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August 11, 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 – Reply Submission

Please find enclosed Centra's reply to Intervener written submissions 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.

**COST OF SERVICE METHODOLOGY REVIEW
REPLY SUBMISSION**

August 11, 2022



CENTRA GAS MANITOBA INC.
COST OF SERVICE METHODOLOGY REVIEW
REPLY SUBMISSION
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1 of probabilities standard enshrined in law for administrative tribunals such as the PUB as it
2 would represent a much higher and onerous burden of proof on the applicant.

3
4 The acceptance of these proposed legal “thresholds” by CAC would inappropriately result in
5 a static and inflexible cost of service regime. There is no legal basis whatsoever to apply a
6 legal test which expressly favours and enshrines the status quo. Such a threshold would also
7 directly conflict with the statement of the PUB in Order 164/16:

8
9 *“The Board finds that, as acknowledged by Manitoba Hydro, it is not bound by*
10 *prior Board decisions. As such, the Board has approached this review of*
11 *Manitoba Hydro’s COSS methodology through applying the principles*
12 *discussed above to the evidence in the present proceeding.”³*

13
14 Furthermore, a review of past PUB orders of cost of service methodology do not support the
15 thresholds advanced by CAC. It is evident from Order 164/16 that the PUB utilized the test
16 of whether the proposed allocator better reflects cost causation.⁴ Similarly, in 1996 when
17 selecting the peak and average methodology over modified partial plant method the PUB
18 did not require proof that peak and average produced “clearly superior results”. Rather the
19 PUB found on a balance of probabilities that the use of modified partial plant method was
20 “no longer appropriate”.⁵

21
22 In this proceeding, Centra bears the onus of proving on a balance of probabilities that its
23 proposed cost of service methodologies most accurately reflects cost causation regardless
24 of whether or not that equates to maintaining the existing methodology or in adopting a
25 change in methodology. Based upon the totality of the evidence, Centra submits that it has
26 met and exceeded, on a balance of probabilities, that the proposed cost of service
27 methodology accurately reflects cost causation and as such is appropriate, just, reasonable
28 and in the overall public interest and should therefore be accepted by PUB order.

29
30 CAC’s error of misstating the burden of proof persists as fundamental premises throughout
31 its entire submission thereby flawing each of its conclusions and recommendations.⁶ This

³ Order 164/16 at pages 27-28.

⁴ Order 164/16 at page 77 “The Board finds that an allocator that reflects the number of service drops, not the number of customers, better reflects cost causation.”

⁵ Order 107/96 at page 26.

⁶ Exhibit No. CAC-12 – Written Submission of CAC at pages 15, 16, 20, 23-24, and 26.

1 fundamental error serves as the tail that inappropriately wags the dog of the opinions and
2 conclusions reached and strenuously advocated for by CAC.

3 4 **3.0 MAINLINE DEDICATED DISTRIBUTION ASSETS**

5 IGU states *“that Centra considers the Mainline class of customers to be part of the general*
6 *pool of customers who use the distribution system (this is why Centra indicates the customers*
7 *would continue to be allocated the noted assets even though they were reclassified to*
8 *distribution).”*⁷ This is a simplification of Centra’s position and does not accurately describe
9 Centra’s practice. As evident by the fact that they do not receive an allocation of Distribution
10 Mains, Centra does not consider the Mainline Class to make use of the bulk distribution
11 system in the same way as other customer classes.

12
13 However, as noted in Attachment 1 to IGU/CENTRA I-7 a), Transmission Plant includes only
14 those pressure reducing stations with direct interconnection to the TCPL Mainline (primary
15 stations); all other measuring regulating stations, including those stations with transmission
16 outlet pressure, are included in the distribution account:

17
18 **TRANSMISSION PLANT:** Pipelines with operating pressures above 1900 kPa and
19 associated transmission pressure pipeline valves and fittings, and **all pressure**
20 **reducing stations with direct interconnection to the TCPL mainline.** (emphasis
21 added)

22
23 **DISTRIBUTION PLANT:** Pipelines with operating pressures less than or equal to 1900
24 kPa, **all pressure reducing stations downstream of transmission station plant**, all
25 farm taps and farm tap inlet piping and all associated pipeline valves, fittings, service
26 lines and customer meter set assemblies. (emphasis added)

27
28 Centra therefore allocates a portion of the pool of measuring and regulating equipment
29 functionalized as Distribution (based on accounting records that reflect the above
30 definitions) to the Mainline Class. Were it not to do so the Mainline class would not bear cost
31 responsibility for any of the pressure reducing facilities used to serve them (with the
32 exception of the primary stations).

33

⁷ Exhibit No. IGU-11 – Written Submission IGU at page 20.

1 The refinement requested by IGU is not as simple as identifying a few dedicated distribution
2 outlet pressure stations for direct assignment and adds a high level of complexity for what is
3 likely to amount to little materiality. Unlike the electric asset accounting records that were
4 designed to discretely capture the cost of individual transmission lines and stations, Centra's
5 records do not provide that level of granularity. As such, in order to effect the change
6 recommended by IGU, Centra would have to:

- 7 1. Determine a method for sub-functionalizing Account 477 based on outlet pressure,
8 including determining an approximate cost estimate;
- 9 2. Allocate the Mainline class a portion of all non-dedicated transmission outlet pressure
10 stations;
- 11 3. Determine which control stations (valve stations) should or should not be included in
12 the allocation, including determining an approximate cost estimate; and
- 13 4. Determine approximate costs for the dedicated stations that serve each of the
14 Mainline customers such that it could directly assign 100% of those costs to the
15 Mainline class.

16
17 In addition, to the complexity associated with determining the initial allocation amount,
18 Centra would have to monitor all of the specifically identified assets to identify any new
19 investment in these facilities. Centra notes that the refined method is expected to yield
20 similar results to its current practice given the fact that assets used to serve the Mainline
21 class are among the most expensive assets in the pool of costs to be allocated. Essentially
22 rather than receiving a smaller portion of a larger pool of assets, the class would receive a
23 very large portion of a relatively more expensive pool of assets. Proceeding in this fashion is
24 ill-advised and would directly conflict with Mr. Bowman's perspective as outlined in CAC-
25 IGU(Bowman) I-1 that "*Cost of Service should not be made excessively complicated for*
26 *immaterial benefit...*"

27
28 The IGU proposed refinement is limited to allocation of Distribution assets to the Mainline
29 customers. There is no basis to reject all cost of service allocations as it relates to Mainline
30 customers as advanced by IGU.⁸ In the event that the PUB accepts IGU's submission to defer
31 determination of the methodology to assign distribution assets to the Mainline class, it
32 should accept Centra's proposals related to the allocation of all other costs to the Mainline
33 class.

⁸ Exhibit No. IGU-11 – Written Submission IGU at page 21.

1 **4.0 ATRIUM INDEPENDENCE**

2 In its written submission CAC suggests for the first time that Atrium was not an independent
3 expert: *“CAC expected an independent expert to have taken a much more balanced approach*
4 *in reviewing the recommendations of intervenors. Atrium’s approach is certainly in conflict*
5 *with the role of an expert independent of any of the parties.”*⁹
6

7 Centra notes that CAC was asked by the PUB to indicate whether it intended to challenge
8 the independence of Atrium at the early stages of this proceeding. CAC indicated at that time
9 it did not object to Atrium’s independence.¹⁰
10

11 Centra reiterates that Atrium provided a comprehensive and independent review. CAC
12 appears to conflate expressing a particular opinion as a lack of independence. It seems that
13 the root of CAC’s criticisms is its expectation that Atrium would provide a neutral listing of
14 the pros and cons of every available cost of service methodology without applying its skill or
15 judgment to assess the appropriateness of the methodology. An expert opinion is
16 independent in the sense that it is the product of the expert’s independent judgment,
17 uninfluenced by who has retained him or her or the outcome of the litigation.¹¹ There is
18 absolutely no evidence to suggest that Atrium’s expert opinions were influenced in any way
19 by Centra or the possible outcome of the litigation. Centra submits that CAC’s allegations
20 that Atrium lacked independence should be given no weight.
21

22 **5.0 BIPOLE COST ALLOCATION/ ICAM COMPARISONS ARE NOT RELEVANT**

23 CAC discusses Centra’s Integrated Cost Allocation Methodology (“ICAM”) as well as Manitoba
24 Hydro’s cost of service methodology for its Bipoles in an attempt to support their position in
25 opposition to Centra’s proposed changes to cost allocation. Neither are relevant or significant
26 with respect to the determination of the methodologies at hand in this application.
27

28 CAC’s introduction of ICAM at this stage appears to be an attempt to demonstrate support for
29 the continued use of the Peak and Average allocator by pointing to the use of other composite
30 cost allocations in other areas of Centra’s business.
31

⁹ Exhibit No. CAC-12 – Written Submission of CAC at page 5.

¹⁰ Exhibit No. CAC-2 – CAC Pre-Hearing Conference Submissions dated March 14, 2022 at page 13.

¹¹ *White Burgess Langille Inman v. Abbott and Haliburton Co.*, 2015 SCC 23 (CanLII), [2015] 2 SCR 182 at para 32.

1 The ICAM used by Centra allocates the costs of common assets based on an evaluation of the
2 cost driver for each specific type of common cost and uses a variety of allocators to ensure the
3 allocation is appropriate to each type of cost. Centra has no objection to the use of composite
4 or multi-faceted allocators as a matter of principle – so long as each of the foundational factors
5 used to construct the composite allocator and the resulting allocator properly reflects and is
6 entirely consistent with the principles of costs causation. Centra is not recommending a change
7 from the use of a Peak and Average method simply because it is a composite allocator, but rather
8 because one of the dimensions has no linkage to cost causation for the functions for which it was
9 being used.

10
11 CAC attempts to portray the treatment of Manitoba Hydro’s Bipoles as evidence of a
12 “dichotomy”¹² between Centra’s proposed gas methodologies and Manitoba Hydro’s electric
13 methodologies. While there is no relevant connection between the allocation of Bipole costs and
14 Centra’s cost allocation methodology, Centra nevertheless provides the following information in
15 order to ensure the record is clear. As noted in Rebuttal evidence, the functionalization,
16 classification and allocation of the Bipoles is in recognition of the role they play in Manitoba
17 Hydro’s system – that is they are an extension of the Generation system and are treated
18 consistent with other generation assets. This is not a “broad view” of cost causation – it simply
19 and accurately reflects proper cost causation.

20
21 CAC conveniently overlooks the fact that the assets that are actually analogous to Centra’s
22 transmission and distribution assets, namely Manitoba Hydro’s AC transmission and distribution
23 assets, are allocated using Winter Coincident Peak and Non-Coincident Peak respectively and
24 not under a purported “broad view” of cost causation that also includes consideration of annual
25 usage. Furthermore, CAC incorrectly implies that the allocation methodology for the Bipoles was
26 selected in order to recognize the concept of “used and useful” and that “*a narrow view of cost
27 causation would ignore the used and usefulness of bipoles throughout the year*”¹³. Used and
28 useful is not an endorsement of including annual usage in all allocators as suggested by CAC;
29 rather it is a concept for determining whether a cost can be recovered in rates.

¹² Exhibit No. CAC-12 – Written Submission of CAC at page 12.

¹³ Exhibit No. CAC-12 – Written Submission of CAC at page 12.