

Manitoba Hydro

2017/18 & 2018/19

Electric General Rate Application

February 1, 2018

MPA New Evidence - 1

- During presentation of direct evidence on January 15, 2018 (Exhibit CC-45 and CC-45-1), Morrison Park introduced a new analysis not contained in or addressed in their October 31, 2017 report (Exhibit CC-17)


- Purpose of analysis was to show that, excluding the assumed 100% debt funded advancement of Keeyask and Bipole III projects, contributions from customers since 2012 have been maintaining a 25% equity structure

- MPA's Conclusion:
 - “Two major projects have been 100% debt-funded over the past five years, while all other incremental capital spending (whether “major” or not) has been funded with approximately 73% Debt and 27% Customer Contributions” (Exhibit CC-45, page 18)

MPA Analysis Methodology

- Restates Manitoba Hydro results since transition to IFRS to remove impact of recording of pension liability in AOCI
- Reduces debt for the \$6.5 billion “work-in-process” (including capitalized interest) on 4 major projects as at March 31, 2017
- Conclusion (from attachment CC-45-1) – equity ratio is unchanged and therefore customer rates have been appropriately funding a customer contribution to the growth of the system (excluding the major projects):

Fiscal Year Ended	Net Equity	Net Debt	Equity Ratio	Debt Ratio	Accounting Standard
2012	3102	8670	26.4%	73.6%	CGAAP
2013	3169	9314	25.4%	74.6%	CGAAP
2014	3123	10321	23.2%	76.8%	CGAAP
2015	3033	11779	20.5%	79.5%	Adjusted
2016	3116	13243	19.0%	81.0%	Adjusted
2017	3289	15444	17.6%	82.4%	Adjusted
2017 Adjusted for two Major Projects: Remove \$6483 from Long-Term Debt to represent the capitalized cost of Bipole III, Keeyask, MMTP, and GNTL					
2017	3289	8961	26.8%	73.2%	Adjusted



Manitoba Hydro Rebuttal

- MPA has neglected to adjust for several important facts which significantly change the conclusion:

(\$ in millions)

Item	Impact on Equity	Impact on Debt
Remove Conawapa Debt	--	(\$379)
Bipole III Deferred Revenues	(\$196)	\$196
Wind Farm Loan Receivable Payment	--	\$250
Net Income Contribution from Capitalization of Bipole III Interest	(\$55)	\$55
Export Revenues Attributable to High Water (2015-2017 only)	(\$219)	\$219
Gain on Sale of Surplus Land	(\$20)	\$20
Total	(\$490)	\$361

- Even with the above adjustments, impacts remain understated:
 - No adjustment for interest savings on “windfall” amounts
 - No adjustment on account of 2013 & 2014 results which also benefited from above average water conditions

Manitoba Hydro Rebuttal

- Starting point is also incorrect:
 - Work-in-process on major projects has to be excluded from the beginning debt (FY2012) if it is to be excluded from the ending debt (FY2017)
 - As at March 31, 2012, Manitoba Hydro had invested \$882.5 million combined in Keeyask, Bipole III and Conawapa
 - Adjusted for that, “starting point” equity remains \$3.1 billion but debt (Excluding Major Projects) drops to \$7.8 billion
 - Therefore “starting point” Debt to Equity was 71.5 % to 28.5%

Corrected Analysis

	Net Equity	Net Debt	Equity Ratio	Debt Ratio	Accounting Standard
2017 Capital Structure per MPA Adjusted Analysis	\$3,289	\$8,961	26.8%	73.2%	Adjusted
Conawapa Construction Work in Progress	\$0	(\$379)			
Bipole III Deferred Revenues ¹	(\$196)	\$196			
Wind Farm Loan Repayment ²	\$0	\$250			
Bipole III Interest Capitalized ³	(\$55)	\$55			
Export Revenues Attributable to Above Average Water ³	(\$219)	\$219			
Non-Recurring Gain ⁴	(\$20)	\$20			
Adjustments	(\$490)	\$361			
2017 Capital Structure per MPA Adjusted for Above (A)	\$2,799	\$9,322	23.1%	76.9%	Adjusted
2012 Capital Structure - excluding Bipole III, Conawapa and Keeyask (B)	\$3,102	\$7,788	28.5%	71.5%	CGAAP
Deterioration in Capital Structure (A - B)	(\$303)	\$1,535	-5.4%	5.4%	
Change from 2012	-10%	20%			

¹ The Manitoba Hydro-Electric Board 65th Annual Report, Note 26, p.84

² Appendix 6.1, The Manitoba Hydro-Electric Board 64th Annual Report, Note 21, p.83

³ Manitoba Hydro Exhibit #64, slide 44

⁴ The Manitoba Hydro-Electric Board 65th Annual Report, Note 26, p.84

- Approximately \$450 million more rate revenue (roughly 6.5% per year) between 2012-17 would have been required to keep equity levels at 2012 levels