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February 22, 2013

Mr. H. Singh  
The Public Utilities Board  
400 - 330 Portage Avenue  
WINNIPEG, Manitoba R3C 0C4

Dear Mr. Singh:

**RE: MANITOBA HYDRO 2012/2013, 2013/2014 GENERAL RATE APPLICATION  
UPDATED FINANCIAL INFORMATION**

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On pages 736 to 739 of the transcript related to Manitoba Hydro's 2012/13 and 2013/14 General Rate Application (GRA), the Chairman of the PUB expressed concern that the PUB should make its rate decisions based on the most current financial information. In order to assist in the matter and allow other parties to address these issues in final argument, Manitoba Hydro is providing an update to the PUB and Intervenors of record at the GRA with respect to a number of issues that will impact its financial results and forecasts as follows:

**3<sup>rd</sup> Quarter Financial Results**

Manitoba Hydro has released its financial results and quarterly report for the period ended December 31, 2012, a copy of which is attached to this letter. This report shows a consolidated net loss of \$38 million for the first nine months of the 2012/13 fiscal year, which compares to a consolidated net income of \$29 million for the same nine month period in the previous fiscal year. The consolidated net loss of \$38 million was comprised of a \$24 million loss in the electricity sector and a \$14 million loss in the natural gas sector. The net income in the electricity sector for the same nine month period in the previous fiscal year was \$48 million. The \$24 million loss in the electricity sector includes the impacts of the two interim rate increases that were approved by the PUB in 2012/13 and an \$8 million non-controlling interest attributed to NCN with respect to the Wuskwatim Power Limited Partnership (WPLP) but excludes the reinstatement of the 1% rate roll-back, which continues to be accumulated in the associated deferral account until further determination by the PUB.

**Update on Negotiations with NCN**

On the second day of the hearing, Mr. Warden had advised the PUB at pages 441 to 444 of the transcript that the contractual arrangement with NCN with respect to the WPLP was under review and that based on the current status of negotiations as they then existed, it was likely that the contractual arrangements would change such that there would be no attribution of the projected loss from the WPLP to NCN in 2012/13 or 2013/14. Based on the most current information,

The Public Utilities Board  
February 22, 2013  
Page 2

Manitoba Hydro can now advise that negotiations are still ongoing with NCN and it now appears unlikely that the agreement will be reached in this fiscal year. On this basis, it will likely be necessary for Manitoba Hydro to reflect the non-controlling interest amount of \$14 million in net income in 2012/13 (as reflected in IFF12).

**Deferral of IFRS to 2015/16 for Canadian Rate-Regulated Entities**

Mr. Rainkie provided updates to the PUB on the status of the International Accounting Standards Board's (IASB) rate-regulated activities project a number of times during the course of the hearing indicating that there was a significant potential that the IASB could approve an interim standard during 2013 that would continue to allow for the recognition of rate-regulated assets and liabilities. Subsequent to the end of the evidentiary portion of the hearing, the IASB decided that it would proceed with the issuance of an exposure draft in March of 2013 that would propose that an interim rate-regulated standard be finalized for first-time adopters of IFRS by December of 2013. As a result of that decision, the Canadian Accounting Standards Board (AcSB) decided on February 13, 2013, that it would extend the existing deferral of the IFRS changeover date for Canadian rate-regulated entities by an additional year to January 1, 2015. In granting the further extension, the AcSB noted that it wanted to give the first-time adopters of IFRS adequate time to prepare comparative information based on the requirements of the new interim standard. This development is very recent and Manitoba Hydro will continue to monitor the situation, but the Corporation can advise on a preliminary basis that it intends to adopt the further deferral and would as a result, transition to IFRS during its 2015/16 fiscal year. Manitoba Hydro would like to note that these decisions do not impact the current rate application before the PUB for the 2012/13 and 2013/14 fiscal years, as IFF12 had assumed IFRS implementation during the 2014/15 fiscal year.

If you have any questions on the foregoing information, please feel free to contact the writer.

Yours truly,

**MANITOBA HYDRO LAW DEPARTMENT**

Per:



**PATRICIA J. RAMAGE**

Barrister and Solicitor

PJR/sc

cc: Mr. R.F. Peters, Fillmore Riley LLP  
Registered Intervenors

# The Manitoba Hydro-Electric Board

Q U A R T E R L Y R E P O R T

*for the nine months ended December 31, 2012*



# MH Exhibit #117

*Comments by*

THE CHAIRMAN OF THE BOARD

*and by*

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

## FINANCIAL OVERVIEW

Manitoba Hydro incurred a net loss on consolidated electricity and natural gas operations of \$38 million for the first nine months of the 2012-13 fiscal year compared to net income of \$29 million for the same period last year. The net loss was comprised of a \$24 million loss in the electricity sector and a \$14 million loss in the natural gas sector. The loss in the electricity sector was attributable to decreased revenues from electricity spot market sales and higher operating expenses mainly due to accounting changes and pension-related cost increases. The placing in-service of Wuskwatim Generating Station also contributed to cost increases over the nine-month period. The reduced electricity sector revenues and higher expenses were consistent with expectations for the third quarter. The loss in the natural gas sector 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 is forecasting that financial results will improve over the balance of the fiscal year and net income should reach \$30 million by March 31, 2013. The achievement of this level of net income is dependent on the approval of a rate increase application currently before the Public Utilities Board of Manitoba.

### *Electricity Operations*

Revenues from electricity sales within Manitoba totaled \$906 million for the nine-month period, an increase of 3.2% or \$28 million compared to the same nine-month period last year. The increase in domestic revenue was attributable to electricity rate increases, which are subject to final approval by the Public Utilities Board, and colder weather resulting in a higher heating load. Extraprovincial revenues of \$280 million were \$22 million or 7% lower than the same period last year reflecting decreased sales volumes partially offset by marginally increased prices. Energy sold in the export market was 7.6 billion kilowatt-hours compared to 8.8 billion kilowatt-hours sold in the same period last year.

## MH Exhibit #117

Expenses attributable to electricity operations totaled \$1 218 million for the nine-month period, an increase of \$86 million or 8% higher than the previous year. The increase was the net result of a \$27 million increase in operating and administrative expenses, a \$45 million increase in finance expense and a \$28 million increase in depreciation and amortization partially offset by a \$14 million decrease in power purchases. The increase in operating and administrative expenses was mainly attributable to IFRS-related accounting changes and higher pension and benefit costs resulting from a change in discount rate. Finance expense increased primarily due to higher volumes of long-term debt and the financing costs associated with Wuskwatim Generating Station coming into service during the year. Depreciation and amortization increased primarily as a result of additions to plant and equipment coming into service, including the Wuskwatim Generating Station. Power purchases decreased primarily as a result of lower system merchant purchases due to lower arbitrage opportunities between markets.

Capital expenditures for the nine-month period amounted to \$733 million compared to \$738 million for the same period last year. Expenditures during the current period included \$120 million related to future Keeyask and Conawapa generation, \$77 million for Bipole projects, \$63 million related to Wuskwatim generation, \$58 million for Pointe du Bois projects, \$60 million for the Riel Station and \$20 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 \$14 million was incurred for the nine-month period compared to a \$19 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$91 million which was \$7 million higher than the same period last year. The increase in revenues was primarily attributable to higher weather-related demand over the current nine-month period. Delivered gas volumes were 1 207 million cubic metres compared to 1 169 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$105 million compared to \$103 million for the same period last year. The \$2 million increase was due to higher depreciation and amortization costs.

## MH Exhibit #117

Capital expenditures in the natural gas sector were \$29 million for the current nine-month period compared to \$26 million for the same period last year. Capital expenditures included \$23 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province and \$6 million for demand-side management programs.

### *Final Unit Producing Power at Wuskwatim*

A major milestone was achieved at the Wuskwatim Generating Station on October 6, 2012 when the last of three generators entered commercial operation. The 200-megawatt Wuskwatim Generation Station on the Burntwood River was constructed over a six-year period. Wuskwatim is the first generation 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 generation station.

### *Manitoba Hydro Wins Urban Land Institute Global Award*

Manitoba Hydro Place was one of fourteen real estate developments from around the world selected as a winner of the 2012 Urban Land Institute Global Awards for Excellence. Selected from nearly 200 entries throughout the world, Manitoba Hydro Place was recognized as a state-of-the-art energy efficient, cost-effective structure exemplar of sustainable development.

### *Riel Station Transformers*

Three giant transformers were moved from their Winnipeg factory to their new home at Manitoba Hydro's Riel Station. The transformers were transported using a special 320-tire transporter similar to the unit used to recently move the space shuttle Endeavour through the streets of Los Angeles. The transformers are being installed as part of the reliability improvements on Manitoba Hydro's 500 000-volt transmission line linking Manitoba to Minnesota.

### *PAYS Financing Program Makes Energy Efficiency More Accessible*

Manitoba Hydro's new financing program, launched in early November 2012, makes energy efficiency accessible to more Manitoba homeowners or tenants who rent a home. The Power Smart\* Pay as You Save (PAYS) Financing Program provides

\*Manitoba Hydro is a licensee of the Trademark and Official Mark.

## MH Exhibit #117

Manitoba Hydro residential customers a convenient option for completing energy efficiency upgrades to their homes while keeping upfront costs and future monthly finance payments as small as possible. PAYS financing allows a customer to use their estimated annual utility savings gained from installing energy efficiency measures, such as a high-efficiency furnace or attic insulation, to pay for those measures. Manitoba Hydro's new PAYS program is the first of its kind in Canada.

### *Power Smart Neighbourhood Program*

In late November 2012, Manitoba Hydro launched its Power Smart Neighbourhood Program to help lower income neighbourhoods become more energy efficient. Through this program, Manitoba Hydro will work with community organizations and groups to bring the benefits of energy efficiency and sustainability to residents of lower income neighbourhoods on a block-by-block project basis. The program includes free in-home energy reviews, improvements to sealing, caulking and weatherstripping, the installation of pipe wrapping and water efficiency devices, new high-efficiency furnaces and boilers and performing insulation upgrades.



***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  
February 14, 2013

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

## MH Exhibit #117

### 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 before non-controlling interest

Net Loss attributable to non-controlling interest

#### **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
- Non-controlling interest
- Contributions in aid of construction
- Retained earnings
- Accumulated other comprehensive income



# MH Exhibit #117

<i>Nine Months Ended December 31</i>		<i>Three Months Ended December 31</i>	
<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
906	878	331	304
280	302	73	76
98	119	64	69
91	84	46	38
<u>1 375</u>	<u>1 383</u>	<u>514</u>	<u>487</u>
98	119	64	69
<u>1 277</u>	<u>1 264</u>	<u>450</u>	<u>418</u>
384	357	118	115
361	316	131	106
316	286	109	93
87	90	30	29
96	110	37	34
79	76	26	25
<u>1 323</u>	<u>1 235</u>	<u>451</u>	<u>402</u>
(46)	29	(1)	16
<u>8</u>	<u>-</u>	<u>6</u>	<u>-</u>
<u>(38)</u>	<u>29</u>	<u>5</u>	<u>16</u>

<i>As at December 31</i>	<i>As at December 31</i>
<b>2012</b>	<b>2011</b>
12 297	11 500
614	649
1 130	1 129
<u>14 041</u>	<u>13 278</u>
8 886	8 774
1 227	711
750	668
99	98
328	312
2 412	2 418
339	297
<u>14 041</u>	<u>13 278</u>

## MH Exhibit #117

# 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 (decrease) 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 Income (Loss)**

Unrealized foreign exchange gains (losses) on debt  
in cash flow hedges

Realized foreign exchange losses on debt in cash flow  
hedges reclassified to income

Unrealized fair value gains on available-for-sale  
U.S. sinking fund investments

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

# MH Exhibit #117

*Nine Months Ended  
December 31*

*Three Months Ended  
December 31*

<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
1 384	1 469	459	463
(741)	(796)	(246)	(240)
(299)	(270)	(48)	(26)
<u>344</u>	<u>403</u>	<u>165</u>	<u>197</u>
581	531	(53)	(210)
<u>(838)</u>	<u>(807)</u>	<u>(302)</u>	<u>(285)</u>
87	127	(190)	(298)
<u>50</u>	<u>69</u>	<u>327</u>	<u>494</u>
<u>137</u>	<u>196</u>	<u>137</u>	<u>196</u>

*Nine Months Ended  
December 31*

*Three Months Ended  
December 31*

<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<u>(38)</u>	<u>29</u>	<u>5</u>	<u>16</u>
8	(89)	(21)	42
1	-	1	-
<u>3</u>	<u>18</u>	<u>-</u>	<u>(1)</u>
<u>12</u>	<u>(71)</u>	<u>(20)</u>	<u>41</u>
<u>(26)</u>	<u>(42)</u>	<u>(15)</u>	<u>57</u>

## MH Exhibit #117

### Segmented Information

*In Millions of Dollars (Unaudited)*

<i>Nine Months Ended</i> <i>December 31</i>	<b>Electricity</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue (net of cost of gas sold)</b>	1 186	1 180
<b>Expenses</b>	1 218	1 132
<b>Net (Loss) Income before non-controlling interest</b>	(32)	48
<b>Net Loss attributable to non-controlling interest</b>	8	-
<b>Net (Loss) Income</b>	(24)	48

*Three Months Ended*  
*December 31*

<b>Revenue (net of cost of gas sold)</b>	404	380
<b>Expenses</b>	416	369
<b>Net (Loss) Income before non-controlling interest</b>	(12)	11
<b>Net Loss attributable to non-controlling interest</b>	6	-
<b>Net (Loss) Income</b>	(6)	11
<b>Total Assets</b>	13 425	12 677

### Generation and Delivery Statistics

#### **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

# MH Exhibit #117

<b>Gas</b>		<b>Total</b>	
<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
91	84	1 277	1 264
105	103	1 323	1 235
<hr/>	<hr/>	<hr/>	<hr/>
(14)	(19)	(46)	29
-	-	8	-
<hr/>	<hr/>	<hr/>	<hr/>
(14)	(19)	(38)	29
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
46	38	450	418
35	33	451	402
<hr/>	<hr/>	<hr/>	<hr/>
11	5	(1)	16
-	-	6	-
<hr/>	<hr/>	<hr/>	<hr/>
11	5	5	16
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
616	601	14 041	13 278

*Nine Months Ended  
December 31*

*Three Months Ended  
December 31*

<b>2012</b>		<b>2011</b>	
24 421	25 292	8 135	8 213
72	69	40	26
335	111	207	80
622	654	222	270
<hr/>	<hr/>	<hr/>	<hr/>
25 450	26 126	8 604	8 589
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
680	595	449	358
527	574	224	219
<hr/>	<hr/>	<hr/>	<hr/>
1 207	1 169	673	577
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For further information contact:

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Manitoba Hydro  
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Winnipeg, Manitoba, Canada  
R3C 2P4  
Telephone: 1-204-360-3233



*Cover: Workers erecting steel work at the new  
Riel Station located east of Winnipeg.*