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November 16, 2017

Darren Christle
Executive Director and Secretary
Public Utilities Board of Manitoba
400 – 330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

Dear Mr. Christle:

RE: MANITOBA HYDRO QUARTERLY REPORT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017

On November 13, 2017, Manitoba Hydro announced its consolidated financial results for the six months ended September 30, 2017.

As part of the response to PUB MFR 13 filed on May 12, 2017, Manitoba Hydro provided copies of its financial statements up to and including the third quarter of the 2016/17 fiscal year (9 month period ended December 31, 2016). Enclosed with this letter, Manitoba Hydro is providing an update to PUB MFR 13 and its quarterly reports for the first and second quarters of fiscal year 2017/18. Manitoba Hydro is also enclosing an update to Appendix 7.4 (Directive 5 of Order 43/13) to provide actual monthly hydraulic generation, water conditions and extra-provincial energy exchange data for the month of October 2017.

As noted in PUB MFR 13 (Updated), Manitoba Hydro's forecast consolidated net income for the full 2017/18 fiscal year has decreased to \$40 million. The Corporation can advise the PUB that the 2017/18 forecast for the electric segment is approximately \$30 million assuming normal system inflows and average winter weather conditions.

This compares to a forecast of \$93 million for 2017/18 under MH16 Update with Interim (filed as Appendix 3.8). The principal cause of the 68% reduction in Manitoba Hydro's profit outlook is a precipitous decline in net export revenues. Overall, net export revenues are now estimated to be \$210 million in the 2017/18 fiscal year which represents a \$58 million or 22% reduction from the assumptions in MH16 Update with Interim.

System inflows since late April were considerably below historical average which has dramatically reduced reservoir levels from near record highs to just above mean. Manitoba Hydro forecasts average water flow conditions for the remainder of 2017/18. Nonetheless generation volume is now expected to be lower than forecast in MH16 Update with Interim leading to an anticipated 11% decline in export volumes (in GWh).

Of further note, PUB MFR 13 (Updated) indicates that opportunity and contract market export prices have fallen significantly short of anticipated levels and have demonstrated minimal appreciation from prior year. As of September 30, 2017, on-peak opportunity prices were 22% below the target in MH16 Update with Interim while off peak prices were 6% below target. This represents a further deterioration compared to the quarter ended June 30, 2017 where on-peak and off-peak prices were 16% and 4% below target.

Manitoba Hydro has not updated its integrated financial forecast; however, it can advise that net export revenues for next fiscal year, 2018/19, are now expected to be \$198 million which represents a \$12 million decline from the updated forecast for this fiscal year and a \$20 million (or 9.3%) reduction from levels assumed in MH16 Update with Interim. Generation volume is still anticipated to be above average in 2018/19 as Manitoba Hydro forecasts beginning the year with higher than average reservoir levels.

MH16 Update was prepared following very high spring run-off and filed as Appendix 3.6 on July 11, 2017. The significant deterioration in outlook since that time is an example of the potential volatility in Manitoba Hydro's short and long-term results due to water levels and export market conditions.

Should you have any questions with respect to the forgoing, please do not hesitate to contact the writer at 204-360-3946 or Greg Barnlund at 204-360-5243.

Yours truly,



MANITOBA HYDRO LEGAL SERVICES DIVISION

Patti Ramage
Barrister & Solicitor

cc: All Approved Interveners
Odette Fernandes, Manitoba Hydro
Bob Peters, Board Counsel
Dayna Steinfeld, Board Counsel