Centra Gas 2019/20 General Rate Application

INDUSTRIAL GAS USERS (IGU)
WRITTEN SUBMISSION
REGARDING ISSUES SUBJECT TO ORAL HEARING

August 29, 2019

Industrial Gas Users: Summary of Recommendations

For issues subject to the oral hearing as outlined in PUB Procedural Order 98/19, the Industrial Gas Users (IGU) provides its final written submission with a focus on seven key areas reviewed over the course of the 2019/20 Centra Gas General Rate Application (GRA):

1. **Rate Setting based on PUB Defined Scope:** It is IGU's recommendation that the Board not limit itself to accepting the existing cost information without considering how useful and reliable it is for rate-setting purposes.
    a. The Board should consider the reliability of this information in setting rates for the 2019/20 test year, including directing adjustments to Centra's proposed rates and riders to address known problems with the current cost information.
2. **Reliability of the Cost of Service Study:** The Board should not rely on Centra's current Cost of Service Study (COSS) methodology for ratemaking purposes.
    a. The Board should instead direct Centra to make any adjustments to non-gas rates and revenue requirement on an equal percentage basis to all customer classes.
3. **Heating Value Margin Deferral Account (HVDMA):** The Board should direct Centra to allocate the existing balances in the HVMDA to customer classes based on volumetric revenues.
4. **Power Station Minimum Margin Guarantee:** IGU supports the recommendation of the CAC's witness that the Board direct Centra to re-implement the minimum margin guarantee payable by the Power Station Class at least until the cost allocation and rate design for the Power Station class can be reviewed as part of the cost of service methodology proceeding.
5. **Bill Mitigation:** IGU submits that incorporation of Issues 2 and 3 above should be implemented on the merit discussed in those submissions. If the Board decides not to accept these recommendations. IGU believes bill mitigation is necessary to avoid extraordinary rate impacts on High Volume Firm, Main Line and Special Contract customers. Three specific options that the Board could consider for bill mitigation options are:
    a. Adjust the allocation of the HVMDA to reflect volumetric revenues. This would reduce the rate impact of the HVMDA on High Volume Firm and Main Line customers and effectively eliminate the impact on the Special Contract class.
    b. Adopt a zone of reasonableness (ZOR) for rate-setting to recognize the limitations and uncertainties in the current COSS. The ZOR should be

wider than the 95% to 105% currently used for Manitoba Hydro where the Board has recently conducted a thorough methodology review and can have a higher degree of confidence in the study.

c. Defer and amortize the increased costs for Transmission related expenses incurred since the 2013/14 GRA for High Volume Firm, Main Line and Special Contract customers over a period of 5 years. Review of depreciation parameters, specifically for Account 465.00 Transmission Mains is warranted and may help to address this as Centra continues to collect better information on the condition of its system.

6. **Balancing Fees:** IGU recommends the PUB reject Centra's application for punitive balancing fees as proposed and instead direct Centra to implement a cost-based balancing fee for T-Service customers that collects costs charged to Centra Gas specifically for T-Service imbalances.

   a. IGU recommends the PUB direct further process, overseen by the PUB, for T-Service customers and Centra Gas to i) develop mitigation options that help both T-Service customers and Centra Gas to collectively minimize natural gas imbalances, and ii) to finalize appropriate tolerance bands and fee structures for charging imbalances.

   b. This working group, while focused on tools for T-Service customers and Centra to balance the Manitoba system and appropriate tolerance band levels in the short-term, should remain established in long-term to continue discussing working together on the Manitoba system, similar to other jurisdictions that operate technical working groups and customer advisory groups.

   c. The PUB should reject Centra's proposal to increase T-Service eligibility in its Terms and Conditions from 200 GJ to 2,500 GJ for average daily nominations.

7. **Operation and Administrative Expenses:** The Board should direct Centra to revise its O & A costs to reflect an escalation factor of no more than 1% per year.

Discussion and support for each recommendation is provided for each subject area in this submission.

Finally, while not provided as a separate topic area, as there are many changes and alterations being proposed in this GRA, IGU recommends that the PUB direct Centra Gas to file a compliance filing to complete the record of this proceeding and provide a PUB Approved version of schedules on the record for future proceedings.

ISSUE TOPIC #1: Rate Setting based on PUB Defined Scope

ISSUE:

Centra's proposed rate changes are based on the revenue requirement included in its updated application and the results of a cost of service study that allocates the revenue requirement to the different customer classes. Centra is not seeking an increase in the overall level of rates and is not proposing changes to the existing rate design within each customer class. The Board has defined the scope for rate setting for the current proceeding in two procedural orders:

- Procedural Order 24/19 states rate design is not in scope except for an update on Centra's ongoing stakeholder consultation process related to its five part rates.
- Procedural Order 98/19 states the Board will hear oral direct evidence and cross examination on the following limited Cost of Service Study issue: options for bill mitigation based on the currently approved and utilized methodology, including the issue of the heating value margin deferral.

Based on these parameters, a key question for this proceeding is whether the Board must accept the existing cost of service study as a given, or whether it can consider how reliable the existing cost information is when approving rates for the 2019/20 test year.

IGU SUMMARY AND/OR RECOMMENDATION:

It is IGU's recommendation that the Board not limit itself to accepting the existing cost information without considering how useful and reliable it is for rate-setting purposes. All parties should want to help the Board understand how reliable or uncertain the existing cost information is and for the Board to consider that as part of its determination of rates in the current proceeding. Centra, IGU and CAC have all proposed areas where the Board should exercise flexibility in interpreting or relying on the existing cost information.

During the oral hearing, three areas were identified where the Board has reason to conclude the current cost information is not useful for rate setting in its current form:

- The results of Centra's existing cost of service study including class allocations of revenue requirement.
- The current method for allocating costs in the Heating Value Margin Deferral Account.
- The treatment of costs related to the Power Station class. Centra proposed to update the method used to calculate coincident peak for the power station class

as part of its pre-hearing update filing.[1] The CAC proposed a change to Centra's cost allocation results to re-implement the minimum margin guarantee.[2]

The Board should consider the reliability of this information in setting rates for the 2019/20 test year, including directing adjustments to Centra's proposed rates and riders to address known problems with the current cost information.

DISCUSSION AND SUPPORT:

Appendix A of Procedural Order 24/19 set out the PUB's approved scope for this proceeding, stating:

- Cost of Service Study results and methodology (allocation of costs to customer classes) was in scope; and

- Rate design is not in scope except for an update on Centra's ongoing stakeholder consultation process related to its five part rates.

By letter dated July 5, 2019, CAC, through its Counsel advised at pages 8 and 9:

> CAC's expert witnesses also recommend against having the SGS class continue to over contribute to cost and offer the following alternatives to mitigate the impacts to some customer classes:
>
> 1) To capture costs related to transmission investment increased allocation for those classes significantly impacted in a deferral to be gradually paid overtime by the participatory classes; and/or
>
> 2) To allocate Heating Value Deferral to all classes except the Special Contract class which will reduce their overall bill impact by approximately 30% and benefit in perpetuity.
>
> …
>
> IGU recommends that any rate change flowing from Centra's GRA be suspended pending a full cost allocation review or a range of revenue to cost ratios rather than unity to mitigate bill impacts by gradually reflecting the cost changes over time.

[1] Line 23 on page 20 through line 5 on page 21. Pre-hearing Update dated July 24, 2019.
[2] See for example lines 4 through 12 on page 739 of the transcript from August 20, 2019.

> …
>
> These alternatives and any others that may be raised must be reviewed in a public forum.

By its letter dated July 8, 2019, Centra, through its Counsel advised at page 4:

> Based on the foregoing, Centra is of the view that evidence filed by CAC, IGU and Koch on options to mitigate bill impacts on certain customer classes arising from Centra' 2019/20 cost of service study, represent pure argument for the PUB's consideration.

In contrast to their submission letters on process, CAC and Centra now seek to have the options identified by Intergroup in Mr. McLaren's evidence and by Koch in Mr. Collin's evidence as not being bill mitigation options.

At page 6 of its Order 98/19, the Board summarized Centra's position as follows:

> Centra's position is that the issues raised in the GRA can be decided on the basis of written evidence filed on options available to mitigate bill impacts arising from the existing Board-approved Cost of Service Study.

In the second Procedural Order 98/19, the PUB severed cost of service from this proceeding stating on pages 9 and 10:

> The Board finds that all Cost of Service Study methodology and allocation issues will be severed from the current GRA and deferred to a separate generic Cost of Service Study methodology review proceeding to be held after the conclusion of the 2019/20 GRA proceeding. The Board will not hear or determine these issues in the current GRA as the evidentiary record of this proceeding is not sufficient for the Board to conduct such a full review. The Board accepts CAC's submission 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.
>
> As such, as detailed below, only the options identified for ways to mitigate the bill impacts arising from the results of the existing Board-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 and will be the subject of both direct oral evidence and oral cross-examination.

Order 98/19 included the following issues as in scope for the oral hearing on pages 10 and 11:

1. Rate Changes Requested – only as related to the other issues identified for oral cross examinations;

14.(i) Bill Impacts on Consumers – limited to the effect Centra's proposed rate adjustments will have on the business of industrial customers.

17. Cost of Service Study Results – limited to options for bill mitigation based on the currently approved and utilized methodology, including the issue of the heating value margin deferral.

The Board states on page 9 of Order 98/19 that direct evidence presentations at the oral hearing were permitted to "enhance the understanding of all parties as to the options identified for bill mitigation."

During the oral hearing it appears the interpretation of these two scoping decisions has resulted in a difference of opinion from participants as to whether or not the PUB must accept the existing cost information without considering how reliable it is for rate-setting purposes. In IGU's view, the Board has sufficient information in the current proceeding to conclude that there are material problems with the cost information in at least three areas.

- **Reliability of the cost of service study results**: At the oral hearing IGU raised issues both in its evidence and in cross-examination with respect to the reliability of the existing cost of service study results.

- **Heating value margin deferral account:** The current method for allocating balances in the heating value margin deferral account does not accurately reflect how balances are accumulated in the account. IGU raised this issue and Centra provided additional information in its rebuttal evidence.

- **Power station costs:** The CAC raised an issue with respect to the minimum margin guarantee.[3] Centra proposed an adjustment to the calculation of coincident peaks in its pre-hearing update filing.

IGU, Centra and the CAC have all identified areas where the Board should retain flexibility to consider methods for addressing known issues with the cost allocation information provided during the proceeding. In IGU's view all parties should want the Board to understand any problems with the existing cost information and to consider ways to address these problems as part of finalizing rates for the 2019/20 test year.

In its written submission filed on August 28, 2019, at p. 21, lines 29 and 30 Centra submits that this Board, in its Orders 77/19 and 91/19 rejected the position of IGU and Koch that "no rate changes should be made until a generic cost of service proceeding concludes". IGU disagrees. Orders 77/19 and 91/19 are orders granting IGU and Koch access to CSI and did not purport to rule on the scope of this hearing.

[3] Ms. Derksen describes the load forecast approach was not effective or appropriate. See cross-examination, pp. 760 and 761

ISSUE TOPIC #2: Reliability of Cost of Service Study

ISSUE:

Centra is not seeking an increase in its non-gas revenue requirement in the current proceeding. Centra is proposing base rate changes to rebalance between customer classes based on the existing cost of service study (COSS). Centra has not made changes to its COSS methods to reflect changes in its customer classes and operating characteristics. This results in very large non-gas base rate increases for industrial customers in the High Value Firm, Main Line and Special Contract classes, both T-Service and Sales Service customers that are not justified based on Centra's current operating environment.

IGU SUMMARY AND/OR RECOMMENDATION:

The Board should not rely on Centra's current COSS methodology for ratemaking purposes.

The Board stated in Order 164/16 that the principle of cost causation should be paramount in a COSS and ratemaking considerations, including fairness and equity, should be addressed in a GRA and not in the COSS. The material reduction in interruptible customers and the substantial investment in transmission plant for capacity reasons mean the methods adopted in 1996 no longer properly reflect cost causation and Centra's current operating environment.

The Board should instead direct Centra to make any adjustments to non-gas rates and revenue requirement on an equal percentage basis to all customer classes, consistent with the approach used in Order 143/04 when the board found that Manitoba Hydro's COSS methodology was in a state of flux and could not be relied on to assess the revenue to cost coverage rates for each customer class.

DISCUSSION AND SUPPORT:

Centra's current COSS has largely been in place since 1996 as approved by Order 107/96. The CAC's evidence notes that while some changes have been implemented such as the introduction of Western Transportation Service and the unbundling of rates, the main methodology has remained.[1] A key element of the current methodology that influences the cost allocations to industrial customers is the use of the peak and average method for the classification and allocation of transmission costs.

[1] Lines 12 through 17, page 95. Evidence of Darren Rainkie and Kelly Derksen.

In the 1996 COSS methodology review, Centra retained RJRA consultants to review its COSS methods. RJRA reviewed several potential methods for allocating demand, including the peak day method (which allocates costs based on class contribution to the design day) and the peak and average method (which allocates costs based on the weighted average of class contribution to the design day and the average day).

In its Order 107/96, the Board stated the following:

> While RJRA considered the Peak Day Method to be the most cost causal because it conformed to the planning process of the utility, the consultant recommended that the Board accept the Peak and Average Method for allocating demand related costs because it:
>
> 1. Recognized system utilization as an explicit factor to be included in determining cost responsibility.
> 2. Is relatively simple and straight forward.
> 3. Is a widely accepted method of cost allocation.
> 4. Is considered cost-causal by many states and provinces.
> 5. Produces results which are close to results using the approved method.[2]

The CAC evidence provides additional context around the reasons Centra selected the peak and average method including:

> Recognition of cost causality as well as non-cost causal factors - the recognition of average use (annual energy/365 days) in the methodology addressed several concerns for Centra. First, the methodology would address equity (non-cost causal factors) considerations associated with Interruptible customers, grain dryers, asphalt plants that do not use gas during the peak periods and would otherwise not be allocated any transmission cost (or the capacity-related costs associated with distribution investment), even though these customers use natural gas 364 days of the year or at significant portions of the year.[3]

The CAC evidence also comments, like the RJRA commentary summarized in the 1996 COSS proceeding, that the Coincident Peak allocator (that allocates costs based on customer class contribution to the design day) "…is a standard approach used by utilities

[2] Page 11. Board Order 107/96.
[3] Lines 16 through 22 on page 109 of the Pre-filed Testimony of Darren Rainkie and Kelly Derksen.

in the allocation of transmission capacity-related investment which is viewed as the most cost causal because its viewed to conform to the planning and design of transmission investment".[4]

Order 107/96 summarized the impact of the Peak Day and Peak and Average methods on the allocation of revenue requirement as shown in Table 1. The primary impact was to reallocate costs from the Residential, SGS and LGS classes to the interruptible customer class. The impacts on the High Volume Firm, Main Line and Special Contract customer classes were relatively small.

Table 1:
Comparison of Cost Allocation of Peak Day vs Peak and Average Methods
Order 107/96[5]

	Order 107/96				
Customer Class	Peak Day	*Percent of Total*	Peak and Average	*Percent of Total*	*Change*
Residential	$ 149,109	*55.7%*	$ 146,953	*54.9%*	*($2,156)*
SGS	$ 16,380	*6.1%*	$ 15,963	*6.0%*	*($417)*
LGS	$ 75,838	*28.4%*	$ 74,320	*27.8%*	*($1,518)*
High Volume Firm	$ 10,493	*3.9%*	$ 10,509	*3.9%*	*$16*
Main Line	$ 2,792	*1.0%*	$ 3,038	*1.1%*	*$246*
Interruptible	$ 12,514	*4.7%*	$ 16,198	*6.1%*	*$3,684*
Special Contract	$ 357	*0.1%*	$ 502	*0.2%*	*$145*
Total	$ 267,483	*100.0%*	$ 267,483	*100.0%*	*$0*

Since 1996, there have been significant changes to both Centra's operations and customer use profiles. The Board has also recently undertaken a review of Manitoba Hydro's COSS methods and provided important perspectives on COSS principles that are equally relevant for Centra. In particular, the following issues are noted:

- **Migration of customers from interruptible service:** Centra notes that over the past 10 years, the number of customers subscribing to interruptible service has decreased from 46 to 20 and Centra has not been permitting new customers to take interruptible service.[6]

[4] Lines 14 through 19 on page 110 of the Pre-filed Testimony of Darren Rainkie and Kelly Derksen.
[5] Summarized from page 13 of Board Order 107/96. As noted by the CAC, the 1996 proceeding took place prior to the introduction of western transportation service and rate unbundling.
[6] CAC/CENTRA I-24(b).

- **Substantial investment in transmission plant to address capacity requirements:** The Winnipeg North West Project in particular is a material portion of recent increases in transmission plant, approximately $27.7 million since 2015/16.[7] Centra appears to justify these investments primarily to serve capacity requirements and references the need to supply customer under peak flow conditions during cold weather.[8]

- **Renewed PUB emphasis on cost causation:** In Order 164/16 the Board stated that "…the principle of cost causation is paramount. Further, the Board finds that ratemaking principles and goals should not be considered at the COSS stage" and further that"….ratemaking principles and goals of rate stability and gradualism, fairness and equity, efficiency, simplicity and competitiveness of rates should be considered in a GRA and not in the COSS."[9]

Ms. Derksen acknowledged in cross-examination that in the 1996 hearing R. J. Rudden suggested that cost based rates are enhanced by "ensuring that customers pay only for that portion of the system that they use" and by recognizing geographic cost differences where necessary. She acknowledged these issues would come up in the generic cost of service hearing.[10]

Centra's current COSS no longer reflects the planning and operating environment or the regulatory framework established by the Board for developing utility COSS methods. In particular, the decrease in interruptible customers and increase in transmission investment for capacity reasons mean that the use of the peak and average allocator has a much bigger impact on industrial customers than it did in 1996, as summarized in Table 2. The Peak and Average method now results in much higher transfer of costs from the SGC and the LGC to High Volume Firm, Main Line and Special Contract customer classes. The effect on the Interruptible class is relatively small compared to the 1996 figures.

[7] IGU/CENTRA I-5 (a) and (b).
[8] See for example page 36 of 370 of the attachment to PUB/CENTRA I-73.
[9] Page 27, Decision 164/16.
[10] Cross-examination of Ms. Derksen at pages 786 and 787.

Table 2:
Comparison of Cost Allocation of Coincident Demand vs Peak and Average Methods
Centra 2019/20 GRA[11]

Customer Class	Coincident Demand	*Percent of Total*	Peak and Average	*Percent of Total*	*Change*
SGC Total	$ 104,058	*70.8%*	$ 102,633	*69.8%*	*($1,426)*
LGS	$ 33,242	*22.6%*	$ 32,456	*22.1%*	*($787)*
High Volume Firm	$ 6,275	*4.3%*	$ 6,824	*4.6%*	*$550*
Main Line	$ 1,580	*1.1%*	$ 2,058	*1.4%*	*$478*
Interruptible	$ 303	*0.2%*	$ 770	*0.5%*	*$466*
Special Contract	$ 1,500	*1.0%*	$ 2,247	*1.5%*	*$747*
Total	$ 146,958	*100.0%*	$ 146,987	*100.0%*	*$0*

It is clear that there has been a material change in Centra's operating environment and many of the factors that led the Board to accept the peak and average method are no longer relevant. Further, Centra's recent investment in transmission plant appears to be driven substantially by capacity requirements at peak or near peak loads. It would be inconsistent with the principles of cost causation to continue to allocate a substantial portion of transmission costs based on average use throughout the year at a time when Centra is making material investments in transmission plant to address capacity requirements at peak times.

The difference in revenue to cost coverage (RCC) ratios calculated using the coincident demand method is material, and drives substantial rate increases in non-gas costs for industrial customers. On that basis, Centra's current COSS cannot be considered reasonable for ratemaking purposes. The response to PUB/IGU (McLaren)-22 illustrates this point:

[11] Summarized from Attachment 1 to the response to PUB/IGU (McLaren-22).

Table 3: Changes to RCC Ratios from Demand Allocation Methods[12]

Line No.		Total	SGS	LGS	HVF	COOP	ML	SC	GS	INT
1	Non-Gas Cost of Service Peak and Average (Existing Method)	148,519,256	102,632,670	32,455,799	6,824,301	8,233	2,057,841	2,246,833	157,798	769,561
2	Non-Gas Cost of Service Coincident Demand Method	148,519,256	104,058,421	33,242,324	6,274,507	8,500	1,579,764	1,499,964	186,485	303,072
3	Non-Gas Revenues at existing rates	152,524,872	109,941,344	30,132,872	6,274,676	8,024	1,484,485	1,385,423	236,483	845,414
4	RCC Ratio - Existing method	103%	107%	93%	92%	97%	72%	62%	150%	110%
5	RCC Ratio - Coincident Demand Method	103%	106%	91%	100%	94%	94%	92%	127%	279%

Note:
Excludes confidential information for Primary Gas, Firm Supplemental, Interruptible Supplemental and Fixed Price offering.
This does not affect other numbers in this table.

Mr. McLaren also addressed this during cross examination by Board counsel:

> MS. DAYNA STEINFELD: And if we go
> back to your presentation and go to slide 10.
> And
> here in your evidence you were discussing how if
> you
> have different cost of service study
> methodologies,
> you'll see changes in the revenue to cost
> coverage
> ratio results.
>
> Am I correct in understanding that the
> concern that you're identifying is that if you
> set
> rates now based on the current methodology, and
> then
> the methodology is changed in a future
> proceeding,
> that you could just create the opposite problem
> where
> now classes that looked to be significant under
> the
> zone or reasonableness or unity are now perhaps
> significantly over -- or maybe not
> significantly, but
> they've gone the other way?
>
> MR. ANDREW MCLAREN: Yes. I think
> that is the risk, particularly for the higher
> volume

[12] PUB-IGU(McLaren)-22.

customer classes, the high volume firm, mainline, and special contract classes. The point of this table was to say a lot turns on this particular issues and it moves numbers around an awful lot. And that's part of the reason why it is controversial, as I believe Ms. Derksen said in her evidence.

So, when you look at the -- the impact to the small general service class, the change in the method, the dollars involved aren't tiny, they're not insignificant, but the RCC ratio movement isn't that dramatic.

On the other hand though, for the special contract class it's very dramatic in terms of what RCC ratio you achieve.

So, that, I think, was the caution, was saying, if we have a cost of service study method that sort of imbeds some of these considerations of fairness that may have been appropriate in the landscape the Board was dealing with at the time, that a lot of dollars depend on that decision.

And if that's something that the Board is now with new circumstances, with a different amount of transmission investment, with a different amount of interruptible load on the system that the Board is no longer comfortable with, there's a big range that might be the outcome of here.

> And I think your summary in terms of
> what that might do to push a special contract
> class,
> you know, sort of over correct in the wrong
> direction
> to then be yanked backwards when we get to a
> conclusion in a cost of service methodology.
> That -- that's really the issue this
> table is trying to speak to.[13]

IGU's witness commented on the need to understand the reliability of cost information before addressing topics such as bill mitigation:

> MR. ANDREW MCLAREN:
> I will say, though, that before you get
> to bill mitigation, it's necessary to understand
> and
> have confidence in the overall level of revenue
> requirements and methods for allocating cost to
> customers before addressing options to mitigate
> bill
> increases to customers. I think you need to be
> satisfied that the revenue requirement is right,
> and
> that the cost allocations are reliable before
> you get
> to the step of dealing with bill mitigation.[14]

Mr. Collins made a similar observation in his direct presentation at the oral hearing:

> It's important to keep in mind that
> cost of service is linked to both class
> allocation and
> rate design, and it's very important to first
> get the
> class cost of service correct. Once that is
> done,
> revenue allocation and rate design follow.
> So there is an important link between
> class cost of service and revenue allocation
> that

[13] Line 20, page 697 through line 20 page 699. August 16, 2019 transcript.
[14] Line 1 through line 9, page 642. August 16, 2019 transcript.

> should not and really cannot be severed.[15]

The Board has precedent it can rely on in addressing situations where the utility's COSS methods are not considered reasonable for ratemaking purposes. In Order 143/04 the Board stated "Because the COSS methodology is in a current state of flux, and in the Board's view incomplete, the Board can no longer rely on the current methodology in assessing the revenue to cost coverage rates for each customer class."[16] In IGU's view, the Board is in a similar situation today with respect to Centra's COSS methodology and should not view the results of the current COSS methods as reliable for ratemaking purposes.

Mr. Collins provided similar advice in his direct presentation at the oral hearing:

> It is my recommendation that if a
> change in rates has to be made at this time, an equal
> percent change for all rate classes would be
> preferable. In my experience I have seen this
> approach used in the past when faced with an
> unreliable class of cost of service study treating
> each class the same in terms of rate impact is
> reasonable. It results in a fair and equitable
> approach for all rate classes.[17]

[15] Lines 14 through 21, page 842. August 20, 2019 transcript.
[16] Page 96, Order 143/04.
[17] Line 18, page 841 through line 1, page 842 of the August 20, 2019 transcript.

ISSUE TOPIC #3: Heating Value Margin Deferral Account

ISSUE:

Centra currently allocates balances in the Heating Value Margin Deferral Account (HVMDA) to customer classes based on their annual consumption volumes. This method does not properly track the different revenue risk to Centra for each customer class based on their different rate structures.

IGU SUMMARY AND/OR RECOMMENDATION:

The Board should direct Centra to allocate the existing balances in the HVMDA to customer classes based on volumetric revenues. This change would better track the revenue risks for each customer class and can be implemented without any adjustments to Centra's cost of service study methodology.

The difference is material to customers in the High Volume Firm, Main Line classes and would effectively eliminate charges to the Special Contract customer class consistent with the recommendation of Christensen Associates accepted by Centra in 2012. It has been seven years since Centra acknowledged changes needed to be made and addressing this issue should not be further delayed.

DISCUSSION AND SUPPORT:

The purpose of the HVMDA is to keep Centra and its customers whole with respect to revenue which would otherwise be affected by variations in the heating value of natural gas.[1] Centra is seeking to recover a total balance of approximately $3.8 million.[2] This balance is larger than at other times historically due to the number of years since the balance was last addressed.[3] The balances allocated to the High Volume Firm, Main Line and Special Contract customer classes are substantial.

IGU's witness suggested an alternative allocation approach based on volumetric revenues, in order to acknowledge that the risk is related not simply to volumes of gas used, but also to the rates and resulting revenues to Centra from those volumetric sales.[4] Centra agreed in their rebuttal evidence that this approach has merit.[5] Centra provided a table comparing the allocations for the different customer classes under the existing method and IGU's proposed method. Centra's table clearly shows the difference is

[1] IGU/CENTRA I-27 (a).
[2] Page 8 of Centra's rebuttal evidence.
[3] IGU/CENTRA II-12 (i).
[4] Page 17, Pre-filed testimony of Andrew McLaren.
[5] Lines 25 and 26. Page 7 of Centra's rebuttal evidence.

material for the industrial customers in the High Volume Firm, Main Line and Special Contract classes.

Table 1. Comparison of allocation methods for HVMDA[6]

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

			Total	SGS	LGS	HVF	ML	INT
5	Heating Value (incl carrying costs) allocated	($)	3,859,713	1,253,019	995,043	391,710	276,483	86,010
6	based on each class volumes	(%)	100%	32%	26%	10%	7%	2%
8	Heating Value (incl carrying costs) allocated	($)	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%
11	**Difference between allocation methods ($)**	($)	**0**	**1,502,175**	**7,434**	**295,913**	**268,707**	**72,674**

<u>**Centra acknowledges current allocation does not properly track revenue risk**</u>

During the hearing, IGU counsel reviewed Centra's table showing the differences in the two allocation approaches (reproduced as Table 1 above). Centra appeared to agree that IGU's proposed approach better tracks the revenue risks generated by each customer class.

> MR. ANTOINE HACAULT: Going to this
> table again, we can see that, if I -- the last
> question I had asked was HVF, the high volume
> customer.
>
> Line 9, just to confirm again, better
> tracks who is causing either the over
> contribution or
> under contribution on percentage basis,
> correct?
>
> MR. PAUL CHARD: Yes, correct.
>
> MR. ANTOINE HACAULT: So, line 9 is
> telling us for this snapshot that high volume
> customers are only contributing to 2 percent of
> the

[6] Centra's Table at page 8 of the rebuttal evidence. Excludes redacted information for the Special Contract customer class and the Power Station class.

monetary issue either by over contributing or under contributing, correct?

MR. PAUL CHARD: Yes, certainly in that range.

MR. ANTOINE HACAULT: Okay. But when it comes to either giving a refund or collecting from that group, they would be getting a 10 percent refund instead of a 2 percent refund or, alternatively, having to cut a cheque for 10 percent of the costs based on the current methods, correct?

MR. PAUL CHARD: That's correct.

MR. ANTOINE HACAULT: And that's because there's a mis -- mismatching caused by this mathematical formula in the rates, correct?

MR. PAUL CHARD: Yes, that's fair.

MR. ANTOINE HACAULT: And we see the same issue arising in the next category on this particular page, 269 of the book of documents for ML, which is the mainline class, correct?

MR. PAUL CHARD: Yes, we do.

MR. ANTOINE HACAULT: And all the -- they contribute .2 of a percent to either the extra bill or the refund, they would get a refund in the order of 7 percent or have to pay a bill in the -- in order of 7 percent of the total charges, correct?

MR. PAUL CHARD: Correct.

MR. ANTOINE HACAULT: And it's not
quite as dramatic for the interruptible class, which
is INT, they only vary from .3 percent which they
cause, and they would have to give a 2 percent refund
or pay a 2 percent cheque back to the Utility, correct?

MR. PAUL CHARD: That's correct.

MR. ANTOINE HACAULT: And we won't get
into the other columns because those are CSI. But the
same principle would apply to the power stations and
the special contract, correct?

MR. PAUL CHARD: Yes.[7]

Changing HVMDA allocation is appropriate today even without considering need for bill impact mitigation

IGU's witness noted during the hearing that this change could be justified based on the cost information on the record of the current proceeding.

MS. DAYNA STEINFELD: And I took it
from your direct evidence earlier today that your view
is that even if the Board does not view the heating
value deferral margin account issue as a bill
mitigation matter, this is a change that should
nonetheless be made because of the mismatching in the
accumulation and the disposition of the account?

[7] Line 1, page 624 through line 24, page 625. August 15, 2019 transcript.

MR. ANDREW MCLAREN: Yes, I think this is a change that should be done regardless of whether the Board decides there is bill mitigation required for these customers.

And in particular this issue is something that's been in the -- in the works and recognized and accepted by Centra, at least with respect to the special contract class for six (6) or seven (7) years now.

So I don't think this is something that needs to be put under the heading of bill mitigation,

I think this is something the Board has enough information to make a decision that a change here is warranted and necessary to better reflect the costs.[8]

During the hearing, Centra’s witnesses agreed the Board could choose to change the allocation of the HVMDA outside of any need to implement bill mitigation options.

MS. DAYNA STEINFELD: I'll put it another way.

If -- if the Board agrees with your primary position, as I understand it, that there should not be any bill mitigation measures put in place in this proceeding, could the Board nonetheless look at this issue of the disposition of a heating value margin deferral account and reconsider the methodology?

[8] Line 8, page 684 through line 3, page 685. August 16, 2019 transcript.

MR. PAUL CHARD: I -- I think that
certainly they could, yes.[9]

Further delaying the change to the allocation is not justified

Centra has accepted the need to change the allocation method for the HVMDA, at least with respect to the Special Contract customer class since its response to the Christensen Associates report in 2012.[10] However, Centra has stated that in prior periods the account was in a refund position and that it is necessary to take into account considerations of fairness and equity in determining when to make changes to the allocation method.[11]

IGU counsel reviewed the history of the account balances and collections with Centra's witnesses during the oral hearing:

MR. ANTOINE HACAULT: Okay. So we've
got a situation, if I can try and summarize it, that
up to October of 2012 there has been final orders,
correct, subject to check?

MR. PAUL CHARD: Yes, subject to
check.

MR. ANTOINE HACAULT: And a second
kind of situation where either there's interim orders
or not, but money has actually been exchanged, so
we'd
have to kind of undo transactions that have been
done,
correct?

MR. PAUL CHARD: That would be
correct.
MR. ANTOINE HACAULT: And then we have
a third layer to that where we're asking the Board,
well, what are we going to do with respect to all of
the remaining years where there hasn't been a refund
or there hasn't been a cheque, correct?

MR. PAUL CHARD: Correct. The only

[9] Line 16 page 548 through Line 1 page 549. August 15, 2019 Transcript.
[10] See pages 15 and 16 of Attachment 11 to Centra's response the PUB's completeness review.
[11] Summarized from the responses to IGU/CENTRA II-4 (a) and IGU/CENTRA II-12 (e)

> clarification would be that with all of the -- the variance accounts, at the end of the period there are residuals that then flow over to the next period, so there would be some residuals from '15/16 that would be included in the amounts to be disposed now.[12]

In summary:

- For periods up to and including the 2011/12 gas year, balances have been fully collected or refunded to customers and the Board has issued final orders with respect to those balances. Unwinding amounts related to this period would be retroactive ratemaking and require undoing previous final Board approvals.

- For periods from the 2012/13 gas year through the 2014/15 gas year, these balances have already been collected or refunded to customers subject to interim Board approvals. It is notable that this period also coincides with the period after Centra accepted the Christensen Associates recommendation in 2012 that the allocation method should be changed. In IGU's view there would be intergenerational equity concerns with making adjustments for this prior period as customers have joined or left the system in the intervening years.

  The response to IGU/CENTRA II-12 shows the balances collected and refunded each year to customers in this period in the top three rows of the table on page 2. While these balances are subject to interim approvals, IGU is not recommending adjusting these amounts, even though it may benefit IGU's members to do so.

- For periods from 2015/16 through 2018/19, these reflect current amounts that Centra is seeking to discharge as part of the 2019/20 application. It is IGU's view that the Board can and should adjust the allocation method to better match the revenue risk that existed based on the rate structures in place for the same period.

Finally, it should be noted that there is no guarantee further delay will result in charges (as opposed to credits) to customers in the future.

IGU's witness also addressed this issue in the oral hearing:

> MS. DAYNA STEINFELD: Do you accept that there is a concern that Centra has raised about

[12] Line 11, page 632 through line 9, page 633. August 15, 2019 transcript.

> fairness to other customers given that the special contract class received a benefit through refunds to customers over a period of time and would, on your recommendation, not be responsible for a refund to Centra?
>
> MR. ANDREW MCLAREN: I understand Centra has raised that in an IR response. I have some rather significant concerns about that approach from a retroactive rate making sort of perspective.
>
> I think Mr. Hacault walked through some of the timeline for some of those decisions, I think he would be asking the Board to unwind decades of previously approved and final rates in order to do that.
>
> I also would caution that in attempting to balance the ledger, there is no guarantee this account will continue to have charges going forward. It may, in fact, have credits and Centra, even after accepting the recommendation, is my understanding has continued to apply this method during periods where there are both credits and charges.
>
> And so if there were concerns about maybe this customer shouldn't be getting credits, the method must continue to apply, even after Centra had accepted that that outcome probably isn't reasonable, given the rate design for that customer class.
>
> So I'd have some concerns about using that justification to keep this going forward.[13]

<u>Theoretical differences in heating value of gas from T-Service customers are not a material issue in practice</u>

The CAC's witness raised an issue with respect to the contribution made to actual heating value content flowing from gas delivered from the Special Contract Class or

[13] Line 8, Page 685 through line 12 of page 686 of the August 16, 2019 transcript.

other T-Service customers.[14] During the oral hearing, Centra's witnesses addressed this issue:

> MR. BOB PETERS: And so do you agree that the gas that Centra injects onto the TransCanada mainline and the gas injected by Manitoba T-Service customers can be of different energy contents?
>
> MR. NEIL KOSTICK: Practically speaking, that's probably not really the case. The fact is the gas is all co-mingled in a single stream, so all the gas entering the TransCanada mainline from -- sorry, the vast majority of the gas entering the TransCanada mainline is coming in at Empress, which is the border point between Alberta and Saskatchewan.
>
> There are -- there is some gas that moves onto the mainline, the TransCanada mainline from points in Saskatchewan, but they are relatively small and they could have a different heat value than that at Empress.
>
> But the gas flowing in at Empress off of the Nova system in Alberta would all be co-mingled and practically speaking, if Centra is nominating gas from the Nova system onto the TransCanada mainline and T-Service shippers are also doing that on the same day, there's going to be a single heat value reading, if you will, that TransCanada is measuring at Empress.
>
> And in theory, yes, gas is coming onto the Nova system in Alberta from all different locations that will have different heat values. 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

[14] Page 2 of the response to PUB/CAC(Derksen)-1.

shippers.

MR. BOB PETERS: The only way it would differ across shippers then, Mr. Kostick, is that if it got loaded onto the TransCanada mainline at different locations?

MR. NEIL KOSTICK: That's correct. And then once it's on the TransCanada mainline, it is co-mingled in a common stream.

MS. LORI STEWART: Which is to say that by the time it's consumed on Centra's distribution system there is one common heating value and there is one stream of gas.

If some gas came on the system upstream at a point like Suffield, which is just east of Empress, if that happened, that those molecules are coming on and mingling with the other stream, it is a common stream.

And by the time it hits Centra's meter stations, there is a single heating value for the natural gas being consumed on our system. [15]

On that basis, the Board can take comfort than any differences in heating values are not material in practice and should not impede the Board adopting IGU's recommendation to allocate balances in the HVMDA based on volumetric revenues.

[15] Line 5, Page 889 through line 3 on page 891. August 22, 2019 transcript.

Impacts on other customers would be small

Centra provided an estimate in its rebuttal evidence that the impact of changing the allocation to better match the revenue risk profile for each customer class would have a small impact on small general service customers, approximately $5 per year or 0.7%[16].

[16] Lines 5 through 7, page 8 of Centra's rebuttal evidence.

ISSUE TOPIC #4: Power Station Minimum Margin Guarantee

ISSUE:

The current cost allocation to the power station classes inadequately reflects the degree to which Centra must plan its system to be able to provide service to this customer in the event of drought or other electric system constraints, particularly during winter. As discussed by the CAC's witnesses in their evidence, Centra previously had in place a minimum margin guarantee in place to protect against the uncertainty of usage and operations.

IGU SUMMARY AND/OR RECOMMENDATION:

IGU supports the recommendation of the CAC's witness that the Board direct Centra to re-implement the minimum margin guarantee payable by the Power Station Class at least until the cost allocation and rate design for the Power Station class can be reviewed as part of the cost of service methodology proceeding.

DISCUSSION AND SUPPORT:

CAC's witnesses noted an issue with the cost allocation and rate design for the Power Station class. Loads for this customer are volatile and can change dramatically year over year[1]. The use of an average period for cost allocation purposes does not adequately reflect the degree to which Centra must plan to be able to serve these customers at the time of the system peak. IGU's counsel reviewed this issue with CAC's witness at the oral hearing.

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MR. ANTOINE HACAULT: But in the event
of a drought or loss of electrical
transmission lines, they might be required to run
more
often than they do in a typical year.
Isn't that correct?

MS. KELLY DERKSEN: Yes, and -- and
more extreme circumstances. They would -- they're
a
very large customer on -- on Centra's system, so
that
is part of the -- the concern about the -- the
current
```

[1] Lines 4 through 7 on page 121. Pre-filed evidence of Darren Rainkie and Kelly Derksen.

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cost allocation and rate design structure is how do you account for that, how do you deal with that on an annual basis with the fact that in any given year the power stations are going to be virtually unop -- unop -- unoper -- is that a word -- is -- are not going to operate.

But when they do operate, they're going to operate significantly, so how do you deal with that from a -- from a rate-making perspective is -- is the issue.

MR. ANTOINE HACAULT: And the problem caused by the power stations is they are firm clients. They not -- they're not interruptible. If they want that power, you have to keep that capacity in the pipe available for them at all times to serve those clients.

Isn't that correct?

MS. KELLY DERKSEN: That's correct. The capacity has been put in place to serve that customer and they are obligated to pay in addition to the incremental costs which are subject to the feasibility test that we have -- have not seen, the -- the true-up.[2]
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CAC's witness recommends that the Board direct Centra to re-implement the minimum margin guarantee on an interim basis, pending a full review of cost allocation at the time

[2] Line 7, page 765 through line 13, page 766. August 20, 2019 transcript.

of the cost of service methodology review.[3] This is an interim solution that can be put in place prior to the cost of service methodology review as explained by Ms. Derksen at the oral hearing:

> MS. KELLY DERKSEN: The answer to the question is that it is unrelated to cost allocation and rate design and is intended to be put in place for a period of time until the Corporation is able to deal with the cost allocation and rate design issues that -- that we've raised in our evidence.[4]

In IGU's view, this is a change that can be implemented now and justified as a compliance requirement, rather than a bill mitigation option. CAC's witness stated during her direct examination that "we view that the reestablishment of the minimum margin guarantee is necessary for compliance with Order 118/03."[5]

IGU agrees with the CAC that this is primarily a compliance issue, the payments previously in place should never have been stopped, and therefore the Board should not consider this to require bill mitigation. This is a clear contrast with the bill mitigation issue for industrial customers, where rates have been charged based on Board approvals that Centra is now proposing to change.

[3] Lines 18 through 26, page 123. Pre-filed evidence of Darren Rainkie and Kelly Derksen.
[4] Lines 1 through 6, Page 756. August 20, 2019 transcript.
[5] Lines 19 through 23. Page 737 of the August 20, 2019 transcript.

ISSUE TOPIC #5: Bill Mitigation Options

ISSUE:

Centra's proposed rates and riders result in material non-gas rate increases for T-Service customers in the High Volume Firm, Mainline and Special Contract customer classes.

IGU SUMMARY AND/OR RECOMMENDATION:

IGU submits Centra's current cost of service study (COSS) is not consistent with the Board's adopted cost causation principles and should not be relied upon for ratemaking purposes. Any adjustments flowing from the Board's decisions should be implemented on an equal percentage basis to all customer classes (see Issue Topic #2 of this written submission).

IGU also submits changes to the allocation of existing balances in the Heating Value Margin Deferral Account (HVMDA) can be justified on the on the basis of cost causation principles and the information on the record of this proceeding (see Issue Topic #3 of this written submission).

If the Board decides not to accept these recommendations. IGU believes bill mitigation is necessary to avoid extraordinary rate impacts on High Volume Firm, Main Line and Special Contract customers. IGU recommends the Board consider the following bill mitigation options:

1. Adjust the allocation of the HVMDA to reflect volumetric revenues. This would reduce the rate impact of the HVMDA on High Volume Firm and Main Line customers and effectively eliminate the impact on the Special Contract class.

2. Adopt a zone of reasonableness (ZOR) for rate-setting to recognize the limitations and uncertainties in the current COSS. The ZOR should be wider than the 95% to 105% currently used for Manitoba Hydro where the Board has recently conducted a thorough methodology review and can have a higher degree of confidence in the study.

3. Defer and amortize the increased costs for Transmission related expenses incurred since the 2013/14 GRA for High Volume Firm, Main Line and Special Contract customers over a period of 5 years. Review of depreciation parameters, specifically for Account 465.00 Transmission Mains is warranted and may help to address this as Centra continues to collect better information on the condition of its system.

DISCUSSION AND SUPPORT:

Proposed bill increases are substantial

Centra provided revised customer impacts as part of its July 2019 update filing showing that the proposed billed rates (base rates plus riders) would result in bill impacts for High Volume Firm and Main Line customers in the range of 20% to 30%.[1] The specific bill impacts for the Special Contract customer class are redacted but are available to the Board.

Board should consider impacts on non-gas rates separately from gas rates

Some parties provided opinions that the Board should look only at the combined gas and non-gas costs when determining if bill mitigation is necessary. In support of this position Centra, at page 24 of its written submission quotes p. 82 of PUB Order 156/91 as follows: 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." We note that the PUB also held in the same paragraph "Conversely, deducting the gas costs from the SGS class and comparing non gas cos increases would result in an average increase of 7.7%, and with a range of some 7% to 8.6%." IGU submits that the facts in this case are materially different. If gas costs are deducted we don't see a narrow range of increases of 7% to 8.6 %.

IGU also disagrees with this perspective for several other reasons.

First, gas costs are primarily a flow-through for Centra. Non-gas costs however are much more reflective of planning and operating decisions made by Centra. Mr. Collins addressed this in his direct presentation:

> And another point that I would like to discuss today is the question that has been raised in this proceeding as to whether gas costs should be considered in overall impacts really to special contract class customers.
>
> In my opinion, when considering the impact of utility transportation costs for a transportation customer, it's not very helpful to look at a customer's gas supply costs, and there are many reasons why that is.

[1] Schedule 11.1.0. Pre-hearing update filing dated July 24, 2019.

> You know, gas costs are not incurred by
> Centra to serve customers. It is my opinion that
> delivery service rates should be designed so that a
> utility is really indifferent between providing
> service to a sales customer who purchases gas from
> Centra, or to a transportation customer, such as
> Koch,
> who purchases its own gas supply.[2]

In cross-examination, Mr. Collins explained that including gas costs doesn't tell the real story of actual substantial real dollar increases.[3]

Second, the cost of gas service is material to industrial customers and can affect the competitiveness of industry in Manitoba. Mr. Curran-Blaney addressed this issue in his presentation to the Board:

> While competing in the global market
> creates challenges for Canadian companies, one (1)
> of
> our advantages actually being in Manitoba is our
> relatively reasonable electricity and gas rates.
> And
> I'd like to show you the next slide and explain it
> a
> little bit.
>
> This is an Agri-Stats comparison. So
> we benchmark ourselves with other agri-food
> companies,
> and this is specific to pork processing. And you
> can
> see, the -- the green bar is -- is the Brandon
> utility
> cost per carcass kilogram. The -- the red line is
> the
> US average, and the blue line is the Canadian
> average.
>
> So even with those favourable rates in gas and
> electricity in Manitoba, we are still at a

[2] Line 22, page 842 through line 13, page 843. August 20, 2019 transcript.
[3] Line 8, page 853 through line 20, page 854, August 20, 2019 transcript.

> disadvantage from an overall utility cost per kilogram in -- in our competitive set.[4]

Mr. Curran-Blaney also noted that industrial customers in commodity sectors have limited ability to pass on increases in their pricing:

> The agri-business has had a very volatile year. We've had trade disputes, we've had a loss of the critical Chinese market, that's not only caused financial hardship for us but it's -- it's caused a shift in business as producers have scrambled to find other markets for their products. Due to the commodity nature of our business, when the cost increases on -- on fresh pork, we're not able to increase -- to pass those on fully to the consumer.
>
> And while Canadian pork has enjoyed a premium for quality, the gap between ourselves and the US has also closed, so we're now under increased pricing pressure from the US and we don't have that differentiation in product like we used to.[5]

It is also important to note that for fertilizer production, natural gas is a feedstock, not merely a utility cost for heating. Including gas costs in the analysis of bill impacts for a fertilizer company is not a fair comparison with residential or commercial customers who use natural gas primarily or exclusively for heating.

[4] Lines 2 through 17, page 993. August 22, 2019 transcript.
[5] Line 19 on page 993 through line 9 on page 994. August 22, 2019 transcript.

In summary, the Board should find that the magnitude of the proposed increases are material and adverse to large industry in Manitoba and warrant implementing bill mitigation options.

Board should implement changes to the allocation of the HVMDA

IGU has identified that the allocation of the HVMDA should be changed to use volumetric revenues as the allocator as discussed in Issue Topic #3 of this written submission as a response to page 10 of Order 98/19 which carved out the heating value margin deferral account as follows:

… not the methodology and/or allocation changes **except for the heating value margin deferral,**…

While IGU views the Board has sufficient information on the record of the current proceeding to make this change based on cost causation principles, it can also be justified as a bill mitigation option.

In the event the Board does not make this change for cost causation reasons now, the Board should implement it in order to mitigate bill impacts on High Volume Firm, Main Line and Special Contract customers. The change could be reviewed and confirmed as part of the COSS methodology review.

Board should recognize uncertainty in the existing COSS and adopt a ZOR for any rate rebalancing changes

In IGU's view the current COSS is unreliable and should not be used for ratemaking purposes. In the event the Board does decide to undertake some rate rebalancing, adopting a wider ZOR than currently used for Manitoba Hydro would be appropriate both to recognize the uncertainty in the COSS results and also mitigate the bill impacts that would result from rebalancing all customer classes to 100%.

In selecting the appropriate ZOR for this proceeding, the Board should consider both the level of uncertainty in the existing COSS and the impacts on customer class bills. At one end of the spectrum, the Board has previously determined that part of the reason for a ZOR is that a COSS is imperfect and the ZOR helps address that uncertainty. At the other end of the spectrum, if the Board determines the COSS cannot be relied on at all, it should order equal percentage rate changes to all customer classes, consistent with previous practice.

Mr. McLaren addressed this topic during cross-examination by Board counsel at the oral hearing:

So I think my positions is, the Board has a landscape to consider. At one end, I think, we have established that the Board's view is that cost of service studies aren't perfect, and so driving to unity is not something that you -- has any particular meaning. And so on that basis, whether you choose 97/103 or 95/105, there's some range that is just -- cost of service studies are imperfect, and so you don't have a meaningful way to get to 100 percent.

At the other end, with respect to Manitoba Hydro cost of service study, when the Board decided it couldn't rely on it at all, the Board instructed the Utility to implement across-the-board rate increases that basically ignore the cost of service results and just say, All customers are going to get equal treatment.

The issue I think the Board has in front of it today is, where are we on that landscape? What is the Board's tolerance level? How much confidence do they have? Are they confident enough that they can just use the end of the spectrum where you say, They're not perfect, but we're pretty reliable. It's 95/105. We'll try and get to that range. Or, Wow, we have a lot of concerns about this, so many concerns that maybe we don't even use this cost of service study at all. Or they may decide that they're somewhere in the middle, in which case that sort of wider zone of reasonableness might be

> something they need to consider.[6]

Mr. McLaren provided some additional thoughts on a ZOR, in the event the Board does want to make some rebalancing adjustments based on the existing COSS.

> MS. DAYNA STEINFELD: And I take your
> point, that you see this as an issue that the Board
> could look at to see how -- you know, they have a
> spectrum of options and to see how far they want to
> go
> on different options.
>
> But do you have a recommendation in
> terms of the zone of reasonableness that would be
> appropriate?
>
> MR. ANDREW MCLAREN: I think in my
> evidence I said my primary recommendation would be
> --
> in my view, this cost of service study was prepared
> so
> long ago and it's been so long since it's been
> thoroughly reviewed and Centra's operating and
> planning and cost context was so different that
> it's
> probably not the most useful took to rely on at the
> moment.
>
> And, on that basis, I would be closer
> to the don't make changes to reflect revenue to
> cost
> coverage ratios today, but I know the Board may be
> looking for an option beyond that.
> And so, I would say somewhere in the
> 85, 115, 90 to 110 range would be consistent with a
> range the Board has used previously and may
> consider
> appropriate in this context.[7]

[6] Line 5 on page 691 through line 8 on page 692 of the August 16, 2019 transcript.
[7] Line 19 on page 700 through line 20 on page 701. August 16, 2019 transcript.

If the Board directs Centra to implement rate rebalancing changes, it should adopt a wider ZOR than it currently uses for Manitoba Hydro. A range of 85% to 115% or 90% to 110% would be consistent with previous practice in Manitoba.

Transmission deferral

Some parties also suggested deferring certain transmission costs as a potential measure. While IGU acknowledges this type of method has regulatory precedent, it is the least preferred of the potential bill mitigation options and would only be necessary in the event the Board does not otherwise address bill mitigation concerns through changes to the HVMDA or the ZOR approach to ratesetting. Mr. McLaren discussed this approach with Board counsel at the oral hearing:

> MS. DAYNA STEINFELD: And if we pull
> up your slide 12, just dealing with the other
> options
> that have been identified, you note on the slide
> the
> evidence of Ms. Derksen regarding potential
> deferral
> of the revenue requirement collection for the
> transmission assets for the large-volume customers,
>
> and I believe your evidence was that this is a
> legitimate option. Do I -- do I have that right?
>
> MR. ANDREW MCLAREN: Certainly, I have
> seen utilities who have large capital projects that
> impact rates say, We'll take a deferral-account
> approach to this. We'll put the total costs into a
> deferral account and sort of phase them into the
> revenue requirement over time.
>
> And typically -- and I believe this was
> explored with Mr. Chard and Ms. Gregorashuk
> yesterday
> -- typically that deferral account would attract
> some
> carrying costs in the interim period, so we'd be
> charging interest or a return on that balance while
> it
> is sitting there waiting to be collected. But I
> agree
> this is an approach that has been used at times.

> Again, I think, perhaps, if we address some of those other concerns with respect to a zone of reasonableness, maybe this option doesn't need to be implemented because we have it -- we've already addressed the issue in a way that solves the bill mitigation problem before we get to this step. But it is a method that I have seen used in other places and has been approved in other times.
>
> MS. DAYNA STEINFELD: It's a legitimate method, but you don't believe it's -- it's preferable because of those issues that you've just identified, and the recommendations in your evidence would better deal with the concerns.
>
> MR. ANDREW MCLAREN: I think that's a fair summary, yes.[8]

Mr. Collins also discussed this at the oral hearing:

> There's been a lot of discussion about possibly using deferral of transmission costs for bill mitigation.
>
> And I would think that would probably be a much less preferable approach than the ones that I have discussed here today. I agree that I think deferring those costs is really kicking the can into the future.
>
> We still have the determination of how those costs are allocated. Plus, by deferring

[8] Line 20 on page 693 through Line 5 on Page 695. August 16, 2019 transcript.

> those costs, we're going to have to pay additional costs for carrying costs related to deferring those transmission assets.[9]

Specifically, regarding the increasing transmission costs, from a regulatory perspective an appropriate address of this may be through a review of depreciation lives. There is good indication that life extensions for transmission pipelines is warranted. Currently Centra's depreciation study from 2014 has an average service life of 65 years for Account 465.00 Transmission Mains, primarily based on historic experience.[10] Centra stated in cross-examination that inline inspection program, which started in 2015, has helped to i) minimize replacements by making specific repairs where issues are found, and ii) has provided favourable results so far on the aging of transmission assets.[11] As Centra continues to get better information on the condition of its system,[12] which includes engaging a corrosion expert to understand the impacts on the life of its system,[13] depreciation life adjustments should also be considered.

[9] Line 23, page 843 through line10, page 844. August 20, 2019 transcript.

[10] Centra's 2014 Depreciation Study is provided as CAC/CENTRA I-16a-Attachment 1, pages 17-18

[11] Transcript pages 275 – 276, where Mr. Tim Starodub explains that the inline inspection program helped pinpoint specific anomalies that were repaired and returned the pipeline to service and has provided favourable impressions regarding the longevity of its pipelines reviewed to date.

[12] As described by Mr. Tim Starodub on transcript pages 268 - 269

[13] Transcript page 275, as explained by Mr. Tim Starodub

ISSUE TOPIC #6: Balancing Fee Proposal for T-Service Customers

ISSUE:

Centra Gas is proposing the following amendments to its Terms and Conditions of Service regarding balancing fees to T-Service customers from the current:

> *O) If the T-Service Customer or its authorized agent causes delivery imbalances relating to the delivery of gas to the Company's distribution system, the Company may impose any imbalancing costs or charges on the Customer*.

to the following:

> *N) If the T-Service Customer or its authorized agent causes delivery imbalances relating to the delivery of gas to the Company's distribution system, the Company may impose balancing fees on the Customer.*

Centra is also proposing to change subsection B of its Terms and Conditions section V. Special Terms and Conditions: Transportation Service (T-Service), increasing the eligibility for any new T-Service customers from the current equal to or exceeding 200 GJ of daily nomination under normal operating conditions to 2,500 GJ.

Centra is proposing a number of additional changes that are not explicitly set out in the proposed terms and conditions of service, including:

1. Centra proposes to charge T-Service customers for natural gas imbalances at half the rate of TCPL Mainline's balancing charges to utility pipelines.

2. Centra is proposing to apply thresholds, approximately equal to 7% of T-Service daily usage levels, dependent on daily usage levels, as summarized in the table below to calculate the charges:[1]

Average Daily Consumption (GJ/day)	Number of Customers	Absolute Daily Tolerance	Absolute Cumulative Tolerance
Less than 1,000	4	+/- 50 GJ	+/- 100 GJ
1,000 to less than 1,700	4	+/- 100 GJ	+/- 200 GJ
1,700 to less than 2,500	3	+/- 150 GJ	+/- 300 GJ
2,500 to less than 5,000	3	+/- 250 GJ	+/- 500 GJ
[redacted]	1	+/- 500 GJ	+/- 1,000 GJ

3. Centra is proposing to charge customers for imbalances whether or not Centra has incurred charges from TCPL.

[1] Table provided in PUB/CENTRA II-57

Centra's proposal is a penalty, rather than a cost-based rate and is forecast to result in payments for balancing fees well in excess of balancing charges Centra actually incurs from TCPL.

IGU SUMMARY AND/OR RECOMMENDATION:

IGU recommends the PUB reject Centra's application for punitive balancing fees as proposed and instead direct Centra to implement a cost-based balancing fee for T-Service customers that collects costs charged to Centra Gas specifically incurred from T-Service imbalances. Centra has not met its onus of proof that the proposed tariff is just and reasonable. Centra's proposal is also inconsistent with its existing contracts with customers.

The PUB cannot design an appropriate solution based on the current record of the proceeding. Further process is therefore required.

IGU recommends the PUB direct further process, overseen by the PUB, for T-Service customers and Centra Gas to i) develop mitigation options that help both T-Service customers and Centra Gas to collectively minimize natural gas imbalances, and ii) to finalize appropriate tolerance bands and fee structures for charging imbalances:

i) IGU believes there should be options available on the Centra MDA system to help balance (i.e. for gas delivered to the Manitoba area), especially for the period following nomination window closures for the day, until it reopens the following day (currently 7:00pm – 9:00am CDT/CST the following day), and that can be undertaken in a manner that considers Centra Gas' unique operating environment, as is consistent with utility service providers in other jurisdictions.

ii) Centra is not applying tolerance bands consistently for each T-Service customer at this time, with some customers seeing far lower tolerance allowances for imbalancing than others. Implementing a cost-based balancing fee may not allow for tolerance bands to avoid cross-subsidization. However, this needs to be explored further than the record currently allows for before being finalized. This further illustrates the need for customers to have appropriate tools and options to balance on the Centra system, as recommended in part i) above.

This working group, while focused on tools for T-Service customers and Centra to balance the Manitoba system and appropriate tolerance band levels in the short-term, should remain established in long-term to continue discussing working together on the Manitoba system, similar to other jurisdictions that operate technical working groups and customer advisory groups.

IGU has expressed its willingness to participate in such a process both before and during the hearing.

On an interim basis, if deemed necessary by the PUB, this could be accomplished by capping any charges on balancing fees at the level of actual balancing fees charged to Centra that are directly as a result of T-Service customer imbalances.

The PUB should reject Centra's proposal to increase T-Service eligibility in its Terms and Conditions from 200 GJ to 2,500 GJ for average daily nominations. If these conditions are implemented, there is no need to increase the eligibility threshold for future T-Service customers, as ongoing mitigation and customer focused solutions will help new customers to balance. Increasing the threshold to the amount suggested is an extreme change to the Terms and Conditions and could act as a large barrier for potential new customers from accessing T-Service as an option (as only a few customers of all current T-Service would have ever been eligible if not grandfathered in). Considerable negative economic impacts are possible in the future as competitive utility pricing is a major consideration for large industrial operations. Increasing current eligibility by over 10 times is not necessary or prudent given the lack of consideration Centra has undertaken on the long-term impacts of this change on the Manitoba economy.

Finally, IGU is of the view that all elements of the proposed balancing fees must be clearly stated in Centra's terms and conditions, including attaching additional fee schedules as necessary. This will help avoid the uncertainty and inconsistent application of Centra's previous balancing fee policy. It will also confirm that the PUB maintains jurisdiction over the balancing fees and that Centra requires PUB approval to make any changes in the future.

DISCUSSION AND SUPPORT:

The issue of balancing natural gas daily usage with nominations placed is a mutual problem that exists for both Centra Gas and T-Service customers. As explained by Mr. Brown, its nearly impossible to match consumption with the gas brought onto the system.[2]

In reviewing principles with respect to the Transportation Service class, Public Utilities Board in Order 112/8 found that:[3]

[2] Transcript from August 22, 2019, pages 1091 - 1092

> The Board continues to be guided by the basic principle of facilitating direct purchases while ensuring that the remaining system customers are saved harmless. However, the Board believes that industrial consumers in Manitoba should not be placed in a position of disadvantage because of options that are available to purchasers of natural gas in other Provinces.
>
> 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.
>
> It is within these basic parameters that the Board will comment on the major issues identified and discussed at the hearing.[4]

IGU believes it remains appropriate to use these basic parameters in relation to the balancing fee issue identified and discussed in the current proceeding and has developed its recommendations accordingly.

IGU's recommendation is supported by six main points, including:

1. **Balancing fees should be cost-based, set to recover charges to Centra Gas by TCPL Mainline.**
    a. Centra intends to charge T-Service customers even when the utility is not charged anything. As explained by Mr. McLaren:

    > MR. BOB PETERS: But if TransCanada charges a cost to Centra, wouldn't Centra charging the cost through to the T-Service customers then make it cost-based?
    >
    > MR. ANDREW MCLAREN: I think if the difference is the breadth of the tolerance range is applicable to each customer and whether an individual customer with a smaller tolerance range might be out of balance, but Centra as a whole may not be.
    >
    > And so, a hundred percent charge may not be incurred by Centra in those situations.[5]

    b. As shown in PUB/CENTRA I-147(a) and (b), total balancing fees charged to Centa, resulting from both sales service and T-Service imbalances totalled $273,504 in 2017/18. Some $75,000 of this was directly a result of and

[3] Referenced within the oral hearing and also at pages 38 of Centra's argument, Exhibit Centra-52

[4] PUB Order 112/88, page 47

[5] Transcript from August 22, 2019, page 1096

charged to T-Service customers. The remaining $198,294 would be split by both types of customer, but Centra Gas couldn't specify the amount. However, under Centra's proposed balancing fee structure, T-Service customers would have been charged a total of $760,191, well beyond any cost that Centra can quantify and demonstrate arises as a direct result of T-Service imbalances.

c. IGU submits there is no statutory authority to impose a penalty which is not specifically linked to actual costs. Yet this is what Centra is proposing. See Attachment 1 to this filing for relevant extracts of *The Public Utilities Board Act.* The *Public Utilities Board Act*, (the "*Act*") Section 82(1)(a) and (b) provides that no owner of a public utility shall:

> (a) make, impose, or exact any unjust or unreasonable, unjustly discriminatory, or unduly preferential, individual or joint rate, commutation rate, mileage, or other special rate, toll, fare, charge, or schedule, for any product or service supplied or rendered by it within the province;
>
> (b) without the written authorization of the board and subject to subsection (2), make, impose, exact, or collect, any rate, toll, fare, or charge, or any schedule of rates, either individual or joint, for any product supplied or service rendered by it within the province;

Further, Section 126(1) of the *Act* which sets out Criteria for Board Orders explains that the Board may consider whether the rates, tolls or other charges are excessive, unjust, unreasonable or unjustly discriminatory.

IGU submits that the protection of the public interest, which includes protecting T-Service customers is paramount to the interests of Centra (see quote from Centra Gas Manitoba Inc. v. Manitoba (Public Utilities Board)1997 CarswellMan 125 in Attachment 1).

Centra's proposal is unfair and unreasonable in its penalizing beyond costs imposed to Centra. Centra's approach to developing this rate has not incorporated customer concerns to the extent reasonable of the monopoly transportation utility in the province. The results of Centra's proposed balancing fee rate structure would provide preferential service to sales service customers through the distribution of fees from T-Service customers onto the sales service class, disconnected from any costs imposed to Centra. Finally, there exists potential remedies that are mutually beneficial that Centra refuses to consider further.

Large uncertainties exist regarding the cost impacts of Centra's proposal, to the extent that it has not been able to forecast for the 2019/20 year. As explained by Mr. McLaren, this is another reason for the PUB to apply caution in rolling out a balancing fee proposal.[6]

The PUB should consider these aspects strongly in its evaluation of Centra's balancing fee proposal. It is IGU's position that Centra's proposal should be rejected, with further process to address both T-Service customer and Centra

[6] Transcript from August 22, 2019, pages 1108 - 1109

Gas balancing issues that are not addressed by allocation of direct TCPL Mainline balancing charges.

2. **Centra's proposal, whether labelled a penalty or incentive, is not cost-based and is not the appropriate solution for the problem Centra is trying to solve.**

A clear distinction between Centra paying balancing fees to TransCanada, and T-Service customers paying balancing fees to Centra is that Centra is making efforts to balance its territory over the course of the day, TransCanada is not. In this sense, applying the TransCanada rate, or even an arbitrary percentage thereof, is not a cost-based model for T-Service customers.[7]

Centra's proposal is that its incentive-based balancing fee rate structure will change the behaviour of T-Service customers.[8] As explained by Mr. McLaren:

> MR. ANDREW MCLAREN: I believe I provided that as context for the Board in terms of when they evaluate the proposal. We spent a lot of time up till now in this proceeding talking about embedded cost of service studies and things that are based on actual direct costs that Centra matters, and I think Centra agreed this morning that this proposal is not in that universe. It's not designed as a cost-base rate.
>
> It's a different standard, it's a different type of proposal, and so some of that is just giving the Board that context, and partly for my benefit too, so I change gears when I'm thinking about this. I'm not in the embedded cost of service world. I'm in a different type of world.
>
> MR. BOB PETERS: … So recognizing that this is not an embedded cost of service world, is there anything inherently wrong with a balancing fee policy that is not strictly cost-based?

[7] As explained by Mr. Neil Kostick on August 22, 2019, transcript page 971 - 973
[8] Ms. Lori Stewart, on transcript page 967 in cross-examination with Mr. Bob Peters while discussing T-Service customer pro forma balancing fee results stated that, "one can infer that the behaviour of those, once the incentive exists, will change."

> MR. ANDREW MCLAREN: I think when we're in that area of what Centra may call an incentive-based model, I would call penalty-based model, that you're in a area where the standard is not exclusively cost-based. You are trying to -- it's a stick rather than a carrot, and it's not fully about recovering direct costs. It's about providing some type of price signal to incent a particular behaviour.[9]

However, T-Service customer representatives stated there is only so much behavioural change that can be undertaken, regardless of the incentive/penalty in place.[10] As explained by Mr. McLaren regarding rationale for T-Service imbalances:

> MR. ANDREW MCLAREN: I think what we're highlighting here is part of the same issue around the penalty. And a significant concern I have heard from customers about this is relating to their ability to respond.
>
> A penalty or an incentive, in some ways, is only effective if people can actually respond. And I think the specific example people have brought up is situations around power outages, that they -- causes their plant to drop load and looking for a little bit of certainty or a little bit of clarity around what will the process be between Centra and Manitoba Hydro in those types of situations.
>
> MR. BOB PETERS: And as you sit before this panel, if Manitoba Hydro turns off the electricity for whatever reason, Centra's not prepared to grant dispensation to the T-Service customers whose load would then become imbalanced?

[9] Transcript from August 22, 2019, pages 1088 - 1089

[10] For example, as explained by Mr. Curran-Blaney on transcript pages 1001 – 1002 from August 22, 2019, industrials do not always know what the natural gas usage ramifications will be from unexpected operating issues as they are occurring. Also, as mentioned by Mr. Troy Brown on transcript pages 1103 – 1104, there are time periods especially where it is no to little opportunity for customers to change nominations if industrial operations have changed from expectation. Also confirmed by Ms. Lori Stewart on transcript page 1013.

> MR. ANDREW MCLAREN: I understand that, absent varying from the proposal, that that is what would happen, yes. I believe at one point there was an IR response that said something to the effect of customers could address this with Manitoba Hydro.[11]

Centra also states rationale for charging T-Service customers includes foregone revenues and opportunity costs.[12] Centra has, for a couple of years now kept daily records of T-Service customer imbalance.[13] Centra has also kept records of the 30 day cumulative balances for each T-Service customer. That is half of the story. The other half is what Centra daily imbalance and 30 day cumulative balances are. Together the two sets of data which exist provide a complete picture. Centra acknowledges that it also needs to attempt to balance with respect to its loads. However, Centra in answering questions assumes that T-Service imbalances, if any are the only ones it needs to respond to. Centra has not put anything on the record to help indicate the level of these types of costs that can be associated with T-Service customers over sales service customers, as explained in cross-examination:

> MR. ANTOINE HACAULT: Now, my question to you is, has Centra put any tables in this proceeding that show to this board what Centra's daily imbalance is, leading to a cumulative number for Centra sales service customers?

> MR. NEIL KOSTICK: Mr. Hacault, I think -- I'll try to state it another way perhaps, is the data that you're asking about doesn't exist because Centra's nomination behaviour is influenced by what T-Service customers are doing. We need to respond to T-Service customers not addressing their imbalances. So there is no independent Centra sales service imbalance or non-imbalance, as you seem to be asking for. So it doesn't exist. T-Service customers can operate in isolation. They either balance or they don't balance or they balance somewhere in between. Centra has to respond to what T-Service customers are doing or not doing because we have responsibility for the entire delivery area, including

[11] Transcript from August 22, 2019, pages 1097 - 1098

[12] Explained in PUB/CENTRA I-147a

[13] Transcript from August 22, 2019, pages 1046 and 1047

> fifteen (15) T-Service customers and over 280,000 sales service customers. So there is no Centra imbalance in isolation of what T-Service customers are doing.
>
> MR. ANTOINE HACAULT: Okay. So you wouldn't track, for example then, if I understand your evidence correctly, whether a high volume, and we've heard one (1) transferred from a T-Service to a high volume, shuts down without telling you and your numbers are off.
>
> You wouldn't track that. You wouldn't know what that does to your balance or imbalance. Is that correct?
>
> MS. LORI STEWART: Well, given that we have 280,000 customers, that would be impossible.[14]

Mr. Neil Kostick stated in cross-examination that the main reason for TransCanada mainline fees are to incent balancing for the purposes of consistency and predictability since they do not actively manage the balance on the mainline pipe, which is done by downstream operators like Centra Gas.[15] Mr. Kostick went on to explain that the intention of the balancing fee proposal is:

> Mr. NEIL KOSTICK: … So, it's all about predictability and consistent balancing. And that's the purpose of the fees, from our perspective, along with the fundamental proposition of needing to carry out our responsibility as a downstream operator on the TransCanada mainline.[16]

If the purpose of an incentive-based balancing fee is to add predictability and consistency to the system so Centra can better manage primary gas costs for sales service customers, Centra should be open to providing additional options for T-Service customers on the Centra side that will help make this happen. There are mutually beneficial ways for T-Service customers to work together to balance the system, and it does not need to include punitive charges to T-Service customers.

[14] Transcript from August 22, 2019, pages 1047 - 1048
[15] Transcript from August 22, 2019, page 971 - 973
[16] Transcript from August 22, 2019, page 973

Centra's current balancing fee policy limits the collection from T-Service customers to when imbalances meet the following parameters:[17]

1. LBA fees are charged to Centra for the entire delivery area;
2. Customer imbalance is greater than +\- 2,000 GJ;
3. Customer imbalance is greater than +\- 4% (imbalance as a percentage of net nomination); and
4. Customer imbalance contributed to the overall delivery area imbalance.

Centra' new proposal appears to eliminate Policy #1 and Policy # 4. Yet these are key protections in a cost-based recovery of balancing fees imposed on Centra by TCPL.

Policy #1 prevents Centra from collecting fees from T-Service customers if Centra has not had to pay a balancing fee. This is important if Centra, for its Service Customers is in balance, but a couple of T-Service customers are packed and a couple are in a draft position. The system as a whole is in balance. However, the proposed formula provides no protection. Centra will collect from the T-Service customers even though Centra has not incurred any TCPL balancing fees.

Policy #4 prevents Centra from collecting fees from T-Service customers if those customers, have not contributed to the overall delivery area imbalance. This is also a key causation provision. T-Service customers as a whole may be in balance on a particular day when Centra Service customers are not in balance. Centra would incur a TCPL balancing fee which is not caused by the T-Service group. Another scenario might be where both T-Service customers and Centra Service customers cause an imbalance. In that case, both T-Service customers and Centra Service customers should be called on to bear their proportionate share of what they have caused. One would expect this to change over the year as the type of load changes. In winter, Centra's sales service customers load is several multiples of the T-Service load. Therefore, if Centra's estimate is off for that larger Customer Service load it may have a greater impact on the system imbalance.

Eliminating the subpoint #2 (2,000 GJ imbalance minimum) and incorporating the remainder into Centra's Terms and Conditions, with further consideration for the appropriate percentage level for imbalance (tolerance bands) and tools for customers to help balance, may be considered as part of the solution to avoid cross-subsidization. Cross-subsidization of charges between sales service customers and T-Service customers is not an appropriate basis for rate setting. Sales service customers should not subsidize T-Service customers for balancing fees charged to Centra Gas that are exclusively caused by T-Service customers. However, neither should T-Service subsidize sales service customers.

If the proposed terms and conditions were properly designed and properly tracking system costs and who caused system costs, there would be a closer alignment

[17] Adapted from currently understood terms for charging balancing fees, as provided in PUB/CENTRA I-145e

between the proposed fees to T-Service customers and the TCPL fees caused by the T-Service customers.

3. **Centra's approach to date to consult T-Service customers and incent voluntary participation has not been adequate as a monopoly service provider. Ongoing consultation between T-Service customers and Centra is important to continue to better the operation of the natural gas system and is industry standard.**

Centra provided an initial presentation in October 2016.[18] Following that, Ms. Stewart said she spent over 50 hours talking to T-Service customers on the issue. At some point following, Centra made some changes to its proposal in response to customer issues,[19] yet Centra acknowledges that T-Service customers still have fundamental issues with Centra's proposal.

As stated by Ms. Lori Stewart in cross-examination:

> MR. BOB PETERS: I understand that from some of the Intervenor evidence, at least one (1) of the Intervenor witnesses has never seen a written policy on balancing fees. Do you recall reading that?
>
> MS. LORI STEWART: Yes, I do.
>
> MR. BOB PETERS: You'd accept that as accurate?
>
> MS. LORI STEWART: Those customers who incurred balancing fees under Centra's existing structure have certainly seen the -- the mechanism of Centra's structure.
>
> Those customers or nominating agents who have never incurred fees would not have seen that, correct.[20]

This lack of transparency for T-Service customers on what the balancing fees and requirements are from Centra has added to this issue and can be the cause of why Centra has not seen T-Service customers appropriately respond to its monthly reporting to date. If Centra's intention was to implement an incentive-based structure to create usage changes, transparency on the proposal should have been paramount in its consultations. It is noted that no one on the Centra panel, including Ms. Stewart, could advise what formulas were used to generate the pro-forma numbers provided to T-Service customers.[21]

[18] Provided on the record in PUB/CENTRA I-149a-Attachment 1

[19] Transcript from August 22, 2019, page 943 – 944.

[20] Transcript from August 22, 2019, page 913

[21] Transcript from August 22, 2019, pages1031 to 1033.

Centra explained to customers at one point in this consultation process that it did not intend to get approvals from the PUB for its balancing fees, as explained by Ms. Stewart:

> MS. LORI STEWART: Oh, thank you. I trusted you. So, yes, when Centra initially reached out to Transportation Service customers and -- and proposed the concept that we would be making changes we outlined our need – our presentation as part of -- part of the record here. And, at that stage, our view was that this is an operational matter. We are the DSO who's charged with -- who -- who's charged with overseeing this, and it clearly wasn't working from our perspective.
>
> So, we engaged in discussions with customers. And from there, based on customer feedback, we adapted our position.
>
> MR. ANTOINE HACAULT: And Centra's position as of April 2017 was that all it needed to do was to advise the Board of the changes that Centra would make on how balancing fees were assessed to all T-Service customers going forward. That was Centra's view, correct?
>
> MS. LORI STEWART: It was our view at that time, yes.[22]
>
> MS. LORI STEWART: Yes. Following the kickoff presentation that we held in October of 2016 with T-Service customers, one of the things that we committed to them to assist them with their transition in terms of readying themselves for balancing fees, was to provide monthly reporting, which actually includes daily detail, but to provide monthly reporting of what the impacts would be so that they had full visibility on how their plant was performing and we hoped that that would serve as an incentive to kind of improve their performance over time.
>
> But you know, in terms of consultation, we wanted to ensure that we -- that we were genuinely meeting those benchmarks, right, in terms of was

[22] Transcript from August 22, 2019, pages 1017 – 1018.

> adequate notice provided, were there opportunities to mitigate or mitigation opportunities defined within the proposal.
>
> So we had that as top of mind that we were, you know, we were wanting this to unfold as best it could. And over time, you know, the consultation did not move to consensus, but I'm not sure that should be judged. I think that the parties, IGU members are looking after their company's interests and that again, that's a rational thing to do. So we didn't move to a consensus position.[23]

Consultations that have taken place have not adequately addressed or acknowledged T-Service customer issues, tried to implement real solutions to help customers balance on the system, nor have customers been updated as Centra's proposal has evolved. As expressed by Mr. LaBonte, who was involved in the consultation as a nominating agent, the process was not at all collaborative.[24] As a result, voluntary balancing beyond which was required to avoid charges was not a priority for T-Service customers in this period 2016 to present. The IGU T-Service members have relied on this PUB process to express their concerns and hope they can be adequately addressed, with points of contentious or where the record has not established an immediate solution, through further consultations.

In evaluating the meaningfulness of Centra's consultation efforts to date, the Board cannot ignore that Centra conducted those consultations with customers while stating their position that Centra could unilaterally impose changes without PUB approval. In making that statement Centra was telling its customers it intended to design its tariff by fiat. That environment cannot be considered to be conducive to meaningful engagement.

4. **PUB directed and mediated consultation is required moving forward to i) develop tools that help T-Service customers to balance their usage and Centra to balance its overall system and ii) establish appropriate tolerance bands for T-Service customers.**

There are only 15 T-Service customers at present, and further many of the T-Service customers are represented by nominating agents (two nominating agents represent approximately 9 of the 15 T-Service customers)[25] this shouldn't be onerous for Centra to participate in.

[23] Transcript from August 22, 2019, pages 964 - 965

[24] Transcript from August 22, 2019, pages 1115 - 1116

[25] At Transcript page 901, Centra states there are 11 T-Service entities with 15 sites being served and all but 4 [sites presumably] have third party nominating agents.

Operational issues exist for T-Service customers that do not exist for Centra. This includes plant operational hours,[26] unplanned operational events,[27] and electricity outages.[28] Often these operational issues result in added costs to industries even without balancing fees.[29] Problems are exasperated when they happen in the late evening:

> MR. TROY BROWN: … But TransCanada recently changed their nomination system on August 1st.
>
> So, currently, underneath their new energy bulletin board there is no availability on their current system to update any nominations after that last window closes.[30]

This was confirmed by Ms. Lori Stewart, who went further to say that Centra also has no opportunity to alter the ending position after ID3 closes at 7:00pm CDT/CST.[31]

IGU is not proposing that Centra Gas should incur balancing charges on behalf of T-Service customers in these instances, but where Centra is not incurring any charges, T-Service customers should not be burdened with penalties from Centra. Especially since, other than the TCPL nomination windows and potential storage, there are no other options to balance in Manitoba.[32]

Unfortunately, at this time it seems the PUB will need to direct and mediate consultation as Centra does not seem to be willing to collaborate on a solution that works for all parties due to ideological differences in rate design:

> MR. ANTOINE HACAULT: And I'm just asking for the record whether you were aware that we had reached out, me, on behalf of IGU, to see if Centra was willing to meet with IGU representatives after the Hearing to collaborate on trying to find a solution to the balancing fee issue.
>
> MS. LORI STEWART: So, yes, I am aware. Counsel certainly spoke with me about that.

[26] As discussed in cross-examination by Mr. Antoine Hacault and Ms. Lori Stewart, Transcript from August 22, 2019, page 1012 – 1013.
[27] As discussed by Mr. Morgan Curran-Blaney and Mr. Bob Peters, on transcript from August 22, 2019, pages 999 – 1001.
[28] Discussed in cross-examination with Mr. Bob Peters and Mr. Gil LaBonte, August 22, 2019, transcript pages 1100 - 1101
[29] For example, as explained by Mr. Morgan Curran-Blaney on August 22, 2019, transcript page 995 that disruptions in operations increase costs.
[30] Transcript from August 22, 2019, pages 1101 - 1102
[31] Transcript from August 22, 2019, pages 1011 - 1012
[32] Transcript from August 22, 2019, pages 1105 - 1106

> And I would like to go on though, Mr. Hacault, to explain that we did not take Mr. Hacault up on that offer. It came firstly, in the midst of a process.
>
> And, secondly, I have described for the panel how there are fundamental differences of opinion in terms of how balancing fees should unfold within the jurisdiction, the firstly, being the difference between incentive-based versus cost-based.[33]

Currently T-Service customers can trade imbalances during the available windows, on the TransCanada system, including the Manitoba delivery area (MDA). Mr. Kostick explained that TransCanada treats the MDA as one location even though its made up of Centra's 25 meter stations.[34] The issue is that customers can not balance past this point on Centra's 25 meter station delivery points or past the time periods where nominations are allowed. Centra itself is limited in its abilities to change its nominations after ID3 closes at 7:00pm. As Mr. Kostick further goes on to state:

> MR. BOB PETERS: In theory, Mr. Kostick, could all fifteen (15) T-Service customers pool their resources during this window to -- to come in balance?
>
> MR. NEIL KOSTICK: They could accomplish that through, for example, a single nomination agent who is aware of all of their positions. And that can be facilitated by the TransCanada mainline.
>
> And if one (1) nomination agent is handling the -- the supply for a number of customers, they could shift that amongst customers through TransCanada mainline transactions.
>
> MR. BOB PETERS: Is there any impediment to this pooling or buying and selling between and among T-Service customers from Centra's perspective?
>
> MR. NEIL KOSTICK: There is no impediment other than a willingness for shippers to transact in the existing gas market.

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[33] Transcript from August 22, 2019, cross-examination between Mr. Hacault and Ms. Stewart, page 1065
[34] Transcript from August 22, 2019, pages 976 - 977

> MR. BOB PETERS: They just have to let Centra know how much gas is coming off the TCPL when it gets to the Manitoba delivery area?
>
> MR. NEIL KOSTICK: That's correct.[35]

However, IGU T-Service customers are under the impression this is not the case. Under the current proposal, Centra would charge each customer for imbalancing, even if a single nominating agent balanced across the pooled group. That's because each customer's nomination and metered usage is what is used to calculate the balancing fee, regardless of charges to Centra. If IGU is incorrect in this assumption, it is something that may be amenable to existing nominating agents and T-Service customers and deserves further discussion and consideration. For example, would Centra be open to create an opportunity for differing nominating agents to partake in this with eachother? There should also be further consideration to the benefits Centra can receive as it is also limited in its abilities to balance as it gets later in the gas day.

Further, Centra states it wants T-Service customers to balance using the available TCPL Mainline nomination windows, however it was also stated that increasing transactional activity requires significant efforts to monitor.[36] If there are ways to alleviate this pressure on Centra's operating staff and balancing T-Service nominations this should be discussed further.

Longer-term, Centra has acknowledged there are communication breakdowns between T-Service customers, nominating agents and Centra that are leading to these imbalances. A customer advisory group that meets regularly, comprised of T-Service customers, nominating agents and Centra can help this issue and facilitate communication to the benefit of customers and Centra's operations.[37] This is similarly done in many other jurisdictions, including with NOVA, TransCanada, amongst other jurisdictions.[38]

As explained by Mr. Brown,

> MR. BOB PETERS: Well, Mr. Brown, do you think more consultation on the issue of balancing fees in Manitoba is a worthwhile venture, or is it a waste of time?
>
> MR. TONY BROWN: We're here at this meeting because we all feel like it's a worthwhile venture to come to an agreement that everybody

[35] Transcript from August 22, 2019, pages 977 - 978

[36] Cross-examination between Mr. Bob Peters and Ms. Lori Stewart in discussing the threshold GJ level change for T-Service eligibility, transcript from August 22, 2019 pages 986 – 987.

[37] Transcript from August 22, 2019, page 1013

[38] Cross-examination between Mr. Bob Peters and Mr. Troy Brown, transcript from August 22, 2019 pages 1113 – 1114.

can live with rather than one overhanded remark from the Utility itself.[39]

5. **As a utility, Centra Gas has advantages to help balance its system over individual T-Service customers and it is already undertaking actions to balance with or without T-Service participation. To an extent, some of these advantages should be available for all customers, not just sales service. Centra and T-Service customers working together long-term should help to maximize these advantages, to the benefit of both Centra's sales service customers (by reducing the lost opportunities Centra cites by having to balance nominations for T-Service) and T-Service customers (through avoiding cost-based balancing fees).**

   a. Centra is the downstream operator for the Manitoba delivery area for TCPL Mainline because it is set up as owner and operator of the Manitoba system, with the infrastructure in place to support the natural gas system in the province. It is the only customer of TCPL directly connected to the Mainline, has multiple meter stations and over 280,000 customers. On a daily basis it is already balancing its natural gas nomination multiple times a day, with or without T-Service balances.

MS. LORI STEWART: Any single transportation service customer is served off of a meter within the Manitoba jurisdiction. We have twenty-five (15) meter stations.

So, I would suggest that it's very unlikely that a transportation service customer would be charged with overall responsibility for balancing the market.

MR. BOB PETERS: Well, the sheer size of Centra has designated Centra the downstream system operator by TCPL?

MR. NEIL KOSTICK: For clarity, Mr. Peters, it's not really a question of size, it's a question of physical interconnection. So Centra is physically connected to the TransCanada mainline at 25 metred stations as Ms. Stewart alluded to. No T-Service shippers are physically connected to the mainline, and as a result, TransCanada has created delivery areas on its system that relate to geographic

[39] Transcript from August 22, 2019, page 1115

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location and the physical interconnection of gas utilities, such as Centra or Enbridge or Energir, their physical interconnection with the TransCanada mainline.[40]
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b. Centra's use of its forecast models and its hourly SCADA system helps Centra closely manage nominations and potential imbalances. While Centra can provide up to hourly data to T-Service customers, it is already analyzing this data and using it to help balance its system.

Centra explains its approach to the natural gas day, including nominations to balance, for the Manitoba system in its cross-examination with Board Member Watson, including the two day ahead nominations, three intraday adjustment opportunities and storage transportation windows (if available).[41] On occasion, this includes interacting directly with T-Service customers to balance, with mutual benefit.[42] For all of these opportunities, Centra uses its hourly SCADA data (or hourly meter reads) and its forecast models to minimize system imbalances.

Centra explains its approach to usage forecasting in cross-examination between Mr. Hacaut and Ms. Stewart. Ms. Stewart explains Centra forecasters rely on weather history (including temperature, cloud coverage wind speeds) using a 'like day' search in their database to inform gas purchases. Centra also takes into account customer trends and any known usage information including from customer communications.[43]

c. Centra has experienced staff to continuously monitor balancing issues and sophisticated forecasting abilities.[44] O&M costs are allocated to all customers, IGU is amenable to reviewing how staffing at this level is allocated to customer classes at a future Cost of Service review as T-Service customers do benefit from this work and should continue to do so.

6. **Centra's proposed Terms and Conditions of Service change for the eligibility of new T-Service customers from 200 GJ per day to 2,500 GJ per day has not been adequately supported by Centra's case. The PUB should reject Centra's proposed change.**

a. As stated above, Order 112/88 established the T-Service class in part such that industrial consumers in Manitoba should not be placed in a position of disadvantage because of options that are available to purchasers of natural

[40] Transcript from August 22, 2019, pages 900 - 901

[41] Transcript from August 22, 2019, pages 956 - 959

[42] As explained by Mr. Troy Brown in cross-examination with Mr. Bob Peters, Transcript from August 22, 2019, pages 1118 – 1119

[43] Transcript from August 22, 2019, cross-examination between Mr. Hacault and Ms. Stewart, pages 1059 - 1063

[44] Explained in cross-examination by Mr. Neil Kostick, Transcript from August 22, 2019 by Centra Gas, pages 875

gas in other Provinces.[45] This remains true today and should be a primary consideration in Centra's proposal to increase the eligibility for the T-Service rate class. At page 48 of Order 112/88 the PUB held:

> <u>Types of T-Service</u>
>
> The Board will order that T-Service, both firm and interruptible, be made available. For each individual customer, there will likely be a minimum annual. consumption level below which it will not be economically feasible for a customer to arrange for T-Service. **<u>However, the Board is of the opinion that any consumer wishing T-Service should be entitled to it</u>. [Emphasis Added]**

b. There is no support or indication for the overwhelming level of increase from 200 GJ to 2,500 GJ. Even though this could have future economic impacts for Manitoba, Centra did not consider this in its proposed increase amount and the impacts it could have on bigger users.[46]

c. Centra was not able to indicate if any other jurisdictions had similarly high barriers for T-Service eligibility.[47]

d. Meanwhile, T-Service customers stated on the record how important utility costs are to operations in Manitoba.[48]

e. Centra stated as rationale for the increase that the amount of transactional activity undertaken by Centra to monitor and respond to T-Service nominations would be further stressed.[49] This does not seem like appropriate rationale for excluding potential customers from a rate class, instead this could be solved through cost allocation of these operating staff and by allocating Centra staff appropriately to respond. Increased work requirements is not justification for a change of this magnitude. At present, Centra states this equates to 0.5 to 0.75 EFTs annually.[50]

T-Service customers are large industrial users, many with volatile or commodity-based operations. Managing input costs is paramount to continued operations in Manitoba, of which natural gas makes up a large component.[51] Industrial customers in Manitoba already don't have the option for natural gas carriers as Centra Gas is a monopoly. They do not have options for electricity purchases as Manitoba Hydro is a monopoly. Transacting its own primary gas purchases should continue to be an open

[45] PUB Order 112/88, page 47

[46] Cross-examination between Mr. Antoine Hacault and Ms. Lori Stewart, August 22, 2019, transcript pages 1008 - 1009

[47] Cross-examination between Mr. Antoine Hacault and Ms. Lori Stewart, transcript from August 22, 2019 pages 1008 – 1009.

[48] For example, Mr. Brown explained that natural gas is an input to Koch's manufacturing process on transcript page 1121

[49] Cross-examination between Mr. Bob Peters and Ms. Lori Stewart, transcript from August 22, 2019 pages 986 – 987.

[50] Transcript from August 22, 2019, pages 1071 - 1072

[51] As explained by the Maple Leaf representative in his presentation, transcript page 992.

market for those purchasing a large amount of gas. Western Transportation Service and Sales Service, the two options available that are managed by Centra Gas do not provide this level of cost management.

Information on the record does not provide specifics on where that threshold may be, but it is fair to say there should be more consideration before increasing to the level proposed by Centra, a level that only 3-4 of the current T-Service customers would ever qualify for if entering the Manitoba market today.[52]

To the extent that balancing fee costs to Centra can be reduced and mitigated through balancing fees to T-Service customers, that options exist for T-Service customers to further mitigate imbalances working with Centra to develop jurisdictionally appropriate tools and ongoing consultation and discussion takes place, the threshold for new customers should not be raised to the barrier of 2,500 GJ per day.

[52] For example, the table provided in PUB/CENTRA II-57 shows over 2,500 GJ per day there are four customer accounts. It is not clear from the information whether this translates to four industrial customers (Centra says in cross-examination transcript page 901, the 15 sites translates to only 11 entities).

ISSUE TOPIC #7: Operation and Administrative Expenses

ISSUE:

Centra's Operation and Administration (O&A) costs assume an escalation factor of 2% per year and do not explicitly include a productivity factor allowance.

IGU SUMMARY AND/OR RECOMMENDATION:

The Board should direct Centra to revise its O & A costs to reflect an escalation factor of no more than 1% per year.

DISCUSSION AND SUPPORT:

Centra states its CGM18 forecasts include an escalation assumption for O&A expense of 2% per year from 2018/19 to 2027/28.[1] Centra also states it has not explicitly included a productivity factor in developing its O&A forecasts.[2]

In Order 69/19 with respect to Manitoba Hydro's 2019/20 GRA, the Board stated:

> "...the Panel finds that, in developing the 2019/20 O&A target for rate-setting purposes, an escalation of 1% above the 2018/19 Financial Outlook is to be used. The Utility's primary basis for the 2% escalation rate was that it is an inflationary increase. Manitoba Hydro's evidence did not establish that a 2% escalation rate should be used. Moreover, the Board is concerned that the use of a rate escalation of 2% will erode all of the O&A savings achieved by Manitoba Hydro through the Voluntary Departure Program.."[3]

The CAC's witness estimates this would reduce annual escalation for the two test years by approximately $1.2 million.[4]

In its rebuttal evidence, Centra states "..a 1% escalation factor cannot be achieved without further reductions to the hours charged to Centra programs and ultimately reduced staffing levels for Manitoba Hydro."[5] Centra also noted certain wage agreements prescribe higher increases.[6]

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[1] CAC/Centra I-12 (h).
[2] CAC/Centra II-133 (g).
[3] Pages 23 and 24 of Order 69/19.
[4] Line 34 on page 48 through line 2 on page 49. Pre-filed testimony of Darren Rainkie and Kelly Derksen. Dated June 26, 2019.
[5] Lines 4 through 6, page 24 of Centra's rebuttal evidence dated August 2, 2019.
[6] See for example page 397 of the August 15, 2019 transcript.

During the oral hearing, Centra's witness panel confirmed the PUB would have had access to the same information on wage costs during the Manitoba Hydro GRA proceeding:

> MR. BRIAN MERONEK: The PUB in the Manitoba Hydro hearing has set an escalation factor at 1 percent for Manitoba Hydro. And that would have incorporated the -- the -- there would have been a discussion presumably of the factors that go into that, one (1) of which is I'm sure that Manitoba Hydro would have indicated that the CBA called for 1.25 and 1.5 percent increases?
>
> MS. SANDY BAUERLEIN: When the PUB panel made the determination, they would have had this information in front of them, as well.[7]

The CAC's witness also provided clarification on the recommendation in the context of collective agreements that may have higher than 1% increases and the reasonableness of a lower escalation target:

> MR. DARREN RAINKIE: Yes, and there's other deflationary pressures, there's an increased us of technology, you know, Manitoba Hydro has consolidated its -- its district offices. I mean, there is other things that happen.
>
> That's the difficult part in terms of only talking about pressures. It's like a one-sided journal entry. What's on the other side? Where are the efficiencies that are expected of a public organization?[8]

Centra's witnesses also confirmed the utility has not attempted to develop a detailed budget based on a 1% escalation:

> MR. ANTOINE HACAULT: Okay. I'll ask you the same question with 1 percent. We've heard Mr. Meronek reference the Public Utility Board's decision at a 1 percent escalation rate.
>
> Has the staff been asked to prepare a detailed budget as to what a 1 percent escalation for the test year, or for years thereafter, would look like?

[7] Lines 10 through 20, page 398. August 15, 2019 transcript.

[8] Lines 21 on page 480 through line 5 on page 481 of the August 15, 2019 transcript.

> MS. SANDY BAUERLEIN: No, they have not. The board was submitted and agreed with a 1.7 or almost 2 percent escalation factor and that is what we are working towards and assuming no further significant staffing reductions.[9]

IGU notes that pursuant to section 23 of *The Public Utility Boards Act, "*At any hearing before the Board, the burden of proof is on the applicant." Centra has not taken the time to ask its staff to present a budget based on a 1% target. As a result, Centra has no idea what would, or could, be proposed to achieve a 1% target. Rather, staff was asked to and is working towards a 2% target. Centra has not met the burden of proving it cannot meet a 1% target.

We also note the presentation by Maple Leaf that it operates "under a zero based budgeting scheme". [10] If significant gas customers operate under 0% targets, it is reasonable to expect Centra achieve a 1% budgeting scheme.

Based on this, it appears reasonable for the Board to direct Centra to assume a 1% escalation factor for budgeting purposes, consistent with its findings in Order 69/19.

[9] Lines 8 through 20, page 428. August 15, 2019 transcript.
[10] IGU Exhibit 17, Slide 9 and Transcript, page 995, lines 9 and 10.

Attachment 1

The Public Utilities Board Act
C.C.S.M. c. P280

PART II

CONTROL OF PUBLIC UTILITIES

General supervision over utilities

74(1) The board has a general supervision over all public utilities and the owners thereof subject to the legislative authority of the Legislature, and may make such orders regarding equipment, appliances, safety devices, extension of works or systems, reporting, and other matters, as are necessary for the safety or convenience of the public or for the proper carrying out of any contract, charter, or franchise involving the use of public property or rights.

Orders as to utilities

77 The board may, by order in writing after notice to, and hearing of, the parties interested,

(a) fix just and reasonable individual rates, joint rates, tolls, charges, or schedules thereof, as well as commutation, mileage, and other special rates that shall be imposed, observed, and followed thereafter, by any owner of a public utility wherever the board determines that any existing individual rate, joint rate, roll, charge or schedule thereof or commutation, mileage, or other special rate is unjust, unreasonable, insufficient, or unjustly discriminatory or preferential;

(b) fix just and reasonable standards, classifications, regulations, practices, measurements, or service to be furnished, imposed, observed, and followed thereafter by any such owner;

RESTRICTION ON POWERS OF OWNERS OF PUBLIC UTILITIES

Discriminatory rates

82(1) No owner of a public utility shall

(a) make, impose, or exact any unjust or unreasonable, unjustly discriminatory, or unduly preferential, individual or joint rate, commutation rate, mileage, or other special rate, toll, fare, charge, or schedule, for any product or service supplied or rendered by it within the province;

(b) without the written authorization of the board and subject to subsection (2), make, impose, exact, or collect, any rate, toll, fare, or charge, or any schedule of rates, either individual or joint, for any product supplied or service rendered by it within the province;

(c) adopt or impose any unjust or unreasonable classification in the making, or as the basis, of any individual or joint rate, toll, fare, charge, or schedule for any product or service rendered by it within the province;

(d) adopt, maintain, or enforce any regulation, practice, or measurement that is unjust, unreasonable, unduly preferential, arbitrarily or unjustly discriminatory, or otherwise in violation of law, or provide or maintain any service that is unsafe, improper, or inadequate, or withhold or refuse any service that can reasonably be demanded and furnished when ordered by the board;

(e) make or give, directly or indirectly, any undue or unreasonable preference or advantage to any person or corporation, or to any locality, or to any particular description of traffic in any respect whatsoever, or subject any particular person or corporation or locality, or any particular description of traffic, to any prejudice or disadvantage in any respect whatsoever;

…

(j) discontinue service to the public without authorization of the board at least one year prior to discontinuance, unless otherwise provided in the statute or agreement under which the public utility is operated;

Changes in rates to be approved by board

84(1) No change in any existing individual rates, joint rates, tolls, charges, or schedules thereof or any commutation, mileage, or other special rates shall be made by any owner of a public utility, nor shall any new schedule of any such rates, tolls, or charges be established until the changed rates or new rates are approved by the board, when they shall come into force on a date to be fixed by the board; and the board may, either upon written complaint or upon its own initiative, hear and determine whether the proposed increases, changes, or alterations are just and reasonable.

Onus

84(2) The burden of proof to show that any such increases, changes, or alterations are just and reasonable is upon the owner seeking to make the increases, changes, or alterations.

Default in obeying order

100 In default of compliance with any order of the board under this Act, when the order becomes effective, the person so in default is subject to a penalty of $100. per day for every day during which the default continues; and the amount of the penalty shall be fixed and determined by order of the board.

PART IV

RATES AND OTHER MATTERS RELATED TO GAS

Definitions

112 In this Part,

"broker" means a person or company that brings together buyers and sellers of gas whether it takes title to gas or not; (« intermédiaire »)

"commodity cost" in relation to gas, means the purchase price of gas, plus taxes and other charges imposed by governments other than the government of Manitoba, plus the cost of transportation of the gas up to the interconnection between the interprovincial transmitter and the local distribution system within the Province; (« coût d'achat »)

"delivery" of gas means the physical delivery of gas to a consumer but does not include the sale of gas; (« livraison »)

"direct purchase of gas" means contracting for the purchase of gas from a broker who is not a public utility; (« achat direct de gaz »)

"gas" means natural gas, methane, or any mixture of any of them and includes propane in liquid or gaseous form; (« gaz »)

"public utility" means any system, works, plant, pipeline, equipment or service for the production, transmission, distribution, storage, delivery or furnishing of gas, either directly or indirectly, to or for the public; (« service public »)

"rate base" means the amount that a public utility has invested for its purposes as determined by the Board pursuant to the provisions of this Act; (« taux de base »)

"rate of return on shareholder equity" means the net income of a public utility expressed as a percentage of the amount of shareholder equity invested in the business of the public utility; (« taux de rendement de l'avoir des actionnaires »)

"sale of gas" means a transaction where an owner of gas conveys title to another person or company for consideration; (« vente de gaz »)

"storage of gas" means the retention of gas in a natural or constructed facility; (« stockage du gaz »)

"transmitter" means a person who carries gas by transmission lines; (« responsable de l'acheminement »)

S.M. 1987-88, c. 65, s. 32; S.M. 1997, c. 8, s. 3; S.M. 1997, c. 11, s. 7.

Application of Part

113(1) This Part only applies to the sale, delivery, direct purchase, distribution, storage and transmission of gas within the Province.

Other Parts apply

113(2) The provisions of Parts I, II and III of this Act apply in this Part unless a provision of this Part is in conflict with a provision contained in those Parts in which case the provision of this Part applies with respect to the sale, delivery, direct purchase, distribution, storage and transmission of gas within the province.

Terms of orders of Board

120(2) All orders of the Board for the sale, delivery, direct purchase, distribution, storage or transmission of gas within the Province shall take effect from the day designated by the Board, and shall remain in force until they have been amended or revoked by subsequent order of the Board.

Terms and conditions of orders

121 The Board, in making any order, may impose such terms and conditions as it considers proper and an order may be general or particular in its application.

Burden of proof

123 At any hearing before the Board, the burden of proof is on the applicant.

Orders on application

124 Upon an application for an order fixing rates, tolls or other charges, if it is not satisfied that the rates, tolls or other charges applied for are in compliance with the provisions of this Act, the Board may, after a hearing, fix such other rates, tolls or other charges as it finds are in compliance with this Act.

Interim orders

125 At the request of an applicant or intervenor or on its own motion, the Board may, without a hearing, make one or more orders under section 115, 116, 124 and 127, effective for a period of not more than one year, pending a final disposition of any application to or any matter before the Board.

Criteria for board orders

126(1) In making any order under this Part, the Board may consider the following factors:

(a) whether the rates, tolls or other charges are excessive, unjust, unreasonable or unjustly discriminatory;

(b) security of gas supply;

(c) the financial stability of a broker, deliverer, distributor, storer or transmitter of gas;

(d) the impact of any order to sell, deliver, distribute, store, transmit gas on other purchasers of gas within the Province; and

(e) any other criteria that the Lieutenant Governor in Council may, by order, direct the Board to consider or that the Board in its discretion may deem appropriate.

Centra Gas Manitoba Inc. v. Manitoba (Public Utilities Board)

1997 CarswellMan 125, [1997] 6 W.W.R. 301, [1997] M.J. No. 165, 70 A.C.W.S. (3d) 567

The Decision

24 Before embarking on an examination of the detailed and technical provisions of the *Act*, it is essential to first look at the underlying purpose of public utilities legislation like the *Act*. This is especially so in cases such as this where, not surprisingly, clear and explicit statutory authorization directed toward the precise points in issue cannot be found.

25 In the United States, where the scope of this kind of legislation has been the subject of considerable jurisprudence, it has been stated that public service or public utility commissions "are not intended primarily for the benefit of established utilities; their primary purpose is to serve the interests of the public. They represent the public and are

for the benefit of the state and its citizens" (from *Corpus Juris Secundum* (West Publishing Company, St. Paul, 1993), v. 73B, para. 61, p. 293).

26 The protection of the public interest has been cited time and time again in American authorities as being paramount to the interests of the utility involved. See *Myers v. Blair Telephone Co.*, 230 N.W.2d 190 (U.S. Neb. 1975); *Telstar Communications Inc. v. Rule Radiophone Service Inc.*, 621 P.2d 241 (U.S. Wyo. 1980); *Morehouse Natural Gas Co. v. Louisiana (Public Service Commission)*, 140 So. 2d 646 (U.S. La. 1962); *Denver Chicago Transport Co. v. Poulson*, 112 N.W.2d 410 (U.S. Neb. 1961); *D.F. Bast v. Pennsylvania (Public Utility Commission)*, 138 A.2d 270 (U.S. Pa. Super. 1958); and *Sayre v. Pennsylvania (Public Utility Commission)*, 54 A.2d 95 (U.S. Pa. Super. 1947).

27 There are, of course, Canadian decisions in which it has also been held that public utilities commissions are primarily directed towards protection of consumers and the public interest. See *Island Telephone Co., Re* (1988), 70 Nfld. & P.E.I.R. 112 (P.E.I. C.A.) and *Nova Scotia (Public Utilities Board) v. Nova Scotia Power Corp.* (1976), 18 N.S.R. (2d) 692 (N.S. C.A.). This point was recently emphasized by Iacobucci J. (dissenting in the result but not on this point), when he remarked in *Kenora (Town) Hydro Electric Commission v. Vacationland Dairy Co-operative Ltd.*, [1994] 1 S.C.R. 80 (S.C.C.) (at p. 90):

> Public utilities in Canada operate as highly regulated monopolies which exist for the benefit of the public. The fact, therefore, that this appeal involves such an entity, rather than two private litigants, affects the assessment of the policy concerns which inform the applicable legal principles. In other words, there is a statutory regime operating here which impresses the private dispute with a public interest component.

28 The foregoing authorities confirm the critical importance of examining the powers of the Board in relation to its purpose.