

## **SCO/MH/RISK-1**

**Subject: Forecasting Models**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 3.4.2 Pages 39-40**

**Preamble: MH is selling short term, spot-market export power to the United States for 2.37 cents per kilowatt hour, while Manitoba residential ratepayers are paying about 6.38 cents per kilowatt hour [Winnipeg Free Press - Print Edition, *'Hydro exports may not cover new line: Tories U.S. utilities often pay one-third of price Manitobans shell out'* posted 18/09/2010.]'**

**If the anticipated export revenue by the short term, spot-market exports does not meet the anticipated forecast, how is the difference between anticipated and real forecast in the short term, spot-market export addressed by MH?**

### **ANSWER:**

The quoted excerpts from the Winnipeg Free Press compare wholesale power rates in the US to retail power rates in Manitoba and are, therefore, not directly comparable. A better comparison to the retail price of 6.38 cents per kilowatt hour in Manitoba is the retail price of 8.19 cents in Minnesota. On this fair comparison basis, residential electricity rates in Manitoba are 22% lower than in Minnesota.

Short-term export prices are based on market factors and prices can vary significantly. Because this energy is surplus to Manitoba's needs, Manitoba Hydro can either accept the market price or spill the water over its dams and receive nothing for the power.

**SCO/MH/RISK-2**

**Subject: Power Sales Management**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 4 Pages 121-185**

**Preamble: A review of the *KPMG Report Manitoba Hydro - External Quality Review Main Report, April 15, 2010* does not disclose an analysis or review the interrelationship between short term, spot market exports and risk.**

**Please provide the rationale for not including short term, spot market exports in the *KPMG Report Manitoba Hydro - External Quality Review Main Report, April 15, 2010*.**

**ANSWER:**

The Board of Directors of Manitoba Hydro retained KPMG in the fall of 2009 to perform an independent assessment of Manitoba Hydro's export power sales and associated risk management practices in order to address a number of assertions raised by the NYC. The NYC did not make any assertions regarding Manitoba Hydro's short-term or spot market export activities and therefore these activities were not directly addressed within the KPMG Report.

### **SCO/MH/RISK-3**

**Subject: Power Sales Management**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 4.5.3 Pages 145-146 and Sections 4.6, 4.61, and 4.6.2 Pages 146-153**

**Preamble: In 2009 - 2010, pursuant to long-term, fixed-price contracts MH sold power at 5.92 cents per kilowatt hour to the United States, while Manitoba residential ratepayers paid about 6.38 cents per kilowatt hour [Winnipeg Free Press - Print Edition, *'Hydro exports may not cover new line: Tories U.S. utilities often pay one-third of price Manitobans shell out'* posted 18/09/2010.].**

**Please explain MH's rationale for the difference in rates in long-term, fixed-price contracts as compared to the rates paid by Manitoba residential ratepayers.**

### **ANSWER:**

Manitoba Hydro's long term export power sale rates are for the bulk supply of wholesale electricity at the US border. Rates paid by Manitoba residential customers are for retail supply and reflect the additional costs associated with firm retail service.

Export firm contracts are priced based on exchanges between a willing buyer and a willing seller in a free market. Factors which the parties consider are the seller's cost to provide the product and the alternative opportunities available to purchase the product. Normally the price agreed to would exceed the seller's incremental cost to produce and deliver the product but would be less than the cost of the next best alternative to the buyer. Attributes of the product such as whether it is derived from renewable sources, how reliable it is relative to alternatives, seasonality and time of delivery could also affect the negotiated price.

Prices to Manitoba residential customers are based on Manitoba Hydro's cost to provide service to those customers. This cost includes the cost of all facilities required to provide service; some of the facilities required to provide service to Manitoba residential customers are not required by export customers. Export customers are served in bulk quantities from very high voltage transmission; consequently they do not require the lower voltage

transmission and subtransmission or distribution and customer service facilities which are required by Manitoba residential customers. Also, Manitoba domestic customers receive priority over export customers in the event of capacity or energy shortage.

The cost of Generation and Transmission incorporated into the rate to Residential customers in Manitoba is currently 3.7 cents. This is the correct number to compare with the 5.92 cents received through firm export contracts since it most closely matches the facilities provided to firm export customers. The remaining 2.7 cents in the residential rate cited is intended to cover the cost of Subtransmission, Distribution and customer service, costs which are incurred to serve Manitoba domestic customers, but not export customers.

**SCO/MH/RISK-4**

**Subject: Power Sales Management**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 4.5.3 Pages 145-146 and Sections 4.6, 4.61, and 4.6.2 Pages 146-153**

**Preamble: In May 2010, CEO Bob Brennan announced that the Xcel Energy Agreement was extended to 2025 [Winnipeg Free Press - Print Edition “Hydro inks \$3-B deal with Xcel Energy” posted 29/05/2010]. Mr. Brennan stated “[T]hat allows them to not have to build anything on their side and allows them to pay a higher price.”**

**When MH extends an earlier arrangement with a United States party, like Xcel Energy, does MH renegotiate the terms of the existing agreement in order to reflect an increase in rates, such that Manitoba residential ratepayers are not the only parties who incur the increase in rates.**

**ANSWER:**

Where Manitoba Hydro extends an earlier arrangement with a customer, the parties negotiate and execute new contracts that commence upon the maturity of an existing agreement. These new agreements contain new pricing and other contractual provisions that the parties agreed upon during the negotiation process.

**SCO/MH/RISK-5**

**Subject: Power Sales Management**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 4.6.4 Pages 155-156**

**Preamble: The General Rate Application is for the approval of rate schedules incorporating a 2.9% average across-the-board increase to be paid by Manitoba residential ratepayers. It would not be fair or reasonable to have Manitoba residential ratepayers incur the total cost of an increase in rates.**

**a) Please advise what options MH has considered to ensure that Manitoba residential ratepayers are not the only parties incurring an increase in rates.**

**ANSWER:**

As a clarification, Manitoba Hydro has proposed a 2.9% across-the-board rate increase for all domestic rate classes, which includes both general service customers as well as residential customers.

Domestic rates are continually subsidized by Manitoba Hydro's ability to sell surplus energy into export markets at prices that exceed the incremental cost of such energy. As a result, the 2.9% rate increase sought from residential and other domestic customers is already lower than it would be in absence of these export opportunities.

Prices in Manitoba Hydro's long term export contracts have built in rate increases generally indexed to the US inflation rate as measured by the US Gross Domestic Product Deflator Index. Over the past five years the average annual increase in these export prices has averaged 2.5%. These rates will continue to increase reflecting the expected increase in US inflation.

**SCO/MH/RISK-5**

**Subject: Power Sales Management**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 4.6.4 Pages 155-156**

**Preamble: The General Rate Application is for the approval of rate schedules incorporating a 2.9% average across-the-board increase to be paid by Manitoba residential ratepayers. It would not be fair or reasonable to have Manitoba residential ratepayers incur the total cost of an increase in rates.**

**b) Please advise whether MH will increase rates for the United States market in order to ensure that Manitoba residential ratepayers are not the only parties incurring the increase in rates.**

**ANSWER:**

Manitoba Hydro does not have any ability to increase the price of electricity that is sold into the US market (MISO) on a short-term basis. The price for Day Ahead and Real Time exports are determined by a market model in which the offer price of the marginal generating unit that is supplying the last MW of load sets the price.

Manitoba Hydro does have the ability to annually adjust the price of electricity that is provided to US customers under long-term bilateral contracts. These long-term contracts typically contain escalation provisions that are linked to inflation and therefore subject the purchasing party to price increases.

**SCO/MH/RISK-5**

**Subject: Power Sales Management**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 4.6.4 Pages 155-156**

**Preamble: The General Rate Application is for the approval of rate schedules incorporating a 2.9% average across-the-board increase to be paid by Manitoba residential ratepayers. It would not be fair or reasonable to have Manitoba residential ratepayers incur the total cost of an increase in rates.**

**c) If the answer to b) is no, please advise why MH will not increase rates for the United States market.**

**ANSWER:**

Please see Manitoba Hydro's response to SCO/MH/RISK-5(b).



**SCO/MH/RISK-5**

**Subject: Power Sales Management**

**Reference: KPMG Report, Manitoba Hydro - External Quality Review Main Report,  
April 15, 2010  
Section 4.6.4 Pages 155-156**

**Preamble: The General Rate Application is for the approval of rate schedules incorporating a 2.9% average across-the-board increase to be paid by Manitoba residential ratepayers. It would not be fair or reasonable to have Manitoba residential ratepayers incur the total cost of an increase in rates.**

**d) If the answer to b) is yes, how will MH incorporate increase rates for United States market?**

**ANSWER:**

Please see Manitoba Hydro's response to SCO/MH/RISK-5(b).