The PUB Post – Summer Newsletter, June 2026

In 2023, the PUB launched a newsletter to help us connect with Manitobans. We know the decisions of the PUB affect the daily lives of every Manitoban and the goal of our newsletter is to help Manitobans understand who we are, what we do, and how we do it.

We use our newsletter to explain our processes and to spotlight our role in regulating rates charged for:

- Electricity provided by Manitoba Hydro.
- Natural gas by Centra Gas Manitoba Ltd.
- Propane by Stittco Utilities Man Ltd.
- Basic automobile insurance by Manitoba Public Insurance.
- Water & wastewater services provided by municipal, cooperative, and private utilities.

Our newsletters have also discussed our role in reviewing matters referred to us such as:

- Efficiency plans developed by Efficiency Manitoba.
- Fees charged for payday loans and government cheque cashing.
- Manitoba Hydro's Energy Integrated Resource Plan.

And our newsletters have noted that recommendations are an important tool for the PUB. Recommendations made by the PUB to government, or a utility, are not directives or binding, they are advice based on evidence presented at the hearing.

This edition of the PUB Post will focus mainly on complex issues found in the Manitoba Hydro Fiscal 2026 to 2028 General Rate Application Final Rate Order, which was issued on March 19, 2026. Many of the issues are technical in nature and hard to understand, so we're going to try to explain what they mean.

What did the PUB approve, deny, or direct in the Final Order?

Approved:

- Rate & General Revenue increases.
- A deferral account for SAP S/4HANA (capped at $167M).
- A cloud computing deferral account.
- Rate differentiation for lighting classes.
- Finalization of Curtailable Rate Program and Surplus Energy Program interim orders.

Denied or modified:

- 1% of Hydro's operating & administrative spending (excluding SAP).
- Hydro's request to change load research methodology.
- Amortization of the Change in Depreciation Method deferral account.

Directed Hydro to:

- File quarterly reports on capital projects, hydrology, and major load changes.
- Use the 2024 Depreciation Study.
- Reduce peak demand hours from 50 to 10.
- Rebalance industrial demand/energy rates.

The Final Order also made recommendations related to affordability and energy poverty to both Manitoba Hydro and the Province of Manitoba. As we noted earlier, recommendations are not directives or binding, they are advice based on evidence presented at the hearing.

Manitoba Hydro Fiscal 2026 to 2028 General Rate Application Final Rate Order (the Final Rate Order)

What this order is really about

Manitoba Hydro (Hydro) is facing serious financial pressure because of extreme drought and rising costs. To keep the lights on and maintain the system, the PUB has approved a rate increase, and two general revenue increases for the next three years - some equal for everyone, some adjusted so each customer class pays its fair share. The PUB also pushed back on some Hydro spending, demanded better reporting, and recommended the Province take action on addressing energy poverty.

What's happening to electricity rates?

On December 30, 2025, the PUB approved a 4% interim rate increase to stabilize Hydro's finances during drought conditions, effective January 1, 2026. On March 19th, the PUB issued the Final Rate Order (Board Order 43/26) which finalized the 4% rate increase and approved general revenue

increases of 3.5% in 2027, and 3.0% in 2028. But those later increases will be differentiated - some customer groups will pay slightly more, some slightly less - so that each group pays its fair share of system costs.

Imagine a group of friends sharing a car:

- One person drives it every day.
- One only uses it on weekends.
- One uses it for long highway trips.
- One barely uses it at all.

If they split the costs evenly, it wouldn't reflect how much each person actually uses the car. Cost allocation is the method for dividing the bill fairly.

In simple terms: Cost allocation = matching the costs of running the system to the customers who trigger those costs.

Why it matters: Hydro has many different types of costs:

- Building and maintaining dams.
- Transmission lines across the province.
- Distribution lines in neighbourhoods.
- Buying power during drought.
- Serving remote communities.
- Meeting peak demand (the highest-use hours of the year).

Not every customer uses the system in the same way, so it wouldn't be fair to charge everyone the same share.

<u>Why rates are going up.</u>

There are two major reasons rates are going up: drought and increased operating costs.

Let's start with drought. Severe drought has slashed Hydro's ability to generate cheap hydroelectricity. A $625 million negative financial swing (from a projected net income of $218 million to a projected loss of $409 million) caused the combined effect of:

- Buying expensive power.
- Losing export income.
- Reduced generation at Hydro's own stations.

This is why the PUB approved the interim 4% rate increase. The drought created a sudden, severe financial shock. Hydro's finances are normally stable because water levels are usually predictable. But with climate variability increasing, drought risk is becoming more frequent (5 of the last 7 years), more severe, and more expensive. Drought is now a structural financial risk, not a one-off event.

When revenues fall and costs rise Hydro's debt ratio worsens, borrowing becomes more expensive, and less money is available for maintenance and upgrades. The PUB is watching this closely because Hydro's debt load is already high.

What does drought mean for customers?

Drought directly affects electricity rates. In this order the PUB granted a rate for 2026 that was higher than Hydro requested because of the drought. When Hydro filed its 3-year general rate application on March 25, 2025, it sought a rate of 3.5% effective January 1st on each of the next three years. At the time it filed the application Hydro projected positive net income of $218 million for 2026/26. By the time of the hearing, it projected a net loss of $419 million because of the second worst drought in Manitoba history (a negative turnaround of $627 million). This dramatic turnaround caused the PUB to grant a 4% rate increase effective January 1, 2026. The 2026 increase was tied directly to the financial impact of the drought.

In considering the general revenue increases for 2027 and 2028 the PUB followed the industry practice of basing projections on "normal" water flows. If the drought continues late into 2026 or beyond and Hydro's financial results differ significantly from what was forecast, legislation (subsection 39.4(1) of *The Manitoba Hydro Act*) allows for a review to ensure rates still reflect the utility's real financial situation.

Who can start a review:
- Hydro, with government approval.
- The PUB, directing Hydro to reapply, also with government approval.

What the review can do: Reconsider and adjust rates and the update financial forecasts for the remainder of the period. Government may define

the scope of the review.

Why this exists: To keep rates aligned with actual financial conditions.

Hydro's operating costs. Operating costs, including the SAP S/4HANA replacement, are rising.

SAP is the software Hydro uses to run the core of its business. Things like paying employees, tracking finances, managing assets and equipment, purchasing materials and planning work. Think of it as the organization's central nervous system.

SAP is phasing out the current system used by Hydro, other utilities, and governments, after 2027. This is a non optional modernization that is foundational to the future reliability and customer experience Manitobans will receive. Hydro must replace it with the modern version: SAP S/4HANA, a cloud-based system used by large utilities and governments around the world.

The project is big and multi-year, and Hydro is doing it in three phases. The final rate order deals with Phase 1, which includes:

- Moving core business functions to the new SAP platform.
- Updating processes to match modern standards.
- Preparing for future upgrades (like replacing the billing system later).

Hydro currently estimates $193 million for Phase 1 across Hydro and Centra Gas, with $167 million allocated to Hydro's electric operations.

<u>What does SAP S/4HANA mean for customers?</u>

The SAP project is one of the largest drivers of increased operating and administrative (O&A) expenses in this rate period. Because O&A is a major part of Hydro's budget, the PUB expressed its concern about cost escalation, lack of a full business case, and uncertainty about future phases (including billing system replacement). That's why the PUB approved a deferral account but capped it at $167 million and required Hydro to come back with a full business justification before any further approvals. It was the PUB's way of saying: "We understand you must do this, but we're watching the costs very closely."

A regulatory deferral account is a way for utilities and regulators to “park” certain costs or revenues so they can be dealt with later, instead of all at once.

They work like a holding bin on the utility’s financial statements. When something unusual happens (such as a storm, a sudden fuel price spike, a major one-time cost, or a timing mismatch between when money is spent and when rates are updated) the regulator can allow the utility to record those amounts in a special account.

Nothing is charged to customers right away, but nothing is forgotten either. It’s simply set aside until the regulator reviews it.

Later, during a rate hearing, the regulator decides:

- Should the utility recover this cost from customers?
- Should customers receive a refund because the utility collected too much?
- Should the amount be shared, reduced, or spread over several years to keep rates stable?

This approach helps keep rates more stable and predictable, especially when unexpected events would otherwise cause sudden increases.

Bill Affordability and Energy Poverty Issues

The PUB’s role is to balance the financial health of regulated utilities with the public interest. Although the PUB does not have jurisdiction over social policy or bill affordability issues, it remains deeply concerned about energy poverty issues in Manitoba. The Final Rate Order noted that, in every Hydro rate proceeding since at least 2008, the PUB received submissions related to bill affordability and energy poverty issues, including affordability issues affecting First Nations communities. As a result, the PUB has often expressed concerns regarding these matters and made related recommendations to both Hydro and to the Province of Manitoba.

In the Final Rate Order, the PUB made two recommendations to Hydro:

1. To consider adding ratepayer affordability of its electricity service to its list of six enterprise goals, and

2. That it also continue stakeholder engagement regarding bill affordability issues and further advance initiatives to evaluate and improve the efficiency and levels of support for low-income customers.

The PUB also made two recommendations to the Province of Manitoba:

1. To undertake an Energy Poverty Reduction Review, focusing on Hydro's low-income ratepayers, involving input from multiple stakeholder representatives (e.g., government agencies, Hydro, Efficiency Manitoba, and other non-government agencies or advocacy groups). The Review should involve research to better understand energy poverty and affordability issues affecting Hydro's low-income ratepayers, including a comparative review of how these issues are being addressed in other jurisdictions, and how additional supports can be implemented in Manitoba.

   The Review should be coordinated and supported by the provincial government, resulting in an Energy Poverty Reduction Strategy that considers various mitigation measures, including a refundable income tax credit for low-income Hydro ratepayers.

2. The Province of Manitoba should implement refundable income tax credits that specifically target low-income ratepayers in Manitoba to alleviate the annual energy burden of those customers.

Detailed information regarding the PUB's bill affordability and energy poverty concerns can be found on pages 251-266, and the PUB's recommendations to Hydro and the Province are located on pages 278-279 of the Final Rate Order.

Continuing Education

One of the ways the PUB stays up-to-date on current regulatory issues and best practices in other jurisdictions, is by maintaining memberships and actively participating in regulatory associations.

In May, members of the PUB joined other Canadian regulators, utilities, and industry professionals at CAMPUT 2026, the annual conference for Canada's energy and utility regulators.

The 2026 conference was guided by the theme "*Bridging the Divide: Bold Strategies for a Resilient Energy Future*". Those in attendance explored how regulators and stakeholders can unite across regional, technical, and institutional divides to strengthen Canada's energy future.

Discussions were focused on topics such as: how to bridge the information gap, so consultation is meaningful and fair; how shifts in foreign and trade policy are having direct impacts on the energy landscape, globally, nationally and locally; how to foster cooperation in energy distribution and regulatory alignment across Canada; the critical challenges and emerging solutions surrounding interprovincial transmission, fragmented electricity markets, and regulatory misalignment; and the role of AI in the regulatory and energy field.

More information on the PUB's commitment to its ongoing education will be available in future PUB newsletters.