

The Manitoba Hydro-Electric Board

Quarterly Report

for the three months ended
June 30, 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 \$12 million for the first three months of the 2018-19 fiscal year compared to a net loss of \$70 million for the same period last year. The decrease in the net loss is primarily attributable to higher restructuring costs in the prior year driven by the implementation of a significant cost reduction program. Excluding restructuring expenses, Manitoba Hydro would have reported a net loss of \$9 million, an improvement of \$19 million over the prior year. The improvement is mostly attributable to weather impacts resulting in an increase of \$11 million in domestic electric revenue and a decrease of \$17 million in operating and administrative expenses associated with savings from the Voluntary Departure Program (VDP). These improvements were partially offset by a decrease in net extraprovincial revenues (net of power purchased and water rental expenses) of \$8 million as a result of less favourable water conditions in the current year, higher depreciation and amortization expense as new assets were placed in-service and higher capital taxes resulting from increased debt associated with major capital projects. 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 \$6 million loss in the electricity segment, an \$8 million loss in the natural gas segment, a \$1 million net profit in the other segment and a \$1 million profit impact in adjustments and eliminations.

Manitoba Hydro's budgeted net income for 2018-19 is approximately \$130 million, however after factoring in the impact of the PUB's decision to grant a 3.6% rate increase rather than the requested 7.9% increase Manitoba Hydro is expecting net income to be approximately \$70 million. 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 \$332 million for the three-month period, which was \$11 million or 3% higher than the same period last year. The increase in domestic revenue was primarily attributable to the impacts of weather compared to prior year. Extraprovincial revenues of \$116 million were \$18 million or 13% lower than the same period last year reflecting lower U.S. opportunity and dependable sales volumes predominantly 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 1.8 billion kilowatt-hours compared to 3.3 billion kilowatt-hours sold in the same period last year. Other revenues of \$8 million were \$1 million or 14% higher than the same period last year due to an increase in projects for third parties.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled \$463 million for the three-month period. This represented a decrease of \$63 million or 12% as compared to the same period last year. The decrease was primarily due to a \$35 million decrease in other expenses and a \$15 million decrease in operating and administrative expenses. The decrease in other expenses was primarily due to \$40 million in restructuring charges in the prior year associated with the VDP partially offset by higher demand side management costs which are removed and deferred in net movement in regulatory balances. The decrease in operating and administrative expenses is primarily due to lower staffing costs as a result of the VDP.

The net loss before net movement in regulatory balances is \$24 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 \$17 million in the regulatory deferral balances, there is a net loss of \$7 million of which \$6 million is attributable to Manitoba Hydro and \$1 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first three months of the 2018-19 fiscal year.

Expenditures for capital construction for the three-month period amounted to \$574 million compared to \$662 million for the same period last year. Expenditures for the current period included \$354 million related to construction of the Keeyask Project and \$111 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 \$17 million for electric demand side management programs.

Natural Gas Segment

The net loss in the natural gas segment was \$8 million for the three-month period compared to an \$11 million net loss for the same period last year. The decrease in the net loss is primarily due to higher restructuring costs incurred in the prior year and lower operating and administrative expenses as a result of the VDP. Delivered gas volumes were 377 million cubic metres compared to 317 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to \$37 million compared to \$39 million for the same period last year. The decrease in expenses is primarily attributable to higher restructuring charges in the prior year and savings in operating and administrative expenses as a result of the VDP.

The net loss before net movement in regulatory balances is \$8 million. Impacts of net movement in regulatory balances are not material.

Capital expenditures in the natural gas segment were \$7 million for the current three-month period compared to \$8 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 \$3 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 \$1 million in the other segment for the three-month period which is consistent with the same period last year. Revenue was \$14 million compared to \$15 million for the same period last year. Expenses attributable to the other segment amounted to \$13 million which was \$1 million lower than the prior year principally due to foreign exchange impacts.

There is also a \$1 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.

PUB orders 3.6% average rate increase

On May 1, 2018 the PUB approved the new electricity rate schedule for Manitoba Hydro. Effective June 1, 2018 Manitoba Hydro's electricity rates changed to reflect an overall average rate increase of 3.6%. The PUB also finalized the previously approved interim rate increases of 3.36% effective August 1, 2016 and 3.36% effective August 1, 2017.

As part of the PUB's order, individual customer classes also had their rates adjusted to more accurately reflect the true cost to serve those customers. This, coupled with the PUB's creation of the new First Nation on-reserve residential customer class, resulted in different customer classes seeing different levels of rate increases to meet the 3.6% average rate increase approved by the PUB. Larger commercial and industrial customers received a rate increase less than 3.6% while other classes, such as residential, received a rate increase greater than 3.6%. The residential customer class rate is now 8.527¢/kWh (excluding monthly basic fee). The First Nation on-reserve residential customer class rate is 8.196¢/kWh, which was the previous residential customer class rate.

Bipole III commissioning begins for summer 2018 in-service

On Monday, April 2, 2018 the Bipole III transmission system was successfully energized for the first time. After five years of construction, the nearly 1 400 kilometre, 500-kilovolt (kV)

high-voltage, direct current (HVDC) transmission line linked the Keewatinohk Converter Station near Gillam to the Riel Converter Station near Winnipeg. First power was one of a long series of commissioning tests, designed to test equipment and confirm reliability, to be carried out on the line and the converter stations prior to the project's in-service date scheduled for the summer of 2018. All commission and testing activity was completed before the end of June and on July 4, 2018 the line was put into service.

Work on the Keewatinohk Converter Station began in 2012. Challenges included difficult geotechnical conditions and the site's remote northern location. Construction of the Riel Converter Station started in the summer of 2015. It had the additional complexity of building a converter station at an already energized, large terminal station as there already was a 500-kV-to-230-kV switchyard operating at the Riel site.

Bipole III will strengthen the reliability and security of Manitoba's electricity supply by reducing dependency on the two existing HVDC lines (Bipoles I and II) and Dorsey Converter Station near Rosser. These facilities, built in the 1960s and 70s, currently deliver electricity produced by hydroelectric generating stations on the Nelson River to southern Manitoba—more than 70% of all electricity produced in the province.

Keeyask spillway completed; generator unit installation begins

Work on the spillway at the Keeyask Generating Station, including the installation of the six spillway gates, hoist towers and hoist housing, was completed on schedule in the early part of the 2018 construction season. Other critical milestones reached this spring included the enclosure of the powerhouse generator units four and five and placement of 105 000 cubic metres of concrete. Progress to date has improved the schedule outlook for the first of seven units to go into service in the fall of 2020, about 10 months ahead of the August 2021 control schedule.

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) Partner communities: Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation and Fox Lake Cree Nation.

Employment of Manitobans, Indigenous persons and members from the four KCN Partner communities remains strong. From project commencement to the end of March 2018, of the 16 317 total hires, 71% are from Manitoba; 44% have self-declared as being Indigenous; and 22% are from the KCN Partner communities.

New planned outage customer notification system up and running

As of May 1, 2018 Manitoba Hydro began notifying customers by telephone several days before a planned power outage affects their community. These outages are typically required for maintenance purposes or to upgrade local electrical services. The new automated system informs customers about scheduled outages affecting 20 customers or more.

The process uses a new auto-dialer service and is one of the first major projects under Manitoba's Hydro's recently-formed Strategic Transformation Office charged with helping the corporation meet its strategic priority of delivering an excellent customer experience. The new initiative also decreases the administrative resources required to make manual phone calls or hand deliver notifications to affected customers.

To date, the automated calls have reached over 80% of customers affected by a scheduled outage either directly or through voicemail.



Marina R. James

Chair of the Board

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



Kelvin Shepherd, P. Eng.

President and
Chief Executive Officer

August 14, 2018

A handwritten signature in black ink, appearing to be 'K. Shepherd'.

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Three Months Ended June 30</i>	
	2018	2017
Revenues		
Domestic – Electric	332	321
– Gas	54	54
Extraprovincial	116	134
Other	21	20
	<u>523</u>	<u>529</u>
Expenses		
Cost of gas sold	26	34
Operating and administrative	140	157
Finance expense (net)	154	164
Depreciation and amortization	108	105
Water rentals and assessments	27	32
Fuel and power purchased	26	31
Capital and other taxes	40	37
Other expenses	32	68
	<u>553</u>	<u>628</u>
Net loss before net movement in regulatory balances	(30)	(99)
Net movement in regulatory balances	17	26
Net Loss	<u>(13)</u>	<u>(73)</u>
Net loss attributable to:		
Manitoba Hydro	(12)	(70)
Non-controlling interest	(1)	(3)
	<u>(13)</u>	<u>(73)</u>

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	<i>As at June 30</i>	<i>As at March 31</i>	<i>As at June 30</i>
	2018	2018	2017
Assets			
Current assets	1 442	1 221	1 452
Property, plant and equipment	22 474	21 979	20 331
Non-current assets	996	925	765
Total assets before regulatory deferral balance	24 912	24 125	22 548
Regulatory deferral balance	1 061	1 044	586
	<u>25 973</u>	<u>25 169</u>	<u>23 134</u>
Liabilities and Equity			
Current liabilities	1 676	2 080	1 613
Long-term debt	19 298	18 200	16 891
Other long-term liabilities	1 605	1 591	1 534
Deferred revenue	886	769	680
Non-controlling interest	217	205	174
Retained earnings	2 924	2 936	2 829
Accumulated other comprehensive loss	(710)	(688)	(658)
Total liabilities and equity before regulatory deferral balance	25 896	25 093	23 063
Regulatory deferral balance	77	76	71
	<u>25 973</u>	<u>25 169</u>	<u>23 134</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	<i>Three Months Ended June 30</i>	
	2018	2017
Operating Activities	(124)	(216)
Investing Activities	(529)	(609)
Financing Activities	829	1 028
Net increase in cash	176	203
Cash at beginning of period	642	646
Cash at end of period	818	849

Consolidated Statement of Comprehensive Loss

In Millions of Dollars (Unaudited)

	<i>Three Months Ended June 30</i>	
	2018	2017
Net Loss attributable to Manitoba Hydro	(12)	(70)
Other Comprehensive Income (Loss)		
Items that will be reclassified to income		
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(29)	43
Items that have been reclassified to income		
Realized foreign exchange losses on debt in cash flow hedges	7	8
	(22)	51
Comprehensive Loss attributable to Manitoba Hydro	(34)	(19)

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>Three Months Ended June 30</i>										
Revenue	456	462	55	55	14	15	(2)	(3)	523	529
Expenses	480	545	63	73	13	14	(3)	(4)	553	628
Net income (loss) before net movement in regulatory balances	(24)	(83)	(8)	(18)	1	1	1	1	(30)	(99)
Net movement in regulatory balances	17	19	-	7	-	-	-	-	17	26
Net Income (Loss)	<u>(7)</u>	<u>(64)</u>	<u>(8)</u>	<u>(11)</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>(13)</u>	<u>(73)</u>
Net income (loss) attribute to:										
Manitoba Hydro	(6)	(61)	(8)	(11)	1	1	1	1	(12)	(70)
Non-controlling interest	(1)	(3)	-	-	-	-	-	-	(1)	(3)
	<u>(7)</u>	<u>(64)</u>	<u>(8)</u>	<u>(11)</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>(13)</u>	<u>(73)</u>
Total Assets	25 368	22 549	729	705	97	90	(221)	(210)	25 973	23 134

Generation and Delivery Statistics

Three Months Ended
June 30

	2018	2017
Electricity in gigawatt-hours		
Hydraulic generation	7 445	8 776
Thermal generation	5	2
Scheduled energy imports	39	23
Wind purchases (Manitoba)	202	243
Total system supply	<u>7 691</u>	<u>9 044</u>
Gas in millions of cubic metres		
Gas sales	195	174
Gas transportation	182	143
	<u>377</u>	<u>317</u>

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