

The Manitoba Hydro-Electric Board  
**QUARTERLY REPORT**

for the nine months ended December 31, 2022



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

## Highlights for the Third Quarter Ended December 31, 2022

During the third quarter of 2022-23, the Province of Manitoba announced a reduction to the fees charged to the corporation to guarantee its debt, known as the Provincial Guarantee Fee (PGF), and the rate the province charges for the use of water in generating electricity (water rentals). Both fees were reduced by 50%, effective April 1, 2022. The reduction in fees is expected to result in approximately \$190 million in savings for the year-ended March 31, 2023.

In October of 2022, Real Time Digital Solutions Technologies Inc. (RTDS), a private Manitoba company, was purchased by a third party. This acquisition triggered the sale of Manitoba Hydro International Ltd.'s (MHI) interests in RTDS. MHI had been receiving royalty revenue from RTDS related to a licensing agreement. MHI received \$68 million as a result of the conversion of MHI's royalty stream into shares just in advance of the sale transaction. The one-time payment compensates MHI for the royalty stream, which ceased following the sale.

## Financial Overview

Consolidated net income attributable to Manitoba Hydro was \$450 million for the first nine months of 2022-23 compared to a net loss of \$234 million for the same period last year. The change over the prior year was primarily attributable to the impacts of higher net exports, lower finance expense and water rentals due to the Province of Manitoba's reduction to the PGF and water rental rate, higher domestic electric revenue and higher other revenue due to the sale of royalty interests by MHI, partially offset by higher Keeyask expense impacts as well as an increase in operating and administrative costs.

### CONSOLIDATED NET INCOME ATTRIBUTABLE TO MANITOBA HYDRO WAS \$450 MILLION FOR THE FIRST NINE MONTHS OF 2022-23

The increase in net export revenue was primarily driven by more favourable water conditions and higher market prices in the current year which resulted in an increase in opportunity revenue and lower power purchases (imports). Dependable export revenue was also higher as a result of additional contract volumes and price escalations. The increase to net income was also impacted by the announcement made by the Province of Manitoba to reduce the fees charged to the corporation to guarantee its debt (PGF) and the rate charged for the use of water in the generation of electricity (water rentals) by 50%, effective April 1, 2022. 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. As well, in October of 2022, MHI sold its royalty interests in RTDS as a result of its acquisition by a third party.

These increases to net income were partially offset by the year over year impacts of the Keeyask in-service (final in-service occurred in March of 2022) which primarily resulted in increases to finance and depreciation expense. Operating expenses were higher due to a number of factors, including a reduction in labour hours charged to capital projects, higher wages and salaries, impacts of shifting to more cloud-based IT services requiring such costs to be expensed, costs related to Keeyask being fully-in service, as well as the impacts of inflationary pressures and global supply chain challenges on both motor vehicle expenses and materials and tools costs. There were also increased costs associated with the return-to-office following the COVID-19 pandemic.

Consolidated net income was comprised of \$405 million net income in the electric segment, \$34 million net loss in the natural gas segment and \$79 million net income in the other segment.

Consolidated net income attributable to Manitoba Hydro was \$435 million higher than budget net income of \$15 million for the first nine 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. Finance expense and water rentals were lower due to the Province of Manitoba's reduction of the PGF and water rental rate by 50%, other revenue was higher from the sale of royalty interests by MHI and electric domestic revenues were higher. This was partially offset by an increase in operating and administrative expenses primarily due to a reduction in labour hours charged to capital projects, higher motor vehicle and materials and tools costs due in part to inflationary pressures and supply chain challenges, as well as costs for cloud computing arrangements. There were also costs associated with the return-to-office.

## CONSOLIDATED NET INCOME ATTRIBUTABLE TO MANITOBA HYDRO WAS \$435 MILLION HIGHER THAN BUDGET NET INCOME OF \$15 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 December 31, 2022 totaled \$924 million. Cash provided from operations of \$787 million during the nine-month period ending December 31, 2022 primarily reflects the impacts of earnings as well as interest paid during the quarter. Manitoba Hydro's investing activities used \$580 million in the first nine months of 2022-23 reflecting capital construction requirements for business operations capital as well as major capital expenditures. Cash used for financing activities totaled \$366 million as a result of the expected retirement of long-term debt as the corporation's major capital projects continue to wind down and the projected cash requirements to fund those projects decrease. After adjusting to exclude the impacts of major capital spending on core operations, the corporation recorded a surplus of approximately \$314 million when operating cash flow is compared to cash for investing in core operations. The surplus is the result of the favourable net income experienced through the first nine months and is expected to remain favourable based on projected net income and cash flows.

## MANITOBA HYDRO IS PROJECTING NET INCOME OF APPROXIMATELY \$600-700 MILLION

Manitoba Hydro is projecting net income of approximately \$600-700 million for the current fiscal year, an increase from the projected net income outlined in the second quarter. The increase is attributable to the Province of Manitoba's reduction to the PGF and water rental rates partially offset by some softening of net export revenue primarily due to an expected decrease in spot market energy prices. The variability of projected net income reflects the risks and uncertainties associated with projected prices, discount rates, weather impacts and other factors which can materially impact revenue and expenses in the final quarter.

### Electric Segment

Electricity sales within Manitoba were \$1 337 million, \$88 million or 7% higher than the same period last year primarily due to the impact of the January 1, 2022 interim electricity rate increase, higher usage as well as customer growth, partially offset by weather impacts.

Extraprovincial revenue of \$929 million was \$463 million or 99% 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 attributable to favourable water conditions as well as higher contract volumes and price escalations on dependable revenue as a result of new firm export contracts. Overall, energy sold in the export market was 11.2 billion kilowatt-hours compared to 5.1 billion kilowatt-hours sold, more than double the amount compared to the same period last year.

## ENERGY SOLD IN THE EXPORT MARKET WAS 11.2 BILLION KILOWATT-HOURS COMPARED TO 5.1 BILLION KILOWATT-HOURS SOLD

Expenses attributable to electric operations totaled \$1 990 million for the nine-month period, representing a decrease of \$114 million or 5% as compared to the same period last year. Fuel and power purchases were \$161 million or 59% lower primarily due to a lower volume of purchases required this year compared to drought conditions experienced in the prior year. The reduction in the PGF and water rental rates charged by the Province of Manitoba reduced finance expense and water rentals by \$87 million and \$50 million, respectively.

The decreased expenditures were partially offset by cost increases related to the in-service and operations of Keeyask (fully in-service in March of 2022) related to finance expense, depreciation and operating and administrative expenses. Overall operating and administrative expenses increased due to a number of factors, including a reduction in labour hours charged to capital projects, higher wages and salaries, costs for cloud computing arrangements, costs related to Keeyask being fully in-service, as well as the impacts of inflationary pressures and global supply chain challenges on both motor vehicle expenses and materials and tools. There were also increased costs associated with the return-to-office. As well, water rentals and assessments increased primarily as a result of higher hydraulic generation, though this was more than offset by the water rental rate reduction received from the Province of Manitoba.

Net income before net movement in regulatory balances was \$299 million. The net movement in regulatory balances of \$112 million captures the timing differences of revenues and expenses for financial reporting purposes and those amounts approved by the Public Utilities Board (PUB) for rate-setting purposes.

The decrease of \$25 million or 18% in net movement in regulatory deferral balances was primarily due to the Keeyask in-service 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, higher levels of demand side management (DSM) spending by Efficiency Manitoba, and an increase in site remediation work.

After considering the net movement in the regulatory deferral balances, net income was \$411 million.

Net income of \$6 million was attributable to non-controlling interests, while \$405 million was attributable to Manitoba Hydro.

Expenditures for capital construction for the nine-month period amounted to \$486 million compared to \$643 million for the same period last year, a decrease of \$157 million or 24%. 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 \$104 million related to construction of the Keeyask project compared to \$258 million in the previous year. The remaining capital expenditures of \$382 million were predominantly related to ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred \$31 million for electric DSM programs which are primarily managed by Efficiency Manitoba.

### Natural Gas Segment

The net loss in the natural gas segment was \$34 million for the nine-month period compared to a net loss of \$22 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was \$59 million compared to \$75 million for the same period last year. Gross margin decreased by \$16 million or 21% 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 1 375 million cubic metres compared to 1 201 million cubic metres for the same period last year.



Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$134 million compared to \$116 million for the same period last year, an increase of \$18 million, or 16%. The increase in expenses was partially related to higher operating and administrative expenses due, in part, to costs associated with the UNIFOR strike, impacts of shifting to more cloud-based IT services as well as costs associated with the return-to-office following the COVID-19 pandemic. There was also an increase in DSM expenditures related to natural gas programs by Efficiency Manitoba.

Capital expenditures in the natural gas segment were \$33 million for the current nine-month period, consistent with 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 \$11 million for natural gas DSM programs which are primarily managed by Efficiency Manitoba.

## 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 \$79 million in the other segment for the nine-month period, a \$70 million increase from the prior year. Revenue was \$107 million, an increase from \$42 million in the prior year as a result of the acquisition of RTDS by a third party. MHI's interests in RTDS related to technology licensed to RTDS for which it was receiving a royalty based on a percentage of RTDS' revenue. Expenses in the other segment totaled \$28 million, down from \$33 million in the prior year.

## NEWS/CURRENT AFFAIRS

### Pukatawagan Fully Restored after July Wildfire Knocked out 63 Wood Poles Feeding the Community

It took three months, 34 emergency operations meetings, 32 rail cars of supplies and 63 pole replacements, but on October 8, 2022, the electrical supply to Pukatawagan was fully restored.

In July, a wildfire ravaged the line supplying the community, burning down 63 poles and forcing nearly 2 000 residents to evacuate. Shortly after that, Manitoba Hydro established daily Emergency Operations Centre meetings with over 20 staff who would be involved in the restoration process.

Fortunately, the fire missed the rail line going into Pukatawagan, which allowed Manitoba Hydro to bring in temporary diesel generators to power the community while it worked on permanent infrastructure. That way, community members could be at home instead of spread out over several cities.

After repairs were completed, a crew stayed in the area to continue to trim hazard trees around the line to reduce the likelihood of this happening again.

### Natural Gas Bills are Changing — We're Making Them Easier to Read

In early November, Manitoba Hydro made natural gas bills easier to read for customers. The changes — a result of research that found many Manitoba Hydro customers did not understand the different rates that made up their natural gas bill — were reviewed by the PUB and other stakeholders. The changes only affect how the information is presented; not what customers are paying.

Previous bills had five natural gas rates: Basic Charge, Primary Gas, Supplemental Gas, Transportation to Centra, and Distribution to Customer. New bills have been simplified and reduced to three charges: Basic Charge, Gas Commodity, and Delivery.

Over the next year, the Customer Strategy & Experience Improvement Department will lead a team of internal subject matter experts through an exercise to reimagine the entire bill — with customer needs, expectations, and existing pain points top-of-mind.

## Natural Gas Upgrade in Steinbach Improves Reliability to One of Manitoba's Fastest-Growing Communities

Steinbach is one of the fastest-growing communities in Canada — the 2021 Census showed almost twice the population growth rate for the entire province. The Steinbach Upgrade Project, designed to plan for that growth, was completed in November.

Steinbach was previously fed by a single transmission pipeline, which was vulnerable to outages caused by third-party damage to the pipeline, a pipeline failure or a station failure. The Steinbach Upgrade Project added a secondary gas supply line to improve the reliability and support the community's immediate and long-term growth.

Construction began in summer 2022, and spring weather delays and excessively wet conditions forced the project to be installed over the fall and winter months. The pipeline is scheduled to be energized in spring 2023.

## Manitoba Hydro to Update General Rate Application with Public Utilities Board

In late November, Manitoba Hydro advised the PUB it will update its multi-year General Rate Application with the PUB and reduce its requested electricity rate increase to 2% in each of the fiscal years 2023-24 and 2024-25.

Manitoba Hydro had initially asked for 3.5% in each of the next two fiscal years. The significantly lower rate request is due to the Manitoba government's decision to reduce what it collects from Manitoba Hydro annually in provincial debt guarantee and water rental payments. It is estimated Manitoba Hydro will save approximately \$190 million in the 2022-23 fiscal year.

Because the savings from the reduced payments to government are compounding, Manitoba Hydro forecasts savings totaling approximately \$4 billion over the next 20 years, requiring annual rate increases of only 2% for the next 19 years, starting in the 2023-24 fiscal year.

## Manitoba Hydro's Environmental, Social, and Governance Report Goes Live on External Website

In early December, Manitoba Hydro released its first Environmental, Social, and Governance (ESG) report, published to [hydro.mb.ca](http://hydro.mb.ca). The report replaces the former Corporate Social Responsibility Report, as other utilities, the energy industry and other organizations globally are now reporting from an ESG model.

The ESG report shares the many ways the utility makes a difference to its customers and in the communities it serves to impart a legacy it can be proud of in the province. Covering the fiscal year to March 31, 2022, the report demonstrates how Manitoba Hydro conducts its relationships and works with the utmost integrity, care and respect for customers and communities.



**Edward Kennedy**  
Chair of the Board

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



**Jay Grewal**  
President and  
Chief Executive Officer  
February 14, 2023

A handwritten signature in black ink that reads "Jay Grewal".

# FINANCIALS

## Consolidated Statement of Income (Loss)

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
<b>REVENUES</b>				
Domestic Electric	1 337	1249	508	472
Gas	374	287	217	170
Extraprovincial	929	466	260	123
Other	125	57	87	20
	<u>2 765</u>	<u>2 059</u>	<u>1 072</u>	<u>785</u>
<b>EXPENSES</b>				
Cost of gas sold	315	212	172	128
Operating and administrative	536	473	176	164
Finance expense	777	797	195	272
Depreciation and amortization	488	456	163	155
Water rentals and assessments	59	73	(12)	22
Fuel and power purchased	110	271	44	176
Capital and other taxes	134	129	44	43
Other expenses	78	65	25	26
Finance income	(37)	(19)	(15)	(6)
	<u>2 460</u>	<u>2 457</u>	<u>792</u>	<u>980</u>
Net income (loss) before net movement in regulatory balances	305	(398)	280	(195)
Net movement in regulatory balances	151	155	36	50
Net Income (Loss)	<u>456</u>	<u>(243)</u>	<u>316</u>	<u>(145)</u>
Net income (loss) attributable to:				
Manitoba Hydro	450	(234)	309	(144)
Non-controlling interest	6	(9)	7	(1)
	<u>456</u>	<u>(243)</u>	<u>316</u>	<u>(145)</u>

# FINANCIALS

## Consolidated Statement of Financial Position

In millions of dollars (unaudited)

	AS AT DECEMBER 31 2022	AS AT MARCH 31 2022	AS AT DECEMBER 31 2021
<b>ASSETS</b>			
Current assets	1 705	1 721	1 726
Property, plant and equipment	26 468	26 376	26 299
Non-current assets	1 665	1 673	1 683
Total assets before regulatory deferral balance	29 838	29 770	29 708
Regulatory deferral balance	1 425	1 368	1 359
	<u>31 263</u>	<u>31 138</u>	<u>31 067</u>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities	2 299	1 935	2 464
Long-term debt	23 049	23 617	23 056
Other non-current liabilities	1 815	1 774	1 891
Deferred revenue	631	607	610
Non-controlling interest	333	325	325
Retained earnings	3 461	3 012	3 026
Accumulated other comprehensive loss	(482)	(383)	(572)
Total liabilities and equity before regulatory deferral balance	31 106	30 887	30 800
Regulatory deferral balance	157	251	267
	<u>31 263</u>	<u>31 138</u>	<u>31 067</u>



## FINANCIALS

### Consolidated Cash Flow Statement

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
Operating Activities	787	211	585	178
Investing Activities	(580)	(699)	(228)	(233)
Financing Activities	(366)	419	(33)	694
Net increase (decrease) in cash	(159)	(69)	324	639
Cash at beginning of period	1 083	1 142	600	434
Cash at end of period	924	1 073	924	1 073

### Consolidated Statement of Comprehensive Income (Loss)

In millions of dollars (unaudited)

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
<b>Net Income (Loss)</b>	456	(243)	316	(145)
<b>Other Comprehensive Income (Loss)</b>				
<b>Items that will be reclassified to income</b>				
<i>Unrealized foreign exchange gains (losses) on debt in cash flow hedges</i>	(128)	(39)	27	(21)
<b>Items that have been reclassified to income</b>				
<i>Realized foreign exchange losses on debt in cash flow hedges</i>	28	27	7	10
	(100)	(12)	34	(11)
<b>Comprehensive Income (Loss)</b>	356	(255)	350	(156)
<b>Comprehensive Income (Loss) attributable to:</b>				
<b>Manitoba Hydro</b>	350	(246)	343	(155)
<b>Non-controlling interests</b>	6	(9)	7	(1)
	356	(255)	350	(156)

## FINANCIALS

### Generation and Delivery Statistics

	NINE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2022	2021	2022	2021
<b>ELECTRICITY IN GIGAWATT-HOURS</b>				
Hydraulic generation	29 660	19 401	10 088	5 589
Thermal generation	1	3	1	1
Scheduled energy imports	289	2 737	116	1 794
Wind purchases (Manitoba)	709	710	281	282
Total system supply	<u>30 659</u>	<u>22 851</u>	<u>10 486</u>	<u>7 666</u>
<b>GAS IN MILLIONS OF CUBIC METRES</b>				
Gas sales	819	735	500	454
Gas transportation	556	466	197	182
	<u>1 375</u>	<u>1 201</u>	<u>697</u>	<u>636</u>

# FINANCIALS

## Segmented Information

In millions of dollars (unaudited)

	ELECTRIC SEGMENT		NATURAL GAS SEGMENT		OTHER SEGMENT		ELIMINATIONS		TOTAL	
NINE MONTHS ENDED DECEMBER 31	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenues	2 289	1 737	376	288	107	42	(7)	(8)	2 765	2 059
Expenses	1 990	2 104	449	328	28	33	(7)	(8)	2 460	2 457
Net income (loss) before net movement in regulatory balances	299	(367)	(73)	(40)	79	9	-	-	305	(398)
Net movement in regulatory balances	112	137	39	18	-	-	-	-	151	155
Net Income (Loss)	411	(230)	(34)	(22)	79	9	-	-	456	(243)
Net income (loss) attributable to:										
Manitoba Hydro	405	(221)	(34)	(22)	79	9	-	-	450	(234)
Non-controlling interest	6	(9)	-	-	-	-	-	-	6	(9)
	411	(230)	(34)	(22)	79	9	-	-	456	(243)
THREE MONTHS ENDED DECEMBER 31	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenues	775	603	218	170	82	14	(3)	(2)	1 072	785
Expenses	570	804	216	166	9	12	(3)	(2)	792	980
Net income (loss) before net movement in regulatory balances	205	(201)	2	4	73	2	-	-	280	(195)
Net movement in regulatory balances	37	49	(1)	1	-	-	-	-	36	50
Net Income (Loss)	242	(152)	1	5	73	2	-	-	316	(145)
Net income (loss) attributable to:										
Manitoba Hydro	235	(151)	1	5	73	2	-	-	309	(144)
Non-controlling interest	7	(1)	-	-	-	-	-	-	7	(1)
	242	(152)	1	5	73	2	-	-	316	(145)
<b>TOTAL ASSETS</b>	<b>30 583</b>	<b>30 363</b>	<b>970</b>	<b>887</b>	<b>203</b>	<b>126</b>	<b>(493)</b>	<b>(309)</b>	<b>31 263</b>	<b>31 067</b>

