

PUBLIC UTILITIES BOARD

MANITOBA HYDRO CROSS OF SERVICE STUDY METHODOLOGY REVIEW
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WRITTEN ARGUMENT OF THE CITY OF WINNIPEG

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Introduction

This written argument is submitted by the City of Winnipeg (the “City”) in the Manitoba Hydro Cost of Service Study Methodology Review in response to the invitation of the Public Utilities Board (the “PUB”) by way of its second procedural order dated July 12, 2016 (the “Order”) which requested all parties’ written submissions on issues not subject to oral argument, by Friday, August 12, 2016.

The City submitted written evidence by way of the document entitled “Proposed Enhancements of Manitoba Hydro’s Prospective Cost of Service Study (PCOSS) Methodology” by John Todd, President of Elenchus Research Associates Inc., dated June 10, 2016 (Exhibit COW-9) (the “written evidence”). Mr. Todd also gave evidence at the Intervenor Workshop on June 23, 2016 and was cross-examined on this evidence (as evidenced in the transcript of proceedings). Unless otherwise indicated, all references to evidence in this written argument are taken from the written evidence.

Although the City began these proceedings with a review of issues involving the General Service Small and Medium classes as well as the Area and Roadway Lighting class (the “ARL class”), the issues involving the General Service classes are being dealt with by London Economics and its counsel Christian Monnin. Accordingly, it is only necessary at this time for the City to take a position in the remainder of the hearing on two issues relevant to the ARL class:

- The allocation of Net Export Revenue (“NER”); and
- Street and sentinel lighting.

Pursuant to the Order, the allocation of NER is a “key issue” subject to cross-examination at the oral portion of the hearing to take place on September 7, 8 and 9, 2016 (and September 10, 2016, if necessary). This written argument, therefore, will only deal with the remaining issue of street and sentinel lighting in the cost allocation methodology.

Street and Sentinel Lighting

The ARL class includes seven tariff items, the two most important of which are Outdoor Lighting and Sentinel Lighting. Manitoba Hydro’s PCOSS does not differentiate between Outdoor Lighting and Sentinel Lighting for the purposes of cost allocation and

determination of revenue-to-cost ratios. The method of subdividing a roadway lighting class varies from jurisdiction to jurisdiction. Obviously, the most important consideration in defining classes in the PCOSS in a manner that is consistent with the defined tariff items is whether the result constitutes a fair recovery of costs from the customers served under each tariff item. Some jurisdictions have determined that treating outdoor lighting as a separate class results in more equitable cost recovery through rates. The City submits that adopting this approach for Manitoba Hydro's PCOSS would provide detailed cost allocation and revenue-to-cost ratio information that would provide a basis for ensuring that the Outdoor Lighting tariff is equitable relative to the costs caused by street lighting customers.

Throughout the Province, each bill for Outdoor Lighting correlates to a large number of connected luminaires while most Sentinel Lighting bills correspond to a single sentinel light (transcript of proceedings at pages 939-940). The City receives a number of monthly bills with respect to Outdoor Lighting, each for a distinct area of the City, based on the number of associated street lighting connections in that area, multiplied by the Outdoor Lighting tariff. Since Outdoor Lighting and Sentinel Lighting classes are not broken out in Manitoba Hydro's PCOSS, the tariffs charged to customers for these services cannot be based on a determination of costs equitably allocated to each service.

Although Manitoba Hydro's PCOSS does not distinguish between Outdoor Lighting and Sentinel Lighting, its evidence clearly demonstrates that cost drivers are not the same for both types of services. In particular, a difference in cost drivers is clearly shown for customer billing costs in the ARL class in the table attached to Manitoba Hydro's response to Information Request COW/MH-1-3a-c. There, 582,420 services (customers/bills) are recorded. Of this total, 26,759 (4.6%) are ARL services (customers/bills). Further, according to the Tab C tables in PCOSS 14, there were 155,024 ARL connections, which is almost four times the number of customers/bills. This ratio reflects the average for the ARL class as a whole. It is not reflective of the number of connections per customer/bill for Sentinel Lighting and Outdoor Lighting customers. While the average number of connections per Sentinel Lighting customer is close to 1 and the average number of connections per Outdoor Lighting customer is far higher, Manitoba Hydro treats all ARL customers/bills the same with an average of approximately four connections each.

This difference is important since billing costs are allocated on the basis of the number of connections and not on the number of bills (although the number of bills would be a far more logical basis for allocating billing costs). Since Sentinel Lighting and Outdoor Lighting customers are treated in the cost allocation model as a single class (although they have distinct tariffs), the weighting factor attributed to them must implicitly reflect the overall average ratio of connections to customer/bill – that is, 4 to 1. In fact, the ratio is far higher for Outdoor Lighting and only 1 to 1 for Sentinel Lighting. As a result, the average billing cost per connection is overstated for Outdoor Lighting and understated for Sentinel Lighting (transcript of proceedings at page 940).

As recommended by Mr. Todd in his evidence, this inequity can be solved by separating the "sub-categories" of Outdoor Lighting and Sentinel Lighting into separate categories for cost allocation purposes (transcript of proceedings at page 940). In this fashion, the cost allocation respecting customer service in the ARL class would not get skewed as set out above. In the alternative, the allocated billing costs could be recovered from ARL customers through a fixed monthly charge that would apply to each customer/bill (transcript of proceedings at page 940) and corresponds to the average billing cost per ARL bill.

These alternatives were the recommendation of Mr. Todd and there was no rebuttal by Manitoba Hydro or any other party to this evidence.


Conclusion

Accordingly, the City submits that the recommendation of Mr. Todd to create two classes for ARL, one for Outdoor Lighting and one for Sentinel Lighting, should be accepted by the PUB. In the alternative, Manitoba Hydro should be directed to restructure the ARL tariffs to include a fixed charge per customer/bill. The restructuring should be implemented on a revenue neutral basis so that the total class revenue is unchanged and remains within the Board approved revenue to cost ratio range.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

August 12, 2016

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Per: 
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