Manitoba Hydro

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August 30, 2019

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

Dear Mr. Christle:

RE: CENTRA GAS MANITOBA INC. ("CENTRA") 2019/20 GENERAL RATE APPLICATION – WRITTEN REPLY SUBMISSION ON ISSUES NOT IDENTIFIED FOR ORAL EVIDENCE

Please find enclosed Centra's Written Reply Submissions on Issues not Identified for Oral Evidence. If you have any questions or comments with respect to this submission, please contact the writer at 204-360-5580 or Paul Chard at 204-360-5146.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES DIVISION
Per:

J Carvell

JESSICA CARVELL
Barrister & Solicitor

cc: Rachel McMillin, Assistant Associate Secretary
Bob Peters, Board Counsel
Dayna Steinfeld, Board Counsel
Interveners of Record

PUBLIC UTILITIES BOARD

CENTRA GAS MANITOBA INC.

WRITTEN REPLY SUBMISSION ON ISSUES NOT IDENTIFIED FOR ORAL EVIDENCE

2019/20 GENERAL RATE APPLICATION

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1 Introduction

The following is Centra Gas Manitoba Inc.'s ("Centra") Reply to the Written Submission of the Industrial Gas Users ("IGU") and Consumers Association of Canada, Manitoba ("CAC") on issues not identified for oral evidence. As directed by the Public Utilities Board ("PUB") in Order 98/19, this Reply addresses new or unanticipated issues raised by Intervener Written Submissions filed on August 23, 2019. Centra urges the PUB to consider its Written Submission filed on August 12, 2019, for a fulsome understanding of Centra's position on the issues not identified for oral evidence.

Specifically, this Reply will address CAC's recommendations referenced as #4, #5, #6, #7 and #11 in their written submission.

2 CGM18 is for Illustrative Purposes Only

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

Centra agrees with this recommendation. Centra did not retain Drazen Consulting Group Inc. ("DCGI") to justify higher levels of net income or propose an alternate rate setting methodology. As previously documented by Centra on page 11 of its August 12th Written Submission on Issues Not Identified for Oral Evidence:

> *"Contrary to Mr. Rainkie's allegations, Centra retained DCGI in direct response and to comply with the PUB's directive from Order 85/13 (page 33) that requested Centra to propose an update to the return on equity that is reflective of an appropriate return in the current economic climate. The DCGI report, and the materials filed in relation to the Rate Base Rate of Return ("RBROR") (Tab 6) of Centra's Application, are not intended to*

> *justify higher levels of net income or propose an alternate rate setting methodology."*

According to *The Public Utilities Board Act*, the PUB must determine Centra's rates by approving both a rate base and the rate of return on shareholder's equity using the Rate Base Rate of Return ("RBROR") methodology. The rate of return on shareholder's equity cannot be calculated in the absence of an ROE. Furthermore, in Order 135/05, the PUB stated the following:

> "*In Order 103/05, the Board stated that the return to MH as determined under the Rate Base Rate of Return is to be the absolute limit for shareholder returns. That return may take the form of an annual corporate allocation by MH against Centra and/or Centra's annual net income result. Regardless of the division between corporate allocation and net income, it is the Board's determination that the Rate Base Rate of Return methodology is to be used* ***as a test of maximum revenue requirement****."* [**Emphasis added**]

Centra further notes that while the PUB is not obligated to set customer rates based on RBROR methodology, the PUB is clearly interested in the calculated fair return given an ROE that is reflective of the current economic environment and the free-standing debt-to-equity ratio target of 70:30 as additional information to support its final rate decision. By retaining DCGI, Centra was simply complying with a directive that enables the PUB to test the utility's proposed revenue requirement for the 2019/20 Test Year.

On page 17 of CAC's written final argument, CAC states:

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

Centra notes that DCGI's recommended ROE or the RBROR calculations were not applied beyond 2019/20 in CGM18. A projected rate path was developed to sustain the equity capitalization at or around the 30% level endorsed by the PUB and to alert the PUB to the factual concern that targeting an annual net income cap of $3 million and the 30% target are mutually exclusive. The projected net income in CGM18 beyond the Test Year has no bearing on the 2019/20 revenue requirement and is subject to the unknown outcomes of the Corporation's Long-Term Strategic Planning process that is currently underway.

3 Reductions to Revenue Requirement for Property Taxes and Finance Expense are Inappropriate

Recommendations #5 and #6 from CAC's written submission are as follows:

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

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

Centra disagrees with CAC's recommendation to make specific downward adjustments to Property Taxes and Finance Expense items for rate setting purposes. Centra submits that there is variability and uncertainty in virtually all the revenue requirement (expense) line-items. On page 38 of its written submission, CAC concurs: *"It must be emphasized that forecasts invariably are wrong."* By way of one example, the assumptions underlying the forecast for Property Tax expense and Finance Expense are no different than the weather normalization assumption that underpins the gross margin forecast.

The recommendation to reduce Finance Expense by $0.664 million for rate setting purposes fails to recognize that the decrease in forecasted Finance Expense resulting by incorporating the Summer 2019 interest rate forecast may never materialize. The actual quantum of new long-term debt to be issued over the remaining months of 2019/20, the timing of the new long-term debt issuances and the actual interest rates available to Centra on those dates are still uncertain, impossible to predict and will ultimately determine the total Finance Expense realized for 2019/20. Notably, in an email dated August 12, 2019, the PUB determined that the $0.664 million potential decrease to the 2019/20 Finance Expenses was not material such that it would not be included as an issue worthy of cross-examination:

> *"…there appears to be a $664,000 decrease in the forecasted amount of Finance Expense for the 2019/20 test year as between the November 30 Application filing and the July 24 Update,* ***based on a point-in-time comparison. The Board notes that the Finance Expense amount in the November 30 Application materials and the July 24 Update information are forecasts and has determined that the difference in these forecasted amounts is not material." [Emphasis Added]***

As supported by the PUB's determination with respect to $0.664 million, Centra submits that CAC's recommendation to reduce Property Tax expense by $0.350 million is not material and further exemplifies CAC's unfair approach of only selecting and promoting forecast adjustment reductions towards achieving its "go as low as you can go" objective to this Application.

4 Detailed Testing of Centra's Debt Management Strategy Not Warranted

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

On page 23 of its written submission, CAC alleges that Centra has not yet complied with Directive #5 from Order 85/13:

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

Contrary to the position of the CAC, the information provided in the Application fully satisfies this Directive.

Centra notes that Directive #5 did <u>not</u> direct Centra to provide quantitative information to demonstrate the reasonableness or impact of its debt management strategies as indicated by CAC. Instead, the Directive required Centra to articulate its debt concentration policy. Directive #5 from Order 85/13 reads as follows:

> *"That Centra further* ***articulate*** *its debt concentration policy including consideration of limiting the concentration of debt maturing in any particular 12-month period and* ***report back*** *to the Board at the next General Rate Application."* ***[Emphasis added]***

Centra provided the requested information on pages 15-16 of Tab 3 (Section 3.5) of the Application with respect to Manitoba Hydro's interest rate risk guidelines; in particular the amendment to the guideline that states that fixed rate long-term debt to be refinanced within a 12-month period is to be less than 15% of the total debt portfolio. The amendment to the guideline involving refinancing risk directly addresses Directive 5. Centra further points to Figure 3.7 on page 16 of Tab 3 which illustrates how debt management decisions have achieved a smooth debt maturity profile and a corresponding reduction in Centra's concentration risk.

Further CAC Recommendations fail to recognize the information already provided by Centra. On page 25 of CAC's written submission, CAC reiterates its earlier recommendations:

> *"That the PUB direct Centra to further review the potential benefits/risks of more aggressive use of variable rate debt and the appropriate*

application of its interest rate risk guidelines as it relates to seasonal working capital requirements and report back at the next GRA;" and,

"That the PUB direct Centra to consider the issues raised with respect to increasing the proportion of the debt portfolio that matures in over 20 years and the potential allocation of MH ultra-long debt issues to Centra and report back at the next GRA."

Centra does not agree with the CAC recommendations and for ease of reference directs the PUB to the following evidence that refutes the need for these recommendations:

CAC Recommendation	Key Evidence Provided
Benefits/risks of more aggressive use of variable rate debt	Responses to CAC/Centra I-9c) and CAC/Centra II-130a)-d)
Interest rate risk and seasonal working capital requirements	Rebuttal Evidence of Centra – pages 20-21
Increasing the proportion of the debt portfolio that matures in over 20 years	Rebuttal Evidence of Centra – pages 19-20

5 Phase-In of Reconnection Fees and Denial of Late Payment Charge Inappropriate

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

Centra disagrees with CAC's recommendation to phase-in revised reconnection fees on a graduated basis over the next three years and to deny the requested increase in the Late Payment Charge ("LPC"). CAC's position on this issue is premised upon a bill affordability argument, despite the PUB ruling in PUB Order 24/19 that the issue of bill affordability is not in scope for this proceeding. If the PUB is to consider CAC's bill affordability argument, then Centra submits that the PUB must also consider the findings of the Bill Affordability Working Group.

The last reconnection fee increase was in 2003/04 stemming from PUB Order 118/03. Over the last 16 years, the cost of a natural gas reconnection fee has increased and Centra now seeks to recover this cost. A graduated increase will see other ratepayers having to subsidize the cost shortfall instead of those customers who have directly caused the need for reconnection of service. While CAC acknowledges the need for Centra to recover its costs, although only after a phase-in period, CAC fails to acknowledge that the proposed fees will only be collecting 63% of the cost of a gas reconnection. To phase in an increase to a fee that has not been changed in 16 years and will only be recovering 63% of the related cost is nonsensical.

With respect to the LPC, CAC alleges that because Centra does not know which of its customers are low income, it cannot provide statistics on how often it waives fees or charges for low-income customers and this represents "a lack of assurance that Centra has processes in place to waive these fees." Centra has provided evidence demonstrating that the LPC revenue as a percentage of overall revenue has fallen (Tab 12, page 11). Further, the final report of the Bill Affordability Working Group, of which CAC was an active participant, commended the Corporation for the positive work being done to assist customers with affordability issues and in fact, the "*recommendations largely validate Manitoba Hydro's current approach through its bill affordability programs*…" (page 7 of 242).

Centra also provided evidence that 83% of customers in arrears are not considered energy poor using a 6% of income energy burden, meaning that keeping the LPC low to shelter low-income customers is an ineffective approach, both towards assisting low-income customers and providing a deterrent for late payment to all customers. Centra's approach of setting an appropriate level for the LPC while providing relief from the charge to low-income customers is a very effective approach.

The low correlation between energy-poor households and unpaid bills also demonstrates CAC's argument is not premised on facts; rather based on unproven or false assumptions as found by the work completed by the Bill Affordability Working Group. Centra's evidence that it continues to work with lower-income customers by waiving fees has not been refuted.