Document:	Updated Appendix 10 of the Application; and, Evidence of Rainkie, Derksen and Harper	**Page No.**	10-11, 104
Topic:	First Nations On-Reserve Residential and Diesel Residential customer classes		
Sub Topic:			
Issue:	Rate increase for these customer classes		

PREAMBLE TO IR (IF ANY):

Per Appendix 10 (Updated) of the Application, for the 2019/20 fiscal year a 3.5% rate increase with a June 1, 2019 implementation date is expected to provide Manitoba Hydro with approximate revenues of:

- $1.4 million from the First Nations On-Reserve Residential customer class; and,
- $21,000 from the Diesel Residential customer class.

Rainkie, Derksen and Harper recommend a 1.5% rate increase applied "across-the-board" (with the exception of the GSS Non-Demand Class).

Rainkie, Derksen and Harper conclude (at pages 10-11 and 104) that their recommended 1.5% "across-the-board" rate increase would:

1. generate net income of between $100 million and $115 million for MH in 2019/20, if MH is able to manage its O&A costs within a rate-setting target of $489 million;
2. result in financial ratios that are consistent with or exceed those from the 2017/18 & 2018/19 GRA;
3. protect against the risks of a financial loss in 2019/20 consistent with the PUB's findings in Order 59/18 on how key risks should be addressed for rate-setting purposes;
4. still generate a reasonably healthy net income of between $78 million and $93 million for MH in 2019/20, even in the event that MH is unable

to manage its O&A costs within a rate-setting target of $489 million; and,

5. balance the financial health of MH with customer interests and avoid an erosion of MH's capital structure in 2019/20.

QUESTION:

Please consider the effect on Rainkie, Derksen and Harper's recommended 1.5% "across-the-board" rate increase (with the exception of the GSS Non-Demand Class) with two further exceptions:

- First Nations On-Reserve Residential customer class; and
- Diesel Residential customer class.

Specifically, adding these two further exceptions, would Mr. Rainkie, Ms. Derksen and Mr. Harper still expect their recommended 1.5% rate increase to:

1. generate net income of between $100 million and $115 million for MH in 2019/20, if MH is able to manage its O&A costs within a rate-setting target of $489 million;
2. result in financial ratios that are consistent with or exceed those from the 2017/18 & 2018/19 GRA;
3. protect against the risks of a financial loss in 2019/20 consistent with the PUB's findings in Order 59/18 on how key risks should be addressed for rate-setting purposes;
4. generate a reasonably healthy net income of between $78 million and $93 million for MH in 2019/20, even in the event that MH is unable to manage its O&A costs within a rate-setting target of $489 million; and
5. balance the financial health of MH with customer interests and avoid an erosion of MH's capital structure in 2019/20?

RATIONALE FOR QUESTION:

To clarify conclusions drawn in expert evidence of Rainkie, Derksen and Harper about the impacts of a rate increase to the First Nations On-Reserve Residential and Diesel Residential customer classes.

RESPONSE:

Rainkie, Derksen, and Harper recommend a 1.5% across-the-board rate increase (except for GSS ND). The exclusion of the First Nations on Reserve and Diesel Residential from the recommended rate increase would result in approximately $600, 000 less revenue in the fiscal year. On this basis, the 1.5% recommendation still sufficiently meets the five objectives defined above and thus does not change should the PUB direct the First Nations on Reserve and Diesel Residential customer classes be exempt from the rate increase.