

WINNIPEG HYDRO QUICK FACTS

THE OFFER

Manitoba Hydro makes the following payments and commitments:

- Years 1 - 5 **\$25 million** per annum
6 - 9 **\$20 million** per annum
10TH in perpetuity **\$16 million** per annum
PLUS
\$1 million per annum in services* and
\$1 million to \$1.75 million per annum in new property
taxes **
- Provide employment guarantees to all affected employees;
- Continue participation in the Civic Employees Pension Plan for Winnipeg Hydro employees
- Assume all rights and obligations of a successor employer with respect to labor relations matters;
- Guarantee “Power Smart” saving \$ 800,000 annually
- Christmas lights \$ 200,000 annually
\$ 1 million annually *
- Build minimum 400,000 square foot building Downtown; **
- Allow continued access to Winnipeg Hydro conduits, ducts, poles, vaults, etc., and similar Manitoba hydro facilities to allow continued and uninterrupted use by the City for fiber optic cables;

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OVERVIEW

- ◆ Winnipeg Hydro was formed in 1906 and started operating in 1911.
- ◆ Winnipeg Hydro's serves 95,000 customers in a small pocket centrally located within the pre- 1972 boundaries of the City of Winnipeg. Approximately 84,000 of these are residential customers. The other 11,000 are business customers.
- ◆ Manitoba Hydro serves 403,000 customers throughout the province, of which 353,00 are residential and 50,000 are businesses. Manitoba Hydro is the 4th largest energy utility in Canada. It exports to Minnesota, Saskatchewan and Ontario.
- ◆ Winnipeg Hydro is both a generation and distribution business although it does not generate enough power to satisfy its needs. It must purchase approximately 60% of its power from Manitoba Hydro under a Power Sharing Agreement. That Agreement expired in March 2000 and is a source of ongoing negotiation between the City/Province.
- ◆ Electrical power is distributed from 24 substations. The distribution network is comprised of 658 kms. of overhead lines and 537 kms. of underground lines.

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INFRASTRUCTURE

- ◆ Winnipeg Hydro produces approximately 40% of its power needs through its generation facilities at Pointe du Bois and Slave Falls. It purchases its remaining power needs from Manitoba Hydro.
- ◆ Pointe du Bois was commissioned in 1911. Slave Falls was commissioned in 1931. Each produce half the energy generated by Winnipeg Hydro.
- ◆ The Pointe du Bois turbines need to be replaced, and significant costs are associated with introduction of higher performance Straflo turbines.
- ◆ Winnipeg Hydro successfully installed one demonstration Straflo generating unit at Pointe du Bois in November 1999.
- ◆ Winnipeg Hydro considered undertaking a \$256 million capital program, which included the installation of 15 additional Straflo generating units and substantial upgrades to the dam and powerhouse. The program was put on hold pending a new Power Sharing agreement. Two years of negotiations have not produced a satisfactory agreement.
- ◆ With the increased power generated, a new transmission line will be required to carry the power to the city. The new Pointe du Bois transmission line would cost an estimated \$45 million over an 8 year period.
- ◆ CIBC World Markets and Ernst & Young developed four different scenarios to determine how the proposed capital upgrades would impact the net profit of Winnipeg Hydro. The results: Winnipeg Hydro's annual profit (and its ability to transfer earnings to the tax-supported City budget) would be lower in the near term than it is currently under all four scenarios.
- ◆ Winnipeg Hydro contributes an average \$16 million to \$17 million annually to the City of Winnipeg tax-supported budget.

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THE POWER AGREEMENT

- ◆ Winnipeg Hydro relies on Manitoba Hydro to purchase approximately 60% of its power needs.
- ◆ Historically, a joint agreement allowed the two utilities to act as partners, which benefited the City. That agreement expired in March 2000.
- ◆ Brief History:

In 1955, the Manitoba Hydro-Electric Board, Manitoba Power Commission and the City of Winnipeg Hydro agreed to rationalize the distribution facilities in the Winnipeg area. City Hydro distribution facilities in the suburbs were sold to the Manitoba Power Commission and the properties in the City of Winnipeg formerly owned by the Winnipeg Electric Company (WEC) were sold to City Hydro. City Hydro's existing generating capacity could not meet the needs of the incremental loads acquired, and as a result it entered into a power sharing agreement with the Manitoba Hydro-Electric Board. Under the agreement, the two distribution systems were interconnected. Manitoba Hydro-Electric Board supplied City Hydro with the power required, and the two utilities shared in the pooled costs required for the generation and transmission of the electricity.

In 1961, Manitoba Hydro became responsible for the generation and distribution of electric power to all areas of the province except for the City of Winnipeg which would continue to be served by Winnipeg Hydro.

In 1972, the City of Winnipeg boundary was expanded to include the suburbs. The service area of Winnipeg Hydro remained the same as pre-amalgamation. The City of Winnipeg Act required all customers receiving electric service to be charged the same rates, regardless if they were being served by Winnipeg Hydro or Manitoba Hydro.

The Power Agreement forms the basis of the annual power bill which Winnipeg Hydro must pay to Manitoba Hydro each year for the additional power it requires over and above its generating capabilities.

When the Power Agreement was established in the 1950s the intent was ensuring that hydro-electric generating capacity was planned and developed efficiently within the Province of Manitoba. The basic concept was that the two electric utilities would be partners in the development of new generation capacity.

A portion of the Power Agreement cost is offset by export revenues. Revenue from electricity exported outside the province has become quite significant in recent years and is shared under the Agreement as a reduction in shared generation costs. Winnipeg Hydro's record profits earned in fiscal 1998 were a result in part of positive financial gains from export sales made by Manitoba Hydro.

- ◆ The power bill is also offset by an interest credit Manitoba Hydro calculates on the cumulative amount Winnipeg Hydro has paid as a contribution to the Contingency and General Reserve Provision. Winnipeg Hydro's balance of this contribution to the period ended March 31, 1998, was approximately \$65 million.

Financial uncertainty exists for the City as a result of the Power Agreement expiring in 2000.

Manitoba Hydro is unwilling to continue sharing export revenues with Winnipeg Hydro. This has resulted in the search for a more predictable revenue stream as outlined in the the Manitoba Hydro offer.