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Index
January 23, 2014

MANITOBA HYDRO

2015/16 & 2016/17 GENERAL RATE APPLICATION

FINANCIAL RESULTS & FORECASTS

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

FINANCIAL RESULTS & FORECASTS

5.0 OVERVIEW

Tab 5 provides explanations of the actual and forecast revenues and expenses related to Manitoba Hydro's Electric operations for 2012/13 to 2016/17, and outlines the significant year over year changes. Section 5.1 provides a summary of Manitoba Hydro's financial results and forecasts for 2012/13 to 2016/17, and Sections 5.2 to 5.13 discuss the revenue and cost components for 2012/13 to 2016/17. Section 5.14 outlines a number of initiatives that Manitoba Hydro is undertaking to reduce costs and ease pressures on financial results and rates.

The key conclusions with respect to Tab 5 are:

1. The requirement for the proposed rate increases are primarily being driven by the increased finance expense, depreciation and amortization expense and capital taxes associated with investment in new assets and reinvestment in existing assets.

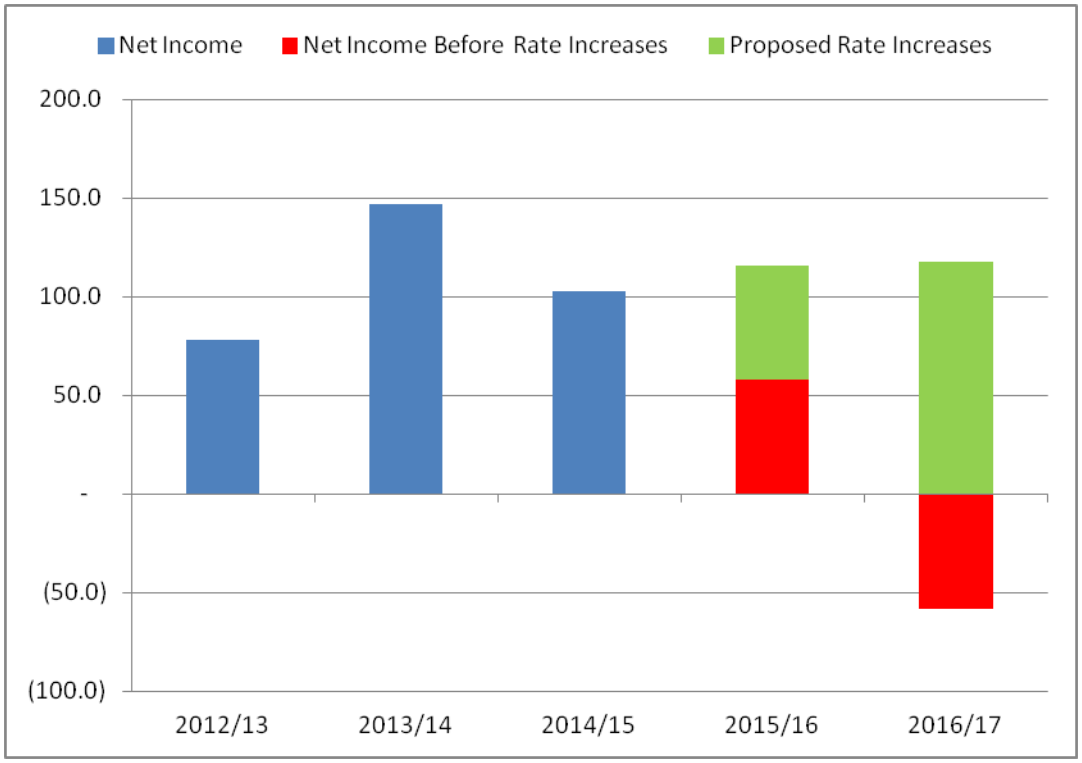
2. Manitoba Hydro is committed to effectively controlling its OM&A costs and has recently completed an extensive review of its staff compliment and is undertaking a number of initiatives across the Business Unit's to maintain OM&A cost increases at 1%, which is below inflationary levels (excluding accounting changes that impact OM&A).

3. While there are a number of prospective accounting changes being made for financial reporting purposes between 2014/15 and 2015/16 that will increase OM&A and decrease Depreciation and Amortization, these changes offset each other and are not driving the need for rate increases.

5.1 SUMMARY OF FINANCIAL RESULTS & FORECAST

Figure 5.1 provides a summary of actual and forecast net income for electric operations (excluding subsidiary operations) for 2012/13 to 2016/17. For 2015/16 and 2016/17, the red bars show Manitoba Hydro's net income/loss without the proposed rate increases and the green bars show the projected net income including the proposed rate increases.

Figure 5.1 Net income



The following schedule provides a breakdown of the Statement of Income.

MANITOBA HYDRO **Schedule 5.1.0**
STATEMENT OF INCOME **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Revenue					
General Consumers	1 341 011	1 424 126	1 436 742	1 454 388	1 460 247
Bipole III Reserve	-	(18 826)	(29 997)	(32 360)	(33 773)
Extraprovincial	352 633	439 182	408 892	434 157	449 738
Other	29 854	21 758	15 223	13 870	13 999
Total Revenue Excluding rate increases	$ 1 723 497	$ 1 866 241	$ 1 830 860	$ 1 870 055	$ 1 890 211
Expenses					
Operating, Maintenance and Administrative	462 952	480 717	485 755	541 740	551 675
Finance Expense	452 367	435 402	494 852	510 423	547 520
Depreciation and Amortization	391 923	410 834	404 590	400 866	422 404
Water Rentals and Assessments	117 864	125 517	124 469	122 847	112 167
Fuel and Power Purchased	133 292	177 113	134 189	130 432	190 933
Capital and Other Taxes	86 399	96 750	99 170	107 156	120 534
Corporate Allocation	9 074	9 074	8 659	8 393	8 396
Other Expenses	4 750	6 294	2 311	2 355	2 402
Total Expenses	1 658 621	1 741 701	1 753 995	1 824 211	1 956 031
Non-controlling Interest*	13 160	22 005	25 452	12 126	7 580
Net Income before rate increases	$ 78 036	$ 146 545	$ 102 317	$ 57 970	$ (58 241)
Proposed Rate Increases (3.95% April 1, 2015 & 3.95% April 1, 2016)				57 377	117 638
Net income including rate increases	$ 78 036	$ 146 545	$ 102 317	$ 115 347	$ 59 397
Year over year $ change		$ 68 509	$ (44 228)	$ 13 030	$ (55 949)

*Non-controlling interest represents NCN's share of the net income/loss from WPLP.

2013/14 Actual vs. 2012/13 Actual

Net income from Electric operations increased in 2013/14 primarily as a result of higher extraprovincial revenue mainly due to increased generation from stations on the Nelson River due to higher flows, as well as higher general consumers revenue mainly due to colder winter weather, a rate increase and customer growth.

The increase in revenue was partially offset by an increase in fuel and power purchased primarily due to higher purchased volumes from the colder winter weather, an increase in depreciation and amortization expense attributable to new additions to plant and equipment coming into service, and an increase in operating, maintenance and

administrative expense (OM&A) primarily due to higher pension and benefit costs related to changes in discount and mortality rates and greater employer contributions.

2014/15 Forecast vs. 2013/14 Actual

Net income from Electric operations is forecast to decrease in 2014/15 primarily as a result of lower extraprovincial revenue from lower US sales volumes largely due to transmission outages that restricted exports on the US transmission line during October and November 2014 and an increase in finance expense due to higher net interest on debt as assets go in-service and lower realized gains on the sinking fund and U.S. debt.

These reductions to net income are partially offset by lower fuel and power purchased primarily due to lower purchased volumes due to the assumption of normal winter weather and a year-over-year projected increase in hydraulic generation during the winter period .

2015/16 Forecast vs. 2014/15 Forecast

Net income from Electric operations is forecast to increase in 2015/16 primarily as a result of an increase in general consumers revenue mainly due to the proposed 3.95% rate increase effective April 1, 2015, as well as an increase in extraprovincial revenue mainly due to higher export prices.

The increase in revenue is partially offset by an increase in finance expense primarily due to new long term debt issues to finance the Corporation's capital investment requirements, as well as interest rates that are projected to rise to more normalized levels, and increases in depreciation expense as a result of plant assets going into service. The net impact of accounting policy changes as a result of the transition to IFRS results in an overall reduction to net income. Please see Appendix 5.7 for additional information on the impact of accounting policy and estimate changes.

2016/17 Forecast vs. 2015/16 Forecast

Net income from Electric operations is forecast to decrease in 2016/17 primarily as a result of increases in the volumes of US off-peak purchases and increased thermal costs due to the assumption of average water flows in 2016/17 compared to median water flows in 2015/16 , an increase in finance expense primarily due to higher debt levels to finance the Corporation's capital investment requirements as well as interest rates that are

projected to rise to more normalized levels and an increase in depreciation and amortization as well as capital taxes primarily due to increased plant investment.

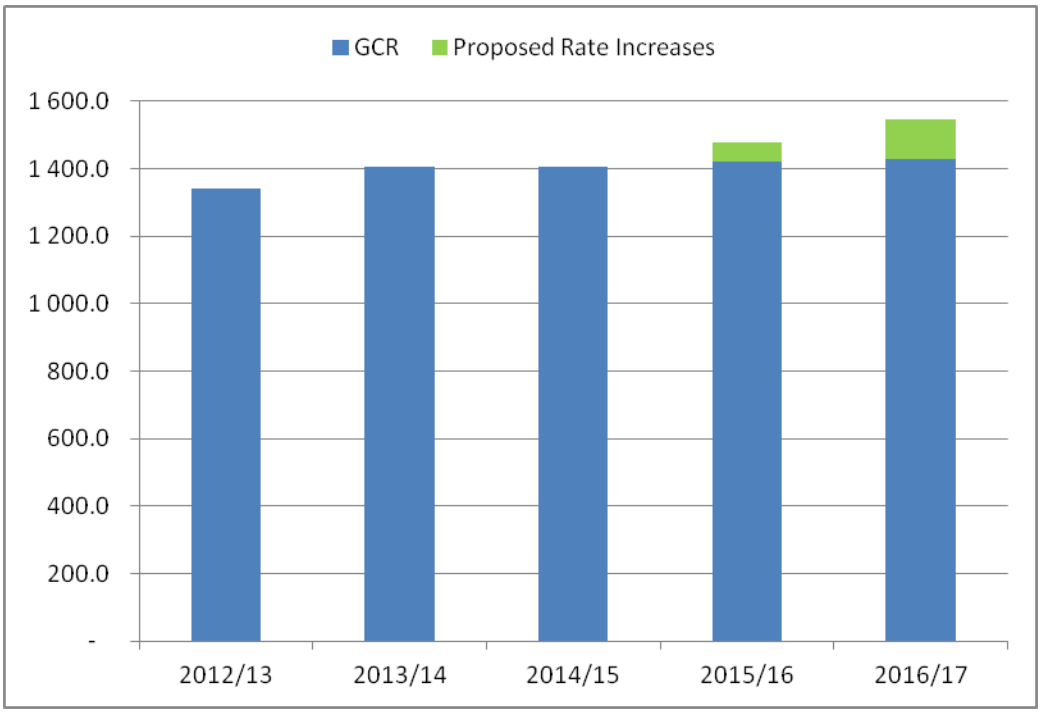
These reductions to net income are partially offset by an increase in general consumers revenue mainly due to the proposed 3.95% rate increase effective April 1, 2016, as well as an increase in extraprovincial revenue mainly due to a projected increase in export prices for Dependable and Opportunity Sales in 2016/17.

The following sections review each component of the Statement of Income. A description of each component, the year over year changes explanation and the detailed schedule is provided.

5.2 GENERAL CONSUMERS REVENUE

General consumers revenue ("GCR") is comprised of electricity sales to Manitoba Hydro's domestic customers as well as late payment charges. Customers are aggregated in two major rate classes – Residential and General Service (Commercial and Industrial customers and Area and Roadway Lighting). For 2015/16 and 2016/17, the blue bar in Figure 5.2 shows the GCR generated from existing rates and the green bar shows the additional revenues generated from the proposed rate increases.

Figure 5.2 General Consumers Revenue



The following schedule provides a breakdown of GCR.

MANITOBA HYDRO **Schedule 5.1.1**
GENERAL CONSUMERS REVENUE **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Residential	$ 562 959	$ 614 156	$ 597 916	$ 605 105	$ 612 761
General Service	778 052	809 971	838 826	849 283	847 486
Bipole III Reserve Account		(18 826)	(29 997)	(32 360)	(33 773)
Total Revenue excluding rate increases	1 341 011	1 405 301	1 406 745	1 422 028	1 426 474
Additional General Consumers Revenue*				57 377	117 638
Total Revenue including rate increases	$ 1 341 011	$ 1 405 301	$ 1 406 745	$ 1 479 405	$ 1 544 112
Year over year $ change		$ 64 290	$ 1 444	$ 72 660	$ 64 707
Year over year % change		4.8%	0.1%	5.2%	4.4%

* Additional General Consumers Revenue - 2015/16 and 2016/17 reflect rate increases of 3.95%

The Residential class is comprised of all housing types (single detached, duplexes, triplexes, etc.) and also includes individual metered apartment blocks, seasonal cottages and farm residences.

The General Service ("GS") class is comprised of commercial and industrial customers in the General Service Small, Medium and Large rate categories as well as Area and Roadway Lighting. Customers are classed as a GS Small if their connected load is less than 200 kV.A and their transformation is owned by Manitoba Hydro. Customers classed as GS Medium have connected loads which exceed 200 kV.A and whose transformation is also owned by Manitoba Hydro. GS Large customers have loads which typically exceed 2000 kV.A and who own their own transformation. The GS Large class is further divided into three sub-classes based on the voltage used to serve the customer (750V-30 kV, 30 kV-100 kV and >100 kV). The Area and Roadway Lighting class is comprised of all street lights and sentinel lights which may be publically or privately owned or rented.

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase is primarily due to higher consumption from colder winter weather, a rate increase, as well as customer growth. The PUB approved a rate increase of 3.5% effective May 1, 2013. The PUB directed that 2.0% of the 3.5% increase be included in

general revenue and that 1.5% be set aside to mitigate rate increases when Bipole III is placed into service.

2014/15 Forecast vs. 2013/14 Actual

The forecast 2014/15 increase is primarily due to the 2.75% rate increase approved by the PUB on an interim basis effective May 1, 2014. The PUB directed that 2.0% of the 2.75% increase be included in general revenue and 0.75% be set aside to mitigate rate increases when Bipole III is placed into service. The revenue increase is partially offset by the assumption of normal weather conditions for 2014/15.

2015/16 Forecast vs. 2014/15 Forecast

The forecast 2015/16 increase is primarily due to the additional revenue associated with the proposed 3.95% rate increase effective April 1, 2015 as well as a 1.0% increase in energy consumption primarily due to growth in the Residential and General Service Large sectors.

2016/17 Forecast vs. 2015/16 Forecast

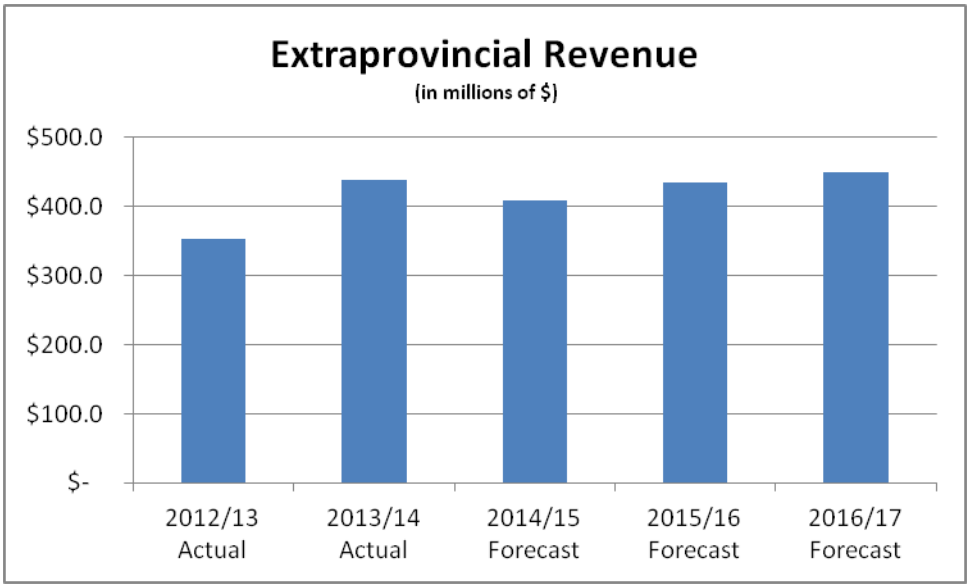
The forecast 2016/17 increase is primarily due to the additional revenue associated with the proposed 3.95% rate increase effective April 1, 2016 as well as load growth in the Residential sector. These increases are partially offset by a reduction in load in the General Service sector due to a Top Consumer phasing out a significant portion of their operation.

5.3 EXTRAPROVINCIAL REVENUE

Extraprovincial Revenue includes revenues from Canadian and US export sales as well as revenues from other associated export market activities such as merchant sales, transmission credits and renewable energy certificates.

Forecast Extraprovincial Revenues for 2014/15 are based on current storage conditions and expected inflows, assuming normal precipitation conditions for the remainder of the fiscal year. Revenues for 2015/16 are based on storage conditions carried forward from the prior fiscal year and median inflows. For the subsequent years, the projections are determined by averaging the revenues using the full range of experienced flow conditions.

Figure 5.3 Extraprovincial Revenue



Please see the following schedule for a breakdown of Extraprovincial Revenue.

MANITOBA HYDRO **Schedule 5.1.2**
EXTRAPROVINCIAL REVENUE **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Canadian Sales	33 353	20 392	28 748	16 104	43 626
Other Sales	122	(40)	(54)	-	-
Canadian	33 475	20 352	28 694	16 104	43 626
US Sales	284 819	355 306	343 003	380 033	379 506
Other Sales	4 973	8 722	6 468	5 688	572
Transmission Credits	18 307	18 021	17 443	22 140	23 841
Renewable Energy Certificates	1 942	3 494	3 045	2 299	2 193
US	310 042	385 543	369 959	410 160	406 112
Merchant (IESO & MISO)*	9 116	33 287	10 239	7 893	-
Total Extraprovincial Revenue	$ 352 633	$ 439 182	$ 408 892	$ 434 157	$ 449 738
Year over year $ change		$ 86 549	$ (30 290)	$ 25 265	$ 15 581
Year over year % change		24.5%	-6.9%	6.2%	3.6%

*IESO = Independent Electricity Systems Operator and MISO = Midcontinent Independent System Operator

Please see the following for a description of Extraprovincial Revenue components:

Canadian and US Sales include both Dependable and Opportunity Sales.

Dependable sales are export contracts sourced from Manitoba Hydro's dependable energy resources. Dependable energy resources are energy supplies assumed to be available in the event that the lowest recorded water supply conditions are repeated. Dependable sales involve capacity and energy commitments, are negotiated at least one year in advance of delivery, and have duration of greater than six months.

Sales not identified as Dependable are called Opportunity sales and can be sourced from non-dependable resources or uncommitted dependable resources:

- Opportunity (Bilateral) – Sales negotiated with a purchasing party and documented by contract or recorded exchange. The duration of delivery for these sales generally does not exceed 6 months, and can be as short as one-hour. Opportunity Bilateral sales can include the sale of capacity and/or energy.

- Opportunity (Day Ahead or Real Time Markets) – Export sales transactions in a market operated by an independent system operator for the purchase and sale of power related products for the next operating day ('Day Ahead') or during the operating day ('Real Time').

Merchant transactions represent arbitrage opportunities and are unrelated to Manitoba Hydro generation. These include physical purchases of power from one market for re-sale to another market.

Other Sales include miscellaneous revenues derived from market activities such as the sale of ancillary services into the Midcontinent Independent System Operator ("MISO") market and congestion management with the Ontario market.

Transmission Credits refer to revenues received for the use of Manitoba Hydro's transmission system. Manitoba Hydro' Open Access Transmission Tariff defines the fees for use of its transmission system. The MISO administers collection of these fees on behalf of Manitoba Hydro, which is why they are reported as US revenues.

Renewable Energy Certificates are revenues received mainly from the sale of environmental attributes acquired by Manitoba Hydro through power purchase agreements with wind generation suppliers in Manitoba.

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase reflects higher US sales volumes largely made possible by increased generation from stations on the Nelson River due to higher flows. Hydraulic generation was also higher in 2013/14 because the Wuskwatim Generating Station was in service for the entire year. Export revenues were also favourably impacted by an increase in merchant sales, higher market prices, and favourable foreign exchange rates on revenues from US sales.

2014/15 Forecast vs. 2013/14 Actual

The 2014/15 forecast decrease reflects lower US sales volumes largely due to transmission outages that restricted exports on the US transmission line during October and November 2014. Merchant sales are projected to be lower as Manitoba Hydro does

not expect to have the same level of arbitrage opportunities between markets as was experienced in 2013/14. These decreases were partially offset by higher foreign exchange rates affecting revenues from US sales.

2015/16 Forecast vs. 2014/15 Forecast

The 2015/16 forecasted increase reflects higher export prices and a projected increase in foreign exchange rates on US sales. This increase is partially offset by lower Canadian sales volumes due to reduced participation in the IESO market and an expected decrease in merchant sales projected for 2015/16 due to reduced arbitrage opportunities between markets.

2016/17 Forecast vs. 2015/16 Forecast

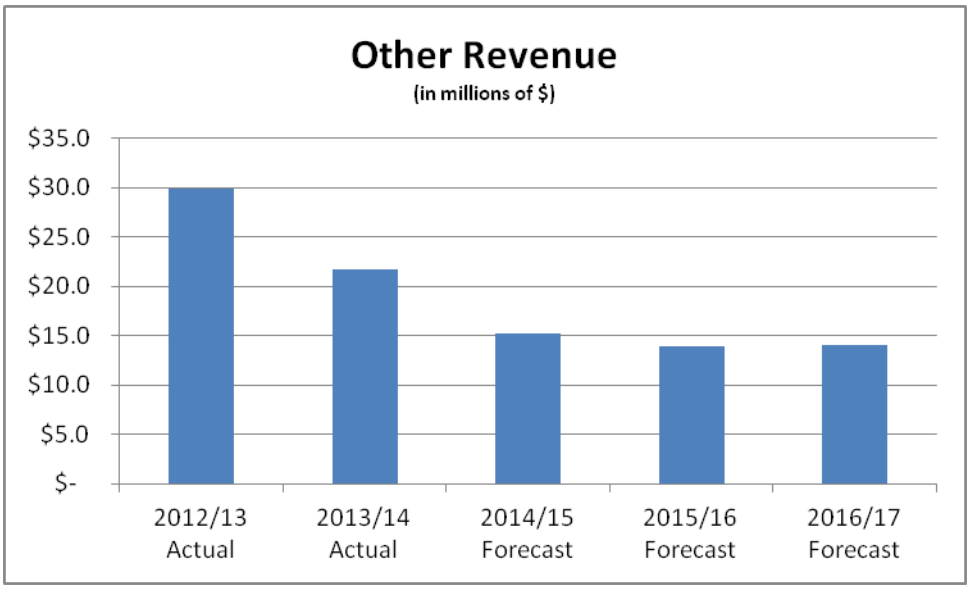
The 2016/17 forecasted increase is primarily due to an increase in prices of Dependable and Opportunity Sales. There are also additional firm export contract sales effective in 2016/17, further increasing the total export revenue compared to 2015/16. This includes the SaskPower 25-megawatt sale which is in effect for its first full year in 2016/17, increasing Canadian sales over 2015/16.

5.4 OTHER REVENUE

Other Revenue includes a variety of different revenue items, with the most significant items being:

- Joint Use contracts representing the net rental revenue between Manitoba Hydro and MTS, Cable TV and other utilities. Net revenue is the difference between gross revenue (attachments on Manitoba Hydro property) and gross billings (Manitoba Hydro attachments on external party property).
- Third party revenues where there is a provision of services for the use/rental of Manitoba Hydro owned assets.
- Revenues received for work the Corporation undertakes on customer owned plant on a fee-for-service basis.
- Electrical inspections performed by Manitoba Hydro on customer owned facilities.
- Gains on sale of land to external parties. Gains are calculated as the sale price less historical acquisition costs and costs of disposal.
- Miscellaneous Other Income which includes income items such as litigation settlements, apprenticeship tax credits, etc.

Figure 5.4 Other Revenue



MANITOBA HYDRO **Schedule 5.1.3**
OTHER REVENUE **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Other Revenue	$ 29 854	$ 21 758	$ 15 223	$ 13 870	$ 13 999
$ Change		$ (8 096)	$ (6 535)	$ (1 353)	$ 129
% Change		-27.1%	-30.0%	-8.9%	0.9%

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 decrease is primarily due to a reduction in gains on sale of land compared to 2012/13 as well as a reduction goods and services sold to outside parties compared to 2012/13.

2014/15 Forecast vs. 2013/14 Actual

The 2014/15 forecast decrease is partially due to gains on sale of land that occurred in 2013/14 and are not expected in 2014/15. In addition, there is a reduction in the amount forecast for third party work on customer owned assets.

2015/16 Forecast vs. 2014/15 Forecast

No significant change.

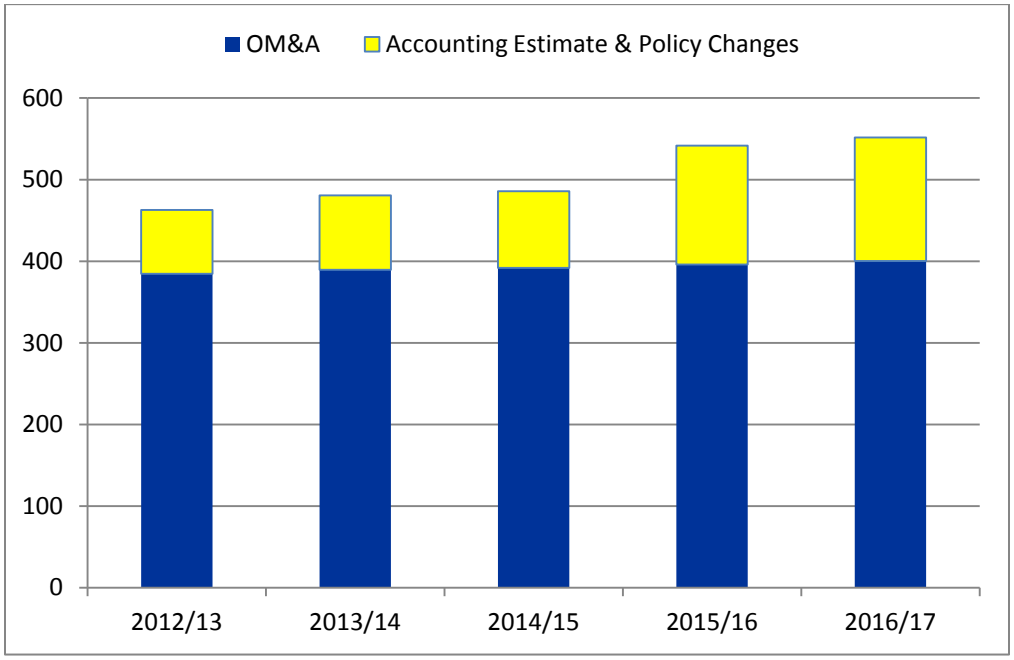
2016/17 Forecast vs. 2015/16 Forecast

No significant change.

5.5 OPERATING, MAINTENANCE & ADMINISTRATIVE

Operating, Maintenance & Administrative (OM&A) Expenses are comprised primarily of labour and benefits, materials, contracted services, and overhead costs associated with operating and maintaining all facilities of the Corporation and providing services to customers. Figure 5.5 provides a summary of OM&A expenses indicating the impact of accounting estimate and policy changes between 2012/13 and 2016/17, which are represented in yellow.

Figure 5.5 Operating, Maintenance & Administrative



The following table provides a breakdown of the OM&A expenses incorporating accounting changes:

MANITOBA HYDRO **Schedule 5.1.4**
OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS **(000's)**

(In thousands of $)	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Average Annual % Inc/(Dec)
Wages & Salaries	$ 466 165	$ 480 511	$ 502 692	524 552	533 997	3.5%
Overtime	61 031	62 365	61 709	71 080	73 121	4.8%
Employee Benefits	130 886	157 094	160 592	155 892	158 992	5.3%
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%
Labour & Benefits Charged to Operations*	442 591	465 460	468 405	469 188	478 140	2.0%
Other Costs						
Employee Safety & Training	4 463	4 596	5 225	5 188	5 175	3.9%
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%
Construction & Maintenance Services	16 259	16 775	19 364	18 580	18 580	3.6%
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%
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%
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%
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%
Contingency Planning	-	-	2 594	2 610	2 657	
Operating Expense Recovery	(13 997)	(17 808)	(13 468)	(13 649)	(13 647)	0.0%
Strategic Initiative Funding			870	3 640	6 317	
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%
Other Costs Charged to Operations*	153 815	156 513	166 444	163 821	166 177	2.0%
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%
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

The 4.6% average annual growth over the 5 year period is primarily a result of accounting changes. These changes include an increase in pension and benefit costs

under CGAAP due to changes in the assumptions used to calculate these costs, such as changes in the discount rate and mortality tables. IFRS changes commence in 2015/16 and primarily impact capitalized overhead costs, which are no longer eligible for capitalization. While accounting changes under both CGAAP and IFRS have impacted OM&A costs, this is fully offset by reductions to depreciation and amortization expense. Please see Appendix 5.7 for more detailed information on the net impact of accounting changes in IFF14.

The average annual growth rate, excluding accounting changes, is 1.0%. The growth of 1.0% reflects higher wages and salaries due to contract settlements, merit and progression of approximately 3% to 4% annually, which is mainly offset by a concerted effort by Manitoba Hydro on cost containment, as further discussed in Section 5.14.

The cost containment strategy focuses on a comprehensive management of staff positions across all Business Units. The corporation continues to review work processes and functions to identify opportunities for the elimination of work no longer deemed essential, to consolidate similar functions where overlap may exist, and to implement changes which reduce costs and increase efficiencies. This review has resulted in a projected reduction of 300 operational EFTs which is discussed further in Appendix 5.5.

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase is primarily a result of accounting changes causing higher pension and benefit costs driven by changes in estimates for the discount rate and mortality rates.

2014/15 Forecast vs. 2013/14 Actual

The 2014/15 forecast increase is a result of contract wage settlements, which is mainly offset by the Corporation's cost containment initiatives.

2015/16 Forecast vs. 2014/15 Forecast

The 2015/16 forecast increase is primarily attributable to IFRS accounting changes resulting in the requirement to expense $55 million of costs no longer eligible for capitalization. Excluding accounting changes, the forecasted increase in 2015/16 of 1.1% is a result of contract wage settlements, which is mainly offset by the Corporation's cost containment initiatives.

2016/17 Forecast vs. 2015/16 Forecast

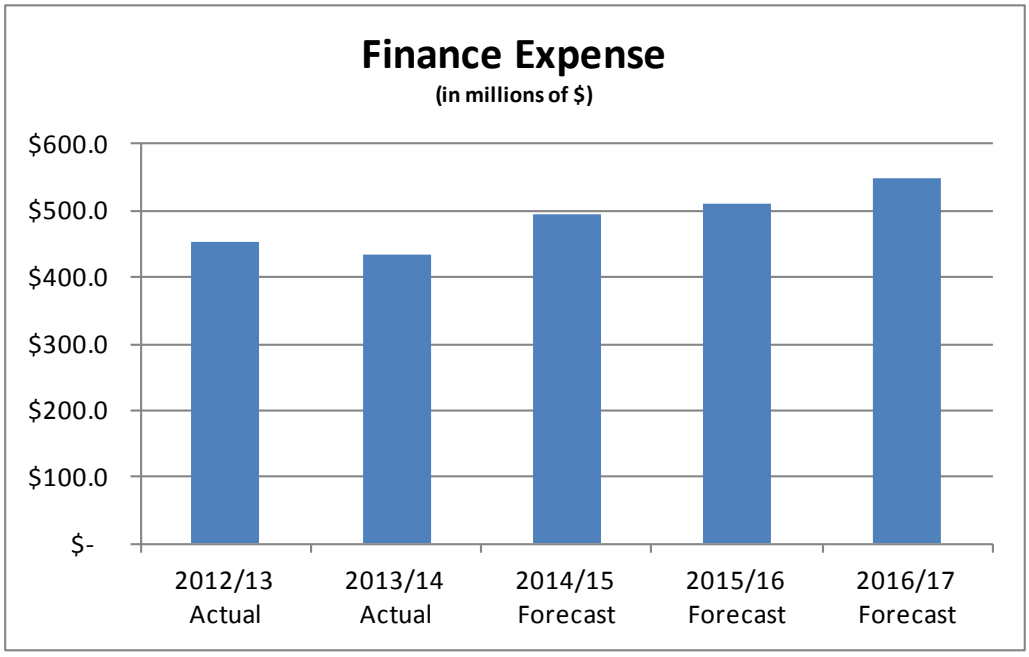
The 2016/17 forecast increase is primarily attributable to higher pension costs due to an increase in interest on the obligation and higher pensionable earnings. Excluding accounting changes, the forecasted increase in 2016/17 of 1.1% is the result of expected escalation in wages and salaries, mainly offset by the Corporation's cost containment initiatives.

Appendix 5.5 provides additional comprehensive information on Equivalent Full Time positions ("EFTs"), OM&A costs by category and Business Unit.

5.6 FINANCE EXPENSE

Finance expense consists of costs associated with the Corporation's financing activities. The largest component of finance expense is gross interest expense on the Corporation's debt portfolio. Finance expense is also affected or partially offset by a number of other components including: the debt guarantee fee; the amortization of discounts, premiums & transaction costs; the income or gains associated with the sinking fund and foreign exchange; and interest capitalized for capital projects under construction.

Figure 5.6 Finance Expense



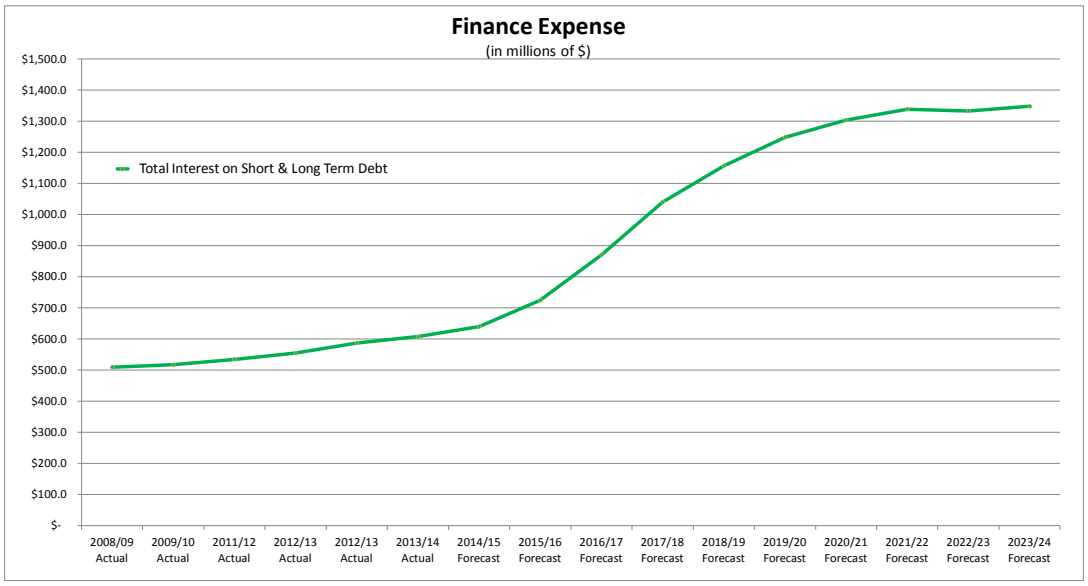
The following schedule provides for a breakdown of Finance Expense.

MANITOBA HYDRO **Schedule 5.1.5**
FINANCE EXPENSE **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Interest on Short & Long-Term Debt					
Gross Interest	$ 515,176	$ 528,490	$ 553,625	$ 626,681	$ 755,717
Provincial Guarantee Fee	90,432	96,228	105,079	118,087	139,830
Amortization of (Premiums), Discounts, and Transaction Costs	121	1,752	2,832	2,812	2,212
Intercompany Interest Receivable	(18,544)	(18,671)	(21,089)	(23,059)	(27,185)
Total Interest on Short & Long Term Debt	587,185	607,799	640,447	724,521	870,574
Interest Allocated to Construction	(137,904)	(139,542)	(145,615)	(206,840)	(315,634)
Interest Earned on Sinking Fund	(9,957)	(24,475)	(14)	(2,234)	(8,703)
Realized Foreign Exchange (Gains) or Losses on Debt in Cash Flow Hedges	2,058	(19,326)	(10,982)	(16,830)	(10,649)
Revaluation of Dual Currency Bonds	2,984	2,372	935	1,028	1,083
Corporate Allocation	(19,129)	(19,129)	(18,685)	(18,543)	(18,543)
Other Amortization	27,128	27,703	28,766	29,321	29,393
Total Finance Expense	$ 452,367	$ 435,402	$ 494,852	$ 510,423	$ 547,521
Year over year $ change		$ (16,965)	$ 59,450	$ 15,571	$ 37,098
Year over year % change		-3.8%	13.7%	3.1%	7.3%

Manitoba Hydro is forecasting that in the next 10 years it will be necessary to fund the vast majority of its capital expenditures through debt financing. When combined with debt refinancing requirements, the total debt requirements for Manitoba Hydro's electric operations in the next five-year period will peak at levels in excess of $3 billion per year. These total forecast debt financing requirements are unprecedented in Manitoba Hydro's history. For finance expense, the total interest on short & long term debt is shown as the green line on the following figure:

Figure 5.7 Total Interest on Short-term & Long-term Debt



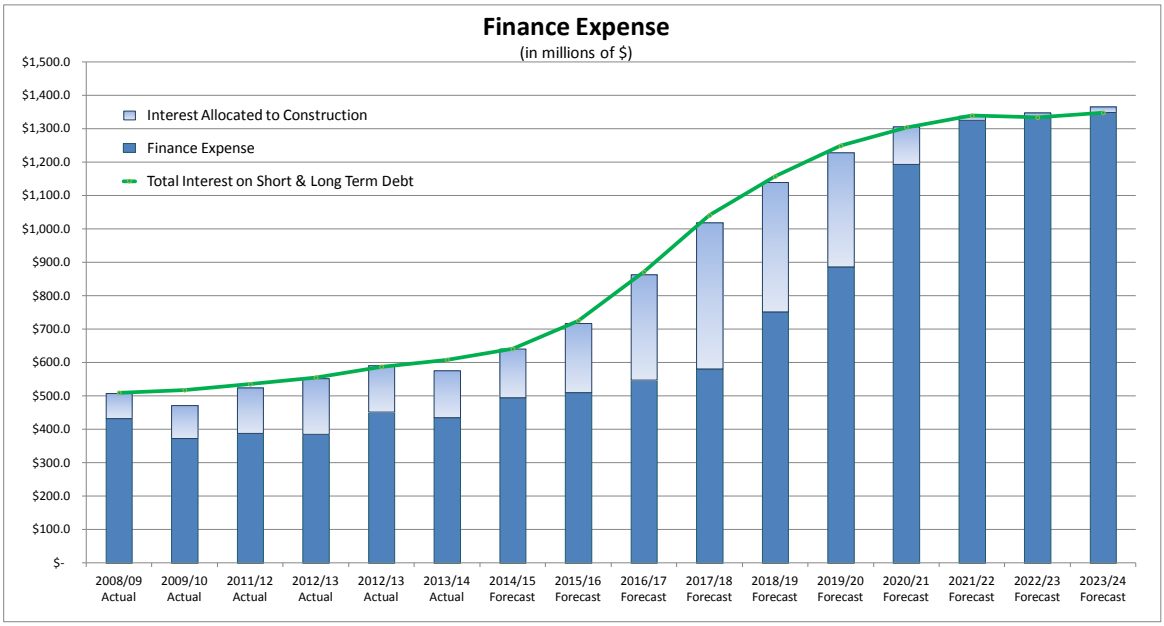
The components within this category are as follows:

- Gross Interest is the interest paid on Canadian and US dollar debt.
- The Provincial Guarantee Fee (PGF) is an annual fee payable to the Province of Manitoba in exchange for the guarantee of the Corporation's debt (with the exception of Manitoba Hydro-Electric Board Bonds) and is calculated using a rate of 1% multiplied by the applicable outstanding debt at March 31st of the previous fiscal year.
- The Amortization of Premiums, Discounts and Transaction Costs, arising from actual debt issuance on the existing debt portfolio are amortized over the term of the debt.
- The Intercompany Interest Receivable is primarily from the interest received from Manitoba Hydro's subsidiary, Centra Gas Manitoba Inc. ("Centra"), on the short and long term debt advances made to Centra from Manitoba Hydro. Interest rates for advances to Centra are based on the associated cost of financing that was incurred by Manitoba Hydro.

The actual and forecasted level of total interest on short & long term debt generally follows the growth in the size of the total debt portfolio financing the expansion of the Corporation's net capital assets. Commencing with 2015/16, the gross interest and PGF levels will begin to rise sharply in accordance with the escalation in capital financing, until 2021/21 when the overall levels flatten as capital investments subside.

The Interest Allocated to Construction is the interest capitalized during the construction of a project, which is a reduction to finance expense and a charge to the capital project. The interest associated with a capital project is not included in finance expense until the project is placed into service. As shown in the following figure, the interest allocated to construction (lightly shaded blue bars) is the primary factor that reduces the level of total interest on short & long term debt (green line) to arrive at net finance expense (dark blue bars) on the financial statements.

Figure 5.8 Finance Expense and Interest Allocated to Construction



Consequently, during periods of intensive capital construction, the net finance expense, and hence the revenue requirement, is temporarily shielded from the full weight of the gross finance expense by the interest allocated to construction. By 2021/22, as the level of capital investments subside, the net finance expense closely approaches the total interest on short and long term debt of over $1.3 billion per year.

In addition to the interest allocated to construction, there are a number of other components within finance expense as follows:

- The Interest Earned on Sinking Fund is primarily the interest recognized on Canadian and US sinking fund investments/ cash.
- The Realized Foreign Exchange (Gains) or Losses on Debt in Cash Flow Hedges, arising from the difference between the historic and market exchange rates on US dollar debt, are recorded in Finance Expense when hedged export revenues are realized.
- The Revaluation of Dual Currency Bonds is primarily a measure of the quarterly change in present value of the USD interest payments as translated into Canadian currency at the exchange rate prevailing at the balance sheet date.
- The Corporate Allocation amount includes the interest on the Centra acquisition debt and the related Provincial Guarantee Fee. This amount is included in the

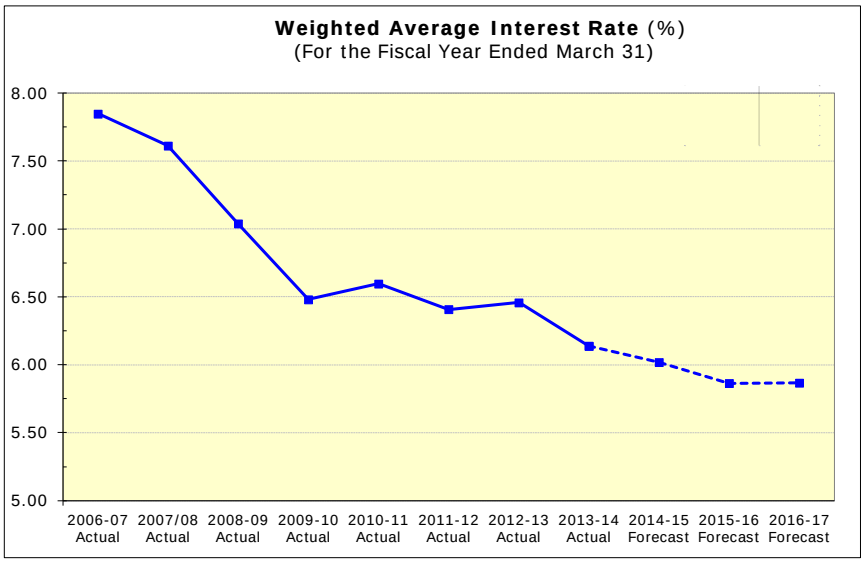
Corporate Allocation in Section 5.11.

- Other Amortization is primarily the amortization of the Winnipeg Hydro obligation and First Nations settlements.

While the forecasted increases in net finance expense primarily arise as capital assets go in-service and net finance expense is no longer reduced by the associated interest allocated to construction, gross interest expense arising from debt obligations will be affected by changing interest rates for new and refinanced debt requirements, as well as the debt portfolio's floating rate debt. Changing interest rates will also have a counterbalancing impact upon the interest capitalization rate used to derive the interest allocated to construction.

The low interest rate environment over the past few years has provided the opportunity for Manitoba Hydro to secure stable, low cost funding such that the weighted average interest rate on the debt portfolio has decreased. As shown on the following figure, since 2006/07, the debt portfolio's net weighted average interest rate has decreased by nearly 2.0%. It is anticipated that this positive trend will continue until leveling off in 2016/17.

Figure 5.9 Weighted Average Interest Rate



Although economic forecasts during the last few years have generally called for a quicker economic recovery and correspondingly higher interest rates, on an actual basis, the strength and pace of a recovery has been subdued. Manitoba Hydro will continue to

monitor the financial markets, along with gathering the views of external economic forecasters in order to obtain the range and consensus forecast of their opinions.

The adverse interest rate risk associated with rising interest rates can be minimized through a series of actions such as:

a) reducing the level of variable (or floating) rate debt within the debt portfolio;
b) taking advantage of the historically low interest rate environment for long bonds by securing long term fixed rate financing as required; and
c) enhancing the stability of the debt portfolio by extending the weighted average term to maturity.

See the Debt Management Strategy in Appendix 3.7 for additional information regarding the Corporation's debt financing requirements and strategies.

It is also important to recognize that changes in the interest rate environment arising from macro-economic conditions may affect other aspects of Manitoba Hydro's operations and financial performance. For example, low interest rates may be correlated with low extra-provincial energy prices.

From a liquidity risk perspective, the significant differential between the Corporation's interest cash flow obligations (approximated by the green total interest on short & long term debt) and the accounting net finance expense contribution to revenue requirement (dark blue bars) will place addition pressure upon the Corporation's cash flow and interest coverage ratios.

In order to mitigate the foreign currency exchange risk on export revenues denominated in United States dollars (USD), Manitoba Hydro maintains a natural hedge with USD cash flows, including finance expense cash flows from US denominated debt. For example, to the extent that the underlying USD inflows and outflows are in balance, while a strengthening US dollar will increase the translation of US export revenues into Canadian dollars (CAD), this change will be offset by increases in the translation of US dollar expenses (such as US dollar interest expense) into CAD.

The following sections highlight the year-over-year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The decrease was primarily due to lower interest rates, higher realized foreign exchange gains on U.S. debt and higher recognized gains on the sale of U.S. sinking fund investments. This was partially offset by higher volumes of long term debt to finance capital expenditures and a weaker Canadian dollar.

2014/15 Forecast vs. 2013/14 Actual; 2015/16 Forecast vs. 2014/15 Forecast; and 2016/17 Forecast vs. 2015/16 Forecast

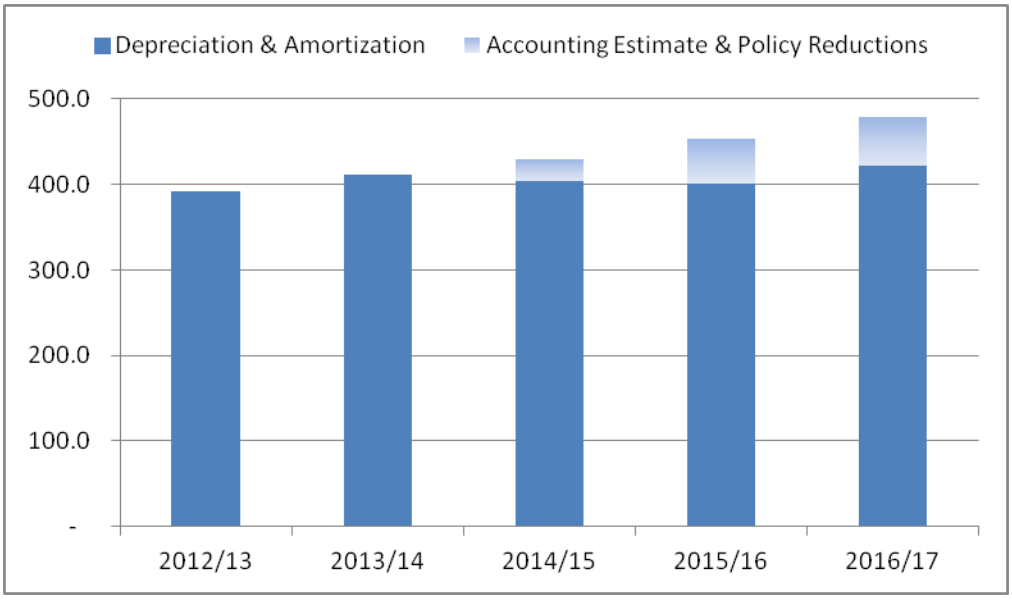
Gross interest expense increases during the forecast years, primarily due to new long term debt issued in finance the Corporation's capital investments as well as interest rates that are projected to rise to more normalized levels by the final forecast year. As a partial offset, any interest associated with funding capital projects under construction is capitalized, thereby reducing total finance expense.

5.7 DEPRECIATION & AMORTIZATION

Depreciation and Amortization expenses are calculated using a straight line remaining life basis. The asset categories include: Generation, Transmission, Distribution, and Other (General Equipment, Communication Equipment, Buildings, and Vehicles). Also included is the amortization of non-refundable customer contributions, regulated assets and intangible assets.

Figure 5.10 below shows the lower depreciation and amortization expense reflecting the change in estimate as a result of adjustments in asset service lives, removal of negative salvage from depreciation rates and the impact of the change in depreciation methodology.

Figure 5.10 Depreciation & Amortization



Please see the following schedule for a breakdown of Depreciation and Amortization.

MANITOBA HYDRO **Schedule 5.1.6**
DEPRECIATION AND AMORTIZATION EXPENSE **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Generation					
Hydraulic Generating Stations	80 110	82 678	92 953	92 265	96 041
Thermal Generating Stations	15 415	15 562	15 770	15 755	15 856
Demand Side Management	28 217	30 262	31 576	34 957	37 501
Diesel Generating Stations	1 457	1 757	2 342	2 557	2 111
Wuskwatim	16 179	26 688	26 651	26 984	27 082
Amortization of Contributions	(841)	(868)	(1 049)	(1 146)	(1 146)
	$ 140 537	$ 156 079	$ 168 244	$ 171 373	$ 177 446
Transmission					
Transmission	14 571	16 644	15 929	13 369	14 367
Amortization of Contributions	(1 358)	(3 204)	(3 051)	(3 054)	(3 059)
	$ 13 213	$ 13 440	$ 12 879	$ 10 315	$ 11 308
Stations					
Substations	82 493	86 122	87 617	85 735	90 177
Transformers	1 806	1 940	1 627	1 597	1 828
Amortization of Contributions	(1 247)	(4 457)	(4 402)	(4 402)	(4 402)
	$ 83 052	$ 83 605	$ 84 842	$ 82 930	$ 87 603
Distribution					
Subtransmission Lines	6 271	6 629	7 376	6 948	7 401
Distribution Lines	58 170	61 337	60 509	56 989	60 951
Meters & Transformers	4 273	4 260	2 848	3 281	3 404
Amortization of Contributions	(5 084)	(5 476)	(5 699)	(6 409)	(7 009)
	$ 63 630	$ 66 750	$ 65 034	$ 60 809	$ 64 747
Other					
Communications	19 192	21 307	16 819	17 765	18 206
Motor Vehicles	10 954	11 573	10 154	11 819	12 226
Structures & Improvements	7 947	8 066	7 928	8 800	9 557
General Equipment	25 806	23 255	16 627	16 780	16 797
Computer Development	20 582	19 667	17 687	18 487	20 816
Conawapa	-	-	-	-	7 711
Affordable Energy Fund	5 406	4 410	5 270	4 290	1 509
Miscellaneous	3 550	4 628	1 701	2 652	3 269
Corporate Allocation	(1 946)	(1 946)	(1 974)	(1 850)	(1 853)
Target Adjustment	-	-	(621)	(3 305)	(6 938)
	$ 91 491	$ 90 960	$ 73 591	$ 75 439	$ 81 300
Total D&A Expense Including Accounting Changes	$ 391 923	$ 410 834	$ 404 590	$ 400 866	$ 422 404
Add: Accounting Policy & Estimate Changes	-	-	**24 923**	**52 685**	**57 159**
Total D&A Expense Excluding Accounting Changes	$ 391 923	$ 410 834	$ 429 512	$ 453 551	$ 479 563
Year over year % change Including Accounting Changes		4.8%	-1.5%	-0.9%	5.4%
Year over year % change Excluding Accounting Changes		**4.8%**	**4.5%**	**5.6%**	**5.7%**

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase is primarily due to new additions to plant and equipment coming into service, including the Wuskwatim Generating Station which was fully in-service during the 2013/14 fiscal year.

2014/15 Forecast vs. 2013/14 Actual

Fiscal 2014/15 reflects an increase in depreciation expense as a result of $1.7 billion in assets going into service. Of the $1.7 billion in additions, approximately $1.0 billion is comprised of new generation and transmission projects including the Pointe du Bois Spillway Replacement ($477 million), the Riel 230/500 KV Station ($329 million), and Bipole III Converter Station ($123 million), with $576 million comprised of sustaining capital investments.

The increase in depreciation expense as a result of plant additions is more than offset by the impact of new depreciation rates implemented by Manitoba Hydro. The new depreciation rates were determined as part of Manitoba Hydro's most recent depreciation study and reflect new service life estimates effective April 1, 2014.

Please see Appendix 5.6 for a discussion of the depreciation study and the associated depreciation rates and for correspondence from Gannett Fleming, Inc. setting out the depreciation rates to be used under GAAP and IFRS.

2015/16 Forecast vs. 2014/15 Forecast

Similar to the results reflected in the 2014/15 forecast, depreciation continues to increase as result of $833 million in plant assets going into service in the 2015/16 fiscal period. The majority of the assets forecast to go into service are comprised of sustaining capital investments of $593 million.

Overall depreciation decreases as a result of changes implemented by Manitoba Hydro in order to comply with the financial reporting requirements of IFRS. These changes include the removal of the provision for asset retirement costs from depreciation rates, the removal of administrative overhead from inclusion in the cost of capital projects, and the change in method of depreciation. The removal of the provision for asset retirement

costs and the removal of administrative overhead from the cost of capital projects resulted in a decrease in depreciation expense totaling $60 million that was partially offset by a $36 million increase caused by the change in method of depreciation.

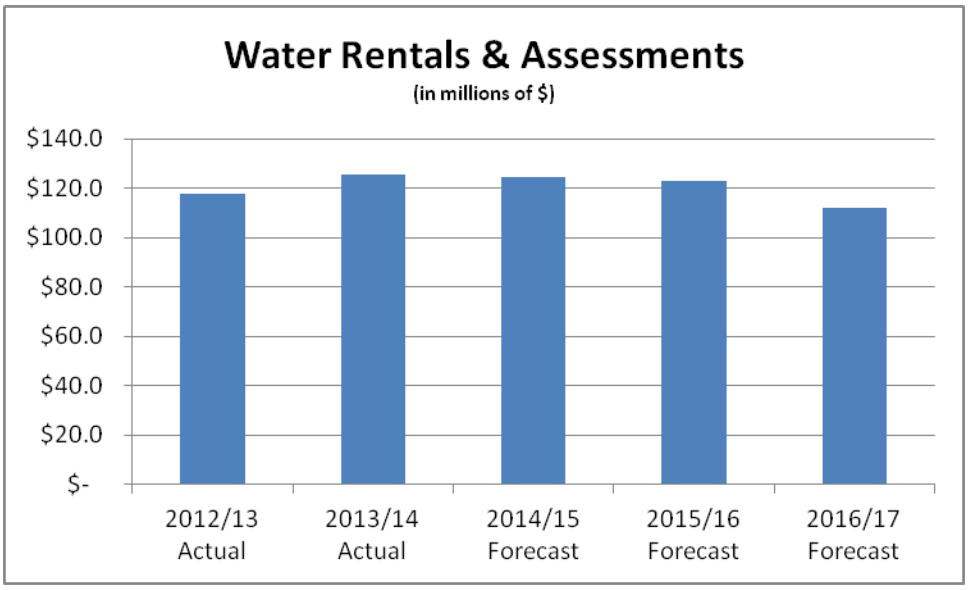
2016/17 Forecast vs. 2015/16 Forecast

The $21 million increase forecasted in 2016/17 is the result of $0.9 billion of assets going into service in fiscal 2016/17 (comprised of $692 million in sustaining capital investments), as well as the projected commencement of the amortization of deferred Conawapa project costs. For purposes of MH14, it is assumed that the deferred Conawapa costs are treated as a rate-regulated asset beginning in 2016/17.

5.8 WATER RENTALS & ASSESSMENTS

Pursuant to *The Water Power Act*, water rentals are paid to the Province for the use of water resources for hydroelectric generation. Assessments include amounts paid for water usage pursuant to *The Water Rights Act*, Lake of the Woods Control Board and Lac Seul Operating Costs, National Energy Board (NEB) assessments, and membership fees for MISO and other industry associations. Land rentals are annual payments for the use of Manitoba Crown lands used for water power purposes, as set out in Manitoba Hydro's Water Power Act licenses.

Figure 5.11 Water Rentals & Assessments



Please see the following schedule for a breakdown of Water Rentals and Assessments.

MANITOBA HYDRO **Schedule 5.1.7**
WATER RENTALS AND ASSESSMENTS **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Water Rentals	$ 110 440	$ 117 907	$ 117 417	$ 115 049	$ 103 902
Assessments & Land Rentals	7 424	7 610	7 052	7 798	8 265
Total Water Rentals and Assessments	$ 117 864	$ 125 517	$ 124 469	$ 122 847	$ 112 167
Year over year $ change		$ 7 653	$ (1 047)	$ (1 622)	$ (10 680)
Year over year % change		6.5%	-0.8%	-1.3%	-8.7%

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase is primarily due to increased water rentals due to an increase in hydraulic generation along the Nelson River as a result of higher system inflows compared to 2012/13. Also, the Wuskwatim Generating Station was in service for the entire year which contributed to the increase in the total water rental cost for 2013/14.

2014/15 Forecast vs. 2013/14 Actual

The 2014/15 forecast decrease reflects lower hydraulic generation largely due to transmission outages that restricted exports on the US transmission line during October and November 2014.

2015/16 Forecast vs. 2014/15 Forecast

The 2015/16 forecast decrease reflects lower hydraulic generation due to assumed median inflow conditions as compared to above average inflow conditions that occurred in 2014/15. Although lower than 2014/15, hydraulic generation is still expected to be above average due to significant carry over storage from 2014/15. The decrease in water rentals is expected to be partially offset by higher membership fees and assessments due to an increase in NEB charges.

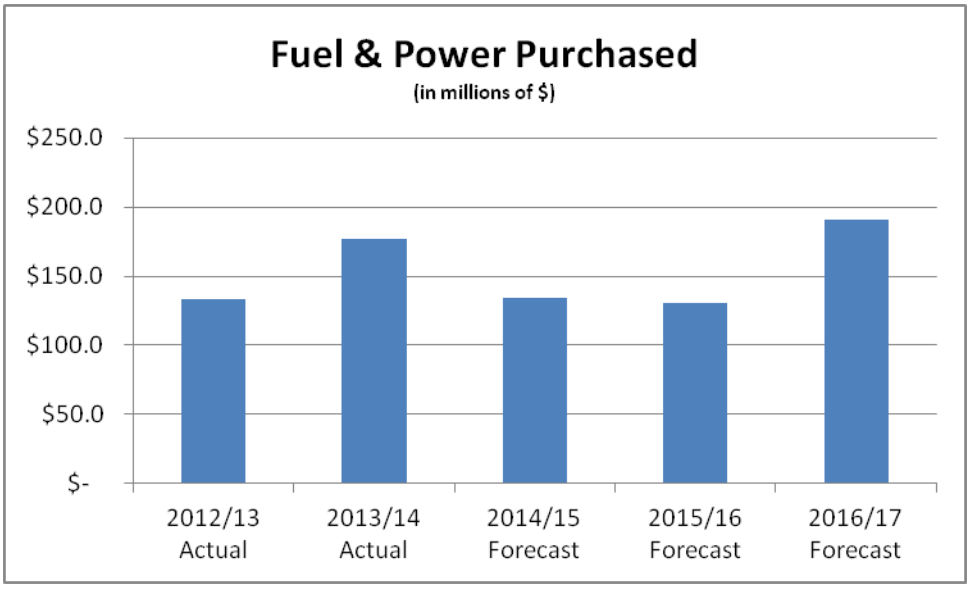
2016/17 Forecast vs. 2015/16 Forecast

The 2016/17 forecast decrease reflects lower water rentals due to lower hydraulic generation based on the assumption of average historic water flow conditions. Hydraulic generation, and therefore water rentals, is expected to be higher in 2015/16 primarily because of carry forward storage from the prior year.

5.9 FUEL & POWER PURCHASED

Fuel & Power Purchased includes costs of fuel for thermal generation facilities, costs for purchased energy, and other miscellaneous costs associated with export and import market activities and system operation. In 2014/15, over 99% of electricity forecast to be generated by Manitoba Hydro is from its 15 hydraulic generating stations and less than 1% from its two thermal generation stations and four remote diesel generation facilities. In addition, Manitoba Hydro purchases wind power from the independently-owned St. Leon and St. Joseph wind farms. Manitoba Hydro also imports electricity depending on the operating and economic circumstances.

Figure 5.12 Fuel & Power Purchased



Please see the following schedule for a breakdown of Fuel & Power Purchased.

MANITOBA HYDRO **Schedule 5.1.8**
FUEL AND POWER PURCHASED **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Thermal Fuel					
Coal	$ 3 305	$ 4 886	$ 3 566	$ 3 086	$ 6 329
Natural Gas & Other	9 012	9 183	9 262	10 574	21 542
Power Purchased	70 965	98 104	70 996	73 651	115 049
Merchant Purchases	5 366	18 863	7 407	5 705	-
Transmission Charges	44 644	46 078	42 958	37 416	48 013
Total Fuel and Power Purchased	$ 133 292	$ 177 113	$ 134 189	$ 130 432	$ 190 933
Year over year $ change		$ 43 821	$ (42 925)	$ (3 757)	$ 60 501
Year over year % change		32.9%	-24.2%	-2.8%	46.4%

Please see the following for a description of Fuel & Power Purchased components:

Coal purchases refers to the charge for coal consumed as the principal fuel for Brandon Unit 5 for the purpose of generating electricity under restricted operations.

Natural Gas & Other includes natural gas, oil and diesel requirements for Brandon and Selkirk, and diesel for remote locations for the purpose of generating electricity.

Power Purchased includes purchases of electrical energy from wind farms in Manitoba as well as from external Canadian and US suppliers.

Merchant purchases represent arbitrage opportunities and are unrelated to Manitoba Hydro generation. These include physical purchases of power from one market for re-sale to another market.

Transmission Charges relate primarily to reservation fees for use of transmission facilities for imports or exports, or for merchant transactions.

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase was primarily the result of higher purchased volumes due to colder weather during the winter of 2013/14. Merchant purchases were also higher in 2013/14 due to increased arbitrage opportunities between markets.

2014/15 Forecast vs. 2013/14 Actual

The 2014/15 forecast decrease is primarily the result of lower purchased volumes due to the assumption of normal weather and a year-over-year projected increase in hydraulic generation during the winter period. Merchant purchases are also projected to be lower in 2014/15 as Manitoba Hydro does not expect to have the same level of arbitrage opportunities between markets as was experienced in 2013/14. Transmission charges are also projected to be lower largely because of 100 MW of transmission service expiring in the third quarter of 2014/15.

2015/16 Forecast vs. 2014/15 Forecast

The 2015/16 forecast decrease is the result of reduced merchant purchases due to less arbitrage opportunities forecast for 2015/16. Transmission charges are also reduced because of a 100 MW transmission service that expired towards the end of 2014/15, with the effect being fully realized in 2015/16. These reductions are partially offset by an increase in off-peak imports as a consequence of reduced hydraulic generation.

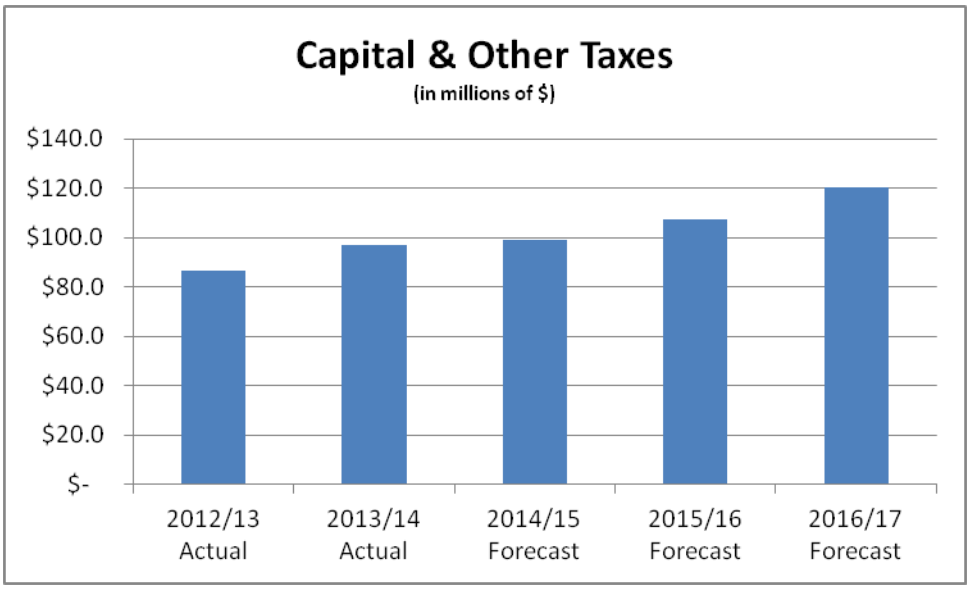
2016/17 Forecast vs. 2015/16 Forecast

The 2016/17 forecast increase is primarily due to increases in the volumes of US off-peak purchases and increased thermal costs. These increases are largely because the 2016/17 forecast reflects average purchases and costs based on the full range of historic flows with consideration for drought included, whereas 2015/16 is based on hydraulic generation from median inflows coupled with above average carry forward storage from 2014/15. Transmission charges are projected to increase due to 200 MW of new transmission service as of November 1, 2016.

5.10 CAPITAL & OTHER TAXES

Capital and Other Taxes is comprised of payments made to the Province of Manitoba for capital and payroll taxes as well as grants in lieu of taxes ("grants in lieu"), and business and property taxes paid to the various municipalities in Manitoba.

Figure 5.13 Capital & Other Taxes



The following schedule provides a breakdown of Capital and Other Taxes.

MANITOBA HYDRO **Schedule 5.1.9**
CAPITAL AND OTHER TAXES **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Capital Tax	$ 54 948	$ 59 780	$ 63 605	$ 70 408	$ 82 726
Grants in Lieu of Taxes	13 115	13 851	14 383	14 807	15 245
Payroll Tax	10 767	11 039	11 517	11 933	12 172
Business & Property Tax	1 174	1 152	1 165	1 168	1 197
Other Municipal Payments	6 395	7 612	8 500	8 840	9 194
GST Reassessment on City Tax	-	3 316	-	-	-
Total Capital & Other Taxes	$ 86 399	$ 96 750	$ 99 170	$ 107 156	$ 120 534
Year over year $ change		$ 10 351	$ 2 420	$ 7 986	$ 13 378
Year over year % change		12.0%	2.5%	8.1%	12.5%

The following provides a description of Capital & Other Tax components:

The Corporation pays capital tax to the Province of Manitoba at a rate of 0.5% and is applied to the taxable capital of the company.

The Corporation pays grants in lieu on its land and buildings. The amount of grants in lieu paid is determined based on property valuations and municipal and school division mill rates, similar to the manner in which property taxes are determined for other tax payers in Manitoba.

Payroll tax is based on a tax rate of 2.15% which is applied to the Corporation's gross payroll. A portion of the payroll taxes paid is allocated to Centra based on the relative percentage of activity charges to gas programs.

Business taxes are paid with respect to commercial space occupied by the company in both leased and owned properties. The Corporation pays property taxes to the landlords of leased premises as part of the required lease payments.

The Corporation also makes other municipal payments with respect to the town of Gillam and the Frontier School Division.

The Canada Revenue Agency ("CRA") performed an audit with respect to an issue regarding GST being charged to customers. It was determined that the GST should be applied to the City of Winnipeg tax charged to customers. In 2013/14 the Corporation was assessed, and accrued for, past taxes not collected from customers in the amount of $3.3 million.

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase is higher than expected partially due to the inclusion of the $3.3 million Canada Revenue Agency GST audit reassessment. The remainder of the increase is largely driven by the increase in provincial capital tax which is linked to increasing debt levels to fund capital investments. Other municipal payments have also increased at

a rate higher than inflation due to increased funding requirements relating to the town of Gillam.

2014/15 Forecast vs. 2013/14 Actual

The forecast 2014/15 increase is primarily due to higher capital taxes. Going forward, all years will be impacted by capital taxes increasing at greater than the rate of inflation due to higher capital investment increasing debt levels. Other municipal payments relating to the town of Gillam also continue to increase due to operational funding needs.

2015/16 Forecast vs. 2014/15 Forecast

Capital tax is higher due to increased capital spending for Keeyask, Bipole III and aging infrastructure. All other items are forecast to generally increase in line with inflation.

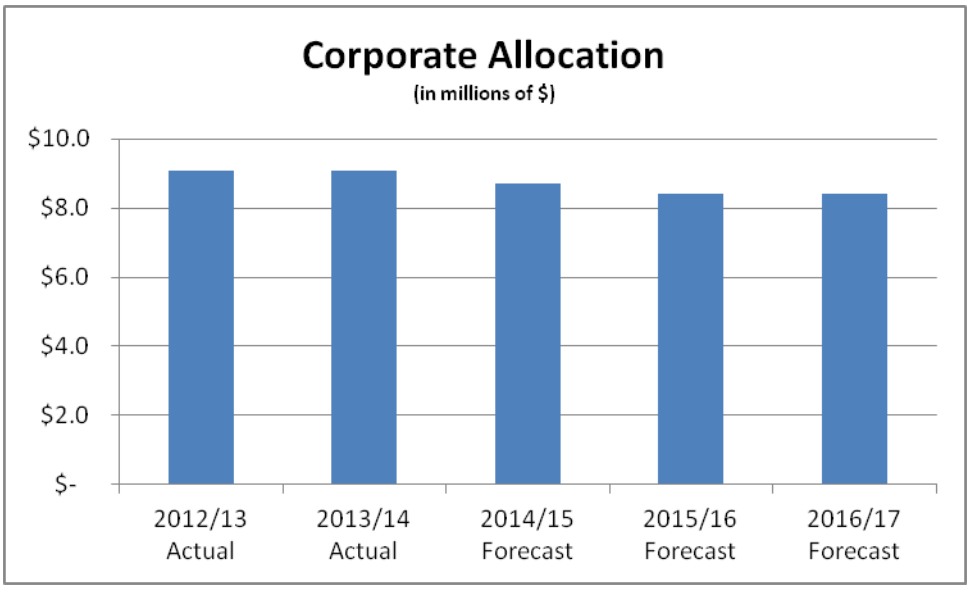
2016/17 Forecast vs. 2015/16 Forecast

Capital tax is higher due to increased capital spending for Keeyask, Bipole III and aging infrastructure. All other items are forecast to generally increase in line with inflation.

5.11 CORPORATE ALLOCATION

Corporate Allocation includes Manitoba Hydro Electric operations' share of the acquisition costs relating to Centra. The total annual acquisition cost of Centra includes the interest and provincial guarantee fee ("PGF") on the acquisition debt, and the amortization of the acquisition and integration costs. The total ranges from $20 to $21 million annually. Of this amount, $12 million is charged to the natural gas operations. The remainder is charged to Electric operations.

Figure 5.14 Corporate Allocation



Please see the following schedule for a breakdown of Corporate Allocation.

MANITOBA HYDRO **5.1.10**
CORPORATE ALLOCATION **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Corporate Allocation Electric					
Interest on Acquisition Debt	$ 16 628	$ 16 628	$ 16 185	$ 16 043	$ 16 043
Provincial Guarantee Fee on Acquisition Debt	2 500	2 500	2 500	2 500	2 500
Finance Expense Corporate Allocation	19 128	19 128	18 685	18 543	18 543
Corporate Allocation - Depreciation	1 946	1 946	1 974	1 850	1 853
	21 074	21 074	20 659	20 393	20 396
Less: Allocation to Centra Gas	(12 000)	(12 000)	(12 000)	(12 000)	(12 000)
Total Corporate Allocation (Electric)	$ 9 074	$ 9 074	$ 8 659	$ 8 393	$ 8 396
Year over year $ change		$ -	$ (415)	$ (266)	$ 3
Year over year % change		0.0%	-4.6%	-3.1%	0.0%

The following sections highlight the year over year changes from 2012/13 through 2016/17.

2013/14 Actual vs. 2012/13 Actual

No significant change.

2014/15 Forecast vs. 2013/14 Actual

The 2014/15 forecast decrease is primarily due to lower interest rates from refinancing the Centra acquisition debt.

2014/15 Forecast vs. 2015/16 Forecast

The 2015/16 forecast decrease is primarily due to a full year of lower interest rates from the previous year's refinancing.

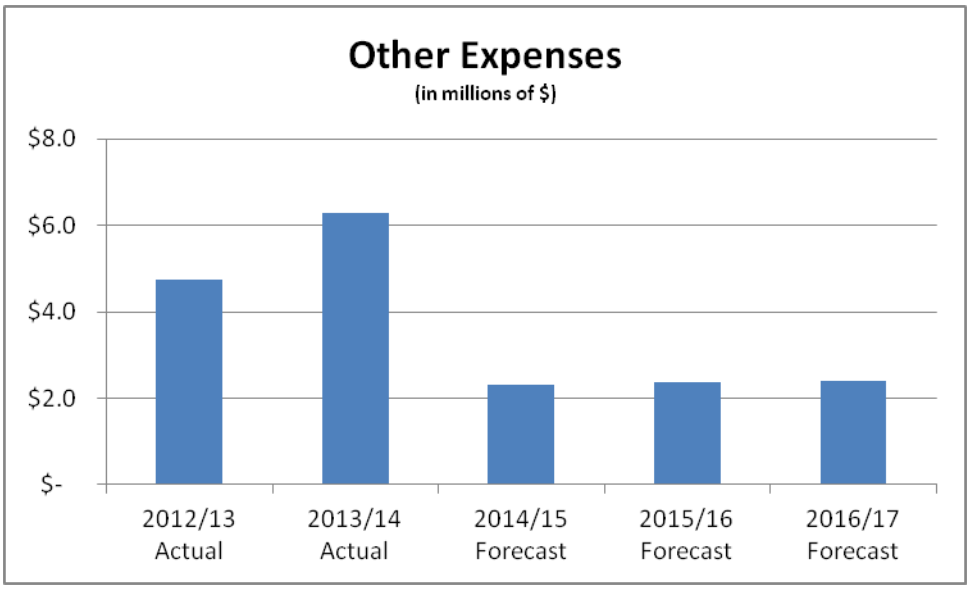
2016/17 Forecast vs. 2015/16 Forecast

No significant change.

5.12 OTHER EXPENSES

Other expenses include costs associated with the provision of work on customer owned plant and other miscellaneous expenditures.

Figure 5.15 Other Expenses



MANITOBA HYDRO
OTHER EXPENSES

Schedule 5.1.11
(000's)

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Other Expenses	$ 4 750	$ 6 294	$ 2 311	$ 2 355	$ 2 402
$ Change		$ 1 544	$ (3 983)	$ 44	$ 47
% Change		32.5%	-63.3%	1.9%	2.0%

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase is the primarily the result of a one-time write off of property, plant and equipment under construction.

2014/15 Forecast vs. 2013/14 Actual

The decrease in expenses results from the one-time write-off in 2013/14.

2015/16 Forecast vs. 2014/15 Forecast

No significant change.

2016/17 Forecast vs. 2015/16 Forecast

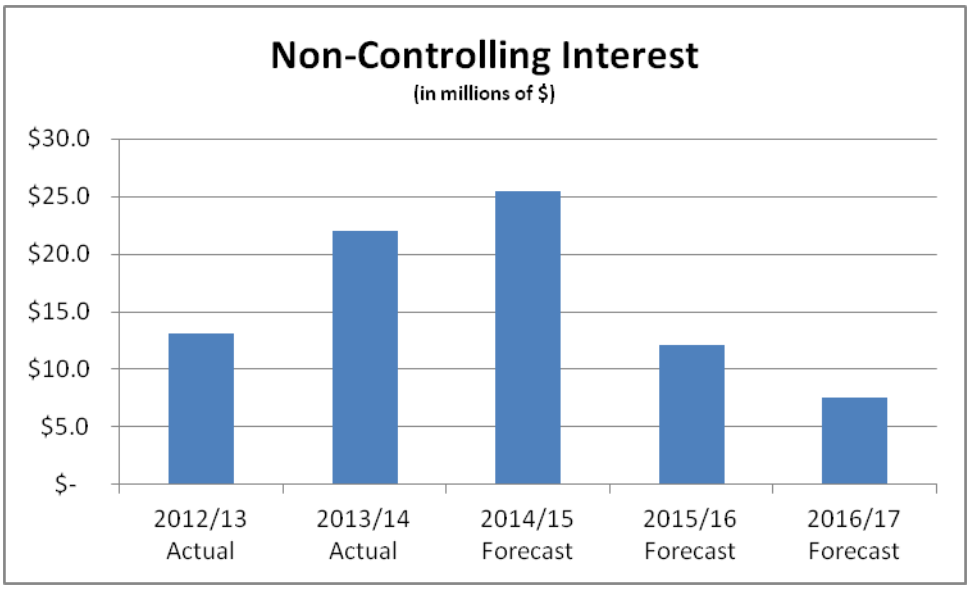
No significant change.

5.13 NON-CONTROLLING INTEREST

The Wuskwatim Power Limited Partnership ("WPLP") has two limited partners, Manitoba Hydro and Taskinigahp Power Corporation ("TPC") which is beneficially owned by Nisichawayasihk Cree Nation ("NCN") and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro. NCN may acquire up to a 33% interest in WPLP. The generating station and associated transmission was placed into service during the 2012/13 year. Manitoba Hydro will operate and maintain the Wuskwatim generating station and purchase all of the output under the power purchase agreement with WPLP.

Manitoba Hydro's income statement includes all of the WPLP revenues and expenses. TPC's 33% portion of the operating results of the WPLP is recorded as non-controlling interest in the consolidated statement of income.

Figure 5.16 Non-Controlling Interest



MANITOBA HYDRO **Schedule 5.1.12**
NON-CONTROLLING INTEREST **(000's)**

	2012/13 Actual	2013/14 Actual	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Non-controlling Interest	$ 13 160	$ 22 005	$ 25 452	$ 12 126	$ 7 580
$ Change		$ 8 845	$ 3 447	$ (13 326)	$ (4 546)
% Change		67.2%	15.7%	-52.4%	-37.5%

The following sections highlight the year over year changes from 2012/13 through 2016/17:

2013/14 Actual vs. 2012/13 Actual

The 2013/14 increase reflects the first full year of operations for the WPLP as the first of three units at the Wuskwatim generating station entered commercial service in June 2012.

2014/15 Forecast vs. 2013/14 Actual

The 2014/15 forecast increase results from the projection of lower revenues due to reduced forecast volumes and lower projected export prices and higher finance expense than recorded in 2013/14.

2015/16 Forecast vs. 2014/15 Forecast & 2016/17 Forecast vs. 2015/16 Forecast

Manitoba Hydro and NCN have reached an agreement in principle with respect to the majority of terms within the Wuskwatim Project Development Agreement (PDA). The parties are still reviewing and negotiating the final terms of the PDA. The draft terms contained in the PDA related to the power purchase agreement between Manitoba Hydro and the WPLP improve the financial results of the partnership and as a result, reduce the loss that is allocated to TCP through non-controlling interest.

5.14 COST SAVING INTIATIVES

Manitoba Hydro continues to undertake a number of initiatives that are intended to result in both operating and capital cost savings, ultimately improving financial results and easing pressures on rates. These initiatives support the Corporation's commitment to manage its OM&A expenditures below inflationary levels and support Manitoba Hydro's debt management strategy by reducing capital investment resulting in lower overall debt & depreciation requirements.

OM&A cost increases have been limited to 1% per year up to 2021/22 (excluding accounting changes and the increases associated with new major generation and transmission projects coming into service). After 2021/22, OM&A is projected to rise at the same level as inflation, despite the increasing cost pressures facing the Corporation from investments required for infrastructure renewal and increased capacity.

The following describes some of the key ongoing initiatives being undertaken by the corporation to manage its overall operating and capital expenditures.

5.14.1 Reduction of Operational Positions

Over the forecast period (2014/15 through 2016/17), Manitoba Hydro has committed to a reduction of approximately 300 operational positions and a commitment to hold non-labor costs below inflation, where possible. Manitoba Hydro intends to leverage its current attrition rate of approximately 300 staff per year by analyzing work processes and functions to identify opportunities for elimination, consolidation or technology enhancements that will result in staff reductions and efficiencies while still maintaining service levels. The reductions will vary across the corporation and are dependent upon the review of the many varied processes and functions unique to each area.

5.14.2 Consolidation of Rural District Offices

This initiative entails the closure of 24 rural district offices and their consolidation into the existing 20 Customer Service Centres. This effort is expected to enhance customer service through improved field crew deployment from the recently implemented Mobile Workforce Management System, improve system reliability by increasing distribution maintenance efforts and economize on customer-based administrative tasks.

Consolidation of the rural district offices is expected to yield a reduction in operating costs of approximately $2 million per year and result in the avoidance of future facility upgrade expenditures of $50 million and potential sales revenue of vacated properties. The first stage of facilities closures began in January 2014. The timing of this initiative is a result of declining district office traffic, increased customer demand for on-line services and increased customer requests at the previously established customer service centre hubs. This initiative is expected to maintain or improve outage response times.

Opportunities are also being derived in the centralizing of administrative work processes at Customer Service Centres. Amalgamating district staff into the larger Customer Service Centres has enabled Manitoba Hydro to create a more specialized and flexible workforce that is better equipped to respond to service disruptions. The Corporation also continues to monitor service levels and explore opportunities to optimize customer service, particularly in the areas of self-service and web-based outage information.

5.14.3 Managing Contractor Costs in Various Projects

The management of costs for capital projects involves proactively managing the schedule, scope and risks to the project. Manitoba Hydro has put in place industry standard project controls such as frequent schedule and cost monitoring with a focus on understanding the past and current costs. Manitoba Hydro is implementing a number of strategies throughout the lifecycle of major projects such as Bipole III and Keeyask.

For the procurement process, Manitoba Hydro has generally been following a multi-stage process where proponents are initially prequalified on their ability to complete the construction work, with pre-qualified proponents then competing largely on price to maximize competitiveness of the process and determine the successful proponent. In some instances, the work is awarded as a fixed price and pre-qualified proponents have input into finalization of contractual terms during the proposal phase, which balances risk between Manitoba Hydro and the proponents and reduces the overall uncertainty in the bids. The result was that proponents were able to reduce the amount of risk dollars carried in their bids, reducing overall bid price. In some instances, Manitoba Hydro informed all proponents that commercial and technical alternatives that may offer cost savings while still meeting the requirements of the contract would be considered resulting in noticeable cost savings.

5.14.4 Review of the Gillam Redevelopment and Expansion Project (GREP)

Manitoba Hydro undertook a review of the Gillam Redevelopment and Expansion Project (GREP) which involved assessing changing business requirements and developing a strategy that reflected these changes while applying the most current northern community design practices.

The revised community development plan incorporated a number of modifications including: eliminating expansion of infrastructure while strengthening community through enhanced centralized amenities, eliminating further expansion of new retail/commercial space, cancelling construction of a new 75 single detached unit housing subdivision substantially reducing the number of additional residential sub-divisions and new housing units, limiting/eliminating expansion of the existing trailer court sub-division, and cancelling construction of a new Wellness Centre.

In place of these developments, Manitoba Hydro's current plan is to expand mid-density housing within existing infrastructure, and upgrade and enhance recreation and leisure facilities in the Town Centre. The result of this assessment and strategy is a community plan with amenities intended to attract and retain Manitoba Hydro staff in Gillam and a cost savings of approximately $100 million.

5.14.5 Pointe du Bois Operations Spillway Cost Efficiencies

The Pointe du Bois Spillway Project was initiated to update the original spillway in order to meet current dam safety guidelines. The new spillway was placed into service in August 2014. River control has been a continuous challenge for Pointe du Bois Operations over the years due to constant river fluctuation.

The requirement to melt ice off the gates was a manual and very labour intensive process, requiring a crew of almost nine staff to operate the boilers. In addition, the original spillway was not designed to handle the pressure of shifting or expanding ice, and term employees were required to monitor ice thickness and cut trenches in front of the spillway structure.

As a result of the spillway replacement, Manitoba Hydro will see a reduction in OM&A costs. The in-service of the new spillway will result in an immediate and permanent reduction of approximately 1 EFT. In addition, the requirement for utility staff to be on call at all times has been eliminated with the ability to remotely control the river. Finally,

the new spillway eliminates the need for boiler operation for melting ice and as a result the 9 positions held by Power Engineers have been deemed redundant.

It is estimated the Pointe du Bois spillway replacement will result in approximately $1 million in cost savings. In addition, the Pointe du Bois spillway structure replacement has resulted in a safer working environment for employees, through the ability to remote control operation.

5.14.6 Implementation of Mobile Workforce Management

Manitoba Hydro has implemented a new mobile workforce management system to effectively manage field activities for both the electric and natural gas businesses. This technology permits the planning, scheduling and dispatching of work orders in an optimized manner to derive cost efficiencies and timely service to customers. Rather than organizing work using geographic specific paper systems, field labour crews are now managed through a scheduling/dispatch centre with the ability to deploy field crews to emergency and urgent customer requests at the same time as improving the throughput of pre-scheduled maintenance work.

Work assignments are now sent to field laptop units electronically where activity details are entered in real time as the work progresses. Customer information and maintenance history are also readily available to field crews and electronic drawings can be retrieved within the vehicle. These field units are also equipped with GPS systems to identify the work locations of all crews.

The benefits of this initiative to customers include an improved ability to schedule appointments with shorter wait times and in precise time slots, improved timeliness of work flow, and the ability to track work orders. The system is also intended to result in faster response times in the event of emergencies. The implementation of mobile workforce management continues to permit the reduction of positions. To date 16 administrative positions have been eliminated and approximately four more positions each year for the next two years are identified for reduction. Field crew productivity savings are also expected due to reduced travel time and standardized matching of skills to job tasks, as well as the ability to complete greater volumes of maintenance work without increasing internal staffing requirements.

Adherence to stringent maintenance schedules is one way to prolong the life of Manitoba Hydro's aging and deteriorating distribution assets. Mobile workforce management has allowed Manitoba Hydro to meet its prescribed facility maintenance requirements, which in turn has helped to modestly relieve some pressure on advancing capital funding to replace distribution assets and also maintain existing levels of electric service reliability.

5.14.7 Asset Management Strategies

Manitoba Hydro is facing cost pressures associated with an aging electric infrastructure. In an ongoing effort to reduce expenditures, the Corporation has been undertaking a number of strategies to reduce overall costs on the electric system equipment while properly managing risk. The following initiatives have been implemented to continually improve the Corporation's asset management strategies.

Further optimization of maintenance programs based on equipment condition, performance and reliability assessments has been completed. A more detailed understanding of the overall condition of major system equipment groups has allowed Manitoba Hydro to strategically increase maintenance intervals on some equipment in relatively good condition. Manitoba Hydro will continue to monitor the overall condition of its major system equipment to ensure that the correct balance between maintenance and equipment replacement costs and reliability is achieved.

Enhanced condition assessments and economic analysis have been implemented to better determine the economic end of life of equipment or equipment groups. This strategy is expected to reduce life cycle costs as well as reduce overall system maintenance costs by undertaking equipment replacements at the optimum time considering cost and risk. A number of programs have been established for some asset types to fund replacements where condition assessments and economic analysis justify proactive replacements.

Various software systems that support asset management processes have been enhanced or replaced with more effective solutions. For example, the Corporation is presently implementing an integrated Enterprise Asset Management system that supports asset management processes at the corporate level, starting initially with the generation, HVDC, protection and communication assets. These types of systems will assist in minimizing equipment failures and also avoid decreases in system availability by ensuring all work is completed in an optimal fashion, and information is recorded to support asset management analysis processes. The Corporation has also implemented

reporting enhancements for operating performance and equipment condition analysis, which further strengthens the capital planning process.

5.14.8 Technology Modernization Initiative for Better Capital Investment Decisions

Manitoba Hydro has been working with an external party to evaluate how it can advance its business activities through the use of smarter grid technologies. It is believed that investing today in smarter distribution equipment and information technology will provide economic benefit through enhanced capital improvements to Manitoba Hydro's distribution network over the decades to come.

The expected outcome of this detailed investigative partnership is that the Corporation will be in a far better position to maintain or improve system reliability, manage localized capacity constraints, operate more safely and efficiently, enhance customer service and better manage utility infrastructure with evolving customer load expectations. Other benefits that can be expected include a reduction in field operating costs when responding to outages and enhanced customer knowledge toward greater demand-side management efficiencies.

This investment in technology would allow the Corporation to gain a greater understanding of where capacity constraints and reliability issues specifically reside and prioritize its capital investments in areas that are both critically important and urgent.

5.14.9 Supply Change Management Initiatives

The Corporation is undertaking a number of supply change management initiatives intended to realize savings on goods and services purchased, reduce or avoid operating costs, reduce working capital, reduce capital expenditures on vehicle acquisitions, and reduce costs associated with fuel expenditures and external repairs and maintenance. A number of these initiatives started in 2014/15, while some are scheduled to begin in 2015/16 and 2016/17.

The supply chain management initiatives include implementing stronger category management (procurement) practices; improving inventory management processes; optimizing material distribution networks; improving governance for critical spares inventory; improving forecasting and planning for inventory management; optimizing Manitoba Hydro's vehicle fleet; and, improving the repair, maintenance and fuel supply network for fleet vehicles.

5.14.10 Records Centre Transition to Iron Mountain

Manitoba Hydro is contracting out to a third party service provider the processing and storing of the Corporation's physical records, which is currently managed by the Internal Records Centre. This initiative will deliver cost savings and improve service levels. A third party provider is able to provide a more secure environment for the Corporation's physical records.

As a result of the transition of the Records Centre to a third party provider, there will be a reduction of two EFTs, who are being redeployed to other areas of the Corporation to fill existing vacancies. In addition, this initiative will result in the availability of over 4,600 ft^2 of space to relocate work groups currently located outside of 820 Taylor Avenue. Moreover, service levels will improve with accessibility to physical records 24/7 rather than during Manitoba Hydro regular business hours.

5.14.11 Outage Management System

The implementation of Manitoba Hydro's outage management system is considered one of many steps toward modernizing the Corporation's distribution grid. Manitoba Hydro is continually undertaking efforts and implementing changes in its operations in order to leverage technology and continue to provide reliable customer service with improved labour productivity.

One of these initiatives includes the replacement of Manitoba Hydro's trouble call response system with an Outage Management System. The new system will improve Manitoba Hydro's ability to respond to and restore unplanned outages.

These cost containment measures have assisted the Corporation in maintaining projected annual rate increases at 3.95%, despite the Corporation facing significant and increasing cost pressures. This is consistent with the expectations of the PUB in Order 43/13, wherein it recommended that Manitoba Hydro control OM&A costs increases below inflation.