

<b>MANITOBA</b>	<b>Order No. 52/02</b>
<b>THE PUBLIC UTILITIES BOARD ACT</b>	
<b>THE MANITOBA HYDRO ACT</b>	
<b>THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT</b>	<b>March 26, 2002</b>

Before: G. D. Forrest, Chairman  
R. Mayer Q.C., Vice-Chairman  
Dr. K. Avery-Kinew, Member

**AN APPLICATION BY MANITOBA HYDRO TO VARY  
BOARD ORDER 9/02**

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## **1.0 Appearances**

K. Kalinowsky	Counsel for The Manitoba Public Utilities Board (“the Board”)
M. Murphy	Counsel for Manitoba Hydro (“Hydro”)
J. Feldschmid	Counsel for Canadian Centre for Energy Policy Inc. (“CCEP”)
B. Meronek, Q.C. B. Williams	Counsel for the Consumer’s Association of Canada (Manitoba) Ltd. and Manitoba Society of Seniors Inc. (CAC/MSOS”)
T. McCaffrey	Counsel for Manitoba Industrial Power Users Group (“MIPUG”)
M. Buchart	Counsel for Time to Respect Earth’s Ecosystems Inc./Resource Conservation Manitoba (“TREE”)

## **2.0 Witnesses for Manitoba Hydro**

V. Warden	Chief Financial Officer, Vice President Finance and Administration, Manitoba Hydro
L. Wray	Division Manager of Business Analysis and Regulatory Affairs, Manitoba Hydro
D. Cormie	Division Manager of Power Sales and Operations, Manitoba Hydro
R. Wiens	Manager of Rates and Policies, Manitoba Hydro
H. Surminski	Section Head for Resource Planning and the Marketing Analysis Group, Manitoba Hydro

### **3.0 Intervenor**

Canadian Centre for Energy Policy Inc.

Consumer's Association of Canada (Manitoba) Ltd./Manitoba Society of Seniors Inc.

Manitoba Industrial Power Users Group

Manitoba Keewatinowi Okimakanak Inc./Natural Resources Secretariat

Provincial Council of Women of Manitoba Inc.

Time to Respect Earth's Ecosystems Inc./Resource Conservation Manitoba

### **4.0 Background**

The last General Rate Application for Hydro was in the fall of 1995 followed by a public hearing in early 1996. On November 30, 2001, Hydro filed with the Board a status update intended to provide the Board and interested parties with an information update on Hydro, its financial results, forecasts and processes, information on the integration of Centra Gas, as well as information on events which have impacted the electricity industry and Hydro over the last several years. Hydro is not seeking a general rate increase with this filing.

On January 14, 2002, the Board held a pre-hearing conference with respect to this filing. The Board concluded that the public hearing would commence on April 15, 2002 and be conducted in two segments. The first segment of the hearing will deal with an update on the integration of Centra Gas and the status of actions taken by Hydro in response to Board recommendations and directives from Order 46/99. The second segment of the hearing is to address a review and update of Hydro's financial matters and a review of the reasonableness of Hydro's domestic rates, the proposed Curtailable Rate Program, and confirmation of various Interim Ex-Parte Orders.

On February 8, 2002, Hydro made an offer in principle to the City of Winnipeg to purchase the assets of Winnipeg Hydro. The parties are currently working to conclude a Definitive Agreement which will formalize the transaction, and which will, upon completion of the transaction, result in Hydro becoming the owner of Winnipeg Hydro's assets and related liabilities. It is Hydro's intention that the acquired assets and liabilities will be integrated into Hydro's electric operations.

It is expected that the integration of Winnipeg Hydro assets and customers into Hydro's existing system, and the elimination of Winnipeg Hydro as a distinct and separate class for rate-making purposes, will result in a change to Hydro's Cost of Service study and the resulting cost allocation and rate design. As a result, on March 6, 2002, Hydro wrote to the Board requesting that all aspects of the status update filing related to or affected by the Winnipeg Hydro acquisition be deemed out of scope. Since the scope of the status update hearing was set out in Order 9/02, the Board directed Hydro that a formal application to vary Order 9/02 should be filed with the Board.

## **5.0 The Application**

By letter dated March 8, 2002, Hydro applied to vary the scope of the hearing as set out in Order 9/02 to exclude all matters related to Winnipeg Hydro, including the Cost of Service study and resulting cost allocation, and to remove responses to information requests submitted by the City of Winnipeg and related matters from the record, or in the alternative, to deem such evidence to be beyond the scope of the hearing. Hydro requested this variance on the grounds that a material change in circumstances has occurred since Order 9/02 was issued.

Hydro's application stated that the ongoing negotiations between Hydro and the City of Winnipeg to conclude a Definitive Agreement, and the due diligence process currently

underway, will preclude a detailed discussion of the matters related to the City of Winnipeg until such time as the transaction is completed. It is anticipated that a Definitive Agreement will be concluded with the City of Winnipeg in May 2002, and that the transaction will close on or before June 27, 2002.

Hydro indicated that once the transaction closes, it intends to commence reclassification of Winnipeg Hydro customers into its rate classes. Once this reclassification has been completed, Hydro plans to commence a new Cost of Service study to reflect the change in circumstances resulting from the purchase of the assets of Winnipeg Hydro and the alteration of Hydro's customer classes. Hydro expects to file the revised Cost of Service study with the Board in early to mid-2003.

Hydro is of the view that the significant time and resources required to undertake a thorough review of the proposed Cost of Service methodology contained in the filing would not be well spent in view of the fact that the alteration of that Study will likely be underway prior to the status update hearing being completed and the Board issuing its Order thereon.

Hydro views its proposal to reduce the scope of the status update filing to be in the interests of all parties, as well as efficiency. In Hydro's view, this approach will recognize the changing circumstances of the corporation, and at the same time permit the canvassing of a number of issues which are of interest to the Board and Intervenors, without rendering the significant amount of effort already devoted to this process wasted. Hydro views the issues which can be canvassed to include the corporate overview, forecasts, financial results, industry developments, energy supply, Power Smart initiatives, reports on subsidiaries, responses to directives from Order 51/96, and confirmation of various outstanding interim orders. In Hydro's view, the information presently before the Board will enable the Board to make a determination as to the

reasonableness of Hydro's revenue requirement, and to make a general determination regarding the reasonableness of Hydro's rates as contemplated in Order 9/02.

During the hearing, Hydro stated that if the Board did not accept Hydro's application and would prefer to see something as an alternative, Hydro would file an alternative Cost of Service study in support of the determination of just and reasonable rates as at March 31, 2002. Hydro proposed that this alternative Cost of Service study would treat the revenue expected from Winnipeg Hydro in the same manner as export revenue.

## **6.0 Intervenor's Positions**

### **6.1 Canadian Centre for Energy Policy Inc.**

Counsel for CCEP reiterated their particular concern for the small general service customer class, and their concern related to costs allocated to that customer class. CCEP supported the alternative Cost of Service study offered to be filed by Hydro as a useful tool to allow meaningful rate review. CCEP supported any reasonable mechanism that would allow a timely review of cost allocation, and urged the Board to pursue the mechanism offered by Hydro. CCEP also supported the position that if information currently on the record is useful and relevant, it should not be removed from the record.

### **6.2 Consumer's Association of Canada (Manitoba) Ltd. and Manitoba Society of Seniors Inc.**

CAC/MSOS commended Hydro for the flexibility shown in considering an alternate approach. CAC/MSOS strongly urged the Board to recognize that there has been a long period of time since the last Cost of Service study was reviewed. In addition, there has already been a substantial investment of time by all parties in reviewing Cost of Service issues. CAC/MSOS pointed out that there have been a number of significant changes to the Cost of Service

methodology, and most of those proposed changes can be dealt with now in principle. CAC/MSOS thought that this approach may in fact help Hydro in updating the Cost of Service study at a later date as a result of the acquisition of Winnipeg Hydro. Accordingly, CAC/MSOS urged the Board to proceed with the alternate approach suggested by Hydro, subject to required timetable changes as a result of the new evidence to be filed by Hydro.

### **6.3 Manitoba Industrial Power Users Group**

MIPUG had three primary points to make. Firstly, MIPUG opposed the removal of the Cost of Service study, and supported the alternate approach suggested by Hydro, commending Hydro for being flexible in this approach. Secondly, MIPUG cautioned that revised timelines would have to be worked out in respect of examining the new evidence to be filed, including an additional round of information requests. Thirdly, MIPUG argued that the evidence filed relative to the Cost of Service study and other matters is relevant, and because the Board is assisted by having as much relevant information before it as possible, the evidence ought to remain on the record.

### **6.4 Time to Respect Earth's Ecosystems Inc./Resource Conservation Manitoba**

TREE expressed concern that if the proceedings were to continue without the evidence, the deliberations would be handicapped. Additionally, TREE is concerned about undue delays in the process. TREE supports the position put forward by MIPUG that there should be another round of information requests relative to the new information to be filed by Hydro. TREE also expressed their view that even though Hydro was not seeking a rate change, the public has a statutory right to review rates, and therefore, the proceedings should move forward.

### **6.5 Provincial Council of Women of Manitoba Inc.**

PCWM did not actively participate in the hearing, but filed a letter with the Board dated March 18, 2002, requesting that it be read into the record. In the letter, PCWM recommended that



Hydro's application to vary Order 9/02 be denied. PCWM argued that six years have passed since the last general rate application, and since a number of major events affecting Hydro have occurred in the interim, any delays in the status update review should be kept to a minimum. In addition, even though there will be changes to the cost of service study as a result of Hydro's pending acquisition of Winnipeg Hydro, a considerable amount of time, effort and resources have already been invested, and it is worthwhile to proceed. PCWM wants the Hydro status update to include the proposed Winnipeg Hydro purchase and a cost of service study, and argued that the public hearing needs to be as relevant and current as possible.

#### **6.6 Manitoba Keewatinowi Okimakanak Inc./Natural Resources Secretariat**

MKO did not participate in the hearing or submit any written position on the application.

#### **7.0 Board Findings**

The Board has considered the evidence of Hydro with respect to Hydro's application to vary Board Order 9/02, and in particular, to exclude all matters related to Winnipeg Hydro, including Cost of Service issues, and to eliminate from the record all information requests submitted by the City of Winnipeg, and all information requests submitted by others relative to Winnipeg Hydro and Cost of Service issues. The Board has also considered the positions of all of the interested parties in this matter.

The Board and interested parties last reviewed Hydro's Cost of Service study in 1996. In the Board's view, an unacceptably long period of time has now elapsed since the last review. In the interim, Hydro has made a number of changes to its cost allocation methodology. As well, a number of directives from Order 51/96 relative to Cost of Service matters have not yet been reviewed by the Board and other interested parties. The Board believes that many, if not all of these methodology issues can be reviewed in principle, independent from the acquisition of Winnipeg Hydro.

The Board recognizes that the acquisition of Winnipeg Hydro will have an impact on Hydro Cost of Service matters. However, the impact of those changes might very well not be known for an extended period of time. The Board is also concerned that Hydro's intentions to file a revised Cost of Service study incorporating the acquisition of Winnipeg Hydro by early to mid-2003 may be optimistic, particularly since it may take a full year after the acquisition to see the actual financial results. Any delay in filing this information would further extend the regulatory review into 2004. The Board believes that a prudent course of action, given the current circumstances, is to deal with as many Cost of Service issues as early as possible. The Board will therefore accept Hydro's offer to file an alternate Cost of Service study as quickly as possible, but no later than March 27, 2002.

On the matter of evidence currently before the Board, including all information requests from the City of Winnipeg and other interested parties relative to Cost of Service matters, the Board believes that this information is relevant. The Board will therefore order that all information currently forming part of the record of this proceeding will remain as part of the record.

An amended timetable for dealing with the revised Cost of Service study to be filed by Hydro is attached to this Order as Appendix A. This revised timetable is expected to accommodate any necessary information requests and evidence as a result of the alternate Cost of Service study to be filed by Hydro.

## **8.0 It Is Therefore Ordered That:**

1. Hydro file an alternative Cost of Service study for 2001/02 by no later than March 27, 2002 that can be used in a review of the reasonableness of Hydro's domestic rates as at March 31, 2002, and to assist in dealing with matters of methodology and principles in the Cost of Service study.

2. All information and material currently forming part of the record, including material filed by the City of Winnipeg and others dealing with Cost of Service issues, will remain as part of the record.
3. The timetable set out in Order 9/02 is hereby amended in accordance with the timetable attached as Appendix A of this Order to accommodate any necessary information requests and evidence resulting from the revised Cost of Service study.

The Public Utilities Board

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Chairman

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Secretary

THE PUBLIC UTILITIES BOARD

“G. D. Forrest”

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Chairman

“G. O. Barron”

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Secretary

Certified a true copy of  
Board Order 52/02 issued by  
The Public Utilities Board

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Secretary

## **Appendix A**

### **Amended Timetable for Revised Cost of Service Study (“COSS”)**

Manitoba Hydro to file evidence on amended COSS	March 27, 2002
Intervenors to file information requests on amended COSS	April 3, 2002
Manitoba Hydro to file responses to information requests	April 10, 2002
Intervenors to file evidence	April 15, 2002
Parties to file information requests on Intervenor evidence	April 18, 2002
Intervenors to file responses to information requests	April 23, 2002
Manitoba Hydro to file rebuttal evidence	April 30, 2002