



360 Portage Avenue (22) • Winnipeg Manitoba Canada • R3C 0G8
Telephone / N° de téléphone: 204-360-5580 • Fax / N° de télécopieur: 204-360-6147 • jcarvell@hydro.mb.ca

August 5, 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") Cost of Service Methodology Review – Final Argument

Please find enclosed Centra's final argument with respect to its Cost of Service Methodology Review Application.

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:

A handwritten signature in blue ink that reads 'Carvell'.

Jessica Carvell
Barrister & Solicitor

PUBLIC UTILITIES BOARD

CENTRA GAS MANITOBA INC.

FINAL ARGUMENT

COST OF SERVICE METHODOLOGY REVIEW

August 5, 2022



CENTRA GAS MANITOBA INC.
COST OF SERVICE METHODOLOGY REVIEW
FINAL ARGUMENT
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CENTRA GAS MANITOBA INC.
COST OF SERVICE METHODOLOGY REVIEW
FINAL ARGUMENT

1.0 INTRODUCTION

Centra Gas Manitoba Inc. (“Centra”) filed its Cost of Service Methodology Review Application (“Application” or “COSMR”) on June 15, 2021. Subsequent to its initial filing, the record of this proceeding has been supplemented by Centra’s responses to information requests and rebuttal evidence, and intervener pre-filed evidence as well as intervener responses to information requests.

Centra’s recommendations to alter some aspects of its cost of service methodology are based on sound principles of cost causation and are supported and endorsed by the expert evidence of Atrium Economics LLC. (“Atrium”), InterGroup Consultants (“InterGroup”) and Brubaker & Associates (“Brubaker”). These recommendations are outlined below.

1.1 Summary of Recommendations

Centra recommends the Public Utilities Board (“PUB”) order the following amendments to its cost of service methodology:

1. Replace the Peak and Average allocator for transmission and distribution demand-related costs with a Coincident Peak Day allocation method, utilizing a Design Day peak which incorporates the Interruptible class;
2. Replace the Peak and Average allocator for upstream capacity costs with a Coincident Peak Day allocator for year-round pipeline capacity, utilizing a Design Day peak which excludes the Interruptible class;
3. Replace the Peak and Average allocator for storage and related pipeline capacity with a Winter Season Demand in excess of Summer Season Demand allocator that includes the Interruptible class;
4. Utilize Direct Assignment of transmission plant to the Special Contract Customer and the Brandon Power Station with no additional allocation of the broader transmission system to these classes;

- 1 5. Should proposal #1 and/or 2 be accepted, Centra seeks to discontinue applying
2 the franchise expansion adjustment at the next General Rate Application (“GRA”);
3
- 4 6. Elimination of the Co-op class from the Cost of Service Study; and
5
- 6 7. Allocate the cost of Gas in Storage included in Rate Base on the basis of winter
7 volumes instead of annual volumes.
8

9 To fully implement the changes flowing from Order 131/21 with respect to rate restructuring,
10 Centra seeks approval of the following:

- 11 8. The treatment of NGTL costs from AECO to Empress as a transportation cost for
12 ratemaking purposes that will be functionalized to the Pipeline function, classified
13 as Demand related and then allocated on the same basis as other fixed
14 transportation costs;
15
- 16 9. The treatment of compressor fuel costs at Empress as variable transportation
17 costs, functionalized to the Pipeline function, classified as Energy and allocated to
18 customer classes based upon volumes; and
19
- 20 10. All cost allocation studies completed after November 1, 2022 reflect a single
21 commodity class for the purposes of developing the overhead component of the
22 Gas Commodity rate.
23

24 In addition, Centra intends to make the following revisions which it will bring forward at the
25 next GRA:

- 26 11. Update the service line study to reflect the most current data and index the result
27 of the study;
28
- 29 12. Update the meter study to reflect the most current data;
30
- 31 13. Centra will bring forward a recommendation with regard to the distribution
32 classification metric based on performance of a Minimum System study; and
33
- 34 14. Centra proposes to review the allocation of Unaccounted For Gas and report on
35 its status. In the interim, Centra proposes to retain the current allocation method.

1 In the event that the recommendation related to direct assignment is accepted and the PUB
2 determines that the indicative impacts support a need for immediate rate adjustments,
3 Centra proposes the following interim rate adjustment:

- 4 • Alter the Special Contract Customer Class rates by reinstating the non-gas portion
5 of this customer class rates to those in effect prior to PUB Order 58/19; and
6
- 7 • To recognize the effect that the direct assignment methodology would have on
8 the Power Station Class and to ensure Centra continues to recover the approved
9 revenue requirement, increase the Power Station Class's rates by the revenue
10 deficiency caused by the adjustment to Special Contract Customer Class rates.
11

12 **1.2 Background**

13 Order 152/19 from Centra's 2019/20 GRA directed Centra to file an application for a
14 comprehensive review of its cost of service methodology prior to its next GRA. The directive
15 was based on the Board's Findings in Order 98/19 wherein the PUB severed the review of the
16 cost of service methodology from the GRA. The Board also noted that Centra's cost of service
17 methodology has not been comprehensively reviewed since 1996 and given it is a tool
18 available to be used by the Board in setting rates, the methodology review should occur prior
19 to Centra's next GRA.
20

21 In January 2021, Centra retained Atrium to perform an in-depth review of Centra's cost of
22 service methodology, with particular focus upon the issues raised in the 2019/20 GRA as well
23 as industry best practices. In performing their review, Atrium met with Centra's subject
24 matter experts to gain an understanding of Centra's gas transmission and distribution system
25 operations and engineering practices, to review the physical configuration of the system, and
26 to discuss the procurement of gas commodity and capacity-related resources from upstream
27 suppliers.
28

29 Centra filed its Application on June 15, 2021. The Consumers Association of Canada
30 (Manitoba) Inc. ("CAC"), Industrial Gas Users ("IGU") and Koch Fertilizer Canada, ULC ("Koch")
31 were granted intervener status.
32

33 On May 16, 2022, Centra filed its responses to the information requests of the PUB and
34 interveners and on June 8, 2022, Intervener evidence was received by the PUB. Responses to

1 information requests were filed by the interveners on June 16, 2022 and on June 30, 2022,
2 Centra filed its Rebuttal evidence.

3
4 Subsequently, the PUB invited written submissions from all parties on all in-scope issues to
5 be followed by time-limited oral submissions to the PUB on August 17, 2022.

6 7 **2.0 COST OF SERVICE METHODOLOGY PRINCIPLES**

8 Centra's cost of service study is a tool to apportion its approved revenue requirement to
9 customer classes. It is relied upon when setting just and reasonable rates as it estimates the
10 cost to provide natural gas service to a class of customers.

11
12 Cost causation refers to the allocation of costs to customer classes on the basis of what or
13 who is causing the costs to be incurred, to the extent practical.¹ To determine cost causation,
14 it is necessary to determine the linkage between Centra's customers and the costs incurred
15 to serve those customers. Cost causation is similarly described by InterGroup,

16
17 *"in regard to incurrence or causation, the principle to be applied is that customers should*
18 *be allocated costs which they (or their class of customers) use, **in proportion to the extent***
19 ***to which their use drives the cost in question, or drives the investment of spending that***
20 *may become needed."² (emphasis added)*

21
22 Cost causation is the dominant factor in Centra's existing methodology; however,
23 consideration is also given to non-cost causal factors. Centra's proposals in this Application
24 take into consideration more recent guidance from the PUB as expressed in Order 164/16
25 regarding the importance of cost causation and the desire to keep non-cost causal
26 considerations out of the cost allocation phase.

27
28 *"The Board finds that, **in the process to determine the appropriate COSS methodology,***
29 ***the principle of cost causation is paramount.** Further, the Board finds that **ratemaking***
30 ***principles and goals should not be considered at the COSS stage.***

31
32 *The Board finds that Manitoba Hydro's ratemaking principles and goals of rate stability*
33 *and gradualism, fairness and equity, efficiency, simplicity, and competitiveness of rates*

¹ Order 164/16, page 16.

² Exhibit No. IGU-8 - Evidence of Patrick Bowman, page 4.

1 *should be considered in a General Rate Application (“GRA”) and not in the cost of service*
2 *methodology. While **ratemaking principles are important in the overall process of***
3 ***setting rates, these concepts are issues for rate design and should therefore not be***
4 ***considered at the COSS stage.”**³ (emphasis added)*
5

6 This view is consistent with the guiding considerations that Atrium used to conduct their
7 review of Centra’s current methodology⁴. These considerations are summarized as follows:

- 8 • Cost causation is the fundamental and underlying philosophy applicable to every
9 utility cost of service study;
- 10 • Cost causation addresses the question – which customer or groups of customers
11 cause the utility to incur particular types of costs?;
- 12 • A key consideration is the ability to establish operating relationships between
13 customer service requirements and the costs incurred by the utility in meeting
14 those requirements;
- 15 • A utility’s cost of service study should stand on its own objective merits i.e. costs
16 should be assigned on the basis of design and operational considerations rather
17 than to support a desired outcome for the allocation of revenues to classes and/or
18 rate design; and
- 19 • The current range of regulatory practices observed in the North American gas
20 utility industry.

21
22 Contrary to the views expressed by the Board and the approach recommended by Atrium,
23 CAC Consultants opine that *“consideration of other ratemaking objectives such as fairness,*
24 *stability, administrative ease, and understandability are inherently an important part of*
25 *developing a cohesive and workable COS framework”*⁵ and that *“it is impracticable to remove*
26 *all other ratemaking objectives”*⁶ from the cost of service methodology. This opinion and the
27 resulting recommendations that implicitly and explicitly incorporate fairness considerations
28 clearly conflict with the expectations of the PUB as documented in Order 164/16.
29

30 CAC Consultants advocate for a “broad” definition of cost causation and assert that Centra’s
31 characterization of its proposals being “a better reflection of pure cost-causation” can be

³ PUB Order 164/16, page 27.

⁴ Exhibit No. CENTRA-2-1 - Atrium Report, page 4.

⁵ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 17.

⁶ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 17.

1 interpreted to mean that Centra is narrowing its definition and no longer considering system
2 operation and use in addition to system design in its allocation methodology⁷. This is simply
3 not the case – Centra’s proposals consider the nature of Centra’s operations and the way
4 customers use the upstream and downstream facilities in addition to the way Centra designs
5 the system. Such considerations are necessary when determining cost causation as they can
6 explain why the system was designed the way it was, why certain investments were made or
7 how the system evolved to how it operates today. Centra’s proposals do, however, remove
8 non-cost causal considerations (specifically annual usage from the allocation of demand
9 related costs where they are deemed to have no cost causal linkage to the costs being
10 allocated) from the cost allocation stage where such considerations are not reflective of or
11 supportive of determining cost causation.

12
13 In addition to the above, CAC Consultants opine that Centra’s proposed changes to its
14 allocation methodology that remove non-cost causal considerations from the COS stage is
15 “weakening overall cohesion” of the methodology and “creating inconsistencies” with the
16 electric COSM framework⁸. Centra asserts that consistent application of methodologies
17 between gas and electric operations that serve different needs and have very different cost
18 structures should not come at the expense of cost causation; nevertheless, Centra has
19 dispelled these “inconsistencies” through its rebuttal evidence (pages 5-8).

20
21 A utility’s cost structure is not static and evolves over time which can necessitate changes to
22 allocation methodologies. While it is desirable for cost of service methodology to be relatively
23 consistent over time that does not mean that it cannot adapt to changes driven by utility
24 operation, availability of better information, market conditions, change in customer class
25 make up, etc. In that sense, Centra does not need to establish a “fundamental change” to
26 support a proposed methodology change. As noted by Centra in its Rebuttal evidence⁹, the
27 fact that cost causation can change over time with changes in circumstances is why the
28 Board’s principles of cost causation consider the application of judgement, and refer to
29 current operations and conditions and the acknowledgment that the Board is not bound by
30 prior decisions. Atrium’s recommendations and Centra’s resulting proposals reflect Centra’s
31 current circumstances, the manner in which the system operates, and the way service to

⁷ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 14.

⁸ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 16.

⁹ Exhibit No. CENTRA-13 – Centra Rebuttal Evidence, page 3.

1 customers drive system costs. Centra's proposals ensure that its cost allocation study best
2 reflects cost causation and continues to be a useful tool in the rate making process.

3 4 **3.0 ALLOCATION OF DEMAND RELATED TRANSMISSION AND DISTRIBUTION COSTS**

5 Centra proposes to allocate transmission and distribution demand-related costs on the basis
6 of class contribution to Design Day instead of the current approved Peak and Average
7 method. Design Day corresponds to the day with the highest coincident system peak
8 conditions that the system is designed to meet. As noted by Atrium in response to
9 CAC/TRIUM I-3 k):

- 10
- 11 • *A utility's gas system is designed, and consequently costs are incurred, to meet*
 - 12 *design day demand. In contrast, costs are not incurred on the basis of an average*
 - 13 *of peak demands;*
 - 14 • *Design day demand is more consistent with the level of change in customer*
 - 15 *demands for gas during peak periods and is more closely related to the change in*
 - 16 *fixed plant investment over time; and*
 - 17 • *Design day demand provides more stable cost allocation results over time.*

18 No party disagreed with the fact that Centra's transmission and distribution demand costs
19 are driven by the capacity requirements to meet coincident peak loads.¹⁰ There is no cost
20 relationship between the investment in transmission and distribution mains and annual use
21 or throughput.¹¹

22
23 The Coincident Peak Design Day methodology directly reflects cost causation as it allocates
24 costs in accordance with the customer class's contribution to the design day peak demand.
25 Centra agrees with the evidence of CAC Consultants in the 2019/20 GRA:

26
27 *"a coincident peak allocator allocates demand-related costs based on each customer class*
28 *contribution to the design day (highest daily estimated load in a maximum year,...). This*
29 *is a standard approach used by utilities in the allocation of transmission capacity-related*
30 *investment which is viewed as the most cost casual because its viewed to conform to the*
31 *planning and design of transmission investment."*¹²

¹⁰ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 26. Exhibit No. IGU-8 – Evidence of Patrick Bowman, page 6. Exhibit No. KOCH-3 – Evidence of Brian C. Collins, page 2.

¹¹ Exhibit No. CENTRA-2-1 - Atrium Report, page 11. Exhibit No. KOCH-3 – Evidence of Brian C. Collins, page 4.

¹² Exhibit No. CAC-8 - Evidence of Darren Rainkie and Kelly Derksen, page 110.

1 Centra includes the Interruptible Class capacity requirements in its downstream capacity
2 planning criteria and therefore proposes to include the Interruptible Class load in the
3 Coincident Peak Design Day allocator. This approach is consistent with cost causation as the
4 Interruptible Class load contributes to the costs incurred to meet downstream peak.
5

6 As opposed to the Coincident Peak Design Day methodology, the Peak and Average method
7 gives recognition to non-cost causal factors by incorporating annual use into the allocation.¹³
8 Annual use does not have a cost-causal link with demand-related transmission and
9 distribution costs. As explained by CAC Consultants, the Peak and Average methodology
10 incorporates a view that “the more a customer uses, the more they should have to pay”¹⁴
11 This concept was noted by Atrium when they characterized the peak and average method as
12 a utilization-based, rather than cost-causation based methodology.¹⁵
13

14 CAC Consultants argue in favor of the Peak and Average methodology on the grounds that
15 *“incorporating each class’s portion of system average demand is an implicit*
16 *acknowledgement that average load drives a portion of the demand-related costs owed to*
17 *base-load resources, in addition to costs incurred to serve peaking requirements”*.¹⁶ Centra
18 disagrees with this justification for use of a Peak and Average allocator. Centra’s transmission
19 and distribution systems are not comprised of baseload and peaking assets – there are no
20 costs incurred to simply meet baseload needs. As noted by Brubaker in its evidence, *“A*
21 *system designed to meet average demand would be incapable of providing service to*
22 *customers on all days colder than average.”*¹⁷ Average load does not drive Centra to incur
23 incremental demand-related costs, unlike peak load. As a result, while the methodology
24 ensures that all users of the system contribute to system costs it mutes responsibility related
25 to the true cost driver – coincident peak demand.
26

27 Centra’s proposal to use a Design Day allocator for transmission and distribution demand-
28 related costs effectively removes non-cost causal considerations from the cost allocation
29 stage; consistent with PUB findings from the review of Manitoba Hydro’s electric Cost of

¹³ For further discussion of the concept of use and cost causation see Exhibit No. CAC-9 – CAC/IGU I-1 a).

¹⁴ Exhibit No. PUB-10 – PUB/CAC I-3 b).

¹⁵ Exhibit No. CENTRA-2-1 - Atrium Report, page 14.

¹⁶ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 27.

¹⁷ Exhibit No. KOCH-3 – Evidence of Brian C. Collins, pages 2-3.

1 Service review *“If the COSS methodology is driven by considerations other than cost causation,*
2 *the final results of the COSS are muddled.”*¹⁸

3
4 For all the above reasons, Centra seeks to utilize a Design Day allocator to allocate demand-
5 related transmission and distribution costs.

6
7 **4.0 DIRECT ASSIGNMENT OF TRANSMISSION PLANT TO SPECIAL CONTRACT AND POWER**
8 **STATION CLASSES**

9 Centra proposes to directly assign the costs of the transmission facilities that serve the Special
10 Contract Customer and Brandon Power Station respectively, and allocate no additional costs
11 of the broader transmission system to these customers.

12
13 As noted by Atrium in their response to PUB/ATRIUM I-4, the direct assignment is an
14 approach that minimizes the need to rely upon other more generalized allocation methods.
15 This notion was similarly discussed by Ms. Derksen during Manitoba Hydro’s Electric Cost of
16 Service Review:

17
18 *“And if there was such a thing as cost allocation school, the first thing that you would learn*
19 *is that, to the extent reasonable and practical, you can directly assign a cost to a customer*
20 *or a group of customers. That's sort of the golden rule that we -- that we operate under.*
21 *And so it's the superior cost allocation treatment”*¹⁹

22
23 CAC Consultants reiterated that sentiment in the current proceeding²⁰; and IGU and Koch
24 also agree that to the extent that costs can be readily identified as being solely in place to
25 serve a particular customer or class of customers then a direct assignment is the most cost
26 causative approach²¹.

27
28 Centra notes the unique circumstances of both the Special Contract Customer and the
29 Brandon Power Station and the reasoning behind the proposal to directly assign the costs of
30 the transmission mains that serve them. The direct assignment approach recognizes the
31 following characteristics:

¹⁸ PUB Order 164/16, page 38.

¹⁹ PUB re MH COSS WORKSHOPS Transcript 05-13-2016, page 645.

²⁰ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 39.

²¹ Exhibit No. IGU-8 – Evidence of Patrick Bowman, page 8. Exhibit No. KOCH-3 – Evidence of Brian C. Collins, page 6.

- 1 • The costs of the assets serving these customers can be clearly identified from
2 other costs;
- 3 • The assets are not used to serve other customers except under extenuating
4 circumstances outside of normal operating conditions;
- 5 • The pipelines have a one-way relationship with the rest of the system;
- 6 • The Special Contract Customer and Brandon Power Station are unable to utilize
7 any other portions of Centra’s system due to their requirement for un-odourized
8 gas; and,
- 9 • The Special Contract Customer and Brandon Power Station are unable to utilize
10 any other portions of Centra’s system due to their high pressure requirements.²²

11
12 The proposal is consistent with the opinions of Atrium, as well as the consultants for Koch
13 and IGU that a direct assignment approach in this instance is the most appropriate for
14 determining transmission related costs associated with the Special Contract and Power
15 Station classes.

16
17 The CAC Consultants submit that the provision of un-odourized gas is a “red herring” as they
18 state:

19 *“The fact that Koch and the Power Stations receive unodorized gas is a red herring. Koch
20 and the Power Stations have always received unodorized gas, thus is not a change in
21 circumstance to justify a change in cost allocation to direct assignment or a valid
22 argument for making no cost contribution to the larger Centra network system”.*²³

23
24 This position incorrectly assumes that Centra must demonstrate a change in circumstance to
25 support a change in cost allocation. Furthermore, while the need for unodourized gas is not
26 new, it does not make it any less important to the decision on whether a direct assignment is
27 appropriate. Simply put it is a distinguishing operating characteristic of the customers for
28 which Centra is seeking a direct assignment.

29
30 In their response to PUB/CAC I-15, CAC Consultants assert that Centra’s position will provide
31 the Special Contract Customer with all the benefits of the integrated system but not assign

²² Exhibit No. CENTRA-2-1 - Atrium Report, pages 16-18.

²³ Exhibit No. PUB-10 – PUB/CAC 15 a) - b).

1 them any of the costs, conflicting with postage stamp rate making. Centra disagrees with this
2 position for several reasons.

3
4 First, the principle of postage stamp rates is one whereby rates are set without regard for the
5 location of individual customers on the system and as such, results in an average cost of
6 serving customers within a class. This concept has been described as “equal rates for equal
7 service”. Under postage stamp service, customers at any location on the system pay the same
8 rates as all other members of their rate class, regardless of the age of the facilities or the
9 distances of mains required to serve them. In this way, there is no discrimination between
10 customers or communities, for equal levels of utility service are provided at equal rates. The
11 concept has been an accepted fundamental rate making principle for several decades,
12 however it should not be confused and conflated with a need to pool all assets together for
13 the purposes of cost allocation across all customer classes. If an entire customer class, as in
14 the case of the Special Contract Customer class, cannot be served from certain assets the
15 postage stamp rate making principle does not necessitate that they nevertheless be allocated
16 a portion of the costs of those assets. The direct assignment approach proposed by Centra
17 does not result in a customer within a class being charged different rates for service
18 compared to other customers in the same class but rather results in cost allocation that
19 reflects a customer class exclusively allocated the cost of the transmission mains used to
20 serve it.

21
22 As stated by the Brubaker consultant,

23 *“Postage Stamp Ratemaking basically means that all customers within a rate class are*
24 *charged the same rate without regard to the geographic location of the individual*
25 *customers. Of course, a customer class should be homogenous with customers of similar*
26 *size, usage profiles, and service characteristics. Implicit in this concept is that these*
27 *factors result in similar cost characteristics for the homogenous customers within the*
28 *class. Postage stamp ratemaking is used by most utilities and is appropriate for*
29 *homogenous customer classes. On the opposite end of the spectrum, a Special Contact*
30 *Class is for a unique customer with respect to size, load profile, service characteristics and*
31 *cost characteristics.”²⁴*

32

²⁴ Exhibit No. KOCH-3 – Evidence of Brian C. Collins, page 6.

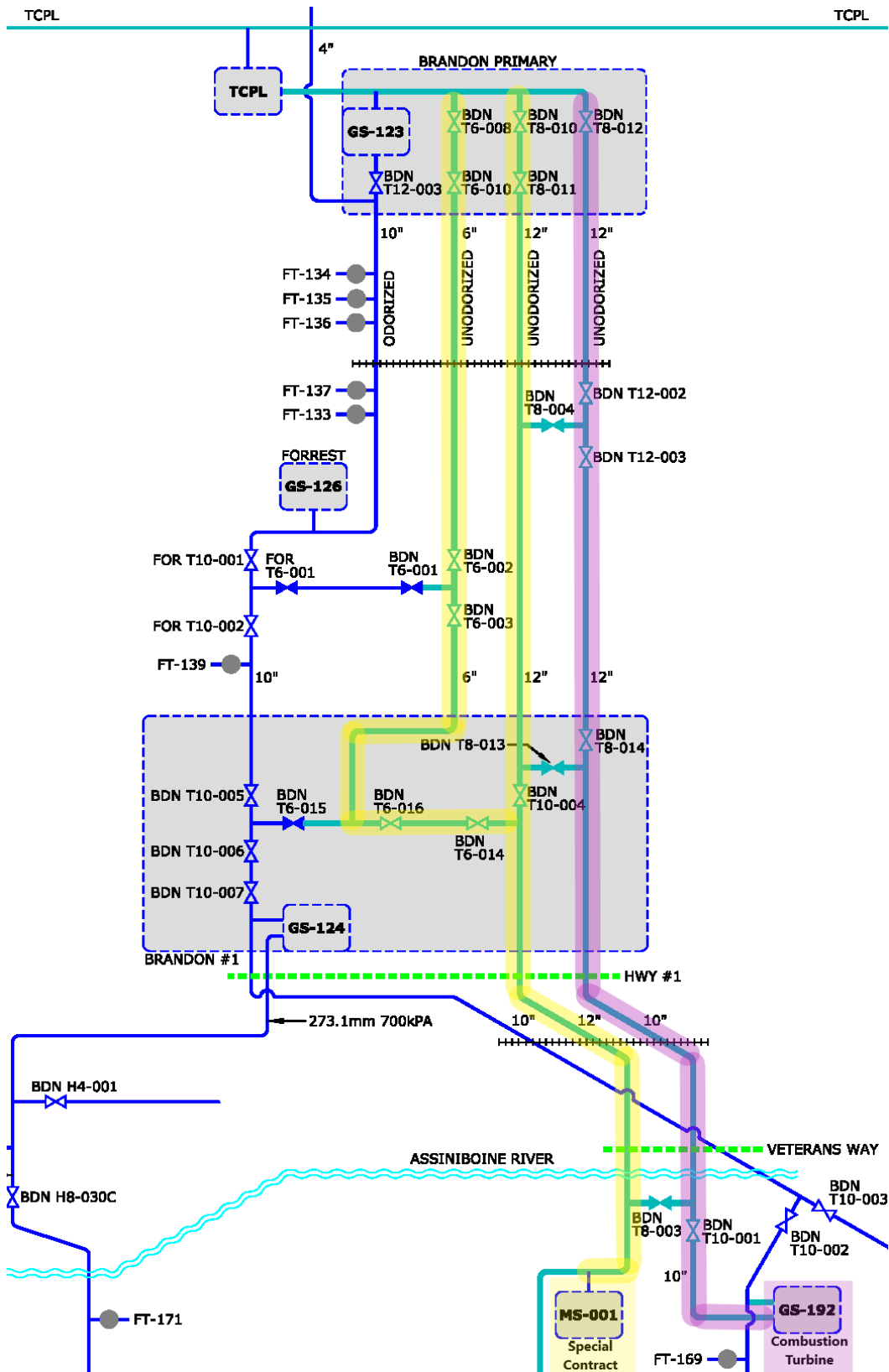
1 Second, the direct assignment approach reflects the fact that the other transmission assets
2 that make up the integrated system provide no benefits to the Special Contract Customer as
3 there are no other portions of the system (with the exception of the facilities serving the
4 Brandon CT) that can be used to serve their load. The proposed approach therefore is not
5 obviating costs attributable to the Special Contract Customer and shifting them to other
6 customers but rather is attempting to properly reflect the costs being driven by the respective
7 classes.

8
9 Furthermore, while certain transmission components are proposed to be directly assigned
10 per Figure 1, all other cost components previously assigned to the Power Station and Special
11 Contract classes will continue as noted in IGU-Centra I-5.

12

1

Figure 1



2

1 CAC Consultants identify correctly that investments to the Brandon system that have resulted
2 in the ability to isolate the assets that serve the Special Contract customer have occurred over
3 many years and have been paid through the rates of all Centra’s customers²⁵. These
4 Consultants characterize Centra’s proposal as “a change in the rules of the game after the
5 game has started”²⁶. They argue that this fact necessitates a continuation of the status quo
6 and a broad allocation of transmission costs to the Special Contract customer.
7

8 In Centra’s view, cost allocation methodology is not frozen in time. Amending methodology
9 to reflect current drivers of costs does not create inequity between customer classes. A
10 change in the use of an asset may support a change in methodology going forward. In this
11 instance, it in fact highlights why transitioning to a direct assignment approach will put the
12 cost of service methodology on better footing into the future. Just as other customers have
13 contributed to costs related to expansions serving the Special Contract customer through
14 their rates, the Special Contract customer has contributed towards the costs of expanding
15 facilities serving other customers. A direct assignment approach is the only way to eliminate
16 the cross-subsidies that have the potential to arise in these instances.
17

18 For the reasons noted herein Centra is proposing to directly assign the costs of the
19 transmission assets used to serve the Special Contract Class and Brandon Power Station as
20 well as an allocation of costs consistent with those noted in CAC-Centra I-11 e & f.
21

22 **5.0 CLASSIFICATION AND ALLOCATION OF DISTRIBUTION PLANT**

23 As noted in Atrium’s report, there are two cost factors that influence the level of distribution
24 mains installed by a gas utility:

25 *“First, the size of the distribution main (i.e., the diameter of the main) is directly influenced*
26 *by the sum of the peak period gas demands placed on the LDC’s gas system by its*
27 *customers. Second, the total installed footage of distribution mains is influenced by the*
28 *need to expand the distribution system grid to connect new customers to the system or to*
29 *reach existing customers when a particular distribution pipeline segment needs to be*
30 *replaced.”²⁷*
31

²⁵ Exhibit No. PUB-10 – PUB/CAC I-15 a) – b).

²⁶ Exhibit No. PUB-10 – PUB/CAC I-15 a) – b).

²⁷ Exhibit No. CENTRA-2-1 - Atrium Report, page 20.

1 Centra’s current methodology appropriately recognizes these two factors by classifying
2 distribution mains as both Demand (67%) and Customer (33%). The current proportion of
3 Demand and Customer is based upon the results of a historic diameter length study.
4 However, as noted by Atrium, as well as InterGroup and CAC Consultants, the metric for
5 determining the split has not been revisited in many years. Centra contends, and Atrium
6 agreed in their response to PUB-Atrium I-13, that the current split is reasonable. Atrium also
7 advised that due to previous mergers of company data upon acquisition (Inner City Gas and
8 Greater Winnipeg Gas) numerous estimates and assumptions would be required to complete
9 a minimum system study.²⁸ Nevertheless, Centra acknowledges that refreshing the basis for
10 determining the split would provide a level of transparency to customers that Centra is
11 currently not able to provide²⁹. As such, Centra will endeavor to conduct a minimum system
12 study such that it can bring forward a recommendation with regard to the distribution
13 classification metric at a future GRA.
14

15 **6.0 ALLOCATION OF UPSTREAM CAPACITY RESOURCES**

16 Consistent with Centra’s approach to allocation of downstream capacity costs, Centra is
17 proposing to replace the Peak and Average allocator for upstream capacity costs with a
18 Coincident Peak Design Day allocation for year-round pipeline capacity, and Winter Season
19 Demand in excess of Summer Season Demand for storage and related pipeline capacity.
20

21 As Atrium stated in their report:

22
23 *“Atrium recommends that Centra conduct a seasonal resource stack-based analysis of*
24 *each pipeline and storage capacity resource’s contribution to the seasonal and peak day*
25 *demands of its customers.”³⁰*
26

27 *“In place of the aforementioned analysis, as an alternative approach for storage and*
28 *related pipeline injection and redelivery capacity, Centra should use the winter season*
29 *demand in excess of summer season demand. Winter season throughput would be an*
30 *alternative allocation method for Supplemental Supply. An alternative allocation method*
31 *for year-round pipeline capacity should be peak day demand, at the design day level. For*

²⁸ Exhibit No. PUB-5 – PUB/Centra I-18 c) – e).

²⁹ The basis of Centra’s customer portion of distribution costs is based on a diameter length study conducted prior to the 1996 COSMR. Centra no longer has a copy of the study.

³⁰ Exhibit No. CENTRA-2-1 - Atrium Report, page 23.

1 *interruptible customers, Centra should consider the use of a 100% load factor contribution*
2 *to the peak day allocator. This will prevent these customers from escaping some peak day*
3 *responsibility; that is, if Centra's capacity resources can accommodate the cumulative*
4 *design day peak demands of the interruptible customer group.*³¹

5
6 Centra has concluded that the alternative approach outlined by Atrium for both the year-
7 round pipeline capacity (Coincident Peak Design Day) and contracted storage and associated
8 pipeline capacity (Winter Season Demand in excess of Summer Season Demand) is its
9 preferred approach as it is a better reflection of the overall cost drivers compared to the Peak
10 and Average method and is easier to understand and far less complex to implement than the
11 Seasonal Resource Stacked Method. The specific recommended allocations are discussed in
12 more detail below.

13 14 **6.1 Year-Round Pipeline Capacity**

15 The proposed Coincident Peak Design Day allocation methodology better reflects the cost-
16 causal relationship between Centra's cumulative peak day demand of its customers in the
17 planning and contracting of upstream pipeline capacity compared to the existing Peak and
18 Average methodology that also reflects annual usage.

19
20 As noted in the response to PUB-Centra I-14 b) through d) Centra's contracted upstream peak
21 capacity does not include the peak requirements of the Interruptible Class and therefore
22 Centra proposes to exclude the Interruptible Class from the allocation of year-round pipeline
23 capacity.

24 25 **6.2 Storage and Related Pipeline Capacity**

26 Centra's proposal reflects the consideration given to the seasonal (winter) volume
27 requirements that are considered when planning the storage portfolio. The storage portfolio
28 includes summer transportation for storage injections, storage capacity, storage
29 deliverability and winter transportation, all of which are critical components in meeting
30 winter season volume requirements and are specifically contracted for the winter season
31 needs. Accordingly, the Winter Season Demand in Excess of Summer Season Demand
32 appropriately allocates these costs to customer classes that have pronounced seasonal
33 heating requirements. In other words, the Winter Demand in Excess of Summer Demand

³¹ Exhibit No. CENTRA-2-1 - Atrium Report, page 24.

1 allocator recognizes the fact that the costs of storage and related pipeline capacity are
2 incurred in order to meet the winter volumes that are over and above the volumes associated
3 with summer use. In contrast, total annual volumes, as used in the Peak and Average
4 allocator, do not determine the capacity of storage required. From a cost causation
5 perspective, use of a Peak and Average allocator does not recognize the excess cost Centra
6 incurs to serve low load factor customers in the winter.

7
8 As noted in the response to PUB-Centra I-14b) through d) the needs of Interruptible Class are
9 served using gas from storage, as such Centra proposes to include the Interruptible Class in
10 the allocation of storage and related pipeline injections/redelivery capacity costs.

11 12 **6.3 Treatment of the Interruptible Class**

13 CAC Consultants state that Centra’s proposal to include the Interruptible class in the
14 allocation of storage and related pipeline cost is a *“compromise position to avoid a situation*
15 *whereby the Interruptible customers are excluded from all upstream demand-related*
16 *costs.”*³² This is not the case; Centra’s proposals are consistent with the considerations of
17 the Interruptible class load when planning the upstream portfolio and with the fact that
18 Interruptible loads will be served from storage during the winter months. This “use” of
19 storage is considered when determining the size of the storage portfolio (i.e. the winter load
20 shape) and thus, in part, drives the costs incurred. This “use” can therefore be differentiated
21 from annual use, as included in the Peak and Average allocator, that does not drive costs.

22 23 **7.0 ALLOCATION OF DEMAND-SIDE MANAGEMENT COSTS**

24 Centra’s current treatment of demand side management (“DSM”) costs is to functionalize as
25 Transmission, classify as Energy and allocate based on a forecast of customer participation.

26
27 Centra began natural gas DSM programs in the mid-2000s and since inception has taken the
28 approach of directly assigning the amortized amounts for DSM to customer classes based
29 upon each customer class’s respective DSM programs. Although responsibility for delivering
30 DSM programs has been transitioned to Efficiency Manitoba, natural gas DSM programs
31 continue to be targeted at specific markets and therefore the costs can be identified for
32 assignment to the appropriate customer classes. Customer classes without specific DSM

³² Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 31.

1 programming (Special Contract and Power Station, for example) do not receive any
2 assignment of DSM costs.

3
4 As natural gas DSM programs are intended to reduce customer greenhouse gas emissions to
5 the benefit of all society and lower consumption (and resulting bills) for participants, it was
6 considered appropriate to directly assign DSM costs to customer classes on that basis.³³ In
7 Centra’s view this methodology continues to reflect cost causation most effectively between
8 customer classes. However, Centra acknowledges that this treatment may result in intra-class
9 cross subsidization as discussed below.

10
11 As noted by both CAC Consultants³⁴ and InterGroup³⁵ customers within a rate class will bear
12 cost responsibility for programs targeted for their class even if they do not participate in the
13 programs that are offered. With a relatively small natural gas DSM portfolio, the impacts of
14 potential intra-class cross subsidization are likely to be small; however, as DSM savings
15 (defined as reduced gas consumption) and the costs to achieve those savings grow so too
16 does the potential for inequitable treatment.

17
18 The quandary of non-participants bearing the costs for DSM is not eliminated under an
19 allocation methodology akin to treating DSM as a system resource (consistent with the
20 Manitoba Hydro approach for electric DSM), or in the similar approach suggested by the CAC
21 Consultants.

22
23 CAC Consultants recommend an allocation based on Peak and Average reasoning that it *“is*
24 *intended to recognize the broader cost reductions and benefits provided to society as a whole*
25 *and as well as the potential for both energy and investment in capacity reductions over time.*
26 *In the view of the CAC consultants, this would be more consistent with the intent of gas DSM*
27 *that provides benefits to all customers, regardless of whether they participate.”*³⁶

28
29 As noted in CAC-Centra I-7b, the marginal values used to evaluate the gas DSM portfolio do
30 not attribute any value to the deferral of future investments in Centra’s transmission and
31 distribution system but instead, the marginal value consists entirely of the benefits related to

³³ Order 135/05, page 33-34.

³⁴ Exhibit No. PUB-10 – PUB/CAC I-11.

³⁵ Exhibit No. PUB-11 – PUB/IGU I-6.

³⁶ Exhibit No. PUB-10 – PUB/CAC I-11 a) – b).

1 a reduction in natural gas purchases and transportation. As a result, even if one wanted to
2 give greater consideration to societal benefits as noted by CAC Consultants, in Centra’s view
3 their Peak and Average approach which has a higher proportion of costs allocated based on
4 peak demand is inconsistent with the avoided costs that are predominantly related to energy.
5

6 Centra is recommending the current treatment of DSM continue as a direct assignment;
7 further evaluation may be warranted as Gas DSM portfolio and / or the intent of the portfolio
8 changes over time.
9

10 **8.0 NEAR TERM INTERIM RATE RELIEF FOR THE SPECIAL CONTRACT AND POWER STATION**
11 **CLASSES**

12 Centra is not seeking approval of natural gas sales rates as part of this Application; however,
13 Centra recognizes that if the PUB ultimately approves its proposals, the illustrative results for
14 certain customer classes are significant such that contrary to typical convention, the PUB and
15 parties may want to consider an interim measure to adjust current rates for the Special
16 Contract and Power Station Classes.
17

18 As noted in the Application, Centra has identified a practical interim approach that would
19 involve reinstating the Special Contract Class’s non-gas portion of rates to those that were in
20 effect prior to the 2019/20 GRA. Doing so would provide greater alignment between
21 revenues and costs attributable to the Special Contract customer assuming a direct
22 assignment approach is approved. To recognize the effect that the direct assignment
23 approach has on the costs attributed to the Power Station Class, Centra’s interim approach
24 involves the Power Station Class correspondingly absorbing the revenue deficiency created
25 by the rate reduction to the Special Contract Class, resulting in no impact to other customer
26 classes.
27

28 Centra has the legal onus to establish that an interim rate adjustment is just and reasonable.
29 Even considering the limitations of the illustrative rate impacts, the lower burden of proof of
30 an interim award is satisfied in this case. An interim rate adjustment does not amount to
31 retroactive ratemaking and has no impact on other customer classes despite the assertions
32 made by the CAC Consultants³⁷.
33

³⁷ Exhibit No. PUB-10 – PUB/CAC I-16.

1 At the next General Rate Application, the PUB and other parties will have the ability to review
2 the interim rate at which point the PUB can then make any findings it deems necessary as it
3 finalizes or varies the rate.
4

5 **9.0 OTHER ISSUES**

6 **9.1 Allocation of Costs to the Mainline Class**

7 InterGroup’s evidence suggests that there are two issues with Centra’s functionalization of
8 Measuring and Regulating Equipment (Accounts 467 and 477); 1) some assets are currently
9 erroneously functionalized as Transmission and 2) Mainline customers are getting allocated
10 costs for Distribution assets they do not use³⁸. In the case of the former, as noted in its
11 Rebuttal evidence, Centra agrees that there are at least six Primary Gate Stations currently
12 functionalized as Transmission with outlet pressure less than 1900 kPa that could be re-
13 functionalized. However only the Special Contract and Power Station classes are exclusively
14 served from assets with pressure greater than 1900 kPa resulting in those classes being the
15 only classes that need to be excluded from the allocation. If the direct assignment approach
16 is approved the re-functionalization becomes unnecessary³⁹.
17

18 In the case of the latter, Centra disagrees that Mainline customers are being inappropriately
19 allocated the costs of Distribution assets. Not all customers in the Mainline class are served
20 at pressure greater than 1900 kPa and in fact the Terms and Conditions of Service for the
21 Mainline class specify only that the service pressure for the class exceed medium pressure,
22 as noted in response to IGU-Centra I-3a-i. Some Mainline customers have dedicated
23 regulating stations that do not serve other customers while the remaining Mainline
24 customers are served through dedicated mains downstream of the Town Border Station
25 (“TBS”). The cost of both the TBS and dedicated stations are included in the Distribution
26 function and the Mainline class receives an allocation of these costs given they are used to
27 serve Mainline customers. As noted in Centra’s Rebuttal evidence,⁴⁰ asset accounting
28 records do not separately identify each measuring and regulating station such that Centra
29 could readily determine the costs associated with the pool of regulating stations that serve
30 the Mainline class versus the ones that do not.
31

³⁸ Exhibit No. IGU-8 – Evidence of Patrick Bowman, page 14.

³⁹ Exhibit No. CENTRA-13 – Centra Rebuttal Evidence, page 13.

⁴⁰ Exhibit No. CENTRA-13 – Centra Rebuttal Evidence, page 13.

1 **9.2 Amendments to the COSMR flowing from Order 131/21**

2 ***Nova Gas Transmission Limited (“NGTL”) costs – treatment for cost allocation purposes***

3 With the PUB’s approval of the treatment of NGTL costs from AECO to Empress as a
4 transportation cost for ratemaking purposes as of November 1, 2022, Centra proposes that
5 a consistent approach be used for cost allocation purposes. Namely that the NGTL costs,
6 which are currently functionalized as production and consequently recovered through the
7 Primary Gas Rate, be functionalized to the Pipeline function, classified as Demand related and
8 then allocated on the same basis as other fixed transportation costs. Consistent with Atrium’s
9 recommendation regarding the treatment of fixed transportation costs, Centra further
10 proposes that post November 1, 2022, NGTL costs be allocated using a Design Day allocator.

11
12 ***Cost of Compressor fuel at Empress – treatment for cost allocation purposes***

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

22
23 ***Single Gas Commodity Overhead Rate***

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

30
31 ***Updates to Upstream Function Definitions***

32 As discussed in the “2021 Rate Re-bundling Application”⁴¹, with the PUB’s approval of moving
33 the gas delivery point from Empress to the AECO hub as well as the changes in the treatment

⁴¹ Exhibit No. Centra-1-0 – Centra 2021 rate Re-bundling Application, pages 27-29.

1 of NGTL and cost of compressor fuel at Empress, two of Centra’s upstream functions,
2 “Production” and “Pipeline”, will require updates to reflect these changes.
3

4 **9.3 Elimination of the Co-op Class**

5 Centra is recommending the elimination of the Co-op Class from the cost of service study
6 given the low likelihood of increased participation by customers that would fall into this class.
7 No parties advanced evidence or opposition to this recommendation. In Centra’s view, it is
8 appropriate to close the Co-op Class and proposes to reflect that elimination and related
9 changes at the next GRA.
10

11 **9.4 Updates to the Unaccounted for Gas Study**

12 As noted in response to PUB-Atrium I-8a, Unaccounted for Gas (“UFG”) was not an area of
13 focus in the course of Atrium’s initial review of Centra’s cost of service methodology.
14 InterGroup and Atrium have since put forward recommendations regarding the revised
15 approaches to cost allocation.
16

17 Atrium opined that it is not necessary for Centra to continue with class-specific allocations
18 but rather could recognize that UFG is a system-wide phenomenon and recover the costs
19 consistent with other gas cost recovery.
20

21 InterGroup suggests Centra update the UFG study to *“reflect current system UFG*
22 *performance and loads. If UFG allocations are not provided specifically for each of the*
23 *customer classes, the allocations must identify the vast majority of UFG which likely occurs on*
24 *the distribution system, and ensure these costs are not recovered from transmission*
25 *customers.”*⁴²
26

27 Centra notes that the 2004 UFG study took 12 months to complete; as a result, Centra does
28 not anticipate being able to update the study prior to its next GRA. Centra proposes to review
29 the matter more fulsomely and report on its status at the next GRA. In the interim, Centra
30 proposes that it retain the current allocation percentages.
31

⁴² Exhibit No. IGU-8 – Evidence of Patrick Bowman, page 18.

1 **9.5 Discontinuation of the Franchise Expansion Adjustment**

2 As discussed in Centra’s COSMR application on page 33, should Centra’s proposals to replace
3 Peak and Average with a Coincident Peak and/or to use a Direct allocation be approved,
4 Centra recommends the franchise expansion adjustment be discontinued for all classes. As
5 set out in Centra’s Rebuttal Evidence, the purpose of the adjustment was to mitigate negative
6 impacts of the cost of service methodology which would have seen all classes contribute to
7 the costs of rural expansion but not benefit from the revenues associated with new
8 customers in the expansion areas.⁴³ Should Centra’s proposals be accepted, the franchise
9 expansion adjustment would no longer be required.

10
11 **9.6 Rate Base Treatment of Gas in Storage**

12 Centra did not initially propose a methodology change to the way it treats Gas in Storage in
13 Rate Base, however upon reflecting on the recommendation from InterGroup’s evidence⁴⁴,
14 Centra agrees that a refinement to the way the costs are currently treated would be a better
15 reflection of cost causation. The use of storage follows a cycle — in the months of April
16 through October the demand for natural gas is considerably lower than in the winter. Centra
17 uses these months to fill storage capacity, allowing the storage reserves to be drawn on from
18 November through March to ensure that energy is available to meet heating needs
19 throughout the winter season. In addition, using storage reduces how much gas is bought in
20 winter when demand is higher and market prices may also be higher. This “smooths”
21 purchases over an entire year and can contribute to rate stability for customers. As it is
22 winter usage that drives costs associated with storage, a refinement to Centra’s current
23 approach that uses annual volumes is to functionalize the costs as Storage, classify as Energy
24 and allocate using winter volumes.

25
26 **9.7 Allocation of Operation & Maintenance, Customer Service and Administrative**
27 **Expenses**

28 The PUB identified allocation of operation & maintenance, customer service and
29 administrative expenses as an issue in scope for this proceeding. No party to this proceeding
30 has presented evidence challenging the current allocation methodology. As such, Centra
31 proposes to retain the existing methodologies as outlined at pages 17-18 of the Application.

32

⁴³ Exhibit No. CENTRA-13 – Centra Rebuttal Evidence, page 11.
⁴⁴ Exhibit No. IGU-8 – Evidence of Patrick Bowman, page 12.

1 **10.0 ISSUES FOR REVIEW AT THE NEXT GENERAL RATE APPLICATION**

2 In addition to reflecting changes flowing from this proceeding at the next GRA Centra intends
3 on bringing forward the following:

- 4 • An update to the Service line study including indexing of results;
- 5 • An update to the Meter study; and
- 6 • A status update relating to the treatment of Unaccounted for Gas

7 Additionally, should the PUB approve Centra’s recommendation related to the use of a
8 Coincident Peak method for allocating demand-related Transmission, Distribution and
9 Pipeline costs, Centra commits to developing a Design Day allocator in lieu of the Peak Day
10 metric used for the purposes of the illustrative results.

11
12 Centra acknowledges that, in accordance with Order 58/22, issues related to the
13 implementation of any methodological changes flowing from this proceeding may be
14 considered at the next GRA. However, Centra submits that it is not necessary or appropriate
15 to direct Centra to file multiple versions of its cost of service study to isolate and test the rate
16 impacts of the methodology changes as advanced by the CAC Consultants.⁴⁵ Amendments to
17 the methodology awarded in this proceeding should be final and not subject to review solely
18 upon evidence of the impacts to customer rates.

19

20 **11.0 CONCLUSION**

21 As supported by the information provided in its Application, Centra has complied with the
22 expectations of the Board with respect to Directive 29 of Order 152/19 and has approached
23 the review of its cost of service methodology consistent with previous Board findings with
24 respect to cost causation, the need to address the contentious methodology issues and the
25 efficiencies to be gained by engaging an independent expert. In particular, Centra performed
26 the following as part of this process:

- 27 • Retained an independent expert to provide Centra, the Board and interveners with an
28 unbiased review of the contentious issues identified in Centra’s 2019/20 GRA and to
29 provide Centra with the industry expertise and experience it needed to assess and
30 recommend changes to its cost of service methodology;
- 31 • Followed an approach where rate making principles were excluded and the principle
32 of cost causation was paramount to the determination of how costs should be
33 allocated amongst customer classes; and

⁴⁵ Exhibit No. CAC-8 – Evidence of Darren Rainkie and Kelly Derksen, page 45.

- 1 • Proposed an interim rate adjustment between the Power Station and Special Contract
2 classes should the PUB accept Centra’s recommendation to change to the Direct
3 Assignment method of allocating costs to the Special Contract Class. The
4 recommended rate adjustment is, on an overall basis, revenue neutral and will not
5 impact the other customer classes.

6
7 Centra is committed to a principled and logical approach to its cost of service methodology.
8 Notably, Centra’s recommendations incorporate and are consistent with the
9 recommendations of the independent expert to this proceeding which are in principle,
10 reflective of recent decisions of the Board regarding cost causation. Centra’s proposals are
11 largely supported by IGU and Koch, and consistent with industry best practices. As such,
12 Centra respectfully requests the PUB issue an order granting the relief set out in Section 1.1.