


BEFORE THE PUBLIC UTILITIES BOARD OF MANITOBA
CENTRA GAS MANITOBA INC.
2019/20 GENERAL RATE APPLICATION

Written Evidence of Brian C. Collins

Public Redacted Version
(All Confidential Information Has Been Redacted as )

On behalf of

Koch Fertilizer Canada, ULC

June 21, 2019



Project 10787

**Table of Contents to the
Written Evidence of Brian C. Collins**

	<u>Page</u>
Summary of Conclusions and Recommendations	2
Cost of Service and Rate Design Principles.....	3
Centra's Transmission Service to Koch	6
Centra's Gas Cost of Service Study	8
Direct Assignment of Costs to the Special Contracts Customer Class	10
Qualifications of Brian C. Collins	Appendix A

1 **Q.1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q.2. WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation with Brubaker & Associates, Inc.
6 ("BAI"), energy, economic and regulatory consultants.

7 **Q.3. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A This information is included in Appendix A to my evidence.

9 **Q.4. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 A I am appearing on behalf of Koch Fertilizer Canada, ULC ("Koch") in Brandon,
11 Manitoba.

12 **Q.5. PLEASE DESCRIBE KOCH AND ITS INTEREST IN THIS PROCEEDING.**

13 A Koch is a large industrial customer of Centra Gas Manitoba Inc. ("Centra") and
14 purchases large quantities of gas that are delivered over the Centra system. Koch is
15 the only customer in Centra's Special Contracts customer class. Under Centra's
16 proposal, the Special Contracts customer class would see an increase of approximately
17 64.8% or ██████████ for the delivery of customer-owned gas. Such an increase would
18 adversely impact Koch.

1 **Q.6. WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?**

2 A The subject matter of my testimony is directed toward Centra’s proposed natural gas
3 cost of service study, its proposed revenue allocation, and the resulting impact of its
4 proposals on Koch.

5 I have examined the testimony and exhibits presented by Centra in this
6 proceeding with respect to cost of service and revenue allocation, and I will comment
7 on the propriety of these proposals, and make certain recommendations.

8 **Summary of Conclusions and Recommendations**

9 **Q.7. PLEASE BRIEFLY SUMMARIZE YOUR CONCLUSIONS AND**
10 **RECOMMENDATIONS IN THIS PROCEEDING.**

11 A Centra’s proposed gas rates for Koch erroneously assume that Centra’s entire gas
12 transmission system is used to provide natural gas delivery service to Koch. Centra
13 has allocated a slice of its entire system to Koch in its cost of service study, and the
14 increase to Koch is based on this flawed cost of service result.

15 Centra’s service to Koch is accomplished using discrete, readily identifiable
16 facilities and does not involve the majority of Centra’s transmission facilities.
17 Accordingly, it is my recommendation that Centra’s proposal to base Koch’s proposed
18 rates on a portion of all system costs should be rejected.

19 Instead, Koch’s rates should be established in a manner that reflects the reality
20 that only a small portion of Centra’s transmission system actually can be used to serve
21 Koch. Based on cost data provided by Centra for the facilities serving Koch, Centra’s
22 existing rates charged to Koch are more than adequately recovering the plant’s cost of
23 service.

1 Centra has not provided access to its cost of service model in order for Koch to
2 verify its results. A cost of service study that on its face results in an increase of
3 approximately 65% for one of Centra’s largest customers while at the same time
4 indicates that Centra’s overall cost of service has decreased, should give pause to the
5 Public Utilities Board of Manitoba (“PUB”). Therefore, I recommend that the PUB not
6 rely on Centra’s cost of service study to establish rates at this time. Furthermore, based
7 on my analysis of the actual cost to serve Koch using the direct assignment approach,
8 Koch is actually entitled to a rate reduction, and not an increase as proposed by Centra
9 for the Special Contracts customer class in this proceeding. My analysis specific to
10 Koch’s cost of service demonstrates that Centra’s cost of service study is flawed.

11 **Cost of Service and Rate Design Principles**

12 **Q.8. COULD YOU PLEASE EXPLAIN THE RATEMAKING PROCESS AND THE DESIGN**
13 **OF RATES?**

14 A The ratemaking process has three steps. First, we must determine the utility's total
15 revenue requirement and whether an increase or decrease in revenues is necessary.
16 Second, we must determine how any increase or decrease in revenues is to be
17 distributed among the various customer classes. A determination of how many dollars
18 of revenue should be produced by each class is essential for obtaining the appropriate
19 level of rates. Finally, individual tariffs must be designed to produce the required
20 amount of revenues for each class of service and to reflect the cost of serving
21 customers within the class.

22 The guiding principle at each step should be cost of service. In the first step--
23 determining revenue requirements--it is universally agreed that the utility is entitled to

1 an increase only to the extent that its actual cost for providing of service to customers
2 has increased. If current rate levels exceed the utility's revenue requirement, a rate
3 reduction is required. In short, a utility's rate revenues should equal its actual cost of
4 service. The same principle should apply in the second two steps. Each customer
5 class should, to the extent practicable, produce revenues equal to the cost of serving
6 that particular class, no more and no less. This may require a rate increase for some
7 classes and a rate decrease for other classes. The standard tool for determining this
8 is a class cost of service study which shows the rates of return for each class of service.
9 Rate levels should be modified so that each class of service provides approximately
10 the same rate of return. Finally, in designing individual tariffs, the goal should also be
11 to relate the rate design to the cost of service so that each customer's rate tracks, to
12 the extent practicable, the utility's cost of providing service to that customer.

13 When it can be determined that specific facilities serve a customer or customer
14 class, the cost associated with these facilities should be directly assigned to the
15 customer or customer classes.

16 **Q.9. WHY IS IT IMPORTANT TO ADHERE TO BASIC COST OF SERVICE PRINCIPLES**
17 **IN THE RATEMAKING PROCESS?**

18 A The basic reasons for using cost of service as the primary factor in the ratemaking
19 process are equity and stability.

20 **Q.10. HOW IS THE EQUITY PRINCIPLE ACHIEVED BY BASING RATES ON COSTS?**

21 A When rates are based on cost, each customer (to the extent practical) pays what it
22 costs the utility to serve him, no more and no less. If rates are not based on cost of

1 service, then some customers contribute disproportionately to the utility's revenues by
2 subsidizing service provided to other customers. This is inherently inequitable.

3 **Q.11. PLEASE DISCUSS THE STABILITY CONSIDERATION.**

4 A When rates are closely tied to costs, the earnings impact on the utility of changes in
5 customer use patterns will be minimized as a result of rates being designed in the first
6 instance to track changes in the level of costs. Thus, cost-based rates provide an
7 important enhancement to a utility's earnings stability, reducing its need for filings for
8 rate increases.

9 From the perspective of the customer, cost-based rates provide a more reliable
10 means of determining future levels of costs. If rates are based on factors other than
11 costs, it becomes much more difficult for customers to translate expected utility-wide
12 cost changes (i.e., expected increases in overall revenue requirements) into changes
13 in the rates charged to particular customer classes (and to customers within the class).
14 From the customer's perspective, this situation reduces the attractiveness of
15 expansion, as well as of continued operations, because of the lessened ability to plan.

16 **Q.12. WHEN YOU SAY "COST," TO WHAT TYPE OF COST ARE YOU REFERRING?**

17 A I am referring to the utility's "embedded" or actual accounting costs of rendering service;
18 that is, those costs which are used by the Commission in establishing the utility's overall
19 revenue requirement.

1 **Q.13. WOULD YOU PLEASE COMMENT ON THE BASIC PURPOSE OF A COST OF**
2 **SERVICE STUDY?**

3 A After determining the overall cost of service or revenue requirement, a cost of service
4 study is used to allocate the cost of service among customer classes. A cost of service
5 study shows how each customer class contributes to the total system cost. For
6 example, when a class produces the same rate of return as the total system, it is
7 returning to the utility revenues just sufficient to cover the costs incurred in serving it
8 (including a reasonable authorized return on investment). If a class produces a below-
9 average rate of return, it may be concluded that the revenues are insufficient to cover
10 all relevant costs. On the other hand, if a class produces a rate of return above the
11 average, it is paying revenues sufficient to cover the cost attributable to it, and in
12 addition, is paying part of the cost attributable to other classes who produce a
13 below-average rate of return. The class cost of service study is important because it
14 shows the class revenue requirement, as well as the rate of return under current and
15 any proposed rates.

16 **Centra's Transmission Service to Koch**

17 **Q.14. PLEASE PROVIDE A BASIC DESCRIPTION OF THE DELIVERY SERVICE THAT**
18 **CENTRA PROVIDES TO THE KOCH PLANT IN BRANDON, MANITOBA.**

19 A Koch purchases gas at its own expense and risk and has that gas delivered through
20 the TransCanada Pipeline ("TCPL") to the Centra delivery system. Centra delivers the
21 customer-owned gas from TCPL over a relatively short distance to the Koch plant.
22 Centra serves Koch via two transmission pipelines connected to TCPL: the NPS 6
23 diameter line which is 21 km, and the NPS 12 diameter line, which is 28 km. In addition

1 to the transmission mains, Centra also provides service via other facilities including a
2 meter, a distribution station and structures, and land and land rights associated with
3 the transmission mains.

4 **Q.15. SINCE CENTRA'S LAST RATE CASE HAVE THE FACILITIES CHANGED THAT**
5 **SERVE KOCH?**

6 A According to Centra's response to IGU/CENTRA II-1m, there have been minor
7 investments in the facilities to serve Koch. Specifically, [REDACTED] in investment has
8 been made since the last rate case for erosion protection related to the NPS 12
9 diameter transmission line.

10 A rebuild of the Centra primary station that connects to TCPL is currently
11 underway and is estimated by Central to cost [REDACTED] for the work associated with
12 Koch supply. This rebuild is scheduled to be in service in August of 2019.

13 **Q.16. HAS CENTRA IDENTIFIED ANY OTHER TRANSMISSION MAINS IN ITS SYSTEM**
14 **THAT CAN BE USED TO SERVE KOCH?**

15 A According to the response to IGU/CENTRA II-1d, Koch could be served by the Brandon
16 Combustion Turbine Pipeline. But service from this line is tenuous at best because the
17 availability of this pipeline to supply Koch would depend on the operating status of the
18 Brandon Combustion Turbines. Only reduced supply may be available. Furthermore,
19 if a specific segment of the NPS 12 pipeline that is directly serving Koch is out of
20 service, Centra can't provide gas delivery to Koch even with the redundant facilities.

1 **Q.17. DO THE TRANSMISSION MAINS THAT SERVE KOCH SERVE CUSTOMERS**
2 **OTHER THAN THE KOCH PLANT?**

3 A No. According to Centra's response to IGU/CENTRA II-1c, the NPS 12 and NPS 6
4 transmission mains serving Koch do not serve any other customers during normal
5 operations.

6 **Centra's Gas Cost of Service Study**

7 **Q.18. HAVE YOU REVIEWED THE GAS COST OF SERVICE STUDY PERFORMED BY**
8 **CENTRA IN THIS PROCEEDING?**

9 A I have reviewed only the results of Centra's cost of service study in this proceeding.
10 Centra did not provide the complete cost of service study to Koch. Therefore, I have
11 not been able to validate the results of the cost of service study, including the allocation
12 of costs to the Special Contracts customer class.

13 **Q.19. DID CENTRA PROVIDE ANY EXPLANATION FOR ITS FAILURE TO PROVIDE THE**
14 **COST OF SERVICE STUDY?**

15 A Centra claims the study is confidential and as a result, will not provide access to Koch
16 or its advisers who are subject to the usual non-disclosure agreements.

17 **Q.20. HOW DOES CENTRA ALLOCATE COSTS TO THE SPECIAL CONTRACTS CLASS**
18 **IN ITS COST OF SERVICE STUDY?**

19 A Centra erroneously allocates a slice of its entire transmission system to the Special
20 Contracts class based on ratios of loads and throughput. Centra specifically uses the

1 Peak and Average method to allocate the costs of its system of mains to customer
2 classes.

3 **Q.21. WHAT IS THE RESULT OF CENTRA'S COST OF SERVICE STUDY ON KOCH?**

4 A Based on the results of the cost of service study, the cost for the Special Contracts
5 customer class is [REDACTED]. This is an increase of [REDACTED] or 64.8% compared to
6 current rate revenues of [REDACTED].

7 **Q.22. WHAT IS THE OVERALL INCREASE FOR CENTRA?**

8 A Centra is actually indicating a decrease of \$2,480,000 on a total Company basis in its
9 filing.

10 **Q.23. ARE THE RESULTS OF THE COST OF SERVICE STUDY WITH RESPECT TO THE**
11 **SPECIAL CONTRACTS CUSTOMER CLASS REASONABLE?**

12 A No. Koch is the only customer in the class and the facilities serving it are readily
13 identifiable. Koch doesn't utilize facilities that Centra is allocating to it via its slice of
14 system allocation in its cost of service study. A basic and fundamental tenet of cost of
15 service is the principle of cost causation. Therefore, allocating Koch a slice of the cost
16 its entire transmission system, including the cost of new facilities related to transmission
17 system expansion installed since the last rate that are not capable of providing service
18 to Koch, is inappropriate and does not reflect cost of service.

1 **Direct Assignment of Costs to the Special Contracts Customer Class**

2 **Q.24. WHAT WOULD BE A BETTER APPROACH FOR ALLOCATING COSTS TO THE**
3 **SPECIAL CONTRACTS CUSTOMER CLASS THAN CENTRA'S SLICE OF SYSTEM**
4 **ALLOCATION APPROACH?**

5 A A better approach would be to allocate the actual costs of the facilities actually used to
6 provide service to the class using direct assignment. This would best reflect cost of
7 service principles. The costs for providing service to the class are easily identifiable. It
8 is preferable to directly allocate costs to a class using direct assignment when costs
9 are easily identifiable.

10 **Q.25. WHAT ARE THE COSTS OF THE FACILITIES SERVING KOCH?**

11 A Based on the response to IGU/CENTRA II-1g, the net book cost of the two transmission
12 mains directly serving Koch is [REDACTED]. This is the rate base amount for the mains
13 directly serving Koch. In comparison, Centra has allocated approximately [REDACTED]
14 in rate base to Koch in its cost of service study.

15 In addition, Centra has provided an estimate of the rate base for the other
16 facilities serving Koch, including the meter and other distribution and transmission
17 assets. This amount is [REDACTED]. Thus, the total rate base for facilities directly serving
18 Koch is [REDACTED]. If the total cost of redundant facilities are considered, the rate
19 base amount is [REDACTED].

1 **Q.26. HAVE YOU ESTIMATED THE COST OF SERVICE FOR KOCH BASED ON THE**
 2 **DIRECT ASSIGNMENT APPROACH OF ASSIGNING COSTS TO KOCH?**

3 A Yes. Based on the cost data provided, the following table is a summary of the cost to
 4 serve Koch based on the direct assignment approach.

Table 1	
Cost to Serve Koch Based on <u>Direct Assignment Approach</u>	
<u>Description</u>	<u>Direct Facility Cost (000)</u>
Current Revenue	██████████
Cost of Service	
Oper. Expenses	██████████
Other Revenue	██████████
Depreciation & Amort.	██████████
Taxes	██████████
Finance Expense	██████████
Corporate Allocation	██████████
Net Income	██████████
Total	██████████
Overcharge	██████████

5 On this basis, Koch is currently paying rates that are in excess of cost of its cost of
 6 service.

7 **Q.27. BASED ON THIS LEVEL OF RETURN AT CURRENT RATES, IS AN INCREASE**
 8 **FOR KOCH WARRANTED?**

9 A No. It should actually receive a cost reduction if Centra properly applied the principles
 10 of cost causation in its cost of service study.

1 Q.28. IF CENTRA CLAIMS THAT KOCH SHOULD ALSO BE DIRECTLY ALLOCATED
 2 THE COST OF REDUNDANT FACILITIES, HOW WOULD THIS IMPACT KOCH'S
 3 COST OF SERVICE?

4 A Though this would not be my primary recommendation for Koch's cost of service, this
 5 is shown in Table 2 below.

Table 2	
Cost to Serve Koch Based on <u>Direct Assignment Approach</u>	
<u>Description</u>	<u>Direct Facility Cost With Redundancy (000)</u>
Current Revenue	██████████
Cost of Service	
Oper. Expenses	██████████
Other Revenue	██████████
Depreciation & Amort.	██████████
Taxes	██████████
Finance Expense	██████████
Corporate Allocation	██████████
Net Income	██████████
Total	██████████
Overcharge	██████████

6 Even when 50% of the total cost of redundant facilities are considered in Koch's
 7 cost of service, rates are adequate. Fifty percent is a reasonable allocation of the
 8 redundant facilities because these redundant facilities serve other customers and
 9 cannot always be relied upon to serve 100% of Koch's demand.

1 **Q.29. PLEASE SUMMARIZE YOUR POSITION WITH RESPECT TO CENTRA'S**
2 **PROPOSED GAS DISTRIBUTION RATES FOR KOCH IN THIS PROCEEDING.**

3 A The rates resulting from Centra's recommended class cost of service are
4 unreasonable, as those rates are premised upon a cost allocation that bears no
5 relationship to the manner in which Centra incurs costs to serve Koch. To ensure that
6 there is a strong and accurate relationship between the rates charged Koch and the
7 manner in which Centra incurs costs to provide that service, costs allocated to Koch
8 should be based on direct assignment. Directly assigning the actual cost of the facilities
9 that serve Koch is infinitely more accurate than the erroneous allocations performed by
10 Centra.

11 Koch is a unique customer that requires specific analysis in the performance of
12 a fair and accurate cost of service study. Often, company-wide allocations that are
13 justified in serving classes with large numbers of customers at various geographic
14 locations make no sense in accurately allocating cost required to serve a single
15 extremely large customer such as Koch. Cost allocations to Koch that result in
16 excessive rates can undermine Koch's ability to remain competitive and a strong
17 contributor to Manitoba's economy.

18 Centra has not provided access to its cost of service model in order for Koch to
19 verify its results. A cost of service study that on its face results in an increase of
20 approximately 65% for one of Centra's largest customers, while at the same time
21 indicates that Centra's overall cost of service has decreased, should give pause to the
22 PUB. Therefore, I recommend that the PUB not rely on Centra's flawed cost of service
23 study to establish rates at this time. Furthermore, based on my analysis of the actual
24 cost to serve Koch using the direct assignment approach, Koch's current rates are more
25 than adequate to recover its cost of service. In fact, the Special Contracts class is

1 actually entitled to a rate reduction according to my analysis, and not an increase as
2 proposed by Centra. My analysis specific to Koch demonstrates that Centra's cost of
3 service study is flawed.

4 **Q.30. DOES THIS CONCLUDE YOUR EVIDENCE?**

5 A Yes, it does.

Qualifications of Brian C. Collins

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5 A I am a consultant in the field of public utility regulation and a Principal with the firm of
6 Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A I graduated from Southern Illinois University Carbondale with a Bachelor of Science
9 degree in Electrical Engineering. I also graduated from the University of Illinois at
10 Springfield with a Master of Business Administration degree. Prior to joining BAI, I was
11 employed by the Illinois Commerce Commission and City Water Light & Power
12 ("CWLP") in Springfield, Illinois.

13 My responsibilities at the Illinois Commerce Commission included the review of
14 the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before the
15 Commission as well as the review of utilities' requests for certificates of public
16 convenience and necessity for new electric transmission lines. My responsibilities at
17 CWLP included generation and transmission system planning. While at CWLP, I
18 completed several thermal and voltage studies in support of CWLP's operating and
19 planning decisions. I also performed duties for CWLP's Operations Department,
20 including calculating CWLP's monthly cost of production. I also determined CWLP's

1 allocation of wholesale purchased power costs to retail and wholesale customers for
2 use in the monthly fuel adjustment.

3 In June 2001, I joined BAI as a Consultant. Since that time, I have participated
4 in the analysis of various utility rate and other matters in several states and before the
5 Federal Energy Regulatory Commission (“FERC”). I have filed or presented testimony
6 before the Arkansas Public Service Commission, the California Public Utilities
7 Commission, the Delaware Public Service Commission, the Florida Public Service
8 Commission, the Idaho Public Utilities Commission, the Illinois Commerce
9 Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service
10 Commission, the Minnesota Public Utilities Commission, the Missouri Public Service
11 Commission, the Montana Public Service Commission, the North Dakota Public
12 Service Commission, the Public Utilities Commission of Ohio, the Oregon Public Utility
13 Commission, the Rhode Island Public Utilities Commission, the Virginia State
14 Corporation Commission, the Public Service Commission of Wisconsin, the
15 Washington Utilities and Transportation Commission, and the Wyoming Public Service
16 Commission. I have also assisted in the analysis of transmission line routes proposed
17 in certificate of convenience and necessity proceedings before the Public Utility
18 Commission of Texas.

19 In 2009, I completed the University of Wisconsin – Madison High Voltage Direct
20 Current (“HVDC”) Transmission Course for Planners that was sponsored by the
21 Midwest Independent Transmission System Operator, Inc. (“MISO”).

22 BAI was formed in April 1995. BAI and its predecessor firm has participated in
23 more than 700 regulatory proceeding in forty states and Canada.

1 BAI provides consulting services in the economic, technical, accounting, and
2 financial aspects of public utility rates and in the acquisition of utility and energy
3 services through RFPs and negotiations, in both regulated and unregulated markets.
4 Our clients include large industrial and institutional customers, some utilities and, on
5 occasion, state regulatory agencies. We also prepare special studies and reports,
6 forecasts, surveys and siting studies, and present seminars on utility-related issues.

7 In general, we are engaged in energy and regulatory consulting, economic
8 analysis and contract negotiation. In addition to our main office in St. Louis, the firm
9 also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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