Manitoba Hydro
2019/20 Electric Rate Application

April 23, 2019

Manitoba Hydro Panel

- Shawna Pachal, Acting Chief Finance & Strategy Officer
- Liz Carriere, Director Rates & Regulatory Affairs
- Susan Stephen, Treasurer
- Sandy Bauerlein, Corporate Controller
- David Cormie, Director Wholesale Power and Operations
- Lois Morrison, Interim Co-Lead, Marketing & Customer Service
- Greg Epp, Manager Financial Planning

Overview of Application

- Manitoba Hydro is seeking to apply the proposed 3.5% rate increase to all components of rates (monthly basic charges, energy charges and demand charges) on an across-the-board basis for all customer classes, with the exception of Diesel General Service
- For Diesel General Service customers Manitoba Hydro is proposing to increase the grid portion of the rate (Basic Charge and first 2,000 kWh per month for non-government customers) by 3.5% with the non-grid portion of the rate remaining unchanged
- The proposed 3.5% rate increase effective June 1, 2019 is projected to generate additional revenues of $50 million to provide a modest contribution to financial reserves (net income) of $115 million in 2019/20

Customer Bill Impacts

- If approved, the June 1, 2019 rate increase would result in a $3.30 increase in the monthly bill of a residential customer without electric space heat using 1,000 kWh per month, and a $6.30 increase in the monthly bill for a residential customer with electric space heat using 2,000 kWh per month
- Even with the proposed rate increase, customers in Manitoba will still be paying among the lowest bills in the country

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2019/20 Application Timeline

Feb 14/18
17/18 & 18/19 GRA concluded

May 1/18
Order 59/18 3.6% granted

Sep 18/18
Order 126/18 sets aside Directive 9 for a minimum retained earnings technical conference

Nov 12/18
MH Advised PUB of Intention to file one-year 3.5% rate increase application

Nov 21/18
PUB determines it would consider one-year application based on updated information for 18/19 &19/20 in Ex.MH-93

Nov 30/18
MH files 19/20 Electric Rate Application and Centra files 19/20 GRA

Dec 11/18
MH files additional information at PUB request

Dec13/18
PUB issues declaration of completion

Jan 31/19
MH files responses to PUB IRs

Feb 14/19 MH files
Supplemental information based on MHEB approval of 19/20 Budget

Mar 7 & 14/19
MH files responses to intervener IRs and updates to PUB IRs previously filed

Apr 23/19
Hearing commences

Why an Expedited Process?

- Manitoba Hydro's Board of Directors review is underway
- Previous IFF's have consistently planned for regular, predictable annual rate increases
  - Favourable and unfavourable changes from forecast to forecast (e.g., MH13, MH14, MH15)
  - Over/(under) performance relative to forecast is carried forward to future years through retained earnings
- Missing an annual rate increase has significant impacts in the long-term

November 30, 2018 Application

- Given changes in water conditions, the outlook for 2018/19 had deteriorated
- Expectation of a net loss in 2019/20 in the absence of the proposed 3.5% rate increase
- Lower than expected financial results (2017/18 – 2019/20), and recognizing additional net costs associated with the in-service of Keeyask will exacerbate the losses projected in the future

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February 14, 2019 Supplement

- Update for the financial information following MHEB approval of the 2019/20 budget:
  - Improvements in water conditions changed the projected net income in both 18/19 & 19/20
  - Although lessened, the risk of financial loss in 19/20 remains

Reasons for Application

1. Uncertainty in Net Income
2. Impacts of Keeyask In-Service

Uncertainty of Net Income

- MH is exposed to wide variations in net income
- Factors include:
  - weather (precipitation & temperature);
  - financial markets (interest rates);
  - export market (prices for energy & capacity);
  - construction schedules; and
  - commodity prices (procurement of goods and services)
- Each of these factors, all of which can change daily, possess a wide range of variability, are nearly impossible to predict with certainty and are completely out of MH's control

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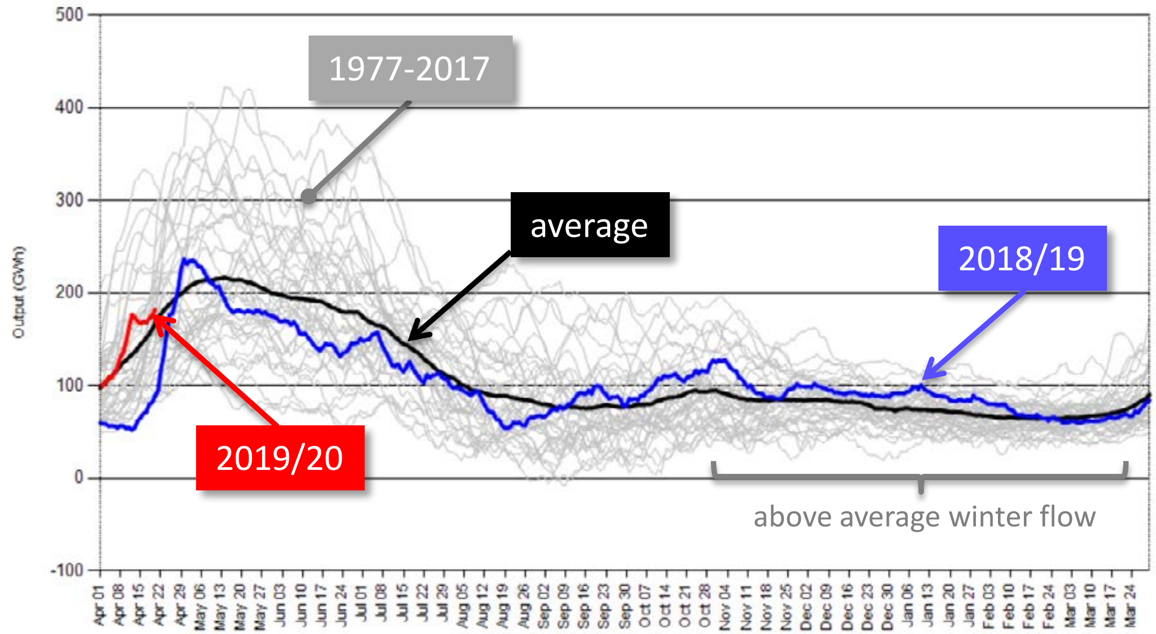
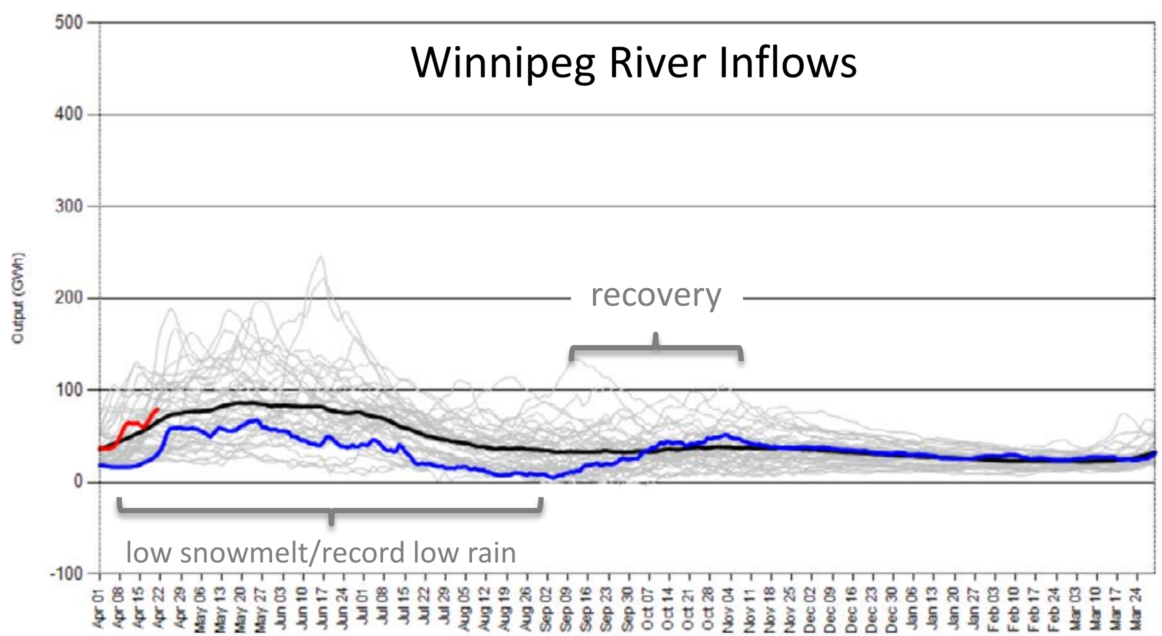
Review of 2018/19 Water Conditions

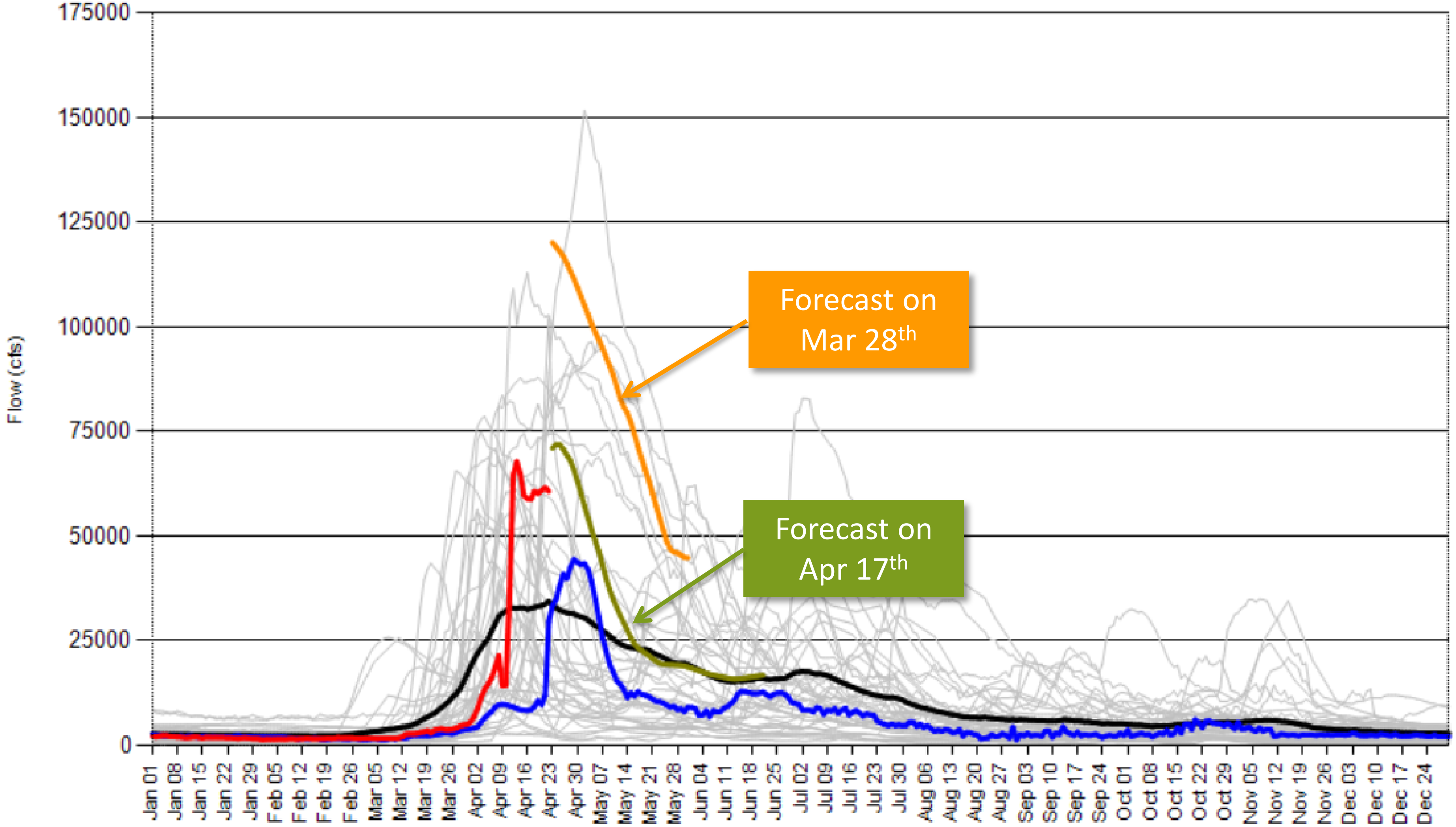
- System inflows below average until Sep 2018
- Especially dry on Winnipeg River
- Rainfall improved in fall 2018 around when 2018/19 outlook was prepared
- System inflows were above average through winter

Total System Inflows





Example of Uncertainty - Red River Flow



Impact of Keeyask In-Service

- Keeyask may come in-service earlier than scheduled (Oct/20)
- The period in which to smooth in customer rates may be further condensed from 28 to 18 months
- Without the proposed 3.5% rate increase in 19/20 the potential for financial losses following Keeyask ISD is exacerbated
  - The 19/20 rate increase has a compounding benefit; by providing additional revenue on an annualized basis in perpetuity

Keeyask & Associated Transmission

- The major projects will result in an additional $600 - $700 million of carrying costs (primarily finance and depreciation expense)
- All parties recognized that rate increases will be necessary to help cover the incremental costs

"The Board is mindful that the financing and depreciation expenses related to these new major capital assets entering service already require additional revenues from rate increases." [1]

"… there is a likely need to transition rates to a higher level as Keeyask comes into service,…" [2]

"Award the full rate increase requested for 2019/20 on an interim basis, recognizing the concern over the future potential rate volatility associated with the in-service of the Keeyask generation station…" [3]

[1] Order 59/18 page 66

[2] Mr. Bowman's Pre-Filed Testimony page 2

[3] Coalition's Evidence page 10

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Controllable Costs

- Manitoba Hydro has reduced controllable costs
  - Accelerated workforce reduction of ~900

2016/17 Actuals ST EFTs	Actuals to Dec/18 ST EFTs	Decrease in ST EFTs
6,206	5,334	(872) or (14%)

- Further reductions significantly increase risks – public and employee safety, system reliability and ability to provide reasonable levels of customer service

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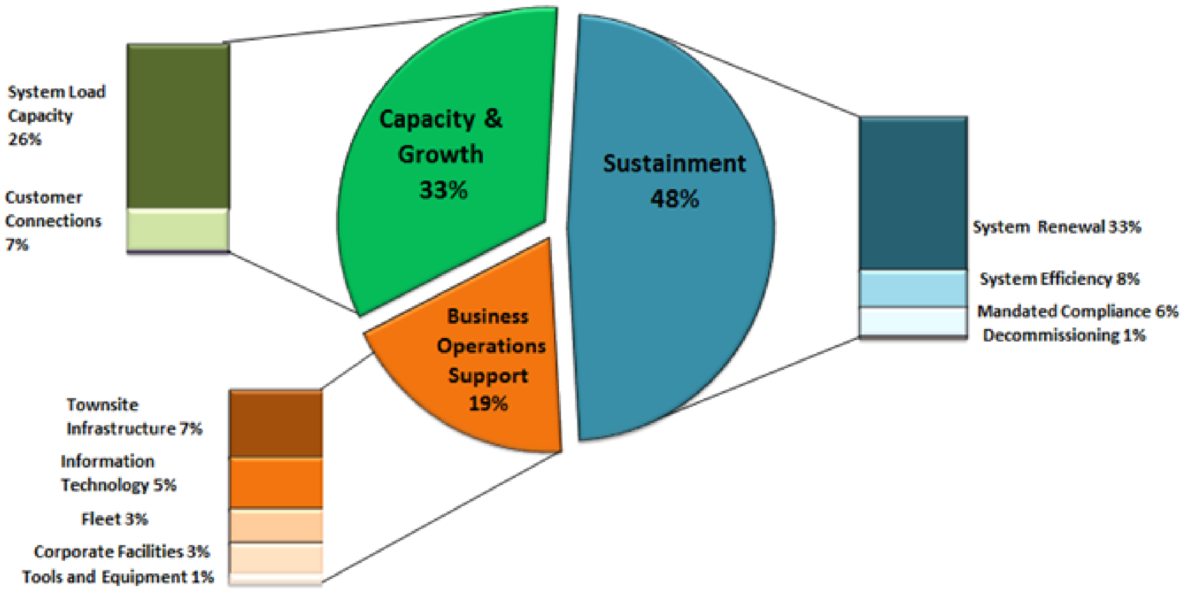
Controllable Costs

- EFT levels are comparable to where they were 15 years ago (2004/05)
- This EFT level has been achieved despite:
  - 15% growth in customers
  - Additional operational requirements for major infrastructure (Wuskwatim GS, Riel and Keewatinohk Converter Stations)
  - Aging infrastructure demands
  - Increased regulation (environmental, NERC, NEB and safety)

Business Operations Capital (BOC)

- All capital expenditures in 19/20 are necessary
  - Timing of investment is a complex risk decision
  - Only those investments with unacceptable consequences are advanced



Additional Reductions

- Additional staffing reductions or cutback on the capital program cannot address the fundamental issue – significant revenue shortfall following the in-service of Keeyask and the associated transmission
  - A reduction of an additional 100 EFTs results in annual O&A savings of $7 million* in year following departure
  - A reduction of $100 million in BOC reduces revenue requirement by $4 million**

* MH's rebuttal evidence page 6

** Coalition/MH I-30

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Financial Ratios in 19/20

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

- Interveners have argued that the proposed 3.5% rate increase will not make a material difference to any of MH's financial ratios in 19/20
  - The EBITDA interest coverage ratio and the equity ratio are both well below their targets
- It is the additional revenue on an annualized basis in perpetuity that has a profound impact on financial metrics and debt levels

Long Term Impacts

- Without the 3.5% proposed rate increase:
  - Earnings reduce by $900 million over the next decade
  - Debt ratio increases by 3% by 28/29
  - The financial stability of the utility weakens further when Keeyask is commissioned

Source: MH’s Rebuttal Evidence Figure 2 page 3

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Credit Rating Agencies

- Manitoba Hydro’s financial metrics are weakening as a result of minimal net income and cash flow and escalating debt levels.
- S&P no longer considers Manitoba Hydro to be self-supporting.
- Moody’s has indicated they may reassess Manitoba Hydro’s status in their most recent report on the Manitoba Hydro-Electric Board.

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Moody’s Dec. 24, 2018 Report - MHEB

The Moody’s report states in part that:

- “...in recent years rate increases have not been keeping up with costs as evidenced by ongoing weak financial metrics”;
- “Given the company's ongoing weak financial profile and limited rate increases we may reassess our view of Manitoba Hydro's self-sufficiency”; and,
- “…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.”

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Self-Supporting Status

- 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 self-supporting status.
- Manitoba Hydro's debt represents over 40% of the total Province of Manitoba debt and would have a material impact on the Province's financial metrics should Manitoba Hydro lose its self-supporting status.

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Moody's EBIT Interest Coverage

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**

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