

Manitoba Hydro Undertaking #60

In the event of a drought worse than the worst drought on record, provide a quantification of the risks Manitoba Hydro faces to the counterparties to the contractual relationship. Quantify the exposure to Manitoba Hydro.

There is no supply risk to Manitoba load as Manitoba Hydro has extensive curtailment rights. In a drought worse than record MH will curtail energy deliveries to the extent necessary to serve MH firm domestic load and other higher priority sales. However in spite of curtailing energy deliveries MH will continue to meet its capacity obligations.

To the extent that drought worse than the worst on record creates risks for Manitoba Hydro, the magnitude of any subsequent financial implications will depend on what are market prices for replacement power were at the time of curtailment compared to the contract energy prices. If market prices are lower, Manitoba Hydro will continue to fully serve the sales through market purchases and will be better off both financially and from a reputational perspective than if it were to curtail energy deliveries.

If market prices are higher than sale revenues, MH would be entitled to curtail and would not be required to supply replacement power, however, the decision to curtail and to not supply replacement power could negatively impact Manitoba Hydro's reputation. Manitoba Hydro will have to balance this risk against the financial implications of curtailment based upon circumstances at the time.

As a result it is not possible to quantify the financial and reputational risks other than to say that they could be substantial in a worst case scenario.