MIPUG

FINAL SUBMISSION

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Thompson Dorfman Sweatman LLP
Barristers and Solicitors
1700 - 242 Hargrave Street
Winnipeg MB R3C 0V1

(Matter No. 0186495 AFH)
(Antoine F. Hacault AACI (Hon.) 204-934-2513)
(Fax. No. 204-934-0530)
(Toll Free: 1-855-483-7529)
(Email: afh@tdslaw.com)

MIPUG Final Written Submission – December 15, 2021

This document sets out the MIPUG final submission in the Manitoba Hydro 2021/22 Interim Rate Application, filed November 15, 2020.

Introduction and Summary of Recommendations

Manitoba Hydro has presented a grossly inconsistent picture of its financial condition over the past year.

On one hand Hydro asserts that this is such a simple application focused on such a narrow range of facts that it ought be adjudicated without the PUB or intervenors even asking a single question (MH cover letter to Application, Nov 15). On the other hand, Hydro is pleased to be before the Board and to transparently present its case (Transcript, page 119-120; page 140-141).

On one hand, Hydro's case is about severe and unexpected changes in its financial conditions due to drought that must be dealt with under an inferior, urgent narrow interim process (Application, page 5, lines 2-9). Outside of this drought, Hydro strenuously argued that its finances were exactly as anticipated in past PUB proceedings and nothing has changed (letter from Manitoba Hydro, June 9, 2021, page 2). As of July 6, 2021, which is about the time Hydro started to implement drought water control measures, Hydro was asserting rates were just and reasonable: "An assumption of future near-term rate increases that has not yet been formally approved is not an indicator that current rates are unjust and unreasonable."[1] On the other, the ultimate arguments presented rely more heavily on Hydro's indebtedness than on the 2021/22 financial projections. While the application is founded on drought, at its core Hydro's case appears to be that it simply has a lot of debt, which its financial people presumably did not learn about only in the most recent few months.

So what are we dealing with? An adjustment for drought, or a shortcut to avoid a GRA?

Interim rates are not to be used as a means of avoiding or excessively narrowing necessary regulatory review, or to approve rate changes for contentious items. Hydro's application effectively only includes 2 items, however, each of which is contentious:

1) Are we dealing with rate increases Hydro has insisted are required to pay for operating costs and capital investment, equalling 3.5%? A request for such increases could have readily been filed for approval at any time in the last 8 months or in the remainder of the fiscal year for regular and thorough review. Also, as noted in this submission, Hydro's financial condition, if viewed on balance, is in fact spectacularly improved compared to where any party expected to be at this time, including Hydro. The opportunity for competing evidence from industry experts, MIPUG submits, would put such information into context for the Board. In the meantime, the submission is just unbalanced advocacy. Hydro's views on the present financial condition, in an immediately post-Keeyask context, can at best be called contentious.

2) Instead, are we dealing with Increases related to drought which, on a financing basis, total at most 0.8% to ensure Hydro can pay the interests on funds it intends to borrow to finance the projected water conditions? Or are we also including an additional amount so that the debt

[1] Letter from Manitoba Hydro, July 6, 2021 page 7

borrowed for drought is scheduled to also begin repayment within the same drought during which it was accrued? This item, too, must be viewed as highly contentious, given the more than 18 years of higher water during which ratepayers contributed materially to the very vehicle Hydro recommended for the purpose of managing drought risk (i.e., retained earnings – not cash balances).

It is entirely unacceptable for a hydraulic utility which, under appropriate practices, plans its finances and manages hydrology risk over decades, to impose whiplash-inducing rate proposals on customers, which can turn based on the presence or absence of rain over a period of a few months of one single year (from 3.5% in June[2], to 2.5% in July[3], to 5% by November 15). Customers noted Hydro's bold-typed submission on June 9, 2021 that "**No Substantial Change in Circumstances Has Occurred - Existing Rates Remain Just and Reasonable**"[4]. Hydro customers should never be exposed to rate gyrations of this type, much less on an interim application. The Board and customers have worked through the regulatory system over the last 20 years or more to implement a regime for rate stability with an eye to the long horizon. Hydro's current management should not be permitted or encouraged to undermine this achievement.

For these reasons and those which follow, MIPUG recommends that the Board find Hydro has not met any reasonable standard for an interim rate increase at this time. At most, an increase of 0.8% could be considered as a reasonable bridge to a full General Rate Application, to ensure financing costs for the 2021/22 low water are not compounding into new debt[5].

At the time same, as was noted by MIPUG in the opening comments, there is a need to balance customer interests with those of the utility. MIPUG submits that Hydro has failed to support its proposed 5% increases from a utility perspective under the appropriate review standards for interim rates. However, customer interests for rate stability, predictable transitions, and avoidance of rate shock support a movement on rates towards the levels anticipated to be required in future, as the existing rate deferral accounts become depleted[6]. The last increase to customers was December 1, 2020, and the next fully-reviewed increase should not occur before a full GRA is completed in 2022. To maintain a normal schedule of increases, a 2.5% average rate adjustment should be implemented for January 1, 2022.

To ensure adherence to normal regulatory principles and appropriate incentives on Hydro, MIPUG recommends the rate increase be implemented as follows:

1) At most, 0.8% of the proposed 2.5% increase be permitted to be credited to Hydro's revenues as of the date of implementation. All other amounts should be deferred until the imminent GRA (despite this deferral, the full 2.5% will still provide Hydro with the cash it indicates is the key priority).
2) To help ensure the GRA is in fact pursued by Hydro as presently presented (particularly in light of previous statements by Hydro about imminent filings, to which Hydro did not adhere), the

[2] See MIPUG Book of Documents (MIPUG Exhibit 3], Tab 8
[3] See MIPUG Book of Documents (MIPUG Exhibit 3), Tab 10
[4] June 9, 2021 letter to the PUB, page 5.
[5] Transcript page 131, line 22.
[6] This includes the Bipole III deferral, as well as the deferral established in the 2019 Hydro ERA.

increase should be only approved through the end of 2022. At that date, the 2.5% rate increase should expire if a new full GRA application, including appropriate long-term 10 to 20 year forecasts, is not already underway or completed.

3) The rate increase should be implemented differentially on customer classes. For customers outside the zone of reasonableness (ZOR), the rate differential should follow the general methodology laid out by Hydro. As this will generate slightly less than the average revenue required by Hydro from those classes, the difference should be made up proportionately from customers paying below 100% Revenue:Cost Coverage, and not those paying above 100% of their measured costs.

Hydro should also not be permitted to begin recognizing the revenues from the Major Capital Deferral established by the PUB in Order 69/19[7]. First, this is a solely non-cash transaction that provides no relevance to Hydro's primary concerns over debt and liquidity. Second, there is no evidence that 24 months, as proposed by Hydro, is indeed the appropriate horizon for recognition. Absent information from Hydro about what occurs in months 25 and onwards, how can the Board or customers possibly determine that this is the correct adjustment period?

The remainder of this submission provides evidence in support of the above recommendations, including the supporting attachment.

Interim Rates Standards

Among the most important issues in dispute in the present proceeding is the proper role and standard for implementing interim rates.

Test on interim rates:

The Crown Corporations Governance and Accountability Act has no specific sections dealing with the jurisdiction to issue interim orders. Rather it incorporates by reference the applicable sections of *The Public Utilities Board Act.* S. 27 provides the PUB with the authority direct that a refund be given to ratepayers.

> **Application of Public Utilities Board Act**
>
> 25(3) *The Public Utilities Board Act* applies with any necessary changes to a review pursuant to this Part of rates for services.
>
> **Compensation or refunds**
>
> 27 When a new rate for services or an increased rate is allowed pursuant to an interim order and a final order does not allow any changes or allows changes other than those permitted in the interim order, The Public Utilities Board may make any order to compensate for or to refund any excess amounts collected by the corporation that it considers necessary and appropriate in the circumstances.

Pursuant to sections 44, 47 and 48 *The Public Utilities Board Act* ("PUB Act") the following authority is provided to this Board to issue Orders.

[7] Application, page 3, required approval #2.

Power to order partial or other relief

44(1) Upon any application to it, the board may make an order granting the whole or part only of the application or may grant such further or other relief in addition to or in substitution for that applied for, as fully and in all respects as if the application had been for such partial, further or other relief.

Orders subject to conditions

47(1) The board may direct, in any order, that the order or any portion or provision thereof shall come into force

(a) at a future fixed time; or

(b) upon the happening of any contingency, event, or condition specified in the order; or

(c) upon the performance to the satisfaction of the board, or a person named in the order for the purpose, of any terms that the board may impose upon any party interested;

and **the board may direct that the whole or any portion of the order shall have force for a limited time, or until the happening of a specified event.** (emphasis added)

Interim order

47(2) The board may, instead of making an order final in the first instance, make an interim order and **reserve further directions**, either for an adjourned hearing of the matter, or **for further application**. (emphasis added)

Orders involving expense to parties to be after notice and hearing

48 The board shall not make an order involving any outlay, loss, or deprivation to any owner of a public utility, or any person without due notice and **full opportunity to all parties concerned, to produce evidence and be heard at a public hearing of the board, except in case of urgency**; and in that case, as soon as practicable thereafter, the board shall, on the application of any party affected by the order, re-hear and reconsider the matter and make such order as to the board seems just. (emphasis added)

Five points arise from the above sections:

1. Pursuant to s. 48, parties have a statutory guarantee that they will have "a full opportunity to produce evidence and be heard at a public hearing of the board, **except in case of urgency.**" (emphasis added) There was no process for Intervenors to produce evidence. Therefore, the PUB should be satisfied by the evidence adduced by Manitoba Hydro that the precondition of urgent circumstances has been demonstrated.
2. If it decides there is urgency and issues an interim order, the Board should provide further direction on the further application where the statutory right to produce evidence will occur.

3. If the PUB is satisfied that the test of urgency has been met, it has the discretion to issue an interim order. The factors governing that discretion have been set out in case law.
4. Pursuant to s. 47(1), the PUB "the board may direct that the whole or any portion of the order shall have force for a limited time, or until the happening of a specified event". This is relevant to MIPUG's recommendation that the time parameters should be specific with respect to any interim rate increase whether focused on general revenue requirements or on specific impacts of the drought.
5. Although the PUB has the jurisdiction to Order refunds, it can take judicial notice of the high cost of doing so. In recent MPI applications to refund amounts to customers, it was noted that issuing refunds was a cost in the range of 1 million dollars. We say that the PUB should be cautious in not ordering an increase which might later be found to be too high.

Guiding principles in Case Law.

Bell Canada v. Canada (Canadian Radio-Television and Telecommunications Commission), [1989] 1 S.C.R. 1722

While the *Bell Canada* case provides general principles with respect to interim rate applications, the statutory framework is different in that there is no test of "urgency" as a precondition to issue an interim order where intervenors are not given the opportunity to "produce evidence". There is no equivalent to s. 48 of the PUB Act.

The question in the *Bell Canada* case (see p. 1741 and 1749) related to whether CRTC had the jurisdiction to make orders for the purpose of remedying the inappropriateness of rates which were approved by it in a previous interim decision. The Supreme Court of Canada provides useful guidance with respect to the first step of issuing an interim decision.

At p. 1754 the S.C.C. explains that an interim order on rates is not intended to be a preliminary decision on the merits of an application to increase rates:

> If interim rate increases are awarded on the basis of the same criteria as those applied in the final decision, the interim decision would serve as a preliminary decision on the merits as far as the rate increase is concerned. This, however, is not the purpose of interim rate orders.

MIPUG acknowledges that in PUB Order 49/14 the PUB at p. 16 set forth the following questions:

> The questions to be determined by this Board are 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.

However, this statement by the PUB does not mean that the PUB's role in an interim rate application is to serve as a preliminary decision on the merits.

Second, the reference to "deleterious effect" is an incomplete reference to the statutory test of urgency in s. 48 of the PUB Act and in the *Bell Canada* case in the following quotes:

> Traditionally, such interim rate orders dealing in an interlocutory manner with issues which remain to be decided in a final decision are

granted for the purpose of relieving the applicant from the deleterious effects caused by the length of the proceedings. Such decisions are made in an expeditious manner on the basis of evidence which would often be insufficient for the purposes of the final decision. The fact that an order does not make any decision on the merits of an issue to be settled in a final decision and the fact that its purpose is to provide temporary relief against the deleterious effects of the duration of the proceedings are essential characteristics of an interim rate order. (p. 1754)

The CRTC had granted an increase on an interim basis because (see p. 1755 of the decision):

> …lengthy delays in **dealing with an application** that could result in a serious deterioration in the financial condition of an applicant absent a general interim increase

Of note is that, in the *Bell Canada* case there was an existing application and a pending full review process. This is contrasted to the facts in this case where MB Hydro has not honoured its representation to this Board that a GRA would be filed in the fall of 2019. There is no existing full application. There is no interim order to be made within an existing application.

At pp. 1755 and 1756, the S.C.C. held:

> Decision 84-28 was truly an interim decision since **it did not seek to decide in a preliminary manner an issue which would be dealt with in the final decision.** Instead, the appellant granted the interim rate increase on the basis that such an increase was necessary in order to prevent the respondent from having **serious financial difficulties.** (emphasis added)
>
> Furthermore, the interim rate increase was granted on the basis that the length of the proceedings could cause a serious deterioration in the financial condition of the respondent. **Only once such an emergency situation was found to exist** did the appellant ask itself what rate increase would be just and reasonable on the basis of the available evidence and for the purpose of preventing such a financial deterioration. (emphasis added)

And finally, at pp. 1760 and 1761, the S.C.C. provides the following guidance that interim rates are awarded in the context of an existing proceeding and to deal with emergency situations where irreparable harm may be caused:

> …**The very purpose of interim rates is to allay the prospect of financial instability which can be caused by the duration of proceedings before a regulatory tribunal**. In fact, in this case, the respondent asked for and was granted interim rate increases on the basis of serious apprehended financial difficulties. The added flexibility provided by the power to make interim orders is meant to foster financial stability throughout the regulatory process. The power to revisit the period during which interim rates were in force is a necessary corollary of this power without which **interim orders made in emergency situations may cause**

> **irreparable harm** and subvert the fundamental purpose of ensuring that rates are just and reasonable. (emphasis added)

Awarding an amount which is below what might be thought to be "just and reasonable" after a full hearing

Given the interim rate process is based on one-sided evidence of Manitoba without a recent IFF or the certainty as to when and if and IFF will be provided, we submit that the PUB should only award an increase which is less than it might initially view as appropriate based on this incomplete record with an expedited process with a narrow scope.

Additionally, Manitoba Hydro will have no incentive or reason to file a GRA with an IFF if the sought-after rate increases are awarded.

Contentious issues to be excluded from the consideration of an interim rate increase

The PUB, in Order 80/17, found at p. 21:

> The Board accepts that contentious issues should be excluded from the consideration of an interim rate increase and should only be considered after receiving evidence in the General Rate Application hearing.

The PUB has repeatedly asked MB Hydro to file General Rate Applications on a regular basis. For example, in Order No. 59/16 the PUB indicated, at pp. 12 and 13:

> The Board is not prepared to consider interim rate applications unless warranted by unforeseen or emergency situations. It is the Board's desire that Manitoba Hydro file General Rate Applications on a regular basis and no more than two years apart. The Board shares the Interveners' concerns that interim rate applications ought not be the 'norm' for Manitoba Hydro and that Manitoba Hydro's planning cycles be adjusted if the Utility requests rate adjustments to coincide with the beginning of its fiscal year (April 1).
>
> Interim rate applications do not offer the same level of public review as General Rate Applications. (see also pp. 4 and 5)

In short, the standard for review of interim rates is a higher standard than a more detailed GRA. Evidence is meant to be overwhelming, not contentious; to be aimed at severe financial repercussions, not just to remain on a long-desired path; and to be reflecting urgent or emergency circumstances, not water flow issues for which the utility has been preparing for decades.

No emergency situation

Dealing first with any increase which is based on Hydro general levels of costs and debt (i.e., which is not premised on low water) Manitoba Hydro is in a better position than the base case for NFAT and any of the IFFs produced after that proceeding (see MIPUG Exhibit 6 summary page and attachments).

Secondly with respect to the adverse water flow, it must be noted that Manitoba Hydro took no action as water flows were deteriorating in July and August.

In its June 9, 2021 letter (contents adopted by the CFO) MB Hydro advised this Board:

> **P. 44 pdf (p. 5 of 6 of the letter)** As always for Manitoba Hydro, **if there is a material change in its financial circumstances** due to actual water flows throughout the year or as a result of other events, at the direction of the Manitoba Hydro-Electric Board, Manitoba Hydro will avail itself to the relevant provisions of The Crown Corporations Governance and Accountability Act (the "CCGAA") to apply for any necessary rate relief from the PUB at that time.

In its July 6, 2021 letter Manitoba Hydro advised the Board, at p. 7 of 8:

> Manitoba Hydro has not applied for a rate increase in 2021 and has no direction or intention to do so at this time. An assumption of future near-term rate increases that has not yet been formally approved is not an indicator that current rates are unjust and unreasonable.

Although Manitoba Hydro continued to receive information on continuing drought conditions, senior management took no steps to commence an application to this Board until directed to do so[8]. Further, despite testimony before the Standing Committee on Crown Corporations by Hydro's President that a 3.5% rate increase was desired for October, no application was prepared to seek that rate increase[9].

Risks Inherent in Truncated Interim Process

A further concern with respect to interim rates is made apparent by the final exchange of the hearing, between Mr. Tess and the Chair at Transcript 629-630:

> MR. AUREL TESS (by Teams): I do take your point that it is sometimes challenging to compare utilities that are in different places. You know, for example, BC Hydro is one that I believe just completed Site C (phonetic), a major capital project similar to our completion of Keeyask that's nearly complete, but they do have a lower debt level than Manitoba Hydro.
>
> So, it's -- you know, you can look at those kinds of benchmarks and sort of see what the differences might be to try to ascertain if there are significant differences.
>
> We can look at Nellcor (phonetic). I think they had an equity injection, for example. So, there's different circumstances for sure and -- so I take your point, in that regard.
>
> THE CHAIRPERSON: Well, I will give you a warning.
>
> MR. AUREL TESS (by Teams): Yeah.

[8] Transcript page 639, lines 8-13.
[9] Transcript page 635.

THE CHAIRPERSON: Site C hasn't started. They've done the planning. They're still waiting for cabinet approval to go ahead. Site C is years away from being completed and I -- if it goes ahead.

And I suspect that, if it does go ahead, their debt-equity level is not going to be the same as it is now, but it -- I mean, site C is not as big as Keeyask in relation to their overall corporate activities.

So, that -- that's the issue I'm concerned about. And, you know, NB Power isn't part of the analysis; their equity level is considerably lower than the rest.

So, I'd be really interested in seeing a comparison for the GRA, but we need to be very careful when these are thrown around.

Site C received approval of the Government for construction in 2014, and started construction in 2015 with an in-service date targeted of 2025[10]. The budget is $16 billion which, in relation to BC Hydro's balance sheet, is nearly precisely as large as Keeyask is to Manitoba Hydro. As of October, 2021 there were over 4600 workers on site[11].

The intent of this excerpt is not to provide evidence. It is to underline to all parties the limits and dangers inherent in the interim rate process. Uncontested statements by Hydro, comparisons to other utilities, or new financial metrics which have not had their veracity or merits tested cannot be the basis for material outlays from customers. MIPUG welcomes the chance to explain to the Board how other governments have restricted their charges to their Crown utilities in order to increase their equity levels (including for Site C), or provided equity injections as noted by Mr. Tess in the above excerpt, and to contrast this to Hydro approach to building equity solely on the backs of ratepayers. That opportunity is not afforded today, however, and the Board must be cognizant of the limits of the information before it in making this interim decision.

[10] https://www.sitecproject.com/about-site-c/project-overview
[11] https://www.sitecproject.com/

Supporting Attachment to MIPUG's Final Argument –

Discussion of Key Topics

This attachment provides supporting material to MIPUG's Final Argument in Hydro's 2021/22 Interim Rates Application. This attachment includes the following list of topics:

1) **Manitoba Hydro's Management of Water and Hedging During the Current Drought**
2) **Role of Retained Earnings**
3) **Misleading Comments 2003-2004 Drought**
4) **Hydro's Projected Financial Performance in 2022/23**
5) **Customer Experience and Priorities**
6) **Cost of Service Study Implementation**
7) **Other Items**

Manitoba Hydro's Management of Water and Hedging During the Current Drought

Manitoba Hydro provided a report on hydraulic generation in Appendix 1 of the filing. At page 2 of that response, chart (b) indicates that Energy in Storage (EIS) remains above the worst years of the 40-year dataset, though well below the average of the 40 years. The response to MIPUG/MH-1 indicates that this is due to the diversity of the Hydro watersheds and that not all parts of the system are in the same drought flow conditions since "conditions can vary across the system."[12]

Hydro indicates that it started to see net export volumes come in under budget as of April[13], and that "pretty heavy reductions" in outflow were implemented in July[14]. Hedging activities were begun in that July time frame, while balancing the potential that rains could turn around the hydrology situation[15].

MIPUG has been unable to review information on the hedging activities due to the confidentiality constraints.

However, in light of the information available to MIPUG, no concerns have been noted with regard to Hydro's physical management of the water and the export market transactions. MIPUG's submissions in this argument relate entirely to the financial response to drought in respect of the domestic rate strategy.

Role of Retained Earnings

Considerable discussion has occurred about retained earnings and their role in financing the drought. Hydro has repeatedly indicated that retained earnings are not cash (e.g., Transcript page 362). This is not news to any reader of Hydro's financial statements, and is most certainly not news to the Board, who specifically noted this in Order 59/18, page 49-50:

[12] MIPUG/MH-I-1(a).
[13] Transcript page 517
[14] Transcript page 517, lines 8-13
[15] Transcript page 518.

> Manitoba Hydro's financial reserves are not cash and are not retained in a bank account, but rather have been reinvested back into the Utility, including through reducing the amount of new borrowing requirements. Put another way, equity and Retained Earnings are debt that is avoided.

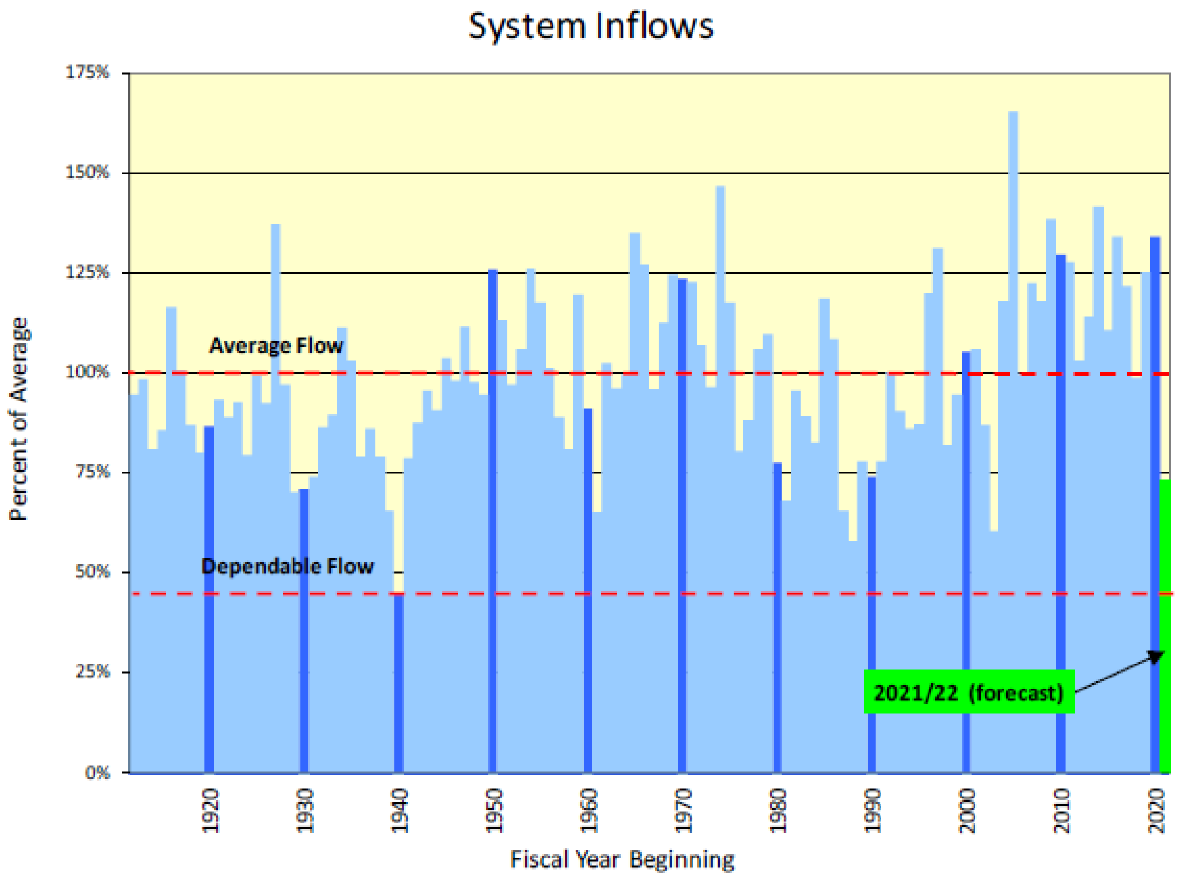
Despite knowing full well that retained earnings were not cash, the Board and Hydro have both been clear that retained earnings are the key factor intended to manage water flow risk. For example: "the Board accepts the evidence of Morrison Park Advisors that Retained Earnings should be used to manage drought risk in combination with regulatory action by the Board." (Order 59/18, page 65). Or, consider Hydro's Risk Management report from 2015, which noted: "Adequate financial reserves are required to protect against a repeat of the worst drought on record. At March 31, 2015, retained earnings totaled $2.8 billion."[16]

This approach to the build up of retained earnings and the primary driver being the risk of drought is not new. In the Hydro annual report for the year ending March 31, 2004, in commenting on the 2003/04 drought Hydro noted[17]:

> While the net loss in 2003-04 was significant, it was not unexpected. Manitoba Hydro's long-term financial forecasts take into account that drought conditions will typically occur about once every 10 years and that such conditions will have negative financial consequences. The risk of drought was one of the primary drivers behind the significant buildup in retained earnings over the past decade. (emphasis added)

This role of retained earnings also has to be understood from the context of rates paid by customers. Hydro sets its financial projections each year based on an average revenues and costs of all long-term flow scenarios[18]. But in many years (and for effectively all of the last 18 years), water has been better than average, as per PUB/MFR 17, which shows flows versus 100% of average[19]:

[16] Consumers Exhibit 4, Tab 7, pdf page 63.
[17] MIPUG Ex. 8 at p.111 of 153 of pdf, see also p.62 of 152 of pdf
[18] Transcript page 534.
[19] PUB MFR 17



It is entirely reasonable and expected that a party designing a financial system against the above profile of water flows would seek to balance good years with bad. In years of positive water flows, contributions would be made to reserves, such that in years of low water flows, reactive rate shocks are not required. Indeed, this is precisely what the Board and Hydro have done.

The fact that these reserves are not cash reflect appropriate treasury management practices. The Board was clear about this in noting that the reserves, rather than being set aside as cash, were elected to be applied as "debt that is avoided" (Order 59/18, page 49-50). The only reasonable way to understand this concept of reserves being in the form of debt that is avoided, is that the debt can be later 'unavoided' if the cash becomes required.

MIPUG does not reject the concept of "regulatory action" in the face of drought. For ratepayers who have invested heavily in retained earnings over the pasty 18 years, though, rate stability and predictability should continue to be a well-justified expectation. The appropriate concept for addressing drought would roll the short-term impacts into the projection of the long-term targets.

Just as a year of high water does not lead to 5% rate reductions, a year of low water does not merit an unprecedented 5.2% increase, so long as the current financial condition can so absorb. The question of what the current financial condition can absorb is a question of fact, and is matter of significant dispute and deserving of competing evidence. By awarding Hydro an increase of 0.8%, sufficient to fully recover all interest costs on any funds borrowed to finance the drought, 100% of the ongoing impact has been addressed, and time has been secured to hold the proper regulatory review.

Misleading Comments on the 2002-2004 Drought

MIPUG's view of today's drought is not rooted in 20-year-old experience. Nonetheless, the current proceeding should be cognizant of the precedence and true facts regarding the management of an infrequent condition like drought.

The last drought suffered by Hydro and its customers was 2002-2004[20]. At the time, a full proceeding occurred to review the facts, not an interim proceeding, and included 13 days of hearings and three independent expert witnesses[21]. The Board approved a one-time increase of 5% (with two potential further increases at a later date of 2.25% only on a conditional basis upon Hydro filing updated information)[22].

The financial condition of Hydro as of the previous drought is worth noting:

- In 2003/04, in just one year, Hydro projected a loss of $355 million[23]. Hydro started that year with just $1.170 billion in consolidated retained earnings[24].
- At the time, a worst drought on record (5 to 7 year) was estimated to cost at least $1.1 billion excluding the effects of compounding interest and any adverse market conditions like increases in power purchase prices[25]. This is effectively 100% of Hydro's retained earnings at the time.
- Hydro's future net income at regular flows was forecast to be in the range of $17-45 million (2005-2010)[26], so over 5 years Hydro would have only about $200 million net income at average water, or a net loss of $900 million during the drought (excluding financing effects)[27]
- The Board also considered evidence that a five-year drought could cost $2 billion under some scenarios[28].
- Hydro ended the first year of drought with an 85:15 debt:equity ratio[29]
- Hydro projected a true cash deficit on operations (before even considering capital spending/investments) of $101 million[30].
- Hydro did not have the significant import/export opportunities associated with the MMTP.
- Despite allegations by Hydro witness Mr. Tess that Hydro had more liquidity at the time in the form of sinking funds (Transcript page 464) the evidence is that Hydro in fact forecast net additions to the sinking fund in 2003/04 of $72 million[31], not net withdrawals as would be

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[20] PUB MFR-17
[21] PUB Order 101/04, page 7.
[22] PUB Order 101/04, page 23.
[23] MIPUG Exhibit 8, pdf page 35 of 153.
[24] MIPUG Exhibit 8, pdf page 126 of 153.
[25] MIPUG Exhibit 8, pdf page 49 of 153.
[26] MIPUG Exhibit 8, pdf page 35 of 153.
[27] This is $1.1 billion net negative impact for the drought against a $200 million positive net income at average water.
[28] PUB Order 101/04, page 29.
[29] MIPUG Exhibit 8, pdf page 36 of 153.
[30] MIPUG Exhibit 8, pdf page 37 of 153.
[31] Transcript page 572

expected if this sinking fund was a cash resource with some positive effect on the drought financials.

- As to reserves, Hydro's debt equity ratios eroded as of the drought and showed declines to as low as 13% in the years following the drought[32].
- Hydro filed full 10 year financial statements to assist the Board in assessing the long-term need and potential impacts of rate increases, and how debt:equity would continue to erode in the next five years following the drought.
- Hydro was in the beginning phases of a building program, with Wuskwatim expected to be constructed from 2004-2010[33]

By comparison today:

- Hydro has filed only an interim application, with no long-term forecasts in the form of an Integrated Financial Forecast.
- The projected drought losses in 2021/22 are $190 million[34]. Hydro started the year with $3.074 billion in retained earnings.
- The worst droughts on record (5 year and 7 year) are estimated at $1.3 billion and $1.8 billion excluding financing expense[35]. Note that at a normalized net income in the range of $200 million, the 5-year net income forecast would be $1 billion to the positive, so a negative occurrence of $1.3 billion in drought would be only a $300 million loss over 5 years, excluding financing effects.
- Hydro ends the first year of drought with an 87:13 debt:equity ratio.[36] Although Hydro's debt is larger, so is the asset base on a near-equal proportion.
- Hydro projects a positive cash flow from operations in the year of the drought of $270 million (not a negative value)[37].
- Hydro has the extra import capabilities now afforded by MMTP.
- Hydro has no sinking fund, but as noted above this is of no obvious liquidity benefit during droughts as it is cash held by Government for the purposes of repaying debt, not held by Hydro to fund a drought[38] (and further Hydro still expects to have sufficient cash in 2022/23 to make deposits to the sinking fund)[39].
- The only long-term forecasts available are in reports Hydro prepared for credit rating agencies, which indicate a growing equity ratio over the next 5 years, not shrinking[40].
- Hydro is in the final phases of a building program with expected sustained material positive financial performance in coming years as the building program winds down[41], and the regulatory system returns to routine, orderly and well-informed regulatory reviews.

[32] MIPUG Exhibit 8, pdf page35 of 153.
[33] MIPUG Exhibit 8, pdf page 5 of 153.
[34] PUB MFR 3.
[35] PUB MFR 8.
[36] PUB MFR 6.
[37] PUB MFR 3.
[38] Transcript pages 572-574.
[39] PUB MFR 6.
[40] PUB MFR 15, pdf page 79 of 88.
[41] PUB MFR 15 pdf page 18.

In short, the Board should discount evidence from Hydro that suggests today's financial condition is somehow more perilous than that faced in 2003. The comments reflect a clear inexperience on the part of Hydro's financial team in respect of the steady hand and long-term view required for risk management.

Much like the situation with respect to past recent forecasts (since 2012), and how Hydro's financial status today is materially and almost universally superior to anything expected as of the date of Keeyask in-service, Hydro's drought performance is also vastly superior to anything experienced in past droughts. MIPUG considers this context to be of key importance in determining an appropriate measured response to the current drought.

Hydro's Projected Financial Performance in 2022/23

The forecasts provided in Hydro's now approved budget[42] for 2022/23 are set out in PUB MFR 3.The forecasts include the effects of the proposed 5% rate increase, which yield $88 million in net revenue[43]. Absent this revenue, net income would drop from $200 million to approximately $112 million.

The approved forecasts indicate that at current rates, in the first full year of Keeyask phase-in, appear on their surface to be entirely just and reasonable, as discussed below.

Note that while this positive net income arises from analysis including the average of all possible inflow conditions, it is not "average water" in that it starts the year with low reservoirs (Transcript page 625). In this regard it is in fact lower than would be expected in all of the previous long-term IFF cases reviewed, in which 2022/23 was a later year in the IFF sequence and therefore would not have started the year with an assumption of below average reservoir levels.

Indeed, a net income that is positive at in the first year of Keeyask is indisputably positive financial results compared to each prior long-term scenario Hydro has presented in its annual financial forecasts since 2012, as summarized in MIPUG Exhibit 6. That exhibit set out the numerous forecasts prepared by Hydro, many approved as Integrated Financial Forecasts, which projected a number of years of net losses upon Keeyask in-service.

The key concern for MIPUG is implementation of a rate increase at this time, on an interim basis, which provides Hydro with sufficient financial flexibility that is again able to avoid appearance before the Board for a long period. In MIPUG's submission, such an outcome is entirely possible under Hydro's proposed 5% rate increase.

First, with Hydro's proposed rate increase, 2022/23 would reach a net income of $200 million under average inflows. Above average inflows are obviously possible, and even below average inflows which muted this exceptional achievement of net income would still leave Hydro in a position to avoid regulatory review for some time. Consider the results shown in MIPUG Exhibit 6 in which $200 million in net income was never achieved until sometime past 2026.

Second, the cash flows in 2022/23 indicate material positive cash generation from operating activities[44], of $778 million. It is accepted that Hydro projects to draw down $520 million from the existing $1.1

[42] Transcript page 278, lines 18-25.
[43] Application page 7.
[44] PUB MFR 3.

billion in cash surplus in 2022/23, but $250 million of this is, first, only a planning assumption at present that "may or may not materialize"[45] simply to transfer to the sinking fund, a matter which is entirely within Hydro's discretion[46]. The remaining $592 million is held in cash at year end for no obvious purpose other than to be six months of liquidity; however, at $592 million it represents well over the net liquidity needed for six months of Hydro's operations.

So, whether it be cash generation (positive), cash on hand ($592 million, which is well over the six-month standard), or cash consumed for discretionary purposes (sinking fund contributions), Hydro's cash situation in 2022/23 and beyond appears to be sufficiently flush to avoid further regulatory scrutiny should that become a continuing strategic tactic for the utility.

Finally, the $200 million in net income is only at this level once one considers that new costs are included in 2022/23 for Strategy 2040, which is out-of-scope for the present proceeding, and which has not been reviewed or assessed by the Public Utilities Board[47]. The 2022/23 results are also at the stated level despite a projected $61 million increase in Operating and Administration costs (greater than 10%), and an increase of 467 positions, which has not been tested in a full hearing[48]. Excluding these items, which would reasonably meet the test of "contentious" and may readily be excessive and later refined downwards (for example, for vacancies), and the net income of $200 million may yet be well exceeded.

For these reasons, and given the recent history of Hydro of failing to follow through on commitments made to the Public Utilities Board once away from an active hearing process[49], MIPUG strongly cautions the Board against allowing the proposed increase without safeguards. MIPUG's recommendations regarding time-limited increases is driven by this historical experience.

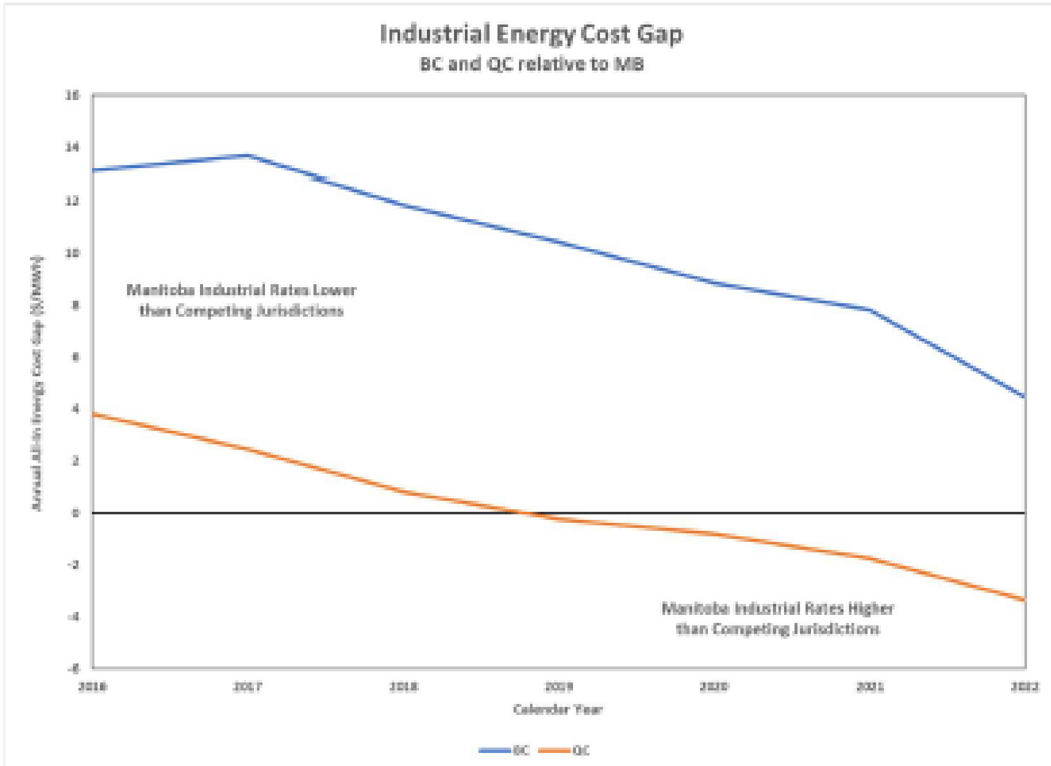
Customer Experience and Priorities

MIPUG has repeatedly noted to the Board that the highest priorities for the group are reliability, and rates that are stable and predictable, and at the lowest practical level consistent with these objectives.

In MIPUG's submission, it is not possible to properly implement rate changes for Manitoba Hydro absent a long-term forecast indicating where rates are headed. Any long-term forecast comes with uncertainty and will require updating for new facts. However, this does not obviate the need for the forecast in the first place.

MIPUG members presented to the Board on December 1, 2021, noting that Mantioba's competitiveness with respect to power rates had declined materially over time. Chemtrade provided the following graphic in support of this statement in MIPUG Exhibit 4:

[45] Transcript page 585, line 3.
[46] Transcript page 586, lines 5-7.
[47] Transcript page 494, lines 16-20.
[48] Transcript page 368-369.
[49] For example, the plan to file a GRA shortly following the 2019 ERA.



In the above graphic, the line for BC (Blue) and Quebec (orange) are shown in relation to Manitoba's average price for power. The lines depict the competitiveness of Manitoba's rates, and downward sloping lines indicate erosion in Manitoba's power prices. As of 2019, Manitoba's rates become higher than the comparable rates in Quebec, and BC's rates, which has previously been well above competitive levels compared to Manitoba (by $14/MW.h in 2017) will be down to a $5/MW.h premium by 2022 at proposed rates. On top of this erosion in power prices, Chemtrade also noted that Manitoba plants must bear higher transportation costs than these competitors, as the prime markets are not in central Canada[50]. Chemtrade indicated that "up until a month ago, we were forecast – again, we built into our plans a 2.5 percent rate increase"[51].

The presentation by Gerdau focused on rate competitiveness and the extreme difficulties caused by unforeseen cost increases[52]. Gerdau noted that 2.5% had been budgeted into the operations, based on a reasonable understanding of the Manitoba Government announcement, but that the addition 2.5% was not budgeted[53]. Gerdau noted that the Manitoba mill will be higher cost than the average of Gerdau's North American mills – not simply above the low point, but above the mean.

[50] Transcript, page 64.
[51] Transcript, page 65.
[52] Transcript, page 42.
[53] Transcript, page 43.

Cost of Service Study Implementation

Manitoba Hydro has proposed that any rate increase be implemented with a differential across the various customer classes. This is most clearly shown in Figure 21 from the Application.

Figure 21: Annual Customer Class Differentiation

	PCOSS21	Differentiation Required	Annual Differentiation over Seven Years	Final RCC
Residential	96.2%	1.07%	0.15%	97.3%
GSS ND	113.8%	-7.73%	-1.14%	105.0%
GSS D	104.0%	1.07%	0.15%	105.1%
GSM	99.3%	1.07%	0.15%	100.4%
GSL 0-30	95.6%	1.07%	0.15%	96.6%
GSL 30-100	103.7%	1.07%	0.15%	104.8%
GSL >100	101.2%	1.07%	0.15%	102.3%
Area & Roadway Lighting	123.3%	-14.84%	-2.27%	105.0%

Figure 21 outlines the issues with Hydro's proposed approach. It is appropriate to consider downward adjustments to the Area and Roadway Lighting class, and to the GSS ND class, but these downward adjustments from the average increase do not provide justification for above average increases to the classes already above 100% (GSS D, GSL 30-100 and GSL >100).

An alternative scenario which only introduces above average increases to the classes below 100% is provided in MIPUG/MH-I-1(e). This approach leads to slightly higher rate increases on the Residential, GSM and GSL 0-30 classes, with only average increases imposed on the GSS-D, GSL 30-100 and GSL >100 classes.

Manitoba Hydro was asked about the rate differentiation proposals at Transcript page 242 and indicated that the utility "will leave it to the PUB to decide which rate classes get what rate increase"[54].

MIPUG considers it inappropriate to give above average increases to classes which are already above 100%. When classes are above 105%, below average decreases are merited, but this revenue should be recovered from the classes benefitting from underpaying their measured costs, rather than those already overpaying their measured costs.

The Coalition also asked Manitoba Hydro to speculate on the direction of future Cost-of-Service ratios, in years beyond those which are the subject of Hydro financial forecasts[55]. In MIPUG's submission, such hypotheses on the direction of future results are unsupported by evidence, and the future results of Cost-of-Service should be used to set future rates once the analysis is complete, not used to set current rates based on speculation.

[54] Transcript page 242, lines 13-22.

[55] Transcript page 518-519.

Other Items Meriting Comment

In addressing the statements made by Hydro throughout the proceeding, a number of other matters merit brief responses that may be material to the Board's deliberations.

- **Net Income Before Net Movement** – On December 13, at Transcript page 422-423, Mr. Tess indicated that "…the losses that we were experiencing prior to the net movement, that's what really strikes home to me when I look at the financial health of Manitoba Hydro".

Mr. Tess' interpretation in this regard is inconsistent with previous clear evidence before this Board that led to the decision on each of the deferral accounts included in the Net Movement, which are laid out in PUB MFR 7. The deferrals arise because Hydro elects to account for items like depreciation and DSM differently for financial reporting purposes than was approved by this Board for rate setting. In some cases, this also reflects how Hydro accounts for items differently than their peers which were reviewed by this Board. The decision to adopt the noted parameters for deferring things like Conawapa planning costs over a long horizon (rather than one year) or DSM over the period in which is provides benefits reflects sound rate setting methods, and was made after a proper and fulsome GRA, with competing expert evidence being provided. Manitoba Hydro should not be relitigating settled issues in a limited scope Interim Rate Application. Net Income Before Net Movement should not be used as a financial metric.

- **Unsustainable debt levels –** On December 13, at Transcript page 460 lines 6-10, Mr. Tess indicated that "Retained earnings are not a reserve. They aren't liquid assets that can be drawn upon to fund a drought. And using debt means paying higher interest and adding to an already unsustainable level of debt and interest costs."

By definition, the current debt level is sustainable. All interest is being paid in full every year. By 2022/23, there is no addition of new debt being issued, and an effective repayment of debt of a quarter billion dollars in the sinking fund[56]. According to PUB MFR 3, page 5 of 5, all interest is paid from cash receipts, and there remains positive cash from operating activities of $778 million in the 2022/23 approved budget. To the extent there is a drawdown of cash from the previous year of $530 million, $250 million of this is to put into a sinking fund for repayment of debt, and the remaining $280 million is only required for new investment in capital[57]. In short, the current debt levels are more than sustainable at current receipts from customers, however Hydro cannot quite FULLY fund interest from internal cash flow AS WELL AS $250 million into the sinking fund PLUS $886 million in new capital. The question outstanding is whether it is indeed reasonable that Hydro would be such an extreme cash generation operation that it should ever be able to fund all of those components simply from current year cash generation. At best, this is a question of fact on which there are contentious and competing views and competing expert evidence is merited.

[56] Transcript page 587
[57] $530 million reduction in cash less $250 million of that put into the sinking fund.

- **Is the rate increase of 5% needed to avoid a violation of intergenerational equity** – Manitoba Hydro asserted that preserving intergenerational equity was the second driving priority behind the 5% rate proposal[58]. Hydro further indicated, in response to a question about intergenerational equity from the Assembly of Manitoba Chiefs, that: "the $13 million approximately of interest we would incur is something that we would at least like to recover, plus a little bit to recover the remaining balance of the 348 million that needs to be recovered over future generations."[59]

The implication that failing to repay the debt borrowing to fund the drought during the drought is somehow irresponsible or leaves inequitable conditions to future ratepayers is unfounded. Past and current ratepayers have funded 18 years of retained earnings growth during the higher than average water conditions precisely to be afforded stable and predictable rates when the lower water conditions arise. The best long-term forecasts available indicate that future ratepayers may be in a very favourable condition as rate increases can be moderated in future (as an alternative to the aggressive and untested concept of large retirement of debt presumed by Hydro in the forecast in PUB MFR 15[60]). Drought is a cost of operating a hydraulic system shared by ratepayers of every year, every generation. Ratepayers of 2021/22 in particular are not the cause of the drought and are not passing off costs, any more than any long-term financial stability or insurance-type measure similarly fails to be fully recovered only from the system participants who happened to be present for the loss event.

- **Is interest cost as a percentage of revenue a meaningful metric?** – Manitoba Hydro repeatedly cited that interest costs make up 42% of revenue in 2021/22[61]. Hydro indicates a premise that this is a large percentage that "limits Hydro's financial flexibility"[62], but no other benchmark or metric was provided to indicate whether this is in fact high or low compared to reasonable expectations for this utility.

The fact that 42 cents of every dollar collected by Hydro is paid in interest is not a meaningful indicator of anything on its own. Indeed, this metric of 42 cents is only relevant to the single year that is near complete, and drops to 37 cents of every dollar in 2022/23 at the approved budget[63]. MIPUG notes that interest cost as a percentage of revenue is not one of Hydro's approved financial targets[64]. MIPUG also submits that a proper and fulsome review of this metric, and whether it is of any relevance should consider multiple perspectives that are not in evidence in this hearing:

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[58] Exhibit MH-5, pdf page 10 of 22.
[59] Transcript page 406, lines 1-15.
[60] For example, see PUB MFR 15 Attachment 2, page 18 of 29.
[61] For example, in Hydro's direct examination (Hydro Exhibit 5), at page 20
[62] Application, page 25.
[63] Transcript, page 558.
[64] Board Order 59/18, pages 47-48.

1) ***How does this compare to expectations for the period after Keeyask comes into service?*** The values to calculate the interest:total revenues are contained in the backup materials provided in MIPUG Exhibit 6, but the hearing did not provide sufficient time to consider these comparisons. The Board make take note of the fact, by doing its own arithmetic, that for the 2022/23 year a value of 37 cents is in fact a vary favourable ratio compared to each prior projection.
2) ***Why is it important to focus only on interest?*** As a cost item in Hydro's projections, interest is one of readily locked-in variables, and is not subject to large year-over-year risk or variability. For a utility, exposure to interest as a cost has to be preferable to being exposed to much more wildly unstable items, like fuel, or items that in fact increase with inflation, like large staffing complements needed to run thermal plants. An analysis of fixed versus variable cost structures could be a sensible matter for debate at a proper review proceeding – but without this context an interest-only perspective should not be assumed to be meaningful. Consider that in past proceedings, Hydro has provided quantified risk analyses that show the attendant exposure to interest rate changes[65] – such information is not presently before the Board.
3) ***Is Hydro's fixed cost component of its cost structure somehow unfavourable compared to peers?*** Again, no evidence has been provided in this regard other than simple interest-only values[66]. It is a commonly known fact that some utilities rely much more heavily on fuel than on capital investments – these utilities like SaskPower would obviously have a lower interest cost commitment. But is this an advantage compared to Manitoba Hydro's locked-in interest costs? Similarly, some utilities like BC Hydro rely heavily on contracted Independent Power Producer purchases. These utilities have avoided debt by not having to build assets instead letting the private sector make those investments, but the utility cost structure includes material fixed commitments to make payments for power purchases. Is this a favourable cost structure compared to Manitoba Hydro, if the payments are equally locked in without flexibility as Manitoba Hydro's interest costs are? Is it better to own assets (with attendant interest cost) than to contract for the asset with risks of significant cost escalation as each contracted period is renewed? Absent full and proper information on these matters, Hydro's statements about the percentage interest cost in relation to Hydro's revenues are sensational at best, without any context or principles on which the Board can actually understand and make use of the information.

For these reasons, Hydro's interest cost to revenue metric should be ignored as an unproven financial standard.

- **Next GRA.** In its final submission, Hydro has indicated its view that the PUB should remain silent on the date for the filing of Hydro's next GRA.

The PUB should not, contrary to the submission of counsel for Manitoba Hydro, remain silent on a date or form for filing of a GRA by Manitoba Hydro. It should also set out its expectations on the information to be included in that application.

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[65] The topic was known as the "uncertainty analysis" and discussed in detail in the evidence of MIPUG at the 2017 GRA, and in Appendix 4.1 and 4.2 from Manitoba Hydro's 2017 GRA filing.
[66] Application, page 25.

On or about September 22, 2021 the Province issued directives to Manitoba Hydro as follows[67]:

> DIRECTIVE
> 1. Manitoba Hydro is directed to take all steps necessary to proceed with submission of an interim rate application to The Public Utilities Board (**or other application as determined by The Public Utilities Board);** and
> 2. Manitoba Hydro is directed to engage with The Public Utilities Board on submitting multi-year general rate applications. (emphasis added)

Hydro conveniently ignores the portion of the directive issued by OIC 321/2021[68] which requires Manitoba Hydro to take all steps necessary to proceed with submission to the PUB of such "other application as determined by The Public Utilities Board".

On questions from the PUB chair on December 14, 2021, Mr. Tess acknowledged that financial forecast documents are living documents which require amendments as new information becomes available.

Given Manitoba Hydro is able to produce a long-term forecast for rating agencies, it is not credible for Manitoba Hydro to assert that it cannot produce a similar forecast with all the details of the short term and long term assumptions which formed the basis for that forecast.

Manitoba Hydro has raised as an excuse for not filing an IFF as part of a GRA filing the fact that it has not completed an integrated resource plan. However, as was confirmed in cross-examination of Ms. Grewal[69], this has never prevented Manitoba Hydro from preparing an IFF in previous rate applications.

Although Manitoba Hydro has represented to the PUB that it will cooperate in filing a GRA, it has not committed to filing a full GRA with all the information expected by the PUB. MIPUG submits that given a poor track record of compliance and the very vague assurances of what will be filed and when it will be filed, it is most appropriate for the PUB to specifically set out its expectations by way of directives in this Interim Rate Application. It will soon become apparent whether Manitoba Hydro complies with the second part of Directive 1 by the Province "to take all steps necessary to proceed with submission of … (such) other application as determined by The Public Utilities Board."

- **2.5% rate increase.** An alternative rate scenario grants Hydro only the 2.5% rate increase which the province announced in summer, and which customers have had the opportunity to plan for.

In the cross-examination of Mr. Tess, he confirmed that to his knowledge no one communicated to the Province prior to September 22, 2021 that Manitoba Hydro would not be able to live with the proposed 2.5% annual increases for 3 years[70]. That increase was announced on July 8, 2021.[71]

[67] MIPUG Exhibit 3, pdf page 147 of 157.
[68] MIPUG Exhibit 3, pdf page 150 of 157.
[69] Transcript page 197-198.
[70] Transcript page 597; 607; 636-637.
[71] MIPUG Exhibit 3, page pdf 111 of 157.

Mr. Tess was evasive as to the measures discussed and considered between July 8, 2021 and September 22, 2021 to implement these proposed 2.5 % increases. It is not credible for Manitoba Hydro to suggest that it did not have at least a preliminary plan on how it would adapt to living with 2.5% increases as opposed to the 3.5% increases referred to by Ms. Grewal at her June 29, 2021 appearance before the Standing Committee on Crown Corporations.

One possible explanation for the lack of concern is that Manitoba Hydro's internal analysis was consistent with the scenario put before each of the three rating agencies – even with a 20 year cumulative increase of about 44% (or 2.2 % per year) Manitoba Hydro would meet and exceed a 75:25 debt/equity ratio.

According to a schedule provided in PUB Board Counsel Bk. of Doc. at p. 12, a 2.5% rate increase as of January 1, 2022 would result in an estimated loss of between $201 million and $206 million in 2021/22 and a net income of between $147 million and $162 million in 2022/23, as follows[72]:

Manitoba Hydro

2021/22 Interim Rate Application
COALITION/MH I-3b

	Forecast	Preliminary Plan	Scenario i 0% Jan 1, 2022		Scenario ii 1% Jan 1, 2022		Scenario iii 2% Jan 1, 2022		Scenario iv 3% Jan 1, 2022		Scenario v 4% Jan 1, 2022	
$ in millions	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
Proposed Rate Increase	**5.0%**	**0.0%**	**0.0%**	**0.0%**	**1.0%**	**0.0%**	**2.0%**	**0.0%**	**3.0%**	**0.0%**	**4.0%**	**0.0%**
Additional Domestic Revenue	$27	$88	$0	$0	$5	$18	$11	$35	$16	$53	$22	$70
Net Income/(Loss)	($190)	$200	($217)	$111	($211)	$129	($206)	$147	($201)	$164	($195)	$182
Retained Earnings	$2 885	$3 084	$2 858	$2 969	$2 863	$2 992	$2 868	$3 015	$2 874	$3 038	$2 879	$3 061
Debt Ratio	87.0%	87.6%	87.1%	88.1%	87.0%	88.0%	87.0%	87.9%	87.0%	87.8%	87.0%	87.7%
EBITDA Interest Coverage Ratio	1.36	1.78	1.34	1.70	1.34	1.72	1.35	1.73	1.35	1.75	1.36	1.77
Capital Coverage	0.80	1.48	0.75	1.32	0.76	1.35	0.77	1.38	0.78	1.42	0.79	1.45
Interest Paid as a % of Total Revenue	42%	37%	43%	39%	42%	38%	42%	38%	42%	38%	42%	38%
Cash Surplus/(Deficiency) to Fund Core Business Operations	($348)	$51	($375)	($37)	($370)	($19)	($365)	($2)	($359)	$16	($354)	$34

Therefore, at that level, most of the loss in 2021/22 would be covered by the net income in 2022/23. Furthermore, as previously reviewed, in 2022/23 Core Business Operations would be fully covered by surplus cash without requiring borrowing to cover Core Business Operations.

- **Cost Containment -** Manitoba Hydro has repeatedly indicated that it could not make further cuts without causing increased risk in asset failure and without affecting the ability to provide "safe and reliable energy".

The evidence in this proceeding is that, when directed by the Province to find savings, Manitoba Hydro found ways to contain operating costs and capital costs. When asked by the Province to find more cost savings during Covid, it was similarly able to do so[73], to a total of $86.2 million. However, Hydro is now proposing to undo much of this cost containment and increase spending in FTE's and capital. For example,

[72] Response from Coalition/MH-I-3b.

[73] PUB MFR 12 indicates savings of $86.2 million.

spending on new capital (PPE) increases from $777 million in 2021/22 to $886 million in 2022/23 – an increase of more than $100 million dollars[74]. Similarly, Pandemic savings on FTE leads to reductions from 5,391 FTEs down to 4,953 FTEs in 2020/21; however, spending ramps up in 2022/23 with an approved budget of 5,420 FTEs[75] although the positions may not all be filled[76].

On questioning by Board Member McCutcheon, Mr. Tess made vague references to considering cost cutting measures without committing to certain objective targets[77]. Given that the budget increasing the FTEs has been approved by the Manitoba Hydro Board of Directors, MIPUG questions what Manitoba Hydro is considering as cost cutting measures if any at all. It is easy to say that the issue will be considered. Absent strong PUB direction and rate action, such vague statements do not bind or incent Manitoba Hydro to implement any cost cutting measures at all.

[74] PUB MFR 3, page 4 of 5.
[75] Coalition MFR 22, page 2 of 3.
[76] PUB/MH-I-5, page 5 of 5.
[77] Transcript page 620.