

Opening Statement for Manitoba Industrial Power Users Group In the 2023/24 & 2024/25 Manitoba Hydro General Rate Application

Background on the Manitoba Industrial Power Users Group (MIPUG)

MIPUG was formed in the late 1980s to address matters of unique importance to industrial electricity consumers operating in Manitoba. MIPUG has participated as an Intervenor in each of Manitoba Hydro's hearings since that time, including the Needs For and Alternatives To (NFAT) Review.

MIPUG has 14 members, that were listed in the Application for Intervention:

- Amsted Rail - Griffin Wheel Company;
- Canada Kraft Paper Industries Ltd.;
- CTD Group (Integra Castings);
- Chemtrade Logistics Inc.;
- Enbridge Pipelines Inc.;
- ERCO Worldwide;
- Gerdau Long Steel North America – Manitoba Mill;
- HyLife Foods
- Koch Fertilizer Canada ULC;
- Maple Leaf Foods;
- Roquette Canada Ltd.
- J.R. Simplot Company
- TransCanada Energy; and
- Winpak Ltd.]

MIPUG companies are significant contributors to Manitoba's economy, particularly in communities outside of Winnipeg. At last count, and before the addition of some of the more recent members, MIPUG companies provided well over 6,000 jobs, with most located outside of Winnipeg. Many MIPUG companies are the largest employers in their respective communities.

The Interests of MIPUG

MIPUG's key concerns related to the electricity rates have been consistently cited before this Board. In past hearings, the Board will have noted three tend to be highlighted:

- 1) Stability and predictability of rates over the long- and short-term;
- 2) Ongoing transparent regulation of Manitoba Hydro's rates and major capital spending; and
- 3) Fair and equitable rates for all customer classes reflecting the fair cost to efficiently serve the class.

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However, today a fourth priority must be moved up to this priority list. MIPUG members have been clear that Hydro's rates should be at the lowest reasonable level that can be maintained while still meeting the objective that they provide Hydro sufficient funds to provide safe and reliable service.

Focus of Hearing

The MIPUG focus during this hearing will generally be twofold.

First, the Board will have received Mr. Bowman's pre-filed testimony (Exhibit MIPUG-6). This testimony contains 17 recommendations, in the following areas:

- On **Revenue Requirement** for the Test Years, MIPUG has provided rate recommendations that are generally accepting of Hydro's proposed 2% rate increases on average. MIPGU acknowledges there may be some conservatism in Hydro's assumption in some areas like export revenues, which will be tested in this proceeding.

The 2% rate path was not expected at NFAT, or since. Hydro had consistently projected the need for material increases, combined with large net income losses, after Keeyask came into service. Instead, positive effects of low interest rates and many other factors like new export contracts (which MIPUG has been highlighting for the past 2 rate hearings) have now crystallized. This is a good news story for all Manitoba Hydro customers.

The recent and retroactive (to April 1, 2022) reduction in Government charges is similarly noted as a positive impact on Hydro's costs; however, this relief solely serves to support Hydro in achieving debt and equity targets set out in *The Manitoba Hydro Amendment and Public Utilities Board Amendment Act* (i.e. Bill 36) ("Act") that were never tested or merited to begin with. Ratepayers were financially

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supporting all of Hydro's debt before the relief and would have continued supporting the debt without relief – the relief solely helps achieve a government objective of accelerated extinguishment of debt, not a ratepayer objective. So long as the debt is tied to capital investment (as it is), there is little inherent reason for building equity in Hydro (i.e., paying down debt faster than the assets are depreciated). But, this is part of a fascinating and vibrant debate that is made moot by the *Act*, which is scheduled to take effect April 1, 2025, as it relates to the determination of rates for any period after April 1, 2025. So long as the *Act* comes into effect as passed, these targets are outside the transparent, rigorous and analytical framework used by the Board, and instead remain in the realm of politics.

It must also be noted that this MIPUG recommendation regarding the 2% rate path has two caveats:

1. MIPUG has taken an interpretation of the *Act* that in planning long-run financial scenarios, the financial targets in the *Act* should be taken into account, notwithstanding the transition provisions in s. 65 of the *Act* which apply to the short-term. We accept that other parties and the Board may ultimately take a different interpretation of the transition provisions, that they are to be ignored today even when looking at the long-term (i.e. after April 1, 2025). If that interpretation prevails, MIPUG will be assessing as part of this proceeding whether its support for the 2% average increase requires updating.
2. MIPUG has coordinated with other intervening parties in respect of who leads in different areas. MIPUG did not focus its evidence on operations and maintenance spending nor sustaining capital spending. As I will indicate, MIPUG has concerns that broad reductions in these areas are ill-advised in light of significant experienced erosion in Hydro's system reliability, and further potential erosion. Manitoba Hydro clearly acknowledges in its

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Application that reliability and performance is degrading with time. However, if after testing the evidence in this proceeding there appears to be room for reductions in these areas that will not adversely affect reliability, the required average rate increases may have room to be adjusted downwards from 2%.

- On **Long-Term Forecasts**, MIPUG recognizes that Hydro is still preparing its IRP regarding loads and resources, and this matter is not in scope for the proceeding. However, Hydro should now be well aware of the issues that need to be solved and pressures it is facing, and these matters are material to the long-term forecasts we are now reviewing, as well as to appropriately pricing power in Manitoba. MIPUG will be spending some time addressing these trends and issues, due to their relevance to decisions that must be made in this proceeding.
- On **Depreciation**, MIPUG has been part of preparing the cooperative document, and will present an opinion in favour of Average Service Life (ASL) when that part of the proceeding arises.
- On **Cost of Service**, MIPUG accepts the results of PCOSS24, with the exception of some needed methodology updates to reflect new and evolving facts tied to the growing importance of demand on the Hydro system. For multiple reasons, of increasing importance, demand is becoming the key cost pressure in Manitoba, not energy. Similarly, distribution system load growth is a growing concern. This includes pressure from decarbonization, adoption of EVs and ultimately electrification of heating, loss of diversity agreements, and less ability to rely on carbon-based thermal generation for peaking. For this reason, MIPUG highlights necessary improvements to the PCOSS, including for Wind classification, DSM functionalization, and the

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measurement of peak demand (using a more precise peak measure, rather than a simple average of 50 hours).

- On **Rates**, the Board has been clear about its intention that each class's rates should reflect costs, and should do so by 2027/28. Rates today do not reflect costs, and the problem has been outstanding for decades. The largest industrial customers, for example, pay 13% more than their costs, or more. This is a clear cross-subsidy, primarily to residential customers. Hydro's proposals reflect a small differentiation in rate increases by class, supposedly to help narrow this gap. For 40 years, similarly timid efforts to narrow the gap have not worked. s.39.1(1)(a) of the *Act* which reads as follows:
 - It is hereby declared to be the policy of the government that
 - (a) the rates charged by the corporation to each class of grid customers in Manitoba are to be based on the revenue requirements properly allocated to that class...
- If fair rates, a Zone of Reasonableness, and the more stringent cost-allocation provisions under the *Act* are to have any meaning, the Board must address this issue with far more urgency than proposed by Hydro. In the context of a proceeding with relatively modest overall increases, and a looming deadline, the Board must continue to prioritize its 2027/28 target.

Secondly, in addition to the issues raised in Mr. Bowman's evidence, a number of MIPUG members will be here tomorrow to present to you, and they will be following the hearing with interest as it relates to a primary concern of theirs – reliability and prioritization of demand-only rate increases, which create diverse rate impacts within the GSL rate classes. Hydro's data and commentary suggests a small but growing erosion in reliability. MIPUG

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member experience is not the same. Reliability issues in Manitoba are acute, and Hydro's responsiveness to the services required by industrial customers (such as the timing to respond to new service requests) are poor. Some of this may be understandable given the pressures of the last few years (particularly the pandemic), but the experienced erosion in Manitoba exceeds other provinces where these companies operate.

Low rates are of no benefits if the costs of outages, and the inability to get attention and service from Hydro, are undermining revenues far beyond what is saved on power bills. Fair rates, that reflect costs, and that provide Hydro with sufficient revenue to operate and maintain a reliable system, must be the priority.