PUBLIC UTILITIES BOARD

CENTRA GAS MANITOBA INC.

CLOSING SUBMISSION ON ISSUES IDENTIFIED FOR ORAL EVIDENCE
2019/20 GENERAL RATE APPLICATION

August 28, 2019

Manitoba Hydro

Index

August 28, 2019

CENTRA GAS MANITOBA INC.

2019/20 GENERAL RATE APPLICATION

CLOSING SUBMISSION ON ISSUES IDENTIFIED FOR ORAL EVIDENCE

INDEX

CENTRA GAS MANITOBA INC.
2019/20 GENERAL RATE APPLICATION

CLOSING SUBMISSION ON ISSUES IDENTIFIED FOR ORAL EVIDENCE

1 INTRODUCTION

Centra Gas Manitoba Inc. ("Centra") filed its 2019/20 General Rate Application ("GRA") or ("Application") on November 30, 2018. Subsequent to its initial filing, Centra responded to two rounds of information requests and, as directed in Orders 24/19 and 98/19, made the following submissions:

- **March 22, 2019:** Supplement with respect to updated financial information reflecting actual results to September 30, 2018, including the approved 2018/19 Current Outlook and 2019/20 Budget (Test Year) as well as updated planning assumptions for the following:
  - 2018 Natural Gas Volume Forecast;
  - Preliminary update to planned 2019/20 Demand Side Management ("DSM") Expenditures;
  - December 2018 consensus forecast of interest and U.S. exchange rates; and
  - Cost of Gas Forecast based on an October 1, 2018 strip date.
- **July 24, 2019:** Pre-Hearing Update for Tabs 8 through 11 including updated information with respect to the following:
  - Interest rate information;
  - Non-Primary Gas costs for the 2019/20 Gas Year based on an April 26, 2019, future market price strip date;
  - Balances on the non-primary Purchase Gas Variance Accounts ("PGVA");
  - Centra's 2019/20 Cost Allocation Study reflecting updated gas costs and Operating and Administrative costs;
  - Updated and additional information for Tabs 8, 10 and 11;
  - Response to PUB/Centra I-118 part b); and
  - Appendix 12.1 and 12.2 – Terms and Conditions of Service

- **August 2, 2019:** Rebuttal Evidence with respect to the written evidence of the Consumers Association of Canada ("CAC"), the Industrial Gas Users ("IGU") and Koch Fertilizer Canada, ULC.
- **August 12, 2019:** Written submission on issues not identified for Oral Evidence.

As part of this Application, Centra is proposing to implement new base rates on November 1, 2019, to incorporate forecasted Non-Primary Gas costs of approximately $71 million (based on a 2019/20 Gas Year) and non-gas costs of approximately $148.5 million. Centra is also proposing to implement a number of rate riders that will refund to customers a net amount of approximately $21.3 million of Non-Primary Gas cost deferral balances accumulated between November 1, 2019, and October 31, 2019, with updated carrying costs to October 31, 2019. Centra is proposing to implement these rate riders on November 1, 2019, for a 12-month period to expire on October 31, 2020.

The base rate bill impact to the typical residential customer is a decrease of 5.4% or $37, which represents the difference in the annual bill proposed for November 1, 2019, compared to the annual bill as of May 1, 2019. The billed rates that Centra charges to its customers are made up of base rates and rate riders to dispose of prior period PGVA balances as noted above. The billed rate impact to the typical residential customer proposed for November 1, 2019, is a decrease of approximately 10.1% or $70 per year, compared to May 1, 2019, billed rates.

The base and billed rate impacts to all other customer classes are shown in the table below (from slide 7 of Centra Exhibit # 40).

Sale Service	Base Rate (%)	Base Rates plus Riders (%)
SGS *(typical residential)*	(5.4%)	(10.1%)
Small General Service	(4.2%) - (6.7%)	(7.8%) - (12.5%)
Large General Service	(0.5%) – (0.7%)	(5.1%) - (7.3%)
High Volume Firm / Sales	(2.7%) – (3.4%)	(8.2%) - (23.7%)
Mainline Firm / Sales	(6.2%) – (9.9%)	(15.9%) - (23.4%)
Interruptible / Sales	(3.1%) – (4.4%)	(7.8%) - (17.9%)

For the complete listing of requested approvals and endorsements please see Exhibit-37 to this Application.

1.1 PUB's Role is to Set Just and Reasonable Rates – Not the Lowest Rates Possible.

Pursuant to *The Public Utilities Board Act*, in its final determination of this Application, the Public Utilities Board ("PUB") must set natural gas rates that are just and reasonable and in the public interest. In doing so, the PUB should consider whether the proposed rates are excessive, unjust, unreasonable or unjustly discriminatory (section 126(1)).

The PUB's task in this process is to set just and reasonable rates that reflect an appropriate balance between the interests of natural gas customers and the ongoing need for a financially stable utility able to fulfill its mandate. Centra's mandate is to acquire, manage, and distribute supplies of natural gas to meet the requirements of Manitoba consumers in a safe, cost-effective, reliable, and environmentally appropriate manner.

Both CAC and IGU readily acknowledged that this Application is "good news" for natural gas consumers (Transcript August 14, 2019 page 39 and page 45). However, despite this acknowledgement, CAC has undertaken a detailed approach searching for potential mechanisms to further reduce Centra's revenue requirement in an effort to "make the good news better" (Transcript August 14, 2019 page 39 line 13), effectively seeking to substitute the legislated mandate of the PUB of establishing just and reasonable rates for a "how low can we possibly go" approach by subjectively reviewing each decision of the utility to find ways to reduce the utility's revenue requirement.

Centra submits that CAC's overall approach in considering revenue requirement related matters within this Application was inefficient, unproductive, unsustainable, and is not in the best interests of the residential customers it notionally represents. CAC has focused on select accounting changes (i.e. establishment of a regulated liability and increase in the allocation of VDP savings), only when they serve to increase net income and drive down customer rates. This approach undermines Centra's ability to meet its customers' expectations for the delivery of safe and reliable energy service.

Centra respectfully submits that its rates are based upon a reasonable forecast of revenues, costs, and volumes recognizing actual results will invariably differ from the forecasts. In this Application, Centra has demonstrated exceptional cost management, which is reflected in the fact that Centra's non-gas revenue requirement is at approximately the same level as it was six years ago. This fact makes CAC's approach of searching for artificial ways to drive down revenue requirement beyond historically low levels with the goal of "making the good news better" inappropriate, especially when Centra is a Crown-owned utility. Instead, Centra submits that the PUB must focus on the reasonableness of the overall Application and the overwhelmingly positive outcomes for natural gas customers in Manitoba.

In accordance with the requirements of Order 24/19, twenty-four issues were determined to be within the scope of this proceeding; nine of which were later established in Order 98/19 as matters for oral proceedings with the remaining issues to be determined on the basis of the written record. The following sections will address the issues identified in PUB Order 98/19.

2 NON-GAS REVENUE REQUIREMENT

The level of non-gas revenue requirement requested in this Application is reasonable and required in order for Centra to fulfill its mandate to provide safe and reliable natural gas service to Manitobans. Such balances reflect the utility's ongoing efforts to manage and constrain increases in O&A costs and other (e.g. Finance, Depreciation) expenses.

The following sections provide Centra's position on the narrow concerns discussed during the oral proceeding with respect to expenditures included in the non-gas revenue requirement of this Application.

2.1 Operating and Administrative Expenses (O&A)

Figure 1 below, provided as Figure 5.10 in Tab 5 of the filing, provides Centra's O&A expenditures under both CGAAP and IFRS from 2011/12 through to the 2019/20 Test Year. The table clearly demonstrates that Centra has continued to actively manage and reduce its O&A spending to levels below that approved in the 2013/14 GRA; as evidenced by the $61.250 million forecast projected in 2019/20 compared to the 2014/15 restated amount under IFRS of $70.335 million.

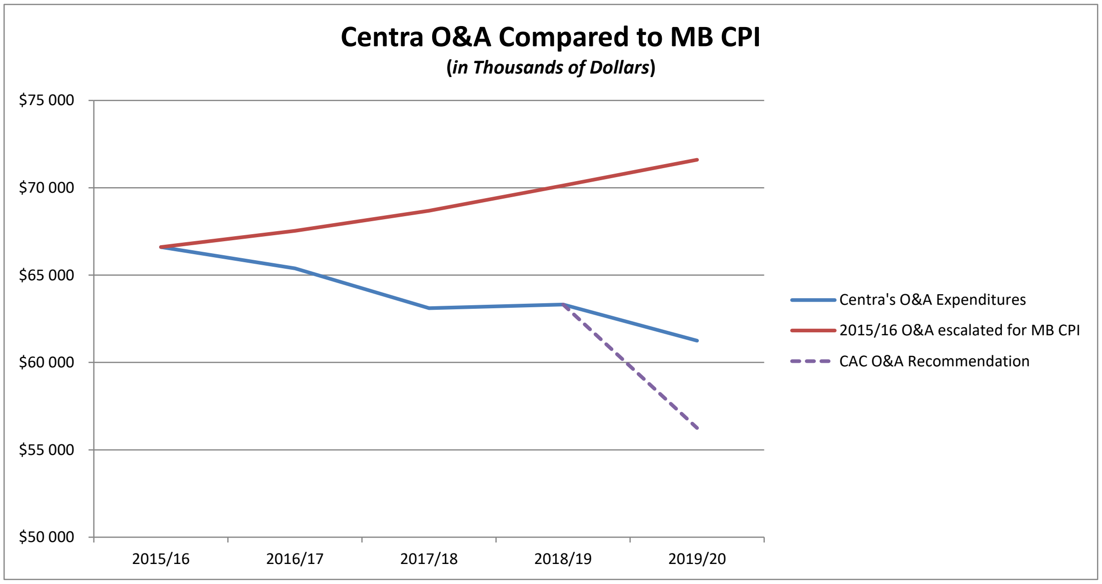
Figure 1-O&A Expenditures

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)%

As illustrated in Figure 2 below (PUB/Centra I-14, modified to include CAC's 2019/20 O&A projection), Centra's O&A performance under IFRS has been well below Manitoba CPI. The continued decline in O&A expenditures reflects a combination of the year over year changes in various program requirements as well as management reductions and the impacts of the 2017 Voluntary Departure Program ("VDP"). In addition, for the 2019/20 Test Year, the forecast assumption includes the recommendation to the PUB to capitalize approximately $3 million in meter sampling, testing and exchange costs.

Figure 2-O&A Expenditures Compared to Manitoba CPI



Mr. Rainkie, on behalf of the CAC, makes several recommendations targeted at reducing Centra's 2019/20 O&A Target resulting in a corresponding reduction to customer rates. Combined, Mr. Rainkie's recommendations would serve to arbitrarily reduce Centra's projected 2019/20 Test Year O&A expenditures of $61 million by approximately $5 million (an 8% reduction in a single year) to $56 million as follows:

- Change in annual escalation factor from 2% to 1% ($1.2 million – $0.6 million for 2018/19 plus $0.6 million for 2019/20);
- Increase the allocation of VDP savings from 4% to 8% ($2.7 million); and
- Adjust for 2019/20 unallocated contingency amounts ($1.1 million).

Centra submits that Mr. Rainkie's recommendations are inappropriate, are based on incorrect assumptions and are reflective of the selective approach discussed above. Further if implemented, Mr. Rainkie's proposed reductions to O&A will result in a reduced quality of service to Centra's ratepayers. Each of Mr. Rainkie's recommendations is addressed below.

2.1.1 Centra's Escalation Factor of 1.5% for the 2019/20 Test Year is Reasonable and Fully Justified by Centra's Evidence

Mr. Rainkie's oral testimony recommends that Centra's use of a 2% escalation factor in the development of its O&A forecasts represents a passive approach to forecasting, and that for rate-setting purposes Centra should be utilizing a 1% escalation factor to create a cumulative $1.2 million reduction in O&A expenditures for 2019/20 Test Year. Mr. Rainkie argues that a 1% escalation factor is consistent with both Order 69/19 for Manitoba Hydro's electric operations and the current provincial government's approach to managing costs and reflects the fact that recent years' annual wage settlement agreements have been below 2%.

For clarification, Centra's O&A growth assumption for the 2018/19 Forecast and 2019/20 Test Year included an escalation factor that was lower than 2%. As indicated in the response to CAC/Centra II-133 d), "*Centra held the 2018/19 target constant with the 2017/18 actual performance given the uncertainty associated with the impacts of the VDP*." As such, a 0% escalation factor was assumed for the 2018/19 Forecast Year. CAC/Centra II-133 d) further provided that "*The escalation for 2019/20, after removing the impact of the proposal to capitalize meter sampling, testing and exchange, was an increase of approximately $0.9M or 1.5%.*" Therefore, Centra's increase in operating costs is $0.9 million over the two years whereas Mr. Rainkie is recommending a $1.2 million-dollar reduction; equating to a negative escalation factor.

Disregarding this misunderstanding, Centra still disagrees with Mr. Rainkie's 1% escalation recommendation. Centra has made significant strides in reducing its O&A costs beyond what was projected at the 2013/14 GRA. Further, in the 2019/20 Test Year, Centra's cost pressures are well in excess of 1%. As Ms. Bauerlein testified (on page 116 of the transcript) Centra faces specific cost pressures including escalation factors in contracted wage settlements, merit and progression for employees who are progressing through their approved pay scales and other commodity price increases:

> *"...Unifor, again is one (1) of the larger unions within sort of the –the groups that would typically timecard to gas. So on January 1st of 2019,*

> *they got 1 and ¼ percent. On January 1, 2020, they'll get an additional 1 ½ percent. And then as I said, you'll have merit and progression of an additional 1 percent.*
>
> *We're seeing significantly higher fuel costs. You know, fuel –fuel costs keep fluctuating, right we—as a result of you know, for example, the carbon tax. So we have to pay the carbon tax on the fuel for our motor vehicles that we have. We've got inflationary costs on all our materials, et cetera. So to us, actually managing to a 2 percent escalation factor is, in fact, controlling our costs because our –our— the things that impact Centra beyond 2 percent."*

In addition to those cost pressures, the company will experience a known incremental increase of approximately $0.5 million (0.8% of $61 million) pertaining to prior year wage increases for MHUS meter reading staff that, to date, has not been passed on to Centra ratepayers (page 3 of Appendix 5.9 Operating & Administrative Expense).

Centra submits that the evidence in this Application, including the fact that the specific inflationary pressures it faces are at or above Manitoba CPI, clearly demonstrates that the 2018/19 and 2019/20 forecasts are reasonable and appropriate. The recommendation by Mr. Rainkie for a cumulative escalation adjustment of $1.2 million is based upon incorrect assumptions and is not supported by any evidence and should be rejected by the PUB.

2.1.2 Allocation of VDP Savings

Mr. Rainkie recommends that Centra should be allocated 8% ($5.4 million) of the VDP savings as opposed to the 4% ($2.7 million) proposed by Centra. Mr. Rainkie bases his recommendation on the fact that activity charges (8% allocated to Centra) represent approximately 70% of the overall O&A allocations to Centra.

The argument advanced by Mr. Rainkie attempting to support the use of 8% as an allocator of the VDP savings is not appropriate as the relationship of historical labour activity charges may not be representative of the actual and future impacts of the VDP to the electric and gas operations.

The PUB should focus on the evidence provided by Centra that the selection of the 4% Corporate Asset driver was incorporated into O&A target assumptions prior to the finalization of the VDP, noting that the VDP was a corporate-wide offering to all Manitoba Hydro staff, regardless of age, jurisdiction and years of service. In addition, Centra and Manitoba Hydro are continuing to realign and reorganize following the VDP to ensure that both entities continue to be able to provide safe and reliable levels of service to its customers. As noted by Ms. Bauerlein on page 173 of the transcripts:

> *"And I just wanted to just make a comment that we're continuing to evolve as a result of the VDP. So how the savings should be allocated still continues to change as we continue to restructure and reorganize ourselves as a company."*

To date, the choice of the 4% allocator is proving to have a high correlation with actual results as confirmed by Ms. Bauerlein on page 101 of the transcripts:

> *"So we chose the -- we call it the asset driver which says 96 percent of the costs will go to the electric -- or 96 percent will go to the electric operations and 4 percent would go to the gas operations. And so we believe that that was an appropriate allocation given, you know, some of the information we knew at the time. What we didn't know at the time, we felt it was a reasonable cost driver. And if I now, like, consider actual results, I'm seeing that that's appropriate.* ***The 4 percent is materializing in actual results.*** *So that tells me that that was an appropriate level of savings to allocate to the gas line of business.* ***So it was viewed as a reasonable driver of how much savings should be allocated, recognizing those savings really go on into perpetuity." (Emphasis added)***

Furthermore, Mr. Rainkie's recommendation to change the 4% VDP savings allocation to 8% will have implications for Manitoba Hydro's electric operations. A change in Centra's allocation to 8% requires a corresponding reduction in the allocation of savings to the Manitoba Hydro electric operations from 96% to 92% as the total allocation of savings must equal 100% because they are not mutually exclusive. Notably, during the recent 2019/20 Electric Rate Application, when Mr. Rainkie was an active participant, he did not make a similar and corresponding recommendation to change the VDP allocation percentage (i.e. 92% and 8%) and when asked in this proceeding to explain this inconsistency, Mr. Rainkie stated that he was not aware of the allocation of VDP savings when giving evidence in the Electric Rate Application.

Centra notes that the response to Coalition/MH I-13 a-h in the Manitoba Hydro 2019/20 Electric Rate Application, filed on March 7, 2019, and the response to PUB/MH II-8 (a Coalition cited reference for Coalition/MH I-13 a-h above) in the Manitoba Hydro 2017/18 and 2018/19 General Rate Application, explicitly provided that 96% of the VDP savings would be allocated to the electric operations.

In summary, despite the on-going difficulties in predicting and measuring the savings resulting from the VDP and allocating those savings between the gas and electric operations with precision, Centra's choice of using the Corporate Asset driver, which is representative of the overall size of the electric and gas operations, was reasonable and appropriate and remains so. Such an allocator is consistent from year to year and is not influenced by the multitude of organizational changes that occurred and continue to occur as a result of the VDP. Most importantly, as Ms. Bauerlein testified, the actuals incurred to date prove that the 4% allocator is a reasonable assumption.

2.1.3 The Use of Contingency Amounts in O&A Budgeting

Mr. Rainkie contends that Centra's 2019/20 O&A target should be further reduced by \$1.1 million, representing a contingency amount included in the 2019/20 O&A budget, on the basis that there are no detailed expenditures planned for the balance and as such, is not justified for rate-setting purposes.

Contingencies are an appropriate and necessary part of the budgeting process for a large utility. The purpose of a contingency is to capture differences between a high-level target established by the Executive and the detailed budget requirements of individual programs identified before the start of the fiscal year. Targets reflect senior management's projection of the expenditures required for the utility to meet its mandate. Contingency amounts recognize that over the course of the year, the detailed plans as identified in the program budgets may change as a result of changes in customer requirements, circumstances and business priorities. The use of a contingency is long-standing and remains appropriate. As such, Centra's O&A target should not be adjusted downwards as suggested by Mr. Rainkie for rate setting purposes.

During the cross-examination of Centra's Revenue Requirement Panel, Mr. Meronek suggested: "*the reason why you updated unilaterally the ONA, is to con – confront or debunk Mr. Rainkie's suggestion that there was a one – there should be a 1.1 million positive contingency decrease in the revenue requirements*." (August 15, 2019, at page 379).

Centra takes offence to Mr. Meronek's suggestion that it intentionally manipulated its O&A budget to eliminate the contingency balance. Centra filed the updated detailed budget on July 24th as part of the Pre-Hearing Update which reflects current requirements for all programs including internal labour, materials, external contractors and other cost components. This update resulted in a negative contingency of approximately $600K. Centra indicated its intention to file the detailed O&A budget in PUB/Centra II-10b filed on June 14, 2019. The delay in filing the detailed O&A budget on July 24th was due to the requirement to update the cost allocation breakdown by customer class. As indicated by Ms. Bauerlein on page 135 of the transcript:

> *"So the program costs when we revisited the budget this past spring, we finalized the details, the program costs are now higher than the individual - - all the programs are now higher than what the target is, so we put in a negative contingency, whereas when we did the preliminary budget, all the details were lower than the target, so we had a positive contingency to get to the target."*

Centra notes PUB/Centra II-10b was filed approximately two weeks before Mr. Rainkie's evidence was filed when he first introduced the concept of reducing Centra's revenue requirement by removing the initial forecast of a positive contingency.

In summary, Centra submits that the existence of either a positive or negative contingency does not warrant a change in the O&A target. Rather, in either situation as the case may be, management's role is to manage to the target that has been established.

2.1.4 Reducing O&A to $56 million is Unreasonable and Necessarily Results in Less Service to Customers

The majority of Centra's O&A charges are labour-based and as such, a $5 million, or an 8% reduction to O&A, means there would be fewer resources for gas operations. The practical reality of a reduction in Centra's O&A target of this magnitude is estimated to result in a reduction of approximately 59 000 straight-time hours or 12% of the approximate 500 000 hours forecast for 2019/20. That level of reduction is equivalent to eliminating approximately 40 full-time staff positions (Rebuttal Evidence page 22).

Centra's track record of continued reduction in O&A expenditures since the last GRA demonstrates that the utility has been active in controlling its O&A requirements. As a result of the VDP initiative the company has advanced the commitment to reduce the labour force and is of the opinion that further reductions may increase the risk associated with public and employee safety, system reliability and customer service.

Reducing the 2019/20 budget to $56 million is not just an accounting exercise on paper. If the revenue requirement is set to recover $56 million in O&A costs Centra must work towards that target. If on an actual basis Centra cannot achieve such a reduction, there will be a disconnect in that the costs of providing service are not being passed onto the ratepayers. Unlike an investor-owned utility, Centra does not have the option of passing on the differences between the actual costs incurred and the costs recovered in customer rates to its investors.

In all of his recommendations, Mr. Rainkie failed to identify which specific programs or aspects of programs the PUB should identify for cost reductions; which additional risks in safety and reliability should Centra and its customers be willing to accept. Centra's Board has already indicated that further reductions in staff and programs are not preferred for operating the utility going forward. As discussed by Ms. Bauerlein on pages 112 and 113 of the transcripts:

> *"You can nickel and dime -- you can say, well, the allocator should have been 8 percent. You should have allocated more savings. You should have more -- a lower escalation factor. You should remove the contingency. But if you do all those things, and you set a target, as Mr. Meronek has said, of $56 million, then Centra needs to work towards $56 million, and that $56 million means less services to the customers. And as you saw in -- in Ms. Steinfeld's response, those -- those functions are customer service functions, maintenance functions, and the organizational support, things like IT, finance. So where do we actually put those cuts? Do we -- do -- reduce what services? Do we reduce our billing function? Do we reduce our maintenance function? Because at the end of the day, we can talk about changing these allocators, and whether or not they were reasonable, but at the end of the day, it's got to be reflected in what you actually want to achieve. That's what a budget or a target is. It says, this is what I want to achieve, and I want management to work towards that."*

Centra submits that its 2019/20 O&A forecast is reasonable and appropriately reflects a commitment to cost management while maintaining the ability to provide safe and reliable service to Manitobans. Consequently, Centra requests the PUB to approve Centra's forecasted O&A as filed in the Pre-Hearing Update.

2.2 Accounting for Meter Sampling, Testing and Exchange Activities

On pages 523 – 526 of the transcripts, Mr. Rainkie recommends that for the 2019/20 Test Year, Centra establish a regulatory deferred liability account for the $15.3 million difference in expense and amortize this amount into rates as a reduction in revenue requirement over a period of three (3) years so as to ameliorate the alleged intergenerational inequity associated with recovering these costs from customers over the 2014/15 – 2018/19 period.

Centra disagrees with Mr. Rainkie's premise that the continued expensing of such costs over the 5-year period has resulted in an intergenerational inequity. The PUB previously directed Centra to continue to expense these costs and the ratepayer has not been inappropriately harmed by doing so. Centra notes that these costs have been treated as a period expense and included in rates with the approval of the PUB for longer than the past five years making it difficult to pinpoint at what point in time intergenerational inequity occurred such to potentially "harm" ratepayers.

Overall, Centra's proposal to commence the capitalization of meter sampling, testing and exchange activities effective for its 2019/20 fiscal year complies with the previous decisions of the PUB and recognizes that prior year's rates were just and reasonable. In addition, Centra's proposal avoids the need to create an additional regulatory deferral that unnecessarily defers and re-flows the recognition of costs that had previously been approved for recovery from ratepayers.

It is also noted that as CFO of Manitoba Hydro during its 2015/16 transition to IFRS, Mr. Rainkie oversaw the establishment of new regulatory deferral accounts for timing differences pertaining to the IFRS related overhead and depreciation changes. Notably, at that time, Mr. Rainkie endorsed a different accounting treatment for the meter sampling, testing and exchange costs than he is now advocating for.

In the event that the PUB determines that a deferral for these amounts is the preferable option, the accounting for this change would require Centra to record a \$15.3 million regulatory liability to be amortized over a period as directed by the PUB. For illustrative purposes, Figure 3 below shows the impact if a three-year amortization period was directed by the PUB. Under such a scenario, approximately \$5.1 million per year would be recognized through the Net Movement in Regulatory Account balance as a reduction in costs and a corresponding increase in net income. This increase in net income would be partially offset by the \$2 to \$3 million of annual depreciation on the plant asset related to the requirement for Centra to capitalize the $15.3 million net book value as well as subsequent year's additions to the asset.

Figure 3- Net Income Impact of Three-Year Amortization - $15.3M liability

($ millions)	3 Year Amortization Regulatory Liability*	Depreciation on Net Book Value Carry Forward**	Depreciation on Future Additions**	Annual Net Income Impact
2019/20	2.13	(2.13)	(0.17)	(0.17)
2020/21	5.10	(2.13)	(0.53)	2.45
2021/22	5.10	(2.13)	(0.91)	2.07
2022/23	2.98	(2.13)	(1.29)	(0.44)
Cumulative Income Impact - Increase (Decrease)	**15.30**	**(8.50)**	**(2.90)**	**3.90**

**For 2019/20, assumes amortization of $15. 3 m liability for 5 months (Nov/19 - Mar/20)*
*** Assumes a 10 year amortization period.*

3 CAPITAL PROJECTS AND PROGRAMS

3.1 Capital Projects Are Justified and Required for Safe and Reliable Service

Centra rejects any suggestion that it proceeds with capital projects for reasons other than to fulfill its mandate of providing safe and reliable service for Manitobans. Centra notes METSCO's suggestion that upon further analysis and review there may be a significant opportunity for the PUB to reduce Centra's capital expenditures, in particular with respect to the Portage la Prairie, Steinbach and Letellier Red River Crossing Projects. Centra opposes any recommendation to reduce capital forecasts generally and more specifically with respect to the three identified projects.

Centra's engineering and technical experts have determined that each of the three projects are necessary to provide safe and reliable service. Each project was extensively reviewed and analyzed through Capital Investment Justifications ("CIJ") and additional documents. Centra notes that METSCO (which by its own admission has no engineering or other expertise relating to the design and operation of a natural gas distribution system) failed to review all documentation relied upon by Centra prior to suggesting that these projects are not supported by robust justifications.

In each of the projects, additional supply points were determined to be the most cost-effective approach to mitigate the potential risks associated with the existing single supply arrangements. Centra submits that although the likelihood of pipeline failure is low for each community, the consequence/risks following a failure is high in terms of extended (weeks to months depending on the time of year) outages where no gas is available for heating numerous customer homes or to run businesses. Extended outages result in additional costs regarding customer impacts, utility repairs and customer relights.

As discussed by Centra on pages 335 and 417 of the transcript, it is common for other utilities to utilize additional supply points for reliability purposes for both cities and smaller communities. Overall, Centra takes its responsibility and the associated liability to ensure its customers have a safe and reliable supply of gas very seriously and as such, stands firmly by its decisions regarding these projects.

It was suggested that projects, like the Steinbach Project, which are necessary to address customer load growth, could be put off to a later date. Centra reiterates the comments of Mr. Starodub that “planning is not an exact science” and planning a capacity related project to be completed “just in time” is a risky proposition when considering the needs of customers (Transcript August 14, 2019, at page 325). As discussed below, project execution risks may arise which the Utility must manage, and it is imprudent to delay project commencement so they can be completed just in time.

3.2 The Capital Expenditure Forecast Does Not Include Discretionary Projects

Centra does not agree with the characterization of any of its capital projects or programs as “discretionary”.

Centra typically refers to investments required to satisfy externally driven contractual or regulatory compliance as mandatory. Such investments typically fall into the New Business, System Betterment-Relocations and Meter Compliance categories. On pages 264-266 of the transcripts, Mr. Peters asks if planned capital expenditures in the areas of system “Renewals” and “Efficiency” are items that could be considered “somewhat discretionary” on the premise that for certain years, not all the projects planned in these areas were performed or were at least, not performed in the year they were planned.

Centra would like to clarify that capital expenditures for Renewals or Efficiency may require additional justification to proceed but are still required to ensure Centra provides energy delivery services. These projects are performed following careful consideration of cost, performance and risk. While Centra acknowledges that unforeseen circumstances may result in the delay of certain projects, unacceptable risks and unnecessary costs are borne by the utility and its customers if any of the identified projects are significantly delayed or cancelled.

3.3 Annual Capital Target and Project Delays

As outlined in Tab 4 Asset Management & Natural Gas Capital Expenditure Forecast of the filing, the 2018/19 and 2019/20 targets were "*developed considering the need to balance operational priorities and optimize overall corporate value taking into account changes in business, financial and economic assumptions as well as operational risk factors.*" The evidence goes on to identify that there is a variance to target in the short term which recognizes external factors such as contractor availability, property procurements and external approvals which will affect project delivery and total spending in a given year. For the 2019/20 year of CEF18 (Appendix 4.1), Centra's detailed budgets for programs and projects exceed its target by $2.8 million and this value is shown as a target variance. Mr. Steele reinforces that there will be variances in cashflow on page 256 of the transcripts:

> "*…its due to project execution. There – there may be unanticipated challenges with projects regarding geotechnical – geotechnical conditions or licencing approvals, thinks (sic) that weren't necessarily anticipated when the project scope was fully defined that cause deferrals or potentially advancements to the project execution.*"

During the cross-examination by Mr. Peters on August 14th, there was much discussion on the delays incurred on three of Centra's larger projects, Steinbach Natural Gas System Upgrade, Waverley West Upgrade, and Letellier-Red River Transmission Upgrade. As shown in Figure 4 below, an excerpt from page 4 of Appendix 4.1 Natural Gas Capital Expenditure Forecast (CEF13 through CEF18), the total project forecast for these three projects is approximately $9 million. However, the cash flow projection for 2019/20 totals $4.7 million.

Figure 4-CEF18 Forecasted Project Costs

Project Details ($ Millions)	Project Status	Total Project Cost	2019	2020	2021	2022 to 2028
Natural Gas Distribution System & Corporate Infrastructure						
Capacity & Growth						
System Load Capacity						
St-Pierre Transmission Pipeline Upgrade	Executing Project	2.4	0.4	-	-	-
Steinbach Natural Gas System Upgrade	New Project	4.1	0.4	1.4	1.9	0.3
Waverley West Upgrade	New Project	3.5	0.9	2.0	0.5	-
System Load Capacity Total			**1.7**	**3.4**	**2.5**	**0.3**
Capacity & Growth Total			**1.7**	**3.4**	**2.5**	**0.3**
Sustainment						
System Renewal						
Brandon Primary Generating Station Re-Construction	Executing Project	3.9	1.9	1.2	-	-
System Renewal Total			**1.9**	**1.2**	**-**	**-**
Mandated Compliance						
Medium Pressure Monitoring System Replacement	Executing Project	2.1	1.2	0.7	-	-
Winnipeg Natural Gas Transmission Easement Widening	Executing Project	1.6	0.1	-	-	-
Mandated Compliance Total			**1.3**	**0.7**	**-**	**-**
System Efficiency						
Natural Gas Transmission Pipeline System In-Line Inspection	New Project	6.5	2.5	1.6	1.7	0.5
Letellier-Red River Transmission Upgrade	New Project	1.6	0.3	1.3	-	-
Provision of Secure Gas Supply-Portage	New Project	1.6	0.1	0.4	0.1	1.0
St. Andrews Distribution System Upgrade	New Project	1.3	1.2	-	-	-
System Efficiency Total			**4.1**	**3.4**	**1.8**	**1.5**
Sustainment Total			**7.3**	**5.3**	**1.8**	**1.5**
Natural Gas Distribution System & Corporate Infrastructure Total			**9.0**	**8.7**	**4.3**	**1.8**

As shown in the table above, all three projects were projected to be multi-year projects. In addition, Centra clarifies that although construction activities related to these projects have been delayed, expenditures continue to occur for each project. Design activities and material procurement are scheduled to continue, prefabrication continues for the new primary station in Waverley West and will also proceed for Steinbach if an acceptable route and station can be finalized. In total, of the $4.7 million projected, Centra anticipates expenditures of approximately $2 million will still occur during 2019/20.

As noted above, the detailed forecast also includes a $2.8 million target variance (project/program forecasts exceeding the target). As per Ms. Bauerlein on page 349 of the transcripts:

> *"So, they're saying, when you plan all the detailed budgets for all the projects and programs, they total $42.9 million. But we know we're going to have some execution risk, which is what the $2.8 million represents, so, our total budget is $40.1.*
>
> *When you're looking at actuals now, you're going to compare actual costs incurred to the 40.1. But the point he is trying to make is, if you're looking at it in a project-by-project basis, the projects don't*

> *have the execution risk in their numbers. That – that execution risk is in the negative 2.8."*

Ms. Bauerlein, on pages 349-350 of the transcript, goes on to clarify that the anticipated under expenditure can still be mitigated as the year progresses:

> *"However, there could be execution risks that still happen between now and – and March on projects that are underway, execution risks offsetting."*

Centra would like to emphasize that while these projects have experienced delays, they are projects which have value for Centra and its customers. Detailed execution will occur as soon as the factors causing the delay have been resolved.

In summary, the $40.1 million capital expenditure target is reasonable and necessary. Centra will continue to prudently manage the overall capital portfolio in order to deliver a safe and reliable natural gas system for its customers.

3.4 Asset Condition Data Pertains to Future Asset Replacements

On pages 271–273 of the transcript Centra concurs with the PUB counsel's statements that:

> "*…proper asset condition assessment data will have an important role in determining which assets need replacement and when*" and "*…asset condition assessment data will provide Centra with the ability to prioritize which capital expenditures provide the best value for the ratepayer*."

Centra notes, however, that this response applies specifically to capital expenditures for <u>future</u> asset replacement investments. Many of the capital expenditures that Centra has within the New Business program (new customer attachments), System Betterment-Relocations, Meter Compliance, System Betterment-Capacity, and others will <u>not</u> change by obtaining additional asset condition assessment data or the implementation of an asset management plan. That is, having better information on existing assets will not reduce the capital costs for new customer additions or provide increased system capacity, nor would the additional asset information materially change Centra's approach to managing reliability risk with respect to projects such as the Steinbach, Portage la Prairie or Letellier projects.

On page 41 of the transcript, CAC Counsel indicated that they would be asking the PUB to adopt the recommendations of the METSCO report. Centra's Rebuttal Evidence provides some important clarification/corrections to the information provided by METSCO.

Centra does see value in and therefore is not opposed to implementing the following METSCO suggestions which Centra notes that work is already in progress:

- Station Condition Assessments (#7);
- Asset Failure Data Research (#11); and
- Capital- Maintenance Tradeoffs (#12)

However, Centra has serious concerns with respect to implementing the following METSCO suggestions regarding:

- Sustainment Program Impact Sensitivity (#4);
- Load Materialization Patterns (#5); and
- System Efficiency Benefits Tracking & Justification (#10)

Centra would expend significant effort and cost to fully implement these suggestions while realizing minimal benefits. As an example, for Sustainment Program Impact Sensitivity, capital investments in Centra's "Sustainment" category include work associated with mandatory requirements and therefore, cannot be reduced. In addition, this category also includes System Renewal expenditures to address Centra's ageing infrastructure. Work is underway to identify asset information gaps for pipelines where visual inspection is not possible. It is anticipated that this work will identify additional requirements as a result of the degradation of the pipeline. Notably, reduction in the Sustainment Budget would increase risks beyond Centra's level of risk tolerance.

> Centra continues to develop an asset management program that will be used to better support asset renewal programs in the future. The asset renewal programs will be based on asset condition information that is being obtained through pipeline in-line inspection, service riser audits, and other activities to help define specific asset condition. For natural gas, a key result of the implementation of an asset management plan is to provide assistance in determining asset life and using this information to develop <u>longer-term capital plans</u> for asset replacement. Centra will continue to communicate with the PUB on the progress on the development of its asset management program and related operational matters using the technical venue of the Quarterly Communication Meetings.

4 COST OF SERVICE

As identified by the PUB in its second Procedural Order No. 98/19 the scope of the oral evidentiary portion of the hearing with respect to Cost of Service and related matters was specifically limited to:

> *"...options identified for ways to mitigate the bill impacts arising from the results of the existing PUB-approved Cost of Service Study, not including methodology and/or allocation changes except for the heating value margin deferral, remain in scope in the 2019/20 GRA."*[1]

The PUB also ruled in Order 98/19 that all other issues relating to Centra's Cost of Service Study methodology be severed and determined through a separate, subsequent proceeding.

IGU and Koch Fertilizer Canada have repeatedly argued in motions and in the oral hearing that this proceeding should be suspended, and no rate changes should be made until a generic cost of service proceeding concludes. This position has been rejected by the PUB in Orders 77/19, 91/19 and Order 98/19. Centra submits that

[1] Page 10 of Order 98/19 dated July 15, 2019

further argument by IGU and Koch to delay rate changes pending the completion of a cost of service review should once again be rejected completely by the PUB.

Centra's proposed rates reflect the removal of the Furnace Replacement Program funding from the SGS class, as well as the reallocation of costs between customer classes to reflect the results of Centra's current approved cost allocation study. Deferring the proposed rate changes to a future period would be to the detriment of the majority of Centra's customer classes who will see a reduction in their annual bill if Centra's Application is approved.

CAC agreed that deferring rate changes to a future period is not appropriate as such an option would be in direct conflict with the direction set out by the PUB in Order 98/19, as discussed by Ms. Derksen on transcript page 732:

> *"We also believe that any recommendation to freeze changes in non-gas costs conflict with the procedural orders of the Board. These recommendations are implicit -- implicitly asking the Board to prejudge the conclusion of generic cost allocation review before it even takes place."*

4.1 Bill Mitigation is Not Required

Centra submits that before making any determination with respect to options for bill mitigation, it is first necessary to consider whether bill mitigation of customer impacts flowing from the results of Centra's 2019/20 GRA is warranted.

Page 1 of Schedule 11.1.0 Update, filed on July 24, 2019, provides the customer bill impacts arising from the proposed billed rates (base rates plus riders) flowing from Centra's Application and page 2 of Schedule 11.1.0 Update provides the customer bill impacts arising from the base rates proposed by Centra, to be implemented on November 1, 2019.

When considering the base rate impacts, T-Service customers within Centra's large volume customer classes are experiencing higher bill impacts arising from Centra's Application compared to other customer classes. Accordingly, Centra gave consideration to options for bill mitigation as a result of the proposed base rates to these T-Service customers only.

The base rate customer bill impacts incorporate changes in non-primary gas costs and non-gas costs included in Centra's Application that is based upon the cost allocation methodology that is currently utilized by Centra. The magnitude of the shifting in cost responsibility for some customer classes in 2019/20 Cost Allocation study is the result of large additions to Transmission Plant and not because of a flawed cost of service methodology.

This same cost allocation methodology has been previously reviewed and approved by the PUB and continues to be an appropriate methodology upon which the PUB can rely on to establish rates. Centra's position was also confirmed by the consultant for the CAC who opined on page 826 of the transcript that *"…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…"*[2]

Centra has demonstrated that the bill impacts to T-Service customers in the Mainline and High-Volume Firm customer classes arising from the base rates proposed in the current Application are primarily the result of a reversal of a bill decrease these customers experienced effective August 1, 2017, where the PUB directed the non-gas portion of customer rates revert to levels previously approved.[3] In response to first-round information request PUB/Centra-I 143c, Centra presented its analysis of the base rate impacts as proposed in this Application compared to what these impacts would have been had the rate reversion not occurred in August 2017.

As shown on Slide 5 of Centra Exhibit 40, reproduced in Figure 5 below, the bill impacts for the T-Service customers in the HVF and Mainline customer classes

[2] Transcript Page 826 from August 20, 2019

[3] Directive 2 of Order 79/17 dated July 28, 2017

flowing from the current GRA are largely due to the rate decrease afforded to these customers in accordance with Order 79/17. In Order 79/17 the PUB expressly anticipated the possibility that upon review at the next General Rate Application the rate reductions resulting from that Order may be reversed (Order 79/17 on page 18).

Figure 5-Bill Impacts for HVC and Mainline T-Service Customers

			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%

Another primary consideration when determining the appropriateness of bill mitigation options flowing from Centra's proposed base rates is to evaluate the impacts to different customers who elect to take different services on a consistent basis to ensure an appropriate and reasonable comparison across these customer classes. The bill impact for T-Service customers reflects the changes proposed to delivery service in isolation as these customers procure their own commodity and upstream storage and transportation services. As such, both bill impacts (the decrease experienced in August 2017 and the currently proposed increase) appear disproportionally large as there are no upstream storage and transportation costs and no Primary and Supplemental Gas costs to dilute the impact, as is the case with Sales Service customers.

As discussed by Mr. Chard at page 538 of the transcript, Centra considered the PUB's longstanding precedent from page 82 of Order 156/91 issued on December 31, 1991, that *"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."*

As shown on Slide 10 of Centra Exhibit 40, and reproduced in Figure 6 below, factoring in Centra's most recently approved primary gas rates as a proxy given that the Transportation Service ("T-Service") customers arrange their own gas supply, the related base rate bill impacts for T-Service customers are in the range of 3% to 4% with a comparable outcome for the Special Contract class.

Figure 6-Base Rate Bill Pacts for T-Service and Special Contract Customer Classes

	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 analysis provided by Centra and considering the history with respect to the non-gas components of rates since the August 1, 2017 rate reversion, Centra respectfully submits that options to mitigate bill impacts arising from Centra's proposed base rates are not required in this Application.

4.2 Bill Mitigation Options

As part of the current Application, Centra is proposing to dispose of the balances in its Supplemental Gas, Transportation, Distribution PGVAs and Heating Value Margin Deferral accounts accumulated between November 1, 2015, and October 31, 2019. The net balance of these accounts is a refund to customers of approximately $21M, which Centra is proposing to dispose of through rate riders that are added to Centra's base rates for a period of 12 months starting November 1, 2019. The billed rate impacts will vary between customer classes. Page 1 of Schedule 11.1.0 Update provides the customer bill impacts arising from the proposed billed rates flowing from Centra's Application.

If the PUB determines that bill mitigation options are warranted, Centra identified two options for bill mitigation applicable to the Special Contract Class for the PUB's consideration, with variations of these options being available depending upon the desired outcomes that are selected. The options presented are specific to the Special Contract Class in light of the billed rate customer impacts flowing to this class, which were derived in accordance with Centra's currently approved cost allocation methodology.

The first option was to vary the payment terms associated with the collection of the rate rider balance allocated to the Special Contract Class. This option would provide for payment of the balance, and associated carrying costs, over some fixed period of time compared to the current payment terms that collect the balance owing from this class as a single payment on the first bill following the implementation of the rate change. Although Centra proposed extending the payment terms over a two-year period, other durations of time could also be considered, with the requirement that carrying costs would accrue and be the responsibility of this customer class until the deferred balance is paid in full.

This first option is the most administratively simple to implement as it does not alter the currently utilized and approved cost allocation methodology and has no adverse impact on other customer classes. This option is also consistent with the direction of the PUB in Order 98/19 *"...that individual methodology changes should not be made in isolation and should instead be considered on a complete evidentiary record on Centra's Cost of Service Study methodology."*[4]

Centra proposed a second bill mitigation option available to the Special Contract class that would result in a change to the current, PUB-approved methodology for allocating the balance in the Heating Value Margin Deferral account. Centra acknowledged that two variations of this option were presented for consideration by the PUB, both of which would have the same effect of shifting cost responsibility for the Heating Value Margin Deferral balance away from the Special Contract Class to the other customer classes, with the SGS customers being the most directly impacted.

---

[4] Page 9 of Order 98/19 dated July 15, 2019

The consultant for CAC proposed Centra exclude the Special Contract Class from any allocation of the Heating Value Margin Deferral balance and allocate the balance in this deferral account to all other customer classes based on total volumes of each class (consistent with the recommendation made by Christensen & Associates in 2012). This option would result in the Special Contract Class having no cost responsibility for the Heating Value Margin Deferral, and consequently increasing the allocations to all other customer classes, as discussed by Mr. Chard on page 557 of the transcript, a summary of which is provided in Figure 7 below:

Figure 7-Heating Value Margin Deferral Cost Allocation

	SGS	LGS	HVF	Mainline Firm	Interruptible	Special Contract Class	Power Station
Current Methodology	32%	26%	10%	7%	2%	[redacted]	[redacted]
CAC Recommendation	42%	33%	13%	9%	3%	0%	0%

2d, 1e

Another variation of the bill mitigation option that would involve a change in the methodology for allocating the balance in the Heating Value Margin Deferral account was recommended by the consultant for IGU and involved allocating the balance in the Heating Value Margin Deferral based upon volumetric revenues collected from each class. This methodology has the effect of shifting cost responsibility for the balance in the Heating Value Margin Deferral away from the higher volume customer classes, who pay their capacity-related costs through a monthly demand charge, to the SGS customer class who pays all of their capacity and commodity-related costs through a volumetric rate. The results of this proposal were provided by Centra on page 8 of its Rebuttal Evidence, and reproduced in Figure 8 below:

Figure 8

1 Comparison of Allocation of Heating Value Deferral Account Balance for each Gas Year by customer class

2d 1e

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

As shown in the table above, the most notable impact arising from this proposal is to the SGS Customer Class which is allocated 71% of the cost responsibility for the Heating Value Margin Deferral balance, more than double the 32% allocated to this class under the currently utilized, PUB-approved methodology. Given the impacts to the other customer classes that arise as a result of changes in the allocation of Heating Value Margin Deferral balance, Centra submits that consideration of this change in methodology may be more appropriately deferred to a generic review of Centra's overall cost allocation methodology, as contemplated by the PUB in Order 98/19.

In the interim, and as discussed above, collection of the Heating Value Margin Deferral balance from the Special Contract class over a two-year period would provide reasonable bill mitigation for that class.

4.2.1 T-Service & Heat Content

Centra wishes to clarify the issue of how the Heating Value Margin Deferral balance accumulates is completely divorced from the heating value of gas that any given customer or supplier puts on the pipeline. Centra's T-service customers (with the exception of Special Contract Class as its rate structure is predominantly fixed) contribute to the balance in the Heating Value Margin Deferral account consistent with any customer that pays a volumetric rate to Centra. As outlined in IGU/Centra I-27 a-n), the variance in Heating Value Margin Deferral accumulates due to the difference in heating value of the gas that Centra receives from the TCPL Mainline compared to the constant heating value of gas assumed in Centra's volume forecast and ultimately embedded in rates.

Centra's Gas Supply panel, Ms. Stewart and Mr. Kostick, clarified the testimony of CAC's witness during cross-examination by PUB Counsel. Specifically, when asked by Mr. Peters whether gas injected by Manitoba T-Service customers can be of different energy contents, Mr. Kostick explained, starting at page 889 of the transcript:

> *"But ultimately the gas is co-mingled on a single system on very large pipelines, such that from a practical perspective the heat values would not differ across shippers."*

Centra submits that the issue raised by Ms. Derksen is unfounded, having no basis in fact or practice and does not warrant further consideration by the PUB.

4.3 Alternative Options for Bill Mitigation

Interveners have raised alternative bill mitigation options for the PUB's consideration. In addition to Centra's position that any consideration of these options is out of scope by virtue of Order 98/19, Centra does not support the use of these alternative options for the reasons set out below.

4.3.1 Deferral of Transmission Related Investments

On page 115 of the evidence of Mr. Rainkie & Ms. Derksen, the consultants for CAC identify a *"...deferral mechanism associated with the impacts of new Transmission investment payable overtime by the participatory classes is an appropriate option that could be considered*."

Centra views such an option as involving a fundamental change in cost allocation methodology. Given that transmission investments made by Centra are reflected in the proposed base rates to be effective November 1, 2019, this option would require that a certain portion of costs allocated to customer classes (which would need to be defined by the PUB in its Order) be placed into the deferral account each year until the balance is paid in full. Centra's concerns with implementing such an option arise as a result of the complexities associated with managing this option, especially given the PUB's determination that a generic cost allocation review is on the horizon.

As discussed by Mr. Chard at page 576-577 of the transcript, Centra's strong preference is to keep the slate as clean as possible for the purposes of the pending Cost Allocation Review: (**emphasis added**)

> *"I think -- I think it's certainly something the -- the Board could consider. I think we would have some concerns about --about going there. I -- as I said, it -- it delves into methodology quite deeply, but it also creates issues around, you know, you've now got a deferral that is going to have to be collected from customers over time. One (1) of the things that Centra was hoping to do in this application, since it's been so long since we've been here and with the impacts of the rate rollback and some other decisions that had been made prior to that, we've got pieces of costs that are in rates going all the way back to 2008/'09. So, one (1) of the objectives of Centra coming out of this proceeding was actually to reset things and have a clean slate going forward. So, certainly,* ***deferring transmission costs or the collection of revenues associated with that perpetuates a problem that we were hoping to clean up."***

4.3.2 Zone of Reasonableness

In Order 98/19, the PUB determined that fundamental changes to Centra's cost allocation methodology should not be made in isolation of other changes that would be considered as part of a comprehensive review of cost allocation methodology. The PUB also determined, in its first procedural Order 24/19, dated February 20, 2019, rate design matters are not in scope, except for the specific matter of the ongoing stakeholder engagement process related to Centra's current rate structure. As such, any consideration toward implementation of a Zone of Reasonableness, whether one considers it to be a cost allocation matter or an issue of rate design, as an option to mitigate bill impacts from the current process should be deferred to a future proceeding where the evidentiary record on such matters will be complete.

Furthermore, Centra notes there is no evidence on the record of this proceeding of the actual rate impacts of implementing a zone of reasonableness, which was acknowledged by IGU witness Mr. McLaren at transcript page 667. The only evidence available is from CAC in response to IGU/CAC I-6 that given the RCC for the Special Contract Customer Class flowing from Centra's GRA is approximately 60%, implementation of a Zone of Reasonableness *"...will be of little practical consequence to address bill mitigation and rate stability..."*

4.3.3 Elimination of the Heating Value Margin Deferral Account

Another alternative offered by CAC for the PUB's consideration was the elimination of the Heating Value Margin Deferral account entirely; however, as noted by the witness for CAC on page 819 of the transcript, this *"...was an option...worth exploring in the future".* IGU's expert witness, Mr. McLaren, agreed that such an option may be something worth considering on a go-forward basis, but there would still be the matter of how to dispose of the balances in the Heating Value Margin Deferral accounts that have accumulated between November 1, 2015, and October 31, 2019, as brought forward in this Application.[5] Accordingly, Centra's position is that it does not believe any consideration should be given toward eliminating the Heating Value Margin Deferral account as part of the current proceeding.

4.3.4 Equal Rate Changes Applied to all Customer Classes

During his direct evidence presentation, Mr. Collins on behalf of Koch introduced another alternative option, which was to implement an equal percent rate change for all customer classes. Mr. Collins explained that his experience was that such an approach can be considered when the results of a cost allocation study are considered to be unreliable.[6] This option was explored by PUB Counsel during cross-examination of Mr. Collins on pages 849-851 of the transcript. Centra is of the view that this option is completely without merit.

---

[5] Transcript page 687-688 from August 16, 2019

[6] Transcript page 841 from August 20, 2019

4.4 Generic Review of Cost Allocation Methodology

The last comprehensive review of Centra's cost allocation methodology was completed in 1996. The PUB's findings with respect to this review are outlined in Order 107/96. In that Order, the PUB noted its expectation that the approved principles to be included in the cost allocation methodology and rate design *"…will be adaptable to industry changes and that the results produced should be acceptable for some time into the future"*.[7] Accordingly, the fact that Centra's cost allocation methodology has not been subject to a comprehensive review by the PUB since 1996 is not unexpected.

Centra's current cost-allocation methodology continues to be appropriate, and the outcomes can be relied upon in determining just and reasonable rates for its customers. However, should the PUB confirm that it is necessary and appropriate to conduct a full generic review of Centra's cost allocation methodology, adequate consideration must be given toward the time and resource commitments that will be required of the corporation and the PUB to prepare for and conduct such a review.

In advance of any specific directives or timelines being issued by the PUB on this matter, Centra respectfully submits that a necessary first step would be for Centra to meet with PUB staff to discuss the appropriate scope, timing and anticipated cost of any such process. Such a meeting could include discussion on how best to facilitate a review, particularly with regard to the significant amount of Commercially Sensitive Information ("CSI") embedded in Centra's current model, which will need to be a component of the comprehensive review, and how the timing of such a review can fit within the regulatory schedule of the PUB.

4.5 Minimum Margin Guarantee for the Power Stations Class

CAC's witness Ms. Derksen has proposed that as a matter of regulatory compliance, the PUB re-instate the Minimum Margin Guarantee for the Power Stations Class and

[7] Page 26 of Order 107/96

that customer payments under this guarantee be treated as Other Income. Centra has been fully compliant with PUB direction in relation to the rate design and the Minimum Margin Guarantee for the Power Stations Class. As set out by Mr. Chard at pages 600 – 605 of the transcript, Order 118/03 did not direct or require Centra and the Power Station Class customer to amend the Power Stations contract to incorporate and establish the minimum margin guarantee provisions on an ever-greening basis.

Surprisingly, Ms. Derksen testified that Centra's intention in the 2013 GRA was to proceed with the true-up for the Power Stations Class and then to bring forward a rate design proposal that embedded margin certainty for this rate class (Transcript page 764). Centra has found no evidence on the record of the 2013/14 GRA that supports this claim. However, Centra did locate testimony from Mr. Barnlund (who was testifying alongside Ms. Derksen at the time – for full context, please see transcript pages 1044-1060) which in fact contradicts Ms. Derksen's claim.

Mr. Barnlund from page 1060 of the Transcript of the 2013 GRA:

> *"…So these contractual arrangements were put in place, in conjunction with the feasibility study, to be in alignment with the assumptions that were used in the feasibility study. And our preference would be to true up this feasibility study, and abandon the use of a minimum margin guarantee, and basically, have this customer put on rates after that point in time, and pay rates in accordance with our -- our rate determination process as any other customer would. We feel that the -- at the end of the ten (10) years that -- that, you know, there's -- we will have them sufficiently trued up, and that we could then proceed in that fashion."*

This is what Centra has done in this is Application. Centra has applied its accepted cost allocation methodology to determine the rates of all customer classes, including the Power Stations Class. Centra notes that the PUB in Order 85/13 following from the 2013/14 GRA did not comment upon Centra's stated intention to discontinue the minimum margin guarantee.

It is also worth noting that Ms. Derksen's current recommendation in this proceeding is directly contradictory to her testimony in 2013 when she appeared on behalf of Centra (Transcript page 1055):

> *"And -- and so let's understand that the minimum margin was put in place for purposes of the feasibility test that was ini -- initially prepared for the power stations back in about 2002, and then again in 2003. And so -- and -- and the reason that we did this is to have some consistent generation of revenue for context of determining what their contribution should be, if there should have been one (1) at all. And -- and of course, there was. But, so that's different than what I attempt to do from a cost-allocation perspective, which is taking a look at today's revenue requirement and deci -- and trying to decide what costs that each customer class imposes on the system today. And the minimum margin was set for a different purpose."*

It should also be noted that CAC's proposal in this proceeding is quite different than its positions in previous rate hearings, where it argued that the full amount of the Minimum Margin Guarantee should be included in Net Income. The significant difference between this Application and previous proceedings is that in 2013/14 for example, it was certain that the Power Station customers would pay at least the amount of the Minimum Margin Guarantee in accordance with the terms of their contracts.

In this proceeding, CAC is now suggesting that Centra should charge the customers in this class four times what the results of the Cost Allocation study indicate, even though such an outcome is contrary to the terms of Centra's contracts with these customers. CAC's recommendation, if adopted at this time, would amount to retro-active ratemaking and result in excessive bill impacts to these customers and should be rejected by the PUB.

4.5.1 Update to the Power Stations Load Forecast

CAC has also recommended that the PUB reject Centra's updated Load Forecast for the Power Stations Class that was included in the pre-hearing update. In CAC's view, this update represented a change in cost allocation methodology and was therefore in conflict with the PUB's direction in Order 98/19.

Centra updated its Load Forecast methodology (as described in the July 24th update) which resulted in an increase in the costs allocated to this class. This is not a change in the cost allocation methodology as suggested by Ms. Derksen.

5 CHANGES TO THE TERMS AND CONDITIONS OF SERVICE

In this Application, Centra is requesting approval of changes to Centra's Schedule of Sales and Transportation Services and Rates ("Ts & Cs") to increase the volumetric eligibility for T-Service and to implement a balancing fee structure.

5.1 T- Service Balancing Fees

Centra is requesting PUB approval of the changes to Ts & Cs and approval of the proposed balancing fee structure, the goal of which is to incent T-Service customers to consistently balance their consumption with the volume of gas delivered to Centra's distribution system.

T-Service requires a customer to actively manage its natural gas deliveries to ensure that the volume of gas delivered to the Centra system each day is equal to the volume of gas consumed at the customer's facility in the same day, as prescribed in the Ts & Cs, Part V Special Terms and Conditions: Transportation Service, section D. This obligation to balance consumption and deliveries is critical and it appears that there is no dispute amongst the parties to this proceeding that T-Service customers as a whole have failed to meet this obligation, thereby imposing an inappropriate burden on Sales Service customers.

As demonstrated by Mr. Labonte's testimony, the necessary steps to balance consumption and deliveries are not being taken today because lower volume T-Service customers, in particular, are not exposed to any risk of balancing fees. Mr. Labonte acknowledged the following:

> *"So when the – any outages scheduled, and we know about it ahead of time, certainly our supplier has the flexibility and we can adjust the*

> *nomination into Centra Manitoba.* ***The reason we haven't done that to date is because of the current tolerance bans[sic]. We haven't had to****, all right."*[8]

Mr. Labonte's position ignores the existing contractual obligations of T-Service customers and illustrates why Centra requires a mechanism to incent T-Service customers to meet their contractual obligation to balance their accounts.

T-Service is an elective service offering. In addition to T-Service, Centra provides two Sales Service offerings: 1) System Supply and 2) Western Transportation Service ("WTS"), neither of which require customers to manage any aspect of their gas supply. To be clear, System Supply and WTS have no requirements of customers for daily and intra-day consumption forecasting, nominating or balancing. They also have no individual exposure to the risk of balancing fees.

When T-Service was first introduced in Manitoba, the PUB stated:

> *"The Board is of the opinion that* ***direct purchasers must assume the inherent risks associated with arranging their own gas supply****. 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*."[9]

The PUB went on to specifically address the issue of balancing:

> *"The Board believes that* ***direct purchasers****, having contracted with TCPL for transportation services,* ***should assume the responsibility for***

[8] August 22, 2019 transcript page 1128, lines 15-21, emphasis added.

[9] Order 112/88 at page 47, emphasis added.

> ***balancing their supply with their demand and be prepared to assume the risks for any imbalances***."[10]

Bearing in mind the PUB's direction, Centra is proposing to impose balancing fees to incent T-Service customers to more tightly balance their accounts, thus reducing the harm currently experienced by Sales Service customers. Centra has provided evidence on the nature of this harm, which is the direct and indirect costs resulting from imbalances caused by T-Service customers. These costs include TCPL-imposed balancing fees, opportunity costs in the form of foregone Capacity Management revenue, and higher commodity costs resulting from the delay of when Centra can execute transactions.

There is also an inappropriate reliance by T-Service customers on Centra's use of its supply, storage, and transportation assets to address their imbalances, which are significant. Only 3 of 15 T-Service customers contain their imbalances to less than 10% today.[11] Centra's supply, storage, and transportation assets are exclusively funded by Sales Service customers, thus routine use of those assets to mitigate T-Service imbalances is a cross-subsidization of T-Service customers by Sales Service customers.

There is a consensus amongst the parties to this proceeding on the need for change, as outlined in Centra's rebuttal evidence.[12]

Centra's proposal utilizes the long-standing TCPL Mainline balancing fee structure, which has been approved by the National Energy Board and is widely accepted by Downstream Operators ("DSOs") that must balance Mainline delivery areas across the country. Most importantly, this incentive-based balancing fee structure has proven to be effective at incenting consistent balancing behaviour. Centra is

[10] Order 112/99 at page 48-49, emphasis added.

[11] PUB/Centra I-150, attachment.

[12] Centra Rebuttal Evidence, section 6.1, page 27, lines 3-14.

proposing to implement this balancing fee structure but with the key difference of cutting the fee levels to 50% of what Centra is charged by TCPL. Ms. Stewart explained in her testimony that the reason Centra's proposal includes a reduction in fees relative to what TCPL charges was ***to mitigate the impacts for our T-Service customers***.[13]

Centra also proposes to introduce absolute daily and cumulative tolerances based on a customer's average daily consumption, as follows:

Figure 9-Daily and Cumulative Tolerances Based on Average Daily Consumption

Average Daily Consumption (GJ/day)	Absolute Daily Tolerance	Absolute Cumulative Tolerance
Less than 1,000	+/- 50 GJ	+/- 100 GJ
1,000 – 1,699	+/- 100 GJ	+/- 200 GJ
1,700 – 2,499	+/- 150 GJ	+/- 300 GJ
2,500 – 4,999	+/- 250 GJ	+/- 500 GJ
[redacted]	+/- 500 GJ	+/- 1,000 GJ

2d

Source: PUB/Centra II-57 a)

These absolute daily tolerances equate to approximately +/-7% of a T-Service customer's average daily consumption. They are considerably more generous than Centra's minimum daily tolerance of +/-2% or the tolerances on the NGTL system of -2%/+1% that Mr. Brown advised were in effect the day of his testimony.[14] These tolerances will significantly mitigate customer impacts as Ms. Stewart described in her testimony:

> *"… [T]he essence of Centra's proposal today and one of the key reasons why it is a reasonable proposal from Centra's perspective is*

---

[13] August 22, 2019 transcript page 942, lines 10-11, emphasis added.

[14] August 22, 2019 transcript page 1079, lines 14-15.

> *Transportation Service* ***customers essentially will have tier 1 and tier 2 fees waived under the circumstance of Centra's proposal***.”[15]

This feature of Centra’s proposal was incorporated to reflect the concerns of T-Service customers and nominating agents as shared with Centra through its dialogue with these stakeholders, specifically their desire for mitigation of financial impacts. As illustrated in IGU/Centra I-26 and IGU/Centra II-11 b), T-Service customers are afforded significant “wiggle room” under Centra’s proposal.

Ms. Stewart also discussed the fact that Centra is unaffected in the matter of its balancing fee proposal, rather it is a zero-sum game between T-Service and Sales Service customers:

> ***“The more tolerance we afford to transportation service customers, the more costs that are borne by sales service customers. Centra is neutral in this.*** *We do not -- the Utility does not benefit in any way from the implementation of balancing fees other than our onus to ensure that when we're providing services, that the right group of customers is bearing the right amount of costs. So* ***every bit that we accommodate T-Service customers more means that the degree of cross subsidization of them by sales service customers rose. It is a zero-sum game****, here*.”[16]

There is no benefit to Centra of balancing fees other than to:

a) lncent improved balancing performance;

b) Minimize the inefficiency and associated cost of T-Service; and

c) Directionally address an unfairness that has existed for a number of years.

[15] August 22, 2019 transcript page 920, lines 13–18, emphasis added.

[16] Transcript, August 22, 2019 at page 921, lines 9-20, emphasis added.

IGU witnesses have raised a few specific concerns with the balancing fee proposal which Centra wishes to address.

5.1.1 Centra's Discretion to Alter Balancing Fees

IGU has suggested that Centra's proposed revisions to the Ts & Cs will provide it with unfettered discretion to charge any fee it wishes.[17] This is not accurate. In bringing this Application, Centra is asking the PUB to approve the specific balancing fee structure presented in its evidence, including the percentage of TCPL fees charged and the absolute daily and cumulative tolerances set out in the above table, recognizing, however, that the ultimate discretion on this matter rests with the PUB. There is reason for the PUB to award Centra the discretion to charge balancing fees up to 100% of TCPL Mainline fees in accordance with the proposed changes to T-Service terms and conditions of service and in recognition of Centra's role as the DSO for Manitoba delivery areas. Centra will accept the Board's direction in this regard.

5.1.2 T-Service Customers Cannot Respond

IGU witnesses focus on balancing fees that would be charged even in the event the T-Service customer is unable to respond. Mr. Curran-Blaney, on behalf of Maple Leaf Foods, provided his view that Centra's proposal would "penalize us twice"[18] in the event of an unplanned plant disruption – first when the initial disruption and potential imbalance occurs, and second during any additional "make-up" production shifts to compensate for the initial event.

Unfortunately, unscheduled maintenance, equipment failure, road closures, and even customer-specific supply shortages can occur and may impact gas consumption causing an imbalance. These issues are outside of Centra's influence or control, but T-Service customers are, in large part, able to react and respond to the related imbalances. The natural gas market is very flexible, providing several day-ahead and

[17] Transcript, August 14, 2019 at page 49.

[18] Transcript, August 22, 2019 at pages 994-995.

intra-day nomination windows at which gas deliveries can be fine-tuned to match anticipated consumption, with the exception of a plant disruption occurring after 7 p.m. CCT of the gas day in question. This risk of exceptional circumstances affecting gas consumption after 7 p.m. is inherent in arranging one's own gas supply, and Centra is not excused from paying balancing fees to TCPL as a result of such circumstances (i.e., unplanned disruptions) within its delivery areas.

With respect to Mr. Curran-Blaney's example, Centra does not agree that there would be a double penalty. As discussed above, if the plant disruption occurred prior to the last nomination window, the nominating agent would have the opportunity to take steps to mitigate any pack imbalance. In addition, regardless of when the initial disruption occurred, there would be considerable opportunity to adjust nominations for any "make-up" shift such that no draft imbalance occurs. Any imbalance associated with the secondary impact of the initial event can readily be mitigated. As with any imbalance, it falls to the T-Service customer or their nominating agent to take action and respond to the prospect of imbalances.

5.1.3 Frequency of Power Outages

Specific reference was made by IGU witnesses to power outages. In Centra's view, power outages should be viewed in the same light as other operational issues, which is an inherent risk of electing to manage one's own gas supply. Nevertheless, as stated in PUB/IGU-McLaren-15, power outages are relatively rare, which Mr. Labonte also acknowledges in his testimony relative to the plants served by France Financial Consulting ("FFC").[19] As set out in IGU/Centra I-22 o), in the event of a power outage resulting in the incurrence of balancing fees, customers should contact their Manitoba Hydro account representative for resolution, which respects the need to minimize cross-subsidization as between Centra and Manitoba Hydro.

---

[19] Transcript, August 22, 2019 at page1100, lines 19-20.

5.1.4 Natural Gas Market Realities

IGU witnesses provided a great deal of information about external market considerations that make it difficult to balance their accounts. They mention Elapsed Pro-rated Scheduled Quantity ("EPSQ"), nomination window limitations, pipeline restrictions, and the service attributes of parks and loans, all of which are features of the existing natural gas market. As was heard in oral evidence, EPSQ and nomination windows are standardized across North America by external bodies such as the North American Energy Standards Board ("NAESB").[20] As outlined in its rebuttal evidence, Centra must work within the very same constraints as T-Service customers when attempting to balance supply and demand within its delivery areas as the designated DSO.[21] These are simply the realities of the natural gas market, the inherent limitations of which should be considered by T-Service customers when determining whether this service offering is appropriate for them.

5.1.5 Balancing Fees Forecast

Mr. McLaren advises the PUB to be cautious because Centra has not forecasted its revenue from T-Service balancing fees in the test year. As per Ms. Stewart's testimony, Centra's objective is to collect nothing in balancing fees from Transportation Service customers.[22] The daily tolerances of approximately +/-7% are reasonable and afford T-Service customers with considerable flexibility to manage their accounts. Centra anticipates, and the evidence of IGU witnesses confirms, that T-Service customers will respond to the financial incentive inherent in Centra's proposal and balance their accounts more tightly. The results of that improved performance cannot be known at this time. However, the fact that 11 of 15 T-Service customers have effectively never been subject to balancing fees suggests there is room for considerable improvement in response to Centra's proposed incentive-based fees.

---

[20] Transcript, August 22, 2019, Ms. Stewart at page 958, lines 13-15.

[21] Centra Rebuttal Evidence, section 6.8, lines 6-20.

[22] Transcript, August 22, 2019 at page 942, lines 18-20.

5.1.6 Special Tools for T-Service

IGU witnesses have suggested that tools or mechanisms utilized in certain other jurisdictions should be offered by Centra to mitigate the impact of balancing fees. These comparisons to other jurisdictions are of limited value because each utility is contending with unique operating circumstances, a fact acknowledged by IGU witnesses.[23] Centra's unique operating reality of being a captive shipper to one pipeline and without local storage must be considered, and Mr. Kostick detailed why jurisdictions such as Ontario and Michigan are not relevant comparators to Manitoba.[24]

There are numerous and sufficient tools in the existing gas market for any entity to adequately balance their account, given a sufficient economic incentive to do so. T-Service customers already have the ability to:

i. Obtain supply contracts with the daily and intra-day flexibility to increase or decrease nominated gas volumes when short or long supply, to the extent afforded by EPSQ.
ii. Execute bilateral buy/sell transactions on an intra-day basis, to address those imbalances in excess of what EPSQ affords;
iii. Contract for and utilize storage to address imbalances; and
iv. Utilize TCPL's park and loan program when available.

Additionally, Mr. Kostick described in his testimony how TCPL treats the MDA as a single location, which allows T-Service customers at different locations throughout southern Manitoba to trade with each other to address imbalances at standard nomination windows.[25] Accordingly, no special pooling system is needed in Manitoba to facilitate transactions amongst T-Service customers. Without any involvement of Centra, T-Service customers can already: pool their supply under a

---

[23] Transcript, August 22, 2019, Mr Labonte at pages 1157-1158.

[24] Transcript, August 22, 2019 at page 980, line 10 to page 981, line 21.

[25] Transcript, August 22, 2019 at page 982, line 11 to page 984, line 8.

single nominating agent, who could then shift supply amongst customers[26]; and trade with any counterparty at any location on the Mainline that offers the greatest value, not just with other T-Service customers at the MDA.[27]

Mr. Brown and Mr. Labonte both agreed that T-Service customers can pool their requirements and trade imbalances amongst each other using the TCPL Mainline.[28] This exchange between PUB counsel and Mr. Labonte[29] demonstrates what can be done in this regard without incurring the fees incorrectly assumed by Mr. Labonte:

> *"**MR. BOB PETERS:** I want to make sure the Panel understands, is that if you know in advance that one customer is drafting and one customer is packing and let's just hypothetically assume it's the same number of gigajoules each way, **why would those customers incur a penalty on the Manitoba system if you -- if you did something on the TransCanada system before that gas got here?***
>
> ***MR. GIL LABONTE:** Okay, so this is a theoretical situation, right? We haven't had to do that to date because of the current tolerance bans [sic]. Okay, so it's a theoretical question.*
>
> *Yes, in theory, **we could reduce the deliveries and increase the deliveries coming out of Alberta to offset those packs and drafts if we know about them ahead of time.***
>
> ***MR. BOB PETERS: And that doesn't have any involvement with Centra Gas, correct?***

[26] Transcript, August 22, 2019 at page 977, lines 5-24.

[27] Transcript, August 22, 2019 at page 1010, line 10 to page 1011, line 4.

[28] Transcript, August 22, 2019 at page 1125, lines 1-15.

[29] Transcript, August 22, 2019 at page 1149, line 11 to page 1150, line 4, emphasis added.

MR. GIL LABONTE: Correct."

Accordingly, there is no need for Centra to expand its mandate and duplicate market transaction services offered by others. The existing gas market provides significant flexibility and tools to address potential imbalances, as facilitated by the TCPL Mainline.

5.1.7 Further Consultation Is Required … Which Would Delay Implementation

Further consultation on this matter, as advocated for by Mr. McLaren and Mr. Labonte, is not warranted. Centra first introduced the need for change to T-Service, specifically its balancing fee proposal, in October of 2016. Since then, Centra has engaged in multiple conversations with each individual T-Service customer and nominating agent.

Contrary to Mr. Labonte's opinion, Centra submits that its consultation was collaborative, recognizing that the interests of T-Service customers are adverse to Sales Service customers on this matter. In particular, Centra notes that the revision to its original proposal to introduce more generous absolute daily and cumulative tolerances of approximately +/-7% was in direct response to concerns expressed by T-Service customers and Mr. Labonte, specifically[30], and Centra has provided indicative pro-forma reporting of balancing fees to each T-Service customer for more than 2½ years now.

It is important to note that T-Service customers are not as homogeneous a group as IGU would like to suggest. In fact, 5 of 11 T-Service entities have not intervened in this process, suggesting acknowledgement on their part of the need for balancing fees and the reasonableness of Centra's proposal. In addition, only 3 of 11 T-Service entities are IGU members.

[30] Centra Rebuttal Evidence, page 29, lines 20-31.

Centra submits that a proposal to which all 15 T-Service customers would agree is highly unlikely. Each T-Service customer's risk tolerance and operating circumstances are unique, and the interests of customers can conflict. This is highlighted by Mr. Brown's observation that settlement negotiations ***sometimes take multiple, multiple years***[31] and that NGTL's recent settlement efforts with shippers have been ongoing for ***well over three years***.[32] This latter reference by Mr. Brown is to NGTL's effort to settle with its customers on the matter of NGTL rate design and services, which was unsuccessful. NGTL rate design is currently before the National Energy Board for adjudication for the same reason as balancing fees in this jurisdiction - shippers could not reach consensus.

Despite the opportunities afforded in this regulatory process (e.g., to formally propose an alternative in the form of evidence), neither IGU nor any T-Service customer advanced a substantive balancing fee proposal in this proceeding. Rather, the fallback position was that more consultation is needed.

Centra is concerned that IGU's primary objective in its request for further consultation is to forestall any change to the status quo, with the likely result being, after further consultation, another contested proposal brought before the PUB in 2020 or even later. As Ms. Stewart emphasized in her testimony, ***the key is to turn the corner to an incentive-based structure***[33] at this time and to end the inappropriate subsidization of T-Service customers by Sales Service customers.

Centra is also concerned that additional consultation is likely to be centred around requests for special tools and markets to be created by Centra. However, the existing market provides ample flexibility for Mainline shippers to the MDA, including Centra, T-Service customers, and nominating agents. These tools being advocated for by T-Service customers or their nominating agents (such as being able

[31] Transcript, August 22, 2019 at page 1114, line 12, emphasis added.

[32] Transcript, August 22, 2019 at page 1114, lines 22-23, emphasis added.

[33] Transcript, August 22, 2019 at page 945, lines 20-21, emphasis added.

to net out their imbalances outside of standard markets and nomination windows) would have the opposite effect of incenting pro-active balancing.

5.1.8 Transition Considerations

Centra recognizes that if its balancing fee proposal is accepted by the PUB, some T-Service customers may re-evaluate their service options. If T-Service customers would like to transition to Sales Service, Centra can advise that it is prepared to waive provisions in the Terms and Conditions to facilitate such a move effective November 1, 2019, provided it can obtain the requisite Firm Transportation ("FT") capacity from TCPL to serve the T-Service customer(s) in question. Centra can further advise that it would be prepared to take assignment of a T-Service customer's TCPL Mainline FT capacity to facilitate a service class transfer.

5.1.9 Summary

Centra's balancing fee proposal is a measured and reasonable approach that:

- Will mitigate the impacts on T-Service customers:
    - Centra's balancing fee structure is proposed to be implemented at just 50% of the fees that would be imposed by TCPL; and
    - T-Service customers have been afforded more generous absolute daily and cumulative tolerances than those afforded to Centra by TCPL;
- Is modelled on the TCPL Mainline's balancing fee structure because:
    - The TCPL Mainline is the only pipeline that can deliver to and impose balancing fees on Centra;
    - It is NEB-approved and has been in place for many years now; and
    - This structure has proved to be effective at incenting consistent balancing behaviour.
- Was finalized only after extensive consultation with T-Service customers, which resulted in changes to Centra's original proposal; and
- Was communicated to impacted parties almost 3 years in advance of the proposed implementation date of November 1, 2019.

5.2 Transportation Service Eligibility

Centra is seeking to raise the volumetric eligibility threshold for entry into T-Service from 200 GJ to 2,500 GJ per day. Centra's experience is that low volume T-Service customers have difficulty balancing their accounts and represent some of the highest imbalances amongst T-Service customers as a percentage of consumption. Centra submits that these lower volume T-Service customers are often unable or unwilling to take adequate steps to balance their accounts because natural gas is not core to their business. As discussed in section 5.1, there are other service offerings that may be a better fit for lower volume industrial customers.

Centra proposes to "grandfather" all existing T-Service customers unless they elect otherwise. Any future changes in daily consumption will not affect a T-Service customer's existing status as a T-Service customer. Increased gas consumption associated with plant expansions at an existing T-Service site will also be grandfathered.

6 OTHER ISSUES

6.1 Customer Equipment Problem Program

Centra's Terms and Condition of Service, as re-submitted for approval in this proceeding, continue to outline the objective and requirements of the Customer Equipment Problem Program. In Centra's view, it has always been in compliance with the intent of this program as outlined by the PUB in Order 49/95. On pages 169-171 of the transcript, Mr. Chard provided to the PUB Centra's interpretation of the history of this service and the confusion around the existence of a parts list within Order 49/95. If the PUB has any further concerns with respect to this program, or indeed any safety matter, Centra invites the PUB to share those concerns through the ongoing Quarterly Communications Meetings, or requests from the PUB as has been past practice.

6.2 Furnace Replacement Program

Centra is requesting approval to discontinue funding of the Furnace Replacement Program effective November 1, 2019.

Centra requested this discontinuance as the cumulative balance in the fund is sufficient to meet the expected future needs of the Program to 2027/28. In determining that the current balance was sufficient to meet future needs, Centra took into account the impact of *The Efficiency Manitoba Act*, CCSM c. E15 and the direction to continue providing demand-side management programming on a status quo basis. Pursuant to *The Efficiency Manitoba Act*, responsibility for demand-side management programming, including the Furnace Replacement Program, will shift to Efficiency Manitoba, a Crown Corporation, although the integrated utility will be responsible to fund Efficiency Manitoba's demand-side management activities. In forecasting future requirements of the Furnace Replacement Program, the projections acknowledge that the Corporation would continue to deliver programming until the work moves to Efficiency Manitoba at which time the Corporation's responsibility would shift to funding Efficiency Manitoba's DSM efforts.

Subsequent to the November 30, 2018 filing of this Application, the *Efficiency Manitoba Regulation*, Man. Reg. 119/2019 was registered and came into force on August 9, 2019. That Regulation requires no further money be allocated to the Furnace Replacement Program fund as of April 1, 2020, and that any residual amount in the fund as of that date be used to offset the cost of natural gas demand-side management initiatives set out in Efficiency Manitoba's approved efficiency plan. It also provides that if the Furnace Replacement Program is continued under an approved efficiency plan, it will continue under the administration of Efficiency Manitoba and be funded by Manitoba Hydro.

Notwithstanding the *Efficiency Manitoba Regulation*, Centra continues to request that funding for the Furnace Replacement Program embedded in customers' rates be discontinued as of November 1, 2019. Centra shall continue to administer the Furnace Replacement Program as previously directed by the PUB until April 1, 2020, at which time in accordance with the Efficiency Manitoba Regulation the residual amount in the fund will be set aside to be used to offset natural gas demand-side management initiatives set out in an approved Efficiency Manitoba efficiency plan. Centra notes that the PUB will review and provide recommendations to the Minister on any efficiency plan proposed by Efficiency Manitoba.

7 CONCLUSION

Centra respectfully submits that the PUB should conclude that the Application results in just and reasonable rates that are not excessive, unjust, unreasonable or unjustly discriminatory and approve the Application as submitted by Centra.

With the exception of a few narrow issues raised by CAC, IGU, and Koch, the vast majority of Centra's Application has either been supported by or not been challenged by any interveners. Furthermore, CAC or IGU's recommendations are not supported by sufficient evidence to demonstrate that they are in the interests of Centra and its customers as a whole, or the broader public interest. As a result, Centra respectfully submits that the PUB should reject each of these recommendations in concluding that the Application results in just and reasonable rates that are in the public interest.

Specifically, Centra requests that the PUB issue an Order granting all of the approvals as initially sought in Centra Exhibit #1 in this proceeding, which has now been updated as Centra Exhibit #37.

Centra respectfully requests that the PUB approve the Application as filed as soon as reasonably possible, but no later than October 11, 2019, such that Centra can prepare its compliance filing by October 25, 2019, in order to implement rates on November 1, 2019.