CITY/MH SUPP-1

Please provide an electronic copy of the map which shows the boundary streets for each financial district within the City of Winnipeg. This should include the following districts: Rosser, Fort Garry, East Kildonan, North Kildonan, St. Boniface, St. Vital, Charleswood, St. James Assiniboia, Tuxedo, West Kildonan, Transcona, Old Kildonan, WCD Northwest, WCD Northeast, WCD West Central and WCD southwest. All districts except the WCDs should also show the boundaries between district and region.

ANSWER:

Manitoba Hydro does not maintain electronic map information based upon the City of Winnipeg financial districts. Manitoba Hydro maintains information based upon Manitoba Hydro designated operating districts within the Province of Manitoba. The operating districts within the City of Winnipeg include Fort Garry, Keewatin and City Centre, River East, St. Boniface, Transcona and West Kildonan. Please see Manitoba Hydro's response to CITY/MH I-1 for an electronic copy of the map outlining the operating district boundaries within the City of Winnipeg.

CITY/MH SUPP-2

Please refer to response to CITY/MH 1-7, 1-8 and 1-9 (Attachment 1 of RCM/TREE/MH 1-2). Please provide the basis for the percentage for each estimate of Class Share for Individual SCC's. Please provide the basis for the percentage for each Class Share Weighted by Planned Orders. Please provide the basis for the adjustment for Street and Sentinel Lighting. Please provide the basis for the Class Weighted Share. Please provide the basis for the C10 Weighted Ratio. Please provide an explanation of the relationship between each of these tables.

ANSWER:

All departments whose costs are allocated as part of the general Customer Service costs provide an estimate of the percentage of their department's time devoted to serving each customer class which is shown in the 'Estimate of Class Share for Individual SCC's' table.

The 'Class Share Weighted by Planned Orders' is the product of these percentages and the department's share of the total costs. For example an estimated 10% of staff time for Rates & Cost of Service is devoted to A&RL, which is multiplied by the department's 3.2% share of costs to yield 0.3%. Summing all departments yields the 0.7% share used in the allocator for A&RL.

These shares provide the total class share shown in the table 'Class Weighted Share'. For some classes, such as Residential, the class share has been further broken down into subclasses using customer count. There are no adjustments specific to A&RL.

The C10 Weighted Ratio table converts the relative share percentage to a basis equal to the customer count for presentation purposes only. The relative share for each class remains the same as in the 'Class Share Weighted by Planned Orders' table.

CITY/MH SUPP-3

Please refer to CITY/MH 1-7, 1-8 and 1-9 (Page 3 of attachment 2 of RCM/TREE/MH 1-2). Please provide an explanation for each column which pertains to Roadway and Area Lighting. Please provide the boundaries of Zones 1, 2 and 3 and the rationale for the split into zones.

ANSWER:

The actual number of services is used to calculate the average cost per billing customer, which is used with the forecast customer count to determine each class's share of forecast customer accounting costs.

For A&RL the number of billing customers is estimated based on the forecast number of fixtures and the actual ratio of billing customers to fixtures. As the average number of fixtures per bill differs between the zones, the actual zonal distribution is required to first apportion the total forecast fixture count into the former zones.

The columns Customer Billing, Adjustments, Revenue Accounting, and Administration represent the actual operating costs for each activity by class. These activity costs are consolidated into Billings and Collection costs for each class, which are then divided by the number of services to yield the average cost per billing customer for each activity type. This factor is then multiplied by the forecast number of billing customers to adjust for changes in class population. The factors have been converted to a base of ten thousand in the last two columns for presentation purposes.

CITY/MH SUPP-4

Please refer to response to CITY/MH 1-10. Please provide the basis of the factor of 1:10. Please identify the total costs identified with Marketing R & D costs and a breakdown of these costs.

ANSWER:

The specific adjustment to use was based upon professional judgement, and was consistent with the adjustment for the number of taps into the distribution system that was introduced for PCOSS92.

The total costs for Marketing R&D in PCOSS11 are as follows:

Non-Capital Program Development Intended for the development and delivery of electric industrial / commercial programs and initiatives such as power factor correction, sub metering & monitoring, maintenance engineering, industry scoping studies and marketing assessments.	**$13,000**
Marketing Plan Intended for the development of the Corporation's marketing plan. The plan will look at strategies and goals, situational analysis, our customers and our marketing mix.	**$85,000**
Customer Coding For work to maintain Standard Industrial Classifications (SIC) and Physical Structure Index (PSI) codes on the billing system for development of customer type groupings and to collection of other related data for analytical purposes.	**$169,000**
Customer Information Database For the design and development of the Customer Information Data Base (CIDB) and related data warehouse development work.	**$95,000**
Residential & Commercial Surveys For the design, distribution, and analysis of customer surveys up to and including the production of the final report.	**$147,000**
Data Requests For the work required to answer ad hoc requests for information by other Departments.	**$16,000**

Industrial Development For the costs related with the Economic Development Coordination Department responsible for working with various government departments and agencies responsible for business development and for the purpose of increasing investment and creating jobs in Manitoba.	**$719,000**
Other (Assessments and Allocated Interest)	**$180,000**
Total R&D Costs	**$1,424,000**

Given the nature of the cost categories included, Manitoba Hydro intends to review the appropriateness of allocating A&RL any portion of these costs for the next Cost of Service study.

CITY/MH SUPP-5

Please refer to response to CITY/MH II-12. In PCOSS11, Area and Roadway Lighting was allocated $2.33 million in Interest charges. Please indicate what portion of this constitutes Contribution to Reserve and the allocation method used to derive the amount. Is Contribution to Reserve allocated solely from the interest component? If not, please include the portion allocated from the depreciation and operating components and the allocation methods associated with each. Also, please explain the term "Direct Allocation" as it pertain to the allocation of costs in this study. Finally, please explain the difference between the amounts in the "Buildings" entries of PCOSS11 and PCOSS10.

ANSWER:

Contribution to Reserves represents 17% of the $2.33 million Interest component allocated to A&RL. The Contribution to Reserves is included entirely in the Interest component. Schedule C9 of PCOSS11 includes Contribution to Reserve, as well as Finance Expense, functionalized using the Rate Base Investment shown in Schedule C8. Capital Tax, which is also a component of Interest expense, is functionalized using the Rate Base for Capital Tax shown in Schedule C10. As discussed in Manitoba Hydro's response to CITY/MH II-14, Buildings and General Equipment do not receive an allocation of finance expense in the PCOSS, which results in the share of Contribution to Reserve varying by function depending on the portion of Buildings and General Equipment. Therefore the percentage of Contribution to Reserves included in the Interest costs for each class will vary depending on the class-specific usage of each function. Overall, Contribution to Reserves accounts for 18% of the Interest component in PCOSS11.

"Direct Allocation" as used in the header of Schedule C9 of PCOSS11 refers to costs that have already been assigned to a single class (i.e. Diesel or A&RL) and do not require further allocation to the class level.

Due to the reduction in forecast net income in PCOSS11 versus PCOSS10, the Contribution to Reserves for Buildings decreases in Schedule C9.

CITY/MH SUPP-6

Please refer to response to CITY/MH 1-13 AND II-14. Please provide a detailed breakdown of all items listed in the chart attached: Labour, Direct Materials and Purchased Services, Overheads, Less:Depreciation. Why is "Amortization or NR Customer Contributions" included in CITY/MH I-13 and not II-13? Please explain the differences between the amounts in the entries in PCOSS10 and PCOSS11, particularly Labour Activity and Direct Operating Costs.

ANSWER:

The Labour and Direct Materials and Purchased Services that comprise the A&RL specific planned maintenance orders breakdown as follows:

	PCOSS10 ($ 000's)		PCOSS11 ($ 000's)	
	Labour Activity	Direct Materials and Purchased Services	Labour Activity	Direct Materials and Purchased Services
Apparatus Shop Lighting Maintenance	150	1	186	2
Roadway Lighting Maintenance	3,369	414	3,420	449
Sentinel Lighting Maintenance	652	15	543	14
Street Lights - Christmas Lighting	39	102	36	133
Street Lights Group Replacements	118	122	42	51
Grand Total	4,329	655	4,227	649

Overhead, and the recategorization of Deprecation from Overhead/Activity Rates breakdown in the same proportion as Labour Activity.

As part of the process to separate depreciation and operating costs in PCOSS11, Manitoba Hydro identified that Operating costs for A&RL were overstated by the amortization of Non Refundable Customer Contributions related to end-use A&RL plant. In PCOSS10 the result is an overstatement of A&RL Direct Operating costs by $1.75 million. PCOSS11 reflects the corrected operating costs. Labour Activity for A&RL increased 2.4% from PCOSS10 to PCOSS11, which is consistent with the overall 2.2% OM&A increase forecast for 2010/11 in IFF09.

CITY/MH SUPP-7

Please refer to response to CITY/MH I-14 and II-14. Please define Finance Expense and Capital Tax. Please provide a detailed listing of all the directly charged Finance Expenses, Capital Taxes and Contributions to Reserve associated with Dedicated A&RL Plant, Share of Buildings and Share of Equipment. Please explain why the interest expense increased in a year where the operating expense decreased.

ANSWER:

In the PCOSS, Finance Expense represents the forecast finance expense of the Corporation less the portion relating to common facilities and equipment included in either activity charges or overhead.

Capital Tax is the Manitoba Corporation Capital Tax levied on the taxable capital of the company, which is generally the sum of the capital stock, retained earnings, and indebtedness shown on the balance sheet.

Contribution to Reserve, Finance Expense or Capital Tax are not directly attributed to the acquisition or ownership of any specific asset in Manitoba Hydro's accounting records or the PCOSS. In the PCOSS the total forecast amounts are functionalized by allocating across the functionalized average net plant in service. The rate base used includes shared upstream functions such as Generation and Transmission, as well as the dedicated end use plant used by Diesel or A&RL customers. A&RL and other classes share the Interest costs associated with all upstream plant, with the relative share varying with the class-specific usage of each function and the allocation methodology used.

The rate base used in the allocation of Finance Expense and Contribution to Reserve is shown in Schedule C8, while Schedule C9 is used to allocate Capital Tax.

The rate base investment for dedicated A&RL plant has increased in PCOSS11 due to a decrease in NR Contributions attributed to the A&RL class as discussed in Manitoba Hydro's response to CITY/MH SUP-8, resulting in an increase in Finance expense.

CITY/MH SUPP-8

Please refer to response to CITY/MH I-15 and II-15. Please provide an itemized detailed list of all depreciated items in Dedicated A&RL Plant calculated on a straight line basis. Please provide a detailed itemized list of all depreciated items in Dedicated A&RL Plant indicating the depreciation period for each, along with the total cost of the item and the accumulated depreciation to date. Please explain what the OH/Activity Rates are with respect to Depreciation Expense and provide the same analysis/listing as for Dedicated Plant. Please explain the difference of $507,000 in "Less:Amortization of NR Customer Contributions" from PCOSS11 to PCOSS10, especially given that operating expenses decreased by $1.6M million.

ANSWER:

Manitoba Hydro uses composite depreciation rates for groupings of similar assets. The composite rate is a weighted average of individual items and or groups of items within an account for all vintages. To achieve this average some assets will have useful lives above and below the average service life. All Area & Roadway Lighting additions are pooled together and charged depreciation using the composite rate; as such it is not possible to provide an itemized detailed list of the items in dedicated A&RL plant. The average service life for the dedicated A&RL plant is 36 years.

Direct depreciation costs for the A&RL class have increased approximately $0.5 million from PCOSS10 to PCOSS11 due to a reduction in the NR Customer Contributions and related amortization attributed to the A&RL class. During the process of reviewing the treatment of contributions in the PCOSS as discussed in the response to Information Request City/MH SUPP-6, it became apparent that a large proportion of these contributions were received from parties that are not A&RL ratepayers. For PCOSS11 contributions from developers and other parties that do not pay A&RL rates are functionalized as Distribution to ensure the benefit accrues to the parties that ultimately fund the contributions through the purchase of serviced lots (i.e. Residential customers).

CITY/MH SUPP-9

Manitoba Hydro appears to be of the view that the "C" portion of the allocated costs should not be included when determining energy costs. The City disagrees for the following reason. Referring to Schedule B2 in PCOSS 11, the Residential Customer "unit cost/month" = $21.49. This covers the Customer portion of the Residential Asset Class. However, the proposed Basic Rate to cover this portion is only $6.85 (Rate Schedules Pursuant to Board Orders 18/10 & 30/10, March 29, 2010). The remainder of the customer portion is subsidized by both the energy rate increase and the Net Export Credit, which still fall short of the residential total cost. So the inclusion of the customer allocation portion in our previous rate analysis (which constitutes 11% of total customer costs) would appear to us to be justified. Please provide a justification of Manitoba Hydro's position.

ANSWER:

The allocated Customer costs should not be included in the calculation of the Energy unit cost for the A&RL class when attempting to compare against the Residential class's Energy unit cost which does not include Customer costs. While the comparison of the Basic Charge to the monthly unit cost from the PCOSS indicate that some Customer related costs are recovered in the Energy rate for the Residential class, that is a matter of rate design not cost allocation.

The Energy unit costs as shown in Schedule B2 of the PCOSS for Residential and A&RL are already comparable to the extent that both include Energy as well as all Demand related costs. However, the vastly different rate structures, usage patterns and other customer characteristics restrict the usefulness of such a comparison.

A comparison of the relative ratio of the Energy Charge to Energy Cost for the two classes, as attempted in CITY/MH I-16, is not possible as there is simply no Energy Charge for A&RL to use in such a comparison. A better metric for relative performance for the two classes is the RCC ratio, which incorporates all costs and compares to all revenue.

CITY/MH SUPP-10

Please refer to the attached spreadsheet. Based upon PCOSS11, Area and Roadway Lighting is again above the ZOR. Please note that throughout the history of General Rate Applications, Area and Roadway RCCs have consistently been near or above the 100% mark. Also, please note that from 1992 to the present, Area and Roadway Lighting has always recorded the highest pre-export ratios of all asset classes. This would suggest that either Area and Roadway Lighting is still being overcharged or that costing for Area and Roadway Lighting is skewed due to the disproportionate amount of direct costs assigned to Area and Roadway Lighting in relation to the other classes. Please provide a justification of Manitoba Hydro's position.

ANSWER:

Manitoba Hydro does not agree with the characterization that an RCC near or above unity, or a high pre-export RCC, indicate that a class is being overcharged.

Cost of Service studies provide a good indication of the approximate cost to serve customer classes, but are not absolutely precise. Manitoba Hydro tests the reasonableness of rates by using revenue to cost coverage (RCC) ratios. As long as the RCC for the customer class is within the established zone of reasonableness (ZOR), rates are viewed as being consistent with cost. The A&RL RCC of 105.2% in PCOSS11 is minimally above the ZOR, but Manitoba Hydro is not contemplating differential rate adjustments in light of the potential changes to the Cost of Service methodologies and results that may occur from the planned external review the Cost of Service methodology. However, the A&RL class has already been exempted from the three most recent across-the-board increases.

Area and Roadway Lighting is the only customer class for which Manitoba Hydro owns, operates and maintains the dedicated end-use plant. This end-use plant would essentially be beyond the point of delivery for other customer classes, akin to the wiring, lights and appliances in a house. The significant cost of this dedicated end-use plant does not receive an allocation of net export revenue, which means that the pre-export RCC for A&RL will always be considerably higher than another class with a comparable post-export RCC. The comparatively higher pre-export RCC does not indicate overcharging, or that a disproportionate amount of direct costs are assigned to the class, but simply reflects the mathematic consequence of a class that has a cost structure unlike all others in the PCOSS.