

Manitoba Hydro

2023/24 & 2024/25

General Rate Application

May 15, 2023

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Land & Territorial Acknowledgment

We acknowledge these lands and pay our respects to the ancestors of these territories. The legacy of the past remains a strong influence on Manitoba Hydro's relationships with Indigenous communities today, and we remain committed to establishing and maintaining strong, mutually beneficial relationships with Indigenous communities.



Objectives for today

1. The evolving energy landscape– the time to prepare is now
2. Updates since Interim Rate Application
3. Reasons for the Proposed Rate Increases
4. Concluding comments

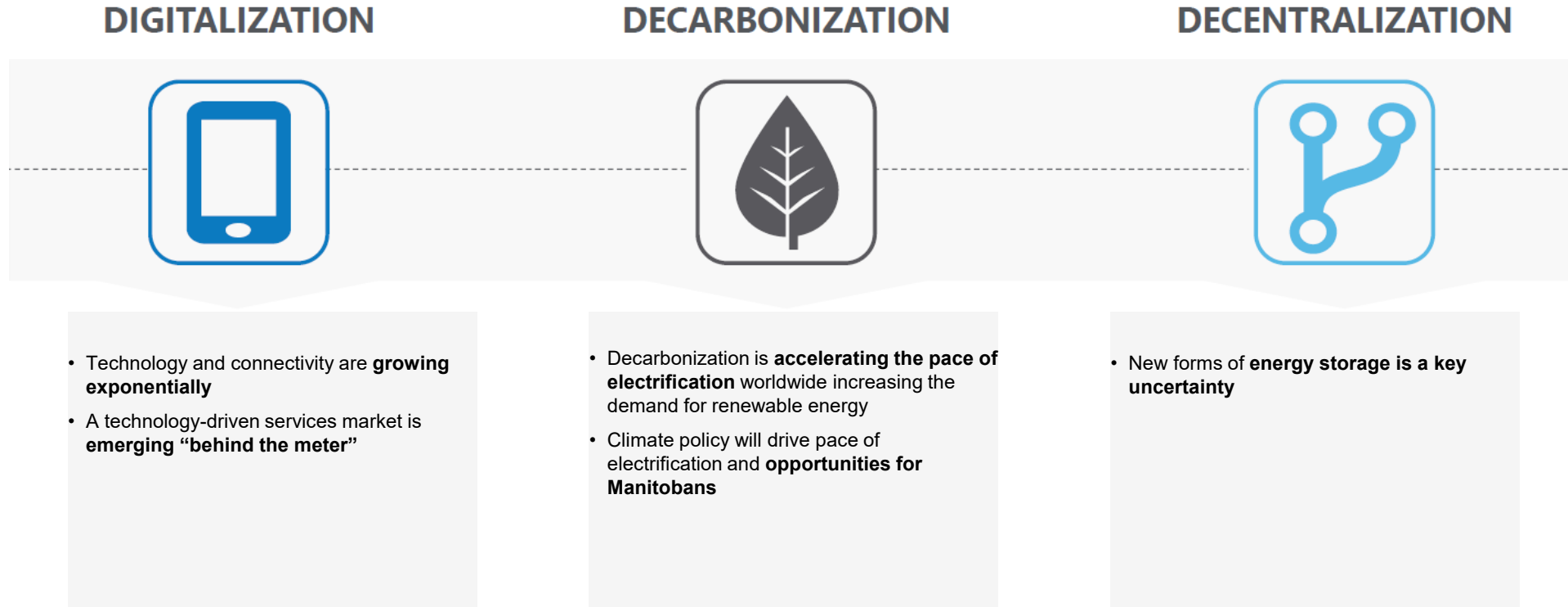


Manitoba Hydro's Mission Statement

*Help all Manitobans efficiently navigate
the evolving energy landscape, leveraging
their clean energy advantage, while
ensuring safe, clean, reliable energy at
the lowest possible cost*

Key Takeaway: Significant local and global trends will reshape the Power and Utility industry. Strategy 2040 is how Manitoba Hydro will prepare to serve Manitobans into the future.

Globally, the energy landscape is shifting dramatically



Energy and Climate Policy are accelerating the pace of change

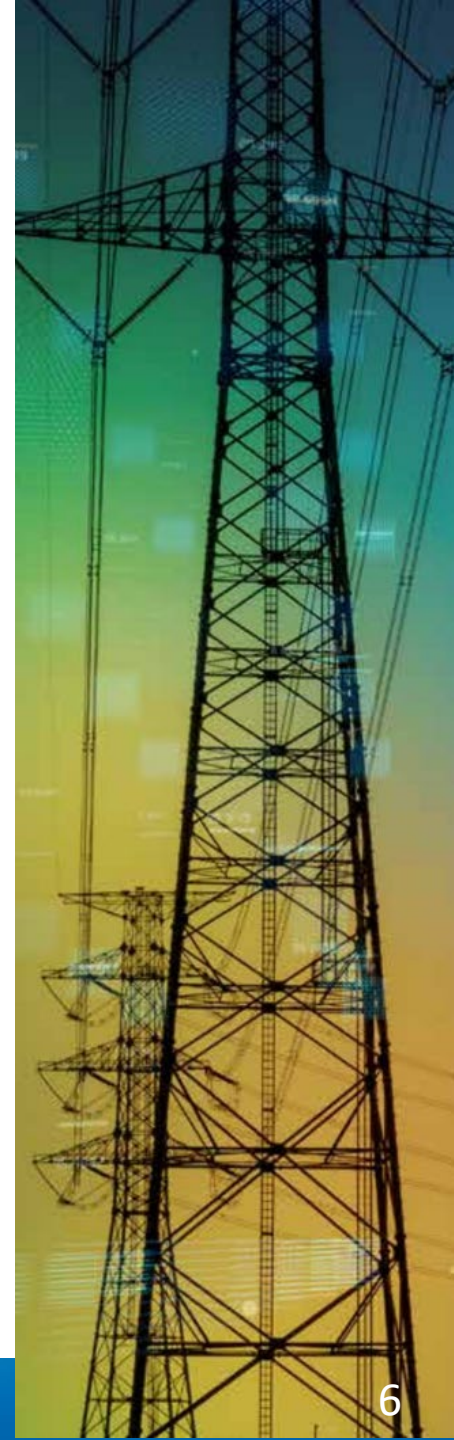
Federal energy and climate policy are accelerating the pace of change.

The Canada Net-Zero Accountability Act - Canada has committed to reduce emissions by 40% to 45% from 2005 levels by 2030 and reach net-zero emissions by 2050. Broadly speaking, the Plan aims to decarbonize buildings, industry, transportation, and electricity.

Clean Energy Regulations - Environment and Climate Change Canada has taken multiple steps to develop Clean Electricity Regulations that aim for Canadian electricity generation to achieve net zero greenhouse gas emissions by 2035 by requiring generating units to meet an emissions intensity standard and pay for any remaining emissions.

Clean Electricity Investment Tax Credit - offers a 15% credit for refurbishment or new projects of non-emitting generation, which includes large hydro, abated natural gas-fired generation, interprovincial transmission, and stationary electric storage, which is open to non-taxing paying entities, like MH and is available until 2034.

Canada Electricity Advisory Council - Earlier in May 2023, the Minister of Natural Resources launched the Canada Electricity Advisory Council to provide the Government of Canada with advice on actions needed to achieve 2035 and 2050 net-zero emissions goals as they pertain to electricity. Part of the Council's mandate is to identify regulatory and policy opportunities to promote and enable sustainable, affordable and reliable electricity systems, optimizing and leveraging regional strengths and clean energy resource endowments.



Integrated Resource Plan & Provincial Energy Policy

Development of the IRP and supporting government policy advancement, such as Energy Policy, are key near-term strategic initiatives in Strategy 2040.

- Manitoba Hydro is nearing completion of its first IRP.
- Three rounds of stakeholder engagement were completed to inform Manitoba Hydro's analysis of different potential futures.
- A fourth round of public engagement was held this spring to inform preliminary outcomes prior to publication of the IRP in summer 2023.
- The future scenarios developed in the IRP are sufficiently broad to incorporate known and potential policy.
- Manitoba Hydro has and will continue to offer the Province of Manitoba expertise, data and insights to support development of Energy Policy.

The future will be very different than the past. Strategy 2040 will enable Manitoba Hydro to manage these challenges, to minimize risks, and to take proactive steps to manage supply, demand, and to maximize the value of existing assets while minimizing cost.

Manitoba Hydro looks forward to collaboratively engaging with the PUB and other stakeholders as we work through transitioning to a new regulatory framework and navigating the evolving energy landscape.



Three Year Aspiration

MANITOBA HYDRO 2026 ASPIRATION: “PERFORMING WHILE TRANSFORMING”

MANITOBA HYDRO 2026 ASPIRATION

Optimize / improve the efficiency of the current business and set the organizational foundations and capabilities to accelerate Manitoba Hydro’s transformation and journey to realize Strategy 2040

| Prioritized Strategic Pillars | Prioritized Enterprise Performance Goals |
|---|---|
| <p>1 Provide safe, reliable energy that responsibly meets the evolving needs of Manitobans</p> | <p>Safety</p> |
| <p>5 Keep energy prices as low as possible while providing the level of service Manitobans expect</p> | <p>Employee Experience, Culture & Inclusion</p> |
| <p>2 Serve customers efficiently, responsively, and digitally</p> | <p>System Reliability</p> |
| | <p>Employee Effort Reduction & Efficiency</p> |
| | <p>Customer Experience</p> |

Updates since the 2017 GRA

Since Manitoba Hydro's last full General Rate Application in 2017/18 GRA, a number of events have occurred that had a significant impact on operations and customers, including:

- COVID-19 pandemic
- Keeyask Generating Station and other major capital projects fully in service
- The shifting interest rate environment
- Both a drought and record high water flows
- Bill 36 enacted setting out changes to the regulatory framework, including the establishment of financial targets and other metrics that will guide rate setting starting April 1, 2025

Important legislative amendments introduced

- Bill 36, The Manitoba Hydro Amendment and Public Utilities Board Amendment Act received royal assent in November 2022, with changes to applicable to The Manitoba Hydro Act, The PUB Act, and The Crown Corporations Governance & Accountability Act
- Bill 36 electric rate setting parameters include:
 - **Rate Cap: of the rate of inflation or 5%, whichever is less**
 - **Debt Ratio Target: 80% by March 31, 2035; 70% by March 31, 2040**
- Other key changes to the legislation to promote efficiency and effectiveness in the regulatory process and to strengthen the role of the PUB:
 - New requirements for reviews by the PUB (major new facility, power purchases, export contracts)
 - Requirement for an IRP and a process for review
 - Changes to align with the evolving energy landscape, for example enabling for the retail sale of power for electric vehicle charging infrastructure

2023/24 & 2024/25 General Rate Application

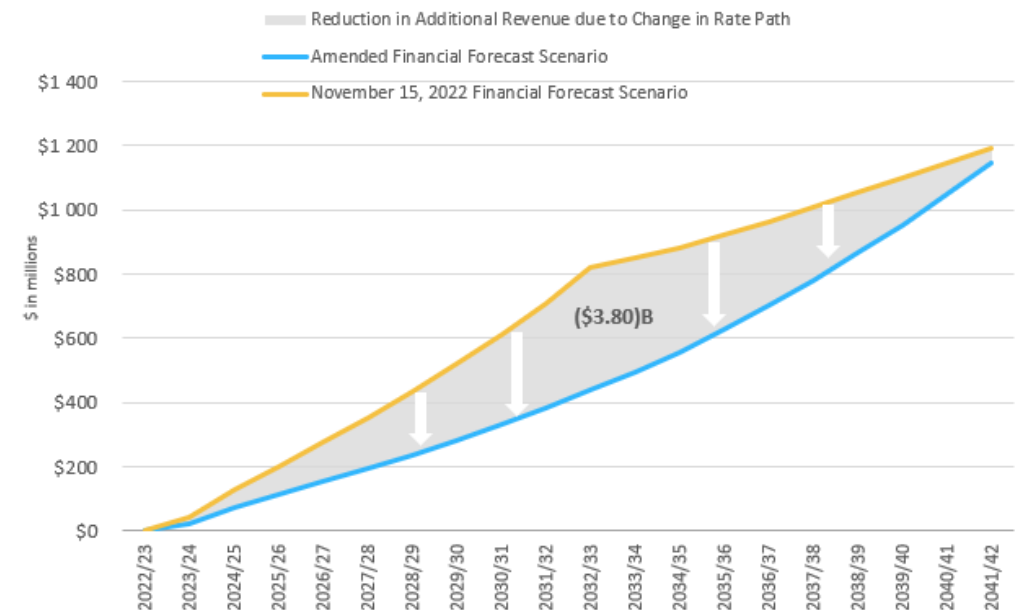
Overview of the Application

- MH has proposed rate increases and a rate path that incorporates the reduction in payments to Government, and reflects priorities that balance impacts to customers, compliance with new legislation, and resources needed to continue to provide safe, reliable and responsive service
- Customers are expecting MH to also balance investment needed to maintain service levels with keeping rates affordable
- We've also heard from customers that service levels aren't meeting their expectations, including wait times in our call center and for service connections
- We are increasing our FTE levels and making investments in our systems to ensure we are being responsive to our customers and can continue to provide safe, clean, reliable energy
- We are doing all this while still ensuring our proposed rate increases in the test years are at or below inflation and customer bills are among the lowest in Canada

Direction from Govt on Reduced Payments

- On November 23rd MH was provided with **direction that Province of Manitoba would be reducing the Provincial Guarantee Fee (PGF) and water rental fee by 50%**
- The reduction of the fees is **retroactive to April 1, 2022**
- **Savings are to be applied to debt reduction and minimizing new debt, to help financially stabilize MH and keep rates low for customers.**
- For 2022/23, the savings are estimated at \$185 million
- Savings from reduced payments to government has enabled Manitoba Hydro to amend and reduce its proposed rate increases and rate path, with nearly \$4B less anticipated to be collected from customers over the 20-year forecast.

Lower Payments to Government means less revenue needs to be collected from customers

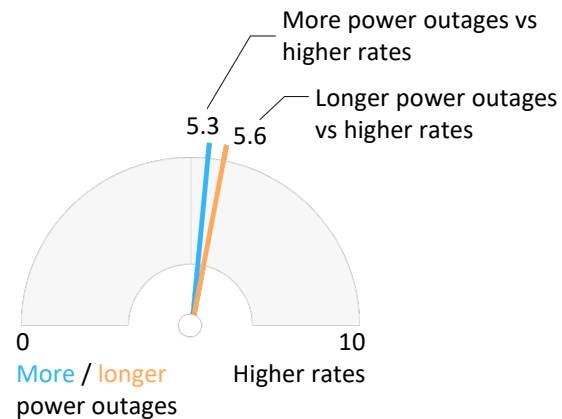


Priorities in Establishing the 2% Rate Path

The 2% rate path is based on the following set of priorities:

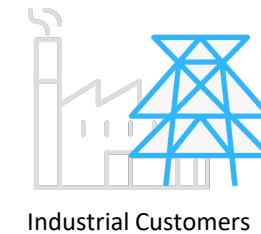
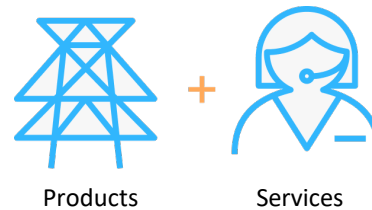
1. Compliance with legislated rate-setting framework rate cap and debt ratio targets
 2. Stable and predictable rates for customers, together with keeping rates low compared to other jurisdictions
 3. Gradually improving Manitoba Hydro's financial health over time
 4. Ensuring system reliability and modernizing the grid through system investments funded from cash from operations where possible
- Focus is on balancing each of these priorities. Focus on the maximization of any single priority could impact achievement of the other priorities
 - The 2% rate path strikes an appropriate balance in achieving each of the outlined priorities, and is the lowest rate trajectory for Manitoba Hydro for the past several years

Customers are asking for balance



2019 Customer Value Perception survey found customers prefer a balance between rates and reliability – **leaning in favor of spending what is necessary** to reduce the number and length of outages.

Upward trend in equipment failures is causing **increased frequency and duration of customer outages**



2022 Leger Reputation Study found that **“reliability of products and services”** was considered the **most important** attribute when forming opinions of Manitoba Hydro.

“It is far more costly to industrial customers to be delayed in getting their new service connected, or to suffer from outages, or voltage instability, or other power quality issues that arise, than it is beneficial to have the lowest rates.”

~MIPUG
(MIPUG Exhibit 7)



Engagement Center Experience

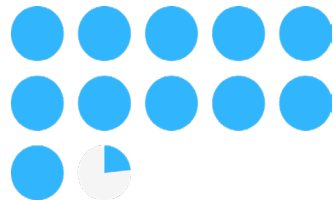
Average speed to answer has increased tenfold over 5 years.

2017 Average speed to answer: 2022 Average speed to answer:

1:03 min



11:14 mins



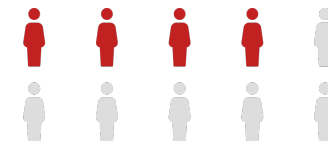
Customers are not satisfied with our responsiveness.



In 2022,

30%

calls are not being answered because customers abandoned the call.



In 2022,

Less than half

of customers indicated wait time was reasonable.

Commercial Service Connection Experience

Service connections are taking over 20% longer to complete than 2019.

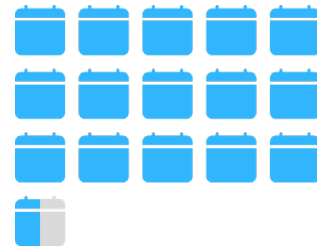
2019 Average project duration:

12 months

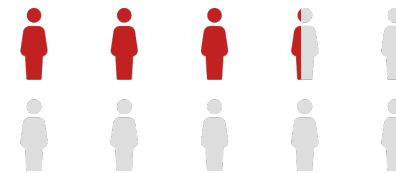


2022 Average project duration:

15.5 months



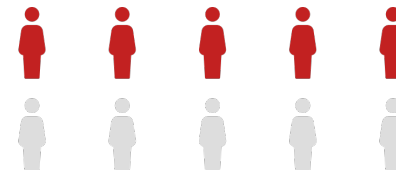
Customers are not satisfied with our responsiveness.



In 2022/23,

33%

customers indicated it was not easy to complete their project.



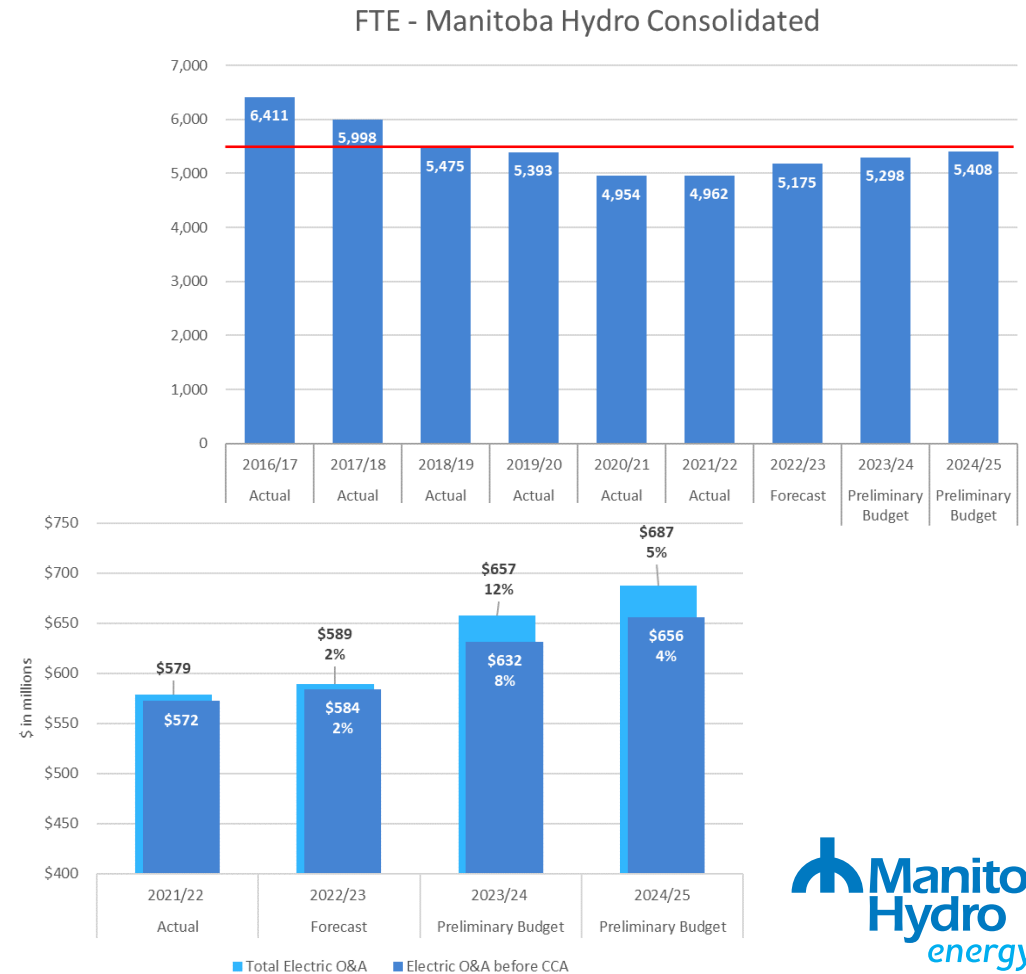
In 2022/23,

49%

customers indicated that the project was not completed in a reasonable amount of time.

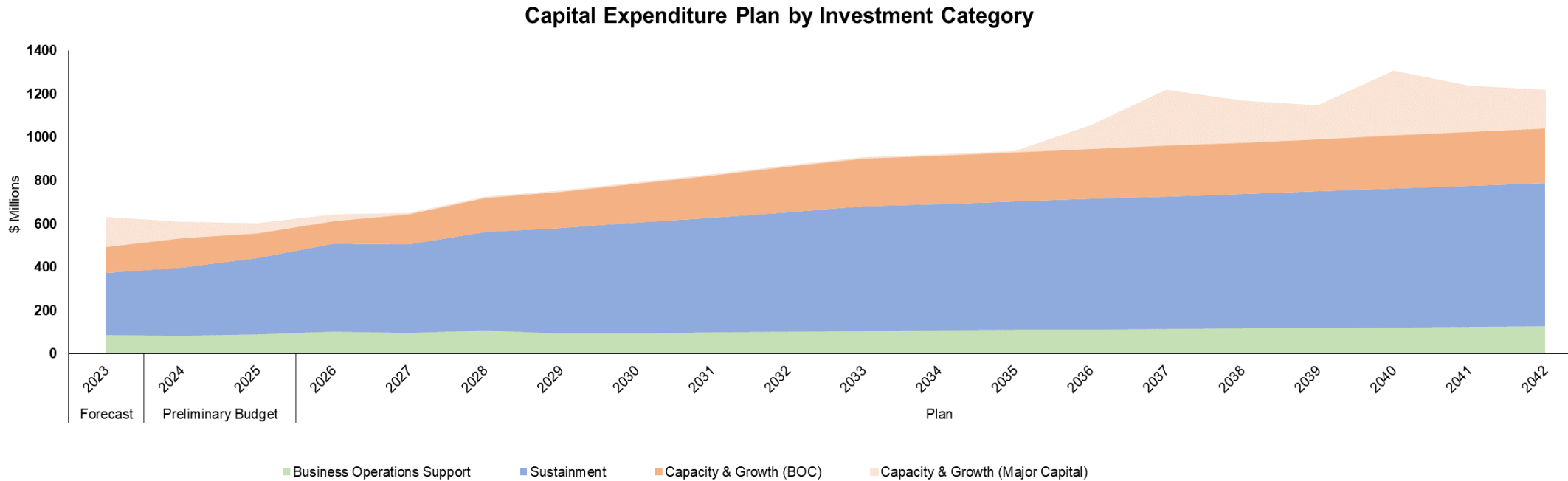
Operating & Maintaining the Manitoba Hydro Electric System

- Operating & Administration (O&A) costs are increasing to ensure Manitoba Hydro continues to provide safe, clean, reliable energy, operating as efficiently and effectively as possible
- O&A increases are largely driven by: 1) FTE increases, 2) salary increases, 3) Cloud computing and 4) Fleet and other costs impacted by inflation
- Manitoba Hydro has experienced almost a **25% reduction in FTEs from 2016/17 through 2021/22**
 - This FTE reduction has impacted customer service levels and the ability to execute planned maintenance activities.
 - Given current resourcing, **only 75% of planned maintenance is being completed** on Manitoba Hydro's asset and we are significantly **behind on industry standards for vegetation management**
 - 15% reduction in FTE committed to through the VDP is maintained through the test years
- Over 75% of the total FTE increase between 2020/21 to 2024/25 is in Operations**
 - Key focus is re-building of the trades trainee program
- Shift to cloud-based IT services** is also a key driver of O&A



Capital Expenditure Plan

- Manitoba Hydro's assets are aging and need investment
- Sustainment of our existing assets is the primary focus of Manitoba Hydro's capital expenditure plan



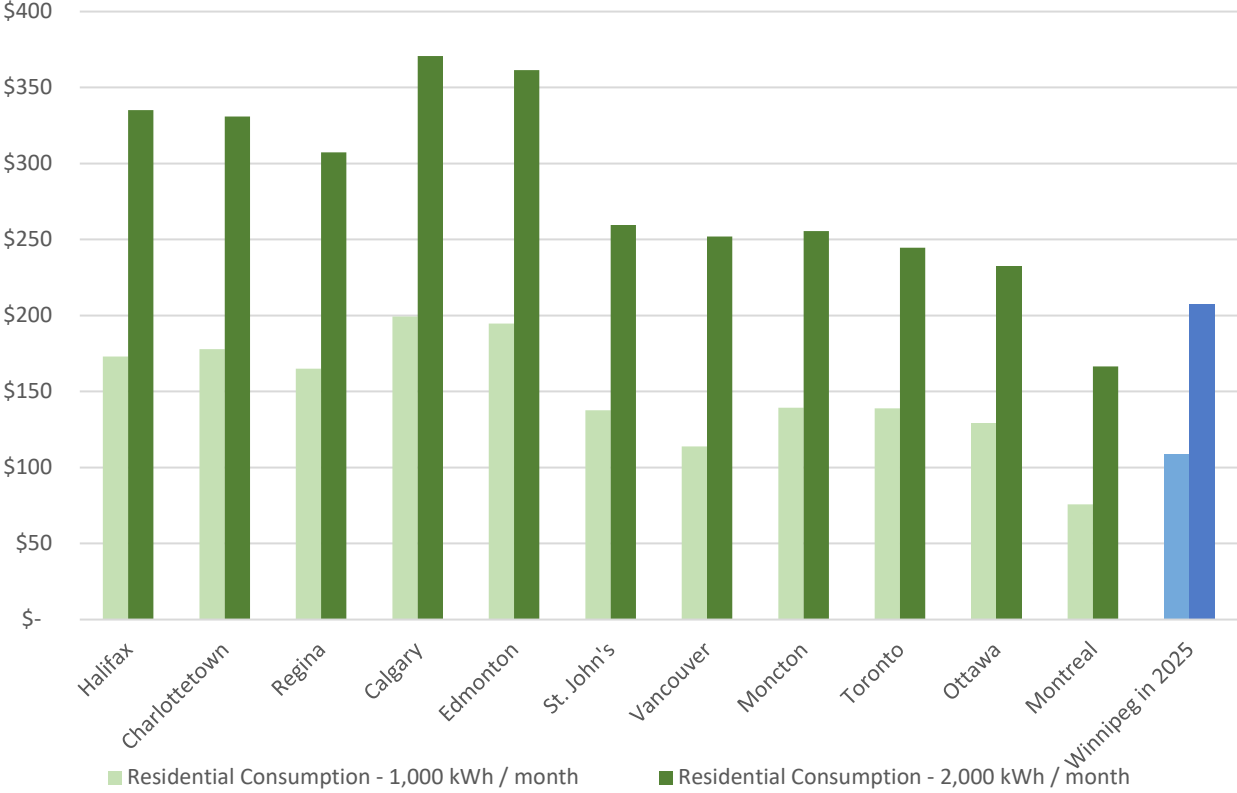
- Increased investment is required to **maintain required levels of performance** and **mitigate risks** related to safety, reliability, compliance, and the environment
- Future resource requirements (identified as Major Capital) are also forecasted in the later part of the forecast
- Capital expenditure plan is **rigorously planned, reviewed, and tested**

Even with the proposed 2% increase, MH's electricity rates are among lowest in Canada

This rate path is in line with inflation and continues to provide Manitoba Hydro customers with one of the lowest monthly bills in Canada

Utility Rate Increases in 2023

| | |
|---|---|
|  | 6.9% February 2, 2023 |
|  | 4.8% April 1, 2023 |
|  | 4.0% April 1, 2023 |
|  | 3.0% (residential) 6.5% (business) 4.2% (industrial) April 1, 2023 |
|  | 2.0% April 1, 2023 |
|  | 2.0% September 1, 2023 <i>(proposed)</i> |



The graph reflects the proposed 2% increase for Manitoba Hydro in 2023/24 and 2024/25.



Conclusion

- In developing its application, Manitoba Hydro has focused on being open, transparent and helpful, aiming to build trust and confidence in the face of uncertainty. We have honored these principles throughout this review process.
- Manitoba Hydro has a number of panels with subject matter expertise that will speak to the issues relevant to this GRA, to provide the PUB with information needed to make their decision.
- Going forward, Manitoba Hydro is committed to working with and supporting the PUB in transitioning to the new regulatory framework and addressing the evolving energy landscape.