

The Manitoba Hydro-Electric Board

Quarterly Report

for the three months ended
June 30, 2020





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

Financial Overview

Manitoba Hydro's consolidated net loss was \$26 million for the first three months of 2020-21 compared to a net loss of \$19 million for the same period last year. The increase in net loss was primarily attributable to an increase in net finance expense as a result of higher foreign exchange losses and an increase in debt volumes to ensure liquidity in response to market disruptions caused by COVID-19 as well as higher fuel and power purchased as a result of additional charges following the in-service of the Manitoba-Minnesota Transmission Project (MMTP). These increases in net loss were partially offset by an increase in domestic revenue as a result of higher domestic consumption due to weather impacts and customer growth, higher extraprovincial sales as a result of new firm dependable sales contracts and higher U.S. opportunity sales volumes, partially offset by lower prices as well as lower operating and administrative expenses due to the impacts of COVID-19 and the associated government cost saving initiatives. The increase in 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 consolidated net loss was comprised of a \$21 million net loss in the electric segment, a \$7 million loss in the natural gas segment and a \$2 million net profit in the other segment. 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 2020-21 is \$47 million; however Manitoba Hydro is currently projecting net income to be approximately \$50 million. The marginal increase is primarily due to the delay in the in-service of the Keeyask Project as a result of the continued capitalizing interest and a delay in depreciation expense, partially offset by the impact of COVID-19 on revenues resulting in a decrease in consumption by major industrial and commercial consumers partially offset by higher residential consumption.

Electric Segment

Revenues from electricity sales within Manitoba totaled \$378 million for the three-month period, which was \$12 million or 3% higher than same period last year. The increase in domestic revenue was primarily attributable to favourable weather impacts, the impact of the June 1, 2019 rate increase and customer growth, partially offset by lower usage caused in part by the impact of COVID-19 on major consumers. Extraprovincial revenues of \$133 million were \$6 million or 5% higher than the same period last year reflecting an increase in dependable sales volumes as a result of new firm contracts coming into effect as well as higher U.S. opportunity sales volumes due to higher generation, partially offset by lower export prices. Prices have decreased as a result of the impact of COVID-19, natural gas price decreases and an abundance of wind generation in the market. Overall, energy sold in

the export market was 3.2 billion kilowatt-hours compared to 2.5 billion kilowatt-hours sold in the same period last year. Other revenues of \$6 million were largely consistent with the prior year.

Expenses attributable to electric operations totaled \$560 million for the three-month period. This represented an increase of \$19 million or 4% as compared to the same period last year. Net finance expense increased \$13 million largely due to foreign exchange losses, higher interest on debt as a result of higher debt volumes to ensure liquidity in response to market conditions due to the impacts of COVID-19 as well as lower finance income due to lower interest rates on temporary investments. Fuel and power purchased increased \$9 million primarily as a result of an increase in transmission charges due to new contracts coming into effect with the completion of MMTP. These increases were partially offset by a decrease of \$4 million or 25% in other expenses as a result of lower spending on demand side management (DSM) programs as well as a decrease in operating and administrative expenses of \$4 million or 3% primarily due to the impacts of government cost saving initiatives as a result of COVID-19.

The net loss before net movement in regulatory balances was \$43 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 \$21 million in the regulatory deferral balances, there was a net loss of \$22 million of which \$21 million is attributable to Manitoba Hydro and \$1 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigaip Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first three months of the 2020-21 fiscal year. The decrease of \$9 million in net movement in regulatory deferral balances was largely due to the three month impact of the PUB's decision to defer the June 1, 2019 rate increase compared to a single month of deferral in the prior year as well as lower DSM spending.

Expenditures for capital construction for the three-month period amounted to \$311 million compared to \$486 million for the same period last year. The decrease is primarily the result of lower spending on the Keeyask Project as a result of delays in construction activity due to COVID-19 partially offset by an increase in spending on MMTP based on the timing of the construction schedule. Expenditures for the current period included \$144 million related to construction of the Keeyask Project and \$52 million for 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 \$9 million for electric DSM programs.

Natural Gas Segment

The net loss in the natural gas segment was \$7 million for the three-month period compared to a net loss of \$8 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$25 million compared to \$30 million for the same period last year. Gross margin decreased \$5 million primarily due to higher purchased gas costs (compared to amounts charged to customers through rates) as well as a reduction in rates charged to customers per PUB Order 152/19 partially offset by 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 387 million cubic metres compared to 369 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$36 million compared to \$37 million for the same period last year. The decrease in expenses is primarily attributable to lower operating and administrative expenses due to the impacts of COVID-19 and the related government savings initiative as well as lower other expenses as a result of a decrease in DSM spending, partially offset by higher depreciation and amortization due to new plant being placed into service.

The net loss before net movement in regulatory balances was \$11 million. After considering the net movement of \$4 million in the regulatory balances, there was a net loss of \$7 million. After considering the net movement in PGVAs of \$6 million, net movement in regulatory balances was largely consistent with the same period last year.

Capital expenditures in the natural gas segment were \$6 million for the current three-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 \$2 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 \$2 million in the other segment for the three-month period compared to \$1 million for the same period last year. Revenue was \$13 million compared to \$12 million for the same period last year. Expenses attributable to the other segment amounted to \$11 million which was consistent with the prior year.

Manitoba Hydro Adjusts to Virtual Operating Model Due to Pandemic

Manitoba Hydro employees reacted quickly to the challenges of the global COVID-19 pandemic. By early April 2020, a majority of the corporation's staff transitioned to working from home under the guidance of corporate Information Technology Services. In other areas of the corporation, many field staff began to be dispatched to outage calls from home.

In approximately one week, office employees remotely connecting from home increased from 50 to 75 people per day before the pandemic to 2 400 to 2 500 people per day. The corporation's pandemic response included ensuring the processes, resource staff and technology was in place to handle employees' requests efficiently and deliver computer equipment to them safely.

The corporation had been planning its pandemic response since the SARS outbreak in 2003 and H1N1 outbreak in 2009. The corporation is currently working on a plan to allow employees to return to the office, following all safe health guidelines.

Manitoba–Minnesota Transmission Project Completed On-Time and On Budget

Manitoba-Minnesota Transmission Project went in-service on June 1, 2020 on schedule and within the control budget. Construction of the project began in August 2019. It was challenged with unseasonable weather, wet ground conditions, a limited construction schedule and the pandemic.

Completion of the 500-kilovolt transmission line, which connects to Minnesota Power's Great North Transmission Line, allows Manitoba Hydro to fulfill export obligations to utilities in the United States and improves the reliability of the electrical system in Manitoba. In addition to its export capabilities, MMTP doubles the corporation's ability to import power during times of drought or other system emergencies..

Keeyask Generating Station Project Update

Progress at the Keeyask Generating Station continued among several challenges. In January the first rotor was installed in Unit 1; in April, water-up was completed and Unit 1 was handed over to start commissioning.

The arrival of COVID-19 meant the Keeyask Generating Station had to activate its pandemic plan, as the primary concern is reducing the risk of introducing the virus at site or to nearby communities. To help protect the safety and health of workers and residents of nearby communities from the introduction and spread of the COVID-19 virus, Manitoba Hydro temporarily scaled back work and suspended travel in and out of the construction site for approximately 8 weeks. During this time, approximately 700 workers volunteered to remain on site for the extended duration.

Amid concerns about the full complement of workers returning to site, a blockade by nearby First Nations communities prevented access to site and after one week, construction activities stopped and shifted to a "care and maintenance mode" to maintain the security and safe operation of critical assets such as the station's spillway. After careful collaboration and meetings with these communities, coupled with the stringent protocols for working on site (increased sanitization, screening, physical distancing measures and mandatory isolation for some workers, among other measures) the blockade was lifted and work resumed on May 24. In total, the blockade lasted 10 days.

Despite these challenges, the team is on track to bring the first unit online in October 2020.

Transmission Line in Sage Creek to Improve Reliability

Construction of the Sage Creek transmission corridor, part of the St. Vital Transmission Complex, began June 15. It will facilitate a connection between St. Vital Station in south-east Winnipeg and the newly built De Salaberry East Station near Steinbach (expected to be in-service in December 2020) and a connection between St. Vital Station and La Verendrye Station near Oak Bluff (in-service date to be determined).

When finished, the St. Vital Transmission Complex will encompass three new transmission lines: one from St. Vital Station to De Salaberry East, one from St. Vital Station to La Verendrye and one from De Salaberry East to Letellier Station. The project will improve reliability in south-eastern Manitoba and add extra capacity for rapidly growing communities in the area.

Construction in Sage Creek began with outreach to the community when roads, trails and sidewalks would be temporarily closed.



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

August 14, 2020

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

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

Three Months Ended
June 30

	2020	2019
Revenues		
Domestic – Electric	378	366
– Gas	70	69
Extraprovincial	133	127
Other	16	16
	<u>597</u>	<u>578</u>
Expenses		
Cost of gas sold	45	39
Operating and administrative	144	149
Finance expense (net)	207	193
Depreciation and amortization	130	128
Water rentals and assessments	31	29
Fuel and power purchased	31	22
Capital and other taxes	42	42
Other expenses	19	24
	<u>649</u>	<u>626</u>
Net loss before net movement in regulatory balances	(52)	(48)
Net movement in regulatory balances	25	29
Net Loss	<u>(27)</u>	<u>(19)</u>
Net loss attributable to:		
Manitoba Hydro	(26)	(19)
Non-controlling interest	(1)	-
	<u>(27)</u>	<u>(19)</u>

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at June 30	As at March 31	As at June 30
	2020	2020	2019
Assets			
Current assets	1 983	1 509	1 550
Property, plant and equipment	25 406	25 190	24 010
Non-current assets	1 447	1 428	1 256
Total assets before regulatory deferral balance	28 836	28 127	26 816
Regulatory deferral balance	1 187	1 179	1 144
	<u>30 023</u>	<u>29 306</u>	<u>27 960</u>
Liabilities and Equity			
Current liabilities	1 492	2 120	1 580
Long-term debt	23 241	21 950	21 242
Other non-current liabilities	1 650	1 624	1 667
Deferred revenue	565	549	537
Non-controlling interest	308	302	270
Retained earnings	3 114	3 141	3 023
Accumulated other comprehensive loss	(697)	(747)	(748)
Total liabilities and equity before regulatory deferral balance	29 673	28 939	27 571
Regulatory deferral balance	350	367	389
	<u>30 023</u>	<u>29 306</u>	<u>27 960</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

	2020	2019
Operating Activities	(123)	(27)
Investing Activities	(279)	(501)
Financing Activities	<u>763</u>	<u>543</u>
Net increase in cash	361	15
Cash at beginning of period	<u>926</u>	<u>900</u>
Cash at end of period	<u><u>1 287</u></u>	<u><u>915</u></u>

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

	2020	2019
Net loss attributable to Manitoba Hydro	<u>(26)</u>	<u>(19)</u>
Other Comprehensive Income		
Items that will be reclassified to income		
Unrealized foreign exchange gains on debt in cash flow hedges	36	24
Items that have been reclassified to income		
Realized foreign exchange losses on debt in cash flow hedges	<u>13</u>	<u>8</u>
	<u>49</u>	<u>32</u>
Comprehensive Income attributable to Manitoba Hydro	<u><u>23</u></u>	<u><u>13</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

	Electric segment		Natural gas segment		Other segment		Eliminations		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<i>Three Months Ended June 30</i>										
Revenue	517	500	70	69	13	12	(3)	(3)	597	578
Expenses	560	541	81	76	11	11	(3)	(2)	649	626
Net income (loss) before net movement in regulatory balances	(43)	(41)	(11)	(7)	2	1	-	(1)	(52)	(48)
Net movement in regulatory balances	21	30	4	(1)	-	-	-	-	25	29
Net Income (Loss)	<u>(22)</u>	<u>(11)</u>	<u>(7)</u>	<u>(8)</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>(1)</u>	<u>(27)</u>	<u>(19)</u>
Net income (loss) attribute to:										
Manitoba Hydro	(21)	(11)	(7)	(8)	2	1	-	(1)	(26)	(19)
Non-controlling interest	(1)	-	-	-	-	-	-	-	(1)	-
	<u>(22)</u>	<u>(11)</u>	<u>(7)</u>	<u>(8)</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>(1)</u>	<u>(27)</u>	<u>(19)</u>
Total assets	29 374	27 313	778	758	113	103	(242)	(214)	30 023	27 960

Generation and Delivery Statistics

Three Months Ended
June 30

	2020	2019
Electricity in gigawatt-hours		
Hydraulic generation	8 572	7 852
Thermal generation	4	-
Scheduled energy imports	17	11
Wind purchases (Manitoba)	242	212
Total system supply	<u>8 835</u>	<u>8 075</u>
Gas in millions of cubic metres		
Gas sales	221	208
Gas transportation	166	161
	<u>387</u>	<u>369</u>

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