NFAT Financial Panel

Darren Rainkie – Vice-President, Finance & Regulatory
Manny Schulz – Corporate Treasurer, Treasury Division
Greg Barnlund – Division Manager, Rates & Regulatory Affairs Division
Liz Carriere – Manager, Financial Planning Department

March 19, 2014

Presentation Summary

- Financial Profile
- Financial Outlook Update (IFF13)
- Rate Comparisons
- NFAT Financial and Rate Analysis
  - Impact on Rates
  - Uncertainty Analysis
  - Impact on Financial Position
  - Drought Analysis
- Financial Risk Management

Manitoba Hydro Financial Profile

Consolidated Income Statement
(Condensed $ millions)

	For the nine months ended December 31	For the year ended March 31					
	2013	2013	2012	2011	2010	2009	2008
REVENUES							
Electric - Manitoba	990	1 380	1 219	1 218	1 156	1 148	1 087
Extraprovincial	338	353	363	398	427	623	625
Gas (Net)	99	147	132	143	138	149	142
	1 427	1 880	1 714	1 759	1 721	1 920	1 854
EXPENSES							
Operating and Administrative	405	533	481	463	440	429	381
Finance Expense	349	489	423	425	410	471	440
Depreciation and Amortization	334	423	381	393	384	368	349
Water Rentals and Assessments	95	118	119	120	121	123	124
Fuel and Power Purchased	105	133	146	106	104	176	134
Capital and Other Taxes	84	105	103	102	99	87	80
Non-controlling Interest	(17)	(13)	-	-	-	-	-
	1 355	1 788	1 653	1 609	1 558	1 654	1 508
Net Income	72	92	61	150	163	266	346
Net Extraprovincial Revenue	138	102	98	172	202	324	367
Interest Coverage Ratio*	1.33	1.15	1.10	1.27	1.32	1.49	1.69

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

Consolidated Balance Sheet
(Condensed $ millions)

	As at December 31	As at March 31					
	2013	2013	2012	2011	2010	2009	1990
Property, Plant and Equipment (net)	10 665	10 541	8 647	8 215	8 076	7 944	2 677
Construction in Progress	2 658	1 967	3 150	2 739	2 052	1 438	1 206
	13 323	12 508	11 797	10 954	10 128	9 382	3 883
Current and Other Assets	1 898	1 682	1 622	1 646	1 487	1 499	812
Total Assets	15 221	14 190	13 419	12 600	11 615	10 881	4 695
Long-Term Debt (Net)	10 187	8 977	8 729	8 335	7 406	7 002	3 557
Current and Other Liabilities	1 803	1 937	1 495	1 127	1 328	1 637	924
Retained Earnings	2 613	2 542	2 450	2 389	2 239	2 076	117
Other Equity	618	734	745	749	642	166	97
Total Liabilities & Equity	15 221	14 190	13 419	12 600	11 615	10 881	4 695
Debt/Equity Ratio*	76:24	75:25	74:26	73:27	73:27	77:23	95:5

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

Consolidated Cash Flow Statement
(Condensed $ millions)

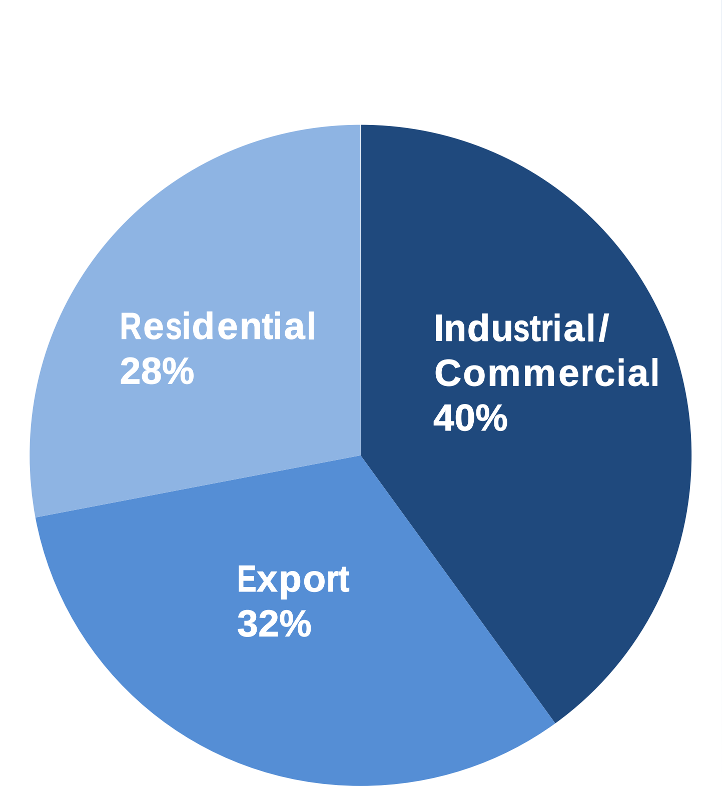
	For the nine months ended December 31			For the year ended March 31			
	2013	2013	2012	2011	2010	2009	2008
Cash provided by Operating Activities	452	589	567	595	589	688	633
Cash provided by Financing Activities	1 082	635	725	674	1 124	424	487
Cash used for Investing Activities	(1 289)	(1 242)	(1 312)	(1 373)	(1 698)	(1 086)	(988)
Capital Coverage Ratio*	1.41	1.25	1.13	1.25	1.34	1.77	1.62

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

Electric Operations Income Statement
($ millions)

	For the nine months ended December 31	
	2013	**2012**
REVENUES		
Electric - Manitoba	975	899
Extraprovincial	338	280
	1 313	1 179
EXPENSES		
Operating and Administrative	350	334
Finance Expense	322	333
Depreciation and Amortization	311	293
Water Rentals and Assessments	95	87
Fuel and Power Purchased	105	96
Capital and Other Taxes	69	65
Corporate Allocation	7	7
Non-controlling Interest	(17)	(8)
	1 242	1 207
Net Income	71	(28)

Revenue Sources – Electricity
2003/04 – 2012/13



Industrial/Commercial	$6.5 billion
Export	$5.1 billion
Residential	$4.5 billion

Financial Profile Summary

- With Retained Earnings of $2.6 billion, Manitoba Hydro is in the strongest financial position in its history.
- The Export Revenues associated with Manitoba Hydro’s predominantly hydro system has been a key contributor to the Corporation’s financial strength and affordable rates for customers.
- Manitoba Hydro is well positioned to make the necessary investments to meet the future energy needs of the Province.

Manitoba Hydro Financial Outlook Update

(IFF13 February 2014)

Major Changes since IFF12 Approved in November 2012

- Load Forecast lower due to lower forecasted population growth. Gross firm energy is projected to be down 717 GW.h in 2022/23 and 1 159 GW.h in 2031/32 compared to IFF12.
- Conawapa in-service date deferred 1 year to 2026/27.
- Increased capital costs $1.6B due to Conawapa deferral, reinstatement of DSM costs into Capital Forecast and project estimate updates.
- 2013 Electric Export Price forecast projects on-peak prices to decrease on average 3% over the period 2014/15 to 2032/33.
- IFRS Implementation deferred 1 year to 2015/16 and assumption that rate-regulated accounting will continue over the forecast period.
- Forecast operating cost growth has been further constrained to 1% inflationary growth between 2016 and 2021.

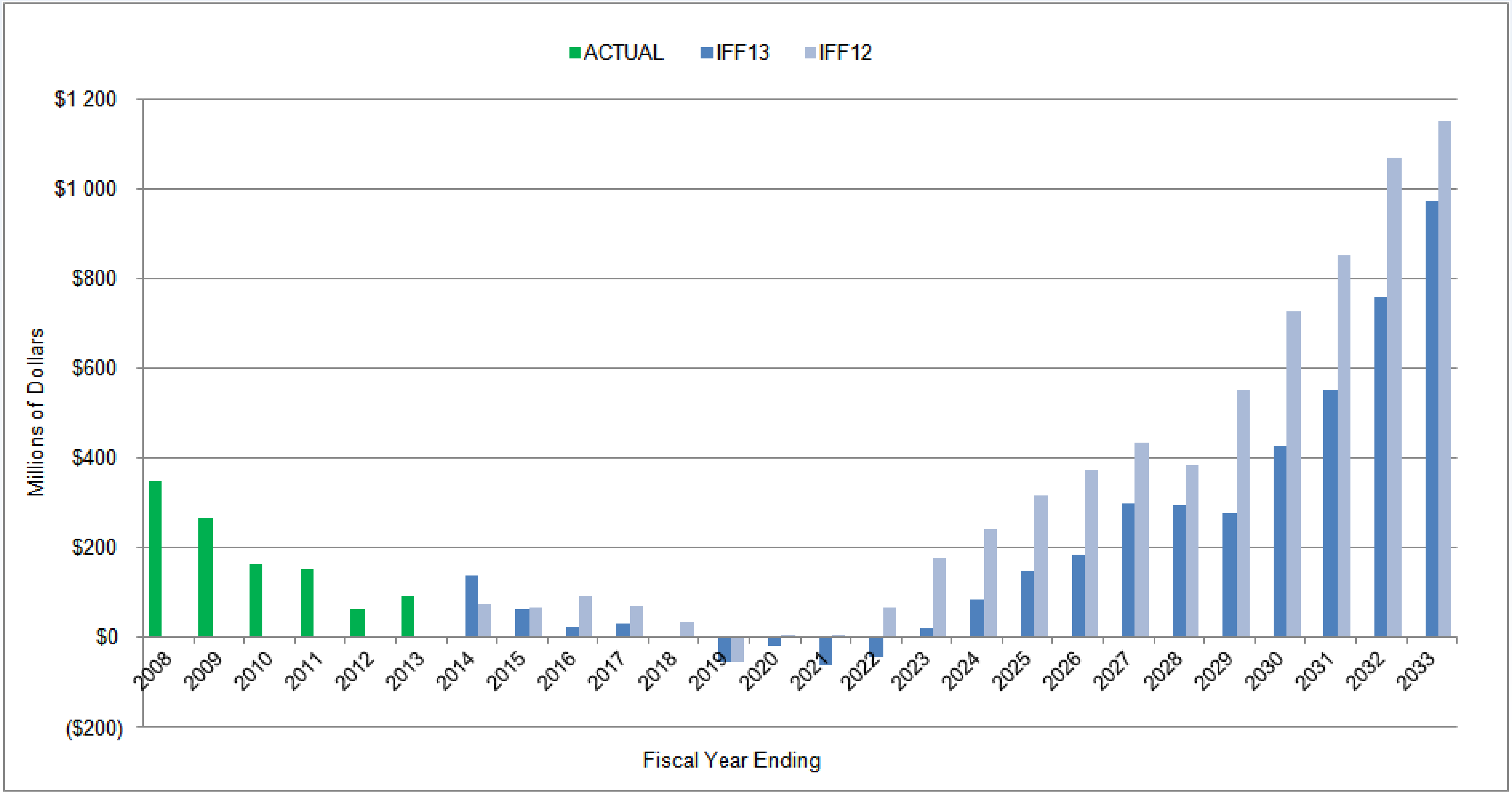
Comparison of IFF13 to IFF12 Consolidated Net Income ($ Millions)

Increases (Decreases)

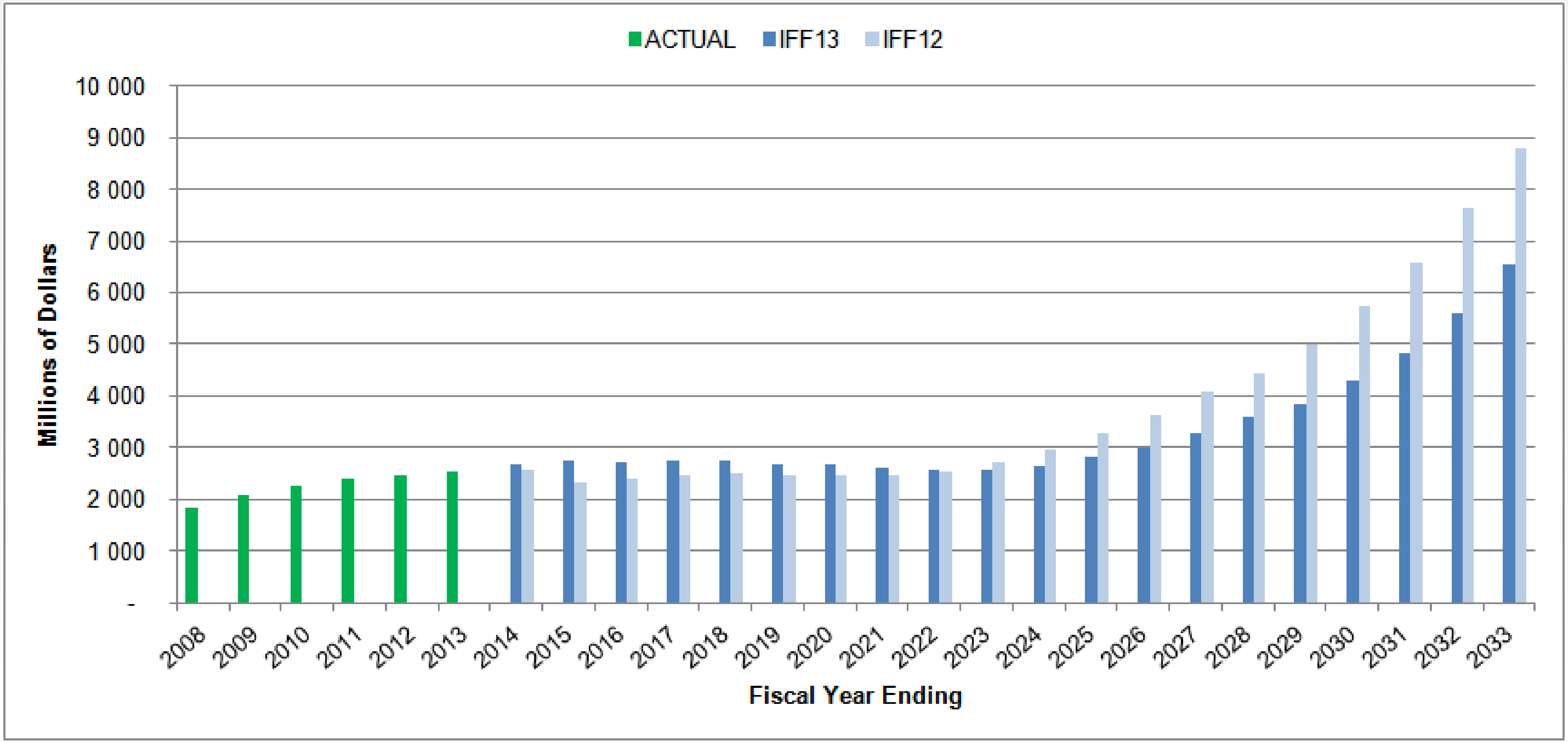
	2013/14	2014/15	2015/16	Cumulative to 2022/23	Cumulative to 2032/33
IFF12 Net Income	**72**	**66**	**90**	**529**	**6 621**
Manitoba Revenue (net of cost of gas)	(31)	(45)	(50)	(443)	(1 438)
Extraprovincial Revenue (net of water rentals and fuel & power purchases)	77	65	(1)	311	203
	46	20	(51)	(132)	(1 234)
Expenses	(17)	24	16	386	1 483
Change in Net Income @ IFF12 Rate Increases	63	(4)	(68)	(518)	(2 717)
Impacts of IFF13 Rate Increases	-	-	2	80	171
Total Change in Net Income from IFF12	63	(4)	(66)	(438)	(2 546)
IFF13 Net Income	**136**	**62**	**24**	**91**	**4 076**

Consolidated Net Income

($Millions)



Retained Earnings
($Millions)



Financial Targets

Debt/Equity:

Maintain minimum debt/equity ratio of 75:25

Interest Coverage:

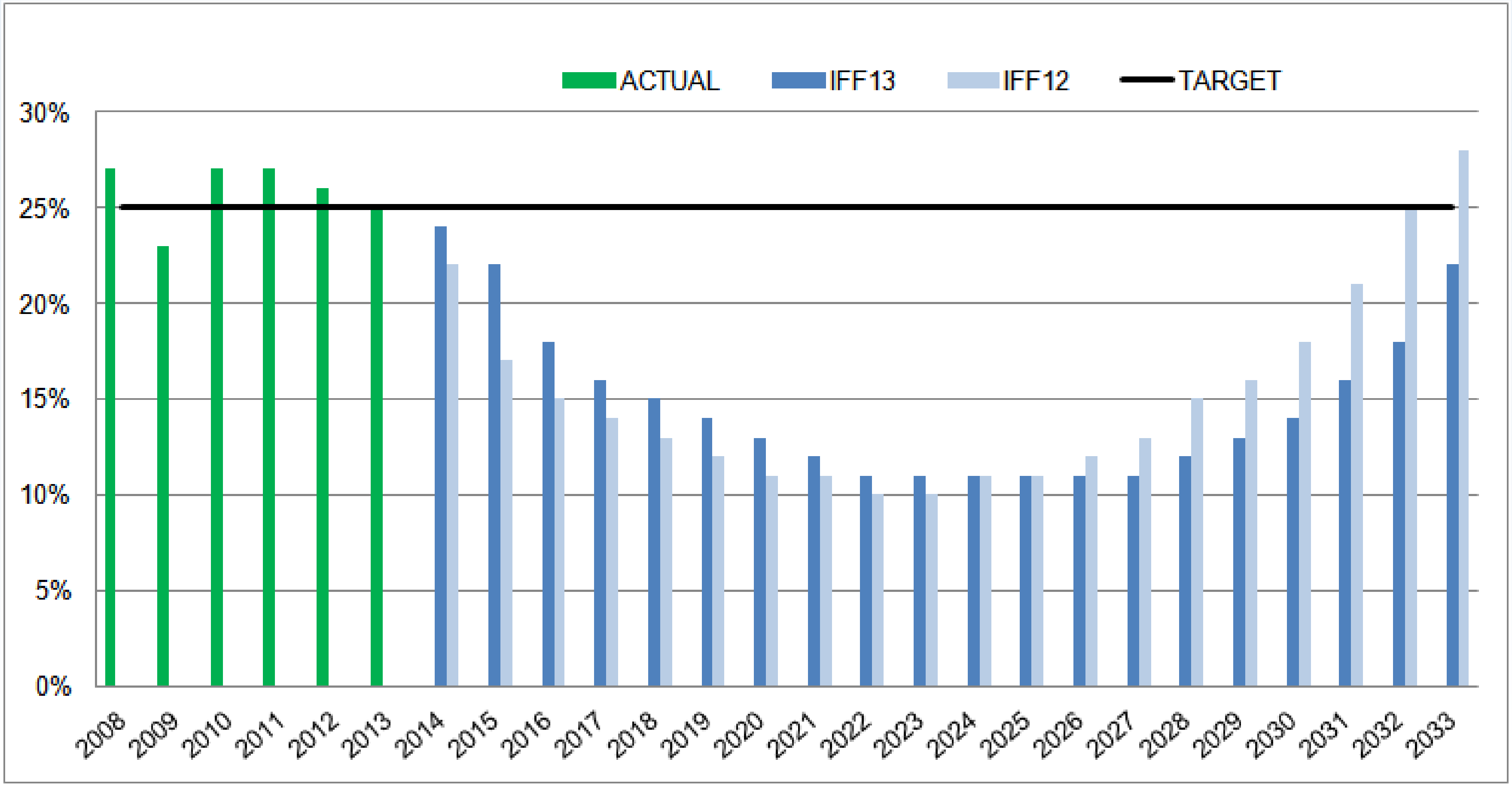
Maintain interest coverage ratio of > 1.20

Capital Coverage:

Maintain capital coverage ratio of >1.20

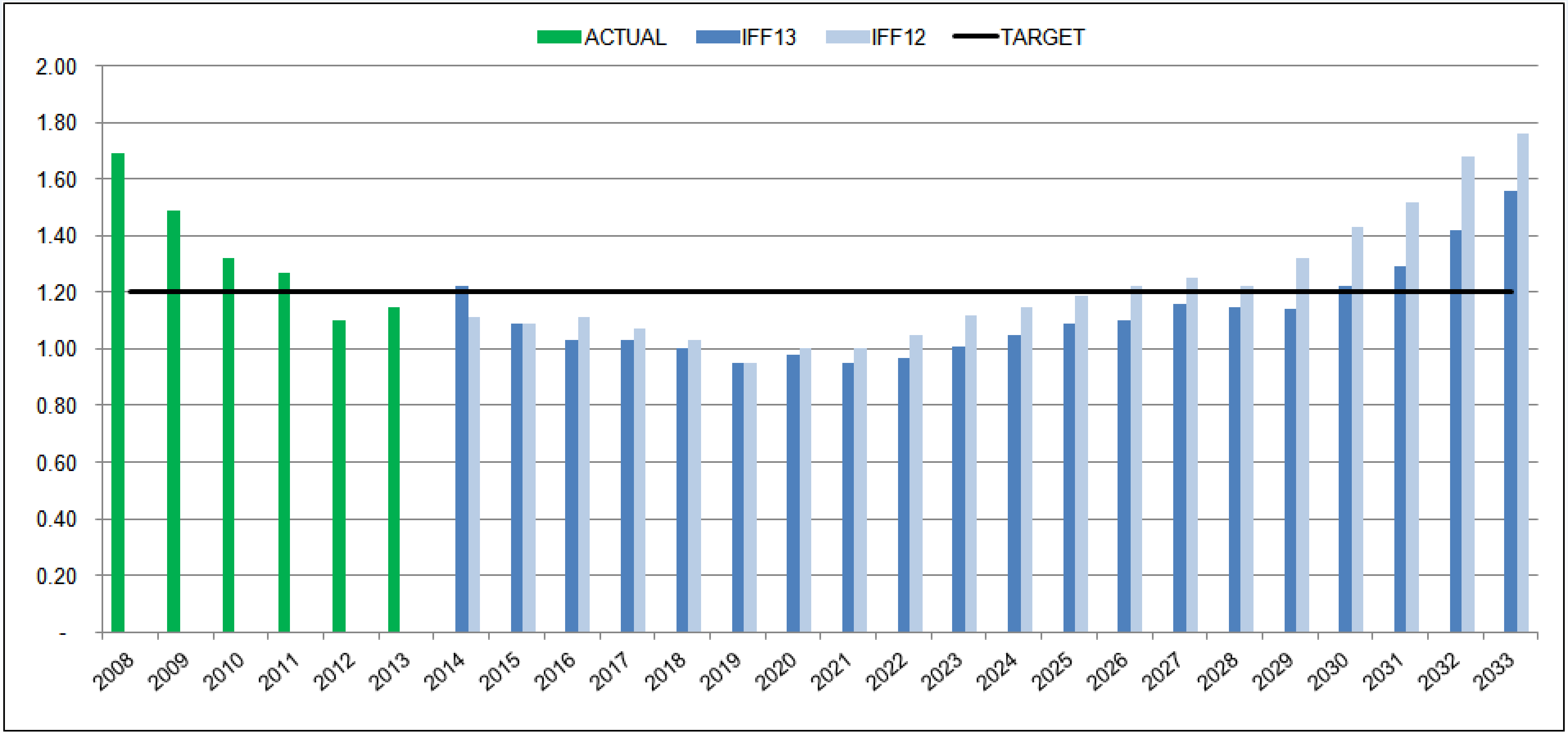
Note: Financial targets may not be maintained during years of major investment in the generation and transmission system.

Equity Ratio

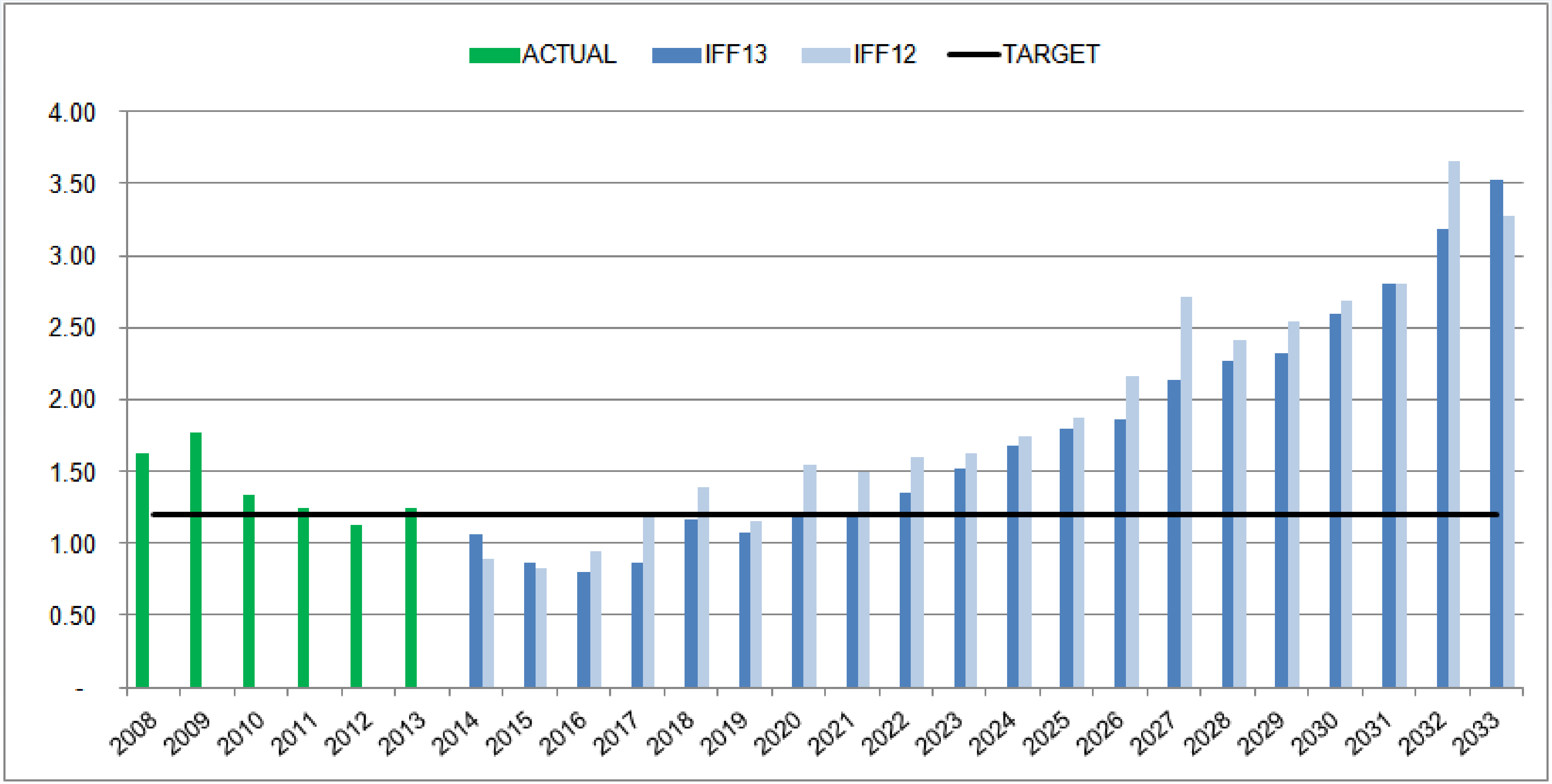


Note: 25% equity target attained in 2034 in IFF13

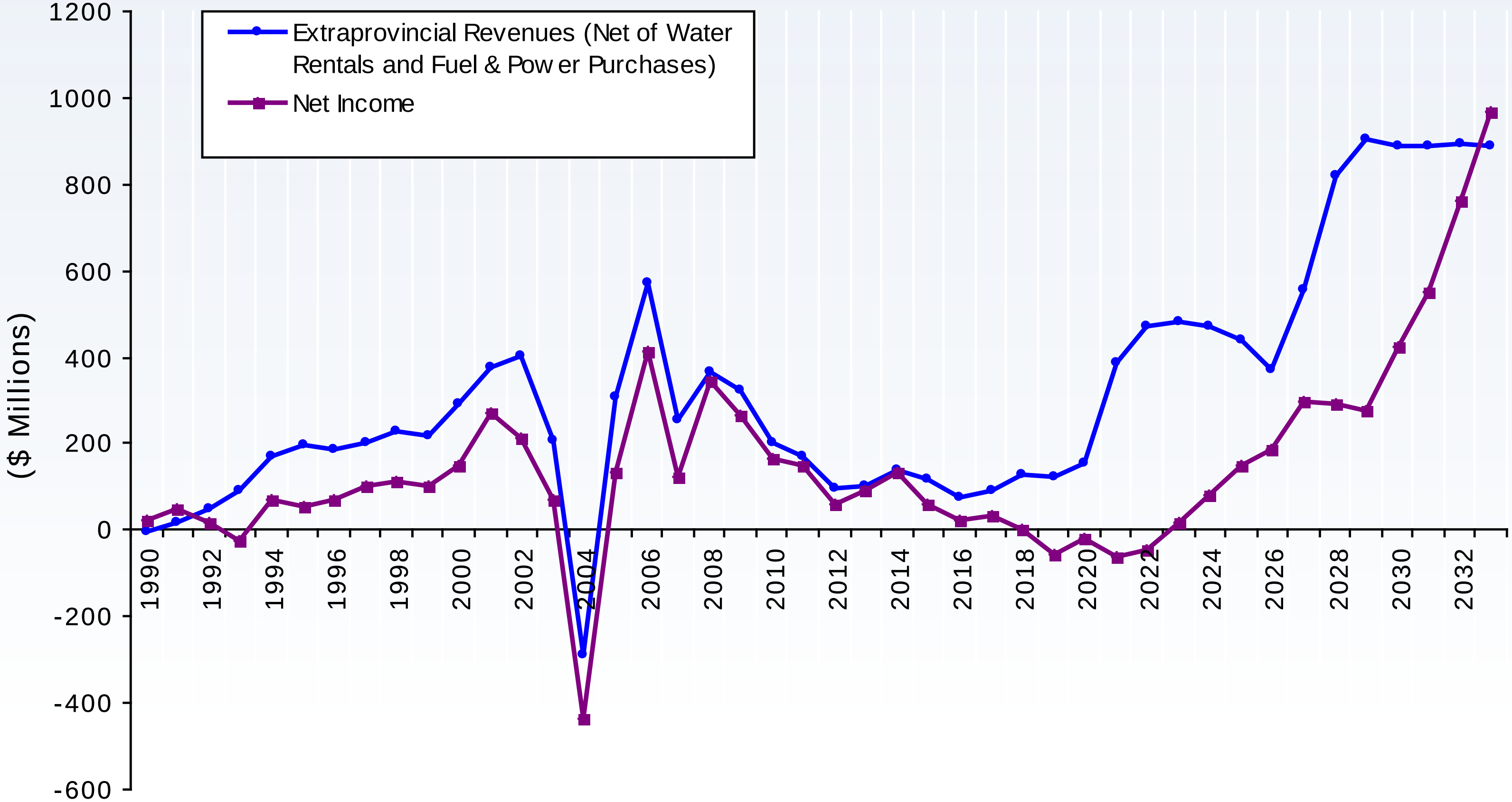
Interest Coverage Ratio



Capital Coverage Ratio



Consolidated Income Statement –
Comparison of Net Extraprovincial Revenues to Net Income



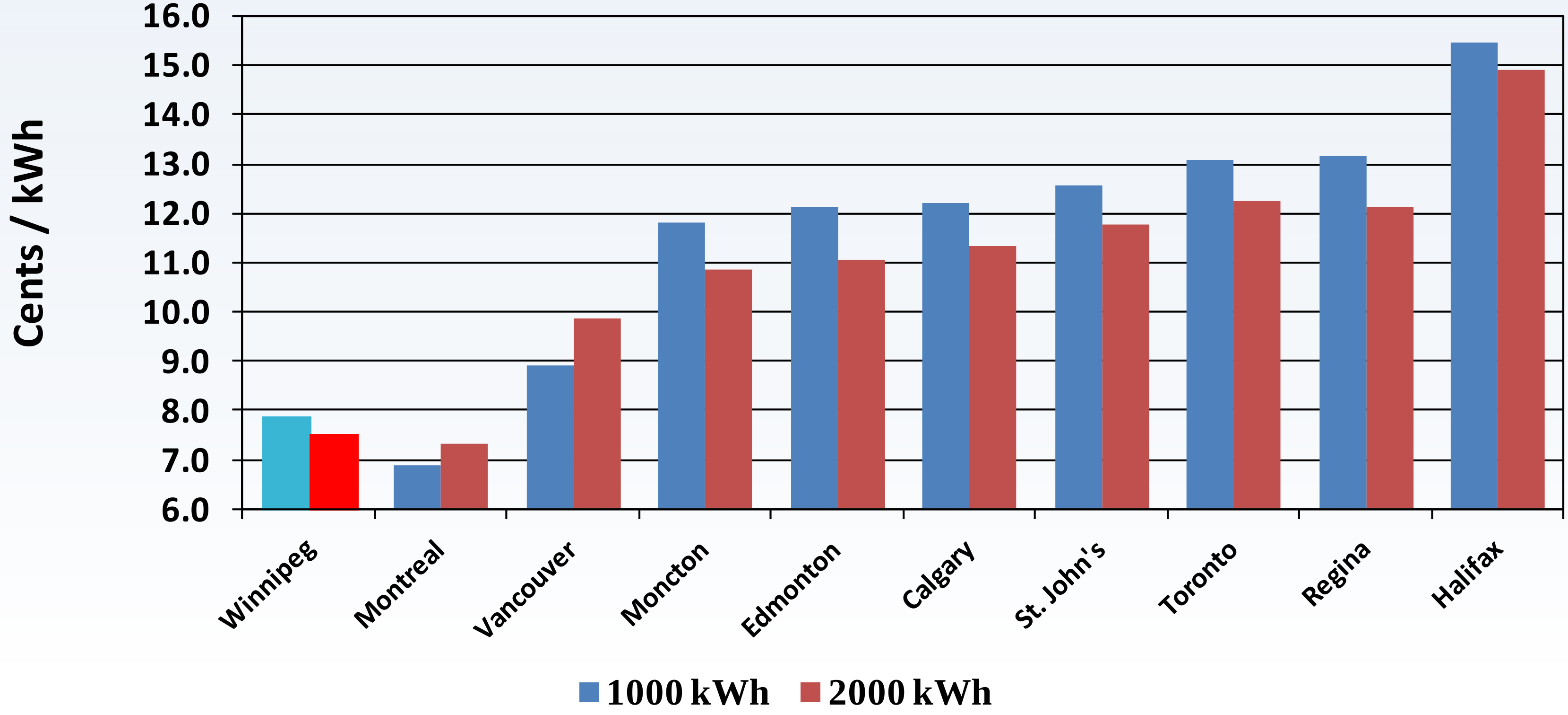
Financial Outlook Summary

- The required investments in existing infrastructure and new generation are expected to place pressure on Manitoba Hydro's key financial ratios in the next decade.
- Significantly higher rate increases than 3.95% would be required to maintain financial targets during the investment period.
- In setting financial targets, it has always been recognized that the targets may not be attained during periods major investments in the generation and transmission system.
- Credit rating agencies and other stakeholders are prepared to accept short-term weakness in financial ratios, as long as Manitoba Hydro can demonstrate progress to attaining the targets over the long-term.
- Financial ratios are expected to recover after the in-service of Keeyask and Conawapa generating stations and reach target levels within a forecast horizon of approximately 20 years.
- Export revenues will continue to play an important role in improving the Corporation's financial strength and keeping rates affordable for customers in the future.

Rate Comparisons

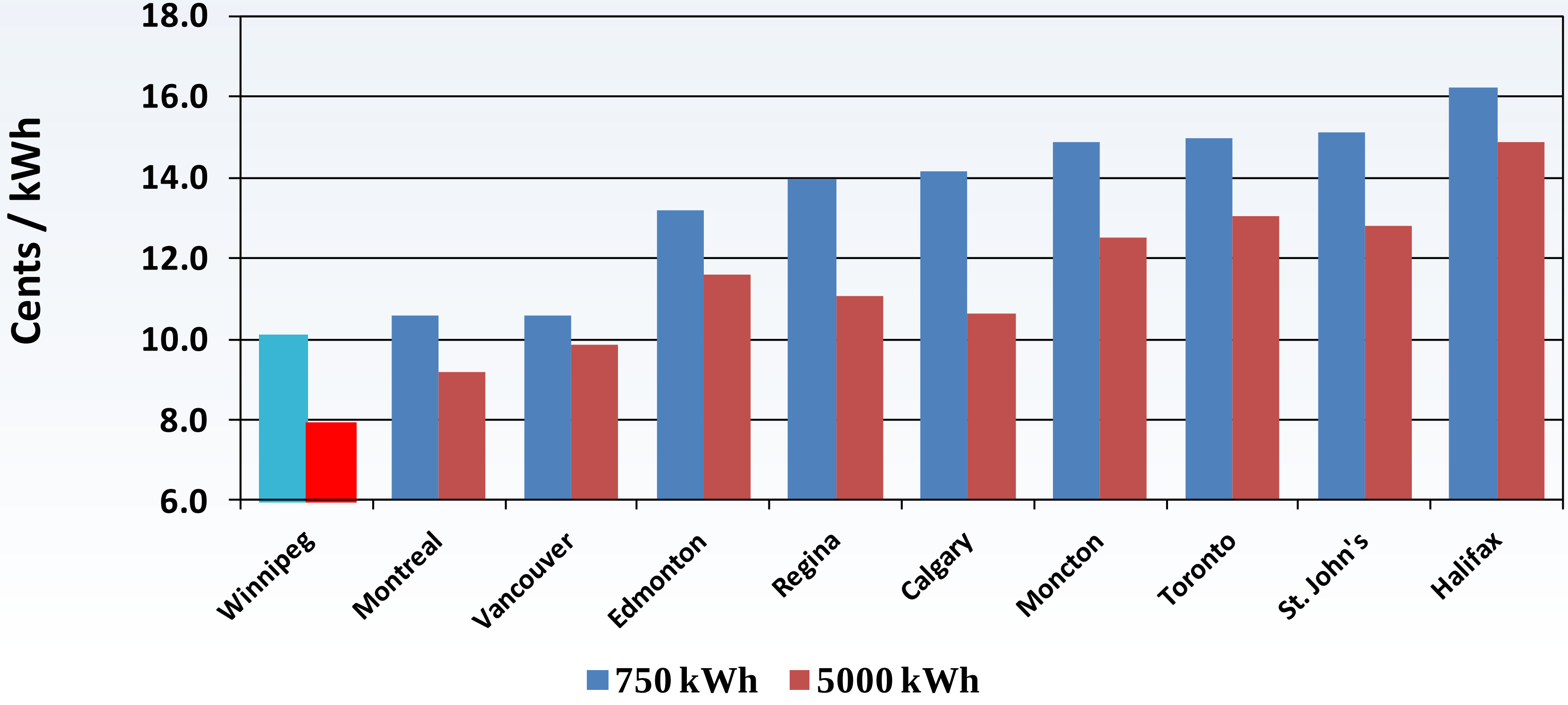
2013 Survey of Canadian Electricity Bills

Residential Rate Comparison (Price per kWh)

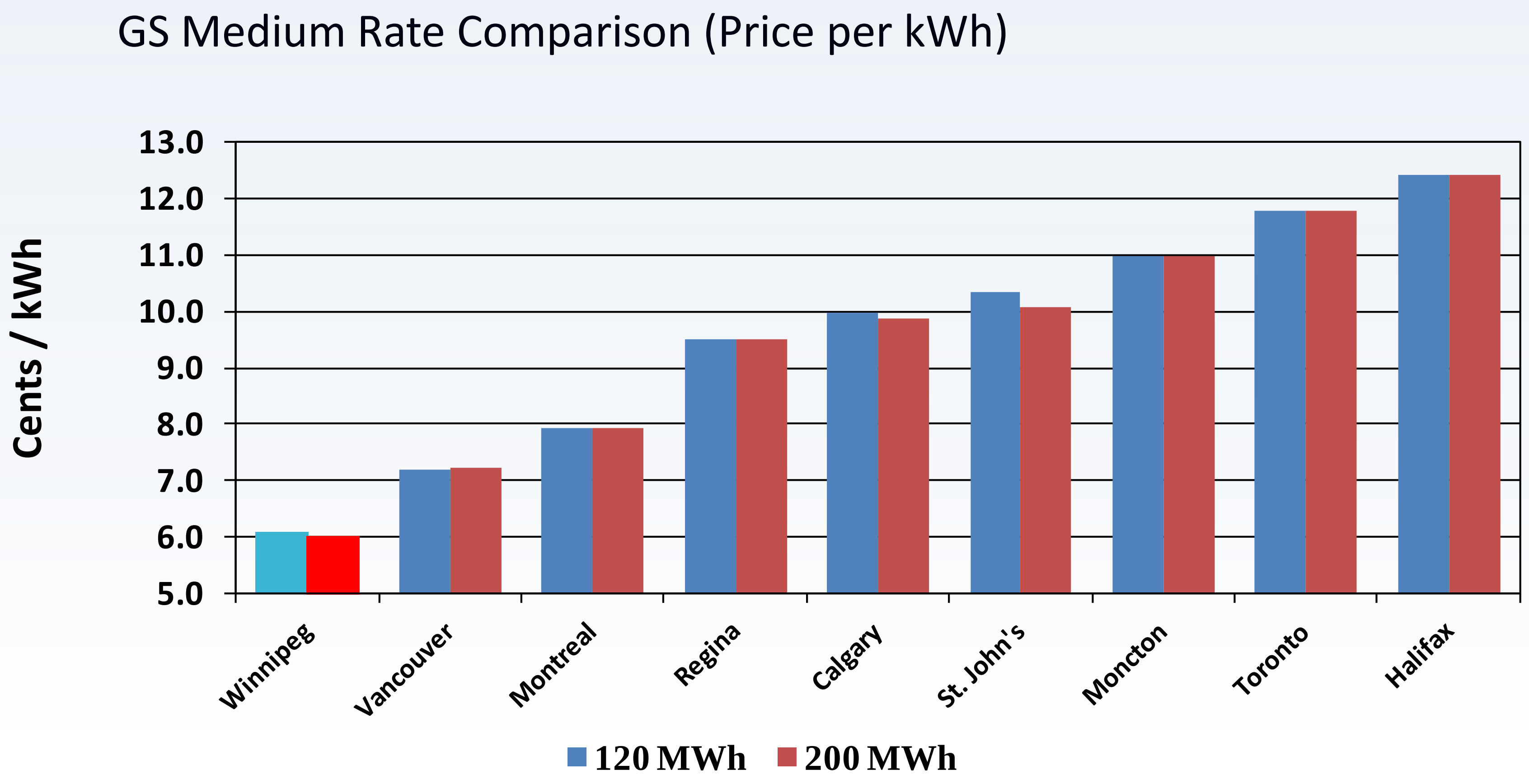


2013 Survey of Canadian Electricity Bills

GS Small Rate Comparison (Price per kWh)

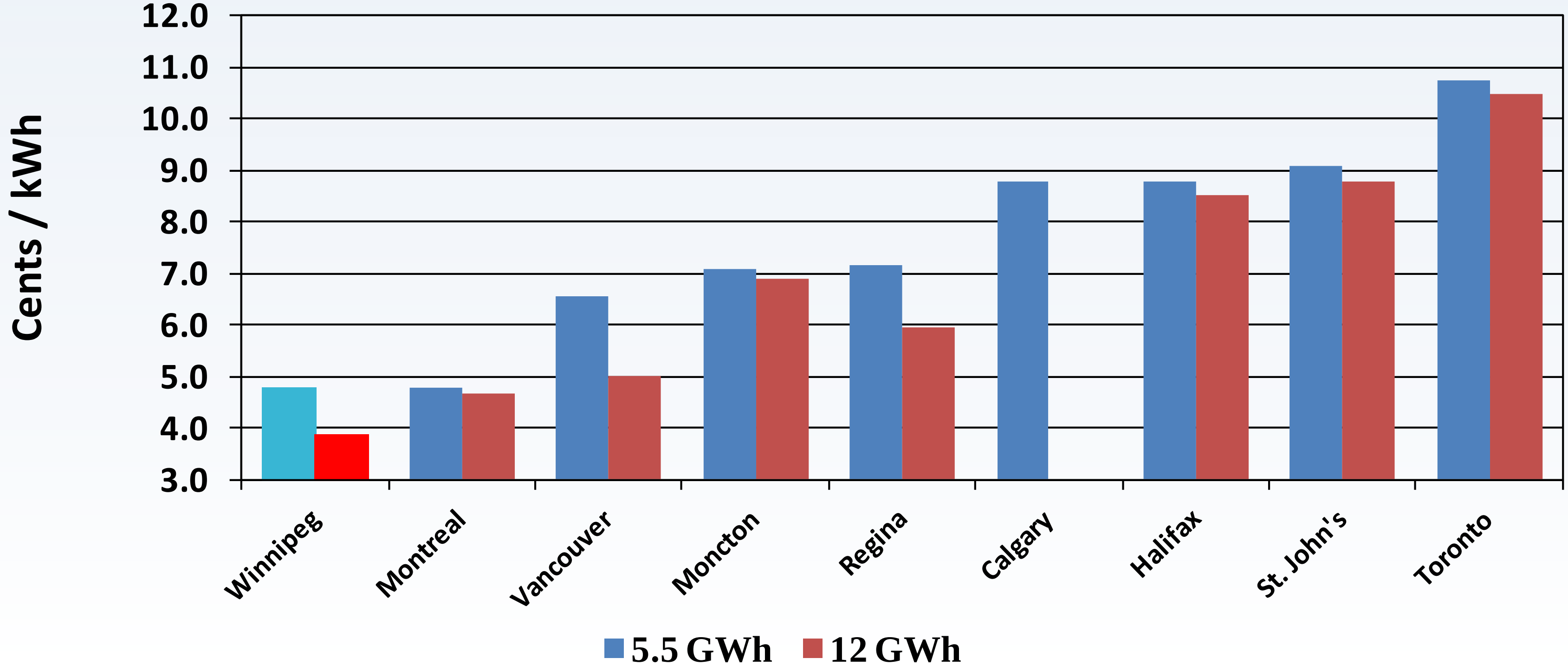


2013 Survey of Canadian Electricity Bills



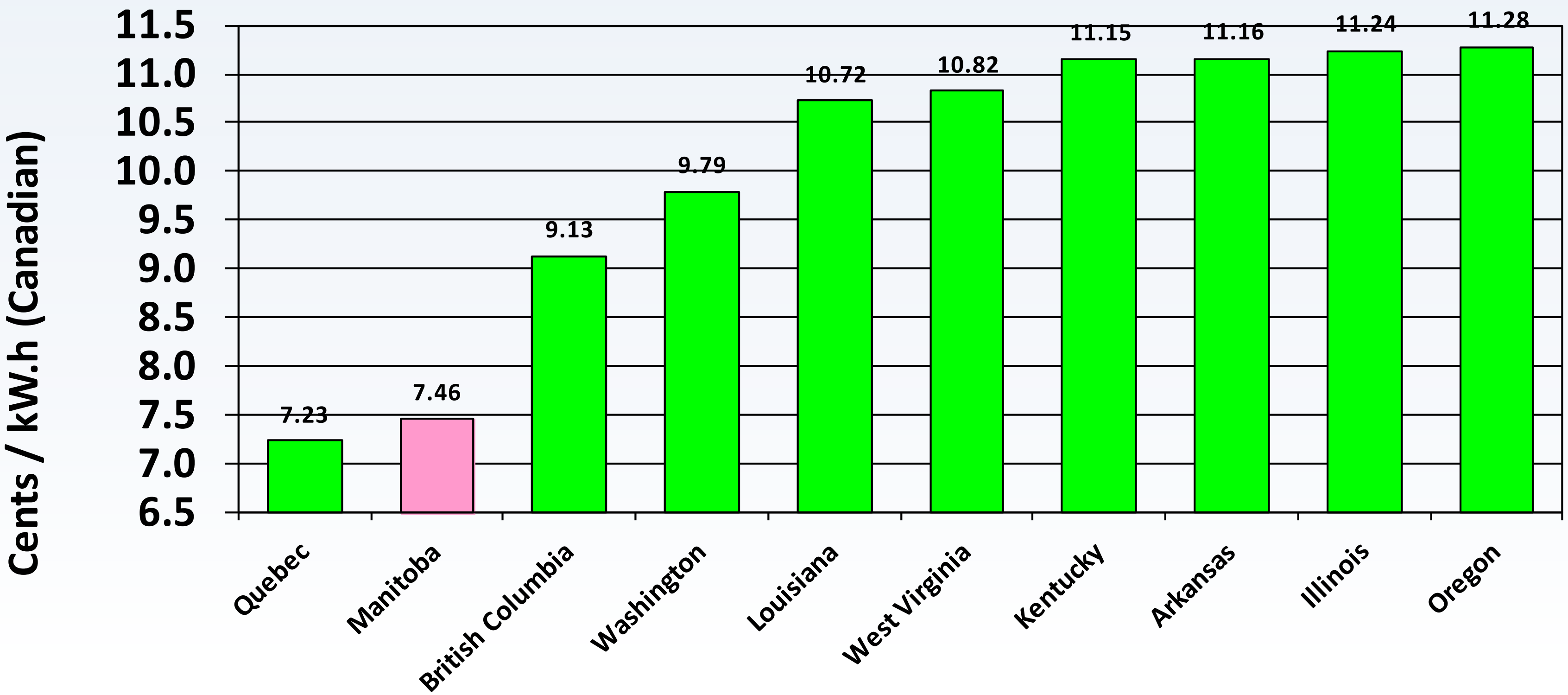
2013 Survey of Canadian Electricity Bills

GS Large Rate Comparison (Price per kWh)



Average Residential Price of Electricity

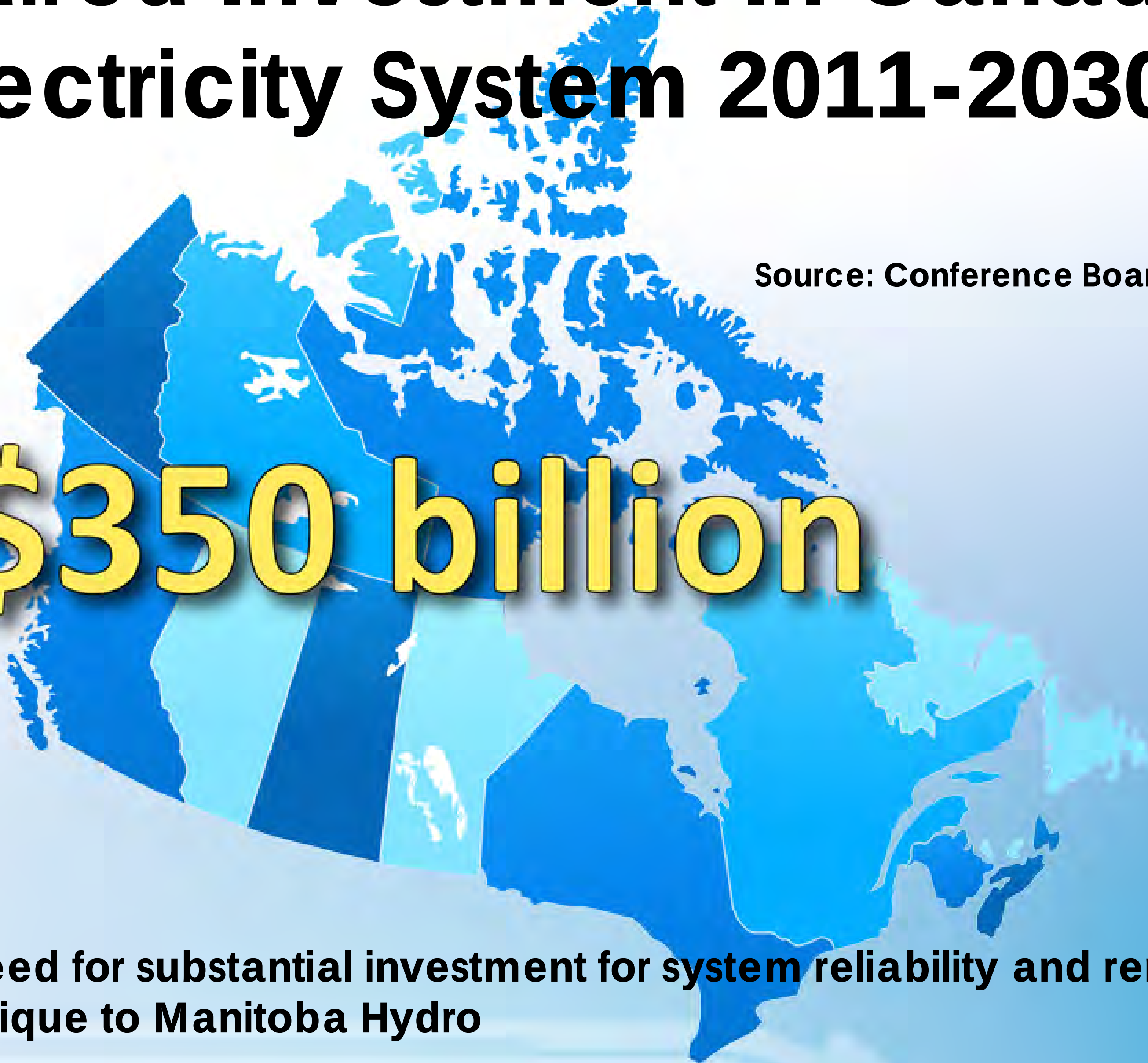
Ten Lowest Cost Provinces/ States in North America



Source: US Dept of Energy (June 2013) & Edison Electric Survey (June 2013)
(Exchange rate as of Feb 20,2014: 1 US$ = 1.1104 Cdn)

Required Investment In Canada's Electricity System 2011-2030

Source: Conference Board of Canada



$350 billion

- **The need for substantial investment for system reliability and renewal is not unique to Manitoba Hydro**
- **Utilities across Canada face the same challenges**

Recent Rate Increase Requests – Other Provinces

SaskPower seeks 15.5 per cent rate hike

CTV Regina

Published Friday, October 25, 2013 12:05PM CST

SaskPower has applied for a 15.5 per cent rate increase over three years.

The Crown corporation is asking for rate increases of 5.5 per cent next year, five per cent in 2015 and five per cent in 2016.

SaskPower says it needs to raise rates because demand for electricity is growing in Saskatchewan, while generation, transmission and distribution infrastructure is aging.

Ontario hydro bills to rise 42% in 5 years

604

BY ANTONELLA ARTUSO ,QUEEN'S PARK BUREAU CHIEF

FIRST POSTED: MONDAY. DECEMBER 02. 2013 01:43 PM EST | UPDATED: MONDAY. DECEMBER 02. 2013 03:47 PM EST

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

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

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

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

BC Hydro rates to increase 28 per cent over 5 years

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

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

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

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

Hydro-Québec rates to rise by 4.3 per cent as of April 1

The 4.3 per cent increase is the biggest hike in the last 10 years

CBC News Posted: Mar 06, 2014 7:12 PM ET | Last Updated: Mar 06, 2014 7:12 PM ET

Quebecers will be paying more for electricity starting April 1.

Quebec's energy board has approved a rate increase of 4.3 per cent.

This marks the highest increase since 2004.

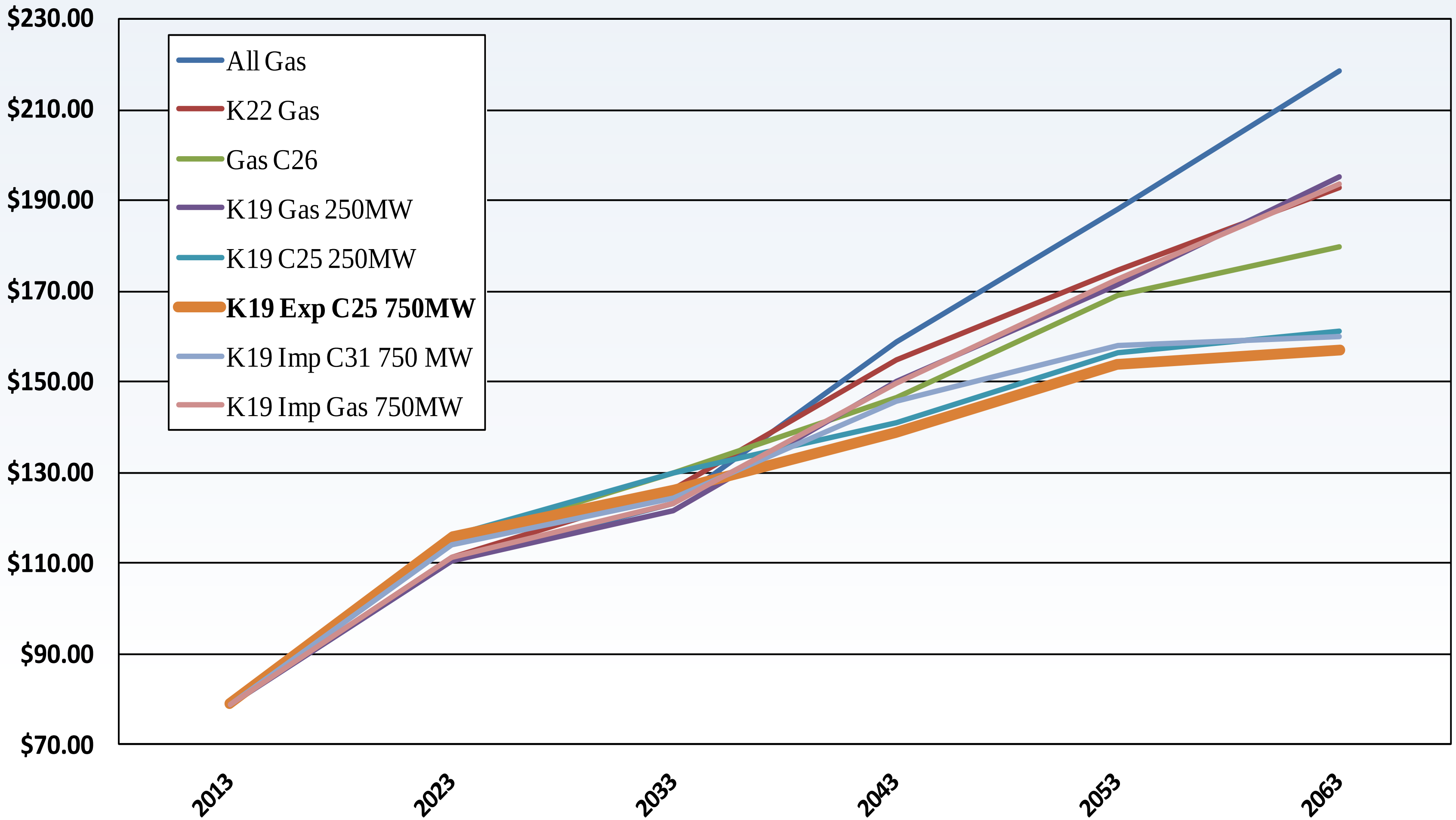
Hydro-Quebec had requested a 5.8 per cent increase this year, but the energy board decided that was too high.

Last year, rates went up 2.4 per cent.

Projected Monthly Residential Bills

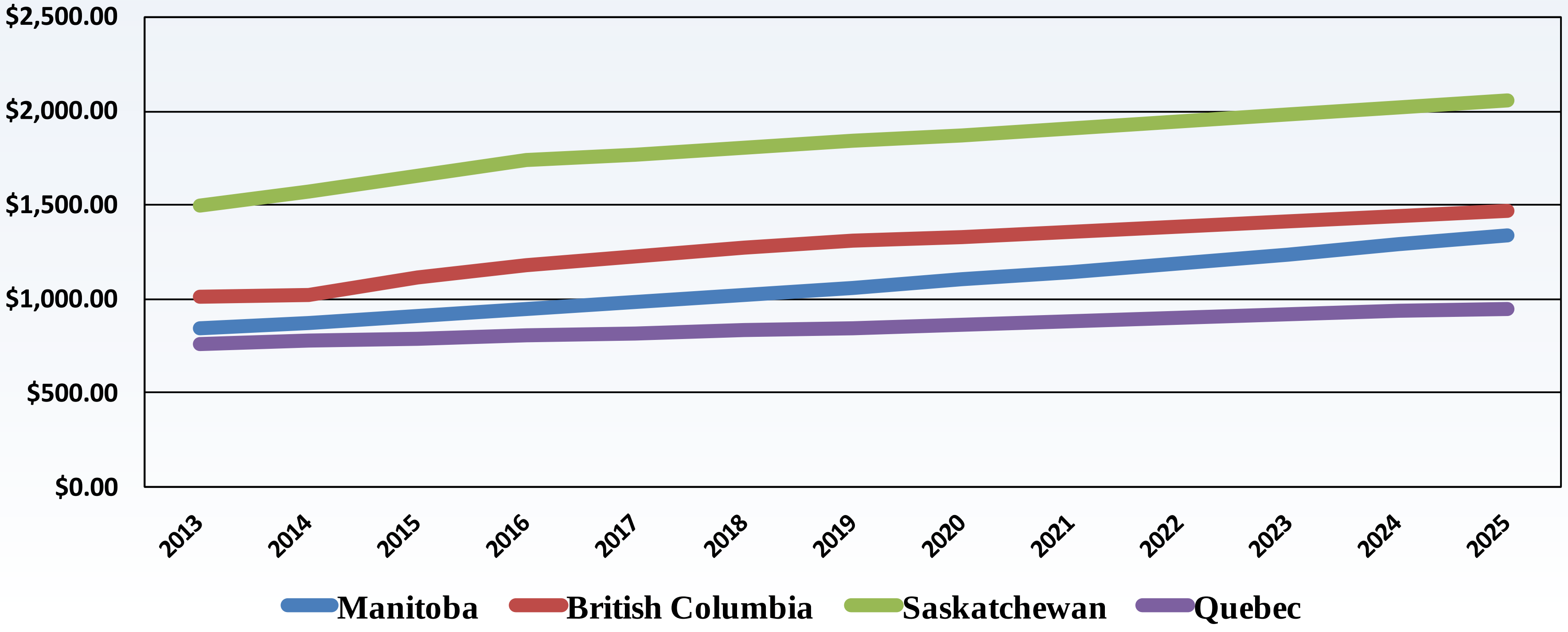
Based on 1000 kWh

CAC/MH I-140



Residential Annual Bill Comparisons

CAC/MH II-134b (Assuming MH projected rate increases and BC, SK & PQ approved or proposed rate increases with GDP deflator* thereafter)



*The GDP deflator is considerably less than the average rate increases proposed in these jurisdictions and may not reflect the trend in future rates.

Rate Comparison Summary

- Manitoba Hydro electricity rates are among the lowest in North America.
- Electric utilities in other jurisdictions are facing the same increased costs of maintaining existing infrastructure and developing new resources.
- Electric utilities in other jurisdictions are requesting or implementing rate increases much higher than the rate of inflation and higher than Manitoba Hydro projected rate increases.
- Manitoba Hydro electricity rates will continue to be affordable and competitive with other jurisdictions.

NFAT Financial and Rate Analysis

Impact on Manitoba Hydro’s Customer Rates

Financial Evaluation Assumptions & Methodology

- Financial evaluation compares the year-by-year impacts of each of the development plans on Manitoba Hydro's projected financial statements and customer rates.
- Overlays development plan assumptions on the revenue and cost, balance sheet and cash flow projections for the <u>entire</u> electric operations, including existing infrastructure.
- Development plans are evaluated by extending IFF12 and modifying for preliminary 2013 forecast of electricity export prices
- IFF12 (adjusted) is modified for the generation costs and transmission associated with the type of facility and timing for each development plan

Financial Evaluation Assumptions & Methodology

- Capital costs are reflected in the balance sheet
  - Construction in progress until in-service
  - Property, plant & equipment following in-service
- Once in-service, capital costs are reflected on the income statement in depreciation on a straight-line basis over the useful life of the asset:
  - Hydro generation 20-125 years
  - Gas generation 30 years
  - Transmission substations 35 years
  - Transmission lines 50 years
- Incorporates the flow-related production costs and revenues associated with the facilities for each development plan
  - Production costs include import purchases, wind purchases, thermal fuel and direct operating costs of the facilities
  - Surplus energy, after serving domestic and firm exports, is assumed to be sold as firm (if available from dependable energy) and as opportunity (for any additional in excess of dependable).

Financial Evaluation Assumptions & Methodology

- Uses the same assumptions from economic evaluations converted from real to nominal dollars.
- General consumers revenue reflects sales to Manitoba customers, including load growth, at rates approved by the PUB
  - Does not change under differing development plans
- Annual borrowing requirements are calculated based on the cash flow surplus or deficit for each development plan based on both existing infrastructure and new generation and transmission associated with the specific development plan.
- Annual finance expense is calculated based on the existing debt portfolio plus the projected annual borrowing requirements.

Financial Evaluation Assumptions & Methodology

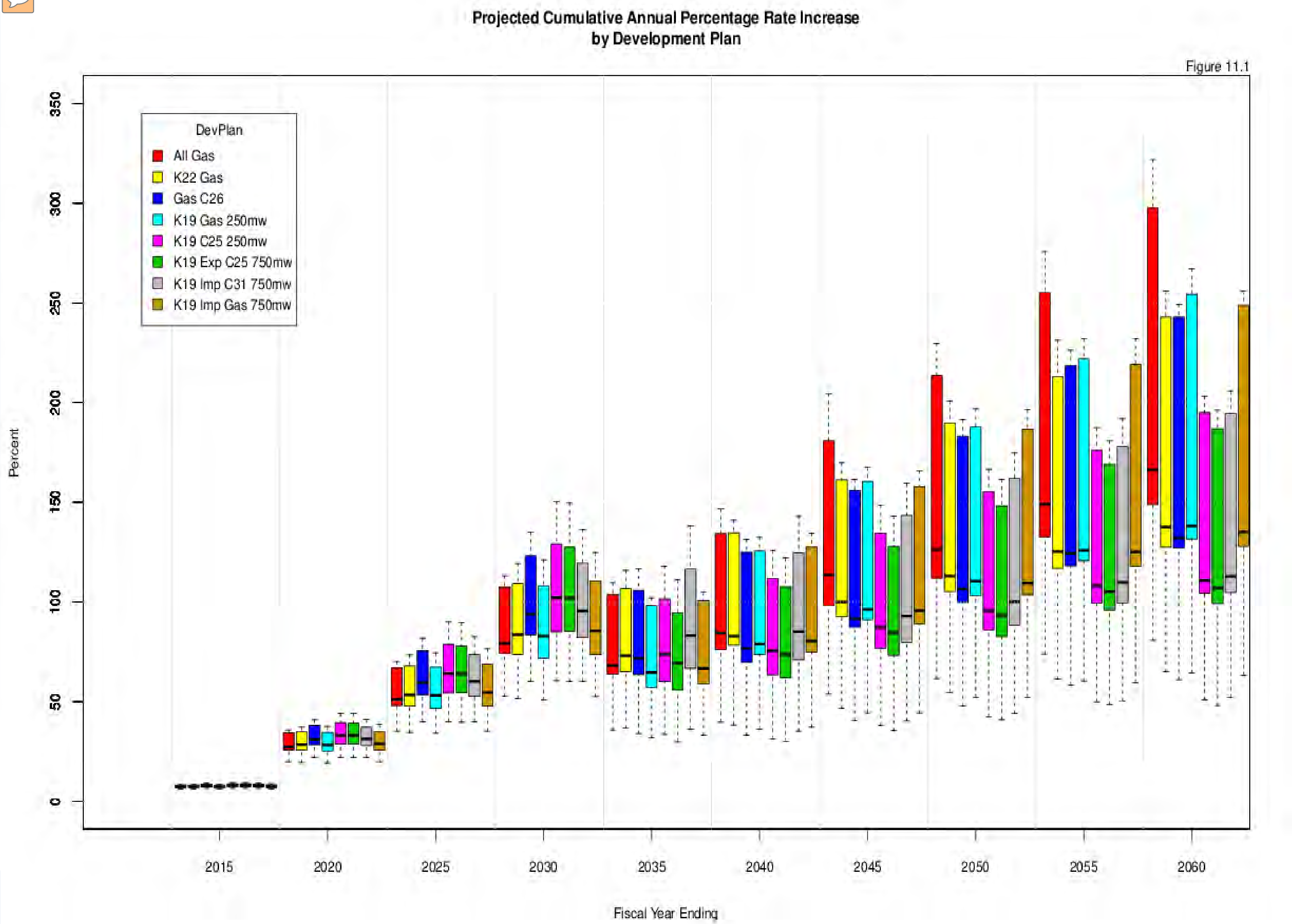
- General consumers revenue additional reflects the incremental revenue required to recover costs for both existing infrastructure and the development plan.
- Manitoba Hydro has a long-standing strategy of gradualism in its approach to developing rate proposals.
- Under cost of service regulation, cost recovery is smoothed out over time by absorbing some of the cost into retained earnings on a temporary basis, if prudent, allowing sufficient time for export revenue benefits to accrue.
- Due to the volume of projections evaluated, Manitoba Hydro applied a mechanical approach using a set of fixed parameters consistent with the Corporations financial targets to derive the annual rate adjustments – removes judgment and subjectivity.
- Given that a timely return to the targeted 75:25 debt/equity ratio is prudent, the financial analysis assumes even-annual rate increases in order to achieve the targeted debt/equity ratio by the end of 2031/32, similar to the approach used in IFF12.

Financial Evaluation Assumptions & Methodology

- Once the debt/equity target is reached, the projected comparative annual rates for the remainder of the 50-year financial forecast period are derived based on the corporation's interest coverage ratio target of 1.20.
- Strictly adhering to the financial targets results in projected rate increases that are at times well above the rate of inflation and at other times result in rate reductions – in practice, these would be smoothed over a period of time.
- Rate increases are indicative for comparability purposes between plans
- Actual rate increases will vary from those projected in this analysis and will be dependent upon future revenue requirements
- Numerous factors, other than the choice of development plan, may influence the revenue requirement, such as changing water flow conditions, weather, costs to maintain the system, and economic variables.
- Future rate proposals will be subject to full justification as part of General Rate Applications before the Public Utilities Board.

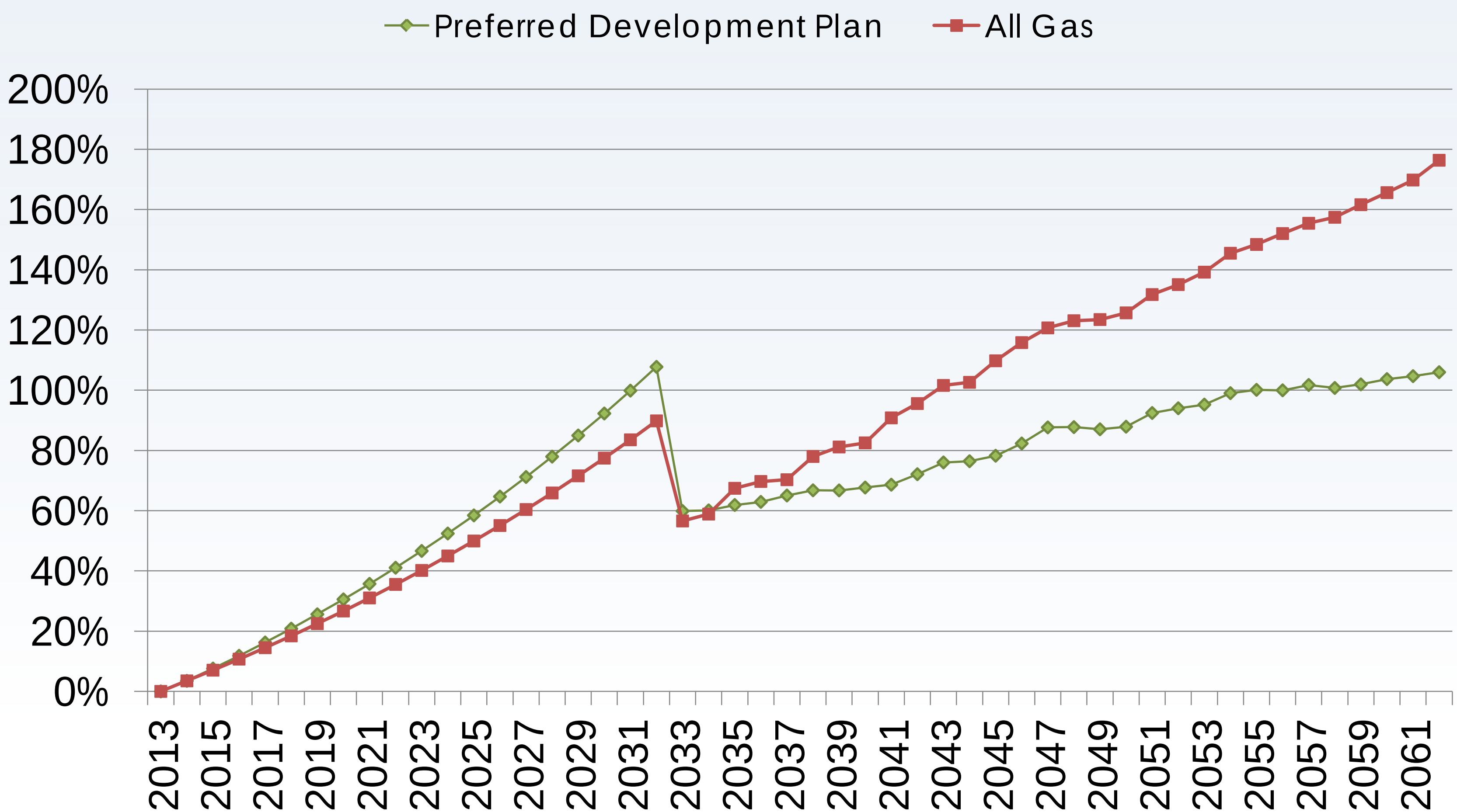
Financial Evaluation Assumptions & Methodology

- Approximately $1.2 and $0.4 billion is projected to be incurred to June/14 in nominal dollars to protect the early in-service dates of Keeyask and Conawapa, respectively.
- For NFAT financial evaluation purposes, a simplifying assumption was made to expense all sunk costs over an 18-year amortization period.
- If CEC or NFAT regulatory approvals are not received or the Corporation defers one or both plants, costs deemed to no longer provide future benefit must be expensed.
- Manitoba Hydro would periodically analyze the nature of the costs to determine their future benefit – some costs have longer expected future benefits while others have shorter.

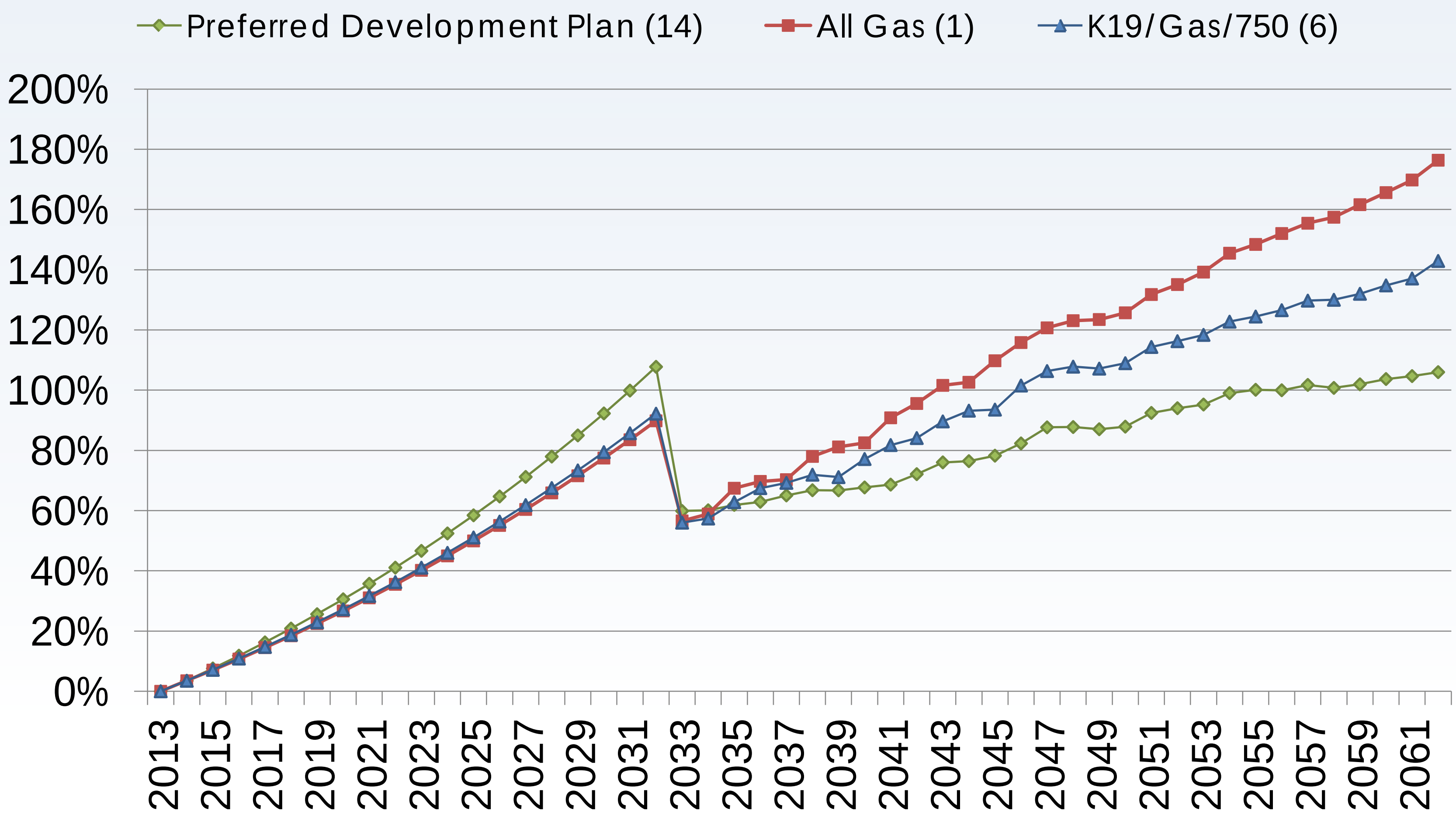

Projected Cumulative Annual Percentage Rate Increase
by Development Plan
Figure 11.1
DevPlan
All Gas
K22 Gas
Gas C26
K19 Gas 250mw
K19 C25 250mw
K19 Exp C25 750mw
K19 Imp C31 750mw
K19 Imp Gas 750mw
Percent
0
50
100
150
200
250
300
350
2015
2020
2025
2030
2035
2040
2045
2050
2055
2060
Fiscal Year Ending

Cumulative Rate Increases (Nominal) Reference Scenario

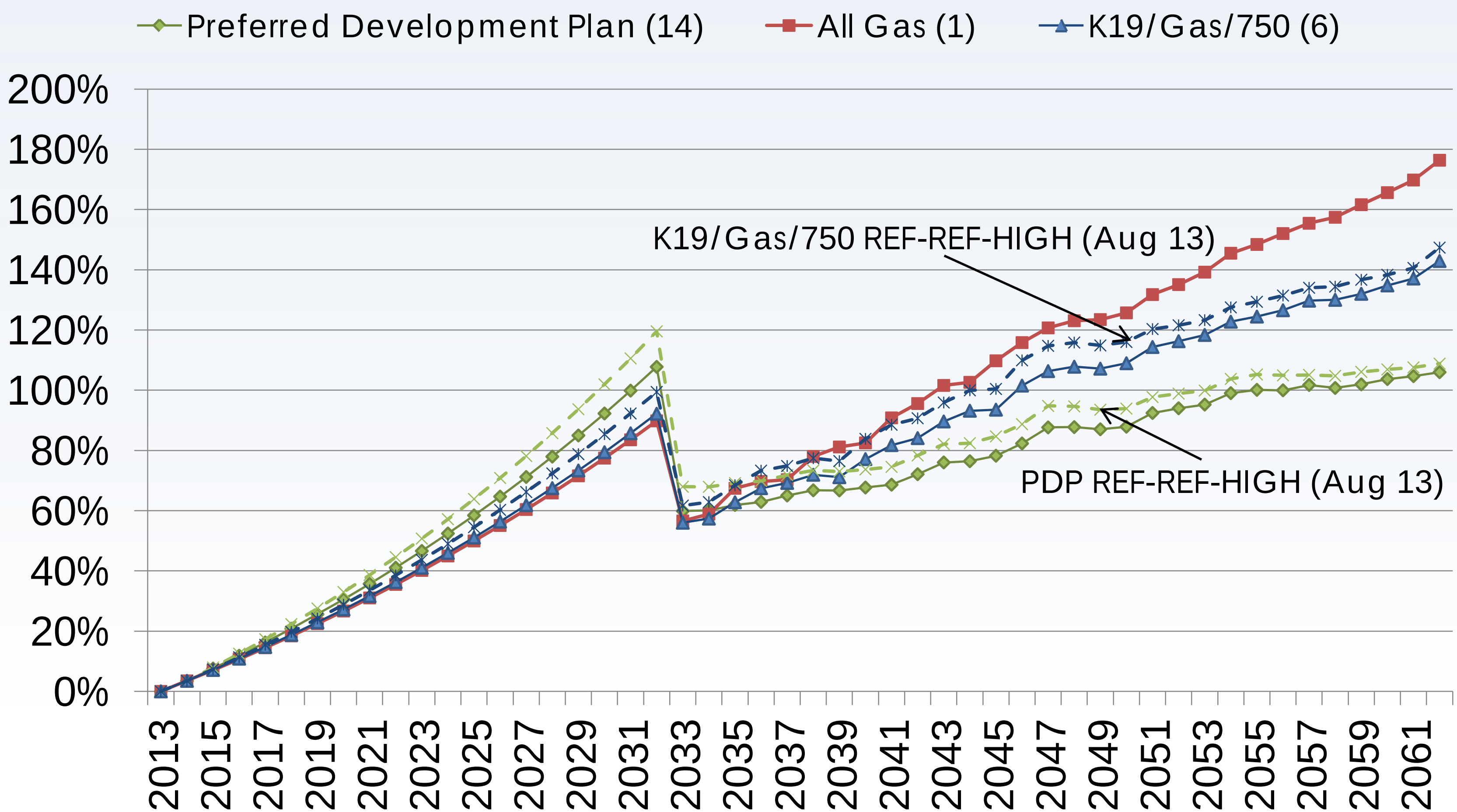
Cumulative Rate Increases (Nominal) Reference Scenario



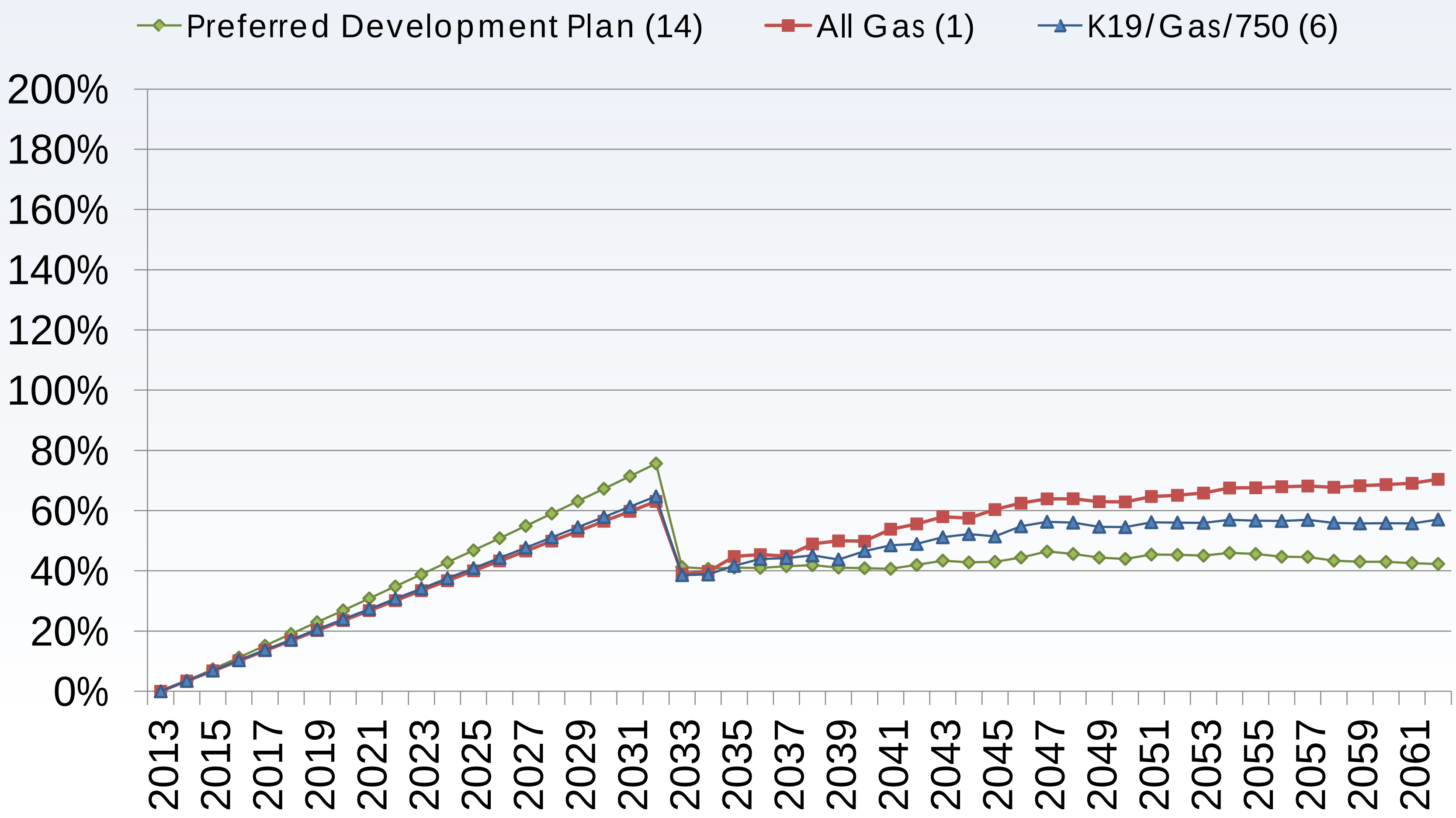
Cumulative Rate Increases (Nominal) Reference Scenario



Cumulative Rate Increases (Nominal) Reference Scenario



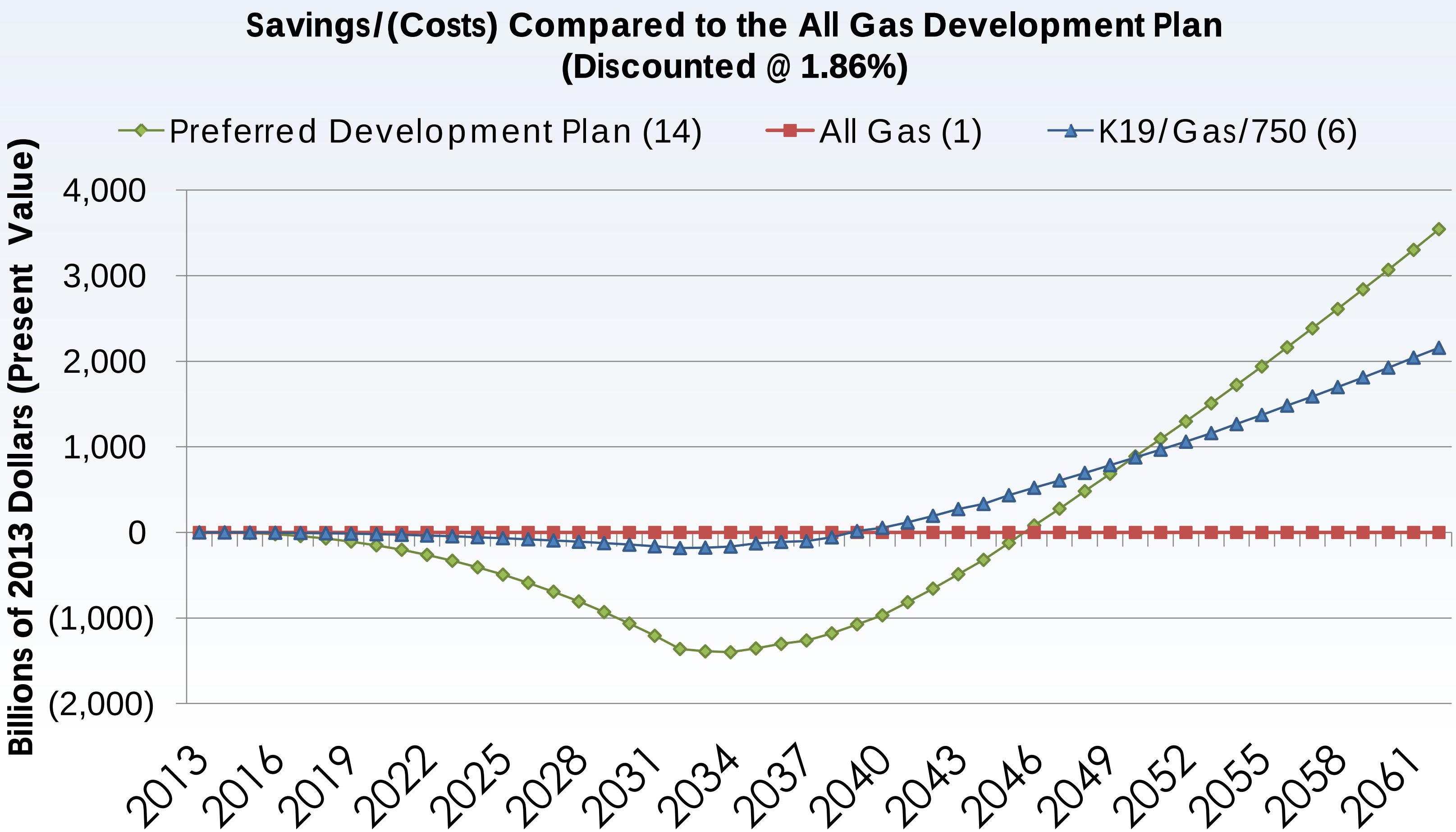
Cumulative Rate Increases (Real 2013 = 100) Reference Scenario



Cumulative PV of Consumers Revenue

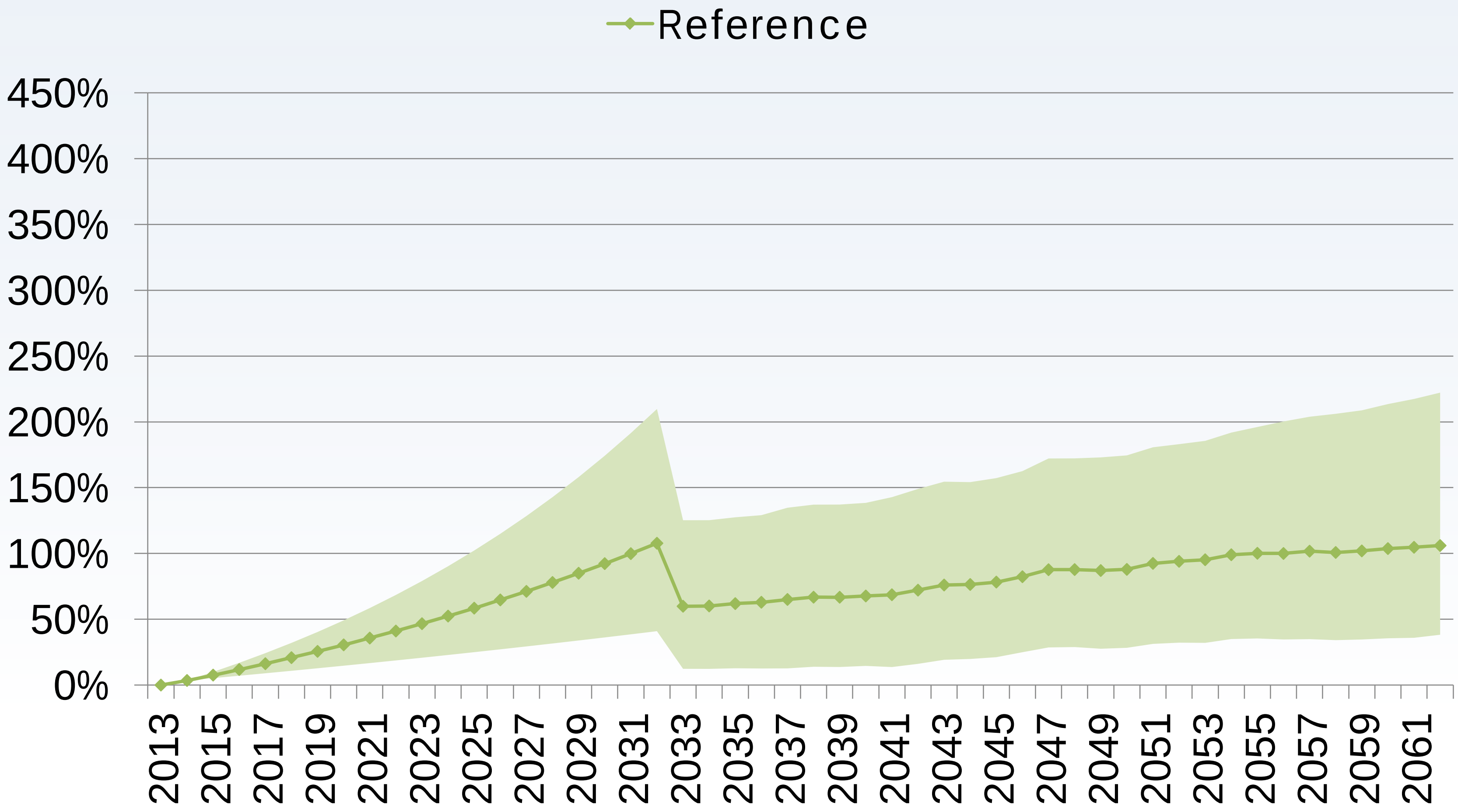
- Based on economic theory, discounted at the social time preference rate
- Addresses the relative patience or impatience for consumption and intergenerational equity
- 1.86% calculated based on projected real return on short term Canadian T-Bill, not adjusted for income taxes
- Reflects Manitoba Hydro's investment in province's public infrastructure – long-lived assets of 100 years or more
- Does not reflect WACC
  - Cost of Corporate debt and equity reflected in the consumers revenue
- Does not reflect high investment threshold for the private sector represented by cost of capital – this is in the economic analysis

Cumulative PV of Consumers Revenue Reference Scenario

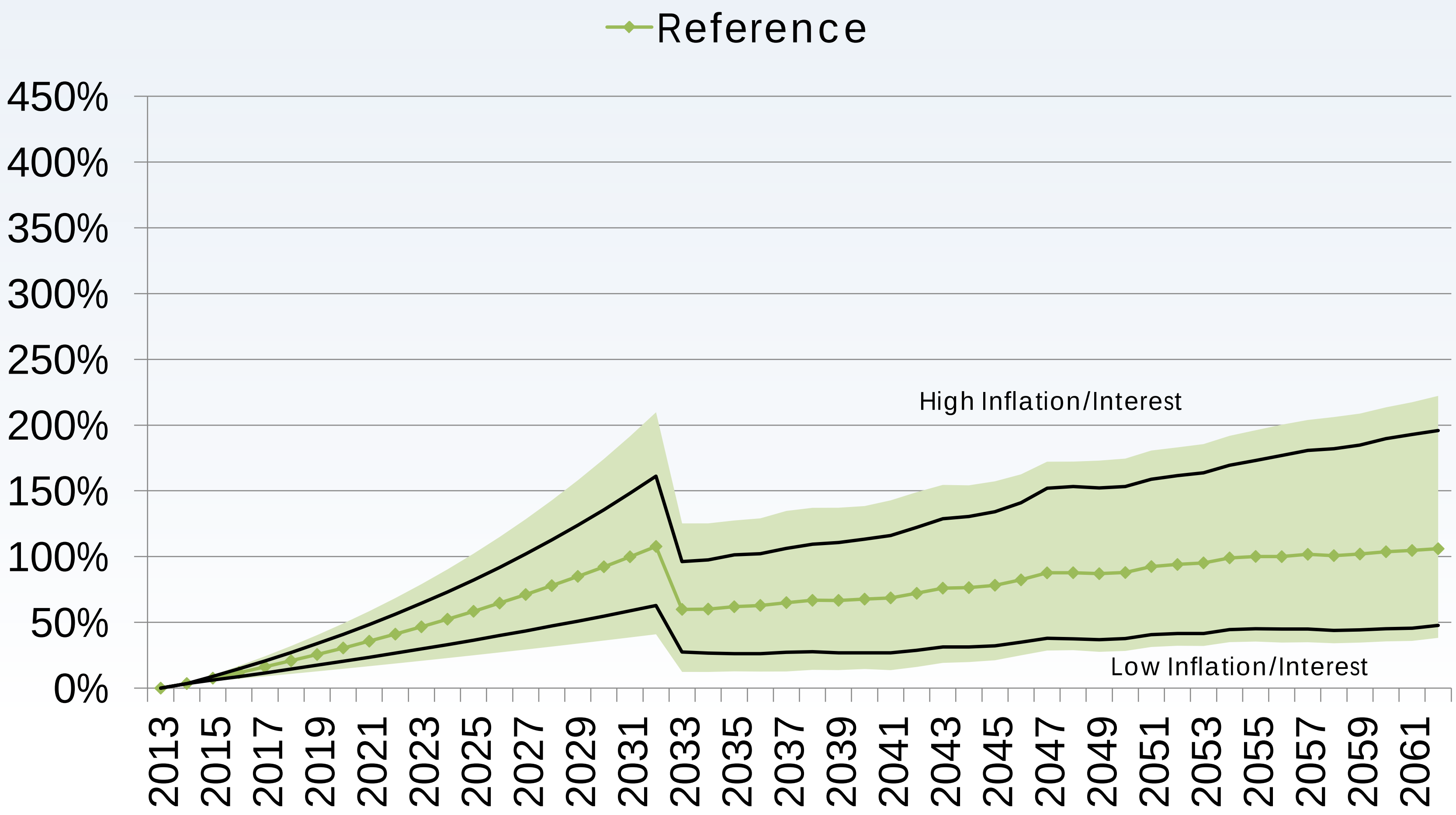


Uncertainty Analysis

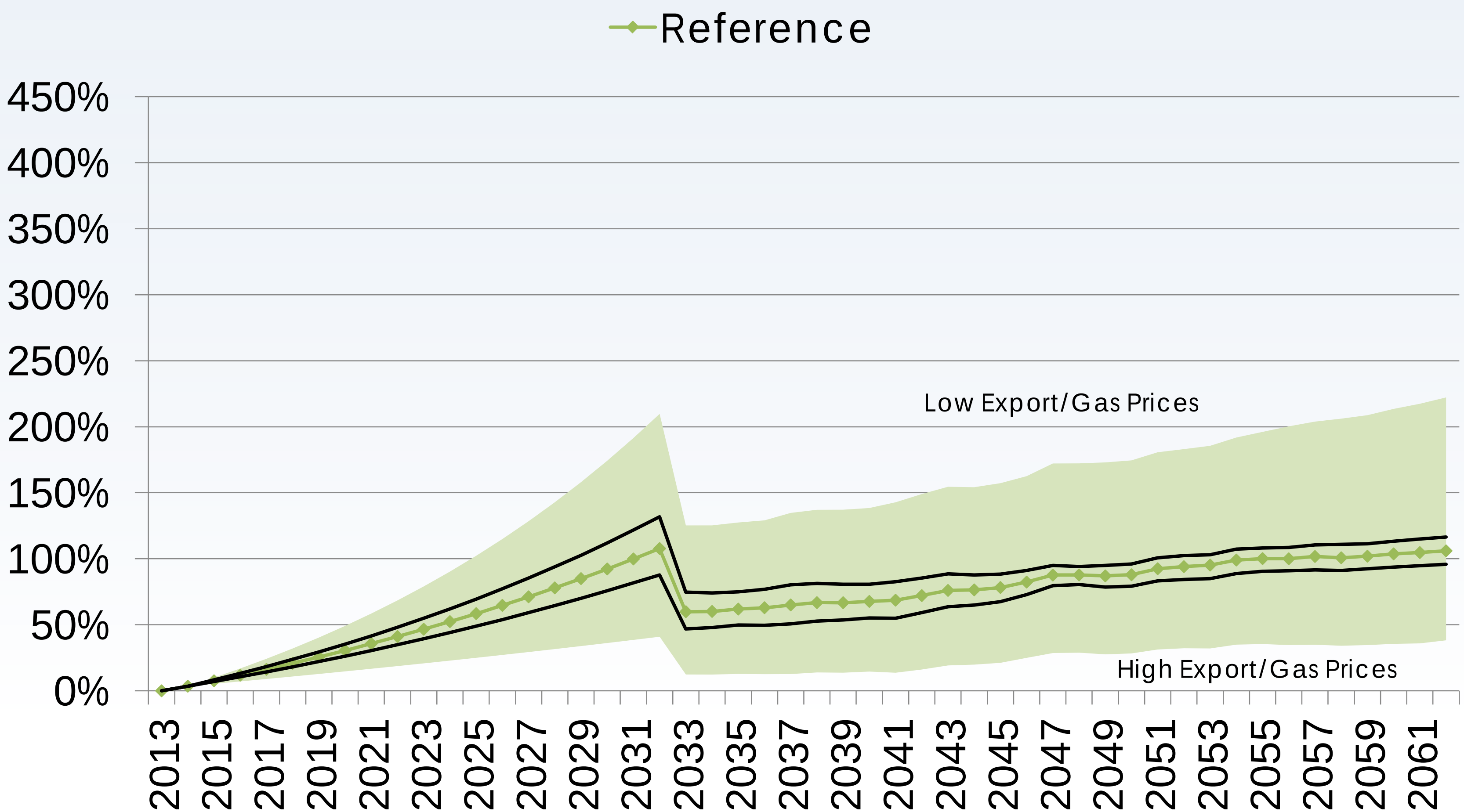
Cumulative Rate Increases (Nominal) Preferred Development Plan (14)



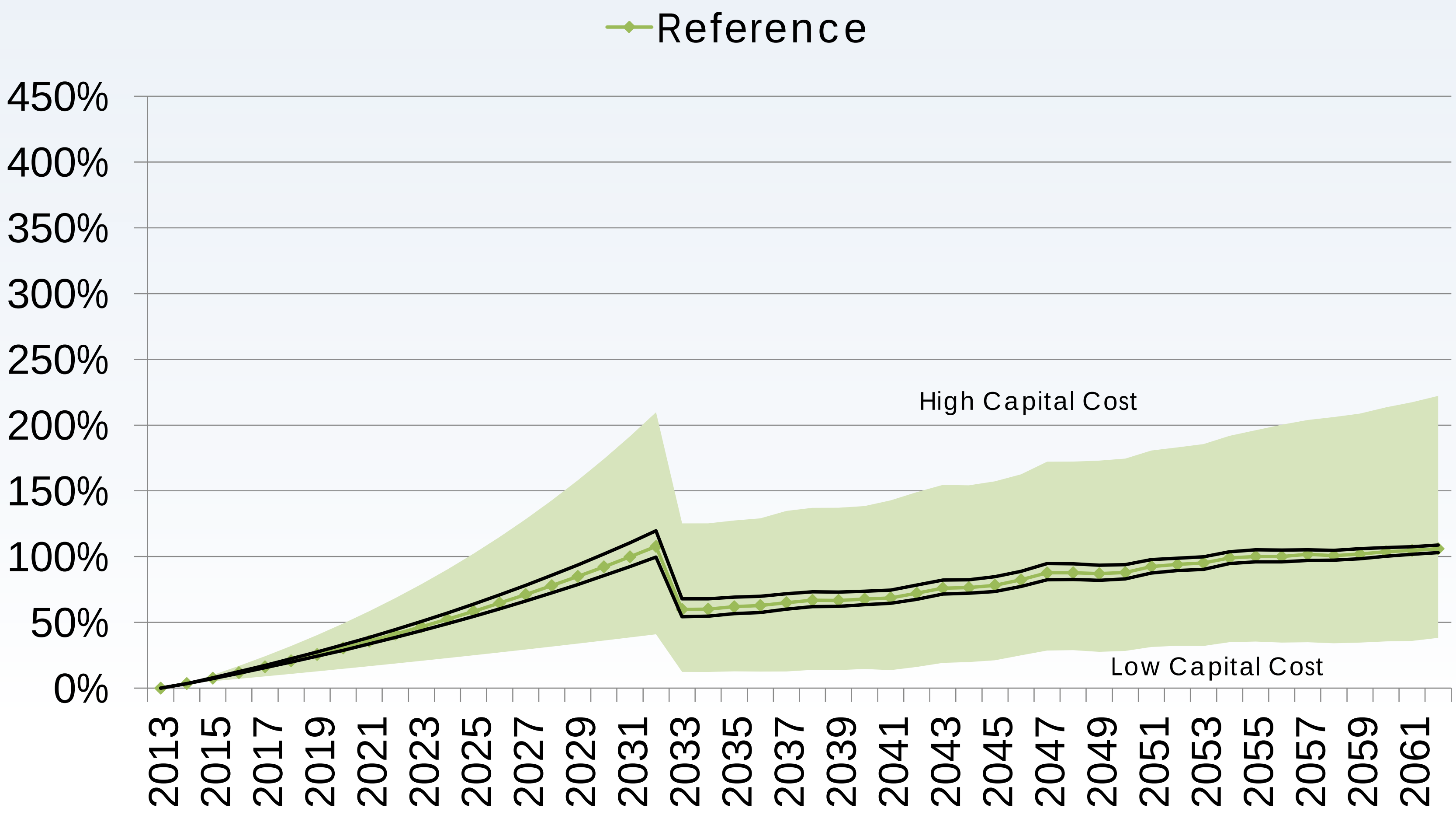
Cumulative Rate Increases (Nominal) Preferred Development Plan (14)



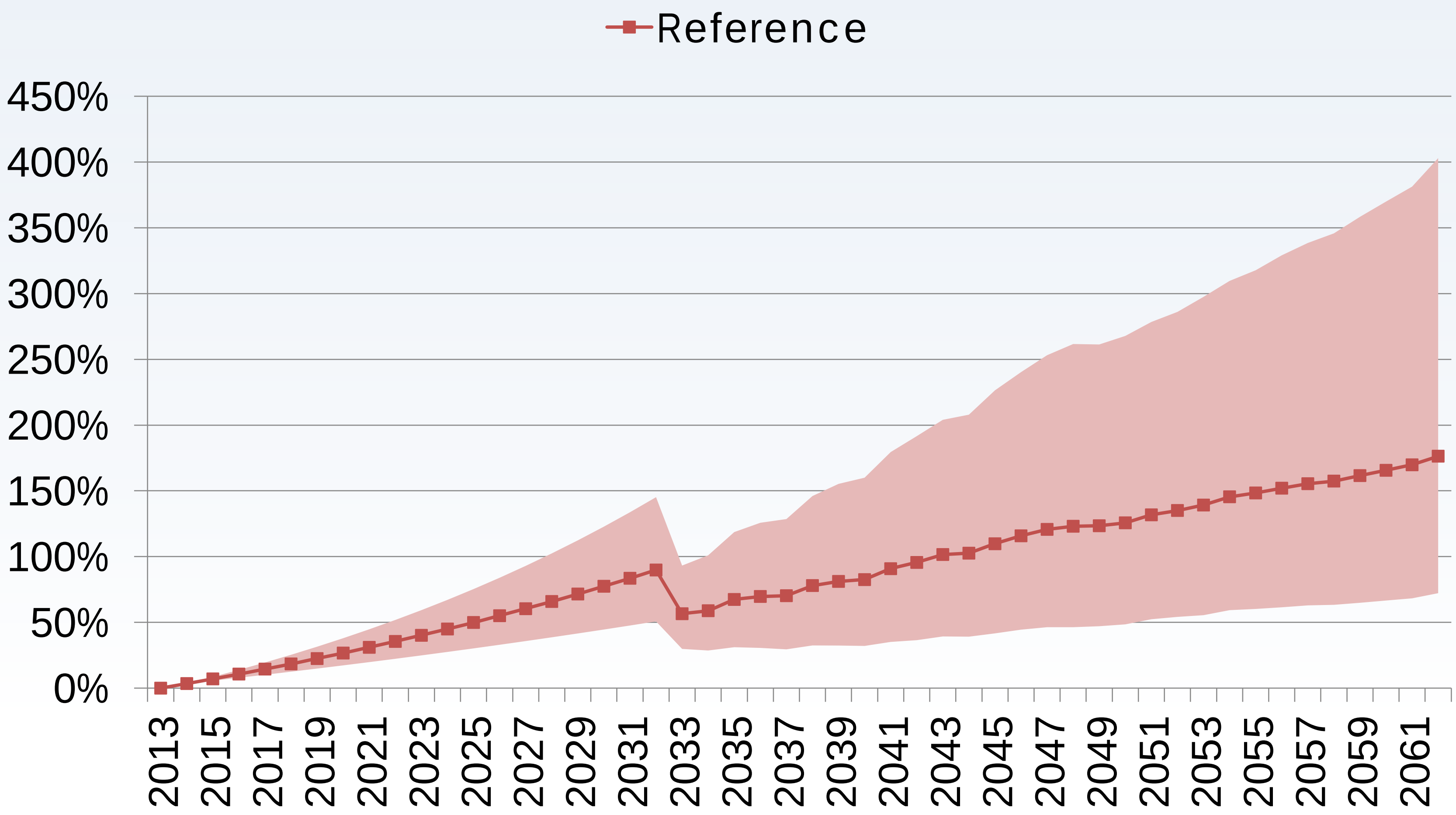
Cumulative Rate Increases (Nominal) Preferred Development Plan (14)



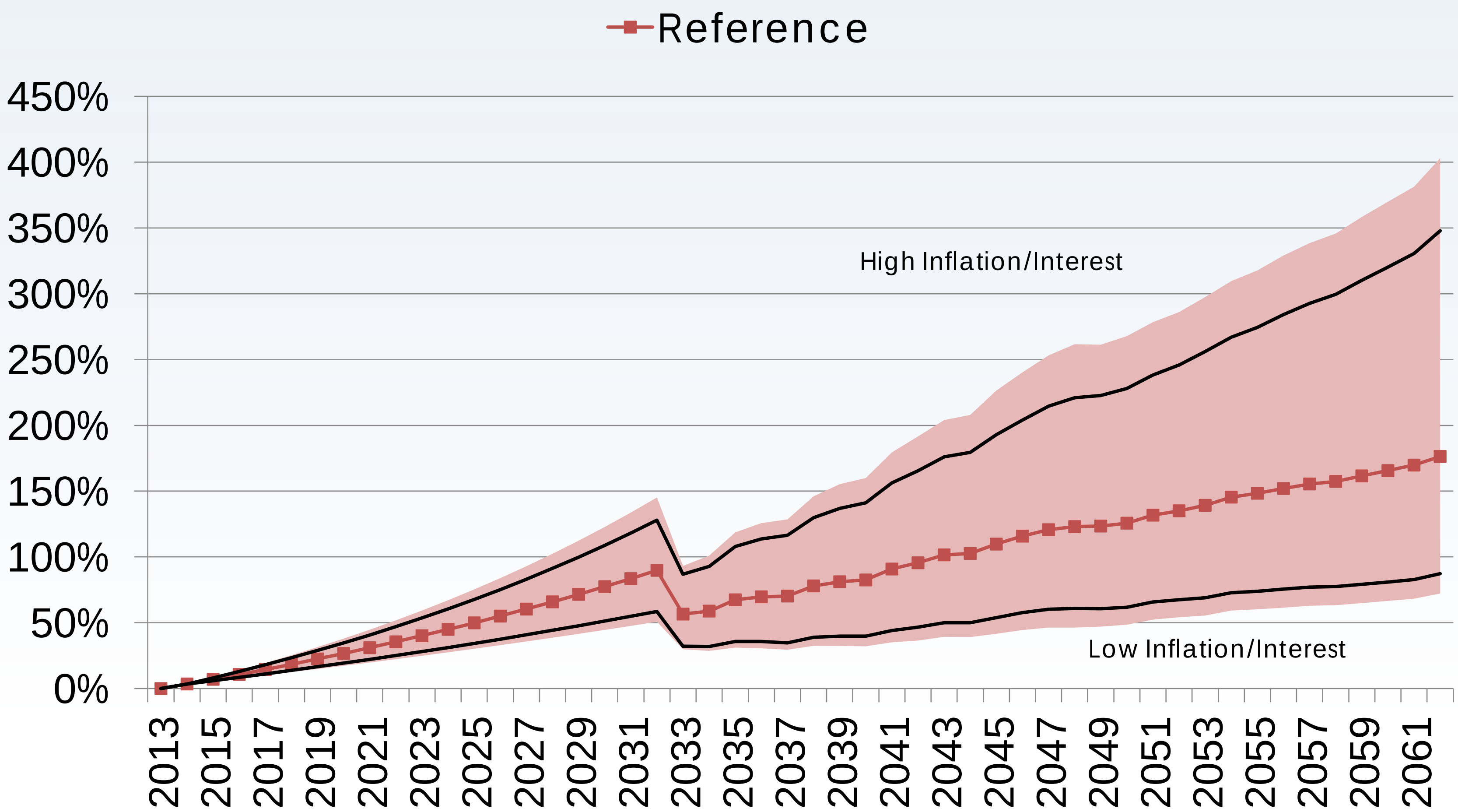
Cumulative Rate Increases (Nominal) Preferred Development Plan (14)



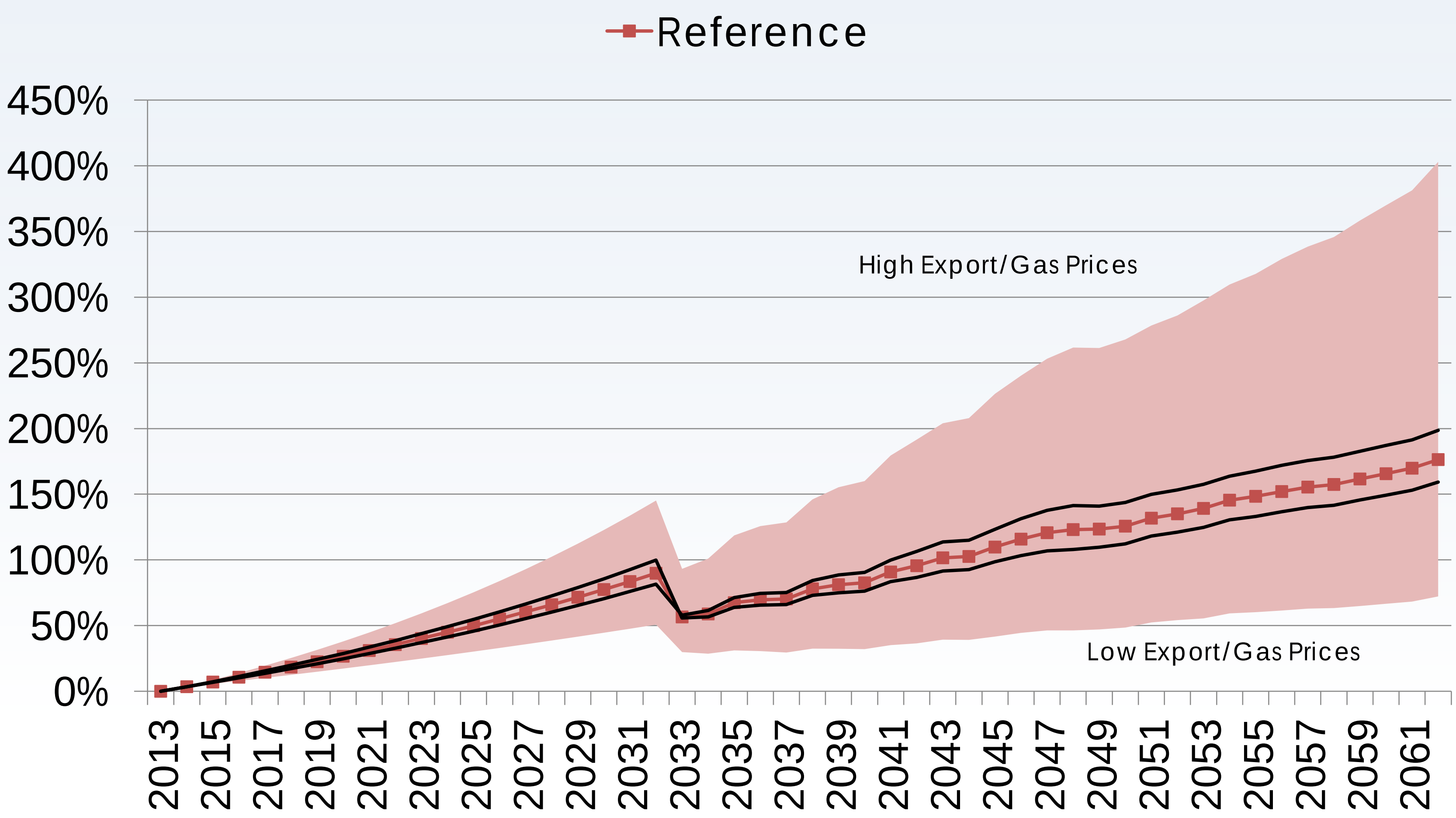
Cumulative Rate Increases (Nominal) All Gas Development Plan (1)



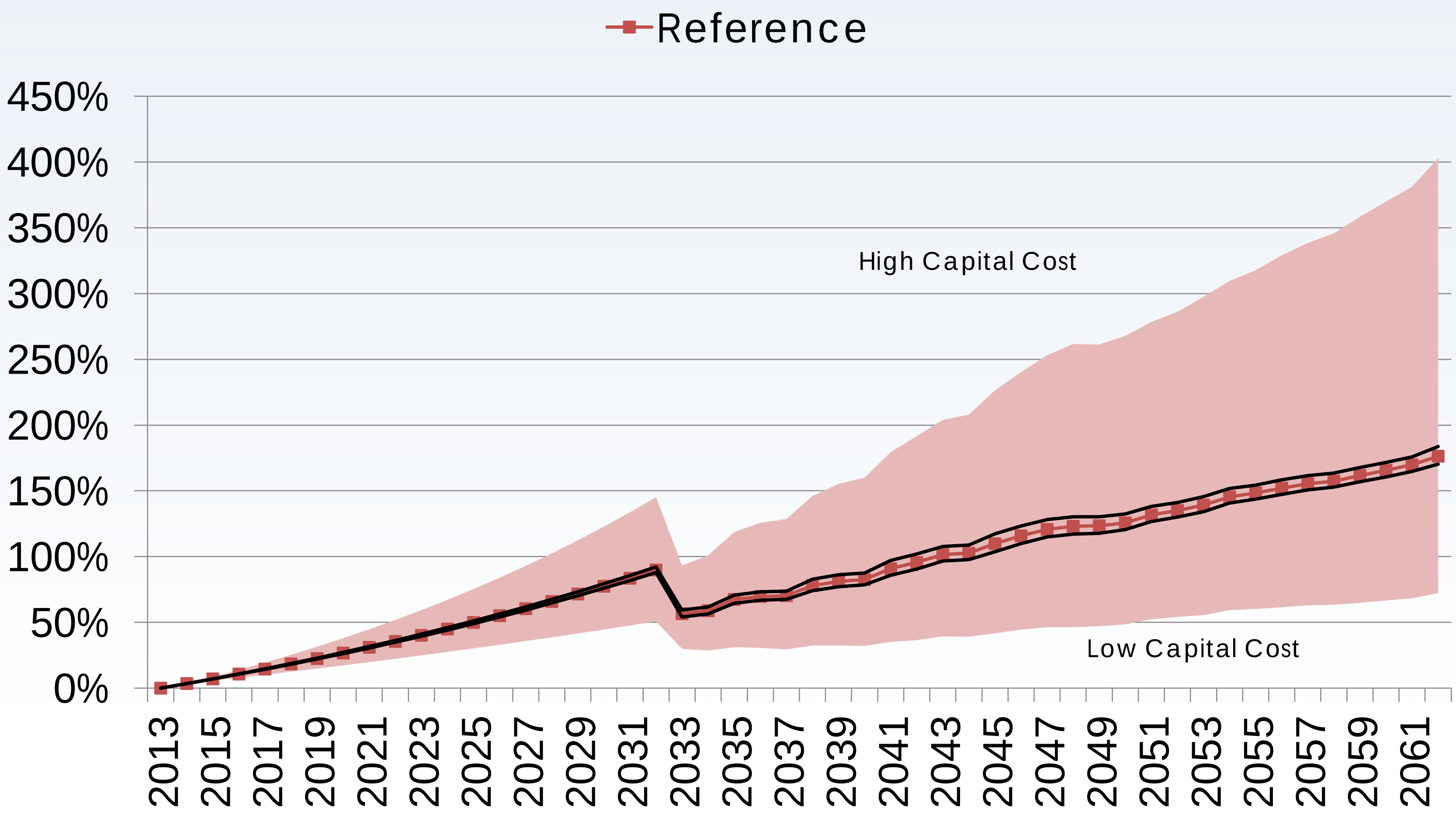
Cumulative Rate Increases (Nominal) All Gas Development Plan (1)



Cumulative Rate Increases (Nominal)
All Gas Development Plan (1)



Cumulative Rate Increases (Nominal)
All Gas Development Plan (1)



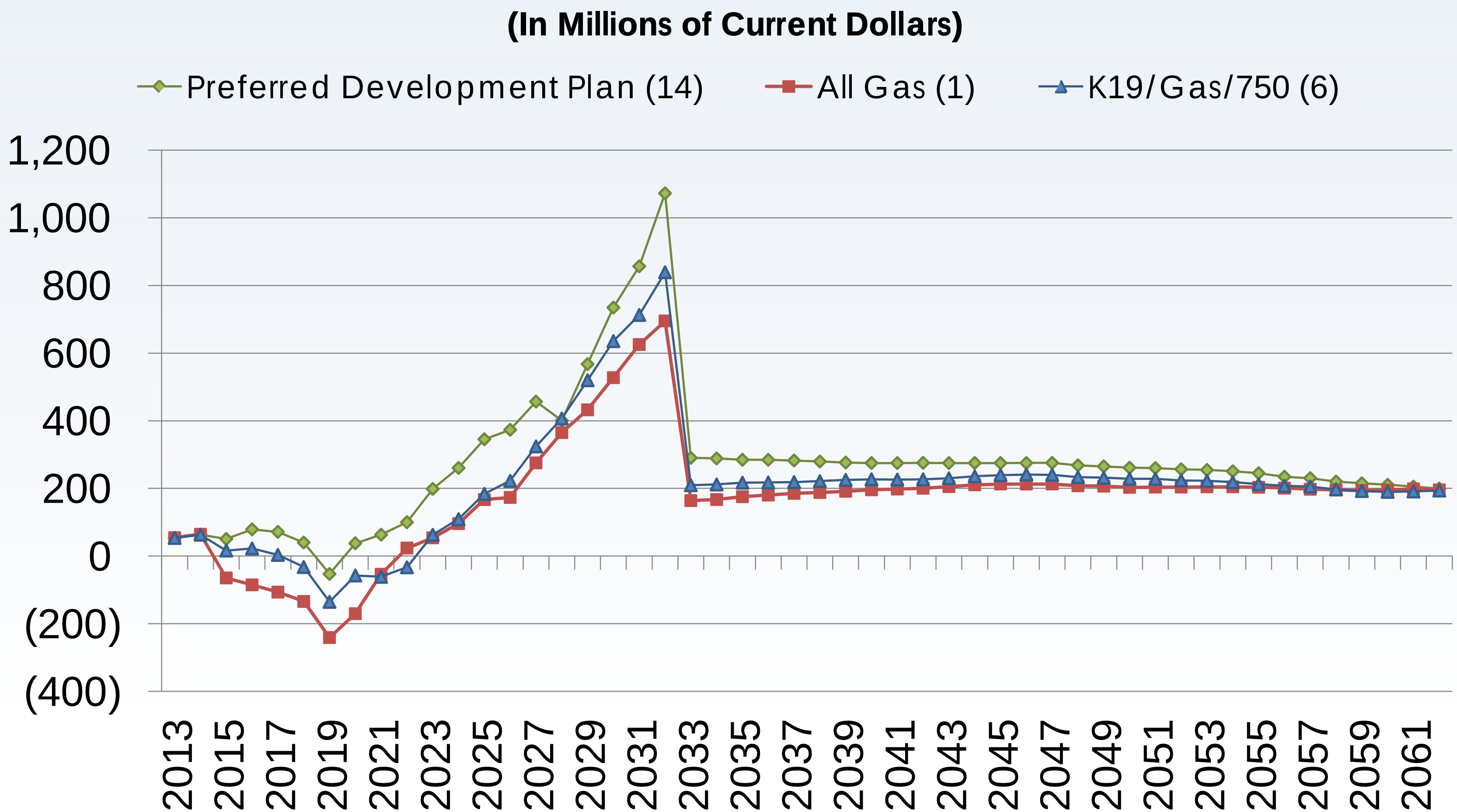
Customer Rates Summary

- Rate increases above the rate of inflation are required under all scenarios due to investments in existing infrastructure and reliability and reductions in non-firm export prices compared to those of a few years ago.
- Rate increases in the period to 2032 are moderately higher under the PDP than All Gas and Keeyask/Gas/750.
- Under the reference scenario, the PDP rates are lower than All Gas and Keeyask/Gas/750 by 2035.
- On a present value basis, the PDP consumers revenue is lower than All Gas by 2046 and lower than Keeyask/Gas/750 by 2050.
- Costs of the Preferred Development Plan do not directly affect Manitoba Hydro’s electricity rates today.
  - Costs are deferred until in-service at which time they are included in net income and revenue requirement and amortized over the lives of the associated assets.
- Once in operation, the Preferred Development Plan is anticipated to assist in maintaining affordable and competitive Manitoba Hydro rates.
  - Costs are spread over a very long time matching when customers receive the benefits,
  - Carrying costs decline over time, and
  - Exports offset costs passed on to ratepayers.

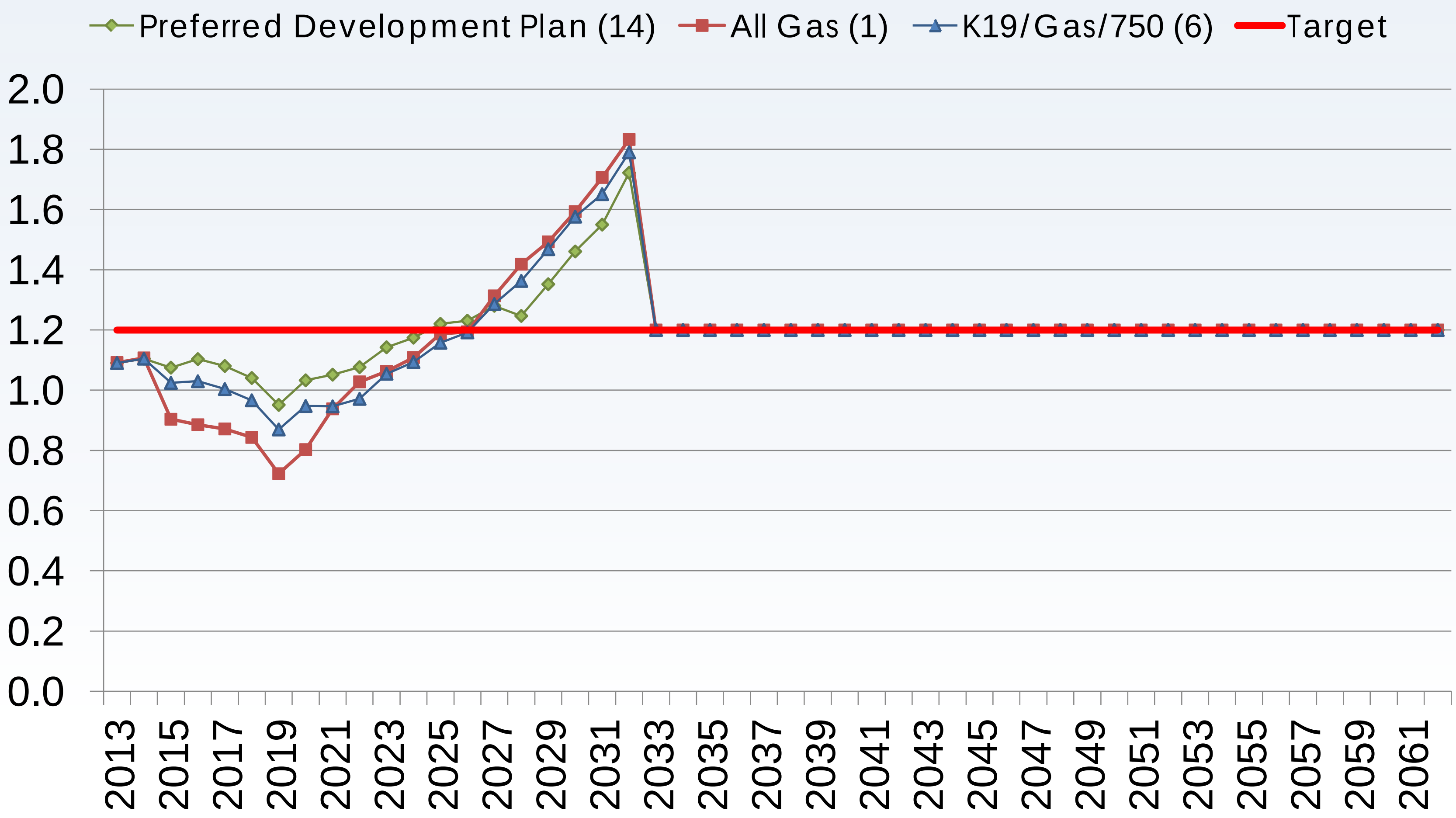
NFAT Financial and Rate Analysis

Impact on Manitoba Hydro’s Financial Position

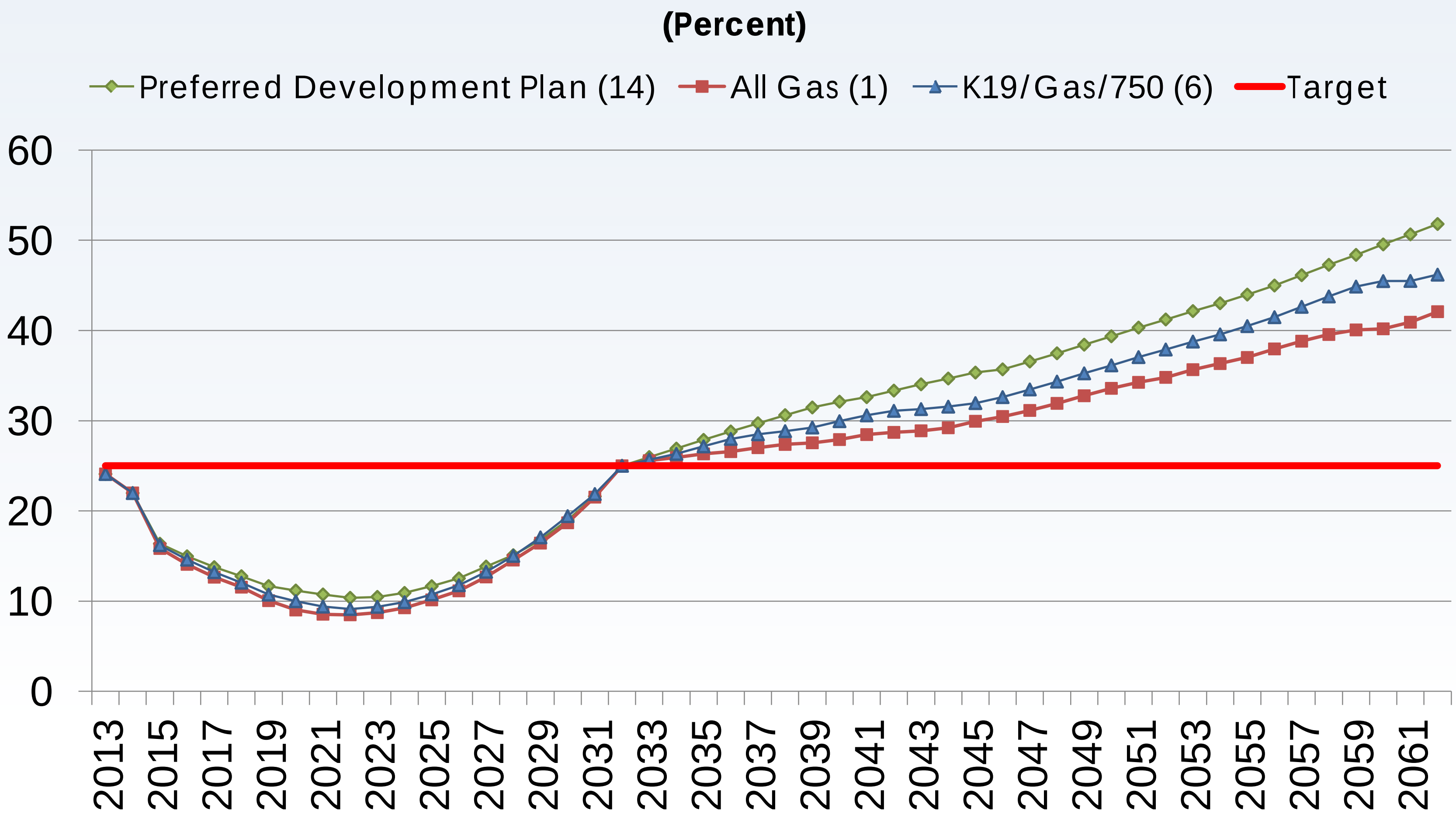
Net Income
Reference Scenario



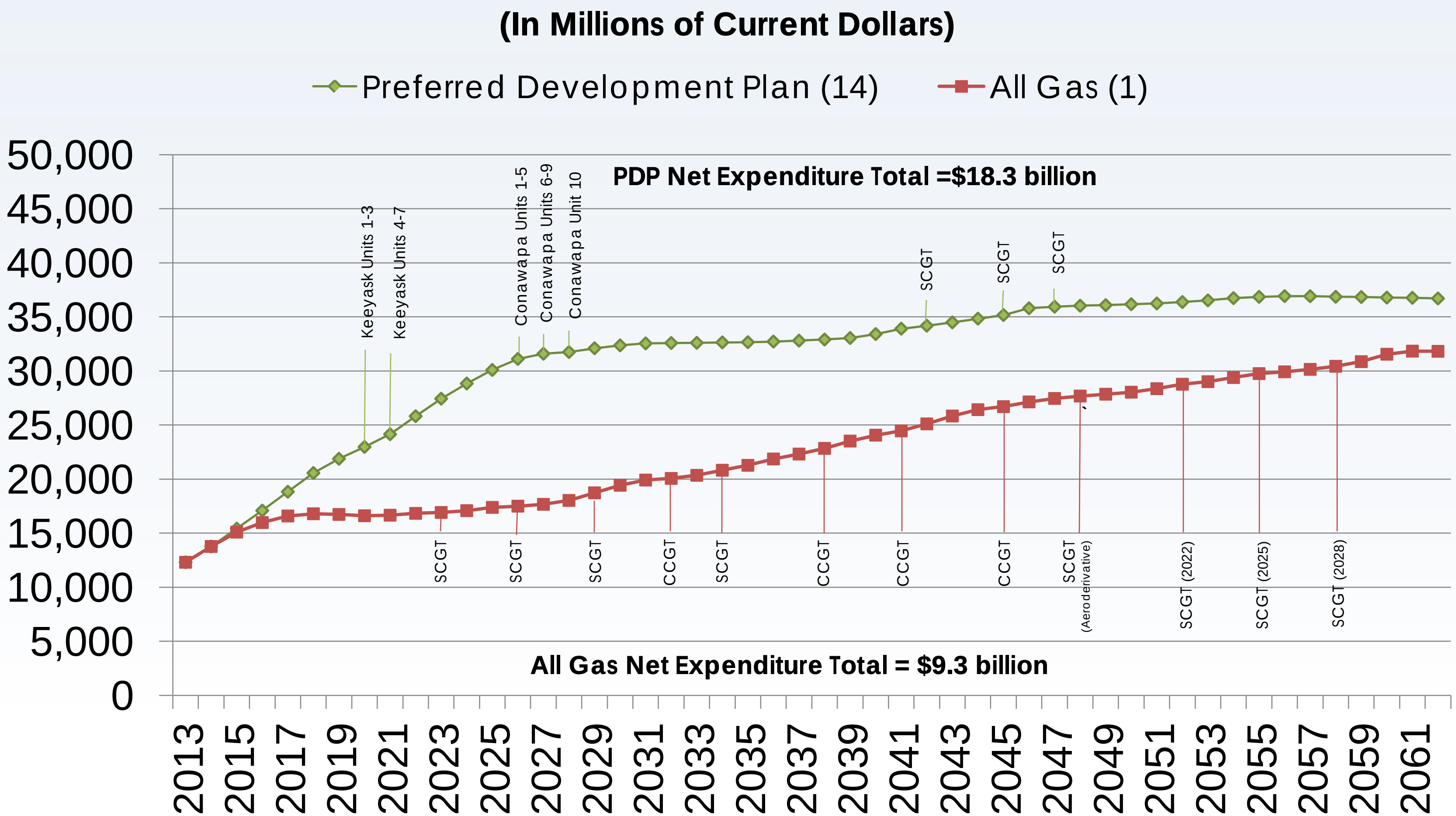
Interest Coverage Ratio
Reference Scenario



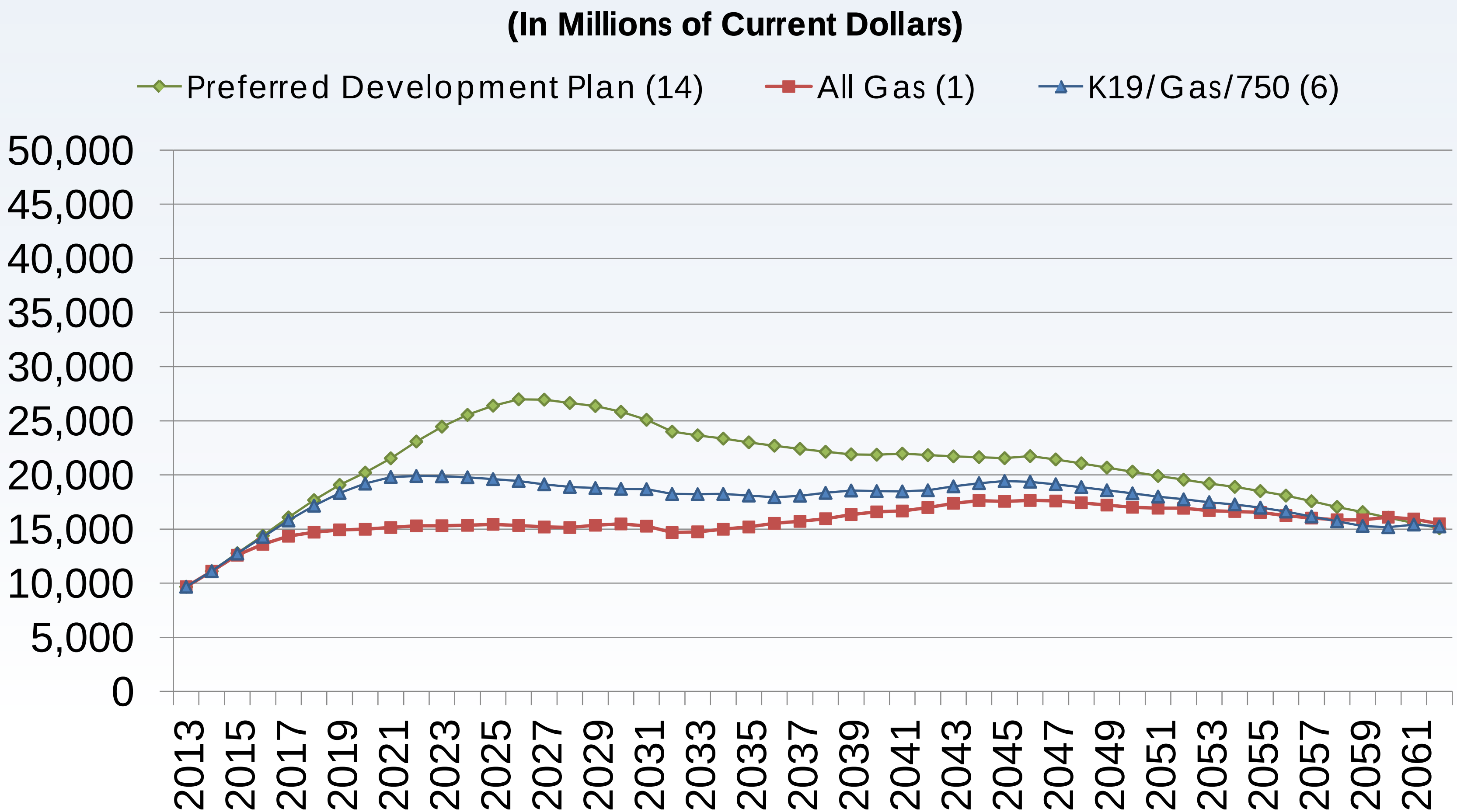
Equity Ratio
Reference Scenario



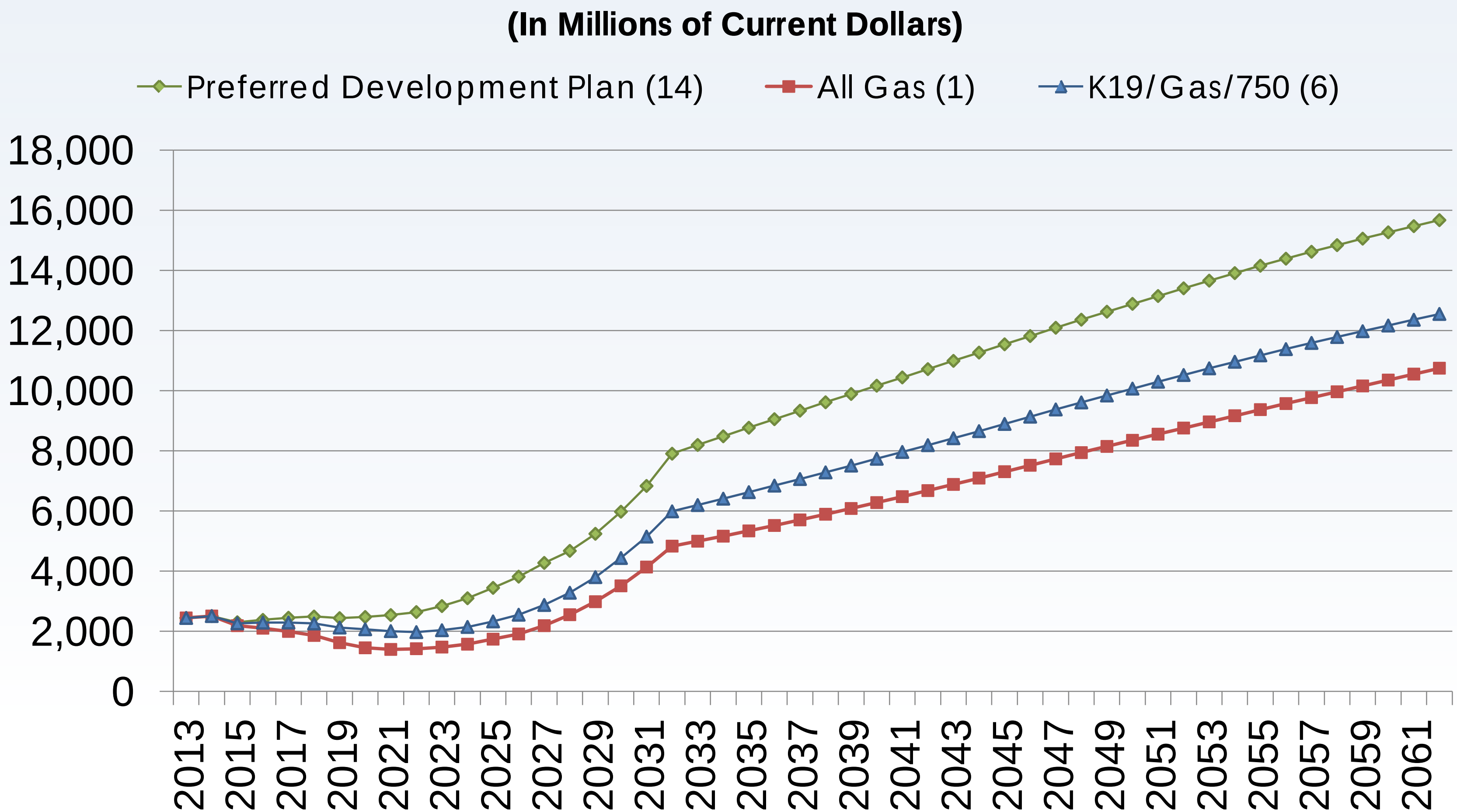
Assets (PP&E and Construction in Progress) Reference Scenario



Debt (Net of Sinking Fund and Investments)
Reference Scenario

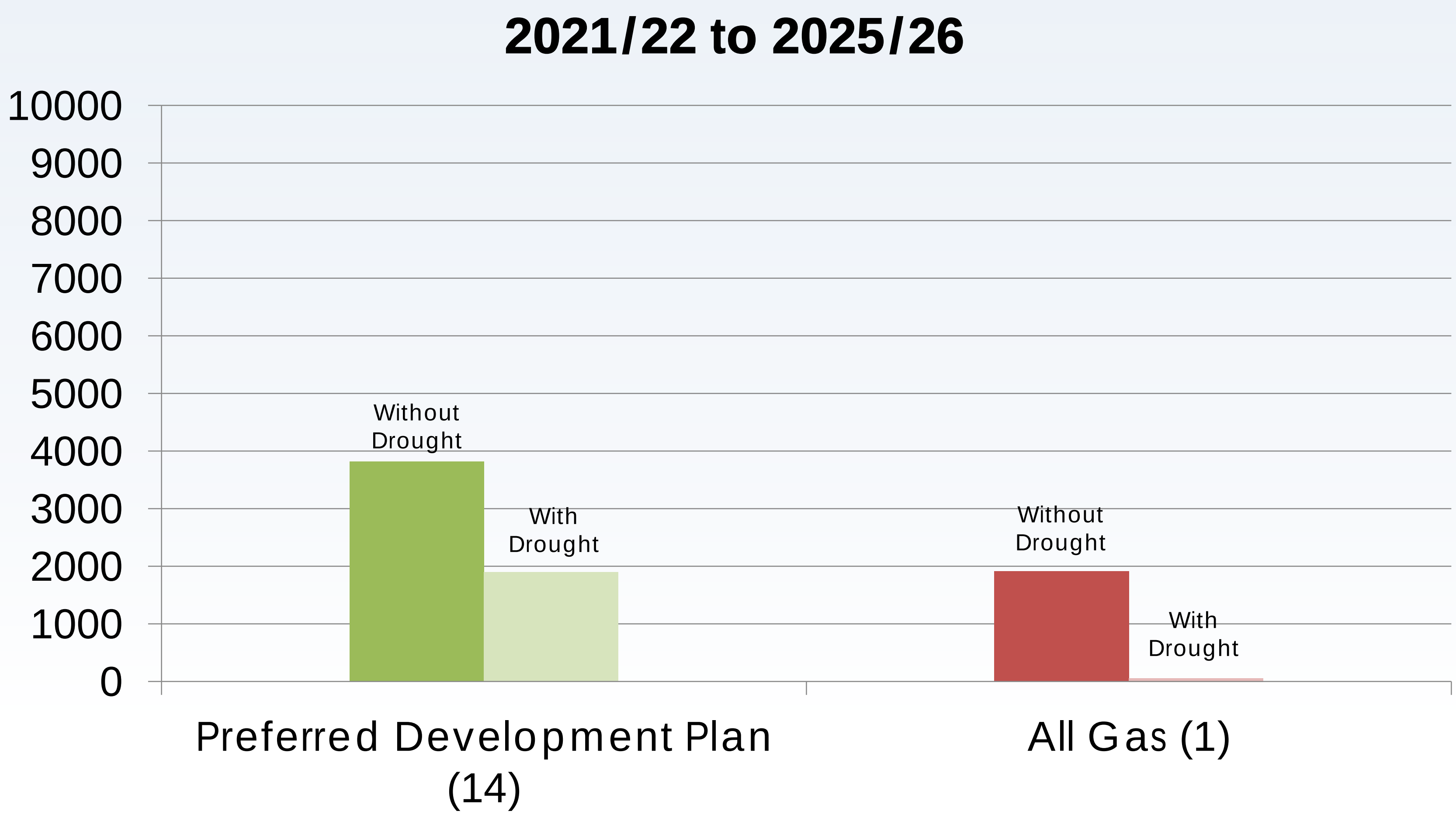


Retained Earnings
Reference Scenario



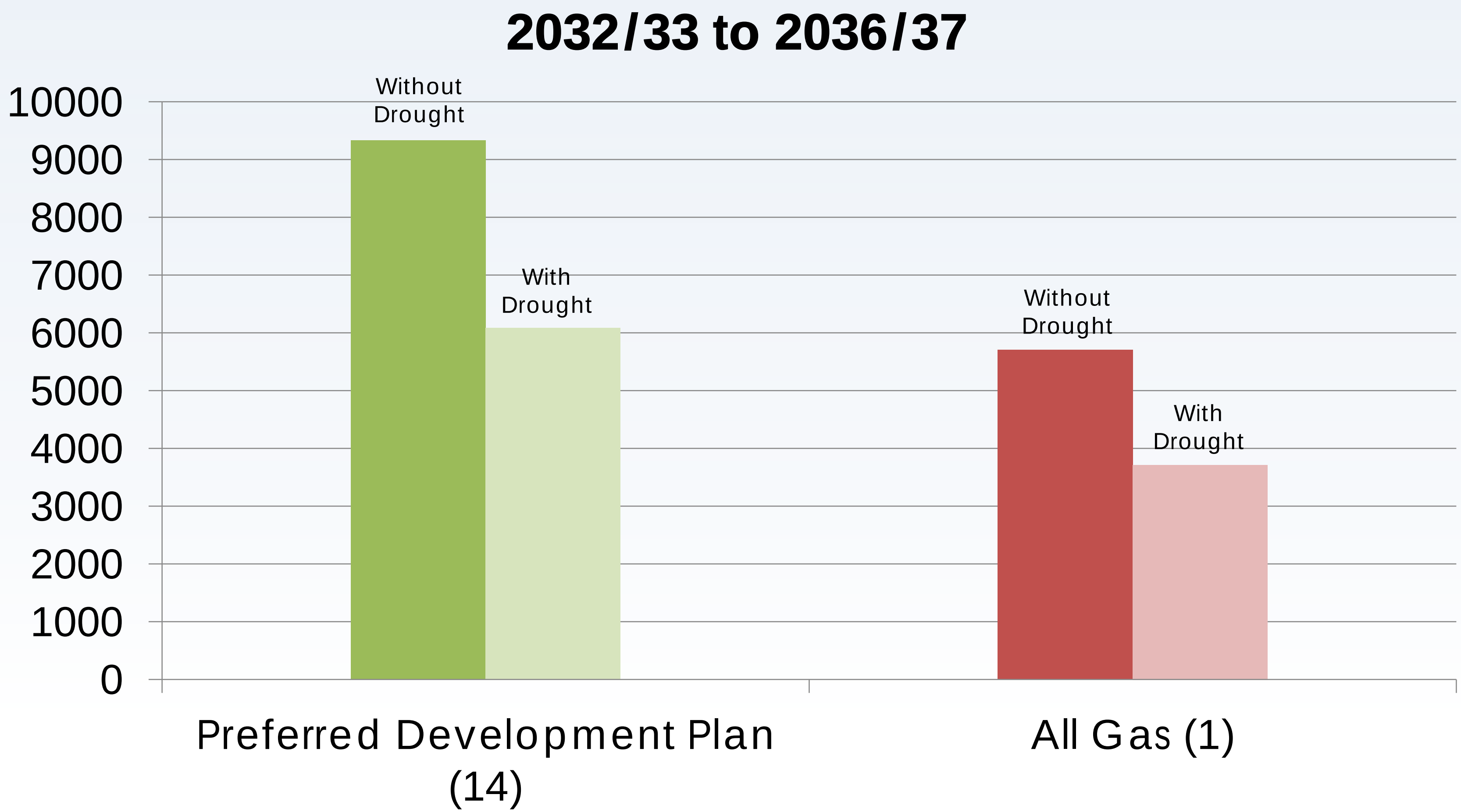
Drought Analysis

Retained Earnings (at End of Drought Year Five)



Retained Earnings (at End of Drought Year Five)

Retained Earnings (at End of Drought Year Five)



Financial Position Summary

- Net income, interest coverage ratio and debt/equity ratio weaken initially and then improve gradually to 2032 under all development plans.
- Net assets and retained earnings are highest under the PDP.
- Net assets under the All Gas grow steadily over the study period and are only $5 billion or 13% lower than the PDP by 2062 due to continuous investment in gas turbines over the study period.
- The PDP has the highest level of net debt throughout the study period but declines following hydro generation ISD's.
- The All Gas has the lowest level of net debt initially but increases throughout the study period converging with the PDP net debt by 2062.
- The PDP results in the strongest projected balance sheet with the highest level of assets and retained earnings over the entire study period.
- The impact of drought is greater under the PDP; however, due to the higher net assets and retained earnings, the PDP is in a stronger financial position to absorb the adverse financial impacts of drought.

Financial Risk Management

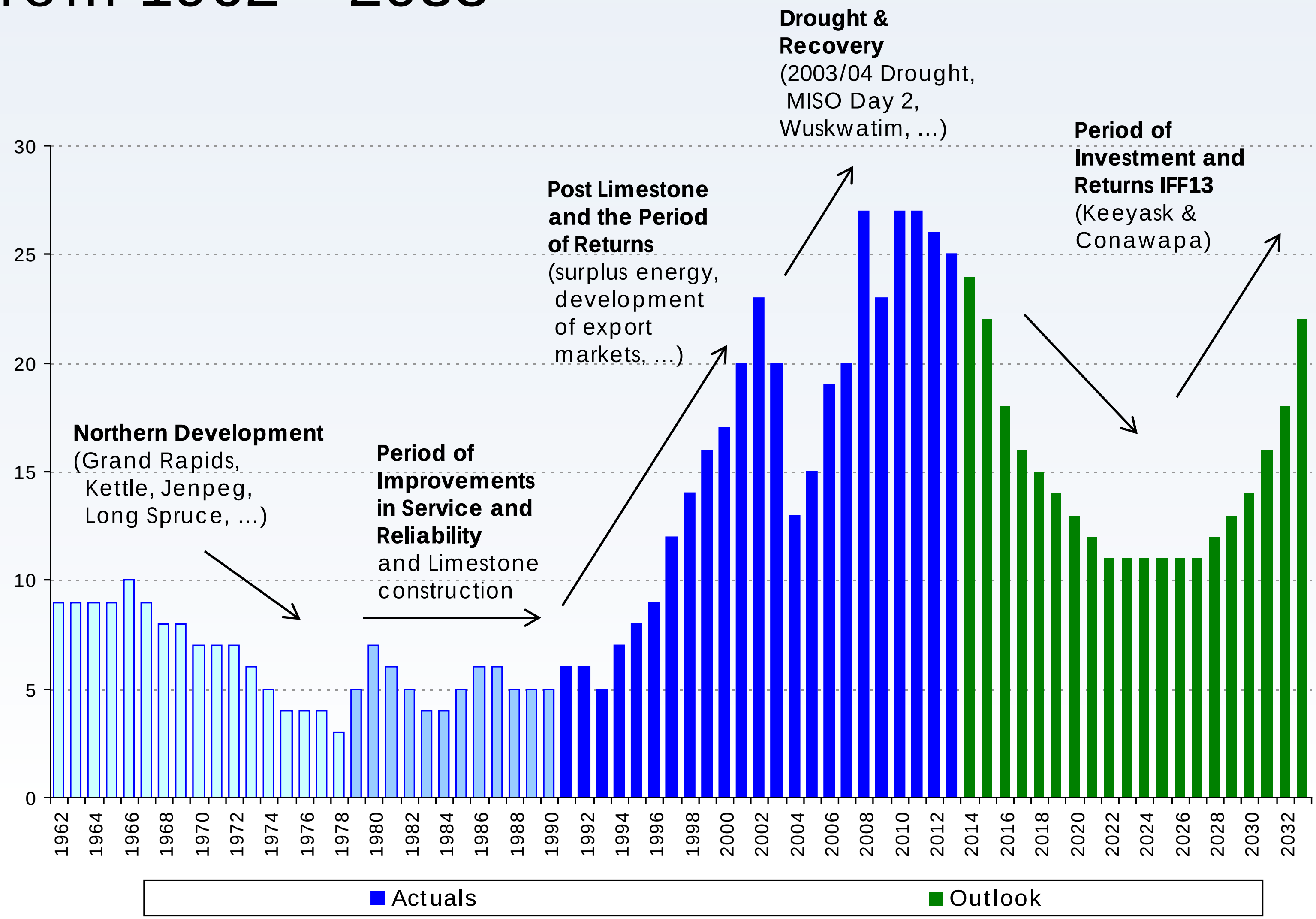
Risk Management is Integral to the NFAT Submission

- Manitoba Hydro considers **business risk as an integral aspect of its plans and operations**.
- Manitoba Hydro's financial risks, forecasts, ratios and evaluations have been extensively examined (eg. Chapter 11 and Appendix 11.4 with 216 distinct sets of pro-forma financial statements).
- The financial volatility of severe drought was also examined in the NFAT filing (eg. Section 11.4).
- The submission also includes flexible pathways to manage through future uncertainties.

Financial Risk is Manageable and Debt Self-Supporting

- Manitoba Hydro is embarking upon its development plans from a position of strength.
- As measured by the equity ratio, the Corporation is well situated to move forward with its upcoming capital investments.

Manitoba Hydro's Equity Ratio
from 1962 – 2033



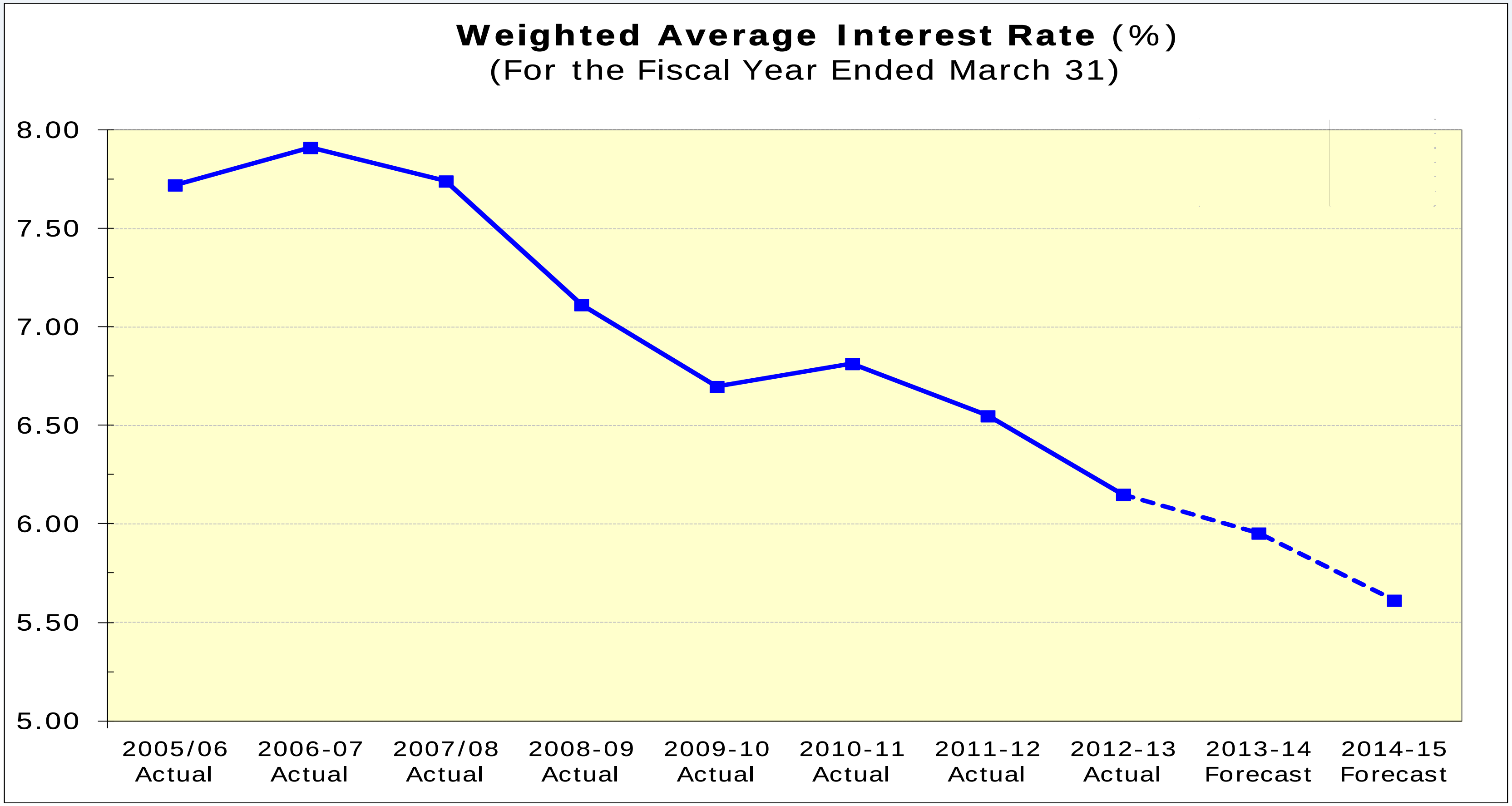
Financial Risk is Manageable and Debt Self-Supporting

- With respect to Manitoba Hydro's borrowings, the Corporation receives a flow through credit from the Province of Manitoba.
- In exchange for this flow through borrowing capability, Manitoba Hydro pays a provincial debt guarantee fee to the Province of Manitoba.
- As Manitoba Hydro makes interest and principal payments to bondholders on an uninterrupted basis, the debt is considered by the credit rating agencies to be self-supporting.
- Therefore, to the extent that Manitoba Hydro prudently manages its debt and maintains its self-supporting status, Manitoba Hydro's capital investment plans should have no significant impact on the Province of Manitoba's credit rating.

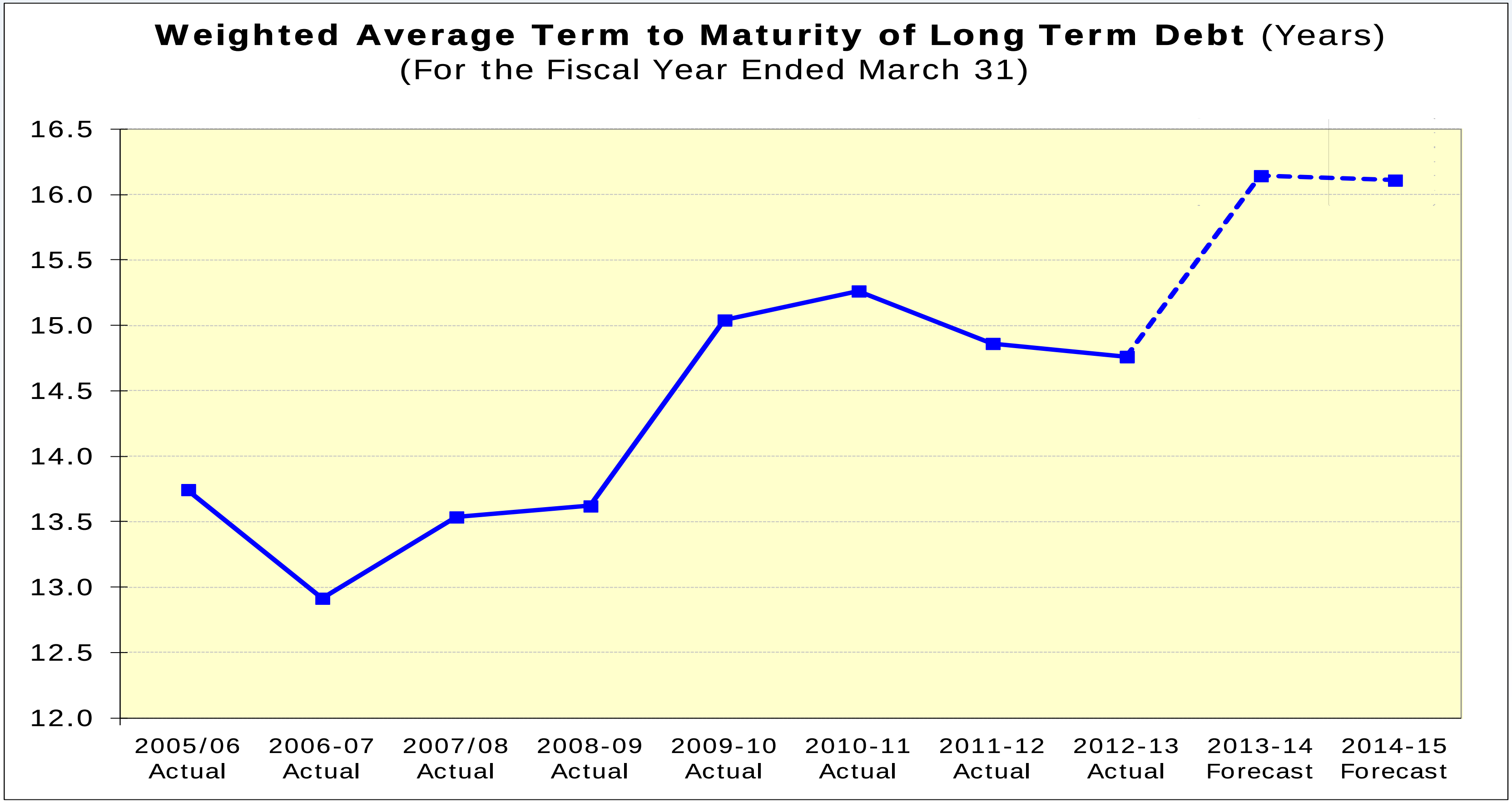
Debt Management Strategy

- Manitoba Hydro's fundamental debt management objective is to provide stable, low cost funding to meet the financial obligations and liquidity needs of the Corporation.
- Manitoba Hydro's actual long term financing includes debt issuance in various terms to maturity.
- In order to mitigate refinancing risk, Manitoba Hydro will:
  - Match long-lived assets with long term debt, and
  - Continue to favour long term fixed rate financings with maturities of 10 years+.

Debt Management Strategy – Low Cost



Debt Management Strategy – Stability



Foreign Currency Exchange Risk

- Manitoba Hydro's net income is largely inoculated from fluctuations in the movement of the USD/CAD exchange rate.
- Manitoba Hydro has significant export revenues and cash inflows denominated in US dollars.
- However, in order to manage the currency exchange risk on these revenues, Manitoba Hydro maintains a natural hedge with offsetting US dollar cash outflows, including finance expense on US denominated debt.

Liquidity Risk

- Liquidity risk refers to the risk that Manitoba Hydro will not have sufficient cash or cash equivalents to meet its financial obligations as they come due.
- Manitoba Hydro will meet its financial obligations when due through cash generated from operations, short term borrowings, long term borrowings, and where applicable, sinking fund withdrawals.
- Manitoba Hydro can issue short term borrowings in the name of the Manitoba Hydro-Electric Board up to a limit of $500 million.

Liquidity Risk

- During a severe prolonged drought Manitoba Hydro would provide sufficient cash flows for the continuity of business operations and Manitoba Hydro's self-supporting status.
- Liquidity measures include:
  1. Cash conservation. Manitoba Hydro would curtail or delay operating and capital expenditures as required and appropriate. In severe circumstances, this may include exercising the optionality available within the development plan pathways.
  2. Bridge financing. Manitoba Hydro could draw upon its $500 million short term borrowing program and/or access the capital markets for shorter dated debt financings that could be retired upon the resumption of positive cash flow from operations.
  3. Increase cash inflows through rate increases. Should circumstances warrant, Manitoba Hydro could apply for higher rate increases in order to generate additional cash inflows.

View from the Credit Rating Agencies

(2) **Low-cost hydro-based generation.** Low-cost hydroelectric-based generating capacity results in one of the lowest variable cost structures in North America, which has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened future capital expenditure requirements.

From the **Dominion Bond Rating Service (DBRS)** credit rating report on the Manitoba Hydro-Electric Board dated September 16, 2013; page 2 (highlighting added). For the full report see PUB/MH I-85(b), Attachment 1]

View from the Credit Rating Agencies

Significant Borrowing for Manitoba Hydro, but Self-Supported

Roughly one third of the province's total direct and indirect debt is attributed to Manitoba Hydro (issued and on-lent by the province) and is considered to be self-supporting. This Crown Corporation's ability to meet its own financial obligations without recourse to provincial subsidies is a positive credit attribute for the province. In our view, the likelihood that the contingent liability represented by Manitoba Hydro's debt would materialize remains relatively remote.

[From the **Moody's** Investors Service credit rating report on the Province of Manitoba dated July 23, 2013; page 3 (highlighting added). For the full report, see PUB/MH I-85(b), Attachment 4].

View from the Credit Rating Agencies

FINANCIAL TARGETS TO BE CHALLENGED BY HIGHER CAPEX

As part of its debt management strategy, Manitoba Hydro targets certain financial metrics such as an interest coverage ratio greater than 1.2 and equity-to-capitalization greater than 25%. With new generation and transmission projects underway, such as Bipole III, Keeyask and Conawapa, total capital expenditures are forecasted to be $20.7 billion, or on average $2 billion per year from FY2014 to FY2023. About one third of the total planned capex will be funded by internally generated cash from operations, leaving the rest to debt financing. New debt financing will ramp up in FY2014 and peak in FY2018 and FY2022, at an annual average of approximately $1.7 billion. Given the uptick in capex and corresponding debt, financial metrics are predicted to fall below targets in the next three fiscal years. The equity ratio, in particular, will be challenged and not likely to return to target until FY2032. The weakening financial profile restricts financial flexibility and adds risk in case of unexpected events such as low water levels, cost overruns and construction delays, given the nature of a hydroelectric plant's long construction cycle before cash generating begins. However, we view Manitoba Hydro as being capable of prudently managing debt and mitigating such risks by seeking rate increases and curtailing capital spending to continue as a self-supporting corporation.

[From the **Moody's** Investors Service credit rating report on the Manitoba Hydro-Electric Board dated September 23, 2013; page 2 (highlighting added). For the full report, see PUB/MH I-85(b), Attachment 3].

Financial Risk Summary

1. Manitoba Hydro considers business risk as an integral aspect of its plans and operations.

2. Manitoba Hydro's financial risk is manageable.

3. Manitoba Hydro will continue to take appropriate actions to ensure its debt remains self-supporting.