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MANITOBA HYDRO
APPLICATION FOR INTERIM RATES EFFECTIVE APRIL 1, 2012

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1.0 Summary of Application

Manitoba Hydro hereby applies to the Public Utilities Board of Manitoba (PUB) for an interim Order pursuant to *The Crown Corporations Public Review and Accountability Act*, for the following:

1) Approval to include in current year revenues, the approximately $23 million accumulated in the deferral account pertaining to rates implemented April 1, 2010;
2) Approval to continue to maintain as base rates, the rates approved by the PUB in Orders 30/10 and 40/11 (i.e. base rates not reduced by 1.0%); and,
3) Approval of rate schedules incorporating an across-the-board 3.5% increase on currently billed rates for all rate classes effective April 1, 2012, sufficient to generate additional revenue of $44 million in 2012/13.

Manitoba Hydro is in urgent need of the proposed rate increase because it is currently experiencing much lower than forecast revenues primarily due to the impact of continued low prices in export markets and warmer than normal winter weather impacting domestic revenues. If the proposed rate increases are not approved and the 1.0% reduction in interim rates is maintained, projected net losses will be $51 million in 2012/13. Even with the requested rate increases and the assumption that the 1.0% rate increase roll-back will be maintained in base rates, net income from electricity operations is only projected to be $7 million in 2012/13.

The background and reasons for Manitoba Hydro's Application are outlined in sections 2 and 3 respectively, and the proposed rate schedules for implementation April 1, 2012 are discussed in Section 5. Section 4 provides a discussion regarding Manitoba Hydro's intentions with respect to a 2012/13 & 2013/14 General Rate Application.

2.0 Background

Manitoba Hydro filed a General Rate Application (GRA) with the PUB on December 1, 2009 requesting approval of a 2.9% rate increase to be effective April 1, 2010 and a further 2.9% rate increase to be effective April 1, 2011.

Due to the length of the hearing process, Manitoba Hydro's application for rate increases was dealt with by means of interim orders. On March 26, 2010, the PUB issued Order

30/10 approving, on an interim basis a 2.9% general rate increase effective April 1, 2010. On March 30, 2011, the PUB issued Order 40/11 approving a further 2.0% general rate increase, effective April 1, 2011.

On January 17, 2012, the PUB issued Order 5/12, which approved, on a final basis, a 1.9% general rate increase effective April 1, 2010, and a 2.0% general rate increase effective April 1, 2011. The PUB directed Manitoba Hydro to calculate and file for Board approval, a deferral account that tracks the difference between revenues calculated pursuant to the interim rates and the rates finalized in Order 5/12, together with accrued interest at Manitoba Hydro's short-term borrowing rate. The PUB also directed Manitoba Hydro to recalculate and file for Board approval, rate schedules reflecting the rates finalized in Order 5/12 together with supporting schedules. Appendix 1 provides a projected balance of the deferral account at March 31, 2012, and provides schedules reflecting the rates finalized in Order 5/12, including proof of revenue and customer impacts.

On February 14, 2012, Manitoba Hydro filed an Application to Review and Vary Order 5/12, which sought relief to have the rate increase roll-back of 1.0% rescinded and to have Manitoba Hydro's Application for a 2.9% rate increase effective April 1, 2010 approved as final. In its Application, Manitoba Hydro advised that without the reinstatement of the 1.0%, its Net Income for 2011/12 was projected to be $65 million. Since the filing of its Review and Vary Application, Manitoba Hydro's projection of 2011/12 Net Income has further deteriorated largely due to exceptionally warm weather and persistent low prices in export markets.

On February 17, 2012, the PUB issued Order 19/12 denying Manitoba Hydro's Application to Review and Vary Order 5/12 stating that the Application did not raise a substantial doubt as to the correctness of the Board's Order or decision. On page 9 of the Order, the PUB stated that if Manitoba Hydro intends to seek a further rate increase for the 2012/13 fiscal year, the use of the revenues from the 1% rate increase roll-back being accumulated in the temporary deferral account may be an issue for determination at that time.

3.0 Reasons for Application

Section 3 of the Application outlines the financial outlook for Manitoba Hydro electric operations for the 2011/12 to 2013/14 fiscal years as projected in the most recent Integrated Financial Forecast (MH11), and updated for actual 2011/12 results to date.

Section 3 also provides a comparison to the previous forecast (MH10-2) and outlines the reasons for the interim rate application.

Table 1 below compares the actual and forecast revenues, expenses and net income of the Corporation's electrical operations for the fiscal years 2009/10 to 2013/14. The approved general consumers revenue includes the interim rates approved in Orders 30/10 and 40/11. The proposed increases reflect the 3.5% rate increases requested for April 1, 2012 and April 1, 2013. The financial results assuming the rate increases approved in Order 5/12 and no further rate increases for 2012/13 and 2013/14 are shown at the bottom of Table 1. Please refer to Appendix 2 of this Application for the Integrated Financial Forecast (IFF11) document that was approved by the Manitoba Hydro-Electric Board on February 28, 2012.

Table 1 - Electric Actual and Forecast Net Income and Retained Earnings
(millions of $)

	Actual		**Projected**	**Forecast**	
(in millions of $)	**2010**	**2011**	**2012*****	**2013**	**2014**
General Consumers Revenue					
- at approved rates*	$ 1,145	$ 1,200	$ 1,226	$ 1,268	$ 1,294
- with proposed increases**	n/a	n/a	-	44	92
Extraprovincial Revenue (net of fuel, power purchased and water rentals)	202	172	89	85	93
Other Revenue	6	6	7	16	16
	1,353	1,379	1,322	1,413	1,494
Expenses	1,193	1,240	1,249	1,404	1,440
Non-controlling Interest	-	-	-	(1)	(1)
Net Income (electric operations)	$ 160	$ 139	$ 73	$ 7	$ 53
Retained Earnings (Electric)	2,189	2,327	2,400	2,113	2,166
Debt to Equity Ratio (consolidated)	73:27	73:27	75:25	80:20	81:19

* at approved rates - reflects an interim rate increase of 2.9% for 2010/11 and an approved rate increase of 2.0% for 2011/12

**with proposed increases - reflects a 3.5% increase in 2012/13 and 2013/14

***revised outlook for 2011/12

Financial Results - Assuming Rates in Order 5/12 & No Further Rate Increases

Net Income (Loss)	$ 50	$ (51)	$ (58)
Retained Earnings	2,378	2,032	1,974

Manitoba Hydro's initial 2010/11 and 2011/12 General Rate Application (GRA) was filed based on the Integrated Financial Forecast (MH09-1). Due to the length of the GRA proceeding, Manitoba Hydro also provided two subsequent updates to the IFF in the form of MH10 and MH10-2 with the latter forecast including the updates to the capital cost estimates of Bipole III. Table 2 below provides a comparison of the forecast revenues, expenses and net income of the Corporation's Electrical Operations between MH10-2 and MH11 for the fiscal years 2011/12 to 2013/14.

Table 2 - MH11 vs MH10-2
Electric Operations

	2012 - Projected			2013			2014		
	MH11	*MH10-2*	*Increase (Decrease)*	*MH11*	*MH10-2*	*Increase (Decrease)*	*MH11*	*MH10-2*	*Increase (Decrease)*
GCR Approved	1,226	1,223		1,268	1,235		1,294	1,254	
Rate Increase		42		44	87		92	135	
	1,226	1,265	(39)	1,312	1,322	(10)	1,386	1,389	(3)
Extraprovincial (net of Fuel & Water Expense)	89	159	(70)	85	198	(113)	93	195	(102)
Other Revenue	7	7	-	16	8	8	16	8	8
Total Revenue	1,322	1,431	(109)	1,413	1,528	(115)	1,495	1,592	(97)
Operating & Administrative	402	402	-	517	414	103	527	422	105
Finance Expense	399	410	(11)	451	471	(20)	460	451	9
Depreciation & Administration	357	405	(48)	343	432	(89)	353	433	(80)
Capital & Other Taxes	83	83	-	85	87	(2)	92	93	(1)
Corporate Allocation	9	9	-	8	9	(1)	8	9	(1)
Total Expenses	1,250	1,309	(59)	1,404	1,413	(9)	1,440	1,408	32
Non-Controlling Interest	-	4	(4)	(1)	6	(7)	(1)	4	(5)
Net Income	73	125	(54)	7	121	(113)	53	187	(134)
Retained Earnings (Electric)	2,400	2,480	(80)	2,113	2,598	(485)	2,166	2,784	(618)
Debt to Equity Ratio (Consolidated)	75:25	74:26		80:20	77:23		81:19	78:22	
Interest Coverage Ratio (Consolidated)	1.13	1.22	(0.09)	1.03	1.20	(0.17)	1.10	1.29	(0.19)
Capital Coverage Ratio (Consolidated)	1.10	1.49	(0.39)	0.99	1.55	(0.56)	1.14	1.30	(0.16)

The year over year (Table 1) and forecast over forecast (Table 2) analysis of net income, retained earnings and financial ratios demonstrates that the financial outlook for Manitoba Hydro's electric operations for the years 2011/12 to 2013/14 has deteriorated significantly since the 2010/11 and 2011/12 GRA proceeding concluded. Projected net income and retained earnings levels will be reduced due to the impact of continued low prices in export markets and retained earnings will be significantly reduced in 2012/13 as a result of one-time adjustments pertaining to the transition to International Financial Reporting Standards (IFRS). There are also further financial risks associated with the potential for warm weather and low water levels and the associated negative impacts on domestic and export revenues.

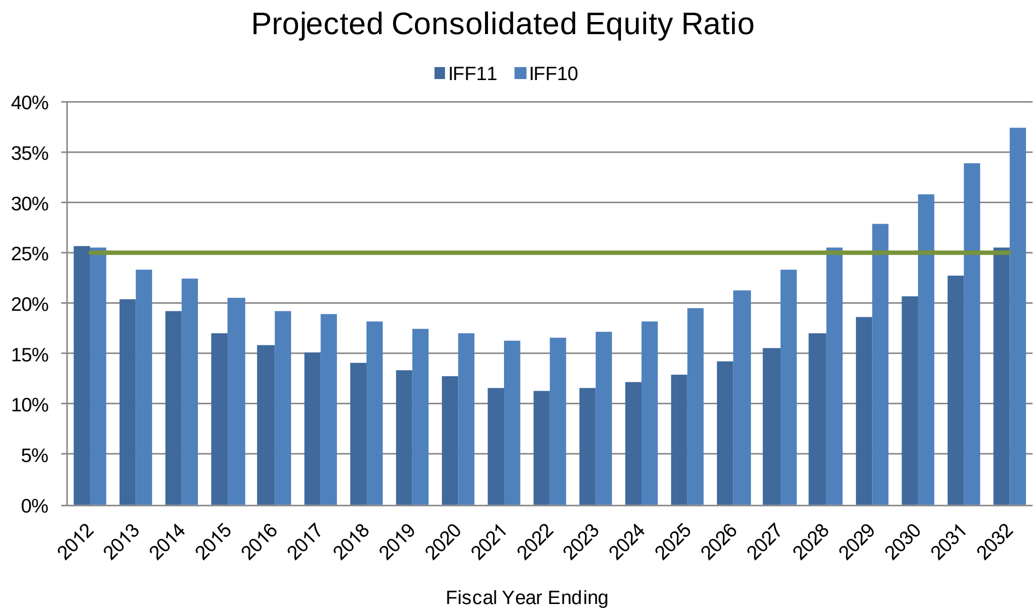
Taken as a whole, these analysis and potential risks clearly demonstrate the need for additional electric rate increases in the 2012/13 and 2013/14 fiscal years and that the 1.0% reduction in interim rates directed in Order 5/12 for 2010/11 should not be maintained.

The forecast general consumer revenue and net income for 2011/12, 2012/13 and 2013/14 in Table 1 reflects the interim rates approved in Orders 30/10 and 40/11 as well as the proposed rate increases of 3.5% for April 1, 2012 and April 1, 2013. If the proposed rate increases are not approved and the 1.0% reduction in interim rates directed in Order 5/12 for 2010/11 is maintained, then the net income forecast in 2011/12 is reduced to $50 million and losses of $51 million and $58 million are forecast in 2012/13 and 2013/14, respectively. In this scenario, retained earnings would be forecast at $22 million, $81 million and $192 million lower by 2011/12, 2012/13 and 2013/14, respectively.

Given the timing of the release of Order 5/12 in January of 2012 and the delay in the finalization of IFF11 to February 2012, it is no longer possible to achieve a timely implementation of a rate increase for the 2012/13 fiscal year after a full GRA process.

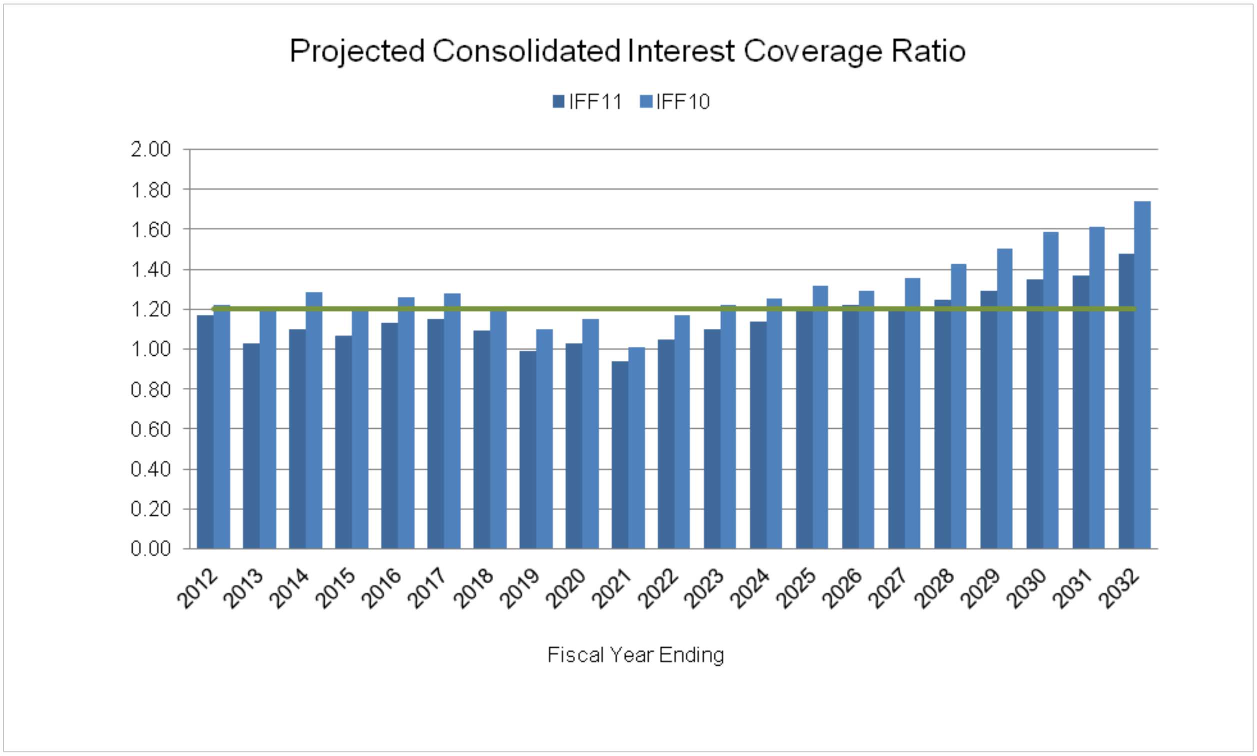
The interim rate relief that is proposed in this Application is required on a timely basis in order to eliminate the projected loss and produce a modest level of net income of $7 million for electric operations for 2012/13 and should also allow Manitoba Hydro to maintain its interest coverage and capital coverage ratios close to the 1.00 level and its debt to equity ratio at 80:20 in 2012/13.

The following chart provides the 20 year forecast of the consolidated equity ratio.



Manitoba Hydro's debt/equity ratio was 73:27 at March 31, 2011 (Table 1). While this level of debt/equity represented "the strongest financial position in Manitoba Hydro's history," the debt/equity ratio is projected to weaken substantially over the next several years. The debt/equity ratio is projected to weaken to 89:11 by 2021/22 and then gradually improve to the target level of 75:25 by the end of the 20-year forecast in 2031/32.

The following chart provides the 20 year forecast of the consolidated interest coverage ratio.



Manitoba Hydro achieved an interest coverage ratio of 1.27 in 2010/11. However, the interest coverage ratio is projected to be lower than the 1.20 target for the next thirteen years and is projected to drop below 1.0 in 2018/19 and 2020/21. The weakening of the interest coverage ratio is mainly due to Manitoba Hydro's major construction program.

Despite the significant reduction in the financial outlook in MH11 and projected financial ratios that are lower than target levels, Manitoba Hydro is proposing to maintain the rate increase requests at the 3.5% previously forecast for 2012/13 and 2013/14 to achieve the appropriate balance between customer sensitivity and financial integrity.

The proposed interim rates are in keeping with Manitoba Hydro's approach to implement regular and reasonable rate increases to ensure the maintenance of a strong financial position. This allows the Corporation to withstand the risks and uncertainties inherent in its operations and to address adverse financial consequences outside of its control, and in so doing, avoid the need for large or sudden rate increases in the future. As such, Manitoba Hydro does not believe that it is appropriate to let net income slip into a loss position and risk the need for larger rate increases at a later date.

The proposed interim rates are required for rate stability and to support the achievement of acceptable levels of retained earnings over the forecast period.

Manitoba Hydro submits that under the circumstances and considering the current financial outlook, it is appropriate to grant the rate relief requested in this Application on an interim basis effective April 1, 2012 and then as soon as practical, commence a GRA process to confirm the interim rates and review a further rate increase of 3.5% on April 1, 2013. This approach will maintain the financial position of the Corporation in the short term while at the same time protect customers by allowing for a full review of the rate requests during the 2012/13 and 2013/14 GRA process.

3.1 Current Financial Position & Outlook (MH11)

2010/11 Results

The Corporation's net income from electricity operations for 2010/11 was $139 million which was a $21 million decrease from the previous fiscal year and a $10 million unfavourable variance from MH10-2.

The year over year decrease in net income of $21 million is mainly due to a decrease in net extraprovincial revenue of $30 million due to lower electricity prices from the export market resulting from the reduced power demand due to poor economic conditions, as well as the low price for competing energy sources.

The 2010/11 actual vs. MH10-2 forecast unfavourable variance of $10 million is mainly a result of lower net extraprovincial revenue ($30 million) primarily due to lower opportunity prices and volumes, which was partially offset by higher general consumers revenue and lower expenses.

Manitoba Hydro's debt to equity ratio was 73:27 at the end of March 31, 2011, which exceeds the target of 75:25. The interest coverage and capital coverage ratios were 1.27 and 1.20 respectively, which met or exceeded the target levels of 1.20. However, as demonstrated in Table 1 and 2, these ratios are projected to change dramatically over the forecast period.

A copy of the Manitoba Hydro-Electric Board Annual Report for the year-ended March 31, 2011 is provided in Appendix 3 of this Application.

2011/12 Outlook

The forecast net income from electricity operations for 2011/12 is $73 million and retained earnings are forecast at $2,400 million. The reduction in the forecast net income for 2011/12 over the previous year is primarily as a result of lower net extraprovincial revenues due to decreased prices in the export markets and lower general consumer revenue due to warmer than normal winter weather. This is partially offset by increased domestic revenues as a result of the 2.0% rate increase implemented on April 1, 2011. Total expenses are forecast to remain relatively constant in 2011/12.

Please see Appendix 4 to this Application which includes the Manitoba Hydro-Electric Board Quarterly Report for the nine months ended December 31, 2011.

2012/13 Forecast

The forecast net income from electricity operations for 2012/13 is $7 million. The reduction in the forecast net income for 2012/13 over the previous year is primarily as a result of lower extraprovincial revenues and increased operating & administrative, depreciation & amortization and finance expenses resulting from the Wuskwatim generating station coming into service. This is partially offset by increased domestic revenues as a result of forecast growth in domestic demand and the 3.5% rate increase proposed to be implemented on April 1, 2012.

Despite the addition of Wuskwatim generation and the St. Leon wind farm expansion, total export sales volumes are projected to be lower than 2011/12 due to lower water supplies. The projected increase in domestic demand is also expected to reduce total export sales volumes. Water supply conditions projected for 2011/12 were overall very favourable with above average storage carry forward from 2010/11 and total inflows among the highest on record during the first two quarters. However, precipitation across Manitoba Hydro’s watersheds from September 1, 2011 to March 1, 2012 is amongst the lowest in the last thirty years resulting in a short term outlook for water supplies from snowmelt runoff below average for 2012/13. Given that the water supply outlook for 2012/13 is mainly dependent upon future precipitation conditions which are highly unpredictable, IFF11 assumes median inflows. However, with below average spring runoff expected, Manitoba Hydro cautions that there is a significant likelihood that hydraulic generation in 2012/13 will be below that forecast in IFF11. The projected deterioration in water supply conditions from 2011/12 to 2012/13, when combined with the lower projected export prices forecast in IFF11 compared to MH10-2, results in lower extraprovincial revenues. The potential impact of low water flow conditions in 2012/13 is a reduction in net revenue of approximately $400 million.

The impact of the transition to IFRS and associated accounting changes for 2012/13 is expected to be a decrease to net income of approximately $5 million. There is an increase in operating & administrative costs associated with expensing rate-regulated accounts and general and administrative overhead and a number of cost recoveries that were previously netted in operating & administrative costs now being reclassified to other income. This is partially offset by net decreases to depreciation & amortization expense to reflect the removal of asset retirement costs from depreciation rates, the elimination of the amortization of rate-regulated assets and the change to the Equal Life Group methodology for calculating depreciation rates, as well as the implementation of updated service lives as a result of the recent depreciation study.

The most significant impact of the transition to IFRS is the retrospective adjustments required as a result of accounting differences between Canadian Generally Accepted Accounting Principles (CGAAP) and IFRS. Retained earnings are projected to decrease in 2012/13 to $2,113 mainly as a result of the write-off of rate-regulated assets and general & administrative overhead upon adoption of IFRS that were previously deferred or capitalised under CGAPP. For electric operations, the transition to IFRS will result in an initial adjustment to retained earnings of approximately $295 million.

The following table identifies the consolidated transitional adjustments and projected 2012/13 net income impact of the transition to IFRS and other related accounting changes:

Table 3 - IFRS Impacts
Increase / (Decrease)

(Millions of $)	**Retained Earnings at April 1, 2012**	**Net Income 2012/13**
Power Smart Programs	(178)	(5) *
Site Remediation	(37)	(1) *
Acquisition (Centra & Winnipeg Hydro)	(21)	1 *
Regulatory Costs	(5)	2 *
Administrative Overhead	(62)	(62)
Removal of Asset Retirement Costs from Depreciation	48	53
Change to Equal Life Group Depreciation	(28)	(31)
Employee Benefits	(12)	-
Total IFRS Impact	**(295)**	**(43)**
Componentization & Change In Service Lives of Assets	-	38
Total impact offset by change in service lives		**(5)**

*Net income amounts for rate-regulated accounts include the additional operating & administrative expense net of the offsetting reduction to amortization expense.

2013/14 Forecast

The forecast net income from electricity operations for 2013/14 is $53 million. The increase in the forecast net income for 2013/14 over the previous year is primarily as a result of the projected rate increase of 3.5% to be implemented on April 1, 2013, as well as forecast growth in domestic demand. This is partially offset by inflationary increases to operating & administrative costs and higher finance expense and depreciation & amortization expense related to increased plant in-service. Net extraprovincial revenues are forecast to remain relatively constant in 2013/14. Retained earnings are forecast to be $2,166 at March 31, 2014.

3.2 Comparison to Previous Forecast (MH10-2)

As demonstrated in Table 2, the reduction in net income of $301 million over the three fiscal years ending March 31, 2014 is mainly due to decreases in net extraprovincial revenues, which is primarily a result of lower projected export prices in the forecast-over-forecast comparison. Lower export prices are due to lower natural gas prices as well as the reduced value of energy in the near term resulting from the carryover of surplus capacity in the MISO market area. General consumers revenue is also lower in 2011/12 due to warmer than normal winter weather, which reduces the heating load.

The total projected expenses for 2012 to 2014 decrease from MH10-2 to MH11. Ultimately, the transition to IFRS will not have a significant impact on the annual net income of MH as the increases to Operating and Administrative (O&A) expenses due to reduced capitalization of internal costs and the elimination of regulatory deferrals will be substantially offset by corresponding reductions in depreciation and amortization charges.

In 2011/12, retained earnings are projected to decrease by $80 million, the debt to equity ratio is projected to be 75:25 and the interest coverage and capital coverage ratios are projected at 1.13 and 1.10 respectively. As a result of the decreased projections of net income and the retained earnings write-off required for IFRS compliance, retained earnings are projected to decrease by $485 million in 2012/13 and $618 million by 2013/14 and the debt/equity ratio is projected to weaken to 80:20 by the end of 2012/13 and 81:19 by the end of 2013/14 which is a deterioration of 3% over that which was projected in MH10-2. In addition, the interest coverage ratio and capital coverage ratios are projected to decline below the 1.20 target levels in 2012/13 and 2013/14 with the 2012/13 levels being 1.03 and 0.99, respectively. These amounts and ratios would be further reduced if the projected rate increases are not implemented and the 1.0% reduction in interim rates directed in Order 5/12 for 2010/11 is maintained.

Over the eleven year period between 2011/12 and 2021/22, the projected reduction in net income is $1,355 million which is mainly due to reductions in net extraprovincial revenues due to lower export prices and the corresponding increases in finance expense as a result of increased debt levels. By 2021/22, the debt to equity ratio is projected to deteriorate to 89:11 in MH11 from the 83:17 level that was forecast in MH10-2.

4.0 2012/13 & 2013/14 General Rate Application

Manitoba Hydro intends to file a 2012/13 & 2013/14 General Rate Application by the end of May, which will request confirmation of the proposed interim rate increase effective April 1, 2012. The GRA will also request a further rate increase of 3.5% on overall revenues effective April 1, 2013 sufficient to generate additional revenue of $92 million in 2013/14. Combined with the proposed interim rate increase, Manitoba Hydro's retained earnings are still projected to decrease to $2,166 million by March 31, 2014.

The GRA will include the most recent Cost of Service Study (COSS), which will contain updates flowing from the Cost of Service Review. It is possible, based on the results of that study, that the GRA may propose differentiated rate increases for each customer class for the 2013/14 Test Year. The GRA will also provide updates on a number of rate design issues including Time-of-Use and inverted rates, and will discuss the financial impacts of the transition to IFRS and provide an IFRS compliant Depreciation Study.

Manitoba Hydro is contemplating filing an integrated electric and gas GRA for the 2012/13 & 2013/14 Test Years. In the Corporation's view, integrating the common elements of the Applications will improve the efficiency of the regulatory process by reducing the redundancy of common material examined in both electric and gas GRAs. Appendix 5 provides a draft timetable for the review of an integrated 2012/13 & 2013/14 GRA for both the electric and gas operations for the PUB's consideration.

5.0 Proposed Rates & Customer Impacts

The following sections discuss the proposed rate schedules and customer impacts that Manitoba Hydro is seeking interim approval of to be effective April 1, 2012. A Proof of Revenue for the test year 2012/13 detailing the total increase by customer class is provided in Appendix 6, and the Rate Schedules for proposed rates effective April 1, 2012 are provided in Appendix 7. Appendix 8 provides Bill Comparisons between current April 1, 2011 rates and proposed April1, 2012 rates and Appendix 9 provides a link to Manitoba Hydro's Survey of Canadian Electricity Bills.

5.1 Rate Objectives

The proposed rate schedules are compatible with Manitoba Hydro's general rate making objectives and long-term direction as follows:

1. Manitoba Hydro's long-term target is to have all class Revenue Cost Coverage (RCC) ratios in the range of 95% to 105%, and further that all classes should be gradually moved toward RCC's of unity.

2. In conformity with the principles of gradualism and sensitivity to customer impacts, annual adjustments to revenues by customer class are less than two percentage points greater than the overall 3.5% proposed increase in total revenue.

3. Whenever possible, rates should be designed with a view to sending the appropriate price signal regarding the cost of energy to those parts of the rate design affecting the use which would be most sensitive to such a signal.

4. Maintain Manitoba Hydro's competitive position with respect to rates charged by other Canadian utilities for all rate classes.

5. The combined impact of proposed class average rate increases and adjustments to rate structure results in customer monthly impacts which fall within Manitoba Hydro's guidelines:

   – For Residential customers, no customer will experience a bill increase which exceeds the greater of $3.00 per month or three percentage points more than the class average increase.

   – For General Service customer, no customer will experience an increase in their average monthly bill over a year which exceeds the greater of $5.00 per month or five percentage points more than the class average increase.

5.2 Proposed Rate Changes By Customer Class

The current Application, while requesting an across-the-board increase for all customer classes, maintains the rate rebalancing within classes that has characterized recent rate Applications and Orders, such as: emphasizing energy rates in the rate structure; and, consolidation of the General Service Small and Medium rate classes.

Residential

The monthly Basic Charge will remain the same at $6.85 per month. The total increase in class revenue therefore will be derived solely from the Energy Charge, which will need to increase 3.8% in order to achieve a class average increase of 3.5%.

General Service Small and Medium

Manitoba Hydro is continuing to consolidate the General Service Small and Medium rate classes, assumed to be accomplished in proposed rates to be filed for 2013. Currently the rates between the two classes vary only with respect to the monthly Basic Charge plus Three Phase Charge. For this reason, the Basic Charge and Three Phase Charge for General Service Small customers will increase by 4.1% whereas the General Service Medium customers will see no change in their Basic Charge. The Demand Charge will also remain unchanged for both General Service Small and Medium customers.

With respect to the Energy Charge, the first 11,000 kWh block amount will increase by 3.4%; the second block of 8,500 kWh will increase by 3.7%; and the tail block rate will increase by 6.0%. It is important to recognize that few General Service Small customers exceed the second block rate whereas the majority of General Service Medium customers do. So although the tail block rate is increasing by 6.0% from previous rates, this increase is offset by the fact that the Basic Charge and Demand Charge are not increasing.

General Service Large

The proposed revenue increases for the three subclasses of the General Service Large class will be obtained solely through the energy component of the rate. Since the demand charges will remain unchanged to allow for continued rebalancing of the demand and energy charges, the energy charges will have to increase at a higher rate than the overall class average of 3.5%. For the Large 750V-30 kV customers this means an increase in their energy charge of 5.7%. For the Large 30 – 100 kV customers, their energy charge will increase 5.1%; and for the Large >100 kV 4.8%.

Manitoba Hydro is considering introducing Time-of-Use rates for all Large >30 kV customers with rates effective April 1, 2013. Consultations with affected customers continue.

Area and Roadway Lighting

Manitoba Hydro is proposing a 3.5% rate increase for Area and Roadway Lighting. There has been no increase in rates to this class since April 1, 2005.

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

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

Flat Rate Water Heating ("FRWH")

Both Residential and General Service FRWH customers will see increases equivalent to those applied to the Residential and General Service Small rate classes, that being 3.5% each year.

Curtailable Rate Program ("CRP")

Manitoba Hydro is proposing several changes to the CRP. These will be detailed in the General Rate Application to be filed later this year.

Surplus Energy Program ("SEP")

The Public Utilities Board, by Order No. 57/09 dated April 28, 2009 approved the extension of the SEP to March 31, 2013.

5.3 Customer Impacts of the Proposed Rate Changes

Provided below is a brief summary of the bill impacts for the major rate classes. More detailed bill impacts for all customer classes can be found in Appendix 8.

Residential

Based on the proposed April1, 2012 rates, residential customers will experience increases ranging from 2.7% to 3.7% depending on monthly consumption. Customers using more energy will experience slightly higher than average increases. For example, a typical residential customer without electric space heat uses approximately 1,000 kWh a month on average and will see an increase in their monthly bill of $2.50 or 3.4%. A residential customer with electric space heat, using an average 2,000 kWh a month over the course of the year, will experience an average monthly increase of $5.00 or 3.6% per month.

General Service Small

Small commercial customers, based on the proposed April1, 2012 rates, will experience increases ranging from 3.4% to 4.4% depending on monthly consumption and load factor. The majority of General Service Small customers have an average load factor of around 50%.

General Service Medium

General Service Medium commercial / industrial customers will experience rate increases ranging from around 2.5% to 4.4% depending on monthly consumption and load factor. As with the General Service Small class, most General Service Medium customers operate at a load factor of around 50%.

General Service Large

Increases to General Service Large customers vary depending on the voltage level served and the load factor of each customer. The Demand Charge applied to the General Service Large classes remains unchanged with only the Energy Charge increasing. This change results in higher load factor customers receiving a higher percentage increase.

For rates effective April1, 2012, customers served at 750 V to 30 kV will see increases on their monthly bill ranging from 2.5% to 4.3% with the average increase being 3.6%. Customers served at 30 kV to 100 kV will experience increases ranging from 2.3% to 3.9% with the average increase being 3.5%. General Service Large customers served at voltage over 100 kV will see increases ranging from 2.3% to 3.8% per month, with the average being 3.6%. The General Service Large class as a whole will experience an increase of 3.5%.

5.4 Rate Comparisons with Other Utilities

Manitoba Hydro uses its own annual "Survey of Canadian Electricity Bills" (included as Appendix 9) to compare bills paid by Manitoba customers with those of other major Canadian utilities. The survey continues to show that at most benchmark loads, Manitobans have the lowest electric bills in Canada and all remaining benchmark loads have among the lowest electric bills in Canada.

One of the objectives in Manitoba Hydro's Corporate Strategic Plan is to have the lowest overall electricity rates in North America. To measure performance in the overall North American context, Manitoba Hydro uses the results of both the Edison Electric Institute ("EEI") survey as well as monthly statistics obtained from the United States Department of Energy ("DOE"). Unlike the EEI data which provides investor-owned utility comparisons, the DOE data provides comparisons by State which includes numerous utilities within that state. The table below provides the Total Retail Average Rate for the top ten Provinces and States based on the December 2011 DOE data and

January 1, 2012 EEI data, using an exchange rate of 1 US $ = 0.9993 Canadian as of March 20, 2012. It is important to note that the Canadian dollar relative to the United States dollar may differ significantly when comparing results from previous years.

TOTAL RETAIL AVERAGE RATE (Canadian $)	
State / Province	**Cents per kWh**
Manitoba	5.86
Idaho	6.13
Quebec	6.32
Wyoming	6.71
British Columbia	6.86
Louisiana	6.92
Utah	6.94
Kentucky	6.96
Iowa	7.03
Washington	7.03