

September 15, 2011

Mr. Hollis Singh
Secretary and Executive Director
THE PUBLIC UTILITIES BOARD
400 - 330 Portage Avenue
WINNIPEG, Manitoba R3C 0C4

VIA ELECTRONIC MAIL

Dear Mr. Singh:

RE: MANITOBA HYDRO 2011 DIESEL APPLICATION

On July 5, 2011, Manitoba Hydro filed a limited and focused application requesting an interim rate adjustment to the Residential Customer Class in the four Diesel Communities. The application was for the removal of the tail block rate for the Residential Class customers in these four Diesel Communities, thereby providing access to grid rates for all electricity usage for that customer class. Manitoba Hydro confirmed that this application was only one of a number of steps being considered by Manitoba Hydro to improve electricity service in the four Diesel Communities and that it continued to work with Aboriginal Affairs and Northern Development Canada (AANDC, formerly INAC) and other stakeholders in terms of negotiating unfunded capital contributions and other unresolved issues as noted in PUB Order 134/10. Manitoba Hydro clearly stated in its current application that a subsequent application would be filed to address a number of other issues including full cost rate recovery based on updated cost estimates and a new fiscal year, inclusion in the revenue requirement of any unrecovered capital and accrued interest, strategies related to General Service customers, contribution payments from other Government customers and confirmation of interim orders in respect of the Diesel Zone.

CAC, in its final submission, dwelled on a number of issues and directives arising from PUB Order 134/10 which were clearly outside the scope of the current application. As indicated by Manitoba Hydro in two letters dated August 4 and August 11, the intent behind Manitoba Hydro's application was not to address or fulfil all the directives in Order 134/10, nor Directive 6 in full. Manitoba Hydro's application was to solely address the Residential Class portion of Directive 6 (except the removal of the 60 amp service) and that all other matters would be addressed at a future more comprehensive rate hearing. In its letter dated August 31, 2011, the PUB agreed with Manitoba Hydro that the scope would be limited and focused on the application as submitted by Manitoba Hydro and matters related to the subject tail block rate reductions for the Residential Customer Class.

Even when attempting to deal with issues related to Manitoba Hydro's limited application, CAC attempts to look ahead at what the revenue reduction may be in the future. How future shortfalls will be dealt with in the long term will be addressed in Manitoba Hydro's next

application. The rate application will also provide a new Cost of Service Study and System Load Forecast. Any increase in the shortfall arising from the elimination of the tail block rate will be addressed in the new application, including any proposal for dealing with the shortfall over the long term.

With respect to CAC's recommendation to add the revenue shortfall to the Government Surcharge, Manitoba Hydro does not agree that this is more reasonable than shifting the cost to the grid. CAC attempts to argue that the PUB has confirmed that there is a strong argument that grid customers should not bear any cost responsibility by referencing a comment by the PUB on page 62 of Order 134/10. What CAC fails to mention is that the PUB clarified its comments on page 63 of Order 134/10 by stating that "*The Board is prepared to assess any funding proposal, and the contribution which may be reasonably expected from Grid customers' rates – all within the context of what is in the public interest.*" In fact, while dealing with the issue of the post-2004 accumulated operating cost deficit, the PUB stated at page 35 of Order 134/10 that "*The prior deficits will fall to MH's Grid customers, who share financial responsibility with the two senior levels of government for the high costs of serving fellow Manitobans in remote areas of the Province not connected to the grid.*"

There is no evidence to suggest that benefits from this proposed rate change will not flow to the communities as suggested by CAC. Statements made by INAC in the 2010 hearing show that benefits do in fact flow as any assistance is based on a fixed budget. INAC witness Fred Mills stated that if the communities spend more on electricity, then they spend less on other programs (Diesel 2010 Hearing, November 23, 2010, Transcript page 1007). The alternative would then seem to apply in that if less is spent on electricity then the communities would have more to spend on other programs. The PUB also confirmed this on page 24 of Order 134/10:

The First Nations and these four communities are absolutely reliant on INAC and INAC's willingness to meet the seemingly ever-increasing trend of higher and higher diesel fuel and maintenance costs. The First Nations have no assurance that INAC would meet higher electricity rates, and costs, set by this Board; or, that if INAC does so, the people must accept that the extra money for electricity could well be "taken" from other funds allocated by INAC for other necessities in the First Nations communities.

CAC indicates in its submission that the failure of Manitoba Hydro to address the removal of service restriction is troubling and that the Board made it very clear in its Order that the service restriction should be removed, to allow residents in the diesel communities to benefit from electric heat. It is very clear from evidence heard at previous hearings and as acknowledged by the PUB that Manitoba Hydro cannot simply remove service restrictions. In fact, the PUB realized that removing service restrictions on its own is not a reality. "... *the Board suggests that the service limitations be removed in conjunction with the Provincial Government's objective of eliminating the use of diesel fuel to supply power to the remaining off-grid communities...*" (Page 66, Order 134/10). Any removal of service restrictions requires a commitment from other parties, as a full solution is well beyond the means and ability of Manitoba Hydro to provide on its own.

Although it seems that CAC is portraying Manitoba Hydro as not having done anything with respect to the outstanding directives in Order 134/10, the reality is that Manitoba Hydro did in fact include an update as Appendix 5 to its application. The outstanding matters in Directive 3 is dependent upon the finalization of the process set forth in PUB/MH I-5, a process which was a result of communication with other parties to the Settlement Agreement. A further update will be provided in Manitoba Hydro's next application. With respect to Directive 4, completion of this directive is also dependent upon the finalization of the process set forth in PUB/MH I-5 and an update in this regard will also be provided in Manitoba Hydro's next application. With respect to Directive 5 dealing with electronic spreadsheets, Manitoba Hydro advised that it is currently examining the issues associated with the provision of electronic spreadsheets in its regulatory filings and is undertaking the development of a new corporate policy on electronic filing which policy review will be completed in early 2012. Suggesting that Manitoba Hydro has done nothing in this regard is simply not correct.

With respect to comments regarding holding a future hearing solely for the purpose of finalizing interim rates, Manitoba Hydro does not support this recommendation. The interim rates approved by the PUB extend back to 2004. The rates approved by the PUB were applied for by Manitoba Hydro in accordance with the Minutes of Settlement entered into by Manitoba Hydro, INAC, MKO and the four diesel First Nations. Manitoba Hydro's applications for the interim rates were based on good faith negotiations with the parties affected. There was a degree of urgency as the interim rates in effect at the time represented a significant burden to electricity customers in the Diesel Zone. As CAC indicated, they had an opportunity to review rates at the last Diesel Rate Application, which application was an extension and continuation of past interim rate applications. If CAC had any questions with respect to how the current rates in place came to pass, they had the opportunity at the last hearing to pose those questions. CAC's lack of inquiring in the last hearing should not result in a hearing solely for the purpose of reviewing interim rates. CAC wants to continue to look backwards while Manitoba Hydro and the other parties want to look forward and continue to address rate issues in these communities.

Manitoba Hydro understands that all the issues raised with the Directives in PUB Order 134/10 are of great interest to the PUB and Intervenors and it is Manitoba Hydro's intention to address these issues with the filing of the next application. As Manitoba Hydro indicated in response to PUB/MH I-1, the elimination of the higher tail block rate for Residential customers is a step towards further improving service in the four Diesel Communities and is consistent with the direction provided by the PUB in Order 134/10. While other measures are being considered and will be advanced at the appropriate time, there is no reason to delay this rate relief to Residential customers. Elimination of the tail block rate can be accomplished with minimal cost and impact on grid customers.

Manitoba Hydro would also like to note that although MKO filed an Intervenor Request Form on August 2, 2011 and AANDC indicated its intention to intervene in a letter dated August 5, 2011, nothing to date has been received with respect to information requests or final submissions.

Manitoba Hydro submits that its application should be approved as filed and that an interim order should be granted for eliminating the tail block rate to the Residential Customer Class in the four Diesel Communities as soon as possible.

Yours truly,

MANITOBA HYDRO LAW DEPARTMENT

Per:

A handwritten signature in blue ink, appearing to read "Odette Fernandes", written over a horizontal line.

ODETTE FERNANDES

Legal Counsel

cc: R.F. Peters, Fillmore Riley LLP
Myfanwy Bowman, CAC
Michael Anderson, MKO
Glynis Hart, AANDC