
ELECTRIC GENERAL RATE APPLICATION 2015**Manitoba Hydro Undertaking #31**

Manitoba Hydro to review the timing of the introduction of capital taxes and water rentals as well as the financial circumstances of Manitoba Hydro at a particular point in time.

Response:

Capital Taxes:

In the provincial budget address of April 20, 1994 it was announced that Manitoba Hydro's exemption from Corporation Capital Tax would be rescinded effective with the company's 1994/95 fiscal year. The stated intention was that "this treatment brings Manitoba's Capital Tax provisions more in line with other provinces and helps to level the playing field with private sector competitors in telecommunications and energy."

In the first year where Manitoba Hydro was subject to capital tax an agreement was reached with the Province such that the company would be calculated on a simplified method that would result in approximately \$12 million of tax paid annually. The total capital taxes paid in 1994/95 were \$11.5 million.

Beginning with the company's 1995/96 fiscal year, the Province directed that Manitoba Hydro pay the same rate of capital tax and calculate the amount of tax payable in the same manner as all other corporations as outlined in the Corporation Capital Tax Act. As a result of this change the company's capital tax paid increased to \$25.2 million in 1995/96.

Since 1995/96 the capital tax rate paid and the capital tax calculation utilized by Manitoba Hydro have effectively remained unchanged at 0.5% of taxable paid-up capital.

Financial Ratios at the time were as follows:

Ratio	1994/95	1995/96
Debt Equity	92/8	91/9
Gross Interest Coverage	1.13	1.16
Capital Coverage	n/a	n/a
Net income	\$56M	\$70M

Water Rentals:

Manitoba Hydro's review of historic legislation indicated that water rentals for hydro power projects were first introduced in 1919 in the Dominion Water Power Act. Manitoba Hydro has located records indicating Pointe du Bois generation was subject to water rentals under the Dominion Water Power Act and payments commenced around 1919, although the exact date when water rentals were assessed for Pointe du Bois is uncertain. First generation from Pointe du Bois occurred in 1911.

Water rental rates have changed through time. Table 1 summarizes water rental rates at key dates.

Table 1. Historic water rental rates.

Year	Significance of Date	Water Rental Rates ¹		
		Capacity Based (per installed horsepower)	Generation Based (per hp-year) (per MWh)	
1919	Dominion Water Power Act enacted	n/a ²	\$ 0.50 ²	\$ 0.08
1951	Manitoba Hydro Electric Board formed	\$ 0.50	\$ 1.25	\$ 0.21
2001	most recent change to water rental rates	\$ 8.31	\$ 20.32	\$ 3.34

1. annual water rentals are calculated on an individual station basis and are assessed at the greater of the capacity based amount or the annual generation (applies to later years only)
2. in 1919 the fee structure that applied to Pointe du Bois included an annual fee of \$100 plus a generation output based amount applied to annual generation exceeding 20,000 horsepower-years

In the year of the most recent changes, Manitoba Hydro financial targets and Net Income were as follows:

Ratio	2000/01
Debt Equity	80/20
Gross Interest Coverage	1.62
Capital Coverage	1.18
Water Rentals	\$51M
Net income	\$267M