CENTRA GAS 2021 COST OF SERVICE METHODOLOGY REVIEW APPLICATION

INTERVENER EVIDENCE INFORMATION REQUESTS

KOCH (BRIAN C. COLLINS)

JUNE 16, 2022

PUB/Koch-1 Reference: Collins Evidence p. 4; NARUC Gas Distribution Rate Design Manual page 27;

Preamble:

(Collins Evidence p. 4, lines 7-10) "For decades, the Straight Fixed-Variable method has been used and the allocation of pipeline investment has been allocated on a demand basis. The P&A method would be in direct conflict with FERC's allocation of transmission investment of interstate pipelines."

Request:

a) Is Collins aware of gas distribution utilities that utilize peak and average, or any variation of the Average & Excess (or Average and Peak) methodology described in the NARUC Gas Distribution Rate Design Manual at page 27? If so, provide any available information on situations where this allocation methodology is used.
b) In Mr. Collins' view, is the Straight Fixed-Variable allocator commonly used by gas distribution utilities?

Response:

a) Mr. Collins is aware that Northern Indiana Public Service Company ("NIPSCO") proposed the use of the Peak and Average (Average and Peak) methodology for allocating transmission main costs in its most recent rate case (Cause No. 45621) before the Indiana Utility Regulatory Commission. NIPSCO opined that the allocation of transmission main costs to classes on the basis of the Peak and Average method was appropriate because its transmission system interconnected with multiple interstate pipelines for the receipt of gas supply. NIPSCO's assertion was challenged

by other parties. However, the rate case was settled. The Commission did not approve the Peak and Average allocation proposed by NIPSCO.

Mr. Collins is also aware that gas utilities (Ameren, Nicor Gas, and Peoples Gas) in the state of Illinois have used the Peak and Average method, among other allocation methods. It is Mr. Collins' opinion that the Illinois utilities' recent usage of the Peak and Average method is not based on cost causation, but rather in response to the Illinois Commerce Commission's preference for this method.

Mr. Collins is also aware that gas utilities in the state of Washington and North Carolina have utilized the Peak and Average method.

In addition, Mr. Collins is aware that Alliant Energy's gas utility in Iowa has previously utilized the Average and Excess method.

b) The term "straight fixed variable" can be defined as a method of determining demand and commodity gas rates whereby all costs classified as fixed, such as transmission main capital costs, are assigned to the demand component. Gas distribution utilities use of the Design Day Demand method to allocate to rate classes the costs of mains classified as demand related is consistent with the definition of "straight fixed variable". Mr. Collins is aware of many gas distribution utilities, at least 16, in the United States that have utilized Design Day Demand to allocate the costs of mains to customer classes. There are other utilities that include Design Day Demand as but one method included in multiple cost of service studies filed in a rate case in order to derive a range of class cost of service. In Mr. Collins' experience, Design Day Demand is more often

used by gas distribution utilities to allocate main costs as compared to the Peak and Average method.

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PUB/Koch-2 Reference: Collins Evidence p. 5

Preamble:

(Collins Evidence p. 5, lines 19-24) "Furthermore, a major flaw in the P&A method is its double count of average demand in the cost allocation process: once in the average allocator, and again in the peak allocator, since average demand is a subset of peak demand. This penalizes high load factor classes. Unlike the P&A method, other allocators such as the Design Day Demand allocator, as well as the Average & Excess allocator, do not suffer from this flaw since average demand is considered once in the allocation process."

Request:

Please explain the Average & Excess allocator, how it is different from Centra's Peak and Average allocator (or other utilities' applications of this type of allocator), and why it would be superior to Centra's Peak and Average allocator.

Response:

The **Average & Excess** allocator uses two allocators to allocate the costs of mains: The Average Allocator and the Excess Allocator. The Average Allocator for a class is based on that class's contribution to System Average Demand, and the Excess Allocator is based on that class's contribution to System Excess Demand, where System Excess Demand = System Peak Demand – System Average Demand. The difference between a class's non-coincident peak demand and its Average Demand is used to derive its contribution to the System Excess Demand. The sum of a class's Average Demand and its contribution to System Excess Demand results in its contribution to the System Peak

Demand. A class's percentage contribution to the System Peak Demand is used for allocating that class's respective share of system main costs.

The **Peak and Average** allocator also uses two allocators to allocate the costs of demand-classified mains: the Peak Allocator and the Average Allocator. Like the Average and Excess method, the Average Allocator for the Peak and Average method is based on a class's contribution to System Average Demand. The Peak Allocator is based on a class's contribution to System Peak Demand. The Average Allocator is weighted by the system load factor, and the Peak Allocator is weighted by (1- system load factor), to derive a composite allocator for the class.

It should be noted that Average Demand is the same as total annual usage divided by 365 days. Average Demand is a volumetric based allocator.

Because Average Demand is a subset of Peak Demand, Average Demand is counted twice in the allocation of main costs to classes under the Peak and Average method: once in the Average Allocator, and again in the Peak Allocator. This is a flaw in the allocation process of the Peak and Average method.

The Average & Excess method does not suffer this flaw because it uses Average Demand only once in the allocation of main costs, which occurs under the Average Allocator. Instead of allocating costs on Peak Demand (which includes Average Demand), the Average & Excess method allocates costs on only Excess Demand (i.e. demand in excess of the average), thus avoiding the double counting of Average Demand in its allocation of costs.

Because the Average & Excess method uses System Average Demand only once in the allocation of main costs, it better reflects cost causation than the Peak and Average

method. Because of the double counting of Average Demand, or annual throughput, the Peak and Average method inappropriately results in the over-allocation of costs to high load factor classes due to this method's emphasis on annual throughput in the allocation of main costs. Utilities do not design their systems of mains to meet Average Demand, or annual throughput, thus the double counting of Average Demand by the Peak and Average Method does not follow cost causation.

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PUB/Koch-3 Collins Evidence p. 6;

Preamble:

(Collins Evidence p. 6, lines 17-22) "Both Atrium and Centra recommend the direct assignment of transmission main costs to the Special Contract Class and to the Power Stations Class with no additional allocation of the broader transmission system. This is appropriate and in accord with established cost of service principals. Direct Assignment to an identifiable customer that uses only a discrete identifiable portion of the system is more fair and accurate than the use of proportional loads or ratios to allocate common costs used by all customers."

Request:

a) If Centra has other customers that are served by discrete, identifiable portions of the system (but are not Special Contract or Power Station class customers), should direct assignment be used to allocate costs to this class?

b) If a customer being served by discrete, identifiable portions of the system was currently in the Mainline class, should Centra consider establishing this customer as a Special Contract customer? What factors should Centra consider when making such a determination?

Response:

a) If there is a customer, or customers, similar to Koch's situation in which gas is delivered to the customer from a pipeline by Centra through discrete and easily identifiable portions of the system and those portions of the system are used to only

provide service to that customer or customers (basically proven by the use of non-odorized gas), then it would likely be appropriate to utilize direct assignment for allocating costs to this customer or customers. This customer or customers should be included in a separate rate class.

b) Please see response to part a. above.

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PUB/Koch-4 Reference: Collins Evidence pp. 6-8; CAC/CENTRA I-11a; CAC/CENTRA I-11d; PUB/CENTRA I-13a-d

Preamble:

(CAC/CENTRA I-11a) "The evolution of the pipeline system generally follows the pipeline construction with some operational changes to meet changing customer load requirements: […]

- In 1996, a 323 mm pipeline was installed to support a major expansion of the Brandon based Special Contract Class industrial customer and the Southwest expansion project to supply gas to six communities. This pipeline was designed for operation at direct TransCanada Pipeline pressure and without odourization. The Special Contract Class customer has an inlet pressure requirement that exceeds the maximum operating pressure of the 1956 pipeline.
- In 2001, sections of 323 and 273 mm pipelines were installed parallel to the 1996 323 mm pipeline to supply a Power Station in Brandon. The pipeline sections were directly connected to the 1996 pipeline. The new pipeline segments increased capacity of the 1996 pipeline but could not independently supply the Power Station customer. The pipeline segments were designed for operation at TransCanada Pipeline pressure and without odourization. The minimum design inlet pressure to GS-192, the dedicated Power Station pressure regulation station, is 3790 kPa. […]
- At some time prior to October 2011, operational changes to the pipeline network were made to support increased gas demand for the Special Contract Class customer. The changes included:
    - Operation of manual isolation valves to isolate the 1974 168 mm line from the 1956 273 mm line and connect the 1974 168 mm line to the 1996 323 mm line.

- Operation of manual valves at GS-168 to transfer the gas load of the Southwest communities from the 1996 323 mm line to the 1956 273 mm line."

(CAC/CENTRA I-11d) "Special Contract load growth for the past 25 years has been largely met through the available transmission capacity and system modifications […], without the requirements of a customer contribution in aid of construction ("CIAC") from this customer. The cost of the transmission upgrade was rolled into the rate base and funded by all customers in their rates."

Request:

Please provide an itemized summary (i.e. the amounts paid together with a brief description of reasons for the payment) of the contributions in aid of construction paid by Koch (or its predecessor) to Centra since 1995.

Response:

Mr. Collins has not made any inquiries of Koch concerning any CIAC made to Centra and is therefore not aware if any CIAC was paid by Koch or its predecessor to Centra.