1   **REFERENCE:**

2   McLaren Evidence p. 1; Tab 11 Schedule 11.1.0 (Mar 22/19 Update); Tab 11 p. 4 of 14

3   **PREAMBLE:**

4   Centra states that the bill impact for T-service customers appears disproportionally large
5   as there are no upstream storage and transportation costs and no Primary or
6   Supplemental Gas costs to dilute the impact.

7   **QUESTION:**

8   Please provide the annualized bill impacts on IGU's members who are T-Service
9   customers (including Special Contract customers) resulting from Centra's proposed base
10   rate changes based on each customer's total gas bill, including commodity and upstream
11   transportation (which are not payable to Centra). That is, include upstream commodity
12   and transportation costs in the denominator of the bill impact calculation.

13   **ANSWER:**

14   Mr. McLaren does not have access to the requested information but understands the
15   commodity and upstream transportation costs are a substantial portion of total gas costs.

16   However, in Mr. McLaren's view, it is reasonable to consider the impact on non-gas
17   charges separately from gas charges for all customers. Centra has much more ability to
18   control changes in its non-gas costs than its commodity costs.

19   Otherwise, large increases in non-gas costs can be hidden or muted by changes in
20   commodity prices which are largely beyond the ability of Centra and its customers to
21   control.

1 **REFERENCE:**

2 McLaren Evidence p. 14

3 **PREAMBLE:**

4 "Particular areas of focus could include limiting the applicability of the fees during periods
5 when customers cannot respond to balancing issues, particularly related to power
6 outages;"

7 **QUESTION:**

8 Please identify how often IGU's members have experienced unplanned power outages
9 that contributed to balancing issues within the last three years.

10 **ANSWER:**

11 Mr. McLaren understands from IGU members that examples of such events include:

12 • March 21, 2019: An IGU member experienced a complete power outage of
13 approximately 20 minutes. The IGU member plant was shut down as a result and
14 it took over one day to resume operations.

15 • August 9, 2016: A partial power outage impacted some equipment on an IGU
16 member's site. Gas usage dropped about 10% as compared to the following day.

17 • January 19, 2016: An IGU member experienced a complete power outage and
18 the plant went down for several days.

19 Mr. McLaren understands that there is no provision in Centra's balancing fee proposal to
20 address such situations at present.

1   **REFERENCE:**

2   McLaren Evidence p. 14; IGU/Centra II 7a-j; PUB/Centra II-58a-d

3   **PREAMBLE:**

4   McLaren states: "consideration of options to work with Centra and/or other T-Service
5   customers to ensure the system as a whole remains in balance."

6   **QUESTION:**

7   a) Please explain whether, under either the existing Centra terms and conditions of
8   service or the TCPL Mainline tariff, existing T-Service customers already have the
9   ability to execute gas purchases and sales amongst each other or with Centra to
10   minimize their own daily imbalances.

11 b) Please explain whether Mr. McLaren or IGU's members are aware of any local gas
12   distribution companies facilitating imbalance exchanges within the local delivery area
13   of a larger interprovincial or interstate transmission pipeline operator. If so, please
14   provide further details.

15 c) Please provide Mr. McLaren's views regarding Centra's position that by electing T-
16   Service, T-Service customers are opting out of the pools managed by Centra.

17 d) Explain how Centra could facilitate a process whereby T-Service shippers (or their
18   agents) could trade imbalances between each other and provide views on the cost
19   responsibilities of such a process.

20 **ANSWER:**

21 a) Through d)

22 In Mr. McLaren's view, from an operating perspective Centra should be indifferent to the
23 following scenarios:

24   1. A situation where three T-Service customers are all precisely in balance on their
25   individual loads; and

26   2. The same three T-Service customers are in balance across all three of their loads,
27   but with some variation at an individual customer level (e.g. one customer is over
28   and one customer is under).

29 However, as Mr. McLaren understands Centra's proposal, the first scenario would not
30 incur balancing fee charges but the second scenario would, even though the net impact
31 across the system is the same.

32 With respect to Centra's position that by electing T-Service, customers are opting out of
33 the pools managed by Centra, the Board should consider whether Centra should be able
34 to have sole control over such pooling or aggregating functions in Manitoba.

35 In Mr. McLaren's view it would be reasonable for the customers choosing to pool their
36 purchases and aggregate loads to pay any direct fees charged by nominating agents or
37 other parties for these services.

1   **REFERENCE:**

2   McLaren Evidence p. 14

3   **PREAMBLE:**

4   McLaren recommends: "Given the uncertainty in customer response, phase in the charges
5   more gradually than the 50% of TCPL figure selected by Centra and report regularly to
6   the PUB on charges collected and direct costs incurred."

7   **QUESTION:**

8   Please explain the suggested timeframe over which Centra's proposed 50% of TCPL fee
9   structure could be phased in, together with the possible fee step increases used
10   throughout the suggested phase-in period. Also describe the metrics that could be used
11   to assess the response of T-Service customers during the suggested phase-in period.

12   **ANSWER:**

13   Mr. McLaren's preferred approach would be for Centra to develop a working group with
14   its customers to develop a revised proposal that could be jointly recommended to the PUB
15   for approval.

16   In the event an interim approach based on the current proposal before the Board is
17   implemented Mr. McLaren suggests the following could be considered for at least one
18   year of operating experience:

19   1.   Implementing the fees at 25% of TCPL's fee structure with a cap equal to the total
20   balancing fees actually incurred by Centra. That is, fees charged to customers
21   would not exceed actual charges from TCPL to Centra over the same period.

22   2.   Tracking the following for at least one full operating year under the interim fee
23   structure:

24   a.   Total number of imbalance events

25   b.   Total volumes of imbalances

26   3.   Comparing the figures tracked in part 2 against performance over at least the three
27   previous years.

1   **REFERENCE:**

2   McLaren Evidence p. 14; PUB/Centra II-57a-d

3   **PREAMBLE:**

4   **QUESTION:**

5   Please provide the balancing tolerances recommended by Mr. McLaren for each
6   category of daily consumption as outlined in PUB/Centra II-57(a).

7   **ANSWER:**

8   Mr. McLaren does not have a recommendation on the appropriate balancing tolerances.
9   This would be an appropriate topic for discussion between Centra and its customers as
10 part of the process to develop a revised proposal as recommended by Mr. McLaren in
11 section 4.4 of his evidence.

1 **REFERENCE:**

2 McLaren Evidence p. 14; Tab 12 p. 6 of 13

3 **PREAMBLE:**

4 Centra proposes to increase the threshold for eligibility for T-service from 200 GJ/day to
5 2,500 GJ/day.

6 **QUESTION:**

7 Please provide Mr. McLaren's views and findings regarding Centra's proposed changes
8 to the T-Service volume eligibility threshold.

9 **ANSWER:**

10 Mr. McLaren understands Centra's proposed changes to the T-Service volume eligibility
11 threshold would substantially limit access to this rate option for future customers. As
12 Centra notes in response to PUB/CENTRA I-150 (b), 11 of 15 current T-Service customers
13 would not meet the 2,500 GJ/day threshold.

14 In Mr. McLaren's view the Board should be concerned about proposals that limit customer
15 options and should consider proceeding cautiously with the proposed change to the
16 eligibility threshold, perhaps deferring the increase in the threshold until after some actual
17 experience with a change to the balancing fee charges.

1   **REFERENCE:**

2   McLaren Evidence p.17; Tab 8 Schedules 8.6.5, 8.7.5, 8.8.5; Tab 11 Schedule 11.4.0;
3   IGU/Centra II-12

4   **PREAMBLE:**

5   The heating value margin deferral balances are allocated to each customer class based
6   on each class's share of the total volumes, but that does not appear to be the basis for
7   the accrual of the margin deferral balances, as the unit (per m^3) margin deferral differs for
8   each class. For example the Special Contract class is allocated a substantial share of the
9   margin deferral balance but does not contribute to the balance by the nature of its rate
10   design.

11   **QUESTION:**

12   a) Provide an illustrative example, similar to the table below, for a single gas year which
13   shows the accumulation of the Heating Value Margin Deferral balance. A constant
14   actual heating value for the entire year may be assumed for this illustration. State any
15   other assumptions necessary for this illustration. Show the percentage class
16   contributions to the total Heating Value Margin Deferral balance.

	Total	SGS	LGS	HVF	ML	Int	SC	PS
Annual Volume (10^3m^3) [IGU/Centra II-12 Att.]								
Heating Value Revenue Deferral								
Heating Value Cost Deferral								
Heating Value Margin Deferral								
% Contribution to Total Margin Deferral								
Allocated Deferral Balance [IGU/Centra II-12 Att.]								
% of Allocated Margin Deferral [IGU/Centra II-12 Att.]								

17   b) Provide Mr. McLaren's views whether the allocation of Heating Value Margin Deferral
18   balances could or should be changed to reflect the basis for the accumulation of the
19   balances. Would such an approach be preferable to Christensen Associates'
20   recommendation to simply exclude the Special Contract class from participation in the
21   Heating Value Margin Deferral account? Are there other methods that would more
22   closely align the basis for the accumulation of the Heating Value Margin Deferral
23   balances with the disposition of these balances? If so, please provide.

24   **ANSWER:**

25 a)

26 Attachment 1 to this response provides an illustrative example. Volumes and heating

27 values used in the Attachment 1 are illustrative only and do not reflect any actual or

28 forecast information from the current proceeding. The calculations use the following

29 formula provided in response to IGU/Centra I-27 (h)

30

> Heating Value Revenue Deferral = (Actual Volumes - (Actual Volumes * Actual Heating Value/Forecast Heating Value)) * Blended Commodity Base Sales Rate
>
> Heating Value WACOG Deferral = (Actual Volumes - (Actual Volumes * Actual Heating Value/Forecast Heating Value)) * Blended Commodity Base WACOG Rate

31 • Actual Volumes: $10^3\,m^3s$

32 • Blended Commodity Base Sales Rate = (Primary Gas Sales Rate *
33   Billing

34 • %)+(Supplemental Gas Sales Rate * Billing %) + Distribution Sales
35   Rate + Transportation Sales Rate

36 • Blended Commodity Base WACOG Rate = (Primary Gas WACOG Rate *
37   Billing

38 • %)+(Supplemental Gas Sales WACOG * Billing %) + Distribution WACOG
39   Rate + Transportation WACOG Rate

40 The following assumptions were made for this illustrative example:

41   1. Illustrative annual volume estimates – these are illustrative only and do not reflect
42   actual or forecasts from this proceeding.

43   2. An actual heating value of 39.00 GJ/$10^3\,m^3$ – again this is illustrative only and does
44   not reflect actual values in this proceeding.

45   3. A forecast heating value of 39.00 GJ/$10^3\,m^3$ included in rates (illustrative only).

46   4. Commodity volumetric charges as set out in Schedule 11.2.0 of the application
47   (base rates only, no riders).

48   5. An assumption of 95% primary gas and 5% supplemental gas.

49   6. A blended commodity base WACOG rate equal to the primary gas supply and
50   supplemental gas supply rates on Schedule 11.2.0 and assuming 95% primary
51   gas and 5% supplemental gas.

52 This illustrative example shows that because of the different rate structures, each class
53 contributes a different proportion to the heating value deferral amount. Rows 18 and 19 of
54 the attachment provides a comparison assuming the balance is allocated based only on
55 volumes as Mr. McLaren understands is Centra's current practice. A comparison of the
56 two approaches shows that an allocation based only on volumes substantially increases
57 the amount allocated to the HVF, Mainline and Special Contract customers compared to
58 their actual contribution to the balance.

59 (b)

60 In Mr. McLaren's view it would be a substantial improvement to allocate the balances in
61 the Heating Value Margin Deferral account to reflect the basis for the accumulation of the
62 balances by each customer class. Mr. McLaren also notes that the difference between T-
63 Service and Sales Service customer contributions to the balances should also be
64 considered under such an approach. The contribution of each customer class could be
65 calculated using a table similar to that provided in the Board's question. This would
66 calculate the cost responsibility of each class, and then riders could be developed to
67 recover the appropriate amounts for each class.

68 In Mr. McLaren's view this is a straightforward deferral account and rate design change
69 that could be implemented in a compliance filing for this proceeding and should not wait
70 for the subsequent proceeding on cost of service methods. No cost of service method
71 changes are required to implement this change to the treatment of the heating value
72 deferral account.

#									
1	Actual Annual Volume (10³m³)	1,311,000	500,000	300,000	100,000	100,000	10,000	300,000	1,000
2	Actual Heating Value (GJ/10³m³)	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00
3	Forecast Heating Value in rates (GJ/10³m³)	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00
	Heating Value Revenue Deferral								
4	Actual Volumes (10³m³)		500,000	300,000	100,000	100,000	10,000	300,000	1,000
5	Actual Heating Value/Forecast Heating Value		1.081081	1.081081	1.081081	1.081081	1.081081	1.081081	1.081081
6	Primary Gas Sales Rate ($/cubic meter)		0.0816	0.0816	0.0816	0.0816	0.0816		
7	Supplemental Gas Sales Rate ($/cubic meter)		0.1559	0.1559	0.1559	0.1559	0.1559		
8	Distribution Sales Rate ($/cubic meter)		0.0866	0.0357	0.0073	0.0001	0.0012	0.0001	0.0083
9	Transportation Sales Rate ($/cubic meter)		0.0538	0.0516	0.0196	0.0057	0.006		
10	Blended Commodity Base Sales Rate ($/cubic meter)		0.225715	0.172615	0.112215	0.091115	0.092515	0.0001	0.0083
11	Total Heating Value Revenue Deferral ($000s)	(15,076)	(9,151)	(4,199)	(910)	(739)	(75)	(2)	(1)
	Heating Value Cost Deferral								
12	Actual Volumes		500,000	300,000	100,000	100,000	10,000	300,000	1,000
13	Actual Heating Value/Forecast Heating Value		1.081081	1.081081	1.081081	1.081081	1.081081	1.081081	1.081081
14	Blended Commodity Base WACOG Rate		0.085315	0.085315	0.085315	0.085315	0.085315		
15	Total Heating Value Cost Deferral ($000s)	(6,987)	(3,459)	(2,075)	(692)	(692)	(69)	0	0
16	Total Margin Cost Deferral ($000s)	(8,089)	(5,692)	(2,124)	(218)	(47)	(6)	(2)	(1)
17	% Contribution to Total Margin Deferral		70.4%	26.3%	2.7%	0.6%	0.1%	0.0%	0.0%
18	Total Margin Cost Deferral if allocated based on volume	(8,089)	(3,085)	(1,851)	(617)	(617)	(62)	(1,851)	(6)
19	% of total deferral.		38.1%	22.9%	7.6%	7.6%	0.8%	22.9%	0.1%

Notes:

1. Volumes in line 1 are illustrative only and do not reflect actual or forecast values from this proceeding.

2. Heating Values at lines 2 and 3 are illustrative only and do not reflect actual or forecast values from this proceeding.

3. Rates at lines 6 through 9 are taken from Schedule 11.2.0 of the Application (base rates, no riders).

1   **REFERENCE:**

2   McLaren Evidence p.10

3   **PREAMBLE:**

4   **QUESTION:**

5   Does Mr. McLaren have a recommendation for the appropriate weighting of the peak and
6   average components in Centra's Peak and Average allocator instead of the currently used
7   load factor? If so, please provide.

8   **ANSWER:**

9   Mr. McLaren is not recommending that the Peak and Average allocator continue to be
10 used for demand related costs. The current approach assigns a substantial portion of
11 demand classified costs based on energy or volume that is not consistent with cost
12 causation. In Mr. McLaren's view if Centra wishes to continue using the Peak and Average
13 allocator it should undertake a study to demonstrate an appropriate split between demand
14 and energy related costs.

15 Conceptually Mr. McLaren prefers the coincident design peak allocator for demand costs
16 as a better representation of cost causation for demand related costs. This option could
17 be reviewed as part of a cost of service methodology proceeding.

1   **REFERENCE:**

2   McLaren Evidence p.11; PUB/Centra I 143(c)

3   **PREAMBLE:**

4   McLaren states: "…the Board should consider the substantial impact on some customer
5   groups of the proposed rate and bill increases for some customers proposed in the current
6   application (20 to 40% for base rates to Mainline and High-Volume Firm T-Service
7   customers)."

8   Base rate increases for Mainline and HVF T-service customers are high because of the
9   rate reversion to prior rates that occurred on August 1, 2017 as a result of Order 79/17,
10   which temporarily and substantially decreased their rates. Had base rates not reverted per
11   Order 79/17, the base rate bill impacts for Mainline T-service customers in the current
12   GRA would range from -6.3% to +6.3%, while for HVF T-service customers they would
13   range from +3% to +9% (as shown in PUB/Centra I-143(c) Attachment 2 middle columns).

14   **QUESTION:**

15   Considering the majority of the bill increase to the Mainline and HVF T-service customers
16   arises because they were given a large (albeit temporary) bill decrease due to the rate
17   reversion in 2017, please explain why these customers should now be granted additional
18   rate relief through a zone of reasonableness for revenue to cost coverage ratios.

19   **ANSWER:**

20   In Mr. McLaren's view the Board should consider a zone of reasonableness approach for
21   several reasons:

22   1. Centra's current cost of service methodology is not consistent with the principles
23   of cost causation as defined by the Board in Order 164/16. For example, Centra's
24   use of the peak and average allocator results in a substantial portion of demand
25   classified costs being allocated based on energy volumes. The response to
26   IGU/CENTRA II-27 (a) shows that adopting the "coincident design peak" allocator
27   would substantially change the cost allocations to Mainline and HVF customers.

28   The resulting change to the class RCC ratios from adopting the coincident design
29   peak allocator is shown in Attachment 1 to this response.[1]

30   If the Board chooses to accept Centra's current cost of service study for
31   ratemaking purposes, adopting a zone of reasonableness based around the
32   current results would be appropriate to recognize the results could change
33   substantially if the Board agrees the coincident design peak allocator better reflects
34   cost causation.

35   2. Cost of service studies are inherently inexact. As the Board noted in its Order
36   164/16, while the results of a COSS appear arithmetically exact, a COSS involves
37   considerable judgment. Even if the Board felt Centra's current cost of service study
38   was reliable, adopting a zone of reasonableness helps recognize this fact.

39 The magnitude of the rate increases proposed for T-Service customers helps illustrate
40 that these issues are not trivial and the Board should consider these impacts when
41 considering how to proceed with respect to accepting the results of the current cost of
42 service study. In Mr. McLaren's view using a zone of reasonableness approach to set
43 rates in the current proceeding is a reasonable rate design approach given these
44 uncertainties.

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[1] Attachment 1 excludes the primary and supplemental gas classes to avoid the need to redact the response but this does not in any way affect the calculation of the RCC ratios.

Line No.		Total	SGS	LGS	HVF	COOP	ML	SC	GS	INT	Source
1	Non-Gas Cost of Service Peak and Average (Existing Method)	148,519,256	102,632,670	32,455,799	6,824,301	8,233	2,057,841	2,246,833	157,798	769,561	Line 43. Schedule 10.1.2 March 22, 2019 Update
2	Non-Gas Cost of Service Coincident Demand Method	148,519,256	104,058,421	33,242,324	6,274,507	8,500	1,579,764	1,499,964	186,485	303,072	Line 43. Schedule 10.1.2. Attachment 1 to IGU/Centra II-27 (i)
3	Non-Gas Revenues at existing rates	152,524,872	109,941,344	30,132,872	6,274,676	8,024	1,484,485	1,385,423	236,483	845,414	Line 35. Schedule 10.1.6. March 22, 2019 Update
4	RCC Ratio - Existing method	103%	107%	93%	92%	97%	72%	62%	150%	110%	Line 3 / Line 1
5	RCC Ratio - Coincident Demand Method	103%	106%	91%	100%	94%	94%	92%	127%	279%	Line 3 / Line 2

Note:
Excludes confidential information for Primary Gas, Firm Supplemental, Interruptible Supplemental and Fixed Price offering.
This does not affect other numbers in this table.