Manitoba Hydro
2021/22 Interim Rate Application

December 10, 2021

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Agenda

I. Update on Manitoba Hydro

II. Overview of Relief Sought

III. Reasons for the Application

IV. Conclusion

Land & Territorial Acknowledgment

We acknowledge these lands and pay our respects to the ancestors of these territories. The legacy of the past remains a strong influence on Manitoba Hydro's relationships with Indigenous communities today, and we remain committed to establishing and maintaining strong, mutually beneficial relationships with Indigenous communities.

Update on Manitoba Hydro

Keeyask Generating Station

- First unit came into service in Feb 2021; 5 of 7 units are now producing electricity
- On track to meet the $8.7 billion control budget and approximately 6 months ahead of schedule despite COVID-19 and other major challenges

COVID-19 Impacts

Operational Impacts

- 48.5% of the workforce has been working remotely for over 18 months
- Manitoba Hydro has continued to provide essential services during the pandemic, for the protection of staff and customers some non-essential services have been suspended
- Manitoba Hydro has implemented a vaccination and rapid testing policy for all staff and contractors

Financial Impacts

- Incremental operating costs of approximately $7.5 million since the onset of the pandemic
- COVID-19 savings commitment of $86.2 million

Manitoba Hydro of the Future

- Manitoba Hydro is in the midst of extensive efforts to evaluate and develop new ways of operating that are responsive to the changing business environment
  - Development of a long-term strategic vision (Strategy 2040)
  - The commencement of foundational work for an integrated resource plan
  - Development of new enterprise planning cycles
  - Renewed focus on core business – transition of DSM activities to Efficiency Manitoba and reorganization of Manitoba Hydro International
- Appreciate that this work has delayed the creation of a long-term financial forecast

Future Rate Applications

- GRA preparations were on hold while Bill 35 was on the legislative agenda
- Ministerial Directive:
  - File an interim rate application
  - Engage with the PUB on the next GRA

2021/22 Interim Rate Application

Interim Rate Application

GUIDING PRINCIPLES

1. Limit Deterioration of Financial Position recognizing it is not reasonable to recover in a single year

2. Preserve intergenerational equity associated with interest costs on borrowing for core operations

3. Rate Stability and predictability

Interim approval of rates to generate a revenue increase of 5%, effective January 1, 2022

- Average monthly residential customer bill impact:
  - Non-electric heat $5.13
  - Electric heat $9.80
- Manitoba Hydro would continue to have among the lowest rates in Canada.

Approval to recognize revenues in the Major Capital Deferral Account

- Recognizing the revenue from the Major Capital Deferral Account will reduce revenue requirement by $12 million in the Test Year and $50 million in 2022/23

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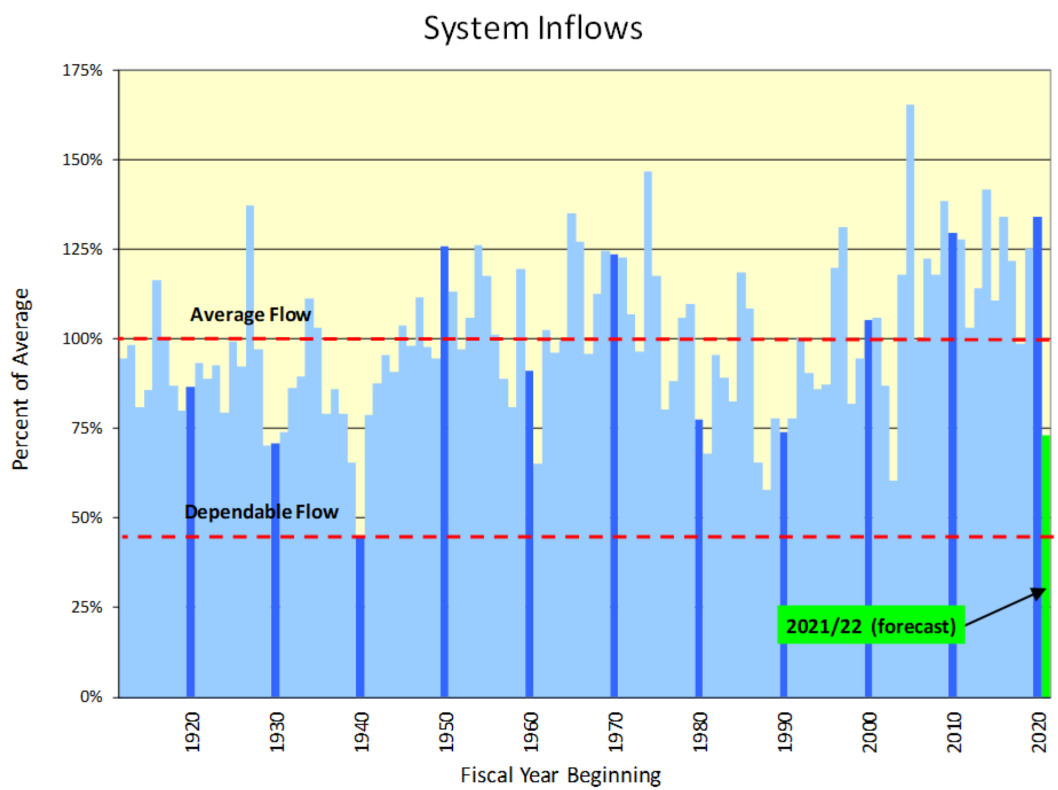
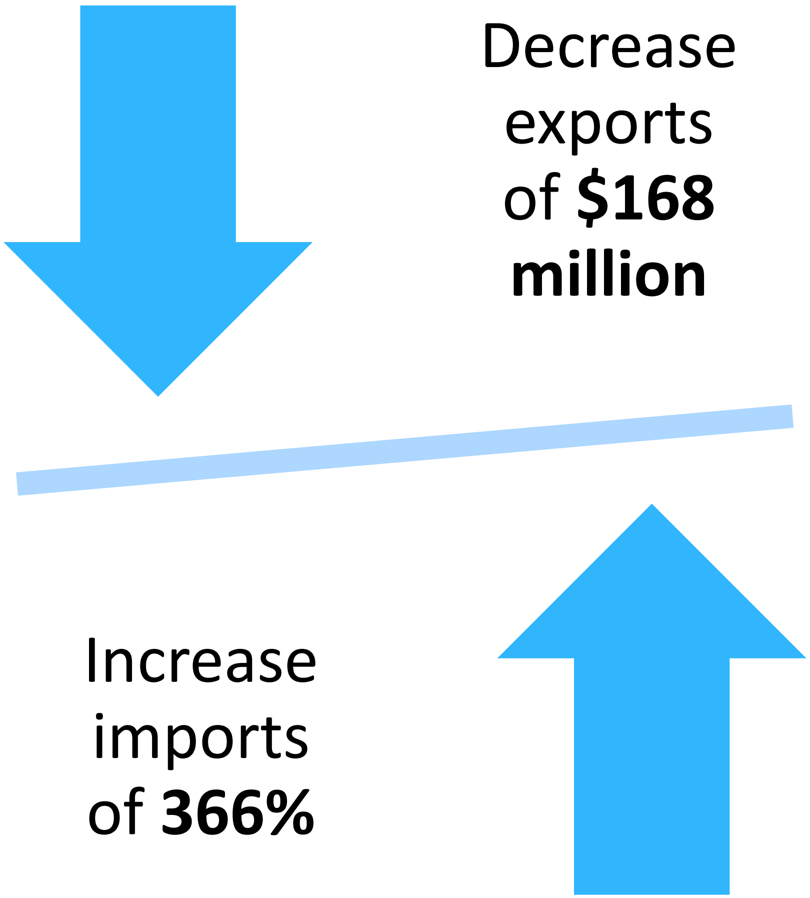
Drought Conditions

- Since Fall of 2019 key parts of the watershed supplying Manitoba Hydro have received record low precipitation
- Precipitation in 2020/21 has been **below levels experienced during the 2002-2003 drought**
- Manitoba Hydro is managing its operations to ensure energy reliability through management of its reservoirs



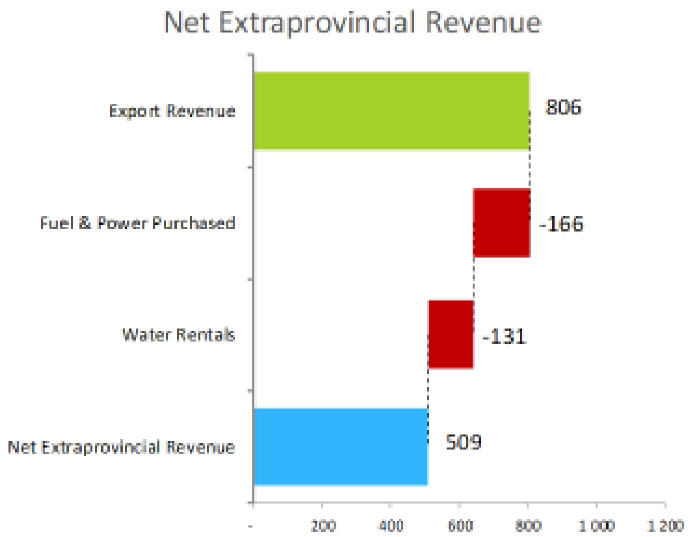
Impacts of Drought

- Poor water conditions resulted in a **27% reduction in hydraulic generation** compared to 2021/22 Budget

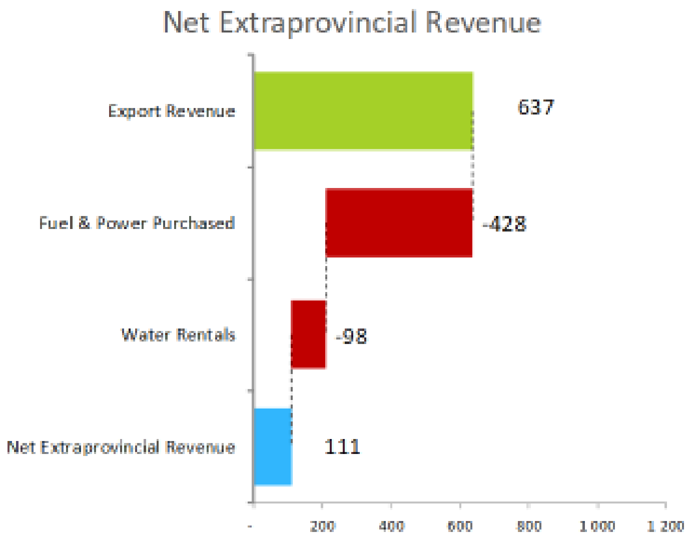


Impact of Drought on Net Extraprovincial Revenue

2021/22 Budget
Based on Average of most recent 40 Flow Cases



2021/22 Forecast
Based on the Expected Flow Case

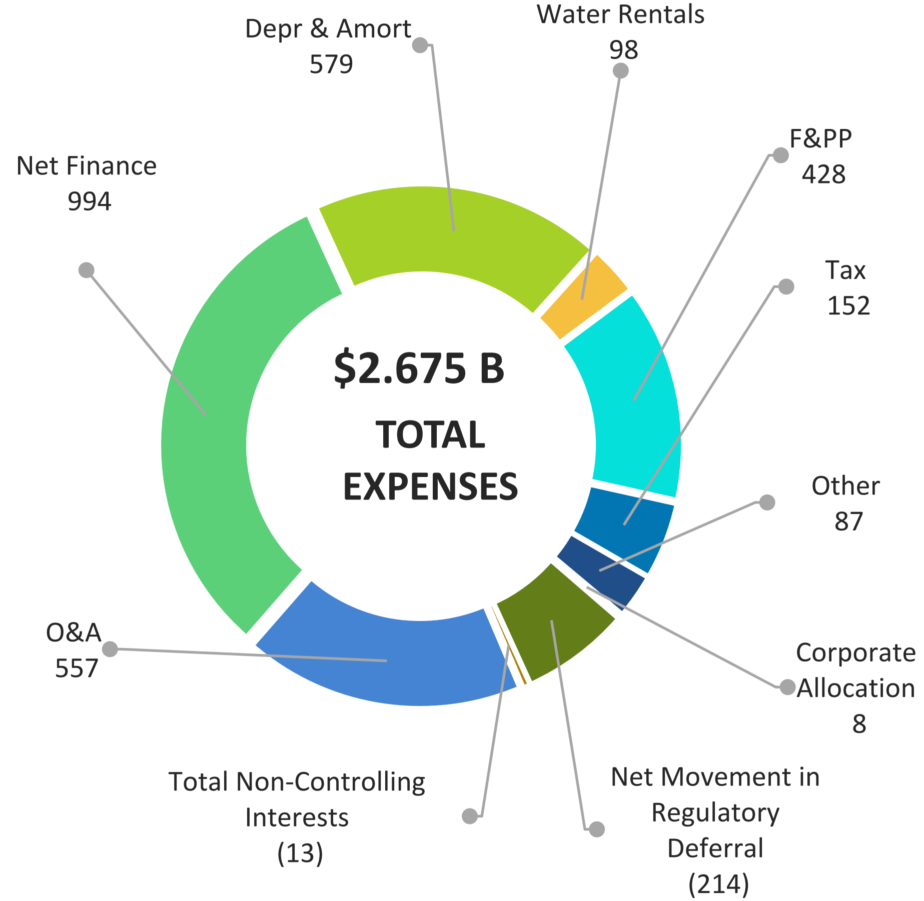


Impacts on 2021/22 Forecast

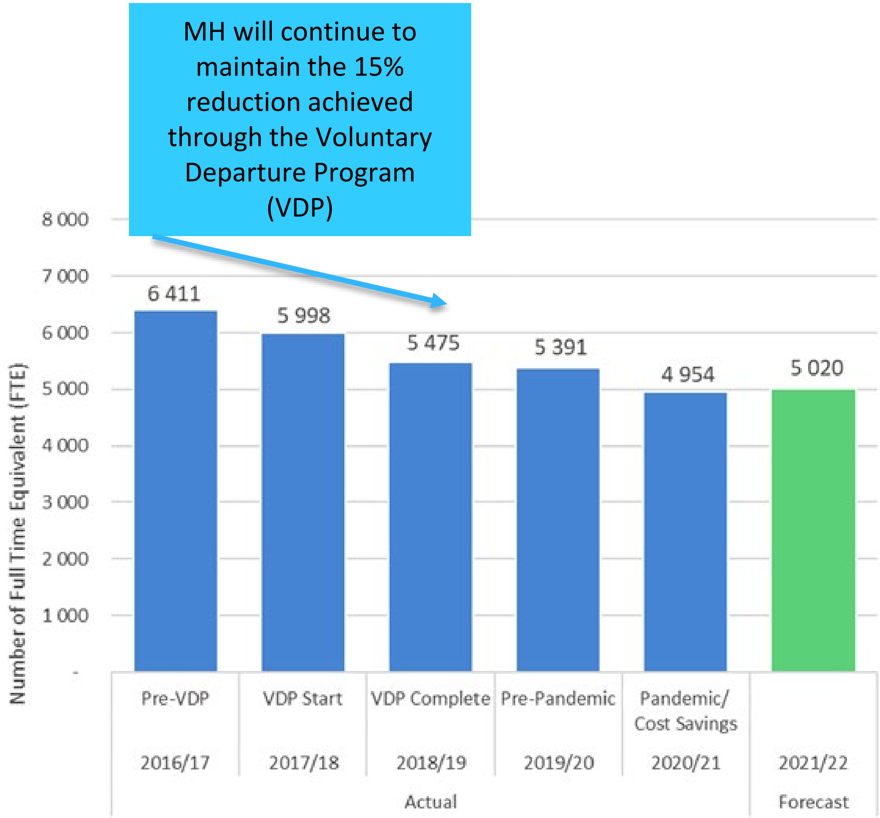
- Manitoba Hydro is projecting a **net loss of $190 million** in 2021/22 Forecast
- Manitoba Hydro will **borrow $348 million to fund core operations** in 2021/22
- Weakening of debt-equity ratio to 87%

2021/22 Forecast Expenses

- Due to the capital-intensive nature of its business, Manitoba Hydro's expenses are largely fixed and include the carrying costs and operating costs on the assets used to serve customers.
    - Net finance Expense (37% of expenses)
    - Depreciation & amortization expense (22% of expenses)
    - O&A expenses required to operate and maintain assets used to serve customers (21% of expenses)
    - Payments to government (16% of expenses)



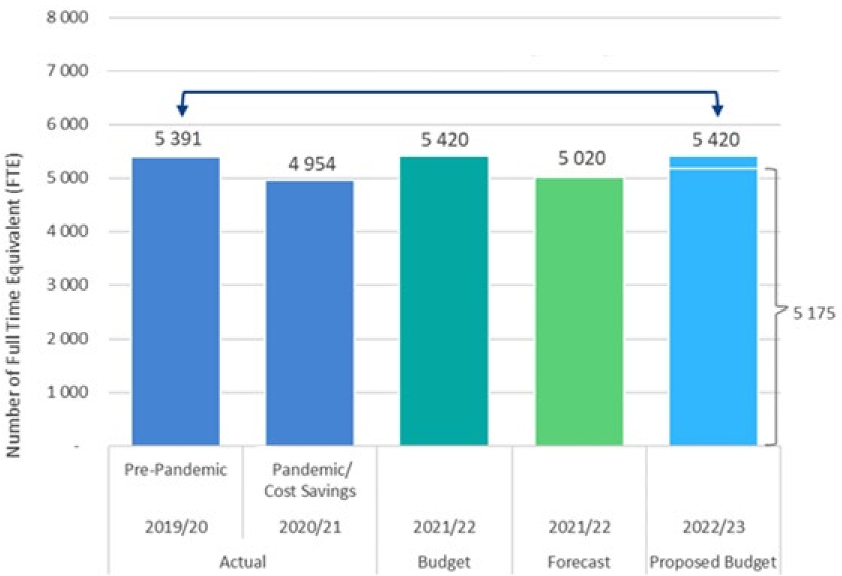
FTEs are at the lowest level in 20 years



FTEs are at the lowest levels seen since before the purchase of Winnipeg Hydro in 2002

Due to the impact of the 2020/21 hiring freeze to support the government cost savings initiative related to COVID-19 as well as high levels of attrition, **FTEs were further reduced**

Returning to Post-VDP FTE Levels



The **level of staffing post-VDP** is the **minimum staffing levels** that will allow Manitoba Hydro to continue to provide safe and reliable service to its customers and minimize the lifecycle costs of its assets

Recognizing that it will take time to build back up to 5420 FTEs, budget dollars have only been included for 5175 FTEs

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Other Factors Impacting O&A

- Shift from resources working on construction activities, to operating and maintenance activities
  - 43% construction activities in 17/18 compared to 33% in 22/23
- Salary increases resulting from the Manitoba Labour Board decision and approval for non-unionized staff
- Inflationary Pressures
- Increased and additional non-salary costs such as:
  - Environmental monitoring upon in-service of Keeyask
  - Zebra mussel treatment
  - Increased motor vehicle costs

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Review of Capital Expenses

- Investment in aging and failing assets is essential to providing safe and reliable energy
- Deferring capital investment increases risks of asset failure and maintenance costs
- 90% of capital spending is on “in-flight” projects and programs making deferral mid-project costly and inefficient

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Need for Rate Relief

"As noted by the Board in Order 59/18, drought risk should be managed through ***retained earnings in combination with regulatory action*** *by the Board."* Order 69/19

Retained Earnings does not resolve the **cashflow deficiency of $348 million** needed to fund core operations

Existing high debt levels – **87% debt funded - .42 cents of every $1** of revenue pays our interest costs

Increasing revenue requirement associated with major capital projects coming into service

Even with the proposed rate increase, retained earnings will **decrease by $190 million or 6%**

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Reasons for the Proposed Increase

- Financial impacts of current drought and major capital projects coming into service require rate relief
- Requested relief of 5% balances the interests of Manitoba Hydro customers with the financial health of the Utility

Conclusion

- Manitoba Hydro continues to believe in the Board's role in setting rates
- Will continue its commitment to be open and transparent
- Will engage with the PUB and stakeholders on the next General Rate Application

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