

MANITOBA HYDRO 2017/18 & 2018/19 GENERAL RATE APPLICATION
PUBLIC UTILITIES BOARD
INTERVENER EVIDENCE INFORMATION REQUESTS
COALITION (HARPER)
NOVEMBER 15, 2017

PUB/COALITION - 14

Reference:

W. Harper - Pg. 33 Schedule 18 Key Financial Outlook Results

Question:

- a) Please update schedule 18 with MH's proposed rate trajectory in Appendix 3.8 and compare with IFF16 U/I with MH15 Rate Incr.
- b) Please comment on the relative sufficiency of cash flow from an EBITDA interest coverage basis to meet interest payments and sustain MH's self supporting status.

Response

- a) As noted on page 13 of the ECS Evidence:

“The financial projection (IFF16) underpinning the 2017/18 & 2018/19 Application called for significantly higher rate increases in 2017/18 and 2018/19 than those in previous financial plans. In order to determine the extent to which the financial outlook for the Corporation has changed over this period, it is useful to compare the past financial outlooks with a financial projection that includes all with the forecast assumptions used in IFF16 but assumes rate increases for each of the two years (and beyond) similar to those included in the previous financial projections (i.e., 3.95%/annum in the initial years)”

The purpose of Schedule 18 was to summarize the results of this assessment. It is noted that integrated financial forecast provided in Appendix 3.8 has a fundamentally different trajectory for future rates. With this preface, attached is a revised version of Schedule 18 which includes IFF16 U/I based

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on the following rate trajectory: 2018 – 3.36% (August 1, 2017); 2019-2024 – 7.9%/annum; 2025 – 4.54%; 2026-2034 - 2%/annum.

Schedule 18 (per PUB/COALITION 14)- Key Financial Outlook Results (Electric Operations)

Proceeding	2015/16 & 2016/17 GRA	August 1, 2017 Interim Rates	IFF16 with MH15 Rate Increases	IFF16 U/I with MH15 Rate Incr.	IFF16 U/I
Reference IFF	IFF14	IFF15	IFF16	IFF16 U/I	IFF16 U/I
Period Covered	2015-2034	2016-2035	2017-2036	2017-2036	2017-2036
Major New Plant	BP III – 2018/19 Keeyask - 2019/20	BP III – 2018/19 Keeyask - 2019/20	BP III – 2018/19 Keeyask - 2021/22	BP III – 2018/19 Keeyask - 2021/22	BP III – 2018/19 Keeyask - 2021/22
Annual Rate Increases	3.95% - 2016->'31 2% - thereafter	3.95% - 2017->'29 2% - thereafter	3.95% - 2017->'29 2% - thereafter	3.95% - 2017->'29 2% - thereafter	2018 – 3.36% 2019->24 -7.9% 2025 – 4.34% 2026-2034 -> 2%
Debt Ratios	2019 – 86% 2027 – 90% 2034 – 75%	2019 – 87% 2027 – 86% 2034 – 69%	2019 – 86% 2027 – 86% 2034 – 75%	2019 – 85% 2027 – 88% 2034 – 81%	2019 – 86% 2027 – 75% 2034 – 48%
Maximum Debt Ratio	90% in 2022/23 -> 2026/27	88% in 2021/22- >2023/24	87% in 2019/20 ->2020/21 and 2021/23->2024/25	88% in 2024/25 ->2027/29	86% in 2018/19-> 2019/20
Debt Ratio at/below 75% in	2034 (Year 20)	2032 (Year 17)	2034 (Year 18)	After 2036	2027 (Year 11)
Base Capital Coverage Ratio<1.0	- 6 of the first 10 Years - 8 of the first 15 Years	- 2 of the first 10 Years - 2 of the first 15 Years	- None of first 10 Years - None of first 15 Years	- None of first 10 Years - None of first 15 Years	- None of first 10 Years - None of first 15 Years
Base Capital Coverage Ratio (Average)	2018-19 – 1.13 2018-27 – 1.09 2018-34 – 1.47	2018-19 – 1.23 2018-27 – 1.38 2018-34 – 1.74	2018-19 – 1.23 2018-27 – 1.46 2018-34 – 1.65	2018-19 – 1.38 2018-27 – 1.37 2018-34 – 1.52	2018-19 – 1.44 2018-27 – 2.00 2018-34 – 2.33
Retained Earnings (\$M)	2019 – 2,812 2027 - 2,007 2034 - 5,557	2019 - 2,663 2027 - 3,219 2034 - 7,402	2019 - 2,912 2027 - 3,632 2034 - 6,395	2019 - 2,990 2027 - 2,879 2034 - 4,619	2019 - 3,053 2027 - 6,564 2034 - 13,680
Years with Negative Overall Capital Coverage ⁽¹⁾	- 9 of the first 10 years - 9 of the first 15 years	- 7 of the first 10 years - 7 of the first 15 years	- 7 of the first 10 years - 7 of the first 15 years	- 7 of the first 10 years - 7 of the first 15 years	- 6 of the first 10 years - 6 of the first 15 years
Overall Capital Coverage (Average \$M))	2018-19 – -2,209 2018-27 – -608 2018-34 - -107	2018-19 – -2,029 2018-27 – -454 2018-34 - 29	2018-19 - -2,644 2018-27 - -766 2018-34 - -217	2018-19 - -2,613 2018-27 - -842 2018-34 - -321	2018-19 – 2,581 2018-27 - -477 2018-34 - 209
EBITDA (Average)	2018-19 – 1.44 2018-27 – 1.45 2018-34 – 1.71	2018-19 – 1.49 2018-27 – 1.62 2018-34 - 1.88	2018-19 – 1.58 2018-27 – 1.67 2018-34 – 2.00	2018-19 – 1.59 2018-27 – 1.61 2018-34 – 1.76	2018-19 – 1.63 2018-27 – 1.98 2018-34 – 2.49
Source	GRA, Appendices 3.3 & 3.5 & 11.13	Interim Rate Application, Tab 1	Appendix 3.4	PUB/MH I-34, Attachment 2	Appendix 3.8

b) As noted at page 4 of the ECS Evidence:

The purpose of this Evidence is to specifically examine the claim that Manitoba Hydro's financial outlook has deteriorated significantly, which it links to a reduced outlook for domestic load growth, continued delay in the recovery of opportunity export prices and substantially increased carrying costs related to increased capital costs associated with several projects.

The ECS Evidence was not prepared with a view to commenting "on the relative sufficiency of cash flow from an EBITDA interest coverage basis to meet interest payments and sustain MH's self-supporting status". Indeed, as also noted in the Evidence (page 4):

Other experts retained by the Coalition will be addressing the issue of Manitoba Hydro's financial performance in terms of how it should be measured and its "acceptability".

Mr. Harper is not in a position to provide the requested comments.

PUB/COALITION - 15

Reference:

W. Harper - Pg. 41 Gains and Losses on Disposal of Assets

Question:

- a) Please explain the implications of recognizing gains and losses on the disposal of assets in the period they occur versus amortization and whether either approach would or would not be appropriate from a regulatory perspective.
- b) In light of your response to (a), should a deferral and amortization approach be followed for the forecast \$50.4 million in restructuring charges in 2017/18 and \$2.2 million forecast for 2018/19?

Response:

- a) Either expensing the gain/loss in the period it is incurred or amortizing the gain/loss could be appropriate from a regulatory perspective.

As explained in the ECS Evidence (page 41):

“the purpose of deferring Losses on Disposal of Assets is not to improve intergenerational equity since the losses (or gains) are experienced when assets are retired earlier or later than expected and therefore are associated with benefits the retired assets have already provided. Rather the purpose appears to be to smooth out the impact of these one-time costs.”

Since the expense is related to assets that are no longer in-service the objective of matching costs and benefits does not come into play. Which approach (expensing versus amortizing) and what amortization period is more appropriate are matters of judgement and balancing the regulatory objectives of i) the utility being permitted the opportunity to recover prudently incurred expenses and ii) rate stability.

b) The restructuring costs are not comparable to the loss/gain on disposal of assets from a regulatory perspective. As noted in the response to part (a) there is no basis for deferring and amortizing gains/losses on disposal of assets based on intergenerational equity. However, in the case of the restructuring costs, future customers will benefit from Manitoba Hydro's 2017/18 and 2018/19 restructuring expenses and therefore the question of intergenerational equity does come into play. Overall, it would be reasonable (and likely preferable) if the restructuring costs were deferred and amortized over a reasonable period.

PUB/COALITION - 16

Reference:

W. Harper Pg. 47

Question:

Please provide the definition of each of the economic impacts set out in figure 20 and provide an illustrative description if appropriate to describe the factor.

Response:

This interrogatory was withdrawn at the request of the PUB.

PUB/COALITION - 17

Reference:

Harper Evidence Page 82 of 120

Preamble:

Mr. Harper's discussion of the zone of reasonableness and the COSS methodology has the following excerpt: "At this point, the choice of an appropriate ZOR should also recognize that the COSS methodology is still evolving as further work on Manitoba Hydro's part is required. This would suggest that a broader range, at least in the interim, is more appropriate."

Question:

Please provide the specific areas where the COSS is still evolving, given the Board's Order 164/16. Include your estimate of the impact Mr. Harper believes that these issues, when resolved, could have on the revenue target and RCC of each rate class using PCOSS18.

Response:

The areas where further work on the COSS methodology is required and that are the basis for the observation that the methodology is still evolving are those associated with:

- i. The areas where the Board determined further study/updating are required and Manitoba Hydro has yet to address. These include:
 - o Directive 1 (gg) regarding the allocation of common costs and the development of allocators that are more directly related to the causes of the common costs,
 - o Directive 1 (v) regarding adopted the allocator for services, and
 - o Additional study/data regarding the appropriate treatment of primary and secondary distribution lines.

- ii. Those areas that the ECS Evidence has suggested should be reviewed/refined based on the principle of “cost causality”, specifically the functionalization of generation outlet transmission and the inclusion of radial lines in the allocation of export revenues.

In addition, Mr. Chernick’s evidence identifies (page 44) an additional issue which he recommends the Board should direct Manitoba Hydro to examine further (i.e., load diversity among classes on distribution stations) and as does section 7.1 of Mr. Bowman’s evidence (i.e., the allocation of certain Customer Services costs).

Mr. Harper is unable to quantify (due to a combination of data, model and time limitations) the likely impacts that “resolving” these issues will have on the revenue to cost ratios of each customer class. However, in most cases, it is anticipated that the impact will be minor.

PUB/COALITION - 18

Reference:

Harper Evidence Page 85 of 120

Preamble:

Mr. Harper discusses the Manitoba Hydro “metric for ensuing rate stability and gradualism [which is] a requirement that the annual adjustments to revenue by any customer class should be less than two percentage points greater than the overall proposed increase.”

Question:

- a) In regards to use of the 2% metric for establishing the annual adjustments to revenue by customer class, does Mr. Harper agree with Manitoba Hydro's guideline? If not, what guideline(s) does Mr. Harper suggest?
- b) Please provide the ratemaking proceedings (jurisdiction, name, and number) in which a similar guideline has been used in a Board or Commission's decision on how to apportion an overall rate increase among specific rate classes. Please provide the nature of the case and how the metric was used, as well as whether Mr. Harper supported this element of the decision or not.

Response:

- a) Mr. Harper does not support setting a general guideline for establishing annual adjustments to revenue by class (i.e., RCC ratios) that is independent of the overall rate/bill increase customers will see due to the combined impact of any general rate increase, RCC ratio adjustments and changes to rate design.

Such a guideline would be acceptable if it was accompanied by bill impact criteria that also addressed the total bill impact.

- b) An example of this is the total bill impact criterion of 10% currently used by the OEB when reviewing cost of service-based rate applications by Ontario distributors. This criterion was first established by the Board in its “Report of the Board – 2006 Electricity Distribution Rate Handbook” following a generic proceeding (RP-2004-0188) where the purpose was to establish how the Board would generally address applications for electricity distribution rates. The 10% criterion was (and is) not meant to create an absolute ceiling for total bill impacts but rather establish a threshold or action level beyond which the distributor will be obliged, as part of its rate filing, to outline its mitigation plan respecting the impacted class or group of customers.

During this same proceeding Mr. Harper co-authored evidence that noted bill impact considerations varied across jurisdictions and reflected to some extent historical experience with rate increases. In the context of the Ontario and the recent rate increases seen/expected the evidence recommended the following with respect to bill impacts:

- i. The increases in a customer class’ average distribution rates due to cost allocation changes and harmonization should be limited to the all customer average increase (i.e., the maximum customer class increase would be double the all customer average increase).
- ii. In addition the following total bill impact considerations should apply:
 - a) For those situations where increases in the total bills for individual customers in a rate class, based on the overall average distribution rate increase for the LDC, is less than or equal to the greater of 9% or \$5 / month, the maximum bill impact should be limited to 9.5%.
 - b) For those situations where increases in the total bills for individual customers in a rate class, based on the overall average distribution rate increase for the LDC, is over 9%, the bill impacts arising from cost allocation changes should be limited to 0.5%.

PUB/COALITION - 19

Reference:

Harper Evidence Page 88 of 120

Preamble:

In this section of his evidence, Mr. Harper discusses block rates without specific preferences being stated or justified.

Question:

Please provide the specific ratemaking proceedings (jurisdiction, name, and number) where Mr. Harper has had a specific opinion or recommendation or both regarding the use of block rates. Please briefly describe Mr. Harper's position and the basis for Mr. Harper's opinion.

Response:

Mr. Harper has provided evidence with respect to block rates before both the Manitoba Public Utilities Board and Quebec's Regie de l'energie.

With respect to Manitoba Hydro, Mr. Harper provide in evidence in the following two proceedings:

- i) 2004/05 & 2005/06 GRA – In this proceeding Manitoba Hydro was proposing to eliminate its existing Residential declining block rate structure and move to a customer charge/flat energy rate over a period of three rate adjustments by applying all of the class' the general rate increase to the second block's energy rate. Mr. Harper's evidence was supportive of Manitoba Hydro's proposal as it was reflective of both the marginal costs and the cost of service results at the time.
- ii) 2008/09 GRA – In this proceeding Manitoba Hydro proposed to implement inclining rates (i.e., a higher energy rate for usage over 900 kWh per month). Mr. Harper's evidence again found Manitoba Hydro's proposal to be supported by its cost of service results, improved the alignment

between energy rates and marginal costs and, given the modest differential between the energy rates for the two “blocks”, the bill impacts were reasonable. However, his Evidence expressed concerns about the bill impacts that continuing to increase the differential over time could create and the practical ability of certain segments of Residential class (e.g., those using electric space heating in non-gas areas and low income customers) to respond to the higher prices and manage their bills. The evidence recommended that before taking the rate differentiation further, Manitoba Hydro should ensure that its DSM programs provided the necessary tools (particularly for those segments identified) to respond.

With respect to the Regie, Mr. Harper provided evidence in a number of proceedings dealing with the “blocks” used in Hydro Quebec-Distribution’s inclining Residential rate structure:

- i) 2005/06 Rate Application (R-3541-2004) – At the time Hydro Quebec Distribution already had an inclining Residential rate structure. The proceeding dealt with Hydro Quebec Distribution’s (HQD) rate design principles and plans for future rate design changes which called for increasing the price differential between the two energy blocks used in the rate structure. Mr. Harper’s evidence supported HQD’s proposed energy blocks as it was consistent with cost of service principles. The evidence also supported the proposal to gradually increase the differential and maintain its monthly service charge at current levels as both were consistent with the Company’s cost of service study results.
- ii) 2006/07 Rate Application (R-3579-2005) – HQD’s application called for a continued freeze of its monthly customer charge and a further increase in the price differential between the first and second usage blocks of the Residential rate structure. Mr. Harper’s evidence was again supportive of the proposal as both the cost of service study results and the Company’s marginal costs indicated higher energy prices for the last block of usage

were appropriate and rate impacts were acceptable (i.e., less than 0.5% of customers would experience a total bill impact in excess of 4%).

- iii) 2007/08 Rate Application (R-3610-2006) – HQD’s application called for a continuation of its current rate strategy and the main issues in the proceeding with respect to Residential rates were the size of the first energy block, whether there should be any seasonal differentiation in the size of the energy blocks and the price differential between the energy blocks. On issues related to the energy blocks, Mr. Harper’s evidence favoured as seasonal differentiation of the energy block (i.e., larger first energy block in the winter) on the basis that: a) it would permit the energy rate to move closer to marginal cost and b) it reflected a higher basic (non-heating use) in the winter.
- iv) 2008/09 GRA (R-3644-2007) - The main issues in the proceeding with respect to Residential rates continued to be the size of the first energy block, whether there should be any seasonal differentiation and the degree of price differentiation between the two blocks, along with the question of whether there needed to be a third energy block. On this last issue Mr. Harper’s evidence was not supportive of a third energy block on the basis that: a) it would reduce the energy rates in the first two blocks thereby diluting the price signal seen by customers whose marginal use fell in these blocks and b) it would increase the bill impact dispersion.

PUB/COALITION - 20

Reference:

Harper Evidence Page 89 of 120

Preamble:

In Schedule 23, Mr. Harper adjusts the marginal costs related to transmission and distribution but not to generation. Mr. Harper also indicates that losses are not factored into Manitoba Hydro's calculation of marginal costs.

Question:

Please explain whether adjustments to the generation marginal costs should be made, what those adjustments should take into consideration, and how those adjustments should be made.

Response:

First, as a point of clarification, the initial issue regarding losses was that the same loss factor had been used for all customer classes whereas some customers are served off the transmission or subtransmission systems while others are served off the distribution system. This issue was addressed in Manitoba Hydro's response to GAC/MH II-24 b).

With respect to marginal generation costs, an adjustment should be made to recognize the differences in load factor across customer classes. However, the Manitoba Hydro's marginal generation cost has both a capacity and an energy component as can be seen from the response to PUB/MH I-131 b). Since the adjustment for load factor would apply only to the capacity component of the costs it is necessary to have breakdown between the two components, which Manitoba Hydro is unwilling to provide for commercial reasons.

If the winter and summer capacity costs (\$/kW) were known then customer class seasonal load factors and season energy use data would also be required to translate them into a \$/MWh equivalent for each customer on a seasonal basis.

Further refinements to the marginal generation cost by customer class could be made if the marginal energy costs were broken down into hourly detail or even on a peak versus off-peak basis. However, Manitoba Hydro has indicated that such details are not available (see PUB/MH I-133 and COALITION/MH II-27 b)).

PUB/COALITION - 21

Reference:

Harper Evidence Page 103 of 120; Chernick Evidence Page 33 of 101

Question:

Please provide your views on whether LICO-125 is an appropriate measure with which to provide a more targeted subset of customers for rate assistance, or whether other measures, such as energy burden or energy burden alone or in combination with LICO-125, would be more appropriate.

Response:

Mr. Harper is not sufficiently familiar with how the various measures are determined and energy poverty issues overall to provide view as to which one of the measures cited is the most appropriate measure of low income purposes of providing more targeted assistance. Please see the evidence prepared for the Consumers Coalition by Dr. Wayne Simpson titled – “Energy Poverty in Manitoba and the Impact of the Proposed Hydro Rate Increase: An Assessment of the Bill Affordability Study in the Manitoba Hydro GRA” - for more discussion regarding the definition of energy poverty and low income.

Mr. Harper is of the view that if targeted rate assistance to low income customers is going to be offered and a measure used to determine eligibility (and perhaps even the level of assistance) then the measure used should be one that is readily understood and practical to apply. Also, to avoid customer confusion and simplify the administration of Manitoba Hydro’s various low-income income programs, a standard definition of low income should be used. On this point, Mr. Harper notes that 125% of the Low Income Cut-Off (LICO) thresholds for Winnipeg (e.g. city with a population of 500,000 or greater) set by Statistics Canada (LICO-125) is currently the low income definition used for the Affordable Energy Fund’s programs (per PUB/MH I-126 b)).

PUB/COALITION - 22

Reference:

Harper Evidence Page 104 of 120; Appendix 10.5 Pages 26 to 28 and 109 to 112 of 242

Question:

Please provide comments on the merits and drawbacks of the rate design options considered in Manitoba Hydro's 2017/18 GRA Appendix 10.5 (straight rate discount, fixed charge waiver, percentage of income payment plan, or other rate design options identified in Table 22 of Appendix 10.5).

Response:

Mr. Harper was not actively involved with the Bill Affordability Working Group and his understanding of the various rate design options is limited to and based on the descriptions provided in Appendix 10.5. Furthermore, in requesting comments on the merits and drawbacks of the rate design options reference is made to Mr. Harper's evidence and it is assumed that the merits and drawbacks assessment requested is similar to that provided in Schedule 25 of the ECS Evidence.

The following tables provide an assessment of the three rate design options assessed in the Working Group report. The other rate design options set out in Table 22 of the report appear to either a) not address the bill impact issue for low income customers or b) be some variation of one of the three options assessed below.

1. Straight Rate Discount for Eligible Customers

Ratemaking Objective	Comments	Merits	Drawbacks
Recovery of Revenue Requirement	It is assumed the discount is a fixed 25 % off the bill (WG Report, page 26)	Once eligible customers are identified impact of discount reasonably easy to estimate.	Impact on revenues not known until eligible customers identified
Fairness and Equity	.	Unknown, depends upon load characteristics of eligible customers and whether “cost-to-serve” is greater or less than the Residential class overall	Customers receiving similar service will pay different “rates”
Rate Stability		Improved rate stability for eligible customers	Possibly less rate stability for non-eligible customers depending upon how lost revenues recovered
Efficiency		.	Will reduce the marginal price signal for eligible customers relative to marginal costs.
Simplicity and Understandability	Assumes eligibility based on LICO-125	Simple for eligible customers to understand bill calculation.	New administrative procedures required to identify and qualify “eligible” customers.
Public Acceptance and Public Policy		Addresses previous public interest issues raised by PUB regarding low income. Level of relief tied to level of use-> helps to also address electric space heating concerns. Percentage discount can be fine-tuned to balance low income benefits/lost revenue.	Degree of general public acceptance unknown

2. Fixed Charge Waiver for Eligible Customers

Ratemaking Objective	Comments	Merits	Drawbacks
Recovery of Revenue Requirement	Based on August 1, 2017 rates and 1,000 Kwh use, fixed charge, 10% of bill.	Once eligible customers are identified impact of discount easy to estimate.	Impact on revenues not known until eligible customers identified
Fairness and Equity	.	Unknown, depends upon load characteristics of eligible customers and whether “cost-to-serve” is greater or less than the Residential class overall	Customers receiving similar service will pay different “rates”
Rate Stability		Slightly less bill/rate stability for eligible customers	Minor impact on rate stability for non-eligible customers depending upon how lost revenues recovered
Efficiency		Does not alter pricing signals to eligible customers.	
Simplicity and Understandability	Assumes eligibility based on LICO-125	Simple for eligible customers to understand bill calculation.	New administrative procedures required to identify and qualify “eligible” customers.
Public Acceptance and Public Policy		Addresses previous public interest issues raised by PUB regarding low income.	Degree of general public acceptance unknown. Level of “assistance” pre-determined by customer charge. Level of assistance same regardless of usage (i.e. electric vs. non-electric heat)

3. Percentage of Income Payment Plan for Eligible Customers

Ratemaking Objective	Comments	Merits	Drawbacks
Recovery of Revenue Requirement	.		Impact on revenues not known until eligible customers and incomes identified
Fairness and Equity	.	Unknown, depends upon load characteristics of eligible customers and whether “cost-to-serve” is greater or less than the Residential class overall	Customers receiving similar service will pay different “rates”
Rate Stability		Rate/bill stability depends on frequency of “income” updates	Impact on rate stability for non-eligible customers depending upon income updates and how lost revenues recovered
Efficiency			Will reduce the marginal price signal for eligible customers relative to marginal costs. May reduce energy efficiency incentive if lower use would lead to “energy poor” disqualification.
Simplicity and Understandability	Assumes eligibility based on LICO-125 <u>and</u> meeting energy poor threshold		New administrative procedures required to identify and qualify “eligible” customer and to regularly update income levels. Efficient low-income customer may question “ineligibility” determination. Income level needed to calculate bill → increased complexity.
Public Acceptance and Public Policy		Addresses previous public interest issues raised by PUB regarding low income and space heating on a holistic basis.	Degree of general public acceptance unknown. Credibility of the program would likely require regular “income” updates. More intrusive in terms of level of personal information needed. (i.e.,

			actual income level)
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PUB/COALITION - 23

Reference:

Harper Evidence Pages 102 and 109 of 120

Preamble:

Mr. Harper indicates that in regards to the impacts of higher rates on low income and electric heating customers: "...there is insufficient information regarding the public acceptability of Alternative Rate Design, particularly in view of the fact that there may be more focused alternatives available."

Question:

- a) Can Mr. Harper identify the following:
 - i. The preferred focused rate design alternatives for low-income customers and specifically those with electric heat,
 - ii. Specific data requirements and terms of service needed to establish the design and application of such rate alternatives, and
 - iii. To the extent existing evidence is not sufficient to design such rate alternatives, additional data that must be made available in the present case or future proceedings to establish such rates.
- b) Please elaborate on the recommended research to be undertaken regarding public acceptability of Alternative Rate Designs. Specifically, what customer groups should be targeted, what consultation process would be preferred, what material prerequisites would be needed, and what project timelines would be preferred.

Response:

- a) & b) At this point Mr. Harper does not have a "preferred" rate design alternative. Rate design is really only a "tool" to be used as a means of achieving

certain objectives. In this case, the objective is to provide rate assistance to certain groups of customers. However, until one defines the targeted “groups” the appropriate/preferred rate design cannot be determined. The choice of a “preferred rate design” is also influenced by: i) the statutory framework within which the utility operates, ii) customer preference and attitudes and iii) the current operating limitations of the utility.

As the ECS evidence notes the concerns expressed by the PUB regarding the impact of electricity rates focused on a number of particular segments of the Residential class, such as low income customers and space heating customers, particularly those without access to natural gas. In contrast the Alternative Rate Design put forward by Manitoba Hydro results in low rates for all space heating customers, regardless of income or accessibility to natural gas. It also provides a discount to space heating customers in the non-heating months.

At pages 98-102 the ECS evidence addresses this matter and notes that a more focussed rate design that provided a rate discount to narrower segment of the Residential class (e.g., i) just low income customers, ii) just for electric space heating customers in the heating months of the year, ii) just those space heating customers without access to natural gas or some combination of the preceding) may not only more directly address the public policy/interests issues raised by the Board but also do so at lower cost (in terms of lost revenue) thereby finding more acceptance with other rate payers and the public overall.

The starting point is to establish what the objectives are and, to that end, any initial direction that the Public Utilities Board could provide as to what customer segments were considered to be a priority would be invaluable. The customer research suggested could also help inform the choice regarding which segments to target.

However, to be able to develop a more focused rate design that can be practically applied more information/work is needed:

- For low income-based rates: Manitoba Hydro already has a definition of “low-income” for purposes of programs funded by the Affordable Energy Fund and an application/eligibility process. However, annual program participation is less than 5% of the estimated number of low income customers (see GAC/MH I-2 and PUB/MH I-126). As noted in response to PUB/COALITION 21, there is merit in having standard definition of “low income”.

Having said this, the introduction of a low income rate assistance program would significantly expand the use of the definition and consideration may want to be given to whether the current definition is appropriate on a “going forward” basis. Please see the evidence prepared for the Consumers Coalition by Dr. Wayne Simpson titled – “Energy Poverty in Manitoba and the Impact of the Proposed Hydro Rate Increase: An Assessment of the Bill Affordability Study in the Manitoba Hydro GRA” - for more discussion regarding the definition of energy poverty and low income.

Also, it is likely that, if a definition similar to the current LICO-125 is used, the number of applications/eligibility requests Manitoba Hydro will receive will increase significantly. As a result, additional work/information is needed to determine what changes or new processes would be required to manage what would likely be an orders of magnitude increase in the number of applications.

In addition, the feedback from organizations that participate in the delivery of Manitoba Hydro’s Affordable Energy Program (see Appendix 10.6) indicates they were of the view that customers may not communicate their true financial hardship to Manitoba Hydro staff. Given this perspective and the likely need to manage a significantly larger volume of eligibility applications, some assessment should also be made of the possible role that community-based organizations or social agencies might play in the administering the eligibility/application process. The need to design an enrolment and eligibility determination process that maximizes low income customer participation is

compounded by the fact that those not participating will, by default, pay higher rates.

If Manitoba Hydro were to revisit its definition of “low income” then consumer related research involving low income customers and their comprehension of various low income measures and ability to provide the necessary inputs required would also be useful, as these are the customers that will be “filling out” the eligibility applications.

Also, the Bill Affordability Work Group Report (Appendix 10.5, page 2) indicates that Manitoba Hydro’s reluctance to fund rate assistance program was based, in part, on its view that non-subsidized customers in the residential class or other customer classes would not agree to fund those amounts through their future rates. As a result, more general customer/consumer research on the public acceptability of offerings discounts to all space heating customers versus low income customers versus some combination of the two considerations and what degree of discount might be acceptable in either case could assist in determining the “practicality” of various rate design options from a broader public perspective.

- For a more focused space heating related discounts: The additional information required would include determining the practicality of limiting discounts to and/or offering higher discounts to areas without access to natural gas. It would also involve an assessment as to the practicality of offering seasonal rates including how best to do so given Manitoba Hydro’s current meter reading and billing practices as well as what is the appropriate definition for the “winter” or “heating” season. In this area consumer-related research regarding space heating customers’ understanding/acceptance of alternative approaches to implementing seasonal rates would likely be invaluable.

Also, similar to the low income situation, more general customer/consumer research regarding the public acceptability of offerings discounts to space

heating customers for all usage versus just usage in the “heating” season and what degree of discount is acceptable in either case could assist in determining could assist in determining the “practicality” of various rate design options related to space heating from a broader public perspective.

One approach to addressing the foregoing would be to establish a working group/steering committee with representatives from relevant stakeholder groups to establish identify the specific requirements to implement each “focused rate option”, to develop a work plan as to how best to flesh out these requirements (i.e., would involve who would undertake the work, what approach, etc.) and practical timelines. With respect to the latter, with some direction from the PUB as the priorities and commitment from those participating, hopefully six to 12 months would be sufficient time to complete the initiative.