MIPUG opening comments

Friday, December 10, 2021

Context for Participation

As noted in many filings with this Board over the past year, and in the presentations earlier in this proceeding, the MIPUG group is struggling with understanding what to expect on Manitoba Hydro rates, and how to make plans for their operations in the face of this uncertainty, lack of transparency and predictability. Our industrial members, and industry at large, faces a severe shortage of confidence in a Crown Corporation utility. This lack of confidence has shaken the commitment industrials have to Manitoba. Members can no longer say that Manitoba has a stable, predictable, and transparently priced electricity market. Once lost, confidence is extremely hard to rebuild. Industrial companies make investments in the long-term, a lost investment today has generational impacts.

MIPUG is well aware we are here for an interim rate request and review. The issue today is not to explore every issue of MB Hydro's cooperativeness, competence, or long-term plans.

At the same time, we cannot lose sight of the fact that this supposed narrowly proposed interim increase of 5.2% represents the most severe expression of rate instability MIPUG has seen in Manitoba. Mere months ago, while it was still not raining and precipitation levels were well behind average values for the better part of the previous year, MB Hydro customers were told to expect a fixed and predictable 2.5% per year for the next three years.

Instead, they now face a request for a large and unexpected rate increase of 5.2% - with no forecasts or projections from MB Hydro as to what comes next [or when it may come]. If approved, this 5.2% increase will be the largest single increase ever approved by this Board since 1989 when it was given jurisdiction to review and approve any changes in MB Hydro rates.

Scope

We are here because MB Hydro has sought an increase on the basis of an "immediate and pressing need"[1] for relief. Hydro has asked for the proceeding to occur in an expedited fashion since such relief is apparently urgently required and timing is of the essence. Hydro also notes[2] that "interim rate applications are not subject to the same rigor and standards of a final rate application".

MIPUG would underline this point – we are participating in a narrow, limited scope proceeding that is a stopgap measure to address one concern. Interim rates are by definition temporary and merely a "bridge" until the earliest practical opportunity when a full and proper review can occur with the full insight of detailed forecasts and well-vetted risk analysis.

MIPUG is therefore restricting its comments and scope to this basis, on the faith that all parties are doing the same.

- On the faith that Hydro is not relying on a case with untested and unapproved new financial targets, like ratios of revenue-to-interest, or MB Hydro's interpretation of Moody's EBITDA to interest expense ratio.
- That MB Hydro is not relying on credit rating agency reports that are of an entirely different purpose and focus than rate setting review. And which themselves are also presented without any alternative evidence being provided.
- That MB Hydro is not seeking increases needed to prepare for the purported new energy transition, 4D's and Strategy 2040 or other long-term initiatives, which remain hidden from ratepayers. These things can all be tested in a proper GRA with full disclosure of the necessary information needed to test those strategies and initiatives.
- We are also proceeding on the faith that the structure for any approved interim rate increase encourages MB Hydro to bring forward a full and transparent application in a timely way, rather than letting out more leash for this Crown Corporation monopoly to avoid scrutiny.

[1] Hydro Nov 15 letter, page 1
[2] Page 4 of the Application

The application by MB Hydro, on its face, represents a stunning change of events from just a few months earlier. At that time MB Hydro resisted any suggestion that "substantial change" had occurred in Hydro's operations, finances or capital plans. In its July 6, 2021, letter to the Board, MB Hydro at page 2 specifically asserted in bold font that "Manitoba Hydro is not Concealing Evidence as Alleged", and at page 7 of that letter, also asserted that "An assumption of future near-term rate increases that have not yet been formally approved is not an indicator that current rates are unjust and unreasonable."

- In short, in June 2021 and as restated on July 6, 2021, MB Hydro asserted that current rates were just and reasonable.
- By November 2021, just five months later, MH now asserts rates are 5% below the level needed to be reasonable.

The only scope that merits expedited review is water flows.

Hydro was very clear in June 2021:

- June 9th submission (Coalition led process)– Hydro stated:
    - "Manitoba Hydro's Actual Financial Results are Consistent with Past Forecasts - There Has Not Been a Substantive Change Since the Issuance of Orders 59/18 and 69/19"[3].
    - "The impacts of bringing Keeyask and other major capital projects into service was contemplated by Manitoba Hydro, interveners, and ultimately the PUB when it last established just and reasonable rates."[4]

In short, Hydro asserted to this Board that actuals to June were entirely as contemplated, and future impacts from major capital (including everything that comes with that, like debt) was already baked into the plans, and into the current rates which Hydro argued needed no review or change.

Had the current rates needed change, Hydro could have always filed a non-expedited GRA. In fact, evidence provided with this Application asserts that MB Hydro's financial position is in fact improved over the projections contemplated

[3] Page 2 of Hydro's June 9 letter.
[4] Page 3 of Hydro's June 9 letter

by Manitoba Hydro, interveners and the PUB Board during NFAT and subsequent GRA's.

Predictability

MIPUG has always prioritized predictability and transparency in rate transitions. Customer's understanding is that 2.5% to 3.5% per year rate increases were intended as the changes needed to address Hydro's costs, address risks through the building of equity. These general rate increases (outside of specific drought impacts) are matters appropriately addressed at a future and timely GRA. Our focus today is on the extra 1.5% that presumably derives from the adverse impact of lower water flows, and if indeed there is any case that represents an unanticipated, unplanned emergency.

- Is drought really an emergency meriting expedited response?
- Is the full 1.5% really needed to bridge drought costs until a proper GRA can occur?

MIPUG will submit drought is not an emergency for a hydroelectric utility, and anyone who has been in this room for any part of the last 30 years knows this. A hydro utility claiming drought is an emergency is like a teacher lamenting that their work hours were reduced in July and August – if you could not predict that, you are in the wrong business. It happens, it is predictable, and we have multiple measures in place to make sure customers will not be harmed when it occurs.

We intend to explore those measures.

MIPUG will also explore the idea that even if a response to drought is merited, it is at most the rate impact needed to finance any net losses, pending a full GRA. Not to offset the net losses themselves. Thus, the concept of the "Bridge to a GRA" where net losses, financial reserves and retained earnings can be explored in a proper context.

Having said this, MIPUG also intends to consider, in its final recommendations, rate predictability for customers. MB Hydro may no longer be concerned with providing customers with orderly rate transitions and predictability, but it does very much matter to customers, and we hope to the

Board. The Board may recall that MIPUG argued in the 2019 Rate Review Application that Hydro's own internal costs merited no increase at all – despite this, MIPUG argued that it was in customer's favour to implement a rate increase to help with an orderly progression to higher rates that would ultimately be needed after Keeyask came into service. The Board agreed with that recommendation, and gave no increase to Hydro to pay for ongoing costs (all revenues from the approved rate increase were deferred). As of today, the last increase for customers was effective December 1, 2020, and if Hydro's next GRA is not filed until early to mid 2022 as seems to have been suggested, the next GRA-related increase may not be possible until perhaps fall 2022.

If one considers the limited scope of the 2019/20 rate review, the end result is that from June 1, 2019, to today, and potentially extending through to early 2023, MB Hydro will not have undergone anything but a very limited interim review. The lack of transparency, certainty and predictability in rates continues to create a negative aura around critical investment decisions needed to support Manitoba operations of major industrial customers.

Finally, MIPUG will explore the fair sharing of any increase. It is encouraging that Hydro takes note of its internal Cost of Service results in proposing rate changes. However, it appears as though Hydro misuses the concept of a Zone of Reasonableness in its application. It is inappropriate to give above average increases to classes which are already above 100%, and as such are indicated to be modestly overpaying their average costs.