

**MANITOBA HYDRO
APPLICATION FOR INTERIM ELECTRIC RATES EFFECTIVE APRIL 1, 2014**

MANITOBA HYDRO FINAL SUBMISSION

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1 **1.0 Introduction**

2 On March 7, 2014, Manitoba Hydro filed its Application with the Public Utilities Board
3 of Manitoba (“PUB”), requesting approval, on an interim basis, of a 3.95% general rate
4 increase effective April 1, 2014, to be applied on an across-the-board basis for all
5 customer classes. On March 28, 2014, Manitoba Hydro amended its Application to also
6 request PUB approval, on an interim basis, to implement new Light Emitting Diode
7 (“LED”) rates for the Area and Roadway Lighting class. Since an April 1, 2014
8 implementation of the proposed rate increase is no longer possible, Manitoba Hydro
9 respectfully requests that the PUB issue its Order with respect to these matters to be
10 effective May 1, 2014.

11

12 As stated in its Application, Manitoba Hydro is seeking approval of the proposed interim
13 rate increase for the following reasons:

- 14 1. To avoid the potential for incurring losses on Electric operations;
- 15 2. To limit the extent to which financial ratios are projected to deteriorate, and in
16 doing so, maintain the on-going financial and credit rating integrity of Manitoba
17 Hydro;
- 18 3. To continue to compensate for the fact that while prices for non-firm electricity
19 sales in the export market have shown improvement, they continue to be
20 significantly less than those experienced prior to the 2009/10 fiscal year;
- 21 4. To recognize that Manitoba Hydro’s infrastructure is aging and that increased
22 costs are necessary to maintain infrastructure in a safe and reliable manner; and,
- 23 5. To provide customers with rate stability and predictability and to avoid the need
24 for higher rate increases in the future.

25

26 In accordance with the PUB established timetable, Manitoba Hydro filed responses to
27 Information Requests from the PUB, the Consumers’ Association of Canada (Manitoba)
28 (“CAC”), the Manitoba Industrial Power Users’ Group (“MIPUG”), and Manitoba
29 Keewatinowi Okimakanak, Inc. (“MKO”) on April 15, 2014. These interveners, as well
30 as the Green Action Centre (“GAC”), filed written submissions with respect to Manitoba
31 Hydro’s Interim Application.

32

1 As indicated above, Manitoba Hydro amended its Application to also request approval,
2 on an interim basis, to implement new LED rates for the Area and Roadway Lighting
3 class. Manitoba Hydro does not currently have rates in place for LED roadway lighting
4 fixtures. The proposed new rates will apply to all LED installations, including new
5 installations and those related to the replacement of existing High Pressure Sodium
6 fixtures. No party has expressed concern with respect to Manitoba Hydro's LED Area &
7 Roadway Lighting rates proposal.

8
9 In this final written submission, Manitoba Hydro will summarize its reasons for the
10 proposed rate increase and will also address certain issues raised by interveners in their
11 written submissions.

12 13 **2.0 Summary of Reasons for Application**

14 15 **2.1 Maintain Net Income and Financial Ratios at Acceptable Levels**

16 Approval of the proposed rate increase is needed to maintain net income and financial
17 ratios for 2014/15 at acceptable levels, in order to preserve the financial integrity of the
18 Corporation to adequately address risks and to promote rate stability for customers.
19 Based upon Manitoba Hydro's proposed rate increase of 3.95% effective April 1, 2014,
20 the forecast net income from Electric operations is \$55 million for 2014/15; the equity
21 ratio is projected at 22%; and, the interest coverage and capital coverage ratios are
22 projected at 1.09 and 0.87, respectively, for 2014/15.

23
24 As noted in Manitoba Hydro's letter of March 20, 2014, delaying the proposed rate
25 increase to May 1, 2014 reduces net revenues from Electric operations by \$4.4 million in
26 2014/15 compared to the forecast in MH13. A rate increase of 4.29% effective May 1,
27 2014 would be required in order to generate the same level of general consumers'
28 revenue in the 2014/15 fiscal year. However, in recognition of the compressed timeframe
29 associated with the review of the Application, the Corporation is not seeking a higher rate
30 increase to compensate for the forgone revenue as a result of the delay in the
31 implementation of the proposed rate increase, but rather is requesting approval of a
32 3.95% interim electric rate increase effective May 1, 2014.

33
34 At page 4 of its submission, MIPUG argues that absent the requested rate increase the
35 debt to equity ratio is close to the target level of 75:25 and the capital coverage ratio
36 remains at or above 1.0, suggesting that there is no financial justification for the rate
37 increase. These assertions are factually incorrect. As stated at page 5 of the Application,

1 absent the proposed rate increase, a net loss of \$1 million is projected in 2014/15, the
2 equity ratio is projected to decline to 21%, and the interest coverage and capital coverage
3 ratios are projected to be 1.00 and 0.78, respectively, in 2014/15, all deteriorating well
4 below the target levels.

5

6 MIPUG made this same argument in its August 8, 2012 submission with respect to
7 Manitoba Hydro's requested September 1, 2012 interim rate increase. As noted then by
8 Manitoba Hydro in its response submission of August 14, 2012, a capital coverage ratio
9 greater than 1.0 provides essential cash to reduce its debt financing requirements, a
10 capital coverage ratio of 1.0 is (a) well below the approved and accepted 1.2 target and
11 (b) does not provide any cash support to buffer against adverse and variable risks such as
12 external factors including weather, export prices, or economic conditions.

13

14 Table 1 below summarizes the actual electric operations net income for the past two
15 fiscal years and the projected net income for 2013/14 and 2014/15 from IFF13. This table
16 is consistent with Table 4 provided on page 11 of the Application.

17

18

Table 1 - Net Income and Retained Earnings - Electric Operations
(millions of \$)

	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Forecast
General Consumers Revenue				
- at approved rates	\$ 1 193	\$ 1 341	\$ 1 396	\$ 1 408
- with proposed increases*	-	-	-	56
Bipole III Reserve Account	-	-	(18)	(21)
Extraprovincial Revenue (net of fuel & power purchased and water rentals)	98	101	139	118
Other Revenue	13	25	13	13
	<u>1 304</u>	<u>1 468</u>	<u>1 530</u>	<u>1 573</u>
Expenses				
Operating & Administrative	412	463	485	494
Finance expense	385	452	437	499
Depreciation & Amortization	353	392	415	440
Capital & other taxes	83	86	93	101
Corporate Allocation	9	9	9	9
	<u>1 242</u>	<u>1 403</u>	<u>1 438</u>	<u>1 543</u>
Non-controlling Interest	-	13	24	24
Net Income	<u>\$ 61</u>	<u>\$ 78</u>	<u>\$ 116</u>	<u>\$ 55</u>

* with proposed increases - reflects a 3.95% increase in 2014/15

Financial Results - Assuming No 2014/15 Rate Increase

Net Income (Loss)	\$ (1)
Retained Earnings	2 582
Debt to Equity Ratio (consolidated)	79:21
Interest Coverage Ratio (consolidated)	1.00
Capital Coverage Ratio (consolidated)	0.78

Financial Results (after the proposed rate increase)

Retained Earnings	2 390	2 468	2 584	2 638
Debt to Equity Ratio (consolidated)	74:26	75:25	76:24	78:22
Interest Coverage Ratio (consolidated)	1.10	1.15	1.22	1.09
Capital Coverage Ratio (consolidated)	1.13	1.25	1.06	0.87

1 **2.2 Compensate for Lower Net Export Revenues**

2 Historically, net extraprovincial revenues have made a significant contribution to overall
3 revenues, which has enabled Manitoba Hydro to maintain lower electricity rates for
4 Manitobans. However, more recently net extraprovincial revenues have not been as
5 strong as in previous years. As noted in Table 1, Manitoba Hydro's net extraprovincial
6 revenues are projected at \$139 million in 2013/14 and \$118 million in 2014/15. Although
7 export prices have recovered somewhat over the previous forecast (MH12), the projected
8 levels of net extraprovincial revenues are still significantly lower than the range of \$170
9 million and \$370 million experienced in the 2007/08 to 2010/11 period (as shown in the
10 response to PUB/MH I-1(a)). Inevitably, lower net extraprovincial revenues leads to the
11 necessity to gradually increase customer rates over time. The interim rate increase
12 requested in the Application reflects Manitoba Hydro's approach of gradually increasing
13 rates to compensate for the reduction in net extraprovincial revenues.

14

15 **2.3 Increased Costs to Maintain Aging Infrastructure**

16 Manitoba Hydro's Application for an interim electric rate increase of 3.95% is driven, in
17 part, by the need to invest in aging utility assets that are becoming significantly more
18 costly to maintain and renew. Additional investment in Manitoba Hydro's existing assets
19 is required to ensure ongoing safe and reliable service. It is important that rates are
20 increased gradually at this time in order to provide adequate revenues for the required
21 investment in existing infrastructure, meanwhile avoiding the necessity of seeking higher
22 rate increases in the future.

23

24 Manitoba Hydro has historically funded base capital expenditures through internally
25 generated funds. However, Manitoba Hydro is now projecting capital coverage ratios
26 below 1.0 until 2016/17. Gradual rate increases are required to ensure Manitoba Hydro is
27 collecting the necessary revenues to maintain its financial sustainability over the long-
28 run. As such, the interim rate increase of 3.95% is the minimum rate increase required to
29 provide for the necessary investment in infrastructure and allow the Corporation to
30 continue to provide safe and reliable service.

31

32 Furthermore, as noted in the Application on page 8 and acknowledged by GAC in its
33 submission, electric utilities across Canada are facing similar cost pressures as Manitoba
34 Hydro, driving the need for higher than inflationary rate increases. As outlined by Mr.
35 Barnlund in his Needs For and Alternatives To ("NFAT") testimony at transcript pages
36 2746 to 2749, Canadian electric utilities expanded and built their electrical systems after
37 the Second World War and this infrastructure is now at or near the end of its useful life

1 requiring refurbishment or replacement. The rate increases sought and approved in other
2 Canadian jurisdictions have and continue to be significantly driven by the need for this
3 specific reinvestment.

4
5 For example, BC Hydro rates increased by 9.0% effective April 1, 2014 and will increase
6 by 6.0% in 2015 as directed by the British Columbia government. The rate increases for
7 2016, 2017 and 2018 have been capped by the BC government at 4.0%, 3.5% and 3.0%
8 respectively. SaskPower implemented a rate increase of 5.5% effective January 1, 2014,
9 and has received approval to increase rates by 5.0% in 2015. Nova Scotia Power
10 implemented a general rate increase of 3% in 2014, which when combined with increases
11 to the DSM Cost Recovery Rider, resulted in overall rate increases ranging from 3.1% to
12 4.5% depending on the rate class. The Régie de l'énergie approved a rate increase of
13 4.3% (3.5% for the large industrial customer class) for Hydro Quebec effective April 1,
14 2014. Lastly, in accordance with the Ontario government's 2013 Long Term Energy
15 Plan, residential bills for Ontario consumers could increase by approximately 9.6% in
16 2014, 5.8% in 2015 and 15.0% in 2016. By direct comparison, Manitoba Hydro's
17 proposed 3.95% electric rate increase for 2014/15 is modest relative to these other
18 jurisdictions.

19
20 Even when considering rate increases approved and proposed by other Canadian electric
21 utilities since 2006, Manitobans continue to enjoy electricity rates that are at or near the
22 low end for rates of Canadian utilities as evidenced at page 7 of the Application.
23 Moreover, this will continue to be the case when considering Manitoba Hydro's proposed
24 3.95% rate increase for 2014/15.

25
26 In its submission at page 4, MIPUG notes that Manitoba Hydro has applied for rate
27 increases every year since 2004, except for 2007, which, when including the applied for
28 3.95% in 2014/15, translates into a cumulative rate increase of 40% in the past decade.
29 MIPUG further notes that this history of rate increases has translated into cost pressures
30 and uncertainty for ratepayers at a time when electricity price changes were low or
31 negative for much of North America. MIPUG has provided no substantive detail to
32 support its conclusions regarding electricity prices across North America, and ignores the
33 reality facing the Canadian utility industry with respect to its aging infrastructure that is
34 primarily driving the need for these rate increases.

2.4 Ensuring Future Rate Stability and Predictability for Customers

35
36
37 In a Crown-owned Corporation such as Manitoba Hydro, retained earnings are not for the

1 benefit of shareholders but rather are for the benefit of customers, in terms of absorbing
2 negative financial events and reducing the risk of large or variable rate increases in the
3 future. As such, maintaining the financial integrity of the Corporation is paramount in
4 ensuring stable and predictable electricity rates for the benefit of Manitobans in the
5 future.

6
7 In its submission at page 3, GAC correctly acknowledges that:

8 “Customers of Manitoba Hydro expect and require rate stability. This
9 would appear to be especially true in reference to commercial entities,
10 including the MIPUG members. Residential customers would also appear
11 to appreciate rate stability in contrast to rate shock.”

12
13 In Order 43/13, the PUB acknowledged the importance of Manitoba Hydro’s financial
14 integrity when it found at pages 9 and 10 “...the Board is concerned about the
15 deteriorating financial condition of Manitoba Hydro in the face of pending significant
16 major capital expenditures” and “...it is important that Manitoba Hydro remain a
17 financially strong and viable organization.”

18
19 In summary, the Corporation submits that the requested interim rate increase of 3.95% is
20 the minimum rate increase necessary to balance on-going financial integrity while
21 providing rate stability to Manitobans.

22 23 **3.0 Manitoba Hydro is Committed to Effective Cost Control**

24 In its Order 43/13, the PUB found that progress toward meeting Manitoba Hydro’s
25 financial targets will require not only rate increases, but a concerted effort at cost
26 containment within the Corporation. On pages 3-4 of the Application, Manitoba Hydro
27 advised that it is continuing to develop measures to manage its operating costs, while at
28 the same time balancing the need to ensure staffing levels are adequate to provide safe
29 and reliable service. These measures build upon the range of cost containment efforts
30 previously implemented to manage operating costs, which include constraints on external
31 hiring, restrictions on overtime and out-of-province travel, and reductions in community
32 sponsorships and donations.

33
34 As explained in PUB/MH I-30(d), Manitoba Hydro is currently planning cost further
35 containment measures as part of the detailed annual budgeting process to achieve
36 additional cost reductions. Annual OM&A cost increases have been limited to 1% in
37 2015/16 through 2020/21 exclusive of future accounting changes and in-service of major

1 capital projects, and each Business Unit is responsible for identifying and implementing
2 initiatives to manage the ongoing cost pressures. As GAC acknowledged at page 2 of its
3 written submission, these efforts are prudent and fiscally responsible in light of the
4 Corporation's current financial circumstances.

5
6 As demonstrated in the response to CAC/MH I-3, OM&A expense, net of accounting
7 changes, is projected for 2014/15 at \$397 million which is an increase of approximately
8 1.3% over the 2013/14 projected amount of \$392 million, which is well below the
9 expected level of inflation. This is despite the fact that wages and salaries are forecast to
10 increase above the expected level of inflation.

11
12 CAC indicates in its submission that it is not clear whether the further cost containment
13 measures alluded to in Manitoba Hydro's response to PUB/MH I-16(a) are already
14 reflected in IFF13. MH13 incorporates the impact of Manitoba Hydro's cost containment
15 measures, including the 2014/15 test year, as the forecast reflects a reduction in OM&A
16 expenditures of approximately \$600 million over the forecast period.

17
18 Based on the above, Manitoba Hydro's past and future actions demonstrate its
19 commitment to effective cost control during a period of required rate increases.

20 21 **4.0 Rate Increase Required Notwithstanding Favourable 2013/14 Results**

22 While Manitoba Hydro's 2013/14 financial results have not yet been finalized, Manitoba
23 Hydro acknowledges that its preliminary actual results for 2013/14 would be moderately
24 higher than projected in MH13, primarily attributable to increased revenues from
25 domestic electricity and extraprovincial sales, which is a result of favourable water
26 conditions and colder than normal weather.

27
28 Despite the better than projected financial results for 2013/14, Manitoba Hydro is still in
29 need of the proposed rate increase.

30
31 The projected rate increases in Manitoba Hydro's financial forecast are based on average
32 water flows and normal weather. To ensure rate stability for customers, it is necessary to
33 implement regular and reasonable rate increases, even during periods of favourable water
34 flows and colder than normal weather, thereby balancing the inevitable years of less
35 favourable than forecast results where water flows are below average and weather is
36 warmer than normal.

37

1 MIPUG asserts on page 4 of its submission, that the proposed interim rate increase is not
2 required given present water conditions. As stated at page 13 of the Application, due to
3 the timing of the approval of MH13, both 2013/14 and 2014/15 use expected inflow
4 conditions for the forecast years (which are projected to be above average), rather than
5 using the median of historic inflows for the second forecast year (2014/15). Even with the
6 inclusion of favourable water conditions for the 2014/15 forecast, Manitoba Hydro is still
7 in need of the requested 3.95% increase in order to avoid incurring losses in the 2014/15
8 fiscal year.

9
10 Both CAC and MIPUG have recommended that the proposed rate increase should not be
11 approved in full, in light of the better than projected financial results for 2013/14.
12 Manitoba Hydro's view is that the public interest is best served by the implementation of
13 a 3.95% rate increase to avoid seeking higher rate increases in future.

14
15 As GAC correctly describes in its submission, it is important to recognize that the reality
16 of Manitoba Hydro's revenues from electric operations is that they are subject to several
17 variables and are inherently volatile. Variables such as near term water flow conditions
18 and export prices can dramatically affect export sales results. Severe variation in local
19 weather conditions will have a significant impact on domestic energy sales. As near term
20 financial results can be highly variable, it is not appropriate to determine the need for rate
21 increases by considering near term conditions only. Rather, the more prudent approach is
22 to take a longer term perspective, as illustrated in MH13, in setting rates at appropriate
23 levels to provide for sufficient financial resources in view of the significant risks that may
24 be posed by drought or other circumstances and in doing so promote long term rate
25 stability for Manitobans.

26
27 In its written submission, GAC acknowledges that it is appropriate to assess Manitoba
28 Hydro's proposed rate increases from a longer-term perspective, rather than focusing on
29 near-term conditions alone. At page 3 of its written submission, GAC stated the
30 following:

31 "In order to reconcile the variability of the Manitoba Hydro revenue
32 stream with the stability desired by many of Manitoba Hydro's customers,
33 the Board ought to look at setting rates on the basis of longer term trends
34 as opposed to the actual results of last year's revenues or the short-term
35 conditions, be they favourable or unfavourable. GAC is of the view that
36 the current longer term trends point strongly in the direction of requiring
37 more revenue for Manitoba Hydro."

1 Manitoba Hydro concurs with this position.

2

3 Manitoba Hydro's long-term forecast reinforces the need to implement the requested rate
4 increase in its entirety because without regular and reasonable rate increases, there exists
5 potential for significantly higher rate increases in future than those projected in MH13.

6

7 **5.0 PUB Jurisdiction to Approve Interim Rate Increase**

8 The PUB's jurisdiction as it relates to the conduct of Manitoba Hydro rate applications is
9 set out in *The Public Utilities Board Act* ("PUB Act"). Specific to this Application, the
10 power to make interim orders is set out in s. 47(2):

11 "The board may, instead of making an order final in the first instance,
12 make an interim order and reserve further directions, either for an
13 adjourned hearing of the matter, or for further application."

14

15 The overriding regulatory principle when considering any rate application, including
16 interim rates, is the public interest as articulated by the Manitoba Court of Appeal:

17 "The PUB has two concerns when dealing with a rate application; the
18 interests of the utility's ratepayers, and the financial health of the utility.
19 Together, and in the broadest interpretation, these interests represent the
20 general public interest."¹

21

22 MIPUG argues that based upon section 48 of the *PUB Act*, that interim rates should only
23 be used in cases of financial urgency or a net benefit to customers. A similar argument
24 was advanced by MIPUG with respect to an April 1, 2010 interim rate increase, at which
25 time Manitoba Hydro made it clear that it was not in immediate financial difficulty. In
26 Order 18/10 the PUB unequivocally rejected the urgency argument stating that "urgency
27 is not a required condition".

28

29 The appropriateness of the PUB awarding an interim rate increase was also canvassed as
30 part of Manitoba Hydro's September 1, 2012 interim rate application. In Order 116/12,
31 the PUB concluded that while urgency is not required to justify or support a request for
32 an interim increase, Manitoba Hydro's current financial situation was of such concern
33 that a rate adjustment was warranted. As the financial results projected in MH13 are less
34 favorable than those projected in MH12, Manitoba Hydro submits that consideration of
35 this rate increase on an interim basis is at least equally as warranted, if not warranted

¹Consumers Association of Canada (Man.) Inc. et al v. Manitoba Hydro Electric Board, 2005 MBCA55.

1 more so.

2

3 The governing legislation has not changed since the issuance of these orders. MIPUG, or
4 any other intervener, has not raised any new arguments nor referenced new case law
5 which might impact the PUB's previous decisions with respect to its ability to approve
6 rates on an interim basis in accordance with section 47(2) of the *PUB Act*.

7

8 The legislature has afforded the PUB broad jurisdiction as to when and in what
9 circumstances it approves interim rates. The appropriate concern is whether the interim
10 rate increase is in the general public interest. While factors such as urgency, length of
11 time required to issue a final order or financial difficulty may be valid considerations for
12 the PUB in coming to its decision, none are determinative of the matter. The decision to
13 be made is whether the interim rate increase is in the general public interest.

14

15 MIPUG asserts that the interim rate application is months in advance of the filing of
16 Manitoba Hydro's GRA. If instead of filing this interim Application, Manitoba Hydro
17 waited to file a full GRA in the fall of 2014 after the NFAT proceeding concludes, the
18 earliest anticipated implementation of any rate increase would be the summer of 2015
19 (please see the response to CAC/MH I-19). This would in effect result in Manitoba
20 Hydro foregoing any rate increase in 2014/15, which is an unacceptable outcome from a
21 financial and a rate stability perspective and therefore, is not in the public interest as
22 noted in section 2.4 of this submission.

23

24 **6.0 Intervener Rate Recommendations**

25 Both MIPUG and CAC have recommended that the PUB should vary Manitoba Hydro's
26 proposed rate increase and instead approve a rate increase at the rate of inflation in the
27 order of 2.0%. In the alternative, MIPUG recommends a rate increase of 2.49%
28 representing 75% of what it claims to be the lowest cost development plan (All Gas plan)
29 at the NFAT of 3.32%.

30

31 **6.1 Rate Increase of 2% for 2014/15 is Inadequate to Achieve Rate Stability**

32 While MIPUG and CAC have recommended an inflationary rate increase, deferring or
33 reducing the needed 3.95% rate increase in 2014/15 would only serve to increase the
34 requirements for higher rate increases in the future than has been projected in MH13.
35 Manitoba Hydro submits that this would not be a prudent approach towards achieving
36 rate stability.

37

1 As noted at page 6 of the Application, the sensitivity analysis in IFF13 demonstrates that
2 a 1% reduction in the proposed rate increase in 2014/15 would require incremental rate
3 increases of 0.22% above the projected annual 3.95% increases for each year between
4 2015/16 and 2022/23. Based on this sensitivity, if the PUB approved a rate increase of
5 only 2% for 2014/15, Manitoba Hydro would be required to seek annual rate increases of
6 approximately 4.39% for each of the next eight years, in order to achieve the same level
7 of retained earnings in 2022/23 as forecast in IFF13.

8
9 While MIPUG suggests that the proposed rate increase is not required based on the
10 current level of retained earnings, Manitoba Hydro's retained earnings would be
11 approximately \$394 million lower in 2022/23 than the level forecast in IFF13, if a rate
12 increase of only 2.0% was approved for 2014/15.

13
14 As noted in CAC/MH I-20(b) and cited by GAC in its final submission, without the
15 proposed interim rate increase, Manitoba Hydro's projected equity ratio would further
16 deteriorate from a low-point of 10% as forecast in IFF13 to 6%. Manitoba Hydro agrees
17 with GAC's conclusion that such scenario results in an "unacceptable risk factor". All
18 things being equal, a 2% rate increase in 2014/15 would result in the equity ratio
19 deteriorating to a low-point of 8% which scenario is also unacceptable.

20 21 **6.2 Rate Increase Based on NFAT All Gas Scenario is Not Appropriate**

22 In its submission, MIPUG states that IFF13 assumes approval of Manitoba Hydro's
23 "...preferred development plan, including Keeyask and Conawapa generating stations,
24 and a 750MW US Interconnection". MIPUG further expresses concern that these projects
25 have yet to be approved, and that rate increases based on presuming their approval are
26 premature. CAC expresses similar concerns in its written submission.

27
28 Contrary to MIPUG's assertion, Manitoba Hydro did not presume that its Preferred
29 Development Plan will ultimately be recommended as part of the NFAT process, or
30 approved by the Government of Manitoba when seeking the 3.95% interim rate increase.

31
32 Given that the costs related to new generation are deferred until the in-service date of the
33 related facilities, the need for rate increases in the next ten year period are primarily
34 driven by lower than historical extraprovincial revenues and capital expenditures required
35 for reliability and sustainability of existing aging infrastructure. Given the foregoing,
36 regardless of the plan selected, annual rate increases in the amount of 3.95% will be
37 required during this timeframe under all NFAT alternatives. As testified to by Mr.

1 Rainkie and Ms. Carriere at the NFAT proceeding at transcript pages 2773 to 2775,
2 annual rate increases are required over the next several years independent of any plan
3 ultimately approved.

4
5 Furthermore, the rate increase of 3.36% under the All Gas plan would result in more than
6 \$1 billion in projected cumulative losses in the period from 2015/16 to 2021/22 (please
7 see NFAT, Exhibit 104.12-4, page 61 of 360). Such losses would deplete projected
8 retained earnings by 40% which is an untenable situation for Manitoba Hydro. In fact, in
9 accordance with NFAT Exhibit 104.12-4 page 301 of 360, in order to minimize these
10 losses to acceptable levels would require annual rate increases in the amount of 5.46%
11 per annum between 2015/16 and 2019/20.

12 13 **7.0 Other Matters Raised by Interveners**

14 While most of the substantive matters raised by interveners in their submissions have
15 been addressed above, there were a number of other matters outlined in these
16 submissions. Although Manitoba Hydro does not believe these other matters to be
17 germane or relevant to an interim application, in the sections that follow Manitoba Hydro
18 is providing its brief response.

19 20 **7.1 International Financial Reporting Standards**

21 Manitoba Hydro will be transitioning to International Financial Reporting Standards
22 (“IFRS”) for its 2015/16 fiscal year. CAC and MIPUG have observed that PUB directives
23 from Order 43/13 related to IFRS and depreciation have not yet been filed by Manitoba
24 Hydro. To be clear, the PUB directed Manitoba Hydro to file responses to these
25 directives as part of the next GRA and the Corporation intends to provide responses in
26 accordance with these timelines. The fact that this information will be filed at a later date
27 is no reason to delay or influence the merits of this Application. In any event, there are no
28 IFRS accounting changes included in the 2014/15 test year, which is the focus of the
29 present Application.

30
31 MIPUG recommends that Manitoba Hydro remove negative salvage costs from electric
32 depreciation rates in 2014/15. Removing net salvage costs from depreciation rates in
33 advance of the transition of IFRS was exhaustively canvassed at Manitoba Hydro’s
34 2012/13 & 2013/14 GRA. At page 18 of Order 43/13, the PUB found that “...net salvage
35 should be removed from depreciation rates when International Financial Reporting
36 Standards are implemented ...” Accordingly, the PUB has already directed net salvage
37 costs are to remain in electric depreciation rates until the adoption of IFRS, for the

1 purposes of setting rates.
2

3 **7.2 Accounting Treatment of Capital Taxes**

4 Both CAC and MIPUG have expressed concern that Manitoba Hydro does not capitalize
5 the capital taxes paid on assets that are under construction. CAC also notes that this fact
6 “came to light” during the current NFAT proceeding, despite the fact that this has been
7 the Corporation’s long standing accounting treatment of such costs.
8

9 Capital taxes do not form part of the directly attributable costs of an asset and as such are
10 not permitted to be capitalized under either Canadian Generally Accepted Accounting
11 Principles or IFRS. Rather, capital taxes are considered to be period costs for accounting
12 purposes which are expensed as incurred. Manitoba Hydro’s accounting treatment of
13 capital taxes is in accordance with generally accepted accounting principles and industry
14 practice.
15

16 **7.3 Asset Condition Reports**

17 In its submission, CAC is critical of Manitoba Hydro for not yet providing its asset
18 condition assessments for the transmission and generation business units.
19

20 During the 2012/13 & 2013/14 GRA, Manitoba Hydro provided a distribution asset
21 condition report and a Report on Future Projects for HVDC Converter Stations. As
22 indicated in response to MIPUG/MH I-1(d), Manitoba Hydro will file a comprehensive
23 asset condition report at its next GRA, as directed by the PUB in Order 43/13.
24

25 The need to invest in aging infrastructure at this time is a reality not only for Manitoba
26 Hydro but for most utilities across Canada. These issues are not new and were canvassed
27 extensively during Manitoba Hydro’s 2012/13 & 2013/14 GRA, and were relied upon for
28 the granting of rate increases by the PUB in Order 43/13. The fact that the exact details of
29 this issue are not currently before the PUB does not preclude the approval of the
30 requested interim rate increase.
31

32 **7.4 Concerns about 2016/17 Being Included in Next GRA**

33 Both CAC and MKO have indicated that Manitoba Hydro’s GRA should not consider a
34 2016/17 test year. Manitoba Hydro is seeking interim rate relief at this time in order to
35 avoid resource and scheduling constraints during the NFAT and to ensure timely
36 implementation of the 3.95% rate increase. Manitoba Hydro is planning to file a GRA in
37 the fall of 2014, in which it will seek final approval of any rate increase flowing from its

1 interim Application. In the normal course, the filing of a GRA in the fall of 2014 would
2 cover two test years (2015/16 and 2016/17) and be based on updated forecasts. In
3 Manitoba Hydro's view, it would not be efficient to file a GRA for the 2014/15 and
4 2015/16 test years in the fall of 2014, only to follow with another GRA in the fall of 2015
5 for the 2016/17 fiscal year.

6
7 After the conclusion of the NFAT proceeding, Manitoba Hydro intends to provide the
8 PUB with a proposal with respect to a combined electric and gas GRA for the 2015/16
9 and 2016/17 test years. Accordingly, Manitoba Hydro submits that it is not necessary for
10 the PUB to make any determination with respect to 2016/17 as part of this interim
11 Application.

12 13 **7.5 Cost of Service Review**

14 Manitoba Hydro, in its recent GRA, proposed overall changes to its Cost of Service
15 Study ("COSS") methodology and also proposed to implement Time-of-Use ("TOU")
16 rates for General Service Large class customers served at greater than 30 kV. The PUB
17 subsequently directed that matters related to the proposed COSS and the TOU rates
18 proposal be addressed in a separate public hearing process. As outlined in response to
19 PUB/MH I-4(b), Manitoba Hydro is proposing to examine these matters through a
20 collaborative stakeholder process commencing after the conclusion of the NFAT process.

21
22 MIPUG and MKO address a number of issues related to cost allocation matters.
23 Manitoba Hydro's position is that such matters are not issues to be addressed as part of an
24 interim filing, but are more appropriately to be considered in the cost of service review.
25 In its interim Application, Manitoba Hydro is proposing to apply the rate increase on an
26 across-the-board basis in advance of the cost of service review to take place subsequent
27 to the completion of the NFAT proceeding.

28 29 **7.6 Other Recommendations from MKO**

30 MKO makes a number of other recommendations with respect to bill reductions through
31 DSM and through what it refers to as "Rate Mitigation Strategies".

32
33 While these issues are deemed to be important, Manitoba Hydro submits that they are
34 beyond the scope of an interim rate filing. Certain of these matters may be more
35 appropriately examined at a GRA, or outside of routine regulatory processes with the
36 responsible social or governmental agencies.

37

1 **8.0 Conclusion**

2 Manitoba Hydro submits that no intervener in opposition to the Application has provided
3 any sufficient reason or justification for the PUB to vary or deny the relief requested
4 within the Application.

5
6 For all of the above noted reasons, the Application establishes that the proposed interim
7 rate increase is warranted in the circumstances and that the interim rate relief requested
8 should be granted by the PUB. The circumstances facing the Corporation have not
9 materially improved since the PUB examined these matters extensively in the previous
10 GRA which resulted in the issuance of Order 43/13, where the PUB found that a rate
11 adjustment was warranted. As the financial results projected in MH13 are less favorable
12 than those projected in MH12, Manitoba Hydro submits that consideration of this rate
13 increase on an interim basis is at least equally as warranted, if not warranted more so at
14 this time.

15
16 Approval of the proposed rate increase is needed to maintain net income and financial
17 ratios for 2014/15 at acceptable levels, to preserve and balance the financial integrity of
18 the Corporation to adequately address risks with providing rate stability for customers,
19 thereby serving the public interest.

20
21 Even with the implementation of the proposed 3.95% rate increase for 2014/15,
22 Manitobans will continue to enjoy rates which are expected to remain at or near the low
23 end of electricity rates across Canadian utilities.

24
25 Manitoba Hydro will seek final approval of any interim orders flowing from this
26 Application at its next GRA, which Manitoba Hydro expects to file in the fall of 2014.
27 Granting interim rate relief for May 1, 2014 balances both the needs of the utility and the
28 interests of the public by maintaining the financial position of the Corporation in the
29 short-term, while allowing for a full review of the requested rate increase at Manitoba
30 Hydro's next GRA.

31
32 In order to implement interim rates arising from this process on May 1, 2014, Manitoba
33 Hydro respectfully requests that the PUB issue its Order with respect to these matters on
34 or before May 5, 2014.

35