Financial Evaluation of Development Plans (Chapter 11)

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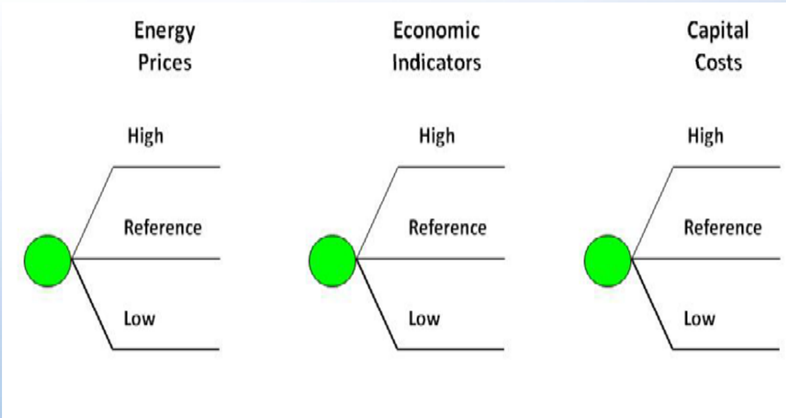
Financial Evaluation Methodology

- Analysis focuses on:
  - Comparative impact on future customer rates, and
  - Manitoba Hydro's comparative exposure to financial risk of the various development plans
- Projected pro forma financial statements prepared for each development plan and scenario starting from IFF12
- Evaluates development plans over a 50-year study period

Development Plans Studied

(Appendix 11.4)

Pathway	Interconnection	Development Plan Short Name
Pathway 1	No New Interconnection	1 All Gas
		7 Gas/C26
Pathway 2		2 K22/Gas
Pathway 3	250 MW Interconnection	4 K19/Gas/250
		13 K19/C25/250
Pathway 4	750 MW Interconnection	12 K19/C31/750
		6 K19/Gas/750
Pathway 5		14 K19/C25/750 Preferred Plan



3^3 = 27 distinct sets of pro forma financials for each development plan

- Projected pro forma financial statements were developed for each of the 27 scenarios under the 8 development plans listed above, resulting in 216 distinct sets of pro forma financial statements

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Revisions to Appendix 11.4

Cash flow statements – Investing Activities – Sinking Fund Payments

Filed August 16, 2013:

INVESTING ACTIVITIES											
Property Plant and Equipment net of contributions	(1 379)	(1 914)	(1 752)	(1 340)	(1 078)	(692)	(463)	(401)	(569)	(699)	(625)
Other Investing Activities	(17)	(16)	(21)	(20)	(32)	(42)	(28)	(28)	(33)	(38)	(29)
~~Other~~	~~(14)~~	~~(15)~~	~~(15)~~	~~(15)~~	~~(15)~~	~~(16)~~	~~(16)~~	~~(16)~~	~~(17)~~	~~(17)~~	~~(17)~~
Cash from Investing Activities	(1 503)	(2 138)	(1 897)	(1 547)	(1 267)	(960)	(680)	(645)	(849)	(1 036)	(825)
Net Increase (Decrease) in Cash	(225)	100	(246)	140	(52)	57	(18)	(28)	7	129	101
Cash at Beginning of Year	43	(182)	(83)	(329)	(189)	(241)	(184)	(203)	(230)	(223)	(94)
Cash at End of Year	(182)	(83)	(329)	(189)	(241)	(184)	(203)	(230)	(223)	(94)	6

Filed September 4, 2013:

INVESTING ACTIVITIES											
Property Plant and Equipment net of contributions	(1 379)	(1 914)	(1 752)	(1 340)	(1 078)	(692)	(463)	(401)	(569)	(699)	(625)
Sinking Fund Payment	(107)	(208)	(124)	(188)	(157)	(227)	(189)	(215)	(248)	(299)	(172)
Other Investing Activities	(17)	(16)	(21)	(20)	(32)	(42)	(28)	(28)	(33)	(38)	(29)
Cash from Investing Activities	(1 503)	(2 138)	(1 897)	(1 547)	(1 267)	(960)	(680)	(645)	(849)	(1 036)	(825)
Net Increase (Decrease) in Cash	(225)	100	(246)	140	(52)	57	(18)	(28)	7	129	101
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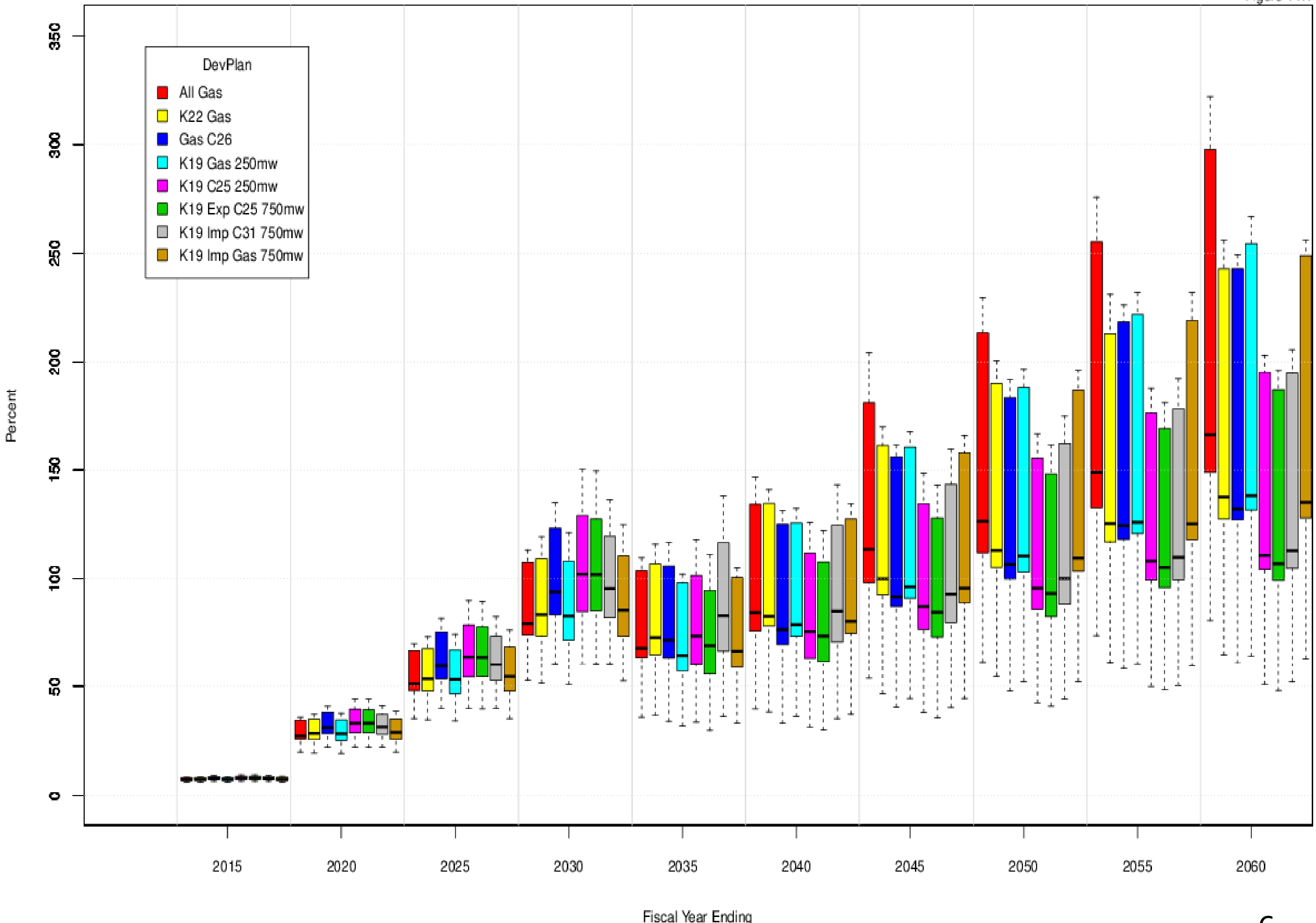
Cash at End of Year	(182)	(83)	(329)	(189)	(241)	(184)	(203)	(230)	(223)	(94)	6

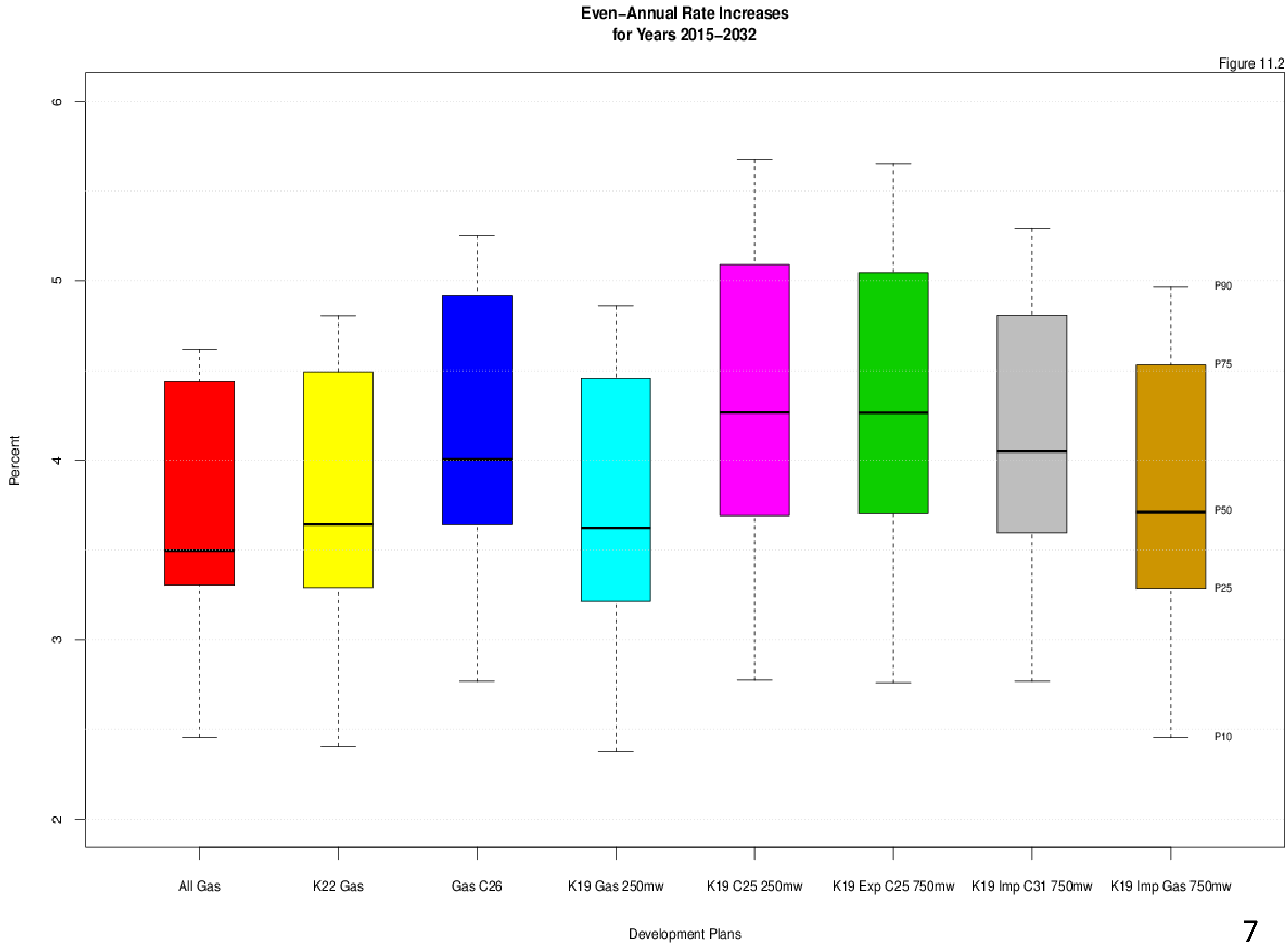
Approach to Comparative Rate Analysis

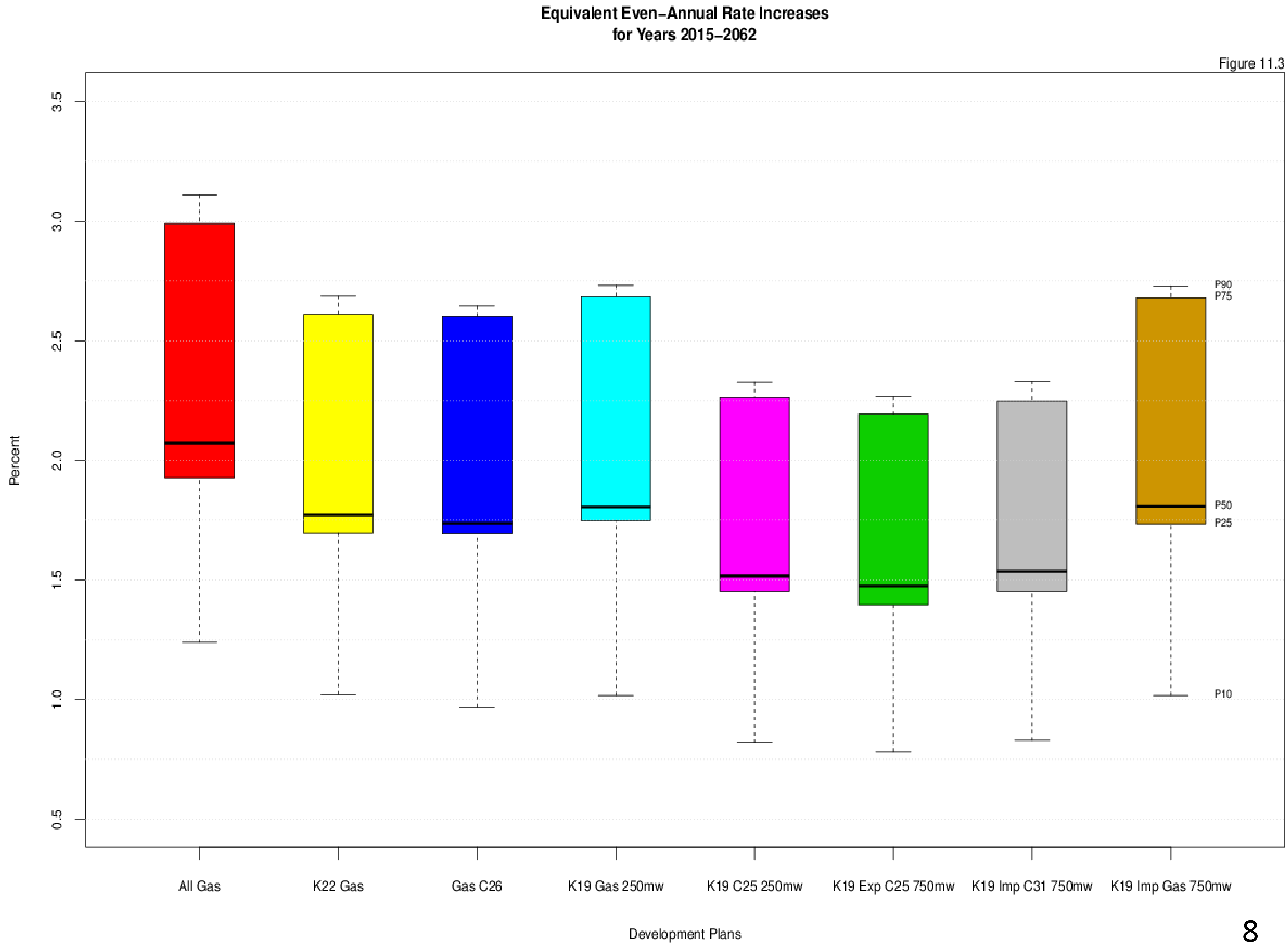
- Manitoba Hydro has a long-standing strategy of gradualism in its approach to developing rate proposals
- Given that a timely return to the targeted 75:25 debt:equity ratio is prudent, similar to the IFF approach, the financial analysis assumes even-annual rate increases in order to achieve the targeted debt:equity ratio by the end of 2031/32
- Once the debt:equity target is reached, the projected comparative annual rates for the remainder of the 50-year financial forecast period utilize the corporation’s interest coverage ratio target of 1.20

Projected Cumulative Annual Percentage Rate Increase
by Development Plan

Figure 11.1




Even-Annual Rate Increases
for Years 2015-2032
Figure 11.2
Percent
6
5
4
3
2
P90
P75
P50
P25
P10
All Gas
K22 Gas
Gas C26
K19 Gas 250mw
K19 C25 250mw
K19 Exp C25 750mw
K19 Imp C31 750mw
K19 Imp Gas 750mw
Development Plans



Equivalent Even–Annual Rate Increases
for Years 2015–2062
Figure 11.3
Percent
3.5
3.0
2.5
2.0
1.5
1.0
0.5
P90
P75
P50
P25
P10
All Gas
K22 Gas
Gas C26
K19 Gas 250mw
K19 C25 250mw
K19 Exp C25 750mw
K19 Imp C31 750mw
K19 Imp Gas 750mw
Development Plans

Reference Scenario's key metrics

Pathway	Interconnection	Development Plan	(A) Cumulative Nominal Rate Increases by 2061/62 - Compared to All Gas	(B) Projected Even-Annual Rate Increases (2014/15 to 2031/32)	(C) Equivalent Even-Annual Rate Increases over the Forecast period (50 Years)	(D) Net Fixed Assets	(E) Net Debt	(F) Retained Earnings	(G) Net Fixed Assets	(H) Net Debt	(I) Retained Earnings
						As at 2031/32 in Billions of Nominal Dollars			As at 2061/62 in Billions of Nominal Dollars		
1	No New Interconnection	1 All Gas	-	3.43%	2.07%	$20.2	$14.7	$4.8	$31.8	$15.5	$10.7
		7 Gas C26	-42%	3.86%	1.72%	$28.1	$20.4	$6.7	$34.4	$14.6	$13.7
2		2 K22 Gas	-36%	3.49%	1.77%	$25.3	$18.4	$6.0	$33.9	$15.3	$12.8
3	250 MW Interconnection	4 K19 Gas 250 MW	-33%	3.42%	1.80%	$24.8	$18.1	$5.9	$34.0	$15.6	$12.6
		13 K19 C25 250 MW	-65%	3.98%	1.50%	$32.7	$23.8	$7.9	$36.7	$15.0	$15.6
4	750 MW Interconnection	12 K19 Imp C31 750 MW	-65%	3.80%	1.50%	$35.2	$25.7	$8.5	$38.6	$15.6	$16.8
		6 K19 Imp Gas 750 MW	-33%	3.50%	1.79%	$25.0	$18.2	$6.0	$33.6	$15.2	$12.6
5		14 K19 Sales C25 750 MW	-70%	3.95%	1.44%	$32.9	$24.0	$7.9	$36.8	$15.1	$15.7

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Drought Risk - Development Plans Studied

Pathway	Interconnection	Development Plan Short Name
Pathway 1	No New Interconnection	**1** All Gas
		7 Gas/C26
Pathway 2		**2** K22/Gas
Pathway 3	250 MW Interconnection	**4** K19/Gas/250
		13 K19/C25/250
Pathway 4	750 MW Interconnection	**12** K19/C31/750
		6 K19/Gas/750
Pathway 5		**14** K19/C25/750 Preferred Plan

- Analysis was provided for 3 development plans under all 27 scenarios for five-year droughts beginning in:
    1. 2014/15 – During construction of Keeyask
    2. 2021/22 – Affecting early revenues from Keeyask and during the construction of Conawapa
    3. 2027/28 – Affecting early revenues from Conawapa
    4. 2032/33 – Beyond early revenues from Conawapa

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Primary Financial Evaluation Conclusions Future Customer Rates

- Rate increases are required for all evaluated alternatives
- In the long term, development plans with Keeyask & Conawapa are projected to have the lowest cumulative rate increases
- In the medium term, the capital intensive plans are projected to have cumulative rate increases that are generally higher than other alternatives
- The Preferred Development Plan is projected to have the lowest overall rates to Manitoba customers in the long term

Primary Financial Evaluation Conclusions
Financial Risk

- In the long term, development plans that include Keeyask and Conawapa have the strongest projected balance sheet
- Net debt levels converge towards the end of the study period for all development plans
- In the medium term, while net debt levels are the highest with development plans that include both Keeyask and Conawapa, they also have the highest fixed assets and retained earnings
- Development plans with both Keeyask and Conawapa are more robust in their ability to absorb adverse financial impacts

Thank you