

The Manitoba Hydro-Electric Board

Quarterly Report

for the six months ended
September 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 \$47 million for the first six months of the 2019-20 fiscal year which was consistent with the net loss for the same period last year. While the net loss was comparable to the prior year, there were significant offsetting variances. Compared to the prior year financing and depreciation costs were higher due to the impacts of Bipole III going into service in July 2018 partially offset by the amortization of the Bipole III deferral into income. In addition, there was lower domestic electric revenues mainly as a result of lower customer usage and the impacts of weather, partially offset by historical rate increases no longer being deferred as well as an increase in net export revenues due to 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 does not impact the net loss.

The consolidated net loss was comprised of a \$27 million net loss in the electric segment, a \$22 million loss in the natural gas segment, a \$3 million net profit in the other segment and a \$1 million loss impact in adjustments and eliminations. 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 \$110 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. In addition, there was lower domestic consumption. These decreases were partially offset by favourable water conditions for the first six months resulting in higher net exports. The projection for the remainder of the year assumes current water flow conditions and normal winter weather. This projection does not include the impact of the October winter storm.

Electric Segment

Revenues from electricity sales within Manitoba totaled \$724 million for the six-month period, which was \$12 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 rate increases and an increase in the number of customers. Extraprovincial revenues of \$264 million were \$15 million or 6% 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 5.4 billion kilowatt-hours compared to 4.0 billion kilowatt-hours sold in the same period last year. Other revenues of \$13 million were consistent with the prior year.

Expenses attributable to electric operations totaled \$1 082 million for the six-month period. This represented an increase of \$38 million or 4% as compared to the same period last year. The increase was primarily due to a \$28 million increase in net finance expense and a \$21 million increase in depreciation largely due to Bipole III going into service, as well as a \$12 million increase in operating and administrative expenses due to a shift to operating activities with the in-service of the Bipole III Reliability Project partially offset by lower expenses as a result of a decrease in staffing levels. These increases were partially offset by a \$16 million decrease in fuel and power purchases due to the write-off of coal inventory in the prior year and lower transmission costs as well as a \$13 million decrease in other expenses largely due to lower spending on demand side management programs pending the transition to Efficiency Manitoba.

The net loss before net movement in regulatory balances was \$81 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 \$53 million in the regulatory deferral balances, there is a net loss of \$28 million of which \$27 million is attributable to Manitoba Hydro and \$1 million 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 six months of the 2019-20 fiscal year. The increase of \$35 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 partially offset by the PUB's decision to defer the approved 2.5% rate increase.

Expenditures for capital construction for the six-month period amounted to \$957 million compared to \$1 076 million for the same period last year. The decrease is primarily the result of the in-service of Bipole III in the prior year. Expenditures for the current period included \$644 million related to construction of the Keeyask Project and \$54 million for the Manitoba-Minnesota Transmission Project (MMTP). In addition, there were \$27 million in expenditures for the Bipole III Reliability Project primarily associated with the decommissioning and remediation of temporary construction assets and project completion activities. 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 \$22 million for electric demand side management programs.

Natural Gas Segment

The net loss in the natural gas segment was \$22 million for the six-month period which is consistent with the net loss for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$49 million compared to \$46 million for the same period last year. Gross margin increased \$3 million primarily due to lower purchased gas costs (compared to amounts charged to customers through rates) as well as lower estimated pipeline losses compared to the prior year. The difference between the cost of gas embedded in customer rates and the actual cost of gas purchased is adjusted in net movement thereby ensuring that only the actual cost of gas, no more or less, is ultimately passed on to customers. Delivered gas volumes were 628 million cubic metres compared to 639 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 \$74 million compared to \$73 million for the same period last year. The nominal increase in expenses is primarily attributable to an increase in other expenses due to the costs of the general rate application and higher depreciation and amortization expense as a result of new plant being placed into service partially offset by lower operating and administrative expenses.

The net loss before net movement in regulatory balances is \$24 million. After considering the net movement of \$2 million in the regulatory balances, there is a net loss of \$22 million.

Capital expenditures in the natural gas segment were \$18 million for the current six-month period compared to \$19 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 \$4 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 \$3 million in the other segment for the six-month period compared to \$2 million for the same period last year. Revenue was \$25 million compared to \$27 million for the same period last year. Expenses attributable to the other segment amounted to \$22 million which was \$3 million lower than the prior year. The decrease in both revenue and expenses is primarily due to fewer projects undertaken by 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.

First Gate Installed at Keeyask Powerhouse

On July 22, 2019 the first head gate was installed in unit one of the Keeyask Generating Station. The installation of the head gate advanced construction to meet the project's 2019 construction goals and enabled the earliest possible in-service date for the powerhouse, currently set for October 2020.

As work continues on earthworks and concrete, the installation of the head gate moved the project into the next phase of construction. This phase includes the installation of specialized mechanical and electrical systems, turbine and generator parts, and tie-in to the collector transmission lines, allowing the eventual commissioning of each of the seven powerhouse units.

The Keeyask Generating Station is located approximately 725 kilometres north of Winnipeg on the lower Nelson River. The Keeyask Project is a 695-megawatt(MW) hydroelectric generating station being developed in a partnership between Manitoba Hydro and four Keeyask Cree Nation (KCN) communities: Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation and Fox Lake Cree Nation.

Manitoba-Minnesota Transmission Project Gets National Energy Board Approval

On August 22, 2019, the National Energy Board (as of August 28, 2019, the National Energy Board became the Canada Energy Regulator) approved Manitoba Hydro's required pre-construction document submissions, allowing construction of the MMTP to begin.

Contractors working on the MMTP are Muskeko Joint Venture, working on Section 1 of the project from Dorsey Converter Station to Anola, and Valard Construction, working on Section 2 Anola to the U.S. border.

Work to install the first tower foundation for the project started August 29, 2019. Pre-assembly of transmission towers, to later be lifted into position by helicopter, also began.

Scheduled to be in-service June 2020, the 500-kilovolt AC transmission line will double Manitoba Hydro's ability to import electricity from the U.S. in case of emergencies, such as a drought or an unforeseen equipment failure. The 213 kilometre transmission line will also allow the corporation to fulfill current export agreements and increase the amount of electricity the utility can sell into the wholesale U.S. market.

The MMTP will connect with the Great Northern Transmission Line currently under construction in Minnesota. The Great Northern Transmission Line is being built by Minnesota Power and will terminate northwest of Duluth.



Marina R. James

Chair of the Board

A handwritten signature in black ink, appearing to be 'M. James'.



Jay Grewal

President and
Chief Executive Officer

November 14, 2019

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

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2019	2018	2019	2018
Revenues				
Domestic – Electric	724	736	358	362
– Gas	110	92	41	38
Extraprovincial	264	249	137	133
Other	33	35	17	16
	<u>1 131</u>	<u>1 112</u>	<u>553</u>	<u>549</u>
Expenses				
Cost of gas sold	61	46	22	20
Operating and administrative	296	284	147	144
Finance expense (net)	387	359	194	205
Depreciation and amortization	257	235	129	127
Water rentals and assessments	58	54	29	27
Fuel and power purchased	43	59	21	33
Capital and other taxes	83	80	41	40
Other expenses	49	65	25	33
	<u>1 234</u>	<u>1 182</u>	<u>608</u>	<u>629</u>
Net loss before net movement in regulatory balances	(103)	(70)	(55)	(80)
Net movement in regulatory balances	55	21	26	42
Net Loss	<u>(48)</u>	<u>(49)</u>	<u>(29)</u>	<u>(38)</u>
Net loss attributable to:				
Manitoba Hydro	(47)	(47)	(28)	(38)
Non-controlling interest	(1)	(2)	(1)	-
	<u>(48)</u>	<u>(49)</u>	<u>(29)</u>	<u>(38)</u>

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at September 30	As at March 31	As at September 30
	2019	2019	2018
Assets			
Current assets	1 385	1 470	1 265
Property, plant and equipment	24 391	23 627	22 882
Non-current assets	1 326	1 202	1 029
Total assets before regulatory deferral balance	27 102	26 299	25 176
Regulatory deferral balance	1 159	1 132	1 083
	<u>28 261</u>	<u>27 431</u>	<u>26 259</u>
Liabilities and Equity			
Current liabilities	1 467	1 022	1 041
Long-term debt	21 657	21 303	20 212
Other non-current liabilities	1 688	1 664	1 620
Deferred revenue	548	522	504
Non-controlling interest	282	254	231
Retained earnings	2 994	3 042	2 889
Accumulated other comprehensive loss	(752)	(781)	(680)
Total liabilities and equity before regulatory deferral balance	27 884	27 026	25 817
Regulatory deferral balance	377	405	442
	<u>28 261</u>	<u>27 431</u>	<u>26 259</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2019	2018	2019	2018
Operating Activities	3	(130)	32	(3)
Investing Activities	(1 004)	(1 061)	(505)	(529)
Financing Activities	940	1 297	397	462
Net increase (decrease) in cash	(61)	106	(76)	(70)
Cash at beginning of period	900	642	915	818
Cash at end of period	839	748	839	748

Consolidated Statement of Comprehensive Income (Loss)

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2019	2018	2019	2018
Net Loss attributable to Manitoba Hydro	(47)	(47)	(28)	(38)
Other Comprehensive Income (Loss)				
Items that will be reclassified to income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	11	(6)	(13)	23
Items that have been reclassified to income				
Realized foreign exchange losses on debt in cash flow hedges	17	14	9	8
	28	8	(4)	31
Comprehensive Loss attributable to Manitoba Hydro	(19)	(39)	(32)	(7)

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>Six Months Ended September 30</i>										
Revenue	1 001	996	110	93	25	27	(5)	(4)	1 131	1 112
Expenses	1 082	1 044	134	118	22	25	(4)	(5)	1 234	1 182
Net income (loss) before net movement in regulatory balances	(81)	(48)	(24)	(25)	3	2	(1)	1	(103)	(70)
Net movement in regulatory balances	53	18	2	3	-	-	-	-	55	21
Net Income (Loss)	<u>(28)</u>	<u>(30)</u>	<u>(22)</u>	<u>(22)</u>	<u>3</u>	<u>2</u>	<u>(1)</u>	<u>1</u>	<u>(48)</u>	<u>(49)</u>
Net income (loss) attribute to:										
Manitoba Hydro	(27)	(28)	(22)	(22)	3	2	(1)	1	(47)	(47)
Non-controlling interest	(1)	(2)	-	-	-	-	-	-	(1)	(2)
	<u>(28)</u>	<u>(30)</u>	<u>(22)</u>	<u>(22)</u>	<u>3</u>	<u>2</u>	<u>(1)</u>	<u>1</u>	<u>(48)</u>	<u>(49)</u>
<i>Three Months Ended September 30</i>										
Revenue	501	499	41	38	13	13	(2)	(1)	553	549
Expenses	541	563	58	55	11	12	(2)	(1)	608	629
Net income (loss) before net movement in regulatory balances	(40)	(64)	(17)	(17)	2	1	-	-	(55)	(80)
Net movement in regulatory balances	23	39	3	3	-	-	-	-	26	42
Net Income (Loss)	<u>(17)</u>	<u>(25)</u>	<u>(14)</u>	<u>(14)</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>(29)</u>	<u>(38)</u>
Net income (loss) attribute to:										
Manitoba Hydro	(16)	(25)	(14)	(14)	2	1	-	-	(28)	(38)
Non-controlling interest	(1)	-	-	-	-	-	-	-	(1)	-
	<u>(17)</u>	<u>(25)</u>	<u>(14)</u>	<u>(14)</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>(29)</u>	<u>(38)</u>
Total assets	27 612	25 667	765	735	105	98	(221)	(241)	28 261	26 259

Generation and Delivery Statistics

	Six Months Ended September 30		Three Months Ended September 30	
	2019	2018	2019	2018
Electricity in gigawatt-hours				
Hydraulic generation	16 059	14 927	8 207	7 482
Thermal generation	1	5	1	-
Scheduled energy imports	40	85	29	46
Wind purchases (Manitoba)	394	393	182	191
Total system supply	<u>16 494</u>	<u>15 410</u>	<u>8 419</u>	<u>7 719</u>
Gas in millions of cubic metres				
Gas sales	303	300	95	105
Gas transportation	325	339	164	157
	<u>628</u>	<u>639</u>	<u>259</u>	<u>262</u>

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