Manitoba Hydro
2015 General Rate Application

OVERVIEW & REASONS FOR THE APPLICATION

Darren Rainkie
Vice-President, Finance & Regulatory
Manitoba Hydro

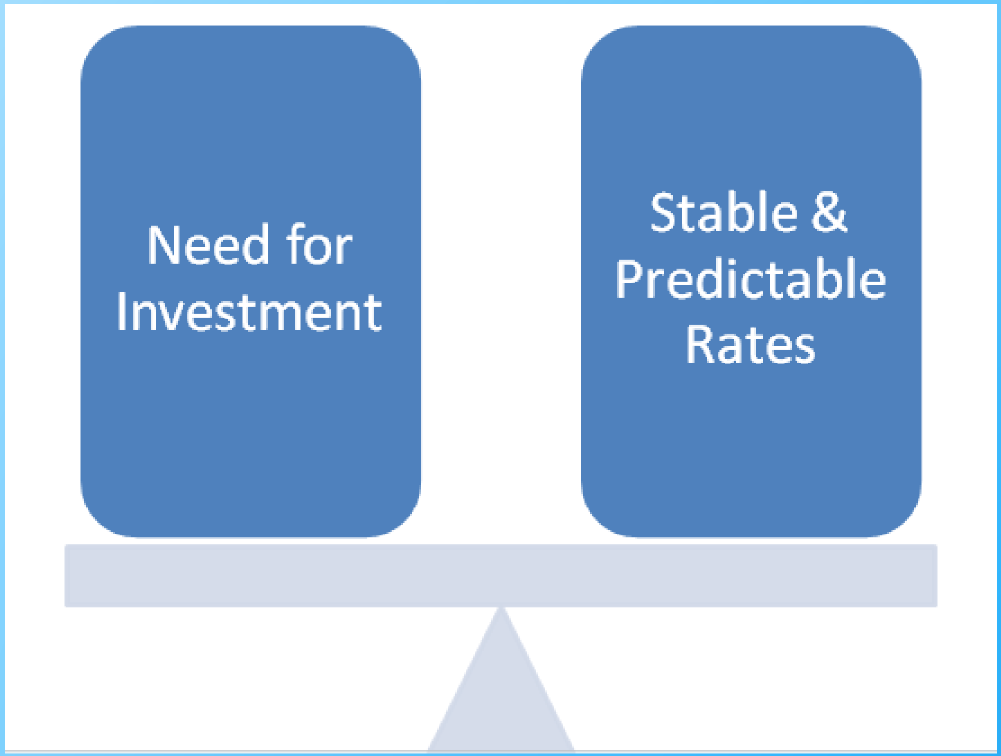
Manitoba Hydro

Why Rate Increases are Needed

- Manitoba Hydro is entering a period of extensive capital investment to meet growing energy requirements, replace aging utility assets and address increased capacity constraints on our system.
- Manitoba Hydro's projected costs and revenue requirements are significantly increasing due to the investment in assets – which is the key factor driving the need for rate increases.
- The investments in capital will place pressure on Manitoba Hydro's Financial Strength.
- The proposed rate increases are needed to:
  - Maintain a reliable energy supply to Manitobans; and,
  - Promote long term rate stability for customers by maintaining Net Income & Financial Ratios at acceptable levels.

Manitoba Hydro

Balancing the Need for Investment with Stable & Predictable Rates



- The required capital investment means that rates will need to increase over the next decade to fund these investments.
- Manitoba Hydro believes that the proposed rate increases carefully balance the need for investment and providing stable, predictable rates for our customers.

Manitoba Hydro

Presentation Summary

- Corporate Profile & Strategic Direction
- Financial Update
- General Rate Application Overview
- Capital Investment Drivers & Borrowing Requirements
- Reasons for Proposed Rate Increases
- Risks if Proposed Rate Increases Not Granted
- Manitoba Hydro's Reply to Areas of Concern

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Manitoba Hydro's Corporate Profile & Strategic Direction

Corporate Profile at March 31, 2014

- $2.3 billion annual revenue
- $16 billion assets (historic cost)
- 556 000 Electricity Customers
- 272 000 Natural Gas Customers
- 6 500 Employees (full time equivalent)
- Leader in Customer Satisfaction
- Leader in Aboriginal Employment
- Leader in Energy Conservation
- A Top 100 Employer in Canada
- Electricity Rates Among the Lowest in North America

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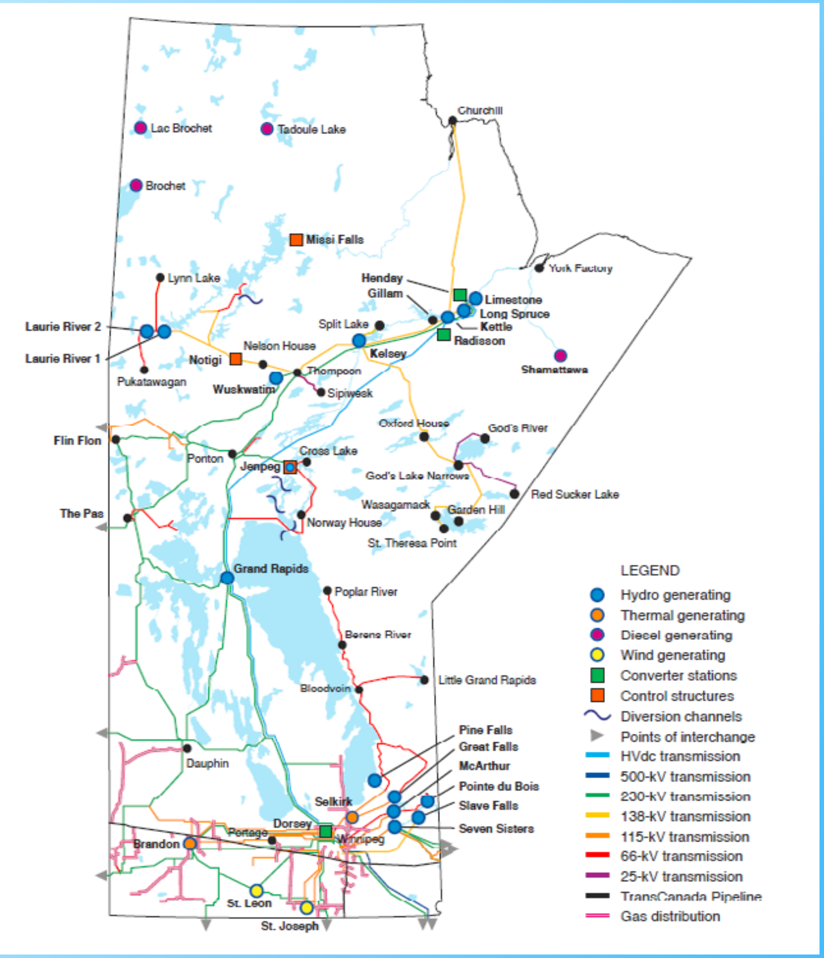
Major Electrical & Natural Gas Facilities



- 15 hydraulic generating stations
- 5,725 megawatts total electricity capacity
- 98% production typically from clean renewable water power
- 13,000 kilometers of electric transmission lines
- 76,000 kilometers of electric distribution lines
- Two thermal generating stations for back-up
- Energy purchased from two independent wind farms

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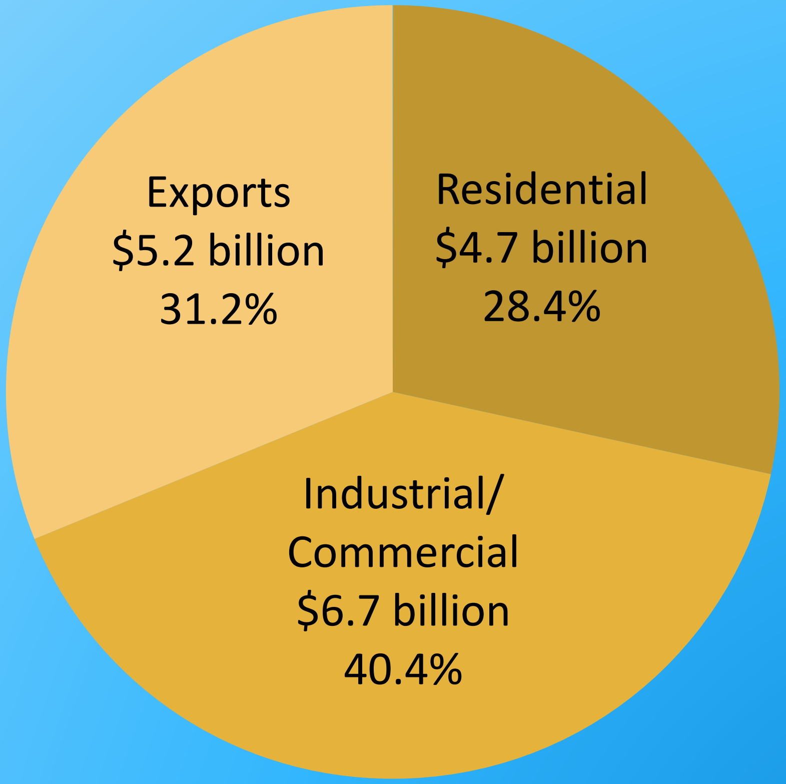
Share of Total Electric Revenues 2005-2014

- Surplus electricity exported to three wholesale markets in Midwest US and Canada
- Last decade – export sales contributed $5.2 billion or 31% of total revenues
- Export revenues are used to keep rates low for Manitobans



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Corporate Strategic Plan (CSP)

Vision

To be recognized as a leading utility in North America with respect to safety, reliability, rates, customer satisfaction and environmental leadership.

Mission

To provide for the continuance of a supply of energy to meet the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy.

Key Areas of Focus

Safety	Customer value	Financial strength	Aboriginal relations	Workforce management	Protecting the environment	Demand side management

- CSP sets out Manitoba Hydro’s Vision & Mission.
- CSP outlines Key Areas of Focus to meet Manitobans’ long-term energy needs and achieve operational excellence.

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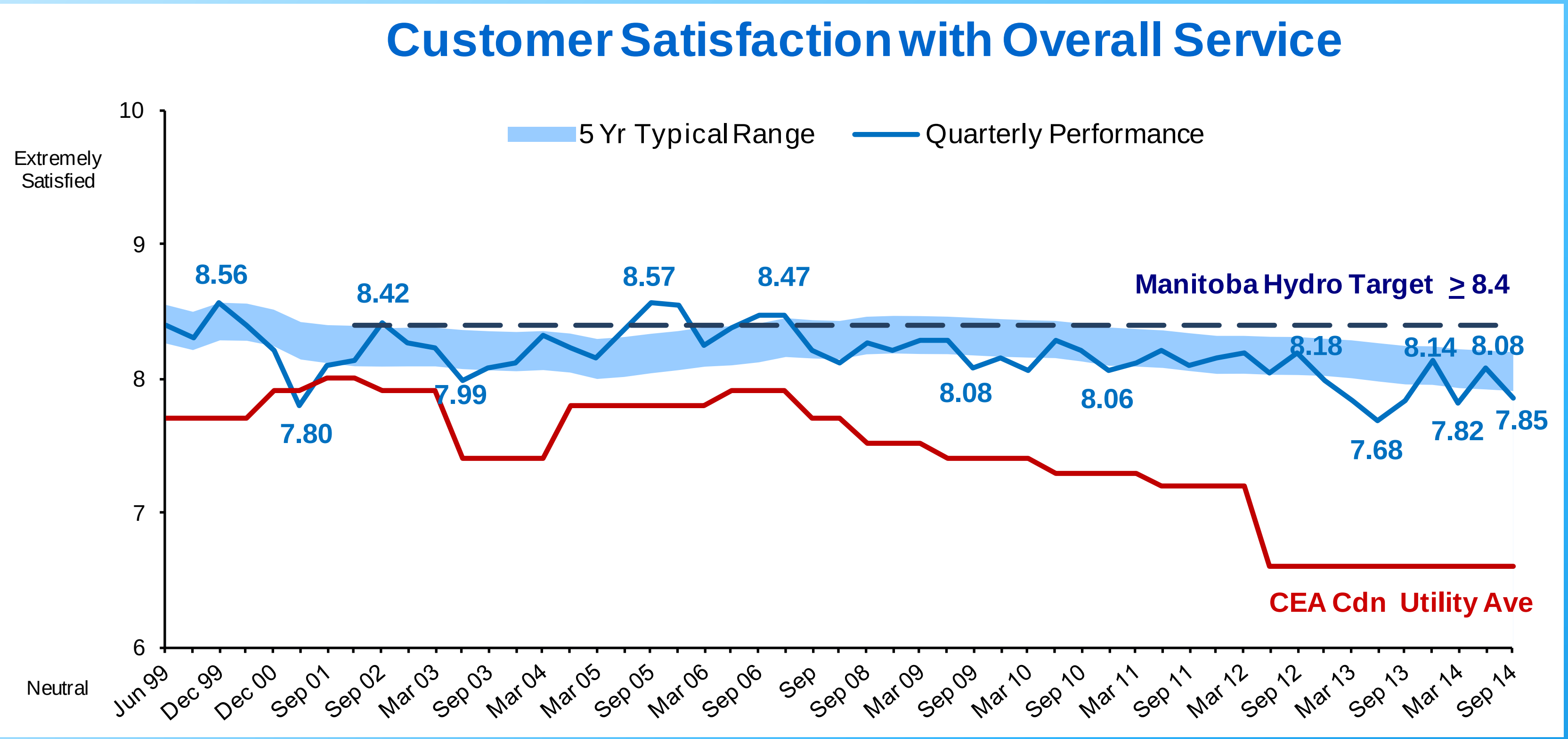
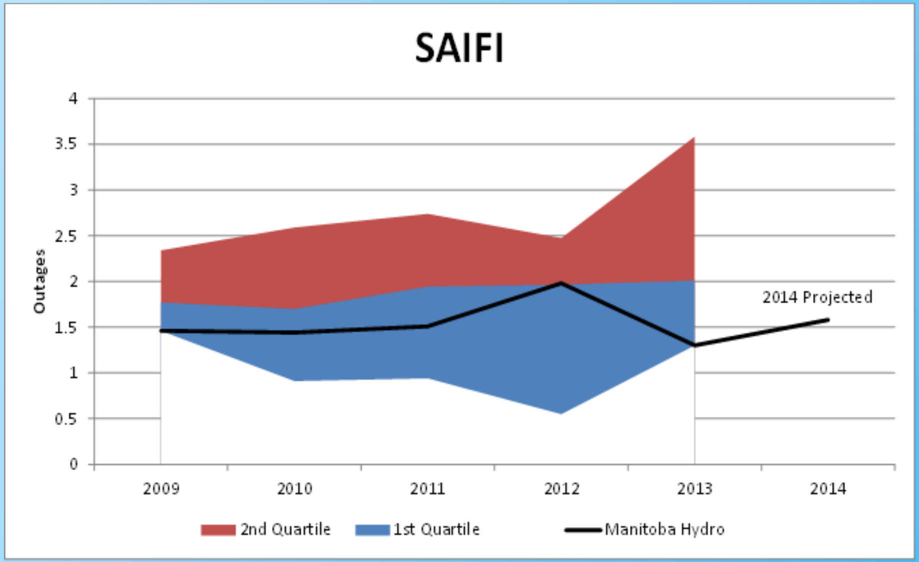
Manitoba Hydro is a Leader in Customer Satisfaction

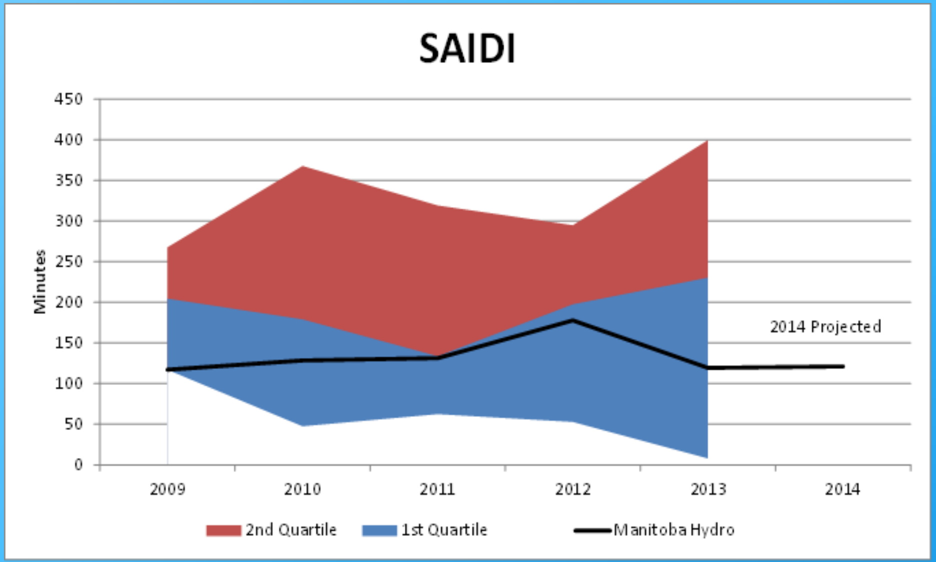


- Manitoba Hydro is committed to providing high system reliability, excellent customer service and affordable rates.
- Manitoba Hydro receives customer satisfaction ratings that are consistently higher than the national average for Canadian electric utilities.

Manitoba Hydro Provides High System Reliability

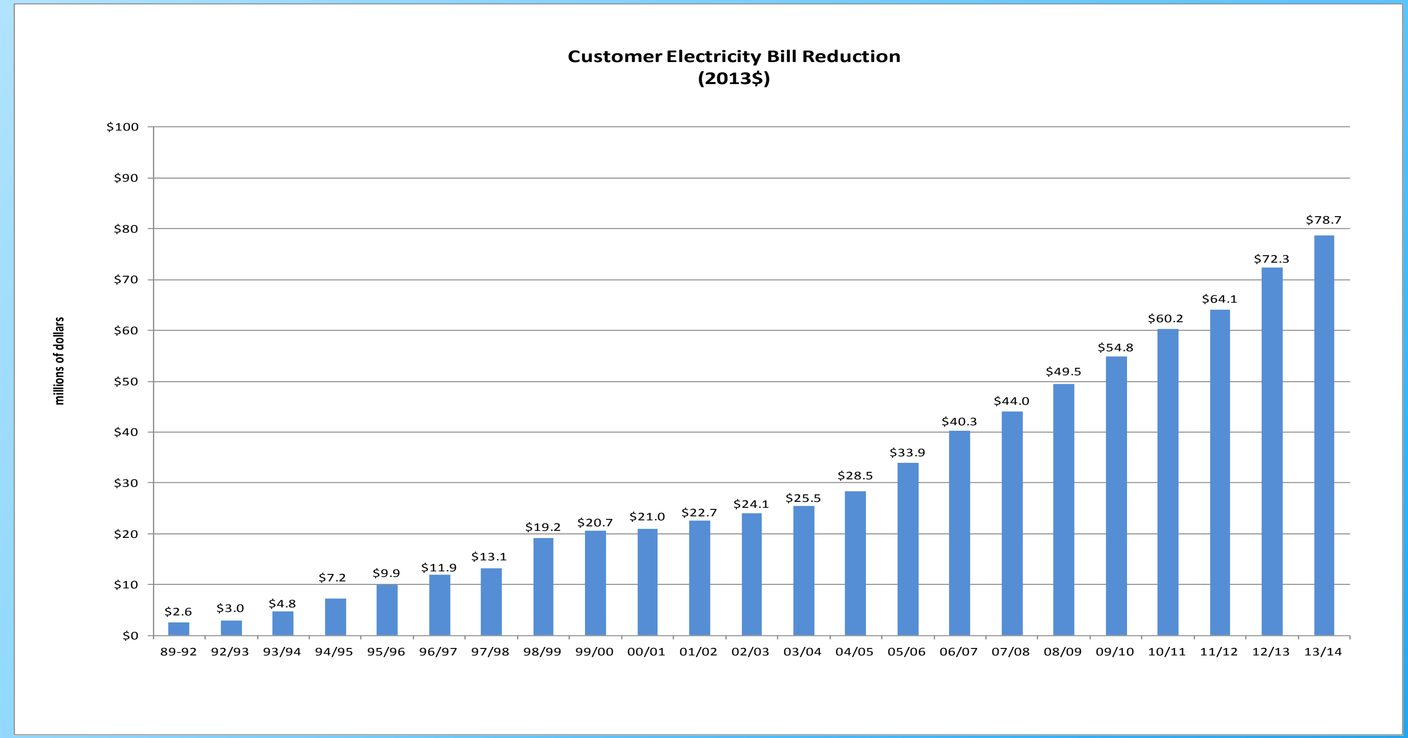
Manitoba Hydro SAIFI & SAIDI Indicators Compared to CEA Member Utilities





- Manitoba Hydro's electric infrastructure is one of the most reliable, sustainable and affordable power systems in Canada.
- Manitoba Hydro has historically been in the first quartile of CEA member utilities as it relates to average number of interruptions (SAIFI) and average outage duration (SAIDI).

Manitoba Hydro is a Leader in Offering Power Smart Programs



- Manitoba Hydro's Power Smart Programs are very successful at reducing customers' energy bills and contributing to a sustainable energy supply in Manitoba.
- Cumulative reductions to customer electricity bills of $712 million to 2013/14 and greenhouse gas reductions of approx. 1,695,000 tonnes of carbon dioxide to 2013/14.

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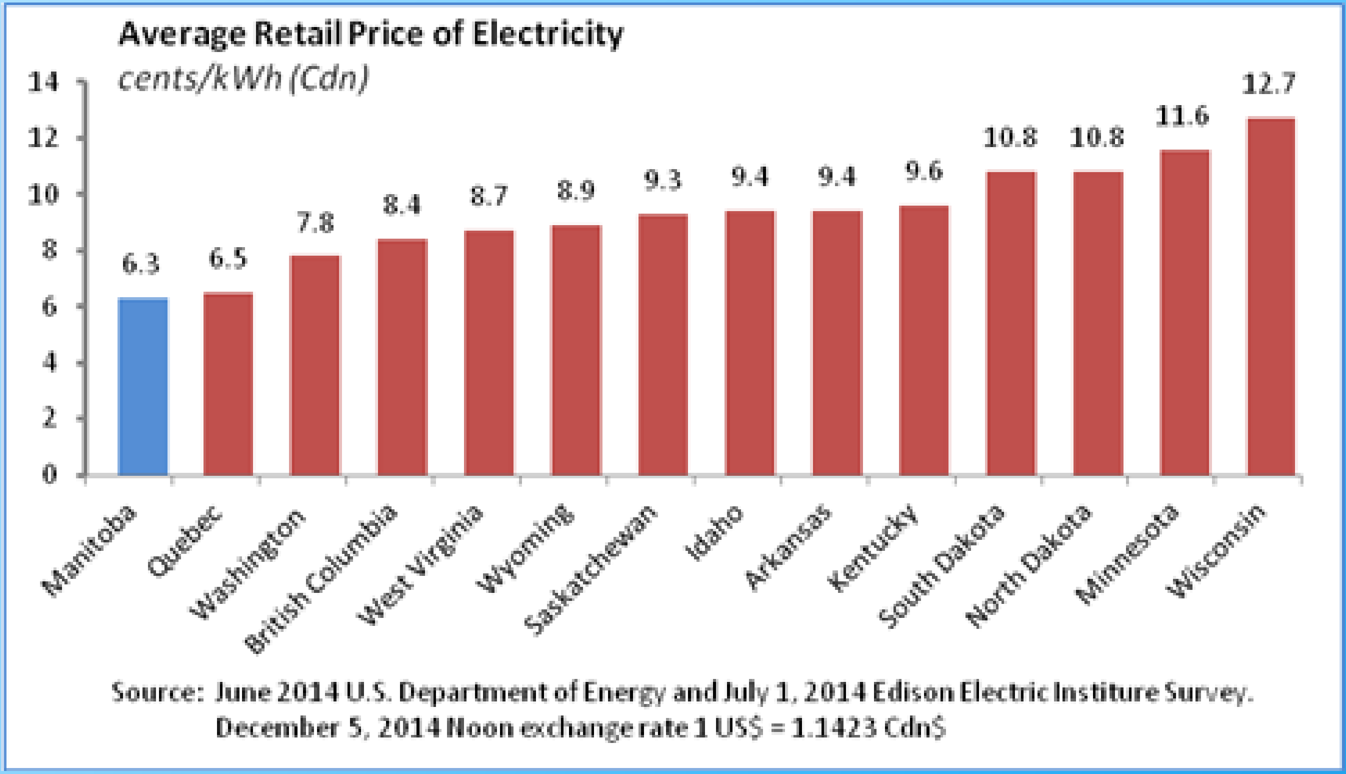
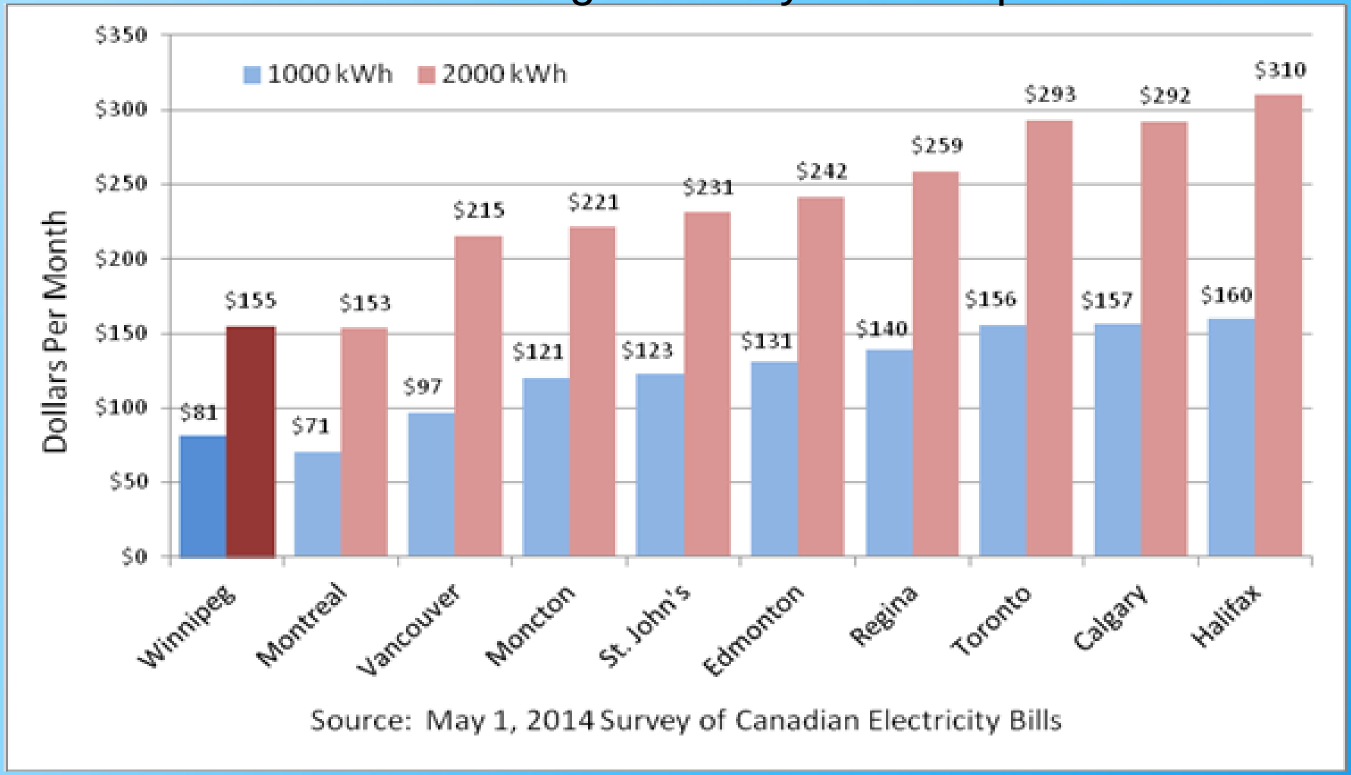
Manitoba Hydro Offers Affordable & Competitive Rates to Customers



- Manitoba's rates are affordable for Manitoba families and support the competiveness of Manitoba businesses.
- Manitoba Hydro has amongst the lowest average retail electricity rates in North America.

Manitoba Hydro Offers Affordable & Competitive Rates to Customers

Residential Average Monthly Bill Comparison



- Manitoba enjoys a distinct advantage over most Canadian jurisdictions with respect to average monthly bills of residential customers.

Manitoba Hydro

Financial Update

Consolidated Income Statement

(Condensed $ millions)

	For the nine months ended December 31	For the year ended March 31						
	2014	2014	2013	2012	2011	2010	2009	2008
REVENUES								
Electric - Manitoba	1 039	1 475	1 410	1 238	1 241	1 172	1 161	1 097
Extraprovincial	318	439	353	363	398	427	623	625
Gas (Net)	97	163	147	132	143	138	149	142
	1 454	2 077	1 910	1 733	1 782	1 737	1 933	1 864
EXPENSES								
Operating & Administrative	398	557	533	481	463	440	429	381
Finance Expense	395	471	489	423	425	410	471	440
Depreciation & Amortization	324	442	423	381	393	384	368	349
Water Rentals & Assessments	92	125	118	119	120	121	123	124
Fuel & Power Purchased	109	177	133	146	106	104	176	134
Capital & Other Taxes	90	117	105	103	102	99	87	80
Other Expenses	22	36	30	19	23	16	13	10
Non-controlling Interest	(18)	(22)	(13)	-	-	-	-	-
	1 412	1 903	1 818	1 672	1 632	1 574	1 667	1 518
Net Income	42	174	92	61	150	163	266	346
Net Extraprovincial Revenue	117	137	102	98	172	202	324	367
Interest Coverage Ratio*	1.22	1.28	1.15	1.10	1.27	1.32	1.49	1.69

*The interest coverage ratio provides an indication of the ability of the Corporation to meet interest payment obligations with the net income generated by the Corporation. Interest coverage ratio represents net income plus interest on debt divided by interest.

Manitoba Hydro

Consolidated Balance Sheet

(Condensed $ millions)

	As at December 31	As at March 31						
	2014	2014	2013	2012	2011	2010	2009	2008
Property, Plant and Equipment (net)	11 755	10 684	10 541	8 647	8 215	8 076	7 944	7 697
Construction in Progress	3 064	2 943	1 967	3 150	2 739	2 052	1 438	1 238
	14 819	13 627	12 508	11 797	10 954	10 128	9 382	8 935
Current and Other Assets	2 129	1 901	1 682	1 622	1 646	1 487	1 499	2113
Total Assets	16 948	15 528	14 190	13 419	12 600	11 615	10 881	11 048
Long-Term Debt (Net)	11 641	10 349	8 977	8 729	8 335	7 406	7 002	6 500
Current and Other Liabilities	2 015	1 913	1 937	1 495	1 127	1 328	1 637	2097
Retained Earnings	2 758	2 716	2 542	2 450	2 389	2 239	2 076	1822
Other Equity	534	550	734	745	749	642	166	629
Total Liabilities & Equity	16 948	15 528	14 190	13 419	12 600	11 615	10 881	11 048
Debt/Equity Ratio*	78:22	76:24	75:25	74:26	73:27	73:27	77:23	73:27

*The debt/equity ratio indicates the portion of Manitoba Hydro's assets that have been financed by internally generated funds rather than through debt. Debt-to-equity ratio represents debt (long-term debt plus notes payable minus sinking funds and temporary investments) divided by debt plus equity (retained earnings plus accumulated other comprehensive income plus contributions in aid of construction plus non-controlling interest).

Manitoba Hydro

Consolidated Cash Flow Statement

(Condensed $ millions)

	For the nine months ended December 31	For the year ended March 31						
	2014	2014	2013	2012	2011	2010	2009	2008
Cash provided by Operating Activities	447	690	589	567	595	589	688	633
Cash provided by Financing Activities	1 150	1101	635	725	674	1 124	424	487
Cash used for Investing Activities	(1 360)	(1 681)	(1 242)	(1 312)	(1 373)	(1 698)	(1 086)	(988)
Capital Coverage Ratio*	1.01	1.35	1.25	1.13	1.25	1.34	1.77	1.62

*The capital coverage ratio measures the ability of current period internally generated funds to finance capital expenditures excluding major new generation and related transmission. Capital coverage ratio represents internally generated funds divided by sustaining capital expenditures.

Electric Operations Income Statement

(Condensed $ millions)

	For the year ended March 31	For the nine months ended December 31	
	MH14 Outlook	2014	2013
REVENUES			
Electric - Manitoba	1 422	1 004	977
Extraprovincial	409	318	332
	1 831	1 322	1 309
EXPENSES			
Operating and Administrative	486	339	350
Finance Expense	495	370	322
Depreciation and Amortization	405	300	311
Water Rentals and Assessments	124	92	95
Fuel and Power Purchased	134	109	100
Capital and Other Taxes	99	75	69
Corporate Allocation	9	7	7
Other Expenses	2	1	1
Non-controlling Interest	(25)	(18)	(17)
	1 729	1 275	1 238
Net Income	102	47	71

General Rate Application Overview

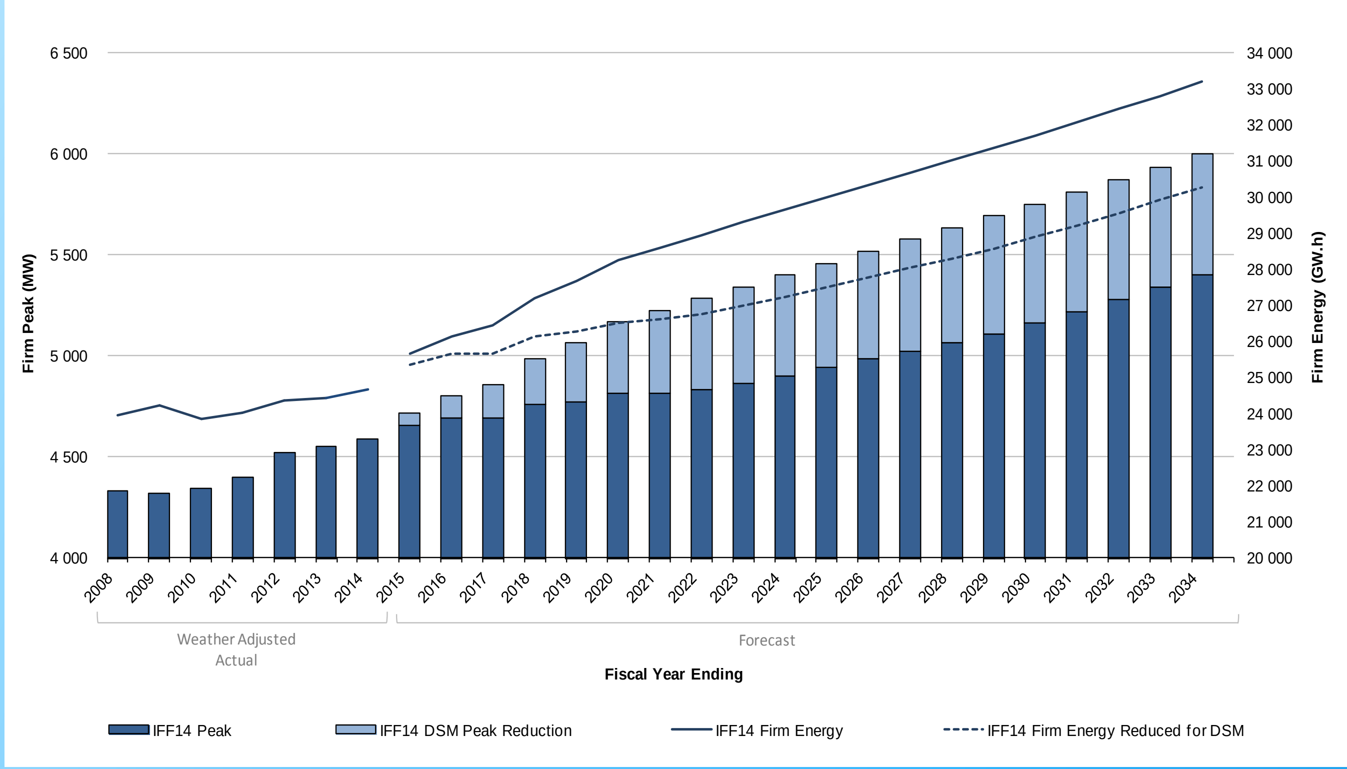
2015 General Rate Application

- Final approval of 2.75% interim rate increase effective May 1, 2014
- Approval of a 3.95% rate increase for 2015/16
  - $3.20 increase in monthly bill of residential customer without electric space heat
  - $6.11 increase in monthly bill of residential customer with electric space heat
- Final approval of LED Rates effective August 1, 2014
- Changes to SEP and CRP Terms & Conditions
- Final approval of Interim Orders on SEP, CRP and Diesel
- Approval to rescind DSM deferral account

Manitoba Hydro's
Capital Investment Drivers &
Borrowing Requirements

Manitoba Hydro is Entering a Period of Extensive Capital Investment

Forecast Load Growth Before and After Impact of DSM



- Investment is required to meet growing energy needs of Manitoba.
- Even with load reductions from the higher levels of Power Smart investment, demand for electricity is continuing to grow due to increases in population, higher average energy usage and industrial & commercial customer expansion.

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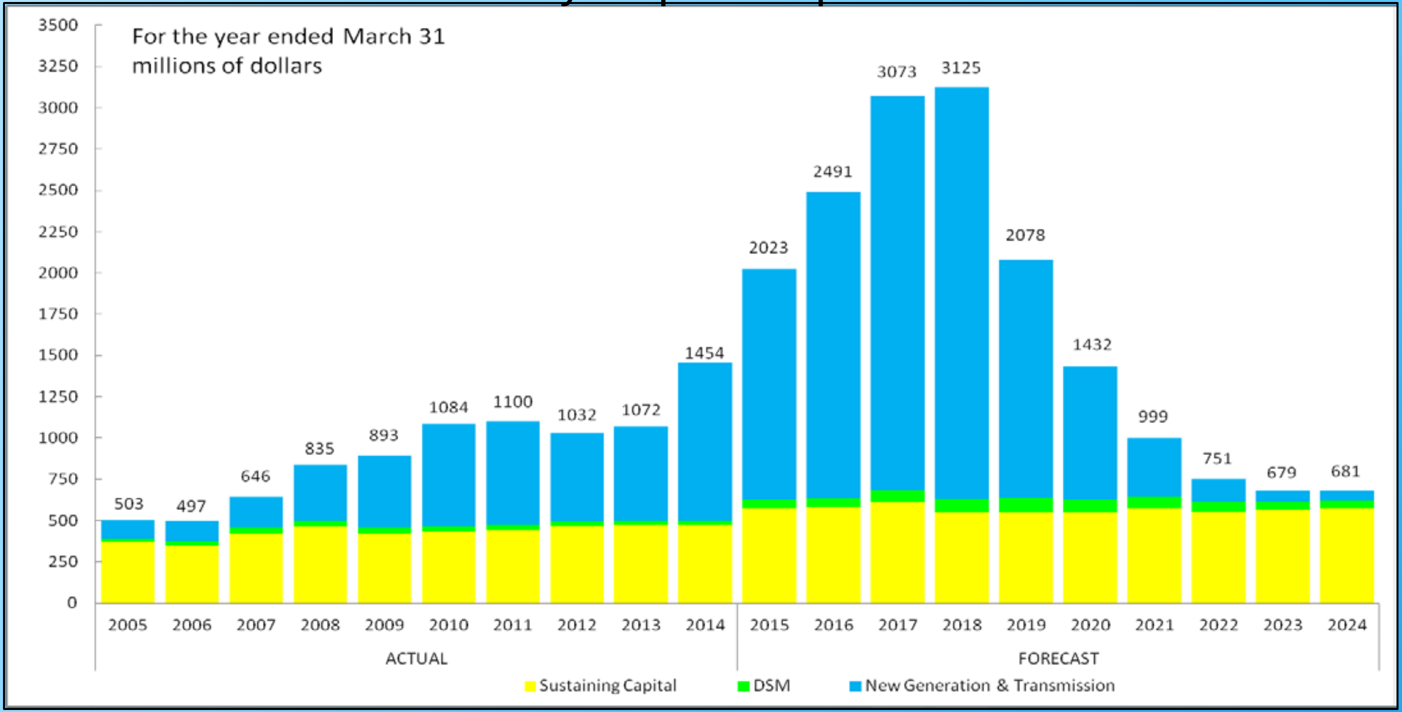
Manitoba Hydro is Entering a Period of Extensive Capital Investment

Electricity Capital Expenditures



- Investment is required to replace aging utility assets and address capacity constraints on the system.
- The level of total investment will be significantly higher in the next 10 year period (peaks at $3.1 billion in 2017/18) than in the prior 10 years. Investment cost will be many multiples higher than the historic cost of the existing asset base.

Required Investment In Canada's Electricity System 2011-2030

- Other Canadian electric utilities are also encountering the need to replace and refurbish aging utility assets.

Rates in other Canadian provinces must also rise in the coming years to fund the re-investment in electricity infrastructure

SaskPower Investing for the future

Investing in our infrastructure also opens the door to future possibilities. Learn more about the work we're doing.
We applied for a multi-year rate increase to help our industrial customers with their business planning and enable our residential customers to budget household expenses in advance. As a result of our application, the government has announced:
Approval of a 5.5 per cent average rate increase, effective Jan. 1, 2014;
Approval of a 3 per cent average rate increase, effective Jan. 1, 2015 (reduced from original request of 5 per cent); and
Denial of an increase for 2016 at this time.

BC Hydro rates to increase 28 per cent over 5 years

"Our rates are still among the lowest in North America," says BC Hydro CEO Charles Reid

CBC News Posted: Nov 26, 2013 10:53 AM PT | Last Updated: Nov 26, 2013 7:54 PM PT

Energy Minister Bill Bennett and BC Hydro CEO Charles Reid announced a 28 per cent electricity rate hike over five years, with a nine per cent jump coming April 1, 2014.

In a press conference in Victoria this morning, Bennett and Reid said the rate hikes were part of a 10-year plan to keep rates as low as possible, while still allowing BC Hydro to invest in infrastructure and future power projects.

Ontario hydro bills to rise 42% in 5 years

BY ANTONELLA ARTUSO, QUEEN'S PARK BUREAU CHIEF
FIRST POSTED: MONDAY, DECEMBER 02, 2013 01:43 PM EST | UPDATED: MONDAY, DECEMBER 02, 2013 03:47 PM EST

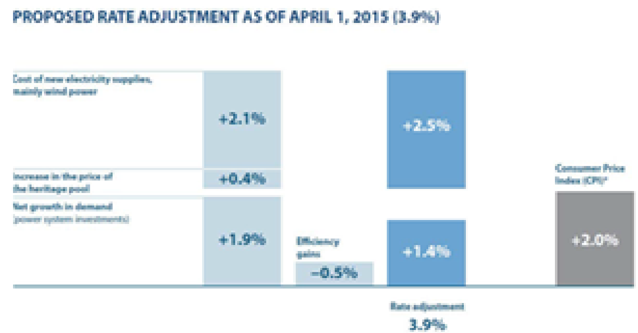
TORONTO - Ontario hydro bills are headed up, up, up.

The Liberal government's new long-term energy plan shows that the average monthly residential bill of $125 will rise to $178 within five years — a 42% increase.

Hydro bills are expected to dip slightly in 2019 to $177 a month, and then rise again until 2022 when they'll hit $193 a month.

A second decrease in prices is forecast for 2023-24 and then the trend for prices is onward and upward for the foreseeable future.

Hydro-Québec filed an application for a 3.9% rate increase

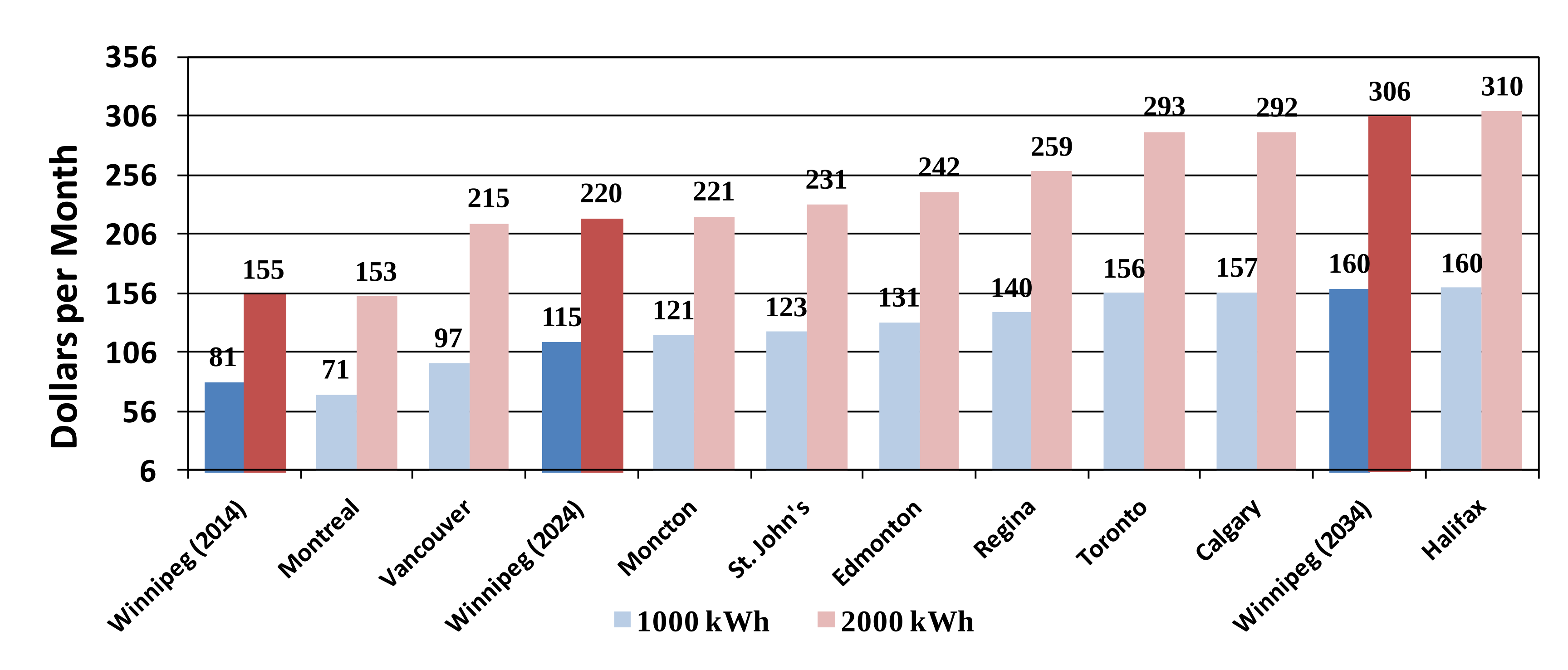


- Manitoba Hydro is not alone in needing to address the required investment in its electrical system through higher rate increases.

Manitoba Hydro

Manitoba Hydro will Continue to Offer Affordable & Competitive Rates to Customers

Residential Average Monthly Bill (Manitoba Hydro Current, 2024, 2034)

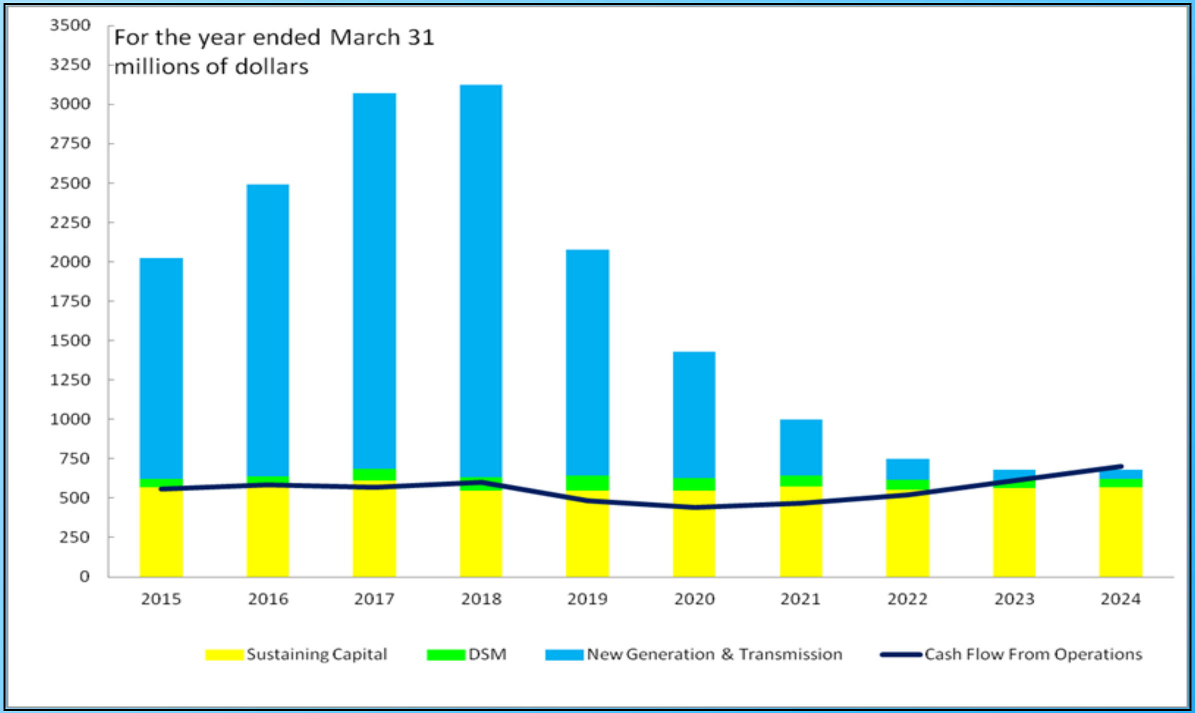


Note: Bills for other utilities have been held constant at 2014 levels.

- The electric rate advantage enjoyed by energy consumers in Manitoba over those in most other Canadian jurisdictions is expected to continue.

Cash Flow from Operations will be Insufficient to Fund Capital Expenditures

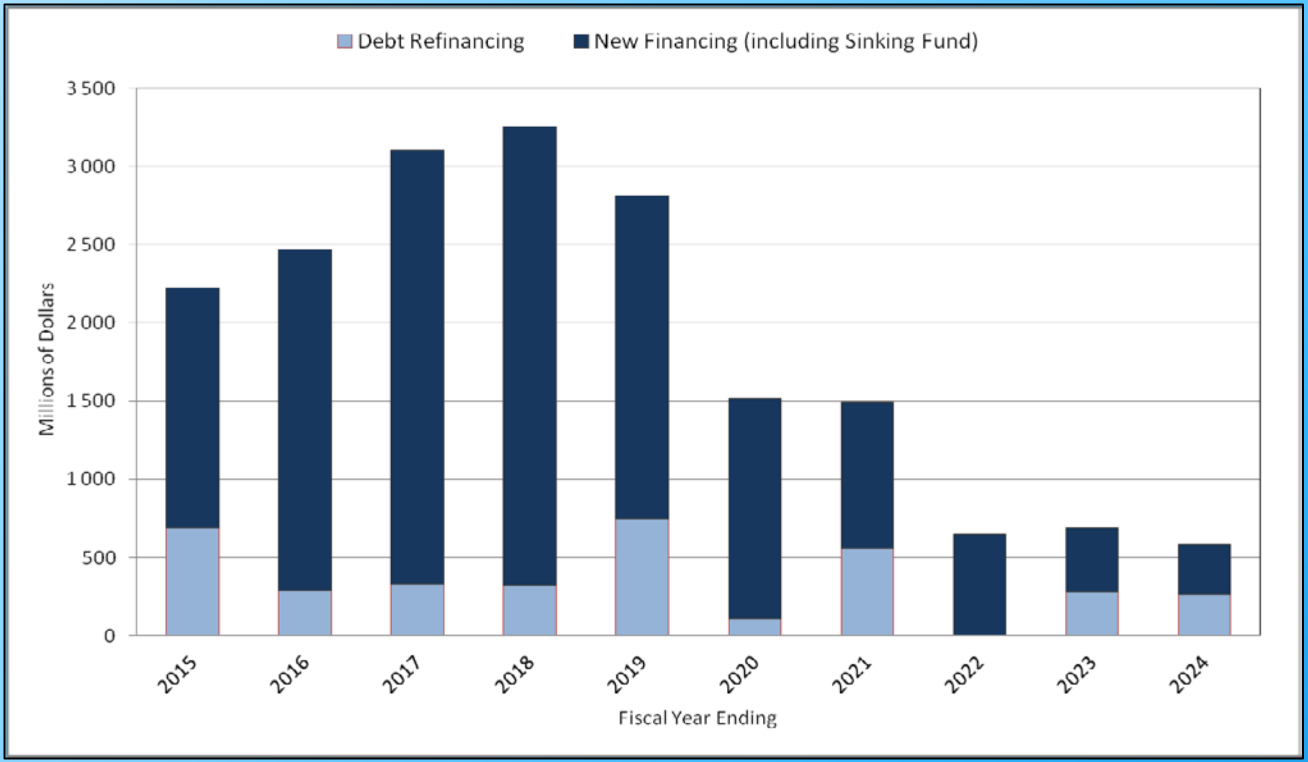
Electricity Capital Expenditures & Cash Flow from Operations



- Manitoba Hydro does not have access to share capital like private utilities and must rely on a combination of internally generated cash and debt financing to fund its capital investment program.
- Cash flow from operations (including projected rate increases) will not be sufficient to fully fund sustaining capital requirements and Major Generation & Transmission capital will be funded through debt financing.

Investment Requirements will Lead to Unprecedented Levels of Debt Financing

Projected Electric Operations Borrowing Requirements



- Including debt refinancing requirements for existing debt, total debt requirements will peak at levels in excess of $3 billion per year – which are unprecedented levels in Manitoba Hydro history.

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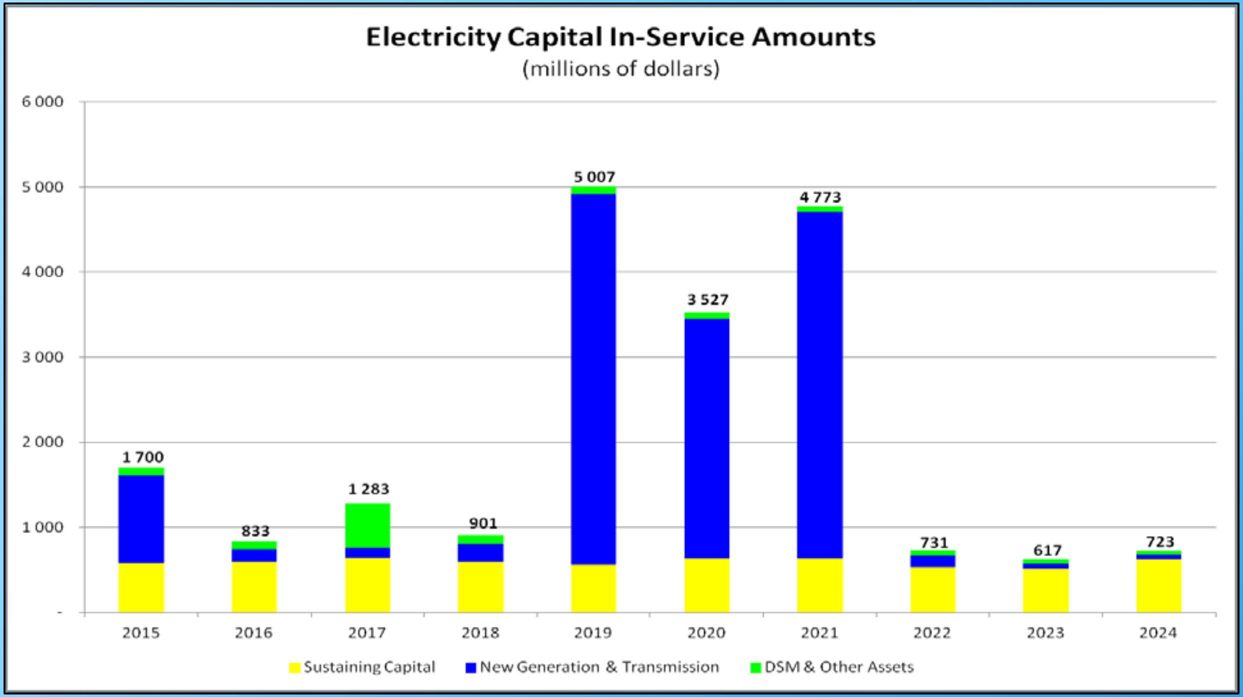
Reasons for Proposed Rate Increases

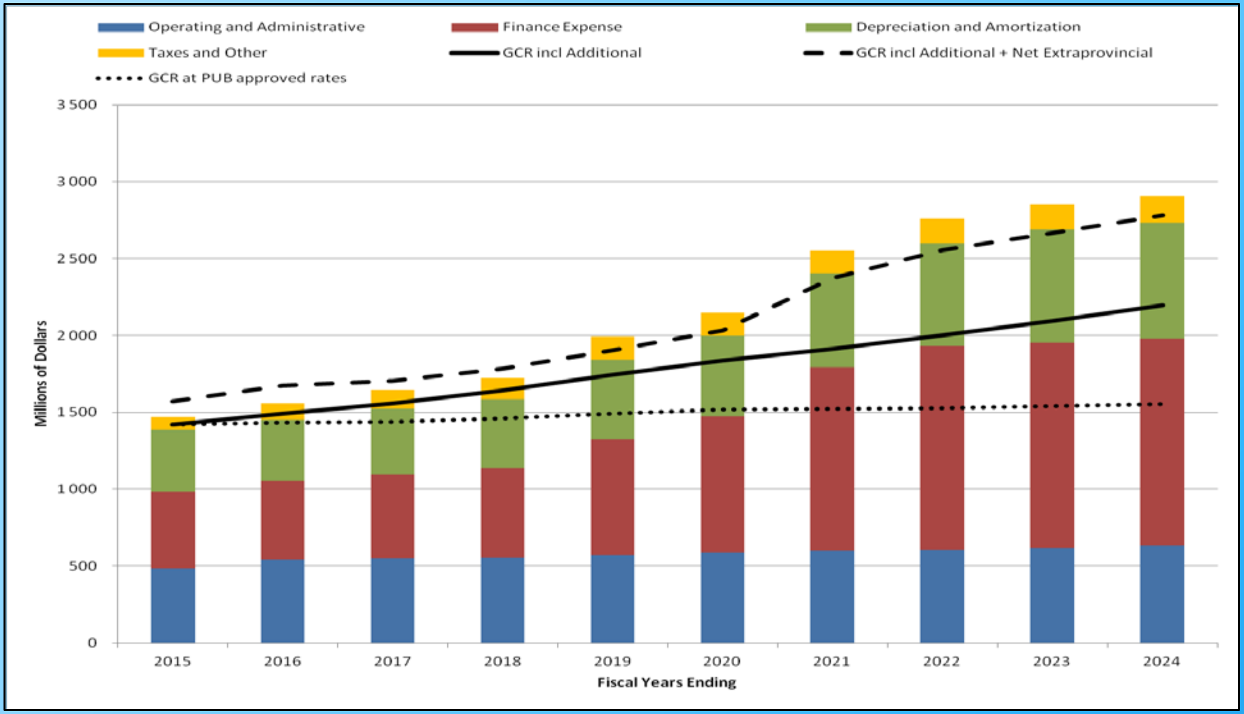
Revenue Requirements are Driven by Assets Being Placed into Service



- Due to the capital intensive nature of Manitoba Hydro’s operations, a significant portion of overall revenue requirements are carrying costs (finance expense, depreciation & capital taxes) of assets used to provide service, once they are placed into service.
- $3.8 billion of electric assets are projected to be placed into service between 2015 and 2017 and $20.1 billion between 2015 to 2024.

Carrying Costs on Electric Assets are Expected to Double in Next 10 Years

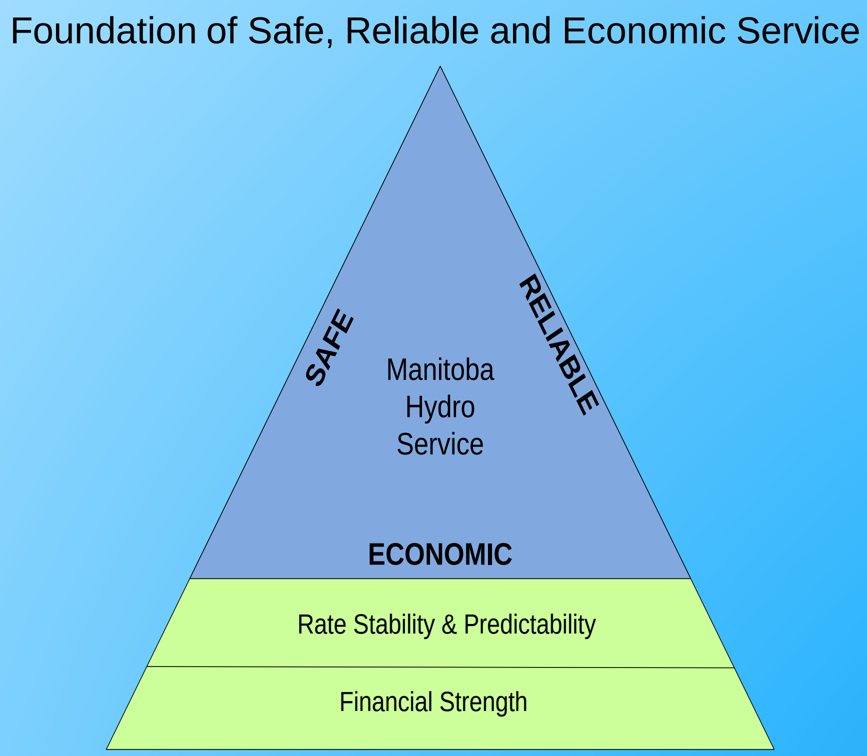
Electric Expenses Compared to Revenues



- Required capital investment is projected to double the asset base and carrying costs of electric operations in the next 10 years.
- Over the 10 year period, total electric costs are projected to double from $1.5 billion to $3 billion, primarily due to increased finance & depreciation costs. Operating costs are relatively constant.
- The proposed and indicative rate increases accumulate to 42% by 2024, thus resulting in projected losses of $900 million on electric operations between 2019 – 2024.

Manitoba Hydro

Rate Stability for Customers Dependent on Financial Strength of the Corporation



- Rate stability & predictability for customers depends on the continued financial strength of Manitoba Hydro.
- Without the necessary rate increases, there is significant risk to customers of volatile rate changes and a need for sudden or larger rate increases in the near future. This risk is particularly acute in the upcoming period of extensive capital investment.

Financial Strength is Measured through Consolidated Financial Targets

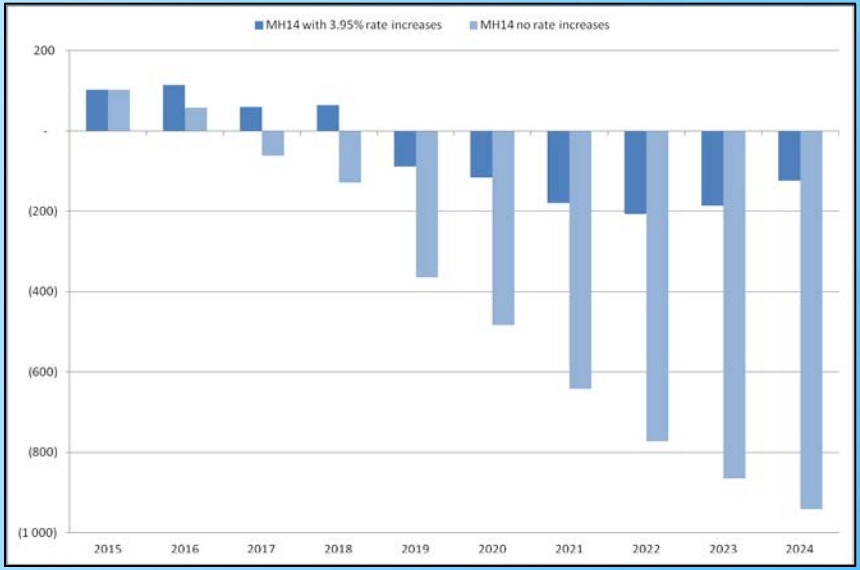
- Debt/Equity:
  - Maintain minimum debt/equity ratio of 75:25
- Interest Coverage:
  - Maintain interest coverage ratio of > 1.20
- Capital Coverage:
  - Maintain capital coverage ratio of > 1.20

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

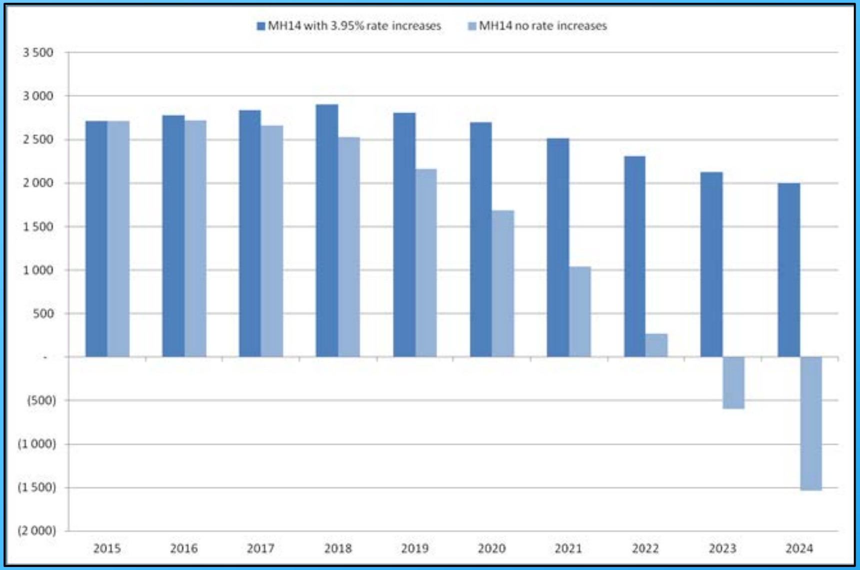
Investments in Capital Assets Will Place Pressure on Manitoba Hydro's Financial Strength

MH14 3.95% Rate Increases and MH14 No Rate Increases

Projected Net Income



Projected Retained Earnings



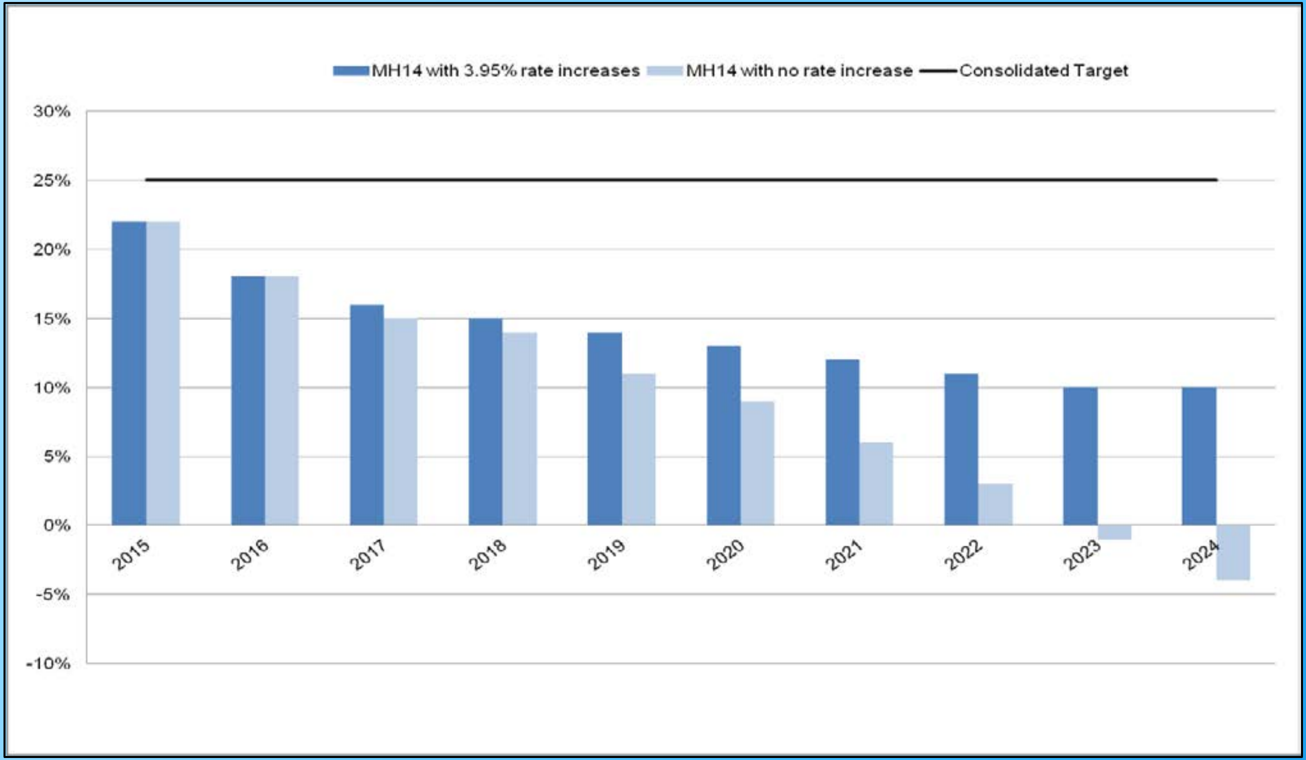
- The proposed and indicative 3.95% rate increases accumulate to 42% by 2024, but capital-driven carrying costs increase 100%, resulting in projected losses of $900 million between 2019 and 2024.
- Financial reserves (retained earnings) are projected to decrease from $2.7 billion to $2.0 billion by 2024.

Manitoba Hydro

Investments in Capital Assets Will Place Pressure on Manitoba Hydro's Financial Strength

MH14 3.95% Rate Increases and MH14 No Rate Increases

Projected Equity Ratio

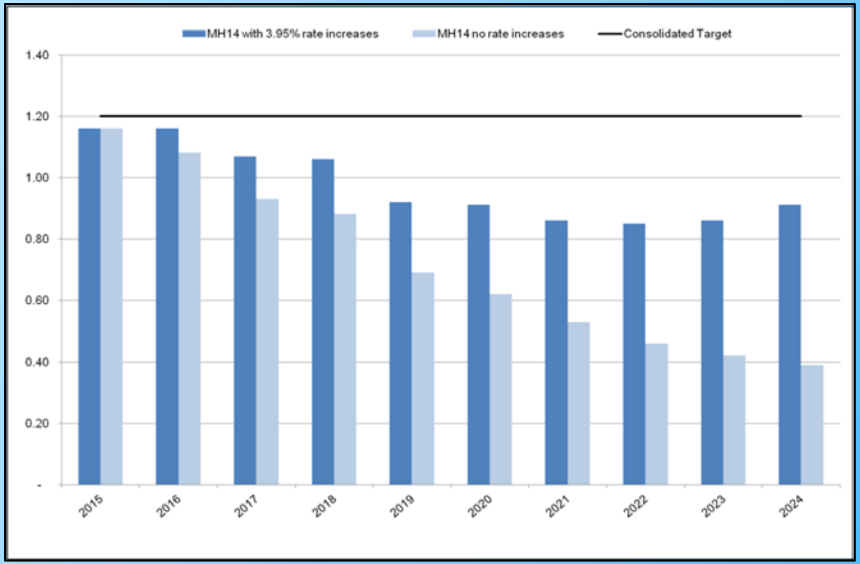


- Equity ratio is projected to deteriorate to 10% by 2023 – well below the 25% target level.

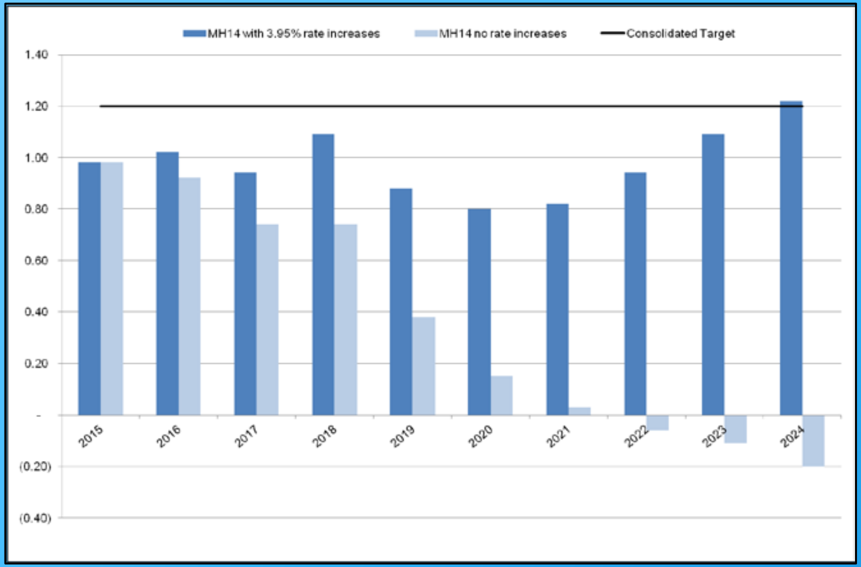
Investments in Capital Will Place Pressure on Financial Strength

MH14 3.95% Rate Increases and MH14 No Rate Increases

Projected Interest Coverage



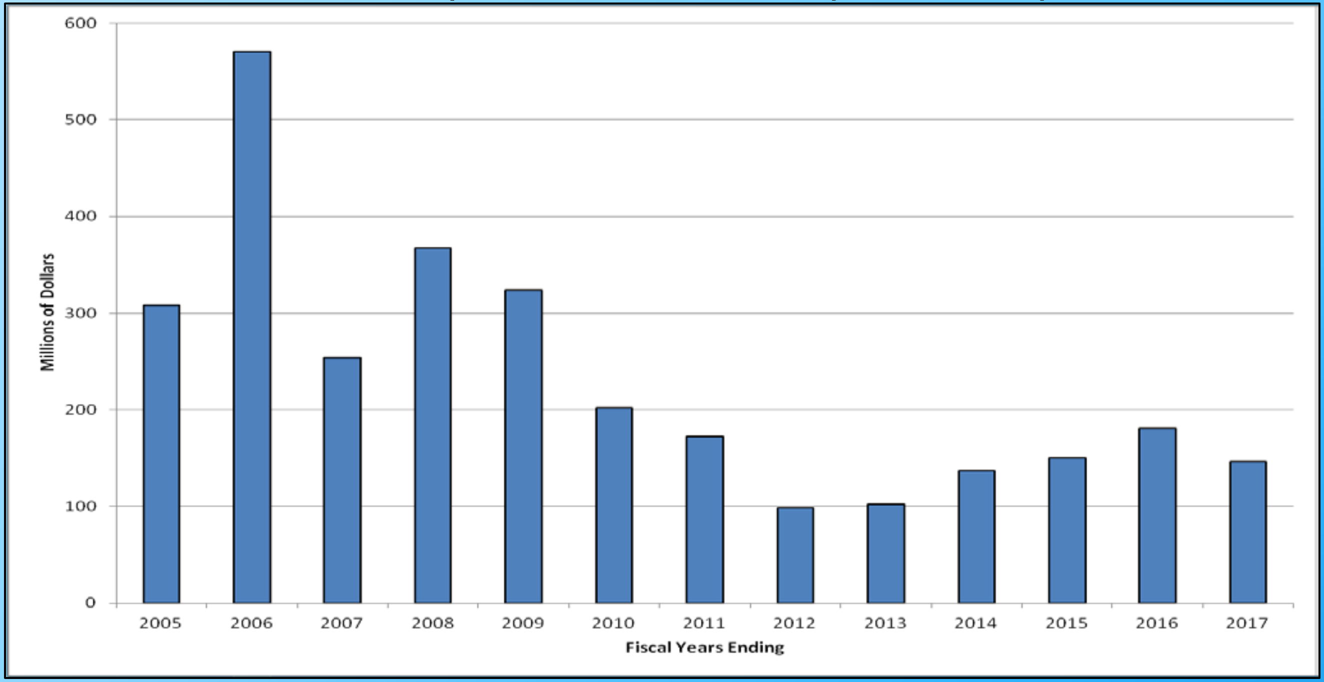
Projected Capital Coverage Ratio



- Interest coverage and capital coverage are projected to be well below the target levels of 1.20 for most of the years of the forecast.

Rates Have Not Increased to Fully Compensate for Reductions in Net Extraprovincial Revenue

Net Extraprovincial Revenue (2015-2017)



- Historically, Net Extraprovincial revenues have enabled Manitoba Hydro to maintain lower electricity rates for Manitobans (averaged $365 million/year between 2005-2009).
- Net extraprovincial revenues have not been as strong as in previous years (projected at $147 million to $181 million between 2015 to 2017).
- Rates need to gradually increase to compensate for this reduction.

Rate Proposals Maintain Net Income and Financial Ratios at Acceptable Levels

Retained Earnings and Financial Ratios (without proposed rate increases)	Forecast 2015	2016	2017
Net Income (electric operations)	$ 102	$ 58	$ (58)
Retained Earnings (electric operations)	$ 2,717	$ 2,721	$ 2,663
Debt to Equity Ratio (electric operations)	78:22	82:18	85:15
Interest Coverage Ratio (electric operations)	1.16	1.08	0.93
Capital Coverage Ratio (electric operations)	0.98	0.92	0.74

Retained Earnings and Financial Ratios (including proposed rate increases)			
Net Income (electric operations)	$ 102	$ 115	$ 59
Retained Earnings (electric operations)	$ 2,717	$ 2,778	$ 2,837
Debt to Equity Ratio (electric operations)	78:22	82:18	84:16
Interest Coverage Ratio (electric operations)	1.16	1.16	1.07
Capital Coverage Ratio (electric operations)	0.98	1.02	0.94

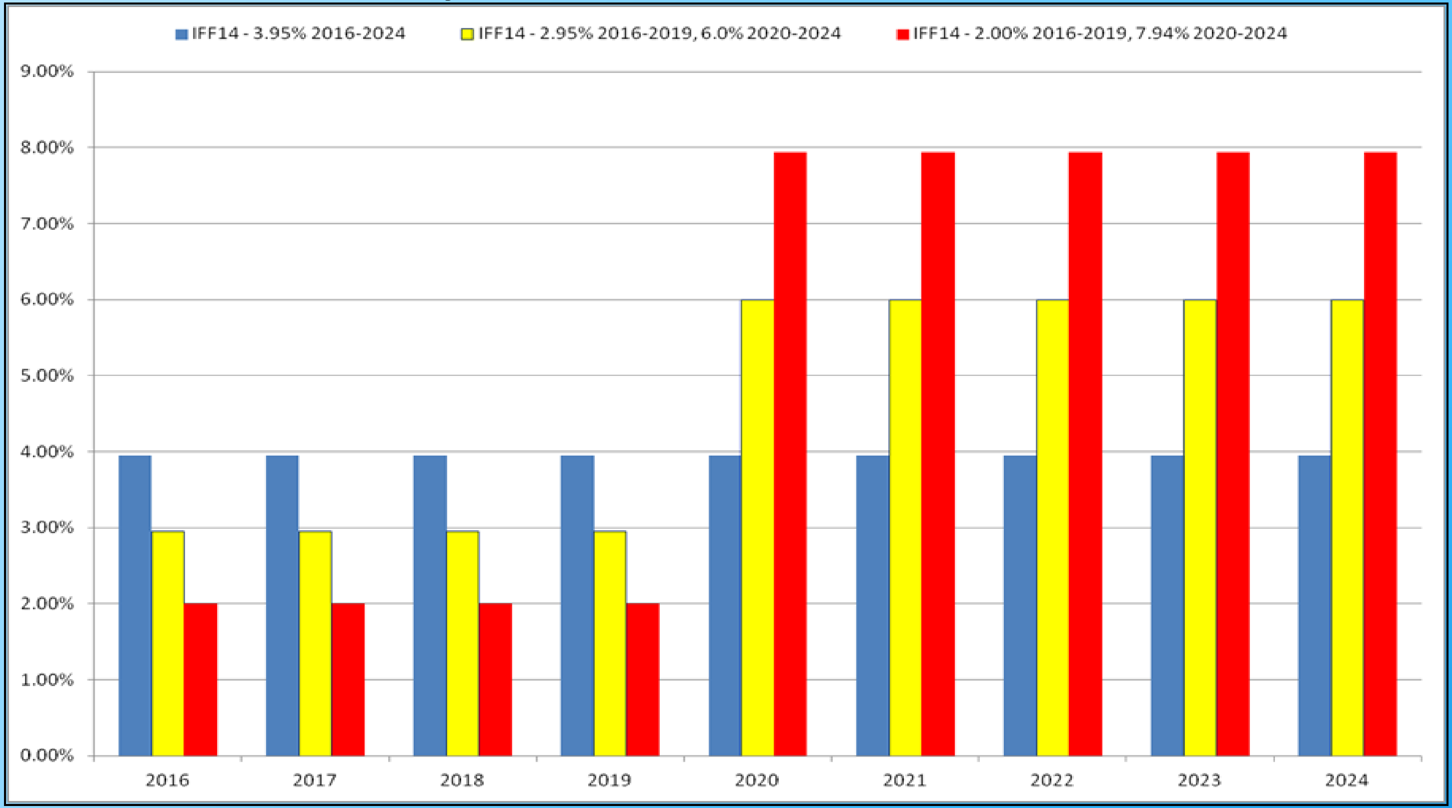
- Approval of the proposed rate increases are necessary to maintain net income and financial ratios for 2015/16 and 2016/17 at acceptable levels and to promote longer term rate stability for customers.
- Absent the proposed rate increases, Manitoba Hydro is projecting net income of $58 million in 2016 and a loss of $58 million in 2017. Equity ratio, interest and capital coverage ratios would decline to 15%, 0.93, and 0.74 in 2017, respectively.

Manitoba Hydro

Risks if Proposed Rate Increases are Not Granted

Increased Risk to Customers of Rate Instability and Rate Shock

Projected Rate Increase Scenarios

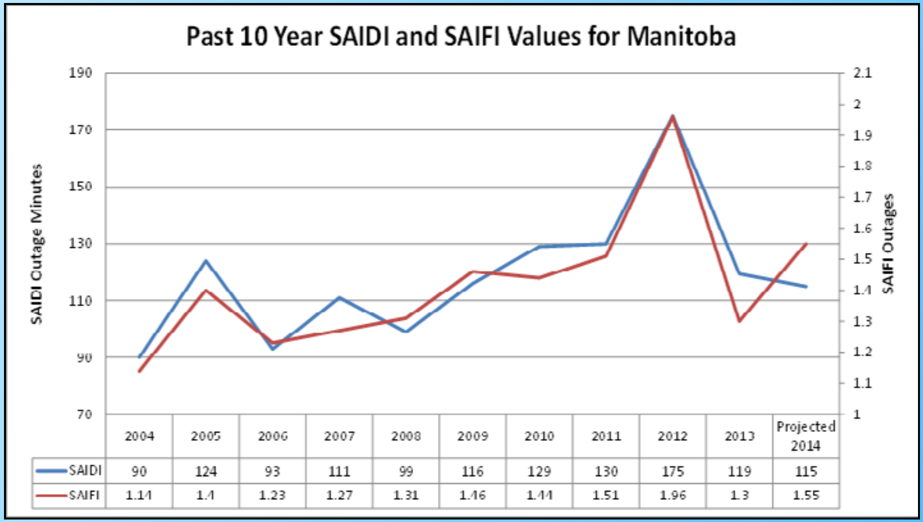


- Lower rate increase scenarios of 2% and 2.95% for the next 4 years (2016 to 2019) require compensating increases of 6% and 8%, respectively, between 2020 to 2024 to achieve the same financial position (a 10% Equity Ratio by 2024).
- Gradually increasing rates by 3.95% promotes rate stability & predictability and reduces the risk of rate shock to customers in the future.

Manitoba Hydro

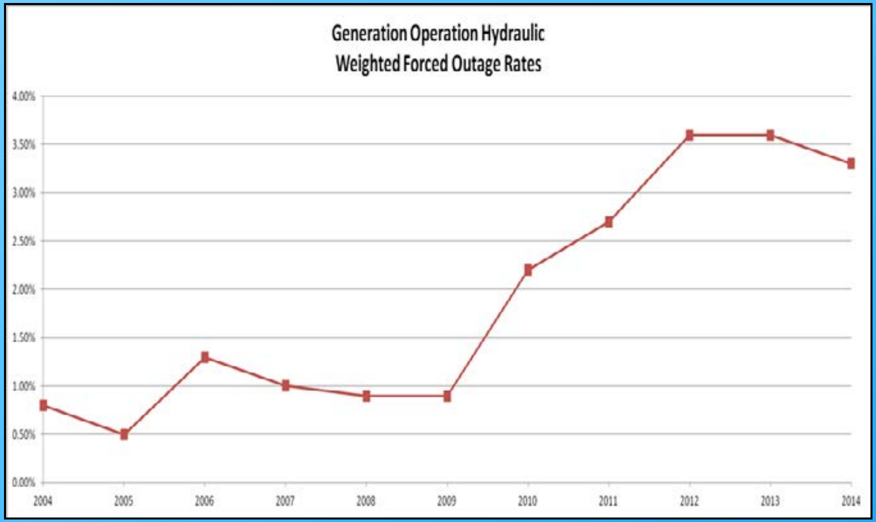
Increased Risk to Customers of Decline in Service & Reliability

SAIDI and SAIFI Indictors



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Projected 2014
SAIDI	90	124	93	111	99	116	129	130	175	119	115
SAIFI	1.14	1.4	1.23	1.27	1.31	1.46	1.44	1.51	1.96	1.3	1.55

Hydraulic Generation Forced Outage Rates

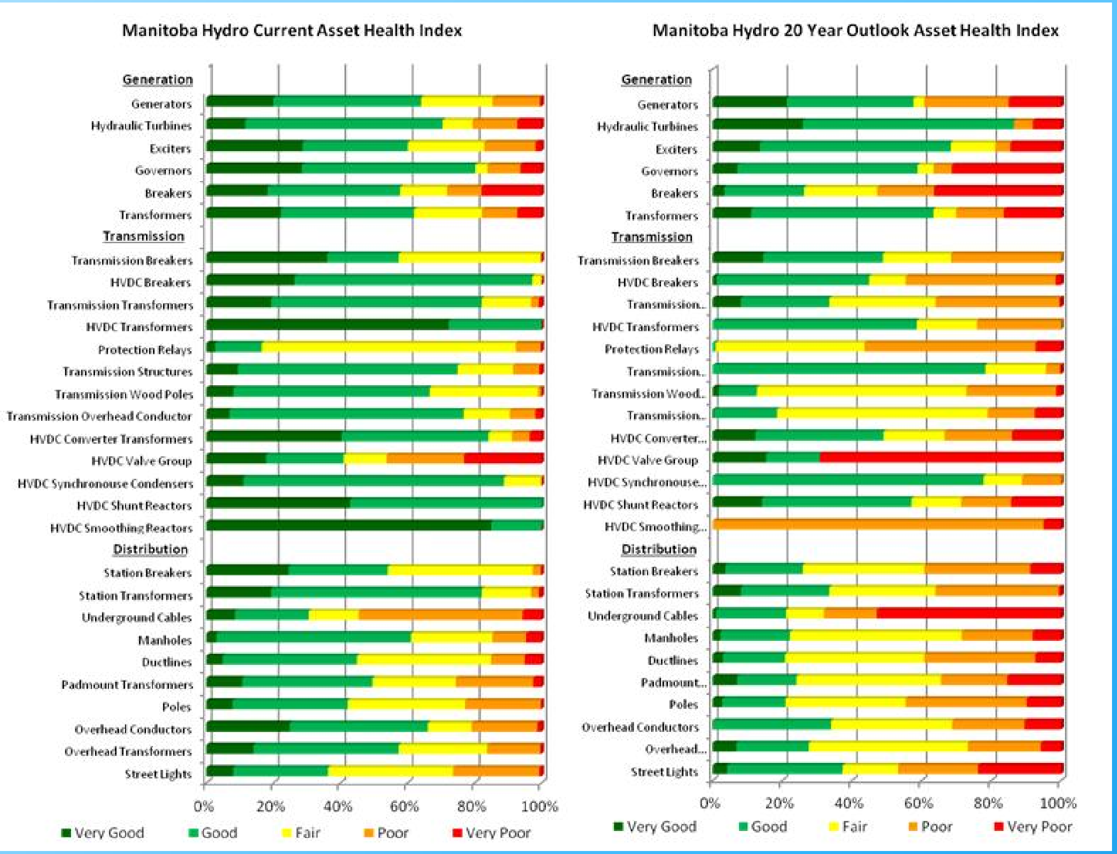


- Manitoba Hydro's reliability performance shows an increased trend of outage frequency and duration and generation forced outage rates have increased significantly in the past 4 years; asset age and condition is a major contributing factor.
- The proposed rate increases will enable Manitoba Hydro to be in a better position to fund the necessary investments to continue to provide the high level of safe and reliable service to which customers are accustomed.

Manitoba Hydro

Increased Risk to Customers of Decline in Service & Reliability

Asset Health Indices- Current & 20 Year Outlook

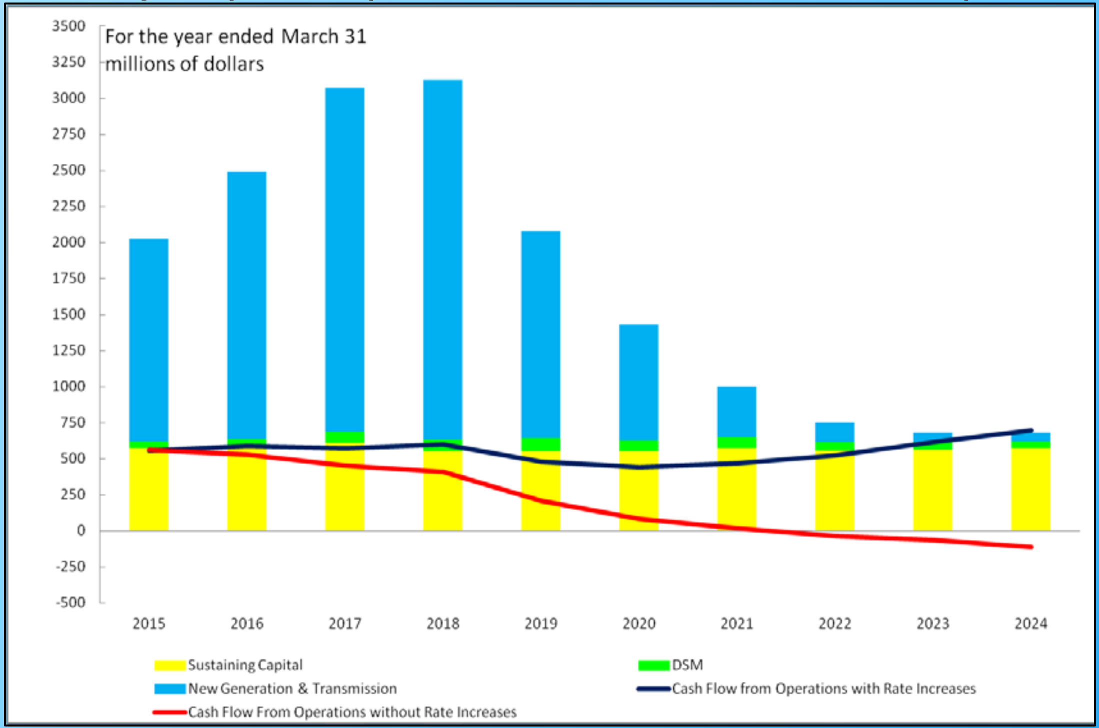


- As a larger portion of assets age beyond life expectancy, system failure and customer outages are expected to occur on a more regular basis.
- Replacement rates and associated capital funding for the majority of Manitoba Hydro’s asset types need to be increased to better align with life expectancy.

Manitoba Hydro

Increased Borrowing Requirements Result in Higher Levels of Debt and Carrying Costs, which Need to be Recovered from Customers

Electricity Capital Expenditures & Cash Flow from Operations



- Without the proposed and indicative rate increases, Manitoba Hydro would be required to fund an increasing portion of its sustaining capital expenditures through debt financing as opposed to cash flow generated from operations.
- The proposed and indicative rate increases reduce the need for borrowing and additional financing costs that must be borne by customers through rates.

Potential Negative Implications to Provincial Credit Rating and Manitoba Hydro's Borrowing Costs

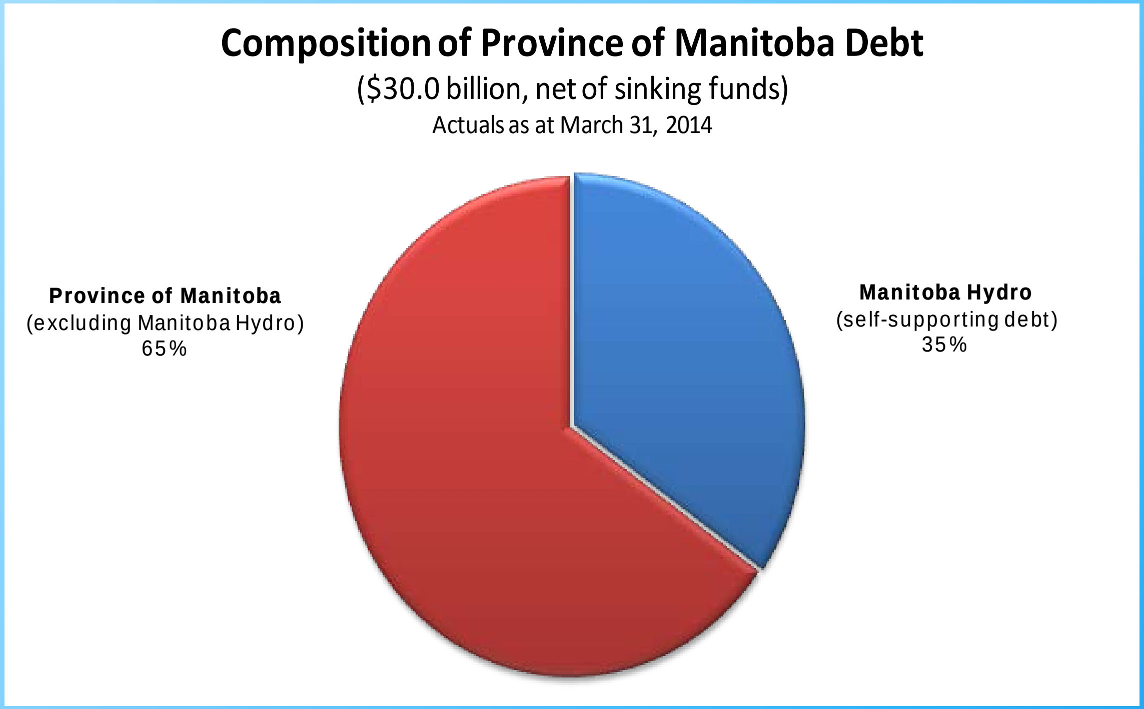
Provincial Long Term Credit Ratings Comparison

Province	Standard & Poors	DBRS	Moody's Investors Service
British Columbia	AAA	AA (high)	Aaa
Saskatchewan	AAA	AA	Aaa
Alberta	AAA	AAA	Aaa
Manitoba	AA	A (high)	Aa1
Ontario	AA-	AA (low)	Aa2
Nova Scotia	A+	A (high)	Aa2
Newfoundland & Labrador	A+	A	Aa2
Québec	A+	A (high)	Aa2
New Brunswick	A+	A (high)	Aa2
Prince Edward Island	A	A (low)	Aa2

- The Province of Manitoba has a high credit rating that benefits Manitoba Hydro customers by reducing the cost of borrowing that customers pay in rates.

Manitoba Hydro

Potential Negative Implications to Provincial Credit Rating and Manitoba Hydro's Borrowing Costs



- Manitoba Hydro's debt forms a significant portion of total provincial debt and the Corporation's financial performance is a contributing factor toward the stability of the Province's credit rating.
- The proposed and indicative rate increases are necessary to continue to demonstrate to credit rating agencies that the regulatory framework in Manitoba is supportive of Manitoba Hydro's self-supporting financial status.

Manitoba Hydro

The PUB Recognized the Importance of Manitoba Hydro's Financial Strength in Order 43/13

The Board is concerned that, by moving towards a 90:10 debt-to-equity ratio by the end of the decade, there will be an insufficient retained earnings reserve to deal with droughts and other risks such as infrastructure failure or rising interest rates.

....

The Board notes that Manitoba Hydro shares the benefit of the flow-through credit rating of the Province, which affords it preferential interest rates on its debt and access to funds to meet its major capital spending program. However, as its debt grows, there is a potential for Manitoba Hydro's financial condition to affect the credit rating of the Province. It is important that Manitoba Hydro remains a financially strong and viable organization.

Source: Manitoba Public Utilities Board Order No. 43/13 dated April 26, 2013 (page 23)

- In Order 43/13, the PUB recognized the importance of Manitoba Hydro's financial strength to deal with financial risks and to ensure that the credit rating of the Province is not negatively impacted.

Manitoba Hydro

Manitoba Hydro’s Reply to Areas of Concern

Manitoba Hydro

Rate Increases are Required Notwithstanding More Favourable Near-term Financial Results

Comparison of Electric Operations Net Income MH14 to MH13
(including proposed and indicative rate increases)

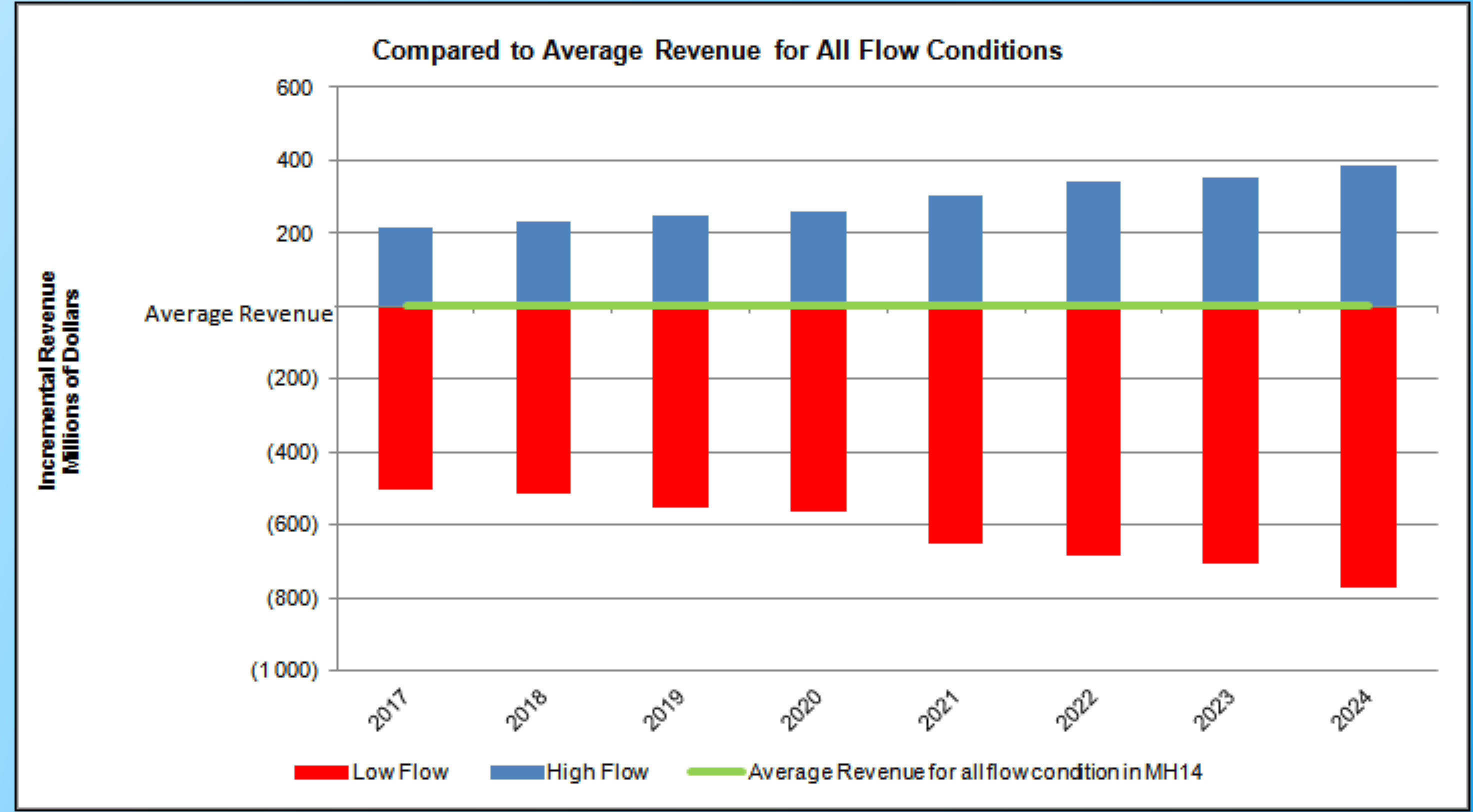
	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	10 Year Cumulative to 2023/24	20 Year Cumulative to 2033/34
Current Forecast (MH14)	$ 102	$ 115	$ 59	$ (559)	$ 3 003
Previous Forecast (MH13)	55	12	19	(85)	4 775
Increase/ Decrease	$ 48	$ 103	$ 41	$ (474)	$ (1 772)

- In the near-term to 2016/17, projected Net Income from Electric Operations (including proposed rate increases) is higher in MH14 compared to MH13 largely due to the favourable water flow conditions, as well as lower finance and depreciation expense.
- There are lower net earnings projected in the remaining years of MH14 – resulting in lower cumulative earnings of approximately $500 million to 2024.

Manitoba Hydro

Rate Increases are Required Notwithstanding More Favourable Near-term Financial Results

Variability of Net Extraprovincial Revenue



- Manitoba Hydro's financial results are subject to significant volatility based on potential changes in water flow conditions that can change quickly.
- It is necessary that rate increases be implemented gradually, even in years with favorable water flows & financial results, to balance out the inevitable years with lower water conditions in order to maintain average rate increases of 3.95% over the long term.

Manitoba Hydro

A Long Term Rate-Setting Perspective is Beneficial to Customers

"In order to reconcile the variability of the Manitoba Hydro revenue stream with the stability desired by many of Manitoba Hydro's customers, the Board ought to look at setting rates on the basis of longer term trends as opposed to the actual results of last year's revenues or the short-term conditions, be they favourable or unfavourable. GAC is of the view that the current longer term trends point strongly in the direction of requiring more revenue for Manitoba Hydro"

Source: **Green Action Centre (page 3 of its written submission) as part of Manitoba Hydro's Application for Interim Electric Rates effective April 1, 2014**

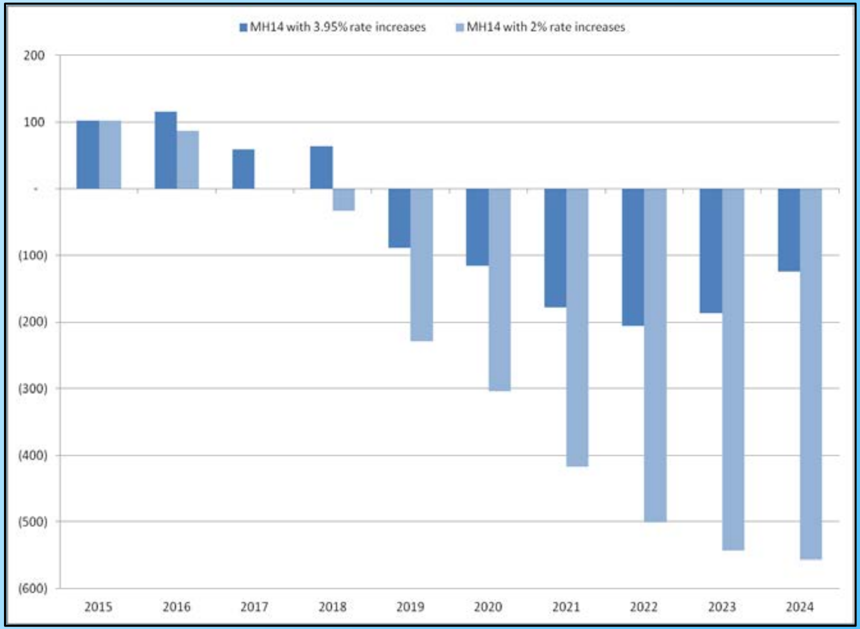
- Setting rates considering longer term revenue requirements is the prudent approach and is in the best interests of customers.
- Focusing on the shorter term financial outlook will only defer the required rate increases to future periods and inevitably result in rate instability for rate-payers – especially considering the upcoming period of extensive investment.

Manitoba Hydro

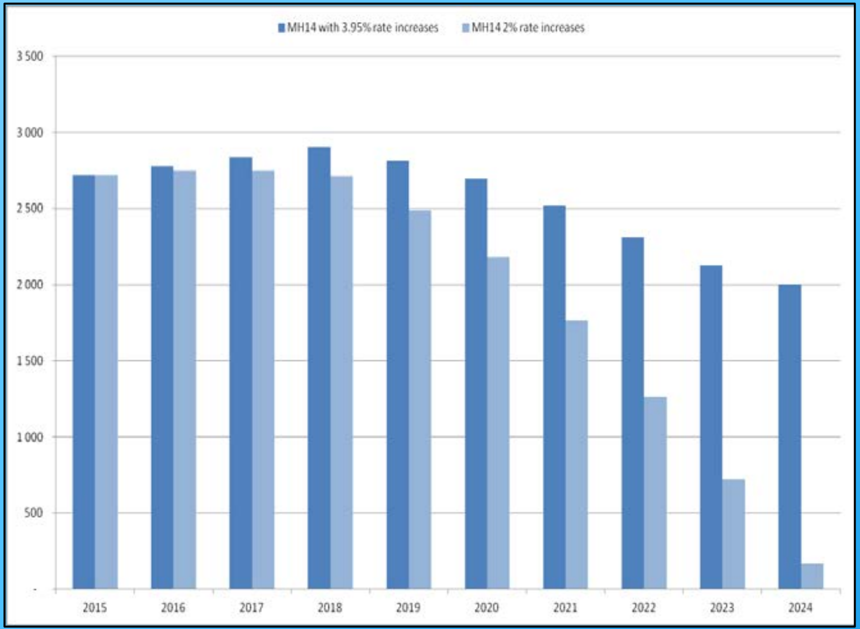
Inflationary Rate Increases are Not Sufficient to Maintain Rate Stability for Customers

Projected Net Income & Retained Earnings (2015-2024)
MH14 3.95% Rate Increases and MH14 2.0% Rate Increases

Projected Net Income



Projected Retained Earnings

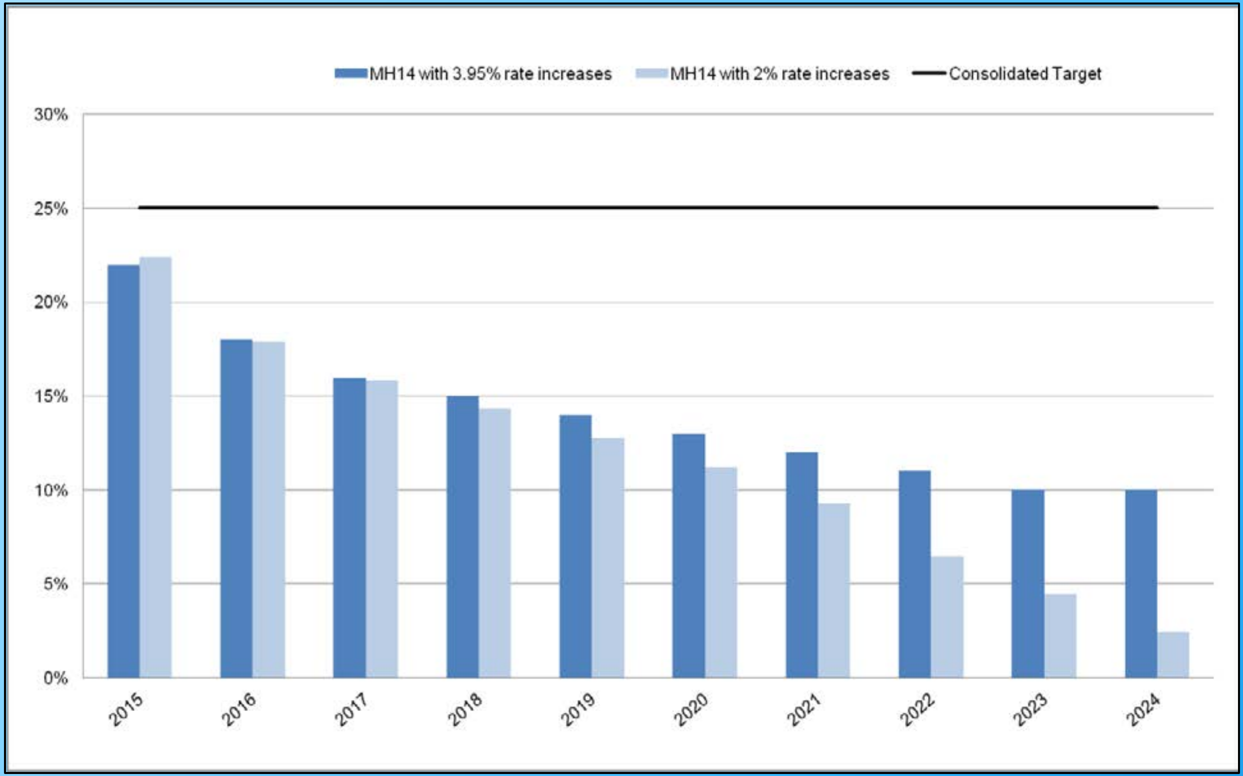


- Projected increases in Manitoba Hydro's revenue requirement are largely driven by the extensive investments made on behalf of customers – these are much more significant than inflationary cost pressures.
- Inflationary rate increases will jeopardize Manitoba Hydro's ability to provide rate stability to customers as it will be unable to recover its costs and ensure sufficient financial reserves are in place.

Inflationary Rate Increases are Not Sufficient to Maintain Rate Stability for Customers

MH14 3.95% Rate Increases and MH14 2.0% Rate Increases

Projected Equity Ratio



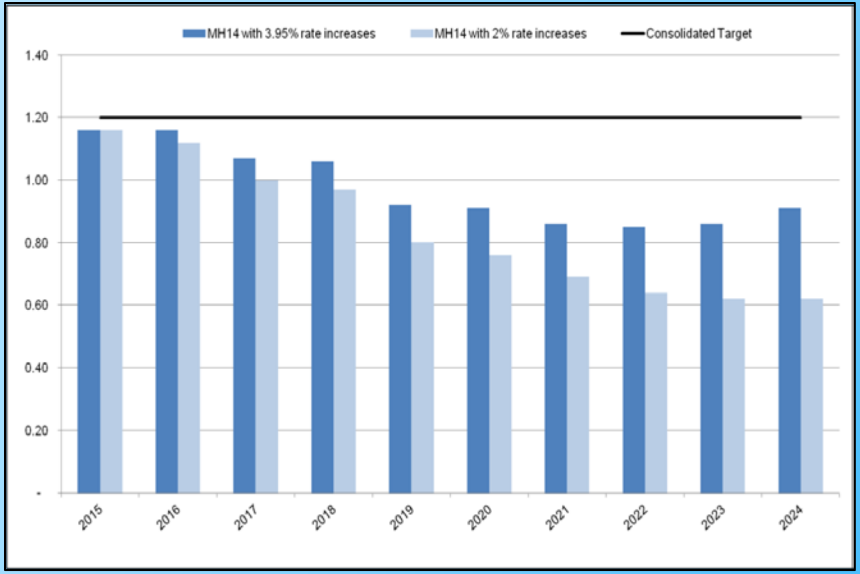
- Inflationary rate increases would result in an equity ratio well below minimum acceptable levels and approaching zero.

Manitoba Hydro

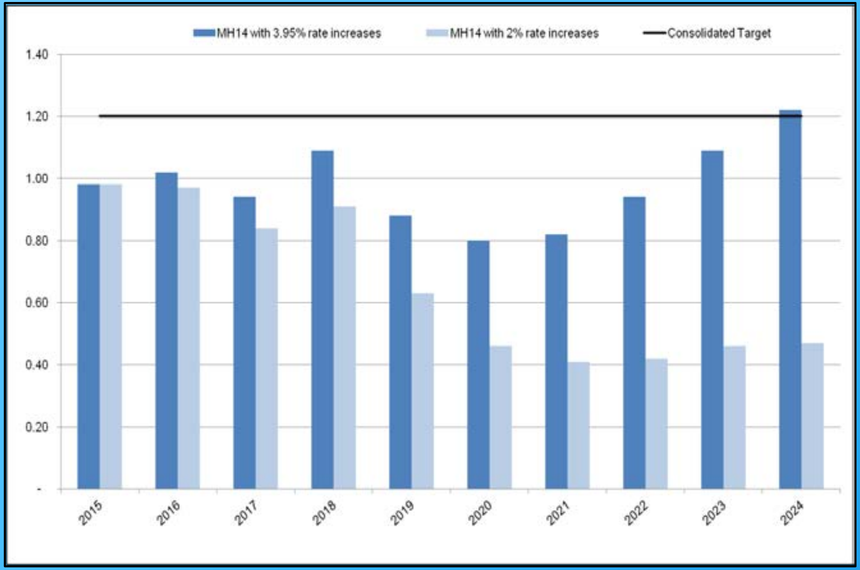
Inflationary Rate Increases are Not Sufficient to Maintain Rate Stability for Customers

MH14 3.95% Rate Increases and MH14 2.0% Rate Increases

Projected Interest Coverage



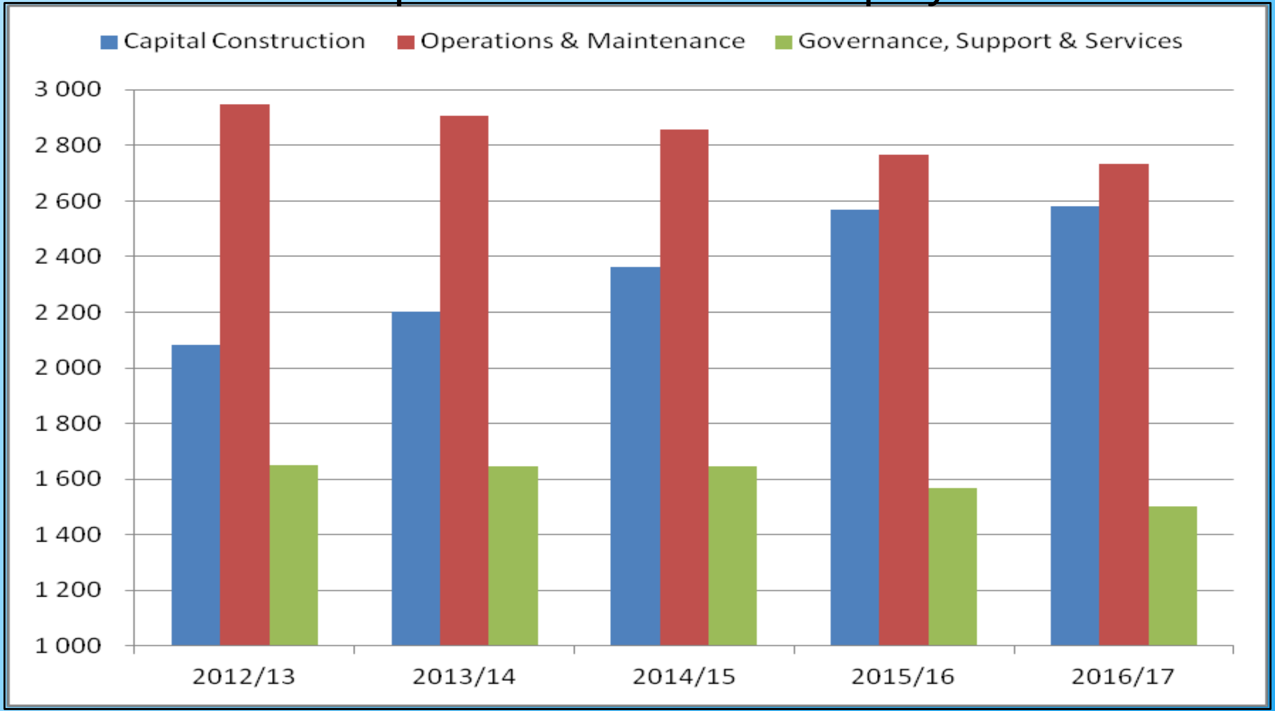
Projected Capital Coverage Ratio



- Inflationary rate increases would result in Interest and Capital Coverage ratios well below minimum acceptable levels.

Manitoba Hydro is Effectively Controlling Costs to Maintain Projected 3.95% Rate Increases

Total Equivalent Full Time Employees

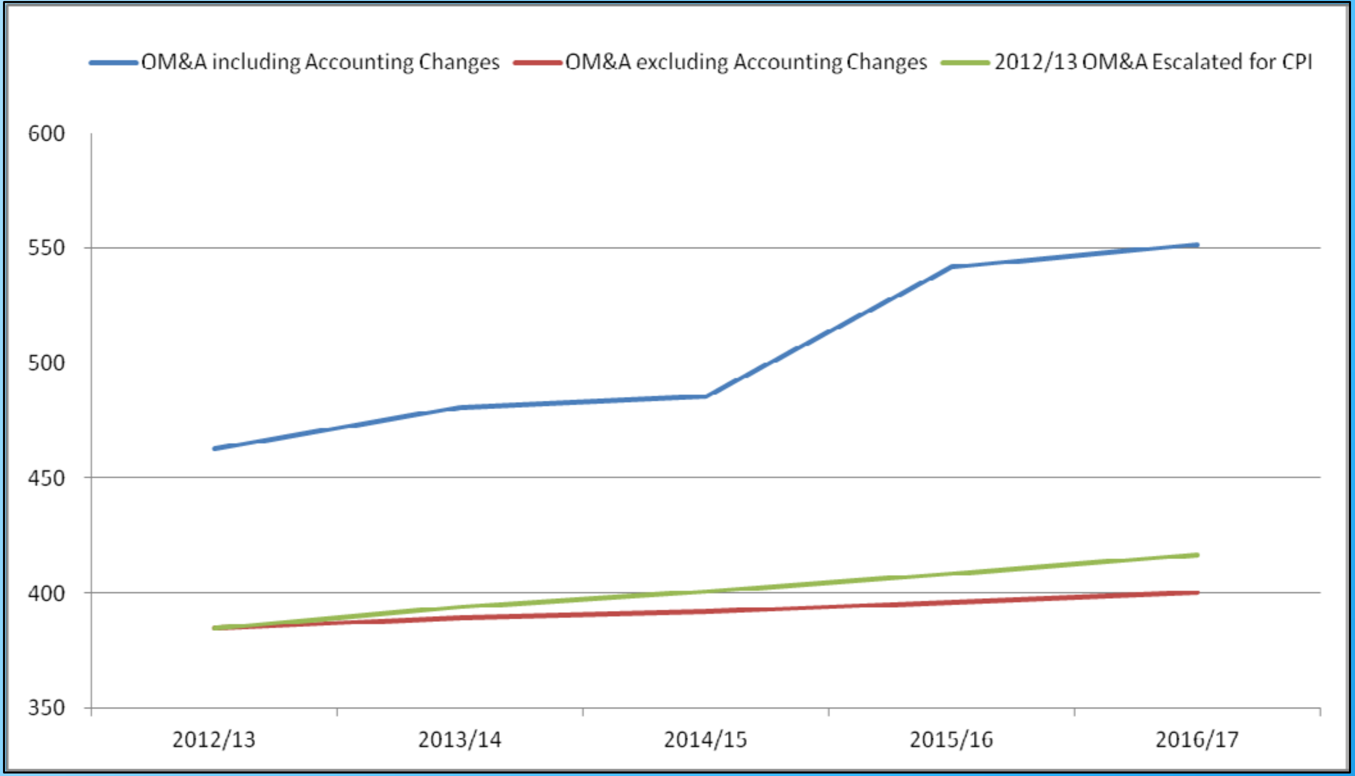


- Manitoba Hydro is committed to carefully managing its costs and utilizing resources efficiently and effectively to provide maximum value to ratepayers.
- An extensive review of the staff compliment was undertaken in 2014 and resulted in plans to reduce approximately 330 operational positions over the 3 years between 2015 to 2017 which represents 7% of current EFTs charged to operating costs.
- Consistent with this plan O&M and Governance/Support/Services EFTs are projected to decrease. Capital Construction EFTs will increase due to the extensive capital program.

Manitoba Hydro

Manitoba Hydro is Effectively Controlling Costs to Maintain Projected 3.95% Rate Increases

Operating, Maintenance & Administrative Costs



- Operational position reductions and other cost saving initiatives will allow Manitoba Hydro to limit OM&A cost increases to 1% per year (below inflationary levels) excluding the impacts of accounting changes.
- This is consistent with the PUB's expectations from Order 43/13.

The PUB Accepted Manitoba Hydro's prior Accounting Changes for Rate-Setting Purposes in Order 43/13

The Board understands that Manitoba Hydro has been making changes to its accounting policies since 2007/08 to be more consistent with other electric utilities as well as to be consistent with International Financial Reporting Standards. The Board in past orders had expressed concern with the level of capitalization and Manitoba Hydro has begun to address these concerns. In the Board's view, Manitoba Hydro's proposed accounting changes are appropriate for the test years.

Source: Manitoba Public Utilities Board Order No. 43/13 dated April 26, 2013 (pages 14-15)

- In Order 43/13, the PUB accepted the accounting changes made by Manitoba Hydro up to the 2013/14 fiscal year for rate-setting purposes.
- Reductions in the amount of overhead capitalized had been recommended by the PUB in previous Orders.

Manitoba Hydro

Proposed Rate Increases are Not Being Driven by Aggressive Accounting Policy Selection

Accounting Policy & Estimate Changes

Accounting Policy & Estimate Changes Electric operations (in millions of $s)										
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
OM&A Expense Changes		51	56	57	58	58	59	60	61	62
Depreciation Expense Changes	(25)	(53)	(57)	(60)	(76)	(86)	(96)	(101)	(103)	(105)
Other		(3)	(3)	(4)	(3)	(3)	(4)	(4)	(3)	(4)
Total Increase (Decrease) in Revenue Requirement	(25)	(4)	(4)	(7)	(22)	(31)	(41)	(45)	(46)	(48)

- Manitoba Hydro is making a number of prospective accounting changes for financial reporting purposes in 2014/15 and 2015/16 – including further changes to the level of capitalized overhead and depreciation methodologies as part of the conversion to IFRS in 2015/16.
- Depreciation decreases will more than offset OM&A increases – such that accounting changes are not driving the increase in revenue requirements and the need for rate increases.
- Given there is no harm to ratepayers, use of IFRS for rate-setting purposes is fair and appropriate.

Manitoba Hydro

Manitoba Hydro has Managed the Impact of ELG through Removal of Negative Salvage from Depreciation Rates

Depreciation Policy & Estimate Changes Electric Operations (in millions of $)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Average Service Life Changes (2014 Depreciation Study)	(25)	(29)	(30)	(30)	(34)	(38)	(43)	(41)	(43)	(42)
Negative Salvage		(60)	(63)	(67)	(86)	(96)	(107)	(117)	(117)	(119)
Other	-	(0)	(2)	(4)	(5)	(7)	(9)	(10)	(12)	(14)
Change to IFRS Compliant Depreciation (ELG)		36	38	41	49	55	63	67	68	69
Subtotal Depreciation Changes	**(25)**	**(53)**	**(57)**	**(60)**	**(76)**	**(86)**	**(96)**	**(101)**	**(103)**	**(105)**

- Manitoba Hydro made a policy decision in 2010 to move to the Equal Life Group (ELG) depreciation method to aid transition to IFRS.
- Manitoba Hydro made an explicit policy decision at the same time to remove net salvage from depreciation rates upon transition to IFRS to manage both the financial reporting and rate-setting impacts of the move to ELG – this results in a significant decrease in depreciation expense.
- Manitoba Hydro is requesting the PUB to review depreciation changes on an overall basis for rate-setting purposes – consistent with the regulatory principle of “fairness”.

Manitoba Hydro

The PUB Rejected Intervenor Recommendations to Adjust Accounting Policies to Lower Rate Increases in Order 43/13

Interveners recommended various accounting changes to lessen rate increases over the test years. The Board rejects this approach as it would have the effect of reducing Manitoba Hydro's revenues, weakening its financial situation, and increasing borrowing costs. It is important that Manitoba Hydro remain a financially strong and viable organization. The Board supports the staged approach to accounting changes planned by Manitoba Hydro.

Source: Manitoba Public Utilities Board Order No. 43/13 dated April 26, 2013 (page 10)

- At the last GRA, MIPUG and CAC recommended that the PUB not accept overhead changes and to remove Net Salvage from depreciation rates in advance of IFRS conversion for rate-setting purposes – in order to justify lower rate increases.
- The PUB rejected this approach in Order 43/13 – noting potential weakening of Manitoba Hydro's financial position and increased borrowing costs.

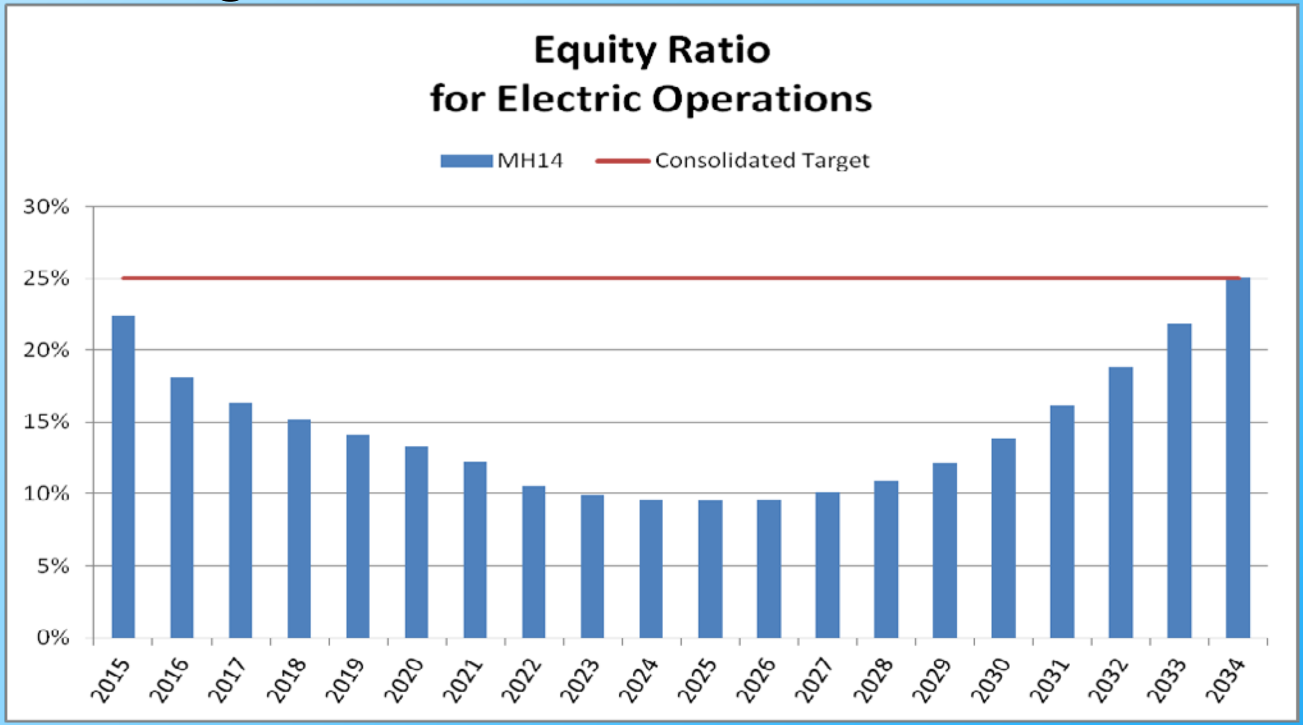
Manitoba Hydro

No Need for "Two Sets of Books" under the Cost of Service (COS) Rate-Setting Methodology

- COS rate-setting methodology used to set electric rates in Manitoba does not determine rates strictly on the basis of costs.
- COS rate-setting methodology together with Manitoba Hydro's approach of regular and reasonable rate increases has flexibility to recognize changes in cost levels into rates gradually over time – rendering a separate set of regulatory financial statements unnecessary.
- One set of books:
  - reduces the potential confusion with different users relying on multiple sets of financial information to make decisions and evaluate financial performance;
  - improves transparency of the rate-setting process by aligning the basis to set rates and the reporting of financial results; and,
  - improves the reliability of the rate-setting process through the use of audited financial information.
- CAMPUT supported a single set of financial statements as best serving the public interest.

Manitoba Hydro

Manitoba Hydro is Projecting Deterioration of its Financial Ratios to Mitigate the Rate Increases to Customers



- Higher rate increases in the order of 5.5% to 6.0% for the next four years would be necessary to reduce the losses that are projected in the next 10 years and maintain financial reserves at current levels.
- The 3.95% proposed and indicative rate increases are the minimum that are necessary to manage the deterioration in projected financial results and ratios in the next 10 years.
- Relaxing the longer term financial targets will not negate the need for the requested rate increases of 3.95%.

Manitoba Hydro

Manitoba Hydro is Seeking Further Direction from the PUB on Rates for 2016/17

- Manitoba Hydro’s view is that the investment requirements of the next decade support a long-term approach to setting revenue requirements.

- Manitoba Hydro has included its forecast for the 2016/17 fiscal year in its Application, and has requested a 3.95% rate increase effective April 1, 2016.

- Consistent with Order 17/15, Manitoba Hydro is seeking direction from the PUB with respect to April 1, 2016 interim rates.

The Proposed Rate Increases are Essential to Provide Customer Value

The revenues from the proposed rate increases are necessary so that Manitoba Hydro can deliver on its mandate by:

- Continuing to deliver a reliable energy supply to Manitobans by funding the necessary investments to respond to the need for system growth and asset replacement;
- Funding Power Smart programs to assist customers in meeting their energy needs in a cost effective manner;
- Continuing to provide rates that are affordable for Manitoba families and that support the competitiveness of Manitoba business; and,
- Ensuring rate stability and predictability for customers by maintaining its financial strength.

Manitoba Hydro

Thank you