

MANITOBA) Order No. 32/12
)
THE PUBLIC UTILITIES BOARD ACT)
)
THE MANITOBA HYDRO ACT)
)
THE CROWN CORPORATIONS PUBLIC)
REVIEW AND ACCOUNTABILITY ACT) March 31, 2012

BEFORE: Graham Lane CA, Chairman
Robert Mayer Q.C., Vice-Chair
Len Evans, LLD, Member

INTERIM RATES FOR MANITOBA HYDRO
EFFECTIVE APRIL 1, 2012

1.0 Executive Summary

In this Order, the Public Utilities Board (Board) has determined that Manitoba Hydro's (MH) deteriorating financial forecast for its fiscal year, April 1, 2012 to March 31, 2013, needs to be addressed by an immediate, but interim, rate increase of 2.0% to all customer classes effective April 1, 2012. This interim rate increase will be finalized or varied as a result of MH's General Rate Application to be filed with the Board by the end of May, 2012.

Without rate increases, MH now forecasts a net loss of \$51 million in 2012/13. According to MH's evidence, the Utility is in urgent need of a rate increase because it is currently experiencing much lower than forecast revenues primarily due to the impact of continued low prices in the export markets and warmer than normal winter weather impacting domestic revenues. Compared to prior forecasts, MH has also identified increased operating & administrative, depreciation & amortization, and finance expenses resulting from the Wuskwatim Generating Station coming into service as a further contributing factor to lower Net Income in 2012/13.

As a result of the Board finalizing consumer rate increases effective April 1, 2010 at 1.9%, compared to the previous interim 2.9%, a deferral account was established in Order 5/12, and has accumulated approximately \$23 million.

MH's request, in its Interim Application, to include the \$23 million currently in the deferral account, into MH's current fiscal year's revenues and Net Income is denied in this Order. However, those monies have been collected and the deferral account continues to grow, reducing MH's borrowing needs and borrowing costs.

MH's request to include the 1% rate 'rollback' arising from Order 5/12, in MH's base rates going forward, is also denied in this Order. However, that 1% interim rate

continues to be billed to consumers with the resulting revenues accumulating in the above noted deferral account.

The final disposition of the deferral account and the 1% interim rate are matters best resolved through the upcoming GRA – where the Board will determine whether MH has provided sufficient and detailed evidence to meet its statutory and legal onus.

2.0 Background

In its most recent General Rate Application (GRA) for its fiscal years 2010/11 and 2011/12, MH sought two annual average rate increases of 2.9%, for all domestic customer classes, to be effective both April 1, 2010 and April 1, 2011.

During the currency of the GRA proceeding, the Board issued Orders 18/10 and 40/11 approving interim rate increases of 2.9%, effective April 1, 2010 and a further rate increase of 2.0% effective April 1, 2011.

The Board's stated intention was to re-examine the interim rate increases prior to finalization, after hearing all the evidence and submissions in the GRA, and if the Board concluded that the underlying facts did not justify the imposition of rate increases as sought by MH – or as approved by the Board on an interim basis – the Board would adjust the rates in the final GRA Order. Any amounts collected through interim rates that were found to be in excess of the finalized rate would then be either refunded or credited to domestic customers.

MH's interim rates were continued in Order 99/11, in which Order the Board concluded, based on evidence of the GRA that MH failed to discharge its statutory and legal onus in the substantiation of its GRA rate increase requests.

In Order 5/12, the Board remained of the view that MH had either failed or refused, and continued to fail or refuse, to provide information that the Board considered critical to its mandate of fixing just and reasonable rates for the services provided by MH. Among other things, the Board finalized the April 1, 2010 rate increase at 1.9% rather than at 2.9% as previously approved on an interim basis. The difference in revenues of approximately \$11 million a year was to be accumulated in a deferral account – with accrued interest. Rather than immediately reduce the rate, the difference between the interim and final rate was to remain and be treated as an interim rate until further Order of the Board.

In Order 19/12 the Board dismissed MH's and Manitoba Industrial Power User Group's applications to review and vary aspects of Order 5/12, including increasing the finalized rate increase, effective April 1, 2010, from 1.9% to 2.9%.

Copies of all Board Orders are available on line from the Board's web site www.pub.gov.mb.ca.

3.0 March 30, 2012 Interim Rate Application by Manitoba Hydro

By way of a March 21, 2012 letter to the Board, copied to Interveners from MH's last GRA, MH requested the Board's "...assistance in addressing an important and urgent matter" that would be included in an interim rate increase application to be filed before the end of March 2012, with a more comprehensive General Rate Application to be filed before the end of May, 2012.

MH advised that it has an urgent need for rate increases effective April 1, 2012 and April 1, 2013. Without 3.5% average rate increases in each of the next two years, plus

the recovery of the 1% rate 'rollback', MH projects net losses of \$51 million in 2012/13 and a further \$58 million in 2013/14.

On March 30, 2012 MH filed its 2012/13 Interim Rate Increase Application. To address its urgent situation, MH has requested Board approval of the following:

- (i) To include in MH'S current year revenues, the approximately \$23 million accumulated in the deferral account pertaining to rates implemented April 1, 2010;
- (ii) To maintain as base rates the rates approved by the PUB in Order 30/10 and 40/11 (i.e., base rates not reduced by 1%); and
- (iii) To implement rate schedules incorporating an across-the-board rate increase of 3.5% effective April 1, 2012 sufficient to generate additional revenue of \$44 million in 2012/13.

Stressing the urgency of its situation, MH has requested the Board's Order in time to implement new rates effective April 1, 2012.

While MH provided Interveners with a copy of the March 30, 2012 Interim Rate Application, the urgency and the financial exigencies of MH's requests for April 1, 2012 rate relief has not allowed for submissions from Interveners. The Board would welcome submissions from Interveners during the GRA process, when MH's interim relief requests will be varied or finalized.

4.0 Board Findings

As explained in prior Orders, including Order 5/12, when approving just and reasonable rates that are in the public interest, to be charged by MH to its domestic customers, the Board considers and weighs a multiplicity of factors. Included in that assessment by the Board, is the financial health of the utility.

MH's financial position, arising from its operating results for the year ending March 31, 2010 and 2011, was significantly better than when MH filed its last GRA. For fiscal year ending March 31, 2010, MH was forecasting \$121 million of Net Income – but actual Net Income was \$43 million greater at \$164 million. For the fiscal year ending March 31, 2011, MH was forecasting \$78 million of Net Income – but actual Net Income was \$65 million greater at \$143 million. Combined for those two years, MH's Net Income was \$108 million higher than forecast.

However, according to MH's Interim Rate Application, MH's forecast of Net Income for the fiscal year ending March 31, 2012 has been materially revised to reflect financial difficulties experienced by MH – due mostly to the financial impacts of warm weather over the winter of 2011/12, and the negative financial impact of lower export prices during this year.

Compared to MH's February 1, 2012 forecast of approximately \$100 million of Net Income by March 31, 2012, (in its quarterly financial report for the nine months ended December 31, 2011), the Board is now advised that the annual Net Income will be approximately \$73 million.

That forecast of \$73 million of Net Income for 2011/12 would be reduced by \$23 million due to MH's accounting for the deferral account arising from the finalization of the April

1, 2010 rate increase revenue being approximately \$11 million a year lower than what was approved on an interim basis.

The other part of the reduced Net Income for 2011/12 is attributed by MH to lower revenues, due mostly to weather and export prices.

Without the interim rate relief requested by MH in its Interim rate Application, the forecast Net Income for 2012/13 is a loss of \$51 million.

MH attributes the reduction in the forecast Net Income for 2012/13 to lower export revenues, and increased operating & administrative, depreciation & amortization, and finance expense resulting from the Wuskwatim Generating Station coming into service.

The impact of the transition to International Financial Reporting Standards (IFRS) is expected to be a decrease of Net Income of approximately \$5 million. However, the most significant impact of the transition to IFRS appears to be MH's intention to record an initial adjustment to Retained Earnings of approximately \$295 million to write-off rate regulated assets and overheads. MH indicates this action would reduce Retained Earnings to \$2.113 billion. This write-off will materially increase the debt:equity ratio for MH.

Based on the financial information contained in MH's Interim Application, the Board finds that MH has demonstrated, on a *prima facie* basis, that an interim rate increase is required and the Board will approve a 2.0% average overall rate increase, to all customer classes, effective April 1, 2012. This interim rate increase will enhance the fiscal health of MH, while also balancing the impact on consumers.

The 2.0% average interim rate increase will provide MH with increased revenues, pending the Board's consideration of MH's 2012/13 General Rate Application, to be filed before the end of May, 2012.

The Board expects much further detailed evidence from MH in its next GRA, such that MH will meet its onus to allow the Board to finalize or vary this interim rate award.

As for MH's requests to include the funds in the deferral account as Net Income for 2011/12, and to include the 1% rate 'rollback' as a base rate, these requests will be denied in this interim Order. Based on the evidence available to the Board at this time, the Board is unable to conclude those requests are in the public interest. The 1% rate 'rollback' is to remain in the billed rates to consumers, and the accruing related revenues are to remain in the deferral account, until further Order of the Board.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

5.0 IT IS THEREFORE ORDERED THAT:

1. MH's request for an interim 3.5% average rate increase, for all domestic customer classes served by MH, effective April 1, 2012 BE AND IS HEREBY VARIED AND APPROVED, ON AN INTERIM BASIS, AT 2.0%;
2. MH's request to include, in its 2011/12 fiscal year revenues and Net Income, the approximate \$23 million accumulated in the deferral account BE AND IS HEREBY DENIED;
3. MH's request to include in its 'base' rates, the 1% interim rate that arose as the difference between the 2.9% April 1, 2010 interim rate increase and the 1.9% rate increase finalized effective that date, BE AND IS HEREBY DENIED.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE CA"
Chairman

"HOLLIS SINGH"
Secretary

Certified a true copy of Order No.
32/12 issued by The Public Utilities
Board

Secretary