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2020 Rate Case: Cost Allocation and Rate Design

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Proposed 2020 Revenue Requirement

2020 Revenue Requirement

- 2020 rates designed on a cost-of-service (COS) basis
- 2020 revenue requirement (RR) reflects forecast of costs that Gazifère will incur to provide distribution and upstream services to customers
 - Evidence updated for the Thurso project
- Reference for the table below: GI-68, Doc. 1, Page 1, Col. 3, Lines 1 – 3

	Revenue Requirement
Distribution	\$26,856 K
Gas Cost (Upstream)	\$26,660 K
Total	\$53,517 K

- Gazifère's rates to recover distribution and gas costs are designed on a stand alone / separate basis

Distribution: 2020 Revenue Sufficiency

2020 Distribution Revenue Sufficiency

- 2020 revenue sufficiency = (\$1,058) K
- Reference for table below: GI-79, Document 1.1, Page 1

REVENUE COMPARISON - CURRENT DISTRIBUTION REVENUE VS PROPOSED DISTRIBUTION REVENUE						
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	
Item No.	Rate No.	2020 Budget Volume (10 ³ m ³)	Current Revenue D-2019-063 (000\$)	Revenue Sufficiency R-4032-2018 (000\$)	Proposed Revenue R-4032-2018 (000\$)	
1.	Rate 1	79,107.5	7,914.7	(499.2)	7,415.5	
2.	Rate 2	69,311.3	19,239.3	(526.1)	18,713.1	
3.	Rate 3	242.0	14.6	(1.4)	13.2	
4.	Rate 4	3,631.8	150.7	(13.4)	137.2	
5.	Rate 5	17,300.0	389.5	(17.1)	372.4	
6.	Rate 9	16,274.0	205.4	(0.5)	204.9	
7.	TOTAL	185,866.5	27,914.1	(1,057.7)	26,856.4	

Distribution: 2020 Cost Allocation

2020 Cost Allocation

- Allocates 2020 distribution revenue requirement to the customer classes
- The results are used as a guide to rate design
- Cost allocation methodology approved by the Regie in D-2018-060 (2019 Decison). No changes proposed for 2020.
- Reference for table below: GI-78, Document 2.1, Page 2, Item 2

	Rate	Rate	Rate	Rate	Rate	Rate
Total	1	2	3	4	5	9
26,856.4	6,075.7	20,008.1	10.0	69.8	337.1	355.4

- Notes:
 - Comprehensive review of cost allocation methodology conducted as part of 2016 rate case.
 - Allocation of mains costs also reviewed as part of 2018 rate case.

Distribution: 2020 Results

2020 Revenues, Costs, Revenue to Cost Ratios and Bill Impacts

– Reference for the table below:

- GI-78, Document 2.1, Page 2, Items 1, 2, 3
- GI-79, Document 1, Page 4, Table 1
- GI-79, Document 1.1, Page 4, Col. 6

DESCRIPTION	TOTAL	RATE	RATE	RATE	RATE	RATE	RATE
		1	2	3	4	5	9
Revenues	26,856.4	7,415.5	18,713.1	13.2	137.2	372.4	204.9
Costs of Service	26,856.4	6,075.7	20,008.1	10.0	69.8	337.1	355.4
Over/Under Contribution	0.0	1,339.7	(1,295.0)	3.2	67.4	35.3	(150.5)
Proposed 2020 R/C	1.00	1.22	0.94	1.33	1.97	1.10	0.58
Fiscal 2019 R/C	1.00	1.23	0.93	1.25	2.29	1.22	0.62
% Impact on Distribution Bill	-3.8%	-6.3%	-2.7%	-9.3%	-8.9%	-4.4%	-0.2%
% Impact on Total Bill	-1.7%	-2.2%	-1.6%	-2.6%	-1.9%	-0.6%	0%

Total 2020 Revenue Sufficiency

2020 Revenue Sufficiency

- Distribution revenue sufficiency = (\$1,057.7 K)
- Gas cost revenue sufficiency = (\$ 416.1 K)
- Total revenue sufficiency = (\$1,474.1 K)

- Reference for the table below: GI-79, Doc. 2.1, Page 1, Items 1 – 7, Col. 6,12 & 18

	Col. 1	Col. 2	Col. 3	Col. 4
Item No.	Rate No.	Current Revenue October 2019 Pass On D-2019-063 (000\$)	Revenue Sufficiency R-4023-2018 (000\$)	Proposed Revenue R-4023-2018 (000\$)
1.	Rate 1	21,070.8	(772.5)	20,298.3
2.	Rate 2	32,081.1	(650.8)	31,430.4
3.	Rate 3	50.6	(1.5)	49.1
4.	Rate 4	226.6	(14.8)	211.7
5.	Rate 5	721.7	(25.2)	696.5
6.	Rate 9	839.8	(9.3)	830.5
7.	TOTAL	54,990.6	(1,474.1)	53,516.5

Total Revenues and Costs: 2020 Results

2020 Total Revenues, Costs, and Bill Impacts

– Reference for the table below:

- GI-78, Document 2.1, Page 1, Items 1, 2, 3
- GI-79, Document 2.1, Page 6, Col. 6

DESCRIPTION	TOTAL	RATE 1	RATE 2	RATE 3	RATE 4	RATE 5	RATE 9
Revenues	53,516.5	20,298.3	31,430.4	49.1	211.7	696.5	830.5
Costs of Service	53,516.5	18,958.0	32,725.9	45.9	144.3	661.3	981.1
Over/Under Contribution	0.0	1,339.8	(1,295.5)	3.2	67.4	35.2	(150.6)
% Impact on Distribution Bill	-3.8%	-6.3%	-2.7%	-9.3%	-8.9%	-4.4%	-0.2%
% Impact on Total Bill	-2.4%	-3.4%	-2.0%	-2.8%	-2.3%	-1.1%	-0.6%

Note 1: Gas supply, transportation, and load balancing rates are entirely cost based. They reflect results of the cost allocation study and contain no adjustments.

Note 2: January 1, 2020 Pass-On can be built off this set of total rates given that they reflect proposed 2020 distribution rates and have been updated for October 1, 2019 Pass-On gas cost rates.

Intervener Submissions

Intervener Submissions

- Intervener submissions focus on the level of cross-subsidy afforded to Rate 2 customers
- We address intervener submissions as follows:
 - First, recap of Gazifère's rate design methodology and of the proposal made
 - Second, recap of intervener submissions and Gazifère's view of their submissions

Distribution: 2020 Cross-Subsidy

2020 Cross-Subsidy

- Recap of Gazifère's Rate Design methodology
- As laid out in evidence at GI-79, Doc. 1, Gazifère's distribution rates are designed in two stages:
 - In Stage 1, distribution revenue sufficiency is prorated to the customer classes according to the rate base allocations by each rate class. Stage 1 produces initial results for rates, rate impacts, and revenue to cost ratios.
 - In Stage 2, adjustments may be performed to the distribution revenue of the various rate classes to achieve rate design objectives.
- For 2020 rates, the Company made adjustments to the revenue responsibility of the various rate classes (see page 3 of GI-79, Doc. 1, Page 3).
- Specifically, the Company made an upward adjustment / increased revenues for Rate 2 customers by \$200 K.
- This adjustment improves Rate 2 revenue to cost ratio to 0.94 in 2020 (from 0.93 in 2019)

Distribution: 2020 Cross-Subsidy

2020 Cross-Subsidy

- Recap of Gazifère's Rate Design methodology (con't)
- The Company seeks to make sensible proposals to achieve acceptable rate design outcomes.
- In making its proposals the Company is guided by its rate design objectives and prior decisions by the Regie.
- Further, as stated in responses to intervenor interrogatory questions, the Company does not view its rate design proposal as the only acceptable proposal.
- In response to SE-AQLPA interrogatory #6.1.2, the Company provided a range of scenarios that would meet its rate design objectives and result in acceptable rate design outcomes.
- Note that the Company's rate proposals in the past proceedings (while they are different each year based on the factors influencing rate impacts and revenue to cost ratios in any given year) covered the entire range of the scenarios presented in the interrogatory response.

Distribution: 2020 Cross-Subsidy

2020 Cross-Subsidy

- Update scenarios:

	<u>TOTAL</u>	<u>Tariff 1</u>	<u>Tariff 2</u>	<u>Tariff 3</u>	<u>Tariff 4</u>	<u>Tariff 5</u>	<u>Tariff 9</u>
<u>Scenario 1: No Adjustments</u>							
Revenue to Costs	1.00	1.25	0.93	1.43	2.11	1.10	0.53
Adjustments (\$'000)	0	0	0	0	0	0	0
Distribution Impact (%)	-3.8%	-3.7%	-3.8%	-2.4%	-2.3%	-4.4%	-9.0%
Total Bill Impact (%)	-1.7%	-1.3%	-2.2%	-0.7%	-0.4%	-0.6%	-0.7%
<u>Scenario 2: As Filed</u>							
Revenue to Costs	1.00	1.22	0.94	1.33	1.97	1.10	0.58
Adjustments (\$'000)	0	(207)	200	(1)	(10)	0	18
Distribution Impact (%)	-3.8%	-6.3%	-2.7%	-9.3%	-8.9%	-4.4%	-0.2%
Total Bill Impact (%)	-1.7%	-2.2%	-1.6%	-2.6%	-1.9%	-0.6%	0.0%
<u>Scenario 7: Rate 2 and Rate 9 No Change to Rates</u>							
Revenue to Costs	1.00	1.13	0.96	1.33	1.97	1.10	0.58
Adjustments (\$'000)	0	(734)	726	(1)	(10)	0	18
Distribution Impact (%)	-3.8%	-13.0%	0.0%	-9.3%	-8.9%	-4.4%	0.0%
Total Bill Impact (%)	-1.7%	-4.5%	0.0%	-2.6%	-1.9%	-0.6%	0.0%

Distribution: 2020 Cross-Subsidy

2020 Cross-Subsidy

- FCEI's submission states that:
 - Gazifere has not proposed sufficient reduction in the level of cross-subsidy of Rate 2 customers
 - Considerable distribution revenue sufficiency and resulting rate decreases exist for 2020 that can be used to make a more definitive (i.e. a larger) step towards reducing the level of cross-subsidy for Rate 2 customers.
 - For example, FCEI submits that Rate 2 customers should not experience a rate decrease in 2020 in light of the cross-subsidy that exists.
- ACEFO's submission states that:
 - Rate 2 revenue to cost ratio be maintained at the 2019 level (subject to the Regie ordering a re-examination of Gazifere's cost allocation methodology)

Distribution: 2020 Cross-Subsidy

2020 Cross-Subsidy

- Intervener submissions: Gazifère's View
 - Gazifère supports scenarios that fall between the two goal post scenarios: Scenario #1 and Scenario #7.
 - Gazifère notes that none of the scenarios would result in an adverse impact on Rate 2 customers.
 - Scenario #1 does not improve revenue to cost ratios (2019 vs 2020), although an opportunity exists to do so for 2020 rates
 - Scenario #7 recommended by FCEI would result in no distribution rate change (i.e. frozen rates) for Rate 2 and Rate 9 customers, while these customers would still receive small bill reductions through the decrease in gas cost rates.