Manitoba Hydro

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August 2, 2019

Mr. D. Christle
Secretary and Executive Director
Public Utilities Board
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

Dear Mr. Christle:

RE: CENTRA GAS MANITOBA INC. ("CENTRA") 2019/20 GENERAL RATE APPLICATION – REBUTTAL EVIDENCE

Please find enclosed Centra's Rebuttal Evidence with respect to the written evidence of:

- Darren Rainkie and Kelly Derksen on behalf of Consumers' Association of Canada ("CAC") - Manitoba Branch;
- METSCO Energy Solutions on behalf of CAC;
- Andrew McLaren of InterGroup Consultants Ltd. on behalf of the Industrial Gas Users ("IGU");
- Troy Brown on behalf of IGU;
- Gil Labonte on behalf of IGU; and
- Brian C. Collins of Brubaker & Associates, Inc. on behalf of Koch Fertilizer Canada, ULC.

This Rebuttal Evidence contains commercially sensitive information and is being filed in confidence in accordance with the Public Utilities Board Rule 13 decision of February 26, 2019. A public version of this Rebuttal Evidence is available on Centra's external website.

If you have any questions or comments with respect to this submission, please contact the writer at 204-360-5580 or Paul Chard at 204-360-5146.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES DIVISION
Per:

JESSICA CARVELL
Barrister & Solicitor

cc: Rachel McMillin, Assistant Associate Secretary
Bob Peters, Board Counsel
Dayna Steinfeld, Board Counsel
Brian Meronek, Counsel to CAC
Antoine Hacault, Counsel to IGU
Lewis Manning, Counsel to Koch Fertilizer Canada, ULC

MANITOBA HYDRO PUBLIC UTILITIES BOARD

IN THE MATTER OF Centra Gas Manitoba Inc. 2019/20 General Rate Application

REBUTTAL EVIDENCE OF CENTRA GAS MANITOBA INC.

WITH RESPECT TO THE WRITTEN EVIDENCE OF:

METSCO Energy Solutions Inc. on behalf of Consumers' Association of Canada ("CAC") - Manitoba Branch;

Darren Rainkie and Kelly Derksen on behalf of Consumers' Association of Canada ("CAC") - Manitoba Branch;

Andrew McLaren on behalf of the Industrial Gas Users ("IGU");

Troy Brown on behalf of the Industrial Gas Users ("IGU");

Gil Labonte on behalf of the Industrial Gas Users ("IGU");

and,

Brian C. Collins on behalf of Koch Fertilizer Canada, ULC;

August 2, 2019

Manitoba Hydro

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1.0 OVERVIEW

Centra's Rebuttal Evidence addresses the written evidence of:

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- Andrew McLaren on behalf of the Industrial Gas Users ("IGU");
- Troy Brown on behalf of IGU;
- Gil Labonte on behalf of IGU; and
- Brian C. Collins on behalf of Koch Fertilizer Canada, ULC.

The evidence of Richard DeWolf on behalf of CAC was fully supportive of Centra's gas supply management, and CAC endorsed Mr. DeWolf's conclusions (July 15 submission). As such, this Rebuttal Evidence does not address any issue raised within Mr. DeWolf's evidence.

Consistent with Centra's letter of July 8, 2019, this Rebuttal Evidence is limited to issues deemed to be within scope of this proceeding, responsive to facts or positions raised by Interveners in their evidence, and limited to issues relating specifically to the 2019/20 Test Year. The focus of this Rebuttal Evidence is on the issues identified for oral examination within the PUB's Order 98/19.

Centra observes that much of the intervenor evidence relates to matters unrelated to the relief sought in this Application and the fact that Centra does not address or respond to every statement or position taken by intervenors should not be taken as Centra's acceptance of such statements or positions.

2.0 COST OF SERVICE MATTERS

Centra is providing its Rebuttal Evidence with respect to Cost of Service and related matters in accordance with the second Procedural Order No. 98/19, issued by the PUB on July 15, 2019. In that Order, the PUB concluded that all Cost of Service Study methodology and allocation issues were to be severed from this proceeding, ruling that the appropriateness of Cost of Service methodologies, which would include Peak and Average and direct assignment for cost allocation purposes, would be the subject of a future generic cost of service study review. The PUB ruled that oral direct evidence and cross examination with respect to Cost of Service Study issues in this proceeding would be limited to options for bill mitigation based on Centra's currently approved and utilized methodology, including the issue of the Heating Value Margin Deferral[1]. Accordingly, Centra's Rebuttal Evidence on Cost of Service Matters addresses only that issue.

2.1 Bill Mitigation Options

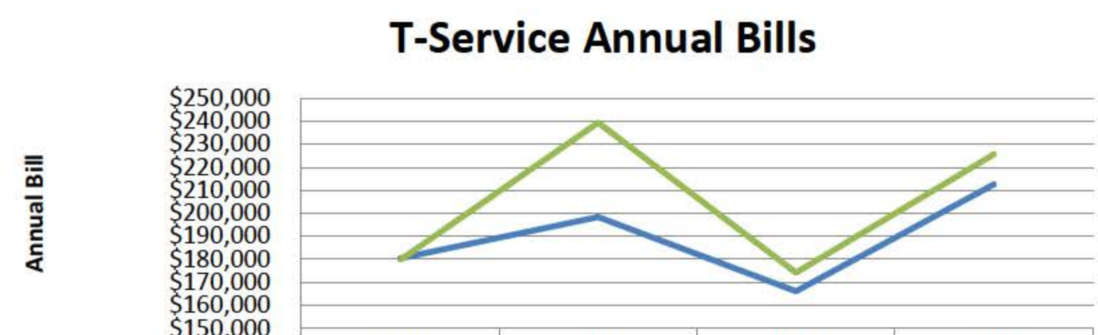
In Order 98/19 the PUB has restricted Cost of Service matters in this proceeding to the discussion of bill mitigation options for customers receiving large bill impacts. All parties have been asked to provide options for bill mitigation during the oral portion of this proceeding.

In considering bill mitigation for certain customer classes, the discussion of what is possible and what is required needs to be grounded within a broader context. Part of that context is the rate changes that have occurred over the past 10 years, including the PUB's direction in Order 79/17 that the non-gas components of rates would revert back to levels approved on an interim basis in Order 66/11 for all classes other than Special Contract and Power Stations.

The effect of these various rate changes for T-Service customers and the Special Contract Class can be seen in the two graphs that follow. The bill impacts presented are based on load profiles that can be found in the bill impact comparisons in Schedule 11.1.0:

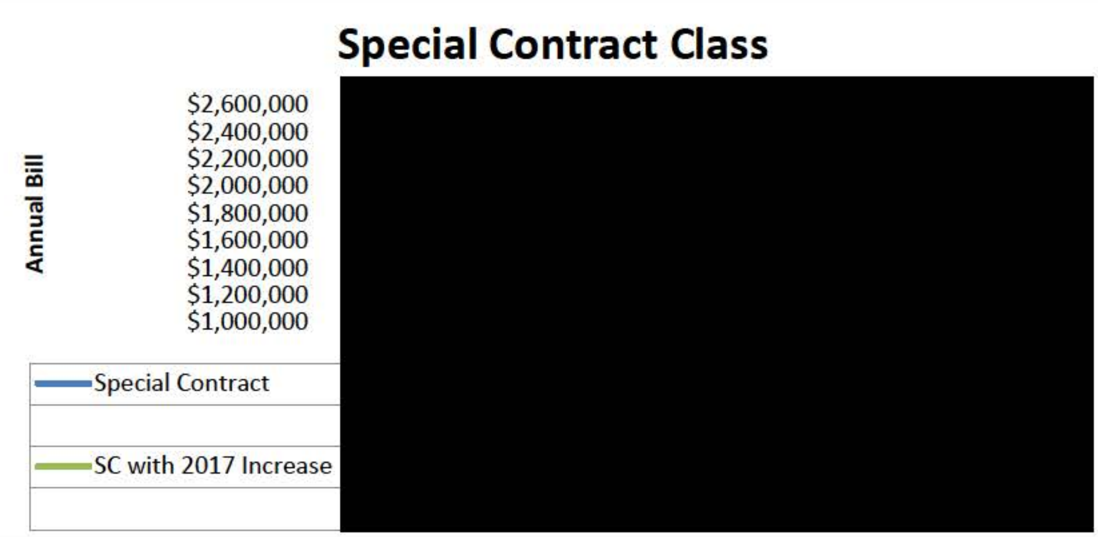
Class/Service	Annual Volume (10^3m^3)	Load Factor	
High Volume Firm/T-Service	11,000	75%	
Mainline Firm/T-Service	18,000	75%	
Special Contract	[redacted]	[redacted]	2d

[1] Page 4 of Procedural Order 98/19 dated July 15, 2019.



	2010	2013	2017	2019
HVF-T Service	$180,541	$198,390	$166,193	$212,560
		9.9%	-16.2%	27.9%
Mainline T-Service	$179,830	$239,413	$174,193	$225,703
		33.1%	-27.2%	29.6%

As noted above, Order 79/17 froze rates for the Special Contract Class at the 2013 level. Had the rates reverted, the Special Contract Class would have experienced a 14.4% increase in 2017, which would have lessened the impact of the increase proposed in this GRA.



2d

In PUB/Koch I-2, the PUB sought information on the cost of upstream transportation and gas costs from Koch, in order to understand the overall impact on Koch's costs. Koch provided a response to this request, but only provided information in relation to its upstream transportation costs and noted, "Centra's gas costs for sales customers are irrelevant in determining delivery service rates for Koch." Koch further expressed the opinion that the information provided should be given no weight in the PUB's deliberations.

While Centra’s cost of gas may not be relevant in the determination of rates for Koch, the PUB has a long history of considering the cost of gas in its comparison of bill impacts between customer classes. The relative impacts are extremely relevant when considering and making a determination on the necessity for any bill mitigation. Going back to 1991, one of the first rate hearings following the introduction of Transportation Service as a service option in Manitoba, the PUB set out its views in Order 156/91 on the context in which customer impacts should be evaluated:

"With respect to the T-Service rates, the Board agrees that in order to properly compare annual energy increases the cost of gas must be considered an integral part of the total annual impact."[2]

Accordingly, for the same timeframes as presented above, Centra has calculated the base rate bill impacts for these three customer classes using the August 1, 2019 Primary Gas rate at 100 per cent of the indicative volumes over all time periods. By using a single cost of gas, the results are not distorted by changes in the cost of gas over time. Once again, the consumption presented is based on load profiles that can be found in the bill impact comparisons in Schedule 11.1.0.

Base Rate Bill Impacts using the August 1, 2019 Primary Gas Rate

	2010	2013	2017	2019
HVF/T-Service	$ 1,117,741	$ 1,135,590	$ 1,103,393	$ 1,149,760
		1.60%	-2.84%	4.20%
Mainline Firm/T-Service	$ 1,713,430	$ 1,773,013	$ 1,707,793	$ 1,759,303
		3.48%	-3.68%	3.02%
Special Contract	[redacted]			

2d

<u>Are the bill impacts in this case so extraordinary that bill mitigation is required?</u>

In Centra’s view, the recent history of rate changes and the bill impacts noted above indicate that bill mitigation measures are not required in this case.

However, and pursuant to the PUB’s direction in Order 98/19, should the PUB conclude that some form of bill relief is to be provided to the Special Contract Class as a result of

[2] Section 17.0 Rate Design, page 82

the bill impacts flowing from Centra's current Application, Centra suggests that such bill mitigation should focus on the gas year deferral balances allocated to this customer class. The bill impacts to the Special Contract Class are made up of a base rate impact of [redacted] and the gas year deferral balances of [redacted] (which are made up 2d, 1e primarily of Heating Value Margin and Unaccounted for Gas deferrals) as shown in Figure 3.4 on page 16 of the Pre-Hearing Update.

Centra suggests that extending the payment terms for collection of the total deferral balances allocated to this customer class would be most appropriate as it results in no adverse impacts to the bill impacts of other customer classes and is administratively simple to implement. Historically, the entire amount of the gas year deferral balances to be billed or refunded to the Special Contract class has been applied to the first bill following the rate change and collected as a lump sum payment. Extending the payment terms for up to 24 months would reduce the annual billed rate impact. For example, if two lump sum payments were billed November 30, 2019 and November 30, 2020, the bill impact for the Special Contract class on a billed rate basis would be reduced from [redacted] (excluding carrying cost, which would have to be borne 2d by the customer class) based on the Special Contract rates alone, or from [redacted] when commodity costs are factored into the impact calculation. Spreading the recovery over 24 monthly payments (including carrying cost) as opposed to annual payments may offer further relief.

If the PUB determines that the bill mitigation required is greater than that suggested above, the next option to be considered would take the form of fewer costs being allocated to this customer class (and reallocated to other classes). Centra is of the view that the option of assigning Heating Value Margin Deferral to each customer class based on non-gas volumetric revenue as discussed by Mr. McLaren on behalf of IGU has merit. While this change could also be considered as part of the generic Cost of Service review contemplated by the PUB, this action could also be taken now in order to provide greater relief to the Special Contract Class at this time.

The results of the allocation of the Heating Value Deferral Account Balance based on Centra's current methodology (shown on line 6) compared to the option noted above (shown on line 9) is provided in the following table:

Centra Gas Manitoba Inc.
2019/20 General Rate Application

										2d	1e
1	Comparison of Allocation of Heating Value Deferral Account Balance for each Gas Year by customer class										
2											
3			Total	SGS	LGS	HVF	ML	INT		SC	PS
4											
5	Heating Value (incl carrying costs) allocated	($)	3,859,713	1,253,019	995,043	391,710	276,483	86,010		[redacted]	[redacted]
6	based on each class volumes	(%)	100%	32%	26%	10%	7%	2%		[redacted]	[redacted]
7										[redacted]	[redacted]
8	Heating Value (incl carrying costs) allocated	($)	3,859,713	2,755,195	987,609	95,798	7,776	13,336		[redacted]	[redacted]
9	based on each class volumetric revenue	(%)	100%	71%	26%	2%	0.2%	0.3%		[redacted]	[redacted]
10										[redacted]	[redacted]
11	Diferrence between allocation methods ($)	($)	0	1,502,175	7,434	295,913	268,707	72,674		[redacted]	[redacted]

Allocating the Heating Value Margin Deferral based on non-gas volumetric revenues would result in no Heating Value Margin Deferral being allocated to both the Special Contract and the Power Stations classes, and would reduce the balances allocated to all other classes except the SGS class. Based on this allocation methodology, Centra's typical residential customer would experience a billed rate impact for 1 year of $5 or 0.7% related to this change.

Minimum Margin Guarantee

It is not clear to Centra if Ms. Derksen is proposing the re-imposition of the Minimum Margin Guarantee for the Power Stations class, which she describes as an interim offset of transmission related costs, as a bill mitigation measure. If the PUB were to consider this proposal as a means to provide bill mitigation to other customer classes or for any other purpose, customers in the Power Stations class would experience effectively a 500.2% bill increase. For proper comparison purposes to the analysis provided above, if Centra's commodity cost of gas is included in the calculation this increase would be 115.1%. This customer class did not have any notice of such a proposed impact and the issue of bill mitigation for this customer class would clearly become an issue.

3.0 CAPITAL PROJECTS AND PROGRAMS

Centra has produced an abundance of evidence in this proceeding, including responses to two rounds of information requests posed by METSCO, in fully substantiating the need for all of its projects and programs and related expenditures. These projects and programs are required to comply with the myriad of legal requirements Centra is faced with and are fully endorsed by Centra's professional engineering expertise as necessary and required for the continued safe and reliable operation of the natural gas distribution system that is essential for Manitobans. With respect to these matters, Centra's evidence is uncontroverted. No evidence has been produced by METSCO (or any other party to this proceeding) to suggest that Centra's capital expenditures are unnecessary, unreasonable or imprudently incurred.

In its evidence, METSCO suggests that there may be significant opportunities for capital cost forecast reductions. However, when specifically asked by Centra by way of information request, METSCO confirmed that it had no explicit recommendation to cancel any project or for a cost reduction for any of Centra's capital projects or programs for the Test Year. Instead, and while admitting that METSCO has no experience or expertise as natural gas system engineering experts (while also confirming that Centra has specific expertise with respect to the planning, management, and operation of an integrated natural gas distribution system in Manitoba)[3], METSCO simply suggests that it would have been helpful if additional information was provided by Centra as part of this proceeding to further substantiate the need for certain capital projects such as the Portage La Prairie and Steinbach projects.

Centra notes that there was several additional documents referenced in CIJs and relied upon by Centra when considering the need for specific projects. It appears that METSCO failed to take these into account when questioning the robustness of justifications for specific projects. For example, the Provision of Secure Gas Supply-Portage la Prairie CIJ includes the reference to two documents – Evaluation of Secure Gas Supplies in Manitoba (December 12, 2015) and Evaluation of Secure Gas Supply for Portage la Prairie (May 1, 2017). The Steinbach Upgrade-Natural Gas System CIJ references three documents – Steinbach Upgrade (May 6, 2016), 2017 Manitoba Hydro's Natural Gas System Long Term Development Plan and the Gas Planning Criteria Document (2014). Two of the documents were requested and provided (2017 Manitoba Hydro's Natural Gas System Long Term Development Plan and the Gas Planning Criteria Document (2014)). The other three documents provide further details on the value of the Portage la Prairie and Steinbach projects but were not requested for review by METSCO.

[3] Centra/CAC (METSCO)-I-5

3.1 Portage La Prairie Project

As detailed in the Evaluation of Secure Gas Supply for Portage la Prairie (May 1, 2017), the proposed project is required to address two concerns: two parallel pipelines that cannot be operated individually and the installation of a second river crossing with system valving to permit the isolation of both river crossings.

Two 114.3 mm steel transmission pressure pipelines run parallel to each other from the TCPL primary station to the south side of the Assiniboine River. One pipeline was installed in 1957 and the second in 1961. When the second pipeline was installed, there were valves at the north end of the pipelines that would permit the two pipelines to be operated separately. Following river bank movement and erosion, the isolation valves at the river were abandoned and the pipelines were reconnected without the provision of valves. The pipelines can no longer be operated separately with the removal of the valves.

The two pipelines are susceptible to the same under tape corrosion that was found through in-line inspection of the LaSalle pipeline. Performing in-line inspections of the two pipelines would be required to determine whether and to the extent under tape corrosion is present at the approximately 600 pipe joints on the two pipelines, which cost is estimated to be $1.0 to $1.5 million for the two pipelines. Pipeline replacement cost is estimated at $1.2 million for each pipeline. The installation of isolation valves will permit continued operation of the two pipelines without inspection while reducing the potential risk that a single failure could require that the full system that supplies the City of Portage La Prairie to be shut off.

The Assiniboine River channel at Portage la Prairie is actively moving. Since the time of the original installation, this movement has resulted in the abandonment of five pipeline crossings. A geotechnical inspection in 2012 identified ground movement along the pipeline alignment. Monitoring equipment was installed in 2014 and a more detailed monitoring program was initiated. The report titled “Assiniboine River Pipeline Crossing- WCC-0114 (Portage Site 2A) Summary of Slope Movement Observations from 2012 to 2017 (December 14, 2017)” concluded that “it is anticipated that retrogression of the slope movements will eventually impact the pipeline, potentially within the next 5 years.”

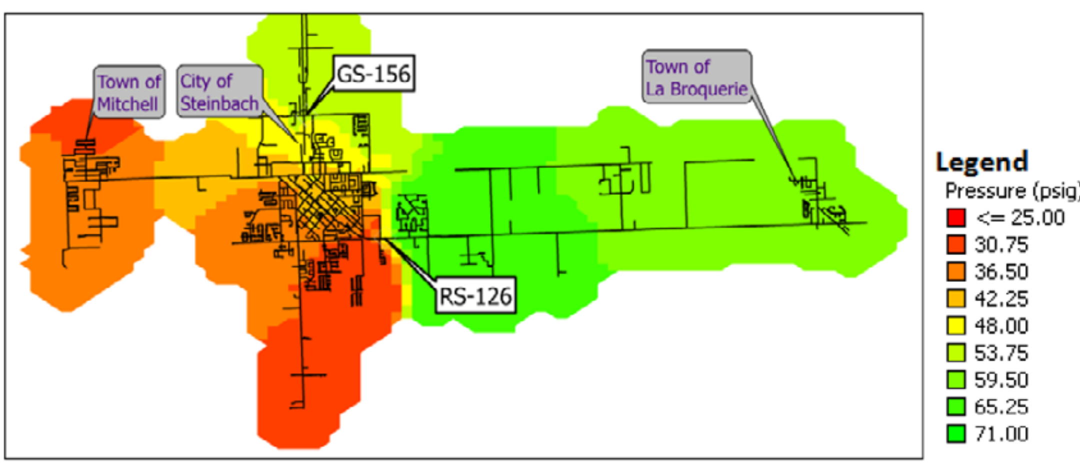
Centra experienced a pipeline water crossing failure in 2011 at the Bunclody Bridge crossing of the Souris River. Fortunately, it was possible to install a temporary pipeline crossing on the nearby bridge before the pipeline failed. It took approximately two months to install the new permanent pipeline. Unfortunately at the Portage la Prairie water crossing, in the event of a pipe failure, there is no nearby bridge to effect similar repairs necessitating the need for this project.

3.2 Steinbach

The Steinbach Upgrade (May 6, 2016) report recommends a second independent feed be installed at an estimated cost of $4.5 million. This addresses both an identified capacity increase requirement and the provision of a second natural gas feed to avoid the potential that a single transmission pressure system failure would result in an outage to the entire Steinbach distribution system.

The cost of providing a secondary feed is $4.5 million. If this work is performed in conjunction with the defined capacity requirement, the premium for the second feed becomes $2.5 million. Consequently, failing to proceed with both projects at the same time results in a lost opportunity and additional cost.

The work included in the scope of the project to provide a second feed includes approximately 6.4 km of 219.1 mm polyethylene main at a value of $1.2 million. This portion of work has direct value to the Steinbach distribution system as it addresses low distribution system pressures and avoids extending and looping pipe from the existing regulation station 5 km miles away. Projects are initiated to improve system pressure based on a 30 psi system threshold. The proposed new second feed is located to the south west of the current system. An excerpt, below, of the "Steinbach Upgrade (May 2016)" provides information on the current performance of the medium pressure distribution system.



<u>Projected Pressures in the Steinbach System for the Year 2018 (excerpt from "Steinbach Upgrade (May 2016)")</u>

The remaining premium to provide the secondary feed is approximately $1.3 million with the benefits of:

- Avoiding a cost of an outage to Centra estimated at $2.3 million
- Avoiding costs of an outage to Centra customers estimated at $5.5 to $8.3 million for a 4 to 6 day outage
- Avoiding damage to the Manitoba Hydro electrical system due to overloading feeders (cost not defined or estimated)
- Avoiding risks to customers associated with alternate heating sources for 4 to 6 days and safety risks to Centra and other personnel responding to the outage

Centra did not establish the probability of failure of the current system supply in the "Steinbach Upgrade (May 2016)". However, Centra applied the Corporate Value Framework to this incremental work on this project to provide a second supply and calculated a score that supports proceeding with the full project.

3.3 System-Wide Risk Assessment and Condition Assessment Reports are Appropriately Used by Centra to Optimize Planned Investments

On page 16, METSCO's evidence incorrectly states: *"Centra's evidence suggests that system wide risk assessment and condition assessment reports presented on record had no bearing on the scope, scale or nature of investments proposed in CEF18, other than to increase the expenditures for obtaining condition information. (Footnote reference to CAC/CENTRA I-38)"*

Centra's Natural Gas System Asset Condition Assessment report (Executive Summary) recommends that for Stations and Control Points Centra should maintain its current inspection, maintenance and replacement activities.

Maintaining the current inspection, maintenance and replacement activities at stations and control points does have a direct bearing on the scope, scale and nature of investments as shown in CEF18 as described in System Betterment- Measurement & Regulator Stations and Gas Apparatus Maintenance & Control programs.

Contrary to METSCO's misunderstanding, the Natural Gas System Asset Condition Assessment report identifies gaps in information needed to make asset condition decisions including asset replacement. Although the maturity of Centra's asset management program is developing, Centra obtains and utilizes quality asset condition information in making and optimizing asset management decisions. The expenditures shown in the referenced CAC/Centra I-38 include ongoing in-line inspection ("ILI") activities while the Asset Condition Assessment report has also resulted in a customer service riser audit.

The ILI program provides detailed direct measurements of key parameters including dents and pipe wall material loss which may contribute to a future leak or pipeline rupture. Results of an ILI inspection can be used as a direct indicator of the need for pipeline replacement or alternatively, if the pipeline remains suitable for continued operation after certain targeted repairs.

By way of an example, the 2018 ILI inspection of the NPS 16 Ile des Chenes pipeline cost $155,000 to perform (after one time pipeline modifications of $793,000 to permit the ILI). The pipeline is 55 years old and is one of three main supplies to the Winnipeg piping system. Replacement cost of the 20 km pipeline is estimated at $15 million. The ILI results indicated that it remains suitable to continue to provide safe and reliable operation, resulting in a deferral of the replacement costs as reflected in CEF18. ILI will be repeated in 10 to 15 years to determine if there is any change in the condition of the Ile des Chenes pipeline necessitating capital expenditures.

Conversely, the ILI performed on the NPS 12 LaSalle pipeline in 2015 identified defects that needed to be repaired before the pipeline could be returned to operation. Two of the defects were external corrosion that could not have been identified by other survey methods.

In addition, based upon the recommendations of the Natural Gas System Asset Condition Assessment, Centra has developed a program for an audit of customer service risers. This audit includes a 29 point inspection of approximately 250,000 service risers for such items as accessibility of shut off valves, compliance with several specific standard requirements and condition factors. A score will be developed for each riser and the scoring will be evaluated in accordance with the "Service Meter set Risk Methodology Version 1 (2019 03 07)" provided to the PUB on July 9, 2019. This audit will identify service risers to be included in Centra's service riser remediation program.

In summary, Centra is completing system wide risk assessment and condition assessment reports and is incorporating the information from these reports in the decision making process regarding the scope, scale and nature of proposed capital investments.

3.4 Centra's Use of Customer Interruption Cost Calculations in CIJs is Appropriate

On page 27, METSCO's evidence states: "*In the case of the Steinbach Upgrade CIJ, the customer interruption cost value estimate used appears to have been sourced from a paper estimating such costs for electrical outages. (Footnote reference: "We suspect that the October 7, 2013 Brattle Group report cited as a sources for load lost value to customers estimate in the Steinbach CIJ (PUB/CENTRA I-73-Attachment, p. 207 of 370) is based on the paper entitled Electrical Reliability, Resiliency, Rates and Region which does not feature any information related to natural gas outage costs.")"*

METSCO's suspicion about the reference to an October 7, 2013 report within the Steinbach Upgrade CIJ is factually incorrect. To clarify, Centra makes reference to "Analysis of Benefits: PSE&G's Energy Strong Program (The Brattle Group; October 7, 2013)". In this report, the Brattle Group reviews the PSE&G Energy Strong proposal for investments of approximately $3.9 billion dollars including $2.8 billion for electrical investments and $1.1 billion for natural gas system investments. As part of their review in this report, the Brattle Group developed average daily values for mitigating outages to residential and commercial/industrial natural gas customers. These values are used by Centra in its CIJs for estimating customer interruption values.

3.5 Capital Expenditure Plans

<u>Reliance on Past Expenditure Levels Is Reasonable and Appropriate given Centra's mandatory legal obligations</u>

On page 29, METSCO's evidence states: "*Significant Reliance on Past Expenditure Levels and Lack of Rigour in Out-Year Forecasting".* As well, it states "*The program CIJs that provide no information on the actual numbers, locations or anticipated condition of units expected to require intervention should be treated with a degree of skepticism."*

METSCO's observations are unfounded and ignore the reality that the vast majority of work performed within Centra's programs are reactive in that they are identified, designed and constructed within a one year period or are required as a part of compliance with industry standards and regulations, as well as customer expectations.

The natural gas system in Manitoba is built and operated under contractual agreements between Centra and individual municipal authorities. These franchise agreements are approved by the Public Utilities Board and establish obligations for the provision of service by Centra, including the requirements for new customer additions and for the relocation of natural gas infrastructure when requested. Centra is fully reactive to requests from customers and municipal authorities where service delivery for some requests are completed in less than two weeks. For 2019/20, the value of the New Business and System Betterment-Relocations programs are $15,840,000, or 40% of Centra's capital budget for the year.

In addition, in accordance with the direction of the PUB, Centra is legally obligated to design, operate and maintain the Manitoba natural gas system to the requirements of CSA Z662 which requires Centra to perform annual Pipeline Integrity activities and other similar checks as a means to identify non-compliant issues which need to be rectified as soon as possible. Similarly, the Meter Compliance Program is performed in accordance with the statutory requirements of *The Electricity and Gas Inspection Act*. The number of annual meter exchanges vary based on sampling performed in accordance with Measurement Canada S-S-06-Sampling Plans of the Inspection of Isolated Lots of Meters in Service.

All of the above factors support the use of past expenditure levels for forecasting purposes. Furthermore, Centra does not solely rely upon past expenditure levels and uses all available information to identify program costs in the near term.

3.6 Asset Investment Plan

METSCO's assertion that Centra does not consider the tradeoffs between capital and maintenance is incorrect and the suggestion of "foregone value gains" is unfounded and not supported by any evidence.

As indicated in the response to PUB/Centra I-66b, there is significant coordination between groups. While Centra is familiar with the concept of optimizing asset life and its determination through asset replacement cost, costs of maintaining and operating the asset and the total business impact of an asset failure, currently large capital expenditures are not being made for the replacement of current assets, nor are there large increases in operating costs. As such, Centra is not incurring value losses with respect to *"tradeoffs between capital and maintenance activities".*

For additional context, 80% of the total system asset replacement costs described in the Natural Gas Asset Condition Assessment relate directly to pipe which has minimal, and well regulated, maintenance requirements. Furthermore, within the Manitoba natural gas system, there are relatively few mechanical components which would benefit from maintenance versus replacement. One of the largest populations is meters which are maintained in accordance with the statutory requirement of *The Electricity and Gas Inspection Act*. Another large population is pressure regulators. While there are over 250,000 residential pressure regulators in service, the current purchase price is $38. With the cost of a service call exceeding the cost of the regulator, Centra combines the replacement of regulators based on age with other work being performed on a customer's service. Other maintenance requirements are specifically identified and driven by the requirements contained in CSA Z662 Oil and Gas Pipeline Systems including corrosion control, leak detecting, damage prevention programs and a large scope of investigation and survey activities covered within a required pipeline integrity program.

Centra's professional and technical experts will continue to actively evaluate options between maintenance and replacement of certain assets based upon its existing operating obligations and limited mix of assets.

3.7 Annual Target Variance

On page 44, METSCO's evidence states: "*Concluding our discussion on the general lack of evidence to support a contention that Centra's planning and management practices reflect an adequate rigour and discipline is our position on the issue of Target Variances, which we see as another example of suboptimal cost management discipline. In METSCO's opinion, the Applicant's ability to rely on a 10% hedge on either side of its capital project completion targets may entail an appropriate cost management practice.*"

Centra strives to be transparent in the communication of capital requirements for all programs and projects to the PUB and others while defining the actual total capital requirements. Centra's annual Target Adjustment is utilized to adjust forecasted capital spending to Corporate approved targets to account for year to year variations in the roll up of program spending and in the recognition that external factors (contractor availability, procurement of property, and external approvals) can affect project delivery and total spending *(Page 11, Natural Gas Asset Management Capital Investment Plan 2018-23).*

The annual Target Adjustment is used to define the total capital requirement that is the input into customer rates and is appropriate as it reflects the inherent variance associated with being reactive to certain immediate requirements and other external factors that are beyond Centra's control.

3.8 Continuous Improvement

On page 43, METSCO's evidence states: "*In our view, Centra's evidence is largely devoid of examples that showcase organizational introspection driven by the objectives of continuous improvement and maximizing the value of inputs used to deliver the organization's core service outputs.*"

Centra observes that METSCO did not ask any specific information request of Centra with respect to Centra's continuous improvement. As discussed throughout the Application and various IRs, Centra is in the midst of maturing its asset management initiatives and transitioning to the use of Copperleaf C55 and the application of the Corporate Value Framework. Further, in its response to METSCO/Centra I-2, METSCO stated it was aware of Centra's requirement to comply with the Safety and Loss Management requirements of CSA Z662-2015. Given that awareness, and that continuous improvement is deeply embedded in the Safety and Loss Management framework, METSCO should have been aware that continuous improvement was embedded in Centra's management practices.

Additionally, improvements have been implemented and are planned in the following areas:

- Supply Chain Management:
  - Review and revision of tendering practices and specifications to move to more open, competitive tenders
  - Review historic base business contract areas and revise to provide improved customer service and improved competition. Work with contractors to identify and address opportunities for improvement
- Development of a "Developers Choice" program that will permit residential developers to design and construct natural gas utilities in their developments
- Revision to project tracking systems, customer service application systems and progress towards electronic issue of work packages to contractors
- Development of CNG compression and transportation capabilities. Utilization of the CNG capabilities in construction and maintenance activities

- Development of the Landmark Pipeline Protocol and the Brandon Pipeline Protocol (in progress) to permit pipelines dedicated to Manitoba Hydro generation facilities to be used to support the natural gas system as required.
- Installation of cathodic rectifier remote monitoring devices to eliminate personnel travel to obtain required data
- Implementation of "Click Before You Dig" as an evolution of "Call Before You Dig" as an enhanced public communication and damage prevention tool

4.0 DEBT MANAGEMENT AND FINANCE EXPENSE

4.1 Increase in Finance Expense and More Aggressive Use of Variable Debt

At page 58 lines 21-25 of his evidence, Mr. Rainkie states: *"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. As such, 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"*.

Centra notes that its response to CAC/Centra II-130 c) provided an illustrative scenario demonstrating the impacts that a 0.50% increase in forecasted interest rates would have on finance expense assuming 20% or 25% floating rate debt in the debt portfolio. The scenario demonstrated that, despite a small increase in the interest rate, the increase in finance expense outweighed the benefit of having higher floating debt balances. The scenario highlights that increasing the amount of floating rate debt in Centra's portfolio decreases the ability to predict finance expense and in turn decreases the ability to predict future customer rate changes.

This outcome should not be surprising. In 2009, at the PUB's direction, Manitoba Hydro engaged National Bank to prepare an independent assessment of its corporate policy for fixed versus floating rate debt. National Bank used an asset/liability management framework to determine the optimal mix of fixed and floating rate debt. This approach seeks to optimize net income by examining revenues and expenses and formulating an optimal mix of fixed and floating rate debt based on reducing the volatility factors affecting the company. It requires identifying the factors that impact operating cash flow and analyzing their correlation with interest rates.

One of the key findings that National Bank identified was the positive correlation between short term and spot export prices and Canadian short term interest rates. After analyzing Manitoba Hydro's revenues, as well as its Canadian crown utility peers', they concluded that as revenues become more dependent on exports, the floating rate debt component becomes more prevalent. The analysis highlighted that each peer carried a floating rate debt component to hedge a portion of the volatility of spot prices (p. 28 National Bank report). Increasing the proportion of floating rate debt in the portfolio can lower risk as short term interest rate risk and short term and spot export revenues move together to a certain extent; helping to stabilize net income (p.33 National Bank report). The peer utilities that had little to no export revenue, had little to no floating interest rate exposure. National Bank's analysis concluded that Manitoba Hydro's current guidance range of 15% to 25% fell within the optimal risk reduction range of 14% to 27%.

Extrapolating the above analysis to Centra demonstrates that Centra is not in a position to take on more floating interest rate risk compared to Manitoba Hydro, especially when considering the fact that Centra only serves the domestic market and changes in gas prices are passed on to customers. This is consistent with the risk profile of Centra given rate increases are predicated on maintaining a stable net income level in the range of $2 to $4 million.

4.2 Ultra-Long Debt Issuance and the Lower Proportion of Centra's Debt Portfolio that Matures in Over 20 Years

At page 58 lines 26-30 of his evidence, Mr. Rainkie states: *"The size and infrequency of Centra debt issues are noted as valid considerations, however, the fairness of the allocation of the benefits of MH's consolidated debt portfolio to both gas and electric customers (including ultra-long debt issues at favourable interest rates) and the concern over the lower proportion of Centra's debt portfolio that matures in over 20 years also bears continuing review and management by Centra."*

Management continually endeavours to provide Centra with debt issues of varied terms and exposures within the parameters of its interest rate risk guidelines and policy. The two most recent debt issues advanced to Centra, which are included in Centra's responses to the updated information requests filed in July 2019, include the following:

- CG23: $20 million advanced on January 25, 2019 maturing December 15, 2022 with a floating rate of 3 month BAs + 0.1750%.
- CG24: $10 million advanced on July 2, 2019 maturing March 5, 2068 with yield rate of 2.619%.

For the three years prior to this most recent fixed rate ultra-long issuance, Centra required floating rate debt (which has tended to be shorter dated) to maintain compliance with the guidelines.

Manitoba Hydro selects terms to maturity throughout the yield curve when it advances long term debt to Centra to create a smooth debt maturity schedule to limit refinancing risk. For Centra, management reserves the short end of the yield curve for largely floating rate debt as shorter dated, floating rate debt has a lower margin level than longer dated debt. Centra views shorter dated floating rate debt as more cost effective than longer dated floating rate debt. The longer end of the yield curve is reserved for fixed rate debt to lock in rates to provide stability to the debt portfolio.

The issuance of fixed rate, longer dated debt will serve to decrease the amount of floating rate exposure in the debt portfolio, while the issuance of shorter dated, floating rate debt will serve to reduce both the proportion of the portfolio that matures in over 20 years and the WATM of the debt portfolio. Treasury will continue to work towards extending the WATM of Centra's debt portfolio as long as these issuances provide for compliance with the interest rate risk policy and guidelines.

Given the smaller size of Centra's long term debt issues and the infrequency with which Centra issues long term debt, it would not be able to increase both the WATM of the debt portfolio and the amount of floating rate debt in the debt portfolio in a cost effective manner at the same time.

4.3 Seasonal Working Capital Requirements

At page 58 lines 14-20 of his evidence, Mr. Rainkie states: "*The stated purpose of the short-term debt advances is to "fund seasonal working capital requirements and to bridge the timing between long term debt issues*" *(PUB/Centra I-47 (b)). These 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 managing the aggregate of variable rate debt and targeting the appropriate or optimal positioning in the 15% to 25% policy guideline".*

The growth in the short-term debt balance typically peaks in November/ December in each of the forecast years. This growth is both a result of seasonal working capital requirements and capital expenditures. To be clear, the reduction in the short-term debt balance at March 31 in each forecast year is largely due to the forecast issuance of capital-related long term debt in March of each fiscal year. Generally, approximately \$20 - \$30 million is kept in the short term facility year round for working capital purposes. In November/December, at the peak of the seasonal requirements, approximately \$20 million in additional short term debt is projected for working capital purposes in CGM18. There is interest rate risk associated with these seasonal working capital amounts. An increase in variable interest rates will increase finance expense regardless of whether the short term debt is outstanding all year or for a portion of the year. Centra believes that it is appropriate to 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. However, as Centra applies the interest rate risk policy and guidelines to the debt portfolio at March 31 of each year, the seasonal working capital requirements are not included in the compliance calculations.

5.0 REVENUE REQUIREMENT

5.1 Operating & Administrative Expenses

Page 49 of Mr. Rainkie's evidence recommends that the PUB reduce Centra's Operating & Administrative (O&A) 2019/20 target for rate setting purposes by \$5 million to reflect an adjustment for the allocation of Voluntary Departure Program ("VDP") and supply chain savings of \$2.7 million, a decrease in the escalation assumption to 1% for both 2018/19 and 2019/20 for a cumulative reduction of \$1.2 million, and the removal of a contingency of \$1.1 million. In addition, on page 45 Mr. Rainkie makes the assumption that the 2019/20 O&A target was set prior to the VDP transition and is outdated.

Mr. Rainkie's assumption that the 2019/20 O&A target of \$61.25 million is outdated is incorrect. Centra reviews its O&A target on an annual basis as part of the development of the annual budget. The corporation considers the upcoming business requirements and the level of resourcing required when confirming or establishing the annual targets. In the fall of 2018, the target of \$61.25 million was revalidated with the only significant change identified being the additional meter reading expenditures from

MHUS of $524K (discussed on page 3 of Appendix 5.9). It was determined that these additional expenditures could be managed within the target of $61.25 million given the trend of lower program costs primarily due to the impacts of the VDP.

Mr. Rainkie's recommendation to reduce the O&A target for rate setting purposes completely ignores the reality that Centra actually operates within. Mr. Rainkie's recommendation means an **overall reduction of 8%** to the programs and services provided by Centra to its customers. In his evidence, Mr. Rainkie makes no mention as to which programs/services should be reduced or the corresponding impact to customers of any such reduction. As discussed by Mr. Rainkie on page 47, the majority of the O&A costs are activity charges and as such, a reduction of 8% would result in fewer resources allocating their time to the gas operations. A $5 million reduction achieved through lower activity charges would result in a reduction of approximately 59 000 straight time hours or 12% of the approximate 500,000 hours forecast for 2019/20. This would equate to a reduction of approximately 40 staff and in addition, would have an offsetting cost (workforce adjustment) impact to Centra in 2019/20.

A reduction of this magnitude also appears to be contrary to the statement made by Mr. Rainkie on page 26: "*There will always be expectations of on-going active cost control by a publicly owned regulated monopoly like Centra, but it cannot be assumed that a broad-based VDP will occur again the near future.*" An 8% reduction in O&A costs as suggested by Mr. Rainkie is well beyond active cost control and as noted above would have significant staffing and corresponding service level implications, especially so given the recent VDP.

The following provides additional comments with respect to the individual recommendations made on pages 49 and 50 by Mr. Rainkie:

1. Allocation of VDP and Supply Chain savings of 8% rather than the 4% used by Centra

   Contrary to Mr. Rainkie's comments on page 47, the 4% allocation is appropriate. The 4% is a general driver that represents the relative size of the electric and gas utility. The VDP was a corporate wide offering to all Manitoba Hydro staff, regardless of their age, jurisdiction, years of service, etc. The 8% allocation suggested by Mr. Rainkie represents labour costs that are directly charged to Centra through the timecard process and does not include labour costs applied through other allocators such as overhead and system postings. For example, the labour costs of staff in the Accounts Payable function are allocated to Centra through overhead. As such, without knowing the full impact of the VDP, it was deemed that a general driver based upon the size of each utility (4% Gas; 96% Electric) was the most appropriate allocator for the savings associated with the VDP. The 4% general allocator is also appropriate for supply chain savings given the savings impact all aspects of the business across both electric and gas segments.

In addition, at the 2019/20 Electric Rate Application Mr. Rainkie did not express any concerns with the allocation of savings of 96% to Manitoba Hydro. A higher level of savings allocated to Centra would require a lower level of savings to be allocated to Manitoba Hydro; the two are not mutually exclusive.

2. Adjust the escalation assumptions in 2018/19 and 2019/20 to 1%

A 1% escalation factor had initially been assumed in CGM15 as a cost control mechanism. At the time, the 1% escalation factor was to be achieved through reductions of staff primarily through attrition over the period 2015/16 through to 2021/22 with a return to inflationary increases in 2022/23. In late 2016, Manitoba Hydro made a decision to advance the staffing reductions through the VDP, thus advancing the O&A savings. As shown in the table below, the impact to Centra was a reduction of O&A expenditures by $2 million and $5 million in 2016/17 and 2017/18 respectively.

CENTRA GAS MANITOBA INC.
O&A ACTUAL PERFORMANCE TO CGM 15
(in millions)

	2015/16	2016/17	2017/18
CGM15	67	68	69
Actuals	67	65	63
(Decrease) from CGM15	**(0)**	**(2)**	**(5)**

As highlighted in the table below, as well as in the response to CAC/MH II-133 g), the decision to advance the staff reductions has resulted in further O&A savings for Centra in CGM18 of approximately $9 million per year beginning 2019/20 as compared to the CGM15 plan.

CENTRA GAS MANITOBA INC.
O&A FORECAST COMPARISON
(in millions)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	10 Year
CGM15	69	70	71	71	73	74	76	77	79	80	739
CGM18	63	61	62	63	64	65	66	68	69	70	651
(Decrease) from CGM15	**(6)**	**(9)**	**(9)**	**(9)**	**(9)**	**(9)**	**(9)**	**(10)**	**(10)**	**(10)**	**(88)**

Given ongoing cost pressures associated with wage settlements, increases in costs for material & maintenance services and higher vehicle fuel costs, a 1% escalation factor cannot be achieved without further reductions to the hours charged to Centra programs and ultimately reduced staffing levels for Manitoba Hydro. Mr. Rainkie's recommendation on page 48 to apply a 1% escalation factor results in Centra's O&A target being reduced by $1.2 million in 2019/20 and would equate to a further reduction of approximately 14,200 hours. Combined with the reductions already in place, further reductions may increase the risk associated with public and employee safety, system reliability and Centra's ability to provide reasonable levels of customer service.

In Mr. Rainkie's response to PUB/CAC(Rainkie-12) he states: "*In the event that MH is unable to manage its O&A cost within the 1% escalation factor, then a discrete adjustment to the O&A costs that are allocated to Centra through the ICAM would have to be made for rate-setting purposes*." Mr. Rainkie's response does not properly account for the fact that an adjustment for rate setting purposes would prevent Centra from recovering its actual O&A costs through rates charged to customers. If this concept continues to be applied into the future, it could result in net losses or additional debt to fund the expenditures.

3. Reduce the O&A target to remove the positive contingency of $1.059 million

The use of a contingency is appropriate and a necessary part of the budgeting process. Its purpose is to capture differences between a high level target established by Executive and the detailed budget requirements of individual programs identified prior to the start of the fiscal year. Over the course of the year, the requirements as identified in the budget may change as a result of customer requirements, circumstances, and business priorities. Although the details within O&A programs may change, Centra is committed to managing within its approved target.

On July 24th, Centra filed its updated detailed O&A budget for the 2019/20 fiscal year. Centra's overall O&A target for 2019/20 remains unchanged at $61.2 million, consistent with the original Application and the Supplement to the Application filed on March 22, 2019. The detailed budget submitted on July 24th reflects current requirements for each program including internal labour, materials, external contractors and other cost components. This has resulted in Centra reflecting a negative contingency of approximately $600K which will be managed over the 2019/20 fiscal year to meet the approved target. The current budget reflects changes in various programs with the most notable increases in the customer inspection and environment programs.

It would also seem logical that considering Mr. Rainkie's suggestion that a positive contingency should result in a decrease to the O&A target, a negative contingency should be treated in a similar manner and could result in an increase to the O&A target for rate setting purposes if the planned program expenditures are justified. Just as Centra rejects the idea that a positive contingency should result in an O&A decrease, Centra does not believe that a negative contingency should result in an O&A increase. Rather in both cases, management's role is to manage to the target that has been established.

5.2 Cumulative Profit Adjustment for Meter Exchange Activities

Page 35 of Mr. Rainkie's evidence includes the following recommendation: "*…that the PUB direct Centra to include the cumulative profit adjustment of $15.3 million related to the capitalization of Gas meter exchange labour from 2014/15 to 2018/19 to be part of the financial reserves for rate setting purposes.*"

Centra does not agree with Mr. Rainkie's recommendation as the costs associated with the meter exchange program have already been included in revenue requirement and as a result have been recovered through the rates charged to customers through to 2018/19.

It is not clear if Mr. Rainkie is suggesting a further rate reduction in 2019/20 in recognition of higher retained earnings. If so, then rates would subsequently need to be increased and rate payers charged for the same cost through the future amortization of a regulatory asset, recorded through net movement and recovered in revenue requirement. Alternatively, if Mr. Rainkie is suggesting lower future rate increases, Centra may incur losses as the full revenue requirement would not be recovered through rates. The recommendation by Mr. Rainkie adds unnecessary complexity and confusion for all parties including its customers and the readers of Centra's financial statements.

Centra is requesting the PUB's endorsement for the capitalization of the meter exchange costs on a go forward basis effective April 1, 2019. It is noted that beginning in 2019/20 the cumulative adjustment balance (i.e. $15.3 million) on the consolidated books of Manitoba Hydro will naturally unwind as it assumed to be amortized over a 10 year period aligned with the life of the asset.

5.3 Accounting Treatment for Meter Verification and In-Line Inspection costs

METSCO states Centra is capitalizing the cost of inline inspections and meter verifications due to inability to manage O&A costs.

METSCO states on page 43 the following:

"*We were, however, interested to understand the managerial reasons that drove Centra to make this decision at this juncture.";* and

"While we suspect that the decision to capitalize these two types of expenditure categories were driven by the Applicant's inability to effectively manage its O&A expenditures…"

Centra disagrees with METSCO's statement that decisions with respect to the accounting treatment of expenditures (i.e. capital vs expense) are managerial decisions. Management is responsible to identify the work requirements and the execution of the work (e.g. internal labour vs contracted services). Decisions to capitalize or expense are driven by accounting standards and are the responsibility of the corporation's financial division, along with its external auditors. The response to CAC/Centra I-81a provides a discussion on the accounting considerations for capitalization of meter testing costs.

6.0 TRANSPORTATION SERVICE BALANCING FEES

6.1 The Need for Change Has Been Acknowledged, But There is No Consensus on the Form of Any Alternative

The evidence in support of the need for change to Centra's balancing fee structure is as follows:

- Mr. Labonte states that he *understands Centra's requirement to tighten daily imbalance tolerances and to set a balancing fee structure with a tighter band than +/- 2,000 GJ*.[4]
- The evidence of Rainkie-Derksen on behalf of CAC is that *Centra appears to be facing at least a couple of issues, including that the current application of balancing fees is not adequately incenting customer behaviour, which is resulting in cost incurrence or lowering capacity management revenue, both of which are impacting sales customers.*[5]

When it comes to the form of any alternative to Centra's proposal, however, there is no consensus, and most notably no consensus among the evidence filed on behalf of IGU:

- Mr. Labonte advocates for an absolute daily tolerance of +/- 500 GJ for all T-Service shippers.[6]
- Mr. Brown proposes that Centra should retain its current balancing process and fees, yet also suggests that fees collected should be paid back to T-Service shippers, with the largest payments made to *the lowest imbalance (as a percentage of volume delivered) customers within defined time periods*.[7]
- Mr. McLaren provides no alternative, rather suggests[8] that the Board may wish to consider the following:
    - directing further consultation with customers (i.e., spend more time and resources on this matter);

[4] Evidence of Mr. Labonte, Q&A 15.
[5] Centra/Rainkie-Derksen I-6, page 9 of 13
[6] PUB/IGU-Labonte-6 c), lines 80-81.
[7] Evidence of Mr. Brown, Q&A 10.
[8] Evidence of Mr. McLaren, section 4.4, page 14 of 19.

- phasing in the balancing fee structure more gradually (i.e., ignore that Centra has provided monthly pro-forma balancing reporting to T-Service shippers since 2016, while also mitigating the proposed fees by 50%; and
- capping the charges to the amount Centra actually incurs in balancing charges (i.e., ignore Centra's evidence of the indirect costs it incurs as a result of T-Service imbalances, currently paid for by Sales Service customers).

This variation in the preferred form of alternative to Centra's proposal is natural, given that these entities or their clients have a vested commercial interest in the outcome of this matter. Centra's only interest, on the other hand, is:

- To discharge its onus as the local distribution company ("LDC") and Downstream Operator ("DSO")[9] in Manitoba; and
- To ensure fairness amongst its customers, in this case by mitigating the current cross-subsidization of T-Service customers by Sales Service customers through the introduction of an appropriate incentive mechanism for T-Service shippers to balance their accounts on a daily and intra-day basis.

In addition to the current disagreement amongst interveners as detailed above, Centra heard varying and conflicting views from T-Service shippers throughout its consultation process. Centra's proposal incorporates feedback from T-Service shippers and their nominating agents, but it is simply not possible to meet every stakeholder's individual preference(s). As such, Centra disagrees with Mr. McLaren's suggestion that further consultation is required.

Centra's current balancing fee proposal was developed through its consultation efforts, demonstrating that the proposal is not arbitrary. Also, Centra's evidence[10] relays that its proposal is logically based on the TCPL Mainline's NEB-approved balancing fee structure, because that pipeline physically transports all natural gas supplies consumed in Centra's service territory. This is another reason why Centra's proposal is not arbitrary, rather an adaptation of the most relevant balancing fee structure for Centra and its customers.

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[9] The Downstream Operator (DSO) is the shipper on the TCPL Mainline responsible for balancing all shippers in a Mainline delivery area (such as Centra MDA) and is typically an LDC.

[10] Centra Application, Tab 12, page 1 (lines 32-34) to page 2 (lines 1-9), and page 5 (lines 32-34) to page 6 (lines 1-5); PUB/Centra I-149(c); IGU/Centra I-24(e).

6.2 Response to Proposed Alternatives

Mr. Labonte's suggestion that all T-Service shippers in Manitoba be afforded a daily tolerance of +/- 500 GJ would be unfair given the wide variation in their daily consumption, and inconsistent with the need to incent balancing given the relatively small consumption of a number of T-Service shippers in Manitoba. If Centra's 15 T-Service shippers were each afforded a daily tolerance of +/- 500 GJ, they could accumulate imbalances totaling 7,500 GJ, when Centra's tolerance is as low as 2,111 GJ for the entire Manitoba Delivery Area (including T-Service shippers and over 285,000 Sales Service customers). This demonstrates why Mr. Labonte's proposal is without any merit.

Mr. Brown's preference for T-Service shippers to receive payments related to balancing performance would be ineffective and unnecessary. The "proceeds" available to be paid to a particular T-Service shipper would vary depending on the total fees collected from all T-Service shippers, resulting in a distorted and thus ineffective price signal. Under Centra's proposal, the best performing T-Service shippers will incur the lowest fees on a relative basis, thereby providing a more direct and appropriate incentive than payments. Also, payments would introduce another layer of administrative effort and complexity for Centra in facilitating T-Service, which would be contrary to the objective of lessening the cross-subsidization of T-Service customers by Sales Service customers.

Centra also disagrees with Mr. Labonte's criticism of the adjustments made by Centra to its proposal over time.[11] Mr. Labonte inferred either that changes were made by Centra to its balancing fee proposal with insufficient communication with T-Service shippers (which is incorrect) or that modifying the proposal was somehow inappropriate. The very essence of consultation is to listen to feedback and be prepared to alter the original concept or proposal. This was done by Centra in response to feedback received directly from T-Service shippers after its 2016 presentation on balancing fees. Centra revised the proposed shipper tolerances from 2% of daily consumption to absolute daily and cumulative tolerances representative of shippers' relative consumption. In fact, the introduction of absolute daily and cumulative tolerances in Centra's proposal was in *direct* response to Mr. Labonte's requests in Centra's consultation process. More recent changes made to the daily and cumulative tolerances were a result of an annual review of T-Service shippers' average daily

[11] PUB/IGU-Labonte-6, page 2 of 3, lines 59-62, and page 3 of 3, lines 63-79.

consumption, to ensure that tolerances reflect current information. These changes were implemented at the start of the most recent Gas Year (i.e. November 1, 2018), and if changes were warranted, the changes were communicated to T-Service shippers and nominating agents, including Mr. Labonte.

6.3 There is No Industry Standard Regarding Balancing Fees

In his pre-filed evidence, Mr. Labonte expresses his opposition to Centra's balancing fee proposal on the basis that it does not conform to *industry standards*.[12] However, Mr. Labonte is unable to specify any such standards in his evidence, rather he references a mix of approaches found in jurisdictions that are situated much differently than Centra, including those with significant local storage (unlike Centra's remote storage), multiple major transportation pipelines within and/or at its borders (unlike Centra's captivity to the TCPL Mainline), or both.[13] Notably, Mr. Labonte does not reference the TCPL Mainline, the only gas transportation pipeline traversing Manitoba and the pipeline that actually imposes balancing fees on Centra.

There is neither a governing body for pipeline balancing fees nor an industry standard. The North American Energy Standards Board (NAESB) governs a number of energy industry standards including nomination windows but does not establish any standard for balancing fee tolerances or "trading of imbalances". Rather, the establishment of balancing fees is left for each jurisdiction to design to align with how it is uniquely situated, including its specific operating conditions.

6.4 T-Service is an Elective Service in Manitoba that Includes Important Obligations

In Manitoba, T-Service shippers are to manage their own transportation and storage assets, just as Centra manages its transportation and storage assets on behalf of the Sales Service customers who pay for them. However, in discussing the options available to "avoid balancing fees," Mr. Brown on behalf of IGU states, *Very few options on the Centra system allow a customer to manage its imbalances. The primary tools available are on assets (pipeline, storage) off the Centra system.*[14] He later claims that *Centra does not have storage available to its customers.*[15] These statements suggest that Centra should use assets for which it contracts on behalf of Sales Service customers

[12] Evidence of Mr. Labonte, Q&A 12.
[13] Evidence of Mr. Labonte, Q&A 14. As examples, both Alberta and Saskatchewan have major storage and transportation pipeline facilities.
[14] Evidence of Mr. Brown, Q&A 11.
[15] Ibid, Q&A 19.

(such as storage), for the benefit of T-Service shippers such that they can avoid using pipeline and storage services in the existing gas market. To be clear, Centra's remote storage should not be available to T-Service shippers because they do not contribute to storage and related transportation costs. Currently however, because of the lack of a balancing fee structure that provides the necessary incentive for T-Service shippers to balance their accounts, T-Service shippers are inappropriately accessing Centra's storage when Centra, as the DSO, has to respond to their imbalances and use its storage flexibility to balance the Manitoba delivery areas.

Another fundamental misunderstanding of T-Service in IGU's evidence and IR responses is the suggestion that changes to the current balancing fee structure should be accompanied by special markets and new services created by Centra to help T-Service shippers manage their gas supply. However, T-Service shippers in Manitoba are obligated to manage their own gas supply, and in any event market options already exist to assist T-Service shippers as discussed in the following sections.

6.5 No Special Market Needs to be Created for T-Service Shippers

The IR responses of Mr. Brown and Mr. Labonte suggest that Centra should expand its mandate and create a special market or suite of services for T-Service shippers to manage their gas supply and imbalances. While Mr. Brown suggests that KCES requires Centra to give it tools, he acknowledges that he *has not proposed a specific mechanism at this time for T-Service customers to trade imbalances*.[16] Mr. Labonte suggests that if his proposed tolerance band is rejected, it will be necessary for *Centra to develop tools to enable T-Service customers to offset imbalances prior to assessment of fees by Centra.*[17]

<u>Centra is not a transportation pipeline company</u> that offers either point-to-point transportation or market transaction services between shippers. Rather, <u>Centra is an LDC that is a *customer* of such pipelines</u>, in order to distribute gas from the transportation pipeline (e.g., the TCPL Mainline) to homes, schools, hospitals, and other customers. Centra's mandate is to provide reliable supply and distribution to customers, not to create special transportation or trading markets for 15 of its over 285,000 customers that have elected to participate in the existing gas market as T-Service shippers.

[16] PUB/IGU-Brown-10 c).
[17] PUB/IGU-Labonte-6 c), lines 83-84.

Centra notes that various options are already available to T-Service shippers in existing gas markets, including:

- Obtain supply contracts with the daily and intra-day flexibility to increase or decrease nominated gas volumes when short or long supply. Centra obtains all necessary flexibility in its supply contracts.
- Buy or sell gas in existing markets when short or long supply. When necessary, Centra executes such transactions.
- Withdraw gas from, or inject gas into, storage when short or long supply. Centra contracts for storage and related transportation in order to make such gas withdrawals and injections.
- Execute park and loan transactions with interprovincial or interstate pipelines when long or short supply. Centra executes such transactions if necessary or optimal.

All of these are common gas market options available to shippers using interprovincial or interstate transportation pipelines throughout North America. As T-Service shippers are responsible for obtaining their own TCPL Mainline transportation capacity to Manitoba, all of the above options are available to T-Service shippers from 1) the many gas marketers and other shippers on the TCPL Mainline; 2) major gas exchanges (such as ICE NGX) that facilitate electronic trading at hubs such as AECO/NIT, Empress, Emerson, Dawn and many others; and 3) from the TCPL Mainline itself (in the case of parks and loans). Use of these market tools can significantly mitigate a shipper's exposure to balancing fees, but rationally may not be used in the absence of a sufficient incentive to balance, which is the case today in Manitoba.

The options noted above are not free and provide no guaranty of the related transactions being profitable. However, this is the nature of the natural gas markets in which T-Service shippers have elected to participate. While it is rational for Mr. Brown and Mr. Labonte, on behalf of a limited number of T-Service shippers, to advocate for Centra to create special markets or services to enable them to avoid having to transact in the existing market thereby shedding the associated risks of doing so, it is neither fair nor appropriate when Centra as a shipper to Manitoba faces the same challenges and must rely on the existing gas market on behalf of Sales Service customers. This problem is demonstrated by Mr. Brown's evidence, in which he states he is willing to engage in transactions in existing markets if the price is right: *When it is economical to* *move gas to alternate locations, KCES tries to work within the constraints to make that work.*[18]

6.6 TCPL Does Not Allow the Trading of Imbalances (Contrary to Mr. Brown's Evidence)

When asked by the Board whether shippers are permitted by TCPL to trade imbalances, Mr. Brown responded:

Yes, TCPL does have a number of active and liquid trading points that allow for shippers to manage their balances on a daily basis. If Centra had the same option, then parties on Centra could manage their imbalances more effectively on the Centra system.[19]

The response of "yes" to the Board's question is inaccurate. The TCPL Mainline <u>does not</u> allow for the trading of imbalances among shippers that are subject to TCPL balancing fees. A couple of examples will make this very clear. If at the end of a gas day, Centra has a *pack* imbalance of 10,000 GJ and Enbridge, the neighbouring LDC and DSO in Northwestern Ontario, has an opposing *draft* imbalance of 10,000 GJ, the TCPL Mainline does not allow Centra and Enbridge to net these or "trade their imbalances" in order to avoid paying balancing fees. In fact, Centra cannot even net or "trade its imbalances" <u>with itself</u> on the TCPL Mainline. Centra has two TCPL Mainline delivery areas for which it is the DSO: Centra MDA and Centra SSDA. Just as Centra cannot trade imbalances at the end of a gas day with Enbridge (or Energir in Quebec, or any other Mainline DSO), Centra cannot trade imbalances between its MDA and SSDA delivery areas to avoid balancing fees. Neither can Centra "pool" its two delivery areas together (MDA and SSDA) for any purpose.

To be clear, the TCPL Mainline does not provide any special system or market whereby Centra can trade its imbalances to avoid TCPL Mainline balancing fees. While the TCPL Mainline, as one of the largest transportation pipelines in North America, does have several trading hubs on its system, these can be used by any Manitoba T-Service shipper, just like Centra. These hubs (such as Empress and Emerson) are part of the existing gas market and provide for regular gas market transactions at regular nomination windows. However, there is no opportunity or ability to "erase" imbalances at the end of a gas day for Centra or T-Service shippers.

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[18] Evidence of Mr. Brown, Q&A 17.

[19] PUB/IGU Brown 10a).

6.7 Centra Does Not in Any Way Restrict Trading Among T-Service Shippers (Contrary to the Claims of Mr. Brown and Mr. Labonte)

By virtue of their election to manage their own supply and transportation arrangements, T-Service shippers participate in the existing gas market and use TCPL Mainline transportation. As discussed above, numerous tools and transactions are available to gas market participants, including gas trading between Manitoba T-Service shippers at the Centra MDA[20] or other TCPL Mainline locations. This can easily be accomplished among T-Service shippers in Manitoba by way of market transactions at standard nomination windows. It is TCPL that facilitates these transactions at the MDA, not Centra, and Centra certainly does not restrict purchases or sales of gas among T-Service shippers at the Centra MDA. Mr. Labonte's claim that Centra *does not allow customers to balance via buys/sells with other shippers*[21] is incorrect.

Mr. Brown illustrates the simplicity of the transactions that may occur between two shippers to the MDA, in this case Centra[22] and KCES:

Centra Gas Manitoba often contacts KCES and other market participants to buy or sell intra-day gas to manage its own imbalances. KCES frequently shows bids for gas that Centra Gas Manitoba needs to take off its system. KCES buys that gas at a market rate depending on ability to move gas to downstream markets. KCES may also sell gas to Centra Gas Manitoba when their load levels are higher than expected. KCES has the ability to move gas to the MDA system[23]*, which we sell at a market based rate. These buys and sells help Centra Gas Manitoba balance their overall system, including Koch Fertilizer's consumption.*[24]

Mr. Brown was asked (among other things), *Are such purchases and sales between customers in the same delivery area possible <u>after the final nomination window closes</u>?* Mr. Brown responded, *<u>Yes</u>, purchases and sales between customers can be used to manage imbalances but ONLY on TCPL, not the Centra system.*[25]

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[20] The Centra MDA is a TCPL Mainline location and delivery area, for which Centra is the designated DSO.
[21] Evidence of Mr. Labonte, Q&A 14, page 7.
[22] Centra routinely executes such transactions with gas marketers and some T-Service shippers.
[23] Note that contrary to Mr. Brown's language, the MDA is not a "system" or a pipeline. It is a location and delivery area on the TCPL Mainline, related to Centra's distribution system which is not a gas market transportation system akin to the TCPL Mainline, GLGT, ANR, etc.
[24] Evidence of Mr. Brown, Q&A 6.
[25] PUB/IGU-Brown-10(d).

The accurate response is negative and would confirm that TCPL does not allow purchases/sales between customers *after* the final nomination window closes, but does permit purchases/sales between customers *during* standard nomination windows. Further, Centra is an LDC rather than a transportation pipeline, and does not facilitate market transactions in duplication of the TCPL Mainline.

While Mr. Brown states that … *KCES only does deals with customers on the TCPL system, not on the Manitoba system*[26], Centra reiterates that T-Service shippers must use the TCPL Mainline to ship gas to Centra's distribution system, and the deals Mr. Brown references can be executed at the Centra MDA which is a TCPL Mainline location. Accordingly, KCES has access to transactions with all Manitoba shippers on the TCPL Mainline (i.e., Centra and all T-Service shippers), and there is no need for Centra to facilitate parallel transactions "on the Manitoba system". This would be entirely duplicative and would drive Centra to incur even more costs in facilitating T-Service for 15 customers.

What Mr. Brown and Mr. Labonte appear to be suggesting is that Centra should create a special market that allows for after-the-fact "trading of imbalances", which would necessarily occur:

- After the completion of the gas day (i.e. after an imbalance has already occurred)
- Outside of the existing gas market facilitated by the TCPL Mainline and other transportation pipelines.

A special market of this nature would be inefficient, would not provide appropriate price signals, and would not align with the premise of T-Service which is for T-Service shippers to manage their own supply, transportation, and storage arrangements. No shipper has access to a "time machine" to erase their TCPL Mainline imbalances once they've already occurred, rather they must proactively ensure they have sufficient portfolio flexibility and options – and pay for them - to minimize their balancing fees using the existing gas market.

[26] PUB/IGU-Brown-13.

Although Centra is not prepared to create a special market for T-Service shippers, it is willing to facilitate the exchange of contact information between T-Service shippers in Manitoba who currently do not transact with each other at the MDA.

6.8 Centra Faces the Same Market Challenges as T-Service Shippers When Attempting to Balance Supply and Demand

Mr. Brown describes a number of challenges he faces in the market with respect to balancing supply and demand. These include:

- Having to *park or borrow gas for a fee upstream of Centra's pipeline to manage an imbalance*.[27]
- *Gas shippers to Centra become constrained by the intra-day EPSQ.*[28]
- *The restrictions on upstream pipelines and in the market can be challenging.*[29]
- Having to face a *variety of rules and procedures* due to use of *multiple pipelines*.[30]

What Mr. Brown fails to acknowledge is that Centra faces all of the same challenges in the gas market. Both Centra and KCES are shippers on the TCPL Mainline and other pipelines, and Centra also: pays fees to park and borrow gas on a pipeline; is impacted by EPSQ[31]; contends with restrictions on pipelines; and faces a variety of rules and procedures on multiple pipelines[32]. Centra incurs significant supply, transportation, and storage costs on behalf of Sales Services customers to ensure it has the necessary services and flexibility to manage these challenges in the existing gas market.

Mr. Brown indicated[33] that KCES and its American affiliate contract for significant storage and transportation services in the existing gas market. This includes storage at AECO (Alberta) and Dawn (Ontario) in Canada and with ANR in Michigan, and many major pipelines in the US including those that interconnect with the TCPL Mainline at Emerson (GLGT and Viking). From Emerson, shippers into the US can access high-

[27] Evidence of Mr. Brown, Q&A 15.
[28] Ibid.
[29] Ibid, Q&A 17.
[30] Ibid, Q&A 18.
[31] As per PUB/IGU-Brown-8 b) and Centra/IGU-Brown-I-3, EPSQ is imposed by transportation pipelines like TCPL, ANR, and GLGT, not by Centra as an LDC. Centra is subject to pipeline EPSQ.
[32] As an example, the nomination challenges described in PUB/IGU-Brown-8 a) lines 19-24 are the same challenges faced by Centra as a shipper using multiple pipelines.
[33] Centra/IGU-Brown-I-2, b) and d).

demand gas markets such as Minnesota, Wisconsin, Michigan, Chicago, Dawn, and others. As a TCPL Mainline FT shipper, KCES can buy or sell gas at the MDA (independently of Centra or in transactions with Centra), and can use Mainline diversions to deliver gas to Mainline hubs such as Dawn, Emerson, or any other export points where the Mainline interconnects with many US pipelines[34]. Accordingly, KCES has many options in the market to move gas to balance supply and demand, but may prefer, for economic reasons, to have a special market or service created and administered by Centra to avoid having to do so, as balancing may at times require foregoing more lucrative market transactions.

Mr. Brown stated that *when it is economical* *to move gas to alternate locations, KCES tries to work within the constraints to make that work*.[35] (emphasis added) Centra acknowledges that obtaining more supply or reducing supply to match supply and demand is not always "economical", but it is nonetheless imperative for shippers to operate responsibly in balancing the loads they serve, consistent with their obligations under the Special Terms and Conditions for T-Service.

6.9 T-Service Imbalances in Manitoba Will Not Generally Offset Each Other Such that Centra Would be Unaffected on Net Basis (Contrary to Mr. Labonte's assumption)

Mr. Labonte states in his evidence that *likely offsets between the accounts could lead to additional revenues for Centra Gas over the aggregate charges from TransCanada.*[36] This statement is incorrect and flawed for the following reasons:

- *Weather*. If weather is playing a significant role in causing mismatches of supply and demand, multiple T-Service shippers are likely to be similarly affected as all T-Service shippers are located in southern Manitoba. There is generally little variation in broad weather patterns across southern Manitoba, and most variation is simply a matter of timing as a weather systems move across southern Manitoba over the course of a day. Accordingly, weather is likely to have either a draft or pack effect (not both) on T-Service shippers such that they don't offset each other.

[34] Mr. Brown confirms his use of export points in response to PUB/IGU-Brown-8(a) line 14 in which he specifies his use of nomination windows for FERC pipelines (i.e. in the US under FERC jurisdiction).
[35] Evidence of Mr. Brown, Q&A 17.
[36] Evidence of Mr. Labonte, Q&A 10.

- *Plant-specific upsets*. If one plant has an equipment failure resulting in a pack, there is no logical reason why this would be offset by other T-Service shippers drafting.
- *Market conditions*. If market conditions make either obtaining more supply or reducing supply challenging, this is likely to affect all T-Service shippers in the same directional manner (either a pack or draft, not both).

Centra further notes that as a shipper to the MDA, Centra faces the *same challenges concurrently* with T-Service shippers in balancing supply and demand in relation to issues like market conditions and southern Manitoba weather, further reducing the likelihood of beneficial offsets among all shippers to the MDA (i.e., Centra and T-Service shippers).