MANITOBA HYDRO
APPLICATION FOR INTERIM ELECTRIC RATES EFFECTIVE APRIL 1, 2014

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1.0 Introduction

On March 7, 2014, Manitoba Hydro filed its Application with the Public Utilities Board of Manitoba ("PUB"), requesting approval, on an interim basis, of a 3.95% general rate increase effective April 1, 2014, to be applied on an across-the-board basis for all customer classes. On March 28, 2014, Manitoba Hydro amended its Application to also request PUB approval, on an interim basis, to implement new Light Emitting Diode ("LED") rates for the Area and Roadway Lighting class. Since an April 1, 2014 implementation of the proposed rate increase is no longer possible, Manitoba Hydro respectfully requests that the PUB issue its Order with respect to these matters to be effective May 1, 2014.

As stated in its Application, Manitoba Hydro is seeking approval of the proposed interim rate increase for the following reasons:

1. To avoid the potential for incurring losses on Electric operations;
2. To limit the extent to which financial ratios are projected to deteriorate, and in doing so, maintain the on-going financial and credit rating integrity of Manitoba Hydro;
3. To continue to compensate for the fact that while prices for non-firm electricity sales in the export market have shown improvement, they continue to be significantly less than those experienced prior to the 2009/10 fiscal year;
4. To recognize that Manitoba Hydro's infrastructure is aging and that increased costs are necessary to maintain infrastructure in a safe and reliable manner; and,
5. To provide customers with rate stability and predictability and to avoid the need for higher rate increases in the future.

In accordance with the PUB established timetable, Manitoba Hydro filed responses to Information Requests from the PUB, the Consumers' Association of Canada (Manitoba) ("CAC"), the Manitoba Industrial Power Users' Group ("MIPUG"), and Manitoba Keewatinowi Okimakanak, Inc. ("MKO") on April 15, 2014. These interveners, as well as the Green Action Centre ("GAC"), filed written submissions with respect to Manitoba Hydro's Interim Application.

As indicated above, Manitoba Hydro amended its Application to also request approval, on an interim basis, to implement new LED rates for the Area and Roadway Lighting class. Manitoba Hydro does not currently have rates in place for LED roadway lighting fixtures. The proposed new rates will apply to all LED installations, including new installations and those related to the replacement of existing High Pressure Sodium fixtures. No party has expressed concern with respect to Manitoba Hydro's LED Area & Roadway Lighting rates proposal.

In this final written submission, Manitoba Hydro will summarize its reasons for the proposed rate increase and will also address certain issues raised by interveners in their written submissions.

2.0 Summary of Reasons for Application

2.1 Maintain Net Income and Financial Ratios at Acceptable Levels

Approval of the proposed rate increase is needed to maintain net income and financial ratios for 2014/15 at acceptable levels, in order to preserve the financial integrity of the Corporation to adequately address risks and to promote rate stability for customers. Based upon Manitoba Hydro's proposed rate increase of 3.95% effective April 1, 2014, the forecast net income from Electric operations is $55 million for 2014/15; the equity ratio is projected at 22%; and, the interest coverage and capital coverage ratios are projected at 1.09 and 0.87, respectively, for 2014/15.

As noted in Manitoba Hydro's letter of March 20, 2014, delaying the proposed rate increase to May 1, 2014 reduces net revenues from Electric operations by $4.4 million in 2014/15 compared to the forecast in MH13. A rate increase of 4.29% effective May 1, 2014 would be required in order to generate the same level of general consumers' revenue in the 2014/15 fiscal year. However, in recognition of the compressed timeframe associated with the review of the Application, the Corporation is not seeking a higher rate increase to compensate for the forgone revenue as a result of the delay in the implementation of the proposed rate increase, but rather is requesting approval of a 3.95% interim electric rate increase effective May 1, 2014.

At page 4 of its submission, MIPUG argues that absent the requested rate increase the debt to equity ratio is close to the target level of 75:25 and the capital coverage ratio remains at or above 1.0, suggesting that there is no financial justification for the rate increase. These assertions are factually incorrect. As stated at page 5 of the Application, absent the proposed rate increase, a net loss of $1 million is projected in 2014/15, the equity ratio is projected to decline to 21%, and the interest coverage and capital coverage ratios are projected to be 1.00 and 0.78, respectively, in 2014/15, all deteriorating well below the target levels.

MIPUG made this same argument in its August 8, 2012 submission with respect to Manitoba Hydro's requested September 1, 2012 interim rate increase. As noted then by Manitoba Hydro in its response submission of August 14, 2012, a capital coverage ratio greater than 1.0 provides essential cash to reduce its debt financing requirements, a capital coverage ratio of 1.0 is (a) well below the approved and accepted 1.2 target and (b) does not provide any cash support to buffer against adverse and variable risks such as external factors including weather, export prices, or economic conditions.

Table 1 below summarizes the actual electric operations net income for the past two fiscal years and the projected net income for 2013/14 and 2014/15 from IFF13. This table is consistent with Table 4 provided on page 11 of the Application.

Table 1 - Net Income and Retained Earnings - Electric Operations
(millions of $)

	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Forecast
General Consumers Revenue				
- at approved rates	$ 1 193	$ 1 341	$ 1 396	$ 1 408
- with proposed increases*	-	-	-	56
Bipole III Reserve Account	-	-	(18)	(21)
Extraprovincial Revenue (net of fuel & power purchased and water rentals)	98	101	139	118
Other Revenue	13	25	13	13
	1 304	1 468	1 530	1 573
Expenses				
Operating & Administrative	412	463	485	494
Finance expense	385	452	437	499
Depreciation & Amortization	353	392	415	440
Capital & other taxes	83	86	93	101
Corporate Allocation	9	9	9	9
	1 242	1 403	1 438	1 543
Non-controlling Interest	-	13	24	24
Net Income	$ 61	$ 78	$ 116	$ 55

* with proposed increases - reflects a 3.95% increase in 2014/15

Financial Results - Assuming No 2014/15 Rate Increase

Net Income (Loss)	$ (1)
Retained Earnings	2 582
Debt to Equity Ratio (consolidated)	79:21
Interest Coverage Ratio (consolidated)	1.00
Capital Coverage Ratio (consolidated)	0.78

Financial Results (after the proposed rate increase)

Retained Earnings	2 390	2 468	2 584	2 638
Debt to Equity Ratio (consolidated)	74:26	75:25	76:24	78:22
Interest Coverage Ratio (consolidated)	1.10	1.15	1.22	1.09
Capital Coverage Ratio (consolidated)	1.13	1.25	1.06	0.87

2.2 Compensate for Lower Net Export Revenues

Historically, net extraprovincial revenues have made a significant contribution to overall revenues, which has enabled Manitoba Hydro to maintain lower electricity rates for Manitobans. However, more recently net extraprovincial revenues have not been as strong as in previous years. As noted in Table 1, Manitoba Hydro's net extraprovincial revenues are projected at $139 million in 2013/14 and $118 million in 2014/15. Although export prices have recovered somewhat over the previous forecast (MH12), the projected levels of net extraprovincial revenues are still significantly lower than the range of $170 million and $370 million experienced in the 2007/08 to 2010/11 period (as shown in the response to PUB/MH I-1(a)). Inevitably, lower net extraprovincial revenues leads to the necessity to gradually increase customer rates over time. The interim rate increase requested in the Application reflects Manitoba Hydro's approach of gradually increasing rates to compensate for the reduction in net extraprovincial revenues.

2.3 Increased Costs to Maintain Aging Infrastructure

Manitoba Hydro's Application for an interim electric rate increase of 3.95% is driven, in part, by the need to invest in aging utility assets that are becoming significantly more costly to maintain and renew. Additional investment in Manitoba Hydro's existing assets is required to ensure ongoing safe and reliable service. It is important that rates are increased gradually at this time in order to provide adequate revenues for the required investment in existing infrastructure, meanwhile avoiding the necessity of seeking higher rate increases in the future.

Manitoba Hydro has historically funded base capital expenditures through internally generated funds. However, Manitoba Hydro is now projecting capital coverage ratios below 1.0 until 2016/17. Gradual rate increases are required to ensure Manitoba Hydro is collecting the necessary revenues to maintain its financial sustainability over the long-run. As such, the interim rate increase of 3.95% is the minimum rate increase required to provide for the necessary investment in infrastructure and allow the Corporation to continue to provide safe and reliable service.

Furthermore, as noted in the Application on page 8 and acknowledged by GAC in its submission, electric utilities across Canada are facing similar cost pressures as Manitoba Hydro, driving the need for higher than inflationary rate increases. As outlined by Mr. Barnlund in his Needs For and Alternatives To ("NFAT") testimony at transcript pages 2746 to 2749, Canadian electric utilities expanded and built their electrical systems after the Second World War and this infrastructure is now at or near the end of its useful life requiring refurbishment or replacement. The rate increases sought and approved in other Canadian jurisdictions have and continue to be significantly driven by the need for this specific reinvestment.

For example, BC Hydro rates increased by 9.0% effective April 1, 2014 and will increase by 6.0% in 2015 as directed by the British Columbia government. The rate increases for 2016, 2017 and 2018 have been capped by the BC government at 4.0%, 3.5% and 3.0% respectively. SaskPower implemented a rate increase of 5.5% effective January 1, 2014, and has received approval to increase rates by 5.0% in 2015. Nova Scotia Power implemented a general rate increase of 3% in 2014, which when combined with increases to the DSM Cost Recovery Rider, resulted in overall rate increases ranging from 3.1% to 4.5% depending on the rate class. The Régie de l'énergie approved a rate increase of 4.3% (3.5% for the large industrial customer class) for Hydro Quebec effective April 1, 2014. Lastly, in accordance with the Ontario government's 2013 Long Term Energy Plan, residential bills for Ontario consumers could increase by approximately 9.6% in 2014, 5.8% in 2015 and 15.0.% in 2016. By direct comparison, Manitoba Hydro's proposed 3.95% electric rate increase for 2014/15 is modest relative to these other jurisdictions.

Even when considering rate increases approved and proposed by other Canadian electric utilities since 2006, Manitobans continue to enjoy electricity rates that are at or near the low end for rates of Canadian utilities as evidenced at page 7 of the Application. Moreover, this will continue to be the case when considering Manitoba Hydro's proposed 3.95% rate increase for 2014/15.

In its submission at page 4, MIPUG notes that Manitoba Hydro has applied for rate increases every year since 2004, except for 2007, which, when including the applied for 3.95% in 2014/15, translates into a cumulative rate increase of 40% in the past decade. MIPUG further notes that this history of rate increases has translated into cost pressures and uncertainty for ratepayers at a time when electricity price changes were low or negative for much of North America. MIPUG has provided no substantive detail to support its conclusions regarding electricity prices across North America, and ignores the reality facing the Canadian utility industry with respect to its aging infrastructure that is primarily driving the need for these rate increases.

2.4 Ensuring Future Rate Stability and Predictability for Customers

In a Crown-owned Corporation such as Manitoba Hydro, retained earnings are not for the benefit of shareholders but rather are for the benefit of customers, in terms of absorbing negative financial events and reducing the risk of large or variable rate increases in the future. As such, maintaining the financial integrity of the Corporation is paramount in ensuring stable and predictable electricity rates for the benefit of Manitobans in the future.

In its submission at page 3, GAC correctly acknowledges that:

> "Customers of Manitoba Hydro expect and require rate stability. This would appear to be especially true in reference to commercial entities, including the MIPUG members. Residential customers would also appear to appreciate rate stability in contrast to rate shock."

In Order 43/13, the PUB acknowledged the importance of Manitoba Hydro's financial integrity when it found at pages 9 and 10 "…the Board is concerned about the deteriorating financial condition of Manitoba Hydro in the face of pending significant major capital expenditures" and "...it is important that Manitoba Hydro remain a financially strong and viable organization."

In summary, the Corporation submits that the requested interim rate increase of 3.95% is the minimum rate increase necessary to balance on-going financial integrity while providing rate stability to Manitobans.

3.0 Manitoba Hydro is Committed to Effective Cost Control

In its Order 43/13, the PUB found that progress toward meeting Manitoba Hydro's financial targets will require not only rate increases, but a concerted effort at cost containment within the Corporation. On pages 3-4 of the Application, Manitoba Hydro advised that it is continuing to develop measures to manage its operating costs, while at the same time balancing the need to ensure staffing levels are adequate to provide safe and reliable service. These measures build upon the range of cost containment efforts previously implemented to manage operating costs, which include constraints on external hiring, restrictions on overtime and out-of-province travel, and reductions in community sponsorships and donations.

As explained in PUB/MH I-30(d), Manitoba Hydro is currently planning cost further containment measures as part of the detailed annual budgeting process to achieve additional cost reductions. Annual OM&A cost increases have been limited to 1% in 2015/16 through 2020/21 exclusive of future accounting changes and in-service of major capital projects, and each Business Unit is responsible for identifying and implementing initiatives to manage the ongoing cost pressures. As GAC acknowledged at page 2 of its written submission, these efforts are prudent and fiscally responsible in light of the Corporation's current financial circumstances.

As demonstrated in the response to CAC/MH I-3, OM&A expense, net of accounting changes, is projected for 2014/15 at $397 million which is an increase of approximately 1.3% over the 2013/14 projected amount of $392 million, which is well below the expected level of inflation. This is despite the fact that wages and salaries are forecast to increase above the expected level of inflation.

CAC indicates in its submission that it is not clear whether the further cost containment measures alluded to in Manitoba Hydro's response to PUB/MH I-16(a) are already reflected in IFF13. MH13 incorporates the impact of Manitoba Hydro's cost containment measures, including the 2014/15 test year, as the forecast reflects a reduction in OM&A expenditures of approximately $600 million over the forecast period.

Based on the above, Manitoba Hydro's past and future actions demonstrate its commitment to effective cost control during a period of required rate increases.

4.0 Rate Increase Required Notwithstanding Favourable 2013/14 Results

While Manitoba Hydro's 2013/14 financial results have not yet been finalized, Manitoba Hydro acknowledges that its preliminary actual results for 2013/14 would be moderately higher than projected in MH13, primarily attributable to increased revenues from domestic electricity and extraprovincial sales, which is a result of favourable water conditions and colder than normal weather.

Despite the better than projected financial results for 2013/14, Manitoba Hydro is still in need of the proposed rate increase.

The projected rate increases in Manitoba Hydro's financial forecast are based on average water flows and normal weather. To ensure rate stability for customers, it is necessary to implement regular and reasonable rate increases, even during periods of favourable water flows and colder than normal weather, thereby balancing the inevitable years of less favourable than forecast results where water flows are below average and weather is warmer than normal.

MIPUG asserts on page 4 of its submission, that the proposed interim rate increase is not required given present water conditions. As stated at page 13 of the Application, due to the timing of the approval of MH13, both 2013/14 and 2014/15 use expected inflow conditions for the forecast years (which are projected to be above average), rather than using the median of historic inflows for the second forecast year (2014/15). Even with the inclusion of favourable water conditions for the 2014/15 forecast, Manitoba Hydro is still in need of the requested 3.95% increase in order to avoid incurring losses in the 2014/15 fiscal year.

Both CAC and MIPUG have recommended that the proposed rate increase should not be approved in full, in light of the better than projected financial results for 2013/14. Manitoba Hydro’s view is that the public interest is best served by the implementation of a 3.95% rate increase to avoid seeking higher rate increases in future.

As GAC correctly describes in its submission, it is important to recognize that the reality of Manitoba Hydro’s revenues from electric operations is that they are subject to several variables and are inherently volatile. Variables such as near term water flow conditions and export prices can dramatically affect export sales results. Severe variation in local weather conditions will have a significant impact on domestic energy sales. As near term financial results can be highly variable, it is not appropriate to determine the need for rate increases by considering near term conditions only. Rather, the more prudent approach is to take a longer term perspective, as illustrated in MH13, in setting rates at appropriate levels to provide for sufficient financial resources in view of the significant risks that may be posed by drought or other circumstances and in doing so promote long term rate stability for Manitobans.

In its written submission, GAC acknowledges that it is appropriate to assess Manitoba Hydro’s proposed rate increases from a longer-term perspective, rather than focusing on near-term conditions alone. At page 3 of its written submission, GAC stated the following:

> “In order to reconcile the variability of the Manitoba Hydro revenue stream with the stability desired by many of Manitoba Hydro’s customers, the Board ought to look at setting rates on the basis of longer term trends as opposed to the actual results of last year’s revenues or the short-term conditions, be they favourable or unfavourable. GAC is of the view that the current longer term trends point strongly in the direction of requiring more revenue for Manitoba Hydro.”

Manitoba Hydro concurs with this position.

Manitoba Hydro's long-term forecast reinforces the need to implement the requested rate increase in its entirety because without regular and reasonable rate increases, there exists potential for significantly higher rate increases in future than those projected in MH13.

5.0 PUB Jurisdiction to Approve Interim Rate Increase

The PUB' s jurisdiction as it relates to the conduct of Manitoba Hydro rate applications is set out in *The Public Utilities Board Act* ("*PUB Act*"). Specific to this Application, the power to make interim orders is set out in s. 47(2):

> "The board may, instead of making an order final in the first instance, make an interim order and reserve further directions, either for an adjourned hearing of the matter, or for further application."

The overriding regulatory principle when considering any rate application, including interim rates, is the public interest as articulated by the Manitoba Court of Appeal:

> "The PUB has two concerns when dealing with a rate application; the interests of the utility's ratepayers, and the financial health of the utility. Together, and in the broadest interpretation, these interests represent the general public interest."[1]

MIPUG argues that based upon section 48 of the *PUB Act*, that interim rates should only be used in cases of financial urgency or a net benefit to customers. A similar argument was advanced by MIPUG with respect to an April 1, 2010 interim rate increase, at which time Manitoba Hydro made it clear that it was not in immediate financial difficulty. In Order 18/10 the PUB unequivocally rejected the urgency argument stating that "urgency is not a required condition".

The appropriateness of the PUB awarding an interim rate increase was also canvassed as part of Manitoba Hydro's September 1, 2012 interim rate application. In Order 116/12, the PUB concluded that while urgency is not required to justify or support a request for an interim increase, Manitoba Hydro's current financial situation was of such concern that a rate adjustment was warranted. As the financial results projected in MH13 are less favorable than those projected in MH12, Manitoba Hydro submits that consideration of this rate increase on an interim basis is at least equally as warranted, if not warranted

[1]Consumers Association of Canada (Man.) Inc. et al v. Manitoba Hydro Electric Board, 2005 MBCA55.

more so.

The governing legislation has not changed since the issuance of these orders. MIPUG, or any other intervener, has not raised any new arguments nor referenced new case law which might impact the PUB's previous decisions with respect to its ability to approve rates on an interim basis in accordance with section 47(2) of the *PUB Act*.

The legislature has afforded the PUB broad jurisdiction as to when and in what circumstances it approves interim rates. The appropriate concern is whether the interim rate increase is in the general public interest. While factors such as urgency, length of time required to issue a final order or financial difficulty may be valid considerations for the PUB in coming to its decision, none are determinative of the matter. The decision to be made is whether the interim rate increase is in the general public interest.

MIPUG asserts that the interim rate application is months in advance of the filing of Manitoba Hydro's GRA. If instead of filing this interim Application, Manitoba Hydro waited to file a full GRA in the fall of 2014 after the NFAT proceeding concludes, the earliest anticipated implementation of any rate increase would be the summer of 2015 (please see the response to CAC/MH I-19). This would in effect result in Manitoba Hydro foregoing any rate increase in 2014/15, which is an unacceptable outcome from a financial and a rate stability perspective and therefore, is not in the public interest as noted in section 2.4 of this submission.

6.0 Intervener Rate Recommendations

Both MIPUG and CAC have recommended that the PUB should vary Manitoba Hydro's proposed rate increase and instead approve a rate increase at the rate of inflation in the order of 2.0%. In the alternative, MIPUG recommends a rate increase of 2.49% representing 75% of what it claims to be the lowest cost development plan (All Gas plan) at the NFAT of 3.32%.

6.1 Rate Increase of 2% for 2014/15 is Inadequate to Achieve Rate Stability

While MIPUG and CAC have recommended an inflationary rate increase, deferring or reducing the needed 3.95% rate increase in 2014/15 would only serve to increase the requirements for higher rate increases in the future than has been projected in MH13. Manitoba Hydro submits that this would not be a prudent approach towards achieving rate stability.

As noted at page 6 of the Application, the sensitivity analysis in IFF13 demonstrates that a 1% reduction in the proposed rate increase in 2014/15 would require incremental rate increases of 0.22% above the projected annual 3.95% increases for each year between 2015/16 and 2022/23. Based on this sensitivity, if the PUB approved a rate increase of only 2% for 2014/15, Manitoba Hydro would be required to seek annual rate increases of approximately 4.39% for each of the next eight years, in order to achieve the same level of retained earnings in 2022/23 as forecast in IFF13.

While MIPUG suggests that the proposed rate increase is not required based on the current level of retained earnings, Manitoba Hydro's retained earnings would be approximately $394 million lower in 2022/23 than the level forecast in IFF13, if a rate increase of only 2.0% was approved for 2014/15.

As noted in CAC/MH I-20(b) and cited by GAC in its final submission, without the proposed interim rate increase, Manitoba Hydro's projected equity ratio would further deteriorate from a low-point of 10% as forecast in IFF13 to 6%. Manitoba Hydro agrees with GAC's conclusion that such scenario results in an "unacceptable risk factor". All things being equal, a 2% rate increase in 2014/15 would result in the equity ratio deteriorating to a low-point of 8% which scenario is also unacceptable.

6.2 Rate Increase Based on NFAT All Gas Scenario is Not Appropriate

In its submission, MIPUG states that IFF13 assumes approval of Manitoba Hydro's "…preferred development plan, including Keeyask and Conawapa generating stations, and a 750MW US Interconnection". MIPUG further expresses concern that these projects have yet to be approved, and that rate increases based on presuming their approval are premature. CAC expresses similar concerns in its written submission.

Contrary to MIPUG's assertion, Manitoba Hydro did not presume that its Preferred Development Plan will ultimately be recommended as part of the NFAT process, or approved by the Government of Manitoba when seeking the 3.95% interim rate increase.

Given that the costs related to new generation are deferred until the in-service date of the related facilities, the need for rate increases in the next ten year period are primarily driven by lower than historical extraprovincial revenues and capital expenditures required for reliability and sustainability of existing aging infrastructure. Given the foregoing, regardless of the plan selected, annual rate increases in the amount of 3.95% will be required during this timeframe under all NFAT alternatives. As testified to by Mr.

Rainkie and Ms. Carriere at the NFAT proceeding at transcript pages 2773 to 2775, annual rate increases are required over the next several years independent of any plan ultimately approved.

Furthermore, the rate increase of 3.36% under the All Gas plan would result in more than $1 billion in projected cumulative losses in the period from 2015/16 to 2021/22 (please see NFAT, Exhibit 104.12-4, page 61 of 360). Such losses would deplete projected retained earnings by 40% which is an untenable situation for Manitoba Hydro. In fact, in accordance with NFAT Exhibit 104.12-4 page 301 of 360, in order to minimize these losses to acceptable levels would require annual rate increases in the amount of 5.46% per annum between 2015/16 and 2019/20.

7.0 Other Matters Raised by Interveners

While most of the substantive matters raised by interveners in their submissions have been addressed above, there were a number of other matters outlined in these submissions. Although Manitoba Hydro does not believe these other matters to be germane or relevant to an interim application, in the sections that follow Manitoba Hydro is providing its brief response.

7.1 International Financial Reporting Standards

Manitoba Hydro will be transitioning to International Financial Reporting Standards ("IFRS") for its 2015/16 fiscal year. CAC and MIPUG have observed that PUB directives from Order 43/13 related to IFRS and depreciation have not yet been filed by Manitoba Hydro. To be clear, the PUB directed Manitoba Hydro to file responses to these directives as part of the next GRA and the Corporation intends to provide responses in accordance with these timelines. The fact that this information will be filed at a later date is no reason to delay or influence the merits of this Application. In any event, there are no IFRS accounting changes included in the 2014/15 test year, which is the focus of the present Application.

MIPUG recommends that Manitoba Hydro remove negative salvage costs from electric depreciation rates in 2014/15. Removing net salvage costs from depreciation rates in advance of the transition of IFRS was exhaustively canvassed at Manitoba Hydro's 2012/13 & 2013/14 GRA. At page 18 of Order 43/13, the PUB found that "…net salvage should be removed from depreciation rates when International Financial Reporting Standards are implemented …" Accordingly, the PUB has already directed net salvage costs are to remain in electric depreciation rates until the adoption of IFRS, for the purposes of setting rates.

7.2 Accounting Treatment of Capital Taxes

Both CAC and MIPUG have expressed concern that Manitoba Hydro does not capitalize the capital taxes paid on assets that are under construction. CAC also notes that this fact "came to light" during the current NFAT proceeding, despite the fact that this has been the Corporation's long standing accounting treatment of such costs.

Capital taxes do not form part of the directly attributable costs of an asset and as such are not permitted to be capitalized under either Canadian Generally Accepted Accounting Principles or IFRS. Rather, capital taxes are considered to be period costs for accounting purposes which are expensed as incurred. Manitoba Hydro's accounting treatment of capital taxes is in accordance with generally accepted accounting principles and industry practice.

7.3 Asset Condition Reports

In its submission, CAC is critical of Manitoba Hydro for not yet providing its asset condition assessments for the transmission and generation business units.

During the 2012/13 & 2013/14 GRA, Manitoba Hydro provided a distribution asset condition report and a Report on Future Projects for HVDC Converter Stations. As indicated in response to MIPUG/MH I-1(d), Manitoba Hydro will file a comprehensive asset condition report at its next GRA, as directed by the PUB in Order 43/13.

The need to invest in aging infrastructure at this time is a reality not only for Manitoba Hydro but for most utilities across Canada. These issues are not new and were canvassed extensively during Manitoba Hydro's 2012/13 & 2013/14 GRA, and were relied upon for the granting of rate increases by the PUB in Order 43/13. The fact that the exact details of this issue are not currently before the PUB does not preclude the approval of the requested interim rate increase.

7.4 Concerns about 2016/17 Being Included in Next GRA

Both CAC and MKO have indicated that Manitoba Hydro's GRA should not consider a 2016/17 test year. Manitoba Hydro is seeking interim rate relief at this time in order to avoid resource and scheduling constraints during the NFAT and to ensure timely implementation of the 3.95% rate increase. Manitoba Hydro is planning to file a GRA in the fall of 2014, in which it will seek final approval of any rate increase flowing from its interim Application. In the normal course, the filing of a GRA in the fall of 2014 would cover two test years (2015/16 and 2016/17) and be based on updated forecasts. In Manitoba Hydro's view, it would not be efficient to file a GRA for the 2014/15 and 2015/16 test years in the fall of 2014, only to follow with another GRA in the fall of 2015 for the 2016/17 fiscal year.

After the conclusion of the NFAT proceeding, Manitoba Hydro intends to provide the PUB with a proposal with respect to a combined electric and gas GRA for the 2015/16 and 2016/17 test years. Accordingly, Manitoba Hydro submits that it is not necessary for the PUB to make any determination with respect to 2016/17 as part of this interim Application.

7.5 Cost of Service Review

Manitoba Hydro, in its recent GRA, proposed overall changes to its Cost of Service Study ("COSS") methodology and also proposed to implement Time-of-Use ("TOU") rates for General Service Large class customers served at greater than 30 kV. The PUB subsequently directed that matters related to the proposed COSS and the TOU rates proposal be addressed in a separate public hearing process. As outlined in response to PUB/MH I-4(b), Manitoba Hydro is proposing to examine these matters through a collaborative stakeholder process commencing after the conclusion of the NFAT process.

MIPUG and MKO address a number of issues related to cost allocation matters. Manitoba Hydro's position is that such matters are not issues to be addressed as part of an interim filing, but are more appropriately to be considered in the cost of service review. In its interim Application, Manitoba Hydro is proposing to apply the rate increase on an across-the-board basis in advance of the cost of service review to take place subsequent to the completion of the NFAT proceeding.

7.6 Other Recommendations from MKO

MKO makes a number of other recommendations with respect to bill reductions through DSM and through what it refers to as "Rate Mitigation Strategies".

While these issues are deemed to be important, Manitoba Hydro submits that they are beyond the scope of an interim rate filing. Certain of these matters may be more appropriately examined at a GRA, or outside of routine regulatory processes with the responsible social or governmental agencies.

8.0 Conclusion

Manitoba Hydro submits that no intervener in opposition to the Application has provided any sufficient reason or justification for the PUB to vary or deny the relief requested within the Application.

For all of the above noted reasons, the Application establishes that the proposed interim rate increase is warranted in the circumstances and that the interim rate relief requested should be granted by the PUB. The circumstances facing the Corporation have not materially improved since the PUB examined these matters extensively in the previous GRA which resulted in the issuance of Order 43/13, where the PUB found that a rate adjustment was warranted. As the financial results projected in MH13 are less favorable than those projected in MH12, Manitoba Hydro submits that consideration of this rate increase on an interim basis is at least equally as warranted, if not warranted more so at this time.

Approval of the proposed rate increase is needed to maintain net income and financial ratios for 2014/15 at acceptable levels, to preserve and balance the financial integrity of the Corporation to adequately address risks with providing rate stability for customers, thereby serving the public interest.

Even with the implementation of the proposed 3.95% rate increase for 2014/15, Manitobans will continue to enjoy rates which are expected to remain at or near the low end of electricity rates across Canadian utilities.

Manitoba Hydro will seek final approval of any interim orders flowing from this Application at its next GRA, which Manitoba Hydro expects to file in the fall of 2014. Granting interim rate relief for May 1, 2014 balances both the needs of the utility and the interests of the public by maintaining the financial position of the Corporation in the short-term, while allowing for a full review of the requested rate increase at Manitoba Hydro's next GRA.

In order to implement interim rates arising from this process on May 1, 2014, Manitoba Hydro respectfully requests that the PUB issue its Order with respect to these matters on or before May 5, 2014.