

MANITOBA | **Order No. 91/00**
THE PUBLIC UTILITIES BOARD ACT | **June 30, 2000**

Before: G. D. Forrest, Chairman
E. Edmondson, Member

**AN APPLICATION BY MANITOBA HYDRO FOR INTERIM EX-PARTE
APPROVAL OF THE LIMITED USE OF BILLING DEMAND RATE**

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1.0 Appearances

R. F. Peters	Counsel for The Public Utilities Board of Manitoba ("the Board")
P. Ramage	Manitoba Hydro ("Hydro")
D. Buhr	City of Winnipeg
P. Bowman	Manitoba Industrial Power Users Group ("MIPUG")
H. Lerner	Ski Agassiz Ltd.
N. Later C. Kozak	Holiday Mountain
B. Williams	Consumers' Association of Canada/Manitoba Society of Seniors ("CAC/MSOS")

2.0 Intervenorors

By Board Order 34/00 dated February 28, 2000 the Board granted Intervenor status to the following parties:

City of Winnipeg/Winnipeg Hydro

Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors

Enbridge Pipelines Inc. ("Enbridge")

General Scrap Partnership

Manitoba Industrial Power Users Groups ("MIPUG")

Ski Agassiz Ltd. et al

Ski Asessippi Limited Partnership

TransCanada Energy Ltd. ("TCE")

3.0 Background

On January 27, 2000 Manitoba Hydro (“Hydro”) applied to the Public Utilities Board (the “Board”) for an interim ex-parte order approving an Application for approval of a rate option for customers with Limited Use of Billing Demand (“LUBD”).

The LUBD is in response to issues raised by certain low load factor and seasonal customers with regards to the demand charge and winter ratchet approach to billing. It is Hydro’s submission that the LUBD rate is justified.

On January 28, 2000, the Board informed Hydro that the application would be heard together with the Surplus Energy Program (“SEP”) application in a written hearing process.

As a result, the LUBD has been dealt with in a written hearing process, with the exception of the oral hearing held on May 17, 2000, to hear rebuttal comments with respect to the application.

4.0 Application

On January 27, 2000 Hydro applied ex parte to the Board for approval of the LUBD. Hydro proposed that the LUBD would be effective as of the date of approval by the Board. Hydro's Application includes rate schedules for the application of the rate to all general service customers who are billed for demand.

Hydro indicates that the LUBD is justified on the following grounds:

1. It removed a significant irritant from a relatively small number of customers without adversely impacting other customers and thereby achieves a reasonable balance between customer sensitivity and minimization of revenue loss.
2. It can be implemented without major changes to the rate policy and design; hence it could be put in place relatively quickly.
3. It retains some discipline and demand charges, albeit smaller, and ratchets continue to be in place.
4. For most affected customers, the higher energy charges means that incremental cost to serve are still being recovered.
5. The revenue loss to Hydro is relatively modest.

5.0 Intervenor's Positions

5.1 The City of Winnipeg/Winnipeg Hydro

The City of Winnipeg indicates that negotiations on a new agreement between Hydro and Winnipeg Hydro are underway and, that in the absence of an agreement and, given the resulting uncertainty, the City of Winnipeg cannot support or oppose the LUBD application.

The City of Winnipeg does comment as follows:

- Of 12,000 general service customers it has identified 62 customers who could potentially qualify for the LUBD rate.
- Billing comparisons before the 62 indicate that the LUBD rate would provide no savings to 43 of them.
- Of the remaining 19, they estimate annual savings could range from \$25.35 to \$12,411.21.
- If all 19 customers chose to subscribe to the LUBD rate Winnipeg Hydro's annual revenue would be reduced by approximately \$50,000.00.
- Although Winnipeg Hydro's preference is to offer rates that encourage customers to improve their load factor, the LUBD rate may help to relieve the perceived onerous electrical costs expressed by some high demand, low energy consuming commercial customers.
- Winnipeg Hydro will require three months lead time for billing system computer programming of the LUBD rate if and when it receives Board approval.
- If the LUBD rate receives Board approval, Winnipeg Hydro will request that Hydro be directed to provide information on the LUBD rate to Winnipeg Hydro for use in

communicating with its customers prior to the effective date for implementation of this program.

5.2 CAC/MSOS

It is the position of CAC/MSOS that:

- The LUBD be made available to qualifying customers who meet a two part test by demonstrating their load factor was low and their demand was non-coincident (eg. demand is seasonal and in low demand seasons).
- It is not appropriate to give a rate that reduces costs for customers with low load factor and coincident demand.
- The LUBD proposal as currently constituted should not be accepted.

5.3 Enbridge Pipelines Inc.

There were no requests for information or final arguments filed by Enbridge, and no representative attended at the May 17, 2000 hearing.

5.4 General Scrap Partnership

There were no requests for information or final arguments filed by General Scrap Partnership and no representative attended at the May 17, 2000 hearing.

5.5 MIPUG

MIPUG indicates that it strongly supports the principles of economic fairness which arise from setting rates for appropriately sized customer classes to ensure they pay their full

embedded cost of service. MIPUG indicates that it is sympathetic to the concerns of the potential LUBD customers, even though they do not constitute a class of customers.

MIPUG recommends that the Board address the current inequities regarding the winter 80% ratchet by suspending its application at this time during the months of June, July and August for all GS demand customers.

Alternatively, if Hydro is unable to support suspension of the ratchet for the portion of the demand charge related to transmission and distribution, then MIPUG recommends that at least the portions of the demand charges not related to these cost components be removed from the ratchet calculation in order to provide immediate relief to the affected customers.

MIPUG indicates that it is concerned about the rate of progress with regards to certain rate matters and, more specifically, Board direction to Hydro to allow the following studies prior to the next GRA:

- A study to examine methods to correct persistent problems with certain subclasses being outside of the Zone of Reasonableness;
- An examination of the merits of making GS Large + 100 kV into a separate class of customer; and
- A proposed comprehensive rate policy.

5.6 Ski Agassiz Ltd., Holiday Mountain, Spring Hill Winter Sports Park and other seasonal users (“Ski Agassiz Ltd. et al”)

Ski Agassiz Ltd. et al’s position is that there should be total elimination of the winter ratchet and demand component.

Ski Agassiz raises several points in support of this position including:

- Its belief that seasonal users pay for energy not used which is then sold to out-of-province utilities, which amounts to double dipping in the context of the current balance between supply and demand which it believes is unconscionable and insupportable;
- The lowering of the winter ratchet demand billing through increases in the consumption rate will simply rebalance the inequity, (“a shuffling of the deck”);
- Ski Agassiz Ltd. et al’s submission is that domestic consumption has remained relatively constant over the last ten years while export sales have increased in excess of 500%, and that domestic consumption, as it relates to this scenario, does not warrant the continuation of the demand meter concept as it was historically envisioned;
- The proposal to rebalance the rate structure by reducing the demand component and increasing the consumption rate will do little to reduce the overall impact of energy costs to the seasonal user;
- Ski Hills, unlike Hydro, cannot raise their rates to offset adverse weather conditions; and
- Hydro cannot ignore the impact of the application of demand billing to selective components of the economy whose demand is seasonal and whose purpose is both social/recreational and essential to the development of the province.

Cindy Kozak and Noel Later appeared at the May 17, 2000 hearing on behalf of Holiday Mountain. They indicated that, for Holiday Mountain, keeping up with the hydro bill has been an ongoing concern. They indicate that they believe that demand billing has fulfilled its requirement (i.e., extra income for mega projects, 20 years ago) and that they have been overcharged in that time period by 70%. They believe that Hydro has taken that excess power that they have paid for and sold it out of province, making a double profit. They indicate that shifting one column of numbers over to another column, with the bottom line and bill being the same or more, provides no benefit. They indicate that as an industry, they

feel they have overpaid and that it has limited their growth and diminished the quality of services they could provide. Holiday Mountain indicates that in their experience Hydro isn't offering enough relief to actually attract much industry to the province and that the ski industry is a perfect example of the inequitable treatment that Hydro has perpetuated. They indicate that they have built a motel, restaurant and a golf course to try and balance the use of power throughout the year. They have also modified equipment to reduce their use.

Holiday Mountain indicates that both Spring Hill and Minnedosa ski areas are also having financial difficulties and that getting rid of the ratchet and the demand billing would be a big step forward.

5.7 Ski Asessippi Limited Partnership

Ski Asessippi forwarded a letter dated April 13, 2000 to the Chairman of the Board with regards to Hydro's SEP and Limited Use Billing Demand ("LUBD") indicating support for Hydro's application.

5.8 TransCanada Energy Ltd.

There were no requests for information or final arguments filed by TCE with regards to LUBD and no representation was made with regards to LUBD at the May 17, 2000 hearing.

6.0 Hydro's Responses to Intervenors' Positions

Hydro notes that none of the Intervenors submitting final argument has opposed the LUBD application, but three of the four argue that any approval should be subject to conditions.

Hydro notes that the rates for service for which Hydro has sought approval in this application are based on those material terms and conditions as outlined in the application. In the event that the Board accepts Intervenor arguments for changes to these terms and conditions, Hydro would need to fully study the rate and other impact associated with a particular change to determine if the LUBD rate option is feasible under such amended conditions. Hydro would not seek to go forward with the LUBD option without having first analyzed all impacts associated with material changes to the terms and conditions or other changes to the demand charge structure.

6.1 City of Winnipeg/Winnipeg Hydro

Hydro indicates that while the City of Winnipeg is not taking a position on SEP, it appears to be requesting Hydro's assistance with implementing the program should any of the Winnipeg Hydro customers seek access to it.

Hydro goes on to note that it is prepared to provide the City with any promotional material it prepares for its own customer service representatives. Hydro also indicates it will invite Winnipeg Hydro's customer service representatives to any orientation or seminars held for the purpose of familiarizing its own staff with the provisions of the program.

With respect to the time required to program the billing system, Hydro advises that its new system will be ready by June 1, 2000 and requests the Board, if it approves the LUBD option, to allow for implementation as quickly as each utility, in its own judgment, can carry it out.

6.2 CAC/MSOS

With regards to the CAC / MSOS position that the LUBD application should not be accepted because it would allow low load factor customers, whose demand peaks coincident with the system, to utilize the rate option, Hydro notes that this reasoning could be applied to all demand billed customers generally and, if it were, Hydro would have to require higher demand charges of customers whose loads peaked at the same time as the system. Hydro's position is that this would be extremely difficult to apply and administer and that it would not be accepted by a large number of customers.

Hydro advises that regular demand charges are set at a level which takes into account customer diversity and that, while it is true that some customers contribute more to diversity because their load may be skewed more to the off peak, all customers pay the same demand charges. Hydro notes that, with a single firm rate, all customers are accorded diversity benefits, including those whose peak is at or near the system coincident peak. It is Hydro's position that the overall group diversity and the higher energy charges and winter ratchet applied to customers opting for this rate are such that both peak and off peak users can be accommodated. Hydro also notes that if CAC / MSOS' recommendation were adopted:

- (a) further reduction to the LUBD demand charge could be justified; and
- (b) the most likely candidates for exclusion from the option would be Ski Agassiz Ltd. et al.

6.3 MIPUG

Hydro notes that MIPUG, in its final argument, supported the LUBD application as filed, however, it is recommending that Hydro's winter demand ratchet be suspended for at least the months of June, July and August for all general service demand customers.

Hydro opposes any suspension of the application of the winter ratchet at this time. Hydro acknowledges that the market for summer capacity has increased significantly but notes that such capacity is subject to change. It is Hydro's position that increases in export revenues over the past several years have been used to offset general rate increases which otherwise would have been necessary. Hydro indicates that eliminating the ratchet for the proposed summer months would result in a \$1.36 million revenue loss.

With regards to the MIPUG request for filing of a number of rate design studies, Hydro indicates that it is actively working on these rate design studies and will file results as soon as the requisite corporate approvals have been received.

With respect to MIPUG's recommendation for a hearing to review these items in advance of any general rate application process, Hydro advises that it expects to appear before the Board and interested Intervenors in early 2001.

6.4 Ski Agassiz Ltd. et al

With regards to Ski Agassiz Ltd. et al's position that capacity is no longer an issue and should result in elimination of demand billing, Hydro's position is that the capacity of the entire system is installed to meet the annual domestic system peak market which occurs during December, January and February. Hydro indicates that without the application of winter ratchets, customers who use winter capacity only would not be paying for the full costs associated with providing them with this capacity. Hydro indicates that eliminating the 80% of winter ratchet would result in a revenue loss of approximately \$3.2 million, and that eliminating demand billing in its entirety would result in revenue loss of approximately \$114 million annually.

Hydro indicates that winter seasonal customers are not being charged for energy not used, but rather are being charged for capacity which is used. Hydro goes on to indicate that while planning for winter peaks does allow summer capacity to be available, such capacity cannot always be sold at prices or quantities sufficient to cover the costs of generation. Hydro indicates that revenues collected at current rates from domestic customers would not be sufficient to recover the costs associated with providing for winter capacity needs. Hydro indicates that it is the increase in export revenues over the last 10 years which is the reason that Hydro has not had to apply for an increase in domestic rates.

Hydro states that in order to reduce the demand charge, which in turn would minimize the impact of the winter ratchet, the energy component of the rate has to be increased, to try to recover the costs associated in providing the service. Hydro responds that the balance of rate payers, other than Ski Agassiz Ltd. et al, would find it unreasonable and unconscionable to be expected to pay for rate reductions requested for Ski Agassiz Ltd. et al. Hydro goes on to indicate that the LUBD rate proposal would benefit Ski Agassiz Ltd. et al by reducing their annual costs by approximately 30% per year.

Hydro indicates that it classes customers based on load and service characteristics, and that recreational facilities have approximately 1,400 accounts served by Hydro. Hydro indicates that Ski Agassiz Ltd. et al may be suggesting that recreational facilities be provided with a rate which does not recover costs and Hydro takes the position that it could not in good conscience treat them as a special class of customer deserving a rate schedule. Hydro takes the position that all commercial and industrial facilities in Manitoba contribute to the Province's economy.

7.0 Board Findings

The Board is satisfied that the Limited Use of Billing Demand does address specific complaints and will approve the Application for a two-year period commencing July 1, 2000. However, in the Board's view, the Limited Use of Billing Demand as proposed only partially addresses some of the issues and should not be viewed as a permanent solution.

The Board is satisfied that a July 1, 2000 implementation date is acceptable. While necessary changes to Winnipeg Hydro's computer systems may take some time to implement, the Board believes it is important to implement the program on July 1, 2000 so that qualifying customers might benefit from the program.

With regards to the request that qualifying customers meet a two-part test by demonstrating their load factor was low and their demand was non-coincident, the Board finds that this is not manageable and that no customers would know in advance whether their demand is non-coincident.

With regards to the request that the winter 80% ratchet be suspended for the months of June, July and August, the Board finds that in the current circumstance, this is not practical to implement, and would result in a significant loss of revenue.

The Board notes that there was a request that the portion of demand charge related to transmission and distribution be removed from the ratchet calculation. The Board believes that this mechanism would prove awkward and would not be an improvement to the program.

The Board notes the three studies ordered in PUB Order 51/96 remain outstanding and will direct Hydro to file these studies by October 31, 2000.

8.0 It Is Therefore Ordered That:

1. Manitoba Hydro's Application for approval for the Limited Use of Billing Demand dated January 20, 2000, BE AND IS HEREBY APPROVED. This program shall terminate June 30, 2002.
2. Manitoba Hydro file the studies ordered in Order No. 51/96 by October 31, 2000.
3. Manitoba Hydro continue to assess the Limited Use Billing Demand program and file a report with the Board prior to June 30, 2002 respecting the continuance of the approved program or any variation thereto by no later than April 29, 2002.

THE PUBLIC UTILITIES BOARD

Chairman

Secretary

THE PUBLIC UTILITIES BOARD

“G. D. Forrest”

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Secretary

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