MANITOBA HYDRO 2019/20 GENERAL RATE APPLICATION
PUBLIC UTILITIES BOARD
INFORMATION REQUESTS OF THE CONSUMERS COALITION
[RAINKIE, DERKSEN, AND HARPER]
April 12, 2019

PUB/Coalition - 1

Reference:

Coalition Evidence p. 48 of 142

Preamble:

In its evidence, Coalition states: "Curiously, while using the incremental revenue requirement calculations for Keeyask, MMTP and GNTL in the response to Coalition/MH I-1 b to justify its proposed rate increase, MH takes great care to emphasize the limitations with respect to these very same calculations for rate-setting purposes in the updated response to PUB/MH I-9:"

Request:

Provide the Coalition witnesses' views on the appropriateness and limitations of the analyses shown in PUB/MH I-9 and Coalition/MH I-1.

Response:

The general conclusion drawn at the end of Section 5.2 of the Evidence is that due to the limitations of incremental or stand-alone calculations in isolation, they are not sufficient evidence for the PUB to apply the historic modified cost of service rate-setting approach in absence of a reliable, long-term and integrated financial forecast.

The Consumer Coalition experts generally have the same reservations with respect to incremental or stand-alone calculations as MH expressed in the response to PUB/MH I-9. These incremental calculations may be used to provide orders of magnitude and context about the impacts of a particular project but an integrated financial forecast which allows the PUB to understand the complete picture of MH's financial outlook, financial performance indicators, and potential rate strategies, is the only tool that can be used by the PUB for decision making for long-term revenue requirement determinations.

MH's financial forecast is referred to as "integrated" because it brings together a number of component forecasts that are developed during the integrated

planning cycle in a particular sequence (ie., the load forecast in an input into the power resource plan.) The IFF is also integrated as it is the only tool that is used to determine the overall borrowing requirements, forecast financial performance indicators and the rate increases required to maintain or attain financial performance indicators over time. As such, an IFF is inherently more reliable than stand-alone calculations which are not integrated in nature and are not designed to determine overall borrowing requirements, financial performance indicators and resulting required rate increases.

In addition, the longer the projected timeframe in the future that the incremental or stand-alone calculation relates to, the less reliable the calculation is for decision making and the greater the potential is for the plethora of other financial and economic variables to impact the integrated financial outlook of MH.

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PUB/Coalition - 2

Reference:

Coalition Evidence p. 91-93 of 142; 2017/18 GRA Transcript p. 1237-1238

Preamble:

Net income sensitivities may not be additive due to the interrelation between the variables. For example, the net income impact of reduced water flows may be mitigated by low extraprovincial market prices which will result in reduced fuel and import power purchase costs.

Request:

a) Explain any analysis undertaken by Coalition that justifies combining the net income impact of multiple sensitivities as shown in Figures 16 and 17.

b) If the Coalition agrees with the preamble, explain whether and how the observations and conclusions on pages 91 to 96 would change.

Response:

a) As was outlined in Section 9.3 of the Evidence, there are significant limitations of one-off risk sensitivities and analysis provided by MH in Figure 2.10 of the original application, upon which the analysis in Figures 16 and 17 was based. There is no information provided with respect to the probability of risk occurring or the potential correlation with other risks occurring. There is also no organized means to quantitatively aggregate the residual risks that are faced by MH. The combined risk sensitivities in Figures 16 and 17 were not based on statistical analysis, but rather a demonstration of combining a few of the one-off risk sensitivities to analyze MH's assertion that a 3.5% rate increase is required in 2019/20 in order to mitigate the risk of financial loss, in absence of a more sophisticated uncertainty analysis that would aggregate risks and consider probabilities and potential correlation of risks.

b) The recommendation of a 1.0% to 2.0% rate increase for 2019/20 is designed to be consistent with the PUB's findings from Order 59/18 that drought risk should be managed through a combination of retained earnings and regulatory action when required to address emerging risks facing MH, and not through pre-approval of rate increases. As such, the recommended range focused on the performance of the rate increase scenarios under the downside non-water flow risk sensitivities #2 to 5 (warmer winter weather and low export price) on Figures 16 and 17, with a 1% rate increase scenario performing well with consideration of rate-setting adjustments and a 2% rate increase scenario performing well without consideration of the rate-setting adjustments. As such, there are no changes to the observations and conclusions on pages 91 to 96 of the Evidence.

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PUB/Coalition - 3

Reference:

Coalition Evidence p. 85-86 of 142; Figure 15, Coalition/MH 1-13 a-h

Preamble:

Mr. Rainkie has indicated it would be reasonable for the PUB to make adjustments to MH’s O&A target calculations for rate-setting purposes resulting in the O&A forecasts for 2018/19 and 2019/20 to be approximately $479 million for 2018/19 and $489 million for 2019/20, for overall reductions of approximately $22 million.

Request:

a) For the table provided in Figure 15 - Electric O&A Target Setting Analysis - Adjusted for Rate-Setting, please extend the table forecasting for all years until 2022/23. Please provide any narrative or explanations, if needed, for any new line items in the extended table.

b) What does Mr. Rainkie believe to be the long-term implications on the operating budgeting in light of the approximately $22 million identified in overall reductions?

c) Please confirm whether in the determination of OM&A, the impact of General Wage Increases - Merit and Progression and Manitoba CPI (non-labour & benefits component) were excluded from the determination of the estimated OM&A budget and replaced with a 1% escalation.

d) Please refile Figure 15 incorporating the component noted in part c) if required.

Response:

a) MH has not provided any analysis, target setting or detailed, with respect to projected O&A costs for 2020/21 and thereafter. Using the recommended 1% escalation for rate-setting purposes as outlined in Section 8.4 of the Evidence, would result in the following O&A amounts for 2020/21 to 2022/23, with comparatives in brackets from MH Exhibit #93:
   - 2020/21 = $489 *1.01 = $494 million ($513 million)
   - 2021/22 = $494 *1.01 = $499 million ($524 million)
   - 2022/23 = $499 *1.01 = $504 million ($536 million)

   Under a 1% escalation scenario, O&A costs would be $32 million lower than under the scenario included in MH Exhibit #93. Based on the 2019/20 revenue requirement of approximately $1.7 billion, a $32 million reduction is roughly equivalent to a 1.9% ($32/$1,700) rate reduction.

b) Please see the response to a) for implications of the recommended rate-setting adjustment on the operating budget.

c) Confirmed. The analysis in Figure 15 of the Evidence uses 1% escalation and inherently the assumption of further cost reductions and productivity gains (consistent with the PUB's rate-setting findings from pages 141 to 142 of Order 59/18) as a substitute for the items noted in the question.

d) Please see the response to part c.

PUB/Coalition - 4

Reference:

Coalition Evidence Appendix A, p. 21 of 40

Preamble:

"The adjustments included for General Wage Increases, Merit and Progression are based on staffing levels as of March 31, 2018 and, in doing so, calculate the wage increase adjustment assuming all staff currently in place remain with the Corporation. As a result, no allowance has been made to reflect the fact that the initial adjustment for wage increases included increases to persons who have departed the company under the VDP."

Request:

Please provide your best estimate of savings that reflect both current staffing levels and elimination of wage increases reflecting persons who departed under VDP.

Response:

In response to Coalition/MH I-13 b) & c) Manitoba Hydro indicates that the additional labour savings through staff reductions under the VDP, over and above those reflected in the 2017/18 actual results are $33.5 M in 2018/19 and $34.3 M in 2019/20. However, according to the response to Coalition/MH I-13 e) these savings are based on the annual salaries paid to the employees departing under the VDP in 2016/17. In contrast the 2018/19 and 2019/20 baselines from which these savings are subtracted are based on the actual 2017/18 results with the salaries and benefits portion adjusted for the annual impact of expected impact general wage increases, merit and progression increases through to 2019/20. Therefore, in order to align the VDP savings estimates with the baselines, it is necessary to adjust the 2018/19 savings of $33.5 M to account for wage, progression and merit increases between 2016/17 and 2018/19 and to adjust the 2019/20 savings of $34.3 M to account for wage progression and merit increases between 2016/17 and 2019/20.

Based on Manitoba Hydro's forecasts, Appendix A of the Evidence has estimated that for the years 2018/19 and 2019/20 these increases are in the order of 2.4% per annum. Using a similar level of increase in 2017/18 for general wages, merit and progression would result in revised savings estimates consistent with Manitoba Hydro's overall O&A forecasts of $35.1 M for 2018/19 ($33.5 M x (1.024) x(1.024))and $36.8 M for 2019/20 ($34.3 x (1.024) x (1.024) x (1.024)).

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PUB/Coalition - 5

Reference:

Coalition Evidence p. 83-84 of 142

Preamble:

"It is recommended that the PUB reemphasize its O&A rate-setting findings from Order 59/18 that MH continue to actively manage its O&A costs and by including a provision for O&A productivity for rate-setting in 2019/20. In the circumstances of reducing savings forecasts, public sector wage freeze legislation and the PUB findings from Order 59/18 that MH must continue to find additional savings in O&A, it is not consistent for MH to return to a default assumption of 2% escalation for O&A for rate-setting purposes."

Request:

In your opinion, are there any additional O&A savings that could be leveraged by Manitoba Hydro that have not been currently included in the Approved Budget? Please elaborate where possible on any suggestions.

Response:

In the absence of MH providing a detailed O&A budget for 2019/20 and the normal minimum filing requirements related to O&A and EFTs etc in the rate application and two round of information requests to test and analyze this very detailed material, it is next to impossible for intervenor experts to provide specific examples of available cost savings.

In the MH Annual Business Plan for 2018-2019 that was filed as Appendix 2.3 of Tab 2 of the Centra 2019/20 GRA, at page 5, MH stated "Emerging from the VDP, a strong, skilled, diverse and experienced workforce remains. The 2018/19 year will see an emphasis on further optimization of work, reallocation of resources, and change management". It is also noted in the response to Coalition/MH I-13 g, that MH is expecting further savings from the Supply Chain Initiative, albeit at a slower pace than forecast at the last GRA.

The recommended O&A levels and rate-setting adjustments (including the 1% escalation) are made for the purposes of setting rates in the unique set of circumstances surrounding the MH 2019/20 rate application as well as adherence to the PUB's rate-setting findings from Order 59/18 of the importance of continuing to deliver O&A savings in a time of restructuring and transition (consistent with the MH's strategic objective noted from page 5 of the Annual Business Plan) and an era of major capital projects and significant rate pressures.

The recommended O&A levels are also based on normalization adjustments for higher one-time collection costs in 2017/18 and a contingency provision for restructuring costs where there are no actual (to December 31, 2018) or planned (for 2019/20) expenditures. As a result, these particular items do not result in cost pressures and higher O&A costs for MH in 2019/20 and should not form a justification for higher rate increases to customers.

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PUB/Coalition - 6

Reference:

Coalition Evidence p. 36-37 of 142, IAS 8

Preamble:

Coalition's evidence states the "change to reclassify interest capitalized on capital projects from investing activities to operating activities is potentially concerning from a rate setting perspective" and "will serve to alter the perception of the amount of cash flow that is available to meet financial obligations and fund sustaining capital expenditures on MH's audited financial statements."

IAS 8 states:

"An entity is permitted to change an accounting policy only if the change:

- Is required by a standard or interpretation; or
- Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows."

Request:

a Please elaborate on why Mr. Rainkie believes the updated presentation is confusing for rate setting purposes and may alter the perception of the amount of cash flow that is available to meet financial obligations and fund sustaining capital expenditures on MH's audited financial statements.

e) Per IAS 8, do these changes result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows?

f) Please provide Mr. Rainkie's view on how this change in presentation of cash flow and reclassification of capitalized interest could potentially be viewed negatively or cause confusion in assessments made by credit rating agencies and stakeholders and what the possible implications could be as a result.

g) Please comment on the current International Accounting Standards Boards (IASB) standards on the topic of capitalized interest providing copies of any relevant information or sources as part of your response where possible.

h) Notwithstanding the reclassification of capitalized interest, please discuss any issues with the change from the direct method to the indirect method for presentation of cash flow for rate setting purposes.

Response:

a) The high-level and preliminary commentary with respect to the reclassification of capitalized interest in Section 4.3 of the Evidence was made from the perspective of rate-setting and not based on an analysis of IASB or IFRS standards for financial reporting purposes. The Consumers Coalition did not retain Mr. Rainkie to provide a professional opinion on whether or not the change in presentation is appropriate for financial reporting purposes under IAS 8.

Generally, Mr. Rainkie's observation, based on his experience in financial reporting and rate-setting, is that there has historically been a high degree of congruence between MH's accounting policies for financial reporting and the treatment for rate-setting purposes. This is a highly desirable circumstance and avoids the potential confusion by the multiple users of financial information when there are different approaches to financial reporting and rate-setting (i.e., two sets of books).

The on-going capital-intensive nature of MH's operations and an accounting policy that results in the capitalization of interest on capital projects that take a substantial period of time to get ready for use would appear to indicate to users of its financial information that MH views capitalized interest as being directly attributable to a capital project until that project is placed in-service and is operational.

Selection of a cash flow presentation for financial reporting purposes that groups capitalized interest (as part of cash flow from operating activities) and not with the investment in the associated capital project (as part of cash flow from investing activities), would seem on the face of it to send a mixed message to users of MH's financial information (i.e, the treatment for income statement and balance sheet purposes is to capitalize interest but capitalized interest is treated as an operating activity for cash flow statement purposes).

This inconsistency in the classification of capitalized interest could lead to confusion as to the level of cash flow that is generated from operating activities. This is especially so when MH is in an era of unprecedented capital investment and higher capitalized interest. There may also be a mixed message sent when the Capital Coverage ratio that is reported by the MHEB in its annual report on performance as one of its key financial performance indicators appears to have a different treatment of capitalized interest than the Cash Flow statement included in the audited financial statements.

Users of financial information, such as credit rating agencies, are generally very sophisticated and are capable of making a number of adjustments for the purposes of their financial analysis. As such, it is not expected that this change will cause any significant difficulties.

Manitoba Hydro has also indicated that it will continue to provide information on its Capital Coverage ratio in rate applications based on the historic calculation that excludes capitalized interest from internally generated funds. As such, it appears that the potential disconnect between financial reporting and rate-setting can be adequately bridged.

b) Please see the response to a)

c) Please see the response to a)

d) Please see the response to a)

e) As noted in Section 4.3 of the Evidence, Mr. Rainkie's preliminary view is that the indirect method of presenting cash flow from operations is likely an improvement for rate-setting purposes. Much of the focus is on net income for the purposes of setting rates. The indirect method provides a reconciliation between net income and operating cash flows and as such is likely to be helpful for rate-setting purposes. Use of the indirect method does not impact the level of operating cash flow, it is simply a more detailed way of presenting the components of operating cash flow.

PUB/Coalition - 7

Reference:

Coalition Evidence p. 36 & 37 of 142

Preamble:

MIPUG takes issue with Manitoba Hydro's decision to reclassify capitalized interest from an investing activity to an operating activity. Mr. Bowman states that providing readers of the Financial Statements with total interest paid by Manitoba Hydro regardless of whether interest is expensed or capitalized is not relevant for rate setting purposes nor for the regulatory 'used and useful' test as the calculation of capital coverage ratio continues to exclude capitalized interest in its determination.

Request:

Please indicate whether Mr. Rainkie believes this change in presentation is consistent with the regulatory framework that has been in place in Manitoba.

Response:

No, the change made by MH to reclassify capitalized interest is not consistent with the regulatory framework that has historically been in place in Manitoba that considers capitalized interest to be part of the directly attributable costs of a capital project (an investing activity for cash flow purposes) until that project in in-service, provides benefits to customers, becomes part of the revenue requirement (an operating activity for cash flow purposes) and is recovered from customers in rates.

This change is also inconsistent with the recent PUB findings on pages 66 to 67 of Order 59/18 which indicate that the focus should be on accrual accounting when assessing if MH is meeting its on-going financial obligations, for rate-setting purposes.

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PUB/Coalition - 8

Reference:

Coalition Evidence p. 7, 51 & 52 of 142; MIPUG Evidence p. 24 of 25

Preamble:

The Coalition notes there have been significant changes in each subsequent financial forecast since MH12. As well, MH-93 contains outdated planning assumptions and has not been endorsed by the MHEB.

Coalition's evidence further states that it is not possible to use the modified cost of service rate-setting framework in the absence of a long-term financial forecast, and the updated projections for 2019/20 (without the proposed rate increase) mean the 3.5% proposed rate increase cannot be justified by any quantifiable financial objective (net income) or financial metric (financial ratios).

Request:

Please provide your thoughts, narrative and analysis on the merits and shortcomings of a revenue deferral account for Keeyask, similar to the Bipole III Deferral Account, to be implemented to reduce the revenue requirement impact when Keeyask enters service. If a Keeyask Reserve Account was to be created, please provide any relevant input and recommendations.

Response:

The Consumer Coalition experts have provided a rate increase recommendation for 2019/20 that (1) deals with the challenges associated with the unique and unprecedented circumstances and scope limitations associated with MH's short-term one-year rate application by considering the available financial forecast for 2019/20, (2) applies the PUB findings in Order 59/18 with respect to how risks should be addressed in setting MH rates (3) protects against the potential erosion of MH's capital structure from losses in 2019/20 and (4) recognizes the absence of a reliable and integrated long-term financial forecast to guide longer-term rate setting. The recommendation also recognizes that a Keeyask deferral account would be inconsistent with the MH application and scope limitations imposed by MH and the PUB.

The Bipole III deferral account resulted from a number of PUB hearings where a long-term IFF and rate strategy was presented by MH and was directed by the PUB in the context of applying a modified cost of service rate-setting framework.

By contrast, in the current regulatory proceeding, MH has filed a one-year rate application (for final rates) for 2019/20 and has not provided an updated and integrated financial forecast or rate strategy for the PUB to consider in setting rates for 2019/20. The MHEB is currently conducting a comprehensive review of MH's strategy, operations and finances and has not endorsed any form of long-term IFF or rate strategy.

Sections 5.1 and 5.2 of the Evidence concludes that the modified cost of service rate-setting framework is dependent on a long-term financial forecast and that it is not possible for the PUB to use the modified cost of service rate-setting framework to set rates for 2019/20 in the absence of a reliable, long-term and integrated financial forecast.

Sections 5.4 and 5.5 of the Evidence provides additional analysis outlining that MH Exhibit #93 is not a reliable basis for the PUB to set rates in 2019/20 given the variability of MH's IFF's when updated for more current information and planning assumptions and that the MH IFF could change significantly as a result of the comprehensive review of the recently appointed MHEB.

In addition, the PUB has ruled in Order 1/19 (page 12) that the long-term financial forecast and financial plan is not in scope for review in the current regulatory proceeding.

Given these unique and in many ways unprecedented circumstances, the Consumer Coalition experts have provided a rate increase recommendation to the PUB of 1.5% (midpoint of 1.0% to 2/0%) for 2019/20 by considering the financial forecast for 2019/20 and applying the PUB's findings in Order 59/18 with respect to how risks should be addressed in setting MH rates. As such, the Consumer Coalition experts do not recommend a Keeyask deferral account as this would be inconsistent with the application and scope limitations imposed by MH (one-year rate application with no long-term IFF or rate strategy) and the PUB (long-term IFF not in scope of the hearing) for the current rate proceeding.

The Evidence contains a recommendation to respond to a short-term rate application, requested by MH on a final basis.

It is noted that the 1.5% rate increase recommendation will protect against the potential erosion of MH's capital structure from losses in 2019/20.

When the MHEB concludes its comprehensive review and provides the PUB with an updated and integrated IFF and long-term rate strategy for the 2020/21 GRA, the PUB can consider the merits of a Keeyask deferral account.

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PUB/Coalition - 9

Reference:

Coalition Evidence p. 94-95 of 142

Preamble:

Coalition's evidence states: "1. Key risks such as interest rate risk and export price risk should be built into rates when these risks materialize and not through building up of retained earnings;

2. Drought risk should be managed through a combination of retained earnings and regulatory action when required to address emerging risks facing Manitoba Hydro;

3. The PUB is prepared to take regulatory action (rate increases) when emergent risks such as drought are actually facing MH, but will not set rate increases to increase retained earnings to meet every risk faced by MH in advance of the occurrence of those risks; and

4. There is merit to gaining a better understanding of the level of reserves required by MH under various risk scenarios in order to provide guidance for setting rates."

Request:

From the points listed above in regard to the consideration of risk for rate setting purposes, which risks apply from this list to warrant or result in the 1.5% rate increase recommended in Coalition's evidence? Please elaborate on how the risks noted tie into the 1.5% rate increase recommendation.

Response:

Consistent with the PUB findings in Order 59/18, the 1.5% rate increase recommendation in Section 10.3 of the Evidence focuses on the downside risks outlined in point #1 (non-water flow risks) of the preamble which is a quote from Section 9.2 of the Evidence.

To derive the rate recommendation, the primary focus was to consider the performance of four rate increase scenarios (0%, 1%, 2% and 3.5%) in terms of expected net income as it relates to non-water flow related downside risks (warmer than normal winter weather and low export prices) represented by risk sensitivities #2 to #5 on Figure 16 (without rate-setting adjustments) and Figure 17 (with rate-setting adjustments) of the Evidence.

It was observed in Section 9.2 of the Evidence that the 1% rate increase scenario performed well when considering the $22 million of proposed rate-setting adjustments and that the 2.0% rate increase performed well when the proposed rate-setting adjustments are not considered. This range of rate increases were expected to result in net income (contributions to financial reserves) that are close to or exceed MH's financial objective from the original rate application of a modest net income of around $30 million. As such, this rate increase range of 1.0% to 2.0% was judged to be more than sufficient to address MH's concern over the potential for losses in 2019/20 and ensure that the risk of capital erosion due to downside non-water flow risk events is minimized.

It was also noted in Section 9.2 of the Evidence that this rate increase range also performed reasonably well for a number of the downside risk sensitivities that involve less extreme water flow risks (albeit without consideration of the correlation of risk events as discussed in the response to PUB/Coalition 2). This observation bolsters the overall reasonability of the recommended 1.0% to 2.0%

rate increase range. This is despite the PUB findings from Order 59/18, that drought risk should be managed through a combination of retained earnings and regulatory action when required to address emerging risks actually facing MH, and not through pre-approval of rate increases.

Notwithstanding the observation with respect to the performance of the rate increase scenarios as they relate to downside water flow risks, the recommended rate increase range of 1.0% to 2.0% focuses on the downside non-water flow risk sensitivities.

The ultimate recommendation of a 1.5% rate increase for 2019/20 in Section 10.2 of the Evidence simply reflects the midpoint of the 1.0% to 2.0% range considering that there is no rules-based or formulaic rate-setting framework that can be used to exactly specify a precise rate recommendation for MH.

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PUB/Coalition - 10

Reference:

Coalition Evidence p. 11, 124, 125, and 128 of 142

Preamble:

In its evidence, Coalition states: “The evidence in this regulatory process supports an across-the-board rate increase for all customer classes with the exception of the GSS Non-Demand Class who has had a Revenue to Cost Ratio that remains persistently above the Zone of Reasonableness.”

And: “It is Recommended that Any Rate Increase for 2019/20 should be Applied on an Across-the-Board Basis to All Components of the Rate Structure.”

Request:

Given that the General Service Small – Non-Demand and General Service Small – Demand customer classes share a common tariff, and given that it has been recent past practice that the rates for this tariff be harmonized with those of the General Service Medium class, explain how the GSS-ND class can be excepted from an across-the-board rate increase if the across-the-board rate change is applied to the GSS-D and GSM classes and to all components of the rate structure.

Response:

In 2006, MH identified an issue with respect to the transition point between the GSS and GSM classes such that customers within the GSM class who successfully lowered their energy and demand requirements would experience a bill increase by moving into the GSS class. This was suggestive that the classes and their rate design required modification to ensure a smooth transition between the different classes and to treat customers of nearly similar size more uniformly than the existing rate classes. While there was a fair divergence in the revenue to cost coverage between the classes at the time (approximately 107% and 101% respectively), it was expected the RCC divergence could be handled through rate design of the single class. In 2008, MH made the first of several anticipated steps through rate changes to transition to a single class.

Since that time little progress has been made but significant changes have occurred in terms of the Corporation's overall revenue requirement (lower export revenue, generation additions) and cost of service methodology flowing from Order 164/16. The manifestation of this can be seen, for example, in Figure 8.13 of Tab 8 of MH's 2017/18 GRA which identifies in PCOSS18, the customer-related costs of GSS Demand increased from $29.89 per month per customer to $244.57, 8 times the customer-related costs flowing from PCOSS14. Additionally, the divergence in revenue to cost coverage between the GSS and GSM classes has grown sizably to approximately 97% and 117% respectively (including Bipole III).

It is appropriate that MH review these matters to determine whether it is still appropriate and necessary to consolidate these classes as acknowledged by MH in response to PUB/MH I-61 b. It is understood that once that door is open, it is highly likely that other matters will be raised.

The question then becomes what to do in the current application and intervening period until that work is done. It is noted that in setting the rates for 2018/19, it appears that Manitoba Hydro managed to maintain a harmonized set of rates for the GSS-ND, GSS-D and GSM classes and achieve a differentiation in overall average class rate increases by varying the percentage adjustments to the various components of the rate structure. Should the PUB approve differentiated rate increases for these classes, this would require MH to run several scenarios, as part of the compliance filing, to determine if a similar result could be achieved for 2019/20.

However, it is important to note that, given the degree of divergence in revenue to cost coverage that exists between these classes today, it may be difficult, perhaps not possible, to address the matter through rate design. On this basis, it is advisable that focus is best placed on meaningful GSS ND class RCC movement toward the ZOR. It appears questionable to allow class consolidation that may no longer be appropriate to be the constraint – rate design cannot always compensate for the over allocation of class cost.

It is these kinds of issues that re-enforce the need for a comprehensive rate policy which begins with a reassessment of the Corporation's ratemaking objectives and their relative emphasis.