<u>Manitoba Hydro Undertaking #78</u>

Manitoba Hydro to verify what information went into calculating the $153 million referenced in the ICF Report statement that "present value basis possibly reducing bills by $153 million by 2041". What series of future cash flows would be required for that 32 year period which will result in a present value of $153 million at a 6.1% discount rate.

The terms of reference for the ICF International independent review did not require a comprehensive assessment of the strength of the business case for the new export transactions. In order to address the issue of “Should MH be in the hydroelectric power export business” ICF investigated whether the MP and WPS sales together with an interconnection would result in lower rates in the future. They utilized a financial analysis that was provided in the 2008/09 Power Resource Plan which indicates that the cumulative reduction in customers’ electricity bills was estimated to be $153 million on a present value basis by 2041 as referenced in footnote 2, page 4 of the September 2009 ICF Report. This estimate was not intended to be representative of the total present value benefit of the sales scenario, but was sufficient information to draw the conclusion that lower rates could be expected in the future due to the sale scenario compared to the no-sale scenario.

It should be noted that the $153 million of present value cumulative customer savings is only one of a number of measures Manitoba Hydro uses in assessing the attractiveness of a resource plan option and does not represent the full economic net present value of the incremental benefits and costs of the sale scenario compared to the no-sale scenario. The more appropriate methodology for determining the economic benefits of a development plan is to utilize an economic approach which considers the present value of all the benefits and costs over the life of the investment. The financial evaluation complements the economic evaluation by assessing the impacts of a resource plan option on the financial strength and profitability of the Corporation, on-going financial self-sufficiency, as well as the impacts on customers’ rates.

Since the $153 million represents only a portion of the total benefits of the sale scenario compared to the no-sale scenario, it is not meaningful to compare this to increases in capital cost of plants such as Keeyask. In addition, the determination of a levelized value over 32 years that corresponds to the present value of $153 million does not provide a meaningful quantity that can be compared to other costs.

As described above, the reduction in customers’ electricity bills of $153 million on a present value basis by 2040/41 represents only a portion of the total benefits of the sale scenario compared to the no-sale scenario. Additional benefits would be derived from differences in retained earnings and a lower debt ratio at the end of the analysis horizon and an increase in assets at the horizon. The net present value benefit based on the economic analysis approach is more appropriate for determining the overall benefit of the sale scenario but this value is confidential. Manitoba Hydro cannot provide this publicly since it may harm its negotiation of export contracts but will be subject to the future “need for and alternatives to” process when it is initiated.