

4 **CENTRA GAS MANITOBA INC.**
5 **2019/20 GENERAL RATE APPLICATION**

6
7 **COST ALLOCATION & RATE DESIGN**

8
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30 10.1 Impacts of Regulatory Deferral Account on Rate Base

1 groups of customers. A Cost Allocation Study estimates the cost to provide a specific
2 service to a class of customers.

3
4 Centra defines “cost” as the embedded or accounting cost incurred in operating the
5 utility. Some costs may be readily identified as the responsibility of a specific
6 customer class or service. The majority of costs dealt with in this Application are
7 shared by various customer classes and services. Accordingly, there is a need to
8 establish some basis to distribute these shared costs to the appropriate customer
9 classes and services.

10
11 The Cost Allocation Study provides information on the total cost to serve specific
12 customers or customer groups and also provides information on the nature of the
13 costs, whether those costs are fixed or variable, and the factors that affect the
14 variability of the costs. This information is beneficial in terms of determining an
15 appropriate rate design and provides the basic data upon which rates are based.

16 17 **10.2 PROCESS OF A COST ALLOCATION STUDY**

18
19 The cost allocation process is a three step sequential process consisting of
20 functionalizing, classifying, and allocating costs.

21 22 **10.2.1 Functionalize Costs**

23 The first step in the process is to “functionalize” costs into broadly defined groups
24 (“functions”) which describe the purpose or function of the costs. In the case of
25 Centra, there are six such functions, namely Production, Pipeline, Storage,
26 Transmission, Distribution, and Onsite. The first three functions break down the
27 expenses into costs that are incurred upstream of (or prior to) Centra’s Transmission
28 and Distribution system, and the next three functions breakdown costs that are
29 incurred downstream or within Centra’s Transmission and Distribution system. A
30 brief description of each of these functions follows.

31
32

1 **Upstream Functions:**

2 ***Production***

3 Production costs include the commodity costs of gas supply purchased and flowed
4 directly to the market, including Canadian sourced supply from Alberta plus fuel
5 costs to transport the gas to the Manitoba receipt points, and gas supply purchased
6 from U.S. sources. Production costs also include the cost of gas withdrawn from
7 storage to supply the Manitoba load.

8

9 ***Pipeline***

10 Pipeline costs include fixed and variable costs of transporting gas on the
11 TransCanada Pipelines Limited (“TCPL”) system from Empress, Alberta to Centra’s
12 Transmission and Distribution System (Centra’s Manitoba receipt gates).

13

14 ***Storage***

15 Storage costs include fixed and variable costs of storage services, but do not include
16 the cost of the commodity itself withdrawn from storage to supply the Manitoba
17 load. All U.S. pipeline charges, both fixed and variable, including U.S. fuel costs, are
18 included in this function.

19

20 **Downstream Functions:**

21 ***Transmission***

22 Transmission costs include the capital and operating costs of Centra’s high-pressure
23 Transmission system, plus the cost of Unaccounted for Gas (“UFG”) that occurs on
24 Centra’s Transmission and Distribution system. UFG costs are functionalized as
25 Transmission in order to ensure that all customer classes are allocated their
26 appropriate share of the UFG costs regardless of whether they are served from
27 Centra’s Transmission or Distribution system.

28

29 ***Distribution***

30 Distribution costs include the capital and operating costs of Centra’s high and
31 medium Distribution systems.

32

33

1 **Onsite**

2 Onsite costs include capital and operating costs of Centra’s investment in service
3 lines, meters, and other equipment installed on customers’ premises, plus the costs
4 of customer accounting and customer service.

5

6 **10.2.2 Classifying Costs**

7 The second step in the process is to “classify” the costs that have been
8 functionalized. The classification process amounts to identifying the basis of the
9 variability of the costs. For a gas utility, the variability of costs is usually classified
10 according to the following three factors:

11

- 12 1. The volume of gas purchased (Commodity Related);
- 13 2. The number of customers on the system (Customer Related); or
- 14 3. The capacity requirements needed for a specific day or other time period
15 (Capacity Related).

16

17 A brief description of each of the classification factors follows.

18

19 ***Commodity Related (also referred to as Energy Related)***

20 These are costs that are directly affected (they either increase or decrease) by the
21 volume of gas purchased.

22

23 ***Customer Related***

24 These are costs that are directly affected by the number of customers attached to
25 the system. Examples of these costs would include meters, service lines, and billing.

26

27 ***Capacity Related (also referred to as Demand Related)***

28 These are costs that are directly affected by the need to meet daily peak
29 requirements or peak requirements of other time periods resulting in contracted
30 daily deliverability commitments on TCPL or other supply options, as well as the
31 capacities of Centra’s own Transmission and Distribution system.

32

33

1 **10.2.3 Allocate Costs**

2 The third and final step in the cost allocation process is to “allocate” to the various
3 customer classes the costs that have been functionalized and classified. The
4 classification of costs into “Commodity Related”, “Customer Related”, and “Capacity
5 Related” provides broad guidelines as to how these costs should be allocated to the
6 customer classes. Thus, if costs are classified as customer related it would be
7 reasonable to allocate costs to the various customer classes on the basis of some
8 form of customer numbers, such as a pure number or weighted number of
9 customers. The same logic is applied to commodity related costs.

10
11 To allocate capacity related costs, Centra uses a “Peak and Average” allocator that
12 recognizes the peak day, but also gives weight to the average use of the system so
13 that all customer classes pay some portion of the capacity costs.

14
15 **10.3 RESULTS OF THE 2019/20 COST ALLOCATION STUDY**

16
17 Centra is not proposing any substantial changes in its approach to cost allocation in
18 this Application. Centra has included several summary schedules from its Study
19 attached to this Tab and discussed below. Base rates and rate impacts that flow
20 from the Cost Allocation Study will be discussed in Tab 11.

21
22 **10.3.1 Total Functionalization and Classification by Customer Class**

23 Schedule 10.1.3 provides a summary of the results of the functionalization process
24 (as discussed in Section 10.2.1) and the classification of each function into
25 commodity related, customer related, and capacity related (as discussed in Section
26 10.2.2).

27
28 **10.3.2 Allocation Results of Rate Base**

29 Rate Base is used to allocate certain components of Centra’s Revenue Requirement
30 to each customer class. Centra functionalizes, classifies and allocates each of the
31 components of Rate Base to each customer class. While Rate Base does not
32 ultimately form part of the rates to be paid by customers, the results of the
33 allocation of Rate Base are used to drive the allocation of certain cost of service

1 components. For example, finance expense is functionalized, classified and allocated
2 to each customer class consistent with Rate Base. In addition, Corporate Allocation
3 and Net Income have been functionalized, classified and allocated on the basis of
4 Rate Base.

5

6 The allocation of Rate Base for 2019/20 is consistent with cost allocation from past
7 GRAs. Appendix 10.1 to the Application provides a reconciliation of March 2019 &
8 March 2020 Rate Base presented in Tab 6 of the Application with the Rate Base
9 used for cost allocation purposes.

10

11 Schedule 10.1.4 provides the summary of the allocation of each component of Rate
12 Base to each customer class.

13

14 **10.3.3 Allocation Results of Revenue Requirement**

15 Centra has allocated a total Revenue Requirement (referred to as Total Cost of
16 Service on Schedule 10.1.0) of \$326.3 million to the various rate classes. Figure 10.1
17 below reconciles the 2019/20 Cost of Service components, included in the Appendix
18 5.12 (Figure 2), to the Cost of Service components included in the 2019/20 Cost
19 Allocation Study, as outlined in Schedule 10.1.0 of this Tab.

20

21

22

1 **Figure 10.1: Cost of Service vs. Cost Allocation Reconciliation**

2019/20 Test Year (\$000's)

	2019/20 Test Year <u>Cost of Service</u>	2019/20 Test Year <u>Cost Allocation</u>
Cost of Gas	158,414	177,265
Other Income*	(2,342)	(1,028)
Operating & Administrative	60,550	60,550
Depreciation & Amortization *	33,502	32,371
Capital & Other Taxes	20,600	20,600
Finance Expense	22,229	22,229
Other Expenses**	183	-
Corporate Allocation	12,000	12,000
Furnace Replacement Program	545	-
Net Income (Loss)	<u>2,318</u>	<u>2,318</u>
Total Cost of Service	<u><u>307,999</u></u>	<u><u>326,305</u></u>
2019/20 Total Cost of Service (Appendix 5.12)	307,999	
Less 2019/20 Fiscal Year Cost of Gas (Appendix 5.12)	(158,414)	
Add 2019/20 Gas Year Cost of Gas (Schedule 8.9.4)	177,265	
Furnace Replacement Program (Appendix 5.12)	<u>(545)</u>	
2019/20 Costs Allocation (Sch. 10.1.0)	<u><u>326,305</u></u>	

*In Centra's Cost Allocation Study the Amortization of Customer Contributions in the amount of \$1,130 is grouped with Depreciation and Amortization. For financial statements purposes the Amortization of Customer Contribution is included in Other Income.

**For Centra's Cost Allocation Study the Other Expenses have been netted with Other Income.

2

3

4 An explanation of the differences between the components of Cost of Service as
5 reflected in Appendix 5.12 of this Application and the Cost of Service used in the
6 Cost Allocation Study are provided below:

7

- The Cost of Gas of \$177.3 million included in the Cost Allocation Study reflects the updated strip date of May 15, 2018 as discussed in Tab 8 as compared with that reflected in CGM18 (which is based on a strip date of January 12, 2018). While the cost of Primary Gas has been included in the Study, it is only used to drive allocations and is not used for rate setting purposes. Centra's current Primary Gas billed rate of \$0.0832/m³ was last approved in Order 143/18. Centra will file revised Primary Gas rates in conjunction with its next quarterly Application for February 1, 2019.

15

- As discussed in Tab 3, page 4 & 5, Centra is proposing to discontinue funding the Furnace Replacement Program ("FRP") effective August 1, 2019, and to remove the associated cost from rates for the Small General Service Class. As such, 2019/20 assumes \$545 thousand is collected from SGS customers

16

17

18

1 for the Furnace Replacement Program Fund over the period April 1 to
2 July 31, 2019. As Centra is proposing to implement new rates effective
3 August 1, 2019 these costs have not been included in the Cost Allocation
4 Study.

5
6 Schedule 10.1.5 provides the summary of the allocation of each component of Cost
7 of Service to the various customer classes.

8
9 **10.3.4 Summary of Allocated Costs by Customer Class**

10 Schedule 10.1.0 provides a summary of the total Cost of Service for 2019/20
11 allocated by customer class, detailed by cost of service element (Cost of Gas, Other
12 Income etc.) and classification (Demand, Energy and Customer). Figure 10.2 below
13 provides a summary of the allocation of the total Cost of Service for 2019/20 of
14 \$326.3 million to the various rate classes compared to the total Cost of Service
15 based upon non-gas costs approved as part of Centra’s 2013/14 GRA and gas costs
16 approved as part of Centra’s 2015/16 Cost of Gas Costs.

17
18 **Figure 10.2: Cost of Service Allocation by Customer Class (\$000s)**

For August 1, 2019 to Mar 31, 2020	2013/14 GRA (Non-Gas) & 2015/16 COG	2019/20 Proposed	Increase/ (Decrease)
SGS	142,051	135,565	(6,485)
LGS	52,500	56,859	4,359
High Volume Firm	11,874	13,882	2,008
Co-op	20	20	0
Mainline	2,123	2,225	102
Special Contract	1,475		
Power Stations	381		
Interruptible	3,050	1,728	(1,322)
Primary Gas*	131,365		
Supplemental Firm	16,588		
Supplemental Interruptible	1,044		
Fixed Rate Primary Gas	242	78	(211)
Total Cost of Service	362,713	326,305	(36,408)

*Reflects the 2015/16 Primary Gas Costs and is simply a placeholder for purposes of the table recognizing that Primary Gas rates (and total costs) change quarterly.

19
20
21 Centra’s 2019/20 Cost of Service has decreased overall compared to the total non-
22 gas costs approved in the 2013/14 GRA and the gas costs approved in the 2015/16
23 COG. In this GRA, the total revenue requirement of \$326.3 million is comprised of
24 \$177.3 million of forecast gas costs and \$149.0 million of non-gas costs compared to

1 \$211.2 million in gas costs from the 2015/16 COG and \$151.5 million in non-gas
2 costs from the 2013/14 GRA respectively.

3

4 **10.3.5 Unit Cost Component Summary – All Costs**

5 Schedule 10.1.1 provides a summary of the cost allocation results which includes
6 both gas and non-gas costs.

7

8 The upper portion of the Schedule separates the allocated revenue requirement by
9 customer class and in terms of upstream and downstream costs:

- 10 • Upstream costs are those that are incurred upstream of Centra’s receipt
11 gates. These costs apply to all Sales Service and Western Transportation
12 Service (“WTS”) (excluding Primary Gas) customers but do not apply to the
13 Transportation Service (“T-Service”) customers. The T-Service customers
14 independently arrange for transportation of their supply to the Centra
15 receipt gates and therefore are not responsible for the upstream costs
16 incurred by Centra.
- 17 • Downstream costs are those incurred downstream of the Centra receipt
18 gates and are the responsibility of all of Centra’s customers.

19

20 Lines 16 to 22 of Schedule 10.1.1 set out the Monthly Billing Determinants for each
21 rate class for the period April 1, 2019 to March 31, 2020. The Billing Determinants
22 are either demand billing units, (peak use per day in $10^3\text{m}^3/\text{day}$), commodity units or
23 annual consumption (in 10^3m^3), or annual customer numbers.

- 24 • The upstream billing determinants for a particular rate class apply to all
25 customers except T-Service customers in that rate class. In the case of
26 Primary Gas, both WTS and T-Service customer volumes are excluded
27 because they do not use Primary Gas.
- 28 • The downstream billing determinants include annual billing demand, volume
29 and customer numbers for all customers in each class regardless of the
30 service provided.

31

32 Lines 27 to 33 show the resulting unit charges by rate class to be embedded in the
33 new base rates. Again, the upstream charges for a particular rate class apply to all

1 customers, excluding the T-Service customers in that rate class. The downstream
2 charges for a particular rate class apply to all customers including T-Service
3 customers in that rate class. The charges are either demand charges ($\$/10^3\text{m}^3/\text{day}$),
4 commodity charges ($\$/10^3\text{m}^3$), or customer charges ($\$/\text{customer}/\text{month}$). Note that
5 none of the upstream costs are customer related, i.e. costs that vary directly with
6 the number of customers billed, and therefore no upstream costs have been
7 allocated to the customer classification category.

8

9 Line 24 of Schedule 10.1.1 indicates a Percent in Demand Charge. This refers to the
10 accepted rate design methodology whereby for certain rate classes, some (or all)
11 demand related costs are not recovered in the demand charge but are instead
12 recovered as part of the commodity charge. For example for the SGS and LGS rate
13 classes, all of the demand related costs are transferred to the commodity category
14 and recovered in their respective commodity charges. For the HVF and Interruptible
15 rate classes, 35% of the demand related costs are transferred to the commodity
16 category and recovered in their respective commodity charges. The remaining 65%
17 of demand costs are recovered in the respective demand charges. Finally, for the Co-
18 op, Mainline, and Power Stations customer classes, 100% of the demand related
19 costs are recovered in the demand charge and no costs are transferred to the
20 commodity category.

21

22 **10.3.6 Unit Cost Component Summary – Non-Gas Costs vs. Gas Costs**

23 Each of the upstream and downstream costs described in the prior section and
24 identified in Schedule 10.1.1 contain both gas and non-gas costs. Centra has
25 provided Schedule 10.1.2, which breaks out the upstream and downstream costs on
26 the basis of gas versus non-gas costs.

27

28 Figure 10.3 below compares the 2019/20 Proposed Non-Gas Costs to the 2013/14
29 Approved Non-Gas Costs allocated by customer class. Primary Gas and Supplemental
30 Gas are treated as discrete customer classes in order to determine the Primary Gas
31 and Supplemental Gas overhead rates as discussed below (page 12).

32

1 **Figure 10.3: Comparison of Non-Gas Costs by Customer Class (\$000s)**

	2013/14 <u>GRA</u>	2019/20 <u>Proposed</u>	Increase/ <u>(Decrease)</u>
SGS	110,336	103,098	(7,238)
LGS	29,073	32,357	3,284
High Volume Firm	5,184	6,919	1,736
Co-op	8	8	0
Mainline	1,816	2,000	184
Special Contract	1,385	2,282	897
Power Stations	256	167	(89)
Interruptible	2,090	810	(1,280)
Primary Gas			
Supplemental Firm			
Supplemental Interruptible			
Fixed Rate Primary Gas (Non-Gas Component only)	242	32	(211)
Total Non-Gas Cost of Service	151,520	149,040	(2,480)

1e

2

3

4 As reflected in Figure 10.3 above, the SGS, Interruptible and Power Stations classes
5 experience a decrease in their allocated portion of non-gas costs compared to the
6 2013/14 approved non-gas costs, while the LGS, HVF, Special Contract and Mainline
7 classes experience an increase in their allocated portion of non-gas costs compared
8 to 2013/14.

9

10 The decrease in non-gas costs in the 2019/20 Test Year allocated to SGS customers is
11 primarily a result of Centra's proposal to discontinue funding the Furnace
12 Replacement Program (FRP) and remove the associated costs from rates, and a
13 decrease in O&A.

14

15 Non-gas costs allocated to the Power Stations decline in the 2019/20 Test Year,
16 compared to 2013/14, as a result of a reduction in forecast demand levels relative to
17 other customer classes.

18

19 The non-gas costs allocated to the Interruptible class in the 2019/20 Test Year are
20 lower compared to 2013/14 due to a decline in the forecasted volumes and the
21 number of customers in this class as a result of the migration of Interruptible
22 customers to the HVF Class. This migration has resulted in a shifting of non-gas costs
23 allocated from the Interruptible Class to other customer classes, including the HVF
24 Class.

25

1 The increase in non-gas costs allocated to the LGS customer class in the 2019/20
2 compared to 2013/14 is the result of an increase in forecast demand levels relative
3 to other classes. This is driven by a forecasted increase in usage on the peak day.
4 Additionally, the increase in the allocated portion of non-gas costs to LGS and HVF is
5 also a result of their expected greater participation in DSM programs and therefore
6 a greater allocation of DSM costs.

7
8 The Special Contract class' share of non-gas costs has increased significantly since
9 the last GRA, driven by a change in the relative proportion of rate base that is
10 transmission-related versus distribution-related as a result of significant
11 transmission investments since Centra's last GRA, as discussed in Appendix 6.1. All
12 customers utilize Centra's transmission system and the investment required for
13 maintaining reliability and addressing plant obsolescence is borne by all customers,
14 by virtue of the postage stamp approach to ratemaking. However, Special Contract,
15 Mainline and Power Stations are transmission system customers and therefore, do
16 not utilize the distribution system. As such, these classes pay costs related to
17 transmission and on-site facilities but have no cost responsibility for distribution
18 facilities.

19
20 As the results of Rate Base are used to drive the allocation of finance expense,
21 capital taxes, corporate allocation, net income and certain elements of O&A costs,
22 the increase in transmission related assets resulted in more costs being allocated to
23 transmission served customers such as the Special Contract customer class.
24 Additionally, the major transmission investments are causing finance expense and
25 capital taxes to increase compared to 2013/14 GRA.

26
27 For the purposes of the preparation of the Cost Allocation Study, Primary Gas and
28 Supplemental Gas are treated as discrete customer classes in order to allocate non-
29 gas related costs associated with procuring and managing those gas supplies. Those
30 non-gas related costs are recovered in the Primary Gas and Supplemental Gas
31 overhead rates. Centra is requesting approval of a new Primary Gas Overhead Rate
32 (non-gas cost component) of $\$0.94/10^3\text{m}^3$ (Schedule 10.1.2, line 49) compared to
33 the 2013/14 GRA approved Overhead Rate of $\$0.87/10^3\text{m}^3$ as part of this

1 application. The Overhead Rate currently embedded in the Primary Gas rate is
2 $\$1.64/10^3\text{m}^3$, which reflects the reversion of non-gas rate components implemented
3 on August 1, 2017.

4

5 Centra's approach to the allocation of the overhead component of the Primary Gas
6 rate has not changed. Consistent with past practice, Centra will embed the new
7 Primary Gas Overhead Rate as part of its August 2019 Quarterly Primary Gas
8 Application.

9

10 Centra has also updated its Fixed Rate Primary Gas Service ("FRPGS") Program Cost
11 Rate ("PCR"). The FRPGS program has been incorporated into Centra's Cost
12 Allocation Study and is treated as a separate service class in the same fashion as
13 Primary and Supplemental Gas. The revised PCR is $\$55.12/10^3\text{m}^3$ (Schedule 10.1.2,
14 line 49), which is higher than the $\$31.37/10^3\text{m}^3$ currently approved by the PUB. The
15 increase results primarily from lower forecasted volumes experienced for this
16 service, which is partially offset by a reduction in program administration costs.

17

18 Non-gas costs allocated to the Supplemental Firm class have slightly increased in the
19 2019/20 Test Year and the expected volumes decreased causing the non-gas
20 component in supplemental firm rate to increase compared to the 2013/14 GRA.

21

22 Non-gas costs allocated to the Supplemental Interruptible class have declined
23 compared to the 2013/14 GRA but this decrease is more than offset by the expected
24 volumes decreased resulting in the increase to the non-gas component of
25 Supplemental Interruptible rate. Figure 10.4 provides the calculation of overhead
26 rates for Supplemental Gas.

27

1 **Figure 10.4: Calculation of Supplemental Gas Overhead Rate**

	2013/14 Approved	2019/20 Proposed	
<u>Firm Supplemental OH rate</u>			
Non-gas allocated (\$)	160,017	161,539	
Volumes (10 ³ m ³)	131,746		
Rate/10 ³ m ³	1.21		1d
rate/m ³	0.0012		
<u>INT Supplemental OH rate</u>			
Non-gas allocated (\$)	14,336	10,397	
Volumes (10 ³ m ³)	11,078		
Rate/10 ³ m ³	1.29		1d
rate/m ³	0.0013		

2
3 As the cost of Supplemental Gas has decreased compared to the costs embedded in
4 current rates (approved as part of the 2015/16 Cost of Gas Application), the
5 Supplemental Gas unit rates (Schedule 10.1.1, line 28) have decreased compared to
6 current approved rates.

7
8 **10.4 RATE DESIGN**

9
10 Centra is not proposing changes to its rate design for its customer classes in this
11 Application. A description of Centra’s rate design by customer class is provided
12 below.

13
14 SGS customers and LGS customers pay a two-part rate consisting of a Basic Monthly
15 Charge (“BMC”) and Volumetric Charges. The BMC is proposed to remain at \$14 per
16 month for SGS customers and \$77 per month for LGS customers. The BMC does not
17 recover all of the customer related costs for the SGS or LGS classes. All customer
18 costs in excess of those collected in the BMC, plus all capacity and commodity
19 related costs are recovered in the Volumetric Charges for the both SGS and LGS
20 classes.

21
22 The HVF, Co-op, Mainline, Power Stations and Interruptible classes are billed using a
23 three-part rate design. This rate design includes a BMC, Monthly Demand Charge
24 components and Volumetric (commodity) Charge components. The BMC for these
25 classes recovers 100% of the customer related costs determined for each respective

1 class in the Cost Allocation Study. The Monthly Demand Charge for the HVF and
2 Interruptible classes recovers 65% of the capacity or demand-related costs
3 determined in the Cost Allocation Study. The remaining 35% of capacity costs are
4 added to the commodity costs and recovered through the Volumetric Charges. The
5 Co-op, Mainline and Power Stations class include a Monthly Demand Charge that
6 recovers 100% of the capacity or demand-related costs and Volumetric Charges
7 equal to 100% of commodity related costs.

8

9 The Special Contract class pays a two-part rate, with 100% of the customer related
10 and capacity related costs recovered through the Basic Monthly Charge. The
11 Volumetric Charge recovers 100% of the commodity-related costs allocated to the
12 class which is predominantly the cost of Unaccounted For Gas.