



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC'S
2019/20 GENERAL RATE APPLICATION
HEARING CONFERENCE

Before Board Panel:

- Larry Ring, Q.C. - Panel Chair
- Marilyn Kapitany - Vice-Chair
- Michael Watson - Board Member
- Carol Hainsworth - Board Member
- Susan Nemec - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 636 to 708

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	TABLE OF CONTENTS	
		Page No.
1		
2		
3	IGU PANEL	
4	ANDREW MCLAREN, Sworn	
5		
6	Examination-in-Chief by Mr. Antoine Hacault	640
7	Cross-Examination by Mr. Brent Czarnecki	655
8	Cross-Examination by Mr. Brian Meronek	665
9	Cross-Examination by Ms. Dayna Steinfeld	675
10		
11		
12		
13	Certificate of Transcript	708
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 --- Upon commencing at 9:01 a.m.

2

3 IGU PANEL:

4 ROBERT ANDREW MCLAREN, Sworn

5

6 THE CHAIRPERSON: Good morning, all.

7 Mr. McLaren has been sworn in. Mr. Hacault...?

8 MR. ANTOINE HACAULT: Yes, members of

9 the panel. Most other people have introduced

10 themselves. Would it be appropriate for this witness

11 to do so also?

12 THE CHAIRPERSON: Yes.

13 MR. ANDREW MCLAREN: Good morning,

14 Chairman Ring, Vice-Chair Kapitany, Board members,

15 other parties, Board counsel and advisors. Thank you

16 for allowing me to present today. My name's Andrew

17 McLaren. I'm a principal at InterGroup Consultants.

18 I've worked there since 2000, so about nineteen (19)

19 years. And my practice areas have involved utility

20 rate regulation.

21 Over that time period, I've previously

22 appeared before this board -- the first time, I

23 believe 2006, and most recently, 2012 or '13. Mr.

24 Cathcart and I were just discussing when that might

25 have been. But it's been a while since I've been in

1 front of this panel.

2 I also have with me today Ms. Davies,
3 who has been helping our team throughout this
4 proceeding as well.

5 THE CHAIRPERSON. Thank you.

6

7 EXAMINATION-IN-CHIEF BY MR. ANTOINE HACAULT:

8 MR. ANTOINE HACAULT: I think there
9 has been distributed to everyone two (2) documents,
10 firstly a PowerPoint which had been distributed by
11 email, entitled direct examination of Andrew McLaren.
12 I believe that would be IGU-14?

13 I'm getting a nod. IGU-14. And there
14 is also a one (1) page table on the revenue cost
15 coverage ratios. Those are Hydro -- historical Hydro
16 table. I believe that would be IGU-15. I had spoken
17 to Mr. Czarnecki about that. I'm seeing -- I --
18 hopefully everybody has a copy of that also.

19 And with that, I would ask Mr. McLaren
20 to proceed with his evidence and go through his
21 presentation and identify this table.

22 MR. ANDREW MCLAREN: Thank you. So I
23 do have a brief presentation for the Board. The
24 evidence in this proceeding that I'll be speaking to
25 includes the prefiled testimony, my prefiled

1 testimony, IGU-10, responses to certain information
2 requests from the PUB, Centra, as well as the
3 Consumers' Association. And this direct testimony
4 today addresses issue 17 from Order 98/'19, the cost
5 of service study results limited to options for bill
6 mitigation based on the currently approved and
7 utilized methodology, including the issue of the
8 heating value margin deferral.

9 I also have evidence on this -- the
10 record of this proceeding related to the terms and
11 conditions and proposed balancing fees, which I'm not
12 intending to speak to in this presentation today.

13 So to start with, the approach that
14 I've taken in addressing this topic is that before you
15 get to something like bill mitigation being considered
16 in the context of the currently available and approved
17 cost of service methodology. So I understand the
18 Board has deferred a detailed review of the cost of
19 service methods until the future, so I'm not intending
20 to ask the Board to make any determinations about
21 changing those things today. I -- I will speak to
22 some impacts illustratively about what types of things
23 might be considered, but I'm not going to ask the
24 Board to adjudicate any of those types of things
25 today.

1 I will say, though, that before you get
2 to bill mitigation, it's necessary to understand and
3 have confidence in the overall level of revenue
4 requirements and methods for allocating cost to
5 customers before addressing options to mitigate bill
6 increases to customers. I think you need to be
7 satisfied that the revenue requirement is right, and
8 that the cost allocations are reliable before you get
9 to the step of dealing with bill mitigation.

10 There have been several options
11 discussed in the current proceeding that might be
12 characterized as -- as bill mitigation. The first are
13 changes to the allocation of balances in the heating
14 value deferral account, the adoption of a zone of
15 reasonableness, or a ZOR, and deferral of costs
16 related to transmission capital additions for recovery
17 over time. So I'll speak to each of those
18 individually as we go forward.

19 So with respect to the heating value
20 deferral account, the purpose is to keep Centra and
21 its customers whole with respect to nongas revenue
22 which would otherwise be affected by variations in the
23 heating content of natural gas. And I know this topic
24 was reviewed in some detail yesterday.

25 So the basic point is that Centra's

1 revenue is at risk when the heating value content of
2 the gas varies. If the gas is hotter, you use less
3 gas, so there is less revenue. If the gas is cooler,
4 you need more volume to get the same energy, and so
5 there is an increased revenue. So that's a revenue
6 risk that arises when Centra has to assume a heating
7 value for rate-setting purposes, and then on an actual
8 basis, that heating value varies, and that creates a
9 difference in -- in Centra's revenues.

10 That revenue risk is different, though,
11 for different classes as a result of the rate design
12 for each class. So Centra currently allocates
13 balances in the account to customer classes based on
14 actual volumes for each customer class. And the
15 reference for that is provided in slide.

16 The current approach does not consider
17 the differences in rate structures and the way that
18 those differences in rate structures influence the
19 revenue risk that Centra experiences.

20 So there have been a few options that
21 have been -- been discussed to deal with this.
22 Christensen Associate Report recommended that Centra
23 only include for customers with monthly bills that are
24 determined according to energy sales volumes. This
25 was accepted by Centra, this recommendation

1 specifically for the special contract customers, and
2 indicated that they shouldn't participate in the
3 disposal, and that was in a report dated July 19th,
4 2012. And it's -- the special contract customer class
5 is particularly good example of -- of this issue,
6 because their revenues are based almost entirely on a
7 customer charge which is not influenced at all by
8 variations in heating value. So the revenue risk to
9 Centra if heating value varies is virtually zero
10 related to changes in the heating value for the
11 special contract class.

12 So adopting the Christensen Associate
13 Report recommendation would address that. It would
14 exclude the special contract class, which I believe is
15 appropriate, because by virtue of the rate design,
16 they don't impose any revenue risk on Centra.

17 The CAC evidence also suggests
18 potentially eliminating the heating value deferral
19 account entirely. This approach would also get rid of
20 the problem of matching the allocations in -- in the
21 balances in the account to the revenue risk profile of
22 the different customer classes.

23 I also put forward an opt -- another
24 option that suggested rating the allocation based on
25 nongas volumetric revenue. So not just straight

1 volumes, but weighted by the rates, or the revenues
2 that are associated with that. Centra commented on
3 this approach in their rebuttal and provided a table
4 that showed what the impact would be if you adopted
5 that approach. And it was reviewed in some detail
6 yesterday, but I've given the same table here for
7 people to have a look at as well.

8 In summary, this isn't a topic that I
9 would consider bill mitigation. This is a topic that
10 relates to are you tracking and allocating costs
11 correctly? And I think it -- it's very clear, and I
12 believe Centra's accepted that it's not doing that
13 correctly, at least with respect to the special
14 contract class right now by virtue of their rate
15 design.

16 So at a minimum, I think the Board
17 should direct Centra to remove the special contract
18 class from the calculation. And I think the Board may
19 also want to consider changing the rates allocated
20 using the -- the nongas volumetric revenues as an
21 option that may also better match the -- the revenue
22 risk to the recovery of the balances in that account.

23 So then we get into zone of
24 reasonableness. Adapting a zone of reasonableness for
25 setting rates based on a cost of service study might

1 be done for several reasons. The first one is it
2 acknowledges that cost of service studies aren't
3 perfect. They use estimates and assumptions, and the
4 Board has commented on this recently in its Order
5 164/16 where it stated that:

6 "While the results of a cost of
7 service study appear to be
8 arithmetically exact, a cost of
9 service study involves considerable
10 judgment.

11 And then more recently in Order 69/19,
12 the Board stated:

13 "Due to the inherent lack of
14 precision in a cost of service
15 study, a zone of reasonableness is
16 used to target the revenue to cost
17 coverage ratios of the customer
18 classes. The Board's approved the
19 use of a zone of reasonableness of
20 95 percent to 105 percent in
21 assessing the revenue to cost
22 coverage ratios of Manitoba Hydro's
23 customer classes. Revenues within
24 that range are deemed to represent
25 full cost recovery."

1 So both of those orders are Manitoba
2 Hydro Electric orders, but I believe the principles
3 apply equally to Centra.

4 A ZOR can also reflect a level of
5 confidence that the Board in the existing cost of
6 service study. If we go back to Order 51/96, the
7 Board gave Manitoba Hydro a directive to undertake a
8 study to address certain existing cost of service
9 study issues and the Board directed Manitoba Hydro to
10 assume a ZOR target of 95, 105, which was narrower
11 than the 90 to 110 range that was in use prior to that
12 time.

13 So what I infer from that, and I've
14 seen in other places is, when you do work to make
15 yourself more confident in the results, you may narrow
16 the range that you consider acceptable for a zone of
17 reasonableness.

18 You might also use a ZOR to address
19 goals of gradualism and ratemaking, and the Board
20 commented on that also in its Order 164/16.

21 As I mentioned, that Manitoba PUB has
22 recognized a ZOR of 95 to 105 for Manitoba Hydro, but
23 prior to 1996 the ZOR was wider than that, it was 90
24 to 110, so there has been some movement and some
25 narrowing of that over time, as people get more

1 comfortable with cost of service studies.

2 MR. ANTOINE HACAULT: Mr. McLaren,
3 could you please identify, while you're talking about
4 the zone of reasonableness for Manitoba Hydro, the --
5 the table that's been marked as IGU 15, for the
6 record?

7 MR. ANDREW MCLAREN: So Mr. Hacault
8 has provided a table marked as Exhibit IGU 15 that
9 summarizes the revenue to cost coverage ratios from
10 1991 to '92, to 2010, 2011, and this was an exhibit, I
11 believe, from the cost of service review proceeding in
12 2016. It's just provided, and -- and these are
13 revenue to cost coverage ratios using Public Utilities
14 Board approved methods.

15 And I -- I will say you'll notice it's
16 Mr. Bowman's pre-filed testimony, not mine, so I was
17 not present at that proceeding but I believe this
18 table summarizes some of those historic cost of
19 service results in zone -- and revenue, cost coverage
20 ratios for different electric customer classes.

21

22 (BRIEF PAUSE)

23

24 MR. ANDREW MCLAREN: Okay. So I
25 believe I was on the second bullet. The second bullet

1 says:

2 "Other natural gas utilities also
3 adapt a zone of reasonableness for
4 setting rates based on cost of
5 service study results."

6 And I -- I know there's been some
7 evidence in this proceeding that Centra in the past
8 has also used a zone of reasonableness, so this is a
9 concept that was not applied exclusively to electric
10 utilities. It's also been in use for natural gas
11 utilities.

12 It's also important, I think, to note
13 that this board has stated:

14 "Consideration of RCC ratios is a
15 rate design matter that should be
16 addressed in the ratesetting phase
17 of a GRA."

18 And that's from Order 164/16. And
19 that's important because I -- well, I know the Board
20 has deferred considering changes to cost allocation
21 study to a future proceeding. I agree with the Board,
22 considering a zone of reasonableness and revenue to
23 cost -- cost -- cost -- revenue to cost coverage
24 ratios is not really a -- a cost of service topic;
25 it's more of a rate design topic.

1 So the conclusion from this is, it's
2 reasonable for the Board to adopt a zone of
3 reasonableness for ratesetting purposes in the current
4 proceeding and this doesn't require, in my view, the
5 Board to change anything about Centra's current cost
6 of service methodology to enable that.

7 Also point out a few places where
8 Centra's current cost of service study is at odds with
9 some principles recently adopted by the Board. I know
10 we've had some discussion. It's been quite a while
11 since Centra's -- Centra's cost of service study was
12 reviewed in any great detail by this board, and so
13 because of that we looked to some principles from the
14 more recent electric cost of service study review the
15 Board did in 2016, and in that decision the Board
16 said:

17 "The principle of cost causation is
18 paramount. Further the Board finds
19 that ratemaking principles and goals
20 should not be considered at the cost
21 of service study stage."

22 And the same order also stated:

23 "Ratemaking principles and goals of
24 rate stability, gradualism,
25 fairness, and equity, efficiency,

1 simplicity, and competitiveness of
2 rates should be considered in a GRA
3 and not in a cost of service study."

4 So while those are all useful and
5 important things for the Board to consider in setting
6 rates, they're kind of a separate step that, in my
7 understanding, and the Board's review in 2016 said,
8 leave this out of the cost of service study, we'll
9 consider those as part of rate design.

10 And this is in contrast to the current
11 Centra cost of service study methodology which
12 explicitly uses some non-cost causal factors,
13 particularly in justifying the use of a peak and
14 average methodology. So currently Centra's cost of
15 service study embeds that as part of the cost of
16 service method rather than leaving it to be something
17 to be considered in rate design.

18 And the differences in those cost of
19 service methods can drive large changes in RCC
20 ratios. So this is a table that was provided in a
21 response from IGU to the -- to the Utility Board, and
22 I think Mr. Hacault reviewed this in some detail
23 yesterday, so hopefully the table is familiar to
24 people.

25 The first row shows the allocation of

1 non-gas costs using Centra's existing method based on
2 the peak and average. You can see the total, 148.5
3 million. In the second row there's a sensitivity
4 analysis that IGU requested that Centra prepare based
5 on using a coincident demand method. And then the RCC
6 ratios for both approaches are shown at the bottom.

7 You can see that for the small general
8 service class, the RCC ratios don't move very much.
9 For some of the other classes, the movement is quite
10 substantial, in particular the special contract
11 customer class. You go from 62 percent using the
12 existing method to about 92 percent using the
13 coincident demand method as modelled by Manitoba -- or
14 by Centra.

15 So this is a -- this is an issue that -
16 - for higher volume customers, higher load factor
17 customers. A lot of costs matter. A lot of cost
18 shifting depends on which of those methods you -- you
19 approve, and so it's quite material to the way rates
20 are evaluated from a cost causation perspective,
21 particularly for those higher volume customer classes.

22 So my conclusion here is that the Board
23 can't have confidence in the current cost of service
24 study that it reasonably reflects the cost of service
25 principles adopted by the Board in Decision 164/16.

1 So the Board has some precedent on how
2 it can address issues where it may not have full
3 confidence in the Utility's cost of service study. In
4 Order 143/04, the Board stated:

5 "Because the cost of service study
6 methodology is in a current state of
7 flux and in the Board's view
8 incomplete, the Board can no longer
9 rely on the current methodology in
10 assessing the revenue to cost
11 coverage ratios for each customer
12 class."

13 And in that proceeding, the Board
14 ordered equal percentage rate increases to all
15 customers, and that was a Manitoba Hydro rate
16 application.

17 The Board has also previously used a
18 rider ZOR for Manitoba Hydro, as I've already stated.
19 And so my conclusion there is that given those current
20 inconsistencies between Centra's cost of service study
21 and the principles more recently adopted by the Board,
22 the Board shouldn't adjust rates to reflect RCC ratios
23 at this time.

24 Alternatively the Board should expand
25 the ZOR beyond its 95-105 range to acknowledge these

1 inconsistencies. So I think part of what the ZOR
2 allows you to do is say how meaningful is it to drive
3 to a hundred percent if we have some concerns about
4 how meaningful or how accurate this cost of service
5 study is.

6 And then finally on the deferral tran -
7 - for transmission costs, the CAC evidence describes a
8 potential deferral approach for transmission assets
9 for large volume customers, you know, a major reason
10 that these revenue to cost coverage ratios are
11 changing as a result of investment in transmission
12 plants, so transmission-related costs are getting
13 higher. That has a much bigger impact on special
14 contract and other high volume customers than it does
15 on small general service customers.

16 The CAC evidence has described a
17 potential approach to this to be to say perhaps sort
18 of don't start charging those people, those classes,
19 for those costs immediately. Defer a portion of it.
20 It would attract carrying costs while it's being
21 deferred and you could sort of charge those costs back
22 to customers over some time period.

23 That type of approach has legitimately
24 been used in the -- in the past. I think if the Board
25 adopts the other IG recommendations though, the need

1 for this option would be reduced.

2 That concludes my presentation. Thank
3 you for your attention.

4 THE CHAIRPERSON: Thank you, Mr.
5 McLaren.

6 Mr. Harcault, that completes your
7 direct?

8 MR. ANTOINE HACAULT: Yes, it is. And
9 Mr. McLaren is available for cross-examination.

10 THE CHAIRPERSON: Thank you. Mr.
11 Czarnecki...?

12

13 CROSS-EXAMINATION BY MR. BRENT CZARNECKI:

14 MR. BRENT CZARNECKI: Thank you, Mr.
15 Chairman, and good morning panel and good morning Mr.
16 McLaren, welcome.

17 Do I understand it that you're here
18 today on behalf of IGU, the Industrial Gas Users?

19 MR. ANDREW MCLAREN: Yes, that's
20 correct.

21 MR. BRENT CZARNECKI: And which
22 members of IGU are you here for this morning?

23 MR. ANDREW MCLAREN: For all four of
24 the members.

25 MR. BRENT CZARNECKI: So that would

1 include a special contract class --

2 MR. ANDREW MCLAREN: That's correct.

3 MR. BRENT CZARNECKI: -- customer?

4 MR. ANDREW MCLAREN: Correct.

5 MR. BRENT CZARNECKI: And do all four
6 members adopt your presentation this morning?

7 MR. ANTOINE HACAULT: I'm going to
8 object here. Mr. McLaren, as Mr. Czarnecki knows,
9 filed with this Board a statement of independence in
10 saying that any duty he might owe to any of the people
11 in IGU is overwritten by his duty to be of assistance
12 to this Board.

13 So his expert evidence is expert
14 evidence and he'll be here to assist the Board.

15 MR. BRENT CZARNECKI: Mr. Chairman I'm
16 -- perhaps my counsel opposite has misunderstood, I --
17 I'm not venturing into questioning Mr. McLaren's
18 independence. I'm just trying to figure out whether
19 or not the IGU special customer class -- special class
20 customer adopts the recommendations that are within
21 his report or if they are coming with a different set
22 of options.

23 It was to seek clarification.

24 MR. ANTOINE HACAULT: I understood the
25 question, members of the panel, but that is not a

1 matter of opinion and evidence, that's a matter of
2 argument and instructions I will get, as a lawyer, in
3 presenting my arguments after hearing the evidence as
4 a whole.

5 And I indicated that at the very
6 beginning, that the group will be considering the
7 evidence as a whole, and based on the evidence as a
8 whole.

9 Once it's heard, the perspective from
10 CAC, perspective from Centra, and this witness's
11 perspective, they'll be setting out their position in
12 argument.

13 THE CHAIRPERSON: Anything further?

14 MR. BRENT CZARNECKI: I'm not trying
15 to be difficult, I'm just trying to ascertain the
16 confusion here, because I -- I think there was -- was
17 some IRs and Ms. Derksen reminds me about whether or
18 not the IGU special class customer was adopting the
19 evidence of Mr. McLaren, and today it still doesn't
20 remain clear to me whether or not the IGU special
21 class customer is aligned with your examination that
22 you just presented, and if you're here on behalf of
23 all four of the customers, then I would -- would have
24 though the answer was yes. But perhaps it's no.

25 THE CHAIRPERSON: You're maintaining

1 the objection, Mr. Hacault?

2 OBJ MR. ANTOINE HACAULT: Yes, it's not a
3 matter of evidence for this witness to answer what IGU
4 might or might not think. He's here to provide expert
5 evidence on a subject that he was asked to provide
6 expert evidence on. He's not here to -- to provide --
7 if -- if there's a question like that, we know there's
8 going to be a presentation by IGU, I think on the
9 22nd.

10 If Mr. McLaren wants to ask a question
11 then, he's more than able to ask it of the person who
12 is going to be presenting here on the 22nd.

13 THE CHAIRPERSON: Thank you. The
14 objection is sustained, the witness need not answer
15 the question.

16

17 CONTINUED BY MR. BRENT CZARNECKI:

18 MR. BRENT CZARNECKI: Thank you, Mr.
19 Chairman, I'll move on.

20 Mr. McLaren, you do realize we're in a
21 natural gas proceeding today?

22 MR. ANDREW MCLAREN: Yes, I do.

23 MR. BRENT CZARNECKI: This isn't a
24 Manitoba Hydro proceeding?

25 MR. ANDREW MCLAREN: Correct.

1 MR. BRENT CZARNECKI: If I could take
2 you to order 2419, which is the first procedural order
3 for this general rate application.

4 And if we can start page 11, please.
5 And if you scroll to the bottom of the page, please.
6 And I'm on the third last line where I'll read it out,
7 it says:

8 "IGU anticipates reviewing elements
9 of Centra's proposed revenue
10 requirement forecast, cost
11 allocation methods and rate design
12 proposals."

13 Are you with me?

14 MR. ANDREW MCLAREN: Yes.

15 MR. BRENT CZARNECKI: Now, if I can
16 ask that you turn the page to page 28 of the same
17 order. I'm going to look at item number 24. And this
18 is part of the Board order, their findings, their
19 ruling.

20 It says rate design is not in scope
21 except for an update on Centra's ongoing stakeholder
22 consultation process related to its five part rates,
23 being the bundling of its rates.

24 Do you see that?

25 MR. ANDREW MCLAREN: Yes.

1 MR. BRENT CZARNECKI: And I'm
2 focussing on rate design is not in scope.

3 MR. ANDREW MCLAREN: Yes.

4 MR. BRENT CZARNECKI: And the next, if
5 we could turn to order 98/19 of the Board's
6 procedural, second procedural order.

7 And I'd like to focus you on page 4,
8 please and item 17, sir, says:

9 "Cost of service study results
10 limited to options for bill
11 mitigation based on the currently
12 approved and utilized methodology,
13 including the issue of the heating
14 value margin deferral."

15 Do you see that?

16 MR. ANDREW MCLAREN: Yes.

17 MR. BRENT CZARNECKI: And you're also
18 aware, sir, that in that same order that the after
19 considering your evidence and every other party's pre-
20 filed evidence to this hearing, that the Board decided
21 to have a deferred cost of service matters to a
22 separate proceeding, which is to be determined and to
23 be coming?

24 MR. ANDREW MCLAREN: Yes.

25 MR. BRENT CZARNECKI: So, Mr. McLaren,

1 with that background I was a little surprised this
2 morning, as were the Centra people, perhaps if we look
3 at your presentation from this morning, I believe it
4 was on page 8. Thank you.

5 Where you have consideration of RCC
6 ratios is a, and it's emphasized, rate design matter.

7 Would that have been contemplated by
8 the other Board orders we just went by as being out of
9 scope for this proceeding?

10 MR. ANDREW MCLAREN: I'm not sure
11 whether the Board intended that to be out of scope or
12 not.

13 MR. BRENT CZARNECKI: Okay. And --
14 and where is the uncertainty coming from, sir, based
15 on what we just reviewed?

16 MR. ANDREW MCLAREN: I think at times
17 people maybe co-mingled the idea about what is cost of
18 service and what is rate design and whether those two
19 things intersect, and I know that we've had some
20 people discuss that zones of reasonableness are a cost
21 of service method, and at times other people call that
22 a rate design method, and so I think maybe there are
23 circumstances where we aren't maybe as precise about
24 which step we're in when we're talking about those
25 types of things.

1 MR. BRENT CZARNECKI: Would you agree
2 with me, Mr. McLaren, that issues of cost of service
3 and rate design such as a zone of reasonableness are
4 very complex and complicated?

5 MR. ANDREW MCLAREN: Yes, I'd agree
6 with that.

7 MR. BRENT CZARNECKI: And that
8 principles aside, that those complexities may lead a
9 panel such as this to have an independent and separate
10 hearing to evaluate all of the options that might be
11 at -- on the table?

12 MR. ANDREW MCLAREN: I would agree the
13 Board could certainly choose to go that path, yes.

14 MR. BRENT CZARNECKI: And -- and in
15 fact, this Board has chosen that path, am I correct?

16 MR. ANDREW MCLAREN: It's chosen that
17 path with respect to changes to the current cost of
18 service study methods, yes.

19 MR. BRENT CZARNECKI: From your
20 presentation this morning, Mr. McLaren, I -- I think I
21 heard you correctly when you were reviewing the hydro
22 cost of service principles where you said that the
23 principles apply equally to Centra.

24 Did -- did I hear that correctly?

25 MR. ANDREW MCLAREN: I think those

1 principles are also relevant in considering natural
2 gas utility rates, yes.

3 MR. BRENT CZARNECKI: Principles are
4 principles and I'm not to -- to debate the principles
5 with you. But my point with you is that the
6 principles may actually apply differently to a natural
7 gas utility, such as Centra, as it would an electric
8 utility?

9 MR. ANDREW MCLAREN: I think if you
10 have different sets of facts, the principles may be
11 applied differently.

12 MR. BRENT CZARNECKI: Of course,
13 naturally. And -- and, again, how the principles
14 would apply to Centra in this case again would be a
15 subject for the -- the proceeding that the Board has
16 envisioned for Centra, the future proceeding --

17 MR. ANDREW MCLAREN: It --

18 MR. BRENT CZARNECKI: -- correct?

19 MR. ANDREW MCLAREN: It could
20 certainly be considered there. I don't know the Board
21 necessarily needs to limit it to only that path.

22 MR. BRENT CZARNECKI: Mr. McLaren, in
23 your pre-filed evidence, I think it was Exhibit IGU10
24 -- if we could pull that up, please.

25

1 (BRIEF PAUSE)

2

3 MR. BRENT CZARNECKI: At page 10.

4 Scroll down. There's three (3) recommendations.

5 MR. ANDREW MCLAREN: Maybe page

6 numbered 10, not page 10 on the PDF, I think.

7 MR. BRENT CZARNECKI: Right. Yeah,

8 right there. Thank you. Focussing on the last bullet

9 there you have, sir, where you say:

10 "The Board should consider retaining

11 its own independent expert to

12 prepare a report with

13 recommendations that is available to

14 all parties.

15 This could help alleviate some

16 procedural fairness concerns about

17 only certain parties being granted

18 access to confidential materials."

19 Do you remember that recommendation?

20 MR. ANDREW MCLAREN: Yes.

21 MR. BRENT CZARNECKI: Can you just

22 elaborate on your thinking behind that recommendation?

23 MR. ANDREW MCLAREN: So, we went

24 through a process in this current proceeding to gain

25 access to some of the confidential portions of

1 Centra's filing.

2 We eventually were granted access to a
3 portion of the confidential filing, not the entire
4 confidential filing. And it also arrived
5 substantially later in the proceeding than it was
6 provided to other parties.

7 And I understand that in the interim,
8 between when the Board has previously reviewed
9 Centra's cost of service study and today, that the
10 environment that Centra operations in has changed, and
11 that has led to Centra being -- having increased
12 concerns about sharing publically certain amounts of
13 the information.

14 And much of that information is -- is
15 integral to understanding how the cost of service
16 study works. And prior to having access to the
17 confidential information, it's really difficult to
18 understand how the numbers are working and -- and
19 where numbers are coming from.

20 So, I know that that is a process the
21 Board has used before in terms of having an
22 independent expert and that that may limit the need to
23 distribute some of that confidentially -- or
24 commercially sensitive information.

25 And that type of process may help limit

1 the expose to that information, limit the number of
2 people who need to see that information.

3 MR. BRENT CZARNECKI: Thank you for
4 that, sir. Those are my questions, Mr. Chairman.
5 Thank you.

6 THE CHAIRPERSON: Thank you, Ms.
7 Czarnecki. Mr. Meronek...?

8 MR. BRIAN MERONEK: You're not
9 imagining things, Mr. Chair. We have an uneasy reli -
10 - alliance here between Centra and CAC. But in case
11 that breaks apart, we have a chair in-between us.

12

13 CROSS-EXAMINATION BY MR. BRIAN MERONEK:

14 MR. BRIAN MERONEK: Good morning.
15 Just following up on Mr. Czarnecki's questions about
16 the zone of reasonableness, do I have this correctly,
17 that clearly Centra and CAC has taken the position
18 that the zone of reasonableness is a cost methodology
19 issue that's to be deferred?

20 You don't agree with that?

21 MR. ANDREW MCLAREN: That's correct.

22 MR. BRIAN MERONEK: You also recogni -
23 - you're not labelling it as a rate design issue?

24 MR. ANDREW MCLAREN: I provided a
25 comment or the Board made that determination, yes.

1 MR. BRIAN MERONEK: So -- and Mr.
2 Czarnecki indicated to you that that's out of scope,
3 as well, correct?

4 MR. ANDREW MCLAREN: He indicated
5 that's his view, yes.

6 MR. BRIAN MERONEK: So, I'm having
7 trouble determining how any discussion about zone of
8 reasonable is in scope in this particular hearing.
9 Can you help me out?

10 MR. ANDREW MCLAREN: I think the
11 answer I've given there is that sometimes these ideas
12 are complicated and get co-mingled. And that may be
13 something that is appropriate for argument, the degree
14 to which certain issues are in scope or out of scope,
15 and the Board can make a determination to that effect.

16 MR. BRIAN MERONEK: Now, if you could
17 turn to your evidence, and just not to beat a dead
18 horse, with respect to zone of reasonableness. And I
19 looked at your presentation. It starts at page 9 and
20 goes through to page 11.

21 Would you agree with me, sir, that that
22 aspect of your direct evidence is really argument and
23 not evidence, other than the -- the reference to your
24 IGU McLaren-22?

25 MR. ANDREW MCLAREN: I provided it as

1 context for the Board. I'm not sure whether I can
2 make a determination whether it's evidence or
3 argument.

4 MR. BRIAN MERONEK: You spoke earlier
5 about in support of looking at a zone of
6 reasonableness that made mention of it being used
7 previously or historically with respect to Centra.

8 Did I understand your evidence
9 correctly?

10 MR. ANDREW MCLAREN: Yes.

11 MR. BRIAN MERONEK: Were you around in
12 1996? I don't mean were you born, but were you --
13 were you involved in Centra Gas matters in 1996/1997?

14 MR. ANDREW MCLAREN: I was not.

15 MR. BRIAN MERONEK: All right. So,
16 you were not aware that prior to 1997 there was a zone
17 of reasonableness incorporated into gas matters at 97
18 to 103?

19 MR. ANDREW MCLAREN: I understand that
20 upon reviewing Ms. Derksen's evidence.

21 MR. BRIAN MERONEK: All right. And
22 then, in 1997 were you aware that the Board ordered
23 that -- or at least the -- that the push was to unity
24 based upon the urge -- urging of high-volume
25 customers?

1 MR. ANDREW MCLAREN: I understand from
2 reviewing Ms. Derksen's evidence, which was very
3 helpful, on the history and the context here that that
4 was sort of a -- implemented as a balance to,
5 including the peak and average method which, as I
6 understand it, was included in part to build a
7 consideration of fairness and equity into the cost of
8 service study itself and that, given that that
9 consideration of fairness and equity was addressed in
10 the cost of service study, it didn't need to be
11 further addressed in selecting an appropriate zone of
12 reasonableness.

13 And, on that basis, customer rates
14 should be set to unity to a hundred percent cost of
15 service.

16 MR. BRIAN MERONEK: And again, you're
17 getting this from Ms. Derksen's recitation?

18 MR. ANDREW MCLAREN: That's correct.

19 MR. BRIAN MERONEK: Now, while we're
20 on page 10, just looking at the schedule here, and I
21 think it was discussed to some extent yesterday, if
22 you look down at line 5 -- do you have that, sir?

23 MR. ANDREW MCLAREN: Yes.

24 MR. BRIAN MERONEK: It talks about
25 coincident demand method. Do you see that?

1 MR. ANDREW MCLAREN: Yes.

2 MR. BRIAN MERONEK: Could you indicate
3 to me what your understanding of 'coincident' is?

4 MR. ANDREW MCLAREN: At the time of
5 the system peak.

6 MR. BRIAN MERONEK: Do you know how
7 it's calculated?

8 MR. ANDREW MCLAREN: This was prepared
9 by Centra. It was in response to a request from us.
10 I don't know exactly which assumptions or how they
11 implemented that method.

12 MR. BRIAN MERONEK: Are you aware that
13 there are many different ways of calculating it?

14 MR. ANDREW MCLAREN: I am aware that
15 people calculate coincident demand differently in
16 different situations.

17

18 (BRIEF PAUSE)

19

20 MR. BRIAN MERONEK: Could you turn to
21 PUB/IGU/McLaren-20, please, attachment 1?

22 MR. ANDREW MCLAREN: It's -- I think
23 it's 20, not 22. Yeah.

24 MR. BRIAN MERONEK: Sorry, I meant 20.
25 Could you look at line 14, and the heading is -- or

1 the reference is "Blended Commodity Base WACOG Rate,"
2 which is an acronym for 'Weighted Average Cost of
3 Gas'.

4 Do you know what a -- could you explain
5 what a blended commodity base WACOG is?

6 MR. ANDREW MCLAREN: So there are a --
7 a number of -- I believe this was discussed yesterday
8 -- there are a number of different entry points and
9 different points in the year when gas is delivered to
10 Manitoba Hydro's system.

11 And so you have a single number which
12 is a blended or weighed average, but it is not uniform
13 throughout the year; it is made up of a number of
14 different points throughout the year, and those may
15 vary from what the weighted average is.

16 MR. BRIAN MERONEK: Would you -- would
17 you agree that it -- it really just excludes rate
18 riders?

19 MR. ANDREW MCLAREN: Oh, it also does
20 that, yes.

21 MR. BRIAN MERONEK: Do you know how
22 that blended commodity-base WACOG rate is calculated?

23 MR. ANDREW MCLAREN: I believe that's
24 done in the portion of the filing that is CSI that IGU
25 was not granted access to.

1 MR. BRIAN MERONEK: Can you explain why
2 the blended commodity-base WACOG rate is the same for
3 each customer class?

4 MR. ANDREW MCLAREN: I was asking this
5 question to fill out a table for the board that the
6 board asked to -- I had to make a number of
7 assumptions. I believe I put caveats on it to say
8 this is entirely illustrative. I was not -- and not
9 necessarily even recommending that this be adopted. I
10 was trying to be responsive to the Board.

11 I also was sensitive to a lot of the
12 information that you would need to do this on an
13 actual basis is considered commercially sensitive.
14 And so there are numbers in performing assumptions.
15 This was -- this table was intended simply to
16 illustrate a point; it was not intended to develop
17 rates that the Board could ever implement.

18 MR. BRIAN MERONEK: Could you look at
19 I -- Information Request IGU/CENTRA-1-27A, please.

20

21 (BRIEF PAUSE)

22

23 MR. BRIAN MERONEK: Page -- page 3 of
24 5, please. Stop there, please. Yeah. It reads:

25 "The calculation of each month's

1 heating value margin deferral begins
2 with the calculation of the variance
3 in gas volumes consumed by customer
4 class as a result of the variance in
5 the actual heating value of gas
6 received for that period."

7 Do you see that, sir?

8 MR. ANDREW MCLAREN: Yes.

9 MR. BRIAN MERONEK: Do you know how
10 that's calculated?

11 MR. ANDREW MCLAREN: Again, I don't
12 have access to that information, so I haven't been
13 able to independently confirm the calculations.

14 MR. BRIAN MERONEK: Could you turn to
15 CAC Information Request IGU-1-2, please.

16

17 (BRIEF PAUSE)

18

19 MR. BRIAN MERONEK: You can stop
20 there. You indicate in Information Request Answer B,
21 in part, that for cost of service results, Mr.
22 McLaren's position is that the methodology that
23 underpins the cost responsibility results is
24 unreliable. Do you see that, sir?

25 MR. ANDREW MCLAREN: Yes.

1 MR. BRIAN MERONEK: In other words,
2 you're saying that it's flawed?

3 MR. ANDREW MCLAREN: Yes.

4 MR. BRIAN MERONEK: Can you advise the
5 board if, at any time prior to this hearing, that IGU
6 made any presentation to the Board or gave the Board
7 notice that this cost of service -- the integrity of
8 the cost of service methodology was unreliable or
9 flawed?

10 MR. ANDREW MCLAREN: Sorry, can you
11 repeat that question, please?

12 MR. BRIAN MERONEK: Yes, it -- can you
13 advise as to whether ICGU, your clients, at any time
14 per -- in the last fifteen (15) years, made it known
15 to the Board that the cost of service methodology was
16 unreliable or flawed?

17 MR. ANDREW MCLAREN: I haven't
18 participated prior to this proceeding, and I can't
19 comment on prior to this proceeding.

20 MR. BRIAN MERONEK: And I suppose your
21 answer would be the same, that you don't know whether
22 IGU's challenged the allocation of heating-value
23 deferral account at any time when refunds were being
24 granted to ICGU customers?

25 MR. ANDREW MCLAREN: Correct.

1 (BRIEF PAUSE)

2

3 MR. BRIAN MERONEK: Thank you, Mr.
4 Chairman. Thank you, Mr. McLaren.

5 THE CHAIRPERSON: Thank you, Mr.
6 Meronek. We're going to take our first break. We'll
7 break for twenty (20) minutes. Thank you.

8

9 --- Upon recessing at 9:47 a.m.

10 --- Upon commencing at 10:07 a.m.

11

12 THE CHAIRPERSON: Yes, Ms.
13 Steinfeld...?

14

15 CROSS-EXAMINATION BY MS. DAYNA STEINFELD:

16 MS. DAYNA STEINFELD: Thank you, Mr.
17 Chair, and good morning, Mr. McLaren.

18 I'd like to start with you on the issue
19 of the heating value margin deferral account, and if
20 we could bring up slide 4 of your presentation from
21 this morning, IGU 14.

22 And on this slide, the second bullet,
23 it says:

24 "Centra's revenue risk is different
25 for different classes of customers

1 as a result of the different rate
2 designs for each class."

3 Do you see that there?

4 MR. ANDREW MCLAREN: Yes.

5 MS. DAYNA STEINFELD: I'm wondering if
6 you can just help me understand a little bit better
7 what you're saying there, why is the revenue risk
8 different because of the different rate designs?

9 MR. ANDREW MCLAREN: So Centra's rate
10 design, which Mr. Hacault walked through in some
11 detail yesterday, has three basic components.

12 There is a customer charge, which is
13 charged as a single monthly charge to each customer
14 each month. There are demand charges that are based
15 on the peak demand that each customer imposes on the
16 system and that demand charge not all customer classes
17 have a demand charge, it's only the higher use
18 customer classes that have a demand charge.

19 And then there's a volumetric charge,
20 which is charged per volume, cubic metre of -- of gas
21 that is delivered.

22 And when we were evaluating -- when we
23 reviewed the issue of the heating value deferral
24 margin account, the Christensen report from 2012 noted
25 that the special contract customer class, their rates

1 are almost entirely a customer charge.

2 So there -- none of their revenue to
3 Centra turns in particular on any demand or volumetric
4 charge. And we asked Centra and IR to -- asked Centra
5 to judge for each of those components a customer
6 charge, a demand charge and an energy or volume
7 charge, how much can those vary as a result of
8 changing and heating value.

9 And Centra gave us a response that I'm
10 going to paraphrase, but it is on the record, people
11 can check the wording, that the customer charge,
12 there's basically no variation in customer charge as a
13 result of heating value. If the heating value changes
14 it doesn't impact the way the customer charge is
15 charged at all.

16 On demand charges, I believe the word
17 Centra used was that there may be a slight impact on
18 demand charges as a result of their -- of variances in
19 heating value. But there's a greater impact on the
20 volumetric charge.

21 And so when we looked at that, we
22 looked at each of the different rate classes, the
23 total revenue from those classes depends on each of
24 those charges in a different proportion.

25 And so as I mentioned, the special

1 contract, it's almost all customer charge.

2 For the small general service class,
3 there's no demand charge, but there's a much bigger
4 portion of their -- of their total revenue that
5 depends on the volumetric charge.

6 And so because of those differences,
7 and because the heating value effects the different
8 components differently, that means that the revenue
9 risk is different for each customer class.

10 MS. DAYNA STEINFELD: Thank you.

11 And that forms then the basis for your
12 evidence where you recommend that the heating value
13 margin deferral account be allocated to the different
14 customer classes based on non-gas volumetric revenue,
15 correct?

16 MR. ANDREW MCLAREN: Correct, that was
17 the improvement that I explored and put in my
18 evidence, yes.

19 MS. DAYNA STEINFELD: And if we turn
20 to PUB Exhibit 25, book of documents at page 269, this
21 is a page from Centra's rebuttal evidence and this is
22 a table that I believe shows the allocation of the
23 deferral account based on volumetric revenues.

24 Is that your understanding?

25 MR. ANDREW MCLAREN: This table shows

1 both versions, I believe. One based simply on
2 volumes, which are the rows -- row 5 and 6.

3 And then rows 8 and 9 are the version
4 based on revenue. So -- so basically volumes weighted
5 by the revenue that depends on those volumes.

6 MS. DAYNA STEINFELD: And do rows 8
7 and 9 reflect the recommendation in your evidence?

8 MR. ANDREW MCLAREN: I believe this is
9 Centra's example -- illustrative example of what it
10 would look like if they implemented my recommendation,
11 yes.

12 MS. DAYNA STEINFELD: And you don't
13 take any issue with how they've prepared this, you
14 wouldn't necessarily do this any differently?

15 MR. ANDREW MCLAREN: It is consistent
16 with the -- the math that I've done, they have better
17 access to more of the information needed to do this
18 than I do, so I have no reason, it's -- it's certainly
19 very close to what I had calculated myself, yes.

20 MS. DAYNA STEINFELD: And if rows 8
21 and 9 are implemented by this Board as the method of
22 allocating the deferral account, would in your view
23 this then precisely align the allocation with the
24 accumulation into the account?

25 MR. ANDREW MCLAREN: Okay. That was

1 the intent, was I was trying to find a way to have the
2 disposal of the dollars in the account, the -- to each
3 customer class better track the degree of revenue risk
4 that Centra experiences, due to the heating value
5 variation. That was the improvement I was trying to
6 explore with Centra and they, in their rebuttal,
7 provided this table which was quite helpful.

8 MS. DAYNA STEINFELD: And if we could
9 bring up PUB CAC 1. And just scroll down to the
10 response. That's good there, thank you.

11 This is an IR response from Ms. Derksen
12 and you're at the bottom of the page here, it says:

13 "The illustrative example does not
14 consider the contribution made to
15 actual heating value content flowing
16 from volumes of gas delivered to the
17 Manitoba border from the special
18 contract class, other T-Service
19 customers, or demand billed
20 customers."

21 Do you see that there?

22 MR. ANDREW MCLAREN: Yes.

23 MS. DAYNA STEINFELD: And the
24 illustrative example that Ms. Derksen is referring to
25 is essentially the same if not identical to the

1 illustrative example that the Board asked you to
2 prepare that you reviewed earlier in your evidence
3 today.

4 MR. ANDREW MCLAREN: That's my
5 understanding, yes.

6 MS. DAYNA STEINFELD: And did you
7 consider this concern raised by Ms. Derksen when you
8 were looking at the illustrative example?

9 MR. ANDREW MCLAREN: So I accept that
10 with respect to the demand charges, and I think the
11 information from Centra was that heating value may
12 have a slight impact. I believe I've used the right
13 word there, slight was their word. So I accept that
14 it's -- it's not zero, but it's lower and by use of
15 the word "slight", I interpret it quite a bit lower
16 than the revenue risk related to the volume charge.

17 So I accept there are some
18 imperfections, perhaps, but I do think directionally
19 the intent was to try and come up with something that
20 was a little bit better than strictly straight
21 volumes.

22 And we know that the straight volume
23 approach has that particular problem for the special
24 contract customer class. The special contract
25 customer class is the easy extreme example. And I --

1 I don't think it's disputed really by anybody that
2 their revenue risk related heating value is virtually
3 zero as a result of their rate design, which is almost
4 entirely a customer charge.

5 What I was trying to do was to see if
6 there was a way to -- I think that's the easy one, the
7 easy example for people to get their heads around, but
8 I was trying to explore whether there was a better way
9 to reflect the differences in rate design in the other
10 classes in the allocation. And so that's the topic
11 that I was trying to explore, that's why I put it in
12 my evidence and Centra addressed that in the rebuttal
13 evidence.

14 But I -- I accept there are some
15 imprecisions or imperfections that are potentially not
16 addressed in that method.

17 MS. DAYNA STEINFELD: And I -- I take
18 your answer just now to be referring to the demand
19 related variations and the heating value.

20 MR. ANDREW MCLAREN: Yes.

21 MS. DAYNA STEINFELD: Do you
22 understand Ms. Derksen is also identifying a concern
23 related to what I'll call the co-mingling of gas that
24 is -- the gas that Centra brings into the system and
25 the gas that is nominated by other customers?

1 MR. ANDREW MCLAREN: Yes, I understand
2 that. I think I talked a little bit about that
3 earlier, that when we look at some of these values,
4 they're averaged over the course of the year, but that
5 average is made up of variations throughout the year
6 and different times of day and different seasons.

7 The -- the value may not be exactly the
8 same and it may not be the same for deliveries at one
9 point on Centra's system compared to deliveries on a
10 different point on Centra's system.

11 MS. DAYNA STEINFELD: And do you see
12 that as an issue in terms of allocating the deferral
13 account on the basis of non-gas volumetric revenue?

14 MR. ANDREW MCLAREN: I think if it
15 were reasonable or practical to disentangle that, it
16 may be something the Board wants to consider.

17 I don't think that -- certainly I know
18 I certainly don't have the information to be able to
19 do that. I believe that question was posed to
20 Centra's panel yesterday and they didn't see a
21 reasonable or practical way to do that.

22 And so I think on -- on balance, as I
23 mentioned, I think the case for the special contract
24 classes is pretty clear.

25 What I was trying to explore was is

1 there a way to better link those costs than we are
2 today to the revenue risk that is really to the rate
3 design. I accept it probably hasn't solved every
4 problem under the sun, but directionally I was trying
5 to show the Board or explore with the Board whether
6 there was a better way to do it for more than just the
7 special contract class.

8 MS. DAYNA STEINFELD: And I took it
9 from your direct evidence earlier today that your view
10 is that even if the Board does not view the heating
11 value deferral margin account issue as a bill
12 mitigation matter, this is a change that should
13 nonetheless be made because of the mismatching in the
14 accumulation and the disposition of the account?

15 MR. ANDREW MCLAREN: Yes, I think this
16 is a change that should be done regardless of whether
17 the Board decides there is bill mitigation required
18 for these customers.

19 And in particular this issue is
20 something that's been in the -- in the works and
21 recognized and accepted by Centra, at least with
22 respect to the special contract class for six (6) or
23 seven (7) years now.

24 So I don't think this is something that
25 needs to be put under the heading of bill mitigation,

1 I think this is something the Board has enough
2 information to make a decision that a change here is
3 warranted and necessary to better reflect the costs.

4 MS. DAYNA STEINFELD: And is that a
5 change that you recommend the Board make in the test
6 year?

7 MR. ANDREW MCLAREN: Yes.

8 MS. DAYNA STEINFELD: Do you accept
9 that there is a concern that Centra has raised about
10 fairness to other customers given that the special
11 contract class received a benefit through refunds to
12 customers over a period of time and would, on your
13 recommendation, not be responsible for a refund to
14 Centra?

15 MR. ANDREW MCLAREN: I understand
16 Centra has raised that in an IR response. I have some
17 rather significant concerns about that approach from a
18 retroactive rate making sort of perspective.

19 I think Mr. Hacault walked through some
20 of the timeline for some of those decisions, I think
21 he would be asking the Board to unwind decades of
22 previously approved and final rates in order to do
23 that.

24 I also would caution that in attempting
25 to balance the ledger, there is no guarantee this

1 account will continue to have charges going forward.
2 It may, in fact, have credits and Centra, even after
3 accepting the recommendation, is my understanding has
4 continued to apply this method during periods where
5 there are both credits and charges.

6 And so if there were concerns about
7 maybe this customer shouldn't be getting credits, the
8 method must continue to apply, even after Centra had
9 accepted that that outcome probably isn't reasonable,
10 given the rate design for that customer class.

11 So I'd have some concerns about using
12 that justification to keep this going forward.

13 MS. DAYNA STEINFELD: But your
14 recommendation would mean if accepted in the test
15 year, that the other customer classes, including SGS,
16 would have to pick up more of the tab for the refund
17 to Centra?

18 MR. ANDREW MCLAREN: Better matching
19 the cost would mean the customers who contribute to
20 the risk would pay more, yes.

21 MS. DAYNA STEINFELD: And I take it
22 you don't view that as a fairness concern?

23 MR. ANDREW MCLAREN: I don't think
24 that's a reason not to do it.

25 MS. DAYNA STEINFELD: Okay, and why is

1 that?

2 MR. ANDREW MCLAREN: I think that the
3 Board has an opportunity to correct a rate design that
4 is imperfect, poorly tracks the revenue risk and it's
5 a material issue to the IGU customers in this
6 proceeding, it's not a trivial amount of dollars that
7 we're talking about and I think the Board has an
8 opportunity to correct that in this proceeding.

9 MS. DAYNA STEINFELD: If we can bring
10 up your slide 5 from IGU 14. At the bottom of this
11 slide you reference the recommendation from Ms.
12 Derksen to eliminate the heating value deferral
13 account and -- and note that it would eliminate the
14 problem of the allocation of the balances.

15 I'm not clear if this is a
16 recommendation that you agree with, that you're
17 recommending that the Board pursue?

18 MR. ANDREW MCLAREN: I think in the
19 context of the current proceeding, we have a balance
20 that Centra is trying to discharge if -- and it's not
21 an immaterial amount of dollars, it's relatively
22 significant, it's higher than it's been in -- in many
23 cases in part because of the number of years that
24 Centra is trying to discharge.

25 I believe it's about four (4) years

1 worth of accumulation, right now, that are being
2 sought to be discharged.

3 And so the timing of eliminating that,
4 if you eliminate it today, it would certainly get rid
5 of the IGU concern. But then Centra would have a
6 relatively significant balance that it would not
7 collect.

8 So this may be something that could be
9 considered on a go-forward basis. If it were
10 implemented today it certainly would solve our
11 problem. But I believe there is a -- an option that
12 would solve our problem that may not result in Centra
13 not collecting its accumulated balance to date.

14 MS. DAYNA STEINFELD: I'm going to
15 move on from the heating value deferral account, as
16 much as well love that topic, to the issue of billed
17 rate impacts.

18 And maybe just to pick up on a point
19 that you were reviewing with Mr. Meronek. Ms.
20 Villegas, if we could bring up Order 99/07, page 77.

21 And there this Board Order is giving a
22 summary of the position taken by the Intervenor Koch
23 in that proceeding, and at the bottom of the page it
24 says:

25 "Koch disagreed with Centra's

1 proposed increase and special
2 contract class rates related to
3 increased transmission costs for the
4 following reasons: a) though the
5 section of pipeline serving Koch
6 also provides natural gas to other
7 customers, expenditures on that
8 section of pipeline are easily
9 definable and could be easily and
10 more fairly allocated to Koch."

11 Do you see that there?

12 MR. ANDREW MCLAREN: Yes.

13 MS. DAYNA STEINFELD: And the answer -
14 - or the summary goes on to discuss cost decreases in
15 the allocation of transmission and -- and distribution
16 costs.

17 Do you see that?

18 MR. ANDREW MCLAREN: Yes.

19 MS. DAYNA STEINFELD: And I take it
20 you weren't familiar with this order in your
21 discussion with Mr. Meronek earlier?

22 MR. ANDREW MCLAREN: I had not
23 previously reviewed this, no.

24 MS. DAYNA STEINFELD: Does it change
25 your answer to the question of whether any member of

1 IGU had previously raised concerns about the Centra
2 cost allocation methodology?

3 MR. ANDREW MCLAREN: I think my answer
4 was that I didn't have any experience prior to this
5 proceeding, so I couldn't comment on it. I don't
6 think that portion of my answer changes. I wasn't
7 here for this proceeding.

8 I would say that this appears to
9 suggest that, at that time, Koch, not represented by
10 me or me even being in this hearing, had some concerns
11 in that regard.

12 MS. DAYNA STEINFELD: And it --
13 jumping forward to today, 2019, in this proceeding, do
14 I take it that your primary position is that the Board
15 should not approve any rate adjustments or changes for
16 any customer class until the cost of service study
17 methodology has been reviewed?

18 MR. ANDREW MCLAREN: So I have a lot
19 of sympathy for the position the Board is in in this
20 hearing for a number of reasons: the number of years
21 since this has been reviewed; the number of changes,
22 perhaps, evolution of thinking on cost of service
23 principles; the rate rollback; all of these types of
24 things -- changes in Centra's system, including
25 changes in investment in transmission assets and also

1 changes in the interruptible loads that are on the
2 system, which may have been a bigger driver in the
3 past in terms of choosing or selecting certain cost of
4 service methods.

5 So I think my position is, the Board
6 has a landscape to consider. At one end, I think, we
7 have established that the Board's view is that cost of
8 service studies aren't perfect, and so driving to
9 unity is not something that you -- has any particular
10 meaning. And so on that basis, whether you choose
11 97/103 or 95/105, there's some range that is just --
12 cost of service studies are imperfect, and so you
13 don't have a meaningful way to get to 100 percent.

14 At the other end, with respect to
15 Manitoba Hydro cost of service study, when the Board
16 decided it couldn't rely on it at all, the Board
17 instructed the Utility to implement across-the-board
18 rate increases that basically ignore the cost of
19 service results and just say, All customers are going
20 to get equal treatment.

21 The issue I think the Board has in
22 front of it today is, where are we on that landscape?
23 What is the Board's tolerance level? How much
24 confidence do they have? Are they confident enough
25 that they can just use the end of the spectrum where

1 you say, They're not perfect, but we're pretty
2 reliable. It's 95/105. We'll try and get to that
3 range. Or, Wow, we have a lot of concerns about this,
4 so many concerns that maybe we don't even use this
5 cost of service study at all. Or they may decide that
6 they're somewhere in the middle, in which case that
7 sort of wider zone of reasonableness might be
8 something they need to consider.

9 MS. DAYNA STEINFELD: And would it be
10 your view that changes in gas rates could be approved
11 independent of changes in non-gas rates separate from
12 the issues you've just identified?

13 MR. ANDREW MCLAREN: Yes.

14 MS. DAYNA STEINFELD: Centra suggests
15 in its rebuttal evidence that a way to mitigate the
16 billed rate impacts to the special-contract class and
17 other high-volume classes would be to extend the
18 payment terms for the collection of the deferral
19 balances. Are you familiar with that evidence?

20 MR. ANDREW MCLAREN: Yes, I was here
21 during that presentation.

22 MS. DAYNA STEINFELD: Do you have
23 views on -- on that as an option for bill mitigation?

24 MR. ANDREW MCLAREN: I think we
25 discussed earlier that the changes I'm recommending

1 for the heating value deferral account, I'm not
2 recommending as a bill mitigation tool. I'm
3 recommending based on the fact that I think the Board
4 has pretty reliable information to say that the
5 current method doesn't really track the revenue risk
6 very well, particularly for the special-contract
7 class, but also, to a degree, for some of the other
8 classes.

9 I think if you accept that
10 recommendation, then the deferral-period approach
11 becomes no longer necessary. I do agree that, at
12 times, I have seen and -- seen deferral accounts
13 balances been recovered over a longer period as a bill
14 mitigation or rate shock mitigation tool, so it is
15 something that I think has some precedent and
16 standards. It would not be my preferred outcome here
17 because I think the Board has enough information
18 available to it to decide that the special-contract
19 customers shouldn't be paying those amounts at all.

20 MS. DAYNA STEINFELD: And if we pull
21 up your slide 12, just dealing with the other options
22 that have been identified, you note on the slide the
23 evidence of Ms. Derksen regarding potential deferral
24 of the revenue requirement collection for the
25 transmission assets for the large-volume customers,

1 and I believe your evidence was that this is a
2 legitimate option. Do I -- do I have that right?

3 MR. ANDREW MCLAREN: Certainly, I have
4 seen utilities who have large capital projects that
5 impact rates say, We'll take a deferral-account
6 approach to this. We'll put the total costs into a
7 deferral account and sort of phase them into the
8 revenue requirement over time.

9 And typically -- and I believe this was
10 explored with Mr. Chard and Ms. Gregorashuk yesterday
11 -- typically that deferral account would attract some
12 carrying costs in the interim period, so we'd be
13 charging interest or a return on that balance while it
14 is sitting there waiting to be collected. But I agree
15 this is an approach that has been used at times.

16 Again, I think, perhaps, if we address
17 some of those other concerns with respect to a zone of
18 reasonableness, maybe this option doesn't need to be
19 implemented because we have it -- we've already
20 addressed the issue in a way that solves the bill
21 mitigation problem before we get to this step. But it
22 is a method that I have seen used in other places and
23 has been approved in other times.

24 MS. DAYNA STEINFELD: It's a
25 legitimate method, but you don't believe it's -- it's

1 preferable because of those issues that you've just
2 identified, and the recommendations in your evidence
3 would better deal with the concerns.

4 MR. ANDREW MCLAREN: I think that's a
5 fair summary, yes.

6 MS. DAYNA STEINFELD: Thank you. You
7 were starting to segway into the zone of
8 reasonableness, so let's go there. If we can stay on
9 IGU 14 and go to slide 8, please, and I believe this
10 slide goes to your point in your evidence that the
11 Board should consider allowing some discretion in the
12 revenue to cost coverage ratios through the use of a
13 zone of reasonableness. Is that a fair summary?

14 MR. ANDREW MCLAREN: yes.

15 MS. DAYNA STEINFELD: And one (1) of
16 the points that you made in your direct evidence is
17 that doing so would not require a change in the
18 current methodology of the cost of service study.

19 MR. ANDREW MCLAREN: Yes, I believe
20 you can address the degree to which rates are set to
21 reflect revenue to cost coverage ratios calculated in
22 a cost of service study independently of reviewing the
23 specific methods in the cost of service study.

24 MS. DAYNA STEINFELD: And Ms.
25 Villegas, if we can please pull up the response to IGU

1 Centra Round 2 Question 13A.

2

3

(BRIEF PAUSE)

4

5

MS. DAYNA STEINFELD: And if we can
6 just scroll down to the response to Question A. Right
7 there is perfect. Here it says:

8

9

10

11

"Centra's cost allocation model
produces ratios that are set at
unity; therefore, the requested
analysis cannot be performed."

12

Do you see that there?

13

MR. ANDREW MCLAREN: Yes.

14

MS. DAYNA STEINFELD: And I believe --
15 and we can scroll back up to the question -- but I
16 believe that the question was seeking, essentially,
17 different non-gas rates based on different revenue to
18 cost coverage ratios and different zones of
19 reasonableness. Is that your understanding?

20

MR. ANDREW MCLAREN: Yes.

21

MS. DAYNA STEINFELD: And so I take it
22 that you're saying you don't need to change the cost
23 of service study methodology, but is it the case that
24 in this proceeding, we don't have evidence of what the
25 rates might look at based on zon -- different zones of

1 reasonableness because of the way the cost allocation
2 model currently is run?

3 MR. ANDREW MCLAREN: I think I
4 discussed this a little bit earlier, that at times
5 there's maybe some imprecision or commingling of
6 exactly which step in the rate-setting process we're
7 at between cost of service and rate design, and some
8 people may think a particular step is conceptually
9 part of doing a cost of service study. Other people
10 say, No, it's sort of the first step in a rate design
11 proposal. And so I think as a result of that, we
12 maybe didn't get the information we were looking for
13 in response to this question.

14 So do we have the specific rates
15 available that the Board could approve? I don't think
16 we do at the moment, and if the Board decided to want
17 to do that, it would probably require a compliance
18 filing for people to have a chance to have a look at
19 what those numbers would look like.

20 MS. DAYNA STEINFELD: And if we go
21 back to your presentation and go to slide 10. And
22 here in your evidence you were discussing how if you
23 have different cost of service study methodologies,
24 you'll see changes in the revenue to cost coverage
25 ratio results.

1 Am I correct in understanding that the
2 concern that you're identifying is that if you set
3 rates now based on the current methodology, and then
4 the methodology is changed in a future proceeding,
5 that you could just create the opposite problem where
6 now classes that looked to be significant under the
7 zone or reasonableness or unity are now perhaps
8 significantly over -- or maybe not significantly, but
9 they've gone the other way?

10 MR. ANDREW MCLAREN: Yes. I think
11 that is the risk, particularly for the higher volume
12 customer classes, the high volume firm, mainline, and
13 special contract classes.

14 The point of this table was to say a
15 lot turns on this particular issues and it moves
16 numbers around an awful lot. And that's part of the
17 reason why it is controversial, as I believe Ms.
18 Derksen said in her evidence.

19 So, when you look at the -- the impact
20 to the small general service class, the change in the
21 method, the dollars involved aren't tiny, they're not
22 insignificant, but the RCC ratio movement isn't that
23 dramatic.

24 On the other hand though, for the
25 special contract class it's very dramatic in terms of

1 what RCC ratio you achieve.

2 So, that, I think, was the caution, was
3 saying, if we have a cost of service study method that
4 sort of imbeds some of these considerations of
5 fairness that may have been appropriate in the
6 landscape the Board was dealing with at the time, that
7 a lot of dollars depend on that decision.

8 And if that's something that the Board
9 is now with new circumstances, with a different amount
10 of transmission investment, with a different amount of
11 interruptible load on the system that the Board is no
12 longer comfortable with, there's a big range that
13 might be the outcome of here.

14 And I think your summary in terms of
15 what that might do to push a special contract class,
16 you know, sort of over correct in the wrong direction
17 to then be yanked backwards when we get to a
18 conclusion in a cost of service methodology.

19 That -- that's really the issue this
20 table is trying to speak to.

21 MS. DAYNA STEINFELD: And, in your
22 view -- in your view, would a zone of reasonableness
23 of 95 to 105, or even 90 to 110, address the billed
24 rate impacts to IGU members in this proceeding?

25 MR. ANDREW MCLAREN: I think they

1 would certainly directionally address those. And I
2 think the issue for the Board, as I mentioned earlier,
3 in terms of this spectrum, is to -- is to decide how
4 far are we on the spectrum.

5 We've seen a circumstance where the
6 Board doesn't rely on the results at all. We've seen
7 a circumstance where the Board has a fairly high
8 degree of confidence in the number so uses a
9 relatively narrow zone of reasonableness.

10 I think anywhere in-between those
11 goalposts would provide some improvement in terms of
12 the impacts in terms of the IGU customers and customer
13 members.

14 MS. DAYNA STEINFELD: So, it wouldn't
15 move the needle all the way, but it would help move
16 the needle a bit?

17 MR. ANDREW MCLAREN: It would help me
18 -- move the needle a bit, yes.

19 MS. DAYNA STEINFELD: And I take your
20 point, that you see this as an issue that the Board
21 could look at to see how -- you know, they have a
22 spectrum of options and to see how far they want to go
23 on different options.

24 But do you have a recommendation in
25 terms of the zone of reasonableness that would be

1 appropriate?

2

3

(BRIEF PAUSE)

4

5

MR. ANDREW MCLAREN: I think in my
6 evidence I said my primary recommendation would be --
7 in my view, this cost of service study was prepared so
8 long ago and it's been so long since it's been
9 thoroughly reviewed and Centra's operating and
10 planning and cost context was so different that it's
11 probably not the most useful tool to rely on at the
12 moment.

13

And, on that basis, I would be closer
14 to the don't make changes to reflect revenue to cost
15 coverage ratios today, but I know the Board may be
16 looking for an option beyond that.

17

And so, I would say somewhere in the
18 85, 115, 90 to 110 range would be consistent with a
19 range the Board has used previously and may consider
20 appropriate in this context.

21

MS. DAYNA STEINFELD: So, in -- in
22 this context, given what you've identified in your
23 evidence as what you see to be unreliabilities in the
24 cost of service study and the potential concerns that
25 could extend into future proceedings and setting rates

1 on those methods, you are suggesting a broad range in
2 the zone of reasonableness?

3 MR. ANDREW MCLAREN: I'm suggesting
4 we're -- we're not at that. We have a high degree of
5 confidence, so we can have a very narrow range. I
6 think we're further along the spectrum than that.

7 I think certainly 90 to 110 is a range
8 that this Board has used for other utilities at other
9 times and would be closer to where my recommendation
10 would land compared to saying we're very confident in
11 this current study, and so we can have a very small
12 zone of reasonableness.

13 MS. DAYNA STEINFELD: And what I take
14 it then, that after the Board reviews the Centra cost
15 of service study methodology you might say that a
16 different zone of reasonableness is appropriate at
17 that point?

18 MR. ANDREW MCLAREN: I think, if the
19 Board re -- if the Board accepts a cost of service
20 study that they have a higher degree of confidence in,
21 it would be appropriate to use a narrower zone of
22 reasonableness.

23 I don't think driving to a hundred
24 percent for all customer classes would be something
25 that you necessarily want to look at. I think there -

1 - there is a basic level of uncertainty in estimates
2 that are involved, so I think there would continue to
3 be some range, but it -- it would probably be narrower
4 than today.

5 MS. DAYNA STEINFELD: And if we can go
6 back to PUB 25 at page 284, I believe.

7

8 (BRIEF PAUSE)

9

10 MS. DAYNA STEINFELD: We spent some
11 time on this revenue to cost coverage ratio charge
12 yesterday, and I don't want to get into detail now
13 with you.

14 But would I be right in understanding
15 that, if we used a zone of reasonableness in this
16 proceeding to set rates, classes like SGS
17 interruptible could end up arguably subsidizing other
18 classes, like LGS high volume, mainline, special
19 contract?

20 MR. ANDREW MCLAREN: So, I'll note two
21 (2) things on this table. One (1) is, when you look
22 at row 8, the revenue at existing non-gas rate about a
23 152 million, and then line 10, cost of service non-gas
24 about 148.5 million, so right now, there's a --
25 there's a mismatch right there that would be

1 correcting.

2 I think I would encourage the Board
3 when thinking about how wide a zone of reasonableness
4 to use to say I've read the Board's decisions to say,
5 if you're within the zone of reasonableness, we don't
6 think there's a basis to say you're over or
7 underpaying. We think that those -- those rates are
8 reasonable for that purpose.

9 So, I would encourage the Board to set
10 a zone of reasonableness that they are comfortable
11 with being within that range, to be able to say that,
12 based on what we've said and set as a zone or
13 reasonableness, we're comfortable that, if -- if
14 you're within that range, we're not concerned about
15 you over or under paying.

16 So, I would think that that would be a
17 factor that the Board would want to consider in
18 setting its zone of reasonableness for this
19 proceeding.

20 MS. DAYNA STEINFELD: Even though your
21 earlier evidence was that we can't really rely on the
22 cost of service study results, you would still say
23 that, if a customer class falls within a zone of
24 reasonableness used in this proceeding, that we can
25 consider them to be fairly covering their costs?

1 MR. ANDREW MCLAREN: As I said
2 earlier, I have a lot of sympathy for the position the
3 Board is in in this proceeding because of the passage
4 of time and the history of rate changes and -- and
5 those sorts of things, so I -- I accept the Board has
6 a very difficult decision to make here.

7 The point in my evidence was to sort
8 of, like I said, lay out the landscape, set the
9 goalposts, and then allow -- you know, understand that
10 the Board may choose to fall somewhere within those
11 goalposts.

12 But I think at a -- at a primary level,
13 if the Board has -- if the Board is not -- the Board
14 isn't at the point where they say we don't trust this
15 at all, but instead are saying we think it's
16 reasonable to a point but maybe not to the nth degree,
17 my recommendation to the Board would be to say set a
18 zone of reasonableness based on your level of comfort
19 that within that zone of reasonableness we think our -
20 - our prior comments about, if you're in this area, we
21 don't see a basis to argue that you're over or under
22 paying based on cost causation.

23 That would be my ultimate
24 recommendation to the Board.

25 MS. DAYNA STEINFELD: And you're

1 familiar with the fact that there was a rate reversion
2 as a result of a -- of a prior Board order?

3 MR. ANDREW MCLAREN: Yes, I'm aware of
4 that.

5 MS. DAYNA STEINFELD: And do you
6 accept that a majority or a large portion of the bill
7 increase to mainline and high volume customers arises
8 because they had a large temporary decrease for a
9 period of time and that decrease is now being unwound?

10 MR. ANDREW MCLAREN: I accept that
11 they're -- when you look at this table that calculates
12 the revenue to cost coverage ratios, the revenue line
13 is at existing rates, so it's at rates that reflect
14 that rollback.

15 I think we had some discussion
16 yesterday about the cost of studies are a picture at a
17 point in time and do we have a full -- we don't do a
18 cost of service study every year, so at what point --
19 we -- we know at this point a customer's RCC ratio is
20 this, we know at a different point it was that.

21 Where it was in the middle is something
22 is maybe not useful to speculate on, but I -- I will
23 accept that their revenues today reflect that
24 rollback, and so the revenues that are used to
25 calculate these RCC ratios reflect that rollback.

1 The -- the logic for why the rollback
2 was implemented is not something that I've dealt with
3 or I think needs to necessarily be dealt with. We
4 have a set of facts. We have revenues that are --
5 that occur at existing rates, and that's what the
6 Board is evaluating today.

7 MS. DAYNA STEINFELD: But would you
8 accept that those customer classes received the
9 benefit of a bill decrease for a period of time and
10 that, arguably then, we -- the Board should perhaps
11 not be as concerned about mitigating their billed rate
12 impacts at this point in time?

13 MR. ANDREW MCLAREN: Certainly, I
14 agree that the rollback resulted in them paying lower
15 rates and lower -- and Centra incurring lower revenues
16 from them than they would have if the rates had not
17 been rolled back. I agree with that.

18 In terms of when is bill mitigation
19 necessary, I think part of what I was trying to walk
20 through with the Board was to say I think there is
21 some issues here that should be addressed prior to
22 getting to any consideration of bill mitigation.

23 I also know though that customers pay
24 bills and they're used to paying a certain set of
25 bills. And I also work for utilities, and I know you

1 don't -- never get as much credit for bill decreases
2 as you'd get grief for bill increases.

3 But I think there are a number of
4 things that need to be addressed before you get to a
5 consideration of bill mitigation. And I also think
6 that, if those get addressed, then the concerns about
7 needing bill mitigation are substantially reduced.

8 MS. DAYNA STEINFELD: Thank you, Mr.
9 McLaren. Mr. Chair, those are my questions of -- of
10 this witness. And I thank him for his time today.

11 THE CHAIRPERSON: Thank you, Ms.
12 Steinfeld. I believe that completes our proceedings
13 this morning, so we are adjourned to Tuesday at nine
14 o'clock. That's Tuesday, not Monday. And enjoy sunny
15 Manitoba. Good morning.

16

17 --- Upon adjourning at 10:47 a.m.

18

19

20 Certified Correct,

21

22 _____

23 Donna Whitehouse, Ms.

24

25