DIRECT EVIDENCE:
KELLY R. DERKSEN
BSc., CPA, CMA

AUGUST 20, 2019

- **Centra Gas Manitoba Inc.**
- **2019/20 General Rate Application**

- Evidence Prepared by
- K. Derksen, BSc., CPA, CMA
- On Behalf of the Consumers Association

The Scope for Cost Allocation and Rate Design Matters Under Review in this Process is Clear and Unambiguous

Order 98/19 (pg 9-10):

"The Board finds that **all** Cost of Service Study methodology and allocation issues will be severed from the current GRA and deferred to a separate generic Cost of Service Study methodology review proceeding to be held after the conclusion of the 2019/20 GRA.

> The Board will not hear or determine these issues in the current GRA as the evidentiary record of this proceeding is not sufficient for the Board to conduct a full review. The Board accepts CAC's submission **that individual methodology changes should not be made in isolation and should instead be considered on a complete evidentiary record on Centra's Cost of Service Study methodology**.
>
> As such, as detailed below, only the options identified for ways to mitigate the bill impacts **arising from the results of the existing Board-approved Cost of Service Study, not including methodology and/or allocation changes** except for the heating value margin deferral, remain in scope in the 2019/20 GRA and will be the subject of both direct oral evidence and oral cross-examination." and
>
> "Cost of Service Study Results – limited to options for bill mitigation based on the currently approved and utilized methodology, including the issue of the heating value margin deferral".

Order 24/19 -

- Rate design is not in scope except for an update on Centra's ongoing stakeholder consultation process related to its five-part rates (page 28)

It is Clear that Only Intra-Class Bill Mitigation and the Heating Value Deferral is In Scope

- Intra-Class – meaning any Bill Mitigation contained such that the results of the 2019/20 Revenue Requirement by Class is unimpacted
- Possible Bill Mitigation Measures Identified:
  - Heating Value Deferral – change allocation
  - Deferral mechanism to phase in a class' allocated costs flowing from the 2019/20 Cost Allocation Study:
    - Recover all or a portion of the allocated Transmission-related costs of the Special Contract Class through a deferral over time (including carrying costs;
    - Extend the recovery of the Special Contract Class' allocated deferral costs (which relate to Heating Value and Unaccounted for Gas) over a longer period than 12 months (Centra suggests 24 months) including carrying costs.

Bill Mitigation Options with Inter-Class Impacts Recommended by IGU and Koch Are All Clearly Out of Scope

- Inter-Class –

  Meaning any Bill Mitigation option that changes each class' cost responsibility from that flowing from the 2019/20 Cost Allocation Study (other than Heating Value Deferral) is out of scope:

  - IGU's option of the implementation of a Zone of Reasonableness
  - IGU's option to hold in abeyance or suspend class changes in non-gas costs until the generic review of Centra's cost allocation methodology
  - Any change to the existing methodology that might contemplate direct cost allocation or a change in the peak and average allocator or postage stamp ratemaking (Koch evidence)

Centra's COS can be Relied on for setting 2019/20 Rates as it is Principled and Based on Well- Accepted Industry Practice

- Transmission investment is lumpy with little churn – few additions at current cost added and old assets which are highly depreciated
- In 2010, annualized transmission investment approx. $11 million; 2013, $10 million; since 2013, increased by 70%
- Bill impacts to those served directly from Centra's transmission system and/or T-Service customers are almost entirely a result of having little other cost responsibility
- Impacts flowing from the 2019/20 Centra COS occurs routinely - all utilities face this issue including MH – with the addition of Bipole III that is many many multiples larger in cost
- Differences between CAC, IGU and KOCH related to Centra's 2019/20 Cost Allocation Study Represents Philosophical Differences of Opinion of Cost Allocation Methodology – and any Evidence that Characterizes Centra's Cost Allocation Methodology is Flawed and In-Flux is unfounded
- Centra's 2019/20 is Principled, Based on Well-Accepted Industry Practice and can be relied on for 2019/20 rate setting

The Magnitude of the 2019/20 Cost Allocation Results, is Predictable and Expected, and Not a Result of a Flawed Cost of Service Methodology

The Results of the 2019/20 Centra Cost Allocation Study are driven by:

- Having no GRA since 2013, no Cost of Gas Review since 2015
- Large Investment in Transmission Plant
- Gas Cost Deferral accumulations over 4 years
- The Rollback of rates pursuant to Order 79/17

The Nature of Centra's Operations is Fundamentally Different for Cost Allocation Purposes from Manitoba Hydro's Operations

- Centra procures commodity which represents over 50% of the cost incurred to serve customers overall
- The commodity cost of gas is priced according to the market and which is subject to minimal controversy from a cost allocation perspective
- MH is a Vertically Integrated Electric Operation - a producer of commodity through common Generation and HVDC Transmission and with large export sales
- Generation and HVDC Transmission represent with Bipole III probably over 60% of a $2.0 billion revenue requirement and exports offset over $400 million (PCOSS18) of these costs – and subject to significant debate and less certainty exists as to each class' responsibility for these costs/revenue
- These and other operational distinctions may result in the philosophical underpinnings of cost allocation methodology to differ. Any suggestion that the PUB's recent pronouncements for Electric Cost of Service are to be assumed and applied to Centra is concerning and effectively pre-judging the results of a future generic Centra COS review

IGU's Representation of Order 164/16 (MH COS Review) is Incomplete and Caution must be Exercised in Drawing Conclusions

- IGU's conclusion that the use of a Coincident Peak Method as represented in PUB-IGU 22 is inconsistent with the PUB's direction in Order 164/16:
  - Is exaggerated and results in a fairly extreme view of cost causation
  - The allocation of MH's AC Transmission (per Order 164/16) does not use a single peak to allocate AC Transmission rather it uses the top 50 winter peaks
  - The more peaks reflected, the more it moves closer to Centra's current peak and average methodology results
  - MH's HVDC Bipole Transmission (per Order 164/16) is allocated consistent with Centra's current peak and average approach

A Zone of Reasonableness as a Bill Mitigation Option Conflicts with Orders 29/19, 98/19 and Not Viable at this Time

- The Implementation of Zone of Reasonableness is a Fundamental Change in Centra's Cost Allocation and Rate Design Methodology, conflicts with Orders 24/19, 98/19
- Implicitly Results in Retroactively Shifting Cost Responsibility from the 2010/11 GRA among Customer Classes, and Notably to the SGS Class due to the rate rollback directed by PUB
- Implementing a Zone of Reasonableness at this Time is not a Viable Solution
  - Gas cost pass through; unbundled rate structure
- Similarly IGU's Recommendation to Freeze any Changes in Non-Gas Costs (IGU Evidence, pg 2) conflicts with Orders 24/19, 98/19
- Both these Recommendations are implicitly asking the PUB to pre-judge the conclusion of a Cost Allocation Review before it even takes place
- IGU's recommendation of a 85%-115% ZOR is unreasonable
  - Much broader than MH's ZOR 95-105 despite large common generation and transmission investment subject to much less certainty in allocation
  - Gas utilities with ZOR, tend to be tighter, most commonly 95%-105%

The 2019/20 Cost Allocation Results are Expected and Reasonable - Once Total Commodity Factored in, Bill Mitigation Appears to be Unnecessary

- The results of Centra's 2019/20 COS are expected and reasonable
- Once total commodity is factored in, bill mitigation appears to be unnecessary
- If the PUB finds some interim relief required, the exclusion of the Special Contract Class from the Disposition of the Heating Value Deferral may be reasonable
- Any Change that Further Shifts Cost Responsibility to Largely Volumetric Charged Classes such as SGS, may be overly aggressive:
    - The contributions by T-Service volumes, (incl. Special Contract), to Actual Heat Content has not been explored and is unknown – which is suggestive that T-Service customers (incl. Special Contract) may be contributing to Centra's actual heat content giving rise to accumulations in the deferral
    - T-Service volumes contribute a sizeable portion of natural gas to Centra's system
    - Impact of Demand – Centra states minimal but no evidence to support

IGU's Heating Value Recommendation results in a Material Allocation of Cost to the SGS Class that may be overly Aggressive

Heating Value Deferral - Allocation Impacts of Alternatives Raised ($)	Heating Value Deferral Allocation - IGU Recommendation

[redacted]

The Re-Establishment of the Power Station's Minimum Margin Guarantee is Necessary for Compliance with Order 118/03

- Direction of the PUB flowing from Order 118/03 related to the Continued Collection of the Minimum Margin Guarantee from the Power Stations is Clear and Unambiguous
- At the 2013/14 GRA (tr. 1646, 1802), CAC recommended to reduce Centra's Net Income by $683,000 (the difference between the minimum margin and the PS allocated costs at the time) to be available to reduce the allocation of cost to all customers rather than flow to retained earnings
- Centra opposed CAC's recommendation on the basis that it was premature in light of the pending 10-year feasibility true-up to consider the sufficiency of revenues vs. incremental cost
- Centra's opposition in this Application is:
  - The Power Stations (which are Manitoba Hydro) did not receive notice of the proposed impact
  - This bill mitigation measure to reduce the transmission-related costs of other classes would create a bill mitigation issue for PS (i.e Manitoba Hydro)

The Re-Establishment of the Power Station's Minimum Margin Guarantee is Necessary for Compliance with Order 118/03

- We have not recommended that Centra back-collect the Power Stations Minimum Margin Guarantee from 2013 or 5 payments (the last payment made)
- We have recommended the Minimum Margin Guarantee Be Included as Other Income in Centra's Revenue Requirement and Treated Consistent with Transmission Plant Investment – to provide a Reduction in Allocated Costs to all classes
- Although not the reason for our recommendation, in retrospect it also affords bill mitigation to Koch

Centra's Change to the Power Stations Allocation Methodology Conflicts with Order 98/19

- As part of Centra's Updated Application, it changed its methodology for allocating capacity-related costs to the Power Stations
- It appears this was done to address concerns raised about the inadequacy of the allocation of capacity-related cost to the Power Stations
- Centra's initial Application allocated virtually no transmission capacity-related costs – found on Schedule 10.1.1 March 22, 2019, line 20
- Centra's Updated Application – allocated slightly more transmission capacity-related costs Schedule 10.1.1 July 24, 2019, line 20
- This has not resolved the concerns raised
- An unplanned methodology update with virtually no supporting analysis that is untested and occurred subsequent to the issuance of Order 98/19
- The concerns raised regarding the Power Stations are not a result of a flawed cost allocation methodology; but a result of how to incorporate highly unpredictable usage of a very large customer into a cost of service and rate design study – the issue would exist regardless of the underlying methodology