

PUBLIC UTILITIES BOARD

<p>MANITOBA HYDRO COST OF SERVICE STUDY METHODOLOGY REVIEW</p>
<p>2016</p>

**FINAL WRITTEN ARGUMENT OF
THE CITY OF WINNIPEG
on the issues that were the subject of
the concurrent evidence session**

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FINAL WRITTEN ARGUMENT OF THE CITY OF WINNIPEG

Introduction

The City of Winnipeg (the "City") submits this written argument in response to the invitation of the Public Utilities Board (the "PUB") by way of Second Procedural Order in respect of Manitoba Hydro's Cost of Service Study Methodology Review No. 84/16 (the "Order").

The City's argument will be confined to the second key issue identified by the PUB in the Order, namely the treatment of net export revenue and the allocation thereof. Evidence was given at the concurrent evidence session on this issue on behalf of the City by John Todd, the president of Elenchus Research Associates on September 8, 2016 and the written version of his evidence was marked as City of Winnipeg Exhibit 16.

Argument

Currently, Manitoba Hydro allocates its net export report only against the costs allocated to the Area and Roadway Lighting class (the "ARL class") and not those costs directly assigned to it. The City takes the position that Manitoba Hydro's net export report should be allocated against all costs associated with the ARL class, including those costs directly assigned to it.

Manitoba Hydro assigns to each class of customer the costs that are reasonably caused by that class. Some costs are clearly caused by only one class and are directly assigned to that class. Other costs cannot be assigned directly to one class because the assets with which they are associated are used by more than one class. In those cases, Manitoba Hydro allocates the costs associated with those assets among the classes according to each class's appropriate share, based on the principle of causality.

There are two types of street lighting poles in the City of Winnipeg. The first type is an exclusive pole. This type is used exclusively for the purposes of street lighting luminaires. The second type of street lighting pole is the shared pole which is used for street lighting and for other purposes as well. The costs associated with exclusive poles are directly assigned to the ARL class. The costs associated with shared poles are not directly assigned to any particular class but are allocated among various classes.

Approximately 70% of the costs of the ARL class are directly assigned costs. Appendix A (Appendix F to Exhibit CoW 8) shows the percentage of the costs of each class that are directly assigned. Other than the Diesel class, the percentages of the costs of the other

classes that are directly assigned are much lower than the percentage of the costs of the ARL class that are directly assigned.

The concern of the City revolves around the inconsistent treatment accorded the different classes by Manitoba Hydro in respect of exclusively used assets. Manitoba Hydro admitted in its cross-examination on September 8, 2016 that line drops from a pole to a residential property are used exclusively by that property but the costs associated with that line drop are not directly assigned to the residential class but are part of the distribution system and are thus allocated among all the classes as appropriate (see Appendix B – page 151 of transcript of concurrent evidence session). This treatment is inconsistent with the treatment of the poles and wires that are exclusively used for street lighting and are directly assigned to the ARL class.

This becomes an issue with the allocation of NER which is allocated against all costs of each class minus the directly assigned costs. The exclusion of directly assigned costs from the calculation of costs in the allocation of NER has the impact on the RCR of the ARL class as shown in Appendix C (Appendix F to Exhibit CoW 8).

The City takes the position that all classes should be treated consistently unless Manitoba Hydro can show a good reason why they should not. Manitoba Hydro has not done so. Their only rationale for this inconsistent treatment of the ARL class is that it is “reasonable” (see Appendix D – page 72 of transcript of concurrent evidence session). With respect, a treatment cannot be reasonable if no reasons can be provided. The City submits that wires and poles leading to the luminaire should be treated in the same manner as the line drops leading to the homes of residential customers – that is, treated as relevant costs for purposes of the allocation of NER. While it may be a matter of “semantics” as alluded to by the Manitoba Hydro witness in cross-examination at the concurrent evidence session, the different accounting treatment has a real impact and a negative one on the City when it comes to the allocation of NER.

The City acknowledges that a “perfect” cost allocation may involve excluding the luminaires from the directly assigned costs that are used to allocate NER on the grounds that they are analogous to refrigerators as suggested by one Manitoba Hydro witness (see Appendix E – page 757 of transcript of first workshop). Nevertheless, given the absence of the data needed to achieve such perfection, the City submits that it is more reasonable to include all directly assigned costs in the total cost figure used to allocate NER than it is to exclude directly assigned costs from the allocator of NER. Directly assigned costs include not only the costs associated with exclusively used poles and wires but also directly assigned DSM costs and other miscellaneous facilities costs.

Conclusion

In conclusion, therefore, the City submits that NER should be allocated against all costs, including directly assigned costs of all the classes, including the ARL class.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

September 21, 2016

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Per: 
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APPENDIX

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Appendix F: Ratio of Direct to Total Allocated Costs by Class

Total Direct Costs: Total		Curtailable Class	Class	Total	Ratio of Direct to Allocated Costs
Residential	Standard & All Electric		6,615	6,615	0.01
	Seasonal		-	-	
	Water Heating		-	-	
	Subtotal		6,615	6,615	
GSS	Non-Demand		5,060	5,060	0.04
	Demand		5,477	5,477	0.04
	Seasonal		-	-	
	Water Heating		-	-	
	Subtotal		10,538	10,538	
SEP	GSM		592	592	0.69
	GSL		49	49	0.46
			642	642	
Gsm		6,429	6,429	0.03	
Gsl	0-30KV		3,439	3,439	0.03
	30-100KV	386	732	1,117	0.01
	>100KV	3,854	1,815	5,669	0.01
	Subtotal	4,240	5,986	10,226	
Area & Roadway Lighting		15,331	15,331	0.70	
Diesel		9,948	9,948	1.00	
Export		37,297	37,297	0.03	
Total		4,240	92,785	97,025	

This table reproduces the Total Direct Costs that appear in the Direct Costs tab of PCOSS14 (Amended), with the addition of the column that calculates the ratio of direct to total allocated costs by class (highlighted column).

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1 --

2 MS. DENISE PAMBRUN: Well, then in
3 residential properties are line drops included in
4 directly allocated costs, or are they not?

5 MS. KELLY DERKSEN: They would be
6 included in as part of distribution, and allocated a
7 portion of net export revenue as part of the GT&D
8 allocator that the Company uses today to share net
9 export revenue.

10 So if that is what you're looking for,
11 they would be included so the residential customer
12 meter service drop, if you will, whatever terminology
13 you want to place on that, is included in the sharing
14 of net export revenue today.

15 MS. DENISE PAMBRUN: In that sense,
16 they are not treated identically to the poles and
17 wires that are direct -- the costs of the poles and
18 wires that are directly allocated to the area and
19 roadway lighting class. Is that correct?

20 MS. KELLY DERKSEN: The poles and
21 wires that are directly assigned to the area and
22 roadway lighting, so the exclusive ones --

23 MS. DENISE PAMBRUN: Yes, I'm talking
24 exclusive ones.

25 MS. KELLY DERKSEN: -- are excluded

1 from the allocator --

2 MS. DENISE PAMBRUN: Right.

3 MS. KELLY DERKSEN: -- with respect to
4 net export revenue, yes.

5 MS. DENISE PAMBRUN: Okay. So -- so
6 let's come back to the fridges and stoves analogy. We
7 have the transformers, and they will have a line drop
8 to a residential property, and I compare that to a
9 wire that goes to the luminaire on the pole.

10 Would you agree with me that that is a
11 fair analogy?

12

13 (BRIEF PAUSE)

14

15 MS. KELLY DERKSEN: It's -- it's
16 possible that it's reasonable, yeah.

17 MS. DENISE PAMBRUN: And if you carry
18 that analogy along, then the luminaire itself is
19 analogous -- analogous to the fridge itself, I
20 suggest.

21 MS. KELLY DERKSEN: Yes, we -- we --
22 well, we have taken the perspective that we are going
23 to define the point of delivery at the meter to be the
24 point where we're going to -- the demarkation point
25 where export revenues in terms of services or other

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C

Appendix A: Impact of Allocation of Net Export Revenue Options

The table below compares the allocated costs, allocated revenue and revenue-to-cost (R/C) ratios for the Reference Model and a revised model that allocates Net Export Revenues (NER) to rate classes on the basis of total allocated costs including directly allocated costs. The only classes that have an R/C ratio impact in excess of 0.1% are:

- Area & Roadway Lighting increases from 100.3% to 104.4%
- Diesel decreases from 72.6% to 72.4%

Customer Class	Reference Model			Net Export Revenue Allocated by Total Costs		
	Allocated Costs (\$000)	Allocated Revenue (\$000)	R/C Ratio	Allocated Costs (\$000)	Allocated Revenue (\$000)	R/C Ratio
Residential	627,343	626,942	99.9%	627,343	626,078	99.8%
General Service - Small Non Demand	132,321	142,889	108.0%	132,321	142,933	108.0%
General Service - Small Demand	138,038	144,262	104.5%	138,038	144,320	104.6%
General Service - Medium	200,189	198,756	99.3%	200,189	198,747	99.3%
General Service - Large 0 - 30kV	99,834	90,906	91.1%	99,834	90,916	91.1%
General Service - Large 30-100kV*	61,642	61,543	99.8%	61,642	61,487	99.7%
General Service - Large >100kV*	204,685	201,541	98.5%	204,685	201,476	98.4%
SEP	968	826	85.4%	968	826	85.4%
Area & Roadway Lighting	21,964	22,039	100.3%	21,964	22,941	104.4%
Total General Consumers	1,486,982	1,489,704	100.2%	1,486,982	1,489,725	100.2%
Diesel	9,948	7,226	72.6%	9,948	7,206	72.4%
Export	255,934	255,934	100.0%	255,934	255,934	100.0%
Total System	1,752,864	1,752,864	100.0%	1,752,864	1,752,864	100.0%

Note: The "Reference Model" is the model run labelled "Weighting Correction" in the Daymark model.

Note: The model used to derive this table has been submitted to Daymark for review.

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1 And so -- but we also have to hear from
2 all parties because there are differing views, I
3 believe, on this matter. And we think what we're
4 doing is reasonable, subject to the -- the views of
5 other parties. And, yes, I think that's -- my answer
6 to your question is, yes, Mr. Peters.

7 MR. BOB PETERS: Thank you. Ms.
8 Derksen, Manitoba Hydro has included class metering
9 costs in its allocation of net export revenue, has it
10 not?

11 MS. KELLY DERKSEN: Yes.

12 MR. BOB PETERS: And street lighting
13 is not metered, is it?

14 MS. KELLY DERKSEN: It is not.

15 MR. BOB PETERS: And is it fair to the
16 area and roadway lighting class to allocate it less of
17 the net export revenue just because Manitoba Hydro
18 doesn't use metering for this class?

19

20 (BRIEF PAUSE)

21

22 MS. KELLY DERKSEN: We've defined the
23 point to return that export revenue up to the point of
24 delivery at the -- at the customer's premi -- premise.
25 We think that's reasonable. We certainly don't think

1 it's unreasonable.

2 Could there be a case made to extend
3 those customer classes who don't have metering
4 explicitly and to offer -- to assign or return net
5 export revenue to those -- those classes, also?
6 There's a rational argument to be made, I think.

7 MR. BOB PETERS: Ms. Derksen, if net
8 export revenue was credited to customer classes based
9 only on generation and transmission, doesn't that
10 eliminate much or most of the debate as to what costs
11 get allocated to what export class or classes?

12 MS. KELLY DERKSEN: I don't think it
13 serves any fun -- real function at all, Mr. -- Mr. Per
14 -- Mr. Peters, quite frankly. If we were to assign
15 net export revenue on the basis of generation
16 transmission assets we're left with an outcome where
17 we, in effect, are assigning all export revenue on the
18 basis of each class's allocation of generation and
19 transmission resources, which is exactly where we were
20 a decade ago. And so -- so that's issue number 1 for
21 me.

22 Issue number 2 is, I'm not sure why we
23 would go through such an extensive effort to place a
24 fine point on determining export cost responsibility
25 if this is ultimately about how we share export

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1 did in 2008, be careful what you wish for here because
2 you will get greater levels of cost assigned to the
3 area and roadway -- to the area and roadway lighting
4 class.

5 That said, I understand that there
6 could be an argument made that net export revenue
7 after you've made some attempt to reasonably assign
8 costs to the export class is really this pool of -- of
9 revenue that we said is -- is surplus to embedded
10 costs. So it -- it really can be used for -- in a
11 number of different ways.

12 The -- the demarcation point that
13 Manitoba Hydro has elected is to say, Well, we think
14 it's most reasonable that we cut it off at the metre
15 because we don't afford a residential customer the
16 treatment of including, you know, the cost of their
17 fridge and stove.

18 So, I mean, that's the basis on which
19 we have made that judgment call. It's not more
20 scientific than that. It's a judgment call. You
21 could make the argument that dedicated end-use
22 facilities which are significant to the customers that
23 you represent be assigned some net export revenue.
24 But, like I said, you -- it depen -- it all depends on
25 how you allocate cost as to what you have left over.