

**A FINE BALANCE: PROTECTING RATEPAYERS AND
RESTORING CONFIDENCE IN THE RATE SETTING PROCESS**

Closing Submissions of the Consumers Coalition

Manitoba Hydro 2021/22 Interim Rate Application

Presented by: Public Interest Law Centre

December 15, 2021



OUTLINE

- 1) The issue
- 2) Guidance from the PUB and Manitoba Hydro
- 3) Recommendations of the Consumers Coalition (CC)
- 4) The CC recommendations balance fairness and efficiency
- 5) Hydro's proposal is inconsistent with prior regulatory guidance and its own words
- 6) Hydro's credibility problem
- 7) Restoring confidence in the rate setting process

THE ISSUE

What is a principled and fair approach to rate setting for a corporation and rate strategy that are in a state of flux, amidst a major capital expansion, a drought and a pandemic?

RETAINED EARNINGS ARE A KEY MECHANISM TO ADDRESS DROUGHT RISK

Drought is an expected and planned for event

- Manitoba Hydro is a hydro-electric company – 95% of its electricity comes from hydraulic resources and water is its primary resource
- Drought is one of the major risks faced by the Corporation¹
- Retained earnings have been flagged by both Hydro and the PUB as a primary means to protect the corporation against the impacts of drought²
- PUB:
 - a primary purpose of having Retained Earnings is to withstand a drought³
 - “The Board accepts the evidence of Morrison Park Advisors that Retained Earnings should be used to manage drought risk in combination with regulatory action by the Board.”⁴

¹ Transcript December 10, 2021 at 188-189 (J Grewal).

² 2020/21 Annual Report, p 107, note 31; Transcript December 13, 2021 at 457-457, 460-462 (B Williams, A Tess).

³ PUB Order 59/18, p 65.

⁴ PUB Order 59/18, p 65.

HYDRO MUST DO ITS PART ON O&A COST CONTROL

- 2019/20 Rate Application: PUB did not accept Manitoba Hydro’s 2019/20 O&A target for rate setting purposes⁵
- PUB found that, in developing the 2019/20 O&A target for rate-setting purposes, an escalation of 1% above the 2018/19 Financial Outlook is to be used, rather than the 2% used by Manitoba Hydro in that rate application.⁶
- “As the Board stated in Order 59/18, the Board expects Manitoba Hydro continue its efforts to reduce O&A costs, both in terms of staff reductions and supply chain management. The Board reiterates that cost control should be ongoing, and that it should continue in the post-Voluntary Departure Program years.”⁷

⁵ PUB Order 69/19, p 23.

⁶ PUB Order 69/19, p 23.

⁷ PUB Order 69/19, p 24.

HYDRO MUST DO ITS PART TO PRIORITIZE BUSINESS OPERATIONS CAPITAL

- “... while in a period of major capital spending on Keeyask and Bipole III, Manitoba Hydro should find savings in Business Operations Capital.”⁸
- PUB also said that this is consistent with the Board’s finding in Order 73/15 that Manitoba Hydro has not adequately evaluated the long-term pacing and prioritization requirements for Business Operations Capital spending⁹
- “The Board accepts METSCO’s evidence that Manitoba Hydro cannot demonstrate the proposed spending is necessary or has been optimized to any extent.”¹⁰

⁸ PUB Order 59/18, p 110.

⁹ PUB Order 59/18, p 110.

¹⁰ PUB Order 59/18, p 111.

DEBT/EQUITY TARGETS ARE NOT DETERMINATIVE OF RATE INCREASES DURING AN ERA OF MAJOR CAPITAL EXPANSION OR IN AN INTERIM RATE APPLICATION

- PUB recommended in NFAT report that, in the midst of capital expansion, Hydro relax its 75/25 debt-to-equity ratio policy to moderate its proposed electricity rate increases¹¹
- PUB: “Having considered the interests of the Utility’s ratepayers and the financial health of Manitoba Hydro, the Board finds that a particular equity level target and pace to achieve that target should not determine the rate increases approved in this GRA” [emphasis added]¹²
- PUB: “The Board accepts Morrison Park Advisors’ evidence that debt-to-equity is a questionable metric for a vertically integrated monopoly Crown utility with a debt guarantee from the provincial government.”¹³
- PUB: long-range financial targets are out of scope of this hearing¹⁴

¹¹ PUB NFAT report, p 252.

¹² PUB Order 59/18, p 61.

¹³ PUB Order 59/18, p 63.

¹⁴ PUB Order 128/21, p 16.

HYDRO'S HISTORIC APPROACH HAS FAVOURED BALANCE BETWEEN COST CONTROL AND RATE INCREASES

Even Hydro told its regulator and consumers it would look to reduce its cash outflows when arguing for its development plan at NFAT:

And so during a severe prolonged drought, Manitoba Hydro will – would provide sufficient cashflows for the continuity of business operations. I mean, we're going to continue to have business as usual for Manitoba Hydro. That's what happened in '03/'04. And Manitoba Hydro's debt will remain to be self-supporting.

*So what measures would we undertake? There's three (3) measures, and we would use them in some combination of – and we talk about it generally here, but the first one is cash conservation. **So Manitoba Hydro would curtail or delay its operating and capital expenditures as required and as appropriate.** And in severe circumstances, this may include exercising the optionality available within the development plans. **But our first approach would be to see what can we do, just – and as any homeowner, any person would do when faced with a situation, we would see what can we do maybe not to have as many cash outflows. And we would certainly and we would do that, and we have done it and we would continue to do that.***

The second piece to this is bridge financing. I've already indicated that we have our \$500 million short-term borrowing program; or, alternatively, could access the capital markets for shorter-dated debt. You know, could be one (1) year, two (2) year, three (3) years, such that they could be retired upon resumption of positive cashflow from operations.

And thirdly, increase the cash inflows through rate increases. And should circumstances warrant, Manitoba Hydro could apply for higher rate increases in order to generate additional cashflows.¹⁵ [emphasis added]

¹⁵ Exhibit CC-4, Tab 9, NFAT Transcript, March 19, 2014, p 2833-2835 (Mr. Manfred Schulz).

INTERIM RATE APPLICATIONS ARE NO TIME TO REPUDIATE PRIOR PUB DECISIONS

- “whether it would be just and reasonable to grant interim rates, and whether Manitoba Hydro would suffer a deleterious effect in the absence of an interim rate increase.” [emphasis added]¹⁶
- Contentious issues are to be excluded from consideration in an interim rate application.¹⁷
- Any interim rates granted should be confirmed in a subsequent comprehensive review, which should take place as soon as possible.¹⁸

¹⁶ Order 49/14 at 16.

¹⁷ Order 80/17 at 21; *Bell Canada v Canada (Canadian Radio-television and Telecommunications Commission)*, [1989] 1 SCR 1722 at 1755: the SCC characterized an interim order of the CRTC as “truly an interim decision” because “it did not seek to decide in a preliminary manner an issue which would be dealt with in the final decision.”

¹⁸ Order 80/17 at 11-12; *Calgary(City) v. Alberta (Energy and Utilities Board)*, 2009 ABCA 150 at para 9.

**RECOMMENDATION I: A DROUGHT LOSS RATE INCREASE
OF 0.8% TO COVER THE CARRYING COSTS OF THE
ADDITIONAL DEBT**

- While an argument could be made that this should be 0% as customers have prepaid the drought risk over the last 17 years, 0.8% would cover the carrying cost of drought in the interim until there can be an examination of MH's revenue requirement needs in a full hearing.¹⁹
- If this 0.8% is ultimately confirmed, it has a Present Value of \$320M in perpetuity,²⁰ which exceeds the ultimate loss projected for 2021/22 and is relatively consistent with the lost Net Export Revenue from drought.

¹⁹ 2021/22 Interim Rate Application, p 6, lines 21-24.

²⁰ Calculation based on an estimated NPV of \$400M per 1% rate increase. See Coalition/MH I-5 from the 2019/20 Rate Application and Transcript December 13, 2021 at 525-528 (B Williams, A Tess).

RECOMMENDATION 2: AN ALLOWANCE FOR 2% O&A COST INCREASE FOR RATE-SETTING PURPOSES IN 2022/23

- Hydro is asking customers for a 6.8% increase in O&A costs in 2022/23, with a policy goal of returning to an EFT level justified by its operations 20 years ago. When considering the current economic circumstances for customers, this is unacceptable to ratepayers.
- While the 2% increase in O&A costs is generous when considering the past PUB Orders 59/18 & 69/19, it is generally consistent with public sector budgeting practices, and is reasonable until we can examine O&A in detail at the next rate proceeding.
- This allowance would be \$11M (vs. \$38M) or a decrease of \$27M in revenue requirement (increases both cash flow and net income).
- This would:
 - (i) reflect balancing of the interests - balancing should be MH sharpening its pencil/PUB holding MH's feet to fire, and
 - (ii) keep the O&A trajectory in check/send a message for the next rate proceeding.

RECOMMENDATION 3: A BUSINESS OPERATIONS CAPITAL BUDGET FOR RATE-SETTING PURPOSES IN 2022/23 THAT IS REDUCED BY 10% FOR PROJECTS NOT IN FLIGHT

- A 10% reduction in Business Operations Capital (BOC) for projects not in flight would be a reduction of approximately \$55M ($\$545 * 10\%$) in the cash flow requirement for 2022/23.²¹
- Once again, Hydro is not using its asset management tools to prioritize BOC in a drought situation, which is unacceptable to ratepayers.
- This recommendation would have minimal impact on net income but improve core cash flow by \$55M.

²¹ See Transcript December 10, 2021 at 379-381 (B Peters, A Tess) for discussion of 10% of projects in flight.

RECOMMENDATION 4: AMORTIZATION PERIOD FOR THE MCP DEFERRAL ACCOUNT OF 5 YEARS

- MH's proposal to amortize this account over 2 years, with the rationale that this was the timeframe it was collected in, does not make sense for rate setting purposes.²²
- The purpose of the deferral account was to smooth in the increased revenue requirements from the Major Capital Projects (MCP). These assets have long lives and regulatory precedent would suggest an amortization period of a least 5 years.²³
- A 5 year amortization period would reduce net income by \$30M in 2022/23, but this is a non-cash item, and the lower O&A of \$27M in recommendation 2 (p 11) would offset this from a net income perspective.

²² Transcript December 10, 2021 at 249-250 (B Peters, A Tess).

²³ See, for example, the Bipole III Deferral Account which the PUB directed in Order 59/18 to be amortized over a five-year period. See Order 59/18 at 23.

RECOMMENDATION 5: A 1.2% RATE INCREASE FOR RATE TRANSITION PURPOSES AS MAJOR CAPITAL PROJECTS COME ONLINE

- It is debatable if the scope of a drought application should include a rate increase for Major Capital Projects (MCP) carrying costs that have been understood for a decade. It is evident from the \$112M profit forecast before any rate increase for 2022/23 that the revenue at currently approved rates is sufficient to pay for MCP carrying costs of \$619M as well as MH's other costs.
- However, in Hydro's current context, rate smoothing is a desirable goal.
- The problem is MH has provided no mid to long term forecasts to judge what a new rate trajectory would look like. The previous 3.5% trajectory is based on forecasts, in which there were caveats that these were indicative only and would be re-evaluated by the Hydro Board at the time of rate applications.
- There was no pre-approval by the PUB of these indicative rate increases. Traditional rate-setting is based on overall revenue requirement needs using current forecasts and not one-off incremental calculations.
- As a result, we are left with judgement & traditional rate-setting principles in terms of what this transition should look like.

**THE TOTAL CONSUMERS COALITION RECOMMENDED
RATE RELIEF IS 2.0% = 0.8% + 1.2%**

- Manitoba Hydro's 2% rate increase scenario indicates a net income of \$147M in 2022/23, and core cash flow of -\$2M.²⁴
- The net income impact of the Coalition's recommendations would be \$147M + \$27M for lower O&A costs - \$30M for longer amortization of MCP deferral account = \$144M, representing a profit for MH consistent with regulatory precedent.
- The core cash flow impact of the recommendations would be -\$2M + \$27M for lower O&A costs + \$55M for lower BOC = \$80M. This is a \$29M improvement over Hydro's proposal (based on a 5% rate increase).²⁵
- The other financial metrics based on a 2% rate increase are reasonable, when considered against traditional rate-setting metrics that the PUB has used to set rates for the last 30 years.²⁶

²⁴ COALITION/MH I-3b.

²⁵ COALITION/MH I-3b.

²⁶ COALITION/MH I-3b.

**CONDITIONAL INTERIM RATE INCREASE IS REQUIRED TO
BEGIN TO RESTORE RATEPAYER TRUST AND CONFIDENCE
IN RATE SETTING**

Proposed CC conditions:

- Rate increase be temporary to recognize the temporary nature of drought, which could be in the form of a rate rider to be confirmed as soon as possible in 2022:²⁷
 - (i) the rate-rider would expire on January 1, 2023 (one-year after implementation) if there is no further Order of the PUB, and
 - (ii) if MH has not provided the PUB with a firm timetable for filing a rate application by June 1, 2022, then the Status Update process would be re-activated to confirm or vary the interim rate change by the end of 2022.
- Any further rate relief (for 2022/23 and thereafter) should be based on a comprehensive status update process or GRA with a proper evidentiary foundation for a monopoly with long lived capital assets.
- Manitoba Hydro should be directed to engage with stakeholders about rate setting strategy prior to filing its next rate application – this is crucial to begin to restore ratepayer confidence in the process.

²⁷ The PUB raised the possibility of a rate rider in response to emergent situations facing Manitoba Hydro in PUB Order 59/18, p 63.

COST OF SERVICE STUDY RECOMMENDATION

- PUB Order 59/18: PUB directed differentiated rate increases over 10 years based on zone of reasonableness.²⁸
- PUB Order 69/19: Hydro paused rate differentiation pending review of Prospective Cost Of Service Study, which it was ordered to prepare and file with the next GRA²⁹
- Current process is not a GRA:
 - One limited round of information requests (compared to a typical two rounds in a GRA)
 - Limited cross-examination and no specific witness panel on rate design/cost of service
 - No expert evidence to test the complex policy and technical aspects of PCOSS
- Keeyask: largest asset in Hydro's history only partially in service (1 unit at start and 5 units by end = average of 3 units in PCOSS21, out of 7 units in total) – will impact PCOSS when completely in service³⁰
- Consumers Coalition recommendation: suspend the transition into Zone of Reasonableness for an emergency interim rate application, in the context of an untested PCOSS and the largest asset in Hydro's history only partially in service
 - If the PUB decides to approve differentiated rates in this interim rate application, it should do so based on bringing classes into the Zone of Reasonableness (and not on Unity) in accordance with Order 59/18.

²⁸ PUB Order 59/18, p 266.

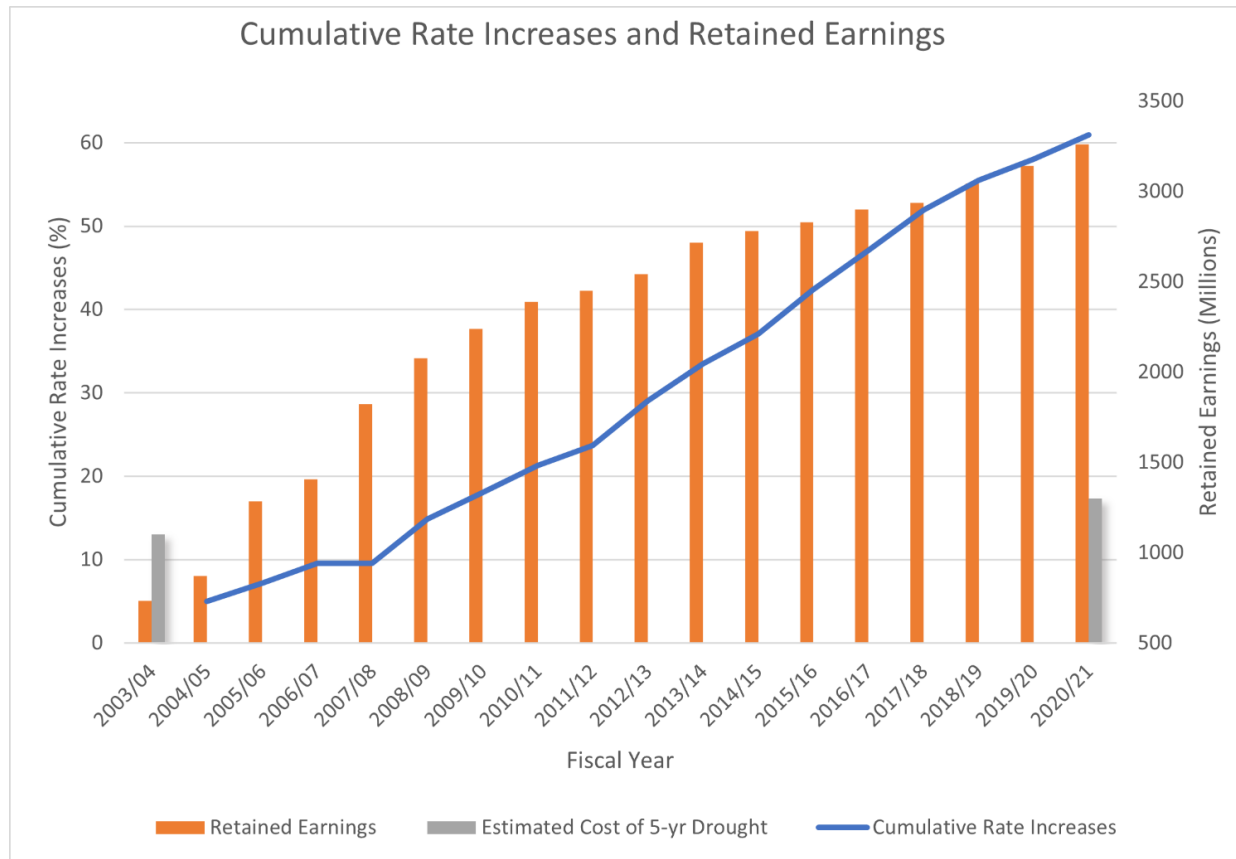
²⁹ PUB Order 69/19, p 33, 35.

³⁰ Transcript December 13, 2021 at 518-519 (B Williams, S Gregorashuk).

THE CC APPROACH BEST ACCORDS WITH THE OBJECTIVES OF FAIRNESS AND EFFICIENCY AND CONVENTIONAL RATE-SETTING PRINCIPLES OF THE PUB

- Recognizes the significant contribution of current ratepayers to build up retained earnings over the last 17 years
- Protects ratepayers from Hydro's failure to act prudently in terms of its own costs and an orderly regulatory process
- Recognizes important developments in terms of Hydro's financial circumstances in recent years
- Recognizes past projections of regular rate increases as major capital projects come online, while acknowledging the lack of long-term financial forecasts and the limited information available, which appears to show that the previously projected 3.5% may be too high
- Set out a pathway to provide some interim rate relief for Manitoba Hydro conditional on a proper regulatory process in 2022/23
- Recognize that if Manitoba Hydro has continuing water pressures, it will have an opportunity to request relief on a timely basis in 2022/23

CUSTOMERS HAVE PRE-PAID FOR THIS DROUGHT THROUGH REGULAR RATE INCREASES SINCE 2003/04 DROUGHT³¹



³¹ Please note that the 5-yr drought costs of \$1.1B in 2003//04 and \$1.3B in 2020/21 do not include financing costs, as per MIPUG/MHI-b-c. See also Tab 5 of Exhibit CC-4: 2018/19 GRA, IR PUB/MH I-3a; PUB MFR 13 - table 2; Transcript December 13, 2021 at 459, 468-471 (B Williams, A Tess), 470-471 (B Williams, A Tess, S Gregorashuk).

REJECTS HYDRO'S FAILURE TO ADDRESS O & A COSTS

- Instead of reducing O&A costs, Hydro has seen stunning changes in policy since the Voluntary Departure Program:
 - Has seen an actual increase of 4.3% from 2019/20 to 2020/21; and
 - Is projecting a cumulative increase of 16.2% from 2019/20 to 2022/23, about 5.4% increase per year³²
- Yearly increases at least four times the level of increase found to be acceptable by the PUB in Order 69/19 despite major capital projects winding down
- Costs relating to Strategy 2040 are embedded in 2022/23 rates. Strategy 2040 is out of scope for this hearing and has not been tested for rate-setting purposes.³³

³² Coalition MFR 22 b (Revised); Transcript December 10, 2021 at 135 (A Tess).

³³ Transcript December 10, 2021 at 283 (B Peters, A Tess); Transcript December 10, 2021 at 178-178 (B Peters, J Grewal); Transcript December 10, 2021 at 372-373 (B Peters, A Tess).

**OPERATING & ADMINISTRATIVE EXPENSES: 2019/20 TO
2022/23³⁴**

	2019/20 (actual)	2020/21 (actual)	2021/22 (forecast)	2022/23 (forecast)
Total O&A Expenses	\$512M	\$534M	\$557M	\$595M
		Expense increase from 2019/20 to 2020/21: 4.3%	Expense increase from 2020/21 to 2021/22: 4.3%	Expense increase from 2021/22 to 2022/23: 6.8%
			Cumulative increase from 2019/20 to 2021/22: 8.8%	Cumulative increase from 2019/20 to 2022/23: 16.2%
Corporate FTEs	5,393	4,954	5,022	5,175

³⁴ MIPUG MFR 29, Attachment 1, p 18; Coalition MFR 22 b (Revised), p 2; PUB/MH I-5, p 2. Manitoba Hydro anticipates adding more EFTs in future years.

ADDRESSES HYDRO'S FAILURE TO IMPLEMENT BUSINESS OPERATIONS CAPITAL COST CONTROLS

- Rather than finding cost savings in Business Operations Capital, Hydro appears to have ignored the PUB's findings (dating back to 2015) and has continued with business as usual since 2019/20 rate application³⁵
- Platitudes about safe & reliable service being in jeopardy without evidence demonstrating the active consideration of alternatives with a view to acceptable safety and reliability standards (ie METSCO, EPCOR, Toronto Hydro from 18/19 GRA) are no substitute for necessary cost controls
- With the significant concern about further growth in O&A and Business Operations Capital and no certainty about the next rate proceeding, the CC proposal sends a message through a lower rate increase, before the situation gets worse (e.g. expected O&A growth in 2022/23 is \$38M or 6.8% - equivalent to 2.2% rate increase)

³⁵ See for example Transcript December 10, 2021 at 137 (A Tess).

RECOGNIZES THAT HYDRO HAS MULTIPLE LIQUIDITY TOOLS

Ratepayers are paying over \$200M per year as liquidity insurance

- Access to long-term debt through the province of Manitoba, a sovereign body, with a very high credit rating.³⁶
 - Ratepayers pay a debt guarantee fee for this access (\$220M in 2020/21, \$240M in 2022/23, about 10% of MH's revenues)³⁷
 - No challenges facing Hydro's credit-worthiness – only challenges during COVID-19, which market, as a whole, faced³⁸
- Access to a \$500M notes payable credit facility guaranteed by the Province that Hydro appears to very rarely use, recently increased to \$1.5B in legislation, but awaiting government approval³⁹
- MH enters 2022/23 with a cash reserve balance on its balance sheet of \$1.121B⁴⁰
- Recognized during NFAT and past GRA/IFF's that the major capital projects would limit cash flow from operations - this is a risk that MH determined was manageable when it proposed the major capital projects.
- Not reasonable for Hydro to hold cash for every risk it faces – represents an even higher insurance paid for by ratepayers

³⁶ P 33-34 of 2020/21 Annual Report.

³⁷ 2020/21 Annual Report, note 32; MFR 3, pdf 112. See also Transcript December 13, 2021 at 447-448 (B Williams, A Tess).

³⁸ Transcript, December 10, 2021 at 273-274 (Vice-Chair Kapitany, A Tess); December 10, 2021 at 381-383 (B Peters, A Tess).

³⁹ 2020/21 Annual Report, p 107, note 31 and p 34; Coalition MFR 22, p 233; December 13, 2021 at 444-447 (B Williams, A Tess).

⁴⁰ PUB MFR 3, page 5.

ASKS HYDRO TO HONOUR ITS COMMITMENT FROM THE NFAT

- Consumers, and especially consumers living with a limited or low-income budget, have no choice but to reduce expenses when faced with financial stress
- Hydro should to the same and the PUB has been telling the corporation to do just that for years

RECOGNIZES THAT CURRENT RATES ARE SUFFICIENT TO PAY FOR THE CARRYING COSTS OF THE MAJOR CAPITAL PROJECTS AS WELL AS ALL OTHER COSTS OF MH

- Hydro's financial outlook is in line with both the NFAT and the last GRA
- Net income:
 - 2021/22: \$142M before any rate increase and assuming normal water in the original 2021/22 budget⁴¹
 - 2022/23: net income of \$112 million before any rate increases and assuming normal water⁴²
 - Net income projections include all MH costs - both MCP and all other costs
- By contrast:
 - At NFAT, Hydro was projecting losses for 8 years totalling \$638 million after in-service of major capital projects⁴³
 - Hydro was projecting 6 years of losses totalling \$418 million from 2022/23 to 2027/28 in the 2017/18 & 2018/19 GRA⁴⁴

⁴¹ PUB MFR 3, page 2 = \$177-\$35.

⁴² PUB MFR 3, page 2 = \$200 - \$88; see also December 10, 2021 at 334-338 (B Peters, A Tess) for discussion of positive net income when Keeyask is fully in service.

⁴³ Manitoba Hydro NFAT, Exhibit MH-104-12-3, p. 37 found in Exhibit CC-4, Tab 4.

⁴⁴ MH Exhibit #93 from 2017/18 & 2018/19 GRA, p 3 and 4 found in Exhibit CC-4, Tab 7.

BALANCES LONGER TERM GOOD NEWS STORIES WITH THE ADVERSE IMPACTS OF THE DROUGHT

- Net debt is lower than projected in 2017/18 & 2018/19 GRA by \$1.1 billion⁴⁵
- Net export revenues: projected at \$916M in 2022/23 (as compared to an actual of \$611M in 2020/21).⁴⁶ Hydro finalized a long-term electricity sale for up to 215 MW to SaskPower for up to 30 years commencing on June 1, 2022⁴⁷
- Lower interest rate environment⁴⁸
- Great Northern Transmission Line: annual revenue requirement has decreased by approximately \$30M⁴⁹
- Bipole III: annual revenue requirement has decreased by approximately \$50M⁵⁰
- Keeyask: five of seven units placed into service. Project on track to have all generating units in-service by March 2022. Within approved control budget of \$8.726B⁵¹
- Manitoba Minnesota Transmission Project: construction completed in May 2020, transmission line in-service June 1, 2020. Actual costs tracking within approved control budget of \$490M.⁵²

⁴⁵ MH Exhibit #93 from 2017/18 & 2018/19 GRA, p 5; PUB MFR 6, p 2; Transcript December 13, 2021 at 478-481 (B Williams, A Tess).

⁴⁶ 2021/22 Interim Rate Application, PUB MFR 3, p 2; Coalition/MH-1b.

⁴⁷ 2021/22 Interim Rate Application, PUB MFR 5, MHEB 70th Annual Report for year ended March 31, 2021, p 25; Transcript December 10, 2021 at 337 (B Peters, A Tess).

⁴⁸ Transcript December 10, 2021 at 335-337 (B Peters, A Tess).

⁴⁹ 2021/22 Interim Rate Application, PUB MFR 9, p 4.

⁵⁰ 2021/22 Interim Rate Application, PUB MFR 9, p 4.

⁵¹ 2021/22 PUB MFR 1, p 2.

⁵² 2021/22 PUB MFR 1, p 2.

APPROPRIATELY RESPONDS TO HYDRO'S FISCAL HEALTH, USING 2% RATE INCREASE SCENARIO

Financial metric	Performance for 2022/23 ⁵³	Status (Green= risk under control, Yellow = additional action required, Red = risk is critical) ⁵⁴
Net income	\$147 M, up \$176 M from the expected loss of \$29 M at the last GRA which included a 3.5% indicative rate increase assumption	MH is building more retained earnings in 2022/23 and there is an improvement in its outlook
Retained earnings	\$3.015 B, down \$296 M from last GRA (MH#93)	Exceeds the current estimate of a 5 year drought of \$1.3 B (without finance expense) ⁵⁵ – if Hydro desires higher net income, it could exercise better cost control over O&A and BOC, as previously found by PUB
Net debt	\$23,664, down \$1.002 B from projection in the last GRA	Significant improvement from what was expected at last GRA
Debt ratio	87.9%, up 0.5% from the last GRA	A long-term target with questionable relevance for rate-setting purposes during a period of MCP's (Order 59/18) - plan and expectation from NFAT was for this to occur & PUB recommended MH relax its targets in NFAT report to balance impacts to ratepayers
EBITDA Interest Coverage ratio	1.73, up 0.15 from last GRA and only 0.07 below the old MH target of 1.80	Improvement in this income statement target from what was expected at last GRA and very close to the target at the last GRA
Capital Coverage Ratio	1.33, up .05 from last GRA and 0.18 above the old MH target of 1.20	Improvement in this cash flow statement target from what was expected at last GRA and above the target at the last GRA

⁵³ See COALITION/MH I-3b.

⁵⁴ See Manitoba Hydro's Risk Management Report, p 95 for Hydro's colour coding of risks.

⁵⁵ PUB MFR 8; MIPUG/MH I-1b; Transcript December 10, 2021 at 366-367 (B Peters, A Tess) for discussion of Hydro not being able to calculate the exact cost of a 5-year drought without long-term forecasts.

**RECOGNIZES THE NEED FOR A MEASURED APPROACH:
RATE STABILITY AND PREDICTABILITY ARE NOT IN
JEOPARDY**

- Some of the key financial metrics are down for 2021/22 (net income, capital coverage ratio, retained earnings), as would be expected during a drought
 - Even a 5% rate increase would not significantly change that reality
 - “Interest costs on the borrowings to fund core operations in 2021/22, if not repaid in future years, will amount to an estimated annual cost of \$13 million per year or nearly equivalent to 0.8% of an electric rate increase.”⁵⁶
[emphasis added]
- For 2022/23, return to being in line with prior projections, even without a rate increase, assuming an average of 40-year water flows
 - 40-year water flows include drought and low water flow years
 - And this projection already assumes approximately 20% lower reservoir levels going into 2022/23⁵⁷

⁵⁶ 2021/22 Interim Rate Application, p 6, lines 21-24.

⁵⁷ PUB MFR 18, p 1.

BETTER RESPONDS TO THE NEEDS OF MANITOBA CONSUMERS

Manitoba consumers have faced increased financial stresses since March 2020

- Ongoing economic uncertainty from COVID-19⁵⁸
- High levels of inflation (e.g. 4.7% in October 2021) = higher prices for goods and services⁵⁹
 - People living with low income are disproportionately affected.
- Rising natural gas cost (17.1% increase in November 2021)
- What do consumers do when faced with financial stresses?
 - They have no choice but to look to their own budgets and reduce costs elsewhere to afford essentials for themselves and their families⁶⁰

⁵⁸ Transcript December 13, 2021 at 500-501 (B Williams, A Tess).

⁵⁹ Transcript December 13, 2021 at 501 (B Williams, A Tess).

⁶⁰ Transcript December 13, 2021 at 502-505 (B Williams, A Tess).

**RESPONDS TO HYDRO'S IMMEDIATE ISSUES WHILE
BEGINNING TO RESTORE RATEPAYER TRUST AND
CONFIDENCE IN RATE SETTING**

- Rate increase temporary to recognize the temporary nature of drought
- Rate increases confirmed as soon as possible through a robust and transparent process
- Any further rate relief (for 2022/23 and thereafter) should be based on a comprehensive status update process or GRA
- Manitoba Hydro should be directed to engage with stakeholders about rate setting strategy prior to filing its next rate application

HYDRO'S APPROACH TO RETAINED EARNINGS AND CASH FLOW DOES NOT ACCORD WITH ITS LONG-STANDING PRACTICE OR ITS OWN ANNUAL REPORT

- Hydro's stunning diminishment of retained earnings as a drought mitigation tool on Dec 10, 2021⁶¹ flies in the face of its own capital management policy as articulated in its financial statements⁶² and the risk mitigation approach of the PUB and of Hydro since the 2003/04 drought.⁶³
- The primary use of the short-term borrowing program is to safeguard the corporation from liquidity risk by providing a credit facility to support the corporation's temporary cash requirements⁶⁴

⁶¹ Transcript December 10, 2021 at 359-363 (B Peters, A Tess).

⁶² Manitoba Hydro-Electric Board 70th Annual Report For the year ended March 31, 2021, Note 31, p. 107. See also Transcript December 13, 2021 at 456-457 (B Williams, A Tess).

⁶³ Transcript December 13, 2021 at 460-462 (B Williams, A Tess).

⁶⁴ Manitoba Hydro-Electric Board 70th Annual Report For the year ended March 31, 2021, p. 34. See also Transcript December 13, 2021 at 438-447 (B Williams, A Tess).

**HYDRO IS ASKING THE PUB TO OVERTURN PRIOR
FINDINGS ON COST CONTROL FROM ORDERS 59/18 AND
69/19**

- Hydro's refusal to meaningfully address O&A expense escalation or the failure to prioritize BOC amounts to an implicit rejection of prior PUB findings on cost control.⁶⁵

⁶⁵ Transcript December 13, 2021 at 455-456 (B Williams, A Tess).

HYDRO IS IMPLICITLY ASKING THE PUB TO ENDORSE THE PRUDENCE AND REASONABLENESS OF STRATEGY 2040 COSTS

- Strategy 2040 already approved by Hydro Board
- Costs from 2040 embedded in 2022/23 rates⁶⁶
- Consumers have not had a chance to see strategy 2040 and it is out of scope of this hearing⁶⁷
- PUB and stakeholders have not had an opportunity to test expenses flowing from Strategy 2040 to see if they are reasonable and prudent
- And Hydro is saying it is going to engage in after the fact consultation with ratepayers about 2040

⁶⁶ COALITION MFR 22, pdf p 232; Transcript December 10, 2021 at 283 (B Peters, A Tess); Transcript December 10, 2021 at 178-178 (B Peters, J Grewal); Transcript December 10, 2021 at 372-373 (B Peters, A Tess).

⁶⁷ PUB, Order 128-21, p. 16/18.

A SERIOUS MISMATCH BETWEEN THE DELETERIOUS IMPACTS OF DROUGHT AND THE RELIEF SOUGHT

- Manitoba Hydro's 5% rate request demonstrates a serious mismatch between the deleterious impact of drought & the rate relief sought
 - **A \$2B solution (Net Present Value of 5% rate increase in perpetuity)⁶⁸**
 - **To a \$348M problem (cash shortfall)⁶⁹**
- While MH waxes poetic about having balanced the impacts of rate increase on consumers and the financial health of the corporation, the reality is that:
 - 1) any proposed rate increase will not make a material difference in 2021/22 fiscal year
 - 2) looking at projections for 2022/23, MH is forecasting positive net income and reasonably healthy financial metrics (even without any rate increase) – it does not appear that rate stability and predictability will be in jeopardy
 - 3) a lower rate increase would better reflect the impacts on consumers as well as the long-term financial health of the corporation, given what we know today

⁶⁸ Exhibit CC-4, Tab 6, p 1; Transcript December 13, 2021 at 525-528 (B Williams, A Tess).

⁶⁹ 2021/22 Interim Application, pdf p 6.

HYDRO’S UNCONVENTIONAL RATE SETTING METRICS ARE OUT OF STEP WITH TRADITIONAL PUB RATE-SETTING METRICS

Traditional PUB rate-setting metrics (as confirmed in PUB Order 59/18 and 69/19)	Hydro’s unconventional rate setting metrics
Current overall revenue requirements compared to revenues at approved rates	Incremental / one-off revenue requirements of Major Capital Projects & drought and indicative rate increases in prior IFFs
Provision for reasonable net income reflecting MH’s accounting policy choice to use regulatory accounting to evaluate its financial results and for rate-setting purposes, ⁷⁰ including net movement in regulatory deferral accounts	Net income before movement in regulatory deferral accounts
Levels of financial reserves (retained earnings)	
Level of net debt	
Income statement = EBITDA interest coverage ratio	
Cash flow statement = capital coverage ratio	Core cash flow / liquidity – primary weight given to this metric in testimony ⁷¹

Conclusions:

- PUB should continue to apply traditional rate-setting metrics to this interim application, especially given Hydro’s financial forecasting and rate strategy is in flux
- Risks if the PUB applies MH’s flawed & unconventional rate-setting metrics: lack of continuity in rate-setting and potential for a disconnect to rate-setting when the next rate proceeding occurs

⁷⁰ Manitoba Hydro-Electric Board 70th Annual Report For the year ended March 31, 2021, Note 3 at 63-64.

⁷¹ See for example, Transcript December 10, 2021 at 138-139, 264-267 (B. Peters, A. Tess).

CONCLUSIONS IN TERMS OF PROOF AND ONUS

- Onus remains on the corporation to demonstrate requested rates are just and reasonable
- Given that Hydro's long-term financial forecasting, financial metrics & targets and rate strategy are in a state of flux, what do we look at in this interim rate application:
 - Sound regulatory principles & practises of the last 30 years of PUB rate-setting, as most recently confirmed in Orders 59/18 and 69/19
 - Avoid hyperbole and unconventional rate-setting metrics used by MH

BROKEN TRUST: ACTIONS SPEAK LOUDER THAN WORDS

- Broken promise to file a full GRA with long-term financial forecasts in late 2019
- No long-term financial information filed with independent regulator since 2018 (based on 2016 planning assumptions)
 - PUB and ratepayers in the dark about long-term projections, contrary to best practice rate-setting for utilities
- Resisted a status update hearing in summer of 2021, despite lower water conditions becoming apparent (by June of 2021)⁷²

⁷² Transcript December 13, 2021 at 510-513 (B Williams, K Gawne), 515-518 (B Williams, A Fogg).

MANITOBA HYDRO'S ANALYSIS PARALYSIS

- Provides no firm timeline for when long-term financial information will be filed⁷³
- Waiting to complete an Integrated Resource Plan (18 months away) and the release of the provincial energy policy, at the expense of prudent financial planning in the meantime⁷⁴
- Long-term financial forecasting, financial metrics & targets and rate strategy in a state of flux and will be a work in process for quite some time. In the meantime, Hydro appears to have no rate strategy, established financial metrics or financial targets that are useful for rate-setting⁷⁵
- Corporation has not engaged with ratepayers regarding rate-setting approach⁷⁶
- MH was unable to perform a rigorous analysis of the implications and potential management response to Government direction on 2.5% rate increases for 3 years as it was still engaged in its enterprise planning process⁷⁷

⁷³ Transcript December 10, 2021 at 148-150 (B Peters, J Grewal).

⁷⁴ Transcript December 10, 2021 at 148-150 (B Peters, J Grewal).

⁷⁵ Transcript December 10, 2021 at 157 (A Tess) for discussion of Hydro using short-term forecasts and budgets in the near term.

⁷⁶ Transcript December 13, 2021 at 520-523 (B Williams, A Tess).

⁷⁷ Transcript December 13, 2021 at 632-641 (Chairperson Gabor, A Tess).

A COMPANY THAT IS IN FLUX, ALONG WITH ITS RATE SETTING STRATEGY

- Unprecedented levels of turnover since 2014 (NFAT) and PUB Order 59/18 at the Hydro executive and Board level⁷⁸
- Loss of key staff = loss of institutional knowledge
 - A loss of perspective following years of good water flow, abandonment of past promises and commitments and missed opportunities to reduce costs in the midst of major capital expansion and drought

⁷⁸ Transcript December 10, 2021 at 189-194 (B Williams, J Grewal).

AN INCOHERENT APPROACH TO RATE SETTING IN 2021-22

- Ping-ponging of possible rate increases
 - Requested 3.5% from government, rather than independent regulator (June 2021 – CEO at Standing Committee)⁷⁹
 - Was told by government 2.5% and forecasted for this level (August 2021)⁸⁰
 - Requested 5% (November 2021 – interim rate application)
- No certainty or ability for consumers to plan and prepare

⁷⁹ Transcript December 10, 2021 at 185 (B Williams, J Grewal).

⁸⁰ Transcript December 10, 2021 at 185-187 (B Williams, J Grewal).

**A POOR QUALITY APPLICATION EVEN COMPARED WITH
PRIOR INTERIM RATE APPLICATIONS**

- No Integrated Financial Forecast
- No long term CEF or Load Forecast
- No future financial information past 2022/23
- No Strategy 2040

HYDRO'S FAILURE TO MANAGE PRUDENTLY HURTS ALL CONSUMERS

- Hydro claims absolutely no control over its own costs, despite past PUB findings and the corporation experiencing financial stresses due to drought conditions
- Rather than making difficult management decisions to reduce its own costs or coming to the PUB earlier, Hydro makes an opportunistic 5% rate application
- People living with low-income will be disproportionately affected by this rate increase

MANITOBA HYDRO AND PUBLIC UTILITIES BOARD – A REGULATORY SYSTEM THAT SHOULD INSPIRE CONFIDENCE

- As a Crown monopoly, it is incumbent on Manitoba Hydro to be transparent and clear in all interactions with ratepayers and its regulator – relationship of trust.⁸¹
- It is particularly important for a Crown monopoly to keep its word to ratepayers and its regulator.
- Manitoba Hydro plays an important role in helping Manitobans understand their energy options and make informed choices, which includes any rate changes.⁸²
- The Public Utilities Board reviews and approves rates for Manitoba Hydro, by balancing the interests of Manitoba ratepayers and the financial health of the Corporation in the public interest.⁸³
- Based on the regulatory scheme, past practice, Manitoba Hydro’s own promises and past PUB’s decisions, ratepayers expect regular robust and transparent reviews of Manitoba Hydro’s finances, with meaningful access to necessary information.

⁸¹ Transcript December 10, 2021 at 183-185, 195-196 (B Williams, J Grewal).

⁸² Transcript December 10, 2021 at 183-185 (B Williams, J Grewal).

⁸³ *Consumers’ Association of Canada (Manitoba) Inc v Manitoba Hydro Electric Board*, 2005 MBCA 55, para 65.

THE PUB ROLE AS PROTECTOR OF RATEPAYERS

- “The Board acknowledges that, as asserted by the Consumers Coalition and MIPUG, in the absence of a rate hearing, the substantial change in circumstances experienced by Manitoba Hydro since Orders 59/18 and 69/19 may undermine consumer and industrial confidence in rates.”⁸⁴
- In the face of already undermined confidence in rates and a Crown monopoly that is hiding behind broken promises, an incoherent approach to rate requests, unconventional financial metrics justifying its rate application and vague plans to open its books in the future, ratepayers rely on the PUB to protect their interests.

⁸⁴ PUB Order 89/21, p 44.

**OUR CLIENTS ARE READY TO HELP RESTORE CONFIDENCE
IN THE RATE APPROVAL PROCESS**

Consumers Coalition

- Consumers' Association of Canada (Manitoba) Inc.
- Aboriginal Council of Winnipeg
- Harvest Manitoba

Represents the interests of residential consumers

Develops its position through direct engagement with consumers and expert advice

Looks forward to meeting with Hydro and PUB to get the rate setting process back on track

THANK YOU!

