



PO Box 815 • Winnipeg Manitoba Canada • R3C 2P4
Street Location for DELIVERY: 22nd floor – 360 Portage Avenue
Telephone / N^o de téléphone : (204) 360-3468 • Fax / N^o de télécopieur : (204) 360-6147
mboyd@hydro.mb.ca

October 15, 2010

Mr. Byron Williams
Public Interest Law Centre
610 - 294 Portage Avenue
WINNIPEG, Manitoba
R3C 0B9

Dear Mr. Williams:

**RE: Manitoba Hydro 2010/11 General Rate Application -
CAC/MSOS Draft Motion for further and better disclosure**

Thank you for your letter of September 29, 2010 giving Manitoba Hydro an opportunity to review and consider the concerns raised with respect to the responses to certain Information Requests which in the view of CAC/MSOS were not adequate. Manitoba Hydro has used its best efforts to provide a full and adequate response to each of the over 4,000 Information Requests received thus far in the current GRA. We have reviewed the 18 sub-questions which you have outlined in the draft motion, and can advise as follows:

CAC/MSOS/MH/II-117(b) - Unless otherwise noted in the response, responses to Information Requests were provided by Manitoba Hydro. This includes the statement referenced from the response to CAC/MSOS/MH/II-117(a) that “due to the inherent limitations of comparing organizations that have varying operating and business environments, the purpose of the peer group analysis was to obtain general insight into the relevant peer group’s choice of floating rate debt mix data.” This reflects Manitoba Hydro’s position that the identification of general peer group trends is useful to some extent, but that there is limited merit in conducting exhaustive peer group financial statement analysis.

Manitoba Hydro will revise its response to CAC/MSOS/MH/II-117(a) to indicate that Manitoba Hydro understands that NBF was aware of Emera’s prospective comments on the floating rate debt portfolio but this was not of sufficient detail for NBF’s analysis as it was noted in the audited financial statements that the figure was prior to hedging.

The draft motion goes on to pose additional questions based on the response previously provided. We trust that the additional information provided will clarify matters, and that there will be no further need to address these additional questions.

CAC/MSOS/MH/II-117(c) - The response to CAC/MSOS/MH/II-117(a) provides that “NBF consistently utilized the audited financial statement as its data source for the purposes of determining an entity’s fixed versus floating rate debt percentage”. This response was intended to convey that no attempt was made to drill deeper than the audited financial reports, or to analyze the

hedging activities of the peer group members. Emera's prospective comments were discounted for the reasons noted above.

CAC/MSOS/MH/II-117(d) - We expect that based on the information contained above that no further clarification is required in this regard.

CAC/MSOS/MH/II-118(a) - In addition to Manitoba Hydro's audited financial statements, NBF utilized internal information provided by Manitoba Hydro for the determination of Manitoba Hydro's fixed versus floating rate debt percentages. Reconciling to Manitoba Hydro's detailed response to CAC/MSOS/MH/I-146(d), revisions to correct NBF Tables 14 and 17 were filed as part of Round 1 submissions in response to CAC/MSOS/MH/I-164(a) and PUB/MH/I-174(a). In both circumstances, it was previously disclosed that the revisions were "based on historical Manitoba Hydro data revised as per company information" and that the adjustments were for consistency purposes only and did not affect NBF's findings in their report. Manitoba Hydro has provided additional information to clarify this response.

CAC/MSOS/MH/II-119(a) - The information provided is consistent with the timelines of information being provided in this GRA. In particular, detailed historical information has been limited to provision of information back to 2003/04. Manitoba Hydro provided the annual information back to 2000 to be consistent with the timelines and use of annual information incorporated in the NBF report. As noted in your draft motion, the detailed information provided in the response to CAC/MSOS/MH/I-146(d) provided the requested quarterly information to 2004. It is Manitoba Hydro's view that the six years of quarterly historical information and 11 years of annual historical information will be sufficient for the purposes of the hearing, however, Manitoba Hydro has provided some additional information to assist the Intervenor.

CAC/MSOS/MH/II-124(a) and (b) - It is Manitoba Hydro's view that Manitoba Hydro's original responses to these Information Requests did provide an adequate response to the question. Nonetheless, Manitoba Hydro will provide additional information to address the introduction of the new CAC/MSOS observation, drawn from Manitoba Hydro's response to CAC/MSOS/MH/I - 146(d) that "the actual quarter-end range of floating rate debt in recent years has been between 16.6% - 21.9%."

CAC/MSOS/MH/II-125(a) and (b) - Manitoba Hydro believes that it had responded to this enquiry as indicated in the response which stated "NBF is not aware of any other errors in its report that would affect their recommendations and does not seek to amend the report." Tables 14 and 17 were corrected with information re-filed in response to Round I IRs. The matters referenced in the draft motion relating to the 2003 SaskPower information were explained in the response to CAC/MSOS/MH/II-120(b) which acknowledged that "SaskPower did have a small level of short term advance at December 31, 2003 which as noted in this question's preamble was very brief in duration as it was repaid in the subsequent quarter". This advance occurred nearly 7 years ago, and represented a relatively small amount, slightly over 1% of SaskPower's total debt as at December 31, 2003. As such, the observation in Section 4.2.2.3 of the NBF report remains materially correct. Further this information does not impact the modeling performed by NBF. Manitoba Hydro will revise its response to CAC/MSOS/MH/II-120(b) regarding the 2003 SaskPower information.

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CAC/MSOS/MH/II-135(c) - The range of yield curve dynamics are addressed throughout the report including Section 2: Portfolio Theory Overview. NBF also conducted an efficient frontier analysis with the Modern Portfolio Theory (MPT) using historical yield data for the period from 1999 - 2009 that included flat, inverted and upwardly sloped yield curves. NBF also considered yield curve dynamics in their recommendation to adjust Manitoba Hydro's "floating rate debt proportion within the identified optimal range in order to ... take into account both the level and the slope of the yield curve." Manitoba Hydro will provide a revised response to CAC/MSOS/MH/II-135(a) to more fully respond to this sub-part..

CAC/MSOS/MH/II-146(b) - Although Manitoba Hydro views its original response to the Information Request as adequate, in order to provide additional clarification, Manitoba Hydro will provide additional information with respect to ultra long bonds in its revised response to CAC/MSOS/MH/II-146(a).

CAC/MSOS/MH/II-146(c), (e), and (f) - Manitoba Hydro has not made any changes to its formal debt policies since the last GRA. The earlier references to a limit of 40 years was a guideline which originated from a period of time when ultra long debt issues with terms to maturity exceeding 30 years were not readily available in the marketplace. Manitoba Hydro will provide a revised response to CAC/MSOS/MH/II-146(a) to clarify its response.

CAC/MSOS/MH/II-161(c) - Manitoba Hydro has reviewed the comments in the draft motion, and will provide a revised response.

CAC/MSOS/MH/II-165(b) and (c) - Manitoba Hydro will provide a revised response to these Information Requests.

CAC/MSOS/MH/II-168(b) - Manitoba Hydro will provide the requested clarification in a revised response to CAC/MSOS/MH/II-168(a).

As noted in response to specific questions, Manitoba Hydro has provided additional information where noted by way of revising the responses to the previously filed IRs. The revised responses are to replace the existing filed responses and will be circulated to all Intervenors. We trust that you will find this satisfactory.

Yours truly,

MANITOBA HYDRO LAW DEPARTMENT

Per: 

MARLA D. BOYD

Barrister & Solicitor

MDB/

cc. Mr. Bob Peters,
Ms. Anita Southall