THOMPSON
DORFMAN
SWEATMAN

Writer's Name	Antoine F. Hacault
Direct Telephone	204-934-2513
E-mail Address	afh@tdslaw.com
Direct Fax	204-934-0530

April 26, 2023

By E-mail and Regular Mail
publicutilities@gov.mb.ca

Public Utilities Board
400-330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

Attention: Rachel McMillin, Associate Secretary

Dear Sirs/Mesdames:

Re: Manitoba Hydro 2023/24
and 2024/25 General Rate Application
Our Matter No. 0194440 AFH

Pursuant to email communication from Public Utilities Board ("Board") Counsel on April 11, 2023, this submission provides the reply submission of the Manitoba Industrial Power Users Group ("MIPUG") to the submissions of parties to the Manitoba Hydro ("Hydro") rate application in respect of the Bowman Recommendation #4, received April 21, 2023.

In addition to MIPUG's submission, four submissions were received.

MIPUG has no response to the submission of **GSS/GSM intervenor**.

In respect of the submission of the **Assembly of Manitoba Chiefs ("AMC")**, MIPUG notes that the submission appears to at times conflate issues associated with an accelerated amortization in 2022/23 with cash (and consequently, debt). MIPUG confirms that nothing contained within the MIPUG submission affects cash, and as a result, nor does it affect long-term debt levels. The AMC suggests that the proposed transaction may "lessen MH's ability to pay down debt by an equivalent amount" by more than $300 million (page 2), which is not correct. Debt levels will be unaffected. The only effect of the transaction will be on retained earnings levels in future (less reported retained earnings) and on amortization costs (less amortization expense), both of which are non-cash effects.

The response from **Manitoba Hydro** notes an interpretation that the "primary driver for the recommendation to write-off these balances in 2022/23 appears to be the high forecasted net income in that year" (page 2). As noted in MIPUG's submission on April 21, this is not correct. The primary driver is the fact that 2022/23 rates remain interim, and the facts have materially changed since the rates were first set on an interim basis. The use of interim rates may readily lead to adjustments to the level of interim rates charged (e.g., retroactive refunds to customers) or other regulatory conditions affecting the year. Manitoba Hydro, and the readers of Manitoba Hydro's financial statements, are aware (or ought to be aware) that any financial situation reported is subject to revision and adjustment by the Board, as was made clear in Order 137/21, as follows (page 12):

> Any interim rates approved must be the subject of a further public hearing process before the Board to alter or finalize such interim rates. The process to finalize the interim rates approved in this hearing process will follow in a separate proceeding before the Board in 2022.
>
> …
>
> This increase recognizes the financial consequences of the drought and the Board's objective to avoid rate shock by smoothing the rate increases required to address the costs of major capital projects entering service.

Consequently, MIPUG submits that the primary driver of the MIPUG proposal is not simply that Hydro has high net income in 2022/23 – it is that interim rates as enacted are poorly matched to the year in question due to multiple material changes in circumstances from the time the rates were set. MIPUG would not be making the submission absent interim rates for 2022/23. MIPUG would also not be making the recommendation for adjustment at this time, absent Hydro's assertion that approval would need to be received prior to the final Board Decision on the main application in order to recorded in the year in which interim rates applied.

Second, Hydro notes that the adjustment proposed "would be a non-adjusting subsequent event to Manitoba Hydro's fiscal year ended March 31, 2023 based on IAS10" and that therefore the transaction would be recorded in the 2023/24 financial statements. This is contrary to Hydro's evidence in response to PUB/MH-I-33b, which notes:

> In order to write off a deferral account balance, Manitoba Hydro would require direction to do so from the PUB, and for the write off to take place in 2022/23, an Order would need to be received prior to the finalization of Manitoba Hydro's audited financial statements for 2022/23.

Manitoba Hydro now indicates "based on further review" that a decision by the Board to accelerate the amortization of the accounts would be a situation that would be a "subsequent event" to the situation as of March 31, 2023. Subsequent events are either adjusting (can be recorded in 2022/23) or non-adjusting (cannot be recorded in

2022/23), and the distinction relates to whether the event relates to "conditions that existed at or before the year-end date (March 31, 2023)" (Hydro submission, page 5). Hydro indicates that to be an adjusting event "an argument would need to be advanced that the conditions triggering the write-off arose either on or before March 31, 2023".

MIPUG acknowledges that the event (a specific Board Order) would be subsequent to year-end. However, the condition leading to the event were the facts that:

1) Hydro's rates were made interim as of January 1, 2022 (Order 137/21)
2) The conditions underlying the interim order changed materially.
3) One of the changes (a reduction in government charges) was linked to previous Board recommendations to Government about how to deal with Conawapa costs.
4) The other material change (a revision from drought conditions to high water conditions) was integral to the decision to set interim rates at a 3.6% increase.

These are all conditions that existed prior to March 31, 2023. For this reason, Hydro's current view on this aspect may be incomplete.

Finally, Hydro indicates concern (page 6) that the requested decision from the Board may lead to "creating uncertainty around the valuation and recovery of all regulatory deferral accounts in relation to both current accounting standards as well as the new IFRS Exposure Draft (ED) on Regulatory Assets and Liabilities". This is because a "decision to write-off these deferral accounts without recovery of their remaining balances is likely to create an uncertainty associated with the recovery of other regulatory deferral balances" (emphasis added).

This concept is addressed in the original MIPUG submission on April 21, 2023 but is repeated here for reference. In short, the proposal by MIPUG is not for Hydro's shareholder or retained earnings to absorb any losses. The MIPUG proposal is that an adjusted amortization period be included in the costs and revenue requirement for 2022/23, such that Hydro does (did) recover the remaining balances from the rates paid by customers (inclusive of the interim rates paid).

On the matter of Centra, it is MIPUG's submission that the loss on electric discontinued operations relates only to Selkirk Generating Station, which comprises asset accounts 12150.00[1]. There are no other assets in these accounts than Selkirk GS. Selkirk GS is no longer operating, and the account is headed for complete disposition and closure. It

[1] PUB MFR 95, page 42.

Toll Free: 855.483.7529 • 1700 – 242 Hargrave Street • Winnipeg, Manitoba • Canada R3C 0V1 TDSLAW.COM

would be MIPUG's understanding that in the case of Centra, a given gas service may be abandoned, but the underlying retired assets would be part of an overall gas services account, and that account would be depreciated over a life that reflects the average expected life, inclusive of that fact that some assets will be removed prior to the same life as other assets. However, the overall services asset account would endure, and any individual disposition transaction would not be in a terminal or orphan account that is headed for closure (as is the case with Selkirk GS). As such, concerns over the situation regarding the Selkirk GS would not be a direct precedent to the situation at Centra.

As to rate smoothing, which is cited in regard to Selkirk GS costs, MIPUG notes that the Board should always proceed very carefully when asking future ratepayers to pay for assets that are part of an account that no longer provides any value to customers. Another consideration is that customers ought only be paying for what is used and useful to them. Deferring costs imposes intergenerational inequities. Any opportunity to avoid this outcome should be explored.

On the submission of the **Consumer's Coalition**, there are two aspects provided. With respect to the overall impact on Hydro and precedent, these matters are already addressed above and in our first submission.

However, the Coalition notes it is particularly concerned with the effects on one class of customers – residentials – rather than the overall just and reasonable outcomes in respect of Hydro's revenue requirement. The Coalition appears misguided in their assumption that a reduction in amortization cost (particularly generation-related amortization costs) will not benefit residential customers. All customers pay for Hydro's generation costs. Indeed, even a quick perusal of the Cost-of-Service Study indicates that costs of generation are allocated more to residentials than GS Large[2]. Further, because of the nature of their loads and losses, the Residential rate classes are allocated an average 5.3 cents of generation costs per kW.h of use, and the GS Large >100 kV rate class is allocated 4.0 cents per kW.h[3]. This is why it is entirely misguided for the Coalition to suggest that positive conditions in the area of generation and transmission (whether lower costs, or higher export revenues) are an adverse impact to the Residential rate classes.

[2] Residential energy allocation is based on 9,170,040 MW.h while industrial is 7,626,255 MW.h (E12, per Appendix 8.2, page 16). Demand is 2,106 MW residential and 977.3 GS Lage (D13, per Appendix 8.2, page 11).

[3] Per Appendix 8.1, page 19 and 20. Residential generation cost is $431.7 million, on a load of 8,097 GW.h, while GSL >100 kV is $128.5 million on a load of 3,249 GW.h.

THOMPSON
DORFMAN
SWEATMAN

The root of the Coalition concern appears to be the assumption that over time, this transaction would occur with “all else being equal”. Without prejudging future PUB decisions, the expectation for MIPUG is that not all else will be equal. Without these large, deferred costs in Hydro’s regulatory deferral accounts, annual amortization cost in each future year will go down, which may well lead to future benefits for all customers, including residentials.

Yours truly,

THOMPSON DORFMAN SWEATMAN LLP

Per:

Antoine F. Hacault

Antoine F. Hacault*

AFH/av
cc: Board Counsel (all via e-mail)
Manitoba Hydro, and Intervenors
*Services provided through A. F. Hacault Law Corporation

Toll Free: 855.483.7529 • 1700 – 242 Hargrave Street • Winnipeg, Manitoba • Canada R3C 0V1 TDSLAW.COM