

Outline of Closing Comments of Manitoba Hydro

July 7, 2011



Manitoba Hydro is Seeking:

- Final approval of interim rates as set out in Order 33/10
- Interim Order 40/11 be confirmed as final
- Additional .9% increase sought by Manitoba Hydro in this Application be approved effective August 1, 2011 with no retroactivity
- Final approval of all SEP Ex Parte Orders up to the date of the PUB's Order in this hearing
- Final approval of Curtailable Rate Ex Parte Orders (46/09, 42/10 and 63/11)
- Final approval of Order 126/09 which resulted from Manitoba Hydro's Application for Temporary Billing Demand Concessions for GSM and GSL customers related to impacts of the economic downturn

Additional Rate Increase Effective April 1, 2012

- Manitoba Hydro is not applying for a further rate increase for April 1, 2012 at this time
- Manitoba Hydro is recommending a streamlined process for the 2011 Rate Application to follow in November or December of this year

Revenue Requirement

Approach to Rate Proposals

- Rate proposals are developed considering the current financial position of the Corporation, forecast of revenues and expenses, and maintenance of reasonable financial targets
- Three primary targets that guide revenue requirement decision making:
 - Debt:equity of 75:25
 - Annual gross coverage ratio >1.20
 - Capital coverage ratio >1.20
- A number of other factors are taken into account:
 - Short and long term market and economic conditions
 - Assessments of physical, financial and environmental risks
 - Export market opportunities
 - Customer sensitivity to rate increases

Approach to Rate Proposals Con't

- Rate proposals are advanced based on sound financial principles and judgment with respect to the risks faced by the Corporation
- Ensuring the maintenance of a strong financial position considers the following objectives:
 - Financial integrity of Manitoba Hydro
 - Rate stability for the customer
- Manitoba Hydro has translated objectives into a strategy of “regular and reasonable” rate increases

Financial Outlook and Projections

IFF08

Projected Net Income for electric operations:

2009/10 - \$217 million

2010/11 - \$177 million

2011/12 - \$132 million

Over forecast period, the net income is sufficiently improved to enable the debt:equity ratio to stay close to target

IFF09

Projected Net Income for electric operations:

2009/10 - \$121 million

2010/11 - \$78 million

2011/12 - \$87 million

Total reduction in net income for two test years was \$144 million from IFF08

Primarily due to decreases in export market prices as a result of the downturn

Despite reduction in projected net income, Manitoba Hydro maintained the requested 2.9% rate increase in the test years that had been included in IFF08

IFF10

Projected Net Income for electric operations:

2010/11 - \$149 million

2011/12 - \$125 million

Increase attributable to higher projected export sales as a result of favorable water conditions and lower projected finance expenses

Returning to the level of profitability – still \$35 million lower than IFF08

Longer Term Financial Projections

- Updated 20 Year Financial Outlook
 - Equity ratio is projected to fall to 23% in 2012/13 and to 16% by 2021
 - Thereafter, equity ratio is projected to gradually improve and projected to reach 70:30 range by end of 20 year period
- 20 Year Financial Outlook demonstrates that while Manitoba Hydro's decade of investment puts downward pressure on financial targets over the short term, the payback is very strong

Summary: Reasons for Rate Increases

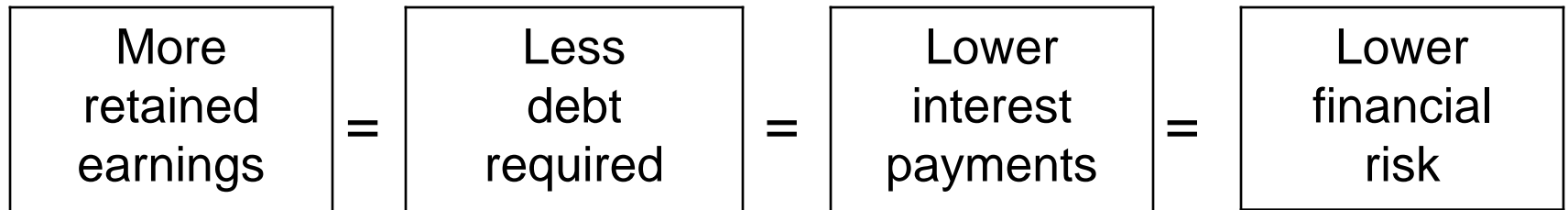
- Regular and reasonable rate increases are required in order to maintain the financial strength of Manitoba Hydro and ensure rate stability to customers
- Approval of these rate increases will help ensure that Manitoba Hydro meets its net income and retained earnings projections and that it has sound financial footing from which to embark on the decade of investment for the long term benefit of all Manitobans

Financial Targets

Importance of Retained Earnings and Financial Targets

- Debt:equity ratio continues to be an important financial metric used in assessing financial strength of Manitoba Hydro and rate proposals
 - Measures the portion of Manitoba Hydro's capital structure that is financed internally and not through debt financing
 - Universally accepted by the financial and investment community as one of the primary measures of financial strength
 - An important consideration in understanding the risk profile of a utility is being able to compare that utility to its peers in the industry
 - Also very important to credit rating agencies and the investor community

Importance of Retained Earnings and Financial Targets Con't



- Debt : equity ratios are important to protect the ratepayers from undue risks
- Manitoba Hydro's objective is to maintain the appropriate balance between debt and equity
 - 75% debt
 - 25% equity

Validity of 25% Equity Ratio Target in the Decade of Investment

- The requirement to invest in new generation and transmission assets to meet the future energy needs of Manitobans does not negate the value of having long-term financial targets
- 25% equity ratio remains an appropriate financial target when considering the projections of the size of Manitoba Hydro after the decade of investment
- An adequate level of retained earnings is that which is sufficient to withstand the financial impacts of the risks faced by Manitoba Hydro

Validity of 25% Equity Ratio Target in the Decade of Investment Con't

- Manitoba Hydro sets its financial targets based on a debt:equity ratio to recognize that there is a linkage between the growth in the Corporation's assets and the risks that it faces

Appropriateness of Manitoba Hydro's Equity Calculations

- Intangible assets and deferred costs:
 - Real value of an asset is its ability to generate cash flow in the future
 - Accounting standards are becoming more stringent
- Contributions in aid of construction
 - Represents non-refundable contributions provided by customers towards service extensions costs
 - Conforms with the general purpose of the debt to equity ratio calculations

Appropriateness of Manitoba Hydro's Equity Calculations Con't

- AOCI
 - First introduced in Manitoba Hydro's financial statements for 2007/08 fiscal year
 - Consistent with the overall trend in financial reporting and accounting standards
 - Standard & Poors and Moody's both accept the inclusion of AOCI in the equity calculation
 - DBRS looks at the issue on a case by case basis
 - BC Hydro and Hydro Quebec include AOCI in their equity calculations

Importance of Manitoba Hydro's Financial Performance to Provincial Credit Ratings

- Manitoba Hydro's financial performance forms an important consideration in the credit ratings and the financing costs of the Province of Manitoba and Manitoba Hydro

Debt Management and Interest Costs

- Manitoba Hydro's fundamental debt management objective is to provide stable, low-cost funding to meet the financial obligations and liquidity needs of the Corporation
- In order to mitigate financing risk, to maintain financing flexibility during the upcoming decade, and in keeping with the concept of matching the Corporation's long-lived assets with long-term debt, Manitoba Hydro will continue to favor long-term financing with maturities of 10+ years, while maintaining floating rate debt within policy limits
- Stability and ability to reliability meet debt servicing obligations are important rating considerations

The National Bank Financial Report

- The National Bank Financial Report is fully responsive to the PUB Directive pertaining to an independent assessment of Manitoba Hydro's relative weighting of fixed versus floating debt.
- Manitoba Hydro's current ratio of fixed versus floating rate debt is within its approved risk tolerance and is appropriate to the current market environment

Economic Outlook

- The Foreign Exchange Exposure Management Program results in relatively small implications for rates arising from US currency fluctuations
- The Program manages Manitoba Hydro's exposure to US dollar foreign exchange rate fluctuations by establishing a natural hedge between
 - US dollar cash inflows from export revenuesand
 - US dollar cash outflows for US dollar principal and interest payments

Economic Outlook Con't

- Manitoba Hydro has established accounting cash flow hedges between the US long term debt obligations and anticipated US export revenues
- Due to the operational variability of US dollar cash flows, net long or short foreign currency positions will occur but on a consolidated basis are relatively minor and do not pose a significant risk to Manitoba Hydro

Debt Modeling & Interest Rates

- Currently about 20% of Manitoba Hydro's debt is in floating rate instruments
 - Historical average
 - Midpoint of Manitoba Hydro's target range for floating rate debt
- Manitoba Hydro's target range for floating rate debt between 15%-25% strikes the appropriate balance and is supported by the comprehensive analysis of National Bank Financial

Differences Between Forecast and Actual Results

- As a result of the self-correcting nature of the COS rate setting model, any variances between actual and forecast revenues and expenses do not harm ratepayers
- Variances flow to retained earnings

Current Rate Setting Model + General Rate Making Approach = Rate Stability

Rate Stabilization Mechanism

- Rate Stabilization Mechanism = export revenue deferral account
- Deferral accounts tend to produce up and down effects on customer bills which conflicts with a rate stabilizing objective
- Amortization of variances may or may not coincide with a significant financial loss or other financial and rate setting signals
- Unnecessary in Manitoba

Interest Rate Deferral Account

- Manitoba Hydro's rates are set under a rigorous cost of service methodology (not a rate-base rate of return approach)
- The rate stabilization mechanism and interest deferral accounts limits flexibility by moving to mechanistic constructs that offer no net benefit to ratepayers and may result in more volatility for customers
- Manitoba Hydro's COS methodology is self correcting therefore any type of variance that occurs at any time on any item is corrected through the balance in retained earnings
- The self correcting COS rate setting model has and will continue to be more beneficial to rate payers

Other Revenue Requirement Issues

Operating and Administrative Costs

- O&A costs are incurred to ensure the continued safe and reliable delivery of service to customers
- Increased costs are primarily the result of:
 - ageing infrastructure
 - higher environmental and regulatory requirements
 - customer additions and new facilities
 - Accounting changes
 - Competitive wage pressures
 - Higher material and commodity prices
 - Pension investment performance
 - Necessity to hire and train new employees

Operating and Administrative Costs Con't

- Manitoba Hydro held its operating and administrative cost per customer increases to approximately the same level as CPI between 2006/07 and 2011/12 after considering accounting changes during the period
- Manitoba Hydro is maintaining vigilance over its costs and exercising appropriate cost control measures to ensure that cost and service levels continue to be in line with customer requirements and expectations
- Manitoba Hydro is on track to achieve its forecasts, demonstrating the effectiveness of its operating and administrative cost oversight

IFRS

- Compliance will be required for the 2012/13 fiscal year
- Impacts of IFRS include:
 - Reduction to overhead amounts capitalized with a corresponding increase to operating costs
 - Write-off to retained earnings of amounts previously capitalized or deferred along with corresponding reductions to depreciation and amortization expense
- Unlikely that the recognition of regulatory assets and liability will be allowed under IFRS
- Possibility of further reductions in amount of overhead costs that can be capitalized
- Uncertainty regarding accounting treatment of experience losses on pension assets

IFRS Con't

- Manitoba Hydro is in the process of completing a new IFRS compliant depreciation study
- Impact of changes in depreciation rates is not fully known at this time
- Manitoba Hydro is working with its auditors to assess and confirm any and all detailed changes that will be necessary
- Any changes to accounting practices can be accommodated within the existing rate setting framework

Capital Cost Estimates

- Construction cost estimates have increased primarily as a result of escalating market prices
- Project estimates may also be updated for other factors including:
 - Refinement of project plans and engineering designs
 - Scope changes
 - Project schedules and in-service dates
 - Changes to escalation and interest rates

Capital Cost Estimates Con't

- Manitoba Hydro continuously monitors project requirements and cost estimates
- Updates to capital estimates adhere to a rigorous review and approval process
- The currently approved capital cost estimates reflect current and expected conditions
- Manitoba Hydro's capital budgeting processes conform with best practices in the electrical utility business

Cost Capitalization Practices

- Manitoba Hydro capitalization practices are consistent with industry and accounting standards which are moving away from full cost accounting
- \$30 million of administrative function and interest costs which were previously capitalized are now being expensed annually
- Capitalization of costs of constructing assets and placing them in service is required both under GAAP and generally accepted rate making principles
- Full cost of all funds used during construction periods are capitalized along with all other construction costs

Cost Capitalization Practices Con't

- Current ratepayers contribute only to the costs related to the period that the rates are charged
- Total costs of capital assets acquired or constructed are allocated to the periods in which they provide useful service to customers

Intergenerational Equity

- Important to maintain strong financial structure during the decade of investment
- Rate increases to maintain financial structure are modest and reasonable

Load Forecast and Load Research

Accuracy in Forecasts Over Long Term

- Manitoba Hydro updates its electric load forecast to incorporate the latest data and economic, energy prices and large customer information on a yearly basis
- Models are re-estimated and improved to meet the objective of producing a reasonable and unbiased forecast of electricity consumption

Addressing Impact of Recent and Projected Industrial Closures

- Forecast reductions are significantly offset by increases in remaining domestic load, particularly increases in forecasts of residential loads
- Industrial load reductions will have little impact on forecasted domestic revenues because of the difference in unit prices within the different customer rate classes

Risk Management Program

Risk Management Program

- First implemented nine years ago
- Manitoba Hydro has a low tolerance for risk and has managed it in a manner that makes the likelihood of a prolonged loss of supply as low as possible
- It serves to formalize Manitoba Hydro's risk management practices to address corporate wide business and operational risks
- Manitoba Hydro's risk management structure incorporates several levels of review and oversight

KM Recommendations on Risk Management

- Responsibility matrix
- Preparedness plans for all costly risks
- Engagement in training and simulation games dealing with risk occurrences
- Reporting structure associated with Corporate Risk Management Committee



Other Recommendations

- KPMG and KM - Functionality and resourcing of the Middle Office
- Actions taken by Manitoba Hydro subsequent to KPMG review
- New positions have been created and staff hired
- External consulting support has been engaged to assist in the selection of risk analytic tools
- The Middle Office is participating in review of proposed term sheets and export contracts and review of all power sales policies and ensuring required updates are fully documented and approved
- Middle Office has direct access to the executive and has membership on key corporate committees



Risk Tolerance

- ICF, KPMG and KM had relative unanimity in supporting the appropriateness of Manitoba Hydro's participation on the export market and the direction of Manitoba Hydro's recommended Development Plan
- There are no financial incentives at Manitoba Hydro to take undue risk
- History is evidence that the pursuit of long-term export sales has contributed to reduced domestic rates for all Manitoba customers
- Manitoba Hydro's risk tolerances are aligned with those of its ratepayers

Water and Energy Management

- In operating Manitoba Hydro's power system, the following objectives are pursued in priority order:
 - Public and employee safety
 - Reliability of supply
 - Environment
 - Citizenship obligations
 - Economics
- In the context of the critical nature of an adequate power supply of electricity, Manitoba Hydro's caution in dealing with drought can't be over emphasized

Water and Energy Management Con't

- Future weather conditions are unknowable and in that context perfect operations are impossible and costs may be incurred as a result
- Water in reservoir storage is managed given the conditions and requirements at the time
- After the fact reviews based upon assumptions that the future water supplies are knowable are not helpful
- No evidence provided to refute the conclusion by Risk Advisory that Manitoba Hydro did an outstanding job in managing the 2003/04 drought

Water and Energy Management Con't

- Manitoba Hydro's policy requires emergency response plans for all foreseeable emergencies arising from natural or man-made events that pose a real or potential threat to:
 - The health and safety of employees, contractors and the general public
 - The assets of the Corporation and related environmental protection
 - The ability to generate, transmit and distribute electricity, transmit and distribute natural gas and provide related services; and
 - The ability of the Corporation to conduct business in the normal course
- Manitoba Hydro has many Emergency Response Plans in place

Water and Energy Management Con't

- Although the financial consequences can be serious and significant, Manitoba Hydro does not consider drought to be an emergency
- Manitoba Hydro plans its generation and transmission facilities, negotiates its export sales, plans its finances and operates its reservoirs with the worst historical drought in mind
- Manitoba assumes that severe drought can occur at any time and drought preparedness planning is an ongoing process and is embedded in the day to day operations of the system

Maximizing Net Revenue Versus Minimizing Cost

- The objective function of maximizing net revenues in Manitoba Hydro's models will result in the least cost to ratepayers
- The practice of optimizing net export revenues in water management and market activities benefits ratepayers and allows Manitoba Hydro to take advantage of export opportunities for the benefit of ratepayers

Preferred Development Plan v Alternative Plans

- Manitoba Hydro provided the financial results for the preferred development plan and an alternative development plan
- The 20 year Financial Outlook demonstrates that the preferred development plan is beneficial to ratepayers in the long term by providing greater retained earnings and reduced customer rates

Preferred Development Plan v Alternative Plans Con't

- Other scenarios of system expansion will be tested in an NFAAT review
- It is necessary to undertake expenditures well in advance of the date of commitment in order to protect the option to develop hydro in Manitoba
- Manitoba Hydro has provided substantial information, including the provision of the preferred and alternative development plans, to make an informed decision on the requested rate increases for the 2010/11 and 2011/12 Test Years

Inclusion of Wind, Thermal and Firm Imports as Dependable Energy Resources

- Manitoba Hydro's Power Resource Plan considers all dependable wind energy, thermal energy and firm imports as dependable resources in planning and operating the system
- There is a quantity of wind energy over the entire year that Manitoba Hydro can count on and Manitoba Hydro has reservoir flexibility to absorb the wind energy whenever it is available
- The dependable portion of wind energy is assumed to be 85% of the expected annual availability to reflect that it is possible to experience an entire year that results in low wind energy production

Inclusion of Wind, Thermal and Firm Imports as Dependable Energy Resources Con't

- It is appropriate to consider thermal generation and firm import energy as dependable resources because on average in the long term they are not utilized frequently and provide overall benefits that far outweigh their cost

Estimate of the Financial Impact of Extended Drought

- The financial impact of a five-year drought is an appropriate stress test for assessing financial risks faced by Manitoba Hydro
- In IFF10, a five year drought beginning in 2012/13 was estimated to cost \$2.1 billion, including additional financing costs due to reduced revenues
- Since SPLASH considers all the major factors that influence drought operations, it is the appropriate tool for analyzing the financial impact of a five year drought
- All credible evidence demonstrates that Manitoba Hydro's estimate of the financial consequence of an extended drought is appropriate

Estimate of Frequency and Severity of Droughts

- Manitoba Hydro assesses severity of droughts by determining the deviation between net flow related revenue and average net flow related revenue over different time periods
- The frequency of the five-year benchmark drought has been determined to be a 1 in 50 year event since droughts of this severity and duration in 100 years has occurred twice
- Manitoba Hydro's assessment of drought frequency is appropriate

Historic Stream Flow Record

- The historical flow record since 1912 is adequate and provides a rich sample of possible flow conditions
 - Based on a number of gauges to measure water supply on the main stem of the various major rivers that provide supply to its system
- There is no clear evidence that water flows in the basins affecting Manitoba Hydro's generation will either increase or decrease with climate change
- Manitoba Hydro continues to study the effects that climate change may have on water supply however, to date, these studies are inconclusive as to the direction and magnitude of the impact of climate change on future stream flows

Production Coefficients

- Any issue with the different production coefficients in HERMES and SPLASH and the resulting revenue loss are limited

We are satisfied that MH has taken appropriate care and due diligence in modeling production coefficients in its modeling tools. Further, MH carefully takes into account plant efficiency when optimizing the scheduling of its hydroelectric stations

KPMG Report – p. 25

Adequacy of Models

- ICF found no deficiencies with operational impacts of models

We are satisfied that Manitoba Hydro has taken appropriate care and due diligence in developing, operating and maintaining the models. This relates to the approximations in the HERMES models, the use of adjustment factors and the on-going calibrations and updates to both SPLASH and HERMES

KPMG Report - p. xi

VISTA is undoubtedly a powerful tool and thoroughly tested system

KM Report - p. 63

Adequacy of Models Con't

On the whole we felt strongly that HERMES is a valid model, it serves MH well... SPLASH is an equally relevant and useful system

KM Report - p. 180

(Re SPLASH) "We are happy with the simulation structure of the system and the insights that this can add to its utility

KM Report - p. 95

Adequacy of Models Con't

- There were no material deficiencies noted
- Manitoba Hydro is pursuing or considering the other recommendations or suggestions for improvements
- The recommendations or suggestions are not required to ensure reliability or Manitoba Hydro's forecasting, operations and planning decisions

Regarding the models, we feel there – the models are serving their purpose and can be relied upon for operational planning and long-term planning

KM - Transcript p. 5952

Adequacy of Models Con't

- Collaboration among modelers
- Manitoba Hydro model experts regularly interact on modeling matters in various settings:
 - Internal modeling information sharing sessions
 - Modeling working group meetings
 - Inter-group studies
 - IFF preparation meetings
 - External industry forums

Adequacy of Models Con't

HERMES, SPLASH and PRISM are indispensable operational, planning and assessment tools at Manitoba Hydro. These decision support tools are consistent with the standard systems currently used in many leading utilities in North America

KM Report – p. 181

Adequacy of Models Con't

- Results of the models can be compared and differences can be explained where the models overlap
- No need to have all models on a common platform as there should be some independence between models to diversify and reduce risk

Linear Programming Versus Non-Linear Programming

- Linear programming systems constitute the standard operational planning tools in almost all large utilities in North America and abroad
- There is no evidence to demonstrate that implementing non-linear optimization formulations in its decisions support models would result in measurably better operating or planning decisions

Static Versus Dynamic

- Little value in applying dynamic modeling in its decision support systems
 - Problem size – “curse of dimensionality”
 - Limited storage carryover capability relative to other system parameters
 - Dynamic programming was applied in 1980’s and was found to be impractical for a problem as large as the operation of the Manitoba Hydro system
- The application of dynamic programming in the industry will be monitored by Manitoba Hydro

Deterministic Versus Stochastic

- Efforts will continue to incorporate stochastic techniques in its decision support models
- Development of PRISM will continue
- Efforts will continue to develop the “Tree Model” in HERMES
- Quantitative assessments of risks will be done through integration of risk factors in Manitoba Hydro models

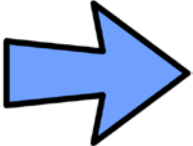
Role of Models

- Models are used to inform decisions not dictate actions
- Professional judgment used to evaluate model results and consider other factors that influence planning and operating decisions

Adequacy of the SPLASH Model

- The SPLASH model produces appropriate results in terms of revenues and costs that are affected by water flow conditions
- SPLASH considers the variability of water flows by utilizing chronologic record of historic flows and stimulates system operation assuming that each of the flow sequences occur in the future
- SPLASH has been calibrated to represent actual system operation by considering all relevant factors that influence net export revenues

Independence & Credibility

ICF, KPMG, KM  unfettered and open access to Hydro staff, processes, data and contracts

- No issue of independence or credibility

Independence & Credibility - Weighing Different Views

- It is reasonable for people to have different views
- The following should be answered when weighing different views of risk consultants:
 - Did the consultant access Manitoba Hydro's models and accurate data so as to formulate their own opinions or assess the reasonableness of Manitoba Hydro's conclusions?
 - Does the consultant have industry experience to understand how their conclusions or recommendations will play out in the real world?

Demand Side Management

DSM Targets

- DSM has, is and continues to be an integral part of Manitoba Hydro's long term Corporate strategies
- Meaningful and Appropriate Analysis
 - Dunsky Review
 - CEEA
 - Xcel

DSM Targets Con't

- Dunsky cautions against use of savings and spending rates alone
- Unique Manitoba circumstances

Use of RIM

- RIM provides insight into the rate impact of a particular program not the program's viability
- Manitoba Hydro uses and will continue to use a broad range of metrics to assess program designs for pursuing energy efficient opportunities

Summary - DSM

- Manitoba Hydro's commitment to energy conservation fully demonstrates its on-going and continued commitment to setting aggressive and realistic DSM targets
- Manitoba Hydro's targets are based upon achievable and identifiable economic market opportunities
- Manitoba Hydro does not use RIM as the primary screening tool but rather a broad range of quantitative tools

Low Income Affordability Program

Low Income Affordability Program

- The adoption and implementation of a Low Income Affordability Program whereby rates are subsidized based on income is outside of Manitoba Hydro's mandate as it is defined by its enabling legislation
- Manitoba Hydro's mandate flows from *The Manitoba Hydro Act*

Other Canadian Jurisdictions

- Dalhousie Legal Aid Service v. Nova Scotia power Inc. (2006 Nova Scotia Court of Appeal)
 - Did the Utility and Review Board commit a reviewable error by concluding that it had no statutory authority to adopt a rate assistance program for low income customers
 - The Nova Scotia Court of Appeal held that the Board did not err in its conclusion that it had no statutory authority
- Leave to appeal to the Supreme Court of Canada denied

Other Canadian Jurisdictions Con't

- Advocacy Centre for Tenants-Ontario v. Ontario (Energy Board) (1998 – Ontario Superior Court of Justice (Divisional Court))
 - Majority held that the OEB had jurisdiction to take into account ability to pay in setting natural gas distribution rates
 - Dissent held that there was no jurisdiction to take into account ability to pay in setting rates because it would involve taking a new role in setting social policy

Summary – Low Income Affordability Program

- Determining the need for a subsidy is better made by the Legislature
- No evidence to suggest that a low income rate program will reduce costs to the utility or result in a benefit to all ratepayers
- Manitoba Hydro does not have the mandate or the information necessary to run a rate affordability program

Summary - Low Income Affordability Program Con't

- Manitoba Hydro is equipped to run a low income energy efficiency program and has been working with community groups, government agencies, and not-for-profit organizations
- Manitoba Hydro is considered to have one of the most comprehensive approaches to addressing energy poverty in Canada

Rate Design and Rate Administration

Residential Rates

- Manitoba Hydro will not be pursuing the reduction to the Basic Monthly Charge at this time
- Manitoba Hydro is not seeking any further changes to the rate structure implemented in Order 40/11 which eliminated the rate inversion at this time

General Service Rates

- Manitoba Hydro filed its plan to consolidate the small and medium rate classes on July 31, 2009 which showed that considerable progress has been made with respect to consolidation
- Consolidation has been substantially completed and remaining gap will be closed within 2 years

Limited Use of Billing Demand Rate

- Only one change to the structure of the LUBD rate
 - The first 50 kV.A of billing demand exempt for Medium customers be consistent with Small customers and other GS customers
- The LUBD rate structure as proposed should be accepted

Surplus Energy Program Rate

- Seeking final approval of all SEP ex parte orders issued on a weekly basis
- Only minor change requested is the elimination to the reference to the winter ratchet under Option 1
- The concern regarding export and SEP summer off-peak sales should now be resolved satisfactorily

Curtaile Rate Program

- Manitoba Hydro is seeking final approval of CRP interim orders 46/09 (which was included with Manitoba Hydro's application), 42/10 (issued April 27, 2010) and 63/11 (issued April 27, 2011)
- There were no changes proposed to the CRP
- No suggestion that CRP interim orders not be given final approval

Demand Energy Rebalancing

- Recent efforts to gradually recover a greater share of General Service class revenues from Energy charges and a correspondingly lesser share from Demand charge revenues
- Manitoba Hydro's current approach of gradually increasing the emphasis of energy in the recovery of the revenue requirement is appropriate

Time of Use Rates

- TOU rates are consistent with the variation in marginal energy costs among time periods
- Developing, piloting and implementing TOU rates should begin where such rates are most easily implemented =
GSL customers
- Manitoba Hydro is currently in consultation with its GSL customers

Energy Intensive Industrial Rate

- Ongoing discussions with MIPUG and industrial customers are focused on industrial rates, rate design and supporting policy generally
- EIIR raises difficult issues and patience is requested while the parties complete the ongoing consultations and work towards the best possible solution

Temporary Demand Billing Concession

- Manitoba Hydro is seeking to confirm as final Order 126/09 which converts the partial bill payment deferral into a true concession
- Manitoba Hydro believes this is appropriate because:
 - Billing demand concessions were necessary to retain operations in Manitoba
 - With the conclusion of the program in November 2009, liabilities were clearly established as they relate to the deferrals provided
 - Simply deferring payments of portions of bills does not meet the customers need of relief from higher unit energy costs
 - This concession is similar to others that Manitoba Hydro makes available to demand billed customers

Cost of Service Study

COSS

- Once Manitoba Hydro has reviewed and developed a response to the independent consultant report that is being prepared on the COSS, Manitoba Hydro will be in a better position to advise on whether changes are required to the COSS
- PCOSS10 and PCOSS11 should be accepted for information only at this time
 - Current application filed is on an across-the-board basis
 - COS methodology is under an independent external review process

Class Results and ZOR

- Manitoba Hydro does not want to pre-judge the results of the current external review of this particular aspect of the COSS
- Two significant issues being evaluated in the independent COSS review:
 - Assignment and allocation of costs against Exports
 - Class RCC's after allocation of net export revenues
- Until outstanding COSS issues are clarified, Manitoba Hydro supports across the board class increases directed in Order 18/10 and 40/11

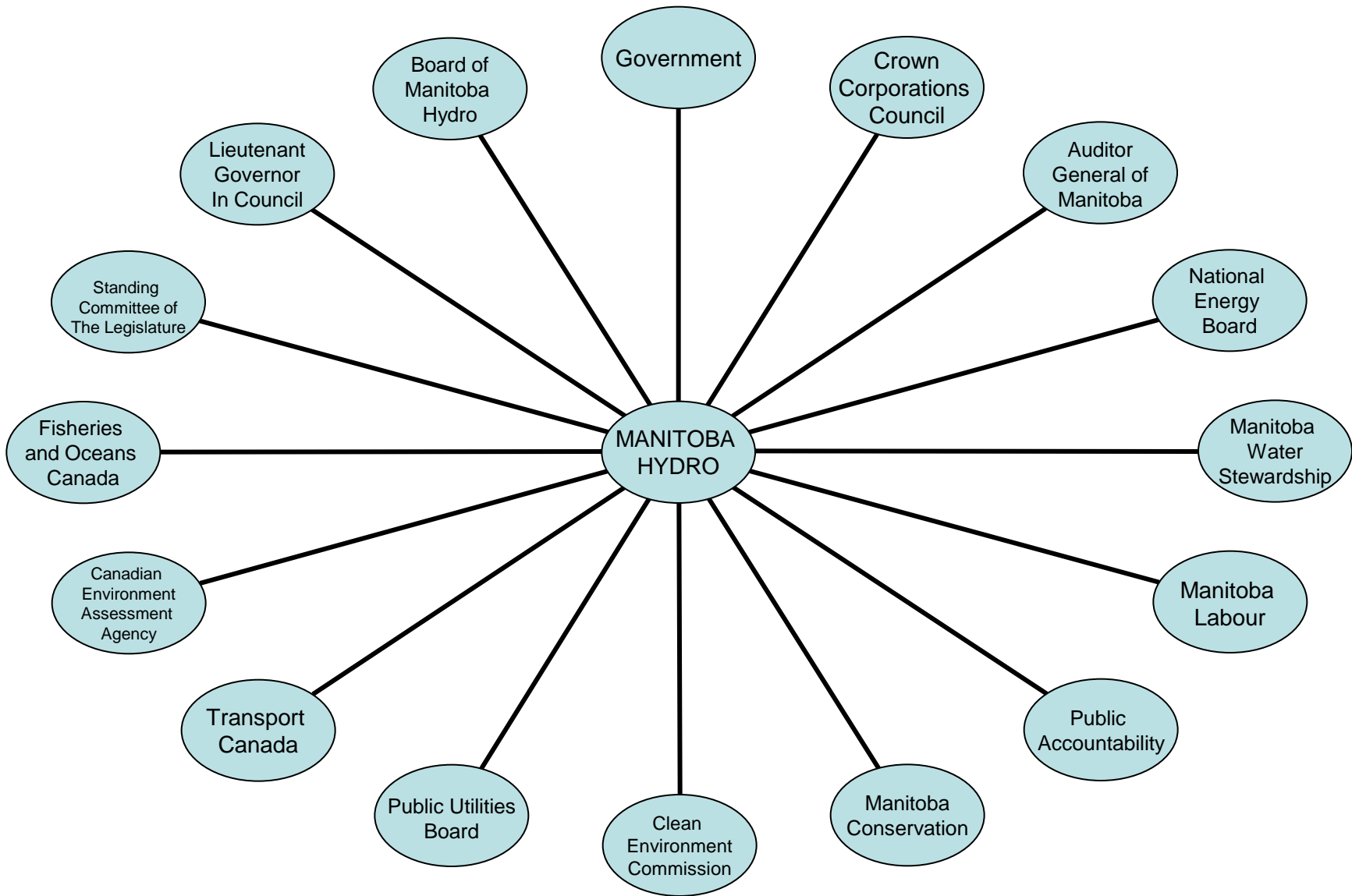
Treatment of Thermal Costs

- PCOSS10 and PCOSS11 excludes the Export class from all fixed and variable costs associated with coal-fired generation
- COSS is currently constructed on the basis of a median flow year and neither imports nor thermal are required to serve either domestic or firm export loads under these circumstances
- Treatment of thermal resources is also being reviewed by the external independent review of the COSS

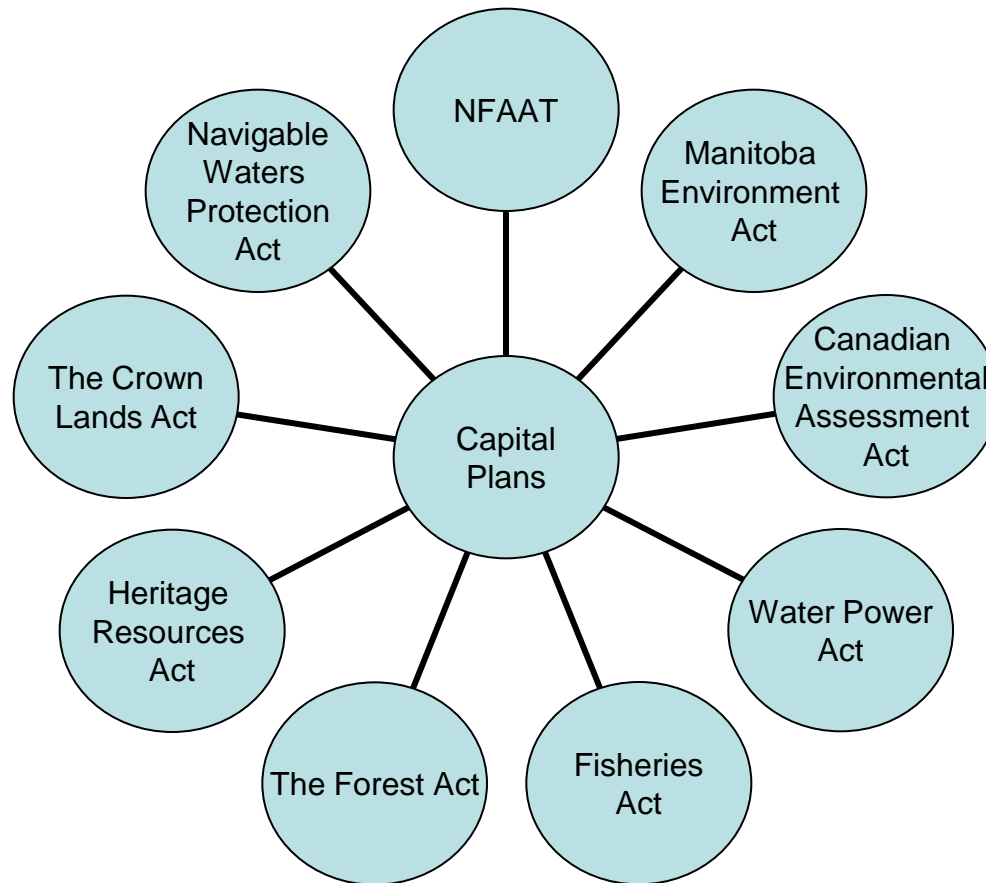
Classification and Allocation: Distribution Functions

- Customer density is a significant driver of the cost of poles and wires in the Distribution system and a customer component is required to recognize this

Jurisdictional Issues



- Oversight in place for Manitoba Hydro Capital Plans



Capital Plans

- Oversight mechanisms are in place for Manitoba Hydro's capital plans
 - Crown Corporations Council
 - NFAAT
- Government has made clear its intention to hold an NFAAT hearing prior to Manitoba Hydro formally committing to Keeyask or Conawapa and the export contracts underpinning advancement of those plants

NFAAT

- A review of the environmental, financial and economic impacts of the Preferred Development Plan relative to other resource options
- Duplication should be avoided
- No Order In Council has been issued appointing an NFAAT tribunal to date

Manitoba (Public Utilities Bd.) v. Manitoba (A.G.) – (Court of Appeal -1989)

- Does the Public Utilities Board have jurisdiction to approve, reject or vary Manitoba Hydro capital project plans such as plans to construct new generating stations, incidental to or as a condition of granting approval for changes in the prices charged for power?
- The Court of Appeal answered in the negative

Live Spreadsheets

- Concerns with providing live spreadsheets:
 - An independent analyst would need to invest a significant amount of time and effort to be capable of operating the model correctly
 - Spreadsheets contain metadata, which include working notes and references made by staff
 - Some of Manitoba Hydro's models may be subject to intellectual property rights reserved by third parties
 - Some spreadsheets may contain competitive or commercially sensitive information
- It will take a collaborative process to successfully implement more advanced forms of electronic filing

Response to City of Winnipeg Final Submission

- Manitoba Hydro agrees that Area and Roadway Class should not have any rate increases ordered for April 1, 2010 and April 1, 2011
- Manitoba Hydro is prepared to assist in furthering the City of Winnipeg's understanding of the COSS

Response to SCO

- The PUB is not the proper forum for dealing with SCO's unproven and unsustainable allegations of liability for compensation for property or other damages

Conclusion

Conclusions

- Manitoba Hydro seeks:
 - Confirmation as final the interim rates ordered effective April 1, 2010 and April 1, 2011
 - Additional implementation of the .9% increase sought by Manitoba Hydro in this Application effective August 1, 2011
 - Confirmation as final the interim rate orders with respect to CRP and SEP
 - Make permanent the demand billing concessions approved in Order 126/09

Conclusions Con't

- Manitoba Hydro has managed its risks well and is taking the appropriate steps to ensure that those risks will be managed well into the future
- Manitoba Hydro's practices and models are appropriate and risks are being managed appropriately

Conclusions Con't

- The evidence has been thoroughly tested
- The requested rate increases are just and reasonable and reflect an appropriate balance of the interests of the ratepayers and the need for a financially stable utility

Thank You.