

The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the six months ended September 30, 2021





REPORT FROM THE CHAIR OF THE BOARD AND BY THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Financial Overview

Manitoba Hydro's consolidated net loss was \$90 million for the first six months of 2021-22 compared to a \$41 million loss for the same period last year. The increase in net loss was primarily attributable to higher finance expense and depreciation expense largely due to the first four units of the Keeyask Generating Station (Keeyask) being placed into service, the effect of low water conditions and higher operating and administrative expenses, partially offset by higher dependable sales.

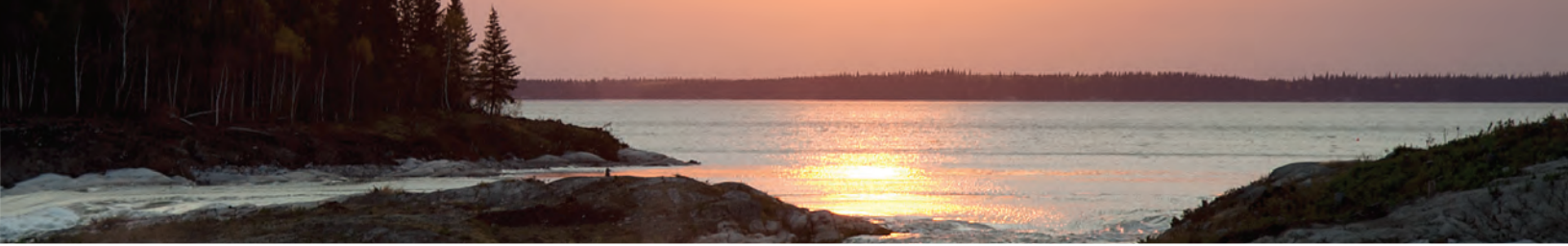
MANITOBA HYDRO'S CONSOLIDATED NET LOSS WAS \$90 MILLION FOR THE FIRST SIX MONTHS OF 2021-22

The Keeyask project has placed four of the seven units in-service, resulting in higher finance expense due to lower interest being capitalized to the project as well as higher depreciation expense, partially offset by higher net movement in regulatory deferral balance. Net movement increased largely due to the deferral of the difference in depreciation and interest expense related to Keeyask between the method applied by the corporation under IFRS for financial reporting purposes and the per unit of output method used for rate-setting purposes. The net loss was also higher than the prior year as a result of the impact of lower water conditions, resulting in lower opportunity sales volumes, higher fuel and power purchases (imports), partially offset by lower water rentals and assessments due to lower generation. Fuel and power purchases were also higher as a result of increased market prices primarily being driven by rising natural gas prices as well as the impact of costs associated with the in-service of the 500kV transmission interconnection to the U.S. partially offset by the fair value adjustment on forward contracts to mitigate price risks on imports. Opportunity and administrative expenses were also higher largely due to a shift to operating activities with the winddown of major capital projects, higher insurance premiums as well as lower spending in the prior year as a result of the government cost savings initiative and other reduced costs due to COVID-19, partially offset by lower staffing levels. These increases to the net loss were partially offset by higher dependable firm contract sales made possible by the in-service of Keeyask, as well as higher domestic revenues as a result of the impact of the December 1, 2020 electric rate increase, customer growth and higher customer usage. 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.

MANITOBA HYDRO IS ANTICIPATING A POTENTIAL LOSS BETWEEN \$190 AND \$200 MILLION

The consolidated net loss was comprised of a \$70 million net loss in the electric segment, a \$27 million loss in the natural gas segment and a \$7 million net profit in the other segment.

As discussed below, Manitoba Hydro is anticipating a potential loss between \$190 and \$200 million for the current fiscal year due to low water flow conditions.



Electric Segment

Revenues from electricity sales within Manitoba totaled \$777 million for the six-month period, which was \$39 million or 5% higher than the same period last year. The increase in domestic revenue was primarily attributable to the impact of the December 1, 2020 electric rate increase and customer growth as well as higher customer usage. Extraprovincial revenues of \$343 million were \$20 million or 6% higher than the same period last year reflecting an increase in dependable sales volumes as a result of new firm export contracts coming into effect made possible by Keeyask, higher U.S. prices as well as higher Canadian sales, partially offset by the impact of drought on opportunity sales resulting in fewer opportunity sales volumes to the U.S. and Canada. Overall, energy sold in the export market was 4.0 billion kilowatt-hours compared to 7.3 billion kilowatt-hours sold in the same period last year. Other revenues increased \$1 million over the prior year primarily due to increases in building rental revenue as a result of closures in the prior year due to COVID-19.

Expenses attributable to electric operations totaled \$1 300 million for the six-month period, representing an increase of \$161 million or 14% as compared to the same period last year. Finance expense increased \$90 million or 22% largely due to higher interest on debt as a result of lower capitalized interest due to the in-service of the first four units of Keeyask. Depreciation and amortization expense increased \$38 million or 15% as a result of new plant coming into service (including Keeyask) and was partially offset by the decommissioning of the Selkirk Generating Station. Fuel and power purchased increased \$24 million or 34% primarily as a result of higher opportunity purchases driven by low water conditions, higher market prices due in part to rising natural gas costs as well as higher transmission and other related charges due to the impact of the costs associated with the in-service of the 500kV transmission interconnection to the U.S. These increases were partially offset by other items that were lower primarily due to the fair value adjustment on forward pricing contracts. Operating and administrative expenses increased by \$16 million or 6% primarily as a result of a shift to operating activities with the winddown of major capital projects, higher insurance premiums as well as lower spending in the prior year as a result of the government cost savings initiative and other reduced costs due to COVID-19, partially offset by lower staffing levels. These increases in expenses were partially offset by a decrease of \$14 million or 22% in water rentals and assessments due to lower generation reflecting low water conditions.

The net loss before net movement in regulatory balances was \$166 million. The net movement in regulatory balances of \$88 million captures the timing differences of revenues and expenses for financial reporting purposes and those amounts approved by the PUB for rate-setting purposes. The increase of \$49 million in net movement in regulatory deferral balances was largely due to the deferral of the difference in depreciation and interest expense related to Keeyask between the method applied by the corporation under IFRS for financial reporting purposes and the per unit of output method used for rate-setting purposes.

After considering the net movement in the regulatory deferral balances, there was a net loss of \$78 million of which \$70 million was attributable to Manitoba Hydro and \$8 million was attributable to non-controlling interest. The non-controlling interest represents the portion of operating results for the first six months of the 2021-22 fiscal year attributable to the limited partners of the Wuskwatim Power Limited Partnership and Keeyask Hydropower Limited Partnership.

Expenditures for capital construction for the six-month period amounted to \$429 million compared to \$642 million for the same period last year. The decrease was primarily the result of reduced spending on the Manitoba-Minnesota Transmission Project (MMTP) as the transmission line went into service in June 2020 as well as lower spending on the Keeyask Project as the units are placed in-service. Expenditures for the current period included \$184 million related to construction of the Keeyask Project. 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 \$14 million for electric demand side management (DSM) programs.

Natural Gas Segment

The net loss in the natural gas segment was \$27 million for the six-month period compared to a net loss of \$21 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$33 million compared to \$36 million for the same period last year. Gross margin decreased \$3 million primarily due to higher purchased gas costs (compared to amounts charged to customers through rates) as well as the impacts of warmer weather and the unaccounted for gas true-up (UFG), partially offset by customer growth. The UFG true-up recognizes differences in the estimated pipeline losses, compared to actual pipeline losses. 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 565 million cubic metres compared to 604 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$77 million compared to \$72 million for the same period last year. The increase in expenses was primarily attributable to lower operating and administrative expenses in the prior year associated with the COVID-19 pandemic and the related government cost savings initiative.

Capital expenditures in the natural gas segment were \$20 million for the current six-month period compared to \$16 million in 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 \$4 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 \$7 million in the other segment for the six-month period compared to \$4 million for the same period last year. Revenue was \$28 million compared to \$27 million for the same period last year. Expenses attributable to the other segment amounted to \$21 million compared to \$23 million in the prior year.



NEWS/CURRENT AFFAIRS

Extreme drought, low water conditions, to impact 2021-22 revenue and net income

With drought conditions persisting well into autumn across the Canadian prairies, Manitoba Hydro now forecasts a reduction in net export revenues of approximately \$400 million for the current fiscal year.

As a result, the utility anticipates a potential loss of between \$190 and \$200 million for the current fiscal year. Manitoba Hydro had budgeted net income of \$190 million for the 2021-22 fiscal year.

However, precipitation amounts in late fall and winter, as well as the effect of the actual rate increase Manitoba Hydro requests — and that eventually gets approved through the PUB process — have the potential to impact that range. Manitoba Hydro is in the process of preparing a rate application which it will file with the PUB in November.

The revised forecast continues a trend noted in the Corporation's first quarter report issued in September, highlighting the impact that current drought is having on the utility's finances as lower water flows impact its' ability to sell surplus energy on spot markets in both the United States and Canada. Drought is one of the major risks for any utility that is predominantly hydroelectric.

Typically, anytime Manitoba Hydro has average to above average water conditions the utility runs that water through its' generating station turbines and sells the excess energy created on the opportunity or spot market, as opposed to simply spilling water downriver. That additional revenue helps keep rates for customers in Manitoba lower than they would be otherwise.

The utility's system is designed to ensure it can meet the electrical demands of customers during the lowest recorded flows in the province's history. Manitoba Hydro is managing its water resources and system from an energy security perspective in order to continue to meet all domestic and firm export commitments in the upcoming winter heating season.

Fourth unit at Keeyask brought into service

The Keeyask Project's fourth generating unit was brought online September 11, 2021 and connected to the Manitoba Hydro grid. The remaining three units are expected to be in-service during the 2021-22 fiscal year, with the last unit completed by March 2022.

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.



Manitoba Hydro's former head office for sale

The Corporation's former head office at 820 Taylor Avenue in Winnipeg went up for sale in late August 2021. The sale includes the more than 200 000 square foot building, frontage along Taylor and Harrow Street and the west-side parking lot, for about nine acres in total. Remaining corporate assets at 820 Taylor will be relocated before the April 2023 possession date.

With the Voluntary Departure Program in 2017-18, the Corporation consolidated approximately 680 staff from 820 Taylor to the downtown Winnipeg corporate head office Manitoba Hydro Place at 360 Portage Avenue.

Little Grand Rapids and Pauingassi restoration

This summer, wildfires damaged multiple sections of a remote power line that serves approximately 1 500 residents in Little Grand Rapids and Pauingassi. Manitoba Hydro expedited repairs as quickly as possible to restore service and allow residents to return to their homes beginning October 4, 2021.

Due to no road access to the fire-damaged line, all replacement poles, crossarms, hardware and equipment required by crews needs to be pre-assembled at a staging area near Bloodvein and flown by helicopter to damaged sections of the line. Many of the 91 replacement poles had to be set in rock, requiring specialized drilling equipment. An additional 35 structures required repairs such as new crossarms, anchors and other equipment.

Community leaders received regular updates from Manitoba Hydro on the progress of restoration repairs.

Every Child Matters flag raised at Manitoba Hydro's head office

The Corporation raised an Every Child Matters flag September 23, 2021 outside its head office at 360 Portage Avenue to show support to Indigenous peoples on the impact and legacy of residential schools and the need to work towards reconciliation. The utility also recognized the federally proclaimed National Day for Truth and Reconciliation statutory holiday on September 30, 2021. The new national holiday fulfills Call-to-Action #80 of the Truth and Reconciliation Commission's Final Report from 2015 and is intended to serve as a day of remembrance, reflection, action and learning.



Marina R. James

Chair of the Board



Jay Grewal

President and
Chief Executive Officer

November 14, 2021

FINANCIALS

Consolidated Statement of Income

In millions of dollars (unaudited)

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2021	2020	2021	2020
REVENUES				
Domestic Electric	777	738	381	360
Gas	117	108	42	38
Extraprovincial	343	323	169	190
Other	37	37	20	21
	<u>1 274</u>	<u>1 206</u>	<u>612</u>	<u>609</u>
EXPENSES				
Cost of gas sold	84	72	31	27
Operating and administrative	309	291	160	147
Finance expense	525	435	264	220
Depreciation and amortization	301	262	152	132
Water rentals and assessments	51	65	21	34
Fuel and power purchased	95	71	53	40
Capital and other taxes	86	84	43	42
Other expenses	39	36	18	17
Finance income	(13)	(14)	(5)	(6)
	<u>1 477</u>	<u>1 302</u>	<u>737</u>	<u>653</u>
Net loss before net movement in regulatory balances	(203)	(96)	(125)	(44)
Net movement in regulatory balances	105	53	51	28
Net loss	<u>(98)</u>	<u>(43)</u>	<u>(74)</u>	<u>(16)</u>
Net loss attributable to:				
Manitoba Hydro	(90)	(41)	(71)	(15)
Non-controlling interest	(8)	(2)	(3)	(1)
	<u>(98)</u>	<u>(43)</u>	<u>(74)</u>	<u>(16)</u>

FINANCIALS

Consolidated Statement of Financial Position

In millions of dollars (unaudited)

	AS AT SEPT 30 2021	AS AT MAR 31 2021	AS AT SEPT 30 2020
ASSETS			
Current assets	1 069	1 747	1 785
Property, plant and equipment	26 214	26 023	25 636
Non-current assets	1 684	1 691	1 751
Total assets before regulatory deferral balance	28 967	29 461	29 172
Regulatory deferral balance	1 319	1 254	1 193
	<u>30 286</u>	<u>30 715</u>	<u>30 365</u>
LIABILITIES AND EQUITY			
Current liabilities	2 111	1 872	2 104
Long-term debt	22 473	23 065	22 664
Other non-current liabilities	1 886	1 859	1 963
Deferred revenue	605	579	568
Non-controlling interest	325	323	313
Retained earnings	3 169	3 260	3 099
Accumulated other comprehensive loss	(561)	(560)	(673)
Total liabilities and equity before regulatory deferral balance	30 008	30 398	30 038
Regulatory deferral balance	278	317	327
	<u>30 286</u>	<u>30 715</u>	<u>30 365</u>

FINANCIALS

Consolidated Cash Flow Statement

In millions of dollars (unaudited)

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2021	2020	2021	2020
Operating activities	114	(51)	61	70
Investing activities	(547)	(595)	(282)	(314)
Financing activities	(275)	912	(275)	149
Net increase (decrease) in cash	(708)	266	(496)	(95)
Cash at beginning of period	1142	926	930	1 287
Cash at end of period	434	1 192	434	1 192

Consolidated Statement of Comprehensive Income (Loss)

In millions of dollars (unaudited)

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2021	2020	2021	2020
Net loss attributable to Manitoba Hydro	(90)	(41)	(71)	(15)
Other comprehensive income (loss)				
Items that will be reclassified to income				
<i>Unrealized foreign exchange gains (losses) on debt in cash flow hedges</i>	(18)	50	(21)	14
Items that have been reclassified to income				
<i>Realized foreign exchange losses on debt in cash flow hedges</i>	17	24	9	11
	(1)	74	(12)	25
Comprehensive income (loss) attributable to Manitoba Hydro	(91)	33	(83)	10

FINANCIALS

Segmented Information

In millions of dollars (unaudited)

	ELECTRIC SEGMENT		NATURAL GAS SEGMENT		OTHER SEGMENT		ELIMINATIONS		TOTAL	
SIX MONTHS ENDED SEPTEMBER 30	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	1 134	1 074	118	109	28	27	(6)	(4)	1 274	1 206
Expenses	1 300	1 139	162	144	21	23	(6)	(4)	1 477	1 302
Net income (loss) before net movement in regulatory balances	(166)	(65)	(44)	(35)	7	4	-	-	(203)	(96)
Net movement in regulatory balances	88	39	17	14	-	-	-	-	105	53
Net income (loss)	(78)	(26)	(27)	(21)	7	4	-	-	(98)	(43)
Net income (loss) attributable to:										
Manitoba Hydro	(70)	(24)	(27)	(21)	7	4	-	-	(90)	(41)
Non-controlling interest	(8)	(2)	-	-	-	-	-	-	(8)	(2)
	(78)	(26)	(27)	(21)	7	4	-	-	(98)	(43)
THREE MONTHS ENDED SEPTEMBER 30	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	558	557	43	39	15	14	(4)	(1)	612	609
Expenses	660	579	71	63	10	12	(4)	(1)	737	653
Net income (loss) before net movement in regulatory balances	(102)	(22)	(28)	(24)	5	2	-	-	(125)	(44)
Net movement in regulatory balances	41	18	10	10	-	-	-	-	51	28
Net income (loss)	(61)	(4)	(18)	(14)	5	2	-	-	(74)	(16)
Net income (loss) attributable to:										
Manitoba Hydro	(58)	(3)	(18)	(14)	5	2	-	-	(71)	(15)
Non-controlling interest	(3)	(1)	-	-	-	-	-	-	(3)	(1)
	(61)	(4)	(18)	(14)	5	2	-	-	(74)	(16)
TOTAL ASSETS	29 632	29 737	818	785	124	116	(288)	(273)	30 286	30 365

FINANCIALS

Generation and Delivery Statistics

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2021	2020	2021	2020
ELECTRICITY IN GIGAWATT-HOURS				
Hydraulic generation	13 812	18 028	5 806	9 456
Thermal generation	2	5	-	1
Scheduled energy imports	943	44	871	27
Wind purchases (Manitoba)	428	442	197	200
Total system supply	<u>15 185</u>	<u>18 519</u>	<u>6 874</u>	<u>9 684</u>
GAS IN MILLIONS OF CUBIC METRES				
Gas sales	281	315	87	94
Gas transportation	284	289	112	123
	<u>565</u>	<u>604</u>	<u>199</u>	<u>217</u>



Available in accessible formats upon request.

