

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 Centra's Written Argument on
Issues Identified for Oral Evidence**

August 30, 2019

1.0 Overview of CAC Written Submission on Issues Identified for Oral Evidence

On August 28, 2019, Centra delivered its oral closing submission with respect to issues that were identified for oral evidence. Concurrent with these oral submissions, Centra also filed a written submission on issues identified for oral evidence which was 50 pages in length (referred to as Centra's "written final argument" in this document).

In this document, CAC is providing a short written final argument that it has limited to issues that were raised in Centra's written final argument that CAC was unable to adequately address in its oral final argument on August 28, 2019, due to the timing of the filing of Centra's written final argument.

2.0 Centra Does Not Accept that the Fundamental Purpose of a General Rate Application is to Vigorously Test Non-Gas Revenue Requirements

On page 4 of its written final argument, Centra states the following at lines 5 to 7 and 16 to 18:

"Centra submits that CAC's overall approach in considering revenue requirement related matters within this Application was inefficient, unproductive, unsustainable, and is not in the best interests of the residential customers that it notionally represents..."

In this Application, Centra has demonstrated exceptional cost management which is reflected in the fact that Centra's non-gas revenue requirement is at approximately the same level as it was six years ago" (Emphasis added)

CAC is chagrined by this very unhelpful remark above. As a Crown corporation and a regulated monopoly service provider, Centra should be open to its stakeholders participating in and testing its non-gas revenue requirements in a public forum such as the PUB review process.

In the confines of written argument and despite the outward expression of pride to appear before the PUB, Centra clearly bristles at the very suggestion that its non-gas revenue requirements should be critically reviewed and tested by the intervenors to this regulatory proceeding. Centra expresses disdain for CAC's participation in the testing of its non-gas revenue requirement, by the long-standing intervenor at Centra's GRA's that it states "notionally" represents the lions share of Centra's customers.

Without intending to give this attack by Centra more "airtime" than it deserves, the real "notional" representation lies in Centra's resistance to applying for a GRA for 6 years when it could have dealt with many of these issues to the benefit of consumers well before now. CAC specifically refers to over \$10 million of accounting policy changes (removal of negative salvage value from depreciation and removal of gas meter exchange costs from O&A expense), lower interest rates than forecast and the positive impacts of \$49 million

of net income that has been recognized in the last six fiscal years (when the allowed net income of \$3 million per year would equate to \$18 million over that timeframe).

3.0 Centra Relies on an “Apples to Oranges” Comparison to Conclude that It is Actively Managing its O&A Costs

Centra relies on Figure 1 (page 5, line 17) and Figure 2 (page 6, line 4) of its written argument to come to the conclusion that “Centra has continued to actively manage and reduce its O&A spending to levels below that approved in the 2013/14 GRA...” and that O&A costs are below Manitoba CPI.

In the situation, where Centra’s accounting policy changes have had the impact of **increasing** O&A costs – Centra has adjusted O&A for these accounting changes in order to analyze its performance on cost control. For instance, in Figure 5.1 of Appendix 5.9 of its application, Centra has reduced its O&A for between \$3.1 million and \$4.6 million of accounting changes between 2011/12 and 2014/15 (under CGAAP) - to conclude that its cost control performance is close to Manitoba CPI – after adjusting for accounting changes. This same type of analysis has been provided by MH in a number of its prior GRA’s on a regular basis when accounting policy changes were increasing O&A.

However, Centra fails to provide this type of comparative analysis for the 2015/16 to 2019/20 period (under IFRS) where the impact of the gas meter exchange accounting policy change has the impact of **reducing** O&A in the order of \$5 million from the levels that were include in the 2013/14 approved O&A. There are no adjustments for this accounting change in Figure 5.2 of Appendix 5.9 under IFRS to isolate the impacts of Centra’s cost containment efforts – from the impacts of accounting changes – for the PUB’s information.

The analysis in Figures 1 and 2 of Centra’s written final argument does not adjust for this accounting change and as such represents an “apples to oranges” comparison of O&A cost performance over the last five years. The failure on Centra’s part to provide this analysis to the PUB, artificially increases O&A in the early years of the comparison and as a result skews the O&A in the 2019/20 to appear to be significantly lower than O&A in the prior years where the accounting policy change has not been adjusted. This oversight by Centra, effectively renders any conclusions from Figures 1 and 2 of Centra’s written final evidence to be invalid to the PUB for rate-setting purposes.

Fortunately, the PUB advisors requested the following information in the second round of information requests (**PUB/Centra II-9**) in order to have an “apples to apples” comparison of O&A that considers the impacts of accounting policy changes on O&A:

“Please restate the table assuming that the accounting for capitalizing meter sampling, testing and exchange activities were applied in 2014/15 when IFRS is adopted and provided a comparison of total actual and forecast O&A expense”

This information request was included as the first page in Tab 5 of the CAC Book of Documents for Oral Argument. **PUB/Centra II-9** demonstrates the following when O&A is appropriately adjusted for the gas meter exchange labour accounting change under IFRS to produce a reasonable comparison:

- O&A for the 2015/16 fiscal year is \$61.5 million; and
- Requested O&A for the 2019/20 Test Year is \$61.3 million.

This analysis leads to materially different conclusions than Figures 1 and 2 in Centra's written final argument:

- Despite the workforce adjustment of 1,221 staff at MH (the 400 committed position reductions in the 2014/15 to 2016/17 fiscal years and 821 reductions for the VDP in 2017/18 and 2018/19), Centra's O&A is at the same level as it was in 2015/16 and there are clearly no enduring savings to Centra related to this workforce adjustment;
- The lack of enduring savings that are allocated to gas operations in 2019/20 directly refutes the assertions of Centra in its written final argument that it continues to "actively" manage and reduce its O&A costs (lines 12 to 15 of page 5) and that actuals incurred to date "prove" that the 4% allocation of VDP/supply chain benefits is reasonable (lines 24 to 25 of page 10); and

4.0 Centra Confuses Escalation with the Overall Year to Year Changes in O&A in Its Written Final Argument

In its oral final argument and written final argument, Centra is changing its position with respect to the escalation that is inherently built into its O&A forecasts for 2018/19 and 2019/20.

In this regulatory proceeding and the recent MH 2019/20 rate application proceeding, the term "escalation" has been used to mean the general wage increases and merit increases that impact wages and benefits and general inflationary changes in non-labour costs.

In information request CAC/Centra I-12 (c), CAC requested Centra to provide an analysis of changes to O&A in 2018/19 and 2019/20 which included the impact of escalation with respect to wage increases, merit/progression and non-labor and benefit costs. In that response, Centra stated:

"Centra's operations are integrated within the organization structure of Manitoba Hydro with costs being allocated to Centra through the Integrated Cost Allocation Methodology ("ICAM")... Given the method under which costs are allocated, Centra cannot isolate the impacts of general wage increases, merit, etc. on O&A and unable to provide a table comparison as requested."
(Emphasis added)

In information request CAC/Centra I-12 (h), CAC requested Centra to provide the escalation assumptions in CGM18 with respect to labor, benefits and non-labor costs for 2018/19 to 2027/28. In that response, Centra stated:

"The CGM18 escalation assumption for the O&A forecast was 2% per year from 2018/19 to 2027/28." (Emphasis added)

The response to CAC/Centra I-12 (h) of the assumption of 2% escalation in O&A is consistent with MH's evidence at the 2019/20 Rate Application proceeding that was recently before the PUB. It only makes sense as Centra has none of its own employees and all of its O&A costs are allocated from MH's consolidated operations through the ICAM. Accordingly, the escalation that is inherent in MH's forecasts will be allocated to Centra through the ICAM - namely 2% for 2018/19 and 2019/20.

Now for the first time in this proceeding, Centra is asserting in its oral argument and section 2.1.1 of its written final argument that it has assumed 0% escalation in 2018/19 and 1.5% in 2019/20.

Centra's assertions in this regard are mistaken, considering its own evidence in the responses to CAC/Centra I-12 (c) and CAC/Centra I-12 (h) and the method by which MH's and Centra's budgets are developed and allocated. Centra does not have a different escalation forecast assumption for the 2018/19 and 2019/20 Test Years than MH.

Centra is clearly confusing its representation of the overall "year-over-year" changes in O&A (0% in 2018/19 and 1.5% in 2019/20, respectively) that are a function of numerous program changes, contingency changes, recognition of VDP savings etc. - with the level of "escalation" that is inherently built into its allocation from MH consolidated operations (2% in each of 2018/19 and 2019/20, respectively). There is no misunderstanding by CAC's experts as claimed by Centra.

CAC would also observe that correcting for the gas meter exchange labour accounting change in accordance with the analysis presented in the response to PUB/Centra II-9, the year-over-year increase in O&A would be as follows:

- 2018/19 compared to 2017/18 - \$60.2 million versus \$59.1 million = \$1.1 million or 1.9% increase; and
- 2019/20 compared to 2018/19 - \$61.3 million versus \$60.2 million = \$1.1 million or 1.8% increase.

Even if CAC were to use the this corrected calculation of Centra's flawed analysis, it would come to the same conclusion that the level of increase inherent in Centra's O&A forecast is almost double (1.8% to 1.9%) the PUB's decision in Order 69/19 that 1% escalation is appropriate for rate-setting purposes - and that an adjustment to the requested 2019/20 O&A expense in the order of \$1.2 million as recommended by CAC is reasonable for rate-setting purposes.

5.0 There is No Net Income Impact of the CAC Recommendations Related to the Gas Meter Exchange Labour Accounting Change

In section 2.2 of Centra's written final argument (pages 13 to 15), Centra appears to be asserting that the CAC recommendations with respect to the rate-setting treatment of the gas meter exchange labour accounting change (from 2014/15 to 2018/19) will have the impact of increasing its net income. It appears to CAC that Centra does not understand how the CAC recommendation would be implemented.

At pages 1235 to 1236 of the transcript, Vice-chair Kapitany requested that CAC elaborate on its position in oral argument that the CAC recommendations will not result in an impact on Centra's net income. CAC legal counsel indicated that it would further address this matter in its written final argument.

CAC is recommending that the cumulative \$15.3 million profit adjustment related to this issue - that was previously recorded in MH's consolidated financial statements for financial reporting purposes - will now be recorded on Centra's financial statements as net plant and a corresponding regulated liability - to recognize the rate-setting treatment for this issue. CAC is recommending that the net plant be depreciated over 10-years consistent with the life of the asset and the regulatory liability be amortized over three years to refund the over-collection of costs to customers in a timely fashion.

If the PUB approves CAC's recommendation, then the impact on the 2019/20 revenue requirement would be to increase depreciation by \$2.1 million and decrease amortization of regulatory accounts by \$5.1 million, for a net decrease in revenue requirements of \$3.0 million.

The PUB would approve these adjustments into Centra's 2019/20 revenue requirement as part of rates (revenues) that it charges customers and Centra would record the corresponding adjustments to its expenses, with the result that there is no impact to Centra's net income for the year. The income statement impact of this recommendation for the 2019/20 Test Year can be simply demonstrated as follows - Increase/(Decrease) in net income:

- Reduction in Revenues: (\$3.0 million);
- Increase in depreciation: (\$2.1 million);
- Change in Net Movement in Regulatory Deferrals: \$5.1 million; and
- Impact on Centra's Net Income: \$0.

The very purpose of the IFRS interim standard (IFRS 14) that continued the use of rate-regulated accounting is that regulated entities can reflect the impacts of regulatory decisions in their financial statements, such that there is only "one-set of books". Accordingly, CAC's recommendations will align the financial reporting and rate-setting treatment of the gas meter exchange labour issue and there will be no net impacts to Centra's net income. The reduction in revenues of \$3.0 million and increase in

depreciation of \$2.1 million will be totally offset by the amortization of the regulated liability of \$5.1 million in the net movement in regulatory deferrals line item of the Centra financial statement – with no resulting impact on Centra’s net income.

This outcome is the same as for other regulated assets and liabilities that have been recognized by Centra since the transition to IFRS, as well as gas cost deferral accounts that can be in a recovery or refund position. They are all neutral to net income because the revenue and expenses are aligned under IFRS 14.

CAC requests that the PUB approved the recognition of the regulated liability associated with this issue effective April 1, 2019 and specify in its decision that the regulated liability be amortized for rate-setting purposes over the full 12 months of April of 2019 to March of 2020. Centra appears to have implied in its written final argument that if the PUB were to accept CAC’s recommendation that the amortization would commence on November 1, 2019. This is not CAC’s recommendation. There should be recognition of a full 12-month amortization of the regulated liability and depreciation of net plant in order to address the intergenerational equity associated with this issue on a timely basis and reflect the impacts of a full 12 months of amortization of the regulated liability in rates.

Under the modified rate base/rate of return rate-setting framework that is used by the PUB to set gas rates, Centra’s net income will be set by including an amount in revenue requirement that is included in rates collected from customers. Centra is requesting that a net income of \$2.9 million be included in revenue requirement/rates for 2019/20.

6.0 Power Stations

Centra unfortunately has misrepresented its evidence and has “cherry-picked” from the transcript at the 2013/14 GRA. Had Centra wanted to challenge Ms. Derksen, it should have been done in cross-examination. It did not do so, and as such, Centra has violated a fundamental evidentiary principle (Brown v. Dunn) that if a party wants to contradict a witness, the witness must be confronted with the prior statement. Moreover, any evidence at the 2013/14 GRA, informed the decision of the PUB in Order 118/03 which stands as stated. Accordingly, this argument must be rejected out of hand.

7.0 Balancing Fees

As noted by Counsel for CAC as part of oral argument August 28, 2019, CAC intended on reviewing the transcripts with respect to the matter of balancing fees and in the event that CAC offers a different recommendation, that recommendation would be provided as part of this submission.

Upon review of the transcript, and the written submissions of Centra and IGU, CAC continues to support a more gradual implementation of Centra’s balancing fees proposal as referred to in **Centra/Rainkie - Derksen 1-6**. CAC also views that IGU’s

recommendation to cap any charges on balancing fees at the level of actual balancing fees charged to Centra, that are directly as a result of T-Service customer imbalances, is reasonable (IGU Final Argument 6-3, lines 5-7) is consistent with CAC's views, and would address CAC's concern that Centra's proposal may be too aggressive.

8.0 Furnace Replacement Program Clarification

As part of CAC's oral final submission August 28, 2019, Counsel characterized Ms. Desorcy's involvement as being on the Efficiency Manitoba steering committee.

For purposes of clarity, it is noted that Ms. Desorcy is participating in the stakeholder advisory committee of Efficiency Manitoba, whose influence in the decisions related to Efficiency Manitoba is more limited.

9.0 Filed Evidence

At the hearing, Centra filed a book of documents. One of the documents related to professional responsibilities of an accounting professional (CPA Manitoba Code of Professional Conduct). That document was not put to the witness and should not form part of the record.

10.0 Centra Reply

Counsel has advised Board Counsel that Mr. Meronek will be out of town on September 3, 2019 and will not be in attendance at the reply arguments before the PUB. However, Ms. Desorcy will be in attendance. CAC would ask the PUB to be very vigilant concerning Centra's reply. As all matters have been fully considered in argument by all parties, it is likely doubtful that Centra has anything to offer which has not been fully vetted and ought not just to get "two kicks at the can".

All of which is respectfully submitted August 30, 2019



Brian J. Meronek, Q.C.
Counsel for CAC