

Manitoba Hydro Undertaking #5

Clarify categorization of import transactions shown in PUB/MH II-193(b) & (c).

Transcript Pages #846-852

Selling energy at 1.9 cents and buying energy at 4.09 cents (pg. 28). Explain the nature of the transactions where the purchase appears to be at a higher price than the sale.

Dependable Imports are defined as existing or intended long-term purchase arrangements. Actual dependable imports include energy purchased under Seasonal Diversity contracts and purchased wind energy from independent power producers in Manitoba. In 2008/09 and 2009/10 the majority of the Dependable Import volumes and costs were associated with wind energy produced in Manitoba under long term must-take contracts. A comparison of dependable prices to real time export prices is inappropriate. The price of wind energy is an all-in price that covers all of the supplier's costs and margins for a dependable energy product. This shouldn't be compared to a spot market price that mainly reflects marginal fuel costs.

Calculation of unit energy prices using volumes, revenues and costs included in PUB/MH II-193(b) and (c) is inappropriate.

Manitoba Hydro export revenues and power purchase costs include both fixed and variable dollar amounts. In order to correctly calculate unit energy costs for comparative purposes to market transactions, the fixed portions need to be excluded from the calculation.

For example, the 2008/09 Real Time revenue amount of \$60 million indicated in PUB/MH II-193(b) includes \$24 million in revenues from IESO not attributable to the energy volumes shown. The 2009/10 Real Time revenue amount of \$71 million includes \$19 million in revenues from IESO that are not attributable to the energy volumes shown. These credits are not related to the sale of energy but are compensation paid to Manitoba Hydro for foregone margins in the Ontario market. Inclusion of these non-volume dependent revenues distorts the pricing calculation. Real Time revenues also include revenues from the sale of ancillary services (\$6 million and \$36 million in 2008/09 and 2009/10, respectively) which are in part capacity related and not attributable exclusively to the energy delivered, hence including these revenues can also distort unit energy price calculations.

Please refer to the IR responses where unit prices and market prices were provided and explained:

PUB/MH I-23(a)(i-vi);
PUB/MH I-45(b);
PUB/MH I-139(b);

PUB/MH I-158(a) and (b);
PUB/MH II-12;
PUB/MH II-13;
PUB/MH II-17;
PUB/MH II-40 (a) and (b);
PUB/MH II-125;
PUB/MH II-138 (a) and (b);
PUB/MH II-172(c) and (f);
PUB/MH RISK-79(c) and (e);
CACMSOS/MH I-13(d), (f), (j) and (l); and
CACMSOS/MH I-65 (b), (c) and (e).