CENTRA GAS MANITOBA INC. 2019/20 GENERAL RATE APPLICATION
INTERVENER EVIDENCE INFORMATION REQUESTS
CAC (RAINKIE-DERKSEN)
JULY 5, 2019

CENTRA/RAINKIE-DERKSEN I-1

Reference:

Written Evidence of Darren Rainkie and Kelly Derksen, page 123, lines 17 - 26

Preamble:

The Minimum Gross Margin Guarantee was established when Manitoba Hydro and Centra entered into a contract to provide natural gas service to the Brandon and Selkirk Power Stations; The amount of the minimum margin guarantee was calculated prior to the commencement of construction of the facilities in order to serve the Power Stations, and was based on a 2003 pipeline construction cost estimate, with revenues calculated using 2003 approved rates for the Main line class.

Question:

a) Please explain how Ms. Derksen proposes to treat the amount of revenue in excess of allocation costs ($948,000 - $157,798) for cost allocation purposes?

Response:

For purposes of cost allocation, this revenue is likely best functionalized as transmission-related, classified as 100% demand-related, and allocated based on peak and average. The rationale for this treatment is that this revenue is intended to be an interim offset of transmission-related cost to benefit all customer classes until the cost allocation and rate design associated with the Power Stations can be addressed.

CENTRA/RAINKIE-DERKSEN I-2

Reference:

Written Evidence of Darren Rainkie and Kelly Derksen, page 123, lines 17 – 26

Preamble:

Question:

a) Confirm the purpose of the minimum margin guarantee was to create certainty with respect to revenue for feasibility test purposes. If not confirmed, please explain.

b) If the PUB were to accept the recommendation to re-instate the minimum margin guarantee for the customers in the Power Stations Class, should it also order a revised true-up taking the minimum margin guarantee into account which would result in a significant refund of the contribution paid by the customers in this class, and would increase the revenue requirement of all customer classes? If not, please explain why not.

Response:

a) Confirmed.

b) To be clear the minimum margin guarantee was not intended to be removed based on PUB direction and hence, Centra is implicitly applying to have it discontinued as part of it 2019/20 GRA.

   As part of the 2013/14 GRA (transcript page 1802), Centra opposed CAC's recommendation to reduce Centra's Net Income by $683,000 (the difference between the minimum margin guarantee and the Power Stations allocated costs at the time). CAC argued (transcript page 1646) that amount would flow to Centra's Net Income and end up in the retained earnings, but that it should be used to reduce the allocation of cost to all customers.

Centra opposed CAC's recommendation on the basis that it was premature in light of the pending 10-year true-up which was to consider the revenue collected from the Power Stations through rates over the preceding 10 year period (2003-2013), the minimum margin top-up payments made, contributions made, and consider whether revenue received from the Power Stations was sufficient to meet the incremental test of feasibility.

It is unclear whether that financial feasibility review has been completed and filed with the PUB – it has not been included as part of Centra's 2019/20 GRA materials.

The recommendation in this Application to apply the minimum margin guarantee as Other Income offsetting Centra's revenue requirement is entirely separate and unrelated to the financial feasibility matter identified above. The recommendation is to use the minimum margin guarantee that was once put in place for purposes of financial feasibility, to now apply it explicitly against revenue requirement to benefit all customers - to provide some stability in cost allocation for all customer classes and revenues collectable from the Power Stations on an interim basis until matters of cost allocation and rate design associated with the Power Stations can be addressed. This is no longer a matter of financial feasibility, there is no need for any true up.

CENTRA/RAINKIE-DERKSEN I-3

Reference:

Written Evidence of Darren Rainkie and Kelly Derksen, Page 119, lines 15-21.

Preamble:

PUB Order 118/03 (page 81): "The Board will require that any changes in terms and conditions, or extensions to the term of contract will be filed with the Board for review and, if necessary, approval; The Board also expects that the minimum guarantee will continue for any extended contract terms."

Question:

Please confirm whether this statement quoted in the preamble taken from Order 118/03 is the statement relied upon to conclude: "Centra discontinued the Application (sic) of the Minimum Margin Guarantee notwithstanding the PUB's direction in Order 118/03, that it continue after the Expiration (sic) of the Initial 10-Year Contract Term (sic)."

Response:

Confirmed.

CENTRA/RAINKIE-DERKSEN I-4

Reference:

Written Evidence of Darren Rainkie and Kelly Derksen, Page 101, lines 12-17, page 102, lines 21-24

Preamble:

The evidence indicates "Overall, Centra's non-gas cost revenue to cost coverage is 103%. This means that current non-gas rates are over-recovering by 3%. This means Centra is actually seeking an overall general rate reduction of approximately 3%. This means that Centra is actually seeking an overall general rate reduction of approximately 3% (compared to current non-gas costs) or a 1% general rate reduction (compared to overall total revenue requirement including gas costs of $325 million)—rather than no overall general rate change as Centra contends in its Application."

….

"First, Centra is currently in an overall non-gas revenue sufficiency position, which means it is actually seeking an overall non-gas decrease of 3%. As a percentage of overall costs, including gas costs of approximately $325 million equates to an approximate 1.0% overall decrease, rather than no overall".

Question:

Please confirm that, as detailed in the response to CAC/Centra II-124a-b, the non-gas revenue sufficiency of 3% referenced in the quotes in the preamble relates primarily to the fact that existing SGS rates include funding for the Furnace Replacement Program, which Centra has applied to discontinue as part of the current GRA.

Response:

No, not confirmed. The detail in the response to CAC/Centra II-124 is not a revenue deficiency/sufficiency analysis and cannot be relied upon as such. The analysis provided in response to CAC/Centra II-124 is a detailed reconciliation between the costs underpinning the Centra's 2019/20 IFF and the costs reflected in the 2019/20 Cost Allocation Study.

While a revenue sufficiency/deficiency calculation has not be provided in Centra's filing, such an analysis compares currently approved revenue requirement by cost component as well as forecast changes in customers and load that impact revenue at existing rates. The challenge is that rates were rolled back flowing from Order 79/17 to the revenue requirement approved in the 2010/11 GRA for some, but not all customer classes. Current revenue at existing rates as well as revenue requirement is largely reflective of that approved flowing from the 2010/11 GRA but for the Special Contract and Power Stations Classes. Given that these two customer classes contribute to non-gas costs/revenues of about $1.5 million, one could argue that current revenue at existing rates and revenue requirement is primarily reflective of that flowing from the 2010/11 GRA.

The attached Schedule A provides an approximate and more reflective calculation of revenue deficiency/sufficiency in comparison to both the 2013/14 GRA approved revenue requirement as well as the approved revenue requirement flowing from the 2010/11 GRA. As can be seen, the current revenue sufficiency compared to revenues at existing rates is driven by an <u>increase</u> in cost of about $1.6 million which is more than offset by an increase in customer numbers and load.

Given that Centra has elected to focus on the 2013/14 approved revenue requirement of approximately $151. 5 million (although not consistent with revenue at existing rates which is largely reflective of the revenue requirement flowing from the 2010/11 GRA), the revenue sufficiency is driven by a number of factors including a sizable reduction in O&A and the FRP discontinuance, partially offset by an increase in finance expense and depreciation and amortization expense. The revenue sufficiency is further impacted by an increase in customers and overall load.

For these reasons, it cannot be concluded that the current revenue deficiency is largely driven by the discontinuance of the FRP.

CENTRA/RAINKIE-DERKSEN I-5

Reference:

Written Evidence of Darren Rainkie, Kelly Derksen and METSCO

Preamble:

Question:

a) Please provide a copy of the retainer letters as well as scope of work, instructions and assumptions provided to Mr. Rainkie and Ms. Kelly Derksen. If no formal retainer agreement was entered into, please provide a narrative of all discussions in which the witnesses received instructions with respect to the scope of their evidence.

b) Please advise whether Mr. Rainkie or Ms. Derksen held any consultations specific to this Application and the related rate decreases to residential consumers with members of CAC, executives of CAC and/or CAC's volunteer Board of Directors. Please file all related documentation including but not limited to: notice/request for consultation; presentation(s); attendance lists, notes taken by Mr. Rainkie or Ms. Derksen during the consultation and any post meeting summary or reports. If no contemporaneous written material is available, please file a narrative of all consultations.

c) Please confirm that while each of Mr. Rainkie and Ms. Derksen "led" the preparation of certain evidence, the evidence was collaboratively developed such that each can confirm that the evidence in its entirety is independent, objective, fair and relates to matters within their expertise.

Response:

Response to (a) & (b):

There are no specific retainer letters between Mr. Rainkie and Ms. Derksen and CAC for this proceeding. All areas of the pre-filed testimony were identified and developed by Mr. Rainkie and Ms. Derksen and there were no specific instructions or assumptions provided by CAC. Mr. Rainkie and Ms. Derksen met with Ms. Desorcy and counsel to provide a briefing on the Centra application and prepare for the first pre-hearing conference. There were follow-up meetings involving Ms. Desorcy and counsel subsequently to go over the identified issues. Any notes taken are the subject of legal privilege and as such are not producible, as are all discussions which are also subject to privilege.

c) Mr. Rainkie and Ms. Derksen confirm that the evidence is independent, objective, fair and relates to areas of our expertise.

CENTRA/RAINKIE-DERKSEN I-6

Reference:

Centra's Application, Tab 12 pages 1-7.

Preamble:

Centra seeks to understand CAC's position on the balancing fee proposal for T-Service customers in Manitoba, given the level of cross subsidization by Sales Service customers.

Question:

What is CAC's position on Centra's balancing fee proposal? Please explain.

Response:

From a broad perspective, the issue of balancing fees is one of incenting customer behaviour through efficient price signals, cost allocation and rates. It is believed that current provisions to impose balancing fees are intended to deter customers from imbalances (or encourage customers to balance) but is not really intended to be a cost recovery mechanism per se. Centra appears to be facing at least a couple of issues, including that the current application of balancing fees is not adequately incenting customer behaviour, which is resulting in cost incurrence or lowering capacity management revenue, both of which are impacting sales customers.

Centra's states that despite its current ability to charge T-Service customers for imbalancing costs, its current practice is dated providing for equal minimum tolerances for T-Service customers, such that only four customers incur balancing fees. Centra acknowledges that its current practice was developed many years ago based on the load characteristics of the customers participating (or expected to participate) in T-Service. With the load characteristics of those customers actually participating in T-Service that varies sizably, in Centra's view, the charges (in concert with its current minimum tolerance practice) are insufficient to incent T-Service customers to address their daily imbalances such that System Sales and Western Transportation customers, which in large part are residential customers in the SGS class, are being impacted.

Centra's proposal is to implement a new fee structure for imbalances caused by T-Service customers aligned with TCPL's balancing fee structure, initially set at 50%. At face value, Centra's proposal to introduce increased balancing fees appears to represent a targeted approach to remedying issues associated with transportation service.

Centra's proposal to impose the same fee structure as that of TCPL, while directionally consistent with how balancing fees are imposed on Centra, is at a minimum, arbitrary. Centra states:

> *"The TCPL Mainline's balancing fees work in this manner because it* ***must incent*** *the consistent behaviour* ***needed to protect the integrity and reliability of the pipeline*** *and to ensure that customer' needs downstream of Centra's delivery areas can be met. These are critical objectives in the successful operation of the pipeline as a "system", which consist of many shippers in many markets. In summary,* ***the system would not work without strong financial penalties*** *for imbalances".*[1]

It is understood that managing T-Service imbalances comes with a cost - when imbalances occur Centra manages them with the resources paid for by System Sales and WTS customers. Centra opines that its current practice is to only charge for direct costs for T-Service imbalances, that is the cost of imbalancing charges it incurs from TCPL as follows:

> *"****Centra's current practice*** *has been to recover only its direct* ***costs from the largest*** *volume T-service customers* ***who periodically*** *drive the utility to incur balancing fees…The utility* ***has never sought to recover the indirect costs*** *it incurs in the form of foregone Capacity Management revenue to the account of System Sales customers when T-Service customers are out of balance. The utility's approach with the smaller volume T-Service customers has been very accommodating to date…"*[2]

Centra's proposed balancing fee structure appears to do just this – to begin to recover both the direct imbalancing costs Centra incurs on behalf of T-Service customers as well as to make a contribution to the upstream assets Centra has put in place to serve system and WTS customers. CAC's independent experts are supportive of Centra's pursuit of

[1] IGU/Centra I-22 (o)

[2] Application, Tab 12 (page 3, lines 28-29)

changes in balancing fees to both better align cost responsibility with those who cause the cost and better incent customer behaviour. However, TCPL's fee structure was presumably put in place to reflect its specific operations and may or may not comport well in the context of Centra's system. To superimpose TCPL's fee structure on Centra's system may lead to unintended consequences. Despite that balancing fees were put in place to incent customer behavior rather than a cost-based cost recovery mechanism per se, with Centra's proposed fee structure, T-Service customers are implicitly given access to upstream assets. Contributing to variable upstream costs Centra's incurs *may* more reasonably compensate sales customers who pay for these assets than current fees and practice. In our view, however, it would not be appropriate that T-Service customers contribute to the fixed costs of Centra's upstream assets put in place for sales customers as this contribution would fundamentally alter the spirit and intent of T-Service.

It is unclear the extent to which the proposed balancing fee structure will recover cost associated with upstream assets as there is insufficient information on the current record as to the level of upstream cost recovery that would be funded by T-Service customers through the proposed fee structure. It is a fundamental matter to understand before proceeding. On this basis, it is likely premature to adopt Centra's Recommendation to Implement a Balancing Fee Structure and Tolerance Bands consistent with that of TCPL (at 50% initially) at this time as it may be too aggressive, result in the unintended consequence of overallocation of cost to T-Service customers; and, may fundamentally alter the spirit and intent of the T-Service.

In the interim, an alternative option of adjusting current minimum tolerances, such that all T-Service customers bear responsibility for imbalances on a pro-rata basis, may be a reasoned, more gradual step. It could allow for the opportunity to increase balancing discipline on Centra's system and/or improve the alignment of cost with those customers responsible and improve the compensation to sales customers who pay for the resources used to balance the system. It also would appear reasonable that the balancing fee structure and tolerance levels be explicitly reflected it Centra's Terms and Conditions of Service.

CENTRA/RAINKIE-DERKSEN I-7

Reference:

Written Evidence of Andrew McLaren, page 2

Preamble:

The written evidence of Mr. McLaren recommends that:

“The Board should 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. Such a review could be modelled after the review undertaken for Manitoba Hydro’s cost of service study that resulted in the Board’s Order 164/16. Key elements of such a review are detailed further in section 3 of this report.”

Question:

Please provide Ms. Derksen’s views on Mr. McLaren’s proposal that all rate adjustments proposed in this Application be deferred until a full review of the Cost of Service methodology has been completed.

Response:

In addition to the response to IGU/CAC I-6, CAC’s independent experts do not support that rate adjustments proposed in this Application be deferred. Based on our review, while the results of the 2019/20 Cost Allocation Study produce sizable differences by class, they appear to be based on cost of service methodology consistent with PUB approved and long-standing well accepted practice, and expected given the time lapse since the last GRA, and the nature of the cost changes that have since occurred. It is understood that differing perspectives likely exist as to best underlying cost of service methodology, but that is not a reason to dismiss the current results. Additionally, given that rates for many classes are already underpinned by non-gas revenue requirement and cost allocation back to the 2010/11 GRA, nearly 10 years ago now, it is unreasonable to delay any further.

It is acknowledged that impacts to some customer classes may be of concern to the affected customers and the PUB. It is these kinds of issues that reinforce the need to prepare a cost allocation study on a more frequent basis and/or sensitivity analysis to directionally understand material changes and working with impacted customer classes proactively. As directed in Order 98/19 bill mitigation measures will be discussed further at the upcoming hearing.