



Annual Business Plan
2019-20

Crown Corporations Governance and Accountability Act

Manitoba Hydro hereby submits its Annual Business Plan as required by the *Crown Corporations Governance and Accountability Act*, consistent with the provided guidelines for a standard format among Crown corporations' plans.

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1.0 Mandate

1.1 Manitoba Hydro's Mandate as set out in *The Manitoba Hydro Act*

The purposes and objectives of this Act are to provide for the continuance of a supply of power adequate for the needs of the province, and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of power and, in addition, are:

- *to provide and market products, services and expertise related to the development, generation, transmission, distribution, supply and end-use of power, within and outside the province; and*
- *to market and supply power to persons outside the province on terms and conditions acceptable to the board.*

1.2 Key Directives from Province

On Oct 18, 2018 the Premier of Manitoba provided a Ministerial Mandate Letter to the Minister of Crown Services. Manitoba Hydro will support the Minister of Crown Services as they deliver on the applicable commitments including:

- *Launching Efficiency Manitoba as a smaller, more efficient demand side management agency than the current PowerSmart program. Efficiency Manitoba will do a better job lowering energy consumption, cutting emissions and reducing costs for Manitoba ratepayers;*
- *Reviewing how and why decisions were made to construct Manitoba Hydro's Bipole III transmission line along the longer western route, and advance the Keeyask Generating Station and converter station projects. The review should discover why the ultimate cost of those projects were allowed to greatly exceed their forecasted budgets. Most importantly, the review should provide recommendations that improve decision making and restore the health of Manitoba Hydro as a publicly owned entity focused on producing clean energy at the lowest possible cost to Manitoba ratepayers;*
- *Ensuring that any spending on advertising and sponsorships by Crown corporations are justified in the pursuit of their mandate;*
- *Ensuring the fairness of all consultative processes and damage remediation processes used by Manitoba Hydro; and*
- Other cross-government priorities such as economic development, Made-in-Manitoba Green Plan, reducing red tape and advancing reconciliation with Indigenous Manitobans.

On March 21, 2018 the Minister of Crown Services issued the following directive to the Manitoba Hydro-Electric Board:

Manitoba Hydro is directed to not proceed with the agreement with the Manitoba Metis Federation at this time.

Going forward, all relationship agreements, community benefit agreements or other similar agreements to which this directive applies between Manitoba Hydro and Indigenous communities and groups require review by the Minister of Crown Services before being executed.

Further, to ensure alignment between the policies and procedures of Manitoba Hydro and the priorities and policies of the government, Manitoba Hydro is directed to collaborate with Manitoba Crown Services to develop a strategy to advance reconciliation with Indigenous communities and groups.

Manitoba Hydro has implemented the March 21, 2018 Directive from the Minister of Crown Services (Manitoba Order-in-Council 00082/2018) as follows:

- Per the Directive, Manitoba Hydro has taken steps to ensure its approach to relationship agreements, community benefit agreements or other similar agreements with Indigenous communities and groups is aligned with government priorities and practice.
- Per the Directive, Manitoba Hydro has had discussions with Manitoba Crown Services regarding the development of a strategy to advance reconciliation with Indigenous communities and groups. Manitoba Hydro has participated in a meeting of the government-established Reconciliation Committee.
- Going forward, Manitoba Hydro will continue to participate in the Reconciliation Committee, as invited, and will continue to collaborate with Crown Services regarding a strategy to advance reconciliation with Indigenous communities and groups.

2.0 Operating Environment

2.1 Internal Environment

Manitoba Hydro has solid overall operating infrastructure, an experienced and dedicated work force and a track record of excellent reliability and customer service.

Adaptations continue from the workforce reductions associated with the Voluntary Departure Program in 2017 and 2018; internal improvement initiatives and work adjustments are ongoing.

The plan for transition of Demand Side Management is under development in collaboration with the newly appointed CEO of Efficiency Manitoba. In the interim, Manitoba Hydro will continue to provide services and support Demand Side Management efforts, under the direction and guidance of Efficiency Manitoba.

2.2 External Environment

Manitoba Hydro works within a dynamic and complex business environment with many diverse stakeholders. While many factors are outside of its direct control, the Corporation monitors and plans to mitigate the impacts of potential changes.

Key uncertainties that Manitoba Hydro monitors include:

- The impacts of climate change and weather on supply and demand;
- Changing customer expectations and behavior;
- Regulatory approval of electricity and natural gas general rate applications;
- Export price and market uncertainties including access, transmission and contractual relationships;
- Market liquidity risk and cost of debt necessary to fund the business,
- Skilled labour availability and costs;
- Cost of completion of in-progress capital programs;
- Aging infrastructure and system sustainment;
- Accelerated technological change; and
- Emergencies and disasters.

2.3 Risks

Manitoba Hydro has a relatively low tolerance for risk as it is solely responsible for the provision of natural gas and electricity to Manitobans. Manitoba Hydro has identified its highest priority risks, requiring most critical attention and focus over the next 12 months or longer:

Interest rates

Manitoba Hydro is in a growth period with several major capital projects underway leading to an elevated sensitivity to interest rates changes. Risk is mitigated through prudent debt management strategies and operating within policy limits.

Electricity rates

The Public Utilities Board sets electricity rates for domestic customers. There is a risk that the Public Utilities Board may not grant the rate increases requested by the Corporation, impacting the in-year financial results and longer term financial profile of Manitoba Hydro.

Completion of major capital projects

Further delays in obtaining the required provincial and federal licenses for the Manitoba-Minnesota Transmission Project may impact the construction schedule and future in-service date. The start of construction has been delayed several months from its original schedule; however the Corporation anticipates receiving licenses early in 2019 that would allow it to begin construction in mid-2019.

Any significant variance in completing Keeyask Generating Station project on time and on budget would have material financial, reputational and contractual consequences. The project is currently trending to meet or beat the control budget and schedule (see Section 3.4 for details).

Financial targets

With a new President & CEO appointed effective February 4, 2019, Manitoba Hydro will develop a long term strategic plan which will be in consultation with the Manitoba Hydro Electric Board. Once confirmed, the strategic plan will then guide longer term business decisions and rate applications to the Public Utilities Board with implications for customers.

Corporate reputation and concerned stakeholders

During this period of significant system growth, Manitoba Hydro is collaborating and liaising with many impacted stakeholders. Regular media coverage of issues may negatively impact stakeholders' perceptions of Manitoba Hydro. Manitoba Hydro actively manages this risk with respectful dialogue and consultation with impacted stakeholders.

3.0 Strategic Direction

3.1 Mission, Strategic Priorities and Foundational Principles

The current Mission, Strategic Priorities and Foundational Principles in the diagram below was the framework utilized to develop this Annual Business Plan.



Under the direction of the new President and CEO, we will be undertaking the development of a long term strategic plan.

3.2 Strategic Initiatives

Financial Sustainability

- Meet financial targets as budgeted in Section 4.1;
- Deliver capital investments as outlined in Section 6;
- Review and improve existing Corporate Risk Management framework and practices; and
- Continue implementation of corporate asset management initiative

Deliver an Excellent Customer Experience

- Meet objectives for customer service reliability/restoration and new service provisioning;
- Effectively manage electrical and gas regulated customer compliance obligations in a timely manner;
- Implement process improvement and operational efficiency initiatives with the goal of driving improved customer experience;
- Support provincial economic development objectives by engaging with customers and working proactively with provincial economic development agencies; and
- Maintain existing and build new export customer relationships.

Engage Employees in our Transformation

- Assess baseline employee engagement through a company-wide survey;
- Maintain strong focus on safety and drive continuous improvement;
- Maintain a strong focus on corporate equity and diversity objectives; and
- Communicate a common understanding of corporate direction and key business priorities to staff.

Respect and Support Indigenous Peoples in all Aspects of our Business

- Undertake coordinated actions to promote reconciliation with Indigenous peoples;
- Understand and work towards reasonable resolution to issues and ensure obligations are met on a timely basis;
- Work with First Nations and communities to address historical impact claims; and
- Continue to engage with Keeyask partners, Wuskwatim partners and other Northern Flood Agreement communities.

Other Key Initiatives

- Develop strategy for rebuilding Manitoba Hydro brand with a focus on what customers and stakeholders value;
- Support the smooth transition of Demand Side Management functions to Efficiency Manitoba;
- Provide information to support the independent review of Bipole III and Keeyask Generating Station decisions;

- Communicate corporate direction to stakeholders and manage key stakeholder issues;
- Work with the Public Utilities Board (PUB) to streamline rate filing processes;
- Meet mandatory regulatory compliance requirements; and
- Support the achievement of cross-government priorities, as directed

Specific actions and targets for the above Strategic Initiatives will be identified through the planning processes as they become operationalized.

3.3 Business Plan Outcomes

Manitoba Hydro's success at achieving its mandate, mission and strategic priorities is measured by the following outcomes:

	Measure	2019-20 Target
FINANCE	Debt to Equity Ratio	TBD
	Interest Coverage - Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	TBD
	Capital Coverage	TBD
	Consolidated Net Income (Loss)	\$121M
	Consolidated Operating & Admin (O&A) Costs	\$583
RATES Avg. ¢/kWh (Projected with 3.5%)	Residential - Includes Standard Residential customers (excludes First Nations On Reserve and Diesel Residential)	9.552¢
	Commercial - Includes General Service Small and General Service Medium Customer Classes	8.314¢
	Industrial - Includes all General Service Large Customer Classes	5.245¢
CUSTOMER SATISFACTION	CSTS - Customer Satisfaction Tracking Study	8.2
RELIABILITY	SAIDI - System Average Interruption Duration Index	116
	SAIFI - System Average Interruption Frequency Index	1.4
SAFETY	Accident Severity Rate	<12
	Accident Frequency Rate	<0.6
	Serious Incidents	0
	Safety Improvement - Reduction in Lost Time Injuries and Calendar Days Lost	20%
DIVERSITY	Indigenous - province-wide workforce	18%
	Indigenous - northern workforce	47%
	Indigenous - in management	8%
	Persons with disabilities	6%
	Visible minorities	9%
	Women - in workforce	30%
	Women - in management	30%

Manitoba Hydro will report results on the above planned outcomes to the Minister of Crown Services with the audited financial results in the Manitoba Hydro-Electric Board Annual Report.

3.4 Major Project Delivery

The completion of the major capital projects is a critical focus and priority for Manitoba Hydro. Significant resources are dedicated to monitoring and enhancing the progress of these projects to ensure they are completed on time, on budget, and on scope.

Keeyask – Generation

The Keeyask project is a 695-megawatt (MW) hydroelectric generating station that is being developed in a partnership between Manitoba Hydro and four Manitoba First Nations: Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation and Fox Lake Cree Nation. Working together, the Partners are known collectively as the Keeyask Hydropower Limited Partnership.

Located approximately 725 km north of Winnipeg on the lower Nelson River, construction of the Keeyask project includes:

- 7 unit powerhouse/service bay complex on the north side of Gull Rapids;
- 7 bay spillway on the south side of Gull Rapids;
- More than 2 km of dams across Gull Rapids; and
- 23 km of dykes built on the north and south side of the reservoir.

The following goals/milestones have been identified for the 2019-20 fiscal year:

- Increase confidence to meet and beat the project control budget of \$8.7B;
- Maintain schedule for first unit in service date in October of 2020 (well ahead of August 2021 control schedule); and
- Complete 99% of all project concrete and 90% of all project earthworks by year end.

Manitoba Minnesota Transmission Project (MMTP)

The Manitoba-Minnesota Transmission Project will strengthen the overall reliability of Manitoba's electricity supply, will allow Manitoba Hydro to fulfill current export sales agreements and increase access to markets in the United States, supporting export sales. The project includes:

- Construction of a 500 kV transmission line from the Winnipeg area to the U.S. border in southeastern Manitoba where it will connect to the Great Northern Transmission Line (GNTL) under construction by Minnesota Power; and
- Upgrades to associated electrical stations at Dorsey, Riel and Glenboro.

The following milestones have been identified for the 2019-20 fiscal year:

- Obtain Federal and Provincial licenses for MMTP;
- Start construction of MMTP June 2019 (timeline dependent on licensing and associated conditions); and

- Maintain progress towards June 2020 in-service schedule for both GNTL and MMTP.

Birtle Transmission

The Birtle Transmission project, previously named the Manitoba-Saskatchewan Transmission Project, is a new 230 kV transmission line to be built from Birtle Station to the Manitoba-Saskatchewan border, which is required to supply energy sales to SaskPower.

In order to achieve a 2021 In-Service Date, the following milestones have been identified for the 2019-20 fiscal year:

- Environmental Act License receipt: June 2019;
- Birtle South Station construction start: July 2019; and
- Transmission line construction start: December 2019.

4.0 Financial Budgets & Forecasts

4.1 Statement of Net Income

CONSOLIDATED PROJECTED STATEMENT OF INCOME			
(In Millions of Dollars)			
	2017/18 Actual	2018/19 Projected Results	2019/20 Proposed Budget
For the year ended March 31			
REVENUES			
Domestic Revenue			
Electric	1,616	1,701	1,748
Gas	342	343	323
BPIII Reserve Account	(152)	(44)	-
	1,806	2,001	2,071
Extraprovincial			
Dependable	259	266	272
Opportunity	168	155	141
Other Export	9	11	5
Other Revenue	86	133	155
	2,330	2,566	2,645
EXPENSES			
Cost of Gas Sold	195	187	188
Operating and Administrative	586	574	583
Depreciation and Amortization	430	494	537
Water Rentals and Assessments	126	114	117
Fuel and Power Purchased	130	134	127
Demand Side Management	75	72	70
Other Expenses	424	36	44
	1,966	1,611	1,665
Operating Income	364	955	979
% of Revenue	16%	37%	37%
Restructuring Charge	50	5	0
Net Finance Expense	618	752	782
Capital and Other Taxes	146	157	166
	814	914	949
Net Income before Net Movement in Reg. Deferral	(449)	41	31
Net Movement in Regulatory Deferral	478	61	86
Net Income	29	102	117
Net Income Attributable to:			
Manitoba Hydro	37	105	121
Non-controlling Interest	(8)	(3)	(4)
Additional Domestic Revenue			
PUB Approved General Electricity Rate Increase	3.36%	3.60%	
Proposed General Electricity Rate Increase			3.50%
General gas rate increases		0.00%	0.00%
Financial Metrics			
Equity Ratio	15%	14%	14%
EBITDA Interest Coverage Ratio	1.50	1.62	1.63
Capital Coverage Ratio	0.50	1.30	1.32
Operating Cash Coverage	(322)	(53)	(34)

4.2 Key Planning Assumptions

Both near term and long term planning horizons include the following assumptions:

- An average revenue increase of 3.5% effective June 1, 2019;
- Forecasts based on actual data up to December 31, 2018;
- The Winter 2018 interest rate forecast;
- Electricity load forecast based on the 2018 Fall Update (P50);
- Electricity export price forecast based on the 2018 Fall Update;
- 20 year weighted average term to maturity on new debt; and
- The impacts of PUB Order 59/18 related to regulatory deferrals.

4.3 Sensitivity Analysis

2019-20 forecast Net Income of \$121 million could be impacted by variances in planning assumptions. Critical risks to budget and associated impact are as follows:

Water Conditions

- Typical annual fluctuations in flows can impact net income by +/- \$75 million.
- Under extreme conditions, record low flows can impact net income by -\$350 million and record high flows by +\$100 million.

Weather

- A colder or warmer than normal winter could have a +/- \$46 million annual impact to net income; and
- Unusually volatile weather could negatively impact net income by approximately \$5 million due to storm restoration costs.

Interest Rates

- A 1% higher or lower than forecasted short-term, long-term and floating-rate debt could impact net income by +/- \$15 million.

5.0 Human Resources

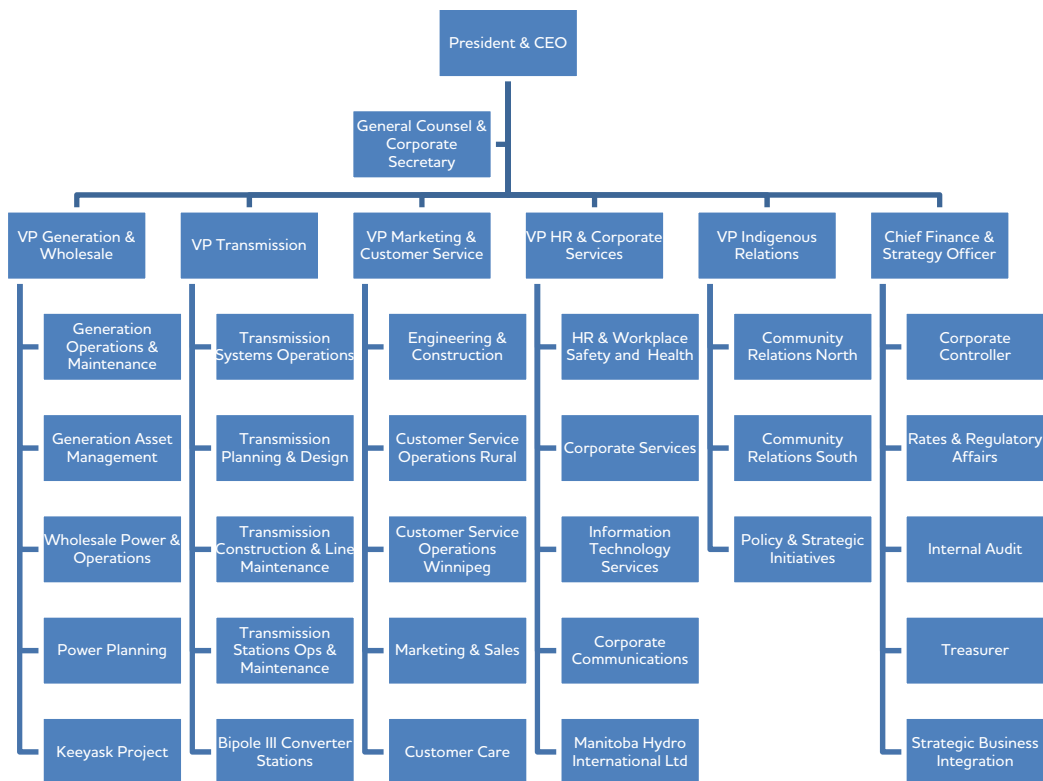
5.1 Equivalent Full-Time Employees

Equivalent Full-Time (EFT) Employees				
	2017	2018	2019	2020
	at March 31 2017	at March 31 2018	at Dec 31 2018	Projected
Senior Management	41	36	34	34
Management	149	130	112	112
Employees	6,016	5,612	5,162	5,162
Subsidiary Employees*	205	220	220	229
Total EFT count	6,411	5,998	5,528	5,537

*Manitoba Hydro International and Manitoba Hydro Utility Services

The table above reflects the calculated Equivalent Full Time Employees and measures all hours worked in a period divided by 1,916 hours per year. EFT calculations include seasonal, part-time and temporary staff.

5.2 Organizational Chart



5.3 Compensation and Staffing

Compensation

The outlook for base payroll expense for the fiscal year 2018-19 is \$434M, with a break-down between employee groups shown in the following table. Paid overtime costs in 2018 were 14% of the base payroll expense.

Approximately 45% of Manitoba Hydro's employees are represented by the IBEW labour union. Manitoba Hydro's contract with IBEW expired on December 31, 2018. The terms of its renewal will impact compensation costs going forward.

Jurisdiction	2018-19 Base Payroll Outlook
IBEW ¹	\$175.5M
AMHSSE ²	\$74.6M
CUPE ³	\$59.7M
Unifor	\$17.0M
MHPEA ⁴	\$58.9M
Corporate Exempt	\$48.3M
Total	\$434 M

1. International Brotherhood of Electrical Workers; 2. Association of Manitoba Hydro Staff and Supervisory Employees; 3. Canadian Union of Public Employees; 4. Manitoba Hydro Professional Engineers' Association

Labour Relations

The collective agreements for AMHSSE, CUPE and Unifor expire at the end of the 2020 calendar year. The IBEW collective agreement expired on December 31, 2018 and negotiations are ongoing.

Jurisdiction	General Wage Increases			
	2017	2018	2019	2020
IBEW	2.00%	2.00%	0%*	0%*
AMHSSE	0.00%	1.00%	1.25%	1.50%
CUPE	0.00%	1.00%	1.25%	1.50%
Unifor	0.00%	1.00%	1.25%	1.50%

* In accordance with Bill 28

Retirement Forecast

There are 572 employees eligible to retire in 2019 with an unreduced pension. Traditionally in any given year, Manitoba Hydro expects 20% of eligible employees to retire. Due to the recent Voluntary Departure Program which impacted the "normal" retirement take-up rate, this estimate has been reduced to 10% or approximately 57 employees for the 2019 calendar year.

6.0 Capital Plans

6.1 Total Capital & Deferred Expenditures Summary

(\$ Millions)	2018/19 Approved	2018/19 Outlook	2019/20 Budget
Major New Generation & Transmission	2,092	1,625	1,521
Business Operations Capital	550	513	518
Capital Expenditures	2,642	2,138	2,039
Deferred Expenditures	399	335	335
CEF19 and Deferred Expenditures Total	3,041	2,473	2,374

The above totals include capitalized interest and, in case of certain mitigation estimates carried in deferred expenditures, the recognition of a present value asset/liability associated with assumed new settlements.

Examples of Deferred Expenditures include: Great Northern Transmission Line, Demand Side Management Programs, Regulatory Services, Mitigation Settlements and Furnace Replacement Program.

6.2 Major New Generation & Transmission

(\$ Millions)	Total Project Cost	Actual Expenditures*	2018/19 Outlook	2019/20	2020/21	2021/22	2022/23
Keeyask - Generation	8,726	4,508	1,304	1,119	943	580	265
Bipole III Reliability	4,769	4,289	242	101	137	-	-
MMP	454	59	77	276	42	-	-
Birtle Transmission	69	3	2	25	21	19	-
Major New Gen and Trans Total		8,859	1,625	1,521	1,143	599	265

*Actuals to March 31, 2018

6.3 Other Capital Projects

Significant Capital Projects

The following schedule lists all significant projects (total project value > \$50 million) included in Business Operations Capital and the Capital Expenditure Forecast (CEF).

(\$ Millions)	Total Project Cost	Actual Expenditures*	2018/19 Outlook	2019/20	2020/21	2021/22	2022/23
Generation System							
Water Licenses & Renewals	101.8	71.3	10.5	10.9	9.2	-	-
Pine Falls Units Major Overhauls	81.4	67.0	8.3	5.9	0.3	-	-
Transmission System							
HVDC Transformer Sustainment	179.1	130.5	18.8	9.4	5.9	2.5	6.5
St. Vital-DeSalaberry T/L & Station	119.7	2.2	9.0	39.4	52.1	9.4	7.6
Dorsey Synchronous Condenser	78.1	58.1	.7	3.1	5.0	4.7	6.6
Adelaide Station – 66/12kV	69.6	53.1	8.7	6.3	1.5	-	-
Transmission Transformer Sustainment	68.3	-	-	-	-	-	-
DeSalaberry-Letellier 230kV T/L	68.1	3.6	2.6	14.1	2.8	15.9	29.1
Other Significant Projects		385.8	58.6	89.1	76.8	32.5	49.8

*Actuals to March 31, 2018