Manitoba Hydro 2023/24 & 2024/25
General Rate Application

Consumers Coalition Aid to Cross Examination on Revenue Requirement

Exhibit CC-18

Tab	Reference
1.	PUB Order 59/18 at 1, 61-64, 141-142, 264
2.	PUB Order 69/19 at 1, 23-24, 27-30
3.	PUB Order 9/22 at 1, 6, 33-34, 63, 90-91

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Order No. 59/18

FINAL ORDER WITH RESPECT TO MANITOBA HYDRO'S 2017/18 AND 2018/19 GENERAL RATE APPLICATION

May 1, 2018

BEFORE: Robert Gabor, Q.C., Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., Vice Chair
Hugh Grant, Ph.D., Member
Shawn McCutcheon, Member
Sharon McKay, BGS, Member
Larry Ring, Q.C., Member

The Business Council of Manitoba recommends the Board deviate from the historical rate path in favour of a short-term rate path increase along the lines proposed by Manitoba Hydro. This Intervener calculates the difference between the 3.95% rate path and the MH16 Update with Interim rate path as being an incremental revenue increase of about $70 million in the next year. Interest rates going higher than forecast by 1.5% would result in $350 million in additional interest costs that would have to be borne by Manitoba Hydro in 2021 if the Utility's debt is $23.3 billion, as is currently forecasted.

The Business Council of Manitoba sees increases in interest rates and Manitoba Hydro being found to be a non-self-supporting entity as virtual certainties. This Intervener submits that, based on the current credit rating reports, the risk of a credit downgrade of Manitoba Hydro or the Province is extremely high. This Intervener concludes that the risk that any of these factors will negatively affect Manitoba Hydro and the Province in the short and long term is very high.

4.3 Board Findings

Having considered the interests of the Utility's ratepayers and the financial health of Manitoba Hydro, the Board finds that a particular equity level target and pace to achieve that target should not determine the rate increases approved in this GRA. Although the Board finds that the rate increase should not be driven by achievement of a particular equity level, the Board's assessment must include consideration of the circumstances of Manitoba Hydro's operations. Because of Manitoba Hydro's use of hydraulic resources to meet the electricity needs of the province, it has historically undertaken large investments such as generating stations and transmission lines that have initial large surpluses of capacity for the needs of Manitobans. These assets have large upfront construction costs but relatively low annual operating costs that extend through a very long expected useful life – which, in some cases, can be as much as one hundred years. With Manitoba Hydro's investments currently underway in Keeyask and Bipole III, the situation today is no different.

An important question from a rate-setting perspective is how these large investments should be funded. On the one hand, if they are to be paid for exclusively by revenues from new rates charged to domestic ratepayers, this would result in a "saw tooth" pattern of rates featuring sharp spikes when new facilities are under construction, and a return to lower rates once the desired equity portion of the project has been funded. On the other hand, if projects are funded through borrowing, rate increases may be "smoothed" over time but the cost of servicing the debt becomes an issue. The concern is to find the right balance between rate increases and the level of debt to fund large capital projects.

In making this determination, the Board is guided by two considerations. The first is: what "reserves" should Manitoba Hydro hold to manage risk and which risks should it take into account? As an example, as per the question posed in the evidence of Morrison Park Advisors, what is the level of retained earnings needed in the event of a five-year drought? The second is to place concerns about the amount of debt and retained earnings in a different perspective by also considering cash flow, using two long-standing financial metrics used by Manitoba Hydro: interest coverage ratio and the capital coverage ratio.

As detailed below, on assessment of these considerations, the Board finds that raising consumer rates by an amount equivalent to four times the rate of inflation is not required to support Manitoba Hydro's current operations. The Board recognizes the sincerity of Manitoba Hydro's concerns about potential future risks materializing. However, as the Board has demonstrated in past decisions – including in years of drought where the Board awarded rates in excess of those sought by the Utility – it will consider all of the facts and circumstances which confront Manitoba Hydro at that point in time in determining the appropriate rate relief. The Board is prepared to take regulatory action – whether through a rate rider, an interim rate increase, or a general rate increase – as required in times when emergent situations face Manitoba Hydro. At this time, however, the Board finds the circumstances confronting Manitoba Hydro, including those raised in the hearing about credit rating agencies and debt management, do not justify the 7.9% rate increase sought by Manitoba Hydro.

Any benefits of Manitoba Hydro's financial plan must be balanced against the interests of ratepayers. Funds taken out of the pockets of ratepayers through higher rate increases have a cost. In balancing this against the benefits of Manitoba Hydro's plan, the Board finds that the cost to ratepayers is not justified. The Board further notes that, while one financial scenario filed by Manitoba Hydro at the request of the Board showed rate reductions in its 20-year rate forecast, including a significant rate reduction in 2027/28, the Utility did not commit to those reductions. Instead, Manitoba Hydro acknowledged that requests for rate increases or reductions in future years will be dependent on the circumstances at the time.

Debt-to-Equity Ratio

The Board accepts Morrison Park Advisors' evidence that debt-to-equity is a questionable metric for a vertically integrated monopoly Crown utility with a debt guarantee from the provincial government. The equity level target does not have the prominence suggested by Manitoba Hydro given the context in which the Utility operates. The concern regarding the value of the equity level target is compounded when Manitoba Hydro is going through an unprecedented major investment period to more than double the value of its assets in the next four years. As noted by Manitoba Hydro's external consultant KPMG, there is a "practical recognition that this target will not be met during a period of large capital expenditures when newly constructed assets are placed in service. Accordingly, the 75/25 could remain the long-term objective." The Board supports this view. The Board agrees with the evidence that there is a cost associated with equity as equity is provided by ratepayers who could otherwise use those funds. As such, the Board is not prepared to look at the issue of pacing to achieve a particular equity level target at least until the current phase of major capital construction is completed, now projected by Manitoba Hydro to be in 2024.

The current 25% equity level target was established by the Manitoba Hydro-Electric Board in 1995 when the Utility had 8% equity and less than $300 million of Retained Earnings. Except for approximately five years during the last 20 years, immediately prior to the start of Keeyask construction, this target has not been achieved.

The 25% equity level target is "self-imposed" by Manitoba Hydro. While Manitoba Hydro may determine that the 25% target remains relevant, the Board does not accept that consumer rate increases should be granted at the level proposed by Manitoba Hydro so that the Utility can achieve its target within a 10-year time frame. As stated by the Board in the NFAT report:

> *The Panel supports a relaxation of Manitoba Hydro's 75/25 debt-to-equity ratio to smooth out rate increases and the Panel concludes that Manitoba Hydro would still be left with sufficient retained earnings if the equity level was decreased.*

Financial Reserves

The Board finds that Manitoba Hydro's forecast achievement of $6.56 billion of Retained Earnings by 2027 is too aggressive considering that the two major capital projects contributing most to the doubling of the Utility's assets are still under construction. This increase in Retained Earnings would be funded by ratepayers, with a resulting follow through with full cost reduction measures and to file with the Board data that would allow the Board to assess the results and whether further measures are required.

The Manitoba Industrial Power Users Group argues that Manitoba Hydro should fully pursue O&A expense reductions, including reductions to staffing of 900 positions. The Manitoba Industrial Power Users Group is supportive of Manitoba Hydro responding to longstanding Board concerns over staffing levels, dating back to at least 2008.

10.3 Board Findings

The Board accepts the O&A forecast for the Test Year for financial forecasting and rate-setting purposes. The Board accepts that the level of detail needed for a full testing of the forecast is not available until the results of the Voluntary Departure Program are known. The Board directs Manitoba Hydro to file with the next GRA the details of its O&A expenditures with an explanation of the operational plan developed to continue running operations with a workforce that has been reduced by 15%, including any advice or recommendations received from external consultants retained by the Utility to assist with the restructuring and transition. This explanation should include confirmation that and details as to how Manitoba Hydro's operations are being run safely after the workforce reductions are complete. The Board further directs Manitoba Hydro to file with the next GRA details of its actual O&A expenditures dating back 10 years through to the date of the filing, along with forecast O&A expenditures by cost element and business unit, including the details of the Utility's pension liability related to the reduced staffing levels. The actual O& A expenditures are to include the compound annual growth both before and after accounting changes.

The Board acknowledges Manitoba Hydro's efforts to implement cost containment measures. While the level of cost containment has not met the 1% target on average over the five-year periods from 2009/10 through 2013/14 and from 2014/15 through 2018/19, based on the average of both actual and forecast costs, growth in O&A expenditures is at the level of inflation on average over these periods. Further, Manitoba Hydro forecasts a 3.3% reduction in O&A expense in each of 2017/18 and 2018/19, primarily due to staffing reductions. The Utility's review of its operations, at a time of restructuring and transition, presents an opportunity to find further areas to reduce O&A costs. The Board recommends that Manitoba Hydro continue these efforts, both in terms of staff reductions and Supply Chain Management, after the Voluntary Departure Program transition concludes.

The Board notes that, in Order 116/08, Manitoba Hydro was directed to undertake and file with the Board an independent benchmarking study of key performance metrics, using the most currently available data. Completion of this directive was deferred pending Manitoba Hydro's implementation of International Financial Reporting Standards ("IFRS"). While IFRS was adopted April 1, 2015, the benchmarking study directed in order 116/08 has not been filed. The Board views this as an outstanding directive and finds that independent benchmarking should be completed; however, the study should not be performed until after the transition period resulting from the Voluntary Departure Program concludes. The Board will expect an update on the status of the post-Voluntary Departure Program re-organization at the next GRA, including with respect to how the safety of employees and customers has been maintained.

24.0 Recommendations to Manitoba Hydro

In this Order, the Board recommends that Manitoba Hydro:

1. Defer $160 million of Business Operations Capital spending to a future period beyond 2018/19;
2. Continue to find reductions in Business Operations Capital spending during the current period of record spending on major capital projects such as Keeyask and Bipole III;
3. Update the Manitoba-Minnesota Transmission Project schedule more frequently than every two months once construction begins;
4. Make efforts to find further areas to reduce O&A costs, both in terms of staff reductions and Supply Chain Management, after the Voluntary Departure Program transition concludes;
5. Review and revise its capital project planning, scoping, and engineering processes to provide for a more certain in-service cost before such capital projects are economically and financially analyzed and presented to Manitoba Hydro's Executive for approval and, where required, subsequently to the Province of Manitoba;
6. Consider the "stage gate" project approval process and engage an external consultant to assist in studying the use of this process;
7. Use the services of an external construction management expert, particularly for high value projects and those with cost reimbursable payment structures, beginning with the initial study and planning through to project execution;
8. Consider the recommendations made by MGF to improve Manitoba Hydro's execution of its existing projects and in the planning, estimating, and construction of future projects; and

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Public Utilities Board

Régie des services publics

Order No. 69/19

FINAL ORDER WITH RESPECT TO MANITOBA HYDRO'S 2019/20 GENERAL RATE APPLICATION

May 28, 2019

BEFORE: Robert Gabor, Q.C., Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., Vice-Chair
Hugh Grant, Ph.D., Member
Shawn McCutcheon, Member
Larry Ring, Q.C., Member

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Board Findings

The Board finds that Manitoba Hydro’s 2019/20 O&A target is not accepted for rate-setting purposes. First, the target is premised on a high-level target calculation from early 2017 for the 2017/18 year, and includes two prior non-recurring costs that should be normalized in establishing a target for rate-setting purposes.

The Board finds that the 2019/20 O&A target should be reduced by $8.1 million. This is the amount of a one-time increase in collection costs in 2017/18 as a result of an assessment of collectability of arrears. The $8.1 million was used in the calculation of the 2018/19 budget, which was in turn used in establishing the 2019/20 target. The Board does not accept that the 2019/20 test year O&A target should include this $8.1 million for rate-setting purposes, as it is a one-time occurrence.

Similarly, the Board finds that the 2019/20 O&A target should be reduced by a further $7.3 million – the amount included in the 2019/19 O&A budget to support transitional business requirements arising from the Voluntary Departure Program. This amount was unallocated to specific Operating/Corporate groups and was held as a contingency. These expenses were not incurred in 2018/19 and Manitoba Hydro is not planning for these costs in 2019/20. There are also no actual expenditures associated with this unallocated funding. For these reasons, the test year O&A target should also not include this $7.3 million expense for rate-setting purposes.

Removing both of these expenses from the 2019/20 O&A target reduces the target from $511 million to $495.6 million.

Second, the Panel finds that, in developing the 2019/20 O&A target for rate-setting purposes, an escalation of 1% above the 2018/19 Financial Outlook is to be used. The Utility’s primary basis for the 2% escalation rate was that it is an inflationary increase. Manitoba Hydro’s evidence did not establish that a 2% escalation rate should be used. Moreover, the Board is concerned that the use of a rate of escalation of 2% will erode all of the O&A savings achieved by Manitoba Hydro through the Voluntary Departure

Program and supply chain management within the early years of Keeyask entering service. This offsetting of savings would be inconsistent with the intent of the Voluntary Departure Program and contrary to the need for Manitoba Hydro to find savings in controllable costs during a period of major capital expansion and related rate pressures.

In the absence of evidence demonstrating the appropriateness of a 2% escalation number, the Board finds that a 1% rate of escalation is to be used for rate setting purposes. This is consistent with Manitoba Hydro's prior commitment dating back to 2013 to limit operating cost increases to 1% per year. As the Board stated in Order 59/18, the Board expects Manitoba Hydro continue its efforts to reduce O&A costs, both in terms of staff reductions and supply chain management. The Board reiterates that cost control should be ongoing, and that it should continue in the post-Voluntary Departure Program years.

Reducing the escalation rate to 1% further reduces the O&A target to $489 million, or $22 million less than Manitoba Hydro's $511 million target. This is equivalent to a 1.3% rate decrease for ratepayers in 2019/20 and will have enduring benefits for ratepayers over time.

The Board is concerned about the lack of detailed information provided by Manitoba Hydro in evidence to support the O&A expenditures incorporated into the filing. As noted by the expert witness for the Consumers Coalition, the Voluntary Departure Program was complete approximately one year ago. It is difficult to understand why Manitoba Hydro has not yet been able to develop a detailed O&A budget. Given the materiality of this expense in Manitoba Hydro's revenue requirement, the Board directs Manitoba Hydro to develop and file a detailed O&A budget with the next GRA filing and provide the year over year dollar and percentage increases for the past five fiscal years. That detailed O&A budget is to include the 2019/20 year, as well as similar detail in support of any years for which Manitoba Hydro seeks a rate increase.

is a regulated utility. The principles of regulation and rate setting are such that interest is normally capitalized as part of a project until the project is in service and then it becomes part of the revenue requirement.

The Consumers Coalition submits that Manitoba Hydro has not demonstrated that it is facing a cash flow challenge. Rather, it is the position of this Intervener that current rates are sufficient from a cash flow perspective.

The Manitoba Industrial Power Users Group submits that cash flow should not be the key consideration in analyzing the sufficiency of rates, given the Utility's hydraulic variability. Like the expert witness for the Consumers Coalition, the expert witness for the Manitoba Industrial Power Users Group states that capitalized interest for assets that are not used and useful should not be a factor for rate setting. In his view, interest for capital projects is no different than other cash expenditures needed for capital projects, such as materials and labour, which are capitalized. The Manitoba Industrial Power Users Group argues that, although interest coverage ratios can be informative in rate setting, the information conveyed by such ratios can be skewed when capitalized interest is treated as an Operating Activity.

The Manitoba Industrial Power Users Group also submits that the Board should not place weight on Manitoba Hydro's arguments about the alleged concerns of credit rating agencies.

Board Findings

The Board finds that the presentation in which capitalized interest is included in Operating Activities is not to be taken into account when considering cash flow sufficiency in a test year for rate setting purposes. The Board agrees with the expert witnesses for the Consumers Coalition and the Manitoba Industrial Power Users Group that the change in the presentation of capitalized interest on the Cash Flow Statement is inconsistent with rate setting principles and is potentially confusing to stakeholders. Should the amount of capitalized interest need to be presented separately from other aspects of Investing Activities, a new line item under Investing Activities would address that concern.

On the issue of financial metrics, the Board's views remain as expressed in Order 59/18, including:

> *…that debt-to-equity is a questionable metric for a vertically integrated monopoly Crown utility with a debt guarantee from the provincial government. The equity level target does not have the prominence suggested by Manitoba Hydro given the context in which the Utility operates. The concern regarding the value of the equity level target is compounded when Manitoba Hydro is going through an unprecedented major investment period to more than double the value of its assets in the next four years. As noted by Manitoba Hydro's external consultant KPMG, there is a "practical recognition that this target will not be met during a period of large capital expenditures when newly constructed assets are placed in service. Accordingly, the 75/25 could remain the long-term objective." The Board supports this view…. As such, the Board is not prepared to look at the issue of pacing to achieve a particular equity level target at least until the current phase of major capital construction is completed, now projected by Manitoba Hydro to be in 2024.*

As for reserves, the Board remains of the view that:

> *Retained Earnings should be used to manage drought risk in combination with regulatory action by the Board. The Board further agrees that interest rate and export price risks over the long term should be addressed with rate increases as and when those risks materialize. Rates should not be set to increase Retained Earnings to manage those longer-term risks. As discussed elsewhere in this Order,*

the Board is prepared to consider regulatory action when required to address emerging risks facing Manitoba Hydro.

In its written rebuttal evidence and in oral testimony, Manitoba Hydro also referenced a report from a credit rating agency in support of its argument that the Utility faces financial risks in the test year. The Board reiterates its findings from Order 59/18 that, "while important, care must be taken to avoid placing too much weight on reports by credit rating agencies." The Board continues to accept that the assessment of the financial health of a utility by credit rating agencies and by capital markets are related, but are not the same thing.

Manitoba Hydro testified that the new MHEB is currently undertaking a comprehensive review of the Utility's operations, forecasts, and financial plans to enable it to establish, first, a new Corporate Strategic Plan and, second, a new long-term financial plan for Manitoba Hydro. Included in that review and planning process is consideration for meetings with stakeholders. The Board sees an opportunity for Manitoba Hydro to meet with regulatory stakeholders to further understandings of the financial reserves required for the Utility and to be considered in rate setting. As such, prior to the MHEB's development of a new Corporate Strategic Plan and long-term financial plan, there should be engagement by Manitoba Hydro with stakeholders and the Board.

In an effort to assist the MHEB, the Board repeats its views from Order 59/18 that:

there is merit to gaining better understanding of the financial reserves required for Manitoba Hydro under various circumstances. This would include consideration of risk tolerances, what risks should be protected by reserves, and the circumstances which would guide the need for more aggressive rate increases to continue full cost recovery for Manitoba Hydro. The Board is mindful that the financing and depreciation expenses related to these new major capital assets entering service already require additional revenues from rate increases. Consideration of the appropriate level of financial reserves, *for example a minimum retained earnings test, is best done through a collaborative approach with stakeholders.*

The Board finds there is merit in a collaborative process as envisioned by the Board in Order 59/18. The Board directs Manitoba Hydro to participate in a technical conference hosted by Board staff or an external consultant appointed by the Board for the consideration of the use of rule-based regulation to provide guidance in the setting of consumer rates and of the question of the role and sufficiency of reserves in Manitoba Hydro’s operations and the Board’s rate regulation of the Utility. Board staff will invite Manitoba Hydro to a planning meeting to review and revise the draft scope of this technical conference before circulation for Intervener comments.

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Order No. 9/22

ORDER SETTING OUT FURTHER REASONS FOR DECISIONS IN ORDER 137/21 WITH RESPECT TO MANITOBA HYDRO'S 2021/22 INTERIM RATE APPLICATION

January 26, 2022

BEFORE: Robert Gabor, Q.C., Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., Vice-Chair
Hugh Grant, Ph.D., Member
Irene A. Hamilton, Q.C., Member
Shawn McCutcheon, Member
Larry Ring, Q.C., Member

Procedural History

The Procedural History leading to this Order includes draft legislation, a Status Update Motion filed by the Consumers Coalition on March 26, 2021, and the November 15, 2021 Interim Application filed by Manitoba Hydro.

<u>Draft Legislation</u>

In March 2020, the provincial Government introduced Bill 44 *The Public Utilities Ratepayer Protection and Regulatory Reform Act* to establish a new legislated framework for the regulation of electricity rates and natural gas rates. Under the draft framework, both electricity and natural gas rates would be regulated in five-year intervals by the Board, commencing April 1, 2024, under *The Manitoba Hydro Act.* In the transition years leading to 2024, electricity rates would be set by the Government, through regulation.

Bill 44 was held over to the fall of 2020 and reintroduced as Bill 35 on October 14, 2020.

On December 1, 2020, Manitoba Hydro's rates were increased 2.9% for all customer classes pursuant to provincial legislation.

On July 8, 2021, the Government announced that it planned to amend Bill 35 to legislate three years of annual 2.5% electricity rate increases.

On October 6, 2021, Bill 35 was withdrawn from the Legislative Assembly.

<u>Status Update Motion</u>

The Consumers Coalition, representing residential electricity ratepayers, supported by the Manitoba Industrial Power Users Group, the Assembly of Manitoba Chiefs, and Manitoba Keewatinowi Okimakanak, applied to the Board for a status update hearing to determine whether rates charged by Manitoba Hydro were just and reasonable and whether Manitoba Hydro's costs were fairly allocated among the customer classes. The Consumers Coalition's Status Update Application maintained that, in light of the substantial changes in Manitoba Hydro's circumstances since electricity rates were last temporary situation to address the pandemic. Manitoba Hydro maintains that with the winding down of major capital projects, O&A costs are increasing as there is a shift from resources working on construction activities, focused mainly on hydro-electric and transmission development, to operating activities in support of Strategy 2040 and building up the capability to meet the evolving energy landscape.

Intervener Positions

According to the Consumers Coalition, Manitoba Hydro has not managed the financial impacts of the drought appropriately, as it has not reduced its O&A expenses. Similar to the Consumers Coalition's observations of Manitoba Hydro's statements at the 2014 NFAT public proceeding with respect to how Manitoba Hydro would reduce its expenditures in response to drought conditions, the Consumers Coalition noted that Manitoba Hydro has not reduced its O&A expenses in response to the 2021/22 drought.

Instead of reducing O&A, this Intervener calculated Manitoba Hydro has increased its O&A spending by 4.3% from 2019/20 to 2020/21 and is projecting a cumulative increase from 2019/20 to 2022/23 of 16.2% (i.e. 5.4% per year on average).

Manitoba Industrial Power Users Group had the same concerns with Manitoba Hydro's O&A expenses as noted above for Manitoba Hydro's Business Operations Capital expenditures. Manitoba Industrial Power Users Group stated that Manitoba Hydro is now proposing to undo much of this cost containment and increase spending on additional FTEs. Given that the budget increasing the FTEs has been approved by the Manitoba Hydro Board of Directors, Manitoba Industrial Power Users Group questions the O&A cost-cutting measures that Manitoba Hydro is considering and whether Manitoba Hydro is considering cost-cutting measures at all.

Board Findings

The Board finds the position of Manitoba Hydro previously expressed at the NFAT proceeding has changed with respect to addressing the financial impacts of drought. If the drought continues and Manitoba Hydro's cash flow concerns continue next year, the

Board finds that Manitoba Hydro shall seek savings in its O&A expenses in order to confront liquidity concerns related to drought.

Manitoba Hydro stated that its O&A expenses are not easily adjusted in response to the drought as they are made up primarily of employee wages, salaries, and benefits. The Board notes that Manitoba Hydro was able to adjust its O&A expenses relatively quickly in response to the directive from the provincial Government to do so in light of the pandemic. The Board also finds that as major capital projects wound down and were completed, Manitoba Hydro should have planned for the fact that the salaries of employees previously working on these projects would no longer be capitalized and instead form part of the O&A expenses. The Board will consider Manitoba Hydro's steps to reduce its O&A expenses at the next General Rate Application. The Board directs Manitoba Hydro to demonstrate the savings in O&A expenses that are found by showing the updated O&A expenses compared to the O&A expenses proposed in this interim proceeding. Manitoba Hydro should be planning for the drought to continue and it must therefore control its O&A expenses to address the financial impacts of a continuing drought, although Manitoba Hydro is to manage these expenses regardless of whether the water conditions recover and the drought ends.

While compliance with prior Board directives was out of scope of the Interim Application proceeding, the Board notes that there are outstanding directives related to O&A expenses, including Order 58/19 Directives 12 and 13 and Order 69/19 Directive 8. The Board will review Manitoba Hydro's responses to these Directives at the next General Rate Application.

Debt Management

Manitoba Hydro plans to borrow $348 million in 2021/22 to fund its operations, which represents 90% of the projected reduction from previously forecast Net Extraprovincial Revenue.

Board Findings

The Board finds that the 3.6% increase in General Consumers Revenue approved in Order 140/21 will annually yield $64 million. Manitoba Hydro's planned increase in O&A expenses in the current and next fiscal year totals $61 million.

While recognizing that O&A expenses were a contentious issue and not a principal focus of this Interim Application, the Board finds Manitoba Hydro's plans to increase its O&A expenses in 2022/23 to be unsupportable based on the evidence in this Interim Application. In a time of drought, with no evidence that the drought will end in 2022/23, Manitoba Hydro must reduce expenditures, as it explained it would when describing how it would address drought at the 2014 NFAT proceeding.

The Board notes that O&A cost savings realized to date ought not to be considered temporary savings. With Manitoba Hydro currently researching the future implementation of initiatives related to its now-finalized new corporate strategic plan ('Strategy 2040'), Manitoba Hydro is provided with an opportunity to solidify existing savings and find further efficiencies.

The Board finds that cost control should be ongoing and continue in the post-Voluntary Departure Program years, the pandemic years, and drought years.

If the drought continues and Manitoba Hydro's cash flow concerns continue next year, the Board finds that Manitoba Hydro must seek savings in its O&A expenses in order to confront liquidity concerns related to the continuing drought. The Board notes that Manitoba Hydro plans to increase its O&A expenses relatively quickly in the next fiscal year. Based on the record of this hearing, the Board finds that Manitoba Hydro can slow, pause, or suspend planned O&A increases. The Board will consider Manitoba Hydro's steps to manage its O&A expenses at the next General Rate Application.

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 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%

Source: Manitoba Hydro's Interim Application page 24

Even with a 5% revenue increase commencing January 1, 2022, Manitoba Hydro calculates that it will borrow approximately 90% of the projected $398 million of lost Net Extraprovincial Revenue resulting from the current drought.

Board Findings

In Order 59/18, the Board made findings on Manitoba Hydro's financial metrics:

> *The Board accepts Morrison Park Advisors' evidence that debt-to-equity is a questionable metric for a vertically integrated monopoly Crown utility with a debt guarantee from the provincial government. The equity level target does not have the prominence suggested by Manitoba Hydro given the context in which the Utility operates. The concern regarding the value of the equity level target is compounded when Manitoba Hydro is going through an unprecedented major investment period to more than double the value of its assets in the next four years. As noted by Manitoba Hydro's external consultant KPMG, there is a "practical recognition that this target will not be met during a period of large capital expenditures when newly constructed assets are placed in service. Accordingly, the 75/25 could remain the long-term objective." The Board supports this view. The Board agrees with the evidence that there is a cost associated with equity as equity is provided by ratepayers who could otherwise use those funds. As such,*

the Board is not prepared to look at the issue of pacing to achieve a particular equity level target at least until the current phase of major capital construction is completed, now projected by Manitoba Hydro to be in 2024.

…

The Board finds that, while important, care must be taken to avoid placing too much weight on reports by credit rating agencies. The Board accepts that credit ratings and capital markets are related, but are not the same thing.

The Board is of the view that these findings remain valid and relevant.

With respect to the comparison of Manitoba Hydro's debt ratio to the debt ratio of other Crown-owned electricity utilities, the Board finds that context is required to properly understand the comparisons. For example, there was a suggestion that BC Hydro's current debt ratio reflects the completion of the Site C hydroelectric generating station. However, that $16 billion project has not yet been completed. Hydro Quebec's debt ratio reflects its mature asset base. SaskPower's debt ratio reflects its primarily fossil fuel-based generation fleet as opposed to higher-capital hydroelectric generating stations. These are in contrast to Manitoba Hydro's situation where it has doubled its assets since commencing construction of Keeyask Generating Station and Bipole III. Any comparisons of financial metrics among Canadian Crown energy utilities at the 2022/23 GRA will require context for the Board to consider the information.