

Order No. 137/21

**MANITOBA HYDRO'S 2021/22 INTERIM RATE APPLICATION
INTERIM RATE DECISION WITH REASONS TO FOLLOW**

DECEMBER 24, 2021

BEFORE: Robert Gabor, Q.C., Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., Vice Chair
Hugh Grant, Ph.D., Member
Shawn McCutcheon, Member
Larry Ring, Q.C., Member
Irene A. Hamilton, Q.C., Member

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1.0 Executive Summary

This is the first of three Orders to be issued by the Public Utilities Board (“Board”) in response to Manitoba Hydro’s 2021/22 Interim Rate Application. A subsequent Order will approve the rate schedules arising from the decisions in this Order. A further Order, containing the substantive reasons for the Board’s decisions, will be issued early in the new year.

In this Order, the Board varies Manitoba Hydro’s request for a 5% increase in General Consumers revenue to instead approve a 3.6% increase in General Consumers Revenue. The 3.6% increase in General Consumers Revenue will be recovered through rate increases at different levels for each customer class depending on whether those classes are recovering more or less than Manitoba Hydro’s allocated costs for providing service. There will be no increase to the rates for certain customer classes in the Diesel Zone, including Diesel Residential customers, or to Surplus Energy Program rates.

This interim 3.6% revenue increase will remain in effect only until November 15, 2022, unless Manitoba Hydro has filed a General Rate Application by that date seeking rates for 2022/23 and for 2023/24 it so chooses, and to confirm the 2021/22 interim rate increases.

In this Order, the Board varies Manitoba Hydro’s request to begin recognizing the revenues from the Major Capital Projects Deferral Account on January 1, 2022. Instead, the Board approves the discontinuation of the revenue deferrals into the Major Capital Projects Deferral Account effective December 31, 2021 with the resulting revenues flowing, commencing January 1, 2022, to Manitoba Hydro’s operating statement rather than into the deferral account.

The Board will address the establishment and amortization of Manitoba Hydro’s newly created Keeyask In-Service Deferral Account at the 2022/23 General Rate Application.

2.0 Procedural History

On November 15, 2021, citing an immediate and pressing need for interim rate relief because of the extreme drought conditions, Manitoba Hydro filed its 2021/22 Interim Rate Application (“Interim Application”) with the Board.

On November 25, 2021 Interveners filed, for Board approval, proposed written information requests of Manitoba Hydro.

On November 26, 2021 the Board forwarded the approved information requests to Manitoba Hydro.

On December 1, 2021, and in addition to 64 written comments received from ratepayers concerning the Interim Application, the Board heard oral public presentations from:

- Bannerman Green Housing Co-op Inc.
- Gerdau Long Steel North America – Manitoba Mill
- Electrochem, a Division of Chemtrade Logistics Inc.
- Interchurch Council on Hydropower

On December 3, 2021, Manitoba Hydro filed its written responses to the Board-approved information requests.

On December 10 and 13, 2021, the Board heard oral testimony by Manitoba Hydro witnesses, including its President & Chief Executive Officer and its Vice President & Chief Financial Officer.

On December 14 and 15, 2021, oral closing submissions were heard by the Board.

On December 16, 2021, Manitoba Hydro filed its written Reply to the Interveners’ closing submissions.

3.0 Manitoba Hydro's Interim Application

Overview

In response to a September 22, 2021 ministerial directive, Manitoba Hydro's Interim Application was filed with the Board on November 15, 2021 seeking an Order of the Board for the following:

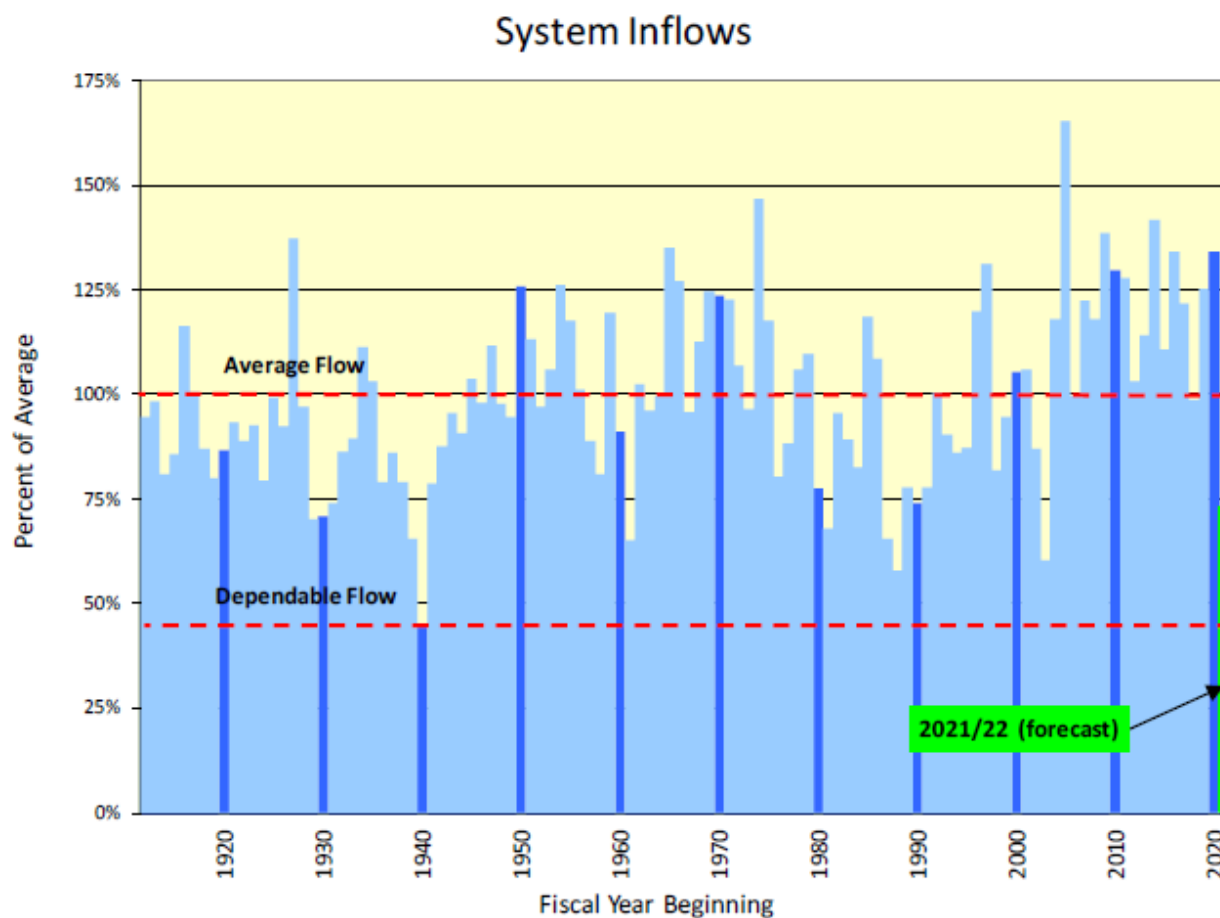
- Approval, on an interim basis, of rate schedules incorporating an overall increase in General Consumers Revenue of 5.0% effective January 1, 2022. The requested rate increases would generate \$27 million in the remaining three months of fiscal 2021/22 and \$88.2 million on an annualized basis. To generate that additional revenue, Manitoba Hydro proposes differentiated rate increases by customer class with certain classes receiving higher or lower rate increases than 5% depending on whether those classes are recovering more or less than Manitoba Hydro's allocated costs for providing service; and
- Approval to begin on January 1, 2022 recognizing the revenues from the Major Capital Projects Deferral Account, established by the Board in Order 69/19, with the balance to be amortized over 24 months.

As will be detailed in a subsequent Order of the Board that sets out the substantive reasons for the Board's decisions on the Interim Rate Application, the requested rate increases are premised on two separate circumstances. The first is the drought, with its forecast \$398 million reduction in net extraprovincial revenues from Manitoba Hydro's original forecast. The second is the \$708 million increase, since 2018/19, in Manitoba Hydro's fixed annual expenses directly related to Bipole III, the Manitoba Minnesota Transmission Project, the Birtle Transmission Line, the Great Northern Transmission Line, and five of seven units of Keeyask Generating Station having been placed in service. Additional costs will also accompany the remaining two units of Keeyask Generating Station which are expected to be placed in service before March 31, 2022.

Drought

The \$398 million reduction in Manitoba Hydro’s forecast net extraprovincial revenue is attributed to the 2021/22 drought. This sum is comprised of a \$46.3 million reduction in dependable export sales, a \$121.7 million reduction in opportunity export sales, a \$262.5 million increase in opportunity import purchases, along with a \$32.1 million offset in the level of water rental fees.

The reduced system water inflows into Manitoba Hydro’s system are graphically depicted by Manitoba Hydro as follows:



Costs of Major Capital Projects

Manitoba Hydro's recent capital investments have resulted in a significant portion of its annual revenue requirement, to be paid by ratepayers, being made up of carrying costs as well as the operating and maintenance costs of the assets that are utilized to provide service to customers.

While assets are under construction, the capital expenditures and associated financing costs are held on the Balance Sheet in 'construction works in progress'. Once these assets are placed into commercial service, the associated costs (i.e. operating expenses, finance expense, depreciation expense, water rentals, and capital taxes) form part of Manitoba Hydro's annual revenue requirements that are sought from ratepayers.

Manitoba Hydro's Interim Application, in Figure 18, sets out the annual revenue requirements by year and on a gross and net basis, for Keeyask Generating Station, Bipole III Transmission Project, Manitoba-Minnesota Transmission Project, Great Northern Transmission Line, and Birtle Transmission Line:

Figure 18: Revenue Requirement Impact of Major Capital Projects

	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>
(\$ millions)			
Keeyask	282	499	526
Bipole III	327	316	316
MMTP	30	29	29
GNTL	66	64	64
Birtle	3	3	3
Gross Impact	708	912	938
Amort of Major Capital Projects Deferral*	(12)	(50)	(37)
Amort of Bipole III Reserve*	(77)	(77)	(20)
Net Impact	619	785	881

*Amortization of Capital Reserves projected to cease in 2023/24

Keeyask In-Service Deferral Account

Manitoba Hydro sought to introduce a Keeyask In-Service Deferral Account in order to maintain its prior accounting practice with respect to the timing of the recognition of costs related to its hydroelectric generating stations under construction. Now that Manitoba Hydro has adopted International Financial Reporting Standards, it states that the Keeyask In-Service Deferral Account is required to maintain the prior accounting methodology that Manitoba Hydro used under Canadian Generally Accepted Accounting Practices.

4.0 Interveners' Positions

A brief summary of the rate increase recommendations by Interveners includes:

Assembly of Manitoba Chiefs ("AMC")

AMC opposes the 5% increase because it is not exclusively related to the drought and Manitoba Hydro should not be able to utilize an interim process to seek a rate increase unrelated to the drought. Rather, AMC recommends that if 1.5% of the increase is directly related to the drought, then this amount can be further reduced to reflect only the cost consequences of low water flows, but not the increase in electricity import prices.

Consumers Coalition

The Consumers Coalition quantifies the additional rate increase required to pay the carrying costs due to the drought at 0.8%. While Manitoba Hydro will have to borrow an additional \$348 million due to the drought effects, the annual interest costs for such borrowings is \$13 million, which would be paid through a 0.8% rate increase. The Net Present Value of a 0.8% rate increase in perpetuity is quantified at approximately \$320 million that this Intervener submits will mostly offset the drought effects.

As for the additional revenue requirements that relate to the new major capital projects entering commercial service, and to promote 'rate smoothing', the Consumers Coalition recommends an additional 1.2% rate increase.

The total Consumers Coalition recommended rate relief is therefore 2.0%, with the drought portion expiring January 1, 2023 unless there is a further Order of the Board that establishes a timetable for a comprehensive rate application.

Manitoba Industrial Power Users Group (“MIPUG”)

MIPUG recommends a 2.5% rate increase of which a maximum of 0.8% be credited to Manitoba Hydro’s operating revenues with the revenue from a 1.7% rate increase being placed into a deferral account pending a General Rate Application and confirmation hearing for the interim rate.

MIPUG further recommends that the 2.5% interim rate increase should expire at the end of 2022 unless a new full General Rate Application, including Manitoba Hydro’s long term financial forecast, is either underway or completed.

Manitoba Keewatinowi Okimakanak (“MKO”)

MKO recommends that no rate increase be approved for residential customers – which now includes the former First Nations On-Reserve Residential customer class members. Because the proposed rate increases are not just and reasonable for a portion of residential customers, no rate increase should be approved for the entire Residential customer class. This Intervener recognizes that if the Residential customer class receives no rate increase, its revenue-to-cost coverage ratio, which measures the sufficiency of the total revenues from the customer class with respect to the total allocated costs to serve the customer class, will decline and possibly move outside of the Board established Zone of Reasonableness. MKO’s position is that, as Manitoba Hydro has not taken meaningful action pursuant to *The Path to Reconciliation Act*, the rate setting ‘Zone of Reasonableness’ should not be considered.

5.0 Board Findings

Interim Hearing Process

The Board appreciates the efforts of all Parties and their cooperation and compliance with the time constraints under which this expedited interim process was conducted.

Based on the evidence, the Board accepts the position of Manitoba Hydro that the Government processes that resulted in Manitoba Hydro not filing a rate application with the Board in a timely manner in calendar year 2021 were beyond the control of Manitoba Hydro. From March 2020 when Bill 44 was introduced until the September 22, 2021 ministerial directive for Manitoba Hydro to file an interim application with the Board (and the re-numbered Bill 35 subsequently being withdrawn on October 6, 2021), Manitoba Hydro expected annual rate increases to be imposed by Government, as the Government did December 1, 2020. By the September 22, 2021 date of the ministerial directive, the drought conditions had resulted in a decrease in forecast net extraprovincial revenues.

However, the Board finds that Manitoba Hydro should have filed current long-term financial information to allow the Board to determine a possible rate trajectory required to pay the additional costs of the major capital projects that are now entering commercial service. Absent such information, the Board considered the current financial information for the fiscal years 2021/22 and 2022/23 that was provided by Manitoba Hydro as well as changes to the long-term financial forecast as depicted back in 2017.

As previously found by the Board, interim rates are set without the benefit of a full evidentiary record, involve an abbreviated process, and are adjudicated against a less onerous legal standard than are final rates. This finding by the Board is consistent with Manitoba Hydro's acknowledgement of the Supreme Court of Canada's fundamental principle that interim applications are "made in an expeditious manner on the basis of evidence which would often be insufficient for the purposes of the final decision."

The Board finds that both the ratepayers and Manitoba Hydro benefit from a robust, transparent, public process that results in final rates that are just and reasonable for all

consumers. 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.

However, in this Interim Application process, the Board finds that the overarching principle of approving just and reasonable rates that are in the public interest remains and requires the Board to balance the interests of ratepayers with the financial health of Manitoba Hydro.

The Board finds that the unforeseen or emergent drought conditions that arose in Manitoba Hydro's 2021/22 fiscal year support the expedited interim process utilized by the Board. Furthermore, and as previously found by the Board, an interim rate application is not the appropriate forum to consider and rule on contentious issues.

Rate Increases

A limitation in this Interim Application, acknowledged by Manitoba Hydro and all Interveners, was that there currently is no long-term financial forecast being used in the management of Manitoba Hydro. The last such long-term financial forecast utilized by Manitoba Hydro was its Integrated Financial Forecast IFF-16, which was filed with the Board at the 2017/18 & 2018/19 General Rate Application. Without such a current planning document, the Board and all Parties are at a disadvantage when considering the important concepts of rate smoothing and reasonable rate trajectories when balancing the interests of ratepayers with the financial health of Manitoba Hydro.

Bearing in mind the foregoing limitations related to interim rate applications, and based on the evidentiary record of this Interim Application, the Board finds that it is just and reasonable to approve a total of a 3.6% General Consumers Revenue increase effective January 1, 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.

Manitoba Hydro is to recover the general revenue increase from customers according to the principles proposed by Manitoba Hydro in its Interim Rate Application and as previously directed by the Board in Order 59/18. Manitoba Hydro is to continue to move customer classes whose revenue to cost coverage ratios are above the Zone of Reasonableness, previously determined by the Board to be between 95% and 105% of the cost of providing service, into the Zone. Accordingly, the general revenue increase is to be recovered through rate increases which are differentiated by customer class, with customer classes within or below the Zone of Reasonableness receiving higher rate increases.

Certain classes will be excluded from any rate increase, including the Diesel Zone Residential class, Diesel Zone Government and First Nation Education energy charge, the tail block energy charge for Diesel Zone General Service rates, and Surplus Energy Program rates. The Board finds that Diesel Zone Residential rates will not change pending Manitoba Hydro's application to finalize existing Diesel Zone interim rates that are based on the 2004 Settlement Agreement.

In its Interim Application, Manitoba Hydro requested no increases to the Diesel Zone Government and First Nation Education energy charge, the tail block energy charge or Diesel Zone General Service rates, and Surplus Energy Program rates. Pursuant to Manitoba Hydro's request, the Board finds that the Diesel Zone Government and First Nation Education energy charge, the tail block energy charge for Diesel Zone General Service rates, and Surplus Energy Program rates will not change with this Order.

The Board finds that this interim 3.6% General Consumers Revenue increase recovered through rates shall remain in effect only until November 15, 2022 unless Manitoba Hydro has filed, by that date, a General Rate Application seeking rates for 2022/23 and to confirm the 2021/22 interim rate increases. The General Rate Application to be filed in 2022 by Manitoba Hydro may be for up to three test years, including the confirmation of the 2021/22 test year interim rates.

The Board remains mindful of its findings and recommendations from Order 59/18 related to bill affordability and energy poverty. The Board expects Manitoba Hydro and Interveners to bring meaningful solutions to these concerns when these interim rates are sought to be finalized.

Major Capital Projects Deferral Account

The Board finds that there is controversy among the Parties related to the amortization of the revenues from the Major Capital Projects Deferral Account. Therefore, the Board will not approve Manitoba Hydro's request to commence the recognition of the revenues in this deferral account commencing January 1, 2022 with the balance amortized over 24 months. This issue will be determined at the 2022/23 General Rate Application.

However, with the pending completion of the Keeyask Generating Station this fiscal year, the Board finds that it is appropriate to discontinue the deferral of revenues into the Major Capital Projects Deferral Account effective December 31, 2021 with the resulting revenues flowing to Manitoba Hydro's operating statement, commencing January 1, 2022, rather than into the deferral account.

Keeyask In-Service Deferral Account

The Board will address the establishment and amortization of Manitoba Hydro's newly created Keeyask In-Service Deferral Account at the 2022/23 General Rate Application.

6.0 IT IS THEREFORE ORDERED THAT:

1. Manitoba Hydro's Interim Rate Application for approval of rate schedules incorporating an overall increase in General Consumers Revenue of 5% effective January 1, 2022 **BE AND IS HEREBY VARIED to 3.6%**.
2. Manitoba Hydro implement differentiated rate increases to collect the approved increase in General Consumers Revenue. The differentiated rate increases are to continue to move the Revenue Cost Coverage ratios of the General Service Small Non-Demand and Area & Roadway Lighting customer classes toward the zone of reasonableness of 95% to 105% as proposed in Manitoba Hydro's Interim Rate Application. The rate increase impact of doing so is to be shared among the customer classes whose Revenue to Cost Coverage ratios are within or below the Zone of Reasonableness. There will be no increase to the Diesel Zone Residential rates, the Diesel Zone Government and First Nation Education energy charge, the tail block energy charge for Diesel Zone General Service rates, or to Surplus Energy Program rates.
3. The interim rate increases approved in this Order will remain in effect only until November 15, 2022 unless Manitoba Hydro has filed a General Rate Application seeking rates for 2022/23 and to confirm the 2021/22 interim rate increases by that date.
4. Manitoba Hydro's Interim Rate Application seeking approval to begin recognizing the revenues from the Major Capital Projects Deferral Account, established in Board Order 69/19, commencing January 1, 2022, with the balance to be amortized over 24 months **BE AND IS HEREBY VARIED**. The revenue deferral into the Major Capital Projects Deferral Account is to be discontinued effective December 31, 2021 with the resulting revenues flowing, commencing January 1, 2022, to Manitoba Hydro's operating statement rather than into the deferral account. The recognition of the deferred revenues and amortization period will be decided at the 2022/23 GRA.

5. Manitoba Hydro file, for Board approval, revised rate schedules to be effective January 1, 2022 and the Proof of Revenues and bill impact tables reflecting the decisions of the Board in this Order.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Robert Gabor, Q.C."

Chair

"Rachel McMillin, B.Sc."

A/Associate Secretary

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