

MANITOBA) Order No. 170/06
)
THE PUBLIC UTILITIES BOARD ACT)
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MANITOBA HYDRO ACT)
)
THE CROWN CORPORATIONS PUBLIC)
REVIEW AND ACCOUNTABILITY ACT) December 20, 2006

BEFORE: Graham F. J. Lane, C.A., Chairman
Monica Girouard, C.G.A., Member

APPLICATION BY MANITOBA HYDRO FOR AN INTERIM
EX PARTE ORDER APPROVING SURPLUS ENERGY
PROGRAM RATES, SCHEDULE SEP-1

Introduction

By Order No. 90/00, The Public Utilities Board (Board) approved an application by Manitoba Hydro (MH) for a Surplus Energy Program (Program). A process was established providing for weekly Program rates to be published through a "Schedule SEP-1".

Pursuant to the Program and now longstanding practice:

- a) on December 20, 2006, MH filed an application for Interim Ex Parte approval of a revised Schedule SEP-1 (attached);
and
- b) by this Order, the Board approves MH's application.

Background

The Program is a mechanism by which MH prices sales of electricity generated in excess of its immediate requirements. Average spot market prices are determined weekly using methodology previously approved by the Board.

The Program's objective is to provide access to electricity to Manitoba's larger commercial firms on an interruptible basis, with prices to be established similar to those offered to MH's "opportunity" export sales customers. The Program particularly benefits customers able to take advantage of lower price delivery periods.

Customers accept or decline electricity delivery at the prices made available. Customers are expected to and are responsible

for meeting the risk of service interruption with back-up facilities.

Program revenues result from sales at the prices established. Costs are allocated by MH; the Program is expected to break even on an annual basis.

Attached Appendix "A" depicts the variability of average spot market prices over the last four years, including the current year, with the average being determined using a Board approved methodology. Appendices "B", "C" and "D" report Program energy prices for medium general service as have been established for Peak, Shoulder and Off-Peak hours, over the same time period.

The peak time represents high demand hours, Monday to Friday, which vary between summer and winter. Off-peak is the night-time period between 11 p.m. and 7 a.m. Shoulder time represents the remaining daily hours.

Peak and shoulder prices rose sharply during July, 2005.

- With the existence of the Ontario market and the implementation of revised practices by the Midwest Independent Transmission System Operator (MISO) in April 2005, MH can now offer 100% of its surplus energy to these surrounding markets. In effect, MH has expanded its customer base to include Ontario and the entire MISO footprint. The MISO standard market gives MH the ability to offer all surplus energy to the market without transacting with specific counterparties. As no excess

capacity remains in the MH system during the peak and shoulder hours, SEP customers pay market rates.

- Furthermore, July is a month where load and subsequent energy demand are at their peak. July 2005 regional temperatures were significantly above average. Increases in load resulted in increased demand for energy, which in turn, caused energy prices to climb in the marketplace during this period.
- Finally, gas prices in the summer of 2005, on average were significantly higher than those experienced in the summer of 2004. This upward trend was continued due to hurricane Katrina which took some natural gas production out of service. The increase in gas prices causes an increase in power prices in peaking months with more gas fired generation at the margin during these periods

November showed an increase in off-peak rates compared to previous months.

- From June to October, MH experienced extremely high water conditions and was unable to export all surplus energy to the market due to transmission constraints within neighboring markets and low Manitoba load in the off-peak period.
- In the beginning of November 2005, MH's off-peak load increased and transmission constraints in the markets alleviated. The change in conditions resulted in an increase in export activity such that no surplus energy was available causing SEP customers to be charged market prices.

- November is typically used by market participants to perform maintenance on their generation units. Many base load generators in the market are off-line for repair during this period. When base load generators are out of service, the demand must be met by more expensive (gas-fired) generation which causes increases in the off-peak market prices.

Rates for the week of April 3 to 9, 2006 were notably lower than normal. Planned transmission outages in the United States resulted in MH having to reduce both its generation and transfer capability to the U.S. during that period, severely limiting its firm exports and reducing its opportunity exports to zero from all three categories. The resulting prices reflected MH's operating costs for hydraulic generation, and the resultant marginal opportunity cost of generation. Such outages are unusual, and not expected to recur except in unusual circumstances.

Rates for the weeks beginning October 31 and November 6, 2006 increased dramatically. Transmission constraints in the United States (U.S.), lower than normal temperatures in the MISO region and the planned generating equipment outages typical of the fall season, combined to drive up market prices. Further, MH imported energy during both of those weeks. When MH imports power, there is a 10% adder to the SEP prices in accordance with the approved procedure for determining the weekly energy charge. Off-peak rates exceeded shoulder rates, a rare occurrence, during the week of November 6 to 12, 2006, because the adder

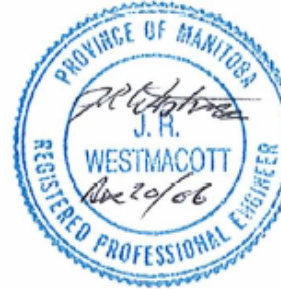
applied only to off-peak rates; the shoulder period was exporting during this time frame.

Since its inception, the Program has sold over 22,000 GW hours per year of electricity to MH's medium and large customers, at "wholesale" market prices. Over the four-year period November 1, 2001 to October 31, 2005, MH reports Program Net Income of \$215,319 (\$53,830/year).

Board Findings

MH having made its latest Program sales prices application in accordance with agreed-upon practice, and the Program continuing to have value to a component of MH's customer base, the Board finds revised Schedule SEP -1 acceptable.

The estimated average spot market rate is \$42.36 per MWh. Manitoba Hydro warrants that the Spot Market Rate has been calculated using approved Public Utilities Board methodology. The expected source(s) of spot market energy is (are): import and export



**SCHEDULE SEP-1
SURPLUS ENERGY PROGRAM RATES**

December 25, 2006 to December 31, 2006

Tariff No. 50-19 General Service Medium (Utility Owned Trans.)

	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.620	0.620	0.620	cents/kWh
Energy Charge	6.014	3.999	3.956	cents/kWh

Tariff No. 50-20 General Service Large 750V not exceeding 30 kV

	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.330	0.330	0.330	cents/kWh
Energy Charge	5.934	3.945	3.903	cents/kWh

Tariff No. 50-21 General Service Large 30 kV not exceeding 100 kV

	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.140	0.140	0.140	cents/kWh
Energy Charge	5.792	3.851	3.810	cents/kWh

Tariff No. 50-22 General Service Large exceeding 100 kV

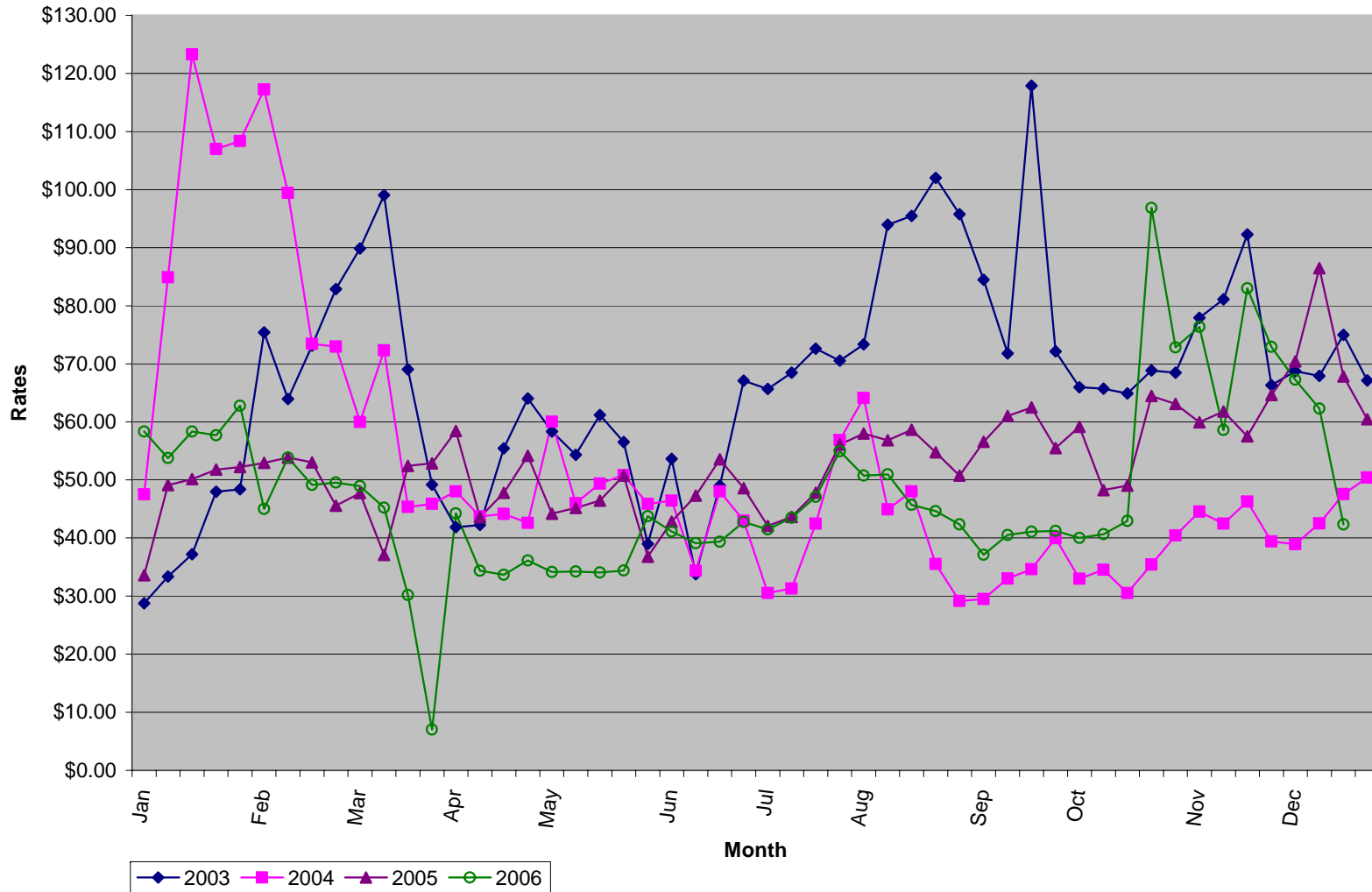
	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.060	0.060	0.060	cents/kWh
Energy Charge	5.706	3.794	3.753	cents/kWh

	May 1 to October 31	November 1 to April 30
Peak Hours	Monday - Friday * 12:01 - 20:00 Hours	Monday - Friday * 7:01-11:00 and 16:01-20:00 Hours
Shoulder Hours	Monday - Sunday ** 7:01 - 23:00 Hours	Monday - Sunday ** 7:01 - 23:00
Off Peak Hours	Monday - Sunday 23:01 - 7:00 Hours	Monday - Sunday 23:01 - 7:00 Hours

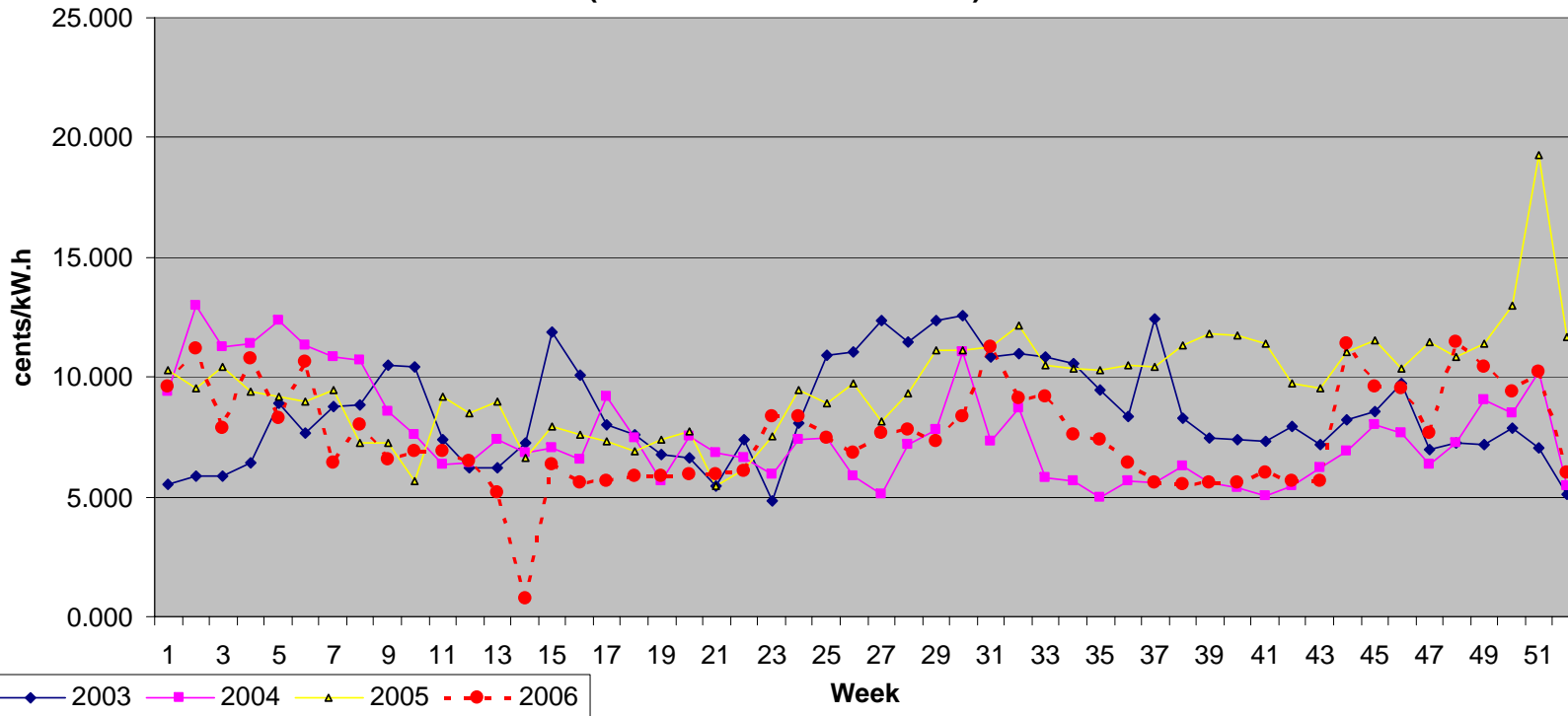
* excluding statutory holidays
** excluding peak hours

The Basic Monthly Charge is \$50.00 per month for SEP customers with total loads less than or equal to 1000 kVA.
The Basic Monthly Charge is \$100.00 per month for SEP customers with total loads greater than 1000 kVA.

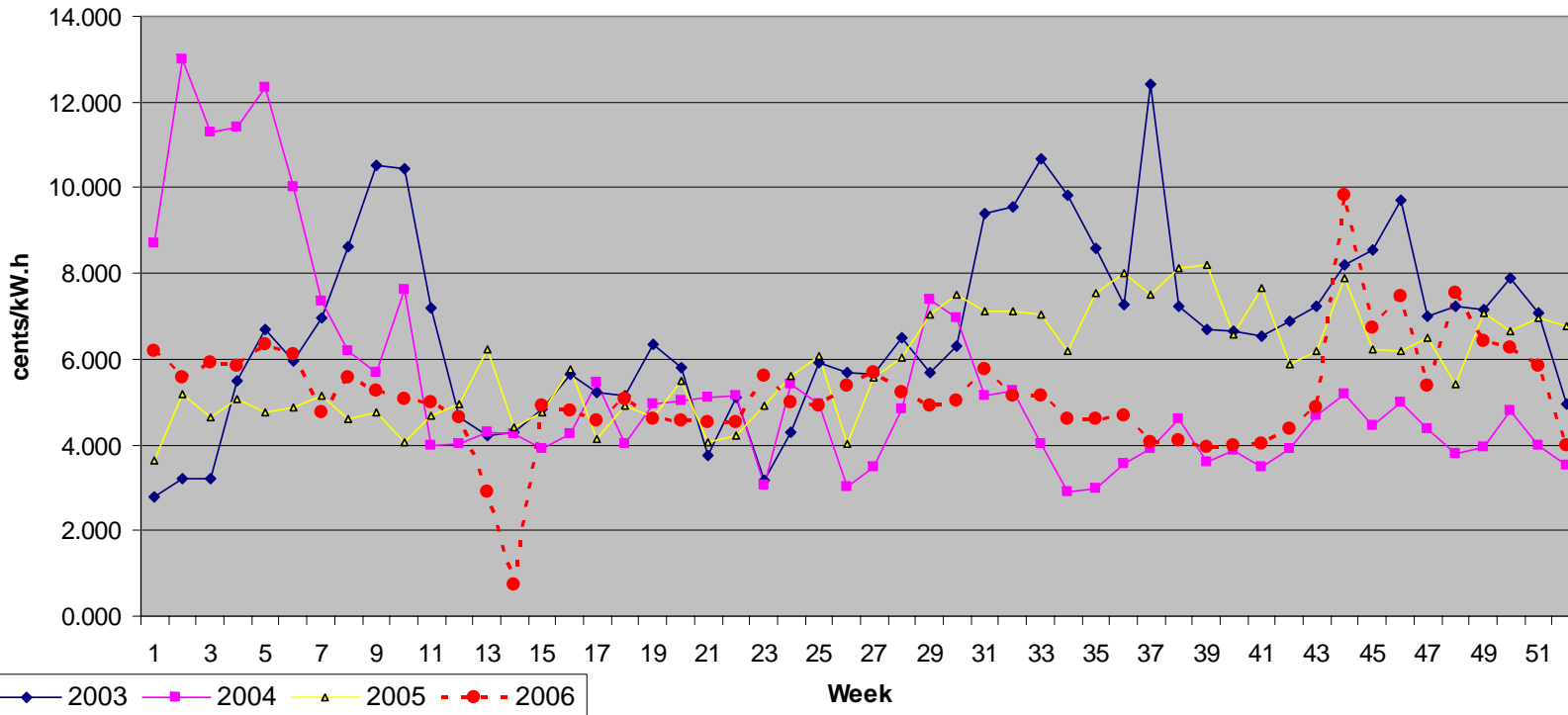
APPENDIX "A"
Estimated Average Spot Market Rate



APPENDIX "B"
PUB Approved Weekly PEAK SEP Rates
(General Service Medium)



APPENDIX "C"
PUB Approved Weekly SHOULDER SEP Rates
(General Service Medium)



APPENDIX "D"
PUB Approved Weekly OFF-PEAK SEP Rates
(General Service Medium)

