

Testimony in Chief Gazifère Regulatory Cost Allocation Methodology Review

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Purpose of the Report

The purpose of MNP's regulatory cost allocation methodology review for Gazifère is to:

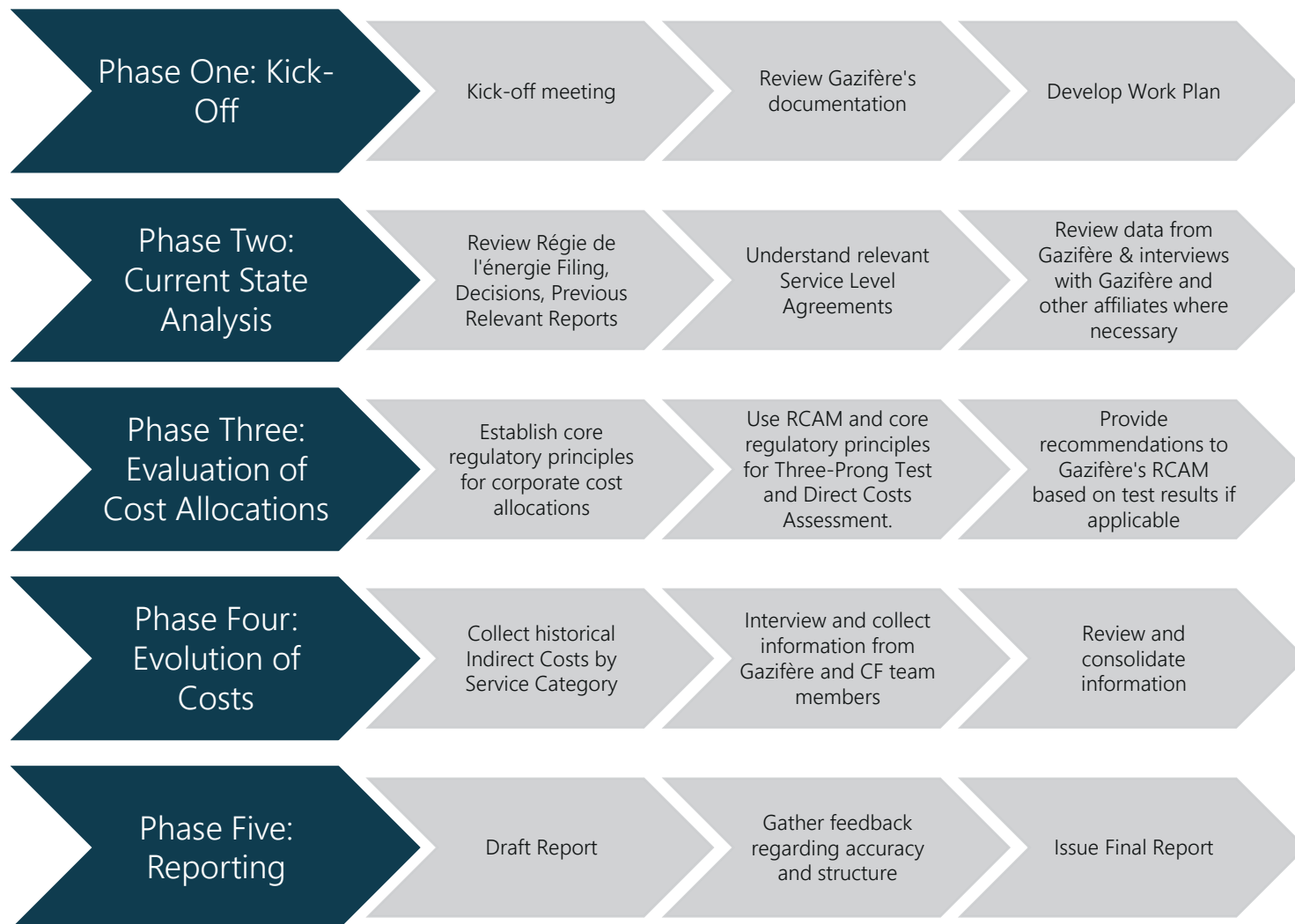
1. Provide an independent assessment of Gazifère's received corporate services cost allocation against regulatory precedent and principles;
2. Provide recommendations as applicable to revise Gazifère's regulatory cost allocation methodology (RCAM) based on applicable principles provided by decisions from the Régie de l'énergie; and
3. Provide a description of the evolution of costs (2015-2022) from services provided to Gazifère by EI and EGD.

Regulatory Cost Allocation Methodology Review – Revision 1 Report has 3 areas of review

1. Allocated Direct Costs
 1. Provided on an as needed basis
 2. Fully allocated as determined by Intercorporate Services Agreements
 3. Detailed Invoices
 4. -\$27,454 adjustment recommended
2. Allocated Indirect Costs
 1. Allocated by RCAM
 2. Tests (Table 8: Allocated Costs Three Test Overview)
 1. Cost Prudence
 2. Cost Allocation
 3. Cost Benefit
 4. -\$888,989 adjustment recommended
3. Evolution of Costs
 1. Documentation of the evolution of Allocated Indirect Costs provided by Enbridge to address a Régie de l'énergie requirement.
 2. Presentation in this report is due to it being a related topic and regulatorily efficient
 3. MNP was not requested to provide an opinion.

Allocated Direct Costs and Evolution of Costs were straightforward. Further information will be focus on the Allocated Indirect Costs.

MNP undertook this review using its standard, accepted methodology



MNP followed its standard and accepted methodology for reviewing allocated costs to utilities.

After project initiation, MNP starts by understanding the current allocation processes followed by the utility and reviews the financial information provided.

Next, MNP ensures allocated costs are required for the utility and allocations are based on causation and accurately completed.

Then, MNP compares the costs to comparator utilities to determine if the costs are fair and reasonable.

Lastly, MNP drafts the report for our client with our findings.

Limitations of the Report

1. Information Reliance on EI, EGD, and Gazifère

MNP relied primarily on information provided by EI, EGD, and Gazifère in assessing the financial results and cost data. MNP also relied on the representation of staff, management, and executives of EI, EGD, and Gazifère. Therefore, EI, EGD, and Gazifère retain responsibility for the accuracy and completeness of the data provided to MNP.

MNP did not:

- Audit any of the data received; or
- Perform a detailed examination of underlying transactions or validate source records.

2. Not a Benchmarking Study

MNP did not conduct a benchmark study for the cost/benefit component of the three tests. By definition, a benchmark study compares very specifically defined and acquired data from a similar sample of willing participants.

3. Reliance on publicly available shared services information from regulated entities

MNP obtained information from other natural gas and electric utilities through publicly available regulatory filings on shared services and cost allocations from affiliate entities. MNP did not verify the accuracy of the filings of the other utilities.

Regulatory Similarities and RCAM Principles are used with Allocated Indirect Costs

MNP designed its methodology by reviewing the precedents set by previous regulatory decisions on corporate cost allocation methodologies. MNP provided the table below to outline Test requirements in a previous Gazifère proceeding in 2015.

Regulatory Similarities	Ontario Energy Board	Alberta Utilities Commission	Régie de l'énergie
1. Cost Prudence Costs are necessary and reasonably assigned.	<ul style="list-style-type: none"> Are the charges prudently incurred by the companies for the provision of a service required by ratepayers? 	<ul style="list-style-type: none"> Subsidiaries receive costs that are representative of the support their businesses receive. 	<ul style="list-style-type: none"> Services must be rendered at a price deemed to be just and reasonable. Customers should be charged only for costs which are prudently incurred.
2. Cost Allocation Costs are appropriately allocated based on causation and formula supported by the principles and cost drivers.	<ul style="list-style-type: none"> Are the proposed corporate centre charges allocated appropriately to the companies? 	<ul style="list-style-type: none"> Costs should be directly assigned to the subsidiary where clearly identifiable. Where costs cannot be assigned to specific subsidiaries, cost causation drivers or formulas are used for allocation purposes. 	<ul style="list-style-type: none"> Costs should be allocated to affiliates that cause the costs to be incurred, to the extent that a direct causal relationship can be established.
3. Cost Benefit Cost/benefit to the Ratepayers.	<ul style="list-style-type: none"> Do the benefits to ratepayers equal or exceed the costs? 	<ul style="list-style-type: none"> Is it a reasonable amount in those conditions to charge ratepayers? 	<ul style="list-style-type: none"> Are the costs fair and reasonable?

MNP uses the OEB 3 Prong Test as a starting point for evaluating Allocated Indirect Costs

MNP used the OEB Decision with Reasons dated March 20, 1997 (EBRO 493/494 Paragraph 5.5.14 and 5.5.17) in a previous Gazifère proceeding in 2015.

Tests	Principle	Guidance
Test 1: Cost Prudence	Are the proposed charges prudently incurred by, or on behalf of, the companies for the provision of a service required by ratepayers?	In the Board’s view, costs will not pass this test if they relate to activities which: <ul style="list-style-type: none"> • Go beyond the scope required for a utility; • Are associated with overall governance from a shareholder perspective or “minding the investment”; or • Represent additional and superfluous management layers.
Test 2: Cost Allocation	If properly incurred, are the proposed corporate centre charges allocated appropriately to the companies, based on the application of cost drivers/allocation factors supported by principles of cost causality?	No additional guidance is provided by the Board on this test. MNP notes that causality is premised upon a direct causal relationship between the costs incurred and the cost driver used to allocate these costs
Test 3: Cost Benefit	Do the benefits to the company’s ratepayers equal or exceed the costs?	For the third test, Cost/Benefit, the Board has accepted the [following] four categories as a basis for assessing quantifiable benefits: <ol style="list-style-type: none"> 1. Replacement benefits – the services provided replace an equivalent service at equal or lower cost; 2. Synergistic or linkage benefits – the services allow the Companies to reduce costs by means of being part of the larger ... group and operating in concert for the procurement of products and services; 3. Revenue enhancement or cost recovery benefits – the Companies’ activities and capabilities provide value to other affiliates for which payment in cash or kind is received; and 4. Stand-alone benefits – strategic actions and activities instituted by the Corporate Centre that produce direct value to the Companies.

For Test 3 MNP analyzes if services provided and allocated are fair and reasonable when compared to similar utilities.

MNP presented in Table 8 of this report how The 3 Prong Test was adapted for this Review

Table 8: Allocated Costs Three Test Overview

Tests	Description
Test 1: Cost Prudence	Are costs prudently incurred by, or on behalf of, the companies for the provision of a service required by ratepayers?
Test 2: Cost Allocation	Are costs following the RCAM model based on the 2017 MNP RCAM Recommendation 1 and 3 study and recommendations? Are the proposed cost pool items allocated appropriately to the companies, based on the application of cost drivers' allocation factors supported by principles of cost causality?
Test 3: Cost Benefit	Are the costs reasonable when compared to similar utilities across Canada? Do benefits to ratepayers exceed the costs?

For Test 3 MNP requires a group of comparable utilities with publicly available data for the examined Service Categories

Utilities required for Test 3 are selected for comparison and continuity and this selection limits perception of bias

- MNP selected and utilized a group of comparable organizations in the 2015 report
- In the current report, MNP used the same methodology and reviewed the organizations used in the 2015 Report as a starting point for selecting comparator organizations
- MNP found no major changes had occurred
 - One comparable company had been acquired but still left at least 5 comparables in evaluated Service Categories
- This process allowed for continuity and limits perceived bias (Cherry picking comparables for specific results)
- Utility Size is normalized by use of per/FTE comparison measures

Comparisons, Ranges and Cost Reasonability

- MNP utilized Service Categories for Comparison (Section 3.1)
- Variability due to methods and comparators are expected in this method (Section 4.8)
 - Both Gazifère and Allocated Costs are combined
 - MNP uses ranges to adjust for this variability
 - MNP also evaluates cost allocation in aggregate for Allocated Indirect Costs
 - MNP a consistent standard method which has been accepted by regulators
- The tests as applied are an accepted method of testing for fair and reasonable costs

Conclusions

- MNP concludes that \$5,864,515 of the costs allocated from EI and EGD pass testing
- This represents 80.9% of the total Allocated Indirect and Direct Costs
- MNP made no determination on the Insurance Service Category
- MNP had no issues with the information provided and the application of the RCAM

MNP

Merci pour l'opportunité.



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