M A N I T O B A	Order No. 150/08
THE PUBLIC UTILITIES BOARD ACT	
THE PUBLIC UTILITIES BOARD RULES OF PRACTICE AND PROCEDURE	November 7, 2008

Before: Graham Lane, CA, Chairman
Robert Mayer, Q.C., Vice-Chair
Susan Proven, P.H.Ec., Member

ORDER IN RESPONSE TO MANITOBA HYDRO'S AND COALITION'S APPLICATION FOR THE BOARD TO REVIEW AND VARY ORDERS 90/08 AND 116/08

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1.0 EXECUTIVE SUMMARY

In this Order the Public Utilities Board (Board) reviews the Directives from Orders 90/08 and 116/08 that Manitoba Hydro and the Coalition have requested the Board to vary or delete.

Following Board consideration of the requests, the Board has re-stated all of the Directives from Order 116/08, with revisions.

2.0 BACKGROUND

Following the 2008/09 and 2009/10 General Rate Application (GRA) of Manitoba Hydro (MH or the Corporation), the Board issued Order 90/08 on June 30, 2008. Order 90/08 established a 5% rate increase for all customer classes, except for Area and Roadway Lighting customers, for which rates did not change.

The Board also indicated that a further and conditional rate increase of 4% would provisionally take effect April 1, 2009, subject to the Board's further review.

Order 90/08 was the first of two Orders that the Board indicated it would issue to address all of the issues that arose in MH's GRA.

The second Order, issued in respect of MH's GRA was Order 116/08, issued July 29, 2008. While Order 116/08 did not alter any of the rate decisions in Order 90/08, it did expand on the Board's rate increase rationale and also addressed many of the issues that arose in the GRA proceedings. In total, Order 116/08 contained seven Recommendations and thirty Directives. Taken together, Orders 90/08 and 116/08 represent one of the Board's most extensive reviews of MH and its plans.

2.1 MH's Application to Review and Vary Order 116/08

On September 18, 2008, MH filed an Application for a Review and Variance of Order 116/08, requesting the Board vary or set aside nineteen separate Directives provided in that Order.

In considering MH's request to vary or cancel nineteen of the thirty Directives in Order 116/08, the Board has also considered the submissions of RCM/TREE, MIPUG, and Coalition, all parties which were Interveners at the GRA. The Board has also considered MH's response to the interveners' submissions.

2.2 Coalition's Application to Review and Vary Orders 90/08 and 116/08

On October 15, 2008, Coalition (the amalgamated intervention of Consumers' Association of Canada (Manitoba) Inc., the Manitoba Society of Seniors, and Winnipeg Harvest) applied to the Board seeking an Order revising and varying Order 90/08 and rolling back the 5% rate increase to 2.9%, at least until such time as MH has presented, and the Board has approved, a low-income bill assistance program.

While the Coalition acknowledges it's Review and Vary Application falls outside the usual thirty day time period following the issuance of a Board order, the Coalition submitted that it should not be time barred because MH did not advise the Board of MH's inability/refusal to comply with the low-income bill assistance Directive (18 (d)) until September 18, 2008, and the actual failure to comply with the Directive only occurred after September 30, 2008.

The Coalition correctly interprets the Board's concern and urgency for MH to develop and bring before the Board for approval a low-income bill assistance program, with such a program to occur in conjunction with, and complimentary to, an expanded low-income Demand Side Management (DSM) program.

However, the Coalition incorrectly assumes that the Board would have materially altered its rate decisions had the Board been aware that MH was going to fail to develop a low-income bill assistance plan prior to the 2008/2009 winter heating season. Coalition's assumptions are incorrect for several reasons. At the GRA there was no evidence that MH would be able to develop a low-income bill assistance program for the current heating season. While the Board's selected dates in the Directive demonstrated the Board's urgency and would result in some form of formal bill assistance to be in place for the current heating season, there was no advance commitment by MH that such a desired program could be designed, approved, and implemented in time for the upcoming winter. Even if MH was able to advance a proposal for a low-income bill assistance program by September 30, 2008, there was no certainty that such a program would be approved as proposed, such that a defined program would be in place before the commencement of this year's heating season.

Coalition also incorrectly assumes that revenues from an additional 2.1% rate increase (in addition to the 2.9% rate increase recommended by Coalition) would have been dedicated to a low-income bill assistance program. The costs of such a program have yet to be developed and submitted for Board approval. It would be premature for the Board to quantify and approve the costs of such a program without being aware of the expected benefits of the entire low-income bill assistance plan.

Additionally, the Board noted, in Order 90/08:

> "Notwithstanding the Board's appreciation of the negative implications of rate increases for MH's customers, and the Board's particular and ongoing concern for low income households, particularly, in the case those relying on electricity for space heating, the Board will provide MH with a greater increase than the corporation sought. This, because of a combination of concerns that are briefly cited below, matters the Board will elaborate on in more detail in a subsequent Order:" (emphasis added) (See Order 90/08, page 3 of 35 to page 8 of 35) (See also Order 116/08)

Therefore, and while the Board shares the Coalition's stated concerns for low-income Manitoba consumers, the Board will deny the Coalition's application to Review and Vary Order 90/08 and 116/08.

3.0 MH'S APPLICATION TO REVIEW AND VARY ORDER 116/08

3.1 General

Before adjudicating the individual requests by MH, a preliminary matter to be addressed pertains to the Board's Directives in Order 116/08 that are not the subject of MH's requests to Review and Vary specific Directives in Order 116/08. For the unchallenged Directives, the Board understands MH will respond fully and completely, and in a timely manner, as originally directed in Order 116/08.

3.2 Directive 2: Export Program Information

With respect to MH's export program, MH to file a report with the Board by January 15, 2009 on the following:

a) overview of strategy, options, historical costs and revenues;

b) monthly historical export prices for the last five years, disaggregated for both peak and off-peak periods;

c) existing and pending export contract commitments, with annual forecast revenues both aggregated and also dis-aggregated (in confidence if necessary);

d) forecast export revenues until 2028, identifying opportunity sales distinct from firm contract sales and broken down by peak/off peak;

e) detailed assumptions used in export market price forecasts (filed in confidence if necessary). MH to resubmit its export pricing forecasts to reflect recent realties of market prices and exchange rates;

f) a testing of MH's assumptions through detailed sensitivity analyses for upper/lower quartile water flows, foreign exchange, domestic load growth and natural gas prices; and

g) **given the crucial nature of the Corporation's export contracts and assumptions, with potential impacts on domestic rates, MH file for Board review all proposed export contracts.**

MH's Request for Review and Variance

In response to Directives a) to f), Manitoba Hydro will work with the PUB to determine the specific information that the PUB requires to fulfill its rate approval mandate. The objective will be to provide the PUB with the required information while protecting Manitoba Hydro's commercially sensitive information. If necessary, information will be provided to the PUB in confidence.

With respect to Directive g), Manitoba Hydro does not agree that it is necessary for the PUB to review proposed export contracts. MH negotiates the best terms possible for the sale if it's surplus energy and would have difficulty with counterparts if all negotiated export contracts were subject to the approval of the PUB. However, to the extent that the PUB requires information to fulfill its rate approval mandate, Manitoba Hydro will endeavour to provide this.

Manitoba Hydro requests that the PUB defer the timeline for the submissions of reports on the export program until PUB information requirements are more clearly defined.

Board Findings

In its October 8, 2008 reply, MH acknowledges its forecast of export market prices will have an impact on its forecast of export revenue, which in turn, will impact MH's future revenue requirements to be met through domestic consumers' rates.

MH wants to ensure the Board gets the required information, while also protecting the Corporation's position in the competitive marketplace. In an effort to accomplish these goals, the Board will task its staff and/or Advisors to work with MH in an attempt to develop a process that will enhance the Board's understanding of MH's export program and potential impacts on domestic rates.

While such co-operative work should begin as soon as possible, the deadline of January 15, 2009 for MH to file a report will be suspended. However, MH is to file a report as soon the process yields results that are to be shared with the Board. If for any reason the co-operative process is unable to accomplish the Board's goals, a report to that effect is to be provided to the Board, which may then issue a subsequent Order.

That said, In MH's October 8, 2008 reply to Intervener submissions, MH states the Board's mandate does not extend to the review and approval of the export contracts. MH is silent (in its Reply on this Directive) as to the Board's jurisdiction to approve MH's 'rates for services' for the electrical horsepower it generates. While it is evident to the Board that the Board's jurisdiction extends to the export rates for power sold by MH, the Board has forborne exercising such jurisdiction on the understanding that the export market is a very competitive market which disciplines the price.

So, while the Board is not seeking to approve export contracts, the Board does have jurisdiction to approve the rates should it subsequently determine it would be in the public interest to do so.

The Board is not seeking to approve export prices by this Directive. Rather, the Board seeks greater clarity of the relationship between the rates negotiated in export contracts and the potential impact of export contracts on domestic rates. MH's export contracts were a significant factor that resulted in the Corporation's 2004 net income loss of $428 million. Domestic rate increases were needed to recover from the record financial setback.

3.3 Directive 4: Short Term/Long-Term Debt Mix

MH to provide the Board an independent assessment of the Corporation's relative weighting of fixed vs. floating debt, and file a report with the Board on or before June 30, 2009.

MH's Request for Review and Variance

Manitoba Hydro is confident that its relative proportion of fixed versus floating rate debt (in the typical range of 80% fixed / 20% floating) is appropriate to our circumstances and that an independent assessment is not required. There is sufficient flexibility in Manitoba Hydro's policy to take advantage of market opportunities as they arise (i.e., floating rate debt no more than 30% of total debt outstanding, with a target range between 15% and 25%).

Manitoba Hydro's current weighting of fixed vs. floating rate debt is 80% fixed and 20% floating. This weighting is considered to be consistent with the Corporation's risk profile.

Manitoba Hydro requests that the PUB set aside the directive to conduct an independent assessment of the Corporation's relative weighting of fixed vs. floating rate debt.

Board Findings

At the recent GRA, concerns were raised by the Coalition that MH was not making use of the optimal proportion of short-term debt, which, if achieved, would result in lower finance costs. The policy was to have up to a maximum of 30% short-term debt, however it was shown historically that MH had approximately 20% in short-term debt.

The Coalition cited studies indicating that employing a higher proportion of short-term floating debt than the current practice may lower interest costs and reduce finance cost volatility. The Coalition also indicated that based on the current debt level of $7 billion there was potential to move $700 million more into short term debt, and that with a 5 basis point differential a savings of $3.5 million annually would arise.

Such cost savings, if they did materialize, would more than offset the one-time cost of undertaking the study and assessing the appropriate mix between short and long-term debt. The policy, being over 20 years old, likely needs to be refreshed to reflect the current and recent realities of the financial market, as well as MH's increased debt levels, both actual and forecast.

Given the current expansion of the capital program and projected increases in debt, the risk profile of MH is likely changing. What was not clearly demonstrated at the recent GRA was how the current short-term/long-term debt mix was optimal to the changing risk profile of MH.

The Board continues to find merit with the Directive for MH to obtain an independent assessment and report by June 30, 2009 of the Corporation's relative weighting of fixed versus floating debt. Recent economic and investment market turbulence provides new support for the directive. Therefore, MH's request to vary this Directive is denied.

3.4 Directive 5: IFRS Study

With respect to IFRS, the Board requires MH to file on or by January 15, 2009

a) A report explaining and quantifying the proposed transition to IFRS.

b) A copy of MH's consultant's report indicating the projected impact of the adoption of IFRS on the Utility, specifically with respect to MH's current deferral and capitalization approaches, and as to the likely status of goodwill now recorded in its accounts.

c) An articulation of the new proposed MH accounting policies detailing how they comply with IFRS.

d) An explanation of any changes to the internal operations of MH which may be planned or contemplated to offset any increased annual expenses expected as a result of the adoption of IFRS, together with MH's and its consultant's views of the Board's regulatory options, including a review of the pros and cons of special purpose financial reporting for utilities for rate setting purposes.

e) An updated IFF and CEF (covering the years 2008 to 2028) reflecting the expected impact of the new standards and assumptions of related operational changes as may be planned or contemplated by MH.

MH's Request for Review and Variance

…. Manitoba Hydro has retained a consultant, KPMG, to assist the Corporation with its transition to IFRS.

Manitoba Hydro has discussed this directive with KPMG, and has concluded that it will not be possible to provide the requested information by January 15, 2009. In the opinion of KPMG, January 15, 2010 would be a more reasonable date to provide this information. However, as the IFRS Project proceeds, regular updates will be provided.

Manitoba Hydro requests that the PUB amend the filing date referred to in this directive to January 15, 2010.

Board Findings

The change in accounting standards will require extensive detailed analysis to be undertaken. The transition to IFRS requires specialized expertise, which is in short supply as all companies attempt to address IFRS transition issues.

KPMG has indicated that the Board's current deadline of January 15, 2009 is not attainable and has proposed the report be delayed by a year to January 15, 2010. This likely reflects the resource constraint.

MH will be required to adopt IFRS for fiscal 2011/12 and may have to begin gathering comparative information for 2010/11. A report provided by January 15, 2010 will allow MH to meet its transition plan. How MH elects to adopt IFRS will likely have rate implications that will need to be addressed for the 2011/12 year. A January 2010 deadline for the report will allow the Board to assess those future rate impacts at that time in advance of any booked transition adjustment and accounting policy adoption.

In Order 116 /08 the Board stated:

> “The Board remains concerned with the Corporation’s ongoing aggressive deferral and capitalization accounting practices, and recommends that MH consider early adoption of IFRS standards. The Board further recommends that the Board’s prior concerns as well as its current views as expressed in this Order be brought to the attention of both MH’s external auditors and, also, its independent consultant (to assist the Corporation with its IFRS transition strategy).”[Page 96]

The production of the report by January 15, 2010 should allow MH, if it so elects, the time to early adopt the IFRS standards for fiscal 2010/11. Such an early adoption may have a significant impact on the financial results for fiscal 2011.

MH would likely not be in a position to provide the updated forecasts incorporating IFRS until the completion of the KPMG report. Without such information the Board may not be in a full position to assess the need for the conditional increase.

The Board had set the January 15, 2009 deadline, so as to be able to assess on a preliminary basis the likely impact IFRS would have on the IFF and CEF, in part, to assess the need for the conditional rate increase granted for April 1, 2009.

The Board will grant additional time on this Directive given the many complex accounting issues and elections that will have to be addressed. However, the Board will require MH, together with its consultant, to file a High Level Scan, providing more detail on the future status of existing balances and accounting policies. Such an analysis will be expected to address, to some extent, the high level impacts that may result to MH's financial statements. This will provide the Board with additional information to assist the Board in assessing whether the conditional increase is justified. Such a High Level Scan would also be a natural step that the consultant would likely have to undertake in identifying issues and planning the IFRS transition plan.

With the above revision, the Board will grant the extension as requested. This will allow sufficient time to allow MH and its consultant to produce a report detailing the impact of IFRS on MH.

In addition to MH's and the consultant's High Level Scan being required to be filed by January 15, 2009, the Board will also require MH to file a "status report" as suggested by Coalition, in conjunction with any MH Application for confirmation of the April 1, 2009 conditional rate increase.

3.5 Directive 6: Benchmarking Key Performance Metrics

MH to undertake and file with the Board, by June 30, 2009, an independent benchmarking study of key performance metrics, using the most currently-available data and including:

a) Primary key drivers of OM&A in each operational division [Board preference is for a divisional breakdown to allow for a comparison with other utilities, even if the comparison needs to be limited to specific divisions /activities].

b) Comparable other Canadian Utility data for each of the drivers.

c) Key comparison indicators, including staffing levels.

d) A comparison with and discussion of industry best practices.

e) Potential improvement areas.

The Board expects to be apprised of the scope of the benchmarking study in advance of it being undertaken, and will anticipate being provided a study outline on or before January 15, 2009, to allow the Board the opportunity to provide direction and/or comment.

MH's Request for Review and Variance

...With the impending implementation of IFRS, it would be more appropriate to consider a benchmarking initiative post-IFRS implementation. In addition, the move to the new downtown head office will result in many changes to work processes that should be incorporated in any benchmarking review.

Manitoba Hydro requests that the PUB defer the date for the filing of an independent benchmarking study to post-IFRS implementation.

Board Findings

The Board has identified the importance of MH undertaking a benchmarking study. In Order 116/08 the Board stated:

> "The Board is convinced that both the Province and ratepayers will benefit from the developments of appropriate metrics to assess the reasonableness of the level of current and future OM&A expenses, in advance of and particularly because of the proposed major capital expansion program." [Page 101]

MH has acknowledged that with the implementation of IFRS there will likely be operational changes within MH to address the realities of the new accounting standards. Such operational changes post IFRS would form a baseline in the measurement and evaluation of key metrics.

In addition MH has indicated that the move to the new head office will also impact work processes that could form part of the benchmarking review. Such a move to the new head office should be completed later this year.

MH's request to vary (assuming that MH transitions to IFRS for fiscal 2011/12) would delay the benchmarking study for approximately two years, from the Board's current deadline of June 30, 2009 to some date in 2011.

The study was to benchmark against comparative utilities key processes. Such a comparison could still be undertaken, as other utilities have also likely not yet converted to IFRS. Such a study could be undertaken now, as IFRS impacts could likely be isolated.

A benchmarking study would have current benefit to the Board, in assessing performance and identifying areas for improvement and the appropriateness of MH's OM&A expenses. It would be beneficial to have benchmarking information for the Board's review at the next GRA. MH will likely file a rate application in advance of the adoption of IFRS. If it does, the benchmarking study would be used as a base for discussion of areas for improvement and operational changes likely to result from adopting IFRS. Any Benchmarking report pre-IFRS could be reconciled to a Benchmarking study post IFRS.

The Board has asked for the “scope” (or Terms of Reference) by January 15, 2009, and the actual Benchmarking Study was not required until June 30, 2009.

The Board disagrees with MH that little value will be derived from a pre IFRS Benchmarking study. However, recognizing the Corporation is about to embark on “the largest business and cultural changes in its history” by moving to a new head office building, the Board will vary the date for the filing of the Benchmarking “study outline” to June 30, 2009.

After reviewing the detailed study outline/terms of reference, the Board will then determine the date by which the comprehensive Benchmarking study is to be filed.

3.6 Directive 7: Asset Condition Assessment

MH to undertake and file with the Board an Asset Condition Assessment Report by June 30, 2009, that defines:

a) Major assets and categories of assets.

b) The estimated remaining economic life of each major asset and category of asset.

c) An indication of the implications for OM&A costs related to required and scheduled maintenance.

d) A listing of scheduled planned or anticipated major up-grading/ decommissioning of major assets and/or categories of assets.

e) Forecast expenditures for planned renovations and/or replacements with respect to now available energy supply and transmission.

f) Dam Safety Condition Assessment and Maintenance requirements.

In advance of the commencement of the Asset Condition Assessment Study, MH to file with the Board detailed Terms of Reference containing the scope for

undertaking such a study and a definition of the resources to be employed, on or before January 15, 2009.

MH'S Request for Review and Variance

As discussed at the evidentiary portion of the hearing, Manitoba Hydro already closely monitors the condition of its assets and has extensive programs and systems in place to ensure that maintenance is undertaken on a timely and cost-effective basis. One of those systems is nearing the end of its useful life and a major new system, "Enterprise Asset Management" is planned for implementation to address the ongoing asset condition assessment and maintenance management requirements.

Manitoba Hydro requests that the PUB set aside the requirement for an Asset Condition assessment to a date subsequent to the implementation of the new "Enterprise Asset Management" system.

Board Findings

MH indicated that its current asset management system is reaching the end of its useful life and that it will be implementing a new Enterprise Asset Management System sometime in the future. It is unclear both as to when the existing system is to be retired and as to when the new system will come online. Such a new system may be utilized in undertaking an asset condition assessment.

The benefit of delaying the asset condition assessment would be to allow MH to make use of the functionality of the new system in undertaking the asset condition assessment. This new system may have the potential of reducing the internal cost of undertaking the study.

The Board requires additional information as to the dates, timelines, and functionality of the planned Enterprise Asset Management System.

The Board will vary the existing Directive, by requiring MH to file proposed Terms of Reference for a future Asset Condition Assessment Report by June 30, 2009. The Terms of Reference filing will provide MH with the opportunity to flesh out its timelines and functionality of the proposed Enterprise Asset Management System in completing a detailed Asset Condition Assessment Report.

The Board will also vary the due date of any Asset Condition Assessment Report, to be set by the Board following its review of Terms of Reference.

3.7 Directive 8: New Head Office

MH to file a report with the Board by June 30, 2009 detailing the final all-inclusive capital cost of the corporate head office project (including such things as construction cost, furniture and equipment, telecommunications, equipment leases etc), and the contemplated or planned operating actions to recover incremental costs related to the new head office. (The Board reaffirms that no additional incremental costs are to accrue or be allocated to Centra as a result of the new MH head office.)

MH's Request for Review and Variance

…. *With respect to the PUB's position that no additional incremental costs are to accrue or be allocated to Centra as a result of the new MH Head Office, Manitoba Hydro is expecting that the elimination of leasehold rentals and productivity gains will offset most of the incremental costs associated with the new Head Office. However, in the event that some incremental costs are incurred, it should be recognized that Centra ratepayers have already benefited significantly as a result of the acquisition of Centra Gas by Manitoba Hydro.*

Manitoba Hydro requests that the PUB reconsider this Directive as it relates to Centra Gas.

Board Findings

At the GRA, MH projected that the capital costs of the Corporation's new head office building would be $278.1 million (as was forecasted at the Centra Gas 2007/08 and 2008/09 GRA, Order 99/07).

MH's analysis, as presented at the hearing, indicated a first year shortfall (incremental net cost compared to current operations) in the order of $22.8 million and an annual incremental increase in going-forward costs of $18.75 million. MH expects the elimination of leasehold rentals and payroll productivity gains to follow the move to the new head office will offset the incremental costs.

Given sparse detail supporting the projections of offsetting savings, the Board expressed concern that the savings to be realized will not offset the incremental costs of the new head office as put forward by MH.

In Order 116/08 the Board stated:

> "The Board reminds MH that the Corporation has already been directed by the Board, through an Order arising out of a Centra GRA proceeding, that no additional costs are to accrue or be allocated to Centra as a result of the new head office. The head office came about as a condition of MH's purchase of WH; it had nothing to do with Centra." [Page 104]

Compliance with this directive will require MH to track previous lease and operating costs and modify what is ultimately allocated to Centra through the cost allocation methodology. MH indicated that it was able to track this information.

MH's request for variance is not based on any new evidence. And, MH has not suggested that the all-inclusive capital costs of the new head office will exceed $278.1 million. The Board will not vary its Directive without factual underpinning.

MH indicates it will file a report with the Board by June 30, 2009 detailing final costs, as requested. Only after that report has been filed will the Board be in a position to know whether any reconsideration of the restriction in this Directive, as it relates to Centra Gas, should be re-visited. Therefore, MH's request to vary this Directive, is denied.

3.8 Directive 11: Capital Expenditures Rate Impact

MH to propose to the Board on or before January 15, 2009 the terms of reference for a regulatory review of MH's planned Capital Program and its impact on consumer rates.

MH's Request for Review and Variance

The filing of Manitoba Hydro's updated Capital Expenditure Forecast and updated Integrated Financial Forecast (as requested by the PUB in Directive 10) will clearly demonstrate the projected impact on consumer rates as a result of Manitoba Hydro's planned Capital Program. Therefore, MH does not believe that a separate regulatory review is necessary in order for the PUB to assess the impact of MH's planned Capital Program on consumer rates. Manitoba Hydro requests that the PUB set aside this directive.

Board Findings

The current CEF07 and IFF 07-1 do not incorporate the time frame that reflects the impact of major new generation projects. Much of the planned major new generation development currently falls beyond the existing CEF time frame. MH also indicated that there were capital expenditures that were not included in the current forecast recently reviewed, those including additional transmission and potentially a gas-fired turbine. MH also left the impression that there were major cost escalations that may be sustained for a period of time on Wuskwatim and other capital projects such as Bipole III. It would appear a certainty that any future CEF will include an increased level of spending which has not yet been tested.

The expanded timeframe for both the CEF and IFF, through 2028 will provide additional and required information on the capital spending forecast, as well as indications of the possible rate impacts related to such spending. The Board will vary its Directive, to await receipt and review of the expanded IFF, CEF, Power Resource Plan, and Load Forecast from Directive 10.

The Board has indicated this to be a major issue arising from the GRA. This directive will allow the Board to look into the future and test the assumptions that underpin the major capital programs of the utility, to determine whether such programs are justified on their own terms, or whether cross subsidization (to some extent) is needed.

There is a need for a full analysis and fulsome discussion on the impact of the planned future capital development on the Corporation and rates, including the risks and rewards related to the developments. A separate regulatory process would allow the Board an opportunity to assess the need for future rate increases, in advance of the developments proceeding. It would also provide a baseline to evaluate the capital projects at future GRA's. Interveners strongly recommended the approach taken by the Board in this Directive.

The expanded IFF is to be the forecast to 2028, or to such years in which MH's new and proposed capital projects are projected to provide positive cash flow - whichever is later.

Additionally, the Board will expect MH to file a wide range of sensitivity analyses of the IFF with the assumed variables listed.

The Board may have additional questions that will be posed, following receipt of the information from Directive 10.

In its October 8, 2008 reply, MH indicates:

> "…consideration is being given to requesting government to mandate an independent review process with respect to Major Capital Projects. The most probable timing for the review is early 2011."

When MH provides the information sought in Directive 10, it should also update the Board with respect to the above consideration.

After a review of the information to be provided in response to Directive 10, the Board will re-assess the deadline for Terms of Reference, and the timeline for any regulatory review of MH's planned Capital Program and its impact on consumer rates.

3.9 Directive 13: Risk Analysis

MH to file by September 30, 2008, for Board approval, a conceptual outline for an in-depth and independent study of all the operational and business risks facing the corporation set out in the previous Directive (12).

MH's Request for Review and Variance

Manitoba Hydro will file with the PUB its updated Corporate Risk Management Report by January 15, 2009. The Corporate Risk Management Report identifies and quantifies all the major operational and business risks facing the Corporation.

Manitoba Hydro's risk management practices were reviewed by an independent consultant (Deloitte & Touche) in 2004 and were deemed to be "best practice" at that time. Therefore, Manitoba Hydro does not consider it to be necessary to conduct an independent study of the operational and business risks facing the Corporation in the time frame requested by the PUB.

Manitoba Hydro requests that the PUB reconsider the need for this Directive.

Board Findings

In Order 116/08 the Board indicated that a risk analysis should be undertaken incorporating all of the major risks faced by MH. The Board directed MH to undertake:

> "a thorough and quantified Risk Analysis, including probabilities of all identified operational and business risks. This report should consider the implications of planned capital spending taking into account revenue growth, variable interest rates, drought, inflation experience and risk, and potential currency fluctuation" [Directive 12]

MH has indicated that it will be filing its Corporate Risk Management Report on January 15, 2009. That report may address the major risks of the Corporation however, the Corporate Risk Management Report has, in the past, not provided the information sought in Directive 12.

That said, in its October 8, 2008 reply MH candidly acknowledges that its prior filings of the Corporate Risk Management Report excluded the appendices to the Report. The appendices apparently detail and quantify MH's business and operational risks. MH now proposes to file the appendices, from the new Report, in confidence with the Board.

On the understanding that the new Corporate Risk Management Report (to be filed, pursuant to Direct 12, by January 15, 2009) will be complete and include the information listed by the Board, the Board will re-assess whether an independent study is still needed or would be redundant. Therefore the Board will vary Directive 13 by removing the deadline date.

3.10 Directive 14: Risk Mitigation

MH to provide the Board, by June 30, 2009, recommended risk mitigation measures and a review of possible suitable capital structures, given the capital expansion now planned or contemplated, with risks quantified.

MH's Request for Review and Variance

Manitoba Hydro's Corporate Risk Management Report identifies and quantifies all major operational and business risks and provides an explanation of all risk mitigation measures undertaken or planned by the Corporation. The Integrated Financial Forecast provides a projection of Manitoba Hydro's capital structure showing the impacts of capital expansion now planned or contemplated, with risks quantified. Therefore, Manitoba Hydro believes that the requested information is already being provided to the PUB through existing reports.

Manitoba Hydro requests that the PUB reconsider the need for this Directive.

Board Findings

It is unclear whether the Corporate Risk Management Report will sufficiently identify and quantify (and assign probability factors) to the risks raised by the Board. The Report should quantify the risks and the probabilities related to each. The Report should address how MH will mitigate the risks from rising construction costs related to its major generation development projects and ongoing capital expenditures. It should also address how MH will mitigate the risks from rising interest rates, given its planned debt-driven capital expansion and indications of the Corporation not meeting its forecasted export prices.

To date, the Board has not been provided with specific analyses of the risks related to pending long-term export contracts, pending major capital construction for generation and transmission facilities, and the 'sticker shock' impacts on the long-term profitability of such ventures.

However, MH now asserts, in its October 8, 2008 reply, that its Corporate Risk Management Report will identify and quantify all major operational and business risks and provide an explanation of all risk mitigation measures undertaken or planned by the Corporation. Additionally, the expanded IFFs to be filed will include a projection of MH's capital structure showing the impact of capital expansion now planned or contemplated, with risks quantified.

To allow the Board the opportunity to determine whether MH's new filings by January 15, 2009 address the Board's concerns, the Board will vary this Directive by removing the deadline date. Should the Board require additional information after its review of MH's January 15, 2009 filings, the Board will consider further revisions to this Directive.

3.11 Directive 15: Augmented Flow Program

MH to provide the Board by June 30, 2009, a summary of existing programs and potential future programs defining the arrangements for increased or modified (augmented) water flows within the external to Manitoba. The summary should include the specifics of each program and mitigation and compensation related thereto.

MH's Request for Review and Variance

… As discussed during the evidentiary portion of the hearing, the annual Augments Flow Program has been fully incorporated into the Corporation's IFF and there will be no impacts to the IFF (and therefore the Corporation's revenue requirement) should a final license issue. The water regime on the Churchill River Diversion route is embedded in all the agreements signed with affected communities including the Comprehensive Implementation Agreements signed by NFA communities. Those agreements include compensation and mitigation measures to deal with the affects of the CRD and AFP.

…. As there is already a well-established government process to deal with the augmented flow program, Manitoba Hydro requests the PUB withdraw this Directive.

Board Findings

MH has clarified there is no rate impact consequence as a result of the augmented flow program that it conducts. MH has also provided a substantive response to this Directive in its initial Review and Vary Application.

No additional information is required by the Board at this time; no variance of the Directive is required.

3.12 Directive 16: Wind Generation

MH to submit a report to the Board on January 15, 2009 on the 300 MW of additional wind energy project(s), with a discussion of the business case, general wind strategy, prospects and timelines for the project, as well as with respect to the prospect for a further 600 MW consistent with the government's identified longer-term target of 1,000 MW of wind energy. The Board will also require access to the agreements for the existing 100 MW St. Leon wind project, and an opportunity to review the pending agreements for the 300 MW project(s).

MH's Request for Review and Variance

The Manitoba Hydro-Electric Board has yet to make a decision on the 300 MW Wind RFP. Manitoba Hydro will submit a report when a decision has been made.

Manitoba Hydro will provide the PUB, in confidence if necessary, with specific details it may require with respect to the wind purchase contracts.

Manitoba Hydro requests that the PUB defer the date of the submission of a report on wind energy until such time as this matter has been addressed by The Manitoba Hydro-Electric Board.

Board Findings

MH has indicated that it will provide a Wind Development Report in compliance with the directive, once a decision has been made by the Corporation to proceed with the 300 MW wind development.

MH has given no end date or timeline for its decision on 300 MW of additional wind, or as to the Report MH agreed to file. It should now do so.

MH does agree to file specific detail of wind purchase contracts. MH should do so by January 15, 2009 with respect to the existing St. Leon Agreement. If this information and/or contracts are already in the public domain, there is no identified need for the filing of this information with the Board to be confidential.

The Board will vary this Directive to require the filing of the requested Report on the proposed future 300 MW wind development within thirty days after MH's Board has provided approval to proceed with the development.

3.13 Directive 18: Low-Income Programs

With respect to low-income programs, MH to prepare and report on the following:

a) MH to consult with stakeholders on its enhancements to its low-income programs to ensure it adequately addresses low-income needs, and to report to the Board by September 30, 2008 on the results of the consultation and subsequent development of and implementation of this program;

b) MH to provide an update on the status of the current natural gas furnace replacement program (including actual and forecast take-up rates), as well as reports of possible changes to the program relative to the suggestions put forward by Mr. Dunsky, on or before September 30, 2008

c) MH to meet with MKO and representatives from the diesel communities to discuss the issue of the access of those communities to MH's low-income programs, and to report to the Board on the outcome of these discussions on or before September 30, 2008;

d) MH to propose for Board approval (as soon as possible but no later than September 30, 2008) a low-income bill assistance program, where such a

program would occur in conjunction with and complimentary to an expanded low-income DSM program;

e) MH to file with the Board on or before June 30, 2009 a draft plan, with projected implications, to increase the Corporation's integrated (natural gas and electricity) energy-efficiency initiatives with respect to low-income households, so as to allow for reduced energy consumption for all such households within a decade;

f) MH to report back to the Board on the potential for a low-income and a general refrigerator replacement program, and provide the merits of such programs, on or before June 30, 2009;

g) MH to accrue interest on the AEF balance, to ensure additional funds are available to fund expanded low-income energy efficiency pro grams and to avoid the loss of "purchasing power" of the AEF due to continuing inflation.

MH's Request for Review and Variance

MH has indicated that it will comply with all aspect of Directive 18 except for:

d) Manitoba Hydro will assess possible low-income bill assistance programs and the Corporation will consider implementing such a program. However, providing a proposal to the PUB by September 30, 2008 will not be possible.

Manitoba Hydro requests that the PUB defer the date for the submission of a report on a low-income bill assistance program (Directive d).

Board Findings

The Board had hoped that its admittedly tight deadline for submission of the Report would result in some form of formal bill assistance to be in place for in the current heating season; however there was no advance commitment by MH that such a desired program could be designed, approved, and implemented in time for the upcoming winter. MH has indicated that it will not be possible to provide the report by September 30, 2008 and requested a delay in the submission of a report for assessing low-income bill assistance programs. Such a delay will have an impact on the launch date of a program.

Such delay by MH has also drawn the ire of RCM/TREE and also the Coalition, whose own application to Review and Vary Orders 90/08 and 116/08 was premised on MH's failure to comply with this Directive. (The Coalition's Application to Review and Vary was dealt with earlier in this Order.) Some of the Coalition's constituents may be the intended beneficiaries of a low-income bill assistance program.

While no end date by which the directed report will be ready has been advanced by MH, MH has, in its October 8, 2008 reply, undertaken to provide an update to the Board before November 30, 2008.

MH has shown progress on low-income initiatives. The Corporation has created, and perhaps filled, the position of Manager of Affordable Energy. MH is analyzing bill assistance programs within other North American jurisdictions to assist in its formulation of a bill assistance program, plan and timeline for implementation in Manitoba.

Board Order 14/08, which redefined the Service Disconnection and Reconnection Policy and Procedures for customers with combined natural gas and electricity service, has resulted in benefits to consumers. There has been greater flexibility in payment arrangements for customers. It has been reported to the Board that in Winnipeg, from May 15 to August 31, 2008, over 52,000 payment arrangements were negotiated with only 4,900 service disconnections being undertaken due to non-payment. Compared to the 7,184 disconnections for the same period in 2007, there has been a 30% decease overall in service disconnections - both gas and electric. Natural gas disconnections, alone, decreased by 94%, from 3,939 to 223; this is evident progress.

While much has been accomplished and is being done, more yet is required. The Board appreciates the efforts of the Corporation and respects that the timelines are tight and that the issues are complex. Accordingly the Board will vary this Directive by removing the deadline date, and require MH to provide a new date for the earliest implementation of a Low Income Bill Assistance Program in its update to the Board required by November 30, 2009.

That update by MH should include an indication whether external professional assistance is required, and whether MH has set aside funds to meet the emergency needs of low-income consumers pending finalization of the Low Income Bill Assistance Program.

3.14 Directive 19: Revised COSS

MH to refile the COSS by January 15, 2009 on the following basis:

a) As defined by Order 117/06.

b) Incorporating diesel and exports in the same fashion as other domestic customer classes.

c) The assigning of 50% fixed and 100% variable thermal plant costs to the Export class.

d) Assign DSM cost directly to export class and add DSM energy savings to domestic load for Generation cost-sharing purposes.

e) Use the most recent actual [not forecast] export prices to establish export revenue in the COSS.

f) Use actual [eight year] energy [SEP] prices and energy use profiles in Generation energy weighting process.

MH's Request for Review and Variance

….Directive 19 b) requires diesel communities be incorporated in the COSS in the same fashion as other domestic classes. Manitoba Hydro notes that the request to

allocate export revenues to the diesel communities was advanced by Manitoba Hydro as a component of the tentative settlement agreement between Manitoba Hydro, the Diesel First Nations, MKO and Canada. This allocation was approved on an interim basis in Order 159/06 subject to execution of a final settlement agreement, examination of that agreement in a subsequent proceeding and consideration of an appropriate cost of service methodology.

In Order 177/06, issued following the PUB's review of Manitoba Hydro's Cost of Service study, the PUB stated:

> "The proposal by MH to credit a portion of net export revenue to the Diesel Class needs to be examined further and finalized, in conjunction with a rate review of this class." (at page 67*)*

Such review has not taken place nor has the tentative settlement agreement been executed by the parties.

In the circumstances Manitoba Hydro requests Directive 19 (b) be revised to clearly reflect that the allocation of export revenues to diesel communities remains subject to execution of the tentative settlement agreement and further review and approval by the PUB in a separate proceeding.

Board Findings

The Board has only approved on an interim basis MH's allocation of export revenues to diesel zone customers. MH's request to Vary Directive 19 (b) is granted. The Directive will be revised to reflect that allocation of export revenues to the diesel zone remains conditional on the full execution of the tentative Settlement Agreement, as well as subject to further review and approval by the Board in a required separate application and proceeding.

As for the two additional cost of service study issues raised by Coalition [i.e. Part D: adding DSM Energy Savings back to each domestic class for purposes of allocating generation costs; and Part E: use of historical, as opposed to forecast export prices to establish export revenue in the COSS], these are matters best deferred to MH's next GRA, this to permit MH the opportunity to study and research these issues.

3.15 Directive 20: Revised Marginal Cost Analysis

MH to provide and file with the Board by January 15, 2009 a revamped Marginal Cost (MC)-COSS analysis; one reflecting needed refinements to generation, transmission and distribution marginal costs. This should include specific demonstrations of how alternative MC adjustments could be applied to an embedded COSS. Among the scenarios to be explored, MH should consider the addition or blending of marginal costs to embedded costs prior to comparison to class revenues.

MH's Request for Review and Variance

The requirements of this Directive are unclear. Manitoba Hydro will seek clarification from the PUB before responding.

Board Findings

The Board agrees with MH; clarification is required; the concept of using MC appears poorly understood by most parties, and perhaps including the Board.

The Board will agree to vary its Directive to permit Board staff and/or Advisors to meet with MH in an attempt to clarify what is being sought in a Marginal Cost of Service Study, how Marginal Cost adjustments could be made to an embedded

COSS, and how Marginal Costs could be blended/added to embedded costs prior to calculation of revenue to cost coverage ratios.

Following such meeting(s), the Board may revise the deadline date for the report.

3.16 Directive 21: Marginal Costs/Avoided Costs Data

MH to file all appropriate data [e.g. SEP/NEB/MISO clearinghouse information and avoided cost information etc.] required for input to the marginal cost determinations for generation , transmission and distribution to further define the key assumptions employed by MH in support of this process, with the Board [on a confidential basis if necessary] on or before September 30, 2008.

MH Request for Review and Variance

Manitoba Hydro annually updates its marginal/avoided costs forecast after completion of the Power Resource Plan and the IFF. This usually occurs in or around November of each year.

Manitoba Hydro will submit a copy (redated if necessary) of its 2008 Avoided Cost forecast by December 31, 2008.

Manitoba Hydro requests that the PUB amend this Directive to reflect the revised filing date.

Board Findings

The Board will vary its Directive to permit the filing of MH's updated marginal/avoided cost information (including the data requested in this Directive) by January 15, 2009, this to coincide with the filing dates of other information sought through Order 116/08.

Any issues of requested confidentiality should be addressed in the filing.

3.17 Directive 22: Time of Use Rates

MH to provide a planned implementation strategy outline by September 30, 2008 for TOU Rates as appropriate to the classes with required metering technology already in place. Alternative rate strategies should be included for consideration at the upcoming Energy Intensive Industry rate hearing.

MH's Request for Review and Variance

MH has not included time-of-use pricing in its updated Energy Intensive Rate proposal due to the limited number of customers to which the new rate will apply (expected to be only 10 customers). Instead, Manitoba Hydro would prefer to consider time-of-use rates across a broader range of customers and include a comprehensive proposal in the next General Rate Application.

MH requests that this Directive be amended to reflect a filing requirement of no later than the next General Rate Application.

Board Findings

MH has requested a delay in addressing Time of Use, (TOU) rates, preferring to implement a broader program rather than one only targeting customers subject to the proposed Energy Intensive Industry Rate.

However, given the limited number of customers subject to the Energy Intensive Industry Rate proposal, it should neither be onerous to comply with this Directive, nor cost prohibitive to develop a proposal given that the appropriate meters are in place. This does not preclude MH bringing forward a broader TOU rate proposal at the next GRA.

The Board would prefer that MH develop a strategy for TOU, so as to be considered as part of the upcoming hearing into MH's proposed Energy Intensive Industry Rate (EIIR). The Board acknowledges that the hearing timelines are tight (with the oral hearing to commence December 8, 2008), however, the Board sees benefit in considering TOU rates for general service large >30 kV customers in conjunction with MH's existing application. Alternative Rate strategies should be included for consideration at the upcoming EIIR hearing.

Therefore, this Directive will be revised to require MH's best efforts, as soon as possible, and no later than December 1, 2008. Parties will be expected to address MH's TOU concepts at the EIIR hearing through cross-examination of MH, perhaps through oral comments of Intervener witnesses, and in closing submissions.

3.18 Directive 26: Diesel Zone Balances

d) MH to report to the Board by September 1, 2008, as to the balances and status of the diesel zone accounts; to ascertain whether existing interim rates are fully recovering operational costs.

MH Request for Review and Variance

MH intends to file a Diesel Rate Application as soon as possible. These issues will be addressed in the Diesel Application.

MH requests that the PUB amend this Directive to reflect a revised filing date of no later than December 31, 2008.

Board Findings

The current rates charged to customers in the Diesel Zone have been approved through a series of interim Orders, hence those rates have not been finalized. One required prerequisite to finalizing those rates is the final execution of what is now a tentative Settlement Agreement.

The Board understands that all parties (including the four communities through MKO, the Federal Government through INAC, and MH) are conducting themselves in good faith and in accordance with the terms of the Settlement Agreement. That good faith extends to all monies that were to be paid to MH having already been paid to MH. MH has made a series of interim rate applications to the Board in advance of any monies having been paid to the Corporation, to effect rate principles flowing from the tentative Settlement Agreement.

History reflects that one factor that resulted in a dispute, and that appears resolved through negotiations and the resulting tentative Settlement Agreement, was the accumulated deficit from expenses that were not recovered in current rates.

In an effort to avoid a reoccurrence of a mounting deficit, MH has been urged by the Board to keep consumer rates current in the Diesel Zone, such that rates recover all approved costs.

Recognizing MH is now preparing a report and a Diesel Rate Application, the Board will agree to vary its Directive by requiring MH to file its Report and Application for revised Diesel Rates as soon as possible, but no later than December 31, 2008.

The Board also understands that unless and until the Settlement Agreement is fully executed and approved by the Board, rates for the Diesel Zone will remain interim, subject to final adjustment by the Board.

3.19 Directive 27: Surplus Energy Program

MH to provide a report to the Board by January 15, 2009 evaluating the Surplus Energy Program. The report should employ monthly historical data from 2000 to 2008 to analyze and compare the benefit and costs of the actual operation of the hydraulic generating system pursuant to various less aggressive sales strategies. This report should address the relative merits of withholding surplus energy from sales at off-peak periods.

MH's Request for Review and Variance

MH routinely files an annual report on the Surplus Energy program as soon as calendar year data is available. Typically, this report would be filed by the end of February. The annual report will address the issues raised by the PUB.

MH requests that the PUB extend the date for the filing of the SEP report to February 28, 2009.

Board Findings

MH is preparing its annual SEP report, which is to include information the Board is seeking. MH requires a calendar year end date to complete the report, and this to result in an expected report completion by February 28, 2009.

Accordingly, the Board agrees to vary the deadline date for the SEP report until February 28, 2009.

MH has requested final approval of the SEP to March 31, 2013. The Board, in Order 136/07 granted conditional approval of the SEP until April 30, 2009 unless amended or extended by further Order of the Board.

Through this Order, the Board varies Orders 90/08 and 116/08 by confirming that the Surplus Energy Program is conditionally approved until April 30, 2009.

The Board's consideration of MH's request for final approval of the SEP until March 31, 2013 will follow receipt and review of the February 28, 2009 SEP Annual Report.

3.20 Directive 28: Service Extension Policy

MH to file an economic feasibility test report with the Board by September 30, 2008, on the historical application of the service extension policy. In that report, MH is to define the underlying rationale for the existing policy, as it existed, and explain why that rationale apparently no longer exists, together with an accounting of instances (since the policy was suspended) where customers paid more to have a service connection than other previous customers.

MH's Request for Review and Variance

MH's service extension policies have never been subject to a review by the PUB. MH does not believe that it is necessary or appropriate for such policies to be reviewed by the PUB. MH has exclusive jurisdiction with respect to its service extension policies pursuant to s. 49.1 of The Manitoba Hydro Act.

The reference to suspended policies was necessary action taken to deal with a specific issue related to energy-intensive customers and the potential for significant loss of revenue to the Corporation.

MH requests that the PUB withdraw this Directive.

Board Findings

MH does not have or utilize an economic feasibility test (based on the present value of future revenues and expenses) similar to that used by Centra Gas. Rather, MH would invest up to three times the anticipated annual revenues on facilities required to strengthen or extend the common grid to serve customers (not including dedicated facilities).

While, as MH points out, the policy of the terms and conditions of service extension is to be acceptable to the Corporation, if that policy is inappropriately utilized there are potential rate impacts on customers and prospective customers. MH's investment for one customer while denying such investment to a second customer may amount to a subsidization of one customer over another. Similarly, any contribution made may be supported by the rates of all other customers.

To permit further discussion on this issue, the Board will vary the Directive by deleting the deadline date and the requirement for a report. Rather, and by December 1, 2008, and as part of the EIIR hearing, the Board will require a written explanation from MH as to specifics of the Service Extension Policy for each class of customers served by MH. As well, the Board will seek information as to whether the policy been suspended on an individual customer basis or only on a class basis and, if so, the reasons for the suspension of the policy. The Board will also seek how MH is applying the policy going forward, specifically as to Energy Intensive Industries, and the revenue impacts for MH as a result of the suspension.

Parties should be prepared to discuss any further concerns with the Service Extension Policy at the upcoming hearing into MH’s proposed EIIR.

4.0 CONCLUSION

To reflect the decisions in this Order, the Board is attaching a complete listing of Directives from Order 116/08, with revisions noted.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"G. GAUDREAU, CMA"
Secretary

Certified a true copy of Order No. 150/08 issued by The Public Utilities Board

Secretary

APPENDIX A
DIRECTIVES FROM 116/08 AS AMENDED

IT IS THEREFORE ORDERED THAT:

1. MH file with the Board, MH's 2007/08 Annual Report, with audited financial statements, immediately after the Corporation meets its statutory filing requirement with respect to the Legislature;

2. With respect to MH's export program, MH ~~to file a report with the Board by January 15, 2009 on the following:~~ is to work co-operatively with Board Staff and/or Advisors to develop a process that will enhance the Board's understanding of MH's export program and its potential impact on domestic rates. MH is to thereafter, file a report with the Board that may include the following:

    a) Overview of strategy, options, historical costs and revenues;

    b) Monthly historical export prices for the last five years, disaggregated for both peak and off-peak periods;

c) Existing and pending export contract commitments, with annual forecast revenues both aggregated and also disaggregated (in confidence if necessary);

d) Forecast export revenues until 2028, identifying opportunity sales distinct from firm contract sales and broken down by peak/off-peak;

e) Detailed assumptions used in export market price forecasts (filed in confidence if necessary). MH to resubmit its export pricing forecasts to reflect recent realities of market prices and exchange rates;

f) A testing of MH's assumptions through detailed sensitivity analyses for upper/lower quartile water flows, foreign exchange, domestic load growth and natural gas prices; and

g) Given the crucial nature of the Corporation's export contracts and assumptions, with potential impacts on domestic rates, MH file for Board review all proposed export contracts;

3. MH to provide the Board with:

a) Specific quarterly reports on energy supplies (including imports), domestic demand, and export sales (e.g., similar to NEB volume and price data); and

b) Annual reports on the LUBD Program performance;

4. MH to provide the Board an independent assessment of the Corporation's relative weighting of fixed vs. floating debt, and file a report with the Board on or before June 30, 2009;

5. With respect to IFRS, the Board requires MH to file on or by January 15, 20~~9~~10:

a) A report explaining and quantifying the proposed transition to IFRS;

b) A copy of MH's consultant's report indicating the projected impact of the adoption of IFRS on the Utility, specifically with respect to MH's current deferral and capitalization approaches, and as to the likely status of goodwill now recorded in its accounts;

c) An articulation of the new proposed MH accounting policies detailing how they comply with IFRS;

d) An explanation of any changes to the internal operations of MH which may be planned or contemplated to offset any increased annual expenses expected as a result of the adoption of IFRS, together with Mt-Es and its consultants views of the Board's regulatory option including a review of the pros and cons of special purpose financial reporting for utilities for rate setting purposes; and

e) An updated 1FF and CEF (covering the years 2008 to 2028) reflecting the expected impact of the new standards and assumptions of related operational changes as may be planned or contemplated by MH;

By January 15, 2009, MH is to file with the Board a High Level Scan by its independent consultant, which Scan is to provide more detail on the future status of existing balance sheet balances and accounting policies. Additionally, MH is to file a status report on IFRS in conjunction with any MH application for confirmation of the April 1, 2009 conditional rate increase.

6. MH to undertake and file with the Board, by a date to be fixed by the Board after its review of the study outline to be filed by MH by June 30, 2009, an independent benchmarking study of key performance metrics, using the most currently-available data and including:

a) Primary key drivers of OM&A in each operational division [Board preference is for a divisional break-down to allow for a comparison with other utilities, even if the comparison needs to be limited to specific divisions/activities];

b) Comparable other Canadian Utility data for each of the drivers;

c) Key comparison indicators, including staffing levels;

d) A comparison with and discussion of industry best practices; and

e) Potential improvement areas.

The Board expects to be apprised of the scope of the benchmarking study in advance of it being undertaken, and will anticipate being provided a study outline on or before ~~January 15~~ June 30, 2009, to allow the Board the opportunity to provide direction and/or comment;

7. MH to undertake and file with the Board an Asset Condition Assessment Report by ~~June 30, 2009~~ a date to be fixed by the Board after its review of the Terms of Reference to be filed by MH by June 30, 2009, that defines:

a) major assets and categories of assets;

b) the estimated remaining economic life of each major asset and category of asset;

c) an indication of the implications for OM&A costs related to required and scheduled maintenance;

d) a listing of scheduled, planned or anticipated major upgrading/decommissioning of major assets and/or categories of assets;

e) forecast expenditures for planned renovations and/or replacements with respect to now available energy supply and transmission; and

f) Dam Safety Condition Assessment and Maintenance requirements.

In advance of the commencement of the Asset Condition Assessment Study, MH to tile with the Board detailed Terms of Reference containing the scope for undertaking such a study and a definition of the resources to be employed, on or before ~~January 15~~ June 30, 2009.

8. MH to tile a report with the Board by June 30, 2009 detailing the final all-inclusive capital cost of the corporate head office project (including such things as construction cost, furniture and equipment, telecommunications, equipment leases, etc.), and the contemplated or planned operating actions to recover incremental costs related to the new head office. (The Board reaffirms that no additional incremental costs are to accrue or be allocated to Centra as a result of the new MH head office.)

9. MH to file a report with the Board by January 15, 2009 indicating:

   a) whether the current depreciation rates for the Generation, Transmission, Distribution and other assets purchased from Winnipeg Hydro [including Slave Falls] and the Brandon Coal Plant remain appropriate; and

   b) the related proposed capita! replacement, expansion and decommissioning costs;

10. To gain a further understanding of the implications of the capital expenditures now contemplated, MH is to file with the Board by January 15, 2009:

a) An updated Capital Expenditure Forecast, and Integrated Financial Forecast covering the fiscal years 2007/08 to 2027/28;

b) An updated Power Resource Plan covering the years 2008 to 2028. The updated Power Resource Plan should provide alternative scenarios with/without implementation of the pending new export contracts and related capital spending. The report should also indicate the remaining feasible hydro generation opportunities, following Wuskwatim, Keeyask and Conawapa, where and what possible quantity of energy would be expected, and the assumed development timeline; and

c)` An updated Load Forecast covering the fiscal years 2007/08 to 2027/28; the Load Forecast should reconcile projected and actual
DSM savings;

11. The Board will direct MH to propose to the Board~~,~~ on a date to be determined after MH provides the information requested in Directive 10, o~~r before January 15, 2009~~ the terms of reference for a regulatory review of MH's planned Capital Program and its impact on consumer rates;

12. MH to prepare a study, and file it with the Board by January 15, 2009, a thorough and quantified Risk Analysis, including probabilities of all identified operational and business risks. This report should consider the implications of planned capital spending and take into account revenue growth, variable interest rates, drought, inflation experience and risk, and potential currency fluctuation;

13. MH to file for Board approval ~~by September 30, 2008~~, following Board review of the information MH is to file by January 15, 2009, and only in the event thereafter directed, a conceptual outline for an in-depth and independent study of all the operational and business risks facing the corporation set out in the previous directive (12);

14. MH to provide the Board ~~by June 30, 2009,~~ only if so directed following the Board's review of the information to be filed by MH by January 15, 2009, with recommended risk mitigation measures and a review of possible suitable capital structures, given the capital expansion now planned or contemplated, with risks quantified;

15. MH to provide the Board by June 30, 2009, a summary of existing programs and potential future programs defining the arrangements for increased or modified (augmented) water flows within and external to Manitoba. The

summary should include the specifics of each program and mitigation and compensation related thereto;

16. MH to submit a report to the Board ~~on January 15, 2009~~ within 30 days following MH's Board finalization of the matter, on the 300 MW of additional wind energy project(s), with a discussion of the business case, general wind strategy, prospects and timelines for the project, as well as with respect to the prospect for a further 600 MW consistent with the government's identified longer-term target of 1,000 MW of wind energy. The Board will also require access to the agreements for the existing 100 MW St. Leon wind project by January 15, 2009, and an opportunity to review the pending agreements for the 300 MW project(s) within 30 days following MH's Board finalization of the matter;

17. MH report to the Board before June 30, 2009 to whether there are greater global environmental (GHG) and economic benefits to be achieved by exporting hydraulically-generated electricity than would be achieved by fuel switching (from natural gas to electricity) and/or geothermal within Manitoba. The report should address and clearly define the relative environmental and economic benefits of these exports. The overall assumptions and impacts on the Load Forecast should also be included in the report;

18. With respect to low-income programs, MH to prepare and report on the following:

a) MH to consult with stakeholders on its enhancements to its low-income programs to ensure it adequately addresses low-income needs, and to report to the Board by September 30, 2008 on the results of the consultation and subsequent development of and implementation of this program;

b) MH to provide an update on the status of the current natural gas furnace replacement program (including actual and forecast take-up rates), as well as reports of possible changes to the program relative to the suggestions put forward by Mr. Dunsky, on or before September 30, 2008;

c) MH to meet with MKO and representatives from the diesel communities to discuss the issue of the access of those communities to MH's low-income programs, and to report to the Board on the outcome of these discussions on or before September 30, 2008;

d) MH to propose for Board approval ~~(as soon as possible but no later than September 30, 2008)~~ <u>(by a date to be requested by MH in its</u>

November 30, 2008 update and approved by the Board) a low-income bill assistance program, where such a program would occur in conjunction with and complimentary to an expanded low-income DSM program;

e) MH to file with the Board on or before June 30, 2009 a draft plan, with projected implications, to increase the Corporation's integrated (natural gas and electricity) energy-efficiency initiatives with respect to low-income households, so as to allow for reduced energy consumption for all such households within a decade;

f) MH to report back to the Board on the potential for a low-income and a general refrigerator replacement program, and provide the merits of such programs, on or before June 30, 2009; and

g) MH to accrue interest on the AEF balance, to ensure additional I funds are available to fund expanded low-income energy efficiency programs and to avoid the loss of 'purchasing power" of the AEF I due to continuing inflation;

Coalition's application to review and vary Orders 90/08 and 116/08, premised on MH's failure to comply with Directive 18 (d), be and is hereby denied.

19. MH to refile the COSS by January 15, 2009 on the following basis:

a) As defined by Order 117/06;

b) Incorporating diesel and exports in the same fashion as other domestic customer classes. This Directive remains conditional on the full execution of the Settlement Agreement and is also subject to further review and approval by the Board in a required separate application and proceeding;

c) The assigning of 50% fixed and 100% variable thermal plant costs to the Export class;

d) Assign DSM cost directly to export class and add DSM energy savings to domestic load for Generation cost-sharing purposes;

e) Use the most recent actual [not forecast] export prices to establish export revenue in the COSS; and

f) Use actual [eight year] energy [SEP] prices and energy use profiles in Generation energy weighting process;

20. MH to provide and file with the Board by January 15, 2009, or by such subsequent date as determined by the Board following the clarification meeting(s) between Board staff and/or Advisors and MH, a revamped Marginal Cost (MC)-COSS analysis, one reflecting needed refinements to generation, transmission and distribution marginal costs. This should include specific demonstrations of how alternative MC adjustments could he applied to an embedded COSS. Among the scenarios to be explored, MH should consider the addition or blending of marginal costs to embedded costs prior to comparison to class revenues;

21. MH to file all appropriate data [e.g. SEP/ NEB/ MISO clearinghouse information and avoided cost information etc.] required for input to the marginal cost determinations for generation, transmission and distribution and to further define the key assumptions employed by MH in support of this process, with the Board [on a confidential basis if necessary] on or before ~~September 30, 2008~~ January 15, 2009;

22. MH to provide a planned implementation strategy outline by ~~September 30, 2008~~ December 1, 2008 for TOU Rates as appropriate to the classes with required metering technology already in place. Alternative rate strategies

should be included for consideration at the upcoming Energy Intensive Industry rate hearing;

23. MH file a plan by January 15, 2009 outlining the pros and cons of the various potential inverted rate strategies under consideration, and the MH-proposed course of action to address this issue over the next five years;

24. MH to plan to re-balance demand and energy charges on a revenue I neutral basis, and submit a 5-year transition plan for the Board's approval at the earliest of June 30, 2009, or the next GRA;

25. MH to continue with the consolidation of process of the GSS and GSM customer class consolidation, and provide the Board with a proposal by June 30, 2009 for a stepped-up program and a timeframe for completion;

26. MH to include in its future application to finalize the four interim Orders related to Diesel Rates, reports on:

   a) the fairness of the rate approach with respect to non-senior government accounts (the Board is concerned that the rates restrict the economic development prospects for the communities and drive up service and commodity costs);

b) the efficacy of the current rate schedule for non-government accounts (data on aged accounts receivable, delinquency and bad debts together with the collection policies in place for the four communities will be required); and

c) the effects of the current approach to rates and consumption I restrictions on the four communities, a detailed review of consumption levels and collection practice from the former Diesel communities that have been connected to the grid which will serve as a comparison; and

d) MH to report to the Board by ~~September 1, 2008,~~ as soon as possible, but by December 31, 2008, as to the balances and status of the diesel zone accounts; to ascertain whether existing interim rates are fully recovering operational costs;

27. MH to provide a report to the Board by ~~January 15, 2009~~ February 28, 2009 evaluating the Surplus Energy Program. The report should employ monthly historical data from 2000 to 2008 to analyze and compare the benefit and costs of the actual operation of the hydraulic generating system pursuant to

various less aggressive sales strategies. This report should address the relative merits of withholding surplus energy from sales at off-peak periods;

The Board confirms Order 136/07 and the conditional approval granted to extend the SEP until April 30, 2009 unless further amended or extended by Order of the Board.

28. ~~MH to file an economic feasibility test report with the Board by September 30, 2008, on the historical application of the service extension policy. In that report, MH is to define the underlying rationale for the existing policy, as it existed, and explain why that rationale apparently no longer exists, together with an accounting of instances (since the policy was suspended) where customers paid more to have a service connection than other previous customers;~~ MH to provide a further and complete explanation as to the use and suspension of its Service Extension Policy, as herein requested, by December 1, 2008 for discussion at the upcoming Energy Intensive Industry Rate hearing;

29. With respect to an Energy Intensive Industry rate for new and expanded load, MH is to file an updated application with the Board on or before September 30, 2008. Such an application should include:

a) An in-depth analysis of value of on-peak versus off-peak energy sales into the MISO market;

b) A report on the specific deferral values that could be achieved by constraining industrial load growth; and

c) An analysis for all GSL customers, to justify the proposed 39 GW.h floor for new rate exemption, and report on the potential extension of the rate and/or lowering of the threshold;

30. MH to file before January 15, 2009 supporting information for Board review of the 4% April 1 2009 conditional increase. In addition to the information identified above to be filed by January 15, 2009, MH is to include:

a) first second and third quarter 2008/09 unaudited financial results and statements; and

b) an updated forecast of net income for 2008/09, reflecting existing water energy in storage conditions.