Presentation to the Public Utilities Board of Manitoba

Manitoba Hydro GRA

Hearing Start Date: January 5, 2011

Manitoba Hydro

Presentation Summary

- Corporate Profile
- Financial Update
- General Rate Application
- Rate Comparisons
- Energy Conservation Programs
- Risk Management
- IFRS
- Current Water Conditions

Corporate Profile at March 31, 2010

- $2 billion annual revenue
- $12 billion assets
- 532 000 electricity customers
- 264 000 natural gas customers
- Exports to over 30 wholesale customers in USA & Canada
- Electricity rates the lowest in North America
- Ranked #1 in Customer Satisfaction by CEA

Corporate Profile at March 31, 2010 (cont'd)

- 6 200 employees
- A Top 100 Employer in Canada
- Leader in Aboriginal employment
- Ranked #1 in Safety by CGA
- Power Smart Program one of the most aggressive in North America

Financial Update

Consolidated Financial Results

Income Statement for the Fiscal Year Ended March 31 ($ millions)

	2010	2009
REVENUE		
Electric		
Manitoba	$ 1,172	$ 1,161
Extraprovincial	427	623
Gas	454	580
	2,053	2,364
Cost of gas sold	316	431
	$ 1,737	**$ 1,933**
EXPENSES		
Operating and administrative	456	442
Finance expense	410	471
Depreciation and amortization	384	368
Water rentals and assessments	121	123
Fuel and power purchased	104	176
Capital and other taxes	99	87
	$ 1,574	**$ 1,667**
NET INCOME	**$ 163**	**$ 266**

Consolidated Financial Results

Income Statement for the Six Months Ended September 30 ($ millions)

	2010	2009
REVENUE		
Electric		
Manitoba	$ 541	$ 532
Extraprovincial	236	223
Gas	97	123
	874	878
Cost of gas sold	53	77
	$ 821	**$ 801**
EXPENSES		
Operating and administrative	230	222
Finance expense	219	226
Depreciation and amortization	200	193
Water rentals and assessments	56	58
Fuel and power purchased	58	43
Capital and other taxes	48	51
	$ 811	**$ 793**
NET INCOME	**$ 10**	**$ 8**

Electricity Segment

Income Statement for the Six Months Ended September 30 ($ millions)

	2010	2009
REVENUE		
Manitoba	$ 541	$ 532
Extraprovincial	236	223
	$ 777	**$ 755**
EXPENSES		
Operating and administrative	200	191
Finance expense	204	211
Depreciation and amortization	187	179
Water rentals and assessments	56	58
Fuel and power purchased	58	43
Capital and other taxes	38	39
	$ 743	**$ 721**
NET INCOME	**$ 34**	**$ 34**

Key Financial Results

	Actual	IFF10 Forecast			
	2009/10	2010/11	2011/12	2012/13	2019/20
PROJECTED RATE INCREASES - ELECTRIC	2.9%	2.8%	2.9%	3.5%	3.5%
NET INCOME - ELECTRIC	$160	$149	$125	$120	$292
CAPITAL EXPENDITURES - ELECTRIC	$1 084	$1 082	$1 028	$1 090	$2 175
DEBT/EQUITY RATIO	73:27	74:26	74:26	76:24	81:19
INTEREST COVERAGE RATIO	1.32	1.28	1.22	1.20	1.24
CAPITAL COVERAGE RATIO (excl. new major generation & transmission)	1.30	1.50	1.50	1.57	1.83
RETAINED EARNINGS	$2 239	$2 398	$2 531	$2 658	$4 331

Financial Targets

Interest Coverage:

Maintain interest coverage ratio of > 1.20

Capital Coverage:

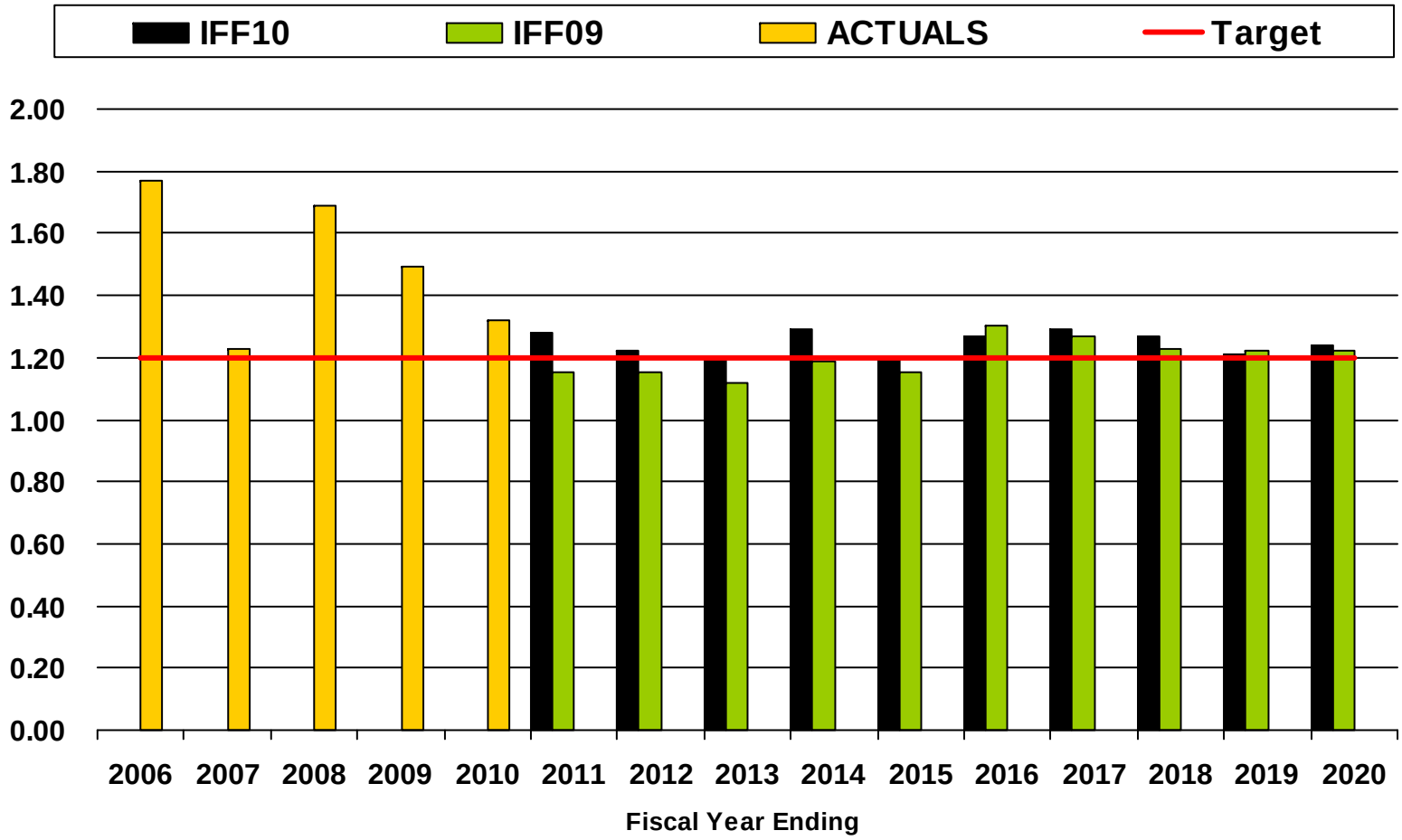
Maintain capital coverage ratio of > 1.20

Debt/Equity:

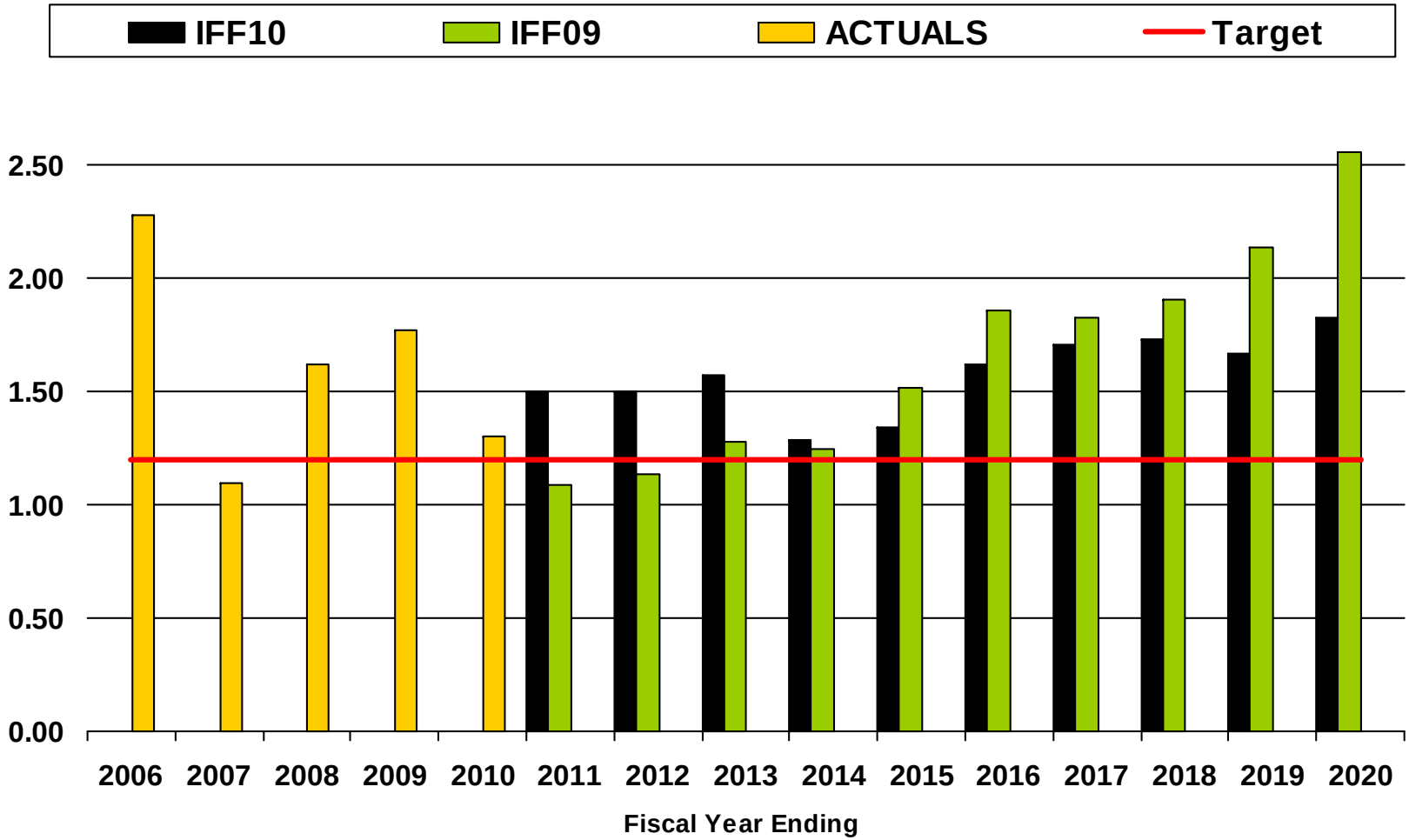
Maintain minimum debt/equity ratio of 75:25

Note: Financial targets may not be maintained during years of major investment in the generation and transmission system.

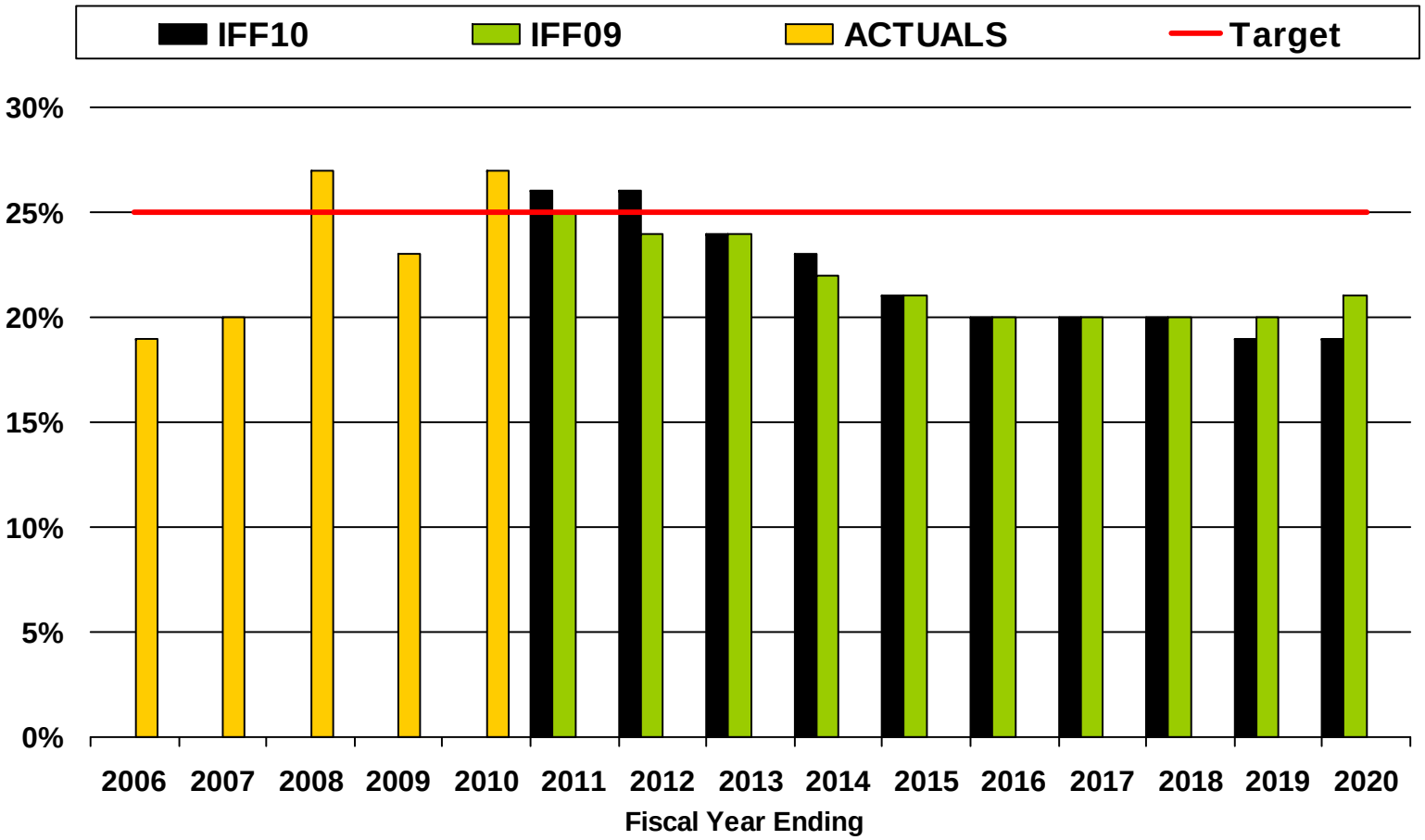
Interest Coverage Ratio



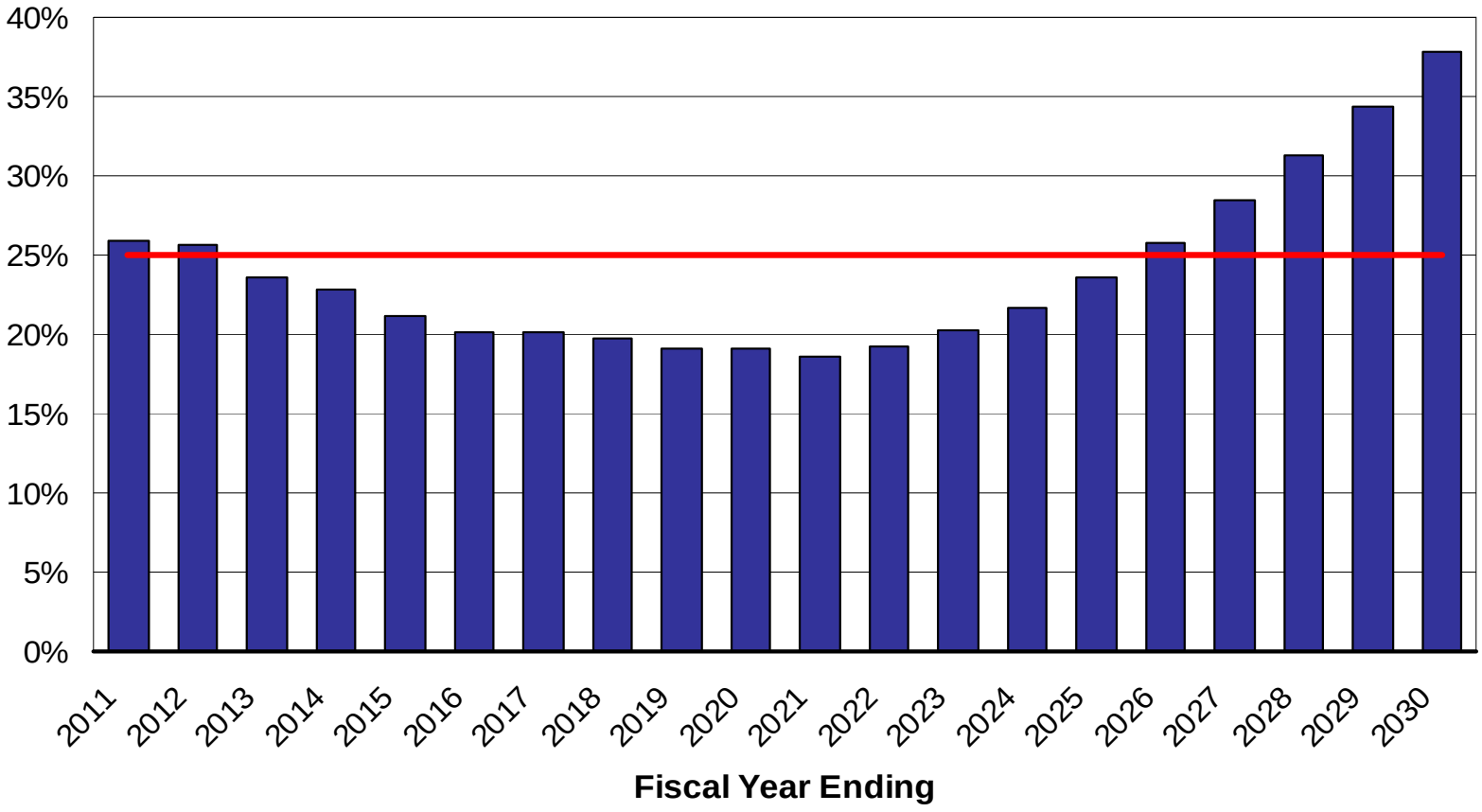
Capital Coverage Ratio



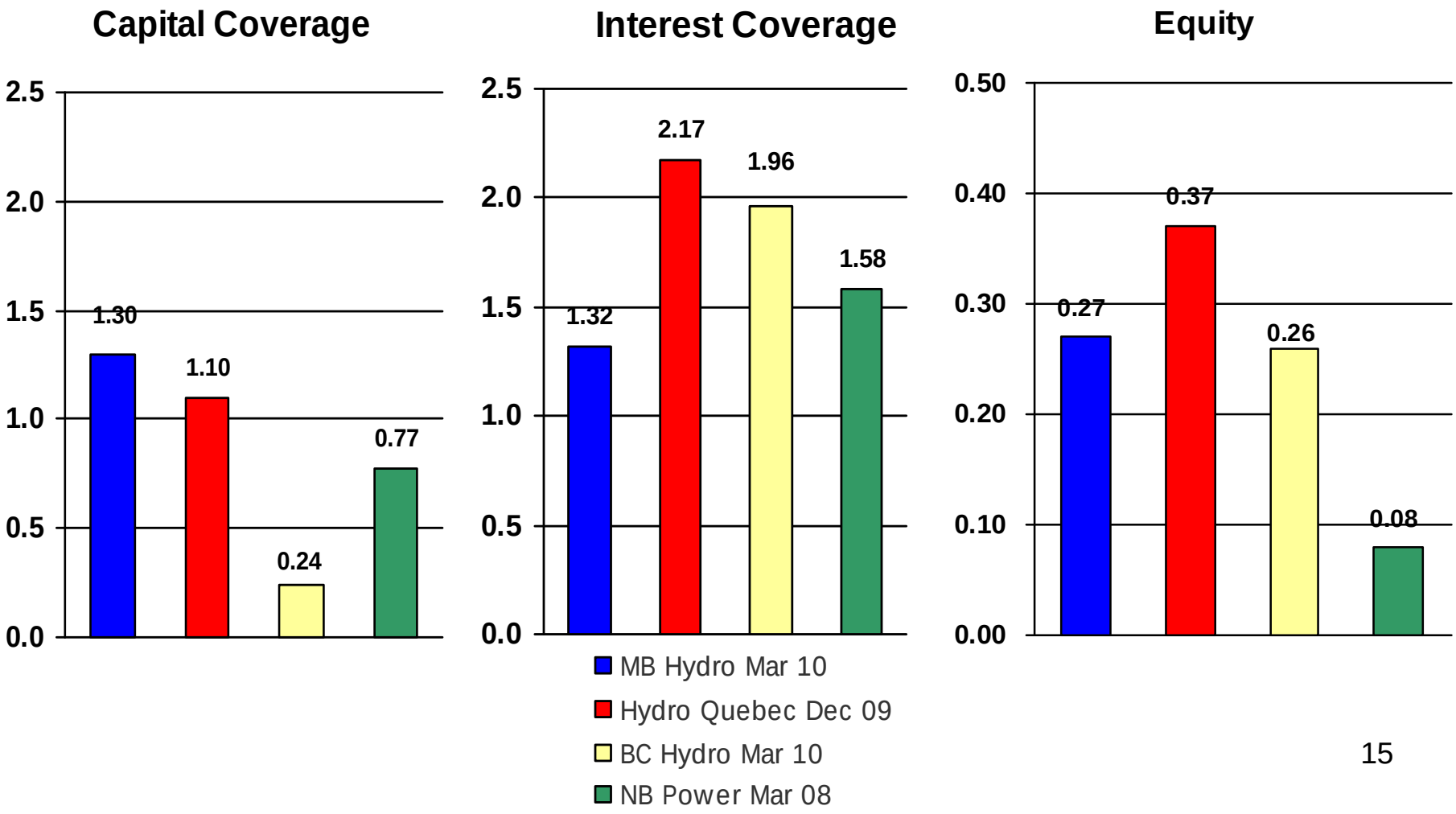
Equity Ratio



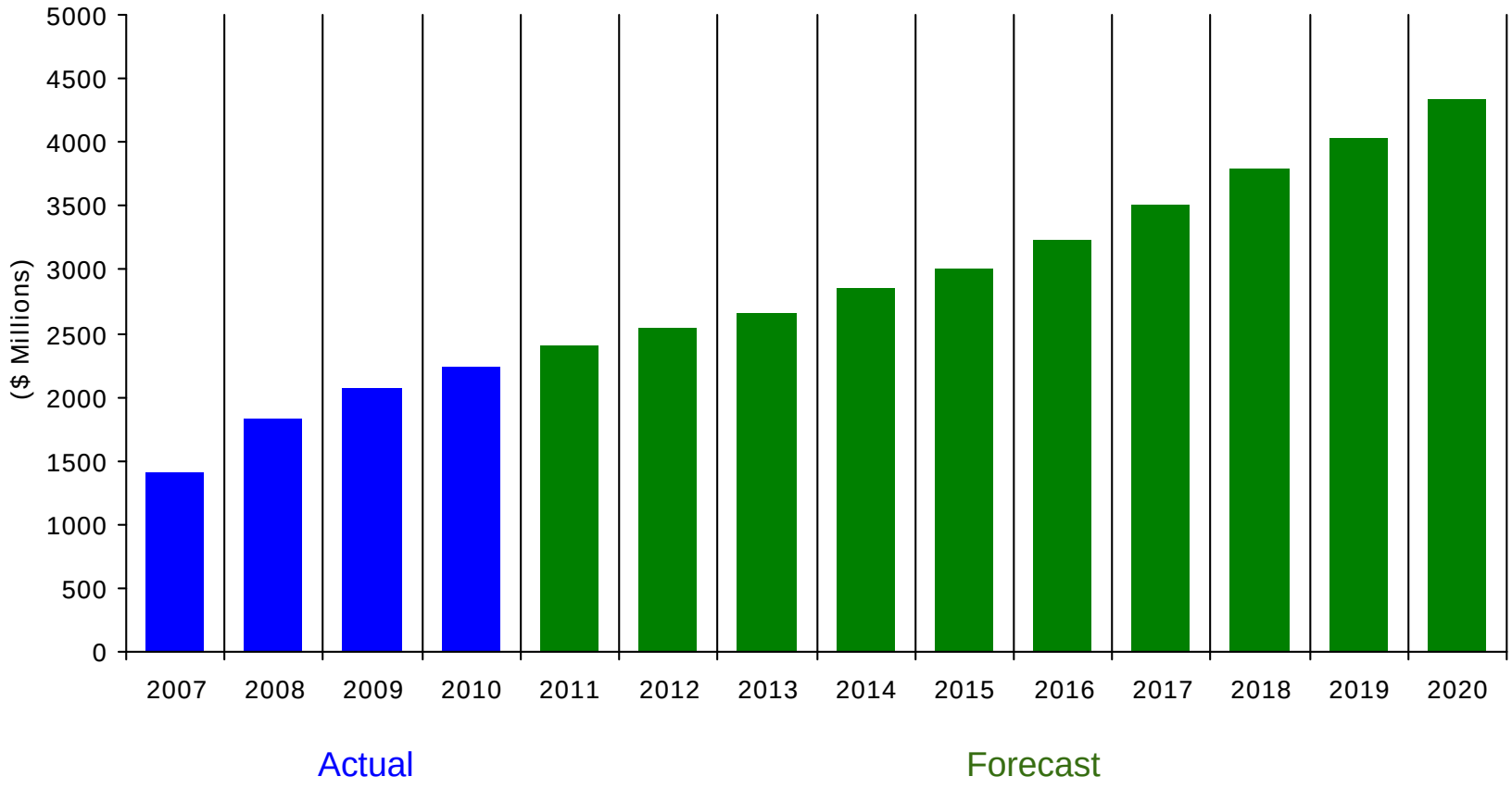
Equity Ratio
20 Year Outlook



Financial Ratios Comparison



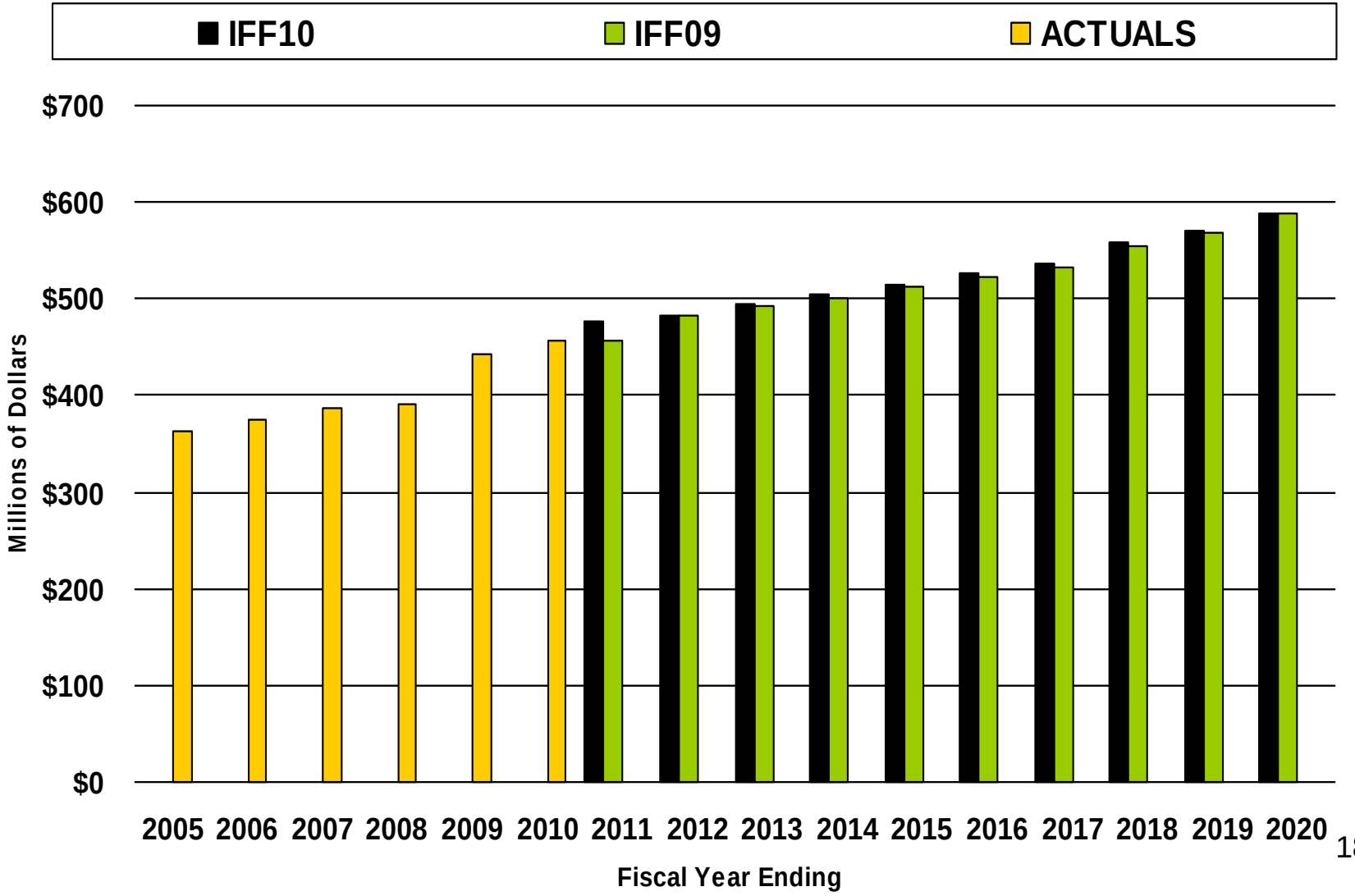
Consolidated Retained Earnings



2010/11 Power Resource Plan

- 138 MW St. Joseph wind power 2010/11 to 2011/12
- Wuskwatim (200 MW) first power 2011/12
- Bipole III 2017/18
- 695 MW Keeyask first power 2019/20
- New US interconnection 2019/20
- 1 485 MW Conawapa first power 2023/24
- Pointe du Bois spillway replacement 2014/15

Operating & Administrative

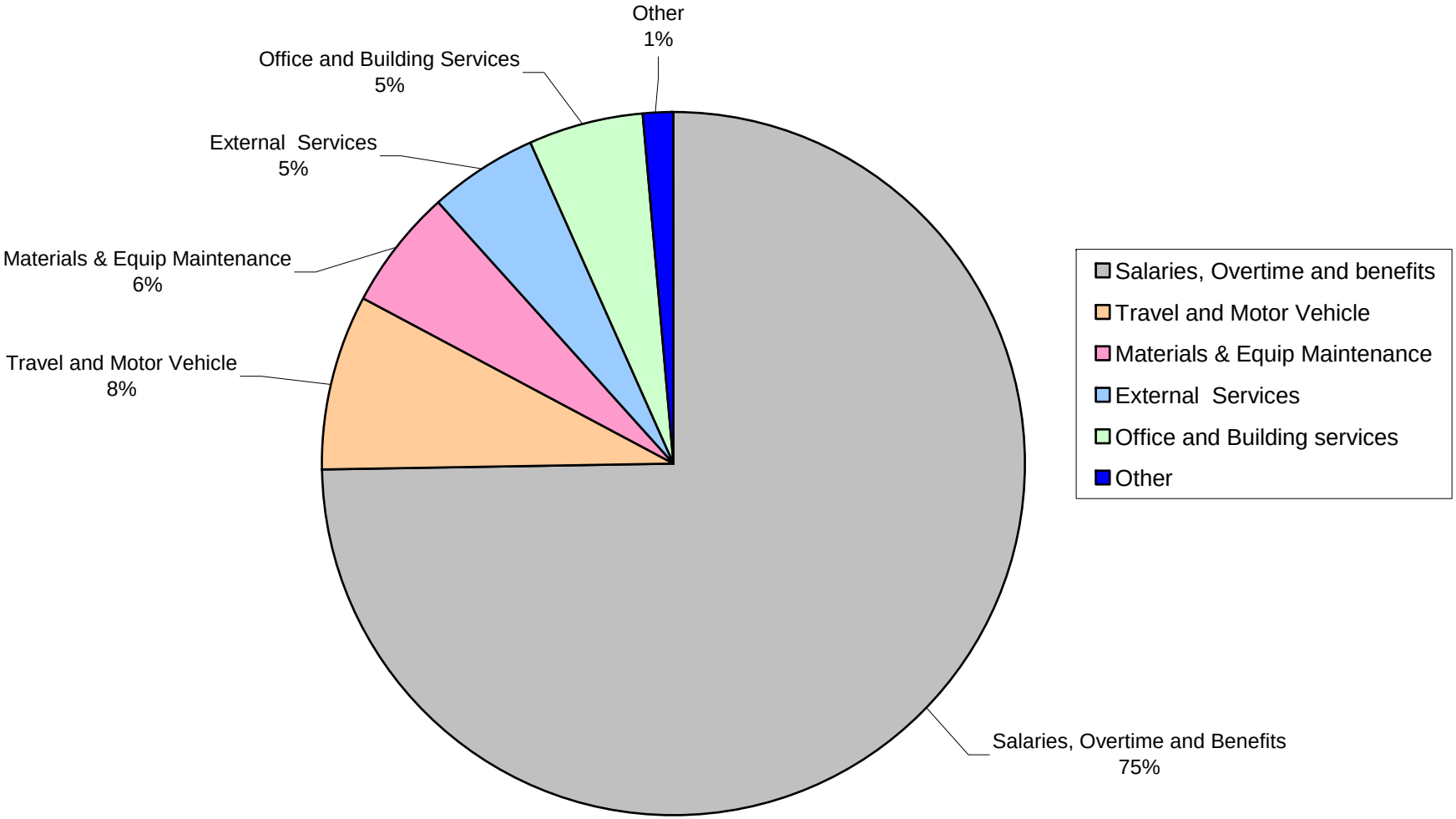


Operating, Maintenance & Administrative Costs

For the years ending March 31 ($ millions)

	Actuals					Forecast		Compounded Average Annual Increase
	2005/06	2006/07	200708	2008/09	2009/10	2010/11	2011/12	
Consolidated OM&A	$ 375	$ 386	$ 391	$ 442	$ 456	$ 476	$ 482	4.3%
Less:								
Centra Gas	(53)	(54)	(56)	(60)	(61)	(63)	(64)	
Subsidiaries	(11)	(9)	(12)	(18)	(17)	(15)	(16)	
Electric OM&A	311	323	323	364	378	398	402	4.4%
Less Accounting Changes:								
CICA Changes				(10)	(13)	(13)	(13)	
Reclassifications				(3)	2	2	(3)	
Provision for Acct. Changes						(18)	(14)	
Net Electric OM&A after Accounting Changes	$ 311	$ 323	$ 323	$ 351	$ 367	$ 369	$ 372	3.0%
Year over Year % Increase Net of Acctg Changes		4.1%	-0.2%	8.9%	4.3%	0.6%	0.9%	
CPI		2.3%	1.4%	1.2%	1.4%	2.0%	2.0%	1.7%

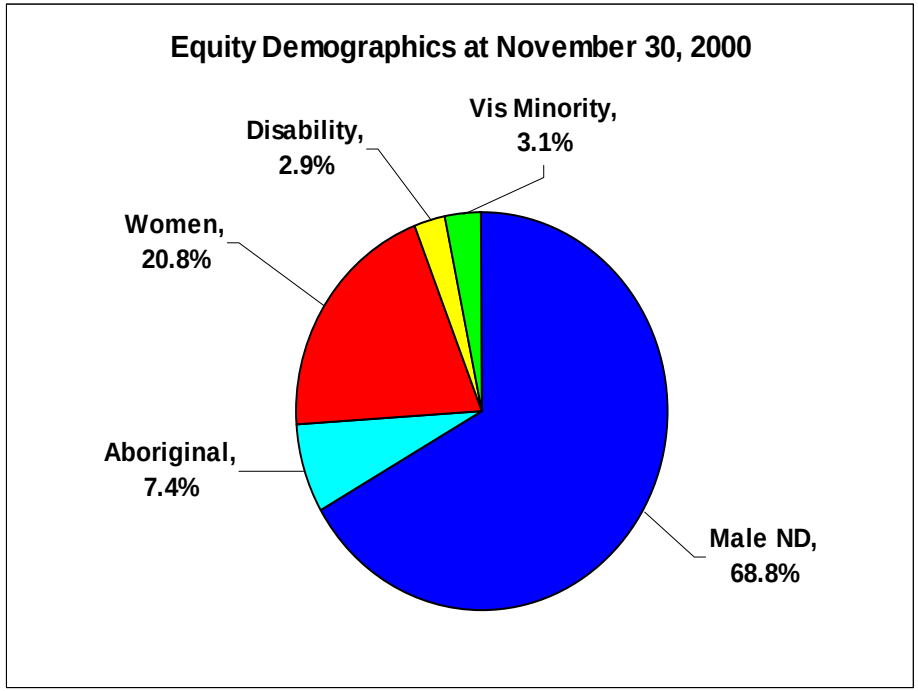
2009/10 OM&A

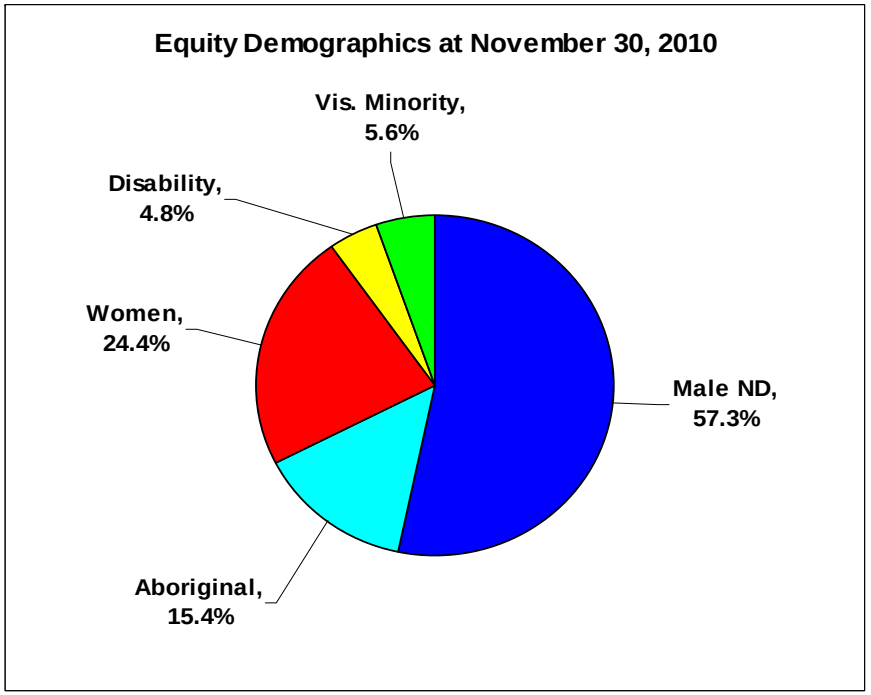

Other
1%
Office and Building Services
5%
External Services
5%
Materials & Equip Maintenance
6%
Travel and Motor Vehicle
8%
Salaries, Overtime and Benefits
75%
Salaries, Overtime and benefits
Travel and Motor Vehicle
Materials & Equip Maintenance
External Services
Office and Building services
Other

Cost Constraint Measures

- Travel restrictions
- Hiring freeze
- Overtime reductions
- Computer life extensions
- Fleet reductions
- New IT systems

Manitoba Hydro Workforce Demographics





General Rate Application

General Rate Application

a) 2.8% increase effective April 1, 2010

b) 2.9% increase effective April 1, 2011

c) Final approval of SEP ex parte Orders

d) Final approval of CRP ex parte Order

e) Final approval of Billing Demand Concessions

Residential Rates

	Interim Approved April 1, 2010		Proposed April 1, 2011	
Basic Charge	$	6.85	$	6.85
Energy Charge:				
First 900 kWh		6.38 ¢		6.52 ¢
Balance kWh		6.57 ¢		6.84 ¢

General Service Rates

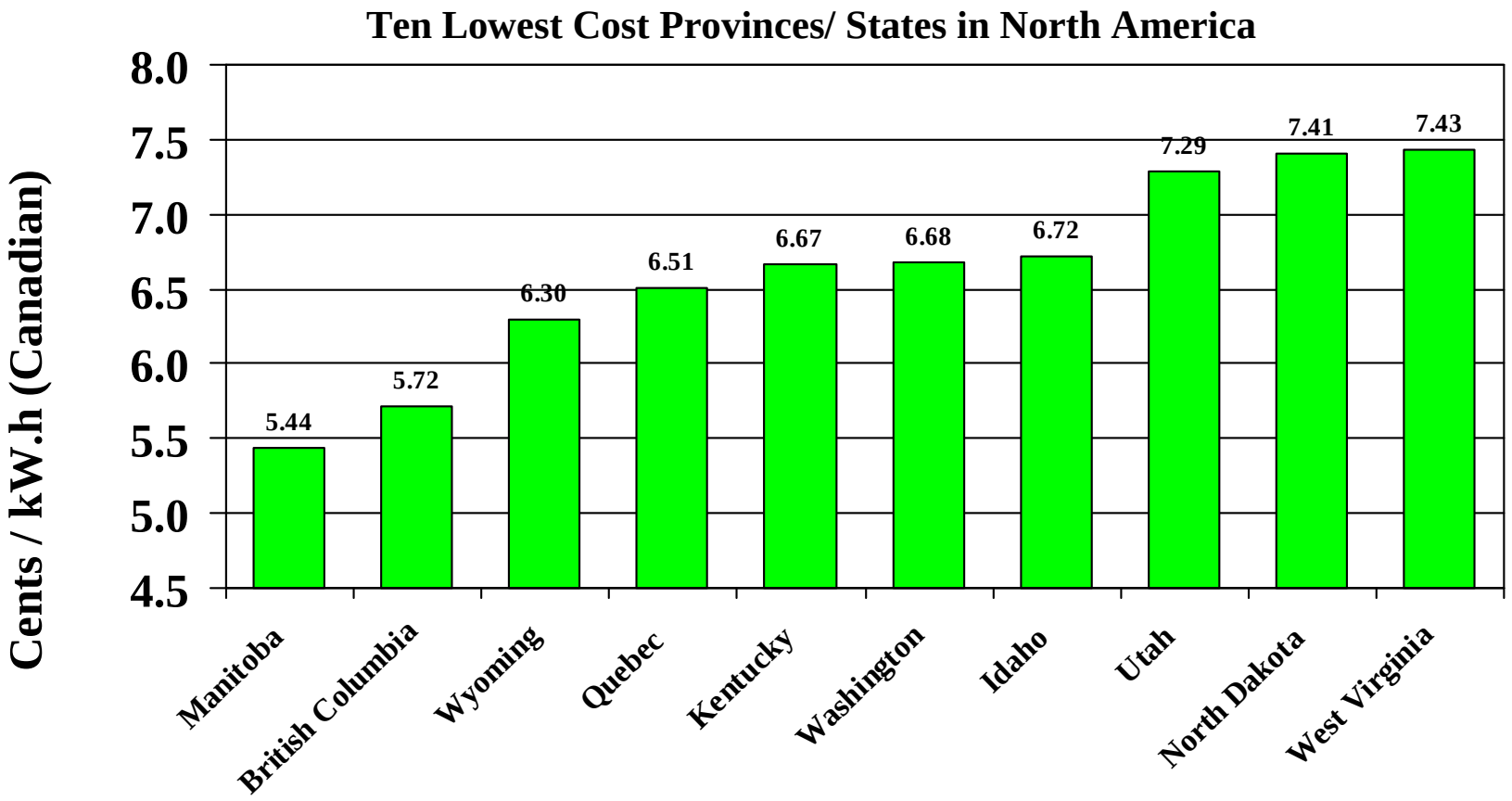
	Interim Approved April 1, 2010	Proposed April 1, 2011
Small General Service:		
Basic Charge	$ 17.65	$ 18.25
Energy Charge:		
First 11 000 kWh	6.84 ¢	7.03 ¢
Next 8 500 kWh	4.69 ¢	4.88 ¢
Balance kWh	3.05 ¢	3.20 ¢
Medium General Service:		
Basic Charge	$ 27.60	$ 27.60
Energy Charge:		
First 11 000 kWh	6.84 ¢	7.03 ¢
Next 8 500 kWh	4.69 ¢	4.88 ¢
Balance kWh	3.05 ¢	3.20 ¢

General Service Large Rates

	Interim Approved April 1, 2010	Proposed April 1, 2011
750 V to 30 kV:		
Energy Charge (per kWh)	2.88 ¢	3.01 ¢
Demand Charge (per kVA)	$ 7.08	$ 7.08
30 kV to 100 kV:		
Energy Charge (per kWh)	2.69 ¢	2.81 ¢
Demand Charge (per kVA)	$ 6.06	$ 6.06
>100 kV:		
Energy Charge (per kWh)	2.62 ¢	2.73 ¢
Demand Charge (per kVA)	$ 5.40	$ 5.40

Rate Comparisons

Average Retail Price of Electricity



Source: US Dept of Energy (May 2010) & Edison Electric Survey (January 2010)
(Exchange rate = 1.0279)

Electricity Rate Changes vs. Manitoba Consumer Price Index

Utility Rate Changes

	2006	2007	2008	2009	2010	Cumulative Increases	Current Rates Index
Manitoba Hydro	**0.0%**	**2.2%**	**5.0%**	**2.9%**	**2.8%**	**13.5%**	**100%**
BC Hydro	**1.5%**	**2.1%**	**2.8%**	**9.7%**	**7.3%**	**25.4%**	**119%**
Hydro Quebec	**5.3%**	**1.9%**	**2.9%**	**1.2%**	**0.4%**	**12.2%**	**113%**
New Brunswick Power	**6.9%**	**5.9%**	**3.0%**	**3.0%**	**3.0%**	**23.7%**	**174%**
Nova Scotia Power	**8.7%**	**3.8%**	**0%**	**9.3%**	**0%**	**23.3%**	**186%**
SaskPower	**4.9%**	**4.2%**	**0%**	**8.5%**	**4.5%**	**24.0%**	**155%**

Energy Conservation Programs

Power Smart

- Manitoba Hydro recognizes that energy conservation is one of the most cost effective and environmentally friendly alternatives for meeting demand

- The Canadian Energy Efficiency Alliance (CEEA) recently provided Manitoba with an "A^{+}" rating for its efforts to achieve Energy Efficiency
  - 4th consecutive report card that Manitoba has either led or been tied for first place in the national rating

Power Smart – Future Action

- The 2010 Power Smart Plan involves a 15 year $572 million investment which targets an additional:
  - 2,133 GW.h of Conserved Electricity
  - 106 million cubic metres of Conserved Natural Gas
- Including savings to date, by 2024/25 over $950 million invested to achieve an aggregate:
  - 3,408 GW.h of Conserved Electricity
  - 149 million cubic metres of conserved natural gas

Affordable Energy Program

- 3 Components:
  - Demand Side Management (Lower Income Energy Efficiency Program)
  - Bill Management (Equal Payment Plan, Flexible Arrears Payment plans, etc.)
  - Emergency Financial Assistance (Neighbours Helping Neighbours)
- Significant Focus on Lower Income Energy Efficiency Program

Lower Income Energy Efficiency Program

- Launched December 2007
- Over 2600 Initial In-home reviews completed:
  - Approximately 1700 retrofitted with insulation and other measures
  - Approximately 1100 high efficient furnaces installed
- Participation Lower Than Expected, however awareness is increasing and Manitoba Hydro continues to:
  - Work with partners and stakeholders to increase participation
  - Aggressively promote the program

Risk Management

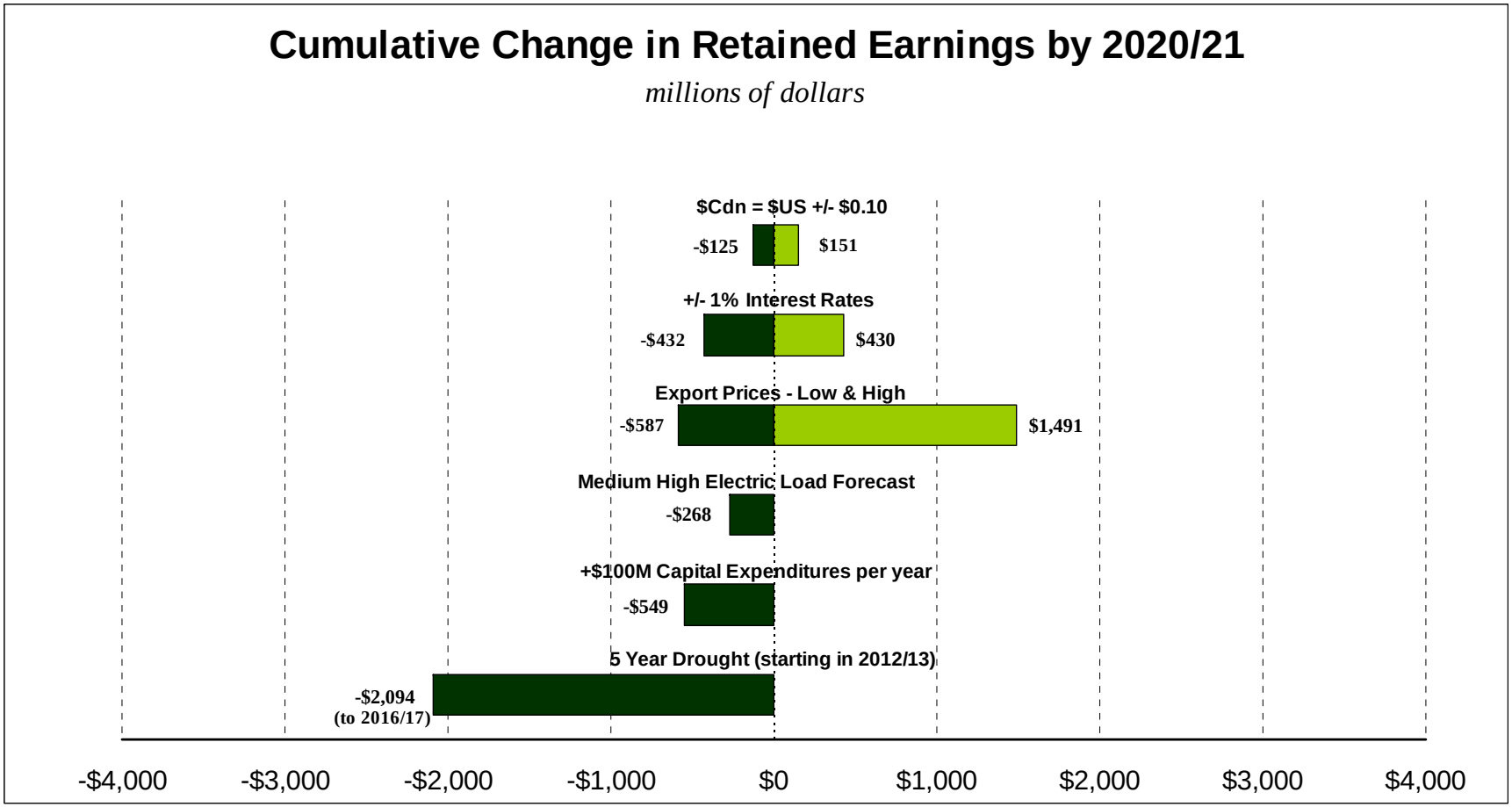
Immediate and Emerging Risks

- Economic Downturn
- Major Capital Expansion Plan
- Export Power Contracts
- Whistleblower
- Shale Gas
- Regulatory Burden
- Generation Development Sequence

High Consequence Risks

Infrastructure	> $2 Billion
Drought	> $2 Billion
Loss of Export Market	> 30% of Revenue
Interest rates	Approximately $430 million for a 1% change over 10 years
Foreign exchange	Approximately $125 million for a $.10 US change over 10 years

Sensitivity Analysis on IFF10



External Risk Reviews

- ICF
- KPMG
- PUB Independent Consultants

ICF Report Conclusions

- MH should be in the power export business based on the benefits provided to the ratepayers and the Province.

- Manitoba Hydro has developed sophisticated structures and capabilities to manage exports and hydro variability; these structures continue to develop and improve.

- MH has the lowest domestic electricity rates in Canada and North America in part because of exports. Export prices greatly exceed MH's embedded generation costs, and the revenues are used to decrease domestic rates and/or to provide the financial wherewithal to withstand droughts without rate shocks.

ICF Report Conclusions (cont'd)

- Proposed new long-term contracts are expected to provide several types of benefits including lower MH rates than would otherwise be the case without the contracts.

- United States utilities are undertaking new transmission construction to facilitate MH exports. This export driven addition in new transmission can be used to support imports in the case of a drought worse than the worst-on-record.

- Hydroelectric development, combined with long-term firm contracts, is preferred for Manitoba as it avoids the risks involved in developing fossil power plants.

ICF Report Conclusions (cont'd)

- MH has a reasonable and adequate risk mitigation plan. Even in the event of a five-year drought, MH has plans to achieve an equity cushion sufficient to accommodate the reduced cash flow due to drought without having to raise rates.

- It is appropriate for MH to enter into long-term firm commitments for 20-30 years in the future in the manner in which MH is proposing.

- The prices proposed for long-term firm contracts appear reasonable and adequate, and MH pricing processes appear adequate.

ICF Report Conclusions (cont'd)

- The models used by MH (hydrological forecasting models) are similar to models used by other hydro-electric dependent companies.
- ICF considers MH's quantification of risk exposure to drought to be reasonable.
- ICF concludes that MH's risk mitigation strategy related to an extended drought is adequate, and helps meet a key goal of avoiding rate shocks.

KPMG Report Key Highlights

- There is no material risk that MH is facing bankruptcy as a direct consequence of MH's export sales practices;
- There is no material risk that MH is facing power outages as a direct consequence of MH's export sales practices;
- MH's drought management strategies are prudent in the context of a hydro-based generation system;
- There is no evidence to support an assertion of losses approaching $1 billion;
- MH has prudently utilized a strategy based on entering into long-term contracts and the securing of transmission rights in the development of its system;
- MH has operated in accordance with its legislative mandate.

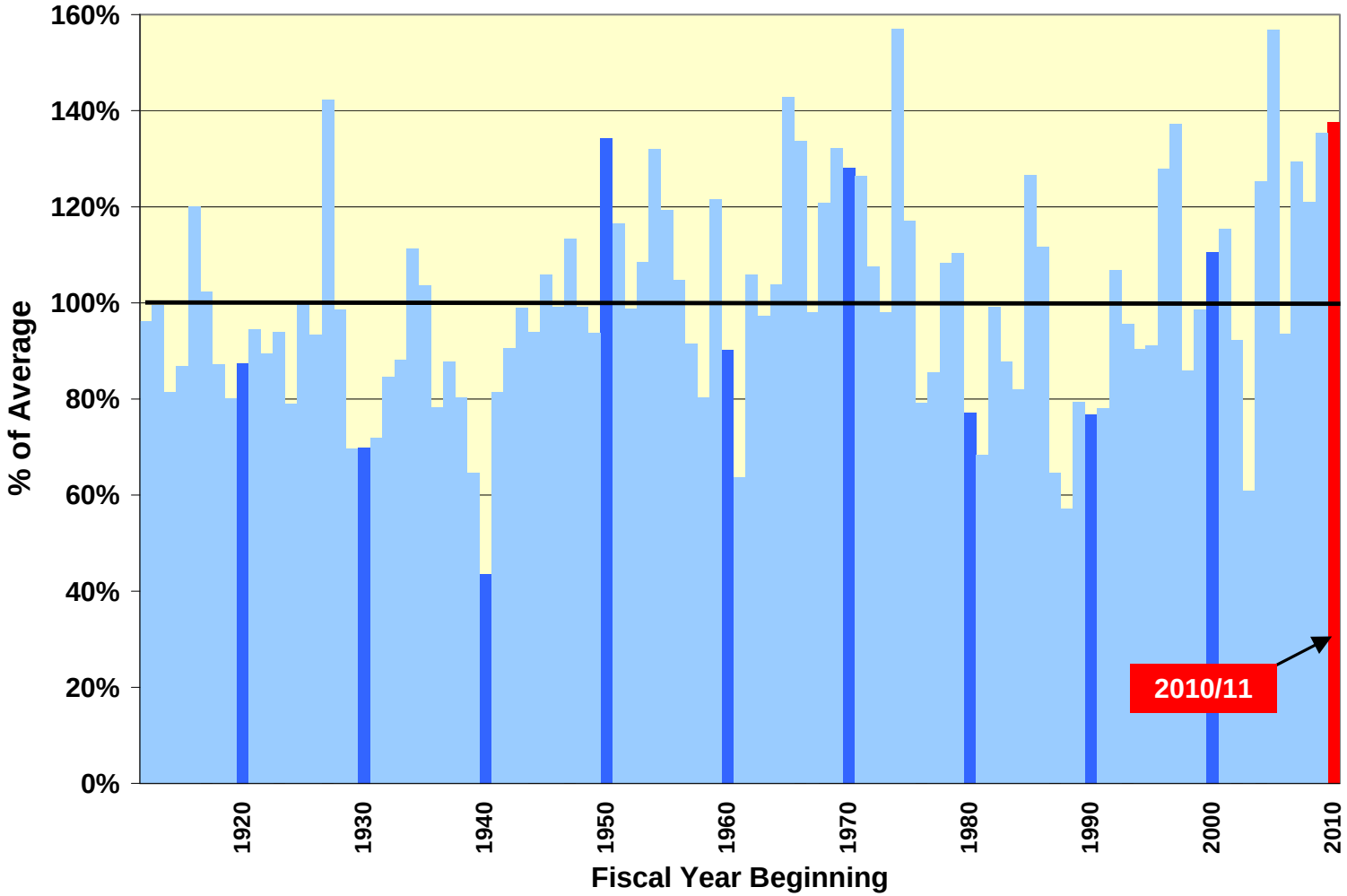
IFRS

IFRS

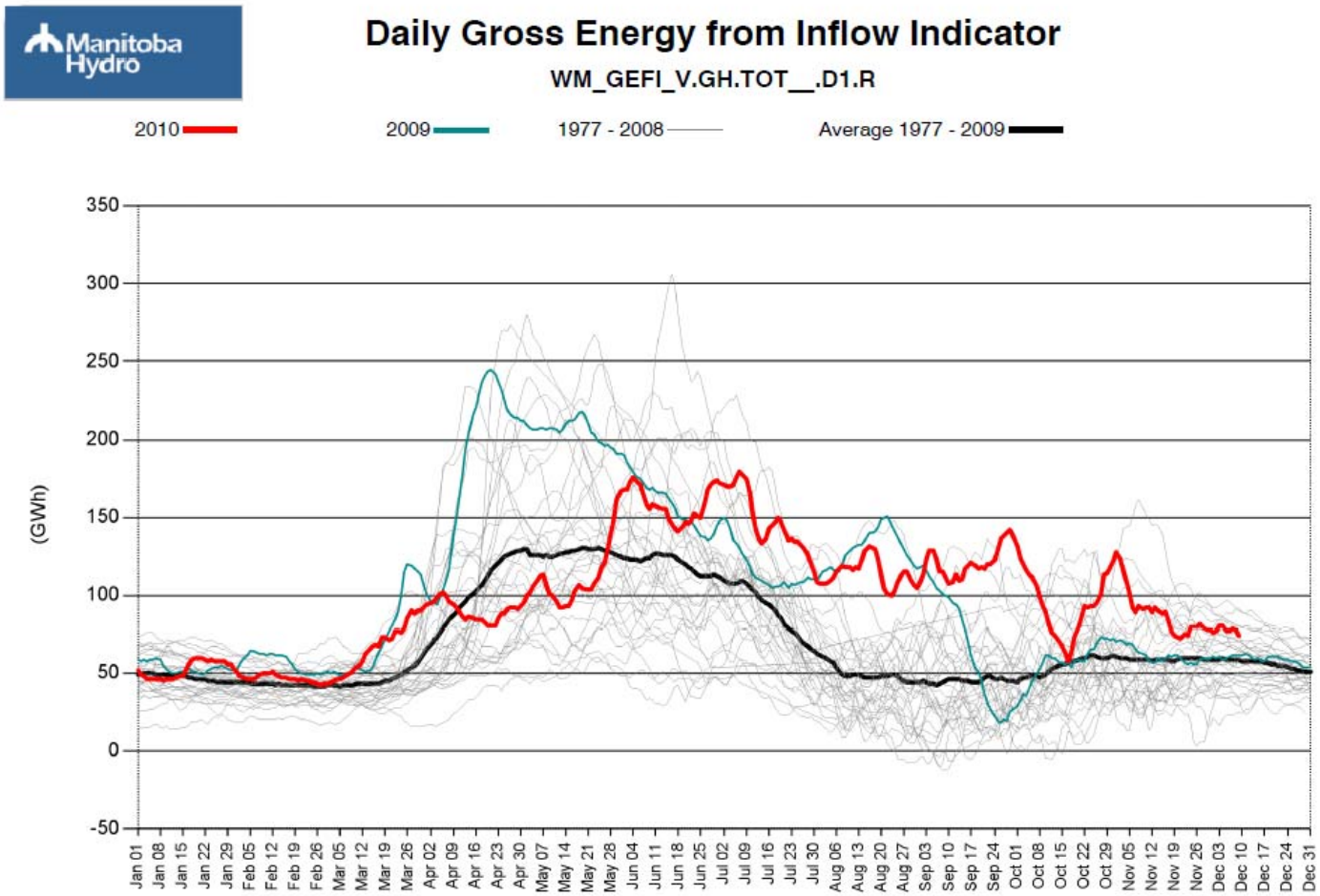
- Effective 2012/13 (with comparative 2011/12)
- Impacts to date:
  - $37 million reduction to Retained Earnings (write-off of Planning Studies, research, promotion expenses)
  - $30 million per year for reduced capitalized overhead (interest and taxes on facilities, vehicles, stores)
- Potential future impacts:
  - Rate Regulated Assets = $296 million at March 31, 2010
  - Other – Pension costs, employee benefits, depreciation, fixed asset retirements and costs eligible for capitalization

Current Water Conditions

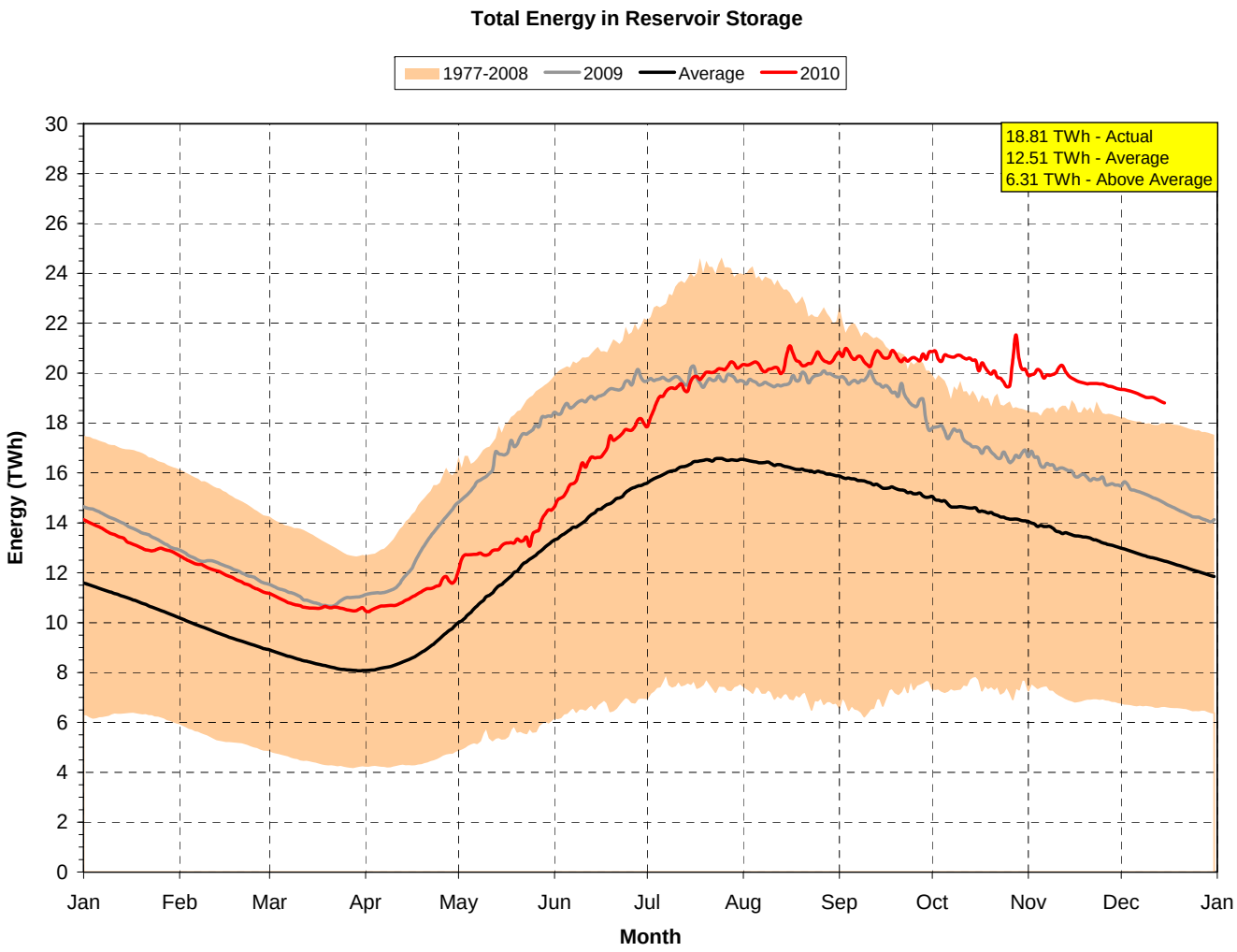
Historical Water Supply



Daily Inflows



Total Energy in Reservoir Storage



Total Hydraulic Generation