

The Manitoba Hydro-Electric Board

# QUARTERLY REPORT

for the nine months ended December 31, 2020





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

### Financial Overview

Manitoba Hydro's consolidated net income was \$34 million for the first nine months of 2020-21 compared to \$7 million for the same period last year. The increase in net income was primarily attributable to an increase in extraprovincial sales as a result of new firm dependable sales contracts and higher U.S. opportunity sales volumes, partially offset by lower spot market prices as well as lower operating and administrative expenses due to the impacts of COVID-19 and the associated government cost saving initiatives. These increases in net income were partially offset by higher fuel and power purchases as a result of the commencement of costs associated with the in-service of the Great Northern Transmission Line (GNL) as well as an increase in net finance expense as a result of an increase in debt volumes to ensure liquidity in response to market disruptions caused by COVID-19. 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'S CONSOLIDATED NET INCOME WAS \$34 MILLION FOR THE FIRST NINE MONTHS OF 2020-21

The consolidated net income was comprised of a \$43 million net profit in the electric segment, a \$15 million loss in the natural gas segment and a \$6 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 assuming normal winter weather.

Manitoba Hydro's budgeted net income for 2020-21 is \$47 million; however, Manitoba Hydro is currently projecting net income to be approximately \$111 million. The increase is primarily due to the delay in the in-service of the Keeyask Project resulting in continued capitalization of interest and a delay in depreciation expense, partially offset by lower export revenues due to lower U.S. spot market prices as a result of the global economic slowdown. The reduction in domestic consumption by major industrial and commercial customers related to COVID-19 has been mainly offset by increased consumption in the residential sector due to favourable weather conditions and the impacts of COVID-19.

#### MANITOBA HYDRO IS CURRENTLY PROJECTING NET INCOME TO BE APPROXIMATELY \$111 MILLION.



## Electric Segment

Revenues from electricity sales within Manitoba totaled \$1 195 million for the nine-month period, which was \$7 million or 1% higher than the same period last year. The increase in domestic revenue was primarily attributable to customer growth, the impact of the June 1, 2019 and December 1, 2020 electric rate increases as well as favourable weather conditions earlier in the year, partially offset by lower domestic usage caused in part by the impact of COVID-19 on commercial and major consumers. Extraprovincial revenues of \$462 million were \$101 million or 28% 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 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, a trend of lower natural gas prices and an abundance of wind generation in the market. Overall, energy sold in the export market was 9.1 billion kilowatt-hours compared to 7.3 billion kilowatt-hours sold in the same period last year. Other revenues of \$20 million were largely consistent with the prior year.

Expenses attributable to electric operations totaled \$1 697 million for the nine-month period. This represented an increase of \$69 million or 4% as compared to the same period last year. Fuel and power purchased increased \$47 million or 65% primarily as a result of an increase in transmission charges due to the in-service of the GNTL. Net finance expense increased \$24 million or 4% largely due to 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. Depreciation and amortization expense increased \$15 million or 4% as a result of new plant coming into service. These increases were partially offset by a decrease of \$13 million or 27% 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 \$11 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 \$19 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 \$60 million in the regulatory deferral balances, there was net income of \$41 million of which \$43 million is attributable to Manitoba Hydro and a \$2 million net loss is attributable to non-controlling interest. The non-controlling interest represents Taskiniga Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first nine months of the 2020-21 fiscal year. The decrease of \$17 million in net movement in regulatory deferral balances was largely due to lower DSM spending as well as the nine-month impact of the PUB's decision to defer the June 1, 2019 rate increase compared to seven months of deferral in the prior year.

Expenditures for capital construction for the nine-month period amounted to \$936 million compared to \$1 483 million for the same period last year. The decrease was primarily the result of lower spending on the Keeyask Project as a result of delays in construction activity due to COVID-19 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 \$472 million related to construction of the Keeyask Project and \$81 million for the 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 \$24 million for electric DSM programs.

## Natural Gas Segment

The net loss in the natural gas segment was \$15 million for the nine-month period compared to a net loss of \$16 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$81 million compared to \$95 million for the same period last year. Gross margin decreased \$14 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, lower usage as well as the impacts of warmer weather partially offset by customer growth. 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 1 261 million cubic metres compared to 1 336 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$110 million compared to \$112 million for the same period last year. The decrease in expenses was primarily attributable to lower other expenses as a result of fewer regulatory proceedings as well as lower operating and administrative expenses due to the impacts of COVID-19 and the related government cost saving initiatives, 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 \$28 million. After considering the net movement of \$13 million in the regulatory balances, there was a net loss of \$15 million. After removing the impact of PGVAs of \$12 million, net movement in regulatory balances was largely consistent with the same period last year.

Capital expenditures in the natural gas segment were \$29 million for the current nine-month period compared to \$30 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 \$6 million in the other segment for the nine-month period compared to \$5 million for the same period last year. Revenue was \$44 million compared to \$40 million for the same period last year. Expenses attributable to the other segment amounted to \$38 million compared to \$35 million in the prior year.





## NEWS/CURRENT AFFAIRS

### Manitoba Hydro Ready to Meet Federal Guidelines

On December 11, 2020, Manitoba Hydro issued a news release to all Manitoba media that with its abundant renewable hydropower, Manitoba is poised to lead Canada under new proposed federal legislation to reduce greenhouse gas (GHG) emissions.

Under legislation introduced in Parliament on November 19, 2020, national targets for the reduction of GHG emissions would be set for the years 2030, 2035, 2040 and 2045 with the goal of attaining national net-zero GHG emissions by 2050. Using the latest available figures for 2019, Manitoba Hydro's electrical operations are among the least GHG-intensive of all electrical utilities in the country, emitting approximately 0.88 tonnes of GHGs per gigawatt-hour of power generated. GHG emissions from Manitoba Hydro's electricity and natural gas operations are also less than one per cent of total provincial GHG emissions, and the province contributes less than three per cent of Canada's national GHG emissions.

### Transformers Replaced at Slave Falls Generating Station

On December 1, 2020, Manitoba Hydro staff completed the second set of nine transformer replacements at the Slave Falls Generating Station on the Winnipeg River, ensuring the 90-year-old station - the first unit went into service in 1931 - continues to supply clean, renewable energy. The project involves replacing three banks of three transformers.

Because of the weight of the new transformers —up to 35 tonnes (77 000 lbs.) — special precautions were put in place, including safely pumping the oil out of the old transformers and taking them apart to fit through the generating station door, upgrading the overhead crane at Slave Falls to lift the new transformers, and using a winch-driven cart to safely pull each transformer across the station's spillway. The new transformers are three-phase instead of single-phase. Ancillary equipment like breakers, protection and lighting has also been upgraded. The final transformer replacements will take place in spring 2021.

### Manitoba Hydro Releases its First Corporate Social Responsibility Report

On November 19, 2020, Manitoba Hydro released its first Corporate Social Responsibility Report, detailing the Crown utility's contribution to the province is more than supplying renewable hydroelectricity and clean-burning natural gas.

The Corporate Social Responsibility Report, available on the utility's website, highlighted efforts to reflect the values of Manitobans, such as protecting the environment, diversity in hiring new employees and strengthening relationships with Indigenous communities. The report also reaffirmed the commitment of Manitoba Hydro and its employees to safety and inclusivity.



## First Tower Erected on Birtle Transmission Project

The first tower on the Birtle Transmission Project was erected October 24, 2020. The Birtle Transmission Project is a 230-kilovolt transmission line from Birtle Station, south of the community of Birtle in Manitoba, to the Manitoba–Saskatchewan boundary. SaskPower is responsible for the portion of the transmission line in Saskatchewan that will connect to their station in Tantallon, SK.

When the line is placed into service in June 2021, it will allow Manitoba Hydro to export more clean, renewable electricity to Saskatchewan, helping that province manage demand on its power system and reach its goal of reducing emissions by 40 per cent by 2030 from 2005 levels.



**Marina R. James**

Chair of the Board



**Jay Grewal**

President and  
Chief Executive Officer

February 14, 2021

# FINANCIALS

## Consolidated Statement of Income

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2020	2019	2020	2019
<b>REVENUE</b>				
Domestic Electric	1 195	1 188	457	464
Gas	242	240	134	130
Extraprovincial	462	361	139	97
Other	59	53	22	20
	<u>1 958</u>	<u>1 842</u>	<u>752</u>	<u>711</u>
<b>EXPENSES</b>				
Cost of gas sold	161	145	89	84
Operating and administrative	434	445	143	149
Finance expense (net)	606	583	185	196
Depreciation and amortization	395	378	133	121
Water rentals and assessments	97	90	32	32
Fuel and power purchased	119	72	48	29
Capital and other taxes	125	124	41	41
Other expenses	62	74	26	25
	<u>1 999</u>	<u>1 911</u>	<u>697</u>	<u>677</u>
Net income (loss) before net movement in regulatory balances	(41)	(69)	55	34
Net movement in regulatory balances	73	76	20	21
	<u>32</u>	<u>7</u>	<u>75</u>	<u>55</u>
Net income (loss) attributable to:				
Manitoba Hydro	34	7	75	54
Non-controlling interest	(2)	-	-	1
	<u>32</u>	<u>7</u>	<u>75</u>	<u>55</u>

# FINANCIALS

## Consolidated Statement of Financial Position

In millions of dollars (unaudited)

	AS AT DEC 31 2020	AS AT MAR 31 2020	AS AT DEC 31 2019
<b>ASSETS</b>			
Current assets	1 232	1 509	1 548
Property, plant and equipment	25 817	25 190	24 834
Non-current assets	1 719	1 428	1 386
Total assets before regulatory deferral balance	28 768	28 127	27 768
Regulatory deferral balance	1 204	1 179	1 166
	29 972	29 306	29 934
<b>LIABILITIES AND EQUITY</b>			
Current liabilities	1 397	2 120	2 310
Long-term debt	22 913	21 950	21 395
Other non-current liabilities	1 912	1 624	1 688
Deferred revenue	571	549	559
Non-controlling interest	319	302	293
Retained earnings	3 174	3 141	3 032
Accumulated other comprehensive loss	(633)	(747)	(724)
Total liabilities and equity before regulatory deferral balance	29 653	28 939	28 553
Regulatory deferral balance	319	367	381
	29 972	29 306	28 934



# FINANCIALS

## Consolidated Cash Flow Statement

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2020	2019	2020	2019
Operating Activities	105	234	153	221
Investing Activities	(855)	(1 565)	(257)	(551)
Financing Activities	456	1 413	(456)	473
Net increase (decrease) in cash	(294)	82	(560)	143
Cash at beginning of period	926	900	1 192	839
Cash at end of period	632	982	632	982

## Consolidated Statement of Comprehensive Income

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2020	2019	2020	2019
Net income attributable to Manitoba Hydro	34	7	75	54
Other Comprehensive Income				
Items that will be reclassified to income				
<i>Unrealized foreign exchange gains on debt in cash flow hedges</i>	81	30	31	19
Items that have been reclassified to income				
<i>Realized foreign exchange losses on debt in cash flow hedges</i>	32	27	8	10
	113	57	39	29
Comprehensive Income Attributable to Manitoba Hydro	147	64	114	83

# FINANCIALS

## Segmented Information

In millions of dollars (unaudited)

	ELECTRIC SEGMENT		NATURAL GAS SEGMENT		OTHER SEGMENT		ELIMINATIONS		TOTAL	
<b>NINE MONTHS ENDED DECEMBER 31</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenue	1 678	1 569	243	241	44	40	(7)	(8)	1 958	1 842
Expenses	1 697	1 628	271	256	38	35	(7)	(8)	1 999	1 911
Net income (loss) before net movement in regulatory balances	(19)	(59)	(28)	(15)	6	5	-	-	(41)	(69)
Net movement in regulatory balances	60	77	13	(1)	-	-	-	-	73	76
Net Income (Loss)	41	18	(15)	(16)	6	5	-	-	32	7
Net income (loss) attribute to:										
Manitoba Hydro	43	18	(15)	(16)	6	5	-	-	34	7
Non-controlling interest	(2)	-	-	-	-	-	-	-	(2)	-
	41	18	(15)	(16)	6	5	-	-	32	7
<b>THREE MONTHS ENDED DECEMBER 31</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenue	604	568	134	131	17	15	(3)	(3)	752	711
Expenses	558	546	127	122	15	13	(3)	(4)	697	677
Net income before net movement in regulatory balances	46	22	7	9	2	2	-	1	55	34
Net movement in regulatory balances	21	24	(1)	(3)	-	-	-	-	20	21
Net Income	67	46	6	6	2	2	-	1	75	55
Net income attribute to:										
Manitoba Hydro	67	45	6	6	2	2	-	1	75	54
Non-controlling interest	-	1	-	-	-	-	-	-	-	1
	67	46	6	6	2	2	-	1	75	55
<b>TOTAL ASSETS</b>	<b>29 312</b>	<b>28 275</b>	<b>837</b>	<b>812</b>	<b>119</b>	<b>112</b>	<b>(296)</b>	<b>(265)</b>	<b>29 972</b>	<b>28 934</b>

# FINANCIALS

## Generation and Delivery Statistics

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2020	2019	2020	2019
<b>ELECTRICITY IN GIGAWATT-HOURS</b>				
Hydraulic generation	26 449	24 693	8 421	8 634
Thermal generation	9	22	4	21
Scheduled energy imports	151	66	107	26
Wind purchases (Manitoba)	702	642	260	248
Total system supply	<u>27 311</u>	<u>25 423</u>	<u>8 792</u>	<u>8 929</u>
<b>GAS IN MILLIONS OF CUBIC METRES</b>				
Gas sales	777	820	462	517
Gas transportation	484	516	195	191
	<u>1 261</u>	<u>1 336</u>	<u>657</u>	<u>708</u>

