



Insight beyond the rating.

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DBRS Confirms Manitoba Hydro at A (high), Trend Stable

Industry Group: Corporates

Sub-Industry: Energy

DBRS has today confirmed the Long-Term Obligations and Short-Term Obligations ratings of The Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) at A (high) and R-1 (middle), respectively. The trends are both Stable. Manitoba Hydro's ratings reflect the short- and long-term ratings of the Province of Manitoba (the Province; see the DBRS report published on October 8, 2010). Manitoba Hydro's Long-Term Obligations and Short-Term Obligations ratings are a flow-through of the Province's ratings based on (1) the implicit support of the Province as Manitoba Hydro is for all purposes an agent of the Province (see methodology Rating Sovereign Governments for further detail) and (2) the unconditional guarantee provided by the Province on the majority of the Utility's outstanding third-party obligations. The Province's Short-Term Debt and Long-Term Debt ratings were confirmed by DBRS on October 8, 2010, at R-1 (middle) and A (high), respectively. The trends on both ratings are Stable.

The Province supports Manitoba Hydro by both advancing funds and guaranteeing its new issues. As at March 31, 2010, the Province has provided approximately 96% of the Utility's long-term debt in the form of provincial advances, with the same terms and conditions as the Province's external debt. Manitoba Hydro has issued \$331 million of long-term debt in its own name, with an unconditional guarantee provided by the Province, except for \$76 million of Manitoba Hydro-Electric Board Bonds, which do not benefit from an explicit provincial guarantee.

The Utility's credit profile is further supported by its low-cost hydro-based generation, a constructive regulatory environment and its vast interconnections (56% of installed capacity), which provide access to favourable export markets. Hydrology continues to be the primary risk factor affecting credit metrics, but this risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage capacity and import capabilities. Over the

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medium term, the Utility has witnessed inflows that are well above average, resulting in above-average reservoir storage.

Manitoba Hydro’s earnings and performance for the fiscal year ended March 31, 2010, was \$103 million lower than in the previous fiscal year, due mainly to lower electricity prices in export markets. The lower export prices are directly tied to lower demand due to poor economic conditions and the current low natural gas prices.

Manitoba Hydro continues to seek new power purchase agreements. In April 2010, Manitoba Hydro and Xcel Energy (Xcel) entered into new power purchase and seasonal exchange agreements that will commence in 2015 and extend to 2025, following the expiry of existing power agreements between the utilities. Furthermore, these agreements will allow for access to purchase additional power during the summers and winter season. Additionally, Manitoba Hydro entered into an agreement to sell Xcel an additional 125 megawatts per year commencing in 2021. This agreement is subject to the construction of Conawapa Generating Station.

Looking forward, DBRS believes that Manitoba Hydro will continue to generate reasonable levels of EBIT and operating cash flows, with the potential for significant volatility resulting from hydrological and export market conditions. The ongoing heightened capital expenditure program is expected to continue to pressure balance sheet and credit metrics. In addition, completing the large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Note:

All figures are in Canadian dollars unless otherwise noted.

The applicable methodologies are Rating Sovereign Governments and Rating North American Energy Utilities (Electric, Natural Gas and Pipelines), which can be found on our website under Methodologies.

<u>Issuer</u>	<u>Debt Rated</u>	<u>Rating Action</u>	<u>Rating</u>	<u>Trend</u>
The Manitoba	Short-Term Obligations	Confirmed	R-1	Stable

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Hydro-Electric Board			(middle)	
The Manitoba Hydro-Electric Board	Long-Term Obligations	Confirmed	A (high)	Stable

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