

Via email: rachel.mcmillan@gov.mb.ca

July 5, 2019

Rachel McMillin
Assistant Associate Secretary
The Public Utilities Board
400-330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

Dear Ms. McMillan:

**Re: Koch Fertilizer Canada, ULC
Identification of Issues for Oral Hearing
Centra Gas Manitoba Inc.'s 2019/20 GRA**

In accordance with the Board's procedural direction set out in its letter dated June 27, 2019 we write on behalf of Koch Fertilizer Canada, ULC ("**Koch**") to provide the Board with Koch's position regarding which issues should be the subject of oral evidence together with the reasons for such position.

The questions posed by the Board, and Koch's answers and position follow.

1. Which issues, if any, from the Issues List attached as Appendix A to Order 24/19 should be the subject of oral evidence.

Koch's main area of concern regarding Centra's Application is the significant reallocation of Centra's overall costs. Thus, the primary issue in this proceeding is cost of service, which needs to be thoroughly examined in an oral hearing. To deny Koch the right to thoroughly examine the cost of service evidence in an oral hearing denies Koch due process.

Koch submits all issues relating to Centra COS study, its underlying methodology, and Centra's judgement in allocating costs to its various customer classes require full and adequate testing through an oral hearing process before any of the proposed rates are accepted by the Board as being appropriate, just or reasonable. Centra's proposed rates result in a significant increase to Koch and appear to be excessive, singling Koch out for an annual increase in the order of 64%.

Koch's position in this regard has been set out in writing in Koch's motion dated June 14, 2019 requesting full access to Centra's COS study and confidential information relating to the COS study for its representatives. Briefly, and to avoid duplicating the entirety of the submissions made by Koch in its motion and in its reply submission (dated June 21, 2019) the Issues from Appendix A to Order 24/19 that Koch submits should be the subject of oral evidence include:

9. Integrated Cost Allocation Methodology (allocation of costs between MH and Centra)

14. Bill impacts on consumers:

i. Macro-economic impacts of the proposed rate changes which includes evidence from industrial customers as to the effect Centra's proposed rate adjustments will have on their businesses;

17. Cost of Service Study results and methodology (allocation of costs to customer classes)

Koch has had the benefit of seeing the submissions of IGU with respect to COS study Issues. In this regard Koch supports the comments made by IGU that the current procedural schedule may not allow sufficient time to properly deal with the many substantive and important issues that appear to exist with respect to Centra's COS study.

Koch specifically adopts the following comments made by IGU:

These are substantive issues with significant rate implications for industrial customers. Further, it does not appear the Board will have the evidence it needs on certain methods including the reasonableness of continuing to weight the peak and average allocator using the system load factor.

IGU recommends the Board defer making any decisions on cost of service matters until it can convene a proceeding on Centra's cost of service methods similar to that undertaken for Manitoba Hydro's electric cost of service study that resulted in Order 164/16. It is a discrete issue which can be severed.

IGU believes such a proceeding should include the Board retaining its own expert for a role similar to that undertaken by Daymark Energy Advisors in the Manitoba Hydro Cost of Service hearing. This could help limit the need for intervenors to access commercially sensitive information. IGU has not conducted a full cost of service study which reflects current circumstances and the PUB's directives in its Order 164/16.

It is IGU's view that the record is not sufficiently robust to allow the PUB and the parties to conduct a fulsome review. We recommend that the PUB direct Centra to prepare an updated Cost of Service Study which takes into account the issues raised in this letter and any other issues it deems relevant.

IGU therefore recommends that the Board sever the cost of service issues from the 2019/20 GRA proceeding and not approve any rate adjustments based on Centra's cost of service analysis at this time.

Alternatively, if the PUB does not defer the cost of service issues to a future proceeding, IGU submits these matters will require oral hearing days. The issues to be resolved are numerous and represent a substantive portion of the proposed rate increases for IGU's members. The cost of service issues merit testing of evidence in an oral hearing. There are presently conflicting expert opinions. We expect the PUB will be required to weigh the expert evidence and make decisions as to which evidence it prefers. It is also expected that oral evidence will further assist the PUB in better understanding the issues and methods and how they need to be dealt with in the context of the principles established in its Order 164/16. It is IGU's view that the Cost of Service issues cannot be effectively and appropriately dealt with through evidence in writing.

2. The reasons for the Intervener's position as to why the issues so identified should be the subject of oral evidence.

Koch's reasons for needing to see and be able to properly respond to and present expert evidence in response to Centra's proposed rate increase and the underlying COS study are set out in its motion and reply¹. To avoid unnecessary duplication Koch will not repeat the reasons verbatim in this submission but summarize the key reasons as follows:

- A. Centra is proposing significant rate increases to Koch, with no additional service being provided and in the absence of any specific request from Koch for incremental transmission facilities needed to service its plant.²
- B. Based on the limited information available today, the proposed rate increase appears to be disproportionately large for Koch and will significantly increase Koch's operating costs and impact Koch's long-term competitiveness.
- C. Centra has made significant new investment in transmission facilities located well downstream from Koch's plant which Koch does not use but never the less appears to have been charged for. Allocating Koch the cost of the new transmission facilities that are not capable of providing service to Koch is

¹ Please see Koch's motion and reply for the full reasons set out therein.

² Redacted Evidence of Brian C. Collins dated June 21, 2019 at Q.15 refers to relatively minor investments that have been made to serve Koch relating to erosion protection and an ongoing project by Centra expected to be in service in August 2019 relating to a rebuild of a primary station that interconnects with TCPL and is used to supply Koch.

inappropriate and does not reflect cost causation.³ This violates the fundamental regulatory principle of cost causation in cost of service.

- D. The proposed level of rate increase is well beyond what is typically considered rate shock and without a proper or adequate investigation into the underlying COS study appears to support the view that Koch is being asked to pay rates that result in cross-subsidization.
- E. Koch's expert COS consultant has indicated that the Centra approach to cost allocation may be inappropriate as compared to other methodologies that might be reasonable and result in just and reasonable rates. Such methodologies would include those that consider coincident design allocators (for example as opposed to using load factor to weight design allocators under the peak and average methodology), or those that directly assign the costs of the facilities that are utilized in providing service to Koch.⁴
- F. The rates that Centra proposes Koch should pay bear no relationship to the manner in which Centra incurs costs to serve Koch, as such they are unreasonable and violate the key principle of cost causation,⁵ and the Centra COS study (which has not been disclosed to Koch as of this filing) appears to be flawed.

All of these reasons are strong indicators of the need to hear the COS Issues by way of oral hearing with interveners being given a fair opportunity to test Centra's case and present their own expert witnesses on these issues for the benefit of the Board.

3. The Intervener's estimate of the number of hearing days required based on the Intervener's position as to the issues that the Intervener has identified as requiring oral evidence.

Koch estimates that it may require between 2 – 3 hours to cross examine Centra on its COS study.

Koch estimates that it may take between 2 – 4 hours to present its COS expert evidence. This assumes that Centra, other interveners and the Board will be able to ask whatever questions they might have within that time.

Koch understands this estimate will result in approximately a day and a half of hearing time.

³ IBID, Q.23.

⁴ IBID, at Q.7.

⁵ IBID, at Q.29.

4. The Intervener's position on whether arguments should be heard in writing or orally, or both.

Koch submits written argument is appropriate for the COS issues after the record is closed following the oral hearing.

Yours very truly,

LAWSON LUNDELL LLP

<Original signed by>

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