

Manitoba Chambers of Commerce

**Our Plan to Restore Manitoba
Hydro and Protect Manitobans**

H. Sanford Riley

Chair, Manitoba Hydro-Electric Board

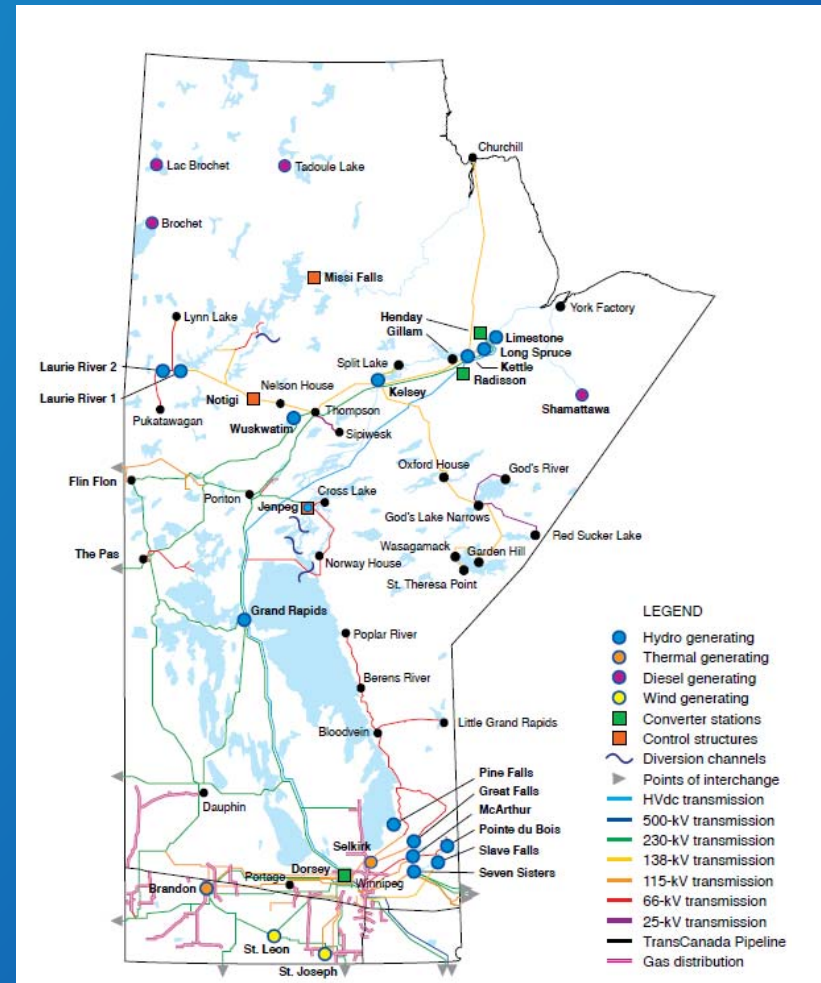
December 1, 2017

Overview

- Review of Manitoba Hydro's financial challenge
 - Cash-flow negative operations
 - Growing debt
- Review of Manitoba Hydro business risks
- 10-year plan to restore Manitoba Hydro
- There are no easy answers

The Power in our Province

- Core generation is from water power
 - 15 hydropower stations
 - 5,200 MW developed
 - 5,000 MW remaining potential
- 99% of electricity generated in Manitoba is renewable
- Two thermal generating stations primarily for backup and reliability
- US import capability critical to meet seasonal peaks and provide backup in event of failure or prolonged drought



Board Perspective

- Manitoba Hydro-Electric Board represents a talented and diverse cross-section of Manitobans
- Deep experience with operating businesses that have large balance sheets like Manitoba Hydro
- Strong experience from perspective of Hydro stakeholders and community members
- All committed to building a Manitoba where future generations enjoy the same opportunities we enjoyed

Need to Finish Bipole

- \$5 billion
- 100% of right of way clear
- Over 2,200 towers (75%) installed
- Critical for power system



Need to Finish Keeyask

- \$8.7 billion
- 45 per cent of control budget spent
- Export contracts already signed



Slide 6

bo1

Keeyask with spillway in upper left. Targeted in-service date is August 2021.

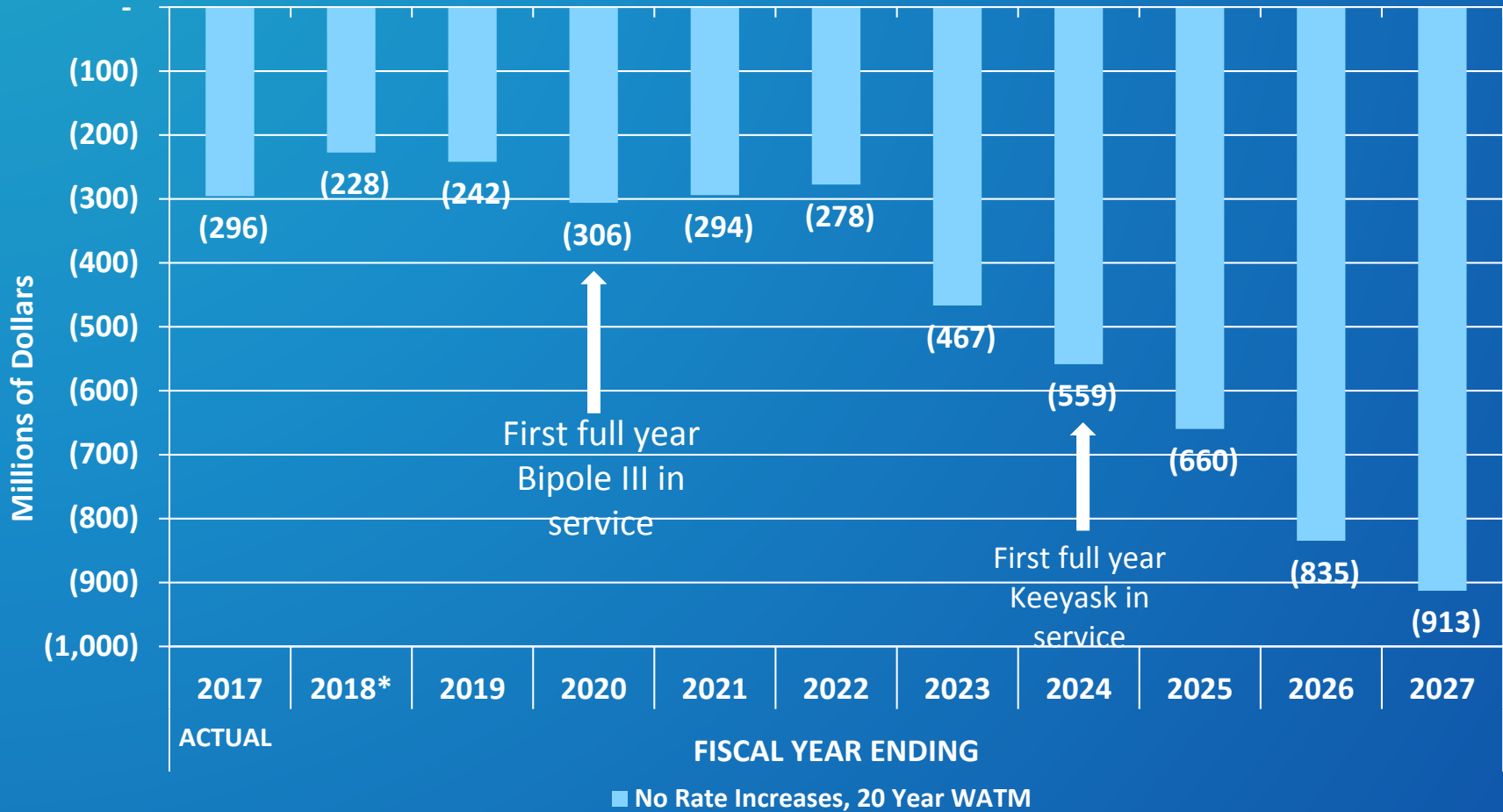
bowen, 2017-11-15

bo2

Keeyask Oct. 2017. Spillway in upper left. Targeted in-service date August 2021.

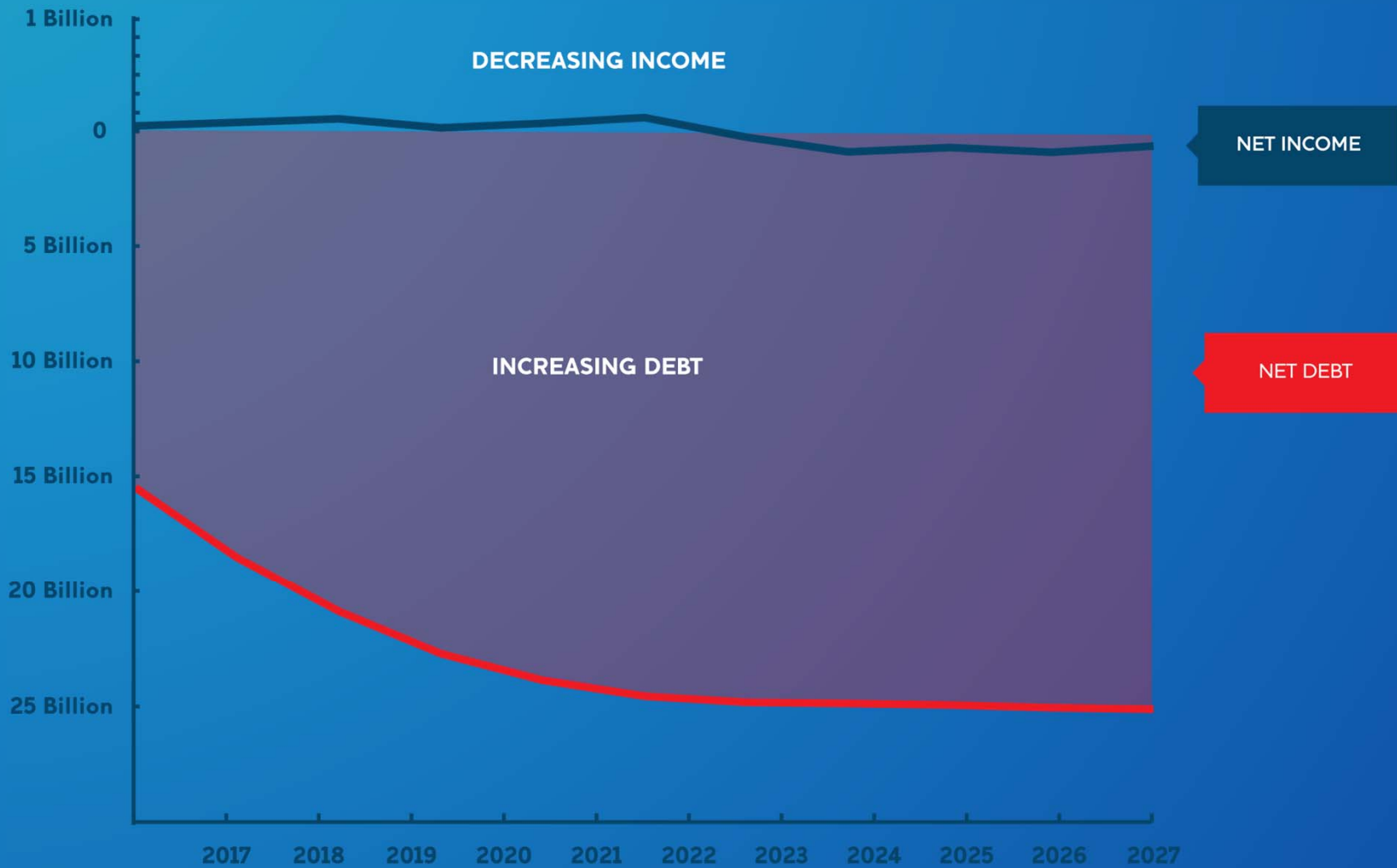
bowen, 2017-11-15

The Challenge - Cash Flow Deficiency



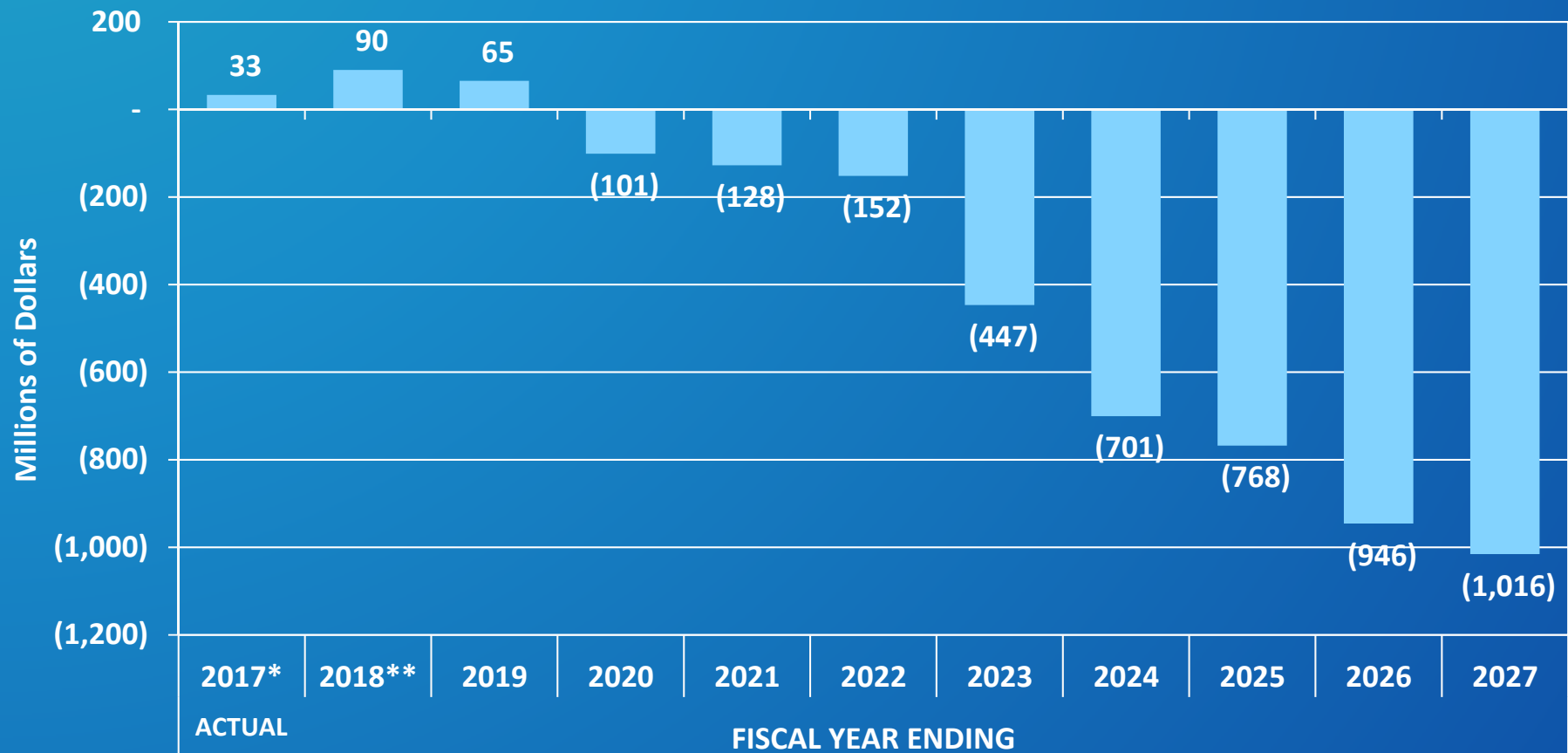
*2018 reflects the 3.36% interim rate increase effective August 1, 2017 approved in Order 80/17

The Challenge – Too Much Debt



Manitoba Hydro Net Income

No further rate increases



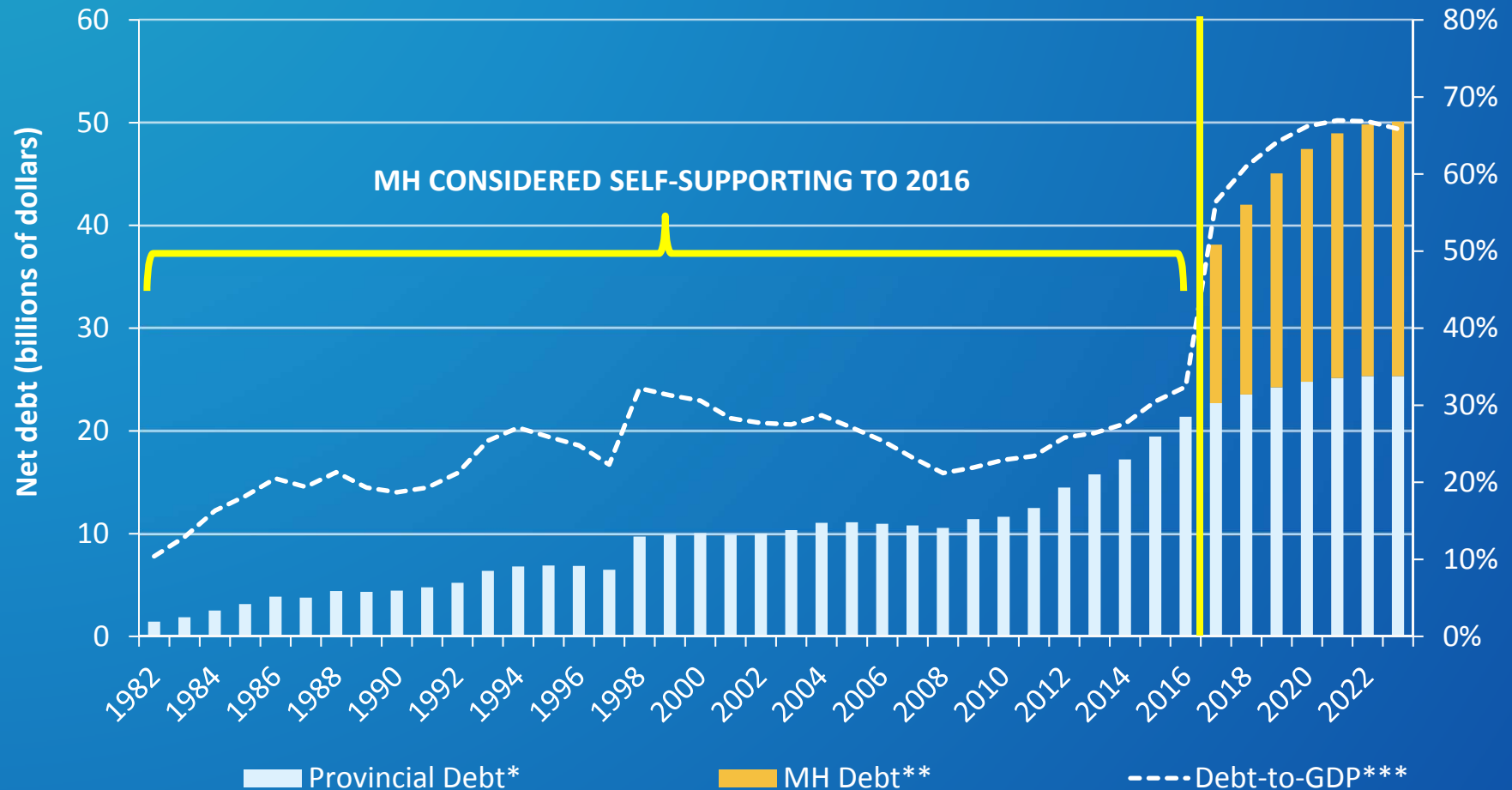
*2017 net income before \$20 million non-recurring gain

**2018 reflects the 3.36% interim rate increase effective August 1, 2017 approved in Order 80/17

■ No Rate Increases, 20 Year WATM

Manitoba Debt to GDP Ratio

Hydro debt included, total debt-to-GDP ratio forecast will increase to 65%



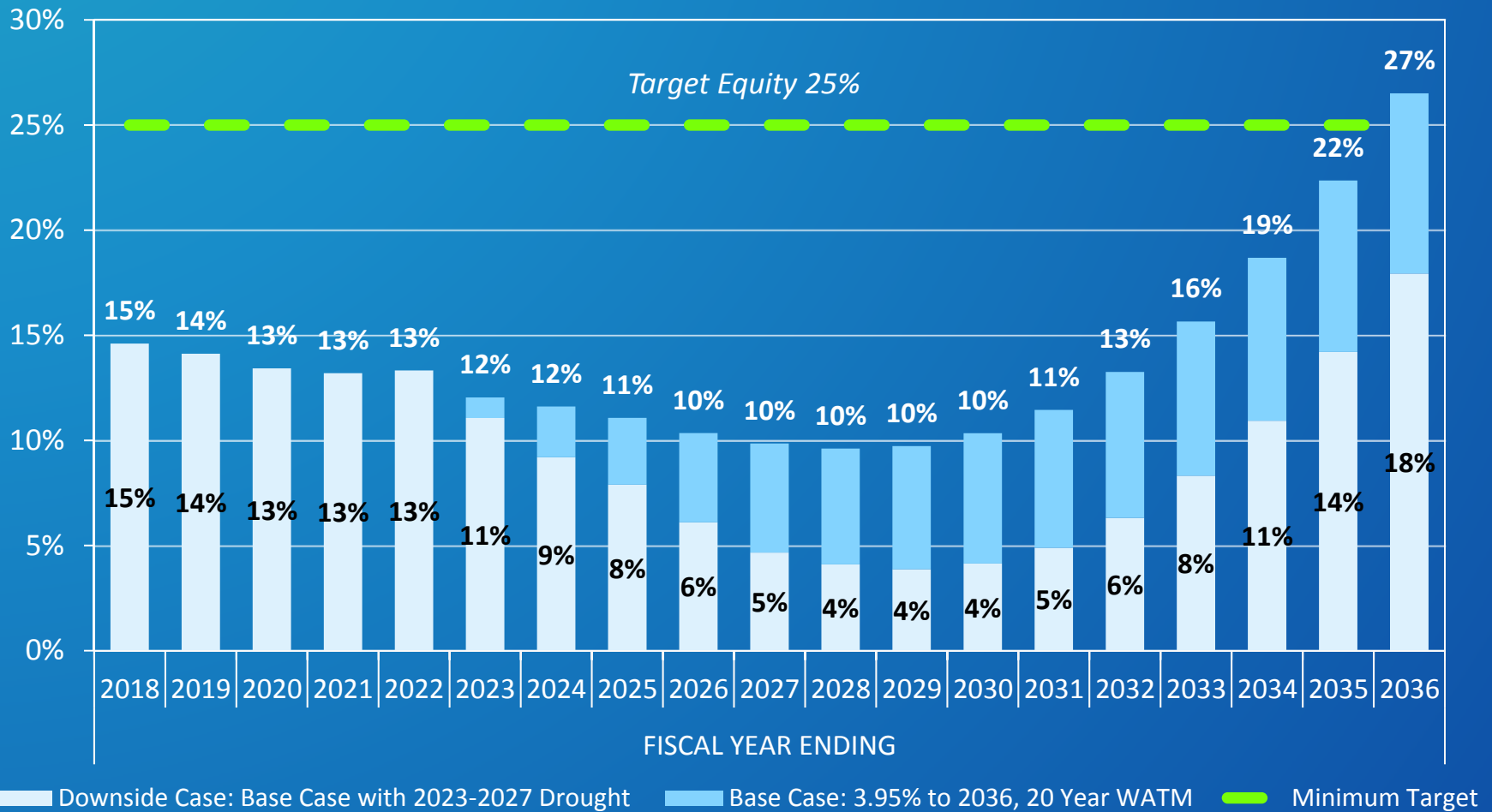
*From RBC: Canadian Federal and Provincial Fiscal Tables September 26, 2017

**3.95% Rate Increases, 20 Year WATM

***Assumes 2% growth in 2018 on

Equity Challenge and Risks

Manitoba Hydro Equity Ratio



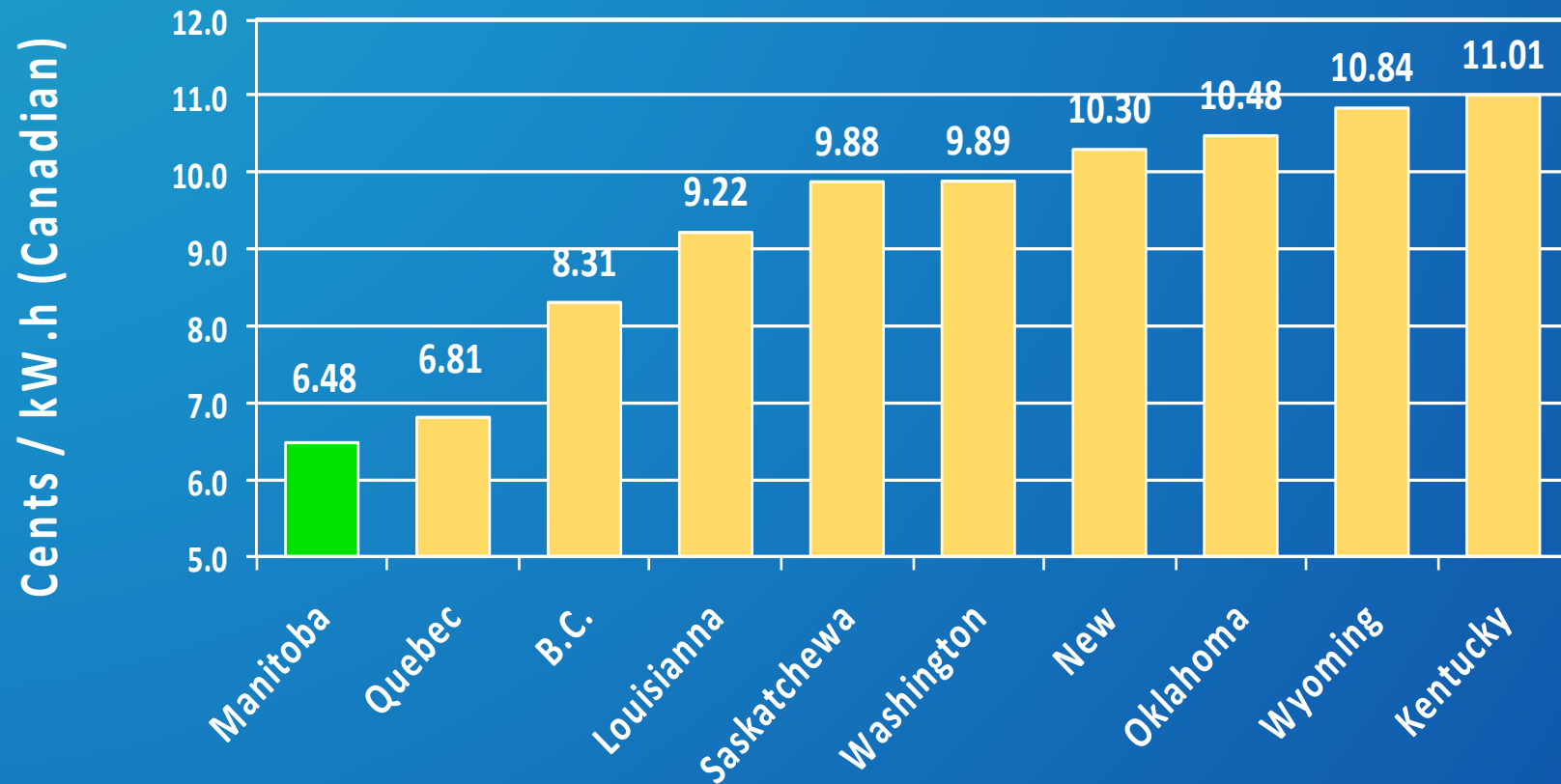
Business Risks at Hydro

- Low water levels
- Increasing interest rates
- Construction risks
- Domestic demand
- Export markets

Our Plan – Balanced, Prudent

- Annual 7.9 per cent rate increases each year from 2019 to 2024
- 4.54 per cent rate increase in 2025
- A return to inflationary (or lower) rate increases by 2028
- Over 800 employee reductions by Jan. 31, 2018
- 30% of senior management and 25% of middle management reduced

Average Retail Cost of Electricity

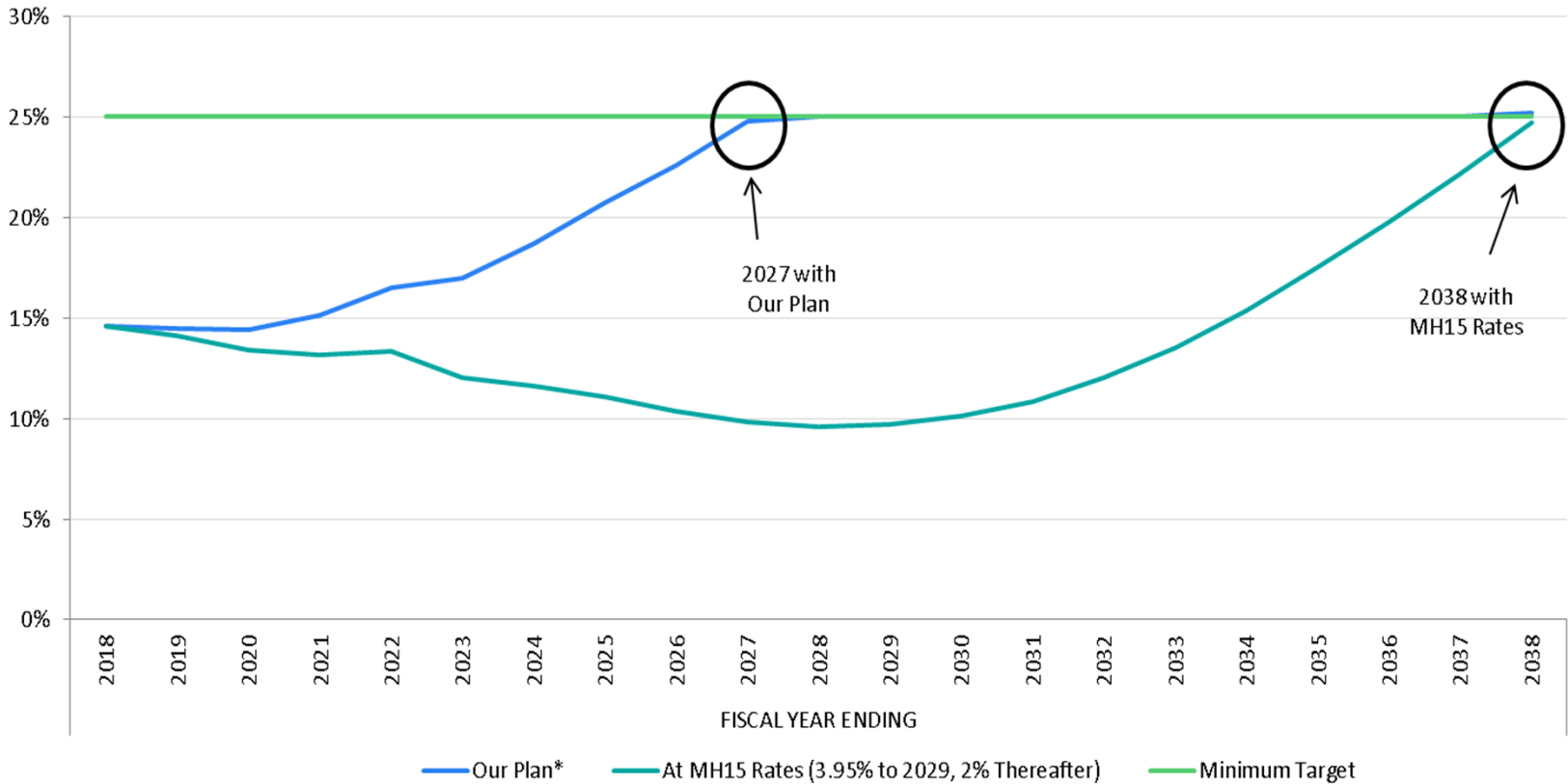


Source: US Dept of Energy (June 2016) & Edison Electric Survey (June 2016)
(Exchange rate as of February 13, 2017: 1 US\$ = 1.3071 Cdn)

Why Don't You Do This?

- **Stop construction of Keeyask and Bipole?**
 - Too far along; least worst choice
- **Sell more power to export markets?**
 - We don't set the spot price; transmission limitations
- **Cut more costs?**
 - Capital problem, not operating costs
- **Do nothing?**
 - Hope is not a strategy

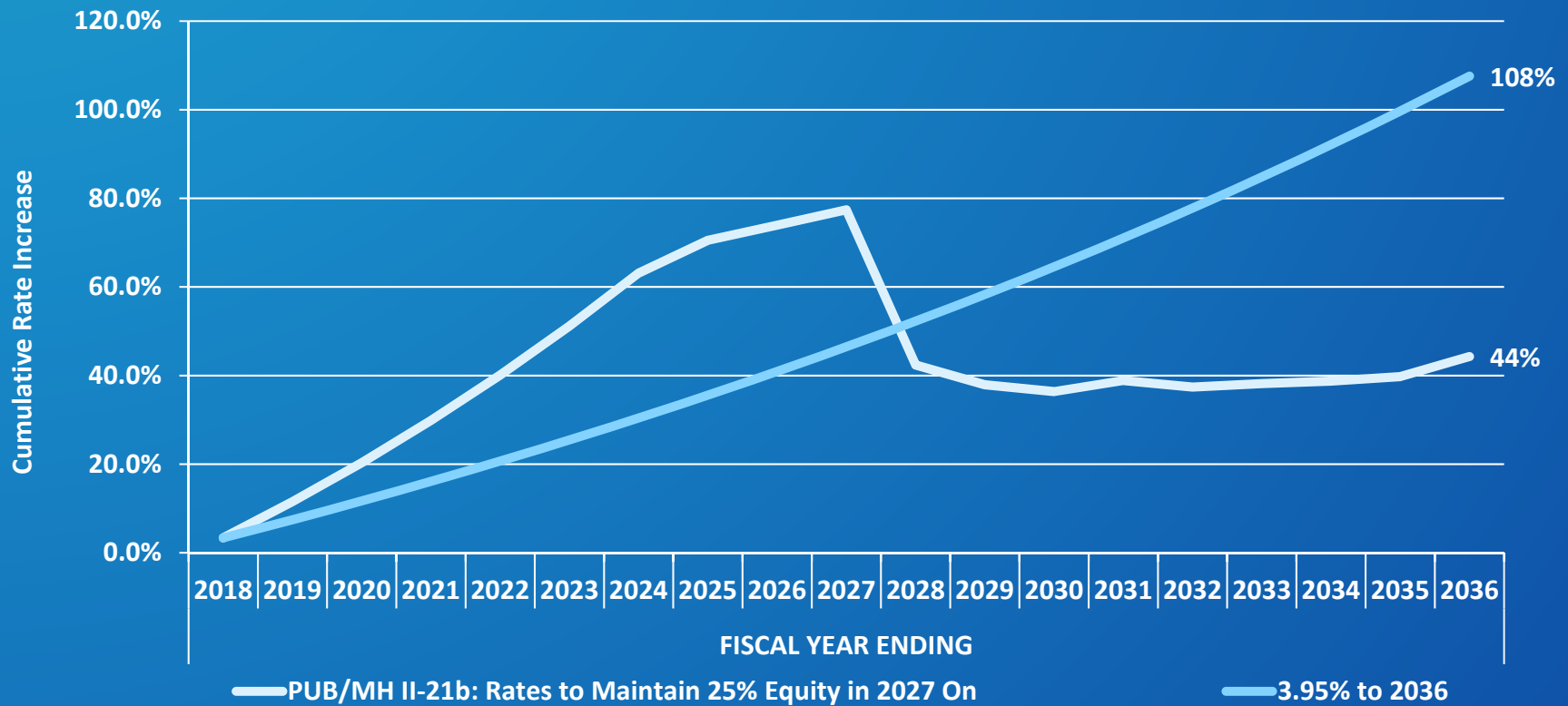
Equity Ratio



*with rates to maintain 25% equity in 2027 on

Benefits in the End

- Plan for 7.9% increases is a responsible, balanced approach for Manitoba's future
- Flexibility after MH returns to financial health



Regulatory Process

- Critical Public Utilities Board review process underway
- Extensive scrutiny of rate application and major capital projects
 - 220 minimum filing requirements
 - 2,139 information requests answered by MH staff
 - 26,000 pages of documents filed
- This process is crucial to the future of Manitoba



Manitoba Hydro committed to a strong future for our customers and for all Manitobans