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September 29, 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: Ministerial Directive to File an Interim Rate Application and Implications for the Status Update Process

On September 9, 2021, the Public Utilities Board of Manitoba (“PUB”) provided additional procedural direction for the Manitoba Hydro Status Update process and provided suggested Minimum Filing Requirements (“MFRs”). Since that time, the Minister of Crown Services issued a ministerial directive that provides specific instruction for Manitoba Hydro to engage with the PUB as to the requirements and parameters for an interim rate application process to address the deleterious financial impacts due to the current drought conditions to ensure the financial health of the corporation.

As an initial and immediate procedural step to fulfill and comply with this directive, Manitoba Hydro requests that the PUB discontinue the Status Update Process and replace it with an expedited public process to review an application by Manitoba Hydro for rate increases in 2021/22 and 2022/23.

Drought Conditions have Persisted, Necessitating the Need for Immediate Financial Relief

As noted in its June 9th submission to the PUB, Manitoba Hydro was experiencing low water conditions. System flows were approximately 80% of average and hydraulic generation was projected to be 5% below budget for 2021/22. At that time, Manitoba Hydro was projecting a reduction in net extra-provincial revenue of \$80 million relative to budget, assuming normal precipitation for the rest of the year, noting that if actual water flows decreased further impacting the financial health of the Corporation, that it would apply for rate relief from the PUB once those circumstances were known.

Drought conditions have continued throughout the summer resulting in well below average inflows and below average reservoir storage levels. Manitoba Hydro continues to face uncertainties related to water conditions, including the amount of precipitation and resulting water supply in the near term, as well as uncertainty related to market prices for energy purchases

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required as a result of low water conditions.

Interim Rate Application for 2021/22 and 2022/23

Pursuant to the ministerial directive, in order to mitigate the significant and deleterious financial impact of the drought to date, Manitoba Hydro will be requesting expedited PUB approval of an interim rate increase for 2021/22. Manitoba Hydro also anticipates seeking a conditional interim rate increase for 2022/23 to safeguard the financial health of the corporation including in the event that drought conditions persist into 2022. Given the uncertainties noted above, Manitoba Hydro is still assessing the financial impacts of the drought and will be in a position to advise of the proposed rate increase and implementation date when it files its application.

In support of these rate requests, Manitoba Hydro will provide its updated 2021/22 Forecast and 2022/23 proposed Budget, as well as information to demonstrate the impact that drought has had on Manitoba Hydro's financial position, including hydraulic generation, water conditions, and energy exchange data to the end of October (response to Directive 5 of Order 43/13). As part of the rate application, Manitoba Hydro intends on providing responses to the PUB's MFRs that were issued as part of the Status Update review process to the greatest extent possible with necessary modification, which in doing so will also serve to respond to certain Intervener MFRs that sought similar or the same information. Furthermore, an overview of the work currently underway to prepare the Corporation for the changing energy landscape will be provided.

The impacts of the drought alone on the current fiscal year will establish a prima facie case justifying the need for immediate rate relief from the PUB. As such, Manitoba Hydro is proposing an expedited review by the PUB and Interveners to determine an interim rate for 2021/22 based on its application materials including responses to the PUB MFRs, which Manitoba Hydro will file soon after receiving the necessary approvals to do so from the MHEB.

To further mitigate the impact that drought conditions will have on Manitoba Hydro's financial position in 2021/22 and to mitigate the risk that the drought could persist beyond the current year, Manitoba Hydro may also request the PUB to consider a rate increase for 2022/23 as part of this process. Aside from the impact caused by drought, rate increases are also required to help address elevated debt levels which pose a risk to the self-sustaining nature of Manitoba Hydro's operations and are required as a result of bringing major capital projects into service and the related costs into Manitoba Hydro's revenue requirement. As part of its application, Manitoba Hydro will provide sufficient information to allow the PUB to approve an interim rate increase for 2022/23; however, such approval could be made conditional upon Manitoba Hydro updating this financial information, including updated responses to the PUB's MFRs if required, prior to the implementation of the proposed rate increase for 2022/23.

Regulatory Planning Considerations

As noted in its July 6th, 2021 correspondence, Manitoba Hydro is in the process of evolving its enterprise planning processes to better prepare for Provincial energy policy and the upcoming changes in the energy landscape and transform the utility so it can respond to these challenges. The global energy sector is being disrupted by trends of digitalization, decarbonization and decentralization, and the pace and breadth of these trends in Manitoba and interconnected

systems is uncertain. Federal and provincial Government policy and interventions have the potential for significant impact, and Manitoba Hydro is supporting the Government of Manitoba in its development of future provincial Energy Policy. These developments will soon have an impact on how Manitoba Hydro plans and does business. To enable Manitoba Hydro to transition to the new landscape, Manitoba Hydro needs to develop and implement plans to address these changes so it can remain relevant to customers and responsive to their needs, now and into the future.

The recent announcement and directive by Government has provided clear instruction for Manitoba Hydro to engage with the PUB to establish a path forward that would allow for required rate increases to be implemented while Manitoba Hydro is undertaking important foundational work that will support a comprehensive General Rate Application. For example, Manitoba Hydro has set out its long-term strategic direction in Strategy 2040, that reflects broad provincial stakeholder consultation and thus is anchored in the best interest of Manitobans. Strategy 2040 will guide foundational strategic initiatives including operationalizing a new business model, disciplined planning/risk frameworks and leveraging operational/digital technology. The development of an Integrated Resource Plan and stakeholder engagement processes will provide additional insights into our customers' evolving energy needs. Collectively, this foundational work will allow Manitoba Hydro to refine the underlying strategic assumptions of Strategy 2040 and shift from single to multi-year enterprise and financial/risk planning that is more informed and comprehensive. Additionally, in May 2021, Manitoba Hydro received a directive from Government to implement the 51 recommendations in the Economic Review of Bipole III and Keeyask report issued February 26, 2021. The implications of this directive will be understood, including cost implications, over the next 12 months.

In order for this important work to continue and be completed to form the foundation of Manitoba Hydro's next comprehensive General Rate Application, it is beneficial for the PUB to consider a rate increase for 2022/23 as part of the current process. As outlined in its July 6th, 2021 correspondence, Manitoba Hydro submits that the most prudent course of action that will provide value to customers and all stakeholders is to work with the PUB and interveners to establish a regulatory timetable that will allow for this important work to be completed and incorporated into a long-term forecast to be provided with the next GRA, which the Corporation anticipates being in a position to file in calendar 2023.

In accordance with the directive from Crown Services, Manitoba Hydro looks forward to engaging with the PUB and interveners further to establish the process for the review of its current application, as well as the timing and parameters for its next General Rate Application.

Comments on Applications for Intervener Status and Budgets

Coalition, MIPUG, AMC and MKO have requested intervener status for the Status Update proceeding. Coalition and MIPUG have provided preliminary budgets for that process, and AMC and MKO have advised that they intend to seek costs, but will submit budgets after the scope of this proceeding has been established by the PUB.

While Manitoba Hydro has requested that the Status Update process be discontinued, it supports the engagement of the identified interveners as part of the proposed rate application process.

Manitoba Hydro will reserve commenting upon all intervener budgets until the PUB establishes the scope and process of this proceeding and trusts that the interveners will provide budgets that are reflective of the scope and an efficient process.

Establishing Additional Process Steps

As noted above, considering the Crown Services directive to Manitoba Hydro to submit an interim rate application with the PUB, Manitoba Hydro is proposing that the current Status Update process be discontinued by the PUB and replaced with a review of a rate application for 2021/22 & 2022/23 including responses to the PUB's MFRs for the Status Update process to further support Manitoba Hydro's rate application. If this approach is accepted by the PUB, Manitoba Hydro submits that it would be reasonable for the PUB to establish the next steps in this process once the PUB has Manitoba Hydro's application in hand.

Manitoba Hydro fully supports the Board's intentions for a cost effective and value added process as noted in its September 9th, 2021 letter and consistent with the ministerial directive from Government, looks forward to working together with the PUB on setting forth additional steps to achieve a workable and practical procedural timetable given the current circumstances of Manitoba Hydro.

Manitoba Hydro looks forward to receiving a decision from the PUB as soon as is reasonably practical on this request.

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

Yours truly,

MANITOBA HYDRO LEGAL SERVICES DIVISION

Per:



BRENT A. CZARNECKI
Barrister & Solicitor