

**Manitoba Hydro Undertaking #122**

**Manitoba Hydro to provide directive by President to Vice-President of Business Units regarding cost constraint measures.**

Please refer to the attached memo dated August 13, 2010 from Manitoba Hydro's President and Chief Executive Officer.

Cost constraint measures have been successful in reducing OM&A costs as indicated in the following schedule.

**Electric OM&A Net of Accounting Changes**  
**February 2010 versus February 2011**

<b>(in millions of dollars)</b>	<b>Actual</b>	
	<b>2010</b>	<b>2011</b>
<b>Total OM&amp;A Expense 'Electric only'</b>	\$ 348.6	\$ 349.2
CICA Accounting Changes		
Lower Stores Overhead rates and no longer Capitalized	(4.6)	(4.6)
Intangible Assets no longer Capitalized	(2.7)	(1.8)
Administrative & General Overhead no longer Capitalized	(3.7)	(3.7)
Provision for Accounting Changes	-	
Motor vehicle interest removed from capitalization		(3.8)
Capitalized Overhead rate change from 24% to 17%		(14.4)
Reclassification of Wire & Telecom Services to Other Revenue	(2.8)	(2.8)
Reclassification of Funding Agreement for Town of Gillam & Frontier School Division	4.6	4.6
Subtotal - Accounting Changes	(9.1)	(26.4)
OM&A Expense 'Electric only' (net of accounting changes)	\$ 339.5	\$ 322.8
Total reduction in OM&A net of accounting changes		\$ (16.7)

**MANITOBA HYDRO**  
INTEROFFICE MEMORANDUM

FROM R.B. Brennan TO See Below  
President and Chief Executive Officer

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DATE 2010 08 13

FILE

SUBJECT **COST CONSTRAINT MEASURES**

The economic downturn has had a significant impact on Manitoba Hydro's revenues and net income. For the quarter ended June 30, 2010, Manitoba Hydro will be reporting its first quarterly loss since the severe drought of 2002 - 2004. In response to the current conditions, it will be necessary to expand measures already underway to constrain costs and improve operational efficiencies.

The following additional measures are being implemented:

**1) Further Restrictions on Non-Essential Travel Including In-Province Travel**

While the current out-of-province travel restrictions have been successful in moderating the growth in travel expense to some extent, Corporate travel expense totaled \$32.4 million in 2009/10 – a 2.4% increase over the previous year. Over the past five years, travel expense has increased at an average annual rate of 6.6% per year.

Effective immediately, all out-of-province travel will be further restricted and all in-province travel will be limited to the extent necessary to meet service and work requirements. All options to reduce travel costs will be considered, including expanded use of telecommunication technologies, reduced meeting frequency, and reduced fleet utilization.

**2) A Freeze on the Filling of all Vacant Staff Positions**

Wages, salaries and benefits account for close to 75% of Manitoba Hydro's total operating expense. Over the past five years, this component of operating expense increased at an average rate of 5.0% per year including a 6.2% increase over the past year. Equivalent Full-Time Employees (EFTs) peaked at an all-time high of 6620 during 2009/10.

Effective immediately, the filling of all vacant positions in Pay Grades 33 and above will require the approval of the President and Chief Executive Officer. The filling of all vacant positions below Pay Grade 33 will require the approval of a Vice-President.

**3) A Reduction in Overtime Costs**

Overtime costs have grown at a very significant average rate of 8.3% per year over the past five years. In 2009/10, overtime costs exceeded \$50 million, an increase of 9.6% over the previous year.

While overtime is an essential component of providing safe and reliable energy services to our customers, overtime costs must be reduced and each Business Unit will be expected to demonstrate that this is being accomplished.

**4) Changes to Banked Vacation, Vacation Carryover and Vacation Cashout**

The following changes will be implemented to the vacation banking policies:

- Effective immediately, all new employee hires will have a banked vacation maximum capability of 75 days.
- Effective April 1, 2011, all existing employees will have their banked vacation maximum capability reduced to 150 days. All employees with over 150 days of banked vacation at April 1, 2011 will be grandfathered until their balances are reduced to 150 days (either through utilization or cashing out).
- Effective with the fiscal year ending March 31, 2011, the maximum vacation carryover will be limited to a cumulative total of 20 days. Exceptions will only be granted for exceptional circumstances and will require the approval of the President and Chief Executive Officer. All cumulative vacation balances in excess of 20 days will be forfeited (unless banked within the previously referenced limits).

**5) A Potential Freeze on Executive and Management Salaries**

Depending upon the effectiveness of other measures and the financial results of the Corporation over the next several months, it may be necessary to implement a freeze on salary increases for Executive and Management staff. Because the next increase in salaries for this group is not scheduled to take place until December 31, 2010, the financial and economic situation will be closely monitored and further actions may be taken as conditions warrant. Further communication on this important and sensitive issue will be provided on a regular and timely basis.

**6) Capital Rationalization**

As you know, Manitoba Hydro is embarking on a major capital expansion program. While planned investments in new generation and transmission are very large and will require debt financing, regular or "base capital" will continue to be funded through internally generated funds. To accomplish this, all proposed capital additions must be rigorously scrutinized and only those capital items necessary "to provide an ongoing safe and reliable supply of energy in the most efficient and environmentally sensitive manner" will be approved.

The above measures are being implemented in recognition of the serious economic conditions and as a continuation of the prudent fiscal management that is consistently applied at Manitoba Hydro.

I greatly appreciate the ongoing dedication, innovation, and cooperation of all employees in the fulfillment of our commitments to the energy consumers of Manitoba.



RBB/gt

**SAME MEMORANDUM TO:**

K.R.F. Adams  
E.R. Kristjanson  
L.J. Kuczek  
G.B. Reed  
K.M. Tennenhouse  
T.E. Tymofichuk  
V.A. Warden  
C.E. Wray

c: G.P. Schneider  
L.R. Wilson  
R.V. Orr