Centra Gas Manitoba Inc. 2021-2022 Cost of Service Methodology Review

Final Oral Submission

August 17, 2022

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Road Map

- Legal Onus
- Weighing Expert Evidence
- Cost of Service Methodology Principles
- Peak and Average vs. Coincident Peak
- Direct Assignment
- Demand-Side Management
- Upstream Capacity Resources
- Near Term Rate Adjustments

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Legal Onus

- Onus is on the Applicant, Centra, to demonstrate on a balance of probabilities that the proposed cost of service methodologies best reflects cost causation.

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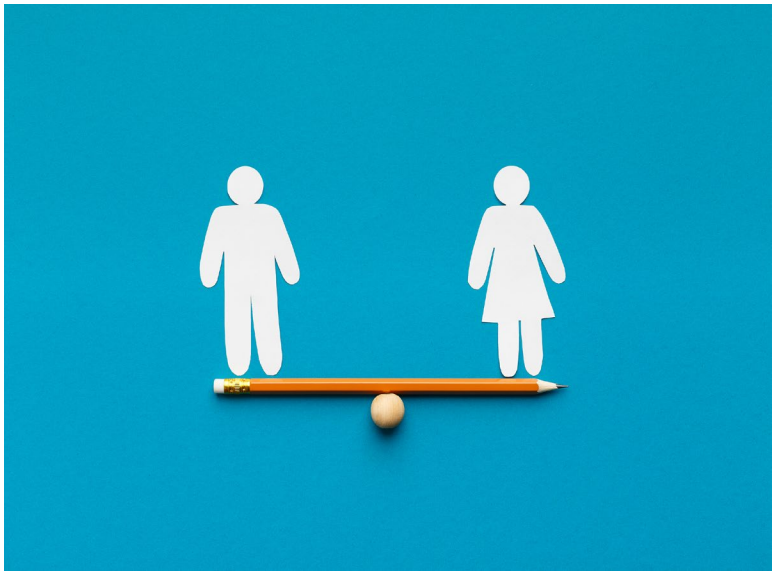
Weighing Expert Evidence

- Weighing conflicting expert opinions requires consideration of the expert's qualifications, the reasonableness of the underlying methodology used, and the factual foundation and assumptions upon which the opinion is based.



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Cost of Service Methodology Principles

"in the process to determine the appropriate COSS methodology, the principle of cost causation is paramount. Further, the Board finds that ratemaking principles and goals should not be considered at the COSS stage."

Order 164/16 at page 27

"Cost causation refers to a determination of what or who is causing costs to be incurred by Manitoba Hydro, to the extent practical"

Order 164/16 at page 16

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Cost of Service Methodology Principles

1. Determining how customers cause the utility to incur costs is informed by both how the system is planned and used; and
2. The methods used to apportion costs should consider the operating characteristics, reasons for investment, and business practices of the utility.

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Peak & Average

- Peak & Average allocates costs on the basis of each class's contribution to a weighted average of peak day demand and average daily demand.

"This approach to allocation makes a recognition that average daily demand (commodity) plays some role in determining the level of demand-related costs. This proposition is not based on any engineering basis, but rather ***reflects an equity consideration*** *that higher load factor customers use the capacity more heavily than lower load factor customers, and therefore should receive a greater share of its total cost"*

MFR 7 at pdf page 34

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Peak & Average

*"**Recognition of cost causality as well as non-cost causal factors** - the recognition of average use (annual energy/365 days) in the methodology addressed several concerns for Centra.*

*First, **the methodology would address equity (non-cost causal factors)** considerations associated with Interruptible customers, grain dryers, asphalt plants that do not use gas during the peak periods and would otherwise not be allocated any transmission cost (or the capacity-related costs associated with distribution investment), even though these customers use natural gas 364 days of the year or at significant portions of the year."*

Centra 2019/20 General Rate Application, Exhibit CAC-8 Written Evidence by Darren Rainkie and Kelly Derksen at page 109

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Coincident Peak

- Coincident Peak allocates costs to each class in proportion to that class's contribution to the system peak day.

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Centra's Proposal - Coincident Peak

- Centra is proposing the Coincident Peak method using a design day allocator to allocate the costs associated with the following:
  - Transmission plant classified as Demand
  - Distribution plant classified as Demand; and
  - Pipeline costs classified as demand (Year-Round Pipe Line Capacity)

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Direct Assignment of Transmission Assets

- Direct assignment relates to a specific identification and allocation of costs incurred exclusively to serve a specific customer or group of customers.

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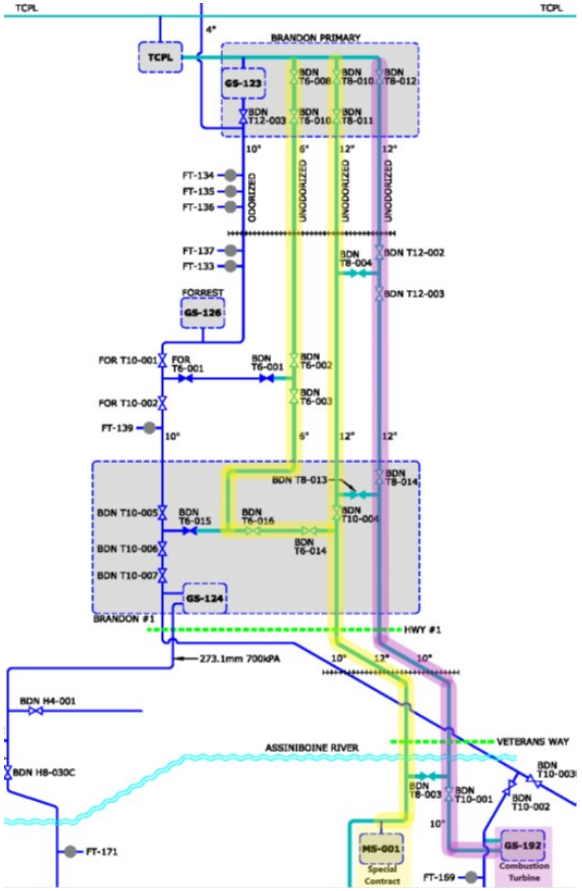
Direct Assignment of Transmission Assets

- Are the assets clearly identifiable and exclusively used to serve the two customers?



Demand Side Management

- Centra proposes retaining existing allocation methodology – allocate costs based upon a forecast of customer class participation.

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Upstream Capacity Resources

- Centra proposes to allocate:
  - Upstream pipeline capacity costs utilizing the Coincident Peak Design Day allocator
  - Storage and related transportation costs utilizing Winter Season Demand in Excess of Summer Season Demand

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Near Term Rate Adjustments

- Should the PUB accept Centra's proposals, it may wish to make an interim rate adjustment.
- Centra's practical approach is to reinstate the non-gas component of Special Contract Customer Rates prior to Order 152/19 and assign the revenue deficiency to the Power Station Class.
- This proposal has no impact to other customer classes.

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Completion of Studies

- Centra has proposed to conduct a minimum system study and review the treatment of UFG in the cost of service study.
- It is premature to establish deadlines for the performance of these studies.
- Centra will provide progress updates at the next GRA.

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Summary of Relief Sought

1. Replace Peak & Average allocator with Coincident Peak for transmission and distribution demand-related costs and upstream capacity costs

2. Replace Peak & Average allocator with Winter Season Demand in Excess of Summer Season Demand for storage and related pipeline capacity costs

3. Utilize Direct Assignment of transmission plant to Special Contract and Power Stations customer classes

4. Near Term Rate Adjustment

Thank you!

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