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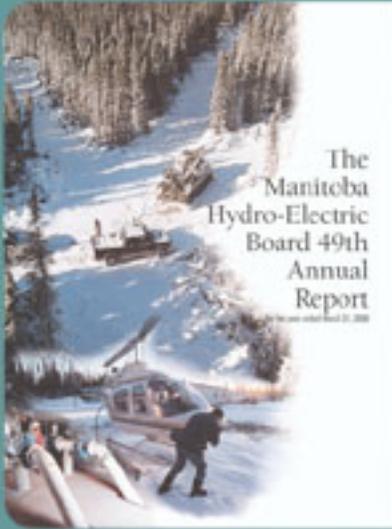
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49th Annual Report

The Manitoba Hydro - Electric Board

For the Year Ended March 31, 2000

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Highlights

Manitoba Hydro acquired Centra Gas Manitoba Inc. to become the one-stop energy company in Manitoba. The purchase price was \$242 million. Corporate income taxes paid by Centra Gas as a result of its change to non-taxable status amounted to \$58 million.

For the year, consolidated net income was \$152 million.

New record of \$376 million in export sales was achieved, up 15 per cent from last year's record.

No electricity rate increase in 2000-01, marking the fourth consecutive year of no rate increases for most customer groups. For industrial customers, in particular, rates have not increased in nine years.

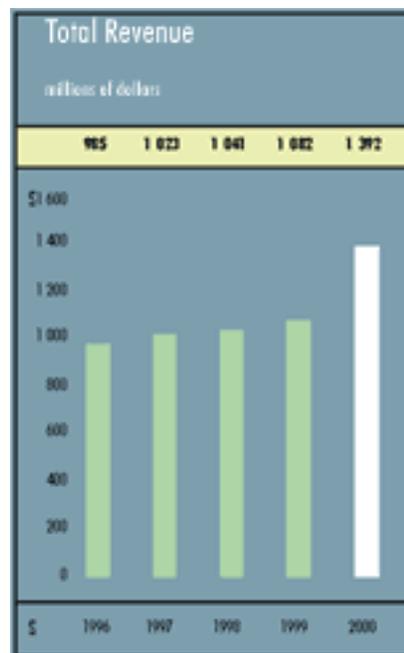
Consolidated Financial in millions of dollars		1999-00	1998-99	change (%)
Gross revenues		1 392	1 082	28.7
Electricity sales within Manitoba		747	756	(1.2)
Extraprovincial electricity sales		376	326	15.3
Natural gas sales		269	-	-
Net income		152	100	52.0
Retained earnings		818	666	22.8
Capital assets in service		8 438	7 815	8.0
Number of customers	Electrical	402 023	398 863	0.8
	Gas	245 761	-	-
Number of employees (regular)	Electrical	3 251	3 277	(0.8)
	Gas	555	-	-

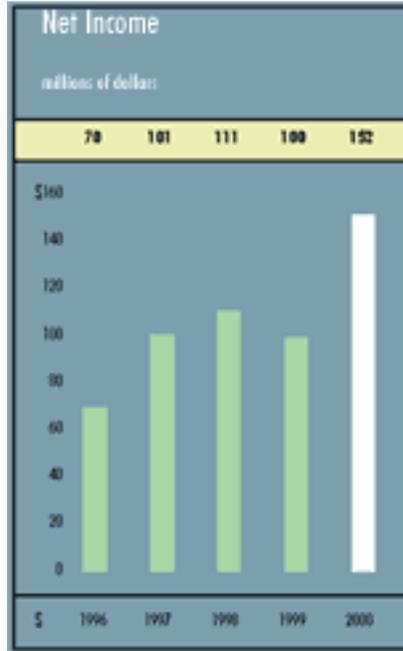
Electrical Operations in billions of kilowatt-hours		1999-00	1998-99	change (%)
Generation & Supply				

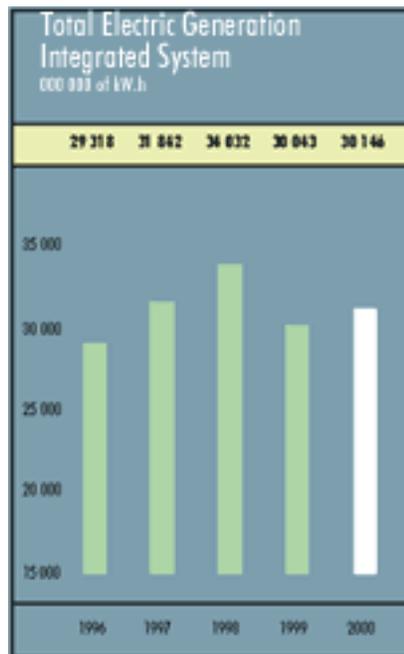
Total generation - integrated system	30.1	30.0	0.3
Energy supplied to Manitoba customers*	19.1	19.4	(1.5)
* includes Winnipeg Hydro			
in kilowatt-hours			
Manitoba peak load	3 524 200	3 559 100	(1.0)

Gas Operations
For the Eight Months Ended March 31, 2000
in billions of cubic feet

Gas Sales			
Small general service	21		
Large general service	14		
Other	9		
Transportation	44 13		
Total	57		







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Vision

To be recognized as the best utility in North America with respect to safety, rates, reliability, and customer satisfaction, and to be considerate of all people with whom we have contact.

Mission

To provide for the continuance of a supply of energy adequate for the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply, and

end-use of energy. Provide and market, energy-related products and services, within and outside the province.

Goals

- Continuously improve safety in the work environment.
- Provide customers with exceptional value (rates, reliability, service and power quality).
- Enhance aboriginal relations.
- Improve corporate financial strength.
- Increase gas customer base.
- Increase export power net revenues.
- Have highly skilled effective innovative employees.
- Be a recognized leader in protecting the environment.
- Be an outstanding corporate citizen.
- Support business development in Manitoba.



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President's message



The 1999-00 fiscal year was an extraordinary one for Manitoba Hydro. On the Eve of celebrating the 50th anniversary of the establishment of The Manitoba Hydro-Electric Board in 1951, the Corporation is taking new paths in the province by completing the acquisition of Centra Gas Manitoba Inc. in July, 1999. We are now the one-stop energy supplier for Manitobans, able to offer comprehensive energy expertise and service to our customers.

Following review and approval of the Centra Gas acquisition by The Public Utilities Board, staff from both organizations have been engaged in an extensive integration process, with teams of employees meeting to ensure comprehensive integration plans are developed for the many different aspects of our operations. Tremendous progress has been made by the employee teams in bringing together the two organizations. We are well on our way to realizing the synergies that were expected when the acquisition was proposed.

The year was also exceptional with respect to financial performance. All-time high export revenues of \$376 million was one of the factors in establishing a new record for net income of \$152 million, a 37 per cent increase over the previous record of \$111 million established in 1997-98.

The amount of energy exported, 10.9 billion kilowatt-hours, actually declined slightly from the previous year but the unit price for exports increased by 21 per cent, accounting for the increase in revenues. An active and rewarding market for electricity has a number of implications for Manitoba Hydro customers, one of the main impacts being stability in electricity bills here in Manitoba. Success in the export market has assisted in allowing Manitoba Hydro to maintain the same residential electricity rates for Manitobans for four years and to maintain industrial rates unchanged for nine years. Manitobans have the distinction of having the lowest overall electricity rates in North

America.

In addition, the attractive market for export sales has caused Manitoba Hydro to revise its long-term plans for electricity generation in the province. In March, 2000 plans were announced to build a natural gas combustion turbine in Brandon, expected to be in service in 2002. This facility, although it is not expected to be operated extensively, will provide the required energy support in low flow years and allow the Corporation to export more generation from its hydroelectric facilities on a guaranteed basis which are at higher prices.

Manitoba Hydro is also examining the options for additional hydroelectric generating facilities in northern Manitoba. In close cooperation with local First Nations, the Corporation is undertaking the necessary planning and environmental studies to enable it to make a proposal within the next year with respect to one or more of the three possible sites now being studied. The electricity produced by any such future developments would be sold into the export market, and used to meet the Manitoba load requirements in future years. Decisions regarding the possible development of any such plants will be made next year.

Manitoba Hydro, through its Power Smart Programs, has encouraged customers to choose energy efficient electric products and lifestyles, ultimately saving on their hydro bills. Reduced consumption allows customers to save on their energy bills while Manitoba Hydro is able to sell the power conserved on the export market and defer the cost of new facilities.

I also want to note the continuation of efforts during the year to acknowledge and deal with impacts from past development projects. In August, 1999 work was completed on the Lower Churchill River Weir project. Spanning the Churchill River about 10 kilometres from the Town of Churchill, the weir backs up the river flows, increasing water levels and creating a reservoir. This has improved the fish habitat, and also allows for increased recreational opportunities for local residents. Decreased water flows on the Churchill River resulted from the operation of the Churchill River Diversion project, undertaken by Manitoba Hydro in the mid - 1970s. This is one example of an ongoing and substantial effort by the Corporation to make every effort to mitigate the impacts of past projects or, where that is not possible, to compensate the people affected. We now have a number of agreements with First Nation and other communities impacted by projects and have moved on to much improved relationships with them. We also have one major unresolved situation with the Cross Lake First Nation that we are committed to addressing.

I would like to acknowledge the contributions of the former Chairman of The Manitoba Hydro-Electric Board, John S. McCallum, and to Victor H. Schroeder, Q.C., the current Chairman, for their valuable assistance to me. The employees of Manitoba Hydro and Centra Gas are congratulated for their significant efforts during the year in bringing our electricity and natural gas operations together. Without their sincere and enthusiastic cooperation, we would not have been able to attain the many achievements recorded to date.



R. B. Brennan, FCA

President and Chief Executive Officer

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Chairman's message



As the new Chairman of The Manitoba Hydro-Electric Board, the past several months have been an intense and interesting period during which I have familiarized myself with the issues and opportunities currently faced by Manitoba Hydro. Those issues have changed significantly over the past decade.

At the same time, other issues look similar to discussions held in past decades. For instance, Manitoba Hydro is currently in the process of attempting to extend its 500 megawatt sale to Northern States Power. That is the tremendously successful export power contract which triggered the construction of the Limestone Generating Station back in the mid-1980s.

Manitobans realize that Manitoba Hydro is a tremendous asset to the province, producing reliable, low cost electricity. We are today witnessing increased market opportunities for export sales as well as better selling prices. At the same time, Manitoba Hydro must be prepared for a more competitive electricity industry in the future.

Continued low rates for Manitoba consumers promise to maintain “the Hydro advantage” for our province, including our prices for industry and business to whom low electricity rates constitute a competitive advantage over their rivals in other jurisdictions. Manitoba Hydro's continued financial success will maintain that competitive advantage.

At the same time, I must tell you that we have some unfinished business with respect to the hydroelectric development which took place in the 1970s. While arrangements have been made over the past decade to deal fairly with the disastrous circumstances surrounding that development for four of the five First Nations communities affected, we have yet to see our way through to implementation of the Northern Flood Agreement at Cross Lake. Our policy is that, in all cases, we will treat communities and individuals impacted by our activities with fairness.

Manitoba Hydro is currently studying in detail whether to propose the development of further hydroelectric sites in northern Manitoba. We are in the process of negotiating true partnership agreements with those First Nations communities whose resource areas would be affected. Environmental, financial, economic and jobs issues will be priority issues in our deliberations with the First Nations.

The acquisition of Centra Gas during the past year has also led to opportunities to provide more efficient and effective services to our customers.

We are committed to ensuring that Manitoba Hydro survives and thrives as a significant asset to the province in the years ahead. Further prudent resource development, coupled with cost-effective conservation, will ensure that this will happen.

On behalf of the Board, I would like to commend all of the employees of Manitoba Hydro and Centra Gas for their dedicated efforts over the past, very demanding year.

I would also like to take this opportunity to thank the former Members of the Board of Directors of Hydro, and especially John McCallum, for their dedicated service to Hydro and to Manitobans, and to congratulate and welcome the new Members appointed to our Board in February.



Victor H. Schroeder,
Q.C. Chairman,
The Manitoba Hydro-Electric Board

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Financial Overview

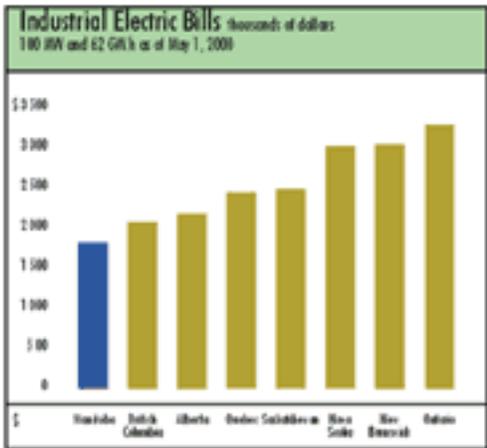
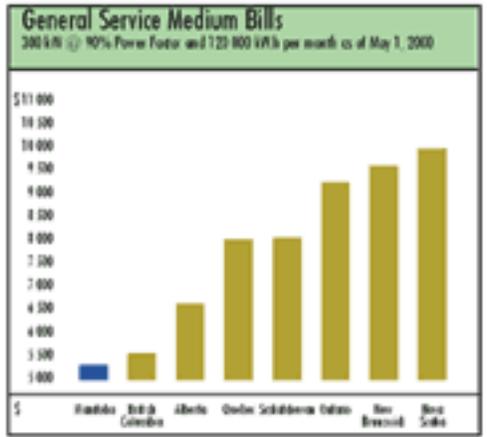
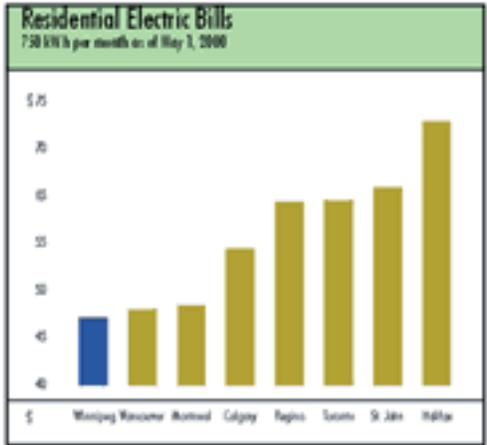
Manitoba Hydro's consolidated net income for the year ended March

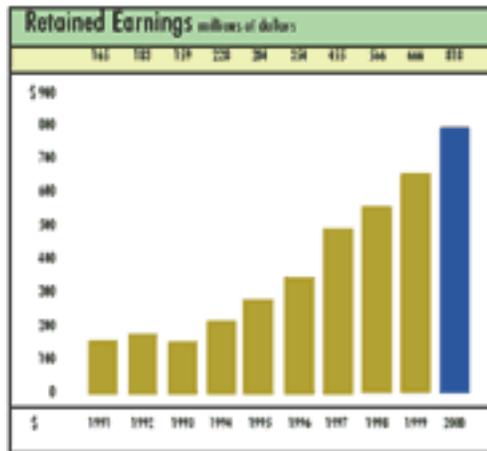
31, 2000 was \$152 million, the highest level of earnings in the Corporation's history. Compared to 1998-99, net income was up by \$52 million. The increase in net income was largely attributable to a \$50 million increase in revenues from the sale of electricity in export markets where prices rose 21% from the prior year. The higher export prices were largely a reflection of Manitoba Hydro's increased access to the competitive United States marketplace for electricity. In addition, thermal fuel and power purchases were down \$26 million or 44% from last year mainly due to lower energy requirements in the domestic market related to mild weather conditions experienced during the year.

Record sales in the export market have allowed Manitoba Hydro to maintain its status of having the lowest domestic electricity rates of any major utility in North America. Large industrial customers of Manitoba Hydro have not had an increase to their electricity rates since April 1992, while residential and small commercial customers have not had their electricity rates changed since April 1997. Again in the year 2000, there will be no increase to electricity rates in Manitoba.

Consolidated net income includes the results and operations of Centra Gas Manitoba Inc. (Centra Gas) which was acquired by the Corporation on July 30, 1999. Centra Gas is the principal distributor of natural gas in the province of Manitoba with approximately 246 000 customers in the residential, commercial and industrial sectors. All of the issued and outstanding common shares of Centra Gas were acquired for a purchase price of \$242 million. The acquisition of Centra Gas allows the Corporation to be a "one-stop energy company" for its customers. It also allows Manitoba Hydro to take advantage of synergies of at least \$12 million per year by combining the operations of the utilities. Centra Gas' contribution to consolidated net income, after application of the costs and amortization of taxes associated with the acquisition, amounted to \$4 million for the eight-month period from the date of acquisition.

The 1999-00 consolidated net income of \$152 million increased retained earnings from \$666 million at March 31, 1999 to \$818 million at March 31, 2000.





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Electrical Operations

Revenues

Total revenues from the electricity segment exceeded the one billion dollar mark for the fourth consecutive year in 1999-00. Of the total revenue, 62% was derived from retail power sales within the province, 34% from the export power market and 4% as a result of the cost-sharing agreement with Winnipeg Hydro. In total, revenues rose by 4% over the previous year.

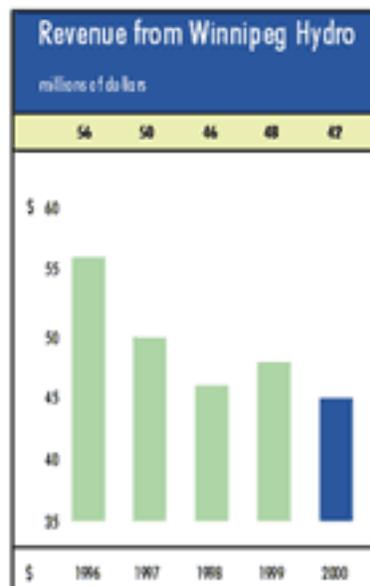
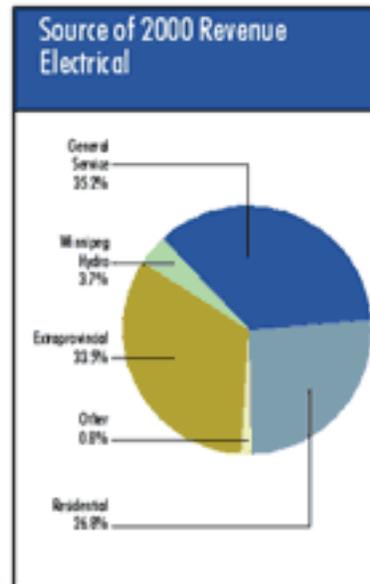
Manitoba Power Sales

Manitoba revenues declined to \$747 million from \$756 million, a decrease of \$9 million or 1% from the previous year. Electricity consumption in Manitoba was 19.1 billion kilowatt-hours, 0.3 billion kilowatt-hours less than the 19.4 billion kilowatt-hours consumed in the 1998-99 fiscal year. The decrease was due to lower energy requirements in the general service sector and decreased sales to Winnipeg Hydro.

Revenue from sales to residential customers for 1999-00 was consistent with the previous year at \$300 million. The number of residential customers increased by 2 908 during the year, and totalled 352 618 at March 31, 2000.

Revenue from general service customers, comprised of the commercial and industrial sector decreased by \$5 million to \$395 million for 1999-00. The total number of general service customers increased by 252 to 49 405 at March 31, 2000.

Revenue from Winnipeg Hydro amounted to \$42 million, a decrease of \$6 million from 1998-99 as a result of the sharing of higher extraprovincial revenues and lower purchases in accordance with a cost-sharing agreement between the two utilities. The cost-sharing agreement expired on March 31, 2000 and a new power supply arrangement is in the process of being negotiated.



Extraprovincial Power Sales

Revenues from extraprovincial power sales increased to a record amount of \$376 million, \$50 million higher than 1998-99. Energy sold outside Manitoba was 10.9 billion kilowatt-hours in 1999-00, 0.5 billion kilowatt-hours less than in 1998-99. The financial impact of reduced energy sales was more than offset by the increase in the

average return per kilowatt-hour. In 1999-00, the average return was 3.45 cents per kilowatt-hour, representing an increase of 0.59 cents per kilowatt-hour or 21% over the previous year. Of the total extraprovincial revenue, \$286 million or 76% was derived from the U.S. market, \$61 million or 16% from Ontario and \$29 million or 8% from Saskatchewan.

Expenses Total expenses of the electricity segment amounted to \$975 million, a decrease of \$7 million or 1% from the previous fiscal year. The decrease in expenses was largely due to a \$26 million decrease in fuel and power purchases which were higher in 1998-99 to compensate for lower water levels. In addition, there was a \$9 million decrease in finance expense due to a reduction in the average cost of financing and to gains realized on the sale of sinking fund investments. These decreases were partially offset by an increase in depreciation expense of \$17 million relating to assets being placed in service and additional operating expenses of \$8 million.

Operating and Administrative Expenses

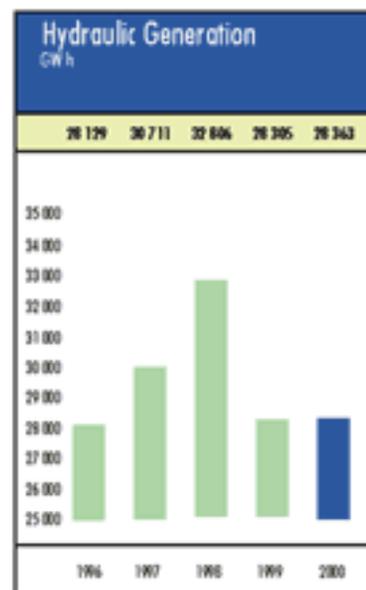
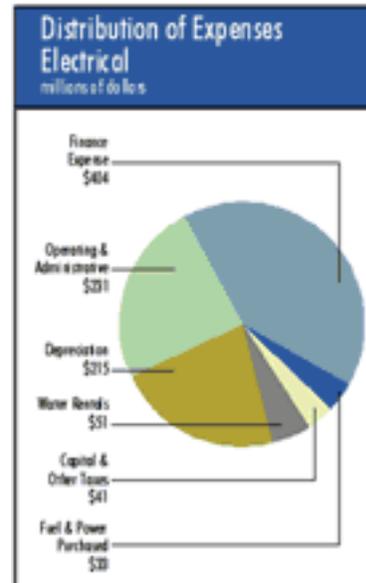
Operating and administrative expenses include the labour, material and overhead costs associated with operating, maintaining and administering the facilities of the Corporation. In 1999-00, operating and administrative expenses amounted to \$231 million, an increase of 4% or \$8 million over 1998-99. Increased costs were associated with additional maintenance on the hydraulic generation, transmission and distribution systems of the Corporation.

Depreciation

Depreciation expense totalled \$215 million, an increase of \$17 million or 9% over 1998-99. The increase was attributable to capital additions to the generation, transmission and distribution systems of the Corporation.

Water Rentals

Water rental costs are incurred for the use of water resources by Manitoba Hydro in the operation of its hydroelectric generating stations. Water rentals of \$51 million remained unchanged from the previous year, reflecting hydraulic generation of 28.4 billion kilowatt-hours in 1999-00 compared to 28.3 billion kilowatt-hours in 1998-99.



Fuel and Power Purchased

Fuel and power purchased costs amounted to \$33 million, a decrease of \$26 million from the previous year due to better water flow conditions in 1999-00. The decrease was comprised of lower power purchases of \$21 million and decreased thermal generation of \$5 million. In addition, market conditions presented minimal economic opportunities to purchase additional power for resale. In 1999-00, domestic and export load was met with hydraulic generation and minimal purchases. Power purchases were 1.0 billion kilowatt-hours compared to 1.9 billion kilowatt-hours in the previous year. Thermal generation for the year was 0.7 billion kilowatt-hours, a decrease of 0.2 billion kilowatt-hours from 1998-99.

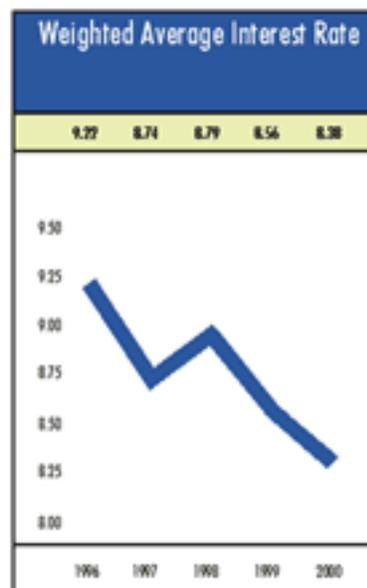
Finance Expense

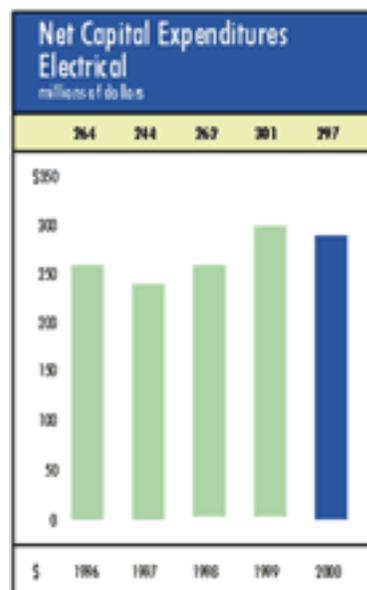
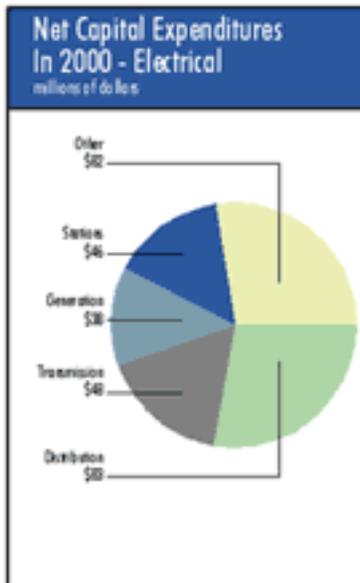
Finance expense decreased \$9 million to \$404 million in 1999-00. The decrease was the net result of a reduction in the weighted average interest rate from 8.56% to 8.38%, a \$3 million gain on sales of sinking fund investments and increased borrowing requirements.

Capital Assets

Expenditures for capital construction totalled \$297 million in 1999-00 compared to \$301 million during the previous fiscal year. Capital expenditures in 1999-00 included \$38 million for new generation system rehabilitation, upgrade and protection projects. Generation expenditures also included \$14 million for a new natural gas-fired combustion turbine plant being installed at Brandon, Manitoba. The combustion turbine plant is expected to provide a number of benefits. The most significant is that the combustion turbine will allow Manitoba Hydro to sell higher priced firm energy on the export market -- energy that was previously sold on an interruptible basis. In addition to the financial benefits, the combustion turbine will provide extra system reliability and security to the western part of the province.

The Corporation expended \$48 million for new transmission line and upgrade projects including the new Dorsey - Neepawa - Cornwallis 230 kV line. Substation additions and upgrades were \$46 million and distribution system additions and modifications were \$83 million to meet the service requirements of customers throughout the province. The remaining capital expenditures were for replacements of equipment and facilities.





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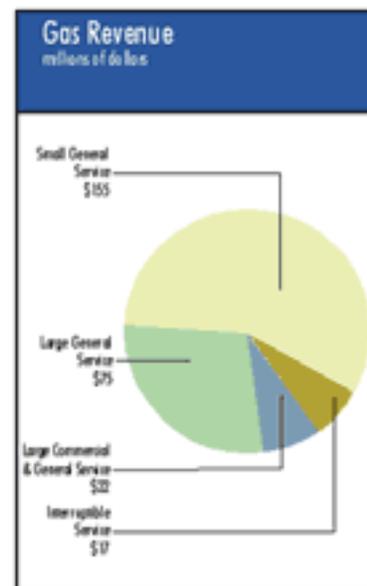
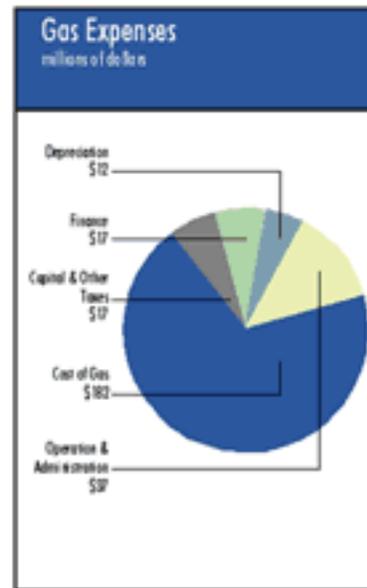
Natural Gas Operations

The gas segment consists of financial results of the Corporation's subsidiary, Centra Gas Manitoba Inc. (Centra Gas), for the eight-month period ended March 31, 2000.

The gas segment contribution to consolidated net income was \$4 million for the eight-month period. Revenue during the period was \$269 million while total expenses amounted to \$265 million, including \$182 million for cost of gas sold. Gas volumes delivered were 57 billion cubic feet (Bcf) compared to normal deliveries of 62 Bcf, as a result of warmer than normal weather. Customer additions of 4 895 for

the period increased the customer base to a total of 245 761 at year-end.

Gross capital expenditures for the eight-month period were \$15 million of which \$7 million was funded through customer contributions. The capital expenditure program reflects the continuing growth in new business and rural expansion initiatives, system betterment and other expenditures required to meet the needs of new and existing customers.

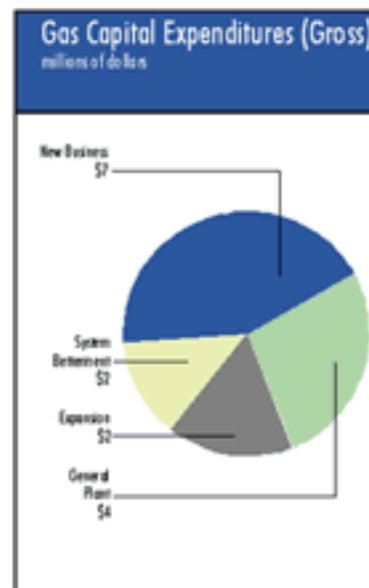


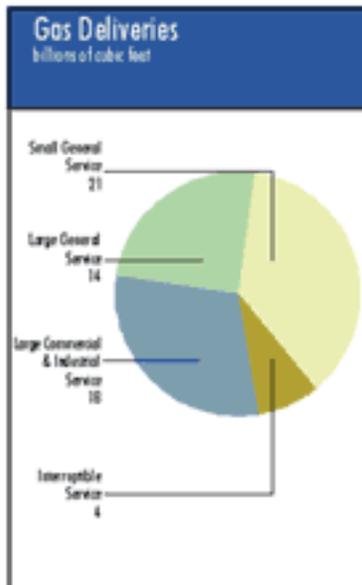
Centra Gas' main supply of natural gas, totalling 23.1 Bcf, was purchased under its TransCanada Gas Services (TCGS) long-term contract. The monthly pricing mechanism was linked to Alberta pricing with 70% of the price based on the AECO hub prices plus the NOVA AECO to Empress toll and 30% of the price indexed to

Empress hub pricing. Supplies for the direct purchase market were priced at the monthly Buy/Sell reference price. Spot gas, totalling 6.2 Bcf, was purchased under day-to-day pricing arrangements based on the daily Alberta pricing index.

Centra Gas used financial instruments to minimize the potential impacts of severe volatility of natural gas prices. During the eight-month period, Centra Gas placed derivative positions at a net cost of \$2 million. In addition, Centra Gas has purchased caps for the gas months of April and June through September.

Natural gas prices continue to be volatile. Reflecting this volatility, it was necessary for Centra Gas to increase gas rates to customers by an average of 4% effective December 1, 1999. This follows an average 6% gas price decrease effective July 1, 1999. Recent surges in natural gas commodity prices in Alberta, where Centra Gas obtains the majority of its supply, will translate into further gas rate increases to customers in Manitoba. Centra Gas has taken steps to mitigate the effects of natural gas price volatility by placing derivative positions on natural gas purchases and by introducing a new rate setting methodology for Primary Gas whereby rate changes will be introduced on a quarterly basis. It is expected that these actions will result in rate changes being less volatile than would otherwise be the case.





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Consolidated Operations

Financing

In 1999-00, proceeds received from new financing arranged by the Corporation amounted to \$943 million primarily through the issuance of Provincial Advances amounting to \$898 million. Proceeds were mainly used to finance the acquisition of Centra Gas, repay notes and refinance maturing debt. In addition, the Corporation completed financing totalling \$45 million in connection with mitigation settlements.

Financial Targets

The Corporation has three primary financial targets to enhance its financial strength, to contribute to rate stability and predictability, and to protect the Corporation and its customers from a variety of other risks. The financial targets are:

Interest Coverage

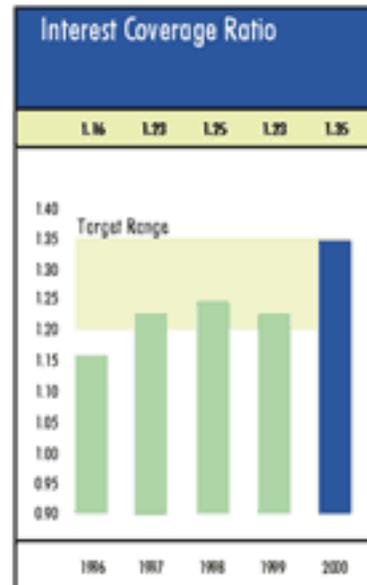
Maintain an annual gross interest coverage ratio in the range of 1.20 to 1.35. The interest coverage ratio indicates the extent to which net income is sufficient to pay gross interest on debt. The Corporation's interest coverage ratio improved from 1.23 in 1998-99 to 1.35 in 1999-00 as a result of the significant growth in earnings.

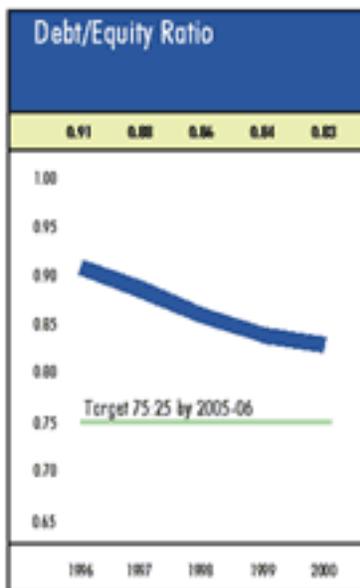
Cash Flow/Capital Expenditures

Fund all capital construction requirements from internal sources (except during periods when major generation and/or major transmission facilities are being added to the system). In 1999-00, internally generated funds exceeded net capital construction expenditures by \$69 million resulting in a cash flow/capital expenditure ratio of 123% in 1999-00 compared to 122% in 1998-99.

Debt/Equity

Achieve and maintain a minimum debt/equity ratio of 75:25 by 2005-06. The debt/equity ratio provides an indication of the relative percentage of assets financed through debt versus equity. The Corporation's debt/ equity ratio improved from 84:16 at March 31, 1999 to 83:17 at March 31, 2000.





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Outlook

Strong export markets, good water conditions and control over expenditures have allowed Manitoba Hydro to significantly strengthen its financial position over the last several years. The achievement of financial targets for earnings, interest coverage and funding of capital expenditures is providing the Corporation with the ability to take advantage of the changes occurring in the North American energy industry. As new challenges and opportunities are presented the Corporation will continue to pursue those that increase revenues from electricity exports or energy related businesses that enhance and

expand the organization. The acquisition of Centra Gas is representative of how the Corporation is dealing with the changes confronting every energy related utility in North America.

Although domestic electricity load decreased from the previous year, mainly due to warmer than normal weather, the Corporation was able to obtain exceptional prices for power sold on the export market. The Corporation's membership in the Mid-Area Continent Power Pool (MAPP) has provided the Corporation with new export opportunities and it is expected to continue to provide us with the possibility to expand our market inside the U.S. The recently announced combustion turbine generator in Brandon will allow Manitoba Hydro to maximize the revenues available from the existing hydraulic generating stations by converting interruptible export sales to higher priced firm sales. Domestic energy consumption is expected to return to more normal levels and will increase over the foreseeable future at an anticipated rate of 1.8% annually over the next ten years. Manitoba Hydro will service this growth and our existing firm export sales contracts by upgrading existing facilities, pursuing Power Smart initiatives and when water conditions dictate, importing electricity from neighbouring utilities.

Supply side opportunities which are developing within the energy industry will determine, in the short and long-term, the timing of new major generation. As a result of the economic expansion in the United States a growing demand for electricity has occurred. Within the MAPP region the increase in forecasted demand highlights the need for new sources of supply, most of which have yet to be planned. This situation provides the Corporation with a vast amount of opportunity to pursue projects that fulfill both our economic and financial goals. Hydro-based resources will be the supply option of choice when considering such factors as price, reliability and impact on the environment. The Corporation will consider partnership arrangements in new generation projects where the benefits will accrue to the people of Manitoba. System reliability and safety will continue to be areas where the Corporation will focus its efforts while adhering to other established operating targets. One of these targets is the funding of capital expenditures through internally generated funds. Over the next ten years all forecasted capital expenditures, with the exception of major new generation and transmission projects, are projected to be funded by internally generated funds. This capital spending target will ensure that Manitobans continue to benefit from one of the most safe and reliable energy systems in North America.

Manitoba Hydro's rate structure is among the lowest in North America and the Corporation is determined to maintain this rate positioning.

While controlling costs and increasing export revenues, the Corporation has been able to either limit the amount or eliminate the requirement for rate increases. Through these actions, future rate increases over the next ten years will be well below the projected inflation rates. While maintaining this rate strategy, the Corporation is also determined to explore various rate options that will continue to meet the changing needs of our customers.

The acquisition of Centra Gas during the past year is another strategy aimed at meeting customers' needs for safe, reliable, low-cost energy. The integration of the two companies is resulting in cost savings and customer service benefits for all of our customers. Similar to electricity, moderate growth is projected in both natural gas sales and the number of new gas customers. Expansion into new franchise areas will be pursued in cases where it would be economic for new customers and not detrimental to existing customers. Capital expenditures in the gas business are projected to meet this growth and the need to replace or improve existing facilities. The acquisition of Centra Gas by Manitoba Hydro has resulted in a stronger organization that is better equipped to meet the energy needs of Manitoba customers while at the same time improving the Corporation's ability to face the challenges of the future.

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