

**CAC/Koch I - 1**

Section	Q.7	Page No.	Page 3
Topic:	The Impact of the 2019/20 Centra Cost Allocation Study Results on Koch		
Sub Topic:			
Issue:			

**Preamble to IR (If Any):**

On page 3 of the pre-filed evidence of Brian Collins on behalf of Koch Fertilizer Canada, ULC ("Koch"), states that:

*"A cost of service study that on its face results in an increase of approximately 65% for one of Centra's largest customers while at the same time indicates that Centra's overall cost of service has decreased, should give pause to the Public Utilities Board."*

**Question:**

- a) Further to PUB/Koch – 2, please confirm that Centra's proposed delivery cost increase equates approximately to a 2% overall increase in relation to Koch's total gas costs (consistent with the determination of overall rate changes to Centra's sales customers) per the table below. If not confirmed, please explain.

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	2019/20 Forecast Volume	Centra's Commodity Rate	Potential Annual Commodity Cost	Proposed Delivery Cost Increase (non-gas costs)	% Increase in Delivery Costs relative to Total Gas Costs
	10 <sup>3</sup> m <sup>3</sup>	\$/m <sup>3</sup>			
	(a)	(b)	(c = a * b)	(d)	(d/c)
	Schedule 10.1.1 (Updated)	Schedule 11.2.0 (Updated)		Schedule 10.1.2 (Updated) minus Schedule 11.1.2 (CAC/Centra 1- 3a 2013/14 GRA)	
Special Contract	432,186	0.0816	\$35,300,000	\$861,660	2%

\*The above calculation assumed Koch's forecasted annual consumption per Centra's Application priced assuming Centra's current commodity rate (which for simplicity purposes does not reflect any upstream transportation-related costs).

- b) Please explain the adverse impact on Koch as expressed in its evidence, page 1.

**Response:**

- a) Please see response to PUB/Koch – 2. Please note that Koch is not a sales customer of Centra. Koch purchases its own natural gas supply, which is transported on the Centra transmission mains that connect Koch's plant to the TransCanada Pipeline, and uses its transported gas as feedstock for producing fertilizer. Centra's gas costs for sales customers are irrelevant in determining delivery service rates for Koch. Therefore, the requested incremental analysis is irrelevant and has not been performed.
- b) It is self-evident that any incremental gas transportation costs (without associated benefit) would erode Koch's competitive position. Relative to its competitors in Alberta and Saskatchewan (which are closer to natural gas sources), Koch is already disadvantaged with respect to gas transportation costs. Please note that fertilizer is a global commodity and is subject to international pricing and therefore, Koch cannot simply pass such costs onto consumers.

**CAC/Koch I - 2**

Section	General	Page No.	
Topic:	IGU Member		
Sub Topic:	Evidence of IGU and Koch		
Issue:			

**Preamble to IR (If Any):**

IGU's evidence states that it is an informal association of companies who are substantial users of natural gas, of which Koch is a member<sup>1</sup>.

**Question:**

Please explain whether Koch adopts IGU's evidence? If not, why not?

**Response:**

Koch adopts the evidence filed by IGU except with respect to those portions of the pre-filed testimony of Gil Labonte that relate particularly to the dealings of France Financial Consulting or its clients and that, therefore, cannot be confirmed by Koch.

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<sup>1</sup>Pre-Filed Testimony of Andrew McLaren on behalf of Industrial Gas Users Group, June 21, 2019, page 1

**CAC/Koch I - 3**

Section	Q.20	Page No.	Page 8
Topic:	The Allocation of Centra's Transmission Investment to Koch		
Sub Topic:			
Issue:			

**Preamble to IR (If Any):**

Koch states that Centra erroneously allocates a slice of its entire transmission system to the Special Contract class".<sup>2</sup>

**Question:**

- a) Is it fair to conclude that based on Koch's view, it should only be responsible for the direct costs incurred in serving it, which is suggestive that it bear no responsibility for paying any portion of the rest of Centra's system? If this is not a fair evaluation of Koch's evidence, please explain.
- b) Postage stamp ratemaking is believed to represent one of the most fundamental and fairest ways to charge for utility service across North America. Please explain Koch's views on postage stamp ratemaking.
- c) In Koch's view, please explain if and why postage stamp ratemaking should apply to all other Centra customer classes but for the Special Contract class.
- d) Further to PUB/Koch – 4, in what other jurisdictions has Mr. Collins recommended to a Public Utilities Commission that only one customer class be exempted from

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<sup>2</sup>Written Evidence of Brian C. Collins, on behalf of Koch Fertilizer Canada, ULC, June 21, 2019, page 8

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postage stamp ratemaking associated with a natural gas or electric distribution utility?

- i. Was Mr. Collin's position accepted and why? If not, why not?
  
- e) In the scenario where the costs associated with the NPS 6 and 12 transmission mains were determined to be easily identifiable and discrete as Koch states and those costs were directly assigned to Koch – if a new sub-division was constructed that was fed by the NPS 6 or 12 transmission main without the need for any incremental investment, would Koch propose that some of the cost of the NPS 6 or 12 transmission main be allocated to that sub-division?
  - i. If yes, please explain why; or
  - ii. If not, how does the regulator explain to the public why the additional customers in the new sub-division are allowed to use the transmission system free of charge?
  
- f) Based on Koch's direct assignment view, who is entitled to use those assets?

**Response:**

- a) This statement is consistent with Mr. Collins' written evidence.
- b) Postage stamp ratemaking allocates common costs to customers when direct assignment of costs is not possible. Direct cost assignment is preferable to postage stamp ratemaking when specific assets that serve a customer or group of customers can be readily identified such as in the case of Koch.
- c) As explained in the evidence of Mr. Collins, the facilities that serve a single customer in the Special Contract class are readily identifiable, unlike for other customer classes. Therefore, direct assignment of costs is preferable for the Special Contract customer class.
- d) Mr. Collins has not made such a recommendation in rate cases for other jurisdictions. However, Mr. Collins has assisted U.S. industrial clients in negotiating special contract rates with their utilities. Though the results of these negotiations are

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confidential, the special contract rates are typically based on the cost of transmission pipelines directly connecting the customers' facilities to interstate pipelines.

In addition, Mr. Collins can point to the Service Classification No. 7 tariff offered by The Peoples Gas Light and Coke Company in Chicago, Illinois and approved by the Illinois Commerce Commission. This tariff allows customers to negotiate a special contract rate with the utility and avoid the tariff rate established for their rate class based on postage stamp ratemaking. This tariff requires that customers provide the utility with evidence indicating the cost of dedicated facilities directly connecting the customer to an interstate pipeline. This cost evidence is used by the utility in establishing the special contract rate for customers.

- e) Assuming that from an engineering and operations perspective this scenario is possible, it would be reasonable to allocate costs to all customers that use the facilities.
- f) Customers that pay for the assets in rates are entitled to use them.

**CAC/Koch I - 4**

<b>Section</b>	<b>Q.17</b>	<b>Page No.</b>	<b>Page 8</b>
<b>Topic:</b>	<b>Centra's System Serving Koch</b>		
<b>Sub Topic:</b>			
<b>Issue:</b>			

**Preamble to IR (If Any):**

The evidence of Koch states that “Centra’s service to Koch is accomplished using discrete, readily identifiable facilities”.

**Question:**

- a) Please confirm that Centra’s planning and system engineers’ evidence is not conclusive as represented by Koch per the following statements:

*“it is important to recognize that gas pipeline infrastructure systems, like the one serving the City of Brandon, are highly interconnected system consisting of plant assets that are not considered to function independently of each other. Such systems are managed with the understanding that changes to one aspect of the system will typically impact other aspects of the system with respect to performance or redundancy considerations”.<sup>3</sup>*

- i. If Koch declines to confirm in response to part (a), please explain.

**Response:**

- a) Confirmed. It is Mr. Collins’ view that Centra’s planning and system engineers’ evidence is not conclusive. Furthermore, as explained in the response to CAC/Koch I – 3 part b, direct cost assignment is preferable for cost allocation and is consistent with cost causation when specific assets that serve a customer or group of customers can be readily identified.

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<sup>3</sup>IGU/Centra II – 1 (e)

**CAC/Koch I - 5**

<b>Section</b>	<b>Q.29</b>	<b>Page No.</b>	<b>Page 13</b>
<b>Topic:</b>	<b>Koch's Recommendations</b>		
<b>Sub Topic:</b>			
<b>Issue:</b>			

**Preamble to IR (If Any):**

Koch concludes that the PUB not rely on Centra's cost of service study to establish rates at this time. Koch goes on to state that costs should be directly assigned to Koch and it is entitled to a rate reduction.

**Question:**

- a) Please confirm that it is Koch's view that any rate change proposed by Centra flowing from its current GRA be deferred. If yes, deferred until when?
- b) If Koch's recommendation to direct assign costs to it is rejected by the PUB, what is Koch's next preferable alternative? Why?

**Response:**

- a) It is Koch's position that any rate change be deferred until Centra's cost of service is fully reviewed by the Board consistent with the recommendation of IGU in the direct testimony of Mr. Andrew McLaren.
- b) Koch has no other preferable alternative at this time.