

MANITOBA PUBLIC UTILITIES BOARD

CENTRA GAS MANITOBA INC.

2019/20 GENERAL RATE APPLICATION

EVIDENCE OF

RICHARD G DEWOLF

on behalf of

THE CONSUMERS ASSOCIATION OF CANADA (MANITOBA) INC.

1 **Q. Please identify yourself and the party on whose behalf you appear, and briefly**
2 **describe your qualifications?**

3 **A.** My name is Richard DeWolf and I am appearing on behalf of the Consumers Association
4 of Canada (Manitoba) Inc. (“CAC”). I am an oil and natural gas consultant with expertise
5 related to oil and natural gas supply; pricing; pipeline tolls and tariffs and utility
6 regulations. I have submitted evidence and appeared before the Manitoba Public Utilities
7 Board (“MPUB” or “the Board”) in a number of Centra Gas Manitoba Inc. (“Centra”)
8 proceedings related to gas supply and transportation, pricing and other matters. My CV,
9 attached as Appendix A, describes my experiences and qualifications,

10 **Q. Please provide your experience related to Centra’s Storage & Transportation**
11 **Portfolio contracts and gas supply?**

12 **A.** I have been involved as a consultant in each iteration of Centra’s Storage & Transportation
13 Portfolio since 1991. In 1991, while I was at the Ziff Energy Group, I was retained by
14 Centra to assess the prudence and reasonableness of the original contract with Great Lakes

1 Gas Transmission (“GLGT”) and ANR Pipelines (“ANR”) as well present an over view of
2 the natural gas supply, transportation and markets. I have also appeared in a number of
3 General Rate Cases on behalf of Centra providing evidence before the Board regarding gas
4 supply, market trends and pricing. During the time I was at Ziff Energy (1991-2003), I
5 provided ongoing advisory services to Centra relating to the North American natural gas
6 industry.

7 Subsequently, after leaving Ziff Energy, I was retained by the MPUB in 2013 to assist in
8 the Board’s review of the existing Centra Gas Storage and Transportation Portfolio with
9 GLGT and ANR that will expire in 2020.

10 **Q. Please explain the purpose of your testimony and identify the issues that you address.**

11 A. On November 30, 2019 Centra filed its 2019/20 General Rate Application (“Application”).
12 In early 2019 CAC asked me to review those sections (specifically Tabs 8 and 9) of the
13 Application related to gas supply management and the proposed Storage & Transportation
14 Portfolio [REDACTED]. I was asked to assist in
15 the development of information requests related to Tabs 8 and 9 of the Application and
16 develop written evidence regarding my opinion on Centra’s gas supply management and
17 the proposed [REDACTED] Portfolio.

18 Included in this review, and the fact that the last Centra Cost of Gas Application was for
19 the years 2015/2016, my testimony addresses a number of the key changes (many of which
20 have been identified by Centra in its Application and well as Centra’s responses to
21 Information Requests) that have taken place in the Canadian natural gas market influencing
22 natural gas supply and transportation for Manitoba.

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2 **Q. Please outline your evidence and provide a summary your findings related to your**
3 **review of the Application.**

4 A. My evidence will provide at the outset a summary of my findings regarding Centra's
5 proposed Storage and Transportation Portfolio [REDACTED] as well Centra's gas
6 supply management process. Subsequent to the summary, I will provide additional
7 background as to my findings regarding these two components of Centra's 2018/2019
8 General Rate Application.

9 **Gas Supply Management Findings (Summary)**

10 This is an unusual application in that Centra is seeking final approval for the actual costs
11 of natural gas supplies the periods 2014/2015 to 2017/2018. It is my understanding that
12 typically, approval of these gas costs would occur on an annual basis. The other
13 components of the application relate to Centra's gas supply portfolio, and development
14 issues related to upstream transportation capacity contracts on TCPL and Nova Gas
15 Transmission Limited ("NGTL").

16 At the outset, I have not attempted to second guess Centra regarding its gas purchasing or
17 transportation contracting practices, but rather I examined Centra's gas purchasing and
18 transportation practices in light of the recent past, current and possible outlook of the
19 Canadian and US natural gas markets in which Centra is a participant.

20 While I believe Centra has acted in a prudent and responsible manner in its gas supply
21 management, as presented in its application, I also believe Centra management and staff

1 could benefit from the retention of advice and research from independent 3rd party
2 consultants in its gas supply management team in making its decision regarding its role in
3 determination of an appropriate mis of transportation capacity contracting, and gas supply
4 arrangements based upon the 3rd party knowledge and expertise.

5 Similar to outside expert evidence submitted by Centra regarding rate of return issues, it is
6 my opinion that all parties to these proceedings would have been better informed and
7 confident of Centra's gas supply management if Centra had retained and provided as part
8 of its application an independent 3rd party report. I see this recommendation regarding
9 the submission of a 3rd party report by Centra different that my assessment which has been
10 done after-the-fact and without the advantage of having discussions and insight directly
11 with Centra's staff [REDACTED]

12 [REDACTED] **Findings (Summary)**

13 Centra is applying to the Board for an approval of the proposed Storage and Transportation
14 arrangements [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

18 [REDACTED]

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[REDACTED] Similar

to my prior comments regarding Centra's gas supply management, I believe Centra would

have benefitted from independent 3rd party advice and research [REDACTED]

[REDACTED]. The filing of a report by an

independent 3rd party consultant in its application would have assisted all interested parties

to this application.

1 **Q. Please provide your review of Centra's Gas Supply Management?**

2 **A.** It is important to understand that over the nearly 3 decades that Centra initially made the
3 decision to contract for downstream storage and related transportation capacity, the natural
4 gas industry in Canada and the US has undergone significant changes particularly as it
5 relates to the purchasing of natural gas to serve its franchise area. Specially the following
6 issues are key influencers:

- 7 a. Developments in the Canadian and US natural gas supplies;
- 8 b. Upstream pipeline capacity on TransCanada Pipeline's Mainline Transmission
9 System ("TCPL") and NGTL and changes to capacity contracting on these systems.

10 While I describe some of the changes to the above drivers in my review of the proposed
11 [REDACTED] arrangement, the following review relates to the
12 key situation experience by Centra as described in its application and the challenges it has
13 faced due to changes in upstream transportation capacity and contracting and developments
14 in the gas supply in Canada and the US.

15 **Q. Please describe some of the key changes in the Canadian and US gas supplies that**
16 **have had an influence on gas supply and pricing to Centra and other market**
17 **participants?**

18 **SHALE GAS DEVELOPMENT**

19 **A.** The key changes in Canadian and US natural gas supply and pricing which are interrelated
20 that I will discuss relates to the increase in shale gas development and its effect on natural
21 gas prices and contacted pipeline capacity.

1 Over the past decade, and particularly in the past 5 years, there has been a dramatic focus
2 and increase in natural gas from shale formations in western Canada (Northeast BC and
3 Northwest Alberta) and the US (Marcellus/Utica and Permian). These natural gas
4 formations are considered rich gas in that they have considerable associated natural gas
5 liquids. Due to the high concentration of natural gas liquids, these natural gas formations
6 have considerable value as compared to the traditional gas supply formations with little or
7 no natural gas liquids. The Marcellus and Utica shale development have been a major
8 disruptor to the western Canadian natural gas market in that as Marcellus and Utica
9 developed interconnecting pipelines have occurred from these supplies to the traditional
10 markets in the US Midwest and Central Canada, displacing western Canadian supplies as
11 well as supplies from regions in the US. The result has been a loss of market share and a
12 decline in the price of natural gas.

13 In many ways the focus on shale gas is the inherent value of the associate gas liquids rather
14 than the actual natural gas; hence the continued exploitation of these formations even when
15 the price of natural gas is so low.

16 The development of these types of reserves in Northeast BC had 2 focuses: (1) natural gas
17 development for exports via Liquid Natural Gas (“LNG”) facilities on the west coast of BC
18 and; (2) the associated liquid production to be used in heavy oil from oil sands
19 development. Needless to say, LNG development of the BC west coast has not developed
20 as expected nor has the development of incremental crude oil pipeline take away capacity
21 from Alberta. The result is that most of the natural gas in Northeast BC is currently stranded
22 (lack of pipeline capacity to move it to market). With the likelihood of only one or a very
23 limited number of LNG facilities being developed, the focus of the Northeast BC gas has

1 changed to markets east of this region. As such, these producers have contracted for new
2 long-term capacity on the NGTL system commencing in 2021. [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 As indicated in Centra's filings, Centra has [REDACTED]

8 [REDACTED] due to changes in TCPL service offerings [REDACTED]

9 [REDACTED]. TCPL introduced Long-Term Fixed Price ("LTFP")

10 service to lower the cost to ship on its system so as to compete with natural gas production

11 from the Marcellus/Utica. Unlike Firm Transportation service on TCPL, LTFP does not

12 permit upstream diversions. While Centra has opposed the restriction on upstream

13 diversions as part of the LTFP service offering before the NEB, the NEB has rejected

14 Centra's opposition and has approved TCPL's LTFP service with the restriction on

15 upstream diversions. In this regard I believe Centra should continue to oppose the LTFP

16 upstream diversion restriction in future TCPL rate cases.

17 **Q. Does this conclude your evidence regarding Centra's gas supply management?**

18 **A.** Yes.

1 Q.

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3 A.

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13 Q. [REDACTED] [REDACTED]
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16 [REDACTED]

17 **Q. Please provide your final observations and recommendations regarding Centra's**
18 **proposed [REDACTED] portfolio and Centra's Gas**
19 **Supply Management?**

20 **A.** Based upon my review of the various filings by Centra, I believe Centra has acted in the
21 prudent and responsible manner in its gas supply management and the [REDACTED]

1 [REDACTED] as presented in its application. It is also my opinion that the
2 proposed [REDACTED] portfolio is appropriate.

3 I want to add that it is important for all parties to recognize that my recommendations are
4 based upon my review of Centra's filings which have been done after-the-fact and as such
5 as I have previously stated, it would better serve the Board and all parties had Centra filed
6 a 3rd party independent report on these matters. The advantage of Centra filing its own 3rd
7 part independent reports is that these consultants would likely have had the advantage of
8 discussions with Centra's staff and other parties [REDACTED], and I would expect
9 have provided their independent expertise to the decision making process of Centra.

10 **Q. Does this conclude your evidence?**

11 **A. Yes.**