

1 **BCM/Coalition - 1**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 a) What is the potential risk of a credit downgrade of Manitoba Hydro by DBRS? Provide  
6 discussion with specific references to your submissions, or the submissions of others,  
7 where applicable.

8 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018  
9 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
10 reference to your submissions, or the submissions of others, where applicable.

11 c) What are the consequences of a credit downgrade of Manitoba Hydro by DBRS as it  
12 relates to Manitoba Hydro's and the Province of Manitoba's borrowing costs and the  
13 provincial economy in general? Provide discussion with specific references to your  
14 submissions, or the submissions of others, where applicable. Please quantify and  
15 provide specific metrics wherever possible.

16 **RESPONSE:**

17 DBRS does not rate the long-term debt of Manitoba Hydro, as it receives its debt from the  
18 Province of Manitoba. As a result, DBRS provides a “flow-through” rating only, which is  
19 identical to the rating of the Province.

1 **BCM/Coalition - 2**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

- 5 a) What is the potential risk of a credit downgrade of Manitoba Hydro by Moody's?  
6 Provide discussion with specific references to your submissions, or the submissions of  
7 others, where applicable.
- 8 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018  
9 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
10 reference to your submissions, or the submissions of others, where applicable.
- 11 c) What are the consequences of a credit downgrade of Manitoba Hydro by Moody's as it  
12 relates to Manitoba Hydro's and the Province of Manitoba's borrowing costs and the  
13 provincial economy in general? Provide discussion with specific references to your  
14 submissions, or the submissions of others, where applicable. Please quantify and  
15 provide specific metrics wherever possible

16 **RESPONSE:**

17 Moody's does not provide a credit rating for Manitoba Hydro, since the corporation receives  
18 all of its long-term debt from the Province of Manitoba.

1 **BCM/Coalition - 3**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 a) What is the potential risk of a credit downgrade of Manitoba Hydro by Standard &  
6 Poor's? Provide discussion with specific references to your submissions, or the  
7 submissions of others, where applicable.

8 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018  
9 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
10 reference to your submissions, or the submissions of others, where applicable.

11 c) What are the consequences of a credit downgrade of Manitoba Hydro by Standard &  
12 Poor's as it relates to Manitoba Hydro's and the Province of Manitoba's borrowing  
13 costs and the provincial economy in general? Provide discussion with specific  
14 references to your submissions, or the submissions of others, where applicable.  
15 Please quantify and provide specific metrics wherever possible

16 **RESPONSE:**

17 S&P does not provide a credit rating of Manitoba Hydro, since the corporation receives all of  
18 its long-term debt from the Province of Manitoba.

1 **BCM/Coalition - 4**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 a) What is the potential risk of a credit downgrade for the Province of Manitoba by DBRS?

6 Provide discussion with specific references to your submissions, or the submissions of  
7 others, where applicable.

8 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018

9 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
10 reference to your submissions, or the submissions of others, where applicable.

11 c) What are the consequences of a credit downgrade of the Province of Manitoba by

12 DBRS as it relates to Manitoba Hydro's and the Province of Manitoba's borrowing  
13 costs and the provincial economy in general? Provide discussion with specific  
14 references to your submissions, or the submissions of others, where applicable.

15 Please quantify and provide specific metrics wherever possible.

16 **RESPONSE:**

17 a) The potential risk of a credit downgrade for the Province of Manitoba is a matter

18 beyond MPA's scope. The rating of the Province of Manitoba is based on a multitude of  
19 factors, only a few of which relate to Manitoba Hydro.

20 b) DBRS has identified that it considers Manitoba Hydro to be self-supporting (this is

21 noted in MPA's Report, on page 31, with references). If that status were to change,

1           then there may be an impact on DBRS' evaluation of the Province's credit quality.  
2           2017/18 rates were already determined in the interim decision of the PUB in August,  
3           and there appeared to be no action from credit rating agencies.

4           c) S&P has downgraded the credit rating of the province of Manitoba twice within the past  
5           18 months. The credit spread between Manitoba bonds and Canada bonds actually  
6           improved over that period. As a result, it is difficult to infer any strong relationship  
7           between credit rating downgrades and interest rates.

1 **BCM/Coalition - 5**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 a) What is the potential risk of a credit downgrade for the Province of Manitoba by  
6 Moody's? Provide discussion with specific references to your submissions, or the  
7 submissions of others, where applicable.

8 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018  
9 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
10 reference to your submissions, or the submissions of others, where applicable.

11 c) What are the consequences of a credit downgrade of the Province of Manitoba by  
12 Moody's as it relates to Manitoba Hydro's and the Province of Manitoba's borrowing  
13 costs and the provincial economy in general? Provide discussion with specific  
14 references to your submissions, or the submissions of others, where applicable.  
15 Please quantify and provide specific metrics wherever possible.

16 **RESPONSE:**

17 a) The potential risk of a credit downgrade for the Province of Manitoba is a matter  
18 beyond MPA's scope. The rating of the Province of Manitoba is based on a multitude of  
19 factors, only a few of which relate to Manitoba Hydro.

20 b) Moody's has identified that it considers Manitoba Hydro to be self-supporting (this is  
21 noted in MPA's Report, on page 32, with references). If that status were to change,

1           then there may be an impact on Moody's evaluation of the Province's credit quality.  
2           2017/18 rates were already determined in the interim decision of the PUB in August,  
3           and there appeared to be no action from credit rating agencies.

4           c) S&P has downgraded the credit rating of the province of Manitoba twice within the past  
5           18 months. The credit spread between Manitoba bonds and Canada bonds actually  
6           improved over that period. As a result, it is difficult to infer any strong relationship  
7           between credit rating downgrades and interest rates.

1 **BCM/Coalition - 6**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 a) What is the potential risk of a credit downgrade for the Province of Manitoba by  
6 Standard & Poor's? Provide discussion with specific references to your submissions,  
7 or the submissions of others, where applicable.

8 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018  
9 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
10 reference to your submissions, or the submissions of others, or the submissions of  
11 others, where applicable.

12 c) What are the consequences of a credit downgrade of the Province of Manitoba by  
13 Standard & Poor's as it relates to Manitoba Hydro's and the Province of Manitoba's  
14 borrowing costs and the provincial economy in general? Provide a discussion with  
15 specific references to your submissions, or the submissions of others, where  
16 applicable. Please quantify and provide specific metrics wherever possible.

17 **RESPONSE:**

18 a) The potential risk of a credit downgrade for the Province of Manitoba is a matter  
19 beyond MPA's scope. The rating of the Province of Manitoba is based on a multitude of  
20 factors, only a few of which relate to Manitoba Hydro.

- 1        b) Unlike DBRS and Moody's, S&P has identified that it does not consider Manitoba  
2        Hydro to be self-supporting (this is noted in MPA's Report, on page 32, with  
3        references), and therefore includes Manitoba Hydro's debt in its consideration of the  
4        credit-worthiness of the Province of Manitoba. Nevertheless, S&P has not commented  
5        on whether its views have changed since the decision on 2017/18 rates in August.
- 6        c) S&P has downgraded the credit rating of the province of Manitoba twice within the past  
7        18 months. The credit spread between Manitoba bonds and Canada bonds actually  
8        improved over that period. As a result, it is difficult to infer any strong relationship  
9        between credit rating downgrades and interest rates.

1 **BCM/Coalition - 7**2 **Reference:**3 **Preamble to IR (If Any):**4 **Question:**

5 Confirm that Bond purchasers and traders routinely rely on the Credit Rating Reports  
6 provided by DBRS, Moody's and Standard & Poor's as part of the inputs in their analysis of  
7 buy/sell trade decisions. Provide a discussion with specific references to your submissions, or  
8 the submissions of others, where applicable.

9 **RESPONSE:**

10 Sophisticated financial market participants take advantage of all available information,  
11 including from credit rating agencies. Given that credit rating agencies are for-profit entities  
12 that would not continue to operate without active customers, it is reasonable to believe that  
13 their information is widely disseminated. Whether bond purchasers and traders “rely” on the  
14 analysis of credit rating agencies, as opposed to forming their own views or relying on other  
15 market analysts and advisors, is unknown, and not knowable without directly surveying a  
16 reasonable sample of those individuals. Doing so is outside MPA’s scope in this regulatory  
17 process (though we have undertaken similar processes for other clients on several occasions,  
18 and would be happy to do so at the request of the PUB).

1 **BCM/Coalition - 8**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 At page 31 of 161, lines 18-20, confirm that DBRS's statement "DBRS fully expects the utility  
6 to recover its cost from its electrical rate base. As such, DBRS will continue to exclude Hydro-  
7 related debt from the calculation of tax supported debt" is an indicator that DBRS, in its  
8 analysis and rating determination, is expecting Manitoba Hydro to recover its costs through  
9 increased rates whenever necessary. Provide a discussion with specific references to your  
10 submissions, or the submissions of others, where applicable.

11 **RESPONSE:**

12 DBRS statement is clear and unequivocal on its face: "DBRS fully expects the utility to  
13 recover its cost from its electrical rate base."

14 However, it is not clear what is meant by the question's use of the term "whenever  
15 necessary". Is this a reference to time, to specific financial outcomes, or to some other  
16 feature?

17 Manitoba Hydro's governing legislation, as explained in MPA Report pages 14 to 16, makes  
18 clear that rates should include all costs of operating the system. As such, DBRS is essentially  
19 relying on Manitoba Hydro and the PUB to continue to implement the requirements of the  
20 legislation. There appears to be no reason for DBRS, or anyone else, to expect that this  
21 legislative requirement will not be fulfilled.

1 **BCM/Coalition - 9**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 At page 32 of 161, lines 4-5, confirm that Moody's statement "Given its revenue stream that  
6 generates sufficient cash flow to support operations including interest payments, we view  
7 Manitoba Hydro as a self-supporting entity and therefore exclude related debt from our debt  
8 metrics of the Province." is an indicator that Moody's, in its analysis and rating determination,  
9 is expecting Manitoba Hydro to recover its costs through increased rates whenever  
10 necessary. Provide a discussion with specific references to your submissions, or the  
11 submissions of others, where applicable.

12 **RESPONSE:**

13 Please see the response to BCM/Coalition – 8, above.

1 **BCM/Coalition - 10**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 At page 32 of 161, lines 12-13, Morrison Park makes the statement "in the case of both DBRS  
6 and Moody's, the determination of whether Manitoba Hydro's debt is a financial burden for the  
7 Province is focused on cash flow." Provide the facts on which this opinion is based and  
8 discuss with reference to your submissions, or the submissions of others, where applicable.

9 **RESPONSE:**

10 BCM/Coalition 9 includes a quote from Moody's which specifically describes cash flow  
11 sufficiency as the test for Manitoba Hydro's self-supporting status. This fact is clear on its  
12 face. On page 31 of the MPA Report a quote from DBRS similarly mentions sufficiency of  
13 cash flows as the test of self-supporting status.

1 **BCM/Coalition - 11**2 **Reference:**3 **Preamble to IR (If Any):**4 **Question:**

5 DBRS's report dated November 25, 2016 lists a number of challenges with respect to  
6 Manitoba Hydro's operations. The first challenge reads as follows: "1. High Leverage.  
7 Leverage at Manitoba Hydro has been increasing over the past years as a result of the  
8 significant capital projects currently being undertaken. As such, the debt-to-capital ratio  
9 reached 83% at F2016, above the target capital structure of 75% debt. The Utility had  
10 forecast leverage to peak at 88% when the Keeyask Project is brought in service, but with the  
11 possibility of cost overruns and delays detailed in the BCG Report for Bipole III and the  
12 Keeyask Project, leverage could potentially further increase if mitigants are not enacted. The  
13 Utility is currently reviewing potential initiatives, such as requesting higher rate increases or  
14 an equity injection from the Province, which could help alleviate pressure on its key financial  
15 ratios." Confirm that DBRS is indicating that the number one challenge facing Manitoba  
16 Hydro is its debt-to-equity ratio.

17 **RESPONSE:**

18 Clearly, DBRS describes high leverage as a "challenge". The test for self-supporting status,  
19 however, relates to the sufficiency of cash flows.

1 **BCM/Coalition - 12**2 **Reference:**3 **Preamble to IR (If Any):**4 **Question:**

5 At page 32 of 161, lines 22-24, confirm that Standard & Poor's statement "significant debt on-  
6 lent to the MHEB, which we no longer consider self-supporting mainly due to its high and  
7 rising leverage" is confirmation that Standard & Poor's downgrade of the Provincial debt  
8 occurred as a consequence of its concerns regarding Manitoba Hydro's rising debt levels.

9 **RESPONSE:**

10 NOT confirmed. S&P chose to downgrade the Province of Manitoba's credit rating two times  
11 in the past 18 months. The S&P Report dated July 29, 2016 refers prominently to "the  
12 province's ongoing fiscal shortfalls", which is an issue the discussion of which is well outside  
13 MPA's scope. In the Ratings Update dated July 21, 2017, S&P refers to the fact that the  
14 province "faces large projected budget deficits", which is similarly outside MPA's scope of  
15 discussion. Ascribing the ratings changes to Manitoba Hydro-related issues, while ignoring  
16 these other significant provincial issues not related to Manitoba Hydro, appears to be  
17 inappropriate. It may be appropriate to include Manitoba Hydro-related issues as a  
18 contributory factor to the downgrades, but not as the primary or sole factor, as the question  
19 appears to suggest. Moreover, if Manitoba Hydro's revenues and cash flows, as well as  
20 outstanding debt, are fully consolidated with those of the province, it is not clear whether the  
21 Province's overall credit metrics might be improved, rather than harmed. The S&P reports in  
22 question do not discuss these issues.

1 **BCM/Coalition - 13**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 At page 32 of 161, lines 24-25, Morrison Park's statement "there is no explanation given for  
6 the significant change in the S&P's position on this matter", is indicative that Standard &  
7 Poor's takes the view that the increase in Manitoba Hydro's debt load is the sole factor which  
8 has resulted in the recent downgrades of the Province of Manitoba debt.

9 **RESPONSE:**

10 Not confirmed. Please see the response to BCM/Coalition – 12, above.

1 **BCM/Coalition - 14**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 At page 32 of 161, lines 26-27, Morrison Park states "In our view, the Government would be  
6 likely to support the Utility in the event of financial distress." Confirm the facts and the source  
7 of those facts underlying this opinion with specific references to your submissions, or the  
8 submissions of others, where applicable.

9 **RESPONSE:**

10 The quote referenced is a quote from S&P, not a statement of MPA. The quote is referenced  
11 in the MPA Report, footnote 26, and is drawn from the 14 July 2016 S&P Research Update.

1 **BCM/Coalition - 15**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 At page 32 of 161, lines 28-34, confirm that the statements made are entirely speculative and  
6 not in any way based on facts or information provided directly from Standard & Poor's or  
7 others. If the statements made are based on facts, provide those facts and the source of  
8 those facts.

9 **RESPONSE:**

10 The referred to lines begin with the words “This statement points to the possibility that...”  
11 [emphasis added] The words used, carefully chosen, indicate that MPA was making an  
12 inference, not stating facts.

1 **BCM/Coalition - 16**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide a discussion, with specific references to your submissions, or the submissions  
6 of others, where applicable, as to the significance and effect of Manitoba Hydro being  
7 regarded by the credit rating agencies as the Province of Manitoba's largest contingent risk.

8 **RESPONSE:**

9 DBRS and Moody's describe Manitoba Hydro as financially self-supporting, and as a result  
10 they treat Manitoba Hydro's debt as NOT supported by the tax base of the Province of  
11 Manitoba, but instead only a contingent risk. In other words, when calculating tax supported  
12 debt, they exclude amounts on-lent to Manitoba Hydro. For example, in the September 12,  
13 2016 DBRS Report on the Province of Manitoba, 2016-17 tax-supported debt is calculated to  
14 be \$30.1 billion.

15 S&P does not describe Manitoba Hydro as financially self-supporting, as a result they include  
16 debt on-lent to Manitoba Hydro as tax supported debt. In its July 29, 2016 Report on the  
17 Province of Manitoba, S&P calculates tax-supported debt to be \$41.5 billion. Therefore S&P  
18 does not treat Manitoba Hydro as a contingent risk, but it is instead treated as a direct, tax-  
19 supported burden.

20 Other financial obligations of the Province of Manitoba are also sometimes treated as  
21 contingent liabilities. The significance of Manitoba Hydro being the largest of those is that it  
22 would have the greatest impact on calculations of tax-supported debt if the status changed.

- 1 As it did in the case of S&P, which no longer treats Manitoba Hydro as a contingent liability,
- 2 but a tax-supported liability.

1 **BCM/Coalition - 17**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide a discussion as to what effect credit rating downgrades would have on the  
6 requirement for subsequent Manitoba Hydro rate increase requests.

7 **RESPONSE:**

8 Given the two credit downgrades by S&P over the past 18 months, and the lack of apparent  
9 consequences on interest costs for the Province of Manitoba and Manitoba Hydro, it is not  
10 clear that there should be any effects on the process to set regulated rates.

1 **BCM/Coalition - 18**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide a discussion, with specific references to your submissions, or the submissions  
6 of others, where applicable, as to how borrowing costs of Manitoba Hydro and/or the Province  
7 of Manitoba will be affected in the event of further credit rating downgrades. Please quantify  
8 and provide specific metrics wherever possible.

9 **RESPONSE:**

10 Given the two credit downgrades by S&P over the past 18 months, and the lack of apparent  
11 consequences on interest costs for the Province of Manitoba and Manitoba Hydro, it is not  
12 clear what the potential effects of additional downgrades might be.

13 The experience of the past 18 months is not dissimilar from experience historically, when  
14 credit-rating actions are not closely correlated with changes in interest rates. Interest rates  
15 change over time for a myriad of reasons having to do with broader economic performance,  
16 government decision-making, and general trends in inflation.

1 **BCM/Coalition - 19**2 **Reference:**3 **Preamble to IR (If Any):**4 **Question:**

- 5 a) What is the potential risk of DBRS concluding that Manitoba Hydro is no longer  
6 self-supporting and combining Manitoba Hydro's debt with the Province of Manitoba's  
7 debt for credit rating purposes? Provide discussion with specific references to your  
8 submissions, or the submissions of others, where applicable.
- 9 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018  
10 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
11 reference to your submissions, or the submissions of others, where applicable.
- 12 c) What are the consequences of DBRS concluding that Manitoba Hydro is no longer  
13 self-supporting and combining Manitoba Hydro's debt with the Province of Manitoba's  
14 debt for credit rating purposes as it relates to Manitoba Hydro's and the Province of  
15 Manitoba's borrowing costs and the provincial economy in general? Provide discussion  
16 with specific references to your submissions, or the submissions of others, where  
17 applicable.

18 **RESPONSE:**

- 19 a) DBRS has stated clearly that it considers Manitoba Hydro to be financially self-  
20 supporting because its cash flows are sufficient to cover all of its costs, including debt-  
21 service. Unless DBRS changes its policy, or Manitoba Hydro's fails to meet that test,  
22 this status is not expected to change. MPA cannot speculate on why DBRS might

1 change one of its stated policies, and hence has no way of meaningfully assessing that  
2 risk.

3 b) The rate increase for 2017/18 has already been determined by the PUB as 3.36%. it is  
4 not clear whether this decision would have any impact on DBRS changing its policies.

5 c) If DBRS were to change its policies and follow the example of S&P, it would be  
6 expected to perform similar calculations with respect to tax-supported debt of the  
7 Province of Manitoba. Whether this would have any impact on DBRS' view of the credit  
8 quality of the Province of Manitoba is also unknown. The assessment of the credit-  
9 quality of a province is based on many factors, not just its total tax-supported liabilities.

1 **BCM/Coalition - 20**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 a) What is the potential risk of Moody's concluding that Manitoba Hydro is no longer  
6 self-supporting and combining Manitoba Hydro's debt with the Province of Manitoba's  
7 debt for credit rating purposes? Provide discussion with specific references to your  
8 submissions, or the submissions of others, where applicable.

9 b) Is that risk increased or decreased if a rate increase of 7.9% is granted for 2017/2018  
10 as opposed to a 3.36% increase? Provide reasons for your answer with specific  
11 reference to your submissions, or the submissions of others, where applicable.

12 c) What are the consequences of Moody's concluding that Manitoba Hydro is no longer  
13 self-supporting and combining Manitoba Hydro's debt with the Province of Manitoba's  
14 debt for credit rating purposes as it relates to Manitoba Hydro's and the Province of  
15 Manitoba's borrowing costs and the provincial economy in general? Provide discussion  
16 with specific references to your submissions, or the submissions of others, where  
17 applicable.

18 **RESPONSE:**

19 Please see the response to BCM/Coalition – 19, above.

1 **BCM/Coalition - 21**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Confirm that the loss of Manitoba Hydro's self-supporting status was a significant contributing  
6 factor to the downgrade of the Province of Manitoba's credit rating by Standard & Poor's in  
7 2016 and 2017. Provide discussion with specific references to your submissions, or the  
8 submissions of others, where applicable.

9 **RESPONSE:**

10 On the face of the Report on the 2016 decision, S&P notes that its change in determination  
11 about Manitoba Hydro's self-supporting status contributed to its decision to downgrade the  
12 credit rating of the Province (Please see page 3 of the July 29, 2016 S&P Report). It is  
13 notable, however, that the "loss of status" was not based on the test previously applied by  
14 S&P as of 2015 (which was consistent with the DBRS and Moody's tests), but was based on  
15 the application of a new test, relating to leverage.

1 **BCM/Coalition - 22**2 **Reference:**3 **Preamble to IR (If Any):**4 **Question:**

5 Confirm that if DBRS and Moody's similarly view Manitoba Hydro as having lost its self-  
6 supporting status, one would anticipate a downgrade or downgrades of the Province of  
7 Manitoba's credit rating and increased borrowing costs as a consequence thereof. Provide  
8 discussion with specific references to your submissions, or the submissions of others, where  
9 applicable.

10 **RESPONSE:**

11 Not confirmed. MPA cannot speculate on whether DBRS or Moody's would choose to  
12 downgrade the credit rating of the Province of Manitoba at any given time, given the range of  
13 factors and judgements that are involved in that determination, and which are unique to each  
14 credit rating agency. Please note, as described on page 30 of the MPA Report, the variations  
15 in both ratings and relative rankings of different Provinces by each of the credit rating  
16 agencies. All three agencies come to different conclusions based on the same available facts  
17 about different provinces. No particular outcome of any specific credit rating agency review  
18 can be predicted with confidence.

1 **BCM/Coalition - 23**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 To the extent that Manitoba Hydro's debt/equity ratio should be monitored, what would be an  
6 'appropriate' debt/equity ratio target and should there be a time line in which Manitoba Hydro  
7 should reach such debt/equity ratio? Please provide discussion with specific references to  
8 your submissions, or the submissions of other where applicable.

9 **RESPONSE:**

10 Please see PUB/Coalition – 30.

1 **BCM/Coalition - 24**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide a discussion, with specific references to your submissions, or the submissions  
6 of others, where applicable, as to how one determines the appropriate balance between  
7 paying down debt and increasing rates given that utilities are susceptible to unpredictable  
8 factors beyond their control.

9 **RESPONSE:**

10 Please see PUB/Coalition - 32.

1 **BCM/Coalition - 25**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide a quantitative comparison as to variations in borrowing costs associated with  
6 lengthening or shortening the weighted average term to maturity of new debt issuance using  
7 figures representative of Manitoba Hydro's debt situation. Please include specific references  
8 to your submissions, or the submissions of others, where applicable. Please quantify and  
9 provide specific metrics wherever possible.

10 **RESPONSE:**

11 Please note that this question lacks any direct reference to MPA's Report.

12 In the Report, on page 54, MPA commented on the relationship of Treasury policy issues to  
13 rate-setting. Specifically, whether a policy such as the targeted average term to maturity  
14 should affect rate-setting decisions. The MPA Report notes that Manitoba Hydro itself has  
15 acknowledged that treasury policies must be responsive to rate-setting decisions, rather than  
16 be a driver of those decisions. As a result, it is not possible to devise or recommend specific  
17 treasury policies such as term to maturity without first assuming specific rate-making  
18 outcomes.

19 The question, as stated, does not appear to flow out of the comments on treasury policies that  
20 were included in MPA's Report, and appear to be out of MPA's scope in this regulatory  
21 process. If MPA has misunderstood the intent of the question, we would be happy to revisit it.

1 **BCM/Coalition - 26**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Considering that cash flow for Manitoba Hydro can be affected by various factors, outside the  
6 control and foreseeability of Manitoba Hydro, how is cash flow sufficiency determined and  
7 does such sufficiency necessarily fluctuate each year or reporting cycle? Please quantify and  
8 provide specific metrics wherever possible.

9 **RESPONSE:**

10 Cash flow is calculated annually (or for whatever other period is desired) based on the  
11 financial results of the corporation. Cash flow “sufficiency” is merely a calculation of whether  
12 revenues received by the corporation were sufficiently large to cover all applicable costs  
13 (“applicable” according to the purpose of the calculation). From a credit rating agency  
14 perspective, “sufficiency” is defined as meeting all expense obligations, including debt service  
15 coverage, but not including capital spending.

16 With respect to the future, cash flows can be estimated by creating a financial model, of the  
17 sort including in the Application by Manitoba Hydro. Every financial model is based on  
18 estimates and forecasts, which will have a greater or lesser potential variance. That variance  
19 is considered to be a measure of risk. In the model, certain assumptions might result in cash  
20 flow sufficiency, while others may not. A significant part of the regulatory process is a review  
21 of all of the assumptions in the regulatory model, to determine whether they are reasonable,  
22 and if so, what steps should be taken to ensure sufficiency, among other goals.

1 **BCM/Coalition - 27**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Given the 2 rate paths included on page 47 of 161, how does Manitoba Hydro's cash flow for  
6 the next 10 years change based on the 7.9% rate path vs. the 3.95% rate path?

7 **RESPONSE:**

8 Cash flow in the 7.9% rate path is greater than cash flow in the 3.95% rate path, as would be  
9 expected given higher rates and revenues, while keeping most expenses constant (except  
10 interest costs, which are higher in the 3.95% rate path model).

1 **BCM/Coalition - 28**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide discussion as to the threshold cash flow at which credit agencies who  
6 currently view Manitoba Hydro as 'self-supporting' may change their view. Please quantify  
7 and provide specific metrics wherever possible.

8 **RESPONSE:**

9 DBRS and Moody's have stated that cash flow sufficiency is their standard, which suggests  
10 that the threshold test is positive net cash flow after all expenses, not including capital  
11 expenditures. If there is a different threshold other than what they have stated, it is unknown.

1 **BCM/Coalition - 29**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide a quantitative example as to the net cost of a 1% increase in borrowing costs  
6 for the Province of Manitoba and Manitoba Hydro. Please quantify and provide specific  
7 metrics wherever possible.

8 **RESPONSE:**

9 The cost to the Province of Manitoba of an increase in borrowing costs is outside of MPA's  
10 scope. However, MPA notes that in the recent 2017 Manitoba Budget Address, there was a  
11 comment relevant to this issue (please see 2017 Manitoba Budget Address, page 2, which  
12 can be located at <http://www.manitoba.ca/finance/budget17/papers/speech17.pdf>):

13 "Manitoba homeowners understand the threat posed by potential increases to  
14 borrowing rates. While we are living at a time of historically low rates, they know that  
15 rates will inevitably rise in the future, as they have in the past. And when rates do rise,  
16 even a modest one per cent increase will mean nearly \$100 million in new costs to be  
17 borne by Manitobans."

18 A 1% increase in borrowing costs for Manitoba Hydro would affect the cost of all new debt  
19 issues from the date of the increase going forward (including both new debt and refinancings  
20 of expiring debt). For example, if \$3 billion of total debt required financing then the first year of  
21 interest costs would rise by \$30 million because of a 1% increase in rates. The total increased  
22 cost of interest over the life of the debt issued would depend on the average term of the

1 particular portfolio of bonds that were issued. If the 1% increase persisted into a second year,  
2 then new issues in the second year would similarly be affected, and the impacts of the  
3 increase would be cumulative.

1 **BCM/Coalition - 30**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 Please provide a quantitative example as to the effect of an interest rate increase of 1% on  
6 Manitoba Hydro's cash flow. Please quantify and provide specific metrics wherever possible.

7 **RESPONSE:**

8 Since interest costs are included as an expense in cash flow calculations, any increase in  
9 interest costs reduce cash flow by the corresponding amount. In the example provided in the  
10 previous question above, an increase in interest costs of \$30 million would cause a decrease  
11 in net cash flow of an equal amount.

1 **BCM/Coalition - 31**

2 **Reference:**

3 **Preamble to IR (If Any):**

4 **Question:**

5 How does Manitoba Hydro's debt/equity ratio compare to the other utilities referred to at  
6 pages 24 – 25 of 161?

7 **RESPONSE:**

8 Appendix D in the MPA Report provides 7 years of financial information on all of the utilities  
9 listed in the Report as being Manitoba Hydro peers. Rankings among the peers are different  
10 in each of those 7 years, as might be expected given changing performance over time for all  
11 utilities. Among Canadian peers, Manitoba Hydro had the second or third highest debt ratio  
12 over the 7-year period. Among US peers, Manitoba Hydro would have a similar position.