



GERDAU



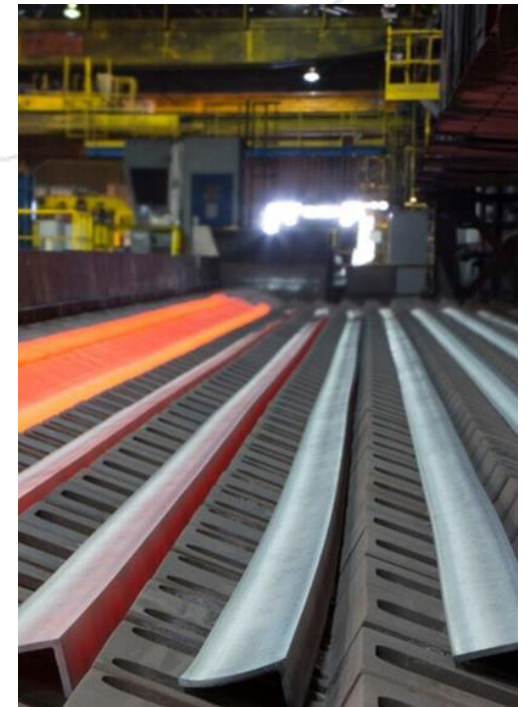
Public Utilities Board: GRA Review – May 16, 2023

Topics for Discussion

- Gerdau - Selkirk
- Energy Cost Challenges
- Cost of Service and Rate Design Concerns

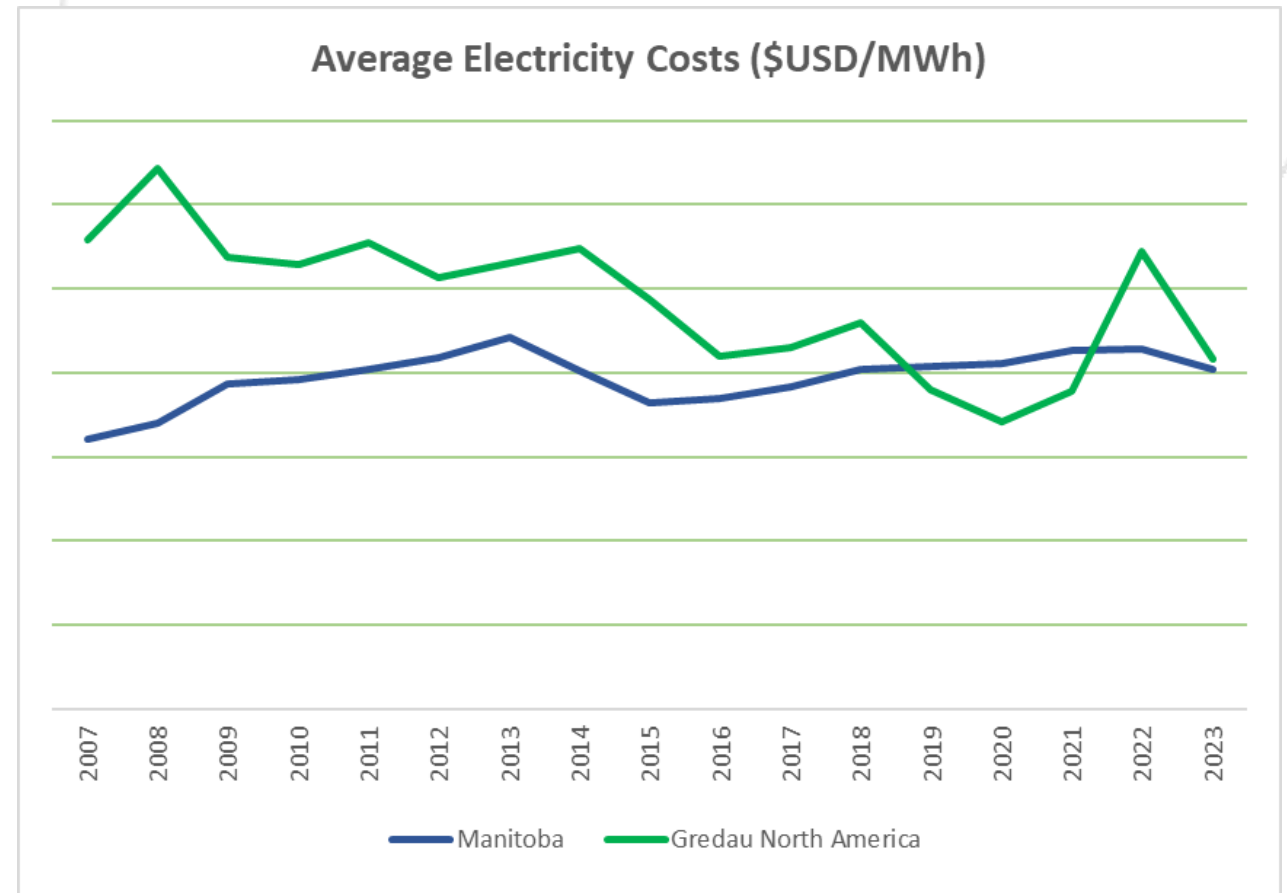
Gerda & Steel – A Sustainable Business

- Employment: 540 FT employees
 - Additional Employment of 300+ at upstream and downstream
 - 5:1 employment impact
- Energy is the third largest variable cost after scrap and labour
- Energy Intensive Trade Exposed (EITE)
 - Compete internally and internationally
 - Cannot push rate increases to the customer



Energy Cost Challenges

- Power costs in Manitoba are rising while Gerdau's North American plant's costs on average continue to fall
- Competitive advantage of being in Manitoba has eroded
- Spike represented increased revenue from exports into MISO

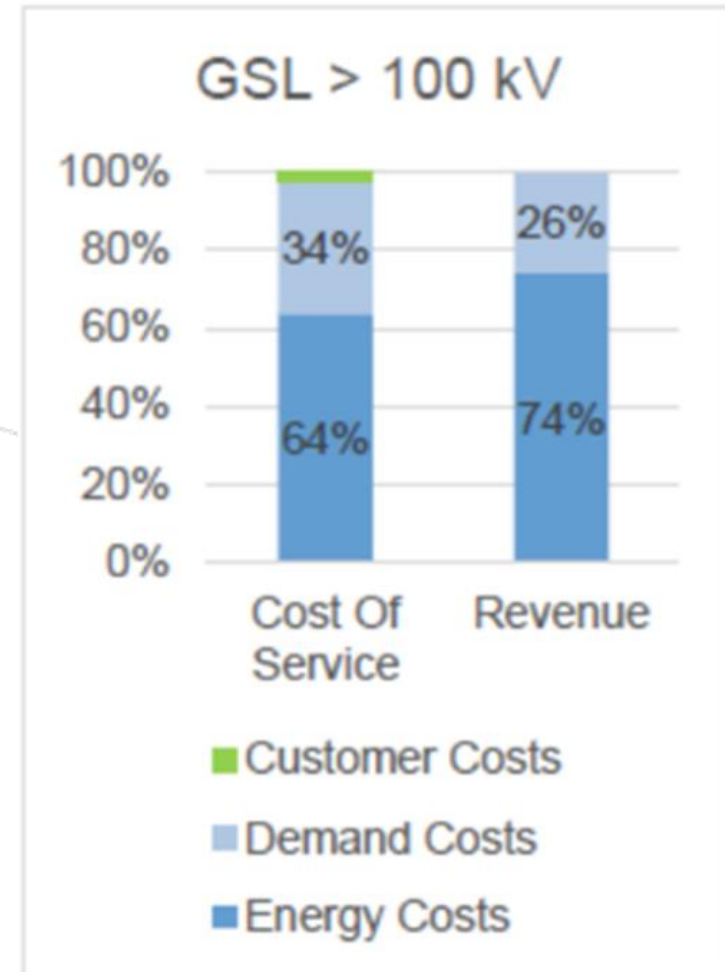


Energy Cost Challenges

- Internal competition for investment capital is dependent on stable and competitive electricity prices
- Rate design in most jurisdictions where Gerdau operates value load flexibility and demand reduction
- Manitoba Hydro does not offer reasonable options to monetize our flexibility like other jurisdictions

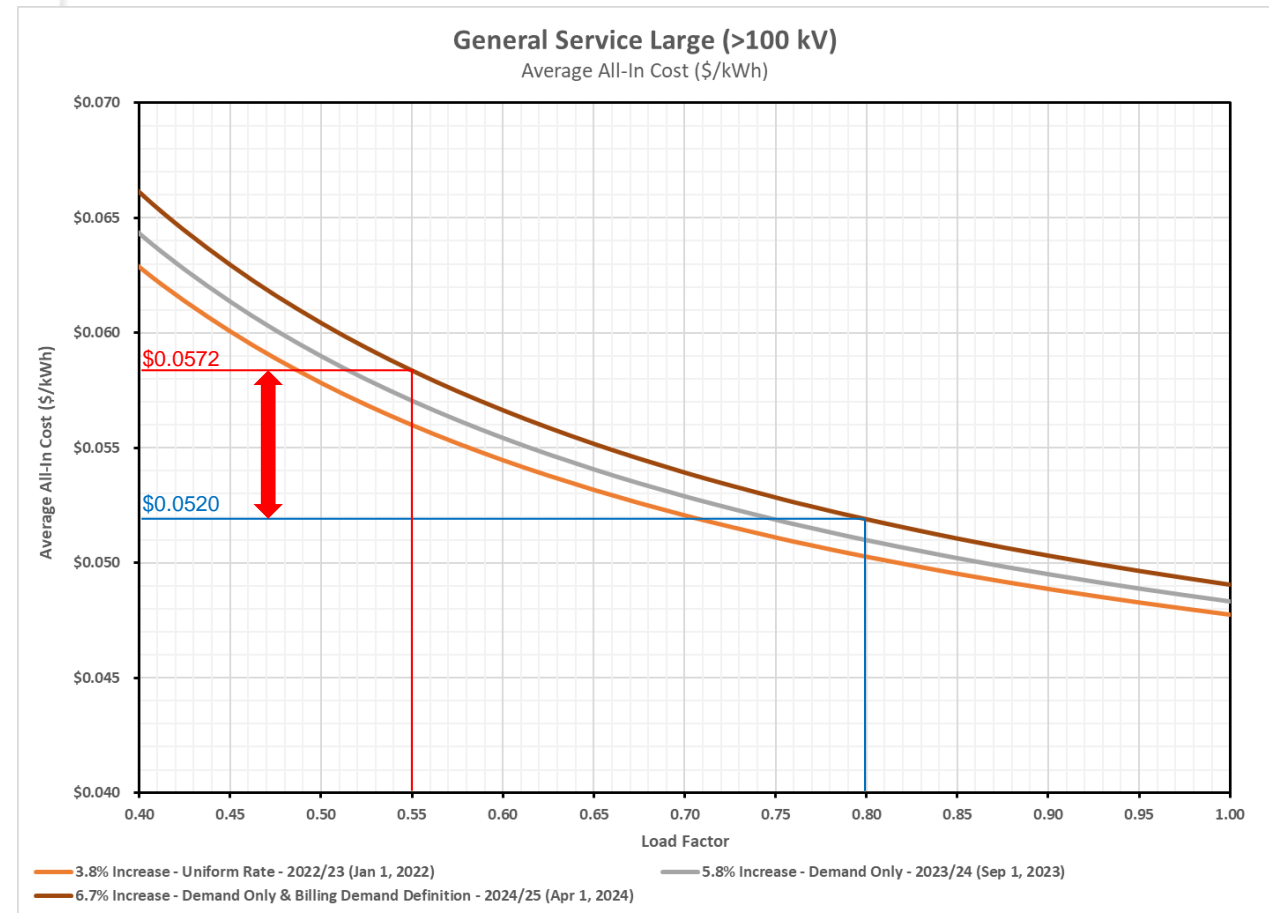
Cost of Service and Rate Design Concerns

- Hydro is addressing the disparity of Revenue Recovery and Cost of Service by adjusting Energy and Demand components
- Proposal to only increase the Demand charge, to achieve balance and send the correct price signals to customers
- The impact of this proposal is weighted toward a higher load factor (80%), which has a disproportionate negative impact on medium load factor customers



Cost of Service and Rate Design Concerns

- Lower load factor customers end up with a larger % increase due to the nature of the rate design
- Gerdau proposes Hydro transition to an hourly measurement period for demand versus the current 15-minute window
- Any lost revenue as a result should not be an issue given the high RCC of the GSL >100



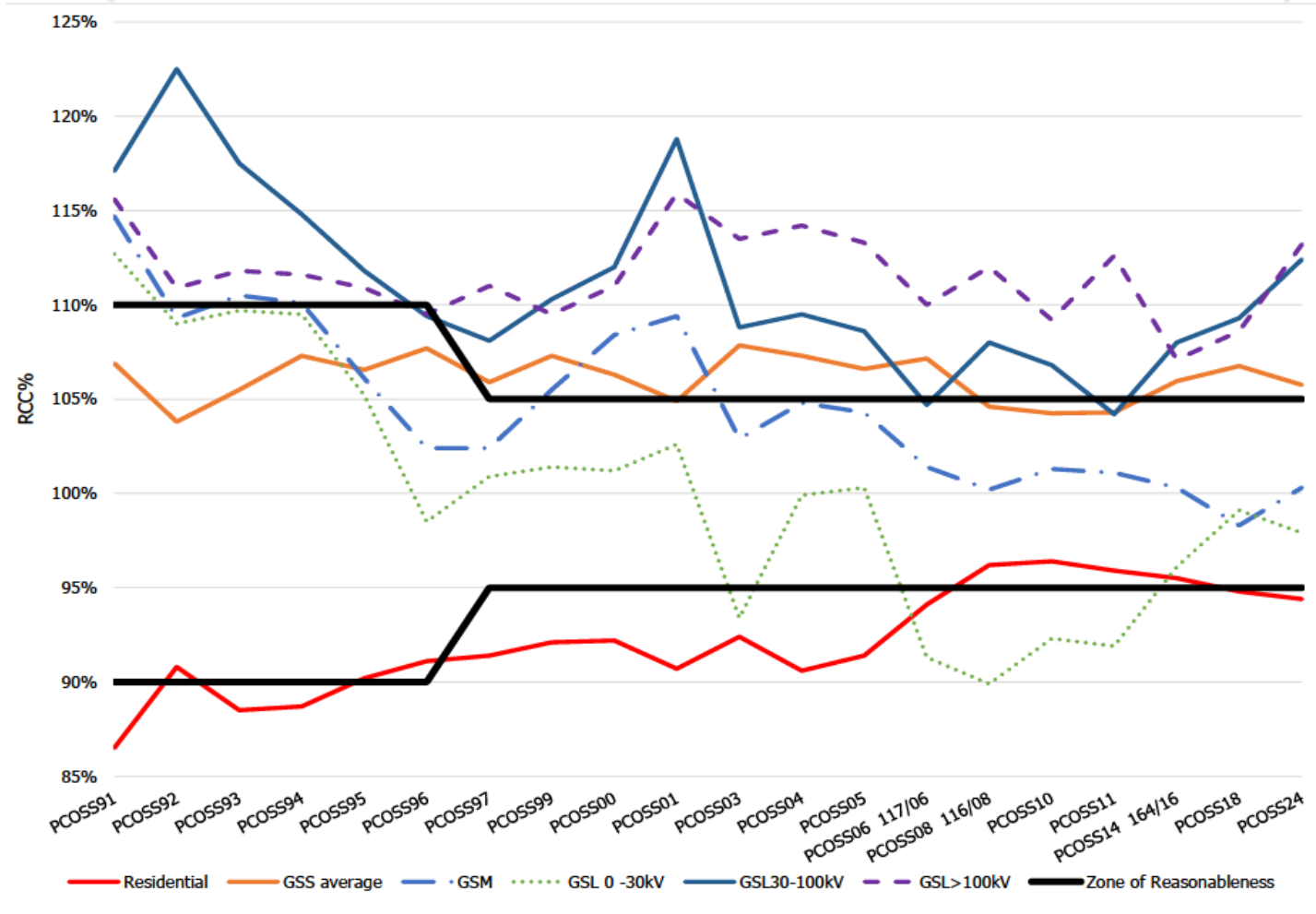
Cost of Service and Rate Design Concerns

- The Cost of Service Study has also indicated a disparity in Revenue Cost Coverage (RCC) between the customer classes
- In Hydro's proposal they would recover 113.2% of the revenue required to cover the costs to serve the General Service Large >100kV class
- This is outside the Zone of Reasonableness (ZOR) (95%-105%) established in Manitoba

| Customer Class | PCOSS21 RCC | | PCOSS24 RCC | |
|----------------------------------|----------------|-------|----------------|-------|
| | Residential | 96.2% | In | 94.4% |
| General Service Small Non-Demand | 113.8% | Above | 109.7% | Above |
| General Service Small Demand | 104.0% | In | 101.8% | In |
| General Service Medium | 99.3% | In | 100.3% | In |
| General Service Large 750V-30kV | 95.6% | In | 97.9% | In |
| General Service Large 30-100kV | 103.7% | In | 112.4% | Above |
| General Service Large >100kV | 101.2% | In | 113.2% | Above |
| Area & Roadway Lighting | 123.3% | Above | 108.2% | Above |

Cost of Service and Rate Design Concerns

- Since 1991 the RCC for the GSL>100kV class has been above the (ZOR)
- Continuing to increase rates while above the ZOR using a gradualism approach is NOT WORKING and should be stopped
- The Board should not agree with this proposed disparity in rate design
- The Board should order Hydro to align the rates to achieve parity amongst the rate classes
- At a minimum, freezing rates for the GSL>100 kV class until they are inside the ZOR should be considered



Future Rate Design Options

- Hydro should continue to work with customers to design options to unlock flexibility and potential benefits to the system and lower costs for participants and all customers
- Hydro should be transparent in sharing important utility data to support customer's contribution to rate design
- It is important that Manitoba Hydro has a plan for the future and discusses that plan with its industrial customers



Thank you for supporting Manitoba STEEL!

Questions???

