

CENTRA GAS MANITOBA INC.
2021 COST OF SERVICE METHODOLOGY REVIEW
INTERVENER EVIDENCE INFORMATION REQUESTS
CAC (RAINKIE-DERKSEN)
JUNE 23, 2022

CENTRA/CAC-RAINKIE-DERKSEN-I-1

Reference:

Written Evidence of Darren Rainkie and Kelly Derksen.

Preamble:

Question:

Please provide a copy of the retainer letter, terms of reference and/or instructions provided to the CAC consultants on behalf of CAC. If no such instructions or direction was provided, describe how the consultants identified and developed the scope of evidence.

Response to Centra/CAC 1:

There are no specific retainer letters between CAC and the CAC Consultants for this proceeding. The instructions were provided by Counsel for CAC.

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Reference:

Written Evidence of Darren Rainkie and Kelly Derksen, Section 4.0, page 18, lines 2-3; PUB Order 36/22 at page 15.

Preamble:

The Evidence provides: *This section of the Evidence evaluates the completeness and implications of the research that was conducted by Atrium into the COS practices of the Canadian natural gas industry (referred to as "industry practice research") for Centre's COSMR.* (emphasis added) page 18, lines 2-3

PUB Order 36/22 provides: *"Based on the Parties' submissions, the Board finds that there is no need for Interveners' additional comprehensive reviews of the existing COSS methodology (or model) and for evaluating Atrium's report for completeness."* page 15

Question:

Please reconcile the direction from the PUB in Order 36/22 with Section 4.0 of the Evidence of Darren Rainkie and Kelly Derksen that includes a review of the "completeness" of the research contained in Atrium's report filed in this proceeding.

Response to Centra/CAC 2:

The PUB found in Order 36/22, at page 14 that "Intervenors can participate in the testing of Centra's and Atrium's evidence and in presenting evidence on the issues within the scope of this proceeding". As was noted on page 19, lines 30 to 31 of the CAC Evidence, the CAC Consultants accepted the Atrium research at face value and without further confirmation, and as such did not duplicate the efforts of Atrium. CAC Consultants testing of the Atrium industry research, which forms part of Centra's and Atrium's evidence, was focused on and limited to evaluating the overall depth of the research and if it impacted and supports Centra's COS proposals.

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Reference:

Written Evidence of Darren Rainkie and Kelly Derksen, Section 5.1, page 23, lines 16-17

Preamble:

The Evidence provides: *“There has been little evidence and data advanced in this proceeding to be able to evaluate the merits of the use of NCP which was summarily dismissed by Atrium.”* page 23, lines 16-17

Question:

- a) Please confirm that CAC had an opportunity to seek further information to enable it to evaluate the merits of NCP through the information request process.

- b) Please confirm whether the CAC consultants performed any analysis with respect to the appropriateness of the NCP methodology for Centra’s specific circumstances. If yes, please provide a summary of that analysis and any recommendations.

Response to Centra/CAC 3a and 3b:

In Order 36/22, at page 15, the PUB found that Intervenors were to provide focused submissions and information requests and not duplicate the review conducted by Atrium. Within this limited scope and recognizing that the onus of proof rests with Centra and that a limited round of information requests by Intervenors cannot make up for Centra’s and Atrium’s failure to fully evaluate all options, the CAC Consultants did not perform any analysis on the appropriateness of an NCP methodology and did not provide any associated recommendations in the CAC Evidence.

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Reference:

Written Evidence of Darren Rainkie and Kelly Derksen, Section 6.3, page 35, lines 10-11 and lines 22-24.

Preamble:

The Evidence provides *“It is unclear if Centra is proposing to update the studies or if it simply [sic] proposing to index the outdated studies from 2004.”* page 35, lines 10-11

...

“3. It is interesting to note that while Centra is proposing a move to a pure cost causal and transparent COS methodology, for reasons of administrative simplicity, it is not prepared to update the studies.” page 35, lines 22-24

Question:

Please explain the basis for the conclusion that Centra is not prepared to update the Service and Meter Studies due to “administrative simplicity”.

Response to Centra/CAC 4:

Given that the Centra COS Application did not respond to the Atrium recommendation on page 21 of its report to update the Service and Meter studies and the data to update the studies is available, it was inferred through the review of Centra’s evidence and responses to information requests, that Centra was not prepared to update the studies for administrative reasons (i.e. due to the time and cost associated with the update).

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Reference:

Written Evidence of Darren Rainkie & Kelly Derksen, Section 8.4, page 45, lines 27-30; PUB Order 58/22, page 7

Preamble:

The Evidence provides: *“Further, if the PUB approves any changes flowing from this proceeding, it is recommended that Centra be directed to file two COS studies at the next GRA, one that reflects all the COS changes as well as the updated revenue requirements, and one that excludes the COS changes such that the impacts as a result of the COS changes can be isolated and tested.”* page 45, lines 27-30

Order 58/22 provides: *“The COSS methodology to be used in Manitoba should be evaluated on its own merits, and as such, the rate impacts of the allocation methods should not be the focus of the COSS review or be used to influence the final decisions.”* page 7

Question:

- a) In light of the PUB’s guidance in Order 58/22 that rate impacts of the allocation methods should not be the focus of the COSS review or influence final decisions, please explain the rationale behind the recommendation to isolate and test the rate impacts of any cost of service methodology changes ordered by the PUB in this proceeding at the next general rate application?

- b) Is it the recommendation of CAC’s consultants that any order flowing from this proceeding be interim and subject to finalization at the next General Rate Application after the rate impacts of the cost of service methodology changes are tested? If yes, why?

Response to Centra/CAC 5a:

The PUB found in Order 58/22, at page 17, that the implementation of any COS methodologies that may be accepted by it in this proceeding, will be addressed at the next Centra GRA. Please see the response to PUB/CAC 17 a & b for the rationale for the recommendation.

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Response to Centra/CAC 5b:

CAC views any recommendations with respect to the nature of the PUB decision flowing from this proceeding to be a matter for final argument, after a full evaluation of the evidentiary portion of the hearing has been completed.

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CENTRA/CAC-RAINKIE-DERKSEN-I-6

Reference:

Written Evidence of Darren Rainkie & Kelly Derksen, Section 3.2, page 16, lines 22-24 and page 17, lines 20-22; PUB Order 164/16, page 27

Preamble:

The Evidence provides: *"...there is also concern with respect to the weakening of the overall cohesiveness of the natural gas COSM and inconsistency with the overall electric COSM framework"* page 16, lines 22-24

"The consideration of other rate making objectives such as fairness, stability, administrative ease, and understandability, are inherently an important element of developing a cohesive and workable COS framework." page 17, lines 20-22

PUB Order 164/16 provides: *"The Board finds that Manitoba Hydro's ratemaking principles and goals of rate stability and gradualism, fairness and equity, efficiency, simplicity and competitiveness of rates should be considered in a General Rate Application ("GRA") and not in the cost of service methodology"* page 27

Question:

Please explain how the recommendation that the PUB retain the broad definition of cost causation and consider other ratemaking objectives in COS, would be more consistent with the electric COSM framework given the PUB's position in Order 164/16 that ratemaking principles should not be considered in a cost of service methodology review?

Response to Centra/CAC 6:

In Section 3.1 of the CAC evidence, it is demonstrated that the PUB policy from Order 164/16 is a broader definition of cost causation, than solely considering strict engineering design parameters. As such, the recommendations provided by the CAC Consultants are more consistent with Order 164/16 and the Electric COS framework than Centra's COS proposals in this proceeding.

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It was noted at the end of Section 3.1 of the CAC Evidence that there has been a recent change in PUB policy in Order 164/16 to apply ratemaking objectives other than cost causation at the rate design state of ratemaking.

The CAC Consultants conclusion in Section 3.3 of the CAC Evidence that it is impractical to remove all other ratemaking objectives in the exercise of judgement in developing a cohesive and workable COS framework is a pragmatic matter that does not impact the consistency of the CAC Consultants recommendations with Order 164/16 and the broader definition of cost causation. This conclusion is also based on the observations in Section 3.2 of the CAC Evidence, that Centra and Atrium use other ratemaking objectives to justify their own conclusions and recommendations.

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Reference:

Written Evidence of Darren Rainkie & Kelly Derksen, Section 5.0, page 26, lines 34-40.

Preamble:

The Evidence provides: *“The use of the PAVG methodology, as currently employed by Centra, recognizes the prevalence of peaking plant put in place to serve the load requirements of its customers.”*, page 26, lines 34-36

...

“...corresponds with the relatively less amount of baseload investment made by Centra in order to serve customer base load requirements over the course of the year” page 26, lines 38-40

Question:

- a) Please identify what specific assets of Centra’s are considered by CAC’s consultants to be peaking plant?
- b) Please identify what specific assets are considered by CAC as baseload plant?

Response to Centra/CAC 7:

Please see the response to PUB/CAC 6 a) & b).

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Reference:

Written Evidence of Darren Rainkie & Kelly Derksen, Section 5.1, page 23, lines 33-35.

Preamble:

The Evidence provides: *“Other variations might include the average of several cold days, an average of winter and summer peaks (2CP), 4CP, to an average of 12 CPs.”* page 23, lines 33-35

Question:

Please elaborate on the appropriateness of a 2CP, 4CP or 12CP allocation for a winter peaking Gas utility?

Response to Centra/CAC 8:

Please see the response to IGU/CAC 7c.

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Reference:

Written Evidence of Darren Rainkie & Kelly Derksen, Section 5.3, page 25, line 35 and page 27, lines 19-21.

Preamble:

The Written Evidence of Darren Rainkie and Kelly Derksen notes their observations regarding the allocation of the demand-related component of transmission and distribution investment. page 25, line 35

Observation 7 provides: *“Centra takes advantage of its excess capacity availability in the summer provided by low load factors customer, by utilizing available capacity for purposes of storage in order to optimize its total cost to serve for all customers”* page 27, lines 19-21

Question:

Please explain CAC consultant’s view of how Centra takes advantage of excess capacity on its transmission and distribution systems for purposes of storage and how that optimizes the total cost to serve all customers?

Response to Centra/CAC 9:

Please refer to the response to PUB/CAC 7a.

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Reference:

Written Evidence of Darren Rainkie & Kelly Derksen, Section 5.3, page 27, lines 15-17

Preamble:

The Evidence provides: *“PAVG was implemented and in place for decades in part, as it replicates Centra’s load estimation process based on simplified characterizations of Centra’s system operations,...”* page 27, lines 15-17

Question:

Please provide the reference for where it has been stated that PAVG was implemented in part because it replicates Centra’s load estimation process?

Response to Centra/CAC 10:

The origin of the above reference may be available in the 1996 proceeding including the transcripts, but the CAC Consultants do not have full access to those materials. In any event, this understanding is based on the CAC Consultants longstanding experience with and involvement in Centra’s rate-setting proceedings for almost three decades including having worked extensively with the RJ Rudden and Navigant consultants.

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CENTRA/CAC-RAINKIE-DERKSEN-I-11

Reference:

Written Evidence of Darren Rainkie & Kelly Derksen, Section 7.0, page 36-38; PUB/CENTRA I-3 and CAC/CENTRA I-7a-b

Preamble:

The Evidence provides: *“As such, the costs of gas DSM are driven to reduce usage which results in the reduction of system costs, and also provides socio economic and environmental benefits such as the reduction of greenhouse gases.*

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

For these reasons, it is recommended that gas DSM investment be viewed as a system resource, functionalized as transmission and allocated based on PAVG which allocates these costs on both a demand and volumetric basis. This treatment recognizes that benefits are obtained by both non-participants as well as participants through the lowering of commodity costs and capacity investment in the long term. It also allocates DSM costs to all Centra customers and thus, recognizes the overall societal benefits provided.” page 38, lines 3-19

Question:

- a) Were any other allocation methods considered by Ms. Derksen and Mr. Rainkie that would recognize the DSM benefits of participating customer classes in addition to the

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societal benefits that accrue to all customer classes besides the Peak and Average method? If not, why not?

- b) Please explain why a Peak and Average allocator provides an appropriate balance between the benefits of DSM for both participants and non-participants?
- c) Please confirm that Centra's response to CAC/CENTRA I-20 in the 2019/20 General Rate Application included the volumes of T-service and Direct Purchase customers in the approach to allocate costs as a system resource.

Response to Centra/CAC 11a:

Another potential option to allocate gas DSM would be on the basis of total annual volumes by class. The CAC Consultants considered this approach but given that it is expected gas DSM will provide reduced transmission, distribution, and upstream capacity over the long term, a PAVG allocator is viewed to be more appropriate.

Response to Centra/CAC 11b:

Please see the response to PUB/CAC 11

Response to Centra/CAC 11c:

Yes, confirmed. This was an oversight on the part of the CAC Consultants. Please also see the response to PUB/CAC 11.