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February 10, 2016

Mr. Kurt Simonsen,
Associate Secretary
Public Utilities Board
Room 400, 330 Portage Avenue
Winnipeg, MB R3C 0C4

Dear Sirs/Mesdames:

**Re: Review of Manitoba Hydro's request for a 3.95% interim rate increase effective
April 1, 2016**

On November 18, 2015, Manitoba Hydro filed with the Public Utilities Board of Manitoba ("PUB") what it termed a "Supplemental Filing" to the 2015/16 & 2016/17 General Rate Application ("GRA"). This filing requested approval of a 3.95% interim electricity rate increase effective April 1, 2016. At the PUB's request, the Manitoba Industrial Power Users Group (MIPUG) filed an immediate response to Hydro's filing on December 18, 2015, outlining perspectives on the filing and process recommendations. In its subsequent letter dated December 24, 2015 the PUB requested Intervener Submissions to review the Application by written process, reserving the right to call an oral hearing or oral submission on the matter at a later date.

This letter provides MIPUG's comments and recommendations on matters of law and regulatory process. Attached to this letter is a summary of MIPUG's review of the substance of the Application and recommendations based on the evidence provided by Manitoba Hydro.

PUB Oversight

In PUB Order No. 73/15, at page 5, the PUB noted:

Manitoba Hydro has advised that rate increases in excess of inflation are required into the future. The Board will scrutinize all future requested rate increases and approve rates that are justified by the evidence examined. Because financial projections are highly variable, regular applications and reporting by Manitoba Hydro will allow the Board to be better informed and responsive to changing conditions.

...

The Board does not expect to award any further rate increases until a Cost of Service Study (COSS) Application has been filed and the Board has sufficient time to review the COSS Application

The Board had limited its review to two years instead of the three years requested by Manitoba Hydro.

It is MIPUG's view, as outlined in the substantive review enclosed with this letter, that there have been material changes in the financial projections since the last GRA and that the request for an interim rate increase needs to be addressed on its own merits.

Interim rate applications

It is also MIPUG's view that it is undesirable that Manitoba Hydro continues to file interim rate increase requests instead of adhering to a proper schedule ensuring a timely filing which allows a full opportunity for all parties to adduce evidence and be heard at a public hearing of the Board. MIPUG says that a full and rigorous testing of Manitoba Hydro rate applications is mandated by law and is desirable to ensure that rates and rate increases are fair and reasonable. In addition, interim rate applications create additional work for all parties, including the Board.

At page 2 of its February 5, 2016 letter to the Board, Manitoba Hydro advises it expects to file its next General Rate Application before the end of 2016 for rates effective April 1, 2017.

It is MIPUG's view that, if annual rates increases are important to Manitoba Hydro and its financial health, it should, absent very special circumstances be held to filing timely General Rate Applications.

Additional focus of future GRA's – pacing and prioritization

In Board Order No. 73/15, at pages 67 and 68, the Board made a number of observations and findings with respect to capital spending including the pacing and prioritization of capital spending. In particular, with respect to the pacing and prioritization, the Board held:

To bridge what the Board considers to be an information gap, the Board expects Manitoba Hydro to file, by October 31, 2015, updated Terms of Reference and schedules for an Asset Condition Assessment. The schedules should contemplate completion of the Assessment in advance of the next GRA. [emphasis added]

MIPUG's view is that the completion of the Assessment and the testing of the pacing and prioritization of capital spending is an important part of a rate review in these times of major capital investment. Manitoba Hydro's interim rate filing and request does not allow the parties or the Board to perform this important review of a key issue identified by the Board.

Section 48 of *The Public Utilities Board Act*

In its December 18, 2015 reply to the PUB, MIPUG indicated that for interim rates to be granted under the Manitoba legislation and in particular Section 48 of the *PUB Act*, one of two tests must be met: either there has to be "urgency" or there has to be a full and open public process as described in the highlighted text:

48 The board shall not make an order involving any outlay, loss or deprivation to any owner of a public utility, or any person without due notice and full opportunity to

***all parties concerned, to produce evidence and be heard at a public hearing of the board**, except in the case of urgency; and in that case, as soon as practicable thereafter, the board shall, on the application of any party affected by the order, re-hear and reconsider the matter and make such order as the Board seems just. [Emphasis added]*

MIPUG acknowledges the PUB decisions rejecting MIPUG's view that the Board should assess whether there is urgency prior to determining whether a *prima facie* case has been made. As an argument in the alternative, MIPUG asserts that the Board should exercise its general discretion to decline to make an interim award.

In its December 21, 2015 letter, Manitoba Hydro takes issue with this interpretation of section 48. It submits that section 48 only applies when no notice has been provided (and consequently does not apply in this case). Manitoba Hydro highlighted only the words "without due notice" from section 48, omitting to highlight the remainder of the relevant text.

MIPUG submits that section 48 is designed to give direction with respect to "an order involving any outlay, loss or deprivation to any ... person" and that with respect to this type of Order, "due notice **and** full opportunity to all parties concerned, to produce evidence and be heard at a public hearing of the board" are both necessary conditions, absent any determination of urgency.

The ability to make other types of orders, on an interim basis, is recognized in subsection 47(2).

It is MIPUG's submission that although due notice has been provided, the parties are not being afforded the full opportunity to be heard at a public hearing. The concept of a full opportunity to be heard carries with it minimum procedural protections and rights such as pre-hearing discovery and the right to adduce evidence and test evidence through cross-examination.

MIPUG reiterates its concern with the uncertainty related to an interim rate increase. Businesses need certainty. All consumers of electricity in this Province, including MIPUG, are entitled to the protection of a robust review of a rate increase request. It is undesirable to proceed with such a review on a summary basis with material parts of evidence not being tested, and in the case of pacing and prioritization, not being filed notwithstanding a direction from the Board to that effect.

Section 28 of *The Crown Corporations Public Review and Accountability Act*

In its December 21, 2015 letter, Manitoba Hydro references section 28 of *The Crown Corporations Public Review and Accountability Act* contemplating compensation or refunds where final orders do not confirm interim approved rates.

28 When a new rate for services or an increased rate is allowed pursuant to an interim order and a final order does not allow any changes or allows changes other than those

permitted in the interim order, The Public Utilities Board may make any order to compensate for or to refund any excess amounts collected by the corporation that it considers necessary and appropriate in the circumstances.

However, for all practical purposes, interim rate increases, once granted, are difficult or impossible to refund to customers. The Board should be cognizant of the risks associated with granting interim rates, especially when urgent short-term financial need is not proven. There is a cost to Manitoba Hydro to implement rate refunds, and customer situations change (i.e. moving, closing, terminating service, etc.) so as to make it difficult to correctly refund customer overpayments. The “1% rollback” rate reduction ordered by the Board, originally from 2010, is an example of the unlikelihood of refunding interim rate collections to customers in the event final rates are approved at a level lower. That rollback was specifically noted to be available for refund to customers, but was never applied to customer bills; instead a deferral account was set up to collect the funds before ultimately being transferred into Hydro revenues in Order 43/13.

Filing is Premature and Deficient

Hydro's Interim Rate Application was filed inconsistent with PUB Order 73/15 which stated:

The Board previously advised Manitoba Hydro that it would not consider new rates for April 1, 2016 in the Hearing. Manitoba Hydro is studying the financial targets that are embedded in its integrated financial forecasts. The Board will consider various options regarding a process to review rates for April 1, 2016. The Board does not expect to award any further rate increases until a Cost of Service Study (COSS) Application has been filed and the Board has sufficient time to review the COSS Application.¹

Not only is the current Hydro filing inappropriately described as a “Supplementary Filing” to a proceeding before the Board that is in fact already closed, the PUB said it would not consider a rate for April 1, 2016 until after the COSS Application was sufficiently reviewed (only filed in December – the reason for Hydro's delay in filing is not at all apparent). There has not yet been a process set for the review of the COSS Application, let alone sufficient time to undertake a review. In addition, the interim rate application does not allow for a proper review of the financial target review which was to occur in the next GRA.

Additionally, Hydro's request for an interim rate increase is based on a financial forecast methodology which does not comply with PUB Order 73/13 in terms of depreciation method² and OM&A accounting treatment for capitalized overheads.³ Both of these decisions, when implemented in the financial forecast,

¹ Order 73/15, July 24, 2015, page 5

² Order 73/15, Directives #9 & #10

³ Order 73/15, Board finding on continuation of capitalized administrative costs on page 35-36.

greatly reduce the financial requirement in a regulatory context for rate increases. More detail on this position is set out in the substantive analysis.

Hydro's cash flow position has greatly increased in IFF15 compared to IFF14, and even with lower rate increases, Hydro can finance ongoing operations and sustaining capital in the full range of forecast years. This greatly reduces the need to award rate increases for the purposes of pre-funding major capital projects not yet in-service, especially without a full GRA hearing process to ensure Hydro's Application and the requested rate increase is justified.

Required longer-term initiatives are also not included in Hydro's financial forecast, including (a) reflecting the full extent of needed OM&A cost constraints; and, (b) the PUB directed Asset Condition Assessment to ensure sustaining capital expenditures and paced and prioritized in a manner that balances ratepayer impact with safety and reliability requirements⁴. These initiatives will serve to further reduce financial risk from that shown in IFF15, and will also further reduce short-term operating expenses for ratepayers.

Absent an interim rate increase in April 1, 2016, financial deterioration is unlikely to occur in the time period before a full GRA review can take place.

Conclusion

MIPUG's primary submission is that the Board should exercise its discretion not to entertain an interim rate application and require Manitoba Hydro to deal with its rate increases by way of a full and complete GRA.


Manitoba Hydro has clearly repeated on a number of occasions that it believes it requires successive 3.95% increases for the foreseeable future. The need to file timely GRA's to justify requested increases should be obvious and be a corporate priority. MIPUG therefore submits as an alternative position that the Board should give a clear directive that Manitoba Hydro should ensure it files General Rate Applications in a timely way to avoid interim rate requests. In particular, MIPUG requests that the Board articulate that it will not, absent new or unexpected circumstances, continue to accept interim rate increases. Manitoba Hydro would be expected to file compliant general rate applications early enough to allow for the mandated full review contemplated by section 48 of *The Public Utilities Board Act*.

With that direction the Board would limit its award on this interim application to a modest inflation-based rate increase, in order to aid customers in seeing a measured transition over what is expected to be a decade or more of increases to the level of rates. In order to ensure that this increase is not in effect a form of relief in the expectations on Hydro to pursue the Board's directives, MIPUG recommends that any increase be directed to the established Bipole III deferral account to help promote rate stability over both the short-term and the longer-term.

⁴ Order 73/15, Directive #7, page 68.

Yours truly,

THOMPSON DORFMAN SWEATMAN LLP

Per: 

Antoine F. Hacault*

AFH

*Services provided through Antoine F. Hacault Law Corporation

Submission on the April 1, 2016 Interim Rate Application

Submitted to:

The Manitoba Public Utilities Board

on behalf of

Manitoba Industrial Power Users Group

February 10, 2016

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1.0 INTRODUCTION

On November 18, 2015, Manitoba Hydro filed materials seeking the approval of to the Public Utilities Board (“PUB”) for an across-the-board interim electricity rate increase of 3.95% effective April 1, 2016. Manitoba Hydro stated in its application letter that the proposed rate increase would generate additional revenues of \$61 million in 2016/17. With the added revenues Manitoba Hydro forecasts net income in 2016/17 of \$29 million. Without the additional revenues, Manitoba Hydro forecasts a loss of \$33 million for 2016/17.

Manitoba Hydro states that the reasons for its requested 3.95% interim rate increase are consistent with those outlined in the 2015/16 & 2016/17 GRA, including:

- Manitoba Hydro is in a period of extensive capital investment to meet energy requirements and to replace aging utility assets. The investment in new and existing infrastructure is expected to nearly double the asset base and associated carrying costs (revenue requirements) of Electric operations in the next 10 years.
- Rate stability for customers is dependent upon Manitoba Hydro maintaining its financial strength.
- Manitoba Hydro continues to experience downward pressure on electricity prices in the export market.¹

In evaluating whether Manitoba Hydro’s application for interim rates should be approved, there are three primary questions that require consideration:

- **Does Manitoba Hydro’s filing provide adequate information to assess the need for interim rates?** In particular, issues related to how financial information is presented for ratemaking purposes requires comment based on directives and recommendations from previous PUB Orders.
- **Has Manitoba Hydro sufficiently demonstrated a financial need for interim rate increases?** The normal regulatory standard for approving interim rate increases requires the utility to demonstrate that an immediate need with material financial consequences will arise without the requested rate increases.
- **Are ratepayer interests best served by approving the interim rate increase?** An additional relevant consideration is whether ratepayer interests are best served by approving an interim rate increase, whether or not the utility has demonstrated an interim need for the rate increase.

This submission responds to these questions in the following sections:

- Section 2 reviews and comments on the financial forecasts provided by Manitoba Hydro to determine if Hydro has established an immediate need for rate increases, and how the financial forecast should be reviewed in a manner consistent with PUB directives.

¹ Summarized from page 4, Manitoba Hydro’s supplemental filing for April 1, 2016 electricity rates dated November 18, 2015.

- Section 3 provides comments on whether ratepayer interests are best served by implementing interim rate adjustments.

In preparing this submission, the following information was reviewed:

- Responses to the PUB's Minimum Filing Requirements provided by Manitoba Hydro on December 7, 2015 and December 9, 2015.
- Responses to Information Requests provided by Manitoba Hydro on February 1, 2016.
- The Hydro 2015/16 & 2016/17 General Rate Application, including appendices and responses to Information Requests.
- PUB Orders related to previous General Rate Applications.

2.0 REVIEW OF FINANCIAL FORECAST

MIPUG's position is that Hydro has not demonstrated a financial need for interim rate increases at this time.

While Hydro indicates its financial forecast (IFF15) is projecting a financial loss of \$33 million for 2016/17 at current rates, this is based on forecast methods that are inconsistent with PUB directives and inflated forecast costs, which drives Hydro's short-term financial loss projection. It also fails to reflect cost savings that are occurring, such as OM&A cost containment measures.

Analysis of Hydro's financial and cash flow forecast, in a manner consistent with PUB regulation, shows Hydro's financial position has greatly improved since the last GRA.

Hydro's current financial forecast, MH15, shows large improvement since MH14, specifically for finance expense. Additionally, financial deterioration is unlikely in the next year given cost containment measures Hydro has implemented and/or is implementing that are not yet included in the financial forecast including:

- While Hydro's electric capital expenditures have increased over the 10 year forecast period by \$320 million compared to CEF14², this is entirely due to increases in Electric Major & Base Capital spending, so in general has longer-term financial implications that can be reviewed at the next GRA.
- Hydro's analysis of forecast sustaining capital expenditures does not yet provide for pacing and prioritization of expenses, as requested by the PUB, with CEF15 using the same forecasts as CEF14 over the next 10 years. In the interim period until the next GRA sustaining capital expenses are unlikely to contribute to a deterioration of Hydro's financial position.

² Attachment 4, CEF15, page 2 less \$31 million in gas expenditure increases.

- Hydro's OM&A forecast has not been updated to reflect additional savings since MH14. OM&A in MH15 reflects the same OM&A spending as MH14. On an actual basis, Hydro has advanced the attainment of position reductions but states it is premature to adjust OM&A targets.³

2.1 FINANCIAL FORECAST IS NOT CONSISTENT WITH PUB DIRECTIVES

The 3.95% requested rate increase for April 1, 2016 is based on IFF15, which does not follow the PUB's directives from the last GRA for depreciation and OM&A accounting treatment.⁴ Implementing the accounting treatment made akin to that directed by the PUB would allow for lower rate increases in all 20 years of the financial forecast (3.36% until 2033/34) while still achieving Hydro's preferred debt:equity and interest coverage ratios in this timeframe.⁵ These changes result in substantially lower revenue requirement in the short- and long-term. With lower annual projected rate increases of 3.36% Hydro's electric equity ratio is consistent in all years with MH14 projections (with the minimum reaching 12%⁶ compared to a 10% forecast minimum in MH14⁷); higher retained earnings in almost all years of MH15 than MH14, and projected net income higher than MH14 by over \$1.7 billion in the 20 year forecast horizon.⁸ These comparisons are summarized in Figure 1 and Table 1.

Hydro states it does not agree with the accounting methods requested by the PUB in Financial Information MFR 1.⁹ With respect, neither does MIPUG. The accounting method appropriate for regulatory purposes is the retention of the Average Service Life (ASL) depreciation method, without net salvage, with gains and losses treated consistent with the basic premise for ASL rates and with overheads properly allocated to capital and amortized over the life of the asset in question. Compared to the MH Alternative Scenario 2 (OCI Scenario) shown below, this would be a further improvement to Hydro's financial position (though currently unquantifiable given the current record), and a further indication that the requested rate increases are not required.

In MIPUG's view, it is inappropriate to base a request for interim rates on regulatory financial treatment different than what was directed by the Board. For the purposes of an interim rate increase and in absence of a full Application review, the PUB directed methods for regulatory financial forecasts should be used to set rates.

³ PUB/MH I-21c&d

⁴ Order 73/15, Directives #9 & #10, Board finding on continuation of capitalized administrative costs on page 35-36.

⁵ Attachment 46, Financial Information MFR 1 – Alternate Scenario 2 (OCI Scenario)

⁶ Attachment 46, Financial Information MFR 1 – Scenario 2 - Alternate Scenario (OCI Scenario).

⁷ Appendix 11.14, Financial Information MFR8 from 2015/16 GRA.

⁸ \$4.714 billion 20 year net income forecast in MH15 Alternative Scenario 2 (OCI Scenario) compared to \$3.004 billion 20 year projected net income in MH14.

⁹ As addressed in Attachment 28, Financial Information MFR 1

Figure 1: 10 Year Forecast Net Income Comparison MH14 and MH15 (with 3.95% projected rate increases) and MH15 Alt. Scenario 2 (OCI Scenario – with 3.36% projected rate increases)¹⁰

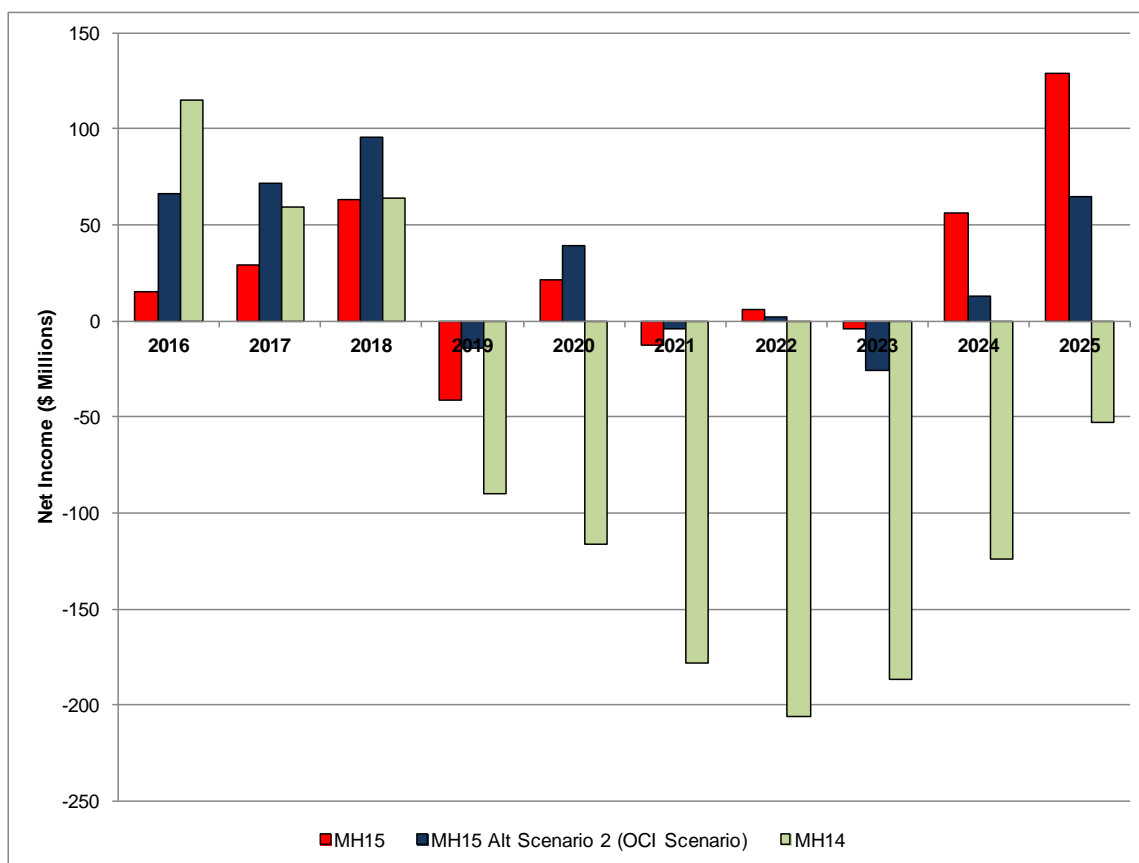


Table 1: Projected Net Income Comparison¹¹

Net Income (\$ Million)	20 Year	10 Year										
	Forecast Total	2016 - 2025 Total	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
MH15	5,750	261	15	29	63	-41	21	-13	6	-4	56	129
MH15 Alt Scenario 2 (OCI Scenario)	4,714	309	66	72	96	-14	39	-4	2	-26	13	65
MH14	3,004	663	115	59	64	-90	-116	-178	-206	-187	-124	-53

For the longer-term, Hydro’s financial forecast has improved in MH15 compared to MH14 and a full examination of proper financial forecast methodology for regulatory purposes as well as rate increase options can be reviewed at the next GRA.

For the requested interim rate increase today, Hydro’s financial position can be sustained and will not deteriorate with a rate increase in line with inflation (2%). Depending on the regulatory methodology used to forecast electric operation expenses in 2016/17 total expenses range from \$1.913 billion¹² (using

¹⁰ Appendix 3.3: IFF14 from 2015/16 GRA, Attachment 1: IFF15, Attachment 46: Financial Information MFR 1 – Alternate Scenario – Scenario 2 (OCI Scenario)

¹¹ Appendix 3.3: IFF14 from 2015/16 GRA, Attachment 1: IFF15, Attachment 46: Financial Information MFR 1 – Alternate Scenario – Scenario 2 (OCI Scenario)

¹² Attachment 46, Financial Information MFR 1 – Scenario 2 - Alternate Scenario (OCI Scenario), page 3 of 14

the methodology requested in Attachment 46 – Financial Information MFR 1 – Alternate Scenario 2 for OM&A and depreciation regulatory treatment, which still does not fully implement Board Orders) to \$1.965 billion¹³ (Hydro's proposed financial forecast methodology for OM&A and depreciation accounting treatment). With forecast revenue in 2016/17 before any rate increase (and net of BPIII Reserve Account) of \$1.923 billion, a 2% rate increase adds \$31 million in electric revenues¹⁴, making Hydro's projected net income \$41 million to \$-1 million, again depending on cost treatment.

Additionally, the removal of finance costs arising from debt borrowed for the purposes of capital projects but not yet been spent would further reduce Hydro's forecast finance costs in 2016/17. While Hydro has not provided an exact magnitude of impact,¹⁵ it is estimated this would reduce finance expense by approximately \$14 million in 2016/17 (which would further increase Hydro's net income to \$55 million for 2016/17).¹⁶ It is not apparent how this expense could be considered to be anything other than a component of capital expenditures.

In addition to IFF15 showing a massive improvement over IFF14, Hydro's electric net income is also impacted greatly by changes in the treatment of expenses in IFF15. MIPUG submits that an interim rate application is not the proper forum for testing unapproved treatment methods and therefore the PUB should defer to the methodology directed in Order 73/15. In doing so, Hydro's financial position greatly improves in the short- and long-term in IFF15. In MIPUG's view, such improvement should not be met by a simple cut-and-paste of the same 3.95% increases forecast in IFF14.

2.2 REVIEW OF HYDRO'S CAPITAL EXPENDITURE FORECAST AND SUSTAINING CAPITAL EXPENDITURES

Hydro filed the Capital Expenditure Forecast for 2015 (CEF15) as Attachment 4 to the Interim Rate Application. Actual electric capital expenditures in 2014/15 were \$1.934 billion compared to \$2.023 billion forecast for the same year in CEF14. Total Electric Capital Expenditures over the 10 year forecast for CEF15 is \$16.358 billion. The 20 year Electric Capital Expenditure is \$24.717 billion. Comparing to CEF14 from the 2015/16 GRA for the 10 year forecast has increased by \$320 million¹⁷ for the following reasons:

- Major New Generation and Transmission expenditures over the 10 year horizon (2016 – 2025) **have increased by \$320 million** since the GRA. This is largely due to a \$132 million increase in Electric Demand Side Management, Keeyask Generating Station costs increasing by \$76 million (to \$6.496 billion total), and Bipole III cost increases of \$125 million over this period (to \$4.590 billion total).

¹³ Attachment 1: MH15 net total electric expenses in projected operating statement

¹⁴ MIPUG/MH I-13a page 3

¹⁵ Even though MIPUG requested it in MIPUG/MH I-1

¹⁶ This is a best guess based on Hydro's projected financial expense in 2016/17 under current methodology of \$589 less the projected finance expense in Coalition/MH I-21a-c Attachment 1, which is the IR Hydro directed MIPUG to in response to MIPUG/MH I-1 which asked to provide financial forecast which fully aligned with PUB directives and removed finance expense associated with future capital borrowings.

¹⁷ Note: Hydro includes gas capital expenditures in the CEF, stating the overall difference over 10 years is \$351 million; gas expenditures have increased in CEF15 by \$31.5 million over the 10 year forecast compared to CEF14.

- Electric Major & Base Capital (i.e. sustaining capital expenditures total spending) has not changed in a material way (**increase of \$0.1 million**) over the 10 year horizon from CEF14 to CEF15, with forecast costs redistributing between categories:
 - Major Capital has **increased \$71 million** over the 10 year forecast horizon largely due to the addition of a \$85 million Steinbach Area 230-66kV Capacity Enhancement transmission capital project and the \$57 million Manitoba-Saskatchewan Transmission Project (to support increased Saskatchewan export contracts).
 - Base Capital (projects with total spending less than or equal to \$50 million each) has **decreased by \$21 million** over the 10 year forecast horizon, with increases in generation/power supply and customer service and distribution offset by a \$61 million decrease in transmission base capital.
 - The Major & Base Capital Target Adjustment has **decreased by \$50 million** over the forecast period from \$125 million in CEF14 to \$75 million.

Table 2: Comparison of CEF15 and CEF14 - 10 Year Forecast (2015/16 – 2024/25)

(\$ Millions) for Year Ending	10 Year Total	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Major & Base Capital - Generation/Power Supply											
CEF15	1,324.9	120.0	122.0	132.0	132.0	132.0	132.0	134.6	137.3	140.1	142.9
CEF14	1,347.0	131.9	132.0	132.1	132.0	131.9	132.1	134.7	137.3	140.1	142.9
Difference	- 22.1	- 11.9	- 10.0	- 0.1	-	- 0.1	- 0.1	- 0.1	-	-	-
Major & Base Capital - Transmission											
CEF15	1,414.9	137.0	149.9	125.0	125.0	125.0	150.0	150.0	150.0	150.0	153.0
CEF14	1,377.9	125.0	125.0	124.9	125.1	125.0	150.0	150.0	149.9	150.0	153.0
Difference	37.0	12.0	24.9	0.1	- 0.1	-	-	-	0.1	-	-
Major & Base Capital - Customer Service & Distribution											
CEF15	2,262.8	240.9	268.3	231.0	206.0	206.0	206.0	210.1	214.3	218.6	261.6
CEF14	2,237.7	240.9	268.3	206.0	205.9	206.0	206.0	210.1	214.3	218.6	261.6
Difference	25.1	-	-	25.0	0.1	-	-	-	-	-	-
Customer Care & Marketing, Human Resources, Finance & Administration											
CEF15	633.2	79.2	69.4	59.3	59.4	59.5	59.6	59.9	61.1	62.3	63.5
CEF14	623.1	79.2	59.3	59.3	59.4	59.5	59.6	59.9	61.1	62.3	63.5
Difference	10.1	-	10.1	-	-	-	-	-	-	-	-
Major & Base Capital Target Adjustment											
CEF15	75.0	-	-	-	25.0	25.0	25.0	-	-	-	-
CEF14	125.0	-	25.0	25.0	25.0	25.0	25.0	-	-	-	-
Difference	- 50.0	-	- 25.0	- 25.0	-	-	-	-	-	-	-
Total Major & Base Capital (including Administrative & Target Adjustment)											
CEF15	5,710.8	577.1	609.6	547.3	547.4	547.5	572.6	554.6	562.7	571.0	621.0
CEF14	5,710.7	577.0	609.6	547.3	547.4	547.4	572.7	554.7	562.6	571.0	621.0
Difference	0.1	0.1	-	-	-	- 0.1	- 0.1	- 0.1	0.1	-	-
Major New Generation & Transmission											
CEF15	10,646.8	2,012.8	2,746.5	2,376.2	1,460.5	895.3	460.7	325.1	151.6	109.0	109.1
CEF14	10,327.2	1,913.9	2,463.4	2,578.0	1,531.1	884.0	426.2	196.1	116.7	110.0	107.8
Difference	319.6	98.9	283.1	- 201.8	- 70.6	11.3	34.5	129.0	34.9	- 1.0	1.3
Total Electric CEF											
CEF15	16,357.6	2,589.9	3,356.1	2,923.5	2,007.9	1,442.8	1,033.3	879.7	714.3	680.0	730.1
CEF14	16,037.9	2,490.9	3,073.0	3,125.3	2,078.5	1,431.4	998.9	750.8	679.3	681.0	728.8
Difference	319.7	99.0	283.1	- 201.8	- 70.6	11.4	34.4	128.9	35.0	- 1.0	1.3

In Order 73/15 the Board said that it is not satisfied with Hydro's evaluation of long-term pacing and prioritization requirements and considers the top-down caps or placeholders insufficient to justify increased spending in the future.¹⁸ The 10 year forecast for sustaining capital has not changed between

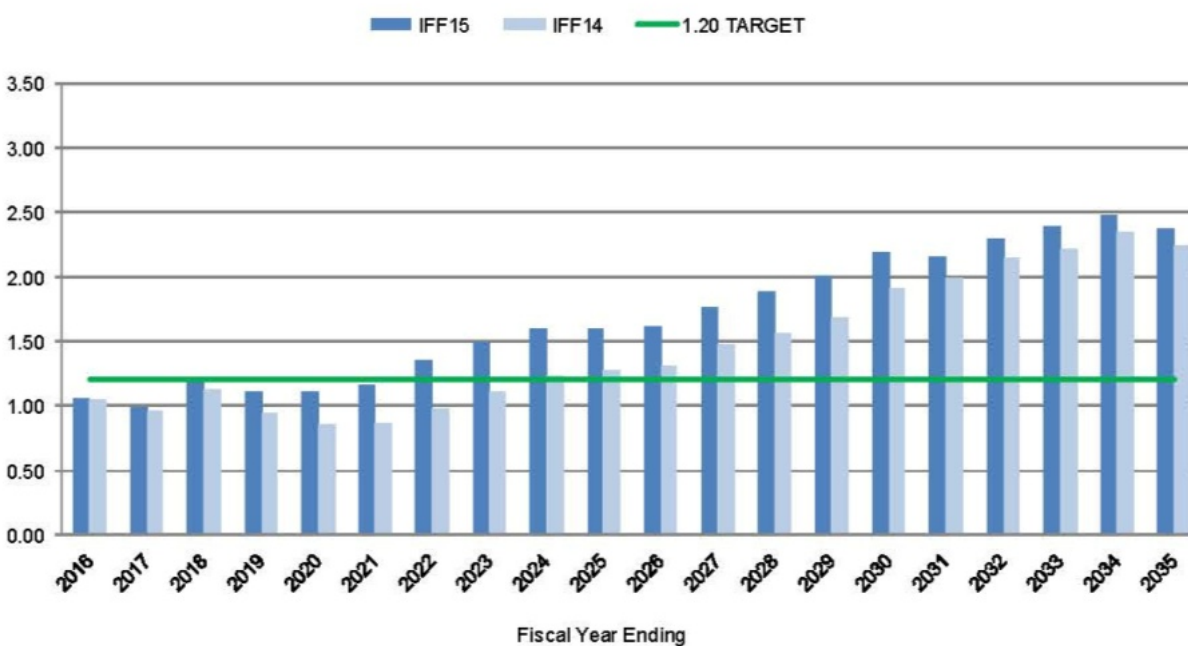
¹⁸ Order 73.15, page 68, July 24, 2015

CEF14 and CEF15, and Hydro is currently in development of a Corporate Value Framework methodology, which will include metrics to determine pacing and prioritization of capital expenditures.¹⁹

2.3 CASH FLOW ANALYSIS (COMPARE TO MH14 AND TO CAPITAL SPENDING LEVELS)

Manitoba Hydro targets funding of sustaining capital expenditures with cash flow from operations. One of the ways it measures this is through the Capital Coverage Ratio. While not a perfect indicator of actual cash flow, comparatively the ratio has improved in IFF15. In IFF14, Hydro indicated cash from operations was insufficient to fund sustaining capital expenditures in six of the ten year forecast (capital coverage ratio below 1.00); as a result Hydro's MH14 included increased borrowing to fund sustaining capital.²⁰ For IFF15, coverage for sustaining capital has significantly improved with the capital coverage ratio below 1.00 in only one year of the ten year forecast.²¹

Figure 2: Hydro's Projected Consolidated Capital Coverage Ratio (Figure 15-4 in IFF15)²²



Reviewing Hydro's Electric Projected Cash Flow Statement shows similar improvement in both the short and long-term. In the interim period until the next GRA, Hydro's sustaining capital expenditures, which realized actual spending lower than forecast for 2014/15 (\$559 million actual²³ compared to \$571 million forecast²⁴) is unlikely to cause deterioration to Hydro's cash flow and may benefit from future implementation of pacing and prioritization of sustaining capital expenditures. Hydro provided information

¹⁹ Attachment 26: Corporate Overview MFR 2, page 2

²⁰ Appendix 3.3 in the 2015/16 GRA, IFF14, page 21

²¹ Attachment 1: IFF15, page 26

²² IFF15, page 26

²³ MIPUG/MH I-11a

²⁴ Appendix 4.1 from GRA, Capital Expenditure Forecast CEF14, page 5

on the cash flow impacts of three years of 2% rate increases from 2016/17 to 2018/19. Figure 3 and Table 3 illustrates that with lower 2% rate increases for the next three years, Hydro's cash flow situation after all operation costs have been paid (including payments to suppliers and employees and interest paid and received) is expected to remain consistent or better than IFF14 in the short- and long-term.

Figure 3: IFF14 and IFF15 Comparison of Operating Activities Cash Flow and Sustaining Capital (\$ Millions)²⁵

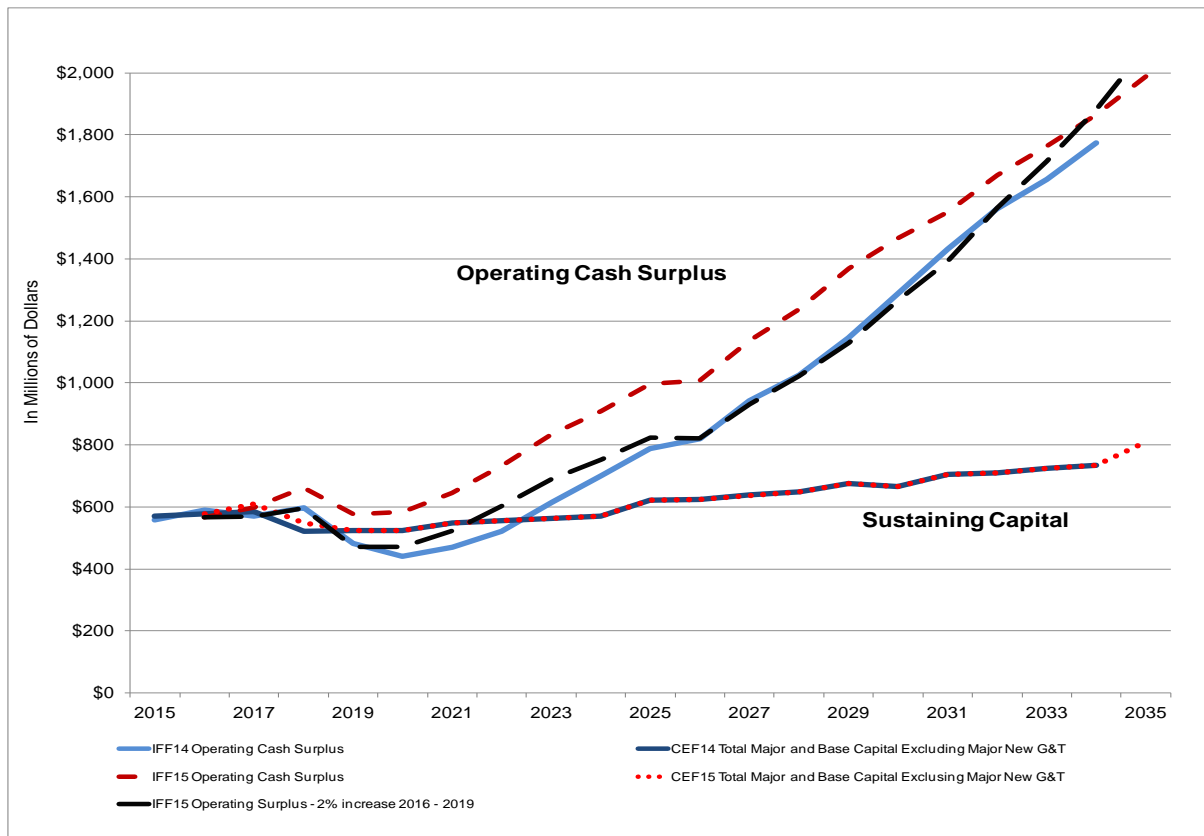


Table 3 below provides the background data for the above figure. IFF14 projected five years of negative cash flow above sustaining capital expenditures from 2015/16 to 2024/25 (i.e. would need to 'borrow' \$249 million in total over these years to cover sustaining capital expenditures) with a ten year positive cash flow position of \$184 million. Comparatively, IFF15 has two years where cash outflow requirements for sustaining capital expenditures are above the cash inflow surplus (of a total of \$21 million over the ten year forecast). The ten year forecast total for cash flow is positive \$1.464 billion.

If Hydro is granted 2% rate increases over the next three years (including 2016/17) and with no cost improvement included for sustaining capital pacing and prioritization or OM&A cost containment measures, consistent with IFF14 there are five projected years where cash outflows are greater than cash inflows including sustaining capital expenditures. However, the negative cash impact totals only \$178

²⁵ Appendix 3.3: IFF14 from GRA & Attachment 1: IFF15, IFF15 Operating Surplus with 2% rate increases from 2016/17 to 2018/19 (when Bipole III comes in-service) from MIPUG/MH-I-13a

million in these years, and the 10 year total cash flow surplus is \$426 million. Even with reduced rate increases over the next few years Hydro's cash flow projections have greatly improved since IFF14.

Table 3: Cash Flow Surplus/(Deficit) After Sustaining Capital Expenditures (\$ Millions)²⁶

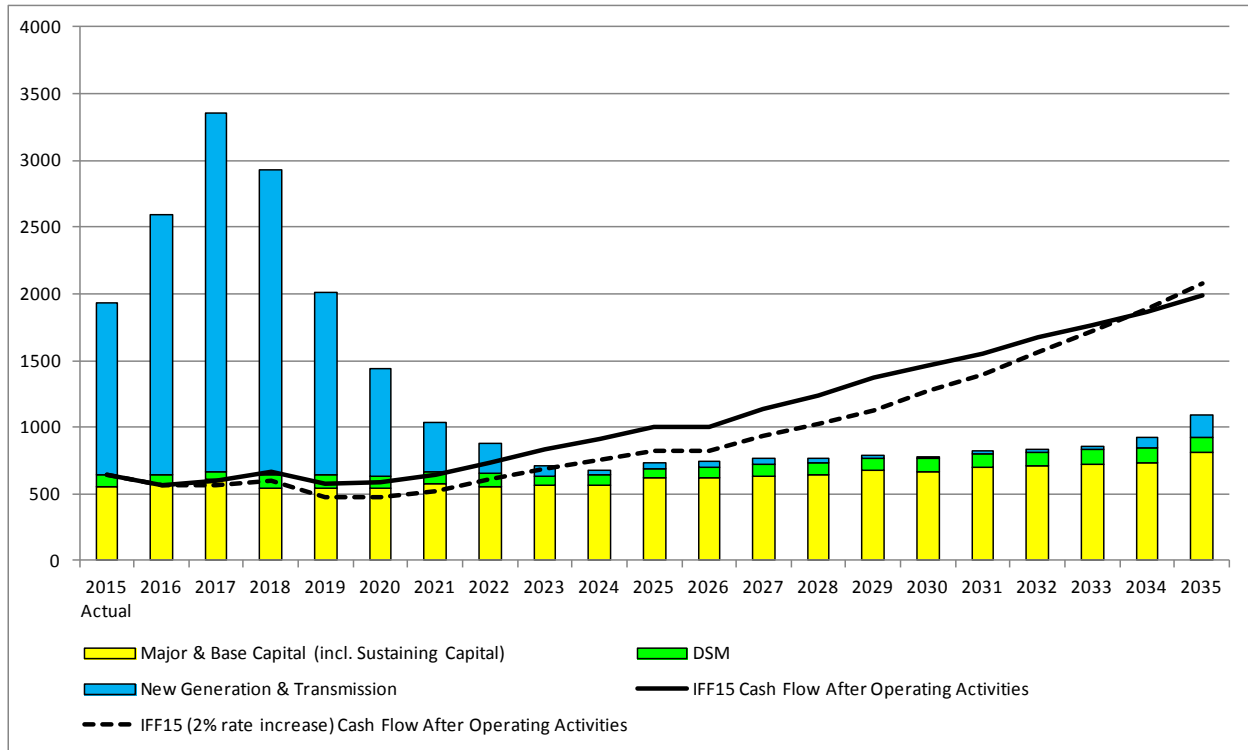
\$ Millions	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10 Year Total
CEF14 Total Major and Base Capital Excluding Major New G&T	571	577	585	522	522	522	548	555	563	571	621	5,586
IFF14 Operating Cash Surplus	558	589	571	598	482	440	469	521	613	700	787	5,770
Cash flow Surplus/(Deficit)	-13	12	-14	76	-40	-82	-79	-34	50	129	166	184
CEF15 Total Major and Base Capital Excluding Major New G&T		577	610	547	522	523	548	555	563	571	621	5,636
IFF15 Operating Cash Surplus		567	599	661	575	583	645	733	833	908	996	7,100
Cash flow Surplus/(Deficit)		-10	-11	114	53	61	97	178	270	337	375	1,464
CEF15 Total Major and Base Capital Excluding Major New G&T		577	610	547	522	523	548	555	563	571	621	5,636
F15 Operating Cash Surplus - 2% rates		567	569	595	471	472	522	602	688	752	824	6,062
Cash flow Surplus/(Deficit)		-10	-41	48	-51	-51	-26	47	125	181	203	426

Figure 4 depicts cash flow after operating activities in IFF15 under two scenarios: (i) Hydro's proposed 3.95% in each year until 2029, and (ii) 2% rate increases for 2016/17, 2017/18 and 2018/19 with 3.95% rate increases thereafter (once Bipole III and Keeyask, the main rate impact drivers, come in-service). These scenarios are compared to all capital expenditure forecast spending including sustaining capital, DSM spending, and new generation and transmission. As depicted in the figure, short-term cash flow losses from reduced rate increases are only impactful in the years that Bipole III comes immediately into service and represent only minor cash deficits. Thereafter cash flows are sufficient in all years to cover operating activities, sustaining capital expenditures (major and base capital), and DSM spending.

Hydro's improved forecast cash flow position in IFF15 allows for more moderate rate payer impacts in the short-term than Hydro has applied for.

²⁶ Appendix 3.3: IFF14 from GRA & Attachment 1: IFF15, IFF15 Operating Surplus with 2% rate increases from 2015/16 to 2018/19 (when Bipole III comes in-service) from MIPUG/MH-I-13a

Figure 4: Electricity Capital Expenditures & Cash Flow from Operations (\$ Million)

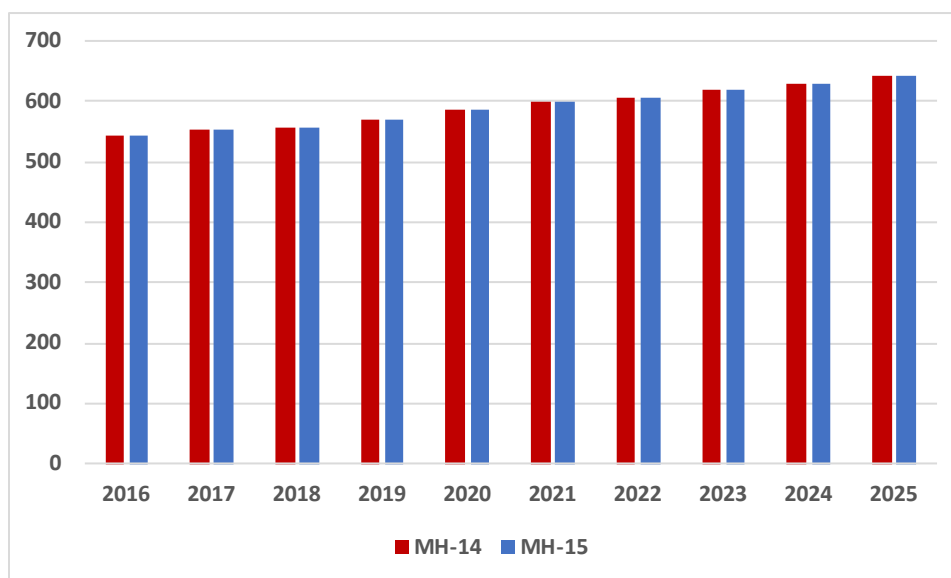


2.4 OM&A FORECASTS

Manitoba Hydro states that it continues to limit increases in operating, maintenance and administrative expense (OM&A) for 2015/16 to 2021/22 to below inflationary levels at 1% excluding the impacts of accounting changes. To achieve this, Manitoba Hydro states it has committed to reducing approximately 330 operational position over the three-year period from 2014/15 to 2016/17 through attrition, application of technology and consolidation or elimination of work processes.

Figure 5 compares forecast OM&A for MH-14 and MH-15.

**Figure 5: Forecast OM&A Spending in MH-14 and MH-15 2016-2025
(\$ Millions)**



Manitoba Hydro further confirmed in the response to MIPUG/MH I-14a that forecast electric operations OM&A is the same in each year from 2016 through 2034 in MH14 and MH15. Hydro stated that the OM&A forecast in MH15 was held constant compared to MH14 throughout the forecast period as achievement of the targets is dependent upon realizing savings through numerous initiatives.²⁷

Manitoba Hydro provided information that its actual 2014/15 OM&A spending was approximately \$5.283 million lower than forecast.²⁸ 2015/16 actual OM&A spending is approximately \$5.527 million lower through September 30, 2015 compared to forecasts in MH14.²⁹ MIPUG notes a concern that total OM&A spending to September 30, 2015 is in fact \$15.740 million lower than the forecasts, but the portion of OM&A related to capital order activities is also \$9.896 million lower on an actual basis compared to forecasts, resulting in the net OM&A difference of \$5.527 million.

With respect to reductions in operational positions, Manitoba Hydro states that as of December 31, 2015, it has achieved a cumulative reduction of 347 operational positions.³⁰ This is greater reduction than targeted in MH14. Manitoba Hydro states its actual annualized December 2015 EFTs are 6,629 compared to 2015/16 forecasts of 6,902.³¹

In summary, it appears that Hydro's efforts to constrain OM&A spending have not been fully reflected in forecasts in MH15. Manitoba Hydro states that while it has been able to advance the attainment of position reductions, targets were established considering the overall three year commitment by the corporation in managing its OM&A costs. Hydro concludes that there remain cost uncertainties and therefore it was premature to adjust the OM&A targets in MH15. While it appears Manitoba Hydro has

²⁷ MIPUG/MH-I-14b.

²⁸ Attachment 32 to the supplemental filing for interim electric rates effective April 1, 2016.

²⁹ Attachment 8 to the supplemental filing for interim electric rates effective April 1, 2016.

³⁰ PUB/MH-I-21a.

³¹ PUB/MH-I-21c. Figures reflect total equivalent full time employees (straight time and overtime).

achieved OM&A reductions beyond those forecast in MH14 on an actual basis, the benefits of these reductions are not reflected in MH15 in a way that would benefit customers.

MIPUG also notes concerns with the following factors included in the IFF:

- Manitoba Hydro's average salary per EFT is forecast to increase by 3% in each of 2015/16 and 2016/17. This follows a compounded average annual growth rate of 4% per year from 2010/11 through 2014/15.³²
- Manitoba Hydro's forecast vacancy rate of 4.5% continues to be lower than the vacancy rate for the most recent actual year available (2014/15 – 5.5%).³³

3.0 RATEPAYER PERSPECTIVE FOR INTERIM RATE INCREASES

MIPUG has previously stated its view that the Board should consider customer and public interest factors in determining whether an interim rate increase is justified. This may include considerations such as promoting rate stability; avoiding rate shock; and maintaining intergenerational equity. In consideration of ratepayer perspectives on the requested interim rate increase, MIPUG notes the following:

1. Manitoba Hydro has not demonstrated a financial need for a 3.95% interim rate increase effective April 1, 2016.
2. Industrial customers have stated a preference for moderate, predictable rate increases over time.
3. The approved level of interim rates should err on the side of being lower than final approved rates, because rate refunds are administratively costly to implement.

Based on these perspectives, customer interests may be served by approving a modest interim rate increase. An interim rate increase of approximately 2% effective April 1, 2016 would be consistent with the principles of rate stability and predictability, while recognizing that additional information from Manitoba Hydro is required to fully justify the requested 3.95% increase.

With respect to the treatment of the interim rate increase, the Board has stated its view that there is a compelling policy interest to phase in rate increases over a number of years in advance of the in-service dates of new major capital projects. To that end, the Board has previously directed that a portion of approved rate increases be designated to flow into the Bipole III deferral account to assist in the payment of future in-service costs.³⁴ While MIPUG has previously stated its view that the pre-funding of future capital projects is problematic from a regulatory perspective, the Board has created this mechanism to address future rate pressures. In this instance, in MIPUG's view, an interim rate increase directed to the Bipole III deferral account could help promote rate stability in the near-term, while also helping ensure the interim rate revenue provides for future rate stability when Bipole III comes into service.

An analysis was undertaken of the potential rate impacts of directing a 2% rate increase effective April 1, 2016 to the Bipole III deferral account. Table 4 summarizes the analysis. The results indicate that with

³² PUB/MH-I-7.

³³ MIPUG/MH I-14c and MIPUG/MH-I-16a

³⁴ Page 23, Board Order 73/15.

the additional 2% rate increase, the net impact of Bipole III on rates would be further reduced, but not fully mitigated. On this basis MIPUG submits it would be reasonable for the Board to direct that a 2% interim rate increase effective April 1, 2016 be implemented and directed to the Bipole III deferral account.

Table 4 uses Bipole III and Riel expenses as an estimate for the impact on Hydro's electric projected operating statement when Bipole III comes in service in July, 2018.³⁵ Full expenses are incorporated into the operating statement by 2020. The associated revenues with Bipole III are projected as follows:

- IFF15 Bipole III Reserve Contribution is the distribution of the \$260 million projected by 2018/19 in Hydro's BPIII Reserve Account based on current revenue accumulated from past PUB Orders. For 2018/19 it has been assumed that for the remaining nine months of the year where Bipole III is in-service (from July 2018 to March, 2019) the approximately \$48 million accumulated from BPIII directed revenues offsets the impact of Bipole III costs in that year. The remaining \$260 million is distributed over the following three year period.
- If the PUB awards Hydro a 2% interim rate increase for April 1, 2016 directed specifically to the BPIII reserve account, approximately \$31 million³⁶ will be accumulated in each 2016/17 and 2017/18. Including the three months of 2018/19 until Bipole III is in-service, the additional BPIII reserve accumulation would be \$70 million. This is distributed evenly across 2019/20 to 2021/22 in the manner consistent with Hydro's current approach. The additional \$23 million³⁷ collected from this rate increase in the nine months of 2018/19 while Bipole III is in-service offsets the impact of Bipole III costs in that year.
- Even though Hydro is no longer collecting revenues specifically earmarked for the BPIII reserve account after 2018/19 these revenues, which were awarded on the basis of contribution to BPIII specifically, are still included within rates and are generating additional revenues of approximately \$100 million each year (not including load growth, estimated based on \$69 million collected from existing allocation in 2017/18 and additional \$31 million collected from 2% interim rate increase if awarded April 1, 2016/17) which helps offset Bipole III operating expenses once in-service.

³⁵ Note IFF14 expenses were used based on available information at the time and the knowledge that Bipole III costs have not greatly changed in CEF15 since CEF14.

³⁶ Based on 2016/17 projected revenues from MIPUG/MH I-13a for a 2% rate increase April 1, 2016.

³⁷ \$31 million * 9 months / 12 months = \$23 million

Table 4: 1FF14 Cost Increase from Bipole III and Riel Station In-service with Reserve Contribution – Including 2% Increase in 2016/17 Estimate added to BPIII Reserve (\$ Millions)³⁸

\$ Million	2019	2020	2021	2022	2023	2024	2025	2026	2027
BPIII & Riel Station IFF14 Impacts									
Finance Expense	132	249	246	241	234	228	222	216	210
OM&A Costs	0	8	12	12	12	13	13	13	13
Depreciation	12	70	100	100	100	100	100	100	100
Capital Tax	23	23	23	23	22	22	21	21	20
Total BPIII & Riel Expenses	167	350	381	376	368	363	356	350	343
Revenue from BPIII Directed Rate Increases									
Less IFF15 BPIII Reserve Contribution	48	86	87	87					
Less 2% Rate Increase in 2016/17 BPIII Reserve Contribution	23	23	23	23					
Less Additional Revenues added from BPIII Reserve Rate Increases (including 2% in 2016/17)		100	100	100	100	100	100	100	100
Added Expenses less BPIII Directed Revenues	96	141	171	166	268	263	256	250	243

³⁸ Bipole III & Riel Station costs from Appendix 11.15 (Financial Information MFR 9) IN 2015/16 GRA; BPIII Reserve Contribution to Revenue Requirement equal to year-over-year reduction in Bipole III reserve account from Attachment 1 – IFF15 pg. 43; BPIII Reserve Rate Increase represents the amount already built into rates after Bipole III comes in-service from PUB approved rate increases on the basis of Bipole III reserve accumulation that are absorbed into general consumer revenues after 2019. From MIPUG/MH I-13a, 2% rate increase in 2016/17 results in additional \$31 million revenue per year. Summed to July, 2018 (BPIII inservice) results in additional \$23 million in offset revenues for Bipole III reserve contribution. Revenues collected from July 1, 2018 to March 31, 2019 assumed to be reserve contribution for 2019 (instead of captured in additional revenues from BPIII reserve rate increase line). Less Additional Revenues added from BPIII Reserve Rate Increase is sum of \$69 million contributed by 2017/18 with \$31 million from assumed 2% interim rate increase in 2016/17.