

The Manitoba Hydro-Electric Board

Quarterly Report

for the three months ended
June 30, 2019





Report from **The Chair of the Board** and by **The President and Chief Executive Officer**

Financial Overview

Manitoba Hydro's consolidated net loss was \$19 million for the first three months of the 2019-20 fiscal year compared to a net loss of \$9 million for the same period last year. The increase in the net loss is primarily attributable to higher net financing costs and higher depreciation due to the impact of Bipole III going into service in July 2018 as well as lower domestic electric revenues mainly as a result of lower customer usage and weather impacts. These impacts were partially offset by the amortization of the Bipole III deferral into income and an increase in net export revenues as a result of favourable water conditions. The cost of natural gas is a flow through cost passed onto customers through rates approved by the Public Utilities Board (PUB) and therefore is not a driver for the increase in net loss compared to the prior year.

The consolidated net loss was comprised of an \$11 million net loss in the electric segment, an \$8 million loss in the natural gas segment, a \$1 million net profit in the other segment and a \$1 million loss impact in adjustments and eliminations. Of the \$11 million net loss in the electric segment, nil is attributable to non-controlling interest. The non-controlling interest represents Taskinighap Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first three months of the 2019-20 fiscal year. The losses in the electric and natural gas segments are expected to be recouped over the winter heating season.

Manitoba Hydro's budgeted net income for 2019-20 is \$121 million; however Manitoba Hydro is currently projecting net income to be approximately \$90 million. The lower expected net income factors in the impact of the PUB's decision to grant a 2.5% rate increase rather than the requested 3.5% rate increase and to assign all of the awarded rate increase to a major capital deferral account. The impact of the PUB decision was partially offset by favourable water conditions for the first three months. The projection for the remainder of the year assumes average water flow conditions and normal winter weather.

Electric Segment

Revenues from electricity sales within Manitoba totaled \$366 million for the three-month period, which was \$8 million or 2% lower than the same period last year. The decrease in domestic revenue was primarily attributable to lower customer usage and the impacts of weather, partially offset by the impact of rate increases. Extraprovincial revenues of \$127 million were \$11 million or 9% higher than the same period last year reflecting higher U.S. opportunity volumes primarily as a result of higher generation due to more favourable water conditions compared to 2018-19, partially offset by lower export prices. Overall, energy sold in the export market was 2.5 billion kilowatt-hours compared to 1.8 billion kilowatt-hours sold in the same period last year. Other revenues of \$7 million were consistent with the prior year.

Expenses attributable to electric operations totaled \$541 million for the three-month period. This represented an increase of \$60 million or 12% as compared to the same period last year. The increase was primarily due to a \$39 million increase in net finance expense and a \$20 million increase in depreciation largely due to Bipole III going into service.

The net loss before net movement in regulatory balances was \$41 million. The net movement in regulatory balances captures the timing differences of revenues and expenses for financial reporting purposes and those amounts approved by the PUB for rate-setting purposes. After considering the net movement of \$30 million in the regulatory deferral balances, there is a net loss of \$11 million. The increase of \$51 million in net movement in regulatory deferral balances was largely due to historical rate increases no longer being deferred and the current year impact of the amortization of the Bipole III reserve into income.

Expenditures for capital construction for the three-month period amounted to \$486 million compared to \$574 million for the same period last year. The decrease is primarily the result of the in-service of Bipole III. Expenditures for the current period included \$336 million related to construction of the Keeyask Project, \$20 million for the Bipole III Reliability Project and \$17 million for the Manitoba-Minnesota Transmission Project (MMTP). The remaining capital expenditures were predominantly incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred \$11 million for electric demand side management programs.

Natural Gas Segment

The net loss in the natural gas segment was \$8 million for the three-month period which is consistent with the net loss for the same period last year. Gross margin increased \$2 million over the prior year primarily due to the impact of the unaccounted for gas (UFG) true up and changes in the purchased gas variance accounts. The UFG true up recognizes differences in the estimated pipeline losses compared to actual pipeline losses. The changes in the purchased gas variance accounts were offset through net movement in regulatory balances and therefore the impact in net income was minimal. Delivered gas volumes were 369 million cubic metres compared to 377 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold and including net movement amounted to \$39 million compared to \$37 million for the same period last year. The increase in expenses is primarily attributable to an increase in city and property taxes and depreciation and amortization expense as a result of new plant being placed into service.

The net loss before net movement in regulatory balances is \$7 million. After considering the net movement of \$1 million in the regulatory balances, there is a net loss of \$8 million.

Capital expenditures in the natural gas segment were \$6 million for the current three-month period compared to \$7 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The corporation also incurred \$2 million for gas demand side management programs.

Other Segment

The other segment includes Manitoba Hydro International Ltd., Manitoba Hydro Utility Services, Minell Pipelines Ltd. and Teshmont Holdings Ltd. The net income was \$1 million in the other segment for the three-month period which is consistent with the same period last year. Revenue was \$12 million compared to \$14 million for the same period last year. Expenses attributable to the other segment amounted to \$11 million which was \$2 million lower than the prior year. The decrease in both revenue and expenses is primarily due to fewer projects undertaken at Manitoba Hydro International Ltd. compared to the prior year.

There is also a \$1 million net loss impact in adjustments and eliminations which represents depreciation of the gas meter change program which was previously capitalized on consolidation.

Public Utilities Board Approves 2.5% Rate Increase to Electricity Rates

On May 29, 2019, the PUB granted Manitoba Hydro a 2.3% revenue increase resulting in a 2.5% rate increase for most customer classes, effective June 1, 2019. PUB Order 69/19 related to Manitoba Hydro's 2019-20 Electric General Rate Application (GRA), in which Manitoba Hydro had requested a 3.5% rate increase.

The PUB Order directed all revenue from the rate increase to be placed in a deferral account to aid in mitigating future rate increases associated with the future in-service of major capital projects (e.g. Keeyask Generating Station) currently under construction.

The 2.5% rate increase is estimated to result in a \$2.34 increase in the monthly bill of a residential customer without electric space heat (using 1 000 kilowatt-hours per month), and a \$4.47 increase in the monthly bill for a residential customer with electric space heat (using 2 000 kilowatt-hours per month).

Federal Government Approves Manitoba-Minnesota Transmission Project

On June 14, 2019, the Government of Canada, acting on the National Energy Board's recommendation, approved the MMTP. Based on the approval, the National Energy Board issued a certificate for the project, outlining conditions of approval to be met before construction begins on the project. The Province of Manitoba issued an Environment Act Licence for the project April 4, 2019.

The MMTP will improve the reliability of Manitoba Hydro's system by doubling the capability to import electricity from the U.S. in the event of emergencies, such as an extended transmission outage or prolonged drought. Additionally, the MMTP will increase Manitoba Hydro's access to U.S. markets to export surplus electricity.

In addition to improved reliability for customers, the project will reduce greenhouse gas emissions by approximately three million tonnes by displacing production from coal-fired generation and other sources of electricity. It will also support a minimum of 20% of construction contracts that involve purchases from Indigenous suppliers, contracts with Indigenous subcontractors, and the employment and training of Indigenous peoples.

The scheduled in-service date for MMTP is June 2020. Risks remain on the project, for example associated with extreme weather conditions such as very heavy, prolonged rains or an unusually warm winter, or unforeseen technical issues, which could impact both construction schedule and budget.

Manitoba Hydro is Recognized as a National Leader in Environmental Responsibility and Corporate Citizenship

In the first quarter, Manitoba Hydro was recognized for an eighth year in a row for its commitment to protecting the environment when it was named as one of Canada's Greenest Employers by Canada's Top 100 Employers project at Mediacorp Canada Inc. The utility was also listed as one of Canada's Top 50 Corporate Citizens by Corporate Knights.

Both organizations recognized Manitoba Hydro because most of the electricity it produces comes from self-renewing hydroelectric power. With wind, solar and geothermal added to the utility's renewable portfolio, the corporation has voluntarily reduced its own greenhouse gas emissions by 6% below 1990 levels.

Manitoba Hydro was selected as one of Canada's Greenest Employers for being a national leader for creating a culture of environmental awareness for employees and customers. Criteria for selection included unique environmental initiatives and programs; success in reducing the organization's environmental footprint; involvement of employees in environmental initiatives; and the extent these initiatives are linked to the corporation's public identity.

Other reasons for the recognition included the urban honey bee apiary, that produces over 180 kilograms of honey each year, on the green roof of Manitoba Hydro's LEED Platinum-Certified downtown head office; the corporation's support of the employee-led Green Commuting Options Committee that promotes bicycling commuting; and Manitoba Hydro's Forest Enhancement Program in which over 128 000 trees have been planted in support of over 1 000 community projects since 1995.

Canadian Electricity Association Recognizes Manitoba Hydro for Electricity Innovation

On May 14, 2019, Manitoba Hydro earned two awards at the Canadian Electricity Association's (CEA) 2019 Centre of Excellence ceremony in Ottawa. The awards recognize cutting-edge development in the way electricity is produced, delivered and consumed, utility customer service, and highlight transformational progress in how electricity brings economic, social and environmental benefits to all Canadians.

The first Manitoba Hydro project selected by the CEA — Controlled Switching for Energizing Large Transformers — addressed the challenge of energizing large transformers that contain residual magnetic fields. Energizing transformers can draw large currents, known as 'inrush' currents, and cause significant sustained voltage depressions and harmonics that can lead to flickering lights, equipment damage, and even widespread outages. In the past, specialized equipment was added to these large transformers to control — but not eliminate — these issues. This specialized equipment resulted in higher initial transformer costs and increased ongoing maintenance costs.

To fully solve this issue and reduce costs, Manitoba Hydro staff investigated the application of controlled switching (also known as Point-on-Wave switching). The team developed and applied state of the art transformer modelling techniques and were able to safely energize a large transformer (1200 mega volt amp), and two HVDC converter transformers connected in a parallel using controlled switching — a world first. Applied system-wide, this new technique will result in significantly lower operating and maintenance costs, while offering enhanced reliability and service to customers.

The second Manitoba Hydro project to be recognized by the CEA was the Advanced Probability Tool for Risk-Based Planning/Prioritization of Transmission Investments. The Manitoba Hydro team on this project developed a System Reliability Risk Model, a new probabilistic method that simulates the performance of the transmission system with and without the proposed investments. Then, it calculates the benefit of each option to system reliability and the provincial economy as a whole.

The result is that transmission investments are made more strategically, providing greater benefits to customers, the utility and the province as a whole. The project has attracted interest from several utilities, including The Centre for Energy Advancement through Technological Innovation.



Marina R. James

Chair of the Board

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Jay Grewal

President and
Chief Executive Officer

August 14, 2019

A handwritten signature in black ink, appearing to be 'Jay Grewal'.

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

Three Months Ended
June 30

| | 2019 | 2018 |
|--|-------------|-------------|
| Revenues | | |
| Domestic – Electric | 366 | 374 |
| – Gas | 69 | 54 |
| Extraprovincial | 127 | 116 |
| Other | 16 | 19 |
| | <u>578</u> | <u>563</u> |
| Expenses | | |
| Cost of gas sold | 39 | 26 |
| Operating and administrative | 149 | 140 |
| Finance expense (net) | 193 | 154 |
| Depreciation and amortization | 128 | 108 |
| Water rentals and assessments | 29 | 27 |
| Fuel and power purchased | 22 | 26 |
| Capital and other taxes | 42 | 40 |
| Other expenses | 24 | 32 |
| | <u>626</u> | <u>553</u> |
| Net income (loss) before net movement in regulatory balances | (48) | 10 |
| Net movement in regulatory balances | 29 | (21) |
| Net Loss | <u>(19)</u> | <u>(11)</u> |
| Net loss attributable to: | | |
| Manitoba Hydro | (19) | (9) |
| Non-controlling interest | - | (2) |
| | <u>(19)</u> | <u>(11)</u> |

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

| | As at June 30 | As at March 31 | As at June 30 |
|---|------------------|-------------------|------------------|
| | 2019 | 2019 | 2018 |
| Assets | | | |
| Current assets | 1 550 | 1 470 | 1 442 |
| Property, plant and equipment | 24 010 | 23 627 | 22 474 |
| Non-current assets | 1 256 | 1 202 | 996 |
| Total assets before regulatory deferral balance | 26 816 | 26 299 | 24 912 |
| Regulatory deferral balance | 1 144 | 1 132 | 1 061 |
| | <u>27 960</u> | <u>27 431</u> | <u>25 973</u> |
| Liabilities and Equity | | | |
| Current liabilities | 1 580 | 1 022 | 1 676 |
| Long-term debt | 21 242 | 21 303 | 19 298 |
| Other non-current liabilities | 1 667 | 1 664 | 1 605 |
| Deferred revenue | 537 | 522 | 497 |
| Non-controlling interest | 270 | 254 | 217 |
| Retained earnings | 3 023 | 3 042 | 2 927 |
| Accumulated other comprehensive loss | (748) | (781) | (710) |
| Total liabilities and equity before regulatory deferral balance | 27 571 | 27 026 | 25 510 |
| Regulatory deferral balance | 389 | 405 | 463 |
| | <u>27 960</u> | <u>27 431</u> | <u>25 973</u> |

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

| | 2019 | 2018 |
|-----------------------------|-------------------|-------------------|
| Operating Activities | (29) | (127) |
| Investing Activities | (499) | (532) |
| Financing Activities | <u>543</u> | <u>835</u> |
| Net increase in cash | 15 | 176 |
| Cash at beginning of period | <u>900</u> | <u>642</u> |
| Cash at end of period | <u><u>915</u></u> | <u><u>818</u></u> |

Consolidated Statement of Comprehensive Income (Loss)

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

| | 2019 | 2018 |
|---|------------------|--------------------|
| Net loss attributable to Manitoba Hydro | <u>(19)</u> | <u>(9)</u> |
| Other Comprehensive Income (Loss) | | |
| Items that will be reclassified to income | | |
| Unrealized foreign exchange gains (losses) on debt in cash flow hedges | 24 | (29) |
| Items that have been reclassified to income | | |
| Realized foreign exchange losses on debt in cash flow hedges | 8 | 6 |
| | <u>32</u> | <u>(23)</u> |
| Comprehensive Income (Loss) attributable to Manitoba Hydro | <u><u>13</u></u> | <u><u>(32)</u></u> |

Segmented Information

In Millions of Dollars (Unaudited)

| | Electric segment | | Natural gas segment | | Other segment | | Eliminations | | Total | |
|--|------------------|------------|---------------------|------------|---------------|----------|--------------|----------|-------------|-------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| <i>Three Months Ended June 30</i> | | | | | | | | | | |
| Revenue | 500 | 497 | 69 | 55 | 12 | 14 | (3) | (3) | 578 | 563 |
| Expenses | 541 | 481 | 76 | 63 | 11 | 13 | (2) | (4) | 626 | 553 |
| Net income (loss) before net movement in regulatory balances | (41) | 16 | (7) | (8) | 1 | 1 | (1) | 1 | (48) | 10 |
| Net movement in regulatory balances | 30 | (21) | (1) | - | - | - | - | - | 29 | (21) |
| Net Income (Loss) | <u>(11)</u> | <u>(5)</u> | <u>(8)</u> | <u>(8)</u> | <u>1</u> | <u>1</u> | <u>(1)</u> | <u>1</u> | <u>(19)</u> | <u>(11)</u> |
| Net income (loss) attribute to: | | | | | | | | | | |
| Manitoba Hydro | (11) | (3) | (8) | (8) | 1 | 1 | (1) | 1 | (19) | (9) |
| Non-controlling interest | - | (2) | - | - | - | - | - | - | - | (2) |
| | <u>(11)</u> | <u>(5)</u> | <u>(8)</u> | <u>(8)</u> | <u>1</u> | <u>1</u> | <u>(1)</u> | <u>1</u> | <u>(19)</u> | <u>(11)</u> |
| Total assets | 27 313 | 25 368 | 758 | 729 | 103 | 97 | (214) | (221) | 27 960 | 25 973 |

Generation and Delivery Statistics

Three Months Ended
June 30

| | 2019 | 2018 |
|--|--------------|--------------|
| Electricity in gigawatt-hours | | |
| Hydraulic generation | 7 852 | 7 445 |
| Thermal generation | - | 5 |
| Scheduled energy imports | 11 | 39 |
| Wind purchases (Manitoba) | 212 | 202 |
| Total system supply | <u>8 075</u> | <u>7 691</u> |
| Gas in millions of cubic metres | | |
| Gas sales | 208 | 195 |
| Gas transportation | 161 | 182 |
| | <u>369</u> | <u>377</u> |

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