

MANITOBA) Order No. 86/12
)
THE PUBLIC UTILITIES BOARD ACT)
)
MANITOBA HYDRO ACT)
)
THE CROWN CORPORATIONS PUBLIC)
REVIEW AND ACCOUNTABILITY ACT) July 11, 2012

BEFORE: Régis Gosselin, CGA, MBA, Chair
Monica Girouard, CGA, Member

MANITOBA HYDRO
SURPLUS ENERGY PROGRAM RATES
FOR THE WEEK OF JULY 16 TO JULY 22, 2012

Introduction

By this Order, the Public Utilities Board (Board) approves Manitoba Hydro's (MH) July 11, 2012 application for *ex parte* approval of revised and interim Surplus Energy Program (SEP) rates for the week of July 16 to July 22, 2012 attached as "Schedule SEP-1".

By Order No. 90/00, the Board approved MH's application for the SEP program, providing for weekly setting and publishing of SEP rates. The SEP program has been extended to March 31, 2013 by Board Order 57/09.

Background

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

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 (generally American utilities), or, in the fairly rare case where MH expects to import power (in these circumstances the SEP price reflects MH's estimated cost plus a surcharge).

When MH has surplus energy (and is not importing), SEP benefits large customers that are able to make use of additional electricity. Essentially, sales pursuant to the SEP program

provides MH revenue from domestic industry equivalent to that which it would otherwise realize by selling all of its excess generation into 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 (jobs and increased industrial use of production capacity) for Manitoba. The SEP program is expected to "break-even" on an annual basis (break-even in the sense that the revenue raised is expected to be roughly the same as if the power had been sold on the opportunity export market).

Under SEP, participating large Manitoba customers either accept or decline the available additional electricity, as offered at the rates approved by the Board. In accepting the excess power, customers accept the risk of adverse implications if a service interruption occurs. These customers are generally expected to have back-up generation to draw on if a service interruption occurs.

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.

Recent experience:

On October 31, 2006, SEP prices increased dramatically as a result of transmission constraints in the United States (U.S.), that 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). These factors combined to sharply drive up both 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 program domestic demand, with import prices generally higher than the cost of MH generation (MH's costs are held down by the lower amortization and financial costs of, generally, older generating stations), MH adds a 10% surcharge to arrive at the SEP prices - this in accordance with the Board's approved procedure for such circumstances.

Beginning January 2007, shoulder and off-peak rates increased significantly, corresponding to an increase in average spot market pricing. SEP off-peak rates approached or exceeded shoulder rates, this largely the result of MH's requirement to meet SEP domestic demand in the off-peak hours. MH imported power during those off-peak hours virtually every day (from January 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 constantly require imported power, and was able to return to its normal storage and generation practices. With relief from the higher import prices, a decline in SEP off-peak rates occurred, benefitting large domestic customers.

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, that is for the last four years, MH returned to its more common experience, that 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 approaching par.

From 2009, MH's export opportunity sales, and, concurrently, its SEP sales, have experienced the negative effects of decreased demand (global recession), low natural gas prices (new shale gas supply) and unfavourable currency exchange rates (a much higher Canadian dollar).

The global recession hit North America and the MISO market hard, and business slowdowns led to decreased power needs for both U.S. and Manitoba industry. At the same time, natural gas prices, an important feedstock for electrical generation in the MISO market, fell sharply (now in the \$4/gigajoule range as compared to 2006 highs of \$15), sharply decreasing the market price for producing peak electricity generation in the MISO area.

Longer-Term SEP Program History:

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

Board Findings

MH's latest SEP application is in accordance with the agreed-upon practice, and the SEP program continues to have value for a small component of MH's larger customer base (those firms 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 July 16 to July 22, 2012, 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

"RÉGIS GOSSELIN, CGA, MBA"
Chair

"KURT SIMONSEN, P.ENG."
Acting Secretary

Certified a true copy of Order No.
86/12 issued by The Public
Utilities Board

Acting Secretary

The estimated average spot market rate is \$26.73 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**

July 16, 2012 to July 22, 2012

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 | 3.704 | 3.371 | 1.472 | 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 | 3.654 | 3.326 | 1.452 | 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 | 3.567 | 3.246 | 1.417 | cents/kWh |

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

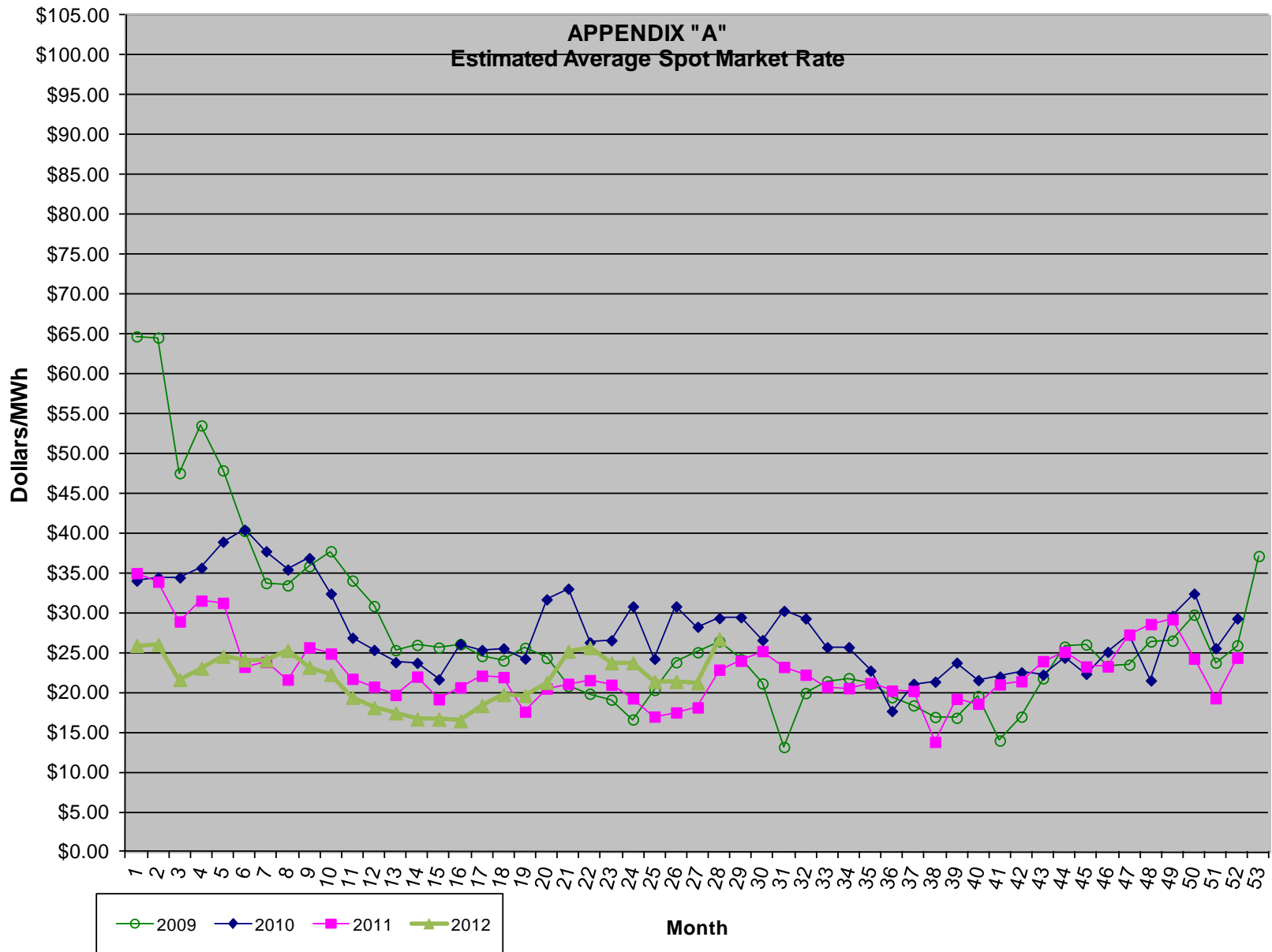
| | Peak Hours | Shoulder Hours | Off Peak Hours | |
|---------------------|------------|----------------|----------------|-----------|
| Distribution Charge | 0.060 | 0.060 | 0.060 | cents/kWh |
| Energy Charge | 3.514 | 3.198 | 1.396 | cents/kWh |

| | 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 |

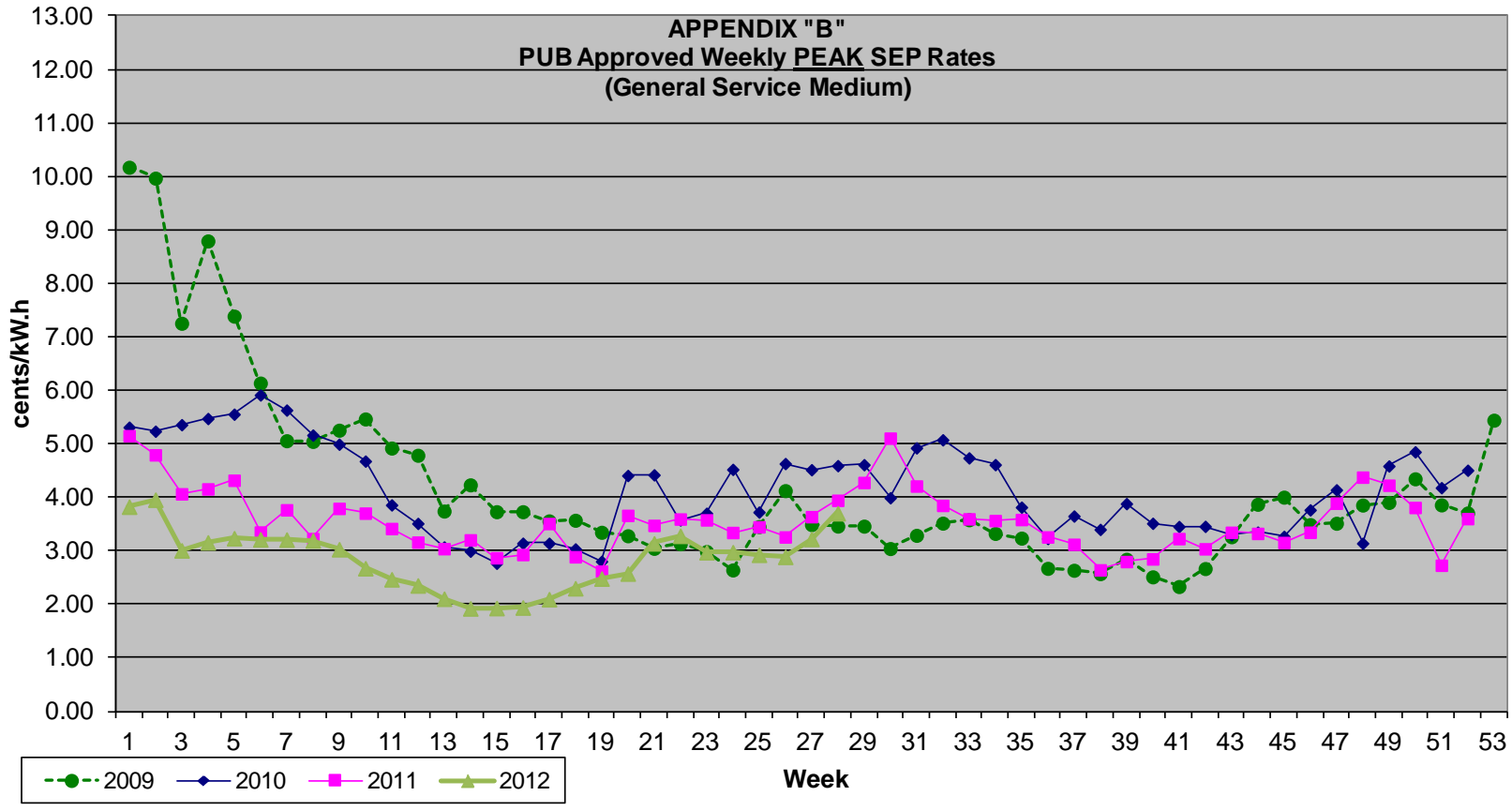
* excluding statutory holidays
 ** excluding peak hours

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.

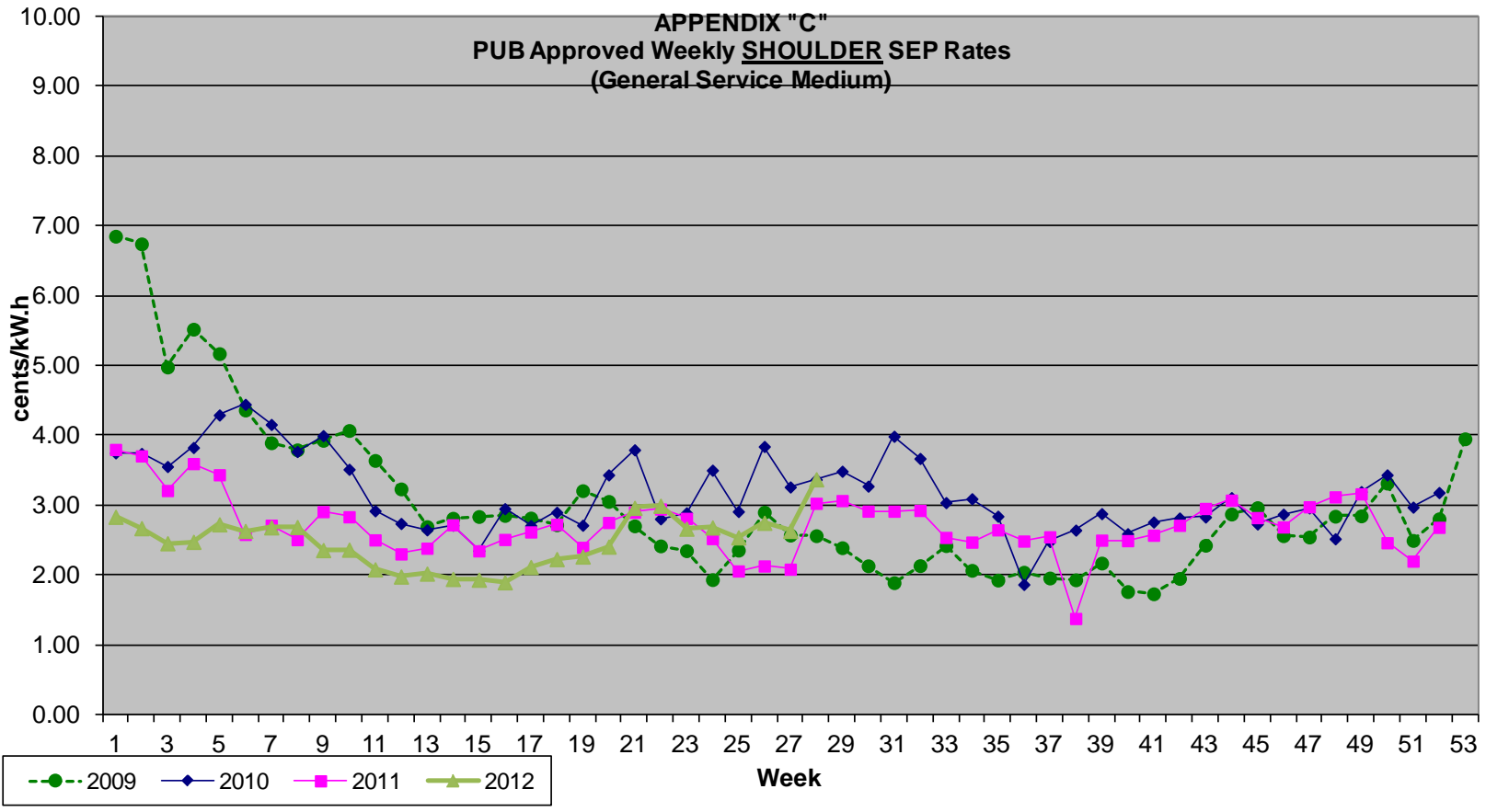
APPENDIX "A"
Estimated Average Spot Market Rate



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)

