

# 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, 2014*



*Comments by*

THE CHAIR OF THE BOARD

*and by*

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

## FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was \$7 million for the first three months of the 2014-15 fiscal year compared to a net loss of \$5 million for the same period last year. The improved financial performance was primarily attributable to increased domestic sales revenues due to an increase in electricity rates and lower expenses.

Consolidated net income was comprised of a \$14 million profit in the electricity sector and a \$7 million loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and is expected to be recouped over the winter heating season.

Based on the continuation of current water flow and export market conditions, Manitoba Hydro is forecasting that financial results will improve over the balance of the fiscal year and net income should exceed \$60 million by March 31, 2015.

### *Electricity Operations*

Revenues from electricity sales within Manitoba totaled \$329 million for the three-month period, which was \$7 million or 2% higher than same period last year. The increase in domestic revenue was attributable to electricity rate increases. Extraprovincial revenues of \$111 million were \$3 million or 3% lower than the same period last year reflecting lower sales volumes as a result of a U.S. transmission line outage, partially offset by favourable foreign exchange rates on U.S. sales. Energy sold in the export market was 2.9 billion kilowatt-hours compared to 3.1 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled \$432 million for the three-month period, a decrease of \$7 million or 2% lower than the same period last year. The decrease was the net result of a \$3 million reduction in operating and

administrative costs, a \$3 million decrease in other expenses, a \$2 million decrease in finance expense, a \$1 million decrease in water rentals and assessments, a \$1 million decrease in fuel and power purchased costs, partially offset by a \$1 million increase in depreciation and amortization expense and a \$1 million increase in capital and other taxes.

The net loss attributable to non-controlling interest represents Taskinagahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first three months of the 2014-15 fiscal year.

Capital expenditures for the three-month period amounted to \$379 million compared to \$277 million for the same period last year. Expenditures during the current period included \$136 million related to future Keeyask and Conawapa generation, \$55 million for Bipole III projects, \$52 million for Pointe du Bois projects, \$11 million for Riel Station, and \$6 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 \$7 million was incurred for the three-month period, which is the same as the comparable period last year. Revenue, net of cost of gas sold, was \$29 million, which is identical to the same period last year. Delivered gas volumes were 379 million cubic metres compared to 400 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$36 million compared, which is the same as the comparable period last year.

Capital expenditures in the natural gas sector were \$8 million for the current three-month period compared to \$10 million for the same period last year. Capital expenditures included \$6 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province and \$2 million related to demand-side management programs.

## *Keeyask Generation Project Approved*

In May 2014 the Minister of Conversation and Water Stewardship released the Manitoba Clean Environment Commission's (CEC) report on the Keeyask Generation Project, which recommended the project be issued a license under the Manitoba Environment Act. The CEC report made a number of licensing and non-licensing recommendations for the construction and operation of the project.

The Province of Manitoba issued an Environment Act License for Keeyask and released the Public Utilities Board Panel report on the Needs For and Alternatives To (NFAT) review of Manitoba Hydro's Preferred Development Plan on July 2, 2014. The NFAT review panel recommended proceeding with immediate construction of Keeyask to meet domestic and export requirements as well as a new transmission interconnection to the United States, which will enhance export capability, drought support and reliability.

On July 5, 2014 the Province approved an Interim Water Power Act License for Keeyask. The Department of Fisheries and Oceans granted Fisheries Act Authorization on July 15, 2014. Following receipt of all required approvals, construction began on the Keeyask Generating Station on July 16, 2014.

The \$6.5 billion, 695-megawatt Keeyask Generating station is being developed by Manitoba Hydro in partnership with four Manitoba First Nations — Tataskweyak Cree Nation, War Lake First Nation, Fox Lake First Nation and York Factory First Nation. The generating station will be located on the Nelson River approximately 30 kilometres west of Gillam, within the Split Lake Resource Management Area. The first generator unit in-service date is targeted for 2019 with all units being commissioned by 2020.

## *Electricity Rate Increase*

Electricity rates for all customer classes increased by approximately 2.75% effective May 1, 2014. The Public Utilities Board directed that 2.0% of the 2.75% increase be included in general revenues and that 0.75% of the increase be used to mitigate rate increases when Bipole III comes into service.

The rate increase was necessary to provide sufficient revenues for the corporation to meet its ongoing cost of operations and support ongoing reliability of electricity service. Even with the rate increase, electricity customers in Manitoba continue to benefit from one of the lowest electricity rate structures in North America.

## *Natural Gas Rate Increase*

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers increased on May 1, 2014 by 4.6% or approximately \$38 per year. Rate increases for larger volume customers ranged from 5.3% to 9.4% depending on the customer class and consumption levels.



***William Fraser, FCA***  
Chair of the Board

A handwritten signature in black ink, appearing to read "W. Fraser".



***Scott Thomson, CA***  
President and  
Chief Executive Officer  
August 15, 2014

A handwritten signature in black ink, appearing to read "Scott Thomson".

## Consolidated Statement of Income

*In Millions of Dollars (Unaudited)*

	<i>Three Months Ended June 30</i>	
	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Electric – Manitoba	329	322
– Extraprovincial	111	114
Gas – Commodity	40	32
– Distribution	29	29
	<u>509</u>	<u>497</u>
Cost of gas sold	40	32
	<u>469</u>	<u>465</u>
<b>Expenses</b>		
Operating and administrative	132	135
Finance expense	123	125
Depreciation and amortization	112	110
Water rentals and assessments	29	30
Fuel and power purchased	36	37
Capital and other taxes	30	29
Other expenses	6	9
	<u>468</u>	<u>475</u>
Net Income (Loss) before non-controlling interest	1	(10)
Net Loss attributable to non-controlling interest	6	5
<b>Net Income (Loss)</b>	<u>7</u>	<u>(5)</u>

## Consolidated Balance Sheet

*In Millions of Dollars (Unaudited)*

	<i>As at June 30</i>	<i>As at June 30</i>
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Capital assets	13 922	12 707
Current assets	782	551
Other assets	1 154	1 120
	<u>15 858</u>	<u>14 378</u>
<b>Liabilities and Equity</b>		
Long-term debt (net)	10 800	8 936
Current liabilities	865	1 474
Other liabilities	854	773
Contributions in aid of construction	390	346
Non-controlling interest	67	90
Retained earnings	2 723	2 537
Accumulated other comprehensive income	159	222
	<u>15 858</u>	<u>14 378</u>

## Consolidated Cash Flow Statement

*In Millions of Dollars (Unaudited)*

*Three Months Ended  
June 30*

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Cash receipts from customers	639	574
Cash paid to suppliers and employees	(458)	(289)
Net interest	(147)	(150)
	<u>34</u>	<u>135</u>
<b>Financing Activities</b>	362	188
<b>Investing Activities</b>	<u>(390)</u>	<u>(333)</u>
<b>Net increase (decrease) in cash</b>	6	(10)
<b>Cash at beginning of period</b>	<u>142</u>	<u>32</u>
<b>Cash at end of period</b>	<u><u>148</u></u>	<u><u>22</u></u>

## Consolidated Statement of Comprehensive Income

*In Millions of Dollars (Unaudited)*

*Three Months Ended  
June 30*

	<b>2014</b>	<b>2013</b>
<b>Net Income (Loss)</b>	<u>7</u>	<u>(5)</u>
<b>Other Comprehensive Income (Loss)</b>		
Unrealized foreign exchange gains (loss) on debt in cash flow hedges	62	(71)
Unrealized fair value losses on available-for-sale U.S. sinking fund investments	-	(6)
	<u>62</u>	<u>(77)</u>
<b>Comprehensive Income (Loss)</b>	<u><u>69</u></u>	<u><u>(82)</u></u>

## Segmented Information

*In Millions of Dollars (Unaudited)*

<i>Three Months Ended</i>	<b>Electricity</b>		<b>Gas</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<i>June 30</i>						
<b>Revenue (net of cost of gas sold)</b>	440	436	29	29	469	465
<b>Expenses</b>	432	439	36	36	468	475
<b>Net Income (Loss) before non-controlling interest</b>	8	(3)	(7)	(7)	1	(10)
<b>Net Loss attributable to non-controlling interest</b>	6	5	-	-	6	5
<b>Net Income (Loss)</b>	14	2	(7)	(7)	7	(5)
<b>Total Assets</b>	15 180	13 778	678	600	15 858	14 378

## Generation and Delivery Statistics

*Three Months Ended*  
*June 30*

	<b>2014</b>	<b>2013</b>
<b>Electricity in gigawatt-hours</b>		
Hydraulic generation	8 437	8 536
Thermal generation	5	24
Scheduled energy imports	28	38
Wind purchases (MB)	233	228
Total system supply	8 703	8 826
<b>Gas in millions of cubic metres</b>		
Gas sales	196	201
Gas transportation	183	199
	379	400

For further information contact:

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*Cover: Manitoba Hydro crews helped with sandbag production and other flood fighting measures this past spring and summer across Manitoba.*