Manitoba Hydro
2019/20 Electric Rate Application
Final Argument - Presentation

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Use of a Long Term Forecast

Recently Concluded Lengthy GRA for 2017/18 & 2018/19

- Prior to current process, MH and all parties concluded a fulsome GRA for 2017/18 & 2018/19

- Order 59/18 summarized positions of Intervenors

  - Smoothing rate increases at or below the 3.95% NFAT range makes sense, according to the Consumers Coalition

  - MIPUG maintains... no need to deviate from the prior rate trajectory

MHEB Review

- MHEB currently undertaking a review of the Corporation's Strategic plan
- From that, will also develop financial targets, rate strategies and a long term financial forecast
- Also intends to engage various stakeholders at the start of that process
  - (*S. Pachal, Transcript pages 129 and 374*)

Can the PUB Make a Decision Without an IFF?

- IFF is a tool
- Legislative Framework does not require the use of a long term forecast
- The PUB controls its own process

Legislative Framework

Section 39 of *The Hydro Act*:

Price of power sold by corporation
39(1) The prices payable for power supplied by the corporation **shall** be such as to return to it in full the cost to the corporation, of supplying the power, including

(a) the necessary operating expenses of the corporation, including the cost of generating, purchasing, distributing, and supplying power and of operating, maintaining, repairing, and insuring the property and works of the corporation, and its costs of administration;

(b) all interest and debt service charges payable by the corporation upon, or in respect of, money advanced to or borrowed by, and all obligations assumed by, or the responsibility for the performance or implementation of which is an obligation of the corporation and used in or for the construction, purchase, acquisition, or operation, of the property and works of the corporation, including its working capital, less however the amount of any interest that it may collect on moneys owing to it;

(c) the sum that, in the opinion of the board, should be provided in each year for the reserves or funds to be established and maintained pursuant to subsection 40(1).

Legislative Framework

Part IV of *The Crown Corporations Governance and Accountability Act*

Factors to be considered, hearings

25(4) In reaching a decision pursuant to this Part, The Public Utilities Board may

(a) take into consideration

(i) the amount required to provide sufficient funds to cover operating, maintenance and administration expenses of the corporation,
(ii) interest and expenses on debt incurred for the purposes of the corporation by the government,
(iii) interest on debt incurred by the corporation,
(iv) reserves for replacement, renewal and obsolescence of works of the corporation,
(v) any other reserves that are necessary for the maintenance, operation, and replacement of works of the corporation,
(vi) liabilities of the corporation for pension benefits and other employee benefit programs,
(vii) any other payments that are required to be made out of the revenue of the corporation,
(viii) any compelling policy considerations that the board considers relevant to the matter, and
(ix) any other factors that the Board considers relevant to the matter;

Manitoba Court of Appeal

Consumers Assn. of Canada (Manitoba) Inc. v. Manitoba Hydro Electric Board, 2005 MBCA 55

60 In its order 143/04, the PUB expands on the concerns that drove it to the decision it arrived at, and it is clear that in arriving at its order, the PUB was concerned with the overall financial stability of Hydro as that stability had been affected by the drought of previous years….

61 When one sifts through all of the material and arguments put forth by the applicants in support of their position, it becomes more and more clear that their arguments that the PUB failed to reach a "just and reasonable" rate is not a matter of law but a dispute with the opinion at which the PUB arrived.

62 A review of the record demonstrates that the PUB did in fact review extensive financial information and then exercised its discretion. **It may well be that the PUB could not, or would not, review the specific financial tool that the applicants argue it should have, but that is insufficient in my mind to justify a finding that, as a whole, the PUB did not fix rates that were just and reasonable.**

63 The intent of the legislation is to approve fair rates, taking into account such considerations as cost and policy or otherwise as the PUB deems appropriate. Rate approvals involve balancing the interests of multiple consumer groups with those of the utility. The PUB's decision to build retained earnings more rapidly than proposed in order to better protect the utility and consumers from the financial impacts of a future drought, clearly meets the intent of the legislation and is within the jurisdiction afforded the PUB in s. 26 of the Accountability Act.

64 The role of the PUB under the Accountability Act is not only to protect consumers from unreasonable charges, but also to ensure the fiscal health of Hydro. It is clear the PUB understood its role in this regard.

Use of Exhibit 93

Use of Exhibit 93 as a Comparator

- As noted on page 2 of 4 of PUB Exhibit 1:

  "The Board expects that Hydro will include in its filing an update of the financial information for the 2019/20 test year contained in Exhibit MH-93 from the 2017/18 & 2018/19 GRA process, as revised to reflect the Board's directives in Order 59/18."

- The 3.5% rate increase in 2019/20 provides additional revenues on an annualized basis in perpetuity

Fiscal Year Ending	***2018***	***2019***	***2020***	***2021***	***2022***	***2023***	***2024***	***2025***	***2026***	***2027***	***2028***	***2029***
MH Exhibit 93 with 0% Rate Increase in 2019/20												
Percent Increase	3.36%	3.57%	0.00%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%
Cumulative Percent Increase	3.36%	7.05%	7.05%	10.87%	14.82%	18.92%	23.16%	27.56%	32.11%	36.82%	41.70%	46.76%
Net Income	94	143	0	51	108	(106)	(193)	(159)	(227)	(175)	(129)	(45)
Retained Earnings	2,842	2,986	2,986	3,037	3,145	3,039	2,846	2,688	2,461	2,285	2,156	2,111
Net Debt	18,473	20,813	22,686	23,880	24,611	24,931	25,046	25,200	25,418	25,599	25,726	25,780
Debt Ratio	85%	86%	87%	87%	87%	88%	89%	89%	90%	91%	91%	91%
EBITDA Interest Coverage Ratio	1.54	1.64	1.52	1.56	1.63	1.51	1.45	1.48	1.44	1.48	1.53	1.60
Capital Coverage Ratio	1.40	1.35	1.07	1.28	1.50	1.19	1.12	1.09	0.97	1.04	1.11	1.21
MH Exhibit 93												
Percent Increase	3.36%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%
Cumulative Percent Increase	3.36%	7.05%	10.87%	14.82%	18.92%	23.16%	27.56%	32.11%	36.82%	41.70%	46.76%	52.00%
Net Income	94	143	61	115	178	(29)	(111)	(69)	(128)	(68)	(13)	81
Retained Earnings	2,842	2,986	3,047	3,162	3,340	3,311	3,200	3,132	3,003	2,935	2,922	3,002
Net Debt	18,473	20,813	22,628	23,759	24,424	24,666	24,702	24,765	24,891	24,963	24,971	24,899
Debt Ratio	85%	86%	86%	87%	86%	87%	87%	88%	88%	88%	88%	88%
EBITDA Interest Coverage Ratio	1.54	1.64	1.58	1.62	1.69	1.58	1.52	1.57	1.53	1.58	1.63	1.72
Capital Coverage Ratio	1.40	1.35	1.18	1.41	1.64	1.33	1.27	1.24	1.12	1.20	1.29	1.39
Differences												
Percent Increase	0.00%	0.00%	-3.57%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cumulative Percent Increase	0.00%	0.00%	-3.82%	-3.96%	-4.10%	-4.24%	-4.39%	-4.55%	-4.71%	-4.88%	-5.06%	-5.24%
Net Income	0	(0)	(61)	(64)	(70)	(77)	(82)	(90)	(99)	(107)	(116)	(126)
Retained Earnings	0	(0)	(61)	(125)	(195)	(272)	(354)	(444)	(543)	(650)	(766)	(892)
Net Debt	0	0	58	121	188	264	344	434	527	636	755	881
Debt Ratio	0%	0%	0%	0%	1%	1%	1%	2%	2%	2%	3%	3%
EBITDA Interest Coverage Ratio	0.00	(0.00)	(0.06)	(0.06)	(0.06)	(0.07)	(0.07)	(0.08)	(0.09)	(0.10)	(0.11)	(0.12)
Capital Coverage Ratio	0.00	(0.00)	(0.11)	(0.12)	(0.13)	(0.15)	(0.15)	(0.15)	(0.14)	(0.16)	(0.18)	(0.18)

Historical Rate Paths

- Despite significant changes in net income, all previous IFFs have recognized the need for steady rate increases of 3.5% or more to address the impacts of major capital expansion

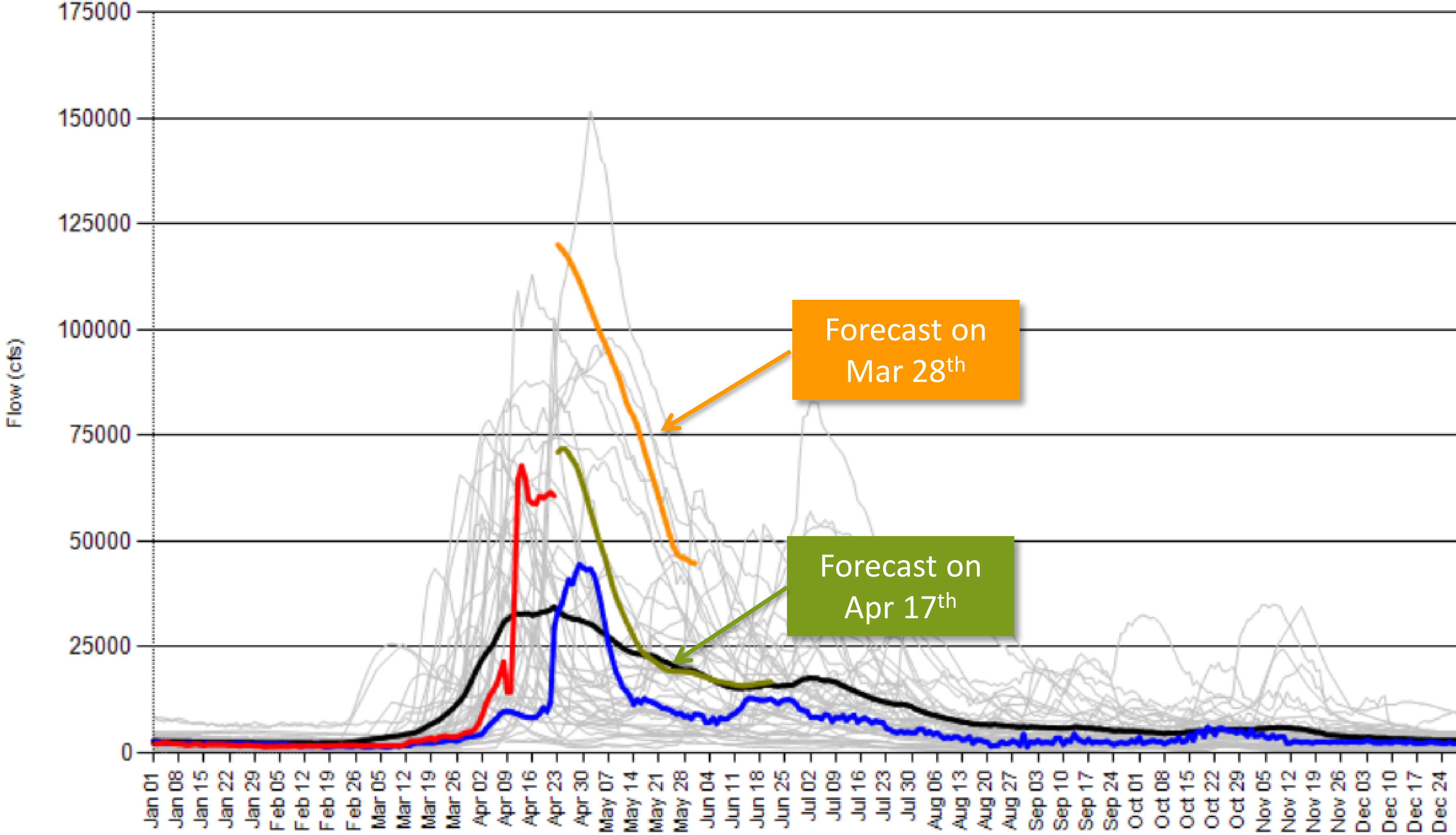
- The PUB has consistently granted rate increases with a view to smoothing the impacts of major capital projects coming into service

Reasons for the Application

Variability in Net Income

1. Water Flows
2. Interest Rates
3. Additional Sensitivities

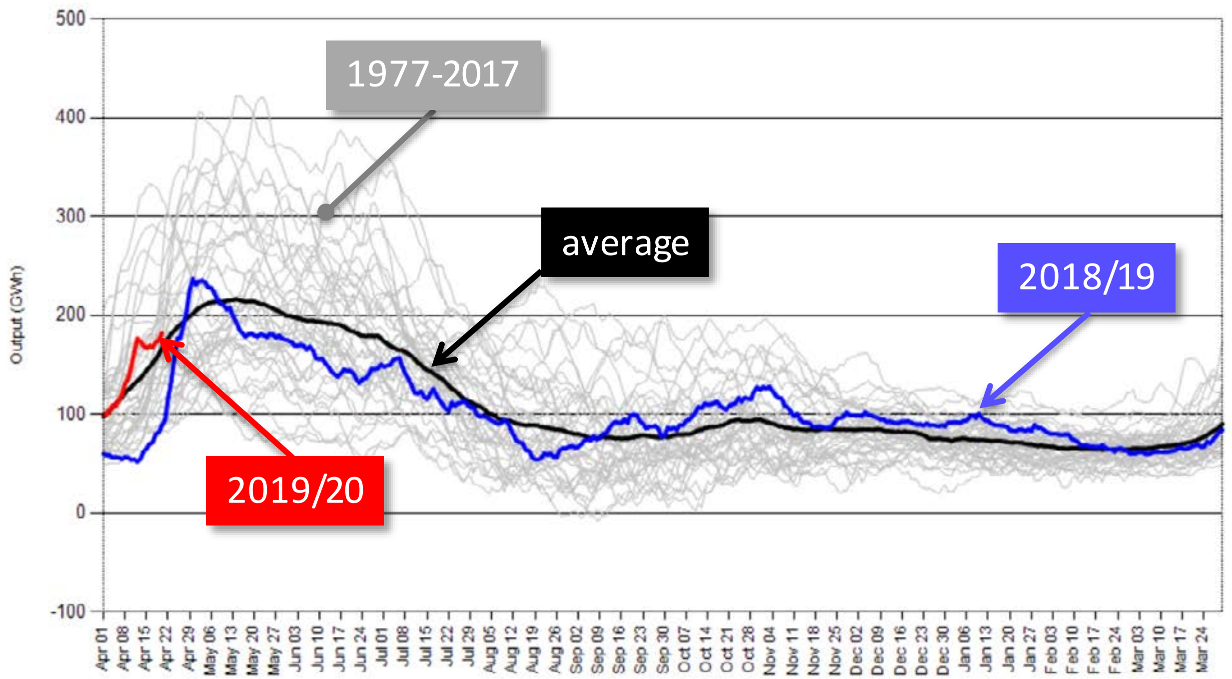
Variability in Net Income – Water Flows



MH Exhibit 25, Slide 12

Variability in Net Income – Water Flows

- Manitoba Hydro bases its forecasts on the average of revenues and costs using its long term flow record



Slide 11 of MH Exhibit 25

Variability in Net Income – Interest Rates

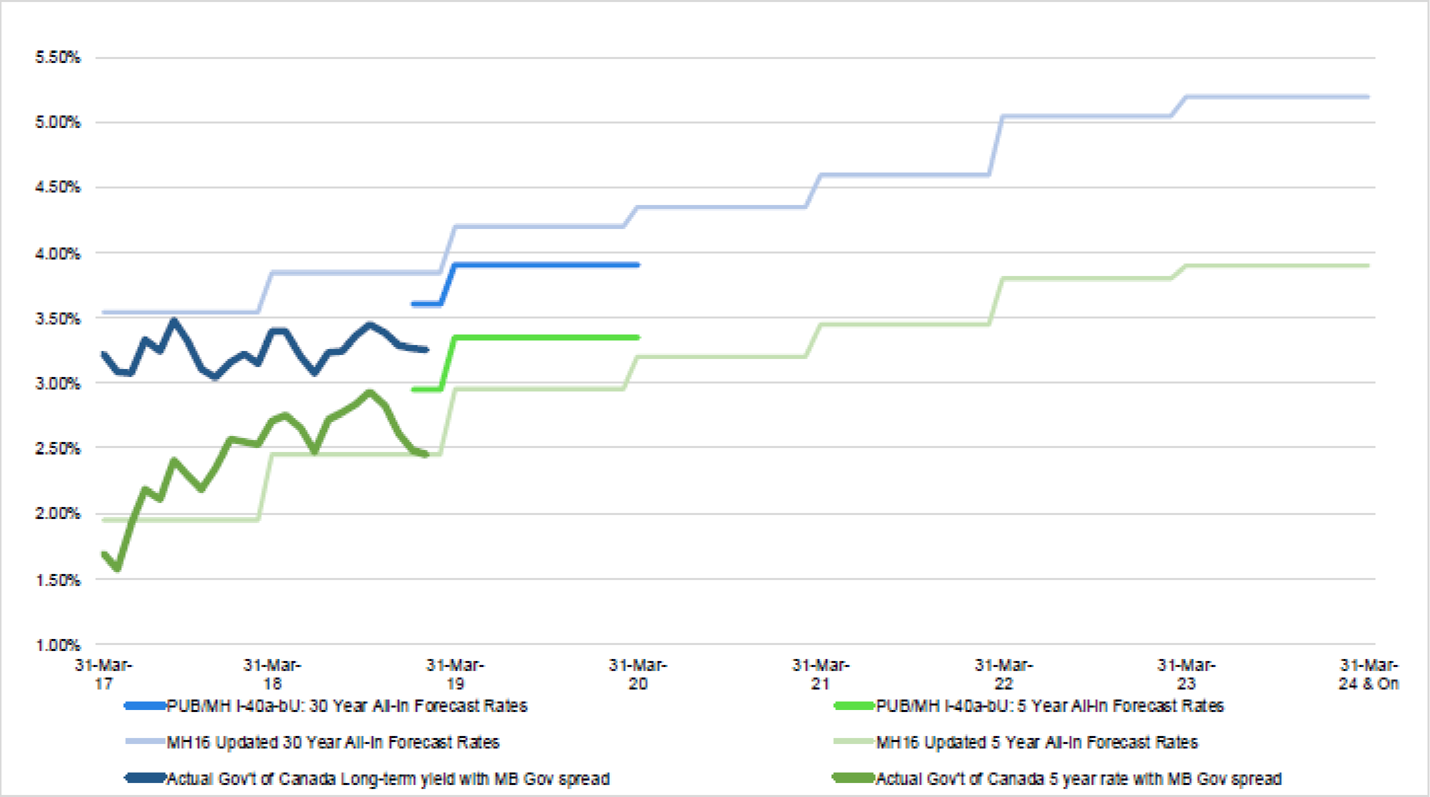
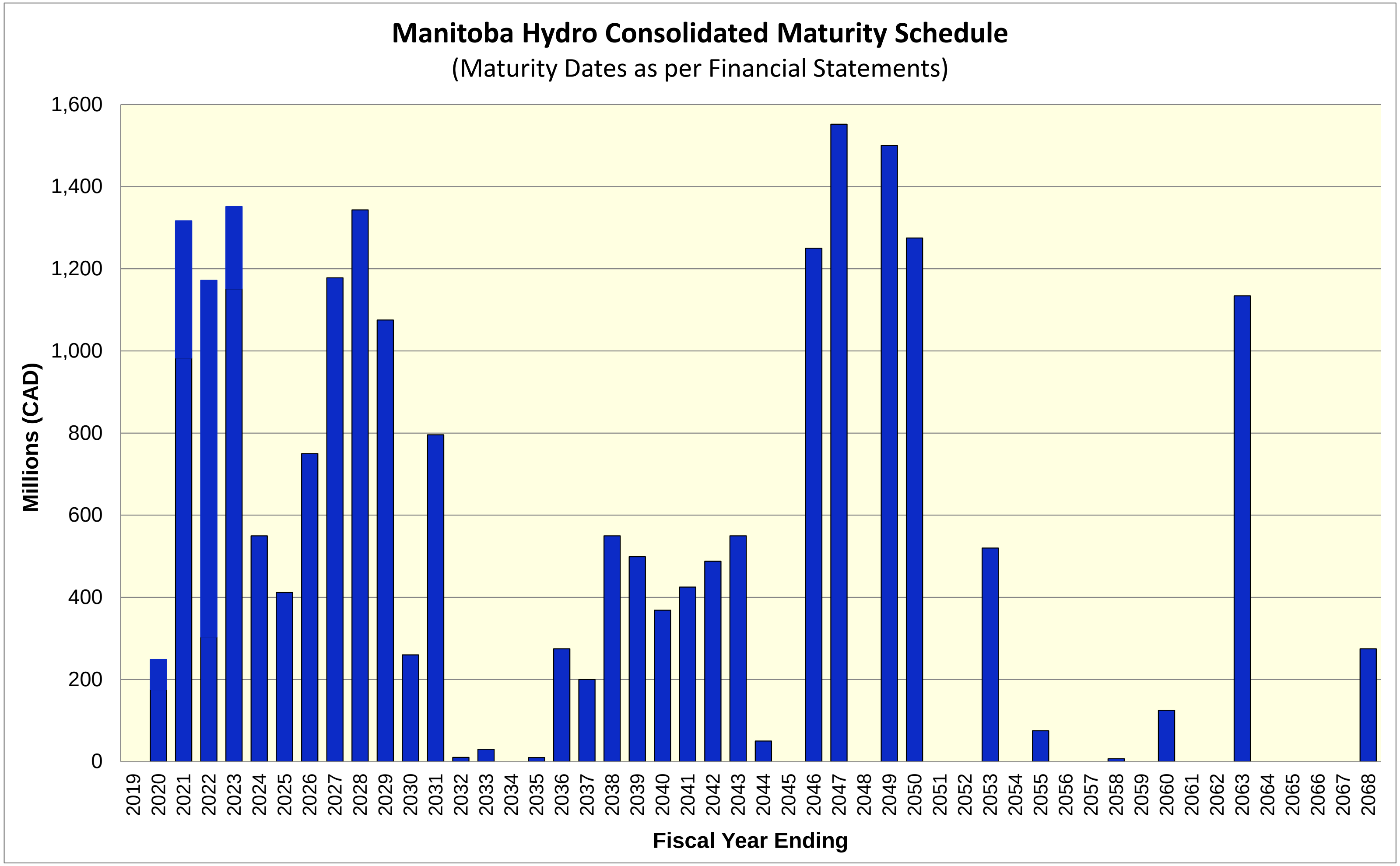


Figure 4: Figure 4 of Exhibit MIPUG-5-3 (with actual variation denoted within red circles)

Refinancing Risk



Source: MH Exhibit 24, Page 12

Variability in Net Income – Additional Sensitivities

Figure 1: Key Variable Sensitivity Impacts on 2019/20 Approved Budget Net Income/(Loss) With and Without the 3.5% Proposed Rate Increase and a 1.0% and 2.0% Rate Increase

	Projected Net Income/(Loss)			
	3.5% Proposed Rate Increase	**No Rate Increase**	**1.0% Rate Increase**	**2.0% Rate Increase**
Approved 2019/20 Budget	$ 115 M	$ 64 M	$ 78 M	$ 93 M
Low Water Flow (10th percentile net interchange revenues and generation costs)	($ 23) M	($ 75) M	($ 60) M	($ 45) M
High Water Flow (90th percentile net interchange revenues and generation costs)	$ 202 M	$ 150 M	$ 165 M	$ 179 M
Low Water Flow (20th percentile net interchange revenues and generation costs)	$ 41 M	($ 10) M	$ 4 M	$ 19 M
High Water Flow (80th percentile net interchange revenues and generation costs)	$ 191 M	$ 139 M	$ 154 M	$ 168 M
Colder than normal winter weather	$ 161 M	$ 110 M	$ 124 M	$ 139 M
Warmer than normal winter weather	$ 66 M	$ 15 M	$ 30 M	$ 44 M
Low Export Price Case	$ 91 M	$ 39 M	$ 54 M	$ 68 M
High Export Price Case	$ 188 M	$ 136 M	$ 151 M	$ 165 M

Source: COALITION/MH I-8a-g, Page 6

Keeyask In-Service 18-28 Months Away

- Greater likelihood that Keeyask will come into service earlier than scheduled – First Unit, October 2020

- Capital Costs are projected to be $8.7B as of October 2020

KEEYASK (ISD 2021/22)
(In Millions of Dollars)

For the year ended March 31	2019	2020	2021	2022	2023
Finance Expense	-	-	-	119	329
OM&A Costs	-	-	-	9	16
Depreciation	-	-	-	21	99
Capital Tax	29	35	39	42	43
Water Rentals	-	-	-	5	14
	29	35	39	196	502

MANITOBA-MINNESOTA TRANSMISSION PROJECT
(In Millions of Dollars)

For the year ended March 31	2019	2020	2021	2022	2023
Finance Expense	0	1	11	22	21
OM&A Costs	-	-	-	0	0
Depreciation	0	0	5	7	7
Transmission Charges	-	-	-	-	-
Capital Tax	1	2	2	2	2
	1	3	19	31	31

GREAT NORTHERN TRANSMISSION LINE
(In Millions of Dollars)

For the year ended March 31	2019	2020	2021	2022	2023	
Finance Expense	[redacted]					
OM&A Costs						
Amortization						3a
Transmission Charges						
Capital Tax						
	2	3	74	99	97	

Keeyask In-Service 18-28 Months Away

(In Millions)	2019/20	
	Without Capitalized Interest on Major Projects	With Capitalized Interest on Major Projects
Cash Receipts from Customers	$2,187	$2,187
Cash Paid to Suppliers	(843)	(843)
Interest Paid	(1,029)	(1,029)
Capitalized Interest	**20**	**312**
Interest Received	16	16
Cash Paid to the City	(16)	(16)
Cash Paid to Mitigation	(54)	(54)
Cash Provided by Operating Activities	**281**	**571**
Business Operations Capital	(478)	(478)
Surplus/(Deficit)	(197)	93

Source: Exhibit MH-24, Page 9

Keeyask In-Service 18-28 Months Away

- Keeyask and associated transmission will result in an additional $600 - $700 million of carrying costs (primarily finance and depreciation expense)

- We are running out of time to smooth rates

- Potentially only one more rate application before in-service of first unit of Keeyask in October 2020

Cash Flow Sufficiency

- MH is in the midst of an unprecedented capital investment program and its financial metrics are weakening as a result of minimum net income and cash flow, and escalating debt levels *(S. Stephen, Transcript pages 89-93)*
- Weakening financial metrics have garnered additional scrutiny from credit rating agencies
  - S&P no longer considers MH to be self-supporting
  - Moody's indicated may reassess MH's status

Cost Control

Cost Control – O&A

- Manitoba Hydro has reduced controllable costs
  - Accelerated workforce reduction of ~900

2016/17 Actuals ST EFTs	Actuals to Dec/18 ST EFTs	Decrease in ST EFTs
6,206	5,334	(872) or (14%)

- Further reductions significantly increase risks – public and employee safety, system reliability and ability to provide reasonable levels of customer service

Cost Control – O&A

- EFT levels are comparable to where they were 15 years ago (2004/05)
- This EFT level has been achieved despite:
  - 15% growth in customers
  - Additional operational requirements for major infrastructure (Wuskwatim GS, Riel and Keewatinohk Converter Stations)
  - Aging infrastructure demands
  - Increased regulation (environmental, NERC, NEB and safety)

Cost Control - Business Operations Capital

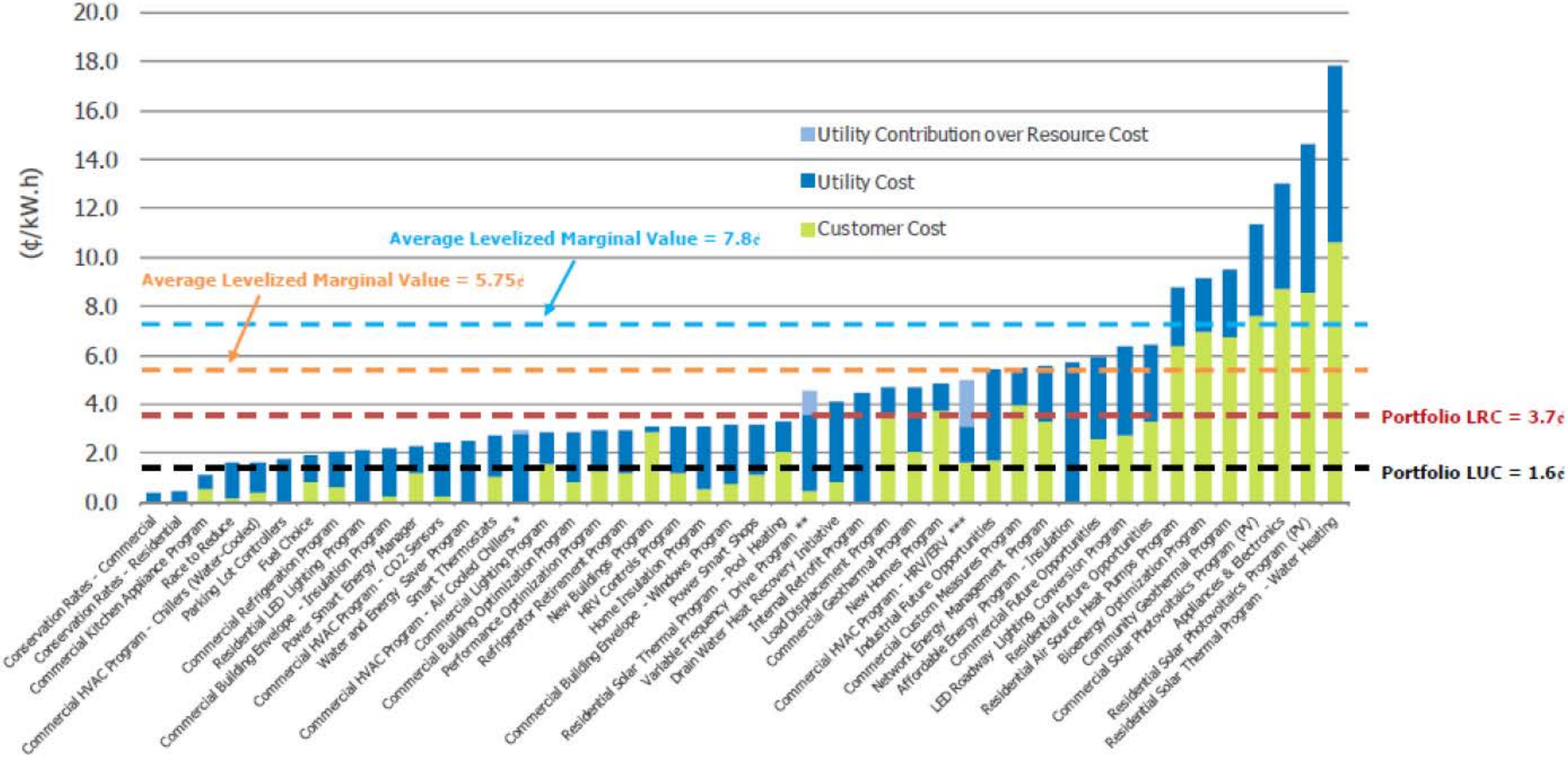
- The timing of investment is a complex risk decision with significant cost and operational consequences.

- Manitoba Hydro’s capital expenditures are operationally driven in support of the Corporation’s responsibility to provide for an ongoing safe and reliable supply of electricity to its customers.

- A reduction in Business Operations Capital in 2019/20 of $100 million impacts expenses by $4 million which does not address the revenue shortfall once Keeyask is in-service and would place significantly greater risk to the reliability of the electrical system

Demand Side Management

Levelized Cost
(Electric DSM)



First Nation On Reserve Customer Class

First Nation On Reserve Customer Class

- 3.5% rate increase to be applied maintains current rate differential

- Mitigates potential hardship to the class

Other Issues to be Addressed in Written Argument

Other Issues to be Addressed in Written Argument

- Intervener participation in reviewing compliance filings and directives

- Recommendation of Coalition that GSS class receive less than average rate increase

- Use of Deferral Account for Keeyask

Conclusion

Stable and Predictable Rates Means Planning for Keeyask

- The revenue generated by a 1.5% rate increase is only one-sixth of the annual operating deficit of Keeyask

- Manitoba Hydro's assets once Keeyask and its associated transmission is in service will be worth over $26 billion and Manitoba Hydro's net debt will be over $24 billion

Stable and Predictable Rates Means Planning for Keeyask

“We’re seeing significant costs coming in, and we are running out of time to address those issues….we have been so fortunate that the interest rates have kept – have continued to be low. Ms. Stephen and her team have done an amazing job, but we cannot hope for that to continue.”

Liz Carriere – Tr. Pg. 483-484