

Appendix A – Recommendations of Bill Harper¹

COSS Principles

Cost of service studies are a key part of the overall rate making process and their main purpose is to assist in determining a fair apportionment of a utility's revenue requirement among its customer classes. To this end, cost causation is the primary consideration in establishing cost of service methodologies.

However, cost causation is not the only consideration. The determination of an appropriate cost of service methodology must also consider the other overarching rate objectives of rate making including encouraging efficient use of electricity, rate stability, understandability and feasibility in application.

In terms of cost causation, while it is useful to consider the original intent/driver behind an investment more weight should generally be given to the current role that investments play in meeting customer service requirements. Furthermore, when considering the current role of a utility's investments and operating activities play in meeting customers' service requirements it is important to consider the full range of likely operating conditions and not just those that underpin the test year's revenue requirement.

COSS Methodology

A number of the changes that Manitoba Hydro has proposed to the currently approved methodology are reasonable and appropriate, including:

Exports

- The establishment of two export classes where the dependable export class would attract embedded costs in the same manner as firm domestic load while the opportunity class would attract only variable costs. (pages 29 and 31)
- Distinguishing between dependable and opportunity exports based on the forecast average (five years) dependable energy surplus to domestic needs versus the average energy available in excess of dependable energy. (page 32)

Generation

- The inclusion of the Dorsey (and future Riel) converter facilities in Generation as opposed to

¹The Coalition adopts the analytic approach and recommendations of Mr. Harper set out here. Further insight into the Coalition's analytic approach, key findings and additional recommendations should be reviewed in the main submission.

Transmission. (page 53)

- The inclusion of purchases (including wind), trading desk costs, thermal fuel and all thermal plant costs in the Generation pool for allocation to both domestic load and dependable exports. (pages 54-55 and 57)

Transmission

- The sub-functionalization of Interconnection costs and their allocation to domestic customers and dependable exports using the weighted energy allocator. (pages 68 and 72-73)
- The creation of a Non-Tariffable Transmission sub-function to capture those Transmission costs that are not deemed to be tariffable for purposes of the OATT. (page 68)

Net Export Revenues

- The allocation of Net Export Revenues to domestic customer classes based on the total costs allocated to each class, excluding direct assignments². (page 86)

However, the preceding sections did identify and recommended a number of changes to Manitoba Hydro's proposed COS methodology:

Revenue and Direct Assignment

- a) Clarification is required as to the intent of the Diesel Settlement Agreement with respect to the treatment of 3rd party contributions in the COSS. However, this will have to await the filing of the finalized Settlement Agreement. (page 42)
- b) DSM costs should be assigned directly to the Generation, Transmission and Distribution-Plant functions based on the relative values of the DSM program savings in each area. (page 45)
- c) NEB fees should be allocated to all customer classes (including Opportunity exports). (page 48)

Generation

- d) The inclusion of an explicit capacity adder in the calculation of the weighted energy allocator for Generation costs has not been sufficiently justified at this time and requires further consideration in terms of: i) whether or not one is needed, ii) what the value should be; iii) what hours/seasons it should be incorporated in; and iv) for what historical years should it be added. (page 64)

Transmission

- e) The allocation of the costs in the Non-Tariffable Transmission sub-function should not include

²Note. While this is not a change from the current approved methodology, it is a relatively recent change to the methodology.

exports. (page 71)

Required Input Corrections

Required input corrections include:

- Not all AC lines that serve to link generation to the transmission system have been removed from the Non-Tariffable Transmission sub-function and included in Generation. (page 69)
- The Operating costs by function used to assign the cost associated with Buildings, Communication & Control and General Equipment to functions need to be revised. (page 39)
- The corrections that Manitoba Hydro has made to the weights that are to be applied to the energy use by customer classes in each of the 12 SEP periods for purposes of allocating Generation costs. (page 39)

Areas for Data Input Improvement

Areas for data input improvements include:

- The basis for the allocation factors used to assign system control costs to functions was established in 1997 and should be updated. (page 36)

Potential COS Model Improvements

Possible model improvements include:

- The functionalization of Operating and Depreciation costs associated with Communications and Control Systems should be incorporated in the COSS model so that it can reflect any re-functionalization of assets/activities that occurs as part of the COS. (page 36)

The COSS model should be refined so as to allow for the sub-functionalization of: i) the costs associated with Settlement Cost Centres that are associate with common activities and ii) the shares of Regulated Assets, Buildings, Communication & Control and General Equipment costs that are assigned to each function. Such a refinement would also permit the COSS model to re-functionalize these costs when assets/activities are re-assigned between functions as part of the COSS. (pages 69 and 74).