MANITOBA	Board Order 90/08
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA HYDRO ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	June 30, 2008

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

ELECTRICITY RATES FOR MANITOBA HYDRO TO TAKE EFFECT JULY 1, 2008

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1.0 Summary

By this Order and following a public hearing of Manitoba Hydro's (MH or the Corporation) General Rate Application (GRA), the Public Utilities Board (Board) establishes an across-the-board rate increase of 5% effective July 1, 2008 for all Manitoba Hydro (MH) customers, except for Area and Roadway Lighting customers, whose rates are not to change.

In addition, the Board approves:

a) A further and conditional across-the-board general rate increase of 4%, with the exception of Area and Roadway Lighting customers, again for whom rates are not to increase, provisionally to take effect April 1, 2009 (subject to the Board's further review);

b) An increase in the Basic Monthly Charge for all customers of 5%, as of both July 1, 2008 and April 1, 2009;

c) Finalization of Order 21/07 which established an interim rate increase of 2.25% on March 1, 2007;

d) A modest introduction of inverted rates for the "residential" class (SGS), as proposed by MH;

e) As requested by MH, extension of the Surplus Energy Program (SEP), though only to October 31, 2008 ahead of conclusions and possible further extension to follow in a subsequent Order;

f) Modifications to the Curtailable Rate Program, as proposed by MH;

g) Changes to the Limited Use of Billing Demand Rate, as proposed by MH; and

h) Final approval for various interim SEP Orders.

Final approval of several Interim *Ex-Parte* Orders related to electricity service in the Diesel Rate Zone will remain deferred, subject to final execution of a Settlement Agreement between Indian and Northern Affairs Canada (INAC), Manitoba Keewatinook Ininew Okimowin (MKO) and MH.

By this Order, the Board will also recommend to MH that the Corporation re-file, with any adjustments it may deem appropriate, a revised proposal for a new industrial rate for new and expanding industrial load.

With MH's new export and construction commitments and plans, and with the increased risk that MH's Manitoba load forecasts may prove low given the large increase in the price of natural gas over the past year (yet to be fully reflected in natural gas bills), and providing the risk of energy switching, the Board is also concerned with the risk associated with advancing major new generation and transmission projects with industrial rates well below marginal cost.

MH sought a 2.9% across-the-board increase to take effect April 1, 2008, excepting for a proposed 1% increase for Area and Roadway Lighting customers, while indicating a desire for a further 2.9% across-the-board increase as of April 1, 2009 and the same for each year thereafter through to 2017/18. While the Board is now providing a 5% increase for 2008 and the prospect for a further 4% next April, the latter subject to reconsideration following receipt and review of additional information, the electricity rate increases now set and contemplated pale in comparison to the increases being implemented or planned by other Canadian electricity utilities, and the cost increases now being experienced by consumers, businesses, institutions and governments with respect to other energy sources.

Notwithstanding the Board's appreciation of the negative implications of rate increases for MH's customers, and the Board's particular and on-going concern for low-income households, particularly, in this 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:

a) In its application, MH advised that its proposed series of 2.9% increases were required to maintain progress towards the eventual attainment of the Corporation's financial targets, primarily the achievement of the long-sought but not achieved target debt to equity ratio of 75:25. MH projected that notwithstanding its forecasts of annual rate increases and the assumption of continuing success with export markets, and taking into account forecast net income for 2007/09 to achieve or exceed $300 million, it still did not expect to achieve the debt:equity financial target of 75:25 by 2017/18 (let alone the current or previous earlier target dates);

   Herein, and to be discussed in considerable depth in the subsequent Order, the Board re-confirms the validity of the targeted debt:equity ratio of 75:25, while expressing concern as to the likelihood of its achievement.

b) MH's plans for capital expenditures may involve the expenditure of $18 billion or more over the next 15 years, expenditures predicated in part on what may or may not be overly optimistic export prices – this level of capital expenditure will result in significantly increased debt levels, export commitments and general business risks;

c) MH's reports and evidence of hyper-inflation with respect to construction and commodity costs, which are driving up the Utility's projected costs for new generation and transmission projects and have lowered its estimates of the return to be expected for the first of its new generation projects (Wuskwatim), a project that will likely be followed by further major construction (Pointe de Bois, Bipole III, and the Keeyask and Conawapa generation stations);

Continuation of construction and commodity cost pressures may drive the costs of the planned capital projects even higher, and these inflationary pressures are likely to also affect distribution plant costs and general operations.

d) While the Board shares some Intervener concerns as to an apparent acceleration of MH's OM&A costs (Operating, Maintenance and Administration), which MH attributes to labour shortages as well as increased needs for system maintenance, both factors cited to be beyond the direct control of the Utility, the Board does not have enough information on whether current and forecast OM&A expenditures are fully supported, since no formal and in-depth benchmarking has yet been undertaken;

e) The approaching adoption of International Financial Reporting Standards (IFRS), which will form the new Canadian Generally Accepted Accounting Principles – GAAP, with potentially materially significant and negative impacts for the Corporation's current forecasts of annual net income results through 2017/18;

The Board has, in previous Orders, expressed concern as to MH's capitalization and deferral of cost practices and is not convinced that separate regulatory accounting, "two sets of books" – one which would not represent the new GAAP - should be considered at this time as a potential means to offset the effects IFRS-generated changes may bring.

f) There has been a significant increase in the value of the Canadian dollar relative to American currency, and it has had the effect of reducing the value of electricity exports as expressed in Canadian dollars (to some extent MH has a "natural hedge" for currency changes, though not sufficient it would seem to manage the degree of change that has occurred), combined with what appears to be a growing disconnect between electricity prices obtained from American markets and natural gas prices (in the past, when natural gas prices rose, the assumption and general experience was that MH's export prices rose as well); and

g) Continuing business risks related to interest rates (now at recent historic lows), the risk of further currency fluctuations, drought, inflation, market access problems, and other concerns:

i) MH has benefited from 12 of the last 16 years being of above-median water flows; statistically, poorer water conditions can be expected to occur at some point in the future and a drought, which has been experienced regularly through the Corporation's history, could have a devastating impact on MH's financial situation, as it recently did in fiscal 2003/04.

ii) Interest rates are at very low levels in both an absolute and relative to inflation sense– the current prime rate of the Bank of Canada is approximately only one percentage point higher than the current national rate of inflation – and with hyper-inflation present with respect to commodities (including energy) and processed products such as chemicals, steel and concrete, the Board is not assured that interest rates will not increase at some point during MH's expansion phase, placing increased pressure on the cost of operation.

iii) The Canadian dollar has climbed from close to 60 cents USD to near or at parity with the U.S. currency, with MISO imports (MH's exports) priced in USD, this has affected MH's export revenues. While MH forecasts the Canadian dollar falling back about 15 cents from its current level, the Board is not confident with that forecast, and if near parity remains MH's export price forecasts are in jeopardy.

iv) General inflation in Canada, leaving aside energy and construction costs, is lower than in virtually every other OECD country, this partly the result of the climb of the Canadian dollar, but with food and energy prices now rising and the impact of higher transportation costs affecting imports, and with wage and other inflation potentially becoming once again a problem, this may further complicate MH’s longer term cost forecasts.

v) MH’s export market is primarily American utilities within the MISO market, and transmission lines on both sides of the border are required to transport the power to MH’s export customers and carry power back to Manitoba when imports are required, and there are risks involved with reliance on a significantly predominant market. While a national east-west grid remains a worthy objective, there is no present indication that MH’s Canadian provincial customer list, particularly from a volume perspective, can be assured to strongly develop.

The Board is focused on the risks that lie ahead and determined to ensure as reasonably as possible that MH has the financial strength to meet the risks.

The rate changes and comments of present and future risks associated with this Order should not be perceived as a challenge to the perspective that MH remains a tremendous asset for Manitoba, and that the Corporation continues to have and represent large growth opportunities. Even with the rate increases announced and forecast herein, Manitobans should continue to benefit from some of the lowest electricity rates in North America. It is prudent that known risks are addressed now, in part through the provision of additional revenue, so as to best ensure adequate financial reserves ahead of uncertain times.

The Board also finds it important to recognize a present and growing disconnect between relatively stable and low electricity rates (set by a regulatory body with particular attention to historic costs) and other competing energy prices, the latter set by largely unregulated market forces little affected by the actual cost of production and distribution.

With respect to Manitoba Hydro, while the costs of generation, transmission and distribution assets acquired decades ago have allowed for residential rates of 6 cents per kW.hr and 3.2 cents for major industry, the new generating stations and transmission facilities will demand much higher rates simply to break even, let alone produce the net income required to allow MH to move forward supported by a reasonable capital structure.

As a comparison to electricity rates, so far this year, Centra Gas customers receiving their primary gas from the utility have received annual rate increases approximating 8.6%, with a further increase likely coming as of August 1 and yet another increase likely for November 1. Combining actual and projected natural gas bill increases for 2008, it would not be surprising if natural gas customers end up paying 30% or more for their natural gas come this winter as opposed to the last. With respect to fuel oil, propane, gasoline and diesel, increases experienced are even more severe.

In 1999, when MH purchased Centra Gas, space heating by natural gas for the average residence could be expected to come at half or less than half the cost of an electrically heated home; this is no longer the case. As of June 1, 2008, space heating by electricity was cheaper than by natural gas for all residences other than those that heat by way of a high-efficiency gas furnace. If the trend continues and the disconnect between electricity and natural gas grows, more and more new and existing residences may select or convert to electric heating, driving up domestic electricity load and limiting export sales and profits.

Thus, while the Board understands the basis for the Province's adoption and support of the "Manitoba Advantage", i.e. low electricity prices, and will not act against stated public policy, the Board concludes that even with a 5% increase as of July 1, 2008 and, if confirmed and implemented a further 4% as of April 1, 2009, electricity prices will remain lower in Manitoba than are found in the vast majority of other North American jurisdictions. In short, the "Manitoba Advantage" will remain.

In the interest of implementing a general rate increase as of July 1, 2008, three months later than MH's GRA sought, the Board chose to issue this Order ahead of a subsequent and more detailed Order that will follow in due course this summer. The subsequent Order will provide further direction on a number of other significant matters, and, as well, provide necessary background information and detailed rationale for the rate changes now provided and the other decisions and directions to follow.

The Order to follow will also summarize and encapsulate the positions of Interveners and MH, the comments of presenters, and the evidence of witnesses all appearing before the Board at the public hearing of MH's GRA, a hearing held over 19 days in the Board's offices in the months of March, April and May 2008.

2.0 Application

On August 1, 2007 Manitoba Hydro filed a GRA seeking:

a) Approval of Rate Schedules incorporating an across-the-board 2.9% increase in general consumers' rates effective April 1, 2008 (with the exception of Area & Roadway Lighting, that class proposed to receive a 1.0% increase):

The Board varies the application and approves an across-the-board increase 5% for all MH customers effective July 1, 2008, except for Area and Roadway Lighting customers. Rates for Area and Roadway Lighting customers will not change. Furthermore, the Board conditionally establishes a further across-the-board increase of 4% as of April 1, 2009.

Both the July 1, 2008 and April 1, 2009 increases will be applied to energy component of customer bills, and, again on both dates, the Basic Monthly Charge will increase by 5%.

b) Final approval of general consumers interim rates approved in Order 21/07 effective March 1, 2007:

The Board will provide final approval for the rates established on an interim basis by Order 21/07.

c) Surplus Energy Program:

i) interim approval to extend the program to October 31, 2008 together with final approval to extend the program to March 31, 2013:

The Board will approve the extension of SEP until October 31, 2008, with the application for a further extension to March 31, 2013 to be dealt with in the subsequent Order.

ii) final approval of all interim Surplus Energy Program interim rate orders:

Final approval of all interim SEP orders will be provided.

d) Approval of modifications to the Curtailable Rate Program:
The Board will approve the modifications.

e) Final approval of changes to the Limited Use of Billing Demand Rate:

The Board will approve the changes.

f) Final approval of Interim Ex-Parte Orders related to electricity service in the Diesel Rate Zone, subject to final execution of the Settlement Agreement between INAC, MKO and Manitoba Hydro:

The Board will deny final approval, pending the filing of additional information following execution *of the Settlement Agreement.*

g) Approval of a new General Service Large Rate for new or expanding loads.

The Board will establish a new hearing process for this matter, for this fall.

In support of its application, MH filed a Prospective Cost of Service Study (COSS) for the fiscal year ending March 31, 2008, and that COSS implemented in large part methodology changes directed by Board Order 117/06. Reflecting on the outstanding issues with respect to the COSS, and in particular the uncertainties related to the marginal cost considerations, the July 1, 2008 5% increase will be across the board except as cited above. The Board will deal with the COSS and related matters in its subsequent Order.

3.0 Background

In response to MH's application, the Board issued a Notice of Application and held a Pre-hearing Conference, the latter followed by a Reminder Notice of Public Hearing published February 8, 2008. The Pre-Hearing Conference was held on October 15, 2007, and Order 136/07 followed, outlining procedural matters that were in effect for the hearing.

Order 136/07 approved the following parties as Interveners to the GRA:

a) Coalition, consisting of the Consumers' Association of Canada (Manitoba) Inc., Manitoba Society of Seniors and Winnipeg Harvest (Coalition);
b) Manitoba Keewatinook Ininew Okimowin (MKO);
c) Manitoba Industry Power Users Group (MIPUG);
d) City of Winnipeg (City); and
e) Resource Conservation Manitoba and Time to Respect Earth's Ecosystems (RCM/TREE).

Subsequently, a further Order, 3/08 dated January 16/08, granted Intervener status to TransCanada Keystone Pipeline GP Ltd. (Keystone). Though granted separate Intervener status, Keystone did not participate in the hearing, but is a member corporation of MIPUG which did participate.

The hearing which commenced March 3, 2008 was preceded by two rounds of interrogatories and the filing of Intervener evidence and rebuttals, and was held over a period of 19 sitting days during which evidence was provided in writing and orally by sworn witnesses. As well, presentations were provided by both a customer and by representatives of MIPUG.

The Board heard closing submissions from MH and Interveners on May 21 and May 23, 2008.

As will be outlined and commented on in the detailed Order to follow, generally, Interveners challenged MH's OM&A cost management and took issue with the level of capital expenditures. Concerns were raised about the growing debt that will accompany the major capital projects to come, but no party to the hearing opposed proceeding with MH's new generation plans, though parties did challenge the appropriateness of the decision of MH, on government direction, to construct Bipole III on the west side of Lake Winnipeg.

While RCM/TREE strongly supported inverted and time of use rates, as environmentally friendly actions, other Interveners expressed concern over the effect that would be experienced by low-income customers as well as residential customers and businesses that use electricity for space heating and may not have natural gas as an optional heating source; caution in advancing inverted rates was suggested.

No Intervener suggested that the Board act from a “rate perspective” as to the impending adoption and implementation of IFRS, despite the evidence of MH’s Vice-President and Chief Financial Officer of the likelihood of negative implications to current forecasts of annual net income and retained earnings. Interveners suggested the Board require reports and await the results before taking any action.

Neither the interveners nor MH sought an increase in the Basic Monthly Charge for Residential customers, despite evidence that the actual cost of providing fixed cost services is approximately three times the charge being made.

Again, background and the Board’s perspective and rationale will follow with the subsequent more detailed Order.

4.0 Key Information

4.1 Operating Costs

MH provided the hearing with historical, actual and projected future operating costs (OM&A), which were the subject of considerable attention by Interveners and the Board.

4.2 Capital Costs

MH provided aggregate details of actual and projections of future capital expenditures through to 2018, indicating over $11 billion in proposed or probable capital investment, an amount unprecedented in the Utility's history. During the hearing, in addition to over $11 billion of projected capital expenditures through to 2018, evidence was provided suggesting additional capital expenditures would be required to meet new export commitments and increasing domestic load.

Overall, evidence presented at the hearing suggested that MH's capital expenditures may exceed $18 billion over the next 15 years, the vast majority of which are to be financed by new debt.

4.3 New rate for energy intensive industrial users

In its GRA, MH proposed a rate for new and expanded energy intensive industrial users that would be based on marginal cost, defined by MH as the forecast price available on the MISO export market for an additional unit of generated and transmitted electricity.

The proposed new rate approximated 6.4 cents per kW.h, represented a significant increase over the current average price charged large industry of approximately 3.2 cents per kW.h. Included in MH's proposal was exemption criteria that, if met, would allow expanding existing and new energy intensive customers an opportunity to be exempt from the new rate. The exemption criteria were designed to consider economic value to the provincial economy to be associated with the new industrial load.

In short, pursuant to MH's proposal new and expanding energy intensive industries requiring significant power would be subject to criteria to be applied in order to determine whether or not they would receive a "heritage " rate based on historical embedded costs, for large industry or be required to pay much higher rates, based on marginal costs. The primary argument advanced in support of the proposal was the contention that MH could, in the absence of increasing industrial load, sell the power at a higher price on the export market, and that increasing industrial load results in lower net income for MH and higher rates for all domestic customers.

Following considerable evidence and discussion, with Interveners challenging MH's proposal and rationale, MH withdrew its application, indicating that it would re-file its proposal following further consultation with affected parties.

4.4 IFRS and other Significant Issues

MH advised the Board that it would be subject to new accounting standards, upon Canada's adoption of International Financial Reporting Standards (IFRS), this to take effect with MH's 2011-12 fiscal year.

These new standards are expected to have material implications for MH's accounting for revenue, expense, assets and liabilities, and may well lead to substantial increases in annual expenditures and reduced retained earnings, in the absence of additional revenue.

Several major economic developments have occurred since the last GRA, and these include:

a) Remarkable and very large increases in general energy costs – oil prices have more than doubled over the past year and remain at levels never experienced before, natural gas prices have risen from a low of below $4/GJ in 2006 to approximately $11/GJ, and corresponding or even larger increases have also occurred with respect to propane, heating oil, and gasoline;

b) Construction and material costs have been the subject of hyper-inflation, affecting the costs of MH's construction plans and activities;

c) MH has continued to enjoy average or higher than median water conditions, and this is expected to have resulted in 2007/08 net income results being considerably higher than initially or subsequently projected, net income may well exceed $300 million – MH has enjoyed 12 of the last 16 years of average or higher water flow conditions, the probability of reduced water flow in the next 20 years is significant, even with the immediate prospects for 2008/09 being good;

d) The Canadian dollar vis à vis the American dollar has increased dramatically, and this has had both positive and negative implications for MH – export prices are negatively affected as they are priced in American dollars, while MH's U.S. dollar debt financing costs have been reduced; and

e) Despite recent good financial results and an expectation of further good results in both 2007/08 and 2008/09 (with opening water conditions for 2008/09 being good to excellent), MH continues to forecast being unable to reach its 75:25 debt:equity target by 2017/18, this also despite MH's projection of annual 2.9% rate increases. (In previous Orders the Board has commented on MH's cost deferral and capitalization practices, suggesting that these practices negatively affect the soundness of the 75:25 debt:equity target – on a preliminary perspective, IFRS appears to take a similar view.)

5.0 Board Findings

Operating Results and Financial Projections

The Board has carefully considered all of the evidence provided to it by all parties participating in the hearing process in providing the directions set out in this Order. In reaching its conclusion that there is a need for greater rate increases, the Board is cognizant of MH's recent good operating fortune, driven by excellent water conditions, with prospects for $300 million or more of net income for 2007/2008, and of similarly good prospects for 2008/09, again based on above-median water conditions.

These are not necessarily reoccurring circumstances and, as demonstrated in 2003/04 with the $428 million loss, such recent good fortune could swiftly reverse. Unlike rate increases, good water flow years cannot be counted on.

Debt to Equity Financial Target

Until 2004, MH went over a decade without requesting or obtaining a rate increase, and this during a period of time during which general price inflation and cost increases in MH's operations continued unabated. As a direct result, MH has been unable to reach the relatively modest capital structure target of a debt:equity ratio of 75:25 in its current forecast period to 2018.

In the absence of compelling arguments to abandon the debt:equity ratio target of 75:25, the Board will re-affirm its support for that target at this time. The Board further notes that MH indicated successive increases of 6.6% per annum over the next three years would be required to meet the debt:equity target by 2012. Presently, the Board does not advocate this level of increase is warranted. However, to assist in meeting the debt:equity target, the Board will approve a higher than forecast annual rate increase than the 2.9% requested by MH, and the increase to be provided will assist in improving the financial strength of MH.

Capital Expenditures

With respect to MH's capital expenditures which may exceed $18 billion over the next 15 years, with MH likely committed through its export arrangements to develop Keeyask G.S. and Conawapa G.S., MH's debt may grow to over $20 billion. The Board is concerned that the magnitude of MH's capital program could significantly increase from projected levels if the recently experienced construction cost escalation is sustained. The financial consequences of such an increase would be exacerbated if interest rates, currently at historical lows, move up.

Despite the Board's limited mandate with respect to capital costs, the Board expresses concern, not to be confused with opposition, with the unprecedented capital expenditure levels, and questions whether the export revenue stream from new generation and transmission projects will be sufficient to cover the financial obligations related to these works, given the inherent risks that are present and lie ahead.

The Board will seek further assurances from MH that new contracts are priced at or above forecast average export prices.

Risks

In this Order, the Board, acting as a regulator, is focused on the risks that lie with the potential for inadequate revenue streams for the planned capital expenditures, and the risks that are present and lie ahead for MH.

MH is of great importance to the provincial economy, its residents and businesses, and clearly it is not in the public interest to allow MH's financial condition and service capabilities to decline. Given the plans for massive new generation and transmission capital expenditures, the possibility of future poorer water flow conditions, the risk of lower than forecast export prices and higher interest rates, and the upcoming adoption of IFRS, as well as the other risks identified by the Board in Order 143/04, MH will require additional revenues going forward.

Accordingly, the Board concludes that an increase in rates is now warranted to meet such future financial challenges and risks. The Board will approve an immediate general rate increase of 5%, with one exception (Area and Roadway Lighting rates are not to increase), and, possibly a further 4% across-the-board increase as of April 1, 2009 (the latter subject to further Board review and approval, and, again, with an exception, again limited to no increase for Area and Roadway Lighting).

While the increases provided are larger than those sought by MH, the Board is of the view that the additional revenue flow will provide MH with a degree of increased financial security, and that the assist is required in the public interest.

The Board recognizes that this rate increase will assist MH meeting financial obligations that cannot or are unlikely to be recovered from Wuskwatim Generating Station operations, which has been affected by massive construction cost escalation, the new head office, and the advancement of new generation and transmission to meet export contracts before the debt:equity target has been reached. The increases will help offset cost consequences associated with the above programs and other societal focused initiatives.

The significant planned capital investments will bring substantial economic benefits to Manitobans; the investment of over $18 billion over the next 15 years will bring jobs, contracts, goods expenditures and an increased flow of income and other taxes to governments. All of this will assist the current generation of Manitoba residents and ratepayers. On an overall basis, the increases in rates now to be granted likely will be more than offset by the direct and indirect benefits from these capital investments. The final result will be increased generation and continuing export capacity, planned to benefit future ratepayers.

It is not reasonable to assume that a Utility can expend over $18 billion in new capital expenditures without an up-front investment in its capital structure, higher rate increases will provide that additional capital and reduce to some extent the debt that MH will have to take on to complete these projects. Debt comes with costs, interest and annual principle payments, and, as well, is associated the risk of future increases in interest rates.

The Corporation's risks rise as its export opportunities, investments and debts increase. In the Board's view, this warrants a larger rate increase.

Fuel Switching

In addition, rate increases are further warranted to address an apparent disconnect that has developed between electricity rates and the prices of other energy commodities, this is of considerable concern to the Board, given MH's forecast methodology where export revenue rates are a relative function of natural gas pricing. The Board believes that there is a risk that this may have resulted in an overstatement of forecast export revenues. Power consumed domestically cannot be sold on the export market.

It is not necessarily in the public interest for short-term electricity rates to drastically lag natural gas pricing. Electric space heating could displace natural gas heating to a substantial degree if the current price disparity widens and continues. The result of fuel switching could see electric system peak capacity being challenged and the more frequent use of high price electricity imports.

OM&A Expenses

The Board shares some Intervener concerns as to the acceleration of MH's OM&A costs, which MH attributes the costs increases to labour shortages as well as increased needs for system maintenance, both factors cited to be beyond the direct control of the Utility.

However, the Board does not have enough information on whether the current and forecast OM&A are fully supported, since no formal and in-depth benchmarking has been undertaken.

Lacking this information, the Board is not prepared to direct MH to reduce its OM&A expenditures. More will be provided on this topic in the forthcoming subsequent Order.

Adoption of International Financial Reporting Standards (IFRS)

The Board remains concerned with the continued high level of capitalization of OM&A expenditures. The Board anticipates that MH's current capitalization approach will change with the adoption of IFRS.

In the interim, the Board still (it has commented on this matter in previous orders) does not favour the continuation of a current practice that distorts the level of OM&A expenses. The change to IFRS will likely result in a higher level of OM&A expense impacting MH's profitability. The Board is currently not convinced that Regulatory accounting, i.e. the Board setting rates based on actual and forecast results prepared other than pursuant to GAAP, should be considered to counter the financial impacts of IFRS.

New Head Office

The Board also remains concerned on the cost consequences related to the new head office, noting that MH raised doubts at the hearing as to whether it would meet the level of savings required to fully offset the increase in costs related to the new building, now estimated at almost $19 million a year.

No evidence was presented that MH will find the necessary savings to offset this cost, however there may be long term benefits to be realized by the Utility that will be discovered and realized subsequently. The Board will require that these savings be demonstrated.

The Board will address this matter in more depth in the following Order.

Low-Income Energy Efficiency Programs

The Board is very aware of the energy burden faced by low-income customers and the vital importance of MH providing effective energy efficiency and comprehensive low-income programs.

This is an urgent need, with a significant number of households requiring assistance. The Board notes MH's understandable focus on its Capital program, and finds it equally understandable that, while the Corporation clearly takes energy efficiency and low income programs seriously, these efforts may be better served if delivered through a dedicated arms length agency whose focus would be solely on the success of energy efficiency and low income programs. This topic will be addressed more comprehensively in the Board's subsequent Order.

Energy Intensive Industry Rate

As stated in previous Orders, the Board has concerns with new industrial load billed at rates of approximately 3.2 cents per kW.h, as compared to the on average 5-6 cents per kW.h obtained from exporting the power.

With the new export commitments of MH, and with the increased risk that MH's Manitoba load forecasts may prove low given the costs of natural gas space heating, and the corresponding risk of energy switching, the Board is also concerned with the risk of MH having to further advance major generation and transmission projects to meet new export commitments, with rates inadequate relative to costs.

As to the risk that new industrial load will threaten export profitability and in-service date timelines for new capital projects, the Board intends to establish a hearing for the late fall of 2008 to consider MH's expected re-filed proposals for a new industrial rate for new and expanding energy intensive industry.

Diesel Zone Rates

As to the Interim Order related to electricity rates for the Diesel Zone, MH reported at the hearing that the Settlement Agreement among INAC, MKO and MH had not been finalized. The Board will therefore not conclude on that matter until the settlement has been finalized and an application by MH has been filed.

Rate Direction

As previously indicated, the Order to follow will provide background and rationale supporting and discussing the findings provided herein. That said, the Board's rationale for the increases to take effect July 1, 2008 are:

a) 5% across-the-board, excepting for Area and Roadway Lighting:

MH's situation, prospects and risks have not provided the Board sufficient confidence to adopt the 2.9% across-the-board increase sought.

While a 5% increase is significant it will not produce sufficient additional revenue in itself to ensure MH will reach its 75:25 debt:equity target within a reasonable period of time and with a reasonable degree of certainty. The adoption of IFRS alone could lead to the reduction of MH's net income forecasts going out to 2017/18 by as much as 50%, and that is before taking into account the risks associated with currency, hyper-inflation and interest rates.

While, from a consumer perspective, and particularly a low-income customer, all increases are problematic, a 5% increase in electricity rates is an increase far less damaging than consumers are experiencing with other energy sources. With respect to space heating customers, the increase of 5% for customers space-heating by electricity is modest compared to the possible 30% rise that may lie ahead for the winter of 2008/09 for natural gas customers.

b) No increase for Area and Roadway Lighting customers:

The Board generally accepts the City of Winnipeg's argument that it has been charged too much for too long. However, until the Board is fully satisfied with the COSS preparation guidelines and has finalized how marginal costs are to be taken into account, the Board is unwilling to reduce rates for the class.

c) Conditional rate increases for April 1, 2009.

The Board will require additional information from MH (to be detailed in its subsequent Order) before concluding on the 4% rate increase to be implemented as of April 1, 2009; the Board is currently not confident that annual 2.9% rate increases will prove sufficient.

Subsequent Board Order

As previously indicated, in the subsequent Order, the Board will delineate its rationale for providing MH with an immediate increase, except for no increase for Area and Roadway Lighting, and the provision of a further conditional 4% rate increase for April 2009.

In the Order to follow, the Board will also review in-depth the proceeding recently held, make a number of other important determinations, and discuss at length MH's situation and prospects.

It Is Therefore Ordered That:

1. An across-the-board rate increase of 5% for all Manitoba Hydro domestic customers, except for Area and Roadway Lighting customers effective July 1, 2008 BE AND IS HEREBY APPROVED. Rates for Area and Roadway Lighting customers will not change.

2. An increase in the Basic Monthly Charge for all customers of 5%, as of both July 1, 2008 and April 1, 2009 BE AND IS HEREBY APPROVED;

3. Order 20/07 which established an interim rate increase of 2.25% on March 1, 2007 BE AND IS HEREBY APPROVED;

4. The modest introduction of inverted rates for the “residential” class (SGS) BE AND IS HEREBY APPROVED;

5. Extension of the Surplus Energy Program (SEP) to October 31, 2008 BE AND IS HEREBY APPROVED;

6. Modifications to the Curtailable Rate Program BE AND IS HEREBY APPROVED;

7. Changes to the Limited Use of Billing Demand Rate, as per Order 27/05, BE AND IS HEREBY APPROVED;

8. Interim Orders per Schedule “A” concerning the Surplus Energy Program BE AND ARE HEREBY APPROVED; and

9. Interim Orders per Schedule “B” related to the Curtailable Rate Program BE AND ARE HEREBY APPROVED.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"G. GAUDREAU, CMA"
Secretary

Certified a true copy of
Board Order 90/08 issued by
The Public Utilities Board

Secretary

SCHEDULE "A"

Ex Parte Orders Relating to the Surplus Energy Program

Order	Date	Order	Date	Order	Date
99/04	21/7/04	29/05	23/2/05	131/05	28/9/05
102/04	28/7/04	30/05	2/3/05	134/05	5/10/05
104/04	3/8/04	31/05	9/3/05	136/05	12/10/05
106/04	11/8/04	33/05	16/3/05	139/05	19/10/05
108/04	18/8/04	35/05	23/3/05	141/05	26/10/05
110/04	25/8/04	36/05	30/3/05	147/05	2/11/05
113/04	1/9/04	46/05	6/4/05	149/05	9/11/05
115/04	8/9/04	53/05	13/4/05	156/05	16/11/05
117/04	15/9/04	55/05	20/4/05	158/05	23/11/05
118/04	22/9/04	58/05	27/4/05	159/05	30/11/05
121/04	29/9/04	64/05	4/5/05	161/05	7/12/05
123/04	6/10/04	66/05	11/5/05	163/05	14/12/05
127/04	13/10/04	69/05	18/5/05	168/05	21/12/05
128/04	20/10/04	70/05	25/5/05	176/05	28/12/05
130/04	27/10/04	91/05	1/6/05	1/06	4/01/06
133/04	3/11/04	93/05	8/6/05	2/06	11/01/06
137/04	10/11/04	94/05	15/6/05	9/06	18/01/06
142/04	17/11/04	96/05	22/6/05	11/06	25/01/06
145/04	24/11/04	100/05	29/6/05	14/06	01/02/06
147/04	1/12/04	104/05	6/7/05	19/06	08/02/06
152/04	8/12/04	110/05	13/7/05	24/06	15/02/06
154/04	15/12/04	111/05	20/7/05	27/06	22/02/06
160/04	22/12/04	116/05	27/7/05	31/06	01/03/06
161/04	29/12/04	122/05	3/8/05	33/06	08/03/06
1/05	5/1/05	123/05	10/8/05	38/06	15/03/06
6/05	12/1/05	124/05	17/8/05	41/06	22/03/06
11/05	19/1/05	125/05	24/8/05	42/06	29/03/06
14/05	26/1/05	126/05	31/8/05	43/06	05/04/06
16/05	2/2/05	128/05	7/9/05	44/06	12/04/06
21/05	9/2/05	129/05	14/9/05	45/06	19/04/06
25/05	16/2/05	130/05	21/9/05	46/06	26/04/06

Order	Date
66/06	3/5/06
71/06	10/5/06
77/06	17/5/06
78/06	24/5/06
79/06	31/5/06
80/06	7/6/06
81/06	14/6/06
96/06	21/6/06
98/06	28/6/06
101/06	5/7/06
106/06	12/7/06
111/06	19/7/06
115/06	26/7/06
118/06	02/08/06
119/06	09/08/06
120/06	16/08/06
122/06	22/08/06
123/06	29/08/06
124/06	06/09/06
131/06	13/09/06
132/06	20/09/06
134/06	27/09/06
139/06	4/10/06
140/06	11/10/06
141/06	18/10/06
143/06	25/10/06
147/06	1/11/06
151/06	8/11/06
152/06	15/11/06
157/06	22/11/06
162/06	29/11/06
166/06	06/12/06
167/06	13/12/06
170/06	20/12/06
179/06	27/12/06
1/07	3/1/07
2/07	10/1/07

Order	Date
3/07	17/1/07
6/07	24/1/07
7/07	31/1/07
8/07	7/2/07
9/07	14/2/07
16/07	21/2/07
19/07	28/2/07
22/07	7/3/07
29/07	14/3/07
30/07	21/3/07
35/07	28/3/07
39/07	4/4/07
41/07	11/4/07
42/07	18/4/07
57/07	25/4/07
62/07	2/5/07
63/07	9/5/07
68/07	16/5/07
71/07	23/5/07
74/07	30/5/07
78/07	6/6/07
80/07	13/6/07
81/07	20/6/07
82/07	27/6/07
86/07	4/7/07
89/07	11/7/07
97/07	18/7/07
98/07	25/7/07
100/07	1/8/07
102/07	8/8/07
105/07	15/8/07
110/07	22/8/07
112/07	29/8/07
117/07	5/9/07
118/07	12/9/07
119/07	19/9/07

Order	Date
123/07	26/9/07
124/07	3/10/07
125/07	10/10/07
127/07	17/10/07
128/07	24/10/07
136/07	26/10/07
142/07	31/10/07
143/07	7/11/07
144/07	14/11/07
147/07	21/11/07
151/07	28/11/07
156/07	5/12/07
158/07	12/12/07
163/07	19/12/07
165/07	27/12/07
1/08	2/1/08
2/08	9/1/08
4/08	16/1/08
5/08	23/1/08
7/08	30/1/08
9/08	6/2/08
10/08	13/2/08
12/08	20/2/08
13/08	27/2/08
15/08	5/3/08
18/08	12/3/08
20/08	19/3/08
23/08	26/3/08
37/08	2/4/08
42/08	9/4/08
46/08	16/4/08
49/08	23/4/08
53/05	30/4/08
55/08	7/5/08
58/08	14/5/08
61/08	21/5/08

SCHEDULE "B"

Ex Parte Orders Relating to the Curtailable Rate Program

Order	Date
28/05	17/2/05
59/05	28/4/05
65/06	1/5/06
56/07	24/4/07
54/08	30/4/08

Appendix A

Appearances

R. Peters	Counsel for The Manitoba Public Utilities Board (Board)
O. Fernandes P. Ramage	Counsel for the Manitoba Hydro Electric Board (Hydro)
B. Williams	Counsel for Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors Inc./ Winnipeg Harvest (COALITION)
T. McCaffrey J. Landry	Counsel for Manitoba Industrial Power Users Group (MIPUG)
M. Anderson	Representing Manitoba Keewatinook Ininew Okimowin. (MKO)
W. Gange D. Rempel P. Miller	Counsel for Resource Conservation Manitoba/Time to Respect Earth's Ecosystems (RCM/TREE)
D. Buhr	Counsel for the City of Winnipeg (CITY)
J. Scott (np)	TransCanada Keystone Pipeline GP Ltd.
T. Trull (np)	

(np)- not present at the hearing

Appendix B

Witnesses for Hydro

V. A. Warden	Vice-President, Finance & Administration and Chief Financial Officer
H. M. Surminski	Section Head, Generation System Studies, Resource Planning and Market Analysis,
K. R. Wiens	Division Manager, Rates & Regulatory Affairs
W. J. Derksen	Manager, Corporate Accounting
C. S. Thomas	Manager, Electric Rates & Regulatory Department
L. J. Kuczek	Division Manager, Consumer Marketing and Sales
I. S. Page	Manager, Financial Planning Department
W. Hamlin	Senior Energy Policy Officer, Energy Policy & Emissions Trading, Power Supply

Appendix C

Interveners of Record

1. Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors/Winnipeg Harvest (Coalition)
2. Manitoba Industrial Power Users Group (MIPUG)
3. Manitoba Keewatinook Ininew Okimowin (MKO)
4. Resource Conservation Manitoba/Time to Respect Earth's Ecosystems (RCM/TREE)
5. City of Winnipeg (CITY)
6. TransCanada Keystone Pipeline GP Ltd. (KEYSTONE)

Appendix D

Intervener Witnesses

Coalition

W. Harper	Manager, Econalysis Consulting Services, Inc.
P. Dunsky	President, Dunsky Energy Consulting

MIPUG

A. McLaren	Consultants, InterGroup Consultants Ltd.
P. Bowman	

RCM/TREE

P. Chernick	President, Resource Insight Inc
S. Weiss (np)	Sr. Policy Analyst, NW Energy Coalition

Appendix E

Presenters

Mr. A. Ciekiewicz	Citizen
Mr. B. Turner	Chair, Manitoba Industrial Power Users Group
Mr. K. Svidal	Manager, Energy Management Group, Enbridge Pipelines
Mr. R. Rader (written only)	Managing Director, Koch Fertilizer Canada, Ltd.