

The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the three months ended June 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 \$19 million for the first three months of 2021–22 compared to \$26 million for the same period last year. The decrease in net loss was primarily attributable to an increase in extraprovincial sales as a result of new firm dependable sales contracts as well as higher export prices. In addition, there was higher domestic revenues as a result of the impact of the December 1, 2020 electric rate increase, customer growth and higher customer usage partially offset by weather impacts. These decreases in net loss were partially offset by higher finance expense and depreciation expense largely due to the first three units of Keeyask being placed into service as well as higher fuel and power purchases as a result of the full quarter impact of costs associated with the in-service of the 500 kV transmission interconnection to the U.S. 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 LOSS WAS \$19 MILLION FOR THE FIRST THREE MONTHS OF 2021–22

The consolidated net loss was comprised of a \$12 million net loss in the electric segment, a \$9 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 assuming normal winter weather.

Manitoba Hydro is currently projecting breakeven net income for the 2021–22 fiscal year compared to the budgeted net income of \$190 million. The significant decrease in net income is primarily driven by lower experienced and projected revenues due to reduced volumes available for sale in the export market as a result of unfavourable water conditions. Southern portions of the watershed supplying the Manitoba Hydro system have experienced drier than normal conditions since summer 2020. Manitoba Hydro projects its total hydraulic generation to be below budget and is planning its operations to ensure the electricity demands of Manitobans will be met if drought conditions continue. The forecast has also been adjusted to reflect an overall rate increase of 2.5% compared to the budgeted rate of 3.5%.

MANITOBA HYDRO IS CURRENTLY PROJECTING BREAKEVEN NET INCOME FOR THE 2021–22 FISCAL YEAR COMPARED TO THE BUDGETED NET INCOME OF \$190 MILLION.



Electric Segment

Revenues from electricity sales within Manitoba totaled \$396 million for the three-month period, which was \$18 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, customer growth as well as higher customer usage partially offset by lower heating load. Extraprovincial revenues of \$174 million were \$41 million or 31% 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 export prices. Overall, energy sold in the export market was 2.6 billion kilowatt-hours compared to 3.2 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 \$640 million for the three-month period. This represented an increase of \$80 million or 14% as compared to the same period last year. Net finance expense increased \$46 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 three units of the Keeyask Generating Station. Depreciation and amortization expense increased \$18 million or 15% as a result of new plant coming into service (including Keeyask). Fuel and power purchased increased \$11 million or 35% primarily as a result of higher transmission and other related charges due to the full quarter impact of the costs associated with the in-service of the 500 kV transmission interconnection to the U.S.

The net loss before net movement in regulatory balances was \$64 million. The net movement in regulatory balances of \$47 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 \$26 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 \$17 million of which \$12 million was attributable to Manitoba Hydro and \$5 million was attributable to non-controlling interest. The non-controlling interest represents the portion of operating results for the first three 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 three-month period amounted to \$220 million compared to \$311 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 \$114 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 \$8 million for electric demand side management (DSM) programs.

Natural Gas Segment

The net loss in the natural gas segment was \$9 million for the three-month period compared to a net loss of \$7 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$21 million compared to \$24 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 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 366 million cubic metres compared to 387 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$38 million compared to \$36 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 \$8 million for the current three-month period compared to \$6 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 of \$2 million in the other segment for the three-month period was consistent with the same period last year. Revenues of \$13 million and expenses of \$11 million attributable to the other segment were consistent with the same period in the prior year.



NEWS/CURRENT AFFAIRS

Second and Third Units of Keeyask Generating Station Comes Online

On April 29, 2021, the second of seven generating units at Keeyask was brought online and connected to the Manitoba Hydro grid adding up to 100 MW of power to the Manitoba Hydro system. In addition, on June 29, 2021, the third unit at Keeyask was brought online and connected to the grid. With three units, when working at full output, Keeyask can generate power for more than 150 000 average homes — that's around half of the private dwellings in Winnipeg, according to 2016 census data.

The first unit was certified for service by Transmission System Operations on April 22. This step — which provides confirmation of the reliability and capacity of a unit's power output — is a recognized standard that shows export customers that Manitoba Hydro will provide them with reliable power to serve their contracts.

Upgrades to Electricity System Will Increase Reliability

In the first quarter of 2021, Manitoba Hydro began two new projects — one in Winnipeg and one in Winnipeg Beach — to improve reliability in both areas.

The Ness Avenue project in Winnipeg began in February and is scheduled to finish in approximately a year and a half. Old poles nearing the end of serviceable life will be replaced along Ness Avenue to reduce outages and improve overall reliability. A similar project began in Winnipeg Beach in April 2021 and is scheduled to end approximately in late fall. The area has seen a steady 3% growth in electricity load and the current equipment servicing it cannot meet its future projected needs. Poles and lines in Winnipeg Beach will be upgraded from 8 kV lines to 25 kV lines — a change that will improve reliability and plan for future growth. This work will also include tree trimming around poles and lines. Tree contact is a common cause of outages, and properly maintaining vegetation is critical to public safety and reliability.

Churchill River Diversion and Lake Winnipeg Regulation Receive Final Water Power Act Licences

On May 15, 2021, Manitoba Hydro received Final Licences under the Province of Manitoba's Water Power Act for the Churchill River Diversion and Lake Winnipeg Regulation. Interim Licences for the two projects were first issued approximately 45 years ago. The Churchill River Diversion and Lake Winnipeg Regulation enhance the availability and timing of water for electricity production by the utility's generating stations on the lower Nelson River, which produce over 70% of Manitoba Hydro's annual energy generation. The Churchill River Diversion and Lake Winnipeg Regulation were undertaken in accordance with the environmental and regulatory standards of the time. Manitoba Hydro has settlement agreements in place with all communities affected by the Churchill River Diversion and Lake Winnipeg Regulation. These agreements continue to be fully honoured by Manitoba Hydro.



Over 20 Kitchen Appliances Donated to Local Community Organizations

Vacated cafeteria spaces at four of Manitoba Hydro's facilities — 820 Taylor Ave., 1315 Notre Dame Ave., 35 Sutherland Ave., and 1840 Chevrier Blvd. — left an opportunity to re-purpose their space and a quandary of what to do with existing commercial kitchen equipment.

After failing to auction the equipment, Corporate Facilities turned to Community Investment for the greatest return: donating the equipment to local social agencies and community organizations. Seven Winnipeg organizations received 22 pieces of commercial kitchen equipment, ranging from freezers and toasters and bread boxes to food warmers, display cases, deep fryers, and Coca-Cola fridges. These organizations will be able to use the equipment in their programming.

To ensure safety and compliance with COVID-19 protocols, Manitoba Hydro also moved and delivered all the equipment from our four buildings to the organizations.



Marina R. James

Chair of the Board



Jay Grewal

President and
Chief Executive Officer

August 14, 2021

FINANCIALS

Consolidated Statement of Income

In millions of dollars (unaudited)

		THREE MONTHS ENDED JUNE 30	
		2021	2020
REVENUES			
Domestic	Electric	396	378
	Gas	75	70
Extraprovincial		174	133
Other		17	16
		<u>662</u>	<u>597</u>
EXPENSES			
Cost of gas sold		53	45
Operating and administrative		149	144
Finance expense (net)		253	207
Depreciation and amortization		149	130
Water rentals and assessments		30	31
Fuel and power purchased		42	31
Capital and other taxes		43	42
Other expenses		21	19
		<u>740</u>	<u>649</u>
Net loss before net movement in regulatory balances		(78)	(52)
Net movement in regulatory balances		54	25
		<u>(24)</u>	<u>(27)</u>
Net loss attributable to:			
Manitoba Hydro		(19)	(26)
Non-controlling interest		(5)	(1)
		<u>(24)</u>	<u>(27)</u>

FINANCIALS

Consolidated Statement of Financial Position

In millions of dollars (unaudited)

	AS AT JUN 30 2021	AS AT MAR 31 2021	AS AT JUN 30 2020
ASSETS			
Current assets	1 419	1 747	1 983
Property, plant and equipment	26 120	26 023	25 406
Non-current assets	1 912	1 691	1 447
Total assets before regulatory deferral balance	29 451	29 461	28 836
Regulatory deferral balance	1 290	1 254	1 187
	<u>30 741</u>	<u>30 715</u>	<u>30 023</u>
LIABILITIES AND EQUITY			
Current liabilities	2 591	1 872	1 492
Long-term debt	22 377	23 065	23 241
Other non-current liabilities	1 859	1 859	1 650
Deferred revenue	599	579	565
Non-controlling interest	324	323	308
Retained earnings	3 241	3 260	3 114
Accumulated other comprehensive loss	(550)	(560)	(697)
Total liabilities and equity before regulatory deferral balance	30 441	30 398	29 673
Regulatory deferral balance	300	317	350
	<u>30 741</u>	<u>30 715</u>	<u>30 023</u>

FINANCIALS

Consolidated Cash Flow Statement

In millions of dollars (unaudited)

	THREE MONTHS ENDED JUNE 30	
	2021	2020
Operating activities	53	(121)
Investing activities	(265)	(281)
Financing activities	—	763
Net increase (decrease) in cash	(212)	361
Cash at beginning of period	1142	926
Cash at end of period	930	1287

Consolidated Statement of Comprehensive Income (Loss)

In millions of dollars (unaudited)

	THREE MONTHS ENDED JUNE 30	
	2021	2020
Net loss attributable to Manitoba Hydro	(19)	(26)
Other comprehensive income		
Items that will be reclassified to income		
<i>Unrealized foreign exchange gains on debt in cash flow hedges</i>	3	36
Items that have been reclassified to income		
<i>Realized foreign exchange losses on debt in cash flow hedges</i>	8	13
Comprehensive income (loss) attributable to Manitoba Hydro	(8)	23

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
THREE MONTHS ENDED JUNE 30										
Revenue	576	517	75	70	13	13	(2)	(3)	662	597
Expenses	640	560	91	81	11	11	(2)	(3)	740	649
Net income (loss) before net movement in regulatory balances	(64)	(43)	(16)	(11)	2	2	-	-	(78)	(52)
Net movement in regulatory balances	47	21	7	4	-	-	-	-	54	25
Net income (loss)	(17)	(22)	(9)	(7)	2	2	-	-	(24)	(27)
Net income (loss) attributable to:										
Manitoba Hydro	(12)	(21)	(9)	(7)	2	2	-	-	(19)	(26)
Non-controlling interest	(5)	(1)	-	-	-	-	-	-	(5)	(1)
	(17)	(22)	(9)	(7)	2	2	-	-	(24)	(27)
TOTAL ASSETS	30063	29374	815	778	120	113	(257)	(242)	30741	30023

FINANCIALS

Generation and Delivery Statistics

THREE MONTHS ENDED JUNE 30		
	2021	2020
ELECTRICITY IN GIGAWATT-HOURS		
Hydraulic generation	8 006	8 572
Thermal generation	2	4
Scheduled energy imports	72	17
Wind purchases (Manitoba)	231	242
Total system supply	<u>8 311</u>	<u>8 835</u>
GAS IN MILLIONS OF CUBIC METRES		
Gas sales	194	221
Gas transportation	172	166
	<u>366</u>	<u>387</u>



Available in accessible formats upon request.

