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March 3, 2023

THE PUBLIC UTILITIES BOARD OF MANITOBA
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

ATTENTION: Dr. D. Christle, Board Secretary and Executive Director

Dear Dr. Christle:

**RE: MANITOBA HYDRO'S 2023/24 & 2024/25 GENERAL RATE APPLICATION – UPDATED
PUB/MH I-74a-b IR RESPONSE**

Manitoba Hydro filed responses to Round I Information Requests of the Public Utilities Board ("PUB") on February 3, 2023. In the response to parts a) and b) of PUB/MH I-74, Manitoba Hydro advised that the Q3 2022/23 O&A actuals would be provided when available. Enclosed please find updated responses to PUB/MH I-74a and PUB/MH I-74b that includes actual O&A results for Q3 2022/23.

Manitoba Hydro has also updated these responses on its external website.

Should you have any questions with respect to the foregoing, please do not hesitate to contact the writer at 204-360-3257.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES

Per:

A handwritten signature in blue ink, appearing to read 'B. Czarnecki', written over a horizontal line.

Brent Czarnecki
Senior Counsel

REFERENCE:

Tab 6 Figure 6.1

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Provide a schedule detailing the forecast for OM&A for 2021/22 by quarter for the year and the total actual for 2022/23 (Q1, Q2 and Q3) and forecast for the end of the 2022/23 year, including the year budget total.

RESPONSE:

Please see Figure 1 for a schedule detailing budget and actual for O&A for 2021/22 by quarter, forecast O&A for 2022/23 by quarter, in addition to the annual budget for that year, as well as actual O&A results for Q1, Q2 and Q3 of 2022/23, the outlook for Q4 of 2022/23 and the annual outlook total.

Actual results for Q4 could vary from the outlook provided. There remains uncertainty in a number of the outlined cost items. In particular, there is uncertainty in relation to Employee Benefit costs. The Employee Benefits forecast for Q4 of 2022/23 is reflective of the 2022/23 budget. A true-up related to changes in discount rates and other factors impacting Employee Benefit costs will be applied at year end. The actual Employee Benefits for Q1, Q2 and Q3 of 2022/23 are lower due to a recognition of an increase in the discount rate at the end of 2021/22 (compared to the budgeted discount rate) as outlined in Coalition/MH I-81a.

Figure 1. O&A by quarter

(\$000s unless otherwise stated)

	2021-22 Budget				2021-22 Actual				2022-23 Forecast					2022-23 Actuals to Q3 and Q4 Outlook					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	
Employee Related Expenditures																			
Wages & salaries	107 547	110 259	114 091	114 468	106 007	110 384	119 261	112 812	112 471	116 606	116 430	113 296	458 803	114 627	116 418	114 918	115 777	461 740	
Overtime	14 956	15 333	15 866	15 919	16 095	16 309	15 949	14 786	14 778	16 109	15 446	16 306	62 639	15 525	17 133	14 766	15 804	63 228	
Employee benefits	35 689	36 588	37 860	37 985	36 337	35 361	33 523	49 404	39 776	35 961	31 896	44 895	152 528	37 739	34 760	31 199	48 830	152 528	
Other	16 770	17 193	17 790	17 849	14 828	15 527	15 943	15 927	17 794	16 068	18 542	20 293	72 697	19 884	19 945	20 350	20 228	80 407	
Total Employee Related Expenditures	174 963	179 373	185 608	186 222	173 267	177 581	184 676	192 929	184 819	184 744	182 314	194 790	746 667	187 775	188 256	181 233	200 638	757 902	
Less: Capitalized labour and overhead	(62 734)	(64 315)	(66 551)	(66 771)	(58 346)	(56 636)	(57 906)	(66 603)	(62 156)	(62 900)	(62 241)	(60 612)	(247 909)	(54 119)	(52 853)	(53 477)	(61 051)	(221 500)	
Operational Employee Related Expenditures	112 229	115 058	119 058	119 451	114 921	120 945	126 770	126 326	122 663	121 844	120 073	134 178	498 758	133 656	135 403	127 756	139 587	536 402	
External services and materials	38 187	39 150	40 510	40 644	34 178	37 822	37 774	48 825	40 464	41 809	43 412	46 283	171 968	39 425	47 777	47 237	49 073	183 512	
Donations, sponsorships & grants	366	375	388	389	281	280	307	424	505	352	394	505	1 756	327	435	338	580	1 680	
Uncollectible accounts	1 755	1 799	1 861	1 867	1 460	1 532	1 545	10 221	2 292	2 293	2 292	2 293	9 170	2 294	2 296	2 297	2 286	9 173	
Other	(257)	(264)	(273)	(274)	(286)	454	(137)	3 571	(175)	(182)	(176)	(180)	(713)	(160)	(127)	(74)	(234)	(595)	
Cost recoveries	(3 378)	(3 463)	(3 583)	(3 595)	(2 765)	(3 448)	(5 566)	(6 265)	(5 485)	(5 484)	(5 485)	(5 485)	(21 939)	(4 332)	(4 169)	(4 369)	(6 360)	(19 230)	
O&A charged to gas operations	(15 419)	(15 251)	(15 842)	(14 489)	(15 095)	(16 298)	(16 435)	(22 613)	(16 549)	(17 760)	(17 833)	(17 858)	(70 000)	(17 969)	(19 583)	(18 972)	(19 060)	(75 584)	
Operating & Administrative Expenses	133 482	137 404	142 119	143 994	132 694	141 287	144 258	160 489	143 715	142 872	142 677	159 736	589 000	153 241	162 032	154 213	165 872	635 358	

REFERENCE:

Tab 6 Figure 6.1

PREAMBLE TO IR (IF ANY):**QUESTION:**

b) Please file the quarterly OM&A reports for 2022/23.

RESPONSE:

Please see Attachment 1 to this response for a copy of the Q1, Q2, and Q3 OM&A reports for 2022/23.

RESPONSE TO DIRECTIVE #14 – BOARD ORDER 73/15

For the Third Quarter of 2022/23

14. *Manitoba Hydro shall file quarterly updates regarding its Operation, Maintenance & Administration (OM&A) expenditures and the actual OM&A expenditures compared to Manitoba Hydro's target.*

Manitoba Hydro's Operating and Administrative (O&A) expenses for Electric Operations for the third quarter of 2022/23 were \$469.5 million, compared to a budget of \$429.3 million. The 9.4% unfavourable variance was primarily due to:

- A reduction in labour hours charged to capital projects (and therefore an increase to O&A) related in part to a shift to operating work, as well as the impacts of the accounting rule treatment changes for cloud computing arrangements (CCA) requiring such costs to be expensed. Higher absences due to continuing impacts of the COVID-19 pandemic are also contributing to less time being charged to capital projects;
- Higher than budgeted motor vehicle costs due primarily to higher fuel costs and increased costs to maintain fleet, which is necessary due to current supply chain challenges; and
- Higher external services and materials costs due to a number of factors, including increased consulting costs for CCA, costs associated with the return-to-office with certain COVID-19 measures still in place and increased materials and tools costs associated with both inflationary pressures and requirements for maintenance.
- Increased wages and salaries due to general wage increases for certain employee groups as well as negotiated wage settlements, partially offset by lower Full Time Equivalents (FTEs) than planned.

The over expenditure is partially offset by reduced employee benefit costs driven by an increase in the discount rate based on the 2021/22 year-end actual (which was higher than the rate used for the 2022/23 budget).

When compared to the same period in the prior year, O&A expenditures were higher by \$51.2 million or 12.3%. The increase was primarily related to:

- A reduction in labour hours charged to capital projects due in part to a shift to operating work as well as the impacts of the accounting rule treatment changes for CCA;
- Higher wages and salaries due primarily to additional FTEs and wage increases (Note: in Q1 of 2021/22, IBEW was on a rotating strike which would have resulted in lower FTEs as they represent approximately 45% of Manitoba Hydro's total FTEs);
- Higher motor vehicle costs due primarily to higher fuel costs and increased costs to maintain fleet, which is necessary due to current supply chain challenges; and
- Increased external services and materials costs due to a number of factors, including higher consulting costs, including for CCA and costs related to Keeyask being fully in-service.

A summary of Manitoba Hydro’s actual O&A expenditures by cost element with a comparison to the 2021/22 third quarter expenditures has been provided in the following table.

**ELECTRIC OPERATIONS
OPERATING & ADMINISTRATIVE COSTS BY COST ELEMENT
FOR THE QUARTER ENDED DECEMBER 31
(in thousands of dollars)**

	<u>2021/22 YTD Actual</u>	<u>2022/23 Annual Budget</u>	<u>2022/23 YTD Actual</u>	<u>2022/23 YTD Budget</u>	Favourable (Unfavourable) Variance
Employee Related Expenditures					
Wages & salaries	\$335 652	\$458 803	\$345 963	\$345 507	(\$456)
Overtime	48 353	62 639	47 424	46 333	(1 091)
Employee benefits	105 221	152 528	103 698	107 633	3 935
Other	46 298	72 697	60 179	52 404	(7 775)
Total Employee Related Expenditures	535 524	746 667	557 264	551 877	(5 387)
Less: Capitalized labour and overhead	(172 888)	(247 909)	(160 449)	(187 297)	(26 848)
Operational Employee Related Expenditures	362 636	498 758	396 815	364 580	(32 235)
External services and materials	109 774	171 968	134 439	125 685	(8 754)
Donations, sponsorships & grants	868	1 756	1 100	1 251	151
Uncollectible accounts	4 537	9 170	6 887	6 877	(10)
Other	31	(713)	(361)	(533)	(172)
Cost recoveries	(11 779)	(21 939)	(12 870)	(16 454)	(3 584)
O&A charged to gas operations	(47 828)	(70 000)	(56 524)	(52 142)	4 382
Operating & Administrative Expenses	\$418 239	\$589 000	\$469 486	\$429 264	(\$40 222)