GANGE GOODMAN & FRENCH

B A R R I S T E R S & S O L I C I T O R S

760 - 444 St. Mary Avenue
Winnipeg, Manitoba
R3C 3T1

Ph: (204) 953-5400
Writer's direct (204) 953-5401
Writer's e-mail wsg@gangegoodmanfrench.ca
Fax: (204) 947-0171

William S. Gange
Leonard M. French
David M. Cordingley

Peter A. Baumstark
Jacqueline G. Collins
Kalyn B. Bomback

April 25, 2014

VIA E-MAIL

Mr. Hollis Singh
Manitoba Public Utilities Board
400 - 330 Portage Avenue
Winnipeg, MB R3C 0C4

Dear Mr. Singh:

Re: Manitoba Hydro Application for Interim Electric Rates Effective April 1, 2014
Our File No. 16438 WSG

The Green Action Centre ("GAC") was granted intervenor status by Board letter dated April 4, 2014 to comment upon the application for interim electric rates effective April 1, 2014 filed by Manitoba Hydro March 7, 2014. In its application, Manitoba Hydro has asked for approval on an interim basis of a 3.95% general rate increase effective April 1, 2014. Manitoba Hydro states that the rate increase would generate additional revenues of $56 million in 2014/15 to be applied on an across-the-board basis for all customer classes.

GAC supports Manitoba Hydro in its application for an interim rate increase.

Submission

GAC has consistently argued that there is a need to ensure that Manitoba Hydro remains in a sound financial position. In February, 2007, GAC (under the GAC's predecessor organizations RCM and TREE) took the position that an interim rate increase ought to be approved "for reasons of inter-generational equity, rate stability and sending appropriate price signals to consumers" (Board Order 20/07, page 18). GAC submits that the same principles of inter-generational equity and rate stability remain as appropriate rationales for the approval of the current interim rate increase.

GAC notes that there are certain favourable conditions for Manitoba Hydro at the present time. Water conditions as at February 12, 2014 are well above the long-term average (Appendix 7, Chart B) (**TAB 1**). It can be expected that the spring melt will ensure that the total energy and reservoir storage is sufficient for healthy returns.

In addition, although export prices remain lower than historic prices, export prices have recovered somewhat over the past year. This trend is favourable on a year-to-year basis, although it is probably not significant when compared to the historic prices that have been in effect.

Further, GAC notes that Manitoba Hydro has committed to a 1% annual constraint in its O & A budget. This would appear to be a prudent and fiscally responsible approach to the current financial circumstances.

In contrast to the favourable conditions noted above, the application contains a number of potentially harmful factors. The first and most obvious matter is the 2014/15 forecast of a $1 million loss based on current rates. Manitoba Hydro forecasts a reduction in net extra-provincial revenues, an increase in finance expenses and increased depreciation and amortization expenses.

In addition, we have heard at the NFAT that projected capital costs for the preferred development plan have increased significantly above earlier projections. Although these costs are not relevant to the current year's financial forecast, nevertheless the potential costs of the preferred development plan cannot be ignored in looking at the long-term financial health of Manitoba Hydro. No matter which approach the PUB chooses to recommend to the provincial government, the costs of future development must be taken into account when the Board looks at the financial health of Manitoba Hydro.

The Board must also take into account the costs related to aging infrastructure in the Manitoba Hydro fleet. The cost of ongoing maintenance and the renovation of aging assets will be a reality for the corporation in the current financial period and into the future. The interim rate increase is required to ensure the adequate resources for the safety and reliability of the system.

A further concern to GAC is the fact that export prices continue to be depressed by historic standards. It is interesting to note that as long ago as Board Order 20/07 dated February 28, 2007, the Board noted that the marginal cost of peak electricity had fallen in the United States due to lower natural gas prices (Board Order 20/07, page 10). The lower value of peak electricity would appear to be the norm at present and for the future.

In response to CAC/Manitoba Hydro 1-20-B, Manitoba Hydro has provided a graph of the debt equity ratio which forecasts the equity ratio to drop to 6% for the period 2025 to 2028 and to be below 10% for the period 2021 to 2032 (**TAB 2**). GAC submits that this is an unacceptable risk factor.

It would appear that Manitoba Hydro will require rate increases that are above the rate of inflation to keep the financial status of the corporation healthy or, at the very least, to mitigate the deterioration of the debt equity ratio over the next 15 years.

GAC is of the view that most electric utilities in Canada and in North America will be facing similar increases in electric rates in the same time frame. There would appear to be nothing in the projection of future rates by Manitoba Hydro that will not be occurring in many, if not most, of the jurisdictions in North America.

In reviewing the interim rate application, the Board ought to be mindful of the reality of Manitoba Hydro revenues. They are variable. That variability is volatile. As has been discussed at the NFAT hearing and at every general rate application in the past decade, the revenues are primarily dependent upon weather. The risk of drought is always present. The revenues are also heavily dependent upon the variability of non-firm export prices. These two factors lead to an environment where variability is the expected condition of Manitoba Hydro revenues.

In contrast, customers of Manitoba Hydro expect and require rate stability. This would appear to be especially true in reference to commercial entities, including the MIPUG members. Residential customers would also appear to appreciate rate stability in contrast to rate shock.

In order to reconcile the variability of the Manitoba Hydro revenue stream with the stability desired by many of Manitoba Hydro's customers, the Board ought to look at setting rates on the basis of longer term trends as opposed to the actual results of last year's revenues or the short-term conditions, be they favourable or unfavourable. GAC is of the view that the current longer term trends point strongly in the direction of requiring more revenue for Manitoba Hydro. GAC recognizes that there may be differences of opinion as to the precise details of the longer term trends. What seems free from argument, however, is that on a directional basis, Manitoba Hydro will require greater revenue. The details of the revenue requirements can be fully explored in the next GRA hearing. The details of the revenue requirements at the next GRA hearing will take into account the NFAT decision, which will have been rendered prior to the commencement of the GRA.

<u>Recommendations</u>

GAC recommends therefore that the Board approve an interim rate increase of 3.95% to preserve Manitoba Hydro's financial capacity regardless of the NFAT outcome. GAC does not recommend the 4.29% increase to compensate for a month delay. The delay contemplated would have a short term impact on revenue. Whatever impact a one-month delay might have, can be taken into account at the GRA.

Yours very truly,

GANGE GOODMAN & FRENCH

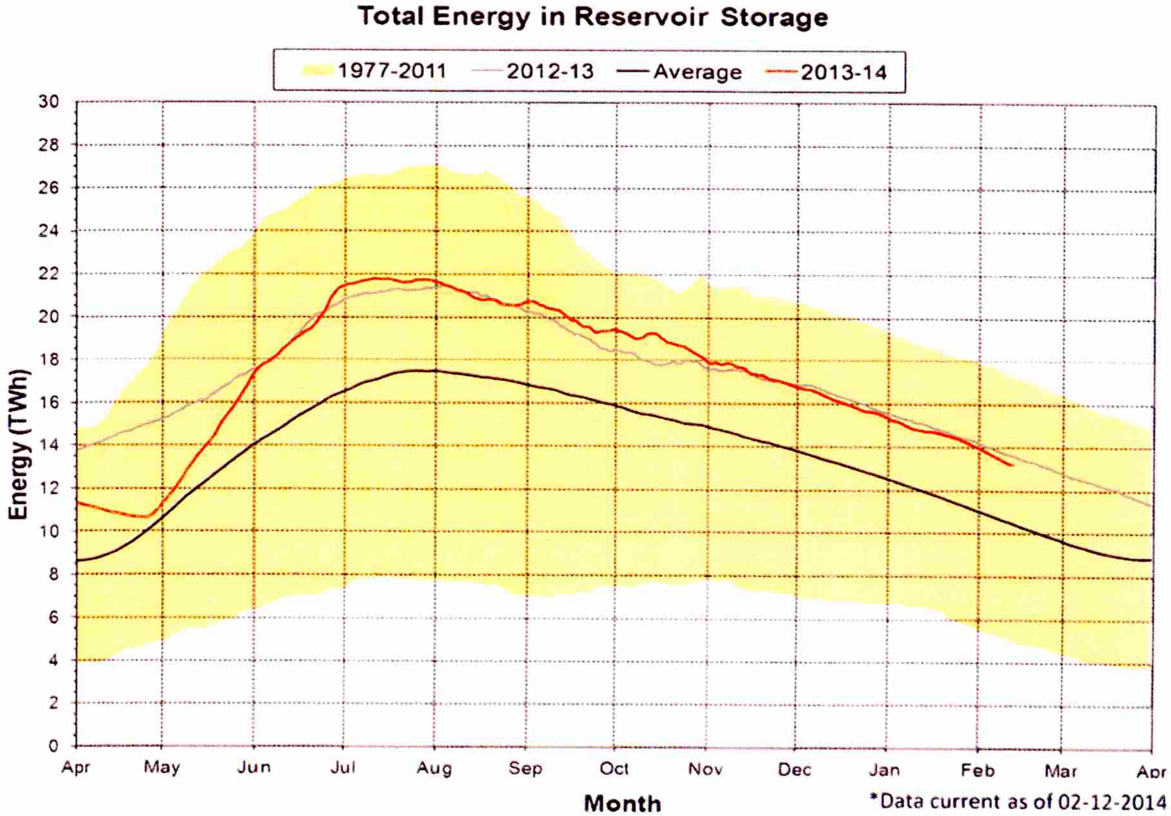
Per:

William S. Gange

WSG/lc
Attachments

TAB 1

Chart (b) - Energy in Storage



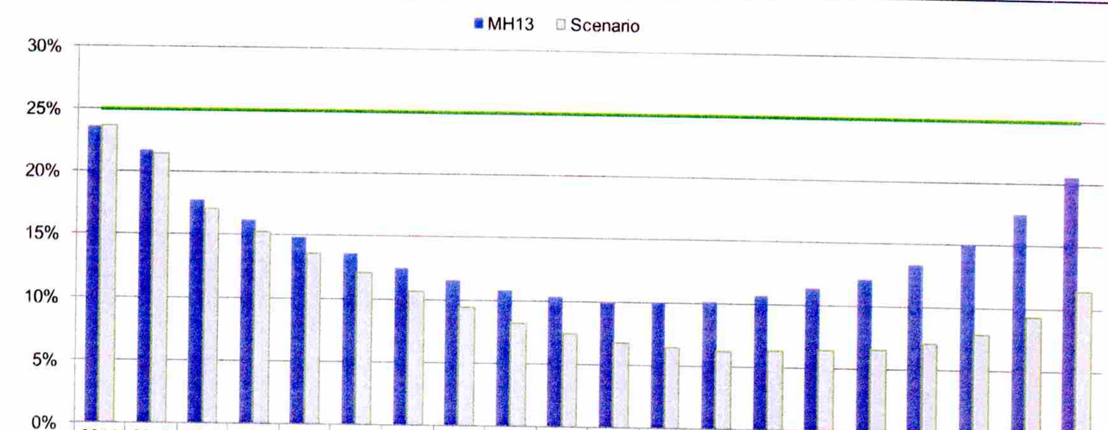
CAC/MH I-20

Reference: Application, Section 5.2 Financial Targets, page 16

b) What would the projected equity ratio be without the proposed interim rate increase?

ANSWER:

As can be seen in the following graph, without the proposed interim rate increase Manitoba Hydro's projected equity ratio would further deteriorate from a low-point of 10% as forecast in IFF13 to 6%.



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
MH13	24%	22%	18%	16%	15%	14%	12%	12%	11%	10%	10%	10%	10%	11%	11%	12%	13%	15%	18%	21%
Scenario	24%	21%	17%	15%	14%	12%	11%	9%	8%	7%	7%	6%	6%	6%	6%	7%	7%	8%	9%	11%
TARGET	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%