

Order No. 161/25

MANITOBA HYDRO

**ORDER APPROVING AN INTERIM 4.0% GENERAL RATE INCREASE
EFFECTIVE JANUARY 1, 2026**

December 30, 2025

BEFORE: Robert Gabor, K.C., Chair
Marilyn Kapitany, B.Sc.(Hon), M.Sc., Vice-Chair
Jim Hrichishen, B.A. (Hon.), M.A, Member
Tannis Mindell, Assoc. Ed., Member
Kurt Simonsen, BSc., M.N.R.M., Member

Table of Contents

1.0 Executive Summary 3

2.0 Background 5

 2.1 Manitoba Hydro’s General Rate Application 5

 2.2 Manitoba Hydro’s Deteriorating Financial Forecast 6

 2.3 Intervener Evidence and Submissions 8

3.0 Board Findings on Interim 4.0% Rate Increase 10

4.0 Issues Not Addressed in this Order..... 12

 4.1 Diesel Zone Rates 12

 4.2 Rate Differentiation and the Zone of Reasonableness 12

 4.3 Cost of Service, Intra-Class Rate Differentiation and Rate Design..... 12

5.0 IT IS THEREFORE ORDERED THAT: 13

1.0 EXECUTIVE SUMMARY

This order approves a 4.0% general rate increase for Manitoba Hydro on an interim basis, effective January 1, 2026. The increase is equal to the legislated maximum annual rate increase set out in *The Manitoba Hydro Act* and applies to all customer classes and all rate components, except for rates in Manitoba Hydro's Diesel Zone. The interim increase is required on an urgent basis because of a severe drought. Water inflows into Manitoba Hydro's watershed are currently near the 2nd-lowest level in 112 years.

Manitoba Hydro filed a three-year general rate application in March 2025. In its application, the utility seeks three consecutive years of 3.5% increases. The interim rate increase approved in this order is higher than what the utility requested for the 2025/26 fiscal year, but the Public Utilities Board ("Board") is of the view that the increase is necessary, on an urgent basis, to protect the financial health of Manitoba Hydro in light of the current drought.

In setting rates, the Board's mandate is to balance the interests of ratepayers against the financial health of the utility. When Manitoba Hydro filed its application, it anticipated a positive net income of \$218 million for the 2025/26 fiscal year. Under its most recent drought projection, which was filed in December 2025, the utility now expects a loss of \$409 million — a deterioration of more than \$625 million. The Board finds that this deterioration justifies an interim rate increase equal to the legislated maximum to protect Manitoba Hydro's financial health. The Board may adjust this increase in its final rate order in Manitoba Hydro's Fiscal 2026-2028 General Rate Application, to be released in the first quarter of 2026.

The hearing of Manitoba Hydro’s application concluded on December 22, 2025 and raised many other issues, including the appropriateness of Manitoba Hydro’s planned expenditures, the need for continued differentiation of rate increases for different customer classes, and various cost of service and rate design matters. None of these issues are addressed in this interim order. The Board will address those issues — and establish final 2025/26 electricity rates — in a subsequent order to be released in 2026. The Board also expects the final order to address issues related to energy poverty and ratepayer affordability, which continue to concern the Board.

2.0 BACKGROUND

2.1 Manitoba Hydro's General Rate Application

In 2022, the Province of Manitoba amended *The Manitoba Hydro Act* to require Manitoba Hydro to file general rate applications for successive three-year rate periods, beginning with the period starting on April 1, 2025 and ending on March 31, 2028. Manitoba Hydro filed its Fiscal 2026-2028 General Rate Application (which covers the first rate period), on March 28, 2025, three days before the beginning of the rate period. As a result, the hearing of Manitoba Hydro's application only concluded on December 22, 2025, close to the end of the third quarter of the first test year.

The Board held a public hearing of the application with two rounds of written information requests, written intervener evidence, one round of information requests to intervener experts, written rebuttal evidence by Manitoba Hydro, and an oral hearing that began on November 17, 2025. For the purpose of the hearing, the Board approved the following interveners:

- Assembly of Manitoba Chiefs ("AMC")
- Consumers Coalition
- Representative of the General Service Small and General Service Medium Customer Classes ("GSS/GSM Representative")
- Manitoba Eco-Network and Environmental Defence ("MEED")
- Manitoba Industrial Power Users Group ("MIPUG")
- Manitoba Keewatinowi Okimakanak ("MKO")

The Board will issue a final order in Manitoba Hydro's application in the first quarter of 2026. However, as described below, the Board sees a need for this interim rate order because of the serious deterioration in Manitoba Hydro's financial position resulting from the current drought.

2.2 Manitoba Hydro’s Deteriorating Financial Forecast

When Manitoba Hydro filed its application on March 28, 2025, it sought the following general rate increases:

- 3.5% on January 1, 2026;
- 3.5% on January 1, 2027; and
- 3.5% on January 1, 2028.

Based on the utility’s financial forecast as included in its application, Manitoba Hydro projected this rate path to lead to a positive net income of \$218 million in the 2025/26 fiscal year. However, since the initial filing in March 2025, Manitoba Hydro’s financial situation has deteriorated significantly because of drought conditions. Water flows in 2025/26 have been extremely low and are currently near the 2nd-lowest level since Manitoba Hydro began to keep water flow records 112 years ago. As can be seen in Figure 2.1, system inflows have not been this low since 1988/89.

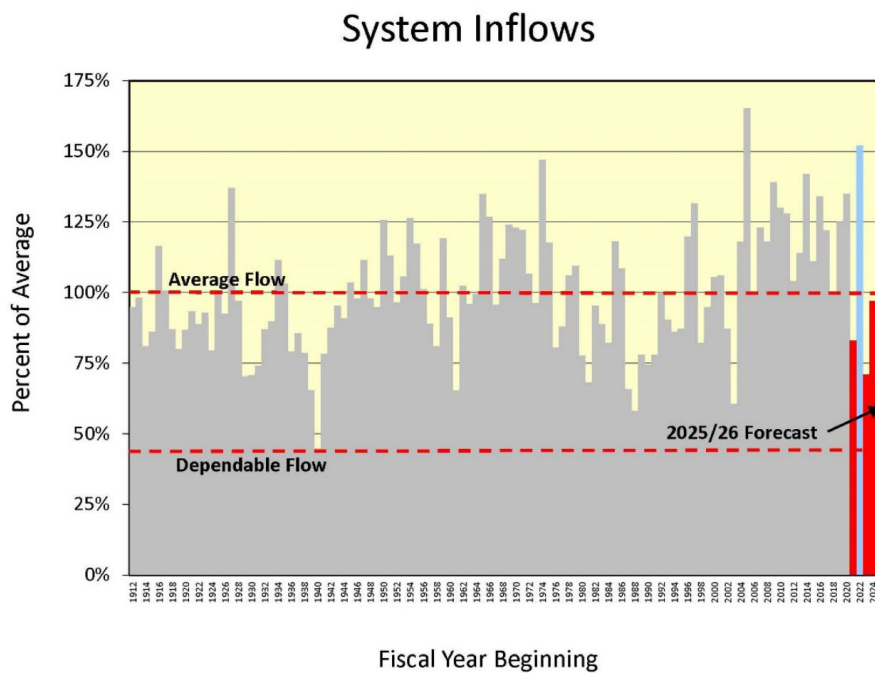


Figure 2.1 — Updated System Inflow Chart

As a result of the drought conditions, Manitoba Hydro now projects a loss of \$409 million in 2025/26. This means that, over the past nine months, Manitoba Hydro's financial situation for the first year of the rate application has deteriorated by over \$625 million. Because of the need for additional debt resulting from the current-year loss, the utility expects its annual finance expense to be approximately \$30 million higher per year over the next decade.

As a result of the drought, Manitoba Hydro's financial metrics have deteriorated as well. Pending an ongoing financial target review, Manitoba Hydro has three long-standing cash flow-based financial targets: a capital coverage ratio of 1.2, an earnings before interest and taxes (EBIT)-based interest coverage ratio of 1.2, and an earnings before interest, taxes, depreciation and amortization (EBITDA)-based interest coverage ratio of 1.8. As set out in Figure 2.2, Manitoba Hydro will be significantly below those targets even with the 3.5% rate increase sought by the utility. In particular, Manitoba Hydro's EBIT-based interest coverage ratio has declined to 0.6 and its EBITDA-based interest coverage ratio has declined to 1.29 in the current fiscal year.

\$ in millions	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Net Income/(Loss)							
Actuals (21/22 - 24/25) & 25/26-27/28 Forecast*	(\$249)	\$573	(\$135)	(\$49)	(\$409)	\$169	\$101
AFFS (22/23 - 24/25) & 2026 to 2028 GRA (25/26-27/28)	\$751	\$469	\$295	\$218	\$187	\$127	
Increase/(Decrease)							
Cumulative Increase/(Decrease)		(\$178)	(\$604)	(\$344)	(\$627)	(\$17)	(\$27)
		(\$178)	(\$782)	(\$1 126)	(\$1 753)	(\$1 770)	(\$1 797)
EBIT Interest Coverage Ratio							
Actuals (21/22 - 24/25) & 25/26-27/28 Forecast*	0.77	1.60	0.86	0.94	0.60	1.16	1.10
AFFS (22/23 - 24/25) & 2026 to 2028 GRA (25/26-27/28)		1.80	1.51	1.32	1.22	1.19	1.13
EBITDA Interest Coverage Ratio							
Actuals (21/22 - 24/25) & 25/26-27/28 Forecast*	1.31	2.25	1.59	1.61	1.29	1.87	1.85
AFFS (22/23 - 24/25) & 2026 to 2028 GRA (25/26-27/28)		2.48	2.21	2.06	1.92	1.91	1.90
Capital Coverage Ratio							
Actuals (21/22 - 24/25) & 25/26-27/28 Forecast*	0.51	2.15	0.77	0.67	0.24	0.89	1.20
AFFS (22/23 - 24/25) & 2026 to 2028 GRA (25/26-27/28)		2.26	2.23	1.61	1.06	0.91	1.24

* Exhibit MH-42 Undertaking 24 updated with MH Undertaking Accepted on Transcript Page 1440 - October 2025 Update Forecast

Figure 2.2 — Impact of the Drought on Manitoba Hydro's Financial Metrics¹

¹ Note: The top row, marked "Actuals", is the actual financial results for 2022/23, 2023/24 and 2024/25, while 2025/26, 2026/27 and 2027/28 reflect the most recent October 2025 forecast. The second line in the table refers to the Amended Financial Forecast Scenario filed by Manitoba Hydro in its 2023/24 & 2024/25 General Rate Application. The values for 2022/23, 2023/24, and 2024/25 are based on this forecast. The values for 2025/26, 2026/27, and 2027/28 are based on the initial forecast included in the current application.

While Manitoba Hydro remains involved in a review of its financial targets, the Board received evidence from the Consumer Coalition's witness Mr. Colaiacovo that the interest coverage ratio is the most important financial metric for a utility like Manitoba Hydro. Mr. Colaiacovo explained that an EBITDA-based interest coverage ratio below 1.0 means that the utility cannot pay its bills (meaning it would have to borrow to pay operating expenses or interest), while a persistent EBIT-based interest coverage ratio below 1.0 means that ratepayers are not paying the full cost of power. As seen in Figure 2.2, the EBIT-based interest coverage ratio has been below 1.0 since 2023/24. However, Manitoba Hydro continues to be able to make interest payments out of cash flow from operations and advised that it would only have to borrow to make interest payments if the 2025/26 net loss exceeded \$570 million.

In light of the drought-related financial deterioration, Manitoba Hydro acknowledged, in cross-examination during the recently completed hearing, that it would need as much of a rate increase as it can get. Nonetheless, the utility has not updated its rate request and continues to ask for a 3.5% rate increase effective January 1, 2026. Manitoba Hydro advised that, in making this decision, it considered affordability as well as the possibility of water flows rebounding relatively quickly.

2.3 Intervener Evidence and Submissions

The Board received evidence from multiple intervener experts, as well as detailed intervener closing submissions. A fundamental issue raised by interveners was whether Manitoba Hydro has undertaken adequate management action and cost control measures to manage the ongoing drought and the utility's capital and operational expenditures. In particular, the Consumers Coalition's witness Mr. Rainkie recommended that Manitoba Hydro's ongoing operating & administrative expenses be escalated at no more than 2.0% per year, and that the utility should reduce its business operations capital spending by 10% per year. Several interveners, notably the AMC, the Consumers Coalition, and MKO, also raised concerns about affordability with Manitoba Hydro's proposed rate path.

The expert witnesses retained by interveners made different rate recommendations, not all of which were adopted by those interveners. For example, while the Consumers Coalition’s witness Mr. Rainkie recommended a 2.25% rate increase in 2025/26, its other witness Mr. Colaiacovo recommended a rate increase of 4.0% for the same year because of the drought. In final submissions, the parties ultimately differed regarding their rate path recommendations for Manitoba Hydro. Figure 2.3 sets out the rate paths recommended by each of the parties to the hearing.

Party	Recommended Rate Increase		
	2025/26	2026/27	2027/28
Manitoba Hydro	3.5%	3.5%	3.5%
Assembly of Manitoba Chiefs	“as low as possible” ²		
Consumers Coalition	2.25%	2.25%	2.25%
GSS/GSM Representative	2.0% ³	2.0%+	2.0%+
Manitoba Eco-Network and Environmental Defence	no position		
Manitoba Industrial Power Users Group	4.0%	4.0%	0%
Manitoba Keewatinowi Okimakanak	no increase to Residential or Diesel rates		

Figure 2.3 — Rate Increases Recommended by Each Party

² AMC supports MKO’s opposition to a Diesel Zone rate increase.

³ The GSS/GSM Representative recommends a rate path of 2.0% per year, with an additional 2.0% drought impact adder during the rate period, without specifying how the Board is to allocate this adder between the three test years.

3.0 BOARD FINDINGS ON INTERIM 4.0% RATE INCREASE

The Board finds that the drought-related deterioration of Manitoba Hydro's financial situation justifies an interim 4.0% rate increase effective January 1, 2026, pending the adjudication of Manitoba Hydro's complete Fiscal 2026-2028 General Rate Application.

While Manitoba Hydro did not seek a rate increase above 3.5% for January 1, 2026, the Board does not consider a 3.5% rate increase to be in the public interest and concludes that a higher increase — at the legislated 4.0% rate cap annual maximum — is justified. In the view of the Board, an anticipated \$409 million loss in 2025/26, even with a 3.5% rate increase, is not a prudent planning scenario.

The Board remains mindful of its mandate to balance the interests of ratepayers against the financial health of the utility. Manitoba Hydro's residential rates are currently the 2nd-lowest in Canada, but energy poverty continues to be a serious problem in the province. However, while the Board shares the concerns about affordability expressed by several interveners, it must respond to the serious nature of the drought. The Board notes that the purpose of interim orders is to be able to respond to situations of an urgent nature that are outside the utility's control. In this case, urgent interim rate relief is justified.

The Board observes that the 4.0% interim increase it approves in the 2025/26 test year does not alleviate Manitoba Hydro's current-year financial situation. Because Manitoba Hydro filed its application three days before the beginning of the three-year rate period and the hearing ended on December 22, 2025, the third quarter of the current fiscal year has almost elapsed. As such, the interim rate increase takes effect at the beginning of the fourth quarter. This means that the overall rate increase approved in this order will only recover an additional \$24 million, with the incremental rate increase of 0.5% in excess of what Manitoba Hydro applied for accounting for \$3 million of that amount.

The Board's ruling in this interim order should not be construed as an endorsement of Manitoba Hydro's projected expenditures during the rate period or beyond. The Board is concerned about Manitoba Hydro's 25% escalation to operating and administrative

expenses during the rate period, at a time when the utility plans to undertake several multi-billion dollar capital projects. However, for the purposes of this interim order, the Board notes that the 2025/26 test year has already 75% elapsed, making it difficult for the utility to respond to a disallowance of costs in the current fiscal year. It would not be in the public interest for the Board to set an unrealistic operating and administrative expense reduction target for 2025/26, if doing so would further exacerbate the projected net loss. However, the Board intends to critically assess Manitoba Hydro's projected expenditures before issuing a final rate order in the Fiscal 2026-2028 General Rate Application, and will take the recommendations from interveners into consideration in finalizing a rate for the first test year and setting rates for the second and third test years of the rate period.

The Board similarly notes that Manitoba Hydro's drought-related financial deterioration in the current fiscal year cannot be addressed by a reduction in capital expenditures. Neither of the two planned major capital projects (the dispatchable capacity resource and HVDC refurbishment) have a revenue requirement impact during the 2026-2028 rate period, and a 10% cut to business operations capital would have an immediate annual impact of \$2 million in 2025/26 and a cumulative impact of \$25 million during the three-year rate period.

On an interim basis, the Board considers it to be in the public interest for the 4.0% rate increase effective January 1, 2026 to be applied equally to all customer classes and rate components, without rate differentiation, with the exception of customers in the Diesel Zone. However, the Board will consider the appropriateness of rate differentiation in its adjudication of the complete general rate application, having regard to clause 39.1(1)(a) of *The Manitoba Hydro Act*, the submissions of the parties in the current proceeding, and the Board's rate differentiation findings set out in Orders 59/18 and 101/23.

4.0 ISSUES NOT ADDRESSED IN THIS ORDER

4.1 Diesel Zone Rates

There are four remote communities (Brochet, Lac Brochet, Tadoule Lake, and Shamattawa) that are not connected to the electrical grid and receive their electricity from diesel-fired generators. These communities are known as the Diesel Zone. This order does not address Diesel Zone rates and does not approve any rate increase in the Diesel Zone. The Board notes that Diesel Zone customers are not served by hydroelectrically generated electricity or by Manitoba Hydro's provincial grid. As such, the Board does not consider it to be in the public interest to approve a drought-related interim rate increase for January 1, 2026. However, the Board notes that it will consider Manitoba Hydro's request to increase Diesel Zone rates in the current fiscal year in its final order.

4.2 Rate Differentiation and the Zone of Reasonableness

The Board is mindful of requests for rate differentiation made by the GSS/GSM Representative and MIPUG with respect to the General Service Small – Non-Demand (GSS-ND) and General Service Large (GSL) customer classes. The Board intends to evaluate the appropriateness of continued rate differentiation in its final order, both in the context of overall ratepayer fairness and in the context of clause 39.1(1)(a) of *The Manitoba Hydro Act*.

4.3 Cost of Service, Intra-Class Rate Differentiation and Rate Design

Similarly, this interim order does not deal with any proposed cost of service changes, intra-class rate differentiation (including for the Area & Roadway Lighting class), or rate design matters. The Board will consider these issues and expects to address them in its final order.

5.0 IT IS THEREFORE ORDERED THAT:

1. The portion of Manitoba Hydro's Fiscal 2026-2028 General Rate Application seeking an overall 3.5% increase in general consumers revenue effective January 1, 2026 **BE AND HEREBY IS VARIED** to approve a 4.0% general rate increase **ON AN INTERIM BASIS**. The increase is to be applied equally:
 - a) to all rate classes, excluding any of the Diesel Zone rates; and
 - b) to all rate components, including all lighting types in the Area & Roadway Lighting customer class.

For certainty, because this directive approves a general rate increase rather than an increase in general consumers revenue, Manitoba Hydro is not authorized to recover any shortfall caused by the exclusion of the Diesel Zone rates from other customer classes.

2. Manitoba Hydro is directed to file, for Board approval, revised rate schedules to be effective January 1, 2026 and the proof of revenues and bill impact tables reflecting the decision set out in Directive 1.


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 58 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, K.C."
Panel Chair

"Rachel McMillin, B.Sc., MPA"
Board Secretary

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Board Secretary