**Volume 3 - Board Counsel's Book of Documents** **Exhibit#_________**
**Manitoba Hydro 2014/15 and 2015/16 GRA**

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| 3 | Present Value of rate increase request | PUB/MH II-3 |
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| 7 | 2014 Interim Rate Increase | PUB/MH I-1 2014 Interim Application;<br>PUB/MH I-76 |
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**MANITOBA HYDRO**
**2015/16 & 2016/17 GENERAL RATE APPLICATION**

## LETTER OF APPLICATION

**IN THE MATTER OF:** *The Crown Corporations Public Review & Accountability Act* (Manitoba)

**IN THE MATTER OF:** An Application by Manitoba Hydro for an Order of the Public Utilities Board Approving Increases to Electricity Rates

**TO:** The Executive Director of the
Public Utilities Board of Manitoba
Winnipeg, Manitoba

1. Manitoba Hydro hereby applies to the Public Utilities Board of Manitoba ("PUB") for an Order pursuant to *The Crown Corporations Public Review & Accountability Act* for the following:

a) Approval, on an interim basis, of rate schedules incorporating an across-the-board 3.95% rate increase to all components of the rates for all customer classes effective April 1, 2015, sufficient to generate additional revenues of $57 million in 2015/16;

b) Approval of a further 3.95% across-the-board rate increase to all components of the rates for all customer classes effective April 1, 2016, sufficient to generate additional revenues of $60 million in 2016/17;

c) Final approval of Orders 49/14 and 51/14 which approved, on an interim basis, a 2.75% rate increase effective May 1, 2014 applied on an across-the-board basis, and final approval of any other interim rate Orders issued subsequent to the filing of the Application and prior to conclusion of this proceeding;

d) Final approval of the Light Emitting Diode ("LED") rates for the Area and Roadway Lighting class approved on an interim basis in Order 79/14;

e) Approval to implement Time-of-Use Rates for the General Service Large customer class served at greater than 30 kilovolts ("kV"), effective April 1, 2016, including the change in the definition of billing demand to be the highest measured on-peak demand in the month, 50% of contract demand or 50% of the highest on-peak demand in the previous 12 months;

f) Confirmation that the PUB accepts the rate approval process given proposed modifications to the Terms and Conditions of Option 1 of the Surplus Energy Program ("SEP") as outlined in Tab 6 of this Application, that were approved on an interim basis in Order 43/13;

g) Confirmation that the PUB accepts the rate approval process given proposed modifications to the Curtailable Rate Program ("CRP"), as outlined in Tab 6 of this Application, that were approved on an interim basis in Order 43/13;

h) Final approval of all SEP interim *ex parte* rate Orders as set forth in Tab 10 of this Application, as well as any additional SEP *ex parte* Orders issued subsequent to the filing of this Application and prior to the PUB's Order in this matter;

i) Final approval of CRP *ex parte* Order 46/14 as well as any additional *ex parte* Orders in respect of the CRP issued subsequent to the filing of this Application and prior to the PUB's Order in this matter;

j) Final approval of Orders 116/12 and 117/12 that approved, on an interim basis, a 6.5% rate increase to the full cost portion of the General Service and Government rates in the four remote communities served by diesel generation effective September 1, 2012, and final approval of diesel zone interim Orders 17/04, 46/04, 159/04, 176/06, 1/10, 134/10, 1/11 and 148/11, subject to confirmation that MKO has provided the parties to the agreement with the required affidavits from representatives of signatories to the agreement; and,

k) Approval to rescind the Demand Side Management deferral account established pursuant to Order 43/13 for the 2012/13 and 2013/14 fiscal years and on a go-forward basis.

2. Manitoba Hydro last filed a General Rate Application with the PUB on June 15, 2012 for the 2012/13 & 2013/14 fiscal years, which resulted in Order 43/13. This Order approved a 3.5% across-the-board general rate increase effective May 1, 2013, and directed that the revenues from a 1.5% portion of the increase accrue to an account to be utilized to mitigate the anticipated rate impacts when Bipole III is placed into service. Order 43/13 also provided final approval for Manitoba Hydro to maintain in its rates and revenues the 1% rate change that was previously approved by the PUB on an interim basis and subsequently rolled back in Order 5/12, final approval of the 2.0% interim rate increase granted in Orders 32/12 and 34/12 for April 1, 2012,

and final approval of the 2.4% interim rate increase granted in Orders 116/12 and 117/12 for September 1, 2012.

3. Subsequent to Order 43/13, Manitoba Hydro applied to the PUB for approval of an interim rate increase of 3.95% effective April 1, 2014, applied on an across-the-board basis to all customer classes. On May 5, 2014, the PUB issued Order 49/14 approving, on an interim basis, a 2.75% across-the-board general rate increase effective May 1, 2014, and directed that the revenues from a 0.75% portion of the increase accrue to the Bipole III deferral account established in Order 43/13. Subsequent to the issuance of Order 49/14, Manitoba Hydro filed a letter requesting the PUB to consider implementation of new LED rates for the Area and Roadway Lighting class on an interim basis effective August 1, 2014. This request was approved in Order 79/14.

4. By this Application, Manitoba Hydro is seeking approval, on an interim basis, of a 3.95% across-the-board general rate increase effective April 1, 2015 sufficient to generate additional revenue of $57 million in 2015/16, and a further across-the-board general rate increase of 3.95% effective April 1, 2016, sufficient to generate additional revenue of $60 million in 2016/17. The April 1, 2015 rate increase, if approved, would result in a $3.20 increase in the monthly bill of a residential customer without electric space heat using 1,000 kilowatt-hours ("kWh") per month, and a $6.11 increase in the monthly bill for a residential customer with electric space heat using 2,000 kWh per month. The April 1, 2016 rate increases, if approved, would result in a $3.33 increase in the monthly bill of a residential customer without electric space heat and a $6.36 increase in the monthly bill for a residential customer using electricity for space heat. For rates effective April 1, 2016, Manitoba Hydro is also requesting approval to implement TOU rates for the General Service Large customer class served at greater than 30 kV.

5. This Application provides prima facie support to provide the rate relief requested in this Application effective April 1, 2015. The subsequent regulatory process and public hearing will allow the PUB to confirm the interim rate increase and review the request for a further rate increase effective April 1, 2016. Approval of the rate increases proposed in this Application is required to maintain net income and financial ratios for 2015/16 and 2016/17 at acceptable levels. Absent the requested rate increases, Manitoba Hydro is projecting that over the 2015/16 and 2016/17 fiscal years, there would be no cumulative contribution to financial reserves and that financial ratios would deteriorate below acceptable levels. In making this Application, Manitoba Hydro has considered customer sensitivity to rate increases as well as the financial position of the Corporation, and believes the proposed rate increases are the minimum necessary in order to promote rate stability for customers and ensure the financial integrity of the Corporation.

6. The circumstances giving rise to the rate increases will be discussed in Tab 2 of the Application. Further information in support of the Application will be provided in Tab 3 to Tab 9 of the Application. In addition, Manitoba Hydro will address the responses to a number of PUB directives in Tab 10 of the Application.

Communication related to this Application should be addressed to Manitoba Hydro in the following fashion:

Manitoba Hydro
Attention: Odette Fernandes
22nd Floor, 360 Portage Avenue
Winnipeg, Manitoba
R3C 0G8

Telephone No. (204) 360-3633
Fax No. (204) 360-6147
E-Mail: ofernandes@hydro.mb.ca

DATED at Winnipeg, Manitoba this 16th day of January, 2015.

**MANITOBA HYDRO**

"ORIGINAL SIGNED
BY ODETTE FERNANDES"

Per: ____________________
Odette Fernandes

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**Financial Information MFR 3**

**For the years 1999/00 through the test years, a details of rate increases requested, approved, the annual revenue increase and prevailing Manitoba CPI in similar basis to PUB/MH 1-2 (b) (2010 GRA).**

Please see the table below.

| | % Rate Inc Req. | % Approved | Annual $ Inc./(Dec.) | Inflation Rate |
|---|---|---|---|---|
| 1999/00 | 0% | - | - | 2.2% |
| 2000/01 | 0% | - | - | 2.5% |
| 2001/02 | -1.92%<br>Uniform Rate Legislation | - | ($14.4) million | 2.1% |
| 2002/03 | 0% | - | - | 2.3% |
| 2003/04 | 0%<br>Status Update | -0.72% Apr 1/03<br>BO 7/03 | ($6.5) million | 0.9% |
| 2004/05 | 3.0% Apr 1/04<br>(two year application) | 5% Aug 1/04<br>Plus conditional<br>2.25% Apr 1/05 & 2.25%<br>Oct 1/05<br>BO 101/04 & 143/04 | $32.3 million | 2.7% |
| 2005/06 | 2.5% Apr 1/05 | 2.25%<br>BO 34/05 | $21.8 million | 2.4% |
| 2006/07 | 2.25% Feb 1/07 | 2.25% Mar 1/07<br>BO 20/07 (interim)<br>BO 90/08 (final) | $23.1 million | 2.0% |
| 2007/08 | 0% | 0% | - | 1.9% |
| 2008/09 | 2.9% Apr 1/08 | 5.0% Jul 1/08<br>(except ARL 0%)<br>Plus conditional<br>4.0% Apr 1/09<br>BO 90/08 (final) | $52.4 million | 2.2% |
| 2009/10 | 3.9% Apr 1/09 | 2.9% Apr 1/09<br>BO 32/09 (final) | $32.8 million | 0.6% |
| 2010/11 | 2.9% Apr 1/10 | 2.9% Apr 1/10 | $32.9 | 1.0% |

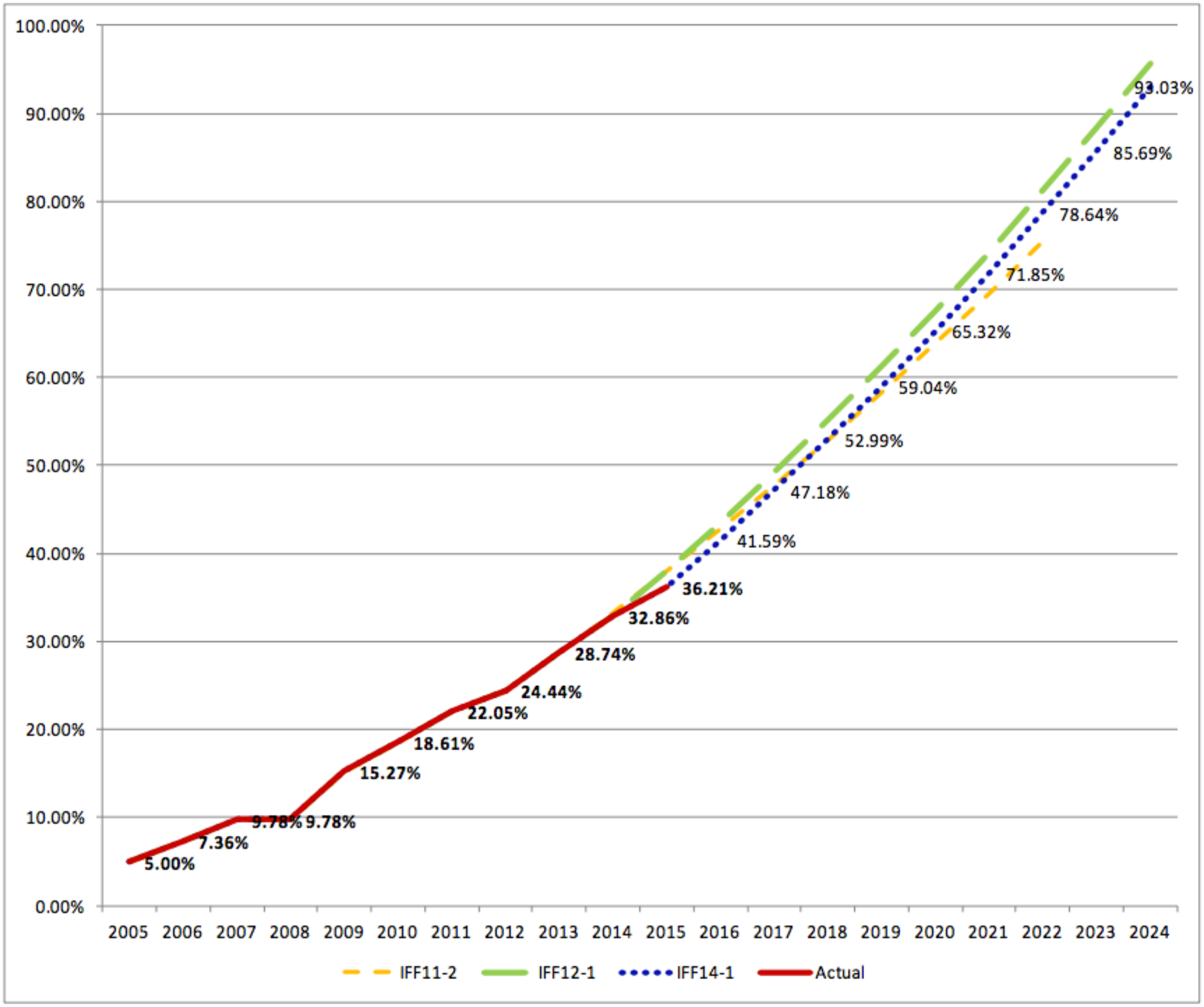
| | % Rate Inc Req. | % Approved | Annual $ Inc./(Dec.) | Inflation Rate |
|---|---|---|---|---|
| | | (except ARL 0%)<br>BO 18/10 (interim)<br>BO 5/12 reduced increase to 1.9%. Review & Vary BO 43/13 approved original increase of 2.9% (final) | million | |
| 2011/12 | 2.9% Apr 1/11 | 2.0% Apr 1/11<br>(except ARL 0%)<br>BO 40/11 (interim)<br>BO 5/12 & BO 43/13(final) | $24.4 million | 2.8% |
| 2011/12 | 0.9% Aug 1/11 | 0%<br>BO 99/11 (interim)<br>BO 5/12 (final) | | |
| 2012/13 | 3.5% Apr 1/12<br><br>2.5% Sep 1/12 | 2.0% Apr 1/12<br>BO 32/12 (interim)<br>BO 43/13 (final)<br><br>2.4% Sep 1/12<br>BO 116/12 (interim)<br>BO 43/13 (final) | $25.8 million<br><br>$31.0 million | 1.6% |
| 2013/14 | 3.5% Apr 1/13 | 3.5% May 1/13<br>(1.5% to BPIII Reserve)<br>BO 43/13 (final) | $47.6 million | 2.4% |
| 2014/15 | 3.95% April 1/14 | 2.75% May 1/14<br>(0.75% to BPIII Reserve)<br>BO 49/14 (interim)<br>BO 51/14 (final) | $38.7 million | 1.8% (est) |
| 2015/16 | 3.95% April 1/15<br>(Proposed) | | $57.4 million | 1.9% (est) |
| 2016/17 | 3.95% April 1/16<br>(Proposed) | | $59.9 million | 2.0% (est) |

| Year | % Rate Increase Requested | % Approved Final/Interim | MB CPI | Annual Increase in Revenue ($millions) | Cumulative % Increase | Cumulative MB CPI | Cumulative Additional Revenue from Rate Increases | % of Total Revenue from Domestic (Actual) | Actual Consolidated Debt to Equity Ratio |
|---|---|---|---|---|---|---|---|---|---|
| 1999/00 | 0% | - | 2.2% | $0.0 | 0.00% | 2.20% | $0.0 | 66% | 83:17 |
| 2000/01 | 0% | - | 2.5% | $0.0 | 0.00% | 4.76% | $0.0 | 62% | 80:20 |
| 2001/02 | -1.92% Nov 1/01 | - | 2.1% | -$14.4 | -1.92% | 6.95% | -$14.4 | 57% | 77:23 |
| 2002/03 | 0% | - | 2.3% | $0.0 | -1.92% | 9.41% | -$14.4 | 65% | 80:20 |
| 2003/04 | 0% Apr 1/03 | -0.72% Apr 1/03 | 0.9% | -$6.5 | -2.63% | 10.40% | -$20.9 | 72% | 87:13 |
| 2004/05 | 3% Apr 1/04 | 5% Aug 1/04 | 2.7% | $32.3 | 2.24% | 13.38% | $11.4 | 63% | 85:15 |
| 2005/06 | 2.5% Apr 1/05 | 2.25% Apr 1/05 | 2.4% | $21.8 | 4.54% | 16.10% | $33.2 | 54% | 81:19 |
| 2006/07 | 2.25% Feb 1/07 | 2.25% Mar 1/07 | 2.0% | $23.1 | 6.90% | 18.42% | $56.3 | 63% | 80:20 |
| 2007/08 | 0% Apr 1/07 | - | 1.9% | $0.0 | 6.90% | 20.67% | $56.3 | 63% | 73:27 |
| 2008/09 | 2.9% Apr 1/08 | 5.0% Jul 1/08 | 2.2% | $52.4 | 12.24% | 23.33% | $108.7 | 64% | 77:23 |
| 2009/10 | 3.9% Apr 1/09 | 2.84% Apr 1/09 | 0.6% | $32.8 | 15.43% | 24.07% | $141.5 | 73% | 73:27 |
| 2010/11 | 2.9% Apr 1/10 | 2.8% Apr 1/10 | 1.0% | $32.9 | 18.66% | 25.31% | $174.4 | 75% | 73:27 |
| 2011/12 | 2.9% Apr 1/11 | 2.0% Apr 1/11 | 2.8% | $24.4 | 21.03% | 28.82% | $198.8 | 77% | 74:26 |
| 2012/13 | 3.5% Apr 1/12 | 2.0% Apr 1/12 | 1.6% | $25.8 | 23.45% | 30.88% | $224.6 | 79% | 75:25 |
| 2012/13 | 2.5% Sep 1/12 | 2.4% Sep 1/12 | 1.6% | $31.0 | 26.42% | 30.88% | $255.6 | 79% | 75:25 |
| 2013/14 | 3.5% Apr 1/13 | 3.5% May 1/13 | 2.4% | $47.6 | 30.84% | 34.02% | $303.2 | 76% | 76:24 |
| 2014/15 | 3.95% Apr 1/14 | 2.75% May 1/14 | 1.8%** | $38.7 | 34.44% | 36.43% | $341.9 | 78% | 77:23 |
| 2015/16* | 3.95% Apr 1/15 (proposed) | n/a | 1.9%** | $57.4 | 39.75% | 39.02% | $399.3 | 78% | 81:19 |
| 2016/17* | 3.95% Apr 1/16 (proposed) | n/a | 2%** | $59.9 | 45.27% | 41.80% | $459.2 | 78% | 83:17 |

*Calculations assume that the proposed rate increases for fiscal years 2016 and 2017 are approved.
** Forecast

P. Bowman direct evidence 2014/15 & 2015/16 GRA pg. 3

**Figure 1: Cumulative Actual and Forecast Rate Increases**



**Financial Information MFR 10**

**A schedule detailing General Consumer Revenue for 2005 through the test years detailing rate increases granted in similar format to PUB/MH 1-53 (2012 GRA).**

Please see the following table for the requested information.

**MANITOBA HYDRO**
**GENERAL CONSUMERS REVENUE**

(000's)

| | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Residential - Base Rates | $ 373 737 | $ 360 363 | $ 381 532 | $ 397 742 | $ 405 896 | $ 401 304 | $ 411 995 | $ 390 436 | $ 437 224 | $ 457 637 | $ 433 366 | $ 437 595 | $ 443 132 |
| General Service - Base Rates | 534 958 | 555 836 | 570 078 | 581 124 | 583 448 | 563 954 | 571 525 | 584 748 | 604 273 | 603 547 | 607 977 | 614 178 | 612 878 |
| Base Rates | 908 694 | 916 198 | 951 610 | 978 865 | 989 345 | 965 258 | 983 520 | 975 183 | 1 041 497 | 1 061 184 | 1 041 343 | 1 051 772 | 1 056 010 |
| 2004/05 Approved Rate Increase (5.0% August 1, 2004) | 30 260 | 45 810 | 47 580 | 48 943 | 49 467 | 48 263 | 49 176 | 48 759 | 52 075 | 53 059 | 52 067 | 52 589 | 52 800 |
| 2005/06 Approved Rate Increase (2.25% April 1, 2005) | - | 21 645 | 22 482 | 23 126 | 23 373 | 22 804 | 23 236 | 23 039 | 24 605 | 25 070 | 24 602 | 24 848 | 24 948 |
| 2006/07 Approved Rate Increase (2.25% March 1, 2007) | - | | 1 941 | 23 646 | 23 899 | 23 317 | 23 758 | 23 557 | 25 159 | 25 635 | 25 155 | 25 407 | 25 510 |
| 2008/09 Approved Rate Increase (5.0% July 1, 2008) | - | - | - | - | 40 728 | 52 982 | 53 984 | 53 527 | 57 167 | 58 247 | 57 158 | 57 731 | 57 963 |
| 2009/10 Approved Rate Increase (2.9% April 1, 2009) | - | - | - | - | - | 32 266 | 32 877 | 32 598 | 34 815 | 35 473 | 34 809 | 35 158 | 35 300 |
| 2010/11 Interim Rate Increase (2.9% April 1, 2010) | - | - | - | - | - | - | 33 830 | 33 543 | 35 824 | 36 501 | 35 819 | 36 178 | 36 323 |
| 2011/12 Approved Rate Increase (2.0% April 1, 2011) | - | - | - | - | - | - | - | 23 804 | 25 423 | 25 903 | 25 419 | 25 674 | 25 777 |
| 2012/13 Approved Rate Increase (2.0% April 1, 2012 | - | - | - | - | - | - | - | - | 25 931 | 26 421 | 25 927 | 26 187 | 26 293 |
| 2012/13 Approved Rate Increase (2.4% September 1, 2012) | | | | | | | | | 18 515 | 32 340 | 31 735 | 32 053 | 32 182 |
| 2013/14 Approved Rate Increase (3.5% May 1, 2013) | | | | | | | | | | 44 293 | 47 391 | 47 866 | 48 059 |
| 2014/15 Approved Rate Increase (2.75% May 1, 2014) | | | | | | | | | | | 35 316 | 38 925 | 39 082 |
| Interim & Approved Rate Increases | 30 260 | 67 455 | 72 003 | 95 715 | 137 468 | 179 633 | 216 861 | 238 827 | 299 514 | 362 943 | 395 400 | 402 615 | 404 238 |
| 2010/11 (1% rate rollback) | - | - | - | - | - | - | - | (22 894) | - | - | - | - | - |
| Deferred Revenue from 1% rate rollback | - | - | - | - | - | - | - | (22 894) | - | - | - | - | - |
| Additional General Consumers Revenue (3.95% April 1, 2015) | - | - | - | - | - | - | - | - | - | - | | 57 377 | 57 680 |
| Additional General Consumers Revenue (3.95% April 1, 2016) | | | | | | | | | | | | | 59 958 |
| Additional General Consumers Revenue | - | - | - | - | - | - | - | - | - | - | - | 57 377 | 117 638 |
| Bipole III Reserve Account | - | - | - | - | - | - | - | - | - | (18 826) | (29 997) | (32 360) | (33 773) |
| Bipole III Reserve Account | - | - | - | - | - | - | - | - | - | (18 826) | (29 997) | (32 360) | (33 773) |
| **Total General Consumer Revenue** | $ 938 954 | $ 983 653 | $ 1 023 613 | $ 1 074 580 | $ 1 126 812 | $ 1 144 891 | $ 1 200 381 | $ 1 191 117 | $ 1 341 011 | $ 1 405 301 | $ 1 406 745 | $ 1 479 405 | $ 1 544 112 |
| Rate increase requested | 3.00% | 2.50% | 2.25% | n/a | 2.90% | 3.90% | 2.90% | 2.90% | 3.50% | 3.50% | 3.95% | 3.95% | 3.95% |
| Rate increase granted | 5.00% | 2.25% | 2.25% | n/a | 5.00% | 2.90% | 1.90% | 2.00% | 2.0%/2.4% | 3.50% | 2.75% | n/a | n/a |

**MANITOBA HYDRO**
**EXTRAPROVINCIAL REVENUE**

(000's)

| | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Extraprovincial Revenue | $ 553 727 | $ 826 766 | $ 592 245 | $ 624 971 | $ 622 646 | $ 426 641 | $ 398 306 | $ 363 044 | $ 352 633 | $ 439 182 | $ 408 892 | $ 434 157 | $ 449 738 |
| Water Rentals and Assessments | (135 456) | (124 841) | (226 212) | (134 887) | (176 383) | (103 973) | (106 169) | (145 632) | (133 292) | (125 517) | (124 469) | (122 847) | (112 167) |
| Fuel and Power Purchased | (111 521) | (131 020) | (112 497) | (123 767) | (123 000) | (121 033) | (120 163) | (119 301) | (117 864) | (177 113) | (134 189) | (130 432) | (190 933) |
| **Net Extraprovincial Revenue** | $ 306 750 | $ 570 905 | $ 253 536 | $ 366 316 | $ 323 264 | $ 201 635 | $ 171 974 | $ 98 111 | $ 101 477 | $ 136 552 | $ 150 234 | $ 180 878 | $ 146 637 |

3

| | | | |
|---|---|---|---|
| **Section:** | Tab 2 | **Page No.:** | PUB/MH I-3/ PUB/MH I-4 |
| **Topic:** | Overview and Reasons for Application | | |
| **Subtopic:** | Rate Increase | | |
| **Issue:** | Present Values of GRA Rate Increases | | |

**PREAMBLE TO IR (IF ANY):**

In IFF14 restated in PUB/MH I-4 the incremental additional revenue is $35 million in 2015 and $61 million in 2016 for a total of $96 million.

**QUESTION:**

a) Please provide the NPV analysis based on the updated figure of $61 million for 2016.

b) Please provide the analysis based on $96 million using 2016 as the starting point for the analysis.

**RATIONALE FOR QUESTION:**

To understand the full financial implications of the proposed 2014/15 and 2015/16 rate increases over the 20 year forecast.

**RESPONSE:**

a) The incremental additional revenue attributable to the proposed 3.95% rate increase effective April 1, 2015 is $57 million. The incremental additional revenue of $35 million for 2014/15 is the result of the 2.75% rate increase, effective May 1, 2014, for 11 months of the year. The full year impact of the 2.75% rate increase in 2015/16 is $39 million for total additional revenue in 2015/16 of $96 million as shown in the table below.

| | 2015 | 2016 |
|---|---|---|
| General Consumers | | |
| at approved rates | 1 401 | 1 415 |
| additional - 2.75% May 1, 2014 to March 31, 2015 | 35 | - |
| additional - 2.75% April 1, 2015 to March 31, 2016 | - | 39 |
| additional - 3.95% April 1, 2015 to March 31, 2016 | - | 57 |
| Total additional revenue | 35 | 96 |

The present value of the proposed $57 million additional General Consumers Revenue for 2015/16 is $848 million as shown in PUB/MH-I-3.

b) The attached schedule calculates the present value of the proposed $96 million additional General Consumers Revenue for 2015/16 over the 20 year forecast assuming no further rate increases over the 20 year period to 2033/34. This results in a present value of $1,056 million.

The total discounted additional General Consumers Revenue assuming compounding of future rates increases is $1,423 million.

In Millions of Dollars

| | | | | PUB/MH I-4 | | | | PUB/MH II-3(b) | | | | PUB/MH II-4 less PUB/MH II-3(b) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nominal WACC | Discount Factor | PUB/MH I-4 General Consumers Revenue | Annual Rate Increases | Cumulative Rate Increases | Additional GCR | Discounted Additional GCR | Annual Rate Increases | Cumulative Rate Increases | Additional GCR | Discounted Additional GCR | Additional GCR | Discounted Additional GCR |
| **2015** | 6.95% | 1.000 | 1 401 | 2.75% | 2.75% | 35 | 35 | 2.75% | 2.75% | 35 | 35 | - | - |
| **2016** | 6.95% | 1.070 | 1 415 | 3.95% | 6.81% | 96 | 90 | 3.95% | 0.00% | - | - | 96 | 90 |
| **2017** | 6.95% | 1.144 | 1 421 | 3.95% | 11.03% | 157 | 137 | 3.95% | 3.95% | 56 | 49 | 101 | 88 |
| **2018** | 6.95% | 1.223 | 1 443 | 3.95% | 15.41% | 222 | 182 | 3.95% | 8.06% | 116 | 95 | 106 | 87 |
| **2019** | 6.95% | 1.308 | 1 450 | 3.95% | 19.97% | 290 | 221 | 3.95% | 12.32% | 179 | 137 | 111 | 85 |
| **2020** | 6.95% | 1.399 | 1 461 | 3.95% | 24.71% | 361 | 258 | 3.95% | 16.76% | 245 | 175 | 116 | 83 |
| **2021** | 6.95% | 1.497 | 1 466 | 3.95% | 29.64% | 434 | 290 | 3.95% | 21.37% | 313 | 209 | 121 | 81 |
| **2022** | 6.95% | 1.601 | 1 473 | 3.95% | 34.76% | 512 | 320 | 3.95% | 26.17% | 385 | 241 | 127 | 79 |
| **2023** | 6.95% | 1.712 | 1 485 | 3.95% | 40.08% | 595 | 348 | 3.95% | 31.15% | 462 | 270 | 133 | 77 |
| **2024** | 6.95% | 1.831 | 1 496 | 3.95% | 45.61% | 683 | 373 | 3.95% | 36.33% | 544 | 297 | 139 | 76 |
| **2025** | 6.95% | 1.958 | 1 510 | 3.95% | 51.37% | 776 | 396 | 3.95% | 41.72% | 630 | 322 | 146 | 74 |
| **2026** | 6.95% | 2.094 | 1 524 | 3.95% | 57.34% | 874 | 417 | 3.95% | 47.31% | 721 | 344 | 153 | 73 |
| **2027** | 6.95% | 2.240 | 1 537 | 3.95% | 63.56% | 977 | 436 | 3.95% | 53.13% | 817 | 365 | 160 | 72 |
| **2028** | 6.95% | 2.395 | 1 551 | 3.95% | 70.02% | 1 086 | 453 | 3.95% | 59.18% | 918 | 383 | 168 | 70 |
| **2029** | 6.95% | 2.562 | 1 564 | 3.95% | 76.74% | 1 200 | 469 | 3.95% | 65.47% | 1 024 | 400 | 176 | 69 |
| **2030** | 6.95% | 2.740 | 1 580 | 3.95% | 83.72% | 1 323 | 483 | 3.95% | 72.01% | 1 138 | 415 | 185 | 68 |
| **2031** | 6.95% | 2.930 | 1 597 | 3.95% | 90.97% | 1 453 | 496 | 3.95% | 78.80% | 1 259 | 430 | 194 | 66 |
| **2032** | 6.95% | 3.134 | 1 614 | 2.00% | 94.79% | 1 530 | 488 | 2.00% | 82.38% | 1 330 | 424 | 200 | 64 |
| **2033** | 6.95% | 3.352 | 1 632 | 2.00% | 98.69% | 1 611 | 481 | 2.00% | 86.02% | 1 404 | 419 | 207 | 62 |
| **2034** | 6.95% | 3.585 | 1 650 | 2.00% | 102.66% | 1 694 | 473 | 2.00% | 89.74% | 1 481 | 413 | 213 | 59 |
| **NPV** | | | | | | | **6 846** | | | | **5 423** | | **1 423** |

In Millions of Dollars

| | PUB/MH II-3(b) Assuming No Projected Future Rate Increases | | | | PUB/MH II-3(b) With Compounding due to Projected Future Rate Increases | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Annual Rate Increases | Cumulative Rate Increases | Additional GCR | Discounted Additional GCR | Annual Rate Increases per MH14 | Cumulative Rate Increases per MH14 | Additional GCR due to Compounding of Future Rate Increases | Discounted Additional GCR due to Compounding of Future Rate Increases | Total Discounted Additional GCR |
| **2015** | 0.00% | 0.00% | - | - | 0.00% | 0.00% | - | | |
| **2016** | 6.81% | 6.81% | 96 | 90 | 0.00% | 0.00% | - | - | 90 |
| **2017** | 0.00% | 6.81% | 97 | 85 | 3.95% | 3.95% | 4 | 3 | 88 |
| **2018** | 0.00% | 6.81% | 98 | 80 | 3.95% | 8.06% | 8 | 6 | 87 |
| **2019** | 0.00% | 6.81% | 99 | 75 | 3.95% | 12.32% | 12 | 9 | 85 |
| **2020** | 0.00% | 6.81% | 99 | 71 | 3.95% | 16.76% | 17 | 12 | 83 |
| **2021** | 0.00% | 6.81% | 100 | 67 | 3.95% | 21.37% | 21 | 14 | 81 |
| **2022** | 0.00% | 6.81% | 100 | 63 | 3.95% | 26.17% | 26 | 16 | 79 |
| **2023** | 0.00% | 6.81% | 101 | 59 | 3.95% | 31.15% | 31 | 18 | 77 |
| **2024** | 0.00% | 6.81% | 102 | 56 | 3.95% | 36.33% | 37 | 20 | 76 |
| **2025** | 0.00% | 6.81% | 103 | 53 | 3.95% | 41.72% | 43 | 22 | 74 |
| **2026** | 0.00% | 6.81% | 104 | 50 | 3.95% | 47.31% | 49 | 23 | 73 |
| **2027** | 0.00% | 6.81% | 105 | 47 | 3.95% | 53.13% | 56 | 25 | 72 |
| **2028** | 0.00% | 6.81% | 106 | 44 | 3.95% | 59.18% | 62 | 26 | 70 |
| **2029** | 0.00% | 6.81% | 106 | 42 | 3.95% | 65.47% | 70 | 27 | 69 |
| **2030** | 0.00% | 6.81% | 108 | 39 | 3.95% | 72.01% | 77 | 28 | 68 |
| **2031** | 0.00% | 6.81% | 109 | 37 | 3.95% | 78.80% | 86 | 29 | 66 |
| **2032** | 0.00% | 6.81% | 110 | 35 | 2.00% | 82.38% | 91 | 29 | 64 |
| **2033** | 0.00% | 6.81% | 111 | 33 | 2.00% | 86.02% | 96 | 29 | 62 |
| **2034** | 0.00% | 6.81% | 112 | 31 | 2.00% | 89.74% | 101 | 28 | 59 |
| **NPV** | | | | **1 056** | | | | **367** | **1 423** |

4

| Section: | Tab 3: Appendix 3.4 | Page No.: | |
|---|---|---|---|
| Topic: | Integrated Financial Forecast & Economic Outlook | | |
| Subtopic: | Operating Results | | |
| Issue: | 2014/15 Rate Increase | | |

**PREAMBLE TO IR (IF ANY):**

This GRA includes the 2014/15 test year.

**QUESTION:**

Please refile a version of the IFF14 operating statement, balance sheet and cash flow statement to include the interim 2.75% rate increase approved May 1, 2014 as Additional General Consumers Revenue, updating the cumulative rate increase section accordingly.

**RATIONALE FOR QUESTION:**

The filed statements do not reflect the complete rate increase being sought in the application related to the 2014/15 test year.

**RESPONSE:**

Please see the attached projected Electric operations financial statements with the 2014/15 2.75% rate increase reclassified to Additional General Consumers Revenue.

**ELECTRIC OPERATIONS (MH14)**
**PROJECTED OPERATING STATEMENT**
**Response to PUB-MH-I-4 - Interim 2.75% Rate Increase included in Additional GCR**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| General Consumers | | | | | | | | | | |
| at approved rates | 1 401 | 1 415 | 1 421 | 1 443 | 1 450 | 1 461 | 1 466 | 1 473 | 1 485 | 1 496 |
| additional* | 35 | 96 | 157 | 222 | 290 | 361 | 434 | 512 | 595 | 683 |
| BPIII Reserve Account | (30) | (32) | (34) | (36) | (11) | 0 | 0 | 0 | 0 | 0 |
| Extraprovincial | 409 | 434 | 450 | 457 | 479 | 514 | 817 | 943 | 959 | 987 |
| Other | 15 | 14 | 14 | 14 | 15 | 15 | 15 | 15 | 16 | 16 |
| | 1 831 | 1 928 | 2 008 | 2 101 | 2 222 | 2 352 | 2 732 | 2 944 | 3 054 | 3 182 |
| **EXPENSES** | | | | | | | | | | |
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 |
| Finance Expense | 495 | 510 | 548 | 581 | 752 | 887 | 1 194 | 1 326 | 1 334 | 1 349 |
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 613 | 667 | 736 | 752 |
| Water Rentals and Assessments | 124 | 123 | 112 | 112 | 112 | 114 | 124 | 127 | 132 | 132 |
| Fuel and Power Purchased | 134 | 130 | 191 | 202 | 207 | 205 | 234 | 263 | 257 | 267 |
| Capital and Other Taxes | 99 | 107 | 121 | 134 | 143 | 144 | 145 | 151 | 150 | 161 |
| Corporate Allocation | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Other Expenses | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 |
| | 1 754 | 1 824 | 1 956 | 2 044 | 2 317 | 2 471 | 2 920 | 3 150 | 3 239 | 3 304 |
| Non-controlling Interest | 25 | 12 | 8 | 7 | 5 | 4 | 10 | 0 | (1) | (3) |
| **Net Income** | 102 | 115 | 59 | 64 | (90) | (116) | (178) | (206) | (187) | (124) |
| * Additional General Consumers Revenue | | | | | | | | | | |
| Percent Increase | 2.75% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% |
| Cumulative Percent Increase | 2.75% | 6.81% | 11.03% | 15.41% | 19.97% | 24.71% | 29.64% | 34.76% | 40.08% | 45.61% |
| **Financial Ratios** | | | | | | | | | | |
| Equity | 22% | 18% | 16% | 15% | 14% | 13% | 12% | 11% | 10% | 10% |
| Interest Coverage | 1.16 | 1.16 | 1.07 | 1.06 | 0.92 | 0.91 | 0.86 | 0.85 | 0.86 | 0.91 |
| Capital Coverage | 0.98 | 1.02 | 0.94 | 1.09 | 0.88 | 0.80 | 0.82 | 0.94 | 1.09 | 1.22 |

**ELECTRIC OPERATIONS (MH14)**
**PROJECTED OPERATING STATEMENT**
**Response to PUB-MH-I-4 - Interim 2.75% Rate Increase included in Additional GCR**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| General Consumers | | | | | | | | | | |
| at approved rates | 1 510 | 1 524 | 1 537 | 1 551 | 1 564 | 1 580 | 1 597 | 1 614 | 1 632 | 1 650 |
| additional* | 776 | 874 | 977 | 1 086 | 1 200 | 1 323 | 1 453 | 1 530 | 1 611 | 1 694 |
| BPIII Reserve Account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Extraprovincial | 996 | 928 | 944 | 921 | 920 | 927 | 911 | 901 | 883 | 884 |
| Other | 16 | 17 | 17 | 18 | 18 | 18 | 19 | 19 | 19 | 20 |
| | 3 298 | 3 342 | 3 475 | 3 575 | 3 702 | 3 849 | 3 980 | 4 065 | 4 145 | 4 248 |
| **EXPENSES** | | | | | | | | | | |
| Operating and Administrative | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 1 351 | 1 348 | 1 338 | 1 337 | 1 321 | 1 301 | 1 263 | 1 197 | 1 161 | 1 116 |
| Depreciation and Amortization | 767 | 780 | 791 | 804 | 811 | 820 | 831 | 842 | 857 | 873 |
| Water Rentals and Assessments | 133 | 132 | 133 | 133 | 134 | 134 | 135 | 135 | 136 | 137 |
| Fuel and Power Purchased | 278 | 275 | 283 | 283 | 291 | 302 | 307 | 317 | 320 | 333 |
| Capital and Other Taxes | 162 | 163 | 164 | 165 | 166 | 167 | 168 | 170 | 173 | 174 |
| Corporate Allocation | 8 | 8 | 8 | 8 | 8 | 6 | 5 | 6 | 5 | 5 |
| Other Expenses | 3 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 |
| | 3 346 | 3 365 | 3 388 | 3 415 | 3 430 | 3 439 | 3 432 | 3 403 | 3 403 | 3 404 |
| Non-controlling Interest | (5) | (2) | (3) | (5) | (6) | (10) | (12) | (15) | (17) | (19) |
| **Net Income** | (53) | (24) | 84 | 155 | 266 | 400 | 536 | 647 | 725 | 826 |
| * Additional General Consumers Revenue | | | | | | | | | | |
| Percent Increase | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 2.00% | 2.00% | 2.00% |
| Cumulative Percent Increase | 51.37% | 57.34% | 63.56% | 70.02% | 76.74% | 83.72% | 90.97% | 94.79% | 98.69% | 102.66% |
| **Financial Ratios** | | | | | | | | | | |
| Equity | 10% | 10% | 10% | 11% | 12% | 14% | 16% | 19% | 22% | 25% |
| Interest Coverage | 0.96 | 0.98 | 1.06 | 1.11 | 1.20 | 1.30 | 1.42 | 1.53 | 1.61 | 1.71 |
| Capital Coverage | 1.27 | 1.31 | 1.48 | 1.58 | 1.70 | 1.94 | 2.04 | 2.20 | 2.29 | 2.41 |

**ELECTRIC OPERATIONS (MH14)**
**PROJECTED BALANCE SHEET**
**Response to PUB-MH-I-4 - Interim 2.75% Rate Increase included in Additional GCR**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | |
| Plant in Service | 17 163 | 17 912 | 19 127 | 19 988 | 24 957 | 28 333 | 33 202 | 33 846 | 34 478 | 35 142 |
| Accumulated Depreciation | (5 676) | (6 012) | (6 392) | (6 795) | (7 270) | (7 798) | (8 403) | (9 055) | (9 721) | (10 401) |
| Net Plant in Service | 11 487 | 11 900 | 12 735 | 13 193 | 17 687 | 20 535 | 24 800 | 24 791 | 24 757 | 24 741 |
| Construction in Progress | 3 257 | 4 932 | 6 755 | 8 982 | 6 040 | 3 939 | 169 | 185 | 241 | 263 |
| Current and Other Assets | 1 798 | 1 570 | 1 822 | 2 268 | 2 295 | 2 598 | 2 727 | 2 167 | 2 238 | 2 442 |
| Goodwill and Intangible Assets | 198 | 186 | 175 | 166 | 166 | 177 | 168 | 152 | 137 | 121 |
| Regulated Assets | 254 | 278 | 313 | 352 | 396 | 420 | 434 | 431 | 416 | 398 |
| | 16 993 | 18 866 | 21 801 | 24 961 | 26 585 | 27 668 | 28 299 | 27 727 | 27 788 | 27 965 |
| **LIABILITIES AND EQUITY** | | | | | | | | | | |
| Long-Term Debt | 11 705 | 13 808 | 16 681 | 18 689 | 21 177 | 21 906 | 22 792 | 22 955 | 23 250 | 23 441 |
| Current and Other Liabilities | 2 016 | 2 151 | 2 097 | 3 069 | 2 214 | 2 654 | 2 604 | 2 104 | 2 028 | 2 101 |
| Contributions in Aid of Construction | 412 | 446 | 480 | 514 | 549 | 583 | 618 | 654 | 690 | 727 |
| BPIII Reserve Account | 49 | 81 | 115 | 151 | 162 | 108 | 54 | - | - | - |
| Retained Earnings | 2 717 | 2 778 | 2 837 | 2 902 | 2 812 | 2 696 | 2 518 | 2 312 | 2 126 | 2 001 |
| Accumulated Other Comprehensive Income | 94 | (399) | (409) | (363) | (328) | (278) | (287) | (298) | (305) | (305) |
| | 16 993 | 18 866 | 21 801 | 24 961 | 26 585 | 27 668 | 28 299 | 27 727 | 27 788 | 27 965 |

**ELECTRIC OPERATIONS (MH14)**
**PROJECTED BALANCE SHEET**
**Response to PUB-MH-I-4 - Interim 2.75% Rate Increase included in Additional GCR**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | |
| Plant in Service | 35 822 | 36 544 | 37 410 | 38 124 | 38 859 | 39 555 | 40 294 | 41 050 | 41 823 | 42 952 |
| Accumulated Depreciation | (11 096) | (11 807) | (12 532) | (13 274) | (14 030) | (14 800) | (15 585) | (16 384) | (17 200) | (18 031) |
| Net Plant in Service | 24 725 | 24 737 | 24 878 | 24 849 | 24 828 | 24 754 | 24 710 | 24 666 | 24 623 | 24 921 |
| Construction in Progress | 322 | 344 | 225 | 254 | 277 | 323 | 365 | 402 | 465 | 255 |
| Current and Other Assets | 2 387 | 2 536 | 2 801 | 3 049 | 3 421 | 3 773 | 3 629 | 4 288 | 4 963 | 5 703 |
| Goodwill and Intangible Assets | 107 | 93 | 80 | 68 | 57 | 45 | 34 | 23 | 11 | (0) |
| Regulated Assets | 374 | 353 | 333 | 313 | 300 | 295 | 293 | 296 | 304 | 311 |
| | 27 914 | 28 063 | 28 316 | 28 533 | 28 884 | 29 191 | 29 030 | 29 675 | 30 366 | 31 189 |
| **LIABILITIES AND EQUITY** | | | | | | | | | | |
| Long-Term Debt | 23 395 | 24 198 | 24 401 | 24 343 | 24 476 | 23 749 | 23 739 | 23 743 | 23 737 | 23 381 |
| Current and Other Liabilities | 2 112 | 1 443 | 1 373 | 1 456 | 1 372 | 1 968 | 1 243 | 1 199 | 1 132 | 1 446 |
| Contributions in Aid of Construction | 764 | 802 | 839 | 876 | 914 | 952 | 990 | 1 029 | 1 069 | 1 109 |
| BPIII Reserve Account | - | - | - | - | - | - | - | - | - | - |
| Retained Earnings | 1 948 | 1 924 | 2 007 | 2 161 | 2 427 | 2 826 | 3 361 | 4 008 | 4 732 | 5 557 |
| Accumulated Other Comprehensive Income | (304) | (304) | (304) | (304) | (304) | (304) | (304) | (304) | (304) | (304) |
| | 27 914 | 28 063 | 28 316 | 28 533 | 28 884 | 29 191 | 29 030 | 29 675 | 30 366 | 31 189 |

**ELECTRIC OPERATIONS (MH14)**
**PROJECTED CASH FLOW STATEMENT**
**Response to PUB-MH-I-4 - Interim 2.75% Rate Increase included in Additional GCR**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | | | | | | |
| Cash Receipts from Customers | 1 859 | 1 958 | 2 039 | 2 134 | 2 231 | 2 349 | 2 729 | 2 941 | 3 051 | 3 180 |
| Cash Paid to Suppliers and Employees | (803) | (871) | (942) | (973) | (1 000) | (1 015) | (1 069) | (1 099) | (1 124) | (1 155) |
| Interest Paid | (511) | (514) | (547) | (593) | (784) | (928) | (1 222) | (1 349) | (1 329) | (1 341) |
| Interest Received | 13 | 15 | 21 | 30 | 35 | 34 | 31 | 28 | 15 | 16 |
| | 558 | 587 | 571 | 598 | 482 | 441 | 469 | 522 | 613 | 699 |
| **FINANCING ACTIVITIES** | | | | | | | | | | |
| Proceeds from Long-Term Debt | 1 953 | 2 390 | 3 190 | 3 200 | 2 790 | 1 600 | 1 590 | 600 | 560 | 580 |
| Sinking Fund Withdrawals | 110 | 21 | - | 7 | 448 | 204 | 294 | 716 | 165 | 27 |
| Retirement of Long-Term Debt | (800) | (312) | (334) | (330) | (1 195) | (315) | (850) | (718) | (441) | (290) |
| Other | (45) | (22) | (20) | (20) | (30) | (19) | (101) | (25) | (41) | (32) |
| | 1 218 | 2 077 | 2 836 | 2 857 | 2 013 | 1 470 | 933 | 573 | 243 | 285 |
| **INVESTING ACTIVITIES** | | | | | | | | | | |
| Property, Plant and Equipment, net of contributions | (1 900) | (2 518) | (3 134) | (3 244) | (2 253) | (1 550) | (1 010) | (756) | (698) | (697) |
| Sinking Fund Payment | (125) | (202) | (168) | (243) | (241) | (245) | (262) | (358) | (252) | (258) |
| Other | (21) | (21) | (21) | (21) | (21) | (35) | (30) | (30) | (30) | (30) |
| | (2 046) | (2 742) | (3 323) | (3 508) | (2 516) | (1 830) | (1 302) | (1 144) | (980) | (986) |
| **Net Increase (Decrease) in Cash** | (270) | (78) | 84 | (53) | (21) | 80 | 100 | (50) | (124) | (2) |
| **Cash at Beginning of Year** | 133 | (137) | (214) | (130) | (183) | (204) | (124) | (24) | (73) | (198) |
| **Cash at End of Year** | (137) | (214) | (130) | (183) | (204) | (124) | (24) | (73) | (198) | (200) |

**ELECTRIC OPERATIONS (MH14)**
**PROJECTED CASH FLOW STATEMENT**
**Response to PUB-MH-I-4 - Interim 2.75% Rate Increase included in Additional GCR**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | | | | | | |
| Cash Receipts from Customers | 3 295 | 3 340 | 3 472 | 3 572 | 3 699 | 3 846 | 3 977 | 4 062 | 4 142 | 4 245 |
| Cash Paid to Suppliers and Employees | (1 179) | (1 189) | (1 211) | (1 225) | (1 247) | (1 269) | (1 288) | (1 314) | (1 334) | (1 363) |
| Interest Paid | (1 348) | (1 353) | (1 354) | (1 371) | (1 368) | (1 360) | (1 341) | (1 250) | (1 230) | (1 200) |
| Interest Received | 19 | 21 | 35 | 49 | 62 | 71 | 84 | 63 | 78 | 92 |
| | 787 | 818 | 943 | 1 024 | 1 146 | 1 288 | 1 432 | 1 561 | 1 655 | 1 775 |
| **FINANCING ACTIVITIES** | | | | | | | | | | |
| Proceeds from Long-Term Debt | 390 | 780 | 190 | (10) | 180 | (30) | (20) | (20) | (40) | (30) |
| Sinking Fund Withdrawals | 297 | 103 | - | - | 60 | 100 | 700 | 13 | 30 | - |
| Retirement of Long-Term Debt | (402) | (450) | - | - | (60) | (70) | (700) | (13) | - | 20 |
| Other | (31) | (30) | (29) | (27) | (25) | (22) | (21) | (38) | (37) | (36) |
| | 254 | 403 | 161 | (37) | 155 | (22) | (41) | (58) | (47) | (46) |
| **INVESTING ACTIVITIES** | | | | | | | | | | |
| Property, Plant and Equipment, net of contributions | (744) | (751) | (752) | (745) | (762) | (748) | (787) | (800) | (846) | (928) |
| Sinking Fund Payment | (271) | (270) | (278) | (291) | (303) | (313) | (320) | (298) | (309) | (320) |
| Other | (30) | (31) | (25) | (26) | (26) | (26) | (26) | (26) | (27) | (27) |
| | (1 045) | (1 051) | (1 056) | (1 062) | (1 091) | (1 087) | (1 134) | (1 125) | (1 182) | (1 275) |
| **Net Increase (Decrease) in Cash** | (4) | 170 | 48 | (75) | 210 | 179 | 257 | 378 | 427 | 454 |
| **Cash at Beginning of Year** | (200) | (204) | (34) | 14 | (61) | 149 | 328 | 585 | 963 | 1 390 |
| **Cash at End of Year** | (204) | (34) | 14 | (61) | 149 | 328 | 585 | 963 | 1 390 | 1 844 |

**PUB/MH I-22**

**Reference: IFF11-2 – Electric Operations**

**a) Please refile the IFF11-2 electric operations for the 20 year outlook including financial targets for each year.**

**ANSWER:**

Please note that while financial targets have been calculated based on electric operations only in the following attachment, as requested, Manitoba Hydro's financial targets apply to consolidated operations only.

**ELECTRIC OPERATIONS (MH11-2)**
**PROJECTED OPERATING STATEMENT**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | | |
| General Consumers | | | | | | | | | | | |
| at approved rates | 1 186 | 1 290 | 1 294 | 1 306 | 1 313 | 1 330 | 1 350 | 1 361 | 1 382 | 1 403 | 1 422 |
| additional* | 0 | 45 | 106 | 156 | 208 | 265 | 325 | 387 | 455 | 527 | 603 |
| Extraprovincial | 363 | 341 | 363 | 394 | 469 | 502 | 531 | 554 | 611 | 821 | 913 |
| Other | 7 | 16 | 16 | 16 | 17 | 17 | 17 | 18 | 18 | 18 | 19 |
| | 1 556 | 1 693 | 1 778 | 1 873 | 2 007 | 2 114 | 2 224 | 2 320 | 2 466 | 2 769 | 2 957 |
| **EXPENSES** | | | | | | | | | | | |
| Operating and Administrative | 398 | 447 | 532 | 542 | 548 | 554 | 571 | 580 | 595 | 611 | 622 |
| Finance Expense | 385 | 440 | 452 | 504 | 537 | 570 | 640 | 763 | 803 | 1 147 | 1 109 |
| Depreciation and Amortization | 353 | 401 | 354 | 358 | 375 | 387 | 422 | 468 | 483 | 550 | 576 |
| Water Rentals and Assessments | 119 | 106 | 112 | 113 | 113 | 113 | 113 | 113 | 114 | 123 | 128 |
| Fuel and Power Purchased | 146 | 182 | 158 | 187 | 193 | 204 | 220 | 236 | 249 | 256 | 257 |
| Capital and Other Taxes | 82 | 87 | 92 | 99 | 107 | 116 | 126 | 132 | 139 | 128 | 134 |
| Corporate Allocation | 9 | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| | 1 492 | 1 672 | 1 709 | 1 810 | 1 881 | 1 952 | 2 100 | 2 300 | 2 393 | 2 823 | 2 833 |
| Non-controlling Interest | - | (1) | (1) | (1) | (2) | (2) | (2) | (3) | (3) | (3) | (10) |
| **Net Income** | 64 | 20 | 68 | 62 | 124 | 159 | 121 | 18 | 70 | (57) | 113 |
| * Additional General Consumers Revenue | | | | | | | | | | | |
| Percent Increase | 0.00% | 3.57% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Cumulative Percent Increase | 0.00% | 4.50% | 8.16% | 11.94% | 15.86% | 19.92% | 24.11% | 28.46% | 32.95% | 37.61% | 42.42% |
| **Financial Ratios** | | | | | | | | | | | |
| Equity | 26% | 24% | 19% | 17% | 15% | 15% | 14% | 13% | 13% | 12% | 12% |
| Interest Coverage | 1.12 | 1.03 | 1.11 | 1.09 | 1.15 | 1.17 | 1.12 | 1.02 | 1.06 | 0.96 | 1.08 |
| Capital Coverage | 1.04 | 1.07 | 1.13 | 1.15 | 1.43 | 1.54 | 1.48 | 1.29 | 1.46 | 1.43 | 1.86 |

**ELECTRIC OPERATIONS (MH11-2)**
**PROJECTED OPERATING STATEMENT**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| General Consumers | | | | | | | | | | |
| at approved rates | 1 441 | 1 460 | 1 479 | 1 498 | 1 521 | 1 541 | 1 562 | 1 582 | 1 602 | 1 622 |
| additional* | 683 | 767 | 822 | 880 | 941 | 1 004 | 1 069 | 1 136 | 1 205 | 1 277 |
| Extraprovincial | 931 | 946 | 1 124 | 1 408 | 1 526 | 1 544 | 1 539 | 1 544 | 1 565 | 1 574 |
| Other | 19 | 20 | 20 | 20 | 21 | 21 | 22 | 22 | 23 | 23 |
| | 3 074 | 3 193 | 3 445 | 3 806 | 4 008 | 4 110 | 4 191 | 4 284 | 4 394 | 4 497 |
| **EXPENSES** | | | | | | | | | | |
| Operating and Administrative | 634 | 646 | 669 | 676 | 688 | 700 | 713 | 727 | 741 | 755 |
| Finance Expense | 1 091 | 1 079 | 1 173 | 1 398 | 1 545 | 1 512 | 1 473 | 1 424 | 1 438 | 1 338 |
| Depreciation and Amortization | 579 | 583 | 615 | 682 | 733 | 741 | 753 | 761 | 793 | 814 |
| Water Rentals and Assessments | 129 | 128 | 135 | 148 | 153 | 153 | 153 | 154 | 155 | 155 |
| Fuel and Power Purchased | 269 | 301 | 282 | 279 | 301 | 320 | 332 | 347 | 359 | 372 |
| Capital and Other Taxes | 140 | 145 | 151 | 153 | 154 | 156 | 158 | 160 | 161 | 162 |
| Corporate Allocation | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| | 2 850 | 2 891 | 3 032 | 3 345 | 3 582 | 3 591 | 3 591 | 3 580 | 3 655 | 3 604 |
| Non-controlling Interest | (10) | (11) | (11) | (11) | (12) | (12) | (13) | (13) | (14) | (14) |
| **Net Income** | 213 | 291 | 402 | 450 | 415 | 507 | 588 | 691 | 726 | 878 |
| * Additional General Consumers Revenue | | | | | | | | | | |
| Percent Increase | 3.50% | 3.50% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Cumulative Percent Increase | 47.41% | 52.57% | 55.62% | 58.73% | 61.91% | 65.14% | 68.45% | 71.82% | 75.25% | 78.76% |
| **Financial Ratios** | | | | | | | | | | |
| Equity | 12% | 13% | 14% | 15% | 17% | 19% | 21% | 23% | 26% | 29% |
| Interest Coverage | 1.14 | 1.19 | 1.26 | 1.28 | 1.26 | 1.33 | 1.38 | 1.46 | 1.49 | 1.63 |
| Capital Coverage | 1.93 | 1.99 | 2.04 | 2.36 | 2.32 | 2.57 | 2.59 | 2.65 | 3.34 | 3.00 |

**ELECTRIC OPERATIONS (MH11-2)**
**PROJECTED BALANCE SHEET**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | |
| Plant in Service | 13 795 | 15 212 | 15 723 | 16 485 | 17 410 | 17 993 | 21 415 | 21 904 | 25 521 | 28 275 | 28 636 |
| Accumulated Depreciation | (4 917) | (5 266) | (5 581) | (5 911) | (6 272) | (6 638) | (7 065) | (7 539) | (8 028) | (8 583) | (9 165) |
| Net Plant in Service | 8 878 | 9 947 | 10 142 | 10 574 | 11 138 | 11 355 | 14 351 | 14 365 | 17 492 | 19 692 | 19 472 |
| Construction in Progress | 2 443 | 2 196 | 3 149 | 3 997 | 5 014 | 6 410 | 5 346 | 6 447 | 4 558 | 3 595 | 4 964 |
| Current and Other Assets | 1 906 | 1 864 | 1 327 | 1 372 | 1 559 | 1 740 | 1 987 | 1 779 | 1 951 | 2 171 | 2 048 |
| Goodwill and Intangible Assets | 181 | 179 | 162 | 149 | 136 | 126 | 117 | 109 | 103 | 97 | 93 |
| Regulated Assets | 240 | 241 | - | - | - | - | - | - | - | - | - |
| | 13 648 | 14 426 | 14 780 | 16 092 | 17 847 | 19 631 | 21 800 | 22 701 | 24 105 | 25 555 | 26 577 |
| **LIABILITIES AND EQUITY** | | | | | | | | | | | |
| Long-Term Debt | 9 253 | 9 469 | 10 909 | 12 169 | 13 789 | 15 260 | 17 025 | 18 518 | 19 480 | 20 990 | 22 434 |
| Current and Other Liabilities | 1 351 | 1 917 | 1 407 | 1 520 | 1 574 | 1 736 | 2 035 | 1 432 | 1 810 | 1 814 | 1 289 |
| Contributions in Aid of Construction | 317 | 328 | 341 | 348 | 355 | 365 | 376 | 386 | 396 | 407 | 418 |
| Retained Earnings | 2 391 | 2 411 | 2 203 | 2 265 | 2 389 | 2 548 | 2 669 | 2 687 | 2 757 | 2 700 | 2 814 |
| Accumulated Other Comprehensive Income | 335 | 302 | (79) | (209) | (261) | (279) | (306) | (322) | (338) | (356) | (379) |
| | 13 648 | 14 426 | 14 780 | 16 092 | 17 847 | 19 631 | 21 800 | 22 701 | 24 105 | 25 555 | 26 577 |
| Equity Ratio | 26% | 24% | 19% | 17% | 15% | 15% | 14% | 13% | 13% | 12% | 12% |

**ELECTRIC OPERATIONS (MH11-2)**
**PROJECTED BALANCE SHEET**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | |
| Plant in Service | 29 045 | 29 610 | 34 023 | 38 098 | 39 357 | 39 988 | 40 557 | 41 087 | 43 107 | 43 823 |
| Accumulated Depreciation | (9 752) | (10 344) | (10 970) | (11 663) | (12 407) | (13 160) | (13 926) | (14 701) | (15 509) | (16 338) |
| Net Plant in Service | 19 293 | 19 267 | 23 053 | 26 435 | 26 951 | 26 828 | 26 631 | 26 386 | 27 599 | 27 485 |
| Construction in Progress | 6 099 | 6 969 | 4 170 | 1 022 | 545 | 786 | 1 259 | 1 722 | 618 | 758 |
| Current and Other Assets | 2 158 | 2 426 | 2 660 | 2 640 | 3 029 | 3 431 | 3 695 | 3 929 | 4 486 | 5 143 |
| Goodwill and Intangible Assets | 91 | 89 | 88 | 86 | 85 | 83 | 82 | 81 | 81 | 80 |
| Regulated Assets | - | - | - | - | - | - | - | - | - | - |
| | 27 641 | 28 752 | 29 972 | 30 183 | 30 609 | 31 128 | 31 667 | 32 118 | 32 783 | 33 466 |
| **LIABILITIES AND EQUITY** | | | | | | | | | | |
| Long-Term Debt | 23 437 | 24 240 | 24 593 | 24 795 | 24 796 | 24 738 | 24 489 | 24 391 | 24 180 | 23 152 |
| Current and Other Liabilities | 1 140 | 1 146 | 1 599 | 1 146 | 1 145 | 1 203 | 1 390 | 1 236 | 1 374 | 2 193 |
| Contributions in Aid of Construction | 429 | 440 | 451 | 463 | 475 | 487 | 499 | 512 | 525 | 538 |
| Retained Earnings | 3 026 | 3 317 | 3 719 | 4 170 | 4 584 | 5 092 | 5 679 | 6 370 | 7 096 | 7 974 |
| Accumulated Other Comprehensive Income | (392) | (391) | (391) | (391) | (391) | (391) | (391) | (391) | (391) | (391) |
| | 27 641 | 28 752 | 29 972 | 30 183 | 30 609 | 31 128 | 31 667 | 32 118 | 32 783 | 33 466 |
| Equity Ratio | 12% | 13% | 14% | 15% | 17% | 19% | 21% | 23% | 26% | 29% |

**ELECTRIC OPERATIONS (MH11-2)**
**PROJECTED CASH FLOW STATEMENT**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | | | | | | | |
| Cash Receipts from Customers | 1 556 | 1 693 | 1 778 | 1 873 | 2 007 | 2 114 | 2 224 | 2 320 | 2 466 | 2 769 | 2 957 |
| Cash Paid to Suppliers and Employees | (742) | (816) | (886) | (931) | (951) | (976) | (1 018) | (1 048) | (1 084) | (1 103) | (1 125) |
| Interest Paid | (406) | (466) | (475) | (516) | (564) | (598) | (683) | (817) | (841) | (1 188) | (1 151) |
| Interest Received | 26 | 28 | 27 | 20 | 27 | 34 | 41 | 43 | 40 | 36 | 35 |
| | 434 | 439 | 444 | 447 | 519 | 574 | 564 | 499 | 580 | 514 | 717 |
| **FINANCING ACTIVITIES** | | | | | | | | | | | |
| Proceeds from Long-Term Debt | 811 | 900 | 1 630 | 1 405 | 1 990 | 2 000 | 2 590 | 1 800 | 1 590 | 2 190 | 1 590 |
| Sinking Fund Withdrawals | 23 | 129 | 395 | 105 | 24 | - | 4 | 424 | 177 | 265 | 689 |
| Retirement of Long-Term Debt | (25) | (119) | (808) | (179) | (312) | (408) | (530) | (837) | (309) | (640) | (692) |
| Other | (81) | (21) | (14) | (5) | (7) | (7) | (7) | (16) | (5) | 26 | (6) |
| | 729 | 889 | 1 203 | 1 326 | 1 695 | 1 585 | 2 057 | 1 371 | 1 452 | 1 841 | 1 581 |
| **INVESTING ACTIVITIES** | | | | | | | | | | | |
| Property, Plant and Equipment, net of contributions | (1 163) | (1 226) | (1 481) | (1 616) | (1 934) | (1 986) | (2 336) | (1 567) | (1 820) | (1 856) | (1 697) |
| Sinking Fund Payment | (98) | (117) | (208) | (124) | (192) | (157) | (231) | (209) | (219) | (288) | (346) |
| Other | (19) | (20) | (20) | (21) | (19) | (46) | (36) | (30) | (30) | (34) | (40) |
| | (1 280) | (1 363) | (1 709) | (1 761) | (2 146) | (2 189) | (2 603) | (1 806) | (2 069) | (2 179) | (2 083) |
| **Net Increase (Decrease) in Cash** | (116) | (36) | (62) | 12 | 68 | (29) | 18 | 64 | (36) | 176 | 215 |
| **Cash at Beginning of Year** | 66 | (50) | (86) | (148) | (135) | (67) | (96) | (79) | (15) | (51) | 126 |
| **Cash at End of Year** | (50) | (86) | (148) | (135) | (67) | (96) | (79) | (15) | (51) | 126 | 340 |

**ELECTRIC OPERATIONS (MH11-2)**
**PROJECTED CASH FLOW STATEMENT**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | | | | | | |
| Cash Receipts from Customers | 3 074 | 3 193 | 3 445 | 3 806 | 4 008 | 4 110 | 4 191 | 4 284 | 4 394 | 4 497 |
| Cash Paid to Suppliers and Employees | (1 154) | (1 201) | (1 215) | (1 234) | (1 272) | (1 303) | (1 329) | (1 358) | (1 383) | (1 410) |
| Interest Paid | (1 108) | (1 092) | (1 196) | (1 433) | (1 582) | (1 561) | (1 534) | (1 490) | (1 484) | (1 423) |
| Interest Received | 20 | 21 | 31 | 36 | 38 | 49 | 60 | 64 | 71 | 84 |
| | 832 | 921 | 1 066 | 1 175 | 1 192 | 1 295 | 1 388 | 1 501 | 1 598 | 1 748 |
| **FINANCING ACTIVITIES** | | | | | | | | | | |
| Proceeds from Long-Term Debt | 980 | 790 | 790 | 190 | (10) | - | (10) | (10) | (30) | (10) |
| Sinking Fund Withdrawals | 159 | - | - | 401 | - | - | 60 | 250 | - | 13 |
| Retirement of Long-Term Debt | (159) | - | - | (450) | - | - | (60) | (220) | (100) | (213) |
| Other | (7) | (6) | (6) | (8) | (8) | (7) | (7) | (6) | (4) | (19) |
| | 973 | 784 | 784 | 133 | (18) | (7) | (17) | 14 | (134) | (229) |
| **INVESTING ACTIVITIES** | | | | | | | | | | |
| Property, Plant and Equipment, net of contributions | (1 510) | (1 401) | (1 578) | (891) | (746) | (834) | (1 003) | (953) | (876) | (814) |
| Sinking Fund Payment | (234) | (246) | (263) | (282) | (274) | (285) | (297) | (306) | (305) | (317) |
| Other | (29) | (30) | (27) | (28) | (30) | (28) | (29) | (29) | (29) | (30) |
| | (1 773) | (1 677) | (1 869) | (1 201) | (1 051) | (1 148) | (1 328) | (1 288) | (1 211) | (1 160) |
| **Net Increase (Decrease) in Cash** | 32 | 28 | (19) | 108 | 124 | 140 | 43 | 227 | 253 | 359 |
| **Cash at Beginning of Year** | 340 | 372 | 400 | 381 | 489 | 613 | 752 | 796 | 1 023 | 1 276 |
| **Cash at End of Year** | 372 | 400 | 381 | 489 | 613 | 752 | 796 | 1 023 | 1 276 | 1 635 |

5

| Section: | Tab 3: Figure 3.3 | Page No.: | 8 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast & Economic Outlook | | |
| Subtopic: | Operating Results | | |
| Issue: | Operating Result Shortfall | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

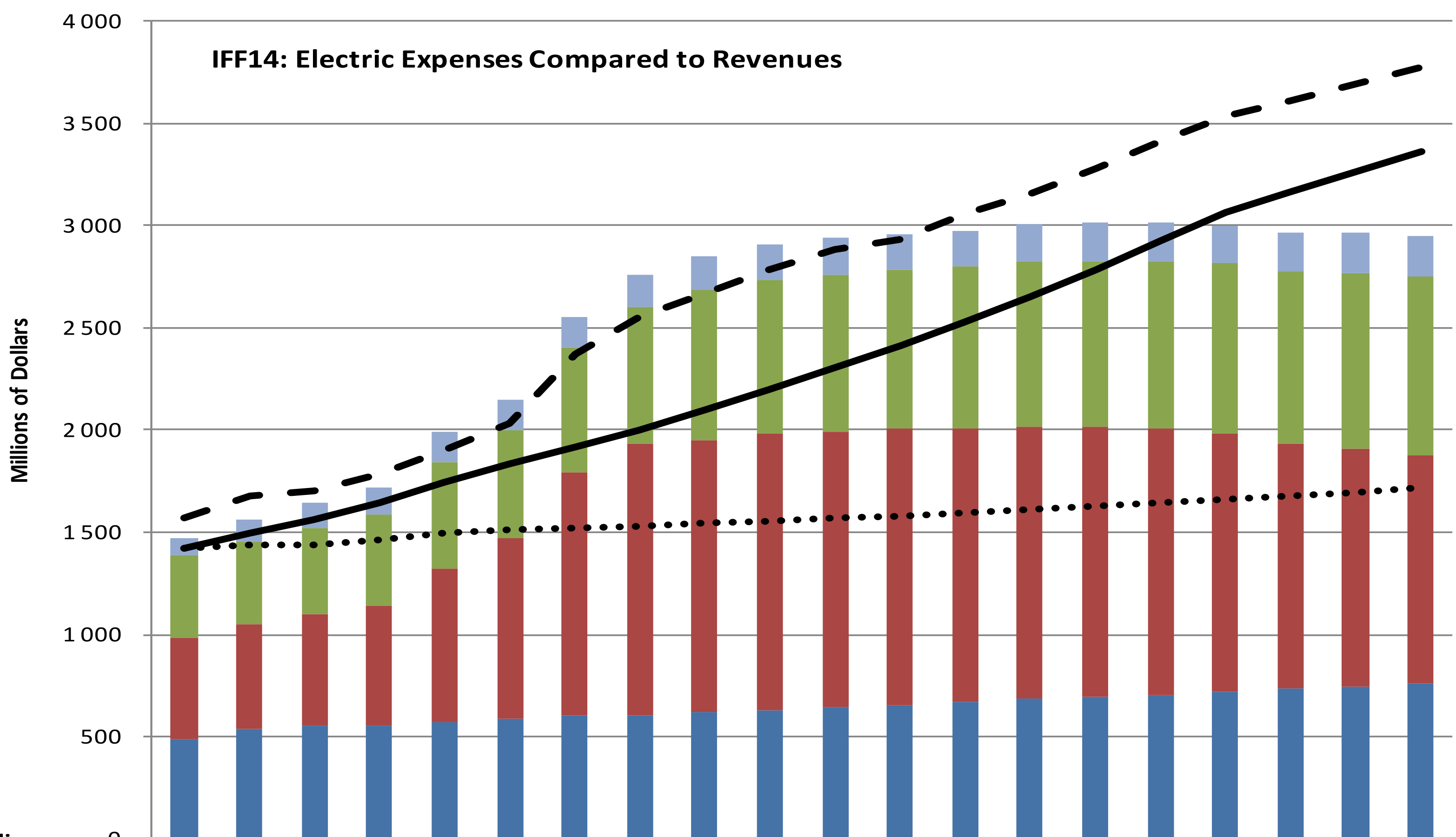
Please provide Figure 3.3 updated through 2034 with a table of corresponding data points.

**RATIONALE FOR QUESTION:**

This Information Request seeks to explore the impact of changes in assumptions / risk factors on projected revenue shortfalls.

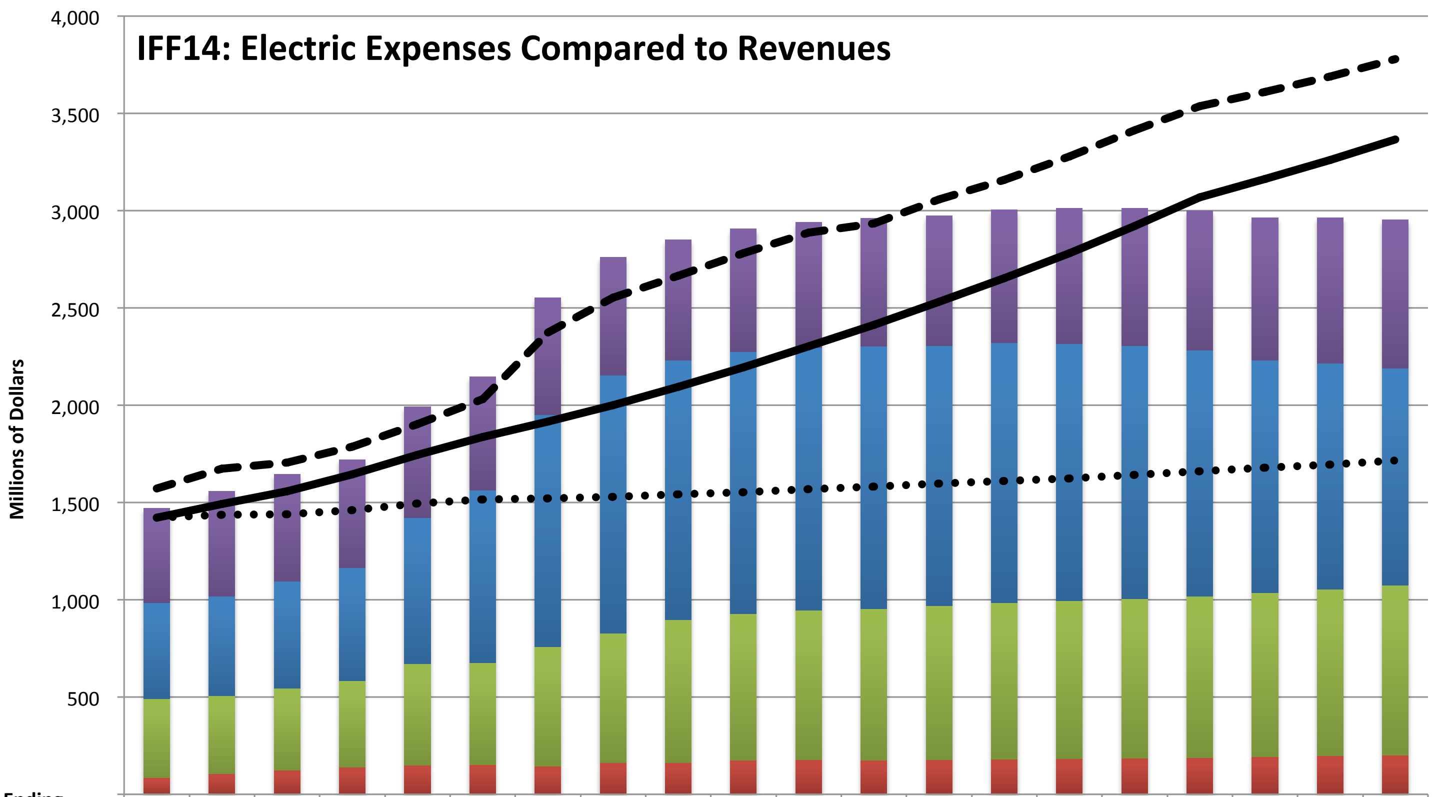
**RESPONSE:**

Please see the following figure and corresponding table of data points.




| Fiscal Year Ending | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Taxes and Other | 85 | 106 | 124 | 138 | 149 | 151 | 145 | 161 | 162 | 175 | 178 | 175 | 177 | 180 | 183 | 186 | 188 | 193 | 198 | 201 |
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 613 | 667 | 736 | 752 | 767 | 780 | 791 | 804 | 811 | 820 | 831 | 842 | 857 | 873 |
| Finance Expense | 495 | 510 | 548 | 581 | 752 | 887 | 1 194 | 1 326 | 1 334 | 1 349 | 1 351 | 1 348 | 1 338 | 1 337 | 1 321 | 1 301 | 1 263 | 1 197 | 1 161 | 1 116 |
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| GCR incl Additional | 1 422 | 1 493 | 1 558 | 1 644 | 1 744 | 1 837 | 1 915 | 2 000 | 2 096 | 2 195 | 2 302 | 2 414 | 2 531 | 2 654 | 2 782 | 2 922 | 3 069 | 3 164 | 3 262 | 3 365 |
| GCR incl Additional + Net Extraprov | 1 572 | 1 674 | 1 705 | 1 786 | 1 903 | 2 032 | 2 374 | 2 554 | 2 665 | 2 783 | 2 887 | 2 935 | 3 059 | 3 159 | 3 278 | 3 413 | 3 538 | 3 612 | 3 689 | 3 779 |
| GCR at PUB approved rates | 1 422 | 1 436 | 1 440 | 1 461 | 1 494 | 1 516 | 1 521 | 1 529 | 1 541 | 1 554 | 1 568 | 1 582 | 1 597 | 1 611 | 1 625 | 1 642 | 1 660 | 1 678 | 1 696 | 1 716 |

# IFF14: Electric Expenses Compared to Revenues




| Fiscal Year Ending | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 495 | 510 | 548 | 581 | 752 | 887 | 1,194 | 1,326 | 1,334 | 1,349 | 1,351 | 1,348 | 1,338 | 1,337 | 1,321 | 1,301 | 1,263 | 1,197 | 1,161 | 1,116 |
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 613 | 667 | 736 | 752 | 767 | 780 | 791 | 804 | 811 | 820 | 831 | 842 | 857 | 873 |
| Taxes and Other | 85 | 106 | 124 | 138 | 149 | 151 | 145 | 161 | 162 | 175 | 178 | 175 | 177 | 180 | 183 | 186 | 188 | 193 | 198 | 201 |
| GCR incl Additional | 1,422 | 1,493 | 1,558 | 1,644 | 1,744 | 1,837 | 1,915 | 2,000 | 2,096 | 2,195 | 2,302 | 2,414 | 2,531 | 2,654 | 2,782 | 2,922 | 3,069 | 3,164 | 3,262 | 3,365 |
| GCR incl Additional + Net Extraprov | 1,572 | 1,674 | 1,705 | 1,786 | 1,903 | 2,032 | 2,374 | 2,554 | 2,665 | 2,783 | 2,887 | 2,935 | 3,059 | 3,159 | 3,278 | 3,413 | 3,538 | 3,612 | 3,689 | 3,779 |
| GCR at PUB approved rates | 1,422 | 1,436 | 1,440 | 1,461 | 1,494 | 1,516 | 1,521 | 1,529 | 1,541 | 1,554 | 1,568 | 1,582 | 1,597 | 1,611 | 1,625 | 1,642 | 1,660 | 1,678 | 1,696 | 1,716 |

Reference: PUB/MH-I-8a

| Section: | Tab 3: Figure 3.3 | Page No.: | 8 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast & Economic Outlook | | |
| Subtopic: | Operating Results | | |
| Issue: | Operating Result Shortfall | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

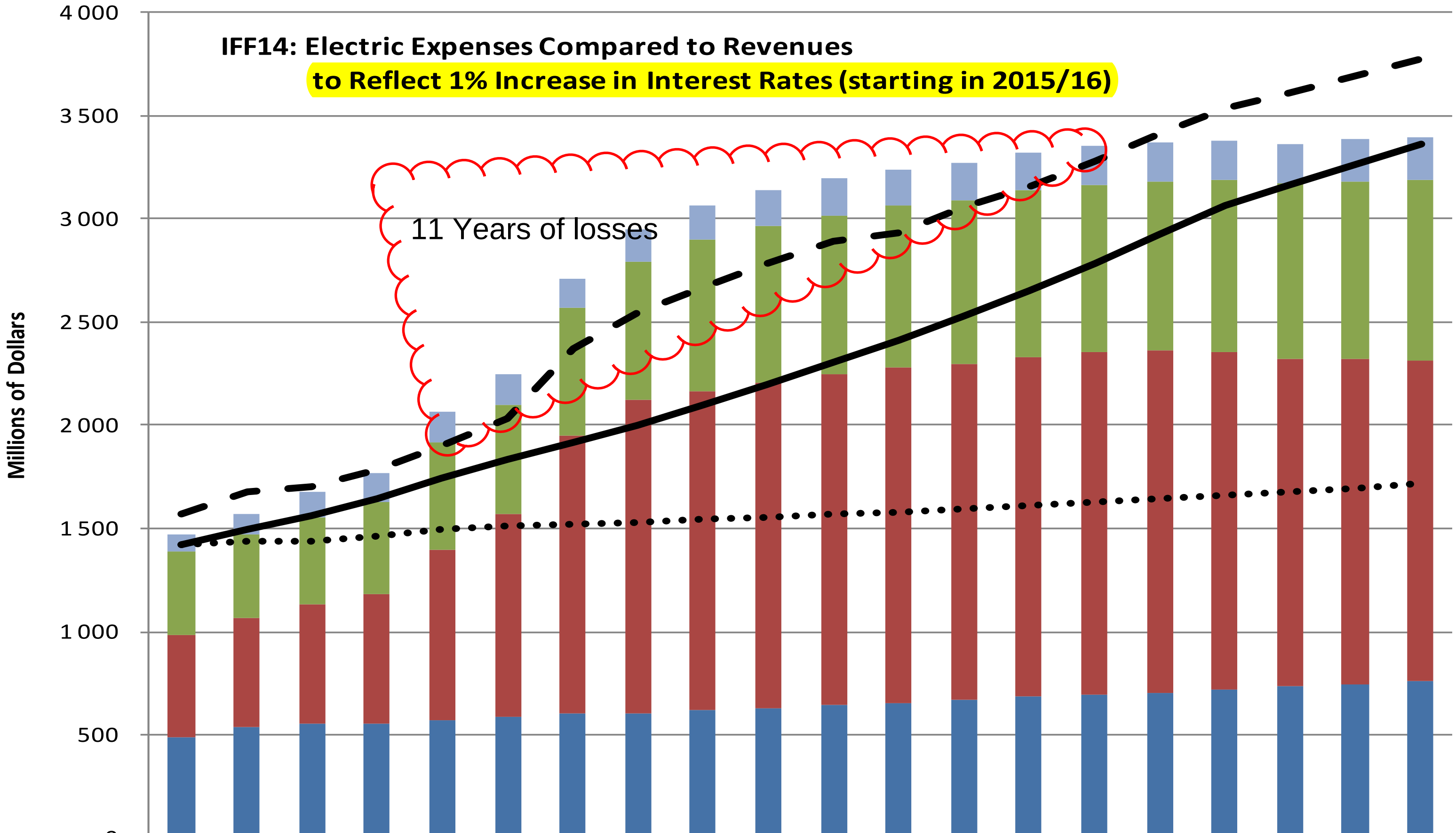
Please revise the chart provided in answer to (a) to reflect a 1% increase in interest rates over the assumed values commencing in 2017/18.

**RATIONALE FOR QUESTION:**

This Information Request seeks to explore the impact of changes in assumptions / risk factors on projected revenue shortfalls.

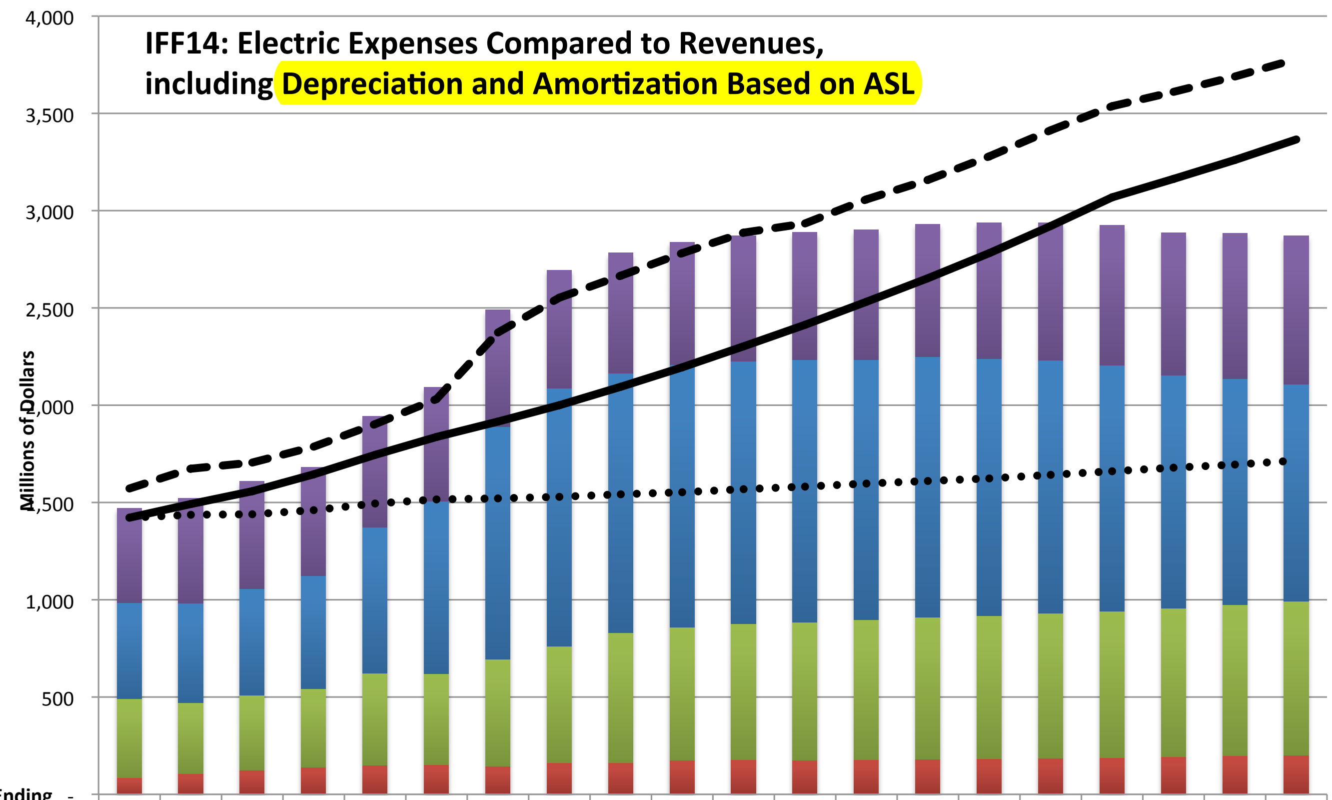
**RESPONSE:**

IFF14 includes an interest rate sensitivity to reflect a 1% increase in interest rates on short-term, long-term, floating rate debt, and as well as sinking funds. This analysis commences in 2015/16. Please see the following figure and table of data points for results of the 1% increase in interest rate sensitivity.




| Fiscal Year Ending | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Taxes and Other | 85 | 105 | 123 | 138 | 149 | 150 | 139 | 159 | 160 | 174 | 178 | 175 | 178 | 181 | 184 | 187 | 190 | 194 | 201 | 204 |
| Depreciation and Amortization | 405 | 401 | 423 | 446 | 522 | 526 | 615 | 670 | 740 | 756 | 771 | 784 | 795 | 808 | 816 | 825 | 835 | 847 | 861 | 878 |
| Finance Expense | 495 | 526 | 577 | 625 | 824 | 985 | 1 352 | 1 517 | 1 545 | 1 577 | 1 603 | 1 622 | 1 629 | 1 649 | 1 655 | 1 654 | 1 635 | 1 591 | 1 573 | 1 552 |
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| GCR incl Additional | 1 422 | 1 493 | 1 558 | 1 644 | 1 744 | 1 837 | 1 915 | 2 000 | 2 096 | 2 195 | 2 302 | 2 414 | 2 531 | 2 654 | 2 782 | 2 922 | 3 069 | 3 164 | 3 262 | 3 365 |
| GCR incl Additional + Net Extraprov | 1 572 | 1 674 | 1 705 | 1 786 | 1 903 | 2 032 | 2 374 | 2 548 | 2 665 | 2 783 | 2 888 | 2 935 | 3 059 | 3 159 | 3 278 | 3 413 | 3 538 | 3 613 | 3 689 | 3 779 |
| GCR at PUB approved rates | 1 422 | 1 436 | 1 440 | 1 461 | 1 494 | 1 516 | 1 521 | 1 529 | 1 541 | 1 554 | 1 568 | 1 582 | 1 597 | 1 611 | 1 625 | 1 642 | 1 660 | 1 678 | 1 696 | 1 716 |

**IFF14: Electric Expenses Compared to Revenues,**
**including Depreciation and Amortization Based on ASL**

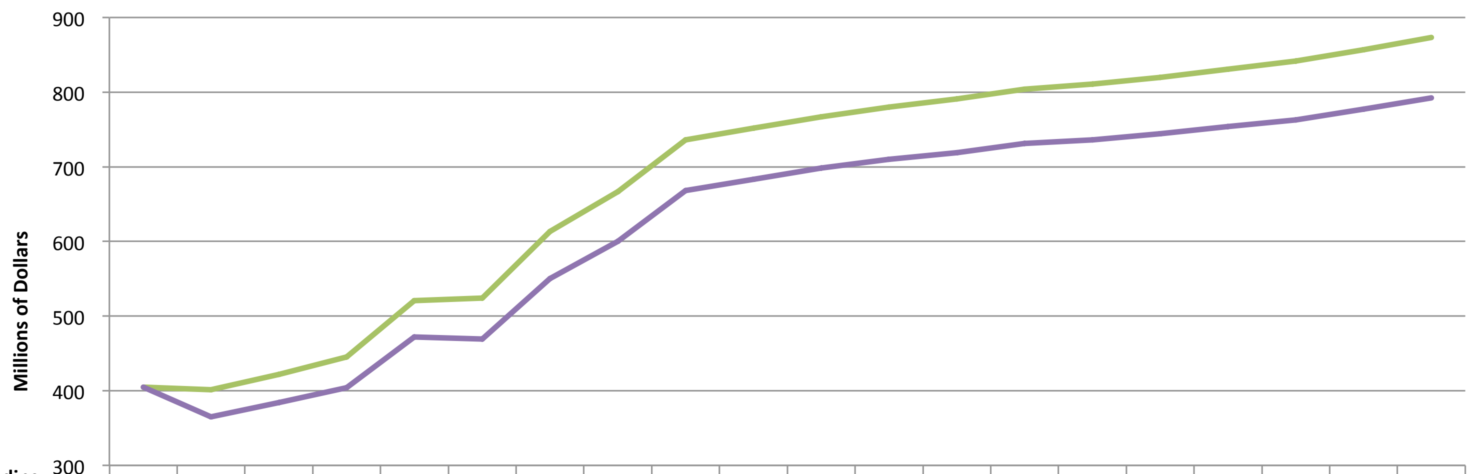



| Fiscal Year Ending | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 495 | 510 | 548 | 581 | 752 | 887 | 1,194 | 1,326 | 1,334 | 1,349 | 1,351 | 1,348 | 1,338 | 1,337 | 1,321 | 1,301 | 1,263 | 1,197 | 1,161 | 1,116 |
| Depreciation and Amortization based on ASL | 405 | 365 | 384 | 404 | 472 | 469 | 550 | 600 | 668 | 683 | 698 | 710 | 719 | 731 | 736 | 744 | 754 | 763 | 777 | 792 |
| Taxes and Other | 85 | 106 | 124 | 138 | 149 | 151 | 145 | 161 | 162 | 175 | 178 | 175 | 177 | 180 | 183 | 186 | 188 | 193 | 198 | 201 |
| GCR incl Additional | 1,422 | 1,493 | 1,558 | 1,644 | 1,744 | 1,837 | 1,915 | 2,000 | 2,096 | 2,195 | 2,302 | 2,414 | 2,531 | 2,654 | 2,782 | 2,922 | 3,069 | 3,164 | 3,262 | 3,365 |
| GCR incl Additional + Net Extraprov | 1,572 | 1,674 | 1,705 | 1,786 | 1,903 | 2,032 | 2,374 | 2,554 | 2,665 | 2,783 | 2,887 | 2,935 | 3,059 | 3,159 | 3,278 | 3,413 | 3,538 | 3,612 | 3,689 | 3,779 |
| GCR at PUB approved rates | 1,422 | 1,436 | 1,440 | 1,461 | 1,494 | 1,516 | 1,521 | 1,529 | 1,541 | 1,554 | 1,568 | 1,582 | 1,597 | 1,611 | 1,625 | 1,642 | 1,660 | 1,678 | 1,696 | 1,716 |

*Reference: PUB/MH-I-8a & PUB/MH-II-21a-c*

# IFF14: Depreciation and Amortization with ASL

IFF14: Depreciation and Amortization with ASL




| Fiscal Year Ending | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 613 | 667 | 736 | 752 | 767 | 780 | 791 | 804 | 811 | 820 | 831 | 842 | 857 | 873 |
| Depreciation base on ASL | 405 | 365 | 384 | 404 | 472 | 469 | 550 | 600 | 668 | 683 | 698 | 710 | 719 | 731 | 736 | 744 | 754 | 763 | 777 | 792 |

*Reference: PUB/MH-I-8a & PUB/MH-II-21a-c*

6

| | | | |
|---|---|---|---|
| **Section:** | Tab 3: Appendix 3.7 | **Page No.:** | 1 |
| **Topic:** | Integrated Financial Forecast & Economic Outlook | | |
| **Subtopic:** | Interest Rate Forecast | | |
| **Issue:** | Weighted Average Interest Rate | | |

**PREAMBLE TO IR (IF ANY):**

The majority of Manitoba Hydro's capital spending over the next five years will be debt-financed. Manitoba Hydro has provided interest rate forecasts with September and October 2014 vintages.

**QUESTION:**

Please extend the weighted average interest rate chart in Appendix 3.7 to 2019/20 based on the historical interest rate projections used for the table.

**RATIONALE FOR QUESTION:**

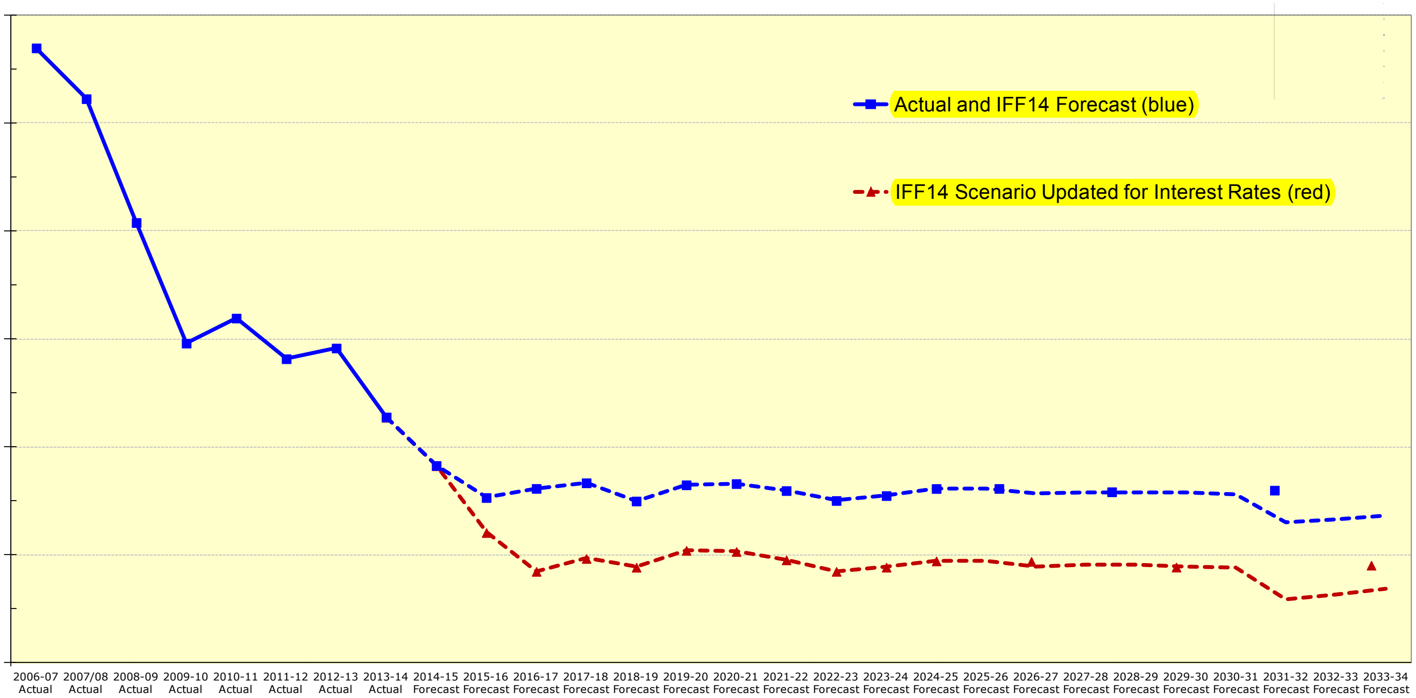
To gain an understanding of the financial exposure of the planned capital spending.

**RESPONSE:**

Please see the following chart which provides the weighted average interest rate chart (as previously shown as Chart 5 in Appendix 3.7) extended to 2033/34 for IFF14 and the IFF14 scenario updated for interest rates as filed in response to PUB/MH-I-10b.

# Weighted Average Interest Rate (%)

(For the Fiscal Year Ended March 31)



# Interest Rate January 2015 Update

| Year | Short Term Rate | | | Long Term Rate | | |
|---|---|---|---|---|---|---|
| | January Update | Application Fall 2014 Update | Basis Point Change | January Update | Application Fall 2014 Update | Basis Point Change |
| 2014/15 | 1.85% | 1.95% | (10) | 4.20% | 4.50% | (30) |
| 2015/16 | 1.50% | 2.30% | (80) | 4.00% | 5.10% | (110) |
| 2016/17 | 1.95% | 3.40% | (145) | 4.55% | 5.50% | (95) |
| 2017/18 | 3.30% | 4.10% | (80) | 5.70% | 5.80% | (10) |
| 2018/19 | 3.95% | 4.45% | (50) | 5.75% | 6.00% | (25) |
| 2019/20 to 2033/34 | 4.50% | 4.90% | (40) | 5.75% | 6.20% | (45) |

| | | | |
|---|---|---|---|
| **Section:** | Tab 3: Appendix 3.7 | **Page No.:** | 1 |
| **Topic:** | Integrated Financial Forecast & Economic Outlook | | |
| **Subtopic:** | Interest Rate Forecast | | |
| **Issue:** | Weighted Average Interest Rate | | |

**PREAMBLE TO IR (IF ANY):**

The majority of Manitoba Hydro's capital spending over the next five years will be debt-financed. Manitoba Hydro has provided interest rate forecasts with September and October 2014 vintages.

**QUESTION:**

Please update the forecast based on more current interest rate forecasts for both long and short term interest rates.

**RATIONALE FOR QUESTION:**

To gain an understanding of the financial exposure of the planned capital spending.

**RESPONSE:**

The January 2015 update to the interest rate forecast can be found in the response to PUB/MH-I-75c. The MH14 scenario incorporating this updated interest rate forecast is found as Attachment A.

It is important to recognize that this scenario would not occur in isolation of other economic outcomes that may affect the Corporation's financial performance and therefore the scenario in Appendix A is not a representative update to the Corporation's revenue requirement.

Manitoba Hydro operates in a complex economic environment that simultaneously affects many parts of its operations. The economy's impact upon Manitoba Hydro's revenue requirement is not exclusively seen through changing interest rates and the evolving views of Manitoba Hydro's external interest rate forecasters. There are numerous counterbalances.

For example, the low interest rate environment has provided an opportunity for Manitoba Hydro, on behalf of its ratepayers, to beneficially reduce its weighted average interest rate on its debt portfolio (please see PUB/MH-I-10a). However, at the same time that Manitoba Hydro experiences lower interest rates, the Corporation is also experiencing factors that are contributing to lower energy prices. One of the factors cited by the Bank of Canada for its January 21, 2015 action to lower the target overnight interest rate was the "unambiguously negative impact on the Canadian economy" of lower oil prices.

Natural gas prices are a significant factor driving electricity prices in the export market. There are numerous factors that underlie natural gas prices, such as oil and natural gas production growth, electricity demand growth and political events (related to OPEC). These factors are currently resulting in a continued commodity oversupply relative to demand, driving down natural gas prices which is then having a downward impact on the electricity export market. As a result, Manitoba Hydro expects that export revenue projections will be reduced from those provided for IFF14 largely offsetting the impact of lower interest rates on Manitoba Hydro's overall revenue requirements.

In order for the PUB to see a more representative and balanced outlook of Manitoba Hydro's electric operations, Manitoba Hydro has provided an additional MH14 scenario that shows the combined effects of updated interest rates along with estimated reductions in export revenue (see Attachment B). The following table demonstrates that the cumulative net income to 2016/17 is $6 million lower when simultaneously updated with both interest rates and extra-provincial revenues.

| **Fiscal Year** | **MH14 Net Income** base case | **MH14 Net Income** Appendix A (Scenario updating interest rates only) | **MH14 Net Income** Appendix B (Scenario updating interest rates and extra-provincial revenues) |
|---|---|---|---|
| 2014/15 | 102 | 102 | 102 |
| 2015/16 | 115 | 128 | 101 |
| 2016/17 | 59 | 89 | 67 |
| **TOTAL** | **276** | **319** | **270** |
| Diff from Base | | 43 | **(6)** |

Manitoba Hydro periodically updates its financial projections to reflect a wide range of updated information. However, these updates need to be viewed in context with the underlying need for electricity rate increases. As discussed in Tab 2 of the Application, a large portion of the revenue requirements are associated with the magnitude of the capital assets being placed into service over the next forecast period. Manitoba Hydro's financial strength provides the means to smooth out short term volatility in costs and revenues to provide customers with rate stability. Isolating the impacts of changes, beneficial or adverse, in any one input variable has the potential to create a spurious forecast, and add undue rate variability and/or to alter the longer term progress towards the achievement of Manitoba Hydro's financial targets.

**ELECTRIC OPERATIONS**
**PROJECTED OPERATING STATEMENT**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| General Consumers | | | | | | | | | | |
| at approved rates | 1 437 | 1 454 | 1 460 | 1 483 | 1 490 | 1 501 | 1 506 | 1 513 | 1 525 | 1 538 |
| additional* | 0 | 57 | 118 | 183 | 250 | 321 | 394 | 471 | 554 | 641 |
| BPIII Reserve Account | (30) | (32) | (34) | (36) | (11) | 0 | 0 | 0 | 0 | 0 |
| Extraprovincial | 409 | 434 | 450 | 457 | 479 | 514 | 817 | 943 | 959 | 987 |
| Other | 15 | 14 | 14 | 14 | 15 | 15 | 15 | 15 | 16 | 16 |
| | 1 831 | 1 928 | 2 008 | 2 101 | 2 222 | 2 352 | 2 732 | 2 944 | 3 054 | 3 182 |
| **EXPENSES** | | | | | | | | | | |
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 |
| Finance Expense | 495 | 497 | 518 | 551 | 712 | 836 | 1 119 | 1 229 | 1 231 | 1 240 |
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 612 | 665 | 735 | 751 |
| Water Rentals and Assessments | 124 | 123 | 112 | 112 | 112 | 114 | 124 | 127 | 132 | 133 |
| Fuel and Power Purchased | 134 | 130 | 191 | 202 | 207 | 205 | 234 | 260 | 257 | 267 |
| Capital and Other Taxes | 99 | 107 | 120 | 134 | 143 | 144 | 145 | 151 | 152 | 161 |
| Corporate Allocation | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Other Expenses | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 |
| | 1 754 | 1 811 | 1 926 | 2 013 | 2 277 | 2 420 | 2 845 | 3 050 | 3 137 | 3 194 |
| Non-controlling Interest | 25 | 12 | 7 | 7 | 5 | 3 | 7 | 0 | (1) | (3) |
| **Net Income** | 102 | 128 | 89 | 95 | (50) | (65) | (106) | (106) | (84) | (14) |
| * Additional General Consumers Revenue | | | | | | | | | | |
| Percent Increase | 0.00% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% |
| Cumulative Percent Increase | 0.00% | 3.95% | 8.06% | 12.32% | 16.76% | 21.37% | 26.17% | 31.15% | 36.33% | 41.72% |
| **Financial Ratios** | | | | | | | | | | |
| Equity | 22% | 18% | 17% | 16% | 15% | 14% | 13% | 12% | 12% | 12% |
| Interest Coverage | 1.16 | 1.19 | 1.11 | 1.10 | 0.95 | 0.94 | 0.91 | 0.91 | 0.93 | 0.99 |
| Capital Coverage | 0.98 | 1.03 | 0.98 | 1.15 | 0.95 | 0.92 | 0.94 | 1.12 | 1.27 | 1.41 |

ELECTRIC OPERATIONS
PROJECTED OPERATING STATEMENT
(In Millions of Dollars)

| *For the year ended March 31* | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| General Consumers | | | | | | | | | | |
| at approved rates | 1 551 | 1 565 | 1 580 | 1 593 | 1 607 | 1 624 | 1 641 | 1 659 | 1 677 | 1 696 |
| additional* | 734 | 832 | 935 | 1 043 | 1 157 | 1 280 | 1 409 | 1 486 | 1 566 | 1 649 |
| BPIII Reserve Account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Extraprovincial | 996 | 928 | 944 | 921 | 920 | 927 | 911 | 901 | 883 | 884 |
| Other | 16 | 17 | 17 | 18 | 18 | 18 | 19 | 19 | 19 | 20 |
| | 3 298 | 3 342 | 3 475 | 3 575 | 3 702 | 3 849 | 3 980 | 4 065 | 4 145 | 4 248 |
| **EXPENSES** | | | | | | | | | | |
| Operating and Administrative | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 1 239 | 1 230 | 1 214 | 1 208 | 1 188 | 1 161 | 1 122 | 1 050 | 1 012 | 970 |
| Depreciation and Amortization | 766 | 779 | 790 | 803 | 810 | 819 | 830 | 841 | 855 | 871 |
| Water Rentals and Assessments | 133 | 133 | 133 | 134 | 134 | 135 | 135 | 136 | 136 | 137 |
| Fuel and Power Purchased | 278 | 275 | 283 | 283 | 291 | 302 | 307 | 317 | 320 | 333 |
| Capital and Other Taxes | 162 | 163 | 164 | 165 | 167 | 168 | 169 | 171 | 172 | 174 |
| Corporate Allocation | 8 | 8 | 8 | 8 | 8 | 6 | 5 | 6 | 5 | 5 |
| Other Expenses | 3 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 |
| | 3 233 | 3 246 | 3 264 | 3 286 | 3 296 | 3 299 | 3 290 | 3 256 | 3 252 | 3 256 |
| Non-controlling Interest | (5) | (2) | (3) | (5) | (6) | (10) | (12) | (15) | (17) | (19) |
| **Net Income** | 60 | 95 | 208 | 284 | 400 | 540 | 678 | 794 | 877 | 973 |
| * Additional General Consumers Revenue | | | | | | | | | | |
| Percent Increase | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 2.00% | 2.00% | 2.00% |
| Cumulative Percent Increase | 47.31% | 53.13% | 59.18% | 65.47% | 72.01% | 78.80% | 85.86% | 89.58% | 93.37% | 97.24% |
| **Financial Ratios** | | | | | | | | | | |
| Equity | 12% | 13% | 14% | 15% | 17% | 19% | 22% | 25% | 29% | 33% |
| Interest Coverage | 1.05 | 1.08 | 1.17 | 1.23 | 1.33 | 1.46 | 1.59 | 1.74 | 1.84 | 1.97 |
| Capital Coverage | 1.44 | 1.50 | 1.67 | 1.78 | 1.89 | 2.15 | 2.24 | 2.40 | 2.49 | 2.61 |

Manitoba Hydro
Comparison Analysis IFF14a vs. IFF14
2015/2016 - 2016/2017 GRA

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 10 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net Export Revenue** | | | | | | | | | | | |
| **IFF14A ( PUB/MH I-10b Att A)** | | | | | | | | | | | |
| Export Revenues | 409 | 434 | 450 | 457 | 479 | 514 | 817 | 943 | 959 | 987 | **6,449** |
| Water Rentals | 124 | 123 | 112 | 112 | 112 | 114 | 124 | 127 | 132 | 133 | **1,213** |
| Fuel & Power Purchases | 134 | 130 | 191 | 202 | 207 | 205 | 234 | 260 | 257 | 267 | **2,087** |
| Net Export Revenue | **151** | **181** | **147** | **143** | **160** | **195** | **459** | **556** | **570** | **587** | **3,149** |
| **IFF14** | | | | | | | | | | | |
| Export Revenues | 409 | 434 | 450 | 457 | 479 | 514 | 817 | 943 | 959 | 987 | **6,449** |
| Water Rentals | 124 | 123 | 112 | 112 | 112 | 114 | 124 | 127 | 132 | 132 | **1,212** |
| Fuel & Power Purchases | 134 | 130 | 191 | 202 | 207 | 205 | 234 | 263 | 257 | 267 | **2,090** |
| Net Export Revenue | **151** | **181** | **147** | **143** | **160** | **195** | **459** | **553** | **570** | **588** | **3,147** |
| **Net Export Revenue Difference** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3** | **-** | **(1)** | **2** |
| **Finance Expense** | | | | | | | | | | | |
| IFF14A ( PUB/MH I-10b Att A) | 495 | 497 | 518 | 551 | 712 | 836 | 1,119 | 1,229 | 1,231 | 1,240 | **8,428** |
| IFF14 | 495 | 510 | 548 | 581 | 752 | 887 | 1,194 | 1,326 | 1,334 | 1,349 | **8,976** |
| **Difference** | **-** | **(13)** | **(30)** | **(30)** | **(40)** | **(51)** | **(75)** | **(97)** | **(103)** | **(109)** | **(548)** |
| **Net Income** | | | | | | | | | | | |
| IFF14A ( PUB/MH I-10b Att A) | 102 | 128 | 89 | 95 | (50) | (65) | (106) | (106) | (84) | (14) | **(11)** |
| IFF14 | 102 | 115 | 59 | 64 | (90) | (116) | (178) | (206) | (187) | (124) | **(561)** |
| **Difference** | **-** | **13** | **30** | **31** | **40** | **51** | **72** | **100** | **103** | **110** | **550** |

**Cumulative Losses**

| | |
|---|---|
| IFF14a ( PUB/MH I-10b Att A) | (425) |
| IFF14 - Application | (978) |
| Difference | 553 |

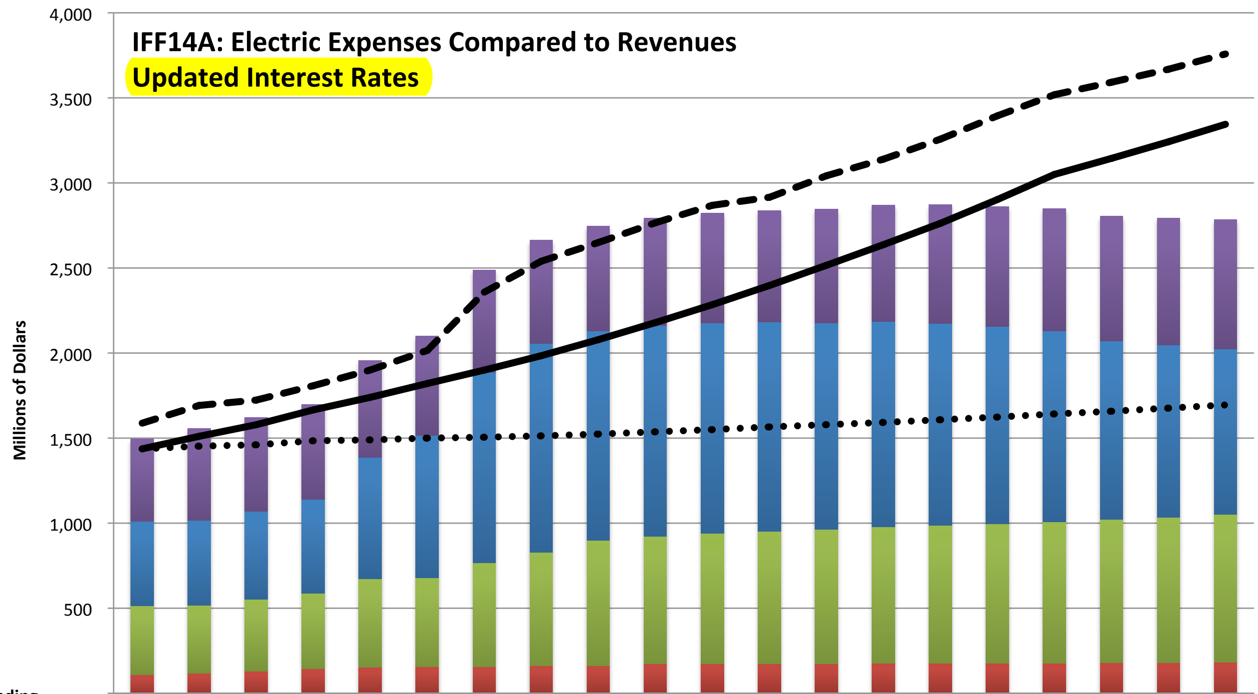
***Sources***
*PUB/MH-I-10b, Attachment A*
*Appendix 3.3 (IFF14)*

Manitoba Hydro
Comparison Analysis IFF14a vs. IFF14
2015/2016 - 2016/2017 GRA

| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 20 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net Export Revenue** | | | | | | | | | | | |
| **IFF14A ( PUB/MH I-10b Att A)** | | | | | | | | | | | |
| Export Revenues | 996 | 928 | 944 | 921 | 920 | 927 | 911 | 901 | 883 | 884 | **15,664** |
| Water Rentals | 133 | 133 | 133 | 134 | 134 | 135 | 135 | 136 | 136 | 137 | **2,559** |
| Fuel & Power Purchases | 278 | 275 | 283 | 283 | 291 | 302 | 307 | 317 | 320 | 333 | **5,076** |
| Net Export Revenue | **585** | **520** | **528** | **504** | **495** | **490** | **469** | **448** | **427** | **414** | **8,029** |
| **IFF14** | | | | | | | | | | | |
| Export Revenues | 996 | 928 | 944 | 921 | 920 | 927 | 911 | 901 | 883 | 884 | **15,664** |
| Water Rentals | 133 | 132 | 133 | 133 | 134 | 134 | 135 | 135 | 136 | 137 | **2,554** |
| Fuel & Power Purchases | 278 | 275 | 283 | 283 | 291 | 302 | 307 | 317 | 320 | 333 | **5,079** |
| Net Export Revenue | **585** | **521** | **528** | **505** | **495** | **491** | **469** | **449** | **427** | **414** | **8,031** |
| **Net Export Revenue Difference** | **-** | **(1)** | **-** | **(1)** | **-** | **(1)** | **-** | **(1)** | **-** | **-** | **(2)** |
| **Finance Expense** | | | | | | | | | | | |
| IFF14A ( PUB/MH I-10b Att A) | 1,239 | 1,230 | 1,214 | 1,208 | 1,188 | 1,161 | 1,122 | 1,050 | 1,012 | 970 | **19,822** |
| IFF14 | 1,351 | 1,348 | 1,338 | 1,337 | 1,321 | 1,301 | 1,263 | 1,197 | 1,161 | 1,116 | **21,709** |
| **Difference** | **(112)** | **(118)** | **(124)** | **(129)** | **(133)** | **(140)** | **(141)** | **(147)** | **(149)** | **(146)** | **(1,887)** |
| **Net Income** | | | | | | | | | | | |
| IFF14A ( PUB/MH I-10b Att A) | 60 | 95 | 208 | 284 | 400 | 540 | 678 | 794 | 877 | 973 | **4,898** |
| IFF14 | (53) | (24) | 84 | 155 | 266 | 400 | 536 | 647 | 725 | 826 | **3,001** |
| **Difference** | **113** | **119** | **124** | **129** | **134** | **140** | **142** | **147** | **152** | **147** | **1,897** |

***Sources***
*PUB/MH-I-10b, Attachment A*
*Appendix 3.3 (IFF14)*

## IFF14a: Electric Expenses Compared to Revenues
## Updated Interest Rates




| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 495 | 497 | 518 | 551 | 712 | 836 | 1,119 | 1,229 | 1,231 | 1,240 | 1,239 | 1,230 | 1,214 | 1,208 | 1,188 | 1,161 | 1,122 | 1,050 | 1,012 | 970 |
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 612 | 665 | 735 | 751 | 766 | 779 | 790 | 803 | 810 | 819 | 830 | 841 | 855 | 871 |
| Taxes and Other | 110 | 117 | 130 | 144 | 153 | 155 | 156 | 162 | 163 | 172 | 173 | 173 | 174 | 175 | 177 | 176 | 177 | 180 | 180 | 182 |
| GCR incl Additional | 1,437 | 1,511 | 1,578 | 1,666 | 1,740 | 1,822 | 1,900 | 1,984 | 2,079 | 2,179 | 2,285 | 2,397 | 2,515 | 2,636 | 2,764 | 2,904 | 3,050 | 3,145 | 3,243 | 3,345 |
| GCR incl Additional + Net Extraprov | 1,588 | 1,692 | 1,725 | 1,809 | 1,900 | 2,017 | 2,359 | 2,540 | 2,649 | 2,766 | 2,870 | 2,917 | 3,043 | 3,140 | 3,259 | 3,394 | 3,519 | 3,593 | 3,670 | 3,759 |
| GCR at PUB approved rates | 1,437 | 1,454 | 1,460 | 1,483 | 1,490 | 1,501 | 1,506 | 1,513 | 1,525 | 1,538 | 1,551 | 1,565 | 1,580 | 1,593 | 1,607 | 1,624 | 1,641 | 1,659 | 1,677 | 1,696 |

*Reference: PUB/MH-I-10b ATTACHMENT A*

**ELECTRIC OPERATIONS**
**PROJECTED OPERATING STATEMENT**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| General Consumers | | | | | | | | | | |
| at approved rates | 1 437 | 1 454 | 1 460 | 1 483 | 1 490 | 1 501 | 1 506 | 1 513 | 1 525 | 1 538 |
| additional* | 0 | 57 | 118 | 183 | 250 | 321 | 394 | 471 | 554 | 641 |
| BPIII Reserve Account | (30) | (32) | (34) | (36) | (11) | 0 | 0 | 0 | 0 | 0 |
| Extraprovincial | 409 | 402 | 426 | 434 | 455 | 487 | 771 | 895 | 909 | 936 |
| Other | 15 | 14 | 14 | 14 | 15 | 15 | 15 | 15 | 16 | 16 |
| | 1 831 | 1 895 | 1 984 | 2 078 | 2 198 | 2 325 | 2 686 | 2 896 | 3 005 | 3 131 |
| **EXPENSES** | | | | | | | | | | |
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 |
| Finance Expense | 495 | 497 | 520 | 553 | 716 | 841 | 1 127 | 1 240 | 1 244 | 1 257 |
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 612 | 665 | 735 | 751 |
| Water Rentals and Assessments | 124 | 123 | 112 | 112 | 112 | 114 | 124 | 127 | 132 | 133 |
| Fuel and Power Purchased | 134 | 125 | 187 | 197 | 202 | 200 | 227 | 252 | 249 | 258 |
| Capital and Other Taxes | 99 | 107 | 121 | 134 | 143 | 144 | 144 | 151 | 151 | 161 |
| Corporate Allocation | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Other Expenses | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 |
| | 1 754 | 1 806 | 1 924 | 2 011 | 2 277 | 2 420 | 2 846 | 3 052 | 3 141 | 3 201 |
| Non-controlling Interest | 25 | 12 | 7 | 7 | 5 | 3 | 7 | 0 | (1) | (3) |
| **Net Income** | 102 | 101 | 67 | 74 | (73) | (92) | (153) | (156) | (137) | (73) |
| * Additional General Consumers Revenue | | | | | | | | | | |
| Percent Increase | 0.00% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% |
| Cumulative Percent Increase | 0.00% | 3.95% | 8.06% | 12.32% | 16.76% | 21.37% | 26.17% | 31.15% | 36.33% | 41.72% |
| **Financial Ratios** | | | | | | | | | | |
| Equity | 22% | 18% | 16% | 15% | 14% | 13% | 13% | 11% | 11% | 11% |
| Interest Coverage | 1.16 | 1.14 | 1.08 | 1.08 | 0.93 | 0.92 | 0.88 | 0.87 | 0.89 | 0.94 |
| Capital Coverage | 0.98 | 0.98 | 0.94 | 1.11 | 0.91 | 0.86 | 0.87 | 1.03 | 1.18 | 1.31 |

**ELECTRIC OPERATIONS**
**PROJECTED OPERATING STATEMENT**
**(In Millions of Dollars)**

| *For the year ended March 31* | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| General Consumers | | | | | | | | | | |
| at approved rates | 1 551 | 1 565 | 1 580 | 1 593 | 1 607 | 1 624 | 1 641 | 1 659 | 1 677 | 1 696 |
| additional* | 734 | 832 | 935 | 1 043 | 1 157 | 1 280 | 1 409 | 1 486 | 1 566 | 1 649 |
| BPIII Reserve Account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Extraprovincial | 945 | 862 | 875 | 850 | 848 | 855 | 841 | 832 | 816 | 817 |
| Other | 16 | 17 | 17 | 18 | 18 | 18 | 19 | 19 | 19 | 20 |
| | 3 247 | 3 276 | 3 407 | 3 504 | 3 630 | 3 777 | 3 910 | 3 996 | 4 079 | 4 182 |
| **EXPENSES** | | | | | | | | | | |
| Operating and Administrative | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 1 258 | 1 253 | 1 240 | 1 240 | 1 224 | 1 201 | 1 166 | 1 097 | 1 062 | 1 024 |
| Depreciation and Amortization | 766 | 779 | 790 | 803 | 810 | 819 | 830 | 841 | 855 | 871 |
| Water Rentals and Assessments | 133 | 133 | 133 | 134 | 134 | 135 | 135 | 136 | 136 | 137 |
| Fuel and Power Purchased | 268 | 266 | 273 | 274 | 281 | 291 | 296 | 305 | 309 | 320 |
| Capital and Other Taxes | 162 | 163 | 164 | 165 | 167 | 168 | 169 | 170 | 172 | 174 |
| Corporate Allocation | 8 | 8 | 8 | 8 | 8 | 6 | 5 | 6 | 5 | 5 |
| Other Expenses | 3 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 |
| | 3 242 | 3 260 | 3 281 | 3 308 | 3 322 | 3 328 | 3 323 | 3 291 | 3 291 | 3 298 |
| Non-controlling Interest | (5) | (2) | (3) | (5) | (6) | (10) | (12) | (15) | (17) | (19) |
| **Net Income** | (0) | 14 | 122 | 190 | 302 | 439 | 575 | 690 | 771 | 866 |
| * Additional General Consumers Revenue | | | | | | | | | | |
| Percent Increase | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 3.95% | 2.00% | 2.00% | 2.00% |
| Cumulative Percent Increase | 47.31% | 53.13% | 59.18% | 65.47% | 72.01% | 78.80% | 85.86% | 89.58% | 93.37% | 97.24% |
| **Financial Ratios** | | | | | | | | | | |
| Equity | 11% | 11% | 12% | 12% | 14% | 16% | 18% | 21% | 24% | 28% |
| Interest Coverage | 1.00 | 1.01 | 1.10 | 1.15 | 1.24 | 1.36 | 1.48 | 1.62 | 1.71 | 1.82 |
| Capital Coverage | 1.35 | 1.37 | 1.54 | 1.64 | 1.74 | 1.99 | 2.09 | 2.26 | 2.35 | 2.47 |

Manitoba Hydro
2014/15 2015/16 GRA
Comparison Analysis IFF14B ( PUB/MH I-10b Att. B) vs. IFF14- Application

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 10 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net Export Revenue** | | | | | | | | | | | |
| **IFF14b ( PUB/MH I-10b (Attachment B)** | | | | | | | | | | | |
| Export Revenues | 409 | 402 | 426 | 434 | 455 | 487 | 771 | 895 | 909 | 936 | **6,124** |
| Water Rentals | 124 | 123 | 112 | 112 | 112 | 114 | 124 | 127 | 132 | 133 | **1,213** |
| Fuel & Power Purchases | 134 | 125 | 187 | 197 | 202 | 200 | 227 | 252 | 249 | 258 | **2,031** |
| Net Export Revenue | **151** | **154** | **127** | **125** | **141** | **173** | **420** | **516** | **528** | **545** | **2,880** |
| **IFF14** | | | | | | | | | | | |
| Export Revenues | 409 | 434 | 450 | 457 | 479 | 514 | 817 | 943 | 959 | 987 | **6,449** |
| Water Rentals | 124 | 123 | 112 | 112 | 112 | 114 | 124 | 127 | 132 | 132 | **1,212** |
| Fuel & Power Purchases | 134 | 130 | 191 | 202 | 207 | 205 | 234 | 263 | 257 | 267 | **2,090** |
| Net Export Revenue | **151** | **181** | **147** | **143** | **160** | **195** | **459** | **553** | **570** | **588** | **3,147** |
| **Net Export Revenue Difference** | **-** | **(27)** | **(20)** | **(18)** | **(19)** | **(22)** | **(39)** | **(37)** | **(42)** | **(43)** | **(267)** |
| **Finance Expense** | | | | | | | | | | | |
| IFF14B ( PUB/MH I-10b Att B) | 495 | 497 | 520 | 553 | 716 | 841 | 1,127 | 1,240 | 1,244 | 1,257 | **8,490** |
| IFF14 | 495 | 510 | 548 | 581 | 752 | 887 | 1,194 | 1,326 | 1,334 | 1,349 | **8,976** |
| **Difference** | - | (13) | (28) | (28) | (36) | (46) | (67) | (86) | (90) | (92) | (486) |
| **Net Income** | | | | | | | | | | | |
| IFF14B( PUB/MH I-10b Att B) | 102 | 101 | 67 | 74 | (73) | (92) | (153) | (156) | (137) | (73) | **(340)** |
| IFF14 | 102 | 115 | 59 | 64 | (90) | (116) | (178) | (206) | (187) | (124) | **(561)** |
| **Difference** | - | (14) | 8 | 10 | 17 | 24 | 25 | 50 | 50 | 51 | 221 |

***Sources***
*PUB/MH-I-10b, Attachment B*
*Appendix 3.3 (IFF14)*

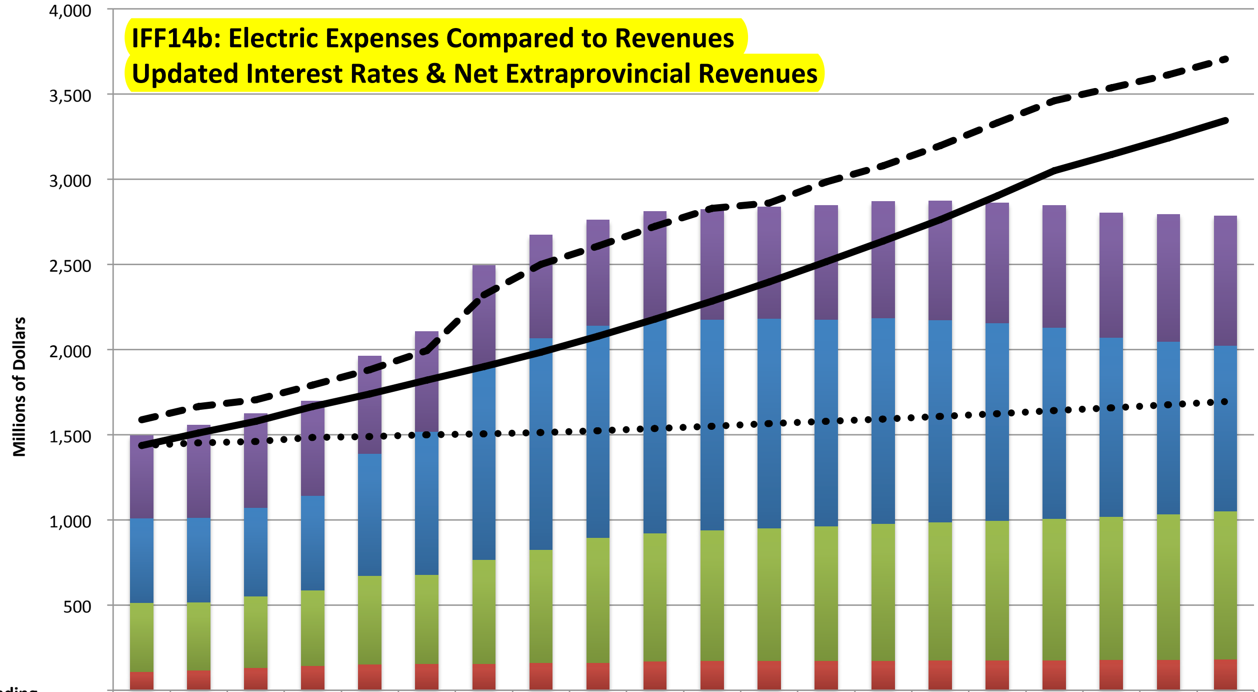
| **Cumulative Losses** | |
|---|---|
| IFF14b ( PUB/MH I-10b Att B) | (684) |
| IFF14 - Application | (978) |
| Difference | **294** |

Manitoba Hydro
2014/15 2015/16 GRA
Comparison Analysis IFF14B ( PUB/MH I-10b Att. B) vs. IFF14- Application

| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 20 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net Export Revenue** | | | | | | | | | | | |
| **IFF14b ( PUB/MH I-10b (Attachme** | | | | | | | | | | | |
| Export Revenues | 945 | 862 | 875 | 850 | 848 | 855 | 841 | 832 | 816 | 817 | **14,665** |
| Water Rentals | 133 | 133 | 133 | 134 | 134 | 135 | 135 | 136 | 136 | 137 | **2,559** |
| Fuel & Power Purchases | 268 | 266 | 273 | 274 | 281 | 291 | 296 | 305 | 309 | 320 | **4,914** |
| Net Export Revenue | **544** | **463** | **469** | **442** | **433** | **429** | **410** | **391** | **371** | **360** | **7,192** |
| **IFF14** | | | | | | | | | | | |
| Export Revenues | 996 | 928 | 944 | 921 | 920 | 927 | 911 | 901 | 883 | 884 | **15,664** |
| Water Rentals | 133 | 133 | 133 | 133 | 134 | 134 | 135 | 135 | 136 | 137 | **2,555** |
| Fuel & Power Purchases | 278 | 275 | 283 | 283 | 291 | 302 | 307 | 317 | 320 | 333 | **5,079** |
| Net Export Revenue | **585** | **520** | **528** | **505** | **495** | **491** | **469** | **449** | **427** | **414** | **8,030** |
| **Net Export Revenue Difference** | **(41)** | **(57)** | **(59)** | **(63)** | **(62)** | **(62)** | **(59)** | **(58)** | **(56)** | **(54)** | **(838)** |
| **Finance Expense** | | | | | | | | | | | |
| IFF14B ( PUB/MH I-10b Att B) | 1,258 | 1,253 | 1,240 | 1,240 | 1,224 | 1,201 | 1,166 | 1,097 | 1,062 | 1,024 | **20,255** |
| IFF14 | 1,351 | 1,348 | 1,338 | 1,337 | 1,321 | 1,301 | 1,263 | 1,197 | 1,161 | 1,116 | **21,709** |
| **Difference** | (93) | (95) | (98) | (97) | (97) | (100) | (97) | (100) | (99) | (92) | (1,454) |
| **Net Income** | | | | | | | | | | | |
| IFF14B( PUB/MH I-10b Att B) | - | 14 | 122 | 190 | 302 | 439 | 575 | 690 | 771 | 866 | **3,629** |
| IFF14 | (53) | (24) | 84 | 155 | 266 | 400 | 536 | 647 | 725 | 826 | **3,001** |
| **Difference** | 53 | 38 | 38 | 35 | 36 | 39 | 39 | 43 | 46 | 40 | 628 |

***Sources***
*PUB/MH-I-10b, Attachment B*
*Appendix 3.3 (IFF14)*

**IFF14b: Electric Expenses Compared to Revenues**
**Updated Interest Rates Net Extraprovincial Revenues**

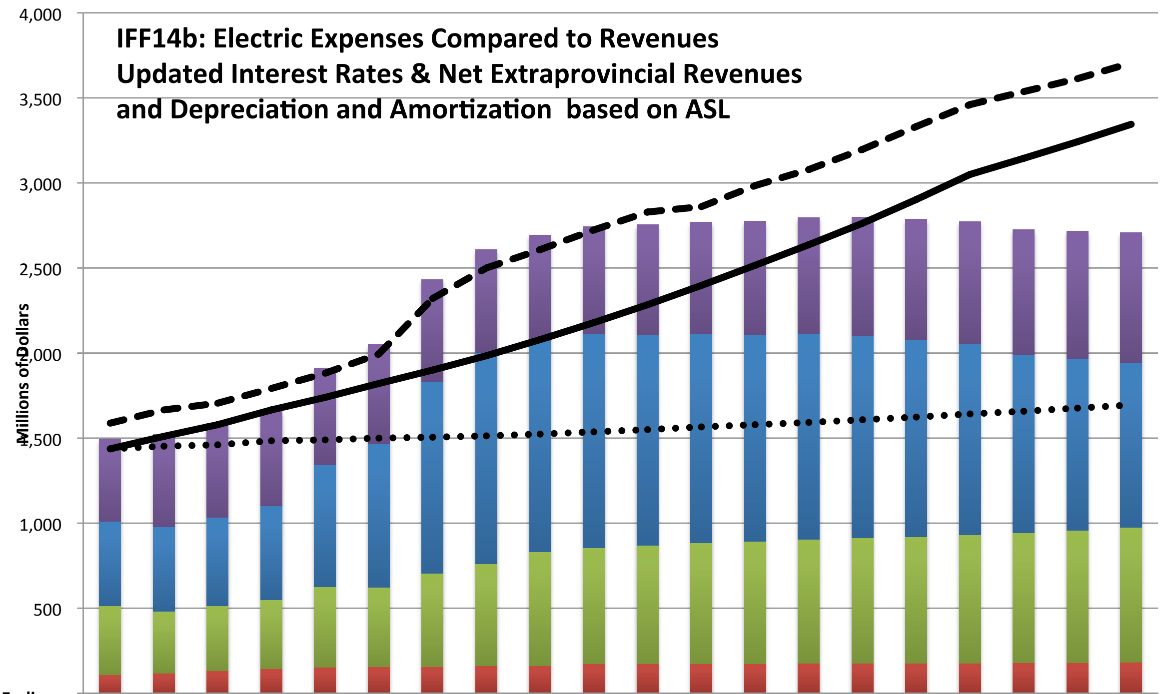



| Fiscal Year Ending | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 495 | 497 | 520 | 553 | 716 | 841 | 1,127 | 1,240 | 1,244 | 1,257 | 1,239 | 1,230 | 1,214 | 1,208 | 1,188 | 1,161 | 1,122 | 1,050 | 1,012 | 970 |
| Depreciation and Amortization | 405 | 401 | 422 | 445 | 521 | 524 | 612 | 665 | 735 | 751 | 766 | 779 | 790 | 803 | 810 | 819 | 830 | 841 | 855 | 871 |
| Taxes and Other | 110 | 117 | 131 | 144 | 153 | 155 | 155 | 162 | 162 | 172 | 173 | 173 | 174 | 175 | 177 | 176 | 177 | 180 | 180 | 182 |
| GCR incl Additional | 1,437 | 1,511 | 1,578 | 1,666 | 1,740 | 1,822 | 1,900 | 1,984 | 2,079 | 2,179 | 2,285 | 2,397 | 2,515 | 2,636 | 2,764 | 2,904 | 3,050 | 3,145 | 3,243 | 3,345 |
| GCR incl Additional + Net Extraprov | 1,588 | 1,665 | 1,705 | 1,791 | 1,881 | 1,995 | 2,320 | 2,500 | 2,607 | 2,724 | 2,829 | 2,860 | 2,984 | 3,078 | 3,197 | 3,333 | 3,460 | 3,536 | 3,614 | 3,705 |
| GCR at PUB approved rates | 1,437 | 1,454 | 1,460 | 1,483 | 1,490 | 1,501 | 1,506 | 1,513 | 1,525 | 1,538 | 1,551 | 1,565 | 1,580 | 1,593 | 1,607 | 1,624 | 1,641 | 1,659 | 1,677 | 1,696 |

*Reference: PUB/MH-I-10b ATTACHMENT B*

Table 4b, Expenses vs Revenues.xlsx

**IFF14b: Electric Expenses Compared to Revenues**
**Updated Interest Rates Net Extraprovincial Revenues**
**and Depreciation and Amortization based on ASL**




| Fiscal Year Ending | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating and Administrative | 486 | 542 | 552 | 557 | 571 | 585 | 601 | 607 | 619 | 631 | 644 | 657 | 669 | 683 | 697 | 706 | 719 | 733 | 748 | 763 |
| Finance Expense | 495 | 497 | 520 | 553 | 716 | 841 | 1,127 | 1,240 | 1,244 | 1,257 | 1,239 | 1,230 | 1,214 | 1,208 | 1,188 | 1,161 | 1,122 | 1,050 | 1,012 | 970 |
| Depreciation and Amortization based on ASL | 405 | 365 | 384 | 404 | 472 | 469 | 550 | 600 | 668 | 683 | 698 | 710 | 719 | 731 | 736 | 744 | 754 | 763 | 777 | 792 |
| Taxes and Other | 110 | 117 | 131 | 144 | 153 | 155 | 155 | 162 | 162 | 172 | 173 | 173 | 174 | 175 | 177 | 176 | 177 | 180 | 180 | 182 |
| GCR incl Additional | 1,437 | 1,511 | 1,578 | 1,666 | 1,740 | 1,822 | 1,900 | 1,984 | 2,079 | 2,179 | 2,285 | 2,397 | 2,515 | 2,636 | 2,764 | 2,904 | 3,050 | 3,145 | 3,243 | 3,345 |
| GCR incl Additional + Net Extraprov | 1,588 | 1,665 | 1,705 | 1,791 | 1,881 | 1,995 | 2,320 | 2,500 | 2,607 | 2,724 | 2,829 | 2,860 | 2,984 | 3,078 | 3,197 | 3,333 | 3,460 | 3,536 | 3,614 | 3,705 |
| GCR at PUB approved rates | 1,437 | 1,454 | 1,460 | 1,483 | 1,490 | 1,501 | 1,506 | 1,513 | 1,525 | 1,538 | 1,551 | 1,565 | 1,580 | 1,593 | 1,607 | 1,624 | 1,641 | 1,659 | 1,677 | 1,696 |

*Reference: PUB/MH-I-10b ATTACHMENT B & PUB/MH-II-21a-c*

| | | | |
|---|---|---|---|
| **Section:** | Tab 3: Appendix 3.7 | **Page No.:** | 1 |
| **Topic:** | Integrated Financial Forecast and Economic Outlook | | |
| **Subtopic:** | Interest Rate Forecast | | |
| **Issue:** | Weighted Average Interest Rate | | |

**PREAMBLE TO IR (IF ANY):**

This question is in follow-up to PUB/MH I-10 (b) and COALITION/MHI-103 (c).

**QUESTION:**

a) Please indicate precisely what assumptions differ as between Appendix A and Appendix B to PUB/MH I-10(b) (i.e., is it just export prices?).

b) Do either of the financial forecasts provided in the response to PUB/MH I-10 (b) incorporate the updated CAD/US exchange rate forecast set out in COALITION/MH I-103 (c)?

c) If not, please provide a revised version of Appendix B that also incorporates the updated foreign exchange rate forecast.

d) PUB/MH 1-10(b) states that "[i]t is important to recognize that this scenario would not occur in isolation of other economic outcomes that may affect the Corporation's financial performance and therefore the scenario in Appendix A is not a representative update to the Corporation's revenue requirement."

i. Can Manitoba Hydro confirm whether Appendix A is an accurate representation of its financials based upon the assumptions therein?

ii. Is it Manitoba Hydro's position that each of the sensitivities that are available in this proceeding are also "not a representative update to the Corporation's revenue requirement" (as they incorporate one or two different assumptions rather than a wholesale re-balancing of the host of assumptions)?

iii. As Appendix A is not a representative update to the Corporation's revenue requirement, please provide an update that is representative.

e) PUB/MH 1-10(b) states that "Manitoba Hydro operates in a complex economic environment that simultaneously affects many parts of its operations. The economy's impact upon Manitoba Hydro's revenue requirement is not exclusively seen through changing interest rates and the evolving views of Manitoba Hydro's external interest rate forecasters. There are numerous counterbalances."

i. Please provide a list of the factors which should be considered in the process of correctly counterbalancing a lower interest rate scenario in addition to export prices and volumes.

**RATIONALE FOR QUESTION:**

This information is required to in order to better understand the implications of recent economic updates on Manitoba Hydro's financial forecast.

**RESPONSE:**

Response to parts a-e)

The most balanced representation of the Corporation's financial projections and revenue requirement is the Corporation's Integrated Financial Forecast (IFF).

Manitoba Hydro operates in a complex operational and economic environment that simultaneously affects many parts of its financial performance. The IFF is the culmination of many months of entering, integrating and reviewing forecast inputs (such as hydrological, operational, capital, economic, and load). Care needs to be taken to avoid the oversimplification and disintegration that may occur when applying subsequent input updates. Off-the-run update scenarios that simply isolate the impacts of changes, beneficial or adverse, in any one input variable without considering potential counterbalances have the potential to create spurious forecasts and false conclusions if they are developed for the purpose of determining Manitoba Hydro's revenue requirement for rate setting purposes.

The forecast scenario that only updates for interest rate changes (Attachment A in PUB/MH-I-10b), is not a representative update to the Corporation's total revenue requirement. This is because the economy's impact upon Manitoba Hydro's revenue requirement is not exclusively seen through changing interest rates and the evolving views of Manitoba Hydro's external interest rate forecasters. There are numerous economic counterbalances that would affect the total revenue requirement for rate setting purposes.

The essential need to consider economic counterbalances was demonstrated in Attachment B to PUB/MH I-10b that showed the combined effects of updated interest rates along with estimated reductions in export revenue (see the response to PUB/MH-II-82a&b and 83a for details regarding the input variables). The results showed that the cumulative net income to 2016/17 was $6 million lower than the base case IFF14 when simultaneously updated with both interest rates and extra-provincial revenues. This revenue requirement stands in sharp contrast to the false conclusion that may arise if one only considered changes to interest rates.

Manitoba Hydro periodically updates its financial projections to reflect a wide range of updated information. However, these off-the-run scenarios need to be viewed with caution as they may also lead to a false sense of precision. While the scenario in Attachment B to PUB/MH I-10b is generally indicative of the effects of updated interest rates and export revenues, it will not be as rigorous as an IFF update that would consider the detailed impacts of changes in these variables; for example, a lower interest rate environment may lower the pension and benefit discount rate which may increase benefit expense, or changing economics may affect the domestic load forecast. All of these iterative, system-wide considerations typically require extensive time to appropriately update, integrate and review.

Sensitivities run on base case integrated forecasts need to be understood in their proper context. As stated in response to COALITION/MH-I-110d:

> "Sensitivities, such as the -1% interest rate scenario, are instructive in highlighting key risks that the Corporation faces and are not developed for the purpose of determining the Corporation's revenue requirement."

The scenarios in response to PUB/MH-I-10b did not include a run for changes in the USD/CAD exchange rate as the revenue requirement fluctuations associated with this economic variable have been largely eliminated due to the balanced combination of natural and accounting hedges (see Manitoba Hydro's response to COALITION/MH-II-103a). Therefore, for revenue requirement purposes, there is no relevant need to recalibrate the scenarios for this economic variable.

It is important to recognize that perpetually chasing real time updates, under the false assumption that the updated scenarios provide a more representative revenue requirement for rate setting purposes, also ignores the reality that Manitoba Hydro operates under a self-correcting cost of service rate setting methodology. Manitoba Hydro's retained earnings and net income of Manitoba Hydro are held for the benefit of ratepayers. To the extent that financial results are higher or lower than forecast, the difference, along with all other differences, flows to retained earnings. Retained earnings are not distributed as dividends to private shareholders (as may be the case in jurisdictions with a rate-base rate of return methodology) or used for any purpose other than managing the risks and revenue requirements on behalf of Manitoba Hydro's customers. To the extent that there are higher contributions to retained earnings as a result of this difference, there will be lower future rate increase requirements. Manitoba Hydro views this self-correcting mechanism at each GRA to be no different than the impact on earnings of weather or any other revenue or expense variable.

Manitoba Hydro periodically updates its financial projections to reflect a wide range of updated information. However, these updates need to be viewed in context and with caution. As discussed in Tab 2 of the Application, a large portion of the revenue requirements are associated with the magnitude of the capital assets being placed into service over the next forecast period. Manitoba Hydro's financial strength provides the means to smooth out short term volatility in costs and revenues to provide customers with rate stability. Isolating the impacts of changes, beneficial or adverse, in any one input variable has the potential to create a spurious forecast, and add undue rate variability and/or to alter the longer term progress towards the achievement of Manitoba Hydro's financial targets. For revenue requirement and rate setting purposes, the most balanced representation of the Corporation's financial projections is the Corporation's <u>Integrated</u> Financial Forecast (IFF) that was filed as a part of this rate application.

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**Table 4 - Net Income and Retained Earnings - Electric Operations**
***(millions of $)***

| | 2003/04 Actual | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Forecast | 2014/15 Forecast | 2015/16 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| General Consumers Revenue | | | | | | | | | | | | | |
| - at approved rates | $ 918 | $ 939 | $ 984 | $ 1 024 | $ 1 075 | $ 1 127 | $ 1 145 | $ 1 200 | $ 1 191 | $ 1 341 | $ 1 396 | $ 1 408 | $ 1 423 |
| - with proposed increases* | | | | | | | | | - | - | - | 56 | 115 |
| Bipole III Reserve Account | - | - | - | - | - | - | - | - | - | - | (18) | (21) | (22) |
| Extraprovincial Revenue (net of fuel & power purchased and water rentals) | (289) | 307 | 571 | 254 | 366 | 323 | 202 | 172 | 98 | 101 | 139 | 118 | 77 |
| Other Revenue | 7 | 4 | 5 | 5 | 8 | 16 | 6 | 6 | 6 | 25 | 13 | 13 | 13 |
| | 636 | 1 250 | 1 560 | 1 283 | 1 448 | 1 466 | 1 353 | 1 379 | 1 295 | 1 468 | 1 530 | 1 573 | 1 606 |
| Expenses | | | | | | | | | | | | | |
| Operating & Administrative | 283 | 299 | 311 | 323 | 323 | 364 | 378 | 397 | 403 | 463 | 485 | 494 | 542 |
| Finance expense | 453 | 468 | 468 | 467 | 401 | 433 | 373 | 388 | 385 | 452 | 437 | 499 | 514 |
| Depreciation & Amortization | 274 | 289 | 301 | 311 | 324 | 340 | 358 | 365 | 353 | 392 | 415 | 440 | 437 |
| Capital & other taxes | 50 | 51 | 53 | 55 | 57 | 64 | 76 | 81 | 83 | 86 | 93 | 101 | 109 |
| Corporate Allocation | 4 | 6 | 6 | 7 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 |
| | 1 064 | 1 113 | 1 140 | 1 163 | 1 112 | 1 209 | 1 193 | 1 240 | 1 233 | 1 403 | 1 438 | 1 543 | 1 611 |
| Non-controlling Interest | - | - | - | - | - | - | - | - | - | 13 | 24 | 24 | 18 |
| Net Income | $ (428) | $ 137 | $ 420 | $ 120 | $ 337 | $ 257 | $ 160 | $ 139 | $ 61 | $ 78 | $ 116 | $ 55 | $ 12 |
| Debt to Equity Ratio - Electric Only | 87:13 | 85:15 | 81:19 | 80:20 | 73:27 | 77:23 | 72:28 | 72:28 | 74:26 | 75:25 | 76:24 | 78:22 | 82:18 |
| Interest Coverage Ratio - Electric Only | 0.12 | 1.27 | 1.83 | 1.23 | 1.72 | 1.50 | 1.33 | 1.26 | 1.11 | 1.13 | 1.20 | 1.09 | 1.02 |
| Capital Coverage Ratio - Electric Only | (0.42) | 1.20 | 2.52 | 1.12 | 1.65 | 1.82 | 1.28 | 1.22 | 1.10 | 1.27 | 1.03 | 0.86 | 0.78 |

* with proposed increases - reflects a 3.95% increase in 2014/15 and forecast rate 3.95% in 2015/16

**Financial Results - Assuming No 2014/15 Rate Increase**

| | 2014/15 | 2015/16 |
|---|---|---|
| Net Income (Loss) | $ (1) | $ (49) |
| Retained Earnings | 2 582 | 2 589 |
| Debt to Equity Ratio (consolidated) | 79:21 | 83:17 |
| Interest Coverage Ratio (consolidated) | 1.00 | 0.93 |
| Capital Coverage Ratio (consolidated) | 0.78 | 0.68 |

**Financial Results (after the proposed rate increase)**

| | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retained Earnings | 707 | 843 | 1 263 | 1 378 | 1 784 | 2 028 | 2 188 | 2 328 | 2 390 | 2 468 | 2 584 | 2 638 | 2 650 |
| Debt to Equity Ratio (consolidated) | 87:13 | 85:15 | 81:19 | 80:20 | 73:27 | 77:23 | 73:27 | 73:27 | 74:26 | 75:25 | 76:24 | 78:22 | 82:18 |
| Interest Coverage Ratio (consolidated) | 0.17 | 1.25 | 1.77 | 1.23 | 1.69 | 1.49 | 1.32 | 1.27 | 1.10 | 1.15 | 1.22 | 1.09 | 1.03 |
| Capital Coverage Ratio (consolidated) | (0.32) | 1.20 | 2.28 | 1.10 | 1.62 | 1.77 | 1.34 | 1.25 | 1.13 | 1.25 | 1.06 | 0.87 | 0.80 |

**Net Income - Electricity Operations**

| (in millions of $) | Actual 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Forecast 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | | | |
| General Consumers Revenue | | | | | | | | | | |
| - at approved rates | $ 1 075 | $ 1 127 | $ 1 145 | $ 1 200 | $ 1 193 | $ 1 341 | $ 1 424 | $ 1 401 | $ 1 415 | $ 1 421 |
| - Bipole III Reserve | - | - | - | - | - | - | (19) | (30) | (32) | (34) |
| Extraprovincial Revenue (net of Fuel & Power Purchased and Water Rentals) | 366 | 323 | 202 | 172 | 98 | 101 | 137 | 150 | 181 | 147 |
| Other Revenue | 8 | 16 | 6 | 6 | 14 | 30 | 22 | 15 | 14 | 14 |
| | 1 448 | 1 466 | 1 353 | 1 379 | 1 305 | 1 472 | 1 564 | 1 537 | 1 578 | 1 548 |
| Expenses | 1 112 | 1 209 | 1 193 | 1 240 | 1 243 | 1 407 | 1 439 | 1 495 | 1 571 | 1 653 |
| Operating, Maintenance and Administrative | 323 | 364 | 378 | 397 | 412 | 463 | 481 | 486 | 542 | 552 |
| Finance Expense | 401 | 433 | 373 | 388 | 385 | 452 | 435 | 495 | 510 | 548 |
| Depreciation and Amortization | 324 | 340 | 358 | 365 | 353 | 392 | 411 | 405 | 401 | 422 |
| Capital and Other Taxes | 57 | 64 | 76 | 81 | 83 | 86 | 97 | 99 | 107 | 121 |
| Corporate Allocation | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 8 | 8 |
| Other expenses | - | - | - | - | 1 | 5 | 6 | 2 | 2 | 2 |
| Non-controlling Interest | - | - | - | - | - | 13 | 22 | 25 | 12 | 8 |
| Net Income (loss) before proposed rate increases | $ 337 | $ 257 | $ 160 | $ 139 | $ 61 | $ 78 | $ 147 | $ 67 | $ 19 | $ (97) |
| Proposed rate increases (2.75% May 1, 2014, 3.95% April 1, 2015 and 3.95% April 1, 2016) | - | - | - | - | - | - | - | 35 | 96 | 157 |
| Net Income including proposed rate increases | $ 337 | $ 257 | $ 160 | $ 139 | $ 61 | $ 78 | $ 147 | $ 102 | $ 115 | $ 59 |

**Retained Earnings and Financial Ratios (without proposed rate increases)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Retained Earnings (electric operations) | $ 1 784 | $ 2 028 | $ 2 190 | $ 2 328 | $ 2 390 | $ 2 468 | $ 2 614 | $ 2 681 | $ 2 646 | $ 2 549 |
| Debt to Equity Ratio (electric operations) | 73:27 | 77:23 | 72:28 | 72:28 | 74:26 | 75:25 | 77:23 | 78:22 | 83:17 | 85:15 |
| Interest Coverage Ratio (electric operations) | 1.72 | 1.50 | 1.33 | 1.26 | 1.11 | 1.13 | 1.25 | 1.11 | 1.03 | 0.88 |
| Capital Coverage Ratio (electric operations) | 1.65 | 1.82 | 1.28 | 1.22 | 1.10 | 1.26 | 1.39 | 0.92 | 0.84 | 0.66 |

**Retained Earnings and Financial Ratios (including proposed rate increases)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Retained Earnings (electric operations) | $ 1 784 | $ 2 028 | $ 2 190 | $ 2 328 | $ 2 390 | $ 2 468 | $ 2 614 | $ 2 717 | $ 2 778 | $ 2 837 |
| Debt to Equity Ratio (electric operations) | 73:27 | 77:23 | 72:28 | 72:28 | 74:26 | 75:25 | 77:23 | 78:22 | 82:18 | 84:16 |
| Interest Coverage Ratio (electric operations) | 1.72 | 1.50 | 1.33 | 1.26 | 1.11 | 1.13 | 1.25 | 1.16 | 1.16 | 1.07 |
| Capital Coverage Ratio (electric operations) | 1.65 | 1.82 | 1.28 | 1.22 | 1.10 | 1.26 | 1.39 | 0.98 | 1.02 | 0.94 |

8

**QUESTION:**

Provide a detailed analysis of Manitoba Hydro's energy and capacity purchase costs from third parties to support these sales in average flow years.

**RATIONALE FOR QUESTION:**

To assess the impact of summer Diversity obligations on export revenues.

**RESPONSE:**

As shown in Figure 4 of Appendix 11.48 of this Application, Manitoba Hydro has sufficient system capacity to meet its summer diversity obligations and no capacity imports are required.

Tab 9, Figure 9.3 of this Application shows that under the average of all flow conditions there is sufficient hydro generation to serve Manitoba Hydro's total demand obligations including net load and contracted exports and no energy imports are required.

| Section: | Tab 2 | Page No.: | April 1, 2014 Interim Application page 11 |
|---|---|---|---|
| Topic: | Overview and Reasons for Application | | |
| Subtopic: | Forecast Financial Results | | |
| Issue: | Forecast Operating Results | | |

**PREAMBLE TO IR (IF ANY):**

In its interim application MH provided financial information based on IFF13. At the time of filing its application, MH was forecasting a net income of $116 million for 2013/14, $55 million in 2014/15 and $12 million for 2015/16. Financial results for those years are different in this application with MH's electric operations posting a net income at March 31, 2014 of $147 million and forecasting a net income for 2014/15 of $102 million and $59 million in 2015/16. MH's IFF14 vs IF13 analysis in section 3.3.1 is at an aggregate level and excludes 2013/14.

**QUESTION:**

Please provide a comparative analysis of the forecast financial results similar to Table 5 of the April 2014 interim rate application for each of 2013/14, 2014/15 and 2015/16. The table should show Manitoba Hydro's forecast at the time of the April 2014 interim rate application and compare it with the current forecast/actual data from IFF14. b)Please explain all material differences.

**RATIONALE FOR QUESTION:**

To understand how MH's forecast for 2013/14 and 2014/15 had changed from when MH sought an interim rate for April 1, 2014.

**RESPONSE:**

The following table provides a comparative analysis between MH14 to MH13 including actual results for 2013/14.

**MH14 vs MH13**
**Electric Operations**
***(millions of $)***

PUB/MH I-63a

**ELECTRIC OPERATIONS**
**PROJECTED INCOME STATEMENT**
For the year ended March 31
(millions of $)

| | 2013/14 | | | 2014/15 | | | 2015/16 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Actuals | MH13 Forecast | Increase (Decrease) | MH14 Forecast | MH13 Forecast | Increase (Decrease) | MH14 Forecast | MH13 Forecast | Increase (Decrease) |
| GCR | | | | | | | | | |
| -at approved rates * | 1 424 | 1 396 | | 1 437 | 1 408 | | 1 454 | 1 423 | |
| -with additional rate increases ** | - | - | | - | 56 | | 57 | 115 | |
| | 1 424 | 1 396 | 28 | 1 437 | 1 463 | (27) | 1 512 | 1 538 | (26) |
| Bipole III Reserve Account | (19) | (18) | (0) | (30) | (21) | (9) | (32) | (22) | (10) |
| Extraprovincial (net of fuel & power purchased and wate | 137 | 139 | (3) | 150 | 118 | 32 | 181 | 77 | 104 |
| Other Revenue | 22 | 13 | 9 | 15 | 13 | 2 | 14 | 13 | 1 |
| **Total Revenue** | 1 564 | 1 530 | 34 | 1 572 | 1 573 | (1) | 1 674 | 1 606 | 69 |
| Operating & Administrative | 481 | 485 | (4) | 486 | 494 | (8) | 542 | 542 | (0) |
| Finance Expense | 435 | 437 | (1) | 495 | 499 | (4) | 510 | 514 | (3) |
| Depreciation & Amortization | 411 | 415 | (4) | 405 | 440 | (35) | 401 | 437 | (36) |
| Capital & Other Taxes | 97 | 93 | 4 | 99 | 101 | (2) | 107 | 109 | (2) |
| Corporate Allocation | 9 | 9 | - | 9 | 9 | (0) | 8 | 9 | (0) |
| Other Expenses | 6 | - | 6 | 2 | - | 2 | 2 | - | 2 |
| **Total Expenses** | 1 439 | 1 438 | 1 | 1 495 | 1 543 | (47) | 1 571 | 1 611 | (40) |
| Non-Controlling Interest | 22 | 24 | (2) | 25 | 24 | 1 | 12 | 18 | (6) |
| **Net Income** | 147 | 116 | 31 | 102 | 55 | 48 | 115 | 12 | 103 |
| **Retained Earnings (Electric)** | 2 615 | 2 584 | 31 | 2 717 | 2 638 | 79 | 2 778 | 2 592 | 186 |
| Debt to Equity Ratio (consolidated) | 76:24 | 76:24 | | 77:23 | 78:22 | | 81:19 | 82:18 | |
| Interest Coverage Ratio (consolidated) | 1.28 | 1.22 | 0.06 | 1.17 | 1.09 | 0.08 | 1.17 | 1.03 | 0.14 |
| Capital Coverage Ratio (consolidated) | 1.35 | 1.06 | 0.29 | 0.99 | 0.87 | 0.12 | 1.05 | 0.80 | 0.25 |

* - assumes 2.75% interim rate increase beginning May 1, 2014 included in MH14
** -with additional rates increases includes the proposed rate 3.95% in 2014/15 for MH13 only and forecast rate 3.95% in 2015/16 for MH14 and MH13

2013/14 Actual vs. MH13 Forecast

Net income from Electric operations was higher than forecast in 2013/14 primarily as a result of higher General Consumers Revenue (GCR) mainly due to the colder winter weather.

2014/15 MH14 Forecast vs. MH13 Forecast

The 2014/15 projected net income from Electric operations is higher in MH14 primarily due to lower depreciation rates resulting from the 2014 Depreciation Study and a reduction to OM&A costs due to the 1% inflationary cost constraint being implemented in 2014/15, one year earlier compared to MH13. In addition, Extraprovincial revenues (net of water rentals and fuel and power purchases) are higher in MH14 compared to MH13 mainly due to the weakening Canadian dollar.

The increase to net income is partially offset by a reduction in GCR resulting from a lower interim rate increase than requested.

2015/16 MH14 Forecast vs. MH13 Forecast

The 2015/16 projected net income from Electric operations is higher in MH14 primarily as a result of higher net Extraprovincial revenue mainly due to the change in assumption from the average of all water flow conditions to median water flows, a weakening Canadian dollar and higher transmission credits, partially offset by lower prices on the export market. In addition, depreciation expense is lower in MH14 primarily due to lower depreciation rates resulting from the 2014 Depreciation Study.

The increase to net income is partially offset by a reduction in GCR resulting from a lower interim rate increase than requested.

| Section: | Tab 2 | Page No.: | April 1, 2014 Interim Application page 11 |
|---|---|---|---|
| Topic: | Overview and Reasons for Application | | |
| Subtopic: | Forecast Financial Results | | |
| Issue: | Forecast Operating Results | | |

**PREAMBLE TO IR (IF ANY):**

In its interim application MH provided financial information based on IFF13. At the time of filing its application, MH was forecasting a net income of $116 million for 2013/14, $55 million in 2014/15 and $12 million for 2015/16. Financial results for those years are different in this application with MH's electric operations posting a net income at March 31, 2014 of $147 million and forecasting a net income for 2014/15 of $102 million and $59 million in 2015/16. MH's IFF14 vs IF13 analysis in section 3.3.1 is at an aggregate level and excludes 2013/14.

**QUESTION:**

Please provide a table of forecast assumptions used in IFF13 with the actual experience for 2013/14.

**RATIONALE FOR QUESTION:**

To understand how MH's forecast for 2013/14 and 2014/15 had changed from when MH sought an interim rate for April 1, 2014.

**RESPONSE:**

Please see the following table.

## Table of Assumptions

| | 2013/14 | | 2014/15 | |
|---|---|---|---|---|
| **Economic** | Actual | MH13 | MH14 | MH13 |
| Manitoba Consumer Price Index | 2.40% | 1.80% | 1.80% | 2.00% |
| MH Short-term Cdn interest rate | 1.37% | 2.00% | 1.95% | 2.15% |
| MH Long-term Cdn Interest Rate | 3.62% | 4.75% | 4.50% | 5.05% |
| US-CDN Exchange Rate C$/US$ | 1.05 | 1.04 | 1.10 | 1.03 |
| | | | | |
| **System Operations** | | | | |
| Demand GW.h | 36,982 | 36,806 | 36,315 | 36,140 |
| Manitoba | 25,481 | 25,192 | 25,321 | 25,541 |
| Dependable & Short Term Opportunity Exports | 10,344 | 10,673 | 9,985 | 9,593 |
| Other and Losses | 965 | 941 | 1,008 | 1,005 |
| | | | | |
| Supply GW.h | 36,982 | 36,805 | 36,315 | 36,140 |
| Hydraulic | 35,261 | 35,143 | 35,116 | 34,321 |
| Thermal | 131 | 114 | 101 | 132 |
| Imports and Purchases | 1,576 | 1,547 | 1,098 | 1,687 |

| Section: | Tab 2 | Page No.: | April 1, 2014 Interim Application page 11 |
|---|---|---|---|
| Topic: | Overview and Reasons for Application | | |
| Subtopic: | Forecast Financial Results | | |
| Issue: | Forecast Operating Results | | |

**PREAMBLE TO IR (IF ANY):**

In its interim application MH provided financial information based on IFF13. At the time of filing its application, MH was forecasting a net income of $116 million for 2013/14, $55 million in 2014/15 and $12 million for 2015/16. Financial results for those years are different in this application with MH's electric operations posting a net income at March 31, 2014 of $147 million and forecasting a net income for 2014/15 of $102 million and $59 million in 2015/16. MH's IFF14 vs IF13 analysis in section 3.3.1 is at an aggregate level and excludes 2013/14.

**QUESTION:**

Please file a comparative analysis similar to PUB/MH I-5(b) of Manitoba Hydro's April 2014 interim rate application comparing projections at that time against IFF14 actuals and projections for 2013/14, 2014/15 and 2015/16.

**RATIONALE FOR QUESTION:**

To understand how MH's forecast for 2013/14 and 2014/15 had changed from when MH sought an interim rate for April 1, 2014.

**RESPONSE:**

Please see the following tables.

Please note that actual values for Balance Sheet and Cash Flow Statement include Manitoba Hydro subsidiaries.

**ELECTRIC OPERATIONS**
**PROJECTED BALANCE SHEET**

| For the year ended March 31 (millions of $) | 2013/14 | | | 2014/15 | | | 2015/16 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Actuals | MH13 Forecast | Increase (Decrease) | MH14 Forecast | MH13 Forecast | Increase (Decrease) | MH14 Forecast | MH13 Forecast | Increase (Decrease) | |
| **Assets** | | | | | | | | | | |
| Net Plant in Service | 10,684 | 10,803 | (119) | 11,487 | 11,568 | (81) | 11,900 | 12,137 | (237) | 2013/14 - Assets to be placed in-service were deferred to 2014/15 compared to MH13; 2014/15 - lower than forecast MNG&T plant in-service and lower depreciation rates; 2015/16 -deferrals of plant in-service compared to MH13 and lower depreciation rates |
| Construction in Progress | 2,943 | 2,425 | 518 | 3,257 | 3,296 | (38) | 4,932 | 4,743 | 189 | Corresponds to Plant in-service deferrals and MNG&T cash flow forecasts |
| Other Assets | 2,012 | 2,058 | (46) | 2,250 | 2,054 | 195 | 2,033 | 1,890 | 143 | 2014/15 - Increased DSM Expenditures, advances to Centra and Inventory levels; 2015/16 -increased DSM expenditures and advances to Centra |
| | 15,639 | 15,285 | 354 | 16,993 | 16,918 | 76 | 18,866 | 18,770 | 96 | |
| **Liabilities and Equity** | | | | | | | | | | |
| Long Term Debt and Other Liabilities | 12,446 | 12,117 | 329 | 13,721 | 13,664 | 58 | 15,959 | 15,849 | 111 | 2013/14 -Higher payables and lower mitigation payments compared to MH13 |
| Contributions | 381 | 380 | 1 | 461 | 412 | 49 | 527 | 443 | 84 | 2014/15 - increased customer contributions to construction and BPIII reserve account; 2015/16 - increased customer contributions to construction and BPIII reserve account |
| Retained Earnings | 2,716 | 2,584 | 132 | 2,717 | 2,638 | 79 | 2,778 | 2,592 | 186 | Net Income Changes to Equity |
| Accumulated Other Comprehensive Income | 96 | 204 | (108) | 94 | 204 | (110) | (399) | (115) | (284) | 2013/14 & 2014/15 --Unrealized/realized losses on Debt in cash flow hedges and SFI redemptions; 2015/16 same as previous year plus a larger write-off of unamortized pension |
| | | | | | | | | | | |
| | 15,639 | 15,285 | 354 | 16,993 | 16,918 | 76 | 18,866 | 18,770 | 96 | |
| **Financial Ratios** | | | | | | | | | | |
| Equity (Electric) | 77:23 | 76:24 | | 78:22 | 78:22 | | 82:18 | 82:18 | | |
| Interest Coverage (Electric) | 1.25 | 1.20 | 0.05 | 1.16 | 1.09 | 0.07 | 0.86 | 1.02 | (0.16) | |
| Capital Coverage (Electric) | 1.39 | 1.03 | 0.36 | 0.98 | 0.86 | 0.12 | 0.82 | 0.78 | 0.04 | |

*- includes Subsidiaries

**ELECTRIC OPERATIONS (MH13)**
**PROJECTED CASH FLOW STATEMENT**

| For the year ended March 31 (millions of $) | 2013/14 | | | 2014/15 | | | 2015/16 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Actuals | MH13 Forecast | Increase (Decrease) | MH14 Forecast | MH13 Forecast | Increase (Decrease) | MH14 Forecast | MH13 Forecast | Increase (Decrease) | |
| **Operating Activities** | 661 | 544 | 117 | 558 | 549 | 9 | 587 | 493 | 94 | 2013/14 Higher Revenue from cold winter and higher interest received on investments; 2015/16 Exports increased, FP&P decreased |
| **Financing Activities** | 1,083 | 1,000 | 83 | 1,218 | 1,616 | (398) | 2,077 | 2,261 | (185) | 2014/15 Debt Retirement offset by lower debt required to finance MNGT; 2015/16 Lower than forecast debt requirement |
| **Investing Activities** | (1,634) | (1,786) | 152 | (2,046) | (2,175) | 129 | (2,742) | (2,644) | (98) | 2013/14 lower than forecast capital spending on MNG&T; 2014/15 - lower forecast spending on Conawapa, BPIII and other projects ; 2015/16 Increased spending on BPIII and DSM partially offset by decreased spending on Conawapa |
| Net Increase (Decrease) in Cash | 110 | (243) | 353 | (270) | (10) | (260) | (78) | 111 | (188) | |
| Cash at Beginning of Year | 32 | 25 | 7 | 133 | (218) | 351 | (137) | (227) | 91 | |
| Cash at End of Year | 142 | (218) | 360 | (137) | (227) | 91 | (214) | (117) | (98) | |

*- includes Subsidiaries

| Section: | 5 | Page No.: | Interim Application PUB/MH I-9 |
|---|---|---|---|
| Topic: | Financial Results and Forecast | | |
| Subtopic: | Weather Impacts | | |
| Issue: | Heating Degree Day | | |

**PREAMBLE TO IR (IF ANY):**

Heating Degree Day (HDD) differences between forecast and normal impact Manitoba Hydro's financial results. MH has previously indicated that 1 HDD represents $55,000 in domestic revenues.

**QUESTION:**

Please provide a description of HDD and how it is determined.

**RATIONALE FOR QUESTION:**

This question explores the impact of weather on Manitoba Hydro's revenues.

**RESPONSE:**

Degree Days Heating (DDH) is the number of degrees that a day's average temperature is colder than 14 degrees Celsius and is based on the average of the high and low temperature of the day. The DDH for each day is calculated as follows:

If Average Temperature < 14, then DDH = 14 – Average Temperature
If Average Temperature = 14 or more, then DDH = 0
Where: Average Temperature = (Daily high + Daily low) / 2

Total DDH = sum of DDH over all days

| Section: | 5 | Page No.: | Interim Application PUB/MH I-9 |
|---|---|---|---|
| Topic: | Financial Results and Forecast | | |
| Subtopic: | Weather Impacts | | |
| Issue: | Heating Degree Day | | |

**PREAMBLE TO IR (IF ANY):**

Heating Degree Day (HDD) differences between forecast and normal impact Manitoba Hydro's financial results. MH has previously indicated that 1 HDD represents $55,000 in domestic revenues.

**QUESTION:**

Provide an update to PUB/MH I-9 from Manitoba Hydro's April 2014 interim rate application for the HDD comparison between what was forecast in IFF13 for 2013/14 and 2014/15 with actual/updated forecast results set out in IFF14 for those years.

**RATIONALE FOR QUESTION:**

This question explores the impact of weather on Manitoba Hydro's revenues.

**RESPONSE:**

The following table displays the Degree Day Heating (DDH) that occurred in the 2013/14 and 2014/15 fiscal year compared with the normal DDH (25 year rolling average) expected for both IFF13 and IFF14.

| Month | Actual | IFF13 Normal | IFF14 Normal |
|---|---|---|---|
| Apr-13 | 482 | 295 | |
| May-13 | 116 | 121 | |
| Jun-13 | 13 | 18 | |
| Jul-13 | 2 | 2 | |
| Aug-13 | 1 | 5 | |
| Sep-13 | 32 | 71 | |
| Oct-13 | 294 | 277 | |
| Nov-13 | 592 | 554 | |
| Dec-13 | 1,078 | 845 | |
| Jan-14 | 1,034 | 944 | |
| Feb-14 | 949 | 786 | |
| Mar-14 | 826 | 625 | |
| **Year Total** | 5,420 | 4,541 | |
| Apr-14 | 411 | 295 | 303 |
| May-14 | 135 | 121 | 122 |
| Jun-14 | 5 | 18 | 18 |
| Jul-14 | 3 | 2 | 2 |
| Aug-14 | 3 | 5 | 5 |
| Sep-14 | 64 | 71 | 69 |
| Oct-14 | 227 | 277 | 276 |
| Nov-14 | 684 | 554 | 556 |
| Dec-14 | 744 | 845 | 855 |
| Jan-15 | 858 | 944 | 948 |
| Feb-15 | N/A | 786 | 785 |
| Mar-15 | N/A | 625 | 630 |
| **Year Total** | 3,133 | 4,541 | 4,570 |

| **Section:** | 5 | **Page No.:** | Interim Application PUB/MH I-9 |
|---|---|---|---|
| **Topic:** | Financial Results and Forecast | | |
| **Subtopic:** | Weather Impacts | | |
| **Issue:** | Heating Degree Day | | |

**PREAMBLE TO IR (IF ANY):**

Heating Degree Day (HDD) differences between forecast and normal impact Manitoba Hydro's financial results. MH has previously indicated that 1 HDD represents $55,000 in domestic revenues.

**QUESTION:**

Please explain the financial impact of any differences between forecast and actual HDD on 2013/14 actual results and forecast 2014/15 results.

**RATIONALE FOR QUESTION:**

This question explores the impact of weather on Manitoba Hydro's revenues.

**RESPONSE:**

$55,000 per one degree day heating (DDH) represents the approximate financial impact of cold weather on Manitoba Hydro's financial results. The following table displays the impact of cold weather for the months of 2013/14 and 2014/15 from the forecast DDH in IFF13.

| Month | Actual DDH | IFF13 Normal DDH | Financial Impact of Difference |
|---|---|---|---|
| Apr-13 | 482.4 | 294.7 | $10,323,500 |
| May-13 | 116.3 | 120.6 | -$236,500 |
| Jun-13 | 13.4 | 17.9 | -$247,500 |
| Jul-13 | 1.6 | 1.5 | $5,500 |
| Aug-13 | 1.1 | 4.7 | -$198,000 |
| Sep-13 | 32.2 | 70.9 | -$2,128,500 |
| Oct-13 | 294.0 | 277.3 | $918,500 |
| Nov-13 | 592.0 | 554.4 | $2,068,000 |
| Dec-13 | 1,078.3 | 845.4 | $12,809,500 |
| Jan-14 | 1,033.5 | 943.5 | $4,950,000 |
| Feb-14 | 949.4 | 785.6 | $9,009,000 |
| Mar-14 | 825.9 | 624.8 | $11,060,500 |
| **Year Total** | 5,420.1 | 4,541.3 | $48,334,000 |
| Apr-14 | 411.1 | 294.7 | $6,402,000 |
| May-14 | 134.8 | 120.6 | $781,000 |
| Jun-14 | 4.6 | 17.9 | -$731,500 |
| Jul-14 | 2.7 | 1.5 | $66,000 |
| Aug-14 | 3.3 | 4.7 | -$77,000 |
| Sep-14 | 63.6 | 70.9 | -$401,500 |
| Oct-14 | 226.6 | 277.3 | -$2,788,500 |
| Nov-14 | 684.2 | 554.4 | $7,139,000 |
| Dec-14 | 743.7 | 845.4 | -$5,593,500 |
| Jan-15 | 858.1 | 943.5 | -$4,697,000 |
| Feb-15 | N/A | 785.6 | |
| Mar-15 | N/A | 624.8 | |
| **Year Total** | 3,132.7 | 4,541.3 | $99,000 |

9

| Section: | Tab 3: Figure 3.2<br>Tab 5, Figure 5.1.0 | Page No.: | 5<br>3 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast and Economic Outlook | | |
| Subtopic: | Electric Operations Forecast | | |
| Issue: | Comparison with Previous Forecasts | | |

**PREAMBLE TO IR (IF ANY):**

It is noted that the Application in the last GRA was filed based on IFF11-2 and that IFF12 was subsequently filed during the proceeding.

**QUESTION:**

Please provide a schedule similar to Figure 3.2 but which contrasts MH11-2 with MH14 for: i) each of the years 2014/15-2016/17 and ii) the period 2014/15-2023/24.

**RATIONALE FOR QUESTION:**

Understand what has changed from MH11-2, which was the basis for the initial 2012/13 & 2013/14 GRA and the basis for the information request responses subsequently filed during the proceeding, and from MH12, which was filed during the last GRA, as compared to the current MH14 forecast. The issue goes to credibility of Hydro's current forecasts which is central to rate setting.

**RESPONSE:**

Please see the following table comparing MH14 vs MH11-2.

**Comparison of Electrical Operations MH14 to MH11-2**
**Increase/(Decrease)**
***(millions of $)***

| | 2015-2017 | | | 2015-2024 | | |
|---|---|---|---|---|---|---|
| | MH14 | MH11-2 | Variance | MH14 | MH11-2 | Variance |
| General Consumers at projected rates | 4 430 | 4 578 | (148) | 17 755 | 18 145 | (390) |
| Extraprovincial | 1 293 | 1 365 | (72) | 6 449 | 6 672 | (223) |
| Other | 43 | 50 | (7) | 149 | 180 | (30) |
| Total Revenues | 5 766 | 5 994 | (228) | 24 353 | 24 996 | (643) |
| Operating and Administrative | 1 579 | 1 643 | (64) | 5 751 | 5 902 | (152) |
| Finance Expense | 1 553 | 1 611 | (58) | 8 975 | 8 244 | 731 |
| Depreciation and Amortization | 1 228 | 1 119 | 108 | 5 486 | 4 781 | 705 |
| Water Rentals and Assessments | 359 | 339 | 20 | 1 213 | 1 187 | 27 |
| Fuel and Power Purchased | 456 | 583 | (128) | 2 091 | 2 371 | (280) |
| Capital and Other Taxes | 327 | 322 | 5 | 1 355 | 1 266 | 89 |
| Corporate Allocation | 25 | 25 | 0 | 83 | 83 | (0) |
| Other Expenses | 7 | - | 7 | 25 | - | 25 |
| | 5 534 | 5 643 | (109) | 24 980 | 23 834 | 1 146 |
| Non-controlling Interest | 45 | (5) | 50 | 68 | (48) | 116 |
| **Net Income** | 277 | 345 | (68) | (559) | 1 114 | (1 673) |

| Section: | Tab 3: Figure 3.2<br>Tab 5, Figure 5.1.0 | Page No.: | 5<br>3 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast and Economic Outlook | | |
| Subtopic: | Electric Operations Forecast | | |
| Issue: | Comparison with Previous Forecasts | | |

**PREAMBLE TO IR (IF ANY):**

It is noted that the Application in the last GRA was filed based on IFF11-2 and that IFF12 was subsequently filed during the proceeding.

**QUESTION:**

Please provide a commentary similar to that in PUB/MH I-22 (from the last GRA) that explains, by revenue and expense category, the variances between the two financial projections (i.e. MH11-2 and MH14) for i) each of the years 2014/15 to 2016/17 and ii) the period 2014/15 to 2023/24.

**RATIONALE FOR QUESTION:**

Understand what has changed from MH11-2, which was the basis for the initial 2012/13 & 2013/14 GRA and the basis for the information request responses subsequently filed during the proceeding, and from MH12, which was filed during the last GRA, as compared to the current MH14 forecast. The issue goes to credibility of Hydro's current forecasts which is central to rate setting.

**RESPONSE:**

Please see the following table.

**ELECTRIC OPERATIONS**
**COMPARISON OF MH14 To MH11-2**
**INCREASE / (DECREASE)**
**(In Millions of Dollars)**

| ACCOUNT | 2015 | 2016 | 2017 | CUMULATIVE 2015-2024 | VARIANCE EXPLANATION |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| General Consumers Revenue including Projected Rate Increases | (56) | (42) | (50) | (390) | Lower GCR revenue is primarily due to more aggressive DSM programs resulting in greater energy and capacity savings; Order 49/14 approved 2.75% interim rate increase compared to 3.5% projected in MH11-2; Orders 43/13 and 49/14, directed 1.5% and 0.75% of the respective rate increases to be set aside in a deferral account to be used to offset the anticipated rate impact when Bipole III is placed in-service. |
| Extraprovincial | 15 | (35) | (53) | (223) | Lower extraprovincial revenue due to a lower export price forecast partially offset by increased volumes from lower MB load forecast as a result of more aggressive DSM program as noted above; weakening of the Canadian dollar and increased US tieline export capability. |
| Other | (1) | (3) | (3) | (30) | |
| **Total Revenue** | **(42)** | **(79)** | **(106)** | **(643)** | |
| **EXPENSES** | | | | | |
| Operating and Administrative | (56) | (6) | (2) | (152) | Lower OM&A due to IFRS 2 year deferral from 2013/14 to 2015/16; continuation of regulatory deferral accounts (expensed DSM, site remediation, regulatory costs and deferred taxes under IFRS in MH11-2); implementation of more aggressive cost constraints limiting increases to below inflationary levels of 1%; and 9 month deferral of Bipole III; partially offset by increases in ineligible overhead and higher pension costs due to discount rate reductions. |
| Finance Expense | (9) | (26) | (23) | 731 | Lower finance expense 2015/16 to 2018/19 due to lower interest rates and deferral of Bipole III; higher finance expense 2019/20 to 2023/24 due to higher capital expenditures for Bipole III, Keeyask, DSM and aging infrastructure, suspension of Conawapa and associated interest capitalized, and the weakening Canadian dollar; partially offset by lower interest rates. |
| Depreciation and Amortization | 47 | 26 | 36 | 706 | Higher depreciation and amortization due to higher capital expenditures noted in finance expense; continuation of regulatory deferral accounts and corresponding amortization noted in OM&A above; and the amortization of Conawapa sunk costs; partially offset by lower depreciation rates resulting from the 2014 Depreciation Study. |
| Water Rentals and Assessments | 12 | 10 | (1) | 27 | Higher water rentals 2014/15 & 2015/16 due to change in forecast assumption from average of all flows in MH11-2 to expected and median water flow conditions in MH14. |
| Fuel and Power Purchased | (52) | (62) | (13) | (280) | Lower import and thermal requirements in 2014/15 and 2015/16 due to change in forecast assumption noted for water rentals above; lower forecast export prices over forecast period to 2023/24. |
| Capital and Other Taxes | 0 | (0) | 5 | 89 | Higher capital taxes due to higher capital expenditures for Bipole III, Keeyask, DSM and aging infrastructure partially offset by suspension of Conawapa. |
| Corporate Allocation | 0 | 0 | 0 | (0) | |
| Other Expenses | 2 | 2 | 2 | 25 | |
| **Total Expenses** | **(56)** | **(57)** | **4** | **1 146** | |
| Non-controlling Interest | 27 | 14 | 10 | 116 | MH11-2 assumed NCN is a preferred unit holder in WPLP for forecast purposes and non-controlling interest reflected the preferred distributions. MH14 assumed NCN is a common unit holder and NCI reflect NCN's 33% share of WPLP net income or losses. |
| **Change in Net Income** | **41** | **(9)** | **(100)** | **(1 673)** | |

| Section: | Tab 3: Figure 3.2<br>Tab 5, Figure 5.1.0 | Page No.: | 5<br>3 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast and Economic Outlook | | |
| Subtopic: | Electric Operations Forecast | | |
| Issue: | Comparison with Previous Forecasts | | |

**PREAMBLE TO IR (IF ANY):**

It is noted that the Application in the last GRA was filed based on IFF11-2 and that IFF12 was subsequently filed during the proceeding.

**QUESTION:**

Please provide a schedule similar to Figure 3.2 but which contrasts MH12 with MH14 for: i) each of the years 2015-2017 and ii) the period 2015-2024.

**RATIONALE FOR QUESTION:**

Understand what has changed from MH11-2, which was the basis for the initial 2012/13 & 2013/14 GRA and the basis for the information request responses subsequently filed during the proceeding, and from MH12, which was filed during the last GRA, as compared to the current MH14 forecast. The issue goes to credibility of Hydro's current forecasts which is central to rate setting.

**RESPONSE:**

Please see the following table comparing MH14 vs MH12.

**Comparison of Electrical Operations MH14 to MH12**
**Increase/(Decrease)**
***(millions of $)***

| | 2015-2017 | | | 2015-2024 | | |
|---|---|---|---|---|---|---|
| | MH14 | MH12 | Variance | MH14 | MH12 | Variance |
| General Consumers at projected rates | 4 430 | 4 664 | (234) | 17 755 | 18 860 | (1 105) |
| Extraprovincial | 1 293 | 1 130 | 163 | 6 449 | 5 756 | 693 |
| Other | 43 | 45 | (2) | 149 | 162 | (13) |
| Total Revenues | 5 766 | 5 839 | (73) | 24 353 | 24 778 | (425) |
| Operating and Administrative | 1 579 | 1 667 | (87) | 5 751 | 6 115 | (364) |
| Finance Expense | 1 553 | 1 602 | (49) | 8 975 | 8 077 | 898 |
| Depreciation and Amortization | 1 228 | 1 174 | 54 | 5 486 | 5 089 | 397 |
| Water Rentals and Assessments | 359 | 335 | 24 | 1 213 | 1 174 | 39 |
| Fuel and Power Purchased | 456 | 576 | (121) | 2 091 | 2 345 | (255) |
| Capital and Other Taxes | 327 | 330 | (3) | 1 355 | 1 389 | (34) |
| Corporate Allocation | 25 | 25 | 0 | 83 | 83 | (0) |
| Other Expenses | 7 | - | 7 | 25 | - | 25 |
| | 5 534 | 5 709 | (175) | 24 980 | 24 273 | 706 |
| Non-controlling Interest | 45 | 50 | (5) | 68 | 55 | 13 |
| **Net Income** | 277 | 180 | 97 | (559) | 559 | (1 118) |

| | | | |
|---|---|---|---|
| **Section:** | Tab 3: Figure 3.2<br>Tab 5, Figure 5.1.0 | **Page No.:** | 5<br>3 |
| **Topic:** | Integrated Financial Forecast and Economic Outlook | | |
| **Subtopic:** | Electric Operations Forecast | | |
| **Issue:** | Comparison with Previous Forecasts | | |

**PREAMBLE TO IR (IF ANY):**

It is noted that the Application in the last GRA was filed based on IFF11-2 and that IFF12 was subsequently filed during the proceeding.

**QUESTION:**

Please provide a commentary similar to that in PUB/MH I-22 (from the last GRA) that explains, by revenue and expense category, the variances between the two financial projections (i.e., MH12 and MH14) for: i) each of the years 2014/15-2016/17 and ii) the period 2014/15-2023/24..

**RATIONALE FOR QUESTION:**

Understand what has changed from MH11-2, which was the basis for the initial 2012/13 & 2013/14 GRA and the basis for the information request responses subsequently filed during the proceeding, and from MH12, which was filed during the last GRA, as compared to the current MH14 forecast. The issue goes to credibility of Hydro's current forecasts which is central to rate setting.

**RESPONSE:**

Please see the explanations for changes in forecast from MH12 to MH14 by line item in the table below.

**ELECTRIC OPERATIONS**
**COMPARISON OF MH14 To MH12**
**INCREASE / (DECREASE)**
**(In Millions of Dollars)**

| ACCOUNT | 2015 | 2016 | 2017 | CUMULATIVE 2015-2024 | VARIANCE EXPLANATION |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| General Consumers Revenue at Projected Rate Increases | (71) | (75) | (88) | (1,105) | Lower GCR revenue is primarily due to more aggressive DSM programs resulting in greater energy and capacity savings; Order 49/14 approved 2.75% interim rate increase compared to 3.95% projected in MH12; Orders 43/13 and 49/14, directed 1.5% and 0.75% of the respective rate increases to be set aside in a deferral account to be used to offset the anticipated rate impact when Bipole III is placed in-service. |
| Extraprovincial | 65 | 54 | 43 | 693 | Higher extraprovincial revenue due to lower MB load forecast as a result of more aggressive DSM program as noted above; weakening of the Canadian dollar; increased US tieline export capability; partially offset by lower export price forecast. |
| Other | 0 | (1) | (1) | (13) | |
| **Total Revenue** | **(5)** | **(22)** | **(46)** | **(425)** | |
| **EXPENSES** | | | | | |
| Operating and Administrative | (58) | (14) | (15) | (364) | Lower OM&A due to IFRS 1 year deferral from 2014/15 to 2015/16; continuation of regulatory deferral accounts (expensed DSM, site remediation, regulatory costs and deferred taxes under IFRS in MH12); implementation of more aggressive cost constraints limiting increases to below inflationary levels of 1%; and 9 month deferral of Bipole III; partially offset by increases in ineligible overhead and higher pension costs due to discount rate reductions. |
| Finance Expense | 3 | (14) | (38) | 898 | Lower finance expense 2015/16 to 2018/19 due to lower interest rates and deferral of Bipole III; higher finance expense 2019/20 to 2023/24 due to higher capital expenditures for Bipole III, Keeyask, DSM and aging infrastructure, and the weakening Canadian dollar; partially offset by lower interest rates. |
| Depreciation and Amortization | 32 | 10 | 12 | 397 | Higher depreciation and amortization due to higher capital expenditures noted in finance expense; continuation of regulatory deferral accounts and corresponding amortization noted in OM&A above; partially offset by lower depreciation rates resulting from 2014 Depreciation Study. |
| Water Rentals and Assessments | 13 | 11 | 0 | 39 | Higher water rentals 2014/15 & 2015/16 due to change in forecast assumption from average of all flows in MH12 to expected and median water flow conditions in MH14. |
| Fuel and Power Purchased | (45) | (61) | (15) | (255) | Lower import and thermal requirements in 2014/15 and 2015/16 due to change in assumption noted for water rentals above; lower forecast export prices over forecast period to 2023/24. |
| Capital and Other Taxes | (2) | (3) | 1 | (34) | Lower capital taxes due to suspension of Conawapa. |
| Corporate Allocation | 0 | 0 | 0 | (0) | |
| Other Expenses | 2 | 2 | 2 | 25 | |
| **Total Expenses** | **(54)** | **(68)** | **(53)** | **706** | |
| Non-controlling Interest | 4 | (3) | (5) | 13 | |
| **Change in Net Income** | **52** | **42** | **2** | **(1,118)** | |

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The Public Utilities Board

# Report on the **N**eeds **F**or and **A**lternatives **T**o (NFAT)

Review of Manitoba Hydro's Preferred Development Plan

June 2014

# 14.0.0 Recommendations

In accordance with the Terms of Reference and based on the evidence presented by Manitoba Hydro, Interveners and the Independent Expert Consultants, the Panel makes the following recommendations.

### Manitoba Hydro's Preferred Development Plan

The Panel was requested to assess whether the needs for Manitoba Hydro's Preferred Development Plan are thoroughly justified and sound, its timing is warranted and the factors that Manitoba Hydro relied on to prove its needs are complete, reasonable and accurate. The Terms of Reference also asked the Panel to assess whether the Preferred Development Plan is justified as superior to potential alternatives and is in the best long-term interest of the province of Manitoba. The factors that the Panel considered in reaching its conclusions and recommendations were defined by the Terms of Reference and have been discussed throughout this Report.

The Panel concludes that new generation resources will likely be required no later than 2024. However, Manitoba Hydro has not established that the Preferred Development Plan is the best alternative to meet this need, or has been justified as being in the best long-term interest of the province of Manitoba.

1. ***The Panel recommends that the Government of Manitoba not approve Manitoba Hydro's proposed Preferred Development Plan.***

However, the Panel recommends alternative actions that are better justified in terms of meeting the need for new resources and export opportunities, while addressing the risks to ratepayers and the requirement for a new approach in planning future generation resources. These actions are presented in the recommendations below.

### Keeyask Project

The Panel concludes that the Keeyask Project is justified in terms of resource needs for domestic and export requirements. The Panel considered the impending domestic load requirements, and determined that even with the successful implementation of Demand Side Management programs, Manitoba requires new, long-term energy supply based on the hydropower from the Keeyask Project. The Panel was persuaded by the commercial realities of the Keeyask Project, including some $1.2 billion already spent on the Project, as well as the supporting export contracts and the socio-economic benefits from partnership agreements with First Nations.

The Panel considered the question of the in-service date and, in light of the potential impacts of Demand Side Management initiatives, whether to recommend deferral of the start of Keeyask's construction. The Panel notes the need for new capacity as a result of load demands associated with expected new pipeline construction. Agreements also have been signed with the Keeyask Cree Nations that could be adversely affected by delay. As a result, the Panel found no convincing reason to delay the in-service date of 2019 for the Keeyask Project.

***2. The Panel recommends that the Government of Manitoba authorize Manitoba Hydro to proceed with the construction of the Keeyask Project to achieve a 2019 in-service date.***

**750 MW Transmission Interconnection Project**

Manitoba Hydro has demonstrated the value of constructing the proposed 750 MW Transmission Interconnection to the United States. Financial and economic analysis indicates that this Transmission Interconnection adds value to Manitoba Hydro's future plans. The Transmission Interconnection is equally justified in terms of its contribution to system reliability, and to address export and import needs during periods of drought or system emergencies.

***3. The Panel recommends that the Government of Manitoba authorize Manitoba Hydro to proceed with the 750 MW U.S. Transmission Interconnection Project for a 2020 in-service date.***

**Conawapa Project**

The Panel concludes that Manitoba Hydro has not justified the construction of the Conawapa Project as part of the Preferred Development Plan, or any future plan. In light of the Panel's recommendations on Keeyask, the 750 MW Transmission Interconnection and expected impacts of future Demand Side Management efforts, Conawapa is not needed for either domestic or export needs. It makes no positive contribution to the financial value of the Preferred Development Plan or any alternative resource plans.

**4.** ***The Panel recommends that the Government of Manitoba not approve the construction of the Conawapa Project and the North-South Transmission Upgrade Project.***

Given the Panel's view that the Conawapa Project has no place in future plans or strategies, there is no need to continue any activity to protect a future in-service date. Nor should existing sunk costs become a future justification for Conawapa.

***5. The Panel recommends that the Government of Manitoba direct Manitoba Hydro to immediately cease any and all expenditures associated with the design, implementation, and future development of the Conawapa Project.***

## Demand Side Management Plans and Programs

During the NFAT Review hearings, the Panel heard that Demand Side Management initiatives were "game changers." The Panel learned that Demand Side Management can have a profound impact on the need for, and timing of, new energy resources. According to its 2014 Supplementary Power Smart Plan, Manitoba Hydro can achieve 1,136 MW and 3,978 GWh of electricity savings by 2028/29. This would amount to more than 80% of the net system capacity addition from the proposed Conawapa Project.

Successful Demand Side Management initiatives are based on ambitious and achievable targets. In recent years and on an annual basis as a percentage of total demand, Manitoba Hydro's DSM savings have declined to approximately 0.4%, well below the 1.5% to 2% levels seen in many other jurisdictions. Demand Side Management savings in the order of 1.5% (including codes and standards) are achievable and economic.

Manitoba Hydro was formerly recognized as a leader in DSM but has since been surpassed by a number of jurisdictions. The Panel is concerned that the full potential for Demand Side Management will not be realized if the responsibility for Demand Side Management remains within Manitoba Hydro. Commitment, independent action and external monitoring of performance are the demonstrated and proven ingredients of successful DSM programs. Interveners encouraged the Panel to take these steps.

***6. The Panel recommends that the Government of Manitoba divest Manitoba Hydro of its responsibilities for Demand Side Management.***

***7. The Panel recommends that the Government of Manitoba mandate incremental annual Demand Side Management targets in the order of 1.5% of forecast domestic load (including codes and standards) over the long term.***

***8. The Panel recommends that the Government of Manitoba establish a regulated, independent arm's-length entity that would be responsible for developing and implementing a plan to meet the mandated Demand Side Management targets.***

***9. The Panel recommends that the Demand Side Management savings reported by the independent arm's-length entity be independently audited on an annual basis.***

***10. The Panel recommends that until the independent arm's-length entity is established, Manitoba Hydro continue to address the barriers to lower income customer participation in its Demand Side Management programs.***

***11. The Panel recommends that until the independent arm's-length entity is established, Manitoba Hydro proceed with its fuel switching and heating fuel choice initiatives to encourage customers to use natural gas for space and water heating.***

### Rates and Ratepayer Impacts

Manitoba Hydro will have to invest in replacing aging infrastructure and in building Bipole III. This will result in increasing electricity rates over the coming decade. The construction of new generation and associated transmission facilities will add to and prolong these rate increases. Furthermore, construction costs will most likely grow and revenue projections may not be achieved. This gap between rising costs and unrealized revenues will be borne by ratepayers.

Given the length of time projected for these rate increases and their magnitude, especially in the early years, the Panel is concerned about intergenerational fairness and the impact on vulnerable residents and communities. Lower income consumers, particularly those in northern and aboriginal communities where energy choices are limited or non-existent, will especially feel this impact.

The Government of Manitoba will receive significant revenues from incremental capital taxes and water rental fees from the development of the Keeyask Project. It would be reasonable for the Government of Manitoba to use some or all of the incremental revenue it will realize from the Keeyask Project to mitigate adverse rate impacts on vulnerable consumers. Furthermore, Manitoba Hydro should take internal actions to moderate rate increases.

***12. The Panel recommends that the Government of Manitoba direct a portion of the incremental capital taxes and water rental fees from the development of the Keeyask Project to be used to mitigate the impact of rate increases on lower income consumers, northern and aboriginal communities.***

***13. The Panel recommends that Manitoba Hydro relax its 75/25 debt-to-equity ratio policy to moderate its proposed electricity rate increases.***

***14. The Panel recommends that Manitoba Hydro implement cost containment measures to moderate its proposed electricity rate increases.***

## Actions in Support of a Clean Energy Future

As a result of the NFAT Review, the Panel concludes that Manitoba requires a new commitment to a clean energy future. The recommendation to proceed with the Keeyask Project and the 750 MW Transmission Interconnection augments Manitoba's hydropower foundation. It is now time to determine and build a more diversified resource portfolio. To achieve this future, Manitoba must invest in new planning tools. Integrated resource planning is a best practice in many jurisdictions. The Panel concludes that an integrated resource planning process is required to determine what supply and demand side resource mix is in the best interests of Manitobans.

***15. The Panel recommends that integrated resource planning become a cornerstone of a new clean energy strategy for the Province of Manitoba.***

***16. The Panel recommends that the Government of Manitoba not approve the construction of any generating facilities, nor approve the beginning of the required infrastructure work for any generation facility, beyond the Keeyask Project, unless such facilities are justified through an integrated resource planning process. The integrated resource planning process must include public consultation.***

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# 8.0 Financial Targets

## 8.1 Background

In September 1995, MH adopted the following financial targets, which were subsequently reviewed by this Board at the 2002 Status Update Hearing and, most recently, at the 2004 General Rate Application.

MH's current financial targets are as follows:

1. To achieve and maintain a minimum debt to equity ratio target of 75:25;
2. To achieve and maintain an annual gross interest coverage ratio of 1.20 annually; and
3. To fund all new capital construction requirements, except major new generation and/or major new transmission facilities (which include the new head office), from internal sources.

MH's financial targets have varied over the years, due to changing circumstances and priorities. Financial targets have been as follows:

| Year | Financial Target |
|---|---|
| 1995 | 75:25 debt equity ratio by 2005/06, interest coverage ratio of 1.20 to 1.35 and fund all capital expenditures, except major new generation and transmission facilities, from internally-generated funds |
| 2001 | 75:25 debt equity ratio by 2005/06, minimum interest coverage ratio of 1.20 and fund all capital expenditures, except major new generation and transmission facilities, from internally-generated funds |
| 2002 | 75:25 debt equity ratio by 2011/12, minimum interest coverage ratio of 1.10 and fund all capital expenditures, except major new generation and transmission facilities, from internally-generated funds |
| 2007 | 75:25 debt equity ratio by 2011/12, minimum interest coverage ratio of 1.20 and fund all capital expenditures, except major new generation and transmission facilities and new head office building and DSM, from internally-generated funds |

| | | | |
|---|---|---|---|
| **Section:** | Tab 3: Figures 3.4, 3.5 and 3.6 | **Page No.:** | 13, 15 & 16 |
| **Topic:** | Integrated Financial Forecast and Economic Outlook | | |
| **Subtopic:** | Financial Targets | | |
| **Issue:** | Comparison of Forecasts and Actual Results | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide a set of schedules that set out the values for MH's consolidated financial targets as forecast in IFF11-2 and IFF12 for 2012/13 and 2013/14. In the same schedule please provide the actual values for the two years.

**RATIONALE FOR QUESTION:**

Compare actual financial target results with forecasts from the previous GRA. Credibility of forecasting is central to rate setting.

**RESPONSE:**

As indicated in section 3.4.1 of Tab 3, Manitoba Hydro's consolidated financial targets are as follows:

1. Debt/Equity: Maintain a minimum debt/equity ratio of 75:25.
2. Interest Coverage: Maintain a minimum annual gross interest coverage ratio of greater than 1.20.
3. Capital Coverage: Maintain a capital coverage ratio of greater than 1.20 (excepting new major generation and transmission).

These targets are the same in IFF11-2 and IFF12.

Please see the following table for the requested information.

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| Equity | 2012/13 | 2013/14 |
|---|---|---|
| Target | 25% | 25% |
| IFF11-2 | 24% | 18% |
| IFF12 | 25% | 22% |
| Actual Consolidated | 25% | 24% |

| Equity | 2012/13 | 2013/14 |
|---|---|---|
| MH11-2 | 24% | 19% |
| MH12 | 25% | 22% |
| Actual Electric Only | 25% | 23% |

| Interest Coverage | 2012/13 | 2013/14 |
|---|---|---|
| Target | 1.20 | 1.20 |
| IFF11-2 | 1.05 | 1.12 |
| IFF12 | 1.10 | 1.11 |
| Actual Consolidated | 1.15 | 1.28 |

| Interest Coverage | 2012/13 | 2013/14 |
|---|---|---|
| MH11-2 | 1.03 | 1.11 |
| MH12 | 1.09 | 1.10 |
| Actual Electric Only | 1.13 | 1.25 |

| Capital Coverage | 2012/13 | 2013/14 |
|---|---|---|
| Target | 1.20 | 1.20 |
| IFF11-2 | 1.19 | 1.18 |
| IFF12 | 1.16 | 0.89 |
| Actual Consolidated | 1.25 | 1.35 |

| Capital Coverage | 2012/13 | 2013/14 |
|---|---|---|
| MH11-2 | 1.07 | 1.13 |
| MH12 | 1.09 | 0.89 |
| Actual Electric Only | 1.26 | 1.39 |

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**Financial Information MFR 8**

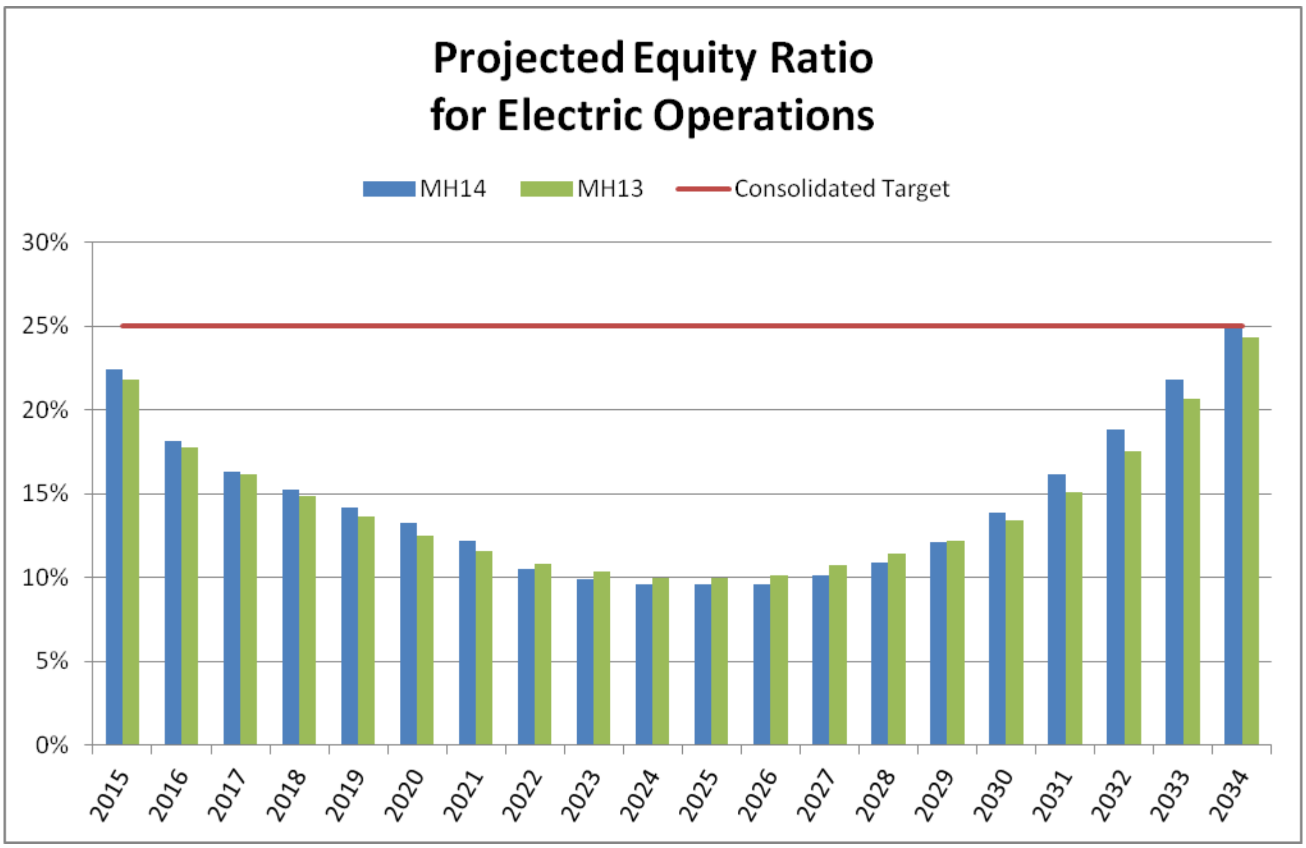
**Charts and respective data tables for each of the financial targets similar to PUB/MH I-30 (2012 GRA).**

**ANSWER:**

**Equity Ratio**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 22% | 18% | 16% | 15% | 14% | 13% | 12% | 11% | 10% | 10% |
| MH13 | 22% | 18% | 16% | 15% | 14% | 12% | 12% | 11% | 10% | 10% |
| Consolidated Target | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |

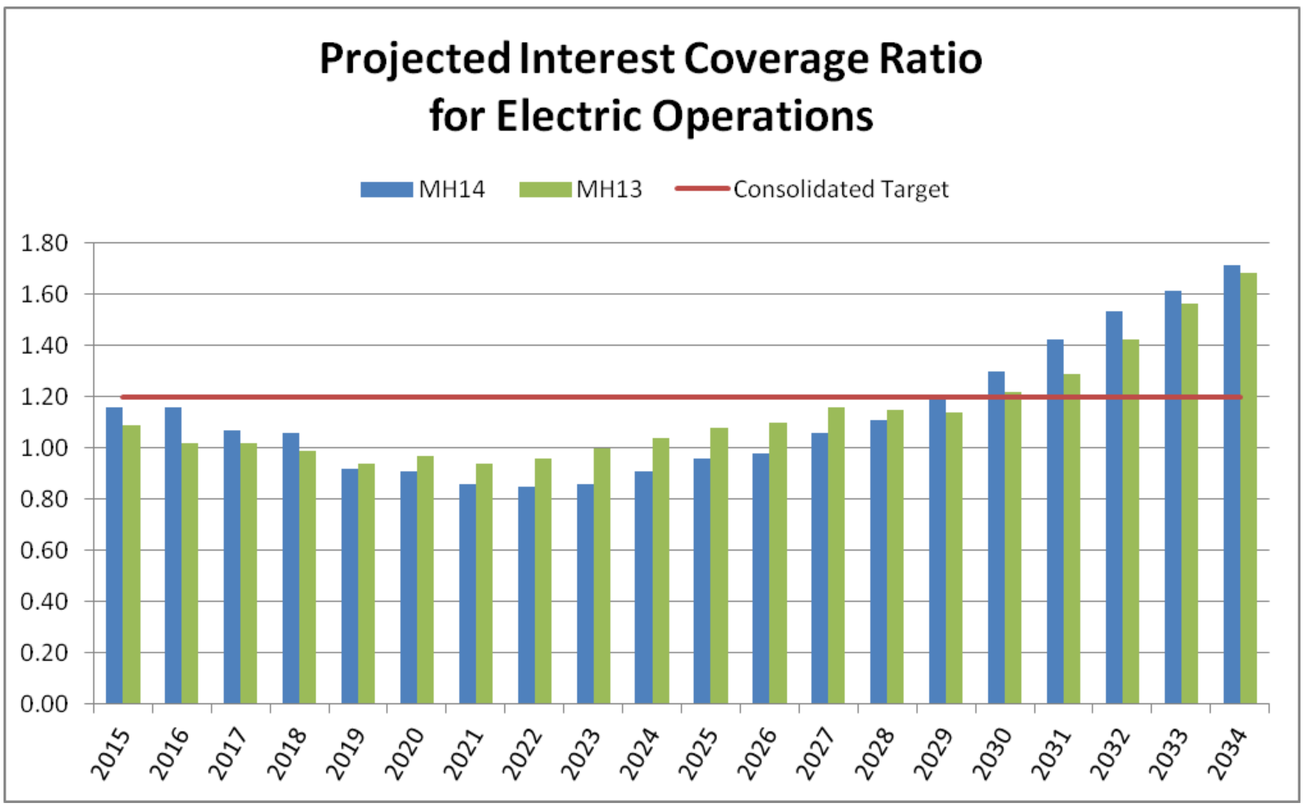
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 10% | 10% | 10% | 11% | 12% | 14% | 16% | 19% | 22% | 25% |
| MH13 | 10% | 10% | 11% | 11% | 12% | 13% | 15% | 18% | 21% | 24% |
| Consolidated Target | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |



**Interest Coverage Ratio**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 1.16 | 1.16 | 1.07 | 1.06 | 0.92 | 0.91 | 0.86 | 0.85 | 0.86 | 0.91 |
| MH13 | 1.09 | 1.02 | 1.02 | 0.99 | 0.94 | 0.97 | 0.94 | 0.96 | 1.00 | 1.04 |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |

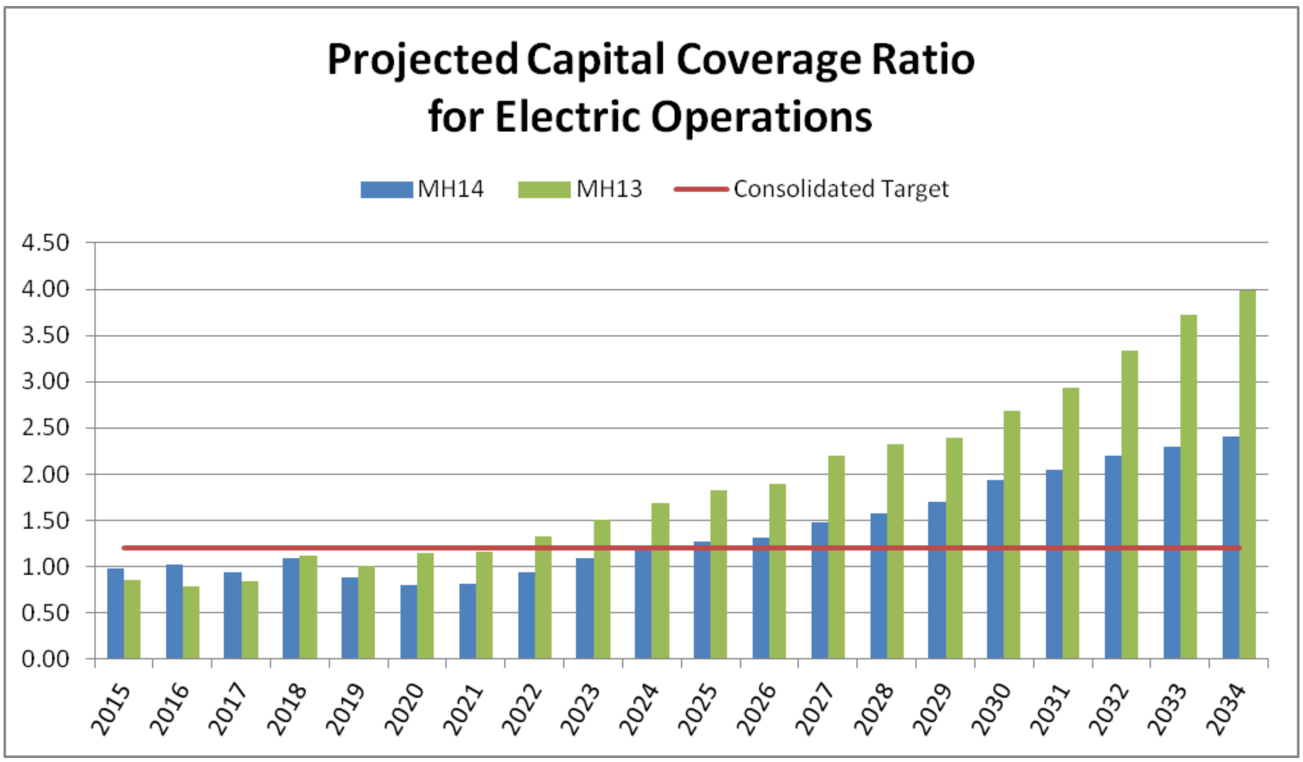
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 0.96 | 0.98 | 1.06 | 1.11 | 1.20 | 1.30 | 1.42 | 1.53 | 1.61 | 1.71 |
| MH13 | 1.08 | 1.10 | 1.16 | 1.15 | 1.14 | 1.22 | 1.29 | 1.42 | 1.56 | 1.68 |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |



**Capital Coverage Ratio**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 0.98 | 1.02 | 0.94 | 1.09 | 0.88 | 0.80 | 0.82 | 0.94 | 1.09 | 1.22 |
| MH13 | 0.86 | 0.78 | 0.84 | 1.12 | 1.01 | 1.14 | 1.16 | 1.32 | 1.51 | 1.68 |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |

| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 1.27 | 1.31 | 1.48 | 1.58 | 1.70 | 1.94 | 2.04 | 2.20 | 2.29 | 2.41 |
| MH13 | 1.82 | 1.89 | 2.20 | 2.33 | 2.40 | 2.68 | 2.94 | 3.34 | 3.72 | 3.99 |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |



**Financial Information MFR 6**

**A table, which details the debt to equity ratio, capital coverage ratio and interest coverage ratio, net assets, net income, total debt and retained earnings for each of the years in the 20-year electric IFF.**

Please see the following table for the requested information related to electric operations.

| Fiscal Year Ended | Debt/ Equity Ratio | Capital Coverage Ratio | Interest Coverage Ratio | Total Assets | Net Income | Total Debt | Retained Earnings |
|---|---|---|---|---|---|---|---|
| 2015 | 78:22 | 0.98 | 1.16 | 16 993 | 102 | 11 854 | 2 717 |
| 2016 | 82:18 | 1.02 | 1.16 | 18 866 | 115 | 14 046 | 2 778 |
| 2017 | 84:16 | 0.94 | 1.07 | 21 801 | 59 | 16 822 | 2 837 |
| 2018 | 85:15 | 1.09 | 1.06 | 24 961 | 64 | 19 747 | 2 902 |
| 2019 | 86:14 | 0.88 | 0.92 | 26 585 | (90) | 21 366 | 2 812 |
| 2020 | 87:13 | 0.80 | 0.91 | 27 668 | (116) | 22 549 | 2 696 |
| 2021 | 88:12 | 0.82 | 0.86 | 28 299 | (178) | 23 194 | 2 518 |
| 2022 | 89:11 | 0.94 | 0.85 | 27 727 | (206) | 23 130 | 2 312 |
| 2023 | 90:10 | 1.09 | 0.86 | 27 788 | (187) | 23 378 | 2 126 |
| 2024 | 90:10 | 1.22 | 0.91 | 27 965 | (124) | 23 672 | 2 001 |
| 2025 | 90:10 | 1.27 | 0.96 | 27 914 | (53) | 23 668 | 1 948 |
| 2026 | 90:10 | 1.31 | 0.98 | 28 063 | (24) | 23 832 | 1 924 |
| 2027 | 90:10 | 1.48 | 1.06 | 28 316 | 84 | 23 991 | 2 007 |
| 2028 | 89:11 | 1.58 | 1.11 | 28 533 | 155 | 24 044 | 2 161 |
| 2029 | 88:12 | 1.70 | 1.20 | 28 884 | 266 | 24 106 | 2 427 |
| 2030 | 86:14 | 1.94 | 1.30 | 29 191 | 400 | 24 009 | 2 826 |
| 2031 | 84:16 | 2.04 | 1.42 | 29 030 | 536 | 23 292 | 3 361 |
| 2032 | 81:19 | 2.20 | 1.53 | 29 675 | 647 | 23 263 | 4 008 |
| 2033 | 78:22 | 2.29 | 1.61 | 30 366 | 725 | 23 227 | 4 732 |
| 2034 | 75:25 | 2.41 | 1.71 | 31 189 | 826 | 23 221 | 5 557 |

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| Section: | Tab 3 | Page No.: | 13 - 15 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast and Economic Outlook | | |
| Subtopic: | Electric Operations Forecast | | |
| Issue: | Financial Targets | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please update the materials in Appendix 11.14 to include the years back to 2011/12 and the results from IFF11-2 and IFF12. Please report actual values were appropriate

**RATIONALE FOR QUESTION:**

Assist in understanding the factors affecting the change in the outlook for Manitoba Hydro's financial targets which goes to credibility of forecasts. Questions are distinct from those posed in PUB/Hydro 1-17.

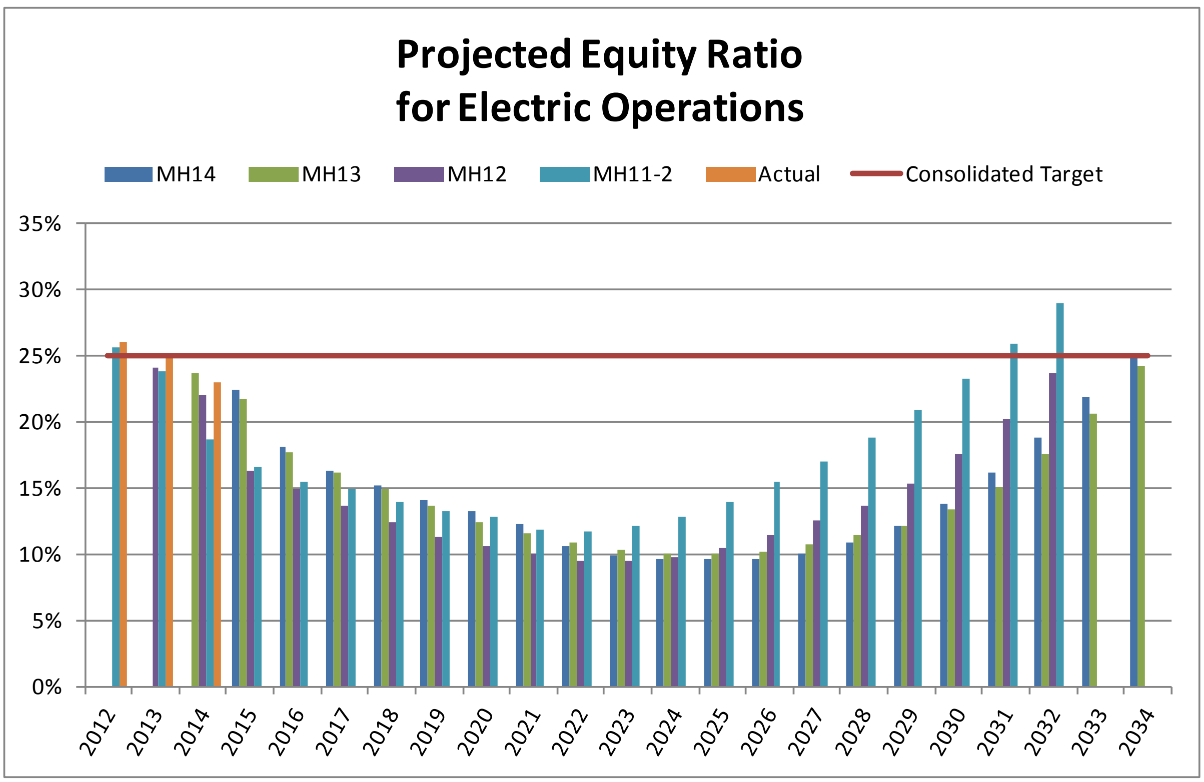
**RESPONSE:**

Please see the following tables.

**Equity Ratio**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | | | | 22% | 18% | 16% | 15% | 14% | 13% | 12% | 11% | 10% |
| MH13 | | | 24% | 22% | 18% | 16% | 15% | 14% | 12% | 12% | 11% | 10% |
| MH12 | | 24% | 22% | 16% | 15% | 14% | 12% | 11% | 11% | 10% | 9% | 9% |
| MH11-2 | 26% | 24% | 19% | 17% | 15% | 15% | 14% | 13% | 13% | 12% | 12% | 12% |
| Actual | 26% | 25% | 23% | | | | | | | | | |
| Consolidated Target | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |

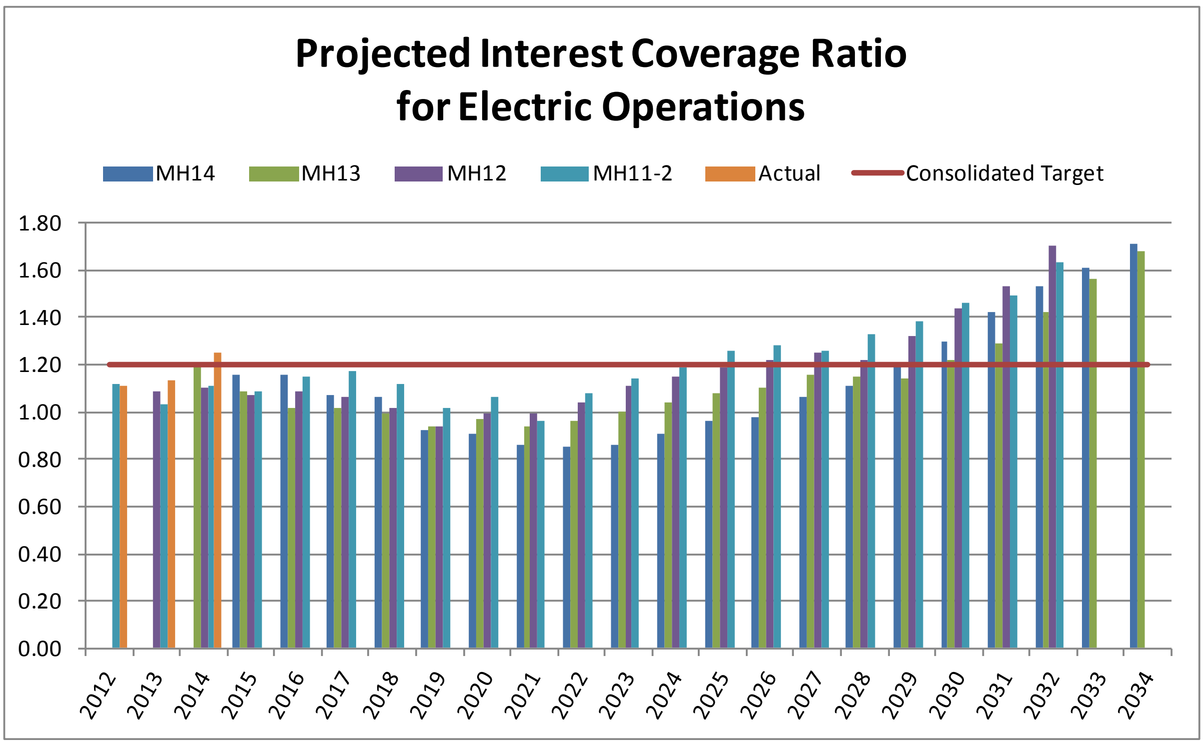
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 10% | 10% | 10% | 10% | 11% | 12% | 14% | 16% | 19% | 22% | 25% |
| MH13 | 10% | 10% | 10% | 11% | 11% | 12% | 13% | 15% | 18% | 21% | 24% |
| MH12 | 10% | 10% | 11% | 13% | 14% | 15% | 18% | 20% | 24% | | |
| MH11-2 | 13% | 14% | 15% | 17% | 19% | 21% | 23% | 26% | 29% | | |
| Consolidated Target | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |



**Interest Coverage Ratio**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | | | | 1.16 | 1.16 | 1.07 | 1.06 | 0.92 | 0.91 | 0.86 | 0.85 | 0.86 |
| MH13 | | | 1.20 | 1.09 | 1.02 | 1.02 | 0.99 | 0.94 | 0.97 | 0.94 | 0.96 | 1.00 |
| MH12 | | 1.09 | 1.10 | 1.07 | 1.09 | 1.06 | 1.02 | 0.94 | 0.99 | 0.99 | 1.04 | 1.11 |
| MH11-2 | 1.12 | 1.03 | 1.11 | 1.09 | 1.15 | 1.17 | 1.12 | 1.02 | 1.06 | 0.96 | 1.08 | 1.14 |
| Actual | 1.11 | 1.13 | 1.25 | | | | | | | | | |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |

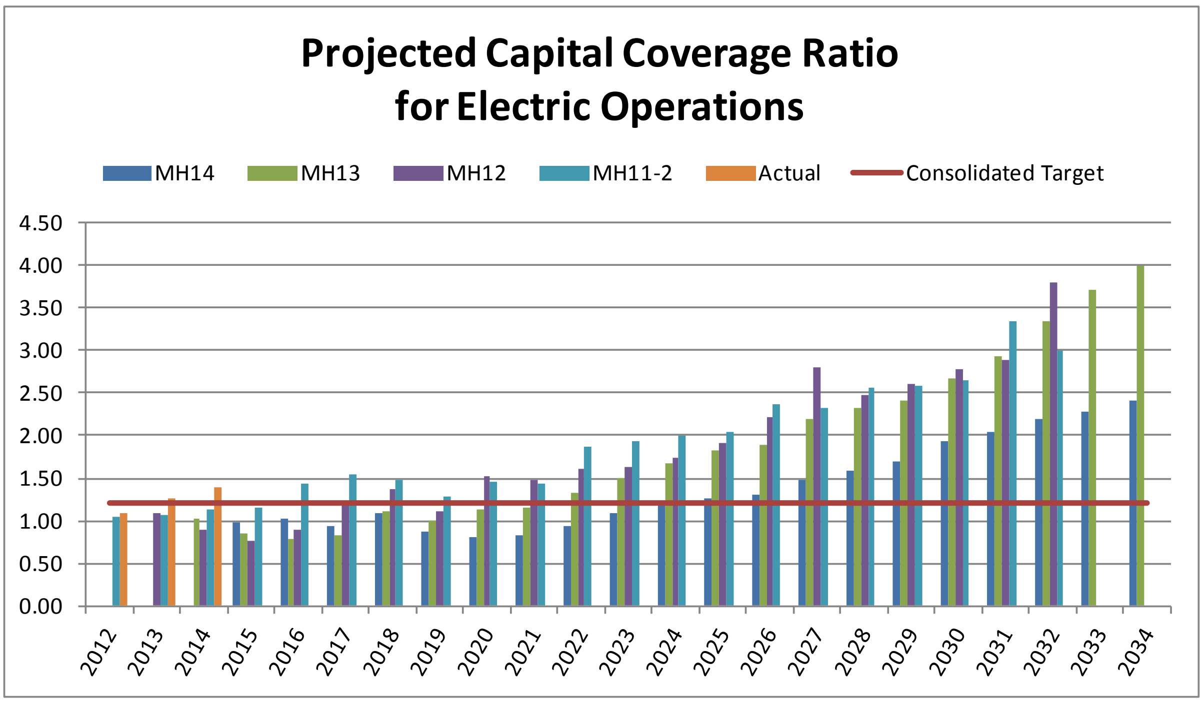
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 0.91 | 0.96 | 0.98 | 1.06 | 1.11 | 1.20 | 1.30 | 1.42 | 1.53 | 1.61 | 1.71 |
| MH13 | 1.04 | 1.08 | 1.10 | 1.16 | 1.15 | 1.14 | 1.22 | 1.29 | 1.42 | 1.56 | 1.68 |
| MH12 | 1.15 | 1.19 | 1.22 | 1.25 | 1.22 | 1.32 | 1.44 | 1.53 | 1.70 | | |
| MH11-2 | 1.19 | 1.26 | 1.28 | 1.26 | 1.33 | 1.38 | 1.46 | 1.49 | 1.63 | | |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |



**Capital Coverage Ratio**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | | | | 0.98 | 1.02 | 0.94 | 1.09 | 0.88 | 0.80 | 0.82 | 0.94 | 1.09 |
| MH13 | | | 1.03 | 0.86 | 0.78 | 0.84 | 1.12 | 1.01 | 1.14 | 1.16 | 1.32 | 1.51 |
| MH12 | | 1.09 | 0.89 | 0.77 | 0.90 | 1.21 | 1.37 | 1.11 | 1.53 | 1.49 | 1.61 | 1.63 |
| MH11-2 | 1.04 | 1.07 | 1.13 | 1.15 | 1.43 | 1.54 | 1.48 | 1.29 | 1.46 | 1.43 | 1.86 | 1.93 |
| Actual | 1.10 | 1.26 | 1.39 | | | | | | | | | |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| MH14 | 1.22 | 1.27 | 1.31 | 1.48 | 1.58 | 1.70 | 1.94 | 2.04 | 2.20 | 2.29 | 2.41 |
| MH13 | 1.68 | 1.82 | 1.89 | 2.20 | 2.33 | 2.40 | 2.68 | 2.94 | 3.34 | 3.72 | 3.99 |
| MH12 | 1.75 | 1.91 | 2.21 | 2.80 | 2.47 | 2.60 | 2.77 | 2.88 | 3.80 | | |
| MH11-2 | 1.99 | 2.04 | 2.36 | 2.32 | 2.57 | 2.59 | 2.65 | 3.34 | 3.00 | | |
| Consolidated Target | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |



| Section: | Tab 3 | Page No.: | 13 - 15 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast and Economic Outlook | | |
| Subtopic: | Electric Operations Forecast | | |
| Issue: | Financial Targets | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

With respect to page 14, lines 12-16, since the calculation of the interest coverage ratio includes interest capitalized in both the numerator and the denominator and does not take into account cash flow from depreciation, please explain how a value of less than 1.0 indicates the utility would: i) experience elevated operational liquidity risk and ii) potential difficulty generating sufficient revenues and cash from operations to pay interest obligations.

**RATIONALE FOR QUESTION:**

Assist in understanding the factors affecting the change in the outlook for Manitoba Hydro's financial targets which goes to credibility of forecasts. Questions are distinct from those posed in PUB/Hydro 1-17.

**RESPONSE:**

Directionally, the lower the interest coverage ratio, the greater the operational liquidity risk that the Corporation will have insufficient cash flow from operations to meet its sustaining expenditures and financial obligations.

Manitoba Hydro's 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. The ratio is calculated as net income plus gross interest expense, with this sum divided by gross interest expense. Gross interest (which is in both the ratio's numerator and denominator) is before any adjustment for capitalized interest. Net income (which is only in the ratio's numerator) excludes the capitalized interest but includes depreciation expense (which is a partial proxy for the cash flow required to replace depreciating assets and fund sustaining capital expenditures).

Annual interest coverage at or greater than 1.20 provides a margin of earnings in excess of that which is required to cover interest payments to bondholders. If the interest coverage ratio is below 1.00, the risk of cash shortfalls from operations becomes serious, especially if there are other adverse circumstances such as a drought.

Manitoba Hydro's interest coverage ratio is forecast to be well below target for several years of the forecast. In eight years of the forecast, Manitoba Hydro's interest coverage ratio is below 1.00. In these circumstances, in order to maintain the same level of sustaining expenditures and customer service, there is elevated risk that Manitoba Hydro would need to secure additional debt – thereby increasing finance expense and ultimately raising customer rates.

| Section: | Tab 3 | Page No.: | 13 - 15 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast and Economic Outlook | | |
| Subtopic: | Electric Operations Forecast | | |
| Issue: | Financial Targets | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

With respect to page 14, line 21, please provide a schedule that sets out the capital cost of Bipole III as used in IFF11-2, IFF12, IFF13 and IFF14 and explain any material variances.

**RATIONALE FOR QUESTION:**

Assist in understanding the factors affecting the change in the outlook for Manitoba Hydro's financial targets which goes to credibility of forecasts. Questions are distinct from those posed in PUB/Hydro 1-17.

**RESPONSE:**

Please see the response to PUB/MH I-20a for a comparison of the capital cost of Bipole III from CEF12 to CEF14 and an explanation of material variances. Please note that the capital cost for Bipole III in CEF11-2, CEF12 and CEF 13 forecasts are all $3.28 billion.

| Section: | Tab 3 | Page No.: | 13 - 15 |
|---|---|---|---|
| Topic: | Integrated Financial Forecast and Economic Outlook | | |
| Subtopic: | Electric Operations Forecast | | |
| Issue: | Financial Targets | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

With reference to page 14 (lines 21-22), please provide a schedule that sets out the annual spending for the years 2011/12 through 2031/32 for i) DSM and ii) the renewal and replacement of aging infrastructure as forecast in IFF11-2, IFF12, IFF13 and IFF14. Where appropriate please include the actual spending values in the schedule.

**RATIONALE FOR QUESTION:**

Assist in understanding the factors affecting the change in the outlook for Manitoba Hydro's financial targets which goes to credibility of forecasts. Questions are distinct from those posed in PUB/Hydro 1-17.

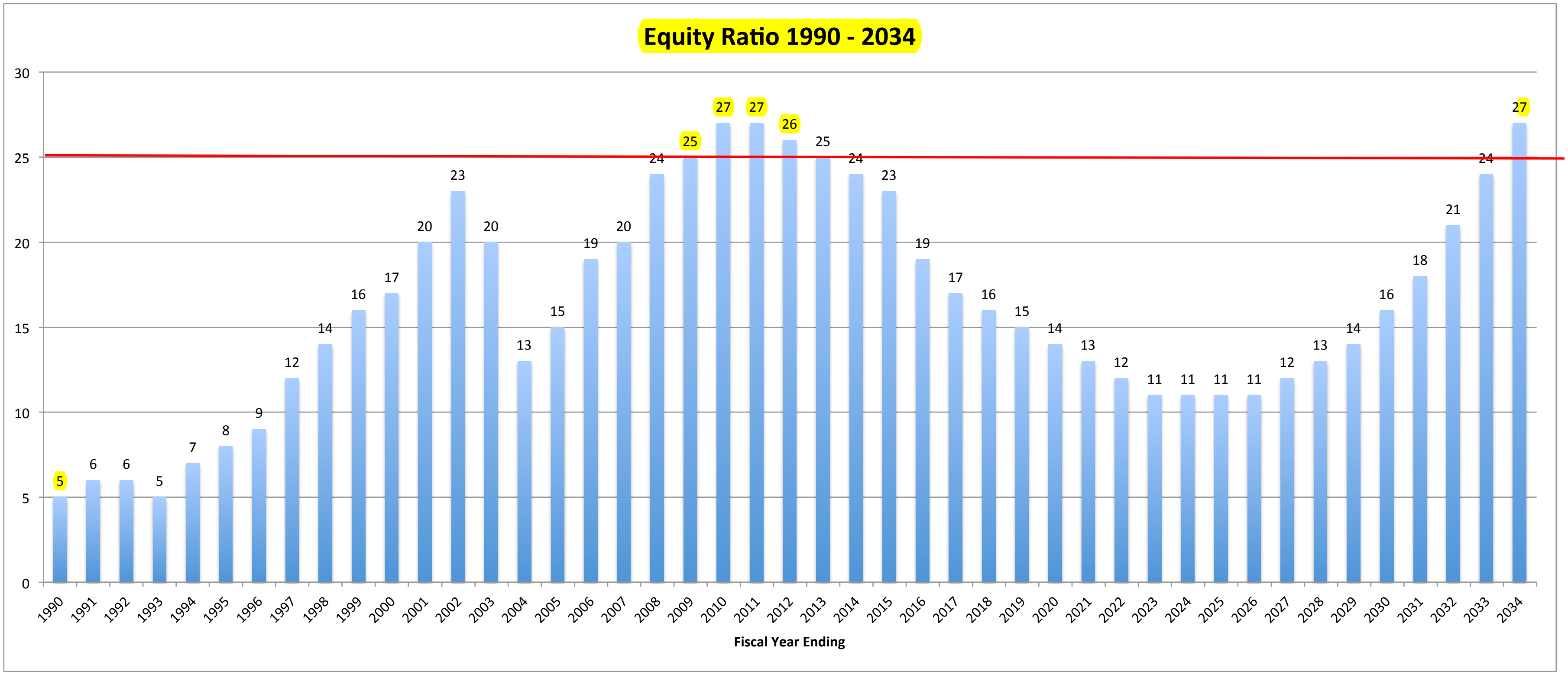
**RESPONSE:**

The following tables set out the forecasted and actual annual spending for DSM and Sustaining Capital (Major and Base Capital).

| | DSM Spending ($ Millions) | | | | | Sustaining Capital ($ Millions) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Actual** | **MH14** | **MH13** | **MH12** | **MH11-2** | **Actual** | **MH14** | **MH13** | **MH12*** | **MH11-2*** |
| **2012** | 27 | | | | 32 | 465 | | | | 417 |
| **2013** | 27 | | | 29 | 34 | 433 | | | 434 | 412 |
| **2014** | 26 | | 28 | 28 | 34 | 470 | | 526 | 544 | 394 |
| **2015** | | 52 | 25 | 25 | 31 | | 571 | 637 | 575 | 387 |
| **2016** | | 59 | 25 | 24 | 31 | | 577 | 631 | 530 | 364 |
| **2017** | | 77 | 24 | 23 | 28 | | 610 | 632 | 414 | 372 |
| **2018** | | 84 | 23 | 22 | 24 | | 547 | 468 | 358 | 380 |
| **2019** | | 94 | 22 | 22 | 23 | | 547 | 474 | 408 | 388 |
| **2020** | | 78 | 20 | 20 | 21 | | 548 | 477 | 348 | 396 |
| **2021** | | 73 | 19 | 19 | 21 | | 573 | 481 | 404 | 360 |
| **2022** | | 61 | 19 | 19 | 21 | | 555 | 484 | 440 | 386 |
| **2023** | | 50 | 19 | 19 | 21 | | 563 | 487 | 513 | 430 |
| **2024** | | 50 | 19 | 19 | 21 | | 571 | 493 | 534 | 462 |
| **2025** | | 48 | 19 | 19 | 22 | | 621 | 493 | 531 | 523 |
| **2026** | | 48 | 18 | 18 | 17 | | 624 | 499 | 500 | 499 |
| **2027** | | 47 | 16 | 16 | 16 | | 637 | 503 | 448 | 515 |
| **2028** | | 47 | 16 | 17 | 17 | | 649 | 508 | 512 | 503 |
| **2029** | | 48 | 16 | 17 | 17 | | 675 | 512 | 558 | 536 |
| **2030** | | 50 | 17 | 17 | 17 | | 665 | 520 | 592 | 568 |
| **2031** | | 52 | 17 | 18 | 18 | | 703 | 521 | 624 | 479 |
| **2032** | | 54 | 17 | 18 | 18 | | 711 | 526 | 536 | 584 |
| **2033** | | 57 | 18 | | | | 724 | 531 | | |
| **2034** | | 59 | | | | | 735 | | | |

* Includes IFRS OH Adjustment

Historical Financial Targets
Manitoba Hydro
1990 - 2034




1990 - 2034, IFF14 Debt Equity Ratio - Long Term Debt Charts.xlsx

14

| **Section:** | Tab 3 | **Page No.:** | Coalition MH I-19 (d) / PUB/MH I-6 a-c |
|---|---|---|---|
| **Topic:** | Integrated Financial Forecast and Economic Outlook | | |
| **Subtopic:** | Electric Operations Forecast | | |
| **Issue:** | Financial Targets | | |

**PREAMBLE TO IR (IF ANY):**

Manitoba Hydro's financial targets are subject to assumptions that may not be met during periods of cash shortfalls.

**QUESTION:**

a) Please describe the mitigating actions to meet Manitoba Hydro's financial targets during the 2003/04 drought.

b) Please describe the mitigating actions that MH can take to address an interest coverage ratio below 1.0 and indicate at what ratio the Corporation could operate and still meet its interest obligations.

c) Discuss the implications of a drought on meeting the interest coverage ratio, in particular if one were to coincide with the years MH's interest coverage ratio falls below 1.0.

**RATIONALE FOR QUESTION:**

To assess the mitigation measures Manitoba Hydro can take during periods of cash shortfall.

**RESPONSE:**

Response to parts a-c)

Manitoba Hydro did not meet its financial targets in 2003/04 as a result of the drought. During this time, Manitoba Hydro undertook a number of drought management activities such as decreasing off-peak exports and operating coal-fired generation, in order to mitigate the negative financial impact of the drought. Manitoba Hydro also undertook other activities such conserving cash by reducing corporate expenditures, securing additional bridge financing and obtaining rate increases (see Appendix 11.9 for the details of rate increase requested and approved, as well as Orders 101/04 and 143/04 that provided rate increases arising from the 2003/04 drought).

Moving forward, given the substantial capital expenditure forecast, 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. Manitoba Hydro is of the view that the IFF14 base case, with the 3.95% annual rate increases, is manageable and that Manitoba Hydro's self-supporting status will be maintained. To span across short term cash shortfalls, Manitoba Hydro can undertake a series of actions similar to those undertaken during the 2003/04 drought (such as cash conservation, bridge financing and higher rate increases). Please see the response to PUB/MH-II-72a-d for a discussion of the debt management activities that Manitoba Hydro is undertaking to proactively mitigate the impact associated with future cash shortfalls.

Substantial cash shortfalls, for example in the case of severe prolonged drought would place significant downward pressure on the Corporation's financial ratios, including the interest coverage ratio.

Directionally, the lower the interest coverage ratio, the greater the operational liquidity risk that the Corporation will have insufficient cash flow from operations to meet its sustaining expenditures and financial obligations.

Manitoba Hydro's 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. The ratio is calculated as net income plus gross interest expense, with this sum divided by gross interest expense. Gross interest (which is in both the ratio's numerator and denominator) is before any adjustment for capitalized interest. Net income (which is only in the ratio's numerator) excludes the capitalized interest but includes depreciation expense (which is a partial proxy for the cash flow required to replace depreciating assets and fund sustaining capital expenditures).

Annual interest coverage at or greater than 1.20 provides a margin of earnings in excess of that which is required to cover interest payments to bondholders. As Manitoba Hydro's net income within the interest coverage ratio includes non-cash items such depreciation expense, it is estimated that the Corporation could theoretically meet its interest obligations at a ratio of approximately 0.80. If the interest coverage ratio is below 1.00, the risk of cash shortfalls from operations becomes serious, especially if there are other adverse circumstances such as a drought. Should these adverse circumstances arise during these periods of vulnerability, one of the potential implications would be the need for higher rate increases.

Manitoba Hydro's interest coverage ratio is forecast to be well below target for several years of the forecast. In eight years of the forecast, Manitoba Hydro's interest coverage ratio is below 1.00. In these circumstances, in order to maintain the same level of sustaining expenditures and customer service, there is elevated risk that Manitoba Hydro would need to secure additional debt – thereby increasing finance expense and ultimately raising customer rates.

Manitoba Hydro will continue to take appropriate actions to ensure it remains a self-supporting corporation. This includes seeking the annual rate increases necessary to maintain financial ratios and rate stability for customers. Based on the financial outlook in MH14, the 3.95% annual proposed and indicative rate increases are the minimum required.

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| Section: | Tab 10 | Page No.: | 4&5 |
|---|---|---|---|
| Topic: | PUB Directives and Interim Orders | | |
| Subtopic: | Order 43/13 Directive 10 | | |
| Issue: | Risk | | |

**PREAMBLE TO IR (IF ANY):**

In Order 43/10 the Board directed:

> *"10. That Manitoba Hydro file, with its next General Rate Application, a detailed quantitative and probabilistic risk assessment and review of all of its operating and financial risks in order to allow the Board to assess the adequacy of the reserves. Commercially sensitive information in the report is to be redacted from the public version and filed in confidence with the Board."*

MH has stated that MH has engaged KPMG to satisfy this directive and this report will be available to be reviewed at the next GRA.

**QUESTION:**

Please file the public version of Manitoba Hydro's Corporate Risk Management Report.

**RATIONALE FOR QUESTION:**

To understand and quantify the risks faced by Manitoba Hydro.

**RESPONSE:**

Please see Appendix 11.7, Corporate Overview MFR 10 for a redacted version of Manitoba Hydro's Corporate Risk Management Report.

| Section: | Tab 10 | Page No.: | 4&5 |
|---|---|---|---|
| Topic: | PUB Directives and Interim Orders | | |
| Subtopic: | Order 43/13 Directive 10 | | |
| Issue: | Risk | | |

**PREAMBLE TO IR (IF ANY):**

In Order 43/10 the Board directed:

> *"10. That Manitoba Hydro file, with its next General Rate Application, a detailed quantitative and probabilistic risk assessment and review of all of its operating and financial risks in order to allow the Board to assess the adequacy of the reserves. Commercially sensitive information in the report is to be redacted from the public version and filed in confidence with the Board."*

MH has stated that MH has engaged KPMG to satisfy this directive and this report will be available to be reviewed at the next GRA.

**QUESTION:**

Please file in confidence Manitoba Hydro's current full Corporate Risk Management Report

**RATIONALE FOR QUESTION:**

To understand and quantify the risks faced by Manitoba Hydro.

**RESPONSE:**

Manitoba Hydro has provided a full copy of its Corporate Risk Management Report to the PUB, in confidence.

| Section: | Tab 10 | Page No.: | 4&5 |
|---|---|---|---|
| Topic: | PUB Directives and Interim Orders | | |
| Subtopic: | Order 43/13 Directive 10 | | |
| Issue: | Risk | | |

**PREAMBLE TO IR (IF ANY):**

In Order 43/10 the Board directed:

> *"10. That Manitoba Hydro file, with its next General Rate Application, a detailed quantitative and probabilistic risk assessment and review of all of its operating and financial risks in order to allow the Board to assess the adequacy of the reserves. Commercially sensitive information in the report is to be redacted from the public version and filed in confidence with the Board."*

MH has stated that MH has engaged KPMG to satisfy this directive and this report will be available to be reviewed at the next GRA.

**QUESTION:**

Please indicate and explain the resources currently being used by Manitoba Hydro to assess and manage risk.

**RATIONALE FOR QUESTION:**

To understand and quantify the risks faced by Manitoba Hydro.

**RESPONSE:**

Resources currently being used by Manitoba Hydro to assess and manage risk are as follows:

- The Manitoba Hydro Electric Board ("MHEB") is ultimately responsible to ensure that the risks identified in the annual Corporate Risk Management Report are representative of the major risks faced by Manitoba Hydro and that the actions taken to address those risks as described within the report are appropriate. The MHEB is also provided additional information regarding risk during their regularly scheduled meetings.

- The Executive Committee provides overall guidance for Corporate Risk Management across the Corporation and address risk issues as they arise.

- A Corporate Risk Management Committee provides a cross functional forum for establishing and monitoring risk management processes to ensure that principal risks are appropriately identified, assessed, managed and communicated from a Corporate - wide perspective. The Committee is comprised of representatives from all business units at the Division Management level.

- Management and their respective support staff are responsible to manage risks within their areas of accountability to approved tolerance levels. A Corporate Risk Management Department, under the direction of the VP Finance and Regulatory acts as resource for management and assists in coordinating risk management activities.

- Specific committees and / or councils are established in areas where additional oversight and coordination is deemed necessary. Examples include the establishment of an Enterprise Security Council to provide oversight of all physical and technology security, and the Export Power Risk Management Committee that oversees export power risks.

External experts are also engaged on a regular basis to assist on risk issues. Notable examples include the retention of KPMG in 2010 to conduct a comprehensive review of Manitoba Hydro's risk management programs, and ICF International completed an independent assessment of Export Power Sales and Associated Risks in 2009.

| Section: | Tab 10 | Page No.: | 4&5 |
|---|---|---|---|
| Topic: | PUB Directives and Interim Orders | | |
| Subtopic: | Order 43/13 Directive 10 | | |
| Issue: | Risk | | |

**PREAMBLE TO IR (IF ANY):**

In Order 43/10 the Board directed:

> *"10. That Manitoba Hydro file, with its next General Rate Application, a detailed quantitative and probabilistic risk assessment and review of all of its operating and financial risks in order to allow the Board to assess the adequacy of the reserves. Commercially sensitive information in the report is to be redacted from the public version and filed in confidence with the Board."*

MH has stated that MH has engaged KPMG to satisfy this directive and this report will be available to be reviewed at the next GRA.

**QUESTION:**

Please provide the terms of reference provided by Manitoba Hydro to KPMG related to meeting the Board's Directive 10 of Order 43/13.

**RATIONALE FOR QUESTION:**

To understand and quantify the risks faced by Manitoba Hydro.

**RESPONSE:**

Please see the attachment for the terms of reference provided by Manitoba Hydro for the review of the Corporation's financial targets and to respond to the PUB's Directive 10 from Order 43/13.

**SCHEDULE A**
**TERMS OF REFERENCE 038860**

# 1 BACKGROUND

Following an internal and external review, Manitoba Hydro's current financial targets were set in 1995. Following their establishment in 1995, the financial targets have been internally reviewed and periodically modified as follows:

| | |
|---|---|
| 1995 | Achieve and maintain a minimum debt/equity target of 75:25 by 2005/06, achieve and maintain an annual interest coverage ratio in the range of 1.20 to 1.35, by 1998/99 fund all capital construction requirements from internal sources (except when major new generation or transmission are being added to the system) |
| 2001 | 75:25 debt equity ratio by 2005/06, minimum interest coverage ratio of 1.20 and fund all capital expenditures, except major new generation and transmission facilities, from internally generated funds. |
| 2002 | 75:25 debt equity ratio by 2011/12, minimum interest coverage ratio of 1.10 and fund all capital expenditures, except major new generation and transmission facilities, from internally generated funds. |
| 2003 | 75:25 debt equity ratio by 2011/12, minimum interest coverage ratio of 1.10 and minimum capital coverage ratio of 1.0 (excluding new major generation and transmission). |
| 2005 | 75:25 debt equity ratio by 2011/12, minimum interest coverage ratio of 1.20 and minimum capital coverage ratio of 1.0 (excluding new major generation and transmission & DSM). |
| 2007 | 75:25 debt equity ratio by 2011/12, minimum interest coverage ratio of 1.20 and minimum capital coverage ratio of 1.0 (excluding new major generation and transmission & new head office building). |
| 2009 | Maintain 75:25 debt equity ratio, minimum interest coverage ratio of 1.20 and minimum capital coverage ratio of 1.20 (excluding new major generation and transmission). |

See Appendix B for a definition of Manitoba Hydro's current financial targets.

Manitoba Hydro achieved its 75:25 debt equity ratio in 2009 and while Manitoba Hydro is in the strongest financial position in its history, the required investments in existing infrastructure and new generation are expected to place considerable pressure on Manitoba Hydro's key financial ratios in the next decade. It is important for Manitoba Hydro to maintain an appropriate level of equity to withstand a combination of adverse circumstances in order to ensure rate stability for customers and to preserve the Corporation's self-supporting status from a credit rating perspective.

It is important that Manitoba Hydro's financial targets be reviewed to determine their continuing applicability during this period of significant investment and renewal of infrastructure. Manitoba Hydro's latest integrated financial forecast (IFF13), projects Manitoba Hydro's consolidated debt equity ratio to decline to 89:11 by 2022 as a result of the high levels of capital investment and associated debt financing. The debt equity ratio shows improvement following this intense period of capital investment and is projected to return to the 75:25 target by 2034.

Manitoba Hydro is a Crown Corporation of the Province of Manitoba. Providing continuous, reliable, and economical electricity for the people of the province is Manitoba Hydro's mandate. Manitoba Hydro strives to maintain rate stability for its customers through the implementation of reasonable and regular rate increases, while managing a strong financial structure. Manitoba Hydro's rates are projected based on the achievement of its financial targets and maintaining financial stability.

Manitoba Hydro's rates are regulated by the Manitoba Public Utilities Board (PUB) on a cost of service basis. The PUB is concerned about Manitoba Hydro's financial stability as well as the impact of rate increases to Manitoba rate payers. In Order 43/13, the PUB directed Manitoba Hydro to undertake a detailed quantitative and probabilistic risk assessment and review of all of its operating and financial risks in order to assess the adequacy of Manitoba Hydro's financial reserves.

As part of the recently concluded Needs For and Alternatives To (NFAT) review of Manitoba Hydro's Preferred Development Plan, the PUB recommended to the Government of Manitoba that Manitoba Hydro relax its 75:25 debt-to-equity ratio policy to moderate its proposed electricity rate increases. During this NFAT process, Manitoba Hydro produced an extensive amount of financial scenarios based on different development plans and risks associated with those plans.

Manitoba Hydro's financial targets are reviewed and approved by the Manitoba Hydro-Electric Board.

## 2 DESCRIPTION OF THE SERVICES

The Services include the following components and deliverables (non-exhaustive):

- Provide recommendations of appropriate financial targets for Manitoba Hydro which align with the mandate of Manitoba Hydro and the interests of its stakeholders considering its operating and business outlook and associated risks.
- The financial target recommendations should consider at a minimum the following:
    - The objective of maintaining rate stability for customers while at the same time maintaining safe and reliable service;
    - The period of significant capital investment and infrastructure renewal that Manitoba Hydro is entering into;
    - The maintenance of Manitoba Hydro's self supporting status for credit rating purposes; and

- The financial targets and capital structures of other comparable North American utilities.

- Provide analysis to satisfy the PUB directive to review Manitoba Hydro's operating and financial risks in order to assess the adequacy of financial reserves, including, as appropriate, the use of quantitative and probabilistic analysis. The approach to the use of quantitative and probabilistic analysis should consider Manitoba Hydro's financial modelling capabilities and the extensive financial scenarios provided as part of the NFAT proceeding.
- Provide a report and presentation to the senior management of Manitoba Hydro and the Manitoba Hydro-Electric Board

NOTE: The Work may be subject to review by the Public Utilities Board and/or other parties. Manitoba Hydro may request that the Consultant testify at a Public Utilities Board hearing regarding the results of the Work.

## 3 EXTRA SERVICES

The Consultant may be required to provide information and/or testify to the PUB, as to their findings, if called upon to do so. Any fees associated with such a request would be paid at the hourly rates in the Contract.

If the services are required after December 31, 2014, the Contractor may increase the hourly rates; and such increases, on a percentage basis of the hourly rate in the Contract shall not be increased by more than the higher of the percentage change in the Consumer Price Index published by Statistics Canada for the twelve (12) month period prior to December 31, 2014.

## 4 PERFORMANCE TIMELINE

Hydro expects that the Services will be performed in accordance to the following schedule:

| DETAIL | DATE |
|---|---|
| Award of Contract | November 2014 |
| Commencement of services | Immediately upon Award of Contract |
| Communication of status and results | On-going |
| Submission of final report | TBD |
| Presentation | TBD |

## 5 PROGRESS REPORTS

The Consultant shall deliver to Hydro, on a monthly basis, progress reports detailing the status of the Services under a Services Release Order. Monthly progress reports shall include the following information (non-exhaustive):

(a) state of the project including any significant milestones reached;
(b) hours worked on the project during the previous month;
(c) cumulative hours;
(d) cost for the month,
(e) total project cost and the projected hours to complete the project;
(f) percent of work complete must be compared with percent budget spent; and
(g) other information requested by Hydro.

## 6 APPENDICES

The following appendices are attached to and form an integral part of this Schedule "A" and the Agreement:

**APPENDIX A:** Proposal Clarification Form

**APPENDIX B:** Definition - Manitoba Hydro's Current Financial Targets

**APPENDIX C:** Form 2669 - Employee Equity Survey for Contracted Work or Services in Manitoba

**APPENDIX D:** Personnel Risk Assessment

## 7 PERMITS

The Consultant shall secure and maintain all permits, licenses, clearances and approvals now or hereafter required for the performance, delivery and execution of the Services and the Consultants' obligations under the Agreement.

## 8 EMPLOYEE DATA COLLECTION

The Consultant shall collect, on behalf of Hydro, all information requested on Form 2669 titled EMPLOYMENT EQUITY SURVEY FOR CONTRACTED WORK OR SERVICES IN MANITOBA included as Appendix "C" to this Schedule "A". The collection and handling of the personal information on Form

2669 shall be in compliance with the privacy provisions of The Freedom of Information and Protection of Privacy Act (Manitoba).

The Consultant shall facilitate the completion of Form 2669 by the Consultant's employee on the same day that the Consultant's employee commences work, and submit the form to Hydro. In addition, when the Consultant's employee has been terminated or reclassified, or the Services completed, the Consultant shall immediately forward the information contained in sections S-2 or CS-2 of the form (as applicable) to Hydro. Furthermore, the Consultant shall provide Hydro with regular updates regarding the number of hours worked by the Consultant's individual employees. These updates may be submitted electronically (in Microsoft Excel Spreadsheet format) in conjunction with the Consultant's pay periods, but in any event, must be submitted minimally on a quarterly basis.

The Consultant shall immediately forward to Hydro the information contained in section CS-3 ACCIDENT DATA of Form 2669 when any employee of the Consultant is injured during the performance of the Services.

The Consultant "employee" means an individual employed by the Consultant to perform work or services on behalf of Hydro and who is onsite for one or more working days.

## 9 PERSONNEL RISK ASSESSMENT

All employees of the Contractor or employees of subcontractors, if any, must be cleared by a personnel risk assessment prior to being allowed on site.

It shall be a condition of the Contract that the Contractor arranges submission of completed forms, included as Appendix D, in order for personnel risk assessments to be conducted. The Contractor shall comply with all applicable privacy laws in carrying out its responsibilities under this section.

Any changes to an individual's criminal background status must be reported to the Purchaser immediately.

At any time prior to or during the performance of the Contract and at the Purchaser's sole discretion, the Contractor may be required to conduct further personal risk assessments on any individual in its employ or its subcontractor's employ, and an individual's existing clearance may be revoked until a follow-up personnel risk assessment is conducted and the results provided to the Purchaser.

## 10 CONFLICT OF INTEREST

Consultant warrants that to the best of its knowledge the Consultant, its directors, officers, employees, and subcontractors, have and shall continue to have no conflict of interest that may be detrimental to the performance of the Services or to Hydro. Consultant shall provide notice to Hydro of any actual, potential, or apparent conflict of interest immediately upon awareness of same.

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this morning, the net income outlook is worse in IFF13 than IFF12, so certainly for that -- in that reason alone, I don't think you would expect us to pull back from the 3.95 percent rate increases.

MR. BOB PETERS: And the reason the -- the revenues were down, Mr. Rainkie, I think Ms. Carriere said it this morning, the primary reasons were the reduced domestic load, and the second reason was that the off -- sorry, the on-peak opportunity export price was down about 3 percent.

MR. DARREN RAINKIE: Yes, that and higher capital costs, Mr. Peters.

MR. BOB PETERS: Higher capital costs, including those that are going forward for the -- for the projects, for the major capital projects?

MR. DARREN RAINKIE: Major capital projects and re-estimates of base capital projects as well, Mr. Peters.

MR. BOB PETERS: And on page 30 of Board counsel's book of documents, Mr. Rainkie, you have two (2) columns. One is called, "Interest Coverage," and we heard -- Ms. Carriere, you can jump in any time if you -- if you choose, the interest coverage ratio that Manitoba Hydro now has as its newest -- the latest number is a 1.20 percent, correct?

MR. DARREN RAINKIE: It's one point two-zero (1.20), not a percent, Mr. Peters, but yes.

MR. BOB PETERS: It -- it's a ratio?

MR. DARREN RAINKIE: You're one (1) step closer to that accounting designation, Mr. Peters.

MR. BOB PETERS: And when the Board looks at the interest coverage ratios shown on page 30 that's before them on the screen, they're going to note that, starting in 2019, Manitoba Hydro dips below one point zero (1.0), correct?

MR. DARREN RAINKIE: Yes, it -- it does. It's -- point nine-five (.95) is the projection.

MR. BOB PETERS: And it goes down -- it goes to point nine-eight (.98), point nine-five (.95), point nine-seven (.97) for the next four (4) years, there?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Would it be simplistic for the panel to understand it, Mr. Rainkie, is that when that happens to Manitoba Hydro, Manitoba Hydro now has to send Mr. Schulz out to borrow money to pay for interest, because there wasn't enough money from operating?

MR. MANFRED SCHULZ: At a capital cover -- or interest coverage ratio of one point zero (1.0), just because of the way the mechanics of that ratio works, it's an accounting net income driven calculation. There's always depreciation and amortization that's part of the accounting equation.

So in terms of the amount of money that would be still needing to be paid out as gross interest to bond holders, it is not exactly true to say that we can go -- any -- if we're below one point zero (1.0) on the interest coverage ratio, that the corporate treasurer needs to go and -- and borrow the incremental amount in the capital debt markets.

MR. BOB PETERS: So you're saying you can meet that interest coverage -- that interest expense from internally generated funds, even if it's below one (1)?

MR. MANFRED SCHULZ: The payments to bond holders can be made if the interest coverage ratio is below one (1). At one (1), the interest coverage to bond holders and to interest payments can still be made.

MR. BOB PETERS: And if it's below one (1), Mr. Schulz?

MR. MANFRED SCHULZ: And if it's below one (1), it depends how far low we go, because net income also includes, from an accounting perspective, noncash items for depreciation and amortization. If one were to add those items back into the amount of available cash available to pay for bond holders, you would find that at measures slightly below one (1), we still have funds available to meet all of the interest payment requirements.

MR. BOB PETERS: So you don't need a one point two (1.2) ratio. You need at least a one point zero (1.0)?

MR. MANFRED SCHULZ: No. The one point two (1.2) interest coverage ratio is a really sound and solid ratio for the consideration of the Corporation's financial strength on an ongoing sustenance basis. The -- the notion that you have the point two (.2) above the one (1) is a -- is a sound and solid and prudent cushion that we would have.

I'm just saying as a technical matter, if one were to look at the precision of the calculation for the determination of precise cash flow requirements to meet bondholder interest payments, you can go -- go below one (1) on the interest coverage ratio. If you're looking at the interest coverage ratio, not as an ongoing measure, but rather, as a strict definition of liquidity and -- and to meet the bondholder requirements, you still have room to go below one point zero (1.0).

MR. BOB PETERS: All right. At what point in time do you -- do you go cap in hand looking for money to pay your bondholders?

MR. MANFRED SCHULZ: How low can you go is the question? It does depend somewhat on the -- again, from the net income perspective, if you were to add back the amortization/depreciation amounts to see how much head room you have, it does depend -- so it -- it's not easily determined and deciphered from a ratio perspective, but generally, we find that if you go down to about point eight (.8) on our definition of interest coverage ratio, we generally still have sufficient headroom to make all of our interest payments.

MR. BOB PETERS: Thank you, Mr. Schulz. On the capital coverage ratio, you use the same -- the same target of one point two-zero (1.20)?

MR. MANFRED SCHULZ: The capital coverage ratio is one point two-zero (1.20).

MR. BOB PETERS: And the Board will see in the capital coverage column that's on page 30 in front of them on the screen, that the capital coverage ratio goes below one point zero (1.0) starting as early as 2015, through 2016 and 2017, correct, sir?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And the notion is that if the capital coverage ratio gets too low, Manitoba Hydro will have to go borrow money for the base capital, or the sustaining capital, that Manitoba Hydro wants to spend every year, correct?

MR. MANFRED SCHULZ: The general proposition is, is that if you have a capital coverage ratio of one (1), you have enough cashflow from operations to meet all of your base capital requirements. Should it be below one (1), then the incremental difference is something that you would need for debt financing to meet not only the base capital requirements, but any other incremental new borrowings -- or new capital projects.

MR. BOB PETERS: And can you -- how low can you go on the capital coverage ratio before you have to borrow to pay for your capital -- for your base capital or sustaining capital expenses?

MR. MANFRED SCHULZ: Any amount below one (1) by the arithmetic of that calculation would be incrementally having to be borrowed in the capital markets.

MR. BOB PETERS: All right. Thank you, sir. Mr. Rainkie, have you got the electric operations financial forecast, Manitoba Hydro 13, with the

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**Operating Expenses MFR 9**

**Schedule detailing the breakdown of Operating and Administrative expenses by division from 2003/04 through the test years. On this schedule provide two columns for the compound annual growth rate for the historical period and for the forecast period using the final year historical as a starting period. (PUB/MH 1-59 (b) - 2012 GRA).**

Please see the following table detailing Operating, Maintenance and Administrative Costs by Division from 2004/05 to 2016/17. Please note that comparable information for 2003/04 is not readily available.

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY BUSINESS UNIT**
**(000's)**

| | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | Fiscal 2004/05-2013/14 Compounded Annual Growth | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | Fiscal 2013/14-2016/17 Compounded Annual Growth |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **President & CEO** | | | | | | | | | | | | | | | |
| President & CEO Administration | $ 7,690 | $ 8,041 | $ 8,579 | $ 8,667 | $ 8,658 | $ 13,190 | $ 10,351 | $ 10,689 | $ 8,850 | $ 7,320 | (0.5) | $ 8,753 | $ 8,916 | $ 8,986 | 7.1 |
| Public Affairs | 2,804 | 2,856 | 3,288 | 2,939 | 3,189 | 3,582 | 3,938 | 3,682 | 3,798 | 3,567 | 2.7 | 3,556 | 3,554 | 3,474 | (0.9) |
| | **$ 10,494** | **$ 10,898** | **$ 11,867** | **$ 11,606** | **$ 11,846** | **$ 16,773** | **$ 14,289** | **$ 14,371** | **$ 12,648** | **$ 10,887** | **0.4** | **$ 12,309** | **$ 12,469** | **$ 12,460** | **4.6** |
| **General Counsel & Corporate Secretary** | | | | | | | | | | | | | | | |
| VP General Counsel & Corp Secretary | $ 2,932 | $ 3,640 | $ 3,147 | $ 2,729 | $ 3,709 | $ 3,541 | $ 3,063 | $ 3,218 | $ 5,402 | $ 5,847 | 8.0 | $ 5,305 | $ 5,327 | $ 5,386 | (2.7) |
| Law Division | $ 1,207 | $ 1,287 | $ 1,390 | $ 1,515 | $ 1,575 | $ 1,925 | $ 2,019 | $ 2,032 | $ 1,961 | $ 1,767 | 4.3 | $ 2,068 | $ 1,999 | $ 1,957 | 3.5 |
| Internal Audit Division | $ 886 | $ 936 | $ 1,095 | $ 1,194 | $ 1,243 | $ 1,278 | $ 1,388 | $ 1,449 | $ 1,378 | $ 1,702 | 7.5 | $ 1,871 | $ 1,895 | $ 1,889 | 3.5 |
| | **$ 5,024** | **$ 5,863** | **$ 5,631** | **$ 5,439** | **$ 6,526** | **$ 6,745** | **$ 6,470** | **$ 6,699** | **$ 8,741** | **$ 9,316** | **7.1** | **$ 9,244** | **$ 9,222** | **$ 9,232** | **(0.3)** |
| **Human Resources & Corporate Services** | | | | | | | | | | | | | | | |
| VP Human Resources & Corporate Services | $ 1,160 | $ 1,294 | $ 1,903 | $ 1,820 | $ 1,901 | $ 2,673 | $ 2,357 | $ 2,436 | $ 1,943 | $ 1,091 | (0.7) | $ 1,120 | $ 1,130 | $ 1,150 | 1.8 |
| Information Technology Services | $ 29,273 | $ 29,884 | $ 34,413 | $ 32,709 | $ 33,959 | $ 35,349 | $ 34,181 | $ 35,539 | $ 38,013 | $ 40,817 | 3.8 | $ 42,890 | $ 43,310 | $ 43,778 | 2.4 |
| Human Resources | $ 10,376 | $ 10,448 | $ 10,645 | $ 11,092 | $ 10,633 | $ 10,001 | $ 9,806 | $ 10,300 | $ 11,637 | $ 18,270 | 6.5 | $ 17,851 | $ 17,629 | $ 17,239 | (1.9) |
| Workplace Safety & Health and Corp Serv | $ 33,322 | $ 34,877 | $ 35,834 | $ 36,904 | $ 39,362 | $ 41,264 | $ 41,282 | $ 40,385 | $ 41,630 | $ 45,042 | 3.4 | $ 45,347 | $ 45,230 | $ 44,773 | (0.2) |
| Corporate Environmental Management | $ 324 | $ 273 | $ 419 | $ 454 | $ 601 | $ 1,002 | $ 943 | $ 972 | $ 938 | $ 816 | 10.8 | $ 851 | $ 863 | $ 873 | 2.3 |
| | **$ 74,454** | **$ 76,775** | **$ 83,214** | **$ 82,978** | **$ 86,456** | **$ 90,288** | **$ 88,568** | **$ 89,631** | **$ 94,161** | **$ 106,036** | **4.0** | **$ 108,058** | **$ 108,161** | **$ 107,814** | **0.6** |
| **Corporate Relations** | | | | | | | | | | | | | | | 0.0 |
| Aboriginal Relations | $ 2,968 | $ 4,653 | $ 4,324 | $ 4,331 | $ 4,473 | $ 3,929 | $ 4,101 | $ 2,475 | $ 3,372 | $ 3,537 | 2.0 | $ 3,605 | $ 3,658 | $ 3,722 | 1.7 |
| Administration | 535 | 844 | 896 | 914 | 1,047 | 769 | 638 | 550 | 584 | 743 | 3.7 | 1,001 | 833 | 704 | (1.8) |
| Corporate Planning & Strategic Review | 4,501 | 4,614 | 4,601 | 4,746 | 4,524 | 6,237 | 6,256 | 5,400 | 5,774 | 4,638 | 0.3 | 5,452 | 5,518 | 5,607 | 6.5 |
| | **$ 8,004** | **$ 10,110** | **$ 9,821** | **$ 9,991** | **$ 10,044** | **$ 10,934** | **$ 10,994** | **$ 8,424** | **$ 9,730** | **$ 8,918** | **1.2** | **$ 10,059** | **$ 10,008** | **$ 10,033** | **4.0** |
| **Finance & Regulatory** | | | | | | | | | | | | | | | |
| Treasury | $ 2,267 | $ 2,146 | $ 1,887 | $ 2,001 | $ 2,067 | $ 1,957 | $ 1,909 | $ 1,915 | $ 1,978 | $ 2,165 | (0.5) | $ 2,237 | $ 2,355 | $ 2,394 | 3.4 |
| Corporate Risk Mgmt Department | 150 | 153 | 442 | 460 | 566 | 593 | 811 | 938 | 921 | 1,069 | 24.4 | 1,123 | 1,135 | 1,019 | (1.6) |
| Rates & Regulatory Affairs | 3,105 | 2,913 | 3,037 | 2,999 | 2,918 | 3,388 | 3,139 | 3,152 | 3,276 | 3,334 | 0.8 | 3,617 | 3,534 | 3,450 | 1.1 |
| Corporate Controller | 8,544 | 8,606 | 8,190 | 8,910 | 9,492 | 10,522 | 10,014 | 9,590 | 9,946 | 10,018 | 1.8 | 10,521 | 10,603 | 10,652 | 2.1 |
| VP Admin Finance & Regulatory | 882 | 917 | 1,043 | 953 | 962 | 1,277 | 1,184 | 1,250 | 1,359 | 1,923 | 9.0 | 2,536 | 2,477 | 2,667 | 11.5 |
| | **$ 14,947** | **$ 14,735** | **$ 14,600** | **$ 15,322** | **$ 16,005** | **$ 17,737** | **$ 17,057** | **$ 16,845** | **$ 17,480** | **$ 18,510** | **2.4** | **$ 20,033** | **$ 20,104** | **$ 20,182** | **2.9** |
| **Generation Operations** | | | | | | | | | | | | | | | |
| VP Generation Operations Administration | $ 4,269 | $ 3,207 | $ 3,419 | $ 2,513 | $ 2,708 | $ 2,860 | $ 2,557 | $ 2,838 | $ 2,405 | $ 1,805 | (9.1) | $ 1,970 | $ 2,163 | $ 2,206 | 6.9 |
| Power Planning | 2,739 | 2,086 | 2,555 | 3,131 | 4,211 | 5,867 | 6,764 | 7,053 | 7,003 | 6,508 | 10.1 | 8,261 | 10,127 | 10,439 | 17.1 |
| Generation North | 26,363 | 27,002 | 27,046 | 28,853 | 31,578 | 27,169 | 28,560 | 28,386 | 32,358 | 36,441 | 3.7 | 36,006 | 36,538 | 37,356 | 0.8 |
| Generation South | 41,569 | 40,267 | 41,542 | 43,274 | 45,891 | 49,707 | 49,850 | 51,425 | 51,819 | 56,156 | 3.4 | 55,671 | 55,294 | 55,686 | (0.3) |
| Engineering Services | 11,217 | 10,190 | 10,085 | 10,253 | 10,528 | 11,520 | 10,686 | 9,876 | 18,540 | 19,817 | 6.5 | 21,270 | 21,692 | 21,909 | 3.4 |
| Power Sales & Operations | 8,870 | 10,120 | 11,346 | 11,625 | 12,578 | 12,969 | 12,770 | 13,364 | 13,408 | 14,646 | 5.7 | 15,111 | 15,364 | 15,364 | 1.6 |
| | **$ 95,025** | **$ 92,873** | **$ 95,994** | **$ 99,650** | **$ 107,494** | **$ 110,091** | **$ 111,187** | **$ 112,944** | **$ 125,533** | **$ 135,373** | **4.0** | **$ 138,290** | **$ 141,178** | **$ 142,959** | **1.8** |

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY BUSINESS UNIT**
**(000's)**

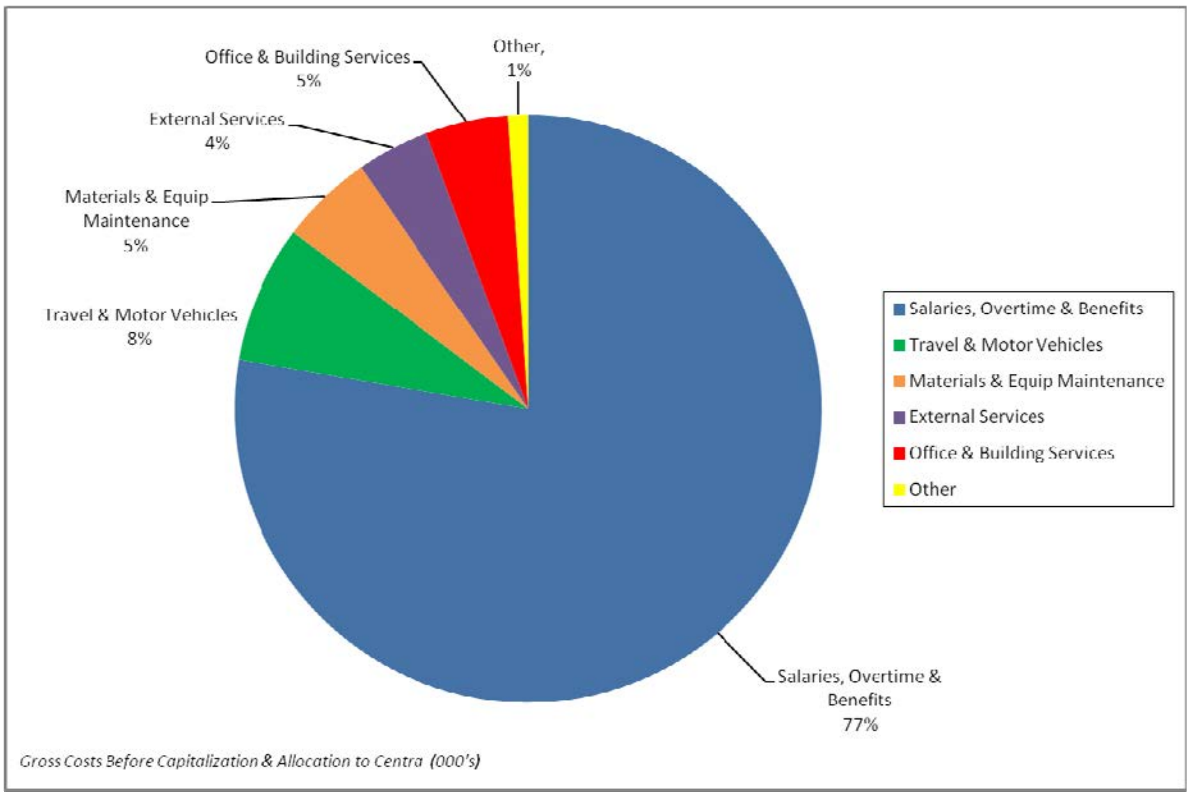
| | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | Fiscal 2004/05-2013/14 Compounded Annual Growth | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | Fiscal 2013/14-2016/17 Compounded Annual Growth |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Major Capital Projects** | | | | | | | | | | | | | | | |
| Licensing & Relationship Management Div | $ 865 | $ 581 | $ 696 | $ 354 | $ 764 | $ 119 | $ 573 | $ 150 | $ 1,462 | $ 3,406 | 16.4 | $ 3,725 | $ 1,593 | $ 1,665 | (21.2) |
| Portfolio Projects Management | - | 42 | 58 | 57 | (34) | 219 | 364 | 344 | 390 | 500 | 0.0 | 586 | 1,069 | 1,104 | 30.2 |
| Bipole III Project | - | - | - | - | - | 0 | (69) | (41) | 109 | (10) | 0.0 | 278 | 374 | 292 | (407.1) |
| VP Major Capital Projects Administration | - | - | - | - | 26 | (29) | (198) | (103) | 268 | 11 | 0.0 | 531 | 904 | 907 | 331.6 |
| New Generation Construction | (134) | (306) | (447) | (228) | (2) | (184) | (477) | (159) | 682 | 477 | (215.1) | 519 | 629 | 620 | 9.1 |
| | **$ 731** | **$ 318** | **$ 307** | **$ 184** | **$ 754** | **$ 126** | **$ 193** | **$ 190** | **$ 2,912** | **$ 4,384** | **22.0** | **$ 5,638** | **$ 4,568** | **$ 4,588** | **1.5** |
| **Transmission** | | | | | | | | | | | | | | | |
| HVDC | $ 17,653 | $ 17,282 | $ 19,177 | $ 19,128 | $ 21,659 | $ 23,170 | $ 22,927 | $ 24,698 | $ 26,136 | $ 28,642 | 5.5 | $ 28,966 | $ 29,200 | $ 29,973 | 1.5 |
| VP Transmission Administration | 2,779 | 8,534 | 10,180 | 10,151 | 14,459 | 15,630 | 17,868 | 18,636 | 24,245 | 26,025 | 28.2 | 23,740 | 23,707 | 21,224 | (6.6) |
| Transmission System Operations | 27,102 | 27,639 | 29,779 | 28,453 | 31,408 | 33,185 | 32,415 | 29,857 | 35,875 | 37,839 | 3.8 | 38,540 | 38,540 | 39,442 | 1.4 |
| Transmission Planning & Design | 4,836 | 4,855 | 5,212 | 3,402 | 5,219 | 4,162 | 3,419 | 4,936 | 9,181 | 8,406 | 6.3 | 8,959 | 8,834 | 8,991 | 2.3 |
| Transmission Construction & Line Mtce | 14,349 | 14,395 | 14,861 | 15,952 | 15,964 | 17,219 | 16,239 | 15,998 | 20,084 | 21,191 | 4.4 | 21,123 | 22,251 | 22,540 | 2.1 |
| Apparatus Maintenance | 28,913 | 29,082 | 31,327 | 33,834 | 36,281 | 35,742 | 36,272 | 37,024 | 40,922 | 41,808 | 4.2 | 42,783 | 42,806 | 43,825 | 1.6 |
| | **$ 95,632** | **$ 101,786** | **$ 110,537** | **$ 110,920** | **$ 124,991** | **$ 129,107** | **$ 129,140** | **$ 131,148** | **$ 156,442** | **$ 163,910** | **6.2** | **$ 164,112** | **$ 165,338** | **$ 165,995** | **0.4** |
| **Customer Services & Distribution** | | | | | | | | | | | | | | | |
| Distribution Eng & Construction Division | $ 5,620 | $ 4,752 | $ 3,632 | $ 5,091 | $ 5,188 | $ 5,314 | $ 3,808 | $ 2,335 | $ 12,264 | $ 11,150 | 7.9 | $ 11,127 | $ 9,845 | $ 9,717 | (4.5) |
| Customer Service Operations - Wpg&North | 43,697 | 44,249 | 42,043 | 44,838 | 48,048 | 49,635 | 47,815 | 49,287 | 51,114 | 50,109 | 1.5 | 52,106 | 51,115 | 52,122 | 1.3 |
| Customer Service Operations - South | 36,469 | 40,520 | 38,076 | 38,535 | 40,767 | 44,651 | 43,678 | 43,695 | 50,188 | 47,778 | 3.0 | 49,702 | 48,663 | 48,722 | 0.7 |
| Business Support & Capital Asset Mgmt | 8,145 | 8,811 | 9,982 | 11,264 | 11,701 | 12,565 | 12,427 | 15,747 | 16,876 | 20,601 | 10.9 | 21,025 | 21,572 | 21,816 | 1.9 |
| Administration | - | 560 | 277 | 544 | 163 | 1,130 | 1,259 | 1,575 | 1,887 | 1,264 | 0.0 | 963 | 1,080 | 1,113 | (4.1) |
| | **$ 93,931** | **$ 98,892** | **$ 94,011** | **$ 100,273** | **$ 105,867** | **$ 113,295** | **$ 108,988** | **$ 112,639** | **$ 132,330** | **$ 130,902** | **3.8** | **$ 134,922** | **$ 132,275** | **$ 133,490** | **0.7** |
| **Customer Care & Marketing** | | | | | | | | | | | | | | | |
| Gas Supply | $ 1,789 | $ 2,027 | $ 1,981 | $ 2,058 | $ 2,248 | $ 2,356 | $ 2,428 | $ 2,488 | $ 2,572 | $ 2,865 | 5.4 | $ 2,846 | $ 2,855 | $ 2,881 | 0.2 |
| VP Customer Care & Energy Conservation | 4,257 | 3,678 | 3,869 | 3,961 | 4,192 | 5,770 | 4,867 | 4,998 | 5,089 | 4,812 | 1.4 | 5,225 | 5,242 | 5,290 | 3.2 |
| Industrial & Commercial Solutions | 3,167 | 2,203 | 2,810 | 3,031 | 2,457 | 3,043 | 2,464 | 2,870 | 4,735 | 5,705 | 6.8 | 5,832 | 5,851 | 5,904 | 1.1 |
| Consumer Marketing & Sales | 9,874 | 9,741 | 9,913 | 8,905 | 9,545 | 10,642 | 11,518 | 11,630 | 13,107 | 14,263 | 4.2 | 14,591 | 14,637 | 14,771 | 1.2 |
| Business Support Services | 23,624 | 25,000 | 24,741 | 21,037 | 21,023 | 21,120 | 20,703 | 22,012 | 24,121 | 27,708 | 1.8 | 29,867 | 27,779 | 27,990 | 0.3 |
| | **$ 42,711** | **$ 42,649** | **$ 43,314** | **$ 38,991** | **$ 39,465** | **$ 42,931** | **$ 41,980** | **$ 43,997** | **$ 49,624** | **$ 55,353** | **2.9** | **$ 58,361** | **$ 56,364** | **$ 56,837** | **0.9** |
| Corporate Allocations & Adjustments | (28,933) | (29,127) | (30,441) | (29,098) | (24,158) | (39,374) | (23,941) | (18,385) | (13,196) | (21,617) | (3.2) | (26,177) | (26,678) | (19,274) | (3.8) |
| Operating & Administration Charged to Centra | (55,232) | (53,085) | (53,505) | (56,270) | (59,803) | (60,951) | (60,644) | (62,117) | (63,735) | (66,808) | 2.1 | (67,829) | (66,691) | (67,818) | 0.5 |
| Capitalized Overhead | (58,174) | (62,028) | (61,887) | (67,289) | (61,198) | (60,151) | (47,336) | (53,084) | (69,720) | (74,449) | 2.8 | (81,265) | (24,578) | (24,824) | (30.7) |
| **Electric OM&A, including Accounting Changes** | **$ 298,613** | **$ 310,658** | **$ 323,465** | **$ 322,698** | **$ 364,288** | **$ 377,551** | **$ 396,946** | **$ 403,304** | **$ 462,952** | **$ 480,717** | **5.4** | **$ 485,755** | **$ 541,740** | **$ 551,675** | **4.7** |

## 5.0 ANALYSIS OF COSTS BY CATEGORY INCLUDING OPERATING/CAPITAL ALLOCATION

Costs incurred by the Corporation are categorized as cost elements which describe the type of expenditure, such as wages & salaries, benefits, travel, materials, consulting, etc.

The following chart provides a graphical depiction of the major cost element components for 2013/14 actual expenditures excluding capitalization impacts and allocation of costs to Centra Gas.

**Figure 5.5.12 OM&A by Category 2013/14**




The following table provides a summary of Manitoba Hydro's actual and forecast costs by cost element over the 5 year period:

# Figure 5.5.13 OM&A by Cost Element

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT**

| (In thousands of $) | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | Average Annual % Inc/(Dec) | Note |
|---|---|---|---|---|---|---|---|
| Wages & Salaries | $ 466 165 | $ 480 511 | $ 502 692 | 524 552 | 533 997 | 3.5% | 1 |
| Overtime | 61 031 | 62 365 | 61 709 | 71 080 | 73 121 | 4.8% | 2 |
| Employee Benefits | 130 886 | 157 094 | 160 592 | 155 892 | 158 992 | 5.3% | 3 |
| Sub-Total | 658 082 | 699 970 | 724 993 | 751 523 | 766 109 | | |
| Less: Labour & Benefits Charged to Capital | (215 491) | (234 510) | (256 588) | (282 335) | (287 969) | 7.6% | 4 |
| Labour & Benefits Charged to Operations* | 442 591 | 465 460 | 468 405 | 469 188 | 478 140 | 2.0% | 5 |
| Other Costs | | | | | | | |
| Employee Safety & Training | 4 463 | 4 596 | 5 225 | 5 188 | 5 175 | 3.9% | 6 |
| Travel Expenses | 31 194 | 31 915 | 31 766 | 31 628 | 31 634 | 0.4% | |
| Motor Vehicle | 29 516 | 29 670 | 29 682 | 29 699 | 29 699 | 0.2% | |
| Materials & Tools | 24 806 | 27 920 | 26 700 | 26 090 | 26 090 | 1.5% | |
| Consulting & Professional Fees | 10 817 | 14 657 | 14 349 | 12 395 | 12 237 | 4.6% | 7 |
| Construction & Maintenance Services | 16 259 | 16 775 | 19 364 | 18 580 | 18 580 | 3.6% | 8 |
| Building & Property Services | 25 644 | 28 978 | 27 738 | 27 297 | 27 297 | 1.8% | |
| Equipment Maintenance & Rentals | 14 680 | 15 007 | 16 120 | 16 191 | 16 191 | 2.5% | 9 |
| Consumer Services | 5 050 | 5 277 | 5 323 | 5 323 | 5 323 | 1.3% | |
| Computer Services | 849 | 678 | 985 | 1 020 | 1 019 | 7.2% | |
| Collection Costs | 4 261 | 3 125 | 4 078 | 4 078 | 4 078 | 1.0% | |
| Customer & Public Relations | 6 731 | 5 610 | 5 334 | 5 344 | 5 316 | -5.5% | 10 |
| Sponsored Memberships | 1 767 | 1 249 | 1 764 | 1 737 | 1 737 | 2.6% | |
| Office & Administration | 13 874 | 14 724 | 15 722 | 15 721 | 15 717 | 3.2% | 11 |
| Communication Systems | 1 817 | 1 963 | 1 928 | 1 928 | 1 928 | 1.6% | |
| Research & Development Costs | 3 372 | 2 195 | 2 747 | 2 747 | 2 747 | -2.4% | |
| Miscellaneous Expense | 2 040 | 1 485 | 954 | 900 | 900 | -17.2% | 12 |
| Contingency Planning | - | - | 2 594 | 2 610 | 2 657 | | |
| Operating Expense Recovery | (13 997) | (17 808) | (13 468) | (13 649) | (13 647) | 0.0% | 13 |
| Strategic Initiative Funding | | | 870 | 3 640 | 6 317 | | 14 |
| Sub-Total | 183 143 | 188 016 | 199 774 | 198 468 | 200 994 | | |
| Less: Other Costs Charged to Capital | (29 327) | (31 503) | (33 329) | (34 647) | (34 818) | 4.4% | 15 |
| Other Costs Charged to Operations* | 153 815 | 156 513 | 166 444 | 163 821 | 166 177 | 2.0% | 5 |
| **Total** | **596 406** | **621 973** | **634 849** | **633 009** | **644 317** | 2.0% | |
| Less: | | | | | | | |
| Capitalized Overhead | (69 720) | (74 446) | (81 265) | (24 578) | (24 824) | -13.2% | 16 |
| Operating and Administration Charged to Centra | (63 735) | (66 810) | (67 829) | (66 691) | (67 818) | 1.6% | |
| **Electric OM&A, including Accounting Changes** | **462 952** | **480 717** | **485 755** | **541 740** | **551 675** | 4.6% | |
| Less: Accounting Changes | (78 345) | (91 155) | (93 858) | (145 644) | (151 345) | | |
| **Electric OM&A, excluding Accounting Changes** | **$ 384 607** | **$ 389 562** | **$ 391 897** | **$ 396 096** | **$ 400 330** | 1.0% | |
| Year over Year % Change, including Accounting Changes | | 3.8% | 1.0% | 11.5% | 1.8% | 4.6% | |
| **Year over Year % Change, excluding Accounting Changes** | | **1.3%** | **0.6%** | **1.1%** | **1.1%** | **1.0%** | |

*Includes amounts capitalized through Overhead

Figure 5.4.13 above includes costs which are direct charged to the operations and maintenance activities of the Corporation (e.g. materials, contracted services, consulting, etc) as well as staff related costs, of which a portion is allocated to capital. Staff related costs, such as wages & salaries, benefits, travel, and motor vehicles, are costs associated with providing a pool of resources required for the operation, maintenance and capital construction activities of the Corporation. These costs are allocated to both capital projects and operating programs through the use of an hourly activity rate charged

| Section: | Tab 5: Appendix 5.5,<br>Figures 5.5.13 & 5.5.16 | Page No.: | 15 & 21 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Operating, Maintenance and Administrative | | |
| Issue: | OM&A Reconciliation | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please reconcile the total OM&A values reported in Figure 5.5.16 with the OM&A values reported in 5.5.13 for each of the years shown. For example, please reconcile the $609.6 M value for 2012/13 in the former with the $596.4 M value in the latter.

**RATIONALE FOR QUESTION:**

Information request seeks to reconcile the Electric OM&A values reported in the Application.

**RESPONSE:**

The OM&A values in Figure 5.5.16 include Business Unit OM&A costs only. The schedule below reconciles Figure 5.5.16 to Figure 5.5.13 OM&A by Cost Element.

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MANITOBA HYDRO
OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY BUSINESS UNIT

| (In thousands of $) | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | Average Annual % Inc/Dec |
|---|---|---|---|---|---|---|
| President & CEO | $ 12,648 | $ 10,887 | $ 12,309 | $ 12,469 | $ 12,460 | 0.1% |
| General Counsel & Corporate Secretary | 8,741 | 9,316 | 9,244 | 9,222 | 9,232 | 1.4% |
| Human Resources & Corporate Services | 94,161 | 106,036 | 108,058 | 108,161 | 107,814 | 3.6% |
| Corporate Relations | 9,730 | 8,918 | 10,059 | 10,008 | 10,033 | 1.0% |
| Finance & Regulatory | 17,480 | 18,510 | 20,033 | 20,104 | 20,182 | 3.7% |
| Generation Operations | 125,533 | 135,373 | 138,290 | 141,178 | 142,959 | 3.3% |
| Major Capital Projects | 2,912 | 4,384 | 5,638 | 4,568 | 4,588 | 15.1% |
| Transmission | 156,442 | 163,910 | 164,112 | 165,338 | 165,995 | 1.5% |
| Customer Service & Distribution | 132,330 | 130,902 | 134,922 | 132,275 | 133,490 | 0.2% |
| Customer Care & Energy Conservation | 49,624 | 55,353 | 58,361 | 56,364 | 56,837 | 3.6% |
| **Business Unit** | **609,602** | **643,590** | **661,027** | **659,687** | **663,591** | **2.2%** |
| Corporate Allocations & Adjustments | (13,196) | (21,617) | (26,177) | (26,678) | (19,274) | 14.8% |
| **Total** | **596,406** | **621,973** | **634,849** | **633,009** | **644,317** | **2.0%** |
| Less: | | | | | | |
| Capitalized Overhead | (69,720) | (74,446) | (81,265) | (24,578) | (24,824) | -13.2% |
| Operating and Administration Charged to Centra | (63,735) | (66,810) | (67,829) | (66,691) | (67,818) | 1.6% |
| **Electric OM&A, including Accounting Changes** | **462,952** | **480,717** | **485,755** | **541,740** | **551,675** | **4.6%** |
| Less: Acounting Changes | (78,345) | (91,155) | (93,858) | (145,644) | (151,345) | |
| **Electric OM&A, excluding Accounting Changes** | **$ 384,607** | **$ 389,562** | **$ 391,897** | **$ 396,096** | **$ 400,330** | **1.0%** |

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| Section: | Tab 5: Appendix 5.5,<br>Figures 5.5.13 & 5.5.16 | Page No.: | 15 & 21 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Operating, Maintenance and Administrative | | |
| Issue: | OM&A Reconciliation | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

For each of the Business Unit reported in Schedule 5.5.16, please provide a schedule that sets out the adjustments (e.g., accounting changes, charges to capital, capitalized overhead and charges to Centra) required to arrive at the Unit's contribution to Electric OM&A (excluding accounting changes) per Schedule 5.5.13 for each year shown.

**RATIONALE FOR QUESTION:**

Information request seeks to reconcile the Electric OM&A values reported in the Application.

**RESPONSE:**

Schedule 5.5.16 includes all costs attributable to Business Unit OM&A. Activity charges to capital projects are imbedded within Business Unit OM&A and are a direct reduction of business unit costs.

The following table details the reductions to Business Unit OM&A as a result of activity charges to capital for the years 2012/13 to 2016/17.

**MANITOBA HYDRO**
**COSTS CAPITALIZED BY BUSINESS UNIT**

| (In thousands of $) | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|
| President & CEO | $ (275) | $ (53) | $ - | $ - | $ - |
| General Counsel & Corporate Secretary | (639) | (1,299) | (905) | (922) | (948) |
| Human Resources & Corporate Services | (13,062) | (13,564) | (16,580) | (16,115) | (16,256) |
| Corporate Relations | (4,233) | (4,118) | (4,757) | (4,847) | (4,992) |
| Finance & Regulatory | (273) | (940) | (399) | (271) | (274) |
| Generation Operations | (34,670) | (40,289) | (41,561) | (40,345) | (41,125) |
| Major Capital Projects | (24,593) | (28,451) | (33,977) | (48,711) | (49,562) |
| Transmission | (73,232) | (79,235) | (88,013) | (94,171) | (95,863) |
| Customer Service & Distribution | (84,835) | (88,319) | (92,588) | (97,926) | (99,955) |
| Customer Care & Energy Conservation | (9,007) | (9,746) | (11,135) | (13,673) | (13,812) |
| **Total Costs Capitalized** | **$ (244,819)** | **$ (266,013)** | **$ (289,917)** | **$ (316,982)** | **$ (322,787)** |

Capitalized Overhead, Operating and Administration Charged to Centra and Accounting Changes are captured at the company level and are not tracked or recorded by business unit.

Overhead costs, such as corporate services and departmental support functions, are pooled and allocated as a percentage add-on to activity charges. The capitalized overhead allocation is proportionate to the activity charged to capital projects and is not specific to the business unit from which the costs originated.

Operating and Administration Charged to Centra represents costs associated with providing resources required for the operations and maintenance activities of Centra Gas. These costs are pooled and charged to Centra based upon various cost drivers (e.g. activity charges, number of customers, etc.) according to the nature of the costs. The allocation is not specific to the business unit from which the costs originated.

The accounting changes impacting OM&A are primarily the result of a reduction in the amount of overhead capitalized as well as increases in pension and benefit costs as a result of changes in the discount rate and the impacts of transitioning to IFRS in 2015/16. As previously discussed, these costs are not tracked or recorded by individual business unit.

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| | | | |
|---|---|---|---|
| **Section:** | Tab 5 Appendix 5.7 | **Page No.:** | 4 & 5 |
| **Topic:** | Financial Results & Forecasts | | |
| **Subtopic:** | OM&A | | |
| **Issue:** | Accounting Changes | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please refile Schedule 5.1.4 from the current application to include the years 2008/09 to 2012/13.

**RATIONALE FOR QUESTION:**

To understand the impact of accounting changes on revenue requirement.

**RESPONSE:**

The attached table provides the OM&A Costs by cost element and has been updated to include the years 2008/09 to 2012/13.

System changes have been implemented beginning in 2012/13 to align Manitoba Hydro's capitalization practices with industry standards and support Manitoba Hydro's transition to IFRS. As a result of these changes, the labour and benefits charged to capital is only available beginning in the 2012/13 fiscal year; information is not available for prior years.

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT**

| (In thousands of $) | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | Average Annual % Inc/(Dec) |
|---|---|---|---|---|---|---|---|---|---|---|
| Wages & Salaries | $ 380,031 | $ 407,988 | $ 425,158 | $ 451,926 | $ 466,165 | $ 480,511 | $ 502,692 | 524,552 | 533,997 | 4.4% |
| Overtime | 45,890 | 50,307 | 50,704 | 54,757 | 61,031 | 62,365 | 61,709 | 71,080 | 73,121 | 6.1% |
| Employee Benefits | 83,495 | 83,013 | 95,376 | 104,674 | 130,886 | 157,094 | 160,592 | 155,892 | 158,992 | 8.8% |
| Sub-Total | 509,417 | 541,307 | 571,238 | 611,357 | 658,082 | 699,970 | 724,993 | 751,523 | 766,109 | |
| Less: Labour & Benefits Charged to Capital | | | | | (215,491) | (234,510) | (256,588) | (282,335) | (287,969) | 7.6% |
| Labour & Benefits Charged to Operations* | 509,417 | 541,307 | 571,238 | 611,357 | 442,591 | 465,460 | 468,405 | 469,188 | 478,140 | -0.1% |
| Other Costs | | | | | | | | | | |
| Employee Safety & Training | 4,062 | 4,284 | 3,863 | 3,909 | 4,463 | 4,596 | 5,225 | 5,188 | 5,175 | 3.3% |
| Travel Expenses | 31,671 | 32,435 | 32,594 | 31,266 | 31,194 | 31,915 | 31,766 | 31,628 | 31,634 | 0.0% |
| Motor Vehicle | 24,125 | 24,281 | 24,436 | 28,676 | 29,516 | 29,670 | 29,682 | 29,699 | 29,699 | 2.8% |
| Materials & Tools | 29,338 | 26,897 | 28,105 | 26,101 | 24,806 | 27,920 | 26,700 | 26,090 | 26,090 | -1.3% |
| Consulting & Professional Fees | 9,136 | 14,814 | 11,157 | 10,250 | 10,817 | 14,657 | 14,349 | 12,395 | 12,237 | 6.7% |
| Construction & Maintenance Services | 18,000 | 20,109 | 22,657 | 20,750 | 16,259 | 16,775 | 19,364 | 18,580 | 18,580 | 1.1% |
| Building & Property Services | 28,685 | 22,931 | 21,944 | 21,387 | 25,644 | 28,978 | 27,738 | 27,297 | 27,297 | 0.0% |
| Equipment Maintenance & Rentals | 13,028 | 14,379 | 14,165 | 13,388 | 14,680 | 15,007 | 16,120 | 16,191 | 16,191 | 2.9% |
| Consumer Services | 5,230 | 5,798 | 5,086 | 5,225 | 5,050 | 5,277 | 5,323 | 5,323 | 5,323 | 0.4% |
| Computer Services | 858 | 983 | 1,003 | 861 | 849 | 678 | 985 | 1,020 | 1,019 | 3.7% |
| Collection Costs | 5,019 | 4,599 | 4,497 | 4,035 | 4,261 | 3,125 | 4,078 | 4,078 | 4,078 | -1.4% |
| Customer & Public Relations | 6,355 | 8,155 | 7,905 | 8,093 | 6,731 | 5,610 | 5,334 | 5,344 | 5,316 | -1.4% |
| Sponsored Memberships | 1,464 | 1,325 | 1,917 | 1,608 | 1,767 | 1,249 | 1,764 | 1,737 | 1,737 | 4.9% |
| Office & Administration | 14,538 | 15,320 | 14,316 | 14,277 | 13,874 | 14,724 | 15,722 | 15,721 | 15,717 | 1.1% |
| Communication Systems | 1,449 | 1,772 | 1,678 | 1,683 | 1,817 | 1,963 | 1,928 | 1,928 | 1,928 | 3.9% |
| Research & Development Costs | 3,059 | 3,952 | 3,651 | 2,797 | 3,372 | 2,195 | 2,747 | 2,747 | 2,747 | 1.1% |
| Miscellaneous Expense | 6,548 | 1,190 | 1,264 | 2,032 | 2,040 | 1,485 | 954 | 900 | 900 | -10.4% |
| Contingency Planning | | | | | - | - | 2,594 | 2,610 | 2,657 | |
| Operating Expense Recovery | (21,519) | (21,580) | (23,004) | (11,238) | (13,997) | (17,808) | (13,468) | (13,649) | (13,647) | -2.5% |
| Strategic Initiative Funding | | | | | | | 870 | 3,640 | 6,317 | |
| Sub-Total | 181,047 | 181,644 | 177,233 | 185,100 | 183,143 | 188,016 | 199,774 | 198,468 | 200,994 | |
| Less: Other Costs Charged to Capital | | | | | (29,327) | (31,503) | (33,329) | (34,647) | (34,818) | 4.4% |
| Other Costs Charged to Operations* | 181,047 | 181,644 | 177,233 | 185,100 | 153,815 | 156,513 | 166,444 | 163,821 | 166,177 | -0.8% |
| **Total** | **690,463** | **722,951** | **748,471** | **796,457** | **596,406** | **621,973** | **634,849** | **633,009** | **644,317** | -0.3% |
| Labour & Expense Capitalized | (205,175) | (224,298) | (243,545) | (268,651) | | | | | | 9.4% |
| Capitalized Overhead | (61,198) | (60,151) | (47,336) | (53,084) | (69,720) | (74,446) | (81,265) | (24,578) | (24,824) | -4.0% |
| Operating and Administration Charged to Centra | (59,803) | (60,951) | (60,644) | (62,687) | (63,735) | (66,810) | (67,829) | (66,691) | (67,818) | 1.6% |
| **Electric OM&A, including Accounting Changes** | **364,287** | **377,551** | **396,946** | **412,035** | **462,952** | **480,717** | **485,755** | **541,740** | **551,675** | 5.4% |
| Less: Accounting Changes | (9,655) | (13,180) | (32,889) | (36,578) | (78,345) | (91,155) | (93,858) | (145,644) | (151,345) | |
| **Electric OM&A, excluding Accounting Changes** | **$ 354,632** | **$ 364,371** | **$ 364,057** | **$ 375,457** | **$ 384,607** | **$ 389,562** | **$ 391,897** | **$ 396,096** | **$ 400,330** | 1.5% |
| Year over Year % Change, including Accounting Changes | | 3.6% | 5.1% | 3.8% | 12.4% | 3.8% | 1.0% | 11.5% | 1.8% | 5.4% |
| **Year over Year % Change, excluding Accounting Changes** | | **2.7%** | **-0.1%** | **3.1%** | **2.4%** | **1.3%** | **0.6%** | **1.1%** | **1.1%** | **1.5%** |

*Includes amounts capitalized through Overhead

| Section: | Tab 5 Appendix 5.7 | Page No.: | PUB/MH I-73 (b) |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | OM&A | | |
| Issue: | Accounting Changes | | |

**PREAMBLE TO IR (IF ANY):**

MH at the 2012 GRA had reported on total labour and benefits charged to capital for the years 2007/08 through 2011/12. Due to system changes, MH did not provide a break out-of capitalized labour and other charges for the historical years. Based on previously provided information, Board advisors prepared the following chart:

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT ( Note 1)**

| (In thousands of $) | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| Wages & Salaries | 380,031 | 407,988 | 425,158 | 451,926 | 466,165 | 480,511 | 502,692 | 524,552 | 533,997 |
| Overtime | 45,890 | 50,307 | 50,704 | 54,757 | 61,031 | 62,365 | 61,709 | 71,080 | 73,121 |
| Employee Benefits | 83,495 | 83,013 | 95,376 | 104,674 | 130,886 | 157,094 | 160,592 | 155,892 | 158,992 |
| Sub-Total | 509,416 | 541,308 | 571,238 | 611,357 | 658,082 | 699,970 | 724,993 | 751,524 | 766,110 |
| Less: Labour & Benefits Charged to Capital (Note 2) | (185,900) | (193,500) | (207,600) | (221,200) | (215,491) | (234,510) | (256,588) | (282,335) | (287,969) |
| Labour & Benefits Charged to Operations* | 323,516 | 347,808 | 363,638 | 390,157 | 442,591 | 465,460 | 468,405 | 469,189 | 478,140 |
| Other Costs | | | | | | | | | |
| Employee Safety & Training | 4,062 | 4,284 | 3,863 | 3,909 | 4,463 | 4,596 | 5,225 | 5,188 | 5,175 |
| Travel Expenses | 31,671 | 32,435 | 32,594 | 31,266 | 31,194 | 31,915 | 31,766 | 31,628 | 31,634 |
| Motor Vehicle | 24,125 | 24,281 | 24,436 | 28,676 | 29,516 | 29,670 | 29,682 | 29,699 | 29,699 |
| Materials & Tools | 29,338 | 26,897 | 28,105 | 26,101 | 24,806 | 27,920 | 26,700 | 26,090 | 26,090 |
| Consulting & Professional Fees | 9,136 | 14,814 | 11,157 | 10,250 | 10,817 | 14,657 | 14,349 | 12,395 | 12,237 |
| Construction & Maintenance Services | 18,000 | 20,109 | 22,657 | 20,750 | 16,259 | 16,775 | 19,364 | 18,580 | 18,580 |
| Building & Property Services | 28,685 | 22,931 | 21,944 | 21,387 | 25,644 | 28,978 | 27,738 | 27,297 | 27,297 |
| Equipment Maintenance & Rentals | 13,028 | 14,379 | 14,165 | 13,388 | 14,680 | 15,007 | 16,120 | 16,191 | 16,191 |
| Consumer Services | 5,230 | 5,798 | 5,086 | 5,225 | 5,050 | 5,277 | 5,323 | 5,323 | 5,323 |
| Computer Services | 858 | 983 | 1,003 | 861 | 849 | 678 | 985 | 1,020 | 1,019 |
| Collection Costs | 5,019 | 4,599 | 4,497 | 4,035 | 4,261 | 3,125 | 4,078 | 4,078 | 4,078 |
| Customer & Public Relations | 6,355 | 8,155 | 7,905 | 8,093 | 6,731 | 5,610 | 5,334 | 5,344 | 5,316 |
| Sponsored Memberships | 1,464 | 1,325 | 1,917 | 1,608 | 1,767 | 1,249 | 1,764 | 1,737 | 1,737 |
| Office & Administration | 14,538 | 15,320 | 14,316 | 14,277 | 13,874 | 14,724 | 15,722 | 15,721 | 15,717 |
| Communication Systems | 1,449 | 1,772 | 1,678 | 1,683 | 1,817 | 1,963 | 1,928 | 1,928 | 1,928 |
| Research & Development Costs | 3,059 | 3,952 | 3,651 | 2,797 | 3,372 | 2,195 | 2,747 | 2,747 | 2,747 |
| Miscellaneous Expense | 6,548 | 1,190 | 1,264 | 2,032 | 2,040 | 1,485 | 954 | 900 | 900 |
| Contingency Planning | | | | | - | - | 2,594 | 2,610 | 2,657 |
| Operating Expense Recovery | (21,519) | (21,580) | (23,004) | (11,238) | (13,997) | (17,808) | (13,468) | (13,649) | (13,647) |
| Strategic Initiative Funding | | | | | | | 870 | 3,640 | 6,317 |
| Sub-Total | 181,046 | 181,644 | 177,234 | 185,100 | 183,143 | 188,016 | 199,775 | 198,467 | 200,995 |
| Less: Other Costs Charged to Capital (Note 3) | (19,275) | (30,798) | (35,945) | (47,451) | (29,327) | (31,503) | (33,329) | (34,647) | (34,818) |
| Other Costs Charged to Operations* | 181,046 | 181,644 | 177,234 | 185,100 | 153,816 | 156,513 | 166,446 | 163,820 | 166,177 |
| **Total** | **504,562** | **529,452** | **540,872** | **575,257** | **596,407** | **621,973** | **634,851** | **633,009** | **644,317** |
| Capitalized Overhead | (61,198) | (60,151) | (47,336) | (53,084) | (69,720) | (74,446) | (81,265) | (24,578) | (24,824) |
| Operating and Administration Charged to Centra | (59,803) | (60,951) | (60,644) | (62,687) | (63,735) | (66,810) | (67,829) | (66,691) | (67,818) |
| **Electric OM&A, including Accounting Changes** | **364,286** | **377,552** | **396,947** | **412,035** | **462,952** | **480,717** | **485,757** | **541,740** | **551,675** |
| Less: Accounting Changes | (9,655) | (13,180) | (32,889) | (36,578) | (78,345) | (91,155) | (93,858) | (145,644) | (151,345) |
| **Electric OM&A, excluding Accounting Changes** | **354,631** | **364,372** | **364,058** | **375,457** | **384,607** | **389,562** | **391,899** | **396,096** | **400,330** |
| Year over Year % Change, including Accounting Changes | | 3.6% | 5.1% | 3.8% | 12.4% | 3.8% | 1.0% | 11.5% | 1.8% |
| **Year over Year % Change, excluding Accounting Changes** | | **2.7%** | **-0.1%** | **3.1%** | **2.4%** | **1.3%** | **0.6%** | **1.1%** | **1.1%** |

*Includes amounts capitalized through Overhead

**Notes:**
1. Source : PUB/MH I-73 (b) 2015 GRA
2. Source: PUB/MH I-38 (e) 2012 GRA
3. Other costs charged to Capital for 2007/08 to 2011/12 derived based on Total Labour & Expenses Capitalized per MH less Labour and Benefits charged to Capital per PUB/MH I-38 (e) 2012 GRA

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---|---|---|---|---|
| Labour & Expense Capitalized | *(205,175)* | *(224,298)* | *(243,545)* | *(268,651)* |
| Labour & Benefits Charged to Capital PUB/MH I-38 (e) 2012 GRA | *185,900* | *193,500* | *207,600* | *221,200* |
| Other Costs Charged to Capital | **(19,275)** | **(30,798)** | **(35,945)** | **(47,451)** |

## QUESTION:

a) Please confirm or update and file the attached chart.

b) Please provide the compound annual growth in each category for the years 2007/08 to 2013/14 and 2013/14 to 2016/17.

c) Please provide the detail of other charges attributable to capital for each of the years 2007 /08 through 2016/17.

**RATIONALE FOR QUESTION:**

To review Manitoba Hydro's cost control through controlling staffing levels.

**RESPONSE:**

a) & c)

The data highlighted in the schedule in the question for the years 2008/09 through 2011/12 is not comparable to 2012/13 through 2016/17. In 2012/13 changes were made to activity rates to support the transition to IFRS by excluding costs imbedded in activity rates that would no longer be eligible for capitalization. In addition, modifications were made to overhead rates and Manitoba Hydro's internal cost allocation methodology. These changes were made on a go-forward basis and as a result both Labour and Benefits Charged to Capital and Other Costs Charged to Capital provided in the current filing cannot be restated in the new format prior to 2012/13.

b) The compound annual growth in each category for the years 2007/08 to 2013/14 and 2013/14 to 2016/17 is provided in the following schedule.

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT**

| (In thousands of $) | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2007/08-2013/14 Compounded Annual Growth | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | 2013/14-2016/17 Compounded Annual Growth |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Wages & Salaries | $ 359,249 | $ 380,031 | $ 407,988 | $ 425,158 | $ 451,926 | $ 466,165 | $ 480,511 | 5.0 | $ 502,692 | 524,552 | 533,997 | 3.6 |
| Overtime | 41,781 | 45,890 | 50,307 | 50,704 | 54,757 | 61,031 | 62,365 | 6.9 | 61,709 | 71,080 | 73,121 | 5.4 |
| Employee Benefits | 76,807 | 83,495 | 83,013 | 95,376 | 104,674 | 130,886 | 157,094 | 12.7 | 160,592 | 155,892 | 158,992 | 0.4 |
| Sub-Total | 477,838 | 509,417 | 541,307 | 571,238 | 611,357 | 658,082 | 699,970 | 6.6 | 724,993 | 751,523 | 766,109 | 3.1 |
| Less: Labour & Benefits Charged to Capital | | | | | | (215,491) | (234,510) | | (256,588) | (282,335) | (287,969) | 7.1 |
| Labour & Benefits Charged to Operations* | 477,838 | 509,417 | 541,307 | 571,238 | 611,357 | 442,591 | 465,460 | | 468,405 | 469,188 | 478,140 | 0.9 |
| Other Costs | | | | | | | | | | | | |
| Employee Safety & Training | 3,646 | 4,062 | 4,284 | 3,863 | 3,909 | 4,463 | 4,596 | 3.9 | 5,225 | 5,188 | 5,175 | 4.0 |
| Travel Expenses | 28,331 | 31,671 | 32,435 | 32,594 | 31,266 | 31,194 | 31,915 | 2.0 | 31,766 | 31,628 | 31,634 | (0.3) |
| Motor Vehicle | 22,423 | 24,125 | 24,281 | 24,436 | 28,676 | 29,516 | 29,670 | 4.8 | 29,682 | 29,699 | 29,699 | 0.0 |
| Materials & Tools | 27,824 | 29,338 | 26,897 | 28,105 | 26,101 | 24,806 | 27,920 | 0.1 | 26,700 | 26,090 | 26,090 | (2.2) |
| Consulting & Professional Fees | 7,503 | 9,136 | 14,814 | 11,157 | 10,250 | 10,817 | 14,657 | 11.8 | 14,349 | 12,395 | 12,237 | (5.8) |
| Construction & Maintenance Services | 15,938 | 18,000 | 20,109 | 22,657 | 20,750 | 16,259 | 16,775 | 0.9 | 19,364 | 18,580 | 18,580 | 3.5 |
| Building & Property Services | 25,740 | 28,685 | 22,931 | 21,944 | 21,387 | 25,644 | 28,978 | 2.0 | 27,738 | 27,297 | 27,297 | (2.0) |
| Equipment Maintenance & Rentals | 11,719 | 13,028 | 14,379 | 14,165 | 13,388 | 14,680 | 15,007 | 4.2 | 16,120 | 16,191 | 16,191 | 2.6 |
| Consumer Services | 4,651 | 5,230 | 5,798 | 5,086 | 5,225 | 5,050 | 5,277 | 2.1 | 5,323 | 5,323 | 5,323 | 0.3 |
| Computer Services | 1,131 | 858 | 983 | 1,003 | 861 | 849 | 678 | (8.2) | 985 | 1,020 | 1,019 | 14.5 |
| Collection Costs | 5,256 | 5,019 | 4,599 | 4,497 | 4,035 | 4,261 | 3,125 | (8.3) | 4,078 | 4,078 | 4,078 | 9.3 |
| Customer & Public Relations | 6,664 | 6,355 | 8,155 | 7,905 | 8,093 | 6,731 | 5,610 | (2.8) | 5,334 | 5,344 | 5,316 | (1.8) |
| Sponsored Memberships | 1,192 | 1,464 | 1,325 | 1,917 | 1,608 | 1,767 | 1,249 | 0.8 | 1,764 | 1,737 | 1,737 | 11.6 |
| Office & Administration | 14,427 | 14,538 | 15,320 | 14,316 | 14,277 | 13,874 | 14,724 | 0.3 | 15,722 | 15,721 | 15,717 | 2.2 |
| Communication Systems | 1,353 | 1,449 | 1,772 | 1,678 | 1,683 | 1,817 | 1,963 | 6.4 | 1,928 | 1,928 | 1,928 | (0.6) |
| Research & Development Costs | 2,979 | 3,059 | 3,952 | 3,651 | 2,797 | 3,372 | 2,195 | (5.0) | 2,747 | 2,747 | 2,747 | 7.8 |
| Miscellaneous Expense | 3,292 | 6,548 | 1,190 | 1,264 | 2,032 | 2,040 | 1,485 | (12.4) | 954 | 900 | 900 | (15.4) |
| Contingency Planning | | | | | | - | - | 0.0 | 2,594 | 2,610 | 2,657 | |
| Operating Expense Recovery | (23,314) | (21,519) | (21,580) | (23,004) | (11,238) | (13,997) | (17,808) | (4.4) | (13,468) | (13,649) | (13,647) | (8.5) |
| Strategic Initiative Funding | | | | | | | | | 870 | 3,640 | 6,317 | |
| Sub-Total | 160,756 | 181,047 | 181,644 | 177,233 | 185,100 | 183,143 | 188,016 | 2.6 | 199,774 | 198,468 | 200,994 | 2.2 |
| Less: Other Costs Charged to Capital | | | | | | (29,327) | (31,503) | | (33,329) | (34,647) | (34,818) | 3.4 |
| Other Costs Charged to Operations* | 160,756 | 181,047 | 181,644 | 177,233 | 185,100 | 153,815 | 156,513 | | 166,444 | 163,821 | 166,177 | 2.0 |
| **Total** | **638,594** | **690,463** | **722,951** | **748,471** | **796,457** | **596,406** | **621,973** | | **634,849** | **633,009** | **644,317** | **1.2** |
| Less: | | | | | | | | | | | | |
| Labour & Expense Capitalized | (192,338) | (205,175) | (224,298) | (243,545) | (268,651) | | | | | | | |
| Capitalized Overhead | (67,289) | (61,198) | (60,151) | (47,336) | (53,084) | (69,720) | (74,446) | 1.7 | (81,265) | (24,578) | (24,824) | (30.7) |
| Operating and Administration Charged to Centra | (56,270) | (59,803) | (60,951) | (60,644) | (62,687) | (63,735) | (66,810) | 2.9 | (67,829) | (66,691) | (67,818) | 0.5 |
| **Electric OM&A, including Accounting Changes** | **322,696** | **364,287** | **377,551** | **396,946** | **412,035** | **462,952** | **480,717** | **6.9** | **485,755** | **541,740** | **551,675** | **4.7** |
| Less: Accounting Changes | | (9,655) | (13,180) | (32,889) | (36,578) | (78,345) | (91,155) | 56.7 | (93,858) | (145,644) | (151,345) | 18.4 |
| **Electric OM&A, excluding Accounting Changes** | **$ 322,696** | **$ 354,632** | **$ 364,371** | **$ 364,057** | **$ 375,457** | **$ 384,607** | **$ 389,562** | **3.2** | **$ 391,897** | **$ 396,096** | **$ 400,330** | **0.9** |

*Includes amounts capitalized through Overhead

As shown in the following schedule, Manitoba Hydro has maintained the compounded annual growth for 2012/13 to 2016/17, to below inflationary levels at 1% excluding accounting changes.

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT**

| (In thousands of $) | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | 2012/13-2016/17 Compounded Annual Growth |
|---|---|---|---|---|---|---|
| Wages & Salaries | $ 466,165 | $ 480,511 | $ 502,692 | 524,552 | 533,997 | 3.5 |
| Overtime | 61,031 | 62,365 | 61,709 | 71,080 | 73,121 | 4.6 |
| Employee Benefits | 130,886 | 157,094 | 160,592 | 155,892 | 158,992 | 5.0 |
| Sub-Total | 658,082 | 699,970 | 724,993 | 751,523 | 766,109 | 3.9 |
| Less: Labour & Benefits Charged to Capital | (215,491) | (234,510) | (256,588) | (282,335) | (287,969) | 7.5 |
| Labour & Benefits Charged to Operations* | 442,591 | 465,460 | 468,405 | 469,188 | 478,140 | 2.0 |
| Other Costs | | | | | | |
| Employee Safety & Training | 4,463 | 4,596 | 5,225 | 5,188 | 5,175 | 3.8 |
| Travel Expenses | 31,194 | 31,915 | 31,766 | 31,628 | 31,634 | 0.4 |
| Motor Vehicle | 29,516 | 29,670 | 29,682 | 29,699 | 29,699 | 0.2 |
| Materials & Tools | 24,806 | 27,920 | 26,700 | 26,090 | 26,090 | 1.3 |
| Consulting & Professional Fees | 10,817 | 14,657 | 14,349 | 12,395 | 12,237 | 3.1 |
| Construction & Maintenance Services | 16,259 | 16,775 | 19,364 | 18,580 | 18,580 | 3.4 |
| Building & Property Services | 25,644 | 28,978 | 27,738 | 27,297 | 27,297 | 1.6 |
| Equipment Maintenance & Rentals | 14,680 | 15,007 | 16,120 | 16,191 | 16,191 | 2.5 |
| Consumer Services | 5,050 | 5,277 | 5,323 | 5,323 | 5,323 | 1.3 |
| Computer Services | 849 | 678 | 985 | 1,020 | 1,019 | 4.7 |
| Collection Costs | 4,261 | 3,125 | 4,078 | 4,078 | 4,078 | (1.1) |
| Customer & Public Relations | 6,731 | 5,610 | 5,334 | 5,344 | 5,316 | (5.7) |
| Sponsored Memberships | 1,767 | 1,249 | 1,764 | 1,737 | 1,737 | (0.4) |
| Office & Administration | 13,874 | 14,724 | 15,722 | 15,721 | 15,717 | 3.2 |
| Communication Systems | 1,817 | 1,963 | 1,928 | 1,928 | 1,928 | 1.5 |
| Research & Development Costs | 3,372 | 2,195 | 2,747 | 2,747 | 2,747 | (5.0) |
| Miscellaneous Expense | 2,040 | 1,485 | 954 | 900 | 900 | (18.5) |
| Contingency Planning | - | - | 2,594 | 2,610 | 2,657 | |
| Operating Expense Recovery | (13,997) | (17,808) | (13,468) | (13,649) | (13,647) | (0.6) |
| Strategic Initiative Funding | | | 870 | 3,640 | 6,317 | |
| Sub-Total | 183,143 | 188,016 | 199,774 | 198,468 | 200,994 | 2.4 |
| Less: Other Costs Charged to Capital | (29,327) | (31,503) | (33,329) | (34,647) | (34,818) | 4.4 |
| Other Costs Charged to Operations* | 153,815 | 156,513 | 166,444 | 163,821 | 166,177 | 2.0 |
| **Total** | **596,406** | **621,973** | **634,849** | **633,009** | **644,317** | **2.0** |
| Less: | | | | | | |
| Labour & Expense Capitalized | | | | | | |
| Capitalized Overhead | (69,720) | (74,446) | (81,265) | (24,578) | (24,824) | (22.8) |
| Operating and Administration Charged to Centra | (63,735) | (66,810) | (67,829) | (66,691) | (67,818) | 1.6 |
| **Electric OM&A, including Accounting Changes** | **462,952** | **480,717** | **485,755** | **541,740** | **551,675** | **4.5** |
| Less: Accounting Changes | (78,345) | (91,155) | (93,858) | (145,644) | (151,345) | 17.9 |
| **Electric OM&A, excluding Accounting Changes** | **$ 384,607** | **$ 389,562** | **$ 391,897** | **$ 396,096** | **$ 400,330** | **1.0** |

*Includes amounts capitalized through Overhead

**MANITOBA HYDRO**

**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT ($MILLIONS)**

| | | ACTUAL | | | | | | | | FORECAST | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2 | | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | **2007/08 - 2013/14 CAGR** | 2014/15 | 2015/16 | 2016/17 | **2013/14-2016/17 CAGR** |
| 3 | Wages & Salaries | 359.2 | 380.0 | 408.0 | 425.2 | 451.9 | 466.2 | 480.5 | 5.0% | 502.7 | 524.6 | 534.0 | 3.6% |
| 4 | Overtime | 41.8 | 45.9 | 50.3 | 50.7 | 54.8 | 61.0 | 62.4 | 6.9% | 61.7 | 71.1 | 73.1 | 5.4% |
| 5 | Employee Benefits | 76.8 | 83.5 | 83.0 | 95.4 | 104.7 | 130.9 | 157.1 | 12.7% | 160.6 | 155.9 | 159.0 | 0.4% |
| 6 | Sub-Total | 477.8 | 509.4 | 541.3 | 571.2 | 611.4 | 658.1 | 700.0 | | 725.0 | 751.5 | 766.1 | 3.1% |
| 7 | Less: Labour & Benefits Charged to Capital (Note 2) | (185.9) | (193.5) | (207.6) | (221.2) | (246.8) | (215.5) | (234.5) | 3.9% | (256.6) | (282.3) | (288.0) | 7.1% |
| 8 | **Labour & Benefits Charged to Operations*** | **291.9** | **315.9** | **333.7** | **350.0** | **364.6** | **442.6** | **465.5** | **8.1%** | **468.4** | **469.2** | **478.1** | **0.9%** |
| 9 | Total Other Costs | 160.8 | 181.0 | 181.6 | 177.2 | 185.1 | 183.1 | 188.0 | | 199.8 | 198.5 | 201.0 | 2.3% |
| 10 | Less: Other Costs Charged to Capital (Note 3) | (6.4) | (11.7) | (16.7) | (22.3) | (21.9) | (29.3) | (31.5) | 30.3% | (33.3) | (34.6) | (34.8) | 3.4% |
| 11 | **Other Costs Charged to Operations*** | **154.3** | **169.4** | **164.9** | **154.9** | **163.2** | **153.8** | **156.5** | 0.2% | **166.4** | **163.8** | **166.2** | 2.0% |
| 12 | **Total** | **446.3** | **485.3** | **498.7** | **504.9** | **527.8** | **596.4** | **622.0** | 5.7% | **634.9** | **633.0** | **644.3** | 1.2% |
| 13 | Less: Capitalized Overhead | (67.3) | (61.2) | (60.2) | (47.3) | (53.1) | (69.7) | (74.4) | 1.7% | (81.3) | (24.6) | (24.8) | -30.7% |
| 14 | Less: Operating and Administration Charged to Centra | (56.3) | (59.8) | (61.0) | (60.6) | (62.7) | (63.7) | (66.8) | 2.9% | (67.8) | (66.7) | (67.8) | 0.5% |
| 15 | **Electric OM&A, including Accounting Changes** | **322.7** | **364.3** | **377.6** | **396.9** | **412.0** | **463.0** | **480.7** | 6.9% | **485.8** | **541.7** | **551.7** | 4.7% |
| 16 | Less: Accounting Changes | 0.0 | (9.7) | (13.2) | (32.9) | (36.6) | (78.3) | (91.2) | 56.7% | (93.9) | (145.6) | (151.3) | 18.4% |
| 17 | **Electric OM&A, excluding Accounting Changes** | **322.7** | **354.6** | **364.4** | **364.1** | **375.5** | **384.6** | **389.6** | 3.2% | **391.9** | **396.1** | **400.3** | 0.9% |
| 18 | Year over Year % Change, including Accounting Changes | | 12.9% | 3.6% | 5.1% | 3.8% | 12.4% | 3.8% | | 1.0% | 11.5% | 1.8% | |
| 19 | **Year over Year % Change, excluding Accounting Changes** | | **9.9%** | **2.7%** | **-0.1%** | **3.1%** | **2.4%** | **1.3%** | | **0.6%** | **1.1%** | **1.1%** | |

20 **Notes:**

21 1. Source : PUB/MH I-73 (b) 2015 GRA

22 2. Source: PUB/MH I-38 (e) 2012 GRA

23 3. Other costs charged to Capital for 2007/08 to 2011/12 derived based on Total Labour & Expenses Capitalized per MH less Labour and Benefits charged to Capital per PUB/MH I-38 (e) 2012 GRA

| | | **2007/08** | **2008/09** | **2009/10** | **2010/11** | **2011/12** |
|---|---|---|---|---|---|---|
| 24 | Labour & Expense Capitalized | *(192.3)* | *(205.2)* | *(224.3)* | *(243.5)* | *(268.7)* |
| 25 | Labour & Benefits Charged to Capital PUB/MH I-38 (e) 2012 GRA | *185.9* | *193.5* | *207.6* | *221.2* | *246.8* |
| 26 | Other Costs Charged to Capital | **(6.4)** | **(11.7)** | **(16.7)** | **(22.3)** | **(21.9)** |

**MANITOBA HYDRO**
**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT ($MILLIONS)**

| | | Actual | | | | | | | | Forecast | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Fiscal Years Ended March 31,** | **2007/08** | **2008/09** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | **2013/14** | **2007/08-2013/14 CAGR** | **2014/15** | **2015/16** | **2016/17** | **2013/14-2016/17 CAGR** |
| 2 | Wages & Salaries | 359.3 | 380.0 | 408.0 | 425.2 | 451.9 | 466.2 | 480.5 | 5.0% | 502.7 | 524.6 | 534.0 | 3.6% |
| 3 | Overtime | 41.8 | 45.9 | 50.3 | 50.7 | 54.8 | 61.0 | 62.4 | 6.9% | 61.7 | 71.1 | 73.1 | 5.4% |
| 4 | Employee Benefits | 76.8 | 83.5 | 83.0 | 95.4 | 104.7 | 130.9 | 157.1 | 12.7% | 160.6 | 155.9 | 159.0 | 0.4% |
| 5 | Sub-Total | 477.9 | 509.4 | 541.3 | 571.2 | 611.4 | 658.1 | 700.0 | 6.6% | 725.0 | 751.5 | 766.1 | 3.1% |
| 6 | **Other Costs** | **160.8** | **181.0** | **181.6** | **177.2** | **185.1** | **183.1** | **188.0** | 2.6% | **199.8** | **198.5** | **201.0** | 2.3% |
| 7 | **Total Costs** | **638.7** | **690.5** | **723.0** | **748.5** | **796.5** | **841.2** | **888.0** | 5.6% | **924.8** | **950.0** | **967.1** | 2.9% |
| | **Capitalized Costs** | | | | | | | | | | | | |
| 8 | Capital Order Activities | (192.3) | (205.2) | (224.3) | (243.5) | (268.7) | (244.8) | (266.0) | 5.6% | (289.9) | (317.0) | (322.8) | 6.7% |
| 9 | Capitalized Overhead | (67.3) | (61.2) | (60.2) | (47.3) | (53.1) | (69.7) | (74.4) | 1.7% | (81.3) | (24.6) | (24.8) | -30.7% |
| 10 | **Total Capitalized Costs** | **(259.6)** | **(266.4)** | **(284.4)** | **(290.9)** | **(321.7)** | **(314.5)** | **(340.5)** | 2.6% | **(371.2)** | **(341.6)** | **(347.6)** | 0.7% |
| 11 | Operating and Administration Charged to Centra | (56.3) | (59.8) | (61.0) | (60.6) | (62.7) | (63.7) | (66.8) | 2.9% | (67.8) | (66.7) | (67.8) | 0.5% |
| 12 | **Electric OM&A, including Accounting Changes** | **322.7** | **364.3** | **377.6** | **396.9** | **412.0** | **463.0** | **480.7** | **6.9%** | **485.8** | **541.7** | **551.7** | 4.7% |
| 13 | Less: Accounting Changes | 0.0 | (9.7) | (13.2) | (32.9) | (36.6) | (78.3) | (91.2) | 56.7% | (93.9) | (145.6) | (151.3) | 18.4% |
| 14 | **Electric OM&A, excluding Accounting Changes** | **322.7** | **354.6** | **364.4** | **364.1** | **375.5** | **384.6** | **389.6** | **3.2%** | **391.9** | **396.1** | **400.3** | 0.9% |
| 17 | **Capital Order Activities** | **2007/08** | **2008/09** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | **2013/14** | | **2014/15** | **2015/16** | **2016/17** | |
| 18 | Labour & Benefits Charged to Capital (Note 2) | (185.9) | (193.5) | (207.6) | (221.2) | (246.8) | (215.5) | (234.5) | 3.9% | (256.6) | (282.3) | (288.0) | 7.1% |
| 19 | Other Costs Charged to Capital (Note 3) | (6.4) | (11.7) | (16.7) | (22.3) | (21.9) | (29.3) | (31.5) | 30.3% | (33.3) | (34.6) | (34.8) | 3.4% |
| 20 | Activity Charges Charged to Capital | (192.3) | (205.2) | (224.3) | (243.5) | (268.7) | (244.8) | (266.0) | 5.6% | (289.9) | (317.0) | (322.8) | 6.7% |

**Notes:**

21 1. Source : PUB/MH I-73 (b) 2015 GRA

22 2. Source: PUB/MH I-38 (e) 2012 GRA, Coalition/MH I-45 (b) 2015 GRA

23 3. Other costs charged to Capital for 2007/08 to 2011/12 derived based on Total Labour & Expenses Capitalized per MH less Labour and Benefits charged to Capital per PUB/MH I-38 (e) 2012 GRA

**MANITOBA HYDRO**

**OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT ANALYSIS ($MILLIONS)**

| # | | Actual | | | | | | | | | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | 2009/10 | % of Total Cost | 2010/11 | % of Total Cost | 2011/12 | % of Total Cost | 2012/13 | % of Total Cost | 2013/14 | % of Total Cost | 2014/15 | % of Total Cost | 2015/16 | % of Total Cost | 2016/17 | % of Total Cost |
| 2 | Wages & Salaries | 408.0 | 56% | 425.2 | 57% | 451.9 | 57% | 466.2 | 55% | 480.5 | 54% | 502.7 | 54% | 524.6 | 55% | 534.0 | 55% |
| 3 | Overtime | 50.3 | 7% | 50.7 | 7% | 54.8 | 7% | 61.0 | 7% | 62.4 | 7% | 61.7 | 7% | 71.1 | 7% | 73.1 | 8% |
| 4 | Employee Benefits | 83.0 | 11% | 95.4 | 13% | 104.7 | 13% | 130.9 | 16% | 157.1 | 18% | 160.6 | 17% | 155.9 | 16% | 159.0 | 16% |
| 5 | Sub-Total | 541.3 | 75% | 571.2 | 76% | 611.4 | 77% | 658.1 | 78% | 700.0 | 79% | 725.0 | 78% | 751.5 | 79% | 766.1 | 79% |
| 6 | Other Costs | 181.6 | 25% | 177.2 | 24% | 185.1 | 23% | 183.1 | 22% | 188.0 | 21% | 199.8 | 22% | 198.5 | 21% | 201.0 | 21% |
| 7 | **Total Costs** | **723.0** | **100%** | **748.5** | **100%** | **796.5** | **100%** | **841.2** | **100%** | **888.0** | **100%** | **924.8** | **100%** | **950.0** | **100%** | **967.1** | **100%** |
| 8 | Capitalized Costs | | | | | | | | | | | | | | | | |
| 9 | Capital Order Activities | (224.3) | -31% | (243.5) | -33% | (268.7) | -34% | (244.8) | -29% | (266.0) | -30% | (289.9) | -31% | (317.0) | -33% | (322.8) | -33% |
| 10 | Capitalized Overhead | (60.2) | -8% | (47.3) | -6% | (53.1) | -7% | (69.7) | -8% | (74.4) | -8% | (81.3) | -9% | (24.6) | -3% | (24.8) | -3% |
| 11 | **Total Capitalized Costs** | **(284)** | **-39%** | **(291)** | **-39%** | **(322)** | **-40%** | **(315)** | **-37%** | **(340)** | **-38%** | **(371)** | **-40%** | **(342)** | **-36%** | **(348)** | **-36%** |
| 12 | Operating and Administration Charged to Centra | (61.0) | -8% | (60.6) | -8% | (62.7) | -8% | (63.7) | -8% | (66.8) | -8% | (67.8) | -7% | (66.7) | -7% | (67.8) | -7% |
| 13 | **Electric OM&A, including Accounting Changes** | **377.6** | **52%** | **396.9** | **53%** | **412.0** | **52%** | **463.0** | **55%** | **480.7** | **54%** | **485.8** | **53%** | **541.7** | **57%** | **551.7** | **57%** |

*Includes amounts capitalized through Overhead

| # | | 2009/10 | | 2010/11 | | 2011/12 | | 2012/11 | | 2013/14 | | 2014/15 | | 2015/16 | | 2016/17 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14 | Capital Order Activities | | | | | | | | | | | | | | | | |
| 15 | Labour & Benefits Charged to Capital (Note 2) | (207.6) | -29% | (221.2) | -30% | (246.8) | -31% | (215.5) | -26% | (234.5) | -26% | (256.6) | -28% | (282.3) | -30% | (288.0) | -30% |
| 16 | Other Costs Charged to Capital (Note 3) | (16.7) | -2% | (22.3) | -3% | (21.9) | -3% | (29.3) | -3% | (31.5) | -4% | (33.3) | -4% | (34.6) | -4% | (34.8) | -4% |
| | | (224.3) | -31% | (243.5) | -33% | (268.7) | -34% | (244.8) | -29% | (266.0) | -30% | (289.9) | -31% | (317.0) | -33% | (322.8) | -33% |

17 **Notes:**

18 1. Source : PUB/MH I-73 (b) 2015 GRA, Appendix 5.6 2012 GRA

19 2. Source: PUB/MH I-38 (e) 2012 GRA

20 3. Other costs charged to Capital for 2007/08 to 2011/12 derived based on Total Labour & Expenses Capitalized per MH less Labour and Benefits charged to Capital per PUB/MH I-38 (e) 2012 GRA

| # | | 2009/10 | 2010/11 | 2011/12 |
|---|---|---|---|---|
| 21 | | | | |
| 22 | Labour & Expense Capitalized | *(224.3)* | *(243.5)* | *(268.7)* |
| 23 | Labour & Benefits Charged to Capital PUB/MH I-38 (e) 2012 GRA | *207.6* | *221.2* | *246.8* |
| 24 | Other Costs Charged to Capital | **(16.7)** | **(22.3)** | **(21.9)** |

19

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

## STATUS UPDATE REPORT as at October 31, 2014

Manitoba Hydro

The following table identifies the consolidated transitional adjustments and projected 2015/16 net income impact of MH's transition to IFRS *(In millions of dollars):*

| | IFRS IMPACTS INCREASE / (DECREASE) | | |
|---|---|---|---|
| | **Retained Earnings April 1, 2015** | **AOCI** | **Net Income 2015/16** |
| Administrative Overhead | (56) | | (57)* |
| Pension & Employee Benefits | (24) | (445) | 3 |
| Meter Compliance, Exchange and Sampling | | | 5 |
| Capital Taxes | - | | 3 |
| Removal of Asset Retirement Costs from Depreciation | 62 | | 64 |
| Change to Equal Life Group Method of Depreciation | (36) | | (38) |
| **Total** | **(54)** | **(445)** | **(20)** |

*net of reductions in amortization

The topics in the following table have been identified as having the highest potential impact to MH upon its transition to IFRS:

| Topic | Issue |
|---|---|
| Rate-Regulated Accounting | - Prior to December 2013, IFRS did not include a standard that recognized rate-regulated accounting. In the absence of a such a standard, MH would be required to charge approximately $335 million in rate regulated accounts to retained earnings upon transition to IFRS and future expenditures on these items would be required to be expensed as incurred.<br>- In its May 2012 meeting, the IASB supported giving priority to developing a standards-level project and detailed discussion paper for rate-regulated activities. This decision was based on the feedback the IASB received on its June 2011 Agenda Consultation.<br>- As a result of the developments at the IASB, in September 2012 the AcSB extended the optional transitional deferral for rate-regulated entities by an additional one year to January 1, 2014.<br>- In its December 2012 meeting, the IASB decided that an Exposure Draft for an Interim Standard should be developed as a temporary solution until the IASB completes its comprehensive project on rate-regulated activities. The interim standard would permit "grandfathering" of existing recognition and measurement policies for rate-regulated accounts and would require these accounts to be presented separately in the financial statements.<br>- Supported by the actions of the IASB, in February 2013, the AcSB extended the optional transition date deferral to IFRS for rate-regulated entities by an additional one year to January 1, 2015.<br>- In April 2013, The IASB issued the Exposure Draft "Regulatory Deferral Accounts" with comments to be received by September 4, 2013. The exposure Draft applied to first–time adopters of IFRS only, permitted grandfathering of existing rate-regulated accounting practices, and required regulatory accounts to be presented separately in the financial statements.<br>- On January 30, 2014, the IASB issued an Interim IFRS (IFRS 14 *Regulatory Deferral Accounts*) for rate-regulated activities effective January 1, 2016 with earlier adoption permitted. Manitoba Hydro will early adopt the interim standard effective April 1, 2015 and will continue to recognize rate-regulated accounts upon its transition to IFRS. |

| Topic | Issue |
|---|---|
| Intangible Assets | - GAAP converged with IFRS effective for MH's 2009/10 financial statements. The impact of this change on prior years was a cumulative reduction to retained earnings of $37 million related to the write-off of ineligible research and promotional related expenditures. |
| Property, Plant & Equipment (PP&E) | - The IASB has approved an exemption for rate-regulated entities to carry forward existing PP&E balances as of the transition date to IFRS.<br>- MH has established new components as part of their review for compliance with IFRS and has completed a depreciation study based on these new components.<br>- MH will change from the Average Service Life method of calculating depreciation to the Equal Life Group approach so as to ensure that each asset within a pool is fully depreciated upon its retirement.<br>- MH will remove the provision for asset removal costs (negative salvage) from depreciation rates as this is not an IFRS eligible cost for self-constructed assets.<br>- The impacts in 2015/16 to net income from the change to the Equal Life Group method and the elimination of the provision for asset removal costs will result in an annual decrease in depreciation of $26 million. |
| Capitalization of Overhead Costs | - IFRS specifically states that administration and other general overhead costs are not eligible for capitalization.<br>- Through to 2012/13, MH adjustments with respect to discontinuing the capitalization of overhead costs total $62 million. This amount grows to $65 million by 2014/15 including inflation.<br>- MH will discontinue the capitalization of an additional $58 million annually of general overhead costs upon transition to IFRS in 2015/16.<br>- The $58 million is comprised primarily of expenditures for training, services and administration and managerial related charges. |

| Topic | Issue |
|---|---|
| Pension Costs | - IFRS does not permit the deferral of experience gains and losses for calculating expected fund returns and does not permit the use of expected asset returns in determining the discount rate used to measure the pension obligation.<br>- IAS 19 has been amended (effective January 1, 2013) such that all actuarial gains and losses are to be recognized in Other Comprehensive Income.<br>- MH expects to reclassify unrecognized actuarial experience losses of approximately $445 million to Accumulated Other Comprehensive Income upon adoption of IFRS. |
| Employee Benefits | - IFRS requires the estimated obligation for the unvested portion of accumulating benefits to be recognized over the period of service.<br>- IFRS also requires past service benefit charges to be expensed as incurred.<br>- Upon transition, MH expects to recognize approximately $15 million in increases to obligations with corresponding adjustments to retained earnings for unvested sick leave and severance benefits.<br>- In addition, MH expects to charge approximately $9 million to retained earnings for unamortized past service balances for Retirement Health Spending Plan amendments. |

| | | | |
|---|---|---|---|
| **Section:** | Tab 5 Appendix 5.7 | **Page No.:** | 4 & 5 |
| **Topic:** | Financial Results & Forecasts | | |
| **Subtopic:** | OM&A | | |
| **Issue:** | Accounting Changes | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please refile Schedule A & B of MH Exhibit #55 from the 2012 GRA, including 2009 to 2014 with a similar level of detail.

**RATIONALE FOR QUESTION:**

To understand the impact of accounting changes on revenue requirement.

**RESPONSE:**

Please see the following schedules which include the Accounting Policy and Estimate changes that have been implemented between 2009 to 2014 and have been accepted for rate setting purposes in Orders 5/12 and 43/13. Manitoba Hydro notes that the changes to overhead capitalized that were made between 2009 to 2014 are consistent with the recommendation made by the PUB in Order 116/08.

Also included on the following schedules are the Accounting Policy and Estimate changes that are forecast to be implemented from 2015 to 2024 as outlined in Appendix 5.7 of the Application.

**SCHEDULE A - ACCOUNTING POLICY & ESTIMATE CHANGES - MH14**

| | Estimated Impact on Actual Results --> | | | | | | Forecast --> | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Electric only (in millions of $'s) | | | | | | | | | | | | | | | | |
| **OM&A** | | | | | | | | | | | | | | | | |
| **CGAAP Changes** | | | | | | | | | | | | | | | | |
| Intangible Assets | 5 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Overhead Capitalized | 5 | 9 | 29 | 29 | 60 | 61 | 62 | 63 | 63 | 64 | 65 | 65 | 66 | 66 | 68 | 69 |
| Pension & Other Benefits Changes (e.g. Discount Rate) | - | - | - | 3 | 14 | 25 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 |
| Subtotal CGAAP Changes | 10 | 13 | 33 | 37 | 78 | 91 | 94 | 95 | 95 | 96 | 97 | 97 | 98 | 99 | 100 | 102 |
| **IFRS Changes** | | | | | | | | | | | | | | | | |
| 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) |
| Subtotal IFRS Changes | | | | | | | - | 51 | 56 | 57 | 58 | 58 | 59 | 60 | 61 | 62 |
| Total OM&A Changes | **10** | **13** | **33** | **37** | **78** | **91** | **94** | **146** | **151** | **153** | **154** | **156** | **157** | **158** | **161** | **164** |
| **DEPRECIATION EXPENSE** | | | | | | | | | | | | | | | | |
| **CGAAP Changes** | | | | | | | | | | | | | | | | |
| Administrative Overhead | | | | | (0) | (1) | (1) | (2) | (3) | (3) | (4) | (4) | (5) | (6) | (6) | (7) |
| Subtotal CGAAP Changes | - | - | - | - | (0) | (1) | (1) | (2) | (3) | (3) | (4) | (4) | (5) | (6) | (6) | (7) |
| **Depreciation Study Changes** | | | | | | | | | | | | | | | | |
| Average Service Life Changes (2010 Depreciation Study) | - | - | - | (35) | (36) | (41) | (46) | (49) | (51) | (51) | (57) | (64) | (73) | (70) | (72) | (71) |
| Average Service Life Changes (2014 Depreciation Study) | - | - | - | - | - | - | (25) | (29) | (30) | (30) | (34) | (38) | (43) | (41) | (43) | (42) |
| Subtotal Depreciation Study Changes | - | - | - | (35) | (36) | (41) | (71) | (78) | (81) | (81) | (91) | (102) | (116) | (111) | (115) | (113) |
| **IFRS Changes** | | | | | | | | | | | | | | | | |
| Administrative Overhead | | | | | | | | (0) | (2) | (4) | (6) | (7) | (9) | (11) | (13) | (14) |
| Meter Compliance, Exchange and Sampling | | | | | | | | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 |
| Provision for Asset Removal | | | | | | | | (60) | (63) | (67) | (86) | (96) | (107) | (117) | (117) | (119) |
| Change to IFRS Compliant Depreciation | | | | | | | | 36 | 38 | 41 | 49 | 55 | 63 | 67 | 68 | 69 |
| Subtotal IFRS Changes | - | - | - | - | - | - | - | (24) | (27) | (30) | (42) | (48) | (53) | (60) | (61) | (63) |
| Total Depreciation Changes | **-** | **-** | **-** | **(35)** | **(36)** | **(42)** | **(73)** | **(104)** | **(111)** | **(114)** | **(137)** | **(154)** | **(174)** | **(177)** | **(182)** | **(184)** |
| **FINANCE EXPENSE** | | | | | | | | | | | | | | | | |
| **Total Finance Expense Accounting Changes** | | | | | | | | (0) | (0) | (1) | (1) | (1) | (2) | (2) | (2) | (3) |
| **CAPITAL TAX EXPENSE** | | | | | | | | | | | | | | | | |
| **Total Capital Tax Expense Accounting Changes** | | | | | | | | (3) | (3) | (3) | (2) | (2) | (2) | (2) | (1) | (1) |
| **Total Increase (Decrease) in Revenue Requirement** | **10** | **13** | **33** | **1** | **43** | **49** | **21** | **39** | **37** | **35** | **14** | **(2)** | **(21)** | **(22)** | **(25)** | **(25)** |

**SCHEDULE B - ACCOUNTING POLICY & ESTIMATE CHANGES - IMPACT TO RETAINED EARNINGS & ACCUMULATED OTHER COMPREHENSIVE INCOME- MH14**

| Electric only (in millions of $'s) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **IMPACT TO RETAINED EARNINGS** | | | | | | | | | | | | | | | | | |
| Annual change to OM&A | (10) | (13) | (33) | (37) | (78) | (91) | (94) | (146) | (151) | (153) | (154) | (156) | (157) | (158) | (161) | (164) | (1 755) |
| Annual change to Depreciation & Amortization | - | - | - | 35 | 36 | 42 | 73 | 104 | 111 | 114 | 137 | 154 | 174 | 177 | 182 | 184 | 1 521 |
| Annual change to Finance & Capital Tax Changes | - | - | - | - | - | - | - | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 5 | 31 |
| Write Offs to: | | | | | | | | | | | | | | | | | |
| Administrative Overhead | | | | | | | | (54) | | | | | | | | | (54) |
| Provision for Asset Removal | | | | | | | | 57 | | | | | | | | | 57 |
| Change to Equal Life Group Depreciation | | | | | | | | (33) | | | | | | | | | (33) |
| Pension & Employee Benefits | | | | | | | | (45) | | | | | | | | | (45) |
| **Total (Decrease) Increase to Retained Earnings** | **(10)** | **(13)** | **(33)** | **(1)** | **(43)** | **(49)** | **(21)** | **(114)** | **(37)** | **(35)** | **(14)** | **2** | **21** | **22** | **25** | **25** | **(277)** |
| **IMPACT TO AOCI** | | | | | | | | | | | | | | | | | |
| **IFRS Changes** | | | | | | | | | | | | | | | | | |
| Pension Adjustment to AOCI | | | | | | | | (424) | - | - | - | - | - | - | - | - | (424) |
| Pension Adjustment for discount rate changes | | | | | | | | - | - | 61 | 40 | 40 | - | - | - | - | 141 |
| **Total Annual Impact to AOCI** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(424)** | **-** | **61** | **40** | **40** | **-** | **-** | **-** | **-** | **(283)** |

| Section: | Tab 5 Appendix 5.7 | Page No.: | 4 & 5 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | OM&A | | |
| Issue: | Accounting Changes | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please refile Figure 5.5.5 from the current application to include all years since 2008/09 and provide the Compound Annual Growth from 2008/09 to 2013/14 and 2013/14 through 2016/17.

**RATIONALE FOR QUESTION:**

To understand the impact of accounting changes on revenue requirement.

**RESPONSE:**

Please see the following summary of accounting and benefit changes for electric operations from 2008/09 through 2016/17, including Compound Annual Growth from 2008/09 to 2013/14 and 2013/14 to 2016/17.

**SUMMARY OF ACCOUNTING & BENEFIT CHANGES - ELECTRIC OPERATIONS**
(in thousands of dollars)

| | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | IFF-14 2015/16 Forecast | 2016/17 Forecast | Compound Annual Growth 2008/09-2013/14 | Compound Annual Growth 2013/14-2016/17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Property Plant & Equipment** | | | | | | | | | | | |
| CGAAP - Reduction to Costs Capitalized | | | | | | | | | | | |
| Stores Overhead | $ 5 000 | $ 5 100 | 5 202 | 5 306 | 5 412 | 5 520 | 5 576 | 5 631 | 5 688 | | |
| Executive Costs | | 2 000 | 2 040 | 2 081 | 2 122 | 2 165 | 2 187 | 2 208 | 2 230 | | |
| Property Taxes on Facilities | | 2 000 | 2 040 | 2 081 | 2 122 | 2 165 | 2 187 | 2 208 | 2 230 | | |
| Interest on Common Assets (Facilities & Equipment) | | | 11 165 | 11 388 | 11 616 | 11 848 | 11 967 | 12 087 | 12 207 | | |
| General & Administrative Departmental Costs | | | 4 500 | 4 590 | 4 682 | 4 775 | 4 823 | 4 871 | 4 920 | | |
| Interest on Motor Vehicles | | | 3 780 | 3 856 | 3 933 | 4 011 | 4 051 | 4 092 | 4 133 | | |
| IT Infrastructure & Related Support | | | | | 20 022 | 20 422 | 20 626 | 20 833 | 21 041 | | |
| Building Depreciation & Operating Costs | | | | | 10 271 | 10 476 | 10 581 | 10 687 | 10 793 | | |
| IFRS - Reduction to Costs Capitalized | | | | | | | | | | | |
| Technical & Softskills Training | | | | | | | | 15 980 | 16 140 | | |
| Service Areas (Management Accounting, HR, Safety, etc) | | | | | | | | 12 270 | 12 393 | | |
| Administrative & Clerical Support Staff | | | | | | | | 11 990 | 12 110 | | |
| Division & Department Manager | | | | | | | | 13 320 | 13 453 | | |
| Fleet & Stores Administration | | | | | | | | 1 140 | 1 151 | | |
| **PP&E Reduction to Costs Capitalized** | 5 000 | 9 100 | 28 727 | 29 302 | 60 180 | 61 384 | 61 997 | 117 317 | 118 491 | 65.1 | 24.5 |
| **Intangible Assets** | | | | | | | | | | | |
| CGAAP - Reduction to Costs Capitalized | 4 655 | 4 080 | 4 162 | 4 245 | 4 330 | 4 416 | 4 505 | 4 550 | 4 595 | (1.0) | 1.3 |
| **Pension & Benefits** | | | | | | | | | | | |
| CGAAP -Changes (e.g. Discount Rate) | | | | 3 032 | 13 835 | 25 355 | 27 356 | 27 356 | 27 356 | | |
| IFRS Changes | | | | | | | | (2 700) | 1 800 | | |
| | | - | - | 3 032 | 13 835 | 25 355 | 27 356 | 24 656 | 29 156 | 189.2 | 4.8 |
| **Other** | | | | | | | | | | | |
| IFRS - Meter Sampling, Exchange and Testing | | | | | | | | (879) | (897) | | 2.0 |
| **Total OM&A Impact** | $ 9 655 | $ 13 180 | $ 32 889 | $ 36 578 | $ 78 345 | $ 91 155 | $ 93 858 | $ 145 644 | $ 151 345 | 56.7 | 18.4 |

**PUB/MH I-42 (Revised based on IFF12)**

**Reference: 2011 Annual Report Page 78, Accounting Changes/ 2012 Annual Report**

**Please re-file IFF11-2 Pages 31 and 33 including an additional line items quantifying the net impact of accounting changes reflected in the IFF. Please provide a further detailed schedule on the net amount, including narrative descriptions of each of the accounting changes and cite specific handbook sections.**

**ANSWER:**

Please see the following schedules for an update to this response in reference to IFF12:

Schedule A presents the net impacts of accounting changes by operating statement line item under CGAAP and IFRS. Narratives referencing the changes are provided following the schedules.

Schedule B presents the net impacts of the accounting changes to Retained Earnings.

Schedules C & D reflect the impact of the accounting changes in the income statement and balance sheet of IFF12 respectively.

Schedule E provides an update to the Summary of Accounting Changes to OM&A as previously provided in Appendix 5.6 (page 5 of 13) updated for IFF12 which assumes the deferral of IFRS until 2014/15.

**SCHEDULE A - ACCOUNTING CHANGES - IFF12**

| | Actual 2009 | Actual 2010 | Actual 2011 | Actual 2012 | Forecast --> 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Ref |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Electric only (in millions of $'s) | | | | | | | | | | | | | | | |
| **OM&A** | | | | | | | | | | | | | | | |
| **CGAAP Changes** | | | | | | | | | | | | | | | |
| Intangibles | | | | | | | | | | | | | | | |
| DSM | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | |
| Planning Studies | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | |
| IT Application | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Total | 5 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | **1** |
| Overhead Capitalized | | | | | | | | | | | | | | | |
| Stores | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | **2** |
| Admin& General | | 4 | 24 | 24 | 51 | 52 | 53 | 54 | 55 | 56 | 58 | 59 | 60 | 61 | **3** |
| Store & Admin General | 5 | 9 | 29 | 29 | 56 | 58 | 59 | 60 | 61 | 62 | 64 | 65 | 66 | 68 | |
| Change in Discount Rate on Pension & Other Benefits | | | | 3 | 8 | 10 | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | **4** |
| Subtotal CGAAP Changes | 10 | 13 | 33 | 37 | 69 | 72 | 68 | 70 | 71 | 72 | 74 | 75 | 77 | 78 | |
| **IFRS Changes** | | | | | | | | | | | | | | | |
| DSM | | | | | | | 23 | 22 | 21 | 20 | 19 | 18 | 17 | 17 | **5** |
| Site Remediation | | | | | | | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | **5** |
| Regulatory Costs | | | | | | | 1 | 1 | 2 | 1 | 1 | 1 | 1 | 1 | **5** |
| Pension | | | | | | | - | 2 | 4 | 5 | 7 | 9 | 11 | 12 | **6** |
| Employee Benefits (amortization of RHSA) | | | | | | | (3) | (1) | (1) | (1) | (1) | (1) | (1) | (0) | **6** |
| Admin & General | | | | | | | 37 | 38 | 38 | 39 | 40 | 41 | 41 | 42 | **7** |
| Subtotal IFRS Changes | | | | | | | 62 | 66 | 69 | 69 | 71 | 73 | 75 | 77 | |
| **Reclassifications** | | | | | | | | | | | | | | | |
| Wire & Telecom Services | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 4 | 4 | **8** |
| Funding Agreements | | (5) | (5) | (5) | (5) | (5) | (6) | (6) | (6) | (6) | (6) | (6) | (6) | (6) | **9** |
| Operating Expense Recoveries | | | | | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 10 | 10 | 10 | **10** |
| Subtotal Reclassifications | 3 | (2) | (2) | (2) | 6 | 6 | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | |
| Total OM&A Accounting Changes | 13 | 11 | 31 | 35 | 75 | 78 | 137 | 142 | 146 | 148 | 152 | 156 | 159 | 163 | |

## SCHEDULE A - ACCOUNTING CHANGES - IFF12 cont'd

| Electric only (in millions of $'s) | Actual | Actual | Actual | Actual | Forecast --> | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **DEPRECIATION EXPENSE** | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Ref |
| **CGAAP Changes** | | | | | | | | | | | | | | | |
| Administrative & General Overhead Capitalized | | | | | (0) | (1) | (1) | (2) | (3) | (3) | (4) | (4) | (5) | (6) | **3** |
| Average Service Life | | | | (35) | (40) | (44) | (47) | (49) | (52) | (55) | (58) | (61) | (68) | (72) | **11** |
| Subtotal CGAAP Changes | - | - | - | (35) | (40) | (44) | (48) | (51) | (54) | (58) | (62) | (65) | (73) | (78) | |
| **IFRS Changes** | | | | | | | | | | | | | | | |
| Administrative & General Overhead Capitalized | | | | | | | (0) | (1) | (2) | (3) | (3) | (4) | (5) | (6) | **7** |
| Reduction in Rate Regulated Assets | | | | | | | (38) | (38) | (37) | (35) | (33) | (31) | (30) | (28) | **5** |
| Change to Equal Life Group Depreciatin Method | | | | | | | 36 | 38 | 39 | 40 | 41 | 43 | 52 | 58 | **12** |
| Removal of Net Salvage from depreciation rates | | | | | | | (63) | (66) | (68) | (73) | (77) | (81) | (97) | (107) | **13** |
| Subtotal IFRS Changes | - | - | - | - | - | - | (65) | (67) | (69) | (71) | (72) | (74) | (80) | (84) | |
| Total Depreciation Accounting Changes | - | - | - | (35) | (40) | (44) | (113) | (118) | (123) | (129) | (134) | (139) | (152) | (162) | |
| **FINANCE EXPENSE** | | | | | | | | | | | | | | | |
| **CGAAP Changes** | | | | | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | |
| **IFRS Changes** | | | | | - | - | 2 | 2 | 3 | 3 | 3 | 3 | 4 | 4 | |
| Total Finance Expense Accounting Changes | - | - | - | - | 0 | 0 | 2 | 3 | 3 | 3 | 4 | 4 | 5 | 5 | **14** |
| **CAPITAL TAX EXPENSE** | | | | | | | | | | | | | | | |
| **CGAAP Changes** | | | | | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | |
| **IFRS Changes** | | | | | - | - | (3) | (3) | (3) | (3) | (3) | (3) | (2) | (2) | |
| Total Capital Tax Expense Accounting Changes | - | - | - | - | 0 | 0 | (3) | (3) | (3) | (2) | (2) | (2) | (1) | (1) | **14** |

**SCHEDULE B - ACCOUNTING CHANGES IMPACT TO RETAINED EARNINGS - IFF12**

| Electric only (in millions of $'s) | Actual | Actual | Actual | Actual | Forecast --> | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **IMPACT TO RETAINED EARNINGS** | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | **Total** |
| **CGAAP Changes** | | | | | | | | | | | | | | | |
| Retrospective adjustment for intangible Assets | | (35) | | | | | | | | | | | | | **(35)** |
| Annual change to OM&A | (10) | (13) | (33) | (37) | (69) | (72) | (68) | (70) | (71) | (72) | (74) | (75) | (77) | (78) | **(820)** |
| Annual change to Depreciation & Amortization | - | - | - | 35 | 40 | 44 | 48 | 51 | 54 | 58 | 62 | 65 | 73 | 78 | **609** |
| Wire & Teleom Services moved to MHI | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (4) | (4) | (4) | (4) | (4) | (4) | **(48)** |
| Annual change to Finance & Capital Tax Changes | - | - | - | - | (0) | (0) | (1) | (1) | (1) | (1) | (1) | (2) | (2) | (3) | **(12)** |
| **Total** | **(13)** | **(51)** | **(36)** | **(5)** | **(33)** | **(31)** | **(24)** | **(23)** | **(21)** | **(19)** | **(17)** | **(16)** | **(10)** | **(7)** | **(306)** |
| **IFRS Changes** | | | | | | | | | | | | | | | |
| Annual change to OM&A | - | - | - | - | - | - | (62) | (66) | (69) | (69) | (71) | (73) | (75) | (77) | **(562)** |
| Annual change to Depreciation & Amortization | - | - | - | - | - | - | 65 | 67 | 69 | 71 | 72 | 74 | 80 | 84 | **581** |
| Annual change to Finance & Capital Tax Changes | - | - | - | - | - | - | 1 | 1 | 0 | 0 | (1) | (1) | (2) | (2) | **(2)** |
| Write Offs to: | | | | | | | | | | | | | | | |
| Power Smart Programs | | | | | | | (172) | | | | | | | | **(172)** |
| Site Remediation | | | | | | | (32) | | | | | | | | **(32)** |
| Acquisition (Centra & Manitoba Hydro) | | | | | | | (19) | | | | | | | | **(19)** |
| Regulatory Costs | | | | | | | (2) | | | | | | | | **(2)** |
| Administrative Overhead | | | | | | | (36) | | | | | | | | **(36)** |
| Removal of Net Salvage Depreciation | | | | | | | 60 | | | | | | | | **60** |
| Change to Equal Life Group Depreciation | | | | | | | (34) | | | | | | | | **(34)** |
| Employee Benefits | | | | | | | (21) | | | | | | | | **(21)** |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **(253)** | **2** | **0** | **2** | **0** | **0** | **3** | **5** | **(240)** |
| **Total Annual Impact to Retained Earnings** | **(13)** | **(51)** | **(36)** | **(5)** | **(33)** | **(31)** | **(277)** | **(21)** | **(21)** | **(17)** | **(17)** | **(16)** | **(7)** | **(2)** | **(546)** |

| Reference | Description | Accounting Handbook Reference |
|---|---|---|
| 1 | The OM&A adjustments for intangible assets under CGAAP reflect a change (new section 3064 Goodwill and Intangible Assets) in the Canadian accounting standards for Goodwill and Intangible assets that was effective for MH April 1, 2009. The new standard was harmonized with IFRS and required research and promotional costs to be expensed as incurred with retrospective application. Approximately $35 million was adjusted to retained earnings in fiscal 2009/10 for research and promotional costs included in opening intangible asset balances.<br><br>Effective April 1, 2009 and forward, research and promotional costs associated with intangible assets are expensed as incurred | **CGAAP – Section 3064 Goodwill and Intangible Assets**<br>.37 No intangible asset arising from research (or from the research phase of an internal project) should be recognized. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred. [OCT. 2008]<br><br>.52 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognized,…,Other examples of expenditure that is recognized as an expense when it is incurred include expenditure on:<br>(a) start-up activities (i.e., start-up costs),<br>(b) training activities.<br>(c) advertising and promotional activities. |
| 2 | The OM&A adjustments for stores reflect a change in the accounting standards for costs eligible to be included in the cost of inventories. The CGAAP section 3031 Inventories is converged with IFRS and was effective for MH April 1, 2007. As per Section 3031, storage related overhead charges are no longer permitted in the cost of material in inventory. | **CGAAP –Section 3031 Inventories**<br>.16 Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:<br>(a) abnormal amounts of wasted materials, labour or other production costs;<br>(b) storage costs, unless those costs are necessary in the production process before a further production stage;<br>(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and |

| Reference | Description | Accounting Handbook Reference |
|---|---|---|
| **3** | The reduction in administrative and general overhead capitalized reflects adjustments made under CGAAP to become more consistent with other Canadian utilities. The adjustments result in the following:<br>• an annual increase in operating and administrative expense;<br>• reductions in plant asset values for amounts no longer capitalized; and<br>• reductions in depreciation expense as a result of reduced asset values. | **CGAAP – Section 3061 Property, plant & equipment:**<br>.20 The cost of an item of property, plant and equipment includes direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity.<br>These changes were identified through discussions with other Canadian utilities. |
| **4** | The increase in the pension and employee benefits cost is a result of a reduction in the 2011/12 discount rate and the corresponding increase in current service cost for employee benefits. | **CGAAP – Section 3461 Employee Future Benefits:**<br>.50 ¨ For a defined benefit plan, the discount rate used to determine the accrued benefit obligation should be an interest rate determined by reference to:<br>(a) market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or<br>(b) the interest rate inherent in the amount at which the accrued benefit obligation could be settled. [JAN. 2000]<br><br>.054 The discount rate is re-evaluated at each measurement date. When long-term interest rates rise or decline, the discount rate changes in a similar manner. |

| Reference | Description | Accounting Handbook Reference |
|---|---|---|
| **5** | IFF 12 assumes rate-regulated accounting is not permitted under IFRS and thus, rate-regulated accounting will be eliminated upon transition. The impacts of this assumption are as follows<br>• upon transition to IFRS, a one-time adjustment to retained earnings will be made for unamortized rate-regulated account balances;<br>• future expenditures on these items will be expensed as incurred resulting in an annual increase to operating and administrative expense; and<br>• a reduction to depreciation and amortization for previously deferred regulatory accounts. | Unlike CGAAP and US GAAP, there is no specific IFRS standard that permits rate-regulated accounting. Generally, the application of the existing IFRS framework has not resulted in the recognition of regulatory assets and liabilities. |
| **6** | Overall, changes to the accounting for pension and benefits results in an increase in pension and benefit costs upon transition to IFRS. The primary pension accounting changes include:<br>• upon transition, unamortized pension gains and losses will be adjusted to accumulated other comprehensive income;<br>• the elimination of "corridor" determined amortization for unrealized pension experience gains and losses as IFRS requires annual gains and losses to be recognized in Other Comprehensive Income; and<br>• the use of the pension discount rate for recording expected returns on plan assets as opposed to the expected market interest rate of return as per CGAAP. | **IFRS – IAS 19 Employee Benefits:**<br>.120 An entity shall recognise the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:<br>(a) service cost in profit or loss;…,<br>(c) re-measurements of the net defined benefit liability (asset) in other comprehensive income.<br>.125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments.<br>.103 An entity shall recognise past service cost as an expense at the earlier of the following dates:<br>(a) when the plan amendment or curtailment occurs; and<br>(b) when the entity recognises related restructuring costs or termination benefits (see paragraph 165). |

| | | |
|---|---|---|
| | **Employee benefits:**<br>The primary employee benefit related changes include:<br>• upon transition, unamortized past service adjustments will be adjusted to retained earnings; and<br>• future annual benefits expense will be higher for the recognition of benefits attributed to unvested employees for benefits such as sick leave and severance. Such unvested benefits were not recognized under CGAAP, but are required to be recognized under IFRS. | **Employee Benefits:**<br>.15 Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. ,…, An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognised, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation. |
| **7** | The reduction in administrative and general overhead capitalized reflects adjustments to comply with IFRS upon transition. IFRS does not permit the capitalization of general administrative and overhead costs. The adjustments result in the following:<br>• an annual increase in operating and administrative expense;<br>• reductions in plant asset values for amounts no longer capitalized; and<br>• reductions in depreciation expense as a result of reduced asset values. | **IFRS - IAS 16 Property, plant & equipment:**<br>.19 Examples of costs that are not costs of an item of property, plant and equipment are:,…<br>(d) administration and other general overhead costs. |
| **8** | The increase to OM&A resulting from Wire and Telecom services reflects a change in MH's financial reporting where the operations pertaining to Wire and Telecom services are now reported under Manitoba Hydro International. | **No accounting standard reference applies** |

| Reference | Description | Accounting Handbook Reference |
|---|---|---|
| 9 | The reduction to OM&A resulting from Funding payments (Town of Gillam & Frontier School Division) reflect the re-classification of these expenditures from OM&A to Capital & Other taxes as this more appropriately reflects the nature of these expenditures. | **CGAAP – Section 1000 Financial Statement Concepts**<br>21 For the information provided in financial statements to be useful, it must be reliable. Information is reliable when it is in agreement with the actual underlying transactions and events, …<br>(a) …Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. |
| 10 | The adjustments for operating expense recoveries are to comply with the financial reporting requirements of IFRS. Revenues that were once netted against operating costs for financial reporting will be reported as revenue in the future as IFRS generally does not permit netting of revenues and expenses. | **IFRS - IAS 1 Presentation of Financial Statements:**<br>. 32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS. |
| 11 | The net result of the depreciation study under CGAAP and the average service life approach is an overall reduction in annual depreciation expense for MH due to changes in the service lives for certain asset groups. This change is required to be implemented under Canadian GAAP. | **CGAAP – 3061 Property, plant & equipment:**<br>.28 Amortization should be recognized in a rational and systematic manner appropriate to the nature of an item of property, plant and equipment with a limited life and its use by the enterprise.<br>.33 The amortization method and estimates of the life and useful life of an item of property, plant and equipment should be reviewed on a regular basis. [DEC. 1990 *] |
| 12 | Upon adoption of IFRS, MH will be moving from the Average Service Life method of depreciation to the Equal Life Group method; increasing annual depreciation expense. | **IFRS - IAS 16 Property, plant & equipment:**<br>The key IFRS reference supporting the move to the ELG method is:<br>.43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.<br>.68 The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be included in profit or loss when the item is de-recognised. Gains shall not be classified as revenue. |

| Reference | Description | Accounting Handbook Reference |
|---|---|---|
| **13** | Upon adoption of IFRS, MH will be removing the impact of net salvage from depreciation rates; decreasing annual depreciation expense. | -The Inclusion of net salvage in depreciation rates is a regulatory practice applied under CGAAP by Canadian utilities. Given that IFRS does not recognize rate regulated activities, the practice of including negative salvage in depreciation rates will be discontinued upon transition to IFRS. No IFRS standard reference is available for rate-regulated accounting. |
| **14** | The CGAAP changes to finance expense and capital and other taxes reflect the cumulative impacts of changes 1 – 13 as identified in this chart. | **Please see descriptions as provided in 1- 13.** |

**SCHEDULE C - ACCOUNTING CHANGES - IMPACT ON IFF12**

**ELECTRIC OPERATIONS (MH12)**
**PROJECTED OPERATING STATEMENT**
**Net Impact of Accounting Changes**
**(In Millions of Dollars)**

| For the year ended March 31 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| **General Consumers** | | | | | | | | | | |
| **at approved rates** | 1,331 | 1,361 | 1,374 | 1,390 | 1,404 | 1,424 | 1,447 | 1,462 | 1,485 | 1,506 |
| **additional*** | 0 | 48 | 104 | 165 | 228 | 297 | 371 | 447 | 531 | 619 |
| **Extraprovincial** | 357 | 344 | 343 | 380 | 406 | 435 | 441 | 464 | 711 | 839 |
| **Other** | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 7 | 7 | 7 |
| **CGAAP Changes: Reclassifications - Operating Expense Recoveries** | **8** | **8** | **9** | **9** | **9** | **9** | **9** | **10** | **10** | **10** |
| | **1,702** | **1,768** | **1,836** | **1,950** | **2,053** | **2,172** | **2,274** | **2,390** | **2,743** | **2,981** |
| **EXPENSES** | | | | | | | | | | |
| **Operating and Administrative** | 380 | 393 | 406 | 413 | 420 | 442 | 448 | 461 | 480 | 490 |
| **CGAAP Accounting Changes:** | | | | | | | | | | |
| **Reclassifications** | **6** | **6** | **6** | **7** | **7** | **7** | **7** | **7** | **7** | **7** |
| **Reduction in Administrative & General Overhead Capitalized to Plant & Intangibles** | **60** | **62** | **64** | **65** | **66** | **67** | **69** | **70** | **71** | **73** |
| **Pension Expense - Reduction in Discount Rate** | **8** | **10** | **5** | **5** | **5** | **5** | **5** | **6** | **6** | **6** |
| **IFRS Accounting Changes** | **-** | **-** | **62** | **66** | **69** | **69** | **71** | **73** | **75** | **77** |
| **Finance Expense** | 452 | 444 | 490 | 522 | 583 | 653 | 763 | 777 | 996 | 1,092 |
| **CGAAP Accounting Changes** | **-** | **-** | **-** | **-** | **-** | **-** | **1** | **1** | **1** | **1** |
| **IFRS Accounting Changes** | **-** | **-** | **2** | **2** | **3** | **3** | **3** | **3** | **4** | **4** |
| **Depreciation and Amortization** | 439 | 474 | 485 | 509 | 533 | 576 | 628 | 647 | 733 | 781 |
| **CGAAP Accounting Changes** | **(40)** | **(44)** | **(48)** | **(51)** | **(54)** | **(58)** | **(62)** | **(65)** | **(73)** | **(78)** |
| **IFRS Accounting Changes** | | | **(65)** | **(67)** | **(69)** | **(71)** | **(72)** | **(74)** | **(80)** | **(84)** |
| **Water Rentals and Assessments** | 117 | 116 | 112 | 112 | 112 | 112 | 112 | 113 | 121 | 126 |
| **Fuel and Power Purchased** | 143 | 166 | 179 | 191 | 206 | 221 | 230 | 231 | 253 | 264 |
| **Capital and Other Taxes** | 84 | 91 | 98 | 108 | 117 | 125 | 133 | 139 | 146 | 153 |
| **CGAAP Accounting Changes** | **-** | **-** | **-** | **-** | **-** | **1** | **1** | **1** | **1** | **1** |
| **Reclassifications** | **5** | **5** | **6** | **6** | **6** | **6** | **6** | **6** | **6** | **6** |
| **IFRS Accounting Changes** | **-** | **-** | **(3)** | **(3)** | **(3)** | **(3)** | **(3)** | **(3)** | **(2)** | **(2)** |
| **Corporate Allocation** | 9 | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| | **1,664** | **1,732** | **1,807** | **1,893** | **2,009** | **2,163** | **2,349** | **2,401** | **2,754** | **2,926** |
| **Non-controlling Interest** | 14 | 24 | 21 | 16 | 13 | 10 | 6 | 3 | 4 | (3) |
| **Net Income** | **53** | **60** | **50** | **73** | **57** | **19** | **(69)** | **(8)** | **(7)** | **52** |

**SCHEDULE D - ACCOUNTING CHANGES - IMPACT ON IFF12**

**ELECTRIC OPERATIONS (MH12)**
**PROJECTED BALANCE SHEET**
**FULL IFRS CASE**
**(In Millions of Dollars)**

| For the year ended March 31 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | |
| **Plant in Service** | 15,502 | 16,621 | 17,386 | 18,635 | 19,286 | 22,928 | 23,465 | 26,615 | 30,796 | 31,439 |
| **CGAAP Accounting Changes pre 2013** | **(72)** | **(72)** | **(72)** | **(72)** | **(72)** | **(72)** | **(72)** | **(72)** | **(72)** | **(72)** |
| **CGAAP Accounting Changes** | **(56)** | **(114)** | **(173)** | **(233)** | **(294)** | **(356)** | **(420)** | **(485)** | **(551)** | **(619)** |
| **IFRS Accounting Changes** | **-** | **-** | **(37)** | **(75)** | **(113)** | **(152)** | **(192)** | **(233)** | **(274)** | **(316)** |
| **Accumulated Depreciation** | (5,248) | (5,655) | (6,050) | (6,497) | (6,981) | (7,517) | (8,107) | (8,719) | (9,417) | (10,167) |
| **CGAAP Accounting Changes pre 2013** | **35** | **35** | **35** | **35** | **35** | **35** | **35** | **35** | **35** | **35** |
| **CGAAP Accounting Changes** | **40** | **84** | **132** | **183** | **237** | **295** | **357** | **422** | **495** | **573** |
| **IFRS Accounting Changes** | **-** | **-** | **27** | **56** | **87** | **123** | **162** | **205** | **255** | **311** |
| **Net Plant in Service** | **10,201** | **10,899** | **11,248** | **12,032** | **12,185** | **15,284** | **15,228** | **17,768** | **21,267** | **21,184** |
| **Construction in Progress** | 2,108 | 2,878 | 4,198 | 5,128 | 6,794 | 5,439 | 6,879 | 5,422 | 3,038 | 4,821 |
| **Current and Other Assets** | 1,869 | 1,735 | 1,752 | 1,939 | 2,151 | 2,388 | 2,205 | 2,335 | 2,420 | 2,086 |
| **IFRS Accounting Changes** | **-** | **-** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** |
| **Goodwill and Intangible Assets** | 196 | 184 | 172 | 159 | 151 | 144 | 139 | 135 | 132 | 132 |
| **CGAAP Accounting Changes pre 2013** | **(13)** | **(13)** | **(13)** | **(13)** | **(13)** | **(13)** | **(13)** | **(13)** | **(13)** | **(13)** |
| **CGAAP Accounting Changes** | **(3)** | **(6)** | **(9)** | **(12)** | **(15)** | **(18)** | **(21)** | **(24)** | **(27)** | **(31)** |
| **Regulated Assets** | 236 | 232 | 224 | 213 | 203 | 192 | 183 | 174 | 166 | 160 |
| **CGAAP Accounting Changes pre 2013** | **(4)** | **(4)** | **(4)** | **(4)** | **(4)** | **(4)** | **(4)** | **(4)** | **(4)** | **(4)** |
| **CGAAP Accounting Changes** | **(1)** | **(3)** | **(4)** | **(6)** | **(7)** | **(9)** | **(10)** | **(12)** | **(14)** | **(15)** |
| **IFRS Accounting Changes** | **-** | **-** | **(215)** | **(203)** | **(191)** | **(179)** | **(169)** | **(158)** | **(148)** | **(141)** |
| | **14,590** | **15,902** | **16,987** | **18,873** | **20,892** | **22,863** | **24,056** | **25,262** | **26,456** | **27,817** |
| **LIABILITIES AND EQUITY** | | | | | | | | | | |
| Long-Term Debt | 9,428 | 11,199 | 12,741 | 14,614 | 16,304 | 18,077 | 19,972 | 20,739 | 22,062 | 23,412 |
| Current and Other Liabilities | 2,086 | 1,569 | 1,726 | 1,710 | 2,017 | 2,220 | 1,598 | 2,061 | 1,955 | 1,934 |
| **IFRS Accounting Changes** | **-** | **-** | **17** | **16** | **14** | **13** | **12** | **12** | **11** | **11** |
| Contributions in Aid of Construction | 336 | 345 | 350 | 355 | 359 | 369 | 375 | 382 | 389 | 396 |
| Retained Earnings | 2,580 | 2,671 | 2,740 | 2,834 | 2,912 | 2,948 | 2,896 | 2,904 | 2,904 | 2,958 |
| **CGAAP Accounting Changes pre 2013** | **(105)** | **(105)** | **(105)** | **(105)** | **(105)** | **(105)** | **(105)** | **(105)** | **(105)** | **(105)** |
| **CGAAP Accounting Changes** | **(33)** | **(64)** | **(88)** | **(111)** | **(132)** | **(151)** | **(168)** | **(184)** | **(194)** | **(201)** |
| **IFRS Accounting Changes** | **-** | **-** | **(252)** | **(250)** | **(250)** | **(247)** | **(247)** | **(247)** | **(243)** | **(239)** |
| Accumulated Other Comprehensive Income | 299 | 287 | 219 | 172 | 133 | 102 | 83 | 63 | 40 | 12 |
| **IFRS Accounting Changes** | **-** | **-** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** | **(361)** |
| | **14,590** | **15,902** | **16,987** | **18,873** | **20,892** | **22,864** | **24,055** | **25,263** | **26,456** | **27,817** |

**SCHEDULE E - SUMMARY OF ACCOUNTING CHANGES - ELECTRIC OPERATIONS - IFF12**
(in thousands of dollars)

| | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Forecast | 2013/14 Forecast | 2014/15 Forecast |
|---|---|---|---|---|---|---|
| **Reduction to Costs Capitalized** | | | | | | |
| Stores Overhead | $ 5,100 | 5,202 | 5,306 | 5,412 | 5,520 | 5,631 |
| Executive Costs | 2,000 | 2,040 | 2,081 | 2,122 | 2,165 | 2,208 |
| Property Taxes on Facilities | 2,000 | 2,040 | 2,081 | 2,122 | 2,165 | 2,208 |
| Interest on Common Assets (Facilities & Equipment) | | 11,165 | 11,388 | 11,616 | 11,848 | 12,085 |
| General & Administrative Departmental Costs | | 4,500 | 4,590 | 4,682 | 4,775 | 4,871 |
| Interest on Motor Vehicles | | 3,780 | 3,856 | 3,933 | 4,011 | 4,092 |
| IT Infrastructure & Related Support | | | | 17,100 | 17,442 | 17,791 |
| Building Depreciation & Operating Costs | | | | 9,500 | 9,690 | 9,884 |
| Technical & Softskills Training | | | | | | 10,659 |
| Service Areas (Management Accounting, HR, Safety, etc.) | | | | | | 8,721 |
| Administrative & Clerical Support Staff | | | | | | 8,721 |
| Division & Department Manager | | | | | | 6,783 |
| Fleet & Stores Administration | | | | | | 1,938 |
| | 9,100 | 28,727 | 29,302 | 56,488 | 57,617 | 95,592 |
| **Intangible Assets** | | | | | | |
| Ineligible for Capitalization | 4,080 | 4,162 | 4,245 | 4,330 | 4,416 | 4,505 |
| **Rate Regulated Accounts** | | | | | | |
| Power Smart Program | | | | | | 22,913 |
| Site Remediation | | | | | | 4,680 |
| Regulatory Costs | | | | | | 829 |
| | - | - | - | - | - | 28,422 |
| **Pension & Benefits** | | | | | | |
| Change in Discount Rate | | | 3,445 | 8,352 | 9,918 | 5,398 |
| Health Spending | | | | | | (3,215) |
| Past Service Pension Costs | | | | | | (592) |
| | - | - | 3,445 | 8,352 | 9,918 | 1,591 |
| **Reclassifications** | | | | | | |
| Wire & Telecom Services | 3,060 | 3,121 | 3,184 | 3,247 | 3,312 | 3,378 |
| Funding Payments (Town of Gillam & Frontier School Division) | (5,000) | (5,100) | (5,202) | (5,306) | (5,412) | (5,520) |
| Operating Expense Recoveries | | | | 8,300 | 8,466 | 8,635 |
| | (1,940) | (1,979) | (2,018) | 6,241 | 6,366 | 6,493 |
| Total | $ 11,240 | $ 30,910 | $ 34,973 | $ 75,411 | $ 78,318 | $136,603 |

| Section: | Tab 5, [Appendix 5.4 p. 6] | Page No.: | 15 |
|---|---|---|---|
| Topic: | Financial Results and Forecast | | |
| Subtopic: | OM&A Expense | | |
| Issue: | Accounting Changes | | |

**PREAMBLE TO IR (IF ANY):**

At the last GRA MH provided an estimate for the impact of IFRS on operating costs. Included was the impact of removing administrative overhead costs MH stated:

> *MH will discontinue the capitalization of an additional $38 million of general overhead costs annually upon transition to IFRS in 2014/15. The $38 million is comprised primarily of expenditures for training, services and administration, and managerial related charges.*

This year MH states the amount is now $58 million as per the following table:

**Additional Costs Ineligible for Capitalization upon Transition to IFRS**
**Comparison 2014 vs 2012 IFRS Status Update Report**
**(In millions of dollars):**

| | 2014 Rpt | 2012 Rpt | Difference | % Δ |
|---|---|---|---|---|
| Technical and Soft Skills Training | 17 | 11 | 6 | 55% |
| Service Areas (Management accounting, Treasury, HR, Safety, etc) | 13 | 9 | 4 | 44% |
| Administrative & Clerical Support Staff | 13 | 9 | 4 | 44% |
| Division and Department Manager | 14 | 7 | 7 | 100% |
| Fleet & Stores Administration | 1 | 2 | -1 | -50% |
| Total | 58 | 38 | 20 | 53% |

**QUESTION:**

Please explain why administrative overhead costs have grown to $58 million in 2015/16 from $38 million for 2013/14.

**RATIONALE FOR QUESTION:**

Increases in OM&A related to accounting changes impact revenue requirement.

**RESPONSE:**

The increase in overhead costs no longer eligible for capitalization is primarily a result of higher levels of construction activity, resulting in a proportionate allocation of overhead to capital. Historically, approximately 40% of Manitoba Hydro's activities were directed towards the construction of capital assets; however, as Manitoba Hydro is entering a period of extensive capital investment this figure has grown to approximately 45%.

| Section: | Tab 5, [Appendix 5.4 p. 6] | Page No.: | 15 |
|---|---|---|---|
| Topic: | Financial Results and Forecast | | |
| Subtopic: | OM&A Expense | | |
| Issue: | Accounting Changes | | |

**PREAMBLE TO IR (IF ANY):**

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This year MH states the amount is now $58 million as per the following table:

**Additional Costs Ineligible for Capitalization upon Transition to IFRS**
**Comparison 2014 vs 2012 IFRS Status Update Report**
**(In millions of dollars):**

| | 2014 Rpt | 2012 Rpt | Difference | % Δ |
|---|---|---|---|---|
| Technical and Soft Skills Training | 17 | 11 | 6 | 55% |
| Service Areas (Management accounting, Treasury, HR, Safety, etc) | 13 | 9 | 4 | 44% |
| Administrative & Clerical Support Staff | 13 | 9 | 4 | 44% |
| Division and Department Manager | 14 | 7 | 7 | 100% |
| Fleet & Stores Administration | 1 | 2 | -1 | -50% |
| Total | 58 | 38 | 20 | 53% |

**QUESTION:**

Provide an account level analysis for the difference, comparing the accounts that were included in the 2015/16 forecast and 2013/14 estimate and explain the difference.

**RATIONALE FOR QUESTION:**

Increases in OM&A related to accounting changes impact revenue requirement.

**RESPONSE:**

The increase in overhead costs for each category is primarily a result of higher levels of construction activity, resulting in a proportionate allocation of overhead to capital. A description of the activities included in each category is provided below.

Technical & softskills training – technical training includes employee time and related expenses on training for operational skills, trades and apprenticeship programs. Technical and trades training programs develop specific trade skills required to perform maintenance and capital related activities in a safe and reliable manner. The costs associated with such programs include salaries and benefits, course fees, travel, and tools. Training is not considered eligible for capitalization under IFRS as entities are not able to control the benefits associated with such training and such expenditures do not meet the criteria for recognition as an asset. In other words, entities cannot prevent employees from receiving training and then assuming employment with another employer.

Softskill training includes training programs administered by Employee Learning & Development as well as external courses. Such training focuses on supervisory and management skills. Consistent with the analysis related to technical trades training, such costs are not deemed eligible for capitalization as the Corporation cannot control the benefits associated with such costs.

Service areas - include department and staff costs associated with Management Accounting (including financial reporting, budgeting support, financial planning and customer accounting), Human Resources, Corporate Safety and other service departments. These departments perform roles that support many of the organization's capital activities such as:

- Project and CEF budget finalization, including various analytics
- Capital performance reporting
- Employee compensation, labor relations, and payroll administration
- Development of Corporate safety manuals, guidelines and training

This work however, is considered several levels removed from the direct construction activities of specific capital assets and is therefore not considered directly attributable.

Where time is spent in support of a specific capital project, staff in these departments will be required to time card directly to a capital project.

Administrative and clerical support staff - includes employees within a department whose role is to support the staff that are directly "hands to tools" with respect to the maintenance, operations and construction of assets. Examples of duties performed by support staff include time entry, expense processing, human resource management and business planning, as well as other tasks of a general or administrative nature. Other administrative costs would include items such as office expenses (e.g. postage and general office supplies), customer and public relations costs (e.g donations and grants) and advertising. Generally, such costs are not eligible for capitalization as they are too far removed from the development of a specific capital asset. There are, however, instances where support staff costs may be directly attributable to the construction project of a specific asset and are thus, eligible for capitalization in the costs of that project.

Division and department managers - key members of a Business Unit's senior management team provide management of the strategic, financial, capital and human resource assets of the Division. Although they are active in the decision making process and have overall responsibility for the outputs of their divisions and departments, management is not typically involved in the direct management of any given capital project. Thus, such costs are generally not eligible for capitalization. There are instances, however, where senior management directs their activities to specific capital projects for an extended period of time. In such instances, their time would be considered eligible for capitalization in the costs of the specific asset.

Fleet & stores - includes the activities related to the acquisition, maintenance and management of MH's fleet of vehicles and the receiving, storing and issuing of materials and transporting materials to the jobsite. MH's fleet of motor vehicles ranges from cars and vans to bucket trucks and heavy tractor equipment. Fleet vehicles are used in the maintenance, operations, and construction activities of the Corporation. Costs associated with fleet activities include maintenance, fuel, depreciation, and insurance. To the extent that vehicles are used directly for a capital project, such costs are eligible for capitalization. Costs pertaining to fleet vehicles used for maintenance or operational activities are not eligible for capitalization. Fleet management, support and administration costs, including the accounting and IT system that captures all costs for each respective vehicle, are not eligible for capitalization as they are too far removed from the construction of a specific asset.

Approximately 90% of stores issues are for capital projects and thus, many of the activities associated with the stores functions are eligible for capitalization. Similar to Fleet, Stores management and administrative costs are not eligible for capitalization as they are too far removed from the construction of a specific asset.

| Section: | Tab 5, [Appendix 5.4 p. 6] | Page No.: | PUB/MH I-31 (c)/ PUB/MH I-73 (d) & 74 (a) |
|---|---|---|---|
| Topic: | Financial Results and Forecast | | |
| Subtopic: | OM&A Expense | | |
| Issue: | Accounting Changes | | |

**PREAMBLE TO IR (IF ANY):**

At the last GRA, MH had provided a forecast of the impact of IFRS on capitalization of administrative costs at $38 million. The detail of the forecast impact based on IFF11-2 was $37 million in 2016 going to $43 million in 2024, peaking at $49 million in 2029. (PUB/MH I-09 (e) 2012 GRA) MH now forecasts this same group of ineligible administrative overhead costs to be $55 million in 2016 and grow to $60 million in 2024, peaking at $67 million in 2029.

**Additional Costs Ineligible for Capitalization upon Transition to IFRS**
**Comparison 2014 vs 2012 IFRS Status Update Report**
**(In millions of dollars):**

| | 2014 Rpt | 2012 Rpt | Difference | % Δ |
|---|---|---|---|---|
| Technical and Soft Skills Training | 17 | 11 | 6 | 55% |
| Service Areas (Management accounting, Treasury, HR, Safety, etc) | 13 | 9 | 4 | 44% |
| Administrative & Clerical Support Staff | 13 | 9 | 4 | 44% |
| Division and Department Manager | 14 | 7 | 7 | 100% |
| Fleet & Stores Administration | 1 | 2 | -1 | -50% |
| Total | 58 | 38 | 20 | 53% |

**QUESTION:**

a) Please explain why forecast administrative overhead costs that are now being expensed on transition to IFRS have grown to $58 million in 2015/16 from $37 million for that year at the last GRA.

b) Please explain why Technical and Soft Skill Training increased by 55%, Service Areas by 44%, Administrative and Clerical Support Staff by 44%, Division and Dept manager by 100% from what was indicated at the last GRA.

c) Please provide a schedule of all costs incurred related to the administrative overhead costs in the above table for the years 2007/08 through 2014/15 and comment on the changes.

d) Please file any updated working papers prepared internally or by MH's IFRS consultant on administrative overhead costs that are not eligible for capitalization that supports the increases in the test years.

**RATIONALE FOR QUESTION:**

To explore the impact of IFRS on the capitalization of administrative costs.

**RESPONSE:**

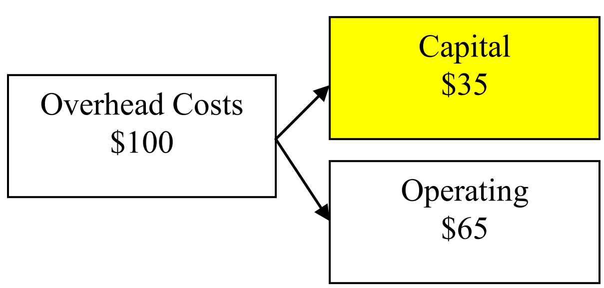
Parts a) & b):

The total overhead costs incurred in each of the categories (i.e. Technical & Softskills Training, Service Areas, Administrative & Clerical Support and Division & Department Managers) have not significantly changed since the last estimate was provided. The $20 million increase in ineligible overhead includes approximately $3 to $4 million attributable to higher wages and salaries as a result of contract settlements. The remainder of the $20 million increase in ineligible overhead is due to a greater proportion of overhead costs being allocated to capital as a result of higher levels of construction activity experienced since the last estimate was provided. The following illustrative example demonstrates how changes in the level of capital activity directly impact the allocation of overhead costs between operating and capital.

<u>Illustrative Example</u>

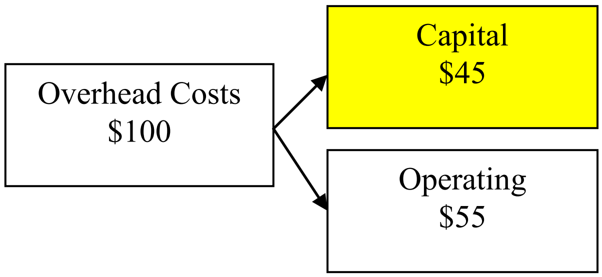
Total Overhead Costs = $100

Staff deployment is 35% to capital construction and 65% to operations and maintenance.



Total Overhead Costs = $100

Staff deployment is 45% to capital construction and 55% to operations and maintenance.




In 2015/16 under IFRS, the costs previously charged to capital are no longer eligible for capitalization and must be expensed. As per the illustrative example above, the $45 of overhead costs charged to capital would be deemed ineligible under IFRS as compared to the $35 originally estimated.

Part c):

In IFF14, Manitoba Hydro has assumed that IFRS is not required until the 2015/16 fiscal year. As such, Manitoba Hydro has not conducted a comprehensive analysis of IFRS changes on a retrospective basis back to 2007/08 for the costs incurred related to the administrative overhead costs in the above table.

Part d):

The following table provides an estimate of the overhead costs and the proportionate allocation to capital and operating. In 2015/16 under IFRS, the $58 million of overhead costs previously charged to capital must be expensed.

| Description of Overhead Costs (in millions of dollars) | Total Overhead Costs | Overhead Capitalized | Overhead Expensed |
|---|---|---|---|
| Technical and Softskills Training | $ 37 | $ 17 | $ 20 |
| Service Areas | 29 | 13 | 16 |
| Administrative & Clerical Support Staff | 28 | 13 | 15 |
| Division and Department Manager | 31 | 14 | 17 |
| Fleet and Stores Administration | 3 | 1 | 2 |
| **Total** | **$ 127** | **$ 58** | **$ 69** |

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## Operating Expenses MFR 3

**EFT staffing level information for the last five fiscal years and that forecast through the test years by business unit.**

Please see the following tables for the EFTs by Business Unit from 2007/08 through 2016/17.

**MANITOBA HYDRO**
**TOTAL EQUIVALENT FULL TIME (EFT) EMPLOYEES**

| (Straight Time & Overtime Combined) | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|
| President & CEO | 44 | 45 | 50 | 52 | 51 | 49 | 43 | 42 | 41 | 40 |
| General Counsel & Corporate Secretary | 36 | 35 | 37 | 38 | 40 | 40 | 44 | 45 | 44 | 42 |
| Human Resources & Corporate Services | 826 | 839 | 839 | 842 | 829 | 822 | 828 | 846 | 814 | 793 |
| Corporate Relations | 86 | 91 | 91 | 90 | 91 | 88 | 86 | 93 | 91 | 91 |
| Finance & Regulatory | 152 | 153 | 159 | 155 | 146 | 149 | 151 | 152 | 145 | 142 |
| Generation Operations | 1 006 | 1 027 | 1 079 | 1 139 | 1 166 | 1 164 | 1 196 | 1 180 | 1 165 | 1 160 |
| Major Capital Projects | 101 | 133 | 159 | 177 | 198 | 225 | 256 | 304 | 419 | 419 |
| Transmission | 1 620 | 1 717 | 1 784 | 1 845 | 1 841 | 1 878 | 1 904 | 1 914 | 1 918 | 1 881 |
| Customer Service & Distribution | 1 666 | 1 700 | 1 706 | 1 735 | 1 734 | 1 760 | 1 737 | 1 764 | 1 750 | 1 737 |
| Customer Care & Energy Conservation | 534 | 536 | 525 | 521 | 512 | 503 | 511 | 524 | 515 | 509 |
| **Total Corporation** | **6 071** | **6 276** | **6 429** | **6 594** | **6 608** | **6 678** | **6 756** | **6 864** | **6 902** | **6 814** |

The table above provides a summary of combined straight time and overtime EFTs for the Corporation.

The table below provides a summary of straight time EFTs by Business Unit from 2007/08 to 2016/17.

**MANITOBA HYDRO**
**STRAIGHT TIME EQUIVALENT FULL TIME (EFT) EMPLOYEES BY BUSINESS UNIT**

| | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|
| President & CEO | 44 | 45 | 50 | 52 | 51 | 49 | 43 | 42 | 41 | 40 |
| General Counsel & Corporate Secretary | 36 | 35 | 37 | 38 | 40 | 40 | 44 | 45 | 44 | 42 |
| Human Resources & Corporate Services | 810 | 823 | 823 | 829 | 815 | 807 | 811 | 829 | 796 | 775 |
| Corporate Relations | 84 | 89 | 88 | 87 | 88 | 86 | 84 | 90 | 88 | 88 |
| Finance & Regulatory | 152 | 153 | 159 | 155 | 146 | 149 | 151 | 152 | 145 | 142 |
| Generation Operations | 918 | 934 | 976 | 1,039 | 1,061 | 1,067 | 1,096 | 1,086 | 1,074 | 1,070 |
| Major Capital Projects | 95 | 121 | 145 | 160 | 180 | 201 | 219 | 256 | 320 | 320 |
| Transmission | 1,498 | 1,586 | 1,646 | 1,702 | 1,704 | 1,741 | 1,762 | 1,771 | 1,779 | 1,742 |
| Customer Service & Distribution | 1,578 | 1,615 | 1,633 | 1,664 | 1,654 | 1,654 | 1,654 | 1,681 | 1,667 | 1,654 |
| Customer Care & Energy Conservation | 532 | 534 | 523 | 520 | 511 | 502 | 510 | 523 | 514 | 508 |
| **Total Corporation** | **5,747** | **5,935** | **6,080** | **6,246** | **6,250** | **6,296** | **6,374** | **6,475** | **6,468** | **6,381** |

The table below provides a summary of overtime EFTs by Business Unit from 2007/08 to 2016/17.

**MANITOBA HYDRO**
**OVERTIME EQUIVALENT FULL TIME EMPLOYEES (EFT) BY BUSINESS UNIT**

| | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|
| President & CEO | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| General Counsel & Corporate Secretary | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Resources & Corporate Services | 16 | 16 | 16 | 13 | 14 | 15 | 17 | 17 | 18 | 18 |
| Corporate Relations | 2 | 2 | 3 | 3 | 3 | 2 | 2 | 3 | 3 | 3 |
| Finance & Regulatory | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Generation Operations | 88 | 93 | 103 | 100 | 105 | 97 | 100 | 94 | 91 | 90 |
| Major Capital Projects | 6 | 12 | 14 | 17 | 18 | 24 | 37 | 48 | 99 | 99 |
| Transmission | 122 | 131 | 138 | 143 | 137 | 137 | 142 | 143 | 139 | 139 |
| Customer Service & Distribution | 88 | 85 | 73 | 71 | 80 | 106 | 83 | 83 | 83 | 83 |
| Customer Care & Energy Conservation | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| **Total Corporation** | **324** | **341** | **349** | **348** | **358** | **382** | **382** | **389** | **434** | **433** |

| Section: | Tab 5: Appendix 5.5 | Page No.: | 7-10 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Wages and labour | | |
| Issue: | Staffing Levels | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Provide a description of how MH defines an EFT.

**RATIONALE FOR QUESTION:**

Wages and benefits including overtime is a component of OM&A expenses

**RESPONSE:**

An EFT represents the equivalent of an employee working full-time hours of 73.7 hours bi-weekly or 1,921 hours per year.

| Section: | Tab 5: Appendix 5.5 | Page No.: | 7-10 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Wages and labour | | |
| Issue: | Staffing Levels | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide the relative payroll and benefits, including overtime associated with each of the years in (b)

**RATIONALE FOR QUESTION:**

Wages and benefits including overtime is a component of OM&A expenses

**RESPONSE:**

As discussed in PUB/MH-I-32(b), of this question, Manitoba Hydro implemented system changes beginning in 2012/13 to align Manitoba Hydro's capitalization practices with industry standards and to support Manitoba Hydro's transition to IFRS. As a result of these changes, payroll and benefit information requested can only be provided in the new format beginning in the 2012/13 fiscal year and is shown below:

**MANITOBA HYDRO**
**WAGES, OVERTIME AND BENEFITS**

| | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|
| (Straight Time & Overtime Combined) | | | | | 000s |
| Capital Construction | 215,491 | 234,510 | 256,588 | 282,335 | 287,969 |
| Operations & Maintenance | 281,335 | 296,535 | 296,332 | 298,831 | 308,331 |
| Governance, Support & Services | 161,257 | 168,925 | 172,073 | 170,357 | 169,809 |
| **Total Corporation** | **658,082** | **699,970** | **724,993** | **751,523** | **766,109** |

The breakdown of payroll and benefits, including overtime, for total EFTs from 2007/08 to 2016/17 is as follows:

**MANITOBA HYDRO**
**WAGES, OVERTIME AND BENEFITS**

**000s**

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|---|---|---|---|---|
| (Straight Time & Overtime Combined) | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Forecast | Forecast | Forecast |
| Wages & Salaries | 359,249 | 380,031 | 407,988 | 425,158 | 451,925 | 466,165 | 480,511 | 502,692 | 524,552 | 533,997 |
| Overtime | 41,781 | 45,890 | 50,307 | 50,704 | 54,987 | 61,031 | 62,365 | 61,709 | 71,080 | 73,121 |
| Benefits | 76,807 | 83,671 | 82,674 | 95,376 | 104,444 | 130,886 | 157,094 | 160,592 | 155,892 | 158,992 |
| Total Labour & Benefits | 477,838 | 509,592 | 540,968 | 571,238 | 611,356 | 658,082 | 699,970 | 724,993 | 751,523 | 766,109 |
| Less: Labour & Benefits Charged to Capital | | | | | | (215,491) | (234,510) | (256,588) | (282,335) | (287,969) |
| **Labour & Benefits Charged to Operations** | | | | | | **442,591** | **465,460** | **468,405** | **469,188** | **478,140** |

As indicated above, Labour & Benefits Charged to Capital can only be provided for 2012/13 and on due to system changes implemented in that year.

| Section: | Tab 5: Appendix 5.5 | Page No.: | 7-10 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Wages and labour | | |
| Issue: | Staffing Levels | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide a schedule for the data in (b) with two additional columns, one providing the Compound Annual Growth Rate for 2007/08 to 2013/14 and another that forecasts the Compound Annual Growth Rate 2013/14 through 2016/17

**RATIONALE FOR QUESTION:**

Wages and benefits including overtime is a component of OM&A expenses

**RESPONSE:**

As outlined in part (b) of this question, Manitoba Hydro implemented system changes beginning in 2012/13 to align Manitoba Hydro's capitalization practices with industry standards and to support Manitoba Hydro's transition to IFRS. As a result of these changes, the data requested can only be provided in the new format beginning in the 2012/13 fiscal year.

The tables below provide the compounded annual growth rate from 2013/14 to 2016/17 in the new format as well as the growth rate for total EFTs from 2007/08 to 2013/14.

As indicated, the compounded annual growth over the four years (2013/14 to 2016/17) shows an increase of 5.4% for Capital Construction EFTs and a decrease in both Operations & Maintenance and Governance, Support and Services EFTs. In addition, the growth for total EFTs over the period 2007/08 to 2013/14 is below 2%.

**MANITOBA HYDRO**
**STRAIGHT TIME & OVERTIME EFT'S**

| | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | Compounded Annual Growth |
|---|---|---|---|---|---|
| Capital Construction | 2,204 | 2,362 | 2,568 | 2,580 | 5.4% |
| Operations & Maintenance | 2,908 | 2,855 | 2,765 | 2,733 | -2.0% |
| Governance, Support & Services | 1,644 | 1,647 | 1,569 | 1,501 | -3.0% |
| **Total Corporation** | **6,756** | **6,864** | **6,902** | **6,814** | **0.3%** |

**MANITOBA HYDRO**
**STRAIGHT TIME & OVERTIME EFT'S**

| | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | Compounded Annual Growth |
|---|---|---|---|---|---|---|---|---|
| **Total Corporation** | **6,071** | **6,276** | **6,429** | **6,594** | **6,608** | **6,678** | **6,756** | **1.8%** |

**Operating Expenses MFR 4**

**Schedule which indicates the salary, wages and benefits as a percentage of OM&A, percentage of domestic revenue, and salary wages and benefits capitalized for each of the years 2003/04 through the test years. This analysis should include the total labour and benefits capitalized for each year, total labour and benefits and the percentage of labour and benefits capitalized in a similar level of detail of PUB/MH l-5(c) R & PUB/MH 11-2 from the 2010 GRA.**

Please see the following tables which provide information for each of the years 2003/04 through 2016/17.

i) Salaries, wages, overtime & benefits charged to operations as a percentage of total costs;

ii) Salaries, wages, overtime and benefits charged to operations as a percentage of domestic revenue;

iii) Salary and benefit costs capitalized.

i & ii) Salaries, wages, overtime & benefits charged to operations as a percentage of total costs and as a percentage of domestic revenue:

As discussed in Appendix 5.5, wages & salaries, overtime and employee benefits are associated with providing a pool of resources required for the operation, maintenance and capital construction activities of the Corporation. These costs are allocated to operations, maintenance and capital construction through the use of an hourly activity rate charged through the corporate time allocation system.

**MANITOBA HYDRO**
**WAGES & SALARIES, OVERTIME & EMPLOYEE BENEFITS SCHEDULE**
(in thousands of $)

| | 2003/04 Actual | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Wages & Salaries, Overtime, Employee Benefits Charged To Operations** | $286 872 | $304 796 | $312 629 | $324 489 | $333 584 | $355 711 | $373 084 | $388 580 | $409 867 | $442 591 | $465 460 | $468 405 | $469 188 | $478 140 |
| **Total Costs (before capitalization)** | $542 660 | $569 749 | $596 229 | $615 849 | $638 594 | $687 149 | $722 951 | $748 471 | $787 156 | $841 225 | $887 987 | $924 766 | $949 991 | $967 104 |
| **Wages & Salaries, Overtime, Employee Benefits Charged to Operations as a percentage of Total Costs** | 53% | 53% | 52% | 53% | 52% | 52% | 52% | 52% | 52% | 53% | 52% | 51% | 49% | 49% |
| **Domestic Revenue (GCR)** | $918 231 | $938 954 | $983 653 | $1 023 613 | $1 074 581 | $1 126 812 | $1 144 891 | $1 200 381 | $1 192 797 | $1 341 011 | $1 405 301 | $1 406 745 | $1 479 405 | $1 544 112 |
| **Wages & Salaries, Overtime, Employee Benefits Charged to Operations as a percentage of Domestic Revenue** | 31% | 32% | 32% | 32% | 31% | 32% | 33% | 32% | 34% | 33% | 33% | 33% | 32% | 31% |

iii) Salary and benefit costs capitalized:

Activity charges form the basis for cost allocation to capital projects. Activity rates are comprised of a number of costs including salaries, wages and benefits, meals & accommodations, transportation costs, motor vehicle charges etc. The following provides an estimated amount of wages & salaries, overtime and employee benefits capitalized through activity charges.

**MANITOBA HYDRO**
**CAPITALIZED WAGES & SALARIES, OVERTIME, EMPLOYEE BENEFITS**
(in thousands of $)

| | 2003/04 Actual | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Wages & Salaries, Overtime, Employee Benefits** | $398,449 | $423,093 | $440,473 | $457,233 | $477,838 | $509,592 | $541,307 | $571,238 | $611,356 | $658,082 | $699,970 | $724,993 | $751,523 | $766,109 |
| **Capitalized Wages & Salaries, Overtime, Employee Benefits** | ($111,577) | ($118,297) | ($127,844) | ($132,744) | ($144,253) | ($153,881) | ($168,223) | ($182,659) | ($201,489) | ($215,491) | ($234,510) | ($256,588) | ($282,335) | ($287,969) |
| **Capitalized Wages & Salaries, Overtime, Employee Benefits as a percentage of Total Wages & Salaries, Overtime, Employee Benefits** | 28% | 28% | 29% | 29% | 30% | 30% | 31% | 32% | 33% | 33% | 34% | 35% | 38% | 38% |

Note: Excludes capitalization through overhead.

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| Section: | Tab 5: Appendix 5.5, Figures 5.5.8 & 5.5.10<br>2012/13 & 2013/14 GRA, Appendix 5.6 | Page No.: | 10 & 12<br><br>12 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Operating, Maintenance and Administrative | | |
| Issue: | Detailed ETF Forecast versus Actuals | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide a schedule that compares the forecast ETFs by Business Unit as filed in the previous GRA for 2012/13 and 2013/14 (Appendix 5.6) with the actual ETFs reported in the current Application. Please explain any variances of more than 5%.

**RATIONALE FOR QUESTION:**

Compare the actual ETFs by Business Unit reported for 2012/13 & 2013/14 with the forecast values that were reviewed and tested in the previous GRA. It is distinct from PUB/MH 1-30 to 1-32.

**RESPONSE:**

Total EFTs (straight time and overtime) are lower than forecast by 164 in 2012/13 and 86 in 2013/14 primarily as a result of Manitoba Hydro's continuing efforts to control costs. The attached table provides a comparison of total EFTs to forecast by business unit.

Variances greater than 5% and 5 EFTs have been explained.

MANITOBA HYDRO
EQUIVALENT FULL TIME EMPLOYEES - ANNUAL RESULTS BY BUSINESS UNIT

| | 2012/13 Actual | 2012/13 Forecast | Increase/ (Decrease) | % | Notes | 2013/14 Actual | 2013/14 Forecast | 2013/14 Variance | Increase/ (Decrease) | Notes |
|---|---|---|---|---|---|---|---|---|---|---|
| President & CEO | 50 | 52 | (1) | -3% | | 43 | 52 | (9) | -17% | 2 |
| General Counsel & Corporate Secretary | 39 | 41 | (1) | -4% | | 44 | 41 | 3 | 8% | |
| Human Resources & Corporate Services | 822 | 847 | (24) | -3% | | 828 | 847 | (19) | -2% | |
| Corporate Relations | 89 | 94 | (4) | -5% | | 86 | 94 | (8) | -8% | 3 |
| Finance & Regulatory | 149 | 147 | 1 | 1% | | 151 | 147 | 3 | 2% | |
| Generation Operations | 1,163 | 1,200 | (37) | -3% | | 1,196 | 1,200 | (4) | 0% | |
| Major Capital Projects | 225 | 252 | (27) | -11% | 1 | 257 | 252 | 4 | 2% | |
| Transmission | 1,876 | 1,905 | (29) | -2% | | 1,904 | 1,905 | (1) | 0% | |
| Customer Service & Distribution | 1,760 | 1,776 | (16) | -1% | | 1,737 | 1,776 | (39) | -2% | |
| Customer Care & Energy Conservation | 503 | 528 | (25) | -5% | | 510 | 528 | (17) | -3% | |
| **Total** | **6,678** | **6,842** | **(164)** | **-2%** | | **6,756** | **6,842** | **(86)** | **-1%** | |

1) Major Capital Projects – Lower EFTs primarily due to vacant positions not yet filled for projects such as Keeyask Generating Station, Bipole III Converter Stations and Conawapa Generating Station.

2) President & CEO – Lower EFTs due to staff transfers to Human Resources & Corporate Services, General Counsel & Corporate Secretary and Corporate Relations.

3) Corporate Relations – Lower EFTs as a result of cost containment reductions primarily in support functions, partially offset by staff transfers from President & CEO.

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| Section: | Tab 5 | Page No.: | 16, 17 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | OM&A Expense | | |
| Issue: | Wages and Salaries | | |

**PREAMBLE TO IR (IF ANY):**

At the last GRA, MH was forecasting labor and benefits including overtime of $642.5 million for 2012/13 and $655.4 million for 2013/14.

**QUESTION:**

Please provide a detailed comparison of the wages and salaries, overtime and benefits forecast at last GRA for the years 2012/13 through 2016/17 and explain the variances.

**RATIONALE FOR QUESTION:**

OM&A costs are included in revenue requirement.

**RESPONSE:**

The following table provides a comparison of wages and salaries, overtime and benefits forecasted in IFF12 (as filed at the last GRA) against actual results for the years 2012/13 and 2013/14.

MANITOBA HYDRO
WAGES & SALARIES, OVERTIME AND BENEFITS

| | 2012/13 Actual | 2012/13 Forecast | 2012/13 Variance | % | 2013/14 Actual | 2013/14 Forecast | 2013/14 Variance | % |
|---|---|---|---|---|---|---|---|---|
| Wages & Salaries | $ 466,165 | $ 476,570 | $ 10,404 | 2% | $ 480,511 | $ 486,101 | $ 5,590 | 1% |
| Overtime | 61,031 | 56,005 | (5,025) | -9% | 62,365 | 57,126 | (5,239) | -9% |
| Employee Benefits | 130,886 | 117,264 | (13,622) | -12% | 157,094 | 126,002 | (31,092) | -25% |
| **Total** | **$ 658,082** | **$ 649,839** | **$ (8,243)** | **-18%** | **$ 699,970** | **$ 669,229** | **$ (30,742)** | **-33%** |

Wages & salaries are below forecast in both 2012/13 and 2013/14 as a result of the Corporation's continuing efforts to control costs. These reductions have been offset primarily by the impacts of changes in the discount rate on pension and other benefits.

Higher overtime costs in 2012/13 were required to address storm restoration work. The additional overtime in 2013/14 was related to increased capital construction requirements primarily for Bipole III, Pointe du Bois Spillway and NFAT activities and to provide assistance following the Trans Canada Pipeline explosion and Toronto Hydro storm. The additional overtime costs for both the Trans Canada Pipeline explosion and Toronto storm were offset in Operating Expense Recoveries.

A comparison of overall OM&A costs between IFF12 and IFF14 for 2014/15 through 2016/17 is provided in Coalition/MH I-14e. Detailed forecasts providing wage and salary, overtime and benefit costs were only prepared for the 2012/13 and 2013/14 test years at the last GRA.

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| Section: | Tab 5: Appendix 5.5 | Page No.: | Appendix 11.26 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | EFT Metrics | | |
| Issue: | Changes in EFT's | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

a) Please update Appendix 11.26 to include EFTs per 10,000 domestic customers.

b) Please file an updated metric analysis of Appendix 11.26 based on (a) including total EFTs (ST & OT).

c) Please file an updated metric analysis based on (b) excluding employees allocated to construction. For 2007/08 to 2011/12, use the EFT's allocated to Capital (ST & OT) presented at the 2012 GRA.

**RATIONALE FOR QUESTION:**

To assess EFT levels.

**RESPONSE:**

Please see the following table for the EFT information requested in parts a, b and c. Please note that the capital EFT information for 2012/13 to 2016/17 is not comparable to the capital EFT information for prior years as the methodology for calculating capital EFTs has changed and cannot be restated. The calculation of the capital EFTs for the years 2007/08 through 2011/12 includes an estimate of the Governance, Support and Services EFTs that were capitalized through overheads.

| Data Table | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| EFTs (ST & OT) | 6 071 | 6 276 | 6 429 | 6 594 | 6 608 | 6 678 | 6 756 | 6 864 | 6 902 | 6 814 |
| EFTs (ST) | 5 747 | 5 935 | 6 080 | 6 246 | 6 250 | 6 296 | 6 374 | 6 475 | 6 468 | 6 381 |
| Capital EFTs (ST & OT)* | 2 369 | 2 397 | 2 479 | 2 566 | 2 678 | 2 081 | 2 204 | 2 362 | 2 568 | 2 580 |
| Governance Support and Service EFTs (ST & OT) | - | - | - | - | - | 1 651 | 1 644 | 1 647 | 1 569 | 1 501 |
| Operating EFTs (ST & OT)* | 3 702 | 3 879 | 3 950 | 4 028 | 3 930 | 2 946 | 2 908 | 2 855 | 2 765 | 2 733 |
| GWh of domestic Supply | 23 985 | 24 285 | 23 295 | 23 783 | 23 499 | 24 642 | 25 510 | 25 178 | 25 610 | 25 766 |
| GWh of total Supply | 35 354 | 34 528 | 33 961 | 34 102 | 33 235 | 33 230 | 35 392 | 35 217 | 34 538 | 31 443 |
| Electric Customers | 521 599 | 527 472 | 532 359 | 537 299 | 542 681 | 548 774 | 555 760 | 561 825 | 568 443 | 575 648 |
| Domestic revenue (in millions) | 1 075 | 1 127 | 1 145 | 1 200 | 1 193 | 1 341 | 1 405 | 1 407 | 1 479 | 1 544 |

*2007/08 to 2011/12 EFTs include a portion of Governance Support and Services EFTs.

Part a

| Information Requested - Straight Time | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| EFTs - ST | 5 747 | 5 935 | 6 080 | 6 246 | 6 250 | 6 296 | 6 374 | 6 475 | 6 468 | 6 381 |
| EFT per 1000 GWh of domestic supply | 239.62 | 244.41 | 260.99 | 262.63 | 265.95 | 255.50 | 249.86 | 257.17 | 252.56 | 247.65 |
| EFT per 1000 GWh of total supply | 162.56 | 171.90 | 179.02 | 183.16 | 188.04 | 189.47 | 180.10 | 183.86 | 187.27 | 202.94 |
| EFT per 10,000 domestic customers | 110.19 | 112.53 | 114.20 | 116.25 | 115.16 | 114.73 | 114.69 | 115.25 | 113.78 | 110.85 |
| EFT per $ millions of domestic revenue | 5.35 | 5.27 | 5.31 | 5.20 | 5.24 | 4.69 | 4.54 | 4.60 | 4.37 | 4.13 |

Part b

| Information Requested - Straight Time & Overtime | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| EFTs - ST & OT | 6 071 | 6 276 | 6 429 | 6 594 | 6 608 | 6 678 | 6 756 | 6 864 | 6 902 | 6 814 |
| EFT per 1000 GWh of domestic supply | 253.12 | 258.43 | 275.98 | 277.26 | 281.20 | 271.00 | 264.84 | 272.62 | 269.50 | 264.46 |
| EFT per 1000 GWh of total supply | 171.72 | 181.77 | 189.31 | 193.36 | 198.83 | 200.96 | 190.89 | 194.91 | 199.84 | 216.71 |
| EFT per 10,000 domestic customers | 116.39 | 118.98 | 120.76 | 122.72 | 121.77 | 121.69 | 121.56 | 122.17 | 121.42 | 118.37 |
| EFT per $ millions of domestic revenue | 5.65 | 5.57 | 5.62 | 5.49 | 5.54 | 4.98 | 4.81 | 4.88 | 4.67 | 4.41 |

Part c

| Information Requested - Operational & Governance, Support and Service EFTs (Straight Time & Overtime) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| EFTs - ST & OT** | 3 702 | 3 879 | 3 950 | 4 028 | 3 930 | 4 597 | 4 552 | 4 502 | 4 334 | 4 234 |
| EFT per 1000 GWh of domestic supply | 154.34 | 159.73 | 169.55 | 169.38 | 167.24 | 186.55 | 178.44 | 178.81 | 169.23 | 164.33 |
| EFT per 1000 GWh of total supply | 104.71 | 112.35 | 116.30 | 118.13 | 118.25 | 138.34 | 82.17 | 81.07 | 80.06 | 86.92 |
| EFT per 10,000 domestic customers | 70.97 | 73.54 | 74.19 | 74.98 | 72.42 | 83.77 | 52.32 | 50.82 | 48.64 | 47.48 |
| EFT per $ millions of domestic revenue | 3.44 | 3.44 | 3.45 | 3.36 | 3.29 | 3.43 | 2.07 | 2.03 | 1.87 | 1.77 |

** 'EFTs - ST & OT' for 2012/13 to 2016/17 includes Operating EFTs (ST & OT) & Governance Support and Services EFTs (ST & OT). This is not comparable to the 2007/08 to 2012/13 'EFTs (ST & OT)' as only a portion of the Governance Support and Services EFTs is included in the 'Operating EFTs (ST & OT)' with the balance included in the 'Capital EFTs (ST & OT)'.

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The following figure provides a summary of the committed position reductions by Business Unit.

**Figure 5.5.3 Operational Position Reductions**

| | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|
| President & CEO | 2 | 2 | 2 |
| General Counsel & Corporate Secretary | 1 | 1 | 1 |
| Human Resources & Corporate Services | 33 | 27 | 21 |
| Corporate Relations | 3 | 2 | 1 |
| Finance & Regulatory | 4 | 3 | 3 |
| Generation Operations | 9 | 12 | 6 |
| Major Capital Projects | 1 | 1 | - |
| Transmission | 30 | 18 | 42 |
| Customer Service & Distribution | 46 | 19 | 13 |
| Customer Care & Energy Conservation | 16 | 6 | 5 |
| **Annual Commitment** | **146** | **91** | **91** |
| **Cumulative Commitment** | **146** | **237** | **328** |

Tab 5, Section 5.14 provides further discussion on some of the key initiatives being deployed by the Corporation in order to effectively manage its costs.

The 1.0% increase in OM&A has been achieved despite significant cost pressures primarily as a result of higher wages and salaries due to contract settlements greater than inflation and the impacts of merit and progression. A fair and competitive wage is necessary for attraction and retention purposes, to recognize the specialized education and training that several occupational groups are required to possess, and it also takes into account the challenging work conditions experienced by many employees in a customer service driven electric and natural gas utility environment (e.g. weather conditions, emergency response, confined spaces, etc).

The following figure outlines the contracted wage settlements in effect over the 5 year period.

**Figure 5.5.4 Contracted Wage Settlements**

| Union | Effective Date | Contracted Wage Settlement |
|---|---|---|
| IBEW [1] | April 1, 2012 | 2.00% |
| All | January 1, 2013 | 0.00% |
| AMHSEE [2] | September 12, 2013 | 3.00% |
| All | January 1, 2014 | 2.75% |
| All | January 1, 2015 | 2.75% |
| Unifor/CEPU/ AMHSEE | January 1, 2016 | 2.50% |

[1] 2% market adjustment for identified trade classifications in IBEW.

[2] 3% market adjustment for identified AMHSEE Trade Supervisors.

In addition to contracted wage settlements, employees are also entitled to receive either merit based on performance or salary progression through the pay schedules assigned to job classifications. Merit and progression combined with contracted wage settlements has resulted in an overall wage increase of 3 to 4% annually.

## 2.0 OM&A FORECAST PROCESS

Manitoba Hydro establishes an overall forecast for its OM&A expenses by taking into consideration the following factors:

- Costs of providing ongoing services;
- Special or non-recurring maintenance projects;
- Current and expected economic conditions;
- Changing business requirements; and
- Accounting changes and other significant items.

The overall forecast is apportioned to each of the business units and to the electric and gas operations based on current staffing levels, cost requirements that consider specific business, economic and other factors, and the implementation of cost containment

| | | | |
|---|---|---|---|
| **Section:** | Tab 5: Section5.14 | **Page No.:** | 45 |
| **Topic:** | Financial Results and Forecast | | |
| **Subtopic:** | OM&A Expenditures | | |
| **Issue:** | Cost Containment Initiatives | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide a table indicating the annual savings MH is forecasting from each of its cost containment initiatives.

**RATIONALE FOR QUESTION:**

The effectiveness of cost containment measures impacts revenue requirement.

**RESPONSE:**

Section 5.14 identifies significant initiatives that are intended to result in direct cost reductions, cost avoidance and future savings for both operating and capital expenditures in order to maintain the proposed 3.95% rate increases. In addition to these initiatives, the Corporation continually pursues productivity efficiencies and process improvements.

The impact of these measures is in Manitoba Hydro's ability to hold the average annual OM&A increase to 1% over the 2014/15 to 2021/22 forecast period (excluding accounting changes and increases associated with new major generation and transmission projects coming into service).

The majority of Manitoba Hydro's operating costs are salaries, overtime and benefits and as such, in order to achieve a 1% average annual increase reductions in staffing levels are required. Manitoba Hydro's response to PUB/MH-I-70b provides the estimated annual and cumulative savings associated with the reduction of operational positions.

Expected savings from other cost containment initiatives that seek to streamline processes through the use of technology or other measures are not easily quantifiable.

| Section: | Tab 5: Section5.14 | Page No.: | 45 |
|---|---|---|---|
| Topic: | Financial Results and Forecast | | |
| Subtopic: | OM&A Expenditures | | |
| Issue: | Cost Containment Initiatives | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide the supporting calculations around the estimated savings due to targeted attrition.

**RATIONALE FOR QUESTION:**

The effectiveness of cost containment measures impacts revenue requirement.

**RESPONSE:**

Please see the following table which demonstrates the operational position reductions and the annual and cumulative savings. The annual savings assumes the position reductions will be realized throughout each year. The cumulative savings will be fully realized in 2017/18.

| | 2014/15 | 2015/16 | 2016/17 | Cumulative |
|---|---|---|---|---|
| President & CEO | 2 | 2 | 2 | 6 |
| General Counsel & Corporate Secretary | 1 | 1 | 1 | 3 |
| Human Resources & Corporate Services | 33 | 27 | 21 | 81 |
| Corporate Relations | 3 | 2 | 1 | 6 |
| Finance & Regulatory | 4 | 3 | 3 | 10 |
| Generation Operations | 9 | 12 | 6 | 28 |
| Major Capital Projects | 1 | 1 | - | 2 |
| Transmission | 30 | 18 | 42 | 90 |
| Customer Service & Distribution | 46 | 19 | 13 | 78 |
| Customer Care & Energy Conservation | 16 | 6 | 5 | 27 |
| Annual Commitment | 146 | 91 | 94 | 331 |

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|
| Annual Savings (000 000s) | $ 7.3 | $ 12.3 | $ 10.0 | $ 5.1 |
| Cumulattive Annual Savings (000 000s) | 7.3 | 19.3 | 29.7 | 35.8 |

| Section: | Tab 5: Section5.14 | Page No.: | PUB/MH I-70b/ Appendix11.23 |
|---|---|---|---|
| Topic: | Financial Results and Forecast | | |
| Subtopic: | OM&A Expenditures | | |
| Issue: | Cost Containment Initiatives | | |

**PREAMBLE TO IR (IF ANY):**

The total straight time EFTs in 2013/14 is 6,375 and is forecast to grow to 6,381 in 2016/17, an increase of 7 positions. MH has provided a schedule in PUB/MH I-70b that shows a commitment to reduce EFT by business units by 331 over the three-year period. Overtime EFTs grow by 51 EFT over the same three-year period. It is not clear on how the committed savings are reflected in the forecast staffing levels.

**QUESTION:**

Please update the response to PUB/MH I-70(b) to include actual 2013/14 total staffing per Appendix 11.23 and provide a continuity schedule of the proposed changes in staffing levels by business unit in each of the years through 2016/17 to reconcile with the reported EFTs in PUB/MH I-70b.

**RATIONALE FOR QUESTION:**

To explore cost containment through staffing levels.

**RESPONSE:**

As outlined in the response to PUB/MH-I-70b, Manitoba Hydro has committed to reduce 331 operational positions or equivalent cost reductions over the three-year period from 2014/15 to 2016/17. The timing of the position reductions will be realized throughout each year and therefore, will not equate to a full EFT until the position has been removed for a full year. As a result, the full EFT reduction and associated cumulative savings will not be fully realized until 2017/18.

As shown in the table below, a reduction of 292 EFTs (159 +133) in Operations & Maintenance and Governance, Support & Services EFTs is projected from 2013/14 to 2016/17. The costs associated with Capital Construction EFTs are reflected in the asset base and not in the revenue requirement until the asset is in-service.

**MANITOBA HYDRO**
**STRAIGHT TIME EQUIVALENT FULL TIME (EFT) EMPLOYEES**

| | 2013/14 Actual | 2016/17 Forecast | Change Inc/(Dec) |
|---|---|---|---|
| Capital Construction | 2,058 | 2,357 | 299 |
| Operations & Maintenance | 2,734 | 2,575 | (159) |
| Governance, Support & Services | 1,582 | 1,449 | (133) |
| **Total Corporation** | 6,374 | 6,381 | 7 |

Manitoba Hydro is unable to provide a continuity schedule between PUB/MH-I-70b and Appendix 11.23 as EFTs and positions are not comparable.

| | | | |
|---|---|---|---|
| **Section:** | Tab 5: Appendix 5.5<br>Tab 11: Appendix 11.25 | **Page No.:** | 4<br>2 |
| **Topic:** | Financial Results & Forecasts | | |
| **Subtopic:** | Operating, Maintenance and Administrative | | |
| **Issue:** | Increases in Average Salary/ETF | | |

**PREAMBLE TO IR (IF ANY):**

Appendix 5.5 (page 4) states that overall wage increases are 3%-4% per annum.

**QUESTION:**

Please identity those Divisions where the average salary per EFT increases by more than 4%/annum over the period 2013/14 to 2016/17. For each such Business Unit, please provide an explanation as to why this is the case.

**RATIONALE FOR QUESTION:**

To understand the reasons for average salary per ETF increases greater then the Corporate norm.

**RESPONSE:**

The table below provides the average annual increase in the average salary per EFT by Business Unit.

MANITOBA HYDRO
AVERAGE SALARY PER EFT BY BUSINESS UNIT

| | 2013/14 Actual | 2014/15 Forecast | 2015/16 Forecast | 2016/17 Forecast | Average Annual Increase |
|---|---|---|---|---|---|
| President & CEO | $ 111,813 | $ 125,551 | $ 130,486 | $ 136,832 | 7% |
| General Counsel & Corporate Secretary | 98,168 | 99,831 | 103,648 | 107,519 | 3% |
| Human Resources & Corporate Services | 76,494 | 77,821 | 81,325 | 83,566 | 3% |
| Corporate Relations | 77,631 | 80,351 | 83,756 | 86,462 | 4% |
| Finance & Regulatory | 84,740 | 88,040 | 92,309 | 94,532 | 4% |
| Generation Operations | 80,225 | 82,803 | 86,391 | 88,512 | 3% |
| Major Capital Projects | 81,845 | 84,562 | 85,293 | 88,000 | 3% |
| Transmission | 75,710 | 77,961 | 82,006 | 85,110 | 4% |
| Customer Services & Distribution | 67,499 | 69,994 | 72,886 | 75,381 | 4% |
| Customer Care & Energy Conservation | 69,291 | 71,681 | 74,608 | 76,461 | 3% |
| **Business Unit Total** | **$ 74,791** | **$ 77,168** | **$ 80,585** | **$ 83,129** | **4%** |

The President & CEO business unit is relatively small and includes a large component of executives, affecting the average salary differently than other areas of the corporation because of the design of their performance based salary administration program. Manitoba Hydro is embarking on a decade of unprecedented change and financial investment in new generation capacity and infrastructure. The ability to attract and retain key talent in a highly specialized industry that is facing increased competition for resources is integral to the success of the Corporation in managing this change. As such, the Manitoba Hydro Electric Board approved performance based, salary market adjustments for Manitoba Hydro's executives in order to improve its competitive executive compensation positioning among large Manitoba companies and utilities across the country.

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| Section: | Tab 5: 5.4 Cost Savings Initiatives | Page No.: | 45 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Cost Savings Initiatives | | |
| Issue: | Impact of Policy Changes Since 2008 | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please file an update to PUB/MH I-44 a,b,c,d,e. [2010-03-25] and in the case of part (a) and (b) add to the historical years included in the response.

**RATIONALE FOR QUESTION:**

MH is targeted staffing reductions.

**RESPONSE:**

Please find attached an update to Manitoba Hydro's response to PUB/MH I-44 a), b), c) and d) from the 2010 GRA, which was revised in PUB/MH I-77aR.

<u>PUB/MH I-44a (PUB/MH I-77aR)</u>

Every termination is classified into one of 14 termination codes. The termination codes are grouped into five broad termination types: retirement, resignation, health-related, involuntary termination, and job completion. For the years 2005 through 2011, resignation terminations are as follows (all numbers reported in this section exclude students and term employees):

| Termination code | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Resignation codes | | | | | | | | | | | |
| Another job | 17 | 18 | 31 | 30 | 9 | 20 | 31 | 32 | 33 | 50 | 271 |
| Leaving province/Work locale | 14 | 12 | 17 | 11 | 5 | 9 | 9 | 4 | 10 | 12 | 103 |
| Leaving work force | 0 | 2 | 2 | 3 | 8 | 6 | 1 | 3 | 3 | 4 | 32 |
| Personal/No reason given | 11 | 15 | 15 | 18 | 19 | 19 | 14 | 14 | 16 | 25 | 166 |
| Returning to school | 2 | 0 | 1 | 1 | 5 | 3 | 8 | 1 | 5 | 0 | 26 |
| Resignation sub-total | 44 | 47 | 66 | 63 | 46 | 57 | 63 | 54 | 67 | 91 | 598 |
| | | | | | | | | | | | |
| Retirement | 118 | 127 | 168 | 138 | 141 | 146 | 182 | 144 | 150 | 166 | 1480 |
| Health-related | 12 | 13 | 17 | 16 | 17 | 21 | 10 | 19 | 10 | 10 | 145 |
| Involuntary termination | 8 | 8 | 14 | 7 | 7 | 8 | 7 | 4 | 11 | 8 | 82 |
| Job completed | 2 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 2 | 3 | 8 |
| Total | 184 | 195 | 265 | 224 | 211 | 233 | 262 | 221 | 240 | 278 | 2313 |

## PUB/MH I-44b (PUB/MH I-77b)

| Calendar year | Permanent active workforce at start of year | Actual retirements | Retirement rate | Number eligible in current year | Number becoming eligible in forecast year | Predicted number of retirements |
|---|---|---|---|---|---|---|
| 2010 | 5783 | 146 | 2.5% | | | |
| 2011 | 5909 | 182 | 3.1% | | | |
| 2012 | 5891 | 132 | 2.2% | | | |
| 2013 | 5978 | 144 | 2.4% | | | |
| 2014 | 6039 | 161 | 2.7% | | | |
| 2015 | | | | 903 | | 181 |
| 2016 | | | | | 195 | 183 |
| 2017 | | | | | 211 | 189 |
| 2018 | | | | | 205 | 192 |
| 2019 | | | | | 248 | 203 |
| 2020 | | | | | 216 | 206 |
| 2021 | | | | | 215 | 208 |
| 2022 | | | | | 198 | 206 |
| 2023 | | | | | 163 | 197 |
| 2024 | | | | | 161 | 190 |

*Definitions*

*Permanent active workforce*: the count of all non-terminated employees whose employment type is not "Term" or "Student". Include individuals on leaves of absence. Forecasts for the future size of this workforce are not available.

*Actual retirements*: does not include disability retirements.

*Retirement rate*: Actual retirements divided by the permanent active workforce.

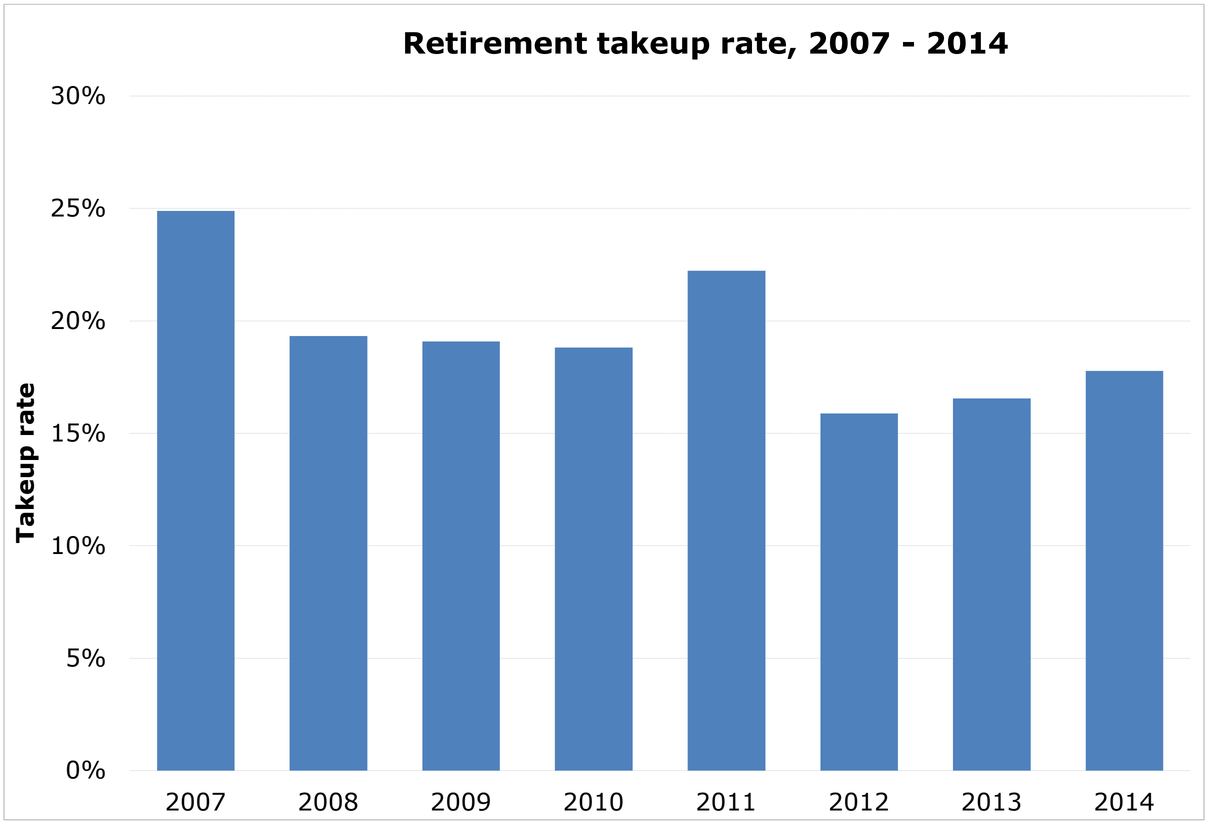
*Number eligible in current year*: those becoming eligible for a full, undiscounted pension in 2015 (based on age and years of service.) Includes individuals who were eligible in previous years but who have not taken up the retirement opportunity.

*Number becoming eligible in forecast year*: those becoming eligible in each of the years in the forecast window.

*Predicted number of retirements*: Based on a historical retirement take-up rate of 20%. That rate is applied to the number eligible in the current year to arrive at the retirement prediction for the current year. The remainder is carried forward to the next year and is added to the number becoming eligible in that forecast year. The take-up rate is applied to that sum to arrive at the forecast prediction for that year. The process carries forward to the end of the forecast window.

<u>PUB/MH I-44c (PUB/MH I-77c)</u>

The retirement take-up rate is based on historical observation. At the beginning of the calendar year, Manitoba Hydro determines the number of people eligible for a full, undiscounted pension based on age and years of service. The retirement take-up rate for a year is the portion of the fully-eligible population which actually “takes up” the retirement opportunity.




PUB/MH I-44d

There have not been any further updates since the response provided on this topic at the 2012 GRA under item PUB/MH I-77(d).

As historical information (with updates to the number of active employees in the WCEBP and curtailed Centra plans, along with an update to the Health Spending Account benefit), the following information from the 2010 PUB/MH I-44 provides a good summary of the retirement eligibility policies.

Manitoba Hydro is a participating employer in the Civil Service Superannuation Board (CSSB) plan. This fund is governed by the Civil Service Superannuation Act and Regulations. Employees are eligible to retire on or after their 65th birthday providing they have at least one year of qualifying service. Employees can retire early, any time on or after age 55, if they have at least 10 years of qualifying service. Employees must stop making pension contributions and begin receiving a pension by December 31 of the year they turn age 71. This does not mean that the member must stop working at that age.

If employees retire between the ages of 55 and 60, their pension is unreduced if they meet the "Rule of 80". The Rule of 80 is when the combination of age (minimum age 55) and qualifying service equals 80 or more (e.g. Age 55 with 25 years of qualifying service or more). The pension is also unreduced if the employee retires on or after their 60th birthday with 10 years of service.

Manitoba Hydro also is a participating employer in the Winnipeg Civic Employee Benefits Program (WCEBP). Manitoba Hydro became a participating employer with the purchase of Winnipeg Hydro in 2002. A closed group of employees (approx. 500) continue to be members in this plan. This plan is also a defined benefit plan that provides for early retirement provisions, similar to the CSSB.

Manitoba Hydro also administers three curtailed pension plans know as the "Centra" plans. Although the plans are curtailed, accumulated pension values up to 2002 are maintained for the former Centra Gas employees. This group of employees (approx. 375) are now active participants of the CSSB.

PUB/MH I-44e

There are no specific policies in place to incent workers to stay beyond their earliest retirement date.

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| | | | |
|---|---|---|---|
| **Section:** | Tab 5: 5.4 Cost Savings Initiatives | **Page No.:** | 45 |
| **Topic:** | Financial Results & Forecasts | | |
| **Subtopic:** | Cost Savings Initiatives | | |
| **Issue:** | Impact of Policy Changes Since 2008 | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

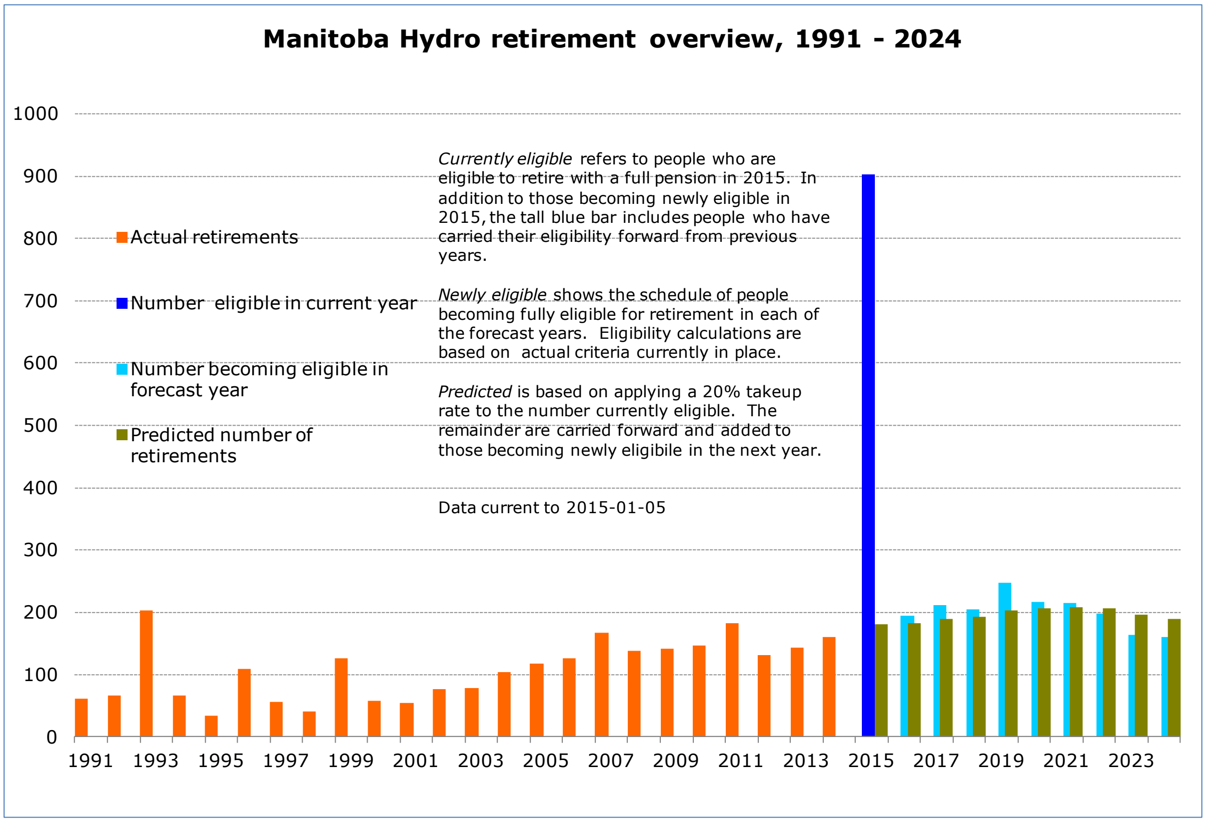
Please provide an updated graph found on page 6 of 36 of Appendix 4.4 of the 2010 GRA.

**RATIONALE FOR QUESTION:**

MH is targeted staffing reductions.

**RESPONSE:**

The following chart describes past retirement outcomes and future retirement projections, covering the period 1991-2024.


Manitoba Hydro retirement overview, 1991 - 2024
Actual retirements
Number eligible in current year
Number becoming eligible in forecast year
Predicted number of retirements
*Currently eligible* refers to people who are eligible to retire with a full pension in 2015. In addition to those becoming newly eligible in 2015, the tall blue bar includes people who have carried their eligibility forward from previous years.
*Newly eligible* shows the schedule of people becoming fully eligible for retirement in each of the forecast years. Eligibility calculations are based on actual criteria currently in place.
*Predicted* is based on applying a 20% takeup rate to the number currently eligible. The remainder are carried forward and added to those becoming newly eligibile in the next year.
Data current to 2015-01-05
1000
900
800
700
600
500
400
300
200
100
0
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019
2021
2023

| Section: | Tab 5: 5.4 Cost Savings Initiatives | Page No.: | 45 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | Cost Savings Initiatives | | |
| Issue: | Impact of Policy Changes Since 2008 | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide a comparison of actual retirement experience with that forecast in 2010 for the period 2010/11 to 2014/15

**RATIONALE FOR QUESTION:**

MH is targeted staffing reductions.

**RESPONSE:**

Retirements are tied to birth dates, service anniversaries and taxation issues, and therefore forecasting and planning of retirements are conducted on a calendar year basis. The following table shows retirement forecasts made at the beginning of 2010, together with actual retirement outcomes for the calendar years 2010 through 2014.

| Calendar year | 2010 Forecast | Actual |
|---|---|---|
| 2010 | 155 | 146 |
| 2011 | 161 | 182 |
| 2012 | 165 | 132 |
| 2013 | 167 | 144 |
| 2014 | 172 | 161 |

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| | | | |
|---|---|---|---|
| **Section:** | Tab 4 | **Page No.:** | 4 of 26 |
| **Topic:** | Capital Expenditures | | |
| **Subtopic:** | New Generation & Transmission Project Costs. | | |
| **Issue:** | Increases in Capital Expenditures | | |

**PREAMBLE TO IR (IF ANY):**

In addition to construction contract costs, Manitoba Hydro incurs other project related costs which are capitalized.

**QUESTION:**

In a similar format as PUB/MH I-10 (a) (2012 GRA) provide a table by major capital G&T project for the years 2008/09 to 2013/14 actual, listing the annual amounts incurred/paid to:

External Consultants hired by MH,
Internal MH Staff Costs,
MH funded expenses for costs incurred by third parties,
Amounts paid under joint generation development agreements, and
Annual mitigation costs paid to third parties.

**RATIONALE FOR QUESTION:**

To gain a better understanding of the composition of the Capital expenditures by major project.

**RESPONSE:**

The following table categorizes all capital spending for Major New Generation and Transmission projects from 2009 to 2014.

| **MAJOR NEW GENERATION & TRANSMISSION** | **Fiscal Year** | | | | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | **2,009** | **2,010** | **2,011** | **2,012** | **2,013** | **2,014** |
| Wuskwatim - Generation | | | | | | |
| Internal MH Staff Costs | $ 13,134 | $ 15,407 | $ 15,597 | $ 17,364 | $ 12,935 | $ 3,890 |
| External Consultants hired by MH | 11,337 | 12,517 | 8,014 | 2,527 | 1,735 | 870 |
| MH Funded Expenses for Costs Incurred by Third Parties | 121,554 | 245,111 | 218,395 | 90,103 | 36,654 | 6,837 |
| Materials & Other | 4,347 | 6,799 | 6,755 | 3,771 | (5,511) | 713 |
| Joint Generation Development Agreements, Process and Study Costs* | 869 | 1,248 | 1,278 | 1,228 | 2,062 | 210 |
| Mitigation* | 4,682 | 141 | 149 | 172 | 20 | - |
| Capitalized Interest | 18,717 | 28,347 | 44,779 | 58,642 | 23,825 | 54 |
| | 174,639 | 309,569 | 294,967 | 173,807 | 71,720 | 12,574 |
| Wuskwatim - Transmission | | | | | | |
| Internal MH Staff Costs | 7,693 | 10,861 | 10,026 | 6,188 | 953 | 152 |
| External Consultants hired by MH | 23,708 | 15,633 | 3,474 | 3,866 | 1,117 | 1,494 |
| MH Funded Expenses for Costs Incurred by Third Parties | 33,000 | 16,352 | 1,683 | 2,189 | 21 | 6 |
| Materials & Other | 7,533 | 2,713 | 2,228 | 15,720 | 141 | 233 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | (618) | 354 |
| Mitigation* | 126 | 270 | 360 | 487 | - | - |
| Capitalized Interest | 7,304 | 11,736 | 13,618 | 15,268 | 6,408 | - |
| | 79,366 | 57,564 | 31,388 | 43,718 | 8,022 | 2,239 |
| Herblet Lake-The Pas 230 kV Transmission | | | | | | |
| Internal MH Staff Costs | 2,487 | 6,505 | 6,762 | 2,738 | 57 | 0 |
| External Consultants hired by MH | 3,757 | 2,156 | 651 | 786 | 181 | 242 |
| MH Funded Expenses for Costs Incurred by Third Parties | 1,916 | 13,765 | 8,231 | 240 | 2 | - |
| Materials & Other | (1,528) | 11,294 | 2,107 | 2,974 | 60 | (1) |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | (133) | 50 |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | 298 | 1,336 | 3,339 | 1,513 | - | - |
| | 6,931 | 35,055 | 21,090 | 8,251 | 167 | 291 |
| Keeyask - Generation | | | | | | |
| Internal MH Staff Costs | 4,415 | 6,417 | 6,589 | 10,733 | 17,983 | 25,486 |
| External Consultants hired by MH | 11,803 | 11,731 | 2,340 | 2,330 | 16,936 | 26,800 |
| MH Funded Expenses for Costs Incurred by Third Parties | 42 | 135 | 5,149 | 17,745 | 54,452 | 161,955 |
| Materials & Other | 723 | 751 | 7,598 | 9,404 | 3,728 | 7,765 |
| Joint Generation Development Agreements, Process and Study Costs* | 12,579 | 12,388 | 8,051 | 8,783 | 8,177 | 8,082 |
| Mitigation* | 5,886 | 4,635 | 1,103 | 1,528 | 787 | 1,993 |
| Capitalized Interest | 18,832 | 20,620 | 25,605 | 29,707 | 35,715 | 45,316 |
| | 54,280 | 56,677 | 56,434 | 80,229 | 137,778 | 277,396 |
| Grand Rapids Fish Hatchery Upgrade & Expansion | | | | | | |
| Internal MH Staff Costs | - | - | - | - | - | 286 |
| External Consultants hired by MH | - | - | - | - | - | 569 |
| MH Funded Expenses for Costs Incurred by Third Parties | - | - | - | - | - | 2 |
| Materials & Other | - | - | - | - | - | 9 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | - | - | - | - | - | 34 |
| | - | - | - | - | - | 899 |

| MAJOR NEW GENERATION & TRANSMISSION | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | 2,009 | 2,010 | 2,011 | 2,012 | 2,013 | 2,014 |
| Conawapa - Generation | | | | | | |
| Internal MH Staff Costs | 5,792 | 6,292 | 5,141 | 5,526 | 6,880 | 10,562 |
| External Consultants hired by MH | 12,591 | 6,674 | 5,238 | 2,869 | 4,551 | 7,176 |
| MH Funded Expenses for Costs Incurred by Third Parties | 670 | 1,313 | 628 | 59 | 352 | 2,263 |
| Materials & Other | 2,294 | 2,305 | 4,116 | 3,299 | 309 | 302 |
| Joint Generation Development Agreements, Process and Study Costs* | 3,961 | 3,699 | 2,414 | 2,431 | 3,146 | 3,477 |
| Mitigation* | - | 4,800 | - | - | - | - |
| Capitalized Interest | 8,120 | 10,087 | 12,188 | 14,019 | 15,496 | 16,716 |
| | 33,429 | 35,169 | 29,724 | 28,203 | 30,733 | 40,497 |
| Kelsey Improvements & Upgrades | | | | | | |
| Internal MH Staff Costs | 9,093 | 7,945 | 8,648 | 8,051 | 7,276 | 5,434 |
| External Consultants hired by MH | 260 | 435 | 402 | 58 | 249 | 116 |
| MH Funded Expenses for Costs Incurred by Third Parties | 27,031 | 29,756 | 21,197 | 18,029 | 15,196 | 10,385 |
| Materials & Other | 5,479 | 6,105 | 4,378 | 3,607 | 3,579 | 2,694 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | 2,614 | 2,788 | 3,172 | 3,049 | 1,512 | 904 |
| | 44,477 | 47,028 | 37,797 | 32,794 | 27,812 | 19,534 |
| Kettle Improvements & Upgrades | | | | | | |
| Internal MH Staff Costs | 465 | 1,215 | 3,854 | 7,153 | 1,233 | 838 |
| External Consultants hired by MH | 3 | 15 | 256 | 24 | 26 | 19 |
| MH Funded Expenses for Costs Incurred by Third Parties | 10 | 6,045 | 11,013 | 10,023 | 1,463 | 780 |
| Materials & Other | 285 | 64 | 1,793 | 2,850 | 424 | 246 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | 21 | 162 | 897 | 2,088 | 144 | 195 |
| | 785 | 7,502 | 17,814 | 22,137 | 3,289 | 2,078 |
| Pointe du Bois - Spillway Replacement | | | | | | |
| Internal MH Staff Costs | 3,893 | 4,240 | 4,616 | 6,832 | 9,438 | 9,708 |
| External Consultants hired by MH | 7,438 | 4,049 | 6,885 | 8,767 | 7,002 | 7,380 |
| MH Funded Expenses for Costs Incurred by Third Parties | 189 | (2) | 505 | 3,673 | 64,573 | 201,027 |
| Materials & Other | 473 | 250 | 336 | 1,543 | 2,664 | 2,459 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | 143 | 61 |
| Mitigation* | - | - | - | - | - | 6 |
| Capitalized Interest | 1,352 | 2,101 | 2,912 | 4,064 | 6,638 | 16,329 |
| | 13,346 | 10,639 | 15,253 | 24,880 | 90,456 | 236,969 |
| Pointe du Bois - Transmission | | | | | | |
| Internal MH Staff Costs | 1,016 | 1,603 | 3,671 | 7,330 | 5,630 | 5,363 |
| External Consultants hired by MH | 296 | 452 | 824 | (617) | 71 | 681 |
| MH Funded Expenses for Costs Incurred by Third Parties | 81 | 18 | 1,350 | 1,426 | 1,115 | 4,248 |
| Materials & Other | 225 | 3,693 | 10,159 | 5,646 | 1,926 | 1,284 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | 97 | 226 | 1,000 | 1,959 | 1,263 | 372 |
| | 1,715 | 5,992 | 17,004 | 15,743 | 10,004 | 11,947 |

| MAJOR NEW GENERATION & TRANSMISSION | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | 2,009 | 2,010 | 2,011 | 2,012 | 2,013 | 2,014 |
| Gillam Redevelopment and Expansion Program | | | | | | |
| Internal MH Staff Costs | - | - | 12 | (12) | - | - |
| External Consultants hired by MH | - | - | - | - | - | - |
| MH Funded Expenses for Costs Incurred by Third Parties | - | - | - | - | - | - |
| Materials & Other | - | - | 2 | (2) | - | - |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | - | - | - | - | - | - |
| | - | - | 14 | (14) | - | - |
| Bipole III - Transmission Line | | | | | | |
| Internal MH Staff Costs | 1,473 | 3,420 | 3,981 | 4,442 | 8,251 | 12,551 |
| External Consultants hired by MH | 916 | 3,932 | 5,266 | 4,819 | 2,486 | 2,259 |
| MH Funded Expenses for Costs Incurred by Third Parties | 2 | 3 | 40 | 1 | 2,894 | 17,159 |
| Materials & Other | 203 | 2,200 | 5,205 | 3,905 | 5,662 | 14,987 |
| Joint Generation Development Agreements, Process and Study Costs* | - | 247 | 2,374 | 1,786 | 1,291 | 1,732 |
| Mitigation* | - | - | - | - | 3 | - |
| Capitalized Interest | 744 | 1,907 | 2,135 | 3,398 | 4,505 | 5,588 |
| | 3,336 | 11,709 | 19,002 | 18,350 | 25,091 | 54,276 |
| Bipole III - Converter Stations | | | | | | |
| Internal MH Staff Costs | 292 | 3,425 | 5,864 | 7,453 | 11,434 | 15,613 |
| External Consultants hired by MH | 531 | 3,151 | 3,708 | 5,551 | 6,395 | 6,656 |
| MH Funded Expenses for Costs Incurred by Third Parties | - | 1,877 | 5,163 | 13,848 | 39,228 | 96,823 |
| Materials & Other | 13,706 | 6,987 | 11,689 | 5,858 | 15,637 | 12,436 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | 13 | 443 | 1,645 | 3,707 | 7,025 | 12,627 |
| | 14,542 | 15,882 | 28,069 | 36,417 | 79,718 | 144,153 |
| Bipole III - Collector Lines | | | | | | |
| Internal MH Staff Costs | - | - | 318 | 985 | 1,672 | 3,752 |
| External Consultants hired by MH | - | - | 7 | 107 | 73 | 60 |
| MH Funded Expenses for Costs Incurred by Third Parties | - | - | 40 | 299 | 104 | 15,993 |
| Materials & Other | - | - | 20 | 620 | 2,341 | 5,878 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | - | - | 2 | 64 | 204 | 582 |
| | - | - | 387 | 2,075 | 4,394 | 26,265 |
| Bipole III - Community Development Initiative | | | | | | |
| Internal MH Staff Costs | - | - | - | - | - | - |
| External Consultants hired by MH | - | - | - | - | - | - |
| MH Funded Expenses for Costs Incurred by Third Parties | - | - | - | - | - | - |
| Materials & Other | - | - | - | - | - | - |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | 53,863 |
| Capitalized Interest | - | - | - | - | - | - |
| | - | - | - | - | - | 53,863 |

| MAJOR NEW GENERATION & TRANSMISSION | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | 2,009 | 2,010 | 2,011 | 2,012 | 2,013 | 2,014 |
| Riel 230/500 kV Station | | | | | | |
| Internal MH Staff Costs | 2,189 | 3,798 | 4,635 | 5,472 | 7,669 | 12,356 |
| External Consultants hired by MH | 563 | 5,219 | 3,424 | 2,540 | 1,967 | 2,149 |
| MH Funded Expenses for Costs Incurred by Third Parties | 24 | 6,887 | 10,739 | 26,006 | 36,813 | 30,686 |
| Materials & Other | 663 | 8,684 | 24,383 | 12,471 | 27,648 | 13,891 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | 220 | 895 | 3,284 | 6,244 | 10,040 | 14,428 |
| Costs Transferred to Bipole 3 - Transmission | (1,651) | - | - | - | - | - |
| | 2,007 | 25,483 | 46,465 | 52,732 | 84,136 | 73,510 |
| Manitoba-Minnesota Transmission Project (formerly Dorsey - US Border New 500kV Transmission Line) | | | | | | |
| Internal MH Staff Costs | - | - | 64 | 2 | 108 | 1,205 |
| External Consultants hired by MH | - | 811 | 32 | - | 101 | (113) |
| MH Funded Expenses for Costs Incurred by Third Parties | - | - | 2 | - | - | 16 |
| Materials & Other | - | - | 5 | 1 | 3 | 60 |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | - | - | 56 | 65 | 72 | (98) |
| | - | 811 | 158 | 68 | 283 | 1,069 |
| St. Joseph Wind Transmission | | | | | | |
| Internal MH Staff Costs | 6 | 462 | 3,529 | 704 | 23 | 4 |
| External Consultants hired by MH | - | 343 | 499 | 15 | - | - |
| MH Funded Expenses for Costs Incurred by Third Parties | - | 9 | 1,193 | 414 | - | - |
| Materials & Other | - | (62) | 2,777 | (148) | 30 | - |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | - | 4 | 134 | 51 | 14 | - |
| | 6 | 756 | 8,131 | 1,037 | 68 | 4 |
| Firm Import Upgrades | | | | | | |
| Internal MH Staff Costs | - | 8 | 49 | 10 | - | 1 |
| External Consultants hired by MH | - | - | 109 | - | - | 1 |
| MH Funded Expenses for Costs Incurred by Third Parties | - | - | - | - | - | - |
| Materials & Other | - | - | - | - | - | - |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | - | - | 3 | 12 | 13 | 14 |
| | - | 8 | 161 | 22 | 13 | 15 |
| Brandon Combustion Turbine Pipeline Upgrade | | | | | | |
| Internal MH Staff Costs | - | - | - | - | - | - |
| External Consultants hired by MH | - | - | - | - | - | - |
| MH Funded Expenses for Costs Incurred by Third Parties | - | 3,660 | 20 | - | - | - |
| Materials & Other | - | - | - | - | - | - |
| Joint Generation Development Agreements, Process and Study Costs* | - | - | - | - | - | - |
| Mitigation* | - | - | - | - | - | - |
| Capitalized Interest | - | - | - | - | - | - |
| | - | 3,660 | 20 | - | - | - |
| Total | $ 428,857 | $ 623,503 | $ 623,878 | $ 540,449 | $ 573,682 | $ 957,578 |

*Joint Generation Development Agreements, Process and Study Costs and Mitigation categories reflect both accruals and cash payments.

| Section: | Tab 5: Appendix 5.5<br>Figure 5.5.14 | Page No.: | 12 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | OM&A Expense | | |
| Issue: | Cost Savings Initiatives | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please indicate the total number of EFT's (in Figure 5.5.10) by Business Unit working on Conawapa in 2012/13 and 2013/14 and the respective payroll costs including benefits and overtime

**RATIONALE FOR QUESTION:**

**RESPONSE:**

The attached table provides a summary of total EFTs and the associated payroll costs by Business Unit working on Conawapa in 2012/13 and 2013/14. EFTs and the associated payroll costs are calculated based upon hours charged to the Conawapa Generation project by staff throughout the Corporation, utilizing their respective activity rates.

Prior to the suspension of the Conawapa Generation project, activities engaged in by the Corporation included the Needs For and Alternatives To (NFAT) hearing, environmental assessments and studies in preparation of the Environmental Impact Statement, negotiations with First Nations, Aboriginal Traditional Knowledge studies and engineering design.

**MANITOBA HYDRO**
**CONAWAPA EFTS AND PAYROLL COST**

| (In thousands of $) | 2012/13 Actual | | | 2013/14 Actual | | |
|---|---|---|---|---|---|---|
| | ST EFTs | OT EFTs | Payroll Cost | ST EFTs | OT EFTs | Payroll Cost |
| General Counsel & Corporate Secretary | 0 | 0 | 0 | 2 | 0 | 303 |
| Corporate Relations | 1 | 0 | 119 | 1 | 0 | 80 |
| Finance & Regulatory | 1 | 0 | 59 | 3 | 0 | 381 |
| Generation Operations | 14 | 1 | 1,672 | 22 | 2 | 2,721 |
| Major Capital Projects | 22 | 3 | 2,805 | 29 | 5 | 4,084 |
| Transmission | 2 | 0 | 229 | 2 | 0 | 211 |
| Customer Care & Energy Conservation | 0 | 0 | 0 | 4 | 0 | 328 |
| **Business Unit Total** | **40** | **4** | **4,884** | **63** | **7** | **8,108** |

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| Section: | Tab 5: Appendix 5.5<br>Figure 5.5.14 | Page No.: | 12 |
|---|---|---|---|
| Topic: | Financial Results & Forecasts | | |
| Subtopic: | OM&A Expense | | |
| Issue: | Cost Savings Initiatives | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please indicate the number of EFT's working on Conawapa in 2014/15, 2015/16 and 2016/17 and the respective payroll costs including benefits and overtime

**RATIONALE FOR QUESTION:**

Manitoba Hydro's cost saving initiatives include EFT reductions.

**RESPONSE:**

The attached table provides a summary of total EFTs and payroll costs by Business Unit for 2014/15 through 2016/17. EFTs and the associated payroll costs are calculated based upon hours forecasted to be charged to the Conawapa Generation project by staff throughout the Corporation, utilizing their respective activity rates.

The number of EFTs significantly decrease following the August 2014 decision to suspend construction activities. MIPUG/MH I-10a provides a description of the activities engaged in by the Corporation over the forecast period.

MANITOBA HYDRO
CONAWAPA EFTS AND PAYROLL COST

| (In thousands of $) | 2014/15 Forecast | | | 2015/16 Forecast | | | 2016/17 Forecast | | |
|---|---|---|---|---|---|---|---|---|---|
| | ST EFTs | OT EFTs | Payroll Cost | ST EFTs | OT EFTs | Payroll Cost | ST EFTs | OT EFTs | Payroll Cost |
| General Counsel & Corporate Secretary | 1 | 0 | 147 | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance & Regulatory | 1 | 0 | 122 | 0 | 0 | 0 | 0 | 0 | 0 |
| Generation Operations | 9 | 1 | 1,107 | 2 | 0 | 248 | 1 | 0 | 108 |
| Major Capital Projects | 19 | 4 | 2,684 | 6 | 2 | 1,047 | 8 | 2 | 1,381 |
| **Business Unit Total** | **30** | **5** | **4,060** | **8** | **2** | **1,295** | **9** | **2** | **1,489** |

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| **Section:** | Appendix 11.23 | **Page No.:** | Operating Expenses MFR 3 |
|---|---|---|---|
| **Topic:** | OM&A | | |
| **Subtopic:** | Equivalent Full time (EFT) and Vacancy Rate | | |
| **Issue:** | | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please indicate and provide supporting calculations for the vacancy factor utilized for forecast 2014/15 to 2016/17.

**RATIONALE FOR QUESTION:**

To review Hydro's OM&A forecast.

**RESPONSE:**

The average vacancy rate utilized for the forecast years 2014/15 to 2016/17 is 4.5%.

The vacancy rate is defined as the number of vacant positions as a percentage of the total positions. Vacant positions are attributable to a number of factors including employee retirements, turnover of staff both internally and externally and cost containment initiatives. As a result, these factors are not quantified individually in the vacancy rate calculation.

| | | | |
|---|---|---|---|
| **Section:** | Appendix 11.23 | **Page No.:** | Operating Expenses MFR 3 |
| **Topic:** | OM&A | | |
| **Subtopic:** | Equivalent Full time (EFT) and Vacancy Rate | | |
| **Issue:** | | | |

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please provide Hydro's actual vacancy rate for the five most recently available fiscal years.

**RATIONALE FOR QUESTION:**

To review Hydro's OM&A forecast.

**RESPONSE:**

The table below provides the actual and forecast vacancy rates from 2009/10 to 2013/14.

**Manitoba Hydro**
**Actual and Forecast Vacancy Factor**

| Vacancy Factor | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|---|
| Actual | 9.3% | 7.4% | 7.8% | 8.5% | 8.1% |
| Forecast | 6.6% | 5.7% | 6.3% | 6.2% | 5.5% |