



R.B. Brennan, FCA
President and
Chief Executive Officer

2009 11 10

Mr. Bob Owen
KPMG
Suite 2000, One Lombard Place
Winnipeg, Manitoba
R3B 0X3

Dear Bob:

RE: REQUEST FOR PROPOSAL - EXTERNAL QUALITY REVIEW

As you are aware, a consultant hired by Manitoba Hydro has initiated [REDACTED] containing a series of allegations primarily targeted at the Corporation's export power sales and associated risk management practices. These allegations are being taken very seriously by Manitoba Hydro management, the Board, and the Audit Committee.

Manitoba Hydro management is confident that we operate in good faith and manage utility operations in the best interests of the Province of Manitoba and our stakeholders. We continually strive to improve our methodology in managing the challenges we face related to power sales and operations and the many and varied risks embedded therein. We have engaged several consultants in recent years to draw upon their credentialed experience with a view to improving our methods of operation and approach to risk management. In fact, it was in our quest to continue to evaluate and improve our integration of quantitative risk management activities related to the power sales function that the Whistleblower was hired to perform certain contracted duties.

In a recent meeting of the Audit Committee (later affirmed at a meeting of the Board), it was decided that Manitoba Hydro would hire a qualified accounting firm to perform an external quality review, as is defined in the attached Terms of Reference. The purpose of this letter is to have you review the Terms of Reference, determine if you are in a position to meet the objectives therein stated, and invite you to submit a proposal to undertake the engagement.

Manitoba Hydro recognizes that there are allegations made by a disgruntled consultant which may require further expert assistance to allow a fulsome evaluation as to their merit. As indicated in the Terms of Reference, Manitoba Hydro stands ready to work with the selected consultant in obtaining the assistance determined to be necessary and reasonable in the circumstances. In addition, the consultant will be granted access to line management, their staff and the related information sources required to undertake the work necessary to deliver the product outlined in the Terms of Reference. Manitoba Hydro's Internal Audit Department is actively engaged in working toward the completion of the project outlined in their associated Terms of Reference, also attached for reference purposes. Internal Audit will provide the product referenced and will assist the consultant hired to complete the external quality review should their assistance be required. Timing is tight and the resulting work product will undoubtedly be critiqued by The Office of the Auditor General of Manitoba and others with a vested interest in ensuring that the [REDACTED] report is given due consideration.

In advance of providing Manitoba Hydro with a proposal related to the completion of this work, you are invited to meet with myself and/or Internal Audit to gain an appreciation as to the nature and extent of the work associated with this engagement. After you have had the opportunity to consider the Terms of Reference and meet with Manitoba Hydro personnel as you consider necessary, we would appreciate receiving a written response to this request. We would require a written proposal inclusive of:

1. the names and CVs of individuals who would be responsible for material portions of the engagement along with an expression that they have the capability required to do the work;
2. assurance that there are no conflicts associated with KPMG accepting this engagement;
3. the nature of anticipated use of Corporate resources in completing the engagement;
4. the financial terms which you would require as compensation for the work;
5. a timeline for the activities (recognizing the intended completion date of December 31, 2009);
6. progress reporting methodology; and
7. a reporting strategy (format/drafting process) to the Audit Committee of The Manitoba Hydro-Electric Board.

Yours truly,



RBB/gt
Att.

MANITOBA HYDRO ENERGY RISK MANAGEMENT PRACTICES

TERMS OF REFERENCE

Manitoba Hydro has received reports from [REDACTED] and its principal, [REDACTED]. The reports may also be subject of a review by the Auditor General of Manitoba in accordance with the Auditor General Act. The reports contain: (a) findings and recommendations for Manitoba Hydro in areas such as risk management, long-term contracts, hydrologic modeling, specific power trading issues, and governance structures for power trading; (b) allegations involving [REDACTED]'s own financial and contractual claims against Manitoba Hydro; and (c) personal allegations against management.

The Corporation has received comments on the [REDACTED] reports from internal Corporate personnel, and it has received independent advice on the handling of drought risk and long-term contracts from ICF Consulting.

Pursuant to Public Utilities Board (PUB) Order 32/09, Manitoba Hydro has been directed to file, for PUB approval, a conceptual outline for an in-depth and independent study of all the operational and business risks facing the Corporation. The risk study is to be a thorough and quantified analysis, including probabilities of all identified operational and business risks. This risk report should consider the implications of planned capital spending, taking into account export revenue growth, variable interest rates, drought, inflation experience and risk and potential currency fluctuation.

The purpose of the KPMG Review is to evaluate the merits of the findings and recommendations as described in the opening paragraph above and to provide the independent risk analysis as directed by the PUB. The KPMG Review will be shared with the PUB and other oversight bodies.

KPMG will be retained by, and report to, the Audit Committee of The Manitoba Hydro-Electric Board. The specific tasks for KPMG are as follows:

1. Review existing internal and external reports related to matters of Manitoba Hydro's risks, as well as the source data for each of the reports.
2. Provide a conceptual outline to Manitoba Hydro, for the in-depth and independent study as directed in PUB Order 32/09 and meet with PUB Staff and/or Advisors as necessary to review the PUB's Orders and concerns with respect to Manitoba Hydro's risks.

3. Prepare the independent, in-depth Risk Study as directed in PUB Order 32/09, which is to include an evaluation of the findings and recommendations that have been made by [REDACTED] Manitoba Hydro's Corporate comments and the ICF Report dealing with risk management, long-term contracts, hydrologic modeling, specific power trading issues and governance structure for power trading.

With respect to long-term contracts, KPMG should consider:

- a) the implications of planned capital spending taking into account export revenue growth, market access risk, interest and inflation risk, and potential currency fluctuation; and
- b) Hydro commitments and risks related to electrical reliability requirements of dealing in the MISO market.

The Risk Study should also consider energy supply risks, especially those that export commitments might impose on domestic supply.

4. Prepare a report summarizing findings, conclusions and recommendations on or before December 31, 2009.

**MANITOBA HYDRO
ENERGY RISK MANAGEMENT PRACTICES**

**Internal Audit Review
TERMS OF REFERENCE**

1. Prepare a list of all of the allegations made by [REDACTED] through a detailed review, analysis and interpretation of the documentation provided by [REDACTED] to date.
2. Organize the allegations in a manner to facilitate an effective review and response.
3. Prioritize the allegations, based on an assessment of the risk associated with the allegation. The relevant risks could include but are not limited to: financial, reliability, environmental, customer value, operational and reputational.
4. Do the following for each allegation that is deemed to have a high priority as per the above:
 - Explain the potential implication to the corporation, including whether it is a business consideration or issue of perceptions.
 - Identify the positions that have been taken to date by Manitoba Hydro employees, and where applicable by ICF Consulting.
 - Provide this listing to the consultant hired to perform the External Quality Review to assist them in performing their assessment.
 - Provide assistance to the consultant hired to perform the External Quality Review to allow them to make suggestions as to whether the Corporation appears to have a relatively sound basis of understanding of the allegation or whether material gaps exist in the corporation's understanding, and make suggestions as to additional technical expertise that would be advisable to address any such gaps.
5. Summarize your findings in a report or table for the Audit Committee. Treat this project as a high priority engagement with a view to completing the engagement on an ASAP basis.