

REQUESTOR NAME: **Consumers' Association of Canada (Manitoba) Inc.**
INFORMATION REQUEST ROUND: **#1 of 1**
TO: **Koch Fertilizer Canada, ULC (Koch) - Collins**
DATE: **June 16, 2022**
APPLICATION NAME: **Centra Cost of Service Methodology Review**

1.0 Reference: Centra Cost of Service Methodology Review
PUB Orders 107/96, pages 26- 27, 164/16, page 27
Collins Evidence, page 2
Topic: Cost Causation

Preamble: In Orders 107/96 and 164/16, the PUB found:

“The Board also agrees that the cost-of-service methodology best suited for a natural gas distribution company should be determined based upon the circumstances of the utility. Those circumstances must reflect the manner in which the system is designed as well as the manner in which the system is operated. Giving some weight to the manner of system operation better reflects the cost responsibility than does a methodology which considers only the design parameters” **PUB Order 107/96, pages 26 to 27**

“Cost causation as defined by the Board takes into consideration both how an asset is planned and how that asset is used. This takes into account how an asset fits into Manitoba Hydro’s current system planning, as well as the current use. This methodology is to apply to assets currently in service, as well as future assets, such as Keeyask and Bipole III.

The Board also finds that cost causation requires consideration of all the uses and benefits of an asset, to recognize that both primary and secondary benefits influence the planning and justification of assets. These considerations should be assessed over a range of years (as opposed to a single forecasted year) and over a range of conditions in order to capture all of the uses and benefits of an asset in determining cost causation.” **PUB Order 164/16, page 27**

Mr. Collins states that:

“The P&A method is not reflective of cost causation, lacks logic and is inconsistent with system design.” **Collins Evidence, page 2**

- a. Please explain if Mr. Collins disagrees with the PUB’s definition of cost causation as reflected in its findings in Orders 107/96 and 164/16 as noted in the preamble above.
- b. Please explain if Mr. Collins’ cost allocation recommendations are consistent with the PUB’s findings related to the definition of cost causation.

Response:

- a. Based on the information provided by CAC in the Preamble, it is Mr. Collins' opinion that the design and operation of the Centra system is consistent with the Board's definition of cost causation. Mr. Collins has not reviewed all orders issued by the Board on cost allocation. That being said, Mr. Collins does not generally take issue with the extracts quoted in the Preamble to this information request.

Centra designs the capacity of its system of mains to meet the coincident Design Day Demand, or expected system maximum demand, of its customers. Centra operates its system of mains utilizing this designed capacity to meet the expected peak demand of its customers.

Furthermore, it is Mr. Collins' opinion that cost allocation should follow cost causation. Centra incurs the capacity costs of its system of mains to meet the Design Day Demand of its customers.

This design of the system of mains allows Centra to operate its designed system main capacity at varying pressures in order to meet the demands of its customers each and every day, including the day of maximum peak demand. The only way for Centra to operationally meet the demands of its customers each and every day, is for the system of mains to be designed to meet the system Design Day Demand. Therefore, Design Day Demand follows cost causation.

- b. It is Mr. Collins' opinion that his cost allocation recommendations are consistent with the PUB's findings in the order excerpts provided by CAC in the Preamble to this information request.

**2.0 Reference: Centra Cost of Service Methodology Review
Collins Evidence, pages 4 - 5
Topic: Allocation of Demand-Related Costs**

Preamble: Mr. Collins states:

“Demand or capacity costs vary with the quantity or size of plant and equipment. They are related to maximum system requirements which the system is designed to serve during short intervals and do not directly vary with the number of customers **or their annual usage**. Included in these costs are: the capital costs associated with production, transmission and storage plant and their related expenses; the demand cost of gas; and the most of the capital costs and expenses associated with that part of distribution plant not allocated to customer costs, such as the costs associated with distribution mains in excess of the minimum size.” (Emphasis added) **Collins Evidence, pages 4-5**

“I agree with NARUC, Atrium and Centra that transmission and distribution cost not assigned to the customer component should be allocated to classes on the basis of design day demand, not annual or average usage.” **Collins Evidence, page 5**

- a. Please confirm that the passage quoted by Mr. Collins refers to pages 23-24 of the NARUC Gas Distribution Rate Design Manual (June 1989) which is simply a definition of demand or capacity costs, and which makes no assessment of the appropriateness of the methodologies to allocate demand-related costs.
- b. Please confirm that NARUC identifies three fundamental and acceptable methods for the allocation of demand-related costs, CP, NCP and Average and Excess (of which Peak and Average is a variant) which are discussed in the NARUC Manual, pages 26-28.
- c. Please explain if Mr. Collins agrees with NARUC that there are three fundamental and acceptable methods for the allocation of demand-related costs.
- d. Please explain if Mr. Collins agrees with NARUC’s endorsement that NCP and Average and Excess methods are sound and well-reasoned approaches for the allocation of demand-related costs.
- e. Please explain if Mr. Collins has reviewed the response to PUB/Atrium 1a which identifies seven US jurisdictions that use Peak and Average (or one similar to the Average and Excess method). Does Mr. Collins believe that the circumstances regarding each of these seven US jurisdictions differ from that of Centra?
- f. Please explain whether Mr. Collins has reviewed the response to CAC/Centra 10a which provides Centra’s rationale for having adopted the Peak and Average methodology (utilization of the system as an explicit factor in determining cost responsibility, it is cost causal in many jurisdictions, it is widely accepted and its simple and straight forward). Please explain whether Mr. Collins agrees with Centra’s rationale for having adopted the Peak and Average methodology.

- g. Please explain whether Mr. Collins has ever recommended the use of an average and excess or peak and average methodology for purposes of utility cost allocation. If yes, please provide a summary of Mr. Collins recommendations and the circumstances that resulted in such a recommendation (s).

Response:

- a. Confirmed. Mr. Collins agrees that the passage quoted defines demand or capacity costs.

It is Mr. Collins opinion that the allocation method for main costs should treat the allocation of costs consistent with the definition in the NARUC manual (e.g. capacity costs do not vary directly with annual usage). The Peak and Average method assumes that a portion of main capacity costs varies with annual usage. As a result, it is Mr. Collins' opinion that the Peak and Average method is inconsistent with the NARUC definition.

- b. Not confirmed. At page 27 of the NARUC manual, its states the following:

“The most commonly used demand allocations for natural gas distribution utilities are the coincident demand method, the non-coincident demand method, the average and peak method, or some modification or combination of the three.

NARUC recognizes that there are many other allocation methods.

- c. Mr. Collins agrees with the NARUC manual's statement at page 27 that the most commonly used demand allocations for natural gas distribution utilities are the coincident demand method, the non-coincident demand method, and the average and peak method.

It is Mr. Collins opinion that the NARUC manual recognizes that there are many different allocation methods and it does not endorse any particular method.

- d. It is Mr. Collins' opinion that NARUC does not endorse a particular allocation method.

- e. Mr. Collins has reviewed the response. Mr. Collins has not compared the circumstances of the utilities identified in the response to those of Centra.

- f. Mr. Collins has reviewed the response. Mr. Collins does not agree.

- g. Mr. Collins has never recommended the use of the Peak and Average method. Mr. Collins suggested the use of the Average and Excess method once in an Ameren Illinois case in Illinois (Docket No. 18-0463) as a compromise between the Design Day Demand method and the Peak and Average method.

**3.0 Reference: Centra Cost of Service Methodology Review
Collins Evidence, pages 7, 8
Topic: Direct Assignment of Transmission Plant**

Preamble: Mr. Collins states:

The validity and preference for direct assignment is discussed in the NARUC Gas Distribution Rate Design Manual as follows:

“Once a definition of cost is decided upon, it is then necessary to assign costs to specific customer classes. Generally speaking, these costs can be divided into two broad categories: direct costs and common costs. Direct costs are those which are incurred only to provide service to a particular customer class. Common costs are incurred in providing service to more than one class. **The assignment of direct costs is straight-forward and should not be subject to debate.** Common costs are another matter. By definition, such costs are incurred for the benefit of several rate classes and their costs cannot be directly assigned. Instead, it is necessary to allocate these costs among the rate classes using some reasonable allocation method.” **Collins Evidence, page 7, (Emphasis added)**

“I agree that this assignment **is straight-forward** and should not be subject to debate. It is also fair and reasonable and should be adopted by the Board.” (Emphasis Added) **Collins Evidence, page 7**

“It should also be noted that Atrium is correct in its conclusion that the appropriate cost allocation methodology should be based on normal operations not an abnormal or unique emergency situation that may never occur.” **Collins Evidence, page 8**

- a. Please confirm that Mr. Collins has reviewed the responses CAC/Centra 11a (which provides the history of the Brandon/Southwest Area system going back to 1956 and the series of changes that have occurred to that system since then) and CAC/Centra 11d (which confirms that the Special Contract load growth for the past at least 25 years has been met through available transmission capacity and system modifications that have been rolled into rates and funded by all customer classes). Please explain if a review of the actual historic circumstances and funding associated with the Brandon/Southwest Area suggests that direct assignment to the Special Contract class is such that it does not represent a straightforward case for the direct assignment of transmission costs.
- b. Please reconcile Mr. Collins view noted in the preamble above that cost allocation methodology should not be based on a situation that may never occur, with Mr. Collins recommendation for the use of a maximum design coincident peak allocation methodology that may not occur in actual operations.

Response:

- a. Mr. Collins has reviewed the responses of Centra. Based on his review of the information provided by Centra in the responses cited by CAC, Mr. Collins maintains his opinion that the direct assignment of transmission costs to the Special Contract class is straightforward.

- b. Mr. Collins' cited testimony refers to Atrium's response to CAC/Atrium 1-4 e, which states the following in response to a clarification on normal operations:

Atrium assumes that this clarification refers to the use of the referenced language in the excerpt below:

"The remainder of the Centra transmission system is fully odorized, physically separated by valve stations which remain closed under normal operating conditions and receives only one-way pressure and capacity support in an emergency situation from the transmission pipelines that serve the Special Contract customer." As explained in the response to CAC/ATRIUM I-4c, Atrium believes that an appropriate cost allocation methodology should be based on normal operations.

Furthermore, it is Mr. Collins opinion that the Centra system of mains is appropriately designed to meet the system Design Day Demand so that customers receive service on the day of expected maximum demand. Centra's normal daily operations are met as a result of planning its system to meet the expected maximum demand of its customers, the Design Day Demand. Centra incurs costs based on Design Day Demand. As a result, cost allocation must occur on Design Day Demand so that cost allocation follows cost causation.

It is Mr. Collins' opinion that the normal operation of the Centra system is consistent with Centra's system design which is based on Design Day Demand.

**4.0 Reference: Centra Cost of Service Methodology Review
Collins Evidence, pages 1-2, 8, 9
Topic: Centra’s Interim Rate Adjustment Proposal**

Preamble: Mr. Collins states:

“Basically, Atrium’s and Centra’s recommendations are consistent with the recommendations presented by Mr. Collins in the 2019/20 GRA as shown in Appendix B. The Atrium and Centra filings demonstrate that Koch received an unwarranted rate increase in 2019/20 which would be and should be corrected with the approval of the proposed Interim Measure as recommended by Centra. The proposed Interim Measure should be adopted as soon as possible. According to Centra data, Koch is paying an unwarranted approximate \$70,000 per month excess charge which will continue until the Interim Measure is adopted. The total overcharge being paid by Koch, based on Centra data, is approximately \$100,000 per month. Therefore, the Interim Measure only partially addresses the unfair rates being charged to Koch. It is clear the Interim Measure is long overdue and should be adopted by the Board.” **Collins Evidence, pages 1-2**

“Centra shows an illustrative impact of its proposed cost of service methodology on Figure 10: Allocation of Revenue Requirement by Customer Class. That illustration shows that the Special Contract Class requires a \$1,229,000 decrease to achieve parity with cost of service.” **Collins Evidence, page 8**

“The Interim Measure proposed by Centra is appropriate as a partial, but immediate correction to the unwarranted increase imposed in the 2019 GRA.” **Collins Evidence, page 8**

“The remainder of the overcharge should be corrected as soon as possible.” **Collins Evidence, page 9**

- a. Please explain if Mr. Collins has placed reliance on the \$1,229,000 illustrative impact for the Special Contract Class to make his recommendation that Centra’s near term rate impact measure be implemented as soon as possible.
- b. Please explain if Mr. Collins has analyzed the illustrative customer impacts in general (Figure 10) and \$1,229,000 for completeness and reliability for rate-setting purposes.
- c. If the response to question 4b is yes, please explain the basis upon which Mr. Collins has formed the conclusion that the indicative customer impact analysis (Figure 10) is complete and reliable for rate setting purposes.
- d. Please confirm that Mr. Collins concludes that the rates established for the Special Contract class by the PUB flowing from Centra’s 2019/20 GRA were erroneous and not just and reasonable.

Response:

- a. Based on his analysis in the previous proceeding, Centra's 2019/20 GRA, Centra's calculated impact is reasonable. It is Mr. Collins' opinion that the interim rate measure is reasonable and should be implemented as soon as possible. It should be noted that Mr. Collins has not been provided the cost of service model, thus he has relied upon his analysis from the previous GRA case as well as the analysis presented by Centra and Atrium in this proceeding.
- b. Mr. Collins has reviewed the customer impacts in general. It is his opinion that the amount is appropriate for rate-setting. It should be noted that Mr. Collins has not been provided the cost of service model, thus he has relied upon his analysis from the previous GRA case as well as the analysis presented by Centra and Atrium in this proceeding.
- c. Based on his analysis in the previous proceeding, Centra's 2019/20 GRA, Centra's amount is reasonable for rate setting purposes. It should be noted that Mr. Collins has not been provided the cost of service model, thus he has relied upon his analysis from the previous GRA case as well as the analysis presented by Centra and Atrium in this proceeding.
- d. Confirmed. Centra's rates established in the 2019/20 GRA for the Special Contract class are not based on the proper cost of service for the class.