

# Direct Examination of Brian C. Collins

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**ON BEHALF OF KOCH FERTILIZER CANADA, ULC**

**AUGUST 20, 2019**

## A. Background

1. One purpose of this proceeding is to determine the degree of bill mitigation appropriate for the rates that would result from Centra's class cost of service study.
  - a. Class cost of service issues are to be decided for another day.
  - b. However, the purpose of a class cost of service study is to guide class revenue allocation and rate design.
  - c. Important to understand how we got to where we are today.
2. Centra's class cost of service study is based on the peak and average cost allocation method
  - a. Overall system change in non-gas revenue requirement resulting from the study is a small decrease.
  - b. In spite of this small overall system decrease, transportation customers would see significant proposed increases.
  - c. Based on the impact to the Special Contract customer class, the cost of service study results are uncertain at best.
  - d. My evidence, based on a direct assignment of the costs of the specific and discrete facilities used to serve the Special Contract class, indicates that Centra's rates are more than adequate to recover the costs of providing delivery service to Koch. A coincident demand allocation also brings the Special Contract much closer to cost of service. As a result, Centra's class cost of service study results are suspect.
  - e. How do we justify any change in rates with a class cost of service study whose rates are uncertain and suspect?

B. Where does an uncertain class cost of service study leave us in terms of bill impacts?

1. Bill mitigation is important when such a significant increase is at issue, such as the increase proposed by Centra for the Special Contract class. Mitigation helps prevent rate shock to customers.
2. Bill mitigation is a fair and reasonable approach for customers faced with large increases.
3. Several approaches can be used for bill mitigation.
  - a. It is my recommendation based on my review that any rate changes be deferred until Centra's class cost of service methodology is fully reviewed by the Board. This is consistent with the recommendation of IGU in the direct evidence of Mr. Andrew McLaren.
    1. Current rates have been found to be reasonable by the Board.
    2. There is a real risk that any proposed rate change may be in the wrong direction if the Board determines a change in cost allocation methods is warranted.
    3. Promotes rate stability.
    4. This is particularly important when the driver of the proposed transportation rate changes are suspect.

- b. If a change in rates has to be made at this time, an equal percent change for all rate classes would be preferable.
  - 1. When faced with an unreliable class cost of service study, treating each class the same in terms of rate impact is reasonable.
  - 2. Fair and equitable to all rate classes.
  
- c. Expand the zone of reasonableness.
  - 1. Least preferred solution.
  - 2. In order for measures of reasonableness to have meaning, the class cost of service study has to be robust.
  - 3. In this proceeding, the measures of reasonableness are based on suspect results from Centra's class cost of service study. Cost study may be unreasonable – how can a zone of rates derived from such a study be reasonable?
  - 4. Cost of service is linked to class revenue allocation and rate design.
  - 5. Important to first get class cost of service correct. Revenue allocation and rate design follows.
  - 6. Link between class cost of service and revenue allocation should not be severed.

C. Should gas costs be considered in overall impacts to Special Contract class customers?

1. When considering impact of utility transportation costs for a transportation customer, it is not helpful to look at a customer's gas supply costs.
  - a. Gas costs are not incurred to serve customers.
  - b. Delivery 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.
  - c. Examining irrelevant externalities does not provide assistance in determining class cost of service.
  - d. In particular, natural gas is a feedstock for Koch's fertilizer manufacturing process.
  - e. Where is the line drawn when considering production costs independent of a utility's costs for determining reasonable transportation rates?

## D. Summary

In closing, based on my review in this proceeding, I recommend any rate changes be deferred until Centra's class cost of service methodology is fully reviewed by the Board.