

Centra Gas 2019/20 General Rate Application

**INDUSTRIAL GAS USERS (IGU)
WRITTEN SUBMISSION
REGARDING ISSUES NOT IDENTIFIED FOR ORAL EVIDENCE**

August 23, 2019

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1 **1.0 RETURN ON RATE BASE AND RETURN ON EQUITY (ISSUE #12)**

2 **IGU Recommendation**

3 IGU recommends the Board continue to view the Rate Base Rate of Return (“RBROR”)
4 as a test of the upper level of reasonableness of Centra’s rate proposals and not view
5 the related capital structure or return on equity inputs as targets that must be achieved in
6 the test year.

7 **Background**

8 Centra states in their written submission that the materials filed in relation to the
9 “RBROR” are not intended to justify higher levels of net income or propose an alternate
10 rate setting methodology.¹ Centra further states that the material has been included to
11 meet a legislative requirement and to assist the PUB in its rate setting task. Centra is not
12 requesting the PUB to focus solely on the use of a RBROR methodology in setting
13 rates.² In its application, Centra provided an extract from Order 103/05 where the PUB
14 stated the RBROR methodology is to be used as a test of maximum revenue
15 requirement.³ Centra included a report from Drazen Consulting Group, Inc. (“DCGI”) in
16 support of its application.

17 It is important to note two things about the SaskEnergy information referenced in the
18 DCGI report:

- 19 1. The Saskatchewan Rate Review Panel (“SRRP”) is a Ministerial Advisory
20 Committee whose role is to provide an opinion on rate proposals. Unlike the
21 Manitoba Public Utilities Board, the SRRP does not have final approval authority
22 for utility rates.
23
- 24 2. The Minister’s terms of reference instruct the SRRP to consider certain
25 ratemaking parameters as given. The Minister’s terms of reference for the most
26 recent review of SaskEnergy’s rates instructed the SRRP to consider “the long-
27 term target rate of return on equity of 8.3% as approved in the 2018-2019

¹ Page 11, lines 4 through 6 of Centra’s written submission dated August 12, 2019.

² Page 11, lines 30 through 35 of Centra’s written submission dated August 12, 2019.

³ Tab 3, page 7, lines 6 through 8 of the Application dated November 30, 2018.

1 business plan, using industry based rate setting methodology and excluding
2 customer contributions for the distribution utility.”⁴ (emphasis added).

3 In other reviews, the SRRP has interpreted the “long-term target” language to mean that
4 the utility need not necessarily achieve the target in the test year, but should be making
5 progress toward the target. The SRRP noted this in particular in its 2018 review of
6 SaskPower stating “In reviewing public comments on this issue, the Panel recognizes
7 that a longer period of time for SaskPower to achieve its stated ROE target would enable
8 all ratepayers to better prepare for rate adjustments and allow the province to remain
9 competitive.”⁵

10 With respect to the usefulness of the ROE of 8.3%, the CAC’s witness, Mr. Rainkie,
11 states in his pre-filed evidence:

12 The lower end of the DCGI recommended ROE range of 8.3% is likely
13 acceptable for the purposes of updating the ROE that is used in the
14 feasibility test (at least until the planned review of the feasibility test
15 methodology by the PUB) and continuing a high-level calculation of
16 revenue requirements under a RBROR approach, to the extent these
17 calculations are determined to be necessary on an on-going basis.⁶

18 IGU agrees with the conclusion of CAC’s expert on the usefulness of the RBROR for
19 rate-setting.

⁴ Attachment 1 to the response to IGU/CENTRA I-2(d).

⁵ Saskatchewan Rate Review Panel Report Regarding the SaskPower 2017 Rate Application. Dated January 10, 2018. Available: <https://www.saskratereview.ca/docs/saskpower2017/srrp-2017-saskpower-final-print.pdf>.

⁶ Page 86, lines 12 through 16. Pre-Filed testimony of Darren Rainkie and Kelly Derksen dated June 26, 2019.

1 **2.0 FINANCIAL TARGETS (ISSUE #3)**

2 **IGU Recommendation**

3 IGU recommends the Board not approve any new financial targets or ratios in the
4 current proceeding. This matter can be addressed as part of the collaborative process
5 envisioned by the Board in Order 59/18 and reiterated in Order 69/19.

6 **Background**

7 The pre-filed testimony of Mr. Rainkie reviews the history of financial targets for Centra
8 and states:

9 It was not the policy of Centra or its Board of Directors to forecast
10 proposed and indicative rate increases to obtain or maintain a 30%
11 equity ratio or to earn a full return on investment like a private
12 shareholder. As noted above, there were no formal financial targets set
13 for Centra by its Board and the focus of proposing rate increases was on
14 maintaining a reasonable level of financial reserves to promote rate
15 stability for customers.⁷

16 Mr. Rainkie's evidence also notes it appears Centra is targeting an equity ratio of close to
17 30% and that this driving an increase in net income to \$7 million by 2026/27.⁸ Mr. Rainkie
18 goes on to recommend that the PUB consider establishing a minimum retained earnings
19 test for future Centra GRAs and that in the interim, a \$3 million net income and the
20 consolidated Manitoba Hydro target of 25% be used for rate setting purposes.⁹

21 Centra's position is that it is premature for the PUB to establish new tests or equity
22 targets prior to undertaking the technical conference process directed in Order 59/18
23 and restated as directive 9 to Order 69/19.¹⁰

⁷ Page 79, lines 14 through 19 of the Pre-filed evidence of Darren Rainkie and Kelly Derksen. Dated June 26, 2019.

⁸ Summarized from page 81, lines 14 through 21 of the Pre-filed evidence of Darren Rainkie and Kelly Derksen. Dated June 26, 2019.

⁹ Pages 90 through 92 of the Pre-filed evidence of Darren Rainkie and Kelly Derksen. Dated June 26, 2019.

¹⁰ Page 12, lines 27 through 35. Written submission of Centra dated August 12, 2019.

- 1 IGU agrees with Mr. Rainkie that the primary focus for developing financial targets for
- 2 Centra should be on establishing a reasonable level of financial reserves with a view to
- 3 promoting rate stability for customers. In IGU's view, the Board should not make a
- 4 determination on the appropriate equity ratio other financial targets for Centra until the
- 5 collaborative process contemplated in Order 59/18 is completed.

1 **3.0 INTEGRATED COST ALLOCATION METHODOLOGY (ISSUE #9)**

2 **IGU Recommendation**

3 In the event the Board directs a further process related to the review of the ICAM in a
4 technical proceeding or external study, IGU requests that the Board instruct Centra to
5 provide all intervenors of record in the current proceeding the opportunity to participate.

6 **Background**

7 The pre-filed testimony of Mr. Rainkie reviews the history of the Integrated Cost
8 Allocation Methodology (“ICAM”) to allocate operations and administration costs and
9 costs of common assets between Centra and Manitoba Hydro. Mr. Rainkie notes that for
10 the 2015/16 fiscal year, approximately 56% of Centra’s non-gas expenses of \$148
11 million were allocated to Centra using the ICAM.¹¹ In Order 108/15, the PUB directed
12 that Centra should file a terms of reference for a study of the ICAM. Centra subsequently
13 sought PUB approval to develop an agenda for a technical conference to enhance the
14 understanding of the PUB staff and intervenors of the ICAM. A technical session was
15 held in November 2016. Mr. Rainkie states his view that the information on the record of
16 this proceeding is not sufficient to recommend to the PUB that Centra has satisfied
17 previous ICAM directives from the Board.¹² Mr. Rainkie recommends the PUB should
18 direct Centra to develop a comprehensive ICAM report to support the allocation of
19 consolidated operating costs and shared costs between Centra and MH at future gas
20 and electric rate-setting proceedings.

21 Centra states that in its view the technical conference has satisfied the requirements of
22 the previous Board directive. Centra also notes a concern that Mr. Rainkie’s
23 recommendation prescribes more of a detailed audit approach rather than a governance
24 approach. Centra states it is prepared to engage in a second technical conference if
25 clarification or further understanding of the ICAM is required and deemed necessary by
26 the PUB.¹³

¹¹ Page 51, lines 15 through 21 of the Pre-filed evidence of Darren Rainkie and Kelly Derksen. Dated June 26, 2019.

¹² Pages 51 and 52 of the pre-filed evidence of Darren Rainkie and Kelly Derksen. Dated June 26, 2019.

¹³ Pages 15 and 16. Written submission of Centra. Dated August 12, 2019.

1 It is IGU's understanding that the ICAM influences a significant portion of the non-gas
2 costs included in Centra's revenue requirement and therefore merits review by the Board
3 and intervenors. However, IGU is also sensitive to the potential cost implications of a
4 further study or review and believes it is reasonable for the Board to balance the cost of
5 such a process with the potential benefit to ratepayers. IGU has not been involved in the
6 workshops to review the ICAM that have taken place to date. In the event the Board
7 directs a further process related to the review of the ICAM in a technical proceeding or
8 external study, IGU requests that the Board instruct Centra to provide all intervenors of
9 record in the current proceeding the opportunity to participate.