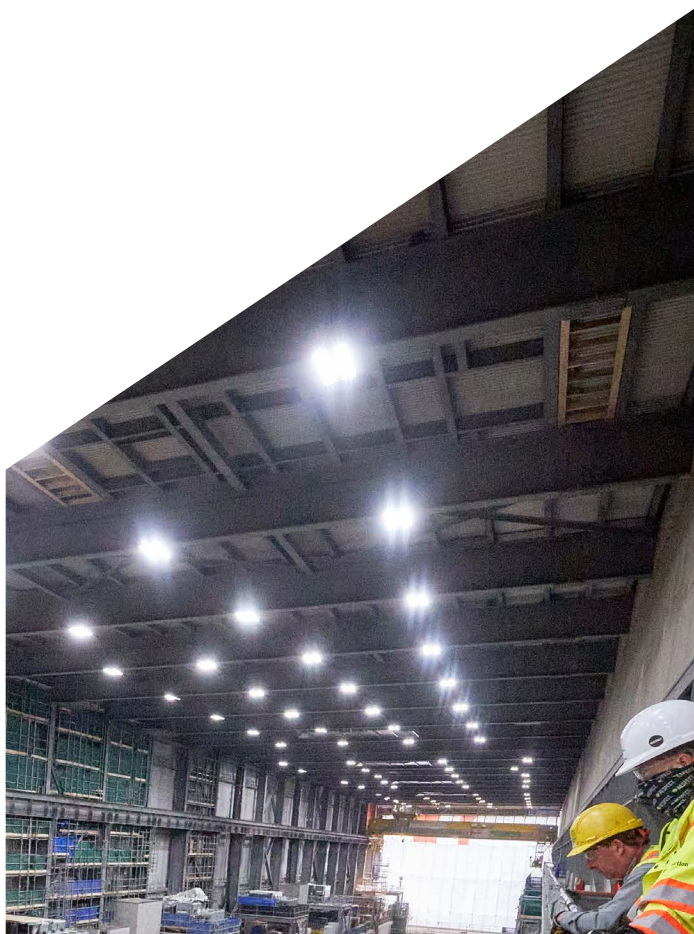


The Manitoba Hydro-Electric Board

# QUARTERLY REPORT

for the nine months ended December 31, 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 \$234 million for the first nine months of 2021-22 compared to net income of \$34 million for the same period last year. The decrease over the prior year was primarily attributable to the effect of low water conditions, higher finance expense and depreciation expense largely due to the first five units of the Keeyask Generating Station (Keeyask) being placed into service as well as higher operating and administrative expenses, partially offset by an increase in dependable sales and higher domestic electric revenues.

#### MANITOBA HYDRO'S CONSOLIDATED NET LOSS WAS \$234 MILLION FOR THE FIRST NINE MONTHS OF 2021-22

The net loss was primarily driven by the impact of lower water conditions in the current year which resulted in higher fuel and power purchases (imports) and lower opportunity sales volumes, 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. The impact of the first five units of the Keeyask project being placed in-service also contributed to the net loss. This resulted 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. Operating and administrative expenses were higher largely due to a shift to operating activities with the winddown of major capital projects 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. These losses 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.

The consolidated net loss was comprised of a \$221 million net loss in the electric segment, a \$22 million loss in the natural gas segment and a \$9 million net profit in the other segment.

#### MANITOBA HYDRO IS ANTICIPATING A POTENTIAL LOSS OF \$221 MILLION

Manitoba Hydro is anticipating a potential loss of \$221 million for the current fiscal year largely due to low water flow conditions. The forecasted net loss is primarily driven by a reduction in net export revenues due to lower hydraulic generation as a result of below average inflows as well as higher import prices. The projection also accounts for the PUB's decision to vary the corporation's requested 5% electric rate increase by approving a 3.6% interim electric rate increase effective January 1, 2022 as well as defer recognition of the Major Capital deferral into income until a future rate hearing. The forecasted net loss reflects the impact of winter domestic revenue to meet expected energy demands based on normal winter weather.





## Electric Segment

Revenues from electricity sales within Manitoba totaled \$1 249 million for the nine-month period, which was \$54 million or 4% 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 \$466 million were \$4 million or 1% 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, partially offset by the impact of drought on opportunity sales resulting in fewer opportunity sales volumes to the U.S. Overall, energy sold in the export market was 5.1 billion kilowatt-hours compared to 9.1 billion kilowatt-hours sold, a decrease of 44% over the same period last year.

Expenses attributable to electric operations totaled \$2 104 million for the nine-month period, representing an increase of \$407 million or 24% as compared to the same period last year. Finance expense increased \$171 million or 29% largely due to higher interest on debt as a result of lower capitalized interest due to the in-service of the first five units of Keeyask. Fuel and power purchased increased \$151 million or 127% primarily as a result of higher market prices due in part to rising natural gas costs along with higher priced forward contracts as well as higher opportunity purchases driven by low water conditions. Depreciation and amortization expense increased \$61 million or 16% as a result of new plant coming into service (including Keeyask). Operating and administrative expenses increased by \$37 million or 10% primarily as a result of a shift to operating activities with the winddown of major capital projects 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. These increases in expenses were partially offset by a decrease of \$24 million or 25% in water rentals and assessments due to lower generation reflecting low water conditions.

The net loss before net movement in regulatory balances was \$367 million. The net movement in regulatory balances of \$137 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 \$77 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 \$230 million of which \$221 million was attributable to Manitoba Hydro and \$9 million was attributable to non-controlling interest. The non-controlling interest represents the portion of operating results for the first nine 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 nine-month period amounted to \$643 million compared to \$936 million for the same period last year. The decrease was primarily the result of lower spending on the Keeyask project as the units are placed in-service as well as reduced spending on the Manitoba-Minnesota Transmission Project (MMTP) as the transmission line went into service in June 2020. Expenditures for the current period included \$258 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 \$23 million for electric demand side management (DSM) programs.

## Natural Gas Segment

The net loss in the natural gas segment was \$22 million for the nine-month period compared to a net loss of \$15 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$75 million compared to \$81 million for the same period last year. Gross margin decreased \$6 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 1 201 million cubic metres compared to 1 261 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$116 million compared to \$110 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 \$33 million for the current nine-month period compared to \$29 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 \$7 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 \$9 million in the other segment for the nine-month period compared to \$6 million for the same period last year. Revenue was \$42 million compared to \$44 million for the same period last year. Expenses attributable to the other segment amounted to \$33 million compared to \$38 million in the prior year.



## NEWS/CURRENT AFFAIRS

### Public Utilities Board approves 3.6% interim electricity rate increase

On December 24, 2021 the PUB released its decision approving a 3.6% interim average rate increase to Manitoba Hydro's electricity customers effective January 1, 2022. Manitoba Hydro had requested a 5% increase from the independent regulator to address the impact of the ongoing drought on Manitoba Hydro's finances in the 2021-22 fiscal year. The interim rate increase will help Manitoba Hydro absorb the financial impacts of the drought and assist with preventing a further deterioration in its financial health.

The increase will differ by customer class in order to reflect the average cost to serve each class. Customers in the residential class without electric heat using an average of 1 000 kilowatt-hours per month will see an increase of approximately \$4 per month. Residential customers with electric heat using an average of 2 000 kilowatt-hours per month will see an increase of approximately \$7 per month.

### Return to office in early 2022 delayed until further notice

On December 20, 2021, Manitoba Hydro's Executive Leadership Team (ELT), made the decision to delay the return to Manitoba Hydro's offices until further notice, based on world-wide concern for the Omicron variant, and projections for Manitoba as informed by Provincial health officials.

Manitoba Hydro's ELT had anticipated starting a return to office in mid-January 2022. In the interim, the utility continues to monitor the current state of the pandemic and review COVID-19 safety protocols to ensure the nearly 2 500 employees that cannot work remotely can carry on doing their jobs safely. Employees working remotely will continue to do so for the time being and will be provided a minimum of four weeks' notice of their return to office date.

Before entering a Manitoba Hydro workplace, employees must be fully vaccinated against COVID-19 or have received a negative result from an approved COVID-19 rapid test taken within 48 hours (a Manitoba Hydro workplace includes a customer's residence or premises).

### Manitoba Hydro launches customer survey for the first Integrated Resource Plan

On November 1, 2021 Manitoba Hydro launched an online survey to gather feedback from its customers about how they might use electricity and natural gas in the future.

The survey was part of Manitoba Hydro's work to prepare for the development of its first-ever Integrated Resource Plan (IRP), a long-term roadmap that will guide its decisions in response to the evolving energy landscape and its impacts on our customers, and our energy supply and delivery systems.



The survey also gave customers a chance to learn about their energy choices and how the utility works to meet their energy needs, and asked questions about our customers' changing energy needs and topics like electric vehicles, solar and wind energy, and time varying rates. The survey closed December 17, 2021 with about 15 000 responses.

An IRP process involves studying possible energy futures in all aspects, including energy production, delivery and use, and plan for the effects of climate change, new policy, customer demands and choices, and natural resource availability. The timeline for completing the IRP is about two years.

## Five Nelson River generating stations treated for zebra mussels

As of the fall of 2021, Manitoba Hydro's zebra mussel project team successfully completed the corporation's first chlorine treatments at five generating stations on the Nelson River, including 45 generators and five fire systems. Zebra mussel larvae were first detected near the Limestone Generating Station on the Nelson River in the fall of 2019. They had spread downstream from Lake Winnipeg.

The five generating stations treated are Long Spruce, Kelsey, Kettle, Limestone and Jenpeg. Zebra mussel growth in critical generating station pipes can be controlled using a low-level chlorine treatment. Chlorine treatment is the most effective method to control adult zebra mussel growth and is widely used at other hydroelectric generating stations in North America.

As zebra mussels are now established in the Nelson River, Manitoba Hydro will continue to monitor their population and treat our stations as necessary. If the stations weren't treated, Manitoba Hydro could face serious problems including increased maintenance, generator outages and overall increased costs.



**Marina R. James**

Chair of the Board



**Jay Grewal**

President and  
Chief Executive Officer

February 14, 2022

# FINANCIALS

## Consolidated Statement of Income

In millions of dollars (unaudited)

		NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
		2021	2020	2021	2020
<b>REVENUES</b>					
Domestic	Electric	1 249	1 195	472	457
	Gas	287	242	170	134
Extraprovincial		466	462	123	139
Other		57	59	20	22
		<u>2 059</u>	<u>1 958</u>	<u>785</u>	<u>752</u>
<b>EXPENSES</b>					
Cost of gas sold		212	161	128	89
Operating and administrative		473	434	164	143
Finance expense		797	625	272	190
Depreciation and amortization		456	395	155	133
Water rentals and assessments		73	97	22	32
Fuel and power purchased		271	119	176	48
Capital and other taxes		129	125	43	41
Other expenses		65	62	26	26
Finance income		(19)	(19)	(6)	(5)
		<u>2 457</u>	<u>1 999</u>	<u>980</u>	<u>697</u>
Net income (loss) before net movement in regulatory balances		(398)	(41)	(195)	55
Net movement in regulatory balances		155	73	50	20
Net Income (Loss)		<u>(243)</u>	<u>32</u>	<u>(145)</u>	<u>75</u>
Net income (loss) attributable to:					
Manitoba Hydro		(234)	34	(144)	75
Non-controlling interest		(9)	(2)	(1)	-
		<u>(243)</u>	<u>32</u>	<u>(145)</u>	<u>75</u>

# FINANCIALS

## Consolidated Statement of Financial Position

In millions of dollars (unaudited)

	AS AT DEC 31 2021	AS AT MAR 31 2021	AS AT DEC 31 2020
<b>ASSETS</b>			
Current assets	1 726	1 747	1 232
Property, plant and equipment	26 299	26 023	25 817
Non-current assets	1 683	1 691	1 719
Total assets before regulatory deferral balance	29 708	29 461	28 768
Regulatory deferral balance	1 359	1 254	1 204
	31 067	30 715	29 972
<b>LIABILITIES AND EQUITY</b>			
Current liabilities	2 464	1 872	1 397
Long-term debt	23 056	23 065	22 913
Other non-current liabilities	1 891	1 859	1 912
Deferred revenue	610	579	571
Non-controlling interest	325	323	319
Retained earnings	3 026	3 260	3 174
Accumulated other comprehensive loss	(572)	(560)	(633)
Total liabilities and equity before regulatory deferral balance	30 800	30 398	29 653
Regulatory deferral balance	267	317	319
	31 067	30 715	29 972



# FINANCIALS

## Consolidated Cash Flow Statement

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2021	2020	2021	2020
Operating Activities	340	105	226	156
Investing Activities	(828)	(855)	(281)	(260)
Financing Activities	419	456	694	(456)
Net increase (decrease) in cash	(69)	(294)	639	(560)
Cash at beginning of period	1 142	926	434	1 192
Cash at end of period	1 073	632	1 073	632

## Consolidated Statement of Comprehensive Income (Loss)

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2021	2020	2021	2020
Net Income (Loss)	(243)	32	(145)	75
Other Comprehensive Income (Loss)				
Items that will be reclassified to income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(39)	81	(21)	31
Items that have been reclassified to income				
Realized foreign exchange losses on debt in cash flow hedges	27	32	10	8
	(12)	113	(11)	39
Comprehensive Income (Loss)	(255)	145	(156)	114

# FINANCIALS

## Segmented Information

In millions of dollars (unaudited)

	ELECTRIC SEGMENT		NATURAL GAS SEGMENT		OTHER SEGMENT		ELIMINATIONS		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
NINE MONTHS ENDED DECEMBER 31										
Revenues	1 737	1 678	288	243	42	44	(8)	(7)	2 059	1 958
Expenses	2 104	1 697	328	271	33	38	(8)	(7)	2 457	1 999
Net income (loss) before net movement in regulatory balances	(367)	(19)	(40)	(28)	9	6	-	-	(398)	(41)
Net movement in regulatory balances	137	60	18	13	-	-	-	-	155	73
Net Income (Loss)	(230)	41	(22)	(15)	9	6	-	-	(243)	32
Net income (loss) attribute to:										
Manitoba Hydro	(221)	43	(22)	(15)	9	6	-	-	(234)	34
Non-controlling interest	(9)	(2)	-	-	-	-	-	-	(9)	(2)
	(230)	41	(22)	(15)	9	6	-	-	(243)	32
THREE MONTHS ENDED DECEMBER 31										
Revenues	603	604	170	134	14	17	(2)	(3)	785	752
Expenses	804	558	166	127	12	15	(2)	(3)	980	697
Net income (loss) before net movement in regulatory balances	(201)	46	4	7	2	2	-	-	(195)	55
Net movement in regulatory balances	49	21	1	(1)	-	-	-	-	50	20
Net Income (Loss)	(152)	67	5	6	2	2	-	-	(145)	75
Net income (loss) attributable to:										
Manitoba Hydro	(151)	67	5	6	2	2	-	-	(144)	75
Non-controlling interest	(1)	-	-	-	-	-	-	-	(1)	-
	(152)	67	5	6	2	2	-	-	(145)	75
TOTAL ASSETS	30 363	29 312	887	837	126	119	(309)	(296)	31 067	29 972

# FINANCIALS

## Generation and Delivery Statistics

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2021	2020	2021	2020
<b>ELECTRICITY IN GIGAWATT-HOURS</b>				
Hydraulic generation	19 401	26 449	5 589	8 421
Thermal generation	3	9	1	4
Scheduled energy imports	2 737	151	1 794	107
Wind purchases (Manitoba)	710	702	282	260
Total system supply	<u>22 851</u>	<u>27 311</u>	<u>7 666</u>	<u>8 792</u>
<b>GAS IN MILLIONS OF CUBIC METRES</b>				
Gas sales	735	777	454	462
Gas transportation	466	484	182	195
	<u>1 201</u>	<u>1 261</u>	<u>636</u>	<u>657</u>

