

**MANITOBA HYDRO**  
**2017/18 & 2018/19 GENERAL RATE APPLICATION**

**STATEMENT OF INCOME ANALYSIS – ACTUAL & FORECAST**

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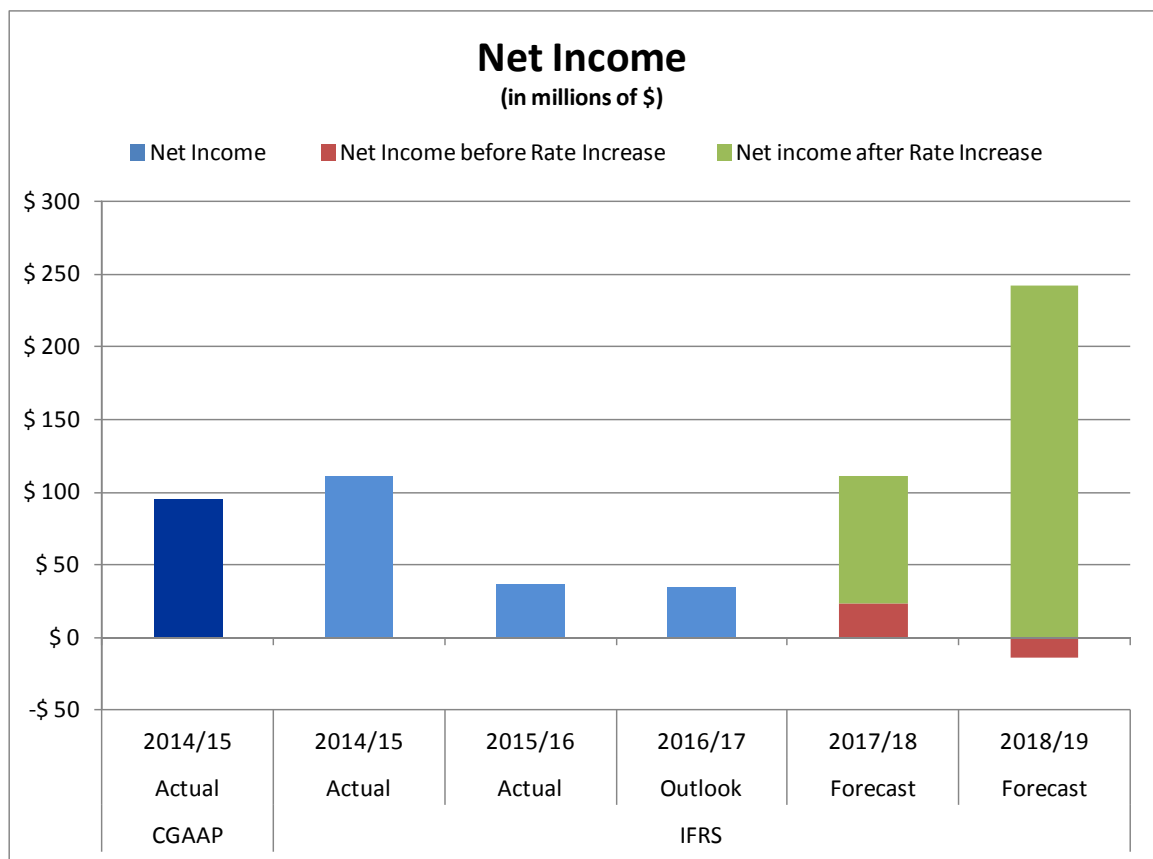
**6.0 OVERVIEW**

Tab 6 provides analyses of the actual and forecast revenues and expenses related to Manitoba Hydro's electric operations for 2014/15 to 2018/19. Section 6.1 provides a summary of the electric operations Statement of Income from 2014/15 to 2018/19 and Sections 6.2 discusses the revenue and cost components and outlines the significant year over year changes. Actual results are provided for 2014/15 and 2015/16 with a projection (outlook) of year-end results for the 2016/17 fiscal year. Forecast figures based on MH16 are provided for 2017/18 and 2018/19. Section 6.3 provides a summary of Manitoba Hydro's financial results compared to forecast for 2015/16. Section 6.4 details the adjustments resulting from the transition from Canadian Generally Accepted Accounting Principles (CGAAP) to International Financial Reporting Standards (IFRS).

## 6.1 STATEMENT OF INCOME SUMMARY FOR ELECTRIC OPERATIONS

**Figure 6.1** provides a summary of actual and forecast net income for electric operations for 2014/15 to 2018/19. For 2017/18 and 2018/19, 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 6.1 Net income attributable to Manitoba Hydro Electric Operations**



**Figure 6.2 Statement of Income**

**MANITOBA HYDRO**  
**STATEMENT OF INCOME - ELECTRIC OPERATIONS**  
**(000's)**

	CGAAP 2014/15 Actual	IFRS 2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Revenue						
Domestic	1 454 629	1 454 764	1 449 968	1 517 030	1 569 093	1 561 215
Bipole III reserve	(30 249)	(30 249)	(51 203)	(95 916)	(119 431)	8 625
Extraprovincial	383 644	383 644	415 028	467 568	454 201	431 769
Other	18 411	29 752	30 968	26 674	30 313	30 760
Total revenue excluding rate increases	\$ 1 826 435	\$ 1 837 911	\$ 1 844 761	\$ 1 915 356	\$ 1 934 176	\$ 2 032 369
Expenses						
Finance expense	494 541	515 068	581 958	612 647	574 034	661 588
Operating and administrative	480 472	538 404	542 729	535 390	518 340	501 183
Depreciation and amortization	403 453	352 307	366 664	384 166	396 120	470 922
Water rentals and assessments	124 887	124 887	126 086	131 209	124 130	112 463
Fuel and power purchased	129 119	129 119	117 492	129 926	135 428	165 702
Capital and other taxes	99 754	99 754	106 539	117 637	131 690	144 499
Other expenses	2 038	37 045	64 939	60 464	114 856	108 970
Finance income	-	(25 980)	(22 406)	(17 650)	(15 766)	(20 347)
Corporate allocation	8 675	8 492	8 343	8 347	8 347	8 347
Total expenses	1 742 939	1 779 096	1 892 345	1 962 137	1 987 179	2 153 328
Net income (loss) before net movement in regulatory balances	83 496	58 815	(47 584)	(46 782)	(53 003)	(120 959)
Net loss attributable to non-controlling interests*	11 192	-	-	-	-	-
Net movement in regulatory balances	-	41 131	74 342	68 755	67 577	106 405
Net Income before rate increases	94 688	99 946	26 758	21 974	14 574	(14 554)
Proposed rate increases **				-	87 638	255 069
Net income including rate increases	\$ 94 688	\$ 99 946	\$ 26 758	\$ 21 974	\$ 102 212	\$ 240 515
Net income (loss) attributable to:						
Manitoba Hydro	94 688	111 112	36 947	34 422	110 876	241 687
Non-controlling interests*	-	(11 166)	(10 189)	(12 448)	(8 664)	(1 172)
	94 688	99 946	26 758	21 974	102 212	240 515

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

\*\* 7.90% on August 1, 2017 and 7.90% on April 1, 2018

**2014/15 IFRS Actual vs. 2014/15 CGAAP Actual**

The increase in 2014/15 net income under IFRS is a result of changes in accounting policies from transitioning to IFRS from CGAAP including overhead previously capitalized that is now expensed, change in depreciation methodology, changes to pensions and benefits expense and new regulatory deferrals. For details regarding the CGAAP to IFRS differences, please refer to Section 6.4 of this Tab.

*2015/16 Actual vs. 2014/15 Actual*

The decrease in 2015/16 net income is due to lower domestic revenues primarily as a result of milder winter weather (15% warmer than 2014/15) and lower usage in all customer classes as well as an increase in capital investment related expenses such as finance costs, depreciation and capital taxes associated with new plant going into service including a full year for the Pointe du Bois spillway and Riel 230 kV station. Please see Section 6.3 of this Tab for additional information on 2015/16 actual results compared to forecast.

*2016/17 Outlook vs. 2015/16 Actual*

The slight decrease in the net income for 2016/17 is a result of an increase in finance expense due to negative foreign exchange impacts and an increase in capital and other taxes as a result of higher long-term debt volumes. In addition, depreciation and amortization expense is higher as a result of new plant additions being placed into service. Further, fuel and power purchased is higher due to above average wind generation and higher US transmission tariff rates.

These cost increases are partially offset by an increase in extraprovincial revenue due to higher export volumes and an increase in domestic revenue primarily resulting from colder weather and the impacts of a full year of the August 1, 2015 rate increase.

*2017/18 Forecast vs. 2016/17 Outlook*

The increase in net income for 2017/18 is a result of additional revenue associated with the proposed 7.90% interim rate increase effective August 1, 2017, lower finance costs due to lower net interest on borrowings, lower operating & administrative costs resulting from reductions in operating and maintenance EFTs as well as sourcing savings from the Supply Chain Management initiative.

These changes are partially offset by higher expenses related to one-time corporate restructuring charges, increased capital taxes as a result of increases in total debt and higher depreciation and amortization as the Adelaide and Madison Stations are placed in-service.

*2018/19 Forecast vs. 2017/18 Forecast*

The increase in net income for 2018/19 is primarily related to additional domestic revenue as a result of the proposed August 1, 2017 and April 1, 2018 7.90% rate increases, recognition of the deferred revenue related to the Bipole III contribution which commences in July 2018 to coincide with its in-service as well as lower corporate restructuring costs.

These favourable variances are partially offset by higher financing costs and an increase in depreciation and amortization primarily due to Bipole III coming in-service as well as increases in thermal costs and power purchases as a result of higher water storage levels in the previous year.

**6.2 STATEMENT OF INCOME LINE ITEM ANALYSIS**

The following sections review each component of the Statement of Income. A description of each component, the year over year changes explanation and a detailed schedule is provided. Figures shown for all years are in compliance with IFRS.

**6.2.1 Domestic Revenue**

Domestic revenue 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 2017/18 and 2018/19, the blue bar in **Figure 6.3** shows the domestic revenue generated from existing rates and the red bar shows the additional revenues generated from the proposed rate increases.

Figure 6.3 Domestic Revenue

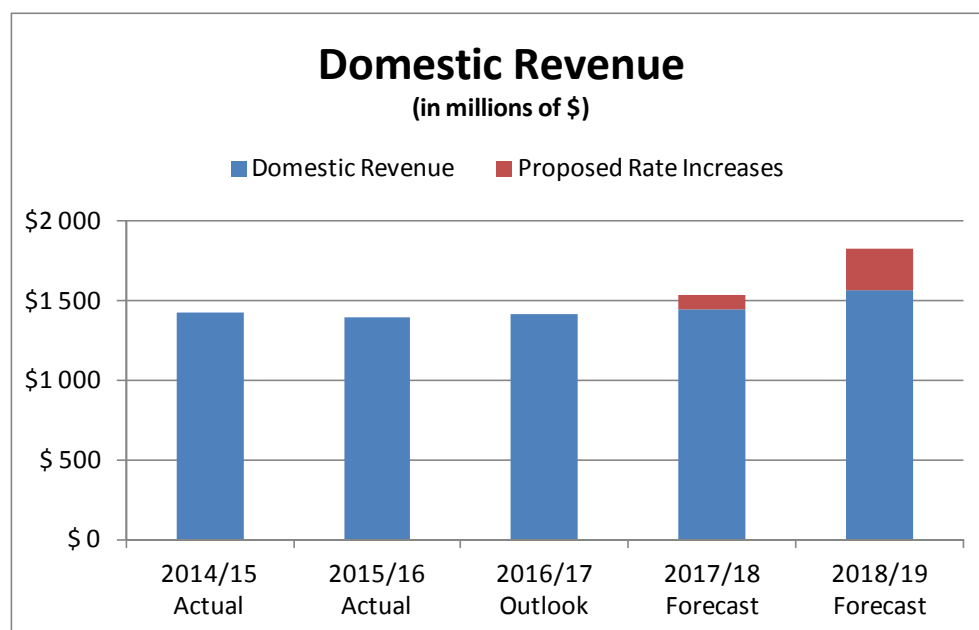


Figure 6.4 Domestic Revenue Breakdown

**MANITOBA HYDRO  
DOMESTIC REVENUE  
(000's)**

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Residential	\$ 615 459	\$ 595 719	\$ 622 696	\$ 656 900	\$ 659 840
General service	839 305	854 249	894 334	912 193	901 375
Bipole III reserve account	(30 249)	(51 203)	(95 916)	(119 431)	8 625
<b>Total revenue excluding rate increases</b>	<b>1 424 515</b>	<b>1 398 765</b>	<b>1 421 114</b>	<b>1 449 662</b>	<b>1 569 840</b>
Additional domestic revenue*	-	-	-	87 638	255 069
<b>Total revenue including rate increases</b>	<b>\$ 1 424 515</b>	<b>\$ 1 398 765</b>	<b>\$ 1 421 114</b>	<b>\$ 1 537 300</b>	<b>\$ 1 824 909</b>
Year over year \$ change		\$ (25 750)	\$ 22 349	\$ 116 187	\$ 287 609
Year over year % change		-1.8%	1.6%	8.2%	18.7%

\* Additional domestic revenue - 7.90% on August 1, 2017 and 7.90% on April 1, 2018

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

4  
5 The General Service ("GS") class is comprised of commercial and industrial customers in  
6 the General Service Small, Medium and Large rate categories as well as Area and  
7 Roadway Lighting. Customers are classed as GS Small if their connected load is less than  
8 200 kV.A and their transformation is owned by Manitoba Hydro. Customers classed as  
9 GS Medium have connected loads which exceed 200 kV.A and whose transformation is  
10 also owned by Manitoba Hydro. GS Large customers have loads which typically exceed  
11 2000 kV.A and who own their own transformation. The GS Large class is further divided  
12 into three sub-classes based on the voltage used to serve the customer (750V-30 kV, 30  
13 kV-100 kV and >100 kV). The Area and Roadway Lighting class is comprised of all street  
14 lights and sentinel lights which may be publically or privately owned or rented.

15  
16 Beginning in 2018/19 the amortization of amounts previously deferred for the Bipole III  
17 contribution will be recognized in domestic revenue, coincident with the Bipole III in-  
18 service date.

19  
20 The following sections highlight the year over year changes in Domestic Revenues from  
21 2014/15 through 2018/19:

22  
23 *2015/16 Actual vs. 2014/15 Actual*

24 The decrease in 2015/16 domestic revenue is primarily due to warmer than normal  
25 weather and lower customer usage. These decreases were partially offset by rate  
26 increases implemented during the year as well as growth in the number of customers.

27  
28 *2016/17 Outlook vs. 2015/16 Actual*

29 The increase in 2016/17 domestic revenue is primarily due to the impact of a full year of  
30 the August 1, 2015 rate increase of which 1.8% was reflected in domestic revenue as  
31 well as colder winter weather compared to 2015/16.



*2017/18 Forecast vs. 2016/17 Outlook*

The forecast increase in 2017/18 domestic revenue is primarily due to the additional revenue associated with the proposed 7.90% rate increase effective August 1, 2017, assumed customer growth and a return to normal weather partially offset by expected lower average use.

*2018/19 Forecast vs. 2017/18 Forecast*

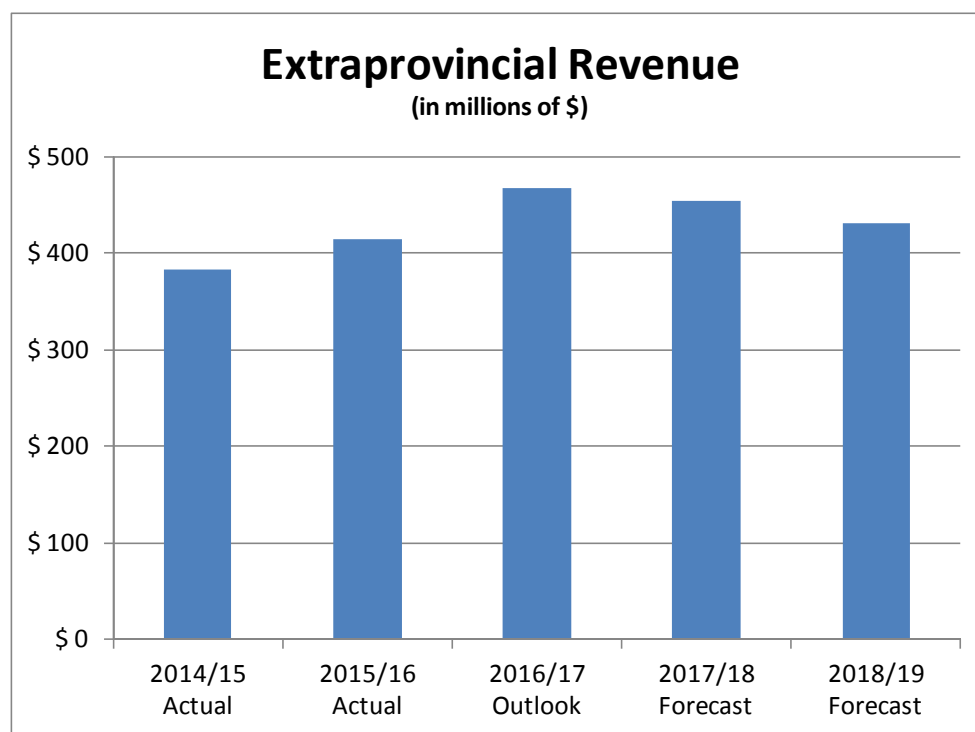
The forecast increase in 2018/19 domestic revenue is primarily attributable to additional revenues as a result of the proposed August 1, 2017 and April 1, 2018 7.90% rate increases as well as the recognition of deferred revenue related to the Bipole III contribution beginning in July 2018, consistent with the Bipole III in-service date.

**6.2.2 Extraprovincial Revenue**

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

Extraprovincial revenues for 2016/17 are based on current water storage and inflow conditions. Revenues for 2017/18 are based on above average water storage conditions carried forward from 2016/17 and long-term flow records. For the subsequent years, the projections are determined by averaging revenues based on the full range of experienced flow conditions (104 years - 1912/13 to 2015/16).

**Figure 6.5 Extraprovincial Revenue**



**Figure 6.6 Extraprovincial Revenue Breakdown**

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

	<b>2014/15 Actual</b>	<b>2015/16 Actual</b>	<b>2016/17 Outlook</b>	<b>2017/18 Forecast</b>	<b>2018/19 Forecast</b>
US sales	337 104	374 503	420 959	425 899	395 884
Other sales	8 427	4 840	4 232	5 791	119
Transmission credits	1 227	3 648	3 510	3 525	3 511
Renewable energy certificates	2 818	2 055	1 354	913	991
<b>US</b>	<b>349 576</b>	<b>385 046</b>	<b>430 055</b>	<b>436 128</b>	<b>400 505</b>
Canadian sales	38 261	27 477	34 083	16 121	31 265
Other sales	(53)	-	11	-	-
<b>Canadian</b>	<b>38 208</b>	<b>27 477</b>	<b>34 094</b>	<b>16 121</b>	<b>31 265</b>
Arbitrage opportunities (IESO & MISO)*	(4 140)	2 505	3 419	1 952	-
<b>Total extraprovincial revenue</b>	<b>\$ 383 644</b>	<b>\$ 415 028</b>	<b>\$ 467 568</b>	<b>\$ 454 201</b>	<b>\$ 431 769</b>
Year over year \$ change		\$ 31 384	\$ 52 540	\$ (13 366)	\$ (22 432)
Year over year % change		8.2%	12.7%	-2.9%	-4.9%

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

U.S. and Canadian 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 typically negotiated at least one year in advance of delivery and have a 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

1 these sales generally does not exceed 6 months and can be as short as one  
2 hour. Opportunity Bilateral sales can include the sale of capacity and/or energy.

- 3  
4 - Opportunity (Day Ahead or Real Time Markets) – Export sales transactions in a  
5 market operated by an independent system operator for the purchase and sale  
6 of power related products for the next operating day ('Day Ahead') or during  
7 the operating day ('Real Time').  
8

9 Arbitrage opportunities include physical purchases of power from one market for re-sale  
10 to another market and are unrelated to Manitoba Hydro generation.  
11

12 Other sales include miscellaneous revenues derived from market activities such as the  
13 sale of ancillary services into the Midcontinent Independent System Operator ("MISO")  
14 market.  
15

16 Transmission credits refer to revenues received for the use of Manitoba Hydro's  
17 transmission system. Manitoba Hydro's Open Access Transmission Tariff defines the  
18 fees for use of its transmission system. The MISO administers collection of these fees on  
19 behalf of Manitoba Hydro, as such, they are reported as U.S. revenues.  
20

21 Renewable energy certificates are revenues received mainly from the sale of  
22 environmental attributes acquired by Manitoba Hydro through power purchase  
23 agreements with wind generation suppliers in Manitoba.  
24

25 The following sections highlight the year over year changes in extraprovincial revenue  
26 from 2014/15 through 2018/19:  
27

28 *2015/16 Actual vs. 2014/15 Actual*

29 The increase in 2015/16 extraprovincial revenue reflects favourable foreign exchange  
30 rates on US sales and higher opportunity sales volumes due to lower Manitoba  
31 consumption. This was partially offset by decreased market prices for both US and  
32 Canadian opportunity sales.

1        *2016/17 Outlook vs. 2015/16 Actual*

2        The increase in 2016/17 reflects higher export volumes from both dependable and  
3        opportunity exports. The increase in dependable exports is primarily due to one full year  
4        of the SaskPower 25-megawatt sale. Opportunity export volumes increased due to  
5        additional hydraulic generation as a result of higher water flows and milder winter  
6        weather resulting in lower domestic consumption, which allowed for the excess energy  
7        to be exported.

8  
9        *2017/18 Forecast vs. 2016/17 Outlook*

10       The forecast decrease in 2017/18 extraprovincial revenue is primarily due to decreased  
11       opportunity export volumes as 2016/17 experienced strong water conditions, whereas  
12       2017/18 is based on a simulation of current water in storage and long term record flow.  
13       This is partially offset by opportunity price increases as a result of a larger proportion of  
14       opportunity sales in the on-peak period and price escalation on dependable exports.

15  
16       *2018/19 Forecast vs. 2017/18 Forecast*

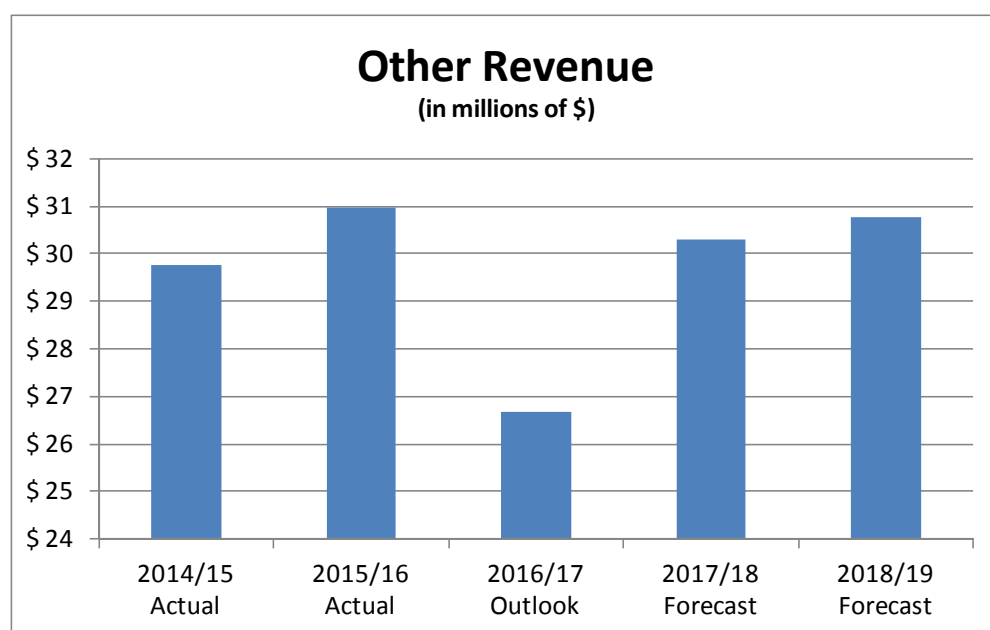
17       The forecast decrease in 2018/19 extraprovincial revenue is primarily due to lower  
18       hydraulic generation given the expectation of average carry over water storage in  
19       018/19 which reduces the amount of surplus energy available for export.

**6.2.3 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).
- Amortization of contributions in aid of construction, which are initially recorded as deferred revenue and subsequently recognized in other revenue over the life of the related asset.
- Third party revenue for the 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 includes income items such as litigation settlements, apprenticeship tax credits, etc.

**Figure 6.7 Other Revenue**



**Figure 6.8 Other Revenue breakdown**

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

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Other revenue	\$ 29 752	\$ 30 968	\$ 26 674	\$ 30 313	\$ 30 760
\$ change		\$ 1 217	\$ (4 294)	\$ 3 639	\$ 447
% change		4.1%	-13.9%	13.6%	1.5%

The following sections highlight the year over year changes in Other Revenue from 2014/15 through 2018/19:

*2015/16 Actual vs. 2014/15 Actual*

No significant change.

#### 2016/17 Outlook vs. 2015/16 Actual

The decrease in 2016/17 other revenue is primarily a result of fewer business initiatives (revenues from work done on customer premises) as compared to 2015/16.

#### 2017/18 Forecast vs. 2016/17 Outlook

The forecast increase in 2017/18 other revenue is primarily a result of new business initiatives.

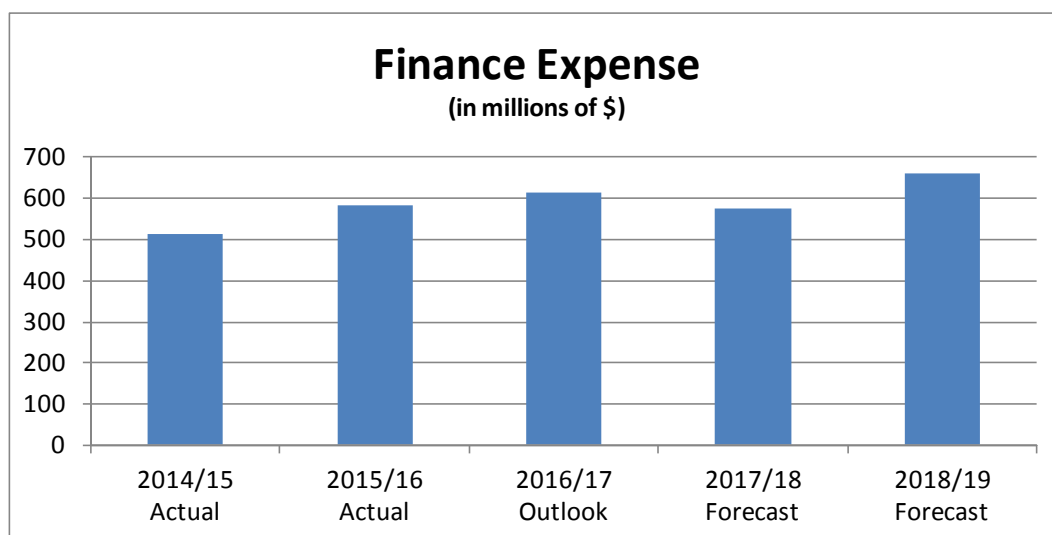
#### 2018/19 Forecast vs. 2017/18 Forecast

No significant change.

### 6.2.4 Finance Expense & Finance Income

Finance expense consists of costs associated with the corporation's financing activities. The largest component is gross interest expense on the corporation's debt portfolio. Finance expense is also impacted 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 6.9 Finance Expense**





**Figure 6.10 Finance Expense breakdown**

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

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Interest on short & long-term debt					
Gross interest	\$ 569 071	\$ 645 225	\$ 708 847	\$ 757 818	\$ 780 844
Provincial Guarantee Fee	105 217	118 001	132 229	153 324	184 743
Amortization of (premiums), discounts and transaction Costs	2 407	2 270	1 884	1 330	1 236
Intercompany interest receivable	(13 538)	(14 159)	(14 367)	(14 716)	(15 517)
Total interest on short & long-term debt	663 157	751 337	828 593	897 756	951 306
Interest allocated to construction	(145 127)	(176 235)	(244 885)	(353 182)	(313 269)
Interest earned on Sinking Fund	28	(175)	(6)	(1 462)	(6 659)
Realized foreign exchange (gains) or losses on debt in cash flow hedges	(5 588)	(6 269)	15 981	18 217	16 246
Revaluation of dual currency bonds	972	1 094	1 068	1 137	1 190
Corporate allocation	(18 701)	(18 494)	(18 494)	(18 494)	(18 494)
Other amortization	20 327	30 700	30 390	30 062	31 268
<b>Total finance expense</b>	<b>\$ 515 068</b>	<b>\$ 581 958</b>	<b>\$ 612 647</b>	<b>\$ 574 034</b>	<b>\$ 661 588</b>
Year over year \$ change		\$ 66 890	\$ 30 689	\$ (38 613)	\$ 87 554
Year over year % change		13.0%	5.3%	-6.3%	15.3%

The following describes each of the components within Finance expense:

- 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 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 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 United States dollars (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 6.13.
- Other amortization is primarily the amortization of the Winnipeg Hydro obligation and the First Nations settlements.

The following sections highlight the year-over-year changes in finance expense from 2014/15 through 2018/19:

*2015/16 Actual vs. 2014/15 Actual*

The increase in finance expense was primarily due to higher net interest on borrowings reflecting the in-service of the Pointe du Bois spillway as well as the Riel 230/500 kV station. There were also negative foreign exchange impacts as result of a significantly weaker Canadian dollar in 2015/16. In addition, the corporation revised its prudential liquidity practice to remain pre-funded three months ahead of cash requirements.

*2016/17 Outlook vs. 2015/16 Actual*

The increase in finance expense was primarily due to negative foreign exchange impacts as a result of the realization of foreign exchange (FX) losses on debt in cash flow hedges in 2016/17. Under the Foreign Currency Risk Management Program, these FX losses are offset with the recognition of US revenues in the cash flow hedging relationship at the weaker Canadian dollar rate thus mitigating the net income impact to Manitoba Hydro.

*2017/18 Forecast vs. 2016/17 Outlook*

The forecast decrease in finance expense is primarily due to lower net interest on borrowings. Net interest on borrowings is impacted by increased levels of capital spending which will result in higher overall borrowing requirements and therefore higher gross interest on debt as well as higher capitalization of interest year over year. The variance on capitalized interest is greater than the variance on gross interest as interest is capitalized at a higher rate which reflects the weighted average interest rate on all outstanding debt borrowings. A higher interest rate for capitalization in tandem with the large balance of construction in progress in 2017/18 (the peak in the forecast), results in the growth in capitalized interest exceeding the growth in gross interest year over year.

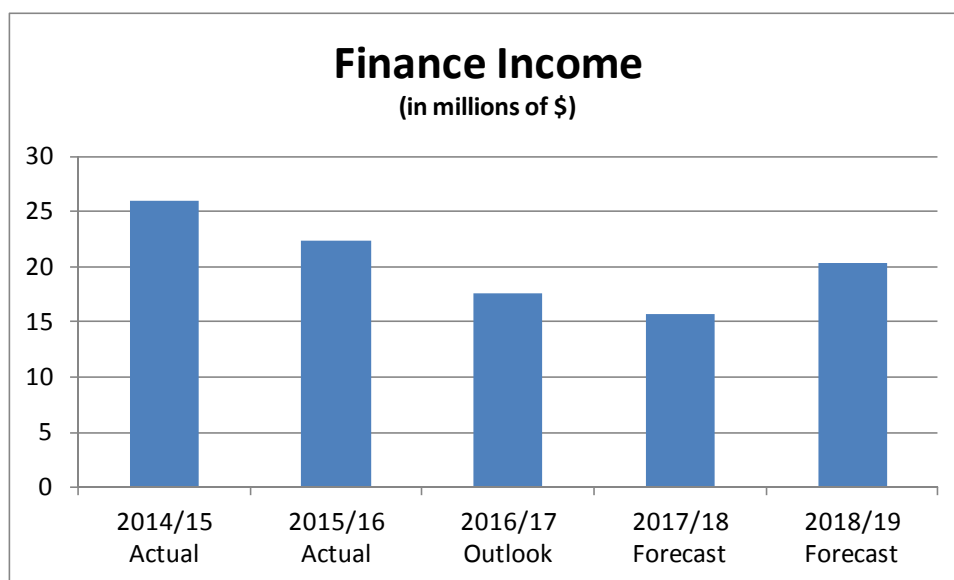
*2018/19 Forecast vs. 2017/18 Forecast*

The forecast increase in finance expense is primarily due to higher net interest on borrowings as Bipole III is scheduled to come in-service in July 2018. In addition, forecast interest rates on new borrowings rise to closer to more normalized levels by the 2018/19 fiscal year.

**Finance Income**

Finance Income includes interest on temporary investments, interest income associated with loans to First Nation partners as well as miscellaneous other interest income.

**Figure 6.11 Finance Income**



**Figure 6.12 Finance Income Breakdown**

**MANITOBA HYDRO  
FINANCE INCOME  
(000's)**

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Interest on temporary investments	\$ 2 450	\$ 4 061	\$ 4 930	\$ 2 621	\$ 4 321
Interest income - Keeyask Partners	1 130	2 645	3 710	5 330	7 815
Interest income - Wuskwatim Partners	7 934	6 442	6 749	7 120	7 516
Interest income - St. Joseph Wind Farm	13 073	7 973	-	-	-
Interest income - other	1 393	1 285	2 261	695	695
<b>Total finance income</b>	<b>\$ 25 980</b>	<b>\$ 22 406</b>	<b>\$ 17 650</b>	<b>\$ 15 766</b>	<b>\$ 20 347</b>
Year over year \$ change		\$ (3 574)	\$ (4 756)	\$ (1 884)	\$ 4 581
Year over year % change		-13.8%	-21.2%	-10.7%	29.1%

The following sections highlight the year-over-year changes in finance income from 2014/15 through 2018/19:

*2015/16 Actual vs. 2014/15 Actual*

The decrease in finance income was primarily due to lower interest income from the

1 St. Joseph Wind Farm as the loan was repaid in November 2015. This was partially offset  
2 by an increase in temporary investment income due to higher temporary investment  
3 balances resulting from greater pre-funding of long term debt in 2015/16.

4  
5 *2016/17 Outlook vs. 2015/16 Actual*

6 The decrease in finance income was primarily due to lower interest income from the  
7 St. Joseph Wind Farm as the loan was repaid in November 2015.

8  
9 *2017/18 Forecast vs. 2016/17 Outlook*

10 The forecast decrease in finance income is primarily due to less interest earned on  
11 temporary investments as the average balance of temporary investments is forecast to  
12 decrease. This is partially offset by increased interest income from additional loans to  
13 the Keeyask partners as construction progresses on the generating station.

14  
15 *2018/19 Forecast vs. 2017/18 Forecast*

16 The forecast increase in finance income is primarily due to additional interest on  
17 temporary investments reflecting higher interest rates. In addition, there is higher  
18 interest income from loans to the Keeyask partners as construction progresses on the  
19 generating station.

20  
21 **6.2.5 Operating & Administrative**

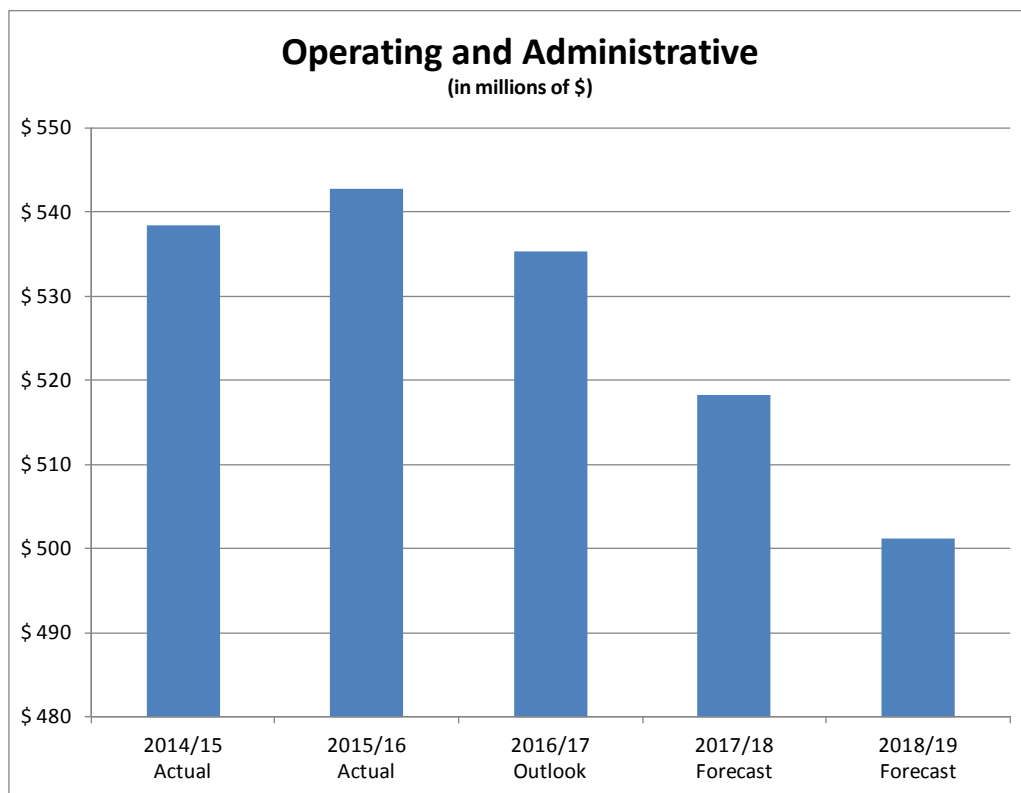
22 Operating and administrative (O&A) expenses are comprised primarily of labour and  
23 benefits, materials, contracted services and overhead costs associated with operating  
24 and maintaining all facilities of the corporation and providing services to customers.

25  
26 As part of the corporation's plans to strengthen Manitoba Hydro's long term financial  
27 health, significant cost reductions have been incorporated in the O&A targets  
28 embedded in MH16 for 2017/18 and 2018/19. As discussed in Tab 3, these reductions  
29 are expected to be achieved through internal workforce reductions and procurement  
30 savings obtained through the Supply Chain Management initiative.

31  
32 The final results of the corporate restructuring program will have a significant impact on  
33 the detailed components of the O&A forecast as the program will ultimately affect the  
34 organization's structure, staffing levels and employee related costs (i.e. salaries,

benefits, travel etc.). Over the next number of months, the corporation will be reporting the actual savings achieved as well as associated restructuring costs. Once the corporate restructuring program is complete, detailed O&A budgets will be prepared in support of the new structure and the related responsibilities/accountabilities of the individual areas. As such, all detailed schedules embedded in the application and other filing materials for both the 2017/18 and 2018/19 fiscal years are incomplete.

**Figure 6.13 Operating & Administrative**



**Figure 6.14 Operating and Administrative Expense breakdown**

**MANITOBA HYDRO**

**OPERATING AND ADMINISTRATIVE COSTS BY COST ELEMENT**

(000's)

	2014/15 Actual	2015/16 Actual	2016/17 Forecast	Average Annual % Inc/(Dec)	2017/18 Forecast	2018/19 Forecast	Average Annual % Inc/(Dec)
Employee Related Expenditures							
Wages & Salaries	\$ 493 346	\$ 506 811	\$ 532 941	3.9%			
Overtime	69 541	67 982	76 975	5.5%			
Employee Benefits	166 854	159 363	169 734	1.0%			
Other	73 067	70 832	75 141	1.5%			
Total Employee Related Expenditures	802 809	804 988	854 792	3.2%			
Less: Capitalized Labor & Overhead	(313 931)	(322 144)	(359 223)	7.1%			
Operational Employee Related Expenditures	488 877	482 844	495 569	0.7%			
External services and materials	126 850	127 711	128 760	0.7%			
Donations, Sponsorships & Grants	2 804	2 592	2 367	-8.1%			
Uncollectible accounts	4 890	5 748	4 218	-4.5%			
Other	452	6 230	3 853	619.8%			
Cost recoveries	(15 115)	(15 789)	(15 278)	0.6%			
O&A charged to gas operations	(70 355)	(66 607)	(67 818)				
Operating & Administrative Expenses	538 404	542 729	551 670	-1.8%	518 340	501 183	-1.7%
Year end outlook adjustment**	-	-	(16 280)		-	-	
Operating and administrative expenses *	\$ 538 404	\$ 542 729	\$ 535 390	-1.9%	\$ 518 340	\$ 501 183	-1.8%
Year over year \$ change		\$ 4 326	\$ (7 339)		\$ (17 051)	\$ (17 156)	
Year over year % change		0.8%	-1.4%		-3.2%	-3.3%	

\* Amounts for overhead not eligible for capitalization have been deferred in compliance with PUB Order 73/15 and are reflected in Net Movement

\*\* Year end outlook adjustment - The projection of year-end results for O&A for 2016/17 of \$535.4 million was based on an analysis of actual results to the end of January and high level assumptions of spend for February and March. Detailed budgets by department and cost element (e.g. wage & salaries) were not revised to reflect the overall outlook projection given the magnitude of the work effort required.

The 1.8% average annual decrease over the 5 year period is primarily a result of forecasted staff reductions combined with an overall focus on cost containment including savings achieved through the supply chain initiative.

The cost containment strategy focuses on a comprehensive management of staff positions across all Corporate and Operating groups. 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.

In addition, the corporation has negotiated new Collective Agreements with AMHSSE, CUPE and Unifor which include lower wage settlements beginning January 1, 2017 through to December 2020 as shown in **Figure 6.15** below. Wage settlements for Corporate Exempt employees and employees belonging to IBEW and the Manitoba Hydro Professional Engineers Association are still to be determined.

**Figure 6.15 – Contracted Wage Settlements**

Effective Date	AMHSSE	CE	CUPE	IBEW	MHPEA	UNIFOR*
January 1, 2014	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
January 1, 2015	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
January 1, 2016	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
January 1, 2017	0.00%	0.00%	0.00%	2.00%	0.00%	0.00%
January 1, 2018	1.00%	TBD	1.00%	2.00%	TBD	1.00%
January 1, 2019	1.25%	TBD	1.25%	TBD	TBD	1.25%
January 1, 2020	1.50%	TBD	1.50%	TBD	TBD	1.50%

*\* UNIFOR contracted wage settlements are effective the beginning of each pay period preceeding January 1st.*

In addition to contracted wage settlements, employees are also entitled to receive either merit based on performance or salary progression through the pay schedules assigned to job classifications. Merit and progression historically has resulted in an overall wage increase of 1 to 2% annually. For a detailed discussion on the corporations cost reduction plan, please refer to Tab 3 of this application.

The following sections provide an update on the cost containment strategies previously implemented to limit growth in O&A costs to 1%.

#### **Reduction of Operational Positions**

As part of its cost containment strategy, Manitoba Hydro committed to a reduction of 330 operational positions through the three year period of 2014/15 to 2016/17 and a commitment to hold non-labour costs below inflation, where possible. The corporation has leveraged its attrition by analyzing work processes and functions to identify opportunities for elimination, consolidation or technology enhancements. This has



resulted in staff reductions and efficiencies of over 400 positions to date.

**Figure 6.16 Position Reductions**

	Committed Reductions				Achieved Reductions			
	2014/15	2015/16	2016/17	Total	2014/15	2015/16	2016/17	Total
President & CEO	2.0	-	-	2.0	2.0	1.0	1.0	4.0
General Counsel & Corporate Secretary	1.0	1.0	1.0	3.0	2.0	-	-	2.0
Human Resources & Corporate Services	33.0	27.0	21.0	81.0	53.0	23.0	1.0	77.0
Indigenous Relations	3.0	3.0	1.0	7.0	8.0	2.0	-	10.0
Finance & Strategy	4.0	3.0	3.0	10.0	6.0	6.0	1.0	13.0
Generation & Wholesale	10.0	12.0	6.0	28.0	42.0	50.0	13.0	105.0
Transmission	30.0	18.0	42.0	90.0	49.0	65.0	1.0	115.0
Marketing & Customer Service	62.0	27.0	20.0	109.0	70.0	21.0	12.0	103.0
<b>Total</b>	<b>146.0</b>	<b>91.0</b>	<b>94.0</b>	<b>330.0</b>	<b>232.0</b>	<b>168.0</b>	<b>29.0</b>	<b>429.0</b>

### Supply Chain Management Initiatives

The corporation is continuing to undertake a number of supply chain management initiatives intended to realize savings on goods and services purchased, reduce or avoid operating costs, reduce working capital and reduce capital expenditures. These initiatives began in 2014/15 and have accumulated realized savings to date totaling approximately \$8 million. These initiatives have included savings related to air travel, administrative expenses, maintenance and upgrade costs.

**Year-over-Year Comparison**

The following sections highlight the year over year changes in O&A from 2014/15 through 2018/19:

*2015/16 Actual vs. 2014/15 Actual*

The slight increase (less than 1%) in 2015/16 O&A is primarily attributable to reduced capitalization of overhead costs, an increase to bad debt expense and higher software license and maintenance contract expenditures. These increases have been partially offset by lower benefit costs as a result of changes in the discount rate as well as the impact of various cost containment initiatives.

*2016/17 Outlook vs. 2015/16 Actual*

The decrease in 2016/17 O&A is primarily attributable to the redeployment of staff from operations & maintenance to capital construction as well as a reduction in operations & maintenance EFTs and an overall focus on cost containment. These decreases were partially offset by higher wages and salaries due to general wage increases, merit and progression associated with previously negotiated labour contracts.

*2017/18 Forecast vs. 2016/17 Outlook*

The forecast decrease in 2017/18 O&A is primarily due to a significant reduction in the number of operations & maintenance EFTs as well as sourcing savings resulting from the Supply Chain Management initiative. This is partially offset by the impacts of the IBEW general wage increase and merit and progression, where applicable.

*2018/19 Forecast vs. 2017/18 Forecast*

The forecast decrease in 2018/19 O&A is primarily due to the full year impact of the reduction in the number of operations & maintenance EFTs as well as sourcing savings resulting from the Supply Chain Management initiative. This is partially offset by the impacts of the negotiated general wage increases and merit and progression, where applicable.

### 6.2.6 Depreciation & Amortization

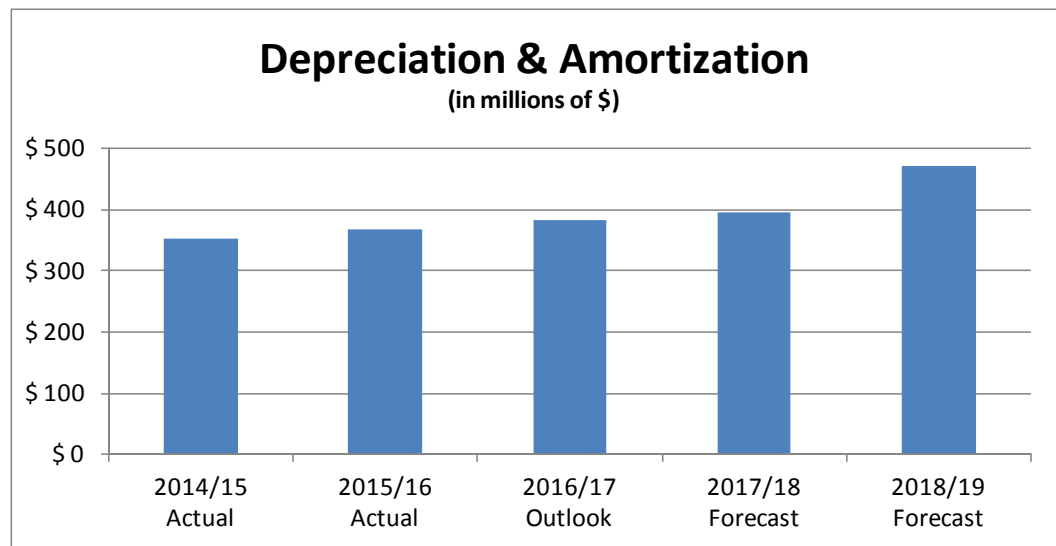
Depreciation and amortization expense is calculated on a straight line remaining life basis using the Equal Life Group (“ELG”) method of depreciation. Depreciation of property, plant and equipment is reported within the following asset categories:

- Generation (hydraulic, thermal, diesel)
- Transmission
- Substations
- Distribution
- Other

Amortization of intangible assets is reported within the following categories:

- Computer application development
- Land easements
- Transmission rights

**Figure 6.17 Depreciation & Amortization**



**Figure 6.18 Depreciation and Amortization breakdown**

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

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>					
Generation					
Hydraulic generating stations	\$ 105 951	\$ 110 540	\$ 113 443	\$ 116 320	\$ 118 951
Thermal generating stations	15 272	15 385	15 458	15 627	15 884
Diesel generating stations	2 059	2 123	2 136	2 038	2 069
	<u>123 282</u>	<u>128 048</u>	<u>131 037</u>	<u>133 985</u>	<u>136 904</u>
Transmission					
Transmission	12 920	13 530	13 741	14 528	32 170
	<u>12 920</u>	<u>13 530</u>	<u>13 741</u>	<u>14 528</u>	<u>32 170</u>
Stations					
Substations	78 002	84 026	87 835	92 150	138 110
Transformers	1 252	1 370	1 453	1 638	1 835
	<u>79 254</u>	<u>85 396</u>	<u>89 288</u>	<u>93 789</u>	<u>139 946</u>
Distribution					
Subtransmission lines	6 168	6 772	6 996	7 529	8 015
Distribution lines	52 360	56 150	59 571	63 529	67 314
Meters & transformers	5 406	5 762	5 981	6 069	6 145
	<u>63 934</u>	<u>68 684</u>	<u>72 547</u>	<u>77 128</u>	<u>81 474</u>
Other					
Communications	17 518	18 329	20 300	20 385	23 336
Motor vehicles	10 794	11 284	11 867	12 524	13 898
Structures & improvements	8 280	9 003	9 523	10 158	10 273
General equipment	16 940	16 829	16 854	17 259	17 641
Miscellaneous	(1 707)	(4 793)	(3 537)	(3 931)	(5 144)
Corporate allocation	(1 217)	(1 368)	(1 371)	(1 371)	(1 371)
	<u>50 608</u>	<u>49 284</u>	<u>53 636</u>	<u>55 025</u>	<u>58 632</u>
Total depreciation on PP&E	<u>329 997</u>	<u>344 942</u>	<u>360 249</u>	<u>374 454</u>	<u>449 125</u>
<b>INTANGIBLES</b>					
Computer development	15 845	17 804	19 409	19 952	19 915
Easements	937	1 106	1 308	1 713	1 882
Total amortization of intangibles	<u>16 782</u>	<u>18 910</u>	<u>20 717</u>	<u>21 665</u>	<u>21 797</u>
Loss on disposition	5 527	2 812	3 200	-	-
Total loss on disposition	<u>5 527</u>	<u>2 812</u>	<u>3 200</u>	<u>-</u>	<u>-</u>
Total depreciation & amortization expense ***	<u>\$ 352 307</u>	<u>\$ 366 664</u>	<u>\$ 384 166</u>	<u>\$ 396 120</u>	<u>\$ 470 922</u>
Year over year \$ change		\$ 14 358	\$ 17 502	\$ 11 954	\$ 74 802
Year over year % change		4.1%	4.8%	3.1%	18.9%

\*\*\* Amounts for change in depreciation method and loss on disposal have been deferred in compliance with PUB Order 73/15 and are reflected in Net Movement

1 The following sections highlight the year over year changes in depreciation and  
2 amortization expense from 2014/15 through 2018/19:

3  
4 *2015/16 Actual vs. 2014/15 Actual*

5 The increase in 2015/16 depreciation and amortization is mainly due to capital additions  
6 placed into service during the year net of asset retirements, including a full year of  
7 depreciation for the Riel 230/500 kV station and the new Pointe du Bois spillway.

8  
9 *2016/17 Outlook vs. 2015/16 Actual*

10 The increase in 2016/17 depreciation and amortization is primarily a result of capital  
11 additions placed into service during the year, including the Mobile Radio System  
12 Modernization, Great Falls Unit 4 overhaul and the earth filled dam associated with the  
13 Pointe du Bois spillway replacement.

14  
15 *2017/18 Forecast vs. 2016/17 Outlook*

16 The forecast increase in 2017/18 depreciation and amortization is primarily due to  
17 capital additions placed into service during the year, including the Adelaide Station and  
18 Madison Station.

19  
20 *2018/19 Forecast vs. 2017/18 Forecast*

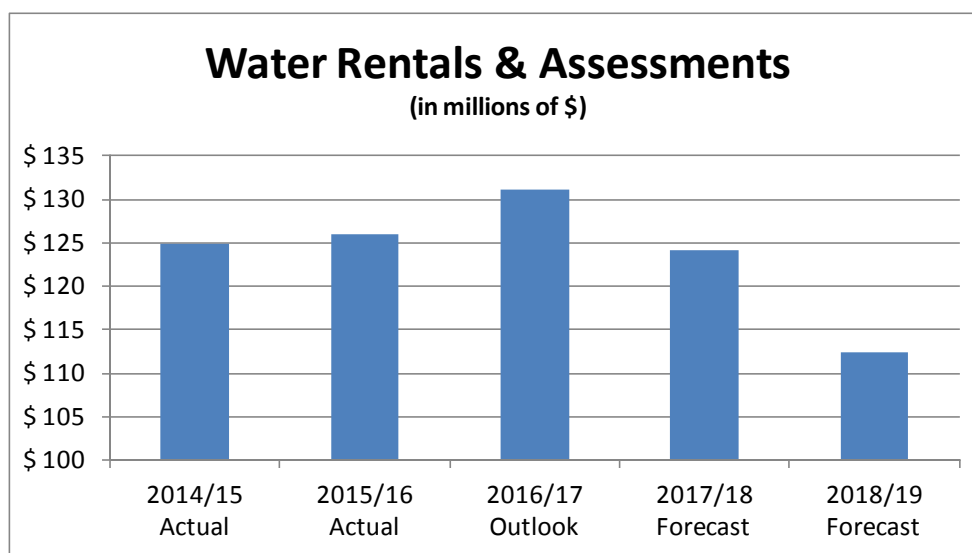
21 The forecast increase in 2018/19 depreciation and amortization is mainly the result of  
22 Bipole III going in-service during the year.

23  
24 **6.2.7 Water Rentals & Assessments**

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

32

**Figure 6.19 Water Rentals & Assessments**



**Figure 6.20 Water Rentals and Assessments breakdown**

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

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Water rentals	\$ 117 043	\$ 116 786	\$ 121 989	\$ 114 733	\$ 103 069
Assessments & land rentals	7 843	9 300	9 220	9 398	9 394
<b>Total water rentals and assessments</b>	<b>\$ 124 887</b>	<b>\$ 126 086</b>	<b>\$ 131 209</b>	<b>\$ 124 130</b>	<b>\$ 112 463</b>
Year over year \$ change		\$ 1 199	\$ 5 123	\$ (7 079)	\$ (11 667)
Year over year % change		1.0%	4.1%	-5.4%	-9.4%

1 The following sections highlight the year over year changes in water rentals and  
2 assessments from 2014/15 through 2018/19:

3  
4 *2015/16 Actual vs. 2014/15 Actual*

5 The slight increase in water rentals and assessments is due to higher assessments to  
6 participate in the US export market as a result of foreign exchange impacts.

7  
8 *2016/17 Outlook vs. 2015/16 Actual*

9 The increase in 2016/17 in water rentals and assessments reflects favourable water flow  
10 conditions resulting in higher generation.

11  
12 *2017/18 Forecast vs. 2016/17 Outlook*

13 The forecast decrease in 2017/18 in water rentals and assessments is a result of lower  
14 hydraulic generation as 2017/18 is based on a simulation of current water in storage  
15 and long term record flow conditions.

16  
17 *2018/19 Forecast vs. 2017/18 Forecast*

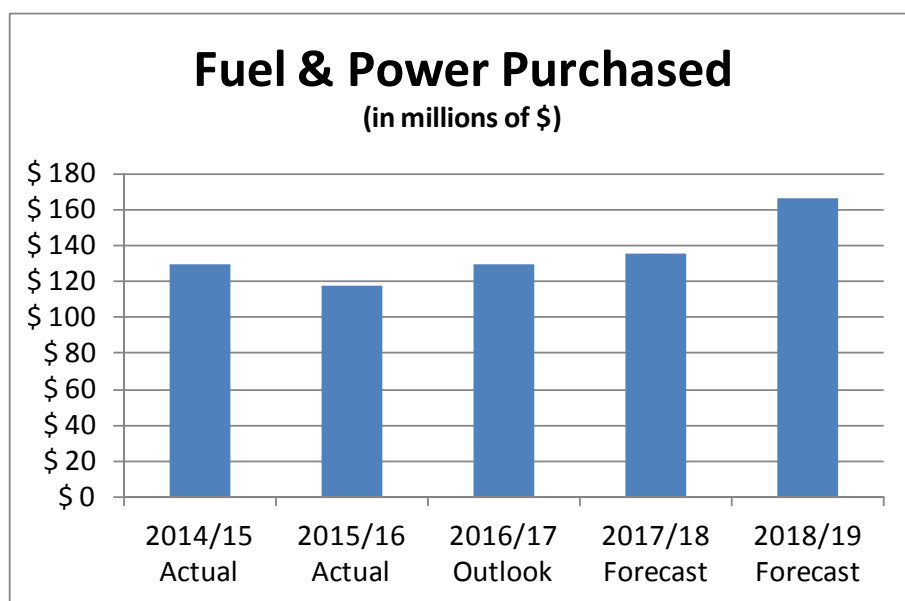
18 The forecast 2018/19 decrease in water rentals and assessments reflects lower  
19 hydraulic generation based on the full range of experienced flow conditions.

20  
21 **6.2.8 Fuel & Power Purchased**

22 Fuel & power purchased includes costs of fuel for thermal generation facilities, costs for  
23 purchased energy and other miscellaneous costs associated with export and import  
24 market activities and system operation. In 2015/16, over 99% of electricity generated by  
25 Manitoba Hydro was from its 15 hydraulic generating stations and less than 1% from its  
26 two thermal generation stations and four remote diesel generation facilities. In addition,  
27 Manitoba Hydro purchases wind power from the independently-owned St. Leon and St.  
28 Joseph wind farms. Manitoba Hydro also imports electricity depending on operating and  
29 economic circumstances.

30

**Figure 6.21 Fuel & Power Purchased**



**Figure 6.22 Fuel & Power Purchased breakdown**

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

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Wind purchases	\$ 70 241	\$ 62 783	\$ 71 089	\$ 67 902	\$ 68 950
Transmission charges	34 386	42 965	48 156	43 102	40 817
Thermal fuel purchases	10 201	8 324	7 267	8 532	28 235
Power purchases	14 291	3 420	3 414	15 892	27 700
<b>Total fuel and power purchased</b>	<b>\$ 129 119</b>	<b>\$ 117 492</b>	<b>\$ 129 926</b>	<b>\$ 135 428</b>	<b>\$ 165 702</b>
Year over year \$ change		\$ (11 627)	\$ 12 434	\$ 5 501	\$ 30 274
Year over year % change		-9.0%	10.6%	4.2%	22.4%



The following provides a description of the components of fuel and power purchases:

- Wind purchases represent purchases of electrical energy from wind farms in Manitoba.
- Transmission charges relate primarily to reservation fees for use of transmission facilities for imports or exports.
- Thermal fuel purchases includes purchases of coal, natural gas and other fuel. Coal is consumed as the principal fuel for Brandon Unit 5 for the purpose of generating electricity under restricted operations. Natural gas, oil and diesel are purchased for the Brandon and Selkirk generating stations and diesel is purchased for remote locations for the purpose of generating electricity.
- Power purchased includes purchases of electrical energy from external Canadian and US suppliers.

The following sections highlight the year over year changes in fuel and power purchased from 2014/15 through 2018/19:

*2015/16 Actual vs. 2014/15 Actual*

The decrease in 2015/16 fuel and power purchased is primarily due to lower wind purchases resulting from lower wind generation and reduced import volumes due to milder winter weather compared to the previous year, partially offset by increased US transmission charges due to the impact of the weakening Canadian dollar.

*2016/17 Outlook vs. 2015/16 Actual*

The increase in 2016/17 fuel and power purchased is the result of increased volumes from wind generation due to above average wind conditions combined with higher US transmission tariff rates.

*2017/18 Forecast vs. 2016/17 Outlook*

The forecast increase in 2017/18 fuel and power purchased is primarily due to an increase in the volume of opportunity purchases as 2016/17 experienced strong water conditions resulting in less imports required. The 2017/18 forecast is based on a simulation of current water in storage and long term record flow. This increase is partially offset by lower market prices and a decrease in transmission costs.

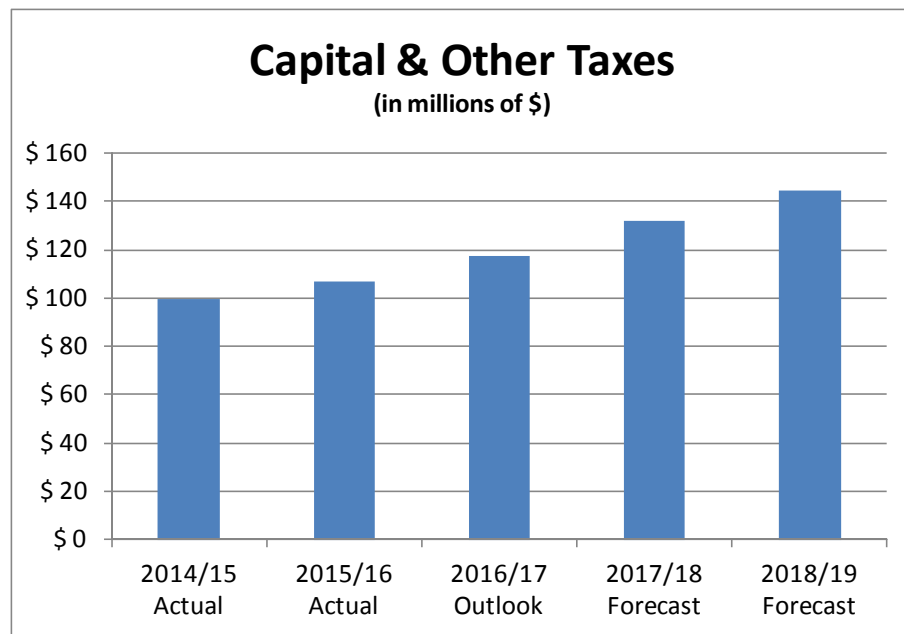
### 2018/19 Forecast vs. 2017/18 Forecast

The forecast increase in 2018/19 fuel and power purchased is primarily due to increases in thermal costs and power purchases resulting from lower levels of water storage as compared to 2017/18 impacting both imports and thermal purchases.

### 6.2.9 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 6.23 Capital & Other Taxes**



**Figure 6.24 Capital and Other Taxes breakdown**

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

	<b>2014/15 Actual</b>	<b>2015/16 Actual</b>	<b>2016/17 Outlook</b>	<b>2017/18 Forecast</b>	<b>2018/19 Forecast</b>
Capital tax	\$ 62 299	\$ 69 372	\$ 78 707	\$ 92 763	\$ 104 553
Grants in lieu of taxes	25 199	25 192	26 642	26 187	26 944
Payroll tax	11 636	11 909	12 288	12 740	13 002
GST reassessment on city tax	620	66	-	-	-
<b>Total capital &amp; other taxes</b>	<b>\$ 99 754</b>	<b>\$ 106 539</b>	<b>\$ 117 637</b>	<b>\$ 131 690</b>	<b>\$ 144 499</b>
Year over year \$ change		\$ 6 785	\$ 11 098	\$ 14 052	\$ 12 810
Year over year % change		6.8%	10.4%	11.9%	9.7%

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% which 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

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.

1 The GST reassessment on City Tax by the Canada Revenue Agency relates to GST that  
2 should have been applied to the City of Winnipeg tax charged to customers in 2014/15  
3 and 2015/16.

4  
5 The following sections highlight the year over year changes in capital and other taxes  
6 from 2014/15 through 2018/19:

7  
8 *2015/16 Actual vs. 2014/15 Actual*

9 The increase in 2015/16 capital and other taxes is primarily due to increased capital  
10 taxes as a result of higher debt levels related to additional capital investment.

11  
12 *2016/17 Outlook vs. 2015/16 Actual*

13 The increase in 2016/17 capital and other taxes is primarily a result of increased capital  
14 taxes due to higher debt levels related to the corporation's capital construction activity.  
15 In addition, grants in lieu of taxes and payroll taxes increased due to normal inflationary  
16 pressures.

17  
18 *2017/18 Forecast vs. 2016/17 Outlook*

19 The forecast increase in 2017/18 capital and other taxes is primarily a result of increased  
20 capital taxes due to higher debt levels related to the corporation's capital construction  
21 activity. Grants in lieu of taxes decreased slightly due to an appeal of property  
22 assessment values taking effect in 2017 on certain Winnipeg properties. Payroll taxes  
23 increased due to normal inflationary pressures.

24  
25 *2018/19 Forecast vs. 2017/18 Forecast*

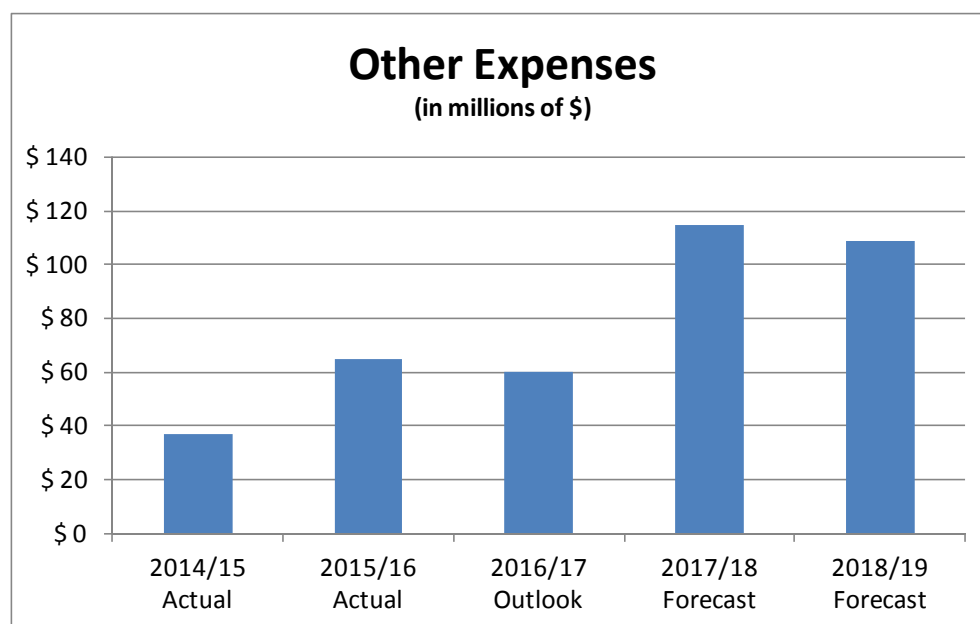
26 The forecast increase in 2018/19 capital and other taxes is primarily a result of increased  
27 capital taxes due to higher debt levels related to the corporation's capital construction  
28 activity. In addition, grants in lieu of taxes increased due to normal inflationary  
29 pressures.

### 6.2.10 Other Expenses

Other expenses include costs associated with Power Smart programs designed to reduce overall energy consumption and assist customers in managing their energy costs, site restoration and regulatory costs as well as the provision of work on customer owned plant and other miscellaneous expenditures.

Upon transition to IFRS, additions to Power Smart programs, site restoration and regulatory costs are recorded initially in other expenses and are then removed through net movement to regulatory deferral accounts on the statement of financial position.

**Figure 6.25 Other Expenses**



**Figure 6.26 Other Expenses breakdown**

**MANITOBA HYDRO  
OTHER EXPENSES  
(000's)**

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Power Smart expenses	\$ 31 475	\$ 53 816	\$ 50 143	\$ 55 678	\$ 99 404
Site restoration	2 359	3 371	1 424	2 794	2 703
Regulatory costs	1 038	3 949	4 389	3 664	2 339
Cost of services provided to external entities	1 860	3 687	290	2 200	2 200
Consulting engagement	-	-	4 086	-	-
Corporate restructuring costs	-	-	-	50 388	2 193
Miscellaneous	313	116	132	132	132
Total other expenses *	\$ 37 045	\$ 64 939	\$ 60 464	\$ 114 856	\$ 108 970
Year over year \$ change		\$ 27 894	\$ (4 475)	\$ 54 392	\$ (5 886)
Year over year % change		75.3%	-6.9%	90.0%	-5.1%

\* Amounts related to Power Smart programs, site restoration and regulatory costs have been deferred and are reflected in Net Movement

The following sections highlight the year over year changes in other expenses from 2014/15 through 2018/19:

*2015/16 Actual vs. 2014/15 Actual*

The increase in 2015/16 other expenses is primarily due to an increase in investments in Power Smart programs related to the implementation of the LED Roadway Lighting Conversion program and the Customer Sited Load Displacement program, as well as increased customer participation in the commercial lighting program.

*2016/17 Outlook vs. 2015/16 Actual*

The decrease in 2016/17 other expenses is due to a reduction in Power Smart investments related to the LED Roadway Lighting Conversion program resulting from delays in securing a qualified contractor to continue the work from the prior year. In addition, site remediation costs declined as projects were postponed and fewer business initiative opportunities transpired compared to 2015/16. These decreases are

1 partially offset by consulting costs pertaining to the assessment of Manitoba Hydro's  
2 financial position.

3  
4 *2017/18 Forecast vs. 2016/17 Outlook*

5 The forecast increase in 2017/18 other expenses is primarily due to one-time corporate  
6 restructuring charges associated with the achievement of staffing reductions and  
7 sourcing savings. In addition, Power Smart related investments are expected to increase  
8 due to a full year of the LED Roadway Lighting Conversion program along with increases  
9 in the Customer Site Load Displacement programs.

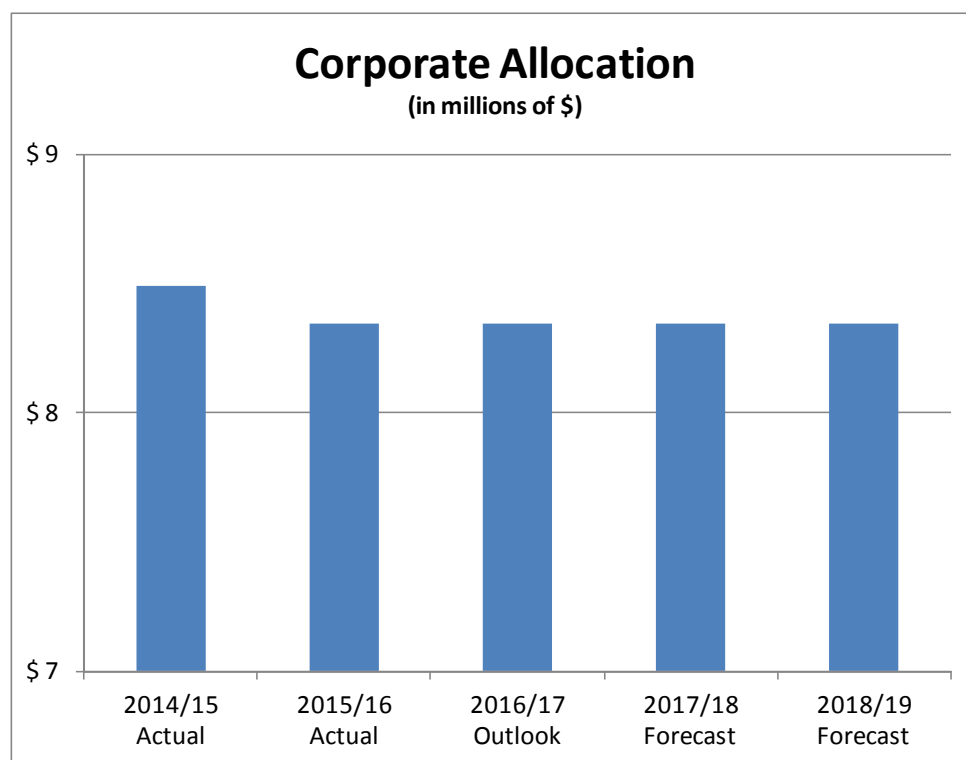
10  
11 *2018/19 Forecast vs. 2017/18 Forecast*

12 The forecast decrease in 2018/19 other expenses is due primarily to the reduction in  
13 corporate restructuring costs as the voluntary departure program is completed in the  
14 2017/18 fiscal year. This decrease is partially offset by projected increases in  
15 investments in Power Smart programs such as the Customer Sited load Displacement.

16  
17 **6.2.11 Corporate Allocation**

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

**Figure 6.27 Corporate Allocation**



**Figure 6.28 Corporate Allocation Breakdown**

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

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
Interest on acquisition debt	\$ 16 201	\$ 15 994	\$ 15 994	\$ 15 994	\$ 15 994
Provincial Guarantee Fee on acquisition debt	2 500	2 500	2 500	2 500	2 500
Finance expense corporate allocation	18 701	18 494	18 494	18 494	18 494
Corporate allocation - depreciation	1 217	1 368	1 371	1 371	1 371
Corporate allocation - other revenue	574	482	482	482	482
	20 492	20 344	20 347	20 347	20 347
Less: allocation to Centra Gas	(12 000)	(12 000)	(12 000)	(12 000)	(12 000)
<b>Total corporate allocation (Electric)</b>	<b>\$ 8 492</b>	<b>\$ 8 344</b>	<b>\$ 8 347</b>	<b>\$ 8 347</b>	<b>\$ 8 347</b>
Year over year \$ change		\$ (148)	\$ 3	\$ -	\$ -
Year over year % change		-1.7%	0.0%	0.0%	0.0%



The following sections highlight the year over year changes in corporation allocation from 2014/15 through 2018/19.

*2015/16 Actual vs. 2014/15 Actual*

No significant change.

*2016/17 Outlook vs. 2015/16 Actual*

No change.

*2017/18 Forecast vs. 2016/17 Outlook*

No change.

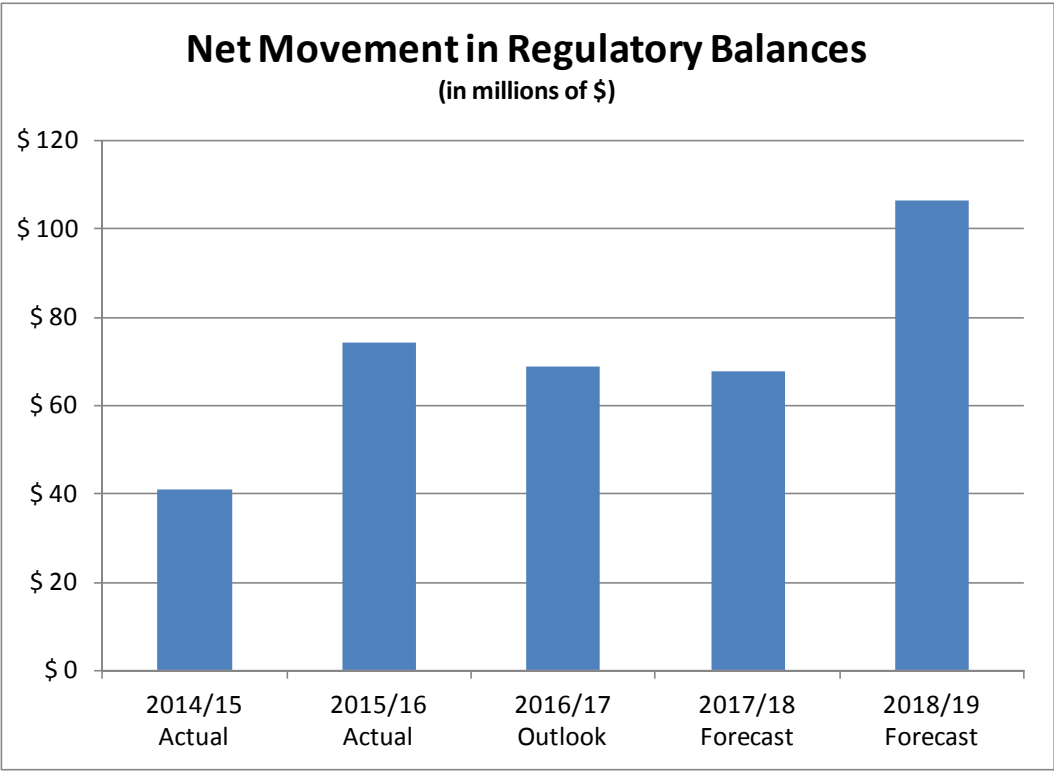
*2018/19 Forecast vs. 2017/18 Forecast*

No change.

**6.2.12 Net Movement in Regulatory Balances**

IFRS 14 *Regulatory Deferral Accounts* interim standard provides guidance on the accounting for the effects of rate regulation under IFRS. Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expense for regulatory purposes and the recognition of those items for financial reporting purposes. The standard requires net income to be reported both before and after the impacts of rate-regulation. As a result, additions to regulatory deferral balances are initially expensed in their respective financial statement line items and amortization pertaining to these items is removed from depreciation and amortization. These additions are deferred and amortization is recognized in the net movement in regulatory balances. This presentation is intended to isolate the movement of regulatory deferral accounts to allow comparability with those entities not applying IFRS 14.

Figure 6.29 Net Movement in Regulatory Balances



**Figure 6.30 Net Movement in Regulatory Deferral Accounts Breakdown**

**MANITOBA HYDRO**

**NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNTS**

(000's)

	2014/15 Actual	2015/16 Actual	2016/17 Outlook	2017/18 Forecast	2018/19 Forecast
<b>Additions to regulatory deferral accounts</b>					
Power Smart programs	\$ (31 475)	\$ (53 816)	\$ (50 143)	\$ (55 678)	\$ (99 404)
Change in depreciation method	(28 466)	(30 975)	(32 562)	(33 952)	(39 506)
Deferred ineligible overhead	(20 200)	(20 200)	(20 200)	(20 200)	(20 200)
Loss on disposal of assets	(5 527)	(2 812)	(3 200)	-	-
Site restoration costs	(2 359)	(3 371)	(1 424)	(2 794)	(2 703)
Regulatory costs	(1 038)	(3 949)	(4 389)	(3 664)	(2 339)
Acquisition costs	6 355	-	-	-	-
Affordable Energy Fund	(168)	(66)	-	-	-
Total additions to regulatory deferral accounts	(82 877)	(115 190)	(111 918)	(116 288)	(164 151)
<b>Amortization of regulatory deferral accounts</b>					
Power Smart programs	31 576	32 927	34 937	35 742	36 512
Affordable Energy Fund	5 167	2 021	705	449	480
Site restoration costs	3 842	3 967	4 106	4 106	3 990
Regulatory costs	1 160	1 933	3 415	3 634	4 358
Change in depreciation method	-	-	-	2 724	7 285
Loss on disposal of assets	-	-	-	288	577
Deferred ineligible overhead	-	-	-	1 768	4 545
Total amortization of regulatory deferral accounts	41 746	40 848	43 163	48 711	57 746
<b>Total net movement in regulatory deferral balances</b>	<b>\$ (41 131)</b>	<b>\$ (74 342)</b>	<b>\$ (68 755)</b>	<b>\$ (67 577)</b>	<b>\$ (106 405)</b>
Year over year \$ change		\$ (33 211)	\$ 5 587	\$ 1 178	\$ (38 828)
Year over year % change		81%	-8%	-2%	57%

The following provides a description of the amounts included in net movement in regulatory balances:

Power Smart program expenditures are incurred for energy conservation programs to encourage residential, commercial and industrial customers to use energy more efficiently.

Site restoration expenditures are incurred for the remediation of contaminated corporate facilities and diesel generating sites.

1 Change in depreciation method represents the cumulative annual difference in  
2 depreciation expense between the ASL method of depreciation as applied by Manitoba  
3 Hydro prior to its transition to IFRS and the ELG method as applied by Manitoba Hydro  
4 under IFRS.

5  
6 Deferred ineligible overhead is the cumulative annual difference in overhead capitalized  
7 for financial reporting purposes under IFRS and overhead capitalized for rate setting  
8 purposes.

9  
10 Acquisition costs relate to costs associated with the acquisition of Winnipeg Hydro  
11 (September 2002).

12  
13 The Affordable Energy Fund is related to future DSM expenditures as established  
14 pursuant to *The Winter Heating Cost Control Act*, and continued under *The Energy*  
15 *Savings Act*. The intent of the Affordable Energy Fund is to provide funding for projects  
16 that would not otherwise be funded by Power Smart programs. The Affordable Energy  
17 Fund ensures that people living in rural or northern Manitoba and those with low  
18 incomes as well as seniors have access to the programs and services regardless of the  
19 energy source they use to heat their homes.

20  
21 Loss on disposal of assets is the net asset retirement losses for those assets retired prior  
22 to or subsequent to reaching their expected service life as determined under the ELG  
23 method of depreciation.

24  
25 Regulatory costs are those incurred as a result of electric regulatory hearings.

26  
27 DSM deferral – In Orders 43/13 and 73/15, the PUB directed that the differences  
28 between actual and planned spending on electric Power Smart programs for the  
29 2012/13 and 2013/14 fiscal years be recognized as a liability. In Order 73/15, the PUB  
30 further directed that the difference in 2014/15 and 2015/16 spending be added to this  
31 deferral. The cumulative differences have been recorded as a regulatory deferral credit  
32 balance with an offsetting balance recorded as a regulatory debit balance. The  
33 disposition of these balances will be determined by the PUB at a future regulatory  
34 proceeding.

1 The following sections highlight the year over year changes in net movement in  
2 regulatory deferral account balances from 2014/15 through 2018/19:

3  
4 *2015/16 Actual vs. 2014/15 Actual*

5 The increase in 2015/16 is primarily due to the increase in investments in Power Smart  
6 programs related to the implementation of the LED Roadway Lighting Conversion  
7 program and the Customer Sited Load Displacement program as well as increased  
8 customer participation in the commercial lighting program. The increase also reflects  
9 the growth in the difference in depreciation between the ASL and ELG methods of  
10 depreciation.

11  
12 *2016/17 Outlook vs. 2015/16 Actual*

13 The decrease in 2016/17 is primarily due to a reduction in Power Smart investments  
14 related to the LED Roadway Lighting Conversion program resulting from delays in  
15 securing a qualified contractor to continue the work from the prior year. In addition, site  
16 remediation costs declined as projects were postponed and fewer business initiative  
17 opportunities transpired compared to 2015/16. These decreases are partially offset by  
18 increases in the amortization of Power Smart and regulatory costs reflecting the  
19 amortization of prior year spending.

20  
21 *2017/18 Forecast vs. 2016/17 Outlook*

22 The forecast decrease in 2017/18 is the result of an increase in Power Smart related  
23 investments reflecting a full year of the LED Roadway Lighting Conversion program  
24 along with increases in the Customer Site Load Displacement programs offset by the  
25 commencement of amortization for deferral accounts representing the cumulative ASL-  
26 ELG depreciation difference, cumulative ineligible overhead and cumulative losses on  
27 the disposal of assets.

28  
29 *2018/19 Forecast vs. 2017/18 Forecast*

30 The forecast increase in 2018/19 is due primarily to projected increases in investments  
31 in Power Smart programs such as the Customer Sited load Displacement program in  
32 addition to an increase in the deferral of the ASL-ELG depreciation difference due to the  
33 in-service of Bipole III partially offset by increases due to a full year amortization of

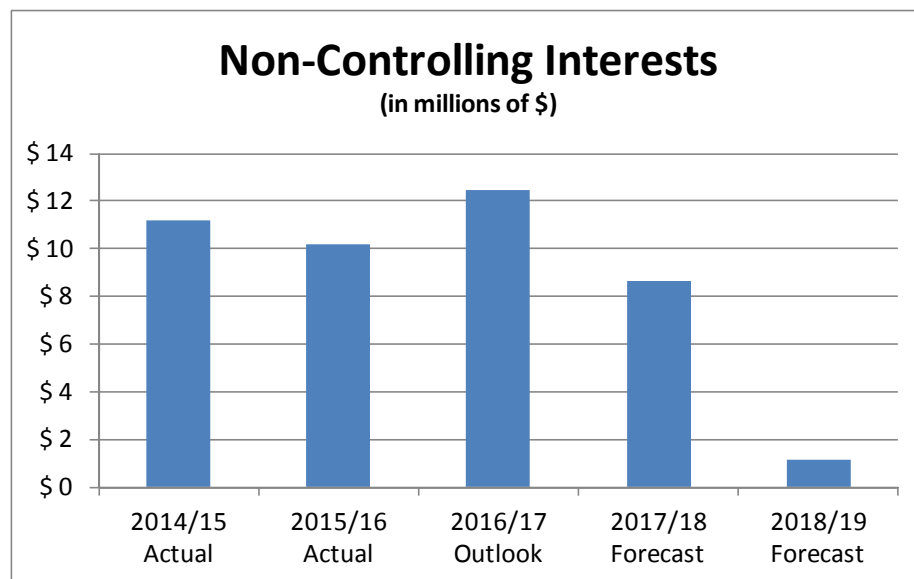
deferral accounts representing the cumulative ASL-ELG depreciation difference, cumulative ineligible overhead and cumulative losses on the disposal of assets.

### 6.2.13 Non-Controlling Interest

The Wuskwatim Power Limited Partnership (“WPLP”) has two limited partners, Manitoba Hydro and Taskinigaahp 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 acquired a 33% interest in WPLP. The generating station and associated transmission was placed into service during the 2012/13 year. Manitoba Hydro operates and maintains the Wuskwatim generating station and purchases 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 statement of income.

**Figure 6.31 Non-Controlling Interest**



**Figure 6.32 Non-Controlling Interest Breakdown**

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

	<b>2014/15 Actual</b>	<b>2015/16 Actual</b>	<b>2016/17 Outlook</b>	<b>2017/18 Forecast</b>	<b>2018/19 Forecast</b>
Non-controlling interest	\$ 11 166	\$ 10 189	\$ 12 448	\$ 8 664	\$ 1 172
\$ Change		\$ (977)	\$ 2 259	\$ (3 784)	\$ (7 492)
% Change		-8.7%	22.2%	-30.4%	-86.5%

The following sections highlight the year over year changes from 2014/15 through 2018/19:

*2015/16 Actual vs. 2014/15 Actual*

No significant change.

*2016/17 Outlook vs. 2015/16 Actual*

The increase is due to higher WPLP losses as a result of an increase in transmission losses that were not passed on to the partnership in the past.

*2017/18 Forecast vs. 2016/17 Outlook*

The forecast decrease is a result of reduced losses in the WPLP. Partnership revenues are forecast to increase in 2017/18 due to the positive impact of the August 2017 7.90% domestic rate increase.

*2018/19 Forecast vs. 2017/18 Forecast*

The forecast decrease is a result of reduced losses in the WPLP. Partnership revenues are forecast to increase in 2018/19 due to the positive impact of the 7.90% domestic rate increase.

### 6.3 FINANCIAL RESULTS – 2015/16

Manitoba Hydro's net income from electric operations for the 2015/16 fiscal year was \$37 million compared to the forecasted net income of \$15 million (MH15), as shown in the following schedule.

**Figure 6.33 2015/16 Actual Financial Results from Electric Operations**

<b>MANITOBA HYDRO</b> <b>STATEMENT OF INCOME</b> <b>For the year Ended March 31, 2016</b> (In millions of Canadian dollars)			
	Actual	Forecast	Favourable / (Unfavourable) Variance
Revenues			
General consumers	\$ 1 399	\$ 1 463	\$ (64)
Extraprovincial	415	395	20
Other	31	29	2
	<u>1 845</u>	<u>1 887</u>	<u>(42)</u>
Expenses			
Finance expense	582	587	5
Operating and administrative	543	542	(1)
Depreciation and amortization	367	367	-
Water rentals and assessments	126	125	(1)
Fuel and power purchased	117	121	4
Capital and other taxes	107	107	-
Other expenses	65	70	5
Finance income	(22)	(21)	1
Corporate allocation	8	8	-
Total expenses	<u>1 893</u>	<u>1 906</u>	<u>13</u>
Net income (loss) before net movement in regulatory balances	<u>(48)</u>	<u>(19)</u>	<u>(29)</u>
Net movement in regulatory balances	<u>75</u>	<u>24</u>	<u>51</u>
Net Income	<u>27</u>	<u>5</u>	<u>22</u>
Net income (loss) attributable to:			
<b>Manitoba Hydro</b>	<b>37</b>	<b>15</b>	<b>22</b>
Non-controlling interests	(10)	(10)	-
	<u>27</u>	<u>5</u>	<u>22</u>



1 Net income compared to forecast was \$22 million favourable primarily due to additional  
2 regulatory deferrals flowing from PUB rate decisions as well as higher net  
3 extraprovincial revenues resulting from lower Manitoba load, partially offset by lower  
4 domestic revenue as a result of warmer than normal weather.

5  
6 Domestic revenue compared to forecast was \$64 million or 4.4% unfavourable due to  
7 warmer than normal weather, lower usage in all customer classes and lower customer  
8 growth in the general service medium class. Compared to normal, the heating degree  
9 days were 633 days, or 15% warmer.

10  
11 Extraprovincial revenue exceeded forecast by \$20 million or 5.1%. Opportunity volumes  
12 of 7 580 GWh were 16% above forecast due to lower Manitoba load which allowed for  
13 more energy to be sold into the market as well as favourable foreign exchange impacts  
14 on opportunity and dependable sales. This was partially offset by opportunity rates 6%  
15 lower than forecast.

16  
17 Finance expense compared to forecast was \$5 million or 0.9% favourable primarily as a  
18 result of foreign exchange gains on US cash balances partially offset by foreign exchange  
19 impacts on US long term debt interest.

20  
21 Fuel and power purchased was lower than forecast by \$4 million or 3.3%. The  
22 favourable variance was primarily a result of a decrease in dependable purchases due to  
23 lower than forecast wind generation and a decrease in opportunity purchases as a result  
24 of warmer than normal weather which resulted in less energy consumption. This was  
25 partially offset by higher transmission charges as a result of higher volumes of exports.

26  
27 Other expenses compared to forecast was \$5 million or 7.1% favourable primarily due  
28 to lower Power Smart expenditures related to new construction, community  
29 geothermal and commercial lighting. This was partially offset by higher cost of sales for  
30 work on customer premises.

31  
32 Manitoba Hydro has provided copies of its 65th Annual Report of the MHEB for the year  
33 ending March 31, 2016 to the PUB. A copy of the 2015/16 Annual Report can be found  
34 as Appendix 6.1 to this Tab.

## 6.4 CGAAP TO IFRS TRANSITION – 2014/15

Manitoba Hydro adopted IFRS on April 1, 2015 with retrospective application of changes in accounting policies resulting from differences from CGAAP. As IFRS requires comparative financial information, the corporation has restated net income for the 2014/15 fiscal year. Information pertaining to these adjustments follows:

**Figure 6.34 CGAAP to IFRS Reconciliation**

**Electric Operations Statement of Income**

For the year ended March 31, 2015	Notes	CGAAP	Adjustments	Reclassifications	IFRS
<i>(millions of \$)</i>					
<b>Revenues</b>					
Domestic					
Electric		<b>1 424</b>	-	-	<b>1 424</b>
Extraprovincial	i	<b>400</b>	-	(16)	<b>384</b>
Other	A, ii	<b>18</b>	2	10	<b>30</b>
		<b>1 842</b>	2	(6)	<b>1 838</b>
<b>Expenses</b>					
Finance expense	D, iii	<b>495</b>	(6)	26	<b>515</b>
Operating and administrative	A, C	<b>480</b>	58	-	<b>538</b>
Depreciation and amortization	B, D, ii	<b>403</b>	(61)	10	<b>352</b>
Water rentals and assessments		<b>125</b>	-	-	<b>125</b>
Fuel and power purchased	i	<b>145</b>	-	(16)	<b>129</b>
Capital and other taxes		<b>100</b>	-	-	<b>100</b>
Other expenses	D	<b>2</b>	35	-	<b>37</b>
Finance income	iii	-	-	(26)	<b>(26)</b>
Corporate allocation		<b>9</b>	-	-	<b>9</b>
		<b>1 759</b>	26	(6)	<b>1 779</b>
Net income before net movement in regulatory balances		<b>83</b>	(24)	-	<b>59</b>
Net loss attributable to non-controlling interests		<b>11</b>	(11)	-	-
Net movement in regulatory balances	D	-	41	-	<b>41</b>
<b>Net Income</b>		<b>94</b>	6	-	<b>100</b>
Net income (loss) attributable to:					
<b>Manitoba Hydro</b>		<b>94</b>	17	-	<b>111</b>
Non-controlling interests		-	(11)	-	<b>(11)</b>
		<b>94</b>	6	-	<b>100</b>

**Adjustments**

**A. Overhead not eligible for capitalization (ineligible overhead)**

IFRS is more explicit than CGAAP with respect to the costs that may be included in the cost of a capital project. IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* do not permit the capitalization of overhead and administrative costs that are not directly attributable to a capital project. Consequently, Manitoba Hydro no longer capitalizes these costs.

In addition, under CGAAP, ineligible overhead recovered from customers was included in contributions in aid of construction and subsequently recognized over the service life of the related asset. Under IFRS, the ineligible overhead recovered from customers has been reclassified to other revenue.

For the year ended March 31, 2015, these changes had the following impacts on the statement of income:

Increase to other revenue	\$ 2 million
Increase to operating and administrative expense	\$57 million *

\* \$20 million of this increase to operating and administrative expense has been deferred as a regulatory deferral balance.

**B. Depreciation valuation**

IFRS is more specific than CGAAP with respect to the level of componentization by which assets can be grouped for determining depreciation. In order to comply with the componentization requirements of IAS 16, Manitoba Hydro changed from the ASL method of depreciation to the ELG method. The ELG method calculates depreciation with consideration of the different service lives for each of the assets within a component group. In addition to the change to the ELG method, Manitoba Hydro also eliminated the provision for asset decommissioning costs (negative salvage) that was previously included in depreciation rates under CGAAP. The provision represented a high level estimate of the costs to decommission an asset and was utilized to promote intergenerational equity in customer rate setting. The

inclusion of this provision in depreciation rates is not permitted under IFRS. For the year ended March 31, 2015, these changes had the following impacts:

Decrease to depreciation and amortization for the following:

Removal of negative salvage value	\$52 million
Depreciation valuation from ASL to ELG	(\$29) million**

\*\* This impact to depreciation and amortization expense has been deferred as a regulatory deferral balance.

### C. Pensions and benefits

#### *Pension adjustment*

IAS 19 *Employee Benefits* requires all cumulative actuarial gains and losses to be recognized in the opening balance of OCI. Under CGAAP these amounts were presented in loans and other receivables.

Under CGAAP, the corporation utilized the corridor method of amortization for actuarial gains and losses for the Manitoba Hydro Plan and the Enhanced Hydro Benefit Plan. The corridor approach has been eliminated under IAS 19 requiring immediate recognition of actuarial gains and losses in OCI in the period in which they occur.

Under IFRS, the expected return on plan assets is replaced by interest income calculated using the fair value of plan assets with the same discount rate used to measure the pension obligations. Under CGAAP, market-related values were used to estimate the expected return on plan assets and to apply experience gains and losses in the corridor calculation. This adjustment is reflected in retained earnings.

Under IAS 19, past service costs arise when an entity introduces a new defined benefit plan or change to the benefits payable. These improvements are recognized immediately in profit or loss whereas under CGAAP, these costs were deferred and

1 amortized. The requirements of IAS 19 were applied retrospectively with the  
2 adjustment reflected in retained earnings.

3  
4 Impact to the statement of income for the year ended March 31, 2015:

5  
6 Decrease to operating and administrative expense \$7 million

7  
8 *Benefits adjustment*

9  
10 There are some measurement differences for some of the post-employment benefit  
11 liabilities. Under IAS 19, employee service gives rise to an obligation regardless of  
12 whether the benefits are vested or unvested for the sick leave vesting and severance  
13 liabilities whereas under CGAAP, only legally vested liabilities are recorded. For the  
14 retiree health spending and long-term disability liabilities, actuarial gains and losses  
15 resulting from experience adjustments and changes in actuarial assumptions are  
16 deferred and amortized under CGAAP whereas under IFRS they are expensed as the  
17 occur.

18  
19 Impact to the statement of income for the year ended March 31, 2015:

20  
21 Increase to operating and administrative expense \$9 million

22  
23 **D. Regulatory deferral account balances**

24  
25 IFRS 14 *Regulatory Deferral Accounts* specifies the financial reporting requirements  
26 for regulatory deferral account balances that arise from rate-regulation. This  
27 standard requires the statement of income above net movement in regulatory  
28 balances to be presented in a manner that does not include the impacts of rate-  
29 regulation. As a result, additions to regulatory deferral balances have been expensed  
30 in the line items above net movement in regulatory balances and amortization has  
31 been removed. Consequently, the additions are ultimately deferred and  
32 amortization is recognized through net movement in regulatory balances. This  
33 presentation is intended to isolate the movement of regulatory deferral accounts to  
34 allow comparability with those entities not applying IFRS 14.

The following adjustments were made to the statement of income:

*Additions*

Additions to regulatory deferral balances relating to carrying costs have been presented in finance expense. Finance expense also includes the derecognition of deferred accretion on the perpetual obligation. These impacts resulted in a decrease to finance expense under IFRS of \$7 million for the year ended March 31, 2015.

Additions to regulatory deferral balances relating to deferred ineligible overhead resulted in an increase to the regulatory deferral balance of \$20 million as at March 31, 2015.

Additions to regulatory deferral balances relating to the change in depreciation method resulted in an increase to the regulatory deferral balance of \$29 million as at March 31, 2015.

Additions to regulatory deferral balances relating to the loss on disposal of assets originally recorded in property, plant and equipment resulted in an increase to depreciation and amortization of \$6 million for the year ended March 31, 2015.

Additions to Power Smart programs, site restoration and regulatory costs have been presented in other expenses resulting in an increase to other expenses of \$35 million for the year ended March 31, 2015.

*Amortization*

Amortization of regulatory deferral balances have been removed from depreciation and amortization under IFRS resulting in a decrease for the year ended March 31, 2015 of \$42 million.

Net movement in regulatory deferral balances was impacted by these required changes for the year ended March 31, 2015 as follows:

1

*Additions*

Finance expense	(7)
Operating and administrative expenses	20
Depreciation and amortization expense	35
Other expenses	35

---

*Amortization*

Depreciation and amortization expense	(42)
---------------------------------------	------

---

Net impact to net movement in regulatory deferral balances	41
--	----

---

2

**Reclassifications**

i. Arbitrage opportunities between wholesale energy markets

Arbitrage activities are presented in extraprovincial revenue to better reflect the substance of the transaction. This reclassification resulted in decreases in fuel and power purchased and extraprovincial revenue of \$16 million at March 31, 2015.

ii. Deferred revenue

Under IFRIC 18, contributions in aid of construction are initially recorded as deferred revenue and subsequently recognized in other revenue over the life of the related asset. Under CGAAP, amortization of contributions was recognized in depreciation and amortization. This reclassification resulted in an increase in other revenue of \$10 million for the year ended March 31, 2015 with a corresponding increase to depreciation and amortization.

iii. IAS 1 requires material items of income or expenses to be separately disclosed. Due to materiality, finance income and expense have been presented separately. This reclassification resulted in an increase in finance expense and a corresponding increase in finance income at March 31, 2015 of \$26 million.