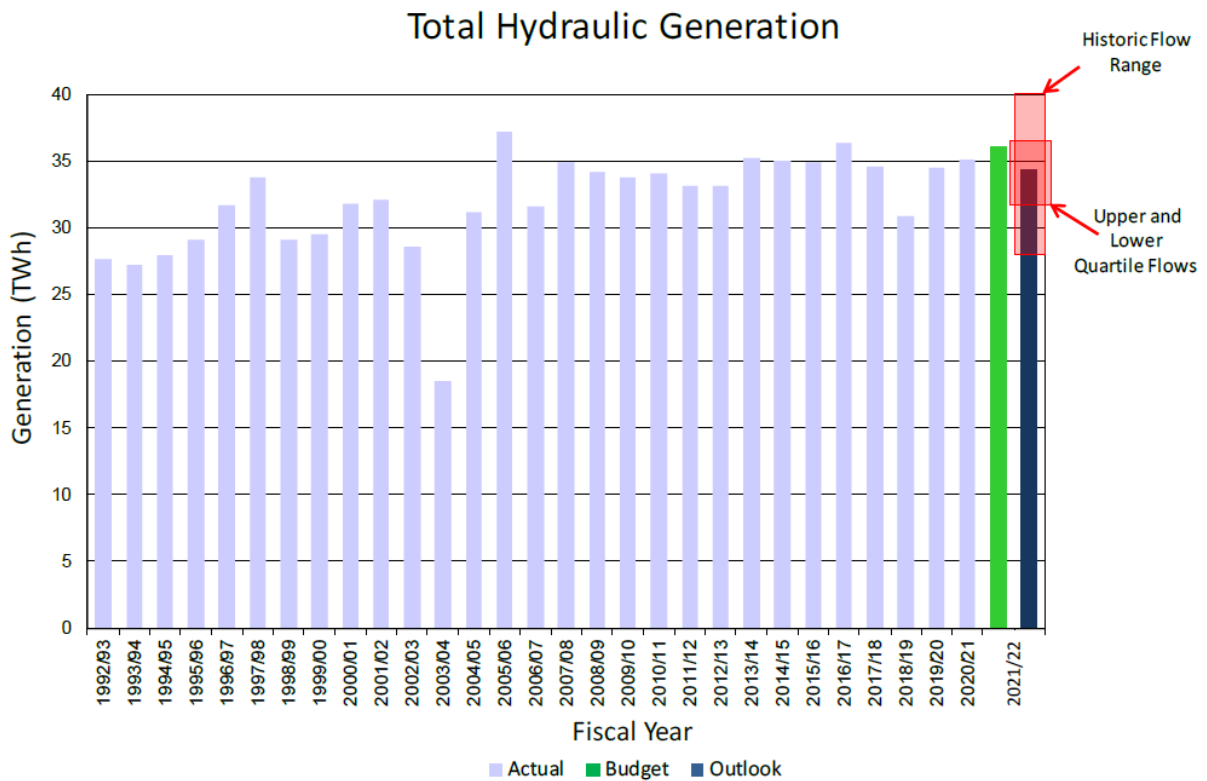


REFERENCE:

Application p.20; PUB MFR 17; Response to Order 53/21 Appendix 4 Figure 4

PREAMBLE TO IR (IF ANY):

In Manitoba Hydro’s response to Order 53/21, Appendix 4 Figure 4 shows the projected hydraulic generation based on the minimum historic flow range as approximately 28 TWh.



QUESTION:

Please explain why the updated forecast for hydraulic generation in Figure 10 (and in MFR 17) shows total hydraulic generation for 2021/22 of approximately 26.5 TWh, which is about 1.5 TWh lower than the what Manitoba Hydro said was possible within the historic flow range.

RESPONSE:

The range of total hydraulic generation provided in Manitoba Hydro's June 9, 2021 response to Order 53/21 was based on simulations prepared in May 2021. These simulations were based on actual inflows through mid-May 2021 that could transition to any one of a range of future flow scenarios based on the recent 40 years of hydrologic record.

The 2021/22 Forecast hydraulic generation of approximately 26.4 TWh, which is approximately 1.6 TWh below the minimum projected in May 2021 of approximately 28.0 TWh, is primarily due to sustained lower actual inflows through summer and operations to protect a higher spring 2022 reservoir storage target required for energy reliability, as explained below.

System precipitation from May through August was record low based on 40 years of historic precipitation data. As a result, the actual inflows from May to October were below the lowest of the 40 scenarios used in the simulations described above. Precipitation in September and October improved somewhat, and inflows projected for the balance of the fiscal year are above the lowest of the 40-year record. Despite this modest improvement, the combination of actual inflows from May through October and projected inflows for the remainder of the year are lower than the lowest of the 40 scenarios used in simulations prepared in May 2021.

A higher minimum spring 2022 reservoir storage target is required to ensure minimum flows can be maintained through 2022/23, in the event severe drought conditions continue next year. Detailed simulations of winter operations identified the minimum Nelson River flow needed to reliably supply firm demand during a cold spell period.

REFERENCE:

Application pp.20-21

PREAMBLE TO IR (IF ANY):

At Application page 20, Manitoba Hydro states: “There exists some correlation of system inflows from one year to the next. In general, the likelihood that a year with well above average inflows will be followed by year with above average inflows is greater than the chance it would be followed by a year of below average inflows. Conversely, there is a greater likelihood that a year with well below average inflow will be followed by a year with below average inflow.”

At Application page 21, Manitoba Hydro states: “The 2022/23 Preliminary Plan is prepared based on the opening storage conditions projected for April 1, 2022, which are determined based on a narrow range of flow conditions for the remainder of 2021/22, and assumes there is an equal probability of transitioning to any one of 40 historic inflow years in 2022/23.”

QUESTION:

Please reconcile the two statements in the preamble: the first suggests that the well-below average inflows in the current year make it more likely that the inflows the following year will be below average, while the second states that there is an equal probability of each of the 40 flow cases occurring in the following year.

RESPONSE:

Although there is some correlation of system inflows from one year to the next year, it is difficult, if not impossible, to predict and adjust the range of inflow conditions that may occur in 2022/23 with any certainty to account for basin conditions as at October 2021.

The strength of correlation between current inflow conditions decreases further into the future (i.e. short-term inflows are more correlated to current conditions than long range

future inflows). Total hydroelectric generation is largely dependent on long-range future precipitation which cannot be forecasted reliably over the period that will impact 2022/23 inflows due practical limitations of seasonal or multi-seasonal weather forecast ability for the Manitoba Hydro watershed. Therefore, the 2022/23 Preliminary Plan reasonably accounts for starting storage conditions, which are impacted by current drought flows, and assumes inflows experienced over the recent 40 years are equally likely to occur.

Manitoba Hydro will continue to monitor basin conditions through winter and will evaluate spring runoff potential. Depending on how conditions develop this winter, Manitoba Hydro may be able to narrow the range of inflows used for planning its operations into early 2022/23.

REFERENCE:

PUB MFR 18

PREAMBLE TO IR (IF ANY):**QUESTION:**

Recalculate the Net Extra-provincial Revenue [NER] and Net Income for 2022/23 using the full 100+ year flow record, consistent with the methodology used in the 2019/20 GRA and response to PUB/MH I-29. Provide the NER and Net Incomes in tabular form as well as overlay the recalculated NER and Net Incomes on the graph provided in response to PUB MFR 18, highlighting the average NER for each methodology.

RESPONSE:

The net extraprovincial revenue and net income for 2022/23 using the 108-year long-term flow data (“LTFD”) is provided in the table below. The results between the P25 and P75 values have been denoted in grey in the table below.

While the LTFD increases the low-end net extraprovincial revenue risk by \$184 million and increases the high-end by \$43 million compared to the most recent 40-year flow record, the average (arithmetic mean) of the 108 flow conditions results in net extraprovincial revenue of \$643 million (\$18 million higher than the 2022/23 Preliminary Plan of \$625 million) and a net income of \$219 million (\$19 million higher than the 2022/23 Preliminary Plan of \$200 million).

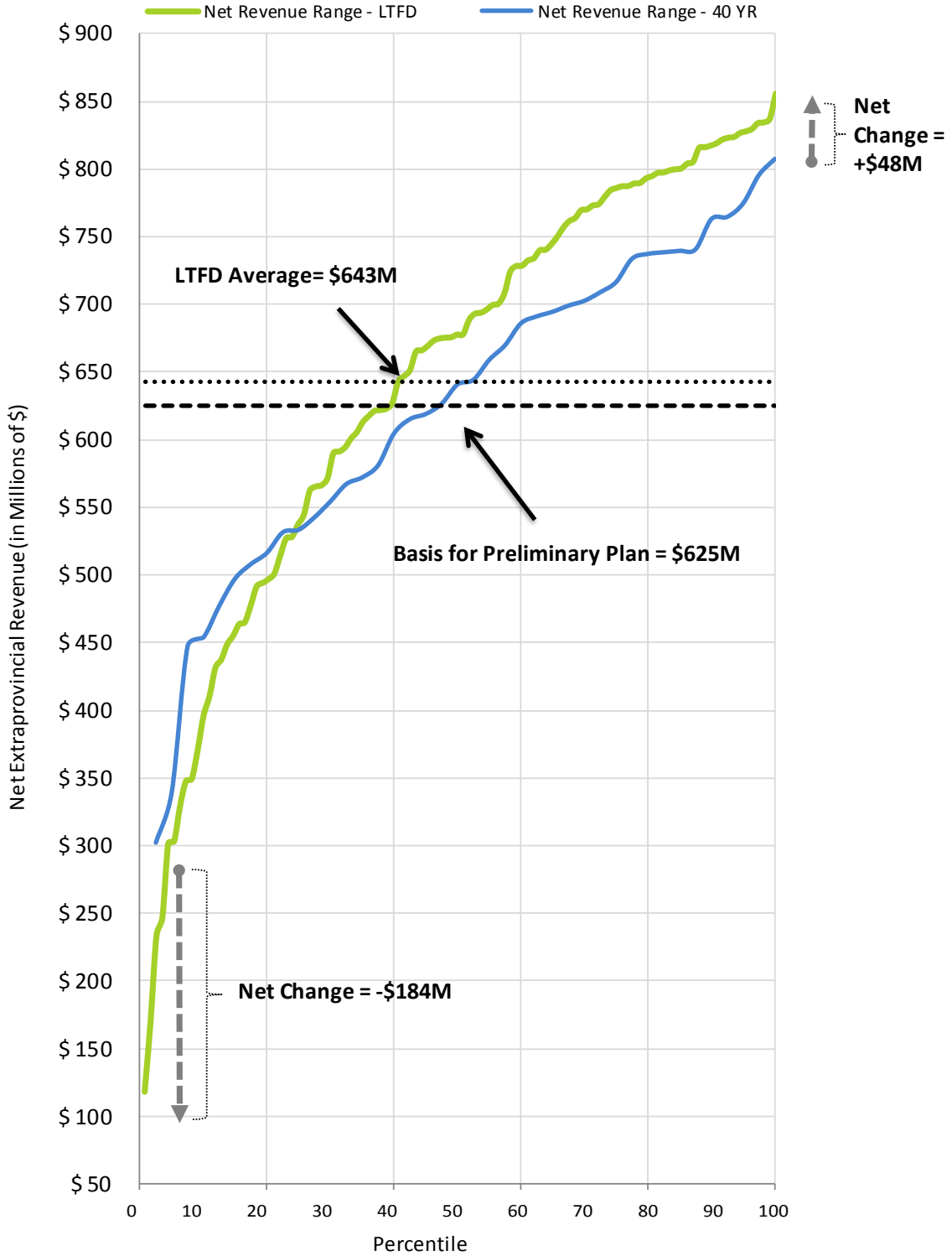
Please see the response to COALITION/MH I-1c) and d) for Manitoba Hydro’s rationale underlying the change from using a historical record of 100+ years of water flows to the most recent 40 years of historic flows for establishing the average net extraprovincial revenue forecast for financial budgeting purposes.

RANGE OF NET EXTRAPROVINCIAL REVENUE & NET INCOME FOR 2022/23
LONG-TERM FLOW DATA

#	NET EXTRAPROVINCIAL REVENUE	NET INCOME
1	117.8	(311.1)
2	169.6	(259.2)
3	232.9	(194.9)
4	246.4	(180.3)
5	301.1	(125.5)
6	302.8	(123.5)
7	328.8	(97.5)
8	347.2	(79.0)
9	349.1	(77.2)
10	370.5	(55.7)
11	395.8	(30.3)
12	410.1	(16.1)
13	431.1	4.9
14	437.1	10.9
15	448.4	22.3
16	454.6	28.5
17	463.1	37.0
18	464.8	39.7
19	477.2	51.2
20	491.1	66.1
21	493.7	68.7
22	496.5	71.5
23	500.6	75.6
24	514.1	89.1
25	526.6	101.7
26	527.7	102.8
27	536.8	111.9
28	544.1	119.2
29	561.9	137.1
30	564.9	140.0
31	565.9	141.0
32	570.9	146.1
33	589.5	164.7
34	590.7	165.9
35	593.9	169.0
36	600.4	176.6
37	605.2	180.4
38	612.5	187.7
39	617.0	193.2
40	620.8	197.0
41	621.4	197.6
42	622.5	198.7
43	626.6	202.8
44	642.5	218.7
AVG	643.1	219.3
45	646.5	222.7
46	651.0	227.2
47	664.6	240.9
48	665.5	241.7
49	668.7	245.0
50	672.7	249.0
51	674.3	250.6
52	674.8	251.2
53	675.2	251.6
54	677.2	253.5

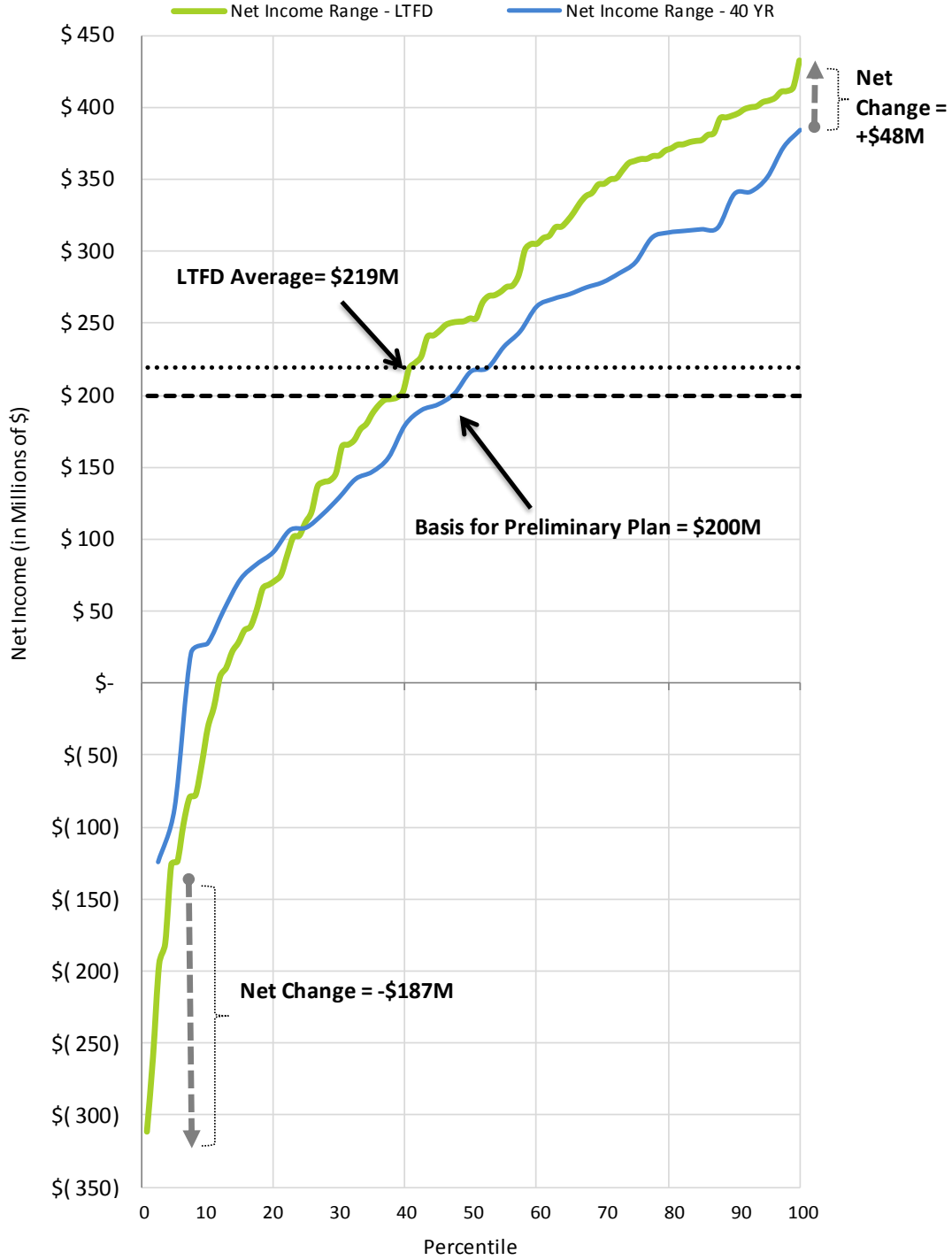
#	NET EXTRAPROVINCIAL REVENUE	NET INCOME
55	677.3	253.7
56	687.9	264.3
57	692.5	268.9
58	693.2	269.6
59	695.6	272.0
60	699.0	275.4
61	700.1	276.5
62	707.6	284.0
63	723.8	301.2
64	727.8	305.2
65	728.0	305.4
66	731.9	309.3
67	733.5	311.0
68	739.4	316.8
69	739.8	317.3
70	744.1	321.5
71	749.6	327.1
72	756.2	333.7
73	761.0	338.5
74	763.3	340.7
75	769.0	346.4
76	769.6	347.1
77	772.6	350.1
78	773.5	351.0
79	778.9	356.4
80	783.8	361.3
81	785.4	362.9
82	786.7	364.2
83	786.9	364.4
84	788.8	366.3
85	789.1	366.6
86	792.5	370.0
87	794.1	371.6
88	796.6	374.1
89	796.9	374.4
90	798.4	375.9
91	799.3	376.7
92	799.9	377.4
93	803.5	381.0
94	804.8	382.3
95	815.0	392.5
96	815.5	393.0
97	816.8	394.4
98	818.5	396.0
99	821.3	398.8
100	822.6	400.1
101	823.3	400.8
102	826.2	403.7
103	827.3	404.8
104	829.1	406.6
105	833.4	410.9
106	833.9	411.4
107	836.5	414.0
108	855.1	432.6

2022/23 Range of Net Extraprovincial Revenues
108 Year Long Term Flow Record vs 40 Year Flow Record



2022/23 Range of Net Income

108 Year Long Term Flow Record vs 40 Year Flow Record



REFERENCE:

Application p.16; Appendix 2

PREAMBLE TO IR (IF ANY):

Manitoba Hydro states: “Hedging involves Manitoba Hydro entering into fixed price purchase arrangements to reduce the price risk for its future projected import requirements. These fixed price arrangements allow Manitoba Hydro to ‘hedge’ against the risk of increased energy market prices. Manitoba Hydro has substantially hedged its projected imports for the November 2021 to March 2022 timeframe, as well as entered into arrangements for fixed price firm delivered natural gas supply for energy generation purposes.”

QUESTION:

Please explain how Manitoba Hydro determined the level of hedged volumes by month and explain whether Manitoba Hydro hedged electricity volumes that could potentially exceed its required imports, for example in the event of a warm winter. Explain how Manitoba Hydro is protected from a situation where its financial hedges are not backed by physical import purchases and discuss the potential financial implications of such a situation.

RESPONSE:

Manitoba Hydro simulated operations for 2021/22 based on a range of potential future water supply conditions. As explained on page 18 of the Application, in summer 2021 forecasting considered that flows could transition to any one of 40 potential inflow scenarios by the end of the fiscal year based on historic transition statistics. As the rain season came to a close, Manitoba Hydro assumed a progressively narrower range of potential flow conditions. Accordingly, the range of projected hydroelectric generation also narrowed, as shown in Figure 10 of the Application.

For each flow scenario used in its simulations, Manitoba Hydro determined the net volume of variable-priced (i.e. price risk exposed) volume of import or export activity, by month and

by period (i.e. on or off peak). This evaluation created a distribution of net variable-priced volumes for use in hedging decisions.

Manitoba Hydro employed a balanced approach throughout its hedging activity that would greatly reduce the likelihood of purchasing financial hedges that would not be supported by physical import purchases. Manitoba Hydro's hedging strategy has been continuously updated and reviewed as both water supply and export market conditions have evolved. Manitoba Hydro's balanced hedging strategy has taken into consideration potential future variability to forecasted hydraulic conditions, identified periods where market price volatility and import requirement may be higher, and assessed and pursued hedging options for both electricity and natural gas to diversify our hedging portfolio. With all this taken into consideration, in the unlikely event that actual conditions did deviate to a point where Manitoba Hydro no longer required any purchased financial hedges, these positions can be sold back to the export marketplace through multiple ways to still give Manitoba Hydro future optionality and flexibility if such an instance was to occur.

REFERENCE:

Application Section 4.0; PUB MFR 3

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Include in the response Manitoba Hydro's Q1 & Q2 O&A Reports that it planned to file with the PUB so it is on the public record.
- b) Provide comparative breakdown of O&A by quarter for BOTH 2020/21 AND 2021/22 at the same level of detail included in the quarterly O&A Reports – recognizing Manitoba Hydro does not have O&A details by cost element, business unit, or by quarter available for 2022/23.
- c) Provide additional narrative as to why Manitoba Hydro has forecast O&A in the 2022/23 Preliminary Plan (shown in PUB MFR #3) increasing to \$595 Million from the \$534 Million Actual in 2020/21 and \$557 Million forecast for 2021/22.

RESPONSE:

- a) Please see the attachment to this response.

b) Please see the following schedule that provides a comparative breakdown of O&A by quarter for both actual results and budget for 2020/21 as well as budget by quarter for 2021/22 at the same level of detail included in the quarterly O&A reports provided to the Public Utilities Board.

	2020-21 Actual				2020-21 Budget				2021-22 Budget			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	<i>thousands of \$</i>				<i>thousands of \$</i>				<i>thousands of \$</i>			
Employee Related Expenditures												
Wages & salaries	\$112 261	\$109 327	\$107 812	\$111 408	\$116 702	\$119 157	\$117 878	\$115 429	\$107 547	\$110 259	\$114 091	\$114 468
Overtime	14 997	15 485	13 641	14 300	18 284	17 476	15 913	16 755	14 956	15 333	15 866	15 919
Employee benefits	38 032	36 428	33 096	68 565	42 121	36 259	32 967	42 718	35 689	36 588	37 860	37 985
Other	14 312	14 633	15 439	14 113	17 770	17 399	17 372	18 007	16 770	17 193	17 790	17 849
Total Employee Related Expenditures	179 602	175 873	169 988	208 386	194 877	190 291	184 130	192 909	174 963	179 373	185 608	186 222
Less: Capitalized labour and overhead	(67 285)	(62 255)	(62 313)	(75 668)	(76 072)	(74 189)	(74 580)	(73 573)	(62 734)	(64 315)	(66 551)	(66 771)
Operational Employee Related Expenditures	112 317	113 618	107 675	132 718	118 805	116 102	109 550	119 336	112 229	115 058	119 058	119 451
External services and materials	30 144	31 675	32 436	38 166	34 427	36 193	34 782	36 552	38 187	39 150	40 510	40 644
Donations, sponsorships & grants	347	155	214	346	550	480	480	481	366	375	388	389
Uncollectible accounts	1 008	2 034	1 515	2 916	1 066	1 066	1 066	1 066	1 755	1 799	1 861	1 867
Other	(40)	138	(20)	584	(1 033)	(1 029)	(1 034)	(1 032)	(257)	(264)	(273)	(274)
Cost recoveries	(1 978)	(2 968)	(3 013)	(4 259)	(3 483)	(3 485)	(3 483)	(3 498)	(3 378)	(3 463)	(3 583)	(3 595)
O&A charged to gas operations	(14 302)	(14 368)	(15 513)	(17 632)	(15 267)	(15 890)	(15 870)	(15 448)	(15 419)	(15 251)	(15 842)	(14 489)
Operating & Administrative Expenses	\$127 496	\$130 284	\$123 294	\$152 839	\$135 065	\$133 437	\$125 491	\$137 457	\$133 482	\$137 404	\$142 119	\$143 994

- c) The increases in the 2022/23 Preliminary Plan from 2020/21 actuals and the 2021/22 Forecast are a result of:
- Higher wages and salaries, due to:
 - the need to increase Full Time Equivalents (“FTE”) – additional narrative is outlined below; and
 - approved salary increases – in August 2021, the Manitoba Labour Board ordered General Wage Increases (“GWI”) for IBEW employees retroactive to January 1, 2019 as well as a one-time special payment to a majority of IBEW employees. Additionally, in October 2021, Manitoba Hydro approved a GWI for all Corporate Exempt staff, effective January 1, 2021.
 - Increased non-salary costs, including environmental monitoring required at Keeyask upon it being placed in-service, treatment of zebra mussels at generating stations, motor vehicle costs including fuel and travel related to customer work with the return to normal operations. These costs are necessary to operate and maintain the electrical system.
 - Increased O&A costs due to a decrease in construction activities. With the winding down of the major capital projects, there is a shift from resources working on construction activities, focused on large hydro-electric and transmission line development, to operating activities. This results in higher O&A costs. Many of the staff involved in the major capital projects were terminated following completion; however, for those staff remaining with Manitoba Hydro, there has been a shift to operating and maintenance activities. During Manitoba Hydro’s peak construction period (2016/17 and 2017/18) Manitoba Hydro’s workforce was deployed 43% to construction activities. As these major projects are completed, the level of deployment to capital construction work was 37% in 2020/21 and is expected to decrease to 33% in the 2022/23 Preliminary Plan.

Increase to FTEs

From 2016/17 through to 2020/21, Manitoba Hydro saw a decrease in FTEs of almost 23%. A large component of this decrease was a result of the Voluntary Departure Program (VDP) which started in 2017. The VDP resulted in a 15% decrease in FTEs, which Manitoba Hydro is committed to maintain.

Further, in 2020/21, Manitoba Hydro was required to contribute to the government cost savings initiative in response to the pandemic. This resulted in O&A cost savings in 2020/21 of approximately \$54 million which was achieved through workforce reductions (approximately \$19 million - net of capitalization) and non-salary operating reductions (approximately \$35 million).

The cost savings associated with the workforce reduction was achieved through a freeze on external hiring and stringent vacancy management, the suspension of the summer student program, as well as a requirement for almost all employees to take three days of unpaid leave. These actions were put in place to avoid cost reductions through the implementation of wide-spread staff layoffs.

The freeze on external hiring also delayed regular recruitment into the trades and technical trainee programs. As it takes multiple years for trainees to become fully trained, regular recruitment is necessary to ensure that a qualified pool of candidates is available to fill vacant trade and technical positions that support Manitoba Hydro's critical electrical and gas operations and maintenance requirements.

In calendar year 2020, Manitoba Hydro also saw an increased number of retirements that far exceeded the levels typically seen (with the exception of the VDP). While retirement take-up among Manitoba Hydro employees is normally quite stable from year to year, at an average rate of approximately 20% of eligible employees, in 2020 there was a take-up of 30%. This was in part due to changes in legislation that would have impacted Manitoba Hydro pension values, as well as the impacts of the global pandemic.

As a result, FTEs in 2020/21 were at their lowest levels since before the purchase of Winnipeg Hydro in 2002.

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. As Manitoba Hydro's assets are ageing, without proper maintenance and investment, there is greater risk which could impact

reliability, compliance, the environment and the safety of the public and our employees.

In 2021, Manitoba Hydro developed an external hiring plan to address the low level of FTEs. Manitoba Hydro is currently preparing detailed O&A budgets for 2022/23 and will have additional information to provide at a future General Rate Application. It should be noted that while the 2022/23 Preliminary Plan reflects 5420 FTEs, only 5175 FTEs have been budgeted. As planning continues, the remaining FTEs will be incorporated in future budget years.

RESPONSE TO DIRECTIVE #14 – BOARD ORDER 73/15

For the First Quarter of 2021/22

14. *Manitoba Hydro shall file quarterly updates regarding its Operation, Maintenance & Administration (OM&A) expenditures and the actual OM&A expenditures compared to Manitoba Hydro's target.*

Manitoba Hydro's Operating & Administrative (O&A) expenses for Electric Operations for the first quarter of 2021/22 was \$132.7 million, compared to a budget of \$133.5 million. The 0.6% favourable variance was partially related to under expenditures on external services and materials costs, due to the impacts of the rotating IBEW strike on planned maintenance work, and consulting costs, as a result of timing delays. There were also decreased employee related expenditures as staffing levels were reduced with a higher than anticipated volume of retirements, the external hiring freeze to support the government savings initiative in 2020/21 and the salary impacts of the rotating IBEW strike. The under expenditures were partially offset by a reduction in labour hours charged to capital projects (and therefore an increase to operating expense) as the reduced workforce and the IBEW strike resulted in fewer resources available for capital work.

When compared to the same period in the prior year, O&A expenditures were higher by \$5.2 million or 4.1%. The increase was primarily related to a reduction in internal labour hours charged to capital work due to the winding down of major capital projects, fewer resources available for capital work due to a reduced workforce and also the IBEW strike. Additionally, the increase in O&A was due to higher external services and materials costs, such as insurance premiums, costs as a result of the IBEW strike and overall increases following the completion of the government savings initiative in 2020/21. This was partially offset by lower employee related expenditures as a result of the external hiring freeze related to the government savings initiative in 2020/21.

A summary of Manitoba Hydro's actual O&A expenditures by cost element with a comparison to the 2020/21 first quarter expenditures has been provided in the following table.

ELECTRIC OPERATIONS
OPERATING & ADMINISTRATIVE COSTS BY COST ELEMENT
FOR THE QUARTER ENDED JUNE 30
(in thousands of dollars)

	2020/21	2021/22	2021/22	2021/22	Favourable
	Q1 Actual	Annual Budget	Q1 Actual	Q1 Budget	(Unfavourable)
					Variance
Employee Related Expenditures					
Wages & salaries	\$112 261	\$446 365	\$106 007	\$107 547	\$1 540
Overtime	14 997	62 075	16 095	14 956	(1 139)
Employee benefits	38 032	148 123	36 337	35 689	(648)
Other	14 312	69 602	14 828	16 770	1 942
Total Employee Related Expenditures	179 602	726 166	173 267	174 963	1 696
Less: Capitalized labour and overhead	(67 285)	(260 370)	(58 346)	(62 734)	(4 388)
Operational Employee Related Expenditures	112 317	465 796	114 921	112 229	(2 692)
External services and materials	30 144	158 492	34 178	38 187	4 009
Donations, sponsorships & grants	347	1 518	281	366	85
Uncollectible accounts	1 008	7 282	1 460	1 755	295
Other	(40)	(1 068)	(286)	(257)	29
Cost recoveries	(1 978)	(14 019)	(2 765)	(3 378)	(613)
O&A charged to gas operations	(14 302)	(61 000)	(15 095)	(15 419)	(324)
Operating & Administrative Expenses	\$127 496	\$557 000	\$132 694	\$133 482	\$788

RESPONSE TO DIRECTIVE #14 – BOARD ORDER 73/15

For the Second Quarter of 2021/22

14. *Manitoba Hydro shall file quarterly updates regarding its Operation, Maintenance & Administration (OM&A) expenditures and the actual OM&A expenditures compared to Manitoba Hydro's target.*

Manitoba Hydro's Operating and Administrative (O&A) expenses for Electric Operations for the second quarter of 2021/22 were \$274.0 million, compared to a budget of \$270.9 million. The 1.1% unfavourable variance was primarily due to a shift to operating work partially related to the winding down of major capital projects as well as fewer resources available for capital work as a result of a reduced workforce and the IBEW strike. This was partially offset by lower employee related expenditures as staffing levels were reduced due to: a higher than anticipated volume of retirements, the external hiring freeze to support the government savings initiative in 2020/21 and the salary impacts of the rotating IBEW strike. There were also lower external services and materials costs related to timing delays in consulting work and maintenance work partially related to the impacts of the rotating IBEW strike.

When compared to the same period in the prior year, O&A expenditures were higher by \$16.2 million or 6.3%. The increase was primarily related to a reduction in internal labour hours charged to capital work due to the winding down of major capital projects, fewer resources available for capital work due to a reduced workforce and the IBEW strike. The increase in O&A was also due to an increase in external services and materials costs, such as insurance premiums, costs as a result of the IBEW strike and overall increases following the completion of the government savings initiative in 2020/21. This was partially offset by lower employee related expenditures as a result of the external hiring freeze related to the government savings initiative in 2020/21.

A summary of Manitoba Hydro's actual O&A expenditures by cost element with a comparison to the 2020/21 second quarter expenditures has been provided in the following table.

ELECTRIC OPERATIONS
OPERATING & ADMINISTRATIVE COSTS BY COST ELEMENT
FOR THE QUARTER ENDED SEPTEMBER 30
(in thousands of dollars)

	2020/21 Q2 Actual	2021/22 Annual Budget	2021/22 Q2 Actual	2021/22 Q2 Budget	Favourable (Unfavourable) Variance
Employee Related Expenditures					
Wages & salaries	\$221 588	\$446 365	\$216 391	\$217 806	\$1 415
Overtime	30 482	62 075	32 404	30 290	(2 114)
Employee benefits	74 460	148 123	71 698	72 277	579
Other	28 945	69 602	30 355	33 963	3 608
Total Employee Related Expenditures	355 475	726 166	350 848	354 336	3 488
Less: Capitalized labour and overhead	(129 540)	(260 370)	(114 982)	(127 049)	(12 067)
Operational Employee Related Expenditures	225 935	465 796	235 866	227 287	(8 579)
External services and materials	61 819	158 492	72 000	77 337	5 337
Donations, sponsorships & grants	502	1 518	561	741	180
Uncollectible accounts	3 042	7 282	2 992	3 553	561
Other	98	(1 068)	168	(521)	(689)
Cost recoveries	(4 946)	(14 019)	(6 213)	(6 841)	(628)
O&A charged to gas operations	(28 670)	(61 000)	(31 393)	(30 670)	723
Operating & Administrative Expenses	\$257 780	\$557 000	\$273 981	\$270 886	(\$3 095)

REFERENCE:

Application p.38; MFR 7 – Keeyask In-Service Deferral

PREAMBLE TO IR (IF ANY):

At Application page 38, Manitoba Hydro states: “Under International Financial Reporting Standards (IFRS) assets are to be placed in-service when they are recognized as being used and useful. This accounting standard results in a significant increase in the assets placed in-service with the first turbine unit (i.e. powerhouse, dams, spillway and water control) and a decrease in the assets placed in-service with the subsequent 6 turbine units (i.e. unit specific assets) compared to Manitoba Hydro’s past accounting practice. At each in-service, depreciation and finance expense on the related assets are recognized into net income. In order to provide a consistent approach in the timing of the recognition of depreciation and finance expense costs that are included in revenue requirement, Manitoba Hydro established the Keeyask In-Service Regulatory Deferral to capture the annual differences in depreciation and finance expense between the two methods. When the 7th and final turbine unit is in-service, there will no longer be a difference in the depreciation and finance expense between Manitoba Hydro’s previous accounting practice and IFRS, and the balance in the Keeyask In-Service Deferral will commence amortization over the average service life (95 years) of the installed assets.”

QUESTION:

Please provide the details of the composition (finance expense, depreciation, etc.) of the proposed deferral of Keeyask in-service costs of \$15.935 million in 2020/21, \$73.591 million in 2021/22, and \$14.063 million in 2022/23. Provide Manitoba Hydro’s pros/cons/recommendations for offsetting the full [\$103.62 million] amount of this new Keeyask In-Service Deferral Account in fiscal 2021/22 with the full [~\$100 million] amount in the Major Capital Project deferral account.

RESPONSE:

Please see table below for the composition (finance expense and depreciation) of the Keeyask In-service deferral of \$15.935 million in 2020/21, \$73.591 million in 2021/22, and \$14.063 million in 2022/23.

	<i>(in millions of dollars)</i>			
	2020/21	2021/22	2022/23	2023/24
KEYYASK IN-SERVICE DEFERRAL				
Depreciation	2.930	12.190	3.155	-
Finance Expense	13.006	61.401	10.908	-
	15.935	73.591	14.063	-

The Major Capital Project Deferral represents amounts previously collected from customers from the 2.5% rate increase approved by the PUB effective June 1, 2019 set aside to help mitigate the depreciation and finance expenses when Keeyask Generating Station and other major capital projects come into service. If this deferral is offset against the Keeyask In-service Deferral, there is no mitigation against these costs to avoid a material negative net income impact at the time the assets enter service. Our approach is consistent with page 3 of PUB Order 69/19, that “the deferral account will partially mitigate future rate increases required when new major capital projects are in-service, consistent with the principles of rate stability and predictability. This increase will contribute additional revenues to Manitoba Hydro in 2019/20 and in future years”.

The Keeyask In-service Deferral was established based on Manitoba Hydro’s past practice of recognizing expenses associated with the generating station on a per-unit basis for rate-setting purposes. The intent of deferring these expenses was to recognize them over the expected life of the assets. If this deferral is offset with the Major Capital Project Deferral these costs would be fully expensed in 2022/23 whereas the underlying assets have an expected useful life of 95 years. Without this deferral, the depreciation and finance expense of \$73.6 million would have been included in revenue requirement in 2021/22 with \$14.1 million included the following year.

The 2021/22 Interim Rate Application proposes full amortization of the Major Capital Project Deferral by 2023/24 and \$1 million of annual amortization of the Keeyask In-service Deferral beginning in 2022/23 as outlined in the table below. The table compares the net income impacts between the assumptions included in Manitoba Hydro's 2021/22 Interim Rate Application and a scenario that assumes the Keeyask In-service Deferral and the Major Capital Project Deferral are fully amortized in the 2022/23 fiscal year. By offsetting the amortization of the two regulatory deferral accounts in 2022/23, net income will decrease by \$12 million in 2021/22, \$53 million in 2022/23, and \$36 million in 2023/24 and result in a cumulative reduction to retained earnings of \$101 million by March 31, 2024. All additions and amortizations in Net Movement are non-cash entries and do not increase/decrease Manitoba Hydro's cash available to fund core business operations.

Manitoba Hydro is of the opinion that there are no advantages to offset the Keeyask In-service Deferral account with the Major Capital Project Deferral account. Given the impacts identified above Manitoba Hydro does not recommend offsetting the full (\$104.589 million) in Keeyask In-service Deferral account with the full (\$~100 million) amount in the Major Capital Project Deferral account.

	<i>(in millions of dollars)</i>			
	2020/21	2021/22	2022/23	2023/24
2021/22 INTERIM RATE APPLICATION				
Additions to Net Movement				
Keeyask In-Service Deferral	16	74	14	-
Major Capital Project Deferral	(38)	(29)	-	-
Amortization in Net Movement				
Keeyask In-Service Deferral	-	-	(1)	(1)
Major Capital Project Deferral	-	12	50	37
Net Increase/(Decrease) to Net Income	(22)	57	63	36

	<i>(in millions of dollars)</i>			
	2020/21	2021/22	2022/23	2023/24
SCENARIO: FULLY AMORTIZE KEYASK IN-SERVICE DEFERRAL AND MAJOR CAPITAL PROJECT DEFERRAL IN 2022/23				
Additions to Net Movement				
Keeyask In-Service Deferral	16	74	14	-
Major Capital Project Deferral	(38)	(29)	-	-
Amortization in Net Movement				
Keeyask In-Service Deferral	-	-	(104)	-
Major Capital Project Deferral	-	-	99	-
Net Increase/(Decrease) to Net Income	(22)	45	10	-

Differential Impacts to Net Income	-	(12)	(53)	(36)
Cumulative Impacts	-	(12)	(65)	(101)

REFERENCE:

Coalition MFR 22

PREAMBLE TO IR (IF ANY):

Manitoba Hydro explains that, in response to the drought, it is not planning to adjust any strategic actions related to capital expenditures, O&A expenditures (above what has already been done in response to prior management direction and the pandemic), and in fact has a plan to increase O&A expenditures and potentially use the opportunity of idled generating units to increase capital expenditures. In response to the drought, Manitoba Hydro has adjusted its approach to debt issues by reducing the weighted average term to maturity in order to achieve a lower weighted average interest rate, and has implemented some price risk mitigation activities.

QUESTION:

Please confirm whether Manitoba Hydro, to mitigate the impact of the drought, has taken only the steps identified in Coalition MFR 22 and summarized in the above Preamble, in addition to applying for a 5% rate increase and taking on additional debt. If not confirmed, please provide details of the additional steps taken.

RESPONSE:

As outlined in Coalition MFR 22, Manitoba Hydro's primary response to mitigate the financial impact of the drought is the price risk mitigation activities undertaken to maximize net extraprovincial revenues (by minimizing fuel and power purchase costs). Manitoba Hydro also confirms that the weighted average term to maturity of new debt issuance year to date (\$1.4 billion) for fiscal 2021/22 has been reduced slightly from the 20-year target. However, the utility notes that given the large volume of debt outstanding, the weighted average term to maturity for the entire debt portfolio remains at 19.4 years at October 31, 2021 with a weighted average interest rate of 3.4% (excluding the provincial guarantee fee).

As outlined in Section 2.1 of the application, drought is an imposed risk that originates from uncontrollable and unavoidable external factors and it is not possible to accurately predict when drought will occur or how long droughts will continue for. Unlike drought, Manitoba Hydro's capital spending relates to planned projects that need to occur to sustain our aging assets at an acceptable level of performance and risk. Ageing assets is one of the top risks facing Manitoba Hydro and the capital spending associated with Manitoba Hydro's Business Operations capital is key to mitigating that risk. Deferral of capital spending will increase costs and/or increase the risk of asset failures which could impact reliability, compliance, the environment and the safety of the public and our employees.

Additionally, more than 90% of the capital spending relates to in-flight projects/programs (projects/programs where spending has already started), due to the multi-year nature of many projects. These projects cannot be deferred without incurring a significant impact as it is inefficient and costly to defer projects that are in-flight.

In the response to Coalition MFR 22, Manitoba Hydro noted that increasing capital spending during a drought could be an opportunity in some cases, by completing work at a time when there would be no opportunity cost of lost generation, such as when a generator is sitting idle because there is not enough water flowing to operate that generator. To clarify, Manitoba Hydro does not currently have a plan to increase capital spending. This was simply an example identified to highlight the opportunity associated with executing capital project work when lost generation costs would not be incurred (i.e. the potential for greater economic benefit associated with the capital expenditure).

Similarly, Manitoba Hydro's operating and administrative ("O&A") expenditures are not temporary or easily adjusted as they are made up primarily of employee wages, salaries and benefits. As outlined in Coalition MFR 22, Full Time Equivalents ("FTEs") are at their lowest levels since before the purchase of Winnipeg Hydro in 2002, and current staffing levels need to be addressed to ensure that Manitoba Hydro can continue to provide safe and reliable service to its customers and minimize the lifecycle costs of its assets. In addition, Manitoba Hydro's assets have increased to \$30.5 billion in 2021/22, compared to approximately \$17 billion in 2014/15, which will drive ongoing requirements in operating and maintenance costs. Please see the response to PUB/MH I-5 for additional information on increases in FTEs.