

# The Manitoba Hydro-Electric Board

## Q U A R T E R L Y   R E P O R T

*for the three months ended June 30, 2010*



## FINANCIAL OVERVIEW

Manitoba Hydro incurred a net loss on consolidated electricity and natural gas operations of \$15 million for the first three months of the 2010–11 fiscal year compared to net income of \$13 million for the same period last year. The net loss was comprised of a \$4 million loss in the electricity sector and an \$11 million loss in the natural gas sector. The loss in the electricity sector reflects reduced volumes in export markets mainly due to lower water flows in the early spring, warmer weather resulting in a lower heating load and reduced power demand due to economic conditions. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and will be recouped over the winter heating season.

Manitoba Hydro entered the 2010–11 fiscal year with above average water storage levels but below normal spring runoff. Recent precipitation has more than compensated for low spring runoff and it is expected that hydraulic generation and financial results will improve substantially over the coming months. Based on current conditions, Manitoba Hydro is forecasting that net income will improve over the balance of the fiscal year and should exceed \$100 million by March 31, 2011.

### *Electricity Operations*

Revenues from electricity sales within Manitoba totalled \$272 million for the three-month period, a decrease of \$10 million or 4% lower than the same three-month period last year. The decrease in domestic revenue was attributable to warmer weather resulting in a lower heating load and reduced power consumption due to economic conditions. Extraprovincial revenues of \$92 million were \$17 million or

16% lower than the same period last year reflecting reduced sales volumes in the export markets. Energy sold in the export market was 2.1 billion kilowatt-hours compared to the 2.7 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totalled \$368 million for the three-month period which was the same as the prior year. Operating and administrative costs increased by \$6 million as a result of higher labour and benefit costs and reduced capitalized overhead. Depreciation and amortization increased \$3 million as a result of additions to capital assets over the past year. These cost increases were offset by decreases of \$6 million in finance expense and \$3 million in water rentals and assessments. The decrease in finance expense was primarily the result of lower floating interest rates and a stronger Canadian dollar partially offset by higher volumes of long-term debt. The decrease in water rentals and assessments is due to decreased hydraulic generation.

Capital expenditures for the three-month period amounted to \$276 million compared to \$271 million for the same period last year. The increase was mainly the result of planning and construction activities related to new generation. Expenditures during the current fiscal year included \$109 million for Wuskwatim generation and transmission, \$19 million related to future Conawapa and Keeyask generation, \$10 million for Bipole III projects, \$9 million for upgrades to the Kelsey Generating Station, \$11 million for the Riel Station and \$7 million for demand-side management programs. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province.

### *Natural Gas Operations*

In the natural gas sector, a net loss of \$11 million was incurred for the three-month period compared to a \$10 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$24 million which was \$3 million lower than the same period last year. The decrease in revenues was primarily attributable to reduced weather-related demand over the three-month period. Delivered gas volumes were

291 million cubic metres compared to 367 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$35 million which was \$2 million lower than the expenses incurred in the prior year. The decrease was mainly attributable to lower property taxes and depreciation and amortization.

Capital expenditures in the natural gas sector were \$7 million for the current three-month period compared to \$8 million for the same period last year. Capital expenditures included \$5 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and \$2 million for demand-side management programs.

### *Wind Development — St. Joseph Wind Farm*

Construction on a 138-megawatt wind farm near St. Joseph, owned by Pattern Energy and operated by St. Joseph Wind Farm Inc., began in 2010. Manitoba Hydro will purchase the output of the wind farm in accordance with the power purchase agreement signed in March 2010. Pattern Energy will invest \$95 million and Manitoba Hydro will lend the project up to \$260 million to be repaid with interest over 20 years. The first wind turbines are expected to produce electricity by the end of 2010 with completion expected in the spring of 2011 resulting in 60 wind turbines each producing up to 2.3 MW.

### *Power Sale to Xcel Energy*

In April 2010 Manitoba Hydro and Xcel Energy agreed to an electricity export arrangement for 2015 to 2025. Worth more than \$3 billion, the deal replaces a 500-megawatt sale that expires in 2015. The new agreements provide for the sale by Manitoba Hydro of 375 megawatts that can be increased to 500 megawatts starting in 2021 subject to construction of the Conawapa Generating Station. The agreements also extend a 350-megawatt seasonal diversity exchange of power until 2025. The seasonal diversity agreement allows the two utilities to exchange electricity based on a summer demand peak in the United States and a winter demand peak in Manitoba.

### *Risk Management Review*

During the past year, the Manitoba Hydro-Electric Board undertook a comprehensive review of the risks facing the Corporation. KPMG was engaged to assist the Board in its review and in a report dated April 15, 2010, KPMG concluded that, “Overall, in the context of its hydroelectric power operations, Manitoba Hydro is following sound practices in the use of forecasting models, long-term power sales contracting, risk governance, and power risk management.”

### *Manitoba Hydro Receives Safety Awards*

Manitoba Hydro has recently been recognized both nationally and locally with two safety awards. The first award from the Canadian Gas Association (CGA) acknowledged Manitoba Hydro for posting the best annual safety record among natural gas distribution companies in Canada.

The second award, the Health and Safety award, was presented by the Human Resource Management Association of Manitoba. This award recognizes highly successful occupational health and safety programs which foster a safe work environment while making a significant contribution to the success of the organization.

### *Manitoba Hydro Ranks Highest in Customer Satisfaction*

Manitoba Hydro scored the highest customer satisfaction rating among the eight largest utilities in Canada according to a recent survey conducted by J.D. Power and Associates. Manitoba Hydro scored especially high in power quality, reliability, price, corporate citizenship and communications. This is the second time in three years that Manitoba Hydro has received the highest ranking among energy utilities in Canada.

### *Manitoba Hydro Receives ENERGY STAR Award*

Manitoba Hydro was recognized by Natural Resources Canada as the “ENERGY STAR Participant of the Year” for 2010. Manitoba Hydro received the award in recognition of its wide range of Power Smart\* residential and commercial programs and products.

\*Manitoba Hydro is a licensee of the Trademark and Official Mark.



**Victor H. Schroeder, QC**

Chairman of the Board



**R. B. Brennan, FCA**

President and  
Chief Executive Officer

August 15, 2010

## Consolidated Statement of Income

*In Millions of Dollars (Unaudited)*

	<i>Three Months Ended June 30</i>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>		
Electric – Manitoba	272	282
– Extraprovincial	92	109
Gas – Commodity	33	53
– Distribution	24	27
	<u>421</u>	<u>471</u>
Cost of gas sold	<u>33</u>	<u>53</u>
	<u>388</u>	<u>418</u>
<b>Expenses</b>		
Operating and administrative	120	114
Finance expense	110	116
Depreciation and amortization	99	98
Water rentals and assessments	25	28
Fuel and power purchased	26	25
Capital and other taxes	<u>23</u>	<u>24</u>
	<u>403</u>	<u>405</u>
<b>Net Income (Loss)</b>	<u>(15)</u>	<u>13</u>

## Consolidated Balance Sheet

*In Millions of Dollars (Unaudited)*

	<i>As at June 30</i>	<i>As at June 30</i>
	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Capital assets	10 325	9 559
Current assets	682	736
Other assets	848	817
	<u>11 855</u>	<u>11 112</u>
<b>Liabilities and Equity</b>		
Long-term debt (net)	7 623	7 109
Current liabilities	820	975
Other liabilities	659	641
Contributions in aid of construction	312	294
Retained earnings	2 224	2 090
Accumulated other comprehensive income	217	3
	<u>11 855</u>	<u>11 112</u>

## Consolidated Cash Flow Statement

*In Millions of Dollars (Unaudited)*

	<i>Three Months Ended June 30</i>	
	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Cash receipts from customers	510	586
Cash paid to suppliers and employees	(260)	(304)
Net interest	(130)	(139)
	<u>120</u>	<u>143</u>
<b>Financing Activities</b>	253	242
<b>Investing Activities</b>	<u>(307)</u>	<u>(325)</u>
<b>Net increase in cash</b>	66	60
<b>Cash at beginning of period</b>	<u>174</u>	<u>159</u>
<b>Cash at end of period</b>	<u>240</u>	<u>219</u>

## Segmented Information

*In Millions of Dollars (Unaudited)*

<i>Three Months Ended June 30</i>	<b>Electricity</b>		<b>Gas</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenue (net of cost of gas sold)</b>	364	391	24	27	388	418
<b>Expenses</b>	368	368	35	37	403	405
<b>Net Income (Loss)</b>	(4)	23	(11)	(10)	(15)	13
<b>Total Assets</b>	11 322	10 552	533	560	11 855	11 112

## Generation and Delivery Statistics

*Three Months Ended  
June 30*

	<b>2010</b>	<b>2009</b>
<b>Electricity in gigawatt-hours</b>		
Hydraulic generation	6 998	7 974
Thermal generation	18	25
Scheduled energy imports	132	37
Wind purchase (MB)	86	88
Total system supply	7 234	8 124
<b>Gas in millions of cubic metres</b>		
Gas sales	136	172
Gas transportation	155	195
	291	367

For further information contact:  
Public Affairs  
Manitoba Hydro  
PO Box 815 STN Main  
Winnipeg, Manitoba, Canada  
R3C 2P4  
Telephone: 1-204-360-3233



*Cover: Over 2 000 employees work at Manitoba Hydro Place, located at 360 Portage Ave. in Winnipeg.*