

M A N I T O B A

Order No. 176/06

THE PUBLIC UTILITIES BOARD ACT December 21, 2006

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

**AN INTERIM EX-PARTE APPLICATION BY MANITOBA HYDRO
FOR AN ORDER APPROVING NEW ELECTRICITY RATES
IN FOUR COMMUNITIES SERVED BY DIESEL GENERATION,
TO BE EFFECTIVE JANUARY 1, 2007**

INTRODUCTION

By this Order, The Public Utilities Board (Board) finds special circumstances to exist that require proceeding on an *ex parte* basis, and approves, on an interim basis, the revised rates sought to be charged by Manitoba Hydro (MH) in its *ex parte* Application.

These revised rates only apply to the four communities (Diesel Zone) served by diesel generated electricity, namely:

- (i) Barrenlands First Nation (also referred to as Brochet);
- (ii) Northlands Dene First Nation (also referred to Lac Brochet);
- (iii) Syisi Dene First Nation (also referred to Tadoule Lake); and
- (iv) Shamattawa First Nation (also referred to as Shamattawa).

By this Order, the full cost diesel rate will increase from 36.13¢/kW.h to 41.27¢/kW.h, due to increases in the operating or variable costs (most notably the cost of diesel fuel and generation maintenance) incurred by MH in providing diesel-generated electricity.

The majority of customers' bills (including 90% of the Residential customers) in the Diesel Zone will not be directly affected by the rate increases in this Order, as they consume less than 2000 kW.h per month of electricity. The rates for the first 2000 kW.h of electricity consumed by Residential and General Service customers are billed at grid equivalent rates, which are the rates charged to MH's other customers that are connected to its main electricity supply grid.

Because the full cost rate increases with this Order, the rates for Residential and General Service consumption, in excess of 2000 kW.h per month also increase. Government and First Nation Education rates will also increase to reflect the increased full cost rates and the resulting increase in the Surcharge borne by this customer class, to provide for grid-equivalent rates for the first 2000 kW.h of consumption for Residential and General Service customers.

The rates approved in this Order (as well as rates approved by Board Order 159/04) are predicated on MH filing an Application to finalize all outstanding Diesel Zone interim Orders, as soon as the Settlement Agreement has been finalized.

MH has indicated that its best information is that the Settlement Agreement should be finalized by the end of the first quarter of 2007.

APPLICATION

On October 5, 2006, MH applied to the Board for *ex parte* approval of Diesel Zone rate changes. This Application was in response to the Board's direction in Order 117/06 and also to update the rates in the Diesel Zone using the same rate design principals as approved in interim *ex parte* Order 159/04.

MH's request to proceed *ex parte* was based on the same reasons accepted by the Board in Order 159/04, wherein the Board reduced the Full Cost diesel rate from 79.10¢/kW.h to 36.13¢/kW.h. Particularly, given the fact that the details regarding the tentative Settlement Agreement remains subject to a confidentiality agreement. Once Federal Government approval is received, MH promises to forthwith seek confirmation of all interim and *ex parte* Orders related to the Diesel Zone.

This Application is also to address the Board's concerns that pending finalization of a Settlement Agreement, rates should reflect current operating costs so that deficits do not accumulate and become difficulty to recover in rates.

In this case, MH's Application was to recover increased operating costs since Order 159/04, as well as one-fifth of a deficit that has accrued while MH is awaiting finalization of the Settlement Agreement.

By increasing the Full Cost rate from 36.13¢/kW.h to 41.27¢/kW.h, and also by raising the Government and First Nations Education rate from 105.36¢/kW.h to 138.36¢/kW.h, MH forecasts \$850,000 of additional annual revenue from the Diesel Zone.

Approximately \$9,700 of the additional revenue will come from Residential customers, particularly from the 38 residential customers utilizing more than 2000kW.h of electricity per month. Approximately \$95,000 of the additional revenue will come General Service customers, again particularly from customers utilizing more than 2000kW.h per month.

Approximately \$745,000 of the \$850,000 of additional revenue will come from the Government and First Nations customers. MH advised that the 28 First Nations Education customers (including schools, teacherages, and school residences) are fully funded by the Federal Government for electricity costs.

MH's update on the Settlement Agreement indicated no changes to what had previously been reported. MH advised that the delay in finalizing the Settlement Agreement was beyond its control, and it expected finalization by the end of the first quarter of 2007.

But for the tentative Settlement Agreement, the Full Cost rate would be 84.1¢/kW.h, rather than the 41.27¢/kW.h proposed in MH's Application. This due to tentative arrangements to fund capital costs through customer contributions rather than through rates.

MH's Application also reports one Government customer that elected not to contribute directly to Capital Costs addressed in the tentative Settlement Agreement, but rather, to continue to pay a portion of the capital costs through rates. This gives rise to the "Government Non-Participant" rate, to allow that customer to amortize its remaining contribution for capital expenses by mid 2008.

BOARD FINDINGS

The Board will agree to adjudicate MH's Application on an *ex parte* basis for many of the same reasons that resulted in Order 159/04 being issued following an *ex parte* process.

The Settlement Agreement remains tentative. To allow parties to probe at the confidential details could have resulted in that process coming to an end, before the final details can be provided to the Board and other interested parties. While the Board has difficulty understanding the delay in the process to finalize the Settlement Agreement, the Board can appreciate the detailed nature of a process that attempts to resolve multiple issues involving tens of millions of dollars among multiple parties.

MH has assured the Board that as soon as the Settlement Agreement is finalized, an Application to finalize all outstanding interim and *ex parte* Orders effecting the Diesel

Zone will be made and a public hearing process proposed. The Board now expects such an application from MH by the end of March 2007.

One of the issues identified in Order 17/04 was the accumulation of an unbilled deficit approaching \$20,000,000. To avoid the reoccurrence of a large deficit, this Application by MH seeks to refresh the rates using current costs - but only the operating/variable costs. To continue to delay rate adjustments would exacerbate the situation and potentially give rise to larger rate increases. The Board's hearing schedule prevented an earlier examination of MH's requests for the Diesel Zone.

As it now appears, MH has incurred a net deficit of approximately half a million dollars from fiscal years ending 2005 and 2006. Only one-fifth of that deficit (or approximately \$103,000.) was sought by MH to be recovered through rate increases by this Application.

MH customers in the Diesel Zone need to be made aware that four-fifths of that deficit remain to be recovered in future rates. The Board will expect MH to provide its recommendation, at the next public hearing into Diesel Zone rates, as to how the deficit is to be managed and recovered. Management of the deficit includes an undertaking as to whether such deficits attract carrying costs, similar to Purchased Gas Variance Accounts on the gas side of MH's business.

The Board also has considered, as special circumstances that justify proceeding *ex parte*, that the customers directly affected by the rate increases have, through their representatives, been made aware that Hydro has advanced this Application (as well as the Application that gave rise to Order 159/04) to the Board.

Indian and Northern Affairs Canada ("INAC") and Manitoba Keewatinook Ininew Okimowin ("MKO"), respectively, represent Canada and the four communities in the Diesel Zone. These parties were not only been made aware of MH's Application, they were provided a copy and gave no indication to MH that they wanted to attend or appear before the Board.

The Board is mindful that not all Interveners from Order 17/04 have received a copy of MH's Application, and that public notice has yet to be given of the *ex parte* Applications. Specifically, Consumers' Association of Canada (Manitoba) Inc. and

the Manitoba Society of Seniors ("CAC/MSOS") has not been afforded an opportunity to become involved in the two most recent Diesel Zone rate Applications. The Board looks forward to their involvement and advice as soon as the public hearing process begins.

The Board expects such a public process to begin early in 2007 and anticipates input from all parties choosing to become involved as MH seeks to finalize Diesel Zone rates. The apparent need for confidentiality and the other special circumstances cited favour interim rate relief now, through an *ex parte* process, rather than delay the rate adjustments.

The rate adjustments provided herein will not become final, and are reversible and refundable, depending on the Board's decision when MH seeks to finalize such rates.

The rate increases sought by MH were based on increases in operating/variable costs primarily tied to increases in the costs of diesel fuel and generation maintenance. Additionally, the proposed increases are to recover one-fifth of the current accumulated deficit. The Board will approve the rate increases requested on an interim basis, and will require MH to seek to finalize, through a public hearing process, all interim Orders affecting the Diesel Zone, forthwith following finalization of the Settlement Agreement.

Through these proceedings the Board has been informed that MH has also expended \$4,484,000 on capital related items for the four communities (primarily soil remediation in Brochet and new generation equipment in Tadoule Lake). Presently this amount is not included in the tentative Settlement Agreement and is the subject of ongoing negotiations. The Board will require an update in MH's next Application effecting the Diesel Zone, as to how it plans to recover these costs.

Furthermore, the Board has been made aware that notwithstanding recent capital expenditures for generation equipment, MH will review and research supply options for the Diesel Zone. Such a review may be of assistance to the Board and other parties going forward.

However, to provide maximum assistance to the Board, such a report should seek direct involvement from the four communities in the Diesel Zone, at the earliest possible time. The Board appreciates MH's intention to seek such involvement and awaits the resulting report.

Either as part of MH's report on supply options, or separately, the Board is interested in understanding the direct and indirect social and economic impacts of the services (including 60 amp residential service) and rates charged to customers in the Diesel Zone. MH has indicated that other communities have relatively recently been connected to the grid transmission system and the resulting direct and indirect social and economic impact of such supply may assist in understanding future supply options for the four communities in the Diesel Zone.

The Board was encouraged to see the introduction of Demand Side Management (DSM) programs into the Diesel Zone – even though, in theory, all of Hydro's DSM programs are available to every MH customer. A further update will be expected in MH's next Application effecting Diesel Zone rates, including an indication of how the provisions of *The Winter Heating Cost Control Act* will be quantified and made available to electricity customers in the Diesel Zone.

The issues of Diesel Zone accounts receivable, delinquent accounts, bad and doubtful accounts, as well as collection practices (including the use the load limiters) needs to be considered further at MH's next public hearing affecting rates charged to customers in the Diesel Zone. The Board needs additional information to understand apparent widespread delinquency as well as of related accounting practices, particularly as to which of MH's customers are ultimately responsible for accounts written off.

The Board encourages MH to continue to involve the four "diesel communities" in any long-term planning concerning diesel generation. First Nations should participate through consultation in decisions potentially impacting on their communities.

IT IS THEREFORE ORDERED THAT:

1. Hydro's *ex parte* Application for revised rates in the capital Diesel Zone BE AND IS HEREBY APPROVED;
2. Effective January 1, 2007, the revised rates to be charged in the Diesel Zone, as set out on the attached Schedule "A", BE AND ARE HEREBY APPROVED;
3. Manitoba Hydro is to file an Application seeking to finalize all outstanding and interim Orders related to the Diesel Zone, forthwith following finalization of the tentative Settlement Agreement;
4. Manitoba Hydro is to include in its next Application affecting Diesel Zone rates, details of deficits, plans for recovering such amounts, and the recommendation on including carrying costs on deficits and surpluses;
5. Manitoba Hydro to report, in the next Application affecting Diesel Zone rates, details of the plan to recover the approximate \$4,484,000. of capital expenditures incurred, or to be incurred, from April 1, 2004 to March 31, 2007;
6. Manitoba Hydro to report to the Board, by the next General Rate Application, following completion of Manitoba Hydro's consultation with the four diesel zoned communities, and its research into alternate supply options for the communities in the Diesel Zone. Either included in such a report, or separately, Manitoba Hydro is to report on the direct and indirect social and economic impacts of the services and rates charged to customers in the Diesel Zone.

**DIESEL ZONE: PROPOSED RATES
EFFECTIVE NOVEMBER 1, 2006**

Residential – Tariff No. 2006-03:

Basic Charge	\$6.25
PLUS	
First 175 kW.h	@ 5.780¢ per kW.h
Next 1,825 kW.h	@ 5.654¢ per kW.h
Balance of kW.h	@ 41.270¢ per kW.h

The Residential rate applies to all residential services in the Diesel Communities, provided the service capacity does not exceed 60A, 120/240 V, single phase.

General Service – Tariff No. 2006-40:

Basic Charge	\$15.86
PLUS	
First 2,000 kW.h	@ 6.004¢ per kW.h
Balance of kW.h	@ 41.270¢ per kW.h

The General Service rate applies to all commercial accounts excluding those classed as Government.

Government and First Nation Education – Tariff No. 2006-41:

Basic Charge	\$15.86
PLUS	
All kW.h	@ 138.363¢ per kW.h

A surcharge of 97.093¢ per kW.h is included in the Government and First Nation Education tariff which applies to all Federal and Provincial Departments, Agencies, Crown Corporation accounts and First Nation Education accounts.

The First Nation Education rate is applicable to all Diesel First Nation facilities providing instructional services for members of the Diesel First Nations, including schools, teacherages and student residences, and which receive funding in support of the costs of providing instructional services in accord with the March 31, 1998 INAC *Capital Facilities and Maintenance and Operation and Maintenance Manual*, in respect of funding in support of instructional services.