

MANITOBA HYDRO'S COSS MODEL
PRELIMINARY CONCERNS/ISSUES

1) REVENUE

- The “Total Revenue” tab in the model just sets out the revenues by rate class before and after the Uniform Rate Offset and does not show any of the initial steps used to derive these values per Schedule C13 of the PCOSS. Steps of interest include:
 - The allocation to O&A of roughly \$14.6 M in Other Revenue – the current allocation is not shown and there is no ability to change it.
 - The allocation of Late Payment & Other Adjustments (\$5.8 M) to rate classes – the current allocation is not shown and there is no ability to change it.

2) FUNCTIONALIZATION OF COSTS

Assets & Interest

- The functionalization of assets and rate base includes Regulated and Intangible Assets however they are not listed as a separate asset class but presumably incorporated in the asset classes shown. These means that:
 - The allocation treatment of Regulated Intangible Assets is not apparent and there is no ability to change it.
 - Specifically, with respect to DSM, the derivation of the associated Interest costs is not delineated.
- The functionalization of Buildings, Communication and General Equipment is “hard coded” such that one is unable to see how the allocation was done: This means that:
 - There is no ability to see what the current allocation approach used is and/or change it.
 - The allocation will not change if assets are re-assigned between functions
- The costs associated certain assets whose treatment is proposed to change as part of the review are not separated out (e.g. Dorsey and Radial Taps) and, as a result, it is not possible to model alternative treatments. (Note – This issue also applies to Depreciation and Operating costs for this assets)
- Transformers appear to be included in three different assets classes - it would be useful to have definitions as to what each asset class represents/includes.
- The Interest costs associated with virtually all the direct assignments are hard coded and it is not evident how they are calculated.

Depreciation

- The functionalization of the depreciation associated with Buildings, Communication and General Equipment is not addressed in the model but appears to have been

incorporated in the depreciation reported for other assets. This means that there is no ability to see what the current allocation approach used is and/or change it.

- The PCOSS study filed starts with the Depreciation as reported by MH's Financial Reporting System (Schedule C6) and then sets out an assignment to functions. The COSS model does not include this first step and, therefore, does not document any of the associated methodologies.

Operating Costs

- In the "Base Alloc Data" tab of the model there is a summary of Operating cost and some of the values are used in subsequent tabs. However, this summary excludes certain costs (e.g. Fuel and Power Purchases) and therefore does not reconcile with the total Operating cost used in the COSS. It would be useful if the summary was expanded to show all the components of Operating costs and included all of the detailed breakouts for Operating used in subsequent tabs.
- The functionalization of the Operating costs associated with Communication & Control Systems (see PCOSS, Schedule C12) not addressed in the model but appears to have been incorporated in the depreciationOperating costs reported for other assets. This means that there is no ability to see what the current allocation approach used is and/or change it.
- The PCOSS study filed starts with the DepreciationOperating costs as reported by MH's Financial Reporting System (Schedule C12) and then sets out an assignment to functions. The COSS model does not include this first step and, therefore, does not document any of the associated methodologies.

3) CLASSIFICATION

- With respect to Distribution, the model only provides the ability to alter the classification for lines – it does not provide a similar flexibility for transformers.

4) ALLOCATION

- The model does not provide the derivation of any of the allocation bases used for Customer-related costs that involve weighting customer counts. This means that:
 - In some cases, where documentation has not been provided in the PCOSS (e.g. Allocator C27), it is not possible to know the current weights applied to the different customer classes, and
 - In all cases, it is not possible to change the current weighting factors used.
- Allocators D36 and C23 are the demand and number of customers by class using distribution lines with "an adjustment for secondary". There is no supporting material setting how these values were derived (i.e. what the adjustment was).
- For those functions that have more than one "allocator" (e.g. Sub-transmission and Distribution) there is an implicit (and hard coded) assignment of the Interest associated with Buildings, Communication and General Equipment that has been assigned to the function to one of the "allocators" with no ready way to a change it.

March 4, 2016

- The model does not provide details on the loss adjustment applied to demand and energy consumption. Losses appear to be included in the hard coded in the Forecasted Weighted Energy, and the same loss adjusted consumption value appears to be the basis for allocators at all stages of the system.