MANITOBA HYDRO
2015/16 & 2016/17 GENERAL RATE APPLICATION

APPENDIX 5.5
OPERATING, MAINTENANCE & ADMINISTRATIVE EXPENSE

1.0 OVERVIEW OF OM&A EXPENDITURES

The purpose of this Appendix is to provide an analysis of Manitoba Hydro's Operating, Maintenance and Administrative (OM&A) costs on an actual and forecast basis.

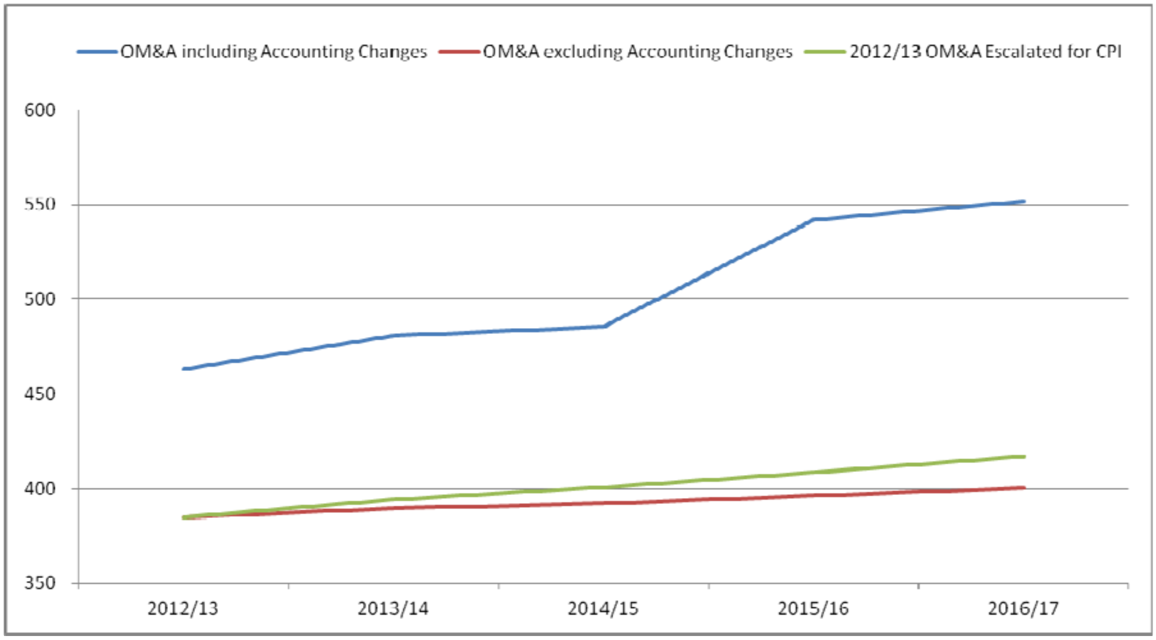
OM&A costs are recognized in accordance with Canadian Generally Accepted Accounting Principles (CGAAP) and apportioned to gas & electric utility operations through an integrated cost allocation methodology. In 2015/16 Manitoba Hydro will be transitioning to International Financial Reporting Standards (IFRS) and the impact on OM&A expenditures has been reflected in the forecasted costs for both the 2015/16 and 2016/17 fiscal years.

The following figures summarize OM&A costs and operating costs per customer for electric operations:

Figure 5.5.1 OM&A Costs Per Customer

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Average Annual Increase
Electric OM&A, including Accounting Changes	$ 462 952	$ 480 717	$ 485 755	$ 541 740	$ 551 675	
Less:						
Accounting Changes	(78 345)	(91 155)	(93 858)	(145 644)	(151 345)	
Electric OM&A, excluding Accounting Changes	$ 384 607	$ 389 562	$ 391 897	$ 396 096	$ 400 330	
% Increase (Decrease)		1.3%	0.6%	1.1%	1.1%	1.0%
Number of Customers	548 774	555 760	561 825	568 443	575 648	1.2%
Cost per Customer	701	701	698	697	695	
% Increase (Decrease)		0.0%	-0.5%	-0.1%	-0.2%	-0.2%
Manitoba CPI		2.4%	1.8%	1.9%	2.0%	2.0%

Figure 5.5.2 OM&A, Accounting Changes & CPI



As indicated above, Manitoba Hydro has maintained the average annual increase in OM&A costs at 1%, net of accounting changes, which is below inflation of 2.0% as a result of cost containment initiatives which focus primarily on reductions of staff positions. OM&A cost per customer is forecast to decline by an average of 0.2% per year over the 2012/13 to 2016/17 period.

IFF14 reflects the Corporation's commitment to a reduction of approximately 300 operational positions over the 3 year forecast period from 2014/15 to 2016/17 by leveraging attrition opportunities. These reductions will be achieved through the use of technology, consolidation and elimination of work processes where appropriate.

The following figure provides a summary of the committed position reductions by Business Unit.

Figure 5.5.3 Operational Position Reductions

	2014/15	2015/16	2016/17
President & CEO	2	2	2
General Counsel & Corporate Secretary	1	1	1
Human Resources & Corporate Services	33	27	21
Corporate Relations	3	2	1
Finance & Regulatory	4	3	3
Generation Operations	9	12	6
Major Capital Projects	1	1	-
Transmission	30	18	42
Customer Service & Distribution	46	19	13
Customer Care & Energy Conservation	16	6	5
Annual Commitment	**146**	**91**	**91**
Cumulative Commitment	**146**	**237**	**328**

Tab 5, Section 5.14 provides further discussion on some of the key initiatives being deployed by the Corporation in order to effectively manage its costs.

The 1.0% increase in OM&A has been achieved despite significant cost pressures primarily as a result of higher wages and salaries due to contract settlements greater than inflation and the impacts of merit and progression. A fair and competitive wage is necessary for attraction and retention purposes, to recognize the specialized education and training that several occupational groups are required to possess, and it also takes into account the challenging work conditions experienced by many employees in a customer service driven electric and natural gas utility environment (e.g. weather conditions, emergency response, confined spaces, etc).

The following figure outlines the contracted wage settlements in effect over the 5 year period.

Figure 5.5.4 Contracted Wage Settlements

Union	Effective Date	Contracted Wage Settlement
IBEW [1]	April 1, 2012	2.00%
All	January 1, 2013	0.00%
AMHSEE [2]	September 12, 2013	3.00%
All	January 1, 2014	2.75%
All	January 1, 2015	2.75%
Unifor/CEPU/ AMHSEE	January 1, 2016	2.50%

[1] 2% market adjustment for identified trade classifications in IBEW.
[2] 3% market adjustment for identified AMHSEE Trade Supervisors.

In addition to contracted wage settlements, employees are also entitled to receive either merit based on performance or salary progression through the pay schedules assigned to job classifications. Merit and progression combined with contracted wage settlements has resulted in an overall wage increase of 3 to 4% annually.

2.0 OM&A FORECAST PROCESS

Manitoba Hydro establishes an overall forecast for its OM&A expenses by taking into consideration the following factors:

- Costs of providing ongoing services;
- Special or non-recurring maintenance projects;
- Current and expected economic conditions;
- Changing business requirements; and
- Accounting changes and other significant items.

The overall forecast is apportioned to each of the business units and to the electric and gas operations based on current staffing levels, cost requirements that consider specific business, economic and other factors, and the implementation of cost containment initiatives. The Vice-President in charge of each business unit oversees the approved operating expenditures among the programs, division and utility operations for which they are responsible. Detailed departmental budgets support the approved business unit budgets.

The operating forecasts and detailed budgets form the basis for the OM&A forecast included in the Integrated Financial Forecast, which is presented to the MHEB for approval on an annual basis.

3.0 ACCOUNTING CHANGES IMPACTING OM&A EXPENDITURES

Although changes in accounting practices and policies have had a significant impact on the Corporation's OM&A expenditures, they are offset by reduced depreciation and amortization minimizing the overall impact to financial results and revenue requirement; see Appendix 5.6 for further information. Changes impacting OM&A are primarily a result of the planned implementation of IFRS in 2015/16 including related changes in prior years to support the transition.

Capitalization of Overhead Costs

Since 2009/10 Manitoba Hydro has removed approximately $62 million from its overhead capitalized under CGAAP in order to align the Corporation's capitalization policies with those of other Canadian utilities. Items removed from overhead capitalized include interest on equipment and facilities, building depreciation and operating costs, IT infrastructure and related support, as well as various corporate department costs. Manitoba Hydro has also reduced the capitalization of intangible asset costs.

With the implementation of IFRS in 2015/16, overhead capitalized will be reduced by a further $55 million reflecting the removal of training, service area costs, administrative & clerical support and divisional and department management costs which are no longer eligible for capitalization.

Pension & Benefits

In 2011/12, it was necessary for Manitoba Hydro to reduce its discount rate for the valuation of its pension and benefit obligations reflecting industry trends to calculate rates in accordance with recent guidance from the Canadian Institute of Actuaries and lower interest rates in general.

Further changes in 2015/16 under IFRS include the elimination of the amortization of past service costs and actuarial gains and losses as well and transitional adjustments related to pension and benefits.

The figure below provides a summary of the accounting and benefit changes impacting OM&A by fiscal year:

Figure 5.5.5 Summary of Accounting & Benefit Changes

SUMMARY OF ACCOUNTING & BENEFIT CHANGES - ELECTRIC OPERATIONS
(in thousands of dollars)

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	IFF-14 2015/16 Forecast	2016/17 Forecast
Property Plant & Equipment					
CGAAP - Reduction to Costs Capitalized					
Stores Overhead	5,412	5,520	5,576	5,631	5,688
Executive Costs	2,122	2,165	2,187	2,208	2,230
Property Taxes on Facilities	2,122	2,165	2,187	2,208	2,230
Interest on Common Assets (Facilities & Equipment)	11,616	11,848	11,967	12,087	12,207
General & Administrative Departmental Costs	4,682	4,775	4,823	4,871	4,920
Interest on Motor Vehicles	3,933	4,011	4,051	4,092	4,133
IT Infrastructure & Related Support	20,022	20,422	20,626	20,833	21,041
Building Depreciation & Operating Costs	10,271	10,476	10,581	10,687	10,793
IFRS - Reduction to Costs Capitalized					
Technical & Softskills Training				15,980	16,140
Service Areas (Management Accounting, HR, Safety, etc)				12,270	12,393
Administrative & Clerical Support Staff				11,990	12,110
Division & Department Manager				13,320	13,453
Fleet & Stores Administration				1,140	1,151
PP&E Reduction to Costs Capitalized	60,180	61,384	61,997	117,317	118,491
Intangible Assets					
CGAAP - Reduction to Costs Capitalized	4,330	4,416	4,505	4,550	4,595
Pension & Benefits					
CGAAP -Changes (e.g. Discount Rate)	13,835	25,355	27,356	27,356	27,356
IFRS Changes				(2,700)	1,800
	13,835	25,355	27,356	24,656	29,156
Other					
IFRS - Meter Sampling, Exchange and Testing				(879)	(897)
Total OM&A Impact	$ 78,345	$ 91,155	$ 93,858	$ 145,644	$ 151,345

4.0 STAFFING REQUIREMENTS TO MANAGE OPERATIONS & CAPITAL INVESTMENT

Manitoba Hydro hires permanent, term, and temporary staff to manage, operate, maintain and construct the Corporation's assets and to provide service to customers. An Equivalent Full Time ("EFT") position represents a full time employee.

Manitoba Hydro has classified its EFTs into three categories in order to provide an analysis of the deployment of resources between operations and construction given Manitoba Hydro is entering a period of extensive capital investment and reinvestment.

1) Capital Construction EFTs – staff who charge their time to capital projects approved within the Capital Expenditure Forecast (CEF). The hours charged must be incremental, non-discretionary and directly attributable in order to be eligible for capitalization.

2) Operations and Maintenance EFTs – staff who charge time to operating and maintaining the electric, gas and various infrastructure assets of the corporation.

3) Governance, Support & Services EFTs:
   i. Governance – staff that provide direction and oversight regarding the actions, policies and decisions of the Corporation. This category includes functions such as internal audit, legal and executive.
   ii. Support Services - staff that provide corporate and divisional support services such as human resources, information systems, division and department managers, as well as departmental support activities not directly allocated to the capital construction or operations and maintenance functions of the corporation.

The following table and graph display EFTs for each category over the 5 year period:

Figure 5.5.6 Straight Time & Overtime EFTs

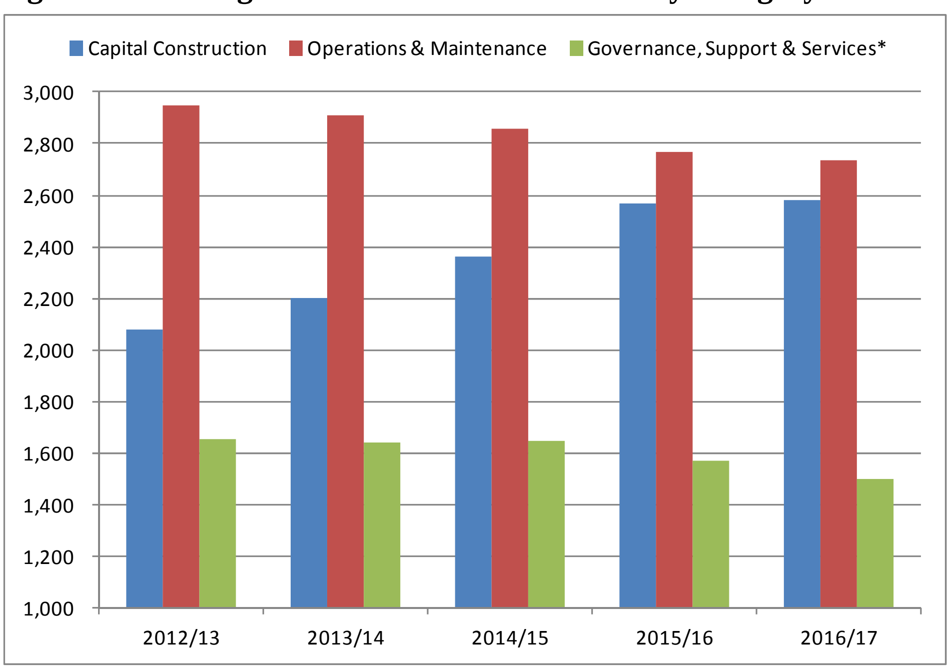
MANITOBA HYDRO
TOTAL EQUIVALENT FULL TIME (EFT) EMPLOYEES

(Straight Time & Overtime Combined)	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Average Annual % Inc/(Dec)
Capital Construction	2 081	2 204	2 362	2 568	2 580	**5.6%**
Operations & Maintenance	2 946	2 908	2 855	2 765	2 733	**-1.9%**
Governance, Support & Services*	1 651	1 644	1 647	1 569	1 501	**-2.3%**
Total Corporation	**6 678**	**6 756**	**6 864**	**6 902**	**6 814**	**0.5%**

	Straight Time EFTs			Overtime EFTs		
	2012/13 Actual	2016/17 Forecast	Increase/ (Decrease)	2012/13 Actual	2016/17 Forecast	Increase/ (Decrease)
Capital Construction	1 942	2 357	415	139	223	84
Operations & Maintenance	2 768	2 575	(193)	178	158	(20)
Governance, Support & Services*	1 586	1 449	(137)	65	52	(13)
Total	**6 296**	**6 381**	**85**	**382**	**433**	**51**

*Note: A portion of Governance, Support & Services EFTs are capitalized through overhead

Figure 5.5.7 Straight-time and Over-time EFTs by Category



As depicted above, the average annual growth in EFTs for the 5 year period is 0.5%. During this period of significant capital investment, EFTs associated with capital construction are increasing. In contrast, consistent with Manitoba Hydro's commitment to manage its operating costs, the number of EFTs associated with operations & maintenance and governance & support activities are forecast to decline.

The decline in Operations and Maintenance EFTs and Governance, Support and Services EFTs is as a result of a comprehensive review of all positions to support cost containment efforts as well as a shift in some staff from operations to capital construction. The primary focus of the position review is to analyze work processes and functions and identify opportunities for elimination, consolidation or the use of technology that will result in staff reductions and efficiencies. Some of the specific initiatives in progress which result in reductions include:

- Consolidation of rural district offices;
- Implementation of efficiencies gained as a result of new technologies such as Mobile Workforce Management (MWM);
- Organizational realignments; and
- Review and alignment of trainee and summer student levels.

See Tab 5, Section 5.14 for further details on cost containment initiatives.

The figures below display straight time and overtime EFTs for each Business Unit, by category. Straight time and overtime EFT levels are influenced by different business requirements and explanations for significant changes over the 5 year period are provided below.

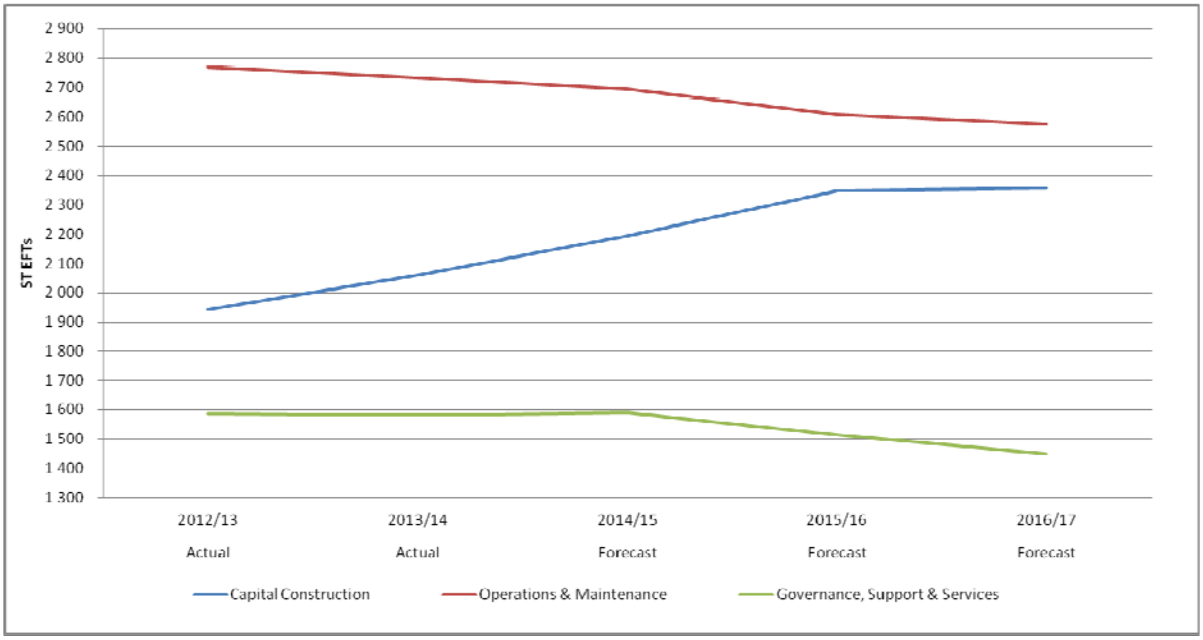
Figure 5.5.8 Straight Time EFTs by Business Unit

MANITOBA HYDRO

STRAIGHT TIME EQUIVALENT FULL TIME (EFT) EMPLOYEES BY BUSINESS UNIT

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Average Annual % Inc/(Dec)	Notes
Capital Construction	2	1	0	0	0		
Operations & Maintenance	26	24	25	25	25		
Governance, Support & Services	21	18	17	16	15		
President & CEO	**49**	**43**	**42**	**41**	**40**	**-4.8%**	**1**
Capital Construction	5	9	6	6	6		
Operations & Maintenance	13	13	13	13	12		
Governance, Support & Services	22	22	26	25	24		
General Counsel & Corporate Secretary	**40**	**44**	**45**	**44**	**42**	**1.4%**	
Capital Construction	110	114	145	137	137		
Operations & Maintenance	74	75	73	76	75		
Governance, Support & Services	623	622	611	583	563		
Human Resources & Corporate Services	**807**	**811**	**829**	**796**	**775**	**-1.0%**	**2**
Capital Construction	39	38	42	42	43		
Operations & Maintenance	5	5	5	5	5		
Governance, Support & Services	42	41	43	41	40		
Corporate Relations	**86**	**84**	**90**	**88**	**88**	**0.6%**	
Capital Construction	2	8	3	2	2		
Operations & Maintenance	35	29	29	28	27		
Governance, Support & Services	112	114	120	115	113		
Finance & Regulatory	**149**	**151**	**152**	**145**	**142**	**-1.2%**	
Capital Construction	261	294	291	282	285		
Operations & Maintenance	628	673	669	665	661		
Governance, Support & Services	178	129	126	127	124		
Generation Operations	**1,067**	**1,096**	**1,086**	**1,074**	**1,070**	**0.1%**	
Capital Construction	185	201	230	295	296		
Operations & Maintenance	5	7	7	5	5		
Governance, Support & Services	11	11	19	20	19		
Major Capital Projects	**201**	**219**	**256**	**320**	**320**	**12.7%**	**3**
Capital Construction	567	589	645	689	689		
Operations & Maintenance	855	865	819	806	789		
Governance, Support & Services	319	308	307	284	264		
Transmission	**1,741**	**1,762**	**1,771**	**1,779**	**1,742**	**0.0%**	
Capital Construction	680	707	725	763	769		
Operations & Maintenance	791	695	705	667	659		
Governance, Support & Services	183	252	251	237	226		
Customer Service & Distribution	**1,654**	**1,654**	**1,681**	**1,667**	**1,654**	**0.0%**	
Capital Construction	91	97	106	131	130		
Operations & Maintenance	336	348	348	318	317		
Governance, Support & Services	75	65	69	65	61		
Customer Care & Energy Conservation	**502**	**510**	**523**	**514**	**508**	**0.3%**	
Capital Construction	1,942	2,058	2,193	2,347	2,357	5.0%	
Operations & Maintenance	2,768	2,734	2,693	2,608	2,575	-1.8%	
Governance, Support & Services*	1,586	1,582	1,589	1,513	1,449	-2.2%	
Total Corporation	**6,296**	**6,374**	**6,475**	**6,468**	**6,381**	**0.3%**	

Figure 5.5.9 Straight Time EFTs by Category



The following provides explanations for Business Units where straight time EFTs that have significantly increased or decreased as shown in Figure 5.4.8:

1) The decrease in EFTs in the President & CEO Business Unit is primarily due to reorganizations which resulted in the transfer of EFTs to Human Resources & Corporate Services, General Counsel & Corporate Secretary and Corporate Relations.

2) The decrease in EFTs in the Human Resources and Corporate Services Business Unit primarily relates to the elimination of various positions throughout the area primarily through outsourcing, implementing efficiencies gained from new technologies and realignment of duties.

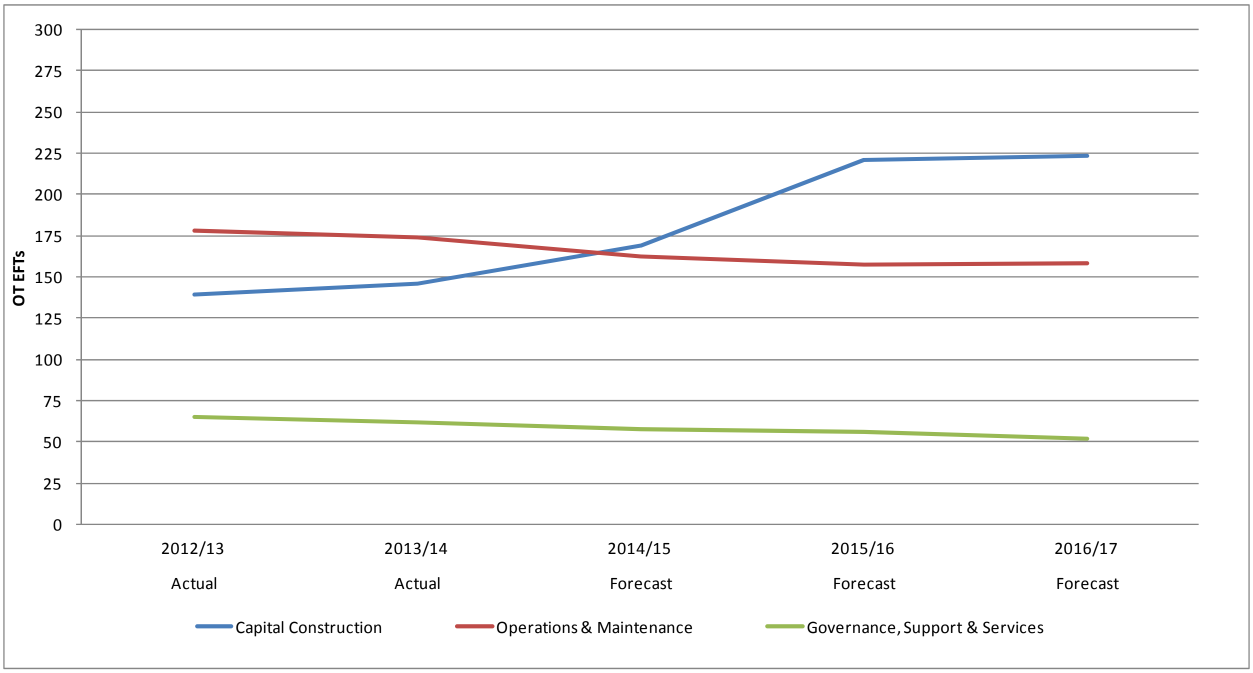
3) The increase in EFTs in the Major Capital Projects Business Unit primarily relates to additional resource requirements for major new generation and transmission projects such as the Keeyask Generating Station, Bipole III, and Pointe Du Bois Spillway Replacement, partly offset by the Wuskwatim Generating Station becoming operational in 2013/14.

Figure 5.5.10 Overtime EFTs by Business Unit

MANITOBA HYDRO
OVERTIME EQUIVALENT FULL TIME EMPLOYEES (EFT) BY BUSINESS UNIT

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Average Annual % Inc/(Dec)	Notes
Capital Construction	0	0	0	0	0		
Operations & Maintenance	0	0	0	0	0		
Governance, Support & Services	0	0	0	0	0		
President & CEO	**0**	**0**	**0**	**0**	**0**	**0.0%**	
Capital Construction	0	0	0	0	0		
Operations & Maintenance	0	0	0	0	0		
Governance, Support & Services	0	0	0	0	0		
General Counsel & Corporate Secretary	**0**	**0**	**0**	**0**	**0**	**0.0%**	
Capital Construction	2	3	4	4	5		
Operations & Maintenance	2	2	2	2	2		
Governance, Support & Services	11	12	11	12	11		
Human Resources & Corporate Services	**15**	**17**	**17**	**18**	**18**	**4.8%**	
Capital Construction	1	1	2	2	2		
Operations & Maintenance	0	0	0	0	0		
Governance, Support & Services	1	1	1	1	1		
Corporate Relations	**2**	**2**	**3**	**3**	**3**	**12.5%**	
Capital Construction	0	0	0	0	0		
Operations & Maintenance	0	0	0	0	0		
Governance, Support & Services	0	0	0	0	0		
Finance & Regulatory	**0**	**0**	**0**	**0**	**0**	**0.0%**	
Capital Construction	20	21	23	22	22		
Operations & Maintenance	59	65	59	58	58		
Governance, Support & Services	18	14	12	11	10		
Generation Operations	**97**	**100**	**94**	**91**	**90**	**-1.8%**	**1**
Capital Construction	23	36	46	97	97		
Operations & Maintenance	0	0	0	0	0		
Governance, Support & Services	1	1	2	2	2		
Major Capital Projects	**24**	**37**	**48**	**99**	**99**	**47.5%**	**2**
Capital Construction	46	49	55	55	55		
Operations & Maintenance	67	70	66	64	65		
Governance, Support & Services	24	23	22	20	19		
Transmission	**137**	**142**	**143**	**139**	**139**	**0.4%**	
Capital Construction	47	36	39	41	42		
Operations & Maintenance	49	36	34	32	32		
Governance, Support & Services	10	11	10	10	9		
Customer Service & Distribution	**106**	**83**	**83**	**83**	**83**	**-5.4%**	**3**
Capital Construction	0	0	0	0	0		
Operations & Maintenance	1	1	1	1	1		
Governance, Support & Services	0	0	0	0	0		
Customer Care & Energy Conservation	**1**	**1**	**1**	**1**	**1**	**0.0%**	
Capital Construction	139	146	169	221	223	13.1%	
Operations & Maintenance	178	174	162	157	158	-2.9%	
Governance, Support & Services*	65	62	58	56	52	-5.4%	
Total Corporation	**382**	**382**	**389**	**434**	**433**	**3.3%**	

Figure 5.5.11 Overtime EFTs by Category



The following provides explanations for Business Units where overtime EFTs have significantly increased or decreased as shown in Figure 5.4.10:

1) The decrease in EFTs in the Generation Operations Business Unit in the forecast years is primarily due to elevated maintenance requirements in 2013/14 at various generating stations as well as emergency work related to the fire at the Jenpeg Generating Station. In addition, further reductions are reflected in the forecast period as a result of cost containment strategies such as automation of the Pointe du Bois Spillway.

2) The increase in overtime EFTs in the Major Capital Projects Business Unit is related to requirements to protect key in-service dates primarily for the Keeyask Generating Station, Bipole III and the Pointe du Bois Spillway Replacement.

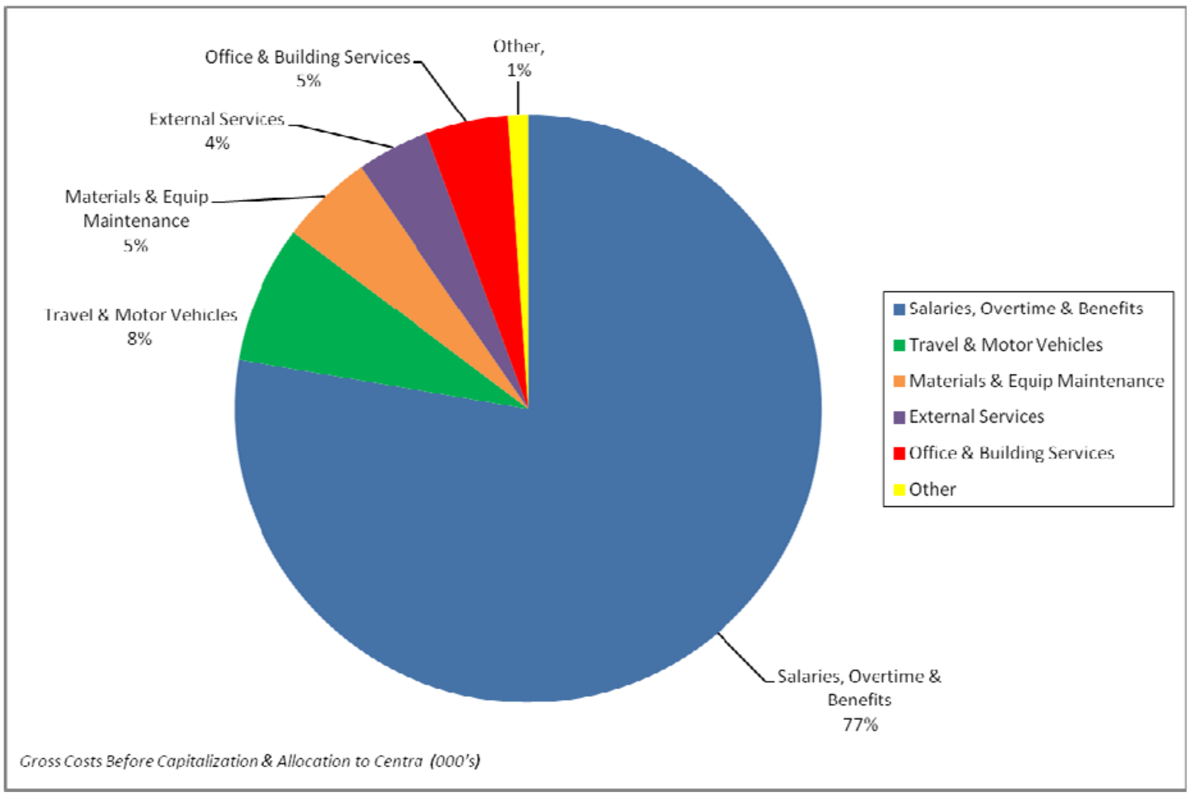
3) The decrease in overtime EFTs in the Customer Service & Distribution Business Unit is primarily related to unplanned storm restoration work and the completion of the Mobile Workforce Management capital project in 2012/13.

5.0 ANALYSIS OF COSTS BY CATEGORY INCLUDING OPERATING/CAPITAL ALLOCATION

Costs incurred by the Corporation are categorized as cost elements which describe the type of expenditure, such as wages & salaries, benefits, travel, materials, consulting, etc.

The following chart provides a graphical depiction of the major cost element components for 2013/14 actual expenditures excluding capitalization impacts and allocation of costs to Centra Gas.

Figure 5.5.12 OM&A by Category 2013/14



The following table provides a summary of Manitoba Hydro's actual and forecast costs by cost element over the 5 year period:

Figure 5.5.13 OM&A by Cost Element

MANITOBA HYDRO
OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY COST ELEMENT

(In thousands of $)	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Average Annual % Inc/(Dec)	Note
Wages & Salaries	$ 466 165	$ 480 511	$ 502 692	524 552	533 997	3.5%	1
Overtime	61 031	62 365	61 709	71 080	73 121	4.8%	2
Employee Benefits	130 886	157 094	160 592	155 892	158 992	5.3%	3
Sub-Total	658 082	699 970	724 993	751 523	766 109		
Less: Labour & Benefits Charged to Capital	(215 491)	(234 510)	(256 588)	(282 335)	(287 969)	7.6%	4
Labour & Benefits Charged to Operations*	442 591	465 460	468 405	469 188	478 140	2.0%	5
Other Costs							
Employee Safety & Training	4 463	4 596	5 225	5 188	5 175	3.9%	6
Travel Expenses	31 194	31 915	31 766	31 628	31 634	0.4%	
Motor Vehicle	29 516	29 670	29 682	29 699	29 699	0.2%	
Materials & Tools	24 806	27 920	26 700	26 090	26 090	1.5%	
Consulting & Professional Fees	10 817	14 657	14 349	12 395	12 237	4.6%	7
Construction & Maintenance Services	16 259	16 775	19 364	18 580	18 580	3.6%	8
Building & Property Services	25 644	28 978	27 738	27 297	27 297	1.8%	
Equipment Maintenance & Rentals	14 680	15 007	16 120	16 191	16 191	2.5%	9
Consumer Services	5 050	5 277	5 323	5 323	5 323	1.3%	
Computer Services	849	678	985	1 020	1 019	7.2%	
Collection Costs	4 261	3 125	4 078	4 078	4 078	1.0%	
Customer & Public Relations	6 731	5 610	5 334	5 344	5 316	-5.5%	10
Sponsored Memberships	1 767	1 249	1 764	1 737	1 737	2.6%	
Office & Administration	13 874	14 724	15 722	15 721	15 717	3.2%	11
Communication Systems	1 817	1 963	1 928	1 928	1 928	1.6%	
Research & Development Costs	3 372	2 195	2 747	2 747	2 747	-2.4%	
Miscellaneous Expense	2 040	1 485	954	900	900	-17.2%	12
Contingency Planning	-	-	2 594	2 610	2 657		
Operating Expense Recovery	(13 997)	(17 808)	(13 468)	(13 649)	(13 647)	0.0%	13
Strategic Initiative Funding			870	3 640	6 317		14
Sub-Total	183 143	188 016	199 774	198 468	200 994		
Less: Other Costs Charged to Capital	(29 327)	(31 503)	(33 329)	(34 647)	(34 818)	4.4%	15
Other Costs Charged to Operations*	153 815	156 513	166 444	163 821	166 177	2.0%	5
Total	**596 406**	**621 973**	**634 849**	**633 009**	**644 317**	2.0%	
Less:							
Capitalized Overhead	(69 720)	(74 446)	(81 265)	(24 578)	(24 824)	-13.2%	16
Operating and Administration Charged to Centra	(63 735)	(66 810)	(67 829)	(66 691)	(67 818)	1.6%	
Electric OM&A, including Accounting Changes	**462 952**	**480 717**	**485 755**	**541 740**	**551 675**	4.6%	
Less: Accounting Changes	(78 345)	(91 155)	(93 858)	(145 644)	(151 345)		
Electric OM&A, excluding Accounting Changes	**$ 384 607**	**$ 389 562**	**$ 391 897**	**$ 396 096**	**$ 400 330**	1.0%	
Year over Year % Change, including Accounting Changes		3.8%	1.0%	11.5%	1.8%	4.6%	
Year over Year % Change, excluding Accounting Changes		**1.3%**	**0.6%**	**1.1%**	**1.1%**	**1.0%**	

*Includes amounts capitalized through Overhead

Figure 5.4.13 above includes costs which are direct charged to the operations and maintenance activities of the Corporation (e.g. materials, contracted services, consulting, etc) as well as staff related costs, of which a portion is allocated to capital. Staff related costs, such as wages & salaries, benefits, travel, and motor vehicles, are costs associated with providing a pool of resources required for the operation, maintenance and capital construction activities of the Corporation. These costs are allocated to both capital projects and operating programs through the use of an hourly activity rate charged through the corporate time allocation system. Activity rates are calculated for work groups that perform a common set of functions.

In addition, under CGAAP a portion of costs (e.g. wages and salaries, benefits, office and administration, etc.) associated with corporate services and departmental support functions are also capitalized through an overhead rate. Under IFRS, only costs associated with the purchasing and accounts payable functions remain eligible for capitalization.

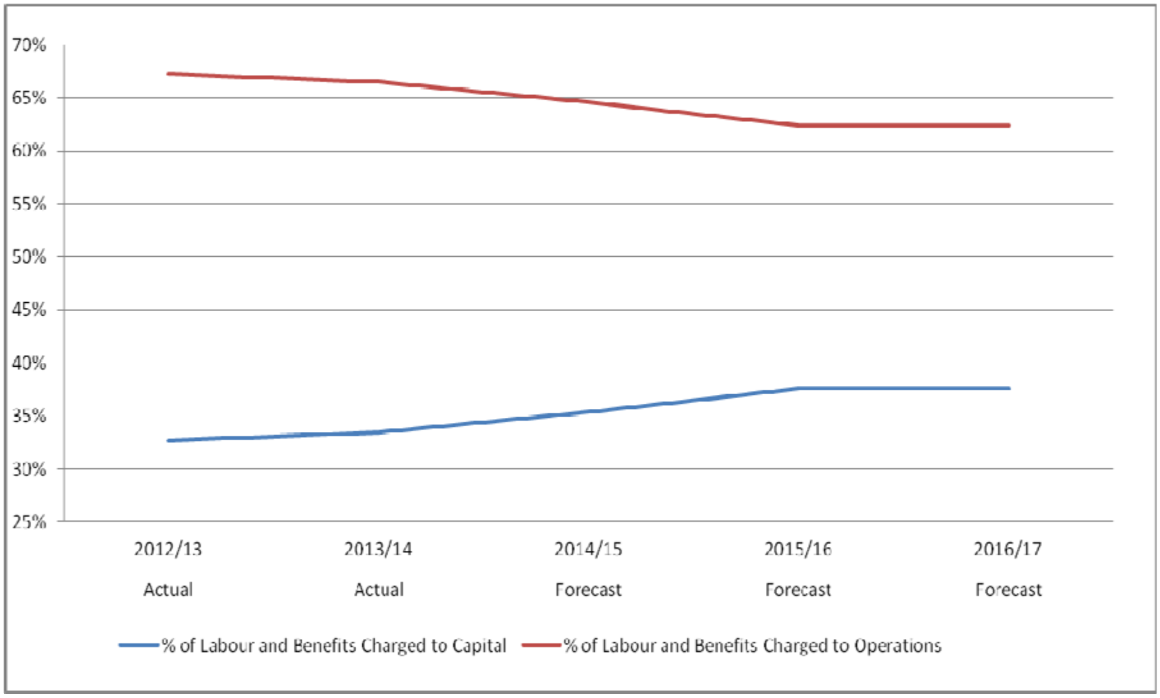
The figures below provide an analysis of the labour and benefit costs charged to capital and operations as a percentage of the total:

Figure 5.5.14 Labour & Benefits Charged Capital & Operations

MANITOBA HYDRO
LABOUR & BENEFITS CHARGED TO CAPITAL AND OPERATIONS

(In thousands of $)	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Total Labour & Benefits	$ 658,082	$ 699,970	$ 724,993	$ 751,523	$ 766,109
Labour & Benefits Charged to Capital	215,491	234,510	256,588	282,335	287,969
Percentage of Labour and Benefits Charged to Capital	**33%**	**34%**	**35%**	**38%**	**38%**
Labour & Benefits Charged to Operations	442,591	465,460	468,405	469,188	478,140
Percentage of Labour and Benefits Charged to Operations	**67%**	**66%**	**65%**	**62%**	**62%**

Figure 5.5.15 Labour & Benefits Charged Capital & Operations %



As demonstrated, there is a steady growth in the capitalized component of the labor and benefit costs, ranging from 33% in 2012/13 to 38% in both 2015/16 and 2016/17. The increase of labor and expense capitalized in the forecast years reflects the growth in Manitoba Hydro's capital construction program required for Bipole III, Keeyask Generating Station, U.S. Transmission Interconnection, higher DSM requirements and increased investment in aging infrastructure. This growth is necessary to ensure the Corporation can continue to provide safe and reliable service.

The following provides explanations for cost elements that have significantly increased or decreased over the five year period as shown in Figure 5.4.13:

1) Wages & Salaries increased by an average of 3.5% primarily as a result of contract settlements with bargaining units and increases in numbers of equivalent full time employees (EFTs) primarily to support the growth in Manitoba Hydro's capital program. See section 4.0 Staffing Requirements to Manage Operations & Capital Investment.

2) Overtime increased by an average of 4.8% primarily as a result of protecting key in-service dates for capital projects such as Bipole III and the Keeyask Generating Station as well as increased costs due to the impact of union contract settlements.

3) Employee Benefits increased by an average of 5.3% primarily due to the decrease in the discount rate at the end of 2012/13 resulting in a significant experience loss on the pension liability resulting in increased amortization costs for 2013/14 and 2014/15 and an increase in the current service rate for 2013/14. IFRS changes, beginning in 2015/16, show a reduction of costs as the amortization of past service costs and actuarial gains and losses is eliminated and transitional adjustments related to pension and benefits are incorporated.

4) Labour & Benefits Charged to Capital increased by an average of 7.6% as the corporation commences construction of new generation & transmission projects such as Bipole III and Keeyask Generating Station, and addresses increased requirements for DSM programs, new customer connections, and aging infrastructure. In addition, contract negotiations with bargaining units and increased benefit costs have contributed to higher capitalized labor and expense costs.

5) Labour & Benefits and Other Costs Charged to Operations increased by an average of 2%, which is in line with inflation.

6) Employee Training & Safety increased by an average of 3.9% which reflects greater training costs related to I.T. development for projects such as Enterprise Asset Management (EAM) and new equipment training as well as greater fire retardant clothing requirements.

7) Consulting & Professional Fees increased by an average of 4.6% primarily related to new bio-physical monitoring costs incurred with the Wuskwatim Generating Station going into service in 2012/13.

8) Construction & Maintenance Services increased by an average of 3.6% due to a greater focus on the vegetation management program beginning in 2013/14 and higher external costs anticipated for generation maintenance activities. In addition, there is an increased requirement for brush clearing in 2014/15 which is reduced in 2015/16 as a result of a redeployment of those resources to focus on widening of right-of-ways primarily for Bipole III beginning in 2015/16.

9) Equipment Maintenance & Rentals increased by an average of 2.5% due to I.T. system implementations and rising costs of hardware and software maintenance contracts.

10) Customer & Public Relations decreased by an average of 5.5% as a result of lower corporate donations due to cost saving measures.

11) Office & Administration increased by an average of 3.2% as a result of rising postage costs and increased telecommunication costs to support the implementation of Mobile Workforce Management.

12) Miscellaneous Expense decreased by an average of 17.2% due to the expensing of capital project costs that were cancelled in 2012/13 and 2013/14, as well as lower forecasted radio license fees due to using fibre optic systems.

13) Operating Expense Recovery had no significant change overall in the 5 year period; however 2013/14 included a recovery of costs for the restoration work performed after the TCPL explosion and the assistance provided to Toronto Hydro after the December 2013 storm.

14) Strategic Initiative Funding was incorporated into IFF14 to provide funding for corporate programs outside of regular business unit operations that support corporate priorities. The Supply Chain Management Initiatives that are outlined in Section 5.14 of Tab 5 is an example of a corporate initiative for which funding has been provided.

15) Other Costs Charged to Capital increased by an average of 4.4% as the Corporation commences construction of new generation & transmission projects such as Bipole III and the Keeyask Generating Station, and addresses increased requirements for DSM programs, new customer connections, and aging infrastructure.

16) Capitalized Overhead decreased by 13.2% primarily in 2015/16 as a result of the transition to IFRS which does not allow for capitalization of training, service area costs, administrative & clerical support and divisional and department management costs.

6.0 ANALYSIS OF COSTS BY ORGANIZATONAL BUSINESS UNIT

Manitoba Hydro's organizational structure consists of 10 Business Units:

- President & CEO
- General Counsel & Corporate Secretary
- Human Resources & Corporate Services
- Corporate Relations
- Finance & Regulatory
- Generation Operations
- Major Capital Projects
- Transmission
- Customer Service & Distribution
- Customer Care & Energy Conservation

Each Business Unit is comprised of Divisions, Departments, and Cost Centres whose roles integrate to achieve the overall corporate strategic direction. These Business Units are accountable for their respective business objectives and operations and are the basis for developing detailed organization and staffing plans.

The following figure displays the organizational view of OM&A over the 5 year period:

Figure 5.5.16 OM&A by Business Unit

MANITOBA HYDRO
OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY BUSINESS UNIT

(In thousands of $)	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Average Annual % Inc/(Dec)
President & CEO	$ 12,648	$ 10,887	$ 12,309	$ 12,469	$ 12,460	0.1%
General Counsel & Corporate Secretary	8,741	9,316	9,244	9,222	9,232	1.4%
Human Resources & Corporate Services	94,161	106,036	108,058	108,161	107,814	3.6%
Corporate Relations	9,730	8,918	10,059	10,008	10,033	1.0%
Finance & Regulatory	17,480	18,510	20,033	20,104	20,182	3.7%
Generation Operations	125,533	135,373	138,290	141,178	142,959	3.3%
Major Capital Projects	2,912	4,384	5,638	4,568	4,588	15.1%
Transmission	156,442	163,910	164,112	165,338	165,995	1.5%
Customer Service & Distribution	132,330	130,902	134,922	132,275	133,490	0.2%
Customer Care & Energy Conservation	49,624	55,353	58,361	56,364	56,837	3.6%
Business Unit	**$ 609,602**	**$ 643,590**	**$ 661,027**	**$ 659,687**	**$ 663,591**	**2.2%**

The average annual increase for the Business Units for the 5 year period remains close to the level of inflation (2.2%). All Business Units experienced cost increases in 2013/14 as a result of higher benefit costs primarily related to a change in the discount rate. In addition, all years reflect contract settlements with bargaining units which exceed the rate of inflation. These cost increases have been offset by various cost containment initiatives.

The Major Capital Projects Business Unit was formed in the fall of 2013 to centralize and establish a coordinated single point of contact for all major construction projects. The Business Unit is currently focused on the project management and construction of the Keeyask Generating Station, Bipole III, and Pointe du Bois Spillway Replacement, in addition to some smaller projects. In addition to benefit increases and contract settlements, the Major Capital Projects Business Unit's OM&A costs increased by an average of 15.1% primarily in 2013/14 and 2014/15 as a result administrative costs related to the creation of the new business unit that are no longer eligible for capitalization. In addition, temporary implementation costs related to the in-service of the Wuskwatim Generating Station occurred during these years but are no longer required in the forecast years.