



PUBLIC UTILITIES BOARD

2010 Update of Diesel Community Costs and Rates

NOVEMBER 9, 2009

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MANITOBA HYDRO

2010 UPDATE OF DIESEL COMMUNITY COSTS AND RATES

1.0 Introduction and Summary

In its letter dated October 20, 2009 the Public Utilities Board (PUB) requested that Manitoba Hydro file the following:

- *the Prospective Diesel Cost of service study for fiscal year ending March 31, 2009;*
- *the forecast results for the fiscal year ending March 31, 2010;*
- *the full cost rate calculation for 2009/10;*
- *the Government and First Nation Education rate calculation (which contains the surcharge/premium) for 2009/10;*
- *the options MH has reviewed for restructuring of Diesel Rates; and*
- *MH's expectation as to when INAC will fully execute the Settlement Agreement.*

The Prospective Diesel Cost of Service Study for fiscal year ending March 31, 2009 is provided as a separate document. The remainder of the filing requirements are addressed in this document.

The Forecast results for the fiscal year ending March 31, 2010

Manitoba Hydro is forecasting that the deficit on operations in the Diesel Communities will be approximately \$3.6 million for the fiscal year March 31, 2010. The cumulative deficit on operations from April 1, 2004 to March 31, 2010 is forecast to be \$16.8 million.

These annual and cumulative deficits represent the full difference between customer revenues and costs incurred by Manitoba Hydro to provide service in these communities. A considerable portion of this deficit is not expected to be recovered in rates or Customer Contributions. For example, interest and depreciation on 21% of capital investment in place at March 31, 2004, was never recovered and was never intended to be recovered through Customer Contributions or rates. That amount in 2009/10 is forecast to be \$948,000. Cumulatively from March 31, 2004, to March 31, 2010, this amount is \$6.8 million. In addition, Manitoba Hydro subsidizes operating costs by adjusting

1 Residential and General Service Revenue Requirement by RCC factors of 82% and 89%
2 respectively. These subsidies are forecast at \$1.1 million in 2009/10, and a cumulative
3 amount of \$4.9 million from March 31, 2004, to March 31, 2010. The remaining deficit
4 is \$5.1 million.

5
6 Revenue at existing rates is shown in Schedule 5 attached. Statements of Operations for
7 2008/09 (actual) and 2009/10 (forecast) are provided in Schedule 6.

8
9 The full cost rate calculation for 2009/10

10
11 The forecast full cost rate for 2009/10 is 59.86 cents/kW.h. compared to the current
12 approved rate of 41.27 cents/kW.h. The calculation of this rate is depicted in Schedule 1.
13 The calculation of Residential and General Service Revenue Requirements and Revenues
14 are depicted in Schedules 2 and 3.

15
16 The Government and First Nation Education rate calculation (which contains the
17 surcharge premium) for 2009/10

18
19 Government and First Nation Education customers pay the variable full cost rate on all
20 consumption plus a surcharge to recover a portion of the subsidy extended to non-
21 government customers on the first 2,000 kW.h of monthly consumption which are set at
22 grid rates. The government surcharge premium for 2009/10 has been calculated to be
23 \$1.626/kW.h for a total government rate of \$2.224/kW.h. The current approved
24 Government rate is \$1.38/kW.h. The calculation of the Government and First Education
25 rate, including surcharge, is provided in Schedule 4.

1 The options that MH has reviewed for restructuring of Diesel Rates

2
3 Manitoba Hydro has considered the following options:
4

		Increased (Decreased) <u>Revenue</u>	Resulting Annual Subsidy <u>in Communities</u>
		(in million of \$)	
OPTION 1:	No Rate Increase (maintain current rates)	\$0	\$4.4
OPTION 2:	Diesel Fuel Rate Increase Only	1.8	2.6
OPTION 3:	Rate Increase based on Recent Past Practice	3.0	1.4
OPTION 4:	Provide Grid Rates to Communities	+(3.3)	+7.7
OPTION 5:	Residential Rebate	(0.6)	5.0
OPTION 6:	Four Block Rate	(0.1)	4.5

5
6 **2.0 Future Capital Expenditures**
7

8 The tentative settlement agreement provides for the recovery of capital costs through
9 contributions. As anticipated in the agreement, Manitoba Hydro will consult with the
10 communities in respect of any future major capital expenditures it deems necessary to
11 provide or maintain service in the four communities with the intent that the communities
12 will arrange for contributions to cover the capital cost of the new facilities. In practice
13 this approach will apply to major additions or upgrades to Generating facilities and to
14 major enhancements or additions of the distribution systems in the communities.
15

16 Since March 31, 2004, additional capital expenditures of \$7.9 million has been spent in
17 the diesel zone. These additional costs are not currently being recovered in any portion of
18 the rates. Other than a \$1.2 million contribution from INAC/First Nations in respect of a
19 new diesel generator in Tadoule Lake (ISD 2008) no other contributions have been
20 received. Manitoba Hydro is continuing to consult with INAC, MKO and First Nations in

1 regard to funding of all unfunded capital additions that have been incurred since
2 March 31, 2004.

3
4 While recovery of these capital amounts is not part of the rate calculations, Manitoba
5 Hydro is accounting for these costs, as well as the associated interest and depreciation
6 expense accruing with the capital expenditures noted above.

7
8 In addition to the capital incurred or forecast to be incurred in the forecast period, other
9 significant capital investment is forecast to come into service within the next several
10 years and include the following:

- 11
12 - Soil Remediation costs in Shamattawa (\$3.0 million);
13 - Tadoule Lake tank farm replacement (\$4.0 million);
14 - Fire Suppression System (Lac Brochet/Shamattawa) \$9.0 million)
15 - Electronic fuel meters (0.450 million).

16
17 The fire suppression system, as well as the fall arrest protection (\$1.6 million) which was
18 in-service 2008, is a direct result of provincial legislation which mandated the changes.
19 Fire suppression is to provide fire safety without the use of Halon, while the fall arrest is
20 a safety program related to providing safe, gated walkways within the tank farm.

21
22 Manitoba Hydro intends to file a full application for the Diesel Zone, including revised
23 rates, once the settlement agreement has been executed.

24 25 **3.0 Status of the Settlement Agreement**

26
27 In its filing leading to the issuance of Order 159/04, Manitoba Hydro undertook to file the
28 Settlement Agreement once it is executed by all parties. As at the date of this filing the
29 tentative Settlement Agreement remains unsigned. However, all of the parties to the
30 Agreement have conducted themselves as if the agreement were in place and in
31 accordance with the Minutes of Settlement. Effective May 1, 2004, rates have been
32 approved and applied as contemplated in the settlement agreement. All capital
33 contribution monies due to Manitoba Hydro at March 31, 2004 have been paid in full.
34 Communications regarding current and future capital expenditures are ongoing.

35
36 There appears to be two outstanding matters as between MKO (representing the four
37 Diesel First Nations) and Canada. These matters do not relate directly to Manitoba

1 Hydro or the six principles cited by the PUB in Order 159/04 (pages 7 -8) as forming the
2 basis of the tentative settlement agreement and the rate decision ensuing there from.
3 Manitoba Hydro is advised that Canada will be forwarding the Diesel First Nations a
4 comprehensive letter outlining Canada's position on these outstanding matters by
5 November 30, 2009.

**SCHEDULE 1
PROSPECTIVE DIESEL COST OF SERVICE STUDY
CALCULATION OF FULL COST RATE (WITH ACCEPTANCE OF NEGOTIATED SETTLEMENT)
FISCAL YEAR ENDING MARCH 31, 2010**

Community	kW.h Consumption	VARIABLE COSTS				Total Var. Costs	Variable c/kW.h
		Oper Costs Distrib*	Int on Fuel Inventory	Oper Costs Generation			
<u>Enhanced Supply</u>							
1 Brochet	2,793,730	\$ 91,163	\$ 64,078	\$ 1,213,589	\$ 1,277,667		45.7
2 Lac Brochet	3,362,693	139,881	91,305	2,004,865	2,096,170		62.3
3 Shamattawa	4,957,586	128,680	94,437	2,009,722	2,104,159		42.4
4 Tadoule Lake	2,289,038	115,313	49,009	1,330,274	1,379,283		60.3
5 Total Cost	13,403,047	\$ 475,037	\$ 298,829	\$ 6,558,450	\$ 6,857,279		51.2

Add: Distrib Oper	\$ 475,037
Add: 1/5 of accum deficit	\$691,130
Total Variable Cost	\$ 8,023,446
Total kW.h	13,403,047
Variable Full Cost Rate	59.86

**SCHEDULE 2
PROSPECTIVE DIESEL COST OF SERVICE STUDY
CALCULATION OF RESIDENTIAL REVENUE REQUIREMENT
AND REVENUE COST COVERAGE
FISCAL YEAR ENDING MARCH 31, 2010**

	<u>Residential</u>
Total Forecast (kW.h)	7,770,006
Full Cost Rate	<u>\$0.5986</u>
Revenue Requirement	<u>\$4,651,347</u>
Reduction for RCC = 82%	<u>(\$837,242)</u>
Net Revenue Requirement	<u>\$3,814,104</u>
Residential Revenue	<u>(\$657,102)</u>
Unrecovered Revenue Requirement	<u><u>\$3,157,003</u></u>
Residential Revenue	\$657,102
Revenue Requirement	<u>\$4,651,347</u>
Revenue Cost Coverage	<u><u>14.1%</u></u>

Block Rates as Follows:

Basic Monthly Charge	6.85 \$/month	x	6,729	=	46,094
First 900 kW.h/month	6.250 ¢/kW.h	x	5,199,523	=	324,970
Next 1,100 kW.h/month	6.300 ¢/kW.h	x	2,338,797	=	147,344
Balance of kW.h/month	59.863 ¢/kW.h	x	231,686	=	<u>138,694</u>
Revenue					<u><u>657,102</u></u>

SCHEDULE 3
PROSPECTIVE DIESEL COST OF SERVICE STUDY
CALCULATION OF GENERAL SERVICE AND FIRST NATION COMMUNITY
ACCOUNTS REVENUE REQUIREMENT AND REVENUE COST COVERAGE
FISCAL YEAR ENDING MARCH 31, 2010

	<u>General Service</u>
Total Forecast (kW.h)	3,428,838
Full Cost Rate	<u>\$0.5986</u>
Revenue Requirement	<u>\$2,052,600</u>
Reduction for RCC = 89%	<u>(\$225,786)</u>
Net Revenue Requirement	\$1,826,814
Revenue from Class	<u>(\$1,386,694)</u>
Unrecovered Revenue Requirement	<u><u>\$440,120</u></u>
Total Revenue	\$1,386,694
Revenue Requirement	<u>\$2,052,600</u>
Revenue Cost Coverage	<u><u>67.6%</u></u>

Block Rates as Follows (General Service):

Basic Monthly Charge	17.00 \$/month	x	1,352	=	22,984
First 2,000 kW.h/month	6.660 ¢/kW.h	x	1,294,837	=	86,236
Balance of kW.h/month	59.863 ¢/kW.h	x	2,134,001	=	<u>1,277,474</u>
Revenue					<u><u>1,386,694</u></u>

**SCHEDULE 4
 PROSPECTIVE DIESEL COST OF SERVICE STUDY
 CALCULATION OF GOVERNMENT SETTLEMENT
 PARTICIPANT RATES
 FISCAL YEAR ENDING MARCH 31, 2010**

	Government
Unrecovered Residential Revenue Requirement	\$3,157,003
Unrecovered General Service Revenue Requirement	\$440,120
Government Basic Charge	(\$13,430)
Amount to Recover in Government Premium	\$3,583,693
Total Energy (kW.h) ¹	2,204,200
Calculated Government Premium	\$1.6258
 <u>Participant Rate:</u>	
Full Cost Rate	0.5986
Calculated Government Premium	1.6258
Government Settlement Participant Rate	\$2.2244

1) Forecast total energy sales to all Federal and Provincial Departments, Agencies, Crown Corporations accounts and First Nation Education accounts.

SCHEDULE 5
Prospective Diesel Cost of Service Study to March 31, 2010
Calculation of Customer Class Revenue @ Approved Rates

<i>Fiscal Yr 2010</i>	Block 1 kW.h	Block 2 kW.h	Run Off kW.h	Total kW.h	Bills	Revenue	Avg Use	Block 1 Rate	Block 2 Rate	Run Off Rate	Basic Chg		
Residential													
2010	5,199,523	2,338,797	231,686	7,770,006	6,729	\$614,025	1,155	900	0.0625	2,000	0.0630	0.4127	\$ 6.85
General Service													
2010	839,534	455,303	2,134,001	3,428,838	1,352	\$989,922	2,536	2,000	0.06660			0.4127	\$ 17.00
Federal Government													
2010			1,825,300	1,825,300	529	\$2,534,533	3,450					1.3836	\$ 17.00
Provincial Government													
2010			378,900	378,900	261	\$528,694	1,452					1.3836	\$ 17.00
				13,403,044	8,871	4,667,174							
						Full Cost							\$8,023,446
						Surplus/(Deficit)							(\$3,356,271)

**SCHEDULE 6
DIESEL COST OF SERVICE STUDY
CONSOLIDATED STATEMENT OF OPERATIONS**

	2009	2010
	Actual	Forecast @ Approved rate
Revenue-Consumption	4,519,931	4,667,174
Less: Contribution Recovered thru Rate		
Total Revenue	4,519,931	4,667,174
Direct Costs:		
Generation Mtce	1,601,701	1,784,279
Fuel Hauling	4,453,766	4,312,870
Major/Minor Overhaul	254,353	313,857
Generation Support Stand by	101,176	54,921
Soil Remediation Costs	116,401	92,523
Dist Facility Mtce	125,432	107,218
Distribution Mtce	94,729	132,513
Customer Service	230,975	173,331
Consumer Support	55,109	61,975
Interest on Fuel Inventories	293,978	298,829
Total Direct Costs	7,327,620	7,332,316
Total Region Direct Costs	7,327,620	7,332,316
Capital Tax (21%)	20,502	16,377
Depreciation (21%)	870,152	759,593
Interest (21%)	243,376	172,176
Total Cost	8,461,650	8,280,462
Surplus (Deficit) on Total Cost	(3,941,719)	(3,613,288)
Surplus (Deficit) on Variable Cost	(2,807,689)	(2,665,142)
Statistics:		
kW.h Consumption	12,651,000	13,403,047
Revenue Per kW.h	0.36	0.35
Cost Per kW.h	0.669	0.618
Revenue Cost Coverage	53%	56%