

**Centra Gas Manitoba Inc. 2019/20 General Rate Application
Centra/Koch I-1**

Centra/KOCH I-1

Reference:

Reference 1: Evidence from Brian C. Collins, page 13, line 15

Reference 2: Koch Fertilizer Canada, ULC's Intervener Application Form for Centra's 2019/20 General Rate Application

Preamble:

In reference 1. Mr. Collins states: "Cost allocations to Koch that result in excessive rates can undermine Koch's ability to remain competitive and a strong contributor to Manitoba's economy"

In reference 2. Koch states: "KFC ("Koch Fertilizer Canada, ULC") is a significant long-term economic contributor to Manitoba and can provide clear and meaningful information on the impact the proposed rate increase will have on its continued competitiveness."

Centra seeks to better understand and test how the impact of the cost allocation results in this Application impact and may undermine Koch's ability to remain competitive in Manitoba.

Question:

- a) Please provide an organizational chart of Koch Industries which includes KFC, Koch Canada Energy Services, LP and Koch Energy Services, LLC
- b) Please confirm that KFC's Brandon Plant underwent a major facilities expansion in 2016. If so, please provide the cost of the expansion.
- c) Please confirm that KFC's Brandon Plant is proceeding with a \$130 million facilities upgrade in 2019.
- d) Further to CAC/Koch I-1, please confirm that Koch's overall gas cost also includes upstream transportation and storage costs (for the TCPL Mainline and/or other transportation providers as applicable). If confirmed, please quantify.

Response:

- a) Please note that Koch Industries (KII) is the ultimate parent company of a large multi-national organization comprised of hundreds of entities across many jurisdictions. An organization chart would be cumbersome, largely irrelevant to these proceedings, and highly confidential. All the listed entities (KFC, Koch Canada Energy Services, LP and Koch Energy Services, LLC) are wholly owned indirect subsidiaries of KII. The listed entities are

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also wholly owned, indirect subsidiaries of Koch Ag & Energy Solutions, LLC. Koch Canada Energy Services, LP is a wholly owned subsidiary of KFC.

- b) Not confirmed. Koch's Brandon Plant did not undergo a major facilities expansion in 2016. However, Koch did install some equipment that year to eliminate bottlenecks in ammonia production.
- c) Not confirmed.
- d) Please refer to the response to CAC/Koch I-1.

Centra/KOCH I-2

Reference:

Reference 1: Written Evidence of Brian C. Collins, Page 10, Q24

Reference 2: Written Evidence of Darren Rainkie & Kelly Derksen, Pages 95 and 96

Preamble:

In reference 1. Mr. Collins provides:

Direct Assignment of Costs to the Special Contracts Customer Class

Q.24. WHAT WOULD BE A BETTER APPROACH FOR ALLOCATING COSTS TO THE SPECIAL CONTRACTS CUSTOMER CLASS THAN CENTRA'S SLICE OF SYSTEM ALLOCATION APPROACH?

A better approach would be to allocate the actual costs of the facilities actually used to provide service to the class using direct assignment. This would best reflect cost of service principles. The costs for providing service to the class are easily identifiable. It is preferable to directly allocate costs to a class using direct assignment when costs are easily identifiable.

In reference 2. Rainkie and Derksen provide:

Postage stamp rates are a method of cost allocation where costs are pooled across the service territory and all customers within a rate class are charged the same regardless of their location in the province (or the distances of mains required). This is the accepted approach to ratemaking in most North American jurisdictions.

Centra seeks to better understand Koch's position regarding the use and appropriateness of the proposed direct assignment of costs vs. postage stamp ratemaking.

Question:

Has Mr. Collins conducted any analysis assessing the historical impact or benefit to Koch (based upon the Koch plant) regarding the PUB's approved postage stamp ratemaking approach used by Centra? If any analysis has been performed, please provide all the results, along with all the assumptions and supporting calculations.

Response:

No, Mr. Collins has not conducted such an analysis.