

REFERENCE:

Application, page 44 of 51.

PREAMBLE TO IR (IF ANY):

Current rates for Diesel Residential customers are 9.6% lower than rates of all other residential customers. In Order 100/20, the PUB found that “the Diesel Zone Residential rate should be maintained at the approved August 1, 2017 Residential rate pending the Board’s review of a Diesel Zone-specific rate application and Diesel Zone Cost of Service Study filed by Manitoba Hydro.” While a Diesel Zone Cost of Service Study has not yet been filed, Manitoba Hydro is proposing to limit further divergence between the Diesel Residential and grid Residential rates given the much higher cost to serve customers within the diesel zone.

QUESTION:

Please provide the cost to Manitoba Hydro of keeping the current rates for Diesel Residential customers at their current level given a full Cost of Service Study has not been filed?

RESPONSE:

On an annualized basis, and assuming the resulting shortfall was not to be recovered from another customer class, foregoing the proposed rate increase to the Diesel Residential class would cost Manitoba Hydro approximately \$42,000.

REFERENCE:

Application, page 24 of 51, figure 11, and page 24 of 51, line 13-22.

PREAMBLE TO IR (IF ANY):

Figure 11: Financial Metrics 2021/22 Forecast Compared to the 2021/22 Budget

Electric Segment	2021/22 Forecast	2021/22 Budget	Change
Proposed Rate Increase	5.0%	3.5%	1.5%
Net Income/(Loss)	(\$190)	\$177	(\$366)
Net Export Revenue	\$111	\$509	(\$398)
Cash Surplus/(Deficiency) to Fund Core Business Operations	(\$348)	\$62	(\$410)
EBITDA Interest Coverage Ratio	1.36	1.68	(0.32)
Interest Paid as a % of Total Revenue	42%	40%	2%
Debt Ratio	87%	86%	1%

The 2021/22 Forecast, which incorporates actual water conditions to October 20, 2021 and assumes a 5.0% rate increase effective January 1, 2022, projects net extraprovincial revenue of \$111 million, a (\$190) million net loss, and \$348 million of additional borrowings to fund core business activities. This is resulting in a 1% deterioration of the debt ratio to 87%, an EBITDA interest coverage ratio of 1.36 (from 1.68) and interest paid as a percentage of total revenue increases to 42% (from 40%). Even with a 5% rate increase, Manitoba Hydro must borrow approximately 90% of the projected \$398 million in lost extraprovincial revenue/increased fuel and power purchases resulting from the current drought.

Manitoba Hydro suggests that the loss in net extraprovincial revenue is all a result of the drought.

QUESTION:

- a) Please confirm that Manitoba Hydro is calculating the cost of the drought as the loss in net export revenue relative to the forecast, or as \$398 million.

- b) Please confirm that export revenue is the combination of both export prices and export volumes. If confirmed, please qualitatively explain the proportion of the reduction in net export revenues related to export prices compared to export volumes
- c) Please explain how the drought impacted export prices, and not only export volumes.

RESPONSE:

- a) Confirmed.
- b) As shown in Figure 9 of the Manitoba Hydro's Application, the 2021/22 Forecast of total extra-provincial revenues are projected to be \$168 million lower than the 2021/22 Budget, opportunity import purchases are expected to be \$262 million higher than the budget and total water rentals & assessments are expected to be \$32 million lower than budget due to lower expected hydraulic generation as a result of the drought. Approximately 90% of the export revenue reduction is due to lower export volumes and approximately 50% of the increase to opportunity import purchases are due to higher import volumes. 100% of the reduction to water rentals & assessments is due to lower hydraulic generation.
- c) While it is conceivable that Manitoba Hydro's drought operations would have some effect on supply and demand balances within the MISO footprint due to less exports and more imports coming from Manitoba Hydro, the vast size of the MISO footprint compared to this effect makes fully understanding this impact extremely difficult. As described on pages 14 and 15 of Manitoba Hydro's Application, there are numerous factors contributing to the current volatility in energy market prices, including rising natural gas prices both globally and within the MISO region. Furthermore, MISO has hundreds of market participants, all independently participating in the MISO market at the same time contributing to the determination of export market prices so isolating specific impacts to any one market participant is very difficult.

REFERENCE:

Application, page 13 of 51.

PREAMBLE TO IR (IF ANY):

As a result of the decrease in hydraulic generation, estimated net imports have increased by 4.4 TWh in the 2021/22 Forecast to 5.6 TWh (from 1.2 TWh in the 2021/22 Budget), shown in Figure 4 below.

QUESTION:

Will the 5.6 TWh of imports be done on a firm basis or at market prices?

RESPONSE:

A portion of the forecast imports will be at short term market prices. Appendix 2 of Manitoba Hydro's Application, which has been filed in confidence with the PUB only, provides the percentage of projected imports hedged as of October 17, 2021. As explained on page 16 of the Application, Manitoba Hydro has substantially hedged its projected imports for the November 2021 to March 2022 timeframe thereby mitigating a large portion of the price risk associated with import requirements.

REFERENCE:

Application, page 6 of 51.

PREAMBLE TO IR (IF ANY):

Manitoba Hydro's 2021/22 Forecast projects the requirement for higher energy imports/purchases in order to serve demand, at a time when energy market prices are rising. As discussed in Section 2.2, Manitoba Hydro has taken steps to mitigate this price risk, but uncertainty related to energy market prices still remains.

QUESTION:

- a) Are the level of imports/purchases based on normal winter temperatures or extreme cold? Please provide a cost estimate of imports/purchases based on a range of temperature and load forecasts.
- b) Would Manitoba Hydro be willing to accept a deferral account for imports/purchases so that customers do not overpay for over procurement? If not, please explain why.

RESPONSE:

- a) The level of imports/purchases for the October through March period of the 2021/22 Forecast assume normal winter weather conditions. However, Manitoba Hydro does consider above normal winter load conditions, as well as the potential for periods of severe cold weather driven loads, for operations planning purposes.

A colder than normal winter resulting in a 90th percentile weather impact on Manitoba energy demand is estimated to result in a \$41 million reduction to net extraprovincial revenue. However, this would be partially offset by an estimated \$35 million increase in domestic revenues associated with the increased domestic demand.

- b) The fixed price arrangements that Manitoba Hydro has entered into to hedge against increased energy market prices, as described in Manitoba Hydro's application, are financial hedges and not a forward purchase of physical energy. The physical energy

imports/purchases made by Manitoba Hydro will be made on either a day ahead or real time basis and will be based on actual requirements. Therefore, Manitoba Hydro will not be over-procuring its imports/purchases.

The hedges Manitoba Hydro has entered are to mitigate the future price risk associated with these imports/purchases. In the unlikely event where Manitoba Hydro no longer required these financial hedges, these positions can be sold back to the export marketplace multiple ways to give Manitoba Hydro future optionality and flexibility if such an instance was to occur. Please also see the response to PUB/MH I-4.

REFERENCE:

Application, page 36 of 51, line 19 to page 37 of 51, line 2

PREAMBLE TO IR (IF ANY):

In Order 69/19, the PUB approved a 2.5% rate increase effective June 1, 2019 and directed all revenues from this increase to be placed in a Major Capital Projects Deferral account to help mitigate rate increases when the new major projects are placed in-service. As several major capital projects have entered service since this deferral account was established (i.e. MMTP, Birtle, GNTL & 5 units of Keeyask), Manitoba Hydro is proposing to amortize the balance in the Major Capital Projects Deferral, expected to be approximately \$100 million as of December 31, 2021, over a 24-month period commencing on January 1, 2022. The proposed 24-month amortization period is a similar timeframe over which the revenues in this account were collected from customers

QUESTION:

- a) Please confirm that the rate increase associated with the major capital projects deferral account is not included in the 5%.
- b) Please provide the bill impacts of only this deferral account separate from the bill impacts of other requested rate increase as a part of this application.
- c) Please provide the bill impacts of only this deferral account of the collection was smoothed over 36-months instead of 24-months.
- d) Please justify the decision to collect this \$100m deferral account over only two years as opposed to a longer period of time.

RESPONSE:

Response to a) through d):

Not confirmed. There is no rate increase associated with the proposed disposition of the Major Capital Projects Deferral. The Major Capital Projects Deferral represents amounts previously collected from customers from the rate increase of 2.5% approved by the PUB

effective June 1, 2019 and set aside in a deferral account to help mitigate the depreciation and finance expenses when the Keeyask Generating Station and other major capital projects are placed in-service. In this Application, Manitoba Hydro is seeking approval to dispose of this deferral account balance by recognizing these amounts in revenues over a period of 24 months. The proposed disposition of the balance serves to reduce Manitoba Hydro's revenue requirement, and as such does not represent a rate increase. This is demonstrated in Figure 18 of the Application, which shows that with the proposed disposition of the Major Capital Projects Deferral and previously PUB-approved disposition of the Bipole III Deferral, the revenue requirement impact associated with the Major Capital Projects is reduced from \$708 million in 2021/22 to \$619 million.

The proposed amortization period of 24 months is a similar timeframe over which the revenues in this account were collected from customers. Lengthening the amortization period to 36 months would result in less revenue being recognized over this period resulting in greater losses than currently projected in 2021/22 (approximately \$4 million) and lower projected net income in 2022/23 (approximately \$16 million), at a time when Manitoba Hydro's revenue requirement is increasing as major projects are placed in service. As a result, Manitoba Hydro does not believe lengthening the amortization period is in the best interest of customers.

Consistent with the treatment of the Bipole III Deferral Account, Manitoba Hydro would cease funding the Major Capital Project Deferral effective December 31, 2021, and the revenues from the 2.5% increase effective June 1, 2019 previously deferred will flow to Manitoba Hydro's general revenues.

Please also see Manitoba Hydro's response to PUB/MH I-6.