

The Quarterly

THIRD QUARTER 2018

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Message from the President and Chief Executive Officer

Net income for the quarter was
\$309
million

Customer satisfaction reached
94%
in the third quarter

Net electricity exports totaled
10.1 TWh,
a new third-quarter record

Hydro-Québec recorded net income of \$309 million for the third quarter of 2018, an increase of \$21 million compared to \$288 million in the same period in 2017. This increase is partly due to electricity demand growth in the Québec residential sector and commercial, institutional and small industrial sector. On markets outside Québec, the net export volume reached 10.1 terawatt-hours (TWh), an unprecedented level for a third quarter, and an increase of 0.5 TWh over the same period last year.

It's a source of pride for us that electricity prices are lower in Québec than anywhere else in Canada, and even North America. In Montréal, residential customers pay 7.13¢ per kilowatt-hour (kWh), compared to 11.42¢ in Vancouver and 13.24¢ in Toronto. In the U.S., residents of Boston pay 31.52¢ per kWh. Winnipeg ranks second-lowest among Canadian cities with residential rates of 9¢ per kWh, but Manitoba Hydro anticipates having to raise its rates by nearly 8% over the coming years. Hydro-Québec, on the other hand, has filed an application with the Régie de l'énergie requesting an increase of only 0.8% for 2019–2020.

The Supreme Court of Canada recently handed down a decision upholding Hydro-Québec's position with regard to a contract signed in 1969 with CF(L)Co and confirming that the contract price does not have to be revised as requested by the Newfoundland company. I sincerely hope that this decision marks the beginning of a new era of cooperative relations between the two parties.

We launched the fourth and last phase of the "ON" advertising campaign, this one focusing on pride. Against a backdrop of breathtaking landscapes, the new commercial features Québec ultramarathoner Caroline Côté, who recently completed the électRON expedition. This daunting 2,000-km trek followed the path of our electricity from Natashquan to Montréal in under 80 days. That's no mean feat!

I pay particular attention to our daily efforts to increase our exports, which contribute very significantly to net income. For this reason, I'm happy to report that we recently responded to a call for proposals by the state of Connecticut with an offer to provide this southern New England state with about 3 TWh of hydropower annually for 10 years. Our proposal is based on an innovative approach designed to optimize existing and new transmission infrastructure.



Éric Martel, President and Chief Executive Officer, at a recent event held to celebrate employees with 25, 30, 35, 40, 45 and 50 years of service in 2018.

As part of New England Clean Energy Connect (NECEC), in which we will provide Massachusetts with 9.45 TWh of clean energy annually for 20 years, project developer Central Maine Power (CMP) has taken steps to obtain the regulatory permits needed to build a transmission line across the state of Maine. On our side of the border, we plan to build an intertie that will connect our grid to the NECEC line. Since this spring, we've held numerous meetings with local organizations to gather concerns and learn about the communities' needs in terms of land use. This project is a striking example of our ability to offer competitive prices on clean energy markets, thus helping to reduce GHG emissions and contributing to security of supply in the U.S. Northeast while ensuring the profitability of our exports.

COVER

Main photo: In a Laval neighborhood, a line worker from the Distribution division participated in the replacement of a live single-phase line.

Top right: An occupational health and safety activity was held at Aqueduc substation.

Bottom right: A little over 27 years after first opening its doors, the Électrium, our electricity interpretation center in Sainte-Julie (Montréal), recently welcomed its 600,000th visitor, a student from a local elementary school.

Highlights

Massachusetts chose Hydro-Québec to provide it with **clean, renewable energy** to meet its high level of electricity demand. The company will export 9.45 TWh annually for 20 years, starting in 2022. The project includes construction of a 230-km transmission line, called New England Clean Energy Connect (NECEC), through the state of Maine. Regulatory authorizations are now being sought in Massachusetts to validate the commercial agreements reached with state electricity distributors, while permitting procedures for the line construction are under way in Maine. In Québec, the project consists in building a transmission line extending approximately 100 km between Appalaches substation, near Thetford Mines, and a connection point on the Québec–Maine border. The company's aim is to determine the line route with the least impact while taking into account the concerns expressed during our meetings with local organizations.

In September we participated in the state of Connecticut's **request for proposals** for Zero Carbon Energy. Hydro-Québec proposes to deliver approximately 3 TWh of hydropower annually for 10 years, which will advance the environmental and reliability objectives of Connecticut and New England. Our proposal will contribute to these objectives in a highly cost-effective manner by using an innovative approach based on optimizing existing and new transmission infrastructure.

A new **partnership** with world-class IT service provider CGI will enable us to proceed with large-scale marketing of MILES, an innovative solution that uses advanced data analytics to detect, locate and diagnose problems on distribution systems. Developed by the Institut de recherche d'Hydro-Québec (IREQ), MILES provides timely, precise information on failures that result in power outages and customer complaints. CGI will be in charge of standardizing and marketing the product internationally, and will also see to implementation, support and integration with operations in public utilities.

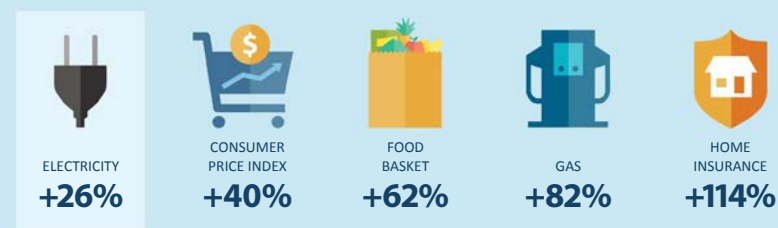
Once again this year, Hydro-Québec launched a promotional campaign to encourage customers to opt for **Online Billing** while supporting a worthy cause. From September 1 to December 6, 2018, for each customer who signs up for Online Billing, Hydro-Québec will donate \$3 to the Centraide branch in that customer's region. We want to encourage as many customers as possible to adopt this simple, convenient and environmentally friendly billing option.

Hydro-Québec launched a **pilot project** to inform customers when tree-pruning work is scheduled for their area. Customers who subscribe to our newsletter will find a section indicating where work will be taking place. This initiative is in response to an expectation expressed by our customers, who wish to be notified when vegetation control work is scheduled for their area.

A recent initiative of the drilling team in the Saguenay–Lac-Saint-Jean branch of Hydro-Québec Production illustrates our continuous improvement process in **occupational health and safety**. Continuous improvement, a process led by managers, empowers individual employees and fosters participation and engagement. At La Grande-4 generating station, mesh grills and bolts need to be added to the rock walls. To do this, workers had to drill holes manually and were exposed to severe hazards, especially when drilling at heights from a bucket. Because of limited space and heavy equipment (about 100 kg), workers sometimes had to adopt awkward positions and tired quickly. In addition, they risked accidentally touching the drill bit. To correct this situation and prevent accidents and injuries, the drilling team developed a cherry-picker with a built-in multidirectional drill. It is also equipped with a dust collection apparatus and a fall prevention system.

Hydro-Québec and the U.S. Army Research Laboratory achieved a breakthrough in lithium-ion **battery materials**: a cathode that is made of new, safe materials and offers high voltage and very high energy density, which will make for better battery design. Lithium-ion batteries are used in electric vehicles and small ones are used to power smartphones and medical devices.

INCREASE IN THE CONSUMER PRICE INDEX AND THE COST OF VARIOUS CONSUMER GOODS IN QUÉBEC OVER 20 YEARS



Source: Statistics Canada

Over the last 20 years, electricity prices in Québec have increased more slowly than the prices of many consumer products, including a food basket, gas prices, and home insurance.

FINANCIAL HIGHLIGHTS (\$M)

	Quarter ended March 31	Quarter ended June 30	Quarter ended September 30
Revenue	4,507	3,291	2,901
Electricity sales in Québec	3,791	2,549	2,396
Electricity sales outside Québec	519	385	446
Other revenue	197	357	59
Expenditure	2,205	2,014	1,931
Financial expenses	658	654	661
Net income	1,644	623	309
Investments	697	812	867



DETAILED QUARTERLY FINANCIAL RESULTS AVAILABLE ON OUR WEB SITE

