assumptions as is, including the forecast general wage increases and Mr. Madsen's recommended FTE escalation of 1% in each test year, Mr. Madsen's recommended adjustment to FTE expense would be as follows:

(\$ 000s)	2022/23 MH Forecast	2023/24 MH Applied	2023/24 Madsen Proposed	2024/25 MH Applied	2024/25 Madsen Proposed
Prior year balance	448,464	458,803	461,700	482,838	478,073
Merit/Progression (@ applied for rate)	6,121	5,958	5,996	6,764	6,697
GWl and provisions for GWl (@ applied for rate)	2,897	5,724	5,760	7,593	7,518
Change in Vacancy Allowance	(49,679)	(21,972)		7,495	
FTE Normal Operating Changes & Other	53,897	34,326		319	
Net increase in FTEs (FTE additions - vacancy)			4,617		4,781
Recommended wages & salaries	461,700	482,838	478,073	505,009	497,069
Applied for wages & salaries	458,803	482,838	482,838	505,009	505,009
Difference	2,897	0	(4,765)	0	(7,940)

42. GSS/GSM accepts that due to reductions in Operations FTE levels through the pandemic, an increase in that area is likely warranted to maintain Manitoba Hydro's ability to offer reliable service. However, the 1% FTE escalation recommended by Mr. Madsen ought to be sufficient to address this need.

43. By contrast to the increase in Operations FTEs, many of the other FTE increases proposed by Manitoba Hydro are not well understood and appear to have limited or no evidentiary support. This includes FTE increases proposed for digital and technology, human resources, and executive. If the Board makes a finding that a 1% FTE increase is consistent with just and reasonable rates but more than that is not, it will set a clear expectation that Manitoba Hydro should restrain staffing levels through the test period.

Such a finding would be a concrete way for the Board to reiterate its previous directions to reduce O&A expense and to maintain such reductions.²²

Manitoba Hydro is Using an Unprecedented Vacancy Rate

44. Strategy 2040, which appears to be driving the FTE increases, was first shared with the PUB in 2022, meaning this is the first time that the PUB has had an opportunity to review and offer direction about it, as far as it impacts the issue of just and reasonable rates.

45. As demonstrated by the figure in paragraph 41 above, Manitoba Hydro is projecting huge FTE increases, but then offsetting them significantly during the test years by using an extreme vacancy rate. For 2022/23, Manitoba Hydro has projected an FTE increase of approximately 12%, but then has applied a vacancy rate of approximately 11% (which includes a projection for GWI for 2022/23). For 2023/24, Manitoba Hydro has projected an FTE increase of approximately 7.5%, but then applied a vacancy rate of approximately 5%.

46. Manitoba Hydro admitted that these vacancy rates were much higher than normal.²³ Mr. Madsen described them as “unprecedented”.²⁴ He testified that a high vacancy rate can be an indication of inaccuracy or imprecision.²⁵

47. Not only does such a high projected vacancy rate suggest imprecision, it can also lead to confusion about current and forecast staffing levels. Moreover, it is presumptuous

²² See e.g. PUB Order 59-18, (p.142 of 216) & PUB Order 9-22 (pp. 34 & 63 of 96).

²³ Oral hearing transcript, May 30, 2023, pages 2407-2407.

²⁴ Oral hearing transcript, June 2, 2023, page 2895, lines 2 to 6.

²⁵ Oral hearing transcript, June 2, 2023, page 2878, lines 16 to 21.

as it presents these staffing changes – which depend on the Board approving rate increases – as a *fait accompli*, already built into the fiscal year that has just passed and the two test years to come. This even though for 2022/23 approximately 95% of the projected FTE increases are vacant.

Caution Should Be Exercised Before Increasing FTEs

48. During his evidence, Mr. Madsen cautioned that small O&A increases can have a snowball effect.²⁶ Further, as stated in Mr. Madsen's pre-filed evidence, the danger with increasing FTE levels is that once FTEs are hired, it is difficult and expensive to terminate them if it turns out that they are not needed.²⁷ Given Manitoba Hydro's proposal to rapidly expand FTE costs across the enterprise, these cautions should be carefully considered by the Board in making its decision about the revenue requirement.

More Modest FTE Increases Are In Order

49. Ultimately, if a \$2.9 million salary escalation is applied for 2022/23, it results in total salaries and wages of \$461.7 million. Using that as the starting place for the test years, Mr. Madsen recommends that wages and salaries for the test years be reduced, respectively, by \$4.8 million and \$7.9 million. This provides increases of 3.5% (\$16,373/\$461,700) in 2023/24 and 4.0% (\$18,996/\$478,073) in 2024/25. (It is worth pointing out here that the general rule is that \$18 million roughly equates to a 1% rate

²⁶ Oral hearing transcript, June 2, 2023, page 2903 line 23 to page 2904, line 5.

²⁷ Oral hearing transcript, June 2, 2023, page 2903, lines 18 to 22.

increase,²⁸ meaning that these recommended decreases in O&A expense are worth a rate increase of about 0.71% over the two test years.)

50. GSS-GSM endorses Mr. Madsen's recommendation, as it is reasonable and aligns better with actual expected FTE levels and lower, more precise, vacancy rates. These more modest increases are also at a sustainable level that will permit Manitoba Hydro to continue to provide safe and reliable service to customers at the lowest possible cost. This recommendation is consistent with the prudence principle and the Board's previous directions regarding cost containment. Moreover, it allows Manitoba Hydro some flexibility to grow its labour costs at a faster rate than the expected rate of labour escalation and inflation, while still promoting prudence.

51. In making this recommendation, GSS-GSM notes Manitoba Hydro's continued opposition to this recommendation in its final argument, where it states:

This means that safety, reliability and customer timelines would be at risk and most likely continue to deteriorate. As such, Manitoba Hydro does not accept Mr. Madsen's recommendation that the planned increase in FTEs should be reduced.²⁹

52. This is a bald statement, and frankly, it is difficult to accept that there are no efficiencies to be found within Manitoba Hydro's proposed FTE plan that would not erode safety and reliability. Beyond a generalized target of returning to pre-pandemic FTE levels, Manitoba Hydro has provided no evidence to substantiate that this increase is required in the first place or that the rapid pace proposed for the increase is necessary.

²⁸ Oral hearing transcript, p. 2154, lines 16-23.

²⁹ MH-57, Final Written Argument, p. 133 of 244, lines 19-21.

For these reasons, GSS/GSM submits that Manitoba Hydro's FTE expense request should be reduced for the purpose of the regulatory revenue requirement.

Projected Consulting Costs Are Increasing Dramatically

53. As much as Manitoba Hydro's FTE costs are projected to increase, its consulting costs are projected to increase even more dramatically on a percentage basis during the test years.

54. Some of these consulting increases are clearly reasonable because of the move of computing processes away from servers, which can be capitalized, toward cloud-computing arrangements ("CCA"), which must be expensed. This has a legitimate and material impact on Manitoba Hydro's revenue requirement before accounting for the offset for some of the costs Manitoba Hydro proposes to defer.

55. However, the difficulty is that Manitoba Hydro has not provided sufficient information to allow the Board and the interveners to evaluate how much of the increased consulting costs relate to CCA, and how much relate to other unnecessary or unsupported changes.

56. In Table 12 of Mr. Madsen's evidence, Mr. Madsen calculated a recommended reduction of \$19.8 million and \$26.5 million to consulting costs. Having had the opportunity to review rebuttal evidence, Mr. Madsen explained at the oral hearing that these recommendations would need to be adjusted to take into consideration further information provided by Manitoba Hydro.

57. In slide 30 of MH-42 Revenue Requirement Direct Evidence. Manitoba Hydro provided the following figure:



58. Based on this new evidence, it appears that much of the increase in 2023/24 and 2024/25 is due to cloud and SAP S/4. As GSS/GSM recommends differing treatment of these costs, including deferral for other cloud computing costs and denial of most of the SAP S/4 costs, these costs are not addressed further in this section.

59. Instead, the primary remaining driver for changes appears to be incremental costs being incurred in 2021/22 and 2022/23 for Keeyask and other environmental monitoring, IRP, asset management, project management and staff augmentation. Notwithstanding the information provided by Manitoba Hydro on this slide and in its rebuttal evidence, it remains unclear what most of these costs, which are significant, relate to and why they are required. It is similarly unclear why all these costs would be forecast to continue through the test period. Notably GSS/GSM understands that the IRP costs should be one-time. The staff augmentation costs should also be shorter term given the ramp up in FTEs being forecast by Manitoba Hydro.

60. For these reasons, GSS-GSM continues to recommend a disallowance of consulting costs.

61. Mr. Madsen’s original Table 12 recommendations did not include all the SAP consulting and cloud-based computing costs. Therefore, GSS/GSM has modified and expanded the original Table 12 to also include those amounts as being removed to align with the green box provided in Slide 30 of MH-42.

62. Next, GSS/GSM has added in the computer services costs as these amounts also include cloud-computing arrangement costs and are properly considered in conjunction with consulting services costs.

63. Finally, GSS/GSM has calculated revised total costs for these categories using two scenarios. The first scenario is as recommended by Mr. Madsen, which compares the 2021/22 actual costs escalated by 4% per year to the net costs excluding SAP and cloud-computing costs. The second scenario averages 2021/22 and 2022/23 to provide for some additional funding for identified issues unique to 2022/23 such as Keeyask and other costs that may be ongoing. These results are summarized in the table below:

Item description	Source	(\$000s)			
		2021/22 Actual	2022/23 Forecast	2023/24 Prelim Budget	2024/25 Prelim Budget
Consulting fees	GSS-GSM/MH II-3a-c	15,409	25,050	47,809	50,564
Computer services	GSS-GSM/MH II-3a-c	6,675	8,298	12,362	15,230
Remove SAP costs	PUB/MH I-29b, Figure 2	0	0	(10,986)	(20,067)
Remove other Cloud Computing Costs	PUB/MH I-29b, Figure 2	0	0	(11,300)	(6,750)
Net costs excl. SAP and CCA		22,084	33,348	37,885	38,977
Scenario 1 - Costs at 2021/22A + 4%		22,084	22,967	23,886	24,841
Scenario 2 - Avg of 2021/22A and 2022/23A + 4%				28,825	29,978
Scenario 1 - Difference from net costs				13,999	14,136
Scenario 2 - Difference from net costs				9,060	8,999

64. GSS/GSM lacks sufficient evidence on the specific drivers of consulting and computer services costs to fully understand how or why the forecast activities change during the test period. Therefore, it is difficult to identify which of the two scenarios would provide the most reasonable level of funding to Manitoba Hydro. With that said, it is clear that the level of funding being requested lacks adequate supporting evidence.

65. Accordingly, GSS/GSM recommends the PUB disallow at least \$9.1 million and \$9.0 million of combined consulting and computer services costs in 2023/24 and 2024/25, respectively, in keeping with Scenario 2. However, GSS-GSM also submits that a larger disallowance of \$14.0 million and \$14.1 million in each respective year would also likely be reasonable given Manitoba Hydro's failure to present comprehensive evidence to support the projected spending.

66. Manitoba Hydro has acknowledged that consulting costs are typically more expensive than using internal resources.³⁰ Given this admission, GSS/GSM submits that the Board should direct Manitoba Hydro to exercise cost restraint with consultants. Mr. Madsen's recommendation, it is submitted, would achieve precisely that result.

O&A Costs Related to SAP S/4 HANA and Small Cloud Computing

67. Mr. Madsen has observed that digital and technology costs are materially, and unreasonably, increasing.³¹ Related to this observation, Mr. Madsen recommends that all SAP S/4 HANA costs be removed from the revenue requirement, because:

³⁰ Oral evidence transcript, p.3228 line 25 to p. 3229, line 5.

³¹ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 90, lines 7 to 16.

Manitoba Hydro appears to fail to explain the costs and benefits of pursuing the increased D&T spending and why that spending is reasonable relative to other alternatives that may exist, including but not limited to maintaining the status quo in some cases.³²

68. With that said, Manitoba Hydro is in the process of investigating options for possible upgrades to its Enterprise Resource Planning (“ERP”) software. Mr. Madsen agrees that those Phase 0 costs are needed so that Manitoba Hydro can make an informed decision about what to do about its ERP platform. (This issue is dealt with in detail in the next section.)

69. Mr. Madsen supports the creation of a deferral account for investigating ERP solutions. However, unlike Manitoba Hydro, Mr. Madsen believes that all other cloud-based computing costs should also be included in that deferral account since there is no principled reason to treat the ERP software differently than other computer costs.³³ Consistent treatment for all similar costs is preferred, especially since those costs will benefit customers over time, whether they are related to ERP or to other smaller scale software applications.

70. As a final point, GSS-GSM is generally concerned with the forecast cloud-based computing and SAP costs. As an example, based on the revised table at paragraph 63 above, total forecast SAP costs in the test period are \$31.1 million. Based on MH’s response to GSS-GSM/MH I-6d Figure 2 provided below, the total operational and capital

³² GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 90, lines 10 to 13.

³³ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 94, lines 1 to 7.

costs for the legacy SAP ECC system from 2012/13 to 2021/22 were \$61 million or on average \$6.1 million per year:

Figure 2 – SAP ECC Costs

MANITOBA HYDRO

SAP ECC - O&A COSTS

(In Millions)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Operational Expenses	\$3	\$3	\$3	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Labour Charges	3	3	3	3	3	1	2	2	2	1
Total - SAP ECC (O&A)	\$6	\$6	\$7	\$6	\$5	\$3	\$4	\$4	\$4	\$4

SAP ECC - CAPITAL COSTS

(In Millions)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Operational Expenses	\$0	\$0	\$0	\$1	\$2	\$1	\$0	\$0	\$0	\$0
Labour Charges	1	2	1	1	1	2	0	0	0	0
Total - SAP ECC (CAPITAL)	\$1	\$2	\$1	\$2	\$3	\$3	\$0	\$0	\$0	\$0

71. This significant increase in projected costs is unsubstantiated and remains concerning to GSS-GSM, and further supports the reductions proposed above.

SAP S4/HANA

72. Manitoba Hydro’s current ERP, SAP ECC, will no longer be supported by SAP beginning in 2027 and Manitoba Hydro has testified that it is investigating options for what to do after that.

73. To begin, it is worth pointing out that Manitoba Hydro gave the impression in its written filings that it had already decided to move forward with an upgrade to SAP S/4HANA. For instance, in Tab 6 of its filing, Manitoba Hydro forecasted SAP S/4HANA costs totaling nearly \$23 million for the test years.³⁴ The paragraph introducing these

³⁴ Tab 6, p. 33 of 47, Figure 6.19

costs stated that Manitoba Hydro is “in the early stages of determining the approach to the newer version of SAP and these cost projections may change.”³⁵

74. Another example is at Appendix 4.3, in which Manitoba discussed reasons for its position that the ELG depreciation method should be used, one of which was that “with the corporation transitioning to SAP S/4HANA”, among other things, there would be limited internal IT resources.

75. It is true that Manitoba Hydro walked these definitive statements about transition to SAP S/4HANA back during its oral testimony. However, it seems fair to infer that even though the business case for SAP S/4HANA is not complete, Manitoba Hydro prefers this option to the alternatives.

76. This is potentially problematic for several reasons. Most notably it puts the cart before the horse. The point of the Phase 0 work that Manitoba Hydro is doing with respect to its ERP is to put itself in a position to evaluate the options and pick the one most consistent with just and reasonable rates. The point is not to confirm a preferred option and present it to the Board as another *fait accompli*.

77. Another problematic aspect of Manitoba Hydro’s approach to its SAP ECC platform losing SAP support in 2027 is that there seems to be a sense of urgency that should not have been necessary. It has been known for several years that SAP would no longer

³⁵ Tab 6, p. 33 of 47, lines 13-17

support its legacy ERP platform. In fact, the 2027 timeline is actually an extension from the original deadline of 2025.³⁶

78. Because everyone using the legacy SAP platform is facing the same deadline, there is a high demand for SAP consultants for implementation.³⁷ Transitioning to SAP S/4 HANA is a lengthy process, meaning that Manitoba Hydro has put itself and the Board in a bind: Manitoba Hydro is not yet in a position to submit a choice to the Board for regulatory approval, but if it selects what appears to be its preferred option, it will be pressed to implement it on a tight timeline while relying on constrained and expensive resources. This may not allow the Board much, if any, opportunity to review the decision on its merits.

Little Evidence for a Major Expense

79. Related to the unnecessary sense of urgency is the issue of the prohibitive cost of an upgrade to SAP S/4 HANA. The Board is well aware of the huge cost overruns that MPI has experienced with its Project Nova. Ensuring that something similar does not happen at Manitoba Hydro is obviously a major priority for all parties.

80. Manitoba Hydro is tentatively projecting O&A expenditures of \$156 million over the next seven years³⁸ – though to be fair, it acknowledged during cross-examination that this is really a placeholder number that is subject to change.³⁹

³⁶ Transcript p. 2474, lines 1-18

³⁷ Transcript p. 2478, line 4 to p. 2479, line 10

³⁸ Tab 6, p. 33/47, lines 13-17

³⁹ Oral hearing transcript, May 30, 2023, p. 2333, lines 15-22.

81. Manitoba Hydro is proposing to defer these forecast costs until full implementation of whatever solution is selected and approved. Therefore, despite the significant costs, there will be no net impact on customer rates during the test period. That said, the proposed costs, if approved, will need to be paid for by future customers, which makes them a concern for GSS/GSM.

82. Unfortunately, despite the significant amount at issue, there is very limited evidence on the record of this proceeding to support the need for a transition to SAP S/4 HANA in the first place. Most notably, there is no business case. In fact, some of the only concrete evidence about SAP S/4 HANA came from Mr. Madsen, who testified that there are other options, including third party support for the existing SAP ERP.⁴⁰

83. Mr. Madsen further testified that major IT projects commonly run over budget, meaning that “a detailed plan, a realistic plan and a business case is critical before a decision is made.”⁴¹ The MPI experience makes it impossible to disagree.

Challenges With a SAP S/4HANA Transition

84. Mr. Madsen outlined in detail the challenges with changing an SAP system, which include:

- a. Potential for significant cost overruns;⁴²
- b. The presence of and need to assess other viable alternatives including maintaining the status quo;⁴³

⁴⁰ Oral hearing transcript, June 2, 2023, p. 2907, lines 8-11

⁴¹ Oral hearing transcript, June 2, 2023, page 2906, line 23 to page 2907, line 2.

⁴² Oral hearing transcript, June 2, 2023, page 2906, lines 4 to 24.

⁴³ Oral hearing transcript, June 2, 2023, page 2907, lines 8 to 11.

- c. Concerns expressed by other Canadian regulators with similar proposed transitions;⁴⁴
- d. Complex customizations that require modification and transition to the new system;⁴⁵
- e. The inherent issues of attempting to train employees that are resisting the change and are required to adopt new approaches to performing the same work they have grown accustomed to.⁴⁶

A Cautious Approach Is Needed

85. Mr. Madsen recommended a cautious approach that includes openness to keeping the current ERP with third-party support, which Mr. Madsen explained was an option that other entities have selected.⁴⁷ Ultimately, Mr. Madsen is of the view that apart from Phase 0 costs, SAP S/4HANA costs should not be included by the Board in the revenue requirement calculation until Manitoba Hydro gives the Board an opportunity to review evidence that supports such a transition.⁴⁸ Including current and future costs within revenue requirement, even if deferred, sends an improper signal that some sort of transition is required in the absence of evidence of that need.

86. Indeed, it is not comforting that costs have already started to rise, even though Manitoba Hydro is still at Phase 0. In its answer to CSI undertaking no. 1, Manitoba Hydro acknowledges that the original quote from E&Y has increased due to a longer

⁴⁴ Oral hearing transcript, June 2, 2023, page 2907, lines 12 to 19.

⁴⁵ Oral hearing transcript, June 2, 2023, page 2909, line 6 to page 2910, line 3.

⁴⁶ Oral hearing transcript, June 2, 2023, page 2910, lines 4 to 9.

⁴⁷ Oral hearing transcript, June 2, 2023, page 2920, line 14 to page 2921 line 15.

⁴⁸ Oral hearing transcript, June 2, 2023, page 2908, lines 3 to 7.

timeframe.⁴⁹ This serves to further illustrate how fraught this issue is and the amount of care that Manitoba Hydro needs to take in considering its options, selecting the right one, and then implementing it.

87. In conclusion on this issue, GSS/GSM submits that Manitoba Hydro should be required to report back to this Board following completion of Phase 0, before making a decision that will be difficult, if not impossible, to roll back.

DEPRECIATION

88. Depreciation has been a lingering issue for Manitoba Hydro for approximately ten years. GSS/GSM agrees with Manitoba Hydro and MIPUG that the Board has sufficient evidence and information to deal with this issue and put it to bed once and for all.

Depreciation Technical Conference

89. In the weeks leading up to the GRA, the Board directed the parties to engage in discussions about several depreciation-related issues. Following these discussions, there are only two remaining contentious issues: 1) ALG vs ELG; and 2) treatment of interim gains and losses. With respect to the issues that the parties agree on, GSS/GSM does not intend to make further submissions and commends the Depreciation Issues Document to the Board for further consideration.

90. The two remaining contentious issues are dealt with in detail below. However, it should be noted at the outset, GSS/GSM endorses the opinions put forward by Mr.

⁴⁹ MH-55-c redacted, CSI Undertaking No. 1

Madsen with respect to depreciation in his pre-filed evidence, in the Depreciation Issues Document, and in his oral testimony.

Mr. Madsen Was the Only Independent IFRS Expert to Provide Evidence

91. Mr. Madsen is a well-experienced, well-qualified depreciation expert. He presented his evidence in a balanced, non-partisan manner and, it is submitted, there is no reason to question his credibility or qualifications. Moreover, on many of the points discussed by Mr. Madsen, there is little or no contradictory evidence filed by Manitoba Hydro.

92. Mr. Madsen was the only independent IFRS expert to provide detailed evidence in the GRA with respect to the relative merits of the ALG and ELG procedures from both a regulatory and financial reporting perspective. As discussed in detail below, Manitoba Hydro did not engage an independent expert to opine on this issue.

Depreciation: General Principles

93. One of the themes in Mr. Madsen's evidence on depreciation is that depreciation is an estimate that requires professional judgment. IFRS requires a reasonable, but not a perfect, estimate of depreciation expense.⁵⁰

94. A large part of arriving at that reasonable estimate is the use of appropriate componentization. IFRS does not prescribe the level of componentization that is needed, other than to state that "significant" components need to be separately depreciated. In his

⁵⁰ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF p. 22, lines 6-7 & p.27, lines 9-11.

pre-filed evidence, Mr. Madsen provides a detailed explanation of his interpretation of “significant” in this context.⁵¹ That evidence was unchallenged by Manitoba Hydro.

95. Additionally, Mr. Madsen testified that IFRS is a “practical set of standards”, meaning that the “intent is that the level of componentization wouldn’t be hamstringing an entity from being able to continue with its ordinary operations on a day-to-day basis. That would be counterintuitive, especially where it’s immaterial.”⁵²

96. Manitoba Hydro agrees that IFRS does not require depreciation expense to be calculated using ELG.⁵³ (As an aside, this begs the question as to why the goal of the additional componentization in the ALG study performed by Alliance was “to, in a sense, mimic ELG...”)⁵⁴

ALG Should Be Confirmed For Regulatory Reporting

97. Given ALG is acceptable for both regulatory and financial reporting, it is clearly preferable to confirm ALG for regulatory reporting, since:

- a. No ongoing deferral is required.
- b. Implementation is simple as the rates are already calculated using the 2019 Concentric Depreciation Study.
- c. Incremental costs related to further componentization would likely be immaterial as elaborated upon below in the discussion of componentization.

⁵¹ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, p. 23, Section 3.2.4.

⁵² Oral hearing transcript, June 5, 2023, page 3068, line 18 to page 3069 line 4.

⁵³ PUB Ex. 20 at p. 4 (Depreciation Issues Document)

⁵⁴ PUB/MH I-122

98. Overall, the ALG procedure provides improved continuity and consistency of depreciation expense, increased transparency and understandability, simpler implementation, and less risk of overstated expenses as outlined in detail in Mr. Madsen’s evidence.⁵⁵

99. Manitoba Hydro’s preference to transition to ELG with a deferral of the impacts of that transition effectively maintains CGAAP ASL (ALG) without adopting it.

Avoiding Immaterial Componentization

100. In Order 73/15 the Board requested that any IFRS-compliant ASL depreciation study filed by Manitoba Hydro: “be based on the minimum level of additional componentization required by IFRS, but avoid optional additional componentization.”⁵⁶

101. The “IFRS-compliant ASL study” submitted by Alliance does not comply with this direction. No evidence was provided by Alliance or Manitoba Hydro that the level of componentization used by Alliance was the “minimum level” as directed by the Board. In fact, it appears that this direction from the Board may not even have been a consideration by Alliance when it prepared the depreciation study, since it is not mentioned in either the terms of reference⁵⁷ or the study.⁵⁸

102. What is more, as mentioned above, Alliance acknowledged in a response to an IR that it added so many components because it was goal-seeking the same outcome as an

⁵⁵ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, p. 49, lines 19-25 & p.57, lines 1-25.

⁵⁶ Order 73/15, p. 46/108

⁵⁷ PUB/MH I-140 Attachment 1.

⁵⁸ Appendix 9.11 – IFRS – Compliant ASL Methodology Depreciation Study.

ELG study would deliver. It seems trite to state that the point of the ALG procedure is not to reverse engineer the same outcome as the ELG procedure.⁵⁹

103. Alliance also acknowledged in an IR response that a lesser number of components could be compliant with IFRS.⁶⁰ Indeed, this was Manitoba Hydro's position in the Depreciation Issues Paper as well.⁶¹

104. These acknowledgements that a lower level of componentization is permissible are consistent with Mr. Madsen's evidence, which was that the level of componentization contained in the Concentric depreciation study from 2019 is IFRS-compliant.⁶² Moreover, Mr. Madsen pointed out in his pre-filed testimony that componentization is an ongoing process, whether ELG or ALG is used.⁶³ Manitoba Hydro agreed with that during the oral hearing.⁶⁴ This means that additional componentization can and should be done if there are areas where that would be significant. These points were not meaningfully rebutted or challenged.

Transitioning to ALG Would Not Be Onerous

105. Manitoba Hydro has made several vague comments about a change to ALG requiring it to incur costs. However, Manitoba Hydro's most recent evidence is that the costs would not be material.⁶⁵ With respect, given that Manitoba Hydro's position on this

⁵⁹ PUB/MH I-122

⁶⁰ MIPUG/MH I 91 i) (p. 6 of 14).

⁶¹ PUB-20, PDF page 29.

⁶² GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, pp-27-28, Section 3.2.5.

⁶³ Oral hearing transcript, June 5, 2023, page 3071, lines 4 to 7.

⁶⁴ Oral hearing transcript, June 5, 2023, page 3117, lines 9 to 11.

⁶⁵ PUB-20, PDF page 29.

point has evolved over the past several months and given the lack of detailed evidence or projections, the Board should place no weight on these concerns.

106. Mr. Madsen testified that he would expect there would be efficiencies gained if Manitoba Hydro's regulatory and accounting depreciation methodologies were aligned.⁶⁶ Moreover, the amount of work that would be required is not significant according to Mr. Madsen. In any event, given the flux surrounding the SAP in the coming years, this should not be a determinative factor in deciding the appropriate depreciation procedure.

Manitoba Hydro Did Not File Independent Expert Evidence

107. Manitoba Hydro chose not to file any rebuttal evidence in response to Mr. Madsen and Mr. Bowman's evidence on depreciation. It chose not to send an independent expert to the technical conference regarding depreciation. It left much of Mr. Madsen and Mr. Bowman's evidence on depreciation entirely unrebutted.

108. It was not until the depreciation panel testified that Manitoba Hydro unexpectedly had Mr. Dane Watson sworn in to provide evidence.⁶⁷ Mr. Watson did not participate in the depreciation technical conference and did not prepare pre-filed evidence on behalf of Manitoba Hydro. Prior to his unexpected participation in the oral hearing, the only participation Mr. Watson had in the GRA was to prepare an "IFRS-compliant" ALG depreciation study for Manitoba Hydro dated November 4, 2022⁶⁸ (11 days before

⁶⁶ Oral hearing transcript, page 2077, lines 5 to 11.

⁶⁷ Transcript pp. 3065:8-25 & 3114:6-8

⁶⁸ Appendix 9.12 (Attachment 1), pp. 1-2 of 55

Manitoba Hydro filed its Phase 1 filings with the PUB) and to assist in answering several IRs about this depreciation study.

109. In his study, Mr. Watson offered no commentary on the relative pros and cons of the ELG and ALG procedures. This is not surprising, since Mr. Watson was not engaged by Manitoba Hydro to provide such commentary.⁶⁹

110. Nevertheless, it bears noting that Alliance, Mr. Watson's consulting company, indicated in an IR response that straight line, average life group, and remaining life methodology "is used predominantly by the utility clients of Alliance Consulting Group and is the methodology frequently used by regulated utilities in the United States."⁷⁰ This starkly contradicts Manitoba Hydro's evidence regarding other, mostly investor-owned, utilities in Canada who use ELG.

111. Ultimately, Mr. Watson's evidence is of no assistance to the Board when it comes to the relative merits of ALG and ELG. He was not retained to provide such assistance to the Board, he did not participate in the technical conference with other depreciation witnesses, he did not file written evidence on the ELG vs. ALG issue, and, because his participation as a witness was unexpected, he was not subjected to cross-examination.

Treatment of Gains & Losses

112. GSS/GSM agrees with Mr. Madsen's recommendation that additional efforts be employed at the next GRA to assess at a detailed level how gains and losses are

⁶⁹ See PUB/MH I-140a), Terms of Reference, p. 1/6, "Objectives"

⁷⁰ MIPUG/MH I-91x), p. 12 of 14.

calculated.⁷¹ However, it bears noting that assuming all amounts are amortized over the expected remaining life of the assets there would be no impact on the revenues calculated by Manitoba Hydro.

Deferral Accounts

113. Mr. Madsen stated that IFRS 14 requires that recoverable periods be determined for all deferral accounts. The recoverable period for all depreciation-related deferral accounts should be the expected remaining life of the assets.⁷²

114. With respect to the depreciation-related deferral account, GSS/GSM endorses Mr. Madsen's position that the account "would just naturally unwind between the differences in regulatory depreciation and financial reporting depreciation over time."⁷³ Manitoba Hydro disagrees with this position. However, it acknowledges that depreciation calculated under ALG and ELG procedure will end up in the same place in the fullness of time. That is because both procedures depreciate the full value of the asset over the course of its life.

Specific Account Issues

115. In his evidence, Mr. Madsen expressed issues with Concentric's recommended life-curve combination for account 3200M – Substations – HVDC Synchronous condenser and unit transformers.

⁷¹

⁷² GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 40, lines 4 to 23.

⁷³ Oral hearing transcript, June 5, 2023, page 3182, lines 15 to 25.

116. Mr. Madsen observed Concentric was recommending a life shortening from 65-R4 to 60-R3.⁷⁴ Based on his analysis, Mr. Madsen disagreed with Concentric and recommended as follows:

In conclusion, I consider there to be inadequate justification at this time for a life shortening to account 3200M and recommend that the PUB either direct the existing life-curve to be maintained at 65-R4 or make a more moderate and gradual adjustment to a 65-R3 curve. Either approach would be appropriate and provides more time for the account to mature, more retirements to occur, and better information to become available to support a change in life if necessary.⁷⁵

117. GSS-GSM agrees with Mr. Madsen's un rebutted evidence. There is inadequate evidence at this time to propose a change to account 3200M. Rather than adopt this change, GSS-GSM agrees with maintaining the existing rate or making a more gradual adjustment to a 65-R3 curve which would better fit the limited observed retirement data.

PART 2: COST OF SERVICE & RATE DESIGN

Cost of Service & Zone of Reasonableness

118. Manitoba Hydro's Cost of Service Study ("COSS") methodology was considered and approved by this Board less than seven years ago in Order 164/16. That 116-page order,⁷⁶ the result of a deliberate and focused process before this Board, thoroughly canvassed and considered how Manitoba Hydro should conduct its COSS for the purposes of GRAs. In that Order, this Board found that cost causation was to be

⁷⁴ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 59, lines 19 to 21.

⁷⁵ GSS-GSM-5, Written Intervener Evidence - Dustin Madsen - Emrydia Consulting Corporation - April 3, 2023, PDF page 62 line 15 to page 63, line 2.

⁷⁶ Inclusive of appendixes.

“paramount”, and that ratemaking goals should not be a factor in the COSS stage.⁷⁷ This Board has ordered minor changes to this methodology since Order 164/16, including with respect to the study’s treatment of net export revenue.⁷⁸ In the first GRA following Order 164/16, this Board recognized the “sophistication” of this COSS when considering whether to, and ultimately opting not to, expand the Zone of Reasonableness (“ZOR”).⁷⁹ 119. This Board has recognized that the ZOR exists in rate setting because a COSS has “a degree of imprecision due to the need to make decisions by applying judgment and limitations on the available data with respect to customer loads”.⁸⁰ The ZOR is a proxy for the hypothetical and unrealisable unity, being 100% revenue to cost coverage (“RCC”). The Board has accepted that RCC ratios within the ZOR are “deemed to represent full cost recovery”,⁸¹ and the ZOR therefore is a metric for determining whether a customer class is paying its proportionate and fair share of electricity costs. Since 1996, this Board has accepted the ZOR as being between 95 – 105% RCC.⁸² As noted above, in Order 59/18, the Board rejected Manitoba Hydro’s then-proposed (and Consumer Coalition’s then-supported) expansion to 90-110 % RCC.⁸³

120. The GSS classes have has historically been above the ZOR. Figure 4-1 in Mr. Bowman’s pre-filed evidence charts the history of the customer classes and their relationship to the ZOR via various PCOSS studies.⁸⁴ This figure shows that the GSS

⁷⁷ Order In Respect Of A Review Of Manitoba Hydro’s Cost Of Service Study Methodology (2016), Order No. 164/16 (Manitoba Public Utilities Board)(“Order 164/16”) at 27.

⁷⁸ Final Order with Respect to Manitoba Hydro’s 2017/2018 and 2018/19 General Rate Application (2018), Order No. 59/18 (Manitoba Public Utilities Board)(“Order 59/18”), Directive 27, at 270.

⁷⁹ Ibid at 197.

⁸⁰ Ibid at 192.

⁸¹ Ibid.

⁸² See Mr. Bowman’s helpful historical plotting of the various classes relative positions to the ZOR at MIPUG-6, the Pre-Filed Testimony of Patrick Bowman, April 3, 2023, at 56.

⁸³ Order 59/18, *supra*, at 194, 195, 197.

⁸⁴ MIPUG-6, *supra*, at 56.

classes have consistently been above the ZOR since the late 1990s, meaning that GSS has consistently and regularly paid more in rates than it costs Manitoba Hydro to provide that class with electrical service. While GSSD was within the ZOR in both PCOSS18 and PCOSS21,⁸⁵ GSSND remained well above the ZOR's upper threshold at 115.7% and 113.8% respectively. Given the zero-sum nature of COSS, this necessarily means that GSSND continues to subsidize certain other customer classes. In Order 59/18, the Board recognized this problem, finding that "General Service Small Non-Demand, General Service Large 30-100kV, and General Service Large >100kV are all overpaying costs to a significant degree outside of the zone of reasonableness, at 115.7%, 113.0%, and 112.3% respectively."⁸⁶ To correct this imbalance, and in recognition of the fact that as of that GRA Manitoba Hydro had a "valid, regulator-approved cost of service result",⁸⁷ this Board directed Manitoba Hydro to "assume a 10-year timeframe to move all classes within the zone of reasonableness, based on the alternative calculation methodology as directed in this Order."⁸⁸ It is worth emphasizing that in directing Manitoba Hydro to move all classes into the ZOR, the Board expressly recognized doing so would be accomplished by implementing differential rates and would result in "rate increase impact[s]" to those customer classes below or in the ZOR, including GSSD, GSM, and the Residential customer classes; moving the Residential customer class into the ZOR from below was expressly recognized as an outcome of this direction by the Board.⁸⁹ This reflects the

⁸⁵ See Order 59/18 at 197; Manitoba Hydro filing, Tab 08, Fig 8.2, p 8.

⁸⁶ *Ibid*, 198.

⁸⁷ *Ibid*.

⁸⁸ *Ibid* at 198-99.

⁸⁹ *Ibid*.

zero-sum nature of the COSS exercise; for some classes to move closer to unity (100% RCC), then other classes must move in the relative opposite direction.

121. This GRA represents the approximate half-way point for Manitoba Hydro to comply with the Board's direction to move all classes into the ZOR. Unless the Board decides that moving all classes into the ZOR by 2028/29 is not a desirable outcome,⁹⁰ there remains limited time and rate-setting opportunities for Manitoba Hydro to comply with this direction and as such, the opportunity to do so now cannot be wasted. As this Board noted, one of the underlying reasons for implementing a possible ten-year period of differentiated rates to achieve a more equitable distribution of Manitoba Hydro's costs was to satisfy the principle of gradualism in rate design.⁹¹ Absent further movement towards the ZOR from those classes historically outside of it in this GRA (such as GSSND), more significant rate differentiation in the future may be needed to accomplish the goal of moving all classes into the ZOR by 2028/29; if that were to occur, then the Board's stated objective of gradualism would be undermined. Manitoba Hydro's proposed differential rate increases in this GRA complies with this Board's direction in this respect, at least with respect to GSSND, and this Board should not compromise on its direction that all classes be moved into the ZOR within the ten year period beginning with Order 59/18.

122. Manitoba Hydro is not seeking to expand the ZOR in this GRA⁹²; Manitoba Hydro sought to expand the ZOR in the last fulsome GRA and this Board declined that request,

⁹⁰ GSS/GSM submits that the reasons justifying ordering all classes into the ZOR within ten years remain to this day as they were when Order 59/18 was written, and the Board should not move away from this goal of pursuing fair equality amongst the classes.

⁹¹ Order 59/18, *supra*, at 199.

⁹² Oral hearing transcript, June 7, 2023, at 3633 line 17 – 3634 line 4.

noting that while rate-making principles may result in accepting that certain classes are outside of the ZOR,⁹³ those principles do not support broadening the ZOR itself.⁹⁴

123. In this proceeding, only one person has given fulsome evidence in support of expanding the ZOR, being Ms. Derksen who provided evidence on behalf of the Consumers Coalition. It is worth considering the sequence of events that gave rise to Ms. Derksen's recommendation regarding expanding the ZOR. The Consumers Coalition supported expanding the ZOR in the previous GRA, and given that the Residential class remains the only class below or near the bottom of the ZOR, it is not surprising and is consistent with the Consumers' past position that it would put forward this proposition at this GRA. However, it is telling that this recommendation by Ms. Derksen was not present in her pre-filed evidence and was only included as a recommendation to the Board in her oral evidence.⁹⁵ Why was that significant recommendation not included in her written evidence? Ms. Derksen admitted in cross-examination that it was only after reviewing the "other parties' evidence and reviewing the totality of the record ... that has led [her] to that conclusion" that the ZORs need to be expanded.⁹⁶ It is GSS/GSM's submission that the Board can infer that Ms. Derksen's references to the "totality of the record" are (at least in part) a reference to the strong and highly critical response to Ms. Derksen's evidence found in Manitoba Hydro's rebuttal evidence.⁹⁷ And that inference, if accepted by this Board, logically leads to another, more problematic inference regarding Ms. Derksen, namely that her recommendations changed and that she added an express

⁹³ While the Board recognized this, it also directed in the same order that all classes were to be moved into the ZOR within the ten-year period, suggesting the Board did not accept that certain classes would permanently be outside the narrowed ZOR.

⁹⁴ Order 59/18 at 197.

⁹⁵ Oral hearing transcript, June 8, 2023, at 3815, lines 3 – 14.

⁹⁶ *Ibid.*

⁹⁷ See Manitoba Hydro's Rebuttal Evidence, MH-24, at 103-108, 122-125.

recommendation to expand the ZOR only after her original arguments were refuted by way of rebuttal. This, again in turn, leads to another problematic logical inference that is available to this Board, namely that Ms. Derksen's evidence was intended to lead to a certain outcome, and that upon recognizing that result could not be achieved based on her written evidence, she altered her recommendations to accomplish them. If the Board draws those inferences, then it cannot accept Ms. Derksen's evidence as being impartial, as required by an expert.⁹⁸

124. In addition to the justified concerns regarding Ms. Derksen's impartiality, her evidence is significantly flawed in a number of respects that militates in favour of this Board disregarding it outright. Perhaps the most contested opinions offered in this proceeding were Ms. Derksen's treatment of NER and her statements that customer class RCCs will be "largely self-correcting" and therefore that rate differentiation is not required.⁹⁹ In fairness to Ms. Derksen, she did acknowledge that this self-correction won't correct GSSND's historical imbalance, and did recommend a differential rate increase for this class, although without endorsing any specific recommendation.¹⁰⁰ However, Ms.

⁹⁸ The seminal Supreme Court of Canada case concerning expert witnesses, *White Burgess Langille Inman v Abbott and Haliburton Co*, 2015 SCC 23, sets out the law on this point:

32 Underlying the various formulations of the duty are three related concepts: impartiality, independence and absence of bias. The expert's opinion must be impartial in the sense that it reflects an objective assessment of the questions at hand. It must be independent in the sense that it is the product of the expert's independent judgment, uninfluenced by who has retained him or her or the outcome of the litigation. It must be unbiased in the sense that it does not unfairly favour one party's position over another. The acid test is whether the expert's opinion would not change regardless of which party retained him or her: P. Mitchell and R. Mandhane, "The Uncertain Duty of the Expert Witness" (2005), 42 *Alta. L. Rev.* 635, at pp. 638-39. These concepts, of course, must be applied to the realities of adversary litigation. Experts are generally retained, instructed and paid by one of the adversaries. These facts alone do not undermine the expert's independence, impartiality and freedom from bias.

Ms. Derksen denied on cross-examination that her evidence would be different if she were retained by another class, including GSS/GSM, but given her evidence, that denial, it is submitted, is difficult to accept.

⁹⁹ See e.g. CC-10, at 39.

¹⁰⁰ *Ibid* at 60.

Derksen's general position, that the RCC's will self-correct, is simply incorrect and rests of faulty logic. When being asked to opine on this position, Ms. Van Hussen noted that Ms. Derksen's approach simply isolated a single variable and in doing so, appeared to assume that nothing else would change for Manitoba Hydro between now and 2028, which is an unreasonable assumption.¹⁰¹ Mr. Bowman concurred, noting that Ms. Derksen's predictions of the future via "cherry picking" which underlying conditions to change (i.e. NER) did not result in a "credible" scenario for 2028, nor for 2024.¹⁰² Mr. Bowman also opined a fact that this Board well knows, namely that "RCC ratios are stubborn and that, without difference or rate increases, you're not going to solve them".¹⁰³ This is consistent with the logic underlying the Board's direction to move all classes into the ZOR over the span of ten years using differential rates, namely that RCC imbalances will not correct themselves and specific and directed action is needed to do so. With respect to this issue, Ms. Derksen has been refuted and her evidence on those points should not be given weight by this Board.

125. In its closing oral argument, Manitoba Hydro made brief submissions regarding Ms. Derksen's lack of neutrality, and urged that this Board should disregard her evidence on that basis. GSS/GSM concurs with Manitoba Hydro's charitable characterization of Ms. Derksen's evidence and its recommendation regarding what weight should be given to that evidence. This Board saw that Ms. Derksen was an argumentative and difficult witness, who refused to confirm basic facts that GSS/GSM submits she believed undermined the narrative she was selling to the Board. The most telling example of this

¹⁰¹ Oral hearing transcript, June 7, 2023, at 3650, lines 4 – 20.

¹⁰² Oral hearing transcript, June 9, 2023, 4079 line 14 – 4082, line 3.

¹⁰³ Oral hearing transcript, June 9, 2023, 4127 line 22 – 25.

is Ms. Derksen's refusal to answer Ms. Fernandes' questions regarding basic arithmetic. This Board will remember that after once asking Ms. Derksen a series of questions regarding subtraction, Ms. Fernandes patiently re-asked Ms. Derksen to agree that "... if you take 3.5 percent and you deduct 2.4 percent, that's a reduction of 1.1 percent", and Ms. Derksen's answer was "I can't -- I can't accept your -- the premise of your question because we just don't know".¹⁰⁴ The premise of the question was subtraction. There was no reason to not agree to Ms. Fernandes' question, except if Ms. Derksen was concerned that agreeing to this mathematical and indisputable fact would then set up a question regarding how the residential customer class may benefit from the reductions in the water rental and debt guarantee fees.¹⁰⁵ This intransigence, in GSS/GSM's submission, is problematic and not unique to this one exchange. There are several other examples of Ms. Derksen's unwillingness to acknowledge what should be uncontroversial facts, including agreeing as to the text of previous Board orders.¹⁰⁶ These exchanges emphasize why this Board cannot accept Ms. Derksen's evidence. She was not a neutral expert, but rather crossed that line between a neutral expert witness and advocate, and this Board should not accept her evidence for that reason.

126. Ultimately, in GSS/GSM's submission, PCOSS24 is reasonable, accurately reflecting the costs incurred by the classes and is reflective of the Board's approved

¹⁰⁴ Oral hearing transcript, June 9, 2023, at 3885 line 25 – 3886 line 5. Admittedly, it appears that Ms. Fernandes may have misstated her question, and that the question ought to read "that's a reduction to 1.1 percent" instead of "of 1.1 percent".

¹⁰⁵ which is presumably where Ms. Fernandes was attempting to lead Ms. Derksen with her lines of questions.

¹⁰⁶ See e.g. the exchanges found at Oral hearing transcript, June 8, 2023, 3812 line 2 – 3813 line 12, 3814 lines 6 – 18, and 3829 line 21 – 3831 line 6.

methodology. This Board should accept PCOSS24's results for the purposes of rate setting.

Rate Design

127. GSS/GSM's position is that the rate designs proposed by Manitoba Hydro with respect to the GSS and GSM customer classes are just and reasonable, in keeping with this Board's previous directives, specifically Orders 164/16 and 59/18 and should be approved. The differential rates proposed by Manitoba Hydro would accomplish the rate objectives of fairness and equity, and gradualism and rate stability.¹⁰⁷ It was accepted even by Ms. Derksen that GSSND should continue to be afforded differential rates,¹⁰⁸ as GSSND was at the "fulcrum" of the "teeter-totter" with the residential and large industrial classes at the ends. Ms. Derksen went on to explain that because GSSND reflects the "average cost to serve" the class does not shift significantly "unless you explicitly do something through rate differentiation."¹⁰⁹ GSS/GSM agrees, although also notes that when pressed on what level of rate differentiation that would be appropriate, Ms. Derksen was unable to provide any specific guidance or recommendation to this Board.¹¹⁰

128. GSS/GSM appreciates the challenges in rebalancing RCC ratios for the GSSND class absent differential rates. As such, GSS/GSM accepts Manitoba Hydro's proposed breaking of rate harmonization for GSSND. This will allow GSSND, a customer class that has historically resided outside of the ZOR, to be moved more quickly into the ZOR,

¹⁰⁷ See Order 164/16, *supra*, at 27. Competitiveness of rates, dealt with below, is also a principle identified by the Board as a principle to consider in a GRA (*ibid*, 27).

¹⁰⁸ CC-10, Consumers Coalition Intervener Evidence - Kelly Derksen - April 3, 2023, PDF page 52. Oral hearing transcript, June 8, 2023, page 3824, lines 16 and 17.

¹⁰⁹ Oral hearing transcript, June 8, 2023, page 3834, lines 20 to 23.

¹¹⁰ Oral hearing transcript, June 8, 2023, page 3836, lines 2 to 9.

accomplishing the rate design objectives of fairness and efficiency, without impacting the other general service small and medium customer classes.¹¹¹ GSS/GSM submits that the need for a differential rate for the GSSND is not a contested fact in this proceeding, as no party appears to be opposing this.

129. Mr. Bowman opined that in other jurisdictions, rate design tends to be oriented generally towards efficiency and stability,¹¹² and GSS/GSM supports this position. As Mr. Bowman noted, and GSS/GSM agrees, the fact that the Board has largely relied upon Manitoba Hydro's PCOSS studies in each of the last three hearings for rate setting purposes accomplishes the goals of consistency and stability.¹¹³

130. GSS-GSM notes that Mr. Madsen supported ongoing discussions between the GSS-GSM classes and Manitoba Hydro in relation to rate design. Specifically, Mr. Madsen stated:

I'm also supportive of pursuing innovations in the future to address the balance of fixed and variable costs, including further consideration of the declining block energy structure. Such design changes are complex and warrant a detailed discussion and assessment over time. Collaboration between Manitoba Hydro and the GSS/GSM rate class representatives is strongly encouraged.¹¹⁴

131. GSS-GSM confirms it is open to and supportive of having discussions with Manitoba Hydro on this topic. GSS-GSM suggests all parties would benefit from a collaborative approach to addressing these unique challenges for a complex and diverse group of customers many of which have significantly varying consumption patterns.

¹¹¹ Oral hearing transcript, June 7, 2023 at 3647 line 17 – 3649 line 9.

¹¹² Oral hearing transcript, June 9, 2023, at 3986 lines 9-10.

¹¹³ It is also worth noting that, even if Manitoba Hydro receives its full revenue requirement ask, and rates are set as proposed by Manitoba Hydro, that rates would still be amongst the most competitive in the country for the GSS and GSM classes. See Manitoba Hydro Filing, Tab 08, Figs 8.19 (p 28) and 8.20 (p 29). This pattern also holds for the Residential and the GSL classes, see Figs 8.10, 8.33 and 8.34 (p 17, 41, and 42 respectively).

¹¹⁴ Oral hearing transcript, June 2, 2023, pages 2911 to 2912.

132. Ultimately, GSS/GSM's submission is that Manitoba Hydro's PCOSS24 and rate design proposals with respect to the GSS and GSM customer classes are just and reasonable and should be approved by this Board. The proposed rates are compliant with the sophisticated COSS methodology approved by this Board in Order 164/16 and reflects the Board's subsequent directions. The proposed differential rates gradually move those classes that historically were paying more than their fair share closer to the ZOR, and as such, works towards ending cross-class subsidization. Differential rates are important and necessary to support fair rates for all customers that align with the paramount principle of cost causation. This Board should approve Manitoba Hydro's rate design proposals with respect to GSSND, GSSD and GSM classes in this proceeding.

CONCLUSION & RECOMMENDATIONS

133. In conclusion, GSS/GSM submits the following positions and recommendations for consideration by the PUB:

Recommendation 1:

MH should be directed to provide more detailed and transparent supporting evidence when it seeks large expense increases for use in the revenue requirement. For example, consulting fees and FTEs should be tracked and forecast at a program or activity level of detail.

Recommendation 2:

MH should be directed to consider a trial of zero-based budgeting into one or more departments for further consideration at the next GRA. Ideal areas where a zero-based budget process would be effective in the short-term include finance, regulatory, human resources, and information technology, all of which are seeing cost increases.

Recommendation 3:

For the purposes of the revenue requirement, the PUB should reduce FTE expense by \$4.8 million in 2023/24 and by \$7.9 million in 2024/25.

Recommendation 4:

For the purpose of the revenue requirement, the PUB should permit no more than a 4% escalation per year during the test period, after adjusting to remove SAP S/4 HANA costs and CCA costs.

Recommendation 5:

The PUB should approve a deferral account for the Phase 0 costs related to investigating ERP solutions and for the costs associated with small-scale software applications that are subject to CCA accounting rules.

Recommendation 6:

Manitoba Hydro should be directed to provide a detailed report to the PUB once it has completed Phase 0 of its ERP investigation and its Board has selected an option. Until that has happened, no SAP S/4 HANA expenses other than those incurred for the Phase 0 investigation should be permitted to be included in the deferral account or the revenue requirement.

Recommendation 7:

The PUB should direct that the ALG depreciation procedure be used for regulatory reporting.

Recommendation 8:

The PUB should reiterate its previous direction that componentization be limited to the minimum level required by IFRS and confirm the guidance of Mr. Madsen regarding the definition of “significant” in the context of the IFRS requirements.

Recommendation 9:

To the extent necessary, the issues of treatment of gains and losses and level of componentization should be dealt with at the next GRA once a decision on the appropriate depreciation procedure has been made.

Recommendation 10:

Recoverable periods should be determined for all deferral accounts according to IFRS 14, and for all capital related deferral accounts the recoverable period should be equal to the average expected remaining life of the assets.

Recommendation 11:

Account 3200M – Substations – HVDC Synchronous Condenser and Unit Transformers should keep its previous life curve of 65-R4, in the absence of evidence supporting the life shortening to 60-R3.

Recommendation 12:

PCOSS 24 should be approved for rate-setting purposes.

Recommendation 13:

Manitoba Hydro's proposal to break class harmonization for GSS-ND should be approved.

Recommendation 14:

Manitoba Hydro's proposed differential rates should be approved.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 22ND DAY OF JUNE, 2023.

GANGE COLLINS & ASSOCIATES



Thomas Reimer / Robert Walichnowski
Counsel for the GSS/GSM Intervener Group