

MANITOBA ) Order No. 165/07  
 )  
THE PUBLIC UTILITIES BOARD ACT )  
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MANITOBA HYDRO ACT )  
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THE CROWN CORPORATIONS PUBLIC )  
REVIEW AND ACCOUNTABILITY ACT ) December 27, 2007

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

MANITOBA HYDRO  
SURPLUS ENERGY PROGRAM RATES  
FOR THE WEEK OF DECEMBER 31, 2007 TO JANUARY 6, 2008

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## **Introduction**

By this Order, the Public Utilities Board (Board) approves Manitoba Hydro's (MH) application of December 24, 2007 for Ex Parte approval of revised interim Surplus Energy Program (SEP) prices -- for the week of December 31, 2007 to January 6, 2008.

By Order No. 90/00, the Board approved an application by MH for SEP and agreed to a process to involve weekly setting and publishing of SEP rates, through "Schedule SEP-1," the most recent attached. By Order 173/06, SEP was extended to the earlier of either October 31, 2007 or a Board decision to amend SEP. On October 26, 2007, Board Order 136/07 granted a further extension to April 30, 2009 unless amended or extended by a further Order of the Board.

## **Background**

SEP is the mechanism by which MH prices electricity generated in excess of its immediate requirements, for potential sale to large Manitoba customers. Average spot market prices are determined weekly using Board-approved methodology.

SEP provides large Manitoba commercial customers additional access to electricity on an interruptible basis, with pricing established similar to that offered by MH to "opportunity" export sales customers or, in the case where MH expects to import power, at a price reflective of MH's cost plus a surcharge. When MH has surplus energy and is not importing, SEP benefits large customers able to make use of additional electricity.

Under SEP, customers accept or decline electricity delivery at the prices offered. Customers are responsible for meeting any service interruption that may occur through their own back-up generation.

MH's SEP net revenues result from sales pursuant to the program net of related imputed costs, these costs represented by after-the-fact wholesale spot energy market pricing.

Essentially, SEP provides MH revenue from domestic industry that it would otherwise have realized by the selling of all of its excess generation to the Midwest Independent System Operators (MISO) market, basically American utilities. SEP is expected to "break-even" on an annual basis.

Appendix "A" depicts the variability of average spot market prices over the last four years, including the current year. Appendices "B", "C" and "D" report SEP prices provided the medium general service customer class as established for Peak, Shoulder and Off-Peak hours over the same time period.

Peak time represents high demand hours, which are Monday to Friday with hours that vary between summer and winter. Off-peak is the night-time period between 11 p.m. and 7 a.m.; shoulder time is the remaining daily hours.

With the concurrent existence of a transmission-constrained MH Ontario market and the April 2005 implementation of new market rules for MISO, MH can sell 100% of its surplus energy to the MISO market.

MISO provides MISO-footprint utilities, including MH, the ability to sell surplus energy to other utilities within MISO at established pricing, avoiding the otherwise necessity of reaching terms on an individual basis with each specific counter-party.

Recent experience:

For the November 2005 to February 2006 period, SEP On-peak and Shoulder prices were high, as export demand was strong and MH water resources were high.

From mid-April to mid-July 2006, SEP Off-Peak prices were extremely low due to falling natural gas prices that enabled increased use of natural gas at lower costs by American utilities, which reduced MISO demand for imported power. At the time, MH's water resource levels were good, providing excess generation; though prices were low to MISO customers and sales remained limited by transmission capacity.

By mid-September 2006, prices across all three time periods returned to the "normal" range. However, MH's water level situation had deteriorated and MH was required to begin importing electricity to meet domestic and committed export demand at various times.

Beginning October 31, 2006, SEP pricing increased dramatically. Transmission constraints in the United States (U.S.), lower than normal temperatures across the MISO region - increasing electricity demand, and planned generating equipment outages typical of the fall season, combined to drive up market

import/export prices. Unfortunately, reduced water levels in Manitoba lead to MH importing electricity and MH did not benefit from the situation.

When MH has to import power to meet SEP domestic demand, with import prices generally being higher than the cost of generation in Manitoba, MH adds a 10% surcharge to SEP prices in accordance with the Board's approved procedure for such circumstances.

Since January 2007, shoulder and off-peak rates have increased significantly, corresponding to growth in average spot market pricing. SEP off-peak rates approached or exceeded shoulder rates, largely because of MH's requirement to meet SEP domestic demand in the off-peak. Concurrently, MH imported power during off-peak hours on virtually every day until May 2007.

As a result, MH increased stored water from the shoulder period, which otherwise would have been used to produce electricity for export, this to allow for increased electricity generation in the off-peak period to avoid importing.

These actions, combined with the surcharge, had the effect of increasing off-peak rates for SEP customers to the equivalent shoulder rate.

In May, 2007, MH no longer required constant imports, and was able to return to normal storage and generation practices. With relief from import prices, a decline in SEP off-peak rates occurred.

Rates for the week ending October 21, 2007 were affected by MH's planned shut down of a transmission line to the United States

for maintenance purposes, resulting in the inability to export to the U.S. during that week.

Program History:

Since its inception in December 2000, SEP has sold an average of over 23,000 GW hours per year of electricity to MH's medium and large customers, at "wholesale" market prices. Over the five-year period November 1, 2001 to October 31, 2006, MH reported SEP Net Income of \$302,254 (approximately, \$60,000/year).

**Board Findings**

MH's latest SEP application is in accordance with the agreed-upon practice, and SEP continues to have value for a small component of MH's customer base. Continuing to dealing with SEP applications on an interim ex parte basis is consistent with past practice. Rates set through this process are interim, to be finalized at General Rate Application hearings.

Accordingly, the Board affirms revised Schedule SEP-1 and will approve the amended schedule.

**IT IS THEREFORE ORDERED THAT:**

1. Manitoba Hydro's application for approval of revised Schedule SEP-1, as attached, to be in effect from December 31, 2007 to January 6, 2008, BE AND IS HEREBY APPROVED on an Interim Ex Parte basis.
2. This Interim Ex Parte Order shall be in full force and effect until confirmed or varied by a further Order of the Board following a public hearing.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, CA"

Chairman

"KRISTINE SCHWANKE"

Acting Secretary

Certified a true copy of Order  
No. 165/07 issued by The Public  
Utilities Board

\_\_\_\_\_  
Acting Secretary

The estimated average spot market rate is \$38.44 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 31, 2007 to January 6, 2008**

**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       | 6.040      | 4.284          | 2.961          | 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       | 5.959      | 4.227          | 2.922          | 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       | 5.816      | 4.126          | 2.851          | cents/kWh |

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

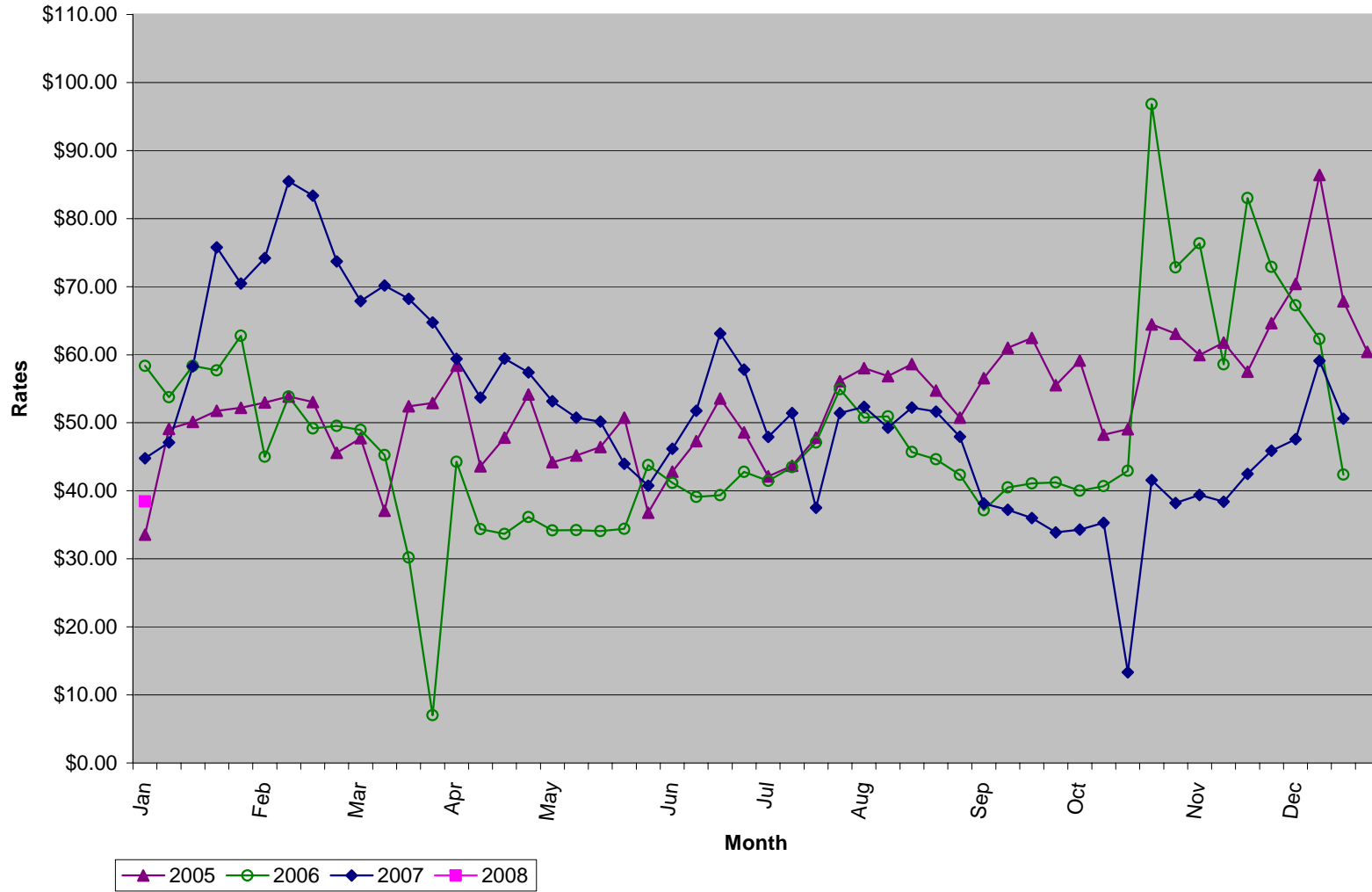
|                     | Peak Hours | Shoulder Hours | Off Peak Hours |           |
|---------------------|------------|----------------|----------------|-----------|
| Distribution Charge | 0.060      | 0.060          | 0.060          | cents/kWh |
| Energy Charge       | 5.730      | 4.065          | 2.809          | cents/kWh |

|                                | <b>May 1 to October 31</b>               | <b>November 1 to April 30</b>                         |
|--------------------------------|--|---|
| <b>Peak Hours</b>              | Monday - Friday *<br>12:01 - 20:00 Hours | Monday - Friday *<br>7:01-11:00 and 16:01-20:00 Hours |
| <b>Shoulder Hours</b>          | Monday - Sunday **<br>7:01 - 23:00 Hours | Monday - Sunday **<br>7:01 - 23:00                    |
| <b>Off Peak Hours</b>          | Monday - Sunday<br>23:01 - 7:00 Hours    | Monday - Sunday<br>23:01 - 7:00 Hours                 |
| * excluding statutory holidays |  |   |
| ** excluding peak hours        |  |   |

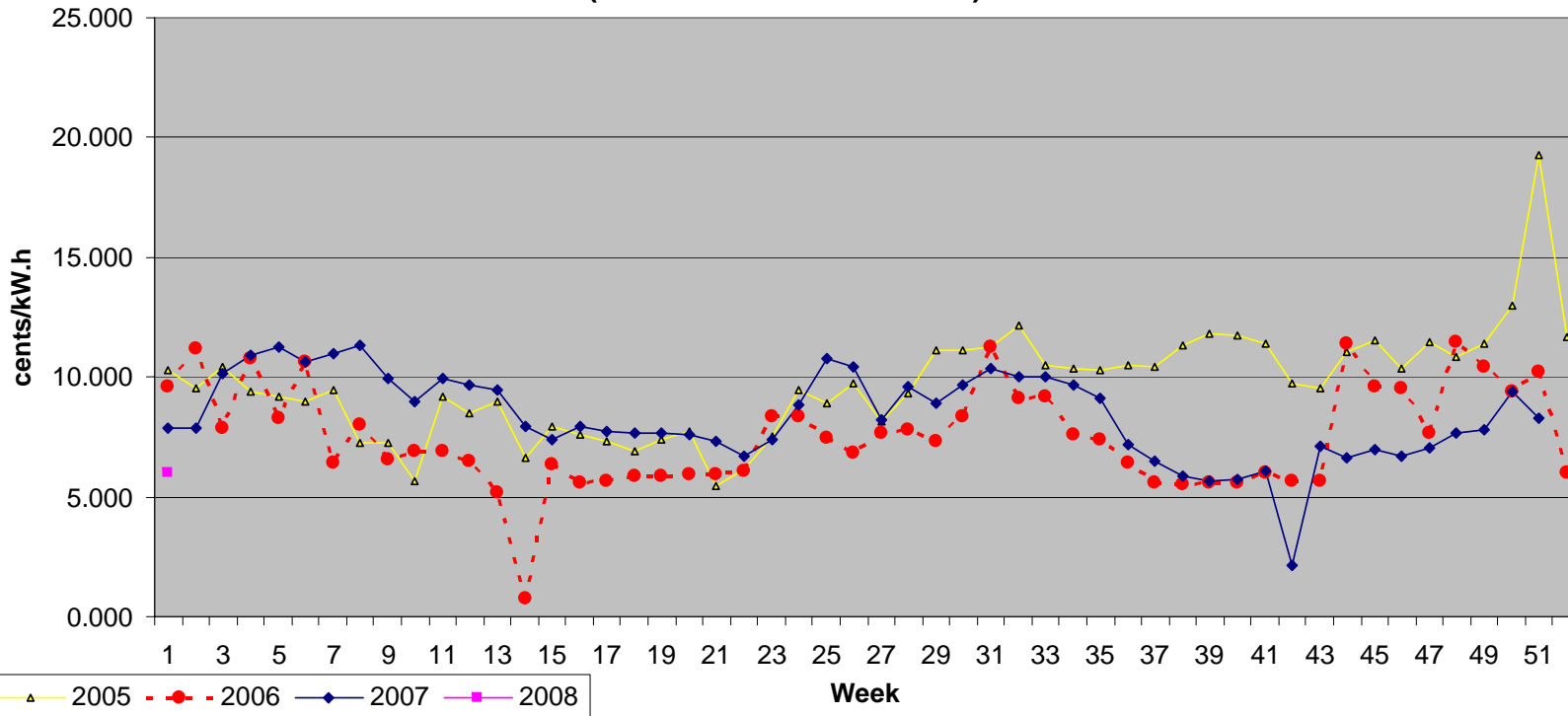
The Basic Monthly Charge is \$50.00 per month for SEP customers with total loads less than or equal to 1000 kVA. The Basic Monthly Charge is \$100.00 per month for SEP customers with total loads greater than 1000 kVA.



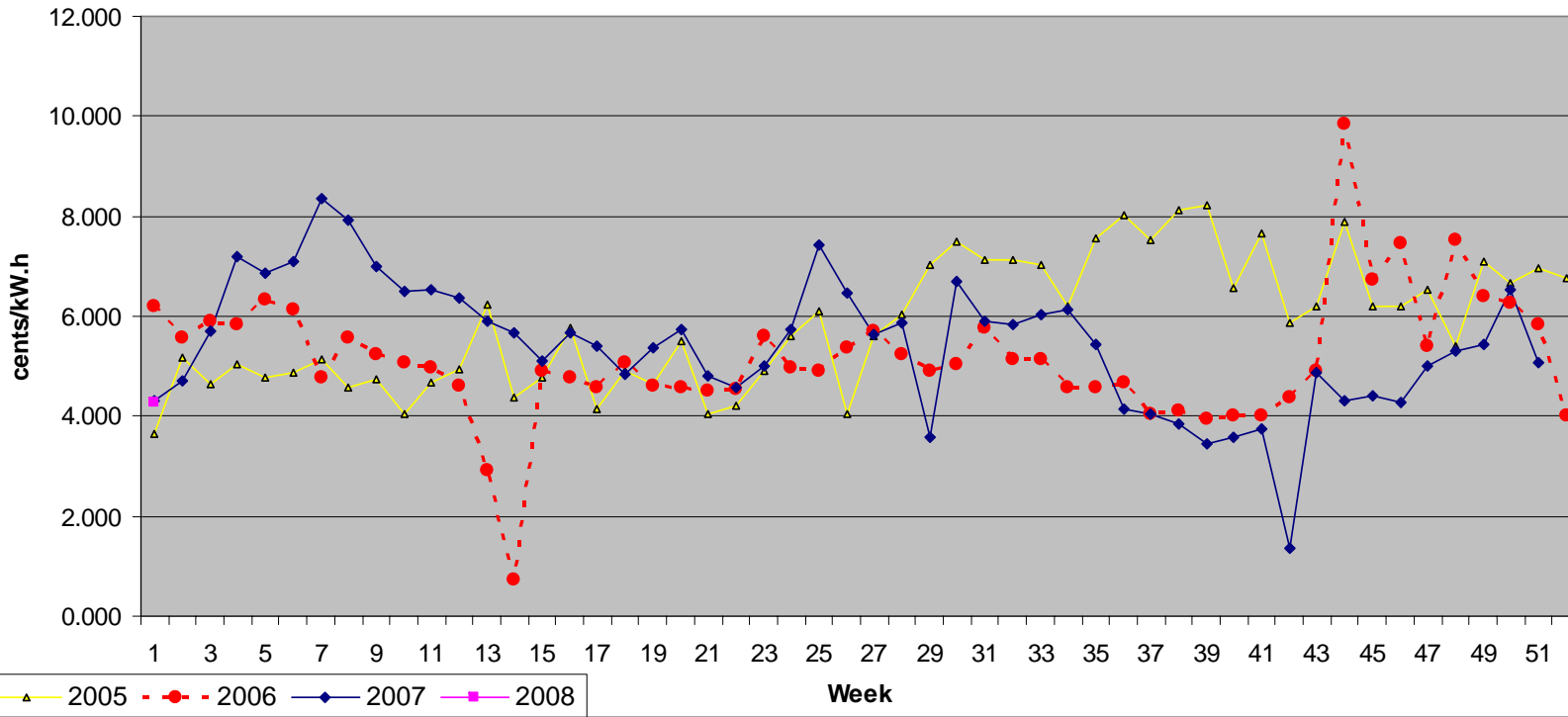
**APPENDIX "A"**  
**Estimated Average Spot Market Rate**



**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)**

