Manitoba Hydro
2019/20 Rate Application

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Figure 2 (Condensed) - Projected Net Income for 2019/20			
	Updated Application	Original Application	Increase (Decrease)
Domestic & Other Revenues	1804	1785	19
Net Extraprovincial Revenue	174	140	34
Net Revenues - without increase	**1978**	**1925**	**53**
Net Expenses	**1914**	**1953**	**-39**
Net Income - without increase	**64**	**-28**	**92**
Proposed rate increase	51	59	-8
Net Income - with increase	**115**	**31**	**84**

MH Continues to Propose a 3.5% Rate Increase Despite a $92 Million Improvement in 2019/20 Projected Net Income

$92 million improvement in 2019/20 projected net income (without proposed rate increase) is $33 million higher than annualized rate increase of $59 million

Net export revenue projection has improved $34 million mainly due to higher starting water storage levels

Net expense projection improved $39 million mainly due to lower finance /depreciation/capital tax expenses as a result of lower Bipole III capital costs

Domestic revenue projection has improved $19 million mainly due to delay in DSM programs

Despite the significant improvement – MH has not amended the proposed rate increase of 3.5% for 2019/20

The Unique Rate Application & Scope Limitations Pose Significant Challenges in Evaluating MH’s Rate Increase Proposal

- No corporate strategic plan
- No long-term financial forecast and rate strategy
- No updated or detailed operating & administrative (O&A) forecast
- No prospective cost of service study (PCOSS)
- No comprehensive response to PUB directives from Order 59/18
- MHEB currently in process of undertaking a comprehensive review of MH’s strategy, operations, forecasts, financial plans/targets and rate strategy
- PUB determined long-term financial forecast & financial plan not in scope for the current regulatory proceeding (Order 1/19)

It is Not Possible for the PUB to Use the Modified Cost of Service (MCOS) Rate Setting Framework to Set Rates in the Absence of a Reliable Long-Term Forecast

- The traditional MCOS rate-setting framework used for MH for decades is dependent on a reliable and updated long-term financial forecast and a financial target with a strategy to achieve it
- The MCOS approach "looks past" the test year to make informed judgements on how the proposed rate increase impacts the long-term financial outlook and rate trajectory
- Even past MH interim rate applications have included a fully updated integrated financial forecast (IFF)
- Only an IFF allows the PUB to understand the big picture of MH's financial outlook, financial performance indicators, overall borrowing requirements and potential rate strategies – incremental or stand-alone calculations are not reliable for rate-setting
- MH has filed a "one-year" rate application with no IFF as a result of the MHEB comprehensive review and has indicated that the MHEB endorses no prior IFF
- IFF's are subject to significant volatility when updated for more current strategies, information and planning assumptions – the oscillation between profit & losses in MH12 to MH16 (Exhibit #93) demonstrates this fact
- In Order 1/19, page 12, the PUB determined that MH's "long-term financial forecast and financial plan" are not in scope for this regulatory proceeding – MH has no long-term financial plan at this point in time
- Order 59/18 - PUB questioned use of an equity ratio as a metric for a vertically integrated monopoly crown utility with a provincial debt guarantee and found that a particular equity target/pace to achieve the target should not determine the rate increase
- Order 59/18 - PUB found that there was merit to gaining a better understanding of the financial reserves required by MH, including consideration of a rule-based regulatory framework with a minimum retained earnings or similar test

MH Exhibit #93 Is Outdated and Not Reliable Evidence for the PUB to Use to Approve the Proposed 3.5% Rate Increase

- MH’s assertion of $900 million higher debt/lower retained earnings by 2028/29 - Figure 2 of Rebuttal Evidence is flawed – uses MH Exhibit #93 & fails to consider lower net debt of $567 million, lower Bipole III carrying costs, overstated/outdated O&A targets and recommendation of 1.5% rate increase for 2019/20
- MH Exhibit #93 contains significantly outdated planning assumptions from early 2017 (almost two years ago) - numerous planning assumptions have not been updated and tested in the current regulatory proceeding – it is not a reliable substitute for an updated/integrated financial forecast
- Net debt (without the proposed rate increase) projected for 2019/20 by MH is $567 million lower than MH Exhibit #93 – cumulative impact of this alone may offset any claimed deterioration in the outlook for this Exhibit
- Bipole III capital costs are $270 Million lower than Exhibit #93 – reduces finance/depreciation/capital tax (carrying costs) by $30 million in 2019/20 and $17 million annually in longer-term – further improving the outlook for this Exhibit
- O&A targets (represents about 30% of domestic revenue requirement) are outdated and overstated (by as much as $32 million by 2022/23) given rate pressures of major capital projects and environment in the Manitoba public sector – further improving the outlook for this Exhibit
- Projected losses are six to 11 years forward in MH Exhibit #93 – the trajectory of the financial outlook is subject to significant volatility that far forward in the IFF – lower Keeyask capital costs from advancement & potential for lower interest rates could result in significant improvement in this Exhibit
- MHEB’s comprehensive review of MH financial plan & rate strategy – outcome could result in significant change in the trajectory of the financial outlook

Rate-Setting Must Consider MH’s Operational Characteristics – Equity Ratio is of Questionable Value - Order 59/18

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A particular equity target level and pace to achieve the target should not determine the rate increase approved in this GRA

PUB’s assessment of rate increases must include consideration of the circumstances of MH’s operations – large upfront capital costs , low annual operating costs and very long expected useful lives

The important question from a rate-setting perspective is how these large investments should be funded and finding the right balance between rate increases and level of debt to fund large capital projects

The first consideration for the PUB is what reserves should MH hold to manage risk and which risks should it take into account

The second consideration for the PUB is to place concerns about the amount of debt and retained earnings in a different perspective by also considering cash flow using two long-standing financial metrics used by MH: interest coverage ratio and capital coverage ratio

The PUB questioned debt to equity ratio as metric for a vertically integrated monopoly Crown utility with a debt guarantee from the provincial government – this is important as indicative rate increases from past IFF’s are based on “goal-seeking” to achieve the 25% equity target in a prescribed timeframe in the 20-year IFF

It is Important for MH to Manage Controllable Costs in an Era of Major Capital Projects and Related Rate Pressures – Order 59/18

Pages 110 to 113 (BOC), 118 to 122 (DSM) and 141 to 142 (O&A)

PUB found in a period of major capital spending that MH should find savings in Business Operations Capital (BOC) and that MH could safely decrease BOC by $160 million in the 2018/19 test year

The PUB found that MH cannot demonstrate that the proposed BOC spending is necessary or has been optimized to any extent and the cost pressures from the major capital spending are such that MH can no longer continue to fund BOC at historic levels

The PUB found that MH's review of its operations during a time of restructuring and transition, presents an opportunity to find further areas to reduce O&A costs both in terms of staff reductions and supply chain management after the VDP concludes

The PUB found that the revenue requirement should be reduced to reflect lower demand side management spending as a result of the new lower marginal value and that the adverse rate impacts that arise from MH's current DSM plan are not reasonable in the present context

The PUB found that some of MH's demand side management programming may no longer be cost effective in light of the new lower marginal value and should be reduced – except for programs targeted at lower-income and First Nations on-reserve customers

Drought Risk to Be Managed Through Combination of Retained Earnings & Regulatory Action and Merit to Considering Rule-Based Regulatory Framework – Order 59/18

Pages 63 to 66

- The PUB found it is prepared to take regulatory action in times when emergent situations face MH
- The PUB found that retained earnings (currently $2.9 Billion) should be used to manage drought risk in combination with regulatory action – not through pre-approval of rate increases
- The PUB found that interest rate and export price risks should be addressed with rate increases as and when those risks materialize and that rates should not be set to increase retained earnings to manage these longer-term risks
- The PUB concluded there is merit to gaining a better understanding of the financial reserves required by MH including consideration of risk tolerances, what risks should be protected by reserves and the circumstances that would guide the need for more aggressive rate increases
- The PUB directed consideration of the establishment of a minimum retained earnings test or similar test to provide guidance in setting rates for use in rule-based regulation – based on maintaining appropriate levels of retained earnings and meeting other financial metrics in the face of potential risks to MH – implication is that rate increases are no longer to be based on goal-seeking the achievement of an Equity ratio in a prescribed timeframe
- In Order 126/18, the PUB rescinded Directive #9 (technical conference on minimum retained earnings target), but found that parties remain free to raise matters of rule-based regulation in the course of scoping any future GRA proceeding

The Independent Analysis Followed a Sequential Three-Step Process to Evaluate MH’s Rate Proposal

The future long-term financial forecast is not part of the scope of this hearing - and rates are not set on past results given the general prohibition of retroactive ratemaking

Therefore the focus was on the present 2019/20 Test Year and updated financial projections for 2018/19 & 2019/20 that are part of the scope of this hearing and are before the PUB

With these circumstances and limitations in mind and considering the PUB’s guidance in Order 59/18, a three step process was followed to evaluate the need for and appropriate level of any rate change in 2019/20

Step 1: Assess 2019/20 forecasts of projected revenues and expenses and key financial metrics – before any rate increase is considered

Step 2: Assess if MH has appropriately managed costs for those financial levers that are within its control in order to mitigate the need for rate increases from customers in 2019/20

Step 3: Consider the balancing of the financial integrity and risks of MH with rate impacts on customers for 2019/20

Figure 11 (Condensed) - Projected Net Income & Financial Ratios - 2019/20				
	Updated Application	Original Application	Exhibit 93 Adjusted	Exhibit 93
Total Net Revenues	**1978**	**1925**	**1924**	**1924**
Total Net Expenses	**1913**	**1953**	**1953**	**1920**
Net Income -Without Increases	**65**	**-28**	**-29**	**4**
Proposed Rate Increase	50	59	57	57
Net Income - With Rate Increases	**115**	**31**	**28**	**61**
Financial Ratios - without 3.5% Proposed Rate Increase:				
Equity Ratio	13.03%	12.47%		
Interest Coverage Ratio	1.56	1.47		
Capital Coverage Ratio	1.24	0.97		
Financial Ratios - with 3.57% Indicative Rate Increase:				
Equity Ratio			13.37%	13.58%
Interest Coverage Ratio			1.53	1.58
Capital Coverage Ratio			1.12	1.18

The Proposed 3.5% Rate Increase for 2019/20 Has Not Been Justified by any Quantifiable Financial Objective or Financial Metric

The 2019/20 projected net income of $64 million (without the proposed rate increase) exceeds MH's original financial objective of $31 million

The 2019/20 projected net income of $64 million (without the proposed rate increase) meets or exceeds expectations from Exhibit #93

There is no material deterioration in MH's financial position or three primary financial targets for 2019/20 since the last GRA, even without the proposed rate increase

MH has not adequately responded to the PUB findings from Order 59/18 to reduce controllable costs in an era of major capital projects with associated rate pressures

A 3.5% rate increase is not required to reduce the risk of financial losses in 2019/20 while adhering to the PUB's guidance on how risks should be addressed in rate-setting

Figure 6 (Condensed) Projected Debt/Equity Ratio - 2019/20			
			Upated vs.
Updated Application	Updated	Exhibit 93	Exhibit 93
Without Rate Increase	Application	Adjusted	Adjusted
AOCI held constant			
Net Debt	**22061**	**22676**	**-615**
Retained Earnings	2926	2990	-64
AOCI Loss	-580	-580	**0**
Other	1055	1090	-35
Total Equity	**3401**	**3500**	**-99**
Total Debt & Equity	**25462**	**26176**	**-714**
Equity Ratio	**13.36%**	**13.37%**	**-0.01%**
Debt Ratio	**86.64%**	**86.63%**	**0.01%**

The Debt to Equity Ratio for MH for 2019/20 Has Not Materially Deteriorated Since the Last GRA

The AOCI loss in the updated application ($675 million) is $95 million higher than Exhibit # 93 ($580 million) primarily as a result of the unrealized pension losses recorded at March 31, 2018 and a projected pension loss not forecast in Exhibit # 93

The increase in the AOCI loss relates to changing assumptions with respect to unrealized pension losses that are recorded in AOCI and will not be reclassified to net income – net income is the focus of rate-setting

When Exhibit # 93 is adjusted for the 20-Year WATM (which was expected in the last GRA) and the AOCI loss is held constant – the Equity ratio is nearly identical without the proposed rate increase

The impact of lower equity levels and lower debt levels since Exhibit # 93 was prepared are offsetting

Figure 15 (Condensed) - O&A Target - Adjusted for Rate-Setting				
	2018/19		2019/20	
	$ Million's	% Change	$ Million's	% Change
Actual Electric O&A 2017/18	**516.9**			
Adjustment for one-time increase				
in collection expsense	-8.1			
Adjusted O&A Base	**508.8**		**478.9**	
Provision for 1% escalation	**5.1**	**1.00%**	**4.8**	**1.00%**
Total cost savings	**-36.2**		**-5.1**	
Projected Bipole III Operating Costs	8.4		4.5	
Change in Capitalization	-7.2		5.9	
O&A Adjusted for Rate-Setting	**478.9**		**489.0**	
Projected O&A - MH	501.2		511.2	
Rate-Setting Adjustment	**-22.3**		**-22.3**	

MH has Not Adequately Responded to the PUB's Findings in Order 59/18 to Reduce Controllable Costs

MH's O&A $511 M budget for 2019/20 is based on a high-level and outdated target calculation in early 2017 and needs to be adjusted for rate-setting purposes

The first proposed rate-setting adjustment is to make a normalization adjustment to remove the $8.1 million one-time non-recurring increase in collection costs from 2017/18 – the starting point for MH's O&A targets – no further staff reductions necessary for this adjustment

The second proposed rate-setting adjustment is to remove the $7.3 million provision for unallocated transitional contingency funds for which there are no planned costs – no further staff reductions necessary for this adjustment

The third proposed adjustment for rate-setting purposes is to adjust the escalation assumption to 1% – a reduction of $7 million annually or annual staff attrition of about 35 EFT's or 0.6% assuming 50/50 split between staff reductions/supply chain savings realization

The 1% escalation assumption recognizes PUB findings in Order 59/18 to reduce controllable costs, current circumstances with respect to lower projected VDP, and supply chain savings (down $47M/41%) and MB public sector wage freeze

Total proposed downward adjustment is $22 million resulting in a recommended 2019/20 O&A for rate-setting of $489 million - reduces the O&A trajectory by $32 million to 2022/23

A 1.0% Rate Increase is Sufficient to Minimize the Risk of Financial Loss in 2019/20 (with $22 Million Rate-Setting Adjustments)

Figure 17 (Condensed) - Downside Risk Sensitivities - with $22 million Rate-Setting Adjustment

Sensitivity #	No Rate Increase	1% Rate Increase	2% Rate Increase	3.5% Rate Increase
	2019/20 Net Income			
1. Approved 2019/20 Budget (+ $22 million)	**86**	**100**	**115**	**137**
2. Warmer winter weather (-$49 million)	37	52	66	88
3. Low Export Price Case (-$25 million)	61	76	90	113
4. 50% Combination 2 & 3 (-$37 million)	49	63	78	100
5. 100% Combination 2 & 3 (-$74 million)	12	26	41	63
6. Low Water - 20th Percentile (-$74 million)	12	26	41	63
7. 50% Combination 2, 3 & 6 (-$74 million)	12	26	41	63
8. 100% Combination 2, 3, & 6 (-$148 million)	**-62**	**-48**	**-33**	**-11**
9. Low Water- 10th Percentile (-$138 million)	**-53**	**-38**	**-23**	**-1**

A 1.0% rate increase combined with rate-setting adjustments of $22 million is expected to result in a net income for MH for 2019/20 of $100 million

MH's financial objective in the original rate application was to generate a modest net income of around $30 million

The 1.0% rate increase scenario (with rate-setting adjustments) and non-water flow risk sensitivities #2 to #5 - are all expected to generate net income around or above the $30 million level in 2019/20

The 1.0% rate increase scenario performs well when considering the rate-setting adjustments and the non-water flow risk sensitivities (#2 to #5)

The 3.5% proposed rate increase is not required to manage non-water flow related risks in 2019/20

A 2.0% Rate Increase is Sufficient to Minimize the Risk of Financial Loss in 2019/20 (Without $22 Million Rate-Setting Adjustments)

Figure 16 (Condensed) - Downside Risk Sensitivities - without Rate-Setting Adjustment				
		2019/20 Net Income		
	No Rate	1% Rate	2% Rate	3.5% Rate
Sensitivity #	Increase	Increase	Increase	Increase
1. Approved 2019/20 Budget (expected)	64	78	93	115
2. Warmer winter weather (-$49 million)	15	30	44	66
3. Low Export Price Case (-$25 million)	39	54	68	91
4. 50% Combination 2 & 3 (-$37 million)	27	41	56	78
5. 100% Combination 2 & 3 (-$74 milion)	-10	4	19	41
6. Low Water- 20th Percentile (-$74 million)	-10	4	19	41
7. 50% Combination 2, 3 & 6 (-$74 million)	-10	4	19	41
8. 100% Combination 2, 3, & 6 (-$148 million)	-84	-70	-55	-33
9. Low Water - 10th Percentile (-$138 million)	-75	-60	-45	-23

A 2.0% rate increase without rate-setting adjustments is expected to result in an net income for MH for 2019/20 of $93 million

The 2.0% rate increase scenario (without rate-setting adjustments) and non-water flow risk sensitivities #2 to #5 – are for the most part expected to generate net income around or above the $30 million level in 2019/20

The 2.0% rate increase scenario performs well with the non-water flow risk sensitivities (#2 to #5) - when the rate-setting adjustments are not considered

Even if the PUB accepts MH’s $511 million O&A target - a 3.5% rate increase is not required to manage non-water flow related risks in 2019/20

It is Recommended that MH's Uncertainty Analysis be Enhanced for the Next GRA to Provide a Quantitative Tool to Further Guide the Incorporation of Risk into Rate Setting

One-off risk sensitivities have limitations for rate-setting as there is no organized means to aggregate the probability, consequence and residual risks faced by MH

The MH Uncertainty Analysis is significantly more robust than one-off risk sensitivities and can be used to generate a broad range of possible financial outcomes for a number of combined risk sensitivities

The MH Uncertainty Analysis could be further enhanced to apply probabilistic thresholds to determine the appropriate rate path after building in management actions (cost control & risk management) and regulatory actions (rate response)

There are interesting parallels with the Dynamic Capital Adequacy Test (DCAT) used by the PUB to determine the target capital range for MPI's compulsory motor vehicle insurance as well as MH's own risk management framework

Further development of the MH Uncertainty Analysis would be beneficial for rate-setting and it is recommended that the PUB direct MH to make enhancements for the next GRA

There is a Continuum of Rate Options Available to the PUB for 2019/20 Ranging From No Rate Increase to 3.5% as Proposed by MH

A continuum of rate-setting options for 2019/20 was evaluated in the Evidence:

1) **No rate increase on a final basis** – recognizing that MH's expects a $64 million net income in 2019/20 without a rate increase and a 3.5% rate increase cannot be justified by any quantifiable financial objective, financial metric or downside risk sensitivity

2) **1.0% to 2.0% rate increase on a final basis** – recognizing that this level of rate increase would be sufficient to protect against the risk of losses in 2019/20 due to non-water flow risks – consistent with the PUB findings in Order 59/18 on how risks should be addressed in rate-setting

3) **3.5% rate increase on an interim basis** – recognizing the concern over rate volatility associated with the in-service of Keeyask – but also recognizing there is no reliable long-term forecast or accepted rate-setting target available to the PUB to award this rate increase on a final basis in this regulatory proceeding

It is Recommended that the PUB Approve 1.5%, the Midpoint of 1.0% to 2.0% range for 2019/20 –

To Balance MH’s Financial Health with Customer Interests

The overall conclusion based on the analysis is that a 1.0% to 2.0% rate increase would balance the financial health of MH with customer interests – with the midpoint of 1.5% being the ultimate recommendation

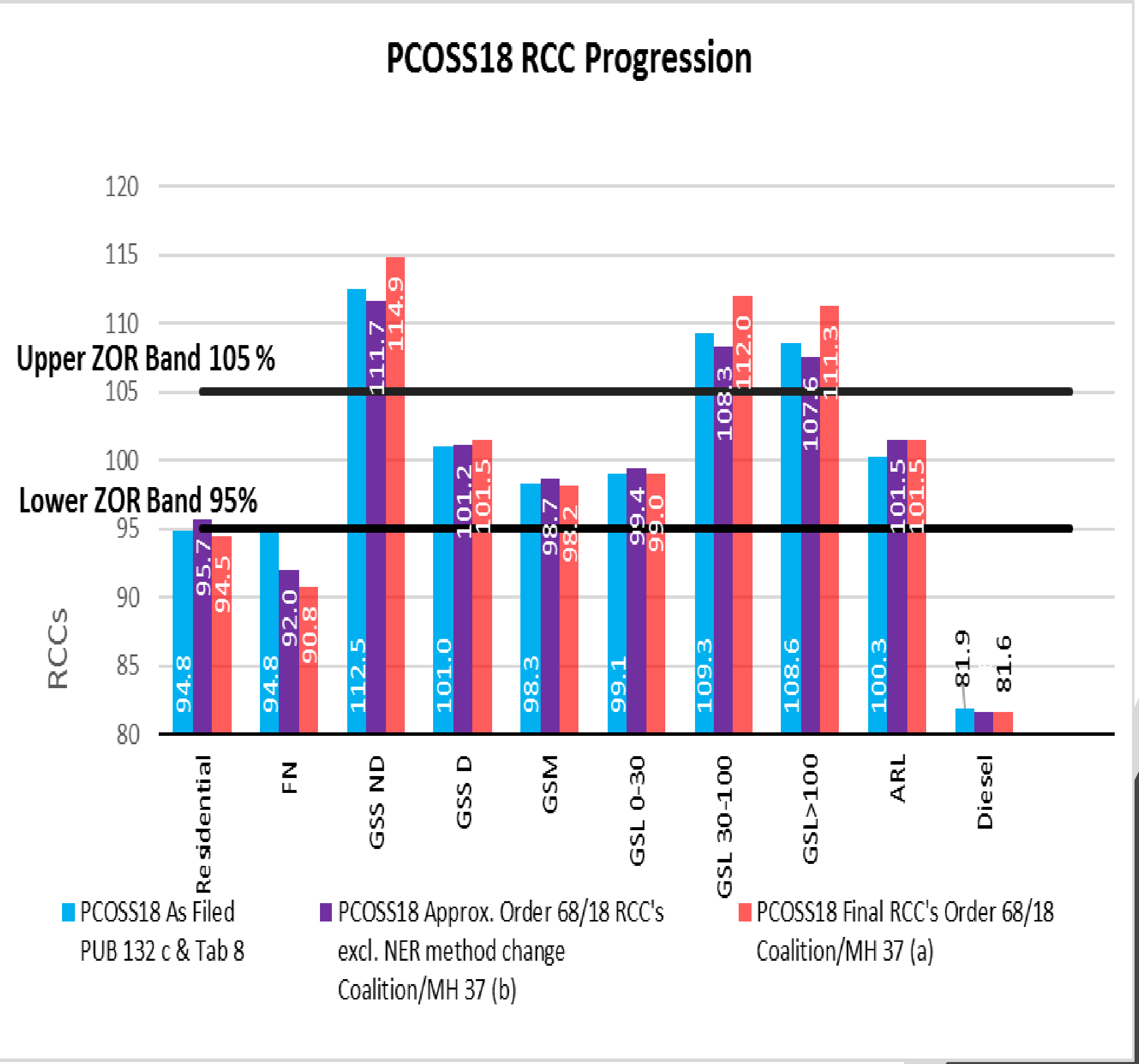
This range is expected to generate net income for 2019/20 between $100 million and $115 million – if MH can manage O&A costs within a rate-setting target of $489 million

This range is expected to result in financial ratios for 2019/20 that are consistent with or exceed those from the last GRA

This range protects against the risk of a financial loss in 2019/20 from non-water flow risks and is consistent with the PUB findings from Order 59/18 on how risks should be addressed in rate-setting

This range is sufficient to avoid the erosion of MH’s capital structure in 2019/20 – consistent with the regulatory precedent in Order 5/12 when there was a scope limitation related to MH’s capital plans

This range is expected to generate net income for 2019/20 between $78 million and $93 million – even in the event that MH is unable to manage its O&A costs within a rate-setting target of $489 million



Order 59/18 directed Differentiated Rate Increases to More Closely Align Class Revenues with Costs and Consideration of the Number of Classes outside the ZOR

Differentiated rate changes directed in Order 59/18 resulted in some improvement in the tightening of the revenue to cost coverage ratios

The RCC impacts associated with the treatment of Net Export Revenue as well as the implementation of the First Nations On Reserve Class offset the improvement in RCC’s associated with Differentiated Rates

	(A)	(B)		
	IFF16 2017/18 Test Year $ (Millions)	2019/20 Test Year $(Millions)	DIFF	DiFF
	PCOSS18	Update	$	%
GCR at Approved Rates	1,569	1699	130	8%
Additional GCR	88	50	(38)	-43%
Bipole III Reserve Account	(119)	78		
Exports	454	418	(36)	-8%
Other	30	27	(3)	-10%
Total Revenue	**2,022**	**2,272**	**250**	12%
Less Additional GCR (net of Bipole Reserve)	81	50	(31)	-38%
Less Other Revenue	30	27	(3)	-10%
Total Revenue included in PCOSS	**1,910**	**2,195**	285	15%
O&M	518	511	(7)	-1%
Net Finance Expense	558	741	183	33%
Dep & Amortization	396	505	109	28%
Water Rentals and Assessments	124	117	(7)	-6%
Fuel and Power Purchased	135	127	(8)	-6%
Capital and Other Taxes	132	148	16	12%
Other Expenses	115	74	(41)	-36%
Corporate Allocation	8	8		
Net Movement in Regulatory Deferral	(68)	(70)	(2)	3%
Net Income	102	110	8	8%
Total Cost of Service/Revenue Requirement	**2,022**	**2,271**	**249**	12%
Less Additional CGR (net of Bipole III Reserve)	81	50	(31)	-38%
Less Other Revenue	30	27	(3)	-10%
Total Revenue Requirement incl. in PCOSS	**1,910**	**2,194**	**284**	15%

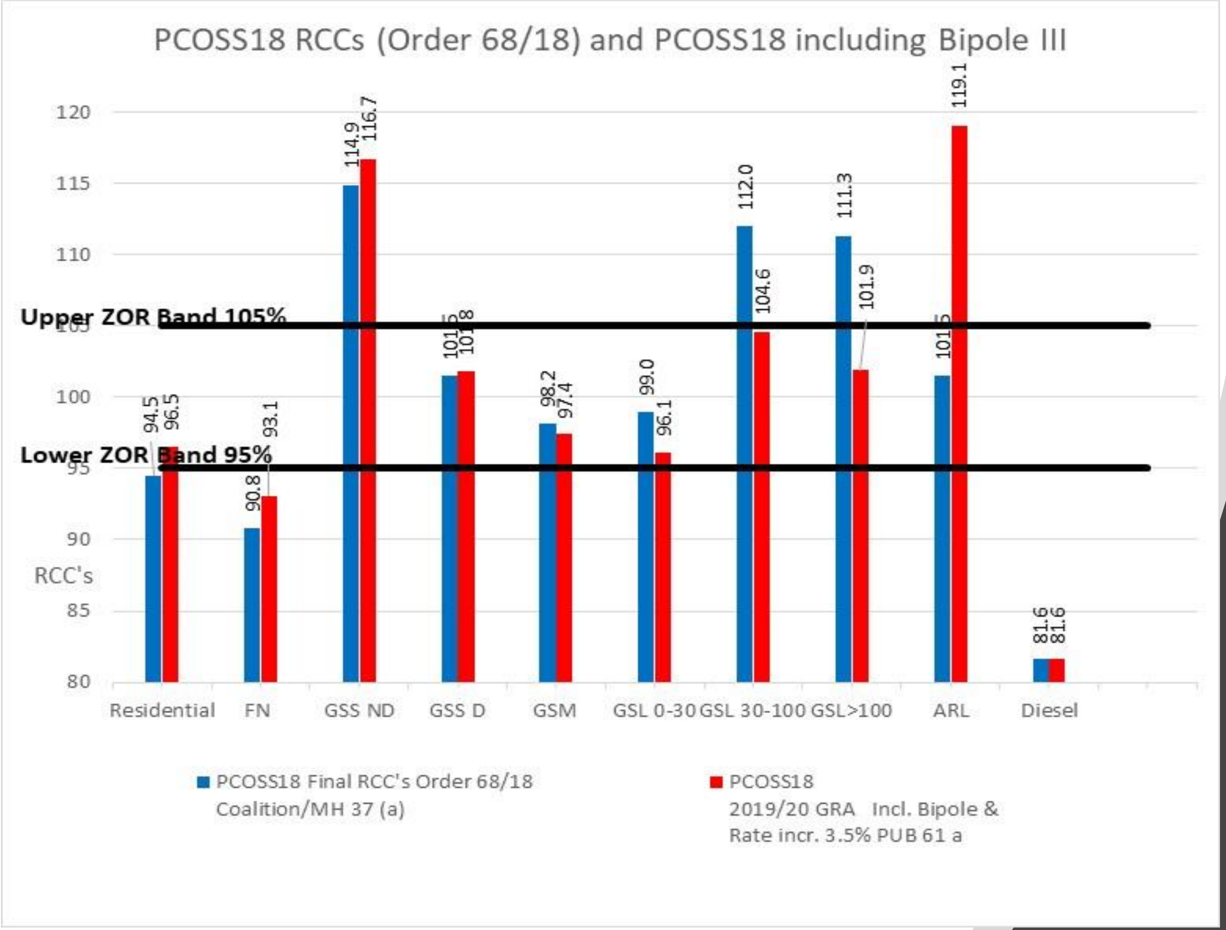
Bipole III Coming into Service in 2018/19 is a Profound Change in Circumstances from PCOSS18

The table is intended to identify the snapshot of revenues and costs that would form part of the cost of service study for 2019/20

The costs highlighted in dark grey tend to be most impactful on the results of a cost of service study – not only on account of the magnitude, but importantly, the nature of the cost (i.e. generation vs. transmission vs. distribution)

The increase in Net Finance Expense and Depreciation in 2019/20 compared with current rates, is driven almost entirely by Bipole III

While other cost or load changes will impact class RCC, no other cost forecast for 2019/20 will have the degree of impact to offset Bipole III costs and resulting class RCC's



The Only Information in this Proceeding Indicates that the In-Service of Bipole III is Expected to move the Residential & GSL Classes into the ZOR

The indicative RCC’s result in the GSL > 100 KV Class have declined by more than 9%, or a more than 9% increase in allocated cost responsibility compared to current revenues

The indicative RCC’s result in the Residential Class have increased by 2%, or a 2% reduction in allocated cost compared to current revenues

The indicative RCC’s result in moving the Residential and GSL classes into the Zone of Reasonableness in the current 2019/20 Rate Application with Bipole III that came in service in 2018

It is Recommended that Any Rate Increase Granted for 2019/20 should be on an Across-the-Board Basis (except GSS ND) applied to All Components of the Rate Structure

The PUB requires a strong evidentiary foundation on which to justify a differential rate increase, and in the absence of a Cost of Service Study, it is necessary that any rate increase granted be applied on an across-the-board basis

The in-service of Bipole III, the largest generation-related asset in MH's history, is expected to have profound impacts on the results of MH's Cost to Serve by Class. The only class RCCs anticipated to continue to be outside the ZOR are the Area & Roadway Lighting and GSS ND Classes

There is insufficient evidence to exempt the ARL class from an across-the-board rate increase given the indiscernible impact of the current DSM treatment is not currently understood. This analysis should be completed by MH for the next GRA

GSS ND: may consider a lower than average rate increase –MH was largely able to accommodate differentiated rates flowing from Order 59/18; class/rate harmonization has been going on for 30 years; exceedingly unlikely that a 20% RCC differential between GSS ND and GSM can be accomplished through rate design

There is insufficient evidence to exempt the Diesel non-grid rates from an across-the-board rate increase.

There is no cost of service basis to exclude the First Nations On Reserve Class or Diesel Residentials from a rate increase.

There is also no cost of service basis to create a class using traditional cost characteristics as this class was created flowing from a social policy decision of the Board

It is Recommended that MH Prepare a PCOSS for each GRA and Review its Ratemaking Objectives and Rate Design for the Next GRA

Cost of Service by class is a basic and necessary tool used in ratemaking. With the stricter application of cost of service to revenue directed in Orders 164/16 & 59/18, the role of COS is explicit in affecting rate changes by class – it is critical that a Cost of Service Study be prepared with each rate filing

A Diesel COSS was last prepared nearly a decade ago. It is recommended Diesel COS be prepared on a timely basis. With Diesel Rates imputed at grid levels, in part, it is sensible for MH to consolidate the adjustment of Diesel Rates with each GRA to facilitate a timely review and to allow for the impact to other customer classes be understood

Cost of Service methodology and rate design (rate forms) may be viewed, not as right or wrong per se, but how they aid in achieving the utility's ratemaking objectives

With Cost of Service and Rate Design, like all projects, it is important to begin with an end in mind – given the considerable judgment involved and given that principles and objectives often conflict

With the MHEB review underway, large capital investment, competitiveness of rates, Time of Use, Solar PV, the appropriateness of the GSS Class consolidation (per PUB/Coalition 10), social goals, it is advisable that MH review its ratemaking objectives and the weight to ascribe to them for the next GRA

To obviate the need to simply arbitrarily adjust rates in a mechanistic manner

It is Recommended that Robust Compliance & Directive Filings with Intervenor Participation be an Integral Part of the Regulatory Process

In Order 70/18, the PUB found that MH had not complied with all or part of a number of past directives and made a number of directives with respect to compliance filings

The 3-page MH Compliance Filing flowing from Order 59/18 provided no supporting revenue requirement schedules, cost allocation schedules, details related to the creation of the FNOR Class, or the ultimate RCC results despite PUB direction

The effectiveness and efficiency of any future regulatory process is, in part, a function of an effective conclusion to the last rate process, for all parties, including intervenors

In the current proceeding much time has been expended:

1. Assessing, analyzing MH Exhibit 93 (a revenue requirement scenario)
2. Seeking, assessing and analyzing cost allocation results, the creation of the FNOR Class, rate differentiation, and RCCs flowing from the last GRA

It is recommended that the PUB direct MH to provide a fulsome compliance filing with intervenor participation before the implementation of any rate change flowing from this proceeding

It is recommended that the PUB consider the Consumers' Coalitions August 27, 2018 letter with respect to the compliance and directives process for implementation before the next GRA

Summary of Recommendations

A 1.5% Rate Increase for 2019/20

MH Uncertainty Analysis be enhanced for the next GRA

Any Rate Increase – on an Across-the Board Basis (except GSS ND) and applied to all Rate Components

A Cost of Service Study should be prepared for each MH GRA

MH Review Ratemaking Objectives and Rate Design for the next GRA

Robust Compliance & Directives filings with Intervenor Participation should be part of the Regulatory Process

Back Up Slides from the Evidence

Rate-Setting Must Consider MH’s Operational Characteristics – Equity Ratio is of Questionable Value – Order 59/18

Pages 61 to 63

“…the **Board finds** that a **particular equity level target and pace to achieve that target should not determine the rate increases approved in this GRA**…the **Board’s assessment must include consideration of the circumstances of Manitoba Hydro’s operations**…These assets have **large upfront construction costs** but **relatively low annual operating costs** that extend through a **very long expected useful life…**An **important question from a rate-setting perspective is how these large investments should be funded**…The concern is to find the **right balance between** the **rate increases** and the **level of debt** to fund large capital projects.

In making this determination, the **Board is guided by two considerations**. The **first** is: **what “reserves” should Manitoba Hydro hold** to manage risk and **which risks should it take into account**…The **second** is to **place concerns** about the **amount of debt** and **retained earnings** in a **different perspective by also considering cash flow**, using two long-standing financial metrics used by Manitoba Hydro: **interest coverage ratio** and the **capital coverage ratio**.

The **Board accepts** Morrison Park Advisors’ evidence that **debt-to-equity is a questionable metric** for a **vertically integrated monopoly Crown utility** with a **debt guarantee from the provincial government**…The equity level target does not have the prominence suggested by Manitoba Hydro given the context in with the Utility operates” (Emphasis added) Order 59/18, pages 61-63/Rainkie, Derksen, Harper Evidence, pages 34-35

For Rate-Setting – Cash Flow from Operations Should Include Capitalized Interest on Capital Projects Until In-Service – Order 59/18

Pages 36-37

"**Cash Flow from Operations** …The Board finds that, **in assessing whether Manitoba Hydro is meeting its ongoing financial obligations,** the **focus should be on the accrual accounting** methodology used in the Utility's audited financial statements…**Accrual accounting** used by Manitoba Hydro **includes capitalizing interest to capital projects until those assets enter service for ratepayers**…**Once in service**, **financing** and deprecation **costs are recorded on the Income Statement** to be recovered in consumer rates" (Emphasis added) Order 59/18, pages 66-67/Rainkie, Derksen, Harper Evidence, pages 36-37

MH Outlines the Concerns & Limitations of Incremental Revenue Requirement Calculations

PUB/MH I – 9 (Updated)

"The **most reliable measure of Manitoba Hydro's revenue requirements is the additional Domestic Revenue indicated on the electric operations projected operating statement** (Appendix 1 (Updated), page 1 of 4) **which is derived based on balancing the costs of the integrated hydro-electric system**, for new asset additions as well as existing assets, **with maintaining minimum financial ratios** as well as **rate stability and affordability for customers.**

The type of analysis requested in this IR is limited by virtue of treating individual projects on an incremental cost basis. While costs such as Depreciation Expense, Water Rentals, and Operating & Administrative Expenses may be estimated and may be directly attributable to a Major New Generation and Transmission asset, other costs such as Finance Expense, capital taxes and benefits are not readily estimated on an incremental basis. Furthermore, this analysis disregards the estimated export revenues to be obtained through sales of surplus energy associated with new electric generating plant.

Reliance on the estimated carrying and operating costs in these schedules **as a representation of revenue requirement** must be **viewed with caution** considering the **inherent limitations of the analysis, estimate assumptions and methods** described below." (Emphasis added) PUB/MH I-9 (updated)/Rainkie, Derksen, Harper Evidence, page 48

MH Should Find Savings In Business Operations Capital In a Period of Major Capital Spending – Order 59/18

Pages 110 to 113

“The **Board finds** that, while in **a period of major capital spending** on Keeyask and Bipole III, **Manitoba Hydro should find savings in Business Operations Capital**…The **Board does not accept the Business Operations Capital Spending forecast in Capital Expenditure Forecast CEF16**..The **Board finds that Business Operations Capital Spending can be safely decreased by $160 million** based on Manitoba Hydro’s evidence that it can defer $160 million of spending in the Test Year…**The Board accepts the METSCO’s evidence that Manitoba Hydro cannot demonstrate the proposed spending is necessary or has been optimized to any extent**…it does recognize the cost pressures that result from the capital program that includes Bipole III, Keeyask, and a new interconnection with the U.S. Those **cost pressures mean** that **Manitoba Hydro can no longer continue to fund Business Operations Capital at its historic levels** unless and until it can demonstrate through mature asset management processes that those investments are necessary.” (Emphasis added)

The PUB made the following recommendations to MH with respect to BOC in Order 59/18 on page 264, which are as follows:

“**1. Defer $160 million of Business Operations Capital spending** to a future period beyond 2018/19…**2. Continue to find reductions in Business Operations Capital spending during the current period of record spending on major capital projects** such as Keeyask and Bipole III.” Order 59/18 pages 110-113, 264/Rainkie, Derksen, Harper Evidence, pages 68-69

MH Should Reduce Demand Side Management Spending as Programs May No Longer Be Cost Effective – Order 59/18

Pages 118 to 122

"The **Board finds** that Manitoba Hydro's **revenue requirement should be reduced** to **reflect lower demand side management spending** as a result of the **new lower marginal value**…Considerations other than the reasonableness of expenditures for rate-setting purposes will apply once Efficiency Manitoba has assumed demand side management programming and presents a demand side management plan to the Board for review…Efficiency Manitoba is not yet operational and once it is, there are legislated steps that must occur prior to the entity's implementation of an approved efficiency plan…**The adverse rate impacts that arise from Manitoba Hydro's plan are not reasonable in the present context**…**Reduced demand side management spending for rate-setting purposes is supported by the change in circumstances since the NFAT review in 2014**…the next generation resource is not needed until approximately 2040…The 2017 marginal value is lower than the 2013 marginal value by approximately one-third…rate increases above inflation will themselves have a conservation impact…The **Board finds** that, **in light of the new, lower, levelized marginal value**, **some of Manitoba Hydro's demand side management programming may no longer be cost effective**…**In light of the above, the Board recommends that Manitoba Hydro reduce its demand side management spending**…Manitoba Hydro should **review its demand side management programming for cost effectiveness** and cease or modify spending on programs that are no longer cost effective, **except for programs targeted at lower-income and First Nations on-reserve customers.**" (Emphasis added)

The PUB made the following recommendation to MH with respect to DSM in Order 59/18 on page 265, as follows:

"**9. Review demand side management programming for cost effectiveness** and cease or **modify spending on programs** that are **no longer cost effective**, **except for programs targeted at lower-income and First Nations on-reserve consumers**." (Emphasis added)
Order 59/18 pages 118-122, 265/Rainkie, Derksen, Harper Evidence, pages 72-73

MH Should Find Further Reductions in O&A Costs Both In Terms of Staff Reductions & Supply Chain Management – Order 59/18

Pages 141 to 142

"The **Board accepts the O&A forecast for the Test Year** for financial forecasting and **rate-setting purposes**…The **Board accepts that the level of detail needed for a full testing of the forecast is not available until the results of the Voluntary Departure Program are known**…The Board acknowledges Manitoba Hydro's efforts to implement cost containment measures…The **Utility's review of its operations, at a time of restructuring and transition, presents an opportunity to find further areas to reduce O&A costs**. The **Board recommends that Manitoba Hydro continue these efforts, both in terms of staff reductions and Supply Chain Management, after the Voluntary Departure transition concludes.**" (Emphasis added)

The PUB made the following recommendation to MH with respect to O&A in Order 59/18 on page 264, as follows:

"**4. Make efforts** to find **further areas to reduce O&A costs**, both in terms of **staff reductions** and **Supply Chain Management**, **after** the **Voluntary Departure Program transition concludes**." (Emphasis added) Order 59/18 pages 141-142, 264/Rainkie, Derksen, Harper Evidence, page 80

Drought Risk To Be Managed Through Combination of Retained Earnings & Regulatory Action When Emergent Risk Faces MH – Order 59/18

Pages 63 to 66

"…as the Board has demonstrated in past decisions – including in years of drought where the Board awarded rates in excess of those sought by the Utility – it will consider all of the facts and circumstances which confront Manitoba Hydro at that point in time in determining the appropriate rate relief…The **Board is prepared to take regulatory action** – whether through a rate rider, an interim rate increase, or a general rate increase – **as required in times when emergent situations face Manitoba Hydro**…The **Board agrees** with the evidence of Morrison Park Advisors **that Retained Earnings should be used to manage drought risk in combination with regulatory action by the Board**. The **Board further agrees** that **interest rate** and **export price risks over the long term** should **be addressed with rate increases as and when those risks materialize**. **Rates should not be set to increase Retained Earnings to manage those longer-term risks**…the **Board is prepared to consider regulatory action when required to address emerging risks facing Manitoba Hydro**…the Board finds that the 7.9% requested and projected rate plan is not the appropriate balanced plan for meeting the risks and challenges that confront the utility…" (Emphasis added) Order 59/18, pages 63-66/Rainkie, Derksen, Harper Evidence, pages 87-88

PUB Concludes Merit to Gaining Better Understanding of Required Financial Reserves & Rule-Based Regulatory Test for Rate-Setting – Order 59/18

Pages 64 to 66

"However, the **Board concludes that there is merit to gaining a better understanding of the financial reserves required for Manitoba Hydro under various circumstances**. This would include **consideration of risk tolerances**, **what risks should be protected by reserves** and the **circumstances which would guide the need for more aggressive rate increases** to continue full cost recovery for Manitoba Hydro…Consideration of the appropriate level of financial reserves for example a minimum retained earnings test, is best done through a collaborative approach with stakeholders…The **Board directs** Manitoba Hydro to participate in **a technical conference**…for the **consideration of the establishment** of a minimum retained earnings test or similar **test to provide guidance in the setting of consumer rates for use in rule-based regulation**. The test or rule is to be based on **maintaining appropriate** or minimum **levels of retained earnings** and **meeting other financial metrics** in the **face of potential risks to the Utility**." (Emphasis added) Order 59/18, pages 64-66/Rainkie, Derksen, Harper Evidence, page 88

PUB Precedent When There Was a Significant Scope Limitation is to Award Rate Increase to Avoid Erosion of MH's Capital Structure – Order 5/12

Page 27

"As set out in this Order, the **Board is not satisfied that it has sufficient proof from MH**, upon consideration of all of the evidence, **to support a final approval of rate increases** as **sought by MH**. In this GRA proceeding, **MH has failed to substantiate the reasonableness of its capital plans** and the **expected revenues to support such a capital plan**. As such, **the Board cannot, and will not, endorse MH's rate increase requests as applied for**. However, the **Board has determined** that **MH must receive inflationary increases** for the test years **to avoid erosion of its capital structure** in the **test years**." (Emphasis added) Order 5/12, page 27/Rainkie, Derksen, Harper Evidence, page 102

MH's Updated Projections for 2018/19 Have Improved by $44 Million Since Original MH Application

Figure 1 (Condensed) - Projected Net Income for 2018/19			
	Updated Application	Original Application	Increase (Decrease)
Domestic & Other Revenues	1743	1745	-2
Net Extraprovincial Revenue	183	141	42
Net Revenues	**1926**	**1886**	**40**
Net Expenses	**1831**	**1835**	**-4**
Net Income	**95**	**51**	**44**

The improved financial outlook for 2018/19 is primarily related to the expectation of higher net export revenues as a result of above average precipitation in the fall of 2018 as well as higher realized export prices

MH's update for 2018/19 was based on actual performance to December 31, 2018 and does not include any favorable impacts due to the colder then normal winter weather in the last 3 months of 2018/19

MH's Analysis of the Change to its Financial Position Ignores Information that the PUB Was Aware of At the Last GRA

Figure 3 (Condensed) - Actual & Projected Net Income 2017/18 to 2019/20

	2017/18	2018/19	2019/20	Total
Updated Application -				
Without Proposed Rate Increase				
Actual & Projected Net Income	18	95	64	177
Exhibit 93 Net Income	94	143	61	298
Increase/ (Decrease)	**-76**	**-48**	**3**	**-121**

The reduction in the 2017/18 financial outlook was known by the PUB at the time of last GRA hearing and does not represent a change in circumstances since the last GRA

MH's reversion to a debt management strategy consistent with a 20-Year WATM was expected by the PUB at the last GRA and does not represent a change in circumstances since the last GRA

MH's assertion of deterioration in its financial position relies only on the changes to projected retained earnings from 2017/18 to 2019/20

The most appropriate key performance indicators to use to assess MH's financial position in 2019/20 is its three key financial targets - which consider debt and equity as well as cash flow

There is No Material Deterioration in MH's Financial Position Since the Last GRA – to Justify a 3.5% Rate Increase

Figure 4 (Condensed) - Projected Net Income 2018/19 to 2019/20

	2018/19	2019/20	Total
Updated Application -			
Without Proposed Rate Increase			
Adjusted for 20 Year WATM			
Actual & Projected Net Income	95	64	159
Exhibit 93 Net Income - adjusted for 20 yr WATM	123	28	151
Increase/ (Decrease)	**-28**	**36**	**8**

It is appropriate to adjust MH's analysis for information known by the PUB at the last GRA (i) exclude 2017/18 results and (ii) adjust MH Exhibit # 39 for a 20-Year WATM

When these appropriate adjustments are made, the conclusion is reached that there is a slight improvement in MH's financial results – from those expected at the last GRA

With the colder than normal winter weather in 2018/19, it is quite possible that MH's 2018/19 financial results might exceed the adjusted forecast from MH Exhibit # 93 - further improving MH's financial position

MH's Equity Ratio has Not Materially Deteriorated Since the Last GRA

Figure 5 (Condensed) - Projected Debt/Equity Ratio - 2019/20				
				Updated vs.
Updated Application	Updated	Exhibit 93		Exhibit 93
Without Rate Increase	Application	Adjusted	Exhibit 93	Adjusted
Net Debt	**22061**	**22676**	**22628**	**-615**
Retained Earnings	2926	2990	3047	-64
AOCI Loss	-675	-580	-580	-95
Other	1055	1090	1090	-35
Total Equity	**3306**	**3500**	**3557**	**-194**
Total Debt & Equity	**25367**	**26176**	**26185**	**-809**
				-
Equity Ratio	**13.03%**	**13.37%**	**13.58%**	**-0.34%**
Debt Ratio	**86.97%**	**86.63%**	**86.42%**	**0.34%**

MH's 2019/20 projected Equity ratio (without a rate increase) is 13.03%

This is a slight reduction from 13.37% projected in MH Exhibit # 93 adjusted for a 20-Year WATM

The reduction in retained earnings is offset by the reduced debt levels, with the change resulting from an increase in the AOCI loss due to unrealized pension losses

When the AOCI loss is held constant – the projected Equity ratios are nearly identical (13.36% without the proposed rate increase)

MH's Interest Coverage Ratio has Slightly Improved Since the Last GRA

Figure 7 (Condensed) Projected Interest Coverage Ratio - 2019/20				
				Updated vs.
Updated Application	Updated	Adjusted		Adjusted
Without Rate Increase	Application	Exhibit 93	Exhibit 93	Exhibit 93
Net Income	64	28	61	36
Total Interest	1059	1080	1046	-21
Depreciation Expense	530	541	541	-11
EBITDA	**1653**	**1649**	**1648**	**4**
Total Interest	**1059**	**1080**	**1046**	**-21**
Interest Coverage Ratio	**1.56**	**1.53**	**1.58**	**0.03**

MH's 2019/20 projected Interest Coverage ratio (without a rate increase) is 1.56

This is a slight improvement from 1.53 projected in MH Exhibit # 93 adjusted for a 20-Year WATM

The improvement is mainly due to lower projected interest costs associated with less debt

MH's Capital Coverage Ratio has Slightly Improved Since the Last GRA

Figure 8 (Condensed) - Projected Capital Coverage Ratio - 2019/20				
				Updated vs.
Updated Application	Updated	Adjusted		Adjusted
Without Rate Increase	Application	Exhibit 93	Exhibit 93	Exhibit 93
Funds from Operations	280	N/A	N/A	N/A
Capitalized Interest	311	N/A	N/A	N/A
Internally Generated Funds	**591**	**579**	**608**	**12**
Electric Capital Expenditures	**478**	**516**	**516**	**-38**
Capital Coverage Ratio	**1.24**	**1.12**	**1.18**	**0.11**

MH's 2019/20 projected Capital Coverage ratio (without a rate increase) is 1.24

This is a slight improvement from 1.12 projected in MH Exhibit # 93 adjusted for a 20-Year WATM

The improvement is mainly due to lower projected capital expenditures due mainly to operational execution risks and resource constraints

MH's IFF's Are Subject to Significant Changes When They Are Updated for More Current Information & Planning Assumptions

Figure 9 (Condensed) - Projected Electric Net Income (Loss)					
Cumulative Net Income (Losses):	**MH16 Exhibit 93**	**MH15**	**MH14**	**MH13**	**MH12**
1. 6 Years after Keeyask In-Service					
a) Exhibit 93 - 2023 to 2028	**-418**				
b) MH12 to MH 15 - 2021 to 2026		303	**-772**	240	1095
2. 2023 to 2028	**-418**	861	**-149**	933	1838
3. 2018 to 2028	173	897	**-675**	688	1825
4. MH14 Loss Period - 2019 to 2026	160	283	**-978**	142	1018

With each update to the IFF there has been a significant change to the trajectory of MH's financial outlook

The projected financial results have oscillated from a profit in MH12 & MH 13 to significant losses in MH14, back to a profit in MH15 and then to losses in MH Exhibit # 93

MH Exhibit # 93 contains significantly outdated planning assumptions (from early 2017)

MH Exhibit # 93 cannot be used by the PUB as reliable evidence to approve a 3.5% rate increase in the spring of 2019

Alignment of the Proposed Rate Increase with Past Approved Rate Increases is Not A justification for the Proposed Rate Increase

Figure 10 - Summary of Recent PUB Electric Rate Increases		
		Rate
Year	**PUB Order**	**Increase %**
2014/15	Order 49/14	2.75
2015/16	Order 73/15	3.95
2016/17	Order 56/19	3.36
2017/18	Order 80/17	3.36
2018/19	Order 59/18	3.60
Average 2014/15 to 2018/19 - last 5 years		**3.40**
Average 2015/16 to 2018/19 - last 4 years		**3.57**
Average 2016/17 to 2018/19 - last 3 years		**3.44**

PUB approved rate increases in the last four to five years average 3.4% to 3.6%

The proposed rate increase is significant with a present value to customers in the order of $1.4 billion ($600 million for residential customers)

MH has onus as applicant to prove to the PUB that its rate proposals are just and reasonable and in the public interest

Observations on the level of past approved rate increases do not satisfy the onus of proof and do not constitute justification for the 3.5% proposed rate increase

Business Operations Capital Reductions for 2018/19 & 2019/20 Are Not Related to Improved Asset Management Prioritization by MH

Figure 12 (Condensed)- Business Operations Capital (BOC) - 2013/14 to 2019/20

	2017/18 Actual	2013/14 - 2017/18 Average	2018/19 Budget	2019/20 Budget
Actual & Updated Application	461	504	478	478
Budget & Original Application	526	555	515	511
	-65	**-51**	**-37**	**-33**
	-12.4%	**-9.2%**	**-7.2%**	**-6.5%**

- Underspending on BOC has averaged $51 million or 9.2% over 2013/14 to 2017/18
- Underspending on BOC was $65 million or 12.4% for 2017/18
- MH's updated BOC projections for 2018/19 & 2019/20 represent reductions of 6.5% to 7.2%
- MH's attributes the BOC reductions largely to operational execution risks and resource constraints
- Based on past trends, BOC could be further underspent by $10 million to $30 million in 2018/19 and 2019/20

Demand Side Management Reductions for 2019/20 Are Not Related to a Review of DSM Cost Effectiveness

Figure 13 (Condensed) - Demand Side Management (DSM) - 2013/14 to 2019/20

	2017/18 Actual	2013/14 - 2017/18 Average	2018/19 Budget	2019/20 Budget
Actual & Updated Application	64	46	63	61
Budget & Original Application	58	53	63	94
	6	**-7**	**0**	**-33**
	10.3%	**-13.2%**	**0.0%**	**-35.1%**

- Underspending on DSM has averaged $7 million or 13.2% over 2013/14 to 2017/18
- DSM spending for 2017/18 was consistent with the budgeted amount of $63 million
- MH's updated its DSM projection for 2019/20, representing a reduction of $33 million or 35.1%
- MH's attributes the DSM reductions largely to the direction by the province to maintain a status quo approach to DSM programming
- Based on the information in this proceeding, it appears that DSM spending for 2018/19 & 2019/20 will be in line with budgets

MH's $511 million O&A Budget for 2019/20 is Based on An High-Level & Outdated Target Calculation From 2017

Figure 14 (Condensed) - MH Electric O&A Targets				
	2018/19		2019/20	
	$ Million's	% Change	$ Million's	% Change
Actual2017/18/Projected 2018/19				
& Projected 2018/19	516.9		501.2	
Total cost increases	12.0	2.32%	12.2	2.43%
Total cost savings	-36.2		-5.1	
Projected Bipole III Operating Costs	8.4		4.5	
Change in Capitalization	-7.2		5.9	
Provision for Restructuring Costs	7.3		-7.3	
Rounding	0.0		-0.2	
Projected 2018/19 & 2019/20 -MH	501.2		511.2	

Past performance suggests that O&A targets developed two years in advance of the test year are not reliable for rate-setting purposes

A one-time and non-reoccurring increase in collection costs of $8.1 million in 2017/18 has not been normalized out of the opening figure of $516.9 million

A high-level contingency for restructuring costs of $7.3 million with no planned expenditures appears to be a plug to force the totals back to their original levels from 2017

The cumulative escalation of $24.2 million (2.4%) is not consistent with an era of a public service wage freeze in Manitoba and PUB findings in Order 59/18 to further reduce O&A costs – this offsets 35% of updated cumulative VDP & supply chain savings of $68 million (down $47 million or 41%)

O&A is the only expense item not updated by MH despite the fact that the VDP has been completed for over a year and O&A represents almost 30% of the revenue requirement

	PCOSS10	PCOSS11	PCOSS13	PCOSS14	PCOSS14	PCOSS14	PCOSS18	PCOSS18	PCOSS18 Order 59/18	PCOSS18	PCOSS18 2019/20 GRA	PCOSS18 2019/20 GRA
	Nov 2009		Meth Changes July 2012	Amended Dec 2015	Amended Dec 2015 Bipole III	Order 164/14	As Filed	Update*	Incl. Directives 5,27,24,25	Incl 7.9% & Bipole III	Incl. Bipole & June 1, 2018 Rates	Incl. Bipole & 3.5% incr.
	COS Review PUB I-15	17/18 GRA Tab 8 App 8.1	COS Review PUB I-15	COS Review PUB I-15	COS Review PUB I-55	PUB 132 c (2017/18 GRA) & Tab 8	PUB 132 c (17/18 GRA) & Tab 8	PUB II - 90 (17/18 GRA)	PUB 61 a	PUB II-88 (17/18 GRA)	PUB 61 a	PUB 61 a
GSS ND	105.7	104.8	107.6	108	110.4	108.5	112.5	112.1	115.5	115.3	116.7	116.7

Persistent RCCs outside the ZOR – GSS ND

Despite a range of methodologies and cost changes as well as the addition of Bipole III between 2009 and 2019/20, the RCCs for the GSS ND Class are persistently outside the ZOR

PUB Concludes Goals of Rate Stability, Gradualism, Fairness & Equity, Efficiency, Simplicity and Competitiveness of Rates should not be considered in COS Methodology - Order 164/16

Page 27

"***The Board finds that, in the process to determine the appropriate COSS methodology, the principle of cost causation is paramount. Further, the Board finds that ratemaking principles and goals** should not be considered at the COSS stage…The Board finds that Manitoba Hydro's ratemaking principles and goals of **rate stability and gradualism, fairness and equity, efficiency, simplicity, and competitiveness of rates should be considered in a General Rate Application ("GRA")** and not in the cost of service methodology*." (Emphasis added) Order 164/16, page 27/Rainkie, Derksen, Harper Evidence, page 132

PUB Concludes that MH has not Complied with all or part of a Number of Past Directives and MH to provide Comments on a Process for Feedback and Clarification of Directives - Order 70/18

Pages 260 - 261

*"The **Board finds that the Utility has not complied with all or part of a number of past directives**. If Manitoba Hydro disputes a directive issued by the Board, the Utility may choose to file a request for variance or seek leave to appeal from the Manitoba Court of Appeal. The Board has jurisdiction to impose financial penalties and stay any future applications in the event that the Utility does not comply with all or part of a Board Order. The **Board directs Manitoba Hydro to file with the Board on or before August 1, 2018 the status of compliance with all outstanding and ongoing directives**. **Manitoba Hydro is to provide with this filing the Utility's comments on a process for feedback and clarification of Board directives.**"* (Emphasis added) Order 70/18, pages 260-261/Rainkie, Derksen, Harper Evidence, page 137

PUB Directed MH to file a Schedule of Rates reflecting the Overall Rate Increase and Differentiated Rates together with all supporting schedules including Revenue Requirement – Order 59/18

Pages 267, 272

*“8. **Manitoba Hydro recalculate and file, for Board approval, a schedule of rate reflecting the overall rate increase and differentiated rates effective June 1, 2018** for all customer classes, **together with all supporting schedules including proof of revenue, customer impacts, and revenue requirement by May 15, 2018**…**37. Manitoba Hydro file with the Board on or before August 1, 2018 the status of compliance with all outstanding and ongoing directives**, along with the **Utility’s comments on a process for feedback and clarification on Board directives**.”* (Emphasis added) Order 59/18, pages 267, 272/Rainkie, Derksen, Harper Evidence, page 138

The PUB Should Consider the Consumers' Coalition Recommendations for Intervenor Participation In the Compliance and Directives Process for Implementation Before the Next GRA flowing from the PUB's July 18, 2018 Letter Initiating a Post-Hearing Improvement Process

In its letter of July 20, 2018, the PUB indicated that it was

"initiating a post-hearing process consistent with the Board's commitment to a continuous improvement process" *and that it welcomed* ***"all parties in the GRA process to provide written comments, criticisms and constructive suggestions of a general or specific nature …"*** (Emphasis added)

In the spirit of continuous improvement, the Consumers Coalition provided a 14-page letter on August 17, 2018, outlining a number of comments on process considerations for a 2019/20 GRA. In this submission, the Consumers' Coalition provided a number of comments and observations on MH's response to Directive 37 from Order 59/18 and MH's proposed process for feedback and clarification of outstanding and ongoing PUB directives, that was filed with the PUB on August 1, 2018. Rainkie, Derksen, Harper Evidence, page 140