

MANITOBA HYDRO'S COST OF SERVICE REVIEW

SUBMISSION OF MANITOBA KEEWATINOWI OKIMAKANAK INC. ON KEY ISSUES

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SUBMISSION

1. WHO IS THIS INTERVENER AND WHAT ARE ITS INTERESTS

This submission is on behalf of Manitoba Keewatinowi Okimakanak Inc. (MKO).

MKO represents approximately 65,000 Treaty First Nation citizens in northern Manitoba. MKO is a nonprofit advocacy organization governed by the elected Chiefs of the 30 sovereign First Nations in northern Manitoba.

The citizens of the MKO First Nations are *residential ratepayers* and the First Nation Governments are *general service ratepayers*. The three diesel First Nations which pay electricity bills for the schools are also *First Nation Education Rate customers*.

All of the citizens of the MKO First Nations and the MKO First Nation government facilities receive electricity service solely from Manitoba Hydro and all are Manitoba Hydro customers.

Most MKO citizens are in the low income category. A category which spends a higher percentage of its income on electricity than higher income citizens. The income to pay for utility charges comes from the Federal Government.

For the most part MKO aligns its interests for its residential customers with the experts and testimony brought forward by the Coalition (William Harper, Econalysis Consulting Services) and aligns its general service customers with the experts and testimony of London Economics International LLC.

2. GUIDING PRINCIPLES

While much has been said in these proceedings regarding cost of service methodologies and rate design principles, very little has been said about the legislative and statutory principles that underlie the result to be achieved by a cost of service study and the setting of rates. It is our position that the most important guide to the Public Utilities Board and to Manitoba Hydro is set out in the preamble to the Affordable Utility Rate Accountability Act.

Affordable Utility Rate Accountability Act

WHEREAS, by reason of Manitoba's ownership of Manitoba Hydro and the Manitoba Public Insurance Corporation, Manitobans should benefit from low rates for electricity, natural gas for home heating, and auto insurance;

AND WHEREAS maintaining low rates for these products will help ensure Manitoba remains an affordable place to live, work and raise a family;

AND WHEREAS maintaining an affordable high quality of life benefits not only Manitoba families but also Manitoba's economy by attracting and retaining people;

Manitoba Hydro has for all intents and purposes determined that the primary and in some cases only principle to be applied in the cost of service study is the principle of "cost causation". However, as stated by William Harper in his report cost causation is not the only consideration that must be taken into account. (June 10th 2016 report p pages 17). This was also recognized by the Public Utilities Board in board order 117/06 being the previous cost of service review.

Board Order 117/06

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4.0 Board Findings

Overview

The Board confirms its public interest mandate, and will provide directions to MH based on the Board's perspective of the public interest. The Board's interests extend beyond arithmetically driven formulaic approaches to evaluating customer class rates and rate setting. The Board intends to consider information on environmental matters, marginal costs, energy efficiency, the plight of low-income customers, those customers damaged by MH's plants and operations, intergenerational equity and the financial strength of Manitoba's largest utility.

It is respectfully submitted that the Public Utilities Board should also take into account all alternative positions that are equally reasonable and fall within the general guidelines for consideration as put forward not only by Manitoba Hydro but by the experts hired on behalf of the various classes. As stated by Manitoba Hydro in its evidence on September 7, 2016 and set out in its slide show, slide 4:

MH Cost of Service Overview

There is no one right answer

- Some solutions are better than others*

In determining what answer is the right answer or which solution is better the Public Utilities Board should place greater weight on what the majority of the customer/class believes than what Manitoba Hydro proposes. The ratepayers are the customer, they are the beneficial owners and they are the ones that carry the rate payments.

3. ALLOCATION AND TREATMENT OF NET EXPORT REVENUE

MKO in 2006 vigorously argued that in the allocation of net export revenue the diesel class should be allocated based upon its total costs including direct costs. Nothing has changed since that date that would warrant changing the current status of the revenue allocated to the diesel class.

Manitoba Hydro and its experts are of the view that the net export revenue ought to continue to be allocated in the same fashion for all other classes as currently done which is allocated costs but not direct costs. However as pointed out by London Economics International LLC Manitoba Hydro admitted that allocating net export revenue on the basis of total costs which would include direct costs was an equally acceptable argument. MKO includes a number of general service small and general service medium entities and since they would be more fairly treated if direct costs were included in the allocation MKO is supportive of that position.

Another credible option or alternative for allocation of net export revenue was put forward by the Consumer's Coalition and the City of Winnipeg. These groups put forward a very general principle that would see net export revenue paid directly to ratepayers. In particular when Michael O'Sheasy was cross-examined he indicated that a form of direct payment had been considered but that not enough information was available in order to put that proposal forward. Similarly Mr. Todd spoke about the possibility of some form of dividend being paid to ratepayers.

Transcript September 8 page 520

6 MR. BYRON WILLIAMS: I might come back
7 to that in just a second. There is one of your
8 proposals for allocation of net export revenue that I
9 don't think was very well canvassed in the course of
10 this proceeding, and that was a -- the proposal to do
11 a lump sum bill credit.

12 MR. MICHAEL O'SHEASY: Yeah. What we
13 would suggest -- we -- we weren't really proposing it
14 but we were -- we were noting there are different
15 methodologies. Now, one of the -- that methodology
16 was indeed a lump sum credit, and the advantage of
17 doing so is to avoid price distortion in the rates for
18 the domestic class.

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13 MR. JOHN TODD: This entire area is
14 driven by fairness and fairness is driven by judgment.

15 You know, clearly there's no right or wrong to it.
16 There are policy objectives that are trying to be
17 achieved.
18 And my understanding of the history of
19 this is that there's a goal of giving a dividend back
20 to the customers. My understanding of it, or concept
21 of it is it's kind of like a co-op. I buy a few
22 things at Mountain Equipment Coop because I like to do
23 hiking. I get a dividend cheque back.
24 The more I buy from them the bigger my
25 dividend cheque. So I'm thinking of this as this is a
26 Crown corporation working for the province and it's
2 seeking to identify an opportunity to provide a
3 dividend to the customers.
4 There are many ways you could do that.
5 There's a mechanism in place. And in doing so you
6 want to have a design which in the judgment of the
7 Board does it in a fair and equitable manner. That's
8 my understanding. That's is not an -- it really isn't
9 an expert opinion, because this is a judgment matter
10 that is reflective of partially government policy,
11 partially Board policy.

The Board may wish to consider asking for more details on how such a program might work and how it could be fairly allocated among the classes. Such an approach would be more in keeping with The Affordable Utility Rate Accountability Act and in particular the part of the preamble that states:

Manitobans should benefit from low rates for electricity, natural gas for home heating, and auto insurance;

4. TREATMENT OF EXPORT COSTS

MKO agrees with two export classes and the general comments regarding that area as set out by William Harper in his report.

5. FUNCTIONALIZATION, CLASSIFICATION AND ALLOCATION OF GENERATION AND TRANSMISSION ASSETS

MKO agrees with the general comments regarding that area as set out by William Harper in his report.

6. THE CLASSIFICATION AND ALLOCATION OF DEMAND-SIDE MANAGEMENT

MKO does not agree with Manitoba Hydro that DSM should be allocated to participating customer classes. DSM is a benefit to all of Manitoba and has been recognized as such by the Board on many occasions. In particular the Board has recognized that aggressive DSM can and does provide for additional export revenue.

In Board Order 117/06 the Board stated at page 3

*Energy efficiency presents the potential for a virtuous circle, wherein lower domestic consumption results in reduced customer bills, **higher MH aggregate net export revenue** and net income, and lower carbon emissions by MH's American export customers. (Emphasis added)*

And further at page 58

Given higher domestic consumption leads to reduced net export revenue, the Board will direct MH to recognize the link between energy efficiency, higher exports and higher aggregate revenue by allocating DSM costs as a direct charge against export revenue.

And again in 2008 in Order 116/08 at page 342

The Board can envision MH establishing aggressive goals for the reduction of domestic energy consumption for such a new entity to meet or exceed, together with providing adequate funding to meet those goals (energy conserved is energy available for export).

And again in the NFAT Final Report page 85

noted that DSM can not only help to reduce the electricity bills of ratepayers who take advantage of the programs, but also reduce Manitoba domestic load, and free up more capacity for export

Similarly at page 84

In jurisdictions that export surplus energy and capacity, DSM savings may mitigate the rate increases associated with the cost of DSM measures. This mitigating effect comes from the ability of DSM measures to free up more energy and capacity for export, and thus increase revenues from export sales. If export prices are equal to or greater than the utility's costs of the DSM measures, these costs could be recovered from export revenues and ratepayers might not see a rate increase at all.

The NFAT panel in its findings stated at page 80-81

The Panel found that treating the DSM savings from the Supplemental 2014 Power Smart Plan as a separate, independent energy resource, yields capacity savings that amount to more than 80% of the net system capacity addition from the proposed Conawapa Project. Similarly, the annual dependable energy savings from the Power Smart Plan exceed 85% of the dependable energy output from the proposed Conawapa Project. To achieve these electricity savings, Manitoba Hydro budgets to spend \$822 million, which is less than 8% of the \$10.7 billion cost of building Conawapa.

Other features of DSM point toward other general benefits that apply to all of Manitoba and not just participating classes: Page 88 NFAT Final Report

...studies of the economic benefits of DSM show that for every million dollars spent on DSM, 15 to 35 person-years of employment were created, which is 2 to 10 times more than for new power plant construction. The high level of job creation associated with DSM was confirmed in a study Mr. Dunsby conducted in four Canadian provinces, and will, he suggests, be further supported by a national DSM study that has yet to be publicly released. Mr. Dunsby stated the DSM employment values for Manitoba will be toward the higher end of the range, based on the study's macroeconomic modelling.

Another general benefit to all of Manitoba as a result of DSM is the environmental results. NFAT Final Report page 89:

Environmental Benefits of DSM

Reducing energy consumption has obvious environment benefits. Manitoba Hydro is projecting greenhouse gas (GHG) emission reductions of 780,000 tonnes as a result of its gas and electric DSM programs over the three-year period, 2014-2017.¹²⁴ Including GHG reductions achieved to date, Manitoba Hydro is forecasting GHG reductions in the order of 4.6 million tonnes by 2028/29.

Surely all of these results would be of tremendous benefit to all of Manitoba and not just to the class that took part in the programs. It is a system benefit.

Finally in accordance with our proposition that if alternatives were available the one that most benefits the ratepayer should be taken. Hydro's own experts stated that:

CA September 2016 slide 30

Plausible approach options are available, and well known

- match class-specific DSM costs to class participation*
- system benefits approach*

The problem with the approach that Manitoba Hydro proposes to take is that it overly applies “causation” in circumstances that do not warrant it. MKO communities do not deliberately cause the circumstances that require DSM programs. Geography, poor living conditions, inadequate proper housing all contribute to their need and desire for DSM programs. Within their residential class they are the only ones that do not have access to the most reliable DSM program and that is fuel switching. Manitoba Hydro’s proposed method to deal with allocation of DSM pits one part of the class against the other. Similarly, aggressive DSM in First Nations Communities has a greater potential to save energy that could be available for export which is a benefit to Manitoba as a whole.

Finally, MKO wishes to raise the concern that whatever COSS or Rate Design is employed, residential classes will be inherently treated in a way that prejudices them and in particular low income residential customers. Fairness is not always fair if it is based upon equal treatment that has unequal results.

MKO ratepayers have to absorb as part of their class allocated costs, the money that goes directly to the Provincial Government to be used for general purposes. The province funds little or no infrastructure costs on First Nations. Mitigation costs are also attributed to their class so that they are forced to pay for the damage caused to their communities. Many of these issues were recognized by the Board in its Order 117/06. They remain unresolved.

Residential customers pay 100 cents on every dollar of their hydro bill. Industrial and commercial customers either pass on the cost of hydro to their customers or reduce their profit by deducting it as an expense and having the tax department in effect take some of the cost. Municipal entities pass on their hydro costs to their ratepayers as part of the taxes on property. Education facilities, at least in Winnipeg pass their hydro costs on in the form of property taxes. So residential customers not only pay their personal hydro costs but have much of the hydro costs of other classes funnelled down into their class.

Respectively submitted this 21st day of September 2016.