MANITOBA	Board Order 159/04
THE PUBLIC UTILITIES BOARD ACT	December 22, 2004

Before: Graham F. J. Lane, C.A., Chairman
Robert Mayer, Q.C., Vice-Chair
Dr. Kathi Avery Kinew, Member

AN INTERIM EX-PARTE APPLICATION BY MANITOBA HYDRO FOR AN ORDER APPROVING NEW ELECTRICITY RATES IN REMOTE COMMUNITIES SERVED BY DIESEL GENERATION, TO BE EFFECTIVE RETROACTIVE TO MAY 1, 2004

Table of Contents

Page

Executive Summary

A need for an immediate rate adjustment in Manitoba Hydro's ("MH") diesel rate zone was evident during the public hearing process which resulted in the Public Utilities Board ("the Board") Order 17/04, issued early in 2004. However, the Board could not arrive at a final decision at the time pending the resolution of a number of rate-related matters, including:

1. An accumulated deficit related to diesel zone service of approximately $18 million;
2. Unpaid surcharges of approximately $2.8 million;
3. An understanding between government and the diesel communities with respect to:
    - (a) the future funding of existing capital costs for the diesel rate zone;
    - (b) the funding of future operating costs for the diesel communities; and
    - (c) a funding mechanism for future capital expenditures.

Order 17/04 approved interim rates, with final rates not to be confirmed until an understanding had been reached between Manitoba Keewatinook Ininew Okimowin ("MKO"), Indian and Northern Affairs Canada ("INAC") and MH.

Following negotiations involving the parties, MH filed an Application with the Board on October 29, 2004. MH sought interim ex-parte approval of changes to the existing interim rates for the diesel zone communities (the "Application"). The Application reflected a tentative settlement arising out of MH's negotiations with MKO, on behalf of the four First Nations diesel communities, and INAC.

MH sought interim ex-parte approval, because:

- A degree of urgency existed, as the interim rates then in effect represented a significant burden to electricity customers in the diesel zone, and the situation was exacerbated by the coming winter season; and

- MH had consulted extensively with the parties to the tentative settlement, and the rate impact of those discussions were reflected in MH's Application.

The terms of the tentative settlement were summarized by MH to be, as follows:

1. MH would request Board approval for an allocation of net electricity export revenues to first retire the diesel zone accumulated deficit. Once the deficit had been recovered, the net export revenue would be used to reduce costs allocated to the diesel-zone customer class, thus reducing the otherwise rate requirement;

2. INAC would pay $3.2 million to MH for the surcharge billed to INAC by MH between November 2000 and May 2004;

3. INAC, on behalf of the Federal government, would pay MH 69% of the $28.8 million of MH's diesel-related undepreciated capital cost, the balance as at March 31, 2004, by July 7, 2005 without interest and no later than January 7, 2006;

4. MH would request that other federal and provincial government customers in the diesel zone (notably Health Canada, the RCMP, and the Province of Manitoba), pay MH a further 10% of MH's $28.8 million of undepreciated capital cost;

5. MH would assume the remaining 21% of undepreciated capital costs on behalf of Residential and General Service customers that are neither First Nations members nor government accounts; and

6. For major future capital expenditures in the diesel zone, MH would consult with the diesel zone's First Nation communities, and secure funding prior to making further capital expenditures.

MH stated it would bring an Application for final approval of diesel rates to the Board for approval, once a settlement agreement was signed. Signing by all parties to the settlement was expected on or before July 7, 2005.

After a process involving the Board issuing interrogatories to MH, followed by an ex-parte hearing that involved cross-examination of MH witnesses by Board Counsel, the Board approved the proposed rates set out in Appendix C on an interim ex-parte basis.

The Board acted out of concern with the magnitude of the accumulated deficits, the high rates being applied to energy blocks over 2,000 kW.h per month in the diesel rate zone, and the long outstanding final settlement between INAC, MKO and MH with respect to rates and the funding of capital projects and operating costs. The Board agreed with MH that there was a degree of urgency regarding the Application.

The Board requires a final settlement agreement and an Application from MH to finalize rates flowing from the settlement. This future Application will be considered in a public process, proceeded by notice to all affected parties. Until such a hearing, the Board will not consider final approval of diesel zone rates. The Board reserves the right to amend the interim rates established by this Order, following a public hearing to consider the final settlement agreement and the impact on the rates.

1.0 Background

MH serves its electricity customers off its transmission and distribution grid system, which is connected to its electrical generation plants (hydro electric and thermal), and through power generated by stand-alone diesel generators. The average cost per kW.h. to produce and deliver grid based electricity is a fraction of the cost of diesel generated electricity.

MH’s diesel-based service was once quite extensive, with over thirty communities served. Over time, most of the communities have been connected to the grid. Now, diesel service is provided to only four remote communities in Northern Manitoba with a combined population of approximately 2,000. The communities comprising MH’s diesel zone are Brochet, Lac Brochet, Shamattawa, and Tadoule Lake; the rest of the Province is served off the electrical grid system.

Residential customer consumption in the four diesel zone communities is limited to 60 amp service, but the consumption of General Service, First Nation and Government customers is not restricted. Because of the high cost of diesel fuel and efficiency issues, all diesel zone customers are not expected to use the service for space heating.

The “Full Cost” and “Government Surcharge” rates for the diesel zone were implemented on November 1, 1993, as approved by the Board in Order 62/94. Since then, there have been significant increases in the costs of providing diesel generated electricity service, including large and material increases to fuel costs and capital costs related to upgrading generation facilities.

The need for an immediate rate adjustment in the diesel zone was evident during the public hearing process which resulted in the interim rates established in Board Order 17/04. However, the Board could not arrive, at that time, at a final decision regarding what would constitute just and reasonable rates for the diesel zone communities.

Resolution of a number of rate-related matters were required, including:

(a) A significant accumulated deficit for diesel zone service, exclusive of accrued interest, estimated at the time of Order 17/04 to be approximately $18 million (subsequently revised to $16.9 million);

(b) Recovery of unpaid surcharges to INAC, estimated at the time of Order 17/04 to be approximately $2.8 million (subsequently revised to $3.2 million), exclusive of accrued interest;

(c) Arrangements with respect to the funding of existing capital costs for the diesel zone;

(d) Arrangements with respect to the funding of future operating costs for the diesel zone; and

(e) Arrangements with respect to funding mechanisms for future capital expenditures.

In Order 17/04, the Board anticipated that resolution of the above matters would have a significant impact on rates, and directed MH to engage in settlement discussions to resolve these matters.

MH identified the parties required to effect the necessary understandings to include the four northern communities, Manitoba Keewatinook Ininew Okimowin (“MKO”), to represent the four communities, INAC and itself. To provide the parties with an opportunity to resolve the foregoing issues, the Board, in Order 17/04, approved MH’s rate proposal on an interim basis.

The Board directed MH to report to the Board by April 1, 2004 on the status of the resolution process, and, when a settlement had been arrived at, to apply to the Board for review of the resolutions reached. On March 16, 2004, MH advised the Board of the selection of a mediator, and indicated that the mediation process was underway. MH reported that it was apparent to the parties that a full and final resolution of the issues raised by the Board in Order 17/04 would not likely be achieved by April 1, 2004. MH requested, and the Board granted, an extension to allow the parties to resolve the outstanding issues. A tentative settlement was reached in the summer of 2004 and, in late October 2004, MH so advised the Board and filed the current Application.

MH projected the cost of providing diesel service to the four northern communities in its 2004/05 fiscal year to be approximately $10 million, before considering the projected effect of the tentative settlement. On the basis of the current rate schedule, and prior to the implementation of this Order, MH expected to recover approximately $9.5 million of costs from rates, with the majority of those recoveries coming from government accounts.

Under MH's October 2004 interim rate proposal, one based on the tentative settlement and involving the recovery of 79% of the undepreciated capital costs of its diesel-generating assets, MH projected its 2004/05 diesel-zone costs to be approximately $4 million, with an estimated $3.5 million to be recovered from rates. As before, the majority of those recoveries would come from government accounts. The large drop in recoverable costs associated with the tentative settlement primarily arises from the settlement condition that would have government entities pay, in aggregate, 79% of MH's undepreciated capital costs related to diesel generation. These anticipated capital cost recoveries would result in reduced annual depreciation and interest charges, resulting in a significant decrease in projected annual costs compared to the previous approach.

For levels of consumption below 2,000 kW.h per month, residential customers will pay the same rate paid by customers connected to the grid. These rates are significantly less than the real costs of providing electric services.

One of the beneficiaries of the tentative settlement, and MH's new interim rate proposal, are diesel zone customers not associated with either the Federal or Provincial government. The tentative settlement indicates MH would effectively make capital contributions in the amount of 21% of undepreciated capital costs on behalf of non-First Nation Residential and General Service customers. Under the revised interim rates, these customers will receive the reduced tail block rate, but will not be subject to a capital contribution or the government premium.

2.0 Interim Ex-Parte Application

On October 29, 2004, MH filed an Application with the Board seeking interim ex-parte approval of changes to rates for the diesel zone communities (the "Application"). The Application reflected the tentative outcome of its discussions with MKO, on behalf of the four First Nations, and INAC.

The Application requested decreases to the tail block rates affecting most electricity customers served by diesel generation. According to MH, the revised rates would give effect to the tentative settlement of the issues identified in Order 17/04.

MH further requested that the proposed rate decreases be applied on a retroactive basis to May 1, 2004, the date on which MH implemented the diesel rates approved by Orders 17/04 and 46/04.

MH projected that if Board approval of retroactive rates was granted, there would be bill credits for many of its customers in the diesel zone. The rates proposed by MH would continue to incorporate grid-equivalent rates for the first 2,000 kW.h of monthly usage for both residential and general service customers. The requested rates for the first 2,000 kW.h represent a substantial subsidy from the projected cost of producing and delivering diesel-generated electricity to diesel zone customers.

MH's Application indicated that confirmation of final rates would not be sought until the settlement had been formally confirmed and given full effect by all parties.

MH indicated that it sought ex-parte approval because:

- Only a tentative resolution of the issues identified in Order 17/04 had been accomplished, though the Application was intended to give effect to the resolution;
- There was a degree of urgency, as the rates in effect represent a significant burden to electricity customers in the diesel rate zone, a burden exacerbated in the winter season when customers usage tends to be higher;
- MH had consulted extensively with the Parties to the tentative settlement; and
- MH was required by the tentative terms of settlement to gain Board approval, and, accordingly, sought to have the Application heard and any ex-parte approvals confirmed as soon as practicable.

MH forecast it would request final approval from the Board for diesel rates once the tentative settlement has been confirmed, which is expected to occur on or before July 7, 2005.

To assist the Board in the ex-parte process, interrogatories were posed to MH prior to the hearing, and cross examination of a MH panel of witnesses was conducted by Board Counsel on December 13, 2004.

3.0 Tentative Settlement Agreement

As indicated, the settlement between the parties is tentative, and MH reported that final settlement remained subject to various approvals being obtained from the Federal government, MKO and the four communities, as well as from the Board.

Although the formal agreement has yet to be fully executed, MH indicated that "Minutes of Settlement" had been agreed to and had been executed July 8, 2004, by MH, MKO and INAC.

The Application by MH gives effect to the terms of the tentative settlement, as evidenced in the Minutes of Settlement filed with the Board, only with respect to interim rates. If the settlement is implemented, MH noted there would be a substantial reduction in rates to Residential and General Service customers for usage in excess of 2,000 kW.h per month. As well, there would be a significant reduction to Government rates, including the "premium" (formerly referred to as the surcharge) required to fund Residential and General Service subsidies.

MH's Application proposed that all First Nation Education accounts, which are funded by INAC, be treated in a manner equivalent to Government accounts. MH also proposed that all other First Nation Community accounts be included in the General Service class.

The terms of the tentative settlement were summarized by MH to be, as follows:

1. MH to request Board approval to use net export revenues to amortize the accumulated deficit (indicated to be $16.9 million as of March 31/04) over a period of ten years. Following the retirement of the accumulated deficit, a share of net export revenues would accrue to the benefit of customers in the diesel communities.

2. INAC would seek funding to pay the surcharge billings now estimated to be $3.2 million, which were billed between November 2000 and April 2004. Subsequent to the ex parte hearing, MH indicated that the $3.2 million had been received.

   MH reported that as an indication of its good faith during the negotiation process, it had ceased billing the surcharge to forty First Nation accounts from May 1, 2004, and that this had resulted in an additional shortfall of approximately $1.5 million which would remain recoverable if the tentative settlement is not finalized. MH stated that this amount would be recovered through capital contributions and the revised rates provided for in its proposal, assuming retroactivity to May 1, 2004.

3. INAC was to request from the Federal Treasury Board an amount sufficient to cover 69% of the $28.8 million of existing diesel zone undepreciated capital cost, as at March 31, 2004, by July 7, 2005 and no later than January 7, 2006. MH reported that the 69% allocation was based on MH's average estimate of the consumption of all Residential, General Service and Community First Nation accounts for the past two years. MH indicated that if the payment is made after July 7, 2005, interest would accrue at the rate of 5% per annum from that date. MH reported its understanding that the Federal Treasury Board process was proceeding favourably with respect to the settlement.

4. MH was to approach the other government customers in the diesel zone, notably Health Canada, the RCMP, and the Province of Manitoba, to secure funding of a further 10% of the $28.8 million of undepreciated capital cost. MH stated that all of the parties involved in this group have indicated interest in participating in this funding, and MH expects that a binding commitment will be secured from all parties to the settlement by the end of January 2005.

5. MH was to absorb the remaining 21% of undepreciated capital costs on behalf of Residential and General Service customers that are neither First Nations members nor government accounts.

6. MH was to consult with the diesel zone communities with respect to any future major capital expenses, and to arrange for future contributions to cover the majority of such future capital costs. MH estimated that there will be an agreement in place prior to the commencement of future non-emergency projects; emergency expenditures would occur in advance of consultations, to meet health and safety priorities.

4.0 Rate Design Principals

The rate design principles utilized by MH in its Application were:

1. Rates to both Residential and General Service customers are to be equal to grid rates for the first 2,000 kW.h per month;

2. Rates for the tail block for both Residential and General Service customers classes are to be set equal to the average costs of service, post settlement, based on operating costs only (equating to 36.13 ¢ per kW.h for usage beyond 2,000 kW.h per month);

3. Government customers are to include all Federal and Provincial Departments, or agencies, as well as First Nation Education accounts fully funded by INAC (approximately 29 accounts); and

4. The rate for Government customers for all kW.h of usage is to be 105.36¢ per kW.h.

MH proposed determining its diesel zone revenue requirement for the Residential and General Service Classes based on the "NERA" recommended methodology introduced at the 2004 GRA. That model suggested that the Zone 3 Residential Class Revenue to Cost Coverage ('RCC') ratio was 82%, and the Zone 3 General Service Small Non-Demand RCC ratio was 89%. While MH proposes not to continue calculating zone revenue requirements in the future, it indicated it would seek to fix diesel zone RCC ratios on the basis of percentages to be determined during the Board's next review of cost of service methodology.

MH's proposed diesel zone rates are as follows:

Residential

	Current Rate	**Proposed Rate May 1 to July 31, 2004**	**Proposed Rate August 1, 2004 and Thereafter**
Basic Monthly Charge (dollars)	6.25	6.25	6.25
First 175 kW.h (¢/kW.h)	5.78	5.78	5.78
Next 1,875 kW.h (¢/kW.h)	5.16	5.16	5.496
Balance of kW.h (¢/kW.h)	79.10	36.13	36.13

General Service

	Current Rate	**Proposed Rate May 1 to July 31, 2004**	**Proposed Rate August 1, 2004 and Thereafter**
Basic Monthly Charge (dollars)	14.90	14.90	15.75
First 1,090 kW.h (¢/kW.h)	5.81	5.81	5.86
Next 910 kW.h (¢/kW.h)	5.55	5.55	5.86
Balance of kW.h (¢/kW.h)	79.10	36.13	36.13

Government and First Nations Education*

	Current Rate	Proposed Rate May 1 to July 31, 2004	Proposed Rate August 1, 2004 and Thereafter
Basic Monthly Charge (dollars)	18.05	15.75	15.75
Full cost rate (¢/kW.h)	79.10	36.13	36.13
Surcharge/Premium (¢/kW.h)	155.80	69.23	69.23

*The current rates apply to Government accounts including certain First Nation accounts.

MH reported that more time was required for consultation with diesel zone customers, towards ascertaining the causes of customer electricity usage over 2,000 kW.h. This awareness is required in order to assist in the development of an appropriately designed stepped rate schedule, this to provide a “warning” block for customers with high consumption levels.

5.0 Communication

In Order 17/04, the Board directed MH to carry out a communication program regarding rates and demand side management in the diesel zone communities, and to report to the Board on its progress. The Board also sought information on alternate energy sources that could potentially be used in the diesel zone.

MH reported that it intends to build on its initial meetings with the communities, and its related consumer education and conservation initiatives. MH projected that its efforts would eventually lead to reduced consumption of energy, and corresponding reductions in customer bills and the subsidy to the diesel zone.

6.0 Diesel Cost of Service Study

MH filed a prospective diesel cost of service study for the fiscal year 2004/05. This was based on forecast information from MH's 2004 Integrated Financial Forecast ("IFF-04"), and the implementation of the tentative settlement. Based on the full cost allocation methodology used in the previous cost of service studies for the diesel class, which includes provision for both fixed and variable costs, the total cost to service diesel zone customers was estimated by MH to be 83.4 ¢/kW.h for fiscal 2005.

Based on its tentative settlement, MH recalculated the estimated cost for diesel service to be 36.1¢/kW.h, after excluding identified fixed costs (Interest Expense on Facilities, Interest Credit on Contributions, Depreciation Expense, Amortization of Contributions and Capital Tax).

MH reported that fixed costs would be partially recovered by capital contributions from diesel zone customers and other funders. MH indicated that distribution and generation operating costs and interest on the diesel fuel inventory would remain in its on-going determination of diesel zone costs.

Based on the tentative settlement methodology, MH suggested that the revenue to cost coverage ("RCC") ratios for Residential, General Service and First Nation Community classes would be 23.9%, 70.6%, and 62.8% respectively. To provide additional revenue, a government premium, formerly referred to as the surcharge, of 69.23¢/kW.h was proposed. This premium would bring the Residential class RCC ratio to 82% and the General Service and First Nation Community class RCC ratios to 89%, targets developed by MH as explained previously.

MH indicated that its target RCC percentages are based on the resulting RCC ratios for Zone 3 classes using the "NERA" approach, and were not required as a part of the tentative settlement. If the cost of service methodology filed as part of the proceedings leading up to Order 101/04, which relates to MH's General Rate Application ("GRA"), were employed, the target RCC ratios would be approximately 91% and 105% for residential and general service classes respectively.

If these RCC ratios were used in the diesel cost of service study, MH forecast that the Government Premium would increase by approximately 16¢/kW.h.

7.0 Accumulated Deficit

MH's practice has been to track the accumulated surplus or deficit related to diesel zone service separately within the diesel cost of service study, and to seek to recover the accumulated amount in future rates.

MH reported that for its audited financial statements, all revenue and expenses were taken into income when earned or incurred. In short, any deficit incurred with respect to diesel zone service was charged off in the year of occurrence through to and including fiscal year 2003.

Notwithstanding that practice, MH reported that because of the significance of the accumulated deficit related to diesel zone service, for its 2003/04 fiscal year, an accounting entry was made to record an account receivable of $13.5 million. This represented 75% of the estimated accumulated deficit of $18 million, as of March 31, 2004. MH indicated that this amount represented the accumulated deficit attributable to government usage, as MH had no anticipation that the deficit attributed to other customers would be recovered.

With the terms of the tentative settlement expected to be confirmed, and with no cash recovery of the accumulated deficit now expected, MH reported an intention to write off the previously booked account receivable with respect to diesel zone service in fiscal 2004//05. This action would be independent of MH's proposal to utilize a portion of net export revenues over the next ten years to offset the accumulated deficit related to diesel zone operations.

After taking into account a write off of $13.5 million in fiscal 2004/05, MH provided a revised net income forecast of $140 million for fiscal 2004/05. The projected improvement over fiscal 2003/04 was linked with a marked and dramatic improvement in water levels and hydro electric generation.

8.0 Other Matters

MH confirmed that it has considered other alternatives to diesel service. MH projected that connecting the remaining four diesel-served communities to the grid would cost approximately $40 million per community, or $160 million for all four communities. MH reported that while it is currently revising its capital cost estimates, it continues to expect that the provision of diesel service to the four communities will remain the lower cost alternative for the near to mid-term future.

Notwithstanding that, MH continues to evaluate the possibility of establishing small hydro plants in the communities of Brochet and Lac Brochet.

9.0 Board Findings

9.1 Application for an Ex-Parte Order

The Board found MH's ex-parte Application unique, in that while it sought ex-parte and interim relief, the parties to the settlement decision were apparently not only aware that MH would make an Application, but required it. While the Board agreed to the ex-parte process, so as to protect the terms of the tentative settlement as reported on by MH, it realizes that the ex-parte process has resulted in the Board not having heard the positions of the four communities in the diesel zone, MKO or INAC, except as reported by MH. The Board recognizes that without public notice, and a public hearing, the other parties who were not aware of the Application may have information and positions that the Board should consider.

The Board is also mindful of the legislation, in Section 45 of The Public Utilities Board Act which provides that:

The Board has the authority, if the special circumstances of any case so require, to make an interim ex-parte order authorizing, requiring or forbidding, anything to be done that the Board would be empowered on application, petition, notice and hearing to authorize, require or forbid. No such order shall be made for any longer time than the Board deems necessary to enable the matter to be heard and determined, on such application, petition, notice or hearing.

The Board agrees that there is a special circumstance to the Application as the tentative terms of the settlement require the Board's action, and the rate reductions proposed will have a significant financial impact on electricity customers served by diesel generation.

The Board takes note of MH's assertion that MKO, on behalf of the four First Nations affected by the Application, and INAC, are aware of the terms of the tentative settlement and are aware that MH would be making an Application for reduced rates.

The Board expects that the Application was a continuation of the good faith settlement process.

The Board has considered this Application on an ex-parte basis, and expects MH to apply for confirmation of this Order, with full public notice, as soon as practicable.

9.2 Interim Rates

The evidence before the Board included a tentative settlement, which supports MH's Application. Until the settlement has been fully executed and approved by all required parties, the Board is not prepared to give final approval of diesel rates. The Board will want to consider any final settlement agreement and the proposed rates that flow from any such settlement through a public process, which will include notice to parties affected.

The Board was concerned with the magnitude of the accumulated deficits, and aware of the partial relief provided through the tentative settlement. The Board noted the high rates applied to energy blocks over 2,000 kW.h in the diesel zone prior to this Order, and agreed with MH that there was a degree of urgency regarding the Application. Accordingly, the Board will approve the rates as set out in Appendix C on an interim ex-parte basis.

In doing so, the Board has considered other alternatives available to MH. However, at this time, options such as connecting the diesel zone customers to the grid or charging grid rates to diesel zone customers for all consumption would place an excessive burden on MH and existing grid customers. The Board is of the view that the current settlement strikes a reasonable interim balance for all affected parties, and is acceptable at this time.

The Board recognizes the complexities of the issues and the long history that led to the tentative settlement. However, the Board is disappointed that many of the issues persisted for several years, notes that the delay in resolution has created increased imputed carrying charges for MH.

In future, the Board will expect MH to address any future issues regarding the diesel communities in a more expedient manner. The Board notes that with the implementation of tentative settlement, MH and its customers would have to absorb a portion of certain costs, including the accumulated deficit, capital contributions, and carrying charges. However, the Board realizes that complex settlements often involve "give and take."

The Board wishes to clarify that it does not, in this Order, endorse or accept the tentative settlement between MH, MKO and INAC. The final settlement will be examined further in a subsequent proceeding, including the participation of other parties should they choose to become involved. In addition, until the Board further considers the appropriate cost of service methodology for MH, which may include consideration of an export class and the formula for distribution of net export revenues, diesel rates will not be approved as final.

Order 17/04 discussed suggestions by CAC/MSOS and MKO related to the promotion of energy efficiency. CAC/MSOS recommended that a third rate block be added to the rate structure for the Residential and General Service classes, and that a new rate block be employed to provide ratepayers with a warning that their consumption is within the higher priced rate blocks. MKO proposed that MH implement a comprehensive energy management program for each of the four diesel-served communities.

The Board encourages MH to explore the suggestions of CAC/MSOS and MKO, as well as the possibility of providing verbal or written notices to customers that breech the grid equivalent rate threshold. The Board requests that MH advise the Board at the next GRA of its actions and findings related thereto. Diesel zone customers are not expected to utilize the electricity service for space heating, and if the service is used for space heating, substantial additional costs will arise for the direct customers and for the overall ratepayer base.

The Board is mindful of the presentation given as part of the proceedings leading up to Order 17/04, by Mr. Ralph Markham, the Director of Store Planning and Facility Services for the North West Company. Mr. Markham asserted that the cost of a four litre jug of milk in the four diesel communities would increase from $11.99 to $13.63 as a result of the rate increases approved in Order 17/04 on an interim basis. Costs of this level are representative of the high cost of transportation and energy in the four northern communities, and lead to a cost of living that is much higher than is found in the south. MH has also provided anecdotal evidence confirming Mr. Markham's report, and indicated that prices for goods and services increased in the four communities as a result of the increase in rates brought about by Order 17/04.

The reduction in rates arising from this interim Order will reduce the costs of the North West Company, other retailers, and businesses. The Board anticipates that rate reductions as a result of this Interim Order will lead to reduced prices for goods and services in the four communities, and will be seeking confirmation of such reductions from MH and MKO at the next hearing related to diesel zone service.

9.3 Retroactive Rates to May 1, 2004

MH requested that rates be made retroactive to May 1, 2004, with bill credits to arise for some customers in the diesel zone. While the Board does not normally support retroactive rates, in the interest of assisting with the completion of the settlement, the Board will approve MH's request for rates to be effective May 1, 2004 on an interim basis.

9.4 Communication

The Board acknowledges and appreciates the cooperative efforts of MH, the four First Nations Communities as represented by MKO, INAC, and other parties communicating with customers in the diesel zone in respect of rates, rate structures and other factors that impact energy costs, as reported by MH.

The Board will await a further report on these continuing processes through a subsequent public hearing process.

9.5 Demand Side Management

Further to Order 17/04, the Board remains of the view that the implementation of demand side management initiatives for these four communities are of extreme importance. The Board would encourage MH to continue to work with interested parties to ensure that these programs are developed and included in its Power Smart Plan.

9.6 Accumulated Deficit

MH indicated that its fiscal 2003/04 results were benefited by the establishment of the $13.5 account receivable related to the accumulated deficit for the diesel accounts. Without the provision for this receivable, MH's loss for fiscal 2004 on electricity operations would have been $440 million, not the $426 million reported in the financial statements.

The $13.5 million set up in the fiscal 2004 will be written off in fiscal 2005, according to MH. The current forecasted net income for fiscal 2005 of $140 million includes the impact of this forecast write-off.

According to MH, the current net income forecast for fiscal 2005 is over $100 million higher than projected in its IFF-03, the higher net income to result from an “unprecedented” improvement in water flows and levels from the depths experienced with the drought of 2002 to 2004. The Board finds that the current net income forecast for MH’s fiscal 2004/05 is adequate to absorb the $13.5 million write-off, and will not unduly delay progress towards the debt:equity target. In any case, the Board considers the forecast write-off to be appropriate, given the terms of the tentative settlement.

10.0 IT IS THEREFORE ORDERED THAT:

1. The Proposed Rates for Manitoba Hydro’s Diesel Zone attached as Appendix C to this Order BE AND ARE HEREBY APPROVED, on an Interim Ex-Parte Basis, to be effective on and after May 1, 2004.

2. This Order shall be in full force and effect until confirmed or otherwise revised by a subsequent Order of the Board.

The Public Utilities Board

Chairman

Secretary

THE PUBLIC UTILITIES BOARD

“Graham F. J. Lane, C.A.”
Chairman

“G.O. Barron”
Secretary

Certified a true copy of
Order No. 159/04 issued by
The Public Utilities Board

Secretary

Appendix A

Appearances

R. Peters	Counsel for the Manitoba Public Utilities Board (“the Board”)
P. J. Ramage J. Sedgwick	Counsel for the Manitoba Hydro Electric Board (“MH” or “Corporation”)

The Board was also assisted by PricewaterhouseCoopers, Fillmore Riley, Dillon Consulting, and Board staff.

Appendix B

Witnesses for Hydro

V. Warden	Chief Financial Officer, Vice-President, Finance and Administration
R. Weins	Division Manager, Rates and Regulatory Affairs
C. Thomas	Cost of Service Supervisor, Rates and Policies Department

Appendix C

	Proposed	
	Effective May 1 to July 31, 2004	**Effective August 1, 2004 and thereafter**
Residential:		
Basic Monthly Charge	$ 6.25/month	$ 6.25/month
First 175 kW.h per month	5.78¢/kW.h	5.78¢/kW.h
Next 1,825 kW.h per month	5.16¢/kW.h	5.496¢/kW.h
Remaining energy	36.13¢/kW.h	36.13¢/kW.h
General Service:		
Basic Monthly Charge	$ 14.90/month	$ 15.75/month
First 1,090 kW.h per month	5.81¢/kW.h	5.86¢/kW.h
Next 910 kW.h per month	5.55¢/kW.h	5.86¢/kW.h
Remaining energy	36.13¢/kW.h	36.13 ¢/kW.h
Government:		
Basic Monthly Charge	$ 15.75/month	$ 15.75/month
Rate per kW.h per month	105.36¢/kW.h	105.36¢/kW.h