

**CENTRA GAS 2019/20 GENERAL RATE APPLICATION**

**INTERVENER EVIDENCE INFORMATION REQUESTS**

**CAC (METSCO)**

**JULY 5, 2019**

**CENTRA/METSCO I-1**

**Reference:**

Written Evidence of METSCO

**Preamble:**

**Question:**

Please provide a copy of the retainer letter as well as scope of work, instructions and assumptions provided to METSCO. If no formal retainer agreement was entered into, please provide a narrative of all discussions in which the witnesses received instructions with respect to the scope of their evidence.

**Response:**

Please see the attached retainer letter.

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**DDWEST LLP**  
BARRISTERS & SOLICITORS  
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WEBSITE: www.ddwestllp.com

March 18, 2019

Via Email

REFERENCE NO:  
003991-0131

METSCO Energy Solutions Inc.  
1206, 20 Ave SE,  
Calgary, AB, T2G 1M8

Brian J. Meronek, Q.C.

Attention: Thor Hjartarson

DIRECT LINE:

Dear Thor,

204-925-5355

EMAIL:

**Re: Risk Management Consultation**

bmeronek@ddwestllp.com

Further to our meeting of March 14, 2019, this is to confirm that you have been retained by CAC Manitoba Inc. in connection with the Centra Gas 2019/20 GRA proceedings.

PLEASE REPLY TO:

We put into CAC's budget a placeholder of \$50,000.00 for fees plus disbursements of \$2,000.00 for this aspect of these proceeding. You and I both agree that this budget seems to be well within the parameters of what will be required to provide consulting and expert advice pertaining to the asset management portion of the application.

Yolanda Woods

DIRECT LINE:

204-975-2534

EMAIL:

ywoods@ddwestllp.com

We expect that your firm will be providing assistance in the terms of submitting information requests, both first and second rounds and analyzing the answers; reviewing the application material specifically tabs 4 and 6, Appendix 6.1; providing an expert report; assisting in any rebuttal evidence Centra may wish to file; testifying as a panel, if necessary; and providing assistance in terms of argument on your topic.

Services provided by:  
Brian J. Meronek Law  
Corporation


The hourly rate ascribed to your firm is \$240.00. I have provided you with a schedule and as the material you need is online, I do not expect that you will need a hardcopy. To the extent that you may require any further information, please advise me at your earliest opportunity. It is understood that Alex Bakulev will be the technical lead on this retainer. As a result, I am copying Alex on this letter. I look forward to working with you.

Yours truly,

BRANCH OFFICES:  
CALGARY  
AIRDRIE  
REGINA

DD WEST LLP

Per:



Brian J. Meronek, Q.C.

BJM /yw

c.c. A. Bakulev  
G. Desorcy  
D. Rainkie  
K. Derksen

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### CAC (METSCO)

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#### CENTRA/METSCO I-2

##### **Reference:**

Written Evidence of METSCO

##### **Preamble:**

Order No. 90/16, page 17 of 26: "Since the requirement for a Safety and Loss Management System has already been adopted by the Board as part of the adoption of the CSA Z662-15 standard earlier this year, the Board directs Centra to comply with the requirements for a Safety and Loss Management System set out in the CSA standard by the end of 2016 and report to the Board on its compliance by that date."

##### **Question:**

Pursuant to Order 90/16, Centra is required to comply with the requirements of a Safety and Loss Management System as set out in CSA Z662-2015. Did METSCO take this requirement into consideration in performing any of the analysis or reaching any of its conclusions in its evidence?

##### **Response:**

METSCO is aware of the referenced Board order and the associated CSA standard. In conducting its review of the application, METSCO noted the multiple instances of the CSA Z662-2015 standard being referenced in the project justification documents. None of our comments with respect to Centra's capital program seek to challenge the need to comply with the above-referenced standard. However, it was our intent for our observations on issues with specifically referenced projects (and planning evidence more generally) to be reviewed by the Board on balance with other evidence, including the need for continued compliance with the CSA Z662-2015 standard.

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**JULY 5, 2019**

**CENTRA/METSCO I-3**

**Reference:**

Written evidence of METSCO, page 10, lines 13-17

**Preamble:**

The evidence indicates that: Data on impact (value gains or losses) of events that an investment seeks to prevent or facilitate:

- Cost of potential repairs if an asset fails unexpectedly
- Costs sustained by customers due to loss of supply (loss of heat, interrupted production etc.),
- Safety costs of potential injuries to employees and public, or environmental costs (leaks),
- Presence of redundancies and other capabilities to mitigate any negative impact.

For natural gas, the return to service of customers is an involved process that is independent of the process of repairing any pipeline damage and returning the distribution system to operation. For example, the return to service for customers can include the initial requirement to close the meter valve at each service and, when gas is again available, opening the meter valve, re-lighting the appliances and providing an inspection for safe operation.

**Question:**

- a) Does METSCO agree that the costs to Centra for returning customers to service should be included in the evaluation of projects that provide system resiliency?
- b) Recognizing that there are many potential causes of outages including pipeline leaks that may occur in road right of ways, under road and highway crossings,

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under rail crossings and at water way crossings and that the time to make the required repairs depend on the cause of the outage, please provide suggestions on the maximum acceptable duration of an outage.

#### **Response:**

a) METSCO agrees that the costs to Centra for returning customers to service should be included in the evaluation of projects that provide system resiliency. Such costs should form the portion of an outage impact quantification in the NPV calculation supporting a project justification.

b) METSCO is not in a position to provide suggestions as to the maximum acceptable duration of an outage. In our experience, such thresholds are most appropriately derived by the utility itself – most notably through direct engagement with various classes of customers, during which the customers' acceptance of outage duration and/or frequency could be gauged relative to the utility's estimates of the costs of maintaining the targeted levels of reliability.

Outage duration tolerance is also a matter of corporate policy, informed in part by customer preferences. However, it is reasonable for a utility to expect the cost/benefit tradeoffs of outage durations targeted by corporate policy to be tested in regulatory hearings from time to time.

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#### CENTRA/METSCO I-4

##### **Reference:**

Written evidence of METSCO, page 29, lines 2-9

##### **Preamble:**

The evidence indicates that: “Finally, Centra’s capital projects rely to a great degree on the past expenditure levels both in the CIJs and the overall Five Year Forecast presented in Appendix 4.3. While METSCO does not disagree that the volumes of smaller sustainment work may show generally consistent patterns from year to year, the program CIJs that provide no information as to the actual numbers, locations or anticipated conditions of units expected to require intervention should be treated with a degree of skepticism. We understand that competing priorities and relatively low materiality of many types of forecasted investment work necessitate higher level estimation from a practical perspective. Yet, it is unreasonable for Centra to expect that the prior year investment volumes alone should suffice as reasonable estimates of future funding”.

##### **Question:**

Recognizing the contractual requirements for Centra to provide natural gas service are defined by franchise agreements, requirements for compliance with CSA Z662 and The Electricity and Gas Inspection Act and that program items are generally completed within one year of being identified, please identify alternatives other than the use of historic spending levels to better define future budget estimates.

##### **Response:**

As METSCO states in the above-referenced passage, we do not take issue with past-year expenditures informing Centra’s forecast in general. We do, however, note above that past accomplishments *alone* should not suffice as reasonable

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estimates. As stated in the referenced passage from the METSCO report, the past-year spending should be used in conjunction with known information on the number and type of units, their estimated or measured condition, expected end-of-life, operating issues experienced or sought to be mitigated, known compliance issues, etc. In our assessment, it is not unreasonable for Centra to produce such information in a sufficiently aggregated form. We take this position given the reported number of maintenance activities that Centra conducts, and the state of equipment maintenance records that it possesses as per its responses to IRs CAC/CENTRA I-40a; CAC/CENTRA I-41c; and CAC/CENTRA I-42a, among others.

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### CAC (METSCO)

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#### CENTRA/METSCO I-5

##### Reference:

Reference 1. Written evidence of METSCO Page 6– lines 3-5

Reference 2. Written evidence of METSCO Page 7 – lines 7-13

Reference 3. Written evidence of METSCO Page 45 – lines 27-28

Reference 4. Written evidence of METSCO - Page 46-47 – Table 1

##### Preamble:

In Reference 1 – METSCO states – “At the outset of this document, METSCO notes that the core of our business and the ensuing area of expertise concerns planning, management and operation of electricity systems. Accordingly, no part of our evidence should be seen as the testimony of a natural gas system engineering expert.”

In Reference 2 – METSCO states – “The report then proceeds to explore the specifics of the application, along three key dimensions:

- reliance on quantitative empirical evidence;
- the degree of discretion underlying the Applicant’s forecasts; and
- the evidence of efficiency/productivity efforts to help mitigate the impact on consumer rates.

Across all three dimensions of analysis, it is our general finding that Centra’s evidence does not adequately justify the full amount of forecasted capital expenditures.”

In Reference 3 - “METSCO recommendations address the projects where we feel the most significant opportunities for cost forecast reductions may exist.”



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n Reference 4 – METSCO lists suggestions for Further Actions for PUB and Centra Gas identifying four capital projects by Centra – namely the Steinbach Upgrade Project, Portage La Prairie Gas Supply Project, Winnipeg HP Interconnection Project and Red River TP Replacement – presumably where METSCO suggests that the most significant opportunities for cost forecast reductions may exist.

#### **Question:**

a) Does METSCO agree that Centra's business and area of expertise specifically concerns the planning, management and operation of an integrated natural gas distribution system in Manitoba? If not, please explain fully.

b) Does METSCO agree that in operating the natural gas distribution system in Manitoba, Centra (Manitoba Hydro) has natural gas system engineering experts? If not, please explain.

c) Does METSCO agree that Centra is better positioned than Alex Bakulev and Dmitry Balashov (on behalf of METSCO) having natural gas system engineering experts in assessing and evaluating the need for reliability projects for the safe and reliable operation of the natural gas distribution system in Manitoba? If not, please explain.

d) Please provide a detailed discussion which demonstrates how METSCO has evaluated the "reliability case" or any other factors for the Steinbach Upgrade Project and whether it should proceed. The discussion should include a comparison of any alternatives considered by METSCO, including system capacity considerations, engineering constraints, costs, consequences of an outage, and any additional information that METSCO considered in its determination.

e) Please provide a detailed discussion which demonstrates how METSCO has evaluated the "reliability case" or any other factors for the Portage La Prairie Gas

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Supply Project and whether it should proceed. The discussion should include a comparison of any alternatives considered by METSCO, including system capacity considerations, engineering constraints, costs, consequences of an outage, and any additional information that METSCO considered in its determination.

f) Please provide a detailed discussion which demonstrates how METSCO has evaluated the “reliability case” or any other factors for the Winnipeg HP Interconnection and whether it should proceed. The discussion should include a comparison of any alternatives considered by METSCO, including system capacity considerations, engineering constraints, costs, consequences of an outage, and any additional information that METSCO considered in its determination.

g) Please provide a detailed discussion which demonstrates how METSCO has evaluated the “reliability case” or any other factors for the Red River TP Replacement and whether it should proceed. The discussion should include a comparison of any alternatives considered by METSCO, including system capacity considerations, engineering constraints, costs, consequences of an outage, and any additional information that METSCO considered in its determination.

h) Please confirm that METSCO, in its Report, makes no specific recommendation to cancel any project planned by Centra. If not confirmed, please specify where in the Report such recommendation exists and provide all calculations, analysis and documentation supporting any such recommendation.

i) Please confirm that METSCO, in its Report, makes no specific recommendation for a cost forecast reduction amount relating to any capital project for Centra's test year. If not confirmed, please specify where in the Report such recommendation exists and provide all calculations, analysis and documentation supporting any such recommendation.

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#### **Response:**

a) METSCO agrees with the statement.

b) METSCO agrees with the statement.

c) METSCO partially disagrees with the statement. In our view, the matter of assessing the need for contemplated projects falls squarely into the issue area of Asset Management, where METSCO possesses in-depth expertise. As stated in our report, we did not claim expertise in the area of natural gas system engineering. However, the issue of evaluating the relative merits of potential investment projects using available evidence are asset management considerations. METSCO expects that our expertise in this area will assist the PUB in evaluating the work program advanced by Centra.

d) METSCO's comments in relation to the Steinbach project were based on the information contained in the dedicated CIJ and sought to underline what we saw as an incorrect methodology of estimation of outage risk, which drove the selection of the preferred option in the CIJ. Doing so did not require METSCO to undertake any of the analysis referenced in the question.

e) As with the Steinbach upgrade project referenced in (d), our observations in relation to the Portage La Prairie project surrounded a methodologically incorrect application of outage risk estimation. . No additional analysis was concluded as it was not required to complete the intended objectives.

f) METSCO was not able to review the reliability case for Winnipeg HP project. As indicated in Centra's response to CAC/CENTRA-I-69c, there is no approved CIJ for the project at this time. METSCO's commentary on the project in question simply suggests that the Applicant and the PUB consider delaying the project's commencement until such time that the CIJ is developed and reviewed.

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g) METSCO's intent underlying recommendation #8 concerning the Red River project was for the applicant to provide additional information to substantiate the need for the project. This information could include data such as the probability of a dual supply point failure, and/or the feasibility of transferring one of the two existing supply points as a potential partial option. We believe that this additional information would enhance the PUB's ability to determine the extent to which the project is required within the timeline and the scope presented. No additional analysis was performed.

h) Partially Confirmed. METSCO does not make any explicit recommendations to cancel any specific project. We did, however, identify several projects (such as the Portage La Prairie project referenced in sub (e)) where we feel further scrutiny on the part of the PUB may be of value, given the issues raised in our report.

i) Please see METSCO's response so sub h).

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**CENTRA/METSCO I-6**

**Reference:**

Page 4 of the METSCO Report - Disclaimer

**Preamble:**

METSCO provides the following disclaimer in the Report:

“This report has been prepared by METSCO Energy Solutions Inc. (“METSCO”) for DDL West LLP on behalf of the Consumers Association (“CAC”). Neither METSCO, nor any other person acting on its behalf makes any warranty, express or implied, or assumes any legal responsibility for the accuracy of any information or for the completeness or usefulness of any process disclosed or results presented, or accepts liability for the use, or damages resulting from the use, thereof. Any reference in this report to any specific process or service by trade name, trademark, manufacturer or otherwise does not necessarily constitute or imply its endorsement or recommendation by METSCO.

**Question:**

- a) Is it METSCO's position that its report is accurate and complete to the best of its knowledge and belief?
- b) Notwithstanding the statements contained within the disclaimer provided by METSCO, please confirm that CAC views the METSCO report as “useful” to the PUB in this proceeding.
- c) In the event that the PUB were to make a specific finding in its Order resulting from this proceeding based upon the information, process, results or recommendations contained in the METSCO Report, is it METSCO's position that

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neither METSCO or CAC would bear any legal responsibility or liability from any such decision by the PUB?

d) In the event that the PUB were to find in its Order resulting from this proceeding, for example that the Portage La Prairie Gas Supply Project should not proceed as planned by Centra based upon the recommendation made by METSCO within its Report, and a major natural gas supply event occurred disrupting the supply of natural gas to the entire City of Portage La Prairie, would METSCO or CAC bear any legal responsibility or liability for any such event? Would the PUB bear any legal responsibility or liability for such event? Would Centra bear any legal responsibility or liability for such event?

**Response:**

a) As stated on p. 5 of our report (lines 21-23), "...our observations and recommendations are a function of the data that the Applicant elected to make available. As such they are subject to any additional insights that may emerge in the subsequent stages of the proceeding."

b) CAC has confirmed with METSCO that CAC views the report as "useful" to the PUB in this proceeding. METSCO notes, however, that the PUB is the only party that can determine whether our report was of use to it in making its assessment of the application.

c) This is a legal question, and therefore is inappropriate.

d) See response to (c).