

MANITOBA HYDRO
2015/16 & 2016/17 GENERAL RATE APPLICATION

PUB DIRECTIVES AND INTERIM ORDERS

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PUB DIRECTIVES AND INTERIM ORDERS

10.0 OVERVIEW

Tab 10 outlines the interim Orders for which Manitoba Hydro is seeking final PUB approval in Section 10.1 and provides responses to and status of PUB directives in Sections 10.2 to 10.4.

10.1 FINAL APPROVAL OF INTERIM ORDERS

Manitoba Hydro is seeking final approval of interim and *ex parte* Orders as follows:

- a) Final approval of Orders 49/14 and 51/14 which approved, on an interim basis, a 2.75% rate increase effective May 1, 2014 applied on an across-the-board basis, and final approval of any other interim rate Orders issued subsequent to the filing of the Application and prior to conclusion of this proceeding;
- b) Final approval of the Light Emitting Diode (“LED”) rates for the Area and Roadway Lighting class approved on an interim basis in Order 79/14;
- c) Final approval of all SEP interim *ex parte* rate Orders, as outlined in Appendix 10.1, as well as any additional SEP *ex parte* Orders issued subsequent to the filing of this Application and prior to the PUB’s Order in this matter;
- d) Final approval of CRP *ex parte* Order 46/14 as well as any additional *ex parte* Orders in respect of the CRP issued subsequent to the filing of this Application and prior to the PUB’s Order in this matter; and,
- e) Final approval of interim Orders, as outlined in Appendix 10.1, related to the four remote communities served by diesel generation, as outlined in Manitoba Hydro’s Application.

Appendix 10.1 includes a complete list of interim and *ex parte* Orders up to January 2015 which require final approval.

1 **10.2 DIRECTIVES FROM ORDER 43/13**

2
3 **10.2.1 Interim Application Filing Requirements**

4
5 5. *That Manitoba Hydro file with the Board, as part of any future interim*
6 *application for rate increases, the following information on a monthly basis for*
7 *the previous three months, and on an on-going basis until a rate Order in*
8 *respect of the Application is issued:*

9
10 (a) *Hydraulic generation monthly data (GWh) for the Winnipeg River*
11 *System, Grand Rapids, Upper Nelson River Generating Station(s),*
12 *Lower Nelson River Generating Station(s), and Wuskwatim Generating*
13 *Station;*

14 (b) *Monthly adjusted system energy-in-storage curves and Lake Winnipeg*
15 *water levels;*

16 (c) *Average monthly flow data for the Winnipeg River, Saskatchewan River,*
17 *and Upper Nelson River (Kelsey Generating Station) and Lower Nelson*
18 *River (Kettle Generating Station);*

19 (d) *Monthly extra-provincial energy exchange data (volumes and prices) for*
20 *National Energy Board-filed sales and purchases (by permit / license*
21 *number), Midwest Independent System Operator day-ahead and real-*
22 *time sales and purchases, and Canadian sales and purchases; and*

23 (e) *Monthly updates to Manitoba Hydro's financial results relative to its*
24 *forecast.*

25
26 Status: Ongoing

27 Manitoba Hydro has provided the information from (a) to (d) for the period April to
28 December 2014 as Appendix 9.1 of this Application. Manitoba Hydro will provide this
29 information on an ongoing basis until a rate Order in respect of the April 1, 2015 interim
30 rate request is issued by the PUB.

31
32 With respect to item (e) above, Manitoba Hydro has provided the Manitoba Hydro-
33 Electric Board ("MHEB") quarterly report for the six months ended September 30, 2014
34 as Appendix 5.3 of this Application. Manitoba Hydro will file with the PUB, the MHEB
35 quarterly report for the nine months ended December 31, 2014 once it is publicly
36 released, which is expected to be in late February 2015.

1 **10.2.2 IFRS Status Update Report**

- 2
- 3 **6. *That Manitoba Hydro file with the Board an International Financial Reporting***
4 ***Standards status update report prior to the next General Rate Application that***
5 ***will provide the Board options available for rate-setting purposes.***
- 6

7 Status: Complete

8 Manitoba Hydro has provided its International Financial Reporting Standards (“IFRS”)
9 status update report as Appendix 3.4 of this Application.

10

11 As outlined in Appendix 5.7 of Tab 5, the overall impacts of the accounting policy and
12 estimate changes that are forecast to be made in 2014/15 and 2015/16 offset each other
13 and result in an overall reduction in Manitoba Hydro’s future revenue requirements, and
14 as such are not driving the need for the proposed rate increases.

15

16 Given that the net impact of these changes are not driving the need for rate increases, it is
17 the position of Manitoba Hydro that IFRS financial reporting policies should be adopted
18 for rate-setting purposes as they are in no way harming ratepayers. Furthermore, as has
19 been the position of Manitoba Hydro as previous rate proceedings, under the cost of
20 service rate-making approach that has been utilized by Manitoba Hydro, it is unnecessary
21 and undesirable to maintain two sets of financial records, one for financial reporting
22 purposes and one for rate-setting purposes. To do so, would cause confusion between
23 Manitoba Hydro and its various stakeholders, including the PUB as they would be using
24 different sets of financial information to make important decisions with respect to the
25 Corporation’s operations and finances.

26

27 **10.2.3 Asset Condition Assessment Report**

- 28
- 29 **7. *That Manitoba Hydro complete and file with the Board an Asset Condition***
30 ***Assessment Study no later than the filing of the next updated depreciation study***
31 ***with the Board.***
- 32

33 Status: Complete

34 Manitoba Hydro has provided its electric infrastructure condition assessment report as
35 Appendix 4.2 of this Application.

36

1 **10.2.4 Comparison of ELG vs. ASL under IFRS**

2
3 8. *That Manitoba Hydro file updated depreciation rates and schedules based on*
4 *an International Financial Reporting Standards-compliant Average Service*
5 *Life methodology with the next General Rate Application.*

6 9.
7 *That Manitoba Hydro file with the Board, with the next General Rate*
8 *Application, a chart showing a comparison of the impact on its Integrated*
9 *Financial Forecast (i.e. 'Budget') of asset depreciation pursuant to the Average*
10 *Service Life methodology (without net salvage) and the Equal Life Group*
11 *methodology (without net salvage), applying both methodologies to all planned*
12 *major capital additions.*

13
14 Status: Open

15 Manitoba Hydro has previously advised the PUB that it is not able to provide a
16 comparison of ELG and ASL IFRS compliant depreciation rates based on a full ASL
17 depreciation study. As such, Manitoba Hydro has been working on an alternate approach
18 that does not require a full ASL depreciation study, but would demonstrate the impacts of
19 using ELG versus ASL methodologies. Manitoba Hydro anticipates filing a response with
20 respect to these Directives before receipt of Round 1 Information Requests in the current
21 proceeding.

22
23 **10.2.5 Adequacy of Manitoba Hydro's Financial Reserves**

24
25 10. *That Manitoba Hydro file, with its next General Rate Application, a detailed*
26 *quantitative and probabilistic risk assessment and review of all of its operating*
27 *and financial risks in order to allow the Board to assess the adequacy of the*
28 *reserves. Commercially sensitive information in the report is to be redacted*
29 *from the public version and filed in confidence with the Board.*

30
31 Status: Open

32 Manitoba Hydro has recently commenced a review of its financial targets and KPMG has
33 been selected as the consultant to provide recommendations to Manitoba Hydro on the
34 appropriate financial targets which align with the mandate of the Corporation and the
35 interests of its stakeholders considering its operating and business outlook and associated
36 risks. The review will consider the objectives of maintaining rate stability for customers

1 and Manitoba Hydro's self-supporting status for credit rating purposes. It is expected that
2 this review will be completed in time for the approval of IFF15 by the MHEB in late fall of
3 2015.

4
5 As part of this review, analysis will also be provided to satisfy PUB Directive 10 from
6 Order 43/13 to review Manitoba Hydro's operating and financial risks in order to assess
7 the adequacy of financial reserves, including, as appropriate, the use of quantitative and
8 probabilistic analysis. It is expected that this information would be available for review
9 by the PUB at the next GRA proceeding.

10
11 Manitoba Hydro has filed extensive information in Appendices 3.5 and 3.6 of the
12 Application with respect to the financial impacts of the key risks of the Corporation, as
13 well as the financial implications of various alternative rate scenarios. Manitoba Hydro is
14 of the view that this information provides adequate support for the PUB to approve
15 Manitoba Hydro's Application for 2015/16 and 2016/17.

16
17 **10.2.6 WPLP Agreement Changes**

18
19 *11. That Manitoba Hydro file with the Board any negotiated agreements or*
20 *changes with respect to the Wuskwatim Power Limited Partnership when*
21 *finalized, and detail the impacts on Manitoba Hydro's operating results and*
22 *rates.*

23
24 Status: Open

25 Manitoba Hydro and Nisichawayasihk Cree Nation ("NCN") have reached an agreement-
26 in-principle on a majority of terms within the Wuskwatim Project Development
27 Agreement ("PDA"). The parties are still in the process of conducting a review and
28 negotiating final terms of the PDA. As part of NCN's approval process, NCN will be
29 required to conduct community consultations prior to ratifying any final agreement. If an
30 agreement is finalized prior to the end of the GRA, Manitoba Hydro will provide a copy
31 of the executed agreement to the PUB.

32
33 As noted in IFF14 at page 13, the projected net impact to Manitoba Hydro of the terms of
34 the Agreement in Principle averages approximately \$15 million per year over the 20-year
35 forecast period.

36

1 **10.2.7 DSM Deferral Account**
2

3 ***12. That Manitoba Hydro's revenue requirements are determined based on the level***
4 ***of Demand-Side Management spending as set out in Manitoba Hydro's 2011***
5 ***Power Smart report, i.e., \$34 million for 2012/13 and \$35 million for 2013/14,***
6 ***for a total of \$69 million. To the extent Manitoba Hydro's spending on***
7 ***Demand-Side Management in the test years, including the Affordable Energy***
8 ***Fund and the Lower Income Energy Efficiency Program, falls below \$69***
9 ***million, Manitoba Hydro shall establish a deferral account for the discrepancy,***
10 ***the disposition of which the Board will consider at the next General Rate***
11 ***Application.***

12
13 Status: Open

14 Pursuant to Order 43/13, Manitoba Hydro established a rate-regulated liability and a
15 corresponding rate-regulated asset in the amount of \$16 million for Electric operations in
16 its financial statements for the year ended March 31, 2014. The PUB confirmed that this
17 accounting treatment is consistent with the intent of Order 43/13 and noted that Manitoba
18 Hydro has increased planned DSM spending in its 2014 Power Smart Plan and indicated
19 that it will assess the status of the rate-regulated asset and liability at the next GRA.

20
21 Manitoba Hydro's understanding is that the intent of establishing the DSM deferral
22 account was to encourage the Corporation to increase its level of DSM programming. If
23 its understanding is correct, then Manitoba Hydro is of the view that the intent of this
24 Directive has now been satisfied by the higher level of DSM spending set forth in the
25 2014 Power Smart Plan. Accordingly, Manitoba Hydro is requesting the PUB's approval
26 to rescind the Demand Side Management deferral account established pursuant to Order
27 43/13 for the 2012/13 and 2013/14 fiscal years and on a go-forward basis.

28
29 **10.2.8 Curtailable Rate Program Changes**
30

31 ***13. That Manitoba Hydro's proposed changes to the Curtailable Rate Program BE***
32 ***AND ARE HEREBY APPROVED ON AN INTERIM BASIS, to be reviewed by***
33 ***the Board at a General Rate Application to follow the Needs For And***
34 ***Alternatives To (NFAT) hearing with respect to Manitoba Hydro's Preferred***
35 ***Development Plan.***
36

1 Status: Open

2 By letter of May 15, 2013, Manitoba Hydro advised the PUB that two of the proposed
3 changes to the Curtailable Rate Program (“CRP”) are difficult to implement on an interim
4 basis as customer decisions in response to these changes are not easily reversible if these
5 changes are not subsequently approved as final. As such, Manitoba Hydro requested to
6 defer implementation of the change in the defined hours for peak and off-peak periods,
7 and the elimination of Curtailment Options “C” and “CE”, until such time as the PUB
8 grants final approval. By letter of June 25, 2013, the PUB confirmed Manitoba Hydro’s
9 request to defer implementation of these changes.

10
11 Manitoba Hydro is seeking confirmation that the PUB accepts the rate approval process
12 given the proposed modifications to the CRP that were approved on an interim basis in
13 Order 43/13, as outlined in Tab 6 of this Application. Manitoba Hydro will implement
14 these changes upon final approval from the PUB.

15
16 **10.2.9 Surplus Energy Program Changes**

17
18 ***15. That Manitoba Hydro’s Option 1 Surplus Energy Program rate offering BE***
19 ***AND IS HEREBY APPROVED ON AN INTERIM BASIS, to be reviewed by***
20 ***the Board at a Cost of Service/Time of Use hearing.***

21
22 Status: Open

23 Manitoba Hydro is seeking confirmation that the PUB accepts the rate approval process
24 given proposed modifications to the Terms and Conditions of Option 1 of the Surplus
25 Energy Program that were approved on an interim basis in Order 43/13, as outlined in
26 Tab 6 of this Application.

27
28 **10.3 DIRECTIVES FROM ORDER 134/10**

29
30 **10.3.1 Confirmation of Diesel Settlement Agreement and Interim Rates**

31
32 ***3. MH file with the Board and all Parties to this Diesel Zone Application:***

- 33
34 ***(a) Confirmation that the Settlement Agreement (from the 2004 Minutes of***
35 ***Settlement) has been fully executed;***
36 ***(b) A true copy of the fully executed Settlement Agreement;***

1 (c) ***Confirmation of payments or adequate funding arrangements for the***
2 ***capital costs incurred by MH, by community, since 2004; and***
3 ***Indication of capital costs still in dispute, if any, and the process and***
4 ***timeline for resolution of such dispute(s).***
5

6 ***4. MH, supported by the written consents of INAC, MKO, the four First Nations and***
7 ***CAC/MSOS, is to seek an Order of this Board to confirm, as final, all Diesel Zone***
8 ***rates approved on an interim basis since 2004, including those interim rate***
9 ***approvals in Board Orders 17/04, 46/04, 159/04, and 176/06.***
10

11 Status: Open

12 Manitoba Hydro has previously advised the PUB that on January 24, 2011 Manitoba
13 Hydro received an email from Manitoba Keewatinowi Okimakinak (“MKO”) attaching
14 PDF copies of the Settlement Agreement and related authorizing documents. On
15 February 28, 2011 Manitoba Hydro provided to the PUB, PDF copies of the Settlement
16 Agreement as forwarded by MKO. To date, Manitoba Hydro has not received true copies
17 of the Settlement Agreement and related documents.
18

19 On June 16, 2011, MKO advised Manitoba Hydro and Aboriginal Affairs and Northern
20 Development Canada (“AANDC”) that MKO had received most of the originals. Missing
21 were three original Band Council Resolutions and one original Certificate of Independent
22 Legal Advice. Manitoba Hydro was advised by MKO that these documents could not be
23 located by either MKO or the First Nations.
24

25 To remedy this situation, AANDC proposed that for each of the four documents, a sworn
26 declaration by one of the signatories to the document attesting that either the fax copy or
27 the PDF (depending upon the circumstances) is a true copy of the original document and
28 that the document was signed on that particular date. Manitoba Hydro and MKO
29 concurred with the proposed remedy and action was to be taken by MKO in this regard.
30

31 On October 28, 2011, Manitoba Hydro received from MKO, PDF copies of three of the
32 four sworn declarations. Specifically, Manitoba Hydro received PDF copies of the sworn
33 declarations from representatives of MKO, Tadoule Lake and Barren Lands. Manitoba
34 Hydro has not been advised by MKO as to whether it has yet secured a sworn declaration
35 from Shamattawa.
36

1 During the 2012/13 & 2013/14 GRA, Manitoba Hydro informed the PUB that AANDC
2 advised that a compensation issue had arisen between AANDC and MKO, which did not
3 involve Manitoba Hydro. Manitoba Hydro is not privy to the exact details but was
4 advised that the issue is related to the Settlement Agreement. AANDC has indicated that
5 as of December 2014, there has been no change in circumstances and MKO has not yet
6 provided the true copies of the Settlement Agreement.

7
8 As to capital costs listed in items c) and d) Manitoba Hydro can confirm that two
9 payments have been received from AANDC: on March 31, 2011 it received a cheque
10 from AANDC in the amount of \$2,296,447, and on April 4, 2012 a cheque in the amount
11 of \$5,763,738 for a total payment to date of \$8,060,185. On April 4, 2013 a cheque was
12 received from AANDC in the amount of \$1,753,477.00. This represents the majority of
13 outstanding capital items since March 31, 2004 except for soil remediation for which
14 contribution was due from AANDC.

15
16 With respect to the consents described in Directive 4 above, in December of 2011,
17 Manitoba Hydro forwarded consents to AANDC, MKO and CAC as requested by the
18 PUB. AANDC has not provided an executed copy of the consent, CAC has indicated that
19 prior to providing its consent, it would require a final copy of the Settlement Agreement.
20 MKO has not provided its position. It is Manitoba Hydro's position that the PUB does
21 not require any third parties consent to exercise its jurisdiction and that there is no further
22 process required in order to finalize the interim orders, subject to receipt of the true
23 copies of the Settlement Agreement.

24
25 Until Manitoba Hydro and AANDC are in the possession of the true copies of the
26 Settlement Agreement, there exists a remote possibility that the agreement could be
27 unwound which includes return of significant capital contributions paid. In this event,
28 Manitoba Hydro would not want rates designed on the basis that capital contributions
29 have been received, to have already been finalized.

30
31 Manitoba Hydro's application requests that the PUB give final approval to all outstanding
32 interim order provided that true copies of the Settlement Agreement have been filed. If
33 the Settlement Agreement has not been filed prior to the PUB issuing its order following
34 review of the current rate application, Manitoba Hydro would request that finalization of
35 the diesel rates be deferred.

1 **10.4 DIRECTIVES FROM ORDER 150/08**

2
3 **10.4.1 Independent Benchmarking Study**

4
5 **6. *MH to undertake and file with the Board, by a date to be fixed by the Board***
6 ***after its review of the study outline to be filed by MH by June 30, 2009, an***
7 ***independent benchmarking study of key performance metrics, using the most***
8 ***currently-available data and including:***

- 9
10 (a) *Primary key drivers of OM&A in each operational division [Board*
11 *preference is for a divisional break-down to allow for a comparison with*
12 *other utilities, even if the comparison needs to be limited to specific*
13 *divisions/activities],*
14 (b) *Comparable other Canadian Utility data for each of the drivers;*
15 (c) *Key comparison indicators, including staffing levels;*
16 (d) *A comparison with and discussion of industry best practices; and*
17 (e) *Potential improvement areas.*

18
19 *The Board expects to be apprised of the scope of the benchmarking study in*
20 *advance of it being undertaken, and will anticipate being provided a study*
21 *outline on or before June 30, 2009, to allow the Board the opportunity to*
22 *provide direction and/or comment.*

23
24 Status: Deferred.

25 In April 2010, Manitoba Hydro requested this directive to be deferred. In Order 5/12, the
26 PUB acknowledged that Manitoba Hydro has deferred this Directive until after the
27 implementation of IFRS.

28
29 Prior uncertainty surrounding the treatment of rate-regulated assets and liabilities under
30 IFRS has resulted in divergence in practice with respect to the financial reporting
31 frameworks (IFRS, US GAAP) used by Canadian electric utilities which could seriously
32 complicate a benchmarking exercise.

33
34 Moreover, benchmarking among utilities with respect to cost performance has always
35 been problematic due to differences in resource endowment, distribution of customers,
36 customer density, market environment, policy environment and other variables.

1 Manitoba Hydro is concerned that detailed benchmarking of operating costs could be a
2 costly exercise, likely to yield inconclusive results at best.

3
4 Manitoba Hydro has a series of corporate measures and targets which it uses to assess the
5 performance of the Corporation and its progress towards attainment of its key objectives.
6 These measures and targets as well as actual results are included in the corporate
7 performance dashboard, which is provided in the following figure for the year ending
8 March 31, 2014. As outlined in Tab 3, Manitoba Hydro has three primary financial
9 targets that are used to assess the financial strength of the Corporation.

10
11 In addition, Manitoba Hydro also prepares an annual survey of Canadian electricity bills
12 to compare bills paid by Manitoba customers with those of other major Canadian
13 utilities'. The current Survey of Canadian Electricity Bills reflecting rates in effect as of
14 May 1, 2014 is provided as Appendix 6.14 to Tab 6.

15

1

Figure 10.1

Corporate Performance Dashboard (Q4 results as at March 31, 2014)

	Measure	Target	Result
Safety in the Workplace <i>Q4 results, ending March 31, 2014</i>	Accident severity rate	<12 days per 200,000 hours worked	11.07
	Accident frequency rate	<.60 accidents per 200,000 hours worked	0.69
	High risk incidents	0 incidents	0
Customer Value <i>Q4 results, ending March 31, 2014</i>	System Average Interruption Duration (SAIDI)	< 116 minutes	106.5 minutes
	System Average Interruption Frequency (SAIFI)	<1.4 per year	1.26 outages
	Customer satisfaction (CSTS - Manitoba Hydro quarterly survey)	>8.4/10 customer satisfaction with overall service	7.87
Aboriginal Relations <i>Q4 results, ending March 31, 2014</i>	Aboriginal employment	16% overall	17.6%
Protecting the Environment <i>Q4 results, ending March 31, 2014</i>	Progress towards environmental targets*	Achieve all 3 targets	3 of 3
Demand Side Management (DSM) <i>Q4 results, ending March 31, 2014</i>	Electric energy saved	174 GWh	308 GWh
	Electric capacity saved	201 MW	278 MW
	Natural gas energy saved	10 million cubic meters	8.5 million cubic meters

	Measure	Annual Budget	YTD Budget	YTD Actual	Variance / %
Financial Strength (per IFF13) for the 12-month period ending March 31, 2014	Net income (Loss) (\$ thousands)	135,846	135,846	174,272	28%
	OM&A costs (consolidated) (\$ thousands)	556,401	556,401	556,862	0%
	Capital expenditures - electric operations - Major New Generation & Transmission (\$ thousands)	1,071,058	1,071,058	983,713	-8%
	Capital expenditures - electric & gas operations - Major & Base Capital (\$ thousands)	575,550	575,550	510,850	-11%

Notes:

- * Environmental sub-targets:
- a-Percentage of electricity generated in Manitoba from renewable resources Target: ≥ 99%
 - b-Total annual GHG emissions Target: ≤ 520 kt
 - c-Repeat environmental audit findings Target: 0 repeat findings

2

3

4