

**PUB/Koch-1**

**Reference:** Collins Evidence pp. 11-12; Tab 10 Schedule 10.1.5 (Nov 30/18 version)

**Preamble:**

It appears that the cost of service totals included in Tables 1 and 2 are percentages of the total non-gas portions of the Special Contract class cost of service totals shown in Schedule 10.1.5 (November 30, 2018 version).

**Request:**

- a) Please provide the detailed calculations and data sources supporting the results of Table 1. Also confirm whether all of the elements shown are adjusted by the same rate base proportion.
- b) Please provide the detailed calculations and data sources supporting the results of Table 2. Also confirm whether all of the elements shown are adjusted by the same rate base proportion.

**Response:**

- a) Please see **CONFIDENTIAL** Attachment PUB-Koch-1.xlsx. All adjustments are made using the same rate base proportion.
- b) Please see the response to part a. All adjustments are made using the same rate base proportion.

**PUB/Koch-2**

**Reference:** Collins Evidence p. 1; Tab 11 Schedule 11.1.0 (Mar 22/19 Update)

**Preamble:**

The bill impacts to the Special Contract class appear disproportionately large in comparison to the impact on Centra's other customer classes as there are no upstream storage and transportation costs and no Primary or Supplemental Gas costs to dilute the impact, as is the case with Sales Service customers.

**Request:**

Please estimate the annualized bill impact on Koch resulting from Centra's proposed base rate changes based on Koch's total gas bill, including commodity and upstream transportation (which are not payable to Centra). That is, include upstream commodity and transportation costs in the denominator of the bill impact calculation. Make any required redactions to protect commercially sensitive information.

**Response:**

Koch estimates that the annualized impact to Koch's gas bill (per the requested calculation) would be about a ■■■ increase. Note that this estimate does not include the cost of gas.

Please note that Koch is not a sales customer of Centra. Koch purchases its own natural gas supply and uses it as feedstock for producing fertilizer. Centra's gas costs for sales customers are irrelevant in determining delivery service rates for Koch. Therefore, it is Koch's position that the information provided in this response should have no weight in the PUB's deliberations.

As indicated by the NARUC Subcommittee on Gas at page 7 of its November 1, 1985 report in FERC Rulemaking Docket RM-85-1-000, "...transport rates should be designed so that the utility is indifferent between providing gas service or providing transportation service." This effectively says that a utility such as Centra should be pricing gas transportation service for customers, including Koch, regardless of whether the customers purchase gas from the utility or purchase gas on their own.

### **PUB/Koch-3**

**Reference:** Collins Evidence p.10; Derksen Evidence p.115

#### **Preamble:**

Mr. Collins recommends changing the allocation to the Special Contract class such that costs are directly assigned.

In her evidence, Ms. Derksen states: *“It is not appropriate to make one-off fundamental changes to the Centra Cost Allocation Methodology in the absence of a full methodological review”*.

#### **Request:**

Provide Mr. Collins’ view as to whether i) changing the basis for allocation of costs to the Special Contract class is a fundamental change to Centra’s cost allocation methodology, and ii) whether such a change should only be considered in the course of a full review of Centra’s cost allocation methodology.

#### **Response:**

Mr. Collins’ view is that changing the basis for the allocation of costs to the Special Contract class is an appropriate fundamental change to Centra’s proposed class cost of service study. Mr. Collins does not agree that the change should only be considered in the course of a full review of Centra’s cost allocation methodology; the change can be approved at the Board’s discretion.

## PUB/Koch-4

**Reference:** Collins Evidence p.10

### **Request:**

Please provide examples from other jurisdictions where direct assignment of transmission asset costs was used in a cost allocation study approved by a regulator. Include descriptions of the assets directly assigned and explanations why direct assignment was a more appropriate method to determine cost responsibility than through allocation of embedded costs. If possible, provide examples that are similar in configuration to Centra's system that serves Koch Fertilizer.

### **Response:**

Mr. Collins has not performed an exhaustive search of direct assignments approved by regulators. Furthermore, Mr. Collins has not encountered a situation in a rate case similar to Koch in other jurisdictions. That being said, Mr. Collins can point to the *NARUC Gas Distribution Rate Design Manual* published in 1989 by the National Association of Regulatory Utility Commissioners in the United States which provides guidance on direct assignment cost allocation.

At pages 18-19 of the NARUC manual, it states the following:

Once a definition of cost is decided upon, it is then necessary to assign costs to specific customer classes. Generally speaking, these costs can be divided into two broad categories: direct costs and common costs. **Direct costs are those which are incurred only to provide service to a particular customer class. Common costs are incurred in providing service to more than one class. The assignment of direct costs is straight-forward and should not be subject to debate.** Common costs are another matter. By definition, such costs are incurred for the benefit of several rate classes and their costs cannot be directly assigned. Instead, it is necessary to allocate these costs among the rate classes using some reasonable allocation method. (emphasis added)

The NARUC manual further states the following at page 20:

**All items that can be directly attributed to a particular service** (such as revenues from a specific service or **the cost of a high pressure main constructed for a particular customer or group of customers**) should be segregated and **directly assigned to the appropriate customers.** (emphasis added)

The NARUC manual further states the following at page 31:

**Where possible, functional costs are directly assigned** to the classes of service based upon details from the utility's books or **by special analysis or studies.** (emphasis added)

Mr. Collins further states that direct assignment of costs also helps prevent customers from bypassing a utility's system by directly connecting to an interstate pipeline. As stated by the NARUC Subcommittee on Gas in its November 1, 1985 report at page 7 in FERC Rule Making Docket RM-85-1-000:

Indeed, an implication of the availability of bypass is that rates based on average systemwide costs of a class of service may need to be modified. Individual customer location characteristics may be needed to more accurately reflect the cost of servicing that customer in order to prevent uneconomic bypass.

**PUB/Koch-5**

**Reference:** Collins Evidence p. 10

**Request:**

- a) In what year did the Koch Fertilizer plant (formerly Simplot Chemicals) become connected to the gas distribution system of Centra (or Centra's predecessor company Plains Western)?
- b) What was the basis for determining the rates charged to the fertilizer plant at that time? Were they based on an embedded COSS, or were they based on direct assignments of the costs to build the pipeline and related facilities serving the fertilizer plant?
- c) If the original rates were based on directly assigned costs, when did the rates begin to be set based on embedded cost allocation studies?

**Response:**

Please note that Koch acquired the plant in 2006. To Koch's knowledge, it does not have the historical information necessary to respond to these questions.