Manitoba Hydro
2019/20 Electric Rate Application
Overview

Pre-Hearing Conference

December 19, 2018

Presentation Outline

- Regulatory and Manitoba Hydro considerations
- Current Application and overview
- Reasons for the proposed rate increase

Regulatory Considerations

- On February 14th, the public review of Manitoba Hydro's 2016/17 and 2017/18 GRA concluded following:
  - Nearly 35,000 pages filed
  - 2,100 + information requests
  - 7 interveners and 5 PUB experts
  - 284 days from the Application date to Hearing close
  - $14.5M in total cost
- On May 1st, the PUB issued Order 59/18 including numerous directives to be addressed in the next GRA
- Directive 9 ordered MH to participate in technical conference to review minimum retained earnings prior to next GRA but was subsequently set aside in late September
- Centra commitment to file GRA for gas operations

MH Considerations

- For April 1, 2018 MH shifted planning cycle by 6 months to align with *Crown Corporations Accountability Act* requirement to approve Annual Business Plan and Budget for April 1 each fiscal year:
  - Commencing fall and culminating spring (previously commencing spring and culminating fall)
  - MH was in process of preparing 2018/19 Budget during 2017 Hearing
  - MHEB approved 2018/19 Budget March 2018 prior to Order 59/18
  - Deferred approval of long-term forecast MH18 pending PUB Order and signal for longer term financial targets and pacing
  - New MHEB appointed in April and June 2018

MH Considerations

- MH is currently in the process of preparing:
  - 2019/20 Budget for provincial approval; and
  - Longer term forecast to review with new CEO and MHEB
- Subject to the direction of new CEO and MHEB, MH will file full Electric GRA late 2019

Current Application

- MH sought approval from MHEB late October to proceed with Electric Rate Application
- On November 12th, MH advised the PUB of its intention to file a one-year 3.5% rate increase application for the 2019/20 fiscal year which is based on financial information currently approved by the MHEB for the 2018/19 and 2019/20 fiscal years
- In light of preceding considerations, MH proposed a stream-lined process recognizing full application to be filed late 2019
- On November 21st, the PUB determined it would consider a one-year rate increase application and deferred a number of issues to the GRA process anticipated for late 2019

Overview of the Application

- Manitoba Hydro is proposing to apply the proposed 3.5% rate increase to all components of rates (monthly basic charges, energy charges and demand charges) on an across-the-board basis for all customer classes, with the exception of Diesel General Service.
- For Diesel General Service customers Manitoba Hydro is proposing to increase the grid portion of the rate (Basic Charge and first 2,000 kWh per month for non-government customers) by 3.5% with the non-grid portion of the rate remaining unchanged.
- The proposed 3.5% rate increase effective April 1, 2019 is projected to generate additional revenues of $59 million and provide a modest contribution to financial reserves (net income) of $31 million in 2019/20
- Absent the proposed rate increase for 2019/20, Manitoba Hydro is projecting a net loss of $28 million from Electric operations based on current assumptions

Changes Since 2017 GRA

- Deterioration in financial results compared to projections examined in 2017 GRA (Exhibit 93)
  - Higher actual interest rates compared to forecast
  - Earlier Bipole III ISD along with expected $300M+ annual cost
  - Deteriorating water conditions over summer into September

$M	2017/18	2018/19	2019/20	Total
Actual/Forecast	18	51	31	100
Exhibit 93	94	143	61	298
Decrease	(75)	(93)	(30)	(198)

Unchanged Since 2017 GRA

- Exhibit 93 projected over $400 million in cumulative net financial losses over the six year period from 2022/23 to 2027/28 following the planned Keeyask in-service, inclusive of indicative annual 3.57% rate increases
- More unfavourable financial results 2017/18 to 2019/20 will exacerbate losses

Reasons for the Rate Increase

- Manitoba Hydro’s net income has historically been extremely variable.
- Key drivers of net income such as water flow conditions, weather, interest rates and export prices are unpredictable and outside of Manitoba Hydro’s control.
  – Water flow conditions can vary projected net income for 2019/20 by as much as $360 million between the 10th and 90th percentile of net revenues under the 102 years of historic flow conditions.
  – Colder or warmer winter weather can vary projected net income for 2019/20 by more than $60 million.
  – With interest rates 1% above or below that forecasted, net income for 2019/20 could vary by approximately $30 million.
  – Export prices higher or lower than the reference forecast used in the 2019/20 can produce a variation of up to $50 million.

Reasons for the Rate Increase

- Without the proposed 3.5% rate increase, the likelihood of financial losses is greater given the variability of factors such as water, weather, interest rates and export prices.
- This potential annual variation in financial results and the deterioration in the Corporation's financial position relative to Exhibit 93 underscores the need for a reasonable rate increase in the 2019/20 fiscal year.
- The requested 3.5% rate increase effective April 1, 2019 generates a modest level of net income under average water flow conditions that will assist in gradually building the revenue base and reduce the risk of the Corporation incurring a loss in 2019/20.
- The 3.5% requested rate increase is aligned with PUB-approved rate increases since 2015 and keeps Manitoba's customer rates and estimated bill impacts among the lowest in North America.