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February 28, 2022

THE PUBLIC UTILITIES BOARD OF MANITOBA
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

ATTENTION: Dr. D. Christle, Board Secretary and Executive Director

Dear Dr. Christle:

RE: CENTRA GAS MANITOBA INC. ("CENTRA")
PROPOSED AMENDMENTS TO CENTRA'S GAS COST OF SERVICE METHODOLOGY REVIEW SUBMISSION

Centra Gas Manitoba Inc. ("Centra") is in receipt of Public Utilities Board ("PUB" or "Board") Order 131/21 issued December 2, 2021, approving Centra's revised rate structure and customer bill format as well as its February 18, 2022 letter that marked the recommencement of the public hearing process for Centra's Cost of Service Study Methodology Review. The Order requires Centra to propose amendments to its Gas Cost of Service Methodology Review Submission ("COSMR") for the approved rate re-structuring changes. As documented on page 25 of Order 131/21:

> *"To effect the Board-approved changes identified above, Centra's proposed new natural gas rate structure will also require amendments to Centra's Cost of Service Study methodology. The Board is advised that it is Centra's intention is to seek approval from the Board for these consequential amendments to the Cost of Service Study as part of Centra's Cost of Service Methodology Review process which has been filed with the Board and which is expected to be heard in 2022.*
>
> *Centra should ensure that it makes and circulates its proposed revisions to the Cost of Service Study Methodology to the Board and Parties involved following the issuance of this Order."*

<u>Amendments to the COSMR for Rate Re-structuring Impacts</u>

With the PUB's approval of the treatment of Nova Gas Transmission Line costs ("NGTL"), i.e. transportation costs from AECO to Empress, as a transportation cost for ratemaking purposes as of November 1, 2022, Centra proposes that a consistent approach be used for cost allocation purposes. Namely that the NGTL costs, which are currently functionalized as production and consequently recovered through the Primary Gas Rate, be functionalized to the Pipeline function, classified as Demand related and then allocated on the same basis as other fixed transportation costs. Consistent with Atrium's recommendation regarding the treatment of fixed transportation costs, Centra further proposes that post November 1, 2022, NGTL costs be allocated using a "Peak Day" allocator.

As both the proposed allocation method for transportation costs (Peak Day) and the current approved allocation method for transportation costs (Peak and Average) differ from the current volumetric recovery through the Primary Gas rate, this change will result in a slightly different impact for each of the customer classes (as discussed in PUB/CENTRA 8c in the Rate Re-bundling Application) once the change takes effect.

Similarly, the PUB's approval to recover the cost of compressor fuel at Empress through the transportation rates effective November 1, 2022 rather than through the Primary Gas Rate as per current practice, requires a refinement to cost allocation to maintain consistency. In order to align cost allocation with the approved rate treatment, Centra is proposing to functionalize the cost of compressor fuel at Empress to the Pipeline function. While the functionalization of these costs will be updated, they will continue to be classified as Energy, allocated based on volumes and recovered from customers on a volumetric basis in the same manner as other variable transportation costs and as such, there is no impact to customer classes.

The above noted amendments for rate re-structuring changes in the treatment of NGTL and compressor fuel costs were identified at a high level on page 17 of the COSMR under the heading *Refinements related to Rate Re-bundling Application.*

Centra is also proposing that Cost Allocation studies completed post November 1, 2022 reflect only a single commodity class for the purposes of developing the overhead component to be included in the Gas Commodity rate. This reflects a change from the current inclusion of three discrete classes (Primary Gas, Supplemental – Firm and Supplemental – Interruptible) which are no longer required given the PUB's approval in Order 131/21 to move to a single Gas Commodity rate.

To assist all parties, Centra has summarized its list of amendments to the existing cost of service methodology being proposed in this COSMR in Attachment 1 to this document. The amendments have been separately identified as those based on the recommendations of the independent expert, Atrium Economics L.L.C. ("Atrium") and those based on the PUB's approval of rate re-structuring changes. Attachment 2 to this document further includes red-lined sections of the COSMR submission reflecting the proposed rate re-structuring driven updates to definitions that will take effect after November 1, 2022, as well as a red-lined update to Appendix 3 (Functionalization, Classification, and Allocation Factor Descriptions) of the COSMR submission.

<u>COSMR Scope and Process</u>

Further to the PUB's letter of February 18, 2022, Centra would like to take this opportunity to provide submissions on scope, interveners and their consultants, and procedures to facilitate an expeditious review of Centra's cost of service study methodology.

Proposed Scope of Review

Centra submits that, consistent with the PUB's direction in Orders 49/20 and 130/20, the focus of this hearing should be upon each parties' recommendations on best practices in Manitoba, and specifically upon contested issues. Focusing upon the contentious issues and building upon the work already performed at Centra's last General Rate Application, namely Centra's responses to two rounds of information requests, intervener evidence and responses to IRs of that evidence, will ensure an efficient and timely review.

Based upon submissions and evidence adduced at the 2019 General Rate Application and comments within intervenor correspondence in this proceeding, Centra anticipates that the methodology used to allocate demand costs and the proposed use of the direct assignment of transmission costs to the Special Contract and Power Station customer classes will be the most contentious issues. Accordingly, Centra submits the following topics should be the primary issues in focus in this proceeding:

- Allocation methodology for demand-related costs;
- Allocation methodology for the transmission plant assigned to the Special Contract and Power Station customer classes; and
- Allocation methodology for upstream capacity resources.

Centra notes that while it has filed the illustrative results of its proposed changes on the allocation of revenue requirement to demonstrate directional impacts; parties must resist the temptation to allow the rate impacts of methodology changes to dictate their positions. The overall allocation methodology should be evaluated on its merits; in this respect, Centra submits that the rate impacts of the allocation methods and the illustrative results should not be a contentious issue or a focus of this review.

Rate Structure Review Should not be in Scope

Centra is of the view that Centra's cost of service methodology review should focus on resolving the level of cost responsibility by class, and that matters of rate design would be most appropriately and efficiently reviewed once the Board has rendered its decision on the cost of service methodology to be used going forward. A cost of service study is a fundamental tool in the rate making process and decisions arising from this review will guide future rate proposals put forward by Centra. As such, including rate design in the scope of this review is premature and will only serve to complicate what should be a principle-based review of cost allocation.

For example, and consistent with this view, Centra submits the introduction of a zone of reasonableness and the minimum margin guarantee for the Power Station class is more appropriately reserved for review as part of a General Rate Application ("GRA"). Notably, this approach is consistent with the PUB's comments in Order 164/16 where the PUB states on page 24 that:

> *"RCCs and the zone of reasonableness are rate design issues that are addressed in the context of a GRA."*

This approach is also consistent with the response of Ms. Derksen on behalf of the Consumers Coalition to Information Request PUB/CAC (Derksen)-5 **(**parts a and b) from Centra's 2019/20 GRA where Mrs. Derksen states:

> *"a) No, the minimum margin was not reflected in Centra's cost allocation studies. The minimum margin guarantee was put in place for purposes of financial feasibility, not cost allocation purposes. The minimum margin guarantee was intended to secure the level of contribution received by the Power Stations in 2003. ,… It is more appropriate to address the cost allocation associated with the Power Stations load volatility and to fully link cost allocation and margin certainty through modification of the Power Stations rate structure.*
>
> *b) It is important to avoid comingling the concepts of financial feasibility with cost allocation, rate design and rate-setting. The feasibility test and the cost allocation study serve two different purposes."*

The Board agreed with these positions in Order 152/19 when stating "the minimum margin guarantee was not a cost allocation consideration but rather a top-up to Centra's revenues during years when Power Station customers contributed insufficient revenues to meet the minimum gross margin required to fund the capital investments", pg. 124.

Efficiencies Through the Use of an Independent Expert

To assist Centra in its review of its cost of service methodology, Centra retained an independent expert, Atrium, in accordance with the following PUB expectation:

> *"The Board expects that the independent expert will be in a position to provide a variety of alternative cost of service study methodology options, each alternative supported by reasons, such that Centra and other Parties will be able to focus their recommendations on the best practices for Manitoba's specific circumstances. The Board acknowledges that the use of independent experts can bring efficiencies to the public hearing process provided that their evidence is fair, objective, and non-partisan." (Order 49/20 at page 8; restated in Order 130/20 at page 12.)*

Consistent with the Board's expectations, Atrium conducted an objective and comprehensive review of Centra's cost of service methodology. The full scope of Atrium's review is evidenced by the terms of their retainer (PUB MFR 1), and the description of Atrium's process for evaluating the cost of service methodology (COSMR Submission, Appendix 1, pages 4-5).

Proposed Process

To ensure an effective and efficient public hearing process, and considering the objective and comprehensive review conducted by Atrium, Centra submits that there is no need for additional comprehensive reviews and assessments of Centra's cost of service methodology, including Centra's cost of service model, and evaluating Atrium's report for completeness. Such efforts would eliminate the efficiencies the PUB intended to be achieved by having Centra engage an independent expert, resulting in additional costs to rate payers without providing additional value to the review process. Instead, the PUB and Interveners, with the benefit of their participation in the 2019 General Rate Application and their experienced consultants and counsel, should now be in a position to identify what issues they intend to contest, without a non-evidentiary workshop as contemplated in Order 135/20.

For all of the above noted reasons, Centra submits that the PUB should order the following procedural steps for the COSMR:

1. Within a reasonable period, each party which applied for intervenor status is directed to:
    a. Identify whether it intends to challenge the qualifications or independence of Atrium;
    b. Provide agreement on the three contentious issues identified by Centra above or identify any other issue which the intervenor submits is contentious together with specific reasons and justification as to why any such contentious issues need to be addressed as part of this proceeding; and
    c. Identify whether the party wishes to file additional evidence, beyond that filed in the 2019 General Rate Application, and the specific reasons and justification as to why such evidence is required by the Board to adjudicate upon and determine the contentious issues.

2. Upon receipt of the comments, the PUB should rule upon:
    a. Intervenor applications, together with Centra's requests relating to use of consultants as set out in its correspondence of August 12, 2021;
    b. The issues it determines to be contentious for the proceeding and what, if any, additional evidence is required or if parties may proceed directly to providing written submissions upon;
    c. Establish a process to hear any motions relating the qualifications and independence of Atrium; and
    d. the process for the remaining proceeding.

Centra further submits that the PUB and the parties involved in this process are well positioned to leverage the procedural history, the knowledge gained from previously filed evidence, and the efficiencies to be gained from the use of an independent expert, such that they can collectively propose a process that minimizes costs to rate-payers. As such, Centra proposes the following:

- one round of information requests to Atrium/ Centra;

- intervenor(s) to file any written expert evidence;
- one round of information requests on intervenor evidence;
- Centra to file any rebuttal evidence; and
- Written final submissions.

In all cases, information requests and evidence should be restricted to issues which the PUB identified as contentious and requiring further evidence. Centra recommends that the PUB review and approve all proposed information requests to ensure that the requests are directly relevant and significant to the issues in scope, will assist with the Board's understanding of the issues, are not duplicative, do not require an extensive work effort and do not seek information which the requesting party could compile itself.

Confidential Information

In Order 82/20 the PUB accepted Centra's motion to hold certain information filed as part of this application in confidence. The PUB further ruled that the information redacted by Centra may not be required for interveners to participate fully in the proceeding. Centra concurs with the PUB's ruling and submits that it should apply to the COSMR process as all intervenors can fully participate in the COSMR without the need to access confidential information.

Should you have any questions with respect to this submission, please contact the writer at 204-360-5580 or Darryl Martin at 204-360-4487.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES

Per:

JCarvell

Jessica Carvell
Barrister & Solicitor

Attachment 1

Amendments to Centra's Cost of Service Methodology Based on Atrium's Recommendations

Based on its review of Atriums recommendations, Centra is proposing the following amendments to its Cost of Service Methodology:

- Replace Peak and Average with a Coincident Peak Day allocation method for transmission mains and the demand component of distribution mains;
- Utilize Direct Assignment of transmission plant to the Special Contract and Power Stations Classes;
- Refresh the development of the customer component of distribution mains using either a zero intercept or minimum system method; and
- Replace the Peak and Average allocator for upstream capacity costs with a Coincident Peak Day allocation for year-round pipeline capacity, and Winter Season Demand in excess of Summer Season Demand for storage and related pipeline capacity.

Amendments to Centra's Cost of Service Methodology Based on the PUB's Approval of Rate Re-structuring Changes

Based on its review of PUB Order 131/21, Centra is proposing further amendments to its Cost of Service Methodology that will also reflect the above-mentioned changes based on Atrium's recommendations. Such additional amendments include:

- The treatment of NGTL costs from AECO to Empress as a transportation cost for ratemaking purposes that will be functionalized to the Pipeline function, classified as Demand related and then allocated on the same basis as other fixed transportation costs. Post November 1, 2022, NGTL costs be allocated using a "Peak Day" allocator;
- The recovery of the cost of compressor fuel at Empress through the transportation rates effective November 1, 2022. Such costs will be functionalized to the Pipeline function, classified as Energy and allocated to customer classes based on volumes in the same manner as other variable transportation costs; and
- That Cost Allocation studies completed post November 1, 2022 reflect only a single commodity class for the purposes of developing the overhead component to be included in the Gas Commodity rate.

Other Proposed Amendments

Centra is also proposing the elimination of the Co-op Class from the Cost of Service Study given the low likelihood of increased participation by customers that would fall into this class. In Centra's view, it is appropriate to close the Co-op Class and proposes to reflect that change at the next GRA.

Attachment 2

The following identifies the sections of Centra's Cost of Service Methodology Review Submission that will be amended (red-lined) for the rate re-structure changes approved in Order 131/21.

2.2.1 Functionalization

Functionalization involves apportioning costs into broadly defined groups ("functions") which describe the purpose or function of the costs. In the case of Centra, there are six functions: Production, Pipeline, Storage, Transmission, Distribution and Onsite. The first three functions include the expenses that are incurred upstream of (or prior to) Centra's transmission and distribution system, and the next three functions include the expenses that are incurred downstream of, or within Centra's transmission and distribution system. A brief description of each of these functions is listed in the Figure below.

Figure 3: Function Descriptions

Upstream Functions	Production	Production costs include the commodity costs of gas supply purchased and flowed directly to the market, including gas supply purchased from Western Canada ~~Canadian sourced supply purchased at the Alberta border plus fuel costs to transport the gas to the Manitoba receipt points~~ and gas supply purchased from U.S. sources. Production costs also include the cost of gas withdrawn from storage to supply the Manitoba load.
	Pipeline	Pipeline costs include the fixed and variable costs of transporting gas on the NGTL system from the AECO hub in Alberta to Empress (Alberta/Saskatchewan border point) and on the TransCanada Pipelines Limited ("TCPL") system and other Canadian pipelines ~~from Empress, Alberta~~to Centra's transmission and distribution system, i.e. Centra's Manitoba receipt gates, including TCPL fuel costs.
	Storage	Storage costs include the fixed and variable costs of storage services, but do not include the cost of the commodity itself that is withdrawn from storage to supply the Manitoba load. All U.S. pipeline charges, both fixed and variable, including U.S. fuel costs, are included in this function.
Downstream Functions	Transmission	Transmission costs include the capital and operating costs of Centra's high-pressure transmission system, plus the cost of Unaccounted for Gas ("UFG") that occurs on Centra's transmission and distribution system. All UFG costs are included in the Transmission function for cost

	allocation purposes, in order to ensure that all customer classes are allocated their appropriate share of the UFG costs regardless of whether they are served from Centra's transmission or distribution system.
Distribution	Distribution costs include the capital and operating costs of Centra's high, medium, and low-pressure distribution systems.
Onsite	Onsite costs include capital and operating costs of Centra's investment in service lines, meters, and other equipment installed on customers' premises, plus the costs of customer accounting and customer service.

2.2.3 Allocation of Costs

The cost allocation process "allocates" the costs that have been functionalized and classified to the customer classes. The classification of costs as "commodity-related", "customer-related", and "capacity-related" provides broad guidelines as to how these costs should be allocated to the customer classes. Costs that have been classified as customer-related will be allocated to the various customer classes on some basis of customer count by class. Costs that have been classified as commodity-related will be allocated to the various customer classes based on the class-specific delivered volumes. Costs classified as Demand are allocated based on a customer class's contribution to the system peak. In addition to the customer classes described in Appendix 2, Centra also includes ~~Primary Gas, Supplemental Firm and Supplemental Interruptible classes~~a Gas Commodity class for the purposes of assigning costs and deriving an appropriate overhead rate related to non-gas costs. Centra's main allocators are discussed in more detail in Section 2.4.3.

2.3.2 Revenue Requirement

I. COST OF GAS

The cost of gas is the most significant cost that Centra incurs and includes the supply of gas molecules, as well as the pipeline transportation and storage arrangements necessary to bring the gas molecules to Manitoba. Gas costs are passed on to customers in their rates without any mark-up or profit to Centra. To ensure that only the cost of gas, no more and no less, is passed on to customers, Centra maintains a number of Purchased Gas Variance Accounts, which record the differences between the cost of gas embedded in sales rates and the actual cost of gas incurred by Centra. These differences are periodically either refunded to or collected from customers by way of rate riders that either decrease (i.e. refund to customers) or add to (i.e. recover from customers) the base sales rates and form part of the billed rates that are charged to customers.

The cost of gas is comprised of all upstream expenses and a small amount of downstream costs incurred in the procurement and delivery of natural gas to the Manitoba marketplace.

Commodity supply costs include ~~both Primary Gas~~ gas that is sourced from Western Canada, representing the majority of Centra's supply ~~and Supplemental Gas~~ as well as ~~which includes~~ supplies from U.S. and other Canadian sources. Transportation costs are incurred as gas is moved from both Alberta and the U.S. to Manitoba, including deliveries to and from Michigan-based storage facilities. Lastly, downstream costs included in the cost of gas relate to UFG costs on Centra's transmission and distribution system as well as Minell Pipeline charges.

Fixed costs associated with transportation of gas to Manitoba on NGTL and the TCPL Mainline are functionalized to Pipeline, while the fixed costs on the US pipeline that exist as a result of storage requirements are functionalized to Storage. Ultimately, this treatment results in no difference to the allocation of costs or customers' rates as both costs are classified as Demand and allocated to customers based on Peak and Average (PAVG).

Variable Transportation costs are primarily associated with transporting gas on the US pipeline including related compressor fuel costs. These costs are functionalized as Storage, classified as Energy and allocated based on winter volumes.

Commodity costs are functionalized to Production with the exception of UFG that is functionalized to Transmission. The treatment for UFG is to ensure that all customer classes are allocated their appropriate share of the UFG costs regardless of whether they are served from Centra's transmission or distribution system. All commodity costs are classified as energy-related. UFG is allocated based on the percentages established through Order 131/04 and other commodity supply costs are allocated to ~~the Primary Supply, Supplemental Supply for Firm customers and Supplemental Supply for Interruptible customers~~ Gas Commodity~~. Western Canadian supply costs are allocated directly to Primary Gas. US supplies are allocated between Firm and Interruptible Supplemental Gas based on daily load curves. Although Primary Gas, Supplemental Firm Gas and Supplemental Interruptible are not~~. The Gas Commodity class~~es~~ is not a customer class in the same sense as SGS for example, ~~they are~~but is treated as a discrete customer class~~es~~ for cost allocation purposes in order to determine the ~~Primary Gas and Supplemental~~ Commodity Gas overhead rate.

~~**Refinements related to Rate Re-structure Application**~~

~~Currently, compressor fuel at Empress is functionalized to Production and consequently included in the Primary Gas Rate. However, with the change in receipt point from Empress to AECO expected to take effect November 1, 2022, as discussed in Centra's Rate Re-structure Application, compressor fuel at Empress will be functionalized to Pipeline and included in transportation rates similarly as compressor fuel costs from other locations.~~

~~In addition, the Nova Gas Transmission Line transportation costs from AECO to Empress, which are currently treated as commodity costs and recovered through the Primary Gas Rate, will also be functionalized to Pipeline and included in transportation rates.~~