Manitoba Hydro Book of Documents

TAB 1

REFERENCE:

2017/18 GRA PUB/MH I-3a; Application pg. 1 and 2

PREAMBLE TO IR (IF ANY):

QUESTION:

a) For the years 1999/00 through the test years, provide details of rate increases requested and approved, the annual revenue increase prevailing Manitoba CPI, cumulative additional annualized revenue for approved rate increases, percent of total revenue from domestic (actual and forecast), and electric debt to equity ratio (actual and forecast).

RESPONSE:

Please see the table below.

Year	% Rate Increase Requested	% Approved Final/Interim	MB CPI (fiscal)	Fiscal Yr Revenue Increases ($millions)	Annual Increase in Revenue ($millions)	Cumulative % Increase	Cumulative MB CPI	Cumulative Additional Revenue from Rate Increases ($millions)	% of Total Revenue from Domestic (Actual)	Actual Electric Operations Debt to Equity Ratio
1999/00	0%	-	2.2%	$0.00	$0.00	0.00%	2.20%	$0.0	66%	83:17
2000/01	0%	-	2.5%	$0.00	$0.00	0.00%	4.76%	$0.0	62%	80:20
2001/02 *	-1.92% Nov 1/01	-	2.1%	($6.00)	($14.40)	-1.92%	6.95%	-$14.4	57%	78:22
2002/03	0%	-	2.3%	$0.00	$0.00	-1.92%	9.41%	-$14.4	65%	81:19
2003/04	0% Apr 1/03	-0.72% Apr 1/03	0.9%	($6.50)	($6.50)	-2.63%	10.40%	-$20.9	72%	87:13
2004/05	3% Apr 1/04	5% Aug 1/04	2.7%	$32.30	$45.90	2.24%	13.38%	$25.0	63%	85:15
2005/06	2.5% Apr 1/05	2.25% Apr 1/05	2.4%	$21.80	$21.80	4.54%	16.10%	$46.8	55%	81:19
2006/07	2.25% Feb 1/07	2.25% Mar 1/07	2.0%	$1.9 est	$23.10	6.90%	18.42%	$69.9	66%	80:20
2007/08	0% Apr 1/07	-	1.9%	$0.00	$0.00	6.90%	20.67%	$69.9	66%	73:27
2008/09	2.9% Apr 1/08	5.0% Jul 1/08	2.2%	$39.3 est	$52.40	12.24%	23.33%	$122.3	68%	77:23
2009/10	3.9% Apr 1/09	2.84% Apr 1/09	0.6%	$32.80	$32.80	15.43%	24.07%	$155.1	75%	72:28
2010/11	2.9% Apr 1/10	2.8% Apr 1/10	1.0%	$32.90	$32.90	18.66%	25.31%	$188.0	77%	72:28
2011/12	2.9% Apr 1/11	2.0% Apr 1/11	2.8%	$24.40	$24.40	21.03%	28.82%	$212.4	78%	74:26
2012/13	3.5% Apr 1/12	2.0% Apr 1/12	1.6%	$25.80	$25.80	23.45%	30.88%	$238.2	80%	75:25
2012/13	2.5% Sep 1/12	2.4% Sep 1/12	1.6%	$19.40	$31.00	26.42%	30.88%	$269.2	-	75:25
2013/14	3.5% Apr 1/13	3.5% May 1/13	2.4%	$43.40	$47.60	30.84%	34.02%	$316.8	78%	77:23
2014/15	3.95% Apr 1/14	2.75% May 1/14	1.5%	$35.60	$38.70	34.44%	36.03%	$355.5	79%	83:17
2015/16	3.95% Apr 1/15	3.95% August 1/15	1.3%	$40.10	$57.40	39.75%	37.80%	$412.9	77%	84:16
2016/17	3.95% Apr 1/16	3.36% August 1/16	1.4%	$36.30	$52.30	44.44%	39.73%	$465.2	76%	85:15
2017/18	7.9% Aug 1/17	3.36% August 1/17	1.7%	$37.30	$52.40	49.30%	42.52%	$517.6	77%	86:14
2018/19	7.9% Apr 1/18	3.6% June 1/18	2.1%**	$49.60	$58.20	54.67%	45.52%	$575.8	81%	86:14**
2019/20	3.5% Jun 1/19 proposed		2.0%**	$49.90	$59.50	60.09%	48.43%	$635.3	82%**	87:13**

* This was the result of Uniform Rate Legislation, not a request made by Manitoba Hydro.

** Forecast

TAB 2

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

GENERAL RATE APPLICATION

2015/16 AND 2016/17

Before Board Panel:

Regis Gosselin	- Board Chairperson
Marilyn Kapitany	- Board Member
Richard Bel	- Board Member
Hugh Grant	- Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

May 25, 2015

Pages 1 to 337

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Company in the next ten (10) years. And as a result, the total revenue requirements are also projected to double in the next ten years from around the $1.5 billion, and you can see that as the total of the blue, red, green, and yellow bars at the far left-hand side of the slide, it will double from 1.5 billion to $3 billion on the far right-hand side of the slide when you take a look at the -- the total bars. And that's - - that increase is primarily due to increased finance and depreciation costs associated with the investment.

You can see in the blue bars that operating costs are relatively constant across that ten (10) years, and are not driving the need for rate increases of the 3.95 percent magnitude. I will speak to our operating cost control efforts later in the presentation.

So the upshot of this slide is that at 3.95 percent, the proposed indicative rate increases accumulate to about 42 percent by 2024, but the revenue requirement is expected to double or increase by 100 percent over that time period. As such, we're projecting losses of $900 million on electric operations between 2019 and 2024, that six (6) year period, even with the 3.95 percent rate increases.

So earlier on I talked about a balancing

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act. A balancing act between investment to maintain our mandate to provide safe and reliable service to customers, and rate stability for customers. And to me, this slide once you understand the technical detail of it and how it works, demonstrates that balancing act.

We are not asking for 100 percent rate increases over the next ten (10) years in accordance with how the costs are increasing. We have tried to balance these two (2) -- two (2) competing interests and come up with something that we believe is fair and reasonable to customers.

As I said, we'll come back to that slide in due course, but I certainly would answer any questions you have on it now if -- if there are any. If not, we can move on to slide 33.

Now, one (1) of the things I've reflected on in our past general rate applications is we tend to put our positions in terms of company-speak and forget to articulate what the implications of our proposals are on customers.

And we talk about the need for financial strength. And what does that mean? What does that mean for -- for customers? What does that mean for the Public Utilities Board in carrying out its -- its job?

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So when we talk about financial strength, it's just not because I want to get a gold star for being the CFO in my next five (5) or ten (10) years. The reason we want financial strength at Manitoba Hydro is to maintain rate stability for customers.

In fact, in a Crown organi -- owned organization such as Manitoba Hydro, there are really two (2) main reasons why we need financial reserves: 1) to maintain rate stability for customers; and 2) to main -- ac -- maintain access to low-cost financing on behalf of customers.

As I mentioned earlier, the customers pick up the cost of financing through their rates. So it's very critical that we maintain access to low-cost financing. So this is why we say in our application numerous times that rate stability and predictability for customers depends on the continued financial strength of Manitoba Hydro.

Without the necessary rate increases, there's significant risk to customers of volatile rate changes and the need for sudden or large increases in the future, something we commonly refer to in a regulatory forum as rate shock. This risk is particularly acute in the upcoming period of extensive

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capital investment.

Now moving to slide 34, so how do we measure financial strength at Manitoba Hydro? We do that through our three (3) consolidated financial targets, the first one being our debt-to-equity ratio. And that's simply a measure of the proportion of our assets that had been funded through debt versus internally generated funds.

So if you think of it in the context of a homeowner with a -- with a mortgage, if the homeowner had a five hundred thousand dollar ($500,000) house and a four hundred thousand dollar ($400,000) mortgage, they'd have an 80:20 debt-to-equity ratio.

And at Manitoba Hydro, our target is to fund 25 percent of our assets through internally generated funds, so we have a target of 75:25 debt to equity.

Our second key target is interest coverage. And that's just really a measure of if we are able to generate enough earnings to cover our financial costs, if we have some margin of safety so that we are not required to borrow to pay our debt servicing costs, or borrow more to pay our debt servicing costs.

We also have a third target which is

fairly unique to us, capital coverage. But it's a ma -- a measure of if we're able to generate enough cashflow to fund our sustaining capital expenditures, so those expenditures that keep our existing system running in a safe and reliable manner.

While we're willing to fund and recognize that without share capital we have to fund major generation and transmission projects largely through debt, we believe that it's important to be able to generate enough cashflow from our rates to -- to sustain our operations. And that's what this target is all about.

We do recognize the financial targets may not be -- or probably will not be maintained during years of major investment in the generation and transmission system. However, we still have to maintain minimal financial results and ratios and provide the necessary assurance to those who borrow us the money in the first place to make these investments, that we can make steady progress towards the targets once the investment period is completed.

We are currently undertaking a review of our financial targets. The current financial targets remain as approp -- an appropriate guide for financial and rate setting purposes. By their nature, long-term

targets don't shift overnight. So the suggestion that given the fact that we're reviewing them means that they are no longer a relevant part of this discussion is something Manitoba Hydro doesn't accept.

So, of course, the challenges of the investments in capital assets is going to put -- pla -- place pressure, or substantial pressure, on our financial strength. The charts that we have on page 35 is where I am now show both the projected net income and the projected retained earnings both with the -- in the dark blue bars, the 3.95 percent rate increases, consistent with our forecast, and zero percent rate increases. And you can see how fast both the losses in our retained earnings would go down without rate increases.

Now, as previously mentioned, the proposed and indicative 3.95 percent rate increases accumulate to about 42 percent by 2024. But with the capital-driven carrying costs increasing by 100 percent, we have projected losses of $900 million between 2019 and 2024.

And you can also see from the chart on the right that our financial reserves, which, of course, we call retained earnings for financial statement purposes, are projected to decrease from 2.7

billion to $2 billion by 2024, even assuming the 3.95 rate increases. And without rate increases, financial reserves would be totally depleted by 2023.

So what does that do to our three (3) fina -- key financial targets? If we move to page 36, which, unfortunately, isn't marked, but it's the slide that has the projected equity ratio, we can see that -- from the figure, that the equity ratio is projected to deteriorate to 2 -- to 10 percent by 2023, which is well below the 25 percent target level. And this is at a time when other Crown-owned electric utilities have debt-to-equity ratios that are higher than that of Manitoba Hydro or are planning to strengthen their debt-to-equity ratios in the next decade.

So any suggestion that we have with our 3.95 percent rate increases simply tried to prop up our financial ratios is -- is not in accordance with our -- our forecast. We are letting our financial ratios dip during this period. The question is: How low do you go? The question is back to the balancing act once again.

The -- the next slide shows both the projected interest coverage on the left and the projected capital coverage on the right, assuming both the 3.95 percent rate increases and no rate increases.

And -- and you see, similar to the debt-to-equity ratio, interest coverage and capital coverage are projected to be well below the target levels of 1.20 for most of the years of the forecast.

So I'm sure we'll discuss the implications and the calculations of these financial ratios in more detail on the finance panel, but for now, that's a bit of an update in terms of where our three (3) key financial ratios are projected in IFF14.

I won't belabour this point but get it out to you on the -- on the slide in our financial update. But historically, net extra-provincial revenues have enabled Manitoba Hydro to maintain low electricity rates for Manitobans. These revenues averaged about $365 million a year between 2005 and 2009. But more recently prices are lower and those net extra-provincial revenues has not been as strong. And they're projected to be, you know, in the range of 147 million to 181 million in the next three (3) years. You know, an average of 160 million give or take.

So one (1) of the issues we've been grappling with -- with in the last few rate increases is the -- is the need to gradually increase rates to compensate for that reduction. Mr. Cormie and Mr. Miles will be on the planning and operations panel and they will share their insights into export sales activities and export prices.

(BRIEF PAUSE)

MR. DARREN RAINKIE: So as I mentioned in -- in my opening slide the rate proposals are designed to maintain net income in financial ratios at acceptable levels both in the short run in the test years and -- and over the long run. As well as maintain and promote longer term rate stability for customers.

So the -- the top block on this slide is the net income retained earnings in the respective three (3) financial targets without the proposed rate increases. And then the -- the bottom block, if you like, is those same metrics including the proposed rate increases. And we can see that a — absent the proposed rate increase Manitoba Hydro is projecting net income of $58 million in 2016, and a loss of $58 million in 2017. And that the equity ratio interest and capital coverages ratios would decline to 15 percent, point nine-three (.93) and point seven-four (.74) in 2017 respectively. So the ratios would either decline or be below one (1).

Now, given the delay in implementing the rate increase until the end of the hearing and assuming an implementation of August 1st and the 3.9 -- the awarding of 3.95 percent on August 1st, 2015, net income for 2015/'16 would be projected to be $17 million lower than the $150 million figure or about $98 million.

So while Manitoba Hydro and I think the Public Utilities Board has always used what we refer to as the cost-of-service methodology in -- in setting rates in Manitoba we've always, as long as I've been involved anyway, had a system where we looked forward ten (10) years in the forecast in order to understand the appropriate context of -- of the rate decisions that were being made in the test years that were under consideration at the respective hearing.

So we're doing that again in our application. We're both looking forward and seeing what we see on the horizon in the ten (10) year forecast and beyond. But we're also looking at the test years and the effects of the rate increases in the test years. So once again it's a balancing act.

This is just not about capital investment, you know, in 2018 and '19 and '20. This is about the current level of capital investment. Even --

even our asset base in the last few years has increased fairly significantly. So I guess my point is now is the future. And if we're going to maintain rate stability for customers we better pay attention to the future.

So moving to a -- other section now, starting on page 40 and then quickly to page 41 of the slide deck, the -- it outlines the risks if the proposed rate increases are not granted. Now, we -- we didn't intend the use of the word 'risk' to be fair -- fearmongering or to scare or threaten anybody, but modern management is about managing risks. That's what we do every day. Regardless of how anybody thinks of their job when they go to work in the morning that's what they're doing, managing risk.

So in terms of understanding we've tried to explain as best we can the reasons for the rate increases, but we thought it would also be helpful to the Board to understand the risks if the rate increases are not granted. And -- and that's the spirit of this section.

So on page 41 the first risk that we identified is a risk to customers of rate instability and rate shock. And once again, I've picked a very busy slide here but it requires a minute or two (2) of

set up, but if we look at the blue bars across the -- the page and the chart, which are slightly lower than the 4 percent level, that -- that is Manitoba Hydro's projected rate increases of 3.95 percent a year out -- out to 2024.

Now, we filed as we normally do in the course of a rate hearing a number of scenarios, so what are -- what are different options? So if you look at the yellow bars, what -- what we forecast is if we had four (4) years of 3 percent rate increases what would that do to the requirement for rate increases in the last five (5) years of this ten (10) year period? So you can see that four (4) years of 3 percent rate increases would result in five (5) years of 6 percent rate increases.

Assuming that we get back to the projected financial position that we have in our forecast at the end of the ten (10) year forecast, which is a ten (10) year equity rate -- a 10 percent equity ratio, it's not a 25 percent equity ratio, it's a 10 percent equity ratio.

And then likewise we said, Well, because there always are questions about, Well, can't we just have inflationary rate increases? The red bars show you that if we had 2 percent rate increases for the next four (4) years, then the required rate increases for the last five (5) years would be 8 percent. Eight (8) percent.

So we see how the forecast in a -- in a time period of intensive capital investment is very sensitive to rate increases at the front end of the forecast. We have to be very careful about that. As I said, our main goal is to provide rate stability to customers, and we believe that the 3.95 percent balances that, and is much preferred to lower up front rate increases and the much higher rate increases that we see of 6 to 8 percent thereafter.

So the second risk that we've identified is the risk to customers of decline in service and reliability. Now, these two (2) charts show the trend on the left-hand side of our SAIDI and SAIFTI -- SAIFI measures over the last ten (10) year period, I believe. The legend is a little hard to read.

So once again, SAIDI and SAIFI are just the duration of outages and the frequency of -- of outages for customers. And we see that while the -- the lines go up and down a little bit, the general trend is up. And this chart is like golf. You want a lower score, not a higher score, so the -- the trend line being up is -- means that we are gradually seeing

more outages for our customers.

On the right-hand side, that graph shows the forced outage rates for generating stations. It's a weighted calculation of all of our generating stations. And we see over the last four (4) years, it has -- or last number of years, it significantly increased as well. So that's for non-engineers, such as myself. That's the time that a generating station is out -- not for maintenance or planned purposes but is out because largely of equipment failure.

And we can see in this that -- and we know this from our information, that the age and condition -- condition of assets is a major contributing factor to this deterioration and these measures. So while Manitoba Hydro will always do what it can as best as it can to maintain safe and reliable service, certainly the rate increases would put us in a better position to fund the necessary investments to ensure that we continue to provide the high level of service that our customers currently enjoy.

We'll get into a bit more in detail on the planning and operations panel. I think you'll find the -- the engineers and the -- and the folks that take care of the assets will explain this a lot better than I can.

Looking to page 43, this shows the comparative health indices of our major categories of assets, both currently on the left-hand side -- side of the chart and twenty (20) years from now, based on our current level of spending.

And we can see that while there's a lot that goes into the preparation of this, underneath this, that -- that with the current rate of capital investment, there's a larger and larger proportion of the various asset classes that slip into the very poor, poor, and fair range.

And that's just the function of an asset aging over time and its condition worsening. So as a larger portion of those assets are extended beyond their life expectancy, we see system failures and customer outages occurring on a more regular basis.

It just -- it's basic common sense. Assets do not last forever. That's why we believe that replacement rates and associated capital investment on the majority of our asset types needs to be increased to better align with life expectancy.

This is one (1) of the key reasons for the increased level of sustaining capital investment projected in CEF-14 over and above the prior capital expenditure forecasts.

THE CHAIRPERSON: Mr. Rainkie, this table -- this -- this table assumes no rate increases?

MR. DARREN RAINKIE: This table doesn't factor in rate increases. It -- it just looks at the level of capital investment, and how that will play into conditions over time. So it -- it's looking at a -- a certain level of capital investment or spending each year, and then saying, Well, how would the green, yellow, orange, and red bars change over time? It's not a financial metric, if that's clear.

THE CHAIRPERSON: Will this come back again, this table? Are we going to see this again?

MR. DARREN RAINKIE: Yes. We -- we'll -- we'll -- and -- and the now infamous planning and operations panel will -- will go over this a bit more detailed, sir, because I -- I think it's a -- it's an interesting point. It's something we grow more concerned on each and every year.

The third risk that we highlighted is higher levels of debt and carrying costs that need to be recovered from customers. So this chart shows the projected cashflow in the black line, with the proposed and indicative rate increases, and the red line shows what would happen without any rate increases.

And then once again, that's been

overlined over the -- overlaid over the total capital expenditures, the sustaining capital expenditures in yellow, and the major new generation and transmission expenditures in blue.

And we can see that without the proposed rate increases, Manitoba Hydro would be required to fund an increasing portion of its sustaining capital expenditures through debt financing as -- as opposed to cashflow generated from operations. And this would be on top of the debt financing that's required for major new generation and transmission investment. The proposed and indicative rate increases reduce the need for borrowing and additional financing costs that must be borne by customers through rates.

Clearly, cashflow is an important consideration for rate-setting purposes, just as it is for general business purposes. We believe that rates should generate sufficient cashflow to sustain our operations.

The -- the fourth risk that we identified in the filing was potential negative implications to the provincial credit rating. And what this chart was trying to demonstrate that good old Manitoba has a fairly decent credit rating for its size. While it's a split rating, it's a -- a double-A

rating for the most part. And this high credit rating benefits Manitoba Hydro and its customers by reducing the cost of borrowing that customers may -- must pay through rates. I said it twice, and I'm going to say it again. It's very critical that we maintain access to low-cost financing during a time of major capital investment.

And if we move to chart 46 -- or slide 46, rather, this is a visual that shows the portion of -- or the various composition of the Province of Manitoba's debt, with 65 percent being for general Man -- Manitoba purposes, and about 35 percent of that debt being Manitoba Hydro's debt.

So it's quite obvious that Manitoba Hydro's debt and financial performance is a contributing factor towards the stability of the province's credit rating. Right now, all of the credit rating agencies look at Manitoba Hydro's debt as being self-supporting. That means that their -- in their assessment, we can pay our own bills and we do not have to draw upon the province to -- to meet our obligations.

So, essentially, what the credit rating agencies do is take that part of the pie and exclude it from the review of the credit rating of the Province of

Manitoba, because Manitoba Hydro's debt is not deemed to be funded by the tax base. And we want to maintain that, both for the provincial credit rating and for our access to low-cost capital.

So part of the underlying reasoning for the proposed rate increases -- and this position is exactly the same as at the NFAT. I think if we reviewed the three (3) days that the finance panel testified at the NFAT, our position on this matter has not changed at all. And myself and Mr. Schulz will testify to that at -- on the finance panel.

But it's necessary to continue to demonstrate to the credit rating agencies that the regulatory framework in Manitoba is supportive of Manitoba Hydro's self-supporting financial status. But I should indicate that self-supporting regulatory climate does not mean that the credit rating agencies expect the Board to rubber stamp Manitoba Hydro's rate proposals. Rather, they look for a regulatory framework that'll allow Manitoba Hydro to recover its prudent costs of providing service over time. That's really what a favourable regulatory climate is.

But what I know from personal experience and sitting down and talking with the rating agencies, what they don't like is rate caps. So we have to be

careful that positions such as inflationary rate increases or limiting rate increases to inflation isn't looked at in the credit rating agency's eyes as some kind of a rate cap; i.e., we're not looking at costs to set rates, but we've set some kind of an arbitrary cap in our mind.

So I just wanted to make that point clear. I think I reflect back to the NFAT. We talked about a regulatory framework that was supportive. And we -- we weren't intending to mean that that -- that means that the -- that the Public Utilities Board has to rubber stamp Manitoba Hydro's rate proposals. I wanted to ensure that was clear.

Now, I just wanted to end this section with words from the Board itself in the last major general rate application Order 43/'13, coming out of Manitoba Hydro's 2012/'13, '13/'14 rate application. And in that, the Board did express concern about us moving towards a 90:10 debt-to-equity ratio. And the Board recognized the importance of Manitoba Hydro's financial strength and -- to deal with financial risks and to ensure that the credit rating of the province is not negatively impacted.

So we appreciate the support -- supportive words from the Board in the last order, and we would encourage the Board to continue its thinking along that lines.

THE CHAIRPERSON: I think it's probably a good time to take a few minutes. Let's take five (5), just to stretch and --

MR. DARREN RAINKIE: Sure. That sounds good. Thanks.

--- Upon recessing at 1:41 p.m.
--- Upon resuming at 1:49 p.m.

THE CHAIRPERSON: I believe everyone is in position, so we can continue.

MR. DARREN RAINKIE: Thanks, Mr. Chairman. Thankfully I'm coming into the home stretch here I think. I'm at slide 48. And, you know, given the -- one (1) of the main purposes of a public hearing is to provide a forum for views and concerns from interested parties so I'd like to take a few minutes to just outline Manitoba Hydro's views on some of the concerns that have been raised during the run-up to the hearing.

So on page 49, one (1) of the concerns that we -- we hear is that perhaps we can have lower rate increases because there's marginal improvement in

your forecasts since the last forecast that was presented to the Board. So -- so the -- we can see on the chart in the -- in the three (3) years that we provided detailed information in the filing 2014/'15 to 2016/'17, there -- there is some improvement in the projected earnings of Manitoba Hydro during that period of time.

Keep in mind these do include the rate increases. If -- if they didn't include the rate increases we would move fairly quickly into a loss position. So -- so there is some improvement in those three (3) years and largely due to favourable water flows and lower financing costs and depreciation expense. And thankfully so given the rather poor financial outlook that was presented in the MH-13, or Manitoba Hydro's IFF13 forecast.

But what we shouldn't lose sight of is that while there are lower net earnings projected in the -- sorry -- slightly higher earnings in the first three (3) years of the forecast there are lower net earnings projected in the remaining years of the forecast such that there are lower cumulative earnings of approximately $500 million to 2024. So some favourability up front, but some lower projections thereafter. Lower rate increases in 2014/'15 and

2015/'16, of course, would simply exasperate the situation.

But more to this point is I guess trying to come to grips with the volatility that we see and it's inherent in Manitoba Hydro's operations. This chart in the middle of the page on slide 50 is where I am right now requires a bit of set up as well. So the -- the green bar that slides across the middle of the chart is the average net extra-provincial revenue that we include in our financial forecast. So that's -- that represents the average net export revenue in IFF14.

And what the blue bars show is -- is the financial effects of high water flows or the potential financial effects of high water flows. And the red bar shows the provin -- potential effects of low water flows. So if the average -- if the green line or the average revenue line is zero what -- that's what we have in the forecast. You can see even in the early years of the forecast before Keeyask comes online in 2019/'20, there can be variability up to 200 million to the upside and $400 million to the downside.

So Manitoba Hydro's financial results are subject to significant volatility based on changes in water flows. And those conditions can change rather

quickly. So we're of the belief that it's necessary that rate increases be implemented gradually even in years with reasonable water flows and financial results to balance out the inevitable years with lower water conditions and on an overall basis allowing us to maintain the average rate increases of 3.95 percent over the long-term.

You know, I'd also point out we've had ten (10) good years of water right now. And touch wood we've overdue for low flows, but hopefully those -- those good flows can continue because we can sure use the cash given the investments that we have to make. So, you know, the challenge at Manitoba Hydro is not necessarily forecast accuracy, but it's managing the financial impacts of the volatility of water flows. It's one (1) of our key risks. As such, we believe that a long-term rate setting perspective is beneficial to customers, and that focussing only on the shorter term financial outlook will only defer the require -- required rate increases to the future and inevitably result in rates -- instability for ratepayers.

And I'll leave you with this insightful quote from the Green Action Centre. It echoes Manitoba Hydro's views on the topic. I wish I'd wrote it myself, quite frankly. I thought it was quite good.

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DR. HUGH GRANT: Could I -- could I just go back to slide 49 just for a moment? I'm just curious, the main driver in it between the MH-13 and the MH-14 forecast was the decline in projected earnings -- net earnings over the next decade.

Is -- do you know what that's related to?

MR. DARREN RAINKIE: Yes. The -- the -- once we get past the first few years of the forecast, the -- there's higher carrying costs as a result of the higher cost of Bipole III and Keeyask, as well as -- I think there's -- if I remember correctly some deterioration in export prices in that time frame.

DR. HUGH GRANT: All right, thanks.

MR. DARREN RAINKIE: Those would be the key reasons.

(BRIEF PAUSE)

MR. DARREN RAINKIE: So the second view or concern that is expressed from stakeholders is, why shouldn't Manitoba Hydro's rate increases be limited to inflation? You know, somewhere around the 2 percent level currently.

So these charts show -- compare, rather,

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the projected net income and the projected retained earnings. The projected net income on the left, projected retained earnings on the right, of our forecast with 3.95 percent rate increases in the dark blue and with 2 percent rate increases, being the current level of inflation, in the light blue.

The difficult part with that view is that the projected increases in the revenue requirement are driven by the extensive investments, and capital to be made on it on behalf of customers. They are not inflationary cost pressures, so trying to match up a revenue stream based on inflation with a cost line that is not moving at inflation is -- is not going to work.

With 2 percent rate increases, financial reserves would be all but depleted by 2024, and this situation would jeopardize our ability to provide rate stability to customers as we'd be unable to recover our real costs of providing service and ensure financial services -- financial -- sorry, sufficient financial reserves are in place.

So this -- this slide, slide 52, was projected net income and projected retained earnings with both our 3.95 percent and comparing that to 2 percent rate increases, but the slide that follows is the -- is the equity ratio comparison for those same

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scenarios.

And you can see that with 2 percent rate increases in the next decade, our equity ratio would essentially be approaching zero by the time the -- the decade is done. You can see in the far-right side that that -- that data point is probably 2 or 3 percent equity, so we'd be essentially funded by 100 percent debt at that point.

And then slide 54, which is unfortunately not marked, provides the projected interest cover and capital coverage ratios under those same two (2) scenarios. And you can see that -- with 2 percent rate increases in the yellow -- sorry, in the light blue bars, that both interest and capital coverage ratios would be well below our one point two-o (1.20) targets. They would be, you know, largely in the range of point four (.4) to point six (.6). Just averaging over that ten (10) year period. So we would simply not -- be not generating enough income or cash to meet our debt servicing requirements or to fund our sustaining capital expenditures.

Now, I've mentioned throughout the presentation that, if you think back to the revenue requirement graph that was doubling over the next ten (10) years from 1.5 to $3 billion, I mentioned that our

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operating costs were not contributing in a large way to the 3.95 percent rate increase level. And I've just mentioned that what's driving our cost line right now is not inflation cost pressures, but rather the carrying costs of capital investments.

But obviously a matter that's always a concern of -- of both interested parties and the Board is: How well is Manitoba Hydro doing at managing its own house, its own affairs, before it comes requesting rate increases?

So Manitoba Hydro has always been committed to carefully managing it -- its costs and utilizing resources efficiently and effectively. As part of those efforts, we undertook an extensive review of our staff complement in the -- in 2014. And this process was from the executive committee right on down and was started by the executive committee and carried out by the executive committee and all the management of Manitoba Hydro.

And that process resulted in plans to reduce approximately three hundred and thirty-three (333) -- sorry, three hundred and thirty (330) operational positions over the next three (3) years while at the same time maintaining service levels.

There's a typo on this graph, but that

reduction of three hundred and thirty (330) operational positions represents about 8 percent of the current equivalent full-time employees that are charged to operating costs.

I would also note that Manitoba Hydro has a target in its forecast to limit operating cost increases to 1 percent over the ten (10) year period. So while the three hundred and thirty (330) operational position reduction will allow us to meet those targets in the next three (3) years, we also have that 1 percent target going out into the end of the decade.

So just mathematically, if the three hundred and thirty (330) operational position reductions gets us through the next three (3) years, allows us to meet that target, some of the calculations we did in the recently filed Information Requests indicate that we would need reductions in the order of an additional six hundred (600) reductions to 2022/'23 in order to make the 1 percent target that we've set.

So that represents currently then, you know, eight (8) times three (3), almost 24 percent of EFTs charged to operations. So that is no small -- no small commitment to cost containment. That is a large stretch target for Manitoba Hydro.

So consistent with this plan, we see in

this chart that shows a comparison of capital construction EFTs, so those -- those folks that work on capital projects, operation and maintenance EFTs, and governance and support EFTs.

And we see that, consistent with our plans, you see the blue bars which are capital construction EFTs are going up during this period of intensive capital activity, as you would expect.

You can also see the red bars and the green bars which represent those staff members that are charged to operating and administrative costs are declining, consistent with our plans to reduce positions.

Now, there has been some concern that Manitoba Hydro wouldn't deliver on this commitment. And I can indicate to you that, in the first year, our progress has been excellent. We've actually been able to exceed the targeted reductions for the 2014/'15 fiscal year.

Now, this will probably get -- become more apparent once we go through some of the -- the finance panel and the very schedules that we produce at the -- at the -- for the GRA, but -- on operating costs, but I think there's been a difficult -- it's been a difficult -- it's been difficult to explain to

the Board our continuing efforts on cost containment in the past general rate applications because I think this capital construction EFTs is getting in the way.

I mean, it's actually been two (2) things that's been getting in the way: a number of accounting changes that have occurred to make our accounting practices more consistent with other electric utilities and, as well, to transition to IFRS, as well as the fact that we, in our -- all of our schedules, we show you all of the gross wages and salaries, which includes the capital construction staff. And then we pull out those costs that are charged to capital.

And I think the Board has concluded in the last couple rate orders that Manitoba Hydro didn't have a strong commitment to cost containment. But I think what's happening is we haven't done a good job at presenting that to the Board because I think Manitoba Hydro always has had a strong commitment to cost containment.

It's unfortunate that accounting changes and -- and how our schedules are set up, how our system works of charging costs has muddied the waters on this particular issue. And I hope that we can clarify that for the Board this time around.

THE CHAIRPERSON: Mr. Rainkie, just one (1) question. With respect to this table we just looked at, this assumes that DSM continues to be the responsibility of the Manitoba Hydro?

MR. DARREN RAINKIE: Yes, it does, sir, yes. Now, when we look at -- or when the Board assesses whether or not limiting operating costs to 1 percent is -- is a stretch target or something hard, easy, or anywhere in between, what's the proper perspective on it?

We know that when we look at contracted wage settlements, you know, progression and merit increases, I mean, like any other company, Manitoba Hydro provides a fair day's pay for a fair day's work. People progress through the ranks. They get promotions, et cetera. We know that overall wages tend to increase at 3 to 4 percent annually.

So limiting operating costs to 1 percent increases is essentially equal to a 3 percent productivity saving each year. So in our view, that's definitely a stretched target, and it's reflective of a company that's committed to controlling its costs in an era where we have to ask for 4 -- close to 4 percent rate increases.

Between 2014 and 2017, our projections

with our plans are -- is that the operating costs, excluding the effects of accounting changes, will increase annually by about .9 percent, and that compares to projected Manitoba CPI or -- of about 1.9 percent. And that's what this chart is -- is demonstrating, is that, yes, we've had these accounting changes, which I -- to my -- to my belief, have muddied the waters on this whole issue in terms of our efforts on cost containment.

But the green -- the green line on this chart is CPI and the red line is our operating cost projections, excluding accounting changes. So we definitely believe that the 1 percent limit per year is a stretch target when you recognize that wages and salaries are increasing typically at 3 to 4 percent annually. And the limiting of only increases to 1 percent per year is consistent with the PUB's expectations that it outlined in Order 43/'13.

I'm going to move to the exciting topics of accounting policies and depreciation, which seem to be major issues at the hearing, or at least major concerns expressed by stakeholders.

So the concern here is that accounting changes are driving the need for rate increases. I think we've heard that in the material thus far.

Now, I think to have a proper understanding of this, you have to split the accounting changes into two (2) parts. One (1), those that were made prior to and up to 2013/'14, which were made for purposes of Manitoba Hydro being more consistent with other electric utilities, and as well, heating, past recommendations of the Public Utilities Board itself to stop capitalizing as much overhead as we had been doing.

So I think we wanted to remind all parties that in Order 43/'13, the Board accepted the accounting changes that had been made by Manitoba Hydro up to the 2013 fiscal year for rate-setting purposes. And as I said, this -- this was recommended by the Public Utilities Board in previous orders.

So what's unclear to Manitoba Hydro is if the opinions expressed in the Intervenor evidence that's been received to date are suggesting that the Board should some -- somehow review and vary its past decision or not. It's unclear to me exactly what the point... We -- we see charts that take both the prior accounting changes and add the proposed accounting changes together, but those charts seem to be forgetting that the prior accounting changes have been accepted by the Board for rate-setting purposes.

So what about -- if I move to slide 58 - - the prospective accounting changes? So as we've outlined in our material, we are making a number of prospective accounting changes for financial reporting purposes in both 2014 and 2015/'16, including further changes to our level of capitalized overhead and reducing the level of capitalized overhead and changes to our depreciation methodologies as part of our conversion to International Financial Reporting Standards, or IFRS, in 2015/'16.

When you look at the chart on this page, we have grouped all of those prospective accounting changes. Most of them are IFRS change. There's one (1) change that we've made to depreciation expense in the current year, resulting from our depreciation study. But what you see is that the cumulative total of all of these accounting changes is actually reducing revenue requirement in the test years by 25 million, 4 million, and 4 million. And that -- and that reduction in the revenue requirement increases to about 48 million by 2024.

So the depreciation changes that we're making are more than offsetting the operating costs that -- changes that are increasing O&A. And as such, accounting changes are not driving the need for rate

increases in the future, and are not driving the increase in revenue requirements. So Manitoba Hydro's position is given that there's no harm to ratepayers, as revenue requirements are actually reduce -- reducing, not increasing, the use of IFRS for rate-setting purposes is fair and appropriate.

And by the way, while the International Accounting Standards Board is the one that decides the accounting standards, it was the Canadian Accounting Standards Board that decided that Canada would move to -- move to IFRS. It's a -- it's a global world where capital flows across borders endlessly, and this was generally thought to be in the public policy that Canada would follow International Accounting Standard Board financial reporting policies. And that decision was made by the Canadian body.

But I don't see this as a war between the accounting bodies and the rate-setting bodies across Canada. I mean, certainly, we have a very complex, large company, and rate setting does depend on the -- and relies on audited financial information.

And I don't -- in -- in fact, so-called rate-setting methods are just usually accounting methods. There's always a few different methods and rate-setting methods. They're just a selection of

(2) sets of books, so... I would suggest, Mr. Chairman and Board, that the two (2) sets of books is just a means to try to implement the very approach that the Board rejected in Order 43/'13. Two (2) sets of books is not a revenue requirement -- the technical revenue requirement discussion in terms of dollars and cents, but it's one (1) -- it's a means to an end.

So a few points on this is that the cost-of-service rate-setting methodology that we use in Manitoba does not determine rates strictly on the basis of costs. We spend -- tend to smooth costs in over time. Other regimes, as you're probably aware, use a rate-based rate of return methodology where all of the costs are added up together and financing costs and a net income is -- is added on top of that in order to set rates. But at Manitoba Hydro we've always had more of a judgmental way of looking at the cost flows over time and gradually getting at rate increases that would eventually get to the costs.

So -- so the -- the whole purpose of two (2) sets of books is rendered completely unnecessary by the way that we have approached rate setting in Manitoba in the last number of decades at least that I have been involved. In Manitoba Hydro's view one (1) set of books is preferable. It reduces the confusion

of various users of financial statements looking at different schedules, trying to rely on different information to make decisions and evaluate performance.

It improves the transparency of the rate setting process. We can trace numbers in between the financials and -- and the -- the rate setting orders. It improves the reliability of rate setting. As I mentioned earlier I think one (1) of the users of our audited financial statements is definitely the Public Utilities Board. And -- and there's reliability that all of our users of our financial statements weigh on that audit opinion from the -- well, in this case our auditors are Ernst and Young currently. But, I mean, that -- that says to the Board it doesn't have to go about auditing the information. It can use the information on that basis.

And interestingly enough, CAMPUT supported a single set of financial statements as best serving the public interest as demonstrated in the letter to the International Accounting Standards Board of August 3 -- 30th, 2013, which is part of the material in the Information Requests when the -- when the -- when CAMPUT commented on the interim standard on regulatory deferral accounts. So to the extent that this has been a heated issue at -- so far in the run up

to this hearing that's Manitoba Hydro's thoughts on the issue, sir.

THE CHAIRPERSON: I didn't quite get your point about audit opinion.

Could you repeat that please?

MR. DARREN RAINKIE: Oh, I -- Manitoba Hydro has a very complex, large operation and the Board isn't looking at it -- the Board -- the Board usually looks at our rate applications once every couple of years. So certainly all users, including the Public Utilities Board, rely on the audited information. And the fact that it's reliable, you know, re -- reasonable states the pos -- the financial position of Manitoba Hydro.

So you don't have to worry about that it's -- it's not good information. You can go about your rate setting -- setting process and relying on the audit opinion that Ernst and Young has done its job so that was the point I was trying to make.

THE CHAIRPERSON: Seems to me that it's a pretty tenuous argument in the sense that, you know, even if the Board was to set rates based on another methodology than what you're proposing the audit -- auditors of Manitoba Hydro will continue to issue audited statements on your behalf and would have a

schedule that would show the -- you know, reflect that the rate-setting methodology that's been used by -- by PUB and you still have audited statements. So I'm not su -- I'm not sure I get your point.

MR. DARREN RAINKIE: Well, sir, I guess that's one (1) of the question is I'm not -- I'm not quite sure when folks are talking about two (2) sets of books or alternate sets of calculation really the extent that they want it to go to and whether or not they would want that information audited.

There's been suggestions over time that this is just a simple issue of producing separate sets of calculations, but would the Board want that audited then? If there was a separate set of calculations for rate-setting purposes would the Board want it -- want that audited then so that they could place reliance on it is the issue.

The -- I think the last area of concern that I wanted to chat about was could relaxing Manitoba Hydro's long-term financial targets result in lower rate increases. And -- and as I mentioned early on in my presentation if we were looking at this just from a financial perspective we would need rate increases in the order of 5 1/2 to 6 percent over the next four (4) years at least to reduce the losses that we see in our forecast and maintain financial reserves at current levels.

But the 3.95 percent proposed and indicative rate increases are really the minimum that are necessary to manage the deterioration in our projected financial results and ratios in the next ten (10) years.

And perhaps where some of the confusion to this came is in the NFAT proceeding when we had -- I forget how many it was, two hundred (200) and some financial runs of all the different development plans that we had put forward and all the different variations of the -- of the scenar -- of the assumptions that we -- what we simply did is we -- we -- our first shot at it anyway was calculating rate -- even annual rate increases that were just simply goal-seeking to see what the even annual rate increase would be that gets us to our equity ratio at year 20 of the forecast.

But -- but as you see here, you see the dip in our equity ratio even with the 3.95 percent rate increases. We see that it gets as low as 10 percent towards the back end of the first decade.

So the 3.95 percent rate increases are not, you know, a mathematical calculation to -- to get

us to something at 2034 to get us to the -- they -- they do that, but really the rate increases that we're proposing are to manage the dip in our financial reserves and our equity ratio over the next ten (10) years.

So relaxing a 25 -- the 25 percent equity target in year 34 wouldn't result in Manitoba Hydro proposing lower rate increases in the next number of years simply because that would likely mean that we would either wipe out all of our equity or come very close that.

So I -- I hope that once again the methodology that we used at the NFAT hasn't confused this -- this issue for the Board. Sometimes providing more calculations does harm, not helps.

But -- but certainly wanted to make sure that the Board understood then -- that even if we relaxed the financial targets, our Board would be very hesitant to reduce the rate increases from 3.95 percent. And as I mentioned earlier, what we see is Crown utilities in Canada actually bolstering their equity ratios, not relaxing their targets at this point.

So -- so certainly just -- just one (1) other quick matter before I conclude my presentation.

As previously has been noted in the presentation, Manitoba Hydro's view is that, given the investment requirements of the next decade, we need to take a long-term approach to setting revenue requirements and rate setting.

And we have included in our general rate application the forecast of 2016/'17 fiscal year. And we had requested a 3.95 percent rate increase effective April 1st, 2016.

And I -- I note that the Board indicated that at this point it didn't see that it wanted to entertain that rate increase. But I also note that, when we look at the regulatory docket that's coming up for both ourselves and the Public Utilities Board, we have a cost of gas application which I think we're filing today -- we better file today. That was -- that was the directive of the Board.

We also have a cost -- a cost of service review that's not scheduled yet, but it's on the planning boards between ourselves and the Board. So that certainly, as a practical matter, is going to probably make a busy fall and winter schedule in the next number of months.

So coupled with the fact that our -- that the Manitoba Hydro board has directed management

to request a 3.95 percent rate increase for April 1st, 2016, and that request is out there, that's not going to change.

And given the packed regulatory agenda that we have over probably the next, I don't know, six (6), eight (8) months, nothing's been schedule on a detailed basis yet, we are requesting that or seeking, I guess, respectfully seeking, that, consistent with Order 17/'15, that the Public Utilities Board provide some form of direction on, you know, what the process would be with respect to an April 1st, 2016, interim rate increase. We would hope that we would get some indication from the Board out of this -- this proceeding on that matter.

(BRIEF PAUSE)

MR. DARREN RAINKIE: So, Mr. Chairman and members of the Board, you'll be glad to -- to hear that I've come to the last slide in my presentation. I wanted to end pretty much where I started, and that is with the notion of customer value.

As outlined in our Corporate Strategic Plan, customer value to us means excellent customer service, high system reliability, and affordable stable rates for our customers. These are really the reasons for the required rate increases, and they're Manitoba Hydro's mandate. They're the reason that we come to work every day.

Manitoba Hydro strongly believes that the proposed rate increases strike the appropriate balance between the needed investment to maintain safe and reliable service, and providing stable predictable rates for customers. Manitoba Hydro is committed to using revenues prudently for these purposes in demonstrating that its actions are cost-effective, efficient, and fiscally responsible.

We have assembled a top-notch group of subject matter experts from across Manitoba Hydro's business units to be on the witness panels that you'll see in the upcoming number of weeks. I know you'll take advantage of their expertise in terms of understanding the issues that are before the Board.

We look forward to responding to your questions during the rest of the -- of the hearing, and thanks once again for the opportunity to make this presentation before the Board today.

THE CHAIRPERSON: I have a few questions, if you don't mind, please. I guess going back over some of the -- some of what you said, it

appears to me that you will -- you will be in a position to having to borrow money starting in 2017 to maintain sustaining capital expenditures.

MR. DARREN RAINKIE: Yes, that's right, even with the 3.95 percent rate increase.

THE CHAIRPERSON: So -- so one of the solutions that a future Board will have to consider will be, Do we want to -- does -- does the Board want to continue borrowing money for sustaining capital, assuming that the sustaining capital expenditures as projected are, in fact, committed to.

MR. DARREN RAINKIE: That's correct.

THE CHAIRPERSON: Okay.

MR. DARREN RAINKIE: Yes.

THE CHAIRPERSON: So in addition to that, 2019 we'd have to increase rates -- the Board would have to increase rates to avoid a scenario where interest coverage would be below one (1)? Did -- did I get the date right, or...

MR. DARREN RAINKIE: Let me just find the correct slide, sir.

THE CHAIRPERSON: Well, it's academic, but I mean the -- if a Board wants to avoid getting to a position where you're borrowing to pay for interest rates -- to -- to pay for interest expenditures you'd

have to increase rates to cover that off --

MR. DARREN RAINKIE: That's correct, yes.

THE CHAIRPERSON: -- at some point in the future.

MR. DARREN RAINKIE: Now, keep in mind our -- our interest coverage calculation is -- this is going to get really into the accounting -- is the -- is an EBIT calculation, earnings before interest and taxes, not earnings before interest, taxes, and depreciation.

So as Mr. Schulz I think testified at the -- at the NFAT proceeding, we probably have to get down to something a little closer to point eight (.8) before we would have to, you know, start borrowing to - - to make interest payments. But it's -- you know, that's -- it's cutting a fine line.

THE CHAIRPERSON: Okay. Thanks for that clarification. Now, I also want to talk to -- briefly about forty-two (42). And...

(BRIEF PAUSE)

THE CHAIRPERSON: Now, I think you made a causal link between spending for sustaining capital

and changing this graph -- these graphs, and I -- I -- is that a little bit tenuous? I mean, you -- you can't say, I'm going to spend another dollar and reduce that graph down by a similar percentage. I mean, there -- there's no causal link -- no direct causal link between the amount of expenditures you have and -- and the behaviour of these graphs, is there?

MR. DARREN RAINKIE: Well, sir, I guess our -- our causal link is a forward-looking discussion. I mean, this -- this -- these two (2) graphs do show deterioration in these key metrics of Manitoba Hydro, and we believe it's due to acid condition, worse -- worsening acid conditions. So the way to try to improve that, of course, is to replace those assets and invest in replacing those assets.

So I don't think you can put it down to a 'Y' equals 'AX' plus 'B' type of an equation, obviously, but there -- there is -- there's got to be some correlation, perhaps is a -- is a better word, between, you know, this decline in performance metrics, if you like, and the age of our assets and the condition of our assets.

(BRIEF PAUSE)

DR. HUGH GRANT: I'm going to hold off my excitement about depreciation for later. I'm just curious about, on slide 55 -- am I on the right one? Yeah. I was thinking overall OMA expenses. How -- are salary and benefits a huge chunk of that? Don't -- slide 55 had the -- looking at the staffing complement with an 'E', not an 'I', I think.

And I'm just curious. Is -- is this a main driver in OM&A expenses?

MR. DARREN RAINKIE: Yes, sir, salary, wages, costs are probably about 75 percent or more of our total operating costs, so. And we've been trying to reduce the other costs. And, I mean, every year, I used to be the controller of the Company. I mean, I think we're -- pretty much chopped every bit of training, anything else that we could, out of our forecast. But it's -- it's really, you know, an employee cost gain, it's -- because 80 percent of the - - the operating costs are employee costs.

DR. HUGH GRANT: Just one (1) thing I'm just curious about, because the business I'm in is plagued by an aging workforce that doesn't seem to want to retire, and, you know, these sort of performance increases are driving costs more and more at the top end.

It -- it -- would you characterize the workforce at Manitoba Hydro as fairly young, reasonably balanced, or do you have some sort of awkward demographic bump at all?

MR. DARREN RAINKIE: I -- I think we have -- have that bump, because it, as I recall from the Information Requests, there's approximately nine hundred (900) staff members that are eligible for retirement right now, so we -- we do have -- it slips my mind what the average age of our employees is. I think it's probably somewhere in the seventeen (17) binders of material we filed so far. In fact, I know it's in there somewhere. But -- but it -- we do have that same bulge, I think, that other companies are experiencing.

I have noticed a lot of no -- new people around the building though, which is good, so. It's always good to get some young folks in.

DR. HUGH GRANT: It's hard to judge by the parade of young people you bring through here, so.

(BRIEF PAUSE)

THE CHAIRPERSON: There are no further questions from the Board -- from the Board or the

panel, rather, regarding your presentation. I think that concludes the day's sessions. I'll turn the mic over to Mr. Peters.

MR. BOB PETERS: Yes, thank you. Thank you, Mr. Chairman. Yes, Manitoba Hydro's opening comments have come from Mr. Rainkie more in the way, as he's indicated, his PowerPoint presentation on the overview and the reasons for the application. The intention of my colleagues is that tomorrow morning, the president will attend. And because it is the -- the hockey playoffs, he will have a left winger and a right winger with him, apparently, but he's here to answer policy questions. And Mr. Rainkie and Mr. Kuczek will also be here.

I had understood his comments will be relatively brief, and -- and then he'll be available to answer questions on behalf of all the parties, including the -- the panel. That is scheduled for the balance of tomorrow, and we expect that will take up the -- most of the day tomorrow.

THE CHAIRPERSON: Thank you, Mr. Peters. I think that concludes today's session. So have a good evening, everyone. We'll see you tomorrow morning.

--- Upon adjourning at 2:49 p.m.

Certified correct,

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Cheryl Lavigne, Ms.

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

GENERAL RATE APPLICATION

2014/15 AND 2015/16

Before Board Panel:

Regis Gosselin	-	Board Chairperson
Marilyn Kapitany	-	Board Member
Richard Bel	-	Board Member
Hugh Grant	-	Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 2, 2015

Pages 1689 to 1961

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I should note that our equity ratio currently is about twenty-two (22) and that it deteriorates fairly rapidly. Other comparable Canadian utilities are -- are have -- we are at the lower end. They are usually stronger. BC Hydro currently has about a 20 percent and Hydro-Quebec is about 30 percent.

BC Hydro is planning on strengthening their for -- their -- their financial -- or equity ratios to 40 percent over the next ten (10) years or so. New Brunswick Power operates at a lower equity ratio, or has in the past. They too have -- they have an objective of reducing their debt by a billion dollars and improving their debt ratio to 30 percent over the next ten (10) years -- or their equity ratio, I'm sorry.

MS. MARILYN KAPITANY: Ms. Carriere, just the comparisons that you gave for BC and Quebec, are they in -- are they in a similar situation as Manitoba Hydro in terms of ramping up capital to the same extent that your corporation is doing right now?

MS. LIZ CARRIERE: Well, BC Hydro has site C, but I wouldn't -- not the extent of the capital investment in terms of major new generation and transmission. But they're in the same situation as

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Manitoba Hydro in terms of their sustaining capital. They're in exactly the same position as we are, where they are starting to heavily -- need to heavily reinvest in their sustaining capital.

In terms of rate impacts, you know, if the -- if these -- you know, these assumptions come to fruition and we're looking at -- and having to have rate increases to -- to mitigate some of these impacts, we're looking at -- in terms of real rate increases -- so I've removed the inflation -- I've -- I've adjusted these for inflation. So Manitoba Hydro's by the end of ten (10) years is about 19 percent.

The five (5) year drought we're looking over the ten (10) year period about a 43 percent rate increase, and that's to get to approximately the same financial position that the MH14 is projecting. So, you know, you're only looking at $2 billion in retained earnings and 10 percent equity ratios for a comparability, about 30 percent for the low export price and -- and interest rate scenarios.

And, obviously, the -- the high export price, lower capital, and -- and interest rate scenarios require lower cumulative real rate increases over that ten (10) year period.

Is there any -- the net -- I'm ready to

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move on to the alternate rate scenarios that we looked at, but were there any questions on the...?

THE CHAIRPERSON: I'm having trouble understanding the last one -- excuse me, that last one. The blue bars represent...?

MS. LIZ CARRIERE: The blue bars are the low and -- and high export pri -- or the blue bars are the current projected cumulative real rate increases -- or real rate increase over the ten (10) year period. So those are the 3.95 --

THE CHAIRPERSON: Yeah.

MS. LIZ CARRIERE: -- rate increases in real terms. We've essentially removed the 2 percent inflation from them.

THE CHAIRPERSON: So I'm looking at two-seventeen (217). So three-seventeen (317) would be the multiplier of two point nine-five (2.95) over the three point nine-five (3.95)?

MS. LIZ CARRIERE: It's -- it would be the multiplier of one point nine-five (1.95) over one point nine-five (1.95) effectively because you're removing 2 percent inflation from both years.

THE CHAIRPERSON: Oh, I see. Okay. Okay. Okay. Now, that -- that red bar is really assuming that there's no -- there's no response --

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there's no management response?

MS. LIZ CARRIERE: That's right.

THE CHAIRPERSON: And that's why you're getting that long tail that goes up to -- okay. Could we go back to the very first one (1) they used which would be slide -- this is slide 61. This one (1) -- this one (1) is reflecting the variability of revenues based on what's happening in the export market.

Now, I don't understand what's -- why we're getting a -- a difference here in terms of -- is that because the variability in export revenue is projected? The potential variability?

MS. LIZ CARRIERE: That's right. So the -- there's a green bar across zero. Under the lowest flow on record, we'll take 2017 for example. So if your -- if your -- if you have 300 million in net interchange revenue in 2017 -- I'm just making up numbers. It's not the actual number. But under the lowest flow on record you would have a billion dollars -- or, sorry, $400 million reduction or loss rather than 300 million positive.

THE CHAIRPERSON: And -- and this is different than the -- than the five (5) year drought?

MS. LIZ CARRIERE: Pardon me?

THE CHAIRPERSON: It's a different

result than the five (5) year drought. We're not -- the assu -- the assumption that you've made here is there would be a one (1) year low water level.

MS. LIZ CARRIERE: Correct. It -- it's the potential annual variability based on the lowest and the highest. The five (5) year drought takes the actual flow data from -- I think it's the '88 to '92 period and replicates that from 2017 under -- you know, 2017 to '21 under those prices. Under the '17 to '21 prices.

THE CHAIRPERSON: Now, you talked about the sensitivity of revenues to a water flow. Is that - - and so I guess the question I have is in relation to a rain -- a major rain in southern Manitoba.

How long before that gets to -- to your reservoirs? I mean, how long does that impact their reservoir levels? Is it -- is it an immediate impact? Is it a...

MS. LIZ CARRIERE: No, it's not an immediate impact and it depends on where it rains, partly on where it rains. Obviously if it rains in the south it's going to take -- and I don't know the actual amount of time. That's a Mr. Cormie question.

THE CHAIRPERSON: I still have in my memory a rate application that we considered that it

was telling us that they -- we were facing low water flow and then several days after we issued our decision we found out that the -- that the water flow picture had changed considerably. And so my question is to what extent does -- do nearby water flows impact the rate requirements? So nearby water flows can -- I think what I heard you say is nearby water flows can -- can have a very material impact on revenues.

My question is can we reliably use information -- nearby information to set rates?

MS. LIZ CARRIERE: I -- I don't think you can because if you have very favourable water flows in one (1) year, you know, the very next year or two (2) years later you can have very unfavourable water flows. So the -- the whole concept behind cost-of-service is that rather than, you know, under rate base where, you know, you would have -- you could have very volatile rate increases or no rates at all, because you're -- it's just flowing through a formula, whereas in cost-of-service, we can -- you know, if we collect too munch -- too much in one (1) year, for example, say we get a rate increase now, and then we have very favourable water flows, good revenues, and so forth. We don't have a shareholder that we're distributing huge dividends to, so the money stays in the

Corporation and serves to reduce the debt and financing charges to customers.

It's not going anywhere. And that only benefits customers in the following years, because it is reducing -- you know, it's -- you're reducing the revenues that are required from them in the next years. So I don't think, you know, it's near -- setting near-term rates based on current water flows is prudent.

The other thing is is that our forecast is based on average water flows. And over very short periods of time that that -- those water flows can change dramatically, but over the longer term, it always comes back to average. And that's what the 3.95 percent rate increases are predicated on, is you might have short-term variability, but over the long-term, the 3.95 percent rate increases are what we need. At least that's the current, you know, directional trend that we are seeing.

MR. DARREN RAINKIE: So, sir, just to follow up on that, just kind of the law of averages, if -- if we were to take a short-term view on things and have a lower rate increase than three-nine-five (3.95) because of the short-term favourable water flows, mathematically, if you accept that things will revert to average at some point, and there'll be lower water

flows somewhere along that, then we would need higher rate increases at some point to get back to the three point nine-five (3.95).

So it really depends whether you want to take a short-term view of things or a long-term view of things. If you want to take a long-term view of things, we shouldn't veer off in either direction because of short-term pluses or minuses. And Manitoba Hydro, at least as long as I've been involved in the Corporation, and as far as I can see back earlier than that, has a real gradual way of looking at this. That's -- the 3.95 percents are drawing a straight line in terms of what we need. We're accepting losses in many years of the forecast after year 3 or 4.

So our -- our rate applications are not overly sensitive to short-term increases or decreases. We're taking a long-term view, and of course, we -- we encourage the Board to take a long-term view as well, so that we can maintain those gradual 3.95 percent rate increases. If we steal from the front, then we're going to have to give back at the -- at the back end. And I -- it's kind of a mathematical thing in the -- in the end, you know, if you assume that things will be average over time.

THE CHAIRPERSON: But, you know, the --

1802

the -- look at it from this perspective, you know, in 2019, we're going to be in a situation where you're incurring losses. If we have a high flow year, those loss -- you know, those -- those high flow years will mean that we've reduced the losses, you know, so I think what we're -- there will be no relief in rates -- there is no rainbow somewhere or pot of gold somewhere that will say to Manitobans, Okay, this year you get a break, I think is what you're saying?

MR. DARREN RAINKIE: Exactly what we're saying is I think we're trying to be open with the Board and our customers that we expect 3.95 percent, and that we're going to do as much as we can to maintain that level of rate increase, and we're not going to veer up or down unless there's a -- a big change in the long-term outlook.

But as -- as some of the discussions we've had in the first number of days, look at the fixed cost that's coming in in the next five (5) or seven (7) years in terms of the cost of the -- the sustaining capital, Keeyask and Bipole III. I know some folks want to go to the end of the forecast, eighteen (18) or nineteen (19) years from now, and say, Well, there's a recovery. But look at -- look at the risks of that. Look at -- look at what the greater

1803

likelihood is in the -- the next three (3), to five (5), or seven (7) years.

We can't take money from the back end of the forecast, if it ever materializes, and bring it forward. But what we know is we're going to have a certain level of fixed costs after those investments are made. So that's why we believe that we should look at the first ten (10) years of the forecast.

The -- the promised land is only after Keeyask is in service and -- and we have multiple years of 3.95 percent rate increases. The IFF assumes those rate increases accumulate over time. If that doesn't happen, there isn't -- the trajectory isn't up at the back end, it's down at the back end.

But if you look at this from a risk-based perspective, you look at what's coming in the next number of years. And the -- and the -- you know, the great thing -- the great thing and the perplexing thing, I guess, about a -- an electrical utility is that once those assets are in place, they have a fixed cost.

They're -- they're great over time, because they're usually an inflation hedge over time, but they -- they're fixed costs. Electric generating plants and -- and Bipole III, in terms of reliability,

1804

are fixed costs over time.

They're both -- it's both the great thing about our business -- high capital costs, low variable costs once they're in place -- but it's also the risky thing about our business, I suppose, in terms of fixed costs.

So -- so we want to stay the course with the 3.95 percents, but if we pull -- pull from the front end, we're risking higher rate increases in the back end.

DR. HUGH GRANT: Can I just ask, on the last slide, this is cumulative real rate increases by sixty-four (64)? So what are you deflating it with? The --

MS. LIZ CARRIERE: CPI.

DR. HUGH GRANT: Manitoba?

MS. LIZ CARRIERE: M-hm.

DR. HUGH GRANT: Two point one (2.1)?

MS. LIZ CARRIERE: Well, on a projected basis, they're the same. They're 2 percent.

DR. HUGH GRANT: Two percent. And is this cumulative -- is there a compounding that should go on that there -- there is some curvature to these?

MS. LIZ CARRIERE: Yeah. There --

DR. HUGH GRANT: So 2 percent on the 2

1805

percent, or --

MS. LIZ CARRIERE: Yeah.

DR. HUGH GRANT: -- or the one point nine-five (1.95). It's -- so it's -- it -- so it should not be a straight line. There should be a --

MS. LIZ CARRIERE: That's correct.

DR. HUGH GRANT: Okay. Thanks.

MS. LIZ CARRIERE: Okay.

THE CHAIRPERSON: We have some presenters coming in at one o'clock, so my goal was to keep on going till 12:15 so that we reserve forty-five (45) minutes for lunch. So since everybody's here, let's continue.

MS. LIZ CARRIERE: This is the last section, I believe, so -- so it seems there's a misconception about our 3.95 percent rate increases. We've pro -- been projecting 3.95 percent rate increases since IFF12, which was approved by our board in November 2012.

Mr. Rainkie made several references throughout the NFAT, as did I, but these ones in particular were from the NFAT.

And, you know, basically, they are saying that over the next five (5) to seven (7) years, we will be asking for 3.95 percent, and that it was --

TAB 3

Manitoba Hydro
2015 General Rate Application

OVERVIEW & REASONS FOR THE APPLICATION

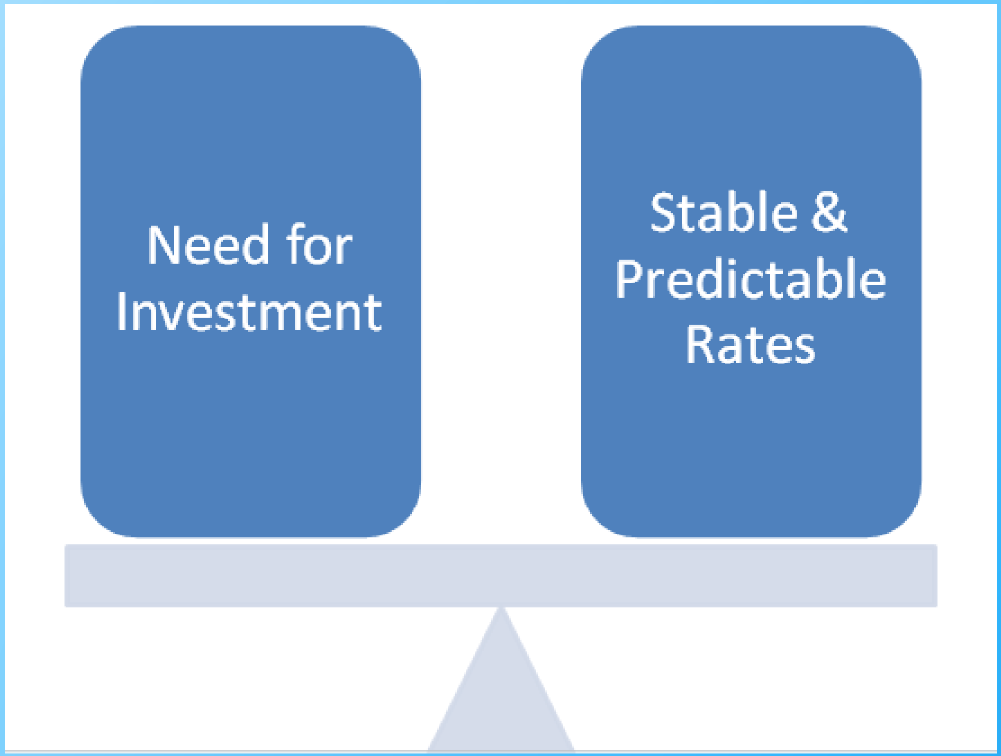
Darren Rainkie
Vice-President, Finance & Regulatory
Manitoba Hydro

Why Rate Increases are Needed

- Manitoba Hydro is entering a period of extensive capital investment to meet growing energy requirements, replace aging utility assets and address increased capacity constraints on our system.
- Manitoba Hydro's projected costs and revenue requirements are significantly increasing due to the investment in assets – which is the key factor driving the need for rate increases.
- The investments in capital will place pressure on Manitoba Hydro's Financial Strength.
- The proposed rate increases are needed to:
    - Maintain a reliable energy supply to Manitobans; and,
    - Promote long term rate stability for customers by maintaining Net Income & Financial Ratios at acceptable levels.

Manitoba Hydro

Balancing the Need for Investment with Stable & Predictable Rates



- The required capital investment means that rates will need to increase over the next decade to fund these investments.
- Manitoba Hydro believes that the proposed rate increases carefully balance the need for investment and providing stable, predictable rates for our customers.

Manitoba Hydro

Presentation Summary

- Corporate Profile & Strategic Direction
- Financial Update
- General Rate Application Overview
- Capital Investment Drivers & Borrowing Requirements
- Reasons for Proposed Rate Increases
- Risks if Proposed Rate Increases Not Granted
- Manitoba Hydro's Reply to Areas of Concern

Manitoba Hydro

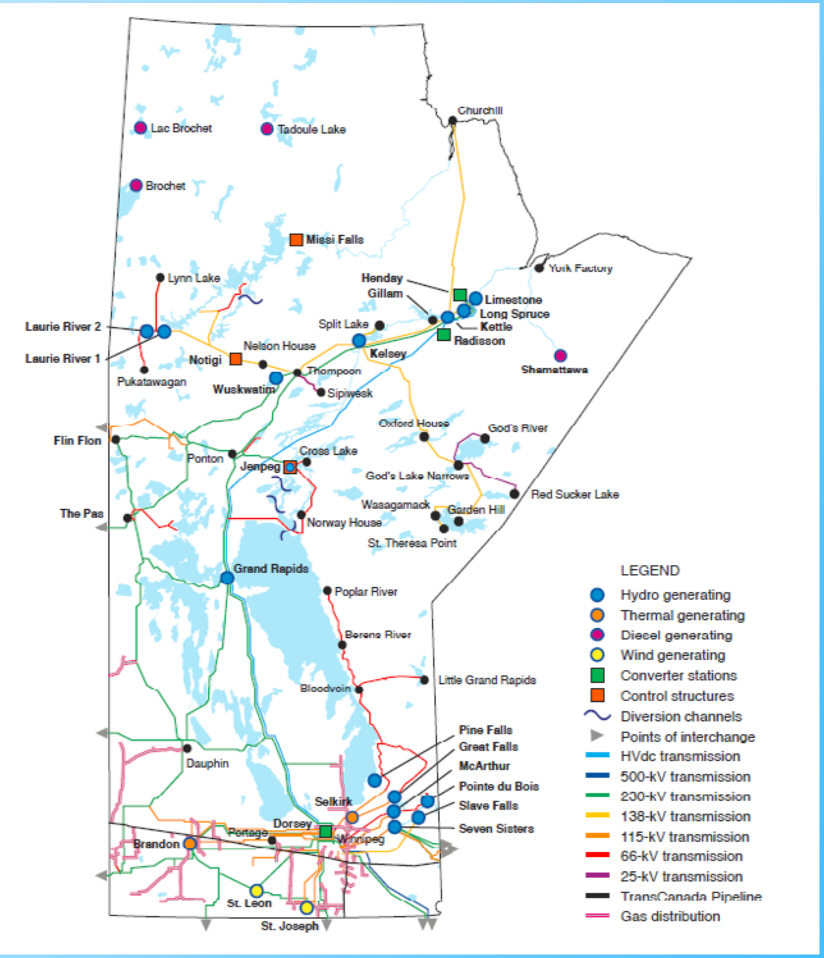
Manitoba Hydro's Corporate Profile & Strategic Direction

Corporate Profile at March 31, 2014

- $2.3 billion annual revenue
- $16 billion assets (historic cost)
- 556 000 Electricity Customers
- 272 000 Natural Gas Customers
- 6 500 Employees (full time equivalent)
- Leader in Customer Satisfaction
- Leader in Aboriginal Employment
- Leader in Energy Conservation
- A Top 100 Employer in Canada
- Electricity Rates Among the Lowest in North America

Manitoba Hydro

Major Electrical & Natural Gas Facilities

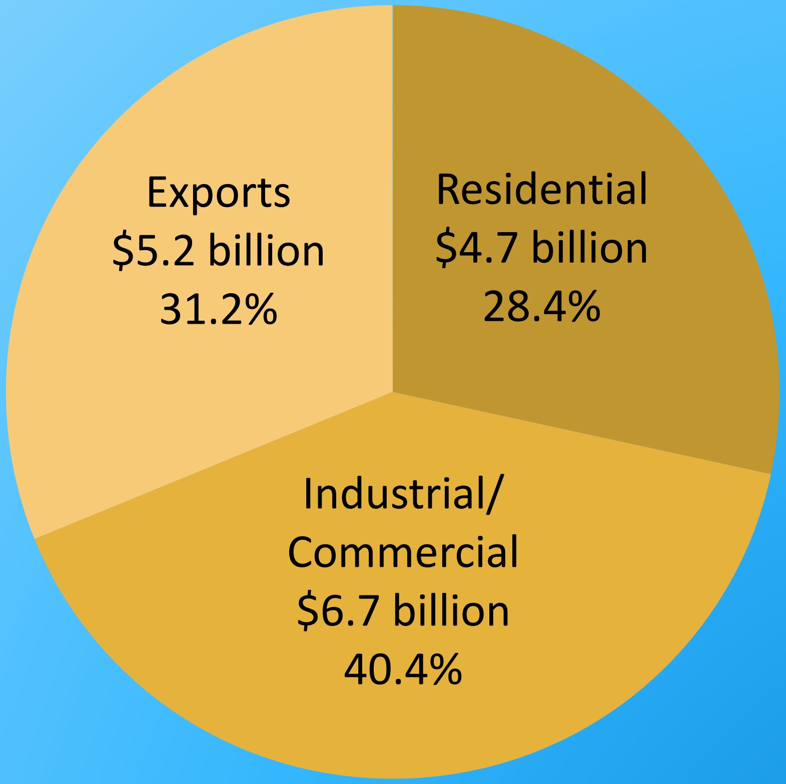


- 15 hydraulic generating stations
- 5,725 megawatts total electricity capacity
- 98% production typically from clean renewable water power
- 13,000 kilometers of electric transmission lines
- 76,000 kilometers of electric distribution lines
- Two thermal generating stations for back-up
- Energy purchased from two independent wind farms

Manitoba Hydro

Share of Total Electric Revenues 2005-2014

- Surplus electricity exported to three wholesale markets in Midwest US and Canada
- Last decade – export sales contributed $5.2 billion or 31% of total revenues
- Export revenues are used to keep rates low for Manitobans



Manitoba Hydro

Corporate Strategic Plan (CSP)

Vision

To be recognized as a leading utility in North America with respect to safety, reliability, rates, customer satisfaction and environmental leadership.

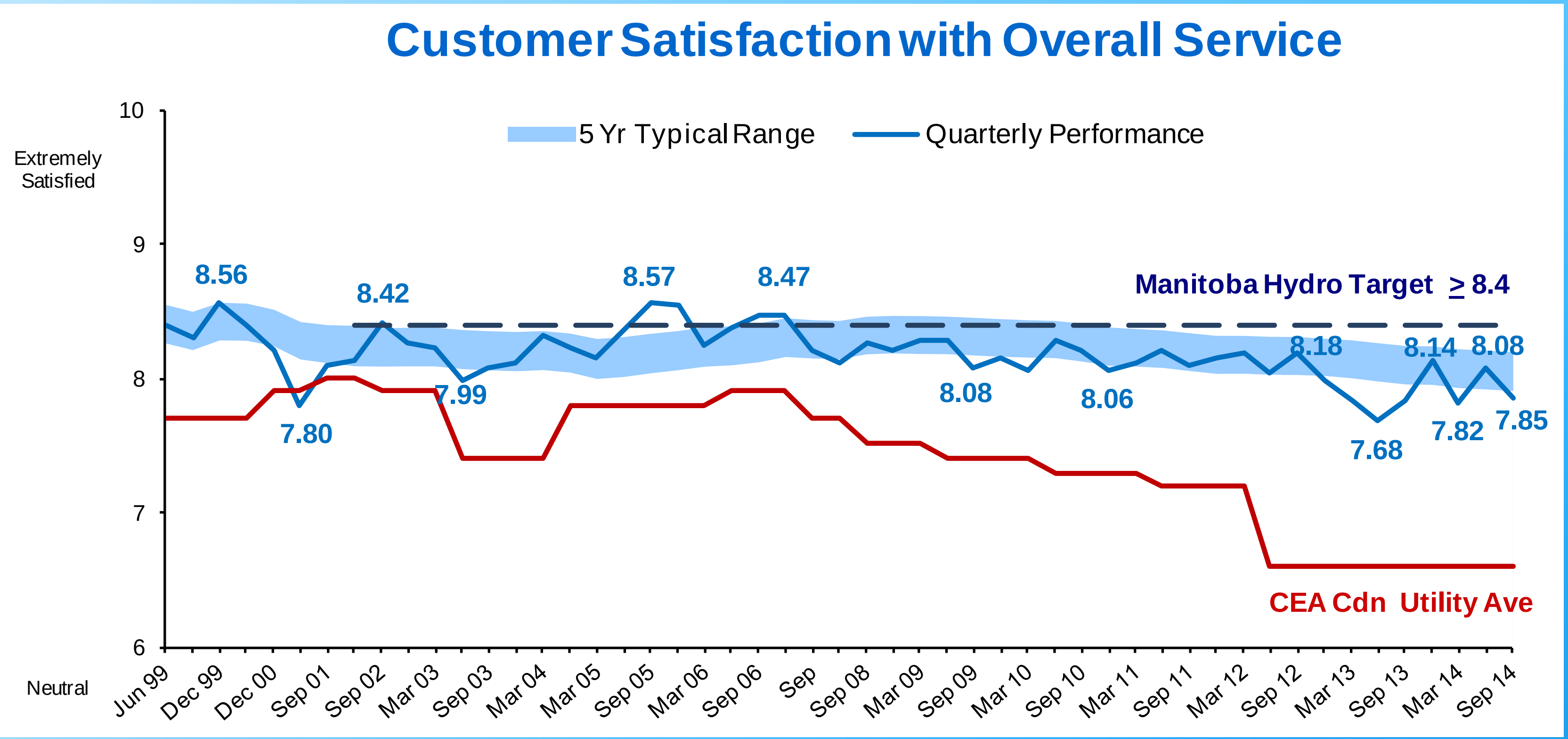
Mission

To provide for the continuance of a supply of energy to meet the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy.

Key Areas of Focus

- CSP sets out Manitoba Hydro's Vision & Mission.
- CSP outlines Key Areas of Focus to meet Manitobans' long-term energy needs and achieve operational excellence.

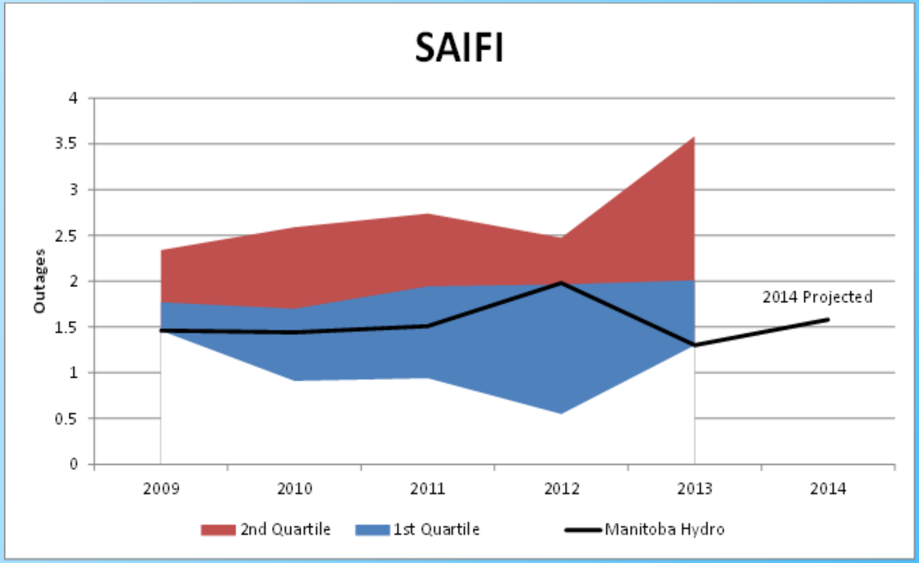
Manitoba Hydro is a Leader in Customer Satisfaction

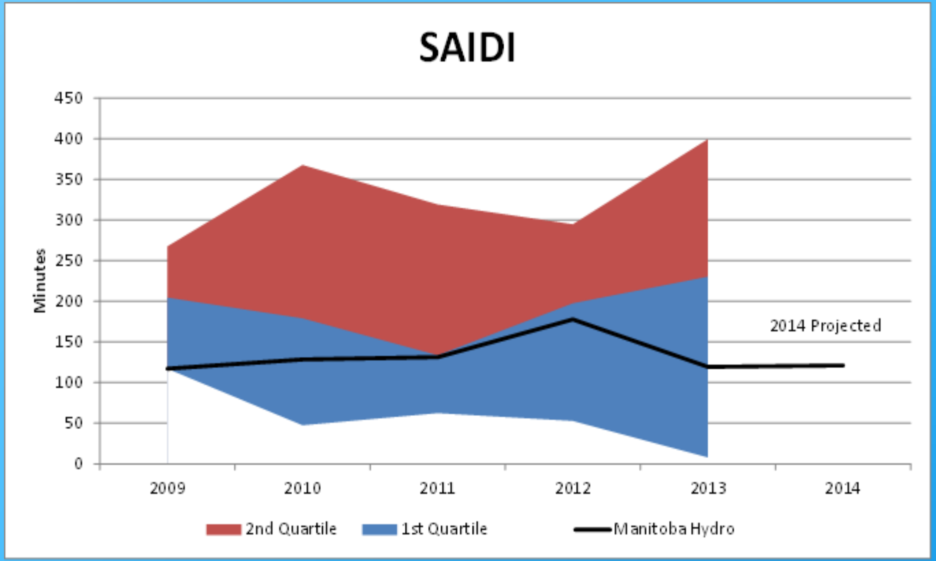


- Manitoba Hydro is committed to providing high system reliability, excellent customer service and affordable rates.
- Manitoba Hydro receives customer satisfaction ratings that are consistently higher than the national average for Canadian electric utilities.

Manitoba Hydro Provides High System Reliability

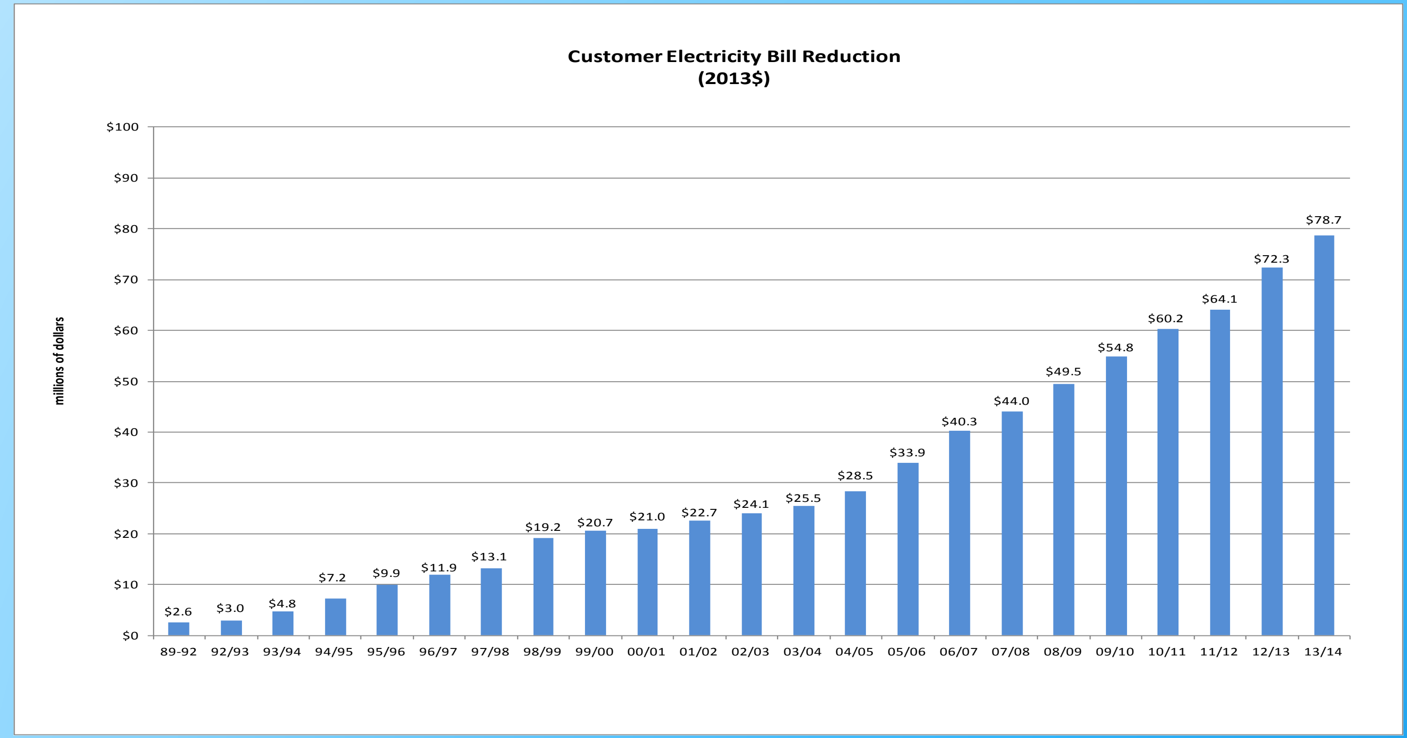
Manitoba Hydro SAIFI & SAIDI Indicators Compared to CEA Member Utilities





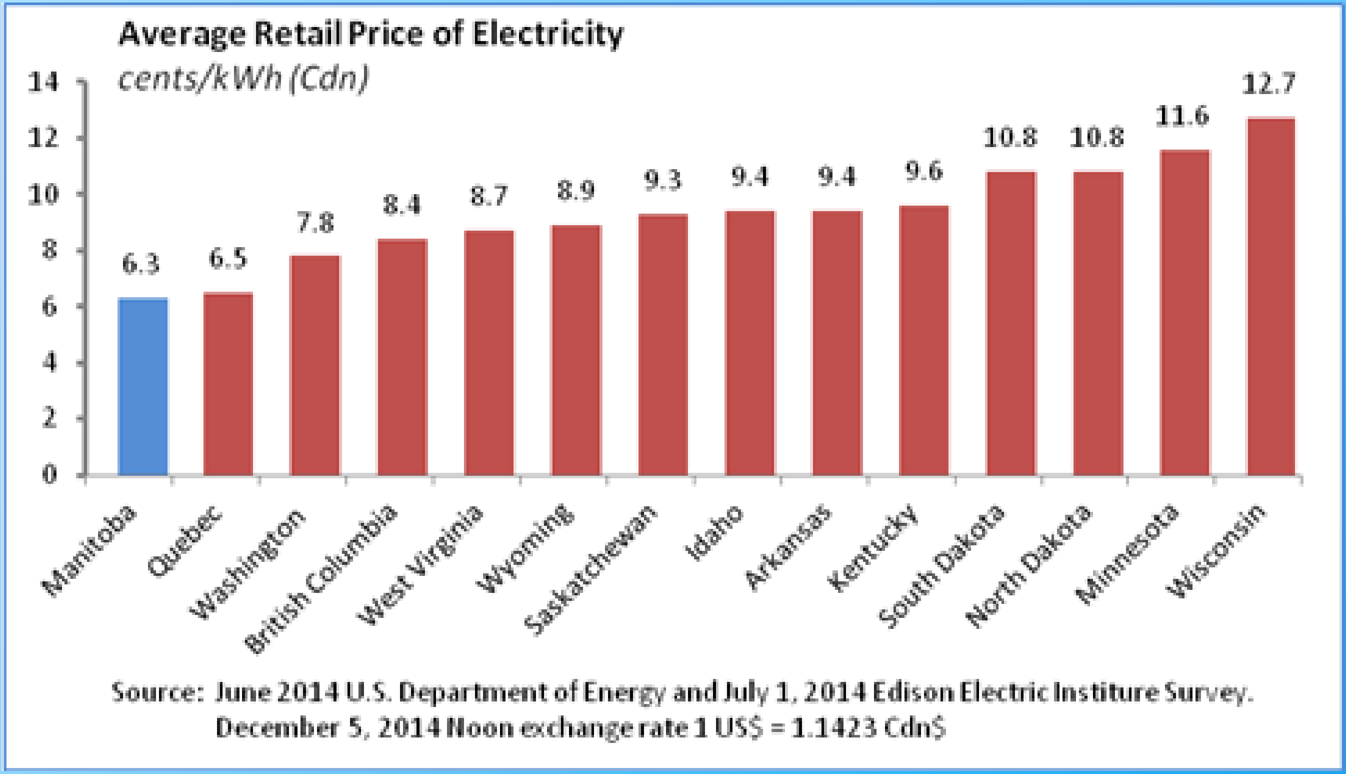
- Manitoba Hydro's electric infrastructure is one of the most reliable, sustainable and affordable power systems in Canada.
- Manitoba Hydro has historically been in the first quartile of CEA member utilities as it relates to average number of interruptions (SAIFI) and average outage duration (SAIDI).

Manitoba Hydro is a Leader in Offering Power Smart Programs



- Manitoba Hydro’s Power Smart Programs are very successful at reducing customers’ energy bills and contributing to a sustainable energy supply in Manitoba.
- Cumulative reductions to customer electricity bills of $712 million to 2013/14 and greenhouse gas reductions of approx. 1,695,000 tonnes of carbon dioxide to 2013/14.

Manitoba Hydro Offers Affordable & Competitive Rates to Customers

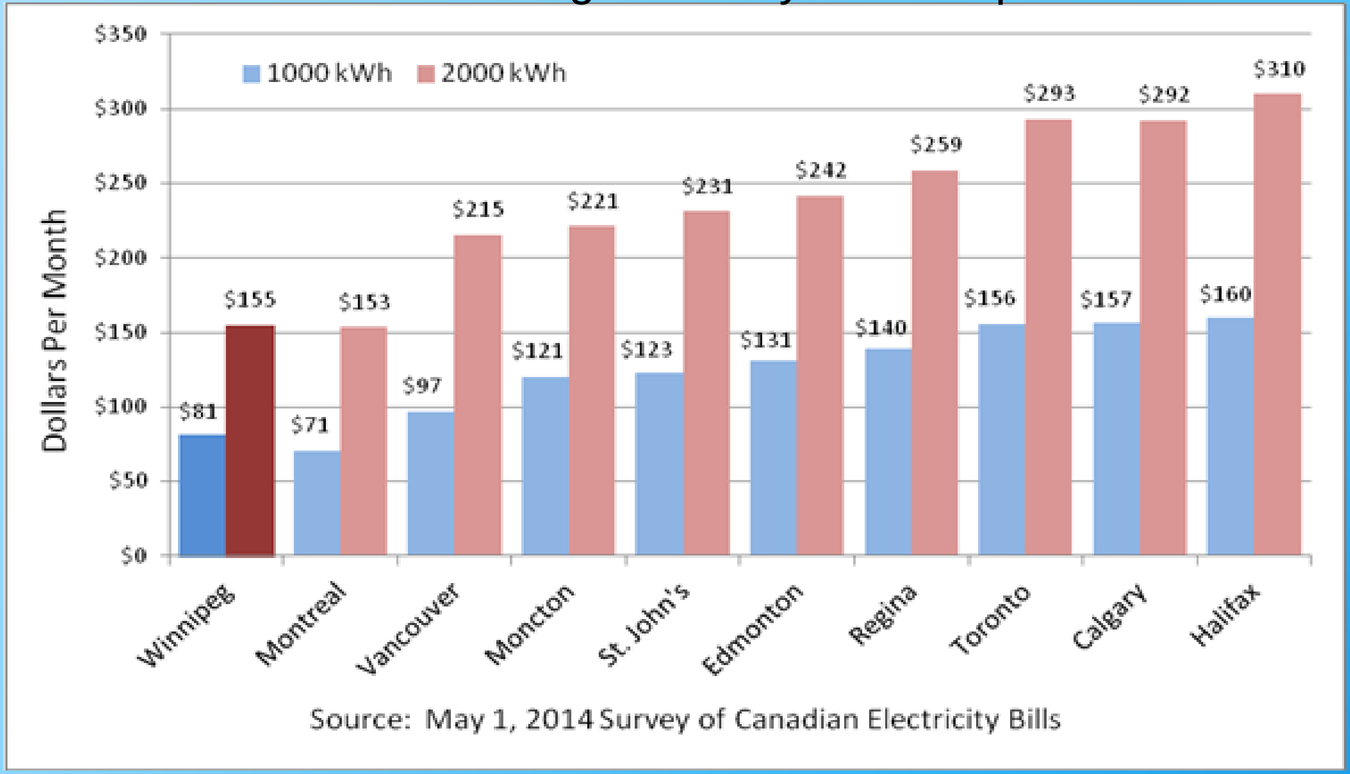


- Manitoba's rates are affordable for Manitoba families and support the competiveness of Manitoba businesses.
- Manitoba Hydro has amongst the lowest average retail electricity rates in North America.

Manitoba Hydro

Manitoba Hydro Offers Affordable & Competitive Rates to Customers

Residential Average Monthly Bill Comparison



- Manitoba enjoys a distinct advantage over most Canadian jurisdictions with respect to average monthly bills of residential customers.

Manitoba Hydro

Financial Update

Consolidated Income Statement

(Condensed $ millions)

	For the nine months ended December 31	For the year ended March 31						
	2014	2014	2013	2012	2011	2010	2009	2008
REVENUES								
Electric - Manitoba	1 039	1 475	1 410	1 238	1 241	1 172	1 161	1 097
Extraprovincial	318	439	353	363	398	427	623	625
Gas (Net)	97	163	147	132	143	138	149	142
	1 454	2 077	1 910	1 733	1 782	1 737	1 933	1 864
EXPENSES								
Operating & Administrative	398	557	533	481	463	440	429	381
Finance Expense	395	471	489	423	425	410	471	440
Depreciation & Amortization	324	442	423	381	393	384	368	349
Water Rentals & Assessments	92	125	118	119	120	121	123	124
Fuel & Power Purchased	109	177	133	146	106	104	176	134
Capital & Other Taxes	90	117	105	103	102	99	87	80
Other Expenses	22	36	30	19	23	16	13	10
Non-controlling Interest	(18)	(22)	(13)	-	-	-	-	-
	1 412	1 903	1 818	1 672	1 632	1 574	1 667	1 518
Net Income	42	174	92	61	150	163	266	346
Net Extraprovincial Revenue	117	137	102	98	172	202	324	367
Interest Coverage Ratio*	1.22	1.28	1.15	1.10	1.27	1.32	1.49	1.69

*The interest coverage ratio provides an indication of the ability of the Corporation to meet interest payment obligations with the net income generated by the Corporation. Interest coverage ratio represents net income plus interest on debt divided by interest.

Manitoba Hydro

Consolidated Balance Sheet

(Condensed $ millions)

	As at December 31	As at March 31						
	2014	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Property, Plant and Equipment (net)	11 755	10 684	10 541	8 647	8 215	8 076	7 944	7 697
Construction in Progress	3 064	2 943	1 967	3 150	2 739	2 052	1 438	1 238
	14 819	13 627	12 508	11 797	10 954	10 128	9 382	8 935
Current and Other Assets	2 129	1 901	1 682	1 622	1 646	1 487	1 499	2113
Total Assets	16 948	15 528	14 190	13 419	12 600	11 615	10 881	11 048
Long-Term Debt (Net)	11 641	10 349	8 977	8 729	8 335	7 406	7 002	6 500
Current and Other Liabilities	2 015	1 913	1 937	1 495	1 127	1 328	1 637	2097
Retained Earnings	2 758	2 716	2 542	2 450	2 389	2 239	2 076	1822
Other Equity	534	550	734	745	749	642	166	629
Total Liabilities & Equity	16 948	15 528	14 190	13 419	12 600	11 615	10 881	11 048
Debt/Equity Ratio*	78:22	76:24	75:25	74:26	73:27	73:27	77:23	73:27

*The debt/equity ratio indicates the portion of Manitoba Hydro's assets that have been financed by internally generated funds rather than through debt. Debt-to-equity ratio represents debt (long-term debt plus notes payable minus sinking funds and temporary investments) divided by debt plus equity (retained earnings plus accumulated other comprehensive income plus contributions in aid of construction plus non-controlling interest).

Consolidated Cash Flow Statement

(Condensed $ millions)

	For the nine months ended December 31	For the year ended March 31						
	2014	2014	2013	2012	2011	2010	2009	2008
Cash provided by Operating Activities	447	690	589	567	595	589	688	633
Cash provided by Financing Activities	1 150	1101	635	725	674	1 124	424	487
Cash used for Investing Activities	(1 360)	(1 681)	(1 242)	(1 312)	(1 373)	(1 698)	(1 086)	(988)
Capital Coverage Ratio*	1.01	1.35	1.25	1.13	1.25	1.34	1.77	1.62

*The capital coverage ratio measures the ability of current period internally generated funds to finance capital expenditures excluding major new generation and related transmission. Capital coverage ratio represents internally generated funds divided by sustaining capital expenditures.

Manitoba Hydro

Electric Operations Income Statement

(Condensed $ millions)

	For the year ended March 31	For the nine months ended December 31	
	MH14 Outlook	2014	2013
REVENUES			
Electric - Manitoba	1 422	1 004	977
Extraprovincial	409	318	332
	1 831	1 322	1 309
EXPENSES			
Operating and Administrative	486	339	350
Finance Expense	495	370	322
Depreciation and Amortization	405	300	311
Water Rentals and Assessments	124	92	95
Fuel and Power Purchased	134	109	100
Capital and Other Taxes	99	75	69
Corporate Allocation	9	7	7
Other Expenses	2	1	1
Non-controlling Interest	(25)	(18)	(17)
	1 729	1 275	1 238
Net Income	102	47	71

General Rate Application Overview

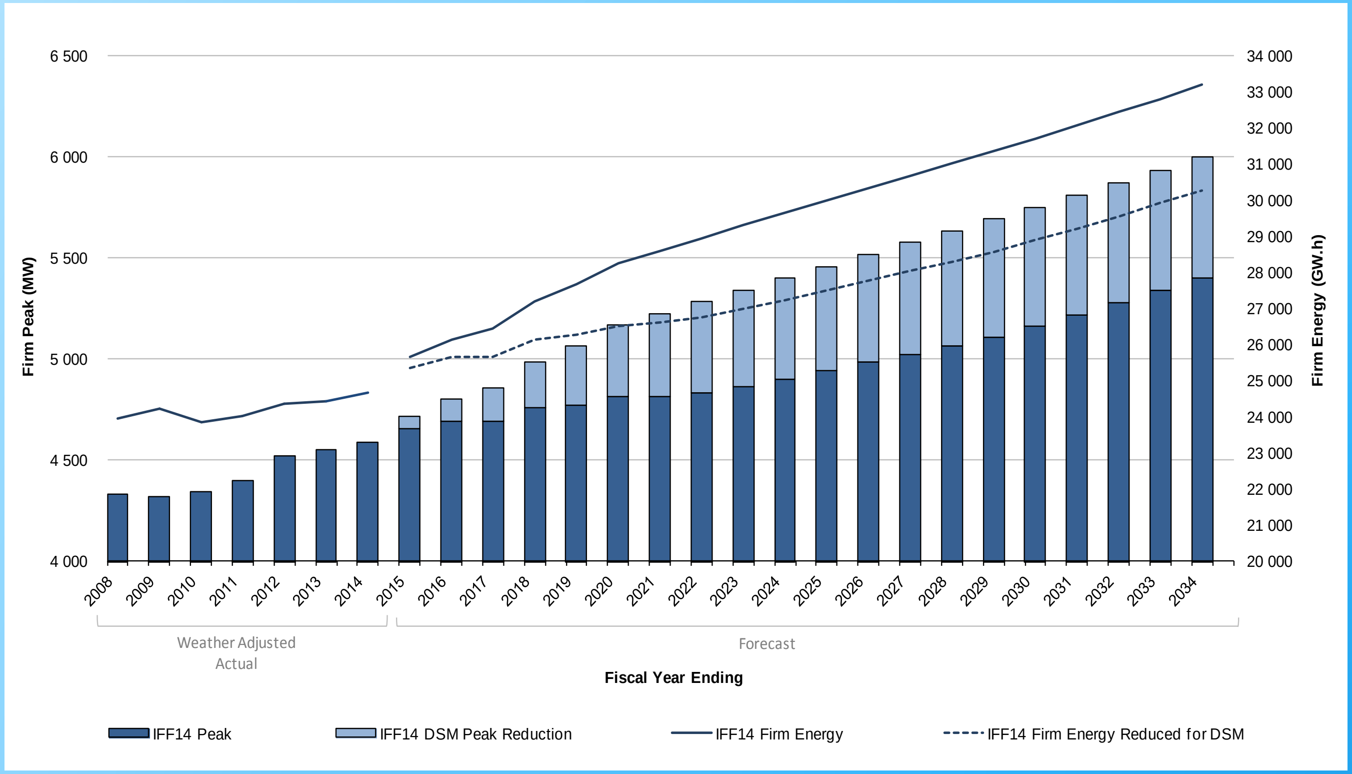
2015 General Rate Application

- Final approval of 2.75% interim rate increase effective May 1, 2014
- Approval of a 3.95% rate increase for 2015/16
  - $3.20 increase in monthly bill of residential customer without electric space heat
  - $6.11 increase in monthly bill of residential customer with electric space heat
- Final approval of LED Rates effective August 1, 2014
- Changes to SEP and CRP Terms & Conditions
- Final approval of Interim Orders on SEP, CRP and Diesel
- Approval to rescind DSM deferral account

Manitoba Hydro's
Capital Investment Drivers &
Borrowing Requirements

Manitoba Hydro is Entering a Period of Extensive Capital Investment

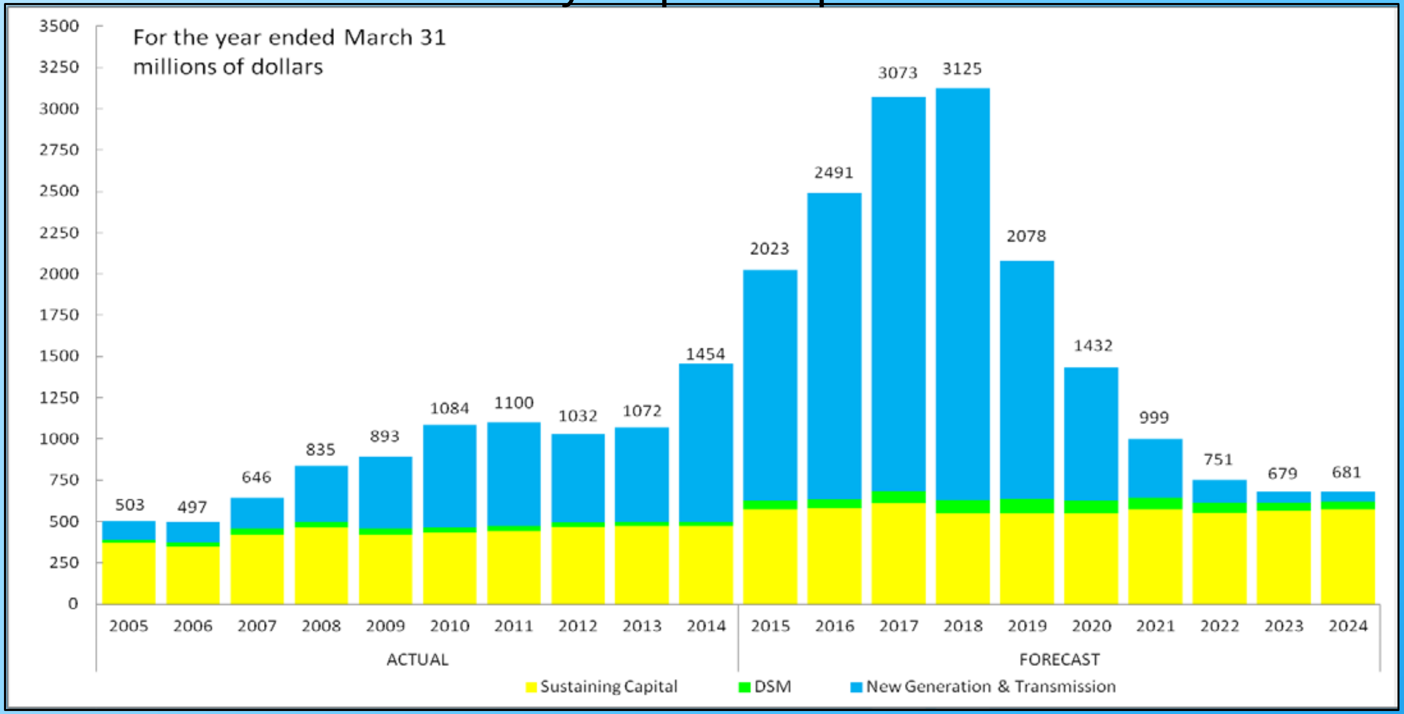
Forecast Load Growth Before and After Impact of DSM



- Investment is required to meet growing energy needs of Manitoba.
- Even with load reductions from the higher levels of Power Smart investment, demand for electricity is continuing to grow due to increases in population, higher average energy usage and industrial & commercial customer expansion.

Manitoba Hydro is Entering a Period of Extensive Capital Investment

Electricity Capital Expenditures



- Investment is required to replace aging utility assets and address capacity constraints on the system.
- The level of total investment will be significantly higher in the next 10 year period (peaks at $3.1 billion in 2017/18) than in the prior 10 years. Investment cost will be many multiples higher than the historic cost of the existing asset base.

Manitoba Hydro

Required Investment In Canada's Electricity System 2011-2030

- Other Canadian electric utilities are also encountering the need to replace and refurbish aging utility assets.

Manitoba Hydro

Rates in other Canadian provinces must also rise in the coming years to fund the re-investment in electricity infrastructure

SaskPower Investing for the future

Investing in our infrastructure also opens the door to future possibilities. Learn more about the work we're doing.
We applied for a multi-year rate increase to help our industrial customers with their business planning and enable our residential customers to budget household expenses in advance. As a result of our application, the government has announced:
Approval of a 5.5 per cent average rate increase, effective Jan. 1, 2014;
Approval of a 3 per cent average rate increase, effective Jan. 1, 2015 (reduced from original request of 5 per cent); and
Denial of an increase for 2016 at this time.

BC Hydro rates to increase 28 per cent over 5 years

"Our rates are still among the lowest in North America," says BC Hydro CEO Charles Reid

CBC News Posted: Nov 26, 2013 10:53 AM PT | Last Updated: Nov 26, 2013 7:54 PM PT

Energy Minister Bill Bennett and BC Hydro CEO Charles Reid announced a 28 per cent electricity rate hike over five years, with a nine per cent jump coming April 1, 2014.

In a press conference in Victoria this morning, Bennett and Reid said the rate hikes were part of a 10-year plan to keep rates as low as possible, while still allowing BC Hydro to invest in infrastructure and future power projects.

Ontario hydro bills to rise 42% in 5 years

BY ANTONELLA ARTUSO, QUEEN'S PARK BUREAU CHIEF

FIRST POSTED: MONDAY, DECEMBER 02, 2013 01:43 PM EST | UPDATED: MONDAY, DECEMBER 02, 2013 03:47 PM EST

TORONTO - Ontario hydro bills are headed up, up, up.

The Liberal government's new long-term energy plan shows that the average monthly residential bill of $125 will rise to $178 within five years — a 42% increase.

Hydro bills are expected to dip slightly in 2019 to $177 a month, and then rise again until 2022 when they'll hit $193 a month.

A second decrease in prices is forecast for 2023-24 and then the trend for prices is onward and upward for the foreseeable future.

Hydro-Québec filed an application for a 3.9% rate increase

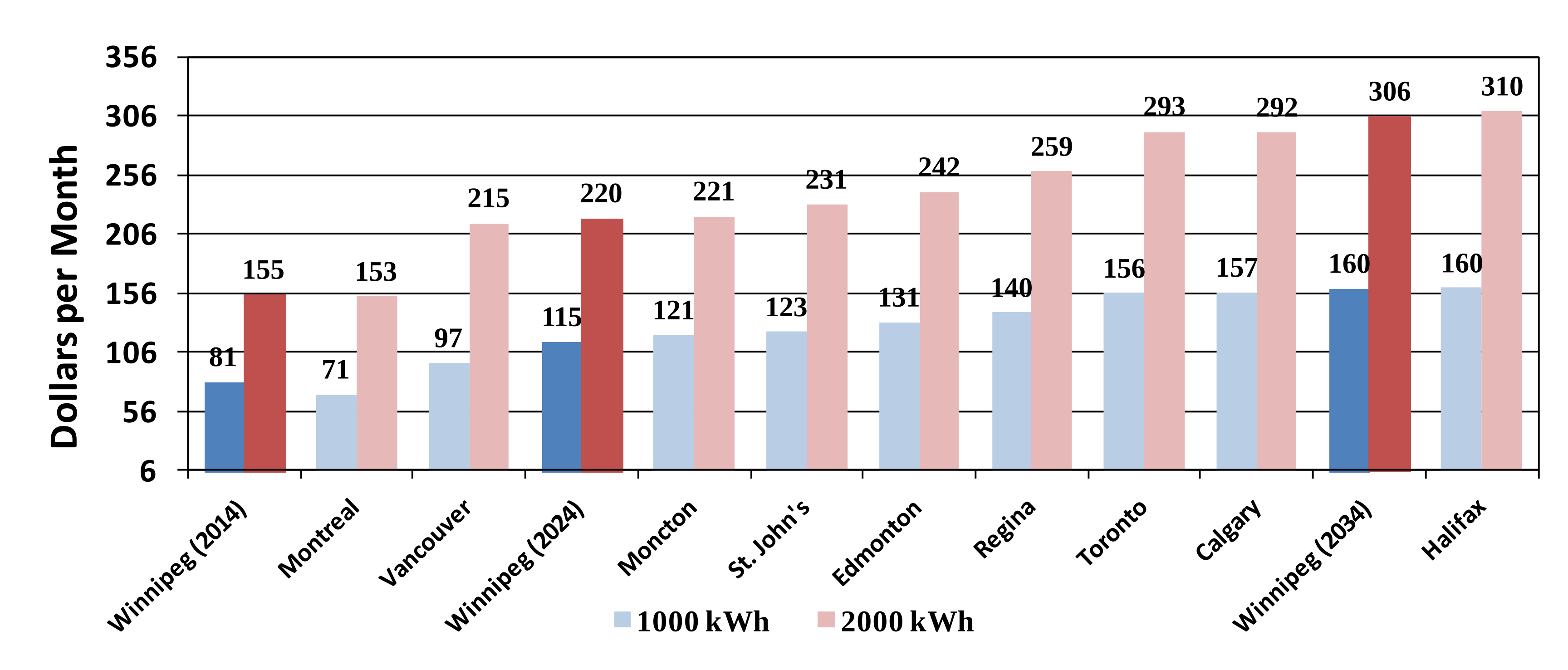
PROPOSED RATE ADJUSTMENT AS OF APRIL 1, 2015 (3.9%)

- Manitoba Hydro is not alone in needing to address the required investment in its electrical system through higher rate increases.

Manitoba Hydro

Manitoba Hydro will Continue to Offer Affordable & Competitive Rates to Customers

Residential Average Monthly Bill (Manitoba Hydro Current, 2024, 2034)



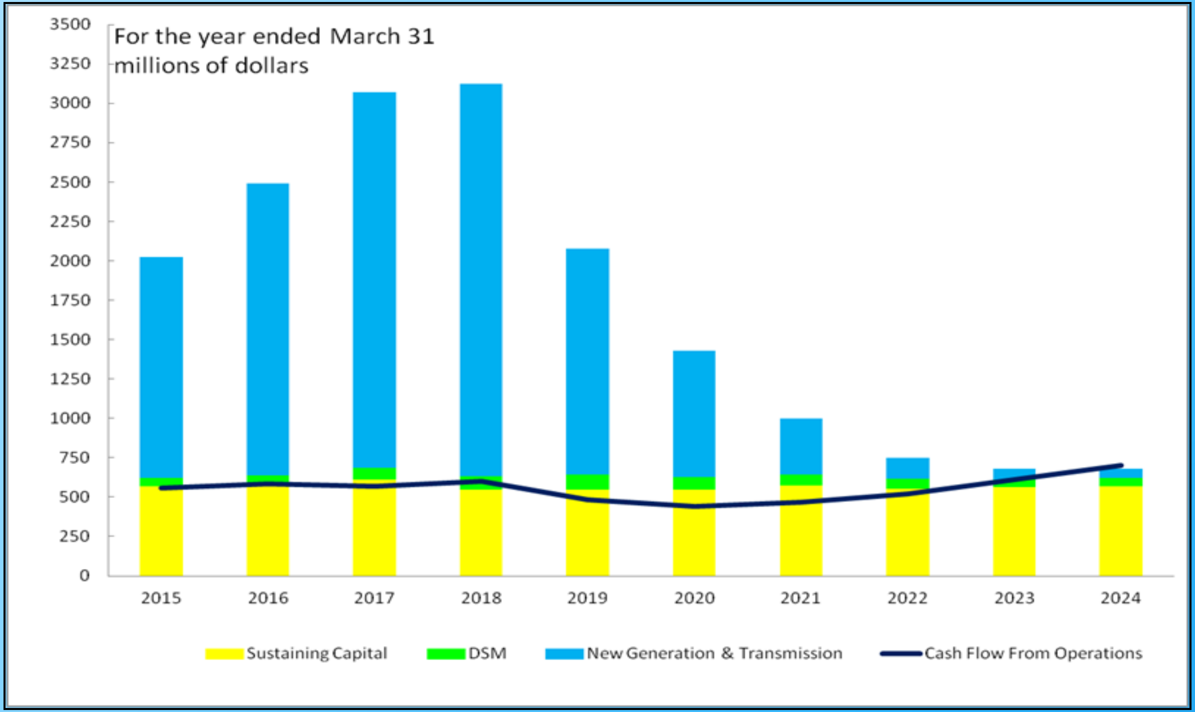
Note: Bills for other utilities have been held constant at 2014 levels.

- The electric rate advantage enjoyed by energy consumers in Manitoba over those in most other Canadian jurisdictions is expected to continue.

Manitoba Hydro

Cash Flow from Operations will be Insufficient to Fund Capital Expenditures

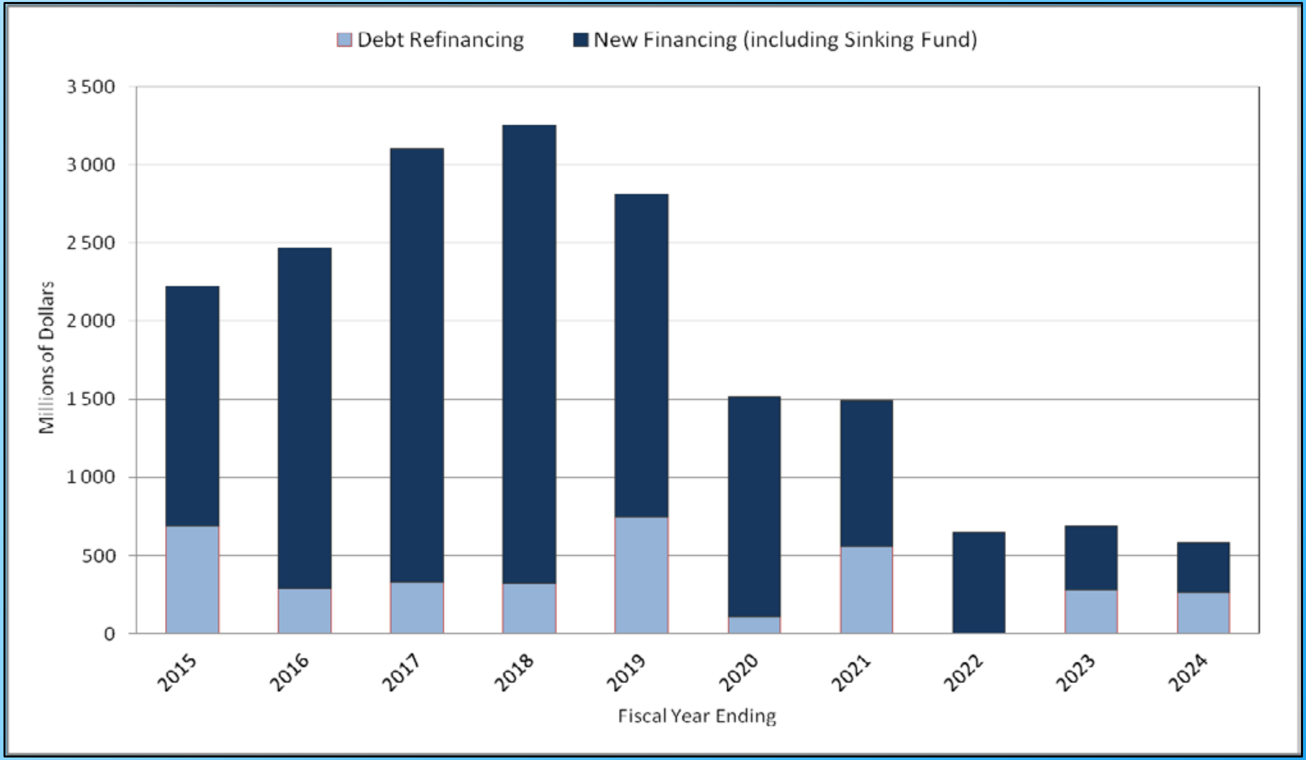
Electricity Capital Expenditures & Cash Flow from Operations



- Manitoba Hydro does not have access to share capital like private utilities and must rely on a combination of internally generated cash and debt financing to fund its capital investment program.
- Cash flow from operations (including projected rate increases) will not be sufficient to fully fund sustaining capital requirements and Major Generation & Transmission capital will be funded through debt financing.

Investment Requirements will Lead to Unprecedented Levels of Debt Financing

Projected Electric Operations Borrowing Requirements

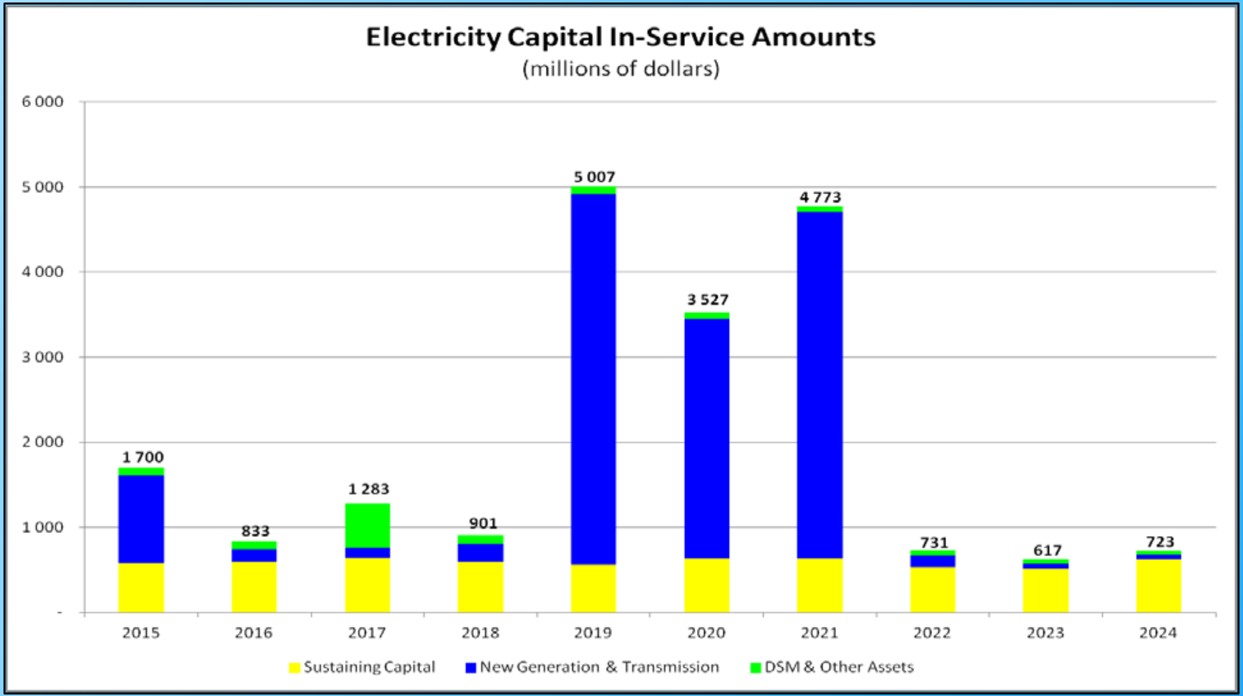


- Including debt refinancing requirements for existing debt, total debt requirements will peak at levels in excess of $3 billion per year – which are unprecedented levels in Manitoba Hydro history.

Manitoba Hydro

Reasons for Proposed Rate Increases

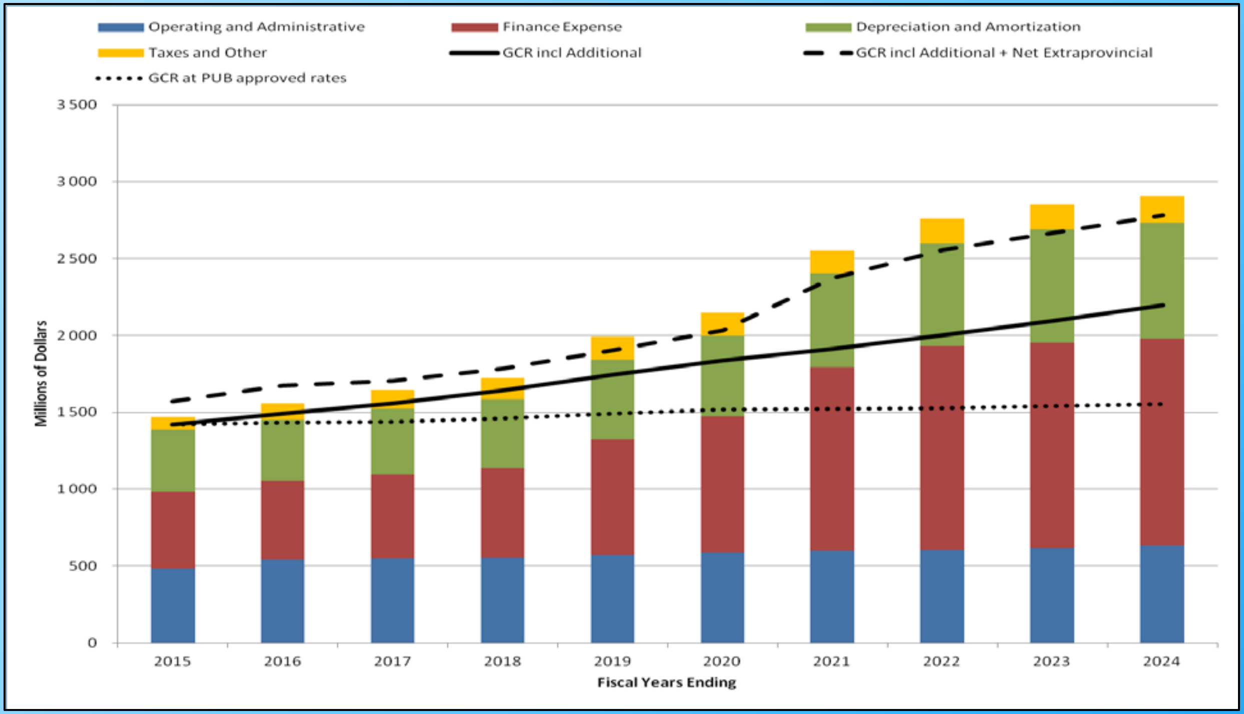
Revenue Requirements are Driven by Assets Being Placed into Service



- Due to the capital intensive nature of Manitoba Hydro's operations, a significant portion of overall revenue requirements are carrying costs (finance expense, depreciation & capital taxes) of assets used to provide service, once they are placed into service.
- $3.8 billion of electric assets are projected to be placed into service between 2015 and 2017 and $20.1 billion between 2015 to 2024.

Carrying Costs on Electric Assets are Expected to Double in Next 10 Years

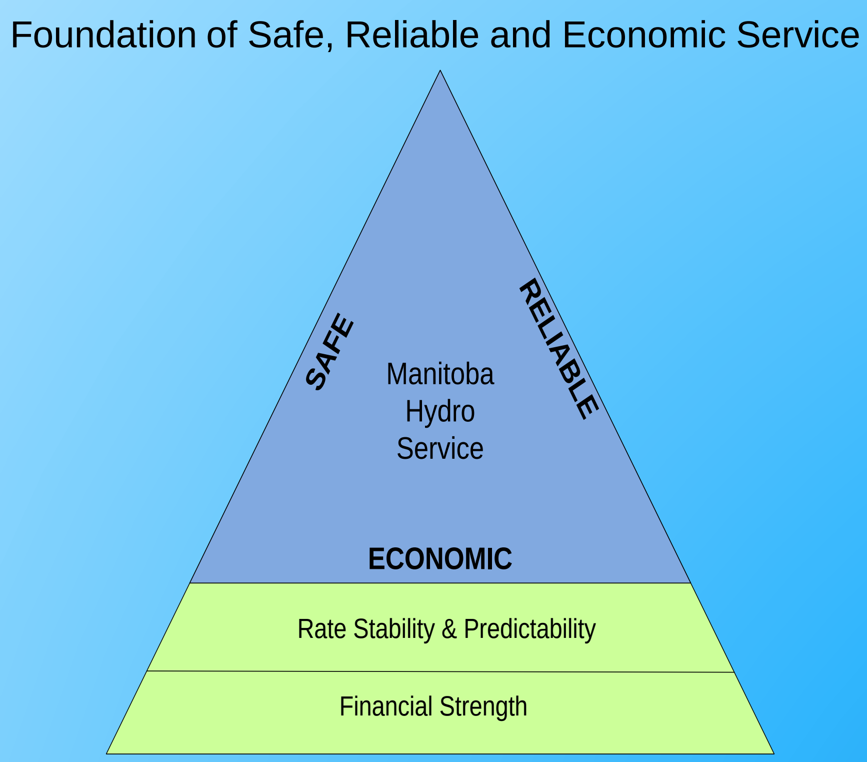
Electric Expenses Compared to Revenues



- Required capital investment is projected to double the asset base and carrying costs of electric operations in the next 10 years.
- Over the 10 year period, total electric costs are projected to double from $1.5 billion to $3 billion, primarily due to increased finance & depreciation costs. Operating costs are relatively constant.
- The proposed and indicative rate increases accumulate to 42% by 2024, thus resulting in projected losses of $900 million on electric operations between 2019 – 2024.

Manitoba Hydro

Rate Stability for Customers Dependent on Financial Strength of the Corporation



- Rate stability & predictability for customers depends on the continued financial strength of Manitoba Hydro.
- Without the necessary rate increases, there is significant risk to customers of volatile rate changes and a need for sudden or larger rate increases in the near future. This risk is particularly acute in the upcoming period of extensive capital investment.

Financial Strength is Measured through Consolidated Financial Targets

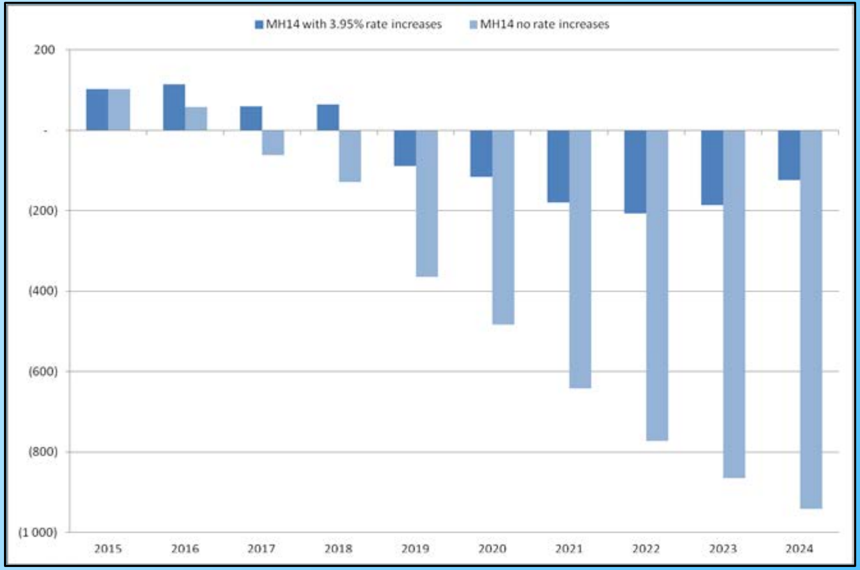
- Debt/Equity:
  - Maintain minimum debt/equity ratio of 75:25
- Interest Coverage:
  - Maintain interest coverage ratio of > 1.20
- Capital Coverage:
  - Maintain capital coverage ratio of > 1.20

Note: Financial Targets may not be maintained during years of major investment in the generation and transmission system.

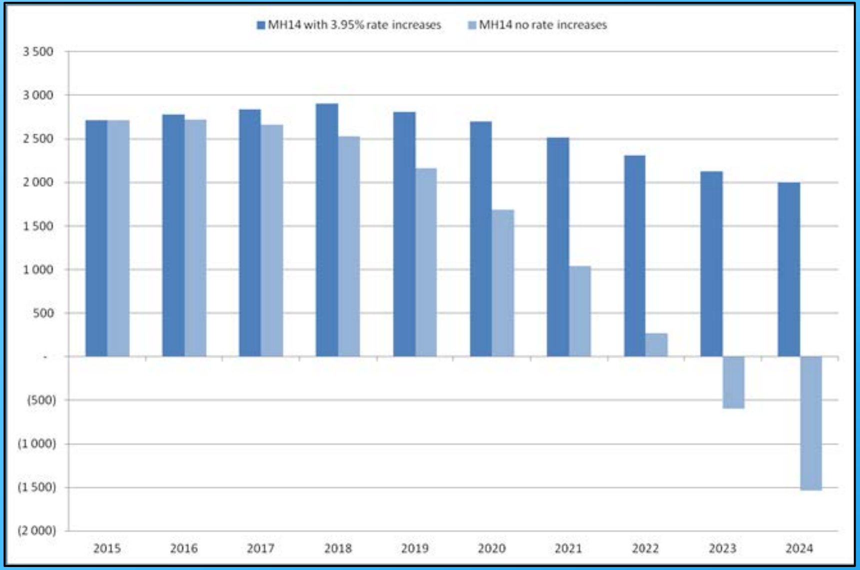
Investments in Capital Assets Will Place Pressure on Manitoba Hydro's Financial Strength

MH14 3.95% Rate Increases and MH14 No Rate Increases

Projected Net Income



Projected Retained Earnings

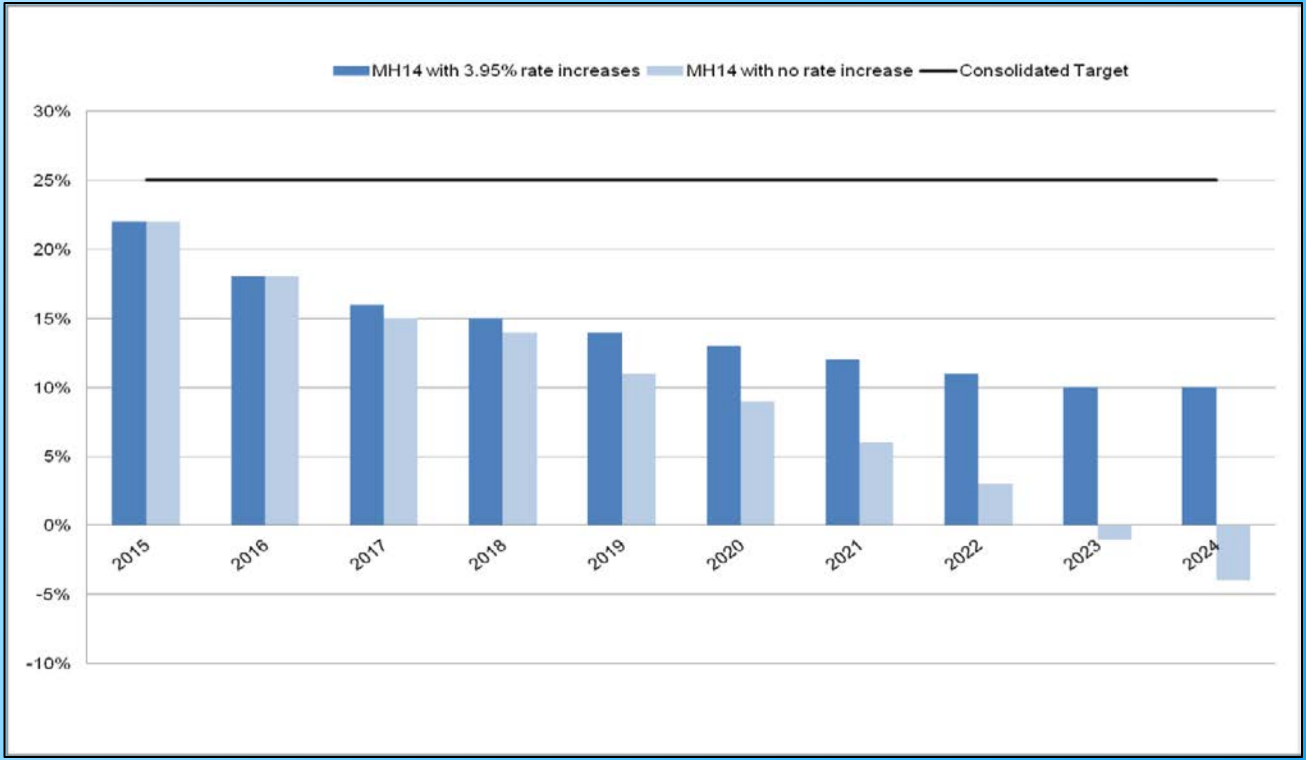


- The proposed and indicative 3.95% rate increases accumulate to 42% by 2024, but capital-driven carrying costs increase 100%, resulting in projected losses of $900 million between 2019 and 2024.
- Financial reserves (retained earnings) are projected to decrease from $2.7 billion to $2.0 billion by 2024.

Investments in Capital Assets Will Place Pressure on Manitoba Hydro's Financial Strength

MH14 3.95% Rate Increases and MH14 No Rate Increases

Projected Equity Ratio



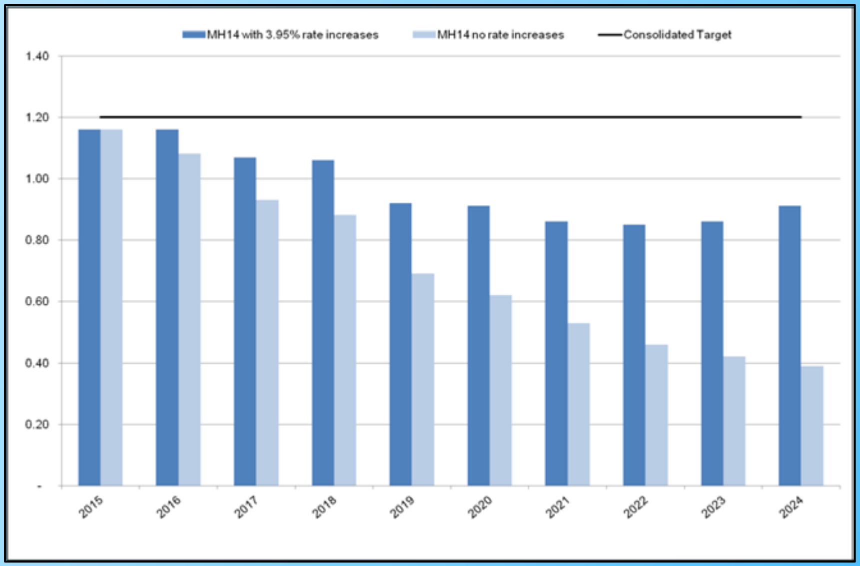
- Equity ratio is projected to deteriorate to 10% by 2023 – well below the 25% target level.

Manitoba Hydro

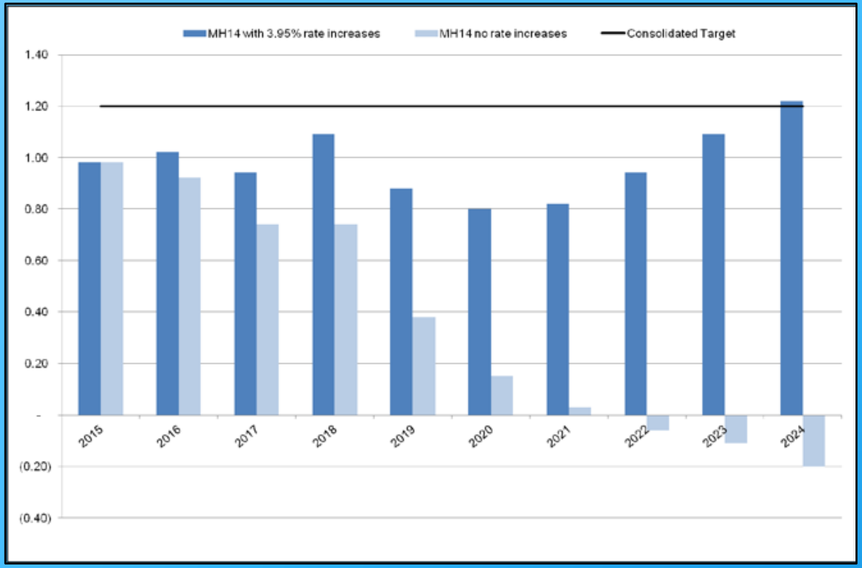
Investments in Capital Will Place Pressure on Financial Strength

MH14 3.95% Rate Increases and MH14 No Rate Increases

Projected Interest Coverage



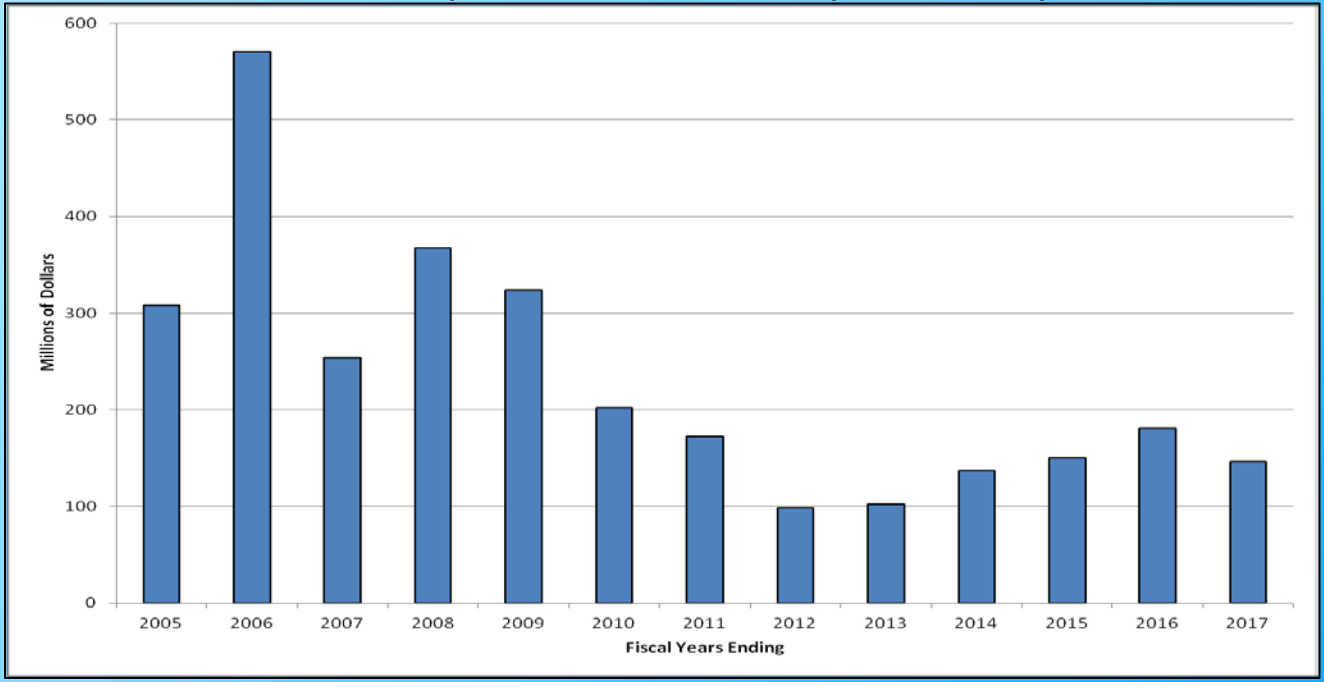
Projected Capital Coverage Ratio



- Interest coverage and capital coverage are projected to be well below the target levels of 1.20 for most of the years of the forecast.

Rates Have Not Increased to Fully Compensate for Reductions in Net Extraprovincial Revenue

Net Extraprovincial Revenue (2015-2017)



- Historically, Net Extraprovincial revenues have enabled Manitoba Hydro to maintain lower electricity rates for Manitobans (averaged $365 million/year between 2005-2009).
- Net extraprovincial revenues have not been as strong as in previous years (projected at $147 million to $181 million between 2015 to 2017).
- Rates need to gradually increase to compensate for this reduction.

Manitoba Hydro

Rate Proposals Maintain Net Income and Financial Ratios at Acceptable Levels

Retained Earnings and Financial Ratios (without proposed rate increases)	Forecast 2015	2016	2017
Net Income (electric operations)	$ 102	$ 58	$ (58)
Retained Earnings (electric operations)	$ 2,717	$ 2,721	$ 2,663
Debt to Equity Ratio (electric operations)	78:22	82:18	85:15
Interest Coverage Ratio (electric operations)	1.16	1.08	0.93
Capital Coverage Ratio (electric operations)	0.98	0.92	0.74

Retained Earnings and Financial Ratios (including proposed rate increases)			
Net Income (electric operations)	$ 102	$ 115	$ 59
Retained Earnings (electric operations)	$ 2,717	$ 2,778	$ 2,837
Debt to Equity Ratio (electric operations)	78:22	82:18	84:16
Interest Coverage Ratio (electric operations)	1.16	1.16	1.07
Capital Coverage Ratio (electric operations)	0.98	1.02	0.94

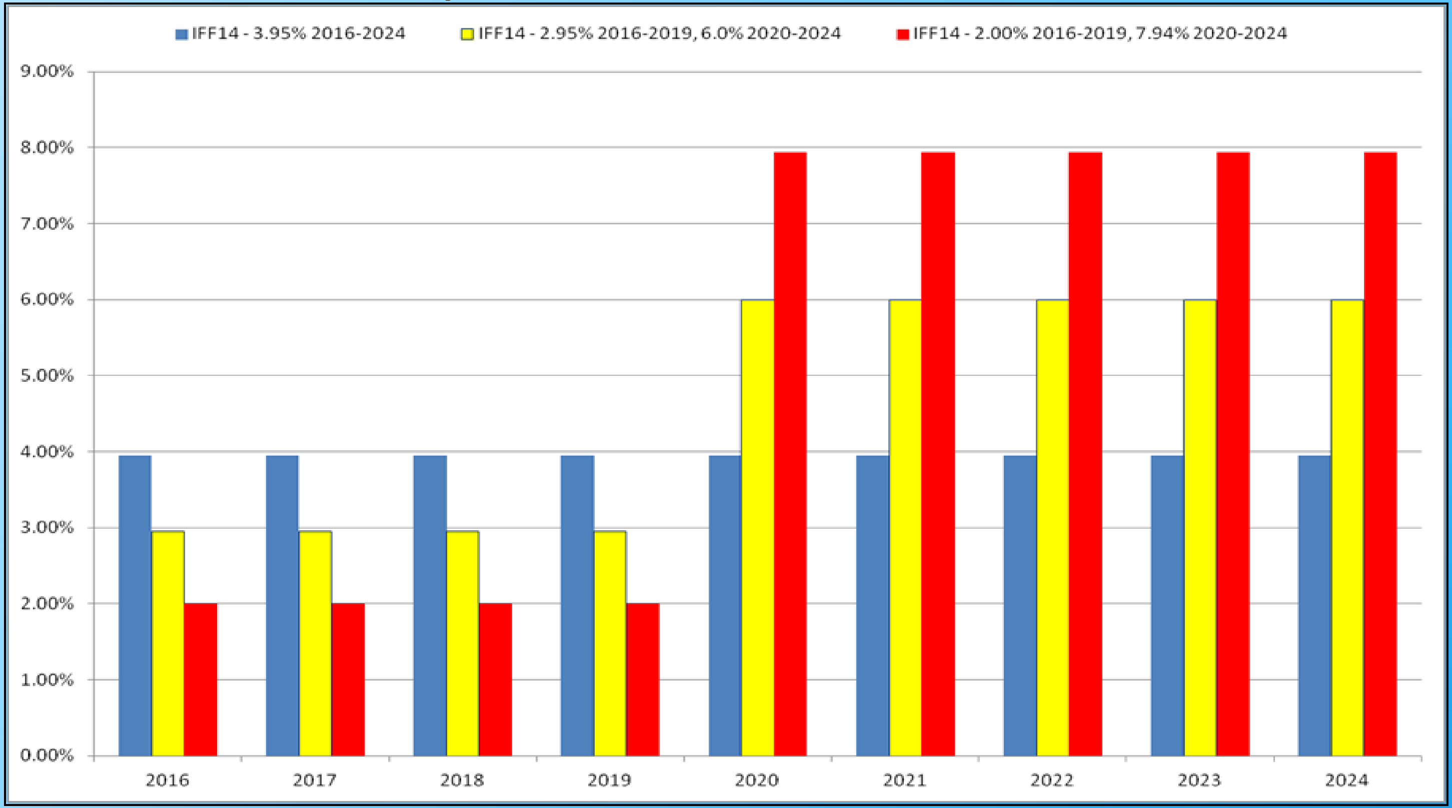
- Approval of the proposed rate increases are necessary to maintain net income and financial ratios for 2015/16 and 2016/17 at acceptable levels and to promote longer term rate stability for customers.
- Absent the proposed rate increases, Manitoba Hydro is projecting net income of $58 million in 2016 and a loss of $58 million in 2017. Equity ratio, interest and capital coverage ratios would decline to 15%, 0.93, and 0.74 in 2017, respectively.

Manitoba Hydro

Risks if Proposed Rate Increases are Not Granted

Increased Risk to Customers of Rate Instability and Rate Shock

Projected Rate Increase Scenarios

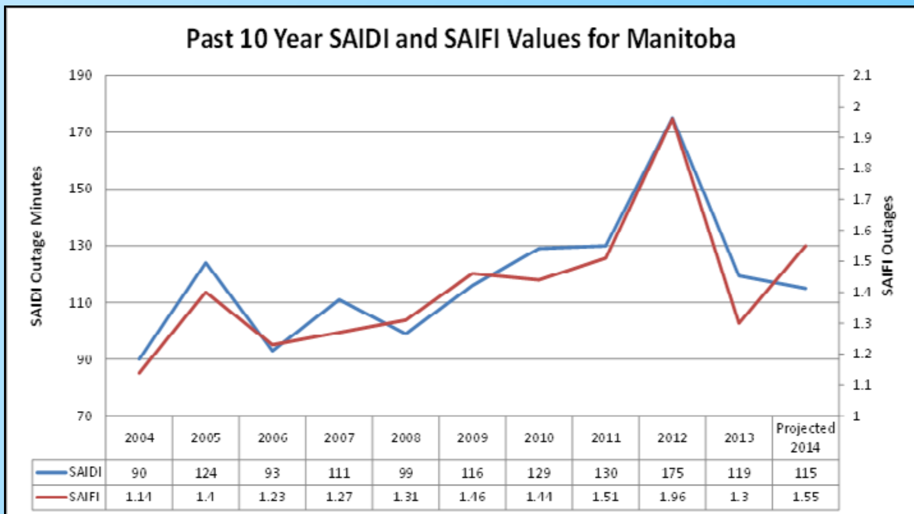


- Lower rate increase scenarios of 2% and 2.95% for the next 4 years (2016 to 2019) require compensating increases of 6% and 8%, respectively, between 2020 to 2024 to achieve the same financial position (a 10% Equity Ratio by 2024).
- Gradually increasing rates by 3.95% promotes rate stability & predictability and reduces the risk of rate shock to customers in the future.

Manitoba Hydro

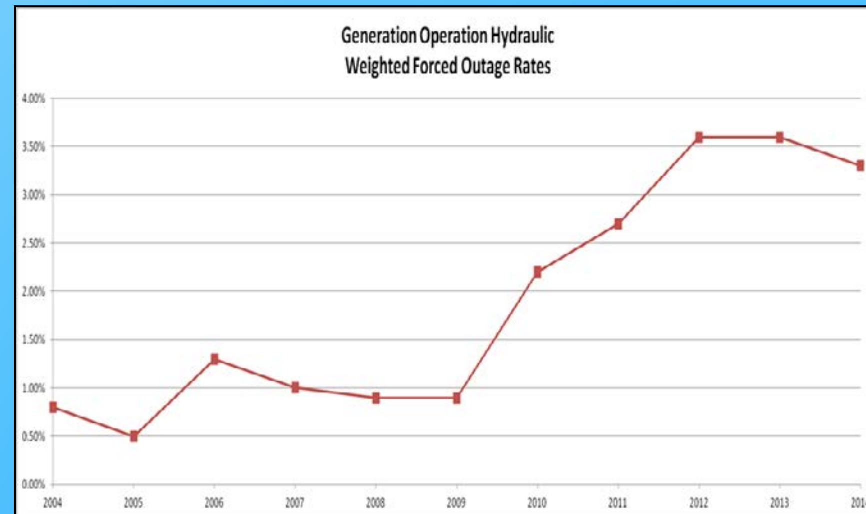
Increased Risk to Customers of Decline in Service & Reliability

SAIDI and SAIFI Indictors



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Projected 2014
SAIDI	90	124	93	111	99	116	129	130	175	119	115
SAIFI	1.14	1.4	1.23	1.27	1.31	1.46	1.44	1.51	1.96	1.3	1.55

Hydraulic Generation Forced Outage Rates

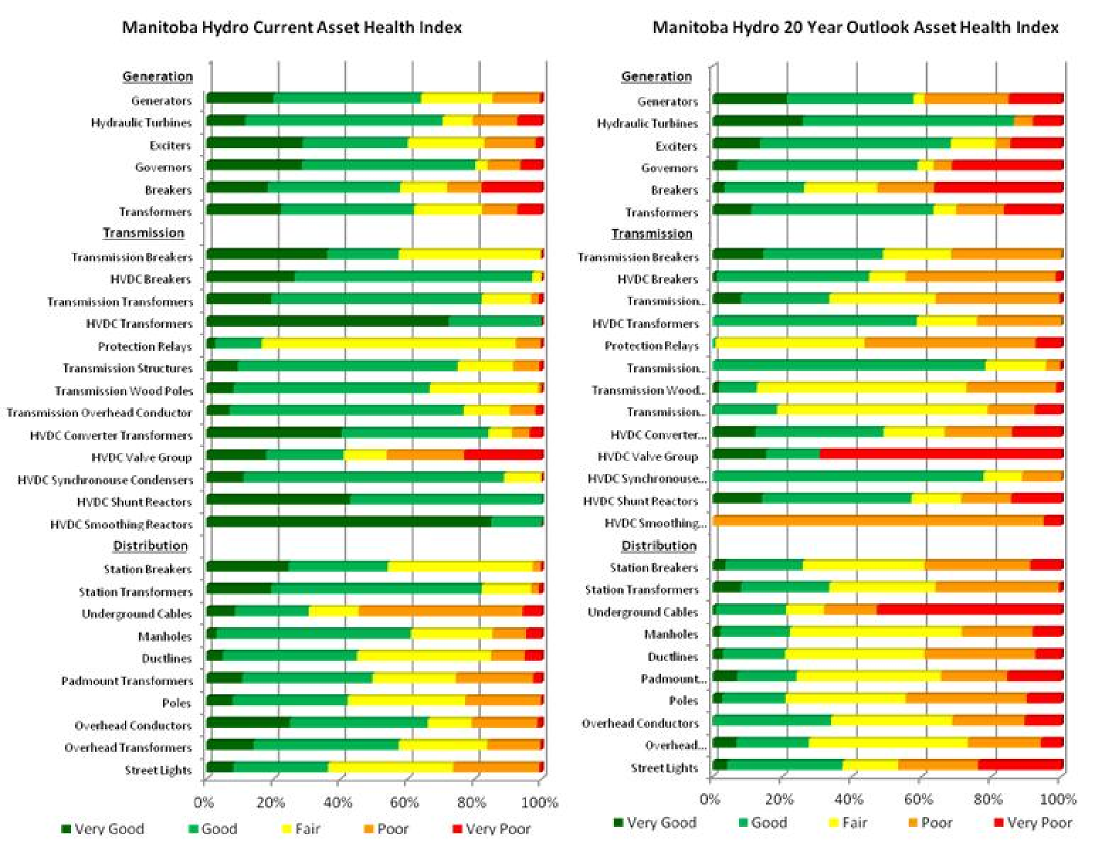


- Manitoba Hydro’s reliability performance shows an increased trend of outage frequency and duration and generation forced outage rates have increased significantly in the past 4 years; asset age and condition is a major contributing factor.
- The proposed rate increases will enable Manitoba Hydro to be in a better position to fund the necessary investments to continue to provide the high level of safe and reliable service to which customers are accustomed.

Manitoba Hydro

Increased Risk to Customers of Decline in Service & Reliability

Asset Health Indices- Current & 20 Year Outlook

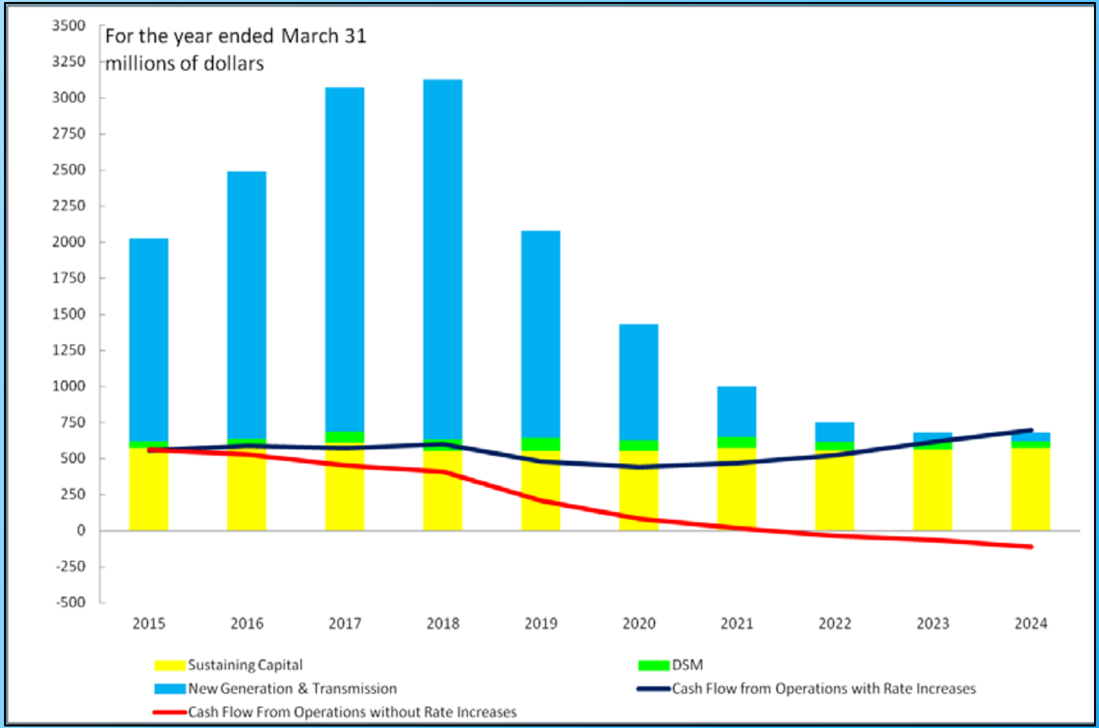


- As a larger portion of assets age beyond life expectancy, system failure and customer outages are expected to occur on a more regular basis.
- Replacement rates and associated capital funding for the majority of Manitoba Hydro's asset types need to be increased to better align with life expectancy.

Manitoba Hydro

Increased Borrowing Requirements Result in Higher Levels of Debt and Carrying Costs, which Need to be Recovered from Customers

Electricity Capital Expenditures & Cash Flow from Operations



- Without the proposed and indicative rate increases, Manitoba Hydro would be required to fund an increasing portion of its sustaining capital expenditures through debt financing as opposed to cash flow generated from operations.
- The proposed and indicative rate increases reduce the need for borrowing and additional financing costs that must be borne by customers through rates.

Manitoba Hydro

Potential Negative Implications to Provincial Credit Rating and Manitoba Hydro's Borrowing Costs

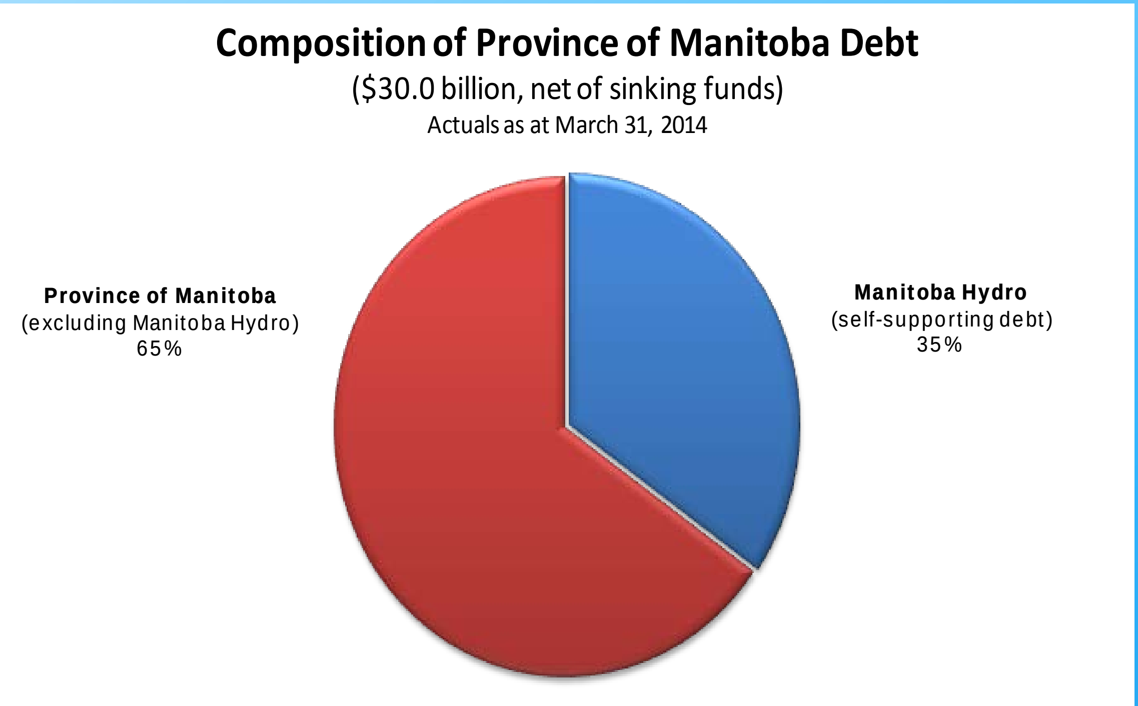
Provincial Long Term Credit Ratings Comparison

Province	Standard & Poors	DBRS	Moody's Investors Service
British Columbia	AAA	AA (high)	Aaa
Saskatchewan	AAA	AA	Aaa
Alberta	AAA	AAA	Aaa
Manitoba	AA	A (high)	Aa1
Ontario	AA-	AA (low)	Aa2
Nova Scotia	A+	A (high)	Aa2
Newfoundland & Labrador	A+	A	Aa2
Québec	A+	A (high)	Aa2
New Brunswick	A+	A (high)	Aa2
Prince Edward Island	A	A (low)	Aa2

- The Province of Manitoba has a high credit rating that benefits Manitoba Hydro customers by reducing the cost of borrowing that customers pay in rates.

Manitoba Hydro

Potential Negative Implications to Provincial Credit Rating and Manitoba Hydro's Borrowing Costs



- Manitoba Hydro's debt forms a significant portion of total provincial debt and the Corporation's financial performance is a contributing factor toward the stability of the Province's credit rating.
- The proposed and indicative rate increases are necessary to continue to demonstrate to credit rating agencies that the regulatory framework in Manitoba is supportive of Manitoba Hydro's self-supporting financial status.

Manitoba Hydro

The PUB Recognized the Importance of Manitoba Hydro's Financial Strength in Order 43/13

The Board is concerned that, by moving towards a 90:10 debt-to-equity ratio by the end of the decade, there will be an insufficient retained earnings reserve to deal with droughts and other risks such as infrastructure failure or rising interest rates.

....

The Board notes that Manitoba Hydro shares the benefit of the flow-through credit rating of the Province, which affords it preferential interest rates on its debt and access to funds to meet its major capital spending program. However, as its debt grows, there is a potential for Manitoba Hydro's financial condition to affect the credit rating of the Province. It is important that Manitoba Hydro remains a financially strong and viable organization.

Source: Manitoba Public Utilities Board Order No. 43/13 dated April 26, 2013 (page 23)

- In Order 43/13, the PUB recognized the importance of Manitoba Hydro's financial strength to deal with financial risks and to ensure that the credit rating of the Province is not negatively impacted.

Manitoba Hydro

Manitoba Hydro's Reply to Areas of Concern

Rate Increases are Required Notwithstanding More Favourable Near-term Financial Results

Comparison of Electric Operations Net Income MH14 to MH13
(including proposed and indicative rate increases)

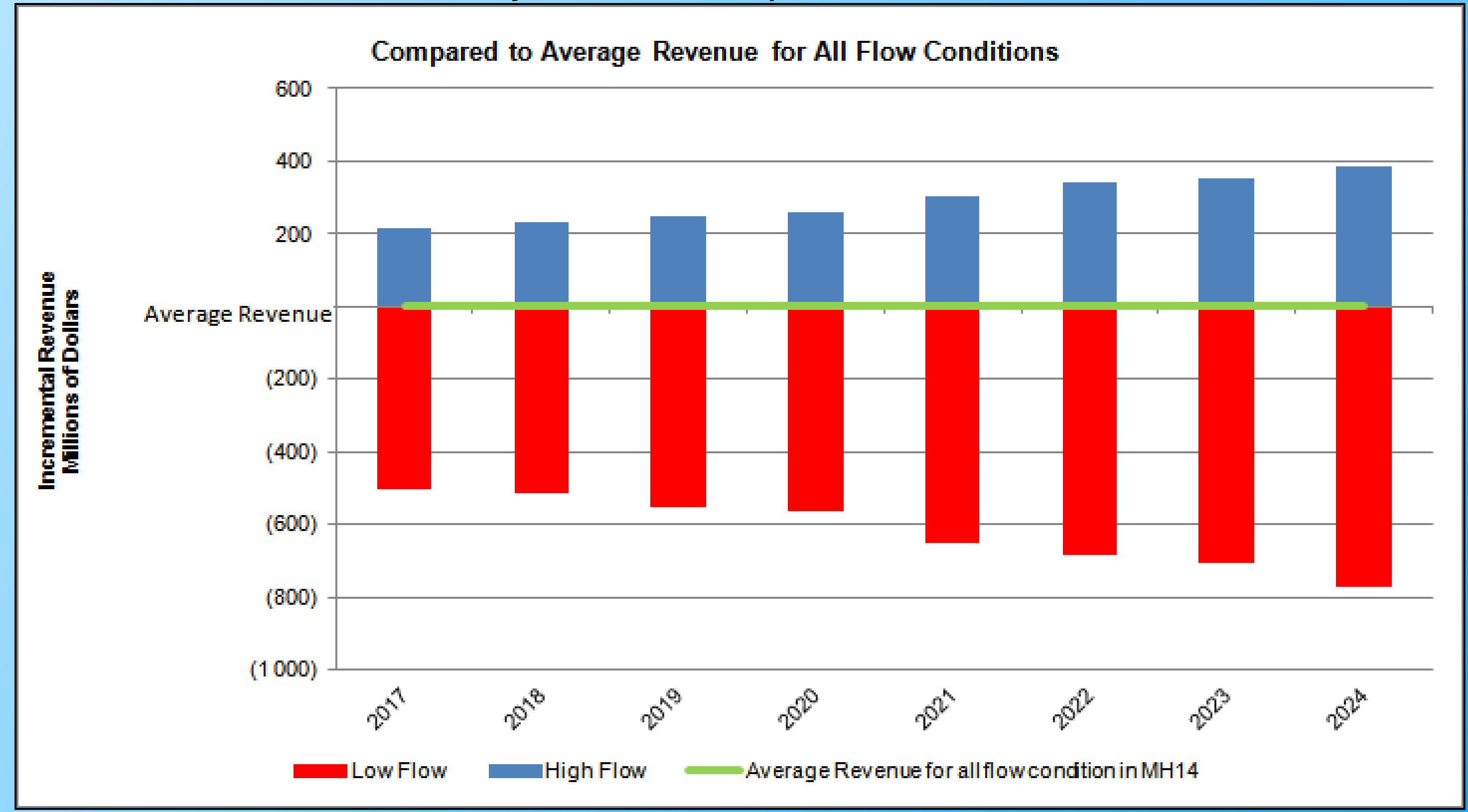
	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	10 Year Cumulative to 2023/24	20 Year Cumulative to 2033/34
Current Forecast (MH14)	$ 102	$ 115	$ 59	$ (559)	$ 3 003
Previous Forecast (MH13)	55	12	19	(85)	4 775
Increase/ Decrease	$ 48	$ 103	$ 41	$ (474)	$ (1 772)

- In the near-term to 2016/17, projected Net Income from Electric Operations (including proposed rate increases) is higher in MH14 compared to MH13 largely due to the favourable water flow conditions, as well as lower finance and depreciation expense.
- There are lower net earnings projected in the remaining years of MH14 – resulting in lower cumulative earnings of approximately $500 million to 2024.

Manitoba Hydro

Rate Increases are Required Notwithstanding More Favourable Near-term Financial Results

Variability of Net Extraprovincial Revenue



- Manitoba Hydro's financial results are subject to significant volatility based on potential changes in water flow conditions that can change quickly.
- It is necessary that rate increases be implemented gradually, even in years with favorable water flows & financial results, to balance out the inevitable years with lower water conditions in order to maintain average rate increases of 3.95% over the long term.

Manitoba Hydro

A Long Term Rate-Setting Perspective is Beneficial to Customers

"In order to reconcile the variability of the Manitoba Hydro revenue stream with the stability desired by many of Manitoba Hydro's customers, the Board ought to look at setting rates on the basis of longer term trends as opposed to the actual results of last year's revenues or the short-term conditions, be they favourable or unfavourable. GAC is of the view that the current longer term trends point strongly in the direction of requiring more revenue for Manitoba Hydro"

Source: **Green Action Centre (page 3 of its written submission) as part of Manitoba Hydro's Application for Interim Electric Rates effective April 1, 2014**

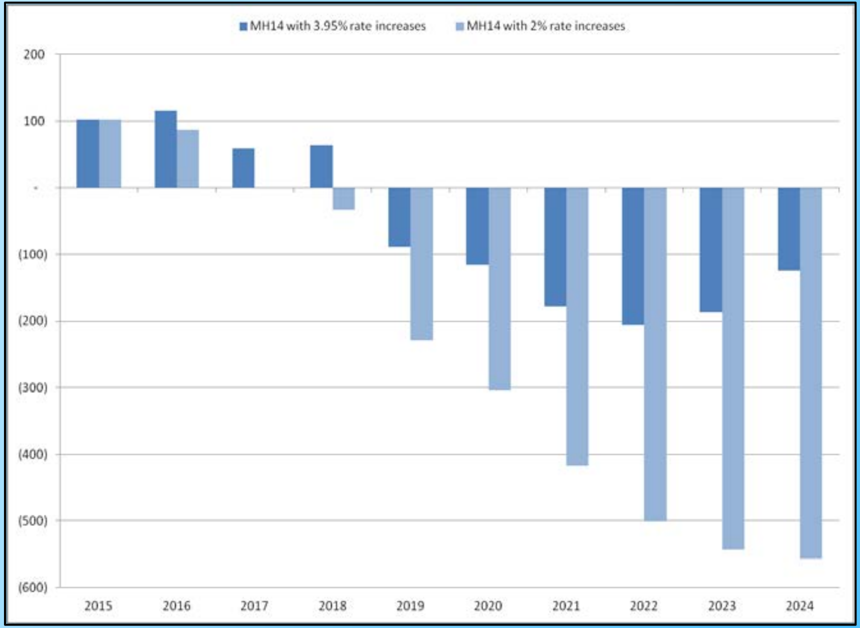
- Setting rates considering longer term revenue requirements is the prudent approach and is in the best interests of customers.
- Focusing on the shorter term financial outlook will only defer the required rate increases to future periods and inevitably result in rate instability for rate-payers – especially considering the upcoming period of extensive investment.

Manitoba Hydro

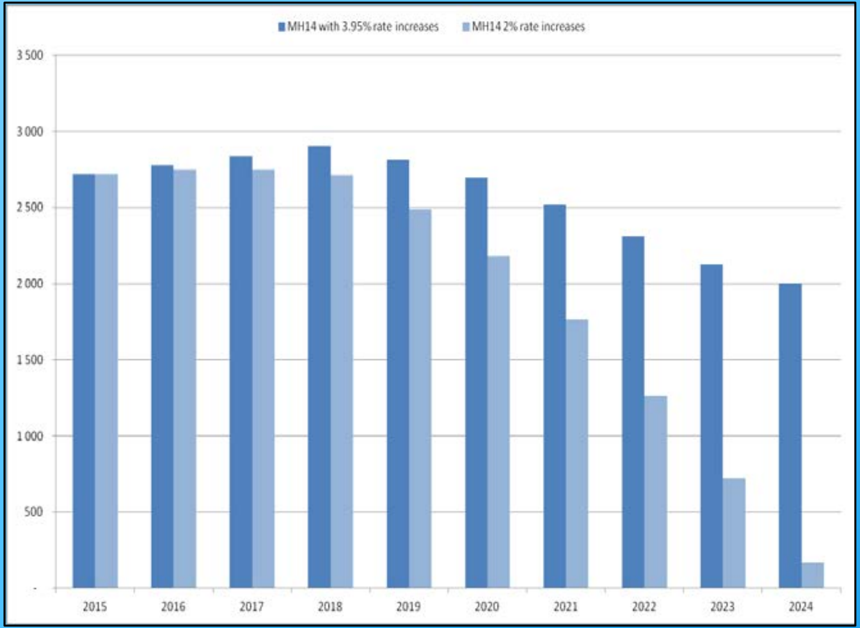
Inflationary Rate Increases are Not Sufficient to Maintain Rate Stability for Customers

Projected Net Income & Retained Earnings (2015-2024)
MH14 3.95% Rate Increases and MH14 2.0% Rate Increases

Projected Net Income



Projected Retained Earnings



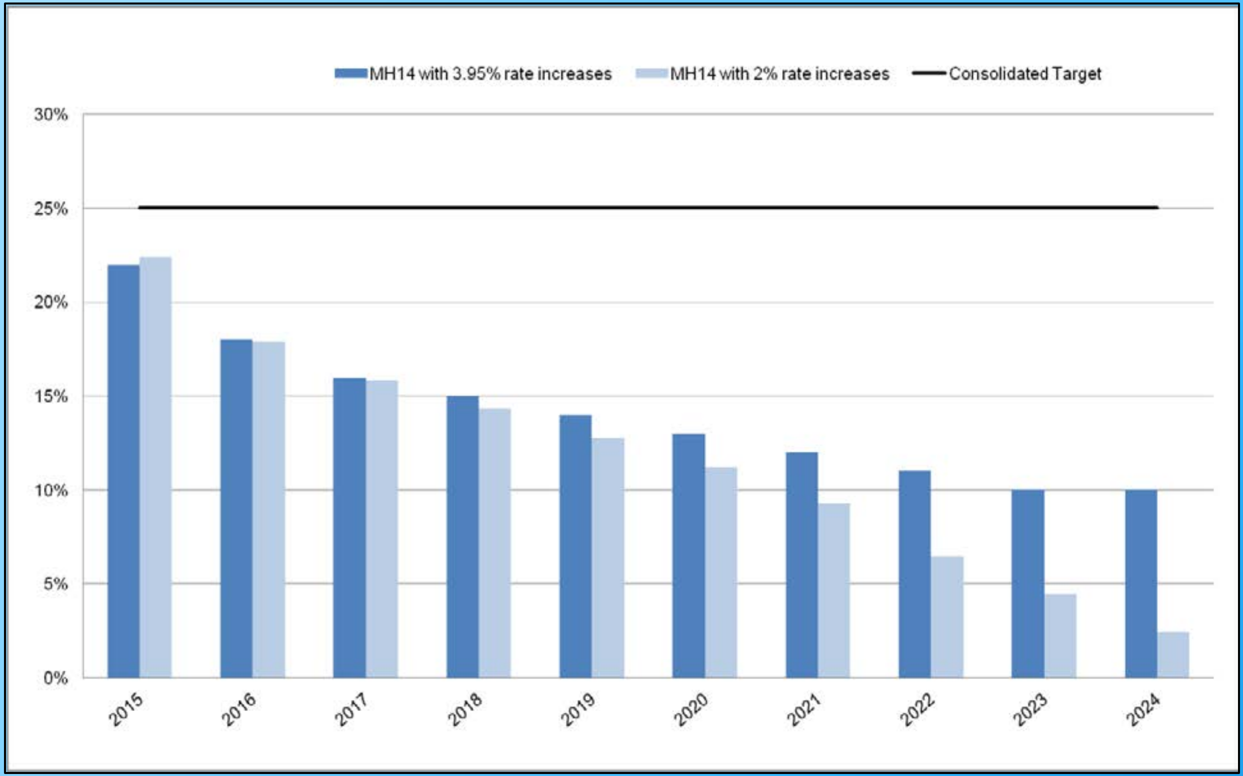
- Projected increases in Manitoba Hydro's revenue requirement are largely driven by the extensive investments made on behalf of customers – these are much more significant than inflationary cost pressures.
- Inflationary rate increases will jeopardize Manitoba Hydro's ability to provide rate stability to customers as it will be unable to recover its costs and ensure sufficient financial reserves are in place.

Manitoba Hydro

Inflationary Rate Increases are Not Sufficient to Maintain Rate Stability for Customers

MH14 3.95% Rate Increases and MH14 2.0% Rate Increases

Projected Equity Ratio

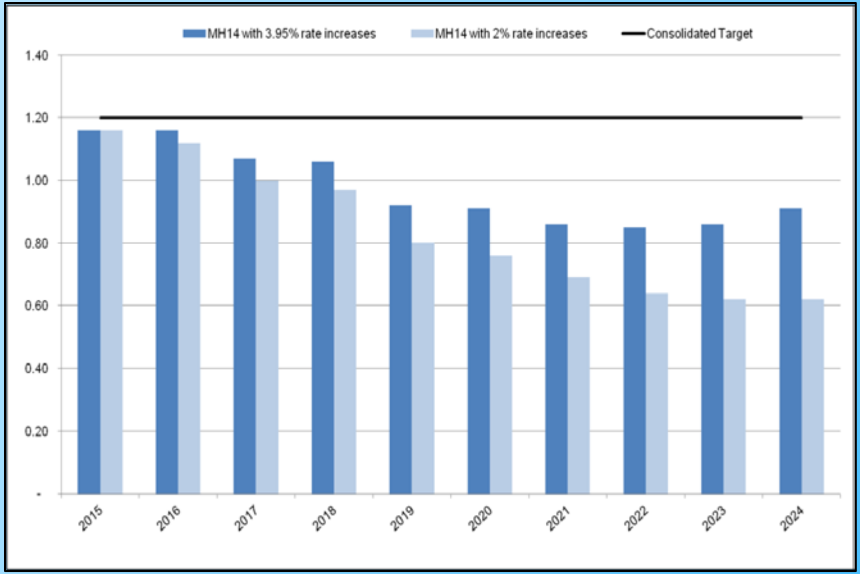


- Inflationary rate increases would result in an equity ratio well below minimum acceptable levels and approaching zero.

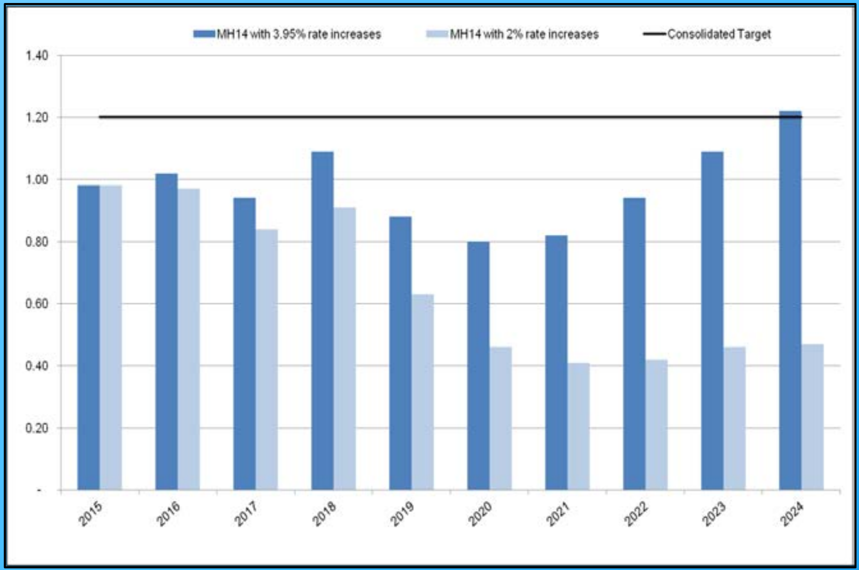
Inflationary Rate Increases are Not Sufficient to Maintain Rate Stability for Customers

MH14 3.95% Rate Increases and MH14 2.0% Rate Increases

Projected Interest Coverage



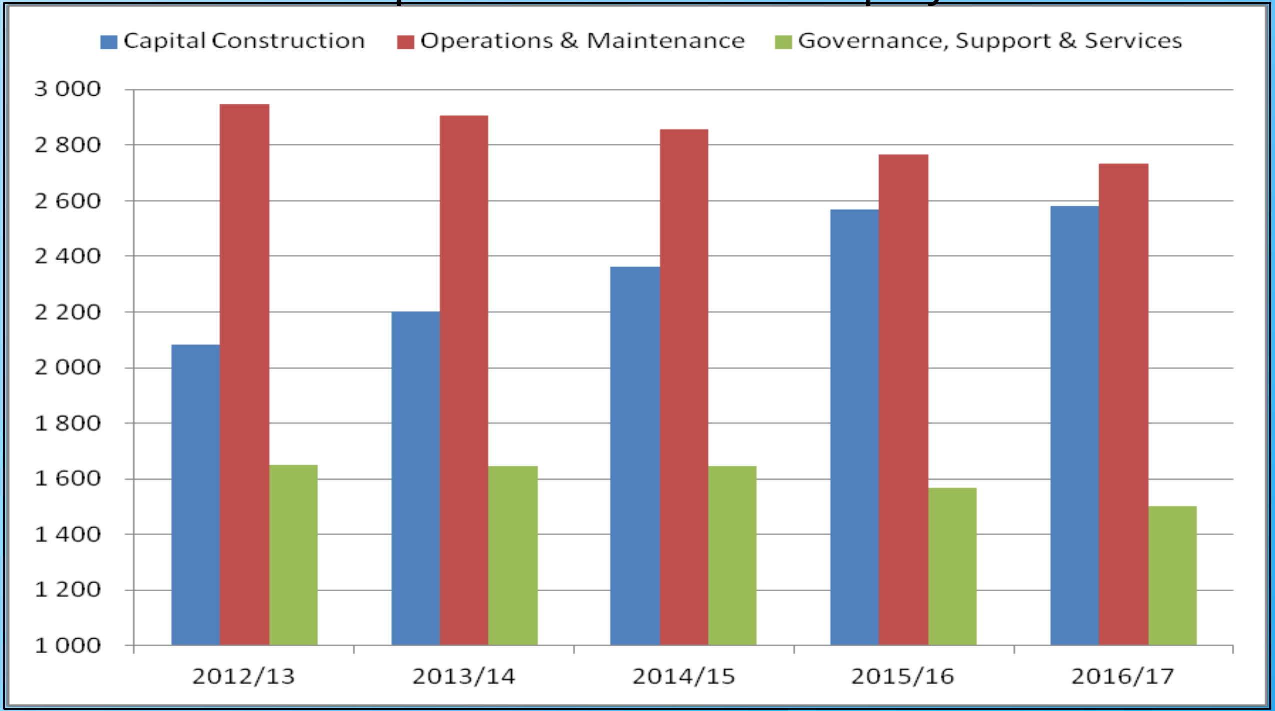
Projected Capital Coverage Ratio



- Inflationary rate increases would result in Interest and Capital Coverage ratios well below minimum acceptable levels.

Manitoba Hydro is Effectively Controlling Costs to Maintain Projected 3.95% Rate Increases

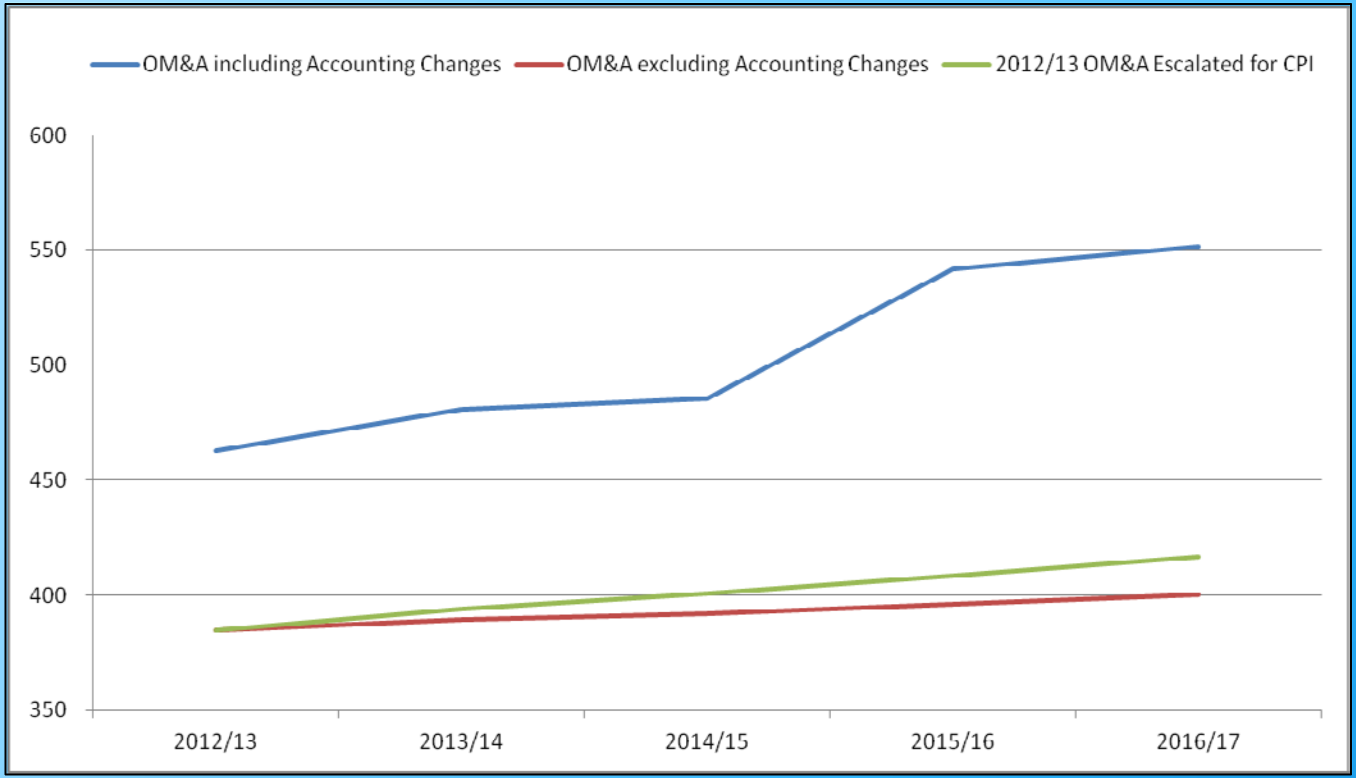
Total Equivalent Full Time Employees



- Manitoba Hydro is committed to carefully managing its costs and utilizing resources efficiently and effectively to provide maximum value to ratepayers.
- An extensive review of the staff compliment was undertaken in 2014 and resulted in plans to reduce approximately 330 operational positions over the 3 years between 2015 to 2017 which represents 7% of current EFTs charged to operating costs.
- Consistent with this plan O&M and Governance/Support/Services EFTs are projected to decrease. Capital Construction EFTs will increase due to the extensive capital program.

Manitoba Hydro is Effectively Controlling Costs to Maintain Projected 3.95% Rate Increases

Operating, Maintenance & Administrative Costs



- Operational position reductions and other cost saving initiatives will allow Manitoba Hydro to limit OM&A cost increases to 1% per year (below inflationary levels) excluding the impacts of accounting changes.
- This is consistent with the PUB's expectations from Order 43/13.

The PUB Accepted Manitoba Hydro's prior Accounting Changes for Rate-Setting Purposes in Order 43/13

The Board understands that Manitoba Hydro has been making changes to its accounting policies since 2007/08 to be more consistent with other electric utilities as well as to be consistent with International Financial Reporting Standards. The Board in past orders had expressed concern with the level of capitalization and Manitoba Hydro has begun to address these concerns. In the Board's view, Manitoba Hydro's proposed accounting changes are appropriate for the test years.

Source: Manitoba Public Utilities Board Order No. 43/13 dated April 26, 2013 (pages 14-15)

- In Order 43/13, the PUB accepted the accounting changes made by Manitoba Hydro up to the 2013/14 fiscal year for rate-setting purposes.
- Reductions in the amount of overhead capitalized had been recommended by the PUB in previous Orders.

Manitoba Hydro

Proposed Rate Increases are Not Being Driven by Aggressive Accounting Policy Selection

Accounting Policy & Estimate Changes

Accounting Policy & Estimate Changes
Electric operations (in millions of $s)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
OM&A Expense Changes		51	56	57	58	58	59	60	61	62
Depreciation Expense Changes	(25)	(53)	(57)	(60)	(76)	(86)	(96)	(101)	(103)	(105)
Other		(3)	(3)	(4)	(3)	(3)	(4)	(4)	(3)	(4)
Total Increase (Decrease) in Revenue Requirement	(25)	(4)	(4)	(7)	(22)	(31)	(41)	(45)	(46)	(48)

- Manitoba Hydro is making a number of prospective accounting changes for financial reporting purposes in 2014/15 and 2015/16 – including further changes to the level of capitalized overhead and depreciation methodologies as part of the conversion to IFRS in 2015/16.
- Depreciation decreases will more than offset OM&A increases – such that accounting changes are not driving the increase in revenue requirements and the need for rate increases.
- Given there is no harm to ratepayers, use of IFRS for rate-setting purposes is fair and appropriate.

Manitoba Hydro

Manitoba Hydro has Managed the Impact of ELG through Removal of Negative Salvage from Depreciation Rates

Depreciation Policy & Estimate Changes Electric Operations (in millions of $)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Average Service Life Changes (2014 Depreciation Study)	(25)	(29)	(30)	(30)	(34)	(38)	(43)	(41)	(43)	(42)
Negative Salvage		(60)	(63)	(67)	(86)	(96)	(107)	(117)	(117)	(119)
Other	-	(0)	(2)	(4)	(5)	(7)	(9)	(10)	(12)	(14)
Change to IFRS Compliant Depreciation (ELG)		36	38	41	49	55	63	67	68	69
Subtotal Depreciation Changes	**(25)**	**(53)**	**(57)**	**(60)**	**(76)**	**(86)**	**(96)**	**(101)**	**(103)**	**(105)**

- Manitoba Hydro made a policy decision in 2010 to move to the Equal Life Group (ELG) depreciation method to aid transition to IFRS.
- Manitoba Hydro made an explicit policy decision at the same time to remove net salvage from depreciation rates upon transition to IFRS to manage both the financial reporting and rate-setting impacts of the move to ELG – this results in a significant decrease in depreciation expense.
- Manitoba Hydro is requesting the PUB to review depreciation changes on an overall basis for rate-setting purposes – consistent with the regulatory principle of “fairness”.

Manitoba Hydro

The PUB Rejected Intervenor Recommendations to Adjust Accounting Policies to Lower Rate Increases in Order 43/13

> Interveners recommended various accounting changes to lessen rate increases over the test years. The Board rejects this approach as it would have the effect of reducing Manitoba Hydro's revenues, weakening its financial situation, and increasing borrowing costs. It is important that Manitoba Hydro remain a financially strong and viable organization. The Board supports the staged approach to accounting changes planned by Manitoba Hydro.

Source: Manitoba Public Utilities Board Order No. 43/13 dated April 26, 2013 (page 10)

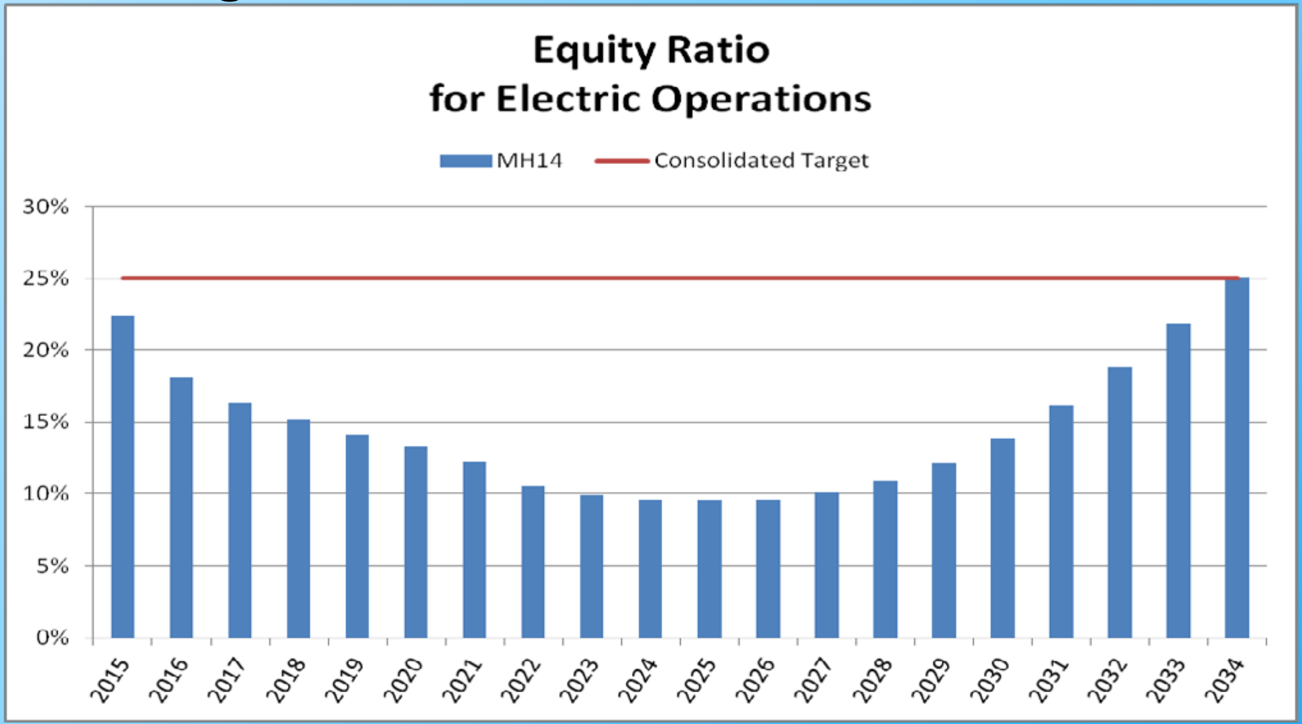
- At the last GRA, MIPUG and CAC recommended that the PUB not accept overhead changes and to remove Net Salvage from depreciation rates in advance of IFRS conversion for rate-setting purposes – in order to justify lower rate increases.
- The PUB rejected this approach in Order 43/13 – noting potential weakening of Manitoba Hydro's financial position and increased borrowing costs.

No Need for "Two Sets of Books" under the Cost of Service (COS) Rate-Setting Methodology

- COS rate-setting methodology used to set electric rates in Manitoba does not determine rates strictly on the basis of costs.
- COS rate-setting methodology together with Manitoba Hydro's approach of regular and reasonable rate increases has flexibility to recognize changes in cost levels into rates gradually over time – rendering a separate set of regulatory financial statements unnecessary.
- One set of books:
  - reduces the potential confusion with different users relying on multiple sets of financial information to make decisions and evaluate financial performance;
  - improves transparency of the rate-setting process by aligning the basis to set rates and the reporting of financial results; and,
  - improves the reliability of the rate-setting process through the use of audited financial information.
- CAMPUT supported a single set of financial statements as best serving the public interest.

Manitoba Hydro

Manitoba Hydro is Projecting Deterioration of its Financial Ratios to Mitigate the Rate Increases to Customers



- Higher rate increases in the order of 5.5% to 6.0% for the next four years would be necessary to reduce the losses that are projected in the next 10 years and maintain financial reserves at current levels.
- The 3.95% proposed and indicative rate increases are the minimum that are necessary to manage the deterioration in projected financial results and ratios in the next 10 years.
- Relaxing the longer term financial targets will not negate the need for the requested rate increases of 3.95%.

Manitoba Hydro

Manitoba Hydro is Seeking Further Direction from the PUB on Rates for 2016/17

- Manitoba Hydro's view is that the investment requirements of the next decade support a long-term approach to setting revenue requirements.

- Manitoba Hydro has included its forecast for the 2016/17 fiscal year in its Application, and has requested a 3.95% rate increase effective April 1, 2016.

- Consistent with Order 17/15, Manitoba Hydro is seeking direction from the PUB with respect to April 1, 2016 interim rates.

The Proposed Rate Increases are Essential to Provide Customer Value

The revenues from the proposed rate increases are necessary so that Manitoba Hydro can deliver on its mandate by:

- Continuing to deliver a reliable energy supply to Manitobans by funding the necessary investments to respond to the need for system growth and asset replacement;
- Funding Power Smart programs to assist customers in meeting their energy needs in a cost effective manner;
- Continuing to provide rates that are affordable for Manitoba families and that support the competitiveness of Manitoba business; and,
- Ensuring rate stability and predictability for customers by maintaining its financial strength.

Manitoba Hydro

Thank you

TAB 4

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

NEEDS FOR AND ALTERNATIVES TO

REVIEW OF MANITOBA HYDRO'S

PREFERRED DEVELOPMENT PLAN

Regis Gosselin	-	Chairperson
Marilyn Kapitany	-	Board Member
Larry Soldier	-	Board Member
Richard Bel	-	Board Member
Hugh Grant	-	Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

March 20, 2014

Pages 2981 to 3223

3018

Preferred Development Plan;
will also include the
interest costs associated
with the sunk costs in the
plans without Keeyask or
Conawapa in them

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I'm prepared to talk to you offline, Ms. Boyd, but I don't understand what wouldn't be there, because we now know the new capital costs of Wuskwatim and -- sorry, the new capital cost for Keeyask and Conawapa, and I had understood that the financial analysis that is being done for March 24th and March 31st will be including the new capital costs, so am -- am I missing something?

MS. LIZ CARRIERE: Those runs will also include the DSM and lower load growth, so we're not really starting to compare apples and oranges. What we provide you on -- on March 24th and 31st will now no longer be directly comparable to all of the 2012 information, because we're incorporating the 2013 load and so forth.

The reason why we need the runs to be done is so that I can allocate finance expense to

3019

Keeyask and Conawapa, so, in order to be able to determine that amount --

MR. BOB PETERS: All -- all right. I'm prepared to accept and move forward with the best efforts of the Corporation, Mr. Rainkie, unless you have a further comment.

MR. DARREN RAINKIE: Well, I do, and this is -- this is the difficulty for me is that you're overly focussed on the cost side, so if the intention of the undertaking is to understand the rate impact over time, then we would have to attribute the revenue as well, and I think that -- that's difficult in the integrated nature of our models.

MR. BOB PETERS: I have your point, and I just want the costs from you, Mr. Rainkie.

MR. DARREN RAINKIE: Well, I don't know if you want the rate impact, Mr. Peters, or you want to go on about the costs, but I guess I -- I'm try -- to - - to do a piece of work, you have to understand the intent, and -- and I guess you prefaced your undertaking with the fact that you understand the rate impact, but we seem to not want to talk about the revenue side of it. That's just an observation.

MR. BOB PETERS: Thank you for your observation, Mr. Rainkie, and while we're on the

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discussion, when providing that undertaking, I think it may be helpful if two (2) views are provided to the Board, Mr. Rainkie, and one (1) of the views would be that the finance expense and the depreciation would be on a hundred percent of the capital cost, and then a separate view of the same undertaking, but done on the basis of the notional allocation of internally generated funds to the major projects. Is that possible, Mr. Rainkie?

(BRIEF PAUSE)

MR. DARREN RAINKIE: I wasn't talking about internally generated funds allocation, which we don't even do in practice, Mr. Peters. I was talking about the fact that these are revenue-producing assets, so the rate impact of them is not solely the costs, and that's -- that's a tougher thing just to segregate out and assume in the undertaking. But if the intention is to understand, as the Chairman indicated, the rate impact of the projects, then, one would have to turn their mind to that as well.

MR. BOB PETERS: I had understood your point, Mr. Rainkie, but if we could turn to Board counsel's book of documents and explain to the panel,

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Mr. Rainkie, on page 142 found under Tab 15 of Exhibit PUB-58-4. We heard, about ten (10) minutes ago, from Ms. Carriere, and I think seconded by Mr. Schulz that when the Corporation borrows monies, it doesn't allocate a specific charge against a particular asset for that debt.

Would I have restated that correctly, Ms. Carriere?

MS. LIZ CARRIERE: Yes, that's correct.

MR. BOB PETERS: But what Manitoba Hydro does do, is it collects revenues from consumers, from export revenues, and it uses those revenues to -- to fund its operations, correct?

MS. LIZ CARRIERE: Correct.

MR. BOB PETERS: And to the extent that there is a surplus over-funding the base operations of the Corporation, Manitoba Hydro has -- has surplus funds, or additional funds from internally generated sources?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: And when Manitoba Hydro has internally generated funds, those internally generated funds could, at least notionally, be allocated to the major capital projects to reduce the finance expense and perhaps -- related to that -- to that asset?

(BRIEF PAUSE)

MS. LIZ CARRIERE: Notionally, we -- you -- that cash would be avail -- to be -- to pay for other things not included in funds for operations.

MR. BOB PETERS: Notionally, the money, Ms. Carriere, would be available to fund major capital projects?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: And in terms of funding major capital projects, if -- if Manitoba Hydro had -- had one dollar ($1) from internally generated funds surplus to fund -- to funding its base expenses, or its -- its operation expenses, Manitoba Hydro could notionally allocate how much of that dollar would go to Bipole III, to Keeyask, to Conawapa, or to the transmission line, correct?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Hi, Mr. Peters. I guess what I'm having trouble with is that in chapter 11 of the NFAT filing and Appendix 11.4, which includes

two hundred and sixteen (216) financial runs of all the different variance of the development plans and uncertainty analysis, we've done rate impact analysis of the plants. It's a differential analysis between all of the different options.

What it shows us for the Preferred Plan at reference, is that we would have the lowest rates out of all those plans at 106 percent, I think it is, over the fifty (50) years. It shows us that an All Gas Plan would have about 176 percent rate increase over that period. So, you know, I think that's the information that the Corporation has spent a lot of time and energy putting together showing the Board the -- the differential rate impact, if you like, of all the different options that are before us and being discussed.

So what we're doing now is we're trying to hive off little pieces and do sub-calculations. And I'm -- I -- I -- what we're doing is we're creating more work in already a constrained situation where we're struggling to put together the DSM information, you know, so that other parts of the panel can continue on.

So what I'm having a hard time with is why the analysis that we've done for this very specific

purpose, to show the financial impact and the rate impact of the development plans before the Board in terms of its report, is going to be redone in some different form, which is looking awfully like what we would do at a general rate application. So I don't know. I -- I'm just not understanding why what we've provided in chapter 11 in the attachments is not sufficient for the Board's needs and that we need to go down this track, which looks a lot like information requests I get at every general rate application.

MR. BOB PETERS: So, Mr. Rainkie, you're suggesting to the panel that the specific impact of internally generated funds on the new major capital projects is not something that would be relevant to the panel's consideration?

MR. DARREN RAINKIE: No. What I'm suggesting is that within the financial runs that we've already provided that the information is -- is there. We've provided a cash flow statement, Mr. Peters. That cash flow statement goes out to 2060 for each one of the runs. It shows you the cash flow from operations. It shows you the investing activities. It shows you the financing activities that Mr. Schulz undertakes. So it's all baked into the fabric of what we've done. That -- that was the intention of that analysis, was to

show what the rate impacts were over time, and the impacts on customers.

I suppose if we spend enough time at anything we can pull it out and try to intelligently organize it, but I -- we're moving away from then differential analysis of the different plans to pulling out specific -- you know, specifically derived calculations. And I'm not sure we're not straying from the purpose of the hearing.

MR. BOB PETERS: So, Mr. Rainkie, as long as the undertaking is provided that we've talked about then, based on the finance expense on a hundred percent of the capital cost, then I won't go down the -- the road for a further undertaking to layer over that net of internally generated funds. And I'll move on, sir, to -- to just talk about the net debt situation as a -- as a new topic, Mr. Rainkie.

THE CHAIRPERSON: Mr. Peters, I wonder if I could go back to have Mr. Rainkie talk about the blip that's occurring in the -- in the rate increases that we're projecting based on the Preferred Development Plan. And this is the -- looking at year 33 out, where we get -- you know, we get three point nine five (3.95), and all of the sudden we get a drop in rates.

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And I guess the difficulty I have -- and I understand what you're saying, and that it's hard to predict what the -- what the PUB will approve as rates that far out. But looking at it very tactically, from your perspective, I mean, you're indicating to ratepayers that they'll be paying 3.95 percent out till '31/'32, effectively doubling their rates.

It seems to me that telling them that rates will go up 3.95 percent until 2025 suggests to me that you're going to get a 60 percent rate increase over and above what they're paying now as opposed to a hundred percent rate increase over what they're paying now; a very different picture from a perspective of the ratepayer, I would think. So starting from a base of seven (7) cents, they would go up, say for the sake of argument, four (4) cents, five (5) cents. You're getting twelve (12), which is still competitive with other jurisdictions, as opposed to a doubling of rates, which did -- to the zone of fourteen (14) cents or fifteen (15) cents in today's dollar.

So, tactically, I guess I'm questioning projecting 3.95 out -- 3.95 percent out for twenty-one (21) years, when -- when there might be a better picture that can be drawn for ratepayers than is currently the case. But I'd like to hear your point of

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view about that.

MR. DARREN RAINKIE: You know, that's a -- that's a really good question, because I pondered that myself as I -- as I started summarizing the evidence in my own mind and wondering how the Board was going to deal with that; what I call the correction factor in that year after the -- you know, the end of the twenty (20) year period. And I actually asked my staff, Could we somehow smooth that out and show a little bit more of what we thought -- thought would really happen, and I was trying to do that a little bit yesterday. So I appreciate the question, actually.

I think what we're -- what we're trying to show in our twenty (20) year forecast is that we're going for all -- for the credit rating agencies and other stakeholders that -- that watch our financial integrity, is that we can -- we can undertake the Development Plan, manage it appropriately, and come back to our financial ratio.

So I think when I -- when I look at the twenty (20) year snippet, it's saying: What do we need to do? What do we need to do to be able to make sure that we can maintain the financial integrity of the Corporation and have reasonable rate increases?

When I move to a longer picture now of

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fifty (50) years, and I now have the information to go out that far which we provided in the NFAT filing, I see that correction factor. I see the types of cash flows and net incomes that we're generating after the twenty (20) year period.

So what I -- what I think is, is that probably after -- I can't speak for our Board, but just -- just from a perspective of -- of hashing it out here, we make the investment in these large plants. We update our forecasts every year. And as we see the plans unfold and the cash flow and the net income come in closer term I think we will start easing off on the 3.95s earlier.

I'm a little hesitant to promise that while we're in the middle of a large investment like Conawapa, you know, that comes into service between '29 -- sorry, '26 and '29, I think it is.

So it's tough to predict what we would exactly do, but I would think that what you would do is see -- rather than this -- you know, you would see -- I don't know how the court reporter is going to capture this, but more of a smoothed-out rate increase. And I've actually thought about perhaps drawing one out for the Board, and -- and showing it -- and showing it to you as an undertaking just to -- just to show what we

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think might happen in the real world.

But I -- that's why I don't believe there's a lot of intergenerational or no intergenerational equity in the plan. Because I think if you look at what happens over the long-term financial picture, we can ease off the 3.95s before the end of the twenty (20) year. I'm -- I would be hesitant to ease off before that when we're in the middle of a large, you know, investment cycle.

I take a bit of comfort, although I know it doesn't perhaps resonate much with the individual customer, that when we look what's happening in other jurisdictions in terms of 6 and 9 percent rate increases that we'll still maintain, you know, competitive and affordable rates. And so we're always trying to juggle those two (2) factors, financial integrity and competitive rates, on behalf of customers, but I'm hesitant to show something that is too favourable while we're in that investment period.

But I think if we can get through that successfully, we will have produce a really good system for our customers over the long run, kind of thing. That's -- that's -- I hope I'm answering your question, at least in part.

THE CHAIRPERSON: I don't want to

belabour this point, but I think we both need to reflect about this some more. I mean, it -- it does paint -- in terms of the -- the plan that we've been talking about, the ref/ref/ref, it does paint a picture that would suggest that the ratepayers at the front end will be paying a significant rate increa -- increase going forward when there might be another alternative that is available to us, and -- and likely to represent the path that would be followed by -- by Hydro in terms of, you know, smoothing out the -- the pain to ratepayers, and likely be the path that PUB will likely favour, as well. The ones -- you know, who knows we'll be sitting here at that -- that time period.

But it seems to me that if -- if that is the approach we normally take in a -- in addressing rates both from your side and our side, that might represent a more realistic picture to present to ratepayers than -- than is currently the case.

MR. DARREN RAINKIE: Maybe, Mr. Chair, I'll -- I'll ponder whether I'll -- whether I'll volunteer an undertaking to that 'cause I -- I seriously have spent a lot of time thinking -- thinking about that.

I'll just offer one (1) observation to make sure I know -- I've said this a couple times

already, but I repeat things because they're important -- is that the -- the new resources that are contemplated in any of the plans don't come into service before 2020 and '23. You know, whether it's Keeyask or -- or Gas.

The front part of this forecast that we have is real. The 3.95s are real in the next six (6) to eight (8) years. They're more a function of refurbishing existing infrastructure and reliability expenditures like Bipole III. There is no, you know, 2 percent rate increase on the Gas side. I will not be recommending to our Board 2 percent rate increases if we go down the All Gas, you know, route for instance, because there's no differential costs in that part. In fact, if I have to start writing off some of the costs of Keeyask and Conawapa under that scenario, there's going to be more pressure on my income statement and revenue requirements.

So that's why I'm focussed more towards, you know, the back end of that twenty (20) year period when the investment period is -- is winding down, if you like, and we're seeing the cash flow coming both out of Keeyask and then eventually Conawapa. I -- I think the curve would go that way.

But the first front part of this -- and

I read in the paper every second day that if we just do gas, you know, we'll have a 2 percent rate increase, and I'm not sure where that comes from. That certainly isn't inherent in the two hundred and sixteen (216) runs that we did in this -- in this proceeding, in terms of financial pro formas, so.

I -- I just -- you know, there's different time periods here, I think is -- is what I'm trying to say, and we have to keep that in mind. But can you let me ponder that a little bit more, and -- maybe there's something I can do to help the Board through this.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Rainkie. And as you're pondering that, to the extent that there's a smoothing of the -- the rate arch, there could be a comparable -- or there could be a -- a smoothing of the -- the rate arc for other plans as well, correct?

MR. DARREN RAINKIE: There might be a smoothing, but actually, it might go the inverse way if you look at the back end of the All Gas Plan. For instance, I think we start showing losses at the back end, so there might be, you know, an uptick actually.

So I'm not sure if it's a smoothing, but it might be different time periods, Mr. Peters.

MR. BOB PETERS: All right. So you can reflect on that as well, Mr. Rainkie. If we could turn to Board counsel's book of documents 58-4, and go to page 161. I just want to pick up a point from Ms. Schul -- Mr. Schulz and Ms. Carriere this morning on the net debt.

This -- this graph shows the net fixed assets and net debt of the Corporation based on a -- I guess it was IFF11-2 is what it says here, Mr. -- Mr. Schulz, correct?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And what's going to happen when the information is updated, and I'm not asking for this particular chart to be updated, but the -- the net debt shown in, I guess it's the red lines, will increase as a result of some updated information that's been provided recently?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: If you're referring to higher capital cost estimates placing

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pressure upon net debt levels, and those net debt levels going up incrementally over what we have in the NFAT filing, we would expect that there'd be higher net debt levels as a result of that.

MR. BOB PETERS: And in addition to that, though, the -- the assets would have, presumably, a higher value as well?

MR. MANFRED SCHULZ: Also correct.

MR. BOB PETERS: Now, the -- the part that's shown in orange at the bottom, and perhaps overshadowed by the -- by the mountains is -- is the amount of accumulated capitalized interest, Mr. Schulz?

MR. MANFRED SCHULZ: That's being depicted as an accumulated capitalized interest, starting in 1990 on this chart. When constructing this Information Request as part of a previous general rate application, this was specifically asked of us. I -- we questioned the relevancy of this because of just the starting point. It was assumed that it started in 1990, indexed, essentially at 1990, when we would have had accumulated depreciation, or accumulated capitalized interest before that. So we're not sure of the relevancy of that, but you -- you do see what you see there.

MR. BOB PETERS: All right. And if we go to the next page, 162, Mr. Schulz, that orange bar chart is reduced to a table. Perhaps it was the other way around.

And at the bottom of that table, it shows that in 2032, the net debt -- sorry, the accumulated capital interest -- the accumulated capital interest in 2032 would be around $6 billion, correct?

MR. MANFRED SCHULZ: That's what's being shown there, but the amount of accumulated capitalized interest that would have been part of the net assets starting in 1990 is the point in terms of the continuity of this schedule, so.

MR. BOB PETERS: All right. Does that answer, Mr. Schulz, suggest that that $6 billion should be a higher number? Is that what you're suggesting?

MR. MANFRED SCHULZ: Well, built into the asset, that the starting point in 1990 would have been some capitalized interest as the starting point. So conceptually, I would agree.

MR. BOB PETERS: And the point I'm getting at, Mr. Schulz, is that if the capitalized interest account in 2032 is about $6 billion, that relates to -- at that point in time, would it be fair to say that relates primarily at that point to the Conawapa generating station?

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MR. MANFRED SCHULZ: This would be looking at the entire capital array of our portfolio, and would certainly extend beyond just Conawapa. I mean, again, this is further to the point that I think that Mr. Rainkie made, we don't hive out in particular -- in -- in this particular schedule how much is attributed to Conawapa, or Keeyask, or Bipole III, or Wuskwatim, or any of the other vast array of capital projects we would have had starting since 1990 on this -- on this schedule.

MR. BOB PETERS: When the last of the major assets in Conawapa was to come in service, Mr. Schulz, that accumulative capitalized interest number would decrease significantly, would it not?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: It's an accumulation, so I -- I really wouldn't see it going down as a function of the arithmetic.

MR. BOB PETERS: And when the capitalized interest relates to an asset that comes in service, Mr. Schulz, the capitalized interest related to that project is then brought over to the operating statement, but that capitalized interest would then be amortized over the life of the asset. Would that also be true?

MR. DARREN RAINKIE: Yes, Mr. Peters, that's both consistent with accounting treatment, that you capitalize interest costs while a project's being developed, and then it becomes part of the capital cost of the project when it goes in service and it's depreciated.

It's also consistent with intergenerational equity considerations on rate setting that you don't charge the costs of, you know, plants that you're building to today's ratepayers, and that's going back to the conversation I just had with the Chair, is why I think that the rate increases the next number of years are -- don't vary between the development plans, because we're not charging any of the costs of the development plans to our operating statement or through rates.

MR. BOB PETERS: All right. And maybe related to that, if we can jump ahead to Tab 31, page 298, of Board counsel's book of documents, which is PUB Exhibit 58-4, and then we can see the chart at the bottom of the page.

Mr. Rainkie, Ms. Carriere, Mr. Schulz, this relates to showing the panel what the impact would

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be if there was a deferral of either Keeyask or Conawapa, correct?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: And in -- when we talk about a deferral of Keeyask or -- or Conawapa, the major cost components of a deferral, Ms. Carriere, would be the finance expense, and I suppose the escalation, or the inflation attributed to the cost of the project?

MS. LIZ CARRIERE: That's correct. There's some minor increase in the base cost, but there -- the majority of it is -- is escalation and interest.

MR. BOB PETERS: And when there's a one (1) year deferral of Conawapa calculated based on the data that was available when this Information Request, found at page 298 of Board counsel's book of documents, was prepared, at the reference case, there was a $338 million one (1) year deferral cost, correct?

MS. LIZ CARRIERE: Under the reference scenario, correct.

MR. BOB PETERS: And for Keeyask, a three (3) year deferral was about $733 million, correct?

MS. LIZ CARRIERE: Correct.

MR. BOB PETERS: Now, in terms of

recovering those costs, because those costs -- those costs would be capitalized while the project was in the deferral stage, correct?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: And once the project then came in service and was no longer delayed, those deferral costs would be spread over seventy-eight (78) years and recovered through the operating statement at that time?

MS. LIZ CARRIERE: That's right. They would be spread over the useful life of the asset.

(BRIEF PAUSE)

MR. BOB PETERS: And in -- in using -- so the $700 million of three (3) year deferral on Keeyask over seventy-eight (78) years, we're -- you know, we're around the $10 million a year mark in -- in nominal dollars, Ms. Carriere?

(BRIEF PAUSE)

MS. LIZ CARRIERE: I think the math is correct, yeah.

MR. BOB PETERS: If not correct, in the

ballpark?

MS. LIZ CARRIERE: That's right.

MR. BOB PETERS: All right. I want to turn, Mr. Schulz, perhaps to page 173 of Board counsel's book of documents found under Tab 19. And this -- this, in part, relates to what you talked with the Chairman about yesterday, and also what Mr. Rainkie, and it was -- was taken under consideration this morning, and when -- and when Manitoba Hydro presented the cumulative rate increases and the correction line that's been discussed with the -- with the panel.

Ms. Carriere, if Manitoba Hydro was to keep a 75:25 debt-equity target as the metric that was being met through the rate increases, does that result in that line being very jagged after the 2032 period?

MS. LIZ CARRIERE: I'm sorry, I'm not sure -- sure what you're asking. Is -- is --

MR. BOB PETERS: Let me try again. And I apologize if I -- if -- if...

(BRIEF PAUSE)

MR. BOB PETERS: Perhaps, if we can go back to your document, which is Manitoba Hydro Exhibit

111, and I'll pick page 51. If you think there's a better page to show the panel, please -- please ask Ms. Villegas to put that up.

But this was the cumulative rate increases for the Preferred Development Plan under the reference scenario, correct?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: And up until 2032, the rate increase trajectory was premised on a 75:25 debt-equity target at the end of 2032?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: If that debt-equity target, Ms. Carriere, continued past 2032 out to 2061, what would that line have looked like?

(BRIEF PAUSE)

MS. LIZ CARRIERE: If you continue the 75:25 debt-equity ratio beyond the 2032, you see roughly the same pattern. You still see a correction factor, but you see relatively the same pattern. It result -- gives you the same results by the end.

MR. BOB PETERS: And so if we -- we see depicted on Board counsel's book of documents, page 173 of Exhibit 58-4, the -- the graphing of the projected equity ratio for electric operations.

And what we see here, Ms. Carriere, is just up to 2032, correct?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: And likewise, if we go to page 174 of Board counsel's book of documents, just to the next page, we see the interest coverage ratio over that same time horizon. And then we also go to page 175, and the panel will see the projected capital coverage ratios over the same time horizon, correct?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: Now, in terms of the interrelation as between the debt-equity ratio and the interest-coverage ratio and the capital-cost ratio, Mr. Schulz, is there a direct correlation?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: I'm not exactly sure what you mean by direct correlation. The ratios are intrinsically linked in terms of being associated with the financial performance of the Corporation, so that you would see, as you have an erosion in your equity ratio you would have generally an erosion in your interest coverage ratio. So to that extent you

would see a correlation if you will, but I'm not exactly sure what your question is looking for.

MR. BOB PETERS: Can you tell the panel, Mr. Schulz, how strong that correlation is? Because if the debt-equity -- we see on these three (3) charts, and that's perhaps the best example I can come up with on short note, that where the debt-equity ratio appears to take a bit of a dip -- more than a bit, but a dip on page 173, and then we jump back to the -- we can go to page 175 and have a look at our capital-coverage ratio, the Board won't see the same missing of the target by the same magnitude, will it?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: Again, I don't think that I would be inclined to run any kind of statistical correlational models for you on this, Mr. Peters. But what you do see in -- for instance, if you're comparing your page 173 to 174, through the period, for instance, down to year 2021, you see on the equity ratio that tends to be the -- the bottoming out of the equity ratio. And that aligns to the lower points on the interest coverage ratio as shown in the PUB book of documents 174.

And the relationship is logical, because as you take on more debt -- your equity ratio goes down because you're taking on more debt. The more debt you take the more leverage you have, the more impact there is going to be in terms of the interest-coverage ratio, because you have more interest payments to make. So that relationship is fairly intuitive and logical. And -- and, in general form, you do see that general trajectory being somewhat similar.

So in this case here, in the year 2021, in that period of time, you see them both showing their -- their lowest points on the chart.

MR. BOB PETERS: I follow your -- your answer, Mr. Schulz, in respect of the debt-to-equity ratio and the interest coverage ratio. But then I suppose it depends on whether your business is capital intensive or not capital intensive, as to what impact that would have on your capital coverage ratio?

MR. MANFRED SCHULZ: The capital coverage ratio would be impacted by the amount of our base capital. So if we have higher levels of base capital then -- in one (1) year compared to the other, then you would see that ratio being affected by that. So it's a different measure in terms of the compared or set or at play.

MR. BOB PETERS: All right. And so it's a different measure. And in terms of base capital, that's the underlying discretionary management issue as to -- as to where that capital gets spent on the base or sustaining capital basis?

MR. MANFRED SCHULZ: I'll start on this. And I'm sure Mr. Rainkie will perhaps jump in on this, as well.

I don't know that it's a discretionary item -- I wouldn't characterize it necessarily that way, Mr. Peters. We consider base capital to be inherently part of what we do, and very important to what we do. It's part of replenishing our ageing infrastructure and doing all those things that are important to maintained reliability.

So I caution around the word of it being discretionary. It's a different form of capital expenditure.

MR. BOB PETERS: I wasn't suggesting that the discretion was whether -- you know, what any specific project is. But when you get to the base capital projects, some of them may get bumped year-to-year depending on the Corporation's categorization as to how essential they would be in a particular calendar of fiscal year. Would that -- would that be true?

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MR. DARREN RAINKIE: Yes. I think we can accept that, Mr. Peters, as that it's a -- I think Mr. Schulz's point was that the whole thing is isn't discretionary, that -- and -- and certainly there are - - there is pressure on spending more on base capital, given the age of our system, but we do have the ability to, you know, from a risk based approach for projects and move them around to some degree.

MR. BOB PETERS: But that's not a surprise to the Corporation, Mr. Rainkie? The Corporation knew that these base capital costs were coming for -- for a long time?

MR. DARREN RAINKIE: Well, it's not a surprise, Mr. Peters, but I think that all utilities are grappling, if you like. We saw the slide in Mr. Barnlund's part of his presentation, about $350 billion of the investment in the next number of years. They're all grappling with the exact amount, and what -- what is the right asset to replace, and when, and what's the right bifurcation between maintaining an old asset and buying a new one. Kind -- kind of like the decisions you make with your car on a daily basis, unless you -- unless you replace it every year, Mr. Peters.

MR. BOB PETERS: Well, to some extent, Mr. Rainkie, you're -- you're replacing the fence while

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you're putting an addition on the house here.

Isn't that -- isn't that a loose analogy?

MR. DARREN RAINKIE: I don't know. You've worn me down over the last day, Mr. Peters. I - - I think so. I think so. I don't think I'm going to disagree with you on that.

MR. BOB PETERS: So to some extent, these base capital, or as you've taught me, the sustaining capital expenditures, those also are putting pressure on consumer rates?

MR. DARREN RAINKIE: Most definitely. That's why the myth of the 2 percent rate increase in Canada is -- is that, a myth.

MR. BOB PETERS: Ms. Carriere, when you told the Board earlier that if you were to measure only against the debt-equity ratio, the trajectory would be, I think you said similar, or perhaps -- and I wasn't taking it to be exactly similar, but when the panel looks back at Tab 4, page 39, of Board counsel's book of documents, Exhibit 58-4, and if we stick on that first page, at the far right-hand column, under, "2037," if I can have Ms. Villegas just shift it over? I appreciate that. And thank you, ma'am.

Let's just go down to the bottom. The

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third number from the bottom under the 2037 line -- column is seventy (70), correct? Are you with me, Ms. Car -- Carriere?

MS. LIZ CARRIERE: Sorry, can you repeat that?

MR. BOB PETERS: Okay. I'll try to word it better. Let's go to the column that's headed, "2037," on page 39 of Board counsel's book of documents, and then let's go down to the debt-equity line, which is the third row from the bottom, and I see the number seven-zero (70).

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: That's telling the panel that under this run, the debt-equity ratio in 2037 would be 70 percent?

MS. LIZ CARRIERE: That's correct.

MR. BOB PETERS: Which means the debt would be 70 percent. The equity would be 30 percent?

MS. LIZ CARRIERE: That's true.

MR. BOB PETERS: Five (5) -- five (5) full percentage points above the target?

MS. LIZ CARRIERE: That's right.

MR. BOB PETERS: Would that suggest that no rate increase would be required at that point in time, because the Corporation already has 70 percent

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debt, 30 percent equity?

(BRIEF PAUSE)

MS. LIZ CARRIERE: I don't think that's true. In order to maintain that, you would need to have some sort of rate increase through time.

MR. BOB PETERS: Well, if we go up to the fifth row from the bottom, we see one point three-zero (1.30), which is the additional general consumer's revenue percent increase number, correct?

MS. LIZ CARRIERE: That's true.

MR. BOB PETERS: And -- and my suggestion, Ms. Carriere, and I know Mr. Rainkie is still cogitating on this, but the -- this suggestion that once you get to 30 percent equity, you've exceeded your debt-equity target by some significance.

Why would there still be the need for any rate increase?

MS. LIZ CARRIERE: Well, I think what happens is, if you go to the -- the column in 2033, if we were -- if we were to re-run this, you would see adjustments to the rate increases, but -- so, for example, in -- in 2033, you have a -- a debt ratio of seventy-four (74). So perhaps that 23 percent reduction wouldn't be as -- as -- it would need -- it wouldn't be as high as that to get to the seventy-five (75).

But then in the following year, you would need -- you would need a -- likely a -- a -- an adjustment to that rate. So they're all linked together. So -- but what I -- when I said the trajectory is the same once you consider all the annual rate adjustments, in the end, you're not seeing a signi -- a significant change in the annual adjustments. You get to the same point over time.

MR. BOB PETERS: And I suppose that answer, the last part of that answer, Ms. Carriere, is telling the panel that there would be some subjectivity invoked at the management level of Manitoba Hydro to -- to smooth out that correction?

MR. DARREN RAINKIE: Yes, Mr. Peters, that's what the Chair and I were pondering half an hour ago, is -- is we likely wouldn't de -- decrease rates by 23 percent. We would probably see that coming a number of years ahead and smooth that out for customers, and I would also observe that the debt ratio is not the only ratio we're -- we're managing. It's the interest coverage as well as the capital coverage ratio. So we would -- we would have to juggle all

three (3) as well as try to maintain reasonably smooth rates in terms of what actually would happen.

MR. BOB PETERS: Mr. Chairman, in light of the hour, I'm -- I'm going to suggest that the -- the panel consider taking a morning recess, at which time I'll review my notes, and if I am not finished my questions with this panel, I am very close to being, so this would give me an opportunity to make sure I've covered the points that I wanted to this morning.

THE CHAIRPERSON: Okay. I just wanted to ask people to turn to -- to page 41, and I just want to explore something very quickly. If you look at the time period that we're talking about, which is twenty (20) -- I'm looking, for example, at twenty (20) -- say for the sake of argument, 2033. I'm looking at the long-term debt, and this is something we were talking about earlier with Mr. Schulz, where we're seeing a -- seeing a dip in the long-term debt at that period of time.

So there's a couple of things going on here, in -- inasmuch as we're seeing an abatement of the rate increases, but we're also seeing a -- a whacking away at the long-term debt of the Corporation. So despite the fact that you're whack -- whacking away at that debt to bring it down to a lower level, you're

still seeing relatively modest rate increases at that time.

So one (1) option that's available to you from a rate perspective is -- or from a -- from a strategic perspective is put less resources into reducing the long-term debt, and -- and that would -- would allow some further abatement of rate increases. I -- I mean, there's clearly something going on here in terms of the long-term debt. Why would you be wanting to reduce a long-term debt by over 2 billion in one (1) year?

MR. MANFRED SCHULZ: Perhaps I'll start. And again, I'll -- I'll look to have Mr. Rainkie add to this as well. First of all, from -- just from an accounting financial presentation perspective, caution around -- and as you know, being an -- an accountant, that when we look at long-term debt, the financial presentation of it, there is the current portion, which is in the line immediately below that. So the total amount of long-term debt.

And, as well, the sinking funds in the net debt amounts need to be considered. So I -- I wouldn't necessarily hold to the precision of the number, but the trajectory is true conceptually to the point that we do reach a point where we do have debt

reduced, and the reason that that's important is because of just the ongoing leverage, and then sort of the -- the aspect of that.

So it -- it would be no dissimilar, perhaps, to the conversation that we might have as persons that we have a mortgage, and if we have a situation where we have the opportunity, perhaps through promotions or other things like that, the opportunity to reduce our mortgage, the question then becomes, What do we do? Do we reduce that mortgage and have less leverage on our -- our own personal balance sheets, or do we use that money for other purposes?

And -- and completely respect the perspective that you have, and we have, as well, about ratepayers and sensitivity towards that. Where's the trade off? Where's the -- the management judgment around, How much do I put towards debt repayment, and - - and down payment on that, knowing that there's always going to be -- if we don't do that, then there is the leverage that we'd have on our mortgage and so on, and how soon do we want to have the reduction of that as a risk mitigation issue?

And so that becomes a -- the important consideration of that, and that's why the interest coverage ratio is used for comparative purposes in --

in our calculations in the financial evaluation post-2032 at one point two (1.2), just in recognition of that, to make sure that we measure against that.

The function of that is, with fairly modest rate increases in the subsequent period of time, we can get debt reduction. As we move forward, and -- and Mr. Rainkie will certainly, I think, jump in on this, these are just calculations for comparative purposes. What will actually happen tactically as we move forward and see each other again through the years is another matter, but there is a strategic question about debt retirement, and -- and I think that's an important one.

And as a treasurer, and also as looking at this from the perspective of financial risk, you know, also quite frankly, as a personal homeowner, I -- I made the decision to -- to reduce my mortgage, and -- and I consider that a good thing for me, but everybody will have a different risk tolerance, so I think that's where that comes to, and that's -- the tactical decisions will be for, perhaps, another day on that.

Does that answer your question, sir?

THE CHAIRPERSON: Okay. I suggest we take fifteen (15) minutes, so back here at quarter to 11:00, please. Thank you.

--- Upon recessing at 10:31 a.m.
--- Upon resuming at 10:50 a.m.

THE CHAIRPERSON: I believe that we're ready to resume the proceedings. I note that we have a -- a document that's been distributed.

MS. MARLA BOYD: Not by me, sir.

THE CHAIRPERSON: Is that new? Have we acknowledged one twenty (120) already -- Exhibit 120?

MS. MARLA BOYD: It was one from this morning.

THE CHAIRPERSON: Okay.

MS. MARLA BOYD: Thank you.

THE CHAIRPERSON: Mr. -- Mr. Peters, please.

MR. BOB PETERS: Yes, sir, thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just another brief area to cover probably with Mr. Schulz, and starting at Tab 22 of Board counsel Exhibit 58-4, perhaps even go to page 201, Ms. Villegas, if I could, please.

Mr. Schulz, you'll recognize this as -- as information taken from the -- a Moody's report related to Manitoba Hydro?

MR. MANFRED SCHULZ: Indeed. I even referenced this yesterday in the finance panel direct.

MR. BOB PETERS: You copied it from my book of documents into yours, didn't you?

MR. MANFRED SCHULZ: I'm not sure who was copying who. I wouldn't want to say on the record --

MR. BOB PETERS: All right. Well --

MR. MANFRED SCHULZ: -- that anyone was plagiarizing.

MR. BOB PETERS: -- we'll -- we'll deal with that separately, sir, but let's just talk -- Moody's identified the three (3) major risks in that paragraph that's on the screen as -- as low water levels, cost overruns, and construction delays that could exacerbate Manitoba Hydro's financial strength, correct?

MR. MANFRED SCHULZ: They listed those three (3). I don't know if it was intended to be the major ones or exclusively the only ones, but they did indicate those three (3). Yes, sir.

MR. BOB PETERS: Well, the three (3) they listed are pretty major ones, are they not?

MR. MANFRED SCHULZ: I would agree.

MR. BOB PETERS: And in that same quote

in the first sentence, it talks about:

> "The financial metrics are predicted to fall below targets in the next three (3) fiscal years."

That's not accurate anymore, is it?

MR. MANFRED SCHULZ: They do fall in the first -- the next three (3) years. They fall for a -- a -- they reduce themselves in the subsequent years, as well, but this quote is just talking about the first three (3) years.

MR. BOB PETERS: All right, but the debt-equity target, it falls below the metric for the next twenty (20) some years, correct?

MR. MANFRED SCHULZ: I agree. I mean, it's an awkward sentence. We don't control how they write their sentences, and --

MR. BOB PETERS: All right. I -- I have your point. In -- in terms of those three (3) items that they've identified of low water levels, cost overruns, and construction delays, which of those are within the sole control of Manitoba Hydro to manage?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: Well, water -- I

mean, there's an element of management that Manitoba Hydro can have in all of these. But, for instance, low water levels, I would suggest Mother Nature has a prevailing hand on that. But Manitoba Hydro has mechanisms in its drought management in the operations. I'm sure you would have heard Mr. Cormie speak to that.

We can talk about it from a retained earnings perspective and having the management of that to bolster our financial statements. We've talked about it from a cash perspective with things we could do.

So there's management that can be undertaken for not only the drought and the water levels, but also cost overruns and construction delays. As I wouldn't categorize it as solely one (1) way or the other. There is management involved to some degree in all of these matters.

MR. BOB PETERS: When Moody's considers Manitoba Hydro to continue as a self-supporting corporation, as it does in the last part of that quote, Mr. Schulz, one (1) of the reasons it continues to see that is because of the Corporation's ability to seek rate increases from its regulator, correct?

MR. MANFRED SCHULZ: All of the rating agencies, when looking at utilities -- and this is not

just Moody's; it's DBRS, it's Standard and Poor's -- when they consider the regulatory regime and supportive it is to rate request that is a consideration that they would have. And some of them have specifically identified that as being a rating strength, for instance. And -- and I think that Moody's would certainly look at that.

And -- and all the rating agencies, quite frankly, they follow the proceedings reasonably well, in terms of understanding with some measure of sophistication, because they understand utilities in Canada and elsewhere are regulated, and -- and so that's something that's important to them. And I think that they generally have found that the regulatory regime in Manitoba has been supportive.

MR. BOB PETERS: When you say, "supportive", Mr. Schulz, what you mean is that when Manitoba Hydro had a last drought the Board was receptive to granting rate increases?

MR. MANFRED SCHULZ: That wouldn't be their only definition for or example to define that. And I think they -- they would say it would be supportive, because when we make rate applications in - - in our basis of need to meet our revenue requirement, that generally the -- the Public Utilities Board and

Intervenors, in all of our discussions, we reach a position where we get rate increases, and -- and they would see that to be supportive.

In addition, of course, in those situations where -- in that drought situation in '03/'04, I think that the regulators -- or the -- the credit rating agencies would consider that to be another example of being supportive of Manitoba Hydro.

MR. BOB PETERS: Maybe to bring the point a little closer visually, on page 140 of Board counsel's book of documents, back at Tab 15 of Exhibit 58-4, is -- is a document that Mr. Rainkie spoke to yesterday, albeit briefly. And if we can look to the part of the chart that's shown on the screen now.

Talking about the 'rate increases granted' line. This is the line item that you just referred to, Mr. Schulz, and that the last drought the Corporation may have come in requesting 3 percent, but it was awarded 5 percent, as well as some additional rate increases that were ultimately awarded to Manitoba Hydro?

MR. GREG BARNLUND: Mr. Peters, if I may. To be clear, in 2004 we made a rate application where we were requesting 3 percent for April of 2004 and an additional 2 1/2 percent of April 2005. What we

were awarded was slightly different. We received a 5 percent increase on August 1, and approval for a further 2 1/4 percent for April of 2005 and an additional 2 1/4 percent for October of 2005.

However, we chose to forego the October 2005 rate increase, because we had improved export conditions and we were recovering rather quickly from the debt of that -- from the drought at that point in time.

MR. BOB PETERS: Although, you came back, subsequently, to get it, if I recall, Mr. Barnlund?

MR. GREG BARNLUND: At a later point, yes.

MR. BOB PETERS: And on the same chart, Mr. Schulz, your credit rating agencies would know -- halfway up the page in the far right-hand column, there's a number of $267 million, two sixty-seven six seventy-five (267,675,000). Do you see that, sir?

MR. MANFRED SCHULZ: I do see that.

MR. BOB PETERS: That's the cumulative effect of the rate increases the Board has granted since '04/'05?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: That's my understanding, yes, sir.

(BRIEF PAUSE)

THE CHAIRPERSON: Just an observation, Mr. Rainkie, it just kind of disproves what you and I were talking about in terms of smooth rate increases. I mean, it looks like your -- the request we get from PUB -- got from Hydro it's kind of lumpy, and what you got from PUB as a rate increase is lumpy as well. But I'm not sure that's what we're talking about here so much as addressing the issue of twenty-one (21) years of rate increases of three point nine five (3.95); is really what we're talking about.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Schulz -- unless Mr. Rainkie had a comment?

MR. DARREN RAINKIE: I don't want to leave it -- you open-handed, Mr. Chair, hanging or whatever.

I -- I think the -- just -- sorry, maybe a couple observations. I think the hearing -- or this proceeding is more about twenty-one (21) years of

3.95s. I think this proceeding is about something much grander, about the next fifty (50) to a hundred years, in fact; decisions that will -- that will be made that will effect the long-term of the -- the company, the customers, and the province.

So, in fact, I hope I can convince you to look past the -- the first twenty (20) years, because that's -- that's, I think, where the promise of the Development plan lies.

The other thing is I think we have came to the realization over year -- over the years, because there was a period -- and boy, Mr. -- Mr. Barnlund probably could help my memory here -- but there was a period of about seven (7) years where Manitoba Hydro did not seek a rate increase in -- in the '90s. And -- and there has been periods where results were good and so we pulled back a rate increase and then results went poor and we came back.

And I think what we've learned through all of that period is that having reasonable and regular rate increases is a better regime than kind of just pandering, if you like, to good results or bad results. And, you know, for instance, we had a relatively -- or we're having a rele -- relatively decent year in 2013/'14, and it's a -- it's a case in

point in front of you right now in terms of our interim rate application.

The tendency would be to say, Well, why do you need anything, because you had a decent year? The fact of the matter is is that in our system we're - - we're projecting rate increases based on average water flows. We know we'll have good years, we know we'll have bad years. If we draw -- put a straight line through it I think that's the most responsible thing to do for customers.

If we have a decent year and suddenly we give that back then we're going to need to go back the 3.95s when we have a bad year to make up for that. And -- and so I think we came to the realization in the last few years that it's better to -- we always have been a rate smoother in our history, but from time to time it's been this gyration back and forth just because of the short-term financial results, I think. We think now it's better to look over the long -- the long run, so.

THE CHAIRPERSON: One (1) of the -- one (1) of the underlying issues though is that, you know, we are talking about benefits that will flow to future gener -- generations in some respects. And there is a lumpiness at the front end in terms of rate increases

and costs, and so on. And so we're basically asking ratepayers -- today's ratepayers, to pay for something that will benefit -- largely benefit the future generations, if you look at it from a net present value perspective.

And so smoothing out the benefits that will flow to multiple generations is -- is obviously something we need to think about, because, you know, there -- there are people that are quite concerned about the nearby effect of -- of these plan -- of -- of the construction plans, and thinking about how -- how to spread out the benefits so that it's a win-win for all the generations, as opposed to a lose-win for the first generation as opposed to the next generation, so.

MR. DARREN RAINKIE: Yes, sir. And -- and I think we talked about this on day number 1. I think you have to have the broad intergenerational perspective on this, because at seven (7) cents a kilowatt hour right now the current customers are benefiting from past investments. So I don't think it's a -- a win-lose for anybody, because it's a win-win. The glass is not half empty in Manitoba; the glass is 95 percent full, as far as I'm concerned, when you look at neighbouring jurisdictions at thirteen (13) cents, twelve (12), thirteen (13) cents a kilowatt hour for power.

The other thing is, is that the rate increases in the near term, the next five (5) to seven (7) years, are not driven by the development plans, but they're driven by the need to replace our infrastructure. We are part of the public infrastructure deficit, just like water systems, any other -- roads.

And so the fact of the matter is that when we put expenditures in, like Bipole III, and -- or we refurbish a distribution system, or whatever the asset is, current customers are benefiting from that. That's not something that a future generation -- that's not a asset that a future generation is using. That's an asset that you and I are using when those assets go into service. So I don't think there's an in -- intergenerational issue there.

The other point that perhaps was covered better on -- on the other panels, or maybe is the panel coming up, is that in terms of the development plan there is certainly lots of good socioeconomic benefits to the province as a whole, in terms of the -- building the -- the electric generating station. So there will be lots -- lots of benefits to share for the current generation.

So I -- I don't think it's a -- if you - - if you think -- if you expand the rubber band in terms of looking at the intergenerational company that we have in terms of a continual reinvestment cycle, and you think about where we sit relative to other provinces, and you think about the benefits, not just, you know, in terms of the ratepayer account, the company account, but of the -- the broader provincial account, I think we -- we see that there's -- there is no win-lose here: there's a win-win. And the glass is not half empty, it's mostly full, as far as I'm concerned.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: So close to St. Patrick's Day with that glass 95 percent full, Mr. Rainkie. I'm not sure, but let's debate that some other time.

Back to you, Mr. Schulz. How frequently does Manitoba Hydro communicate with the credit rating -- credit rating agencies?

MR. MANFRED SCHULZ: It depends on when they want to do credit ratings on Manitoba, as well as on Manitoba Hydro. So typically the cycle would be once a year. We would do presentations for them that

would trigger towards a report.

MR. BOB PETERS: Do they come here, or do you go there?

MR. MANFRED SCHULZ: I have never gone there, nor do I -- during my time have we ever gone to meet with them. It -- the process is varying between the different credit rating agencies. Standard & Poor's and Moody's, for instance, often send their individuals into Manitoba and we meet them face-to-face, usually along with the province. With DBRS, we may have meetings with them face-to-face; often they're done through telephone conversation.

MR. BOB PETERS: In terms of DBRS, filed at Tab 23, page 203, of Board counsel's Exhibit 58-4 is, I believe, Mr. Schulz, the most current rating report from DBRS?

MR. MANFRED SCHULZ: For the Manitoba Hydro Electric Board, yes.

MR. BOB PETERS: And there was just one (1) question of clarification. If we can scroll down another paragraph. There's one that says:

"The Utility generated a free cash flow deficit of 448 million in fiscal 2013, which was funded with debt."

Do you see that line item, Mr. Schulz?

MR. MANFRED SCHULZ: I do.

MR. BOB PETERS: Does that suggest that there was no internally generated funds available in fiscal '13?

MR. MANFRED SCHULZ: No, the mechanics of that calculation is driven off the cash flow statement. And --

MR. BOB PETERS: What about the cash?

MR. MANFRED SCHULZ: The cash flow statement, what they're looking at is, they take the total amount of investing activities that is on our cash flow statement, and they reduce from that the amount of cash flow from operations to arrive at what they consider to be their free cash flow calculations.

MR. BOB PETERS: And there was no free cash flow by that metric in fiscal '13?

MR. MANFRED SCHULZ: Because our investing activities were greater than our cash flow from operations, therefore we needed to obtain debt financing, which, I think that they indicate there that it was funded with debt. So that's the amount of financing that your friendly neighbourhood treasurer has to go and get financing for.

MR. BOB PETERS: And that financing would have been used to pay interest on Manitoba

Hydro's debt obligations?

MR. MANFRED SCHULZ: That financing would have been used to fund the capital investments.

MR. BOB PETERS: And also to pay interest on the -- on the debt?

MR. MANFRED SCHULZ: The interest on the debt is part of our cash flow from operations calculations. So the -- the presumption here is that we have 'X' amount of capital financing. How do we get the funds for it?

We get a certain amount from cash flow from operations, you know, the amount coming in from customers, the amount that we pay out for bills, and so on, and then that determines how much cash flow we have from operations, and the difference that we would need to -- to meet our capital investing requirements, we would go to debt financing, and obtain that.

MR. BOB PETERS: All right. If we scroll further down page 203, please, we see that one of the rating considerations under "strength" was:

"The debt is a direct obligation of the province."

Correct?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And, Mr. Schulz, you

haven't been able to quantify that for the panel as to what that means in terms of a reduced interest rate on -- in your borrowings?

MR. MANFRED SCHULZ: I'm not exactly sure what you mean by that.

MR. BOB PETERS: Well, in exchange for the debt being a direct obligation of the province of Manitoba, Manitoba Hydro pays a 1 percent debt guarantee fee, correct?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And if Manitoba Hydro was to go out and try to get its own debt without the province guaranteeing it, are you able to tell the panel what -- how many points higher that would be in terms of the debt cost?

MR. MANFRED SCHULZ: I think we're building on the conversation that the Chairman and I had yesterday on that point, and -- and it's -- it's a hypothetical. It would based on saying, If there was no province of Manitoba and Manitoba Hydro were its own entity, what would be our terms for financing and what would be our access to liquidity?

It's a -- it's a hypothetical, and -- and I think the answer that I gave was that I think that the provincial debt guarantee fee was a -- was a

fair and reasonable exchange for that.

How much more would it be and depending on the term? I mean, it's -- you know, it's hypothetical, so it -- it's -- I'll -- I'll leave it at that.

MR. BOB PETERS: Under the challenges on the right-hand side, we see high leverage as one (1), and that translates into the high debt, does it, Mr. Schulz? Is that what they're referring to?

MR. MANFRED SCHULZ: Finesse on that, Mr. Peters. It's not the absolute quantum of debt, it's the ratio, so that's the debt-equity ratio. So in the context of your overall business and your fixed assets, how much of it is being financed through debt is the -- sort of the general terminology for what leverage would be.

So the higher your -- your debt ratio, the more leverage you have.

(BRIEF PAUSE)

MR. BOB PETERS: Remind me, Mr. Schulz, in terms of investor-grade capital structure, what -- what the debt-equity levels would be in -- in such an

entity?

MR. MANFRED SCHULZ: Can you repeat that question, please?

MR. BOB PETERS: What debt-equity level would a utility be required to -- to have to be considered investment grade?

MR. MANFRED SCHULZ: Again, that -- that will vary depending on the utility and their support that they would have, their cash flow stability, there would be a variety of different things into that that would go into the -- the calculation of what would be a investment grade.

So it's not just one (1) metric that the credit ratings would look at, but -- 60:40 kind of scenario would be somewhat that -- you would, would be investment grade if you were triple 'B', for instance.

MR. BOB PETERS: Would 75:25 be considered investment grade?

MR. MANFRED SCHULZ: As a privately owned entity without the guarantee and without a supportive regulatory regime that would provide cash flow stability and a whole host of other caveats, I would say that 75:25, we're benefiting from having the access to the province on that.

MR. BOB PETERS: All right. Let's

TAB 5

REFERENCE:

17/18 & 18/19 GRA, PUB MFR 20, Appendix 3 p.41, PUB I-51

PREAMBLE TO IR (IF ANY):

On page 110 of Order 59/18, the PUB found that it did not accept the Business Operations Capital (BOC) spending forecast in CEF16 as condition-driven and reasonably required for the safe and reliable operation of the system. In Recommendations No. 1 and 2 from Order 59/18 (issued May 1, 2018), the PUB recommended that MH defer $160 million of BOC spending to a future period beyond 2018/19 and continue to find reductions in BOC spending during the current period of record spending on major capital projects. On page 31 of the current application, MH indicates that the BOC target for 2019/20 in CEF18 (presumably approved by the MHEB in October of 2018) did not materially change as compared to CEF16 and on page 16 of the current application states that all 2018/19 projects are active and cannot be cancelled without a cost to the safe and reliable services being provided.

QUESTION:

a) In the format used in the response to PUB MFR 20, please provide the impact of a $100 M reduction in annual spending on Business Operations Capital in 2018/19 on the revenue requirement forecast for 2018/19 and 2019/20 by cost components (e.g., Finance/Depreciation/ Operating/Water Rentals/F&PP/Taxes).
b) In the format used in the response to PUB MFR 20, please provide the impact of a $100 M reduction in annual spending on Business Operations Capital in 2019/20 on the revenue requirement forecast for 2019/20 by cost components (e.g., Finance/Depreciation/ Operating/Water Rentals/F&PP/Taxes).

RATIONALE FOR QUESTION:

To understand the impact of reduced spending on Business Operations Capital and MH's response to PUB findings and recommendations from Order 59/18.

RESPONSE:

a) and b)

The following table provides the estimated revenue requirement impacts of reducing Business Operations Capital spending by $100 million. The first part of the table identifies the estimated revenue requirement impacts in 2018/19 and 2019/20 of a reduction in Business Operations Capital of $100 million in 2018/19. The second part of the table identifies the estimated revenue requirement impacts of a reduction in Business Operations Capital of $100 million in 2019/20. The last line in the table provides the total revenue requirement impacts assuming a reduction of $100 million in BOC spending in both 2018/19 and 2019/20. The total reduction of $100 million in both years results in a combined estimated revenue requirement impact of only $11 million, which represents less than half a percent of Manitoba Hydro's forecast expenses in 2019/20.

BUSINESS OPERATIONS CAPITAL
REVENUE REQUIREMENT IMPACT
(In Millions of Dollars)

For the year ended March 31

$100M Reduction in 2018/19	**2018/19**	**2019/20**
Finance Expense	(2)	(5)
Depreciation	(1)	(3)
Capital Tax	(0)	0
Total	(4)	(8)
$100M Reduction in 2019/20	**2018/19**	**2019/20**
Finance Expense	-	(2)
Depreciation	-	(1)
Capital Tax	-	(0)
Total	-	(4)
Total Revenue Requirement Impact	**(4)**	**(11)**

On February 14, 2019, Manitoba Hydro filed the 2018/19 Current Outlook and 2019/20 Approved Budget following approval by the MHEB on February 12, 2019. As discussed in the Supplement to the 2019/20 Electric Rate Application, Section 4.0, Business Operations Capital is projected to be $478 million for both the 2018/19 and 2019/20 fiscal years, which reflects a reduction of $37 million and $33 million, respectively. As discussed in the response to PUB/MH I-51b-c, the timing of investment is a complex risk decision and the Corporation reviews the timing of investment execution as part of its annual capital planning process to ensure those investments with unacceptable risk are advanced to execution. In addition, adjustments to the plan are made during the year if anticipated risk exposures do not come to fruition.

TAB 6

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1. ANALYSIS OF FINANCIAL RATIOS AND COMPARISONS TO EXHIBIT MH-93

At page 9 of the COALITION's evidence, Mr. Rainkie states that, "*The proposed 3.5% rate increase for 2019/20 has not been justified by any quantifiable financial objective (net income), financial metric (financial ratios) or downside risk sensitivity*;"

The figure below compares Manitoba Hydro's long-standing financial metrics for 2019/20 with and without the proposed 3.5% rate increase.

Figure 1 – Financial Ratios With and Without the Proposed 3.5% Rate Increase

	Equity Ratio		EBITDA Interest Coverage Ratio		Capital Coverage Ratio	
	3.5%	**0.0%**	**3.5%**	**0.0%**	**3.5%**	**0.0%**
2019/20	13%	13%	1.61	1.56	1.34	1.24

Source: PUB/MH I-8a-c (Update) and COALITION/MH I-6j

Both the debt ratio and the EBITDA interest coverage ratio are below the targets of 25% and 1.8 respectively. While the additional $50 million of revenue generated by the proposed 3.5% rate increase does not make a noticeable impact to the debt ratio and results in a minor improvement to the EBITDA Interest Coverage Ratio and the Capital Coverage Ratio in 2019/20, Mr. Rainkie fails to acknowledge that the additional revenue on an annualized basis in perpetuity has a **profound impact** on the financial reserves, debt levels and financial metrics.

For illustrative purposes, using MH Exhibit 93, the following figure illustrates the 10 year impacts of a 0% rate increase in 2019/20. Foregoing one 3.57% rate increase in 2019/20 reduces projected earnings by approximately $900 million, increasing the utility's debt by a similar amount and further increasing the debt ratio in 2028/29 by an additional 3%. It would also put more pressure on the utility's financial stability in the years Keeyask is commissioned when the anticipated additional net costs (most notably finance expense and depreciation expense) increase the revenue requirement. If Keeyask is successfully commissioned 10 months ahead of schedule, the period in which to smooth in customer rates will be condensed and without the proposed 3.5% increase, the likelihood of a financial loss following an earlier in-service date for Keeyask is exacerbated.

Figure 2 - 10-Year Impacts of 0% Rate Increase in 2019/20

Fiscal Year Ending	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
MH Exhibit 93 with 0% Rate Increase in 2019/20												
Percent Increase	3.36%	3.57%	0.00%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%
Cumulative Percent Increase	3.36%	7.05%	7.05%	10.87%	14.82%	18.92%	23.16%	27.56%	32.11%	36.82%	41.70%	46.76%
Net Income	94	143	0	51	108	(106)	(193)	(159)	(227)	(175)	(129)	(45)
Retained Earnings	2,842	2,986	2,986	3,037	3,145	3,039	2,846	2,688	2,461	2,285	2,156	2,111
Net Debt	18,473	20,813	22,686	23,880	24,611	24,931	25,046	25,200	25,418	25,599	25,726	25,780
Debt Ratio	85%	86%	87%	87%	87%	88%	89%	89%	90%	91%	91%	91%
EBITDA Interest Coverage Ratio	1.54	1.64	1.52	1.56	1.63	1.51	1.45	1.48	1.44	1.48	1.53	1.60
Capital Coverage Ratio	1.40	1.35	1.07	1.28	1.50	1.19	1.12	1.09	0.97	1.04	1.11	1.21
MH Exhibit 93												
Percent Increase	3.36%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%	3.57%
Cumulative Percent Increase	3.36%	7.05%	10.87%	14.82%	18.92%	23.16%	27.56%	32.11%	36.82%	41.70%	46.76%	52.00%
Net Income	94	143	61	115	178	(29)	(111)	(69)	(128)	(68)	(13)	81
Retained Earnings	2,842	2,986	3,047	3,162	3,340	3,311	3,200	3,132	3,003	2,935	2,922	3,002
Net Debt	18,473	20,813	22,628	23,759	24,424	24,666	24,702	24,765	24,891	24,963	24,971	24,899
Debt Ratio	85%	86%	86%	87%	86%	87%	87%	88%	88%	88%	88%	88%
EBITDA Interest Coverage Ratio	1.54	1.64	1.58	1.62	1.69	1.58	1.52	1.57	1.53	1.58	1.63	1.72
Capital Coverage Ratio	1.40	1.35	1.18	1.41	1.64	1.33	1.27	1.24	1.12	1.20	1.29	1.39
Differences												
Percent Increase	0.00%	0.00%	-3.57%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cumulative Percent Increase	0.00%	0.00%	-3.82%	-3.96%	-4.10%	-4.24%	-4.39%	-4.55%	-4.71%	-4.88%	-5.06%	-5.24%
Net Income	0	(0)	(61)	(64)	(70)	(77)	(82)	(90)	(99)	(107)	(116)	(126)
Retained Earnings	0	(0)	(61)	(125)	(195)	(272)	(354)	(444)	(543)	(650)	(766)	(892)
Net Debt	0	0	58	121	188	264	344	434	527	636	755	881
Debt Ratio	0%	0%	0%	0%	1%	1%	1%	2%	2%	2%	3%	3%
EBITDA Interest Coverage Ratio	0.00	(0.00)	(0.06)	(0.06)	(0.06)	(0.07)	(0.07)	(0.08)	(0.09)	(0.10)	(0.11)	(0.12)
Capital Coverage Ratio	0.00	(0.00)	(0.11)	(0.12)	(0.13)	(0.15)	(0.15)	(0.15)	(0.14)	(0.16)	(0.18)	(0.18)

2. INCREMENTAL REVENUE RELATED TO THE SALE OF SURPLUS DEPENDABLE CAPACITY

The COALITION incorrectly suggests that Manitoba Hydro has not forecasted sufficient revenues for 1,000 GWh of surplus dependable energy (COALITION Appendix A, p.17).

The COALITION has confused 300 MW of capacity, as shown in Attachment 4, with 1000 GWh of dependable energy. The revenue associated with the unsold dependable energy (i.e. the 1000 GWh) is already included in Manitoba Hydro's revenue as part of the forecasted opportunity sales for 2019/20.

The transmission costs and supply risks associated with a potential short-term capacity sale of 300 MW in 2019/20 exceeded the capacity revenue. As a result, Manitoba Hydro did not sell any capacity in 2019/20 beyond that included in the Application and the Supplement filed on February 14, 2019.

3. NEGATIVE NET INCOME IS A CONCERN TO CREDIT RATING AGENCIES

At page 6 of Mr. Bowman's evidence he states: "*It should be noted that MH-93 shows 6 years of net losses following the implementation of Keeyask, from 2023-2028. Acknowledging that the PUB did not issue any approvals for rates from 2023-2028 as yet, it is consistent with the data from 1992 and 2017 that some period of net losses is not, in and of itself, evidence that rates are unjust or unreasonable.*"

Manitoba Hydro's financial metrics are weakening as a result of minimal net income and cash flow and escalating debt levels. Manitoba Hydro's net debt represents over 40% of the total Province of Manitoba net debt at March 31, 2019, and Manitoba Hydro's weakening financial metrics have garnered additional scrutiny from the credit rating agencies. As a result, S&P no longer considers Manitoba Hydro to be self-supporting as they deem self-supporting to be investment grade quality (Province of Manitoba report dated July 14, 2016[1]) and Moody's has indicated they may reassess Manitoba Hydro's status in their most recent report on the Manitoba Hydro-Electric Board dated December 24, 2018[2]. The report states in part that:

a) "...in recent years rate increases have not been keeping up with costs as evidenced by ongoing weak financial metrics";
b) "Given the company's ongoing weak financial profile and limited rate increases we may reassess our view of Manitoba Hydro's self-sufficiency"; and,
c) "…on a last twelve month basis Moody's adjusted EBITDA to interest expense was 1.2x, EBIT to interest expense was 0.7x and debt to book capitalization was 89%. These financial metrics are among the weakest, if not the weakest, of any of Manitoba Hydro's peers, including vertically integrated provincially owned crown corporations in Canada."

The ability for Manitoba Hydro's cash from operations to fund its operations, interest payments and Business Operations Capital ("BOC") is key to maintaining Manitoba Hydro's

[1] Manitoba Hydro 2016/17 & 2017/18 General Rate Application – PUB MFR 60 (Filed in Confidence)
[2] Filed in confidence with the PUB on April 18, 2019

self-supporting status. This is particularly important given Manitoba Hydro's debt is a contingent liability that is growing to the degree that it would have a material impact on the Province's financial metrics should Manitoba Hydro lose its self-supporting status.

The Bipole III deferral account which deferred revenues generated from rate increases until in-service of the asset while providing cash support for borrowing requirements and interest payments in the interim, has been viewed favourably by the rating agencies.

The cash shortfall related to the interest which is currently being capitalized for Keeyask and not currently part of the revenue requirement is causing rating agency interest coverage ratios below 1x. The rating agencies have expressed concern that Manitoba Hydro does not have sufficient cash to make all of its interest payments, regardless of whether such interest is being capitalized or not.

The following figure outlines Moody's calculation of earnings (EBIT) and interest (excluding PGF), calculates the cash shortfall and the resulting interest coverage ratio, using the Approved Budget for 2019/20.

Figure 3 – Moody's Calculation of Earnings and Interest

In Millions of Dollars	**2020**
Rate Increase	3.50%
Consolidated Net Income	$121
Consolidated EBIT	**$612**
Gross Interest	**$886**
Surplus/(Deficiency)	($274)
EBIT / Gross Interest	**0.7**

According to Moody's metric, Manitoba Hydro will have a cash shortfall of nearly $300 million dollars in 2019/20 and will be unable to service approximately 30% of its outstanding debt servicing costs from cash from operations.

4. OPERATING & ADMINISTRATIVE EXPENSES

Page 85 of COALITION's evidence recommends a further reduction to the Operating & Administrative ("O&A") targets: "*The resulting O&A forecasts for 2018/19 and 2019/20 for* *rate-setting purposes would be approximately $479 million for 2018/19 and $489 million for 2019/20, for overall reductions of approximately $22 million, respectively.*" The reduction is based upon a 1% escalation factor and is not grounded in any specific examples of available cost savings[3].

Mr. Rainkie's recommendation for a 1% inflationary increase between 2018/19 and 2019/20 does not consider the current deployment of staff between construction (capital) and operations/maintenance activities (O&A). In establishing the O&A target for 2018/19, the Corporation made an assumption that following the Voluntary Departure Program, a greater percentage of the remaining workforce would be allocated to construction activities. This assumption has not materialized. As indicated in Manitoba Hydro's O&A report to December 31, 2018 (response to PUB/MH I-15), capitalized activities (including overhead) were below budget. The O&A target of $511 million for 2019/20 reflects current deployment levels between construction and operations/maintenance activities, which has not been considered in Mr. Rainkie's calculation of a 1% increase over 2018/19.

As highlighted in the analysis below and assuming the current staff deployment ratio between operations/maintenance and construction activities, a further reduction of 100 employees would equate to annual O&A savings of approximately $7 million in the year following departure. A reduction of slightly over 300 employees would be required to achieve a $22 million reduction in O&A as suggested by COALITION. Combined with the reductions already in place, further staff reductions will increase the risks associated with public and employee safety, system reliability and the Corporation's ability to provide reasonable levels of customer service.

[3] PUB/COALITION - 5

Figure 4 – O&A Savings on a Reduction of 100 Employees

O&A Savings for 100 employees *(in millions)*	One Time Departure Expense	Gross Salary & Benefit Savings	Net Savings before O&A/Capital Deployment	Estimated Impact to O&A*
Year 1 (Net Savings)				
One time Severance	($4.8)			
Salary & Benefit Savings		$11.2		
Net Savings Year 1			$6.4	$4.1
Year 2 (Full Year Savings)				
Salary & Benefit Savings	$0.0	$11.2		
Net Savings Year 2			$11.2	$7.2

*Current Deployment Ratio ***(****64% Operating**/36% Capital)

Per the information provided in PUB/MH I-19 b), the Corporation's total budgeted equivalent full time employee ("EFT") levels of 5,878 in 2018/19 are comparable to those in 2004/05 of 5,870, 15 years ago. In 2004/05 Straight Time ("ST") EFTs were 5,590 compared to a 2018/19 budget of 5,440, a reduction of 150 ST EFTs. Overtime (OT) EFTs in 2004/05 were 280 as compared to 438 in the 2018/19 budget. The higher level of OT EFTs in 2018/19 is driven by major construction projects, primarily Bipole III and Keeyask. It is also noted that the Corporation is currently tracking below the 2018/19 budgeted EFT levels for both ST and OT EFTs.

Manitoba Hydro has achieved comparability to 2004/05 EFT levels despite a 15% growth in the number of electric customers, additional operational requirements for the Wuskwatim GS and the Riel and Keewatinohk Converter Stations, increased environmental, regulatory and other demands, as well as approximately 200 ST EFTs for the construction of the Keeyask GS and associated transmission.

5. DETERMINATION OF SURPLUS CASH AVAILABLE

In the response to MH/MIPUG I-2, Mr. Bowman states that, "*Mr. Bowman was not able to readily identify a definitive answer as to whether the CEF estimates of capital spending are gross or are net of customer contributions. Based on experience with typical utility practice, and the tendency under IFRS to specifically identify and track contributions in a different*