

**MANITOBA HYDRO**  
**(MH)**



1 **REFERENCE: Page 41**

2 **Comments on KM water in storage mitigation strategy**

3  
4 “The **water in storage** concept appears premised on an idea that  
5 while the long-term system ‘net revenue maximization’ analyses  
6 completed by Hydro are appropriate (using the various models and  
7 marketing frameworks in place), in any interim period where the  
8 overall level of Retained Earnings are below the target level, Hydro  
9 should consider narrowing its risk tolerance through being more  
10 conservative in regards to use of water (defined as a “mitigation  
11 strategy”).”

12  
13 **QUESTION:**

- 14  
15 a) Please comment on which of the three categories of risk set out in p. 32-33 of  
16 your evidence does water management fall within.

17  
18 **ANSWER:**

19  
20 **(a)**

21  
22 Water management is not a risk *per se*; it is a key aspect of producing power that any  
23 hydraulic utility must address.

24  
25 With respect to the variable or “risk” elements of water management:

- 26  
27 • Unavoidable impacts of drought are clearly in the category of “Exceptional Risks  
28 Borne by Ratepayers” for which rate stability considerations are front and center.  
29  
30 • Practical implementation of water management, and the implications thereof, are  
31 more akin to what is titled “Management Risks” – this is the type of item where  
32 day-to-day decisions must be made by the utility, and where the regulator retains  
33 a role to address poor water management decisions.  
34

35 Outside of this “risk” focus, the water management philosophy and objectives are a  
36 separate item of concern, in that they should accord with the overall planning of the  
37 system, and the ratepayers tolerance for risk over the long-term. Where an overall

1 development plan can be justified in the Power Resource Plan on the basis of the power  
2 that can be produced when managed under one set of philosophy or objectives (e.g.,  
3 maximize net revenues), the plan may be materially undermined by operating the water  
4 system under a different set of criteria for various periods (e.g., as appears to be  
5 recommended by Kubursi and Magee, (a) to *keep added water in storage* so as to be  
6 additionally conservative when reserves are low, or (b) to operate the system to  
7 *minimize cost of generation and delivery*, rather than maximize net revenues).

1 **REFERENCE: Comments on KM specially created fund mitigation strategy**

2  
3 “It is apparent the resolution of the question of the ideal form of  
4 reserves is a matter for future consideration, and no proposals for any  
5 specific reserve mechanism are today before the Board.” (p. 44)

6  
7 “The volatility in recent export revenue forecasts renews concerns  
8 expressed during the 2006 cost of service study review and the 2008  
9 GRA in respect to Hydro’s approach to applying ‘above costs’ net  
10 export revenues to offsetting the costs of Hydro’s general system  
11 assets (generation, transmission and distribution) so as to allow for  
12 lower domestic rates in the near-term. Instead any such above-cost  
13 export revenues might be prioritized to building appropriate drought  
14 reserves (and aid in management of Hydro’s debt) as a ‘preferred  
15 approach’ ” (p. 52)

16  
17 **QUESTION:**

- 18  
19 a) Please confirm that MIPUG is not advocating in the creation of a targeted  
20 reserve fund as per its recommendation in the 2008 GRA, in these  
21 proceedings.

22  
23 **ANSWER:**

24  
25 **(a)**

26  
27 MIPUG’s position will be articulated at the conclusion of the hearing, in argument.

28  
29 While a reserve mechanism is needed, Messrs Bowman and McLaren’s pre-filed  
30 testimony does not advocate the creation of a specific reserve mechanism directly out of  
31 this proceeding. While the information and analysis necessary to accomplish this may  
32 yet be made available through this proceeding, it is also reasonable to permit orderly  
33 review of the reserve topic for resolution at Hydro’s next GRA.

34  
35 In the view of Messrs Bowman and McLaren, there is a need for a prompt but orderly  
36 process to address major items on the matter of regulatory evolution in Manitoba. The  
37 present review is consistent with evolution on this matter, with the detailed

1 understanding of risk preceding and setting the stage for further discussions about  
2 reserves.

3  
4 In particular, the recommendation of Messrs Bowman and McLaren in their 2008 GRA  
5 evidence specifically cites:

6  
7 1. The use of a debt:equity target to guide rate increases should be discarded. The  
8 Board should target a major review of alternatives to establishing appropriate  
9 protected regulated reserves, as may be permitted within the appropriate  
10 legislation.

11  
12 2. For this proceeding [*the 2008 GRA*], a 2.9% rate increase overall at this time may  
13 be justified, on a go-forward basis from the date of the Board's Order, primarily to  
14 establish a measured predictable rate adjustment regime. Any future overall  
15 increases to the level of Hydro's rates should be predicated on completing the  
16 review noted in (1) and successful establishment of regulatory reserves under  
17 the direct oversight of the Board" (February 5, 2008, page 3).

18  
19 While the progression to establish reserves has not been treated with the same priority  
20 as recommended in 2008, the path remains valid and the orderly process presently  
21 unfolding is well suited to this direction.