

Presentation to the Public Utilities Board of Manitoba

Manitoba Hydro GRA

Hearing Start Date: December 10, 2012



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, 2012

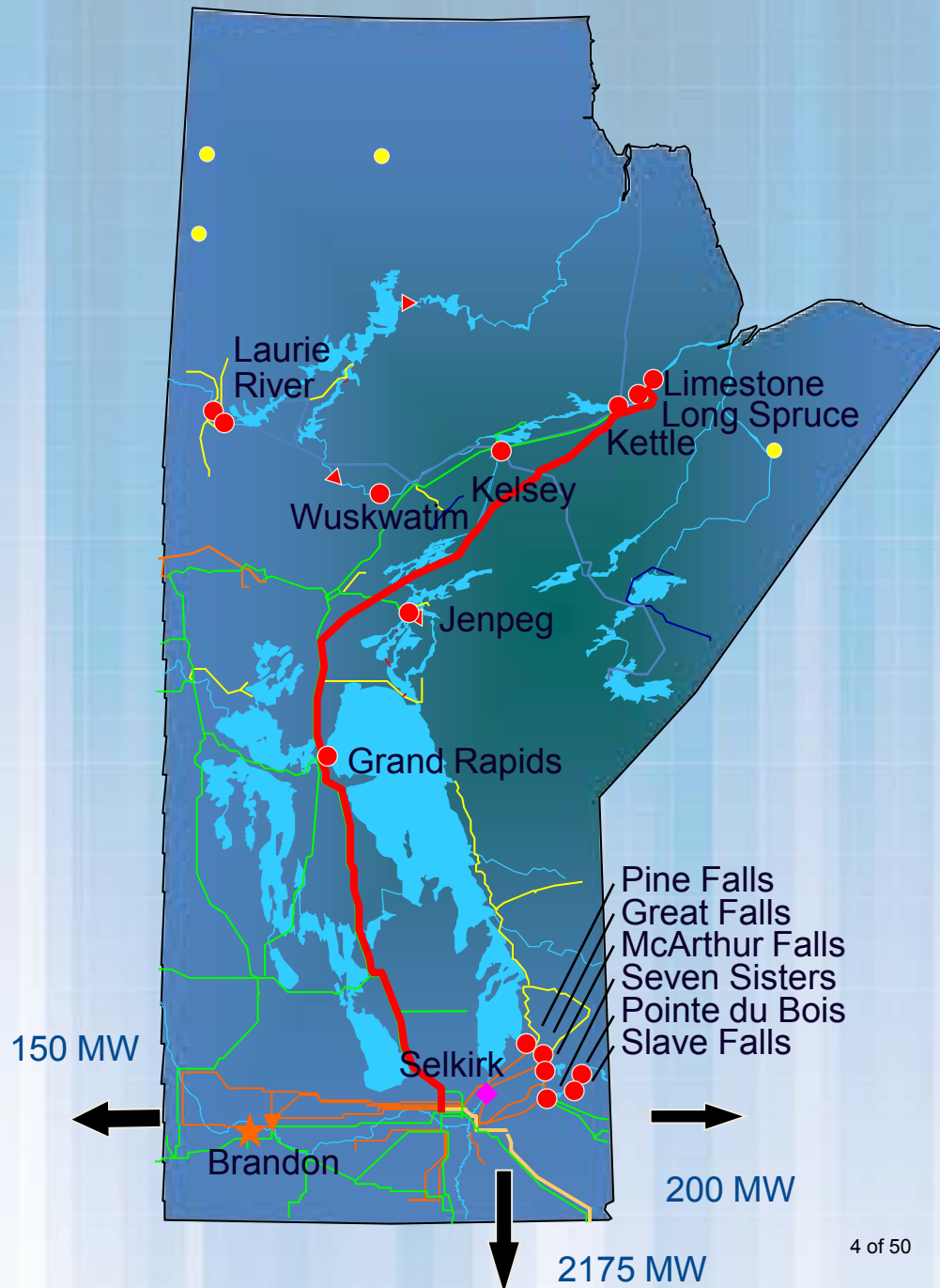
- \$2 billion annual revenue
- \$14 billion assets
- 543 000 electricity customers
- 268 000 natural gas customers
- Exports to over 30 wholesale customers
- Electricity rates the lowest in North America
- Ranked #1 in Customer Satisfaction by CEA
- 6 300 employees
- A Top 100 Employer in Canada
- Leader in aboriginal employment
- Leader in energy conservation

Generating Stations and Interconnections

2011/12 – Energy

- 80% Nelson R.
- 9% Wpg. R.
- 7% Sask. R.
- 3% Wind
- 1% Thermal & Imports

-  HVDC
-  Other Transmission
-  Other Transmission
-  Other Transmission
-  Selkirk -Natural Gas
-  Brandon – Coal
-  Brandon – Gas Comb. Turbine
-  Control Structures
-  Diesel Sites
-  Hydraulic G.S.'s



Financial Update

Consolidated Financial Results

Income Statement for the Years Ended March 31 (\$ millions)

	2009	2010	2011	2012	% Change (2009 to 2012)
REVENUE					
Electric					
Manitoba	\$ 1 148	\$ 1 156	\$ 1 218	\$ 1 210	5.4 %
Extraprovincial	623	427	398	363	- 41.7 %
Gas	580	454	404	329	- 43.3 %
	<u>2 351</u>	<u>2 037</u>	<u>2 020</u>	<u>1 902</u>	
Cost of Gas sold	431	316	261	197	- 54.3 %
	<u>\$ 1 920</u>	<u>\$ 1 721</u>	<u>\$ 1 759</u>	<u>\$ 1 705</u>	
 EXPENSES					
Operating and administrative	429	440	463	472	10.0 %
Finance expense	471	410	425	423	- 10.2 %
Depreciation and amortization	368	384	393	381	3.5 %
Water rental and assessments	123	121	120	119	- 3.3 %
Fuel and power purchased	176	104	106	146	- 17.0 %
Capital and other taxes	87	99	102	103	18.4 %
	<u>\$ 1 654</u>	<u>\$ 1 558</u>	<u>\$ 1 609</u>	<u>\$ 1 644</u>	
 NET INCOME					
	<u>\$ 266</u>	<u>\$ 163</u>	<u>\$ 150</u>	<u>\$ 61</u>	
 Hydraulic Generation	34 541	33 974	34 115	33 249	

Consolidated Financial Results

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

	2012	2011
REVENUE		
Electric		
Manitoba	\$ 575	\$ 574
Extraprovincial	207	226
Gas	79	96
	<u>861</u>	<u>896</u>
Cost of Gas sold	34	50
	<u>\$ 827</u>	<u>\$ 846</u>
EXPENSES		
Operating and administrative	266	242
Finance expense	230	210
Depreciation and amortization	207	193
Water rental and assessments	57	61
Fuel and power purchased	59	76
Capital and other taxes	53	51
	<u>\$ 872</u>	<u>\$ 833</u>
Non-Controlling Interest	(2)	
NET INCOME	<u>\$ (43)</u>	<u>\$ 13</u>

Electricity Segment

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

	2012	2011
REVENUE		
Electric		
Manitoba	\$ 575	\$ 574
Extraprovincial	207	226
	<u>\$ 782</u>	<u>\$ 800</u>
 EXPENSES		
Operating and administrative	235	211
Finance expense	215	194
Depreciation and amortization	193	180
Water rental and assessments	57	61
Fuel and power purchased	59	76
Capital and other taxes	43	41
Non-controlling interest	(2)	-
	<u>\$ 800</u>	<u>\$ 763</u>
 NET INCOME	 <u>\$ (18)</u>	 <u>\$ 37</u>

Projected Net Income (IFF12)

Electricity Segment (\$ millions)

	2012/13	2013/14
Revenues (General Consumers)		
At Approved Rates	\$ 1 251	\$ 1 290
1% Roll Back	35	12
April 1, 2012 Interim 2.0%	25	26
Sept 1, 2012 Interim 2.5%	20	33
April 1, 2013 Proposed 3.5%	-	48
Extraprovincial Revenue	357	344
Other Revenue	14	15
	<u>\$ 1 702</u>	<u>\$ 1 768</u>
Expenses	<u>1 664</u>	<u>1 732</u>
NET INCOME before Non-controlling Interest	\$ 39	\$ 36
Non-controlling Interest	14	24
NET INCOME	<u><u>\$ 53</u></u>	<u><u>\$ 60</u></u>

80

119

Key Financial Results

	Actual	IFF12 Forecast			
	2011/12	2012/13	2013/14	2014/15	2021/22
PROJECTED RATE INCREASES					
- ELECTRIC	2.00%	3.57%	3.50%	3.95%	3.95%
NET INCOME					
- ELECTRIC	\$ 62	\$ 53	\$ 60	\$ 50	\$ 52
CAPITAL EXPENDITURES					
- ELECTRIC	\$ 1 033	\$ 1 343	\$ 1 859	\$ 2 009	\$ 2 319
DEBT/EQUITY RATIO	74:26	75:25	78:22	83:17	90:10
INTEREST COVERAGE RATIO	1.10	1.10	1.11	1.09	1.05
CAPITAL COVERAGE RATIO (excl. major new generation & transmission)	1.13	1.16	0.89	0.83	1.60
RETAINED EARNINGS	\$2 450	\$ 2 510	\$ 2 583	\$ 2 314	\$2 528

^[1] Includes the 2.0% interim rate increase effective April 1, 2012 and the 2.5% interim rate increase effective September 1, 2012.

^[2] Assumes the reinstatement of the 1.0% rate roll-back directed in PUB Order 5/12.

Financial Targets

Debt/Equity:

Maintain minimum debt/equity ratio of 75:25

Interest Coverage:

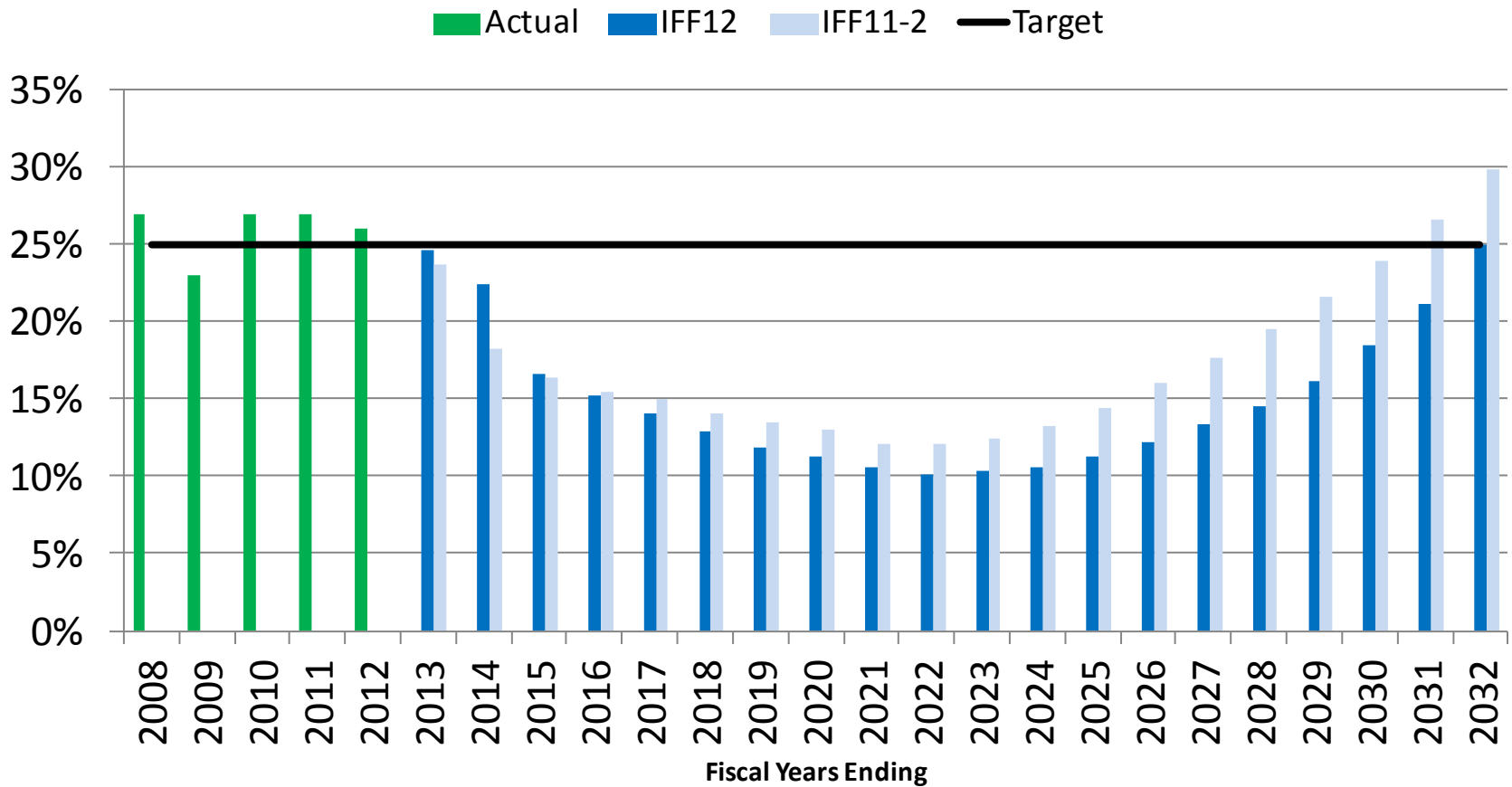
Maintain interest coverage ratio of > 1.20

Capital Coverage:

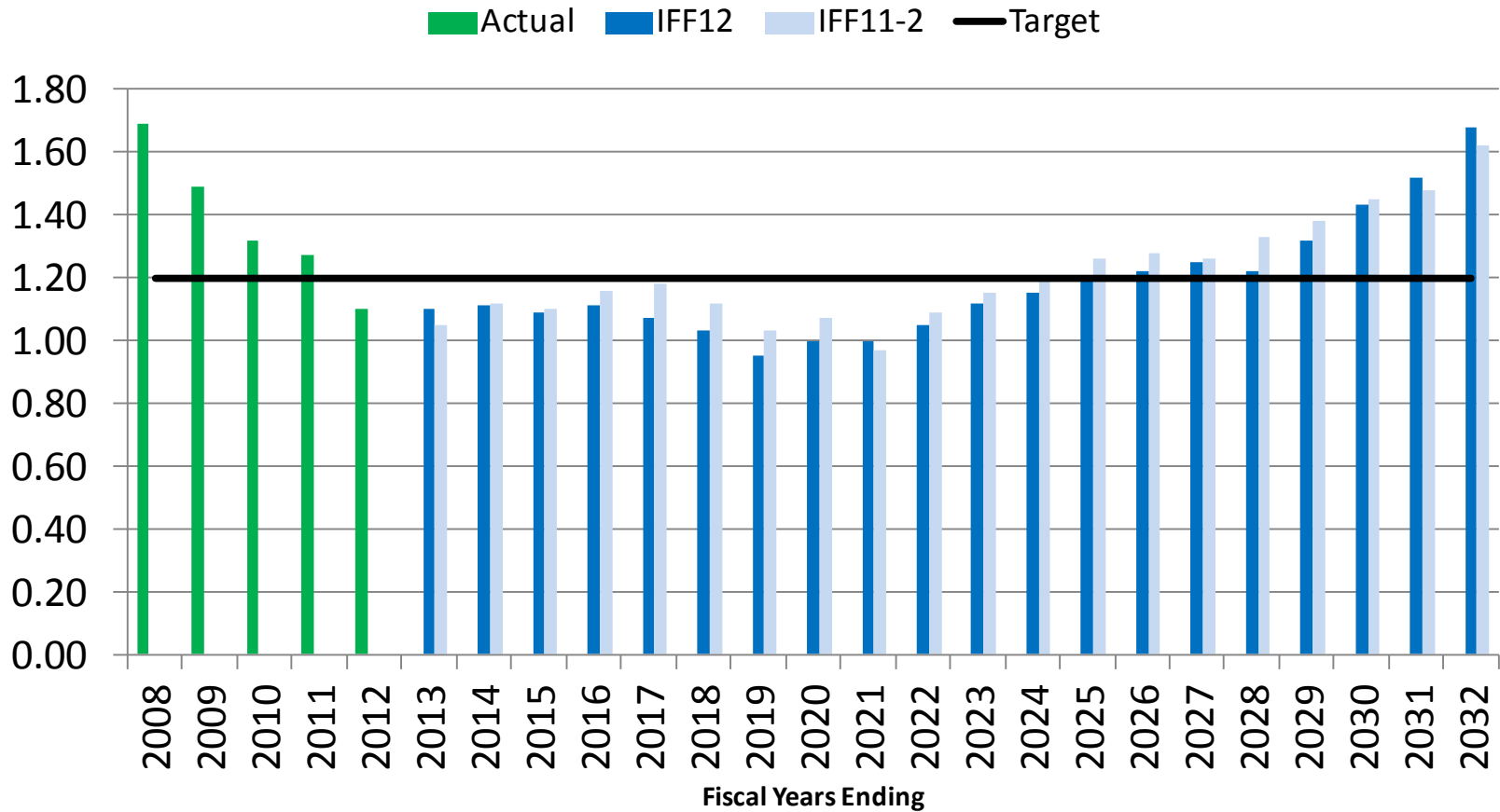
Maintain capital coverage ratio of > 1.20

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

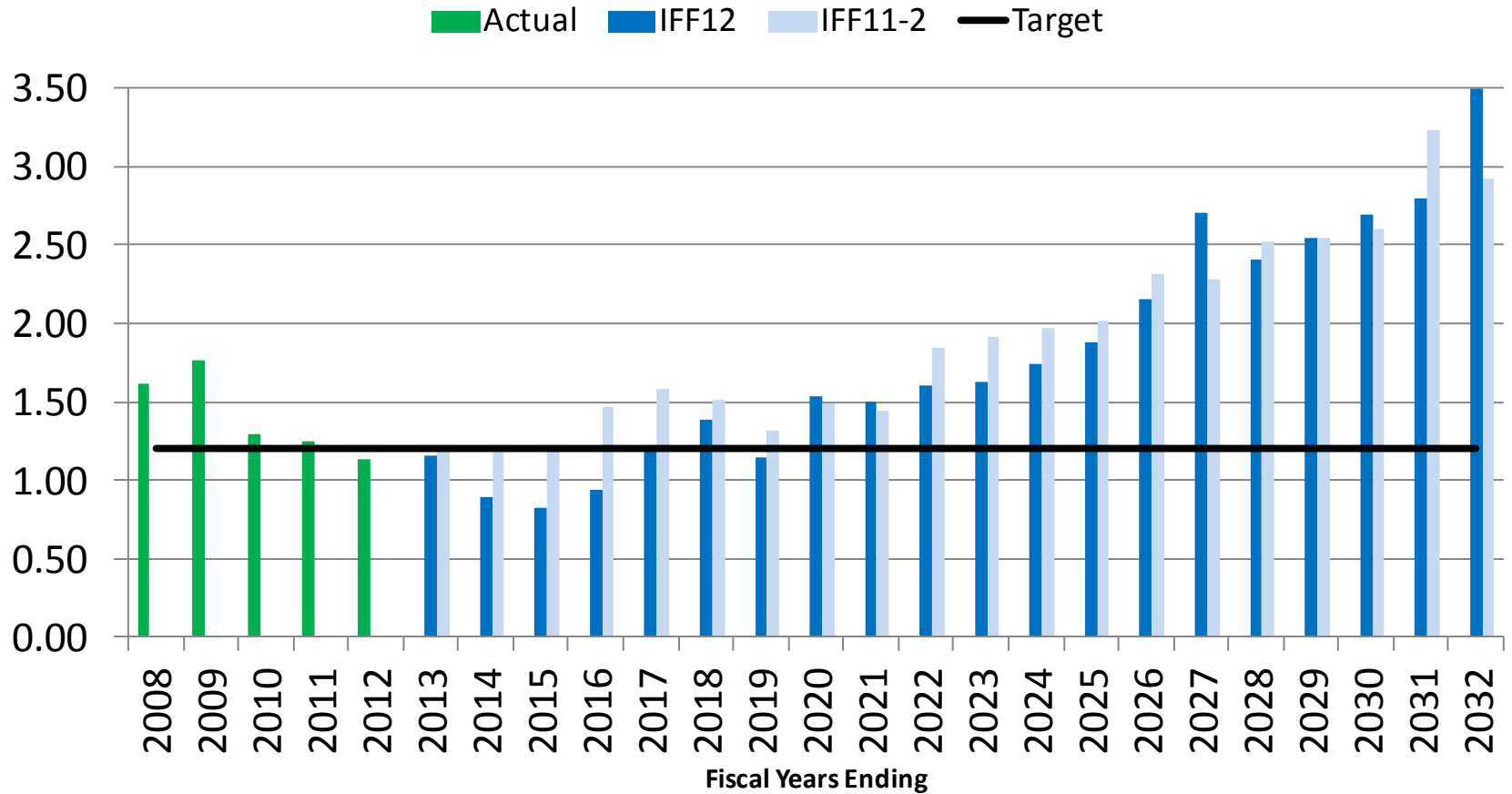
Equity Ratio



Interest Coverage Ratio

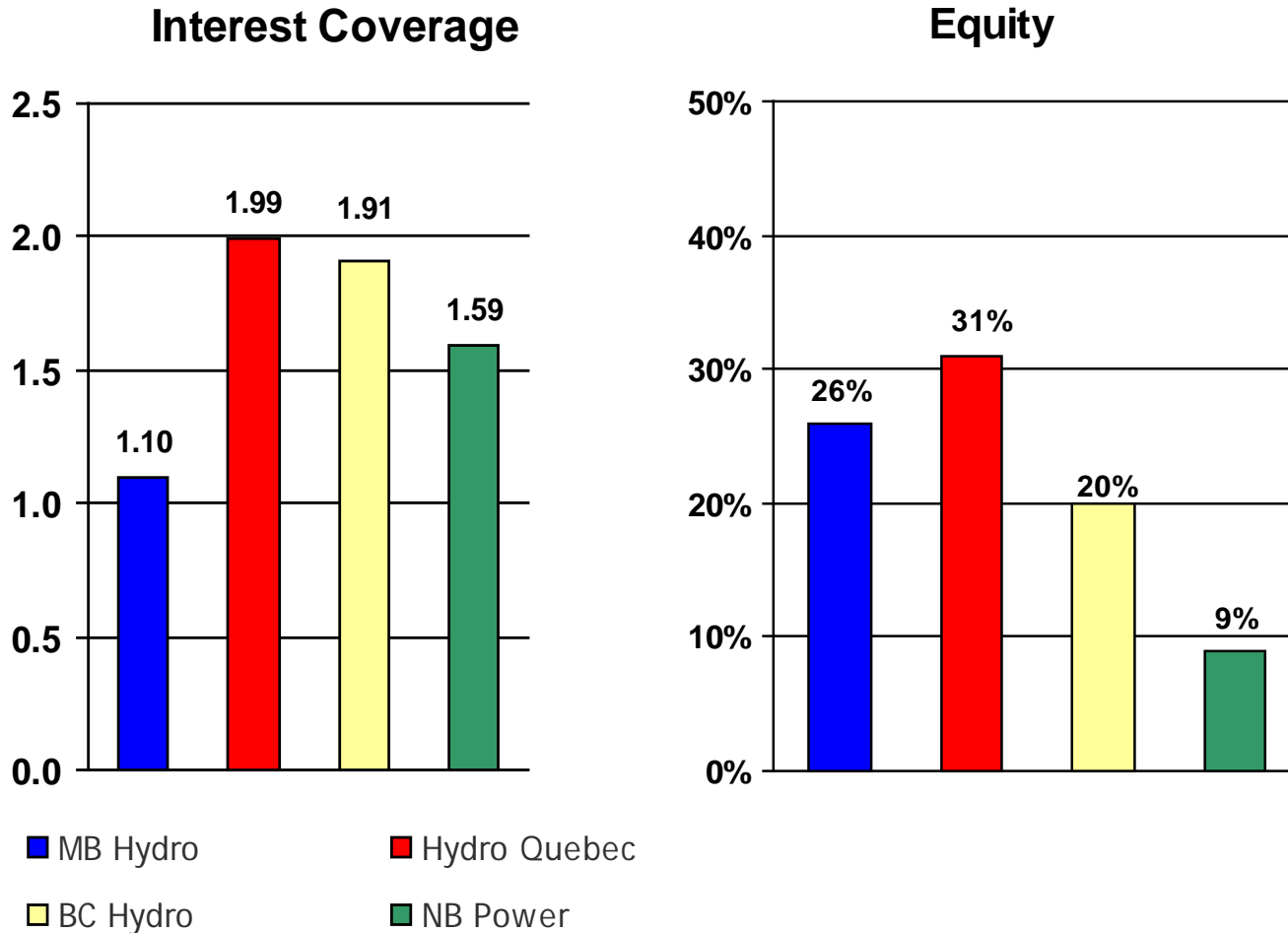


Capital Coverage Ratio



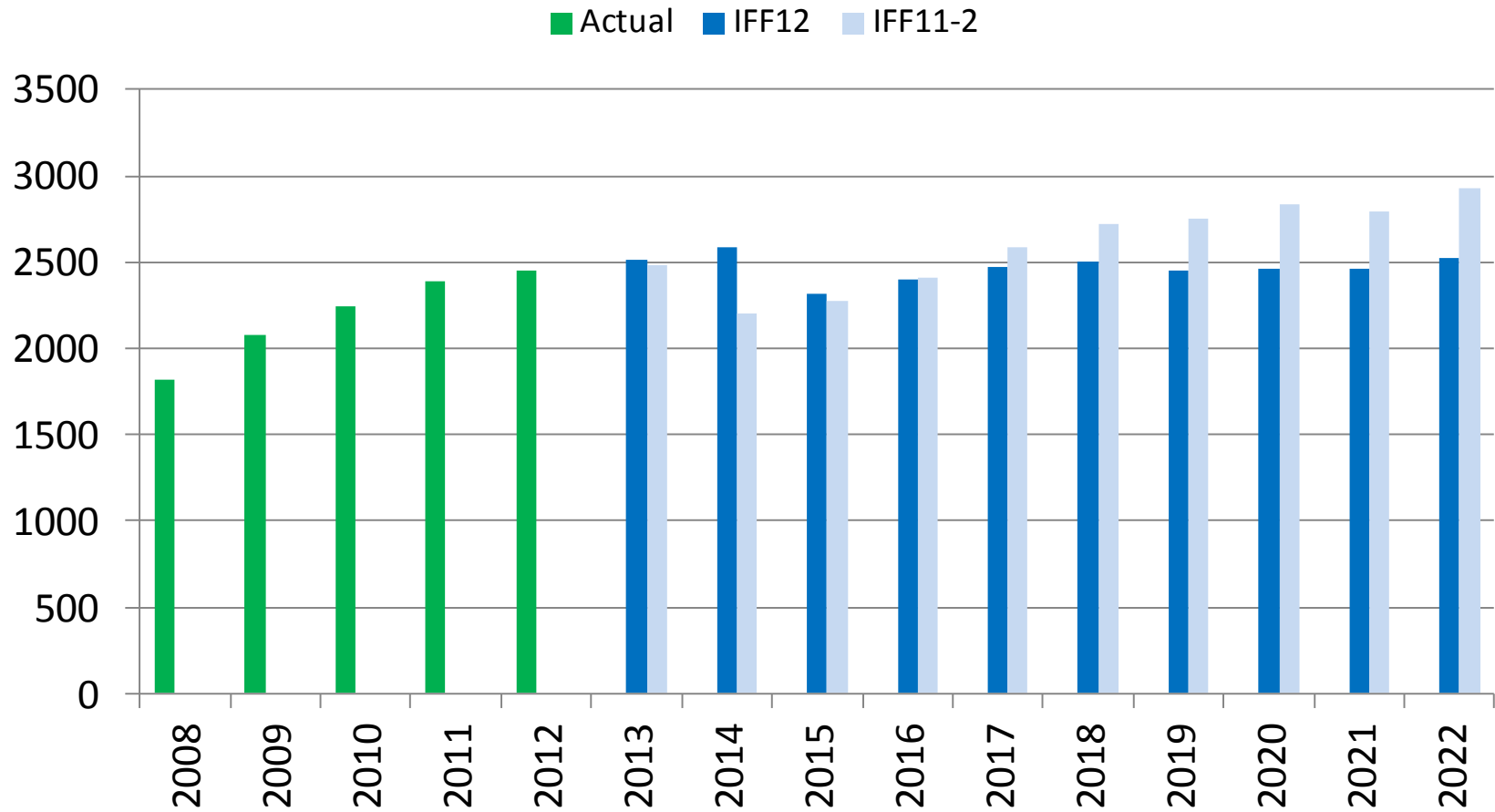
Financial Ratios Comparison

(Most Recent Year End)



Retained Earnings

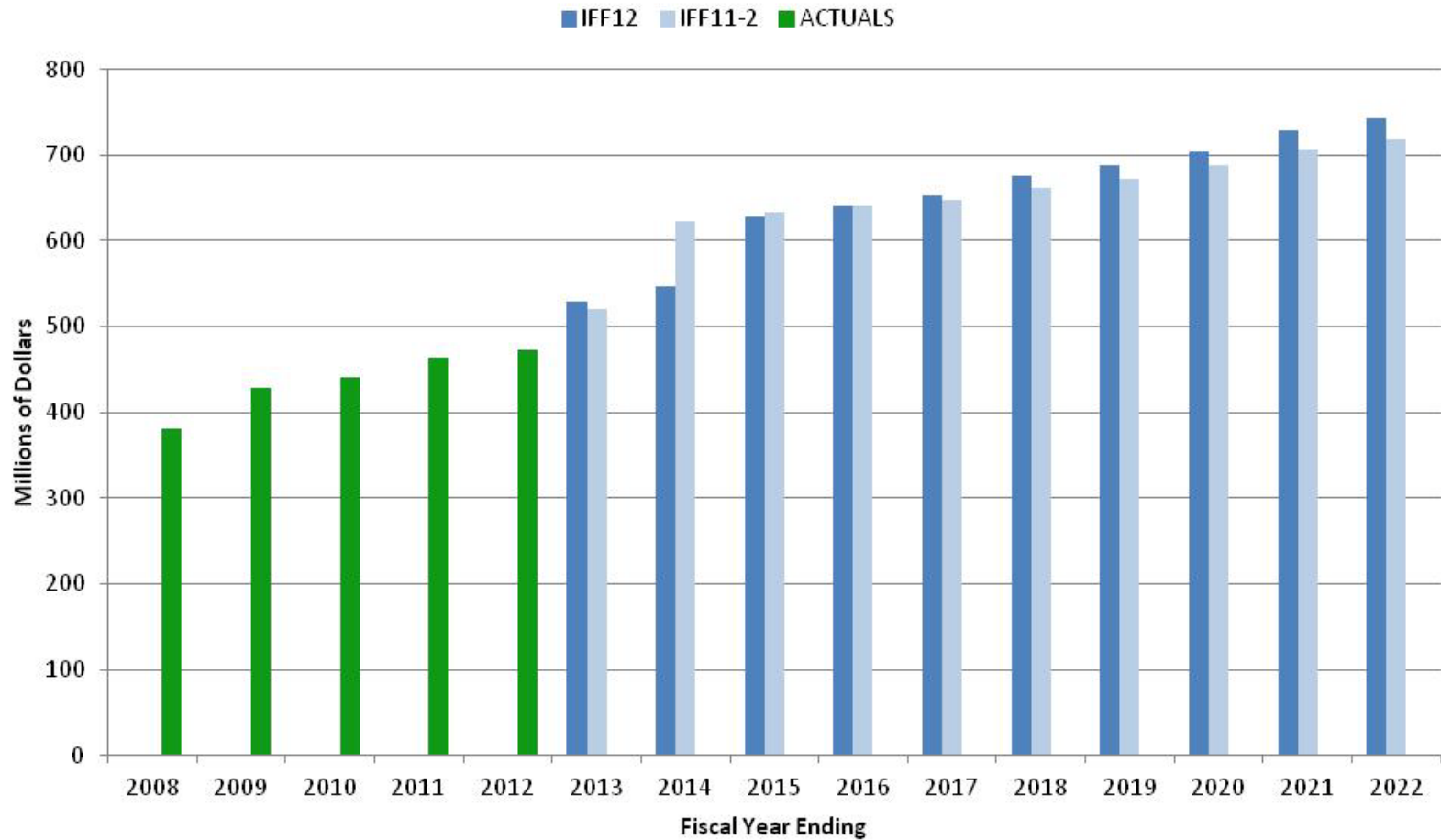
(\$ Millions)



2012/13 Power Resource Plan

PROJECT	ISD	(\$ MILLION)
Wuskwatim Generating Station and Transmission (200 MW)	2012/13	\$1 771
Bipole III	2017/18	\$3 280
Keeyask (695 MW)	2019/20	\$6 220
New US Interconnection	2019/20	\$205
Conawapa (1 485 MW)	2025/26	\$10 192
Additional North-South Transmission	2025/26	\$396
Pointe du Bois Spillway Replacement	2014/15	\$560
Pointe du Bois Powerhouse Rebuild	2030/31	\$1 538
DSM – Additional 174 MW	2026/27	

Operating & Administrative



Operating, Maintenance & Administrative Costs

For the Years Ended March 31 (\$ thousands)

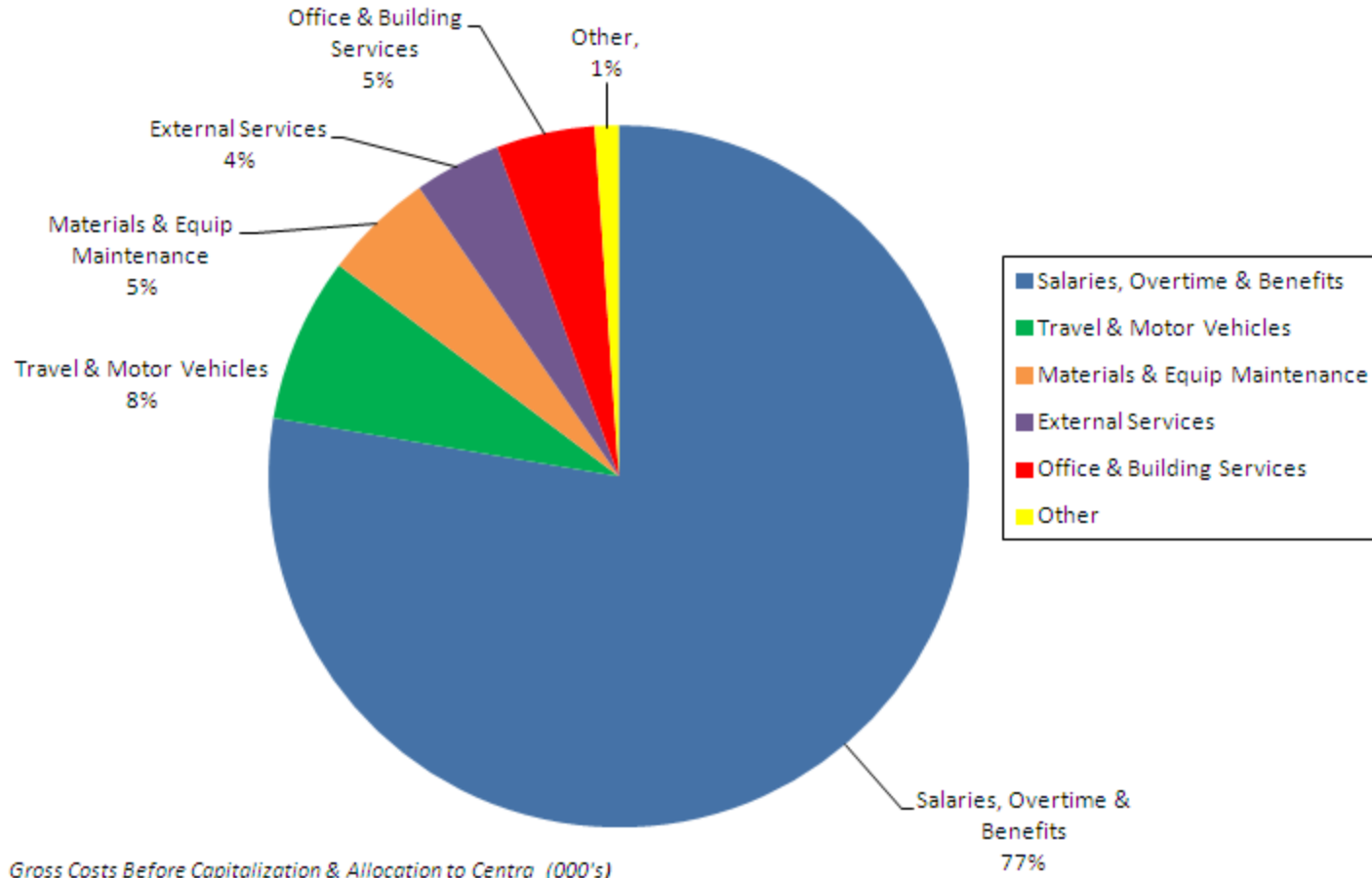
	2010	2011	2012	2013 Forecast	2014 Forecast	Average Annual Increase
Electric OM&A (per Annual Report)	\$ 379,697	\$ 403,067	\$ 410,717	\$ 461,800	\$ 477,600	
Less:						
Subsidiaries	2,146	6,121	7,414	6,491	6,946	
Accounting Changes	11,240	30,910	34,973	75,411	78,318	
Wuskwatim	-	-	-	5,589	10,797	
Electric OM&A after adjusting for subsidiaries, accounting changes and Wuskwatim	\$ 366,311	\$ 366,036	\$ 368,330	\$ 374,309	\$ 381,539	
% Increase	4.28 %	- 0.08 %	0.63 %	1.62 %	1.93 %	1.68 %
Canadian CPI	0.40 %	2.00 %	2.80 %	1.80 %	2.10 %	1.82 %

Summary of Accounting Changes

For the Years Ended March 31 (\$ thousands)

	2009/10	2010/11	2011/12	2012/13	2013/14
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Forecast</u>
<u>Reduction to Costs Capitalized</u>					
Stores Overhead	\$ 5,100	5,202	5,306	5,412	5,520
Executive Costs	2,000	2,040	2,081	2,122	2,165
Property Taxes on Facilities	2,000	2,040	2,081	2,122	2,165
Interest on Common Assets (Facilities & Equipment)		11,165	11,388	11,616	11,848
General & Administrative Departmental Costs		4,500	4,590	4,682	4,775
Interest on Motor Vehicles		3,780	3,856	3,933	4,011
IT Infrastructure & Related Support				17,100	17,442
Building Depreciation & Operating Costs				9,500	9,690
<u>Intangible Assets</u>					
Ineligible for Capitalization	4,080	4,162	4,245	4,330	4,416
<u>Pension & Benefits</u>					
Change in Discount Rate			3,445	8,352	9,918
<u>Reclassifications</u>					
Wire & Telecom Services	3,060	3,121	3,184	3,247	3,312
Funding Payments (Town of Gillam & Frontier School Division)	(5,000)	(5,100)	(5,202)	(5,306)	(5,412)
Operating Expense Recoveries				8,300	8,466
Total	<u>\$ 11,240</u>	<u>\$ 30,910</u>	<u>\$ 34,973</u>	<u>\$ 75,411</u>	<u>\$ 78,318</u>

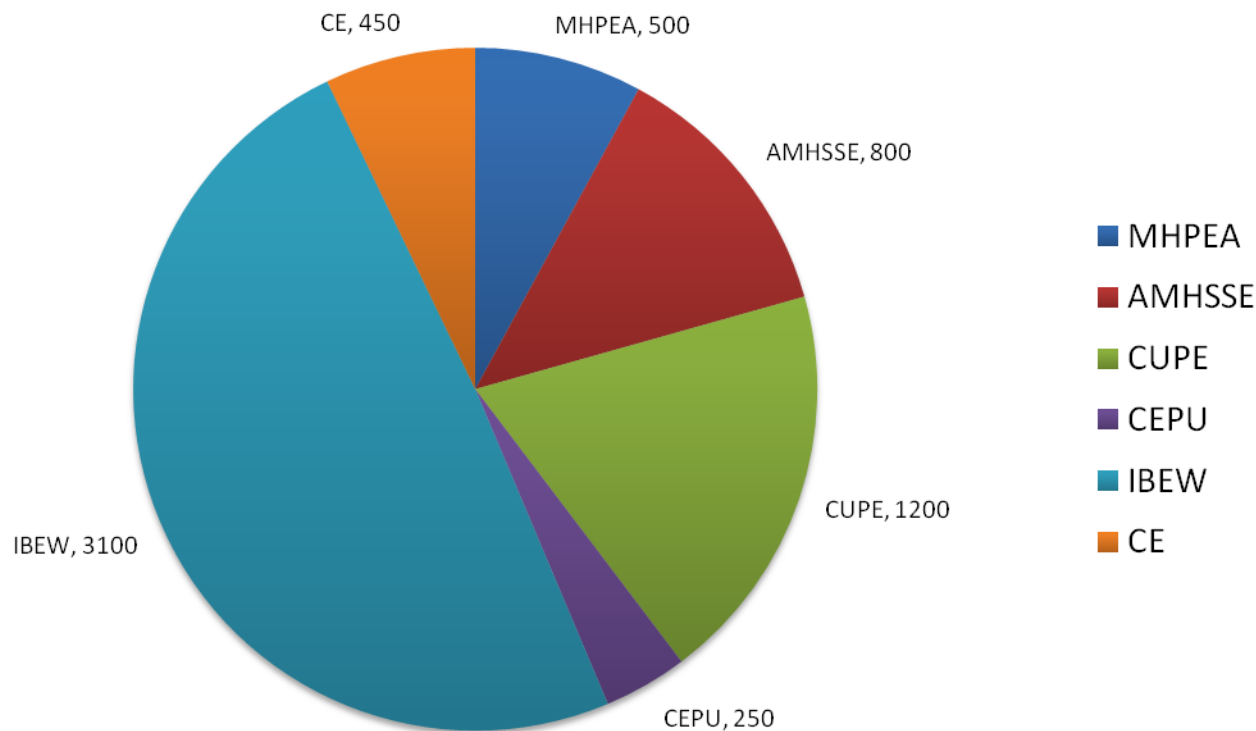
2011/12 OM&A



Manitoba Hydro

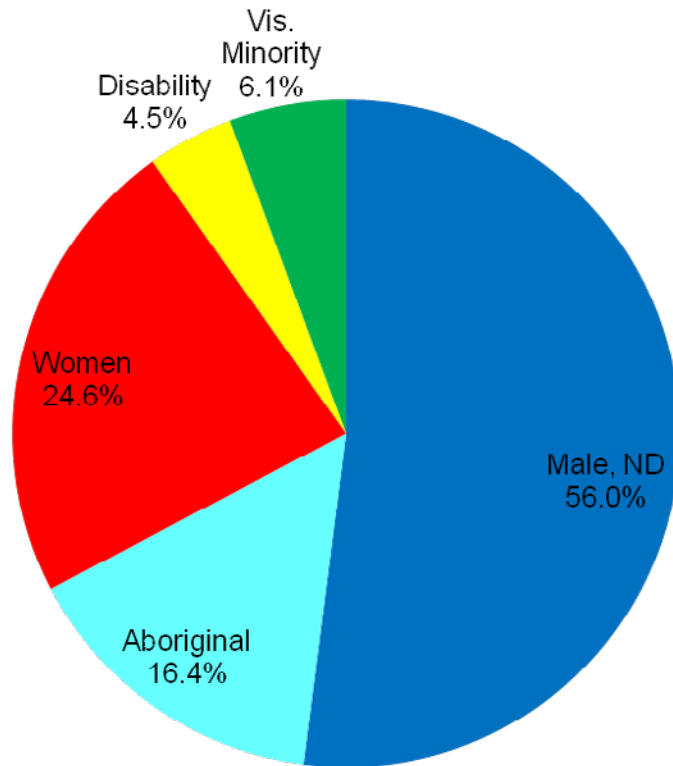
Numbers of Employees

(as at March 31, 2012)

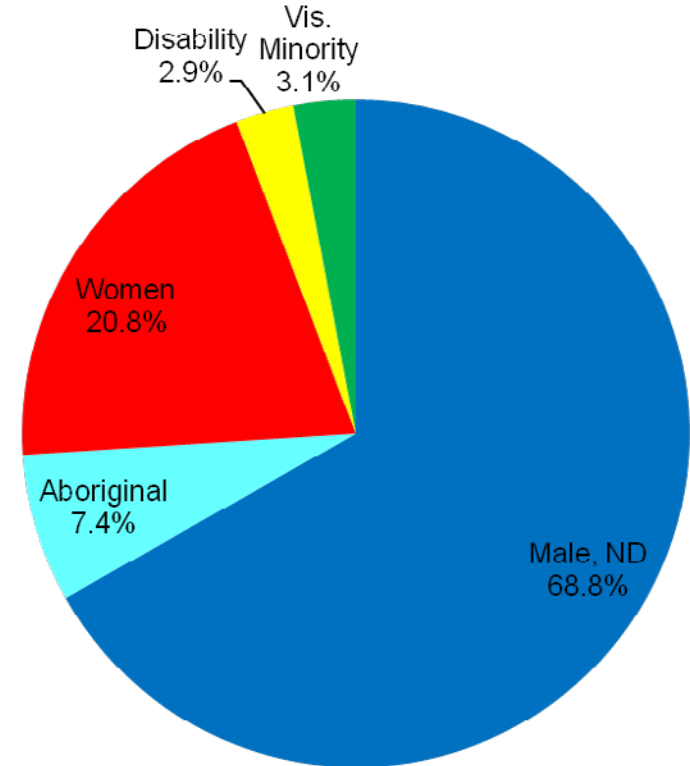


Manitoba Hydro Workforce Demographics

Equity Demographics at September 30, 2012



Equity Demographics at November 30, 2000



Cost Constraint Measures

- Travel restrictions
- Hiring restrictions
- Overtime restrictions
- Leveraging technology
- Reductions in community sponsorships and donations

General Rate Application

General Rate Application

- a) Approval to maintain rates approved in Orders 30/10 and 40/11 in billed rates and include deferred revenues in current year revenues.
- b) Final approval of the 2.0% increase effective April 1, 2012 (interim approval in Orders 32/12 and 34/12).
- c) Final approval of the 2.5% increase effective September 1, 2012 (interim approval in Orders 116/12 and 117/12).
- d) Approval of a 3.5% increase effective April 1, 2013.
- e) Confirmation of the rate approval process for the SEP and final approval of SEP ex parte Orders.
- f) Confirmation of rate approval process for the CRP and final approval of CRP ex parte Orders.
- g) Final approval of the 6.5% diesel increase effective September 1, 2012 (interim approval in Orders 116/12 and 117/12).
- h) Final approval of diesel zone interim Orders.

Residential Rates

	Interim Approved Sept 1, 2012		Proposed April 1, 2013	
	<hr/>		<hr/>	
Basic Charge	\$	6.85	\$	6.85
Energy Charge: All kWh		6.940 ¢		7.202 ¢

General Service Rates

	Interim Approved <u>Sept 1, 2012</u>	Proposed <u>April 1, 2013</u>
<u>Small General Service:</u>		
Basic Charge	\$ 18.55	\$ 19.21
Energy Charge:		
First 11 000 kWh	7.290 ¢	7.547 ¢
Next 8 500 kWh	5.060 ¢	5.243 ¢
Balance kWh	3.340 ¢	3.538 ¢
<u>Medium General Service:</u>		
Basic Charge	\$ 27.60	\$ 27.60
Energy Charge:		
First 11 000 kWh	7.290 ¢	7.547 ¢
Next 8 500 kWh	5.060 ¢	5.243 ¢
Balance kWh	3.340 ¢	3.538 ¢

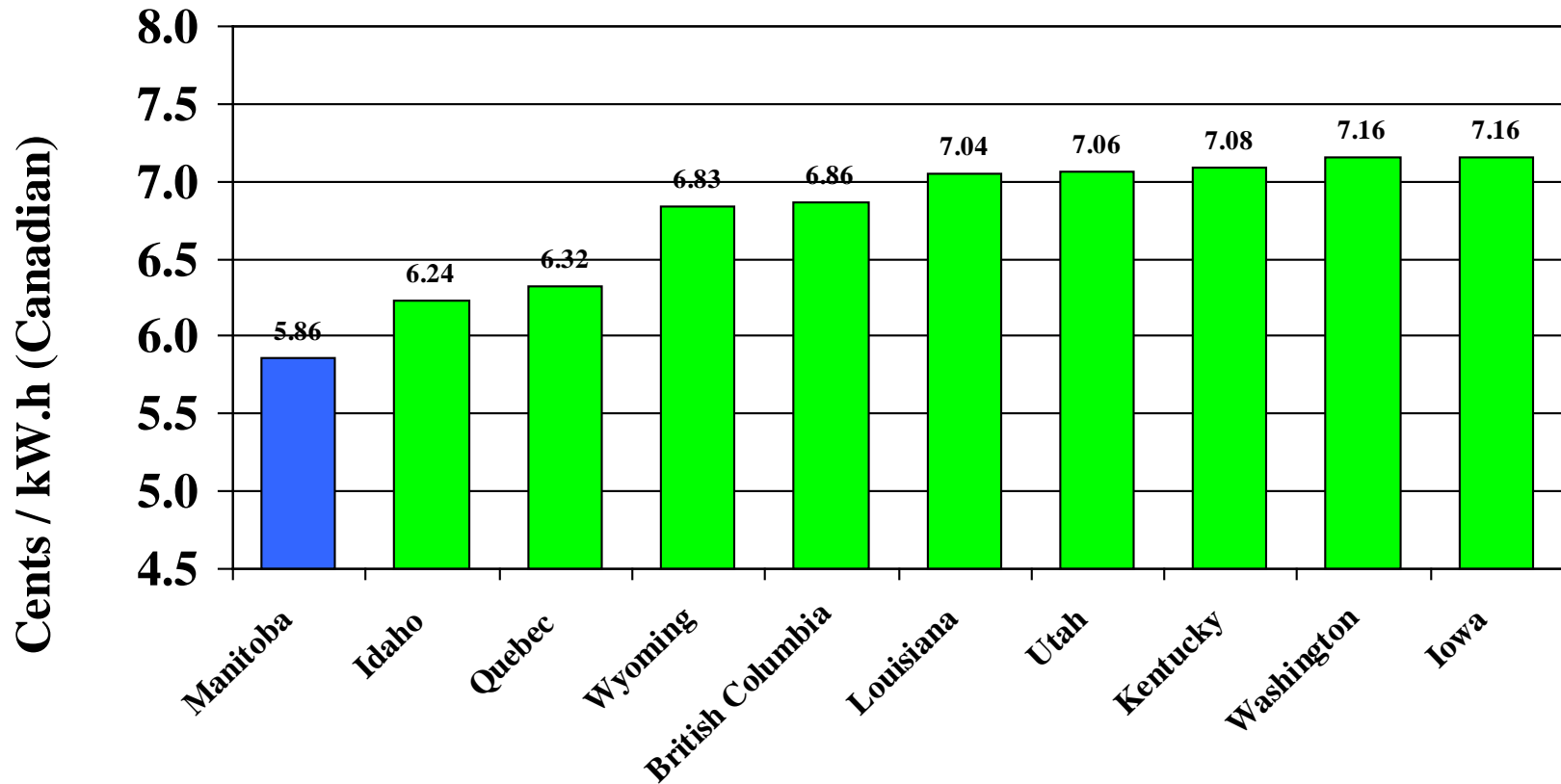
General Service Large Rates

	Interim Approved <u>Sept 1, 2012</u>	Proposed <u>April 1, 2013</u>
<u>750 V to 30 kV:</u>		
Energy Charge (per kWh)	3.140 ¢	3.311 ¢
Demand Charge (per kVA)	\$ 7.26	\$ 7.26
<u>30 kV to 100 kV:</u>		
Energy Charge (per kWh)	2.920 ¢	3.068 ¢
Demand Charge (per kVA)	\$ 6.21	\$ 6.21
<u>>100 kV:</u>		
Energy Charge (per kWh)	2.830 ¢	2.963 ¢
Demand Charge (per kVA)	\$ 5.53	\$ 5.53

Rate Comparisons

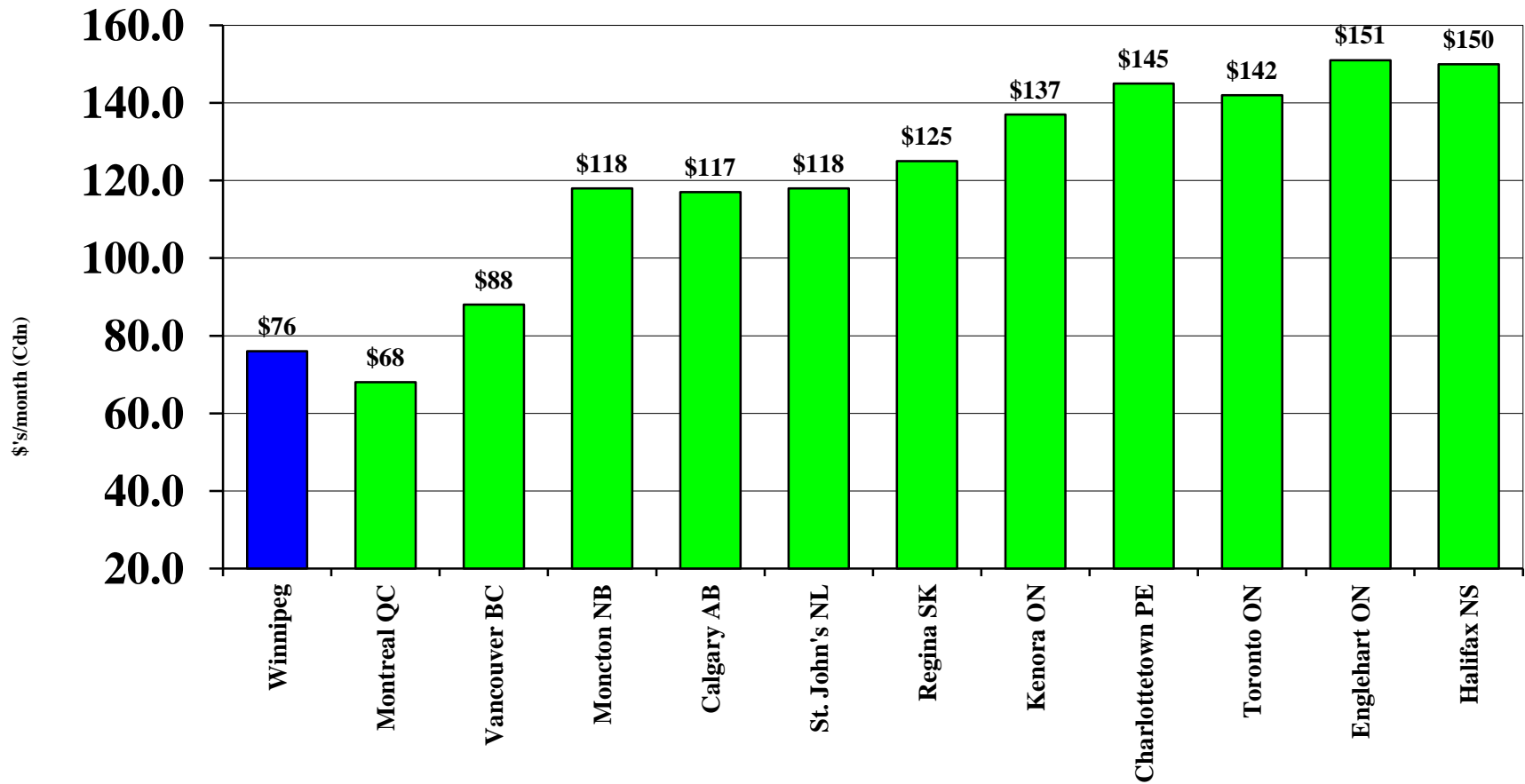
Average Retail Price of Electricity

Ten Lowest Cost Provinces/ States in North America

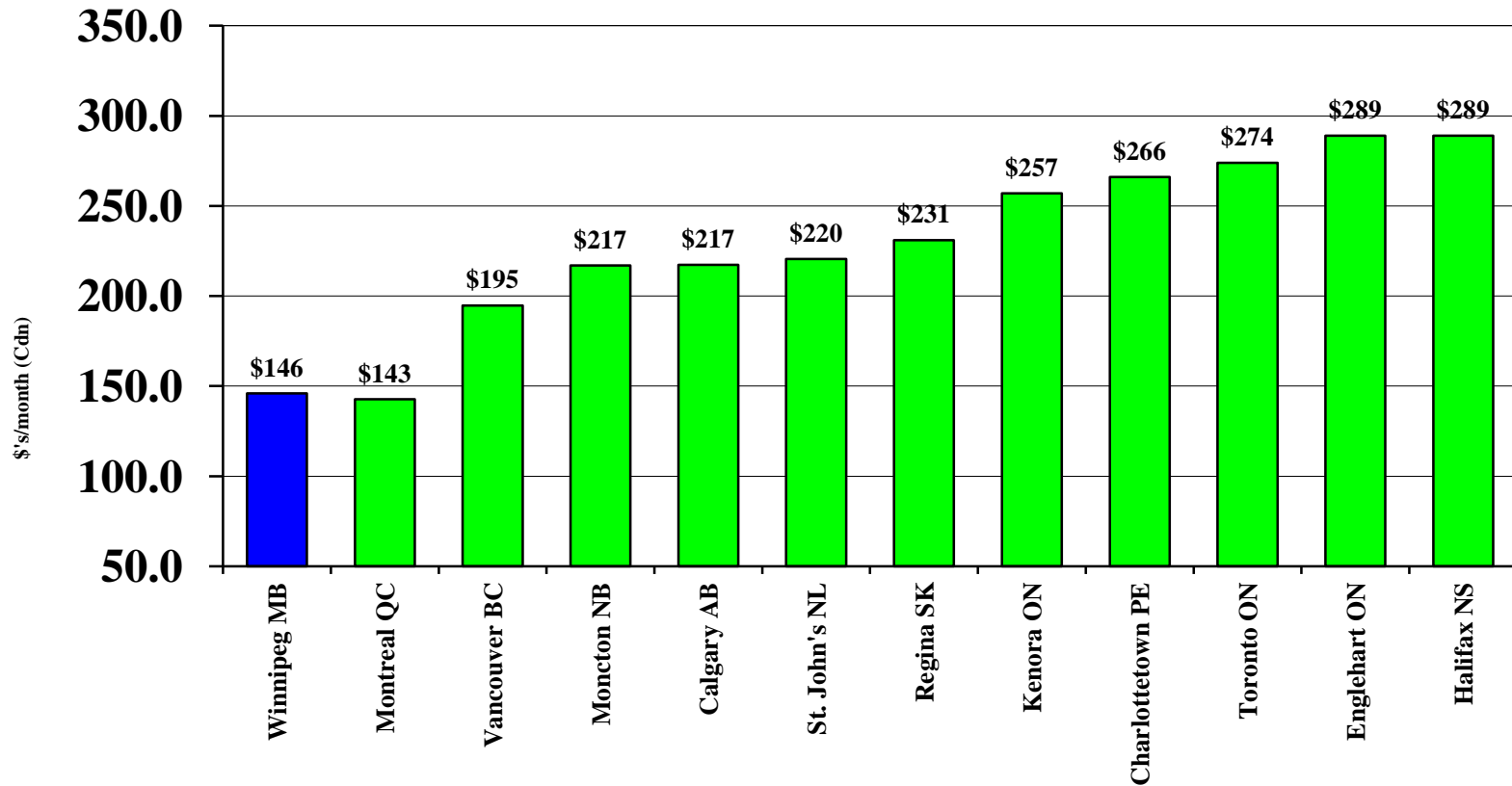


Source: US Dept of Energy (Dec 2011) & Edison Electric Survey (Winter 2012)
(Exchange rate = 1.0091)

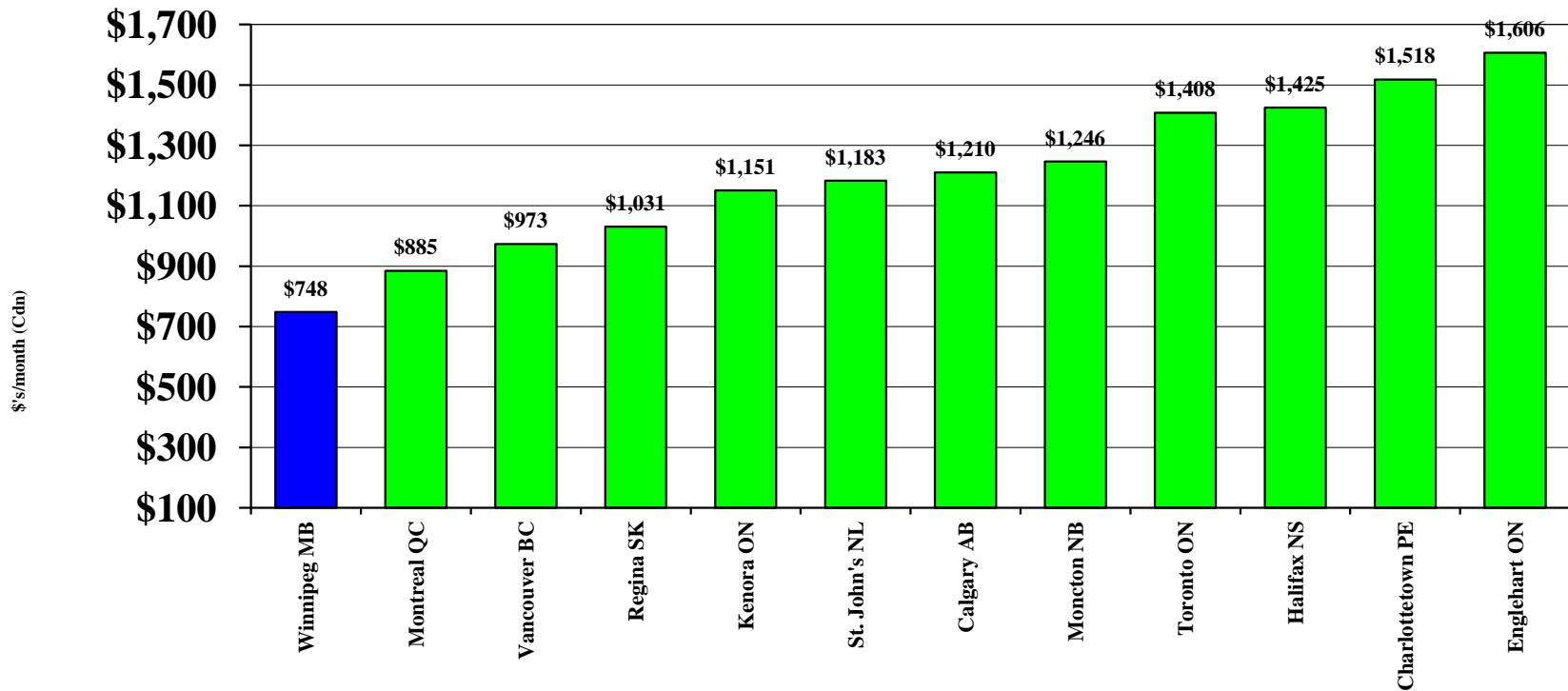
Residential usage/month: 1,000kWh/month



Residential usage/month: 2,000kWh/month

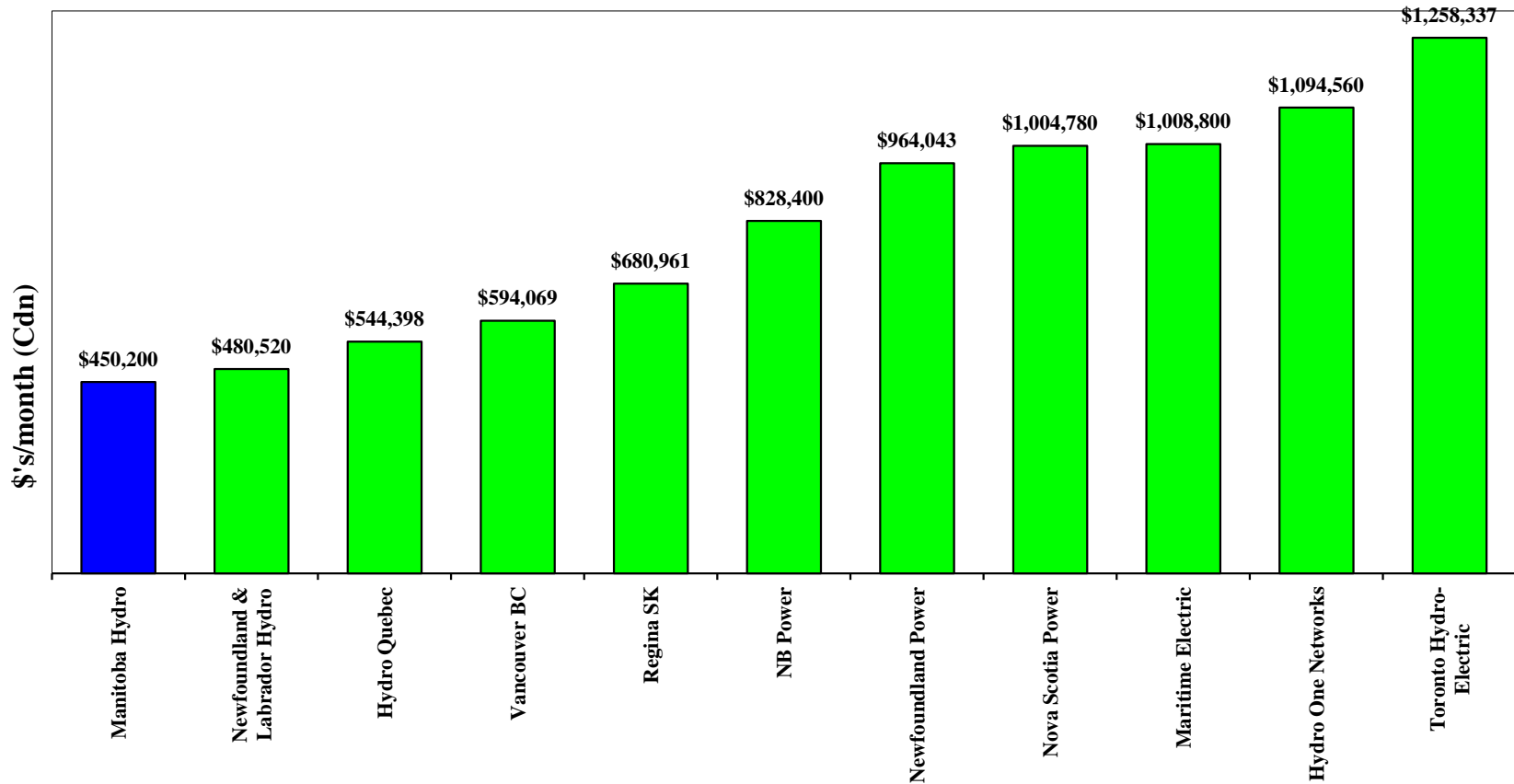


General Service usage/month: 10,000kWh/month



GSL > 100kV

12,000,000 kWh, 20,000kW 100% Power Factor



Utility Rate Changes

	2006	2007	2008	2009	2010	2011	2012	2013 (Proposed)	Cumulative Increases	Current Rates Index
Manitoba Hydro	0.0%	2.2%	5.0%	2.9%	2.8%	2.0%	3.6% Interim	3.5%	24.2%	100%
Hydro Quebec	5.3%	1.9%	2.9%	1.2%	0.4%	(0.4%)	(0.5%)	2.9%	14.3%	110%
BC Hydro	1.5%	2.1%	0.8%	9.3%	7.3%	7.8%	7.1%	1.4%	43.4%	119%
SaskPower	4.9%	4.2%	0.0%	8.5%	4.5%	0.0%	0.0%	5.0%	30.1%	150%
New Brunswick Power	6.9%	5.9%	3.0%	3.0%	3.0%	0.0%	0.0%	N/A	23.7%	171%
Nova Scotia Power	8.7%	3.8%	0.0%	9.3%	0.0%	6.1%	8.7%	3.0%	46.4%	227%

Energy Conservation Programs

Power Smart

- Energy conservation is one of the most cost effective and environmentally friendly alternatives for meeting demand.
- Manitoba Hydro continues to be a recognized leader in energy conservation.

Power Smart – Future Action

- The 2011 Power Smart Plan involves a 15 year \$560 million investment which targets an additional:
 - 1,944 GW.h of Conserved Electricity
 - 99 million cubic metres of Conserved Natural Gas
- Including savings to date, by 2025/26 over \$970 million invested to achieve an aggregate:
 - 3,283 GW.h of Conserved Electricity
 - 153 million cubic metres of conserved natural gas

Lower Income Energy Efficiency Program

- Launched December 2007
- Over 6,000 homes have been completed
 - Approximately 4,400 retrofitted with insulation
 - Approximately 2,300 high efficient furnaces installed
- Participation has increased over the last couple years and Manitoba Hydro continues to:
 - Work with partners and stakeholders to increase participation
 - Aggressively promote the program

Risk Management

Immediate and Emerging Risks

- Domestic Rate Increases
- Major Capital Expansion Plan
- Export Power Contracts
- Export Market Prices
- Shale Gas
- Aging Infrastructure
- Attraction and Retention of Skilled Workforce

High Consequence Risks

Infrastructure > \$2 Billion

Drought > \$1.6 Billion

Loss of Export Market > 30% of Revenue

Interest Rates \$700 million for a 1% change over 10 years

IFRS

IFRS Impacts – Electric Operations

Effective 2014/15
 (\$ millions)

	Increase (Decrease)	
	Retained Earnings April 1, 2014	Net Income 2014/15
Power Smart	\$ (172)	\$ 7
Site Remediation	(32)	(1)
Acquisition Costs	(19)	1
Regulatory Costs	(2)	1
Capital Taxes	-	3
Admin O/H & Other	(36)	(36)
Pension & Benefits	(21)	4
Net Salvage Removal from Depreciation	60	63
Change to ELG Depreciation	(34)	(36)
	\$ (257)	\$ 5

Current Water Conditions

Historical Water Supply

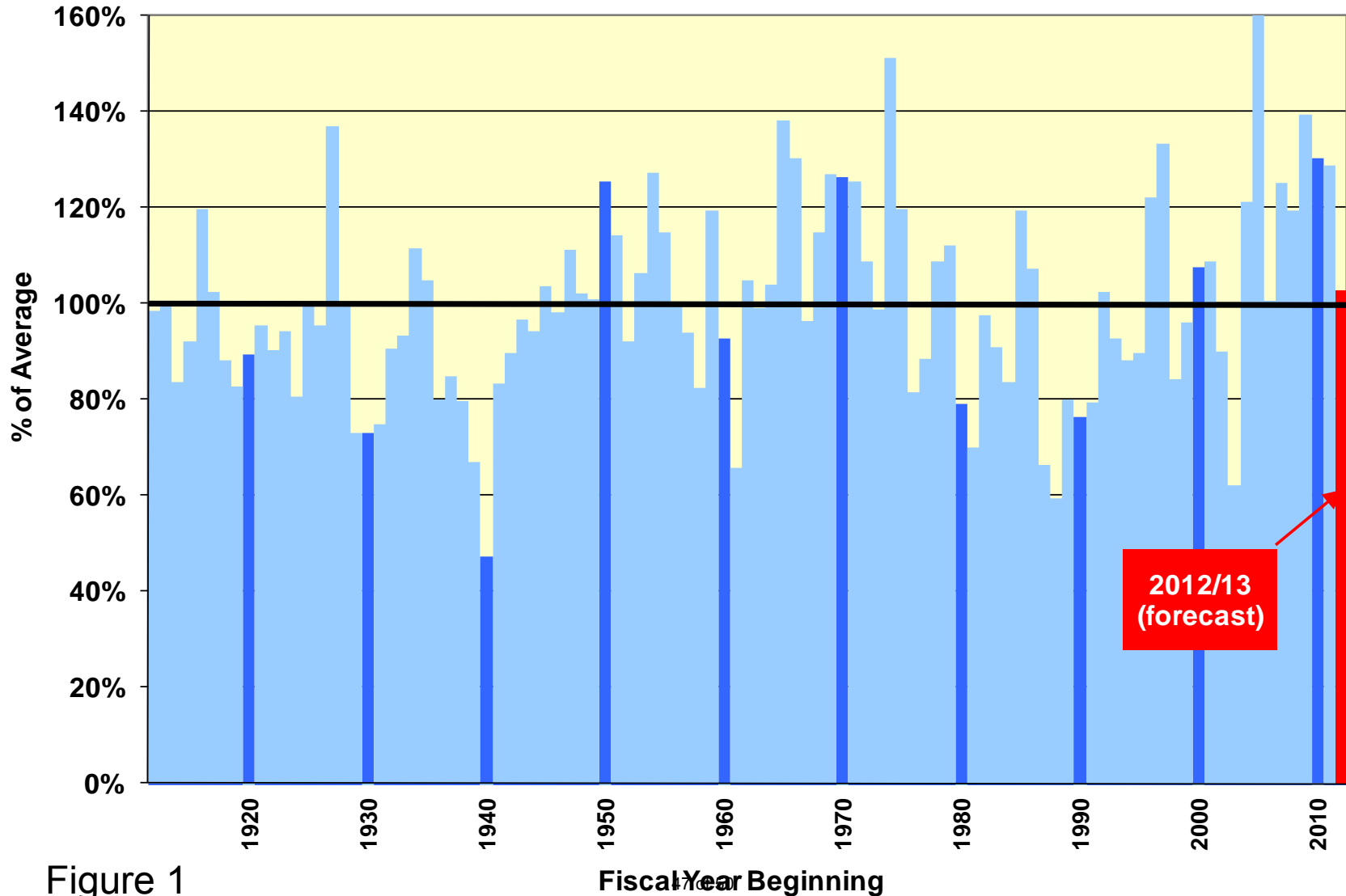


Figure 1

Daily Inflows



Daily Hydraulic Energy from Inflow - All Basins

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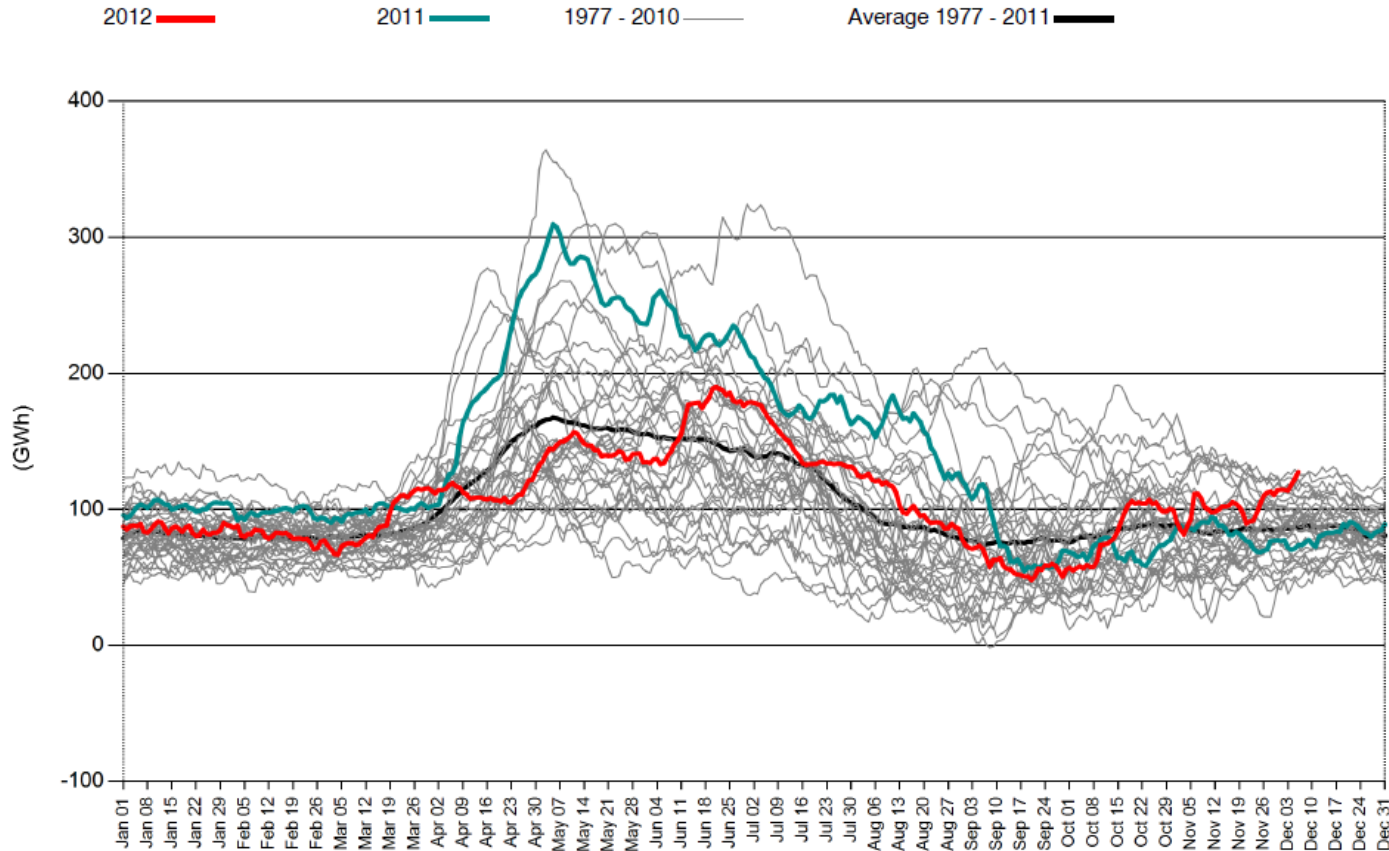
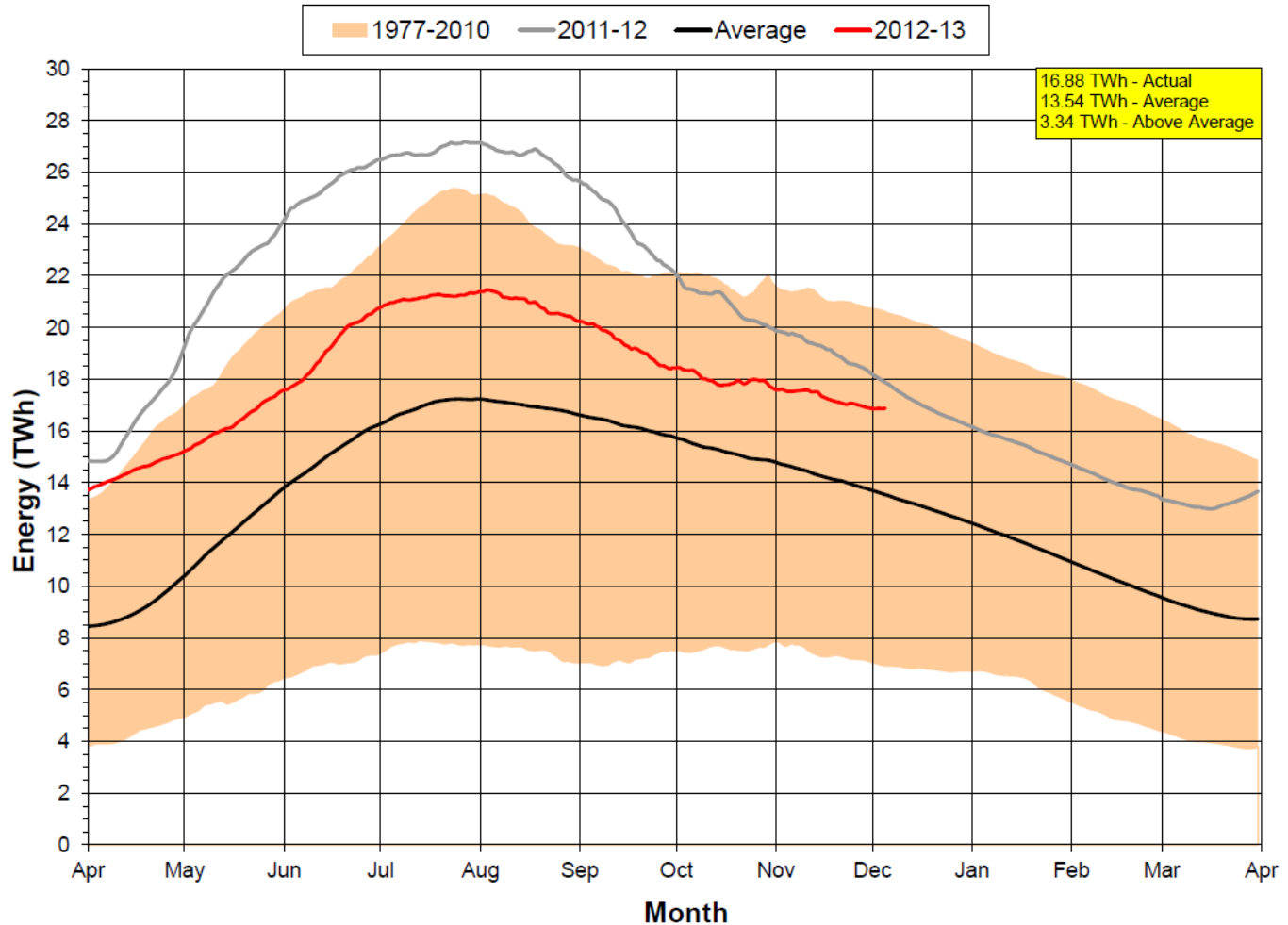


Figure 2

Note: 2012 data for December may be overestimated due to ice Effects

Total Energy in Reservoir Storage



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External requests for information contained herein should be referred to Energy Operations Planning Department

Data Current as of 12/05/2012

Figure 3

Total Hydraulic Generation

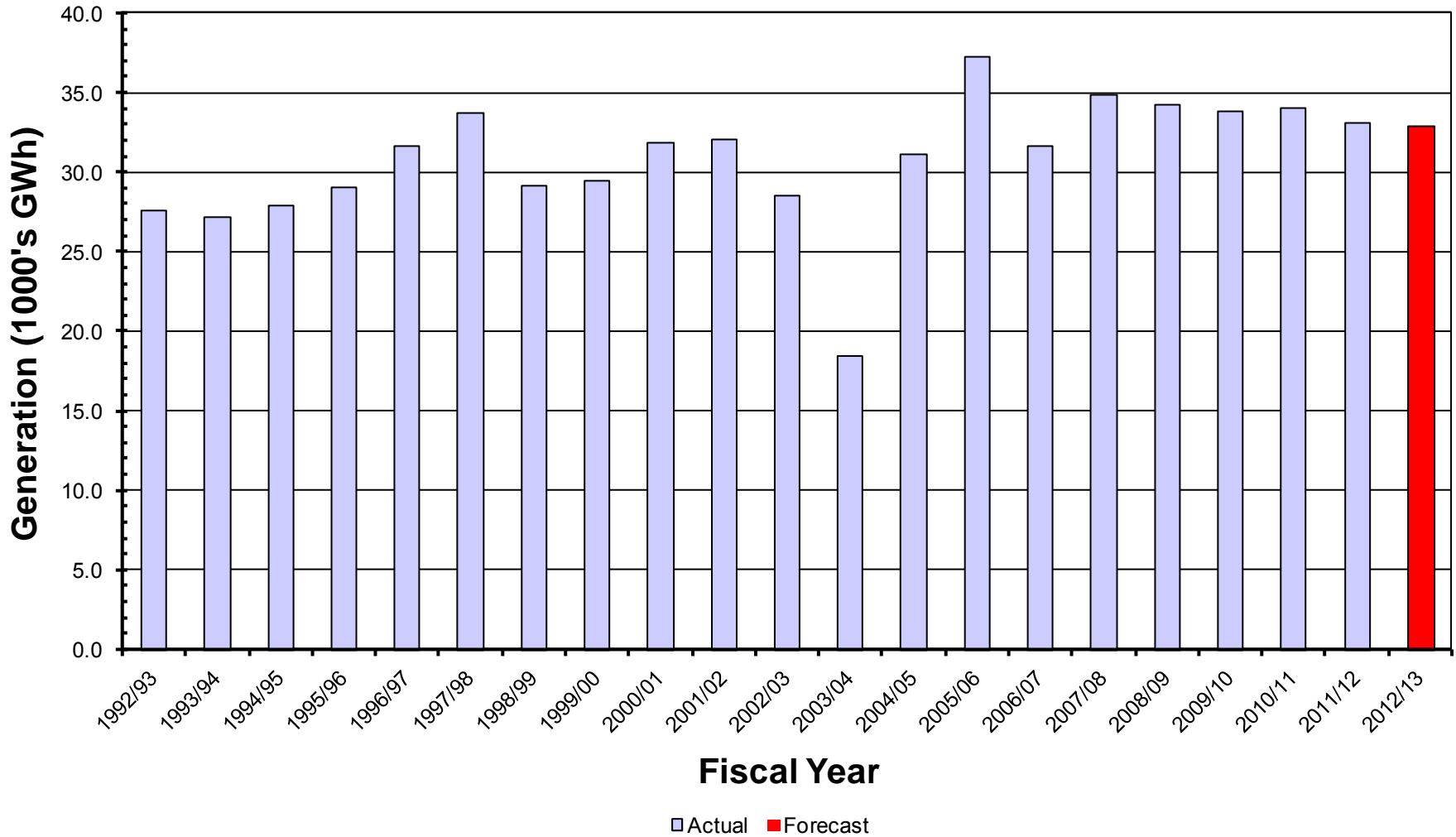


Figure 4