Manitoba Hydro
2015 General Rate Application

FINANCE PANEL

Darren Rainkie – Vice-President, Finance & Regulatory

Liz Carriere - Manager, Financial Planning

Sandy Bauerlein - Corporate Controller

Manny Schulz - Corporate Treasurer

Ian Page - Division Manager, Corporate Planning & Strategic Review

Finance Panel Presentation Summary

- Integrated Financial Forecast – MH14 (L. Carriere)
- Capital Financing & Finance Expense (M. Schulz)
- Debt Management Strategy (M. Schulz)
- Financial Markets & Credit Ratings (M. Schulz)
- Economic Outlook (I. Page)
- Interest Rate Forecast Methodology (I. Page)
- OM&A Cost Containment Efforts (S. Bauerlein)
- Accounting Policy & Estimate Changes (S. Bauerlein)
- WPLP Agreement Changes (L. Carriere)
- Sensitivity to Risks (L. Carriere)
- Alternate Rate Scenarios (L. Carriere)
- Summary Observations (L. Carriere)

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Integrated Financial Forecast – MH14

Liz Carriere – Manager, Financial Planning

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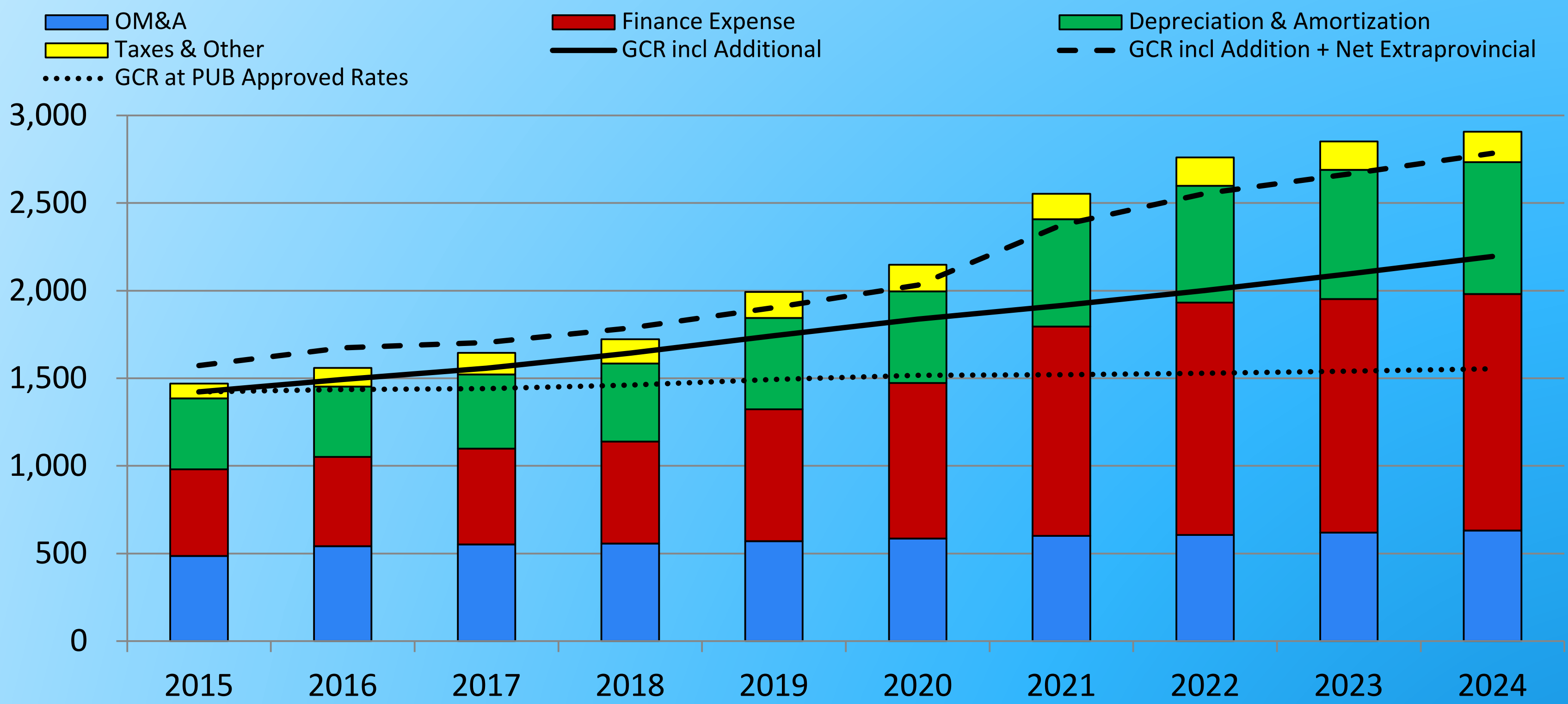
Carrying Costs and OM&A Compared to Revenues MH14



- Carrying costs from capital investments double in next 10 years
- OM&A does not drive revenue requirement
- Revenue from domestic and export sales not sufficient to cover increased carrying costs

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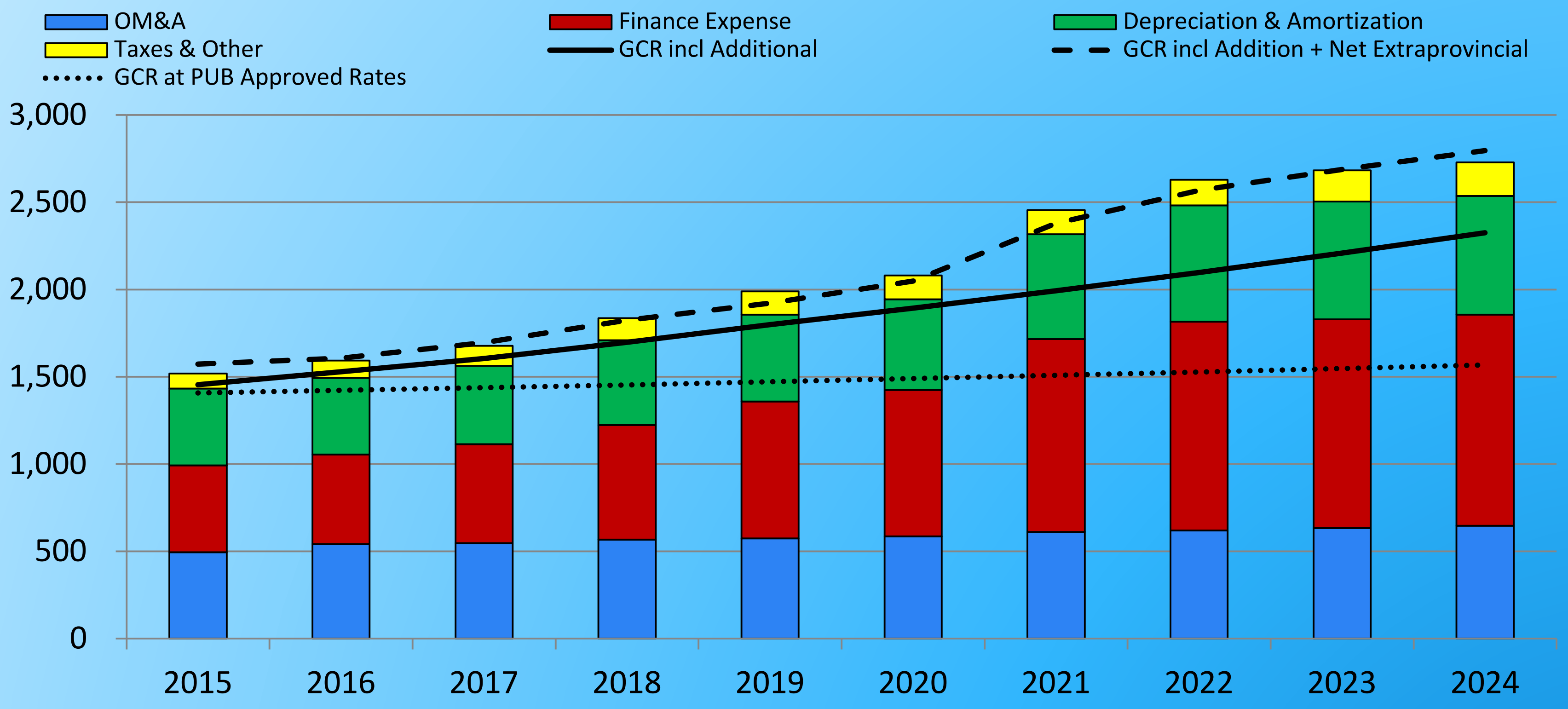
Carrying Costs and OM&A Compared to Revenues MH13



- Caption for MH13 has not changed – carrying costs nearly double but MH14 is slightly higher over 10 years
- OM&A is not driving revenue requirements – MH14 is slightly lower
- MH14 GCR incl Additional is slightly lower compared to MH13 but total revenue is approximately the same

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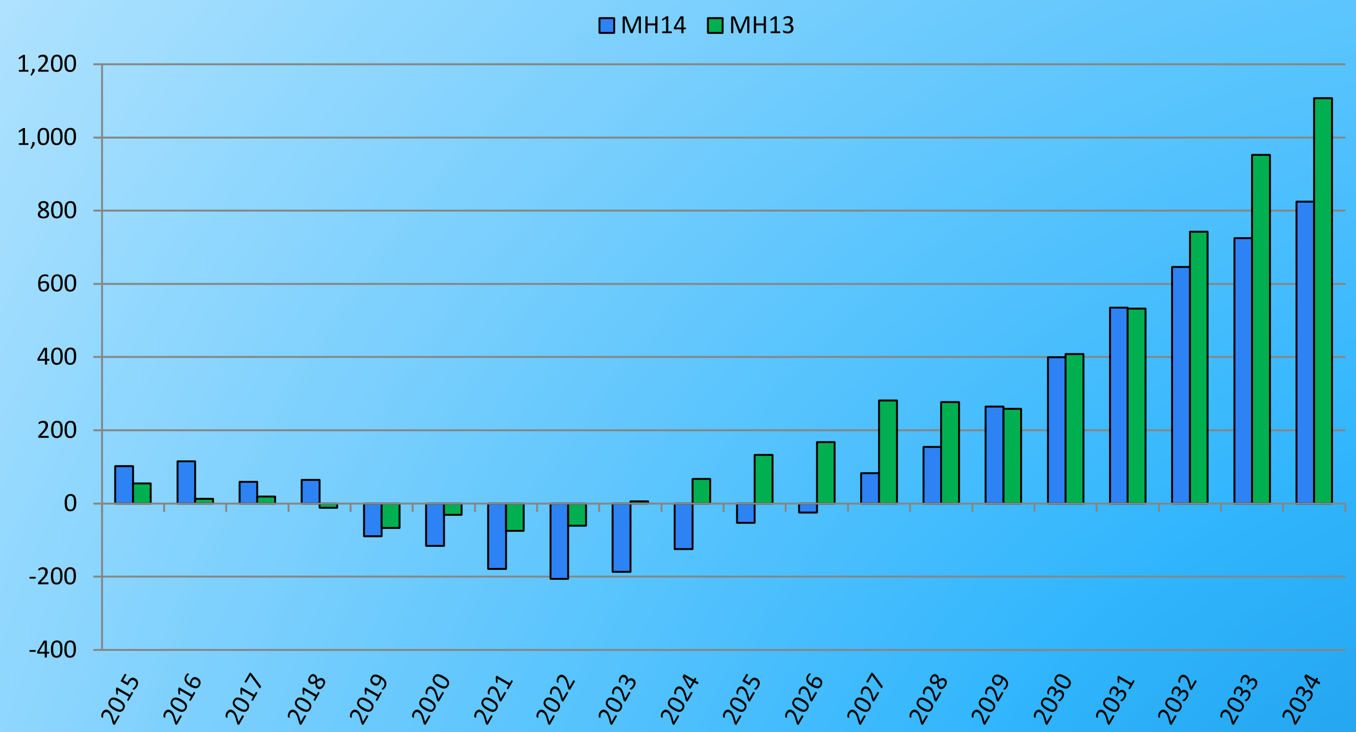
Net Income – Electric Operations (MH14)



- Includes proposed and indicative 3.95% annual rate increases to 3031
- Higher net income 2015-2018 due to favourable water flows and lower interest and depreciation rates
- Reasonable, regular rate increases necessary even in years of favourable water flows and earnings
- Greater losses and lower income 2019-2024 due to higher capital costs
- Income improves with Keeyask revenue and domestic rate increases

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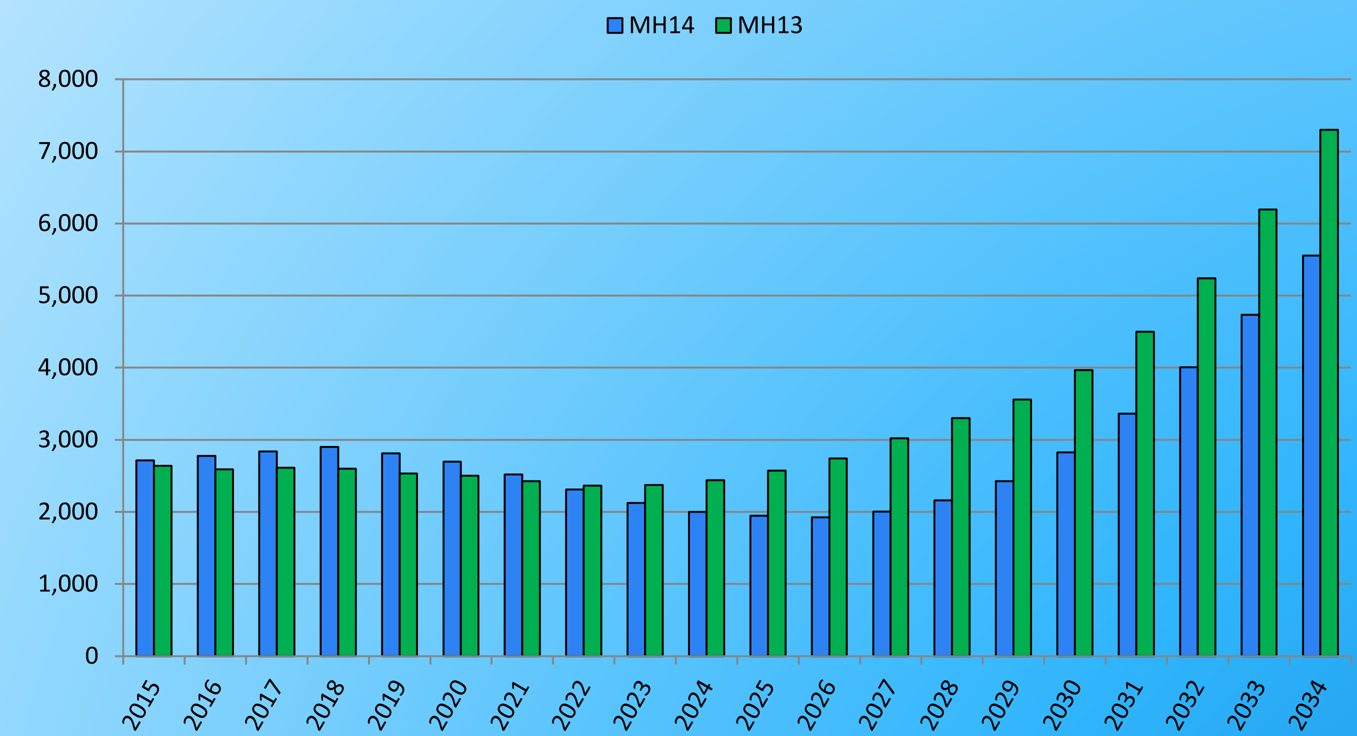
Retained Earnings– Electric Operations (MH14)



- Currently at $2.7B and deteriorates to $2B by 2024
- Just sufficient to absorb $1.7B financial impacts of 5 year drought
- Other risks have financial impacts – interest rates, export prices, etc. – and may occur at same time as low water flows
- Rate increases lower than 3.95% increase risk of higher rate increases in future

Manitoba Hydro's Financial Strength is Measured by its Key Financial Targets

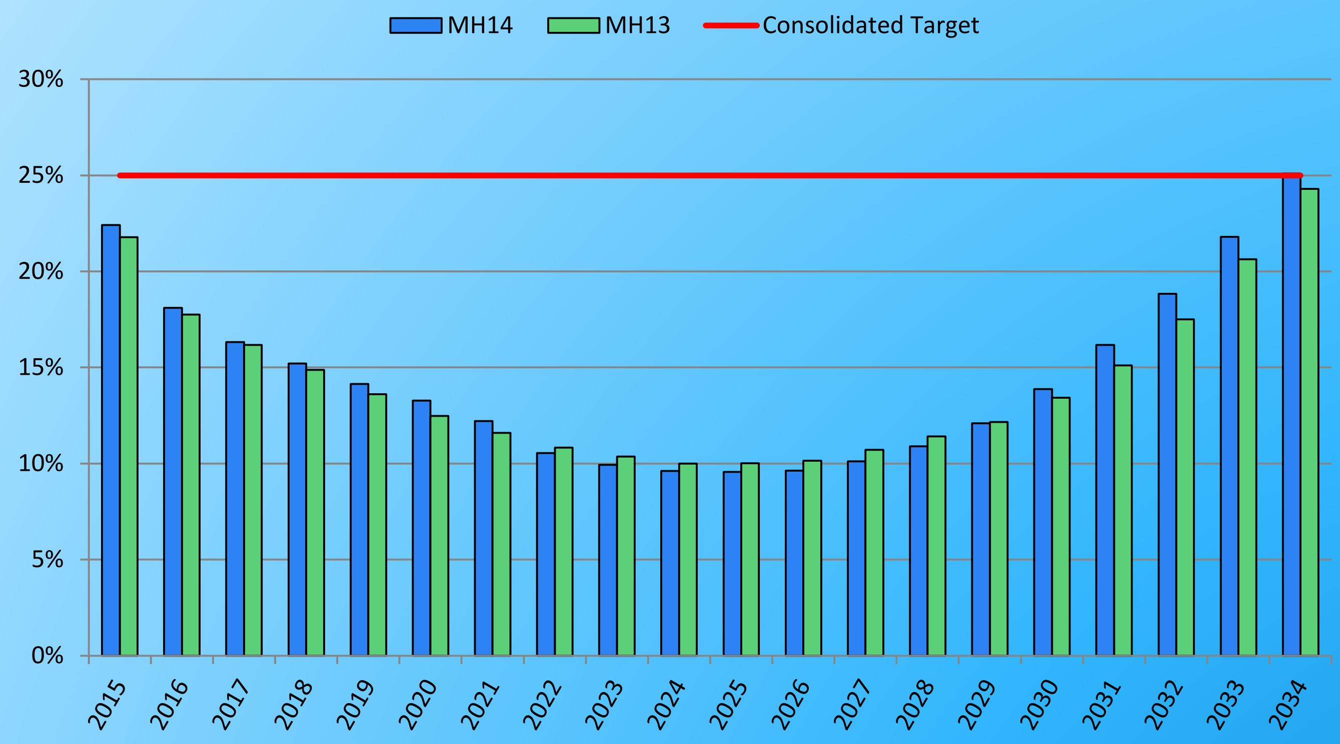
- Balance Sheet:
  - Maintain a minimum **debt/equity ratio** of **75:25**
- Operating Statement:
  - Maintain a minimum annual **gross interest coverage ratio** of **1.20**.
- Cash Flow Statement:
  - Maintain a **capital coverage ratio** of greater than **1.20** (excepting major new generation & transmission)
- It is recognized that Manitoba Hydro may not maintain these financial targets during the period of significant investment in major new generation & transmission
- These targets remain Manitoba Hydro's long-term financial objectives

Manitoba Hydro

Manitoba Hydro's Financial Strength is Measured by its Key Financial Targets

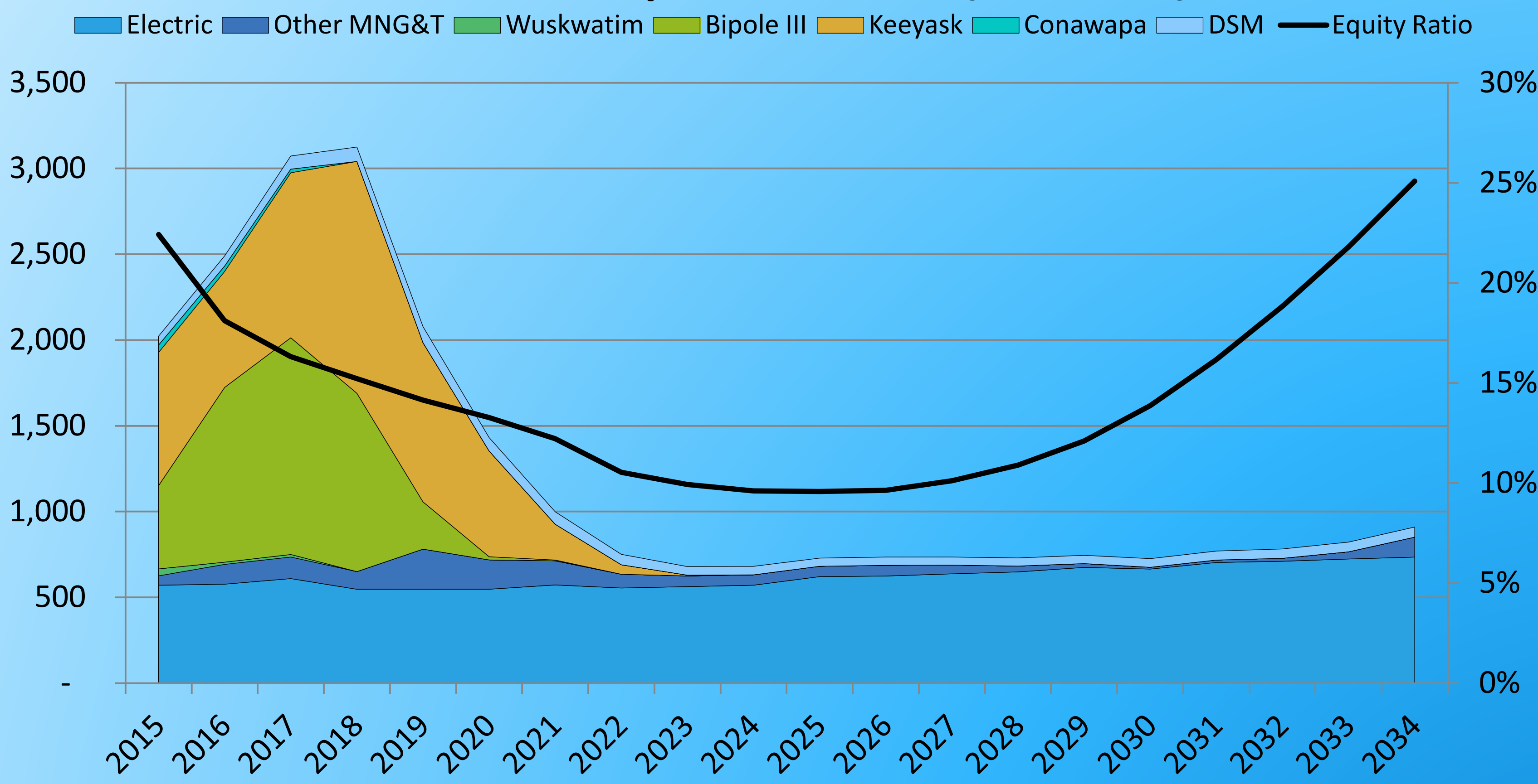
- Debt/Equity Ratio:
  - Measures the portion of assets paid for by debt versus earnings
  - Retained earnings ≠ cash in bank
  - Retained earnings = ability of assets to generate revenues in excess of costs
  - Lower leverage = debt available to borrow in times of liquidity constraints
- Interest Coverage Ratio:
  - The ability of net income or cash flow to pay for debt obligations
  - An indicator of whether debt and resulting financing charges are manageable
- Capital Coverage Ratio:
  - Measures the sustaining capital expenditures paid for with cash flow from operations
  - Effective in maintaining debt and resulting financing charges at manageable levels

Equity Ratio– Electric Operations (MH14)



- Current equity ratio of 22% deteriorates to 10% by 2023 and then gradually improves after 2026 with decreasing net debt and increasing retained earnings
- 10% equity ratio is well below 25% target and is the minimum ratio acceptable to MH to maintain self-supporting status
- Equity ratio lower compared to MH13 to 2028 due to higher capital costs then higher due to Conawapa suspension

Capital Expenditures & Equity Ratio – Electric Operations (MH14)



- Equity ratio declines to 10% by 23 as MH invests $17B in MNG&T and existing infrastructure
- Equity ratio shows gradual improvement with Keeyask revenues and 3.95% rate increases

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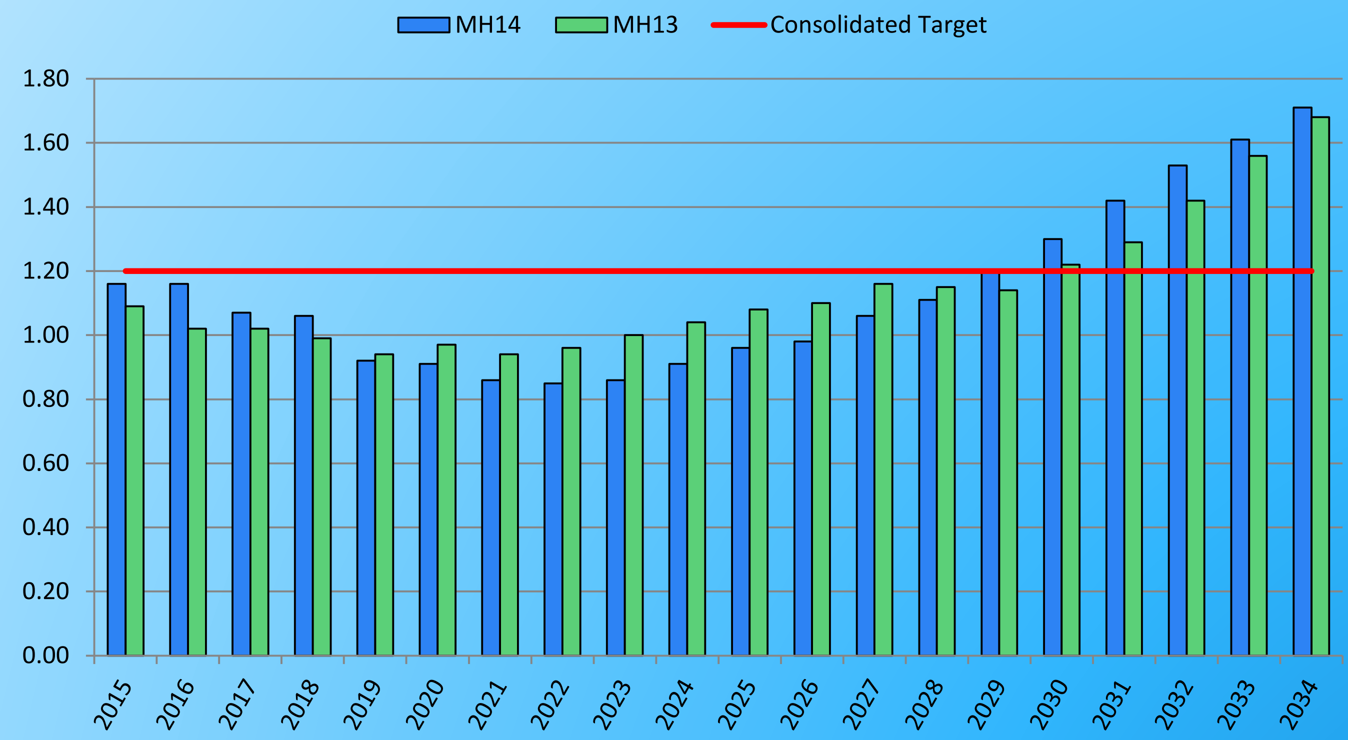
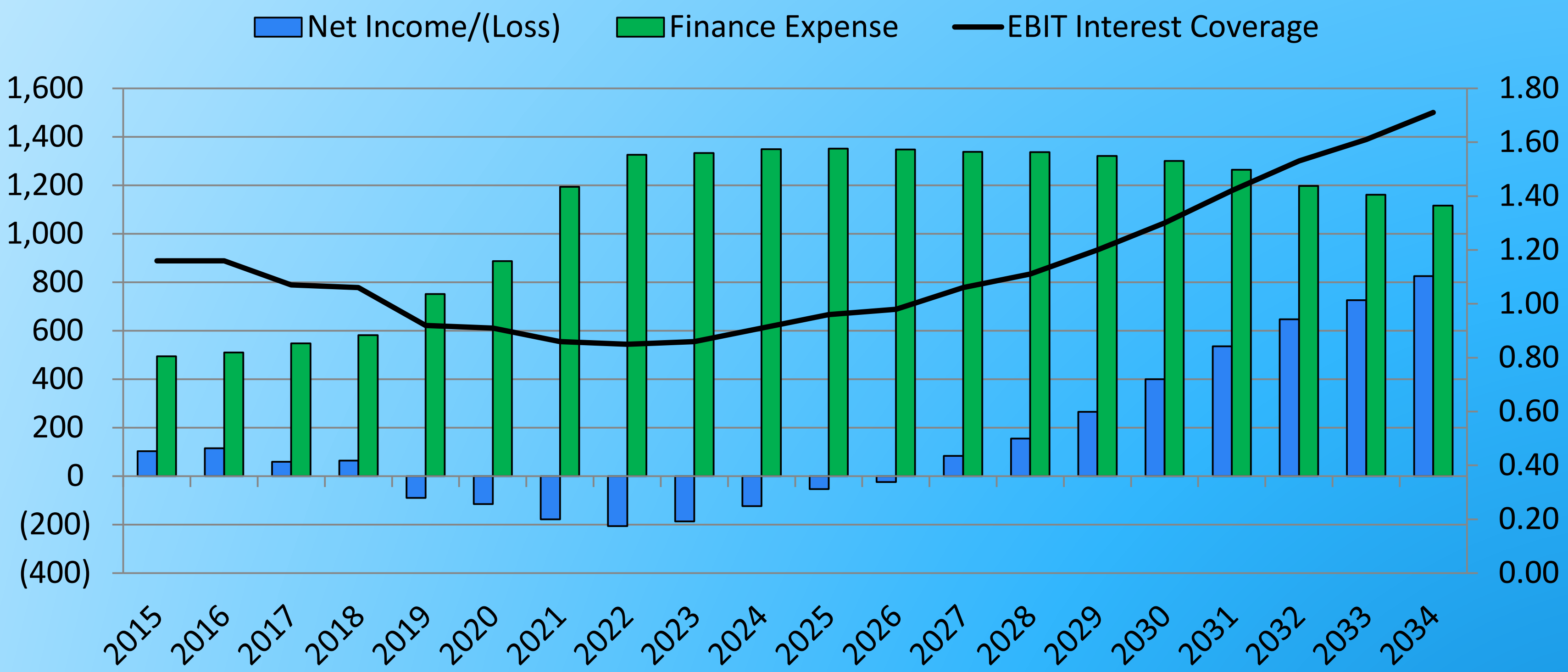
Interest Coverage Ratio – Electric Operations (MH14)



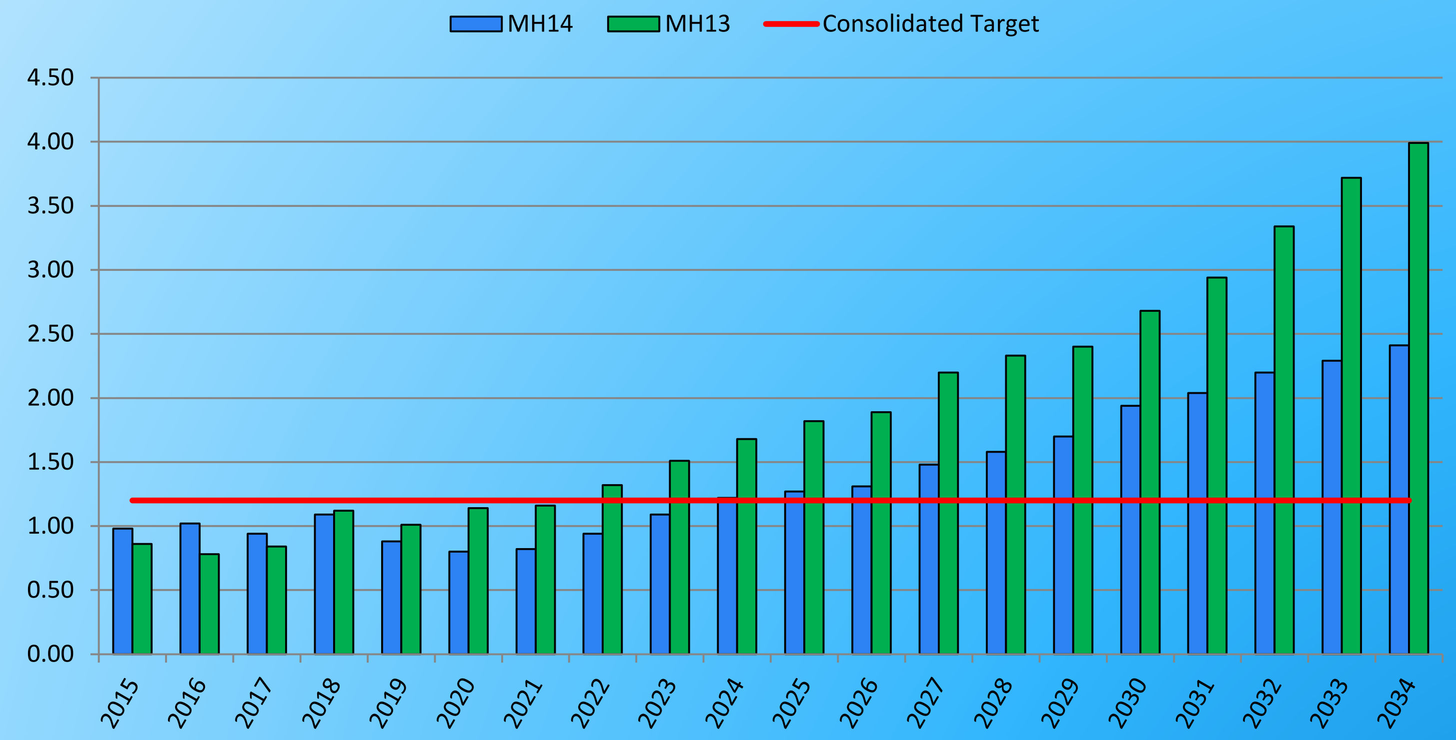
- Interest coverage ratio below target 1.20 for 14 years and below 1.00 for 9 years
- Declines to 0.85 by 2022 before showing gradual improvement with Keeyask revenues and domestic rate increases
- Lower than MH13 to 2028 due to higher capital costs then higher due to Conawapa suspension

Interest Coverage Ratio – Electric Operations (MH14)



- Interest coverage deteriorates as net income turns to losses and financing charges more than doubles from $0.6B to $1.3B
- Interest coverage gradually improves with improved net income
- Financing charges gradually decrease as cash flow improves with additional revenue

Capital Coverage Ratio – Electric Operations (MH14)



- Capital coverage ratio is below target 1.20 for 9 years and below 1.00 for 6 years
- A capital coverage ratio below 1.00 indicates that IGF are insufficient to fund sustaining capital expenditures and are augmented by borrowed funds
- Capital coverage ratio is lower compared to MH13 in most years due to higher capital cost

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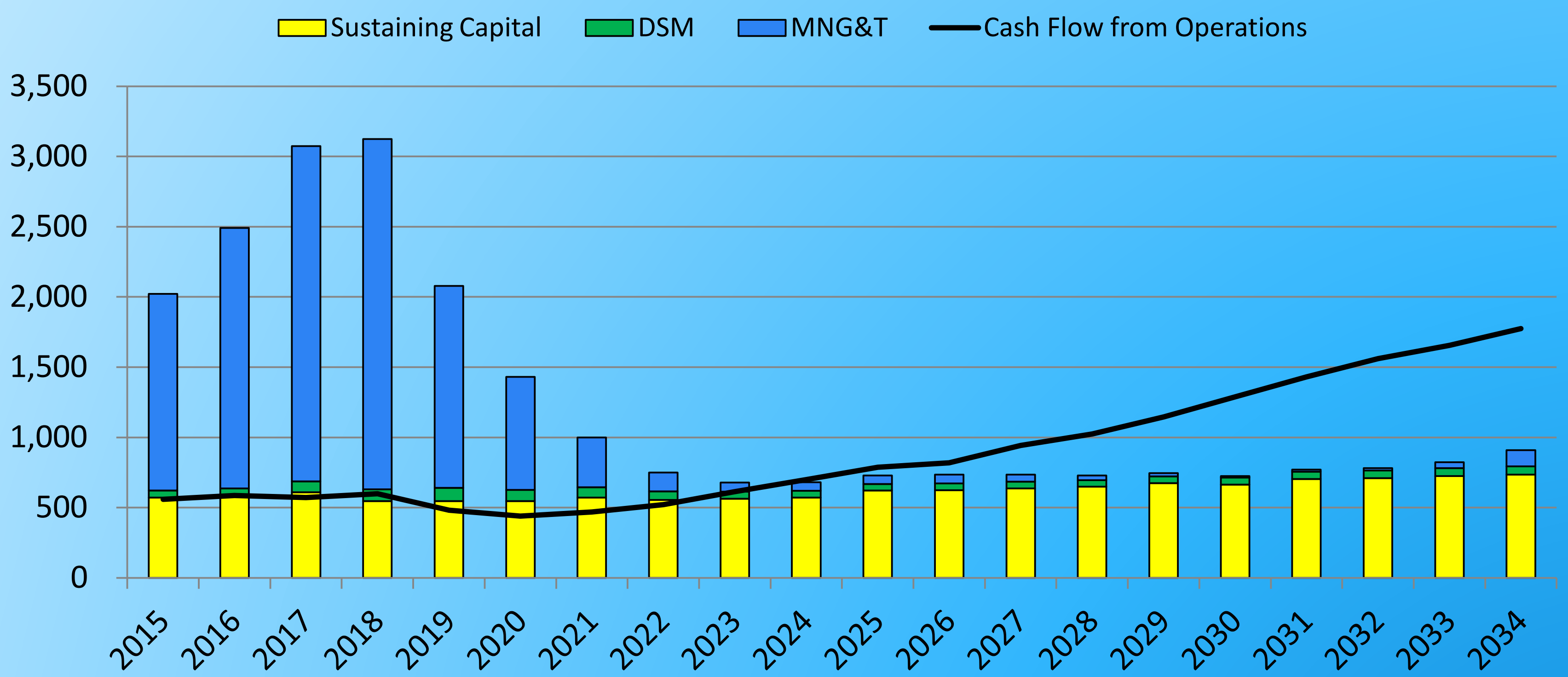
Electricity Capital Expenditures & Cash Flow from Operations

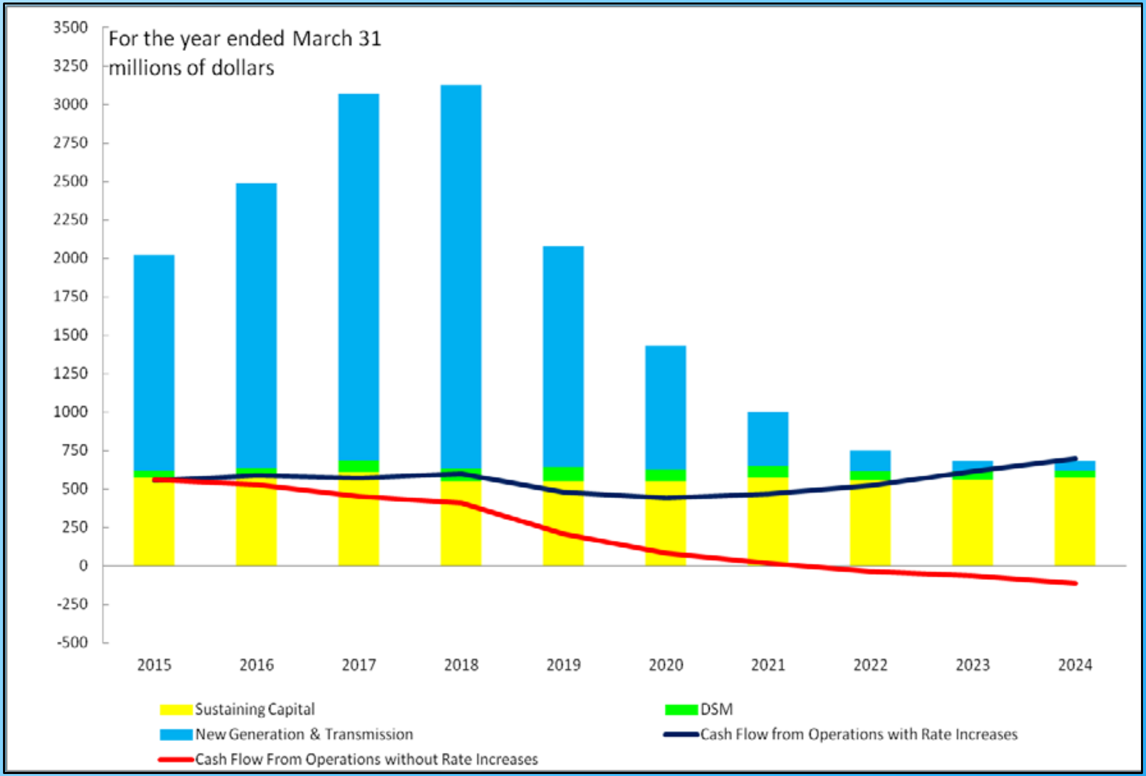


Capital Financing & Finance Expense, Debt Management Strategy, and Financial Markets & Credit Ratings

Manny Schulz – Corporate Treasurer

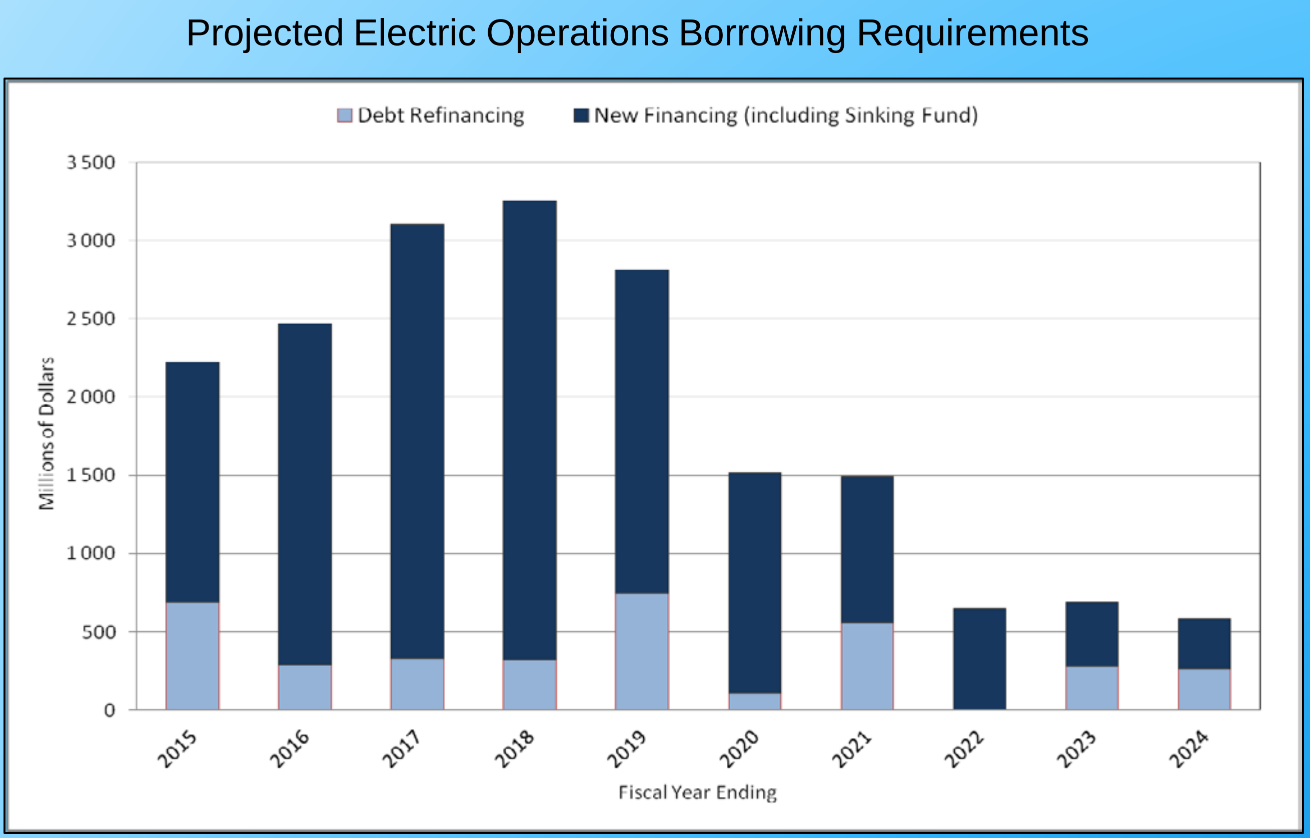
Construction Requires Cash

Electricity Capital Expenditures & Cash Flow from Operations



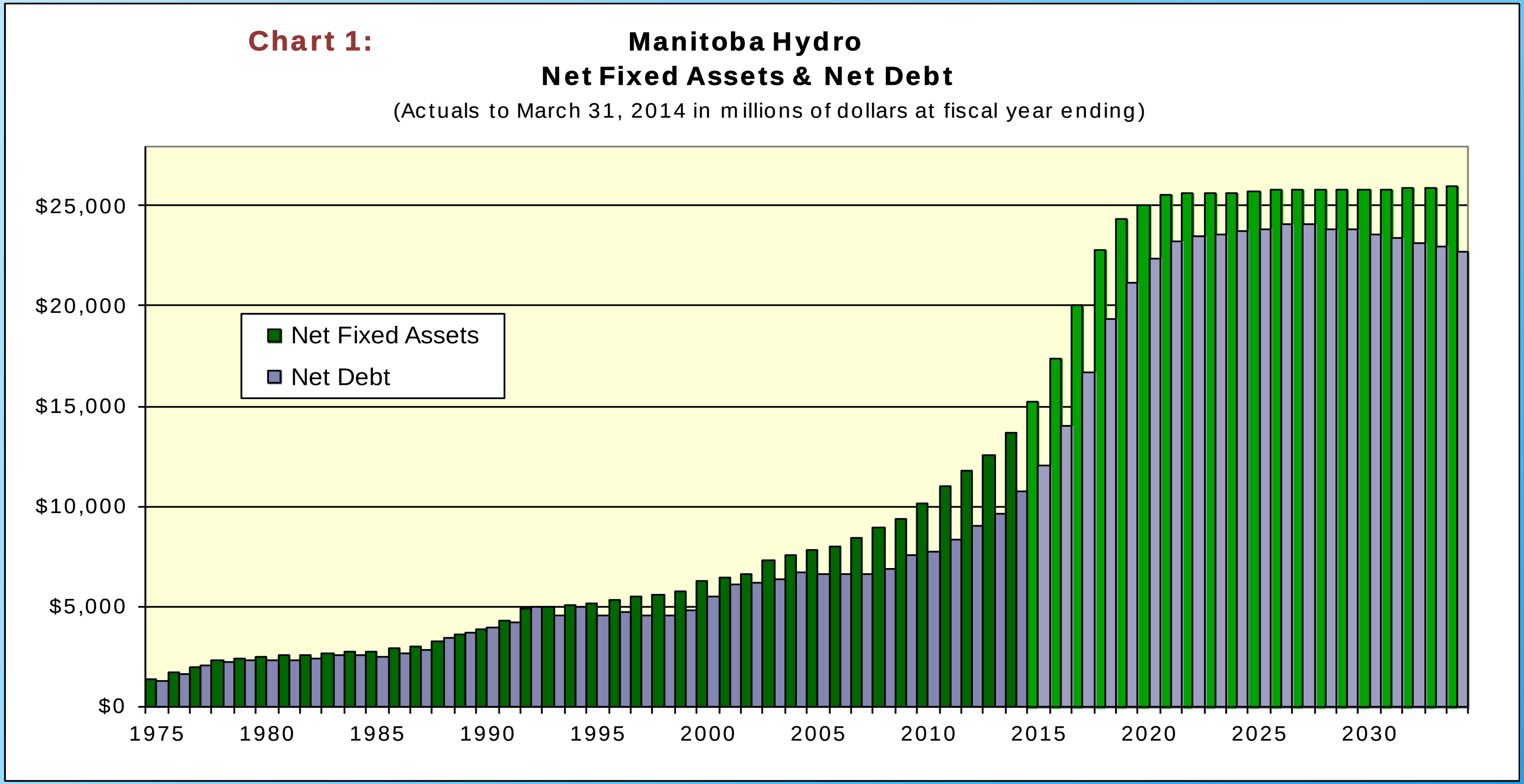
- **Cash Flow from Operations** provides a valuable partial source of funding for Manitoba Hydro's investing activities. The balance of the capital investments will be funded through **new debt financing**.
- Without the proposed and indicative 3.95% rate increases, Manitoba Hydro would need to secure additional debt financing and the incremental interest costs would need to be borne by customers through rates.

Investment Requirements will Lead to Unprecedented Levels of Debt Financing



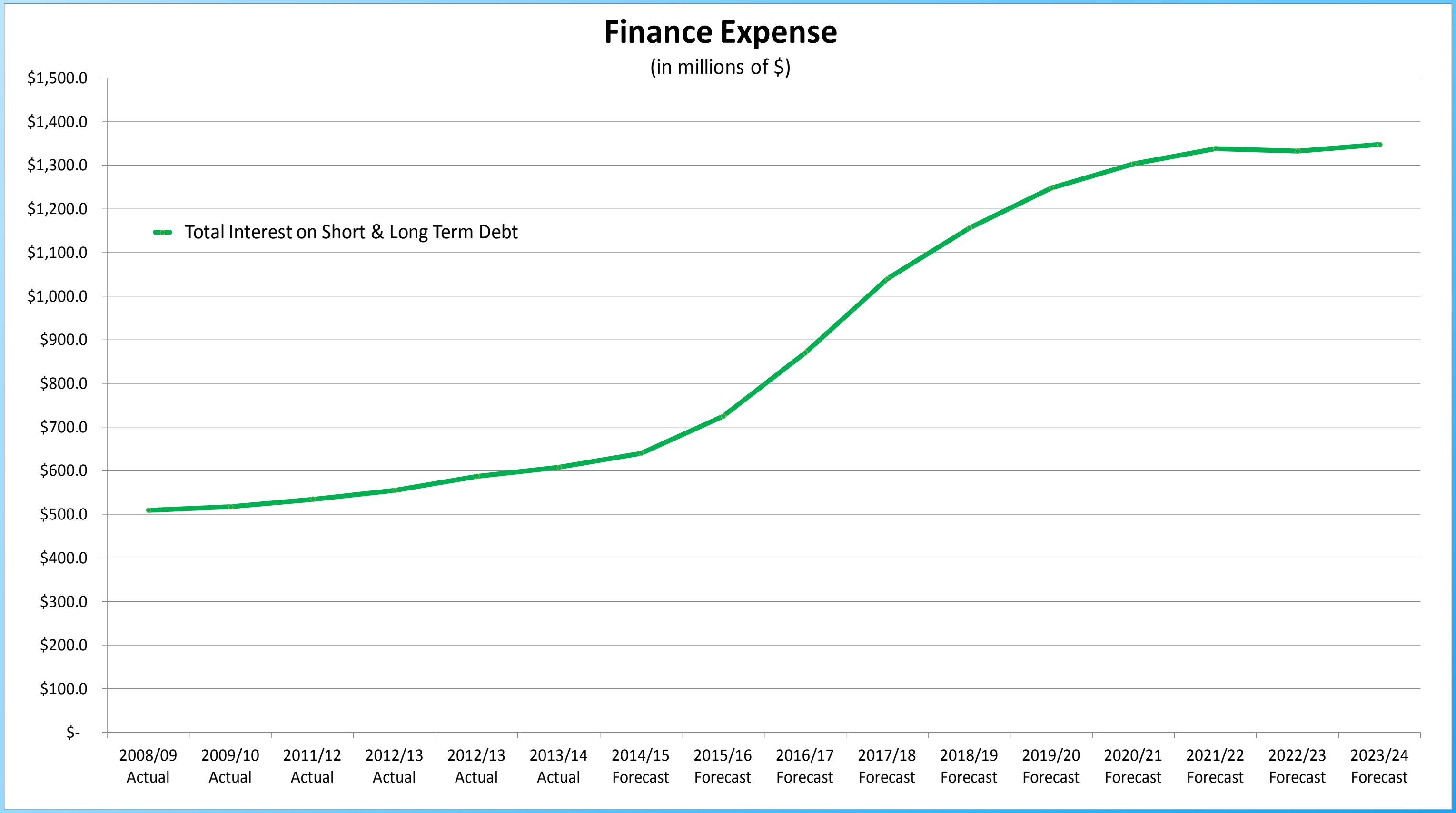
- Including debt refinancing requirements for existing debt, total debt requirements will **peak at levels in excess of $3 billion per year** – which are unprecedented levels in Manitoba Hydro history.

Net Fixed Assets Exceed Net Debt



- **Debt financing has been beneficial for Manitoba Hydro ratepayers** as the assets which provide safe, reliable and economic service have been substantially funded by debt financing.
- Moving forward, both the level of net fixed assets and net debt are forecasted to grow until the 2020s before the **projected level of net debt begins to decline after 2025**.

Capital Investments Drive Interest Expense



- The first category of finance expense is the **Total Interest on Short & Long Term Debt** and is primarily the gross interest **paid** on debt, as well as the PGF.
- The actual and forecasted level of Total Interest on Short & Long Term Debt (green line) generally **follows the growth in the size** of the total debt portfolio financing the expansion of the Corporation's net capital assets.

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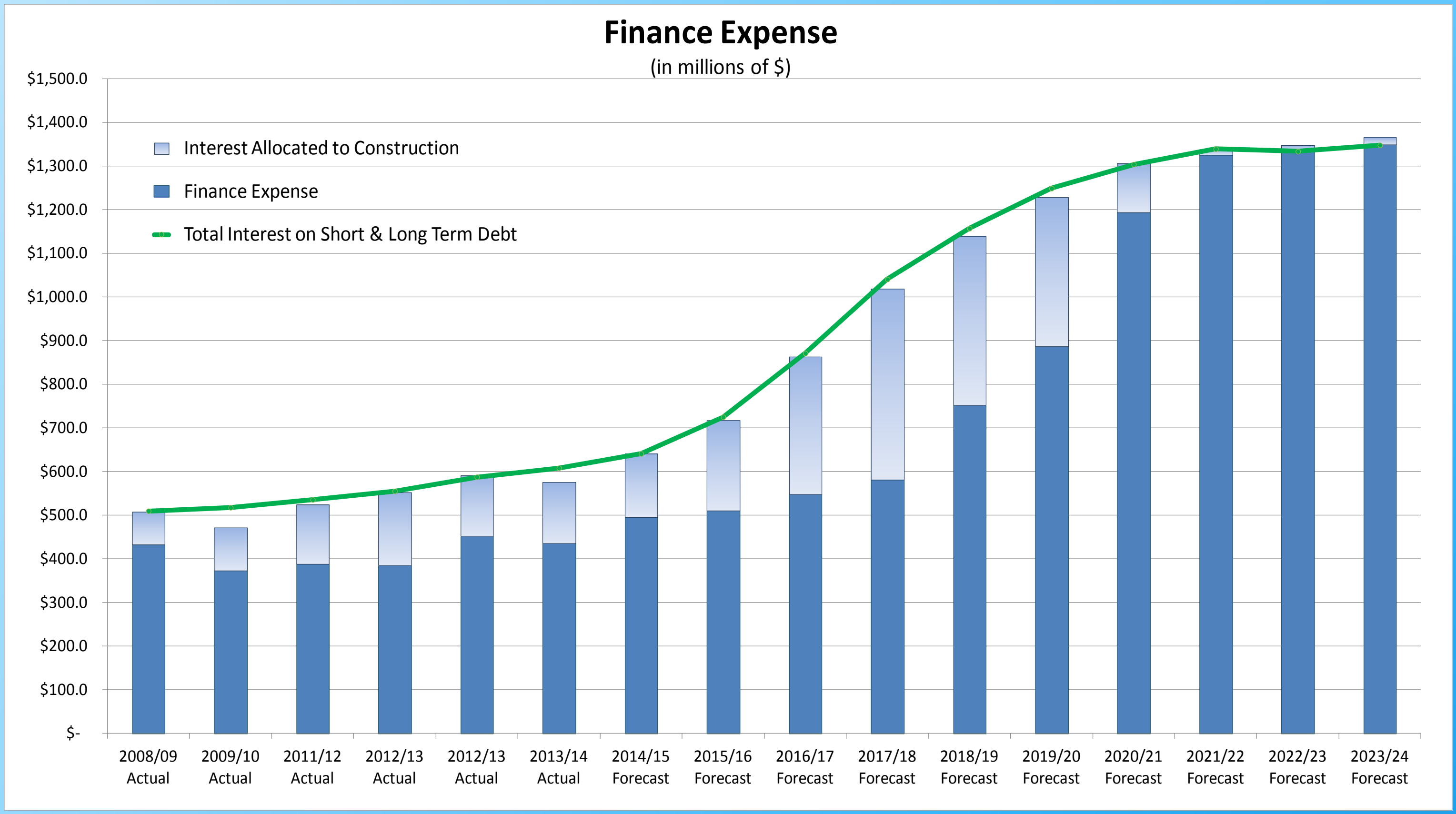
Total Interest Reduced by Capitalized Interest



- The **Interest Allocated to Construction** (lightly shaded blue bars) is the primary factor that reduces the levels of **Total Interest on Short & Long Term Debt** (green line) to arrive at net **Finance Expense** (dark blue bars) on the financial statements.
- During periods of intensive capital construction, the net Finance Expense, and hence revenue requirement, is **temporarily shielded from the full weight** of the gross finance expense by the Interest Allocated to Construction.

Debt Management Strategy

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

- The **low interest rate environment** over the past few years has provided the opportunity for Manitoba Hydro to secure stable, low cost funding.
- In order to mitigate refinancing 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 favour long term fixed rate financings with maturities of 10 years and longer**.

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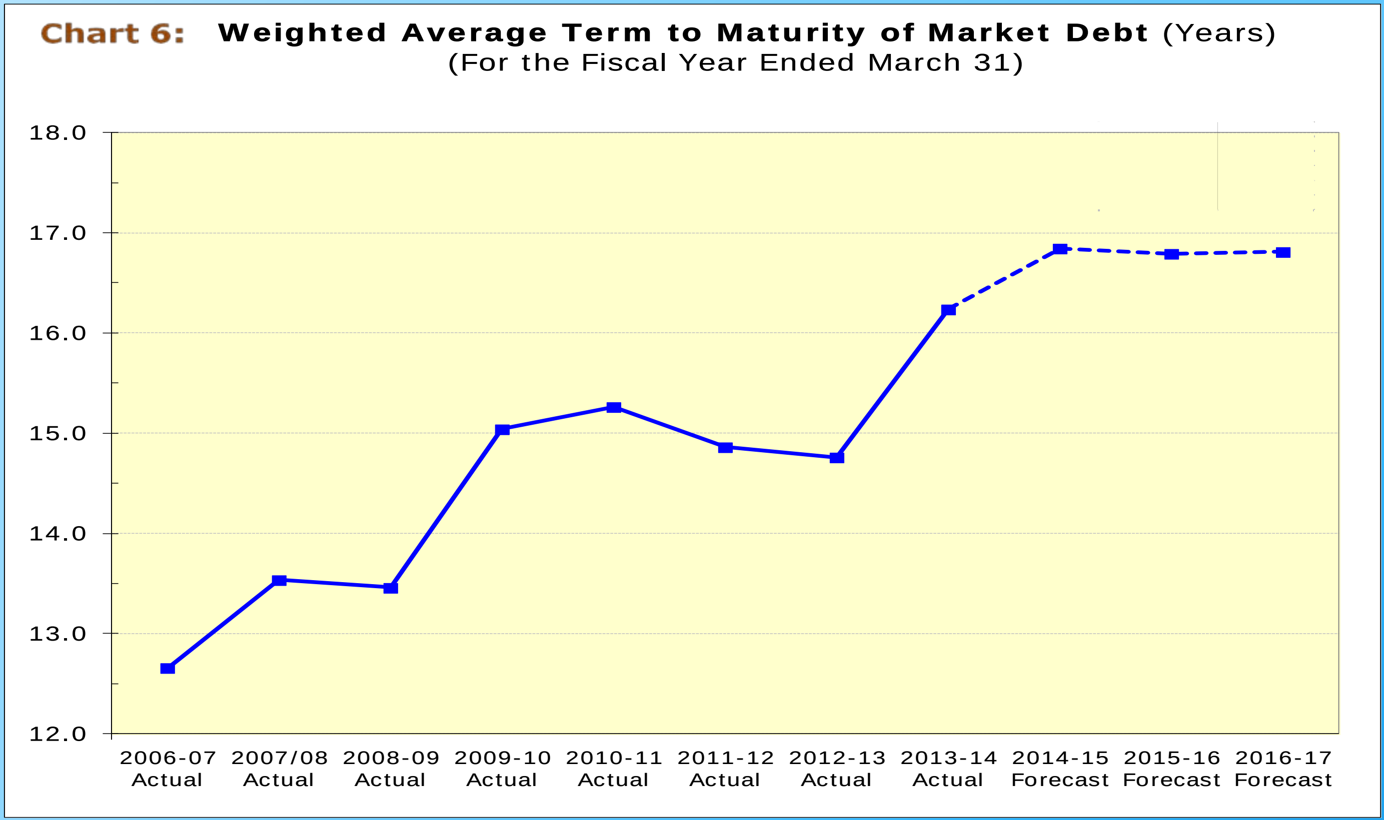
Stability:
Extending Weighted Average Term to Maturity



- Since 2006/07, to enhance the debt portfolio stability, the weighted average term to maturity of its market debt portfolio has **increased by over 3 years**.
- For Manitoba Hydro's new long term debt issuance in 2013/14, the term to maturity ranged from 3 – 50 years, with a weighted average term to maturity of 28 years (**2014/15: 10 – 48 years, with a weighted average of 28 years**).

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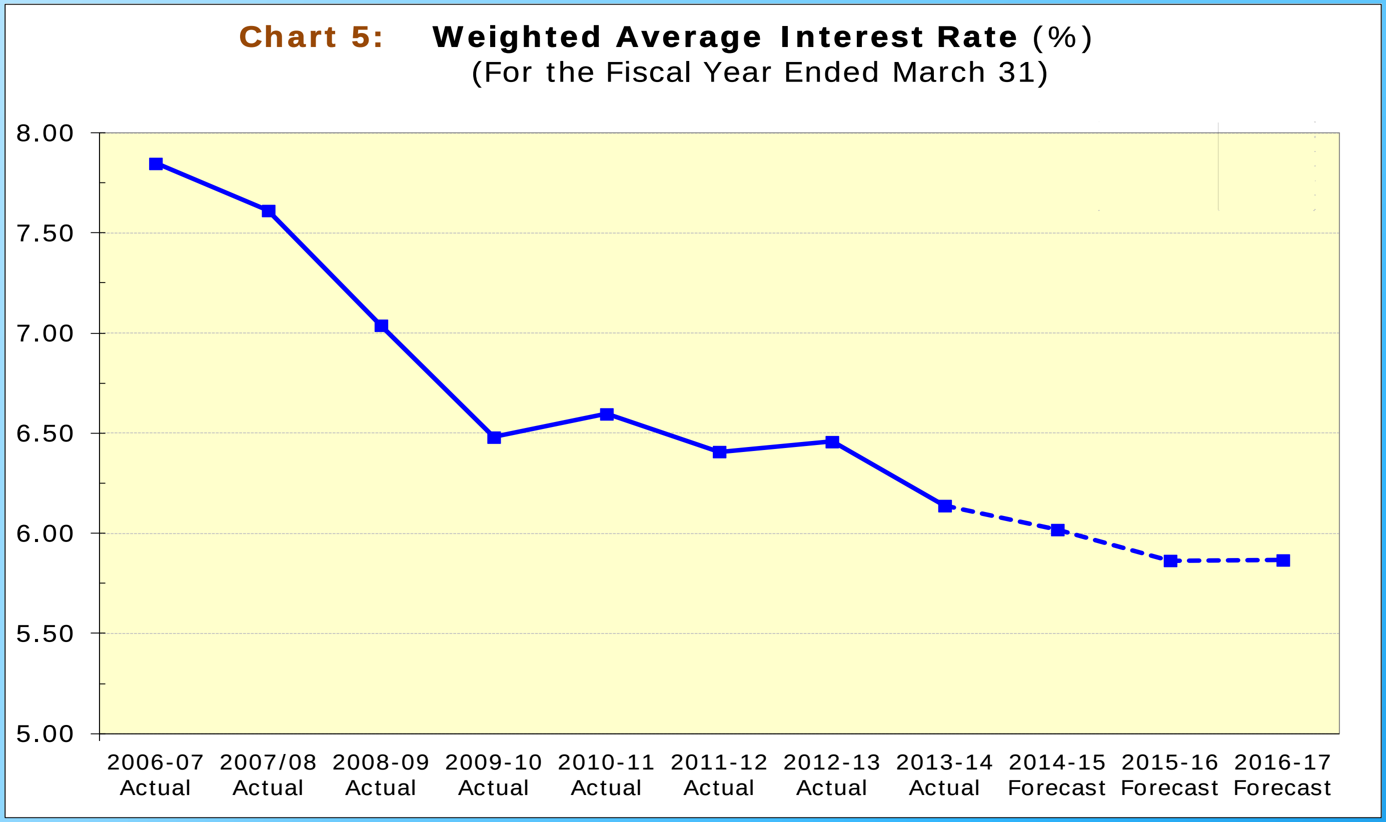
Low Cost:
Reducing Weighted Average Interest Rate



- Since 2006/07, the debt portfolio's net weighted average interest rate has **decreased by nearly 2.0%**.
- **Fixing these low interest rates for extended terms to maturity is beneficial to ratepayers** as it avoids the interest rate reset risk associated with floating rate debt and reduces the number of times the debt stream is exposed to higher refinancing rates.

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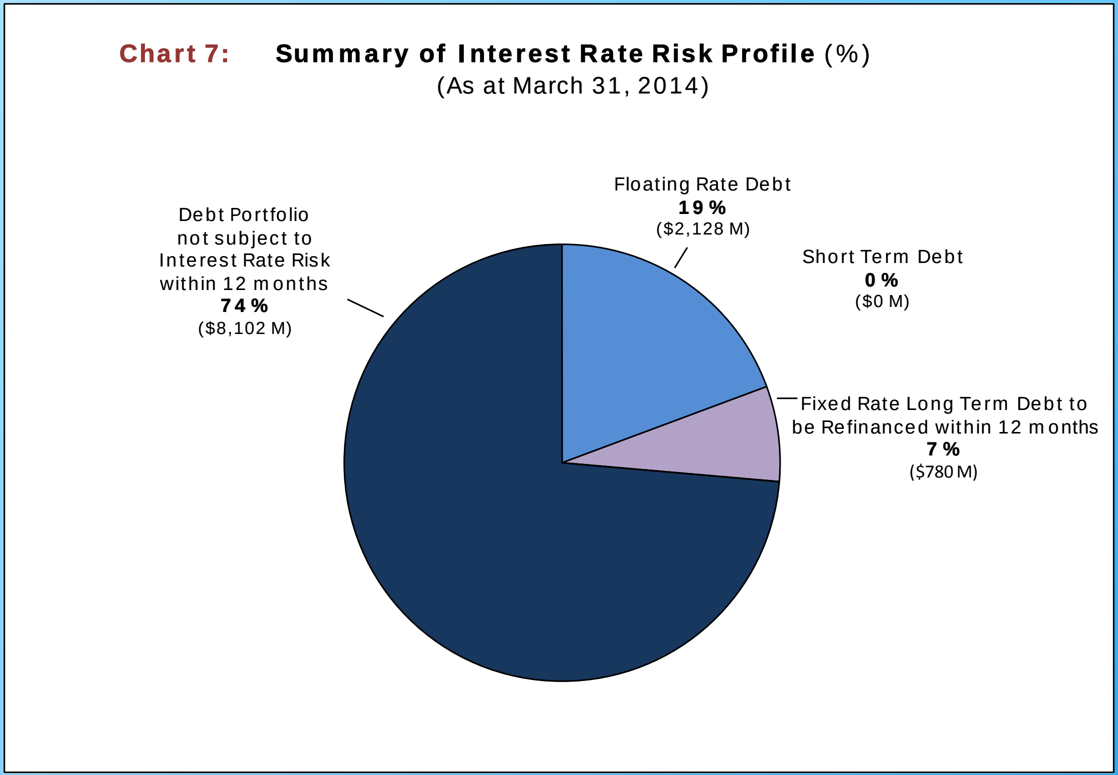
Reducing Interest Rate Exposure on Existing Debt Portfolio



- In 2014, Manitoba Hydro adopted **new interest rate risk policy and guidelines** (as described in the Debt Management Strategy in Appendix 3.7).
- During years in which there are high levels of refinancings and/or new borrowings for prospective cash requirements, in order to manage the overall interest rate risk profile, the Corporation's interest rate risk on its existing debt portfolio will be reduced by **decreasing the % of floating rate debt** + short term debt to below 15% of the total debt portfolio. Preliminary % at March 31, 2015 is ~15% .

Manitoba Hydro’s Ratepayers Benefit from Manitoba’s High Credit Rating

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’s flow-through credit rating to Manitoba Hydro benefits Manitoba Hydro customers by **reducing the cost of borrowing** that customers pay in rates and provides excellent **access to financing** to fund required capital investments.
- On behalf of ratepayers, Manitoba Hydro recently set a **new record for the lowest fixed rate long bond debt issue in the Corporation’s history** (on April 16, 2015 Manitoba Hydro secured a $300 million fixed rate debt issue with a September 2046 maturity and an all-in yield of 2.898%). Indicative long bond rates are now higher.
- Also able to secure **ultra long fixed rate financing** (for example, in 2014 /15 Manitoba Hydro secured $175 million with a 2052 maturity, $75 million with a 2054 maturity, and $50 million with a 2063 maturity).

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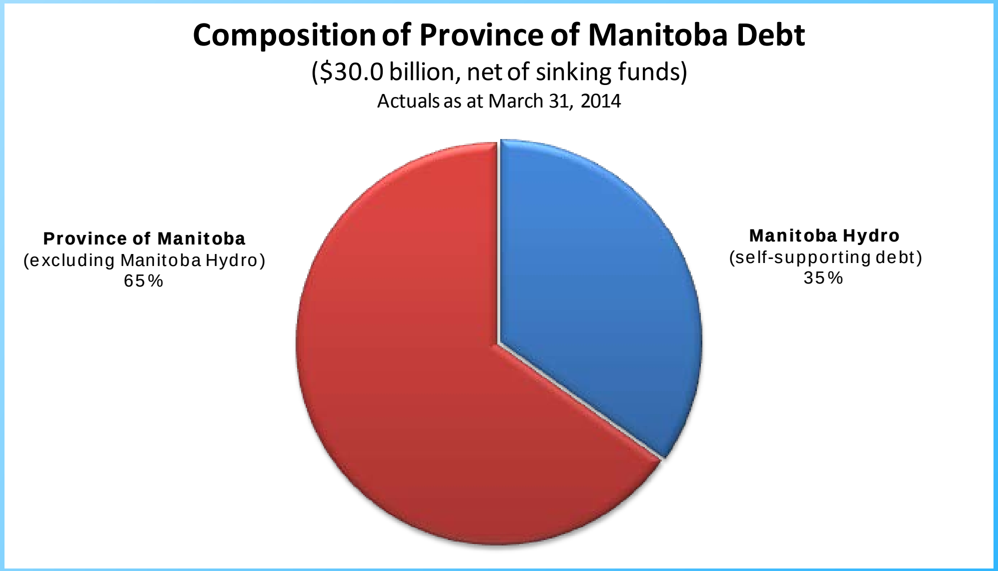
Manitoba Hydro's Contingent Liability is Low, and it is Necessary that the Risk Remain Low



- When assessing the Province's ratio of tax-supported provincial debt as a % of provincial GDP, the credit rating agencies exclude Manitoba Hydro's debt levels from the evaluation of the total provincial debt portfolio.
- **To the extent that Manitoba Hydro maintains its self-supporting status**, the contingent liability represented by Manitoba Hydro's debt to the Province of Manitoba is low, and Manitoba Hydro's capital investment plans and capital structure should have no significant impact on the Province of Manitoba's credit rating.
- Manitoba Hydro's ability to generate sufficient cash flows to meet its financial obligations is critical. **Liquidity and access to capital will be essential for business continuity**.

View from the Credit Rating Agencies

Inherent risks related to increasing debt at self-supporting entity Manitoba Hydro

The province issues debt on behalf of its wholly-owned utility company Manitoba Hydro, which we view as a self-supporting entity and therefore, exclude the related net debt from the Province of Manitoba's debt metrics. Manitoba Hydro's total reported debt net of sinking funds was around C$11.0 billion at March 31, 2014. The anticipated increase in debt at Manitoba Hydro could increase the contingent liability for the province of Manitoba in the next few years.

In anticipation of demand increases by 2022-23, and in order to boost electricity exports, Manitoba Hydro is currently executing major generation and transmission projects. Manitoba's financial metrics will be strained by the associated capital expenditures and debt needs in the coming years. In 2014-15, C$1.5 billion of C$2.4 billion in new debt that Manitoba seeks to issue will be for Manitoba Hydro. In addition, the management of these lengthy and complex construction projects will require additional attention from management. We will monitor the increase in Manitoba Hydro's debt ratios and the progress of construction of these projects.

We note positively, that Manitoba Hydro has flexibility to increase utility rates given fairly low rates compared to other provinces and that it has already negotiated future long-term export contracts with customers in the US. Please see the Credit Opinion for Manitoba Hydro for further details.

[From the **Moody's** Investors Service credit rating report on the Province of Manitoba dated October 17, 2014; page 3 (highlighting added). For the full report, see Appendix 3.8.]

Manitoba Hydro

Economic Outlook
Interest Rate Forecast Methodology

Ian Page, Division Manager, Corporate Planning & Strategic Review

Economic & Financial Key Indicators

- 90 Day T-Bill Rate
- 10 yr+ Long Bond Rate
- CAD/USD Exchange Rate
- Canadian and Manitoba CPI
- Canadian and Manitoba Real GDP
- Disposable Income in Manitoba
- Manitoba Population

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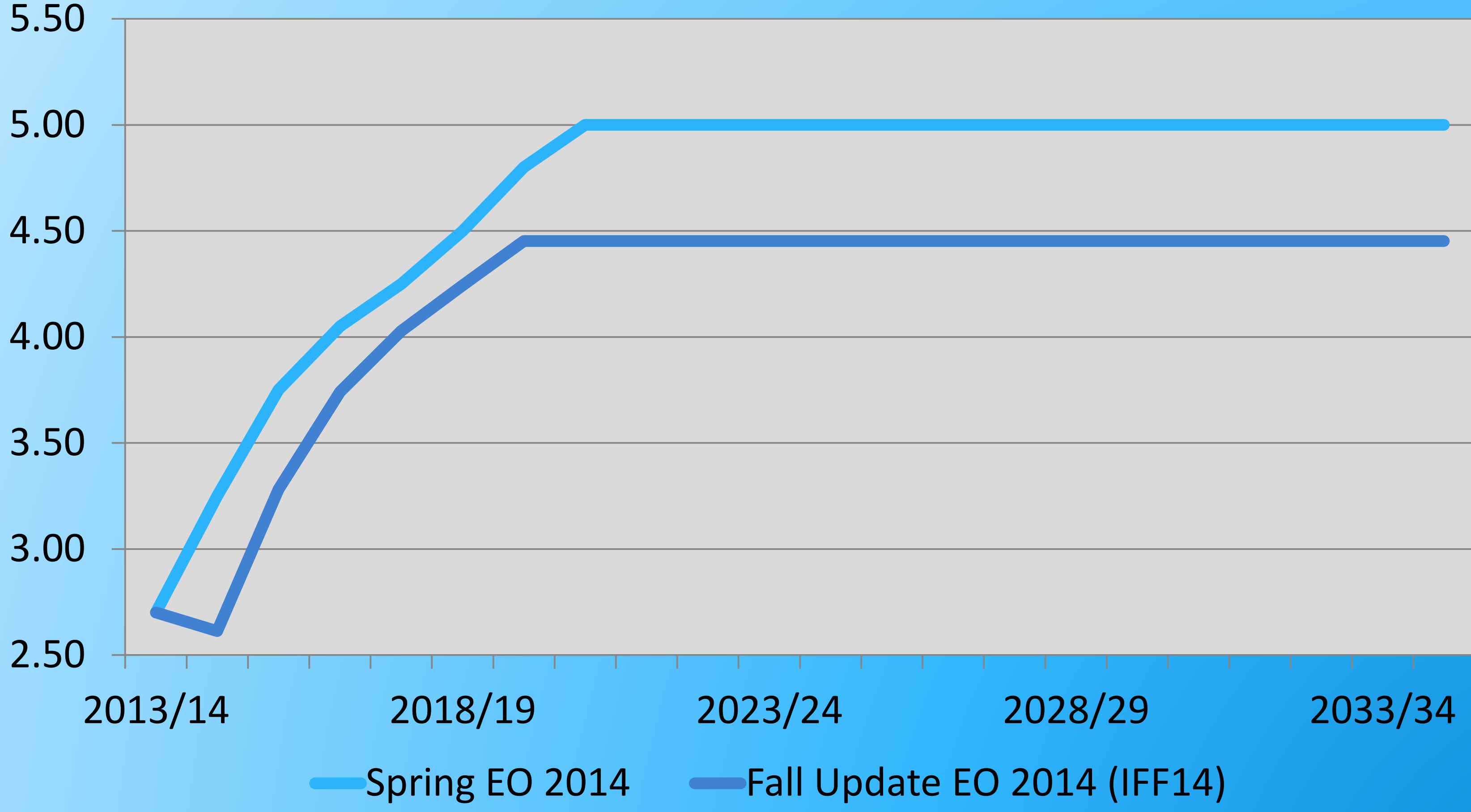
Consensus Forecast

Financial Institutions	Private Sector Sources
BMO Capital Markets	IHS Global
CIBC World Markets	Conference Board of Canada
National Bank of Canada	Spatial Economics
Royal Bank of Canada	
Scotiabank	
TD Economics	
Desjardins Bank	
Laurentian Bank of Canada	

Canada 10 Yr+ Bond Rate Forecast, %



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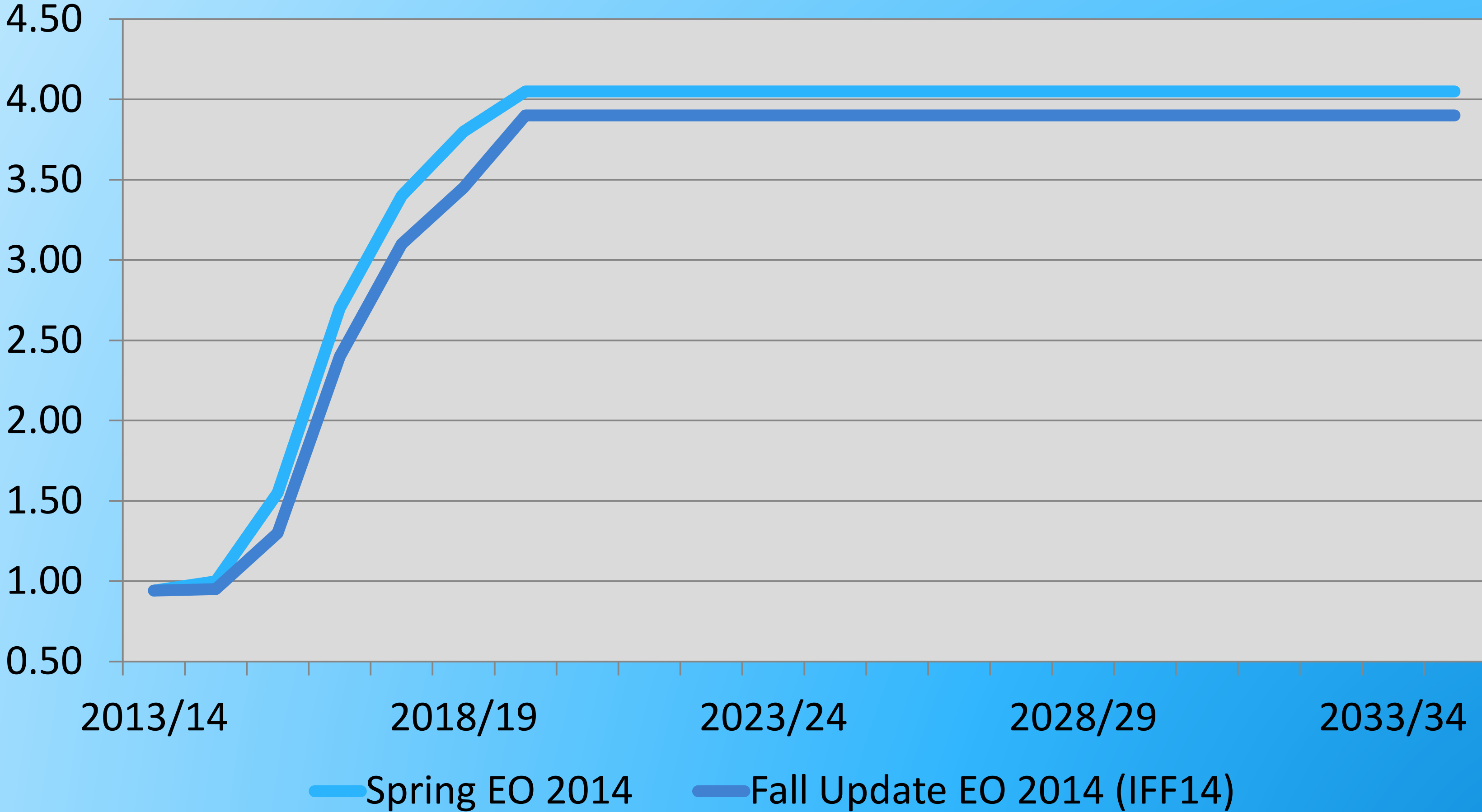
Canada 3-month T-Bill Rate Forecast, %



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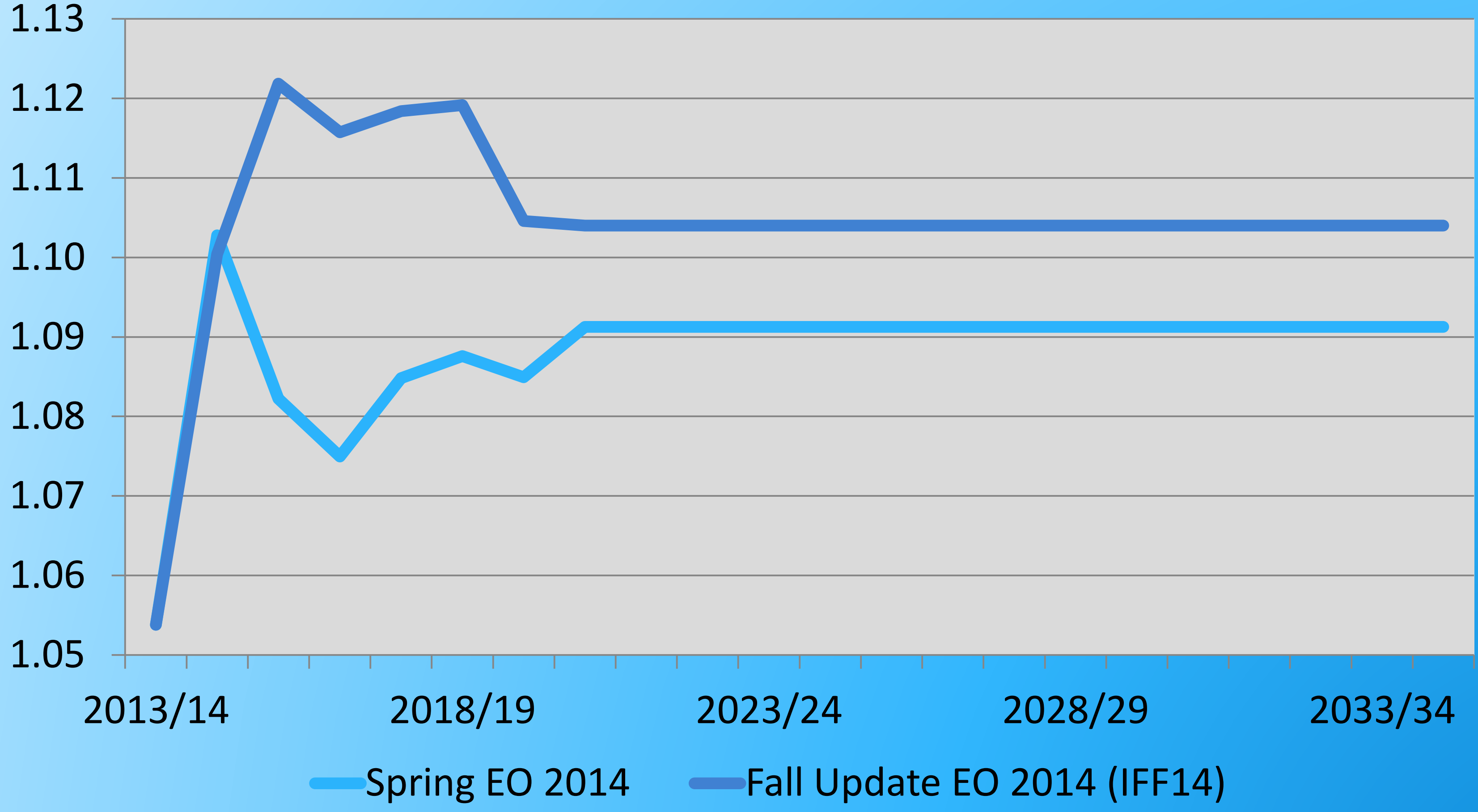
CAD/USD Exchange Rate Forecast



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Long-term Forecasts for Other Key Indicators

- Canadian CPI – 2.0%
- Manitoba CPI – 2.1%
- Canadian Real GDP – 1.9%
- Manitoba Real GDP – 1.6%
- Disposable Income Growth in Manitoba – 2.2%
- Manitoba Population Growth – 0.9%

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Economy is not Static

- Oil Prices
- Natural Gas Prices
- Canadian Real Gross Domestic Product
- Interest Rates
- CAD/USD Exchange Rate

Operating, Maintenance & Administrative Expenditures

Sandy Bauerlein – Corporate Controller

Commitment to Cost Control

- Manitoba Hydro is committed to effectively controlling costs to minimize the impact to ratepayers
- Average growth rate from 2009 to 2014 equal to Manitoba CPI at 1.9%
- Projected growth over the test years is below Manitoba CPI at 0.9%

	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	2009-2014 Average Annual % Inc/(Dec)	2014-2017 Average Annual % Inc/(Dec)
OM&A % Change (excluding Accounting Changes)	2.7%	-0.1%	3.1%	2.4%	1.3%	0.6%	1.1%	1.1%	1.9%	0.9%
Manitoba CPI	1.9%	0.6%	2.8%	1.6%	2.4%	1.8%	1.9%	2.0%	1.9%	1.9%

- IFF14 Forecast limits growth to below inflationary levels until 2021/22

Cost Savings Initiatives

- Extensive review of staff complement undertaken in 2014
- Result was a commitment to reduce approximately 330 <u>operational</u> positions over the 3 year forecast period through:
  - Attrition
  - Application of technology
  - Consolidation and elimination of work processes where appropriate

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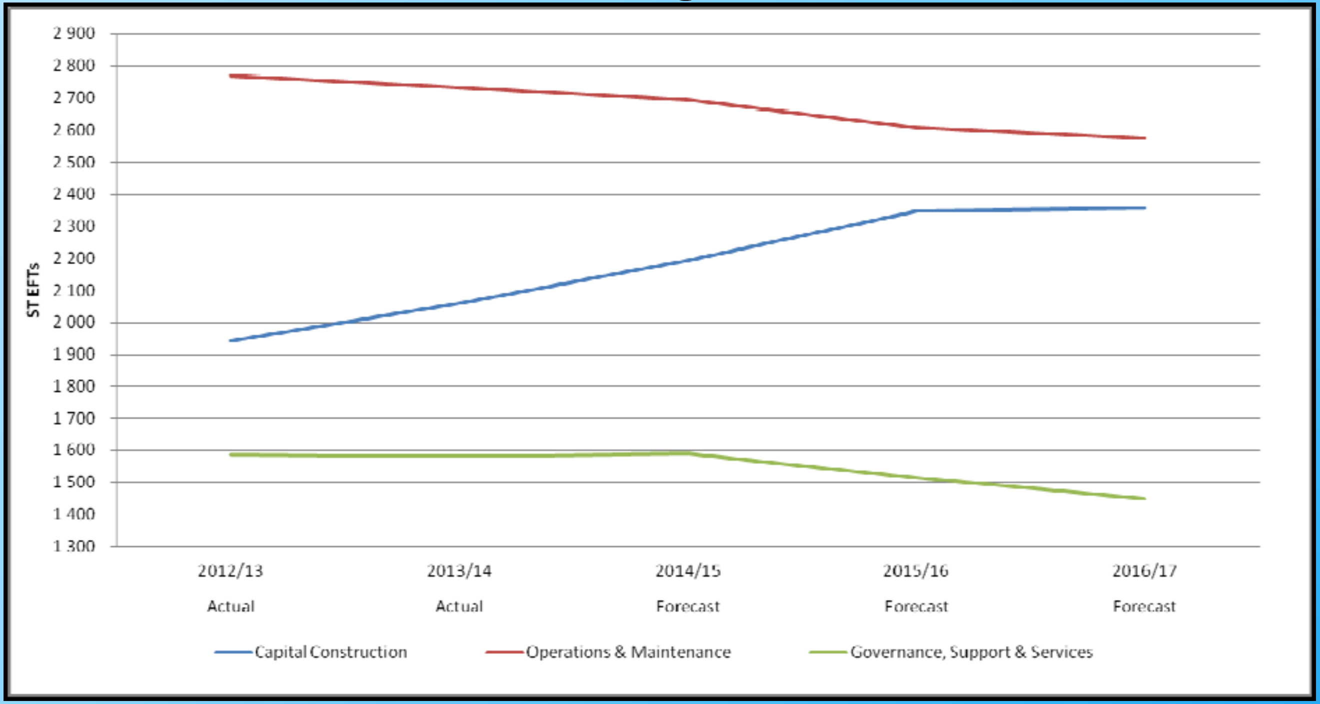
Reduction of Operational EFTs



- Decline in Operational EFTs demonstrates the Corporation's commitment to reduce staff
- Increase in Capital construction EFTs reflects the need to invest and re-invest in capital assets

Demonstrated Progress on Operational Staffing Reductions

Position (or Equivalent) Cost Reductions for 2014/15

	Actual Reductions achieved to December 2014	Projected Reductions to March 2015	Higher/ (Lower) than Projected
President & CEO	0	2	(2)
General Counsel & Corporate Secreta	2	1	1
Human Resources & Corporate Servic	40	33	7
Corporate Relations	3	3	0
Finance & Regulatory	5	4	1
Generation Operations	33	9	24
Major Capital Projects	5	1	4
Transmission	38	30	8
Customer Service & Distribution	35	46	(11)
Customer Care & Energy Conservatio	18	16	2
Total	179	146	33

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Other Initiatives Impacting OM&A

- Consolidation of Rural District Offices
- Implementation of Mobile Workforce Management
- Supply Chain Management Initiatives

Consistent with expectation of PUB issued in Order 43/13

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Accounting Policy & Estimate Changes

PUB Approval of Prior Accounting Policy & Estimate Changes

- Order 43/13 – PUB accepted accounting changes up to 2013/14 for rate-setting purposes
  - Reduction to Costs Capitalized (i.e. Interest on Common Assets, IT infrastructure and support, Building Depreciation and operating costs)
  - Pension & Benefit changes (i.e. discount rate)
  - Intangible assets (i.e research and promotional items)

Accounting Policy & Estimate Changes

- Manitoba Hydro's approach is to assess the overall impacts of accounting policy changes for rate-setting purposes
- Approach is fair and reasonable
- No negative impact to rate payers
- As such, does not necessitate the need for two sets of books

Prospective OM&A Changes

- Administrative and other general overhead costs no longer eligible for capitalization
  - Technical & Softskills Training
  - Service Areas (Human Resources, Corporate Safety)
  - Administrative & Clerical Support
  - Division & Department Management
  - Fleet & Stores Administration

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Prospective OM&A Changes

- Pension increase due to the impact of wage settlements on current service and the impact of interest rate on the pension asset and obligation balances.

Partially Offset By –

- Reductions in Other Benefits reflecting change in methodology for calculation for obligation

OM&A Changes

Overall impact of changes is an increase to OM&A expense:

	OM&A Expense ($ millions)									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Administrative Overhead	-	55	55	56	56	57	57	58	59	60
Meter Compliance, Exchange and Sampling	-	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Pension	-	0	3	3	3	3	3	3	4	4
Employee Benefits	-	(3)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
Net Impact on OM&A Expense Increase (Decrease)	-	**51**	**56**	**57**	**58**	**58**	**59**	**60**	**61**	**62**

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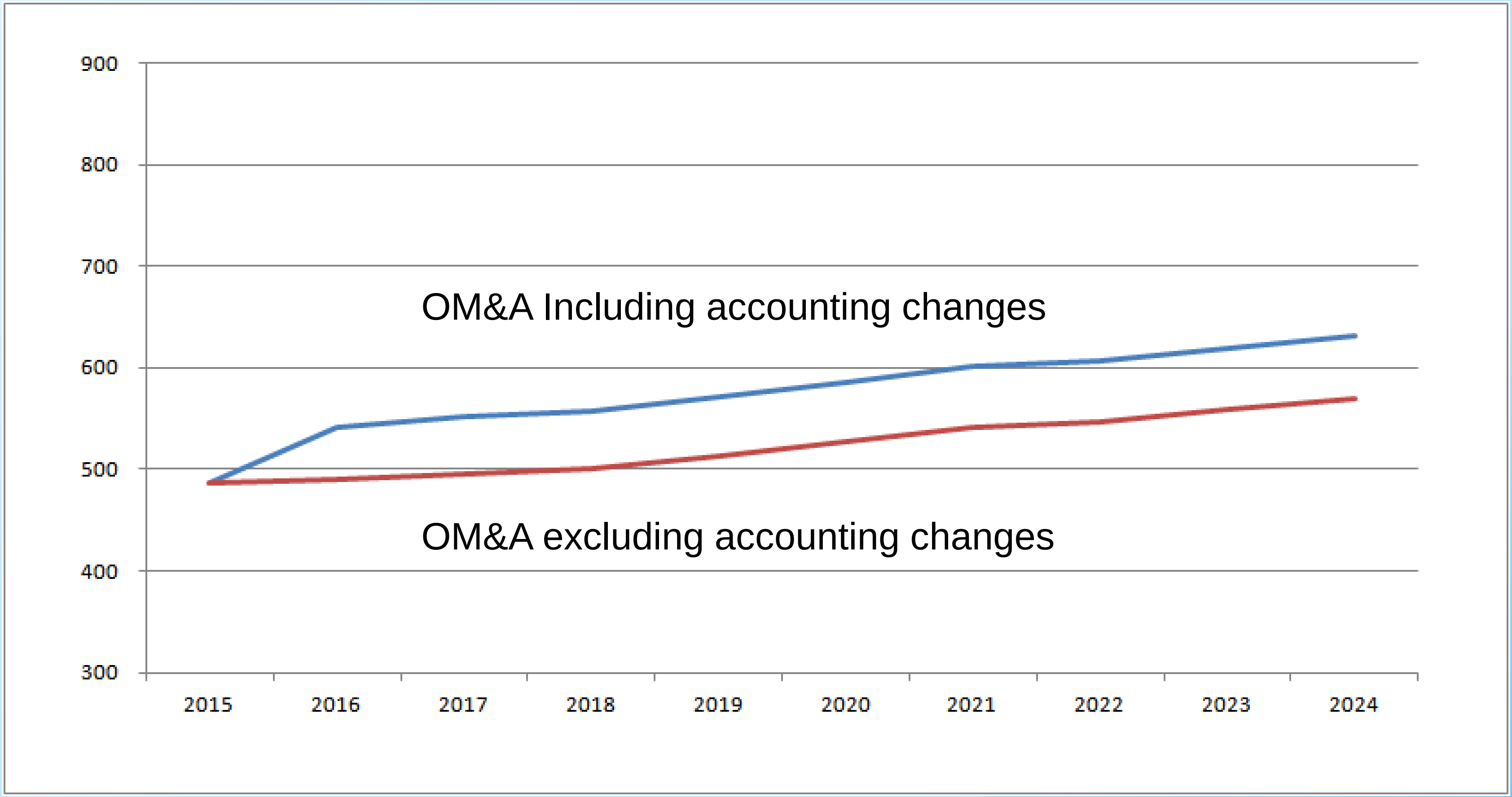
OM&A Changes



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Prospective Depreciation Changes

- Impact of change in depreciation rates as a result of 2014 Depreciation Study and extension of asset service lives
- Policy decision to remove net salvage from depreciation rates upon transition to IFRS

Partially offset by -

- Change in methodology from ASL to ELG to ensure compliance with IFRS

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Depreciation Changes

Overall impact of changes is a reduction to depreciation expense:

	Depreciation Expense ($ millions)									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Change in service life - PP&E (net of contributions)	(25)	(29)	(30)	(30)	(34)	(38)	(43)	(41)	(43)	(42)
Overhead ineligible for Capitalization	-	(0)	(2)	(4)	(6)	(7)	(9)	(11)	(13)	(14)
Meter Compliance, Exchange and Sampling	-	0	0	0	0	0	0	1	1	1
Elimination of Provision for Asset Removal	-	(60)	(63)	(67)	(86)	(96)	(107)	(117)	(117)	(119)
Change in Methodology (ELG)	-	36	38	41	49	55	63	67	68	69
Net Impact on Depreciation Expense Increase (Decrease)	**(25)**	**(53)**	**(57)**	**(60)**	**(76)**	**(86)**	**(96)**	**(101)**	**(103)**	**(105)**

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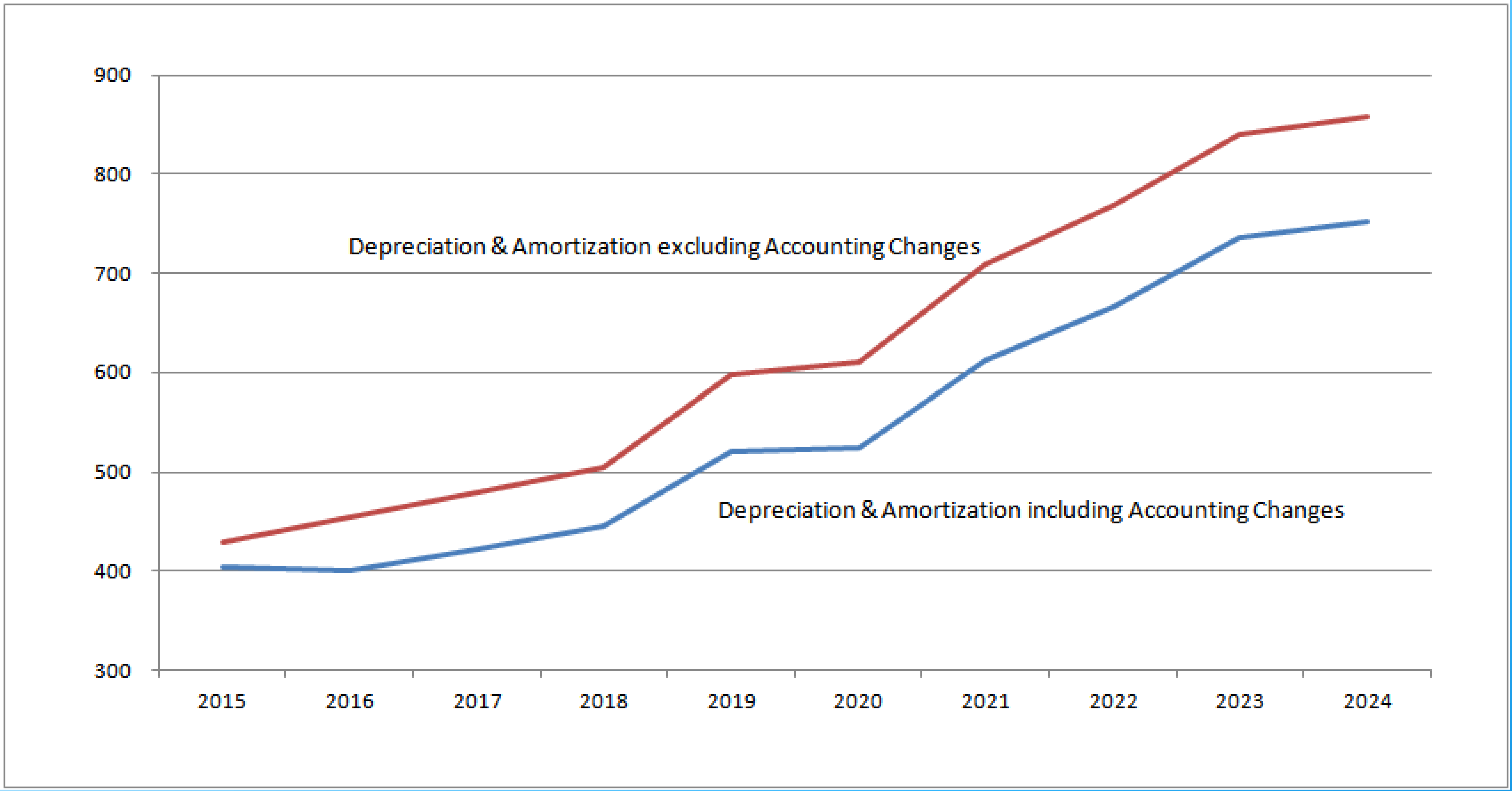
Depreciation Changes



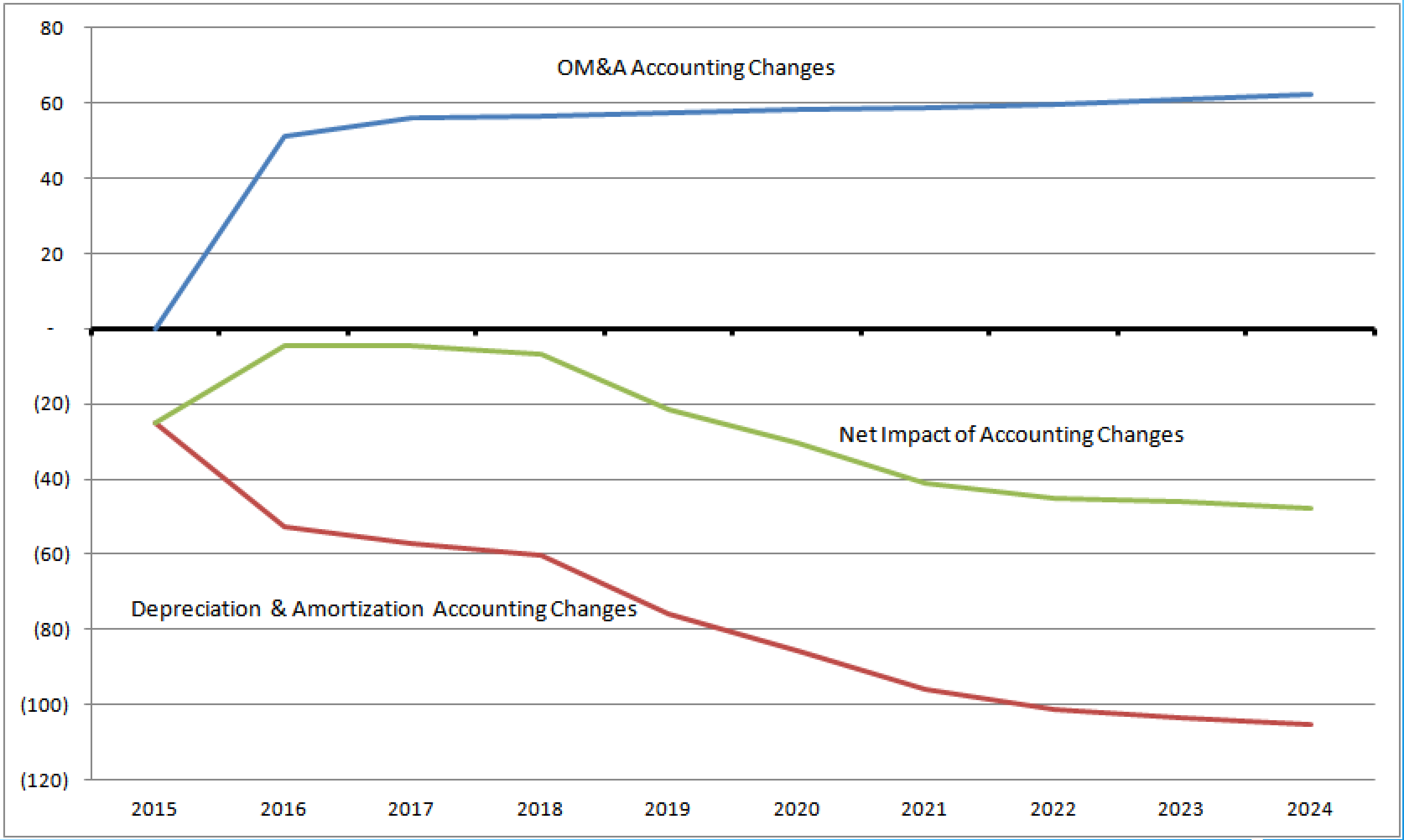
Prospective Accounting Policy & Estimate Changes

- Cumulative impact of prospective accounting policy & estimate changes is a **reduction** to revenue requirement.

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)

Net Reduction to Revenue Requirement



WPLP Agreement Changes

Wuskwatim PDA Supplement #2

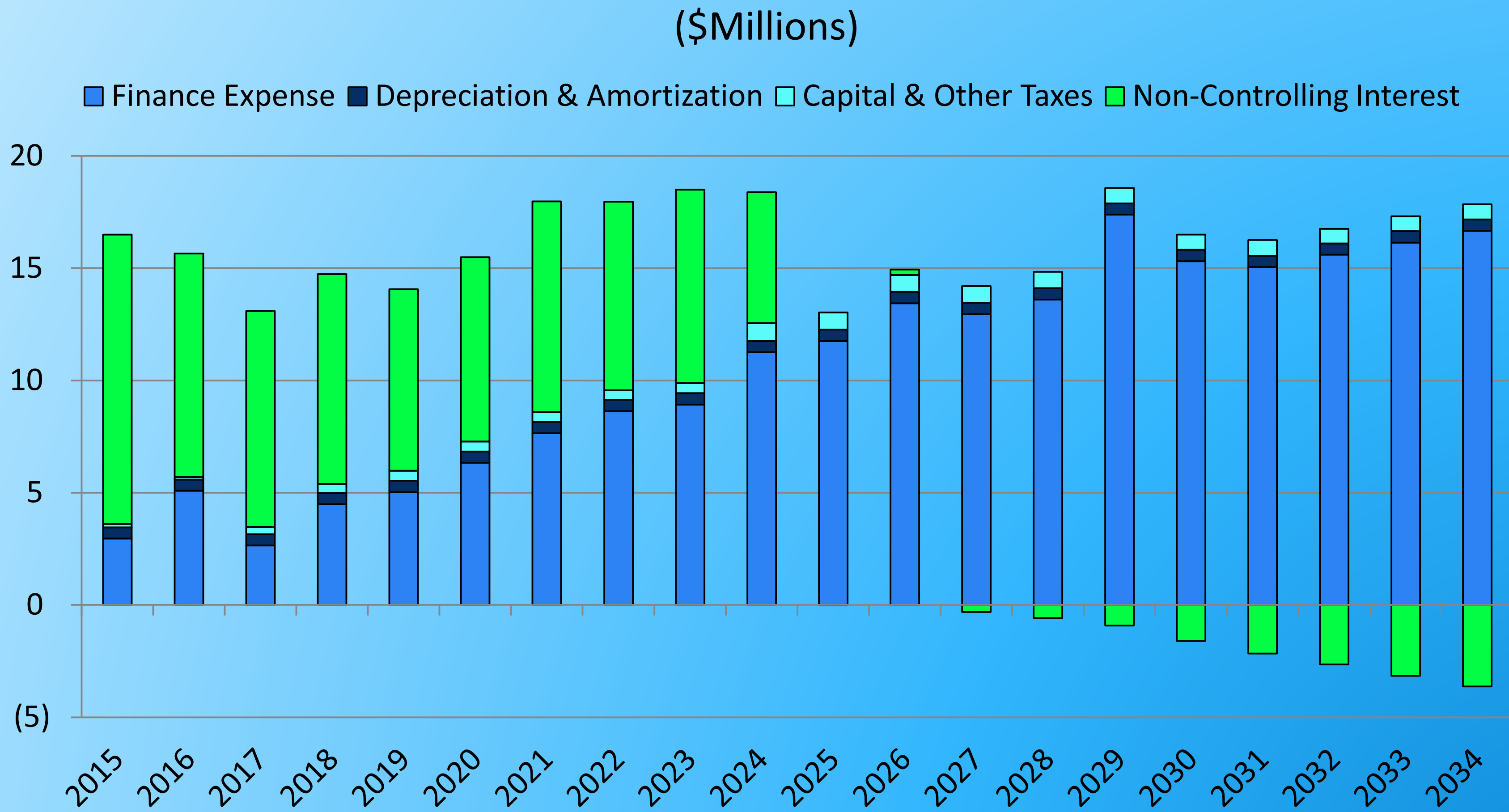
- Signed the Wuskwatim Project Development Agreement Second Supplementary Agreement (PDA Supp #2) on April 16, 2015 and is effective April 1, 2014.
- The original PDA was executed in 2006 and the first PDA supplementary agreement was signed in 2011.
- Two supplemental agreements were required due to significant and evolving changes to WPLP's financial forecast, primarily due to lower than expected export prices and higher capital costs.
- The changes in forecasts since 2006 resulted in a deferral and reduction in distributions to Partners, and consequently, higher TPC and NCN loan balances.
- The two supplements were negotiated to ensure that NCN will benefit from the Wuskwatim project which is consistent with the intent and spirit of the original arrangement.
- Although lower than anticipated when the PDA was ratified in 2006, the income benefits will provide a long-term source of revenue for NCN.

Wuskwatim PDA Supplement #2

Summary of terms:

- Deferring TPC’s final investment settlement date to March 31, 2015;
- Increasing the total equity loan available to TPC to maintain 33% ownership interest at the final settlement date;
- Refinancing the Nisi Trust $40 million mitigation bond at market coupon rates;
- Increasing the dividend loan advances available for 2014 and 2015 (calendar year);
- Annual payments of $2.5 million for 20 years from Manitoba Hydro;
- Operating cash calls at the discretion of the General Partner Board of Directors rather than to maintain debt/equity covenants;
- Eliminating the availability of operating cash call advances to NCN;
- Eliminating the interest rate premiums on TPC and NCN loans;
- Amending the Power Purchase Agreement (PPA) to align the price of Wuskwatim energy to system unit revenues rather than exports only for a 10 year period (see PUB/MH-I-11d);
- Eliminating the 3% marketing risk fee until TPC and NCN loans are fully repaid to Manitoba Hydro and then increasing the marketing risk fee to approximately 36%; and
- Revenue adjustment to the WPLP PPA to account for unanticipated lost generation.

Wuskwatim PDA Supplement #2 – Impacts on Net Income



Sensitivity to Risks

MH Net Income is Highly Variable

- Greatest sensitivity to water flow conditions
- Water flow conditions very sensitive to precipitation and can change rapidly
- Not a new phenomenon
- Forecast accuracy – independent assumptions have uncertainty but collectively water flow variability dominates financial results

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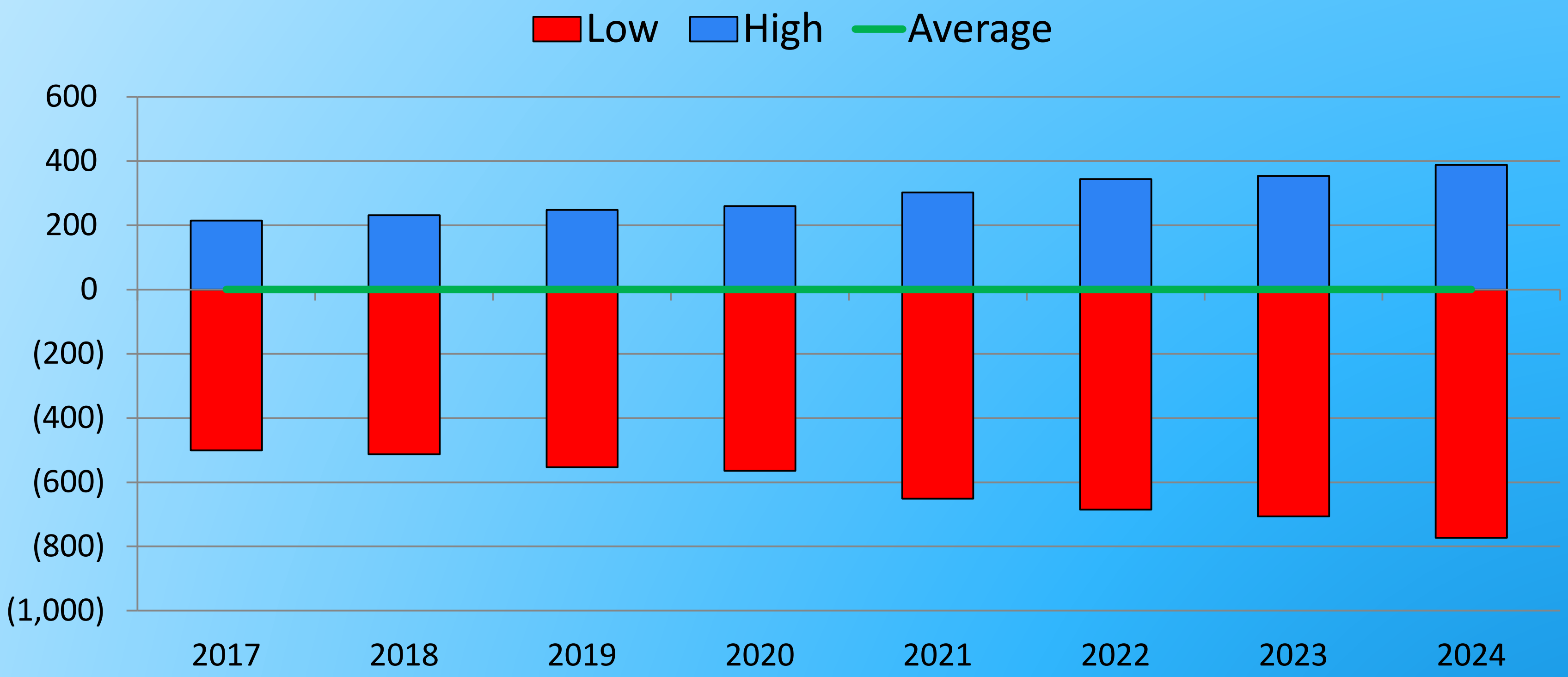
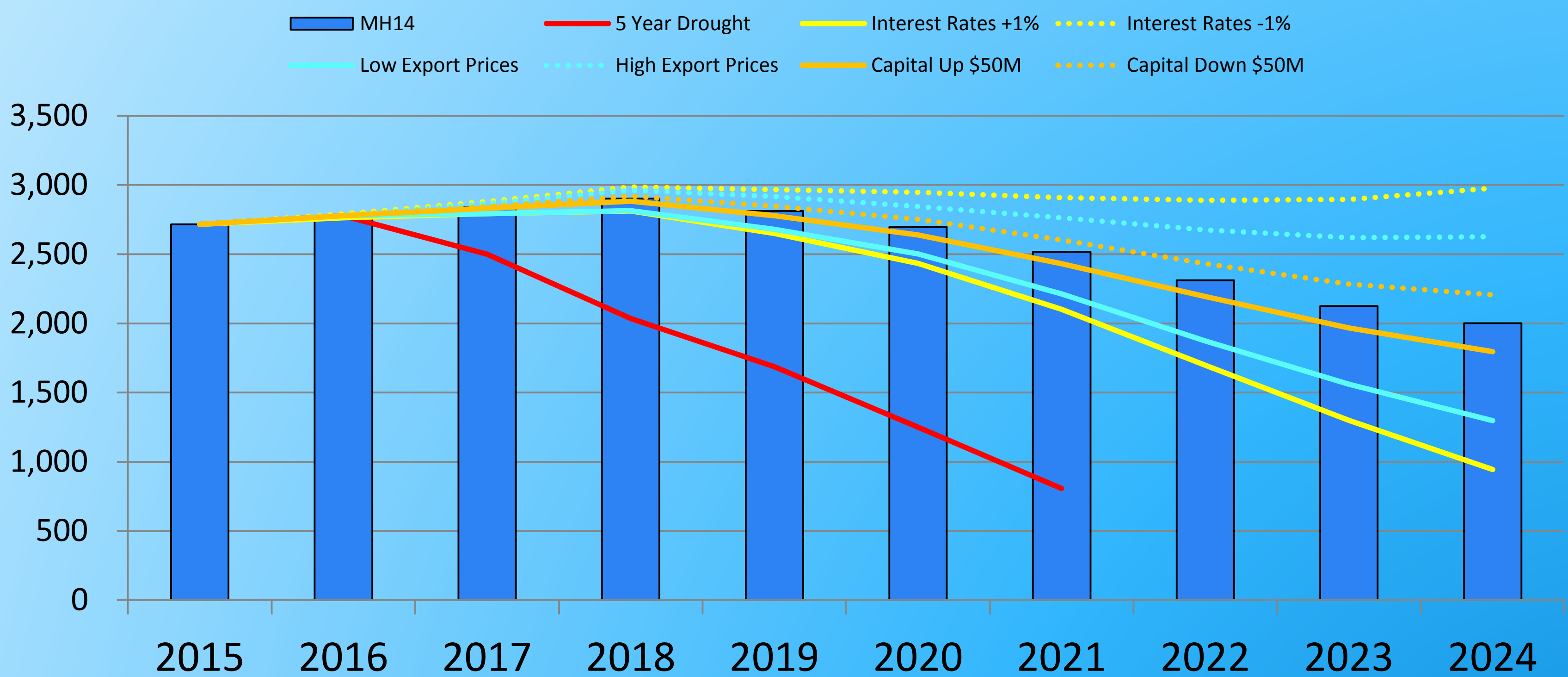
Sensitivity Analysis-
Variability in Net Interchange Revenue



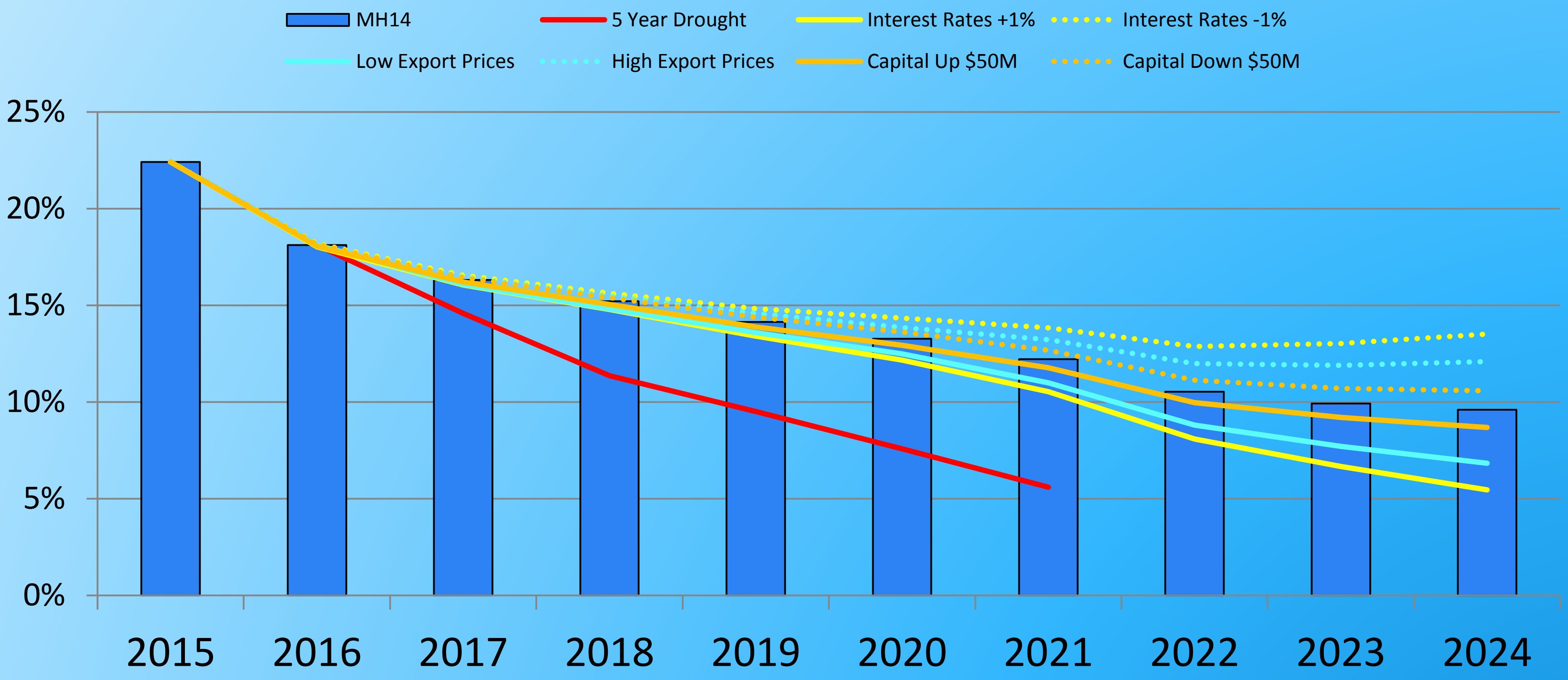
- Few levers to offset annual variability in revenues due to rapid changes in water flow conditions
- Retained earnings is the primary lever

Sensitivity Analysis – Retained Earnings



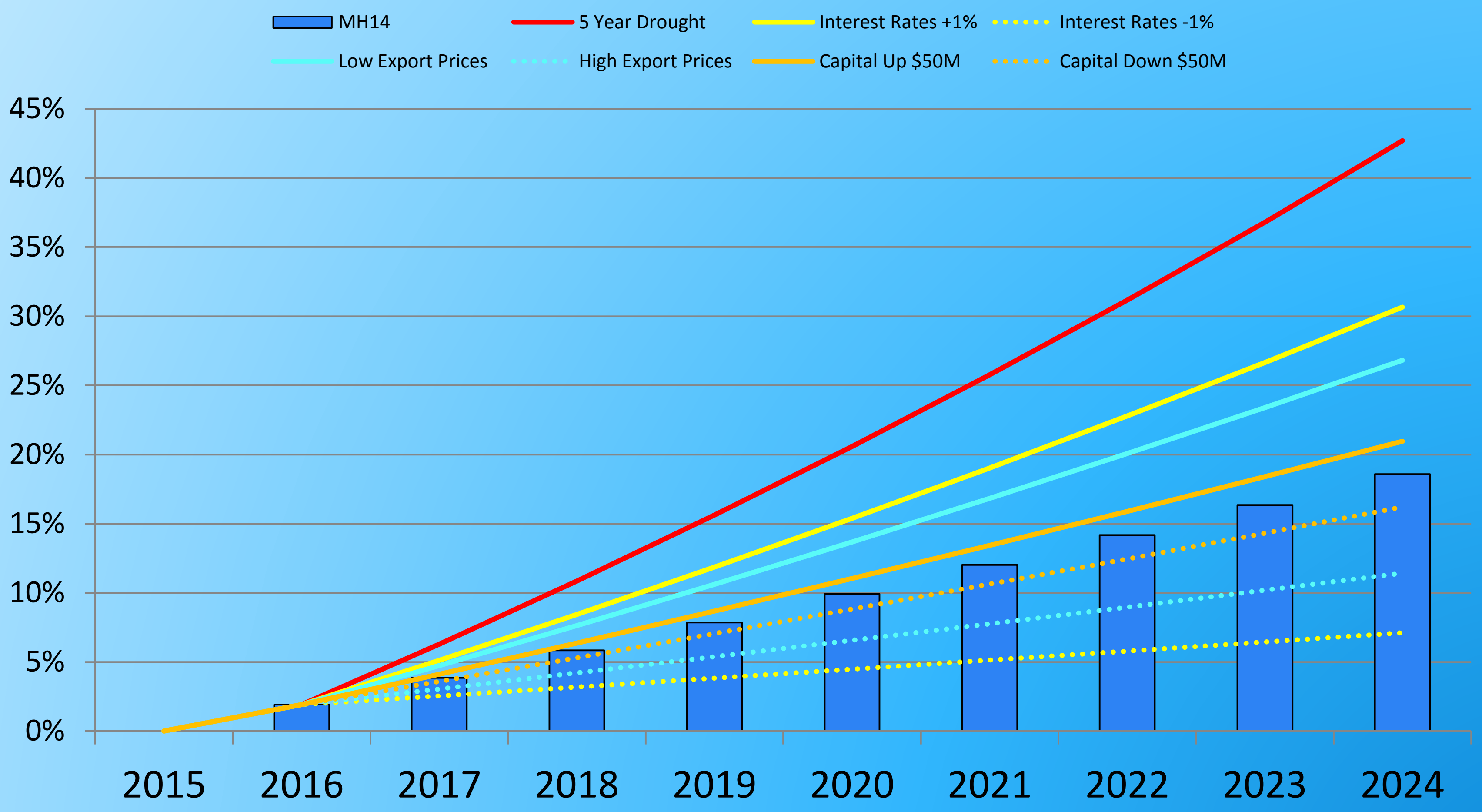
- Drought reduces retained earnings well below $1B within the 5 year period
- Higher interest rates can reduce retained earnings to approx. $1B by 2024
- Near term interest rate and export price impacts are lower due to fixed debt and firm contracts
- Favourable interest rates and export prices significantly strengthen financial position
- Capex impacts are spread over long asset lives

Sensitivity Analysis – Equity Ratio



- Similar to retained earnings, drought and interest rate increases significantly reduce the equity ratio well below the acceptable 10% level
- Cash injection required is about $250M in a year to move the equity ratio up 100 b.p.

Sensitivity Analysis – Cumulative Real Rate Increases



Alternate Rate Scenarios

3.95% Projected since Nov 2012 (IFF12)

NFAT Transcript p.2774

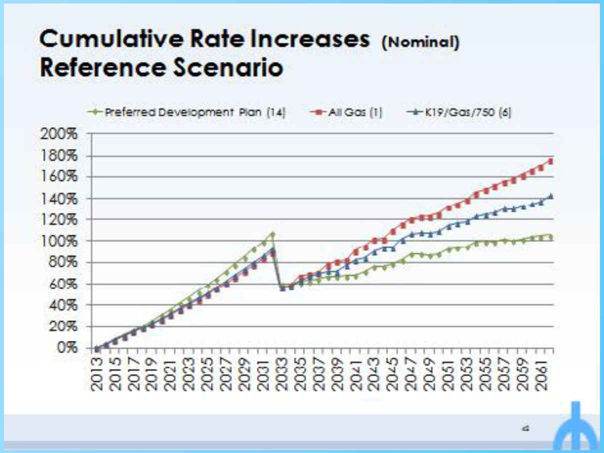
"The mechanical search between those two (2) data points gives you 3 1/2 percent on the All-Gas Plan, but the reality is, in the next five (5) to seven (7) years, there is no new generation source in. ***We would be asking for the 3.95 percents*** *under the All Gas Plan, as well. In fact,* ***there's more pressure under the All Gas Plan, because we're amortizing some of the sunk costs of Keeyask and Conawapa****."*

NFAT Transcript p.2775

"In the next, you know, seven (7) to ten (10) years, we are requiring rate increases, ***primarily because of the refurbishment of existing infrastructure and reliability expenditures****, such as Bipole III. That's not going to change between the development plans at this point."*

NFAT Rate Projections are not Applicable for GRA Purposes

- Rate increase projections challenging for 50 year study horizon
- Cost of service regulation
- Simplifying methodology with fixed parameters
- Increase comparability between plans and scenarios to **analyze rate differences** between NFAT plans



NFAT Chapter 11 - 11.2 Financial Evaluation Results – Customer Rates

"It is important to recognize that the projected rates are provided for the purpose of comparative rate analysis and are not intended to convey the specific revenue requirements in future General Rate Applications before the Public Utilities Board."

- Inapplicable for GRA purposes
- Alternate methodologies 1 & 2 demonstrating rate-setting which more closely simulates practice

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MH Considered Other Rate Options

Appendix 3.5 – Alternative Rate Scenarios

Figure 3.5.1: Financial Impacts of Alternate Rate Increases by 2023/24 (p.31)

Projected Rate Increases	Retained Earnings ($Billions)	Debt to Equity Ratio	Interest Coverage Ratio	Capital Coverage Ratio
MH14- 3.95% 2016-2024	$2.0	90:10	0.91	1.22
A. 0.00% -2016-2024	($1.5)	104:(4)	0.39	(0.20)
B. 2.00% -2016-2024	$0.2	98:2	0.62	0.47
C. 2.00% -2016-2019, 3.95% thereafter	$0.7	95:5	0.76	0.84
D. 2.95% -2016-2019, 3.95% thereafter	$1.3	93:7	0.83	1.02
E. 2.00% -2016-2019, 7.94% thereafter	$2.0	90:10	1.09	1.66
F. 2.95% -2016-2019, 6.00% thereafter	$2.0	90:10	1.00	1.45
G. 5.00% -2016-2019, 3.00% thereafter	$2.4	89:11	0.92	1.24
H. 5.50% -2016-2019, 3.00% thereafter	$2.7	88:12	0.96	1.35
I. 6.00% -2016-2019, 3.00% thereafter	$3.1	86:14	1.00	1.45

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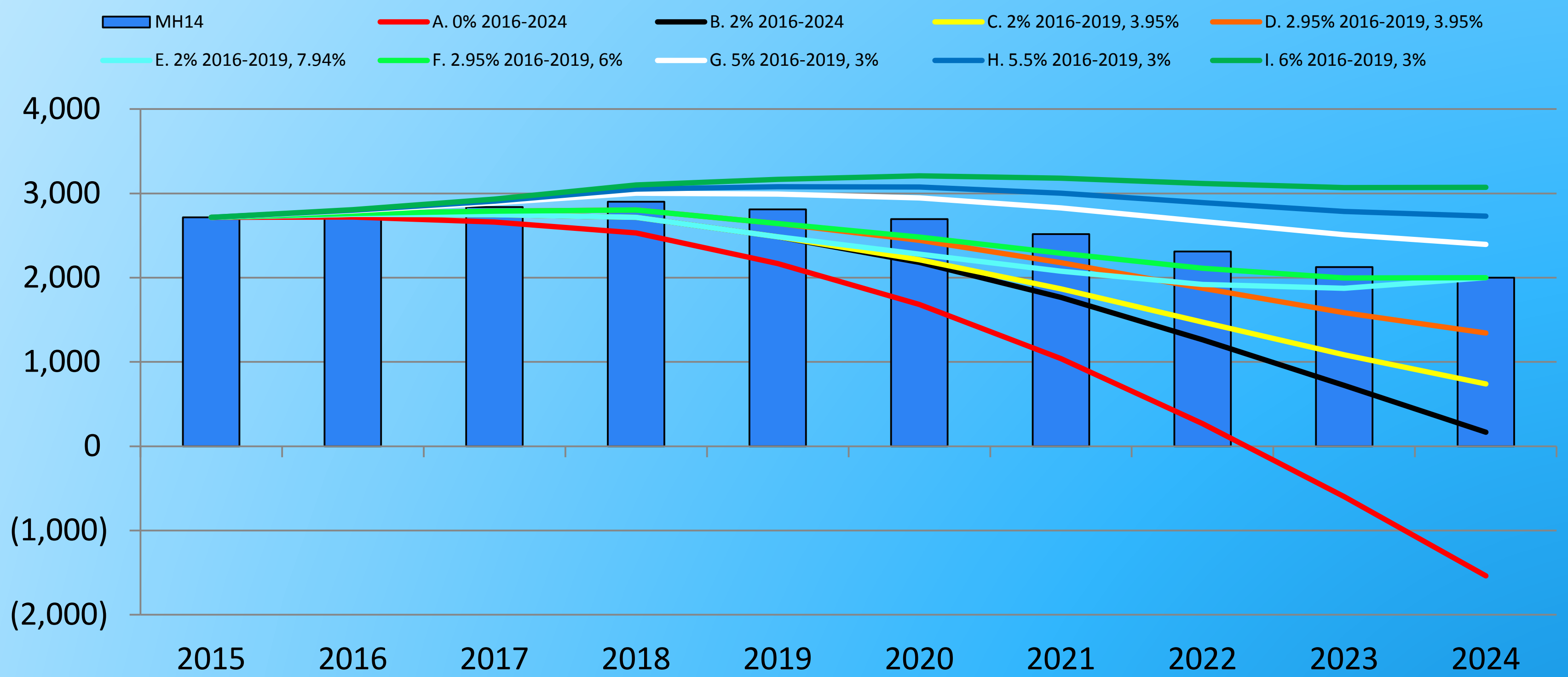
App. 3.5 - Alternate Rate Scenarios – Retained Earnings



- No rate increases and inflationary rate increases deteriorate retained earnings below $1B
- Reducing near term rate increases and deferring rate increases to the future results in significantly higher rate increases
- Higher near term rate increases of 5.5% to 6% significantly improve retained earnings

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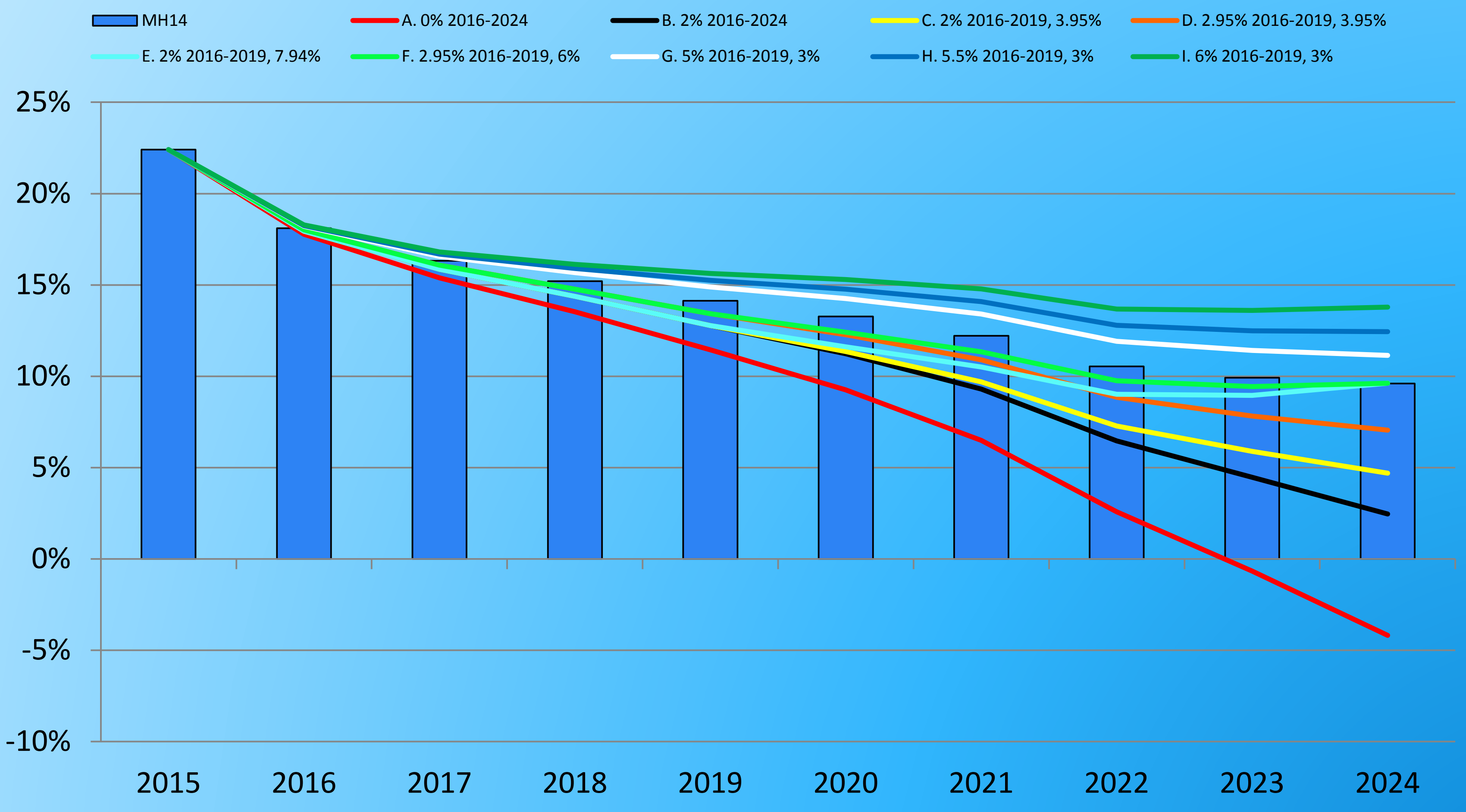
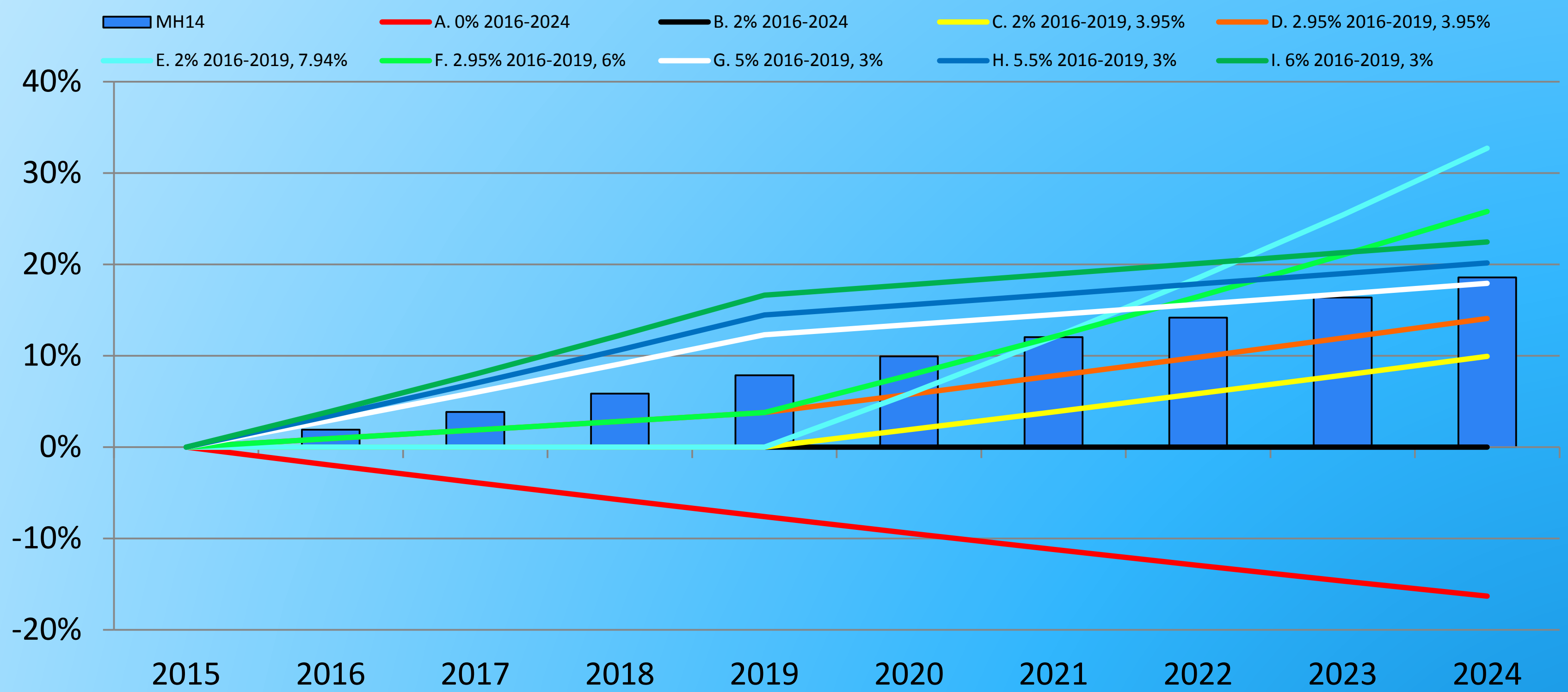
App. 3.5 - Alternate Rate Scenarios – Equity Ratio



App. 3.5 - Alternate Rate Scenarios – Cumulative Real Rate Increases



- No rate increases and inflationary rate increases result in lower cumulative real rates than the projected MH14 rate increases but at the cost of significantly weaker financial position
- deferral of rate increases results in significantly higher cumulative real rate increases by 2024
- Higher near term rate increases result in marginally higher cumulative real rate increases and significantly strengthen financial position

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Summary Observations –
Proposed 3.95% Rate Increases for 2016 & 2017

- Rate increases 1.75 times inflation (3.5%) since November 2009, before reduction in electricity export price forecasts and before cost increases in Keeyask and Bipole III
- 3.95% rate increases projected since November 2012 following electricity export price forecast reductions and capital cost increases
- Manitoba Hydro has maintained the projected 3.95% rate increases despite continued reductions in electricity export price forecasts and higher capital costs for Bipole III, DSM, Keeyask and sustaining capital expenditures
- Rate increases of 5.5% to 6% would be required to maintain stronger financial ratios, significantly higher than proposed 3.95% rate increases
- Proposed 3.95% balances rates required to maintain minimum acceptable financial ratios and impacts to customers

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THANK YOU