

MANITOBA) Order No. 27/11
)
THE PUBLIC UTILITIES BOARD ACT)
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MANITOBA HYDRO ACT)
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THE CROWN CORPORATIONS PUBLIC)
REVIEW AND ACCOUNTABILITY ACT) February 16, 2011

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

MANITOBA HYDRO
SURPLUS ENERGY PROGRAM RATES
FOR THE WEEK OF FEBRUARY 21 TO FEBRUARY 27, 2011

Introduction

By this Order, the Public Utilities Board (Board) approves Manitoba Hydro's (MH) February 15, 2011 application for *ex parte* approval of revised interim Surplus Energy Program (SEP) prices -- for the week of February 21 to February 27, 2011.

By Order No. 90/00, the Board approved MH's application for SEP, providing for the weekly setting and publishing of SEP rates through "Schedule SEP-1," the most recent attached. Since then, through Orders 173/06, 136/07 and 57/09 SEP has been extended to March 31, 2013.

Background

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

SEP provides large Manitoba commercial customers additional access to electricity on an interruptible basis, with pricing established to approximate that offered by MH to the Utility's "opportunity" export sales customers or, in the case where MH expects to import power, at a price reflective of MH's cost, although with a surcharge.

When MH has surplus energy and is not importing, SEP benefits large customers able to make use of additional electricity. Essentially, SEP provides the Utility revenue from domestic industry that it would otherwise realize by selling all of its excess generation to the Midwest Independent System Operators

(MISO) market, a market basically composed of American utilities. Increased sales to Manitoba's domestic market are expected to have economic benefits for Manitoba and the SEP program is expected to "break-even" on an annual basis.

Under SEP, large Manitoba customers either accept or decline additional electricity delivery at the prices offered. Customers are responsible for the implications of any service interruptions that may develop through their own back-up generation.

MH's SEP net revenues represent program sales volumes net of related imputed costs, with input costs reflective of after-the-fact spot wholesale energy market pricing.

Appendix "A", attached, depicts the variability of average spot market prices, comparing the current year's pricing with the price offerings of the previous three years. Appendices "B", "C" and "D" report SEP prices provided to medium general service customers, as established for Peak, Shoulder and Off-Peak hours over the same time period.

Peak time represents high demand hours (Monday to Friday). Off-peak is the period between 11 p.m. and 7 a.m.; shoulder time is the remaining daily hours.

With the concurrent existence of a transmission-constrained MH Ontario market and the April 2005 implementation of new market rules for MISO, MH sells the vast majority of its surplus energy to the MISO market.

MISO provides MISO-footprint utilities, including MH, the ability to sell surplus energy to other utilities within MISO at MISO-established pricing, avoiding the Utility having to reach terms on an individual basis with each specific counterparty.

Recent past experience:

On October 31, 2006, SEP prices increased dramatically as a result of transmission constraints in the United States (U.S.), the result of lower than normal temperatures across the MISO region which resulted in increased electricity demand at a time of planned generating equipment outages typical of the fall season. These factors combined to drive up sharply market import and export prices. Unfortunately, concurrent lower water levels in Manitoba at that time led to MH importing electricity, and MH did not financially benefit from the situation.

When MH has to import power to meet SEP domestic demand, with import prices generally higher than the cost of generation in Manitoba (that cost held down by the lower amortization and financial costs of, generally, older generating stations), MH adds a 10% surcharge to SEP prices -- in accordance with the Board's approved procedure for such circumstances.

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

As a result, MH increased stored water from the shoulder period which otherwise would have been used to produce electricity for export, this to allow for increased electricity generation in the off-peak period so as to avoid importing. These actions, combined with the surcharge, had the effect of increasing off-peak rates for SEP customers to the equivalent shoulder rate.

From May 2007 through to December 2007 MH did not require to constantly import power, and was able to return to normal storage and generation practices. With relief from the higher import prices, a decline in SEP off-peak rates occurred.

Subsequently, MH was a net importer of off-peak energy from December 18, 2007 to January 21, 2008, providing reservoir support (storing water) during off-peak hours for use in peak periods. Since then, MH has returned to its more common experience of being a net exporter.

SEP prices are also affected by currency exchange rates. Prices are based on week-ahead U.S. dollar (\$USD) denominated MISO-market prices. These prices are then converted to Canadian dollars (\$CDN) before setting the SEP price. Canadian-U.S. dollar differentials have varied widely over the past decade, initially rising steadily to a peak of \$1.10, falling to as low as 76 cents, and, more recently, recovering to in excess of 95 cents.

In 2009, MH's export opportunity sales, and, concurrently, its SEP sales, experienced the negative effects of decreased demand (global recession), low natural gas prices (new shale gas supply

combined with the effects of the recession) and unfavourable currency exchange rates (steadily rising Canadian dollar).

The global recession hit North America and the MISO market hard, and business slowdowns led to decreased power needs for U.S. and Manitoba production. At the same time, natural gas prices, an important feedstock for electrical generation in the MISO market, fell sharply (now in the \$5/gigajoule range as compared to 2006 highs of \$15), decreasing the market price for producing peak electricity generation in the MISO area.

Finally, and as previously noted, the Canadian dollar moved up from a low of 76 cents American to approaching parity, affecting MH's pricing to the MISO market customers, which is priced in American dollars.

Longer-Term SEP Program History:

Since its inception in December 2000, SEP has sold an average of 22,400 MW hours per year of electricity to MH's medium and large customers, all at "wholesale" market prices.

Over the five year period November 1, 2004 to October 31, 2009, MH reports SEP Net Income of \$246,063, or of approximately \$49,200/year. MH advises that the Utility is finalizing the results for 2008/2009, so the above noted averages are likely to change when those results are available.

Board Findings

MH's latest SEP application is in accordance with the agreed-upon practice, and SEP continues to have value for the small component of MH's larger customer base able to profitably access interruptible power.

Continuing to deal with SEP applications on an interim *ex parte* basis is consistent with past practice, and the rates set through this process are interim, to be finalized at General Rate Application hearings.

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

IT IS THEREFORE ORDERED THAT:

1. Manitoba Hydro's application for approval of revised Schedule SEP-1, as attached, to be in effect from February 21 to February 27, 2011, BE AND IS HEREBY APPROVED on an Interim Ex Parte basis.
2. This Interim Ex Parte Order shall be in full force and effect until confirmed or varied by a further Order of the Board following a public hearing.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"K. SHIELDS"
Acting Secretary

Certified a true copy of Order
No. 27/11 issued by The Public
Utilities Board



Acting Secretary

The estimated average spot market rate is \$23.84 per MWh. Manitoba Hydro warrants that the Spot Market Rate has been calculated using approved Public Utilities Board methodology. The expected source(s) of spot market energy is (are): export



**SCHEDULE SEP-1
 SURPLUS ENERGY PROGRAM RATES**

February 21, 2011 to February 27, 2011

Tariff No. 50-19 General Service Medium (Utility Owned Trans.)

	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.620	0.620	0.620	cents/kWh
Energy Charge	3.768	2.713	1.511	cents/kWh

Tariff No. 50-20 General Service Large 750V not exceeding 30 kV

	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.330	0.330	0.330	cents/kWh
Energy Charge	3.718	2.677	1.490	cents/kWh

Tariff No. 50-21 General Service Large 30 kV not exceeding 100 kV

	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.140	0.140	0.140	cents/kWh
Energy Charge	3.629	2.613	1.455	cents/kWh

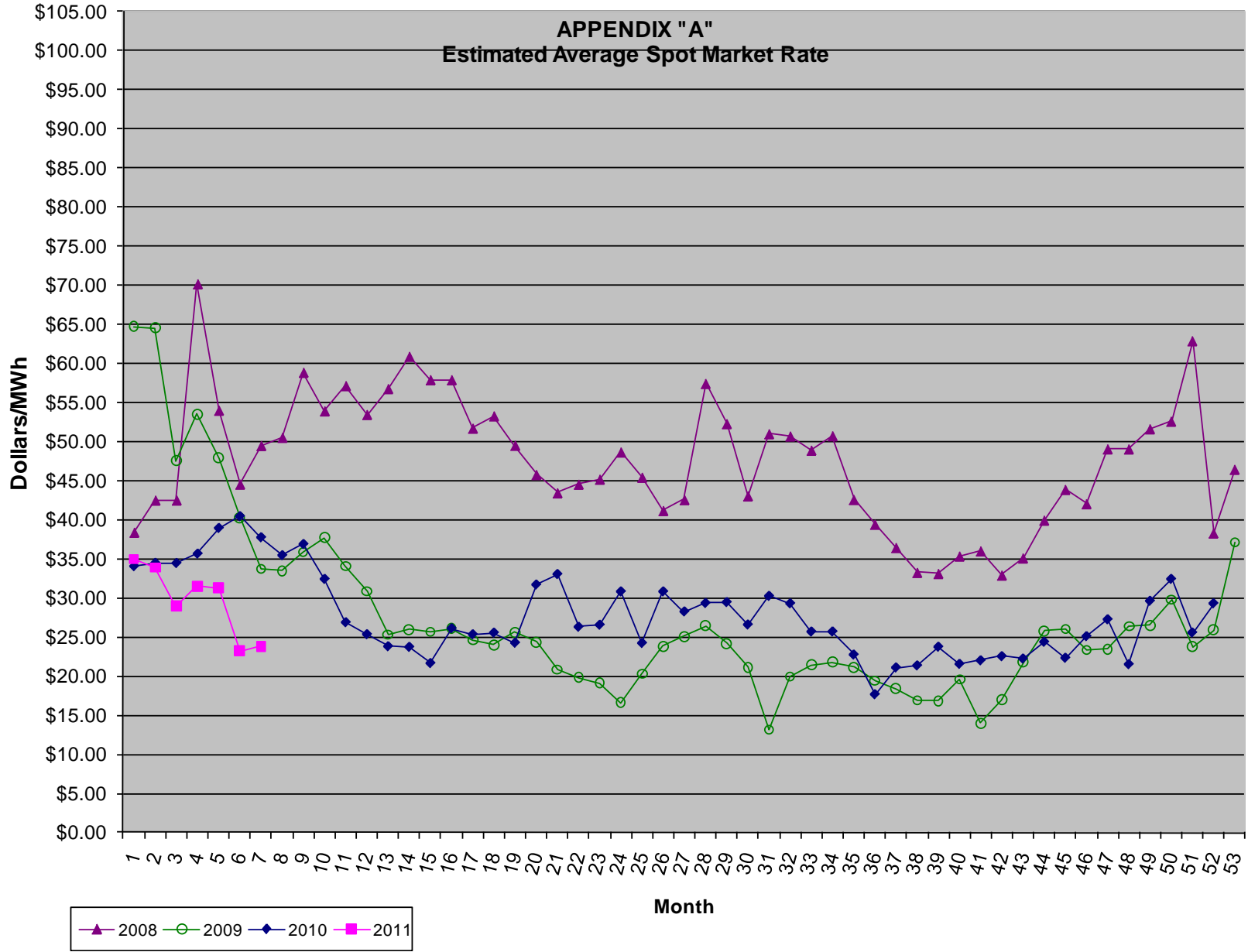
Tariff No. 50-22 General Service Large exceeding 100 kV

	Peak Hours	Shoulder Hours	Off Peak Hours	
Distribution Charge	0.060	0.060	0.060	cents/kWh
Energy Charge	3.575	2.574	1.433	cents/kWh

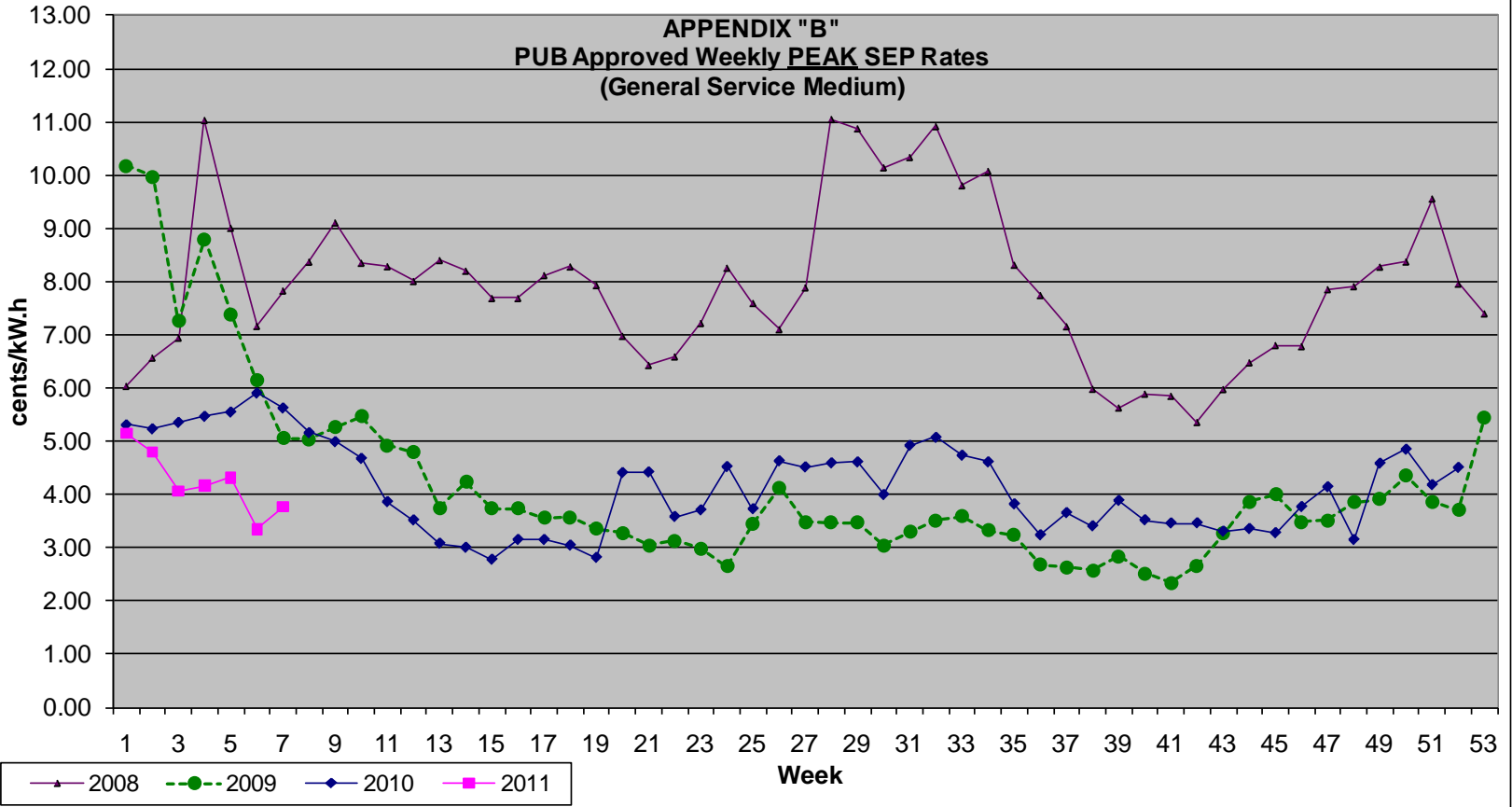
	May 1 to October 31	November 1 to April 30
Peak Hours	Monday - Friday * 12:01 - 20:00 Hours	Monday - Friday * 7:01-11:00 and 16:01-20:00 Hours
Shoulder Hours	Monday - Sunday ** 7:01 - 23:00 Hours	Monday - Sunday ** 7:01 - 23:00
Off Peak Hours	Monday - Sunday 23:01 - 7:00 Hours	Monday - Sunday 23:01 -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

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

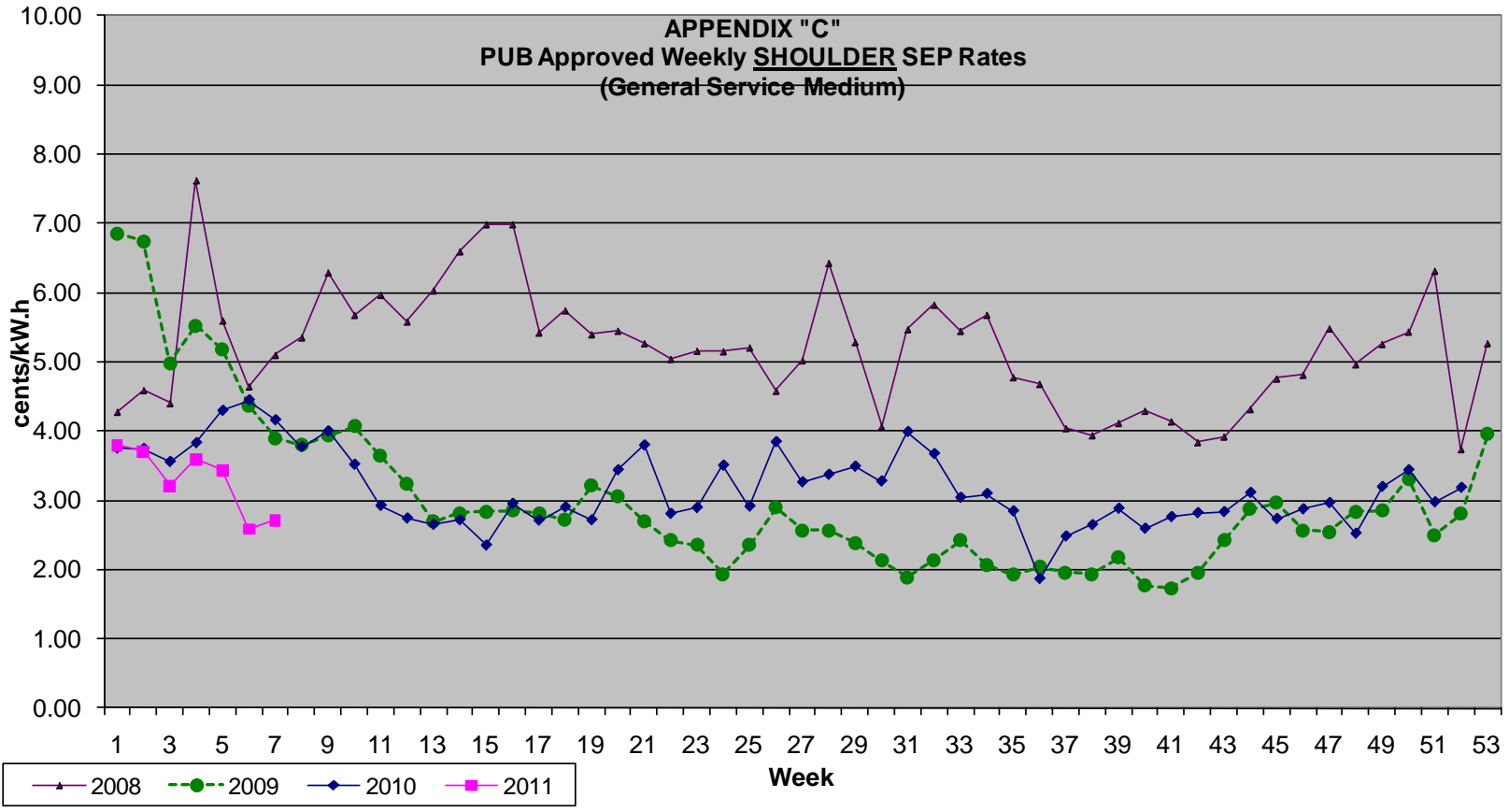
APPENDIX "A"
Estimated Average Spot Market Rate



APPENDIX "B"
PUB Approved Weekly PEAK SEP Rates
(General Service Medium)



APPENDIX "C"
PUB Approved Weekly SHOULDER SEP Rates
(General Service Medium)



APPENDIX "D"
PUB Approved Weekly OFF-PEAK SEP Rates
(General Service Medium)

