

Reply Submissions of the Consumers Coalition  
August 19, 2016

Byron Williams, Director  
Public Interest Law Centre

## **Outline of Contents**

- A. Overview
- B. Scope of Submissions
- C. Points of Disagreement with Manitoba Hydro
- D. Points of Disagreement with MIPUG
- E. Points of Clarification with the City of Winnipeg
- F. Points of Disagreement with GSS/GSM
- G. Points of Disagreement with GAC
- H. Conclusion

## **A. Overview**

1. The Coalition appreciates the opportunity to offer reply submissions on matters which were not identified as “key issues” for cross examination in *Order 84-16*.
2. Given the heavy paper trail already left by this proceeding, the Coalition will restrict its reply to areas of potential disagreement with the submissions of other parties or points of clarification.
3. The Coalition offers its reply comments to:
  - Manitoba Hydro
  - MIPUG
  - the City of Winnipeg
  - GSS/GSM, and
  - GAC

## **B. Scope of the Submission**

4. In *Order 84-16*, the Public Utilities Board identified a number of “key issues” for which oral cross-examination would be appropriate:
  - *the treatment of export costs, including the number of export classes and the allocation of fixed and variable costs to such classes*
  - *the treatment of net export revenue and the allocation thereof*
  - *the functionalization, classification and allocation of generation and transmission assets, including the HVDC system and the U.S. interconnection, but excluding wind and coal assets*
  - *the classification and allocation of demand side management<sup>1</sup>*
5. The Coalition notes that a number of parties have addressed issues related to the assignment of the Uniform Rate Adjustment and Affordable Energy Fund. In the respectful view of the Coalition, “the treatment of net export costs” and “the treatment of net export revenue and the allocation thereof” clearly encompasses Uniform Rates and the Affordable Energy Fund.
6. The Coalition will address these matters in the “key issues” portion of the hearing. It reserves the right to adduce direct evidence, initiate cross examination and make closing submissions on these matters during the “key issues” stage.
7. The Coalition also notes that there is considerable commentary regarding the Curtailable Rate Program (CRP) in the August 12, 2016 submissions of certain parties. While the Coalition understands that this is properly part of the “key issues” dialogue given its relation to “*the classification and allocation of demand side management*”, it believes that an inadvertent misinterpretation of Mr.

---

<sup>1</sup> *Order 84-16*, p. 3

Harper's evidence by Manitoba Hydro necessitates a reply at this point in time.

### **C. Points of Disagreement with Manitoba Hydro**

#### Separation of Subtransmission from Transmission (Hydro August 12, p.4-5)

8. Manitoba Hydro argues that subtransmission does not fill the same role as its transmission network. However, it does not address the similarity of radial transmission and subtransmission facilities.

9. Hydro also argues that >100 kV customers should not pay for transformation that steps power down to voltages below 100 kV. But this aspect of the Corporation's arguments does not address the treatment of subtransmission lines. They are restricted to the treatment of Transformation in the subtransmission function.

10. The Coalition maintains the position set out in its August 12, 2016 submissions that the PUB should:

Direct Manitoba Hydro to examine whether transmission and subtransmission are complimentary or incremental.

11. The evidence on this point has not been conclusive.

#### Hydro's Classification of Distribution vs. Mr. Chernick's 100% Demand (Hydro August 12, p. 8-11).

12. Manitoba Hydro's proposal aligns with Mr. Harper's Evidence and Rebuttal. Classification to both customer and demand is reasonable.

13. However, Hydro's written submissions make no reference to the need for a commitment to review and update the classification split.

14. As set out in Mr. Harper's Evidence, it is important that a timely review be directed.

#### Hydro's Allocation of Distribution Cost on NCP vs. Chernick's CP (Hydro August 12, p. 11-12)

15. Both Mr. Harper and the Coalition take a less rigid position than Manitoba Hydro on this issue. The Coalition reiterates its position that:

Since there is no clear evidence as to whether CP or NCP is the more appropriate allocator, there would be merit in Manitoba Hydro further assessing (through analysis of the timing of Substation peaks and its load research data regarding customer class monthly load profiles) whether a CP based allocation factor or an NCP allocation based on more than a single value would be more reasonable

Current URA Treatment is Appropriate vs. Bowman Recommendation to Exclude (Hydro August 12, p. 13-15)

16. While Hydro's submissions align with the likely Coalition position, the Coalition reserves comment until the “key issues” segment of the proceeding.

Assignment of AEF to Exports is Appropriate vs. Bowman Recommendation to Exclude (Hydro August 12, p. 15-17)

17. While Hydro's submissions align with the likely Coalition position, the Coalition reserves comment until the “key issues” segment of the proceeding.

Treatment of CRP in COSS – Hydro Accepts Bowman’s Recommendation to Equate Credit given to CRP Customers in the COSS with the Cost of CRP (Hydro August 12, p. 17-18)

18. The Coalition takes exception to Hydro's proposed treatment of the Curtailable Rate Program (CRP) in its COSS.

19. By accepting Mr. Bowman's recommendation, Hydro simply shifts the burden of the difference between the cost of CRP (\$8.5 M) and the value of CRP to the system (\$5.8 M) from the CRP customers to all customers. While the percentage impact is less, the approach is no more correct than MH’s original proposal.

20. While the Coalition believes this issue is more appropriately dealt with in the key issues segment of the hearing as a matter relating to “*the classification and allocation of demand side management*”, it is concerned about a mischaracterization of Mr. Harper's oral comments during the Workshops.

21. Given the no doubt inadvertent mischaracterization of Mr. Harper's oral comments, the Coalition believes it important to address the submissions of Hydro at this stage.<sup>2</sup>

Overview of Issue and Problems with MH’s Original and Revised Proposals

22. Manitoba Hydro (incorrectly) states as part of submission that “it appears that Mr. Harper would not oppose such an adjustment.” The Coalition begs to differ.

23. Hydro's original proposals regarding the CRP impact the COSS in two ways:

- i) The revenue requirement includes an \$8.5 M cost for CRP as amortization of CRP costs incurred to date similar to the treatment of other DSM programs. In accordance with Hydro's proposal to directly assign DSM costs to customer classes this \$8.5 M is directly assigned to the classes with CRP load.

---

2 The Coalition also notes that the mischaracterization of information given at the workshop stage raises a problematic aspect of this proceeding. If it is assumed that the bifurcation of this hearing into “key issues” and “other issues” relegates the CRP issue to the “other issues” August submissions, Mr. Harper would be effectively deprived the opportunity to clarify a mischaracterization of comments offered at the discovery stage. Given that CRP is a demand side management program and recognizing that issues relating to “*the classification and allocation of demand side management*” program are intended to be in the key issues portion of the hearing, the Coalition reserves the opportunity to address Manitoba Hydro's mischaracterization of his evidence during the remaining evidentiary portion of the hearing.

ii) The full load of the CRP class is used to allocate generation costs to the classes with CRP customers. As a result there is no recognition in this allocation that CRP loads save generation costs. To adjust/account for this the costs allocated to the classes with CRP load are reduced by their value to system (\$5.8M) and the costs to be allocated to all customer classes (as part of generation costs) are increased accordingly.

24. In his Evidence (p. 43) Mr. Bowman expressed concern with this apparent inconsistency and suggested that the credit provided to the CRP class should be set equal to the cost (i.e. \$8.5 M).

### Hydro's New Position

25. In its Written Submission (page 17), Manitoba Hydro explained that there was a timing issue and that in earlier PCOSS the credit had exceeded the cost.

26. However, Hydro accepted Mr. Bowman's recommendation noting that this will increase the RCC for GSL 30-100 by 0.2% and for GSL>100 by 1.0% while resulting in a minor decrease in RCC for the other classes.

27. Hydro also claims it appears that Mr. Harper would not oppose such an adjustment.

### Issue #1 – Manitoba Hydro has Misinterpreted Mr. Harper's Statements at the June Workshop

28. In support of its claim that Mr. Harper would not oppose the adjustment MH refers to two parts of his testimony. The first reference to Mr. Harper's evidence is at page 349:

Finally, under the Manitoba Hydro  
12 approach, if all the customers in a class were to  
13 participate in a particular DSM program, then the  
14 allocated costs of the -- and the costs are allocated  
15 directly to them, then this would effectively result  
16 in clawing back any financial incentive that the  
17 customers had to participate.  
18 And indeed, when I read Mr. Bowman's  
19 evidence, I -- I believe this and the way DSM costs  
20 are treated is fundamentally the problem that's  
21 created for -- for the curtailable rate class that he  
22 was speaking to in his evidence

29. Read in context, what Mr. Harper is agreeing with is Mr. Bowman's point that there is a problem with MH's treatment of DSM (with the example being CRP). But in no way does he propose or endorse the solution proposed by Mr. Bowman. Indeed, it is clear that Mr. Harper's solution is totally different (i.e. treat DSM as a resource and allocate it accordingly).

30. The second reference to Mr. Harper's evidence is at page 393:

I think the clearest situation where

4 it arises is within the Curtailable Rate Program that  
5 Mr. Bowman mentioned in his evidence where virtually  
6 every customer in that class participates in that  
7 program.  
8 And he was expressing a concern that  
9 there were costs of \$8 million being allocated and a  
10 credit of only \$5 million being given to the customers  
11 in terms of their discount. And so at -- so he's  
12 talking about, Well, let's make the two (2) equal.  
13 Well, even if you make the two (2) equal, that means  
14 customers have signed up for a lower reliability  
15 without any change in their overall financial  
16 position.

31. Again, in this excerpt, Mr. Harper is simply pointing out the problem with MH's proposed approach and noting that even Mr. Bowman's proposal does not fully address the issue as it results in CRP customers effectively being allocated the same costs as firm customers but receiving lower reliability. This clearly does not represent an endorsement of Mr. Bowman's recommendation.

32. Overall, it is inappropriate for MH to conclude from Mr. Harper's testimony that he "would not oppose such an adjustment".

33. It is clear from Mr. Harper's Evidence and Testimony that he is proposing a totally different approach to the treatment of DSM cost that will resolve Mr. Bowman's concerns.

*Issue #2 – MH's Proposal Simply Inappropriately Shifts the Cost Burden to Another Group of Customers*

34. The COSS methodology proposed by Hydro in its December 2015 Submission credited the classes with CRP customers for the value that the CRP program provided to the system (i.e. \$5.8 M) and treated it as a generation cost to be recovered from all customers.

35. MH's new proposal would increase this credit to \$8.5 M and in doing so provide a credit to the CRP customers that exceeds the value they provide to the system and correspondingly allocate to all customers an amount that exceeds the value the CRP provides them.

36. The result is that the supposed problem/inconsistency that the original treatment of the CRP program created in terms of costs and benefits for the customer classes with CRP customers is simply shifted such under the new proposal:

- i) classes with CRP customers are credited with more benefits than the program provides, and
- ii) all customers are allocated CRP costs in excess of the benefits the program provides.

37. While the impact on the individual customers classes is less (since the problem is now being spread over a larger number of customers) it by no means corrects the issue. It just shifts who pays for the problem.

38. As Hydro has noted, the problem (in the context of its proposed treatment of DSM) is really one of timing. If one were to accept MH's overall treatment of DSM as being appropriate (which the Coalition/Harper does not) then it is patently unfair that customer classes with CRP load who were credited through the COSS with revenues that exceeded the costs in earlier years should be exempt from impacts of offsetting effects that are now occurring where the credit is less than costs.

MH Indicates That it Will Review the Allocator for Customer Service – Other (Hydro August 12, p. 19)

39. While the Coalition appreciates Manitoba Hydro's confirmation that it will review the allocator for Customer Service - Other, it should be noted that this is the only area where Hydro has agreed in its Written Submissions to review/update the allocators for the next PCOSS.

40. The antiquated data underlying the Distribution portion of the COSS is an important source of the current lack of confidence in the PCOSS model and an important reason why the proposed COSS cannot be considered reliable for rate-setting purposes until further activities are undertaken related to data updates. Please see Appendix A to the Coalition's August 12, 2016 submissions outlining data related to more than \$200 million in distribution costs that has not been updated for roughly a quarter of a century.

Hydro Claims That the Adjustment to the Services Allocator to Recognize Apartments Has a Small Impact and is Not Necessary (Hydro August 12, p. 19)

41. There are really two issues here. The first is that the basic weights by customer class used to assign Services costs were developed many years ago and may not reflect current circumstances. The second is that the customer count used for Residential needs to recognize that a large number of Residential accounts are in Apartments and do not have a separate service.

42. Hydro claims that the impact is small (referencing Mr. Harper's evidence) and therefore does not consider additional review a priority at this time. There are three problems with this conclusion.

43. First Mr. Harper's impact analysis only looked at the impact of accounting for Residential customers in Apartments and provides no indication as to what might/could be the impact of updating the basic weights use for each class.

44. Second, Mr. Harper has acknowledged that there are issues with the assumptions underlying his analysis and that the results understate the likely impacts of adjusting for Residential customers in Apartments (June Workshop, Page 417).

45. Third, while it is important to consider the likely impacts when assigning priorities to required updates (e.g. addressing those first that are likely to have the greatest impact); it is also important to consider the time and effort that will be required. In this case, while a review of the appropriate weights used to allocate service drops may require some time and effort, adjusting the Residential customer count to address the Apartment issue does not, and can be readily made.

Modelling Improvements Suggested by Harper for Other Revenues (Hydro August 12, p. 20)

46. While Manitoba Hydro explains that Other Revenues are assigned to individual cost centres (SCC), its written argument does not address Mr. Harper's recommendation (page 69) regarding the need to incorporate the functionalization of “common” SCCs into the COSS model.

47. The Coalition reaffirms its recommendation that this step needs to be undertaken.

**D. Points of Disagreement with MIPUG**

The Costs of Coal Generation Should Only be Allocated to Domestic Classes (MIPUG, August 12, p. 1-1 to 1-4)

48. There appears to be agreement between MIPUG, Hydro and the Coalition that coal should not be assigned exclusively to the export class. There also appears to be agreement at the level of theory that coal could properly be allocated to the domestic class.

49. However, as the Coalition noted in its reply argument, allocating coal exclusively to the domestic classes (which would likely offer a marginal benefit to residential customers) would unravel other aspects of the COSS analysis. The Coalition and Hydro agree that the marginal impact of assigning all coal costs to domestic customers is outweighed by the other effects.

50. The MIPUG submission on this point fails to address the complexity of allocating coal only to the domestic classes. The key point is that it is not only a matter of impact but also one of the complexity involved when coal is treated separately.

Wind Generation Should be Allocated to Domestic and Exports Using An Energy Allocator with No Capacity Adder (MIPUG, August 12, p. 2-1 to 2-5)

51. MIPUG argues that wind provides just energy and should therefore be classified 100% as energy. This means allocating using an energy allocator that includes no capacity adder or recognition of capacity costs.

52. While MIPUG's approach has some narrow technical attraction, it again raises the issue of complexity versus materiality.

53. The more fundamental issue is whether each generation resource should be separated out and treated according to its specific role or generation overall should be treated as a pool of resources that are operated as a pool to meet both customers' demand and energy needs. From this perspective, the approach of Manitoba Hydro is more sound than that proposed by MIPUG.

**E. Points of Clarification with the City of Winnipeg**

Treatment of Sentinel and Street Lights as Separate Classes (City of Winnipeg, August 12, p. 3)

54. The Coalition does not disagree with the recommendation offered by the City of Winnipeg.

55. However, if the recommendation is pursued then Manitoba Hydro will need to develop separate CP and NCP values for each class along with separate weighted customer values for the various Distribution Service activities.

56. In the case of Billing and Collecting, this will require identifying not only the number of bills sent but the relative cost in issuing a Street Light bill versus the billing for Sentinel Lights which is typically done as part of the overall bill for the customer's main service (see June Workshop, p. 951-952).

Alternative – Recover Billing Cost for A&RL Through a Customer Charge (City of Winnipeg, August 12, p. 3)

57. The Coalition does not disagree with this recommendation. However, the derivation of the customer charge would need to take into account the relative cost of producing a Sentinel versus a Street Light bill.

**F. Points of Disagreement with GSS/GSM**

58. The Coalition notes that GSS/GSM addressed issues related to the allocation of net export revenues to Uniform Rates and the Affordable Energy Fund in their August 12, 2016 submission.

59. In the respectful view of the Coalition, under the “key issue category” “the treatment of net export revenue and the allocation thereof” clearly encompasses Uniform Rates and the Affordable Energy Fund.

60. The Coalition will address Uniform Rates and the Affordable Energy Fund in the “key issues” portion of the hearing. It reserves the right to adduce direct evidence, initiate cross examination and make closing submissions on these matters during the “key issues” stage.

**G. Points of Disagreement with GAC**

61. The Coalition appreciates the novel thinking that GAC and Mr. Chernick often bring to PUB deliberations.

62. In this hearing, there may be a temptation to place less weight on the evidence of Mr. Chernick given his demeanour during the final day of the Intervenor workshop and the didactic certitude he sometimes displays when others disagree with his views.

63. The Coalition urges the Board to judge each assertion of Mr. Chernick on its individual merits including whether it is supported by an evaluation of the available evidence or skewed by a selective citation of sources.

General Observations (GAC, August 12, p. 4-5)

64. GAC claims that Mr. Harper recommends the Board rely on the practices of a small number of utilities to guide its decisions regarding DSM, allocation of substations, the classification of distribution lines and the treatment of subtransmission rather than relying on cost causation.

65. This is a mischaracterization of Mr. Harper's evidence which is undermined both by the immediate facts of this case and Mr. Harper's general reputation as a thoughtful and fair analyst. The substantial interest shown during the workshops in Mr. Harper's carefully considered views serves as the best refutation of the GAC claim.

66. At a general level, Mr. Harper's reliance on the survey results and the practice of other utilities was limited to the following circumstances:

i) to inform his recommendation as to the appropriate approach in instances where there was an acknowledgement that the principles of cost causality could be used to support more than one particular method (e.g. DSM),

ii) to inform his recommendation as to the reasonableness of a particular approach in instances where there was no evidence on the record to clearly demonstrate which allocation approach better reflected the principle of cost causality (e.g. Subtransmission allocation<sup>3</sup>; Substation cost allocation<sup>4</sup> and Distribution Poles and Wires demand-cost allocation), and

iii) to demonstrate instances where there are a variety of practices used by utilities (e.g. Distribution Poles and Wires classification<sup>5</sup>) and further study was warranted.

Subtransmission Should Not Be Functionally Separated from Transmission (GAC, August 12, p. 6-7) and, if Separated, the Allocation to Distribution Classes Should Reflect Only a Factor of their Load (GAC, August 12, p. 7-8)

67. The Coalition maintains the position set out in its August 12, 2016 submission that the PUB should:

Direct Manitoba Hydro to examine whether transmission and subtransmission are complimentary or incremental.

If Separated, Should Subtransmission be Allocated Based on CP or NCP (GAC, August 12, p. 8)

68. GAC cites Chernick's observation that subtransmission serves a variety of loads as support for using CP over NCP.

69. It is true that subtransmission facilities serve a number of classes and the capacity needed will be driven by the contribution of several classes to the peak load. However, this fact does not necessarily mean that CP is the preferred allocator from a cost causality perspective.

70. For each subtransmission facility there will be a unique mix of customer classes and likely a unique time for their peak demand. Indeed, the limited analysis provided in Mr. Chernick's Evidence<sup>6</sup> would tend to support this point as it indicates that the timing peak for Substations – many of which are served by subtransmission - varies widely.

---

3 Evidence, page 74

4 Evidence, pages 79 and Rebuttal Evidence, page 7

5 Evidence, page 78 and Reply Evidence, page 8

6 Page 56, Figure 1

71. While, as Mr. Chernick claims, this may demonstrate that NCP does not accurately capture cost causality – it by no means demonstrates that a CP allocator would be superior. At best, it demonstrates that more analysis is required.

72. As noted in Mr. Harper’s Evidence,<sup>7</sup> Manitoba Hydro’s use of NCP is consistent with industry norms.

73. The Coalition reiterates its position that:

Since there is no clear evidence as to whether CP or NCP is the more appropriate allocator, there would be merit in Manitoba Hydro further assessing (through analysis of the timing of Substation peaks and its load research data regarding customer class monthly load profiles) whether a CP based allocation factor or an NCP allocation based on more than a single value would be more reasonable

Classification of Distribution as 100% Demand (GAC, August 12, p. 9-11)

74. GAC takes strong exception to the Coalition's Rebuttal Evidence and in particular Mr. Harper’s use of the Leidos Study and his comments regarding the Minimum System approach.

75. With respect to the Leidos Study, a careful read of Mr. Harper’s Rebuttal Evidence<sup>8</sup> shows that the references to the Study are made solely to support the observation that many utilities do continue to classify Distribution poles and wires as both demand and customer related. Indeed, at the June Workshop<sup>9</sup> Mr. Chernick agreed that the majority of utilities currently do so:

MR. MICHAEL O'SHEASY: Okay. And we  
2 also talked about a survey. I can't remember the  
3 exact one, but it -- in my research I -- I want to ask  
4 if you came across this survey, too. I came across a  
5 survey by Elenchus, co-conducted by John Todd,  
6 including many major utilities in Canada were in this,  
7 and it -- it appeared to me that eight (8) of the  
8 eleven (11) respondents split the classification of  
9 distribution poles and wires in the customer demand.  
10 Have you -- have you seen that survey?  
11 MR. PAUL CHERNICK: It -- it doesn't  
12 ring a bell, but I have seen a lot of -- of documents  
13 from Mr. Todd, so it's certainly possible I've seen  
14 it. And if -- if the question is: Is it likely the  
15 majority of utilities in -- include some customer-  
16 related portion in their allocation? **I would say that**  
17 **is probably correct as a -- it's factually correct.**  
18 It's not the right way to do it, but it's factually

---

7 Page 74

8 Pages 8-9

9 Page 675

19 correct. (emphasis added)

76. The GAC submission<sup>10</sup> then goes on to note the number of utilities that Mr. Chernick identifies as using a 100% demand classification and suggests that when these are added the ratio of utilities using a demand-only classification increases materially.

77. The fundamental flaw with this approach is that Mr. Chernick's examples are not reflective of a survey of utility practice but rather a biased citation of utilities he is aware of that use a 100 percent demand classification.

78. GAC's claim that the evidence in the hearing suggests most utilities use a demand-only approach is counter to Mr. Chernick's own evidence as cited above.

79. GAC's submissions claim that load carry capacity of the minimum system was only a small part of Mr. Chernick's concerns regarding the use of the Minimum System to classify distribution poles and wires.

80. However, in his evidence<sup>11</sup> Mr. Chernick offers four reasons as to why the minimum system is not successful in separating customer-related investment from demand-related investment. Of these, the first three all include references to the fact that the minimum system is sized to carry a certain level of demand.

81. The fourth reason is factually incorrect. The minimum system does not assume that "all area spanning investment is caused by the number of customers".<sup>12</sup> Rather it assumes that a portion of the investment is caused by the number of customers and seeks to determine what that portion might reasonably be.

Should Distribution Costs (Substations and Lines) be Allocated Based on CP Allocator (not NCP per MH) (GAC, August 12, p. 11-13)

82. GAC rationale for using CP to allocate the costs of Substations and Primary Feeders is similar to its argument for using CP to allocate Subtransmission.

83. At p. 12 of its Submissions, GAC suggests that Mr. Harper assumed that Mr. Chernick's use of CP was focused on the one-hour summer and winter peak as opposed to the top 50 summer and top 50 winter peak hours.

84. This clarification does not support the use of a CP allocator:

- The use of the top 50 hours in each season is meant to reflect the uncertainty as to when the peak load will occur in a given year.<sup>13</sup> However, for given years (such as Mr. Chernick has used in his analysis) if CP is the appropriate allocator then one would expect the peaks for the individual stations to align reasonably with the system peak for that year.

---

10 Page 10

11 Pages 51-52

12 Chernick Evidence, page 52

13 June Workshop, pages 133-134

- Mr. Chernick provided no analysis to demonstrate that the Substation peaks were even aligned with the top 50 winter and top 50 summer hours for the specific years used in his evidence.<sup>14</sup>

85. GAC faults<sup>15</sup> Mr. Harper for suggesting<sup>16</sup> that Manitoba Hydro review the appropriateness of its use of the 1 NCP allocator rather than offering a specific suggestion for developing distribution allocators.

86. However, in its final submission on the issue GAC states that Manitoba Hydro should be directed to use a CP allocator until it can develop better allocators. The only major point of difference appears to be what allocator should be used in the interim.

87. It is at this point that Mr. Harper relies on the NARUC Manual and the Leidos Survey to support his recommendation that Manitoba Hydro's use of NCP is reasonable in the interim.

## **H. Conclusion**

88. Thank you for your consideration of these comments.

---

14 Pages 54-57

15 Page 12

16 Rebuttal Evidence, page 10