MANITOBA PUBLIC UTILITIES BOARD (PUB)

CENTRA GAS MANITOBA INC. (Centra)
2019/20 GENERAL RATE APPLICATION

Written Submission of

Consumers' Association of Canada (Manitoba) Inc (CAC)

With respect to

Issues Not Identified for Oral Submissions

August 23, 2019

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1.0 Summary of CAC Recommendations – Contested Written Issues

A summary of CAC recommendations to the PUB with respect to the issues that were not identified for oral evidence or submissions (referred to in this submission as "written issues") is as follows, and are categorized in accordance with the PUB approved issues list from Appendix A Order 24/19 (excluding the issues for oral closing submissions directed by the PUB in Order 98/19).

1.1 Centra's Strategic Direction (Issue #2):

CAC Recommendation #1: **The PUB direct Centra to address its concerns (from Orders 85/13 & 108/15) with respect to strategic direction, risk assessment and management structure as part of the current Centra board of directors review and provide the response on the earliest of its completion or 12 months, to be reviewed at the next Centra GRA**.

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1.2 Financial Targets (Issue #3) & Return on Rate Base (including Return on equity) (Issue #12):

CAC Recommendation #2: The basis for determining Centra's financial reserves for rate-setting purposes should be transitioned to a rules-based rate-setting framework based on a comprehensive risk analysis (consistent with the PUB's recent direction with respect to electric operations in Orders 59/18 & 69/19);

CAC Recommendation #3: In the interim period until the development of a rules-based rate-setting framework is completed and until Centra files for a GRA, a $3 million net income and the consolidated MH target of 25% equity be used for rate-setting purposes; and,

CAC Recommendation #4: DCGI's ROE & capital structure recommendations should not be adopted as the basis for setting actual gas rates.

1.3 Changes in finances & Financial Assumptions since Order 85/13 (Issue #4):

CAC Recommendation #5: The PUB make an adjustment to reduce the amount of property taxes included in customer rates for the 2019/20 Test

Year in the amount of $0.350 million, as this increase has not been justified for rate-setting purposes by Centra as a result of concerns with respect to the potential overstatement related to the 2018 provincial re-assessment.

1.4 Finance Expense (including interest rate forecast & debt management strategy) (Issue #5):

CAC Recommendation #6: The PUB reduce Centra's finance expense for the 2019/20 Test Year by $0.664 million related to the July 24, 2019 interest rate forecast update as this represents a material change in finance expense which is consistent with PUB precedent from the 2013/14 GRA; and,

CAC Recommendation #7: The PUB direct Centra to provide additional information on its debt management strategies, policies and metrics as part of minimum filing requirements of future GRA filings and review and report back at the next GRA on identified issues concerning the application of debt policy guidelines.

1.5 Integrated Cost Allocation Methodology (Issue # 9):

CAC Recommendation #8: The PUB direct Centra to develop an Integrated Cost Allocation Methodology (ICAM) report on an annual basis that can be used to support the allocation of consolidated operating costs and shared costs between Centra and MH at future gas and electric rate setting proceedings.

1.6 Cost of Service Study results & methodology (Issue #17):

CAC Recommendation #9: That Centra prepare a Cost Allocation Study at least every 2 to 3 Years even in the absence of a general rate increase request; and

CAC Recommendation #10: Given the number of cost allocation matters that require review, these matters are best dealt with through a generic Cost Allocation Methodology review as directed by the PUB.

1.7 Terms & Conditions of Service (Issue #22):

CAC Recommendation #11: **That the PUB phase-in Centra's proposal for revised reconnection fees on a graduated basis over the next three years, and that the late payment charge increase be denied given it has not been justified on a cost basis.**

1.8 Compliance with PUB Orders & Directives (Issue #23):

<u>CAC Recommendation #12</u>: The PUB reiterate the directive from Order 118/03 that Centra establish regular GRA reviews not to exceed three years, especially considering the projected indicative rate increases that are contained in Centra's most recent forecast (CGM18).

Section 2.0 of this submission contains CAC's positions on the contested written issues and Section 3.0 contains CAC's summary observations on the uncontested written issues.

2.0 CAC Recommendations – Contested Written Issues

The following sections of this submission outline the reasons for the CAC recommendations for written issues that are contested. Each section summarizes the conclusions and recommendations from the comprehensive pre-filed evidence of Darren Rainkie and Kelly Derksen (CAC Exhibit -8), replies to the concerns raised by Centra in its written issues submission and rebuttal evidence (as applicable) and provides the final position of CAC on the issues and recommendations.

2.1 Centra's Strategic Direction (Issue #2):

<u>CAC Recommendation #1</u>: The PUB direct Centra to address its concerns (from Orders 85/13 & 108/15) with respect to strategic direction, risk assessment and management structure as part of the current Centra board of directors review and provide the response on the earliest of its completion or 12 months, to be reviewed at the next Centra GRA.

In Orders 85/13 (page 69) and 108/15 (page 26), the PUB outlined its expectations that it would review Centra's strategic vision/plan, management structure, risk analysis and capital expenditure plan at the next GRA to gain a better understanding of the investments the Company is undertaking, the level of service that customers are receiving for these investments, the issues and risks that are facing the utility on a go-forward basis and the level of financial reserves that are required for rate-setting purposes.

The overall assessment of the information in Centra's 2019/20 GRA filing, is that it has not adequately responded to the PUB's concerns from Orders 85/13 & 108/15 as the information remains high-level, concentrated mainly on electric operations, with little information specific to gas operations to assist the PUB in carrying out its rate-setting mandate with respect to Centra. It was recommended that the PUB direct Centra to consider these issues as part of the comprehensive strategic and financial review that is being undertaken by the MH/Centra Board and provide more detailed responses at the next Centra GRA (Section 7.4 –Ex. CAC -8).

CENTRA'S ARGUMENT:

In its written submission (Section 3.7), Centra disagrees with the above noted assessments on the grounds that it provided the evidence as part of the current GRA filing on the basis of an integrated utility and that the recommendation in Section 7.4 of Ex. CAC -8 is "ill-timed" and "completely unnecessary" as MH's strategic planning process is well in progress.

CAC'S RESPONSE:

CAC submits that:

- The minimum filing requirements that have been established for gas and electric operations contain very specific information on each of these lines of business, by design, in order to satisfy rate-setting requirements.
- The response to the concerns of the PUB (with respect to strategic direction, risk assessment and management structure) have been outstanding for between four and six years since the last major Centra GRA and Cost of Gas proceedings. In this proceeding, Centra was unable to provide details of the MH strategic planning initiative as they relate to gas operations (CAC/Centra I-2 (b)(d)(e)). As such, CAC is not confident that these issues will be adequately dealt with in a planning process that involves electric operations, which is magnitudes of order larger than gas operations, unless the PUB follows up on them through a recommendation or directive in this proceeding;
- The PUB has general supervisory powers and much broader jurisdiction over gas operations under the PUB Act than is the case for electric operations. Accordingly, there is greater responsibility for the PUB to assess these issues for gas operations.
- To suggest that an overall strategic plan is underway ignores the following:
    - (a) The directions of the PUB pertain to Centra and cannot be swept aside by the argument that a MH Long Term Strategic Plan is underway.

(b) Centra is regulated separately and the concerns expressed by the PUB in 2013 have been outstanding for several years and need to be addressed immediately.

(c) The “next GRA” did not anticipate such a lacuna in time; and as such a directive imposing a deadline for Centra to respond within 12 months for review at the next GRA is more than reasonable; it is long overdue.

For these reasons, CAC adopts the recommendation contained in Section 7.4 of Ex. CAC -8. In CAC’s view a PUB directive to the Centra board of directors to address these prior concerns from Orders 85/13 and 108/15 related to strategic issues is appropriately timed during a comprehensive strategic planning process.

2.2 Financial Targets (Issue #3) & Return on Rate Base (including Return on Equity) (Issue #12):

<u>CAC Recommendation #2</u>: The basis for determining Centra’s financial reserves for rate-setting purposes should be transitioned to a rules-based rate-setting framework based on a comprehensive risk analysis (consistent with the PUB’s recent direction with respect to electric operations in Orders 59/18 & 69/19).

CAC’s Evidence:

Section 9.0 of Ex. CAC -8 contains the analysis with respect to Financial Targets (Issue #3), Return on Rate Base (excluding Return on equity) (Issue #12) and financial reserves/capital structure in general.

CAC’S CONCERNS:

Centra has never previously accepted the PUB’s determination of a 30% equity ratio for rate-setting purposes, taking the position at the GRAs subsequent to the issuance of Order 99/07 that:

(a) the proper application of the “standalone” regulatory principle would result in a 40% equity ratio;

(b) share capital should not be considered part of the equity ratio calculation (as it was backed by debt in the consolidated financial statements);

(c) it was fully integrated into the operations of MH and financed through MH (Centra was no longer a standalone entity); and,

(d) the evidence and process for the PUB to come to the 30% equity ratio determination was lacking.

Notwithstanding the PUB findings of a 30% equity ratio, gas rates in subsequent GRAs were actually set based on the allowed net income of $3 million to ensure that there was no harm to the gas customers as a result of the acquisition of Centra by MH, and not based on a 30% equity ratio.

The only time it appears that the 30% equity ratio was used as a factor to set or adjust gas rates was in Orders 108/15 and 79/17, when the PUB noted that Centra's equity ratio had increased to 35% and directed that Centra file a GRA for a review of non-gas revenue requirement by January 20, 2017 or the non-gas components embedded in rates were to revert back to the levels last approved on an interim basis in Order 66/11 (which essentially reversed the general rate increase approved for the 2013/14 Test Year).

It is unclear why Centra has adopted a change in policy of setting rates based on a 30% equity ratio and there are a number of concerns identified in Section 9.4 of Ex. CAC -8:

- Centra has not indicated any change in its operations or risk assessments that would justify the significantly higher level of retained earnings projected in CGM18;
- While Centra's equity ratio has been above the 30% level since at least 2002/03, it never has requested that its rates be decreased to maintain the 30% level. Now that Centra is projecting that its equity ratio will be below 30% based on the planned level of capital investments, it is shifting its focus to project indicative rate increases to maintain a 30% equity level;
- Centra has increased its emphasis on the RBROR revenue requirement calculations that continue to be provided in the GRA filings, undertaking significant efforts to update the rate base calculations for new regulatory deferral accounts and an updated lead/lag study and filing expert testimony from Drazen Consulting Group Inc. (DCGI) with respect to capital structure and ROE matters; and,

- While a portion of this effort can be attributed to compliance with regulatory directives (update of the ROE for feasibility test purposes in accordance with Order 85/13), there appears to be a renewed focus on RBROR revenue requirements calculations that has not occurred since Centra's rates were actually set based on a RBROR approach in the 2003/04 Test Year.

Centra's financial targets were directed by the PUB in Order 24/19 to be an "in-scope" issue that was to be examined during the 2019/20 Test Year and there has been a significant evolution of the regulatory policy with respect to MH's financial targets for rate-setting purposes as a result of the PUB's determinations flowing from the 2017/18 & 2018/19 MH GRA and 2019/20 MH Rate Application.

Section 9.6 of Ex. CAC -8 outlined that in Orders 59/18 and 69/19, the PUB questioned the relevance of the equity ratio for a crown-owned utility like MH with a provincial debt guarantee and directed the consideration of a Minimum Retained Earnings Test for the purposes of setting electricity rates in the future and clarified how risks will be considered in rate setting. The implications of this policy shift were that electricity rate increases would no longer be based on goal-seeking the achievement of an equity ratio in a prescribed timeframe and building up financial reserves to cover all possible financial risks and that the PUB was prepared to take regulatory action when and if emergent risks occurred.

Section 9.7 of Ex. CAC -8 then proceeded to assess the implications of this new policy direction and findings by the PUB with respect to Centra's rate-setting framework, given that CGM18 was projecting future indicative rate increases and significant increases to retained earnings levels to maintain an equity ratio of around 30%. This assessment ultimately resulted in the following conclusions:

- CGM18 projections of the requirement for higher levels of net income/retained earnings is simply a function of a mathematical relationship (higher total assets multiplied by a constant 30% equity ratio) rather than a change in risk assessment or required reserve levels to promote rate stability for gas customers;

- Centra is not a "stand-alone" utility but rather is fully integrated into the operations of MH and obtains its management oversight, labour force and financing through MH (with a debt guaranteed by the province of Manitoba);
- Centra shares many of the same operational characteristics of MH (capital intensive with long asset lives and provincial debt guarantee) with the main difference being that MH's asset base is much larger than Centra's given the investment in hydro-electric generating stations and large transmission lines;
- Despite the asset differential and legislative remnants (rate base and ROE) from the time that Centra was an investor owned utility, there are no appreciable reasons why the PUB's change in rate-setting policy that is directed in Orders 59/18 and 69/19 for MH, should not be applied to Centra, as well; and,
- It is appropriate that the reality of Centra's integrated nature be recognized for rate-setting purposes and that the focus be shifted to considering the appropriate level of financial reserves to promote rate stability for customers versus the maintenance of an equity ratio/earning of a level of ROE (on a stand-alone basis).

For the above noted reasons, it was recommended in Section 9.7 of Ex. CAC -8 that the PUB direct the consideration of the establishment of a Minimum Retained Earnings Test for a future Centra GRA for rate-setting purposes using the principles, analysis and tools that are to be developed to set MH's rates as a guide, and adapted to Centra's circumstances, as necessary.

CENTRA'S ARGUMENT:

In Sections 3.1 and 3.2 of its written submission, Centra provides the following main arguments with respect to the financial targets and rate/base rate of return:

- There is no evidence of a change to Centra's operating environment or risk assessment that would justify a change from a 30% equity ratio for Centra that was previously endorsed by the PUB;
- It is premature for the PUB to consider establishing a new rate-setting test or adopting a new equity target prior to the PUB directed technical conference with respect to MH's rate-setting framework;

- The PUB directive in Order 69/19 no longer specifies the term "Minimum Retained Earnings Test";
- CGM18 and the indicative rate increases were provided for illustrative purposes only and are subject to the outcome of the long-term strategic planning process; and,
- The RBROR materials have been provided to meet a legislative requirement and to assist the PUB in rate-setting.

CAC'S RESPONSE:

CAC submits as follows:

- The 30% equity ratio has not been used to set rates historically for Centra and as such the prior PUB finding of the adequacy of the 30% equity ratio does not have the prominence in gas rate-setting suggested by Centra;
- The policy shift of the PUB to question the relevance of the use of the equity ratio for MH's rate-setting is a significant change in circumstance in the evolution of the rate-setting framework in Manitoba. It clearly supersedes prior PUB findings on the appropriate capital structure metric for a crown-owned utility like MH and Centra;
- Its acknowledged that the term "Minimum Retained Earnings Test" is not present in Order 69/19, and the PUB substituted wording as follows "use of rules-based regulation to provide guidance in the setting of consumers rates and the question of the role and sufficiency of reserves". However, the substance of the new rate-setting approach outlined in Order 69/19 is consistent with Order 59/18, and Centra's argument with respect to the terms, represents a distinction without a difference;
- The PUB has directed the consideration of a rules-based rate setting framework/test that is focused on the appropriate level of financial reserves for MH in two successive rate decisions and there has been no MH review and vary application to this directive from Order 69/19;
- Centra presented no evidence to counter the assessment in Ex. CAC -8 that there are no differences between the operations and risks of MH and Centra that would justify that this new regulatory policy does not apply to Centra;

- CGM18 is an official forecast that was approved by the Centra board of directors, which one would expect reflects the policy of that board; and,
- The legacy legislative requirements have been met at past GRA's by Centra, without the focus on RBROR to influence the actual level of rates set.

CAC adopts the recommendation to transition to a rules-based rate-setting framework focused on the appropriate level of financial reserves for Centra that are necessary to promote rate stability for gas customers and to move away from using investor owned utility metrics like equity ratio and ROE to set rates.

It is important to move forward with applying the PUB's new rate-setting policy to Centra (gas operations) as it is recognized that it will take some time to be implemented and CGM18 is setting out a road map for rate increases in the next few fiscal years, which may not align with its revenue requirements. As a result, the PUB should make the recommended directive to Centra to begin this transitioning in a timely manner.

<u>CAC Recommendation #3</u>: In the interim period until the development of a rules-based rate-setting framework for Centra is completed and until Centra files for a GRA, a $3 million Net Income and the consolidated MH Target of 25% equity be used for rate-setting purposes.

In Section 9.8 of Ex. CAC -8, it was recognized that a rules-based rate-setting framework/test for MH is under consideration and that it will take some time to develop and apply to an actual MH GRA. It is also recognized that Centra does not have an Uncertainty Analysis financial model like MH, and that it would take time to develop this tool.

CGM18 has identified the potential requirement for a general rate increase as early as Centra's 2020/21 fiscal year, and as such, there is a practical issue that a GRA may be filed before a rules-based rate-setting framework and a gas Uncertainty Analysis could be developed for Centra.

At the same time, one of the issues that is raised by the Company's shift in focus to a 30% equity ratio is why would the equity ratio of Centra be stronger than the 25% equity ratio target for MH. Based on Centra's own evidence from this proceeding, it would appear that there are no differences in the operations or risks of Centra and MH, that would justify a stronger capital structure/equity ratio for Centra than MH. In fact, a strong argument could be made that based on MH's/Centra's own risk assessment report, Centra's risks are assessed to be lower than MH's. All of the high consequence and priority risks as well as other areas of concern in the Corporate Risk Management Report (Attachment 1 of Centra's completeness filing), are either solely or mainly related to electric operations.

It was recommended in Section 9.8 of Ex. CAC -8 that in the interim period during the development of a rules-based rate-setting framework for Centra, the PUB could continue to use the allowed $3 million of net income combined with the MH consolidated 25% equity ratio as a basis to set/evaluate gas rates.

Figure 14 of Ex. CAC -8 is replicated below and contains a summary of the financial parameters of a CGM18 financial scenario (PUB/Centra I-2 (a)(b)) that continues with an allowed net income of $3 million. This scenario demonstrates that the equity ratio of Centra would continue to be above the consolidated MH target of 25% and would result in projected retained earnings of $106 million by 2027/28.

Figure 14 - Summary of CGM18 Financial Outlook (with $3 Million Net Income)

	2021	2022	2023	2024	2025	2026	2027	2028
Rate Increase	1.36%	0.40%	1.32%	0.98%	1.17%	0.68%	1.41%	0.94%
Cumulative Rate Increase	1.61%	2.02%	3.36%	4.37%	5.60%	6.31%	7.81%	**8.83%**
Cumulative Additional Revenue	5	7	10	14	18	21	25	29
Annual Additional Revenue	4	2	3	4	4	3	4	4
Net Income	3	3	3	3	3	3	3	3
Retained Earnings	85	88	91	94	97	100	103	106
Equity Ratio	29%	29%	28%	28%	27%	27%	26%	26%

Source: CAC/Centra I-2 ab

In the event that a general rate increase is requested before a rules-based rate-setting framework for gas operations can be developed, the current approach of allowing a $3 million net income in Centra rates could be continued for a number of years in the interim, while maintaining a strong financial structure and level of financial reserves to protect gas customers from rate instability.

CENTRA'S ARGUMENT:
Centra's position in its written submission (Section 3.2) is that it is premature for the PUB to consider establishing a new rate-setting test or adopting a new equity target prior to the PUB directed technical conference with respect to developing a rules-based rate-setting framework for MH.

CAC'S RESPONSE:
CAC rejects Centra's submission for the same reasons noted above under CAC recommendation #2. Centra was unable to address the issues raised in Ex. CAC -8 with respect to why the risks of Centra are such that it would require a higher equity ratio (30%) than its parent company, MH (25%).

CGM18 projects the requirement for general rate increases in the next few fiscal years, in part because of Centra's "perceived" requirement to increase the allowed net income from $3 million to $7 million to maintain an equity ratio close to 30%. In the interim until the development of the new rate-setting methodology for Centra, the issue of the appropriate equity ratio will be a live issue for the PUB for any GRA that is filed.

The 2019/20 Centra GRA is the first review of Centra's financial targets in six years which was directed by the PUB as is an "in-scope" issue for review in Order 24/19. In recognition of a changing PUB policy questioning the importance of the equity ratio as a rate-setting test for a crown utility with a debt guarantee, it is appropriate that the PUB provide direction flowing from the current GRA for the next Centra GRA, including if the allowed net income of $3 million continues to be the prime consideration in setting gas rates (as has been the case for the last 15 years). For the PUB to be silent in its upcoming decision on financial targets (as recommended by Centra) will essentially be a wasted opportunity for the PUB to provide guidance on this important issue and could make this a more contentious issue than necessary at the next Centra GRA.

“In scope” is not merely predicated upon what Centra decides it wants to include in its application. The PUB approach to consider future issues as part of regulatory proceedings is essential in a dynamic and changing utility industry and to promote an effective and efficient regulatory review process in Manitoba. Given the hiatus, the PUB must continue to make decisions and implement directives which regulate Centra during the interim periods between GRAs.

CAC adopts the recommendation contained in Section 9.8 of Ex. CAC -8 to continue to use the $3 million allowed net to set gas rates and consider the consolidated MH equity target of 25% as a more appropriate financial target for rate-setting in the interim period until a rules-based rate-setting framework can be developed for Centra.

<u>CAC Recommendation #4</u>: DCGI’s ROE & capital structure recommendations should not be adopted as the basis for setting actual gas rates.

DCGI’s return on equity (ROE) and capital structure recommendations (that were filed on behalf of Centra as Appendix 3.5 of the application) are that the PUB should set gas rates based on the maintenance of a deemed 30% equity ratio and an ROE range of 8.3% to 8.5%.

CAC’S EVIDENCE:

The primary conclusion in Section 9.5 of Ex. CAC-8 is that the use of the 8.3% ROE and a deemed 30% equity ratio to actually set gas rates as recommended by DCGI is not appropriate, as acceptance of these recommendations amounts to importing investor owned utility RBROR concepts (equity ratios and ROE’s) into the rate-setting of a government business enterprise, as well as artificially increasing rates through higher net income levels, without any justification in terms of risk.

The intent and policy underlying MH’s purchase of Centra was that (1) MH did not require a return on investment like an investor owned utility, but rather a contribution to financial reserves to promote rate stability for customers and (2) that customers should enjoy lower rates under public ownership. This approach of a government business enterprise like MH or Centra is in contrast to the requirement of investor owned utilities to earn a fair ROE in order to attract investor equity and issue debt. The DCGI recommended approach would not be consistent with the intent when MH purchased Centra and is not recommended to the PUB.

CENTRA'S ARGUMENT:

In Section 3.1 of its written submission, Centra submits that the intent of the DCGI report was to comply with a PUB directive from page 33 of Order 85/13 and was not intended to justify higher levels of net income or propose an alternate rate-setting methodology.

CAC RESPONSE:

In CAC notes that the PUB directive from page 8 of Order 85/13 (related to the findings on page 33 of the Order) read as follows: "**That Centra propose an update to the return on equity that is reflective of an appropriate return on equity to be used in the feasibility test and for the return on rate base determination**". There is no mention by the PUB of using the updated ROE for the purpose of actually setting gas rates or determining the appropriate allowed net income that is included in rates charged to customers in the future.

DCGI's evidence clearly exceeds the objectives of updating the ROE for feasibility test purposes and to produce the RBROR calculations for the PUB's "no harm" test. It directly states that the $3 million of allowed net income is not sufficient for setting Centra's actual rates.

It is also clear that Centra has used DCGI's recommended ROE to justify the net income level of $7 million that is included in the official forecast of the Centra board of directors (CGM18) in order to promote its view to the PUB that the allowed net income of $3 million should be raised to $7 million in the future (to maintain an equity ratio close to 30%); all under the guise of:

> "…*alerting the PUB to the factual concern that targeting an annual net income cap of $3 million for Centra beyond 2019/20 will not sustain the equity capitalization at or around the 30% level endorsed by the PUB*." (**Application Tab 3 Section.3.4**)

CAC adopts the recommendations in Section 9.5 of Ex. CAC -8, that the 8.3% ROE can be used for feasibility test and RBROR calculation purposes only, and is not a justification to alter the previous policy of the PUB to include $3 million of net income in gas rates.

2.3 Changes in finances & Financial Assumptions since Order 85/13 (Issue #4):

CAC has included its written submissions with respect to the changes in financial outlook/assumptions between CGM12 (from the 2013/14 GRA) and CGM18 (from the 2019/20 GRA) under the recommendation for regular regulatory reviews in Section 2.8 of this submission (Issue #23). The closing submissions contained in Section 2.8 pertain to both Issue #4 and Issue #23 – and have been grouped together for a better flow of the discussion.

<u>CAC Recommendation #5</u>: The PUB make an adjustment to reduce the amount of property taxes included in customer rates for the 2019/20 Test Year in the amount of $0.350 million, as this increase has not been justified for rate-setting purposes by Centra as a result of concerns with respect to the potential overstatement related to the 2018 provincial re-assessment.

Centra's variance analysis for the 2012/13 and 2016/17 fiscal years (Section 5.2.7 – original application), indicates that property taxes had declined as a result of the 2012 and 2016 province-wide reassessment of property values, as follows (CAC/Centra I-13 (b)):

- For the 2012 re-assessment the escalation assumption used in the property tax forecast was 3% and for the 2012/13 fiscal year Centra's property taxes decreased by $0.9 million or 7.6%; and
- For the 2016 re-assessment the escalation assumption used in the property tax forecast was similar to 2012 at 3% and for the 2016/17 fiscal year Centra's property taxes decreased by $0.2 million or 1.7%.

  Centra also stated that property taxes are forecast to increase by $0.350 million or 2.8% in 2019/20 (CAC/Centra II-134 (a)(b)), but it was unable to provide clear information with respect to the impact of:

(1) the 2018 province wide re-assessment on 2019/20 property taxes; and,
(2) the potential for over-statement as was the case for the 2012 and 2016 re-assessments, considering that a similar 3% increase has been utilized in the 2019/20 forecast.

Based on the lack of clarity on the record, it was recommended that the PUB obtain further information on the impact of the 2018 re-assessment and the potential for over-statement of the 2019/20 Test Year property tax forecast at the oral hearing, before approving Centra's forecast into rates. It was also noted that depending on the further information, there was a potential for a further recommendation for a rate-setting adjustment to property taxes (Section 6.5 – Ex. CAC -8).

IGU followed up on this issue by posing an information request to CAC that, in the event there is no oral hearing on this matter, would it be appropriate for the PUB to reduce the escalation factor assumed in developing the property tax forecast. The CAC response indicated that in the absence of clear and compelling evidence from Centra in oral or written form, the PUB should make an appropriate adjustment to reduce the escalation related to 2019/20 property taxes (2.8% or $0.350 million) for rate-setting purposes (IGU/CAC I-4).

Centra did not address the concerns/recommendation contained in Section 6.5 of Ex. CAC -8 in its rebuttal evidence or submission on written issues.

CAC agrees with the concerns/recommendations contained in Section 6.5 of Ex. CAC -8 and IGU/CACI-4 and submits that Centra has not provided any further information that would clarify this issue in order to meet its onus of proof to include the increase in property taxes for 2019/20 in customer rates. Accordingly, CAC recommends that the PUB make an adjustment to reduce the amount of property taxes included in customer rates for the 2019/20 Test Year in the amount of $0.350 million, as this increase has not been justified for rate-setting purposes by Centra.

2.4 Finance Expense (including interest rate forecast & debt management strategy) (Issue #5):

<u>CAC Recommendation #6</u>: The PUB reduce Centra's finance expense for the 2019/20 Test Year by $0.664 million related to the July 24, 2019 interest rate forecast update as this represents a material change in finance expense which is consistent with PUB precedent from the 2013/14 GRA.

BACKGROUND:

In Section 5.2.5 of Order 85/13 (pages 21 to 22), the PUB made the following findings related to using the most current interest rate forecasts to set Centra's revenue requirement/rates for the 2013/14 Test Year:

> "*The forecasting of interest rates in this changing environment has been a challenge and the Board believes that, in general, a consensus-based approach using forecasters is appropriate. The* ***Board*** *also* ***believes that the most current information should be utilized****; accordingly, Centra should update the interest rate forecast based on its 2013 Economic Outlook and reflect the direction provided by the Board in this Order. While* ***Centra's evidence suggested*** *such an* ***interest rate forecast update*** *would yield approximately* ***$200,000 of reduced finance expense****, such an amount is material and* ***needs to be reflected in revised rates****…*
>
> *The* ***Board requires current financial information in setting rates*** *and will* ***expect Centra to file an update to its interest rate forecast for the Board's consideration when Centra files its rebuttal evidence*** *during* ***any future General Rate Application****. The* ***Board can then be in a position*** *to* ***assess*** *whether* ***interest rates should be adjusted*** *and* ***reflected*** *in an* ***update to Finance Expense***" (Emphasis added)

The PUB made the following directive related to updated interest rate forecasts in Order 85/13 (page 7):

"***4**. That **Centra file an update** to its **interest rate forecast** for the **Board's consideration** when **Centra files its rebuttal evidence** during **any future General Rate Application**" (Emphasis added)*

CENTRA UPDATE:

Centra filed an update of its interest rate forecasts on July 24, 2019 in accordance with Directive #4 of Order 85/13, the implications of which can be summarized as follows (updated responses to PUB/Centra I-44 (b) and PUB/Centra II-25)):

- The Canadian Short-Term interest rate forecast is now 1.65% compared to Centra's updated application of 2.20% (0.55% or 25% decrease);
- The Canadian Floating-Rate interest rate forecast is now 2.50% compared to Centra's updated application of 3.19% (0.69% or 22% decrease);
- The Canadian Fixed-Rate interest rate forecast is now 2.70% compared to Centra's updated application of 3.80% (1.10% or 29% decrease); and
- The updated interest rate forecasts would result in a Finance Expense forecast for the 2019/20 Test Year of $21.890 million as compared to Centra's updated application of $22.554 million ($0.664 million or 2.9% decrease).

On August 12, 2019, by way of email, the PUB advised interested parties to this proceeding that the change in finance expense was not of the materiality that would result in it being an issue for cross examination and that parties would have an opportunity to address finance expense in the written submissions.

CAC assumes the PUB's determination that the $0.664 million decrease to 2019/20 Finance Expenses is not material was only for the procedural purposes of determining if it would be handled through part of the oral or written processes.

CENTRA ARGUMENT:

Centra did not address the interest rate forecast update in its written submission. The absence of a Centra position on this issue is interpreted by CAC to mean that Centra is not proposing to amend its application to incorporate the update.

CAC RESPONSE:

CAC notes the following with respect to the Centra interest rate forecast update:

- In the 2013/14 Centra GRA proceeding, the PUB found that a $200,000 reduction to a Finance Expense forecast of $17.296 million (page 113 of CAC/Centra I-3 a – Attachment #1 – under “2013/14 Applied” column), which represents a 1.2% decrease to Finance Expense was material and was required to be adjusted to set rates for 2013/14;
- The $0.664 million decrease in the current GRA proceeding represents a 2.9% decrease to 2019/20 Finance Expenses which is of higher materiality than in the 2013/14 GRA update;
- The change in the each of the three forecast interest rates is material – the forecast interest rates are decreasing between 22% and 29%, relative to Centra’s spring application update of March 22, 2019;
- The interest rate forecast update was directed by the PUB in Order 85/13 and was a planned update as part of the PUB’s procedural Order 24/19; and,
- The information that is used to derive the interest rate forecast update is based on independent third-party forecasters that are used to produce a consensus forecast; and, as a result, can be objectively determined as being reasonable for rate setting without the need for further detailed testing.

Based on this analysis, CAC is recommending that the PUB make a downward adjustment of $0.664 million to Centra’s Finance Expense forecast for 2019/20, which is consistent with the material nature of the update (whether in $ or % change) and past PUB precedent from Order 85/13.

<u>CAC Recommendation #7</u>: The PUB direct Centra to provide additional information on its debt management strategies, policies and metrics as part of minimum filing requirements of future GRA filings and review and report back at the next GRA on identified issues concerning the application of debt policy guidelines.

BACKGROUND:

In Order 85/13, the PUB made the following findings and directive, at page 22 and page 8 respectively, related to Centra's debt management policies:

> "***The Board notes that Centra's policy*** *of* ***not having more than 15% of its debt maturing within a fiscal year*** *does* ***not address the concentration of debt maturing*** *in a* ***narrow time frame that straddles fiscal years****. The* ***Board believes Centra must amend the debt concentration policy*** *after* ***considering the recommendations of CAC to limit concentration in any 12-month period****. The* ***Board will require Centra to report its debt concentration policy*** *at the* ***next General Rate Application****." (Emphasis added)*
>
> *"****5. That Centra further articulate*** *its* ***debt concentration policy*** *including* ***consideration of limiting the concentration of debt maturing in any particular 12-month period*** *and* ***report back to the Board*** *at the* ***next General Rate Application*****." (Emphasis added)

CENTRA APPLICATION:

In response to Directive #5, Centra provided a summary of its interest risk policy and guidelines on its existing debt portfolio (Section 3.5 of the application).

Centra did not provide any quantitative information on actual or projected debt metrics to demonstrate the reasonableness or impact of its debt management strategies to Centra's revenue requirements and is requesting that the PUB confirm that this directive has been satisfied solely based on the debt policy guidelines.

The CAC experts pursued a number of issues that resulted from the information requests of the PUB (PUB/Centra I-47 (b)) and CAC (CAC/Centra I-9 (a) to (k) and CAC/Centra II-130 (a) to (e)).

CAC EVIDENCE:

After considering the responses to the information requests, the following concerns were outlined in Section 6.6 of Ex. CAC -8:

- The information/analysis provided in the information request process could be provided as a regular part of the Centra minimum filing requirements in the future, which would allow for a more comprehensive review of the issues and a greater ability to develop conclusions and recommendations on the issues rather than just raising outstanding issues;
- Seasonal increases in working capital requirements are by Centra's own admission temporary in nature and as such it is an open question for further consideration if these temporary fluctuations in short-term debt should be considered in the overall financing strategy/approach to manage the aggregate of variable rate debt and targeting the appropriate or optimal positioning in the 15% to 25% policy guideline range;
- The only information on the benefit/risk of a more aggressive use of variable rate debt was a simple financial scenario provided in second round information requests and there was no ability to understand and test this scenario or develop other scenarios that would allow for a holistic review of the optimum level of variable rate debt within Centra's policy guidelines;
- The size and infrequency of Centra debt issues were noted as valid considerations; however, the fairness of the allocation of the benefits of MH's consolidated debt portfolio to gas customers (including ultra-long debt issues at favorable interest rates) and the concern over the lower proportion of Centra's debt portfolio that matures in over 20 years bears continuing review and management by Centra; and,
- Of the projected increase in non-gas revenue requirements in CGM18 of $36 million to 2027/28, approximately $10 million or 28% relates to increased finance expense.

The following recommendations were outlined in Section 6.6 of Ex. CAC -8:

- That the PUB direct Centra to provide Information on its debt management, policies and forecasts of related debt metrics as part of minimum filing requirements at future GRA's;
- That the PUB direct Centra to further review the potential benefits/risks of more aggressive use of variable rate debt and the appropriate application of its interest rate risk guidelines as it relates to seasonal working capital requirements and report back at the next GRA; and,
- That the PUB direct Centra to consider the issues raised with respect to increasing the proportion of the debt portfolio that matures in over 20 years and the potential allocation of MH ultra-long debt issues to Centra and report back at the next GRA.

CENTRA REBUTTAL:

Centra addressed these recommendations in Sections 4.1 to 4.3 of its rebuttal evidence, noting that:

- The extrapolation of a 2009 National Bank report which was filed at a prior MH GRA) (that concluded that the policy range of 15% to 25% fell within the optimal range) demonstrated that Centra is not in a position to take on more floating rate risk compared to MH;
- Given the smaller size and infrequency with which Centra issues long-term debt, it would not be able to both increase the weighted average term to maturity and the amount of floating rate debt in a cost- effective manner at the same time; and,
- Centra believes that it should consider all short term debt balances subject to interest rate risk in considering the impact on the rolling averages of variable rate debt outstanding throughout the year.

CAC RESPONSE:

CAC observes that Centra has not added any new information in rebuttal evidence and has simply reiterated its positions on issues from the information requests, with the exception of the assertion of the extrapolation of the National Bank report to Centra.

CAC questions the relevance of a 10 year old report that was clearly focused on electric operations (given the dominant size of the electric utility) and submits that it is not appropriate to make conclusions about the appropriate debt management policies of gas operations (which have different capital and seasonal working capital requirements) from this report which was not filed on the record of this proceeding and tested in any way.

Moreover, CAC notes that the recommendations in Ex. CAC-8 do not question the appropriateness of the policy ranges, but rather seek to analyze the optimal part of the policy range, that minimize finance expense and interest rate risk; and, to ensure that the benefits of MH's large and diverse debt portfolio are fairly allocated to Centra gas customers. There are also changes in capital markets over time that may change the optimal positioning within the policy ranges, and it is important that Centra remains vigilant to these changes and that the PUB understands these changes to discharge its rate-setting mandate.

CAC adopts the recommendations made in Section 6.6 of Ex. CAC -8. The debt management information and metrics in the information requests have been tested in MH and Centra GRAs for over a decade. It seems self-evident at this stage this information should be contained in the minimum filing requirements. The PUB has taken a keen interest in debt management over that same 10-year timeframe and made a number of directives that have resulted in improvements in debt management and interest rate forecasts. In CAC's view, the PUB should continue to actively review and test Centra's debt management practices in future GRA's recognizing the significant projected increase in Finance Expense in CGM18.

2.5 Integrated Cost Allocation Methodology (Issue # 9):

<u>CAC Recommendation #8</u>: The PUB direct Centra to develop an Integrated Cost Allocation Methodology (ICAM) report on an annual basis that can be used to support the allocation of consolidated operating costs and shared costs between Centra and MH at future gas and electric rate setting proceedings.

BACKGROUND:
In Order 99/07 (pages 107 and 108), the PUB directed that an independent review of the ICAM be undertaken as a result of organizational and operational changes since the last formal review of the methodology (2002

Status Update Hearing) and that such a review should accomplish the goal of gaining intervenor acceptance of the validity of the approach, which is in the public interest. The independent review was never undertaken due to the delays associated with Centra's implementation of IFRS.

CAC EVIDENCE:

There were a number of recommendations with respect to the ICAM review for future Centra GRA's (Section 6.6 of Ex. CAC -8):

1. The PUB direct Centra to develop a comprehensive ICAM report that can be used to support the allocation of consolidated operating costs and shared costs between Centra and MH, at future gas and electric rate-setting proceedings. This report would document the overall consolidated costs that are allocated to MH and Centra; the basis for selected costs drivers; discuss emerging issues/alternative cost drivers considered; and, any resulting recommendations for changes to the PUB for rate-setting purposes;
2. The initial ICAM report could be reviewed through a collaborative process of workshops/technical conferences that occur before the next MH or Centra GRA (including PUB staff and advisors and intervenor representatives) with the goal of obtaining sufficient information and assurance that the ICAM is an appropriate methodology for a fair allocation of O&A and shared costs;
3. Once the initial ICAM report is accepted as satisfying the intent of the PUB directive, this report should be maintained on an annual basis and filed with each Centra and MH GRA to support the allocation of O&A and common costs for rate-setting purposes; and,
4. If Centra is unwilling or unable to develop the ICAM report and continues to pursue this issue through a collaborative process, then the PUB should proceed once again to direct Centra to file a terms of reference for an independent external review, including circulation to intervenors for comments.

CENTRA ARGUMENT:

Centra submitted that in its opinion the November 30, 2016 technical conference satisfied the requirements of the directive and that it was concerned that the recommendations in Ex. CAC -8 prescribes more of a detailed "audit approach" rather than a reasonable governance approach given the suggestion that there should be detailed tests of resulting allocations and systems. Centra indicated that it was prepared to engage in a second technical conference if further clarification of the ICAM is deemed necessary by the PUB, rather than incur the significant costs of a complex and detailed annual report (Section 3.5 – Centra's written submission).

CAC RESPONSE:

CAC's comments are as follows:

- Simple understanding of the functioning of the ICAM and some examples of allocations does not meet the intent of the PUB directive to gain stakeholder acceptance of the validity of the approach and does not allow parties to the MH or Centra GRAs to understand the consolidated shared costs and test the reasonableness of the resulting allocations for rate-setting purposes;
- Centra has mischaracterized CAC's evidence as a detailed audit approach, as the reference to detailed tests of allocations and systems was clearly in relation to the work to be expected as part of an external review (to render an opinion on the reasonableness of the ICAM) and not the collaborative process and annual report that is recommended in Ex. CAC -8;
- The collaborative review is viewed as a practical but effective compromise designed to obtain an appropriate (albeit lower than an external review) level of evidence for rate-setting purposes, at a lower cost than an external review, with the added benefit of greater understanding of the ICAM by all of the parties to the Centra regulatory process (PUB/CAC I-13);
- A second technical conference would be a useful next step in the collaborative process, but would have to go further to address the consolidated costs that are allocated, the selected cost drivers and the resulting allocations to both electric and gas operations to be a valuable addition to the first technical conference; and,
- The information that is recommended to be in the annual ICAM report is available to Centra and MH and is used for internal budgeting/reporting purposes. The philosophy for MH should be to ensure that it has appropriate and relevant cost information for its own internal management purposes, as well as for th PUB and external stakeholders. While the intent of cost allocation is to direct charge

costs whenever possible and practical, certain costs must be allocated between MH and Centra. The purpose of an ICAM report would be to document the methodology for allocating and direct charging costs between MH and Centra. Appropriate documentation of the allocation methodology and calculation such that costs are identifiable, traceable, transparent and ensure there is no cross-subsidization between electric and natural gas customers. The annual ICAM report does not have to be a costly exercise and should diminish in cost once established.

CAC continues to support another technical conference, continuation of the collaborative approach to respond to this directive and an annual ICAM report as recommended in Ex. CAC -8, which would be beneficial to satisfy future regulatory requirements for both Centra and MH GRAs.

2.6 Cost of Service Study results & methodology (Issue #17):

CAC Recommendation #9: That Centra prepare a Cost Allocation Study at least every 2 to 3 Years even in the absence of a general rate increase request.

A cost allocation study is a basic and necessary tool used for purposes of ratemaking. For Centra with class revenue requirements set to equal class revenue (unity), the cost allocation study is explicitly used to establish rate changes by class. As a result, the preparation and evaluation of a cost allocation study for Centra is not a discretionary exercise.

As evidenced in this Application, despite Centra having applied for an overall non-gas cost decrease, there is clearly a large divergence in impacts between customer classes flowing from the 2019/20 Cost Allocation Study. This is a result of sizable changes in the make-up of costs over the period between Centra's last GRA in 2013, a rate-rollback pursuant to Order 79/17, as well as gas cost deferrals that have accumulated over a 4-year period since 2015. Such changes in cost responsibility by class flowing from the 2019/20 Cost Allocation Study could have been smoothed in through more frequent rate applications. At the very least, the preparation of a cost allocation study on a more frequent basis will highlight issues for Centra enabling a better understanding and the opportunity to address these matters which is beneficial for Centra, the PUB, and its customers.

As such, is reasonable to expect that Centra prepare a Cost Allocation Study at least every 2-3 years, even in the absence of a GRA.

<u>CAC Recommendation #10</u>: Given the number of cost allocation matters that require review, these matters are best dealt with through a Generic Cost Allocation Methodology review as directed by the PUB.

In Order 98/19 issued July 15, 2019 and subsequent to the filing of Information Requests and Intervenor Evidence, the PUB directed that all cost allocation methodology and allocation issues be deferred to a future generic cost allocation.

As part of the PUB's first procedural order, 24/19 dated February 20, 2019, the PUB directed that rate design is not in scope except for an update on Centra's ongoing stakeholder consultation process related to its five-part rates.

In the view of CAC, it is clearly the PUB's intent flowing from Order 98/19 and 24/19 that any options raised as bill mitigation measures that result in shifting cost responsibility compared to the results of the 2019/20 Cost Allocation Study, in other words, that have "inter-class impacts" are out of scope (other than the heating value deferral). These measures include the implementation of a Zone of Reasonableness, the abeyance or suspension of a change in non-gas costs to a future period subsequent to a generic cost allocation methodology review, and any change to the existing methodology that might contemplate direct cost allocation, a change in the peak and average allocator, and postage stamp ratemaking, all raised as options by IGU and Koch.

Notwithstanding the PUB's direction in these orders, IGU and Koch continue to argue in favour of these out of scope alternatives. As such, CAC intends to provide final argument as part of its oral submission on matters raised by IGU and Koch on August 28, 2019. A sample of issues to be considered are outlined in Ex. CAC – Section 10.10.

2.7 Terms & Conditions of Service (Issue #22):

<u>CAC Recommendation#11:</u> That the PUB phase-in Centra's proposal for revised reconnection fees on a graduated basis over the next three years, and that the late payment charge increase be denied given it has not been justified on a cost basis.

As part of Centra's Application, it is seeking approval to increase the level of Reconnection fees and the Late Payment Charge ("LPC").

Reconnection Fee

Centra's current Reconnection Fee is $50 during regular business hours and $65.00 after hours. Centra states that the level of these fees was last reviewed and approved by the PUB in Order 118/03 flowing from its 203/04 GRA. Centra is proposing to increase the Reconnection Fee to $70 and $100.00 during regular business hours and after hours respectively.

The increased disconnection/reconnection fee represents a significant increase for all consumers, but particularly for those customers with the most limited income. As heat and electricity are necessities, consumers cannot just decide not to reconnect, as they might be able to do with other services. What might seem like a small amount when discussing millions of dollars at the hearing, can become a significant addition to an already significant bill amount for low income customers. Nevertheless, if the current fee is not covering Centra's costs, CAC would propose a graduated increase of approximately $8 per year over the next three years, which ought to bring Centra to the desired rate in time for the next GRA.

LPC

Centra's current LPC is 1.25% per month (applied at the time of the next monthly bill rather than from the payment due date)[1]. Centra is proposing to increase its LPC to 1.5%, consistent with that of other local comparators. Centra states that the increase in the LPC will generate about $100,000 in incremental revenue.

The LPC is intended to be a punitive charge aimed at deterring customers from paying late (or encouraging customers to pay on time). The LPC is a penalty charge not really intended to be a cost recovery mechanism per se. So the question is whether it is really a sufficient justification to increase the LPC based on what others are charging.

The concern about increasing the LPC is that it will disproportionately impact low income customers and/or customers struggling to pay their bills.

At Tab 12 (page 11), Centra states that it has placed increased emphasis on having low income customers identified and to apply discretion in waiving LPC. Similarly, it stated that it intends on applying the same discretion in waiving Reconnect Fees for low income customers. However, when questioned about how many times Centra waived reconnection fees for low income customers in 2017/18, Centra stated:

> "Centra does not track which customers are low income and therefore unable to provide how many times reconnection fees were waived for low income customers"

Given the concern that the increase in the LPC and Reconnect Fees will have the greatest impact on low income and those struggling to pay their bills and a lack of assurance that Centra has processes in place to waive these fees that may exacerbate the issues, it is recommended that Centra's LPC request be denied. Further, it is noted that the creep in rates associated with addition of the Federal Carbon Tax, notwithstanding the fact that it was uncontrolled by Centra, the increases in these fees which are controllable by Centra would be a further impact to customers not represented in the ultimate bills impacts to customers.

2.8 Compliance with PUB Orders & Directives (Issue #23):

CAC has provided its perspectives on a number of outstanding PUB directives in the proceeding sections of this written submission.

<u>CAC Recommendation # 12</u>: The PUB reiterate the directive from Order 118/03 that Centra establish regular GRA reviews not to exceed three

years, especially considering the projected indicative rate increases that are contained in Centra's most recent forecast (CGM18)

BACKGROUND:

Given the absence of a regulatory review of Centra's non-gas costs for the last six years, Sections 4.1 to 4.3 of Ex. CAC -8 reviewed the changes in Centra's non-gas revenue requirements since the 2013/14 GRA. Sections 5.1 to 5.3 reviewed the current financial position of Centra as represented through its forecast retained earnings or financial reserves (excluding the impact of the gas meter exchange labour accounting change issue which will be addressed in CAC's oral submissions).

It has always been a regular part of a Centra GRA to understand the changes in the financial circumstances and financial position of the Company since the last GRA, in order to properly assess the rate-proposals in the application that is currently under review by the PUB.

CAC EVIDENCE:

The purpose of the analysis in Sections 4.0 and 5.0 of Ex. CAC -8 was to understand how or why Centra's non-gas revenue requirements had changed since the 2013/14 and to develop an assessment of the current financial position/financial reserves of Centra for rate-setting purposes.

In Section 5.0 of Ex. CAC -8, it was concluded that:

- Centra's financial reserves had essentially remained flat (around the $34 million level) over the 2002/03 to 2011/12 period (Section 5.1 – Ex. CAC -8);
- There was significant concern at the 2013/14 GRA that financial reserves could move into a deficit position if the Company was required to write-off its rate-regulated assets when it transitionED to IFRS. Forecasts with the continuation of regulated accounting projected increases in financial reserves to $55 million in 2018/19 (Section 5.2 – Ex. CAC -8); and,
- Centra has recorded $49 million of actual net income in the six-year period from 2012/13 to 2017/18. In the most recent Centra forecast, the level of financial reserves projected for 2018/19 has essentially doubled to $80 million or 45% higher than the forecast level at the last

GRA for 2018/19. Centra is in the strongest financial position under MH's ownership.

In Section 8.0 of Ex. CAC -8, the projected increases in non-gas costs contained in Centra's long-term financial forecast (CGM18) were analyzed with the overall conclusion that the level of projected indicative rate increases in the next 8 years (almost 10%) of the forecast, demonstrates the need for regular regulatory reviews by the PUB. In summary, the supporting conclusions in Section 8.0 of Ex. CAC -8 are as follows:

- CGM18 projects that cumulative general rate increases in the order of 10% will be required in the next eight years to 2027/28; compared to approved general rate increases for Centra of around 9% in the last 20 years (Section 8.1 – Ex. CAC -8);
- CGM18 projects non-gas revenue requirement increases of $36 million or 24% in the next eight years. The primary drivers of the increases include 2% escalation in O&A costs ($9 million or 25%), increases in finance expense, depreciation and capital taxes due to growth in plant assets ($23 million or $64% of the increase) and the assumption of an increase in allowed net income (from $3 million to $7 million) based on the maintenance of an equity ratio that is around 29% ($4 million or 11% of the increase) (Section 8.2 – Ex. CAC -8); and,
- Active management/prioritization of operating costs, capital expenditures and Centra's debt portfolio combined with a review of financial reserve target levels is required to alleviate future projected rate pressures on consumers (Section 8.3 – Ex. CAC -8).

The following figures (Figures 10, 11 & 12) are based on CGM18, have been reproduced from Section 8.1 and 8.2 of Ex. CAC -8, and support the above noted conclusions:

Figure 10 - Summary of CGM18 Financial Outlook								
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Rate Increase	2.25%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Cumulative Rate Increase	2.25%	3.27%	4.31%	5.35%	6.40%	7.47%	8.54%	**9.63%**
Cumulative Additional Revenue	6	10	14	17	21	24	28	32
Annual Additional Revenue	6	4	4	3	4	3	4	4
Net Income	5	7	7	7	7	8	7	7
Retained Earnings	86	93	99	106	113	120	127	134
Equity Ratio	29%	29%	29%	29%	29%	29%	29%	29%
Net Plant in Service	603	626	646	666	686	707	727	747
Net Regulated Assets	109	112	114	117	119	122	124	127
Other Assets	107	105	105	105	105	105	105	105
Total Assets	**819**	**843**	**865**	**888**	**910**	**934**	**956**	**979**
Source: Appendix 3.1								

Figure 11 - CGM18 Non-Gas Revenue Requirement									
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Operating & Administrative	61	62	63	64	65	66	68	69	70
Finance Expense	23	25	26	27	29	30	30	32	33
Depreciation & Amortization	25	27	28	29	31	31	32	33	34
Capital & Other Taxes	17	18	18	19	19	20	20	21	21
Corporate Allocation	12	12	12	12	12	12	12	12	12
Other Expenses/Net Movement	10	10	9	9	9	10	9	9	9
Less: Other Incone	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Net Non-Gas Expeneses	**146**	**152**	**154**	**158**	**163**	**167**	**169**	**174**	**177**
Net Income	2	5	7	7	7	7	8	7	7
Total Non-Gas Revenue Requirement	**148**	**157**	**161**	**165**	**170**	**174**	**177**	**181**	**184**
Source: Appendix 3.1									

Figure 12 - CGM18 Non-Gas Revenue Requirement Changes										
									Increase 2028 vs. 2020	Average Annual Increase
	2021	2022	2023	2024	2025	2026	2027	2028		
Operating & Administrative	1	1	1	1	1	2	1	1	9	1.1
Finance Expense	2	1	1	2	1	0	2	1	10	1.3
Depreciation & Amortization	2	1	1	2	0	1	1	1	9	1.1
Capital & Other Taxes	1	0	1	0	1	0	1	0	4	0.5
Corporate Allocation	0	0	0	0	0	0	0	0	0	0
Other Expenses/Net Movement	0	(1)	0	0	1	(1)	0	0	(1)	(0)
Less: Other Incone	0	0	0	0	0	0	0	0	0	0
Net Non-Gas Expeneses	**6**	**2**	**4**	**5**	**4**	**2**	**5**	**3**	**31**	**3.9**
Net Income	3	2	0	0	0	1	-1	0	5	0.6
Total Non-Gas Revenue Requirement	**9**	**4**	**4**	**5**	**4**	**3**	**4**	**3**	**36**	**4.5**
Percentage Increase:										
Net Non-Gas Expeneses	4.1%	1.3%	2.6%	3.2%	2.5%	1.2%	3.0%	1.7%	**21.2%**	2.7%
Total Non-Gas Revenue Requirement	6.1%	2.6%	2.5%	3.0%	2.4%	1.7%	2.3%	1.7%	**24.3%**	3.0%

It was also outlined in Section 8.3 of Ex. CAC -8, that:

- In MH GRA regulatory processes there is considerable review of Electric IFFs and alternate financial scenarios as the Modified Cost of Service rate-setting approach that has been historically used in the past to set electric rates, “looks past” the test year(s) under review by using the long-term IFF and allowing the PUB to make informed judgments on how proposed rate increases in the test year(s) impact the longer-term financial outlook and rate trajectory for MH; and
- Long-term Gas IFFs (10 years) have been provided in Centra GRA regulatory processes for about the last 15 years. There is not the same focus on examining and understanding the longer-term outlook and alternate financial scenarios for Centra, which is likely because:
  - (a) gas rates are still set on a shorter-term focus on the test year(s) based on the current level of non-gas revenue requirements;
  - (b) a $12 million corporate allocation; and,
  - (c) a $3 million level of net income (referred to as a Modified Rate Base/Rate of Return rate-setting approach in Section 9.2 of Ex. CAC -8, to distinguish it from the approach used to set electricity rates).

Based on the analysis outlined in Section 8.0 of Ex. CAC -8 and given the rate pressures forecast in CGM18, it was recommended that the PUB reiterate the directive from Order 118/03 that Centra establish regular GRA reviews; not to exceed three years.

Regular regulatory reviews will assist the PUB to monitor Centra's progress on cost control, implementation of capital planning/asset management enhancements and management of Centra's debt portfolio and will assist to ensure that rate pressures that are built up over time or refunds that are due to customers (as well as the finalization of interim Orders) are dealt with on a timely basis (Section 8.4 – Ex. CAC -8).

CENTRA ARGUMENT:

In Section 3.3 of its written submission, Centra mischaracterizes the conclusions from Section 4.2 Ex. CAC -8 by focusing only on lower operating costs as a result of the VDP. The analysis in Section 4.2 of Ex. CAC -8 clearly indicates that it is a combination of several factors, including significant accounting changes (that reduced revenue requirements), underspending on a number of gas programs (over-forecast at the 2013/14 GRA) and lower interest rates that have resulted in no general rate increases in the last six years. In addition, the higher than approved net income of Centra in the last 6 years has also contributed to this circumstance.

In its written submission (Section 3.8 – Directive 23, Order 118/03), Centra deals with the recommendation for the PUB to reiterate Directive 23 of Order 118/03, from the narrow perspective of compliance with PUB Orders. Centra argues that there is no need for the PUB to reiterate this directive as it continues to be ongoing and that following this proceeding Centra expects to engage with the PUB on effectiveness, efficiency and timelines of all regulatory matters.

CAC RESPONSE:

Nowhere in its written submission or rebuttal evidence does Centra address the concerns raised with respect to the significant rate increases projected in CGM18, preferring instead to position the analysis contained in Section 8.0 of Ex. CAC -8 as somehow out of scope of this proceeding; despite the PUB direction in Order 24/19 that Changes in finances and financial assumptions since Order 85/13 is an "in-scope" issue for the 2019/20 GRA proceeding (Issue #5).

The analysis that was contained in Sections 4.0 and 8.0 of Ex. CAC -8 causes great concern as to the potential future rate impacts on customers and agrees with the assessment that the longer-term gas forecast should be the subject of greater degree of review at future gas proceedings.

It must be emphasized that forecasts invariably are wrong. However, they form a barometer by which future revenue requirements are measured and are not established merely for illustrated purposes. They are Centra's best indicators of what is expected in the future and are a reflection of the policy of the board of directors.

Centra's position is that there is no need for the PUB to reiterate Directive 23 from Order 118/03. It does not square with the fact there has not been a regulatory review of Centra's non-gas costs for six years and the fact that this particular directive was absent from Centra's list of on-going PUB directives (Page 14 of Tab 13 or Appendix 13 of the application). From CAC's perspective, the facts in evidence demonstrate that there is a need for the PUB to reiterate this directive.

CAC adopts the recommendation that that there should be regular regulatory reviews of Centra's non-gas revenue requirements, not to exceed three years. CAC also submits that in the years where there is no GRA proceedings, that periodic Cost of Gas reviews occur to ensure timely recovery/refund of gas cost deferral accounts, setting of non-primary gas costs and finalization of interim Primary Gas Orders.

Finally, as an interested stakeholder to the PUB regulatory process and representatives of customers that are impacted directly by rate changes, CAC submits that any discussion with respect to regulatory processes and timelines should not only involve Centra and the PUB, but also intervenors.

3.0 CAC Summary Observations – Uncontested Written Issues

In Section 2.0 of its written submission, Centra indicates that Intervenors did not file evidence with respect to a number of issues and that in the absence of intervenor evidence contesting these issues, Centra requests that the PUB grant the approvals applied for in its 2019/20 GRA application.

At the pre-hearing conference, the issues which CAC indicated that it may test Centra's evidence were as follows (based on the numbering scheme in the PUB's Preliminary Issues List):

- Depreciation expense & methodology (#7);
- Liability Insurance (#10);
- Demand side management (#13);
- Load forecast (#15);
- Western Transportation Service (#18);
- Fixed Rate Primary Gas Service (#20);
- Approval of feasibility test true-ups (#21); and
- Approval of Interim Orders (#22)

CAC's approach on the above issues was largely to rely on a review of the information requests/independent evidence of the PUB and other intervenors to test/monitor these areas and to only address these matters in evidence, if concerns were raised through this review that impact CAC's interest. In this way, CAC has been able to consider these issues in an effective and cost-efficient manner, without duplicating the efforts of other participants to the process. As such, no evidence was filed and argument is not deemed necessary.