Manitoba Keewatinowi Okimakanak, Inc.

Manitoba Hydro Needs for and Alternatives To (NFAT) Review

Manitoba Public Utilities Board

Presentation of Michael Anderson, MKO

May 14, 2014 – Thompson, Manitoba

1.0 Mitigation of Effects on MKO Ratepayers of Rate Increases Consistent with the Manitoba Hydro Preferred Development Plan

MKO wishes to provide comments regarding the potential effects of projected rate increases consistent with Manitoba Hydro's Preferred Development Plan on the Residential, General Service and Diesel Service customers of Manitoba Hydro in the MKO First Nations.

Ideally, there should be no increase in customer rates or bills in the MKO First Nations, in particular for "Hydro Affected Customers" in the MKO First Nations. In fact, MKO continues to pursue certain rate reductions for MKO First Nation customers, including the Hydro Affected Customers and Diesel customers. However, MKO appreciates that Manitoba Hydro is facing complex financial and operational circumstances, including those associated with the Preferred Development Plan, which circumstances have been affected by the reduction in previously forecast revenues from extra provincial sales.

The impact of the projected rate increases on the bills of MKO First Nation customers should be mitigated to the fullest extent possible through the determined and effective application of all available measures.

In this regard, the Board recently addressed a proposed across the board interim rate increase of 3.94% to be effective April 1, 2014 by instead approving in Order 49-14 an interim rate increase of 2.75% for all customer classes, effective May 1, 2014. The Board approved a 2% interim increase, to approximate the annual rate of inflation, plus a further 0.75% interim rate increase, with the revenues from the 0.75% rate increase to flow into the existing Deferral Account established in Board Order 43/13 to assist with the payment of in-service costs of the Bipole III transmission project.

It is MKO's understanding that projected annual rate increases at approximately two times the rate of inflation for approximately the next two decades are associated with the Preferred Development Plan. Manitoba Hydro should pursue a two-tracked approach to address and reduce the effects on the bills of First Nation customers resulting from proposed rate increase and any future increases, which includes:

a) Bill Reduction through Demand Side Management

b) Bill Reduction through Rate Mitigation Measures

In this regard, MKO notes with concern the apparent information provided by Manitoba Hydro in the response to an MKO information request at MKO/MH I-1 a) and c) and at MKO/MH I-3 that of the total 9,855 Residential and General Service accounts in the MKO First Nations, 8,507 accounts are in arrears as of April, 2014, or 86.3% of all Residential and General Service accounts (Tab 1, Tab 2 and Tab 3 of the MKO NFAT Panel Book of Documents). Clearly, there is an existing issue with the ability of MKO First Nation customers to pay the present electric rates, let alone to pay any approved interim rate increase or the projected future rate increases.

2. Bill Reduction through Demand Side Management

MKO views efforts by Manitoba Hydro to reduce bills by ensuring the availability of DSM programs, particularly to low income, fixed income and remote Residential customers and to General Service customers in First Nation communities, to be of the highest importance.

Any future rate increases should be conditional on Manitoba Hydro's Demand-Side Management (DSM) programs being universally available and practically accessible to First Nation customers. These DSM programs should be provided by Manitoba Hydro on a turn-key basis to First Nation customers, as previously and recently recommended by Mr. Dunsky, including in Mr. Dunsky's April 24, 2014 submission to the Board in this proceeding.

Manitoba Hydro should immediately incorporate Mr. Dunsky's recommendations into Manitoba Hydro's DSM programs to ensure that the DSM programs will reach low-income MKO customers.

It is value that Manitoba Hydro regularly report on the actual availability and penetration of the low-income DSM programs to First Nation low-income customers and on the success in reducing the bills of Manitoba Hydro's low-income First Nation customers due to the implementation of such programs in the MKO First Nations.

As noted in MKO's comments on the 2014 Interim Rate Application, MKO continues to remain watchful as a result of Manitoba Hydro's statement in the 2008 proceedings at T1533/7-21 that the home audit program for low income individuals would not apply to homes in the MKO communities where Manitoba Hydro perceives that the benefits would ultimately flow to Department of Indian Affairs and Northern Development Canada.

MKO notes the development since 2008 of Manitoba Hydro's programming in the MKO First Nations. Manitoba Hydro should ensure that DSM programs are universally available to all customers in all MKO First Nation communities, including in the case of those low income customers where it may appear that the government of Canada is an indirect beneficiary.

There is value in Manitoba Hydro personnel working with First Nation customers to regularly meet with MKO and the MKO First Nations to resolve any concerns, misconceptions or lack of information on the part of Manitoba Hydro (T1530-1532 of the 2008 proceedings), including regarding the ultimate beneficiaries of DSM programs in the MKO First Nation communities.

3. Bill Reduction through Rate Mitigation Measures

It is suggested that Manitoba Hydro give effect to rate mitigation measures for First Nations that incorporate the following elements:

a) Removal of Mitigation Costs from Rates
b) Allocation of Greater Share of Net Export Revenue to First Nation Customers
c) Establish “Equivalent to Gas” Rate for Heat Portion of Bills
d) Allocation of Net Export Revenue to Reduce Diesel Cost of Service
e) Removal of Water Rental Fees from Rates

a) Removal of Mitigation Costs from Rates

As set out in Order 117/06, August 2, 2006, the Board acknowledged MKO's previous recommendations regarding the matter of rate mitigation for Hydro Affected Customers. MKO continues to recommend that rate design changes should take place in the form of a revised COSS model.

Specifically, MKO sought and continues to seek the removal of mitigation costs from the aggregate costs allocated to northern First Nation customers who are affected by Manitoba Hydro’s operations. The basis for the reduction would be that the “Hydro Affected Customers” should not incur any electricity charge related to mitigation costs.

b) Allocation of Greater Share of Net Export Revenue

Also as acknowledged by the Board in Order 117/06, MKO favours and continues to pursue the creation of a new class for Hydro-affected customers residing on the waterways utilized by Manitoba Hydro, which class would receive a specific sharing of net export revenue based on recognition of a fundamental change having occurred with respect to the understanding in place when First Nations entered into treaties and signed mitigation agreements with the Province, Manitoba Hydro and Canada. This change is the increased reliance on export sales, as initially, the basis for building the northern generation plants was to provide electricity for Manitobans.

c) Establish "Equivalent to Gas" Rate for Heat Portion of Bills

Manitoba Hydro confirms at MKO/MH I-4 that no MKO First Nation receives natural gas services or supplies from the Manitoba Hydro/Centra Gas natural gas distribution system. Therefore, the MKO First Nations are not able to benefit from a reduction in their bills by switching to natural gas as the primary source of home heat.
On April 25, 2014, and in response to the Elders and Traditional Land Users Panel presented by CAC (Manitoba) during the Manitoba Hydro NFAT proceedings, Manitoba Hydro circulated MH-181 which confirmed that the dwellings of Manitoba Hydro employees in Gillam are equipped with two meters in order to separately meter electricity used for home heating. (Tab 8 of the MKO NFAT Panel Book of Documents)

Based on a review of MH-181, MKO understands that the purpose of this dual metering is to apply a preferential electricity rate which charges Manitoba Hydro employees a “flat rate for heat”. MH-181 states that this “flat rate” is “derived from the lowest average heating costs in Winnipeg, adjusted annually”.

Subject to further clarification by Manitoba Hydro, it would appear that the determination of the “lowest average heating costs in Winnipeg” as set out in MH-181 in this proceeding would be based on the cost of using natural gas as a source of home heat, as it is well established that natural gas is the lowest cost source of home heat in Winnipeg.

In order to maintain equity in electricity rates and bills amongst Manitoba Hydro’s customers in Winnipeg and in the MKO First Nations, particularly for those MKO First Nation customers north of the 53rd parallel, Manitoba Hydro should establish a flat “Equivalent to Gas” rate for electric heat for northern First Nation customers, which rate is calculated to be equivalent to the lowest average heating costs in Winnipeg, as adjusted annually.

d) Allocation of Net Export Revenue to Reduce Diesel Cost of Service

The proposed rates to be effective April 1, 2014 and following should take into account that commencing May 1, 2014, in accordance with the tentative Diesel Settlement Agreement and subject to PUB approval, a portion of Net Export Revenues is to accrue to the benefit of the Diesel Communities and be applied so as to reduce the revenue requirement in the Diesel Communities and that the Diesel Communities will receive such an allocation of Net Export Revenues based on the same principles as applied to the similar Grid Customer class**.**

The mechanism to address the application of net export revenues to the Diesel Communities was addressed in Order 117/06, at paragraph 1(e) of page 76, which states, "(n)et export revenue is to be allocated to the domestic customer classes, including diesel customers, using the methodology recommended by Manitoba Hydro."

e) Removal of Water Rental Fees from Rates

Similar to MKO’s rationale acknowledged by the Board in Order 117/06 regarding the removal of mitigation costs from the aggregate costs allocated to northern First Nation customers who are affected by Manitoba Hydro’s operations, MKO it is also suggested that Water Rental Fees be treated in a similar manner. The basis for the reduction would be that the “Hydro Affected Customers” should not incur any electricity charge related to Water Rental Fees.

4. Other Considerations – DIAND O&M Funding Mechanism

In accordance with the DIAND Capital Facilities and Maintenance Operation and Maintenance mechanism, electrical costs are funded based on a percentage of the estimated electricity costs based on a Cost Reference Manual and not by comparison to actual Manitoba Hydro bills. The percentage of the estimated costs which are funded is based on the use and classification of a capital asset. The resulting funding contribution of a percentage of the estimated cost is described as the Net Funding Requirement (NFR) (Tab 6 of the MKO NFAT Panel Book of Documents).

In all cases where an asset is funded at less than 100% of the estimated cost under the funding formula, the First Nation is expected to make up the balance of O&M costs. Funding is expected to come from user fees and other sources of funding which are available to the First Nation.

In the event that a First Nation is not able to generate these levels of own-source revenues from user fees or other revenues, a funding shortfall would be expected to result, including in respect of the revenues available to pay electricity bills.

Please see Tab 5 of the MKO NFAT Panel Book of Documents for an additional discussion of the potential effect of the DIAND Capital Facilities and Maintenance Operation and Maintenance mechanism on the ability of the MKO First Nations to address the projected rate increases.

MKO understands that the evidence of DIAND'S Fred Mills which was provided by MKO as CAC/MKO 7 – Attachment continues to generally reflect the circumstances regarding DIAND's limited funding envelope and funding priorities in relation to rate increases affecting both First Nation Diesel customers as well as First Nations customers served from Manitoba Hydro's integrated system.

It is MKO's understanding that DIAND's regional funding envelope for Manitoba is increased at an average of about 2% per year and that there is no assurance that DIAND will automatically match 4% annual increases in electricity rates for the purpose of calculating the O&M funding contributions for electrical costs. In the event that the rate increases are not matched for the purpose of calculating the O&M funding contributions for electrical costs, an increasing gap between O&M contributions for estimated electrical costs and actual Manitoba Hydro bills may result, in addition to any shortfall between the net-funded O&M contributions and First Nation own-source revenues.