

**RESPONSE TO DIRECTIVE #14 – BOARD ORDER 73/15**

**For the Quarter Ended September 30, 2016**

14. *Manitoba Hydro shall file quarterly updates regarding its Operation, Maintenance & Administration (OM&A) expenditures and the actual OM&A expenditures compared to Manitoba Hydro's target.*

Manitoba Hydro's Operating and Administrative (O&A) expenses for Electric Operations for the second quarter of 2016/17 was \$264.4 million, an increase of \$3.0 million or 1.2% over the second quarter of 2015/16. This nominal increase reflects that Manitoba Hydro continues to ensure O&A expenditures remain within reasonable levels. All business units continue to review existing processes and initiatives with the primary focus being to contain costs while realizing efficiencies where possible. As discussed in the 2014/15 & 2015/16 GRA and the 2016/17 Supplemental Filing, Manitoba Hydro committed to a reduction of 330 operational positions over the three year period 2014/15 through 2016/17. As of September 30, 2016, Manitoba Hydro has achieved a cumulative reduction of approximately 420 operational positions.

Cumulative O&A expenses for the period ending September 30, 2016 were 3.5% lower than forecast, or \$9.5 million. The primary drivers for this variance continued to be vacancies and a focus on cost containment. In addition, there was lower vegetation management work performed as a result of unfavourable weather conditions, lower bio-physical monitoring activities required at Wuskwatim due to unfavourable water conditions and wildlife patterns, as well as, lower consulting engagements, including the deferral of the security assessment program.

The following table provides a summary of Manitoba Hydro's actual and forecast O&A expenditures by cost element.

**ELECTRIC OPERATIONS**  
**OPERATING & ADMINISTRATIVE COSTS BY COST ELEMENT**  
**FOR THE SIX MONTH PERIOD ENDING SEPTEMBER 30, 2016**  
(in Thousands of Dollars)

	<b>2015/16 Actual</b>	<b>2016/17 Actual</b>	<b>2016/17 Forecast</b>	<b>Favourable (Unfavourable) Variance</b>
Wages & Salaries	\$253 013	\$260 337	\$265 311	\$4 974
Overtime	31 924	35 883	36 871	988
Employee Benefits	80 089	82 594	83 277	683
Employee Safety & Training	2 723	2 175	2 716	541
Travel Expenses	14 249	15 179	15 817	638
Motor Vehicle	13 839	14 100	14 115	16
Materials & Tools	13 279	14 012	13 497	(515)
Consulting & Professional Fees	7 134	7 306	8 038	732
Construction & Maintenance Services	8 891	8 298	9 773	1 474
Building & Property Services	13 150	13 649	12 887	(762)
Equipment Maintenance & Rentals	8 796	9 573	9 438	(136)
Consumer Services	2 493	2 723	2 747	24
Collection Costs	2 125	1 911	2 109	198
Customer & Public Relations	2 176	1 710	2 458	748
Sponsored Memberships	737	726	751	25
Office & Administration	6 787	7 118	7 313	194
Computer Services	544	530	548	18
Communication Systems	822	832	1 019	187
Research & Development Costs	838	788	1 016	228
Miscellaneous Expense	213	224	0	(224)
Contingency Planning	0	0	225	225
Corporate Recoveries	0	(427)	(385)	42
Operating Expense Recovery	(7 210)	(6 970)	(6 528)	442
Less: Capital Order Activities	(148 470)	(163 057)	(164 149)	(1 092)
Less: Capitalized Overhead	(12 411)	(11 393)	(11 636)	(242)
Less: O&A Charged to Gas Operations	(34 360)	(33 403)	(33 358)	45
<b>Total Electric O&amp;A</b>	<b>261 374</b>	<b>264 418</b>	<b>273 869</b>	<b>9 451</b>

**RESPONSE TO DIRECTIVE #14 – BOARD ORDER 73/15**

**For the Quarter Ended June 30, 2016**

14. *Manitoba Hydro shall file quarterly updates regarding its Operation, Maintenance & Administration (OM&A) expenditures and the actual OM&A expenditures compared to Manitoba Hydro's target.*

Manitoba Hydro's Operating and Administrative (O&A) expenses for Electric Operations for the first quarter of 2016/17 was \$135.1 million, an increase of \$2.9 million or 2.2% over the first quarter of 2015/16. This nominal change reflects that Manitoba Hydro continues to ensure its O&A expenditures are within reasonable levels. All business units continue to review existing processes and initiatives with the primary focus being to contain costs while realizing efficiencies where possible. As discussed in the 2014/15 & 2015/16 GRA and the 2016/17 Supplemental Filing, Manitoba Hydro committed to a reduction of 330 operational positions over the three year period 2014/15 through 2016/17. As of June 30, 2016, Manitoba Hydro has achieved a cumulative reduction of 410 operational positions.

Cumulative O&A expenses for the period ending June 30, 2016 were 2% lower than forecast, or \$2.8 million, primarily due to the delayed timing of various initiatives requiring external consulting services such as the electricity export price forecast, interconnection studies and the Arc Flash initiative. There were lower bio-physical monitoring activities required at Wuskwatim due to unfavourable water conditions and wildlife patterns. In addition, there were lower vegetation management requirements, and special maintenance such as Jenpeg Spillway Gate Cable Replacement, GS Crane Inspections, and Winnipeg River Dam Breach Study was delayed. The remaining favourable variance related to lower overall costs associated with vacancies and a focus on cost containment.

The following table provides a summary of Manitoba Hydro's actual and forecast O&A expenditures by cost element.

**ELECTRIC OPERATIONS**  
**OPERATING & ADMINISTRATIVE COSTS BY COST ELEMENT**  
**FOR THE THREE MONTH PERIOD ENDING JUNE 30, 2016**  
(in Thousands of Dollars)

	<b>2015/16 Actual</b>	<b>2016/17 Actual</b>	<b>2016/17 Forecast</b>	<b>Favourable (Unfavourable) Variance</b>
Wages & Salaries	\$125 878	\$129 542	\$130 430	\$889
Overtime	15 429	18 256	19 045	789
Employee Benefits	42 859	44 985	44 576	(409)
Employee Safety & Training	1 283	1 352	1 391	39
Travel Expenses	7 286	8 264	7 491	(773)
Motor Vehicle	7 079	6 850	7 439	589
Materials & Tools	6 938	7 539	6 613	(926)
Consulting & Professional Fees	3 978	2 730	3 747	1 017
Construction & Maintenance Services	2 910	2 970	3 952	982
Building & Property Services	6 447	6 193	6 164	(29)
Equipment Maintenance & Rentals	4 421	4 714	4 736	22
Consumer Services	1 262	1 279	1 261	(17)
Collection Costs	1 025	1 026	1 054	28
Customer & Public Relations	1 318	933	1 277	344
Sponsored Memberships	419	456	464	7
Office & Administration	3 182	3 488	3 498	10
Computer Services	343	196	298	102
Communication Systems	398	419	509	91
Research & Development Costs	362	267	286	19
Miscellaneous Expense	47	201	0	(201)
Contingency Planning	0	0	225	225
Corporate Recoveries	0	(195)	(280)	(86)
Operating Expense Recovery	(3 703)	(3 455)	(2 710)	744
Less: Capital Order Activities	(74 511)	(81 011)	(81 262)	(251)
Less: Capitalized Overhead	(5 955)	(5 381)	(5 574)	(193)
Less: O&A Charged to Gas Operations	(16 484)	(16 501)	(16 737)	(236)
<b>Total Electric OM&amp;A</b>	<b>132 211</b>	<b>135 118</b>	<b>137 893</b>	<b>2 775</b>

**RESPONSE TO DIRECTIVE #14 – BOARD ORDER 73/15**

14. *Manitoba Hydro shall file quarterly updates regarding its Operation, Maintenance & Administration (OM&A) expenditures and the actual OM&A expenditures compared to Manitoba Hydro's target.*

Manitoba Hydro's 2015/16 Operating and Administrative (O&A) expenses for Electric Operations was \$542.7 million, an increase of \$4.3 million or 0.8% over 2014/15 (restated for comparative purposes under IFRS). This demonstrates Manitoba Hydro's ongoing efforts to manage its O&A expenditures to below inflationary levels. The corporation has undertaken a number of initiatives to achieve both operating and capital cost savings, including reductions of operational positions, supply chain management initiatives and asset management strategies. As discussed in the 2014/15 & 2015/16 GRA and the 2016/17 Supplemental Filing, Manitoba Hydro committed to a reduction of 330 operational positions over a three year period, 2014/15 through 2016/17. As of March 31, 2016, Manitoba Hydro has achieved a cumulative reduction of 400 operational positions.

O&A expenses for 2015/16 were slightly higher than forecast primarily due to lower capitalization of overhead costs which reflects lower information technology and employee relocation costs due to cost containment measures. In addition, the corporation experienced an increase in bad debt expense following an analysis of uncollectible accounts and higher software license and maintenance contract expenditures. This is offset by cost containment initiatives resulting in a reduction of operational positions, overtime expenditures and other staffing related costs such as travel.

The following table provides a summary of Manitoba Hydro's actual and forecast O&A expenditures by cost element.

At pages 35-36 of Order 73/15, the PUB found that \$20 million of ineligible overheads resulting from the transition to IFRS should continue to be capitalized for rate-setting purposes. The O&A expense shown in the table below includes the \$20 million of ineligible overhead for 2014/15 and 2015/16, in accordance with the presentation requirements of IFRS. In accordance with IFRS 14 Regulatory Deferral Accounts, which provides guidance on accounting for the effects of rate regulation under IFRS, Manitoba Hydro has recorded the \$20 million of ineligible overheads as a regulatory deferral debit balance for the 2014/15 comparative year and the 2015/16 fiscal year. The resulting \$20 million increase in net income for 2014/15 and 2015/16 is included in the net movement of regulatory deferral account balances in the financial statements.

**ELECTRIC OPERATIONS**  
**OPERATING & ADMINISTRATIVE COSTS BY COST ELEMENT**  
**FOR THE YEARS ENDING MARCH 31**  
(in Thousands of Dollars)

	<b>2014/15 Actual*</b>	<b>2015/16 Actual</b>	<b>2015/16 Forecast</b>	<b>Favourable (Unfavourable) Variance</b>
Wages & Salaries	\$493 346	\$506 811	\$525 103	\$18 292
Overtime	69 541	67 982	71 099	3 117
Employee Benefits	166 854	159 363	160 329	966
Employee Safety & Training	5 041	5 177	5 197	20
Travel Expenses	29 625	28 732	31 652	2 920
Motor Vehicle	30 452	28 220	29 700	1 480
Materials & Tools	24 723	26 656	26 100	(556)
Consulting & Professional Fees	16 154	15 311	15 216	(95)
Construction & Maintenance Services	17 969	16 991	18 665	1 674
Building & Property Services	30 427	29 193	28 650	(543)
Equipment Maintenance & Rentals	17 118	18 750	16 210	(2 540)
Consumer Services	5 189	5 255	5 323	68
Collection Costs	4 890	5 748	4 078	(1 670)
Customer & Public Relations	5 027	4 896	5 308	412
Sponsored Memberships	1 550	1 703	1 581	(122)
Office & Administration	14 243	14 852	15 709	857
Computer Services	967	1 152	1 069	(83)
Communication Systems	1 705	1 736	1 928	192
Research & Development Costs	2 534	2 903	2 747	(156)
Miscellaneous Expense	450	1 108	0	(1 108)
Contingency Planning	0	0	(480)	(480)
Corporate Recoveries	0	(902)	0	902
Operating Expense Recovery	(15 115)	(14 880)	(13 703)	1 177
Less: Capital Order Activities	(290 899)	(300 426)	(318 517)	(18 091)
Less: Capitalized Overhead	(23 032)	(16 986)	(24 541)	(7 555)
Less: O&A Charged to Gas Operations	(70 355)	(66 607)	(66 691)	(84)
<b>Total Electric OM&amp;A</b>	<b>538 404</b>	<b>542 738</b>	<b>541 732</b>	<b>(1 006)</b>

\* 2014/15 restated for comparative purposes under IFRS