



360 Portage Avenue (22) • Winnipeg Manitoba Canada • R3C 0G8
Telephone / N° de téléphone: (204) 360-3257 • Fax / N° de télécopieur: (204) 360-6147 • baczarnecki@hydro.mb.ca

November 23, 2021

THE PUBLIC UTILITIES BOARD OF MANITOBA
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

ATTENTION: Dr. D. Christle, Board Secretary and Executive Director

Dear Dr. Christle:

RE: MANITOBA HYDRO'S 2021/22 INTERIM RATE APPLICATION – UPDATED MFR RESPONSE

On November 15, 2021, Manitoba Hydro filed its 2021/22 Interim Rate Application with the Public Utilities Board of Manitoba (“PUB”), including responses to the Minimum Filing Requirements (“MFRs”) approved by the PUB on October 19, 2021.

In this submission, Manitoba Hydro is providing the following updated MFR response:

- COALITION MFR 22 b)- Manitoba Hydro has updated this response to correct the compound annual growth rate of Manitoba Hydro’s operating & administrative (O&A) expenses and Manitoba Consumer Price Index, as well as small corrections to the number of Full Time Equivalents.

Should you have any questions with respect to this submission, please contact the writer at 204-360-3257.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES

Per:

A handwritten signature in blue ink, appearing to read "Brent Czarnecki".

Brent Czarnecki

Barrister & Solicitor

COALITION MFR 22

Corporate

Please provide a detailed explanation of how MH plans to revise its strategic actions for 2021/22 and 2022/23 to reduce the deleterious impacts of drought (ie - preserving cash flow, minimizing additional debt, maximizing revenues and minimizing expenses, etc) including:

- a) Potential deferrals or repriorizations of capital expenditures in the event of financial distress due to drought (i.e., regardless of the existing plan, what is the contingency plan to minimize capex to what is critically necessary);**
 - b) Potential O, M and A and other cost reductions that could be implemented in the event of financial distress (see above); and**
 - c) Potential adjustments to corporate strategies such as alternate debt management strategies and strategies to maximize domestic and net export revenues before asking for rate increases.**
- a) Manitoba Hydro's fleet of assets is aging, and sustained capital expenditures are essential to keep the reliability and safety of the system at acceptable levels, as aging infrastructure continues to be a top risk for the corporation. Manitoba Hydro has a rigorous process to prioritize and optimize capital expenditures to sustain our assets based on value (in the areas of Financial, Reliability, Safety, Environment and Corporate Citizenship). Investment is allocated to the areas where there is the greatest risk mitigated or benefit to be gained. Deferring investments will generally erode value by increasing risks associated with the aging assets, increasing costs associated with remediation of those risks, decreasing asset reliability, or some combination of the three. These impacts of deferral will ultimately negatively impact customers through decreased reliability and/or increased costs for Manitoba Hydro that will need to be passed on to customers.

Increasing spend on projects during a drought will be an opportunity in some cases. For example, where there is not enough water flowing to operate a generator and it is sitting idle, work can be done on that unit as there is no 'lost generation cost' of the outage.

- b) From 2016/17 through to 2022/23, Manitoba Hydro's electric O&A expenditures have seen a compounded annual growth of 1.75%, which is aligned with the compounded annual growth for Manitoba CPI of 1.73% during that same time period.

Manitoba Hydro's 2021/22 Interim Rate Application
 COALITION MFR 22 (Revised)
 Corporate

	2016/17 (Pre-VDP) Actual	2017/18 (VDP Beginning) Actual	2018/19 (VDP Complete) Actual	2019/20 (Pre-Pandemic) Actual	2020/21 (Pandemic/Cost Savings) Actual	2021/22 Forecast	2022/23 Preliminary Plan
(in millions of \$)							
O&A - electric	536	517	508	512	534	557	595

This relatively low annual growth is a result of Manitoba Hydro making significant O&A cost reductions over the past number of years, despite the fact that there have been increased costs that have been out of Manitoba Hydro’s control.

O&A cost reductions have included: a workforce reduction through the Voluntary Departure Program (“VDP”) in 2017/18; as well as the cost savings initiative in which the provincial government required that Manitoba Hydro contribute to financial and workforce reductions in response to the COVID-19 pandemic in 2020/21 (as outlined in PUB MFR 12).

Uncontrollable O&A expenditures were a result of the unprecedented storm in October 2019 and incremental expenditures due to the pandemic. In addition, with the winding down of major capital projects, O&A costs are going up as there is a shift from resources working on construction activities, focused on large hydro-electric and transmission line development, to operating activities in support of Strategy 2040 and building up the capability to meet the evolving energy landscape.

Full Time Equivalent (“FTEs”) are currently at the lowest levels seen since before the purchase of Winnipeg Hydro in 2002; however, this level of FTEs is not sustainable. Manitoba Hydro currently has an external hiring plan in place to return to pre-pandemic FTE levels which will allow Manitoba Hydro to ensure that it can continue to provide safe and reliable service to its customers.

	2016/17 (Pre-VDP) Actual	2017/18 (VDP Beginning) Actual	2018/19 (VDP Complete) Actual	2019/20 (Pre-Pandemic) Actual	2020/21 (Pandemic/Cost Savings) Actual	2021/22 Forecast	2022/23 Preliminary Plan
Corporate FTE	6,411	5,998	5,475	5,393	4,954	5,022	5,420

- c) Manitoba Hydro’s fundamental debt management objective is to provide stable, low cost funding to meet the financial obligations and liquidity needs of the Corporation, while maintaining risk at prudent levels and reserving sufficient flexibility to adapt to changing circumstances.

Manitoba Hydro has made some slight shifts from the forecast term to maturity of new debt issuance for fiscal 2021/22, issuing debt with a weighted average term to maturity (“WATM”) of 15.4 years at a weighted average interest rate (“WAIR”) of 2.09% year to date (versus a WATM of 37.2 years and a WAIR of 2.15% in 2020/21). This strategy has benefited finance expense, as rates across the yield curve have risen above forecasted levels year to date in 2021/22.

There are risks to employing short term cost conservation techniques. With respect to shortening the term to maturity of long term debt issuance, this adds refinancing risk in the debt profile earlier than planned. Given the extended WATM of 37.2 years in the 2020/21 fiscal year, Manitoba Hydro is comfortable with slightly shortening the WATM in 2021/22.

Decreasing the level of pre-funding to reduce the associated cost to carry would provide some short term cost conservation; however, it would also introduce liquidity risk and reduce flexibility for timing of new debt issuances. Manitoba Hydro risks being forced into accepting price and terms from financial markets in a “just-in-time” funding scenario in order to meet cash requirements rather than having the flexibility to choose the timing to align debt issuance with the debt management objective.

Increasing the floating rate debt as a percentage in the debt portfolio, including swapping fixed rate long term debt to floating rate debt may result in cost savings in the short term in a typical upward sloping yield curve; however, this introduces interest rate risk (there would be savings in the front years, however at the time of transaction – either debt issuance or swap - the expectation is to be economically indifferent between fixed and floating rate debt of the same term to maturity). Given the current economic environment where inflation is running high and current forecasts are showing short term rates will be rising in the next fiscal year and beyond, Manitoba Hydro has chosen not to employ the strategy of increasing floating rate debt and risk the related rising finance expense in the near term. Manitoba Hydro is, however, anticipating issuance of a small amount of commercial paper. It should be noted that the increased limit of \$1.5 billion for the commercial paper program has not been approved for use, nor guaranteed as of yet, by the Province of Manitoba.

Please see Section 2.2 of the Application which details the price risk mitigation activities undertaken to date by Manitoba Hydro to maximize net extraprovincial revenues.

Manitoba Hydro continues to pursue hedging opportunities as market opportunities present themselves to further reduce price risk.