MANITOBA HYDRO
APPLICATION FOR INTERIM ELECTRIC RATES EFFECTIVE APRIL 1, 2014

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1.0 Summary of Application

Manitoba Hydro hereby applies to the Public Utilities Board of Manitoba (PUB) for an Order pursuant to Section 26(1) of *The Crown Corporations Public Review and Accountability Act* and pursuant to Section 47(2) of *The Public Utilities Board Act* for approval, on an interim basis, of a 3.95% general rate increase effective April 1, 2014, sufficient to generate additional revenue of $56 million in 2014/15, to be applied on an across-the-board basis for all customer classes.

In summary, Manitoba Hydro is seeking approval for the proposed interim rate increase on April 1, 2014 for the following reasons:

1. To avoid the potential for incurring losses on Electric operations;
2. To limit the extent to which financial ratios are projected to deteriorate, and in doing so, maintain the on-going financial and credit rating integrity of Manitoba Hydro;
3. To continue to compensate for the fact that while prices for non-firm electricity sales in the export market have shown improvement, they continue to be significantly less than those experienced prior to the 2009/10 fiscal year;
4. To recognize that Manitoba Hydro's infrastructure is aging and that increased costs are necessary to maintain infrastructure in a safe and reliable manner; and,
5. To provide customers with rate stability and predictability and to avoid the need for much higher rates in the future.

Electric utilities across Canada are facing similar cost pressures as Manitoba Hydro, which are resulting in rate increases that are significantly higher than those proposed and projected by Manitoba Hydro. Even with the proposed rate change, electricity customers in Manitoba will continue to benefit from electricity rates that are expected to remain at or near the low end of rates for Canadian utilities.

The financial outlook contained in Manitoba Hydro's latest financial forecast for electric operations ("MH13") is less favourable over the 20-year forecast period than those projected in Manitoba Hydro previous forecast for Electric operations ("MH12"), largely attributable to lower projected net revenue from lower forecast domestic load (somewhat offset by higher net extra-provincial revenue) and higher projected capital costs.

The longer term forecast presented in MH13 reinforces the need to implement the requested rate increase for April 1, 2014. Absent the increase, the Corporation projects that it would experience a loss of $1.0 million on Electric operations in the 2014/15 fiscal year and that its key financial ratios would be significantly below corporate targets.

Manitoba Hydro proposes that the public review process for this Application be conducted by way of a written process, without an oral hearing, in order to avoid resource and scheduling constraints during the Needs For and Alternatives To ("NFAT") proceeding with respect to Manitoba Hydro's Preferred Development Plan and to ensure timely implementation of the proposed rate increase. Manitoba Hydro believes that this Application provides prima facie support for the requested interim rate increase and submits that considering the Corporation's current financial outlook, it is appropriate to grant the interim rate relief requested effective April 1, 2014. Manitoba Hydro will seek final approval of any interim orders flowing from this Application at its next General Rate Application, which Manitoba Hydro expects to file in the fall of 2014. Granting interim rate relief for April 1, 2014 balances both the needs of the utility and the interests of the public by maintaining the financial position of the Corporation in the short-term, while allowing for a full review of the requested rate increase at Manitoba Hydro's next General Rate Application.

The background and reasons for Manitoba Hydro's Application are outlined in Sections 2 and 3 respectively, a comparison of rates across Canadian utilities is provided in Section 4, Manitoba Hydro's current financial position and outlook and comparison to the previous forecast (MH12) is provided in Section 5, the proposed rate schedules for implementation on April 1, 2014 are discussed in Section 6, and a response to directive 5 from Order 43/13 is provided in Section 7.

2.0 Background

On June 15, 2012, Manitoba Hydro filed its 2012/13 & 2013/14 General Rate Application ("GRA") requesting interim approval of a 2.5% general rate increase effective September 1, 2012 and a further 3.5% rate increase effective April 1, 2013. Manitoba Hydro also sought to maintain in its rates and revenues the 1% rate change that was previously approved by the PUB on an interim basis and subsequently rolled back. Manitoba Hydro also requested an interim 6.5% rate increase effective September 1, 2012, to the full cost portion of the rate applicable to general service and government customers in four remote communities served by diesel generation.

On August 31, 2012, the PUB issued Order 117/12 approving, on an interim basis, a 2.4% interim general rate increase, applied on an across-the-board basis for all rate classes, and an average 6.5% rate increase on the full cost portion of the rate applicable to General Service and Government customers served by diesel generation, effective September 1, 2012.

On April 26, 2013, the PUB issued Order 43/13 approving a 3.5% general rate increase, applied on an across-the-board basis to all customer classes, effective May 1, 2013, and directed that the revenues from a 1.5% portion of the increase are to accrue to an account to be utilized to mitigate the anticipated rate impacts when Bipole III is placed into service. Order 43/13 also provided final approval for Manitoba Hydro to maintain in its rates and revenues the 1% rate change that was previously approved by the PUB on an interim basis and subsequently rolled back in Order 5/12, final approval of the 2.0% interim rate increase granted for April 1, 2012 approved by Order 32/12, and final approval of the 2.4% interim rate increase granted for September 1, 2012.

In Order 43/13, the PUB identified the following reasons for approving the 3.5% general rate increase effective May 1, 2013:

- Reduced revenues from export sales;
- Higher operating costs related to Wuskwatim Generating Station;
- Higher Operating, Maintenance & Administration Costs;
- Funding of capital expenditures undertaken to support reliability of electrical service; and,
- Manitoba Hydro's financial and credit rating integrity over the longer term.

A number of these factors necessitate the requirement for Manitoba Hydro to continue to balance the financial health of the utility with rate stability and predictability, and are discussed in Section 3 as being among the major reasons for Manitoba Hydro's current request for an interim rate increase effective April 1, 2014.

Also in Order 43/13, the PUB found that progress toward meeting Manitoba Hydro's financial targets will require not only rate increases, but a concerted effort at cost containment within the Corporation. Manitoba Hydro is continuing to develop measures to manage its operating costs, while at the same time balancing the need to ensure staffing levels are adequate to provide safe and reliable service. Accordingly, MH13 includes cost constraint provisions that limit Operating and Administrative ("O&A") cost increases to 1% starting in 2015/16 and continuing through 2020/21, which are below projected inflationary levels. These provisions reduce O&A expenditures by approximately $600 million over the forecast period. By implementing these further cost containment initiatives, Manitoba Hydro has maintained projected annual rate increases for each year of MH13 at the same level as those projected in MH12, namely 3.95%.

In the 2012/13 & 2013/14 GRA, changes in accounting policies and practices, such as the changes to Manitoba Hydro's overhead capitalization practices, had a significant impact on the Corporation's O&A expense for the period under examination. These changes were made to reflect industry trends to move away from full cost accounting and to provide consistency with other Canadian utilities. For the 2014/15 test year, there are no further increases in O&A expense related to accounting changes included in MH13.

3.0 Reasons for Application

Manitoba Hydro's latest Integrated Financial Forecast ("IFF13") for the consolidated operations was approved by the Manitoba Hydro-Electric Board ("MHEB") on February 26, 2014 and is attached to the Application as Appendix 1. IFF13 provides a projection of the Corporation's long-term financial position and is the primary forecast used to determine the need for rate increases that are necessary for the Corporation to attain its financial targets and objectives. While 2013/14 is forecast to be a favourable year with projected net income of $116 million for Electric operations, Manitoba Hydro's long term forecast projects that indicative even annual rate increases of 3.95% are required for each year of the forecast.

Approval of the proposed rate increase is needed to maintain net income and financial ratios for 2014/15 at acceptable levels, to preserve the financial integrity of the Corporation to adequately address risks and promote rate stability for customers. Including the proposed rate increase, the forecast net income from Electric operations is $55 million for 2014/15; the equity ratio is projected at 22%; and, the interest coverage and capital coverage ratios are projected at 1.09 and 0.87, respectively, for 2014/15.

Absent the proposed rate increase, a net loss of $1 million is projected in 2014/15, the equity ratio is projected to decline to 21%, and the interest coverage and capital coverage ratios are projected to deteriorate to 1.00 and 0.78 respectively in 2014/15 (well below the 1.20 target levels).

Manitoba Hydro's net extraprovincial revenues are projected at $139 million in 2013/14 and $118 million in 2014/15. The projected increase in net extraprovincial revenues over the previous forecast MH12, and the $100 million levels experienced in 2011/12 and 2012/13, reflect the current favourable water conditions and marginally higher export prices. However, the projected levels of net extraprovincial revenues are still significantly lower than the level of between $170 million and $370 million experienced in the 2007/08 to 2010/11 period. It is necessary to gradually increase customer rates over time to address this reduction in net extraprovincial revenues.

Similar to other energy utilities in North America, Manitoba Hydro's aging infrastructure is contributing toward the need for higher rate increases. Many components of the electrical system were installed decades ago, have been in service for more than 70 years and are now approaching the end of their serviceable lives. As a result of this investment made decades ago, ratepayers in Manitoba benefitted for many years as the Corporation was able to maintain its electricity rates among the lowest in North America. However, many of Manitoba Hydro's generation, transmission and distribution assets have reached an age where their overall condition has placed a greater risk on reliable electric service.

Manitoba Hydro's Application for an interim electric rate increase of 3.95% effective April 1, 2014 is driven, in part, by the need to invest in aging utility assets that are becoming significantly more costly to maintain and renew. The greatest risk to the reliability of electrical service is equipment failure with the expectation that outages could become more frequent and of longer duration if adequate investment is not made to upgrade these facilities. For example, the distribution assets that are in need of replacement or rehabilitation include wood poles, underground electric cables and streetlight standards. Additional investment in Manitoba Hydro's existing assets is required at this time to ensure ongoing safe and reliable service, and it is important that rates are increased gradually in order to provide adequate revenues for the required investment in existing infrastructure to avoid seeking higher rate increases in the future.

Manitoba Hydro has historically funded base capital expenditures through internally generated funds. Based on the level of forecast base capital spending in 2014/15 to 2016/17, Manitoba Hydro is projecting capital coverage ratios below 1.0. Manitoba Hydro believes that the interim rate increase of 3.95% effective April 1, 2014 is the minimum rate increase required to provide for the necessary investment in infrastructure and allow the Corporation to continue to provide safe and reliable service.

As noted, the financial results for MH13 are less favourable over the 20-year forecast period than the financial results projected in MH12, which is largely attributable to lower projected net revenue due to lower forecast domestic Manitoba load growth and higher projected capital costs. General consumers revenue is forecast based on the future load requirements in Manitoba as projected in the 2013 Electric Load Forecast, which projects that the average annual growth in Manitoba load will be 1.5% over the 20-year forecast period to 2032/33 (compared to 1.6% in MH12). The forecast presented in MH13 reinforces the need to implement the requested rate increase in its entirety because without regular and reasonable rate increases, there exists potential for significantly higher rate increases in the future than those projected in MH13.

IFF13 provides sensitivity analysis on pages 16 to 19 to give an indication of the financial impact of changes in the key assumptions used in the forecast, including projected rate increases. This analysis demonstrates that a 1% reduction in Manitoba Hydro's proposed rate increase in 2014/15 would require incremental rate increases of 0.22%, above the projected 3.95% increases, each year between 2015/16 and 2022/23.

The PUB acknowledged in Order 43/13 the importance of Manitoba Hydro remaining a financially strong and viable organization and the Corporation believes that the requested interim rate increase of 3.95% effective April 1, 2014 is the minimum rate increase necessary to contribute to on-going financial integrity and rate stability. By ensuring that Manitoba Hydro remains in a position to withstand the risks and uncertainties inherent in its operations in the near-term, the corporation is able to continue to maintain the ongoing safety and reliability of the electricity supply and delivery system.

4.0 Comparison of Electricity Rates Across Canadian Utilities

Table 1 below provides a comparison of the rate increases approved and proposed by other Canadian electric utilities since 2006. While the projected rate increases in MH13 are higher than the projected general inflation rates, Manitoba Hydro rates are expected to remain at or near the low end for rates of Canadian utilities.

Table 1: Utility Rate Changes

	2006	2007	2008	2009	2010	2011	2012	2013	2014	Cumulative	Current Rate Index*
Manitoba Hydro	0.00%	2.30%	5.00%	2.90%	2.80%	2.00%	4.40%	3.50%	3.95% (proposed)	30.10%	100
BC Hydro	1.50%	2.10%	0.80%	9.30%	7.30%	7.80%	7.10%	1.40%	9.00%	56.30%	118
Hydro Quebec	5.30%	1.90%	2.90%	1.20%	0.40%	-0.40%	-0.50%	2.40%	5.8% (proposed)	20.40%	101
NB Power	6.90%	5.90%	3.00%	3.00%	3.00%	0.00%	0.00%	2.00%	0.00%	26.20%	187
Nova Scotia Power	8.70%	3.80%	0.00%	9.30%	0.00%	6.10%	8.70%	3.00%	3.00%	50.80%	207
SaskPower	4.90%	4.20%	0.00%	8.50%	4.50%	0.00%	0.00%	4.90%	5.5% (interim)	37.20%	158

* This index compares the average price per kWh for the various utilities, and it is based on the Edison Electric Institute Survey. Manitoba Hydro's average price is $0.623/kWh (see Section 4 of Interim Application). The Survey is based on data ending June 2013.

Manitoba Hydro uses its own annual "Survey of Canadian Electricity Bills" (which can be found using the link provided in Appendix 2) to compare bills paid by Manitoba customers with those of other major Canadian utilities. As demonstrated in Table 2 below, based on the 2013 Survey of Canadian Electricity Bills, electricity rates in Manitoba are at or near the low end of rates in comparison to other large Canadian cities and are expected to remain as such even with the proposed and indicative rate increases:

Table 2: 2013 Survey of Canadian Electricity Bills
Rate Comparisons (Price per kWh)

	Residential		GS - Small		GS - Medium		GS - Large	
	1000 kWh	2000 kWh	750 kWh	5000 kWh	120 MWh	200 MWh	5.5 GWh	12 GWh
Vancouver BC	8.91	9.88	10.58	9.87	7.18	7.21	6.55	5.02
Edmonton AB	12.13	11.07	13.20	11.58	n/a	n/a	n/a	n/a
Calgary AB	12.22	11.35	14.14	10.62	9.99	9.86	8.77	n/a
Regina SK	13.15	12.14	13.96	11.07	9.51	9.52	7.16	5.95
Winnipeg, MB	**7.89**	**7.54**	**10.11**	**7.93**	**6.07**	**6.01**	**4.77**	**3.88**
Toronto ON	13.10	12.25	14.96	13.04	11.79	11.79	10.74	10.49
Montreal PQ	6.87	7.32	10.58	9.18	7.92	7.92	4.79	4.65
Halifax NS	15.45	14.91	16.23	14.85	12.44	12.44	8.80	8.52
Moncton NB	11.82	10.84	14.86	12.49	10.98	10.98	7.10	6.90
St. John's NL	12.55	11.78	15.11	12.78	10.33	10.06	9.10	8.80

n/a - did not respond to Manitoba Hydro's survey
Reflects rates in effect May 1, 2013

To measure performance in the overall North American context, Manitoba Hydro uses the results of both the Edison Electric Institute ("EEI") survey as well as monthly statistics obtained from the United States Department of Energy ("DOE"). Unlike the EEI data that provides investor-owned utility comparisons, the DOE data provides comparisons by State which includes numerous utilities within that state. The table below provides the Total Retail Average Rate for the top ten Provinces and States based on the June 2013 DOE data and July 1, 2013 EEI data, using an exchange rate of 1 US $ = 1.1104 Canadian as of February 20, 2014. It is important to note that the Canadian dollar relative to the United States dollar may differ significantly when comparing results from previous years.

The Average Retail Rate provided in Table 5 below was determined by dividing the combined total revenue billed by the combined total kilowatt hours billed for the 12-month period ending June 30, 2013 for all customer classes (residential, commercial and industrial), whereas the price per kilowatt hour in Table 2, based on Manitoba Hydro's Survey of Canadian Electricity Bills, are provided for each customer class based on specific levels of consumption.

Table 3: Total Retail Average Rate (Canadian $)

State / Province	Cents per kWh
Manitoba	6.23
Quebec	6.27
British Columbia	7.37
Washington	7.56
Wyoming	8.29
Kentucky	8.61
West Virginia	8.75
Illinois	8.79
Idaho	8.88
Louisiana	9.09

Electric utilities across Canada are facing similar cost pressures as Manitoba Hydro which are driving higher than inflationary rate increases. A summary of the reasons for proposed rate increases of comparable Canadian utilities is provided below.

The British Columbia government has announced that electricity rates for BC Hydro will increase by 9.0% in 2014 and 6.0% in 2015. The rate increases for 2016, 2017 and 2018 have been capped by the BC government at 4%, 3.5% and 3.0% respectively. The actual rate increases for 2016-2018 will be established by the British Columbia Utilities Commission. The stated main driver behind these rate increases is the need to fund investments in aging and new infrastructure to meet growing demand. BC Hydro is forecasting a significant increase in electricity demand over the next 20 years, driven by population increases and broad economic expansion, including increased demand associated with Liquefied Natural Gas industry development. As well, BC Hydro forecasts that over the next ten years capital expenditures of over $1 billion per year will be required to refurbish, upgrade, expand and add to its generation, transmission and distribution assets.

The Saskatchewan Rates Review Panel is currently reviewing proposed increases for SaskPower of 5.5% for 2014, and 5.0% in each of 2015 and 2016. The rate increases are required primarily to support significant load growth over the next decade, with the bulk of this growth occurring within the next five years, and to support investments in aging generation, transmission and distribution infrastructure. SaskPower is investing an estimated $1 billion per year for the long term to renew and modernize its electricity system. The majority of the increase in SaskPower's expenses in 2014 (depreciation & amortization expense, finance expense and capital taxes) are being driven by increased capital investment. Other drivers include increased fuel and power purchase costs associated with changes in SaskPower's generation mix.

Nova Scotia Power's rates increased by 3% in each of 2013 and 2014. The rate increases were set as part of a rate stabilization plan whereby a portion of the revenue requirement not recovered through current rates is being deferred for recovery in future years. In absence of a rate stabilization plan, the rate increases would have been 7.2% in 2013 and 2.8% in 2014. The rate increases were the result of reduced load, and hence reduced contribution to fixed costs, from the two largest industrial customers, as well as the result of investments associated with a transformation in the generation mix. The cost increases in 2014 are mainly attributable to increased fuel costs, and increased capital investments in the distribution and transmission system to improve reliability and prepare the system to receive intermittent renewable energy. In addition to this general rate increase, the Nova Scotia Utility and Review Board has approved an increase to the 2014 Demand Side Management Cost Recovery Rider applied to each rate class. Combined with the 3% general rate increase, the changes to the DSM riders will result in overall rate increases ranging from 3.5% to 4.6% depending on the rate class.

Hydro Quebec is proposing a rate increase of 3.4% for 2014, which, when incorporated with a proposed increase to their rate of return, will result in an overall average increase of approximately 5.8% in 2014. The main reasons driving the rate increase are increased costs associated with new wind power purchases, and additions to the transmission and distribution system to support load growth.

In November 2013, the Ontario government released its 2013 Long Term Energy Plan (the "Plan"), which outlines Ontario's plans for encouraging conservation and providing for a clean, reliable and affordable energy future. The Plan provides residential electricity bill forecasts over the period 2013-2032. Although these are not based on underlying proposed rate increases by a particular entity, they do indicate that Ontario residential customers could see their bills increase by approximately 9.6% in 2014, 5.8% in 2015, and 15% in 2016. The Plan also provides industrial electricity price forecasts, which indicates that Ontario industrial customers could experience electricity price increases of approximately 10% in 2014, 5.7% in 2015, and 4.3% in 2016.

5.0 Current Financial Position & Outlook (MH13)

Table 4 below compares the actual and forecast revenues, expenses and net income of the Corporation's Electric operations for the fiscal years 2011/12 to 2014/15. In accordance with Order 43/13, MH13 assumes that a 1.5% portion of the revenues associated with the 3.5% rate increase that was approved effective May 1, 2013, will accrue to a deferral account to be utilized to mitigate the anticipated rate impact when Bipole III is placed in service (projected in October 2017). The approved general consumers revenue includes the revenues from the 2.0% portion of the rate increase approved effective May 1, 2013. The proposed rate increase reflects the 3.95% rate increase requested for April 1, 2014.

Table 4 - Net Income and Retained Earnings - Electric Operations
(millions of $)

	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Forecast
General Consumers Revenue				
- at approved rates	$ 1 193	$ 1 341	$ 1 396	$ 1 408
- with proposed increases*	-	-	-	56
Bipole III Reserve Account	-	-	(18)	(21)
Extraprovincial Revenue (net of fuel & power purchased and water rentals)	98	101	139	118
Other Revenue	13	25	13	13
	1 304	1 468	1 530	1 573
Expenses				
Operating & Administrative	412	463	485	494
Finance expense	385	452	437	499
Depreciation & Amortization	353	392	415	440
Capital & other taxes	83	86	93	101
Corporate Allocation	9	9	9	9
	1 242	1 403	1 438	1 543
Non-controlling Interest	-	13	24	24
Net Income	$ 61	$ 78	$ 116	$ 55

* with proposed increases - reflects a 3.95% increase in 2014/15

Financial Results - Assuming No 2014/15 Rate Increase

Net Income (Loss)	$ (1)
Retained Earnings	2 582
Debt to Equity Ratio (consolidated)	79:21
Interest Coverage Ratio (consolidated)	1.00
Capital Coverage Ratio (consolidated)	0.78

Financial Results (after the proposed rate increase)

	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Forecast
Retained Earnings	2 390	2 468	2 584	2 638
Debt to Equity Ratio (consolidated)	74:26	75:25	76:24	78:22
Interest Coverage Ratio (consolidated)	1.10	1.15	1.22	1.09
Capital Coverage Ratio (consolidated)	1.13	1.25	1.06	0.87

2012/13 Results

The Corporation’s net income from Electric operations for 2012/13 was $78 million, which was a $17 million increase from the previous fiscal year and a $25 million favourable variance from MH12.

The year over year increase in net income of $17 million is mainly due to an increase in general consumers revenue of $148 million primarily as a result of rate increases (2% April 1, 2012, 2.5% September 1, 2012 and the reinstatement of the 1% rate rollback in 2012/13) as well as higher usage resulting from colder weather. This increase in revenue was partially offset by a $51 million increase in operating and administrative expenses, a $39 million increase in depreciation and amortization expense, and a $67 million increase in finance expense. The increase in O&A expenses was mainly due to accounting changes implemented in 2012/13, which accounts for $30 million of the $51 million increase, as well as an increase in employee benefits resulting from changes in discount rates, which accounts for $12 million of the increase. The increase in depreciation and amortization expense was mainly due to assets being placed into service including the Wuskwatim Generating station. The increase in finance expense was mainly due to higher volumes of long-term debt, the financing costs associated with the Wuskwatim Generating Station coming into service and a weaker Canadian dollar. In addition, 2012/13 also includes $13 million of non-controlling interest, which represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's ("WPLP") operating results for 2012/13.

The 2012/13 actual results as compared to the MH12 forecast result in a favourable variance of $25 million, which is mainly due to higher general consumers revenue of $10 million primarily due to colder than normal weather resulting in a higher heating load and higher other revenue of $11 million.

2013/14 Forecast

The forecast net income from Electric operations for 2013/14 is $116 million, which is a $38 million increase from the previous fiscal year. The increase in the forecast net income for 2013/14 is primarily the result of increased revenues from domestic and net extraprovincial electricity sales, partially offset by higher costs of operations.

The increase in forecast domestic revenue over 2012/13 is primarily attributable to the electricity rate increase of 3.5% effective May 1, 2013 and colder weather compared to 2012/13. Net extraprovincial revenues are higher than 2012/13 primarily due to higher sales volumes reflecting favourable water conditions and higher export prices.

This increase in forecast revenue is partially offset by a $22 million increase in O&A expenses and a $23 million increase in depreciation and amortization expense, net of a decrease of $16 million in finance expense. O&A expenses have increased due to higher pension and benefit costs primarily related to a change in the discount rate, as well as increased costs over 2012/13 related to operating the Wuskwatim Generating Station for a full year. Depreciation and amortization expense has increased as a result of new additions of plant and equipment coming into service, including the Wuskwatim Generating Station. Finance expense is expected to decrease primarily due to gains resulting from the sale of sinking fund investments related to the maturity of debt issues. The non-controlling interest represents the Taskinigahp Power Corporation's 33% share of the WPLP operating results for 2013/14.

For Manitoba Hydro's financial results for the first nine months of 2013/14, please see Appendix 3, the Manitoba Hydro-Electric Board Quarterly Report ended December 31, 2013. Manitoba Hydro can further advise that its preliminary financial results for January of 2014 are consistent with the forecast net income from Electric operations of $116 million for 2013/14 in MH13.

<u>2014/15 Forecast</u>

The proposed general rate increase of 3.95% effective April 1, 2014 is expected to generate additional revenue of $56 million in 2014/15. With this increase, the forecast net income from electricity operations for 2014/15 is projected to be $55 million, which is a reduction of $61 million over the previous fiscal year.

The reduction in forecast net income for 2014/15 is primarily the result of a reduction in net extraprovincial revenues ($21 million), increased finance expense ($62 million) and increased depreciation & amortization expense ($25 million), somewhat offset by the requested rate increase ($56 million).

The extraprovincial sales volumes in Manitoba Hydro's Integrated Financial Forecast are typically based upon expected inflow conditions for the first year of the forecast, the median of historic inflows for the second year of the forecast, and the average of all revenues and costs using flow conditions for the past 99 years for the subsequent years of the forecast. Due to the timing of the approval of MH13, both 2013/14 and 2014/15 use expected inflow conditions for the forecast years, rather than using the median of historic inflows for the second forecast year (2014/15). Above average hydraulic generation is anticipated for 2014/15 due to the combination of above average reservoir storage and greater than median spring snowmelt runoff from the Winnipeg and Saskatchewan River basins. Due to these favourable water conditions, MH13 shows higher extraprovincial sales than would have been forecast had median inflows been used. However, much of

Manitoba Hydro's water supply comes from spring and summer rainfall so there is still considerable uncertainty in the overall inflows for 2014/15. Even with the inclusion of favourable water conditions for the 2014/15 forecast, Manitoba Hydro is still in need of the requested 3.95% increase in order to avoid incurring losses in the 2014/15 fiscal year.

Finance expense is $62 million higher in 2014/15 primarily due to increased debt requirements from increased capital expenditures ($36 million), gains recognized in 2013/14 from sinking fund investment redemptions ($19 million) which are not forecast to reoccur for 2014/15, and reduced interest income from the sale of US dollar sinking fund investments in 2013/14 ($8 million). The increase in depreciation and amortization expense is primarily due to assets being placed into service, including the Pointe du Bois Spillway Replacement and the Riel 230/500kV Station.

If the proposed rate increase is not approved, Manitoba Hydro is projecting a net loss of $1 million in 2014/15. Absent the 2014/15 rate increase, Manitoba Hydro would experience a further loss of $49 million in 2015/16 even if it obtained a 3.95% increase effective on April 1, 2015. In this scenario, projected retained earnings are forecast to be $56 million and $105 million lower in 2014/15 and 2015/16 respectively. Absent the proposed rate increase, the equity ratio is projected to decline to 21% for 2014/15, and the interest coverage and capital coverage ratios are projected to deteriorate to 1.00 and 0.78 respectively in 2014/15 (well below the 1.20 target levels).

5.1 Comparison to Previous Forecast (MH13 vs. MH12)

Manitoba Hydro filed MH12, which was approved by the MHEB in November 2012, during the course of the 2012/13 & 2013/14 GRA hearing and was the basis on which the PUB's decisions in Order 43/13 were made. Table 5 below provides a comparison of the forecast revenues, expenses and net income of the Corporation's Electric operations between MH12 and MH13 for the fiscal years 2013/14 and 2014/15.

Table 5 - MH13 vs MH12
Electric Operations
(millions of $)

	2013/14			2014/15		
	MH13 Forecast	MH12 Forecast	Increase (Decrease)	MH13 Forecast	MH12 Forecast	Increase (Decrease)
GCR Approved	1 396	1 361		1 408	1 374	
Rate Increase	-	48		56	104	
	1 396	1 409	(12)	1 463	1 478	(15)
Bipole III Reserve Account	(18)	-	(18)	(21)	-	(21)
Extraprovincial (net of fuel & power purchased and water rentals)	139	62	77	118	53	65
Other Revenue	13	15	(2)	13	15	(2)
Total Revenue	1 530	1 486	44	1 573	1 545	28
Operating & Administrative	485	471	14	494	544	(49)
Finance Expense	437	444	(8)	499	492	7
Depreciation & Amortization	415	430	(15)	440	372	67
Capital & Other Taxes	93	96	(3)	101	101	-
Corporate Allocation	9	9	-	9	8	1
Total Expenses	1 438	1 450	(12)	1 543	1 517	25
Non-Controlling Interest	24	24	(1)	24	21	3
Net Income	116	60	55	55	50	5
Retained Earnings (Electric)	2 584	2 502	82	2 638	2 295	343
Debt to Equity Ratio (consolidated)	76:24	78:22		78:22	83:17	
Interest Coverage Ratio (consolidated)	1.22	1.11	0.11	1.09	1.09	-
Capital Coverage Ratio (consolidated)	1.06	0.89	0.17	0.87	0.83	0.04

As demonstrated in Table 5, the increase in net income of $55 million in 2013/14 and $5 million in 2014/15 is primarily due to increases in net extraprovincial revenues, which is mainly attributable to above average hydraulic generation in these years as a result of favourable actual and forecast water conditions. To a lesser extent, the increase in export revenues can be attributed to higher volumes of energy available for export as a result of a reduction in the Manitoba domestic load growth relative to the forecast used in MH12, modest improvements to export prices, and the increase in the foreign exchange rate. The increase in forecast extraprovincial revenue is offset by decreases in general consumers revenue due to a reduction in the Manitoba domestic load growth forecast, as well as a decrease in revenues that are accruing to the Bipole III reserve account, as directed by the PUB in Order 43/13, to be utilized to mitigate the anticipated rate impact when Bipole III is placed into service.

The decrease in O&A expenses, the increase in depreciation and amortization expense, and the increase in the level of retained earnings between MH13 and MH12 for 2014/15 is primarily the result of the one-year deferral in the implementation of International Financial Reporting Standards (“IFRS”) from 2014/15 assumed in MH12 to 2015/16 assumed in MH13. On January 30, 2014, the International Accounting Standards Board (“IASB”) approved a new interim standard, IFRS 14, Regulatory Deferral Accounts, which is effective January 1, 2016. Under the interim standard, entities will be able to continue to defer and amortize regulatory assets and liabilities on transition to IFRS until the IASB can provide more guidance through its comprehensive Rate-regulated Activities project. MH12 assumed that the Corporation would be required to write-off approximately $300 million of rate-regulated assets to retained earnings. While it is uncertain as to the final position the IASB will take as part of its Rate regulated Activities project, MH13 assumes that regulatory deferral accounts will continue to be recognized throughout the forecast period to 2032/33 and as such retained earnings are higher in MH13 given that rate-regulated asset balances are maintained for 2014/15.

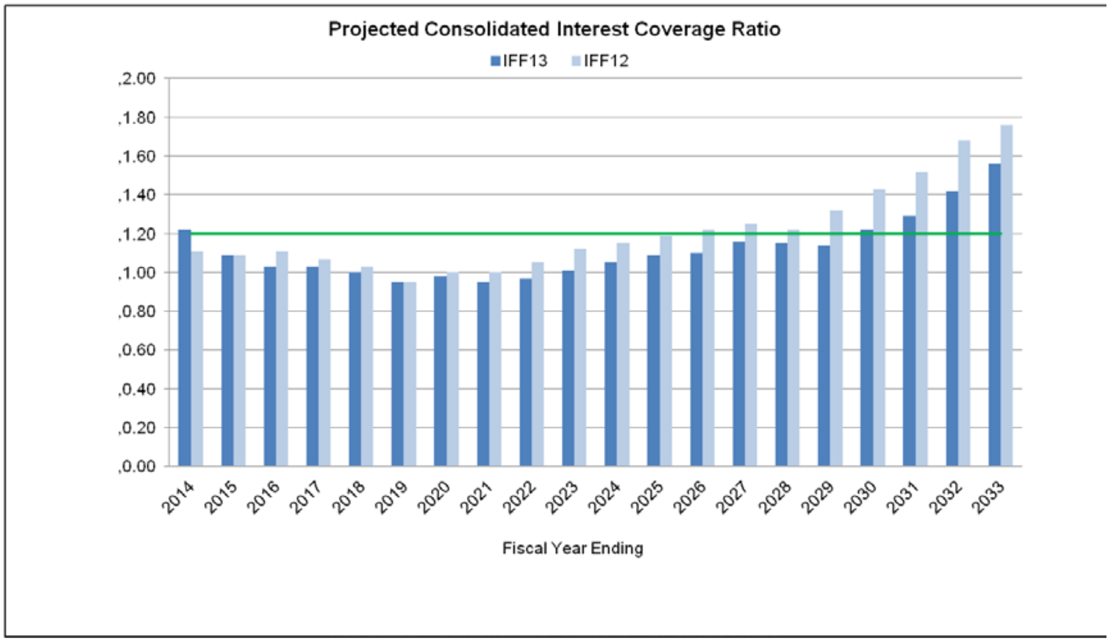
5.2 Financial Targets

The following chart provides the 20 year forecast of the consolidated equity ratio for IFF13 compared to IFF12.

The equity ratio indicates the portion of Manitoba Hydro's assets that have been financed by internally generated funds rather than through debt. High levels of capital investment over the next ten years combined with reduced revenues result in deterioration of the equity ratio to 11% by 2021/22 which is similar to the pattern in IFF12. The continuation of rate-regulated accounting, as assumed in IFF13, is mainly offset by the reductions in net income forecast in IFF13.

The equity ratio shows improvement following the in-service of Keeyask and Conawapa generating stations and is projected to return to the target 25% within one year (2033/34) of the 20-year forecast period.

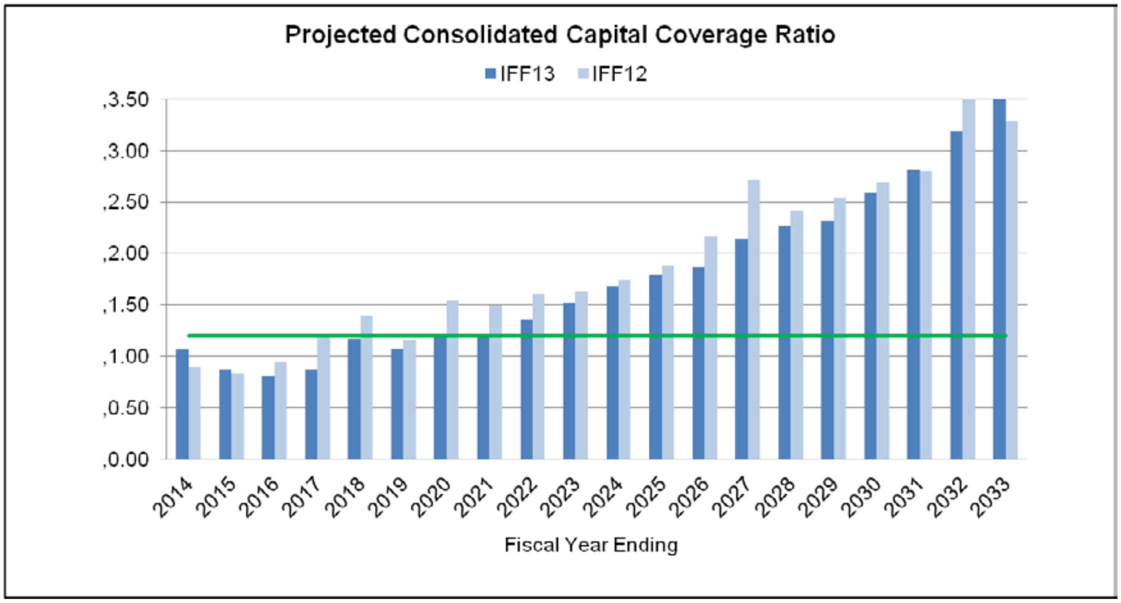
The following chart provides the 20 year forecast of the consolidated interest coverage ratio for IFF13 compared to IFF12.



The interest coverage ratio provides an indication of the Corporation's ability to meet interest payment obligations with the net income generated by the Corporation. The chart above shows that the reduction in net income compared to the previous forecast IFF12 and the increase in capital requirements to replace aging infrastructure, results in interest coverage ratios lower than target for a period of fifteen years. Of particular note is the forecast interest coverage around the 1.0 level between 2014/15 and 2022/23. Given the importance of this financial metric to credit rating agencies that assess the credit worthiness of the province and Manitoba Hydro, this further demonstrates the need for the regular and reasonable rate increases forecast in IFF13, including the proposed interim rate increase effective April 1, 2014.

In the longer term, interest coverage is projected to return to the 1.20 target level following in-service of the Conawapa Generating Station.

The following chart provides the 20 year forecast of consolidated capital coverage ratio for IFF13 compared to IFF12.



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 is below target for the first seven years of the forecast, and as previously mentioned, is below 1.0 for the period of 2014/15 to 2016/17.

Projected cash flows are sufficient to enable this target to be met in the years of the forecast after the in-service of the Keeyask Generating Station.

6.0 Proposed Rates & Customer Impacts by Class

The following sections discuss the proposed rate schedules and customer impacts that Manitoba Hydro is requesting interim approval of to be effective April 1, 2014. A Proof of Revenue for the test year 2014/15 detailing the total revenue increase by customer class is provided in Appendix 4 and the Rate Schedules for proposed rates effective April 1, 2014 are provided in Appendix 5. Appendix 6 provides Bill Comparisons between current May 1, 2013 rates and proposed April 1, 2014 rates.

The proposed rate schedules provided in Appendix 5 reflect an across-the-board rate increase of 3.95%, with each rate component increasing by the same percentage. The following sections provide the proposed rates and bill impacts for the major rate classes. More detailed bill impacts for all customer classes can be found in Appendix 6.

Residential

The 3.95% increase applied to the current rates for the residential class results in a monthly Basic Charge of $7.37 and Energy Charge of $0.07467.

Given that the same proposed percentage change of 3.95% has been applied to all components of the rates, residential customers will experience increases of 3.95% regardless of monthly consumption. A typical residential customer, without electric space heat, with an average usage of 1,000 kWh per month will experience an increase in their monthly bill of $3.12. A residential customer with electric space heat, using an average of 2,000 kWh a month, will experience an increase of $5.96 per month.

General Service Small and Medium

In past rate applications, Manitoba Hydro was working toward the consolidation of the General Service ("GS") Small and Medium rate classes. Currently, the rates for these two classes vary only with respect to the monthly Basic Charge and Three Phase Charge. The Energy Charges and Demand Charge are the same for both classes. Full consolidation of these rate classes will not be possible until the Cost of Service review is completed.

A 3.95% increase will result in the Basic Charge increasing to $19.96 and $28.14 for the GS Small Single Phase and GS Small Three Phase classes, respectively. The Basic Charge for the GS Medium class will increase to $29.70. The Energy Charge will increase to $0.07843 for the first 11,000 kWh, $0.05444 for the next 8,500 kWh and all remaining kWh to be charged $0.03594. The Demand Charge will increase to $9.20 per kVA on all demand in excess of 50 kVA for both GS Small and Medium classes.

GS Small and Medium customers will see increases of 3.95% to 3.96% depending on monthly consumption and load factor.

General Service Diesel Rates

Manitoba Hydro is proposing to apply the 3.95% increase to both the grid portion of the rate structure (equal to that proposed for grid customers) and the full-cost portion of the rate applicable to general service and government customers in the four remote communities served by diesel generation effective April 1, 2014.

GS Diesel and Government and First Nations Education customers will see increases of 3.94% to 3.95% depending on monthly consumption.

General Service Large

The last General Rate Application filed by Manitoba Hydro included proposed Time-of-Use ("TOU") rates for all Large >30 kV customers. This item was deferred to a separate regulatory process which is still pending. The rates being proposed in this Application are based on a single Energy Charge and single Demand Charge.

Both the Energy Charge and Demand Charge for all three GS Large sub-groups will increase by 3.95%.

- The Large 750V-30 kV sub-group will have an Energy Charge of $0.03378 per kWh and a Demand Charge of $7.81 per kVA;
- Large 30-100 kV sub-group will have an Energy Charge of $0.03141 per kWh and Demand Charge of $6.68 per kVA; and,
- Large >100 kV sub-group will have an Energy Charge of $0.03045 per kWh and Demand Charge of $5.95 per kVA.

GS Large customers will see increases in the range of 3.91% to 3.99% depending on the load factor and voltage level served.

Area and Roadway Lighting

Manitoba Hydro is proposing a 3.95% rate increase for Area and Roadway Lighting.

Limited Use of Billing Demand Rate Option ("LUBD")

The rates proposed for LUBD customers are tied to the rates proposed for regular General Service Small, Medium and Large customer classes. The monthly Basic Charge will increase to the same level as regular GS Small/Medium customers. The Demand Charge is set at approximately 25% of the Demand Charge of the corresponding regular General Service class, with the energy charge calculated to provide revenue neutrality at a load factor of approximately 18%.

Flat Rate Water Heating ("FRWH")

Both Residential and General Service FRWH customers will see increases equivalent to those applied to the Residential and General Service Small rate classes, that being 3.95%.

7.0 Response to Public Utilities Board Directive 5 of 43/13

In Order 43/13, the PUB directed Manitoba Hydro to file, as part of any future interim application for a rate increase, the following information for the three months prior to the Application and on an ongoing basis until an Order is issued:

a) Hydraulic generation monthly data (GWh) for the Winnipeg River System, Grand Rapids, Upper Nelson River Generating Station(s), Lower Nelson River Generating Station(s), and Wuskwatim Generating Station;
b) Monthly adjusted system energy-in-storage curves and Lake Winnipeg water levels;
c) Average monthly flow data for the Winnipeg River, Saskatchewan River, and Upper Nelson River (Kelsey Generating Station) and Lower Nelson River (Kettle Generating Station);
d) Monthly extra-provincial energy exchange data (volumes and prices) for National Energy Board-filed sales and purchases (by permit / license number), Midwest Independent System Operator day-ahead and real-time sales and purchases, and Canadian sales and purchases; and,
e) Monthly updates to Manitoba Hydro's financial results relative to its forecast.

Appendix 7 provides monthly hydraulic generation information, water conditions and extra-provincial energy exchange data for the months of November 2013 to January 2014 being the most current available data. Manitoba Hydro will provide this information for the month of February on or about March 12, 2014 when it is anticipated to be available.

For Manitoba Hydro's financial results for 2013/14, please see Appendix 2 which provides the MHEB Quarterly Report for the nine months ended December 31, 2013. Manitoba Hydro's financial results for January 2014 are consistent with the forecast net income from Electric operations of $116 million for 2014/15 from MH13.