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November 12, 2018

Mr. D. Christle
Secretary and Executive Director
Public Utilities Board
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

Dear Mr. Christle:

RE: MANITOBA HYDRO – PROPOSED 2019/20 GENERAL RATE APPLICATION

Manitoba Hydro is writing to advise of its intentions with respect to the filing of a 2019/20 General Rate Application and to seek comment from the PUB as to the proposal outlined herein.

As you are aware, the Corporation has committed to filing a General Rate Application related to the natural gas operations by November 30, 2018 and the PUB has communicated its intent to conduct a full review, inclusive of an oral hearing. In addition, earlier this year, the PUB completed a lengthy and comprehensive review of Manitoba Hydro's operations, forecasts, financial plans, capital expenditures, and operating expenses which resulted in Order 59/18, dated May 1, 2018, approving a 3.6% average rate increase effective June 1, 2018. Order 59/18 also contained a significant number of directives, requiring work to be undertaken and completed by Manitoba Hydro prior to filing its next GRA.

The PUB is also aware that since the conclusion of the GRA hearing which led to Order 59/18, five new members were appointed to the Manitoba Hydro-Electric Board ("MHEB") in March 2018 and an additional four members were appointed at the end of June, 2018. The MHEB is currently undertaking a comprehensive review of the Manitoba Hydro operations, forecasts and financial plans which will allow them to establish a financial plan for the Corporation.

As a result of the foregoing, Manitoba Hydro intends to seek PUB approval of a one-year rate increase sufficient to generate a minimum level of net income such that the Corporation would avoid a projected net loss in the 2019/20 fiscal year. Manitoba Hydro is not presently in a position to submit a long-term financial forecast (IFF) (i.e. 2020/21 and thereafter) for review by the PUB. However, Manitoba Hydro's current financial projections indicate that, absent rate relief, the Corporation will experience a projected net loss in the 2019/20 fiscal year. Manitoba Hydro therefore proposes a limited review of the electric operations based upon information that is

Available in accessible formats upon request

currently available to the Corporation as set out further below. Upon completion of the Integrated Financial Forecast (IFF19) incorporating the direction of the MHEB regarding the Corporation's financial plan, Manitoba Hydro will submit a full GRA to the PUB, presently anticipated to be filed in late 2019.

Manitoba Hydro is working to address the directives from Order 59/18, however in order to accommodate the need for rate relief in 2019/20 and being mindful of the timelines outlined by the PUB for consideration of a rate application for 2019/20, Manitoba Hydro proposes that further review of directives be addressed at the next full General Rate Application ("GRA"), currently anticipated to be filed in late 2019. While the Corporation expects a fulsome review of outstanding directives in the GRA to be filed in late 2019, Manitoba Hydro offers the following brief update on the status of directives from Order 59/18, as varied by Orders 80/18 and 126/18:

Directive 10 directs Manitoba Hydro to provide information about the Other Cash Payments included in the Cash Flow Statement. Manitoba Hydro would intend to provide this information with the proposed expedited process.

Directives 12 and 13 direct Manitoba Hydro to file details of Operating and Administrative Expenses in light of reduced staffing levels, including details of actual O&A expenditures dating back 10 years and forecast information including pension liability related to reduced staffing levels. Manitoba Hydro notes that its quarterly filings to the PUB include the actual results for 2017/18 as well as O&A expenditures compared to the approved budget for the quarters ending June 30th and will shortly file the report to September 30th due November 14, 2018. Historical information is available on the records of previous proceedings and could be consolidated for the proposed filing, however the level of review implied by the direction to provide 10 years of historical data, considered in light of the fact that transitions to a reduced workforce are still ongoing suggest that the subsequent GRA would be a more appropriate forum for consideration of these directives. For the purposes of the proposed expedited process, Manitoba Hydro expects to be able to provide the annual budget for 2018/19 and a high level summary of the impact of the Voluntary Departure Program on pension liability.

Directive 14 directed the retention of an independent consultant to assess Manitoba Hydro's development of its asset management program, and in accordance with Order 90/18, Manitoba Hydro filed Terms of Reference for the retention of a consultant on August 31, 2018 on a without prejudice basis with the agreement that this matter would be held in abeyance pending the ruling of the Court of Appeal on the question of the PUB's jurisdiction in this matter.

Directives 15 and 16 directed Manitoba Hydro to consider implementing recommendations made by the IECs with respect to Keeyask, MMTP and GNTL, as well as filing detailed quarterly reports for all Major New Generation and Transmission ("MNGT") projects currently under development. In response, Manitoba Hydro can advise that for those projects within the control of Manitoba Hydro, it has implemented certain recommendation and is still in the process of considering the implementation of others in order to properly assess any projected cost savings and schedule

impacts. With respect to Keeyask specifically however, the intended approach laid out by Manitoba Hydro during the 2017/18 and 2018/19 GRA, aligned with the closer collaboration on execution planning and oversight of the GCC recommended by MGF as well as working with the GCC to develop an achievable plan in 2018 based on production experienced to date has yielded results. In 2018, the project has achieved or is on track to achieve all planned milestones for the year. Though significant project risks remain, the progress to date has been positive and the necessary improvements to achieve the control budget of \$8.7B are being realized and the first unit In-Service Date (ISD) is currently trending ahead of the control schedule. Manitoba Hydro suggests that in light of the fact that certain recommendations are still being considered and the cost savings and schedule impacts of those implemented are still being assessed, a subsequent GRA would be a more appropriate forum for consideration of Directive 15. As required by Directive 16, Manitoba Hydro filed a detailed quarterly report (quarter ending June 30, 2018) for all Major New Generation and Transmission projects currently under development with the PUB on August 14, 2018 and intends to file the next quarterly report (quarter ending September 30, 2018) with the PUB by November 14, 2018 in accordance with Directive 16.

Directives 17, 19, 21, 22 and 23 regarding regulatory deferrals and amortizations directed by the PUB in order 59/18 for depreciation methodologies and ineligible overheads will be reflected in the 2018/19 outlook and interim 2019/20 budget as directed by the PUB in Order 59/18.

In regards to the Directives related to the Cost of Service Study (Directives 24, 25, 26 and 27), Manitoba Hydro has completed the modifications to the cost allocation model that will be used for future Cost of Service Studies to reflect these directives which direct non-tariffable transmission costs be excluded from the allocation of export revenues, the addition of a new subfunction to allocate the specified customer service costs to all classes other than GSL 30-100kV and GSL >100kV and export revenues be treated as a reduction to cost in the calculation of Revenue to Cost Coverage ratios. Manitoba Hydro is continuing to study the Service Drop allocator and Common Costs and intends to have the review completed in time for the next Prospective Cost of Service Study to be filed with the next full GRA.

Directive 28 requested information regarding the rationale for the declining block rate structure for the General Service customer classes and an evaluation of the block thresholds and charges. The declining block rate structure for the General Service Small, General Service Small Demand and General Service Medium customers is on account of class consolidation that began with rates implemented on July 1, 2008 and was necessary to recover the demand costs related to General Service Small customers that are not demand metered and to reflect the higher load factors of the General Service Small Demand and General Service Medium customers. There are no changes currently proposed to these customer classes as Manitoba Hydro intends to re-evaluate whether consolidation of these classes continues to be appropriate once the time of use design consultation process is completed.

Directive 29 directed filing of a time-of-use rate design proposal, which requirement was deferred in Order 126/18 while the Corporation undergoes consultation with its large industrial users. On November 1, 2018, Manitoba Hydro sent an invitation to customers in the General Service Large >100kV and representatives of the Manitoba Industrial Power Users Group inviting them to attend a kick off meeting on December 4 or 6 (depending on customer availability) that will mark the beginning of this consultation process. The consultation phase which was originally anticipated to begin by the end of October 2018 was delayed to allow for additional internal review to analyze and study the key inputs and considerations underlying a time-of-use rates proposal in order to provide customers with updates that will allow for meaningful participation at the outset of the consultation process. Over the next several months, through group and individual consultations, Manitoba Hydro intends to solicit feedback and gather information from customers for the purposes of developing the new rate structure.

In response to Directive 36, Manitoba Hydro confirms that it received true copies of the diesel settlement agreement from Mr. George Orle, on behalf of MKO, on February 7, 2018. Upon review, Manitoba Hydro confirmed that the documents were in proper form and provided a copy to the newly formed Indigenous Services Canada (one of 2 new departments created in August 2017 to replace indigenous and Northern Affairs Canada) for their records. Manitoba Hydro intends to address the finalization of the interim diesel zone rates in a separate process to be established taking into consideration the current regulatory calendar.

In response to Directive 37, Manitoba Hydro filed the status of compliance with all outstanding and ongoing directives with the PUB on August 1, 2018. The filing is being reviewed with PUB advisors to ensure there is a common understanding on the status of directives.

Order 90/18 set aside Directive 7 of Order 59/18 dealing with the price for customer's excess energy returned to the grid. As such, Manitoba Hydro would not expect that this issue would be canvassed in an expedited review of 2019/20 rates. Directive 30 of Order 59/18 also requested additional information on the Solar Energy Program and other net metering installations, and Manitoba Hydro expects that this directive could be addressed if and when the PUB addresses Directive 7 of Order 59/18.

Order 126/18 rescinded Directive 9 of Order 59/18 which required Manitoba Hydro to participate in a technical conference for consideration of the establishment of a minimum retained earnings or similar test.

Finally, Directive 6 of Order 59/18 is presently before the Court of Appeal. Until such time as the Court of Appeal rules on the issue of the creation of a First Nations On-Reserve Residential customer class, Manitoba Hydro will propose to apply the same rate increase to all residential customers (including the First Nations On-Reserve Residential customers) for the 2019/20 fiscal year.

Proposed Filing

Subject to the PUB's concurrence with the process outlined herein, Manitoba Hydro will file an application on the basis of its 2018/19 outlook and interim 2019/20 budget approved by the Manitoba Hydro-Electric Board on October 26, 2018 seeking approval of a rate increase to be effective April 1, 2019. The 2018/19 outlook incorporates the actual financial position for electric operations as at March 31, 2018 and actual financial performance and water flow conditions to September 30, 2018. The interim 2019/20 budget incorporates fall 2017 planning assumptions¹ for load, average export revenues for all water flow conditions, export prices, major capital projects and business operations capital expenditures (as reported in CEF18 and the 2017-2018 4th Quarter Major New Generation and Transmission Public Report to the PUB) and operating expenditures, as well as winter 2017 assumptions for interest and exchange rates. The 2018/19 outlook and interim 2019/20 budget are reflective of regulatory deferrals and amortizations directed by the PUB in Order 59/18 for the depreciation methodology differences and ineligible overheads.

In support of a one-year filing for the 2019/20 fiscal year, Manitoba Hydro will file the following information:

- The 2017-2018 Annual Report;
- The 2018 First Quarterly Report for the 3 months ending June 30, 2018;
- The 2018 Second Quarterly Report for the six months ending September 30, 2018;
- The 2018 Capital Expenditure Forecast (CEF18) which will include expenditures for major capital, business operations capital and demand side management;
- Updated Rate Schedules, Proof of Revenue and Bill Comparisons reflecting the proposed increase at the effective date;
- Monthly hydraulic generation, water conditions and extra-provincial energy exchange data up to the rate implementation date;
- The quarterly Major Capital Project Public Reports which provide updates to the PUB on the status of the major capital projects (August 14, 2018 and the report due to the PUB November 14, 2018);
- The Operating and Administrative Reports (August 14, 2018 and the report due to the PUB November 14, 2018);
- A summary of the Impact of the VDP on Pension liability for 2017/18; and
- Annual Operating and Administrative Budget for 2018/19.

Proposed Review Process

Manitoba Hydro requests the PUB's concurrence that the review process for the proposed near-term, one year rate increase should be focused, effective and stream-lined, recognizing that Manitoba Hydro will file a fulsome General Rate Application in late 2019 wherein all parties will have

¹ Manitoba Hydro's fall 2018 planning assumptions and budget will be prepared, reviewed by the MHEB and incorporated into an annual business plan in alignment with the *Crown Corporations Governance and Accountability Act* ("CCAA") requirements for Ministerial approval in 2019.

an opportunity to test IFF19. It is our view that neither Manitoba Hydro nor the PUB have the resources available, nor would it be prudent to require a full 6-9 month process to review an application limited to the financial information noted above and seeking only to generate a minimum level of net income to avoid financial losses in the 2019/20 fiscal year.

Manitoba Hydro proposes that this review be undertaken through a written process, without lengthy discovery processes or an oral hearing. Manitoba Hydro suggests a process with a limited number of information requests to clarify the information filed by Manitoba Hydro posed only by PUB advisors. Intervenor participation would be confined to a review of Manitoba Hydro's material and written submissions in response to Manitoba Hydro's application. Manitoba Hydro will file a response to any Intervenor submissions received, and the PUB panel can then review the material filed and issue a final Order with respect to the one-year application. As noted above, a review of directives is presently being undertaken with PUB advisors. Pending completion of that review, and recognizing that work is ongoing with respect to the outstanding directives from Order 59/18, Manitoba Hydro intends that review of outstanding directives and items requiring a longer term or more detailed consideration be deferred to the subsequent GRA. Manitoba Hydro also suggests that the expedited process ought not include a request for or issuance of Minimum Filing Requirements, updates to planning assumptions or considerations of those findings from Order 59/18 such as the deferral of capital expenditures and changes to export price forecasting which applies to longer-term forecasts.

Manitoba Hydro is mindful of the PUB's comments in Orders 59/18 and 90/18 regarding interim rates and has acknowledged that interim rates are a challenge for both the PUB and Manitoba Hydro². As such, the above review process provides a path forward which will both allow the PUB to approve final rates for 2019/20 and allow Manitoba Hydro the opportunity to establish a financial plan and respond to directives which can be reviewed by the PUB and all parties at a subsequent GRA without the Corporation incurring financial losses in 2019/20 which would negatively impact both the Corporation and its ratepayers.

Conclusion

The Corporation's current financial projections require that rates be adjusted for the 2019/20 fiscal year in order to avoid the Corporation incurring losses in 2019/2020. The PUB has recently completed a thorough review of the Corporation's electric finances, and has signalled its desire to review Centra Gas's financial results and forecasts. Given these competing priorities and the need for prompt action to address the current financial outlook, Manitoba Hydro respectfully requests the PUB consider the proposal outlined herein in order that short-term rate relief for the 2019/20 fiscal year can be awarded in a timely and cost-effective manner, recognizing that the Corporation's long-term financial forecasts will be finalized and available for review by the PUB commencing in late 2019. Manitoba Hydro is including a proposed schedule to illustrate a way forward which allows both the PUB and Manitoba Hydro to conduct an expedited written GRA process for electric

² 2017/18 and 2018/19 General Rate Application, transcript dated February 5, 2018, pg. 7906

operations while ensuring the gas process can still move forward as intended.

Manitoba Hydro acknowledges that the PUB controls its own process. The Corporation has however outlined in this letter a process which it submits is feasible taking into consideration the information currently available, the limited request that will be made by the Corporation, the fact that Manitoba Hydro will submit a full GRA to the PUB in late 2019 and acknowledging that there is a full regulatory process planned for gas operations which is required to be completed.

Should the PUB advise that it is prepared to consider a one-year GRA on an expedited basis consistent with the timeline proposed in the attached schedule, and confining the review to the information outlined in this letter, the Corporation will plan to submit its Application to the PUB by November 30, 2018.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES DIVISION

Per:



ODETTE FERNANDES
Barrister and Solicitor

cc : Marla Boyd, Manitoba Hydro
Liz Carriere, Manitoba Hydro
Bob Peters, Board Counsel
Dayna Steinfeld, Board Counsel

**Appendix 1
Proposed Gas and Electric Application Timetables**

| Item | Centra 2019/20 Application | | Electric 2019/20 Application | |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| | | Date | | Date |
| File Application with PUB (no later than) | | Friday, November 30, 2018 | | Friday, November 30, 2018 |
| PUB Approval of the Public Notice | | Tuesday, December 11, 2018 | | |
| Information Requests of Manitoba Hydro | | December 15 - 21, 2018 | | Tuesday, January 2, 2018 |
| Publish Public Notice in Newspapers /Bill Insert to Customers | | Friday, December 28, 2018 | | |
| Intervenors register for Status | | Wednesday, January 9, 2019 | | |
| Pre-Hearing Conference | | February 1 - April 5, 2019 | | |
| Round I & II IRs of Centra | | | | Friday, February 8, 2019 |
| Manitoba Hydro Responses to Information Requests | | | | Wednesday, February 20, 2019 |
| Intervener Submissions on Manitoba Hydro's Application | | | | Thursday, February 28, 2019 |
| Manitoba Hydro Reply Submission | | | | Friday, March 22, 2019 |
| PUB Order Requested by | | April 19 - May 3, 2019 | | Monday, April 1, 2019 |
| Proposed Implementation Date of Electric Rate Change | | Wednesday, May 1, 2019 | | |
| Intervenor Evidence & IRs | | Wednesday, May 15, 2019 | | |
| Centra to File Cost of Gas/Interest Rate Update (no later than) | | Monday, May 20, 2019 | | |
| Centra to File Rebuttal Evidence | | Thursday, August 1, 2019 | | |
| Centra GRA Hearing Commences | | | | |
| Proposed Implementation Date for Gas Rate Changes | | | | |