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January 27, 2015

Manitoba Hydro
PO Box 815
360 Portage Avenue
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ATTENTION: Ms. Odette Fernandes, Barrister & Solicitor

RE: Manitoba Hydro 2014/15, 2015/16 and 2016/17 General Rate Application

On January 16, 2015 Manitoba Hydro (MH) filed with the Public Utilities Board (Board) and Past Interveners, its Letter of Application (Tab1) with respect to the 2014/15, 2015/16 and 2016/17 General Rate Application (GRA). On January 23, 2015 MH filed the electronic link to Tabs 1 – 10, with Appendices, of the Supporting Information for the GRA.

April 1, 2016 Rate Increase Request:

Included in the Letter of Application and Supporting Information is MH's request:

- to finalize the 2.75% interim rate increase that was effective May 1, 2014;
- for a further interim 3.95% rate increase for all customer classes, effective April 1, 2015;
- for a further 3.95% rate increase for all customer classes effective April 1, 2016.

For purposes of the current GRA, the Board has determined that it will review MH's 2.75% interim rate increase to all customer classes approved by the Board, effective May 1, 2014, for MH's fiscal 2014/15 year.

The Board will also review, in this GRA, MH's request for a 3.95% rate increase, effective April 1, 2015, for MH's 2015/16 fiscal year.

...2

The Board will not, in this GRA, be reviewing or approving rate increases to be effective April 1, 2016 for MH's 2016/17 fiscal year. This issue was addressed through a process that resulted in Order 49/14.

In the Executive Summary, the Board (on page 4) indicated:

By this Order, the Board further disagrees with Manitoba Hydro's proposal to file a three-year General Rate Application in the fall of 2014, and instead directs Manitoba Hydro to file a fully comprehensive two-year General Rate Application for electric operations, to cover the 2014/15 and 2015/16 fiscal years. Manitoba Hydro's fiscal years run from April 1 to March 31.

In that Order, (at page 19), the Board indicated:

The Next General Rate Application

The Board shares the concerns of CAC and MIPUG with respect to Manitoba Hydro's plan to file a three-year General Rate Application in the fall of 2014. Manitoba Hydro is undergoing a period of significant and fairly rapid change, especially in light of its plan for substantial ongoing capital investments. The Board notes that it would be extremely reluctant to approve rates for a three-year timeframe in such a period of volatility and will direct that Manitoba Hydro file its next General Rate Application, for electric operations, for the 2014/15 and 2015/16 fiscal years.

Also in Order 49/14, (on page 20), the Board Ordered that:

3. Manitoba Hydro file a fully comprehensive two-year General Rate Application for electric operations, for the 2014/15 and 2015/16 fiscal years.

MH made no application to Review and Vary Order 49/14, or to appeal that Order.

Nothing in the January 23, 2015 GRA filing causes the Board to change its prior decision respecting a GRA for MH's 2016/17 fiscal year.

MH acknowledges in its Application of January 23, 2015 some of the following key issues facing the Corporation:

- MH is embarking on a period of unprecedented capital expenditures. In the three-year period over which it is seeking approved rates MH is expecting upwards of \$3.8 billion in assets will be placed into service or commence amortization.
- Over the 10-year period between 2015 and 2024 upwards of \$20.1 billion of assets will be placed in service and total annual costs of electric operations are projected to increase from \$1.5 billion per year to almost \$3.0 billion per year.
- With proposed rate increases MH is projecting losses of \$900 million from the period 2018/19 to 2023/24.

- MH's overall financial integrity and key financial ratios, such as debt-to-equity, retained earnings, interest coverage ratios, and capital coverage ratios are expected to significantly deteriorate over the next several years.

Furthermore, in its GRA Supporting Materials, MH advises it has recently embarked on a review of its financial targets, including engaging an external consultant to provide recommendations on the appropriate financial targets for MH. Those recommendations are to take into account MH's mandate, its stakeholders' interests, as well as MH's operating and business risks. As part of this review MH will also be providing analysis of the adequacy of its financial reserves to satisfy Directive 10 from Board Order 43/13. This information is not expected to be available until the fall of 2015.

For these reasons, the Board will not be reviewing or approving rate increases to be effective April 1, 2016 for MH's 2016/17 fiscal year as requested in the MH's January 23 Application.

Additionally the Cost of Service Study Methodology review, which was to be conducted after MH's last GRA, has still not been filed by MH and approved by the Board. The Board expects this Cost of Service Study Methodology to be filed and reviewed by the Board before the GRA for any revised rates in MH's 2016/17 fiscal year.

April 1, 2015 Interim Rate Increase Request:

MH has requested the Board conduct a process to consider an 'interim' 3.95% rate increase effective April 1, 2015, followed by the completion of the GRA and finalization of that interim rate increase in the Board's GRA Order.

The Board does not consider it to be in the public interest to consider interim rates for April 1, 2015 as there are no deleterious effects during the length of this regulatory proceeding that would justify consideration of an interim rate increase. Unlike last year when the Board, MH and Interveners were involved in MH's Needs For and Alternatives To (NFAT) review of major capital projects, there is no delay in the Board's regular hearing process for this MH GRA. Because MH filed its GRA in January 2015 rather than the Fall of 2014, the draft Timetable by MH has the oral public hearing being held in May and June of 2015, with an expected Board Order following the evidentiary hearing. In that Order, the Board intends to address final rates for MH's 2014/15 and 2015/16 fiscal years.

Time of Use Rates:

MH has requested Board approval of Time of Use (TOU) Rates for General Service Large customers served at greater than 30 kilovolts, effective April 1, 2016. Because this is a new rate and a new rate structure, the Board will consider the evidence related to TOU in this GRA, for possible approval and implementation April 1, 2016.

Minimum Filing Requirements:

The Board has sought to introduce certain process improvements in this GRA hearing process. The Board provided MH with Minimum Filing Requirements (MFRs) prior to the filing of its GRA and MH indicates, in its January 23, 2015 letter, that where possible, it has incorporated the requested information in the various Tabs of the GRA. Further, MH intends to provide as many as possible of the remaining MFRs prior to the Pre Hearing Conference scheduled for February 5, 2015.

While it is not readily apparent where in the Supporting Information (Tabs 2-10) the MFRs have or will be answered, the Board recommends MH, Board Staff and Advisors and Interveners informally meet, as soon as possible in advance of the Pre-Hearing Conference, to review the MFRs and the information that is to be provided so as to avoid duplication and minimize the volume of Information Requests.

Application Overview Workshop – January 29 @ 1:30 PM @ MH Offices:

Parties are reminded of the Workshop that MH is hosting January 29, 2015 at 1:30 PM at its offices to further discuss the GRA, its process and its issues. Should there be unresolved matters of process (including which issues are in-scope and which issues are not in-scope), Parties are to bring them, (with prior written notice to other Parties), to the PHC for Board adjudication.

Yours truly,

“Original Signed By:”

Kurt Simonsen
Associate Secretary

KS/dv

c.c. Greg Barnlund, Manitoba Hydro
Interveners of Past Record (2012/13 & 2013/14 GRA and NFAT)
Bob Peters, Board Counsel
Roger Cathcart, Board Advisor
Larry Buhr, Board Advisor