

COST OF SERVICE EVOLUTION IN A TIME OF MATERIAL CHANGE

OPENING STATEMENT OF THE PUBLIC INTEREST LAW
CENTRE (PILC) ON BEHALF OF THE CONSUMERS COALITION

September 8, 2016

Significant Gaps



- Between perspectives of certain witnesses:
 - Export Class(es)
 - DSM
 - Treatment
 - BP3
 - Dorsey
 - US Interconnection
 - Net Export Revenue

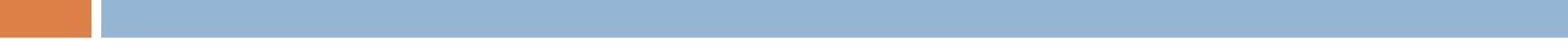
A Natural Temptation



- to dismiss distinct perspectives as results driven

But reasonable persons can disagree

*Each COSS involves considerable judgment; and with no industry standard available to guide the process, there is no “right” or “wrong” way to allocate costs. The fundamental objective in designing a COSS is to select a cost allocation method that both reflects **cost causation** and results in an **equitable sharing** of costs;*



Especially at times of material
change

Order 117/06 - “fundamental change” in the marketplace

*With this Order, the Board accepts MH’s contention that a **fundamental change** has occurred to its operations and prospects with the advent of higher unit export prices brought about partly as a result of revised export trading rules and a concurrent new ability to undertake arbitrage sales.*

117/06, p. 2

*While the base COSS model will continue to rely on prospective historic embedded costs, information **reflecting marginal costs** and the value of carbon emissions representative of domestic energy consumption will also be considered. COSS and supplementary information with respect to marginal costs and carbon emissions is to be filed with a reconciliation linking COSS, the supplementary information and a “normalized” financial forecast drawn from MH’s electricity Integrated Financial Forecast (IFF).*

117/06, p. 5/6

Leading Regulators continue to adopt an Evolutionary Approach in the face of change

Cost allocation reform is one of the most difficult issues facing transmission service providers and regional transmission organizations (RTO)/independent system operators (ISO), including SPP. This is especially true given the **changing circumstances** affecting the transmission grid including, particularly the need to upgrade existing transmission infrastructure and **build new transmission facilities** to satisfy the expanding demands on the transmission system. Efforts to **integrate new resources**, including significant amounts of **location-constrained generation**, into existing transmission systems and to address **renewable portfolio standards** and other regulatory policies challenge existing cost allocation and transmission planning protocols

131 FERC ¶ 61,252 UNITED STATES OF AMERICA FEDERAL ENERGY REGULATORY COMMISSION, Southwest Power Pool, Inc. Docket No. ER10-1069-000 ORDER ACCEPTING TARIFF REVISIONS (Issued June 17, 2010)

Leading Regulators continue to adopt an Evolutionary Approach in the face of change

The Commission's responsibility to ensure that transmission rates are just and reasonable and not unduly discriminatory or preferential is not new; however, the **circumstances** in which the Commission must fulfill its statutory responsibilities **change** with developments in the electric industry, such as changes with respect to the demands placed on and the corresponding operation of the transmission grid.

**131 FERC ¶ 61,252 UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION,
Southwest Power Pool, Inc. Docket No. ER10-
1069-000 ORDER ACCEPTING TARIFF REVISIONS
(Issued June 17, 2010)**

The Coalition Evidence Responds to Material Changes in Hydro Operations and the Broader Marketplace

Similarly, cost of service methodologies that **incorporate marginal costs** in establishing cost responsibility and/or developing allocation factors are more likely to produce results that are compatible with the efficiency objective of ratemaking as are methodologies that consider cost causality **based on current requirements and system operations** as compared to ones that focus on the original intent or purpose of an investment.

Harper, June 10, 2016

Material Change

□ 1) MB Hydro is not an Island in the Marketplace

- *The Board accepts MH's contention, not opposed by any of the interveners, that a fundamental change has occurred in the Corporation's situation and prospects with the advent of a MAPP/MISO trading market. The new market provides not only for the ability to export all generation excess of domestic requirements, subject to transmission restraints, priced on the basis of the marginal cost of generation of MH's MAPP/MISO counter-parties. MH is now able to sell all the power it generates at no lower than the prices established by MISO, which vary each day, hour and five minute block (with peak periods and low off-peak periods).*

117/06, p. 52/53

- *Our review of electric COS was occasioned partly by developments in electricity markets, such as the emergence of mature wholesale markets characterized by considerable price volatility with implications for costing methods. **MH's circumstances are quite special due to the relatively large proportion of sales revenue derived from export (wholesale) sales. The treatment of embedded utility costs in light of sales where marginal cost is the dominant feature presents special challenges for cost allocation.***

CA, Appendix 5, p. 1

- *Wholesale prices of electricity have remained at moderate levels since 2012, a path not contemplated at the time of the 2012 report.*

CA, Appendix 2, p. 4

Material Change

- 2) Manitoba Hydro is not an island in planning
 - *the role of these [**US Interconnection**] facilities . . . is to make generation available from one Spider Web to another Spider Web . . . **in order to optimize both planning and operating power supply across the interconnected systems.** This involves exchanges of energy at all times of the day and all seasons of the year.*

Hydro Rebuttal, July, 2016, p. 26

Material Change

- 3) Increased focus implications of low probability/high impact events
 - *the concentration of hydro supply in the far north; of Bipole I and II following a common route/corridor; energy-constrained domestic supply; DC power flows into a common location (Dorsey Station); and of MH's limited interface capability with the Eastern Interconnection. As a result, all of Manitoba remains comparatively vulnerable to, potentially, extended, abrupt supply interruption, at major short- and long-term economic costs.*

CA, Appendix 2, p. 10

Material Change

- 4) Commitment to Integrated Resource Planning and to DSM
 - *An integrated resource plan determines what supply side and demand side resource mix is in the best interest of electricity customers*
 - *The effectiveness of integrated resource planning in determining least-cost combinations of resources cannot be overestimated.*
 - *It was only in the course of the NFAT hearing that it became clear that significantly higher levels of DSM than originally proposed by Manitoba Hydro were both achievable and economic. Proper integrated resource planning could have reached that determination years earlier.*

NFAT, 2014, p. 34

- Manitoba Hydro has indicated that integrated resource planning is part of its core business activities.

2015/16 & 2016/17 GRA, Tab 8, p. 1

Material Change

- 5) Multi-Billion Dollar additions of Remote Generation and Related Transmission – with consumers left to face the consequences
 - Bi-Pole 3
 - Keeyask
 - US Interconnections



How do we fulfill the NFAT promise?

Our Challenges



- evolve in face of material change
- not to be locked in analytic time capsule
- acknowledge that insight on cost of service can arise from both the embedded and efficiency perspectives
- fulfill the NFAT promise

More Good Advice from the Manitoba PUB



The Board confirms that the primary objective of COSS is to assist in the testing of the fairness of rates between domestic customer classes. This objective is met in part by the allocation of MH's prospective revenues and expenses by customer class, in accordance with cost causation, legislation, policy and the public interest.