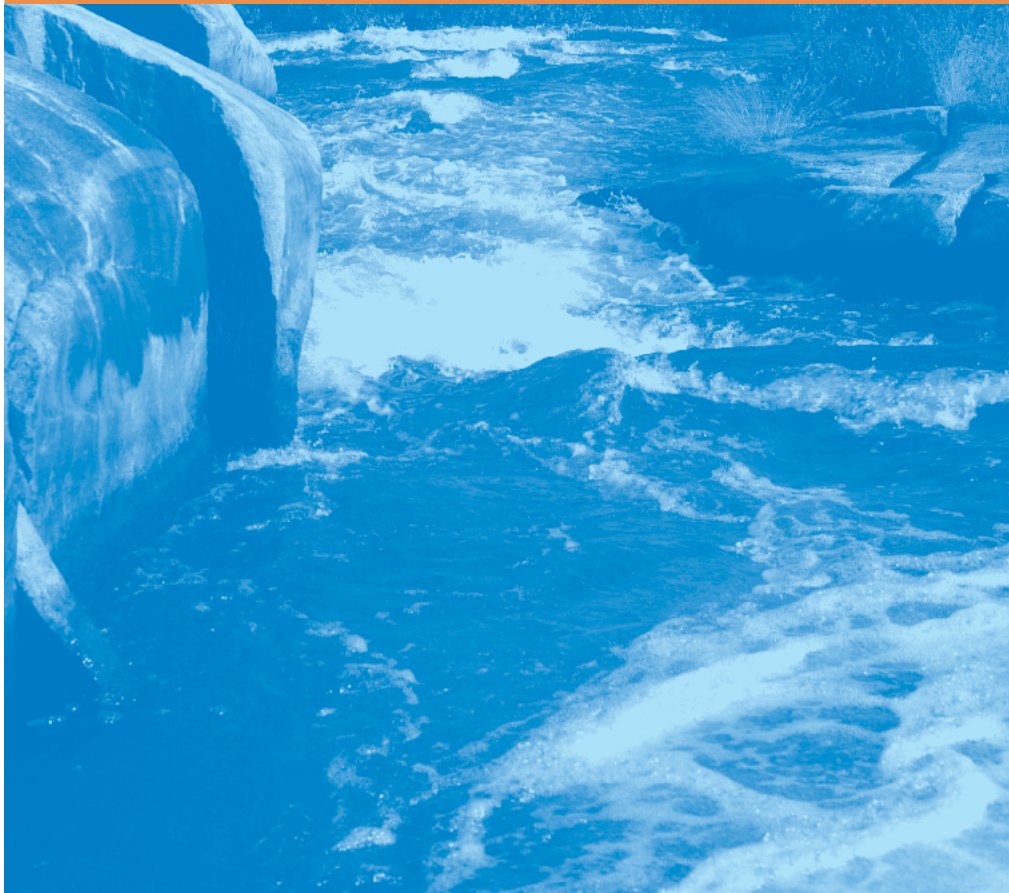


The Manitoba Hydro-Electric Board

Quarterly Report

for the nine months ended
December 31, 2019





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

Financial Overview

Manitoba Hydro's consolidated net income was \$7 million for the first nine months of 2019-20 compared to a net income of \$3 million for the same period last year. The increase in net income was primarily attributable to historical rate increases no longer being deferred and the June 1, 2018 electric rate increase, partially offset by lower customer usage and weather impacts. In addition, there were higher net export revenues resulting from favourable water conditions in the current year as well as lower net interest costs (excluding the impacts of Bipole III) due to lower interest rates on long term debt and higher finance income. These increases in net income were partially offset by higher financing and depreciation costs 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. Operating and administrative expenses also increased due to the impact of the unprecedented October winter storm.

The consolidated net income was comprised of an \$18 million net income in the electric segment, a \$16 million loss in the natural gas segment and a \$5 million net profit in the other segment. 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 net income. The net income for the electric and natural gas segments is expected to improve 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 \$125 million. The increase in expected net income factors in higher net export revenues as a result of favourable water conditions for the first nine months as well as favourable depreciation expense. These increases were partially offset by the PUB's decision to assign all the awarded rate increase to a major capital deferral account as well as lower domestic consumption. The projection for the remainder of the year assumes normal winter weather.

Electric Segment

Revenues from electricity sales within Manitoba totaled \$1 188 million for the nine-month period, which was \$1 million higher than same period last year. The marginal increase in domestic revenue was primarily attributable to the impact of rate increases and customer growth, largely offset by lower usage and weather impacts. Extraprovincial revenues of \$361 million were \$11 million or 3% 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 7.3 billion kilowatt-hours compared to 5.2 billion kilowatt-hours sold in the same period last year. Other revenues of \$20 million were consistent with the prior year.

Expenses attributable to electric operations totaled \$1 628 million for the nine-month period. This represented an increase of \$25 million or 2% as compared to the same period last year. Net finance expense increased \$25 million largely due to Bipole III going into service partially offset by the impact of lower interest rates on maturing and refinanced long-term debt as well as higher finance income on temporary investments. Operating and administrative expenses increased \$15 million primarily due to the unprecedented October 2019 winter storm as well as a shift to operating activities partially as a result of the in-service of Bipole III. Depreciation and amortization expense was \$13 million higher as a result of Bipole III going into service partially offset by the implementation of new rates from the 2019 depreciation study which adjusted the service lives of assets. These increases were partially offset by a \$24 million decrease in fuel and power purchases due to lower opportunity purchases due to higher generation and the write-off of coal inventory in the prior year as well as a \$16 million decrease in other expenses largely due to lower spending on demand side management (DSM) programs pending the transition to Efficiency Manitoba.

The net loss before net movement in regulatory balances was \$59 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 \$77 million in the regulatory deferral balances, there is a net income of \$18 million of which \$18 million is attributable to Manitoba Hydro and nil is attributable to non-controlling interest. The non-controlling interest represents Taskinagahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first nine months of the 2019-20 fiscal year. The increase of \$23 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 June 1, 2019 rate increase and lower DSM spending.

Expenditures for capital construction for the nine-month period amounted to \$1 483 million compared to \$1 584 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 \$908 million related to construction of the Keeyask Project and \$128 million for the Manitoba-Minnesota Transmission Project (MMTP). In addition, there were \$48 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 \$37 million for electric DSM programs.

Natural Gas Segment

The net loss in the natural gas segment was \$16 million for the nine-month period compared to a net loss of \$12 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$95 million compared to \$89 million for the same period last year. Gross margin increased \$6 million primarily due to lower purchased gas costs (compared to amounts charged to customers through rates), higher usage as well as lower estimated pipeline losses compared to the prior year, partially offset by lower rates and weather impacts. The difference between the cost of gas embedded in customer rates and the actual cost of gas purchased is accumulated in the purchase gas variance accounts (PGVA) and 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 1 336 million cubic metres compared to 1 347 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$112 million compared to \$111 million for the same period last year. The nominal increase in expenses is primarily attributable to 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 \$15 million. After considering the net movement of \$1 million in the regulatory balances, there is a net loss of \$16 million. After considering the net movement in PGVAs of \$6 million, net movement in regulatory balances decreased \$3 million from the same period last year. This decrease was largely due to the impact of the PUB's decision to write off the deferred ineligible overhead costs and the heating value deferral partially offset by the amortization of the regulated liability established for previously expensed meter testing costs.

Capital expenditures in the natural gas segment were \$30 million for the current nine-month period which is consistent with the prior 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 \$6 million for gas DSM 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 \$5 million in the other segment for the nine-month period compared to \$4 million for the same period last year. Revenue was \$40 million compared to \$42 million for the same period last year. Expenses attributable to the other segment amounted to \$35 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.

Storm Devastates Sections of Manitoba Hydro's Transmission and Distribution System

During the October 2019 Thanksgiving weekend a powerful winter storm hit Winnipeg, Portage and the Interlake regions of the province. Thick wet snow and wind combined to seriously damage major transmission towers and break thousands of wood distribution poles in the areas around Portage la Prairie, Westbourne, Amaranth, Alonsa, Lake Manitoba Narrows, Ashern, Lundar and other areas. About 950 kilometres of power lines and about 4 000 wood poles were destroyed. The damage — the worst in Manitoba's history — caused widespread outages. In total, over 160 000 customers lost power at some point during the storm, some for up to almost two weeks in some of the hardest hit areas.

Premier Brian Pallister declared a limited state of emergency at the utility's request, which allowed it for the first time to request assistance from neighbouring utilities under Mutual Aid agreements. HydroOne, SaskPower and Minnesota Power responded immediately to help in restoration efforts, sending equipment and personnel to work with Manitoba

Hydro front-line staff. Personnel in the field were supported by corporate staff across the province to ensure the proper equipment and resources, such as lodging, food and extra clothing, were in place.

Manitoba Hydro will continue restoration work into 2020 to repair damaged transmission towers. Meanwhile, the utility's transmission engineers and climatologists have gathered photos and videos of the storm to document its conditions and improve the system's resilience against future storms.

Stolen Truck Crash Causes Natural Gas, Electrical Outages Near Tyndall

Late November 7, 2019 the driver of a stolen pick-up truck veered off the highway and crashed into a natural gas gate station north of Tyndall, causing a major gas leak and cutting off natural gas service to about 250 customers for several hours. Due to the amount of gas venting into the atmosphere, crews also had to cut electrical service to homes in the area to avoid any risk of sparking and ignition.

Manitoba Hydro utilized the utility's compressed natural gas (CNG) filling station and tanker trailers to temporarily supply gas service to the community until full emergency repairs were completed later in the day. The CNG filling station and trailers are a new innovation for the utility, one put in place after a pipeline issue near Otterburne in January 2014 disrupted natural gas service to thousands of customers in south-central Manitoba.

First Tower Installed; Conductor Stringing Begins on Manitoba–Minnesota Transmission Project

Tower pre-assembly on the Manitoba–Minnesota Transmission Project began the third week of October 2019, with the first tower fully erected November 24, 2019. The first stage of conductor line stringing began December 19, 2019. On December 5, 12 and 19, 2019, the utility moved three large autotransformers 132 kilometres from the City of Winnipeg to Riel Converter Station east of the city. The autotransformers are designed to handle increased load from MMTP when it's in-service, anticipated in mid-2020. The MMTP is a 500-kilovolt transmission line that will connect to the Great Northern Transmission Line in Minnesota under construction by Minnesota Power. MMTP will allow Manitoba Hydro to fulfill export obligations to utilities in the United States, and just as importantly, it will improve the overall reliability of the system in Manitoba by essentially doubling the utility's capability to import power during times of drought or other system emergencies.

2019 Construction Season Concludes at Keeyask Project

Permanent earth works were completed in late 2019 at the Keeyask Generating Station Project, and approximately 98% of all major concrete work was finished on project structures, allowing Manitoba Hydro to meet the project's 2019 construction goals and enabling the earliest possible in-service date for the powerhouse (currently set for October 2020).

Keeyask, located approximately 725 kilometres north of Winnipeg on the lower Nelson River, is a 695-megawatt 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.

Recently the partnership reached a milestone: 3.5 million hours worked by KCN partners, 9 million hours worked by Indigenous employees and 16 million hours of other Manitoban employment. Five recent and current employees of the Keeyask Project were presented with bursaries to continue training and education at Red River College and the University of Manitoba in late 2019. The Keeyask Workers' Opportunity Fund was created to provide opportunities to support education, training and employment for members of the KCN partner communities.



Marina R. James

Chair of the Board

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Jay Grewal

President and
Chief Executive Officer

February 14, 2020

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

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2019	2018	2019	2018
Revenues				
Domestic – Electric	1 188	1 187	464	451
– Gas	240	210	130	118
Extraprovincial	361	350	97	101
Other	53	57	20	22
	<u>1 842</u>	<u>1 804</u>	<u>711</u>	<u>692</u>
Expenses				
Cost of gas sold	145	121	84	75
Operating and administrative	445	432	149	148
Finance expense (net)	583	556	196	197
Depreciation and amortization	378	363	121	128
Water rentals and assessments	90	82	32	28
Fuel and power purchased	72	96	29	37
Capital and other taxes	124	120	41	40
Other expenses	74	95	25	30
	<u>1 911</u>	<u>1 865</u>	<u>677</u>	<u>683</u>
Net income (loss) before net movement in regulatory balances	(69)	(61)	34	9
Net movement in regulatory balances	76	62	21	41
Net Income	<u>7</u>	<u>1</u>	<u>55</u>	<u>50</u>
Net income (loss) attributable to:				
Manitoba Hydro	7	3	54	50
Non-controlling interest	-	(2)	1	-
	<u>7</u>	<u>1</u>	<u>55</u>	<u>50</u>

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at December 31	As at March 31	As at December 31
	2019	2019	2018
Assets			
Current assets	1 548	1 470	915
Property, plant and equipment	24 834	23 627	23 291
Non-current assets	1 386	1 202	1 100
Total assets before regulatory deferral balance	27 768	26 299	25 306
Regulatory deferral balance	1 166	1 132	1 100
	<u>28 934</u>	<u>27 431</u>	<u>26 406</u>
Liabilities and Equity			
Current liabilities	2 310	1 022	847
Long-term debt	21 395	21 303	20 560
Other non-current liabilities	1 688	1 664	1 627
Deferred revenue	559	522	511
Non-controlling interest	293	254	243
Retained earnings	3 032	3 042	2 939
Accumulated other comprehensive loss	(724)	(781)	(740)
Total liabilities and equity before regulatory deferral balance	28 553	27 026	25 987
Regulatory deferral balance	381	405	419
	<u>28 934</u>	<u>27 431</u>	<u>26 406</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2019	2018	2019	2018
Operating Activities	213	47	210	177
Investing Activities	(1 544)	(1 614)	(540)	(553)
Financing Activities	1 413	1 271	473	(26)
Net increase (decrease) in cash	82	(296)	143	(402)
Cash at beginning of period	900	642	839	748
Cash at end of period	982	346	982	346

Consolidated Statement of Comprehensive Income (Loss)

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2019	2018	2019	2018
Net Income attributable to Manitoba Hydro	7	3	54	50
Other Comprehensive Income (Loss)				
Items that will be reclassified to income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	30	(72)	19	(66)
Items that have been reclassified to income				
Realized foreign exchange losses on debt in cash flow hedges	27	21	10	7
	57	(51)	29	(59)
Comprehensive Income (Loss) attributable to Manitoba Hydro	64	(48)	83	(9)

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>Nine Months Ended December 31</i>										
Revenue	1 569	1 556	241	212	40	42	(8)	(6)	1 842	1 804
Expenses	1 628	1 603	256	232	35	38	(8)	(8)	1 911	1 865
Net income (loss) before net movement in regulatory balances	(59)	(47)	(15)	(20)	5	4	-	2	(69)	(61)
Net movement in regulatory balances	77	54	(1)	8	-	-	-	-	76	62
Net Income (Loss)	18	7	(16)	(12)	5	4	-	2	7	1
Net income (loss) attribute to:										
Manitoba Hydro	18	9	(16)	(12)	5	4	-	2	7	3
Non-controlling interest	-	(2)	-	-	-	-	-	-	-	(2)
	18	7	(16)	(12)	5	4	-	2	7	1
<i>Three Months Ended December 31</i>										
Revenue	568	560	131	119	15	15	(3)	(2)	711	692
Expenses	546	559	122	114	13	13	(4)	(3)	677	683
Net income (loss) before net movement in regulatory balances	22	1	9	5	2	2	1	1	34	9
Net movement in regulatory balances	24	36	(3)	5	-	-	-	-	21	41
Net Income	46	37	6	10	2	2	1	1	55	50
Net income attribute to:										
Manitoba Hydro	45	37	6	10	2	2	1	1	54	50
Non-controlling interest	1	-	-	-	-	-	-	-	1	-
	46	37	6	10	2	2	1	1	55	50
Total assets	28 275	25 786	812	770	112	101	(265)	(251)	28 934	26 406

Generation and Delivery Statistics

	Nine Months Ended December 31		Three Months Ended December 31	
	2019	2018	2019	2018
Electricity in gigawatt-hours				
Hydraulic generation	24 693	22 569	8 634	7 642
Thermal generation	22	8	21	3
Scheduled energy imports	66	471	26	386
Wind purchases (Manitoba)	642	622	248	229
Total system supply	25 423	23 670	8 929	8 260
Gas in millions of cubic metres				
Gas sales	820	804	517	504
Gas transportation	516	543	191	204
	1 336	1 347	708	708

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