Part and Chapter:	Volume 2, MNF filing, Attachment 2.6a Attachment 2.6a, Figures 2, 3 and 4 Volume 1, IRP filing, Appendix 6	**Page #:**	4 to 11 and 13 to 66 4 to 11 17 to 21, 22 to 27, 47 to 49 and 50 to 61
Topic:	Impact of Additional Energy Efficiency Amortization Period on Financial Outlook and Revenue Requirements		
Subtopic			

PREAMBLE:

MH provides 20-year financial projections and key financial metrics – for 3 development plans (P3, P5A and P7) at 2 different load projections (2024 Electric Load Forecast (ELF) and 2-Medium Load Projection (MLP)) – for a total of 6 different financial projections (Attachment 2.6a, pgs. 13 to 66).

MH provides information that attempts to simulate the revenue requirement impacts of the proposed major capital projects for the 3 development plans (P3, P5A and P7) at the 2024 Electric Load Forecast (ELF) – noting the limitations of this information (Attachment 2.6a, Figures 2, 3 and 4, pgs. 4 to 11).

MH Exhibit #43 from the last MH GRA included a financial projection and key financial metrics based on a Proxy Development Plan.

MH provides asset life (number of years) estimates of the various resource options and DSM investments that it asserts is feasible in the timeframe of its need for new resources, which are summarized as follows (Volume 1,IRP filing, Appendix 6, pgs. 17 to 21, 22 to 27, 47 to 49 and 50 to 61):

- *Enhancements to Existing Hydropower Stations: 50 years*
- *Natural Gas Combustion Turbine: 30 Years;*
- *Battery Storage: 15 years; and*

- *Additional Energy Efficiency: range of 15 to 25 years. Residential Home Insulation (20 years), Heat Pumps (20-25 Years), Electric Thermal Storage System (20 years) and Customer Energy Solutions (15 years).*

MH's long-standing amortization period for demand side management (DSM) expenditures for financial reporting and rate-setting purposes has been 10 years.

QUESTION:

a) Please explain if MH has re-evaluated the 10-year DSM amortization period for the IRP and MNF filings considering that additional energy efficiency measures have estimated assets lives that range between 15 and 25 years.

b) Please explain if MH has re-evaluated the 10-year DSM amortization period for the IRP and MNF filings in order to place additional energy efficiency expenditures on a more common footing with other resource options that have assumed amortization periods that closely reflect their estimated asset lives.

c) Please provide 20-year financial projections and key financial metrics for (i) the 6 development plans presented in the MNF filing and (ii) MH Exhibit #43 from the last MH GRA – assuming a 20-year amortization period for all Additional Energy Efficiency expenditures contained in each of the 7 financial projections. If the MH financial projection model is unable to apply a specific amortization period to the Additional Energy Efficiency expenditures of 20 years – then please weight a 10-year amortization period for the Efficiency Manitoba Plan Update expenditures and a 20-year amortization period for the Additional Energy Efficiency expenditures (Please note that this stipulation also applies to parts d) to g) of this information request).

d) Please provide the revenue requirement impact analysis (Figure 2 (P5A), Figure 3 (P3) and Figure 4 (P7)) – for the 2024 Electric Load Forecast (ELF) over the 20-year period from 2025/26 to 2044/45 - assuming a 20-year amortization period for all Additional Energy Efficiency expenditures.

e) Please provide the revenue requirement impact analysis (Figure 2 (P5A), Figure 3 (P3) and Figure 4 (P7)) – for the 2-Medium Load Projection (MLP) over the 20-year period from 2025/26 to 2044/45 - assuming a 20-year amortization period for all Additional Energy Efficiency expenditures.

f) Please provide an update to PUB/MH I-70 (summary financial metric table, 20-year financial projections and a key financial metrics summary) from the IRP filing for the 6 development plans analyzed in the MNF filing – solving for the even annual rate increases that are necessary to produce a 87% debt ratio (13% equity ratio) by 2034/35 – and assuming a 20-year amortization period for all Additional Energy Efficiency expenditures.

g) Please provide an update to PUB/MH I-70 (summary financial metric table, 20-year financial projections and a key financial metrics summary) from the IRP filing for the 6 development plans analyzed in the MNF filing – solving for the even annual rate increases that are necessary to produce a 82% debt ratio (18% equity ratio) by 2044/45 and assuming a 20-year amortization period for all Additional Energy Efficiency expenditures.

RATIONALE FOR QUESTION:

To understand the impacts of selection of amortization periods for Additional Energy Efficiency expenditures on the financial outlook/financial health, revenue requirements and rate impacts associated with the various development plans presented in the MNF filing.

RESPONSE:

Response to parts a) to g):

Currently, Manitoba Hydro is not considering re-evaluating the amortization period for DSM programming. A change to the amortization period for DSM programming would not have any impact on projected cash flows or debt levels but would improve non-cash earnings and retained earnings. While this will improve the level of net income through a reduction to non-cash amortization expense, Manitoba Hydro requires adequate cash from operations to minimize debt growth while undertaking the required capital system investments. Extending the amortization period for DSM expenditures does not improve the utility's cash flow situation. To the extent a change in amortization period results in rate action that reduces projected cash flows and increases debt levels, higher finance expense will need to be recovered from customers through rates in the future.

This information request is inviting 19 new financial projections which would require a significant amount of time to complete and therefore cannot be completed within the time allotted for this round of IRs. Instead, Manitoba Hydro has updated the financial projections for the Recommended Development Plan and Plan P7 under 2024 ELF, assuming a 20-year amortization period for all existing and planned energy efficiency expenditures (Base Efficiency Manitoba programming as well as Additional Energy Efficiency programming) starting in 2026/27.

Updating the amortization rate to 20 years reduces total DSM amortization over the planning horizon by roughly 40% compared to the 10-year DSM amortization rate scenarios.

These scenarios have been run under the following two rate paths as requested:

1) a 3.5% rate path, and

2) even-annual rate increases to achieve an 82% debt ratio by March 31, 2045.

The 20-year financial projections and key financial metrics of both rate paths above, assuming a 20-year amortization period, are in Attachment 1 of this response.

Figure 1 below shows the cash from operations, average net income, retained earnings, net debt and debt ratio for the recommended development plan and for Plan P7 assuming both a 10- and 20-year amortization period for energy efficiency expenditures under the 3.5% rate path. Cash from operations and net debt are unchanged in the two scenarios.. For the Recommended Development Plan, by March 31, 2045, the 20-year amortization scenario projects a retained earnings balance of approximately $1.0 billion higher and a 2% improvement in the debt ratio. For Plan P7, by March 31, 2045, the 20-year amortization scenario projects a retained earnings balance of approximately $1.7 billion higher and a 4% improvement in the debt ratio.

Figure 1 – Financial Metric Comparison

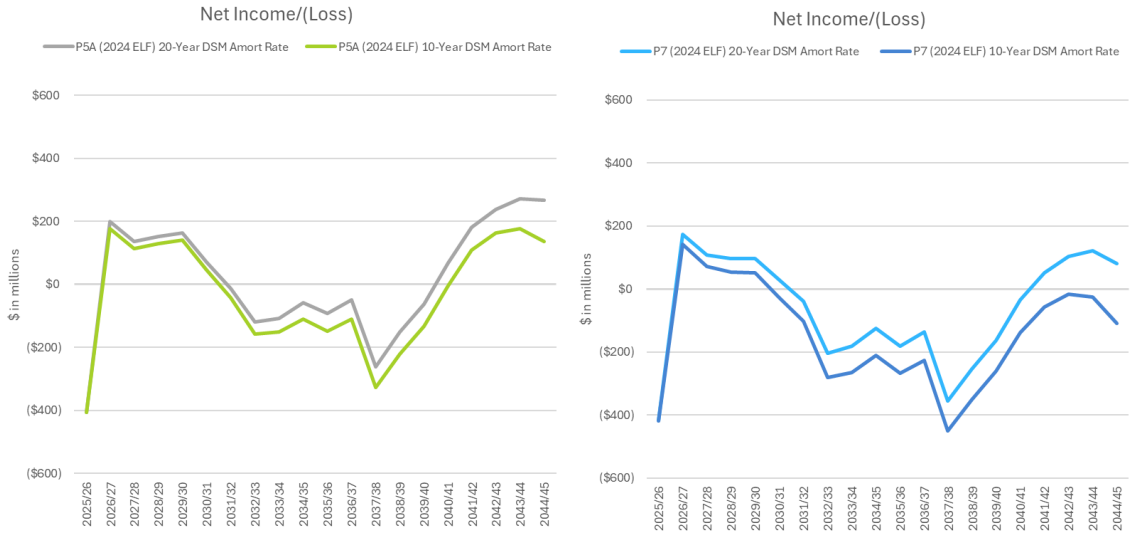
	2034/35				
	Cash from Operations 2026/27-2034/35	Average Net Income 2026/27-2034/35	Retained Earnings March 31, 2035	Net Debt at March 31, 2035	Debt Ratio at March 31, 2035
P5A (2024 ELF) 20-Year DSM Amort Rate	$6 095 M	$47 M	$3 212 M	$34 B	89%
P5A (2024 ELF) 10-Year DSM Amort Rate	$6 095 M	$16 M	$2 933 M	$34 B	89%
P7 (2024 ELF) 20-Year DSM Amort Rate	$5 290 M	($5) M	$2 737 M	$35 B	90%
P7 (2024 ELF) 10-Year DSM Amort Rate	$5 290 M	($63) M	$2 212 M	$35 B	91%

	2044/45				
	Cash from Operations 2035/36-2044/45	Average Net Income 2035/36-2044/45	Retained Earnings March 31, 2045	Net Debt at March 31, 2045	Debt Ratio at March 31, 2045
P5A (2024 ELF) 20-Year DSM Amort Rate	$10 689 M	$40 M	$3 617 M	$36 B	88%
P5A (2024 ELF) 10-Year DSM Amort Rate	$10 689 M	($36) M	$2 570 M	$36 B	90%
P7 (2024 ELF) 20-Year DSM Amort Rate	$9 328 M	($76) M	$1 974 M	$39 B	92%
P7 (2024 ELF) 10-Year DSM Amort Rate	$9 328 M	($190) M	$311 M	$39 B	96%

Figure 2 below shows the annual net income/(loss) between the scenarios. For the Recommended Development Plan, projected earnings in the first decade are on average $30 million higher under the 20-year amortization scenario. Projected earnings between 2035/36 to 2044/45 are on average approximately $75 million higher under the 20-year amortization scenario.

For Plan P7, projected earnings in the first decade are on average $60 million higher under the 20-year amortization scenario. Projected earnings between 2035/36 to 2044/45 are on average approximately $115 million higher under the 20-year amortization scenario.

Figure 2 – Net Income/(Loss)



For the Recommended Development Plan, an even annual rate path of 3.80% between 2028/29 to 2044/45 is required to achieve an 82% debt ratio by 2044/45 assuming the 20-year DSM amortization rate. For Plan P7, an even annual rate path of 4.06% between 2028/29 to 2044/45 is required to achieve an 82% debt ratio by 2044/45 assuming the 20-year DSM amortization rate.

The 20-year financial projections and key financial metrics of these scenarios can be found in Attachment 1.