The Public Utilities Board

IN THE MATTER OF *The Public Utilities Board Act (Manitoba)* and an Application by Centra Gas Manitoba Inc. for an Order of the Public Utilities Board Approving Changes to its 2019/20 Rates

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Written Argument of Koch Fertilizer Canada, ULC on Issues Identified for Oral Evidence

August 29, 2019

I. INTRODUCTION

1. Koch Fertilizer Canada, ULC (**Koch**), sought and received intervener status as noted in Order No. 24/19.[1]

2. Koch is the only fertilizer producer in Manitoba. It is one of the largest employers in the Brandon area making significant contributions to the local economy by directly employing 284 people (as of 31 July 2019).

3. Koch is also a major employer of contracted services in the region to support capital spending for plant outage services. For example, in 2017 over 1000 contractors were brought in for the [Koch plant] maintenance turnaround.

4. The economic benefit of Koch's fertilizer manufacturing operations extends well beyond its direct production. Its manufactured product creates a demand for raw materials, transportation and other services all the way through the production stream. Jobs are created, income is generated and taxes are collected.

5. Koch is participating in this proceeding because its interests are directly and materially affected by the rates that Centra is proposing to increase in this application. As explained in this argument, Koch fundamentally disagrees with the position and the rational Centra has put forward in an attempt to justify significant rate increases it now proposes for transportation customers that receive service on its system.

II. THE ISSUES KOCH IS ADDRESSING IN THIS PROCEEDING INCLUDE:

6. **Issue Coordination**: Koch is addressing two key issues (Gas Balancing and Heating Value Deferral) through its participation in the IGU, in accordance with Order 24/19 and the Board's expectation that parties will co-ordinate their efforts and avoid duplication when possible. To the extent positions are aligned, Koch is also addressing a third issue (Cost of Service) through its participation in the IGU – but, due to its differing circumstances, Koch has provided independent evidence, testimony, argument and recommendations on the issue as well.

7. **Gas Balancing**: In accordance with the special contract in place with Centra, Koch is presently paying balancing fees to Centra to the extent Koch causes Centra to incur upstream balancing charges. Koch's balancing costs would increase under the proposed new structure particularly when there are large plant upsets caused by either internal or external factors. Koch adopts IGU's recommendations regarding this issue and further recommends that (i) consistent with Koch's existing contract with Centra, Koch should only be charged balancing fees based on actual costs incurred by Centra; and (ii) Koch

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[1] Ex PUB-4.

should not be charged for balancing fees resulting from circumstances beyond its control such as extreme weather events and power outages (especially where such power outages are caused by Manitoba Hydro).

8. **Heating Value Deferral**: Centra is proposing to charge Koch approximately $782,000 for a Heating Value Deferral account that has accumulated over the period from 2015/16 to the present. The charge is based on volume of gas used and is based on the difference between the actual heating value of the gas versus Centra's assumed value used in invoicing. Koch adopts IGU's recommendations regarding this issue and further recommends that (i) as recommended in Christensen Association Energy Consulting's report in 2012 and subsequently agreed to by Centra, the Heating Value Deferral not be applied to Koch (because most of Koch's charges are fixed and independent of volume); and (ii) the existing balance of the Heating Value Deferral account that Centra attributes to Koch be reallocated as a matter of proper application of cost causation principles (rather than bill mitigation).

9. **Cost of Service:**

(a) Impacts on Business: Koch is a significant user of natural gas in Manitoba which is used to make fertilizers. Fertilizer is a global commodity, with the fertilizer industry being a price taker not the price setter. Koch's Brandon plant competes against fertilizer producers from Saskatchewan, Alberta, United States and other global manufacturers. Koch's Brandon plant, along with the rest of the industry, has limited ability to pass along costs in the supply chain. This increase in rates is proposed at a time when fertilizer producers are already facing pressure from increased carbon taxation. In addition, Koch is the only North American fertilizer producer that pays PST on the amount of natural gas that is combusted at its site. In addition to the PST already being paid by Koch to Manitoba, these increased rates would bring no incremental benefit for Koch and would increase operating costs. The cumulative effect of these increased costs would reduce the competitiveness of the Brandon plant in a highly competitive global industry.

(b) Review of Methodology: The PUB has ordered a review of the underlying methodology of Centra's Cost of Service.[2] As explained by Koch expert Brian Collins and IGU expert Andrew McLaren, there are potential changes to the methodology (such as a change to direct allocation or coincident demand) that could result in a significant reduction in the rate applied to Koch and other industrial users. Under Centra's proposed rates, Koch would experience a dramatic increase in its transportation costs – a clear case of rate shock – which

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[2] Order 98/19, dated July 15, 2019.

might then require reversal once the required Cost of Service (COS) study review is completed.

III. SUMMARY OF KOCH'S RECOMMENDATIONS RELATED TO RATE APPROVALS

10. Due to the substantial uncertainty that exists regarding the reliability of the current Cost of Service Study, Koch recommends that the Board refrain from approving any change to the existing base rates in the interim until the cost of service rate methodology has been thoroughly reviewed in accordance with the process to be established. If the Board determines that some changes to rates are appropriate in the interim, Koch recommends that the Board take into account the fact that (i) Centra does not require any additional revenues at this time (in fact, its required revenues have decreased); (ii) PUB could establish a "zone of reasonableness" for Revenue Cost Classes (as it did for Manitoba Hydro) to minimize the potential rate shock for those entities experiencing sharp increases; and (iii) the Board could delay adding to the rate base Centra's costs for the new transmission facilities near Winnipeg (so that any increases would be minimal while a thorough COS methodology review is held). [3]

IV. ISSUE 17. 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

11. Koch provided written pre-filed evidence from Mr. Brian Collins of Brubaker and Associates. The focus of Mr. Collins expert evidence was related to cost of service issues which Koch understands are largely deferred for consideration in accordance with the Board's Order 98/19.[4]

12. The Board has determined that the record of this proceeding is lacking in terms of the Cost of Service Study before the Board. Indeed, the Board noted that a separate generic Cost of Service Study methodology review proceeding is required after the conclusion of the 2019/20 GRA proceeding. In making this determination the Board found that the evidentiary record was not sufficient for the Board to conduct a full review. In making this finding the Board accepted 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 in the subsequent separate generic proceeding.[5]

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[3] Transcript August 14, 2019. pages 54- 59.
[4] Order 98/19, dated July 15, 2019.
[5] IBID at pages 9 and 10.

13. The only issue that the Board determined was in scope for the oral hearing was Issue 17: ways to look at bill mitigation in relation to the results of the ***existing*** Board approved Cost of Service Study.

14. Koch's recommendation with respect to this issue it that no rate increases should be approved by the Board at this time under the existing Board approved study.

15. Koch has been paying its current rates for years and these rates have previously been determined by the Board to be just and reasonable. Koch has not changed the nature of its service or the demands it places on Centra's facilities to provide service. Yet, even though Koch's service remains the same, Centra's new proposal would result in a significant cost increase to the current rates (in the order of 64%) Koch now pays for transportation service under the Special Contract class.

16. Centra's application indicates that the majority of these new proposed costs relate to significant expenditures in relation to new transmission facilities near Winnipeg (the "Winnipeg Facilities"). As Mr. Collins pointed out in his evidence, the Winnipeg Facilities that drive the proposed rate increases are geographically separated and physically distinct from Koch' plant in Brandon. Because the Winnipeg Facilities do not serve and are incapable of providing service to Koch, it is not credible that this is a proper applicable of cost causation principles. This is a cost of service methodology issue which will be dealt with fully in the generic proceeding, but nonetheless supports the recommendation that the Board should not approve any rate increases at this time.

17. The parties to this proceeding have material disagreements as to how cost allocation should be done.[6] It is also certain the Board has concluded that the record of this proceeding lacks the necessary evidence to make such a determination, and that the Board accepts that no individual changes to Centra's existing approved methodology should be made in isolation. Changes, if any, should be made after the evidentiary record is complete in the separate generic proceeding.

18. An example of the nature and level of the serious disagreement regarding Centra's proposed rate increases and its COS study can be found in Mr. Collins evidence.[7] As Mr. Collins notes that Centra erroneously allocates a portion of its entire transmission system to the Special Contract class based on load and throughput (the peak and average methodology).[8] The peak and average methodology is inherently biased when applied to customers like Koch that have a high load factor and very high throughput. This bias is even more pronounced when one considers that Koch is physically served by a discrete set of transmission facilities located between the TCPL mainline and its

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[6] IBID at page 9.
[7] Koch – 7, Written Evidence of Brain C. Collins on behalf of Koch, June 21, 2019 (public redacted version)
[8] IBID Question 20, page 8.

Brandon plant. That is why Mr. Collins (i) rejects Centra's position regarding the allocation of system wide transmission costs to Koch;[9] and (ii) recommends the direct assignment approach as more appropriate to reflect the costs that are actually incurred by Centra in providing service to Koch. Under this direct assignment approach Mr. Collins observes Koch is now actually overpaying in relation to the costs it has historically caused on the system.

19. The determination by the Board regarding the lack of a substantive body of evidence on the COS methodology, coupled with the written pre-filed evidence of Mr. Collins, and the IGU witnesses provides compelling reasons that support Koch's position that no new rate increases should be approved at this time.

V. MR. COLLINS WITNESS APPEARANCE AUGUST 20, 2019

20. Mr. Collins, provided the benefits of his expertise and experience as both a regulatory board staff member and as a cost of service consultant when he addressed the pitfalls inherent in trying to implement rate increases in the absence of an adequate evidentiary record and in the face of serious disagreement between the parties on the appropriate cost of service methodology to be used in the present circumstances.[10]

21. It is Mr. Collins evidence that the best way to deal with the issue of bill mitigation in the present circumstances was not to approve any rate increase for any customers at this time. This was due to a number of reasons, including:

(a) Current rates have been found to be reasonable by the Board.

(b) The proposed rate increases to Koch and other HV customers are significant and suggest that Centra's proposed allocation of costs is inappropriate and uncertain at best and that consideration of such dramatic increases would benefit from full testing and an adequate evidentiary record;

(c) There is a real risk that any proposed rate change at this time may be in the wrong direction if the Board determines a change in cost allocation methods is warranted. If the Board were to later adopt direct assignment of the costs of the specific and discrete facilities used to serve the Koch, Centra's current rates are more than adequate to recover the costs of providing delivery service to Koch. If the Board were to later adopt a coincident demand allocation, that would also

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[9] IBID, Question 7, at page 2.

[10] Transcript August 20, 2019 pages 836 – 858; see also Koch Direct Evidence Ex Koch-9.

bring the Special Contract class much closer to the existing approved cost of service study class cost ratios.[11]

(d) Maintaining current rates promotes rate stability, while making a significant change that may later prove to be inappropriate and have to be reversed promotes uncertainty and rate instability.

(e) If a change in rates has to be made at this time, an equal percent change for all rate classes would be preferable. When faced with an unreliable class cost of service study, treating each class the same in terms of rate impact is reasonable. It is an approach that's fair and equitable to all rate classes.

(f) In Mr. Collins' view, gas costs should not be considered in assessing the overall impacts to Special Contract class customers.

(i) When considering impact of utility transportation costs for a transportation customer, it is misleading to look at a customer's gas supply costs. This is particularly inappropriate in the case of Koch which uses gas not just for heating, but also as a feedstock for its fertilizer manufacturing process. It would be a classic apples to oranges comparison and offer no comfort to the Board.

(ii) Centra does not incur gas costs to serve transportation service customers.

(iii) Delivery/transportation service rates should be designed so that a utility is indifferent between providing service to a sales customer or to a transportation customer such as Koch.

(iv) Examining irrelevant externalities does not provide assistance in determining class cost of service. In the present circumstance it actually distorts a meaningful comparison of the relative proposed rate increase.

All of which is respectfully submitted this 29th of August, 2019.

Lawson Lundell LLP

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Lewis Manning,
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[11] PUB-IGU IR 22, and Ex. IGU – 14. Direct Evidence Presentation of Andrew McLaren, August 16, 2019 at page 10 showing RCC Ratio of 92% for special contract class based on Coincident Demand Method.