

PUBLIC UTILITIES BOARD

<p>MANITOBA HYDRO 2010/11 & 2011/12 GENERAL RATE APPLICATION</p>

WRITTEN ARGUMENT OF THE INTERVENOR THE CITY OF WINNIPEG

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Introduction

1. Manitoba Hydro (“MH”) filed a General Rate Application (the “GRA”) with the Public Utilities Board (the “PUB”) on November 30, 2009, seeking a rate increase for all classes in the amount of 2.9% for the period April 1, 2010 to March 30, 2011 and 2.9% for the period April 1, 2011 to March 30, 2012.
2. The PUB held a number of pre-hearing conferences, at one of which the City of Winnipeg (the “City”) was granted intervenor status.
3. The City is MH’s single largest consumer in the Area and Roadway Lighting class (the “ARL class”), paying over \$10,000,000 annually for electricity for street lighting in the City of Winnipeg.
4. On January 19, 2010, the PUB held an interim rate hearing, at which it heard from MH, the City and the other intervenors on the issue of whether the PUB should make an interim order with respect to rates effective April 1, 2010.
5. On January 9, 2010, the PUB issued Order 18/10, in which it ordered an interim rate increase for all classes of MH consumers effective April 1, 2010, except the ARL class, which would receive no rate increase.

6. In Order 18/10, the PUB held as follows:

There has been no rate increase to the Area and Roadway (street) Lighting class since April 1, 2005. Until the Board gains further understanding of the costs and cost of service for this class, there will be no rate increases – interim or otherwise.

7. The hearing on the merits of the GRA commenced on January 5, 2011. At the beginning of the hearing, MH gave evidence that it was no longer seeking a rate increase for the ARL class for either 2010 or 2011 (*see page 4631 of the transcript of proceedings*).

8. On March 9, 2011, the PUB held a second interim rate hearing, at which it heard from MH, the City and the other intervenors on the issue of whether the PUB should make an interim order with respect to rates effective April 1, 2011.

9. On March 30, 2011, the PUB issued Order 40/11, in which it ordered an interim rate increase for all classes of MH consumers effective April 1, 2011, except the ARL class, which would receive no rate increase.

10. In Order 40/11, the PUB held as follows:

With respect to Area and Roadway Lighting (ARL), while the Board will again exempt the class from an interim rate increase to be applied to other classes of customers, it puts the ARL class on notice that further exemptions are far from assured. The Board will carefully assess the revenue to cost ratio and other factors that apply to rate setting in determining the relative position of the ARL class' rates.

11. Although it was suggested by one of the intervenors during the hearing that other rate designs might be appropriate (*see page 7615 of the transcript of proceedings*), MH did not change its position that there should be no rate increase for the ARL class (*see page 8177 of the transcript of proceedings*).

The evidence

12. The primary purpose of a cost of service study (a “COSS”) is to test the fairness of rates imposed between domestic classes (*see page 4847 of the transcript of proceedings*).
13. Historically, the ARL class has had a ratio-to-cost-coverage rate (the “RCC rate”) above the zone of reasonableness (“ZOR”), which is between 95% and 105% (*see page 4632 of the transcript of proceedings*). In PCOSS-03, the ARL class’s RCC rate was 110%, in PCOSS-04, the ARL class’s RCC rate was 109%, in PCOSS-06 (MH’s recommended version), the ARL class’s RCC rate was 107% and in PCOSS-08, without including any rate increase, the ARL class’s RCC rate was 106% (*see page 250 of PUB Order 116/08*). In PCOSS-11, without including any rate increase, the ARL class’s RCC was 105.2% (*see page 4654 of the transcript of proceedings*).

14. Had both PCOSS-10 and PCOSS-11 included 2.9% increases, the RCC rate for the ARL class for 2010 would have been 108% and the RCC rate for the ARL class for 2011 would have 111% (*see Appendix*).
15. PUB Order 117/06 followed a hearing in which PCOSS-06 underwent a thorough review. The PUB made a series of recommendations to MH about PCOSS-06 and ordered MH to file a new COSS incorporating the recommendations. PCOSS-08 was filed by MH in response to PUB Order 117/06 and was the subject of the hearing that led to PUB Order 116/08. However, PCOSS-10 and PCOSS-11, filed in this hearing, did not incorporate some of the recommendations ordered by the PUB in PUB Orders 117/06 and 116/08. These recommendations were summarized at pages 2 and 3 of Appendix 1.1 of the GRA.
16. The PUB has not approved PCOSS-10 or PCOSS-11 (*see page 4627 of the transcript of proceedings*). It is interesting to note that MH is not relying on PCOSS-10 or PCOSS-11 for the purposes of this hearing (*see page 7105 of the transcript of proceedings*). MH has retained Christenson and Associates of Madison, Wisconsin to prepare a new COSS which is not yet complete (*see page 5707 of the transcript of proceedings*).
17. Interestingly, at page 48 of PUB Order 117/06, the PUB ordered as follows:

MH is to consult with the City of Winnipeg and attempt to achieve a consensus with respect to a fair and equitable allocation of costs

with respect to street lighting, and file a report with the Board for review at the next GRA.

Despite a considerable exchange of correspondence between the City and MH (as referred to by counsel for the City at the first interim rate hearing), the City has not been able to gain a better understanding of the cost allocation underlying the COSS. Attached are some examples of Information Requests which illustrate the difficulty.

- Information Request RCM/TREE/MH I-2;
- Information Request CITY/MH I-10;
- Information Request CITY/MH I-13;
- Information Request CITY/MH I-14;
- Information Request CITY/MH I-15;
- Information Request CITY/MH SUPP-2;
- Information Request CITY/MH SUPP-4; and
- Information Request CITY/MH SUPP-8.

Needless to say, MH never did file the requisite report with the PUB.

Argument

18. The City takes the position that no rate increase should be ordered for the ARL class for either 2010 or 2011.
19. Despite the PUB's repeated comments, MH has not made any effort to assist the City and the PUB in gaining any understanding of the costs and cost of service for

the ARL class – or any other – prior to or during the course of this hearing. In fact, during the course of this hearing, MH indicated it was not relying on PCOSS-10 or PCOSS-11, thereby avoiding any inquiries into the methodologies on which they were based.

20. Interestingly, MH's failure to put forward a COSS on which it was prepared to rely and be questioned did not preclude it from refusing to incorporate aspects of COSS methodology ordered by the PUB in PUB Orders 117/06 and 116/08.
21. The ARL class has historically paid a greater proportion of revenue to MH vis-à-vis the cost of service it requires compared to the revenue of most of the other classes. Even without a rate increase for 2010 and 2011, the RCC rate continues to be outside – and higher than - the ZOR. This is especially notable considering that the cost base for the ARL class is significantly higher than that for any other class (*see pages 2 and 3 of Information Request PUB/MIPUG I-18*).
22. The City is prepared to pay its fair share of electricity costs for street lighting. However, these costs are borne by municipal taxpayers, who should not be required to subsidize other MH consumers in the Province of Manitoba.
23. Accordingly, the City submits that in the absence of evidence from MH explaining PCOSS-10 and PCOSS-11 and given the RCC rate of the ARL class

for 2010 and 2011, no rate increase should be ordered for the ARL class for 2010 and 2011.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

June 20, 2011

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APPENDIX

RCC RATE CALCULATION FOR ARL CLASS with 2.9% increases for 2010 and 2011

(refer to page 15 of PCOSS-11)

BASE REVENUE OF \$20,598
COST OF \$19,574

FOR 2010

$\$20,598 \times 1.029 = \$21,195.342$
 $\$21,195.342 / \$19,574 = 1.08\%$

FOR 2011

$\$21,195.342 \times 1.029 = \$21,810.01$
 $\$21,810.01 / \$19,574 = 1.11\%$

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June 20, 2011