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April 11, 2022

THE PUBLIC UTILITIES BOARD OF MANITOBA
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

ATTENTION: Dr. D. Christle, Board Secretary and Executive Director

Dear Dr. Christle:

RE: Proposal for Combined Electric & Gas General Rate Application Fall 2022

As the Public Utilities Board of Manitoba (“PUB”) is aware, Manitoba Hydro will be filing its next multi-year electric General Rate Application (“GRA”) in Fall 2022. There is also an emerging need to seek adjustments to the non-gas components of natural gas rates as set forth below. To permit timely and fulsome rate applications and achieve other benefits, Manitoba Hydro proposes filing a joint, comprehensive rate application (“combined rate application”) seeking to alter both electric and natural gas rates.

In order to achieve these benefits, Manitoba Hydro requests the PUB review and vary Order 85/13 to permit consideration of a combined rate application being advanced in less than the 12 months notice period stipulated by the PUB in Order 85/13.

Manitoba Hydro is proposing a combined rate application in Fall 2022 and related review process to achieve the following benefits:

- Efficiencies in reviewing common topics in a single process, recognizing that Manitoba Hydro’s operations are fully integrated and both segments share a common enterprise planning process, leadership team, governance structure, policies and practices;
- Reducing duplication in examination of common matters, will reduce overall regulatory costs borne by customers;
- Establish a routine GRA filing schedule for both electric and gas segments, which will improve rate predictability for customers, and help all parties, most of whom are common to each process plan their regulatory calendars; and
- Once Provincial Energy Policy is released and the first Integrated Resource Plan (“IRP”) is complete, a joint hearing will better enable a more fulsome discussion of how the evolving energy landscape could impact the supply and demand of electricity and natural gas in the province, and how policy decisions impacting one segment may have a corresponding impact

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on the other segment. Filing a combined rate application in Fall 2022 will allow parties to establish and work through a combined process such to foster a common understanding and knowledge of both segments and the related common issues in advance of the first combined multi-year GRA to be filed following the completion of the IRP.

Efficiencies in Reviewing Common Topics in Single Proceeding

Harmonizing and combining electric and gas GRAs into one proceeding will reduce duplication and the overlap in examining common matters that are routinely considered at both electric and natural gas GRAs.

Common topics include strategic and enterprise planning, enterprise risk management, consolidated enterprise performance, benchmarks and targets, asset management and capital planning, forecasts of economic indicators and interest rates, debt management, and accounting policies and practices. Operating & Administrative (O&A) expenses is another topic with many commonalities such as the budgeting process, corporate services functions (e.g. safety, HR, corporate communication), operational functions (e.g. call centre, line locates), shared administrative assets (e.g. SAP, administrative buildings) and organizational structure.

The PUB has previously acknowledged the relationship between the O&A expenses attributable to both segments. In Order 152/19, the PUB held that “[a]s Centra’s Operating and Administrative expense is a flow-through allocation from the larger consolidated Manitoba Hydro operations, the same escalation factor should apply to gas and electric operations for rate-setting purposes.”¹

As another example, the Corporation uses the same asset management framework for capital planning and investment prioritization for both its electric and gas segments, including the use of Copperleaf C55 software and the Corporate Value Framework to evaluate projects. In both the 2017/18 & 2018/19 Electric GRA and Centra’s 2019/20 Gas GRA, the Corporation filed similar evidence relating to the Corporate Value Framework and the asset management program. Additionally, intervenor evidence was filed in both GRAs on asset management by the same parties and consultants. Since these applications, the Corporation’s asset management practices have matured and are more consistent between electric and gas assets such that a joint review would be even more efficient and beneficial for all parties.

Given that the review of common topics occurs separately in electric and gas GRAs, presenting evidence on common topics at the same time, such as asset management, in a combined process will provide efficiencies for both Manitoba Hydro and the PUB and should reduce overall regulatory costs that are paid by Manitoba Hydro’s customers. A combined application and review process will also permit the PUB to gain a more holistic understanding of Manitoba Hydro's operations, a significant benefit. Where necessary and appropriate, Manitoba Hydro would continue to provide segment

¹ Order 152/19 at page 27.

specific information as discussed further below.

Routine GRA Schedule & Predictable and Timely Rate Reviews

Centra was last before the PUB for its 2019/20 GRA, which resulted in an overall general revenue decrease of 1.8%. Prior to this Application, the PUB approved a non-gas rate increase of 1%, flowing from the Centra's 2013/14 GRA; however, this increase was subsequently rolled back by the PUB in 2017 by Order 79/17. As such, Centra effectively last received a non-gas rate increase in 2010/11 of 0.8%, flowing from Centra's 2009/10 & 2010/11 GRA.

As part of its 2019/20 GRA, Centra filed a 10-year financial forecast (Appendix 3.1) that projected rate increases each year from 2020/21 to 2027/28. Centra is forecasting a loss in 2022/23 and is projecting the need for non-gas rate increases for the coming years. There is a pressing financial need to bring forward a natural gas rate application as soon as possible following the review of Centra's cost of service methodology that is currently underway and which Manitoba Hydro understands will be concluded in Summer 2022.

The Corporation's natural gas segment represents approximately 6% of consolidated non-gas expenses and approximately 15% of consolidated expenses including cost of gas sold. By virtue of the size of Centra's operations compared to Manitoba Hydro, electric rate increases have taken priority over the gas operations for several years.

Bringing forward combined rate applications will allow the Corporation to address the immediate financial needs of both Manitoba Hydro and Centra in a streamlined fashion while working towards establishing a routine GRA filing schedule for future applications for both electric and natural gas segments. Doing so is in the overall public interest and consistent with the PUB findings in Order 69/19 *"The Board ... emphasizes the importance of a regular regulatory schedule and complete regulatory filings. ... regular review and consideration of ratemaking principles should be part of routine utility planning, especially when the majority of a utility's revenues come from consumer rates set by the regulator²."*

Establishing a routine combined rate application schedule would also help address concerns and findings in Order 152/19, where the PUB found a number of issues related to the delay in Gas GRAs between 2013/14 and 2019/20 (pages 6 & 7) and found that Centra should not delay bringing forward its next Gas General Rate Application or Cost of Gas Application, following the Cost of Service Methodology Review³.

Without a combined rate application process, the impractical and challenging alternative is for Manitoba Hydro and Centra to be in consistent and consecutive rate proceedings for the foreseeable

² Order 69/19 at page 45.

³ Order 152/19 at pages 6-7 and 131.

future. In accordance with the PUB's direction, Manitoba Hydro will file an electric GRA in Fall 2022. As a result of the ongoing Centra Cost of Service Methodology Review and other resource constraints, there will be no opportunity to conduct a gas GRA prior to that proceeding. Consequently, if the PUB does not accept a combined rate application this Fall, given the need for non-gas rate increases, the Corporation would be required to file a Gas GRA in 2023, as soon as possible following the conclusion of the upcoming electric GRA. If the PUB does not accept a combined rate application for the Corporation's following multi-year GRA expected to be filed in 2024, the Corporation will once again be required to file consecutive electric and gas GRAs. Accordingly, the time to conduct a joint proceeding is especially optimal for the Fall 2022 as it will have lasting efficiencies and benefits for the immediate, near and longer term.

Furthermore, regulatory proceedings divert resources from other priorities, including the work required to implement the initiatives of Strategy 2040, and complete the IRP and annual enterprise planning cycle reflecting the outcomes of the IRP. Filing a combined rate application this Fall will allow the Corporation more time to prepare its long-term financial forecast reflecting the findings of the IRP and the Corporation's next multi-year combined GRA. This will result in a more fulsome and comprehensive application than may otherwise be possible if the Corporation is in back-to-back electric and gas GRAs with little time to complete its enterprise planning cycle and prepare the next GRA, or otherwise risk forgoing required rate increases while this work is undertaken.

Manitoba Hydro also recognizes that the PUB regulates numerous other Crown Corporations and utilities, including Manitoba Public Insurance, municipal water & waste utilities and Efficiency Manitoba. Manitoba Hydro has also heard from interveners, and customers themselves, that customers want predictable rates. Bringing forward combined rate applications will help in establishing a routine GRA schedule, which will in turn promote rate predictability for customers and help all parties manage their regulatory calendars.

Proposed Combined Rate Application and Regulatory Process

Manitoba Hydro appreciates that a combined rate application is a transformation and departure from past practice, which will require coordination and input from all stakeholders. Manitoba Hydro's proposal below is intended as a general framework to consider a combined rate application proceeding and how it could work. As further set out below, Manitoba Hydro anticipates that all stakeholders will have the opportunity to provide comments on the combined rate application proceeding including identifying any barriers they foresee such that Manitoba Hydro and the PUB can attempt to find constructive plans and solutions.

Manitoba Hydro anticipates that the scope of a combined process, especially for the first attempt, will be more involved than a single electric and gas GRA. As such, a combined rate application will require an effective and efficient regulatory process to carefully coordinate and manage the overall scope and cost, focusing on matters that are most relevant and significant to the decisions to be made by the PUB.

The cost of last electric and gas GRA are shown in the table below. It is in the best interest of all parties involved to find efficiencies to lower the costs of the GRA processes.

	2017/18 Electric GRA	2019/20 Gas GRA
External*	\$9,639,965	\$1,965,164
Internal Labour	\$4,419,048	\$1,963,094
Other**	\$1,088,685	\$474,296
Total	\$15,147,698	\$4,402,554

*(PUB Advisor, PUB Independent Expert Consultants and Intervener Costs)

** (Professional & consulting fees, meals, printing, advertising, etc.)

Manitoba Hydro notes that there are parties that routinely participate in both its electric and gas GRA processes, including the same consultants and legal counsel being retained for each process. Given this overlap, moving to a combined electric and gas process will result in efficiencies and overall costs savings for addressing common issues in a single proceeding.

Manitoba Hydro also acknowledges that there are some parties that participate in either the electric or gas process and not both, and an intervener that participates in GRAs for both segments but engages separate legal counsel. However, this potential concern should not serve as a barrier to all the efficiencies and benefits of proceeding with a combined rate application as soon as possible. In any event, the PUB Rules of Practice and Procedure and the Board's past practice of requiring intervening parties to identify which issues the party seeks to address in its intervention provides a solution to this concern. Parties could identify which common, electric or gas issues it seeks to address and in what manner.

Manitoba Hydro provides the following specific comments on how a combined rate application process could be efficiently and effectively managed:

- **Organization of Application/Evidence:** Manitoba Hydro envisions that a combined rate application would include a discussion of issues first at the corporate/consolidated or policy level, followed by specific information relevant to each of the electric and gas segments. The Corporation would continue to provide information to support the revenue requirement forecasts for each the electric and gas segments recognizing that electricity and natural gas rates are separate and distinct.

Enclosed as Attachment 1 to this letter is an illustrative high-level table of contents for a combined application. Manitoba Hydro would clearly indicate within the application material whether the material is relevant to common, electric or gas matters. This would allow those parties intervening only on electric matters, for example, to review the corporate information and electric specific information relevant to their intervention, without delving into gas specific information or issues.

The PUB's regulatory oversight over the electric and natural gas segments will continue to be guided by the prevailing legislation applicable to each.

- **Minimum Filing Requirements:** To help facilitate an effective and efficient review process, Manitoba Hydro proposes that the PUB, together with the input from the Corporation, establish Minimum Filing Requirements (“MFRs”) for a combined rate application by Summer 2022 to allow the Corporation sufficient time to assess and prepare responses as required. Should the PUB permit interveners the opportunity to propose MFRs, the Corporation recommends that the PUB review and approve all proposed MFRs to ensure that the requests are directly relevant and significant, will assist with the Board’s understanding of the issues, are not duplicative, do not require an extensive work effort and do not seek information which the requesting party could compile itself.
- **Information Requests (“IRs”):** Manitoba Hydro envisions that IRs would be identified as electric, gas or common/corporate to further streamline the process.
- **Intervener Evidence:** Manitoba Hydro proposes that interveners be permitted to file written evidence on the specific issues which the Board approved the party to intervene on. To assist all parties, interveners should similarly identify its evidence as relating to common, electric or gas issues.
- **Issues to be addressed in Written Submissions:** In recent proceedings, including Centra’s 2019/20 GRA, the PUB determined specific issues that would be in scope for an oral hearing, with all other issues being addressed in written submissions only. Manitoba Hydro believes that to effectively manage the scope of a combined proceeding, the majority of issues could effectively be addressed through written evidence and submissions, without the need to be addressed in an oral hearing. Only the most significant or contentious matters that would benefit from further review during cross examination should go to an oral hearing.

Manitoba Hydro is aware that other Canadian regulators are increasingly conducting GRA reviews entirely through written processes without an oral hearing. For example, an independent committee appointed by the Alberta Utilities Commission (“AUC” or “Commission”) to review its procedures and processes, found that “... *oral hearings are increasingly rare in AUC practice, and that the Commission takes the position that, in virtually all cases, written proceedings meet the requirements of procedural fairness by providing all parties with a meaningful opportunity to present their case fully and fairly.*”⁴ Manitoba Hydro conservatively estimates that the cost of an oral hearing, excluding Manitoba Hydro internal labour, is over \$25,000 per day⁵. As such, limiting the number of oral hearing days is expected to reduce overall GRA costs as a direct benefit to Manitoba Hydro’s customers.

⁴ [Report of the AUC Procedures and Processes Review Committee \(August 14, 2020\)](#), page 30.

⁵ Includes costs for PUB Advisors, Intervenors, transcripts, meals and accommodations.

- **Issues In-Scope for Oral Hearing:** For those issues that the PUB determines should be subject to an oral hearing, Manitoba Hydro believes its witness panels can be accordingly structured to allow for cross-examination of common issues, as well as electric and gas specific questions. Given the integrated nature of Manitoba Hydro operations, typically the corporate witnesses are the same individuals. For example, Manitoba Hydro typically has a revenue requirement panel. In a combined proceeding, this panel would also include staff to speak to natural gas capital projects. If the PUB determined that cross-examination on gas supply matters was required, a separate witness panel would appear on this specific issue, given that it is a distinct topic.

Manitoba Hydro's proposal for a combined process as outlined above that includes focused MFRs and greater use of written hearing processes is aligned and consistent with the priorities outlined in the PUB's 2020-2023 Strategic Plan, namely to *"Implement processes to improve the efficiency of hearings, including guidelines for providing required information and setting out a hierarchy of the importance of information"* and to *"Continue to refine the pre-hearing and hearing processes."*

Proposed Next Steps

Manitoba Hydro proposes that the PUB seek brief initial comments from interveners on Manitoba Hydro's request to review and vary Order 85/13 as soon as possible given the quickly approaching Fall 2022 filing date, and thereafter respectfully requests the PUB make an expedited decision on the review and vary. If the PUB grants this requested review and vary of Order 85/13, Manitoba Hydro is prepared to meet with PUB staff and prospective interveners to discuss and further refine how best to make a combined process work for the benefit of Manitoba Hydro customers and all stakeholders. This meeting would help set expectations, identify and work through potential issues and barriers and demonstrate a unified commitment to pursuing regulatory efficiencies while continuing to ensure robust and transparent rate setting processes. Manitoba Hydro submits that following this meeting and in the absence of agreement on the process for the combined rate application to be filed in Fall 2022, each party could be given the opportunity to provide written submissions outlining their respective views on the appropriate process for the Fall 2022 combined rate application, following which the PUB could provide additional guidance and/or rule on the process by way of Board Order as it does in the normal course.

Manitoba Hydro has commenced preparation for the upcoming GRA with a strong preference towards filing a joint application for all of the reasons noted above. Should the PUB ultimately determine that the upcoming GRA should not be combined, Centra will plan to file a separate gas GRA as immediately as possible, given its resource constraints, after the electric process concludes. Given that the Corporation will be fully engaged in the Electric GRA process, Centra's Application will be based on the same enterprise planning cycle as if it were filed in Fall 2022.

Conclusion

Manitoba Hydro submits that it has raised new facts and circumstances which support the review of Order 85/13, which was established nearly a decade ago, for the immediate consideration of the

proposal to accept a combined electric and natural gas GRA. As detailed above, there is an immediate financial need to bring forward rate applications by both Manitoba Hydro and Centra. Resource constraints by all parties prohibit conducting concurrent individual proceedings. Combined rate applications will bring numerous benefits to the PUB, all stakeholders and the Corporation and its customers by allowing a holistic review of common issues and the integrated utility at the same moment in time, providing more rate predictability, and ultimately reducing costs through efficiencies. It is anticipated that these efficiencies and benefits will expand in coming years as the forthcoming IRP impacts electric and natural gas operations. Through joint effort, collaboration and cooperation of all parties, Manitoba Hydro is confident that any specific procedural challenges that are identified in transitioning to a combined rate application can be adequately addressed by the PUB such to ensure a robust, fair, efficient and effective review process for a combined rate application to be filed in Fall 2022.

Should you have any questions with respect to this submission, please contact the writer at 204-360-3257.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES DIVISION

Per:



BRENT A. CZARNECKI
Barrister & Solicitor

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