

The Manitoba Hydro-Electric Board

Quarterly Report

for the nine months ended
December 31, 2018





Report from **The Chair of the Board** and by **The President and Chief Executive Officer**

Financial Overview

Manitoba Hydro's consolidated net loss was \$1 million for the first nine months of the 2018-19 fiscal year compared to a net loss of \$47 million for the same period last year. The decrease in the net loss is primarily attributable to lower restructuring costs when compared to restructuring costs incurred for a significant cost reduction program in the prior year. Excluding restructuring expenses, Manitoba Hydro would have reported net income of \$3 million compared to a net loss of \$2 million in the prior year. The \$5 million improvement is mostly attributable to weather and rate impacts resulting in an increase in domestic electric revenue, an increase in other revenue due to the recognition of the Bipole III reserve into income as well as a decrease in operating and administrative expenses associated with savings from the Voluntary Departure Program (VDP). These improvements were partially offset by an increase in net financing costs associated with higher interest on debt as well as higher depreciation and amortization expense as new assets were placed in-service. The cost of natural gas is a flow through cost passed onto customers through rates approved by the Public Utilities Board (PUB) and therefore is not a driver for the decrease in net loss compared to the prior year.

The consolidated net loss was comprised of a \$5 million net profit in the electricity segment, a \$12 million loss in the natural gas segment, a \$4 million net profit in the other segment and a \$2 million profit impact in adjustments and eliminations. The loss in the natural gas segment is the result of seasonal variations in the demand for natural gas and is expected to be recouped over the winter heating season.

Manitoba Hydro's budgeted net income for 2018-19 is \$136 million; however Manitoba Hydro is currently projecting net income to be approximately \$100 million. The lower expected net income factors in the impact of the PUB's decision to grant a 3.6% rate increase rather than the requested 7.9% rate increase partially offset by favourable weather impacts throughout the first nine months. The projection for the remainder of the year assumes average water flow conditions and normal winter weather.

Electric Segment

Revenues from electricity sales within Manitoba totaled \$1 144 million for the nine-month period, which was \$122 million or 12% higher than the same period last year. The increase in domestic revenue was primarily attributable to the impacts of weather and revenues previously deferred in the Bipole III deferral account which are now recognized as revenue compared to the prior year. Extraprovincial revenues of \$350 million were \$16 million or 4% lower than the same period last year reflecting lower U.S. opportunity and dependable sales volumes primarily as a result of lower generation due to less favourable water conditions compared to 2017-18, partially offset by modestly higher export prices. Overall, energy sold in the export market was 5.2 billion kilowatt-hours compared to 8.5 billion kilowatt-hours sold in the same period last year. Other revenues of \$58 million were \$39 million or 205% higher than the same period last year due to the amortization of the Bipole III reserve into income.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled \$1 549 million for the nine-month period. This represented an increase of \$97 million or 7% as compared to the same period last year. Excluding restructuring charges, expenses increased \$136 million over the prior year. The increase was primarily due to an \$86 million increase in net finance expense due to interest associated with Bipole III and higher debt volumes and a \$46 million increase in depreciation largely due to Bipole III going into service at the beginning of July. There was also an increase in fuel and power purchase costs as a result of a one-time \$9 million write off of coal inventory as the Brandon Thermal Generating Station is no longer operational as a coal powered generator. Amortization of regulatory deferrals increased \$14 million due to amortization of the Conawapa deferral and ineligible overhead as per direction from the PUB. This was partially offset by a decrease of \$11 million in operating and administrative expenses due to a reduction in employee related expenditures as a result of the VDP and a \$13 million decrease in water rentals and assessments due to lower hydraulic generation.

The net loss before net movement in regulatory balances was \$52 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 \$54 million in the regulatory deferral balances, there is a net income of \$2 million, of which \$5 million is attributable to Manitoba Hydro and \$3 million net loss is attributable to non-controlling interest. The non-controlling interest represents Taskinighp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first nine months of the 2018-19 fiscal year.

Expenditures for capital construction for the nine-month period amounted to \$1 584 million compared to \$2 136 million for the same period last year. Expenditures for the current period included \$1 021 million related to construction of the Keeyask Project and \$178 million for the Bipole III Reliability 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 \$53 million for electric demand side management programs.

Natural Gas Segment

The net loss in the natural gas segment was \$12 million for the nine-month period compared to a \$17 million net loss for the same period last year. The lower net loss is primarily due to increased gross margin due to weather impacts, lower restructuring costs and lower operating and administrative expenses as a result of the VDP. Delivered gas volumes were 1 347 million cubic metres compared to 1 218 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$111 million compared to \$114 million for the same period last year. The decrease in expenses is primarily attributable to lower current year employee related expenditures as a result of the VDP and higher restructuring charges in the prior year.

The net loss before net movement in regulatory balances is \$20 million. After considering the net movement of \$8 million in the regulatory balances, there is a net loss of \$12 million.

Capital expenditures in the natural gas segment were \$30 million for the current nine-month period compared to \$27 million for the same period last 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 \$8 million for gas demand side management 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 \$4 million in the other segment for the nine-month period compared to net income of \$5 million in the same period last year. Revenue was \$42 million compared to \$47 million for the same period last year. Expenses attributable to the other segment amounted to \$38 million which was \$4 million lower than the prior year. The decrease in both revenue and expenses is primarily due to fewer projects undertaken at Manitoba Hydro International Ltd. compared to the prior year.

There is also a \$2 million profit impact in adjustments and eliminations as a result of the requirement to harmonize accounting policies between electric and natural gas operations related to the gas meter exchange program.

Keeyask Project Completes 2018 Milestones

Located approximately 725 kilometres north of Winnipeg on the lower Nelson River, the Keeyask Project is a 695-megawatt hydroelectric generating station being developed in a partnership between Manitoba Hydro and four Keeyask Cree Nation (KCN) communities: Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation and Fox Lake Cree Nation.

With the 2018 construction season wrapped up, the Keeyask Project achieved all of its 2018 goals, and even exceeded some targets. Work completed included the Spillway and river diversion; placement of more than 113 000 cubic meters (m³) of concrete, exceeding the goal of 105 000 m³; opening of the South Access Road to construction traffic; placement of 3.6 million m³ of earth material (equivalent to 180 000 truckloads); and the installation of the planned embedded turbine and generator components on Units 1, 2 and 3 and enclosure of Units 4 and 5.

With progress to date, the anticipated in-service date for the first unit is October 2020. With the advances in the construction schedule at end of December 2018, the project is currently tracking towards meeting the established \$8.7 billion project control budget. Three years of work remain on the project.

Manitoba Hydro to Sell 215 MW of Renewable Hydroelectricity to SaskPower

October 29, 2018, Manitoba Hydro announced a term sheet had been signed between Manitoba Hydro and SaskPower which will see up to 215 megawatts of renewable hydroelectricity flow from Manitoba to Saskatchewan beginning in 2022.

The sale will last a minimum of 18 years with a potential extension up to a total of 30 years, bringing long-term benefits to electricity customers in both provinces. The sale is the largest of three recent major power deals between the two provinces. By 2022, Manitoba Hydro will be supplying up to 315 megawatts of hydroelectricity to Saskatchewan.

Revenues from the sale will assist in keeping electricity rates affordable for Manitoba customers, and help SaskPower expand and diversify its renewable energy supply. SaskPower's goal is to reduce greenhouse gas emissions by 40% by 2030.

The sale to SaskPower will utilize capacity provided by a new 230 000 volt transmission line planned for construction between Birtle, Manitoba and Tantallon, Saskatchewan. When complete, the 80 kilometre line, announced in 2015, will also improve the reliability of the electrical grid, benefiting customers in both provinces. The line is anticipated to be in service in 2021.

Upgrading Aging Infrastructure in Winnipeg

In November 2018, Manitoba Hydro began a year-long project to upgrade electrical service to customers in the Glenwood area of south-east Winnipeg. The project involves upgrading power lines originating out of Dunraven Station, located at 25 Dunraven Ave., from 4 000 volts to 24 000 volts. Many critical components of the infrastructure in the area are more than 60 years old and reaching the end of their life span. In addition to this work, about 250 old wood poles in the area will also be replaced to ensure the continued safe ground clearance and mechanical support of power lines and energized equipment. This work is part of the utility's infrastructure renewal projects throughout the province to ensure the reliability and security of electrical service to Manitobans.

Outside of Winnipeg, Manitoba Hydro is improving the reliability of service and enhancing the capacity of its system. In many cases, renewal projects involve upgrading distribution stations and power lines originally built during the Farm Electrification Program that followed World War II.

Manitoba Hydro's \$10 Instant Rebate for Approved Carbon Monoxide Alarms

During the month of November 2018, Manitoba Hydro offered a \$10 rebate on carbon monoxide alarms through 100 participating retailers throughout the province. The rebate, applied immediately at time of purchase, saw 4 381 units sold. The beginning of the rebate program coincided with National Carbon Monoxide Awareness Week, aimed at telling homeowners and businesses about carbon monoxide (CO) exposure and safety.

The goal of the rebate program, supported by Manitoba's Office of the Fire Commissioner and the Winnipeg Fire and Paramedic Service, was to get more Manitobans to install CO alarms in their homes and businesses, and to replace CO alarms older than 10 years. Safety materials included information on proper use and maintenance of your natural gas furnace and other fuel-burning appliances.

Participating retailers in Manitoba Hydro's rebate program were: Canadian Tire (15 locations); Costco (three locations); EG Penner Building Centres Ltd. (Steinbach); Grunthal Lumber; Home Depot (six locations); Home Hardware (45 locations); London Drugs (1225 St. Mary Rd.); McMunn & Yates (15 locations); Rona (12 locations); and WM Dyck & Sons (Niverville).



Marina R. James

Chair of the Board

A handwritten signature in black ink, appearing to be 'M. James'.



Jay Grewal

President and
Chief Executive Officer

February 14, 2019

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

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2018	2017	2018	2017
Revenues				
Domestic – Electric	1 144	1 022	452	393
– Gas	210	202	118	114
Extraprovincial	350	366	101	91
Other	95	60	41	21
	<u>1 799</u>	<u>1 650</u>	<u>712</u>	<u>619</u>
Expenses				
Cost of gas sold	121	116	75	63
Operating and administrative	431	444	147	141
Finance expense (net)	556	471	197	147
Depreciation and amortization	363	316	128	106
Water rentals and assessments	82	95	28	31
Fuel and power purchased	97	93	38	36
Capital and other taxes	120	111	40	37
Other expenses	95	135	30	36
	<u>1 865</u>	<u>1 781</u>	<u>683</u>	<u>597</u>
Net loss before net movement in regulatory balances	(66)	(131)	29	22
Net movement in regulatory balances	62	76	21	23
Net Income (Loss)	<u>(4)</u>	<u>(55)</u>	<u>50</u>	<u>45</u>
Net income (loss) attributable to:				
Manitoba Hydro	(1)	(47)	51	46
Non-controlling interest	(3)	(8)	(1)	(1)
	<u>(4)</u>	<u>(55)</u>	<u>50</u>	<u>45</u>

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at December 31	As at March 31	As at December 31
	2018	2018	2017
Assets			
Current assets	915	1 221	1 235
Property, plant and equipment	23 291	21 979	21 673
Non-current assets	1 100	925	854
Total assets before regulatory deferral balance	25 306	24 125	23 762
Regulatory deferral balance	1 100	1 044	635
	<u>26 406</u>	<u>25 169</u>	<u>24 397</u>
Liabilities and Equity			
Current liabilities	847	2 080	2 247
Long-term debt	20 560	18 200	17 285
Other long-term liabilities	1 627	1 591	1 571
Deferred revenue	864	769	776
Non-controlling interest	243	205	193
Retained earnings	2 935	2 936	2 852
Accumulated other comprehensive loss	(740)	(688)	(597)
Total liabilities and equity before regulatory deferral balance	26 336	25 093	24 327
Regulatory deferral balance	70	76	70
	<u>26 406</u>	<u>25 169</u>	<u>24 397</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended December 31</i>		<i>Three Months Ended December 31</i>	
	2018	2017	2018	2017
Operating Activities	55	(153)	181	84
Investing Activities	(1 609)	(2 017)	(553)	(666)
Financing Activities	1 258	2 189	(30)	633
Net increase (decrease) in cash	(296)	19	(402)	51
Cash at beginning of period	642	646	748	614
Cash at end of period	<u>346</u>	<u>665</u>	<u>346</u>	<u>665</u>

Consolidated Statement of Comprehensive Income (Loss)

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended December 31</i>		<i>Three Months Ended December 31</i>	
	2018	2017	2018	2017
Net Income (Loss) attributable to Manitoba Hydro	<u>(1)</u>	<u>(47)</u>	<u>51</u>	<u>46</u>
Other Comprehensive Income (Loss)				
Items that will be reclassified to income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(73)	95	(67)	(9)
Items that have been reclassified to income				
Realized foreign exchange losses on debt in cash flow hedges	21	17	7	4
	<u>(52)</u>	<u>112</u>	<u>(60)</u>	<u>(5)</u>
Comprehensive Income (Loss) attributable to Manitoba Hydro	<u>(53)</u>	<u>65</u>	<u>(9)</u>	<u>41</u>

Segmented Information

In Millions of Dollars (Unaudited)

	Electric segment		Natural gas segment		Other segment		Eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<i>Nine Months Ended December 31</i>										
Revenue	1 551	1 407	212	203	42	47	(6)	(7)	1 799	1 650
Expenses	1 603	1 518	232	230	38	42	(8)	(9)	1 865	1 781
Net income (loss) before net movement in regulatory balances	(52)	(111)	(20)	(27)	4	5	2	2	(66)	(131)
Net movement in regulatory balances	54	66	8	10	-	-	-	-	62	76
Net Income (Loss)	<u>2</u>	<u>(45)</u>	<u>(12)</u>	<u>(17)</u>	<u>4</u>	<u>5</u>	<u>2</u>	<u>2</u>	<u>(4)</u>	<u>(55)</u>
Net income (loss) attribute to:										
Manitoba Hydro	5	(37)	(12)	(17)	4	5	2	2	(1)	(47)
Non-controlling interest	(3)	(8)	-	-	-	-	-	-	(3)	(8)
	<u>2</u>	<u>(45)</u>	<u>(12)</u>	<u>(17)</u>	<u>4</u>	<u>5</u>	<u>2</u>	<u>2</u>	<u>(4)</u>	<u>(55)</u>
<i>Three Months Ended December 31</i>										
Revenue	579	491	119	114	15	17	(1)	(3)	712	619
Expenses	559	485	113	102	13	14	(2)	(4)	683	597
Net income before net movement in regulatory balances	20	6	6	12	2	3	1	1	29	22
Net movement in regulatory balances	16	26	5	(3)	-	-	-	-	21	23
Net Income	<u>36</u>	<u>32</u>	<u>11</u>	<u>9</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>50</u>	<u>45</u>
Net income (loss) attribute to:										
Manitoba Hydro	37	33	11	9	2	3	1	1	51	46
Non-controlling interest	(1)	(1)	-	-	-	-	-	-	(1)	(1)
	<u>36</u>	<u>32</u>	<u>11</u>	<u>9</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>50</u>	<u>45</u>
Total assets	25 786	23 802	770	756	101	95	(251)	(256)	26 406	24 397

Generation and Delivery Statistics

	Nine Months Ended December 31		Three Months Ended December 31	
	2018	2017	2018	2017
Electricity in gigawatt-hours				
Hydraulic generation	22 569	26 302	7 642	8 376
Thermal generation	8	37	3	26
Scheduled energy imports	471	108	386	73
Wind purchases (Manitoba)	622	729	229	301
Total system supply	<u>23 670</u>	<u>27 176</u>	<u>8 260</u>	<u>8 776</u>
Gas in millions of cubic metres				
Gas sales	804	747	504	484
Gas transportation	543	471	204	204
	<u>1 347</u>	<u>1 218</u>	<u>708</u>	<u>688</u>

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Available in accessible formats upon request.