REFERENCE:

Section 1.2 IGU Members, Page 1

Topic: IGU Members

PREAMBLE:

IGU states "IGU is an informal association of companies who are substantial users of natural gas in both Sales Service and T-Service. IGU members include:

- Gerdau Long Steel North America –Manitoba Mill;
- Koch Fertilizer Canada ULC("Koch");
- MapleLeaf Foods; and
- Simplot Canada (II) Limited"

QUESTION:

a) Please explain what is meant by an "informal" association.

b) Given that Koch is part of the group of companies represented by IGU, please explain whether IG adopts Koch's evidence? If not, why not?

c) In several areas of Koch's evidence[1], Koch describes Centra's cost of service study as "flawed" (meaning defective or erroneous). Please explain whether IGU agrees with Koch's characterization.

ANSWER:

a)

"Informal" means that IGU is not legally constituted, incorporated, registered or a non-profit. The group is made up of individual companies that have agreed to work together to the extent possible on issues believed to be common for large gas users. This is in an effort to maintain efficiencies in the current proceeding and to help the Board in this proceeding to make decisions on a broader context for industrial level companies than just the four individual companies that comprise IGU.

[1] Written Evidence of Brian C. Collins, on behalf of Koch Fertilizer Canada, ULC, June 21, 2019, page 3

The IGU association recognizes that individual members may also have the need to advance their individual positions on certain issues. This has occurred to an extent so far where Koch has acted separately from the group in this proceeding.

Please see response to Centra/IGU-3(b) for further information.

b) and c)

The evidence prepared and submitted specifically on behalf of Koch Fertilizer, by Mr. Brian C. Collins, largely relates to Cost of Service matters that the PUB has deferred to a future proceeding. As the evidence was developed specific to issues facing Koch and not necessarily the IGU members at large, it was not prepared with the understanding of being adopted by all members.

When these matters are reviewed in a future proceeding, if IGU participates, it will review and consider whether or not it adopts those positions.

REFERENCE:

Section 1.3 Summary of Recommendations, Page 2

Topic: Result of IGU's Recommendations

PREAMBLE:

IGU summarizes its recommendations which include: 1) the deferral of any rate adjustments based on the results of Centra's cost of service study until a full review of Centra's cost of service methods; 2) to reject Centra's proposed changes related to balancing fees; and 3) to allocate the balances in the Heating Value Deferral Account in the current application on the basis of total revenues from volumetric charges.

On Attachment 1 per IGU/Centra I-15, the revenue to cost coverage ratio for the SGS class is 107% or $7.3 million, prior to any class revenue requirement adjustment to unity flowing from Centra's 2019/20 Cost Allocation study.

QUESTION:

a) Please confirm that there is currently no timeline or plan in place for review of Centra's cost of service methodologies.

b) Please confirm that the result of IGU's recommendations is such that residential customers will continue to overcontribute to cost responsibility based on current rate-setting practice and for an unknown period of time.

c) Please elaborate on what is meant by IGU's recommendation to the Board to "defer approving any rate adjustments based on the results of Centra's cost of service study until it has had the opportunity for a full review of Centra's cost of service methods". For example, is IGU suggesting the deferral of rate changes related to non-gas costs, gas costs, as well as all deferrals?

d) Given that current non-gas rates for some customer classes such as the SGS, LGS, HVF, Interruptible and Mainline flow from Centra's 2010/11 GRA, almost a decade ago, and gas cost rates currently in place resulted from Centra's 2015/16 Cost of Gas Application:

   i. How will a meaningful understanding of Centra's next Cost of Service Study results be possible with comparisons then spanning years even longer than the current Application (with non-gas rates flowing back to 2010)?

   ii. Please explain what weight the PUB should give to intergenerational impacts associated with a further deferral of rate changes as recommended by IGU.

ANSWER:

a)

Confirmed. The PUB has deferred these matters to a future proceeding.

b)

Not confirmed.

For the heating value deferral account, Mr. McLaren's recommendation would better align the revenues with cost responsibility for all customers.

For cost of service results Mr. McLaren's position is that the methodology that underpins the cost responsibility results is unreliable and therefore the results which can be summarized by the revenue to cost coverage ratios are of limited value for rate setting today.

For the recommendation related to balancing fees, the position in Mr. McLaren's evidence is that balancing fees should be cost based and provide for mechanisms so that industrial customers can mitigate and reduce imbalances to the extent possible. Under this recommendation residential customers should not carry undue cost responsibility, but neither should these customers benefit from penalties accrued from T-service customers. Please see response to Centra/IGU-IGU-I-2 for further information on this recommendation and the impacts on other customer classes.

c) and d)

Mr. McLaren's recommendation is not to implement any rate adjustments that are based on the results of Centra's cost of service study until cost allocation methods can be reviewed and are approved by the PUB. Please see the response to PUB/IGU-McLaren-22 for more on proposed methodologies for non-gas rate changes in this proceeding.

Mr. McLaren is not suggesting to further delay method changes related to his recommendation on heating value deferral accounts.

For gas costs, Mr. McLaren has not taken a position.

REFERENCE:

Section 3.6 Summary and Recommendations, Pages 9-10

Topic: Peak and Average Allocator

PREAMBLE:

IGU recommends:

At page 10 of IGU's evidence, IGU states that:

"Even in the event the Board determined that the peak and average approach remains reasonable, use the load factor as the basis to weight the peak and average allocator means that a substantial portion of costs follow annual energy or commodity use, rather than coincident peak day use…and likely are due to be reviewed".

QUESTION:

a) Please confirm that a potential outcome of a review of Centra's cost of service methodologies is that the Board concludes that peak and average continues to be appropriate for Centra.

b) Please confirm that Manitoba Hydro electric uses system load factor to weight between demand and energy for purposes of allocating generation and a substantial portion of transmission (Bipoles and US transmission) and the remaining AC transmission investment is allocated based on the top 50 winter coincident peak hours as directed by the PUB in Order 164/16 flowing from the review of Manitoba Hydro's cost of service methods.

ANSWER:

Following the filing of these information requests from the CAC, the PUB decided to defer cost of service methodology until a later date. However Mr. McLaren confirms that the statements in the questions are correct to his knowledge.

REFERENCE:

Section 3.6 Summary and Recommendations, Page 10

Topic: Postage Stamp Ratemaking

PREAMBLE:

IGU states that:

"Centra has noted that the philosophy of postage stamp ratemaking has its origins during a period when the natural gas system in Manitoba was very different than today. Given the considerable impact on some customers of sharing costs for substantial new investments that do not provide direct benefits, it may be timely to investigate alternative methods for sub-functionalizing and/or direct assigning certain costs, such as the Winnipeg North West project, to groups of customers that are directly causing those assets to be required and directly benefit from their construction"[2]

Koch's evidence concludes that "Centra erroneously allocated a slice of its entire transmission system to the Special Contract class…"[3]

QUESTION:

a) Please confirm that IGU shares the perspective of Koch, that is, Koch (or any customer) should only be allocated the direct costs of serving it and not a slice of any other portion of the system.

b) If one takes this argument to its logical conclusion, how would the direct costs of each individual customer on the system then be determined, and who pays for the overall system?

c) Is it IGU's perspective that postage stamp ratemaking is no longer reasonable and appropriate for Centra because of the magnitude of the transmission plant investment addition? Please explain.

ANSWER:

a) through c)

IGU has not taken a position with respect to the evidence filed by Koch's expert witness and notes the evidence largely addresses cost of service issues that the Board has

[2] Pre-Filed Testimony of Andrew McLaren on behalf of Industrial Gas Users Group, June 21, 2019, page 10

[3] Written Evidence of Brian C. Collins, on behalf of Koch Fertilizer Canada, ULC, June 21, 2019, page 8

deferred to a future proceeding. Regarding direct costs versus allocated costs the Gas Distribution Rate Design Manual states that:[4]

> Once a definition of cost is decided upon, it is then necessary to assign costs to specific customer classes. Generally speaking, these costs can be divided into two broad categories: direct costs and common costs. **Direct costs are those which are incurred only to provide service to a particular customer class.** Common costs are incurred in providing service to more than one class. The assignment of direct costs is straight-forward and should not be subject to debate. **Common costs are another matter. By definition, such costs are incurred for the benefit of several rate classes and their costs cannot be directly assigned.** Instead, it is necessary to allocate these costs among the rate classes using some reasonable allocation method. There are a number of reasonable methods which means that the appropriate cost of service allocation is often a hotly contested issue. **[emphasis added]**

IGU's view is that these issues should be reviewed as part of the future Cost of Service proceeding.

[4] Pages 18 & 19, Gas Distribution Rate Design Manual. National Association of Regulatory Utility Commissioners. 1989.

REFERENCE:

Section 3.6 Summary and Recommendations, Page 11

Topic: Impact of Rate Changes to Mainline and High Volume Firm – T

PREAMBLE:

IGU states that:

"Although not recommended, in the event the Board decides to make some level of rate adjustments arising from this proceeding to reflect the current cost of service study results, the Board should consider the substantial impact on customer groups of the proposed rate and bill increases for some customers proposed in the current application (20 to 40% for base rates to Mainline and High Volume Firm T-Service customers).[5]

QUESTION:

a) Please explain why IGU has not included Koch in this alternate recommendation.

ANSWER:

a)

Mr. McLaren's statement was illustrative and not intended to limit the Board's consideration of rate increases for other customers, including Koch.

[5] Pre-Filed Testimony of Andrew McLaren on behalf of Industrial Gas Users Group, June 21, 2019, page 11

REFERENCE:

Section 3.3 System Changes, Page 5

Topic: Use of Centra's System

PREAMBLE:

At page 5 of IGU's evidence, IGU reflects upon the PUB's direction flowing from Order 164/16 related to Manitoba Hydro's electric cost of service methodology review. IGU quotes the Board's Order 164/16 having noted that cost causation principles should reflect how a utility's system is planned and used"

QUESTION:

a) Please explain what IGU's perspectives are as to how "use" is defined and how "use" of a system should be reflected in cost of service methods.

ANSWER:

Following the filing of these information requests from the CAC, the PUB decided to defer cost of service methodology until a later date. IGU submits this question is properly considered at the time of the future cost of service methodology proceeding.

REFERENCE:

Section 3.4 Demand Allocation, Page 8

Topic: The Derivation of FEI's CP Transmission Allocator

PREAMBLE:

IGU suggests that an approach that allocates capacity or demand costs based on the coincident peak demand may be more appropriate. IGU cites the Fortis BC Energy Inc. (FEI)'s 2016 Rate Design Application given that FEI classifies transmission costs as 100% demand-related, since system capacity requirements are driven by the peak demand of each customer group. It goes on to state that FEI allocated demand related costs using the coincident peak approach to reflect the fact that FEI's delivery system has generally been constructed to meet the peak day (coldest demand of all its firm service customers).[6]

QUESTION:

a) Please describe the derivation of the CP allocator FEI uses to allocate transmission demand-related costs.

b) Please confirm that until recently (2016), FEI had a ZOR of 90%-110% in place for a couple of decades and which it continued to advocate for as part of the 2016 Rate Design proceeding but was ultimately directed by the BCUC to establish a ZOR of 95% - 105%.

ANSWER:

Following the filing of these information requests from the CAC, the PUB decided to defer cost of service methodology until a later date. As a result, the question of the calculation of the CP allocator is properly considered at the time of the future proceeding.

[6] 5 Pre-Filed Testimony of Andrew McLaren on behalf of Industrial Gas Users Group, June 21, 2019, page 8

REFERENCE:

Section 4.4 Summary of Balancing Fees, Page 8

Topic: Centra's Proposed Changes to Balancing Fees

PREAMBLE:

IGU states that the PUB should consider that Centra's proposal is not a direct cost-based rate.

QUESTION:

a) Does IGU agree that balancing fees are intended to deter customers from imbalances – that balancing fees are not really intended to be a cost recovery mechanism per se?

b) Does IGU agree that it is likely inappropriate to charge balancing fees (applied per the associated fee structure) based on the operations of TCPL that may be unrelated to Centra's operations, particularly if those fees result in over recovering costs such that a portion of Centra's fixed upstream assets intended to serve sales customers are then being funded by T-Service customers?

  i. Conversely, is it IGU's perspective that a made in Manitoba approach to balancing fees would be more appropriate to avoid untended consequences as identified in part (b) above?

  ii. Does IGU view Centra's proposed changes to balancing fees as extreme, particularly given the intended purpose of charging for balancing fees?

c) Does IGU agree that sales customers are currently overpaying, to some degree, for imbalances imposed by T-Service customers?

ANSWER:

a)

IGU agrees that Centra has justified its balancing fee proposal as intending to deter customers from imbalances and that the proposal is not intended to be a cost recovery mechanism.

b)

IGU agrees it is inappropriate to charge balancing fees unrelated to Centra's operations or costs directly incurred as a result of T-service customer activities. Based on Centra's current proposal, IGU agrees that the likely result is that T-Service customers will fund upstream costs (and/or assets) intended to serve sales customers.

i.

IGU agrees an alternative approach should be pursued. Please see the response to PUB/IGU-McLaren-17 on perspectives for an appropriate approach to developing a balancing fee proposal.

ii.

IGU views Centra's proposed changes as extreme and likely to result in an overcollection of direct costs if implemented as currently proposed. IGU also notes the lack of flexibility for customers and Centra to work to offset each other or pool where possible and the limited tolerance bands being proposed.

c)

IGU agrees it is reasonable for T-Service customers to pay for direct costs they cause Centra to incur and that these should not be recovered form sales service customers. IGU notes there are benefits to all of Centra's customers (both sales and T-service customers) from counterbalancing available from T-Service customers as has been undertaken in the past. The Pre-Filed Testimony of Mr. T. Brown discusses this on page 2, stating that:

> Centra Gas Manitoba often contacts KCES and other market participants to buy or sell intra-day gas to manage its own imbalances. KCES frequently shows bids for gas that Centra Gas Manitoba needs to take off its system. KCES buys that gas at a market rate depending on ability to move gas to downstream markets. KCES may also sell gas to Centra Gas Manitoba when their load levels are higher than expected. KCES has the ability to move gas to the MDA system, which we sell at a market based rate. These buys and sells help Centra Gas Manitoba balance their overall system, including Koch Fertilizer's consumption.

REFERENCE:

Section 5.2 Revenue Risk Related to Heating Value, Pages 16-19

Topic: IGU's Allocation of Heating Value Deferral Recommendation

PREAMBLE:

IGU states:

"Centra is now going on seven years of perpetuating an inferior rate design after accepting a consultant's recommendation that it should be changed….the PUB should reject Centra's proposal to continue its current approach. Centra and the PUB have an opportunity in the current application to correct a poor rate design that has continued for seven years since Centra accepted it should be changed"6

QUESTION:

a) Please confirm that Centra accepted the consultant's recommendation that the Special Contract Class rate structure is predominately fixed and therefore should not participate in the disposition of the heating value deferral and not IGU's recommendation to allocate the heating value deferral based on total revenue from volumetric charges.

b) Please confirm that sources of gas delivered to Centra is comingled such that every delivery of natural gas to Centra's system contributes to Centra's system average of heating value, regardless of the end-use customer's rate design.

c) Please explain under IGU's proposed allocation of heating value based on each class' volumetric revenue, how or if any impact of demand billed customer classes is reflected?

d) Further to PUB/IGU 20 (b) - In light of parts (b) and (c) above, which suggests that all customers regardless of their rate structure contribute to some degree to the over or under recovery of gross margin, please explain whether IGU's recommendation better reflects cost causation than: 1) the recommendation flowing from the Christensen Associates Report, or 2) the elimination of the heating value deferral considering Centra's crown-owned status?

ANSWER:

a)

Confirmed.

b)

Confirmed.

c)

In Mr. McLaren’s understanding the variation in heating value primarily influences revenue risks related to volumetric charges but that there may be some small variation in demand related rates. This is consistent with Centra’s response to IGU/CENTRA II-12 (d) which states that variation in heating content may have a slight impact on the demand level measured on a peak day for a customer. Mr. McLaren also notes that Centra’s current approach appears to be based solely on energy volumes without a consideration of demand.

Mr. McLaren believes his proposal is an improvement over the current method of allocating costs based only on energy volumes.

d)

In Mr. McLaren’s view, for the disposition of the existing balances, his proposal is an improvement over the recommendation of the Christensen report. The Christensen report addresses only the special contract customer class. That proposal would not address the issues for other customer classes related to differences in revenue risk resulting from the different rate structures.

In Mr. McLaren’s view, the proposal to simply eliminate the heating value deferral entirely would also be an acceptable solution. However, if the current balances in the heating value deferral account are to be recovered from customers, Mr. McLaren’s proposal better reflects how these balances were incurred over this prior period and should be used to discharge any existing balances in the account.