

MANITOBA HYDRO 2017/18 & 2018/19 GENERAL RATE APPLICATION

BUSINESS COUNCIL OF MANITOBA INFORMATION REQUESTS
RE: INDEPENDENT EXPERT CONSULTANTS – DR. YATCHEW

NOVEMBER 24, 2017

Reference: Expert Testimony of Adonis Yatchew

BCM/YATCHEW - 1

You have identified a number of factors that could negatively impact on Manitoba Hydro's potential future earnings including deteriorating export sales, low water levels, cost overruns on capital projects and higher interest rates. Confirm if one or more of these factors do in fact occur, it is more probable than not that Manitoba Hydro's future earnings will be negatively impacted?

Response:

While these factors have been discussed in other submissions, they were not a focus of my report. I agree, however, that to the extent that future circumstances are less favourable than those assumed in Manitoba Hydro projections, earnings will be negatively impacted.

BCM/YATCHEW - 2

Can you comment on the veracity of the comments contained in the 3rd paragraph on page 1 of 78 of Manitoba Hydro's rebuttal evidence provided November 22, 2017 and the information contained in Figure 1.1 referred to therein?

Response:

I have not conducted a comparative analysis of Manitoba Hydro's financial forecasts.

BCM/YATCHEW - 3

Can you comment on what level of reduced net earnings of Manitoba Hydro could or would result in bond raters concluding that Manitoba Hydro is no longer self-supporting?

Response:

This analysis is outside the Scope of Work which I had agreed to complete.

BCM/YATCHEW - 4

Can you comment on what level of reduced net earnings of Manitoba Hydro could

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or would result in a reduction of the bond ratings for Manitoba Hydro and/or the Province of Manitoba?

Response:

This analysis is outside the Scope of Work which I had agreed to complete.

BCM/YATCHEW - 5

Can you comment from a historical perspective on what, if any, impact there has been resulting from the downgrade of the credit rating of a Province or a provincial utility as it relates to interest rates or borrowing costs? Provide historical examples if available.

Response:

This analysis is outside the Scope of Work which I had agreed to complete.

BCM/YATCHEW - 6

Can you comment on the increased borrowing costs that Manitoba Hydro and/or the Province of Manitoba would be exposed to from an interest rate perspective in the event of a credit downgrade of either entity?

Response:

This analysis is outside the Scope of Work which I had agreed to complete.

BCM/YATCHEW - 7

Can you comment on the increased borrowing costs that Manitoba Hydro and/or the Province of Manitoba would be exposed to from an absolute dollar cost perspective in the event of a credit downgrade of either entity?

Response:

This analysis is outside the Scope of Work which I had agreed to complete.

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BCM/YATCHEW - 8

Can you comment from a macroeconomic perspective on what the expected impact would be on Manitoba Hydro and/or the Province of Manitoba in the event of a credit downgrade of either entity?

Response:

Consistent with the Scope of Work, a general response is provided.

Interest rates have been at an historic low for a number of years. There is a risk of higher rates to Manitoba Hydro and the Province, whether as a result of changes in markets and interest rate policies of central banks, or as a result of credit downgrades. In either case, borrowing costs would increase. Manitoba Hydro has a diversified debt portfolio, thus a downgrade would affect borrowing costs over time, and remedial action could be undertaken.

Macroeconomic, industrial and financial policies developed by governments involve many considerations. Prudent financial management is certainly an important part of the decision matrix. However, large increases in electricity prices, if they lead to short-term job losses and a longer-term structural shift, also have macroeconomic implications, and could adversely influence evaluations by rating agencies.

BCM/YATCHEW - 9

What is the potential risk of a credit downgrade for the Manitoba Hydro and/or the Province of Manitoba as a result of Manitoba Hydro's future operational results and forecasted increasing debt load by any of the 3 credit rating agencies? Provide discussion with specific references to your submissions, or the submissions of others, where applicable.

Response:

This analysis is outside the Scope of Work which I had agreed to complete.

BCM/YATCHEW - 10

Is the risk of a credit downgrade increased or decreased if a rate increase of 7.9% is granted for 2017/2018 as opposed to a 3.36% increase? Provide reasons for

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your answer with specific reference to your submissions, or the submissions of others, where applicable.

Response:

This analysis is outside the Scope of Work which I had agreed to complete.