Manitoba Hydro
2017/18 & 2018/19
Electric General Rate Application

December 6, 2017

Revenue Requirement Panel
Revenue Requirement Panel

- Jamie McCallum, Chief Finance and Strategy Officer
- Liz Carriere, Manager Strategic and Financial Planning
- Susan Stephen, Treasurer
- Sandy Bauerlein, Corporate Controller
- Lois Morrison, Director Marketing and Sales
- David Cormie, Director Wholesale Power and Operations
- Joel Wortley, Director Strategic Business Integration
- Gerald Neufeld, Director Transmission Planning and Design
- David Swatek, Manager System Planning
- Hal Turner, Director Generation Asset Management
- Chuck Steele, Director Engineering and Construction
Revenue Requirement Panel
Presentation Summary

I. Introduction
II. Economic Outlook (L. Carriere)
III. Electric Load Forecast and DSM (L. Morrison)
IV. Water Conditions, Energy Prices and Export Market (D. Cormie)
V. Long-Term Energy Prices and Export Revenues (L. Carriere)
VI. O&A Costs and Regulatory Deferrals (S. Bauerlein)
VII. Capital Expenditure Forecast & Asset Management (J. Wortley)
VIII. Debt Management Strategy (S. Stephen)
IX. Previous Rate Plans (L. Carriere)
X. Summary (L. Carriere)
I. Introduction

Liz Carriere
II. Economic Outlook
Liz Carriere
MH New Long-Term Canadian Interest Rate

Note: excludes the 1% Provincial Guarantee Fee
MH U.S. Exchange
(C$/U.S.$)
Key Sensitivities

8 Year Retained Earnings Impact ($ Millions)

- Canadian Dollar down 10¢: $(203)
- Canadian Dollar up 10¢: $202
- Interest Rates up 1%: $(747)
- Interest Rates down 1%: $686

Source: PUB/MH I-45
III. Electric Load Forecast and DSM
Lois Morrison
2017 Forecast – Sector Analysis

2016/17 FIRM ENERGY

- Residential Basic: 29.6%
- GS Mass Market: 34.4%
- GS Top Consumers: 22.8%
- Seasonal/Diesel/Misc: 12.0%
- Losses & Station Service: 1.2%

Manitoba Hydro
Comparison – 2014 versus 2017

<table>
<thead>
<tr>
<th>Economic Inputs</th>
<th>2014</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Price (nominal)</td>
<td>3.95%/year – 20 years</td>
<td>7.9%/years – 5 years</td>
</tr>
<tr>
<td>Natural Gas Price</td>
<td>2017 projects growth lower than 2014 projection</td>
<td></td>
</tr>
<tr>
<td>Population</td>
<td>Ave 1.0%/year</td>
<td>Ave 1.1%/year</td>
</tr>
<tr>
<td>Income (real)</td>
<td>Ave 1.2%/year</td>
<td>Ave 0.6%/year</td>
</tr>
<tr>
<td>MB GDP (real)</td>
<td>Ave 1.8%/year</td>
<td>Ave 1.6%/year</td>
</tr>
<tr>
<td>CAN GDP (real)</td>
<td>Ave 2.1%/year</td>
<td>Ave 1.8%/year</td>
</tr>
<tr>
<td>US GDP (real)</td>
<td>Ave 2.5%/year</td>
<td>Ave 2.1%/year</td>
</tr>
</tbody>
</table>

Model Enhancements

<table>
<thead>
<tr>
<th>GSMM Customer Forecast</th>
<th>Delta regression model</th>
<th>Regression model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Consumers - # of Customers</td>
<td>17 companies (&gt; 6 MW)</td>
<td>10 companies (&gt; 25 MW)</td>
</tr>
<tr>
<td>Top Consumers - Short Term</td>
<td>3 years</td>
<td>5 years</td>
</tr>
<tr>
<td>Top Consumers – Long Term</td>
<td>1983/84 to 2013/14</td>
<td>Existing since 1983/84</td>
</tr>
</tbody>
</table>
Residential Basic

20 year history – 1.7% growth rate

2014 Forecast – 1.2% growth rate
2017 Forecast – 1.3% growth rate
General Service Mass Market

20 year history – 1.4% growth rate

2014 Forecast – 1.4% growth rate
2017 Forecast – 1.5% growth rate

GWh

1997/98 2017/18

- Actual
- WAdjAct
- Wadj w/Top
- Fcst 2014
- Fcst 2014 w/Top
- Fcst 2017
General Service Top Consumers

2014 Forecast – 2.0% growth rate
2017 Forecast – 0.9% growth rate

20 year history – 1.7% growth rate

GWh

1997/98 2017/18

- Actual
- WAdjAct
- Wadj w/o Top
- Fcst 2014
- Fcst 2014 w/o Top
- Fcst 2017

Manitoba Hydro
Gross Firm Energy

NET of DSM Programming (GW.h)

HISTORIC:
- Gross Firm Energy has grown by 349 GW.h or 1.6% per year over last 20 years.
- Removing DSM programming, growth would have been 1.9%

FORECAST:
- Forecast to grow at a rate of 352 GW.h or 1.2% per year over the next 20 years.
- Forecast to grow at a rate of 185 GW.h or 0.7% per year over the next 20 years after DSM programming is considered.
Total Peak Forecast
NET of DSM Programming (MW)

HISTORIC:
• Gross Total Peak has grown by 58 MW or 1.4% per year over last 20 years.
• Removing DSM programming, growth would have been 2.0%

FORECAST:
• Forecast to grow at a rate of 65 MW or 1.2% per year over next 20 years.
• Forecast to grow at a rate of 27 MW or 0.5% per year over the next 20 years after DSM programming is considered.
At 90% and 10% confidence levels of the domestic revenue forecast, retained earnings are +/- $400 million by 2026/27.
Status of Efficiency Manitoba

• The Efficiency Manitoba Act received Royal Assent June 2, 2017.

• Manitoba Hydro – “Business as Usual” for DSM programming until transition.
Preliminary Indications for 2018 Load Forecast

2017 Forecast (IFF16-Update) – 1.2% growth rate
Fall 2017 Update – 1.0% growth rate
Fall 2017 Update + DSM – 0.4% growth rate
Fall 2017 Update + 1.5% DSM – 0.1% growth rate
Manitoba Hydro Forecast Approach is Reasonable

- Price Elasticity values are within Industry range.
- Manitoba Population Forecast created by a consensus forecast.
- Fuel Substitution is considered in the Forecast.
- Weather Normalization approach is justified.
- Top Consumers long term forecast approach is reasonable.
IV. Water Conditions, Energy Prices, and Export Market

David Cormie
14 Consecutive Years of Average to Above Average Water
September Recovery Followed a Very Dry Summer

Entire Nelson-Churchill Drainage Basin
Precipitation 2015 - 2018
Water Flows are Average Well Below This Time Last Year

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>MH16 Update</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>System Potential Energy From Inflow (GWh)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Storage is Now Close to Average Well Below Record Highs of 2016

System Potential Energy in Storage (TWh)

- 2 million MWh

Today

MH16 Update

MH16 Update

MH16
Export Prices Remain Soft

- Low gas prices
- Increasing wind generation
- Ongoing US subsidies for solar and wind

- No new major export contracts in the near term
  - MH is sold out prior to Keeyask
- Ongoing export discussions with several long term customers
  - Any new long term sales at least 5-8 years away
MISO Market Prices
2005 -2017

Manitoba Hydro’s MISO Pricing Node

Minn Hub

Midcontinent Independent System Operator Footprint

2017 Prices
MH Gains New US Market Access

Southwest Power Pool

• Dec 1, 2016
• 50,600 MW peak load
• Access through Saskatchewan
• $1.9 M in sales to date
Saskatchewan/Western Canada

- Saskatchewan 2020-2040 System Power Sale
  - 100 MW
  - New 230 kV Birtle - Tantalon Transmission Line

- MH and SaskPower continue to explore other opportunities

- MH involvement in Regional Electricity Cooperation and Strategic Infrastructure Initiative (RECSI) study
  - Federal government study
  - Additional MB-Sask major transmission options
  - SaskPower would gain increased access to MH’s large surplus of non-emitting energy
GREAT NORTHERN TRANSMISSION LINE
Connecting Manitoba and Minnesota


- PLANNING
- REGULATORY REVIEW
- RIGHT-OF-WAY ACTIVITIES
- DESIGN & PERMITTING
- CONSTRUCTION

Line in Service: June 2020
V. Long-Term Energy Prices and Export Revenues

Liz Carriere
Long-Term Energy Price Forecast

Methodology

• For the 2017 forecast, the Energy Price Outlook which forecasts thermal fuel prices was consolidated with the Electricity Export Price Forecast and renamed the “Energy Price Forecast”
• Consensus forecast of 4 consultant forecasts
• Maintain consistency by using same consultants from forecast to forecast
• “Off-the-shelf”
• Simple average with no adjustments or weighting provided by external forecasting services
• Best practice
• Long-term dependable product
  – Comprised of opportunity and capacity components for pricing surplus uncommitted firm sales
  – Premium removed in 2016 Electricity Export Price Forecast
  – Discontinued in 2017 Energy Price Forecast
Fall 2017 update of 4 consultants’ forecasts show a continued deterioration from the spring of 2017.
Extraprovincial Revenues
Net of Water Rentals and Fuel and Power Purchases

Compared to MH14, MH15, and MH16 over the 10-year forecast period (2018 - 2027), MH16 Update net export revenue is down $580M, $880M and $110M respectively.
Variability in Net Flow Related Revenues and Costs Compared to Average Revenue for All Flow Conditions

Source: Appendix 3.1, p. 47
VI. O&A and Regulatory Deferrals
Sandy Bauerlein
O&A Costs At or Below Inflation

- From 2014/15 to 2018/19, the Corporation will achieve a 5 year average annual **decrease** in O&A costs of 1.8% compared to a 1.7% **increase** in Manitoba CPI

- Accomplished through effective cost reduction measures and an accelerated cost reduction plan
Workforce Reduction Plan

- Staffing reductions since 2014/15 account for the majority of overall cost saving measures

<table>
<thead>
<tr>
<th>Department</th>
<th>Achieved 2014/15 - 2016/17</th>
<th>Current Committed Reductions</th>
<th>Total Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>President &amp; CEO</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>General Counsel &amp; Corporate Secretary</td>
<td>2</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Human Resources &amp; Corporate Services</td>
<td>77</td>
<td>147</td>
<td>224</td>
</tr>
<tr>
<td>Indigenous Relations</td>
<td>10</td>
<td>9</td>
<td>19</td>
</tr>
<tr>
<td>Finance &amp; Strategy</td>
<td>13</td>
<td>33</td>
<td>46</td>
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<tr>
<td>Generation &amp; Wholesale</td>
<td>105</td>
<td>157</td>
<td>262</td>
</tr>
<tr>
<td>Transmission</td>
<td>115</td>
<td>198</td>
<td>313</td>
</tr>
<tr>
<td>Marketing &amp; Customer Service</td>
<td>103</td>
<td>267</td>
<td>370</td>
</tr>
<tr>
<td>Subsidiaries</td>
<td>-</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>429</strong></td>
<td><strong>821</strong></td>
<td><strong>1 250</strong></td>
</tr>
</tbody>
</table>
Supply Chain Management Savings

- Cost containment measures include $8.3 million savings associated with Supply Chain Management Initiatives since 2014/15
- Anticipated cumulative savings of $155 million by 2021
- Approximately 30% will be attributable to O&A

![Table showing realized and estimated savings](chart)
Maintaining Service and Reliability

- Reductions must be made without unduly impacting service levels and reliability

- Debt levels are the issue and cannot be solved through further operational reductions

- Rate request is not meaningfully impacted by further reductions to O&A expense
  - For illustrative purposes a further reduction of 500 operational staff would equate to rate increases of 7.41% compared to 7.9% over the 6 year period
  - Further reductions to staffing levels would increase the risk to service and reliability
Regulatory Deferrals

- Regulatory deferrals represent timing differences between the recognition of revenue or costs for rate setting purposes (as directed by the regulator) as compared to the recognition of these items for financial reporting purposes.

- Regulatory deferrals include DSM expenditures, differences in depreciation methodology (ASL/ELG), gain/losses on disposal of assets, capitalized overhead, site restoration costs and regulatory costs.

- Manitoba Hydro is requesting the following:
  - Endorsement of the proposed deferral of costs with respect to the Conawapa Generating Station project - approx. $380 M amortized over 30 year period;
  - Endorsement of the proposed amortization for disposition of regulatory deferrals for differences in depreciation methodology and capitalized overhead – amortized over a 20 year period.
Amortization of Regulatory Deferrals

- Accounting changes cannot avoid the need for a 7.9% rate increase.

- Extension of amortization periods for overhead & depreciation methodology (ASL/ELG) deferrals has minimal impact on rates (7.64% vs 7.9%).

- Results in higher cumulative net income, however, the increase to the net debt position is greater.

![Graph showing change in net income vs change in net debt](image)
### Amortization of Regulatory Deferrals

- Extending the amortization periods while increasing net income will not result in a corresponding improvement to the corporation’s cash flow position
  - Results in a slight decrease in the cash flow position of approx. $7 million through to 2027

#### Amortization of Regulatory Deferrals (In millions of dollars)

<table>
<thead>
<tr>
<th>For the year ended March 31</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>7.9% - Extended Amortization</td>
<td>(226)</td>
<td>(324)</td>
<td>(326)</td>
<td>(152)</td>
<td>234</td>
<td>644</td>
<td>1 188</td>
<td>1 822</td>
<td>2 411</td>
<td>3 079</td>
</tr>
<tr>
<td>7.9% - 20 year Amortization</td>
<td>(226)</td>
<td>(324)</td>
<td>(326)</td>
<td>(152)</td>
<td>235</td>
<td>645</td>
<td>1 189</td>
<td>1 825</td>
<td>2 416</td>
<td>3 086</td>
</tr>
<tr>
<td>Cumulative Difference</td>
<td>(0)</td>
<td>(0)</td>
<td>(0)</td>
<td>(0)</td>
<td>(0)</td>
<td>(1)</td>
<td>(1)</td>
<td>(3)</td>
<td>(4)</td>
<td>(7)</td>
</tr>
</tbody>
</table>

December 6, 2017
VII. Capital Expenditure Forecast & Asset Management

Joel Wortley
Supply Chain

Small Number of High Cost Assets
High Number of Low Cost Assets
Span the Province - All ages and vintages
Asset Management

Customer

Business Objectives

System Objectives

Asset Objectives

Acquire/operate/maintain/intervene
Customer Expectation

OUR MISSION
We create value for Manitobans by meeting our customers’ expectations for the delivery of safe, reliable energy services at a fair price.

Electricity Essential for Public Safety

Everywhere and Enduring

Trends in Environment, Safety, Reliability Regulation

December 6, 2017
Acquire/operate/maintain/intervene

**CAPITAL EXPENDITURE FORECAST**

<table>
<thead>
<tr>
<th>Acquire or Build Decisions</th>
<th>Past Decisions</th>
<th>OPERATION &amp; MAINTENANCE DECISIONS</th>
<th>TIDAY</th>
<th>Future Decisions</th>
<th>Replace or Refurbish Decisions</th>
</tr>
</thead>
</table>

**TEST YEARS**

24\|7
365

**2020 and BEYOND**

Intervention Decisions

**December 6, 2017**

Manitoba Hydro
Capital Expenditures

Interventions

$14.4 billion over 10 years

TEST YEARS

2020 to 2027

$M

Major New Generation & Transmission:
provides significant new generation and transmission capacity and/or projects of substantial cost

Business Operations Capital:
requirements to sustain electricity service through replacement of aging or obsolete assets, capacity enhancements and expansion due to load growth

Demand Side Management:
expenditures related to the pursuit of electric energy conservation activities

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Manitoba Hydro
Business Operations Capital in Test Yrs

Proactive System Renewal is:
- $168M
- 33% of $517M FY19 Bus. Ops. Cap.
- 6% of $2742M FY19 Total CapEx

Electric Business Operations Capital Investment Category Fiscal Year 2019
1 System Renewal – Test Years

Asset condition and performance is monitored

Risk is assessed by experienced experts

Assets degrading - A question of when, not if

Intervention if required for safe reliable ops.

Reviewed and approved by line management

High level of confidence
Forecast of intervention beyond the test years

System Renewal not an end-of-life forecast, yet

Currently anchored in past intervention trends

Shaped by best available information

Reviewed annually

Forecast includes modest upward trend
Capital Expenditures

Interventions

Growing System
Asset Demographics
Modern Designs
Less Robust
Digital Equipment
Short Lived
Asset Management
Enhancements

TEST YEARS
2020 to 2027

$M
3500
3000
2500
2000
1500
1000
500

2018 2019 2020 2021 2022 2023 2024 2025 2026 2027

1 2

Demand Side Mgmt
Major New Gen. & Trans.
Asset Management

Manitoba Hydro Asset Management Maturity
Many gaps when compared to best practice
Compares favourably to NA industry

Asset Management Enhancements
Confident and transparent planning for sustainability
Targeting of desired balance of performance, cost and risk
Proceeding purposely, but cautiously

Several Improvement Initiatives Underway
Corporate Asset Management
Capital Portfolio Management Program
Corporate Value Framework

December 6, 2017
Conclusions

Test year interventions required for safe and reliable operations; for the customer

Proactive System Renewal is small subset of capital expenditures

Forecasts of future expenditures will be tested in future General Rate Applications

Asset management practices are being enhanced
VIII. Debt Management Strategy
Susan Stephen
Debt Management Strategy
Objective

Manitoba Hydro’s fundamental debt management objective is to provide low cost, stable funding to meet the financial obligations and liquidity needs of the Corporation while maintaining risk at prudent levels and reserving sufficient flexibility to adapt to changing circumstances.
New Forecast Assumptions

• Potential cash stemming from cost reductions and rate increases can be used to **permanently retire debt**.

• Creating debt retirement opportunities allows for reductions in finance expense and the recovery of Manitoba Hydro’s financial ratios.

• Modeled various debt issuance scenarios with the goals:
  • Matching expected surplus cash flows with maturing debt
  • Keeping interest rate risk within guidelines
  • Decreasing cost of borrowing
Debt Terming & Interest Rate Forecast

- Historically, Manitoba Hydro’s interest rate forecast for Canadian borrowing has been the average of 10 & 30 year Manitoba cost of borrowing (10 Yr+ rate.)

- MH16 incorporates:
  - reduction of term to maturity from 20 to 12 years
  - repositioned approx. $3 billion of debt to mature in 2023 to 2027
  - provided for approx. $3 billion of surplus cash flows in 2023 to 2027

- Matching expected surplus cash flows with maturing debt avoids refinancing risk by permanently reducing debt.
Debt Terming & Interest Rate Forecast

• Capture interest rate savings recognizing 5 year debt typically less costly than 30 year debt
• MH16 modeled approx. $500 million interest savings to 2027 based on new debt issuance terming assumption
• If all forecast assumptions including forecast rate increases hold, interest rate risk will be maintained at a manageable level
Refinancing Risk

<table>
<thead>
<tr>
<th></th>
<th>IFF16U 7.9%</th>
<th>IFF16U 3.95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Yr WATM</td>
<td>12 Yr WATM</td>
<td></td>
</tr>
<tr>
<td>2018-2022 Borrowing</td>
<td>$13.5</td>
<td>$14.1</td>
</tr>
<tr>
<td>2023-2027 Borrowing</td>
<td>$8.8</td>
<td>$9.7</td>
</tr>
<tr>
<td>2023-2027 Cash Surplus</td>
<td>(3.1)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Available for Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 10 Year Borrowing</td>
<td>$19.2</td>
<td>$23.4</td>
</tr>
</tbody>
</table>

- 2023-2027 - higher cash flows from the 7.9% rate path limit new borrowing requirements and create surplus cash that can be used to pay down debt.
- Removing $4 billion of debt reduces interest rate exposure on 7.9% rate path compared to a 3.95% rate path.
- There is virtually no debt retirement under a 3.95% rate path. This exposes the Corporation to greater refinancing risk.
• Without expectation of cash flow to retire debt, this strategy which allocates 80% of debt issuance in terms 10 years and under would produce too much refinancing risk.
Currently, there is approximately 0.9% differential between all-in borrowing cost for 5 and 30 year Manitoba Hydro debt.

Forecast of $500 million benefit from adjusted WATM reduced to under $250 million as a result of changes to the yield curve.
• Currently, we are still at historically low interest rate levels and Manitoba Hydro’s peak borrowing years are forecast at these low levels.

• Each 1% move upward in interest rates, depending on timing, could cost Manitoba Hydro upwards of $200 million per year by 2027.
IX. Previous Plans
Liz Carriere
NFAT Rate Projections are not Applicable for GRA Purposes

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

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

Source: 2014/2015 & 2015/16 Electric General Rate Application, MH Exhibit 52, p.67

- Rate projection methodology to facilitate unbiased comparisons between development plans
- Some development plans produced lower rate projections but resulted in significant financial losses – impractical
- Not for rate-setting purposes
- Minimum rate increases were necessary under all plans
2015 GRA
Financial Ratios

2015 GRA Transcript p.2059-2062:
MR. BOB PETERS: “What steps can Manitoba Hydro take so that that interest coverage ratio stays above one point zero (1.0)?”

MR. MANNY SCHULZ: “...one (1) is sort of the sustaining baseline. And the one point two (1.2) gives us that extra cushion that gets us there... at the end of the day, I need to have cash...if there's a shortfall in cash, droughts, or in situations as you might be seeing here with the net income decreasing in those years, the likely scenario would be we -- we'd undertake debt financing to bridge through that period of time. The consequence of that, though, is that it’s not only more debt, but that you'd likely have to borrow money to pay the incremental interest payments. And so there's a bit of a compounding that occurs during that period of time...that's why we earnestly believe that this is -- the three point nine-five (3.95) is the minimum, because it takes us on that journey towards a fairly low level on the equity ratio. And I think it's been stated here that if we wanted to have an equity ratio of 15 percent, and -- and Ms. Carriere spoke yesterday, I think she said that it would be something that would be more comfortable for our Corporation and -- and I would agree with that, then we would need to have rate increases of 5 and 6 percent. But we recognize customer sensitivity, which is why we're going to 3.95 percent. And that's why we say that's the minimum.” [Emphasis added]

Source: 2014/2015 & 2015/16 Electric General Rate Application, MH Exhibit 52, p.11-12
MS. MARILYN KAPITANY: “Ms. Carriere, you said that you would have to borrow to the extent of $400 million at some point on this graph?”

MS. LIZ CARRIERE: “That's the shortfall of -- of cashflow from operations over that period of time where there's insufficient cashflow from operations to cover the sustaining capital. So it's a cumulative amount...and that includes the 3.95 percent rate increases. So what we're saying is -- is that the rate increases are not sufficient to provide revenue to pay for those and we could actually be asking for higher rate increases in that period of time to cover -- to cover those expenditures.”
2015 GRA Financial Ratios

2015 GRA Transcript p.2066 & 2067:

“...these are abysmal levels of interest coverage. Let's face it, this is not a happy circumstance where we should, you know, do the happy dance. Our board is concerned about this. They understand the impacts on Manitobans of 3.95 percent rate increases. It certainly a financial case for asking for more. We are taking some risk on this already. But, I mean, I -- I can't sit here and -- and say well, let's -- let's jump up and down about a point eight-five (.85) interest coverage ratio no matter how it's -- it's measured. These are very low financial targets. I don't -- I wouldn't want the Board to take away that our board is looking at these and going, Oh, I guess this is a great circumstance. No, we're -- we're taking a high degree of risk at three-nine-five (3.95) as it is.”
2015 GRA Alternate Rate Scenarios

2015 GRA Transcript p. 1809 & 1810:

“... the 'G', 'H', and 'I' analysis are the rates that we really require to improve our financial position and truly protect customers, but we recognize that -- that those are -- are not going to be accepted by customers very easily. And we've made the balance to reduce those -- those, you know, 5 to 6 percent rate increases to three-nine-five (3.95). And these are in Appendix 3.5, the -- the discussion of the alternate rate scenarios that we looked at.”
X. Summary
Summary

- Deterioration in the financial outlook of MH
  - Higher capital costs for Bipole III and Keeyask
  - Continued soft market export prices and lower energy price forecast
  - Lower Manitoba customer consumption = lower base over which to spread rising costs

- Pressure on future costs and revenues
  - Imminent in-service of Bipole III
  - Increasing pressure to invest more in existing infrastructure and MH is making in-roads to making more informed capital decisions through its Asset management initiatives
  - Variability in earnings due to rapidly changing water flow conditions
  - Lower interest rates a happy circumstance, BUT risk of higher interest rates is significant and very real

- 2015 GRA indicated 5.5% to 6% would be required to maintain stronger ratios
- No additional capacity for 3.95% to cover increases in net cost seen since 2009 or 2012
- Higher upfront rate increase is necessary to fix Manitoba Hydro’s cash flow challenge
  - Return to inflationary rate increases sooner than the past 3.95% plans
  - Lower rates for customers in the long run
  - Reduces the risk of rate shock for customers