



PUBLIC UTILITIES BOARD

**APPLICATION TO ELIMINATE
TAIL BLOCK RATE TO
RESIDENTIAL CUSTOMERS IN
THE DIESEL ZONE**

JULY 2011

**MANITOBA HYDRO
APPLICATION TO ELIMINATE TAIL BLOCK RATE TO
RESIDENTIAL CUSTOMERS IN THE DIESEL ZONE**

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RESIDENTIAL CUSTOMERS IN THE DIESEL ZONE

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1.0 SUMMARY OF APPLICATION

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In this application, Manitoba Hydro is applying to the Public Utilities Board for an interim *ex parte* order to eliminate the tail block ie. the price for electricity consumed in excess of 2,000 kW.h per month, for the Residential Class customers in the four Diesel Communities, thereby providing access to grid rates for all electricity usage by these customers.

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Manitoba Hydro estimates, based on the DCOSS11 filed in the most recent application (plus interim rate increase approved April 1, 2011), that the reduction in revenue resulting from implementation of grid rates for all Residential usage is \$61,270 per year. Manitoba Hydro is proposing to absorb this additional shortfall rather than increasing the Government Surcharge at this time. As a result, the currently approved Government rate of \$2.13/kW.h remains unchanged. Manitoba Hydro is proposing to eliminate the tail block rate for Residential customers for the following reasons:

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1. The elimination of the tail block for Residential customers is consistent with the direction provided by the PUB in Order 134/10.
 2. The elimination of the tail block for Residential customers is one of a number of steps being considered by Manitoba Hydro to improve electricity service in the diesel-served communities. Manitoba Hydro continues to maintain open communications with the Diesel First Nations and the Federal and Provincial Governments on this matter.

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Manitoba Hydro is not proposing at this time to reduce or eliminate the tail block for Non-Government General Service customers, but is reviewing the implications of taking such a step. Currently this would be cost prohibitive for the following reasons:

- 1 1. Unlike the Residential customers, the General Service customers have no
2 service size limitation. The extension of a grid rate for all usage could
3 encourage these customers to add inefficient load.
4
- 5 2. A significant portion of current usage - 62% - is beyond 2,000 kW.h per
6 month. Hence, the revenue implications to Manitoba Hydro and the possible
7 impacts on the Government Surcharge are substantial.
8
- 9 3. A significant number of General Service Non-Government accounts are Band
10 accounts which are funded in varying degree by INAC. Increased usage by
11 these accounts would increase the requirements for INAC funding.
12

13 Manitoba Hydro is applying to provide immediate rate relief to the Residential
14 customer class. The currently approved tail rate for both Residential and General
15 Service customers is 35 cents/kW.h.

16 2.0 **BACKGROUND**

17 Manitoba Hydro applied to the PUB in April 2010 for revised rates in the Diesel Zone
18 to be effective September 1, 2010. Manitoba Hydro's application sought to have the
19 tail rate, applicable to Residential and General Service customers' usage in excess of
20 2,000 kW.h, increased from 41.27 cents to 45 cents per kW.h. The Board issued
21 Order 134/10 on December 22, 2010 after the conclusion of this hearing. Revised
22 rates were approved in Order 1/11 and implemented January 1, 2011.
23 Revised rates were approved in Order 1/11 and implemented January 1, 2011.
24

25 The PUB denied Manitoba Hydro's application to increase the tail rate and directed a
26 full cost rate of 35 cents/kW.h. The PUB also denied the recovery of unrecovered
27 interest and depreciation expense and the transfer of Provincial Government accounts
28 to the General Service rate. As a result of these changes the Government Surcharge
29 was reduced from \$2.19/kW.h in the Application to \$2.13/kW.h.
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31 In addition, Directive 6 of Order 134/10 stated:

32 *In the event that there is no positive support for removing the service restrictions,*
33 *including the 60 Amp restriction, and eliminating the use of diesel fuel to supply*
34 *power to the off-grid communities, Manitoba Hydro is to develop and file with the*
35 *Board, within one year of the issuance of this Order, a five year fully costed plan to*
36 *Board, within one year of the issuance of this Order, a five year fully costed plan to*
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1 *migrate Residential and nongovernment General Service Diesel Zone customers to*
2 *grid rates for all consumption.*

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4 This application is intended to address immediately the Residential class part of the
5 directive except that the 60 amp restriction will remain in place at this time.

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7 No other changes are proposed in this application. However, Manitoba Hydro
8 continues to work with INAC and other stakeholders in terms of negotiating unfunded
9 capital contributions and other unresolved issues as noted in Order 134/10. As such, a
10 subsequent application will be filed with the Board to address the following:

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- 12 1. Full cost rate recovery based on updated cost estimates and a new fiscal year;
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- 14 2. Inclusion in the revenue requirement of any unrecovered capital and accrued
15 interest;
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- 17 3. Strategies related to General Service customers;
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- 19 4. Contribution payments from other Government customers;
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- 21 5. Confirmation of interim orders in respect of the Diesel Zone.
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23 **3.0 ATTACHMENTS TO APPLICATION**

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25 Attachment 1 – Proposed Rate Schedule;

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27 Attachment 2 – Annualized revenue table at current and proposed;

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29 Attachment 3 – Bill comparisons for proposed diesel rates effective August 1, 2011;

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31 Attachment 4 – Cost summary and derivation of rates for Residential customers; and

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33 Attachment 5 – Status document as to directives listed in Order 134/10.

**DIESEL ZONE: PROPOSED RATES
EFFECTIVE AUGUST 1, 2011**

Residential – Tariff No. 2011-03(2):

Basic Charge	\$6.85
PLUS	
All Energy	@ 6.62¢ per kW.h

The Residential rate applies to all residential services in the Diesel Communities, provided the service capacity does not exceed 60A, 120/240 V, single phase.

General Service – Tariff No. 2011-40(2):

Basic Charge	\$18.25
PLUS	
First 2,000 kW.h	@ 6.96¢ per kW.h
Balance of kW.h	@ 35.00¢ per kW.h

The General Service rate applies to all commercial accounts and accounts of the Provincial Government.

Government and First Nation Education – Tariff No. 2011-41(2):

Basic Charge	\$18.25
PLUS	
All kW.h	@ \$2.13 per kW.h

A surcharge of \$1.78 per kW.h is included in the Government and First Nation Education tariff which applies to all Federal Departments, Agencies, Crown Corporation accounts and First Nation Education accounts.

The First Nation Education rate is applicable to all Diesel First Nation facilities providing instructional services for members of the Diesel First Nations, including schools, teacherages and student residences.

ATTACHMENT 2

***Diesel Zone Rates and Annualized Revenues
Current and Proposed Rates***

	<u>Approved</u>	<u>Proposed</u>	<u>% Change</u>
<u>Residential</u>			
Basic Monthly Charge	\$ 6.85	\$ 6.85	-
First 900 kW.h per month	\$ 0.0662	\$ 0.0662	-
Next 1,100 kW.h per month	\$ 0.0662	\$ 0.0662	-
Remaining kW.h	\$ 0.3500	\$ 0.0662	(81.1%)
Revenue at Forecast Usage	<u>\$ 633,290</u>	<u>\$ 572,021</u>	<u>(9.7%)</u>
<u>General Service</u>			
Basic Monthly Charge	\$ 18.25	\$ 18.25	-
First 2,000 kW.h per month	\$ 0.0696	\$ 0.0696	-
Remaining kW.h	\$ 0.3500	\$ 0.3500	-
Revenue at Forecast Usage	<u>\$ 884,986</u>	<u>\$ 884,986</u>	<u>-</u>
* current year @ gov't rate, proposed @ GS rate			
<u>Government & First Nation Education</u>			
Basic Monthly Charge	\$ 18.25	\$ 18.25	-
Rate per kW.h	\$ 2.130	\$ 2.130	-
Revenue at Forecast Usage	<u>\$ 4,762,352</u>	<u>\$ 4,762,352</u>	<u>-</u>
Total Revenue - All Classes	<u><u>\$ 6,280,628</u></u>	<u><u>\$ 6,219,359</u></u>	<u><u>(1.0%)</u></u>

**BILL COMPARISONS
FOR PROPOSED DIESEL RATES
EFFECTIVE AUGUST 1, 2011**

Residential (539 customers*)

kW.h	No. of Customers	Current April 1, 2011 \$ / Month	Proposed August 1, 2011 \$ / Month	Difference in \$ / Month	Percent Change
250	25	\$23.40	\$23.40	-	-
750	103	\$56.50	\$56.50	-	-
1 000	91	\$73.05	\$73.05	-	-
2 000	267	\$139.25	\$139.25	-	-
5 000	46	\$1,189.25	\$337.85	(\$851.40)	(71.6%)

General Service (113 Customers*)

kW.h	No. of Customers	Current April 1, 2011 \$ / Month	Proposed August 1, 2011 \$ / Month	Difference in \$ / Month	Percent Change
750	48	\$70.45	\$70.45	-	-
2 000	25	\$157.45	\$157.45	-	-
5 000	12	\$1,207.45	\$1,207.45	-	-
10 000	7	\$2,957.45	\$2,957.45	-	-

Government and First Nation Education (65 Customers*)

kW.h	No. of Customers	Current April 1, 2011 \$ / Month	Proposed August 1, 2011 \$ / Month	Difference in \$ / Month	Percent Change
750	33	\$1,615.75	\$1,615.75	-	-
2 000	15	\$4,278.25	\$4,278.25	-	-
5 000	8	\$10,668.25	\$10,668.25	-	-
10 000	5	\$21,318.25	\$21,318.25	-	-

* reflects actual number of customers (2008/09) and not forecast as used in Diesel Study.

ATTACHMENT 4

**CALCULATION OF RESIDENTIAL REVENUE REQUIREMENT, SUBSIDIES
AND REVENUE COST COVERAGE @ PROPOSED RATES
FISCAL YEAR ENDING MARCH 31, 2011**

Forecast Revenue Requirement and Revenue

Total Forecast kW.h for 2010/11	7,921,440
Calculated Full Cost Rate	\$0.5470
Gross Revenue Requirement	<u>\$4,333,028</u>
Less: Residential Revenue (Below)	<u>(\$633,290)</u>
Unrecovered Revenue Requirement	<u><u>\$3,699,737</u></u>
Revenue Cost Coverage	<u><u>14.6%</u></u>

Block Rates as Follows:

				134/10	Application	
Basic Monthly Charge	6.85 \$/month	x	6,952	=	47,621	47,621
First 900 kW.h/month	6.620 ¢/kW.h	x	5,354,638	=	354,477	354,477
Next 1,100 kW.h/month	6.620 ¢/kW.h	x	2,350,911	=	155,630	155,630
Balance of kW.h/month	35.000 ¢/kW.h	x	215,891	=	75,562	14,292
Revenue			<u>7,921,440</u>		<u>633,290</u>	<u>572,021</u>

Allocation of Subsidies

					* 215,891*0.0662=14,292
Manitoba Hydro RCC Subsidy (18% of Revenue Requirement)	\$779,945				\$779,945
Difference between calc full cost & proposed tail rate	\$19,644				\$80,050
Remaining deficiency to Government Surcharge	\$2,900,149				\$2,901,012
Total Deficiency	<u>\$3,699,737</u>				<u>\$3,761,007</u>

**STATUS REPORT ON THE DIESEL ZONE IN RESPECT OF
DIRECTIVES OF PUB ORDER 134/10 ISSUED DECEMBER 22, 2010**

Directive 1

1. *MH's Application for Revised diesel generated electricity rates BE AND IS HEREBY VARIED AS FOLLOWS:*

- a) *MH's Application, to include in the Revenue Requirement \$222,842.00 of interest expense and \$357,655.00 of depreciation expense (on unrecovered capital costs of \$4.4 million since April 1st, 2004), BE AND IS HEREBY DENIED.*
- b) *The Full Cost Rate be recalculated to remove interest and depreciation expenses;*
- c) *A Tail Block rate of 35 cents/kWh for electricity consumption in excess of 2,000 kWh per month (for Residential and General Service nongovernment accounts) be established;*
- d) *MH's Application to transfer the accounts of the Provincial Government and agencies to the General Service class BE AND IS HEREBY DENIED.*

Status

All items have been implemented and confirmed in Order 1/11.

Directive 2

MH is to re-file, for Board approval, its proposed rates and all supporting schedules reflecting the decisions of the Board in this Order, to be effective for all electricity consumed in the Diesel Zone on and after January 1, 2011.

Status

All items have been implemented and confirmed in Order 1/11.

Directive 3

MH file with the Board and all Parties to this Diesel Zone Application:

- a) Confirmation that the Settlement Agreement (from the 2004 Minutes of Settlement) has been fully executed;*
- b) A true copy of the fully executed Settlement Agreement;*
- c) Confirmation of payments or adequate funding arrangements for the capital costs incurred by MH, by community, since 2004; and*
- d) Indication of capital costs still in dispute, if any, and the process and timeline for resolution of such dispute(s).*

Status

Manitoba Hydro understands that the Settlement Agreement was signed by all parties as of November 24, 2010 and that arrangements are currently underway to have appropriate documents provided to the PUB and all parties.

With respect to capital costs listed in items c) and d) Manitoba Hydro can confirm that on March 31, 2011 it received a cheque from INAC in the amount of \$2,296,447. This represented a contribution for all outstanding items since March 31, 2004 except for soil remediation.

Manitoba Hydro is currently consulting with INAC to resolve the amounts still outstanding (soil remediation and accrued interest).

Directive 4

MH, supported by the written consents of INAC, MKO, the four First Nations and CAC/MSOS, is to seek an Order of this Board to confirm, as final, all Diesel Zone rates approved on an interim basis since 2004, including those interim rate approvals in Board Orders 17/04; 46/04; 159/04; 176/06.

Status

Manitoba Hydro will solicit the necessary signatures from the parties following the filing of the executed copy of the Settlement Agreement.

Directive 5

MH to advise the Board and all Parties to this Application as to the Utility's ability to provide electronic spreadsheets, as well as any attendant incremental costs had this application been filed with electronic spreadsheets.

Status

Manitoba Hydro is currently examining the issues associated with the provision of electronic spreadsheets in its regulatory filings. Work is progressing on examining the current state of electronic filing in other Canadian jurisdictions, which will inform the development of corporate policy on these matters. The development of new corporate policy on electronic filing will include the examination of the incremental costs to Manitoba Hydro of undertaking the proposed changes. It is expected that the policy review may be completed early in 2012.

Directive 6

In the event that there is no positive support for removing the service restrictions, including the 60 Amp restriction, and eliminating the use of diesel fuel to supply power to the off-grid communities, Manitoba Hydro is to develop and file with the Board, within one year of the issuance of this Order, a five year fully costed plan to migrate Residential and nongovernment General Service Diesel Zone customers to grid rates for all consumption.

Status

Manitoba Hydro continues to review feasibility of landline grid connections and to maintain open communications with other parties including the Diesel First Nations, and federal and provincial governments on this matter. In addition, Manitoba Hydro continues to examine the feasibility of other options to reduce the reliance on diesel fuel. The availability of funding for capital expenditures and the allocation of operating cost reductions will impact the economics of various strategies to Manitoba Hydro.

Manitoba Hydro is herewith filing an application to eliminate the high cost tail block rate for Residential customers and thereby to offer grid rates for all monthly Residential consumption. A similar rate change for General Service customers is also being examined, however, a much larger share of this class's consumption (approximately 62% of monthly consumption) is in the tail block and elimination the high price for this block would have a substantial impact on the Government Surcharge and could also encourage additional electric space heating.