

MANITOBA PUBLIC UTILITIES BOARD

CENTRA GAS MANITOBA INC.

COST OF SERVICE METHDOLOGY REVIEW APPLICATION

**Written Final Argument of
Consumers' Association of Canada (Manitoba Inc.) (CAC)**

August 9, 2022

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1 **1.0 Summary of CAC Positions & Recommendations**

2 The last comprehensive external review of Centra’s natural gas COSM and rate design occurred in
3 1996 (Order 107/96), and the primary aspects of the methodology have remained relatively
4 unchanged since that time.

5 Based on an external review of the COSM (Cost of Service Methodology) which was completed in
6 2021, Centra is proposing a number of changes to its COSM the most substantive of which include:
7 (1) replacing the Peak and Average allocator which is currently used for the allocation of demand
8 related costs with a Coincident Peak Day allocator for Transmission & Distribution investment and
9 Year-Round Pipeline Capacity and a Winter Season Demand in excess of Summer Season Demand
10 allocator for storage and related pipeline capacity; and, (2) utilizing a direct assignment of
11 transmission plant to the Special Contract and Power Station classes

12 CAC’s position on Centra’s COSMR proposals and recommendations to the PUB, are summarized
13 as follows:

- 14 1. Centra’s apparent new policy of a narrow cost causation definition/weighting is inconsistent
15 with PUB policy of a broader definition/weighting of cost causation, which weakens the
16 cohesiveness of the natural gas COSM and does not result in more consistency with the
17 electric COSM;
- 18 2. It is unclear if, or how, the industry practice research impacted and supports Centra’s COSM
19 proposals as this research appears to be simply part of the COSM filing without any
20 assessment of its impact on, or concurrence with, the ultimate Centra COSM proposals;
- 21 3. It is recommended that the current classification of distribution plant between demand and
22 customer be retained and that Centra be directed to update the diameter-length and meter
23 studies (including indexing) for the next Centra GRA;
- 24 4. It is recommended that the peak & average method be retained for the allocation of
25 transmission & distribution Investment (downstream) demand-related costs as it aligns with
26 a broader definition/weighting of cost causation and is consistent with how Centra’s System
27 is both planned and operated;
- 28 5. It is recommended that the peak & average method be retained for the allocation of year-
29 round pipeline and storage & related pipeline (Upstream) demand-related costs as it aligns
30 with a broader definition/weighting of cost causation and is consistent with Centra’s Gas
31 Supply Operations;
- 32 6. It is recommended that the Special Contract and Power Station classes continue to receive
33 a broader allocation of transmission as the Brandon/Southwest area system continues to
34 integrated under a broader view of cost allocation and that no interim rate reduction be
35 approved for the Special Contract customer; and
- 36 7. It is recommended gas DSM is treated conceptually consistent with electric DSM, to
37 recognize a broader consideration of benefits and be allocated based on the Peak & Average
38 Method.

39

1 **2.0 Introduction & Organization of CAC Written Argument**

2
3 The purpose of this section of the CAC written argument is to provide a brief overview of Centra’s
4 2021 COSMR Application and outline the organization of the main body of the argument.
5

6 **2.1 Overview of Centra’s 2021 COSMR Application**

7
8 The last comprehensive external review of Centra’s natural gas COSM and rate design occurred in
9 1996 (Order 107/96), and the primary aspects of the methodology have remained relatively
10 unchanged since that time.
11

12 As part of Order 152/19 that flowed from the Centra 2019/20 General Rate Application (GRA) and
13 in response to a number of concerns raised by Intervenors at that GRA proceeding, the PUB directed
14 that there was to be a comprehensive review of the natural gas COSM in advance of the next Centra
15 GRA¹.
16

17 On June 15, 2021, Centra filed its COSMR Application and associated proposals which largely only
18 responded to the issues that were identified at the 2019/20 GRA. The Centra Application also
19 included a report based on an external review conducted by Atrium Economics LLC (Atrium).
20 Centra’s proposals are provided in Section 1.1 of its Final Argument, pages 1-3.
21

22 **2.2 Organization of CAC Written Final Argument**

23
24 The CAC written final argument is organized into the following sections:

- 25 • Section 3.0 addresses the onus of proof that Centra has as the applicant in the COSMR
26 proceeding and the threshold that the PUB should adopt to evaluate whether or not Centra
27 has met its onus of proof;
- 28 • Section 4.0 provides recommendations with respect to the appropriate COS policy framework
29 and guiding principles for the PUB to use in the evaluation of Centra’s proposed COS
30 changes; and
- 31 • Section 5.0 summarizes the evaluation of Centra’s COS proposals and in-scope issues in
32 accordance with the policy framework and guiding principles outlined in Section 4.0 and the
33 threshold of proof outlined in Section 3.0. The evaluations are then used to make CAC
34 recommendations on the in-scope issues.

35 **3.0 Onus of Proof & Threshold for PUB Decision Making**

36 The purpose of this section of the CAC written argument is to address the **onus** of proof that Centra
37 has as the applicant in the COSMR proceeding and the threshold that the PUB should adopt to
38 evaluate whether Centra has met its **onus** of proof, with the key argument points being summarized
39 as follows:

¹ Order 152/19, PUB findings at Page 84 and directive 29 at Page 137

- 1 1. As the applicant in the COSMR Application, Centra has the **onus** to prove its proposals to
- 2 the PUB, under the Public Utilities Board Act (PUB Act);
- 3 2. The engagement of an external consultant (Atrium) to assist in the review of the COSM, does
- 4 not absolve Centra of the **onus** of proof or reverse the onus to the Intervenors to disprove
- 5 Centra or Atriums recommendations; and
- 6 3. As a result of the fundamental COS changes that are proposed by Centra, and the potential
- 7 magnitude of the negative rate impacts to the SGS class in order to meet its **onus** of proof,
- 8 Centra must prove to the PUB that its proposed COS changes are either superior to the long-
- 9 standing COS policies or are the result of a significant change in circumstances that
- 10 necessitate a change to the long-standing COS policies.

11 **3.1 As Applicant in the COSMR, Centra has the Onus to Prove its Proposals**

12 It is useful to begin the substantive part of the CAC written final argument by outlining that as the
13 applicant in the COSMR, the **onus** or burden of proof to demonstrate to the PUB that the proposed
14 changes to the gas COSM are just and reasonable rests with Centra. The full PUB Act applies to
15 Centra and the requirement that the applicant meet the **onus** of proof can be found in the following
16 section of the PUB Act:

17 PART IV - RATES AND OTHER MATTERS RELATED TO GAS

18 Burden of proof

19 123 At any hearing before the Board, the burden of proof is on the applicant.

20
21 With respect to administrative tribunals the burden of proof is on a balance of probabilities, meaning
22 that on the basis of credible evidence, the case (or application) has been made out or proven.

23 24 **3.2 Engagement of an External Consultant does Not Absolve Centra of the Onus of Proof** 25 **or Reverse the Onus to Intervenors to Disprove the Centra Proposals**

26
27 CAC expects that all parties to the COSMR would generally agree that periodically engaging
28 independent external consultants to assist applicants and supplement applicant expertise in order
29 to review and formulate positions on complex policy and technical ratemaking issues and can be
30 beneficial to the PUB's hearing processes.

31 However, retaining external consultants does not absolve the applicant from ensuring that the
32 resulting ratemaking proposals are appropriate within their overall ratemaking framework and policy
33 and operational circumstances and does not absolve the applicant from its **onus**.

34 In addition, retaining external consults should not shift or reverse the **onus** of proof from the
35 application to intervenors, such that intervenors now have the reverse **onus** of disproving the results
36 of an external review.

37 There have been subtle inferences made by Centra during the submissions on process and
38 evidentiary portions of the COSMR proceeding to date, that the recommendations of the external
39 COS consultant, Atrium, are somehow unassailable and beyond reproach, simply because Atrium
40 performed an external review and made recommendations.

1 In Order 49/20, the PUB directed:

2 “The Board expects that the **independent expert will be in a position to provide a variety**
3 **of alternative cost of service study methodology options, each alternative supported**
4 **by reasons**, such that Centra and other Parties will be able to focus their recommendations
5 on the best practices for Manitoba’s specific circumstances.”² (Emphasis added)

6 The PUB’s direction as noted above is unambiguous such that the independent expert was to
7 provide a “variety” of alternate methodology options such that Centra and “other Parties” could focus
8 their recommendations on best practices for Manitoba.

9 CAC is disappointed that Atrium did not carry out this mandate and did not provide a balance of
10 views of the pros and cons of alternate methods. Rather, Atrium provided the pros of the methods
11 that it recommended and the cons of the methods that it did not favour. Additionally, Atrium in its
12 rebuttal evidence indicates that it was tasked with providing “a curated best practice” for Centra³.
13 CAC disagrees that they were to provide a “curated best practice” and CAC expected more care be
14 undertaken by the independent expert to provide a variety of methodologies along with the pros and
15 cons of the various options.

16 CAC is also disappointed with the Atrium approach in providing rebuttal evidence which
17 demonstrated a similar approach with their initial report. CAC expected an independent expert to
18 have taken a much more balanced approach in reviewing the recommendations of intervenors.
19 Atrium’s approach is certainly in conflict with the role of an expert independent of any of the parties.

20 In CAC’s submission, the PUB must reject these inferences from Centra that the results of Atrium’s
21 external review are unassailable and should not reverse the **onus** to an intervenor such as CAC to
22 disprove the results of the review. Atrium’s report and recommendations are based on opinions.
23 The development of such opinions involves exercising considerable judgment with respect to policy
24 and technical COS issues and applying this judgment to Centra’s specific circumstances. Atrium’s
25 conclusions and findings are simply one of a number of expert opinions that are on the record of the
26 COSMR proceeding and should not be inherently afforded any more weight simply as a result of
27 being retained by Centra as external consultants.

28 As the PUB found in the 1996 COS review that resulted in Order 107/96, cost allocation studies are
29 not a precise science and contain elements of judgment at most phases, cost allocation
30 methodologies are numerous and experts often have differing opinions as to the appropriate manner
31 to allocate costs and it is the PUB’s mandate to weigh these differing views to support a methodology
32 which gives the best guideline for determining just and reasonable rates⁴. In weighing the differing
33 expert opinions, and proposed changes to the long-standing natural gas COS policies, the PUB
34 must ensure that Centra retains the **onus** of proof.

35

² Order 49/20, page 8

³ Atrium Rebuttal, June 30, 2022, page 2

⁴ Order 107/96, Pages 26 to 27

1 **3.3 In Order to Meet its Onus, Centra must Prove to the PUB that its Proposed COS**
2 **Changes are Either Superior to the Long-Standing COS Policies or are the Result of a**
3 **Significant Change in Circumstances that Necessitate a Change**
4

5 Centra’s COS proposals inherently involve the reversal or change of long-standing COS policies
6 that have been used to set just and reasonable rates for Manitoba natural gas customers for many
7 decades. Similar to the review of other corporate policies and accounting policies that have been
8 utilized for decades, changes to COS policies should not be taken lightly, and certainly should not
9 be changed simply because the opinions of an external consultant differ from the policies that are
10 currently in place.

11 As is the case with other policies, consistency over time is important in terms of reliance on these
12 policies by stakeholders. Frequent change in the policies or changes in policies simply for the sake
13 of change reduce the reliability of the policies to stakeholders. Centra agrees that it is desirable for
14 cost-of-service methodology to be relatively consistent over time⁵. Mr. Bowman also agrees that
15 COS methods are also intended to be applied consistently over a period of time, until a change in
16 method is justified.⁶

17 CAC submits that the Centra proposed COS changes with respect to demand allocation and direct
18 assignment of costs to the Special Contract and Power Station classes represent fundamental
19 changes to Centra’s overarching rate-making framework and COS policy and conflicts with the
20 philosophical approach it has taken for electric COS.

21 While the issue of customer class rate impacts has been deferred to the next Centra GRA⁷ when
22 updated revenue requirement information will be available and Centra’s customer impact analysis
23 in the COSMR application is incomplete and unreliable to set actual rates⁸, from a directional
24 perspective it is CAC’s understanding that the additional revenue requirement that the SGS class
25 could bear in terms of increased rates is in the order of \$1.7 million on an annual basis in perpetuity
26 which would equate to a net present value (NPV) cost of approximately \$34.0 million to the SGS
27 class⁹.

28 As a result of the significance of the proposed COS changes and the potential magnitude of the
29 negative impact to the SGS class, CAC submits that the PUB should proceed carefully before
30 adopting any of the proposed changes.

31 Centra argues that it does not need to establish a fundamental change to support a proposed change
32 to its cost of service methodology¹⁰. In fact, in its final argument, Centra provides no threshold for
33 the PUB to use for decision making and simply argues that utility’s cost structures evolve over time.
34 CAC submits that the consideration of changes of circumstances is usually the primary consideration
35 in making changes to prior PUB decisions. The logical extension of Centra’s argument is that

⁵ Centra Final Argument, page 6, lines 22-23
⁶ Bowman Evidence, June 9, 2022, page 4
⁷ Order 36/22, Page 14
⁸ CAC Exhibit #8, Section 8.4, Pages 44 to 45
⁹ CAC March 14, 2022 Pre-hearing Submission, Section 3.3, Page 10
¹⁰ Centra Final Argument, page 6, lines 25-26

1 changes would be made haphazardly to COS methodology every time an expert with a differing
2 opinion reviews the methodology.

3 In setting a decision framework for the COSMR, CAC recommends that the appropriate threshold
4 that the PUB must consider is three-fold:

- 5 1. The PUB should only approve proposed Centra COS changes that produce clearly superior
6 results in terms of just and reasonable rates as compared to the currently approved policies
7 and methodologies;
- 8 2. The PUB should only approve proposed Centra COS changes that are the result of a
9 significant change in Centra's circumstances that necessitate a change to the COSM; and
- 10 3. In absence of meeting either of the thresholds described in #1 and #2, the PUB should reject
11 Centra's proposed COS changes, and maintain the long-standing COS policies.

12 **4.0 Appropriate COS Policy Framework & Guiding Principles**

14 The purpose of this section of the CAC written argument is to provide recommendations with respect
15 to the appropriate COS policy framework and guiding principles for the PUB to use in the evaluation
16 of Centra's proposed COS changes, with the key argument points being summarized as follows:

- 17 1. There is diversity in COS practice with a range of acceptable methods and no singular
18 industry best practice to rely on for COS decisions;
- 19 2. There are three generally acceptable methods for the allocation of demand-related costs,
20 including average & excess (peak & average or PAVG), coincident peak and non-coincident
21 peak;
- 22 3. Utility plant by its nature is common use and fungible (assets serve different purposes over
23 time and serve customers under different operating conditions) and as such is normally
24 allocated to all customer classes, rather than directly assigned to customer classes; and
- 25 4. It is recommended that the PUB retain its long-standing COS policy that uses a broad
26 definition/weighting of factors to determine appropriate cost causation given the consistency
27 of this approach with the nature of a natural gas LDC (complexity of operations, scale & scope
28 of operations, wide variety of customers & uses of natural gas, integrated & fungible plant).

30 **4.1 There is Diversity in COS Practice with a Range of Acceptable Methods & No Singular 31 Industry Best Practice to Rely on for COS Decisions**

33 While there may have been some hope that the engagement of an external consultant would make
34 the PUB's decision-making process easier as the experience of the consultant, combined with
35 industry practice research of Canadian gas LDCs, would bring consensus with respect to the most
36 appropriate COS methods for Centra and an overall industry best practice, this is not the case.

37 The industry practice research conducted by Atrium was limited in depth to summarizing the findings
38 at a high-level and provided no clear insight into the policy drivers and specific circumstances that
39 led to the selection of the various COS methods currently used by the Canadian gas LDCs¹¹. A

¹¹ CAC Exhibit #8, Section 4.1

1 review of authoritative COS literature¹² (NARUC, AGA, RAP) supports the conclusion that there is
2 diversity in COS practice and a range of acceptable COS methods. Further, as the PUB concluded
3 in Order 164/16, while the results of a COS appear to be arithmetically exact, a COS involves
4 considerable judgment and there is no single industry standard that applies to all COS decisions.¹³

5 In its final argument Centra asserts that its proposals are consistent with “industry best practices”¹⁴
6 without providing evidence to support its assertion. However, CAC submits that an objective review
7 of the evidence in this proceeding would conclude that there is diversity in the COS methods used
8 by Canadian gas LDCs and specified in authoritative COS literature, with a range of acceptable
9 methods in practice, and no singular industry best practice upon which to rely for COS decisions.

10

11 **4.2 There are Three Generally Acceptable Methods for the Allocation of Demand Related** 12 **Costs including Average & Excess (PAVG), Coincident Peak and Non-Coincident Peak** 13

14 Further to the conclusion in Section 4.1 of this argument that there is diversity in acceptable COS
15 methods, the evidence¹⁵ demonstrates that there are a range of acceptable methods for the
16 allocation of transmission and distribution demand-related costs including:

- 17 1. Average and excess (PAVG), which allocates demand-related costs not only based on the
18 class loads at the time of the system maximum peak, but also the amount of annual energy
19 usage of all classes (baseload);
- 20 2. Coincident peak (CP), which allocates demand-related costs on the basis of each class’s
21 volumes consumed at the time of the highest measured load of all the classes on the system;
22 and
- 23 3. Non-coincident peak (NCP), which allocates demand-related costs based on the maximum
24 demand of each customer class regardless of when the system peak occurs.

25 There have been numerous statements by parties to this proceeding that have been highly critical
26 of PAVG as an accepted COS methodology. Taken to the logical extreme, this would mean that
27 established rates in this jurisdiction have been wrong, unfair and inequitable for decades. The
28 current PUB, past memberships of the PUB, other consultants, including RJ Rudden/Navigant (Mr.
29 Russ Feingold), Christensen and Associates, and numerous other parties to the regulatory process
30 in Manitoba have advocated for and/or accepted for decades, that PAVG is reasonable, justified,
31 well accepted in literature and has resulted in fair and equitable rates. As part of the 1996 COS
32 Review, RJ Rudden (Navigant/Guidehouse) made a number of COS methodology
33 recommendations that it argued dealt with the realities of Manitoba which resulted in their
34 endorsement of the PAVG as being a reasonable method for the allocation of demand-related costs
35 for Centra. CAC submits that there have been no changes in circumstances which would render
36 these positions invalid.

37

¹² CAC Exhibit #8, Section 4.3

¹³ Order 164/16, page 5

¹⁴ Centra Final Argument, page 3, lines 22-23 and page 25, line 11

¹⁵ CAC Exhibit #8, Section 5.1

1 **4.3 Utility Plant is by Nature Common Use and Fungible & as such is Generally Allocated**
2 **Rather than Directly Assigned to Customer Classes**
3

4 In COS, the term “direct assignment” relates to a specific identification and isolation of plant and/or
5 expense incurred exclusively to serve a specific customer or group of customers and best reflects
6 the cost causative characteristics of serving individual customers or groups of customers. However,
7 this approach is only used when costs are readily identifiable as clearly belonging to a specific
8 customer or group of customers (for example in Centra’s specific circumstances, on-site costs on
9 customers premises, such as the direct assignment of metering and regulation costs to the Special
10 Contract and Power Station classes).
11

12 However, it is unrealistic to expect that a significant portion of the plant and expenses of a utility can
13 be directly assigned because the nature of utility operations is characterized by the existence of
14 common use facilities as customers are served through integrated facilities and utility plant is
15 fungible in the sense that assets can serve different purposes over time and can serve a customer
16 under some, but not all operating conditions¹⁶.

17 As a result of the nature of utility assets, to the extent a utility’s plant and expenses cannot be directly
18 assigned to customer groups, allocation methods must be derived to assign or allocate the costs to
19 the various customer classes. This is why all classes have traditionally been allocated the costs of
20 Centra’s broad transmission infrastructure costs as transmission has been viewed as integrated and
21 commingled and all customers benefit from the integrated nature of Centra’s system.
22

23 **4.4 It is Recommended the PUB Retain Its Long-Standing Broad Definition & Weighting of**
24 **Cost Causation Given the Consistency with Centra’s Circumstances**
25

26 **Centra’s Circumstances**

27 After reviewing the conclusions that there is diversity in COS practice, with a number of acceptable
28 methods in authoritative literature and practice and that due to the nature of utility plant, the vast
29 majority of costs need to be allocated through methods that require the exercise of judgment – the
30 question is how should the PUB go about making decisions on the in-scope issues that are part of
31 this proceeding?

32 In CAC’s submission, when there is a range of acceptable COS methods for each of the in-scope
33 issues in this proceeding, the way that the PUB should approach decision making is to elevate the
34 evaluation to the policy level by broadly considering the nature and circumstances of Centra’s utility
35 operations.

36 CAC’s advice to the PUB is to resist the temptation to devolve down into narrow and detailed
37 technical engineering and gas supply considerations as Centra, Atrium and other intervenors have
38 done in this proceeding. This approach is tantamount to “missing the forest for the trees” and will
39 take the PUB down a “rabbit-hole” of a multiplicity of pro’s and con’s of each acceptable methodology

¹⁶ CAC Exhibit #8, Section 8.1

1 and provide no clarity in terms of the most superior method for determining just and reasonable
2 rates.

3 Selecting COS methods requires considerable professional judgment and a broad consideration of
4 the nature of utility operations of a gas LDC such as Centra. The exercising of professional judgment
5 involves considering broad perspectives and not just narrow technical issues. To put it plainly,
6 narrow technical engineering and gas supply considerations are only sub-sets of broader COS
7 evaluation - and not the other way around. Such technical considerations should not drive cost
8 allocation and rate-setting.

9 It is only through policy evaluation that a reasoned decision making between the numerous COS
10 methods and variations in methods can occur. As part of this policy evaluation, CAC recommends
11 that the PUB consider the nature of utility operations more broadly. The nature of Centra's
12 operations that should be considered in selecting COS methods, include¹⁷:

- 13 • The complexity, scale and scope of large utility systems, which service hundreds of
14 thousands of customers, a wide variety of customers (residential, commercial, industrial) and
15 a wide variety of uses of natural gas;
- 16 • The integrated and commingling of utility assets, the fungibility of utility plant where the use
17 of the plant can change over time and provide different services in a wide range of operating
18 conditions; and
- 19 • All customers pay for and benefit from the integrated nature and scale and scope of the utility
20 system.

21 Consideration of each of these factors points to broader rather than narrower set of considerations
22 for COS decision making by considering a broad range of benefits and uses of utility assets and
23 investments, over a range of years and conditions – and not narrow technical considerations or one-
24 off hypothetical situations.

25 The means to actually accomplish this broader policy approach is by weighting various cost
26 allocation drivers and not narrowly ascribing 100% weight to a particular driver as a narrow and
27 technical approach might suggest. In CAC's view, weighting 100% to a cost driver such as peak
28 day is a narrow perspective is not only inconsistent with the nature of a public utility such as Centra,
29 it also conflicts with Orders 107/96 and 164/16 – as these Board orders have not ordained that there
30 be 100% weighting applied to one cost driver.

31

32 **PUB COS Policy**

33 Fortunately, reviewing COS methods through a policy lens is not new territory for the PUB and the
34 last comprehensive reviews of both the natural gas COSM (Order 107/96) and electric COSM (Order
35 164/16) provide a significant body of precedent for the PUB to use for decision making in the current
36 Centra COSMR.

37 The CAC pre-filed evidence¹⁸ reviewed the details of the PUB policy considerations in Orders 107/96
38 and 164/16, (the relevant excerpts of those Orders are provided in **Appendix A** to this Argument for

¹⁷ PUB/CAC 14a and 14b

¹⁸ CAC Exhibit #8, Section 3.1

1 the PUB's ease of reference), and the significant alignment of PUB policy perspectives in these two
2 decisions that were separated by over 20 years, was summarized as follows:

- 3 1. The principle of cost causation is the primary driver, in developing appropriate COS
4 methodologies;
- 5 2. The definition of cost causation is broader than **only** considering/giving weight to strict
6 engineering design parameters;
- 7 3. The broader definition of cost causation in the PUB COS policy should consider and give
8 weight to both how the energy system is designed and planned as well as how the system
9 is operated, used and usage patterns; and
- 10 4. The broader definition of cost causation in the PUB COS policy should consider and give
11 weight to all of the uses and benefits of assets, including primary and secondary uses and
12 benefits, over a range of years (and not just the test year) and over a range of operating
13 conditions.

14 The CAC pre-filed evidence provided a number of specific examples of cost allocation treatments
15 from both the natural gas and electric COSM that reflect this broader weighting of factors including
16 the Peak & Average and allocation of WTS costs in the natural gas COSM and the treatment of
17 Bipoles, US transmission interconnections and AC transmission as only a few examples. Most
18 recently, Centra applied for and received approval to re-bundle rates which inherently reflects a
19 broader view of cost causation.

20 CAC submits that there have been several COS methodology reviews in Manitoba over the course
21 of several decades, including in 1996 by Centra assisted by RJ Rudden, in 2002 and 2012 by
22 Manitoba Hydro assisted by NERA and Christensen Associates, and numerous pronouncements by
23 the PUB, most recently as part of MH's 2016 electric COS review that have all have resulted in the
24 same foundational conclusion; that cost causation be viewed on a broad basis, and not narrow, rigid
25 and extreme as Atrium is proposing (and Centra is now adopting).

26

27 **Other Parties Positions**

28 In an attempt to justify their narrow and technical approach to cost allocation and to deflect from the
29 reality of the PUB's policy decisions on this matter, Centra, Atrium and IGU assert that:

- 30 1. This broader policy-oriented approach results in an undefinable theory of cost causation¹⁹
31 and that this approach is the very antithesis of cost allocation²⁰;
- 32 2. The examples cited by CAC in pre-filed evidence regarding electric COS methodology are
33 consistent with a narrow view of cost causation; and,
- 34 3. That Centra's proposals are not a narrow definition of cost causation but rather removing non-
35 cost causal considerations.

36 In dealing with the first assertion, CAC is of the view that this position is curious and should be
37 rejected. The Integrated Cost Allocation Methodology (ICAM) that Centra uses allocates

¹⁹ Atrium Rebuttal, Section IV, Part II

²⁰ CAC/IGU 1 a

1 hundreds of millions of O&A costs, finance expense, depreciation and taxes related to common
2 assets between Centra and Manitoba Hydro. The ICAM uses a number of composite cost
3 allocation drivers that are weighted between various cost drivers such as number of customers,
4 corporate assets and corporate activity charges. The use of composite cost allocation drivers is
5 common in the utility industry for both internal cost allocation between utility companies to set
6 revenue requirements and external cost allocation to set rates to ratepayers. In addition, these
7 positions are also evidence of an approach that is too involved in the details to look at these
8 issues as a whole from the perspective of the overall nature of Centra's circumstances.

9 Even Mr. Bowman, the IGU expert concedes that there are a number of considerations beyond
10 engineering including economics, past practice, overall policy, materiality and further planning
11 and considerations that are important to consider the review of cost allocation methodology.²¹
12 Unfortunately, he ignores each of these important considerations in favour of a rigid adherence
13 to a narrow definition of cost causation, which simply undermines his evidence.

14 Secondly, Centra attempts to represent each of its electric COS methods as consistent with the
15 narrow view of cost causation, stating that CAC has provided false and unsupported
16 conclusions²² to try and sweep away the PUB's broader view of cost causation and justify its
17 proposed natural gas COS methods. In so doing, it only serves to highlight the dichotomy
18 between its electric and proposed natural gas COS methods which contradicts its evidence, and
19 in fact supports the very essence of CAC's pre-filed evidence.

20 To demonstrate this contradiction, nothing can be clearer than MH's bipoles. At their core, they
21 are transmission with a pole and wire, the cost of which is driven by the size of the conductor, that
22 is by capacity, like is all transmission. The cost of the conductor is not driven by energy. For cost
23 allocation purposes, a narrow view of cost causation would ignore the used and usefulness of
24 bipoles throughout the year and the importance and role in transporting energy from the
25 generators of the north to the load centers of the south. The consideration of not only the explicit
26 cost driver of capacity, as well as the secondary benefits such as energy is the "poster child" for
27 a broader view of cost causation.

28 And, conversely, to be clear a narrow view of cost causation would not have resulted in the
29 approval to treat bipole transmission as generation. Importantly, any treatment of transmission
30 that is not based on a 1-CP based on maximum design day/hour is without question intending to
31 consider and provide weight to factors beyond a narrow and rigid view of cost causation. For
32 Centra to attempt to downplay the broad view of cost causation that is the very foundation of its
33 electric COS, is inappropriate. Further, "the proof is in the pudding". Had the PUB intended to
34 reflect a narrow definition of cost causation in 1996, it would not have approved the use of a
35 PAVG method. Similarly, if a narrow view of cost causation was intended by the PUB flowing
36 from Order 164/16, that definition would not comport with the approved COS treatment of
37 generation, bipole transmission, US and AC transmission, DSM and so on.

²¹ IGU-Bowman Evidence, June 9, 2022, page 3

²² Rebuttal Evidence of Centra, June 30, 2022, page 5, lines 25-25

1 Thirdly, as part of Centra’s final argument, Centra now asserts that its COS proposals do not
2 represent a narrow view of cost causation, but rather, simply a removal of non-cost causal
3 considerations. Centra also asserts that CAC’s pre-filed evidence implicitly or explicitly considers
4 non-cost causal factors and as such is inconsistent with Order 164/16.²³ This is simply a
5 mischaracterization of CAC’s pre-filed evidence, as the methods recommended are based on a
6 broader weighting of cost drivers or a broader consideration of the nature of Centra’s utility
7 operations which is entirely consistent with Orders 107/96 and 164/16.

8 CAC submits that Centra’s characterization that it has simply removed non-cost causal
9 considerations which thus drives its CP proposal, conflicts with the PUB’s broader view of cost
10 causation. Regardless of how Centra tries to repackage its COSM, the result is a 100% weighting
11 to only one cost driver and a narrow view of its utility operations.

12 **CAC’s Policy Positions**

13 CAC agrees with the conclusions that were reached in the pre-filed evidence²⁴ that:

- 14 1. Cost causation should continue to be the primary driver of COS policy and be given the most
15 weight in selection of cost allocation methodologies;
- 16 2. The PUB should retain its long-standing policy of a broad definition of cost causation that
17 considers and gives weight to both system planning and system operation and use, primary
18 and secondary benefits and uses of assets, as well as a range of years and operating
19 conditions;
- 20 3. COS is inherently an art and not a science based on engineering precision and involves the
21 considerable exercise of professional judgment. A broader definition of cost causation will lead
22 to a more robust COSM that is more durable to meet the wide variety of circumstances that
23 are encountered in utility operations; and
- 24 4. There are no changes in Centra’s circumstances that justify a change in policy to a narrow
25 definition of cost causation.

27 **5.0 Evaluation of Centra COS Proposals & CAC Conclusions and Recommendations**

28
29 The purpose of this section of the CAC written argument is to summarize the evaluation of Centra’s
30 COS proposals and in-scope issues in accordance with the policy framework and guiding principles
31 outlined in Section 4.0 and the threshold of proof outlined in Section 3.0 of this argument. The
32 evaluations are then used to make CAC recommendations on the in-scope issues, with the key
33 argument points summarized as follows:

- 34 1. Centra’s apparent new policy of a narrow cost causation definition/weighting is inconsistent
35 with PUB policy of a broader definition/weighting of cost causation, which weakens the
36 cohesiveness of the natural gas COSM and does not result in more consistency with the
37 electric COSM;

²³ Centra Final Argument, page 5, lines 22-28, and 30-31 and page 6, lines 1-11

²⁴ CAC Exhibit #8, Section 3.3

2. It is unclear if, or how, the industry practice research impacted and supports Centra's COSM proposals as this research appears to be simply part of the COSM filing without any assessment of its impact on, or concurrence with, the ultimate Centra COSM proposals;
3. It is recommended that the current classification of distribution plant between demand and customer be retained and that Centra be directed to update the diameter-length and meter studies (including indexing) for the next Centra GRA;
4. It is recommended that the peak & average method be retained for the allocation of transmission & distribution Investment (downstream) demand-related costs as it aligns with a broader definition/weighting of cost causation and is consistent with how Centra's System is both planned and operated;
5. It is recommended that the peak & average method be retained for the allocation of year-round pipeline and storage & related pipeline (Upstream) demand-related costs as it aligns with a broader definition/weighting of cost causation and is consistent with Centra's Gas Supply planning and operations;
6. It is recommended that the Special Contract and Power Station classes continue to receive a broader allocation of transmission as the Brandon/Southwest area system continues to be integrated under a broader view of cost allocation and that no interim rate reduction be approved for the Special Contract customer; and
7. It is recommended gas DSM is treated conceptually consistent with electric DSM to recognize a broader consideration of benefits, allocated based on the Peak & Average Method.

5.1 Centra's Apparent New Policy of a Narrow Cost Causation Definition is Inconsistent with PUB Policy and Results in Natural Gas COS Methodology that Lacks Cohesiveness

As was outlined in the CAC pre-filed evidence, the minimalist nature and structure of the Centra COSM filing made the evaluation of the policy drivers of Centra's proposed COS changes more challenging than it needed to be. Atrium clarified that it was not retained to review ratemaking policy matters and did not have any discussions with executive members of Centra in forming its conclusions and recommendations.²⁵

Of the 40 pages of the Centra COSMR Application, 28 pages were dedicated to generic boiler-plate descriptions of COS objectives, process, cost components and cost allocation factors lifted from past GRA filings, and a summary of COS issues from the 2019/20 GRA, four (4) pages were dedicated to illustrative customer class impacts (which Centra later proposed should not be part of the scope of the proceeding) and the potential interim rate reduction for the Special Contract class, leaving only eight (8) pages that paraphrased Atrium recommendations, outlined Centra's position and rationale and Centra's Implementation considerations.

As such, Centra's rationale for such fundamental changes to its long-standing COSM was a few pages at most. There is a dearth of discussion in the Centra COSMR Application on any consideration of policy matters that led to the COS proposals and how the various proposals impact

²⁵ CAC/Atrium IR 1c

1 the overall natural gas COSM. Centra indicated in information requests that the COS proposals are
2 driven by the following policy drivers:

- 3 1. A better reflection of “pure” cost-causal principles; and
- 4 2. The PUB’s more recent views flowing from Order 164/16 that non-cost causal
5 considerations are best incorporated at the rate design stage rather than in cost allocation.

6 Centra mischaracterizes CAC’s pre-filed evidence by asserting that removing non-cost causal
7 considerations from the COS weakens the overall cohesion of natural gas COSM and creates
8 inconsistency with the electric COS framework. This is simply not the case. It is clear in the CAC
9 pre-filed evidence²⁶ that Centra’s move from a broad definition to a narrow one, without consistent
10 application²⁷, is what is weakening the cohesion of natural gas COSM and creating inconsistency
11 with the electric COS.

12 CAC’s overall policy assessment is that Centra’s COS proposals:

- 13 1. Adopt Atriums recommendations for the most part - without consideration of ratemaking
14 policy and how the various proposals impact the overall natural gas COSM;
- 15 2. Are inconsistent with the PUB policy and broader definition of cost causation as outlined in
16 Orders 107/96 and 164/16 that cost causation requires consideration of all of the uses and
17 benefits of an asset to recognize that both primary and secondary benefits influence the
18 planning and justification of assets;
- 19 3. Utilize a narrow definition of cost causation (compared to the broader definition inherent in
20 the currently approved gas and electric COSM), on a piece-meal basis for the few in-scope
21 issues, which will result in a gas COSM that lacks overall cohesion, with a mix of different
22 definitions of cost causation;
- 23 4. Do not result in a natural gas COSM that is more consistent with the electric COSM, as is
24 erroneously asserted by Centra; and
- 25 5. Utilize non-cost causal considerations (understandability, administrative ease, rate stability
26 etc.) where convenient, despite purporting to be consistent with PUB direction from Order
27 164/16 that these factors be considered in the rate design phase of rate-setting²⁸.

29 As a result of this policy assessment, CAC submits that the policy drivers outlined by Centra do not
30 assist it to meet its onus to prove that the proposed COS changes represent an improvement to the
31 natural gas COSMR.

32

²⁶ CAC Exhibit #8, Section 3.2
²⁷ CAC Exhibit #8, Section 5.7, page 30, lines 3-11
²⁸ CAC Exhibit #8, Section 3.2, pages 15-16

1 **5.2 It is Unclear If or How the Industry Practice Research Impacted and Supports Centra's**
2 **COSM Proposals²⁹**

3 Based on a review of the terms of reference of the external COSM review that was issued by Centra,
4 CAC and other parties to this proceeding could have expected that the industry practice research
5 conducted by the external consultant would be reasonably robust and used to support the COS
6 conclusions and recommendations made by Atrium and Centra.

7 However, this was not the case, as the research conducted by Atrium was limited in depth and
8 provided little insight into the policy drivers and utility specific circumstances that led to the selection
9 of the various COS methods. Matters like COSM are complex and have many nuances. Research
10 that only relies on high-level summarization of information readily available on the public record,
11 without a more detailed review of the underlying record or direct confirmation from the specific
12 utilities involved, can have questionable reliability.

13 The Centra COSM Application and the Atrium Report did not specifically address how, if at all, this
14 industry practice research impacted the review of Centra's COSM, in terms of adding or eliminating
15 different COS method options. It is also unclear if the industry practice research supported or refuted
16 the COS proposals of Centra. The industry practice research appeared to be simply part of the
17 COSM filing without any assessment of its impact on, or concurrence with, the ultimate Centra
18 COSM proposals. Additionally, it is quite telling that Centra does not address the industry practice
19 research in its final argument.

20 As a result of this assessment, CAC submits that the industry practice research is of limited value in
21 this proceeding and does not assist Centra in meeting its **onus** to prove that the proposed COS
22 changes are an improvement to the natural gas COSM.

23
24 **5.3 It is Recommended that the Current Classification of Distribution Plant between**
25 **Demand and Customer be Retained & that Centra be Directed to Update the Diameter-**
26 **Length and Meter Studies (including Indexing) for the Next GRA³⁰**
27

28 Centra's current classification of distribution plant attributes weighting both to demand and customer
29 numbers.

30 This cost allocation treatment is based on the commonly held view that there are two cost factors
31 that influence the level of cost associated with distribution facilities, including total installed footage
32 of distribution mains (the number of customers) which is intended to consider customer dispersion
33 and geography, and the size of the distribution main (i.e. the diameter of the main) which considers
34 customer's capacity requirements.

35 Implicit in the COSMR Application, Centra is proposing to continue to classify distribution investment
36 based on demand and customer numbers.

37 CAC recommends that the PUB retain the current classification of distribution plant between demand
38 and customer given that the split between demand and customer aligns with the broader definition

²⁹ CAC Exhibit #8, Section 4.2

³⁰ CAC Exhibit #8, Sections 6.1, 6.2 and 6.3

1 of cost causation as per the PUB's COS policy and based on the record of this proceeding, this
2 appears to be the predominant view in the Canadian natural gas industry.

3 Centra's current weighting for the classification of distribution plant between demand and customer
4 is based on a Diameter-Length study which was last updated prior to the 1996 natural gas COS
5 methodology review. In addition, Centra's Service & Meter investment studies were last reviewed
6 and updated in 2004. Atrium recommended that Centra update both the Diameter Length study and
7 the Service & Meter investment studies and that Centra then index the vintage year installation to
8 current year costs.

9 Consistent with CAC's pre-filed evidence, CAC recommends that the PUB direct Centra to update
10 the Diameter Length Study and Service & Meter studies that are approaching 30 and 20 years old,
11 respectively, for the next Centra GRA and that the PUB also establish a regular interval to update
12 these studies, much the same as it done for depreciation studies that are updated approximately
13 every five years. Data limitations and the requirement to make simplifying assumptions are inherent
14 in any financial study and are not valid reasons for failure to maintain current studies. CAC also
15 agrees with Atrium's recommendation with respect to indexing of costs and recommends that the
16 PUB direct Centra to complete this refinement for the next GRA.

17 While Centra indicated in the original COSMR Application that it proposed to update all of these
18 studies and indexing costs for the next GRA, subsequently in information requests, Centra has
19 proposed that it only index the costs, citing concerns that numerous estimates and assumptions
20 would be required. However, in its final argument, Centra has indicated that it intends to bring
21 forward at the next GRA, an updated Service Line Study (to reflect more current data and indexing
22 the results), an updated Meter Study and provide a recommendation with regard to the distribution
23 classification metrics based on a minimum system study.³¹

24
25 **5.4 It is Recommended that the Peak & Average Method be Retained for the Allocation of**
26 **Transmission & Distribution Investment (Downstream) Demand-Related Costs as it**
27 **Aligns with a Broader Definition of Cost Causation and is Consistent with how Centra's**
28 **System is both Planned and Operated**³²

29 **Centra's Position**

30 Centra's current and long-standing COSM allocates demand-related transmission and distribution
31 (downstream) costs based on the PAVG method (at least since the 1980's). The peak component
32 and the average component are split based on system Load Factor (defined as the average use as
33 a function of use on the peak day), with the peak component being weighted 1-Load Factor and the
34 average component being weighted at the Load Factor. For Centra this approach results in a
35 significantly higher portion of demand-related costs being weighted based on peak and a lower
36 portion weighted on average annual volume. In the discovery process, Centra conceded that PAVG
37 had been adopted for the following reasons:

³¹ Centra Final Argument, page 2, lines 24-32

³² CAC Exhibit #8, Sections 5.2, 5.3 and 5.4

- 1 • It recognizes the utilization of the system as an explicit factor to be included in determining
- 2 cost responsibility;
- 3 • It is relatively simple and straightforward;
- 4 • It is a widely accepted method of cost allocation; and
- 5 • Is considered cost-causal in many state and provincial jurisdictions.

6
7 In the COSMR Application, Centra is proposing to change from the Peak & Average method to the
8 Coincident Peak (CP) method recommended by Atrium, for the allocation of downstream capacity-
9 related (transmission & distribution) costs. Centra's reasons for proposing the change are its belief
10 that CP is a more pure cost-causation approach; a change in circumstances such that the
11 Interruptible class is now considered firm for downstream purposes; and, more recent guidance from
12 the PUB in Order 164/16 to keep non-cost causal considerations out of the cost allocation phase of
13 rate-setting.

14 **CAC's Analysis**

15 In analyzing the proposed change to the CP method for demand-related downstream costs, the CAC
16 pre-filed evidence provided a detailed analysis of a number of considerations, summarized as
17 follows:

- 18 1. Atrium recommends the use of a maximum design day in order to apply the CP allocation
19 despite the fact that it is not used by Centra for its overall downstream system planning
20 purposes but rather is based on planning at a localized level – as such it is impossible for
21 Centra to meet its **onus** to prove that its recommended CP is superior from a cost
22 causation perspective;
- 23 2. No service should be provided to customer at no cost, and as such caution must be
24 exercised regarding the potential for free riders in adopting a COS method — those who
25 do not use service on peak or who are able to shift demand and modify behaviour in order
26 to reduce or avoid cost responsibility;
- 27 3. In selecting a COS method - it is important to not only consider how Centra's system is
28 built from a strict engineering perspective, but also how the system is used by customers
29 and thus operated throughout the year;
- 30 4. Centra serves a fairly low load factor system that requires more peaking plant and less
31 base-load plant. The Peak & Average method recognizes this relationship in weighting
32 peak use by $1 - \text{Load Factor}$ and average use by the Load Factor;
- 33 5. Incorporating each class's portion of system average demand in the allocation of
34 downstream costs is an implicit acknowledgement that average load drives a portion of
35 costs owing to base-load resources, in addition to cost incurred to serve peaking
36 requirements – thus providing weight to secondary benefits of customers use of throughput
37 throughout the year;
- 38 6. The Peak & Average method was implemented and in place for decades, as it replicates
39 Centra's load estimation process, based on simplified characteristics of Centra's system
40 operations, that considers more than peak day requirements;

- 1 7. Centra takes advantage of its excess capacity availability in the summer provided by low
2 load factor customers, by utilizing available capacity for purposes of storing gas commodity
3 in order to optimize its total cost to serve for all customers; and
4 8. Allocating transmission and distribution demand-related costs based on the extreme year
5 conditions (a maximum design day CP allocator) as proposed by Centra gives no weight
6 to either peak use in normal conditions which underpins annual revenue requirement or
7 the energy benefit provided to customers during the year (that is, baseload service).

8 In rebuttal evidence, Centra concedes that it actually does not design its downstream system at the
9 “system level”, but rather that “design hour” is used for the purposes of distribution and transmission
10 pipeline capacity planning at a “localized level” (i.e., each pipeline system with an interconnection to
11 the TCPL mainline is looked at in isolation) rather than at a system level (i.e. Centra’s entire
12 transmission and distribution system as a whole) and therefore is not reflective of the overall
13 expected changes in class load that is inherent in the load forecast of the test year.³³

14 Centra has clarified that it has numerous delivery points through interconnection to the TCPL
15 mainline, each of which are sized at the specific localized level, and which are not sized according
16 to the overall maximum peak of Centra’s system. There are repeated inferences and statements
17 throughout the Centra and Atrium evidence that the use of a CP allocator based on maximum design
18 day provides no better way to capture the true cost causation.³⁴ However, it is clear that Centra
19 does not use a maximum design day. The implications are as follows:

- 20 • System maximum design day does not drive transmission and distribution costs at Centra;
21 • Local networks generally peak at different times. Adding networks together results in a
22 consolidated network with a peak demand that is less than the sum of the peak demands
23 of the individual local networks. – thus transmission provides diversity benefits of lowering
24 demand related costs for all customers;
25 • To arrive at a maximum design day calculation, a number of approximations, estimation,
26 assumptions and judgments will be required to result in a pseudo calculation. Thus, the
27 numerous statements and inferences as to the level of accuracy, superiority, and degree
28 of certainty that the use of a CP allocator based on maximum design day results in an
29 accurate allocation of cost responsibility by class is not supported.

30 In its final argument, Centra asserts that its transmission and distribution systems are not comprised
31 of baseload and peaking assets – there are no costs incurred to simply meet baseload needs. This
32 is purely an operational statement. However, it is important to note from a COS perspective,
33 baseload is a service provided to customers year-round, and it is the role of COS to apportion the
34 utility’s costs to reflect the service provided. There are numerous methods that the cost analyst can
35 use to apportion the cost responsibility for this service. PAVG, system load factor and equivalent
36 peaker (used for purposes of electric generation classification) are several of the methods that can
37 be used. PAVG is intended to reflect the cost of this service while a CP allocator simply ignores this
38 cost.

³³ Rebuttal Evidence of Centra, June 30, 2022, page 10, lines 2-7

³⁴ Atrium Rebuttal Evidence, June 30, 2022, page 11

1

2 **Onus Not Met**

3 Based on this assessment, CAC submits that Centra has not met its **onus** to prove that a CP method
4 would provide superior results to Peak & Average method, and as such, the PUB should reject this
5 proposed change. Centra's proposed CP methodology, that assigns 100% weighting to an extreme
6 and rare event based on a purported theoretical ideal of extreme max weather conditions results in
7 a rigid and very narrow view of cost causation; is not used by Centra for its downstream gas planning
8 purposes; and, is not consistent with the PUB's broader definition/weighting of cost causation.

9 The change in circumstances, such that the Interruptible class is now considered firm for
10 downstream purposes, does not meet the threshold of a significant change in circumstances that
11 would justify a change to a long-standing COS policy - it is clearly a secondary consideration that
12 would constitute the "tail wagging the dog" in terms of selection of a COS method for the hundreds
13 of thousands of Centra's customers. Additionally, if the Interruptible class is now considered firm for
14 downstream capacity purposes, it can be readily incorporated into the current Peak & Average
15 method for consistent treatment of customer classes.

16 As part of Centra's Application Centra states that for downstream purposes, it now has firmed up
17 interruptible customers. Unfortunately, no analysis, information or data has been provided to
18 demonstrate the benefit to firm customers of having firmed up interruptible customers. This means
19 that no analysis was provided to demonstrate the least-cost option for firm customers is by firming
20 up interruptible customers and investing in transmission and distribution infrastructure rather than
21 continuing to provide discounted rates. Interruptible service was provided to benefit firm customers
22 and not to benefit interruptible customers. This stands in stark contrast to past years when Centra
23 concluded that the least cost option of serving firm customers (downstream) is through providing
24 interruptible service at a discounted rate.³⁵

25

26 The result is that Centra has been investing in greater levels of transmission and distribution cost
27 that all customers have been funding through rates and will continue to fund. The only evidence
28 available suggests that it costs firm customers more to serve interruptible customers on a firm basis.
29 The continued use of the PAVG methodology would partially address the additional cost burden
30 placed upon firm customers by Centra electing to incur additional costs to firm up interruptible
31 customers.

32

33 **CAC Recommendation**

34 CAC recommends that the PUB retain the use of the Peak & Average method for the allocation of
35 downstream transmission and distribution demand-related costs for the following reasons:

- 36 1. It is well aligned with the broader definition and weighting of cost causation as per the
37 PUB's prescribed COS policy that considers how the system is used throughout the year
38 (s); how Centra's is system is built; as well as primary and secondary benefits, in that it

³⁵ Value of Interruptible Report, December 2001, prepared by Navigant for Centra

- 1 provides primary weighting to peak considerations and secondary weighting to annual
2 throughput;
- 3 2. It is directionally consistent with how Centra's gas planners determine its load
4 requirements;
 - 5 3. It recognizes the benefits of the excess summer capacity made available by low load factor
6 customers in order to optimize the total cost to serve all customers; and
 - 7 4. It is reasonably cost-causal, simple and straightforward and well recognized in industry, as
8 conceded by Centra.

9
10
11 **5.5 It is Recommended that the Peak & Average Method be Retained for the Allocation of**
12 **Year-Round Pipeline and Storage & Related Pipeline (Upstream) Demand-Related costs**
13 **as it Aligns with a Broader Definition of Cost Causation and is Consistent with Centra's**
14 **Gas Supply Operations**³⁶
15

16 **Centra's Position**

17 Centra's current COSM allocates demand-related year-round pipeline and storage & related pipeline
18 (upstream) costs based on the Peak & Average method. The allocation methodology for upstream
19 capacity has been consistent with the allocation methodology related to Centra's own downstream
20 transmission and distribution pipeline for decades, with a similar outcome that a higher proportion of
21 costs are allocated based on peak and a lower proportion based on average energy volume.

22 In the COSMR Application, Centra is proposing to change from the Peak & Average method for
23 upstream costs, as follows:

- 24 1. Use a CP method for year-round pipeline (TCPL) capacity costs;
- 25 2. Use a Winter Season Demand in Excess of Summer Season Demand method for storage
26 & related pipeline capacity costs; and
- 27 3. The Interruptible class would be excluded from the CP allocation for year-round pipeline
28 capacity but included in the allocation of storage & related pipeline capacity.

29 The rationale for Centra's fundamental change in method from Peak & Average to CP for year-round
30 Pipeline costs and the change to a Winter in Excess of Summer Demand method was not readily
31 apparent in the COSMR Application, with Centra simply stating that Atrium's recommendation for
32 the changes are worthy of additional consideration. It is also unclear why Centra would propose
33 methodologies that conceptually differ between year-round pipeline capacity and storage & related
34 pipeline capacity.

35
36 **CAC Analysis**

37 In analyzing the proposed changes for demand-related upstream costs, the CAC pre-filed evidence
38 provided a detailed analysis of a number of considerations, summarized as follows:

³⁶ CAC Exhibit #8, Sections 5.5, 5.6, 5.7 and 5.8

- 1 1. As was the case in evaluating Centra’s proposals with respect to downstream demand-related
2 costs, the PUB policy has been and is to apply a broader definition/weighting of cost causation
3 and not apply a 100% weighting to peak metrics, but rather to consider a weighting of both
4 design parameters and volume as reflected in the Peak & Average method;
- 5 2. The Winter in Excess of Summer Demand method which is based on the average winter load
6 less average summer load equates to a volume indicator with an implicit demand influence
7 and thus places greater weight on annual volumes to allocate storage & related pipeline costs
8 than the current Peak & Average method – which appears to conflict with Centra’s purely
9 cost-causal policy objective;
- 10 3. No rationale has been provided by Centra to justify why a CP methodology is appropriate for
11 purposes of allocating year-round pipeline demand-related costs, and yet, a fundamentally
12 different methodology that is heavily volumetric driven with some demand influence (Winter
13 in Excess of Summer Demand), is viewed as more cost causal for purposes of allocating
14 storage & related Pipeline costs;
- 15 4. Based on Centra’s CP proposal for year-round pipeline capacity, the Interruptible Class will
16 avoid all demand related TCPL costs despite using and benefiting from the capacity paid for
17 by firm customers for a significant portion of the year, each and every year; and
- 18 5. In terms of Centra’s proposed Winter in Excess of Summer Demand methodology, Centra
19 states that Interruptible customers “make use” of storage & related pipeline investment, but
20 there has been no evidence adduced that demonstrates the proposed new methodology is
21 so significantly superior in terms of cost causation compared to the Peak & Average method.
22

23 Centra confirms as part of its Rebuttal Evidence that it does use a maximum design day from an
24 upstream gas supply perspective,³⁷ The following facts are important in accessing the
25 reasonableness of Centra’s upstream COS proposals:

- 26 1. Centra’s upstream gas supply investments in capacity are integrated. Centra looks at the
27 totality of the load it is obligated to serve and optimizes the use and reliance on TCPL and
28 Storage and Related Pipeline to provide these services at the least cost. Thus these two
29 services and costs cannot be severed and considered individually for COS purposes.
- 30 2. The integration of upstream capacity and storage can be looked at under capital substitution
31 theory where utilities invest in capital to reduce energy costs or reliance on other capital for
32 economic and other reasons (such as risk). For cost allocation purposes, to rely less on
33 upstream TCPL pipeline and more on storage and related pipeline for economics and
34 diversification purposes, should result in an integrated approach to COS methodology.
- 35 3. Centra concedes that the use of storage in the summer made available by low load factor
36 customers, allows for the opportunity to procure lower cost gas supply in the summer when
37 demand is low. The cost of the commodity is pooled and all customers, including high load
38 factor customers benefit from lower cost commodity.
39

37 Rebuttal Evidence of Centra, June 30, 2022, page 10, lines 19-21

1 **Centra's Conflicting Upstream Cost Allocation Treatments**

2 The cost-of-service study is conducted on the basis of normal year conditions, consistent with the
3 determination of revenue requirement. In such conditions, capacity and other infrastructure and
4 investments are not fully required to meet customer needs.

5 The driver behind asset investment both downstream and upstream is the need to serve Manitoba
6 load and to provide reliable and dependable gas supply. Once these investment decisions are
7 made, in the operating time horizon, benefits, such as capacity management revenues or lower
8 commodity costs through the use of summer storage facilities, or other benefits can be manifested
9 in terms of reliability, efficiency and effectiveness of operating the available resources.

10 It is this perspective that becomes readily apparent through the responses to the supplemental
11 PUB/Centra IRs 1-a-g. Centra must design and plan to ensure its system is capable of meeting the
12 peak requirements under maximum conditions, even though, on a year over year basis, that capacity
13 may not be needed. From an upstream perspective, Centra plans to meet these design day peak
14 requirements through the combination of upstream TCPL capacity and Storage and related pipeline
15 capacity and are therefore to be viewed as commingled and integrated and not separatable. A
16 reduction of upstream TCPL capacity will result in a commensurate increase in Storage and Related
17 Pipeline capacity, all else being equal. This is known as capital substitution.

18 From a cost allocation perspective, however, Centra is proposing two fundamentally conflicting cost
19 allocation treatments: 1) separate and distinct cost allocation methodologies for upstream TCPL
20 capacity and for Storage and Related Pipeline; and 2) a cost allocation methodology for upstream
21 TCPL capacity based on a CP maximum design day and a Storage and Related Pipeline
22 methodology that reflects conditions in the operating time horizon.

23
24 Centra's upstream gas supply portfolio cannot be severed and considered individually for cost of
25 service purposes. Centra goes through extensive optimizations in order to deliver gas supply needs
26 of customers most economically and thus, for cost allocation purposes it is inappropriate to view
27 these as separate portfolios as one investment can be substituted for the other but the costs would
28 be different. Secondly, Centra identifies a number of benefits of these investments in the operating
29 time horizon that benefit all customers. One such example is lower commodity costs filling storage
30 in the summer when demand is lower and market prices may also be lower. A rigid adherence to a
31 maximum day CP allocator would result in certain customer classes paying disproportionately for
32 the costs but all customers sharing in the benefit of lower costs and other operational benefits. This
33 broader view of cost causation is reasonably addressed through the use of the PAVG method that
34 weights costs based on both demand and energy and was one of the reasons that led to Centra's
35 adoption of this methodology in 1996. These broader cost considerations remain relevant today, and
36 in CAC's view, are entirely consistent with the spirit of the PUB's broader definition of cost causation.
37

38 **Onus Not Met**

39 Based on this assessment, CAC submits that Centra has clearly not met its **onus** to prove that the
40 CP method and Winter in Excess of Summer Demand method would be superior to the Peak &
41 Average method, and as such, the PUB should reject these proposed changes. Use of the CP

1 method for year-round pipeline costs suffers from the same deficiencies as outlined for the allocation
2 of downstream demand related costs – 100% weighting to an extreme and rare event which is
3 inconsistent with the PUB’s broader definition/weighting for cost causation. No evidence has been
4 provided on the superiority of the Winter in Excess of Summer Demand method as compared to the
5 Peak & Average method. Further, there is no justification or logic for the conflicting treatment
6 proposed between Upstream (TCPL) Capacity and Capacity associated with Storage and Related
7 Pipeline investment.

8 **CAC Recommendations**

9 Accordingly, CAC recommends that the PUB retains the use of the Peak & Average method for the
10 allocation of upstream year-round pipeline and storage & related pipeline demand-related costs for
11 the following reasons:

- 12 1. It appropriately weights demand-related costs based on peak; provides a smaller weighting
13 of annual throughput; and, is better aligned with the broader definition of cost
14 causation/weighting as per the PUB’s prescribed COS policy that considers how the
15 upstream system is planned for and used throughout the year; and
- 16 2. It avoids the complications associated with the Interruptible class that are inherent in
17 Centra’s COS proposals.

19 **5.6 It is Recommended that the Special Contract and Power Station Classes Continue to**
20 **Receive a Broader Allocation of Transmission & that No Interim Rate Reduction be**
21 **Approved for the Special Contract Customer³⁸**

23 **Centra’s Position**

24 In the currently approved gas COSM that has been utilized for decades, all classes (including the
25 Special Contract and Power Station classes) have been allocated the costs of Centra’s broad
26 transmission infrastructure costs as transmission has been viewed as integrated and commingled
27 and all customers benefit from the integrated nature of Centra’s system.

28 As part of the proposed COS changes, Centra is now proposing to directly assign transmission plant
29 to the Special Contract (SC) and Power Station (PS) Classes. Centra asserts that this proposed
30 change in its COS is based on the evolution of its system configuration in the Brandon/Southwest
31 area, such that it is now able to identify facilities used to serve the Special Contract and Power
32 Station classes exclusively in normal operating conditions which do not serve load for any other
33 customers. Since the Brandon/Southwest area system was first built in the mid -1950’s, there have
34 been a complicated series of subsequent changes in 1974, 1988, 1996, 2001 and 2009.

35
36
37

³⁸ CAC Exhibit #8, Sections 8.2, 8.3 and 8.4

1 **CAC Analysis**

2 However, Centra also concedes that the Brandon/Southwest area system is a highly integrated
3 system consisting of plant assets that are not considered to function independently of each other.
4 Such systems are managed with the understanding that changes to one aspect of the system will
5 typically impact other aspects of the system with respect to performance or redundancy
6 considerations.

7 When one considers the full schematic of the Brandon/Southwest area schematic (and not only the
8 coloured excerpt that has been summarized in Centra and Atrium’s evidence and final argument)
9 that is provided in CAC pre-filed evidence, Exhibit 8 (page 42), both the Special Contract and Power
10 Station customer classes are connected to the larger and integrated system which physically runs
11 along a public right of way and serves not only Brandon, but also other large customers (such as
12 Maple Leaf, Canada Oxy, Assiniboine Community College, Husky), and the Southwest Manitoba
13 (Malita, Hartney, Souris, Deloraine, Boissevain and Killarney).

14 Recognizing the highly interconnected and redundant nature of Centra’s system, there are serious
15 concerns related to Centra’s proposal and its conflict with the fundamental tenets of utility
16 ratemaking. The evaluation of Centra’s proposal are as follows:

- 17 1) Centra’s proposal will provide the SC customer with all the benefits of the integrated system
18 but who will pay for none of the broader system is entirely in conflict with postage stamp
19 ratemaking;
- 20 2) The investment made to isolate the SC customer has been made over many years and has
21 paid for through rates of all Centra’s customers;
- 22 3) Centra designs its system for a number of years into the future. Thus, it overbuilds its system
23 with enough additional capacity for its future anticipated needs such that it does not have to
24 increase its capacity for incremental changes or load development that occurs annually. On
25 several occasions the SC customer has sizably increased its operations for which it has not
26 paid incrementally, but that capacity made available to the SC customer was paid for by all
27 customers. With respect to the Power Station class, contributions have been provided to
28 incrementally fund the addition of capacity, but the feasibility tests, the true-up as well as the
29 minimum margin guarantee are not in scope of this proceeding and therefore, such matters
30 remain unresolved;
- 31 4) Centra’s proposal effectively amounts to a distance-based allocation of cost based on the SC
32 customer’s location rather than one based on its overarching postage stamp rate philosophy;
- 33 5) Centra’s proposal amounts to a change in the rules of the game after the game has started;
- 34 6) Centra’s proposal will shift in the cost burden and risk to all other customers despite the
35 benefits afforded to the SC customer by virtue of the integrated system it is attached to as
36 well as the financial strength of the entire utility to fund the infrastructure investment. It is the
37 small volume customers, like the SGS and LGS classes, contribute the vast majority of
38 Centra’s revenue requirement; and

1 7) The fact that the SC customer and the Power Stations receive unodorized gas is a red herring.
2 The SC customer and the Power Stations have always received unodorized gas. Thus is not
3 a change in circumstance to justify a change in cost allocation to direct assignment or a valid
4 argument for making no cost contribution to the larger Centra network system.

5 Interestingly, also, in response to information requests, despite ignoring the spirit of the question
6 asked, Centra concedes it has no plans for how it would address direct assignment and COS should
7 new customers be attached to the transmission mains supporting the SC customer.³⁹ It is important
8 to note that despite Centra's proposed direct assignment treatment, this customer has not paid for,
9 and does not own this pipeline explicitly, and any customer may be connected to it at any point in
10 time. It is clear that Centra has not considered the implications of its proposal and by taking a very
11 narrow and rigid view will not allow for future flexibility in COS.

12 While some engineering changes have been made to optimize the system, the costs of which have
13 been funded by all customers, this does not result in a situation where it is abundantly clear that the
14 facilities are dedicated to only those customers. In situations where the clarity regarding dedicated
15 facilities is questionable and debatable, then cost allocation practice is such that these assets
16 continue to be viewed as common, commingled, integrated, and allocated to all customers (who
17 have funded the facilities), consistent with the postage stamp ratemaking framework. Stated simply,
18 once an "egg is scrambled, it is not possible to unscramble it", and in Centra's case, once an asset
19 is integrated and funded by all customers, subsequent engineering changes can't be used to justify
20 a proposal for direct assignment of transmission plant that is now suddenly "deemed" as dedicated.

21 In addition, and contrary to Centra's assertion, the broader definition of cost causation as per PUB
22 COS policy, is not limited to the current configuration of an asset and normal operating conditions
23 asserted. In fact, the PUB's broader definition of cost causation requires consideration of all of the
24 uses and benefits of an asset; to recognize the primary and secondary benefits of an asset influence
25 and the planning and justification of assets. These considerations should be assessed over a range
26 of years (as opposed to a single forecasted year) and, over a range of conditions (as opposed to
27 normal operating conditions assumed in a single forecasted test year) in order to capture all of the
28 uses and benefits of an asset in determining cost causation.

29 **Onus Not Met**

30 Considering the broader definition of cost causation; the long-standing integrated nature of the
31 Brandon/Southwest area system; and, that the clarity that is necessary to directly assign the
32 transmission plant to the Special Contract and Power Station classes does not exist, CAC submits
33 that Centra has not satisfied its **onus** of proof with respect to a change in circumstance and the
34 superiority of a direct allocation of transmission costs to these customer classes, and as such
35 Centra's proposal should be rejected by the PUB.

36 **CAC Recommendation**

37 Accordingly, CAC recommends the PUB retains the current approved methodology to allocate
38 common costs to all customer classes, including the Special Contract and Power Station classes,
39 without a direct assignment.

³⁹ CAC/Centra 11 g

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Interim Rate Proposal

Given that CAC recommends that Centra’s proposals to replace the peak and average allocator for downstream and upstream demand-related costs and to directly assign transmission costs to the Special Contract be rejected, it follows that CAC also recommends that the PUB not approve any interim rate reduction to the Special Contract class of \$830,000 as proposed by Centra. While the breakdown on the impact of each of these proposed COS changes has not been provided to the PUB or Intervenor, it is fair to assume that if the proposed COS changes are not approved, then the issue of an interim rate reduction to the Special Contract customer becomes a moot point.

Additionally, while Centra has taken the position that class impacts of its proposed COS changes should not be a focus of the COSMR or influence any party’s position on the issues within the scope of this proceeding, it is obvious from the record of the proceeding that Centra has relied on its customer impact analysis showing a potential reduction to the Special Contract class of \$1.229 million in order to have any degree of confidence that the proposed interim reduction of \$830,000 for this class is not excessive. While intervenors were not provided with access to the information that underlies the derivation of the indicative customer impact analysis, an assessment of the customer impact analysis is that it is incomplete (some proposed impacts included and some not), outdated (outdated 2019/20 revenue requirement) and generally unreliable for rate-setting purposes. This analysis provides no reasonable basis upon which to provide an interim rate reduction.

More importantly, to elevate an illustrative result for certain customer classes contrary to typical convention to interim rate reduction is extraordinary, if not unprecedented. The proper place to assess rate changes is as part of a GRA, where the calculations can be assessed and determined. To do otherwise effectively invalidates the just and reasonable rates the PUB approved flowing from Centra’s 2019/20 GRA.

5.7 It is Recommended Gas DSM is treated Conceptually Consistent with Electric DSM, with a Broader Consideration of Benefits, allocated based on the Peak & Average Method⁴⁰

Centra currently allocates the annualized forecasted cost of DSM based on anticipated participation in DSM activities.

The COS treatment of DSM investment differs between Manitoba Hydro’s gas and electric operations. For electric operations, DSM is treated as a system resource and follows the allocation of generation.

While Centra did not propose any changes to the allocation of gas DSM as part of its COSMR Application, the PUB included the allocation of gas DSM as one of the in-scope issues for this proceeding in Order 36/22. Centra’s preference is to continue with the current approach of allocating

⁴⁰ CAC Exhibit #8, Sections 7.1, 7.2 and 7.3

1 gas DSM costs and that further evaluation may be warranted as the gas DSM portfolio changes
2 overtime.⁴¹

3 An alternative allocation methodology raised in this proceeding (consistent with electric COS)
4 considers that gas DSM costs not only serves to reduce natural gas purchases (i.e. commodity
5 costs), but also contributes to a reduction in the costs of transportation, storage, transmission, and
6 distribution investments costs, and provides environmental benefits by lowering greenhouse gas
7 emissions.

8 This alternative was evaluated in the CAC pre-filed evidence, where the conclusion was drawn that
9 Centra's perspective on the purpose and benefits of gas DSM is too narrow as the investment in
10 DSM is not driven by the existence of the participating customers but provides benefits that extend
11 beyond the participant as follows:

- 12
- 13 1. Reduces participants' gas usage, and thus, serves to reduce the participants' commodity
14 bills;
 - 15 2. Lower participant usage will serve to not only lower commodity requirements, but will also
16 serve to reduce consumption at peak periods resulting in lower requirements in upstream
17 and downstream capacity investment thereby lowering the total revenue requirement; and
 - 18 3. Results in socio-economic and societal benefits, such as the lowering of greenhouse gas
19 emissions.

20 When gas DSM is analyzed within the PUB COS policy that cost causation requires consideration
21 of all of the uses of an investment to recognize that the primary and secondary benefits influence
22 the planning and justification of assets, it is reasonable to consider that it benefits not only the
23 participating classes, but also broader societal imperatives. Additionally, this broader view of cost
24 causation aligns with Centra's corporate decarbonization direction, allows for alignment in the
25 treatment of DSM cost allocation between electric and gas operations and is consistent with the
26 Efficiency Manitoba Act (established in January 2018), which further underscores the broader
27 primary and secondary benefits of gas DSM.

28 Accordingly, for the above noted reasons, CAC recommends that gas DSM be treated conceptually
29 consistent with electric DSM allocated based on Peak & Average, which allocates these costs on
30 both a demand and volumetric basis. This treatment recognizes that benefits are obtained by both
31 non-participants as well as participants through the lowering of commodity costs and capacity
32 investment in the long term and allocates DSM costs to all Centra customers and thus, recognizes
33 the overall societal benefits provided.

34

35 **6.0 Issues for Review at the Next Centra GRA and Other Issues**

36

37 If the PUB approves any changes flowing from this proceeding, it is recommended that Centra be
38 directed to file two COS studies at the next GRA, one that reflects all the COS changes as well as
39 the updated revenue requirements, and one that excludes the COS changes such that the impacts
40 as a result of the COS changes can be isolated and tested. CAC submits that the most effective

⁴¹ Centra Final Argument, page 19, lines 6-8

1 and efficient way to test changes to either a COS methodology or special studies update is to isolate
2 these changes from those that occur as a result of applying the COS to a different test year. CAC
3 notes that this is not a major task but an important one, and one which has been routinely undertaken
4 as part of past GRAs and as part of the numerous prior electric COS reviews.

5 In addition to the matters identified by Centra in its final argument (page 24) as issues for review at
6 the next GRA, CAC notes there are a number of outstanding matters of significant concern to the
7 SGS Class that were deferred to the next GRA by the PUB in Order 36/22 as follows:

- 8 • Rate design;
- 9 • Introduction of a zone of reasonableness;
- 10 • Customer class rate impacts; and,
- 11 • Minimum margin guarantee and related feasibilities for the Power Station Class

12
13 CAC also notes that it intends to raise the matter of access to CSI with the PUB in anticipation of
14 Centra's next GRA.

15 As of part of Centra's final argument, Centra is now proposing a change in its COS method related
16 to allocation of the cost of gas in storage associated with rate base. CAC submits that this matter
17 was not identified by the PUB in Order 36/22 which limited the scope of matters to be reviewed in
18 this proceeding to 10 issues. As such, CAC submits that this proposal be rejected by the PUB at
19 this time.
20

21 **7.0 Conclusion**

22 There have been many points of viewed expressed throughout this process. On one hand, Atrium
23 and the other Intervenors have expressed a preference for COS methods that are at odds with the
24 long-standing policy used in this jurisdiction. There has been no evidence adduced that would
25 discharge Centra's burden of proof, on a balance of probabilities (the administrative tribunal
26 standard), to make profound and potentially long-lasting methodological changes. CAC comes back
27 to the question what is the objective to be met? The objective is to determine whether there has
28 been any change to PUB's COS policy that would necessitate a change in the gas COS methods.
29 The answer, CAC submits, is clearly no. Centra, as a surrogate for Atrium, has not discharged its
30 **onus** as required under the PUB Act to justify such fundamental changes.
31

32 CAC submits that Centra is requesting the PUB to overturn its long-standing COS policy established
33 in 1996 and reaffirmed more recently in 2016. There has been no compelling reason to change
34 the policy based on the record. CAC further submits, that the COS policy the PUB reaffirmed in
35 2016 as appropriate for electric operations; is appropriate for the internal allocation of costs between
36 electric and natural gas; and, remains appropriate for natural gas operations.

1 **Appendix A**

2 The last comprehensive review of the natural gas COS and rate design occurred in 1996 and
3 resulted in Order 107/96. The following excerpts from Order 107/96, summarize the key PUB
4 policy findings with respect to the last natural gas COS review:

5 “The Board will expect such a review to consider the appropriateness of all methods and
6 systems to be employed to functionalize and classify all capital and operating costs and
7 allocate such costs to proper customer class definitions. The Board further expects that the
8 **primary driver** will be **cost causation** with due regard to Centra’s current operations in the
9 Manitoba market, direct purchase activities, storage arrangements, risk management
10 activities, **weather** and **use patterns** for each specific customer class and **all other relevant**
11 **issues.**⁴²” (Emphasis added)

12

13 **“Cost allocation studies are not a precise science and contain elements of judgement**
14 **at most phases.** Cost allocation methodologies are numerous, and experts often have
15 differing opinions as to the appropriate manner of allocating costs of service. It is the **Board’s**
16 **responsibility to weigh those differing views** and to support a methodology which gives
17 the best guideline for determining just and reasonable rates, and which is not unduly
18 discriminatory, recognizing that subjective judgements will influence results...This public
19 hearing was to allow debate of these opinions and to arrive at a methodology which best
20 reflects the Manitoba circumstance...The Board’s expectation is that the principles herein
21 approved will be adaptable to industry changes and that the results produced should be
22 acceptable for some time into the future...The Board also agrees that the **cost of service**
23 **methodology best suited** for a natural gas distribution company should be **determined**
24 **based upon the circumstances** of the **utility**. Those **circumstances must reflect** the
25 **manner** in which the **system is designed as well** as the **manner** in which the **system is**
26 **operated**. Giving **some weight** to the **manner of system operation better reflects** the **cost**
27 **responsibility than** does a **methodology** which **considers only** the **design parameters**.
28 For example, a system may be designed to interrupt particular customers on a peak day so
29 that firm customers can continue to receive service. Should the peak not be met, however,
30 those interruptible customers continue to receive service...Even though a design
31 contemplates curtailment of interruptible customers, it cannot preclude a movement of
32 customers from firm to interruptible service or vice versa. The Board is of the view that
33 Centra’s proposal for the use of demand related cost allocators based on the Peak and
34 Average Methodology best reflects the appropriate treatment for all Manitoba natural gas
35 consumers, that it reflects current market conditions and is adaptable to change.⁴³”
36 (Emphasis added)

37

⁴² Order 107/96, Page 6

⁴³ Order 107/96, Pages 26 to 27

1 The last comprehensive review of the electric COS occurred in 2016 and resulted in Order 164/16.
2 The following excerpts from Order 164/16, summarize the key PUB policy findings with respect
3 to the last electric COS review:

4 “The Board finds that, in the process to **determine the appropriate COSS methodology,**
5 **the principle of cost causation is paramount...**The Board finds that **Manitoba Hydro’s**
6 **ratemaking principles and goals** of rate stability and gradualism, fairness and equity,
7 efficiency, simplicity, and competitiveness of rates should be **considered in a General Rate**
8 **Application (“GRA”)** and **not in the cost of service methodology...****Cost causation as**
9 **defined by the Board takes into consideration both how an asset is planned and how**
10 **that asset is used.** This **takes into account** how an asset fits into Manitoba Hydro’s **current**
11 **system planning,** as well as the **current use...**The Board also finds that **cost causation**
12 **requires consideration of all the uses and benefits of an asset, to recognize that both**
13 **primary and secondary benefits** influence the planning and justification of assets. These
14 **considerations** should be **assessed over a range of years** (as opposed to a single
15 forecasted year) and **over a range of conditions** in order to **capture all of the uses and**
16 **benefits of an asset in determining cost causation.**⁴⁴ (Emphasis added)

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⁴⁴ Order 164/16, page 27