Centra Gas Manitoba Inc.

2019/20 General Rate Application

Oral Argument

Manitoba Hydro

Road Map

- Overview of Application
- Approach to Reviewing this Application
- Operating and Administrative Expenses
- Capital Projects and Programs
- Cost of Service – Bill Mitigation Options
- Transportation Service Balancing Fees
- Conclusion

Timeline

Application filed on November 30, 2018

- **March 22, 2019:** Supplemental update reflecting actual results to September 30, 2018
  - Approved 2018/19 Current Outlook
  - Approved 2019/20 Budget (Test Year)
- **July 24, 2019:** Prehearing update for Tabs 8-11 and other financial information
- **August 2, 2019:** Rebuttal Evidence
- **August 12, 2019:** Written submission for issues not identified for oral evidence

PUB’s Legislative Role

Public Utilities Board Act:

- Set **Just** and **Reasonable** rates
- **Balance** the interests of gas customers while ensuring Centra is financially able to fulfill its mandate:

  “To acquire, manage, and distribute supplies of natural gas in a safe, cost effective, reliable and environmentally appropriate manner”

A Positive News Story

Good news for the vast majority of Centra's 280,000 customers:

- Centra seeking approval for rate changes resulting from:
  - Successful Management of O&A costs to below inflationary levels
  - Continued low interest rate environment
  - Historic lows in the cost of gas

CAC - Make the Good News Better?

*“**We’re here to make the good news better news** by promoting to the Board further reduction in rates”*

B. Meronek, pg. 39

CAC – How to Make the Good News Better?

- Propose expensive audit like procedures to microscopically review each decision of the utility
- Set unreasonable escalation expectations
- Challenge proposed budgets because the utility cannot predict within 100% precision the costs it will incur for the year
- Suggest changes in accounting practices to improve net income

CAC's Focus is Disconnected from Centra's Practical Reality

"If we follow Mr. Rainkie's recommendations to reduce our O&A further, you have to decide in an actuals world what programs and services you're not going to do so where do those cuts happen"

S. Bauerlein, pg. 394

CAC’s Approach

- Reduce capital spending - all capital projects should be considered discretionary
- Manage O&A costs to levels below inflation
- Make accounting changes to reduce O&A costs and increase Centra’s net income

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Centra is Obligated to Provide Safe and Reliable Service

- Centra takes responsibility for solving the problem when a pipeline fails
- Centra takes on the risks and liabilities associated with reduced services/programs resulting from reductions in budgets and staffing levels
- Centra takes on the financial risks associated with not recovering all of its costs – there is no investor to pass these risks on to

Back to the PUB’s Legislative Role

- PUB’s Role is to Set Just and Reasonable Rates
- Centra cautions against the “how low can you go” approach being advocated by CAC
- Again - Centra encourages the PUB to focus on the overall results contained in the Application and the reasonable and positive outcomes for natural gas customers

Requested Approvals – The Results

- Centra is seeking approval for proposed November 1, 2019 sale rates that, when considering rate riders, will result in:
  - Typical residential customer bills decreasing by approx 10.1% compared to May 1, 2019
  - Large volume sales service customer bills decreasing by 5.1% to 23.7% compared to May 1, 2019

OPERATING AND ADMINISTRATIVE (O&A) COSTS

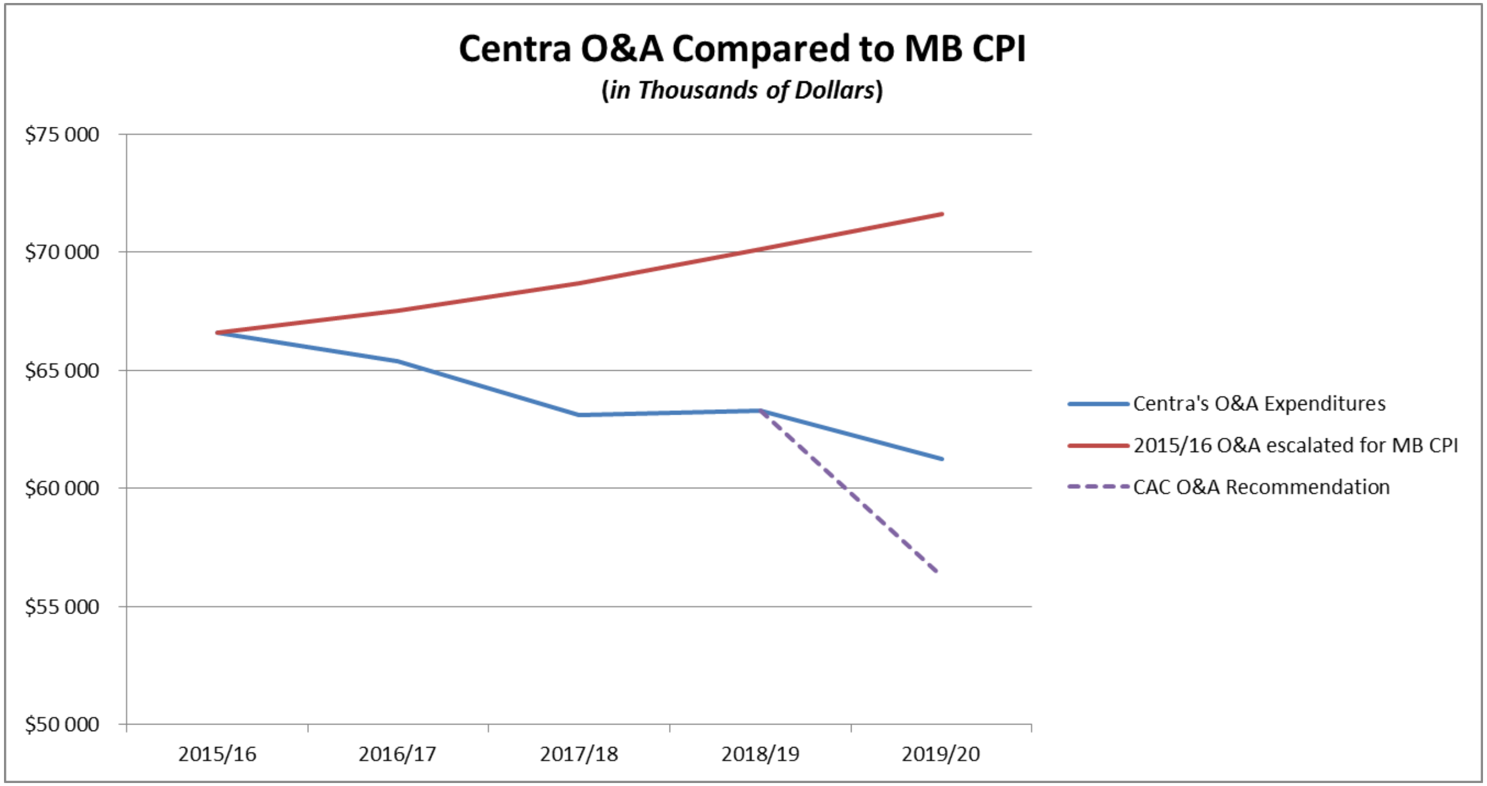
Operating and Administrative (O&A) Expenditures

- Centra has contained O&A costs, resulting in a steady decline
- O&A expenditures are lower than eight years ago

CENTRA GAS MANITOBA INC.
PROGRAM COSTS
($000's)

	CGAAP				IFRS					
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Test Year
Customer Service & Corporate Relations	$ 36 659	$ 31 161	$ 32 458	$ 31 789	$ 31 789	$ 30 514	$ 29 701	$ 29 183	$ 28 918	$ 30 008
Operations and Maintenance	19 889	16 845	18 439	20 490	20 490	20 001	19 621	19 266	18 841	16 165
Organizational Support	10 823	16 858	17 250	17 405	17 405	18 386	17 818	16 757	16 012	16 408
Total Program Costs	**67 371**	**64 863**	**68 147**	**69 684**	**69 684**	**68 901**	**67 140**	**65 206**	**63 770**	**62 581**
Adjustments	(5 255)	(1 128)	(1 337)	(2 226)	671	(2 294)	(1 756)	(2 093)	(455)	(1 331)
Operating & Administrative	**62 117**	**63 735**	**66 810**	**67 458**	**70 355**	**66 607**	**65 384**	**63 113**	**63 315**	**61 250**
Year over Year $ Change		1 618	3 075	648	2 897	(3 747)	(1 223)	(2 272)	203	(2 065)
Year over Year % Change		2.6%	4.8%	1.0%	4.3%	(5.3)%	(1.8)%	(3.5)%	0.3%	(3.3)%

CPI Chart



Centra O&A Compared to MB CPI
(in Thousands of Dollars)
$75 000
$70 000
$65 000
$60 000
$55 000
$50 000
2015/16
2016/17
2017/18
2018/19
2019/20
Centra's O&A Expenditures
2015/16 O&A escalated for MB CPI
CAC O&A Recommendation

O&A Expenditures

	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)

- Compared to CGM15 (predicated on 1% to 21/22), Centra will reduce O&A by almost $90 million over 10 years
- $56 million for 19/20 is a further 8% reduction in a single year

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O&A Expenditures

- Reducing the 2019/20 budget is not just an "accounting transaction"
  - As a Crown owned utility, actual costs incurred need to be recovered through customer rates

- To achieve a $56 million O&A Target would require:
  - Reduced staffing levels or redeployment to Electric Operations where possible
  - Reduction or elimination of current programs / level of service
  - **Increased risk associated with public and employee safety, system reliability and customer service**

Escalation

- Centra rejects CAC's cumulative 1% escalation reduction of $1.2 million
  - 2018/19 Forecast and 2019/20 Test Year assume 0% and 1.5% respectively
  - Cost pressures in excess of 2%, therefore Centra is continuing to control and actively manage expenditures by incorporating 0% and 1.5% respectively

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VDP Savings

- Centra rejects CAC’s recommendation that Centra should be allocated 8% of the VDP savings
  - 4% is proving to have a high correlation with actual results
  - Utility continues to realign and re-organize following VDP
  - Requires a corresponding reduction to Electric Allocator – not mutually exclusive

Contingency

- Centra rejects CAC’s recommendation to reduce the 2019/20 O&A target by the $1.1M contingency balance
  - Contingencies are an appropriate and necessary aspect of the budgeting process for a large utility
  - Centra’s 2019/20 detailed O&A budget contains a negative contingency of approximately $0.6 million
  - Centra will manage to the target provided by its Executive regardless of +/- contingency value

Meter Sampling, Testing & Exchange

- Centra's proposal to begin capitalization in 19/20 on a go-forward basis complies with past direction of PUB
- Centra's position is that intergenerational inequity has not occurred and therefore no need for regulatory deferral
- Prior years rates were just and reasonable

Meter Sampling, Testing & Exchange

- Should the PUB determine that a change in approach is now preferable and a deferral is required:
  - Recognize regulatory liability,
  - Amortization period to be used as determined by the PUB, and
  - Recognize plant asset
- Impact would be a cost reduction / increase to net income, partially offset by annual depreciation on plant asset

CAPITAL PROJECTS AND PROGRAMS

Responsibility to Customers

- Centra takes the responsibility for the provision of a safe and reliable system very seriously
- Capital plans balance the risks of system failure with expenditure levels the utility/customer can afford
- **Centra is the <u>only</u> option in Manitoba when something goes wrong**

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Capital Projects and Programs

- Expenditures made to provide a safe and reliable natural gas system
- Many expenditures are mandatory - Required to meet franchise obligations (new customer additions) or regulatory compliance (meter compliance, conformance to CSA Z662)
- Other work is specifically justified on the merits of the project
- **There is no "discretionary" spending**

Projects

- Mandate is to provide a safe & reliable natural gas system for customers
- Proactively responding to identified issues **avoids long term gas outages**
- The Steinbach Upgrade, Portage la Prairie and Red River at Letellier projects contribute to maintaining reliability, provides value to our customers

Asset Management Plan

- Centra is proceeding with the development of a Natural Gas Asset Management Plan
- Centra acknowledges that asset condition information gaps have been identified and work is in progress to address these gaps
- Main benefit is to define asset life and assist in long term asset renewal planning for the future
- Many assets have minimal or no maintenance requirements
- Capital work regarding customer additions and regulatory compliance are not impacted by asset condition information

COST OF SERVICE

Cost of Service Matters

- Order 98/19 limited consideration to options to mitigate bill impacts from existing PUB-approved Cost of Service Study
- Current cost allocation methodology continues to be appropriate for the PUB to establish rates
- CAC Expert agreed at page 826

"…in my view, the results of the current cost allocation study are reasonable, reliable, and ought to be used by this Board for setting rates in 2019/'20…"

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Deferring Rate Changes is Not an Option

- IGU and Koch Fertilizer Canada have argued to suspend rate changes until a generic cost of service proceeding concludes
  - PUB rejected this in Orders 91/19 and Order 98/19
- Proposed rates reflect the removal of the Furnace Replacement Program funding from the SGS class and reallocation of costs between customer classes
- Deferring rate changes would be to the detriment of the majority of Centra's customer classes who will see a reduction in their annual bill if the PUB approves Centra's application

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Bill Mitigation is Not Required

- Bill impacts for T-Service customers appear disproportionally large
  - Do not include upstream and commodity costs to dilute the impact
- T-Service Customer impacts largely due to the rate decrease afforded to these customers in accordance with Order 79/17
- Effect was expressly anticipated by the PUB in directing the rollback

			Proposed (As filed w/Supplement)		Proposed If no Reversion of Non-Gas Costs	
Customer class	Consumption 10^3m^3	Load Factor	$ Impact	% Change	$ Impact	% Change
HVF (T-Service)	2,600	75%	$ 9,523	19.2%	$1,695	3.0%
	17,600	75%	$ 72,091	28.0%	$ 26,241	8.7%
Mainline (T-Service)	14,000	75%	$ 35,176	24.7%	($11,961)	-6.3%
	44,000	40%	$ 271,812	41.6%	$ 54,782	6.3%

Bill Mitigation is Not Required

- Appropriate to consider gas costs in bill impact calculations

  "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." (Order 156/91)

Bill Mitigation is Not Required

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

	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/T-Service	$1,713,430	$1,773,013	$1,707,793	$1,759,303
		3.48%	-3.68%	3.02%
Special Contract	[redacted]			

2d

Based on the following load profiles:
HVF – 11,000 10^3m^3/year at 75% load factor
Mainline – 18,000 10^3m^3/year at 75% load factor
Special Contract, as per load forecast

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Bill Mitigation Options Appropriate for Special Contract Class

- Preferred Option:
  - Extend payment terms associated with collection of rate rider balance (to include carrying costs)
  - Administratively simple, with no adverse impact to other customer classes
- 2nd Option:
  - Change methodology for allocating heating value deferral account balance
  - CAC (Christensen) Recommendation: exclude SC customer class volumes
  - IGU Recommendation: allocated based on non-gas volumetric revenues

Alternative Options – Not Supported by Centra

- Deferral of Transmission Related Investments
  - Does not allow for a “clean slate” going into generic cost allocation review
- Zone of Reasonableness
  - Out of Scope
- Eliminate Heating Value Margin Deferral Account
  - Does not address disposition of accumulated balances
- Equal Rate Changes
  - Without merit and has no basis for consideration

Generic Cost Allocation Review

- Current cost-allocation methodology is appropriate, and can be relied upon in determining just and reasonable rates
- Adequate consideration must be given toward the time and resource commitments to conduct a proper review
- Collaborative effort between Centra and PUB to consider scope, timing and anticipated cost before specific directives and timelines issued is a necessary first step

TRANSPORTATION SERVICE
BALANCING FEES

Transportation Service Balancing Fees

- T-Service is an elective service, with associated contractual obligations to balance

"The Board directs that the Companies **make every effort to ensure that the balance of the system customers are saved harmless**, protected both as to cost and security of supply."

"The Board believes that direct purchasers, having contracted with TCPL for transportation services, **should assume the responsibility for balancing their supply with their demand** and be prepared to assume the risks for any imbalances."

Order 112/88 pages 47-49

Transportation Service Balancing Fees

- The need for change has been established
- New mechanism required to:
  - End existing cross-subsidization and
  - Incent consistent balancing behaviour
- Proposal is transparent and fair:
  - Based on NEB-approved and industry-accepted incentive based fee structure
  - Affords generous tolerances (7% relative to Centra's 2%)
  - Applies only 50% of TCPL balancing fees

Transportation Service Balancing Fees

- The challenges T-Service customers face are the same challenges faced by Centra for over 280,000 customers, but Centra is not excused from paying fees, regardless of whether an imbalance helps or hurts the overall pipeline position

- TCPL does not waive balancing fees when Centra faces operational disruptions or is unable to respond

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Transportation Service Balancing Fees

- There are sufficient tools in the existing market for T-Service customers to mitigate the impact of balancing fees
  - Purchase or sale transactions at the MDA and elsewhere on the TCPL Mainline
  - Park and Loan transactions, if available from TCPL
  - 5 nomination windows at which updated consumption forecasts can inform the fine-tuning of gas deliveries

Transportation Service Balancing Fees

- Further consultation is not required
  - Centra has already modified its proposal in response to T-Service customer feedback
  - T-Service customers with unique business needs will, understandably, never agree
  - No alternate proposal was advanced by Intervenors
  - An incentive-based fee structure, adapted for Manitoba, is required to achieve improved balancing

Transportation Service Balancing Fees

- Approval of Centra's proposal may result in changes to service elections by existing T-Service customers, customers are eligible to remain in T-Service
  - If a T-Service customer elects to transition to Sales Service, Centra can accommodate that effective November 1, 2019

Transportation Service Eligibility

- Centra is seeking to raise the volumetric threshold for entry into T-Service from 200 GJ to 2,500 GJ

- Existing T-Service customers will be grandfathered

Conclusion

- The Application results in just and reasonable rates that are in the public's interest
- Centra requests that the PUB issue an Order granting all of the approvals set out in Centra Exhibit #37
- Centra respectfully requests that the PUB approve the Application by October 11, 2019, such that Centra can prepare its compliance filing by October 25, 2019, so as to implement the PUB's rate Order on November 1, 2019