

MANITOBA HYDRO
2012/13 & 2013/14 GENERAL RATE APPLICATION

VOLUME II

DIESEL RATES

INDEX

11.0 Overview of Tab 11 1
11.1 Proposed Diesel Zone Rate Changes 1
11.2 Background 3
11.3 Description of Rates and Rate Setting Methodology 4

Appendices

11.1 Diesel Filing of December 22, 2011
11.2 Diesel Zone Schedules

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
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11.0 OVERVIEW OF TAB 11

Tab 11 provides the proposed rates and customer impacts for customers in four remote communities served by diesel generation. Section 11.1 provides an overview of the proposed diesel zone rate changes; Section 11.2 a background with respect to requested rate increases; and, Section 11.3 provides a description of the rates and rate setting methodology for customers located in the diesel zone.

11.1 PROPOSED DIESEL ZONE RATE CHANGES

On December 22, 2011 Manitoba Hydro made a submission to the Public Utilities Board (“PUB”) which addressed a number of issues and PUB directives in respect of the Diesel communities and which provided indicative rates calculated from the 2011/12 Diesel Cost of Service Study. A copy of the December 22, 2011 filing is provided in Appendix 11.1. This Application supersedes the December 22, 2011 filing with respect to rates proposed and schedules supporting the proposed rates. Manitoba Hydro has provided updated responses to directives from Orders 134/10 and 148/11 in Tab 12 of this Application. All other material in the December 22, 2011 Filing, including the 2011/12 Diesel Cost of Service Study and responses to information requests deferred from the recent review leading to Order 148/11, remain current.

In this Application, Manitoba Hydro is proposing rate increases of 6.5% to both the tail block of the General Service rate class and the rate to Government customers effective September 1, 2012. This proposed increase is not cost based, but is consistent with the approved 2% grid increase granted in Order 40/11 effective April 1, 2011; the interim 2.0% increase as approved by the PUB in Order 32/12 effective April 1, 2012; and the proposed increase in rates of 2.5% effective September 1, 2012. The Basic Charge, all Residential rates and the first 2,000 kWh/month of General Service consumption reflects current interim and proposed grid rates.

1 In addition to the proposed rate increases, Manitoba Hydro is also applying for final
2 approval of Diesel Zone interim orders (17/04, 46/04, 159/04, 176/06, 1/10, 134/10, 1/11
3 and 148/11), subject to confirmation that MKO has provided the parties to the agreement
4 with the required affidavits from representatives of signatories to the agreement.
5

6 A summary of the current and rates proposed to be effective September 1, 2012 is as
7 follows:

Rate Class	Current Rates	Proposed Rates
Residential	grid rates	grid rates
General Service (<2,000 kWh/mo)	grid rates	grid rates
General Service (>2,000 kWh/mo)	35.0¢/kWh	37.3¢/kWh
Government Full Cost Rate (all kWh)	\$2.13/kWh	\$2.27/kWh

8
9 The rate design principles incorporated into this Application are similar to those
10 originally submitted in the 2010 and 2011 Applications to remove the high tail rate for
11 residential customers. The rate design principles are as follows:
12

- 13 1. Pursuant to Order 148/11 all residential consumption is at currently approved grid
14 rates. This change was effective November 1, 2011.
15
- 16 2. General Service customer class is set equal to grid rates for the first 2,000 kWh.
17 For usage above this amount, a higher tail rate of 37.3¢/kWh is proposed. The
18 General Service class includes all Non-Residential accounts that are not accounts
19 of the Federal Government Departments or Agencies.
20
- 21 3. Government customers include all Federal and Provincial Departments or
22 Agencies, and First Nation Education accounts. The First Nation Education rate
23 applies to Diesel First Nation facilities providing instructional services for
24 members of a Diesel First Nation, including schools, teacherages and student
25 residences. The rate for this class is intended to recover the full cost of service to
26 these customers plus applicable subsidies to Residential and General Service
27 classes.
28

29 In this application, the proposed rate to Government accounts is based on the currently
30 approved interim rate of \$2.13/kWh plus 6.5% to yield a total government rate of
31 \$2.27/kWh. Based on the average Revenue Requirement of 58.48¢ per kWh (59.16¢

1 minus revenue from Basic Charge) calculated in the PDCOSS12, plus Government
2 surcharge of \$1.685 per kWh to yield a total Government rate of \$2.27 per kWh.

3
4 Appendix 11.2 provides schedules supporting the proposed diesel rate changes. The
5 proposed rates and forecast revenue are compared with current rates and associated
6 revenue in Schedule 2 of Appendix 11.2. Schedule 3 of Appendix 11.2 indicates the
7 impact of the proposed rate increases to customers at different levels of consumption in
8 all three classes. The total government rate and associated revenue are shown in
9 Schedule 4.3 of Appendix 11.2.

10 11 **11.2 BACKGROUND**

12
13 Manitoba Hydro provides service to four remote communities in northern Manitoba from
14 diesel generation located in or near the communities. The four communities are: Brochet,
15 Lac Brochet, Shamattawa, and Tadoule Lake. The Corporation serves approximately 720
16 customers in these communities with a total population of approximately 2,155 people.
17 Approximately 76% of customers are Residential but there are also General Service,
18 Government and First Nation Education accounts. Total sales to all customers are
19 forecast to be 13.5 GWh in fiscal year 2012/13. For rate administration purposes, these
20 communities are collectively referred to as the Diesel Zone.

21
22 Costs to serve the Diesel Zone are much higher than costs to serve customers from the
23 grid due to isolation of the communities, small population served, and cost of facilities
24 and fuel. For 2011/12 the total cost (excluding capital cost) to provide service in these
25 communities based on PDCOSS12 is estimated at 53.53¢ per kWh. Note that the full
26 cost rate, as shown in PDCOSS12 is 59.16¢ per kWh, which includes recovery of interest
27 and depreciation on capital expenditures added to the revenue requirement in the Diesel
28 Zone as outlined in the PDCOSS12 included in the December 22, 2011 Filing as
29 Schedule 3.

30
31 The PUB last approved interim rates in the Diesel Zone effective January 1, 2011 (PUB
32 Orders 134/10 and 1/11) which was followed by Order 148/11 (October 20, 2011) which
33 approved the elimination of the higher tail rate for Residential customers (November 1,
34 2011). Note that grid rate increases, such as those noted earlier (Orders 40/11 and 32/12),
35 also affect the portion of the rate that is equivalent to grid tariffs – this includes all
36 residential consumption and monthly consumption less than 2,000 kWh for General
37 Service customers.

1 **11.3 DESCRIPTION OF RATES AND RATE SETTING METHODOLOGY**

2
3 For proposed rates effective September 1, 2012, Manitoba Hydro is proposing the
4 following with regard to the rates charged in the Diesel Zone.

- 5
- 6 1. As applied for by Manitoba Hydro and approved in Order 148/11, rates to the
7 Residential class are set equivalent to grid rates for all consumption.
8
 - 9 2. The currently approved tail block rate of 35.0¢ per kWh for General Service
10 customers be increased by 6.5%. The 6.5% is equal to the rates approved for
11 April 1, 2011 (2% per Order 40/11), a further interim increase of 2.0% approved
12 in Order 32/12 effective April 1, 2012, and the proposed increase of 2.5%
13 effective September 1, 2012. The rate of 37.3¢ per kWh is still approximately
14 37% less than the calculated full cost rate (59.16¢ per kWh) required to recover
15 the cost to serve in the Diesel Zone (less RCC subsidy). This revised tail block
16 rate applies to all monthly consumption greater than 2,000 kWh.
17
 - 18 3. The Government rate is also increased by 6.5% over its currently approved rate of
19 \$2.13/kWh. As a result, the proposed Government rate has increased to \$2.27 per
20 kWh. The Government rate does not fully recover all of the subsidies provided to
21 Residential and General Service customers; to do so the total Government rate
22 would have to be \$2.50, including the surcharge of \$1.92 per kWh.
23

24 As a result of interim and proposed electricity increases, the Basic Monthly Charge for
25 General Service and Government customers will increase from \$18.25 to \$19.05.

26
27 The remaining Schedules 4.3 through 4.5 of Appendix 11.2 demonstrate the derivation of
28 class Revenue Deficiencies and the proposed Government surcharge, along with a Proof
29 of Revenue and a statement which reconciles class Revenues at proposed rates and
30 Revenue Requirements and demonstrates the apportionment of the Revenue Deficiencies
31 between Government accounts and Manitoba Hydro.