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June 9, 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 Submission in Response to Order 53/21

On May 10, 2021, the Public Utilities Board (“PUB”) issued Order 53/21 in response to the Consumer Coalition’s (the “Coalition’s”) Application for the PUB to commence a status update process with respect to Manitoba Hydro. To assist in the PUB’s factual assessment and determination on the threshold question of whether there has been a substantial change in Manitoba Hydro’s financial circumstances since Orders 59/18 and 69/19 to the date of the Coalition’s Application, Order 53/21 directed Manitoba Hydro to file versions of the following select documents that are currently in use in the management and operations of Manitoba Hydro:

1. the Integrated Financial Forecast (“IFF”);
2. the Capital Expenditure Forecast (“CEF”);
3. the Prospective Cost of Service Study; and
4. the 2021/22 and 2022/23 forecast of net export revenue and net income for each of the possible water flow conditions, in a form similar to the table and graph provided in response to 2019/20 GRA PUB/MH I-29(b) and (c). The forecast of net export revenue and net income should incorporate water flow conditions updated to at least March 15, 2021. This is to be filed along with an explanation as to the probabilities of droughts (defined as below average hydraulic generation) in each of 2021/22 and 2022/23.

As noted in its response of April 12, 2021, Manitoba Hydro does not have a current approved IFF and CEF. The Corporation recently approved Strategy 2040 in January 2021 and since that time has been engaged in the process of identifying, assessing and developing the various

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initiatives underlying Strategy 2040 with consideration of the uncertainty related to potential future changes in the energy landscape. As the initiatives are further studied and developed, they will influence the assumptions incorporated into the long-term financial forecast (i.e. IFF and CEF) underpinning Manitoba Hydro's winter 2022/23 application.

In accordance with the PUB's direction in Order 53/21 requiring more current information regarding Manitoba Hydro's circumstances, Manitoba Hydro is providing the following information used in the management and operations of the corporation:

1. In lieu of a long-term financial forecast, the following financial information is provided:
 - Actual financial results for 2018/19 and 2019/20 compared to the Outlook/Budget for these years as provided in the 2019/20 GRA; and
 - The budgeted net income for 2020/21 and the 2020/21 forecast (as of December 31, 2020) and the budgeted net income for 2021/22, as well as a comparison to the net income for these years in Exhibit 93 from Manitoba Hydro's 2017 GRA.
2. Actual capital expenditures for 2018/19 and 2019/20, and the capital budget for 2020/21 and 2021/22 compared to the forecast of capital expenditures for these years as provided in the 2019/20 GRA.
3. The results of the Prospective Cost of Service Study for 2020/21 ("PCOSS21"), which reflects Bipole III fully in-service, as well as costs related to the Keeyask Generating Station (reflecting a June 2020 in-service assumption), the Manitoba Minnesota Transmission Project ("MMTP") and the Great Northern Transmission Line ("GNTL") project.
4. Current water conditions, energy in storage and hydraulic generation information, and the range of net export revenue for 2021/22 given low and high-water flow conditions.

Consistent with the PUB's direction in Order 53/21, the enclosed information provides the PUB with a fulsome and current picture of Manitoba Hydro's actual financial circumstances, and how costs are being borne by the different customer classes.

Manitoba Hydro's Actual Financial Results are Consistent with Past Forecasts – There Has Not Been a Substantive Change Since the Issuance of Orders 59/18 and 69/19

Appendix 1 of this submission provides a comparison of Manitoba Hydro's actual financial results for its Electric Segment for 2018/19 compared to the Outlook provided in the Supplement to Manitoba Hydro's 2019/20 GRA, and actual results for 2019/20 compared to the Compliance Filing to Order 69/19. Appendix 1 also provides the forecast net income for the 2020/21 fiscal year as provided in Manitoba Hydro's 3rd quarter financial report and the

budget of net income for 2021/22.

The comparisons provided in Appendix 1 clearly demonstrate that for the period 2018/19 through to 2021/22, Manitoba Hydro's actual and budgeted net income results are consistent with the financial forecasts relied upon by the PUB in making its decisions in Orders 59/18 and 69/19. When compared to the Exhibit 93 scenario from Manitoba Hydro's 2017 GRA, which the PUB indicated was directionally consistent with its decisions in Order 59/18, the cumulative budgeted net income balances for the 2020/21 – 2021/22 period are different by only \$17 million. Notably, the \$17 million is considerably lower than the \$45 million balance referenced in the expert evidence filed on behalf of the Coalition in Manitoba Hydro's 2019/20 GRA (page 29) which the Coalition relied upon in concluding that \$45 million is not a material change for a utility the size of MH:

“Removing the \$76 million variance related to the 2017/18 actual financial results from the MH analysis will reduce the change in retained earnings since the last GRA to \$45 million (\$121 million less \$76 million). Even without considering if there are any adjustments that should be made to MH Exhibit #93 to appropriately conduct this analysis, a \$45 million change in retained earnings from the 2019/20 projected amount of \$3.047 billion in the exhibit represents a 1.5% change ($\$45/\$3,047$). This is not a material change in the projected retained earnings of a utility the size of MH.”

When comparing actual and recently budgeted capital expenditures to forecast levels provided to the PUB in Manitoba Hydro's 2019/20 GRA a similar and consistent result occurs. **Appendix 2** of this submission provides Manitoba Hydro's actual capital expenditures for its major new generation and transmission projects and business operations capital for 2018/19 and 2019/20 compared to the forecast provided in the Supplement to the 2019/20 GRA. In addition, Manitoba Hydro's current approved capital budget for 2020/21 and 2021/22 is comparable to the capital forecast for these years as contained in the 2018 Capital Expenditure Forecast (“CEF18”) as presented at the 2019/20 GRA. Notably, annual differences between Manitoba Hydro's actual and current budget capital expenditure levels compared to the forecasts reviewed in the 2019/20 GRA range from less than 1% to approximately 5%.

As the above analysis demonstrates, there has not been a substantive change in Manitoba Hydro's circumstances from that which was forecasted in the proceedings resulting in Orders 59/18 and 69/19. The impacts of bringing Keeyask and other major capital projects into service was contemplated by Manitoba Hydro, interveners and ultimately the PUB when it last established just and reasonable rates. The Coalition acknowledged this in its closing submission for the 2019/20 GRA (transcript pages 1065-1066) as follows:

“Slide 57 is just a reminder of Mr. Bowman that this Board was not myopic in the past. Historic rate increases have always kept in mind that Keeyask is coming. There's no need to panic.” [p. 1065]

“And it is helpful to remember with the good advice of Mr. Bowman and Mr. Rainkie that early advancement of Keeyask was the plan. It shouldn't be grounds for panic. And in the second bullet on this page, Mr. Rainkie talks about his experience, his commitment on behalf of Manitoba Hydro to take all necessary actions to manage its costs to mitigate the impact of the capital development. As Mr. Rainkie points out, the advancement of Keeyask is not a negative change in circumstances that requires emergency regulatory action. It is a very delivery of a plan that was put forward by Manitoba Hydro.” [p. 1066]

The 2021 Prospective Cost of Service Study (PCOSS) is Consistent with Expectations

Appendix 3 of this submission provides the results of Manitoba Hydro's Prospective Cost of Service Study for the 2020/21 fiscal year, which reflects Bipole III fully in-service, as well as costs related to the Keeyask Generating Station (reflecting a June 2020 in-service assumption), MMTP and GNTL projects. Appendix 3 also compares the revenue cost coverage (“RCC”) ratios of PCOSS21 to scenarios filed in the 2017 GRA and 2019/20 GRA that provided an indication of the level of class RCC ratios that could be expected once Bipole III was brought into service.

This comparison demonstrates that the results in PCOSS21 are consistent with the information considered by the PUB in reaching decisions in both Orders 59/18 and 69/19. Specifically, the zone of reasonableness (“ZOR”) status remains the same such that the customer classes that were within the ZOR in the scenarios filed in the last two GRAs remain in the ZOR, and those classes outside of the ZOR remain outside the zone. This analysis demonstrates that there has not been a significant change in the RCC ratios when considering the in-service of the major capital projects.

Too Early to Speculate and Draw Conclusions on the Impact of Low Water Flows

In Order 53/21, the PUB acknowledged that one of the greatest risks faced by Manitoba Hydro is hydrology and directed Manitoba Hydro to provide hydrology information, actual water flow and reservoir conditions and expected inflows. **Appendix 4** provides information on the 2018/19, 2019/20, 2020/21 actual water flow conditions and the associated impacts on hydraulic generation. In addition, Appendix 4 provides a discussion of 2021/22 current water conditions, energy in storage and hydraulic generation information, as well as a sensitivity

analysis of the potential upper and lower net export revenue changes.

The historical water flow information identifies that for the periods 2018/19 through to 2020/21, water levels were, for the most part, close to or above average resulting in hydraulic generation that ranged from 5% below to 9% above the hydraulic generation assumed in the budgets for these years. For the 2021/22 forecast period, overall system flows are approximately 80% of average for this time of year and hydraulic generation is projected to be 5% below budget, well within the typical year to year variability.

As hydraulic generation and net revenues are largely dependent on spring and summer rainfall, it is too early to assess the impact of low water conditions with certainty as water supplies can recover to average or above average relatively quickly following persistent, widespread rain events. As always for Manitoba Hydro, if there is a material change in its financial circumstances due to actual water flows throughout the year or as a result of other events, at the direction of the Manitoba Hydro-Electric Board, Manitoba Hydro will avail itself to the relevant provisions of *The Crown Corporations Governance and Accountability Act* (the "CCGAA") to apply for any necessary rate relief from the PUB at that time.

No Substantial Change in Circumstances Has Occurred – Existing Rates Remain Just and Reasonable

In Order 53/21, the PUB indicated that pursuant to subsection 26(3) of the CCGAA, the PUB must firstly be satisfied that Manitoba Hydro's circumstances have changed substantially before it proceeds with a review of prior rate Orders. Recently the PUB similarly considered whether the circumstances of the Manitoba Public Insurance Corporation ("MPI") had substantially changed pursuant to Section 26(3) of the CCGAA as a direct result of the pandemic on MPI's business.

In Order 71/20, the PUB accepted the position advanced by MPI in its Application that MPI experienced a substantial change in circumstances such to justify a rebate to its customers. The PUB's finding was based upon significant changes in financial results including an actual reduction in claim costs for the one month period from March 16, 2020 to April 15, 2020 of \$29 million and forecasted additional reductions in claim costs of \$29 million between April 16, 2020 and May 15, 2020 (Order 71/20 at page 24) during the initial months of the pandemic in Manitoba. The evidence before the PUB was that collision claims frequency was 63.5% under budget (Order 71/20 at page 11).

Unlike MPI, Manitoba Hydro has not experienced a change in its circumstances anywhere near the degree or immediacy experienced by MPI over the last year due to the pandemic or otherwise. As demonstrated in the attached documents, Manitoba Hydro's overall financial results and near-term forecasts are consistent with the information previously provided in the proceedings leading up to Orders 59/18 and 69/19. There has not been a substantive change to the circumstances of Manitoba Hydro as alleged by the Coalition.

For all of the above noted reasons, together with the reasons provided in Manitoba Hydro's submission to the PUB of April 12, 2021, the Coalition's Application should be dismissed.

Manitoba Hydro submits that the information provided herein fully satisfies the intention of the PUB as expressed in Order 53/21. To the extent that the PUB may find that this submission and the enclosed information does not fully satisfy Order 53/21, Manitoba Hydro requests that the PUB accordingly vary Order 53/21 in accordance with section 36 of the Public Utilities Board Rules of Practice and Procedure.

Should the PUB elect to receive further submissions from the Coalition or any past Interveners of Record on this filing, Manitoba Hydro respectfully requests that the PUB provide it with the opportunity to reply to those submissions as a matter of procedural fairness.

Should you have any questions with respect to this submission, please contact the writer at 204-360-3257 or Darryl Martin at 204-360-4487.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES DIVISION

Per:



BRENT A. CZARNECKI
Barrister & Solicitor

FINANCIAL FORECAST ANALYSIS**2018/19 and 2019/20 Actuals Compared to Budgets Previously Filed with the PUB**

A comparison of actual results for 2018/19 and 2019/20 to the budgets filed as part of Manitoba Hydro's 2019/20 GRA is provided below:

Table 1

	Actuals 2018/19 (a)	Supplement 2018/19 (b)	Presentation Adjustment (c)	Supplement Adj. for IFRS (d)	Increase (Decrease) (e)	Actuals 2019/20 (f)	Compliance Filing 2019/20 (g)	Presentation Adjustment (h)	Compliance Filing Adj. for IFRS (i)	Increase (Decrease) (j)
Revenues										
Domestic	1,707	1,703		1,703	4	1,702	1,699	33	1,732	(30) ¹
Bipole III Account/Amortization		(44)	44		-		78	(78)		
Extraprovincial	430	432		432	(2)	468	418		418	50 ²
Other	26	85	(58)	27	(1)	26	27		27	(1)
	2,163	2,175	(15)	2,160	1	2,196	2,222	(45)	2,177	19
Expenses										
*Finance Expense	709	712		712	(3)	756	741		741	15
Operating and administrative	508	501		501	7	512	511		511	1
Depreciation and amortization	468	465		465	3	481	505		505	(24)
Water rentals and assessments	113	114		114	(1)	126	117		117	9
Fuel and power purchased	136	135		135	1	98	127		127	(29)
Capital and other taxes	138	139		139	(1)	146	148		148	(2)
Other expenses	88	73		73	15	70	74		74	(4)
Corporate allocation	8	8		8	-	8	8		8	-
	2,168	2,148		2,148	21	2,197	2,233		2,233	(36)
Net Movement in regulatory deferral balances	103	65	15	80	23	106	70	45	116	(10)
Net Income	98	92	-	92	6	105	59	-	60	45
Net Income (Loss) Attributable to:										
Electric Segment	101	95		95	6	105	64		64	41
Non-Controlling Interest	(3)	(3)		(3)		-	(4)		(4)	

*Finance Expense is net of finance income

For the 2018/19 year the increase (decrease) is calculated as "a-d=e", where column d is calculated as "b+c=d"

For the 2019/20 year the increase (decrease) is calculated as "f-i=j", where column i is calculated as "g+h=i"

As outlined in the table above, there is minimal change (\$6 million) in net income for 2018/19 and the increase to net income of \$41 million in 2019/20 is primarily driven by higher net export revenues as a result of favourable water conditions. Given the nature of Manitoba Hydro's operations, fluctuations in net income due to changes in water conditions can be expected.

The presentation of the figures provided in the Supplement to the 2019/20 GRA (for 2018/19) and in the Compliance Filing to Order 69/19 (for 2019/20), have been adjusted to the accounting form of presentation consistent with that used for financial reporting purposes in compliance with International Financial Reporting Standards ("IFRS") and do not represent a change in financial results. The IFRS standard requires revenues associated with the 2.5% rate increase approved in Order 69/19, which the PUB directed be placed in the major projects deferral account, be recorded through revenue and subsequently deferred to a regulatory

liability through net movement. The Compliance Filing assumed the 2.5% rate increase would be deferred through revenue rather than net movement. As such, adjustments to both domestic revenue and net movement are required in order to provide a comparison to actuals on a consistent basis aligned with IFRS. In addition, the amounts deferred associated with the Bipole III account as well as the amortization also flow through net movement on an actuals basis and have been adjusted accordingly.

Differences between the actuals and the compliance filing & supplement adjusted for IFRS presentation for individual line items >\$30M (approximately 1% of total revenues or expenses) are discussed below:

- 1) The decrease in domestic revenue of \$30M in 2019/20 is primarily the result of lower customer usage in all customer classes. Weather was not a factor in the variance and the lower usage in the large industrial customer class was primarily due to unplanned plant shutdowns earlier in the fiscal year. COVID-19 did not have an impact on 2019/20 revenues.
- 2) Extraprovincial revenues were higher by \$50M in 2019/20 largely driven by higher U.S. opportunity sales volumes due to more favourable water conditions (total U.S. opportunity volumes were 2,390 GWh or 58% higher than forecasted), partially offset by lower spot market prices.

2020/21 Budget/Forecast and 2021/22 Budget

Manitoba Hydro's approved budgeted net income for the Electric Segment is \$37 million for 2020/21 and \$177 million for 2021/22¹. The budgets were reviewed and approved as part of the corporation's consolidated budget submission by both the Manitoba Hydro-Electric Board and Treasury Board.

On an overall basis COVID-19 is not expected to have a significant impact on the corporation's financial results. While the pandemic has resulted in lower domestic consumption for both industrial and general service customers classes, this is being partially offset by higher usage for residential customers in part due to COVID-19. The impacts of lower spot market prices on net export revenues is projected to be mainly offset by lower Operating & Administrative costs as a result of the corporation's cost reduction measures implemented to support the

¹ The 2021/22 Budget includes forecast water flows, short-term energy prices and key economic indicators as of fall 2020.

government pandemic cost saving initiative. In addition, the corporation is forecasting slightly higher interest costs due to earlier timing of debt borrowings that were required to ensure liquidity in response to market disruptions caused by COVID-19.

At the time of the 2020/21 budget submission, the corporation had assumed an earliest 1st unit in-service date for the Keeyask Generating Station of June 2020. With delays in construction due to COVID-19 and other factors, the corporation's expected earliest 1st unit in-service date was subsequently revised to winter 2021 which was still ahead of schedule. As a result, the forecasted net income projection for the 2020/21 fiscal year as of the 3rd quarter was \$99 million primarily due to lower depreciation, as well as lower finance expense as interest costs continue to be capitalized during construction. The 2021/22 budget assumes the remaining Keeyask units will be placed in-service by the end of the fiscal year.

Comparison to Exhibit 93

Exhibit 93 is a financial forecast scenario from Manitoba Hydro's 2017 GRA that is based on Manitoba Hydro's updated MH16 financial forecast and includes the PUB's interim rate increase of 3.36% effective August 1, 2017. Beginning in the 2018/19 test year, Exhibit 93 assumed equal annual rate increases of 3.57% through to 2035/36 at which time the debt/equity target of 75/25 is achieved. The PUB stated in its findings in Order 59/18 and again in order 69/19 that,

"The Board finds that with minor adjustments, this scenario is directionally consistent with the Board's decisions in this Order."

Table 2 below compares the forecasted net income for 2020/21 and the budgeted net income for 2021/22, to the net income levels from the Exhibit 93 scenario for the same periods.

Table 2

(\$ millions)	2020/21	2021/22	Cumulative Net Income	Cumulative % Difference
Forecast/Budget Net Income	\$99	\$177	\$276	
Exhibit 93 Net Income	\$115	\$178	\$293	
Difference	(\$16)	(\$1)	(\$17)	6%

Based on the above analysis, it is evident that a substantial change in Manitoba Hydro's financial circumstances has not occurred since the issuance of Orders 59/18 and 69/19.

CAPITAL EXPENDITURES

The following table provides a summary of actual capital expenditures for 2018/19 and 2019/20 as well as the approved budget for 2020/21 and 2021/22 with a comparison to information provided in the 2019/20 GRA. On an overall basis, there are no material variances, which further demonstrates that there has been no significant change in circumstances since the corporation's last GRA.

(\$ Millions)	2018/19			2019/20			2020/21			2021/22		
	Actual	2018/19 Application Supplement	Variance	Actual	2018/19 Application Supplement	Variance	Budget	2019/20 Application (CEF18)	Change Inc/(Dec)	Budget	2019/20 Application (CEF18)	Change Inc/(Dec)
Keeyask	1,315	1,304	(11)	1,111	1,119	8	827	847	(20)	648	764	(116)
Bipole III Reliability	215	242	27	70	101	31	26	3	23	28	-	28
Manitoba-Minnesota Transmission Project	66	77	11	258	276	18	77	91	(14)	22	-	22
Birtle Transmission	3	2	(1)	13	25	12	33	18	15	21	13	8
Electric Business Operations Capital	465	478	13	545	478	(67)	485	521	(36)	526	533	(6)
TOTAL	\$ 2,064	\$ 2,103	\$ 39	\$ 1,997	\$ 1,999	\$ 2	\$ 1,448	\$ 1,480	\$ (32)	\$ 1,246	\$ 1,310	\$ (64)
			1.9%			0.1%			-2.2%			-4.9%

2018/19

The 2018/19 under expenditure of \$39 million, representing less than 2% of the \$2.1 billion forecast, was primarily related to unused project contingency budgeted for the Bipole III Reliability project to address unforeseen risks that had not fully materialized and lower capitalized interest resulting from an earlier in-service date than planned.

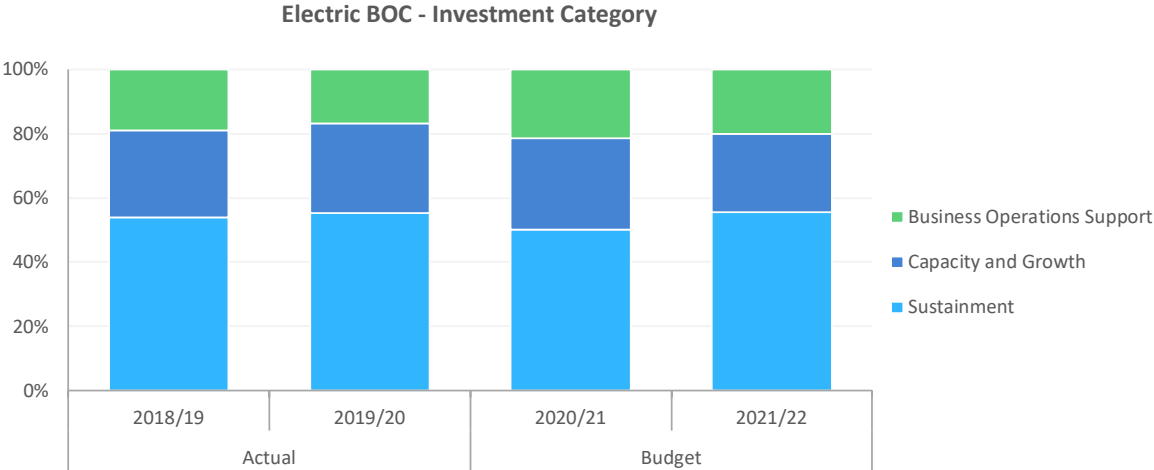
2019/20

While the total under expenditure is \$2 million, the most notable variance for 2019/20 included an over expenditure in Business Operations Capital resulting from the unforeseen October 2019 storm of approximately \$65 million. This was partially offset by an under expenditure on the Bipole III Reliability project mainly due to the sale of the Keewatinohk Camp, early completion of the Keewatinohk water treatment plant, as well as unused contingency budgeted for unforeseen risks that had not materialized.

2020/21 & 2021/22

The 2020/21 and 2021/22 capital budgets were approved as part of the corporation's annual consolidated budget submissions by both the Manitoba Hydro-Electric Board and Treasury Board. Both fiscal year budgets reflect a lower investment requirement compared to the CEF18 forecast projection submitted in the 2019/20 GRA. The 2020/21 reduction of \$32 million was primarily in Business Operations Capital and is mainly due to a decrease in requirements addressing distribution station capacity issues and the replacement of aging distribution assets. The 2021/22 reduction of \$64 million is primarily due to the expected advancement of Keeyask first power from 2021/22 to 2020/21.

The graph below further demonstrates that the categorization of Business Operations Capital (“BOC”) investments between 2018/19 and 2021/22 remains substantially unchanged as approximately half of the corporation’s capital requirements continue to be related to sustainment activities required to ensure the continued and future performance capability of the system and to address the issue of aging or obsolete assets.



PROSPECTIVE COST OF SERVICE STUDY 2020/21 (“PCOSS21”)**2017/18 & 2018/19 General Rate Application (“2017 GRA”)**

Manitoba Hydro filed PCOSS18 as part of the 2017 GRA, the results of which did not reflect the impacts of Bipole III or Keeyask as they were not yet in-service at that time. Recognizing that the capital investments of Bipole III and Keeyask would impact customer classes’ respective share of revenue requirement, Manitoba Hydro prepared an indicative scenario, which was filed in response to PUB/MH II-88, in order to provide directional impacts related to the in-service of Bipole III. That scenario demonstrated that once Bipole III was in-service, all customer classes, with the exception of General Service Small Non-Demand (“GSS ND”) and Area & Roadway Lighting, were expected to be within the zone of reasonableness (ZOR).

In its Order 59/18, the PUB directed Manitoba Hydro to implement differentiated rates to gradually begin moving customer classes into the ZOR over a ten-year period, stating:

“This approach to the implementation of differentiated rates is consistent with the principle of gradualism and limits the revenue recovery responsibility of the other customer classes, while maintaining overall revenue neutrality. This approach will also assist in limiting the prospect of over-correction of the issue at the time Bipole III enters service.”

This differentiation was reflected in the rates approved by the PUB that were effective June 1, 2018.

2019/20 General Rate Application (“2019/20 GRA”)

As part of the 2019/20 GRA, Manitoba Hydro filed an updated scenario in its response to PUB/MH 1-61a that once again gave an indication of the level of class RCC ratios that could be expected once Bipole III was brought into service. Consistent with the scenario filed in the 2017 GRA (PUB/MH II-88), the updated scenario demonstrated that the expected shift in costs would result in most classes being brought into the zone of reasonableness, with the exception of GSS ND and Area & Roadway Lighting.

The scenario filed in PUB/MH I-61a of the 2019/20 GRA was the basis of the PUB’s examination of the need for and implementation of differentiated rate increases in Order 69/19.

PCOSS21

Subsequent to the 2019/20 GRA, Manitoba Hydro completed PCOSS21, which is its most current cost of service study and is based on Manitoba Hydro’s approved budget for the 2020/21 fiscal year. The revenue requirement underlying PCOSS21 includes a fully in-service Bipole III, as well as costs related to the Keeyask Generating Station (reflecting a June 2020 in-service assumption), the Manitoba Minnesota Transmission Project “MMTP” and the Great Northern Transmission Line “GNTL” project.

PCOSS21 reflects the following rate changes, in comparison to rates reflected in PUB/MH I-61a:

- Differentiated 2.5% rate increase granted in Order 69/19;
- The Rate adjustments required to eliminate the Former First Nations on Reserve Residential Rate and transition customers to approved residential rates approved in Order 110/20 (6.5% rate increase to Former First Nations on Reserve customer, and 0.1% reduction to other classes); and,
- 2.9% increase effective December 1, 2020.

PCOSS21 Demonstrates there is No Material Change

A comparison of the results of PUB/MH II-88 (from the 2017 GRA) and PUB/MH I-61a (from the 2019/20 GRA) scenarios, which provided the directional impacts that could be expected due to the addition of Bipole III, against the results of the current PCOSS21, which fully incorporates Bipole III as well as other major generation and transmission projects, shows that the current RCCs are consistent with the information considered by the PUB in reaching decisions in both Order 59/18 and Order 69/19. As expected, the increases in generation and transmission related costs has decreased the RCC for the GSL 30-100kV and GSL >100kV classes, whose costs are almost exclusively generation and transmission related, moving both classes to within the ZOR.

Customer Class	2017 GRA		2019/20 GRA	Current
	PCOSS18 RCC Main Filing	RCC including Bipole III PUB/MH II-88	RCC ¹ including Bipole III PUB/MH I-61a	PCOSS21 RCC
Residential	94.8%	96.7%	96.3%	96.2%
General Service - Small Non Demand	112.5%	115.3%	116.7%	113.8%
General Service - Small Demand	101.0%	101.3%	101.8%	104.0%
General Service – Medium	98.3%	97.4%	97.5%	99.3%
General Service - Large 0 - 30kV	99.1%	96.5%	96.1%	95.6%
General Service - Large 30-100kV	109.3%	103.5%	104.6%	103.7%
General Service - Large >100kV	108.6%	101.5%	101.9%	101.2%
Area & Roadway Lighting	100.3%	118.2%	118.7%	123.3%

¹Note: the calculation in the original response disaggregated the former First Nations on Reserve Residential “FNORR” and Residential excluding FNORR

Specifically, the ZOR status for each customer class remains the same such that the customer classes that were within the ZOR in the scenarios filed in the previous two GRAs remain in the ZOR, and those classes that were outside of the ZOR remain outside the zone, as shown in the table below.

	PUB/MH I-61a From 2019/20 GRA		PCOSS21 Current		Difference in RCC	Change in ZOR Status
	RCC	ZOR Status	RCC	ZOR Status		
Residential	96.3%	In	96.2%	In	(0.1%)	Unchanged
GSS ND	116.7%	Above	113.8%	Above	(2.9%)	Unchanged
GSS D	101.8%	In	104.0%	In	2.2%	Unchanged
GSM	97.5%	In	99.3%	In	1.8%	Unchanged
GSL 0-30 kV	96.1%	In	95.6%	In	(0.5%)	Unchanged
GSL 30-100 kV	104.6%	In	103.7%	In	(0.9%)	Unchanged
GSL >100 kV	101.9%	In	101.2%	In	(0.7%)	Unchanged
Area & Roadway Lighting	118.7%	Above	123.3%	Above	4.6%	Unchanged

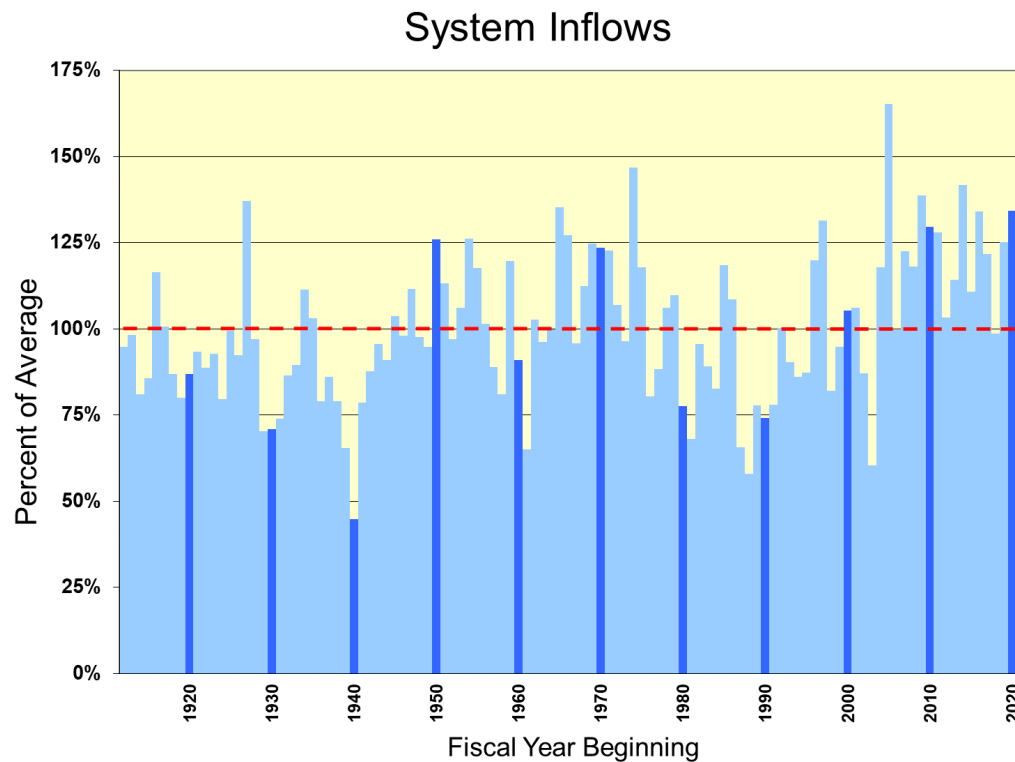
WATER CONDITIONS AND HYDRAULIC GENERATION FORECAST**Summary of Water Conditions and Hydraulic Generation 2018/19 - 2020/21**

Overall inflows in 2018/19 were close to average, however conditions varied across the system. The Churchill River basin was in flood, requiring significant spill flows down the Lower Churchill River and near maximum diversion flows to the Lower Nelson River for most of the year. The Saskatchewan River basin experienced well above average spring runoff followed by average inflows through the remainder of the year. In contrast, flows on the Winnipeg River were below average through spring and summer, and then recovered to average through the fall and winter period. Hydraulic generation was 30.9 TerraWatt-hours (TWh), or 5% below hydraulic generation projected in the budget.

Following an early melt and above average spring flows on the Red River, system inflows in 2019/20 tracked below average until late summer when the Winnipeg River and Lake Winnipeg tributaries experienced a near record high fall flood. This turnaround in water supply supported above average flows on the Nelson River through winter and above average storage carry over into spring 2020. Hydraulic generation was 34.5 TWh, or 9% above hydraulic generation projected in the budget.

Storage at the beginning of 2020/21 was well above average. System inflows in 2020/21 were above average; however, conditions varied across the system. The Churchill River basin was in flood requiring significant spill flows down the Lower Churchill River and therefore not used for generation. Saskatchewan River flows were above average. Flows on the Winnipeg River were below average all year. Hydraulic generation was 35.1 TWh, or 1% below hydraulic generation projected in the budget.

Annual system inflows as a percentage of average inflows are provided in Figure 1 below.

Figure 1: Annual System Inflows**Current Water Conditions as of May 19, 2021**

Figures 2 and 3 illustrate recent system potential energy in storage and potential energy from inflows relative to the average and history since 1977.

Reservoir storage is about 80% of average, or a 1 in 5 year low for this time of year. Lake Winnipeg levels are approximately 1.0 foot below average.

Overall system inflows are approximately 80% of average, or a 1 in 3 year low for this time of year. Inflows are below normal as a result of below average snowmelt runoff in the south due to a dry fall followed by low snowpack in winter 2020/21. Snowmelt runoff and local inflows are above average in the north. However, some of this water is being spilled down the Lower Churchill River so only a portion of the inflows originating in north are available for generation at Manitoba Hydro's largest generating stations on the Lower Nelson River. Most of the water supplying these stations originates in southern portions of the Nelson River Basin, where inflows are well below normal. This includes the Assiniboine, Red and Winnipeg rivers as well as smaller tributaries to Lake Winnipeg.

Figure 2: System Potential Energy in Storage

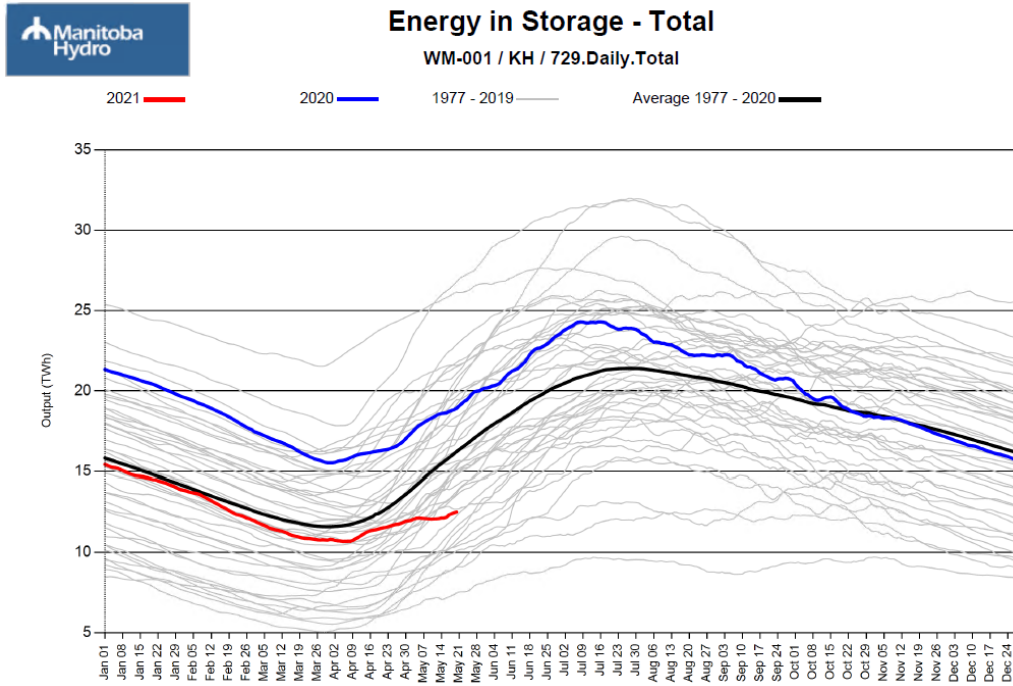
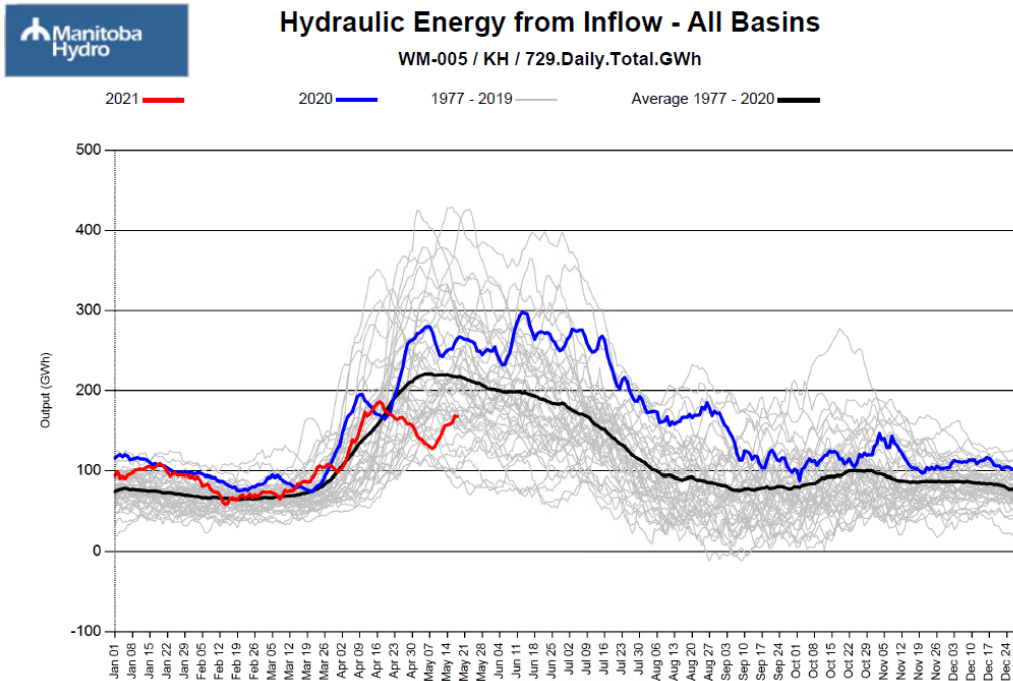


Figure 3: System Potential Energy from Inflows

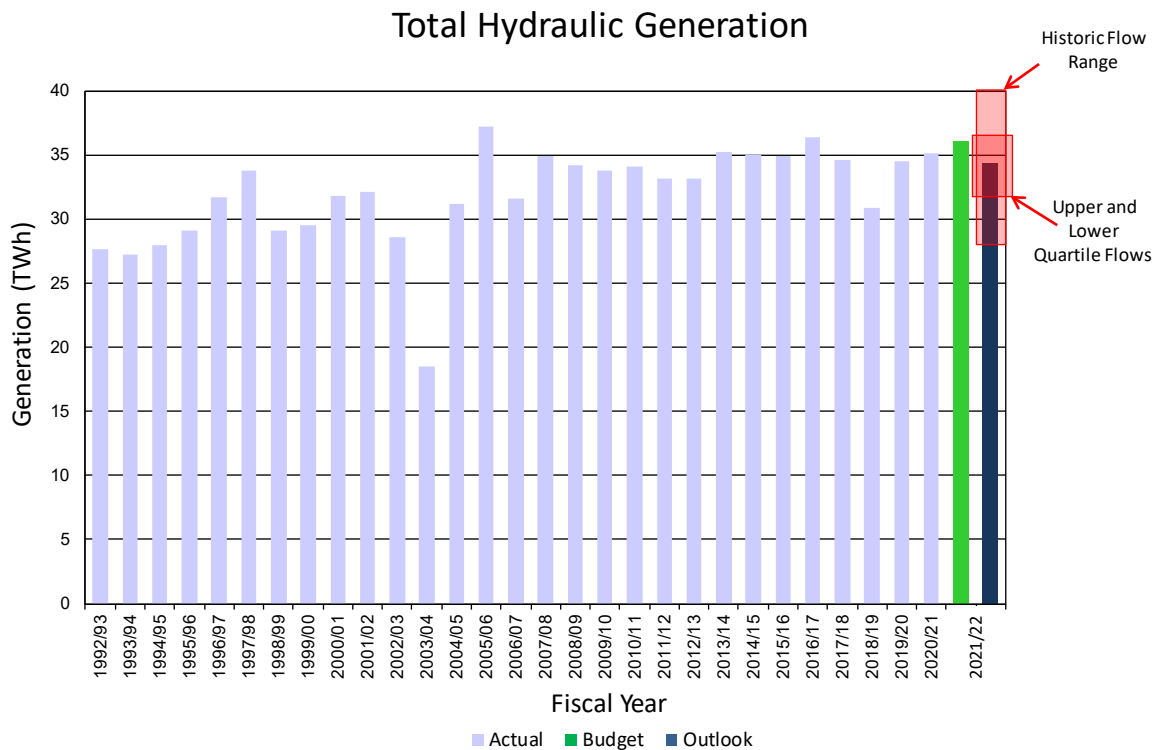


Hydraulic Forecast and Impact of Water Supplies Relative to Budget

Hydraulic generation and net revenues are largely dependent on spring and summer rainfall, which is highly uncertain. Conditions are currently unfavourable; however, water supplies can recover to average or above average relatively quickly following persistent, widespread rain events. Such a turnaround occurred in 2019/20 as described above.

Hydraulic generation in 2021/22 is currently projected to be approximately 34.9 TWh or 5% below hydraulic generation projected in the 2021/22 Budget, largely due to below average snowmelt runoff and inflows in the southern portion of the watershed supplying Manitoba Hydro’s hydraulic generation. Figure 4 below illustrates historic hydraulic generation since 1992 when Limestone was fully in service. Hydraulic generation assumed in the 2021/22 budget is also plotted in this figure, as are the Forecast, upper and lower quartiles, and upper and lower limits based on historic flow records.

Figure 4: Historic and Projected hydraulic generation including 2021/22 Budget and Forecast



Based on actual starting storage conditions, updated projections of water supply and other underlying forecasts, the Forecast for 2021/22 net extra-provincial revenue is \$(80) million unfavourable relative to Budget, assuming normal precipitation for the remainder of the year. Note that this forecast is well within the range of uncertainty estimated when the Budget was prepared; the range of net extra-provincial revenue was between \$110 million favourable to \$(290) million unfavourable.

Being early in the year, there remains considerable uncertainty in inflows. The flow-related variance in net extra-provincial revenues ranges between \$40 million favourable and \$(230) million unfavourable relative to budget. The upper and lower quartiles range between \$(30) million and \$(140) million. These results are summarized in Table 1.

Table 1. Impacts of flow uncertainty on the 2021/22 Budget and Current (May 2021) Forecast (in \$ millions)

Net Extra-Provincial Revenue		
Estimate	2021/22 Budget (Variance to Budget)	2021/22 Forecast (Variance to Budget)
Low (unfavourable)	\$ (290)	\$ (230)
Lower bound of 50% confidence interval	\$ (40)	\$ (140)
Average	\$ 0	\$ (80)
Upper bound of 50% confidence interval	\$ 70	\$ (30)
High (favourable)	\$ 110	\$ 40

Manitoba Hydro will continue to actively monitor actual water storage conditions and the related impacts upon the 2021/22 Budget throughout the summer and fall as part of the normal course of its business. As of this time the Manitoba Hydro-Electric Board has not directed Manitoba Hydro to file an application to the PUB seeking rate relief in accordance with section 26(3) or other relevant provisions of the CCCGA, based upon current or forecasted water storage conditions or as a result of any other event or circumstance.