



The City of Winnipeg Closing Submissions

**Manitoba Hydro
General Rate Application
2017/18 and 2018/19**

City of Winnipeg Position

The City of Winnipeg submits that Manitoba Hydro has not met its burden of establishing that a 7.9% across-the-board rate increase effective April 1, 2018 is required to properly balance the interests of ratepayers and the financial health of the utility

The Board's Mandate

- The Board's mandate is to set just and reasonable rates that are in the public interest (Opening statement of Chairman Gabor)
- In setting rates, the Board must do so in a manner that balances the interests of ratepayers and the financial health of Manitoba Hydro (Manitoba Order in Council dated April 5, 2017)
- "The PUB has two concerns when dealing with a rate application; the interests of the utility's ratepayers, and the financial health of the utility. Together, and in the broadest interpretation, these interests represent the general public interest." (Manitoba Court of Appeal, *Consumers Assn. of Canada (Manitoba) Inc.* decision, 2005 MBCA 55)

Manitoba Hydro's Application

- Manitoba Hydro's rate application focuses solely on its financial health
- Central to the application is a change in financial forecasting that, rather than seek to achieve certain certain capital structure accounting ratios in accordance with NFAT, Manitoba Hydro's forecasts now seek to achieve those ratios over 10 years
- This choice is an arbitrary one made by Manitoba Hydro, without any real justification
- Moreover, as set out below, Manitoba Hydro has completely failed to take into consideration the interests of ratepayers
- Only half of the test – balancing the interests of ratepayers and the financial health of the utility - is addressed in the application.

Manitoba Hydro's Financial Forecast

- The City of Winnipeg did not present evidence specific to this issue, other than to speak to the NFAT Process
- NFAT involved extensive analysis of Manitoba's Hydro's financial circumstances
- "This analysis generated 15,300 discrete financial projections based on varying water flows, export prices and interest rates and examined the impacts on the annual equity ratio, net income and cumulative retained earnings assuming the indicative 3.95% rate increases that are projected in IFF15" (Manitoba Hydro's "Financial Target Review (2015), p. ii)
- The City of Winnipeg submits that analysis is far more extensive, and far more informative, than that which Manitoba Hydro now relies on in this application

Manitoba Hydro's Financial Forecast, cont'd

- As it concerns Manitoba Hydro's financial forecast relied upon for this application, the City of Winnipeg agrees with the closing submissions of Consumers Coalition
- Simply put, the case has not been made out to justify a 7.9% rate increase, or to justify Manitoba Hydro's arbitrary change in its financial forecast modelling to a 10 year period
- In its closing submissions, Manitoba Hydro presents a dire consequences picture if it is not granted a 7.9% increase – "A 7.9% RATE INCREASE CANNOT BE WRONG"

Manitoba Hydro's Financial Forecast, cont'd

- When assessing Manitoba Hydro's submissions concerning its financial forecasts, one is reminded of the children's story "The Remarkable Story of Chicken Little"
 - "The sky is falling"
- The City of Winnipeg submits that on the issue of the financial health of the utility, Manitoba Hydro has not demonstrated a 7.9% rate increase is necessary. It has not justified its change in its financial forecast modelling to a 10 year timeline. It relies on speculation and hypothetical concerns of water flows, export prices and interest rates

Manitoba Hydro's Financial Forecast, cont'd

- In short, the City of Winnipeg submits that nothing has changed from the picture presented to the PUB when it made Order 80/17 dated July 17, 2017
 - Manitoba Hydro has not demonstrated a *prima facie* case for a 7.9% rate increase
 - Manitoba Hydro has not demonstrated its financial circumstances have markedly changed to depart from NFAT and its financial modelling

Interests of Ratepayers

- A more fundamental flaw in Manitoba Hydro's application is the complete lack of consideration of the interests of ratepayers, which is part of the test or burden Manitoba Hydro has to address
- When asked in Coalition/MH 1-120b-d to provide:
 - “copies of analysis and reports of the impact of any proposed rate increases on the Manitoba economy, each of Manitoba Hydro's customer classes/sub-classes, low income customers, delinquent customers and Manitoba Hydro's bad debt allowance”
- Manitoba Hydro's response:
 - “Manitoba Hydro has not undertaken specific analysis to determine the impact of the proposed rate increases on the Manitoba economy or the referenced groups”

Interests of Ratepayers, cont'd

- Economic impacts of rate increases on customers not analyzed by Manitoba Hydro (Shepherd, Transcript p. 347)
- No overall attempt to quantify the economic impact of rate increases on Manitoba (Shepherd, Transcript p. 348)
- While Manitoba Hydro recognized there will be “cost consequences” to ratepayers, they did not conduct any analysis into what those cost consequences will be

City of Winnipeg evidence

- The City of Winnipeg did provide submissions on the economic impact of the proposed rate increases on the City of Winnipeg, and by extension residents and businesses of Winnipeg

City of Winnipeg evidence, cont'd

- Regardless of the criticisms of the City's evidence raised in cross-examination by Manitoba Hydro, there is one inescapable conclusion, as detailed in the "Truisms" page of The City's oral submissions PowerPoint:
 1. There is no question the City of Winnipeg's direct electricity expenses will increase. This represents a negative impact on the City's operating budget.
 2. There is no question the City of Winnipeg's indirect costs (increased price of goods and services purchased by Winnipeg) will increase. This represents a negative impact on the City's operating budget.
 3. There is no question the economy of the City of Winnipeg (the City's gross domestic product) will be significantly impacted

City of Winnipeg evidence, cont'd

- Manitoba Hydro does not dispute these impacts. Indeed, it recognizes these impacts and accepts the City's evidence that in order to meet its statutory requirement of an annual balanced operating budget, the City will have to address these negative impacts "by increasing revenues through taxes, fees and other charges imposed by the City of Winnipeg (Manitoba Hydro Written Final Argument, p. 164)

Conclusion

- The City of Winnipeg submits that Manitoba Hydro has failed to make out a case for a proposed 7.9% rate increase.
 - It has failed to justify its new financial forecasting model, predicated on a 10 year forecast. Simply put it has not established that circumstances have so drastically changed that the conclusions of NFAT (a mere 3 years ago) no longer are valid
 - On this, it is important to consider Manitoba Hydro's own words from July 2015:
 - In setting financial targets, it was recognized that the target may not be attained during years of major investments in the generation and transmission system..." (Manitoba Hydro "Financial Target Review (2015)", p. 1)

Conclusion, cont'd

- As to the impact of the proposed rate increase on ratepayers, Manitoba Hydro did not address this in their application
- The City of Winnipeg submits the “exceptional rate increase” which is “larger than any previous increase sought from the Public Utilities Board by Manitoba Hydro” has not been borne out by the evidence.
- Simply put, it is neither just nor reasonable nor in the public interest.