APPENDIX A

CHANGE IN MANITOBA HYDRO'S FINANCIAL OUTLOOK

Table of Contents

1. INTRODUCTION

On November 12, 2018 Manitoba Hydro filed a letter[1] with the Public Utilities Board of Manitoba ("PUB" or "Board") advising of its intentions with respect to the filing of a 2019/20 General Rate Application ("GRA"). Manitoba Hydro indicated to the Board that it was not in a position to submit a long-term financial forecast ("Integrated Financial Forecast" or "IFF") for review by the Board, but that Manitoba Hydro was seeking to file an application for a final rate increase based on 2017/18 actual information, the Utility's 2018/19 outlook, and the Utility's 2019/20 budget information. On November 12, 2018, the PUB issued a letter[2] to Manitoba Hydro stating that it was willing to consider a one-year rate increase Application.

On November 30, 2018 Manitoba Hydro filed an Application with the Public Utilities Board of Manitoba requesting final approval for a 3.5% rate increase for all customer classes to be effective April 1, 2019[3]. The Application included 2018/19 actual financial results, a forecast for 2018/19 that incorporated actual results to the end of September 2018 and an interim budget for 2019/20[4].

The PUB subsequently initiated a proceeding to review the Application[5] which included one round of interrogatories to be followed by intervenor evidence and an oral hearing. During the interrogatory process, Manitoba Hydro provided an update to the 2018/19 forecast and the 2019/20 outlook based on actual results to the end of December 2018[6] and a requested effective date for the 3.5% rate increase of June 1, 2019[7].

The Application currently before the Board is unique in a number of ways:

1) No Corporate Strategic Plan ("CSP") setting out the direction of Manitoba Hydro was filed with the Application. Manitoba Hydro has indicated that it is in the

[1] Exhibit MH-1
[2] Exhibit PUB-1
[3] November 30, 2018 Application ("Application"), page 1
[4] Application, pages 7, 12 and 18
[5] Order 1/19
[6] Exhibit MH-11 (the "Supplement"). Note: This forecast was revised slightly in Exhibit MH-16, which for purposes of the Evidence is considered part of the Supplement.
[7] Recognizing that the timetable approved by the PUB did not accommodate an April 1, 2019 implementation date the effective date for the proposed 3.5% rate increase was revised to June 1, 2019 per Supplement, page 1.

process of initiating the development of a 20 year Corporate Strategic Plan which will include consultation with all of its key stakeholders. Manitoba Hydro anticipates the CSP development process will begin in the Spring of 2019 and the intent is to complete the CSP within the 2019/20 fiscal year[8].

2) No long-term financial plan and rate strategy (i.e., Integrated Financial Forecast) was filed with the Application. Again, Manitoba Hydro has indicted that a comprehensive review of Manitoba Hydro's operations, forecasts and financial plans is currently being undertaken to allow the Manitoba Hydro-Electric Board ("MHEB") to establish a long-term financial plan for the Corporation[9].
3) Detailed OM&A forecasts were not provided for 2019/20[10] as part of the Application.
4) A Prospective Cost of Service Study for 2019/20 (PCOSS20) was not provided as part of the Application[11].

As well as setting out a timetable for reviewing the Application, PUB Order 1/19 also determined the scope of the review and specifically identified the following issues as not in scope for the current review:

- New or different bill affordability mechanisms or programs;
- Review of 10 years of historical Operating and Administrative expense data;
- The results of an independent assessment of Manitoba Hydro's asset management program;
- Manitoba Hydro's study of the Service Drop allocator and Common Costs;
- The development of a time-of-use rate design proposal;
- The finalization of interim diesel zone rates;
- The Solar Energy Program and other net metering installations; and
- Manitoba Hydro's long-term financial forecast and financial plan.

[8] Coalition/MH I-4 c-d)
[9] Application, page 1
[10] PUB/MH I-16
[11] Coalition/MH I-40

In its Order 59/18, the PUB noted[12] that "*the Integrated Financial Forecast filed in the proceeding as Manitoba Hydro Exhibit 93 supports the Board's decision on the level of the overall rate increase*". The Board also noted that "*in many respects, and as a departure from Manitoba Hydro's plan and Integrated Financial Forecast assumptions, Manitoba Hydro Exhibit 93 is therefore reflective of many of the Board's decisions in this Order*". As result, as part of both its initial Application and the subsequent Supplement, Manitoba Hydro provided a comparison to Exhibit 93 for the three year period 2017/18 to 2019/20.

In the initial Application Manitoba Hydro noted that the cumulative earnings (i.e., net income) for the period had deteriorated by $198 M[13] relative to Exhibit 93 with the proposed 3.5% increase and by $260 M if there is no rate increase in 2019/20[14]. In the Supplement, the deterioration in cumulative earnings is $70 M[15] relative to Exhibit 93 with the 3.5% increase and $121 M if there is no rate increase in 2019/20[16]. The improvement between the time of the Application and the Supplement is mainly attributable to a turnaround in water flow conditions since the filing of the initial Application (which has led to an increase in forecast export revenues), higher forecast domestic sales and lower capital spending requirements/in-service additions[17].

In both the initial Application[18] and the Supplement,[19] Manitoba Hydro notes that Exhibit 93 was based on forecast rate increases of 3.57% for each of 2018/19 and 2019/20 and that even with the requested 3.5% increase the overall financial results for the period will be lower. In its view these results underscore the need for the requested rate increase.

The purpose of this Appendix is to look more closely at the changes in the Outlook from those set out in Exhibit 93 with a view to:

[12] Page 173
[13] Page 3, Figure 1.1
[14] Application, page 4
[15] Page 2, Figure 1
[16] The $70 M increases by a further $51 per Supplement, page 13
[17] Supplement, pages 2-3, 5-6 and 8-9.
[18] Page 4
[19] Pages 2-3

- Identifying the major drivers underpinning the change in outlook for the three year period,
- Highlighting any issues regarding the current forecasts for these drivers,
- Highlighting any issues regarding Manitoba Hydro's comparison of Exhibit 93 with the current Outlook as justification for a rate increase in 2019/20, and
- Highlighting issues with using Manitoba Hydro's Current Outlook as the basis for determining rates for 2019/20.

2. 2017/18 & 2018/19 GRA - EXHIBIT 93

Exhibit 93 from the 2017/18 & 2018/19 GRA provided a financial forecast of Manitoba Hydro's electric operations based on the IFF16 Update with the interim 2017/18 rate increase of 3.36%. However, a number of key assumptions were made that varied from those used in IFF16 Update, including:

- Ineligible overheads accruals of $20 M annually and amortized at a 30 year rate,
- Depreciation at ASL throughout with no amortization of the difference between ASL and ELG, and
- Equal rate increases (3.57%) to target a 75:25 debt to equity ratio by 2035/36.

The resulting forecast Operating Statement from Exhibit 93 for the years 2017/18 to 2019/20 is set out below along with Manitoba Hydro financial ratios for each year.

	TABLE A-1 - EXHIBIT 93 (M $)			TOTAL
	2018	2019	2020	(2018-2020)
REVENUE				
Domestic				
- Approved Rates	1,578	1,565	1,551	4,694
- Additional	37	110	168	315
Total	1,615	1,675	1,719	5,009
BP III Reserve	- 151	3	79	- 69
ExtraProvincial	514	469	420	1,403
Other	30	31	31	92
TOTAL	2,008	2,178	2,251	6,437
EXPENSES				
O&A	518	501	511	1,530
-Finance Expense	587	677	749	2,013
-Finance Income	- 17	- 21	- 28	- 66
Net Finance	570	656	721	1,947
Depr. & Amort.	396	471	515	1,382
Water Rentals	130	120	110	360
Fuel & Purch Power	124	140	158	422
Taxes	132	145	154	431
Other Expenses	116	109	481	706
Corporate Allocation	8	8	8	24
TOTAL	1,995	2,150	2,660	6,805
Net Income (before NM)	13	27	- 409	- 369
Net Movement	72	115	473	660
Non-Recurring Gain				-
NET INCOME	85	142	64	291
- Manitoba Hydro	94	143	61	298
- Non-Controlling	- 8	- 1	2	- 7
FINANCIAL RATIOS				
Equity	14.62%	14.19%	13.58%	
EBITDA Interest Coverage	1.54	1.64	1.58	
Capital Coverage	1.40	1.35	1.18	

While the PUB stated that Exhibit 93 was "*reflective of many of the Board's decisions in this Order (Order 59/18)*", it was not totally reflective of the Board's Order. Areas where it differed included:

- Domestic Revenues: In Order 59/18 the PUB stated[20] that it was "*prepared to accept the results of Manitoba Hydro's Electric Load Forecast for financial forecasting and rate setting purposes*". However, it concluded that "*different considerations from those used by Manitoba Hydro support the forecast*". The Board went on to state that "*the total load in the Test Year should be higher than that forecasted by Manitoba Hydro due to the decrease in the overall approved rate increase from 7.9% to 3.6% and the Board's recommendation in this Order that Manitoba Hydro reduce its demand side management, all else being equal*". This would suggest that implicit in the Board's decision regarding the 3.6% rate increase for 2018/19 was an assumption that, at least in the short term, the load forecast and resulting domestic revenues would be higher than that put forward by Manitoba Hydro. Indeed, in Order 59/18 the Board specifically stated that the approved rate increase took into consideration "*an increase in domestic load that will result from fewer demand side management programs*"[21]
- Capital Spending: In Order 59/18 the PUB stated[22] that it "*does not accept the Business Operations Capital spending forecast in Capital Expenditure Forecast CEF16*". The Board then determined that "*Business Operations Capital spending can be safely decreased by $160 million, based on Manitoba Hydro's evidence that it can defer $160 million of spending in the Test Year*". The Board also recommended that Manitoba Hydro "*reduce its demand side management expenditures from the level incorporated in MH16 Update*"[23]. Order 59/18 indicates

[20] Page 134
[21] Page 119
[22] Page 110
[23] Page 119

that underpinning the approved rate increase was the expectation that Manitoba Hydro would reduce spending in both of these areas[24].

- Accounting: While Exhibit 93 reflects many of the Board's determinations regarding the treatment of regulatory deferral accounts there are two exceptions. First, Exhibit 93 assumed a 30 year amortization period for Ineligible Overheads whereas Order 59/18 directed that a 34 year amortization period be used which would slightly reduce the revenue requirement. Second, Exhibit 93 assumed that the costs related to Conawapa would be recorded in a regulatory deferral account as of April 1, 2019 and amortization would start in 2019/20. However, based on the Board's Order the costs related to Conawapa were transferred to a regulatory account as of March 2018 and amortization commenced in 2018/19[25].
- Debt Management Strategy: In the financial forecast underpinning the last GRA (IFF16 Update) Manitoba Hydro assumed a weighted average term to maturity ("WATM") for new debt issuance of 12 years and this assumption is reflected in Exhibit 93. However circumstances changed during the last GRA proceeding and in its Order 59/18 the PUB noted "*Manitoba Hydro's recently amended approach to the debt management plan, whereby it placed longer-term debt issues to take advantage of a flattening yield curve*"[26]. As a result, it is clear that, in approving the 3.6% rate increase for 2018/19, the Board was aware that Manitoba Hydro was no longer pursuing a 12-year WATM for new debt issuances and any impacts of this change would have been taken into account.
- Updated 2017/18 Results: The MH16 Update forecast financial statements were reviewed for information by the MHEB on July 5, 2017[27] and filed with the PUB in the 2017/18 & 2018/19 GRA proceeding. This forecast was subsequently revised to include the approved 3.36% rate increase effective August 1, 2017[28] and the results formed the basis for Exhibit 93. However, at the time of oral proceeding, Mr.

[24] Pages 21 and 23
[25] PUB/MH I-10
[26] Page 68
[27] 2017/18 & 2018/19 GRA, Supplement to Tab 3, page 1
[28] Appendix 3.8

McCallum indicated that Manitoba Hydro anticipated about $30 million of net income for fiscal 2018 (as compared to the $94 M in Exhibit 93) based on year-to-date results and current water conditions[29]. As a result, the Board was aware of the fact that the expected results for 2017/18 were going to be less than those set out in Exhibit 93.

Since these differences were known to the Board when it approved the 3.6% rate increase for 2018/19, they need to be taken into account when using Exhibit 93 as a proxy for the financial results that the Board expected would flow from the directives and recommendations it made in Order 59/18. Otherwise any comparison of the current financial outlook for Manitoba Hydro versus Exhibit 93 will not appropriately reflect the change in circumstances that has occurred since the PUB's decision regarding Manitoba Hydro's last GRA and that needs to be considered in assessing Manitoba Hydro's current rate application.

3. CURRENT OUTLOOK

The following table sets out the actual 2017/18 financial results for Manitoba Hydro's electric operations along with the forecast results for 2018/19 and 2019/20 supporting the current Application. The table incorporates the updates provided on both February 14, 2019 and March 7, 2019[30].

[29] Transcript, December 4, 2017, pages 153 and 201-202
[30] Appendix 1-R (Updated)

	Table A-2 - Updated Outlook (M $)			TOTAL
	2018	2019	2020	(2018-2020)
	(Actual)			
	(Millions $)			(M $)
REVENUE				
Domestic				
- Approved Rates	1,616	1,703	1,699	5,018
- Additional			50	50
Total	1,616	1,703	1,749	5,068
BP III Reserve	- 152	- 44	-	- 196
ExtraProvincial	437	432	418	1,287
Other	30	85	105	220
TOTAL	1,931	2,175	2,272	6,378
EXPENSES				
O&A	517	501	511	1,529
-Finance Expense	601	743	779	2,123
-Finance Income	- 23	- 31	- 38	- 92
Net Finance	578	712	741	2,031
Depr. & Amort.	402	465	505	1,372
Water Rentals	126	114	117	357
Fuel & Purch Power	130	135	127	392
Taxes	130	140	148	418
Other Expenses	501	79	74	654
Corporate Allocation	8	8	8	24
TOTAL	2,393	2,154	2,233	6,780
Net Income (before NM)	- 462	22	40	- 400
Net Movement	472	70	70	612
Non-Recurring Gain				-
NET INCOME	10	92	110	212
- Manitoba Hydro	18	95	115	228
- Non-Controlling	- 8	- 3	- 4	- 15
FINANCIAL RATIOS				
Equity	14.44%	13.78%	13.23%	
EBITDA Interest Coverage	1.46	1.59	1.61	
Capital Coverage	0.46	1.26	1.34	
Source:	Appendix 1-R (Updated)			
	PUB/MH I-8 a) (Updated)			

4. COMPARISON OF CURRENT OUTLOOK VS. EXHIBIT 93

The following table provides a straight[31] comparison of the financial results for the three year period 2017/18 to 2019/20 as set out in the Current Outlook vs Exhibit 93.

[31] The table presents a simple comparison of the values reported in Exhibit 93 and the current Application without any adjustments to account for changes in how revenues and costs were categorized. Any such changes that affect the comparability of the values are discussed in subsequent sections.

	Table A-3 - COMPARISON OF FINANCIAL RESULTS			
	TOTAL 2018-2020 (M $)			
			Updated	
		Exhibit 93	Outlook	Difference
REVENUE				
Domestic				
- Approved Rates		4694	5018	324
- Additional		315	50	-265
Total		5009	5068	59
BP III Reserve		-69	-196	-127
ExtraProvincial		1403	1287	-116
Other		92	220	128
TOTAL		6437	6378	-59
EXPENSES				
O&A		1530	1529	-1
-Finance Expense		2013	2,123	110
-Finance Income		-66	- 92	-26
Net Finance		1947	2031	84
Depr. & Amort.		1382	1372	-10
Water Rentals		360	357	-3
Fuel & Purch Power		422	392	-30
Taxes		431	418	-13
Other Expenses		706	654	-52
Corporate Allocatior		24	24	0
TOTAL		6805	6780	-25
Net Income (before		-369	-400	-31
Net Movement		660	612	-48
Non-Recurring Gain		0	0	0
NET INCOME		291	212	-79
- Manitoba Hydro		298	228	-70
- Non-Controlling		-7	-15	-8

In terms of the Financial Ratios, comparisons of the forecast 2019/20 values are set out below:

Table A-4 – 2019/20 Financial Ratios		
	Exhibit 93	**Current Outlook**
Equity Ratio	13.58%	13.23%
EBITDA – Interest Coverage	1.58	1.61
Capital Coverage	1.18	1.34

The following sections look at the main differences between the forecast financial results in Exhibit 93 and those associated with the Current Outlook with a view to identifying and discussing the key drivers that account for the differences between the two. Observations are also provided regarding the use of the comparative results and/or the Current Outlook as the basis for setting 2019/20 rates.

4.1 Domestic Revenues

In the Current Outlook cumulative Domestic Revenues for the 2017/18 to 2019/20 period are $59 M higher than in Exhibit 93.

Table A-5 - Domestic Revenue (M $)					
		2018	2019	2020	Total
Exhibit 93		1,615	1,675	1,719	5,009
Current Outlook		1,616	1,703	1,749	5,068
Difference		1	28	30	59
Note: Current Outlook 2017/18 reflects actual value.					

The differences in 2018/19 and 2019/20 are largely explained by the change in General Consumer sales volumes as shown in the following table. The volume difference in 2017/18 was offset by the delay in the rate increase from April 1, 2017 to August 1, 2017 and by the fact the rate increase (3.36%) was lower than in the 3.57% in Exhibit 93. Similarly, in 2019/20, the larger volume in the Current Outlook is partially offset by rate increase delays and lower rate increases than assumed in Exhibit 93.

	Table A-6 - General Consumer Sales (GWh)					
			2018	2019	2020	Total
Exhibit 93			22,510	22,224	21,977	
Current Outlook			22,573	22,602	22,440	
Difference			63	378	463	904
Note: Current Outlook 2017/18 reflects actual value.						
Source: Coalition/MH I-22 a) & d)						

Looking more closely at the sales volume changes themselves:

- 2018/19: The forecast load in Exhibit 93 was based on the 2017 Load Forecast (22,727 GWh) adjusted for DSM savings from 2017/18 and 2018/19 programs (158 GWh and 345 GWh respectively for a total of 503 GWh). In contrast, the Current Outlook is based on the 2018 Load Forecast (22,642 GWh) adjusted for DSM savings from 2018/19 programs (250 GWh) [32]. The 2018/19 forecast was then further increased by 210 GWh to account for the colder than normal weather experienced to date[33]. Overall, the higher 2018/19 volumes in the Current Outlook (as compared to Exhibit 93) are the result of: i) a higher initial General Consumer load forecast[34], ii) lower DSM savings and iii) higher actual sales to date due to colder than normal weather.
- 2019/20: The forecast load used for Exhibit 93 was also based on the 2017 Load Forecast (22,910 GWh) adjusted for DSM savings from 2017/18, 2018/19 and 2019/20 DSM programs (158 GWh from 2017/18 programs and 775 GWh from 2018/19 and 2019/20 programs - totaling 933 GWh). In contrast, the Current Outlook is based on the 2018 Load Forecast (22,917 GWh) adjusted for savings from 2018/19 and 2019/20 DSM programs (477 GWh) [35]. Overall, the 463 GWh difference is the result of: i) a higher initial General Consumer load forecast[36] and ii) lower DSM savings.

Rate Setting Observations

The load forecast underpinning the Supplement reflects actual sales to December 31, 2018 and assumes normal weather for the balance of 2018/19. However, temperatures in January and February of 2019 have continued to be colder than average[37]. As result,

[32] Coalition/MH I-22 a) and 31 a)
[33] Coalition/MH I-22 d)
[34] In order to make the initial load forecasts comparable it is necessary to remove from the 2017 Load Forecast projection for 2018/19 the forecast 2017/18 DSM program savings which yields 22,569 GWh.
[35] Coalition/MH I-22 a) and 31 a)
[36] Again, in order to make the initial load forecasts comparable it is necessary to remove from the 2017 Load Forecast projection for 2019/20 the forecast 2017/18 DSM program savings which yields 22,752 GWh
[37] Heating degree days in January and February 2019 have exceeded those in the each of previous three years as well as the historic 10-year average. http://climate.weather.gc.ca/index_e.html

one can expect the actual General Consumer Sales (and Revenues) for 2018/19 to be higher than currently forecast.

The DSM savings in the Current Outlook are less than those in Exhibit 93. However, the reduction is not as a result of Manitoba Hydro following up on the PUB's recommendation that the DSM programs be re-evaluated in light of lower marginal costs[38]. Rather the differences are due to decreased savings from customer sited load displacement and the removal of savings associated with conservation rates and fuel choice programs[39].

4.2 Bipole III Reserve

In the Current Outlook cumulative revenues associated with the Bipole III Reserve are lower than in Exhibit 93.

	Table A-7 - BP III Reserve (M $)			
	2018	2019	2020	Total
Exhibit 93	- 151	3	79	
Current Outlook	- 152	- 44	-	
Difference	- 1	- 47	- 79	- 127
Note: Current Outlook 2017/18 reflects actual value.				

The differences in 2018/19 and 2019/20 are explained, in large part, by the fact that in the Current Outlook the amortization of the deferred revenues from the Bipole III reserve is reported as Other Revenue[40] as opposed to as part of the Bipole III Reserve. If one combines the Bipole III Reserve and Other Revenues, the annual totals for Exhibit 93 and the Current Outlook are more comparable. The higher value for 2018/19 reflects the earlier in-service date for BP III which increases the deferred revenue amortized in that year by roughly $6 M[41].

[38] PUB/MH I-49
[39] PUB/MH I-50
[40] PUB/MH I-7 b) U, page 2 of 10
[41] PUB/MH I-41 b)

Table A-8 - BP III Reserve and Other Revenue (M $)					
	2017	2018	2019	2020	Total
Exhibit 93					
BP III Reserve	- 96	- 151	3	79	
Other Revenue	28	30	31	31	
Total	- 68	- 121	34	110	
Current Outlook					
BP III Reserve	- 96	- 152	- 44	-	
Other Revenue	28	30	85	105	
Total	- 68	- 122	41	105	
Overall Difference	-	- 1	7	- 5	1
Note: Current Outlook 2017/18 reflects actual value.					

4.3 Export Revenues

The following table compares the Export Revenue forecast in Exhibit 93 with that in the Current Outlook.

Table A-9 - ExtraProvincial Revenue (M $)				
	2018	2019	2020	Total
Exhibit 93	514	469	420	
Current Outlook	437	432	418	
Difference	- 77	- 37	- 2	- 116
Note: Current Outlook 2017/18 reflects actual value.				

The differences in Export Revenue are due to a number of factors including: i) export prices, ii) volumes (which in turn are a function of hydraulic generation and domestic sales) and iii) exchange rates[42].

The following table sets out the differences in annual export volumes as between Exhibit 93 and the Current Outlook.

[42] PUB/MH I-45 a)

Table A-10 - Export Volumes (GWh)					
		2018	2019	2020	Total
Exhibit 93		10,505	8,410	6,778	
Current Outlook		9,448	6,336	6,997	
Difference		- 1,057	- 2,074	219	- 2,912
Note: Current Outlook 2017/18 reflects actual value.					
Source: Coalition/MH I-20 d)					
	PUB MFR 24 - Updated (last GRA)				
	Attachment 3				

The lower volumes in 2017/18 and 2018/19 can be directly attributed to lower hydraulic generation in those years as seen in the following table. However, there is not a one to one correlation between changes in export volumes and changes in hydraulic generation as changes in domestic sales levels and changes in power purchases/thermal generation will also impact the energy available for export[43].

Table A-11 - Hydraulic Generation (GWh)					
		2018	2019	2020	Total
Exhibit 93		35,990	32,799	30,050	
Current Outlook		34,600	30,992	31,695	
Difference		- 1,390	- 1,807	1,645	- 1,552
Note: Current Outlook 2017/18 reflects actual value.					
Source: Coalition/MH I-20 d)					
	PUB MFR 24 - Updated (last GRA)				
	Appendix 3, page 38				

With respect to export prices, the Current Outlook reflects actual export prices up to December 31, 2018. For the balance of the Current Outlook export prices are based on a December 2018 short term export price forecast[44]. The following table compares the unit export revenues associated with the Current Outlook with those from Exhibit 93. It is noted that in 2017/18, both hydraulic volumes and likely unit export revenues were negatively affected by transmission outages in Manitoba, Saskatchewan and the US[45].

[43] Coalition/MH I-18 b)
[44] Coalition/MH I-18 f) and 20 a) – c)
[45] Application, page 3 and PUB/MH I-42 a) - d)

Table A-12 - Unit Export Revenues ($/MWh)			
	2018	2019	2020
Exhibit 93	$ 44.79	$ 50.80	$ 57.14
Current Outlook	$ 42.93	$ 62.26	$ 55.73
Difference	-$ 1.86	$ 11.46	-$ 1.41
Note: Current Outlook 2017/18 reflects actual value.			
Source: Coalition/MH I-20 d)			
PUB MFR 24 - Updated (last GRA)			
Attachment 3			

The materially higher 2018/19 unit export revenues in the Current Outlook are the result of the lower export volumes overall which leads to lower export volumes in the off-peak period where prices are lower. Another contributing factor to the higher 2018/19 unit export revenues was the stronger opportunity prices seen in the first half of 2018/19[46].

Rate Setting Observations

In Exhibit 93, forecast export revenues for the period are determined by averaging the revenues using historic flow conditions for the past 100 years plus[47]. The reduction in export revenues as between Exhibit 93 and the Current Outlook is largely attributable to a reduction in export volumes which, in turn, is driven by lower hydraulic generation over the three year period.

In forecasting export revenues for the remainder of 2018/19 and 2019/20, Manitoba Hydro does not attribute any incremental revenue to the sale of surplus dependable capacity over and above what has already been contracted[48]. However, since IFF16 was issued additional (short-term) contracts have been executed with the Minnesota Municipal Power Agency[49] and incremental revenues earned[50]. Even with these additional contracts there still remains something in the order of 1,000 GWh of surplus dependable generation in 2019/20[51]. Since recent experience has shown that

[46] PUB/MH I-
[47] 2017/18 & 2018/19 GRA, Appendix 3 (IFF16), page 16
[48] Application, page 23
[49] PUB/MH I-43
[50] Coalition/MH I-19 b)
[51] Attachment 4, page 3

additional sales of surplus dependable capacity do occur, it would be reasonable for the PUB to incorporate some allowance for such revenues in determining the level of rate increase required for 2019/20.

4.4 O&A Expense

The forecast for O&A expense in the Current Outlook is the same as that in Exhibit 93.

		Table A-13 - O&A Expense (M $)			
		2018	2019	2020	Total
Exhibit 93		518	501	511	
Current Outlook		517	501	511	
Difference		- 1	-	-	- 1

However, this appears to be result of Manitoba Hydro continuing to use the same O&A projections for 2018/19 and 2019/20 as were developed for the last GRA[52].

In response to the interrogatories[53] Manitoba Hydro provided a more detailed derivation of the OM&A expense for 2018/19 and 2019/20 which is copied below.

	2018/19	2019/20
2017/18 Actual Results	$ 516.9	$ 516.9
Target Assumption Additions:		
Impact of General Wage Increases, Merit & Progression	9.0	18.2
Manitoba CPI (Non-labour & benefit components)	3.0	6.0
Operating costs for in-service of Bipole III converters	8.4	12.9
Target Assumption Reductions:		
Impact of labour savings through staffing reductions	(33.5)	(34.3)
Sourcing savings through Supply Chain Initiative	(2.7)	(7.0)
Change in capitalization assumptions	(7.2)	(1.3)
$ to address Restructuring (e.g. re-training, IT technology) & potential benefit impacts	7.3	-
O&A Budget	**$ 501.2**	**$ 511.2**

[52] Coalition/MH I-14 f). See also 2017/18 & 2018/19 GRA, Coalition/MH I-110 and Exhibit 78
[53] Coalition/MH I-13 b) – c)

Rate Setting Observations

The interrogatory response indicates that the inflationary increase applied to the non-labour and benefit components was 2.1% for 2018/19 and 2% for 2019/20. Reverse engineering the $3 M and $ 6 M increases results in a base 2017/18 value for the non-labour and benefits component of roughly $143 M. This would suggest a General Wage component for 2016/17 of $374 M such that the wage increases in each of 2018/19 and 2019/20 are each approximately 2.4%. This 2.4% is well above what Manitoba Hydro is assuming for wage settlements which in 2018/19 range from 0% to 1.25% and in 2019/20 are between 0% and 1.5% depending upon the bargaining unit[54]. Presumably the difference is meant to address merit/progression increases.

It appears that the analysis provided understates the savings that will be achieved through staffing reductions. The adjustments included for General Wage Increases, Merit and Progression are based on staffing levels as of March 31, 2018[55] and, in doing so, calculate the wage increase adjustment assuming all the staff currently in place remain with the Corporation. However, the Impact of Labour Savings Through Staff Reductions is based on the 2016/17 annual salaries paid to employees departing under the VDP[56]. As a result, no allowance has been made to reflect the fact that the initial adjustment for wage increases included increases to persons who have departed the company under the VDP.

Included in the 2017/18 actual O&A costs was $8.1 M in bad debt expense as a result of an assessment of collectability of arrears[57]. This adjustment should be excluded from the $516.9 M base 2017/18 OM&A costs used to calculate the O&A budget for 2018/19 and 2019/20.

It is noted that both the VDP and the Supply Chain Management Performance Enhancement Program were both initiated several years ago. Manitoba Hydro should

[54] Coalition/MH I-14 j)
[55] Coalition/MH I-13 b)- c)
[56] Coalition/MH I-13 e)
[57] PUB/MH I-24 a)

continuously be seeking new ways to achieve efficiencies and reduce costs. In Order 59/18 the Board expressed a similar view stating[58]: "*The Board expects Manitoba Hydro will continue to find savings as it assesses its operations following the conclusion of the Voluntary Departure Program*". To this end, it would be reasonable for the PUB to expect Manitoba Hydro to be identifying and implementing further productivity improvements such that future costs will escalate at less than inflation and for the PUB to reflect such expectations in it rate approval decisions.

4.5 Capital Expenditures and In-Service Additions

Capital Expenditures

Manitoba Hydro's debt requirements and resulting gross interest expense are driven, in large part, by its annual capital spending. Overall capital expenditures for the period are lower in the Current Outlook as compared to Exhibit 93.

[58] Pages 21-22

Table A-14 - Capital Expenditures (M $)				
	2018	**2019**	**2020**	**Total**
MNG&T				
Exhibit 93	2,476	2,126	1,274	
Current Outook	2,463	1,625	1,521	
Difference	- 13	- 501	247	- 267
Bus. Opns.				
Exhibit 93	526	517	516	
Current Outook	461	478	478	
Difference	- 65	- 39	- 38	- 142
DSM				
Exhibit 93	57	99	94	
Current Outook	64	63	61	
Difference	7	- 36	- 33	- 62
Total				
Exhibit 93	3,059	2,742	1,884	
Current Outook	2,988	2,165	2,060	
Difference	- 71	- 577	176	- 472
Source: Coalition/MH I-28 a)				

For 2017/18, the lower level of actual capital spending is primarily attributable to Business Operations where, for a variety of reasons, lower spending on Transmission and Distribution projects were the main contributors[59].

The largest variance occurs in 2018/19 where the lower spending in the Current Outlook reflects revised cash flows for the MMTP project as well as lower actual costs incurred to date for the Bipole III project[60]. With respect to the variance in Business Operations capital, Manitoba Hydro explains that lower spending in the Current Outlook is the result of its annual review of its investment requirements[61].

59 PUB/MH I-52 a)
60 Coalition/MH I-28 c)
61 PUB/MH I-53 and Coalition/MH I-29 a)

The increased capital spending in 2019/20 reflects the shift in cash flows for MMTP and revised cash flow for Bipole III related to final clean-up costs[62]. Similar to 2018/19, the lower Business Operations capital requirements for 2019/20 reflect a refinement of the investment requirements[63].

The DSM spending level included in the Current Outlook reflects the direction from the Province to maintain a status quo approach (i.e., no new programs) pending the transition to Efficiency Manitoba along with lower projections for customer activity under the Load Displacement program[64].

<u>In-Service Additions</u>

Once assets are place into service, interest attributed to the related capital spending is no longer capitalized and depreciation/amortization commences.

[62] Coalition/MH I-28 a) and 28 c)
[63] Coalition/MH I-30 d)
[64] Coalition/MH I-32 c) – e) and I-33 b) – c)

Table A-15 - In-Service Additions (M $)

	2018	2019	2020	Total
MNG&T and Bus. Opns.				
Exhibit 93	680	5,405	670	
Current Outook	649	4,852	629	
Difference	- 31	- 553	- 41	- 625
DSM				
Exhibit 93	57	99	94	
Current Outook	64	63	61	
Difference	7	- 36	- 33	- 62
Conawapa				
Exhibit 93	0	0	380	
Current Outook	379	0	0	
Difference	379	0	-380	- 1
Other				
Exhibit 93	27	26	21	
Current Outook	49	27	43	
Difference	22	1	22	45
Total				
Exhibit 93	765	5,531	1,165	
Current Outook	1,141	4,942	733	
Difference	376	- 589	- 432	- 645
Note:	Other includes Mitigation, Electric Regulatory and Site Remediation			
Source:	Coalition/MH I-28 b)			

For 2017/18 and 2019/20, the differences are primarily attributable to the change in timing of the transfer of the Conawapa Generating Station Development costs to a regulatory account.

The Current Outlook's lower in-service additions in 2018/19 reflect the lower spending on Bipole III[65].

The Current Outlook's lower in-service additions for DSM in 2018/19 and 2019/20 reflect the lower spending which reduces the amounts transferred annually to a regulatory account.

Rate Setting Observations

While the DSM spending is lower than forecast in the last GRA, the spending levels are based on existing programs and have not been reviewed as to their cost effectiveness taking into account the now lower system marginal costs[66] as recommended by the PUB[67].

Similarly, while the Business Operations capital spending for 2018/19 and 2019/20 have been reduced from the levels forecast during the last GRA Manitoba Hydro has provided no evidence, beyond broad assurances, that the level of spending proposed is conditionally driven and reasonably required for the safe and reliable operation of the system. As a result, Manitoba Hydro has not demonstrably responded to the PUB's direction that "Manitoba Hydro should find savings in Business Operations Capital"[68].

Also, with respect to Business Operations Capital, it is noted that Manitoba Hydro consistently underspends the amounted "budgeted" for the year.

	Table A-16 - Business Operations Capital Expenditures (M $)					
		2013/14	2014/15	2015/16	2016/17	2017/18
Budget		526	571	577	574	526
Actual		470	524	533	530	461
Variance		-56	-47	-44	-44	-65
Source:	Coalition/MH I-30 c)					

[65] Coalition/MH I-28 b) & e)
[66] PUB/MH I-49 a) & b)
[67] Order 59/18, page 120
[68] Order 59/18, pages 21 and 110

The PUB should take this chronic underspending into account when considering the level of rate increase to approve for 2019/20.

4.6 Finance Expense & Finance Income

Finance expense largely reflects interest on short and long-term borrowings, the provincial debt guarantee fee paid to the Province of Manitoba and foreign exchange gains and losses offset by interest capitalized for those qualifying assets under construction. Finance income includes interest earned on loans and advances to external parties and temporary investments. Net finance expense is the difference between the two.

As compared to Exhibit 93, net finance expense in the Current Outlook is higher in all three years.

Table A-17 - Net Finance Expense (M $)				
	2018	2019	2020	Total
Finance Expense				
Exhibit 93	587	677	749	
Current Outlook	601	743	779	
Difference	14	66	30	110
Finance Income				
Exhibit 93	- 17	- 21	- 28	
Current Outlook	- 23	- 31	- 38	
Difference	- 6	- 10	- 10	- 26
Net Finance Expense				
Exhibit 93	570	656	721	
Current Outlook	578	712	741	
Difference	8	56	20	84
Source: PUB/MH I-8 a)-c)				

The change in finance expense as between Exhibit 93 and the Current Outlook is influenced by a number of factors:

- Changes in capital spending – since the capitalization rate is higher than current borrowing rates reductions in capital spending will increase finance expense.
- Changes in in-service additions – higher in-service additions will reduce interest capitalized and increase finance expense.

- Changes in forecast interest rates – higher interest rates on new borrowing will increase finance expense.
- Changes in debt management strategy – emphasis on longer term borrowing will increase the average cost of new debt.
- Changes in US-Canada exchange rates – as a portion of Manitoba Hydro's debt is in US funds, a higher Canadian dollar will reduce finance expense.

Changes in capital spending and in-service additions from Exhibit 93 to the Current Outlook are set out in section 3.3.5 above. The following table summarizes some of the other key differences between Exhibit 93 and the Current Outlook that impact finance expense.

Table A-18 - Interest and Exchange Rates			
	2018	**2019**	**2020**
Weighted Average Interest Rate[1]			
Exhibit 93	4.25%	3.79%	3.68%
Current Outook	4.27%	3.93%	3.85%
Difference	0.02%	0.14%	0.17%
Capitalization Rate[1]			
Exhibit 93	5.31%	5.15%	5.14%
Current Outook	5.30%	4.93%	4.82%
Difference	-0.01%	-0.22%	-0.32%
12-Year WATM[2]			
Exhibit 93	2.55%	3.05%	3.45%
Current Outook[3]	3.67%	3.20%	3.55%
Difference	1.12%	0.15%	0.10%
20-Year WATM[2]			
Exhibit 93	3.15%	3.55%	3.90%
Current Outook[3]	3.67%	3.45%	3.80%
Difference	0.52%	-0.10%	-0.10%
Exchange Rate (US-Canada)			
Exhibit 93	1.35	1.32	1.29
Current Outook	N/A	1.31	1.30
Difference		- 0.01	0.01
Note:	1) Includes Provincial Guarantee Fee		
	2) Excludes Provincial Guarantee Fee		
	3) 2017/18 values is actual weighted interest rate for debt issued		
Source:	Coalition/MH I-7 a)		
	Coalition/MH I-9 a)		
	PUB/MH -38 d)		

For 2017/18, the higher actual finance expense (relative to Exhibit 93) is mainly due to lower capitalized interest as a result of lower capital spending[69]. It should be noted that

[69] PUB/MH I-35

for 2017/18 there are minimal differences between Exhibit 93 and the actual results in terms of either the weighted average interest rate on gross debt or the interest capitalization rate[70]. While the actual cost of new debt was 0.5% higher than forecast in Exhibit 93, the weighted average interest rate was relatively unchanged due to the timing of the actual debt issuances[71].

For 2018/19, the finance expense forecast in the Current Outlook is $66 M higher than in Exhibit 93. The primary reasons are: i) higher interest rate forecast, ii) use of 20-year weighted average term to maturity for new debt (as opposed to the 12 years in Exhibit 93), and iii) lower capitalized interest due to lower capital expenditures, a lower interest capitalization rate and an earlier in-service date for Bipole III. Partially offsetting these factors were lower overall debt levels, again due to lower capital spending[72].

For 2019/20, the finance expense forecast in the Current Outlook is $30 M higher. The reasons are the same as those for 2018/19. While 2019/20 capital expenditures in the Current Outlook are higher than in Exhibit 93, cumulatively the capital spending over the period 2018/19 and 2019/20 is lower in the Current Outlook[73].

Rate Setting Observations

In each of the three years, the use of a 12-year WATM in Exhibit 93 as opposed to a longer average term to maturity of new debt is a key contributing factor to the differences noted above between Exhibit 93 and the Current Outlook. Had Exhibit 93 used a 20-year WATM assumption for new debt issuance the financial expense would have increased by approximately $3 M in 2017/18, $20 M in 2018/19 and $34 M in 2019/20[74]. Cumulatively, this totals $57 M which is roughly 80% of the total difference in net finance expense in the Current Outlook versus Exhibit 93. As discussed in section 3.1, the Board was aware of Manitoba Hydro's shift to longer term debt when is issued Order 59/18.

[70] Coalition/MH I-9 a)
[71] PUB/MH I-38 d)
[72] PUB/MH I-35
[73] PUB/MH I-35
[74] Coalition/MH I-9 b)

The December 2018 consensus interest rate forecast used in the Supplement called for an increase in interest rates in 2019 starting in the first quarter of the year[75]. At the start of this year the Bank of Canada issued its January 2019 Monetary Policy Report wherein it downgraded its outlook for Canadian economic growth in 2019[76]. At the same time the Bank of Canada decided to maintain its current key interest rates. Subsequently, in a March 6, 2019 press release[77], the Bank of Canada noted that "it now appears that the economy will be weaker in the first half of 2019 than the Bank projected in January" and announced that it was maintaining its key interest rates. The next interest rate announcement is expected in April when the Bank releases its next Monetary Policy Report. Similarly, the US Federal Reserve has maintained its target interest rates over the first quarter of 2019[78]. Overall, this would suggest that interest rates for 2019/20 are likely to be lower than those used in the Application.

4.7 Depreciation and Amortization

Depreciation and amortization includes depreciation on property plant and equipment, amortization of intangible assets and loss (gain) on disposal of property, plant and equipment. Depreciation is calculated and reported using the Equal Life Group (ELG) procedure. Differences in depreciation arising from the use of ELG as opposed to the ASL (Average Service Life) methodology are accounted for via Net Movement in Regulatory Balances. The differences between the depreciation and amortization expense as forecasted in Exhibit 93 and the Current Outlook are set out in the following table.

	Table A-19 - Depreciation and Amortization (M $)				
		2018	2019	2020	Total
Exhibit 93		396	471	515	
Current Outlook		402	465	505	
Difference		6	- 6	- 10	- 10

[75] PUB/MH I-34 b)
[76] https://www.bankofcanada.ca/2019/01/fad-press-release-2019-01-09/
[77] https://www.bankofcanada.ca/2019/03/fad-press-release-2019-03-06/
[78] https://www.federalreserve.gov/monetarypolicy/files/monetary20190320a1.pdf

For 2017/18, the difference is mainly due to an $8.5 M loss on disposition of assets recorded in the actual financial results for the year[79]. It should be noted that this $8.5 M is transferred to a regulatory deferral account through Net Movement and amortized over a 20 year period starting in 2019/20[80].

For 2018/19 and 2019/20 the lower values in the Current Outlook are mainly due to the reduction in the in-service assets associated with Bipole III[81]. Again, it should be noted that the Current Outlook values also include $2.2 M in each year for loss on disposition of assets which are transferred to a regulatory deferral account through Net Movement and amortized over a 20 year period starting in 2019/20[82].

4.8 Water Rentals and Fuel & Power Purchases

The differences between water rental costs and fuel & power purchases as forecasted in Exhibit 93 and the Current Outlook are set out in the following table.

[79] PUB/MH I-25
[80] Coalition/MH I-16 a) & b)
[81] PUB/MH I-25
[82] Coalition/MH I-16 a) & b)

Table A-20 - Water Rentals and Fuel & Power Purchases (M $)

	2018	2019	2020	Total
Water Rentals				
Exhibit 93	130	120	110	
Current Outook	126	114	117	
Difference	- 4	- 6	7	- 3
Fuel & Power Purchases				
Power Purchases				
Exhibit 93	79	97	101	
Current Outook	88	99	94	
Difference	9	2	- 7	
Transmission Charges				
Exhibit 93	36	36	32	
Current Outook	35	29	26	
Difference	- 1	- 7	- 6	
Thermal Fuel Purchases				
Exhibit 93	8	6	25	
Current Outook	6	6	7	
Difference	- 2	-	- 18	
Total Fuel & Power Purchases				
Exhibit 93	124	140	158	
Current Outook	130	135	127	
Difference	6	- 5	- 31	
Source:	Coalition/MH I-34 a) & b)			
	2017/18 & 2018/19 GRA, Appendix 6.6			

The annual differences in water rentals are directly related to the difference in hydraulic generation noted in section 3.3.3.

For 2017/18, actual power purchases were higher than those forecast in Exhibit 93[83]. There was virtually no difference in either Transmission Charges or Thermal Fuel Purchases as between Exhibit 93 and the actual results.

For 2018/19, power purchase volumes are less in the Current Outlook but this is more than offset by higher average purchase prices. Transmission Charges are down primarily due to Manitoba Hydro optimizing its firm transmission service portfolio[84].

For 2019/20, power purchases and thermal fuel purchases are down largely due to increased hydraulic generation[85]. Transmission charges are down for the same reason as they were in 2018/19.

4.9 Taxes

Taxes are comprised of capital taxes, payroll taxes and grants in lieu of taxes. The differences between taxes as forecasted in Exhibit 93 and the Current Outlook are set out in the following table.

		Table A-21 - Taxes (M $)			
		2018	2019	2020	Total
Exhibit 93		132	145	154	
Current Outlook		130	140	148	
Difference		- 2	- 5	- 6	- 13

The lower taxes in the Current Outlook are due to lower payroll taxes (due to the VRP) and lower capital taxes (due to the reduced capital spending).

4.10 Other Expenses

A comparison of the Other Expenses included in Exhibit 93 versus the Current Outlook is set out below (as copied from PUB/MH I-12 Updated).

[83] Attachment 3 and 2017/18 & 2018/19 GRA, PUB MFR 24
[84] Coalition/MH I-34 b)
[85] Coalition/MH I-34 b)

MANITOBA HYDRO
OTHER EXPENSES
(000's)

Supplement to the 2019/20 Electric Rate Application	**2017/18 Actual**	**2018/19 Current Outlook**	**2019/20 Approved Budget**
Demand side management expenses	63 667	62 539	61 219
Site restoration	1 221	7 355	6 722
Regulatory costs	10 136	1 733	5 281
Discontinuance of Conawapa Generating Station development	379 204	-	-
Cost of services provided to external entities	448	612	350
Corporate restructuring costs	46 577	5 036	341
Claim settlement	-	1 480	-
Miscellaneous	28	37	36
Total other expenses *	**$ 501 281**	**$ 78 793**	**$ 73 949**
Year over year $ change		$ (422 488)	$ (4 843)
Year over year % change		-84.3%	-6.1%

MH16 Update with Interim (Exhibit #93)	**2017/18 Forecast**	**2018/19 Forecast**	**2019/20 Forecast**
Demand side management expenses	57 184	99 404	94 251
Site restoration	2 794	2 703	1 408
Regulatory costs	3 664	2 339	1 339
Discontinuance of Conawapa Generating Station development			379 758
Cost of services provided to external entities	2 200	2 200	2 200
Corporate Restructuring Costs	50 388	2 193	2 193
Miscellaneous	132	132	132
Total other expenses *	**$ 116 362**	**$ 108 970**	**$ 481 281**
Year over year $ change		$ (7 392)	$ 372 311
Year over year % change		-6.4%	341.7%

It should be noted that the amounts related to DSM expenses, site restoration, regulatory costs and Conawapa are subsequently deferred and amortized in Net Movement. The overall impact of these items on net income is the related amortization reported through Net Movement per the following table.

Table A-22 -Amortization Related to Other Expenses

	(M $)			
	2018	**2019**	**2020**	**Total**
Exhibit 93	42.79	44.32	61.53	
Current Outook	40.77	58.22	61.38	
Difference	- 2.02	13.90	- 0.15	11.73
Source: Coalition/MH I-16				

The higher amortization in 2018/19 is primarily due to the amortization of Conawapa starting a year earlier in the Current Outlook.

The total values for the non-deferred Other Expenses are set out below.

Table A-23 - Non-Deferred Other Expenses (M $)					
		2018	2019	2020	Total
Exhibit 93		53	5	5	
Current Outook		47	7	1	
Difference		-6	2	-4	-8
Notes:	Includes cost of services to external				
	entities, corporate restructuring costs,				
	claims settlement and miscellaneous.				
Source:	PUB/MH I-12 U				

The differences are largely due to changes in timing and overall level of corporate restructuring costs along with a reduction in the cost of services provided to external entities.

4.11 Net Movement in Regulatory Balances

Net movement in regulatory balances captures the timing differences between financial reporting under IFRS and those amounts approved by the PUB for rate-setting purposes. It is the net impact of the annual additions to regulatory deferral balances and the annual amortization of existing regulatory balances. Positive net movement values have a favourable impact on net income.

The differences between the Net Movement amounts in Exhibit 93 and those in the Current Outlook are set out below.

Table A-24 - Net Movement in Regulatory Balances (M $)						
			2018	2019	2020	Total
Exhibit 93			72	115	473	
Current Outlook			472	70	70	
Difference			400	-45	-403	-48

Net Movement addresses timing differences in the expenses reported under Finance, OM&A, Depreciation & Amortization and Other Expenses. In the case of Finance and OM&A the impacts are minor (i.e., less than +/- $1 M annually)[86].

Depreciation & Amortization adjustments account for $7 M of the difference in 2017/18 primarily due to the deferral of an $8.5 M loss on disposal of assets. The effects in the following years are minor.

Table A-25 - Net Movement Related to Depreciation

	(M $) 2018	2019	2020	Total
Additions to Deferral Accounts				
Exhibit 93	34.0	39.5	42.9	
Current Outook	40.8	40.7	43.8	
Difference	6.9	1.2	0.9	9.0
Amortization				
Exhibit 93	- 0.3	- 0.6	- 0.6	
Current Outook	-	-	- 1.1	
Difference	0.3	0.6	- 0.5	0.4
Overall Difference	7.1	1.8	0.4	9.4
Note:	Includes Change in Depreciation Method and Loss on Disposal of Assets			
Source:	Coalition/MH I-16			

The Net Movement adjustments related to Other Expenses account for most of the difference in each of the years.

[86] Coalition/MH I-16 a) & b)

Table A-26 - Net Movement Related to Other Expense				
(M $)				
	2018	**2019**	**2020**	**Total**
DSM Expenses				
Additions to Deferral Accounts				
Exhibit 93	57.2	99.4	94.3	
Current Outook	63.7	62.5	61.2	
Difference	6.5	-36.9	-33.0	-63.4
Amortization				
Exhibit 93	-35.7	-36.7	-43.2	
Current Outook	-35.8	-37.3	-40.2	
Difference	0.0	-0.7	3.0	2.3
Overall Difference	6.5	-37.5	-30.0	-61.1
Conawapa				
Additions to Deferral Accounts				
Exhibit 93	-	-	379.8	
Current Outook	379.2	-	-	
Difference	379.2	-	- 379.8	-0.6
Amortization				
Exhibit 93	-	-	- 11.6	
Current Outook	-	- 12.6	- 12.6	
Difference	-	- 12.6	- 1.0	-13.7
Overall Difference	379.2	- 12.6	- 380.8	-14.2
Site Restoration & Regulatory Costs				
Additions to Deferral Accounts				
Exhibit 93	6.5	5.0	2.7	
Current Outook	11.4	9.1	12.0	
Difference	4.9	4.0	9.3	18.2
Amortization				
Exhibit 93	- 7.0	- 7.7	- 6.7	
Current Outook	- 5.0	- 8.2	- 8.6	
Difference	2.0	- 0.6	- 1.8	-0.4
Overall Difference	2.9	4.6	11.1	18.5
TOTAL DIFFERENCE	388.5	-45.6	-399.7	-56.8
Source: Coalition/MH I-16				

Rate Setting Observations

After the Net Movement adjustments the reductions of more than $30 M in DSM spending in each of 2018/19 and 2019/20 have only a $3 M impact on net income in 2019/20. However, the impact will be greater in subsequent years.

4.12 Financial Ratios

A comparison of the financial ratios based on Exhibit 93 and the Current Outlook for the three year period are set out below.

Table A-27 - Financial Ratios			
	2018	**2019**	**2020**
Equity Ratio			
Exhibit 93	14.62%	14.19%	13.58%
Current Outook	14.44%	13.78%	13.23%
EBITDA Interest Coverage			
Exhibit 93	1.54	1.64	1.58
Current Outook	1.46	1.59	1.61
Capital Coverage			
Exhibit 93	1.40	1.35	1.18
Current Outook	0.46	1.26	1.34
Source: 20187/18 & 2018/19 GRA, Exhibit 93			
PUB/MH I-8			
Coalition/MH I-6 b) i)			

Rate Setting Observations

The extremely low actual capital coverage ratio in 2017/18 is the result of payment made with respect to an accrual from the previous year which contributed to a reduction in accounts payable and accrued liabilities thereby reducing cash flow and the capital coverage ratio[87].

[87] Appendix 3, pag3 28

By 2019/20 both the EBITDA and Capital Coverage ratios are higher in the Current Outlook than in Exhibit 93. In terms of the equity ratio, the 0.35% difference can be accounted for by the change in the level of Accumulated Other Comprehensive Income for 2019/20 as between Exhibit 93 and the Current Outlook.

5. OVERALL RATE SETTING OBSERVATIONS

The following Table summarizes the key rate setting observations raised in the preceding sections regarding: i) Manitoba Hydro's comparison of Exhibit 93 with the current Outlook and ii) the use of Manitoba Hydro's Current Outlook as the basis for determining rates for 2019/20.

	Table A-28 - Rate-Setting Observations	
	Exhibit 93/Current Outlook Comparison	**Current Outlook**
Domestic Revenues	- Current Outlook 2018/19 Sales are likely to be higher than forecast due to colder weather post-December 2018 - Amount by which Current Outlook exceeds Exhibit 93 likely overstates PUB expectations per Order 59/18 (i.e., excludes DSM savings)	- 2018/19 Sales are likely to be higher than forecast due to colder weather post-December 2018 - DSM program savings have not been rationalized in light of lower marginal costs
Export Revenues	- Current Outlook 2019/20 Export Revenues likely to be higher due to additional sales of surplus dependable energy at premium prices	- 2019/20 Export Revenues likely to be higher due to additional sales of surplus dependable energy at premium prices
OM&A	- Current Outlook's 2019/20 OM&A costs likely overstated.	- Both the Wages and the Other Expenses for 2019/20 are likely overstated. - No allowance for additional cost saving measures.
Finance	- Amount by which Current Outlook exceeds Exhibit 93 likely overstates PUB expectations per Order 59/18 (i.e., WATM)	- 2019/20 interest rates are likely to be lower than forecast. - DSM program spending has not been rationalized in light of lower marginal costs-> would lower finance expense - BOC spending has not been justified based on current need-> would lower finance expense
Depreciation		- BOC spending has not been justified based on current need
Net Movement		- DSM program spending has not been rationalized in light of lower marginal costs -> impacts DSM amortization