

The Manitoba Hydro-Electric Board
QUARTERLY REPORT

for the three months ended June 30, 2022



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

Financial Overview

Manitoba Hydro's consolidated net income was \$37 million for the first three months of 2022-23 compared to a net loss of \$19 million for the same period last year. The change over the prior year was primarily attributable to the impacts of higher net export revenue and higher domestic electric revenue, partially offset by higher operating and administrative costs, finance expense and depreciation.

MANITOBA HYDRO'S CONSOLIDATED NET INCOME WAS \$37 MILLION FOR THE FIRST THREE MONTHS OF 2022-23

The increase in net export revenue was primarily driven by higher market prices and more favourable water conditions in the current year which resulted in an increase in opportunity revenue and lower power purchases (imports) partially offset by higher water rentals and assessments due to higher generation. Dependable export revenue was also higher as a result of price escalations and additional contract volumes. In addition, domestic electricity revenue increased largely due to the January 1, 2022 interim electric rate increase, higher customer usage as well as customer growth.

These increases to net income were partially offset by higher operating and administrative expenses, partially related to higher wages and salaries due to an increase to both full-time equivalent employees and wages, a shift to operating activities with the winddown of major capital projects, and higher motor vehicle costs, impacted by the increase in fuel prices. With the in-service of the final unit of Keeyask in March of 2022, there was also higher finance and depreciation expense.

Consolidated net income was comprised of \$47 million net income in the electric segment, \$12 million net loss in the natural gas segment and \$2 million net income in the other segment.

Manitoba Hydro's consolidated net income was \$88 million higher than the budgeted net loss of \$51 million for the first three months of 2022-23. The favourable net income was driven by an increase in net export revenue related to higher market prices and more favourable water conditions and higher electric domestic revenues partially offset by an increase in operating and administrative expenses primarily as a result of lower capital activities, higher motor vehicle costs as well as increased wages and salaries.

MANITOBA HYDRO'S CONSOLIDATED NET INCOME WAS \$88 MILLION HIGHER THAN THE BUDGETED NET LOSS OF \$51 MILLION

Manitoba Hydro's primary sources of liquidity and capital is cash generated from operations and debt financed through the Province of Manitoba. The consolidated cash balance at June 30, 2022 totaled \$812 million. Cash provided from operations of \$8 million during the first quarter of 2022-23 primarily reflects the impacts of earnings as well as interest paid during the quarter. Manitoba Hydro's investing activities used \$175 million in the first three months of 2022-23 reflecting capital construction requirements for business operations capital as well as major capital expenditures. Cash used for financing activities totaled \$104 million as a result of the expected retirement of long-term debt as the corporation's major capital projects continue to winddown and the projected cash requirements to fund these projects decrease. After adjusting to exclude the impacts of major capital spending on core operations, the corporation recorded a shortfall of approximately \$125 million when operating cash flow is compared to cash for investing in core operations. The shortfall is consistent with expectations considering the seasonal nature of the corporation's operations as revenues are largely earned in the second half of the fiscal year. The shortfall is expected to be recovered throughout the remainder of the year.



Manitoba Hydro is projecting net income of \$585 million for the current fiscal year. The combination of above average water conditions and higher projected spot market energy prices in 2022-23 have the potential to provide a substantial positive impact on Manitoba Hydro's net export revenue and net income. While there is less uncertainty on hydro-electric generation for 2022-23, significant uncertainty remains around energy market prices. More than 50% of the increase to net export revenue (and therefore net income) is driven by higher projected energy market prices. Under a range of energy price forecasts for the remainder of the fiscal year, net income can vary by approximately +/- \$300 million from the forecast of \$585 million.

MANITOBA HYDRO IS PROJECTING NET INCOME OF \$585 MILLION

Electric Segment

Electricity sales within Manitoba were \$430 million, \$34 million or 9% higher than the same period last year primarily due to the impact of the January 1, 2022 interim electricity rate increase, higher customer usage as well as customer growth.

Extraprovincial revenue of \$269 million was \$95 million or 55% higher than the same period last year which reflects an increase in opportunity revenues due to the impact of higher market prices and an increase in volumes due to favourable water conditions as well as price escalations and higher contract volumes on dependable revenue as a result of new firm export contracts compared to prior year. Overall, energy sold in the export market was 3.3 billion kilowatt-hours compared to 2.6 billion kilowatt-hours sold, an increase of 27% over the same period last year.

ENERGY SOLD IN THE EXPORT MARKET WAS 3.3 BILLION KILOWATT-HOURS COMPARED TO 2.6 BILLION KILOWATT-HOURS SOLD

Expenses attributable to electric operations totaled \$696 million for the three-month period, representing an increase of \$56 million or 9% as compared to the same period last year. Finance expense increased \$24 million or 10% largely due to higher interest on debt as a result of lower capitalized interest due to the in-service of the final units of Keeyask in March 2022. Operating and administrative expenses increased by \$20 million or 15% partially related to higher wages and salaries due to an increase to both full-time equivalent employees and wages, a shift to operating activities with the winddown of major capital projects and higher motor vehicle costs due mainly to an increase in fuel prices. Depreciation and amortization expense increased \$14 million or 10% as a result of new plant coming into service (including Keeyask).

The net income before net movement in regulatory balances was \$11 million. The net movement in regulatory balances of \$36 million captures the timing differences of revenues and expenses for financial reporting purposes and those amounts approved by the Public Utility Board (PUB) for rate-setting purposes. The decrease of \$11 million in net movement in regulatory deferral balances was primarily due to the end of the Keeyask deferral which ceased in March 2022 with the final unit being placed into service, partially offset by the cessation of the major capital deferral in January 2022 as well as higher amortization of regulatory deferrals associated with the change in depreciation method.

After considering the net movement in the regulatory deferral balances, net income was \$47 million all of which was attributable to Manitoba Hydro.



Expenditures for capital construction for the three-month period amounted to \$151 million compared to \$220 million for the same period last year. The decrease was primarily the result of lower spending on the Keeyask project as the units were placed in-service in 2021-22. Expenditures for the current period included \$39 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. Business operations capital increased by 6% to \$110 million compared to the same period last year partially related to the IBEW strike that occurred in 2021. The corporation also incurred \$9 million for electric demand side management (DSM) programs.

Natural Gas Segment

The net loss in the natural gas segment was \$12 million for the three-month period compared to a net loss of \$9 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$4 million compared to \$22 million for the same period last year. Gross margin decreased by \$18 million primarily due to higher purchased gas costs (compared to amounts charged to customers through rates) partially offset by the impacts of colder weather, higher usage as well as customer growth. The difference between the cost of gas embedded in customer rates and the actual cost of gas purchased is accumulated in the purchased 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. The cost of natural gas is a flow through cost passed onto customers through rates approved by the PUB and therefore does not impact net income. Delivered gas volumes were 415 million cubic metres compared to 366 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$42 million compared to \$38 million for the same period last year. The increase in expenses was primarily attributable to higher operating and administrative expenses due, in part, to the change in accounting rules for cloud computing arrangements and software as a service costs as well as costs associated with planning for the UNIFOR strike. In addition, there are timing related differences contributing to the increase.

Capital expenditures in the natural gas segment were \$7 million for the current three-month period compared to \$8 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 \$3 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 which is consistent with the prior year. Revenue and expenses were \$13 million and \$11 million, respectively in both the current year and prior year.



NEWS/CURRENT AFFAIRS

High water levels on Manitoba Hydro's system

Unprecedented precipitation this spring across southern Manitoba, especially in the Winnipeg River and Red River watersheds - and the melting of above-average winter snowpack across the region - combined to create record-high water flows and high-water levels on some rivers and lakes.

Winnipeg River flows reached the highest-ever recorded and are expected to remain high all summer as water flows from Lake of the Woods and Lac Seul upstream. Lake of the Woods is at the highest level since 1950.

Floodwaters from Lake of the Woods and Red River, which saw the fourth-largest flood on record this spring, flow into Lake Winnipeg. The lake's level has risen five feet since last fall - last year, much of southern Manitoba experienced a severe drought - to rival levels last experienced during the 2011 flood.

Under Lake Winnipeg Regulation (LWR), Manitoba Hydro regulates the flow out of Lake Winnipeg, through the Jenpeg Generating Station and control structure, to help reduce shoreline flooding around the lake and to optimize power generation along the Nelson River. LWR was approved by the Province of Manitoba in 1970 and was in operation in 1976.

Manitoba Hydro, through LWR, is flowing as much water as possible out of Lake Winnipeg to the Nelson River. River flows and lake levels on the Nelson River will also be high all summer and into the fall. Manitoba Hydro is working with the numerous communities on the Nelson River waterway affected by these extreme flows and levels.

April storm hits southwest Manitoba and Parkland region

From April 22 to April 24, Parkland and southwest regions of Manitoba were hammered by a spring storm, causing over 1 000 outages affecting over 15 000 customers.

The on-and-off storm brought high winds, icing on power lines, poor road conditions limiting access and travel, lightning, tree contact, flooding, pole fires and some areas of the province saw up to 40 cm (about 1.31 ft) of snow.

Yet despite these extreme conditions, crews from several jurisdictions restored 400 outages affecting 7 000 customers within just one day. All customers were fully restored by 10 p.m. on April 27 — three days after the storm ended.

Manitoba Hydro employees return to the office

Following approximately two years of working remotely, Manitoba Hydro office employees began a staged return to office locations starting April 25, 2022.

Most employees had returned to Manitoba Hydro's downtown Winnipeg head office by the end of June.

To allow employees time to plan their personal lives and make any required arrangements, a minimum of four weeks' advance notice was provided to all employees of any requirement to return to work in a Manitoba Hydro office.

The first group of employees to return to the downtown headquarters were the Executive Leadership Team, followed by directors and managers, then supervisors. The remaining employees returned in May and June.

Manitoba Hydro appreciates many employees wish to work remotely in some capacity. The corporation also appreciates the benefits of working together in Manitoba Hydro offices, including but not limited to, customer service, collaboration, coaching, development and relationship building.

As part of the transition from working remotely, Manitoba Hydro adopted flexible work options for eligible employees, including working from home Mondays and Wednesdays and reporting to the office at least three days a week.

Integrated Resource Plan hits milestone

Manitoba Hydro began its second phase of engagement for the corporation's first-ever Integrated Resource Plan (IRP) in April 2022. The first phase of engagement was a public survey in which nearly 15 000 customers responded, providing insights into their perspectives on future energy choices.

The second phase involves speaking to interested parties and other stakeholders to confirm the data gathered during the first phase, and to understand the evolving energy landscape more fully.

The information will be used to begin the next stage of developing an IRP: modelling potential future energy scenarios. Using those results, an IRP roadmap will be developed for making sure Manitoba Hydro's energy systems meet the needs of its customers for the next 20 years and beyond. The IRP is expected to be completed by summer 2023.



Edward Kennedy

Chair of the Board

A handwritten signature in black ink that reads "Edward Kennedy".



Jay Grewal

President and
Chief Executive Officer

August 14, 2022

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

FINANCIALS

Consolidated Statement of Income

In millions of dollars (unaudited)

	THREE MONTHS ENDED JUNE 30	
	2022	2021
REVENUES		
Domestic Electric	430	396
Gas	106	75
Extraprovincial	269	174
Other	19	17
	<u>824</u>	<u>662</u>
EXPENSES		
Cost of gas sold	102	53
Operating and administrative	174	149
Finance expense	284	261
Depreciation and amortization	162	149
Water rentals and assessments	33	30
Fuel and power purchased	36	42
Capital and other taxes	45	43
Other expenses	23	21
Finance income	(10)	(8)
	<u>849</u>	<u>740</u>
Net loss before net movement in regulatory balances	(25)	(78)
Net movement in regulatory balances	62	54
Net Income (Loss)	<u>37</u>	<u>(24)</u>
Net income (loss) attributable to:		
Manitoba Hydro	37	(19)
Non-controlling interest	-	(5)
	<u>37</u>	<u>(24)</u>

FINANCIALS

Consolidated Statement of Financial Position

In millions of dollars (unaudited)

	AS AT JUNE 30 2022	AS AT MAR 31 2022	AS AT JUNE 30 2021
ASSETS			
Current assets	1 618	1 721	1 644
Property, plant and equipment	26 390	26 376	26 120
Non-current assets	1 674	1 673	1 687
Total assets before regulatory deferral balance	29 682	29 770	29 451
Regulatory deferral balance	1 385	1 368	1 290
	31 067	31 138	30 741
LIABILITIES AND EQUITY			
Current liabilities	2 709	1 935	2 591
Long-term debt	22 765	23 617	22 377
Other non-current liabilities	1 791	1 774	1 859
Deferred revenue	626	607	599
Non-controlling interest	327	325	324
Retained earnings	3 049	3 012	3 241
Accumulated other comprehensive loss	(406)	(383)	(550)
Total liabilities and equity before regulatory deferral balance	30 861	30 887	30 441
Regulatory deferral balance	206	251	300
	31 067	31 138	30 741

FINANCIALS

Consolidated Cash Flow Statement

In millions of dollars (unaudited)

	THREE MONTHS ENDED JUNE 30	
	2022	2021
Operating Activities	8	(1)
Investing Activities	(175)	(211)
Financing Activities	(104)	-
Net increase (decrease) in cash	<u>(271)</u>	<u>(212)</u>
Cash at beginning of period	<u>1 083</u>	<u>1 142</u>
Cash at end of period	<u><u>812</u></u>	<u><u>930</u></u>

FINANCIALS

Consolidated Statement of Comprehensive Income (Loss)

In millions of dollars (unaudited)

	THREE MONTHS ENDED JUNE 2022	
	2022	2021
Net Income (Loss)	<u>37</u>	<u>(24)</u>
Other Comprehensive Income (Loss)		
Items that will be reclassified to income		
<i>Unrealized foreign exchange gains (losses) on debt in cash flow hedges</i>	(30)	(3)
Items that have been reclassified to income		
<i>Realized foreign exchange losses on debt in cash flow hedges</i>	6	8
	<u>(24)</u>	<u>11</u>
Comprehensive Income (Loss)	<u>13</u>	<u>(13)</u>
Comprehensive Income (Loss) attributable to:		
Manitoba Hydro	13	(8)
Non-controlling interests	-	(5)
	<u>13</u>	<u>13</u>

FINANCIALS

Segmented Information

In millions of dollars (unaudited)

	ELECTRIC SEGMENT		NATURAL GAS SEGMENT		OTHER SEGMENT		ELIMINATIONS		TOTAL	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
THREE MONTHS ENDED JUNE 30										
Revenues	707	576	106	75	13	13	(2)	(2)	824	662
Expenses	696	640	144	91	11	11	(2)	(2)	849	740
Net income (loss) before net movement in regulatory balances	11	(64)	(38)	(16)	2	2	-	-	(25)	(78)
Net movement in regulatory balances	36	47	26	7	-	-	-	-	62	54
Net Income (Loss)	47	(17)	(12)	(9)	2	2	-	-	37	(24)
Net income (loss) attributable to:										
Manitoba Hydro	47	(12)	(12)	(9)	2	2	-	-	37	(19)
Non-controlling interest	-	(5)	-	-	-	-	-	-	-	(5)
	47	(17)	(12)	(9)	2	2	-	-	37	(24)
TOTAL ASSETS	30 363	30 063	878	815	127	120	(301)	(257)	31 067	30 741

Generation and Delivery Statistics

	THREE MONTHS ENDED JUNE 30	
	2022	2021
ELECTRICITY IN GIGAWATT-HOURS		
Hydraulic generation	8 983	8 006
Thermal generation	-	2
Scheduled energy imports	140	72
Wind purchases (Manitoba)	251	231
Total system supply	9 374	8 311
GAS IN MILLIONS OF CUBIC METRES		
Gas sales	229	194
Gas transportation	186	172
	415	366

