Manitoba Chambers of Commerce

Our Plan to Restore Manitoba Hydro and Protect Manitobans

H. Sanford Riley
Chair, Manitoba Hydro-Electric Board

December 1, 2017
Overview

• Review of Manitoba Hydro’s financial challenge
  – Cash-flow negative operations
  – Growing debt

• Review of Manitoba Hydro business risks

• 10-year plan to restore Manitoba Hydro

• There are no easy answers
The Power in our Province

- Core generation is from water power
  - 15 hydropower stations
    - 5,200 MW developed
    - 5,000 MW remaining potential

- 99% of electricity generated in Manitoba is renewable

- Two thermal generating stations primarily for backup and reliability

- US import capability critical to meet seasonal peaks and provide backup in event of failure or prolonged drought
Board Perspective

• Manitoba Hydro-Electric Board represents a talented and diverse cross-section of Manitobans

• Deep experience with operating businesses that have large balance sheets like Manitoba Hydro

• Strong experience from perspective of Hydro stakeholders and community members

• All committed to building a Manitoba where future generations enjoy the same opportunities we enjoyed
Need to Finish Bipole

- $5 billion
- 100% of right of way clear
- Over 2,200 towers (75%) installed
- Critical for power system
Need to Finish Keeyask

- $8.7 billion
- 45 per cent of control budget spent
- Export contracts already signed
bo1  Keeyask with spillway in upper left. Targeted in-service date is August 2021.
bowen, 2017-11-15

bowen, 2017-11-15
The Challenge - Cash Flow Deficiency

FISCAL YEAR ENDING

- No Rate Increases, 20 Year WATM

*2018 reflects the 3.36% interim rate increase effective August 1, 2017 approved in Order 80/17
The Challenge – Too Much Debt
### Manitoba Hydro Net Income

**No further rate increases**

**Fiscal Year Ending**

<table>
<thead>
<tr>
<th>Years</th>
<th>2017*</th>
<th>2018**</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>33</td>
<td>90</td>
<td>65</td>
<td>(101)</td>
<td>(128)</td>
<td>(152)</td>
<td>(447)</td>
<td>(701)</td>
<td>(768)</td>
<td>(946)</td>
<td>(1,016)</td>
</tr>
<tr>
<td>No Rate Increases, 20 Year WATM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*2017 net income before $20 million non-recurring gain

**2018 reflects the 3.36% interim rate increase effective August 1, 2017 approved in Order 80/17
Manitoba Debt to GDP Ratio

Hydro debt included, total debt-to-GDP ratio forecast will increase to 65%

*From RBC: Canadian Federal and Provincial Fiscal Tables September 26, 2017
**3.95% Rate Increases, 20 Year WATM
*** Assumes 2% growth in 2018 on
Equity Challenge and Risks
Manitoba Hydro Equity Ratio

Target Equity 25%

FISCAL YEAR ENDING

- Downside Case: Base Case with 2023-2027 Drought
- Base Case: 3.95% to 2036, 20 Year WATM
- Minimum Target

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
<th>2031</th>
<th>2032</th>
<th>2033</th>
<th>2034</th>
<th>2035</th>
<th>2036</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>15%</td>
<td>14%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>12%</td>
<td>12%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>11%</td>
<td>13%</td>
<td>16%</td>
<td>19%</td>
<td>18%</td>
<td>14%</td>
</tr>
</tbody>
</table>
Business Risks at Hydro

- Low water levels
- Increasing interest rates
- Construction risks
- Domestic demand
- Export markets
Our Plan – Balanced, Prudent

• Annual 7.9 per cent rate increases each year from 2019 to 2024

• 4.54 per cent rate increase in 2025

• A return to inflationary (or lower) rate increases by 2028

• Over 800 employee reductions by Jan. 31, 2018

• 30% of senior management and 25% of middle management reduced
Average Retail Cost of Electricity

Source: US Dept of Energy (June 2016) & Edison Electric Survey (June 2016)
(Exchange rate as of February 13, 2017: 1 US$ = 1.3071 Cdn)
Why Don’t You Do This?

• Stop construction of Keeyask and Bipole?
  – Too far along; least worst choice

• Sell more power to export markets?
  – We don’t set the spot price; transmission limitations

• Cut more costs?
  – Capital problem, not operating costs

• Do nothing?
  – Hope is not a strategy
Equity Ratio

*with rates to maintain 25% equity in 2027 on
Benefits in the End

• Plan for 7.9% increases is a responsible, balanced approach for Manitoba’s future

• Flexibility after MH returns to financial health
Regulatory Process

- Critical Public Utilities Board review process underway
- Extensive scrutiny of rate application and major capital projects
  - 220 minimum filing requirements
  - 2,139 information requests answered by MH staff
  - 26,000 pages of documents filed
- This process is crucial to the future of Manitoba
Manitoba Hydro committed to a strong future for our customers and for all Manitobans