

Manitoba Industrial Power Users Group

2017/18 Interim Rate Supporting Materials

July 18, 2017

Board Order 59/16 - 2015/16 Interim Rates:

- ▶ *“The Board has concluded that Manitoba Hydro’s financial situation for the 2016/17 fiscal year has improved and Manitoba Hydro does not require additional revenues from a rate increase to obtain a positive net income for 2016/17.”* (pg. 4 - emphasis added)
- ▶ *“However, as expressed by the Board in Order 43/13 and 73/15, and in this interim Application, the Board considers it to be in the public interest to look beyond the test years and mitigate potential rate shock to consumers that, due to the additional costs imposed by Bipole III in a few years, may be inevitable unless the Board implements a form of rate smoothing. Since the Bipole III project and the Keeyask Generating Station have both received approval and are under construction, the Board considers it appropriate to examine Manitoba Hydro’s entire planning horizon in setting rates.”* (pg. 12 - emphasis added)

PUB Report on Needs For and Alternatives To Review of Manitoba Hydro's Preferred Development Plan - June 2014:

- ▶ *“A doubling of rates will have a significant effect on all ratepayers. This includes not just residential customers, but also commercial and industrial ratepayers, the latter of which are sensitive to price increases as it can affect their competitive position. The Panel supports a relaxation of Manitoba Hydro's 75/25 debt-to-equity ratio to smooth out rate increases and the Panel concludes that Manitoba Hydro would still be left with sufficient retained earnings if the equity level was decreased.” (pg. 29 - emphasis added)*

Ministerial Approval Letter (MH Exhibit 45 from 2015/16 GRA):

- ▶ *“Also consistent with the PUB Panel’s advice we request that the Manitoba Hydro-Electric Board review its current 75/25 debt-to-equity ratio target with the aim of moderating rates for consumers while ensuring strong financial health for the corporation including maintaining sufficient retained earnings. We further urge the corporation to maintain tight cost controls overall to support strong financial performance and low rates for all Manitoba Hydro customers.” (pg. 4)*

Manitoba Hydro June 20, 2017 submission:

“MIPUG and Coalition ask what has changed. Manitoba Hydro acknowledged at page 37 in Tab 2 of the Application that there is no longer a willingness to relax the equity ratio for an extended duration of fifteen years before recovering to its 25% minimum equity target.” (pg. 22)

Alberta Utilities Commission Decision 2005-099 regarding interim rate applications, EUB Decision 2005-099 (August 29, 2005) at page 7-8.

Quantum and Need Factors

- ▶ Quantum and need factors relate to the specifics of the requested rate increase and include the following:
 - ▶ The identified revenue deficiency should be probable and material.
 - ▶ Is the increase required to preserve the financial integrity of the applicant or to avoid financial hardship to the applicant?
 - ▶ Can the applicant continue safe utility operations without the interim adjustment?
 - ▶ Contentious items may be excluded from the amount collected.

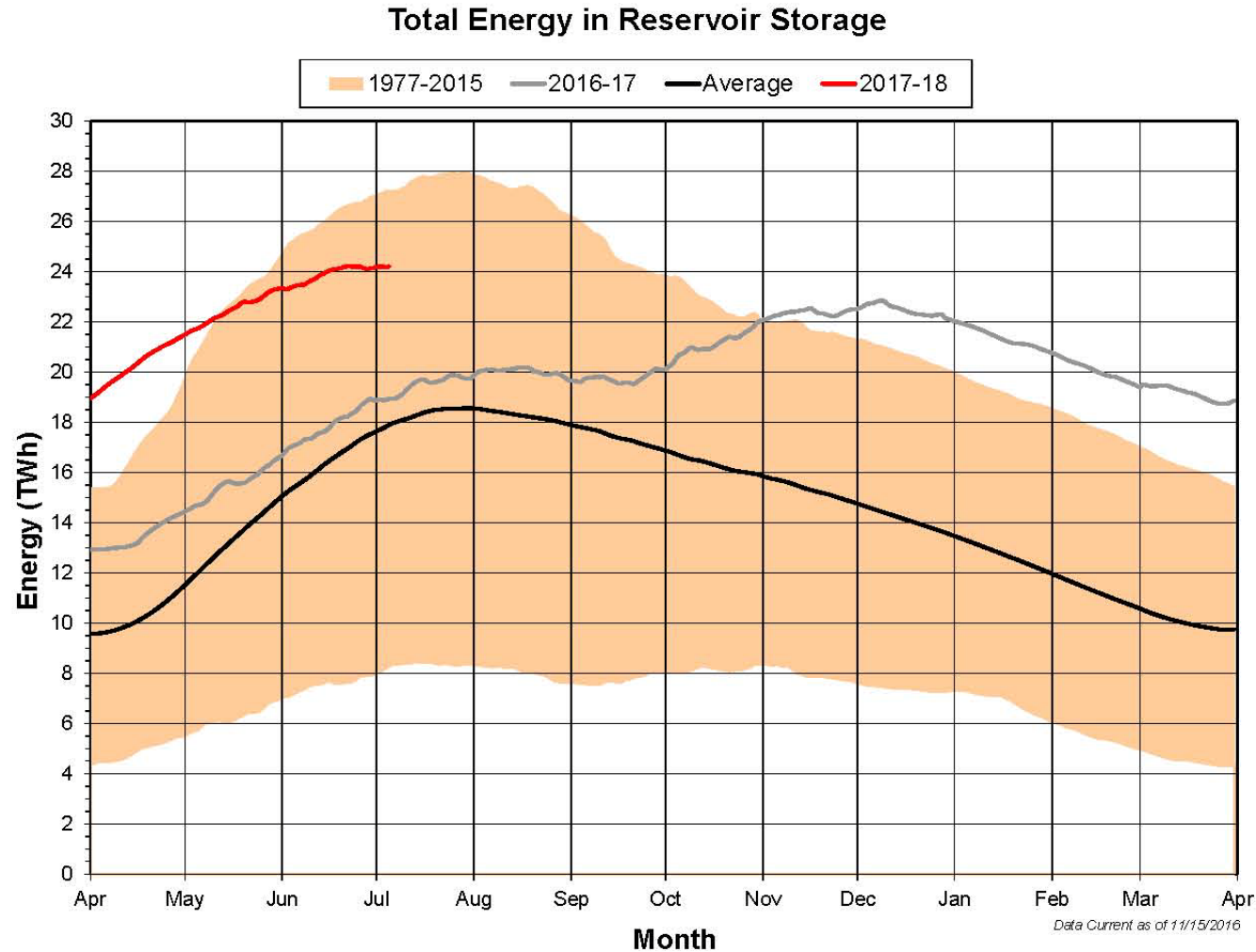
Alberta Utilities Commission Decision 2005-099 regarding interim rate applications, EUB Decision 2005-099 (August 29, 2005) at page 7-8.

General Public Interest Factors

- ▶ If all or a portion of the suggested rate increase appears appropriate after a consideration of the quantum and need factors, the Board must assess certain general public interest factors to determine if the interim rate increase is justified, including the following:
 - ▶ Interim rates should promote rate stability and ease rate shock.
 - ▶ Interim rates should maintain intergenerational equity.
 - ▶ Interim rate increases may be required to provide appropriate price signals to customers.
 - ▶ The use of carrying costs may be considered to avoid interim rate increases.
 - ▶ It may be appropriate to apply the interim rider on an across-the-board basis.

Total Energy in Reservoir Storage (filed July 11, 2017)

Appendix 7.4, page 2 -Response to Directive 5 in Order 43/13:



CASH FLOW WITH 1.6% RATE INCREASE IN 2017/18

\$ Millions	2017/18	
	IFF16	MH16 Updated
Cash Flow from Operating Activities	619	715
less: Normal Capital per CEF16	526	526
	<u>93</u>	<u>189</u>
less: Major Capital associated with existing assets	<u>30</u>	<u>30</u>
Free Cash Flow before Major Capital spending or debt repayment	63	159

MIPUG July 14 filing, pg. 13 - 14. Capital spending as per CEF16 (not yet provided for MH16 Updated)

Net Income with 1.6% Rate Increase - with MH16 Updated

\$ Millions	2017/18				
	IFF15	IFF16	<i>change from IFF15</i>	M16 Updated	<i>change from IFF15</i>
Ongoing Expenses					
Operating and Administrative	537	518	-19	518	-19
Finance Expense (net of Finance Income)	580	558	-22	571	-9
Depreciation and Amortization and Other Expenses (incl re	423	392	-31	390	-33
Water Rentals and Assessments	113	124	11	130	17
Fuel and Power Purchased	182	135	-47	124	-58
Capital and Other Taxes	137	132	-5	132	-5
Corporate Allocation	8	8	0	8	0
Ongoing Expenses	1,980	1,867	-113	1,873	-107
One-time Corporate Restructuring Costs		50	50	50	50
Total Expenses	1,980	1,917	-63	1,923	-57
less: Non Controlling Interest	-4	-9	-5	-8	-4
less: Extraprovincial and other income	-477	-484	-7	-544	-67
Net Costs allocated to Domestic customers	1,499	1,424	-75	1,371	-128

MIPUG July 14 filing, pg. 11, MH16 Updated added (discussed pg. 18 - 19 of submission)

Summary of Conclusions (1):

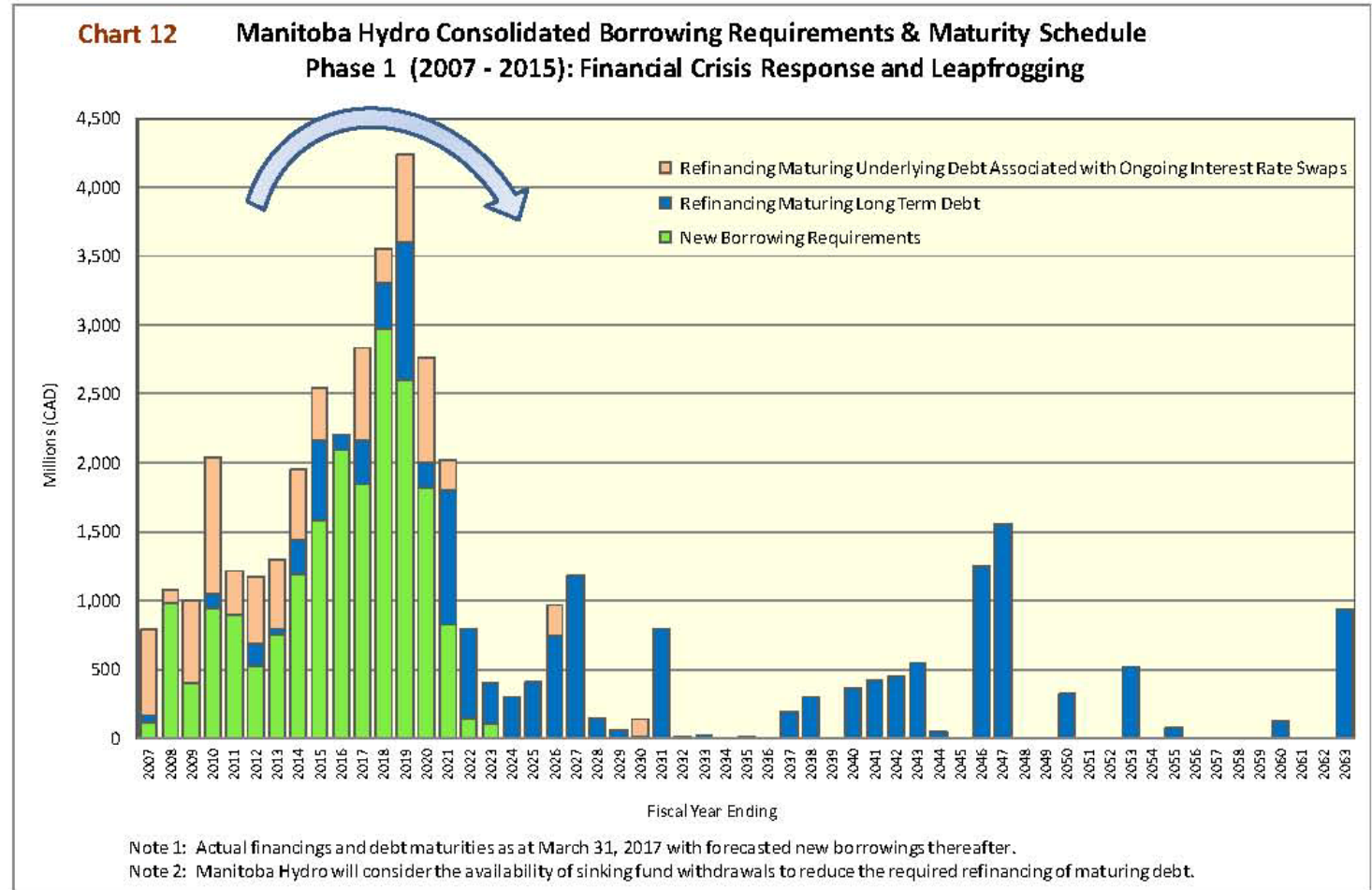
1. IFF16 shows lower net costs in 2017/18 that must be paid by ratepayers than the projections in IFF15 (section 3.2)
2. IFF16 shows a positive Net Income in 2017/18 even without any interim revenue increase (one of the Board's test for interim rates in Decision 59/16).
3. IFF16 shows significant positive cash flow from Operating Activities (w. 1.6% rate increase), sufficient to fund all capital expenditures for "normal" capital and a portion of Major capital spending tied to existing assets, and still yield over \$63 million for 2017/18.

Summary of Conclusions (2):

4. IFF16 long-term forecast of net costs that must be recovered from domestic ratepayers (i.e. forecast operating expenses less forecast export revenue) is almost precisely equal to IFF15.
5. IFF16 incorporates significant pessimistic assumptions that have not yet been tested. Each appears to adversely affect IFF16 forecasts. The Board should not prematurely accept IFF16 as a best estimate forecast, but rather appears as a pessimistic forecast of the next decade.

Summary of Conclusions (3):

6. IFF16 has less exposure to risk than IFF15 - as time progresses more capital project spending locked-in at low interest rates. Additionally IFF16 incorporates reduced forecasts for export prices and domestic loads.



Summary of Conclusions (4):

7. MH16 Update shows material improvements in 2017/18 and 2018/19 compared to IFF16, particularly for cash flows and the positive impacts from sustained high water reservoir levels into 2018/19
8. Awarding a 1.6% interim rate increase today would not prejudice or fetter the Board's ability to award more aggressive rate increases at a later date if deemed necessary.