MANITOBA PUBLIC UTILITIES BOARD

MANITOBA HYDRO 2023/24 & 2024/25 GRA

Direct Evidence Presentation

Darren Rainkie

On Behalf of The Consumers Coalition

June 1, 2023

Overview of Mr. Rainkie's, CPA, CA, CBV Qualifications

- **33 Years** of **Hands On** & **Multi-Faceted Expertise** in **Public Utility Leadership**, **Rate-Regulation** & **Financial Management** 1990-Current
- **Price Waterhouse** - Audit Senior/Assistant Manager & PUB Advisor 1988 to 1994
- **Centra Gas** - Senior Financial Analyst/Regulatory Coordinator 1994 to 1999
- **Manitoba Hydro** - Manager Regulatory Services/Treasurer/Controller 1999 to 2013
- **Manitoba Hydro** - VP, Finance & Regulatory Affairs & CFO 2013 to 2017
- **Manitoba Hydro** - Acting President & CEO Sept-Dec 2015
- **Independent Regulatory Consultant** - BCUC, NWT-PUB, AUC, MPUB, NSUARB, NBEUB 2017-Current

Rate Setting
Through Fundamentals & Balance

- "Those that Stay True to These **Fundamentals** and Maintain their **Balance**, Even in Times of Great **Change** and **Disruption**, will Accumulate the Momentum that Creates **Breakthrough Momentum**" From Good to Great - Jim Collins
- The **Fundamentals** of Past PUB Policy Pronouncements Re: Appropriate Financial Metrics/Targets, How Risks are Reflected in Rates and Prudent Cost Control
- PUB Mandate re: **Balancing** Interests of Customers with Financial Health of MH through Judgement Under the Modified Cost of Service (MCOS) Rate-Setting Approach = Fiscally Prudent Rate Smoothing

Overall Rate Increase Recommendation Summary

	2021/22	2022/23	2023/24	2024/25	Total
Analytical Perspective #1: Test Years Only	3.6%	0.0%	0.0%	0.0%	3.6%
Analytical Perspective #2: 20-Year Rate Smoothing	3.6%	0.0%	0.0%	1.2% to 1.5%	4.8% - 5.1%
Analytical Perspective #3: 30-Year Inter. Equity	3.6%	0.0%	0.0%	0.0%	3.6%
Recommendation	3.6%	0.0%	0.0%	1.3%	4.9%
MH Proposal	3.6%	0.0%	2.0%	2.0%	7.6%

- **Overall Rate Increase Recommendation** to PUB is (i) **Confirm 3.6% Interim as Final** and (ii) A **Single** Additional **Rate Increase of 1.3%** on **April 1, 2024** (Total of 4.9% or 4.95% Cumulative). Overall Rate Increase Recommendation includes Prudent O&A and BOC Cost Containment and Prudent DMS

- MH Proposal is to Confirm 3.6% Interim and Two Additional 2% Increases (Total of 7.6% or 7.79% Cumulative)

Outline of Presentation

- **Part 1** = Analytical Perspective #1 - Test Years Only
- **Part 2** = Analytical Perspective #2 – 20-Year Rate Smoothing (a) Rate Smoothing Evaluation Framework (b) Strategy 2040 (c) Prudent O&A Levels (d) Prudent BOC Levels (e) Prudent Debt Management Strategy (DMS) (f) Relative Risk Assessment (g) Appropriate Financial Metrics/Targets (h) Conclusion
- **Part 3** = Analytical Perspective #3 – 30-Year Intergenerational Equity
- **Part 4** = Overall Rate Increase Recommendation
- **Part 5** = Recommendations on Regulatory Deferral Accounts (RDA)

Part 1 = Analytical Perspective # 1

TEST YEARS ONLY - 2021/22 to 2024/25

Traditional PUB Financial Metrics for Rate-Setting

- **(1) Net Income**
- **(2) Retained Earnings (Financial Reserves)**
- **(3) Net Debt**
- **(4) Equity Ratio** = Measures Proportion of MH's Assets Financed by Equity as Compared to Debt (MH Prior Long-standing Target was **>25%**) (**Order 59/18 = PUB: Questionable Metric for MH**)
- **(5) Interest Coverage Ratio (EBITDA)** = Measures Ability to Meet Interest Payments with Cash Flow (MH Prior Long-standing Target was **>1.80**)
- **(6) Capital Coverage Ratio** = Measure of Ability to Fund Sustaining Capital Expenditures through Cash Flow from Operations (MH Prior Long-standing Target was **>1.20**)
- These Financial Metrics **Represent All Three Financial Statements**, **Allow for Consistent Presentation** Over Time and **Demonstrate Similar Trends** to the Additional Financial Metrics Monitored by MH (Coalition/MH I-49)

Test Years Only Perspective – No Justification for 2% in 2023/24 & 2024/25

	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast
Net Income:				
Net Income - with rate increases	-249	751	469	295
Less: 2% Rate Increases			-24	-74
Net Income - without rate increases	**-249**	**751**	**445**	**221**
Cumulative - with rate increases	-249	502	971	1266
Cumulative - without rate increases	**-249**	**502**	**947**	**1168**
Other Financial Metrics:				
Net Debt - with increases	23293	22963	22529	22341
Net Debt - without increases	**23293**	**22963**	**22552**	**22442**
Retained Earnings - with increases	2825	3575	4044	4339
Retained Earnings - without increase	**2825**	**3575**	**4021**	**4238**
Equity Ratio - with increases	13%	15%	17%	18%
Equity Ratio - without increases	**13%**	**15%**	**17%**	**18%**
EBITDA Interest Coverage - with	1.31	2.48	2.21	2.06
EBITDA Interest Coverage - without	**1.31**	**2.48**	**2.18**	**1.98**
Capital Coverage Ratio - with	0.56	2.26	2.23	1.61
Capital Coverage Ratio - without	**0.56**	**2.26**	**2.18**	**1.48**

- **Cumulative Net Income** Without Proposed Rate Increases in 4 Test Years = **$1.168B** (Average $292M/year)
- **Retained Earnings Grow** to **$4.2B** and **Net Debt Reduces** to **$22.4B**
- **Equity Ratio Recovers** to 18% and **Interest Coverage** & **Capital Coverage** Above Prior Target Levels
- **Conclusion** is **No Justification** for 2% Rate Increases in 2024 and 2025 **Based Solely on Test Years**

Part 2 (a) = Analytical Perspective # 2

BEYOND THE TEST YEARS -

20-Year Rate Smoothing Evaluation Framework

20-Year Rate Smoothing Evaluation Framework

- **Alternate** Consumers Coalition **Rate Scenarios** (**CC1 to CC11**) Requested Through Information Requests to **Critically Evaluate/Test** Various **Balancing Points** of Level of **Rate Increases to Customers** with the **Financial Health of MH**

- CC1 to C11 **Analogous** to **MH Exhibit #93** from the **MH 2018/19 GRA** Used By the PUB to Approve a 3.6% Rate Increase in the 2018/19 GRA (**MH16**)

- CC1 to CC11 Use **Judgement, Trial** and **Iteration** and Evaluate **More Appropriate Balancing** than **MH Mechanistic Goal Seeking** Approach (**MH22 & 2% Rate Path**) - **Through (i) Assessment** of Strategy 2040, Prudent Levels of O&A and BOC, Prudent DMS, Relative Assessment of Risks Compared to Last MH GRA and Appropriate Financial Metrics/Targets for Rate-Setting Purposes and **(ii) Consistency with Prior PUB Pronouncements** with respect to Cost Control, Risks and Appropriate Financial Metrics/Targets for Rate-Setting

- **CC10 (1.2%)** and **CC11 (1.5%)** with Even Annual Rate Increases Commencing in 2025 and Continuing on to 2042 – are **Reasonable Alternative Rate Scenarios** to the MH 2% Rate Path and **Include Prudent Cost Containment** & **Debt Management Strategies (DMS)**

20-Year Rate Smoothing & MH Scenarios, Projections, Planning Assumptions, Placeholders, Extrapolations, Contingencies, and Cost Flow Adjustments

- **20-Year Rate Paths Inherently** Involve **Judgement** & **Uncertainty** – they are Scenarios and Projections – with Planning Assumptions, Placeholders, Extrapolations, Contingencies and Cost Flow Adjustments

- **MH22** is a **Financial Forecast** "**Scenario**…Showing **Directional Information** for the Next 20 Years" and Recognizes the Uncertainty of Making Projections that Far into the Future and the Use of "Planning Assumptions". Strategy 2040 at Early Stages of Development; MB Energy Policy and New IRP Yet to be Released and Analyzed. Definition of Scenario = "A Description of **Possible** Actions or Events in the Future" (Cambridge Dictionary)

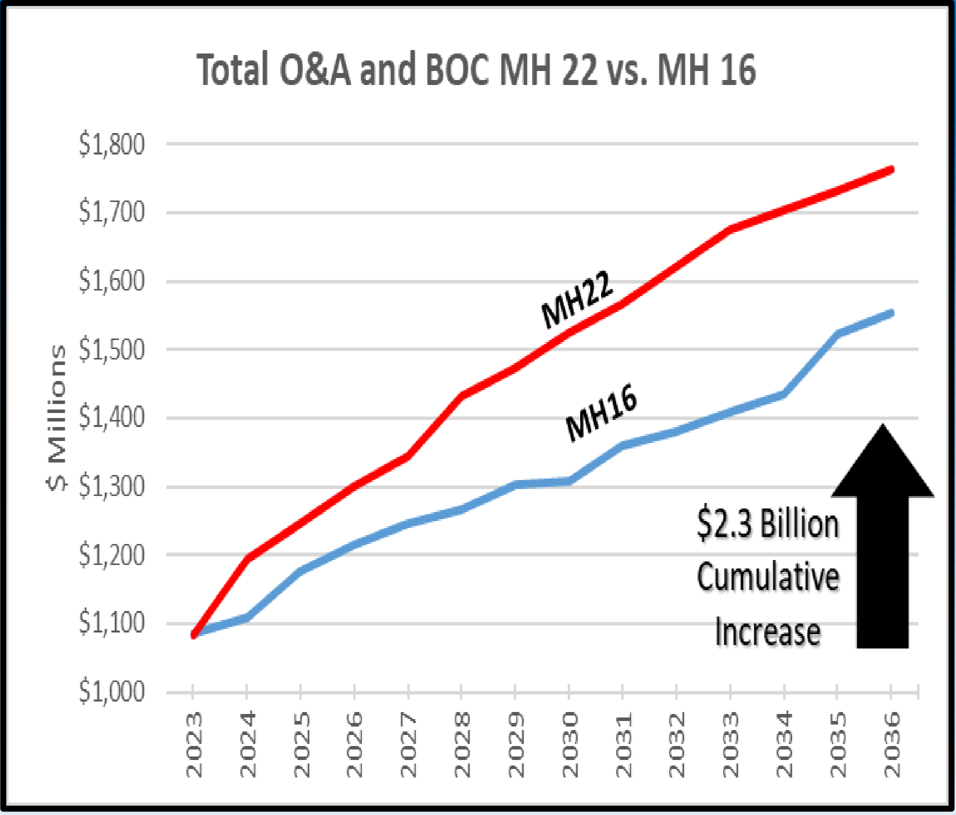
- **O&A Examples**: O&A in MH22 is an Extrapolation over 20-Years Using MB CPI. Extrapolation Includes Number of FTE's & Compensation Assumptions, Benefits Based on Discount Rate Assumptions (Highly Sensitive), SAP S/4HANA $156M Placeholder (No Business Case). Vacancy Assumptions & Contingencies Used to Balance Details in Budgets to Approved O&A Forecasts.

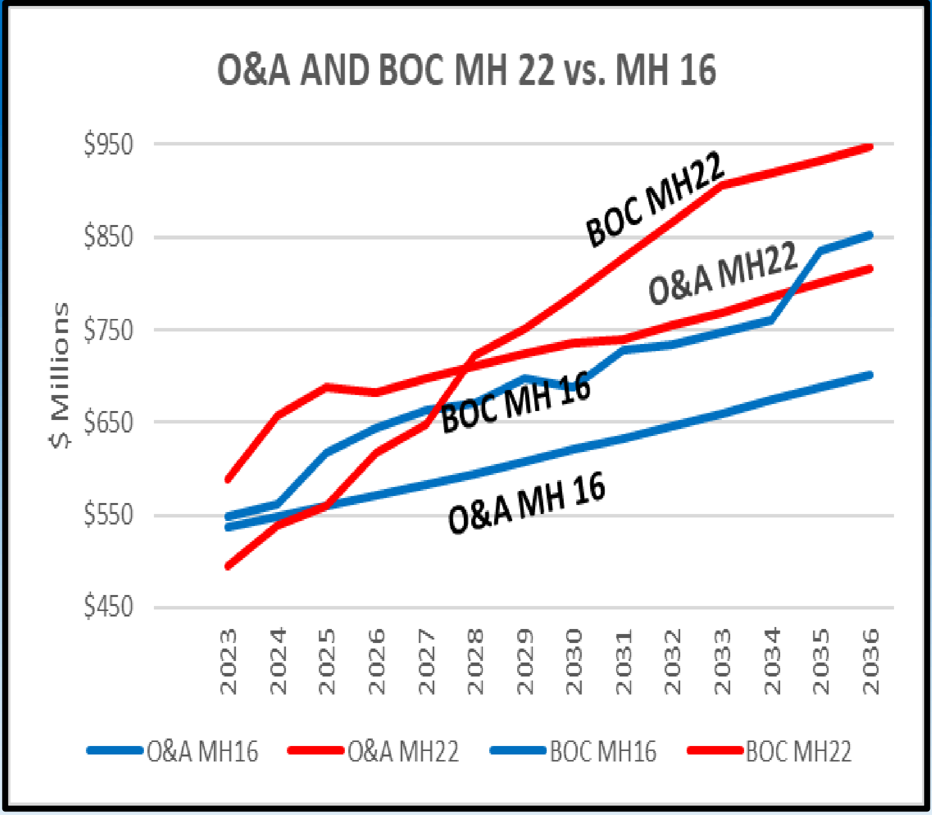
- **BOC Examples**: BOC in CEP22 Contains $8.9B (54%) of "Portfolio Adjustments" (Placeholders), $6.2B (38%) of Programs (Extrapolations) Out of $16.5B, Bipole I & II Refurbishment Placeholder of $1.0B to $1.8B, Long Spruce Overhauls Placeholder of $265M, Kettle Overhauls Placeholder of $315M, AMI Project Placeholder of $300M (No Business Case) and $180M Grid Modernization Project Placeholders of $180M (No Business Case). Cost Flow Adjustments Used to Balance Details in Budgets to Approved BOC Forecasts.

- **Debt Management Strategy (DMS) Examples**: Finance Expense is Based on Consensus Forecasts of Interest Rates Out to 2029, with 2029 Interest Rate Forecasts being Extrapolated Out to 2042

Part 2 (b) = Evaluation of Strategy 2040 for Rate-Setting Purposes

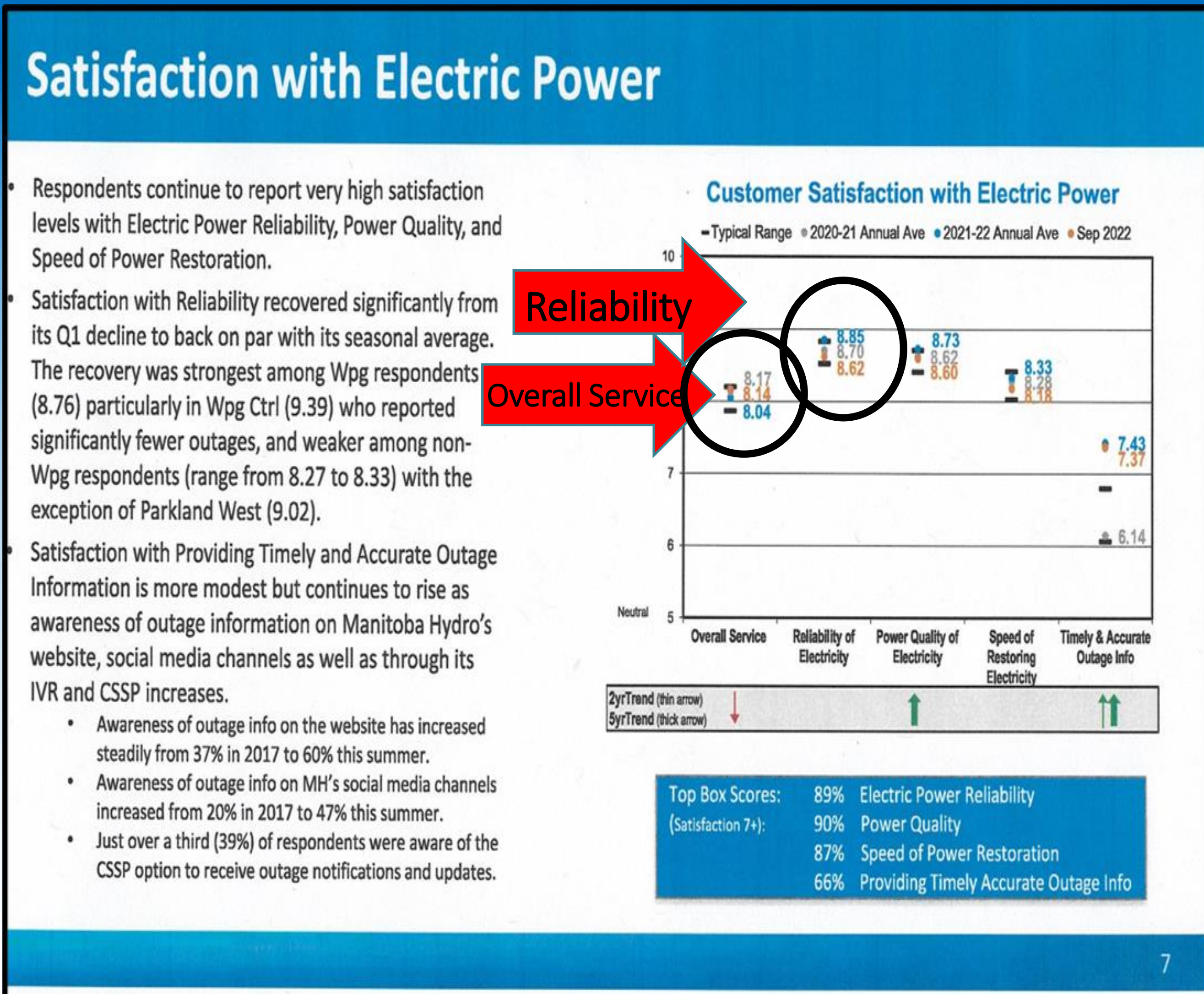
Strategy 2040 Contributes to Upward Rate Pressure & Self Imposed Financial Risks





- **Strategy Drives Strategic Initiatives**, Corporate Policy, Attitudes Towards Risks and **Ultimately spending priorities & plans** of a utility
- **Increases** in **Total O&A and BOC Projections since Last GRA** of (i) $85M & $154M in 2024 & 2025 (ii) $1.3B Between 2023 and 2032 and (iii) **$2.3B Between 2023 and 2036** ($1.5B in O&A and $0.8B in BOC). MH Variance Analysis Mostly Refers to Strategy 2040.
- Also **Restructuring Costs of $51M** from 2020 to 2025 and $59M to 2030 that are **Recorded** in **Other Expenses**
- **$2.3B Increase in Costs Creates Self-Imposed Risks** (Pressure on Financial Health, Higher Levels of Debt & Lower Levels of Cash Flow)

Weak Underpinning of Customer Preferences: High Customer Satisfaction with Electric Power Service & Reliability



- MH **Customer Satisfaction & Perceptions Tracking Study** - September 2022
- Customer Satisfaction with **Overall Electric Service is 8.14** Out of 10
- Customer Satisfaction with **Reliability of Electric Service is 8.62** Out of 10
- 2019 MH SWOT First Strength = Energy Service Reliability & Outage Responsiveness

Weak Underpinning of Customer Preferences: Customer Satisfaction with Price of Electricity is Lower than Service & Reliability

Satisfaction with Price

- Much lower satisfaction continues to be expressed with the Price of Electricity and Natural Gas.
- Both measures followed a typical seasonal pattern and eased back up over the summer non-heating season from their significant declines after the longer and colder than average heating season last winter combined with rising energy costs (rates and taxes) particularly for natural gas.
- While satisfaction with electricity's price is now on par with its seasonal average, satisfaction with natural gas's price remains well below its seasonal average (6.52).
- Over a third (34%) of respondents still report their household is experiencing an energy burden and they are much more likely to report lower satisfaction with the price of energy (5.3 vs 6.9 by those not experiencing an energy burden).
- Lower satisfaction the price of energy is also reported by those not on PAPP (6.1 vs. 6.8 for those who are) – their bills likely serve as monthly reminders of the cost of energy.
- There is no variation in satisfaction between those on EPP and those not using EPP.

Top Box Scores: (Satisfaction 7+):		
	48%	Price of Natural Gas
	48%	Price of Electricity

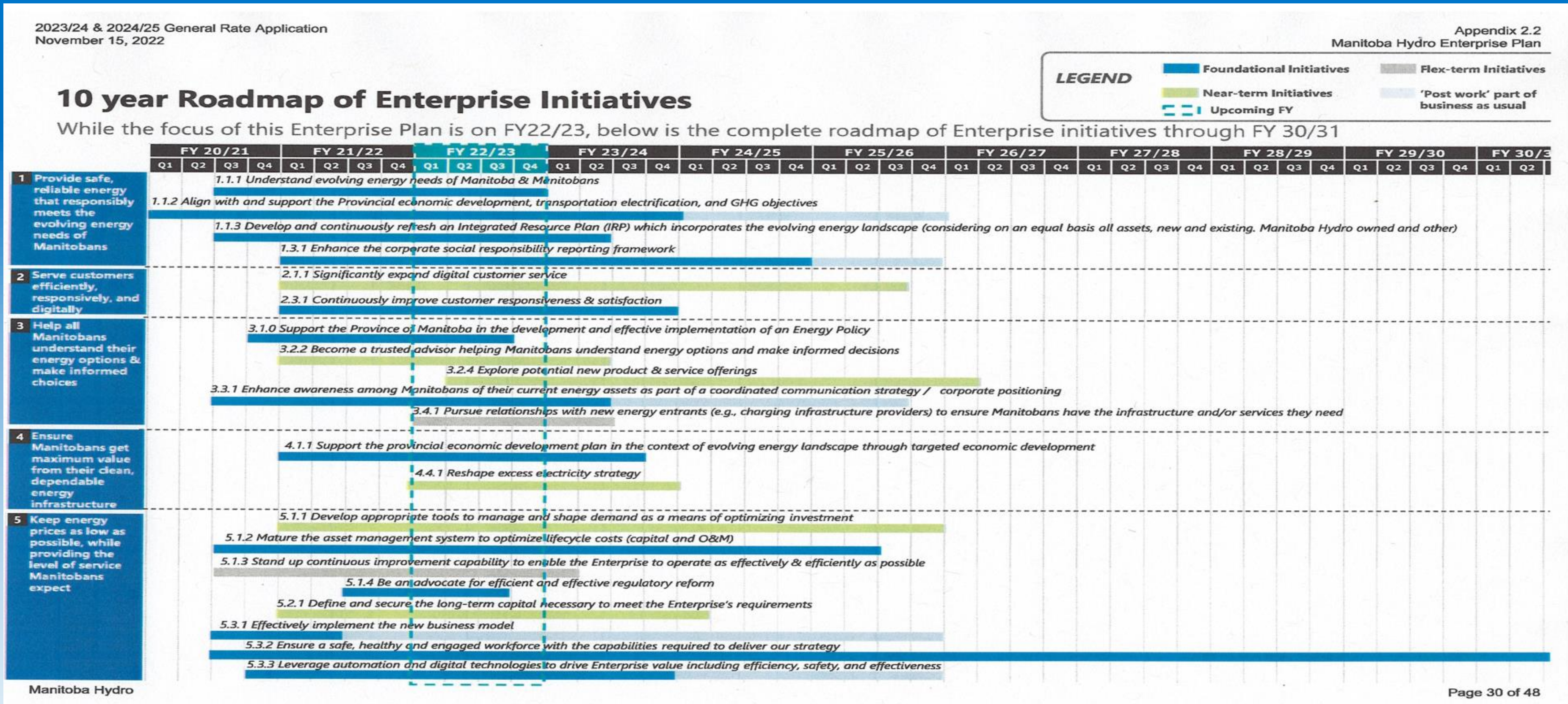
10

- MH Customer Satisfaction & Perceptions Tracking Study - September 2022
- Customer Satisfaction with **Price of Electricity was 6.29** Out of 10

Weak Underpinning of Customer Preferences: "Leading" Survey Questions

- **2019 Customer Perceptions Study Q48: In Your View, How do You Think MH Should Address the Number of Customer Power Outages?** Mean Response was 5.28 on a Scale of 1 to 10 (0 Keeping Power Rates Lower & 10 Reducing Number of Outages); and
- **2019 Customer Perceptions Study Q49: In Your View, How do You Think MH Should Address the Length of Time Customers are Without Power?** Mean Response was 5.55 on a Scale of 1 to 10 (0 Keeping Power Rates Lower & 10 Reducing Length of Outages)
- **Rates-Reliability Trade-off Questions** Appear to (i) **Ignore Findings** of High Customer Satisfaction with Service/Reliability and Lagging Satisfaction with Price of Electricity and (ii) **Ask Leading Questions** that Presuppose the Need to Address Reliability and (iii) **Even Then Customer Responses are Balanced Around 5** = Not Overwhelmingly Supportive of Additional Spending to Improve Reliability
- **Caution** Should be **Exercised** in **Interpretation of Responses** to Such Questions – that there Isn't a **Solution Searching for a Problem**

Too Many Concerns & Unknowns for PUB to Fully Accept Strategy 2040 for Rate Setting



- Strategy 2040 Implementation Appears to be (i) **Premature** and of a **Transformational Magnitude** (Restructuring vs. Reconfiguration) **Potentially Unnecessary** in Advance of Foundational pre-cursors of MB Energy Policy & New IRP (ii) **Unfocused** with 21 Strategic Initiatives (47 deliverables in 2023) and does **Not Yet Provide Strategic Clarity** (Analysis Paralysis) (iii) a 10-year Multi-Year Journey that is a **Work in Progress/Early Stages** by MH's Own Admission, No Business Cases and Many Placeholder Budgets for Significant Initiatives and Technology Investment (Difficult to Meet Regulatory Prudence Test)

- MH Acknowledges that "Consistent with the Current Regulatory process, the **PUB** has the **Authority** to **Include or Exclude Costs**, Revenues, Losses or Gains in its **Rate Determination**" (Coalition/MH II-20 b)

Part 2 (c) = Evaluation of Prudent Levels of O&A for Rate-Setting Purposes

$175M or 34% increase in O&A (2020 to 2025) Does Not Demonstrate Commitment to Cost Control

O&A by Category 2020 - 2025 ($ Millions)	2020 Actual	2023 Forecast	2025 Forecast	*2025 vs. 2020 $ Change*	*2025 vs. 2020 % Change*
Wages & Salaries	458	459	505	*47*	*10.3%*
Employee Benefits	124	153	166	*42*	*33.9%*
Overtime & Other	146	135	152	*6*	*4.1%*
Total Employee Related	**728**	**747**	**823**	***95***	***13.1%***
Less: Capitalized Costs	-287	-248	-267	*20*	*-7.0%*
Operational Related	**441**	**499**	**556**	***115***	***26.1%***
Consulting & Professional	13	25	51	*38*	*292.3%*
Construction & Mtnce	23	30	35	*12*	*52.2%*
Building & Property Costs	29	34	39	*10*	*34.5%*
Computer Services	2	8	15	*13*	*650.0%*
Other Ext Svcs/Materials	68	75	81	*13*	*19.1%*
Ext Srvces/Materials	**135**	**172**	**221**	***86***	***63.7%***
Other Costs/Recoveries	**-64**	**-82**	**-90**	***-26***	***40.6%***
Operational Non-Employee	**71**	**90**	**131**	***60***	***84.5%***
Total O&A	**512**	**589**	**687**	***175***	***34.2%***

- **5-Year Analysis Commences with 2020 Actual O&A** as the **PUB's Last Review of O&A Targets** Occurred at the 2019/20 MH Rate Application (Order 69/19)

- **34.2% Increase in O&A** over 5-Year Analysis Period Represents an **Average Annual Growth Rate of 6.1% per Year**. Main Components of this Increase are **(i) Higher Wages & Salaries (ii) Higher Employee Benefits (iii) Lower Capitalized Costs and (iii) Higher Consulting & Professional** and **Computer Services.** MB Cumulative CPI over the 5-Year Analysis Period is Forecast at 13.2% - however – the Majority of MH O&A Costs related to Employee Related Costs that are Escalating at Lower Rates than Recent MB CPI

- **Pension Discount Rates** Appear to be **Understated from 2023 to 2025** (More Current Rates Around 5% Compared to 3.11% to 4.00% in MH22) – Could Result in **Lower Employee Benefit Costs in the Order of $37M to $74M. MH FTE's Under Forecast by 89** to February of 2023

- It is **Not Possible** to **Conclude** that **MH** is **Committed** to **Controlling O&A Costs**

97 FTE Increase (2020 to 2025) Entirely in Governance & Services Business Units Primarily Due to Strategy 2040

Business Unit FTE's (2020 to 2025)	2020 Actual	2023 Forecast	2025 Forecast	2025 vs. 2020 Change	2025 vs. 2020 % Change
President & CEO	8	19	21	13	162.5%
Digital & Technology	249	246	273	24	9.6%
HR, Safety, Health & Environ.	159	168	209	50	31.5%
Chief Financial Officer	352	364	372	20	5.7%
Exteral, IR. & Comm.	116	122	125	9	7.8%
Governance & Service BU's	**884**	**919**	**1000**	**116**	**13.1%**
Customer Solutions & Exper.	373	355	365	-8	-2.1%
Asset Planning & Delivery	1509	1272	1307	-202	-13.4%
Operations	2407	2533	2598	191	7.9%
Operational BU's	**4289**	**4160**	**4270**	**-19**	**-0.4%**
Total Business Units	**5173**	**5079**	**5270**	**97**	**1.9%**

- **Total FTE's Forecast to Increase 97** over 5-Year Analysis Period made up of **(i) 116 FTE Increase in Governance & Service BU's** (primarily HRSHE, D&T & CFO) and **(ii) 19 FTE Decrease in Operational BU's**
- **HRSHE BU Increase (50 FTE)** Primarily Due to Supporting Strategic Initiatives Associated with Business Model Review/Alignment & Filling of Vacancies
- **D&T BU Increase (24 FTE)** Primarily Due to Building Out the BU to Support Strategy 2040, Execution of the D&T Roadmap and Filling of Certain Vacancies
- **CFO BU Increase (20 FTE)** Primarily Due to Strategy 2040 Initiatives, Filling Vacancies in Strategy & Enterprise Planning and Enterprise Risk Management and Moving MHI Staff into the BU as Part of the Business Model Review
- **FTE Increases in Executive & Senior Management from 36 to 39** since last GRA and **21 Increase in Manager Positions** Since 2022 (Primarily in the Governance & Service BU's as a result of Strategy 2040)

O&A Increase of $72M+ (2020 to 2025) in Governance & Services BU's Primarily Due to Strategy 2040

O&A by Business Unit 2020 to 2025 - $Millions	2020 Actual	2023 Forecast	2025 Forecast	*2025 vs. 2020 $ Change*	*2025 vs. 2020 % Change*
President & CEO	3	5	6	*3*	*100.0%*
Digital & Technology	42	52	88	*46*	*109.5%*
HR, Safety, Health & Env	18	19	24	*6*	*33.3%*
Chief Financial Officer	54	60	66	*12*	*22.2%*
Exteral, IR. & Comm.	16	20	21	*5*	*31.3%*
Governance & Service	**133**	**156**	**205**	***72***	***54.1%***
Cust Solutions & Exper.	51	54	56	*5*	*9.8%*
Asset Plan & Delivery	200	179	195	*-5*	*-2.5%*
Operations	319	344	377	*58*	*18.2%*
Operational BU's	**570**	**577**	**628**	***58***	***10.2%***
Total Business Units	**703**	**733**	**833**	***130***	***18.5%***
Non-BU Adjustments	**-191**	**-144**	**-146**	***45***	***-23.6%***
Total O&A	**512**	**589**	**687**	***175***	***34.2%***

- **$175M Increase in O&A** Made Up of (i) **$72M Increase in Governance & Services BU** Costs (ii) **$58M Increase in Operational BU** Costs and (iii) **$45M change in Non-BU Adjustments** (Employee Benefits, Capitalized Costs, O&A Charged to Centra). A portion of the Non-BU Adjustment Increase of $45M would also relate to Governance & Services BU's

- **$46M Increase in D&T BU** for Additional Cloud Software, Higher Software Maintenance to Support D&T Strategy 2040 Roadmap and Higher Consulting Costs for Cloud Based Services

- **$12M Increase in CFO BU** for Higher Insurance Costs, Integration of MHI Staff and Work on Strategy 2040

- **$6M Increase in HRSHE BU** for Higher Wages & Salaries for Implementing Business Model Organizational Changes and External Recruitment Services

Consistent O&A Regulatory Signaling to MH from PUB in Orders 59/18, 69/19 & 9/22

- **PUB**: The **Need to Reduce O&A** Spending as a Result of **Cost & Rate Pressures After In-Service** of the **Major Capital Projects** – Consistent with MH's Commitment Dating Back to the NFAT Proceeding

- **PUB**: The On-Going Need & **Opportunity to Further Reduce Staffing Levels**, Pursue Supply Chain Management & **Reduce O&A Costs After** the **VDP** is **Completed**

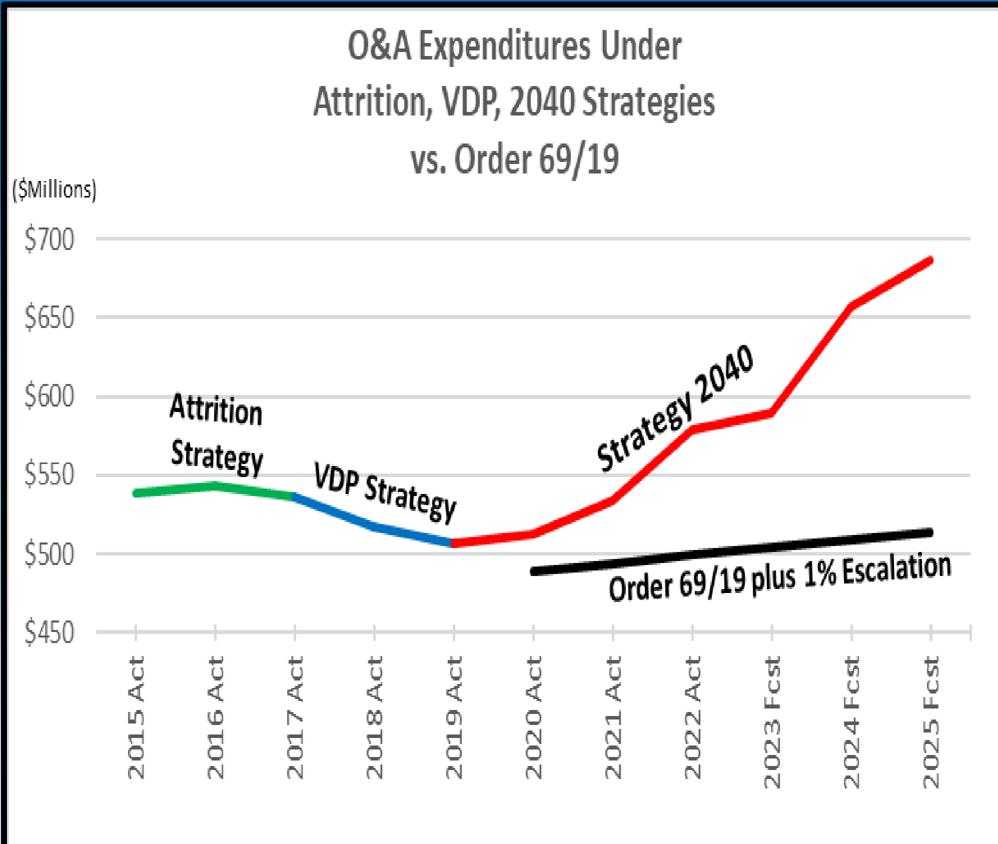
- **PUB: Concerns** that **Escalation in O&A Costs** Would **Erode VDP Savings** and the View that these Savings Should Endure Well Past the In-Service of Keeyask

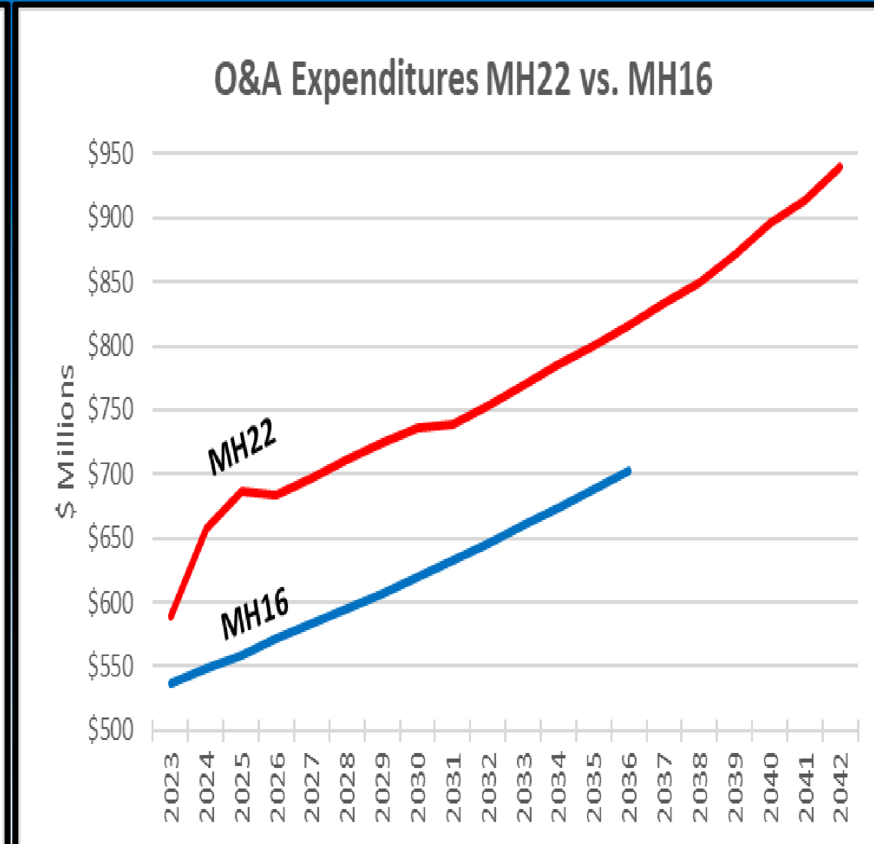
- **PUB**: The View that it was **MH's Responsibility** to be Able to **Anticipate & Plan for Potential Shift of Costs into O&A** After the **In-Service** of the **Major Capital Projects**

- **PUB:** The View that in **Times of Financial Challenges** such as Drought and Lower Cash Flow, **MH** has the **Ability** to **Control** the **Levels of O&A**

- **Order 69/19: MH's 2020 O&A Target was Not Acceptable** for **Rate-Setting Purposes** and Should be **Reduced from $511M to $489M** and An **Escalation Factor of 1%** Should Be Used for **Rate-Setting Purposes** (Compared to MH's 2% Escalation Factor)

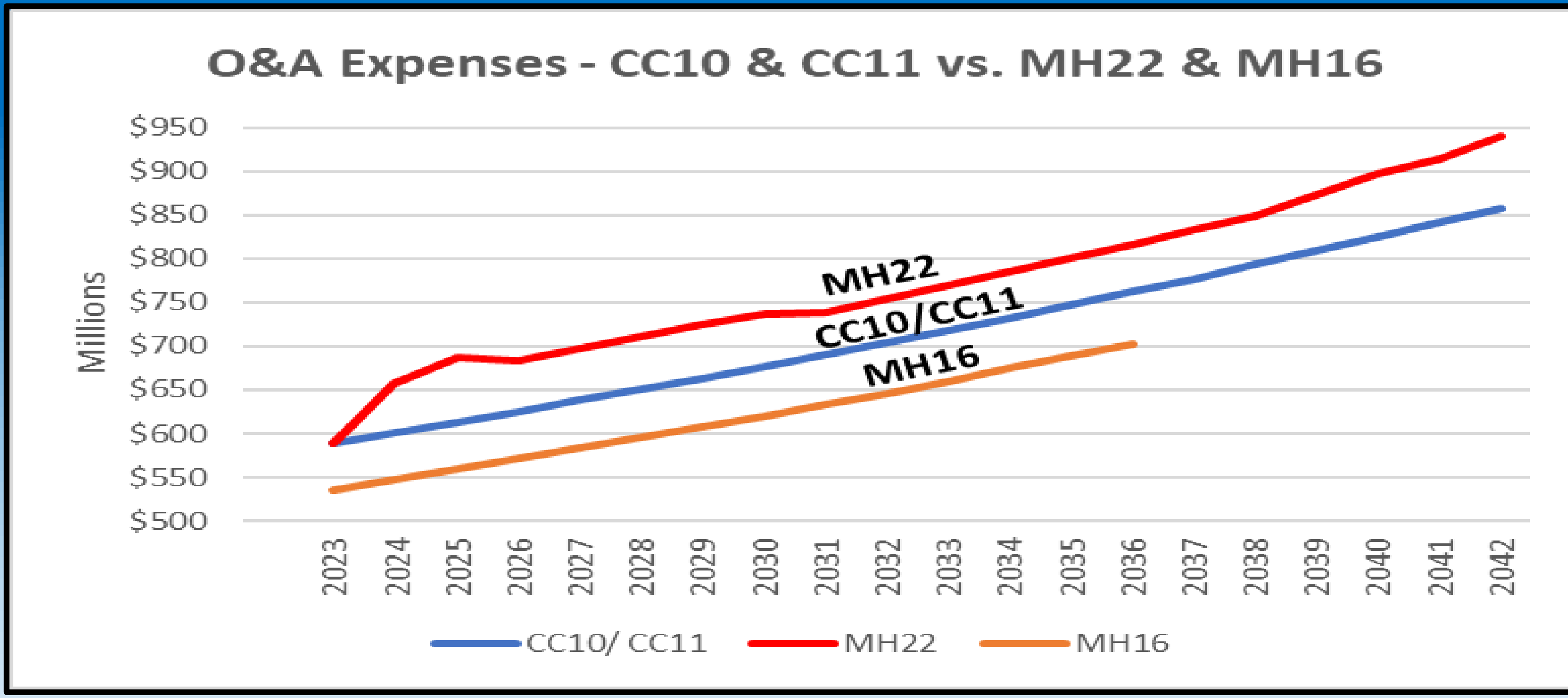
O&A Projections ($1.5B Increase Since Last GRA) - Not Consistent/Responsive To PUB Signaling





- **MH Pursued** a **Committed Position Reduction (Attrition) Strategy** (2015 to 2017) and **Voluntary Departure Strategy** (2017 to 2019) to Maintain O&A Increases Below Inflationary Levels and Accelerate O&A Cost Decreases
- **Significant Concern/Red Flag** re: **MH Policy Shift Away from Costs Savings** to Continuous Improvement & **Taking Position it Has Little Influence Over O&A (and BOC)**
- **MH O&A Forecasts** Are **Not Consistent/Responsive To PUB Signaling** and are **$173M Higher in 2025** than Rate-Setting Signaling in **Order 69/19**
- **20-Yr O&A Projections** Primarily Based on **Assumed Increases in Line** with **CPI at 2%/Yr** and are **$1.5B Higher from 2023-2036 than Last GRA**

O&A Levels in CC10 & CC11 Are Balanced & Consistent with PUB Regulatory Signaling



- **CC10/CC11 Incorporate 2023 Forecast O&A Costs of $589M** as a **Base** Despite the Fact that this Level is $85M Higher than PUB Findings from Order 69/19 – and **assume Escalation at 2%** Per Year **Thereafter**

- **CC10/11 O&A Levels** are on **Average $57M Lower than MH22** Over the 20-Year Forecast Period ($53M in First Decade & $61M in Second Decade) and are on **Average $55M Higher than MH16** Over the First 10-Year Period of the Comparable Forecast

- **CC10/CC11 O&A Levels** are In the **Middle Range Between** Substantial O&A increases in **MH22** and O&A Costs in **MH16** where the **PUB Found** that there were **Opportunities** for **Further FTE** and **Cost Reductions**

- **CC10/CC11 O&A Levels** Provide **Ample Room** for **Cost Escalation** and **Accounting Changes** – Considering Potential Overstatement of Pension & Benefit Costs ($37M to $74M) and FTE's are Under Forecast to February of 2023 by 86

Part 2 (d) = Evaluation of Prudent Levels of BOC for Rate-Setting Purposes

MH BOC Projections ($0.8B Increase Since Last GRA) Primarily Due to Strategy 2040

Business Operations Capital CEP22 vs CEF16 - $Millions	2023 Forecast	2024 Forecast	2025 Forecast	2023 to 2032 10 Years	2023 to 2036 14 Years
CEP22:					
Sustainment	286	313	354	4305	6658
Capacity & Growth	122	140	117	1551	2466
Business Op. Support	87	85	88	952	1390
Total	**495**	**538**	**559**	**6808**	**10514**
CEF16:					
Sustainment	353	374	423	4438	6654
Capacity & Growth	102	104	125	1315	1912
Business Op. Support	93	83	70	798	1179
Total	**548**	**561**	**618**	**6551**	**9745**
Difference CEP22 vs. CEF16:					
Sustainment	**-67**	**-61**	**-69**	**-133**	**4**
Capacity & Growth	20	36	-8	236	554
Business Op. Support	-6	2	18	154	211
Total Difference Inc (Dec)	**-53**	**-23**	**-59**	**257**	**769**

- **BOC** Expenditures **Forecast** to be **$135M Lower** than **Last GRA** from **2023 to 2025** - Primarily Related to Reductions in Sustaining Capital

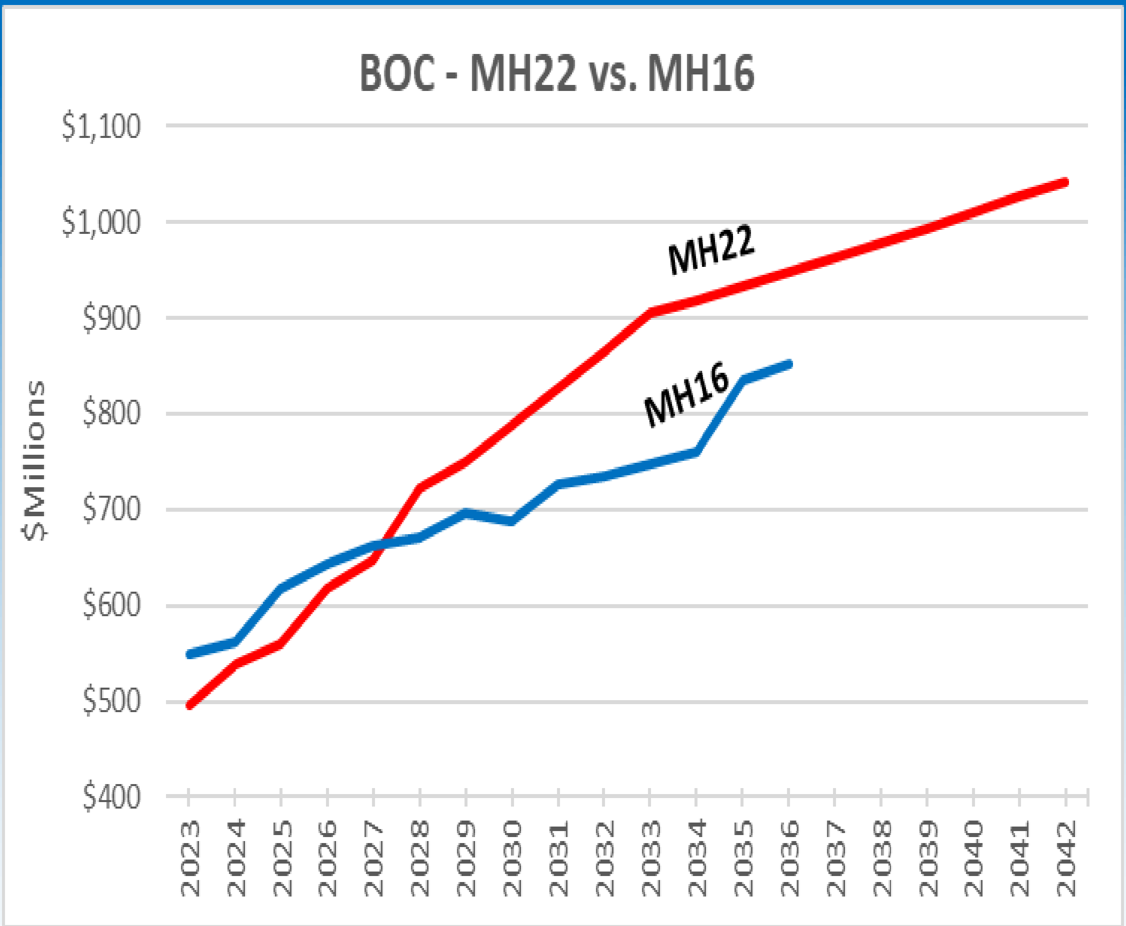
- **Sustaining Capital** is Projected to be **$133M Lower** than **Last GRA** from **2023 to 2032** and **Flat** from **2023 to 2036**

- **BOC** Expenditures **Projected** to be **$257M (2023 to 2032)** and **$769M (2023 to 2036) Higher** than Last GRA – **Primarily Due** to **Strategy 2040 Initiatives** of **AMI** & **Grid Modernization**

- **AMI & Grid Modernization** are **Placeholders** that **Total $480M** as Feasibility & Business Cases are Under Evaluation

- "**Portfolio Adjustments**" Make Up **$8.9B** or **54%** of **20-Year BOC Projections** of $16.5B in CEP22

BOC Forecasts ($0.8B Increase Since Last GRA) Not Consistent With/Responsive To PUB Signaling



- **PUB Regulatory Signaling** to MH in Orders 59/18 and 9/22 **re: BOC** Spending Levels is **Generally Consistent with O&A** – but **Also** Include **Expectations** on **Mature Asset Management** Processes

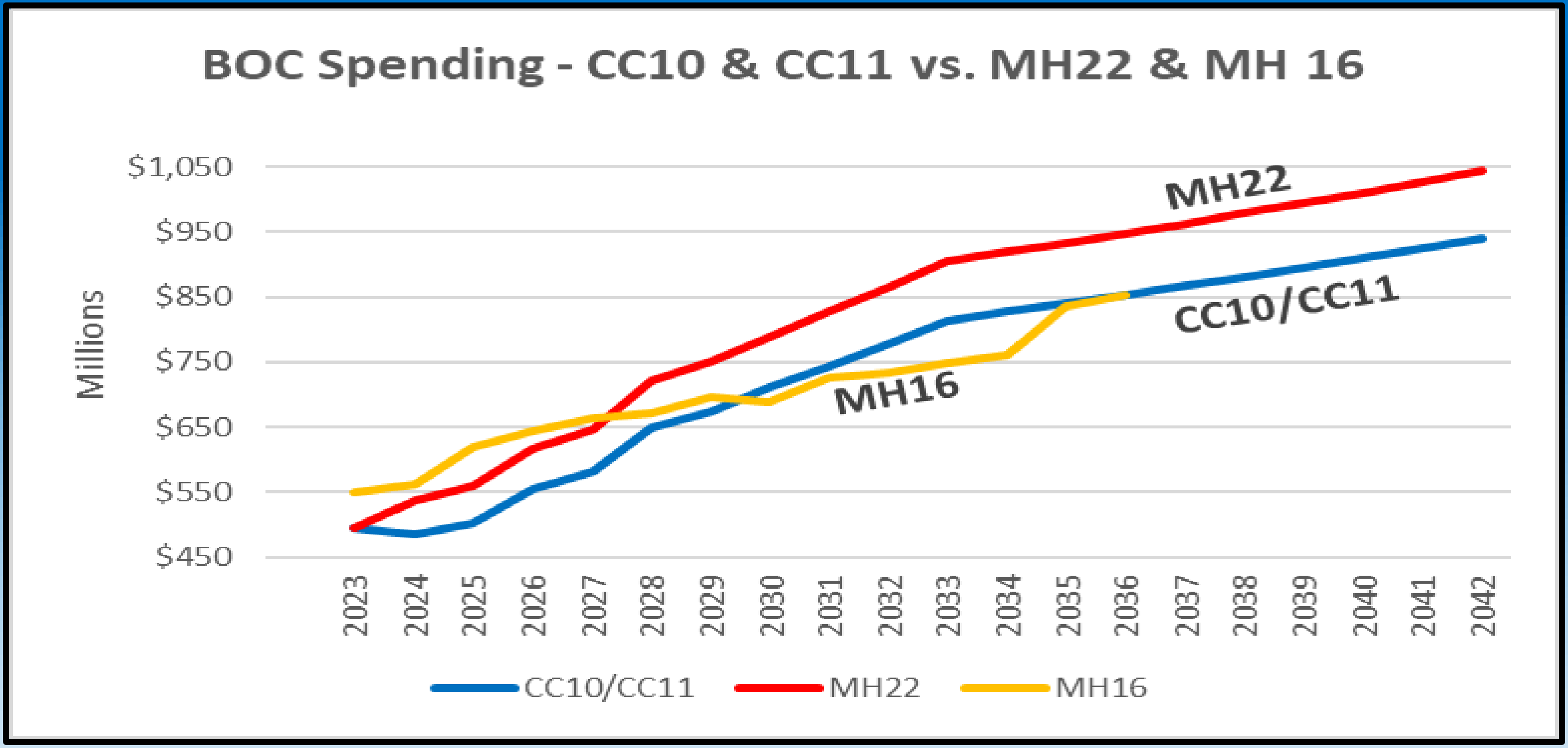
- **PUB:** The **Need** to **Reduce BOC Spending Levels** as a Result of Cost and **Rate Pressures After In-Service** of the **Major Capital Projects** – Consistent with MH's Commitment Dating Back to the NFAT Proceeding

- **PUB:** The View that MH's **Proposed Level of BOC Spending Had Not** Been **Demonstrated** to be **Necessary** or **Optimized** and that It Is **MH's Responsibility to Remedy** this Situation Through the **Development** of a **Mature Asset Management Process**

- **PUB:** The View that in **Times of Financial Challenges** such as Drought and Lower Cash Flow, **MH has** the **Ability** to **Control Levels of BOC**

- **MH Confirmed** in its **Rebuttal Evidence** that **BOC Reductions** (Compared to Last GRA) in the **Early Years** of CEP22 are **Generally** the **Deferral of Work** Into Future Years. As such, these Reductions are Not a Result of MH Responding to PUB Regulatory Signaling on BOC

BOC Levels in CC10 & CC11 Are Balanced & Consistent With PUB Regulatory Signaling



- **CC10/CC11 Incorporate BOC Levels** that are **10% Lower than MH22/CEP22** – from 2024 to the End of the 20-Year Forecast Period
- **CC10/CC11 BOC Levels** are on **Average $81M Lower** than **MH22** Over the 20-Year Forecast Period ($63M in First Decade & $97M in Second Decade) and are on **Average $37M Lower than MH16/CEF16** Over the First 10-Years of the Comparable Forecast
- **CC10/CC11 BOC Levels** are **Lower than MH16** where the **PUB Found** that Cost Pressures are Such that **MH Can No Longer Continue to Fund BOC** at **Historic Levels Unless** and **Until** it Can **Demonstrate** through **Mature Asset Management Processes** that **those Investment Levels are Necessary**
- **MH Indicates** in its Most Recent Assessment that it **Will Take Another 7 Years** to **Implement its Asset Management Framework** to a Reasonable Level of Maturity. With this **Lack of Urgency** – It is **Not Possible** to **Conclude** on a **Policy Basis** that **MH** has **Demonstrated** a **Commitment** to **Prioritizing BOC,** for **Rate-Setting Purposes**

Part 2 (e) = Evaluation of Prudent Debt Management Strategies (DMS) for Rate-Setting Purposes

Revised MH DMS Guidelines Following Era of Major Capital Projects Reflect Reduced Risk Tolerances

- **MH Reduced Treasury Risk Tolerances Appear** to be **Heavily Influenced** by the **$23B Level of Net Debt** and **$1.1B Annual Refinancing Requirements** Over the **Next 10-Years**. Revised DMS Guidelines are Summarized Below – with Former Guidelines in Brackets

- **Maintain Floating Rate Debt** to **Below 10%** Debt Portfolio to Minimize Overall Interest Rate Exposure (Formerly 15% to 25%)

- **Interest Rate Risk Policy** is to **Limit Aggregate** of **(i) Floating Rate Debt (ii) Short-Term Debt** and (iii) **Fixed Rate Debt** to be **Refinanced** in **Next 12 Months** to Maximum of **25% of Debt Portfolio** (Formerly 35%)

- **Debt Management Guidelines** are to **(i) Maintain aggregate** of **Short-Term & Floating Rate Debt within 0% to 20%** of Debt Portfolio (formerly 15% to 25%) **and (ii)** Having Net **Long-Term Debt to be Refinanced in Next 12 Months** Being **Less than 10%** of Debt portfolio (Formerly Less than 15%)

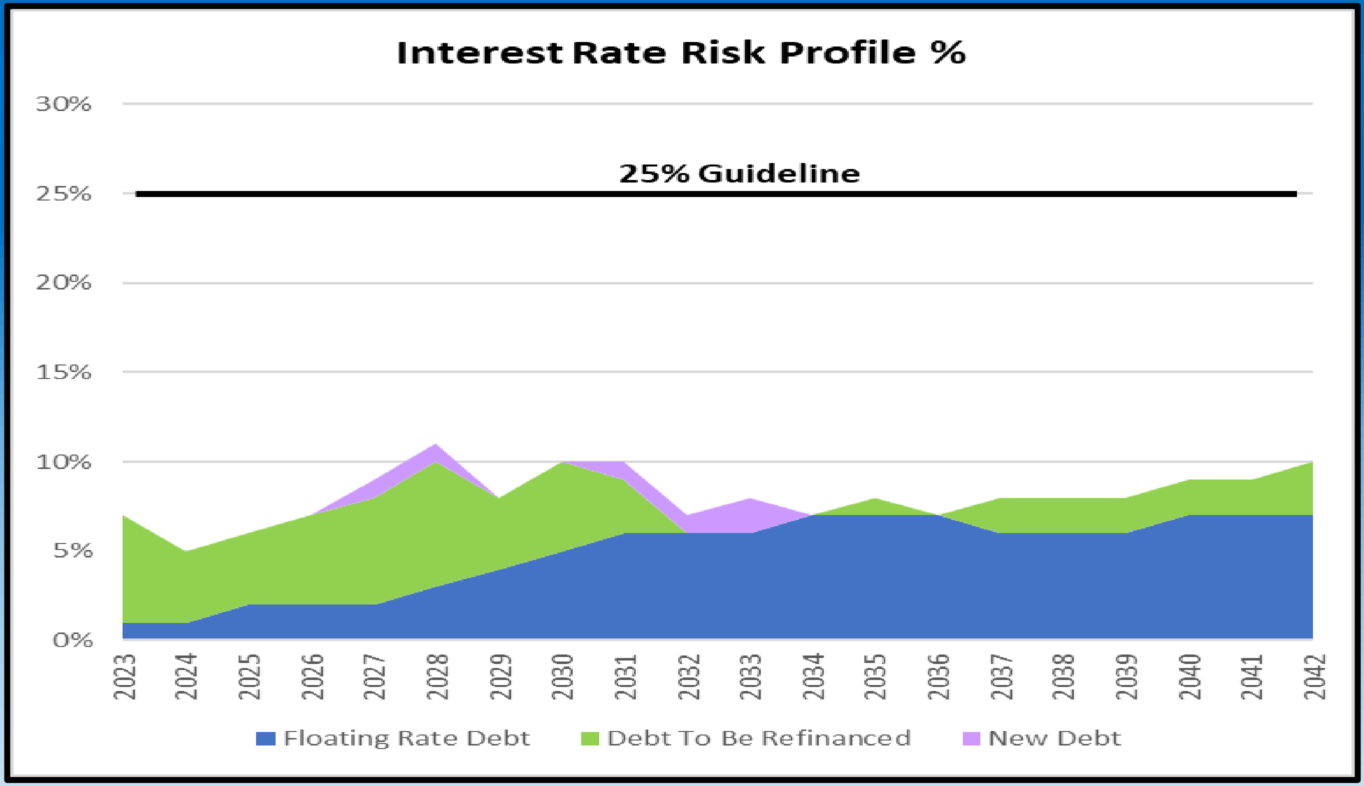
- Continue to Smooth Debt Maturity Schedule by **Targeting Debt Issuance** with **Terms to Maturity** of **10** to **14 Years** (the Portion of Maturity Schedule Lacking Debt Maturities)

- **Replenish Sinking Fund Reserve** with Internally Generated Funds to Make Annual Debt Retirements & Eliminate Refinancing Risk

- **Maintain Positive Cash Balances** to Mitigate Liquidity Risk and Ensure Financing Flexibility

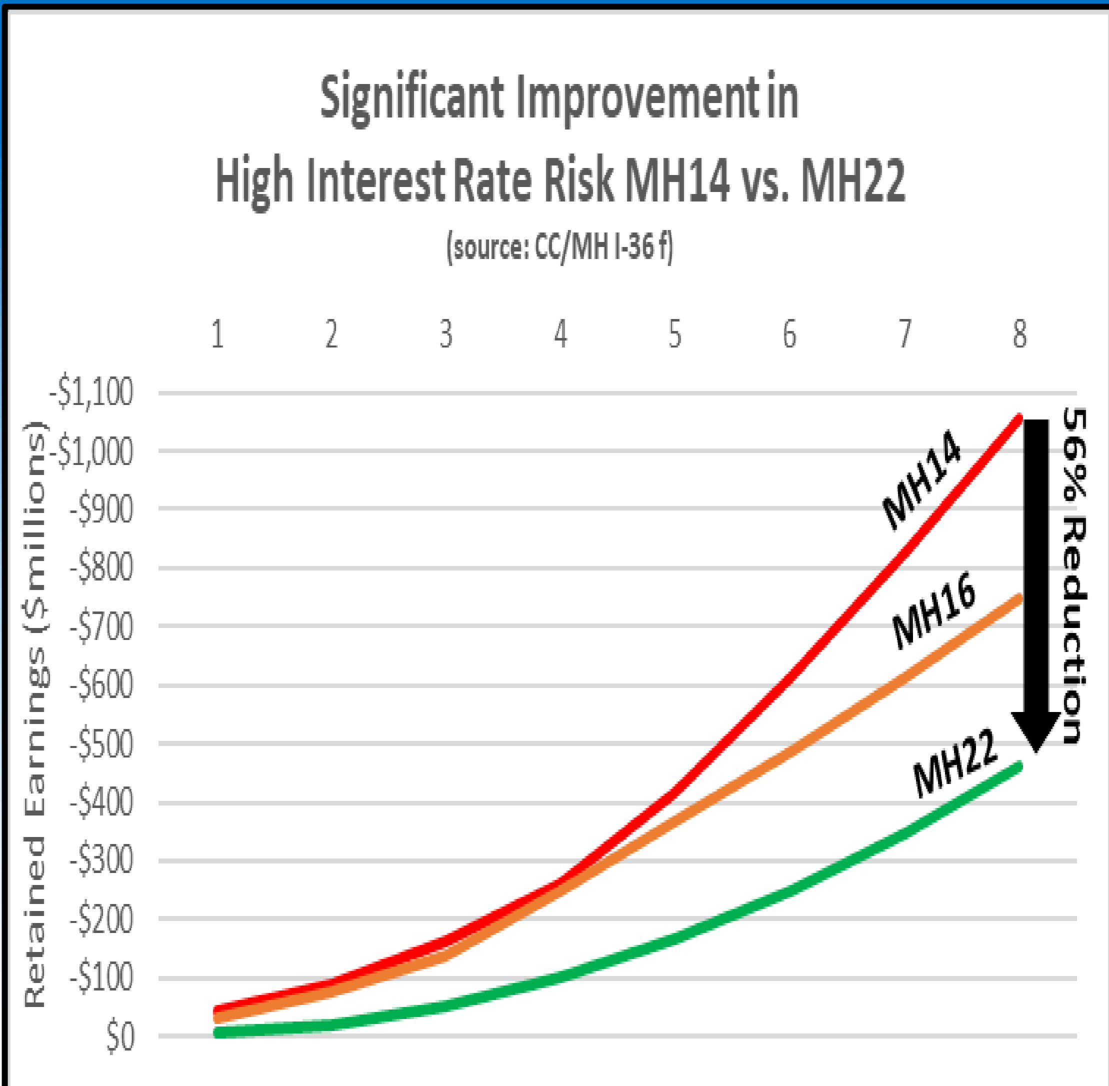
- **Use the Larger $1.5B Short-Term Borrowing Program** (Once Fully Guaranteed by the Province) as a Tool to **Adjust** the **Level** of **Floating Rate Debt**

MH is Well Within its Revised Interest Rate Risk Policy



- **Over 20-Year Forecast Period** – the **Total Aggregate Interest Risk Profile Averages 8.1%** (Floating Rate Debt of 4.9%, Debt to be Refinanced of 2.9% and New Debt of 0.3%) =
- Year 1-10 Averages = Aggregate of 8.0% (**Floating Rate Debt 3.2%**, Debt to be Refinanced 4.4%, New Debt 0.4%)
- Year 11-20 Averages = Aggregate of 8.2% (**Floating Rate Debt 6.6%**, Debt to be Refinanced 1.4%, New Debt 0.2%)
- These **Averages** are **Well Within Revised Interest Rate Risk Policy** of **Maximum of 25%** and Long-Term Debt to be Refinanced Guideline of Less than 10%

MH's Own Interest Rate Risk Calculations & Assessments Do Not Support Elevated Levels of Risk

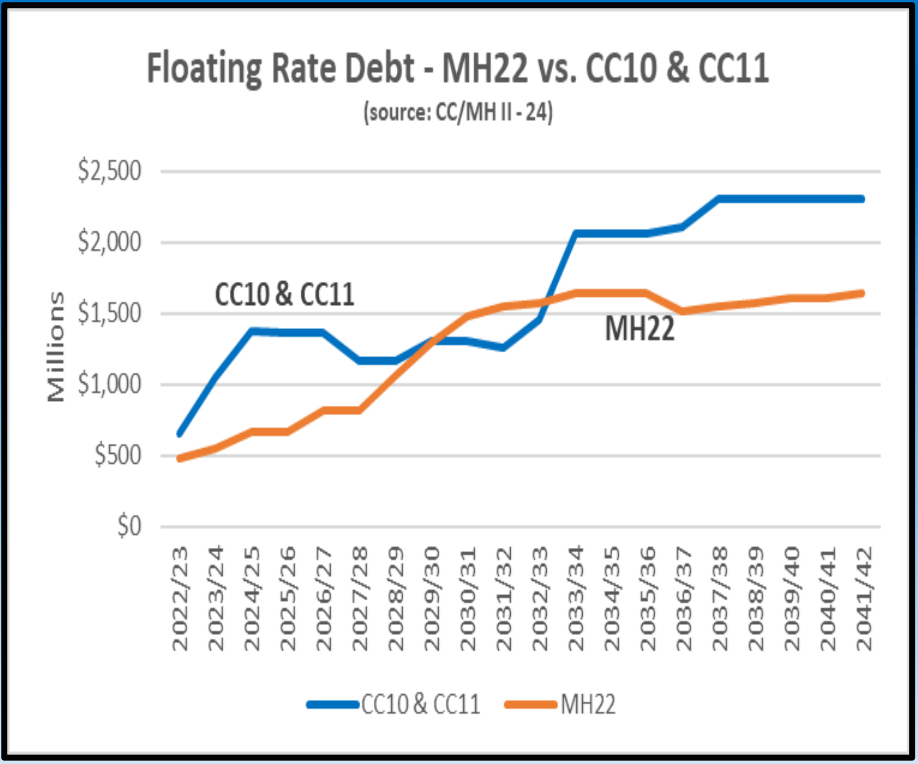


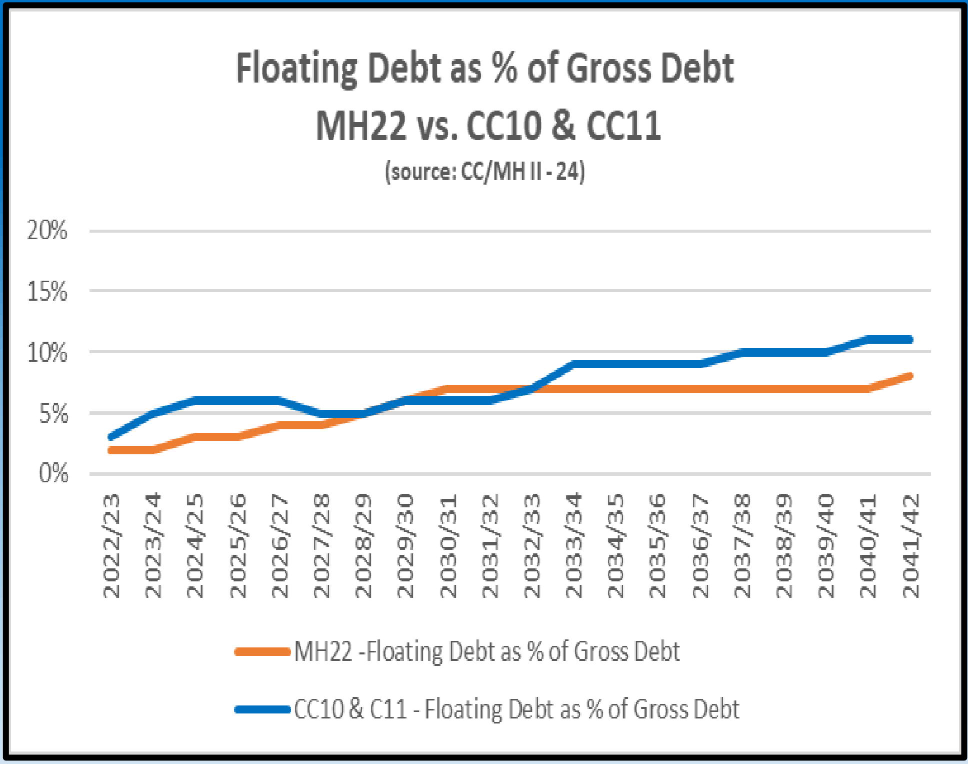
- The **High Interest Rate Risk Sensitivity** from the **Current GRA** (MH22) Represents a **38% Reduction** ($462M vs. $747M) from the **2018/19 GRA** (MH16) and a **56% Reduction** ($462M vs. $1.057B) from the **2015/16 GRA** (MH16) (Year 10 Retained Earnings Change of Respective Forecasts)
- **MH "Views Debt Maturities Per Year** of Approximately 5%...to be a **Reasonable Level of Risk**...Average **Interest Rate Risk** Each Year Remains at the **Lower End** of Its **Interest Rate Risk Guidelines**" (Coalition/MH I-45 a)
- **MH "Does not Anticipate High Levels** of **Concentration Risk** as a Result of Financing Activities...**Issuance of Predominately...10 and 30 Year Benchmarks**...relocate 10 Years of Debt Refinancing...Into...20-Years...**Reducing Concentration Risk**" (Coalition/MH I-45 b)

MH Has Multiple Layers of Liquidity Risk Protections

- (1) **Cash Flow** Generated from Operations
- (2) Access to a **Short-Term Borrowing Program** Fully Guaranteed by the Province of Manitoba
- (3) Access to **Long-Term Borrowings** Advanced and Fully Guaranteed by the Province of Manitoba
- (4) Maintenance of **Cash Reserves**
- (5) Maintenance of **Sinking Funds**
- **Concern** is that there are **Potential Costs to Ratepayers** of these **Multiple Layers of Protection** – Provincial Guarantee Fees & Costs to Carry (Difference Between Borrowing Costs & Investment Income) Cash and Maintain Sinking Fund Balances Across Fiscal Years
- **No Adjustments** were **Made** to **CC10** and **CC11** for this **Concern**

Floating Rate Debt Levels In CC10 & CC11 Are Balanced & Consistent with Independent Analysis





- **CC10/CC11 Floating Rate Debt** (FRD) Levels **Average $1.7B** Over the **20-Year Forecast** Period ($1.2B in First Decade & $2.1B in Second Decade) and **7.5%** (5.4% in First Decade & 9.5% in Second Decade)
- **MH22 FRD Levels Average $1.3B** Over the 20-Year Forecast Period ($939M in First Decade & $1.6B in Second Decade) and **5.7%** (4.3% in First Decade & 7.1% in Second Decade)
- **CC10/CC11 FRD Levels** Are **Marginally Higher** than MH22 and **More Consistent** with **Lower End** of Updated National Bank Financial (NBF) **Independent Analysis (8% to 15%)**
- It is **Recommended** that the **PUB Direct MH** to **Undertake** a **More Current Independent Evaluation** of the Appropriate Level of FRD

Part 2 (f) = Evaluation of Risks for Rate-Setting Purposes

MH High-Level Risk Assessment is Incomplete, Not Balanced & Inconsistent With MH Enterprise Planning Priorities

- While **Risk Assessments** for **Business Purposes** are **Forward Looking** – **Risk Assessments** for **Rate-Setting Purposes** are **Cumulative** and Are **Updated for Changes** in Assessments & PUB Decisions **from** the **Last GRA** – at Each Subsequent Regulatory Proceeding (Similar to Updates on Financial Outlook)

- The **MH** Enterprise Risk Management Program (**ERM**) is in the **Early Stages of Development** and its **High-Level Risk Assessment is Incomplete** (Top 10 Risks Section of an Annual Report vs. Comprehensive Report/Assessments of Residual Risk as in Past GRA's) and **Not Balanced** (No Assessment of Changes in Risks Since Last GRA and No Assessment of Risks & Opportunities)

- MH Concerns Re: **Financial Outlook, Interest Rate Risk & Cash Flow** – **Inconsistent** with **Increased O&A** and **BOC** Spending of $2.3B

- MH Concerns Re: **Elevated Levels of Risk** – **Inconsistent** with a **Multi-Year Journey** to **Implement** a **Revised ERM** & Decision **Not to Update** a More Advanced **Uncertainty Analysis** (This is assessed as a **Step-Backwards in the ERM Program** in Terms of Ability to Analyze Interconnectivity & Potential for Compounding/Offsetting Effects of Risks)

- MH Concerns Re: **Aging Asset Risk** – **Inconsistent** with a **Continued Multi-Year Journey** to **Implement** a **Mature Asset Management Program**

- MH Concerns Re: **Technology Risk** – **Inconsistent** with **No MHEB Approved IT Strategy** or **Business Cases** for Technology Projects

MH Risk Assessment is Inconsistent With PUB Policy Decisions In Order 59/18: PUB Regulatory Action When & If Emerging Risks Actually Materialize

- **MH Appears** to **Promote 2% Rate Path** as a **Means** to **Deal** with **All** of the **Potential Future Risks** that it Might Face in its High-Level Risk Assessment

- The **2018/19 GRA** was a Very Comprehensive Regulatory Proceeding with Considerable Evidence on MH Risks & **Foundational PUB Policy Guidance** on **How Risks** Should be **Factored into Rate-Setting** on a **Go-Forward Basis**

- **PUB**: PUB Prepared to **Take Regulatory Action** (Rate Increase) as Required **When Emergent Situations Face MH**

- **PUB**: **Retained Earnings** to be Used to **Manage Drought Risk** in **Combination** with **Regulatory Action** by the PUB

- **PUB**: **Interest Rate** & **Export Price Risks Over the Long-Term** to be **Addressed** with Rate Increases **As** and **When those Risks Materialise**

- **PUB**:**Rates Not to be Set** to **Increase Retained Earnings** to **Manage** these **Longer-Term Risks**

Relative Assessment of Risks Since Last GRA Does Not Support MH Elevated Risk Assessment

Risk	Relative Assessment
Completion of Major Capital Projects	Completion of major capital projects is a material reduction to MH's financial and business risks (reputational and contractual). Risk Reductions for Bipole III, 2 New Converter Stations & New US T-Line
Drought	Consistent with past GRA's, 5-year drought reduction in retained earnings of $1.7 billion (current GRA), $1.4 billion (2018/19 GRA) and $1.7 billion (2015/16 GRA)
Interest Rate	Improvement. High interest rate sensitivity 10-year reduction in retained earnings of $462 million (current GRA), $747 million (2018/19 GRA) and $1.057 billion (2015/16 GRA)
Overall Financial Risk	Significant improvement. Equity ratio projected to be 18% by 2024/25 in current GRA, compared to 12% in 2018/19 GRA and 10% in 2015/16 GRA. Net debt $2.4 billion lower than 2018/19 GRA
Disruptive Tech, Self-gen & Stranded Assets, Tech Innovation & Cyber Security	Opportunities and challenges related to decarbonization, decentralization and digitization. MH dispatchable hydro-electric system more valuable in future as world responds to climate change
Loss of Market Access	Improved as a result of push to more variable renewable resources increasing need and support to maximize interconnections and market access
Export Revenues & Price	Daymark conclusion that MH's export revenue forecasts are conservative and likely to be more opportunities for premium pricing or additional revenues
Aging Assets	Midgard conclusion: system performance continues to be stable & superior to Cdn utility peers

Part 2 (g) = Evaluation of Financial Metrics/Targets for Rate-Setting Purposes

MH 2% Rate Path Does Not Align With PUB Policy Decisions on Financial Targets in Order 59/18: Debt to Equity Ratio Questionable Metric for MH

- **MH 2% Rate Path Appears** to be a "**Goal-Seek**" of Even-Annual Rate Increases Required to **Attain 70% Debt Ratio (30% Equity Ratio) by 2040** – in accordance with New Legislative Framework that Will Not Become Operative Until April 1, 2025 (**MH Placing 100% Weight** on **Debt to Equity Ratio**)
- **PUB**: To Balance Between Rate Increases & Level of Debt to Fund Major Capital Projects – **PUB** to be **Guided** by **2 Considerations (i) MH Financial Reserves** to Manage Risks and **(ii) Considering Cash Flow** through MH Long-Standing Financial Metrics of **Interest Coverage** & **Capital Coverage Ratios**
- **PUB**: There Was **Merit** to **Gaining Better Understanding** of **Financial Reserves** Required by MH – Expressed Interest in Rule-Based Regulation through Consideration of Minimum Retained Earnings Test or Similar Test
- **PUB**: **Debt to Equity Ratio** is a **Questionable Metric** for a **Vertically Integrated Monopoly** Crown Utility with **Provincial Debt Guarantee**. It Could Remain a Long-Term Objective but Will **Not Dictate Pace** of **Rate Increases**
- **PUB**: Care Must be Taken to **Avoid Placing Too Much Weight** on **Credit Rating Agency Reports** – as Credit Ratings & Capital Markets are Related, but Not the Same Thing
- **Order 69/19** = **MH Change** in **Presentation** of **Capitalized Interest** on the **Cash Flow Statement** is **Inconsistent** with **Rate-Setting Principles** and **Not to Be Taken Into Consideration** for Rate-Setting Purposes

MH Positioning of 2% Rate Path as a Requirement Under the New Legislative Framework is an Overstatement

- New Legislative Framework (Section 39.2(1)) States that "**Despite" the Policy** With Respect to **Attainment of Debt Ratio Target** – the Maximum General Rate Increase Provisions **(Rate Cap) will Prevail**. Implications are that Debt Ratio Target is Policy, with Certain Degree of Flexibility and Province has Prioritized Customer Rate Impacts Over Attainment of Debt Ratio Target (MH Agreed with this Assessment)

- New Legislative Framework (Section 39.6) Provides for **Cabinet** to **Make Regulations Respecting** the **Framework for Setting** or **Varying Rates** in a Number of Circumstances – Including Modifying the Debt Ratio Target or Target Date for Achievement in Response to **Unforeseen** or **Extenuating Circumstances**. **Province has Built in Safeguards** in Response to a Significant Negative Financial Event or Significant Emergent Risk Requiring Regulatory Action

- **PUB Regulatory Action** Can Occur **Over a Period of Years** and Does Not Need to Happen All in a Single Test Year or Three Year Rate Period. MH is Projecting to Have $4.2B of Financial Reserves by End of 2025 and All Rate Scenarios Forecast Steady Growth to 2042

- If **MH** is **Concerned Re: Rate Cap Provisions** – this **Points** to the **Necessity** for **MH** to **Exercise Fiscal Discipline** and **Prudent Cost Control**

- Suggestions of **Pre-Approval** of **Additional Rate Increases** in the Forward Test Years Re: Concerns Over the Rate Cap Provisions – Are **Inconsistent** with the **PUB's Prior Rate-Setting Policy Guidance** on **Risks** from Order 59/18

MH 2% Rate Path Exceeds Debt Ratio Targets & Results in a Capital Structure Approaching that of an IOU

- **MH 2% Rate Path** Projects a **34% Equity Ratio by 2042** – **Significantly Exceeding** the Prior **Long-Standing Target of 25%** and **New Legislative Framework Target of 30%**

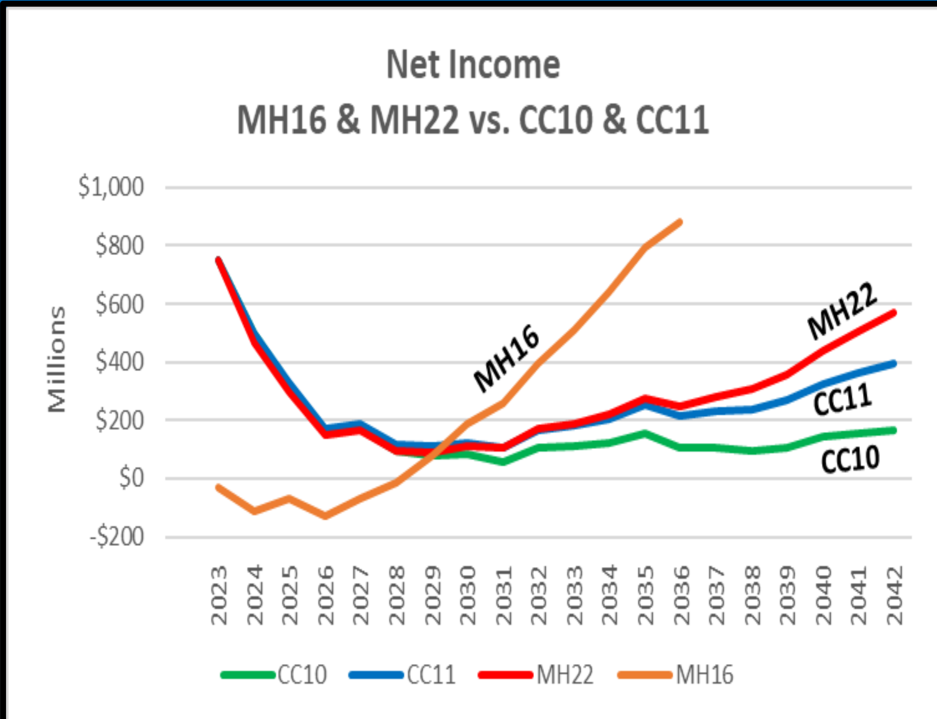
- A **4% Overshoot** of the 30% Target Results in a **$1.1B** ($8.6B - $7.5B) **Overcollection from Customers**. This is a **Common Issue** with **Equity Ratio Goal-Seeking** Financial Scenarios

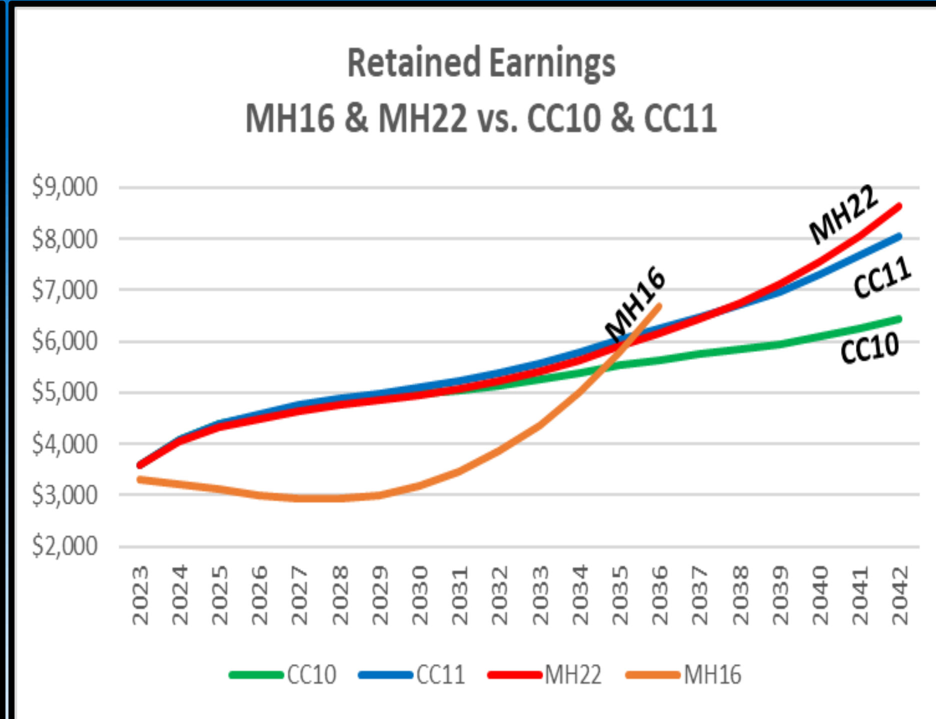
- At **End of 20-Year Forecast Period** the **Equity Ratio** is **Increasing 2% Per Year** – at that **Pace of Improvement** the MH Equity Ratio is **Fast Approaching** that of a Canadian Regulated Investor Owned Utility (**IOU**) in the Order of **40%**

- The **Goal Seek** to Achieve a 30% Equity Ratio by 2040 Results in the **Requirements to Both (i) Increase the level of Equity** and **(ii) Decrease the Level of Net Debt**. **Policy Concern** is – is it Appropriate to **Reduce Absolute Net Debt Levels by $2.0B** When its **Asset Base** is Expected to **Increase $5B** in the **Next 20-Years**

- These **Concerns Cast Doubt** on **Whether** the **MH 2% Rate Path Represents** an **Appropriate Balancing** Between Customer Interests & MH's Financial Health

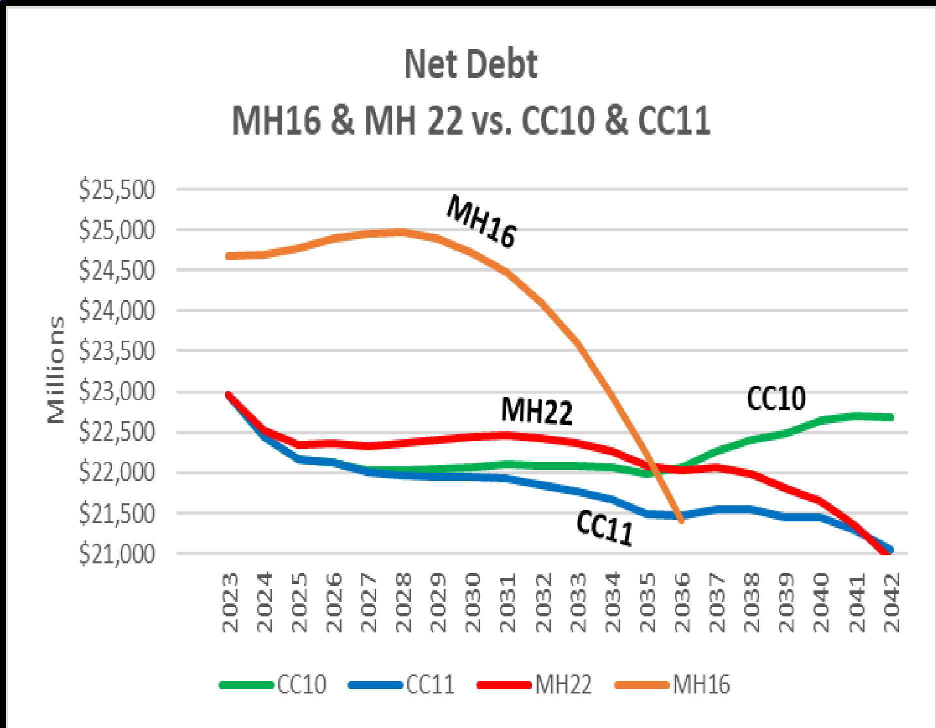
Financial Metrics #1 & #2: Net Income and Retained Earnings

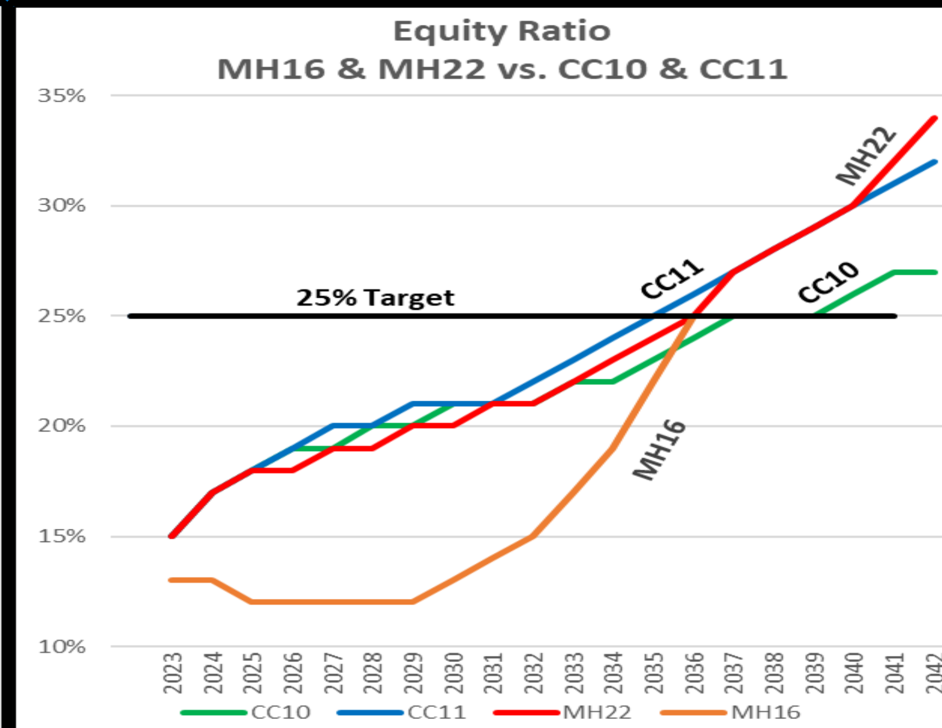




- **CC10** and **CC11 Net Income** Levels Over the 20-Year Forecast Period **Average $180M** and **$262M** ($232M & $256M in First Decade and $127M & $267M in Second Decade). **MH22 Averages $290M** ($240M in First Decade & $340M in Second Decade)
- **CC10** and **CC11 Retained Earnings** Levels Over the 20-Year Forecast Period **Increase $2.8B** and **$4.5B** ($1.6B & $1.8B in First Decade and $1.3B & $2.7B in Second Decade). **MH22 Increases $5.0B** ($1.6B in First Decade & $3.4B in Second Decade)
- **CC10** and **CC11 Retained Earnings Grow** to **$6.4B** and **$8.1B** Over the 20-Year Forecast Period – Compared to **$8.6B in MH22**
- **CC10 Retained Earnings Growth Most Consistent** with **Balance** and **Rate Smoothing**

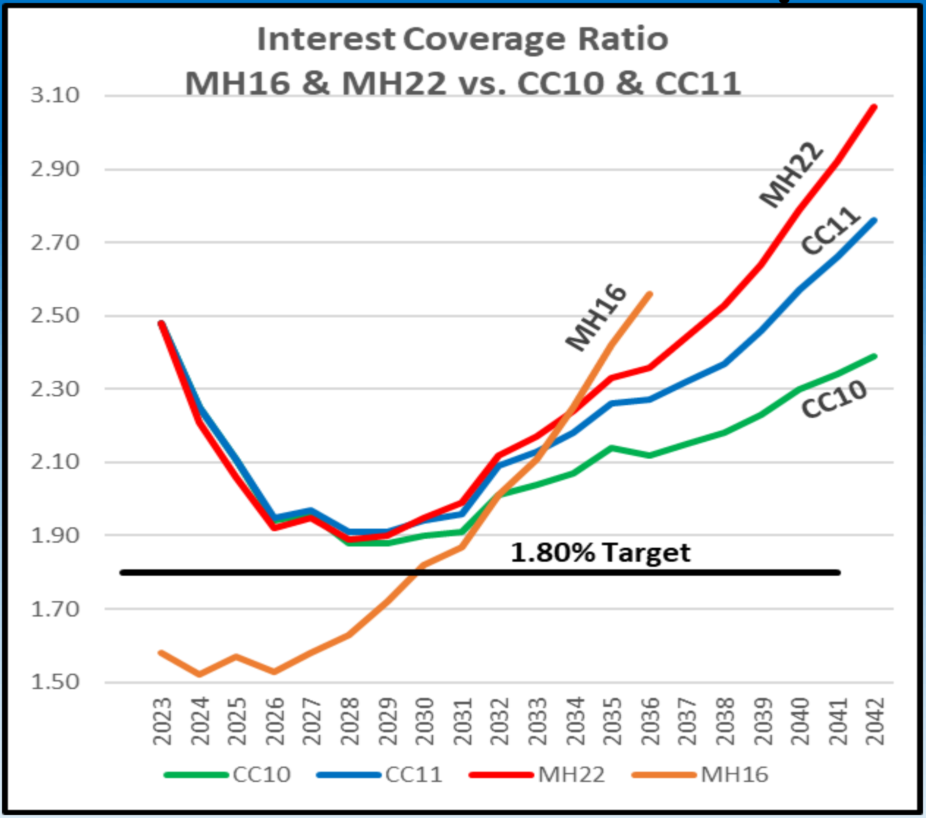
Financial Metrics #3 & #4: Net Debt and Equity Ratio

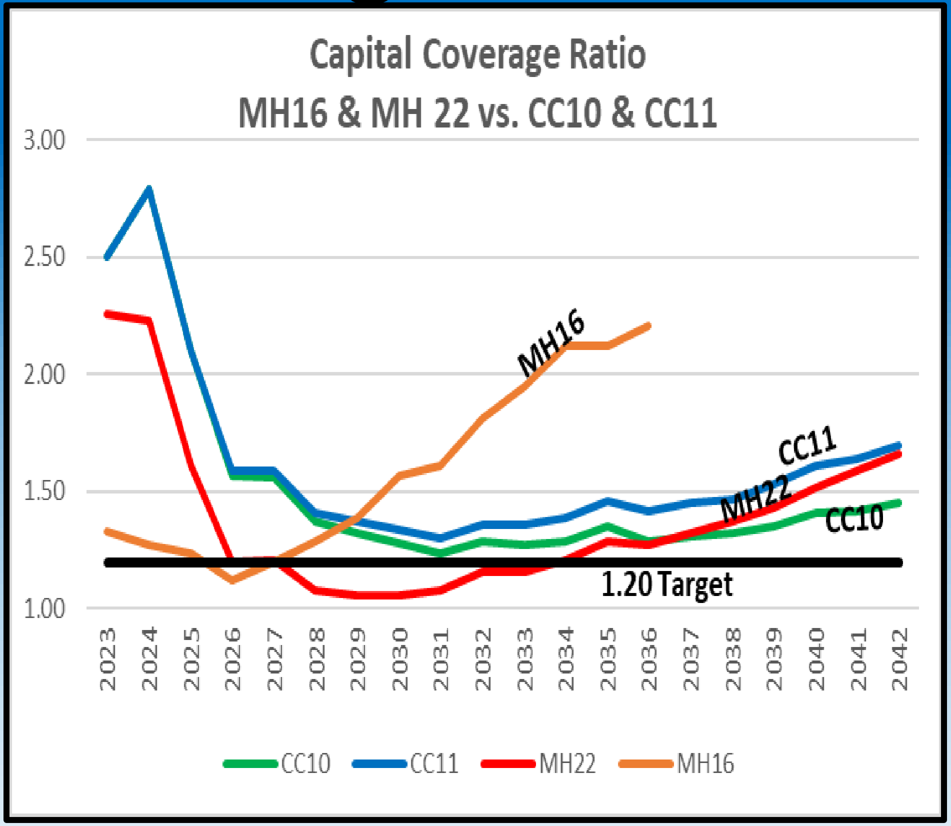




- **CC10** and **CC11 Net Debt** Levels Over the **20-Year Forecast** Period **Decrease $0.3B** and **$1.9B** ($0.9B & $1.1B in First Decade and $0.6B Increase & $0.8B Decrease in Second Decade). **MH22 Decreases $2.0B** ($0.5B in First Decade & $1.5B in Second Decade)
- **CC10** and **CC11 Equity Ratio** Over the **20-Year Forecast** Period **Increases 12%** and **17%** (6% & 7% in First Decade and 6% & 10% in Second Decade). **MH22 Increases 19%** (6% in First Decade & 13% in Second Decade)
- **CC10 and CC11 Equity Ratio Grows** to **27%** and **32%** Over the 20-Year Forecast Period – Compared to **34% in MH22**. Long-Standing Target was 25%, with Targets in New Legislative Framework of 20% by 2035 and 30% by 2040
- **CC10 Net Debt** Level **Flat Consistent** With **Growing Asset Base** and **Equity Ratio Growth** is **On Path Towards Targets Without Overshooting**

Financial Metrics #5 & #6: Interest & Capital Coverage Ratios





- **C10** and **CC11 Interest Coverage Ratio** Over the **20-Year Forecast** Period **Averages 2.11** and **2.23** (2.03 & 2.06 in First Decade and 2.20 & 2.40 in Second Decade). **MH22 Averages 2.30** (2.05 in First Decade & 2.55 in Second Decade). These Rate Scenarios Exceed Long-Standing Target of 1.80

- **CC10** and **CC11 Capital Coverage Ratio** Over the **20-Year Forecast** Period **Averages 1.52 and 1.62** (1.70 & 1.74 in First Decade and 1.35 & 1.50 in Second Decade). **MH22 Averages 1.39%** (1.40 in First Decade & 1.38 in Second Decade). These Rate Scenarios Exceed Long-Standing Target of 1.20, with Exception of MH22 from 2028 to 2033 as a result of (i) higher BOC spending and (iii) restatement of the ratio by MH for financial reporting purposes

- **CC10 Interest** & **Capital Coverage Ratios Most Consistent** with **Balance** and **Rate Smoothing**

Part 2 (h) = Conclusions on 20-Year Rate Smoothing

20-Year Rate Smoothing Perspective: A 1.2% to 1.5% Rate Path Commencing in 2025 Is Indicated

- In **First Decade** – **Lower rate increases** in **CC10** (1.2%) & **CC11** (1.5%) vs. MH22 (2%) are **More than Offset** by **Lower Spending** – with Financial Metrics Generally Equivalent or Better than MH22
- In **Second Decade** – **Lower Spending** in **CC10** and **CC11** – **Overtaken** by **Cumulative Rate Increases** in **MH22** – **consistent** with **Goal Seeking Scenarios** to Reach Debt/Equity Targets – with Financial Metrics Generally Poorer Compared to MH22
- However – Stronger **Financial Metrics** in **MH22 Toward End** of **Second Decade Tend** to **Exceed Reasonable Targets** for a **Government Business Enterprise** (GBE) with a **Provincial Debt Guarantee** – while **Financial Metrics in CC10** & **CC11** are **More Aligned** & **Reflect Active Cost Control Expected** from a **Regulated Utility**
- **CC10** is **Most Congruent** with the **Traditional Financial Metric Targets Used** by the **PUB** to **Set MH Rates**. **CC11 Exceeds** these Targets but is **More Balanced** than **MH22**
- **Conclusion**: A **1.2%** to **1.5% Rate Path Commencing** on **April 1, 2024** & **Combined** with **Prudent Cost Control** by **MH** – **(i) Represents a More Appropriate Balancing** of the Interests of Customers with the Financial Health of MH – and **(ii) Is More Aligned with Prior Policy Directives of the PUB** with respect to Risks, Appropriate Financial Metrics and the Need for Cost Containment - **than** the **MH Proposed 2% Rate Path**

Part 3 = Analytical Perspective # 3

BEYOND THE TEST YEARS -

30-Year Intergenerational Equity

Most Important Journey is the 30-Year Journey of Ratepayers to Pay For Major Capital Projects

Cumulative Rate Increases 2012 to 2022 and 2023 to 2042	Cumulative Rate Increase	Cumulative Avg Rate Increase	Cumulative MB CPI
Actual - 2012 to 2022	42.16%	2.97%	24.63%
MH22 - 2023 to 2042 (19 Years)	45.68%	2.00%	48.11%
CC10 - 2023 to 2042 (18 Years)	24.17%	1.21%	48.11%
CC11 - 2023 to 2042 (18 Years)	30.73%	1.50%	48.11%

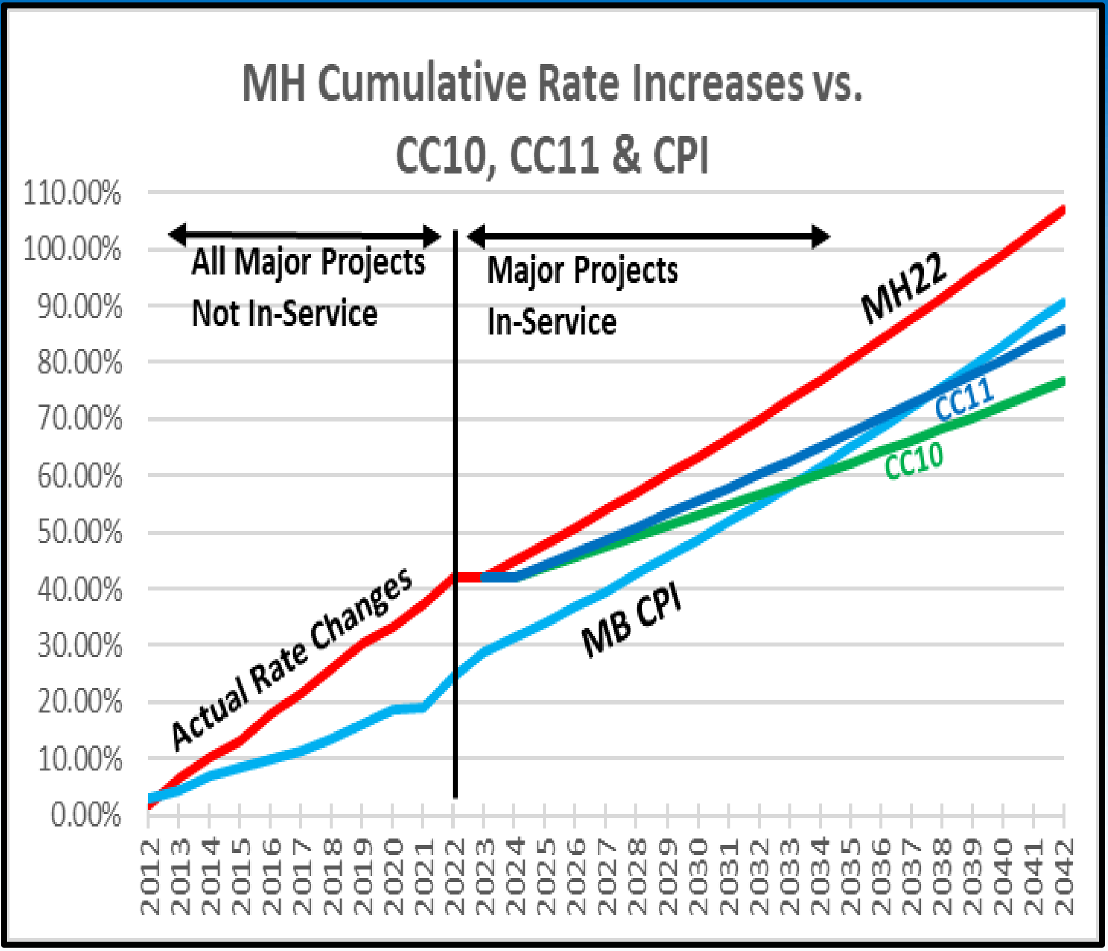
- **Most Important Journey** for Rate-Setting Purposes – is the **Multi-Decade (30-Year) Journey of Ratepayers** to Cover the Carrying Costs of Major Capital Projects and Recovery of MH's Financial Metrics After the In-Service

- **Actual Cumulative Rate Increases** in **Last 10-Years** are **42%** or **Around 3% Per Year** (Compared to **Cumulative MB CPI = 25%**) – to Build Up Rates to Cover the Carrying Costs of Major Capital Projects – Major Capital Projects Not In Service for Most of the Period = **Ratepayers Not Receiving** the **Benefits** of **these Major Capital Projects**

- MH Now Proposes a **2% Rate Path** in Next 19-Years Results in **Additional Cumulative Rate Increase** of **46%** (Compared to **Cumulative MB CPI** of **48%**) – to Recover Financial Metrics, Pay Down Debt and Attain Equity Ratio of 34% = **Ratepayers** are **Now Receiving the Benefits of the In-Service of these Major Capital Projects**

- **Alternate CC10** and **CC11 1.2%** to **1.5% Rate Paths** in Next 18-Years with Prudent Cost Containment Would Result in **Additional Cumulative Rate Increases** of **Between 24%** to **31%**

Longer Term Intergenerational Equity Perspective Suggests a Mid-Term Rate Pause for Current Customers



- **Potential Intergenerational Inequity** Between **Ratepayers Over the Last 12 Years** and the **Next 19 Years**

- Currently **Confluence** of **Number** of **Positive Financial Developments** for MH (i) Significantly Improved Financial Outlook (ii) Near-Term Record Exports and Net Income and (iii) Significant Reductions to Payments to Government. **If Now is Not the Time** for a Mid-Term Course Correction – then **Would there Ever be a Time?**

- **Two Options** for a **Course Correction (i)** the **1.2% to 1.5% Rate Path** – but this Course Correction will **Take 18 Years to Play Out (ii)** a **Rate Pause** in the **2024 and 2025 Forward Test Years** to Provide More **Immediate/Effective Rate Relief** to Ratepayers

Part4 = Overall Rate Increase Recommendations

Overall Rate Recommendations: Confirm 3.6% & a Single Increase of 1.3% for 2025

	2021/22	2022/23	2023/24	2024/25	Total
Analytical Perspective #1: Test Years Only	3.6%	0.0%	0.0%	0.0%	3.6%
Analytical Perspective #2: 20-Year Rate Smoothing	3.6%	0.0%	0.0%	1.2% - 1.5%	4.8% - 5.1%
Analytical Perspective #3: 30-Year Inter. Equity	3.6%	0.0%	0.0%	0.0%	3.6%
Recommendation	3.6%	0.0%	0.0%	1.3%	4.9%
MH Proposal	3.6%	0.0%	2.0%	2.0%	7.6%

- The **Recommendation (i) Gives Some Weight** to **Each** of the **3 Analytical Perspectives (ii) Gives Most Weight** to the **PUB Policy** of **Fiscally Prudent Rate Smoothing** and **(iii) Focuses** on the **Lower End** of the **Indicative Range** of Rate Smoothing (1.2%)

- The **Recommendation** Takes **Holistic View** of the **4 Test Years (i) 3.6% Interim Rate Increase** is Sufficient to **Yield Appropriate Revenues** for **MH** for **2022, 2023 and 2024** (3 *1.2% = 3.6%) **(ii) 1.3% increase for 2025** Provides **Total Rate Increases of 4.9%** which is **Consistent** with **Indicated Rate Increases** of **1.2%** (1.2% * 4)

Part 5 = Recommendations on Regulatory Deferral Accounts

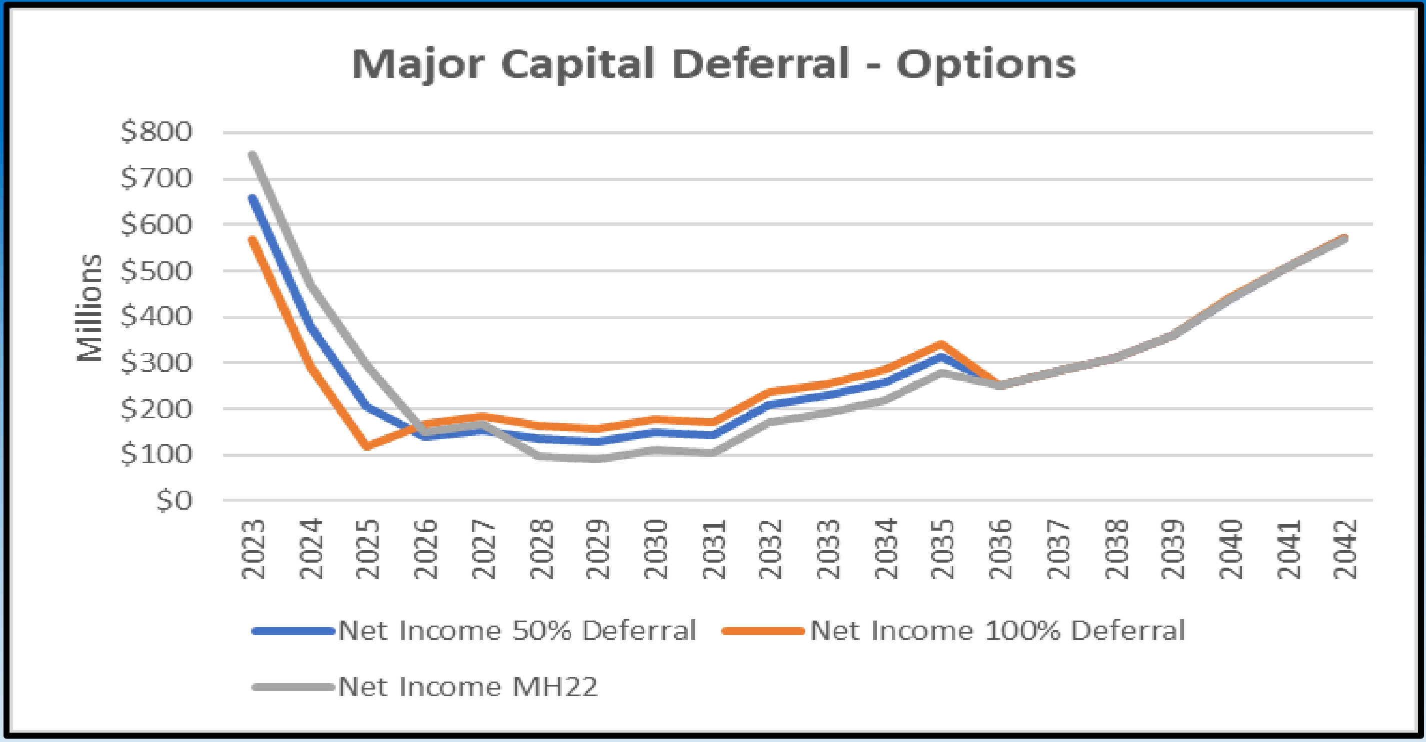
Recommendations:
Non-Depreciation Regulatory Deferral Accounts

- (1) It is **Recommended** that the **Establishment of a SAP Regulatory Deferral Account** (RDA) be **Left** to **MH's Interpretation of IFRS14 Until Justification** for the **Associated Expenditures** Has Been **Developed** – as an Appropriate Regulatory Test for Approval Has Not Been Met. **MH Can Make** a **Separate Application** to the PUB for the RDA **Once** the **Business Case** is **Completed or** at the **Next GRA**. There is **PUB precedent** for a **RDA** Based on an **Accounting Change** Related to **Centra Meter Exchange Costs** (Order 152/19)

- (2) It is **Recommended** that the **PUB Endorse** the **Keeyask In-Service RDA** and **Approve the 106-Year Amortization Period** as Proposed by MH Given the Proposals are Consistent with the Objectives of Rate Stability and Intergenerational Equity

- (3) **Absent Other Options** - it is **Recommended** that the **PUB Approve** a **5-Year Amortization Period** for the **Major Capital Projects** (MCP) **RDA** Consistent with Its Purpose of Rate Smoothing and with the Amortization Period of the Bipole III RDA which had a Similar Purpose

PUB Options for Increasing the MCP RDA for Further Rate Smoothing Beyond the Test Years



- **Options Modeled** Include **Deferring (i) 50%** and **(ii) 100%** of **Proposed Rate Increases** and **Reductions in Payments to Government** from 2023 to 2025 – but Could **Also Apply** to **Abnormally High Levels of Export Revenues**
- **50% Deferral Option** = **$370M Total Balance** of **MCP RDA** is **Amortized** Over 10-Years from **2026 to 2035** – **Improves Net Income** from **2028 to 2035** by Around **$38M Per Year**
- **100% Deferral Option** = **$640M Total Balance of MCP RDA** is **Amortized** Over 10-Years from **2026 to 2035** – **Improves Net Income** from **2028 to 2035** by Around **$66M Per Year**

Summary: Rate Setting Through Fundamentals & Balance

- **Fundamentals** to **Balance Interests** of Customers with Financial Health of MH:
- (1) **Focused Strategy** & Sound **Business Cases**
- (2) Multi-Year **Priority-Based O&A Budgeting**
- (3) Mature **Asset Management Practices** to Prioritize BOC
- (4) **DMS** with **Appropriate Risk Tolerances** Post Major Capital Projects
- (5) **Advanced** Risk Analysis/**Uncertainty Analysis**
- (6) **Appropriate Financial Metrics/Targets** for a Cost-Recovery GBE