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February 10, 2016

Mr. D. Christie
Secretary and Executive Director
Public Utilities Board
400-330 Portage Avenue
Winnipeg, Manitoba
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Dear Mr. Christie:

RE: Manitoba Hydro 2015/16 & 2016/17 General Rate Application Interim Rate Increase for April 1, 2016

As indicated at the last GRA, Green Action Centre believes that rate-setting should be based primarily on longer run revenue requirements rather than short term income variability from changing water flows, opportunity export prices and exchange rates. We offer the following considerations and implications from this perspective.

- Manitoba Hydro's hydro-electric business essentially requires long planning horizons and financial commitments to build and maintain the infrastructure all Manitobans depend upon to keep the lights on. Thus it is critically important to engage in extensive review of major capital investments as occurred in the NFAT. But once a public decision is reached and projects are licensed and begun, the die is cast and rate-payers are on the hook to meet the investment obligations.

- Post-NFAT we know there is a rising mountain of debt to be serviced and we know the expected revenue streams from domestic and dependable export sales. We also know, from last year's GRA, the expected sustaining capital investments and OM&A costs. MH has testified that these are largely unrelated to short-term rate determinations by the PUB or export revenue fluctuations based on variable water flows and opportunity export prices. [See Transcript pp 2545-2551 Mr. Rainkie.] MH is doing what it has to do to maintain a safe, reliable supply of power and build the approved capital assets.

- Note that included in the NFAT decision was a high level of DSM resource acquisition targeted at 1.5% of domestic sales. Although DSM is a scalable resource (unlike Keeyask), it too requires a long term perspective (a) to achieve the cumulative targeted savings over time to contribute to dependable supply and (b) as a part of a transformational strategy to make homes and businesses more efficient through promotions and advocacy leading to widespread market adoption of efficiency measures and more stringent codes and standards. It would be a false economy to treat either DSM or sustaining capital to maintain and replace, say, distribution infrastructure as investments to ratchet up and down annually on the basis of fluctuations in income.

- Thus what emerges from the in depth analysis of the NFAT and of last year's GRA is a reasonably predictable stream of costs for Manitoba Hydro that have been extensively reviewed in the last two years and are largely independent of annual variations in net income.

- The PUB also supported phased in rate increases to address the long run revenue requirements. MH made the case at last year's GRA that 3.95%/year increments for the next decade and more is the minimum trajectory needed to prevent excessive deterioration of its financial ratios, which brings increased risks to the corporation and its customers. A higher rate in the earlier years would reduce that risk but also place a higher burden in the near term on customers.

- Manitoba Hydro's electric business, unlike other energy markets like gasoline and natural gas, allows greater constancy and predictability of rate trends, despite considerable variability in income from opportunity export sales. MIPUG regularly states that this predictability is an important rate attribute for its members. It may be a less significant attribute for many other businesses and residential customers for whom electricity costs are a relatively minor component of their budgets (e.g. much less than their TV/internet package). It may be more significant for high energy burden electric heat customers, and those prepared to assist them, to plan, develop and cost out mitigation strategies to address a steady run of increases.

- Accepting a policy decision to smooth out rate trends for a longer term as helpful to some customers, the rate-setting exercise becomes one of establishing what the linear rate trend should be and when to adjust it.

- Normally we would expect an adjustment to the trend to occur at a regular GRA when a more thorough examination of forecasts and risks is possible. We thus presumptively support another 3.95% increase on April 1, 2016 and a wait until next year's GRA to assess whether an adjustment to the rate trajectory is warranted. Three-year intervals for reviewing longer run revenue requirements and optimal rate trajectories would leave regulatory time and resources (of the PUB, MH and interveners) for considering the many other items deserving attention such as DSM program assessment, affordable energy program assessment, and cost of service and rate design.

- If the PUB is considering a different (or no) increment on April 1, it should consider that step as tentatively establishing a new trajectory to meet long run revenue requirements without undue risk - to be confirmed at a regular GRA next year. In particular it should consider the possibility and relative likelihood of whether or not a much higher rate reversal in a subsequent year might be needed, which would be contrary to the adopted rate-smoothing policy.

Respectfully submitted,

Peter Miller

Peter Miller, Green Action Centre

CC: Peter Denton, Chair of Green Action Centre Policy Committee

Tracy Hucul, Executive Director of Green Action Centre