

# The Manitoba Hydro-Electric Board

## Q U A R T E R L Y   R E P O R T

*for the three months ended June 30, 2012*



## **Financial Overview**

Manitoba Hydro incurred a net loss on consolidated electricity and natural gas operations of \$24 million for the first three months of the 2012-13 fiscal year compared to net income of \$6 million for the same period last year. The net loss was comprised of a \$14 million loss in the electricity sector and a \$10 million loss in the natural gas sector. The loss in the electricity sector was attributable to decreased revenues from extraprovincial electricity sales and higher operating expenses related to accounting changes and pension-related cost increases. The reduced electricity sector revenues and higher costs were consistent with expectations for the first quarter. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and should be recouped over the winter heating season.

Manitoba Hydro continues to experience low export market prices as a result of low natural gas prices and lower demand for electricity due to economic conditions in the U.S. Low export prices are projected to result in continuing downward pressure on net income in 2012-13. Based on current water flow and export market conditions, Manitoba Hydro is forecasting that financial results will improve somewhat and net income should reach approximately \$30 million by March 31, 2013. The achievement of this level of net income, however, is dependent on the approval of rate increase applications currently before the Public Utilities Board.

### *Electricity Operations*

Revenues from electricity sales within Manitoba totalled \$293 million for the three-month period, which was identical to the same period last year. Extraprovincial revenues of \$87 million were \$14 million or 14% lower than the same period last year reflecting decreased sales volumes partially offset by marginally increased prices.

Energy sold in the export market was 2.3 billion kilowatt-hours compared to 3.2 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totalled \$394 million for the three-month period, an increase of \$16 million or 4% higher than the same period last year. The increase was the net result of a \$15 million increase in operating and administrative expenses and a \$7 million increase in finance expense partially offset by a \$3 million decrease in power purchases and a \$3 million decrease in water rentals. The increase in operating and administrative expenses was mainly attributable to IFRS-related accounting changes and higher benefit costs resulting from the recognition of pension investment losses due to the economic downturn. Finance expense increased primarily due to higher volumes of long-term debt and a weaker Canadian dollar. Power purchases decreased primarily as a result of lower purchases of coal and natural gas for thermal generation. Water rentals decreased due to lower hydraulic generation.

Capital expenditures for the three-month period amounted to \$227 million compared to \$228 million for the same period last year. Expenditures during the current period included \$39 million for Wuskwatim generation and transmission, \$38 million related to future Conawapa and Keeyask generation, \$22 million for Bipole III projects, \$6 million for upgrades to the Kelsey Generating Station, \$21 million for the Riel Station and \$5 million for demand-side management programs. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province.

### *Natural Gas Operations*

In the natural gas sector, a net loss of \$10 million was incurred for the three-month period, which was consistent with the net loss of \$10 million in the same period last year. Revenue, net of cost of gas sold, was \$25 million which was \$1 million lower than the same period last year. The decrease in revenues was primarily attributable to decreased weather-related demand over the three-month period. Delivered gas volumes were 326 million cubic metres compared to 347 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$35 million compared to \$36 million for the same period last year.

Capital expenditures in the natural gas sector were \$8 million for the current three-month period compared to \$7 million for the same period last year. Capital expenditures included \$6 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province and \$2 million for demand-side management programs.

### *Wuskwatim First Generation*

On June 22, 2012, the first of three turbines began producing power at the Wuskwatim generating station. The final two generators are expected to go into service later in 2012, marking the completion of the station.

The 200-megawatt generating station on the Burntwood River, about 45 kilometres southwest of Thompson, has been under construction for six years. Wuskwatim is the first generating station to be built in Manitoba in nearly two decades and the first formal partnership agreement in Canada involving a First Nation and an electric utility for development of a major generating station.

### *Electricity Rate Increase Application*

Manitoba Hydro has applied to the Public Utilities Board for approval of a 2.5% electricity rate increase effective September 1, 2012 and a further 3.5% effective April 1, 2013. The rate increases are necessary to partially offset the financial impacts of lower revenues due to economic conditions and lower prices in export markets. The rate increases will also provide sufficient revenues for the Corporation to meet its ongoing costs of operations. Even with the proposed rate changes, electricity consumers in Manitoba will continue to benefit from the lowest electricity rate structure in Canada.

### *Natural Gas Rate Changes*

Natural gas rates for residential customers decreased on May 1, 2012 by approximately 8.6% or \$67 per year. Rate decreases for larger volume customers ranged from 2.1% to 14.4%, depending on customer class and consumption levels. The rate decreases are the net result

of reductions in the price that Manitoba Hydro pays for natural gas from Alberta and also reflects the expiry of rate adjustments associated with prior gas costs.

Although natural gas rates decreased on May 1, 2012, the next quarterly gas rate change on August 1, 2012 will result in natural gas rates increasing by 2.9% or approximately \$21 per year for residential customers. For non-residential customers, rates will increase on August 1, 2012 within a range of 3.3% to 7.1% depending on rate class and consumption levels.

The quarterly gas rate changes reflect the degree of volatility that exists in natural gas markets.

### *Green GOOD DESIGN Award*

The European Centre for Architecture and the Chicago Athenaeum of Architecture have announced that Manitoba Hydro has won the 2012 Green GOOD DESIGN Award for its head office building, Manitoba Hydro Place. The Green GOOD DESIGN Award identifies the world's most important examples of sustainable design and environmental planning in building architecture.



***William Fraser, FCA***

Chairman of the Board

A handwritten signature in black ink, appearing to read "W Fraser".



***Scott Thomson, CA***

President and  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Scott Thomson".

# Consolidated Statement of Income

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*In Millions of Dollars (Unaudited)*

## **Revenues**

- Electric – Manitoba
- Extraprovincial
- Gas – Commodity
- Distribution

Cost of gas sold

## **Expenses**

- Operating and administrative
- Finance expense
- Depreciation and amortization
- Water rentals and assessments
- Fuel and power purchased
- Capital and other taxes

## **Net (Loss) Income**

# Consolidated Balance Sheet

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*In Millions of Dollars (Unaudited)*

## **Assets**

- Capital assets
- Current assets
- Other assets

## **Liabilities and Equity**

- Long-term debt (net)
- Current liabilities
- Other liabilities
- Contributions in aid of construction
- Non-controlling interest
- Retained earnings
- Accumulated other comprehensive income

*Three Months Ended  
June 30*

| <b>2012</b> | <b>2011</b> |
|-------------|-------------|
| 293         | 293         |
| 87          | 101         |
| 22          | 34          |
| <u>25</u>   | <u>26</u>   |
| 427         | 454         |
| <u>22</u>   | <u>34</u>   |
| <u>405</u>  | <u>420</u>  |
| 131         | 117         |
| 111         | 104         |
| 102         | 103         |
| 26          | 29          |
| 32          | 35          |
| <u>27</u>   | <u>26</u>   |
| <u>429</u>  | <u>414</u>  |
| <u>(24)</u> | <u>6</u>    |

*As at  
June 30*

| <b>2012</b>   | <b>2011</b>   |
|---------------|---------------|
| 11 953        | 11 101        |
| 591           | 1 178         |
| <u>1 120</u>  | <u>1 124</u>  |
| <u>13 664</u> | <u>13 403</u> |
| 9 041         | 9 016         |
| 717           | 543           |
| 761           | 673           |
| 324           | 300           |
| 103           | 91            |
| 2 426         | 2 396         |
| <u>292</u>    | <u>384</u>    |
| <u>13 664</u> | <u>13 403</u> |

# Consolidated Cash Flow Statement

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*In Millions of Dollars (Unaudited)*

## **Operating Activities**

Cash receipts from customers  
Cash paid to suppliers and employees  
Net interest

## **Financing Activities**

## **Investing Activities**

**Net increase in cash**  
**Cash at beginning of period**

**Cash at end of period**

# Consolidated Statement of Comprehensive Income

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*In Millions of Dollars (Unaudited)*

**Net (Loss) Income**

## **Other Comprehensive (Loss) Income**

Unrealized foreign exchange (losses) gains on debt  
in cash flow hedges  
Unrealized fair value gains on available-for-sale  
U.S. sinking fund investments

**Comprehensive (Loss) Income**

*Three Months Ended  
June 30*

| <b>2012</b>  | <b>2011</b>  |
|--------------|--------------|
| 496          | 531          |
| (290)        | (305)        |
| <u>(136)</u> | <u>(124)</u> |
| 70           | 102          |
| 247          | 745          |
| <u>(244)</u> | <u>(236)</u> |
| 73           | 611          |
| <u>50</u>    | <u>69</u>    |
| <u>123</u>   | <u>680</u>   |

*Three Months Ended  
June 30*

| <b>2012</b> | <b>2011</b> |
|-------------|-------------|
| <u>(24)</u> | <u>6</u>    |
| (39)        | 12          |
| 4           | 5           |
| <u>(35)</u> | <u>17</u>   |
| <u>(59)</u> | <u>23</u>   |

## Segmented Information

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*In Millions of Dollars (Unaudited)*

*Three Months Ended*

*June 30*

|  | <b>Electricity</b> |             |
|--|--------------------|-------------|
|  | <b>2012</b>        | <b>2011</b> |
| <b>Revenue (net of cost of gas sold)</b> | 380                | 394         |
| <b>Expenses</b>                          | <u>394</u>         | <u>378</u>  |
| <b>Net (Loss) Income</b>                 | <u>(14)</u>        | <u>16</u>   |
| <br>                                     |                    |             |
| <b>Total Assets</b>                      | 13 096             | 12 848      |

## Generation and Delivery Statistics

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### **Electricity in gigawatt-hours**

Hydraulic generation

Thermal generation

Scheduled energy imports

Wind Purchases (MB)

Total system supply

### **Gas in millions of cubic metres**

Gas sales

Gas transportation

| <b>Gas</b>  |             | <b>Total</b> |             |
|-------------|-------------|--------------|-------------|
| <b>2012</b> | <b>2011</b> | <b>2012</b>  | <b>2011</b> |
| 25          | 26          | 405          | 420         |
| 35          | 36          | 429          | 414         |
| <u>(10)</u> | <u>(10)</u> | <u>(24)</u>  | <u>6</u>    |
| 568         | 555         | 13 664       | 13 403      |

*Three Months Ended  
June 30*

| <b>2012</b>  | <b>2011</b>  |
|--------------|--------------|
| 7 257        | 8 309        |
| 5            | 19           |
| 124          | 19           |
| 218          | 202          |
| <u>7 604</u> | <u>8 549</u> |
| 149          | 160          |
| 177          | 187          |
| <u>326</u>   | <u>347</u>   |

For further information contact:

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*Cover: Workers lower a turbine runner into place  
at the Wuskwatim Generating Station.*