

MANITOBA) Order No. 139/08
)
THE PUBLIC UTILITIES BOARD ACT)
)
MANITOBA HYDRO ACT)
)
THE CROWN CORPORATIONS PUBLIC)
REVIEW AND ACCOUNTABILITY ACT) October 1, 2008

BEFORE: Graham Lane, CA, Chairman
Monica Girouard, CGA, Member

MANITOBA HYDRO
SURPLUS ENERGY PROGRAM RATES
FOR THE WEEK OF OCTOBER 6 TO OCTOBER 12, 2008

Introduction

By this Order, the Public Utilities Board (Board) approves Manitoba Hydro's (MH) September 30, 2008 application for *ex parte* approval of revised interim Surplus Energy Program (SEP) prices -- for the week of October 6 to October 12, 2008.

By Order No. 90/00, the Board approved MH's application for SEP, providing for weekly setting and publishing of SEP rates through "Schedule SEP-1," the most recent attached. Since then, through Orders 173/06 and 136/07 SEP was extended to April 30, 2009, unless amended or extended by a further Order.

Background

SEP is the mechanism by which MH prices electricity generated in excess of its immediate requirements for potential sale to large Manitoba customers. Pursuant to SEP, 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. Essentially, SEP provides MH revenue from domestic industry that it would otherwise realize by the selling all of its excess generation to the Midwest Independent System Operators (MISO)

market, a market basically composed of American utilities. SEP is expected to "break-even" on an annual basis.

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

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

Appendix "A" depicts the variability of average spot market prices over the last four years. 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 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 having to reach terms on an individual basis with specific counter-parties.

Recent experience:

On October 31, 2006, SEP prices increased dramatically as a result of 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. The factors combined to drive up sharply market import and export prices. Unfortunately, concurrent lower water levels in Manitoba lead to MH importing electricity, and MH did not benefit economically 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.

Beginning January 2007, shoulder and off-peak rates increased significantly, corresponding to growth in average spot market pricing. SEP off-peak rates approached or exceeded shoulder rates, this largely the result 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 so as 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.

From May 2007 through to December 2007 MH did not require 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 an inability to export to the U.S. during that week.

MH was a net importer of off-peak energy from December 18, 2007 to January 21, 2008, providing reservoir support and storing water during the off-peak for use in the subsequent peak period. Since then, MH has returned to its more common net export position.

SEP prices are also affected by currency exchange rates. Prices are based on week-ahead U.S. dollar (\$USD) denominated MISO-market prices. These prices are then converted to Canadian dollars (\$CDN) before setting the SEP price.

With the strengthening of the \$CDN, particularly from the spring of 2006, with another marked jump in the late spring of 2007, and with virtual parity having been reached by September 2007, the SEP price is lower today than it would have been with less favourable exchange rates. SEP customers today are therefore benefiting from a stronger \$CDN.

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 the small component of MH's customer base able to profitably access it. Continuing to deal 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 October 6 to October 12, 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 LANE, CA"
Chairman

"Gerry Gaudreau"
Secretary

Certified a true copy of Order
No. 139/08 issued by The Public
Utilities Board

Secretary

The estimated average spot market rate is \$36.06 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**

October 6, 2008 to October 12, 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 | 5.854 | 4.146 | 1.890 | 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 | 5.776 | 4.091 | 1.864 | 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 | 5.637 | 3.992 | 1.820 | cents/kWh |

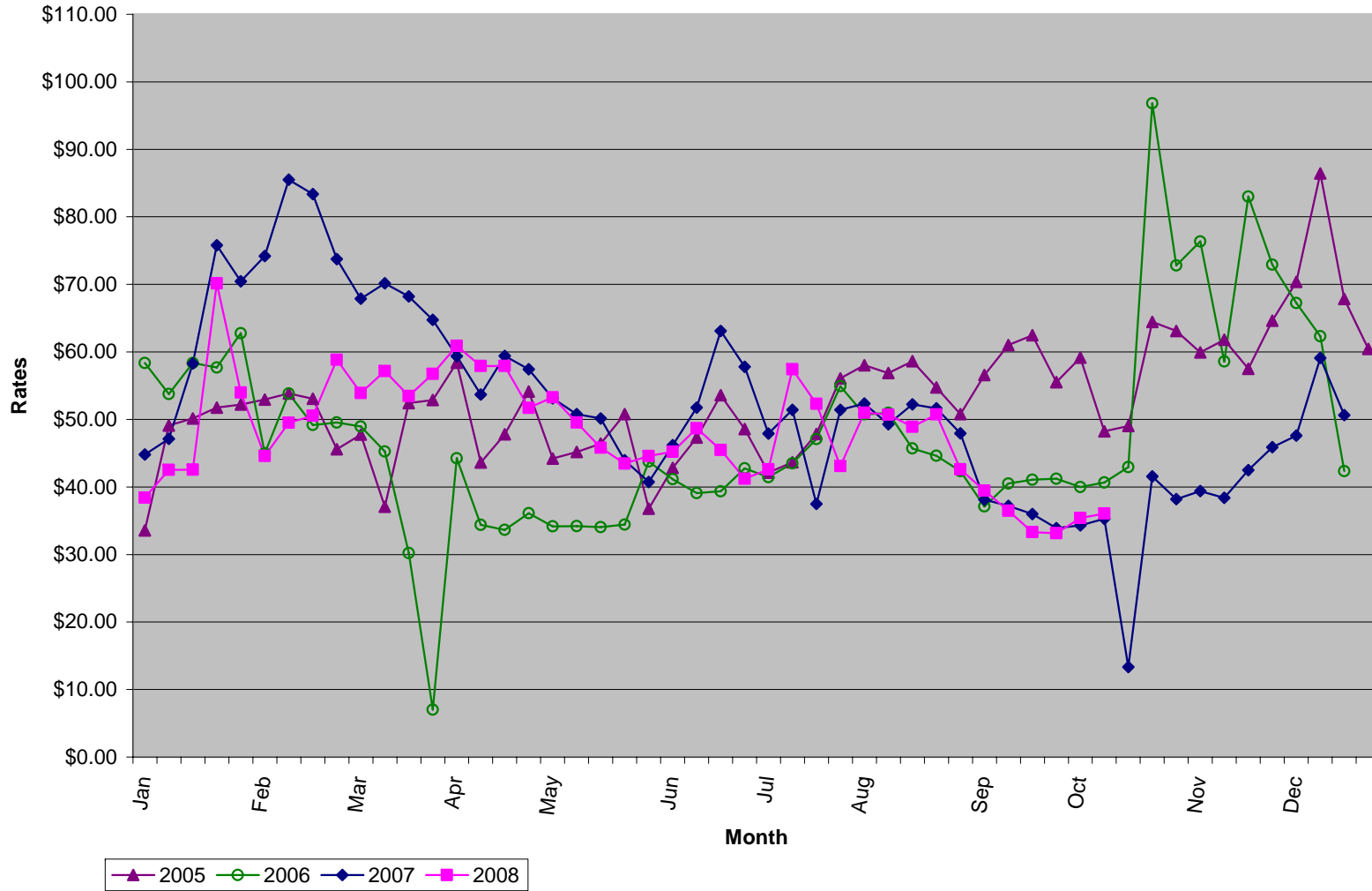
Tariff No. 50-22 General Service Large exceeding 100 kV

| | Peak Hours | Shoulder Hours | Off Peak Hours | |
|---------------------|------------|----------------|----------------|-----------|
| Distribution Charge | 0.060 | 0.060 | 0.060 | cents/kWh |
| Energy Charge | 5.554 | 3.933 | 1.793 | cents/kWh |

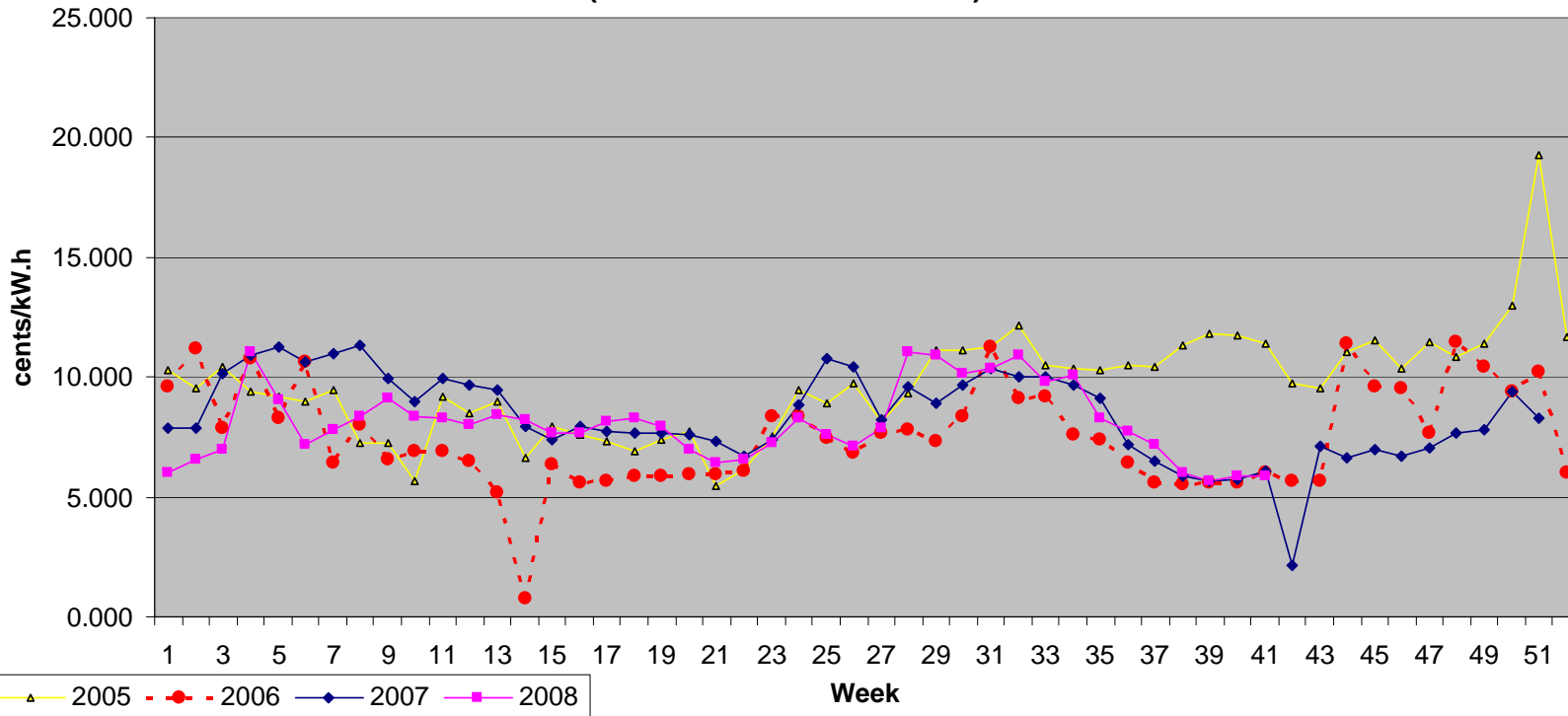
| | May 1 to October 31 | November 1 to April 30 |
|--------------------------------|--|---|
| Peak Hours | Monday - Friday * 12:01 - 20:00 Hours | Monday - Friday * 7:01-11:00 and 16:01-20:00 Hours |
| Shoulder Hours | Monday - Sunday ** 7:01 - 23:00 Hours | Monday - Sunday ** 7:01 - 23:00 |
| Off Peak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

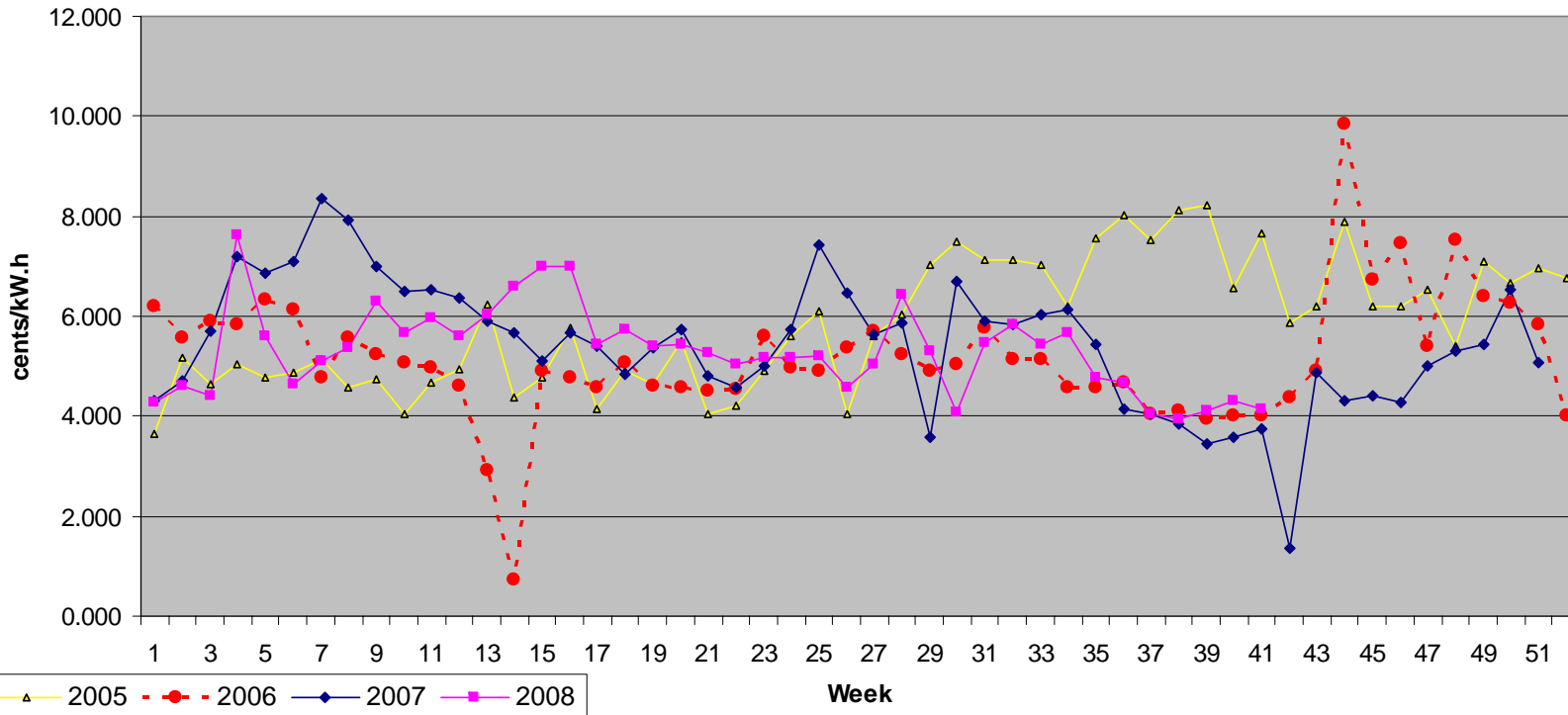
APPENDIX "A"
Estimated Average Spot Market Rate



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)

