Order No. 152/19

FINAL ORDER WITH RESPECT TO CENTRA GAS MANITOBA INC.'S 2019/20 GENERAL RATE APPLICATION

October 11, 2019

BEFORE: Larry Ring, Q.C., Panel Chair
Marilyn Kapitany, B.Sc.(Hon), Board Vice-Chair
Carol Hainsworth, C.B.A., Member
Susan Nemec, FCPA, FCA, Member
Mike Watson, Member

Public Utilities Board | Régie des services publics

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1.0 Overview

As confirmed by the Manitoba Court of Appeal, the mandate of the Public Utilities Board of Manitoba (“Board”) is to set just and reasonable rates in the public interest, through balancing the financial health of the utility and the interests of consumers. *The Public Utilities Board Act* (the “PUB Act”) provides that the Board may fix just and reasonable rates and charges, as well as just and reasonable standards, classifications, regulations and practices.

By this Order, the Board adjudicates the 2019/20 General Rate Application (“GRA”) of Centra Gas Manitoba Inc. (“Centra”) and approves adjustments to the rates charged by Centra to customers, to be effective November 1, 2019. The Board denies the revenue requirement proposed by Centra for its 2019/20 fiscal year (the “Test Year”) and approves a lower non-gas revenue requirement based on the Board’s decisions on the revenue requirement items in this Order. As well, the Board approves changes to Centra’s Terms and Conditions of Service and directs Centra to provide a strategic plan for Centra. The Board also directs Centra as to the timing of subsequent proceedings, specifically a cost of service study allocation and methodology review and a financial feasibility test methodology review. The Board’s decisions in this Order are summarized in Section 2.0.

The Board directs Centra to file, within two weeks of the issuance of this Order, a compliance filing that calculates new customer rates and customer bill impacts to be effective November 1, 2019 to reflect the Board’s decisions in this Order. In addition to revised rates and bill impacts, Centra’s compliance filing shall include revised calculations and schedules for rate base and revenue requirement.

Centra did not seek, nor does this Order grant, a general revenue increase in its GRA. Centra’s retained earnings are at the highest they have ever been under Manitoba Hydro’s ownership of Centra.

Centra is seeking in this GRA rate changes that will result in a number of customer classes receiving rate decreases, which Centra states in its Application arise largely from the decreased cost of gas and decreases in interest rates. The rate decreases also arise as a result of rate riders that will refund, over a 12-month period, amounts paid by customers in excess of the actual costs of gas. As well, due to the discontinuance of the funding of the Furnace Replacement Program, customers in the Small General Service class, which includes residential customers, will collectively pay $3.8 million less annually.

However, other customers, specifically Transportation Service customers in the High Volume Firm and Main Line classes, the Special Contract class, and the Power Station class will experience annual bill increases. For the Transportation Service customers in the High Volume Firm and Main Line classes, the increase is due primarily to the effect of reversing the bill decrease that the classes received in 2017. That bill decrease was as a result of the Board directive that reverted the non-gas components of their rates back to the levels first approved on an interim basis in 2011 and on a final basis in 2013. For the Special Contract class, the increase is driven by an increase in non-gas costs allocated to the class, primarily arising from an increased in Centra's investment in Transmission plant.

Centra has not appeared before the Board for a GRA since 2013. At the Cost of Gas proceeding in 2015, the Board expressed concern that Centra had over-earned net income over the three-year period since the 2013/14 GRA at a level approximately $9.5 million higher (when the effects of weather are removed from calculation of earnings) than what was approved by the Board at the GRA. As only Centra's gas costs were before the Board at the Cost of Gas proceeding, the Board held that the non-gas cost revenue requirement, which gives rise to Centra's allowed net income, needed to be reviewed in the context of a GRA. As such, the Board directed Centra to file a full GRA on or before January 20, 2017, at which time Centra's earnings were expected to be reviewed. Despite this direction, Centra did not file the current GRA until November 30, 2018. The GRA was filed only after the Board imposed a fine on Centra for non-compliance and after Centra's non-gas rates reverted by direction of the Board to the levels approved as final in Order 85/13.

Centra's delay in filing for a GRA has given rise to matters that would not otherwise have been an issue, has complicated matters that would otherwise have been routine, and has resulted in negative impacts to customers. Based on the evidence filed in the current proceeding, the Board has identified the following issues that relate in whole or in part to Centra's delay in filing:

- Centra has over-earned net income. The Board took action to reduce the over-earning by Centra through reverting certain non-gas rates approved as final in Order 85/13. However, in this GRA, the Board's prior protective action resulted in the bill impacts for some customer classes being distorted due to the reversal of the reversion of rates;
- Centra adopted accounting policies on transition to International Financial Reporting Standards for financial reporting purposes. These accounting policies differed from those which the Board directed in 85/13 should remain unchanged until reviewed at a future GRA for rate-setting purposes. This led to Centra needing to create a number of deferral accounts to reconcile between financial reporting and regulatory reporting. By not filing a GRA by January 2017, the regulatory deferral accounts accrued significant balances which must now be addressed, with the time lapse giving rise to intergenerational equity issues;
- Centra would likely have sought in an earlier proceeding the Board's approval of the capitalization of labour costs related to gas meter sampling, testing, and exchange. Had Centra sought this approval in an earlier proceeding, these costs may not have been continued to be recovered from ratepayers as an Operating and Administrative expense in each year;
- The Board is being asked to approve the recovery of the difference in Depreciation expense between using currently approved 2010 depreciation rates and the proposed 2014 depreciation rates based on the completed 2014 Depreciation Study. As Centra did not seek approval of the 2014 depreciation rates until this proceeding, ratepayers have been paying higher Depreciation expense based on 2010 rates;
- Bill impacts to certain classes related to increased Transmission investments could have been smoothed;

- Bill impacts are larger due to there being four years of Purchased Gas Variance Accounts to be addressed;
- Centra would likely have sought in an earlier proceeding to discontinue funding of the Furnace Replacement Program, as the cumulative balance in the fund is sufficient to fund the replacement of the remaining furnaces forecast to be replaced under the program to 2027/28. The Small General Service customer class, which includes residential customers, could have received a bill decrease at that time, minimizing overfunding of the Furnace Replacement Program;
- The change in methodology for the disposition of the Heating Value Margin Deferral Account identified by Centra's external consultant could have been brought before the Board earlier. Parties and the Board would then have had the opportunity to consider whether the current methodology is inconsistent with cost causation and therefore results in customers paying costs that they did not cause;
- Centra's balancing fee proposal could have been addressed at an earlier date, thus addressing cross-subsidization of Transportation Service customers by Sales Service customers and the use of additional Centra resources to deal with imbalances caused by Transportation Service customers; and
- Had Centra filed in 2017, the Board would not have been in the position of having to review four years of historical capital projects and determine whether projects built in that four-year period should be added to rate base, in some cases years after the projects have entered into service and without the Board having the opportunity to review the projects before the costs were expended.

2.0 Summary of Board Decisions

By this Order, the Board approves adjustments to the rates charged by Centra to customers, to be effective November 1, 2019. The Board also directs Centra with respect to cost of service, bill mitigation, Terms and Conditions of Service, and regulatory planning and strategic direction matters. The following provides a summary of the findings and directives of the Board contained in this Order.

Summary of Board Decisions: Centra's Revenue Requirement

The Board denies the revenue requirement proposed by Centra for the Test Year and approves a lower non-gas revenue requirement. The Board directs Centra to file, within two weeks of the issuance of this Order, a compliance filing that calculates new customer rates and customer bill impacts to be effective November 1, 2019 to reflect the Board's decisions in this Order. In addition to revised rates and bill impacts, Centra's compliance filing shall include revised calculations and schedules for rate base and revenue requirement.

The Board's findings in this Order on the components of Centra's revenue requirement are summarized below.

The Board does not accept Centra's 2019/20 Operating and Administrative expense target of $61.25 million for 2019/20. The Board directs a reduction to the Test Year Operating and Administrative expense of $2.55 million, resulting in a total expense of $58.7 million. This reduction results from the Board's findings that Centra is to use a 1% escalation level (as opposed to 2% level) in the Test Year Operating and Administrative expense budget and that the Voluntary Departure Program ("VDP") savings are to be allocated to Centra using the 6% allocator developed to allocate the VDP restructuring costs (as opposed to the 4% allocator proposed by Centra). The Board finds that no adjustment is to be made to the Test Year Operating and Administrative expense with respect to the contingency amount built into the budget by Centra.

The Board approves Centra's proposal to begin capitalizing the labour costs associated with meter sampling, testing, and exchange activities beginning in 2019/20. The Board directs that Centra ratepayers are to receive a credit for the $15.3 million net income accumulated balance paid by Centra ratepayers in the 2014/15 to 2018/19 period when these costs were treated as a period expense on Centra's financial statements.

The Board finds that Centra has not complied with Order 128/09 Directive 11, which required Centra to file terms of reference for a study to review the Integrated Cost Allocation Methodology. Based on new information and evidence filed in the current GRA proceeding, Order 128/09 Directive 11 is set aside. However, the Board concludes that a review of the Integrated Cost Allocation Methodology continues to be required. The Board directs Centra to prepare and file an Integrated Cost Allocation Methodology report, containing the detail required by the Board in this Order, as a Minimum Filing Requirement for the next GRA.

By this Order, the Board approves the changes in service lives, the updated depreciation rates, and the new depreciation accounts proposed by Centra in its Application. The Board also directs Centra with respect to the establishment of regulatory deferral accounts and the amortization periods applicable to the accounts approved by the Board.

With respect to Centra's capital and demand-side management expenditures, the Board directs that the expenditures from the period 2013/14 through 2017/18 are to be included in Centra's rate base and approves the recovery of these costs from ratepayers. The Board will not pre-emptively disallow any of the capital projects proposed or completed in 2018/19 and 2019/20 from inclusion in rate base. The Board will evaluate projects completed in 2018/19 and 2019/20 in a future proceeding and consider their addition to rate base at that time. The Board approves the proposed rate base for 2019/20 of $645.6 million, including the regulatory deferral accounts proposed by Centra.

The Board finds that Centra should transition to more advanced asset management processes. At the next GRA and subsequent GRAs, unless otherwise ordered by the Board, Centra is to file a five-year asset management and capital expenditure plan for the Board's review and approval, such that the Board is able to review proposed capital expenditures before construction commences. Additional requirements for this plan are discussed in detail in this Order. As well, Centra is to file with the Board the Natural Gas Strategic Asset Management Plan as a Minimum Filing Requirement with the next GRA, including the information required by the Board in this Order.

The Board finds that Centra is to cease funding the Furnace Replacement Program through consumer rates, effective November 1, 2019. This will reduce the annual revenue requirement from the Small General Service customer class by $3.8 million and by $2.9 million in the Test Year. Centra is to refund to the Small General Service customer class the currently estimated excess funds in the Furnace Replacement Program account on the basis of a one-year period commencing November 1, 2019.

The Board approves the gas costs as requested by Centra in its Application. The Board also approves Centra's July 24, 2019 change to the volume forecasting methodology (i.e. using a 10-year rather than a three-year historical average of peak demand to estimate future demand) for customers in the Power Station class. In addition, Centra's Alternate Service rates offered to Interruptible customers during periods of potential curtailment since the 2015/16 Cost of Gas regulatory proceeding and Order are approved.

With respect to Centra's net income, the Board approves Centra's recovery from ratepayers of $3 million in net income in 2019/20 on an annualized and weather normalized basis. The Board finds that more information is required regarding the use of rules, targets, and tests for examining Centra's financial health for rate-setting in years after the Test Year. Centra is directed to participate in a technical conference hosted by an independent facilitator to examine the use of rule-based regulation for Centra, the appropriate level of retained earnings, and the use of financial metrics in the context of Centra's ownership structure, operations, and risks.

As detailed in this Order, Centra is to charge directly to retained earnings, without an increase to Centra's revenue requirement, the prior period costs of ineligible overheads deferred by Centra between 2014/15 and 2018/19 and the remaining refund to Centra from the Heating Value Margin Deferral Account that will not be paid by customers further to the Board's direction in this Order.

The Board finds that Centra's 2019/20 revenue requirement is also to be reduced by $0.664 million due to the decrease in forecasted Finance Expense and by a further $0.350 million, the amount of the increases proposed to property taxes included in the Test Year. The Board approves the Other Expenses and Corporate Allocation in the amounts of $10.7 million and $12 million respectively, as sought by Centra.

Summary of Board Decisions: Cost of Service Study and Bill Mitigation

Further to Order 98/19, the Board directs that a full cost of service study methodology review should be held prior to the next Centra GRA. Centra is directed to file its Cost of Service Study Methodology Review submission by no later than May 1, 2020.

The methodology for the disposition of the Heating Value Margin Deferral Account was in scope in this GRA. The Board finds that the Heating Value Margin Deferral Account is to be eliminated effective the 2019/20 gas year, following the disposition of the current balance in the Deferral Account. The remaining balances accumulated in the prior period and current Heating Value Margin Deferral Accounts through the end of the 2018/19 gas year are to be disposed of on the basis of class non-gas volumetric revenue, except where this change would result in any customer class paying a greater refund to Centra than the class would have paid under the current volume-based methodology. The current methodology is to be maintained for those customer classes, with any remaining amount owing to Centra from the account treated as a direct charge to retained earnings.

Options for mitigation of the bill impacts arising from the results of the existing Board-approved cost of service study were also in scope in this GRA. The Board finds that there is to be no implementation of specific bill mitigation measures. The change in methodology to the Heating Value Margin Deferral Account will result in significant mitigation of the billed rate impacts to the Special Contract customer class. The Board therefore finds that no further bill mitigation is warranted.

Summary of Board Decisions: Terms and Conditions of Service

With respect to Centra's balancing fees proposal, the Board denies Centra's proposal with respect to daily and cumulative balancing tolerances and directs the use of daily and cumulative balancing tolerances that are at twice the level proposed by Centra. The Board approves Centra's request to calculate the Transportation Service balancing fees based on 50% of TCPL's balancing reference toll. In addition, the Board directs Centra to more explicitly detail the approved Transportation Service balancing fee structure and associated daily and cumulative tolerances in a schedule in its Terms and Conditions of Service. The Board denies Centra's proposal to increase the Transportation Service volumetric eligibility threshold, which is to remain at 200 GJ/day at this time. The Board also directs Centra to file by December 31, 2020 a report that details the results of the revised balancing fee structure following the 2019/20 gas year, including the information required by the Board in this Order.

The Board finds that Centra has not been compliant with prior Board direction regarding the Customer Equipment Problem Program as articulated in Order 49/95. The Board directs Centra, by no later than November 30, 2019, to either amend its internal procedures to comply with the parts list in Order 49/95, or apply to the Board to vary Order 49/95.

The Board approves Centra's proposed increases to its reconnection fees, meter test fees, and company labour rates as filed. The Board denies Centra's request to increase the late payment charge. Centra's late payment charge is to remain at 1.25% per month.

By this Order, the Board provides final approval of Centra's proposed addition of Atmospheric Pressure Zone 5 to Centra's Terms and Conditions of Service. The Board further approves as filed Centra's remaining clerical changes to its Terms and Conditions of Service.

Summary of Board Decisions: Interim Orders and Other Requests for Approval

By this Order, the Board approves as final prior interim municipal franchise and crossing agreement Orders 53/16, 55/17, 56/18, 48/19, and 85/19. The Board also approves as final prior interim Primary Gas and non-Primary Gas Orders 10/13, 40/13, 89/13, 123/13, 6/14, 42/14, 85/14, 123/14, 140/14, 12/15, 43/15, 72/15, 108/15, 4/16, 57/16, 98/16, 137/16, 7/17, 44/17, 79/17, 117/17, 16/18, 55/18, 93/18, 143/18, 16/19, 47/19, and 102/19. In addition, the Board approves the amount of Centra's existing liability insurance.

The Board finds that Centra is not in compliance with the requirements of Order 118/03 pertaining to the minimum margin guarantee for the Power Station class. The Board directs Centra to file all contracts with Power Station customers, as well as feasibility tests and true-ups associated with the extension of service to the power stations, including any information supporting the determination of the minimum margin guarantee as part of the Minimum Filing Requirements for the cost of service study review directed by this Order.

The Board's findings as to other prior Board Orders and directives are detailed in section 7.4 of this Order.

Summary of Board Decisions: Strategic Direction and Regulatory Planning

The Board directs Centra to file a Centra-specific strategic plan, separate from the Manitoba Hydro plan, as a Minimum Filing Requirement at the next GRA, containing the information required by the Board in this Order.

In addition to the Cost of Service Study Methodology Review to be filed by Centra by May 1, 2020, the Board will review the financial feasibility test methodology used to assess extensions of gas service to new customers. Centra is to file by November 30, 2019 a proposed process for the review of the feasibility test methodology. The Board does not, at this time, provide a date for Centra to bring forth its next GRA or Cost of Gas application to the Board for approval, but notes that with the expiration of Centra's storage and transportation arrangements on March 31, 2020, Centra's future gas costs will differ from those embedded in rates. Accordingly, Centra should not delay in bringing a GRA or Cost of Gas application to the Board.

3.0 Procedural History

On November 30, 2018, Centra filed its 2019/20 GRA with the Board. On December 14, 2018, following the Board's review of the Application filing for completion, and Centra's subsequent provision of additional information and documents required in order to meet base, standard, or minimum filing requirements for the GRA, the Board declared the GRA filing completed and accepted it for filing with the Board.

On January 24, 2019, the Board held a Pre-Hearing Conference, the purposes of which were to identify and approve Interveners, identify the issues to be included in the scope of the hearing, and finalize a process and timetable for the exchange of evidence and conduct of the hearing. By Order 24/19, the Board approved Intervener status for BP Canada Energy Group ULC, Bunge Canada, Consumers' Association of Canada (Manitoba), Koch Fertilizer Canada, ULC Fertilizer Canada, ULC; Industrial Gas Users, McCain Foods (Canada), Richardson International Limited, Simplot Canada (II) Limited, TransCanada Pipelines Limited, and Unifor Local 681. Order 24/19 also approved an Issues List, which established the issues included in the scope of the hearing, and a timetable for the hearing process steps.

On March 22, 2019, Centra filed a Supplement to its November 30, 2018 GRA filing. The Supplement provided an update to financial information following the approval by Centra's Board of Directors of Centra's 2018/19 financial Outlook and 2019/20 Budget. The Supplement reflected actual financial results to September 30, 2018 for revenue and cost of gas, as well as updated planning assumptions for the gas volume forecast, planned demand-side management expenditures and activities, interest rate and U.S. exchange rates forecasts, and the cost of gas forecast.

Pursuant to the schedule established in Order 24/19, the Board and Interveners posed two rounds of Information Requests to Centra, following which Intervener expert witnesses filed expert evidence, which was the subject of one round of Information Requests from Centra, the Board, and other Interveners.

By letter of June 27, 2019, the Board determined that the hearing on Centra's storage and transportation portfolio and the second Pre-Hearing Conference would be held in writing. By Order 98/19, the Board established a process for the remainder of the hearing and the issues in scope for evidence and cross examination during the oral hearing days. The Board directed that, other than options for bill mitigation and the issue of the Heating Value Margin Deferral Account, all cost of service study methodology and allocation issues were to be deferred to a subsequent proceeding. All other issues not identified for the oral hearing were directed to be heard and determined by the Board on the basis of the written record in the proceeding.

By Order 108/19, the Board approved costs associated with certain storage and transportation arrangements to be effective April 1, 2020.

On July 24, 2019, pursuant to the directives of the Board in Order 24/19, Centra filed a Pre-Hearing Update. The Pre-Hearing Update included updated information on gas costs for the 2017/18 and 2018/19 gas years, non-Primary Gas costs for the 2019/20 gas year and the balances of the non-Primary Gas Purchased Gas Variance Accounts accumulated between November 1, 2015 and October 31, 2019 with updated carrying costs. The Pre-Hearing Update also updated Centra's 2019/20 cost of service study to reflect the changes in gas costs, updated detailed Operating and Administrative budgets for gas operations for 2019/20 as well as changes to the Power Station class volume forecast. In addition, Centra filed an Interest Rate Forecast Update, specifically Manitoba Hydro's Summer 2019 Forecast of Key Economic and Financial Indicators, and updated Information Request responses based on updated forecasts for Centra's Finance Expense.

Centra's written rebuttal evidence was filed on August 2, 2019.

The Board held an oral evidentiary hearing on the issues identified for oral evidence and cross examination on August 14, 15, 16, 20 and 22, 2019. The Board heard oral closing submissions from Centra, the Consumers' Association of Canada (Manitoba), and the Industrial Gas Users on August 28, 2019 and September 3, 2019. Koch Fertilizer Canada, ULC filed written closing submissions on the issues identified for oral evidence and cross-examination. Centra provided oral reply submissions on September 3, 2019.

The Board also received written closing submissions on the issues to be determined on the basis of the written record only from Centra, the Consumers' Association of Canada (Manitoba), the Industrial Gas Users, and Koch Fertilizer Canada, ULC.

By Orders and decisions of the Board, portions of the GRA filings and evidence were received by the Board in confidence pursuant to Rule 13 of the Board’s Rules of Practice and Procedure. Certain information was provided to specific Interveners and their consultants on execution of solicitor’s undertakings and non-disclosure agreements. Consistent with the Board’s decisions on confidential and commercially sensitive information, this Order contains publicly available information only, but the decisions contained herein are based on the Board’s adjudication of all evidence and submissions, including those filed in confidence with the Board.

The Board’s Rule 13 decisions in this proceeding were all marked as exhibits in the proceeding and are available to be reviewed on the Board’s website.

4.0 Revenue Requirement

In setting consumer rates for Centra, the Board reviews Centra's proposed revenue requirement. The revenue requirement consists of projections of revenue and expense items, as well as Centra's proposed amount of net income, which together form the basis of a request by Centra to increase or change the amount of revenues collected from consumers in rates. Centra's revenue requirement includes gas costs, or the costs associated with purchasing, storing, and transporting the commodity, as well as non-gas costs, or the costs to build, operate, and maintain Centra's network of pipes as well as customer service-associated costs. In the Test Year, Centra's requested total revenue requirement is $322.7 million and its requested non-gas revenue requirement is $149.1 million, or $148.5 million if the funding for the Furnace Replacement Program (discussed below) is excluded.

In determining whether any increase or change in rates is warranted, the Board may assess each revenue requirement item to determine the reasonableness of forecasted revenues and expenses. As Centra's gas costs are passed through to the customer without mark-up, the Board may consider both the non-gas revenue requirement as well as the total revenue requirement including gas costs. Under the Board's legislative rate-setting mandate, only expenses that are just and reasonable are accepted by the Board in the calculation of any change to revenue requirement and, correspondingly, to the rates charged to Centra's customers.

4.1 Operating and Administrative Expense

As Centra explains in its Application, Centra's Operating and Administrative expenses are comprised primarily of labour and benefits, materials, contracted services, and overhead costs associated with operating and maintaining facilities and providing services to customers. As a wholly-owned subsidiary of Manitoba Hydro whose operations are integrated within the organization structure of Manitoba Hydro, Centra does not have employees of its own; rather, all employees are Manitoba Hydro employees and the activities and costs of employees that support Centra's operations are allocated to Centra through the Integrated Cost Allocation Methodology.

The allocation of costs as between Manitoba Hydro and Centra also has significant implications for Centra's revenue requirement. The Integrated Cost Allocation Methodology is used to allocate Operating and Administrative expense and Finance Expense, Depreciation, and Taxes for common assets between Manitoba Hydro and Centra. Costs that are 100% gas-operations related are allocated 100% to Centra, while a cost driver is used to allocate shared costs to the line of business that causes the costs to be incurred.

Directive 24 of Order 99/07 required Centra to confirm to the Board that no incremental costs are to accrue to Centra's customers as a result of Manitoba Hydro's new head office. In addition, Directive 11 of Order 128/09 required that Centra file on or before March 1, 2010 terms of reference for a study to review the Integrated Cost Allocation Methodology and that the study be completed in sufficient time to be incorporated within Centra's next GRA. The Board subsequently deferred the issue due to uncertainty related to the implementation of IFRS. In Order 85/13, the Board noted that the Integrated Cost Allocation Methodology had not been reviewed since 2003, but concluded that the review process should commence only after IFRS was implemented. On November 30, 2016, Centra held a technical conference to provide to the Board and stakeholders an overview of its Integrated Cost Allocation Methodology.

The last time that Centra's detailed Operating and Administrative budgets were comprehensively reviewed by the Board was in the 2013/14 GRA proceeding. In that GRA, the Board approved $68.8 million in Operating and Administrative expense for Centra and consumer rates were set on the basis of an approved revenue requirement that included $68.8 million in Operating and Administrative expense.

In the time since the 2013/14 GRA, specifically in the 2015/16 fiscal year, Centra transitioned to International Financial Reporting Standards ("IFRS") from Canadian Generally Accepted Accounting Principles ("CGAAP"). As such, in the current GRA, Operating and Administrative costs are recognized in accordance with IFRS. Due to the differences in accounting standards, the actual Operating and Administrative expense as recorded under CGAAP in 2013/14 and 2014/15 are not directly comparable to actual and forecast Operating and Administrative expenses under IFRS in the 2015/16 through 2019/20 fiscal years, although Centra did restate its 2014/15 financial statement for comparative reporting purposes.

The table below details Operating and Administrative expense in the years since the transition to IFRS:

Operating and Administrative Expenses ($Millions)

2014/15 Actual (Restated under IFRS)	**2015/16 Actual**	**2016/17 Actual**	**2017/18 Actual**	**2018/19 Forecast**	**2019/20 Test Year**
$70.335	$66.607	$65.384	$63.113	$63.315	$61.250*

Source: PUB/Centra I-24

*Incorporating proposed removal in 19/20 of meter sampling and testing costs

Between 2014/15 and 2016/17, Manitoba Hydro targeted achieving a reduction of 330 staff positions through attrition and operational changes to achieve a targeted 1% growth in Operating and Administrative expense. Beginning in fiscal year 2016/17, Manitoba Hydro began a corporation-wide Voluntary Departure Program ("VDP"), for both the electric and gas operations. In total, 821 employees departed under the VDP, with 795 leaving the corporation in 2017/18 and the remaining 26 in 2018/19. In total, the corporation achieved $92.6 million in salary and benefit savings as a result of the VDP. $2.7 million of the savings has been attributed to Centra through the Total Assets cost driver, which is representative of the relative sizes of the electric and gas utilities, a split of 96%/4%.

In 2017/18, Centra's actual Operating and Administrative expense was $2.3 million lower than in 2016/17, primarily due to a reduction in management positions, lower billing and collection costs, and reduced staffing levels and associated expenditures related to the VDP. Centra's 2018/19 forecast Operating and Administrative expense is $0.2 million higher than the 2017/18 actual expense. Due to the uncertainty associated with the impacts of the VDP, in developing its Operating and Administrative target for 2018/19, Centra held the target constant with 2017/18 actual performance. Although the 2018/19 fiscal year had closed at the time of the GRA oral hearing and Centra's audited financial statements had been filed with the Minister, Centra was not able to file its 2018/19 actual finances, including actual Operating and Administrative expenditures, due to publication prohibitions related to the ongoing Manitoba provincial election.

Centra's forecast Operating and Administrative costs are $61.25 million for the 2019/20 Test Year, which represents approximately 41% of Centra's non-gas revenue requirement. Operating and Administrative expense is the highest component of Centra's non-gas revenue requirements.

The forecast $61.25 million Operating and Administrative expense for 2019/20, incorporates an approximate $3.0 million decrease in Operating and Administrative expense arising from Centra's proposed capitalization of gas meter testing and compliance costs, as discussed further below, as well as an assumed escalation of 2% from the 2018/19 year.

4.1.1 Party Positions: Operating and Administrative Expense

Centra

Centra submits that its 2019/20 Operating and Administrative forecast is reasonable. It is Centra's position that it has continued to actively manage and reduce its Operating and Administrative spending to levels below that approved in the 2013/14 GRA, which Centra states is evidenced by the $61.25 million forecast Operating and Administrative expense for 2019/20. Centra states that its Operating and Administrative expense performance under IFRS has been well below Manitoba CPI, with the continued decline reflecting a combination of the year-over-year changes in various program requirements as well as management reductions and the impacts of the VDP.

Centra disagrees with evidence of the expert witness for the Consumers' Association of Canada (Manitoba) that the Test Year Operating and Administrative forecast can be reduced by a total of $5 million. Centra argues that the recommended reductions are inappropriate and would result in a reduced quality of service to Centra's ratepayers. Centra states that the recommended reduction of $5 million would result in there being fewer resources for gas operations, which Centra equates to a reduction of approximately 59,000 straight-time employee hours or the elimination of approximately 40 full-time staff positions.

Specifically, Centra argues first that its escalation factor used in developing the 2019/20 Operating and Administrative forecast is reasonable and justified by the evidence in the proceeding. Centra states that a 0% escalation factor was assumed for the 2018/19 year, while a 1.5% escalation factor was used for 2019/20, after removing the impact of the proposal to capitalize meter sampling, testing, and exchange. Centra argues further that a 1% escalation level is not reasonable as its cost pressures are in excess of 1% and it faces inflationary pressures at or above Manitoba CPI.

Second, Centra argues that it has appropriately allocated 4% of the total VDP savings to Centra based on the use of the Integrated Cost Allocation Methodology Corporate Asset driver, which is representative of the overall size of the electric and gas utilities. Centra submits that this 4% driver reflects the VDP having been offered as a corporate-wide initiative to all Manitoba Hydro staff. As well, based on evidence given by Centra at the oral hearing, Centra's position is that the 4% allocator is "proving to have a high correlation with actual results". Centra also notes that allocating a higher proportion of the VDP savings to Centra would have implications for Manitoba Hydro's electric operations, as it would mean that Manitoba Hydro should have been allocated a lower proportion of the VDP savings with a corresponding increase to electric Operating and Administrative expense in the most recent Manitoba Hydro electric GRA.

Finally, Centra submits that the 2019/20 Operating and Administrative forecast should not be reduced by $1.1 million, the amount of a contingency included in the Operating and Administrative budget. Centra states that contingencies are an appropriate part of the budgeting process for a large utility and recognize that detailed plans identified in program budgets may change as a result of changes in customer requirements, circumstances, and business priorities. Centra notes that the detailed Operating and Administrative budget filed in the Pre-Hearing Update on July 24, 2019 reflects current requirements for all programs, which has resulted in a negative contingency of approximately $600,000. Centra's position is that management will manage to the $61.25 million Operating and Administrative target that has been established.

With respect to the Integrated Cost Allocation Methodology, Centra argues that the technical conference held on November 30, 2016 satisfied the Board Directive requiring Centra to file terms of reference for a study of the methodology. Centra states that the technical conference outlined the changes made in the allocation of costs to Centra subsequent to the implementation of IFRS, an assessment of the reasonableness of a fair and equitable allocation of costs, and an understanding that no cross-subsidization exists between gas and electric operations. Centra expresses concerns about the approach of a detailed annual report recommended by the expert witness for the Consumers' Association of Canada (Manitoba), which Centra characterizes as more of a detailed audit approach. Centra submits that the recommended report would be complex and would require significant costs be expended on an annual basis. Centra argues that, should clarification or further understanding of the Integrated Cost Allocation Methodology be required, a second technical conference should be held.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) argues that Centra's 2019/20 Operating and Administrative forecast should be reduced by a total of $5 million, through removing a $1.059 million contingency in the Operating and Administrative budget, increasing the amount of VDP savings allocated to Centra by an additional $2.7 million, and decreasing the forecast by $1.2 million through the use of a 1% escalation factor instead of the 2% factor used by Centra. The Consumers' Association of Canada (Manitoba) states that the total reduction of $5 million in the Test Year Operating and Administrative budget will result in approximately an $11 million reduction to Operating and Administrative expense by the end of 2027/28, ensuring enduring benefits of the VDP savings. This Intervener also states that the $5 million reduction will not result in the elimination of 40 staff positions because the reductions are not to actual costs that will be incurred, but rather remove unspecified costs from the budget. The Consumers' Association of Canada (Manitoba) emphasizes that there is no evidence on the record of any risks to reliable service and safety as a result of the recommended reductions to Operating and Administrative expense. Rather, the Consumers' Association of Canada (Manitoba) argues that, on an “apples to apples” basis, adjusting prior year Operating and Administrative expense to capitalize meter sampling, testing, and exchange costs, the 2019/20 Operating and Administrative budget of $61.25 million is equivalent to the expenditures in 2015/16, despite the reduction of 1,221 staff positions at Manitoba Hydro over the 2014/15 to 2018/19 period.

Regarding the contingency amount, the Consumers' Association of Canada (Manitoba) submits that the $1.059 million contingency in the Test Year Operating and Administrative budget represents the difference between the detailed forecasts by program and the total Operating and Administrative budget. The Consumers' Association of Canada (Manitoba) states that this contingency was incorporated in the Test Year budget in all materials filed in the proceeding until Centra filed its Pre-Hearing Update on July 24, 2019, which showed a negative contingency amount of $0.6 million, or $1.659 million in added costs from the originally filed Operating and Administrative budget. The Consumers' Association of Canada (Manitoba) argues that the new negative contingency could not be tested and should not be accepted by the Board. It is the position of this Intervener that the Board should accept the findings from the Manitoba Hydro electric GRA Orders 69/19 and 75/19 and remove from the Operating and Administrative budget the contingency amount as it is an unallocated contingency for transitional business requirements arising from the VDP.

With respect to the VDP savings, the Consumers' Association of Canada (Manitoba) submits that Centra’s use of the Corporate Asset driver should not be accepted as that driver has only a tenuous connection to savings related to wages and benefits. The Consumers' Association of Canada (Manitoba)’s position is that the Activity driver, which allocates between Manitoba Hydro electric and Centra on a 92%/8% split, is a compelling reasonable allocator for the VDP savings. This Intervener states that no weight should be placed on the oral testimony of Centra’s witness that the actual savings for Centra are tracking to 4% as that evidence cannot be tested and, given that Centra is unable to provide a detailed allocation of the savings between the two entities, there is no basis on which to conclude from the detailed actual results that the allocation of 4% is reasonable.

Finally, the Consumers' Association of Canada (Manitoba) argues that the Board should not accept Centra’s use of a 2% escalation factor. The Consumers' Association of Canada (Manitoba) states that Centra confirmed the use of a 2% escalation factor for the Test Year Operating and Administrative budget and that the same escalation factor was proposed by Manitoba Hydro in the electric GRA and rejected by the Board in Order 69/19. This Intervener argues that Centra’s position that escalation factors of 0% and 1.5% were used for 2018/19 and 2019/20 respectively is not borne out in the evidence; rather, Centra itself confirmed the use of a 2% escalation factor and its position is based on confusion between escalation (i.e. general wage increases and merit increases that impact wages and benefits and general inflationary changes in non-labour costs) with overall year-to-year changes.

The Consumers' Association of Canada (Manitoba) submits that Centra’s position on the escalation factor represents a return to a passive approach to cost control, contrary to the use of a 1% escalation factor in Centra’s 2013 and 2015 financial forecasts. It is the position of this Intervener that a 2% escalation factor will erode the savings achieved by the VDP. The Consumers' Association of Canada (Manitoba) rejects Centra’s argument that there are increased cost pressures on the Utility, and states that a 1% escalation factor equates to an implicit productivity factor of 1.13 compared to 2.75 in 2015/16. This Intervener states that there is no evidence in the proceeding that a 1% escalation factor would cause risks to public and employee safety, system reliability, or Centra’s ability to provide reasonable levels of services.

With respect to Centra’s Integrated Cost Allocation Methodology, the Consumers' Association of Canada (Manitoba) recommends that the Board direct Centra to develop an Integrated Cost Allocation Methodology report on an annual basis that can be used to support the allocation of consolidated operating costs and shared costs between Centra and Manitoba Hydro at future gas and electric rate-setting proceedings. The Consumers' Association of Canada (Manitoba) states that the independent review directed by the Board in Order 99/07 was never undertaken due to delays associated with Centra's implementation of IFRS. It is the position of this Intervener that the Centra technical conference did not meet the intent of the Board's Directive. The Consumers' Association of Canada (Manitoba) argues that an Integrated Cost Allocation Methodology report, the initial development of which would be reviewed through a collaborative process, is a practical but effective compromise to obtain an appropriate level of evidence for rate-setting purposes at a lower cost than an external review. The Consumers' Association of Canada (Manitoba) agrees with Centra that a second technical conference would be a useful next step in the collaborative process, but would need to go further in terms of the technical information that is available and discussed. The annual report, in the view of the Consumers' Association of Canada (Manitoba), does not have to be a costly exercise and should diminish in cost once established.

Industrial Gas Users

The Industrial Gas Users argues that the Board should direct Centra to revise its Operating and Administrative expense forecast to reflect an escalation factor of no more than 1% per year. This Intervener states that Centra has not asked its staff to present a budget based on a 1% escalation level, and therefore has not met its burden to prove that there must be a higher escalation factor. Noting the evidence that Maple Leaf, a significant gas user, operates under a 0% budgeting scheme, the Industrial Gas Users submits that it is reasonable for the Board to require Centra to assume a 1% escalation factor for budgeting purposes, consistent with the Board's findings in Order 69/19.

This Intervener recommends that, should the Board direct a further process related to the review of the Integrated Cost Allocation Methodology, the Board should instruct Centra to provide all Interveners of record in the current GRA proceeding the opportunity to participate. The Industrial Gas Users states that the Integrated Cost Allocation Methodology merits review by the Board and Interveners, but the process should balance the cost with the potential benefit to ratepayers.

4.1.2 Board Findings: Operating and Administrative Expense

The Board finds that Centra's 2019/20 Operating and Administrative expense target of $61.25 million is not accepted. The Board finds that the Test Year Operating and Administrative expense is to be reduced by $2.55 million, resulting in a total expense of $58.7 million. As discussed below, this reduction results from the Board's findings that Centra is to use a 1% escalation level in its budget target and that the Voluntary Departure Program ("VDP") savings are to be allocated to Centra using the 6% allocator developed to allocate the VDP restructuring costs. The Board finds that, in the exceptional circumstances of the post-VDP transition that Centra is currently engaged in, the Operating and Administrative target budget should not be adjusted downward to remove the contingency amount. This finding is discussed in greater detail below.

With respect to the reductions directed by the Board, the Board first finds that Centra's 2019/20 Operating and Administrative expense target should incorporate a 1% escalation factor over the 2018/19 and 2019/20 fiscal years. The evidence provided by Centra confirmed that the Test Year budget target was developed using a 2% escalation level for both years. Centra bears the onus of proving that its proposed Operating and Administrative expense is just and reasonable. That onus was not met. Centra did not establish in its evidence that there would be risks to safety and service reliability as a result of the use of a 1% escalation factor. Similarly, no specific information was put before the Board as to what reductions in programs or staffing would need to be made if a 1% escalation level were used instead of the 2% level proposed by Centra. While the Board accepts the importance of issues of safety and service reliability, evidence demonstrating the nature and likelihood of these risks in relation to a lower escalation level must be provided by Centra for Centra to meet its onus as the Applicant. In the present GRA, the evidence was that the Manitoba-Hydro Electric Board directed the use of a 2% escalation factor and Centra staff was not asked to prepare a detailed budget for a 1% escalation factor. The evidence therefore does not support the assertion that Centra cannot use a 1% escalation factor.

Moreover, in Order 69/19, the Board directed the use of a 1% escalation factor for Manitoba Hydro's electric operations Operating and Administrative expense. The Board's direction in this Order is therefore consistent with the rate-setting requirements for Manitoba Hydro's electric operations. The evidence before the Board in the current GRA is that Centra does not have segregated operations with its own Centra-specific employees and staff. As 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. This aligns with the Board's expectation that Centra will engage in active cost containment measures. Where the limits of those measures are reached because to go farther would give rise to security, safety, and reliability risks, Centra must bring that evidence before the Board to establish the necessity of the use of a different escalation factor.

Second, the Board finds that the Restructuring Driver developed for allocating the costs of the restructuring expenditures associated with the VDP is to be used for allocating the savings achieved through the VDP. This equates to 6% of the VDP savings being allocated to Centra, or 2% more than proposed by Centra in this Application. The Board finds that there is no apparent causal relationship between the VDP savings and the Corporate Asset allocator, particularly given that the total corporate assets include major hydroelectric assets. The causal relationship between the VDP and associated supply chain management initiatives and the relative amount of corporate assets between gas and electric operations is weak. Using the Restructuring Driver for the VDP savings matches the savings to the cost of the initiative while reflecting that the savings are connected to employee activities and labour.

Finally, the Board finds that no adjustment is to be made to Centra's 2019 Operating and Administrative expense with respect to the contingency amount built into the budget. However, the Board does not accept that a contingency can be used as a normal budgeting practice on a go-forward basis. As the Board sets rates based on forecasted revenue requirement, the use of a contingency equates to a proposal that ratepayers pay a budgeting cushion without any specific expenses or planned expenditures tied to those costs. That is inconsistent with regulatory principles requiring that expenses be used and useful for ratepayers. The Board accepts the use of a contingency in the current Application solely due to the circumstances of Centra being in the immediate post-VDP period and still engaged in transitioning and restructuring after a major staff reduction. In this exceptional circumstance, the Board accepts the use of a contingency in preparing the Operating and Administrative budget. The Board therefore does not accept the recommendation of the Consumers' Association of Canada (Manitoba) to direct the reduction of Operating and Administrative expense by $1.059 million to remove the positive contingency included in the budget filed in the GRA prior to the Pre-Hearing Update.

The Board finds that Centra has not complied with Order 128/09 Directive 11. That Directive required Centra to file terms of reference for a study to review the Integrated Cost Allocation Methodology. Centra has not filed terms of reference and therefore has not complied with the Directive.

The Board finds that, based on new information and evidence filed in the current GRA proceeding, Order 128/09 Directive 11 is set aside. The Board accepts that an external study would give rise to significant costs to Centra, which would be borne ultimately by ratepayers. However, the Board concludes that a review of the Integrated Cost Allocation Methodology continues to be required. Such a review has not been completed since 2003 and the changes to the Integrated Cost Allocation Methodology since the transition to IFRS have never been the subject of a review. The Board does not accept that the technical conference held by Centra on November 30, 2016 constitutes a review of the Integrated Cost Allocation Methodology. The technical conference was in the nature of a high-level overview and was not sufficient to allow stakeholders or the Board to render an opinion on the reasonableness of the Integrated Cost Allocation Methodology. The Integrated Cost Allocation Methodology is the methodology by which Manitoba Hydro allocates to Centra common costs that are significant to Centra’s non-gas revenue requirement. It is important for stakeholders and the Board to understand the costs that are being allocated and the cost drivers selected to allocate those costs as this provides a foundation for assessing whether Centra ratepayers should be responsible to pay those costs in rates.

To provide an evidentiary foundation for rate setting, the Board directs Centra to prepare and file an Integrated Cost Allocation Methodology report as a Minimum Filing Requirement for the next GRA. This report is to include the detail of: the consolidated costs that are allocated to Centra; the selected cost drivers and the rationale for the selection of those cost drivers; emerging issues and alternative cost drivers considered, with any resulting recommendations for changes in the methodology for rate-setting purposes; the resulting allocations and any changes in allocations to gas operations as compared to electric operations; and Centra's conclusion as to the appropriateness of its Integrated Cost Allocation Methodology. Parties will have the opportunity to review the report when it is filed as a Minimum Filing Requirement and can make submissions to any further process that is argued to be required to enhance understanding and testing.

The Board does not accept Centra's argument that the Integrated Cost Allocation Methodology report represents a "detailed audit" and will be complex and costly. The information required to be included in the report is already available to Centra. While time and internal resources will be required to prepare the report, the Board views this as a worthwhile use of resources given the importance of this issue to Centra's ratepayers.

4.2 Gas Meter Sampling, Testing, and Exchange Activities Costs

Centra incurs labour costs associated with meter sampling, testing, and exchange activities ("Meter Sets") to support overall compliance with Measurement Canada requirements. Through fiscal year 2018/19, Centra treated Meter Sets costs as an Operating and Administrative expense, and these costs were therefore included in Centra's Operating and Administrative revenue requirement as period expenses in each year. In contrast, Manitoba Hydro's electric segment has historically recorded these costs as capital expenditures.

In the 2013/14 GRA, Centra proposed that it would begin capitalizing Meter Sets costs on its adoption of IFRS in 2015/16. In Order 85/13, which established the approved revenue requirement for 2013/14 and resulting consumer rates, the Board stated that it would not, at that time, direct a change in the accounting policy for Meter Sets costs in advance of Centra's adoption of IFRS. The Board further indicated that it expected that

Centra would put forward a proposal on harmonizing the Meter Sets accounting policy with Manitoba Hydro in the IFRS status update report directed in Order 85/13 to be filed at the next GRA.

The consolidated Corporation transitioned to IFRS, effective April 1, 2015 (with a restatement of the 2014/15 fiscal year for comparative reporting purposes). At that time, a decision was made by the consolidated Corporation to adopt Manitoba Hydro's accounting treatment of Meter Sets costs for the purposes of the corporate consolidated financial statement. Under IFRS, on a consolidated financial statement, the parent company and its subsidiaries must have harmonized accounting policies. To achieve this harmonization on the consolidated financial statement, an elimination entry is performed to reclassify Centra's Meter Sets costs from Operating and Administrative expense to Property, Plant & Equipment with the associated Depreciation expense also recorded in the eliminations column, thereby increasing the net income of the consolidated entity. The consolidated net income impact of this accounting treatment from 2014/15 through 2018/19 inclusive has been a net positive $15.3 million. That net positive net income is not attributed on the financial statement to either gas or electric operations, although the $15.3 million additional amount in consolidated net income resulted in Centra customers paying rates that were set on the basis of the costs being expensed.

Although the accounting treatment was harmonized on the consolidated financial statement, the Meter Sets costs continued to be treated as an Operating and Administrative period expense on Centra's segmented financial statements. On March 10, 2016, Centra wrote to the Board and stated as follows:

> *"As outlined in the IFRS Status update report filed in Manitoba Hydro's 2015/16 & 2016/17 General Rate Application, Centra will harmonize its accounting treatment with that of the Corporation's electric operations to capitalize the costs associated with meter sampling, testing and exchange activities. Centra intends to apply this change in policy on a prospective basis commencing in the 2015/16 fiscal year (with restatement of the 2014/15 fiscal year for comparative reporting*

> *purposes) and is requesting the PUB's confirmation that this approach is appropriate for rate-setting purposes."*

By letter dated April 4, 2016, the Board advised as follows:

> *"At the outset, the Board clarifies that its mandate with respect to prescribing accounting methods is limited to determining the appropriate accounting for rate-setting purposes, but not for financial reporting purposes. While in the Board's view, it would be preferable for Centra's financial statements to be consistent with the current rate-setting methodology approved by the Board, the Board cannot provide the requested guidance as to how Centra should prepare its financial statements for financial reporting purposes …*
>
> *In the Board's view, whether each of the accounting changes proposed by Centra in its March 10, 2016 correspondence should be implemented for rate-setting purposes will be examined in next Centra's General Rate Application and does not warrant an interim proceeding at this time. It is the Board's intention to examine and make a final ruling with respect to each of these issues for rate-setting purposes at the hearing of the next General Rate Application in 2017."*

As this GRA is the first since the 2013/14 GRA, Centra's request to begin capitalizing the Meter Set costs has not been examined by the Board since the transition to IFRS. In this GRA, Centra is proposing to capitalize Meter Sets costs beginning in 2019/20.

4.2.1 Party Positions: Meter Sets

<u>Centra</u>

Centra argues that its proposal to begin capitalizing Meter Sets costs in 2019/20 complies with previous decisions of the Board and is reasonable on a go-forward basis. It is Centra's position that the Board should endorse this accounting treatment.

Centra submits that rates charged to customers in prior years were just and reasonable and disagrees with the suggestion of the expert witness for the Consumers' Association of Canada (Manitoba) that the $15.3 million in net income recorded on the consolidated financial statement should be credited back to Centra ratepayers. Centra disputes the premise that the expensing of Meter Sets costs between 2014/15 and 2018/19 has resulted in an intergenerational inequity, and states that the Board previously directed Centra to continue expensing these costs. Centra further argues that addressing the accounting treatment over the prior period would necessitate creating an additional regulatory deferral for a new regulatory liability that unnecessarily defers and re-flows the recognition of costs that had previously been approved for recovery from ratepayers. As well, Centra states that the increase in Centra's net income would be partially offset by annual depreciation on the plant asset.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) did not take a position on Centra's request to begin capitalizing the Meter Sets costs in 2019/20.

With respect to the prior period, the Consumers' Association of Canada (Manitoba) submits that the Board should direct Centra to credit Centra ratepayers back for the $15.3 million in net income for the 2014/15 to 2018/19 period that currently shows only on the consolidated financial statement. The Consumers' Association of Canada (Manitoba) recommends that the $15.3 million in net income be recognized by Centra as a regulated liability owing to customers and refunded to customers through an amortization of the amount of three years with depreciation of the plant asset over ten years. The Consumers' Association of Canada (Manitoba) argues that this approach best ameliorates the intergenerational inequity that arises from ratepayers who funded the $15.3 million in net income through their customer rates between 2014/15 to 2018/19. It is the position of this Intervener that this approach would not result in any net income impact in the Test Year. The Consumers' Association of Canada (Manitoba) submits that the Board should approve the recognition of a regulatory deferral liability effective April 1, 2019, with amortization of the regulatory deferral liability over the full 12-month period of the fiscal year.

4.2.2 Board Findings: Meter Sets

The Board finds that Centra's proposal to begin capitalizing the Meter Sets costs beginning in 2019/20 is approved. This accounting treatment is consistent with the accounting policy for the Manitoba Hydro electric segmented financial statement and the consolidated financial statement. It is also in accordance with International Financial Reporting Standard ("IFRS") 16, which provides that labour costs associated with major inspections are to be capitalized rather than treated as a period expense. No parties in the GRA proceeding took issue with the proposed capitalization on a prospective basis.

With respect to the amounts paid in rates by Centra ratepayers in the 2014/15 to 2018/19 period that resulted in a net positive $15.3 million net income on the consolidated financial statement, the Board finds that Centra ratepayers are to receive a credit for this $15.3 million amount. The continuation of the accounting policy to treat the costs as a period expense is directly linked to the passage of time between the GRA filings. As Centra did not file a GRA until November 30, 2018, ratepayers continued to pay higher rates than they otherwise would have, but the benefit of those higher rates was not attributed to Centra's operations. In addition, the evidence is that Centra initially intended to change the accounting policy in the 2015/16 fiscal year and, while the Board required that the proposal be examined at a GRA, the Board expected that there would be a GRA in 2017. In these circumstances, the appropriate, just, and reasonable treatment is to credit the $15.3 million in net income currently recognized only on the consolidated financial statement back to Centra's ratepayers whose rates gave rise to that net income impact.

The Board finds that, as recommended in the evidence of the expert witness for the Consumers' Association of Canada (Manitoba), the crediting of the $15.3 million to Centra ratepayers should be established through the creation of a regulatory deferral liability. In order to limit the extent of any intergenerational inequity, the regulatory deferral liability is to be amortized over three years. Net plant is to be depreciated over ten years, consistent with the life of the asset.

The Board also notes that Order 85/13 Directive 3 required that Centra file with the Board an IFRS status update report prior to the next GRA to provide the Board with options available for rate-setting purposes. As discussed above, the Board expected that Centra would put forward a proposal in the status update report on harmonizing the Meter Sets accounting policy with Manitoba Hydro. The Board finds that Centra did not file a specific IFRS status update report prior to the GRA. However, Centra did include detailed information in the nature of an IFRS status update in the GRA filing, including a proposal for harmonizing Centra's Meter Sets accounting policy with Manitoba Hydro. The Board finds that Order 85/13 Directive 3 is complete based on the information filed by Centra in the GRA.

4.3 Depreciation Rates and Depreciation Accounts

Centra is requesting Board approval for rate-setting purposes of new depreciation rates and new depreciation accounts, arising from Centra's 2014 Depreciation Study. Due to the 2014 Depreciation Study, there have been updates to accounting estimates and accounts since the last GRA. Order 85/13 Directive 7 required that Centra file with the Board any proposed changes to depreciation rates as part of or before the next GRA and seek the Board's approval of such changes.

Centra is seeking the following approvals:

- of updated depreciation rates and changes in service lives, including the updated gas meter depreciation rate; and
- of new depreciation accounts (Gas In-Line Inspections, gas meter testing and sampling, cathodic protection (transmission), and cathodic protection (distribution)) for rate-setting purposes determined during and subsequent to the 2014 Depreciation study.

4.3.1 Party Positions: Depreciation Rates and Depreciation Accounts

Centra

Centra submits that the Board should approve the use of the 2014 CGAAP Average Service Life Depreciation Study accounts and depreciation rates for rate-setting purposes effective April 1, 2019. The 2014 Study resulted in changes to service lives, most significantly with Services, Meters, and Distribution Mains. Centra also added three new depreciation accounts for Gas Meter Testing/Sampling, Cathodic Protection (Transmission), and Cathodic Protection (Distribution) as the service lives of the respective expenditures were much shorter than the account the expenditures were previously recorded in.

Centra also submits that the Board should approve the commencement of a new depreciation account for gas in-line inspections for rate-setting purposes effective April 1, 2019 and the use of a 5-year depreciation period for this account commencing April 1, 2019. This account captures costs associated with the implementation of the use of in-line inspection tools to assess the integrity of the aging natural gas pipeline system. These tools were implemented in 2015 and are used to measure metal loss and deformation anomalies. The new account has been assigned a 5-year service life.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) monitored the evidence in the proceeding on Depreciation expense and methodology. The Consumers' Association of Canada (Manitoba) has not identified concerns that affect this Intervener’s interests.

4.3.2 Board Findings: Depreciation Rates and Depreciation Accounts

The Board finds that the changes in service lives and the updated depreciation rates and new depreciation accounts proposed by Centra are approved.

4.4 Accounting Issues and Regulatory Deferral Accounts

In this GRA, Centra is requesting the Board's approval with respect to a number of accounting policy matters. The accounting treatments used by Centra have implications for the revenue requirement in the Test Year.

A number of the accounting issues in this proceeding are the result of Centra's transition to IFRS, which has given rise to Centra's requests that the Board endorse certain IFRS-related accounting changes that were adopted by Centra upon the transition to IFRS in 2015/16. Under IFRS, regulatory deferral accounts are recognized in accordance with standard IFRS-14. Regulatory deferral accounts address timing differences between the recognition of items of income or expense for financial reporting purposes and the recognition of those same items for rate-setting purposes. Centra is required to establish regulatory deferral accounts to capture the financial impacts of the accounting changes, but IFRS-14 requires that rate-regulated entities obtain the endorsement of their regulator as to the timing and amortization period over which regulatory deferrals should be recognized into net income.

Centra is seeking endorsement of the following:

- regulatory deferral accounts recognized by Centra subsequent to its 2013/14 GRA and the proposed amortization periods of these accounts:
    - Ineligible Overhead Charges;
    - 2014 Depreciation Study;
    - Updated Gas Meter Depreciation Rate;
    - CGAAP Average Service Life Depreciation Difference;
    - Asset Removal Costs and Retirement Gains and Losses; and
- discontinuance of the Demand Side Management Deferral Account and the write off of the $8.2 million accrued balance

4.4.1 Party Positions: Accounting Issues and Regulatory Deferral Accounts

Centra

Centra submits that the IFRS-related accounting changes and new regulatory deferral accounts were not contested in the GRA proceeding and were not the subject of Intervener evidence. Centra argues that the Board should therefore grant the approvals as applied for in the GRA.

Regarding the requested approvals of regulatory deferral accounts, Centra submits as follows:

- Ineligible Overheads - the Board should endorse, effective April 1, 2014, the establishment of a new deferral account to defer the annual impact of $0.7 million in overhead costs ineligible for capitalization under IFRS and the amortization of the cumulative deferral balance for rate-setting purposes over a 34-year period commencing April 1, 2017. Centra states that it commenced amortizing the balance in 2017/18 to be consistent with the direction received by Manitoba Hydro in the electric GRA Order 59/18 for Manitoba Hydro's ineligible overhead deferral account. As an alternative, Centra submits that the Board could endorse the recognition of the additional $0.7 million of ineligible overhead into income for rate-setting purposes on a prospective basis commencing April 1, 2019. This alternative would require further endorsement of an amortization period for the approximately $3 million of ineligible overhead that was deferred from 2014/15 through 2018/19;
- 2014 Depreciation Study - the Board should endorse the establishment of a new regulatory deferral account to defer the impact of the 2014 CGAAP Average Service Life Depreciation Study on Depreciation expense effective April 1, 2014 to March 31, 2019 and the amortization of the cumulative deferred balance for rate-setting purposes over a 34 year period effective April 1, 2019;
- Updated Gas Meter Depreciation Rate - the Board should endorse the establishment of a new regulatory deferral account to defer the annual impacts on Depreciation expense of the change in the gas meter depreciation rate effective April 1, 2015 through March 31, 2019 and the amortization of the cumulative

deferred balance for rate-setting purposes over a 20-year period commencing April 1, 2019. The service life of meters has been reduced from 25 to 20 years but Centra continued to use the previously approved 25-year service life for 2014/15 through 2018/19 pending endorsement by the Board of the new depreciation rate;

- CGAAP Average Service Life Depreciation Deference - the Board should endorse the establishment of a new regulatory deferral account to defer the annual impacts on depreciation expense of the change to the Equal Life Group method of depreciation from the prior Average Service Life method, effective April 1, 2014. On adoption of IFRS, Centra changed to the Equal Life Group method of depreciation for financial reporting purposes. Centra established a regulatory deferral account effective April 1, 2014 to defer the annual impact of the change for rate-setting purposes, which would otherwise be approximately a $2 million annual increase in Depreciation expense. Centra does not propose to amortize the balance in this account.
- Asset Removal Costs and Retirement Gains and Losses - the Board should endorse the establishment of a new regulatory deferral account to defer the annual impacts on Depreciation expense of the recognition of asset removal costs and retirement gains and losses effective April 1, 2014 and the amortization of the cumulative deferred balance for rate-setting purposes over a 34-year period commencing April 1, 2019. Under IFRS, asset retirement gains and losses are to be recognized in income in the year incurred. This regulatory deferral account defers the net income impacts of the IFRS accounting treatment; and
- Demand Side Management - the Board should endorse the discontinuance of the Demand Side Management Deferral Account. This account was established, pursuant to Directive 1d of Order 85/13 to record annual differences in actual and planned Demand Side Management spending. In Order 59/18, the Board directed Manitoba Hydro to discontinue recognizing its Demand Side Management Deferral Account for its electric operations. To be consistent with that directive to Manitoba Hydro, Centra did not defer an amount to this Account for 2017/18. Centra has assumed that the deferred regulatory asset and corresponding credit will be written off as of March 31, 2019. As with Manitoba Hydro, there will be no net income

impact of the write-off as the deferred debit and credit accounts will completely offset each other. Centra also argues that the request to discontinue the Account is consistent with the transition of the responsibility for demand side management programming to Efficiency Manitoba.

4.4.2 Board Findings: Accounting Issues and Regulatory Deferral Accounts

Ineligible Overheads Deferral Account

The Board finds that Centra's accounting policy of capitalizing $0.7 million in overhead costs is not accepted for rate setting on a prospective basis. IFRS requires that these costs be treated as period expenses and Centra has not provided an explanation for why there should be different accounting treatment of these costs for the gas utility for rate-setting purposes.

The Board finds that the establishment of a regulatory deferral account for ineligible overheads is approved for only the prior period costs that were deferred by Centra between 2014/15 and 2018/19. The prior period costs are to be amortized in one year, the Test Year, as a direct charge to Retained Earnings and without an increase to Centra's Revenue Requirement.

The Board denies Centra's request to continue deferring $0.7 million in ineligible overheads from 2019/20 forward. Centra has not established in the evidence in this proceeding the basis for deferring $0.7 million in overhead costs on the gas side of the operations. Where IFRS requires that costs be treated as period expenses, the Board finds that future ratepayers should not be required to pay for these costs in the absence of rate shock to current ratepayers.

2014 Depreciation Study

In Section 4.3.2 of this Order, the Board approves the new depreciation rates arising from the 2014 Depreciation Study.

The Board finds that the establishment of a regulatory deferral account for the impact of the 2014 CGAAP Average Service Life Depreciation Study on depreciation expense is approved, effective April 1, 2014 through March 31, 2019. The Board denies Centra's request to amortize the cumulative deferred balance over a 34-year period effective April 1, 2019. It appears that the 34-year period was selected based on the Board's findings in the 2017/18 & 2018/19 Manitoba Hydro electric GRA that Manitoba Hydro's Ineligible Overhead Deferral Account is to be amortized over 34 years, the average service life of Manitoba Hydro's electric assets. The evidence in this proceeding is that, based on the 2014 depreciation study, the average probable remaining life of Centra's assets is 42 years and the composite Average Service Life depreciation rate is 54 years. The 34-year amortization period does not appear to have a connection to Centra's asset lives or Centra's operations more generally and Centra did not provide an explanation as to why 34 years is an appropriate amortization period for Centra's 2014 Depreciation Study Deferral Account.

The Board finds that Centra is to amortize the cumulative deferred balance over a five-year period, commencing April 1, 2019, as this amortization period aligns with the approximate five-year interval between Centra's re-estimation of asset service lives performed in comprehensive depreciation studies. The last depreciation study was performed in 2014 and Centra is currently in the process of conducting a depreciation study, which is anticipated to be completed by February, 2020. As the deferral relates to changes in depreciation rates arising from Centra's depreciation studies, the amortization of the Deferral Account should align with the timing of those studies, rather than the 34-year average service life of Manitoba Hydro's electric assets. An amortization period of five years is also consistent with intergenerational equity. Changes in depreciation rates are intended to better reflect the actual service lives of assets. As such, ratepayers in 34 years should not pay for or receive the benefit of changes based on information that is current in 2019/20.

Given Centra's submissions in this GRA, the Board considers Directive 7 of Order 85/13 complete.

Gas Meter Deferral Account

In Section 4.3.2 of this Order, the Board approved the change in the gas meter depreciation rate proposed by Centra.

The Board finds that the establishment of a regulatory deferral account to defer the annual impacts of depreciation expense of the change in the gas meter depreciation rate effective April 1, 2015 through March 31, 2019 is approved. The Board denies Centra's request to amortize the cumulative deferred balance for rate-setting purposes over a 20-year period commencing April 1, 2019. The Board finds that the cumulative deferred balance is to be amortized over a five-year period commencing April 1, 2019.

A 20-year amortization period is not consistent with intergenerational equity. Ratepayers paid rates that were set based on a 25-year service life for gas meters over a period when a 20-year service life was used for financial reporting purposes commencing in 2015/16. The ratepayers who paid these lower (25-year service life) depreciation rates are less likely to contribute to the amortization of the deferral of the difference in service lives if that amortization is over a longer term, such as 20 years. The Board finds a five-year amortization period mitigates the intergenerational inequity and better aligns with the five-year interval between Centra's re-estimation of asset service lives in its comprehensive depreciation studies.

Average Service Life Depreciation Deferral Account

The Board finds that depreciation is to be recorded using the Average Service Life methodology without net salvage for rate-setting purposes. The Board will not make a final disposition with respect to the appropriate long-term depreciation methodology for rate-setting purposes until Centra has filed with the Board an IFRS-compliant Average Service Life depreciation study.

Consistent with the Board's direction to Manitoba Hydro in the 2017/18 & 2018/19 electric GRA, Centra is to continue to record the difference between Average Service Life and Equal Life Group depreciation methodologies in a deferral account, with no amortization of the regulatory account balance, at least until such time that the IFRS-compliant Average Service Life depreciation study has been filed.

Asset Removal Costs and Retirement Gains and Losses Deferral Account

The Board finds that, for rate-setting purposes, Centra is not to record the recognition of asset removal costs and retirement gains and losses as a period expense as is required under IFRS. These costs can be lumpy and as a result, to record these costs in the year incurred would be contrary to the principle of rate smoothing.

The Board finds that the establishment of a regulatory deferral account to defer the annual impacts on Depreciation expense of the recognition of asset removal costs and retirement gains and losses is approved effective April 1, 2014. This account records the annual impacts on Depreciation expense for rate-setting purposes of the IFRS requirement to immediately recognize asset removal costs on terminal asset retirements and asset retirement gains and losses into income.

The Board denies Centra's request to amortize the cumulative deferred balance over a 34-year period commencing April 1, 2019. The Board finds that the cumulative deferred balance is to be amortized over a five-year period, consistent with the Board's decisions on the amortization periods for other Deferral Accounts established by this Order.

Demand Side Management Deferral Account

The Board finds that the Demand Side Management Deferral Account is to be discontinued and the cumulative deferred balance is to be written-off. This is consistent with the direction and findings of the Board to Manitoba Hydro in Order 59/18, which the Board accepts and adopts for the Centra Demand Side Management Deferral Account:

> *The Board finds that there is no cash balance related to this regulatory asset as Manitoba Hydro has established an offsetting regulatory liability. To avoid the misconception that there is a specific reserve for demand side management spending, this accounting practice should be discontinued.*

The Board will review Centra's disposition of the regulatory asset and liability at the next GRA.

Given the above, the Board finds that Order 85/13 Directive 1d is set aside.

4.5 Capital Projects and Expenditures

Rate Base

The PUB Act requires the Board to determine Centra's rate base. Rate base is the sum of Centra's investment in its plant-in-service, less accumulated depreciation, plus a reasonable amount of working capital, less any contributions made by customers towards the construction of Centra's plant. Plant-in-service refers to the mains, services, stations, meters, and other capital assets of Centra. Stated a different way, rate base is the investment made by Centra on which it is permitted to earn a return. In the course of determining Centra's rate base, the Board considers the historical capital expenditures made by the Utility as well as the capital expenditures proposed for the Test Year. This authority of the Board with respect to Centra's capital expenditures differs from the Board's authority over Manitoba Hydro's capital expenditures, as the Board does not have jurisdiction to determine Manitoba Hydro's rate base.

The last time the Board reviewed and approved additions to rate base was at Centra's 2013/14 GRA, when the Board approved rate base additions for 2008/09 through to 2012/13 and the proposed rate base for 2013/14. In this GRA, Centra filed information supporting its rate base, including: its historical and forecasted capital expenditures for the years 2011/12 through to 2019/20; the working capital required to operate the utility; the accumulated and forecasted depreciation; and the contributions that customers have made towards the construction of Centra's mains, services, meters, and stations. Due to Centra's adoption of IFRS, intangible assets and regulatory deferral accounts are now separately itemized.

Rate Base Components ($000)	2013/14 Last Approved	2019/20 Test Year Proposed
Gas Plant in Service	681,747	868,266
Accumulated Depreciation	(241,999)	(301,188)
Net Plant in Service	439,749	567,078
Net Intangible Assets	-	9,312
Regulatory Deferral Accounts	-	26,603
Contributions in Aid of Construction	(53,062)	(61,534)
Working Capital	102,605	104,187
Rate Base	**489,292**	**645,646**

Capital Expenditures

Centra explained that it annually prepares a projection of the capital expenditures for new and replacement equipment and facilities to meet the natural gas requirements of Manitoba consumers. These annual projections are detailed in a Capital Expenditure Forecast ("CEF"). The CEF also provides annual projections of demand-side management capital expenditures. The most current CEF available for review in the current GRA is CEF18. For Centra's fiscal years 2018/19 and 2019/20, CEF18 forecasts total capital expenditures for gas operations of $35.4 million and $40.1 million, respectively, as well as demand-side management expenditures.

Annual Capital Spending and Demand Side Management Spending, Historical and Forecast

($millions)	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Capital Spending	29.8	32.6	27.3	40.4	54.4	32.9	35.4	40.1
DSM	9.1	8.1	9.9	10.0	10.7	11.0	9.4	10.8[1]

Note 1: Updated to $8.5 million with 2019/20 Approved Budget

These capital expenditures are planned to extend mains and services to connect new customers, to increase the capacity of the existing system to address growth in customer loads, to refurbish or replace existing assets at the end of their useful lives, to improve the operation of the system, to meet legislative, regulatory, or legal requirements, and to address requests to relocate existing assets.

Centra's long-standing system planning guidelines are predicated on being able to serve all of its firm service customers on the peak winter day, which is the coldest day expected by Centra. Centra is in the process of transitioning to a planning process where Centra looks at both the capacity of its system as well as ensuring that the system is resilient (resistant to outages), and considers the implications of returning the system to service. Such a planning process underpins some of the proposed capital expenditures, such as the Steinbach Upgrade, the Red River crossing at Letellier, and the additional secure supply to Portage la Prairie. In the case of Steinbach, Centra is building a second transmission feed to Steinbach to address customer and load growth as well as to provide a redundant feed. Centra is relocating the two transmission lines crossing the Red River at Letellier as the existing lines are located in a geotechnically unstable area and failure of these lines could cause widespread outages in southern Manitoba. The additional secure feed to Portage la Prairie addresses the risk of a riverbank slope failure at the Assiniboine River crossing causing an interruption to the single transmission line feeding the majority of Portage la Prairie.

Asset Management

Centra is an asset-intensive organization that has been managing assets since the 1950s. Similar to Manitoba Hydro, Centra identified the need to mature its asset management practices to maximize value from the funding it collects from ratepayers. Portions of Centra's pipeline system are in excess of sixty years old. This requires planning to appropriately manage these aging assets while also considering the requirements for new customers, capacity increases, and other system requirements.

Asset management involves the balancing of costs, opportunities, and risks against the desired performance of assets to achieve organizational objectives. Asset management is the framework of processes and metrics used to make asset life cycle decisions, including operating context, maintenance schedules, and replacements or upgrades in accordance with corporate priorities and risk tolerances to maximize value. In its simplest terms, asset management means providing the required level of service in the most cost effective manner: the "right" work undertaken to achieve the desired performance outcomes in the most efficient and financially responsible manner. Mature and competent asset management enables the application of analytical, data-driven approaches to managing assets over the different stages of their life cycle.

Centra is in the process of developing more advanced asset management processes as part of its Capital Asset Management initiative. Centra adopted the capital processes and approval levels implemented by Manitoba Hydro in March 2017 in support of the development of a Capital Portfolio Management Program. Part of transitioning to more advanced asset management processes includes adopting a Corporate Value Framework and incorporating additional asset condition data in Centra's capital planning. The purpose of the Corporate Value Framework is to help Centra understand the value of investments and to identify the optimal set of investments across the company which deliver the greatest value. Centra is also implementing a software tool called Copperleaf C55, a decision tool which will assist with implementing the Corporate Value Framework. However, only a few projects or programs have been evaluated and justified using the Corporate Value Framework to date, beginning in 2018, and the Framework was not used in the development of CEF18 and the determination of the Test Year capital investments. Instead, budgets for many of the capital programs are based on historical levels of spending.

Some of the outstanding deliverables from the Capital Asset Management initiative include a Natural Gas Strategic Asset Management Plan and a Natural Gas Asset Management Plan. Some aspects of the asset management plan have been developed, such as the pipeline risk assessment methodology and more recently the service and meter risk assessment methodology. The Natural Gas Strategic Asset Management Plan will detail how organizational objectives are to be converted to asset management objectives, the approach for developing asset management plans, and the role of the asset management system in supporting achievement of the asset management objectives.

To aid in capital expenditure justification and communication of the need for expenditures to management, Centra develops risk assessments. These risk assessments are included in the Natural Gas Asset Management Capital Investment Plan, which is a five-year plan of capital investments. Risk assessment is an analytical process that considers the consequence and probability of the failure of an asset to perform its intended function. Part of risk assessment includes identifying the hazards, analyzing the frequency of hazardous events or incidents and their consequences, and estimating the overall risk. Risk assessment includes evaluation of the risks in order to determine whether mitigation is required. To arrive at a risk score, the consequence and probability are separately determined. Risk assessments help determine which amount and mix of capital work mitigates the greatest amount of risk. Centra provided risk assessment scores for many of the capital projects proposed for construction in 2018/19, 2019/20, and beyond.

In Centra's assessment process, the consequence of the failure of an asset is an estimate of the severity of the failure, and include loss of use or inadequate service, public and employee safety concerns, environmental impacts, financial impacts, and customer perception of Centra with respect to reliability, service quality, and reputation. Probability, or frequency, is a measure of the likelihood of a pipeline failure occurring due to known hazards.

Centra developed a risk assessment methodology for the Natural Gas Asset Management Capital Investment Plan, but this is a separate methodology than the 2014 Pipeline Risk Assessment and its successor, the Pipeline Risk Assessment – 2017 Results.

One of the cornerstones of mature and competent asset management is to have comprehensive condition data for a company's assets. Centra filed its 2017 Natural Gas Asset Condition Assessment report that identifies that most of its assets are in acceptable condition, with natural gas services (including risers and meter sets) having the greatest proportion of assets that are considered fair, poor, or critical.

Centra does not specifically prioritize capital projects between departments or by asset type. Centra balances operational priorities in order to optimize overall corporate value considering changes in business, financial, and economic assumptions as well as operational risk factors.

4.5.1 Party Positions: Capital Project and Expenditures

Centra

Centra states that it takes its responsibility for the provision of a safe and reliable natural gas distribution system very seriously. Centra's proposed capital expenditures balance the risks of system failure with expenditure levels the Utility and the customer can afford. Centra states that the proposed capital expenditures are necessary to provide a safe and reliable natural gas system. In Centra's view, there are no discretionary projects. Where there may be some discretion, unforeseen circumstances may delay or defer an expenditure, but cancellation or extended deferral of a project results in Centra and its customers bearing unacceptable risks. Centra has an obligation to serve new customers, provided extending service to those customers meets the Board-approved feasibility test. Likewise, when customer growth outpaces the capacity of the existing system, additional capacity must be constructed so that operational problems are not encountered, such as on exceptionally cold days.

Centra advises that three significant projects have been delayed such that construction will not commence in 2019 as originally planned: the Red River crossing at Letellier, the Steinbach Upgrade, and the Waverley West Medium Pressure Phase 2 Upgrade have all been deferred beyond the 2019 construction season because of delays in obtaining approvals from municipal and provincial authorities. The total value of these projects is $9.2 million, but only $4.7 million was expected to be spent in 2019/20. Centra also included a target variance of $2.8 million in its 2019/20 capital expenditure total to address execution risk, including the possibility that some projects get deferred and not all the project dollars are expended. This means that Centra expected up to $2.8 million of expenditures related to the portfolio of projects slated for the Test Year to be deferred. With approximately $2 million of expenditures on these projects still proceeding, and the fact that the depreciation and financing expense related to these projects will only appear in the revenue requirement once the project enters service, the impact on the Test Year revenue requirement will be minimal.

Centra opposes METSCO Energy Solutions' ("METSCO") suggestion that the Red River crossing at Letellier, Steinbach Upgrade, and secure supply to Portage la Prairie be reconsidered or scaled back in their scope. Centra's states that its experts have determined that each of these projects is necessary to continue to provide Manitoba consumers with safe and reliable service.

Centra indicates its willingness to adopt some of METSCO's recommendations, specifically:

- explore options for enhancing the quantitative assessments of pressure regulating stations to obtain better asset condition data;
- identify and procure industry peer data on asset degradation and failure patterns to better understand the lifespan of assets; and
- explore the trade-offs between maintenance activities and capital investment.

Centra is unwilling to adopt METSCO's other recommendations, as Centra states that they would entail significant effort and cost yet yield minimal benefits.

Centra argues that the regulatory deferral accounts proposed in this GRA should be included in rate base. The regulatory deferral accounts relate to expenditures made by Centra that will not be recovered in the period when those expenditures were made. Including these costs in rate base reflects the investment of cash prior to the collection of these costs from ratepayers.

While Efficiency Manitoba is still in its formative stage, Centra continues to deliver demand-side management programming on a "business as usual" basis to meet the needs of Manitoba customers. This "business as usual" approach is reflected in the one-year 2018/19 DSM Plan that was prepared in consultation with the Province as outlined under *The Energy Savings Act*. The projected natural gas savings for 2018/19 are 11.6 million cubic metres (before electric interactive effects).

Consumers' Association of Canada (Manitoba)

With respect to Centra's capital expenditures, the Consumers' Association of Canada (Manitoba) Inc. relies on the evidence of its expert, METSCO, summarized as follows:

- asset management for a utility is as much about justifying and selecting among potential investment opportunities, as it is about selecting between taking on incremental investments or returning the underlying funds to customers in the form of lower rates.
- METSCO commended Centra's development of many of the tools needed for successful asset management, such as the pipeline risk assessment methodology (developed in 2014), the 2017 Natural Gas Asset Condition Assessment report, the Station Condition Assessment Framework, and the Corporate Value Framework. However, METSCO was critical of the fact that Centra ignored several of these analytical tools in the course of developing Capital Expenditure Forecast CEF18. METSCO observed that neither the 2017 pipeline risk assessment results nor the 2017 asset condition assessment directly influenced the development of Capital Expenditure Forecast CEF18 or the business cases for the individual projects.
- none of the Capital Investment Justification documents provided by Centra include statistical or quantitative assessments of the probability of failure materializing. Instead, METSCO found that Centra used the expertise of its subject matter experts and subjective qualitative assessments of probability in the justifications contained in the Capital Investment Justifications. METSCO submitted these justifications were missing rigorous quantitative analysis, which is the hallmark of more advanced asset management processes.
- Centra is undertaking several projects that will introduce 'redundancy' of the transmission supply to certain communities, specifically Steinbach and Portage la Prairie. METSCO noted that, unlike electric transmission systems, there is no industry-standard redundancy requirements for natural gas transmission systems. METSCO further identified that, in its view, Centra has not justified the reliability enhancements to these communities that are provided by redundant feeds.

- METSCO was critical of Centra's use of "Planning Items" in its 2018-2023 Natural Gas Asset Management Capital Investment Plan. Planning Items are used in the out-years of Centra's capital expenditure budgets to estimate the value of future projects which, have yet to be identified and defined. Planning Items recognize the fact that most projects can be identified, designed, and constructed in three years or less. Specifically, METSCO sees a problem with Planning Items in the context of Centra using them in rate applications as the budgets will influence regulators and stakeholders.
- METSCO provided twelve recommendations for consideration by Centra and the Board. Four recommendations pertain to specific projects (Red River crossing at Letellier, Steinbach Upgrade, Portage la Prairie Secure Supply, and enhancements to the Winnipeg high pressure system), two recommendations relate to improving the information flow to the Board, while the remainder pertain to methodology or analysis changes that, in METSCO's view, would enhance Centra's asset management processes.

The Consumers' Association of Canada (Manitoba) disagrees with Centra's assertion that there are no discretionary projects in the planned Test Year spending. The Consumers' Association of Canada (Manitoba) supports METSCO's twelve recommendations and recommends that Centra implement the Corporate Value Framework expediently so that the planned $400 million of capital expenditures over the next ten years are properly prioritized.

Industrial Gas Users

Industrial Gas Users supports the position of the Consumers' Association of Canada (Manitoba) with respect to Centra's asset management.

4.5.2 Board Findings: Capital Projects and Expenditures

Rate Base and Expenditures

The Board finds that the capital and demand-side management expenditures from the period 2013/14 through 2017/18 are to be included in Centra's rate base and approves the recovery of these costs from ratepayers. The Board reviewed the details of these prior year capital expenditures and finds that these expenditures are used, useful, and prudently acquired.

The Board will not pre-emptively disallow any of the capital projects proposed or completed in 2018/19 and 2019/20 from inclusion in rate base. The Board will evaluate projects completed in 2018/19 and 2019/20 in a future proceeding and consider their addition to rate base at that time. The Board approves the proposed rate base for 2019/20 of $645.6 million, including the regulatory deferral accounts proposed by Centra.

The Board finds that the revenue requirement should not be adjusted on account of three significant projects that have been deferred beyond the 2019/20 Test Year. The Board agrees with Centra that the deferral of these projects will not have a material impact on the 2019/20 Test Year revenue requirement, as two of the three projects were not expected to be completed until the 2020/21 year and Centra has a $2.8 million target variance to address delays with capital expenditures.

The Board notes that the responsibility for the planning, design, and implementation of natural gas demand-side management is being transferred from Centra to Efficiency Manitoba effective April 1, 2020, pursuant to *The Efficiency Manitoba Act*. Depending on the programs implemented by Efficiency Manitoba going forward, Centra's future demand-side management expenditures, including those in fiscal year 2019/20, may differ from Centra's current forecast.

Asset Management

The Board finds that Centra should transition to more advanced asset management processes. As detailed in the evidence of METSCO, more mature asset management processes, including a more complete set of asset condition assessments, are required so that Centra is in a position to objectively prioritize and optimize its spending across asset types (such as pipelines, stations, or services) based on a common definition of risk.

The Board finds that Centra relies on its subject matter expertise to prioritize and justify capital expenditures, relying significantly less on rigorous quantitative analysis. Such an approach has been used by Centra for many years if not decades. The Board understands that modern, advanced asset management relies on quantitative, risk-based decisions supported by thorough asset condition data. Centra appears to agree as it has undertaken its Capital Asset Management initiative, including development of the Corporate Value Framework and the implementation of the Copperleaf C55 decision tool. One advantage of utilizing more advanced asset management methodologies is to remove some of the subjectivity from decisions, particularly when considering expenditures for different types of assets and investment categories. This should result in the highest value projects proceeding, but also only projects that exceed a certain value threshold.

The Board accepts that implementing advanced asset management methodologies takes time, and that Centra is trailing behind the progress made by Manitoba Hydro, even though both utilities are implementing the same or similar Corporate Value Framework. As METSCO identified, most North American electricity and natural gas utilities find themselves many years away from asset management excellence. The Board expects continued progress towards the end goal of having mature asset management methodologies and will monitor the progress at future GRAs.

As identified by METSCO, good asset management is not just about prioritizing investment opportunities, but deciding whether to make any investment at all, or return the underlying funds to customers, by way of rate decreases or avoidance of rate increases.

The Board finds that, directionally, the Corporate Value Framework appears to be an improvement in that it provides a rigorous, repeatable, and systematic methodology to determine the value of capital expenditures. The Board understands that Centra's Corporate Value Framework will rely more extensively on quantitative and data-driven decision making in both prioritizing projects but also in determining the quantum of capital spending. This should allow Centra to determine not only the priority of expenditures but whether to make any expenditure at all. The Board expects that the Corporate Value Framework will allow Centra to compare the value of investments such that the maximum value is obtained from the least investment.

The Board finds internal inconsistency with Centra's project justification documents. Capital Investment Justifications are documents reviewed by senior management in order to approve capital expenditures. Capital Investment Justifications related to sustainment and renewal spending, such as for System Betterment: Integrity and Measurement & Regulator Stations, do not appear to reference the 2017 Natural Gas System Asset Condition Assessment report prepared by Centra. None of the Capital Investment Justifications filed in this GRA appear to reference the pipeline risk assessment reports prepared by Centra in 2014 and 2017. In other cases, it appears that the expenditures brought to senior management for approval and incorporation in CEF18 are not the highest risk assets that need be addressed, according to the 2014 and 2017 risk assessments. For example, the 2017 risk assessment identified several transmission pipelines near Dauphin, Brandon, Winnipeg, and Selkirk as being at "less significant" risk. By comparison, the transmission pipeline crossing the Red River at Letellier was not included in the assets characterized as at "less significant" risk and was grouped with the assets that are at "not significant" risk. The risk to this transmission line was characterized as "not significant" even following a riverbank slope failure, which caused a crack and leak in 2015. Despite these risk assessment results, Centra is proceeding with the replacement of the Red River crossing at Letellier but not the other transmission pipelines which, according to the 2014 and 2017 assessments, are at greater risk.

The Board also has concerns with Centra's risk assessment methodology that was used to develop its 2018-2023 Natural Gas Asset Management Capital Investment Plan. This methodology and resulting risk assessment results differ from the 2014 and 2017 risk assessment methodologies and results. Centra appears to confuse probability with consequence in certain contexts. For example, the Board requested justification for the "high" consequence rating of the Red River crossing at Letellier project, to which Centra responded that the two pipelines at this crossing are within an active slope failure zone and a large geotechnical bank failure or deep-seated slope failure could easily damage both pipelines. Centra's response addresses the probability of the failure, not the consequence.

The Board finds that Centra did not always apply the correct probability to the consequence being considered. It appears that Centra takes the probability of the failure of an asset without regard to the time of year that the asset is likely to fail, and determines the consequence of failure based on the most critical consequence, such as the winter peak day. The consequences of a pipeline rupture may include loss of service to downstream customers as well as the potential for property damage and personal injury. Through the risk assessment process, a probability should be assigned to a particular consequence of a failure. A pipeline may rupture and fail, but if there is redundant supply, then downstream customers may not lose service, and thus the consequence related to loss of supply should be rated "low". A pipeline may also rupture without causing property damage or personal injury, so the probability of these consequences will be lower than the probability of the rupture itself.

In the case of the Red River crossing at Letellier, Centra explained that the loss of both pipelines at this location would lead to the loss of service to over 8,000 customers, as the redundancy in the South Loop (which serves south central Manitoba from Oakville, to Carman, Morden, Winkler, Letellier, Emerson, and Dominion City) is insufficient to meet customer demand on the winter peak day. However, Centra confirmed that riverbank slope failures are not likely to occur at the same time that Centra is experiencing peak winter conditions. The probability of failure at the time of the highest consequence, which would be the winter peak day, is lower than the probability of the failure during spring flooding conditions, which would have a lower consequence. Put another way, in its risk assessments Centra is applying the probability of the asset failing, not the probability of a specific consequence materializing. This is evident from the fact that this asset failed in the spring of 2015 when ground movements caused the pipeline to crack and leak. In that case, Centra was able to address the leak without any customers losing service.

The Board is concerned that the same issues identified above will be embedded in the new Corporate Value Framework. The Corporate Value Framework will continue to incorporate risk assessments. Centra must improve its risk assessment processes such that the correct probability is applied to the consequence being considered. It is not enough to determine the probability of an asset failing; the probability must pertain to the specific consequence anticipated, being mindful that the consequence of asset failures changes throughout the year and varies with the particular characteristics (such as location) of each asset. The Board expects Centra to address these concerns as it develops and implements the Corporate Value Framework.

The Board finds that there is to be an improved process for the review of capital expenditures. The 2018-2023 Natural Gas Asset Management Capital Investment Plan ("the Plan") filed in this GRA is the most current plan available. Between the Plan and CEF18, the capital expenditures brought forth in this GRA for the Board's consideration were expected to primarily be constructed during the 2018 and 2019 summer construction seasons. As such, the Plan and CEF18 contain "proposed" expenditures that may have already been constructed. The timing of the review of this Plan and CEF18 limits the Board's ability to consider Centra's capital expenditures in advance of Centra proceeding with construction, and puts Centra at risk of disallowance of these expenditures.

At the next GRA and subsequent GRAs, unless otherwise ordered by the Board, Centra is to file a five-year asset management and capital expenditure plan for the Board's review and approval. This plan is to be similar to the 2018-2023 Natural Gas Asset Management Capital Investment Plan filed in the current GRA, but future plans are to be current such that the Board is able to review proposed capital expenditures before construction commences, where practical. The Board is satisfied with the $1 million threshold for the inclusion of detailed descriptions and justifications for projects and programs. This expenditure threshold was used in the Plan filed in the current GRA.

The plan in future GRAs should not contain placeholders for undetermined or undefined projects, which Centra calls Planning Items, for the first three years of the plan. The Board finds that Centra should be able to identify the projects and programs that it will undertake three years into the future. There will be exceptional circumstances where expenditures to address unforeseen circumstances are required, but the Board expects these to be limited.

Centra is transitioning its capital planning process to a planning process where both capacity to serve customers is considered along with resiliency of the natural gas distribution system and the impacts of returning the system to service following interruptions. It appears that Centra is undertaking projects that will increase reliability beyond the original system design by building redundant feeds to certain communities that previously did not have them. The evidence in this proceeding confirmed that there is no industry standard for natural gas distribution system redundancy. For example, the towns of Steinbach and Portage la Prairie have been served with natural gas since the 1950s and always through a single pipeline feed. Centra now proposes to improve the reliability to these larger towns to a level they have not historically experienced.

The Board has not been presented with evidence as to whether most customers would appreciate the increased reliability, if this increased reliability also requires consumers to pay more through rate increases, considering the reliability that has been demonstrated by Centra and its predecessor companies over the prior decades. The Board expects that the Natural Gas Strategic Asset Management Plan will detail consideration of customer surveys or analysis as to reliability and cost trade-offs, and will provide consistent guidance to Centra for all of its assets.

Centra is in the process of preparing the Natural Gas Strategic Asset Management Plan, which Centra states will detail how organizational objectives are to be converted to asset management objectives, among other things. The Board intends to review the Natural Gas Strategic Asset Management Plan. In addition to Centra's proposed content, Centra is to include in the Natural Gas Strategic Asset Management Plan details of:

- the objectives for providing redundant supply to communities, whether through redundant transmission lines or compressed natural gas supplies,
- customer surveys or analysis as to reliability and cost trade-offs of redundant supplies,
- identification and quantification of risks along with Centra's risk tolerance,
- the process followed by Centra and the factors that determine annual investment totals,
- the process followed by Centra to prioritize capital investments, and
- how the Corporate Asset Management initiative and Corporate Value Framework work together or fit with the organizational and asset management objectives.

Centra is to file with the Board the Natural Gas Strategic Asset Management Plan as a Minimum Filing Requirement with the next GRA.

4.6 Furnace Replacement Program

On July 27, 2007, in Order 99/07, the Board concluded that programing for demand side management initiatives should be extended to include replacement of conventional low efficiency furnaces with high-efficiency furnaces for qualified lower-income customers and qualified seniors on fixed income. Such replacement of furnaces was identified as a measure having the greatest potential for achieving customer bill savings concurrent with the largest consumption reduction, to further the goals of energy conservation and reductions in greenhouse gas emissions.

In 2007/08, Centra allocated $2.3 million of revenues collected from the Small General Service customer class (which includes residential customers) to fund the Furnace Replacement Program. An additional $3.8 million annually has been allocated to this program in each year since that time. In addition to the contributions by ratepayers, Centra also accrued annual interest on the unexpended balance of the furnace replacement fund. The cumulative balance in the fund was projected to be approximately $27 million by March 31, 2019. With the additional funding in 2019/20 together with annual interest accruals and program disbursements, this fund is projected to contain approximately

$26.5 million on March 31, 2020. Centra projects only $13 million will be required to replace the remaining eligible furnaces and boilers under the Furnace Replacement Program over the period 2019/20 through 2027/28 when the program is expected to be complete.

In its financial projections, Centra has assumed the disposition of approximately $17.7 million (the amount of excess funding not required to fund furnace and boiler replacements) from the fund by the end of 2020/21. Centra's initial position was that the details and timing of any planned dispositions or other allocations from this fund, such as returning the excess funding to customers, would be subject to the review and approval by Centra's Board of Directors and that approval from the Board would be sought in a future Centra regulatory proceeding. Centra's position was refined with the registering of the Efficiency Manitoba Regulation 119/2019 on August 9, 2019, which provides that the residual amount in the fund as of April 1, 2020 is to be used to offset the cost of the natural gas demand-side management initiatives to be provided by Efficiency Manitoba

In this GRA, Centra is requesting the Board's approval to discontinue any additional funding to the Furnace Replacement Program effective November 1, 2019. For the period April 1 to October 31, 2019, Centra forecasts funding of the Furnace Replacement Program from the Small General Service class of $938,000.

4.6.1 Party Positions: Furnace Replacement Program

Centra

Centra submits that funding of the Furnace Replacement Program should be discontinued effective November 1, 2019 which translates into a reduced annual revenue requirement of $3.8 million from customers in the Small General Service class (which includes residential customers). Centra requests this discontinuance as Centra considers the cumulative balance in the fund to be more than sufficient to meet the expected future needs of the Furnace Replacement Program to 2027/28.

In determining that the current fund balance is more than sufficient to meet the future financial needs of the Furnace Replacement Program, Centra states that it took into account the effect of *The Efficiency Manitoba Act*, CCSM c. E15 and the direction that Centra continue providing demand-side management programming on a status quo basis until April 1, 2020. Pursuant to *The Efficiency Manitoba Act* and Regulation, responsibility for demand-side management programming, including any continuation of the Furnace Replacement Program, will shift on that date to Efficiency Manitoba, a new Crown Corporation.

Notwithstanding the Efficiency Manitoba Regulation, Centra continues to request that the $3.8 million of annual funding for the Furnace Replacement Program embedded in customers' rates be discontinued as of November 1, 2019. Centra states that it will continue to administer the Furnace Replacement Program as previously directed by the Board until April 1, 2020, at which time, in accordance with the Efficiency Manitoba Regulation, the residual amount in the Furnace Replacement Program fund will be used to offset natural gas demand-side management initiatives set out in an approved Efficiency Manitoba efficiency plan. Centra notes that the Board will review and provide recommendations to the Minister on any efficiency plan proposed by Efficiency Manitoba.

Consumers' Association of Canada (Manitoba)

This Intervener recognizes that, while there will be approximately $30 million accumulated in the Furnace Replacement Program fund, only $13 million will be required to replace the remaining eligible furnaces and boilers under this program, leaving a surplus of approximately $17 million.

While this Intervener is not recommending the surplus be refunded, it is urging the Board to ensure the entire residual amount in this fund on April 1, 2020 is earmarked only for energy efficiency programs by Efficiency Manitoba that apply to Small General Service customers as that is the only customer class that contributed to this fund. However, should the Board determine the surplus is to be refunded, the Consumers' Association of Canada (Manitoba) Inc. urges that the refund be made only to the Small General Service customer class because, again, this customer class is the only customer class that contributed to the fund.

4.6.2 Board Findings: Furnace Replacement Program

The Board finds that Centra is to cease funding the Furnace Replacement Program through consumer rates, effective November 1, 2019. There are more than sufficient funds set aside for the successful completion of the program. Based on current projections, Centra forecasts that there will not be any remaining eligible furnaces and boilers under this program to be replaced by 2027/28, and that $13 million will be sufficient to address these replacements.

Ceasing the funding of the Furnace Replacement Program will reduce the annual revenue requirement from the Small General Service customer class by $3.8 million and by $2.9 million in the Test Year.

The Efficiency Manitoba Regulation provides that the residual amount in the Furnace Replacement Program fund as of April 1, 2020 be used by Efficiency Manitoba to offset the cost of natural gas demand side management initiatives that are to be set out in an approved efficiency plan. This Regulation further provides that if the Furnace Replacement Program is continued after April 1, 2020 in an approved efficiency plan, this program is to be continued under the administration of Efficiency Manitoba and funded by Manitoba Hydro including its subsidiary Centra. Until Efficiency Manitoba's initial efficiency plan is reviewed by the Board and receives subsequent approval by the Minister, as required by the legislation, it is unknown whether the Furnace Replacement Program will be continued by this new Crown corporation.

Centra is directed to refund the surplus funds that exist in the Furnace Replacement Program. This refund is to be made to only the Small General Service customer class as that is the only class that contributed to this fund. Centra is to reduce the Furnace Replacement Program liability and establish a regulatory liability in the amount of the currently estimated excess funds in the Furnace Replacement Program account of $17.7 million. Centra shall begin to refund the regulatory liability on a volumetric basis calculated on the basis of a one-year period commencing November 1, 2019 to only the Small General Service customer class. Centra is to include the details of this regulatory liability in the monthly Purchased Gas Variance Account reporting that is currently provided to the Board pursuant to prior Board direction.

4.7 Gas Costs

The cost of gas is the most significant cost that Centra incurs. The cost of gas includes the cost of the molecules of gas, the cost of the pipeline transportation arrangements necessary to bring the gas supplies to Manitoba, and the cost of gas storage facilities, which allow gas purchased in the summer to be injected and then withdrawn in the winter for use in Manitoba.

The Board regulates the recovery of the cost of gas on a pass-through basis, with the exception of Fixed Rate Primary Gas Service. This means that gas costs are charged to customers in their rates without any mark-up or profit to Centra. To ensure that only the actual cost of gas, no more and no less, is passed on to customers, Centra maintains a number of Purchased Gas Variance Accounts ("PGVA"), which record the differences between the forecast cost of gas embedded in sales rates and the actual cost of gas incurred by Centra. These differences are periodically either refunded to or collected from customers by way of rate riders that either decrease (i.e. refund to customers) or increase (i.e. recover from customers) the base sales rates and form part of the billed rates that are charged to customers.

Centra is seeking Board approval of the total realized gas costs in the 2014/15, 2015/16, 2016/17, and 2017/18 Gas Years (i.e. the annual period used by the natural gas industry that runs from November 1 to October 31 each year), as well as the gas cost outlook for the 2018/19 Gas Year.

In addition, on July 24, 2019, Centra provided a gas cost forecast for the 2019/20 Gas Year, which included non-Primary Gas costs totalling $71.1 million. Centra is seeking Board approval to use this most recent gas cost forecast to develop non-Primary Gas base rates effective November 1, 2019. Compared to existing base rates, Centra's proposed non-Primary Gas rates represent a $9.5 million decrease in non-Primary Gas costs.

Description ($000,000s)	14/15 GY (Actual)	15/16 GY (Actual)	16/17 GY (Actual)	17/18 GY (Actual)	18/19 GY (Outlook)	19/20 GY (Forecast)
Total	$236.0	$165.3	$189.8	$187.0	$210.9	$185.0

In this GRA, Centra is also seeking approval to implement 12-month non-Primary Gas rate riders effective November 1, 2019 to dispose of the prior period PGVA balances. Centra forecasts the net non-Primary Gas deferral account balance to be $21.3 million owing to customers at October 31, 2019, including carrying costs. The $21.3 million balance in Centra's non-Primary gas cost deferral balance includes the actual residual balance from the October 31, 2015 prior-period gas cost deferral account, the actual balances accumulated in the 2015/16, 2016/17 and 2017/18 non-Primary Gas PGVA accounts, as well as outlook balances to October 31, 2019 in respect of the 2018/19 non-Primary Gas PGVA accounts (based on an April 26, 2019 futures market prices).

Centra's gas supply portfolio, which incurs costs to serve natural gas customers in Manitoba, consists of natural gas supplies and the transportation and storage arrangements necessary to bring these supplies to Manitoba. The two main components of gas supplies in Centra's portfolio are Primary Gas and Supplemental Gas. Centra also periodically provides Alternate Service for Interruptible customers, which is offered when Centra notifies Interruptible customers of Centra's intention to curtail their gas supply and may be taken by Interruptible customers rather than being curtailed and operating with back-up fuels, such as heating oil.

Primary Gas is natural gas received from Western Canadian sources and transported on Centra's contracted transportation, whether purchased from suppliers by Centra, by retail marketers through the Western Transportation Service, or by contractual arrangements referred to as Primary Gas Delivered Services.

Centra purchases the majority of its Primary Gas at the AECO hub and at the Alberta border ("Empress") under gas supply contracts. For the 2014/15 through 2019/20 gas years, ConocoPhillips Canada Marketing and Trading ULC ("ConocoPhillips") has been and will be Centra's Western Canadian gas supplier. The contracts with ConocoPhillips were executed following comprehensive Request for Proposal processes conducted in 2014, 2016, and 2018. Due to the commercial sensitivities of the terms, the contracts for gas years 2016/17 to 2019/20 have been filed in confidence with the Board in this proceeding. Centra's contract with ConocoPhillips for gas years 2014/15 to 2015/16 was reviewed as part of the 2015/16 Cost of Gas Proceeding.

Supplemental Gas is natural gas sourced on a daily, monthly, or seasonal basis to serve the Manitoba market's peak day and maximum seasonal requirements, and includes any gas supplies sourced from the United States. Supplemental Gas includes U.S.-sourced gas from storage and Supplemental Gas Delivered Services in which supplies are delivered directly to Manitoba by counterparties for specified terms depending on forecast and actual loads.

Centra has transportation and storage arrangements in place with a number of pipelines and service providers that also contribute to its gas costs, including with Nova Gas Transmission Limited from AECO to Empress, Alberta and with TransCanada Pipelines Ltd from Empress and Emerson to the Manitoba and Southern Saskatchewan Delivery Areas. Centra also holds transportation contracts with Many Islands Pipeline Inc. to serve its customers in the Swan Valley region.

As part of its July 24, 2019 Pre-Hearing Update, Centra proposes a change to the methodology for calculating the coincident system peak day forecast for the Power Station customer class. Historically, Centra calculated the Power Station's contribution to the peak day volume forecast using consumption records from the previous three years. However, over the past three years, only one of the Power Station customers was contributing to the peak day, which resulted in lower allocations of demand-related costs than in prior years. Centra now proposes to calculate the Power Station class coincident peak day using the class's contribution to the peak day over the last ten years instead of the last three years. The resulting methodology change for the Power Station class increases the Power Station's share of the peak day cost of gas allocations.

In this GRA, Centra filed with the Board both publicly available and confidential information related to Centra's gas supply, storage, and transportation costs. The Consumers' Association of Canada (Manitoba) Inc. received, with Centra's consent, access to both the public and the confidential filings by Centra detailing the gas supply, storage, and transportation costs. This Intervener tested Centra's confidential and public evidence related to the gas costs for which Centra seeks Board approval and filed its own evidence through its expert witness, Mr. Richard DeWolf.

Certain aspects of Centra's storage and transportation costs were the subject of a concurrent review within this General Rate Application process and are the subject of Board Order 108/19. Order 108/19 should be read conjunctively with this Order.

4.7.1 Party Positions: Gas Costs

Centra

Centra maintains there are no facts in dispute with respect to the operation of Centra's gas supply portfolio as detailed in its Application. Centra also submits that no Intervener has challenged the prudence of any gas cost incurred or forecast by Centra.

Centra submits the Board should approve the actual gas costs incurred by Centra as well as the proposed non-Primary Gas base rates and rate riders that Centra has detailed in its Application and July 24, 2019 Pre Hearing Update.

Centra also submits that the use of a consultant is not necessary in support of Western Canadian supply contracting but that going forward, the need for consultant support would be assessed on a case by case basis.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) Inc. adopted the expert evidence and recommendations of Mr. DeWolf, who is a consultant with expertise related to natural gas supply arrangements, gas market pricing, pipeline tolls and tariffs, and utility regulation.

In examining Centra's gas supply and management since the 2013/14 Gas Year, Mr. DeWolf concluded that Centra acted in a prudent and responsible manner in its gas supply management.

Mr. DeWolf reviewed Centra's practices in light of the recent past, current situation, and outlook of the Canadian and US natural gas markets in which Centra is a participant. He recommended that Centra would benefit from the retention of advice and research from an independent consultant in gas supply arrangements. Mr. DeWolf's evidence was that the report from this consultant would also be beneficial to the Board and Interveners in a future regulatory proceeding as it would not be after-the-fact and would include then-current dialogue with Centra's staff as it was making the various supply and transportation arrangements.

The Consumers' Association of Canada (Manitoba) Inc. also recommends that the change to the Power Station coincident peak allocation methodology should be deferred until the generic cost of service hearing is completed.

4.7.2 Board Findings: Gas Costs

The Board finds that the gas costs approvals sought by Centra are approved as detailed below.

The Board accepts Centra's submissions and the evidence of Mr. DeWolf and finds that Centra acted in a prudent and responsible manner in its gas supply management.

The Board approves:

- on a final basis, the gas costs incurred by Centra in gas years 2014/15, 2015/16, 2016/17 and 2017/18, which include the gas cost consequences of the 2014 to 2016 and 2016 to 2018 Western Canadian gas supply contracts;
- on an interim basis, the outlook gas costs for the 2018/19 gas year, which includes the gas cost consequences of the 2018-2020 Western Canadian gas supply contract;
- on an interim basis, the forecast non-Primary gas costs for the 2019/20 gas year; and
- the disposal of the prior period non-Primary gas cost deferral account balances (including the 2018/19 forecast balances) through 12-month rate riders, starting November 1, 2019, subject to the Board's decision on the Heating Value Margin Deferral Account, as discussed in this Order.

On the topic of Centra engaging a third party consultant to review Centra's future gas supply and transportation arrangements, the Board finds, as it did in Order 108/19, that such costs are unnecessary. However, should Centra identify internal gaps in market knowledge or following significant natural gas market changes, the Board expects Centra to make use of outside consultants in advance of potential future changes to its gas supply management arrangements. Should Centra opt to retain third party experts in the future, the Board further expects that Centra will file the consultant's report in Board proceedings related to Centra's gas supply management arrangements.

The Board finds that Centra's July 24, 2019 change to the volume forecasting methodology (i.e. using a 10-year rather than a three-year historical average of peak demand to estimate future demand) for customers in the Power Station class is reasonable and is therefore approved. Absent this change, the Power Station demand charge would only be $0.0001/m^3-month, which is unreasonably low to recover any meaningful contribution to the system demand costs. The volume forecast change results in additional cost allocations which result in a demand charge of $0.0040/m^3-month, which is more reasonably aligned with the currently approved demand charge of

$0.0048/$m^3$-month. The Board does not agree with the Consumers' Association of Canada (Manitoba) that this amounts to a change in the cost allocation methodology for this customer class. This is a volume forecasting change.

The Board approves Centra's Alternate Service rates offered to Interruptible customers during periods of potential curtailment since the 2015/16 Cost of Gas regulatory proceeding and Order.

Finally, Board Directive 5 in Order 112/12 requiring Centra to file monthly details of its Capacity Management revenues from its transportation and storage assets is set aside. However, the Board expects that Centra will continue to file details regarding the results of its Capacity Management program in future Cost of Gas or General Rate Applications, similar to Centra's Capacity Management submissions prior to 2012.

4.8 Net Income and Retained Earnings

In Order 85/13, the Board approved an annual net income for Centra of $3 million on a weather-normal basis (removing the effects of weather on earnings). The approved level of net income was derived from the return that was provided to Centra's former private owner, which ranged from $14 million to $16 million, prior to the acquisition of Centra by Manitoba Hydro. The Board determined that of the $19 million required annually to amortize Manitoba Hydro's costs relating to the acquisition, Centra would be allocated $12 million. The remaining amount of the return to Manitoba Hydro was set at $3 million to arrive at the level of return of approximately $15 million previously realized under private ownership.

At the Cost of Gas proceeding in 2015, the Board noted that Centra's total net income over the three years 2012/13 to 2014/15 had, on a weather-normalized basis, been approximately $9.5 million higher than cumulative net income that would have been realized with the annual $3 million in net income approved in Order 85/13. Cumulative actual results were even higher due to the effects of colder than normal weather over those years. This improvement in Centra's financial strength resulted in a doubling of Centra's retained earnings from $34.3 million on March 31, 2012 to $72.1 million on March

31, 2015, with $19.4 million of that improvement resulting from the impact of weather in that time period. In Order 108/15, the Board stated as follows:

> *The Board notes Centra's improved financial strength since the last General Rate Application, with a debt to equity ratio of 65:35 as of March 31, 2015. In past Orders, the level of net income was established at $3 million based on, in part, Centra's capital strength being above the Board-established debt to equity target of 70:30. Centra's improved financial position is due in part to colder than normal weather experienced during the last three years, as well as other financial factors that have not been reviewed since the 2013/14 General Rate Application. These changed financial circumstances have caused Centra to earn $9.5 million more than what is currently allowed by the Board on a weather-normalized basis.*
>
> *The Board is of the view that the non-gas cost revenue requirement which gives rise to Centra's allowed net income needs to be reviewed in the context of a General Rate Application. Although the Board is approving Centra's gas costs as final in this Order, the Board is of the view that Centra's non-gas earnings must be reviewed, and therefore will not finalize interim rates until the non-gas portions of those rates have been examined. The Board will direct Centra to file a full General Rate Application on or before January 20, 2017, at which time Centra's earnings will be reviewed. Absent a further Order of the Board, Centra's interim rates approved in Order 89/13 will terminate on July 31, 2017, and as of August 1, 2017, the non-gas components embedded in Centra's rates will revert back to the levels last approved on an interim basis in Order 66/11 and subsequently approved as final in Order 85/13.*

On January 19, 2017, Centra informed the Board that it would delay the filing of its next GRA in order to permit its internal resources to focus on the preparation of a Manitoba

Hydro electric GRA. On July 14, 2017, Centra applied to the Board for new Primary Gas rates. In Order 79/17, noting that Centra had not filed a GRA nor indicated when it would do so, the Board found Centra to be in default of Order 108/15. The Board further found that, based on Centra's failure to file a GRA, Centra was required to revert the non-gas components of rates for all customer classes to previously approved rates, except for the Special Contract and Power Station customer classes.

Centra filed its GRA on November 30, 2018. Over the period since the last GRA, Centra's weather-normalized and actual net income was as follows:

($ Millions)	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Weather normalized Net Income	$5.3	$10.2	$9.3	$12.8	$6.2
Actual Net Income	$19.8	$11.0	($1.4)	$3.9	$6.8

Source: Centra Application Appendix 3.5 pg 16

Centra is projecting net income of $4.4 million on a weather-normalized basis in 2018/19 and is forecasting $2.9 million in net income for 2019/20. Although the 2018/19 fiscal year has closed and the legislatively required financial report filed with the Minister, Centra was not able to file its 2018/19 audited financial statement with the Board as Centra was not given authorization to do so.

Centra's retained earnings, or financial reserves, are the sum of all profits (in the form of net income) received by Centra through customer revenues since Manitoba Hydro acquired the shares of Centra. Retained earnings are included in Centra's measurement of its total equity level. Centra's actual retained earnings at the end of fiscal year 2017/18 were $75.6 million. This level of retained earnings is $24 million higher than forecast for the same period at the last GRA.

Based on the projected $4.4 million in net income in 2018/19, retained earnings are projected to be $80 million at the end of 2018/19, approximately double the levels from the 2013/14 GRA when retained earnings were at the $40 million level.

In Order 85/13, the Board accepted that a 70:30 debt-to-equity ratio is an appropriate freestanding capital structure for Centra as Centra's borrowings are guaranteed by the Province. Based on Centra's current forecast, continuing to target $3 million in annual net income beyond the 2019/20 fiscal year would result in a decline in the equity ratio from 32% in 2019/20 to 26% by the end of 2027/28.

Under the PUB Act, the Board is required to determine Centra's rates using both a rate base and the rate of return on shareholders' equity using a Rate Base Rate of Return rate-setting methodology. While that methodology was used during the period when Centra was privately owned, as the Board found in Order 128/09, a Cost of Service rate-setting methodology is more congruent with the reality of a wholly-owned Crown corporation, a tax-exempt entity with only one shareholder, the Province, which does not seek a return on its investment other than that required to allow Manitoba Hydro to repay the debts it incurred in the acquisition of Centra. However, as the legislative requirement to determine rates on the basis of a return on equity remains, the Board continues to review the return on equity. As determined by the Board in Order 128/09, the Board does so in the context of the circumstances of the time, on a weather-normalized basis, and in taking into account more than one year's experience. The Board therefore uses the result of the Rate Base Rate of Return calculation as the upper limit for annual weather-normalized net income for Centra under the Cost of Service determination of revenue requirement. Put another way, the Board uses the Rate Base Rate of Return methodology as a test of maximum revenue requirement.

In Order 85/13, the Board found that the return on equity based on the approved formula was not providing Centra a fair return on equity. Order 85/13 Directive 8 directed Centra to propose an update to the return on equity that is reflective of an appropriate return on equity to be used in the feasibility test and for the return on rate base determination. To respond to this directive, Centra retained Drazen Consulting Group Inc. ("Drazen") to evaluate and recommend an appropriate return on equity and level of annual net earnings for Centra beyond the 2019/20 Test Year. Drazen's evidence was filed by Centra in the GRA. The evidence recommends a return on equity in the range of 8.3% to 8.5%.

Centra is currently engaged in a corporation-wide long-term strategic planning process, which includes review of financial ratios and targets and the related impact on rates.

4.8.1 Party Positions: Net Income and Retained Earnings

Centra

Centra is seeking an allowed net income of $3 million in 2019/20. Centra states that it is not seeking a general revenue increase in this GRA because its position is that the current level of retained earnings is appropriate.

Centra argues that it has not been over-earning on a weather-normalized basis as its average net income over the period from 2002/03 to 2017/18 was within the $2 million to $4 million range that the Board has previously deemed reasonable.

Centra is not seeking endorsement of an approved level of net income beyond the Test Year or of the use of a 30% equity level beyond the Test Year. While Centra filed a 10-year forecast with rate projections based on sustaining the equity capitalization at or around the 30% level, that forecast was provided for information purposes only. Centra states that the level of annual net income after the Test Year is currently unknown due to the corporation-wide long-term strategic planning process that is underway. However, Centra notes that its 30% equity target is lowest among comparable Canadian natural gas distributors and that the only other Crown-owned natural gas distributor, SaskEnergy, utilizes a 37% deemed equity ratio when establishing rates for natural gas delivery services. Centra also rejects the suggestion that the 30% equity ratio target should be changed on an interim basis. Centra submits that this equity level has previously been found by the Board to be adequate and that there is no evidence of any fundamental change to Centra's operating environment, capital program, or risk assessment that would justify a lower equity level.

Centra also states that it does not seek to rely on the Drazen report to justify a higher level of net income or propose an alternate rate-setting methodology. Centra agrees that Drazen's return on equity and capital structure recommendations should not be adopted as the basis for setting actual gas rates. Centra states that Drazen was retained by Centra to comply with the Board’s directive from Order 85/13 that requested Centra to propose an update to the return on equity. Centra’s position is that the Drazen evidence simply enables the Board to test Centra’s proposed revenue requirement for the 2019/20 Test Year through a calculation of the absolute limit for revenue requirement.

With respect to financial targets, Centra argues that it is premature for the Board to consider establishing a new test or adopting a new equity target. Centra states that the Board has directed a technical conference for Manitoba Hydro’s electric operations that will examine the use of rule-based regulation that considers the level of financial reserves for Manitoba Hydro. Centra submits that the outcomes of the Manitoba Hydro technical conference should be evaluated in terms of any applicability to Centra prior to the establishment of a new test for Centra.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) questions Centra’s projections of the requirement for higher levels of net income beyond the Test Year and says that these projections are simply a function of a mathematical relationship (higher total assets multiplied by an assumed constant 30% equity ratio), rather than a change in risk assessment or need for higher reserve levels to promote rate stability. This Intervener argues that there is no basis for Centra to have a target of 30% equity when Manitoba Hydro’s target is 25%. The Consumers' Association of Canada (Manitoba) submits that the basis for determining Centra’s financial reserves for rate-setting purposes should be transitioned to a rules-based rate-setting framework based on a comprehensive risk analysis, consistent with the Board’s recent direction with respect to electric operations in Orders 59/18 and 69/19. The Consumers' Association of Canada (Manitoba) states that the Drazen return on equity and capital structure recommendations should not be adopted as the basis for setting actual gas rates.

This Intervener argues that, in the interim, the Board should direct an annual $3 million net income target and an equity target of 25% be used for rate-setting purposes until such time that the development of a rules-based rate-setting framework for Centra is completed and until Centra files for a GRA.

Industrial Gas Users

This Intervener argues that the Rate Base Rate of Return should be viewed as a test of the upper level of reasonableness of Centra's rate proposals. The related capital structure or return on equity inputs into Rate Base Rate of Return should not be viewed as targets that must be achieved in the Test Year. The Industrial Gas Users further recommends that the Board not approve any new financial targets or ratios and that these matters should instead be addressed as part of the collaborative process envisioned by the Board in Orders 59/18 and 69/19.

4.8.2 Board Findings: Net Income and Retained Earnings

The Board finds that Centra's 2019/20 net income is to be $3 million on an annualized (and weather normalized) basis. No party presented evidence or argument that net income should be changed from the previously approved level of $3 million. That this level of net income remains appropriate for the Test Year is supported by the return on equity calculation that is used as a test of the maximum level of revenue requirement.

The Board accepts that the financial projections filed by Centra for the 2020/21 through 2027/28 period were filed for information purposes and were not relied on by Centra in support of a higher level of net income. However, those projections show that maintaining net income at $3 million on an annual basis will, all else being equal, result in Centra's equity level declining from the 30% level that the Board has previously accepted as adequate. This raises the question of whether either or both targets should be maintained in future fiscal years for rate-setting purposes.

The Board notes that Centra is currently engaged in a corporation-wide long-term strategic planning process that includes consideration of financial metrics. As well, this Board has raised questions about the use of a debt-to-equity metric for Manitoba Hydro's electric operations and has directed a collaborative process that will examine the appropriate level of retained earnings and rule-based rate setting in the context of Manitoba Hydro's operations and risks. Given these ongoing processes that are in essence aimed at developing an understanding as to how financial health should be measured and when rate increases are needed, the Board will not direct net income or equity targets for years beyond the Test Year. The Board is, however, concerned about the lack of information provided regarding how Centra's freestanding financial health and financial metrics are or will be incorporated into the long-term strategic planning process. As well, the technical conference ordered to be held for Manitoba Hydro's electric operations does not include an examination of Centra's specific operations and circumstances.

The Board finds that more information is required regarding the use of rules, targets, and tests for examining Centra's financial health for rate setting in years after the Test Year. Centra is directed to participate in a technical conference hosted by an independent facilitator to examine the use of rule-based regulation for Centra and the appropriate level of retained earnings and use of financial metrics in the context of Centra's ownership structure, operations, and risks. The process for the technical conference directed in this Order will commence with Board staff consulting with Centra regarding planning and timing matters. This will ensure that the process for Centra is efficiently integrated with the ongoing internal and Board-directed Manitoba Hydro processes, while also establishing a means by which Centra's specific operations and contexts can be fully examined.

Given Centra's submissions in the GRA, the Board considers Directive 8 of Order 85/13 to be satisfied. However, as described above, the Board will review Centra's return on equity in the future.

4.9 Other Revenue Requirement Matters

In addition to the items addressed elsewhere in this Order, Centra's revenue requirement includes the items of Finance Expense, Other Expense, Corporate Allocation, and Capital and Other Taxes. As such, each of these items represents a component of the overall revenue requirement that Centra is seeking to recover from consumers through rates.

Finance Expense

In its November 30, 2018 GRA filing, Centra sought to include in its 2019/20 revenue requirement $23.474 million in Finance Expense. In its March 22, 2019 Supplement, based on the detailed budget approved by Centra's Board of Directors, Centra updated its proposed Finance Expense to $22.554 million. The updated financial information provided in the Supplement was based on actual financial results to September 30, 2018 for non-gas revenue and cost of gas. The $0.9 million decrease in Finance Expense from the November 30, 2018 filing contributed to the increase in net income reflected in the Supplement.

On July 24, 2019, as directed by the Board in Order 24/19, Centra filed a pre-hearing update providing updated gas costs and interest rate information. The updated Finance Expense amount was, as of July 24, 2019, $21.890 million, or a decrease of $0.664 million. Centra did not update its revenue requirement to reflect the decreased level of Finance Expense and maintained the proposed total revenue requirement from the March Supplement of $322.8 million.

Other Expense

The November 30, 2018 filing included $12.8 million in Other Expense. This was reduced to $10.7 million in the March Supplement based on the Board of Directors-approved budget. The decrease of $2.1 million was due to lower planned demand side management expenditures, largely due to adjustments to existing program forecasts based on updated market information and maintaining a status quo approach to programming pending the transition to Efficiency Manitoba, with an offset resulting from an increase in regulatory costs.

Corporate Allocation

The Corporate Allocation in revenue requirement is Centra's share of the cost of Manitoba Hydro's acquisition of Centra from its former private owner. The Board determined that Centra would be charged $12 million annually as this aligned with the synergy savings purported to have occurred from the combination and integration of the two companies. In Order 103/05, the Board agreed that synergies had been realized and approved both an annual Corporate Allocation of $12 million and a net income for Centra of $3 million to arrive at an overall return to Manitoba Hydro of $15 million. As such, $12 million is included in the 2019/20 Centra revenue requirement for the Corporate Allocation.

Capital and Other Taxes

The initial November 30, 2018 Application showed an increase in Capital and Other Taxes expenses of $0.4 million from $16.9 million in 2018/19 to $17.4 million in 2019/20. The March 22, 2019 Supplement reflects a decrease of $0.3 million from the November 2018 filing, such that Centra is now seeking approval of $17.1 million in Capital and Other Taxes. The decrease to Capital and Other Taxes was due to decreased property tax arising from recent assessments that evaluated Centra's properties at a lower level. The updated information was based on a significant portion of the annual property tax bills and Centra included a 3% increase for 2019/20 for those properties where the actual tax bill had not been received. As a result, the forecast increase in Property Taxes in 2019/20 is 2.8%.

A 3% escalation assumption was used by Centra in forecasting its Property Taxes expense for the 2012 and 2016 re-assessments; however, in the 2012/13 fiscal year, Centra's Property Taxes decreased by $0.9 million or 7.6%, and in the 2016/17 fiscal year, Centra's Property Taxes decreased by $0.2 million of 1.7%.

4.9.1 Party Positions: Other Revenue Requirement Matters

Centra

Centra submits that the Board should not update its revenue requirement based on the decrease in Finance Expense in the July 24, 2019 Pre-Hearing Update. Centra argues that there is variability and uncertainty in virtually all expense line items and the decrease in forecasted Finance Expense may never materialize. Centra states that the actual quantum of new long-term debt to be issued over the remaining months of 2019/20, the timing of those issuances, and the actual interest rates available on the date of issuance are uncertain, impossible to predict, and will ultimately determine the total actual Finance Expense realized for 2019/20. Centra submits that the Board determined that the decrease in $0.664 million was not material in concluding that the issue of Finance Expense would not be included in the issues for cross examination at the Centra GRA oral hearing.

Similarly, with respect to Property Tax, Centra argues that the revenue requirement is based on forecast. In response to the recommendation of the Consumers' Association of Canada (Manitoba) that Property Tax expense should be reduced by $0.350 million, Centra submits that this decrease is not material. Centra also argues that this is an example of selecting only specific forecast adjustments in an effort to achieve a “go as low as you can go” objective for revenue requirement.

Centra did not provide a position on Other Expense or Corporate Allocation beyond the information provided in its GRA filing and Supplement.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba)’s position is that the Finance Expense forecast should be reduced by $0.664 million for 2019/20. This Intervener argues that the decrease of $0.664 million is material as it is a 2.9% decrease to 2019/20 Finance Expense. The Consumers' Association of Canada (Manitoba) assumes that the determination of the Board as to the materiality of the updated Finance Expense information provided on July 24, 2019 was only for the procedural purposes of determining whether it would be handled through the oral or written hearing processes. The Consumers' Association of Canada (Manitoba) states that, in the 2013/14 GRA proceeding, the Board found that a $200,000 reduction to a Finance Expense forecast of $17.296 million (a 1.2% decrease to Finance Expense) was material and a downward adjustment to revenue requirement was required to set rates for 2013/14. The Consumers' Association of Canada (Manitoba) argues that the decrease in the current proceeding is of a higher materiality and is based on independent third-party forecast information that is used to produce a consensus forecast that can be objectively determined as being reasonable for rate setting.

The Consumers' Association of Canada (Manitoba) also argues that the Board should reduce the amount of Property Taxes included in revenue requirement in 2019/20 by the amount of $0.350 million, the amount of the 2.8% increase in Property Taxes included in the Test Year expenses. The Consumers' Association of Canada (Manitoba) submits that the increase in Property Taxes has not been justified for rate-setting purposes by Centra. This Intervener states that the Property Taxes expense has potentially been overstated in relation to the 2018 provincial re-assessment. Specifically, the concern is with the 3% escalation factor used in forecasting Property Taxes expense for the Test Year. Noting the overstatement of forecast Property Taxes expense in 2012 and 2016, the Consumers' Association of Canada (Manitoba) argues that Centra did not meet its onus to establish that the increase in Property Taxes should be included in revenue requirement.

4.9.2 Board Findings: Other Revenue Requirement Matters

The Board finds that Centra’s 2019/20 revenue requirement is to be reduced by $0.664 million due to the decrease in forecasted Finance Expense. The Board also finds that Centra’s revenue requirement is to be reduced by $0.350 million, the amount of the increase in Property Taxes included in the Test Year revenue requirement.

The Board does not accept Centra’s argument that its revenue requirement should not be adjusted to reflect the updated Finance Expense forecast. The updated information filed on July 24, 2019 represents the best forecast information available to the Board at the time of the hearing and is derived from independent third-party forecasters. While the Board acknowledges that the July 24, 2019 forecast is a forecast, it most realistically reflects Centra's borrowing needs and the interest rate environment in the Test Year given that it is based on Summer 2019 forecasting. If Finance Expense was not updated to reflect the most current information filed with the Board, an additional $0.664 million would be included in revenue requirement and therefore recovered from consumers in rates. Given that the updated forecast reflects an expectation that Finance Expense is forecast to be $0.664 million lower in 2019/20, by not requesting a change in its revenue requirement, Centra is in effect asking that the additional consumer funds flow to net income, above and beyond the level of net income approved by the Board. The Board also notes that, despite Centra's position on not adjusting Finance Expense, Centra requested that the Board make other adjustments arising from the July 24, 2019 update, including the change in volume forecasting for the Power Station customer class and the negative contingency now incorporated in the detailed Operating and Administrative program budget.

The Board does not agree that its revenue requirement decisions in a GRA proceeding should be based only on the forecast information provided in Centra's filing, without any updating for more current information. Directive 4 from Order 85/13 was made in order to obtain the most current interest rate forecasts so that the Board could determine whether or not the Finance Expense should be updated. The Board used that information in the 2013/14 GRA to update the revenue requirement, finding that a $200,000 decrease in Finance Expense was material. The Board directs Centra to file in future GRA proceedings information regarding any post-filing events or changes that would have a material impact on rates if reflected in Centra's revenue requirement. This information should be filed in the proceeding at the earliest opportunity for the Board's review and consideration.

The Board finds that Centra has not established the basis for the 2.8% increase in Property Taxes included in the Capital and Other Taxes line item. Centra has not provided an explanation as to why this escalation assumption is appropriate, particularly given that the assumption was not borne out in the actual results of the 2012 and 2016 re-assessments. While it remains the case that the forecast amount of Property Taxes is a forecast, the assumptions embedded in the forecast do not appear to be premised on the recent trends in actual results, nor has any other basis for the forecast increase been established. As such, Centra has not met its onus to demonstrate that the increase should be included in revenue requirement.

The Board finds that Other Expense and Corporate Allocation are approved in the amounts of $10.7 million and $12 million respectively, as sought by Centra.

5.0 Cost of Service Study and Bill Mitigation

Once Centra's revenue requirement has been determined, the next step in the rate-setting process is to determine which customers or groups of customers should be responsible for contributing through rates to the recovery of particular costs. Centra's cost of service study is used to allocate costs to customers. The cost of service study methodology is intended to identify the costs of serving the different customer classes based on the nature of the costs that are incurred. The information that is the output of the cost of service study is used as a tool in determining the rate design and rates for each of the different customer classes.

Centra's cost of service study methodology was last the subject of a comprehensive review by the Board in 1996. That review resulted in Order 107/96, which established the Board's approved methodology for Centra's cost of service study. There have been specific changes to the methodology since that time; however, the underlying methodological approach has remained.

A number of Intervener expert witnesses in the current GRA proceeding filed evidence identifying aspects of Centra's cost of service study that, in the view of those witnesses, require review and ultimately a different methodological approach. One issue of particular focus in the evidence was the allocation of Transmission costs. In Centra's cost of service study, Transmission costs relate to the costs of constructing and operating Centra's high pressure transmission system, including the costs of steel pipelines and pressure regulating stations, as well as unaccounted for gas. The Large General Service, High Volume Firm, Special Contract, and Main Line customer classes are all proposed to receive an increase in their allocated portion of non-gas costs compared to 2013/14. For the Special Contract customer class in particular, and also to a lesser extent customers in the Main Line class, the share of non-gas costs has increased due to an increase in the proportion of rate base that is Transmission-related as opposed to Distribution-related. As these customers do not use Centra's distribution system, these customers are allocated proportionately more costs when there is a greater increase in Transmission-related costs than Distribution-related costs.

In Order 98/19, the Board determined that, with limited exceptions, all cost of service study methodology and allocation issues would be severed from the current GRA proceedings and deferred to a separate generic cost of service study methodology review proceeding to be held after the conclusion of the GRA. The Board held that individual methodology changes, such as those proposed by Intervener expert witnesses, should not be made in isolation and should instead be considered on a complete evidentiary record on Centra's cost of service study methodology. The Board further held that the only cost of service study issues remaining in scope in the GRA would be options identified for ways to mitigate bill impacts arising from the results of the existing Board-approved cost of service study and methodology changes to the allocation of the Heating Value Margin Deferral Account.

5.1 Cost of Service Study Methodology Review

5.1.1 Party Positions: Cost of Service Study Methodology Review

Centra

Centra submits that, prior to issuing any directives with respect to the generic cost of service study methodology review, the Board should first meet with Centra to discuss how best to facilitate such a review. In particular, Centra asks that the Board consider the time and resource commitments required to conduct the review.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) argues that the generic cost of service study methodology review should take place prior to the next GRA and that the review should take place sooner rather than later. The Consumers' Association of Canada (Manitoba) also submits that it should be involved in any meeting between the Board and Centra regarding the process for the review, as Consumers' Association of Canada (Manitoba) states that it has the cost of service expertise to be able to assist the Board.

5.1.2 Board Findings: Cost of Service Study Methodology Review

The Board finds that the full cost of service study methodology review should be held prior to the next Centra GRA. The current methodology was contentious in this proceeding and has not been reviewed for over 23 years. As the cost of service study is a tool available to be used by the Board in setting rates, the regulatory calendar should be such that the methodology review occurs prior to the next GRA filing.

The Board directs Centra to file its Cost of Service Study Methodology Review by no later than May 1, 2020. Centra is to file details of its cost of service study methodology, explaining the methodology and the classification and allocation factors used, as well as information that addresses the specific cost allocation concerns raised in the evidence filed in the present GRA.

The scope of and process for the Cost of Service Study Methodology Review will be determined by the Board Panel after Centra has filed its Application for the review. The timing for the filing of the next GRA will be considered as part of the Cost of Service Study Methodology Review.

5.2 Heating Value Margin Deferral Account

When Centra purchases the gas commodity, it does so based on units of energy, or gigajoules ("GJ"). Centra sells gas to its customers based on units of volume, or cubic metres ("m^3"). The amount of energy in a cubic metre of gas supply on a particular day varies by the heating value, or heat content, of the gas. Gas that is "rich" has a higher heating value, which means that it is richer in energy. Gas that is "lean" has a lower heating value, and is therefore leaner in energy. To ship gas on the TransCanada Pipelines Limited Mainline, gas suppliers have to supply gas that has a heating value of between 36.00 GJ per 10^3m^3 and 41.34 GJ per 10^3m^3. Once the gas arrives in Manitoba, Centra takes the gas off the TransCanada Pipelines Limited Mainline in the same quantity on a GJ basis as Centra purchased from its supplier.

Gas is then delivered by Centra to customers in Manitoba. When a customer consumes the gas, that customer will consume more or less gas depending on the heating value in the gas. For example, if a residential customer heats their house to a particular temperature, that customer will need a greater volume of gas for their furnace to reach that temperature if the gas is lean and conversely a lower volume of gas to do so if the gas is rich. The meter on the customer's premise that is measuring the gas consumption measures on the basis of the volume of gas consumed, or cubic metres. That customer is then billed an amount by Centra that is calculated based on the volume of gas consumed. That volumetric rate is derived from a reference heating value, but as gas shipped can be any heating value within the acceptable range, the volumetric rate will be either too high or too low based on the heating value in a particular supply of gas on a particular day. In other words, unless the gas on a particular day has a heating value exactly equivalent to the reference heating value, a customer will either underpay or overpay, depending on whether the gas is richer or leaner than the reference heating value, respectively. As Centra's rates are set based on the reference heating value, when the actual heating value of the gas varies, Centra's revenues vary, resulting in Centra collecting too little revenue (for rich gas) or too much revenue (for lean gas).

To address the issue of both overpayment and underpayment by customers, Centra established the Heating Value Margin Deferral Account. This account captures the differences between what customers paid through rates and what customers ought to have paid. More specifically, this account captures the differences in what customers paid or ought to have paid in their volumetric rates (i.e. $\$/m^3$). Due to the nature of Centra's rate design, some classes pay no or little of their costs through volumetric rates, so customers in these classes will not overpay or underpay to a significant degree, or at all. Furthermore, the Heating Value Margin Deferral Account relates specifically to the recovery from customers of Centra's non-gas costs. Non-gas costs are all the costs in the revenue requirement with the exception of the costs included in the Cost of Gas line item. Cost of Gas relates to gas commodity and upstream storage and transportation; these costs are not addressed through the Heating Value Margin Deferral Account but are instead captured in Centra's other Purchased Gas Variance Accounts.

The differences between what customers paid through rates and what customers ought to have paid accumulate over time and are periodically refunded to customers, where the accumulation in the account is due to customers having overpaid, or paid back to Centra, where the accumulation is due to customers having underpaid. Currently, customer classes are allocated the refund to customers or payment owing to Centra through an allocator that is based on total class volumetric consumption. That is, Centra refunds to or collects from each class based on the cubic metres consumed by each class. These refunds or collections are based on volumes consumed and are not related to the amounts deferred into the Account. As mentioned above, the deferrals into the Account are based on the volumetric non-gas revenues. Thus, the disposition of the Account is on a different basis and there is a discrepancy between how the balance accumulates in the Heating Value Margin Deferral Account and how the balance is refunded to or recovered from customers. For example, the Small General Service customer class is approximately 71% responsible for the current accumulation in the Heating Value Margin Deferral Account, but on the current class volume methodology of disposing of the balance in the Account, Centra will collect 32% of the total amount from this customer class.

In 2012, Christensen Associates ("CA"), external consultants, prepared a Cost of Service Methodology Review report for Manitoba Hydro and Centra. In that report, CA recommended that Centra consider allocating the Heating Value Margin Deferral Account balances only to customers with bills that include a volumetric rate. Centra responded to this recommendation as follows:

> *Centra accepts CA's recommendation with respect to the allocation of the disposition of the heating value deferral. Centra currently assigns heating value residuals to all customer classes on the basis of each class' contribution to total annual throughput. Heating value residuals accumulate if the heating value of gas delivered is greater or less than forecast resulting in customers consuming volumes that are greater or less than forecast. The deferral has been put in place to track the impact to gross margin that occurs when the energy content of gas is greater to or less than forecast. For most classes, gross margin is*

largely collected through volumetric rates. The Special Contract Class rate structure is predominately fixed (with only unaccounted for gas collected volumetrically), and should not, therefore participate in the disposition of the heating value deferral.

Despite Centra's agreement that the Special Contract customer class should be excluded from the disposition of the Heating Value Margin Deferral Account, that change has not been implemented by Centra.

The balance in the Heating Value Margin Deferral Account was last refunded in 2015/16, through the 2015 Cost of Gas proceeding. In the period since 2002, customers were entitled to and were allocated a net refund. However, the current balance in the Heating Value Margin Deferral Account that has accumulated over the 2014/15 through 2018/19 gas years is, on a net basis, an amount owing to Centra of approximately $3.8 million. Historically, the Special Contract class's repayment of its share of the balance owing to Centra would be made as a single payment on the first bill following the implementation of the rate change.

As noted above, in Order 98/19, the Board deferred consideration of cost of service study methodology and allocation changes to a future Cost of Service Study Methodology Review; however, the Board maintained the issue of the Heating Value Margin Deferral Account methodology as an in-scope issue in the current GRA proceeding.

5.2.1 Party Positions: Heating Value Margin Deferral Account

<u>Centra</u>

Centra submits that it may be appropriate to defer consideration of the change in methodology for the disposition of the Heating Value Margin Deferral Account to the full Cost of Service Study Methodology Review proceeding. Centra acknowledged that there are other methodology options, including the exclusion of the Special Contract customer class from the allocation of the balance as identified by CA, as well as the option identified by the Industrial Gas Users' expert witness in this proceeding. However, given the impacts to the other customer classes that arise as a result of changes in the allocation of the balance, Centra proposes maintaining the current Board-approved methodology in the interim and addressing billed rate impacts to the Special Contract customer class through collecting that class's balance owing over a two-year period. As well, Centra states that the balances that have accumulated between November 1, 2015 and October 31, 2019 must be disposed of prior to giving consideration to eliminating the Heating Value Margin Deferral Account altogether.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) argues that no change should be made to the Heating Value Margin Deferral Account disposition methodology. This Intervener states that changing the methodology as a means of mitigating billed rate impacts is not appropriate because changing the methodology would result in shifting costs between customer classes. In particular, the Consumers' Association of Canada (Manitoba) submits that the methodology change identified by the expert witness for the Industrial Gas Users would have a deleterious and substantial impact on the Small General Service class, as it would increase the Small General Service class responsibility for the payment of the balance from the current 32% to 71%.

The expert witness for the Consumers' Association of Canada (Manitoba) gave evidence that consideration could be given to eliminating the Heating Value Margin Deferral Account, which would result in all variations in heating value giving rise to variations in net income. This witness's evidence that this would be an acceptable option because Centra is a Crown corporation regulated on a cost of service basis, as opposed to a shareholder-owned utility regulated on a rate of return basis that would require protection for the shareholders from revenue risks arising from variations in heating value.

Industrial Gas Users

Industrial Gas Users submits that the Board should direct Centra to allocate the existing balances in the Heating Value Margin Deferral Account to customer classes based on non-gas volumetric revenues. It is the position of this Intervener that 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. Industrial Gas Users argues that the methodology change should be made even if the Board determines that no bill mitigation is needed. This Intervener further argues that the methodology change should not be deferred, and states that Centra has admitted that the methodology should be changed. In addition, Industrial Gas Users states that the difference in methodology is material to customers in the High Volume Firm and Main Line classes and would effectively eliminate charges to the Special Contract customer class consistent with the recommendation of CA that was accepted by Centra in 2012. As well, Industrial Gas Users states that to defer the methodology change due to the net benefit received by the Special Contract customer class in periods up to and through the 2014/15 gas year would amount to retroactive ratemaking.

Koch Fertilizer Canada, ULC

Koch Fertilizer Canada, ULC adopts the Industrial Gas Users' submissions on the Heating Value Margin Deferral Account. Koch Fertilizer Canada, ULC further recommends that the Heating Value Margin Deferral Account not be applied to it because most of its charges are fixed and independent of volume. In addition, Koch Fertilizer Canada, ULC argues that the existing balance in the Deferral Account attributed by Centra to it should be reallocated to other customer classes as a matter of the proper allocation of cost causation principles.

5.2.2 Board Findings: Heating Value Margin Deferral Account

The Board finds that the Heating Value Margin Deferral Account is to be eliminated effective the 2019/20 gas year, following the disposition of the current balance in the Deferral Account. The Board accepts the evidence of the expert witness for the Consumers' Association of Canada (Manitoba) that, as a Crown corporation, variations in heating value are most appropriately addressed through net income. While the Board acknowledges that the Heating Value Margin Deferral Account was implemented in part to smooth the effects of variations in heating value for ratepayers, the Deferral Account also smooths the impact of inaccurate forecasting of heating value for Centra. The Board expects Centra to establish a forecasting methodology to predict heating values, so as to incorporate a more accurate reference heating value into consumer rates. Through more accurate forecasting, Centra can minimize revenue risks arising from variations in heating value. Where actual heating values vary from those forecast, those impacts will flow to net income, whether positive or negative.

The Board directs Centra to propose its reference heating value to be used in rate setting and to file that information at either the next GRA or Cost of Gas proceeding, whichever application is filed first. Centra is to maintain a 5-year summary of heating value variations for the Board's review of Centra's degree of accuracy in forecasting and of trends in heating value.

The Board finds that the remaining balances accumulated in the prior period and current Heating Value Margin Deferral Accounts through the end of the 2018/19 gas year are to be disposed of on the basis of class non-gas volumetric revenue, as proposed by the expert witness for Industrial Gas Users, except where this change in methodology would result in customer classes paying a greater refund than those classes would have paid under the current volume-based methodology. For those customer classes, the current methodology is to be maintained, with any remaining refund owing to Centra to be directly charged to retained earnings. Any residual balance remaining in these accounts at October 31, 2020 is also to be charged to retained earnings. The Board anticipates that only the Small General Service customer class would be negatively affected to any significant degree by changing the methodology to refund or recover the Heating Value Margin Deferral Account balance on the basis of non-gas volumetric revenue.

Although some parties in the proceeding identified this methodology change as a form of bill mitigation, the Board finds that the change is supported by the principle of cost causation, and has the effect of mitigating the bill impacts for certain customer classes (particularly the Special Contract class). The current methodology is not cost causal as the class share of the disposition of the Account is determined on a different basis from how the classes contribute to the accumulation in the Account. The result of the current methodology is that some customer classes, such as the Special Contract customer class, bear a significant proportion of the responsibility for the repayment of the balance in the account, despite having essentially no responsibility for the underpayment of revenue that gave rise to the repayment obligation.

While the Board has determined that the methodology for the disposition of the Account should be consistent with cost causation, the Board also finds that it is not fair for any customer class to be responsible for a greater share of the refund to Centra than the class would be responsible for under the current volume-based methodology. Centra was aware that the current volume-based methodology was not consistent with cost causation as early as 2012 when Centra accepted the CA recommendation. The issue could have been addressed prior to the current GRA proceeding, before the Account had accumulated a significant balance owing to Centra. Centra did not implement the recommended methodology change, despite having accepted it, and did not bring the issue forward to the Board, such as during the 2013/14 GRA or 2015/16 Cost of Gas proceeding. In these circumstances, customers should not have to bear a greater responsibility for the refund to Centra than they would have borne under the current methodology.

The Board does not accept Centra's position that it would be unfair to change the methodology to dispose of the current balance because of the refunds received by the Special Contract customer class in prior periods. Because the methodology issue was not brought forward at an earlier proceeding, Centra contributed to the circumstances that allowed the Special Contract customer class to receive refunds it otherwise would not have. To require the Special Contract customer class to share in the disposition of the current balance would be unfair, not only due to Centra's inaction from 2012 forward but also as it would give rise to intergenerational inequity. Notably, all customer classes received refunds in the prior period that were distributed differently than the basis on which the balance accumulated in the account. The ratepayers who received the benefit of the current methodology during the periods when refunds were paid to customers may not be the same ratepayers who are now required to pay back the balance owing to Centra. The Board is dealing only with the current accumulated balance, which dates from

2015, and finds that fairness is best achieved through disposing of the balance through a methodology that is consistent with cost causation.

5.3 Bill Mitigation

Centra's Application proposes reductions to the billed rates for most Sales Service customers. These decreases are the result of decreases in the non-Primary Gas costs for the 2018/19 Gas Year and the implementation of new non-Primary Gas rate riders to dispose of all prior period PGVA balances. The Small General Service rate decrease is also a result of Centra's proposal to discontinue the funding of the Furnace Replacement Program.

Centra is not applying for a general revenue change in its GRA, with the exception of the elimination of funding of the Furnace Replacement Program. However, Transportation Service customers in the High Volume Firm, Main Line, and Special Contract customer classes are projected to receive billed rate increases. The increase for High Volume Firm and Main Line Transportation Service customers is primarily as a result of the bill decrease that these customer classes experienced as a result of Directive 5 of Order 108/15 that directed, effective August 1, 2017, the non-gas components of rates to revert back to levels approved in on an interim basis in 2011 and on a final basis following the 2013/14 GRA. The Special Contract customer class billed rate increase is due to the significant increase in non-gas costs allocated to the class driven by large transmission-related investments by Centra since the last GRA.

In Order 98/19, the Board held that the matter of options for mitigation of the bill impacts arising from the results of the existing Board-approved cost of service study would be in scope for oral evidence at the 2019/20 GRA.

5.3.1 Party Positions: Bill Mitigation

<u>Centra</u>

Centra argues that bill mitigation is not required for Transportation Service customers. It is Centra's position that the bill impacts for these customers appear disproportionately large because their bills are not diluted with gas costs like Sales Service customers. Centra states that, had rates not reverted in 2017, the billed rate impacts for Transportation Service customers in this GRA would range from a decrease of 6.3% to an increase of 8.7%. The billed rate impact that would result from the rate reversion was expressly anticipated by the Board in Order 79/17.

Centra argues that, if the Board does determine that bill mitigation is required, adjusting the payment terms associated with the collection of the deferral balances allocated to the Special Contract class should be considered. Specifically, Centra proposes extending the payment terms over a two-year period, although acknowledges that other durations of time could also be considered. Centra states that this option is the most administratively simple to implement as it does not alter the currently utilized and approved cost of service study methodology and has no adverse impact on other customer classes. Centra further states that this option is consistent with the direction of the Board in Order 98/19, which was that individual cost of service study methodology changes should not be made in isolation.

Centra argues that the Board should not consider the other options for bill mitigation identified by Interveners. The option of deferring the Transmission-related investments is, in Centra's view, a fundamental change in cost of service study methodology and would involve complexities, especially as the Board has determined that there will be a full Cost of Service Study Methodology Review. With respect to the option of implementing a zone of reasonableness, Centra states that this matter is out of scope in the current proceeding and should be deferred to a future proceeding where the evidentiary record is complete. Centra notes that there is no evidence in this proceeding as to the actual rate impacts of implementing a zone of reasonableness and the only evidence is that this option would be of little practical consequence to address bill mitigation. Finally, Centra submits that the option of implementing an equal percent rate change for all customer classes is completely without merit.

<u>Consumers' Association of Canada (Manitoba)</u>

The Consumers' Association of Canada (Manitoba) agrees with Centra that bill mitigation is not necessary in this proceeding. This Intervener states that, when gas costs are considered as part of the bill impact to Transportation Service customers, the impact is not material. The Consumers' Association of Canada (Manitoba) further submits that Centra's cost of service study is not flawed and that bill mitigation is not required where the issue is that certain customers do not accept the results of the cost of service study. It is the position of this Intervener that most of the options identified for bill mitigation in the evidence are not in scope for this proceeding and because the options would shift costs from one class to another. The Consumers' Association of Canada (Manitoba) also submits that there is a concern that addressing the bill impact to Transportation Service customers in isolation in this proceeding could resulting in creating a number of other issues that would not be discovered until the time of the full Cost of Service Study Methodology Review.

<u>Industrial Gas Users</u>

Industrial Gas Users argues that Centra's current cost of service study methodology is unreliable and should not be used for ratemaking purposes; 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. This Intervener states that changes in Centra's operations and customers mean that the current cost of service study methodology no longer reflects cost causality. Moreover, this Intervener submits that, should a different methodology be accepted for Transmission costs at the time of the Cost of Service Study Methodology Review, then the disparities in revenue-to-cost coverage ratios between the classes will rematerialize in the opposite direction if rates are set in the GRA based on the current methodology.

It is the position of the Industrial Gas Users that, should the Board not accept its recommendation to implement an equal percentage rate change and the change in the Heating Value Margin Deferral Account methodology (discussed above), then bill mitigation is necessary to avoid extraordinary bill impacts to the High Volume Firm, Main

Line, and Special Contract Transportation Service customers. In addition to the change to the Heating Value Margin Deferral Account methodology, the Industrial Gas Users submits that bill mitigation could be achieved through adopting a zone of reasonableness that is wider than 95% to 105%, or through deferring and amortizing the increased costs for Transmission-related expenses incurred since the 2013/14 GRA for the affected customers over a period of five years.

Koch Fertilizer Canada, ULC

Koch Fertilizer Canada, ULC recommends that the Board refrain from approving any change to existing base rates due to the substantial uncertainty that this Intervener says exists regarding the reliability of the current Cost of Service Study. Koch Fertilizer Canada, ULC states that the Winnipeg Transmission facilities that are driving the proposed rate increases do not serve and are incapable of providing service to it demonstrating that the current cost of service study methodology is not cost causal. If the Board determines that some changes to rates are appropriate, Koch Fertilizer Canada, ULC submits that the Board should take into account that the proposed rate increase would bring no incremental benefit to it, would increase operating costs, and would constitute rate shock. Koch Fertilizer Canada, ULC argues that this would reduce the competitiveness of its Brandon facility in a highly competitive global industry. Koch Fertilizer Canada, ULC also argues that there is a real risk that any rate change at this time may be in the wrong direction if the Board later determines a change in cost allocation methodologies is warranted.

5.3.2 Board Findings: Bill Mitigation

The Board finds that there is to be no implementation of specific bill mitigation measures. The change in methodology to the Heating Value Margin Deferral Account will result in significant mitigation of the billed rate impacts to the Special Contract customer class. The Board therefore finds that no further bill mitigation is warranted. In particular, although the High Volume Firm and Main Line Transportation Service customers also appear to be subject to rate increases, those customers received a benefit as a result of the rate reversion directed by the Board in Order 79/17.

The increase proposed in the current proceeding is largely as a result of the establishment of rates that are at similar levels to those in place prior to the reversion. In Order 79/17, the Board directed Centra to communicate to those customers that there could be a reversal of the bill decrease that resulted from Order 79/17. As well, the High Volume Firm and Main Line customer classes will benefit from the change in methodology for the disposition of the Heating Value Margin Deferral Account, as these classes will be responsible to repay 2% and 0.2% of the balance respectively, as compared to the 10% and 7% they would have been responsible to repay under the current methodology.

6.0 Terms and Conditions of Service

6.1 Balancing Fees

Centra's Schedule of Sales and Transportation Services and Rates, more commonly called the Terms and Conditions of Service ("Terms and Conditions"), currently define, among other things, different service options available to customers. The default Centra service option is 'system supply', whereby customers rely on Centra to procure supplies of natural gas (both Primary Gas and Supplemental Gas) and to arrange for their transportation to Manitoba. Customers availing themselves of service options such as system supply, Fixed Rate Primary Gas Service, or Western Transportation Service are known as Sales Service customers.

Transportation Service was originally introduced in Manitoba in 1988 to allow gas customers, typically those with high daily consumption requirements, the option to arrange for their own supply of natural gas and its transportation to Manitoba. Unlike Centra's Sales Service customers, Centra's Transportation Service customers do not contribute to Centra's 'upstream' gas costs (i.e. costs to purchase supplies of gas molecules, costs related to gas storage, or costs to transport those molecules to Manitoba).

Transportation Service customers do not form a separate customer class. Rather, Transportation Service is a service offering that is available to customers in the High Volume Firm, Main Line, and Interruptible customer classes, and is the only service offering for customers in the Special Contract and Power Station customer classes.

Since there are no alternative natural gas transmission pipelines serving Manitoba, all natural gas consumed in Manitoba is transported via the TransCanada Pipelines Limited ("TCPL") Mainline pipeline, which is regulated by the National Energy Board (now the Canada Energy Regulator). The entities that contract with TCPL to transport natural gas on the TCPL Mainline are known as shippers.

TCPL requires Centra, as the downstream operator for the Manitoba Delivery Area and the Southern Saskatchewan Delivery Area, which serves Centra's customers in the Parkland region of Manitoba), to ensure that the quantities of gas nominated onto the TCPL Mainline are balanced with the quantities that are delivered off the Mainline in each Delivery Area. The nominations and deliveries for Transportation Service customers are included in the pipeline balancing requirements imposed on Centra by TCPL. To facilitate the balancing of natural gas quantities nominated and delivered, Centra and Transportation Service customers adjust nominations several times per day, with the last opportunity (or window) for Transportation Service customers without storage transportation options to adjust their nomination for the current day's consumption at 7:00pm.

If there are imbalances between nominations and deliveries to either Delivery Area, TCPL imposes balancing fees on Centra. These balancing fees are imposed on Centra regardless of whether the imbalances were caused by Centra or by Transportation Service customers.

Section V.D) of Centra's Terms and Conditions outlines the requirements for Transportation Service customers to balance their daily nominations with their daily gas consumption.

TCPL established a balancing fee structure that incents shippers to ensure that they do not excessively draft (deliveries greater than nominations) or pack (deliveries less than nominations) the Mainline. TCPL's existing balancing fee structure, which is approved by the National Energy Board and has been in place for a number of decades, establishes balancing tolerances above which a shipper is exposed to progressively higher fees depending on how much the allowable balancing tolerance was exceeded.

TCPL currently makes use of a tiered fee structure that is defined in the general terms and conditions of its Mainline transportation tariff. Under TCPL's balancing fee structure, shippers are afforded a balancing tolerance (e.g. 2% of the shipper's total allowable nominations) below which balance fees will not be charged. However, if a shipper's imbalance exceeds the tolerance, the excessive imbalance quantity will be divided among the tiers of the fee structure which is then used to calculate the total balancing fee assessed for that day. Cumulative balancing fees may also apply if the shipper's net imbalances exceeded the established tolerances over the previous 30 days.

In Order 99/07, the Board approved Centra's proposed changes to the Transportation Service section of the Terms and Conditions, which allowed for the recovery of TCPL balancing charges from Transportation Service customers if their imbalances had created costs for Centra.

In Order 65/11, the Board approved Centra's request to establish a 200 GJ per day minimum volume threshold in order to be eligible for Transportation Service, allowing existing customers to be "grandfathered" and to continue as Transportation Service customers.

The existing Limited Balancing Agreement between Centra and TCPL specifies that the maximum daily imbalance for Centra's interconnection area is to be the greater of +/-2% of confirmed nominations or +/- 2,111 GJ. Similarly, the maximum accumulated imbalance is the greater of +/- 4% of the average of confirmed nominations for the previous 30 days or +/- 4,221 GJ.

The TCPL balancing fee imposed on Centra is calculated according to the TCPL balance fee structure defined in the general terms and conditions of the TCPL Mainline tariff. Centra is subject to balancing fees from TCPL regardless of the pipeline's pack or draft position or whether the Down Stream Operator (or any of its customers) is experiencing operational problems such as unplanned outages or abnormal weather conditions. Centra currently serves 15 Transportation Service customers. Under Centra's current Transportation Service balancing cost recovery methodology, Transportation Service customers are assessed a pro-rata portion of the TCPL balancing fees charged to Centra if all four of the following conditions are met:

1. Limited Balancing Agreement 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 nominations); and

4. Customer imbalance contributed to the overall delivery area imbalance.

Over the period 2015/16 to 2017/18, Centra incurred on average $244,000 in balancing charges from TCPL, and in turn recovered on average $59,000 from Transportation Service customers.

In October 2016, Centra initiated consultations with Transportation Service customers (and their nominating agents) to communicate its intention to revise the existing Transportation Service balancing fee structure. To further inform Transportation Service customers' understanding of their daily gas consumption and of the potential impacts of the proposed Transportation Service balancing fee structure, Centra also started to provide Transportation Service customers with daily or hourly balance position reports as well as pro-forma balance fee reports.

Centra's proposed Transportation Service balancing fee structure is based on the long-standing TCPL Mainline balancing fee structure but with two general modifications.

- First, Centra proposes to calculate the balancing fees assessed to Transportation Service customers based on 50% of TCPL's balancing reference toll.
- Second, Centra proposes to make use of more generous absolute daily and cumulative balancing tolerances than currently afforded to Centra by TCPL (e.g. make use of a daily balancing tolerance of approximately 7% instead of TCPL's 2% daily tolerance). Under such relaxed daily balancing tolerances, the Tier 1 and Tier 2 daily balancing fees are effectively waived for Transportation Service customers.

The two tables below, taken together, summarize Centra's proposed Transportation Service balancing fee structure.

Centra's Proposed Transportation Service Balancing Fee Structure (50% of TCPL's existing fee structure)

	Level of Imbalance	Proposed Centra Balancing Fee
Daily Fee	Less than 2%	0
Tier 1	2% up to 4%	0.2 times FTD**, times 50%**
Tier 2	4% up to 8%	0.5 times FTD**, times 50%**
Tier 3	8% up to 10%	0.75 times FTD**, times 50%**
Tier 4	10% or Greater	1.0 times FTD**, times 50%**

Cumulative Fee	Less than 4%	0
Tier 1	4% up to 6%	0.15 times FTD**, times 50%**
Tier 2	6% or Greater	0.25 times FTD**, times 50%**

Where, FTD (FT daily demand charge) is the Firm Transportation toll from Empress to the Kingston Public Utilities Commission Eastern Delivery Area (KPUC EDA), which has been chosen by TCPL as the reference toll for calculating all Mainline balance fees and is reviewed by the National Energy Board from time to time.

Centra's Proposed Transportation Service Balancing Tolerances (equivalent to approximately +/-7% for most Transportation Service customers)

Average Daily Consumption (GJ/day)	Absolute Daily Tolerance	Absolute Cumulative Tolerance
Less than 1,000	+/- 50 GJ	+/- 100 GJ
1,000 to less than 1,700	+/- 100 GJ	+/- 200 GJ
1,700 to less than 2,500	+/- 150 GJ	+/- 300 GJ
2,500 to less than 5,000	+/- 250 GJ	+/- 500 GJ
	+/- 500 GJ	+/- 1,000 GJ

While Centra's balancing fee proposal is outlined in its Application submissions, Centra's proposed wording changes to the Transportation Service section of the Terms and Conditions do not specifically detail the proposed fee structure.

Should existing Transportation Service customers wish to transition to Sales Service (e.g. system supply or Western Transportation Service), which does not require customers to perform their own load balancing, Centra is prepared to waive provisions in its Terms and Conditions to facilitate such a move effective November 1, 2019. Centra is also prepared to take assignment of a Transportation Service customer's Mainline FT capacity to facilitate that Transportation Service customer's transfer to Sales Service, if required.

Centra also proposes to increase the Transportation Service volumetric eligibility threshold from 200 GJ/day to 2,500 GJ/day. As 11 of the 15 existing Transportation Service customers would not meet the proposed 2,500 GJ/day eligibility threshold, Centra proposes to grandfather all existing Transportation Service customers unless they elect otherwise. Increased gas consumption associated with future plant expansions of existing Transportation Service customers will also be grandfathered.

6.1.1 Party Positions: Balancing Fees

Centra

Centra submits that its existing Transportation Service balancing fee structure must be revised in order to better incent Transportation Service customers to balance on a daily and intra-day basis. Centra states that the change is also required to reduce the existing cross-subsidization of Transportation Service customers by Centra's Sales Service customers.

As a result of its Limited Balancing Agreement with TCPL, Centra states that it has an obligation to ensure that its Delivery Areas remain in balance within certain tolerances.

Centra acknowledges that Sales Service customers also cause imbalances; Centra observes that only four of 15 Transportation Service customers reasonably address their imbalances on a daily and intra-day basis; however, given the existing Transportation Service balancing fee recovery conditions, only three larger volume Transportation Service customers were charged a portion of the total balancing fees incurred by Centra. Centra states that any TCPL balancing fees incurred beyond those recovered from Transportation Service customers are borne by Sales Service customers, regardless of whether any of these charges were incurred as a result of Transportation Service customer imbalances. According to Centra, this results in cross-subsidization of Transportation Service customers by Sales Service customers.

As a result of Centra's obligation, as a downstream operator, to maintain its delivery area in balance, Centra also indicates that it routinely counteracts Transportation Service customers' daily imbalances by making use of its upstream transportation and storage assets, which are exclusively funded by Sales Service customers. As a result, Sales Service customers also bear additional indirect costs related to Transportation Service imbalances such as foregone Capacity Management revenue, higher commodity costs resulting from the delay of when Centra can execute transactions, and the cost of an additional daily operational buffer of Firm Transportation capacity on the TCPL Mainline to counteract Transportation Service imbalances. Centra estimates that its summer direct and opportunity costs related to Transportation Service imbalances are a few hundred thousand dollars each year. The winter impacts of Transportation Service imbalances are estimated to be considerably higher than the summer impacts but are difficult to precisely estimate due to variations in weather and Centra's overall winter operational requirements.

Centra reports instances where Transportation Service customers or their nominating agents ignored or outright refused Centra's direction to address imbalances, which contravenes Section V.D) of the existing Terms and Conditions. Moreover, Centra states that a number of existing smaller volume Transportation Service customers are managing their natural gas consumption forecast on a weekly rather than daily and intra-day basis.

Centra states that its Terms and Conditions are meant to describe services at a high level and that it would prefer to retain the discretion to revisit whether the proposed 50% of TCPL's fee structure should be increased over time in the event that the balancing performance of Transportation Service customers does not sufficiently improve after implementation of a revised balancing fee structure. However, Centra advises that it could accept capping the Transportation Service balancing fees at 50% of TCPL's fees if directed by the Board.

Centra argues that balancing fees collected from Transportation Service customers under its proposal will offset balancing charges paid by Centra to TCPL, the same as under the current balancing fee structure. If the proposed balancing fee structure recovers more from Transportation Service customers than Centra remits to TCPL, Centra states that the difference will be credited to Sales Service customers through the 'Transportation'

PGVA. Centra submits this is fair because Sales Service customers pay for the upstream storage and transportation assets that Centra uses to help balance the Transportation Service loads as well as other costs incurred by Centra when it attempts to balance the loads of Transportation Service customers that do not balance themselves.

In Centra's view, the estimated Transportation Service customer impacts are overstated as Centra expects Transportation Service customers to respond to the new balancing fee structure. Furthermore, Centra maintains that the estimated difference between the historical Transportation Service balancing revenue and the TCPL balancing fees incurred still did not fully offset the unquantifiable indirect costs now borne by Sales Service customers as a result of Transportation Service imbalances.

In response to Intervener submissions regarding the severity of Centra's balancing fee proposal and the lack of options available to Transportation Service customers to mitigate balancing fees, Centra submits that comparisons of tools or mechanisms used in other jurisdictions are of limited value because each utility is contending with unique operating circumstances. Furthermore, there are numerous and sufficient tools in the existing gas market for any Transportation Service customer to adequately balance their account, given a sufficient economic incentive to do so. Centra cites the following options already available to Transportation Service customers to minimize balancing charges:

- Adjust nominations to match updated consumption information at day-ahead and intra-day nomination windows;
- Execute purchases and sales of gas in the market with other Mainline shippers;
- Use the TCPL Mainline Park and Loan Service;
- Obtain supply contracts with the daily and intra-day flexibility to increase or decrease nominated gas volumes; and
- Contract for storage and related transportation.

Centra also states that no special pooling system is needed in Manitoba as Transportation Service customers can already pool their supply under a single nominating agent, who could then shift supply and transportation capacities amongst customers. Moreover, Centra must work within the very same constraints as Transportation Service customers when attempting to balance supply and demand within its delivery areas.

According to Centra, requests for the creation of a special Centra-operated market for Transportation Service customers that allows for after-the-fact trading of imbalances would be inefficient, would not provide appropriate price signals, and would not align with the premise of Transportation Service, which is for Transportation Service shippers to balance their loads using their own supply, transportation, and storage arrangements. Furthermore, Centra maintains that Transportation Service imbalances in Manitoba will not generally offset each other because they generally will all be in the same direction of ‘packing’ or ‘drafting’ such that Centra would be unaffected on a net basis.

Similarly, with respect to Intervener expert submissions regarding the return of the net proceeds of the total balancing fees collected from all Transportation Service customers to those Transportation Service customers with the best balancing performance, Centra argues this would result in a distorted, and thus ineffective, price signal. In addition, the payments would introduce another layer of administrative effort and complexity for Centra. Moreover, Centra states that affording each of the 15 Transportation Service customers daily tolerances of +/- 500 GJ/day could result in a cumulative total Transportation Service daily imbalance of 7,500 GJ, when Centra’s permitted tolerance is only 2,111 GJ for the entire Manitoba Delivery Area.

Overall, Centra acknowledges that the already available balancing fee mitigation tools are not free and provide no guarantee of the related transactions being profitable; however, as found in Order 112/88 and as outlined in the existing Terms and Conditions, Transportation Service customers already have a responsibility to balance their nominations with their deliveries. Centra argues that Transportation Service customers should be prepared to assume the risks of any imbalances, including unscheduled supply shortages and plant disruptions outside of Centra’s influence or control, both of which could potentially occur after the closure of available TCPL Mainline nomination windows.

Centra submits that its balancing fee proposal is a measured and reasonable approach, that is based on the Manitoba operational circumstances, and that has the goal of incenting Transportation Service customers to consistently balance their consumption with their gas deliveries to Centra's distribution system. Centra's proposal seeks to reduce the inappropriate burden of Transportation Service balancing costs currently borne by Sales Service customers. Furthermore, Centra's proposal is informed by its customer consultations, particularly the relaxed balancing tolerances Centra proposes compared to those contained in TCPL's general terms and conditions for the Mainline tariff. Centra also states that the more balancing tolerance and fee discounts afforded to Transportation Service customers, the more their balancing costs are borne (and subsidized) by Sales Service customers.

Finally, Centra submits that the need for change has been acknowledged by Transportation Service customers but there is no consensus on the form of any alternative to the current balancing fee structure. It is Centra's position that further consultations regarding its balancing fee proposal are therefore not warranted and would forestall implementation.

Centra's proposed implementation date for its new balancing fee structure is November 1, 2019, which Centra notes is more than three years after notice of Centra's intention to revise the balancing fee structure was first provided to Transportation Service customers.

With respect to the eligibility threshold for Transportation Service, Centra's states that its experience is that low volume Transportation Service customers have difficulty balancing their accounts and represent some of the highest imbalances amongst Transportation Service customers. Centra also indicates that, with each new Transportation Service customer that gets added, there is significant effort associated with monitoring their balancing performance. Since only four of 15 Transportation Service customers reasonably address their imbalances, Centra submits eligibility should therefore be restricted.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) adopts the evidence of its expert witness that the current application of balancing fees is not adequately incenting customer behaviour and results in additional costs and lower capacity management revenue for Sales Service customers. The Consumers' Association of Canada (Manitoba) recommends a more gradual implementation of Centra's balancing fees proposal. The Consumers' Association of Canada (Manitoba) also views the Industrial Gas Users' recommendation to cap any charges on balancing fees at the level of actual fees charged to Centra, and which were directly caused by Transportation Service customers, as reasonable.

Industrial Gas Users

Industrial Gas Users recommends that the Board reject Centra's proposal for punitive balancing fees and instead direct Centra to implement a cost-based balancing fee for Transportation Service customers that collects costs charged to Centra specifically for Transportation Service imbalances. Industrial Gas Users also argues that there should be a consultation process, overseen by the Board, for Transportation Service customers and Centra to finalize the appropriate fee structure and tolerances, as well as to develop mitigation options that help both Transportation Service customers and Centra minimize imbalances. This working group should then remain established over the long term to continue discussions regarding the Manitoba system.

Industrial Gas Users submits that Centra has not met its onus of proof that the proposed balancing fee structure is just and reasonable and that Centra's proposal is also inconsistent with its existing contracts with customers. Furthermore, Transportation Service customers should not be burdened with penalties from Centra, especially since there are inadequate options to balance in Manitoba. Industrial Gas Users noted the evidence that one of its members, Maple Leaf, would experience a 61% increase in its natural gas utility costs as a result of Centra's balancing fee proposal. Maple Leaf's main challenge regarding load balancing is with unplanned events that are typically out of its control.

In the interim, Industrial Gas Users proposes that any balancing charges could be capped to the level of actual balancing fees charged to Centra that are directly as a result of Transportation Service customer imbalances. Additionally, according to this Intervener, further consultations are needed as the consultations completed to date did not promote meaningful discussions; there is still a need to clarify whether Transportation Service customers would be charged for imbalances even if a single nomination agent balanced across the pooled group, determine whether there are ways to alleviate Centra's workload associated with monitoring Transportation Service nominations, and determine how the costs of Centra's nomination monitoring staff are allocated to Transportation Service customers.

Industrial Gas Users also recommends that the Board reject Centra's proposal to increase the Transportation Service volumetric eligibility threshold from 200 GJ/day to 2,500 GJ/day. Industrial Gas Users states that there is no need to increase the eligibility threshold for future Transportation Service customers, as ongoing mitigation and customer-focused solutions will help new customers to balance. Considerable negative economic impacts are also possible in the future if Centra's eligibility threshold was approved as competitive utility pricing is a major consideration for large industrial operations. It is the position of this Intervener that industrial customers in Manitoba should not be disadvantaged because of options that are available to purchasers of natural gas in other Provinces, which was a consideration adopted by the Board in Order 112/88. Moreover, Industrial Gas Users indicates that Western Transportation Service and System Supply do not provide the same level of cost management as Transportation Service.

Finally, Industrial Gas Users submits that all elements of Centra's Transportation Service balancing fees must be clearly stated in Centra's Terms and Conditions.

<u>Koch Fertilizer Canada, ULC</u>

Koch Fertilizer Canada, ULC adopts the Industrial Gas Users' recommendations regarding Centra's balancing fee proposal. Koch Fertilizer Canada, ULC further recommends that it should only be charged balancing fees based on actual costs incurred by Centra and that balancing fees should not be changed when imbalances are the result of circumstances beyond Koch Fertilizer Canada, ULC's control, such as extreme weather events and power outages.

6.1.2 Board Findings: Balancing Fees

The Board denies Centra's proposal with respect to daily and cumulative balancing tolerances and directs the use of daily and cumulative balancing tolerances that are at twice the level proposed by Centra. Further, the Board finds that Centra's request to calculate the Transportation Service balancing fees based on 50% of TCPL's balancing reference toll is approved. The Board accepts that Centra's existing balancing fee structure needs to be changed to provide a more meaningful incentive for Transportation Service customers to continuously balance their nominations with their deliveries and to help mitigate issues of cross-subsidization by Sales Service customers. However, the Board finds that Centra's proposed balancing fee structure requires modification to mitigate the financial effects on Transportation Service customers following its implementation on November 1, 2019.

In addition, the Board directs Centra to more explicitly detail the approved Transportation Service balancing fee structure and associated daily and cumulative tolerances in a schedule in its Terms and Conditions of Service.

Finally, the Board denies Centra's proposal to increase the Transportation Service volumetric eligibility threshold, which is to remain at 200 GJ/day at this time.

The tables below, taken together, summarize the Board's approved Transportation Service balancing fee structure:

Approved Transportation Service Balancing Fee Structure (50% of TCPL's existing fee structure)

	Level of Imbalance	Proposed Centra Balancing Fee
Daily Fee	Less than 2%	0
Tier 1	2% up to 4%	0.2 times FTD**, times 50%**
Tier 2	4% up to 8%	0.5 times FTD**, times 50%**
Tier 3	8% up to 10%	0.75 times FTD**, times 50%**
Tier 4	10% or Greater	1.0 times FTD**, times 50%**

Cumulative Fee	Less than 4%	0
Tier 1	4% up to 6%	0.15 times FTD**, times 50%**
Tier 2	6% or Greater	0.25 times FTD**, times 50%**

Where, FTD (FT daily demand charge) is the approved National Energy Board reference toll for calculating all TCPL Mainline balancing fees

Approved Transportation Service Balancing Tolerances

Average Daily Consumption (GJ/day)	Absolute Daily Tolerance	Absolute Cumulative Tolerance
Less than 1,000	+/- 100 GJ	+/- 200 GJ
1,000 to less than 1,700	+/- 200 GJ	+/- 400 GJ
1,700 to less than 2,500	+/- 300 GJ	+/- 600 GJ
2,500 to less than 5,000	+/- 500 GJ	+/- 1,000 GJ
5,000 or more	+/- 1,000 GJ	+/- 2,000 GJ

The Board finds that Centra's consultations to date have been adequate and that stakeholders have now had sufficient opportunity to provide their input and propose alternatives.

The Board acknowledges that the approved Transportation Service balancing fee structure may result in increased bills for Transportation Service customers; however, as found by the Board in Order 112/88, customers electing Transportation Service must assume the inherent risks associated with arranging their own gas supply. Transportation Service customers must therefore continue to assume the responsibility for balancing their supply with their demand and be prepared to assume the financial risks of any imbalances.

Regarding Intervener requests for additional balancing tools to help mitigate the impact of any revised balancing fee structure, the Board finds that adequate tools already exist in the gas market and that, given the current Manitoba situation, no further tools need to be offered by Centra. While the Board acknowledges that unplanned facility disruptions at Transportation Service sites may, at times, result in the assessment of balancing fees, the Board is of the view that Transportation Service customers currently have sufficient ability to reasonably balance their nominations. The Board notes that Centra currently operates under similar, if not more stringent, balancing requirements and is exposed to similar consumption forecasting uncertainties and unexpected shifts in customer demand as are Transportation Service customers. Nevertheless, the Board finds that the additional balancing fee structure allowances approved herein (i.e. relaxed daily and cumulative tolerances coupled with fees calculated at 50% of TCPL's reference balancing toll) reasonably mitigate Transportation Service customers' exposure to balancing fees.

The Board also finds that any balancing fees collected from Transportation Service customers should continue to flow to the Transportation PGVA, for which only Sales Service customers are currently responsible. This will help offset direct and indirect costs incurred by Centra to address Transportation Service imbalances and minimize the cross-subsidization of Transportation Service customers by Sales Service customers.

The Board expects that Transportation Service customers will respond to the revised balancing fee structure and improve their balancing performance. Furthermore, the Board expects Centra to continue to assist Transportation Service customers with their understanding of the application of the revised balancing fee structure, to facilitate the timely transfer of existing Transportation Service customers wishing to return to Sales Service options, and to continue to communicate the available tools or approaches that can help further mitigate balancing fees.

To assist the Board in monitoring the results of the revised Transportation Service balancing fee structure, the Board directs Centra to file a report by December 31, 2020 that details the results of the revised balancing fee structure following the 2019/20 gas year. Specifically, Centra's report shall, at a minimum, address the following:

- Changes in the number of Transportation Service customers;
- Identification of changes in the overall balancing performance of Centra's Transportation Service customers;
- Total balancing fees incurred from TCPL for the MDA and SSDA (by gas year);

- Balancing fees collected from each Transportation Service customer (by gas year);
- Summaries of each Transportation Service customer's balancing performance;
- Detailed quantitative and qualitative descriptions of the impacts of the revised balancing fee structure on indirect balancing costs incurred by Centra to address Transportation Service imbalances; and
- Other relevant findings or issues identified by Centra or its customers.

The Board will review the results of the revised balancing fee structure and may consider further changes at that time.

Regarding Centra's proposal to increase the Transportation Service volumetric eligibility threshold, the Board finds that there is inadequate evidence available at this time to justify any threshold increase beyond the existing 200 GJ/day requirement. The Board is also concerned about the inequities that could occur if a significant number of existing customers were to be grandfathered into Transportation Service compared to prospective new entrants who would have similar natural gas consumption requirements but who would not be allowed to choose Centra's Transportation Service option. As a result, the Board denies Centra's request to increase the Transportation Service volumetric eligibility threshold and maintains the eligibility threshold at 200 GJ/day.

6.2 Customer Equipment Problem Program

The Customer Equipment Problem Program has historically been referred to as “Burner-tip Service”. Under the existing Board-approved Terms and Conditions, Centra is responsible to perform safety inspections, safety-related adjustments, and repairs to the gas-burning portion of all customer-owned residential appliances and commercial appliances with a capacity of less than 400,000 Btu/h. For Small General Service class customers, which include residential customers, Centra does not charge for the labour to make these inspections and repairs. Centra instead recovers the cost of this program through current rates charged to all Small General Service customers.

The Customer Equipment Problem Program has been offered by Centra and its predecessor companies for decades. Order 49/95 identifies a list of parts that the Customer Equipment Problem Program is intended to address.

6.2.1 Party Positions: Customer Equipment Problem Program

Centra

Centra does not propose any changes to the program nor to the Terms and Conditions. Centra explains that, due to the changes in furnace technology, there are some parts that it no longer stocks or replaces under this program. Many furnace parts are no longer standardized generic parts but are proprietary parts specific to each furnace manufacturer. Each manufacturer may also have multiple configurations of the same type of part. Centra’s view is that, due to the corresponding increase in the number of part configurations, it is impractical for Centra to maintain stock of these parts in its inventories. Accordingly, Centra amended its internal procedures to eliminate these proprietary parts from the list of parts it will address under this program. Centra now directs customers to third party heating equipment contractors to make repairs that require parts that are no longer on Centra’s parts list in its internal procedures.

In Centra’s view, it remains compliant with the Terms and Conditions and with Order 49/95. Centra submits that the list of parts in Order 49/95 are the parts that Centra should confine its activities to and not expand to offer services that are offered by heating equipment contractors. According to Centra, the parts list in Order 49/95 was a limit or cap on the services to be offered by Centra and not an explicit minimum scope or requirement.

Intervener Positions

No Interveners took a position on the Customer Equipment Problem Program.

6.2.2 Board Findings: Customer Equipment Problem Program

The Board finds that Centra has not been compliant with prior Board direction as articulated in Order 49/95. The Board understands Centra's position that certain parts on the parts list identified in 49/95 are redundant on newer, high efficiency furnaces and that it is impractical for Centra to stock the plethora of different parts and configurations used by furnace manufacturers. However, Centra should not have unilaterally changed the scope and nature of the Customer Equipment Problem Program without seeking Board approval. The Board directs Centra, by no later than November 30, 2019, to either amend its internal procedures to comply with the parts list in Order 49/95, or apply to the Board to vary Order 49/95. While the Board finds that Centra has not been compliant with Order 49/95, the Board does not intend to sanction Centra at this time.

6.3 External Chargeable Fees

Centra's Terms and Conditions describe, among other things, various rates and fees charged by Centra, which are reviewed by the Board from time to time.

In this proceeding, Centra is requesting Board approval of certain external chargeable fees, as detailed below:

- Reconnection Fees - Centra's existing reconnection fees of $50 (plus GST) during regular business hours and $65 (plus GST) after hours was approved in Order 118/03. Centra is now requesting approval to increase its reconnection fees to $70 (plus GST) during regular business hours and $100 (plus GST) after hours.

- Meter Test Fee - Centra's existing meter test fees are $35 for residential meters and $130 for commercial meters. Centra is now requesting approval to increase its meter test fees to $110 for residential meters and $220 for commercial meters.
- Late Payment Charge - Centra's existing late payment charge of 1.25% per month was approved in Order 154/00. Centra is now requesting approval to increase its late payment charge to 1.5% per month.
- Company Labour Rate - Centra is proposing to increase its company labour rates for chargeable services per the table below. Centra is also applying to eliminate its labour rate for Gas Pipeline Operational Services as it was specific to a contract with Centra Transmission Holding Inc. that is now terminated.

	Currently Approved		**Proposed in 2019/20 GRA**	
	Reg. Hrs. Rate	OT Rate	Reg. Hrs. Rate	OT Rate
Service Line Alterations	$121.00	$169.00	$128.00	$179.00
Damage Repairs	$121.00	$169.00	$128.00	$179.00
Damage Investigation	$131.00	$184.00	$153.00	$215.00
Appliance Relights	$121.00	$169.00	$128.00	$179.00
Metering Services	$136.00	$191.00	$143.00	$200.00
"As Built" Plans	$134.00	$187.00	$137.00	$192.00
Gas Pipeline Operational Services	$131.00	$184.00	N/A – Eliminated (was specific to now terminated contract)	

6.3.1 Party Positions: External Chargeable Fees

<u>Centra</u>

Centra submits that the proposed reconnection fees would match Manitoba Hydro's electric reconnection fees, consistent with the fact that only the electric service is typically disconnected if both electric and gas services are present. Centra states that it also has an internal policy that seeks to harmonize customer fees and charges across Manitoba Hydro and Centra in order to make them more understandable for customers. Using Winnipeg activity rates and hours, Centra's actual gas reconnection costs are $112 during regular business hours and $158 after hours. In response to the Consumers' Association of Canada (Manitoba)'s concerns over the proposed increase, Centra submits that the proposed fees will only recover 63% of Centra's costs and have not been changed in 16 years.

With respect to the gas meter test fee, Centra submits that its cost is $415 regardless of whether the meter is residential or commercial, and that Manitoba Hydro's electric meter dispute cost is $299. However, Centra states that the meter test fee was set below the actual costs of the electric dispute process to ensure that the fee does not act as a deterrent to having the test performed. Centra's proposal would align the meter test fee for gas meters to bring it back into alignment with the fee for electric meters, which was adjusted in January 2018.

Regarding the late payment charge, Centra argues that, since its late payment charge was established in 2000, the majority of the relevant local utilities (e.g. BellMTS, Shaw, and the City of Winnipeg Water) have changed their late payment charges such that Centra and Manitoba Hydro now have the lowest late payment charge in the majority of markets that they serve.

Centra states that, since at least 2015, Centra has placed increased emphasis on having its credit representatives identify low income customers and apply discretion in waiving late payment charges to assist them in bringing their accounts back to current status. As a result, overall revenues from late payment charges as a percentage of general consumer revenue have fallen from 0.27% for gas and 0.30% for electric to 0.20% and 0.25% respectively. The proposed increase is expected to return Centra's late payment charge revenues to the 0.25% range for the gas operations. In response to CAC's opposition to the proposed increase, Centra argues that CAC's bill affordability argument is not in scope for this proceeding. Moreover, research findings from the Bill Affordability Working Group, which completed a review of Manitoba Hydro's electric and gas bill affordability programs in 2016 pursuant to Order 73/15 Directive 5, showed a low correlation between customers that are in arrears and those that are considered to be energy poor. Centra argues that, as a result, it would be inefficient to keep the late payment charge low in order to shelter low-income customers.

Finally, regarding Centra’s proposed company labour rates, Centra states that the rates were determined using a five-year rolling average of internal activity rates as compared to the annual internal activity rates previously used. Centra argues that the five-year rolling average methodology provides general pricing without year-over-year volatility that may occur due to annual variations in the mix of employee rates or chargeable time. The application of a five-year rolling average is also consistent with the methodology used for the proposed reconnection and meter test fees and is also supplemented by an external billable overhead rate (currently 49%). The external billable overhead rate includes cost components removed from activity rates and common overhead as a result of Centra’s transition to IFRS.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) recommends that the Board gradually phase-in Centra’s proposal for revised reconnection fees, such as $8 per year over the next three years. The Consumers' Association of Canada (Manitoba) also opposes any increase to the late payment charge as it has not been justified on a cost basis.

The Consumers' Association of Canada (Manitoba) expressed concern that the proposed reconnection fees represent a significant increase for all consumers, but particularly those with limited income. Similarly, the Consumers' Association of Canada (Manitoba) states that the late payment charge is a penalty charge not really intended to be a cost recovery mechanism and that the proposed increase would disproportionately impact low income customers and those struggling to pay their bills. Furthermore, this Intervener submits that there is also a lack of assurance that Centra has processes in place to waive these fees for low income customers, which may exacerbate the impact of the proposed increase.

6.3.2 Board Findings: External Chargeable Fees

The Board approves Centra’s proposed increases to its reconnection fees, meter test fees, and company labour rates as filed. The Board finds that Centra’s proposed increases are reasonable and supported. The Board expects Centra to continue to work with low-income customers by applying discretion in waiving fees to assist them in bringing their accounts back to current status.

The Board denies Centra's request to increase the late payment charge. Centra's late payment charge is to remain at 1.25% per month until further Order of the Board. The Board finds that Centra has not adequately supported its request to increase the late payment charge, particularly in the context of the low interest rate environment over the period since the existing rate was approved.

6.4 Addition of a New Atmospheric Pressure Zone and Other Changes

In Order 48/19, the Board provided interim approval for the addition of new Atmospheric Pressure Zone 5 to Section IV. D) 12) b) of Centra's Terms and Conditions. Atmospheric Pressure Zones are utilized by Centra to account for atmospheric pressure-related measurement differences in various regions of its service territory in order to meet the requirements of the *Electricity and Gas Inspection Act (Canada).* An additional Atmospheric Pressure Zone was required in 2019 in order to serve a new customer situated at a higher elevation than currently provided in Centra's existing Terms and Conditions.

6.4.1 Party Positions: Addition of a New Atmospheric Pressure Zone and Other Changes

Centra is requesting that the Board provide final approval of the addition of Atmospheric Pressure Zone 5, along with other minor changes proposed to correct additional formatting errors, to its Terms and Conditions.

No other party made submissions on this matter.

6.4.2 Board Findings: Addition of a New Atmospheric Pressure Zone and Other Changes

By this Order, the Board provides final approval of Centra's proposed addition of Atmospheric Pressure Zone 5 as its use is necessary for Centra's continued compliance with the *Electricity and Gas Inspection Act*.

Furthermore, the Board finds that Centra's remaining clerical changes to its Terms and Conditions are reasonable and are approved as filed.

7.0 Interim Orders and Other Requests for Approval

7.1 Franchise Agreements

Franchise agreements for the provision of natural gas distribution infrastructure between a municipality and Centra are reviewed and if approved, are granted by the Board on an interim *ex parte* basis, subject to the system expansion passing of a Board-approved financial feasibility test. Crossing agreements between a municipality and Centra are also granted by the Board on an interim *ex parte* basis. The Board has not finalized any franchise or crossing agreements since the issuance of Order 108/15. Any franchise or crossing agreements approved in interim *ex parte* orders issued between the 2015/16 Cost of Gas proceeding and July 31, 2019 have now been subject to public review and were available for comments from the public and Interveners. No party expressed any concerns regarding the finalization of these interim Orders.

7.1.1 Board Findings: Franchise Agreements

The Board is satisfied that all interim ex parte Orders with respect to municipal franchise or crossing agreements (approved between the 2015/16 Cost of Gas proceeding and July 31, 2019) are in order. The Board therefore finalizes prior interim Orders 53/16, 55/17, 56/18, 48/19, and 85/19.

7.2 Interim Quarterly Primary Gas Rate Orders and Other Interim Non-Primary Gas Rate Orders

At the 2015/16 Cost of Gas proceeding, the Board denied Centra's request to finalize Primary Gas and Non-Primary Gas rate Orders approved on an interim ex parte basis since the 2013/14 GRA. At the time, the Board deferred this approval until Centra's non-gas costs could be reviewed at the next GRA.

As part of the current GRA proceeding, the Board completed its review of Centra's non-gas costs and also reviewed Centra's historical gas costs since the 2015/16 Cost of Gas proceeding. Any interim *ex parte* Orders relating to Primary Gas or non-Primary Gas rate changes that were approved between the 2013/14 GRA and July 31, 2019 have been subject to public review and were available for comments from the public and Interveners. No party expressed any concerns regarding the finalization of these interim Orders.

7.2.1 Board Findings: Interim Quarterly Gas Rate Orders and Other Interim Non-Primary Gas Rate Orders

The Board notes that while Interveners raised concerns over Centra's 2019/20 Test Year non-gas costs, no comments were received regarding the finalization of the interim Primary Gas and non-Primary Gas rate change Orders approved between the 2013/14 GRA and July 31, 2019. As a result, the Board finalizes prior interim Orders 10/13, 40/13, 89/13, 123/13, 6/14, 42/14, 85/14, 123/14, 140/14, 12/15, 43/15, 72/15, 108/15, 4/16, 57/16, 98/16, 137/16, 7/17, 44/17, 79/17, 117/17, 16/18, 55/18, 93/18, 143/18, 16/19, 47/19, and 102/19.

7.3 Liability Insurance

Pursuant to Section 11 of *The Gas Pipe Line Act,* the Board must approve the amount of liability insurance held by Centra. In 2016, the Board approved Centra's liability insurance amount and directed Centra to file further information as part of its next GRA.

Pursuant to Board decisions on motions by Centra to keep information related to the quantum of its liability insurance coverage confidential, Centra's evidence was received in confidence by the Board.

7.3.1 Party Positions: Liability Insurance

Since 2006, the Commercial General Liability ("CGL") insurance policy has included both gas and electric operations. A new three-year agreement with Centra's lead insurer came into effect in 2017 including provisions for a fixed annual premium charge. Centra also states that there are no changes planned for the existing CGL insurance policy, nor are there any current claims that exceed $20 million.

No Intervener party made submissions on this matter.

7.3.2 Board Findings: Liability Insurance

Based on the Board's review of Centra's submission, the Board approves the amount of Centra's existing liability insurance.

In order to facilitate regular reviews of Centra's liability insurance coverage amount, the Board directs Centra to file the following information as part of future GRAs:

- Evidence as to Centra's existing liability insurance coverage and any planned changes to such coverage;
- Evidence as to the cost of the liability insurance coverage;
- A summary of the rationale for the coverage limit, and, if external reports were obtained to arrive at the coverage limit, a copy of such reports; and
- A listing of all pending claims, if any, that together exceeds a threshold of $20 million.

7.4 Prior Board Directives

7.4.1 Order 85/13 Directive 5

Directive 5 of Order 85/13 stated "*That Centra further articulate its debt concentration policy including consideration of limiting the concentration of debt maturing in any particular 12-month period and report back to the Board at the next General Rate Application.*"

Centra filed information in this proceeding regarding Centra's debt portfolio and interest rate risk.

Board Findings: Order 85/13 Directive 5

Based on the information filed by Centra in this proceeding, the Board finds that Order 85/13 Directive 5 has been satisfied.

7.4.2 Order 118/03 – Power Station Class

The minimum margin guarantee for the Power Station class was put in place in 2003 to ensure that the Power Stations paid their share of the capital costs for the pipelines and facilities required to serve them despite their expected variable usage and consequent uncertain revenue stream. The minimum margin guarantee was not a cost allocation consideration but rather a top-up to Centra's revenues during years when Power Station customers contributed insufficient revenues to meet the minimum gross margin required to fund the capital investments.

Party Positions: Order 118/03 – Power Station Class

Centra submits that the Power Station minimum margin guarantee has been removed as the power stations have been subject to several true-ups to confirm that their contribution in aid of construction was sufficient to pass the PUB-approved feasibility test.

Centra argues that it has fully complied with Order 118/03 with respect to Power Station class minimum margin guarantee, as Order 118/03 did not direct the margin guarantee be included in evergreen renewals. Moreover, reinstating the minimum margin guarantee for the Power Station class would amount to a 500% bill increase to this class, without any notice to its customers. Centra also submits that its testimony at the 2013/14 GRA was that Centra was not intending to continue the margin guarantee after the 2013 true-up period but was going to have rates recover the allocated costs from the cost of service study.

The Consumers' Association of Canada (Manitoba) adopts the evidence of its expert, Ms. Derksen, and submits that when the Power Stations minimum margin guarantee was established, the intent was to revisit cost allocation and rate design for the Power Station class after the conclusion of the initial 10-year term of the contract to evaluate its appropriateness and ensure the discontinuance of the minimum margin guarantee would not have an adverse impact on other customer classes.

The Consumers' Association of Canada (Manitoba) submits that Order 118/03 is perfectly clear: “The Board also expects that the minimum guarantee will continue for any extended contract terms." Moreover, maintaining the Power Station’s minimum margin guarantee would not cause a 500% bill impact because Centra improperly ceased charging the margin guarantee to the power stations. This Intervener is not requesting that the margin guarantee be charged for the past five years when it was not collected but simply to maintain it. The Power Station’s cost allocation and rate design can be reviewed as part of the generic cost of service allocation hearing.

The Industrial Gas Users supports the recommendation 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. This Intervener views this issue primarily as a compliance issue as, in its view, the payments previously in place should never have been stopped.

Board Findings: Order 118/03 – Power Station Class

The Board finds that Centra is not in compliance with Order 118/03. Centra appears to take the position that because there is no itemized directive in the operative section of Order 118/03, that the Board did not intend nor direct the minimum margin guarantee to continue. This is not the case. The Board finds that the plain language reading of the Order is that it intended for the minimum margin guarantee to continue past the 10 years of the initial contract term, whether or not the contract was extended or a new contract executed. Furthermore, Centra did not seek to vary Order 118/03.

However, the Board finds that there is insufficient evidence filed in this GRA to reinstate the Power Station’s minimum margin guarantee at this time. To further address this issue, the Board directs Centra to file all contracts with Power Station customers, as well as feasibility tests and any true-ups associated with the extension of service to the power stations, including any information supporting the determination of the minimum margin guarantee as part of the Minimum Filing Requirements for the cost of service study review directed by this Order.

7.4.3 Order 29/14 Directive 3

Directive 3 of Order 29/14 stated "*If Centra and Swan Valley Gas elect to proceed with the contemplated purchase and sale of the assets of Swan Valley Gas on the conditions set out in sections (1) and (2) above, Centra is to provide to the Board with a plan or strategy by September 30, 2014 that details how Centra will improve the financial viability and reduce or eliminate the ongoing revenue deficiency of the Swan Valley Gas distribution system.*"

Centra filed a response to this Directive on October 22, 2014. On November 19, 2014, the Board acknowledged receipt of Centra's submission and indicated that it looked forward to hearing the results of the marketing program and the impacts to the revenue deficiency of the former Swan Valley Gas Corporation distribution system.

Centra's submission of October 22, 2014 was refiled in this proceeding and was subject to public review. Centra also provided updated details regarding the results of its 2014 marketing plan and the customer attachments that were achieved in the former franchise territory of the Swan Valley Gas Corporation. Centra is now seeking confirmation that this Directive has been satisfied.

Board Findings: Order 29/14 Directive 3

Following a review of Centra's submissions in this proceeding, the Board is satisfied with Centra's response to Directive 3 of Order 29/14 and considers this Directive to be complete.

7.4.4 Order 85/13 Directive 20

Directive 20 of Order 85/13 stated "*That Centra file a report with the Board, on or before December 31, 2013, on the costs it incurs in administering the Western Transportation Service, including the Agency, Billing, and Collection service and any bad debt expense related to the Primary Gas portion of Western Transportation Service customers.*"

Centra filed a response to this Directive on December 24, 2013. This submission was refiled in this proceeding and was subject to public review. Centra is now seeking confirmation that this Directive has been satisfied.

Board Findings: Order 85/13 Directive 20

Following a review of Centra's submissions in this proceeding, the Board is satisfied with Centra's response to Directive 20 of Order 85/13 and considers this Directive to be complete.

7.4.5 Order 118/03 Directive 2

Directive 2 of Order 118/03 stated "*Centra assign priorities of Essential, Necessary and Justifiable to all capital projects and utilize a cost/benefit analyses for projects considered to be Justifiable, as the basis for justifying these projects.*"

As part of its capital budgeting process, Centra has now incorporated the use of investment categories that are commonly used within the industry to provide a better understanding of the primary driver for the investments. Centra's primary investment categories are now Capacity & Growth, Sustainment, Business Operations Support, and demand side management. Centra states that these new investment categories provide better information than those previously used, and as such is requesting that Directive 2 of Order 118/03 be set aside by the Board.

Board Findings: Order 118/03 Directive 2

The Board finds Centra's revised capital investment categories to be reasonable. The Board therefore sets aside Directive 2 of Order 118/03. However, the Board expects that Centra will continue to improve how its capital expenditures are prioritized within its asset and risk management processes as discussed in other sections of this Order.

7.4.6 Other

On May 2, 2018, Centra filed information demonstrating compliance with Standard CSA Z245.30 pursuant to Order 15/16 Directive 2. On October 31, 2018, the Board responded to Centra and stated:

> *"Following a review of Centra's submissions of May 2, 2018, the Board finds that the requirements of the Board's letter of August 11, 2017 have been satisfied. The Board expects that Centra will comply with the requirements of CSA Z662 and CSA Z245.30, and will continue to assess this compliance through its Quality Assessment Process."*

As a result of its October 31, 2018 letter, the Board considers Order 15/16 Directive 2 to be complete and has updated its Directives Compliance Status Update List in that regard.

Similarly, the Board received Centra's copy of the amended Minto-Odanah Franchise Agreement By-Law pursuant to Order 53/16 Directive 1a on September 17, 2018. The Board's acceptance of Centra's compliance to Order 53/16 Directive 1a was communicated at a meeting between Board staff, Board Advisors, and Centra's representatives on November 6, 2018. The Board subsequently updated its Directives Compliance Status Update List showing Order 53/16 Directive 1a as complete.

The Board's Directives Compliance Status Update List for Centra can be found on the Board's website (http://www.pubmanitoba.ca/). The Status Update List will be updated by the Board to reflect all Board findings in this Order regarding prior Board Directives.

8.0 Strategic Direction and Regulatory Planning

The Board has previously raised concerns and requested information about Centra's strategic direction. In Order 85/13 following the 2013/14 GRA, the Board stated:

> *The Board is interested in knowing the Centra's strategic direction, including where Centra will be investing ratepayer dollars in the coming years, and also what Centra's customers can expect of Centra in terms of continued and improved service levels. Colloquially, the question is: "What does the customer get that is new and better in the coming years?" While Centra articulated its response by addressing some specific reliability issues, the Board finds Centra's overall strategic vision lacking. The Corporate Strategic Plan provides targets and goals at a high level, but does not answer the Board's question of the corporate direction Centra is headed, and what additional value Centra's customers may expect in return for the increase in rates that Centra has requested. The Board requests that Centra consider these questions and provide the Board with a more articulated vision in its next rate application.*

In Order 108/15 following the Cost of Gas application review, the Board stated:

> *The Board therefore recommends that Centra review its managerial structure to ensure that its operational decision-makers, which have thus far demonstrated a high degree of competence, have clear lines of responsibility to a senior manager. The Board expects to review Centra's management structure further at the next General Rate Application. At that hearing, the Board also expects to review Centra's strategic plan, including the utility's risk analysis and capital expenditure plan.*

In addition to the matter of Centra's internal strategic direction, the Board has directed regulatory processes to be held subsequent to the GRA to review specific previously approved methodologies. First, as noted above, in procedural Order 98/19 to the current GRA, the Board directed the cost of service study methodology and allocation review be severed from the GRA and addressed through a separate proceeding to be held following the conclusion of the 2019/20 GRA.

Second, by letter of July 17, 2018, the Board stated that it would review the financial feasibility for expansions of natural gas service to new customers after the conclusion of the next GRA. The current feasibility test methodology, which is used to assess the economic viability of gas system expansions from the perspective of Centra and its ratepayers, was approved in Orders 109/94, 124/96, 89/97, and 123/98.

8.1.1 Party Positions: Strategic Direction and Regulatory Planning

Centra

In Centra's view, it is unnecessary for the Board to provide further direction to Centra regarding strategic direction as Manitoba Hydro is undertaking a corporation-wide long-term strategic planning process, which is already in progress. Built into the ongoing process is a comprehensive stakeholder engagement process that has involved more than 60 stakeholders including the Board and interveners to Manitoba Hydro and Centra proceedings. The review process is aimed at ensuring Manitoba Hydro and Centra are well positioned to serve all customers, including natural gas customers, in an uncertain future. While the outcome of the corporate long-term strategic plan is undetermined, it is highly likely that more detailed implementation planning will take place in various forms over the ensuing months.

Centra submits that it addressed the Board's concern of Centra's management structure by having a single vice president responsible for all gas operations. Centra also advises that it introduced a Gas Operations Executive Committee consisting of that vice president and the directors with gas operations responsibility.

Consumers' Association of Canada (Manitoba)

The Consumers' Association of Canada (Manitoba) argues that Centra did not provide adequate information to address the Board's concerns regarding strategic direction expressed at the 2013/14 GRA and 2015/16 Cost of Gas proceedings. Similarly, this Intervener states that Centra did not provide adequate information about what the corporate-wide strategic review will deliver with respect to gas operations. The Consumers' Association of Canada (Manitoba) argues that the Board cannot rely on Manitoba Hydro's long-term strategic planning process to deliver a satisfactory result for Centra because of the magnitude of Manitoba Hydro's electric operations compared to Centra's gas operations.

The Consumers' Association of Canada (Manitoba) recommends that the Board direct Centra to address the concerns expressed by the Board at the 2013/14 GRA and 2015/16 Cost of Gas proceedings with respect to Centra's strategic direction. The Consumers' Association of Canada (Manitoba) further recommends that the Board direct Centra to address Centra's strategic direction, risk assessment, and management structure as part of the current Board of Directors corporate review and provide the response by the earliest of its completion or 12 months, to be reviewed at the next Centra GRA.

8.1.2 Board Findings: Strategic Direction and Regulatory Planning

The Board directs Centra to file a Centra-specific strategic plan, separate from the Manitoba Hydro plan, as a Minimum Filing Requirement at the next GRA. This strategic plan is to include details of Centra's management structure, strategic asset management plan, framework for assessing and evaluating risks and risk tolerance, major planned expenditures, change management arising from the Voluntary Departure Program, and financial metrics and targets.

As stated in Order 85/13, the Board anticipated that it would review Centra's strategic direction and what Centra's customers can expect of Centra in terms of continued and improved service levels. Such a review did not occur in the course of the present GRA. Centra did not provide an updated Corporate Strategic Plan or similar document, explaining that the strategic direction of the corporation is currently being reviewed in a long-term strategic planning process. The Board is not satisfied that the corporate long-term strategic planning process will sufficiently address Centra's strategic direction or provide adequate information of these matters, which are important for Centra's ratepayers. Centra is a separate utility with its own risks and operational context. Centra-specific information is required, both in order for the Board to ensure that Centra's rates are just and reasonable and to enhance transparency regarding Centra's operations and planning for the benefit of Centra's ratepayers.

With respect to regulatory planning and timing of subsequent proceedings directed by the Board, as detailed in section 5.1.2 above, the Board directs a review of Centra's cost of service study be initiated by Centra by May 1, 2020.

The Board will review the financial feasibility test methodology used to assess extensions of gas service to new customers. The financial feasibility test methodology has not been reviewed for over two decades. Some of the inputs used by Centra have not changed since the last review. Centra is to file by November 30, 2019 a proposed process for the review of the feasibility test methodology, which could combine the cost of service study review and the feasibility test review into one proceeding, or be addressed through separate but concurrent proceedings.

As mentioned elsewhere in this Order, the delay by Centra in bringing the current GRA or a Cost of Gas proceeding to the Board resulted in several years of gas costs and accrued Purchased Gas Variance Account balances being addressed simultaneously. This has, in some cases, resulted in substantial impacts to certain customer classes.

The Board does not, at this time, provide a date for Centra to bring forth its next GRA or Cost of Gas application to the Board for approval, but notes that with the expiration of Centra's storage and transportation arrangements on March 31, 2020, Centra's future gas costs will differ from those embedded in rates. Accordingly, Centra should not delay in bringing a GRA or Cost of Gas application to the Board. The Board may consider the timing of future regulatory proceedings, including the next GRA and the Cost of Gas application, at or after the conclusion of the cost of service study methodology review.

9.0 IT IS THEREFORE ORDERED THAT:

1. Centra's Application for approval of Supplemental Gas, Transportation (to Centra), Distribution (to Customer) Sales and Transportation rates, Basic Monthly Charges, the Primary Gas Overhead rate, and the Fixed Rate Primary Gas Service Program Cost Rate, effective November 1, 2019 **BE AND IS HEREBY APPROVED.**

2. Centra's Application for a non-gas revenue requirement of $149.1 million **BE AND HEREBY IS DENIED.** The applied-for non-gas revenue requirement is varied as follows:

    a. Centra's Operation and Administration expense forecast for 2019/20 shall be reduced by $2.55 million to reflect:

        i. An allocation of 6% (an increase of 2 percentage points from the amount proposed) of the savings related to the recent Voluntary Departure Program, and

        ii. An annual escalation factor of 1% instead of Centra's proposed 2%.

    b. Centra shall credit ratepayers the $15.3 million net income accumulated balance between 2014/15 to 2018/19 via a regulated deferral liability to be amortized over three years, with the net plant depreciated over ten years.

    c. Centra is to cease capitalizing ineligible overheads beginning April 1, 2019. Centra's regulatory deferral account balance for ineligible overhead costs for the 2014/15 through 2018/19 years shall not be amortized over a period of time, and instead shall be recognized in fiscal year 2019/20 as a direct charge to retained earnings and without an increase to Centra's revenue requirement.

    d. Centra's regulatory deferral account balance for the cumulative impact of the 2014 Depreciation Study from 2014/15 through 2018/19 shall be amortized over five years, commencing April 1, 2019, instead of Centra's proposed 34-year amortization period.

e. Centra's regulatory deferral account balance for cumulative impact of updated gas meter depreciation rates from 2014/15 through 2018/19 shall be amortized over five years, commencing April 1, 2019, instead of Centra's proposed 20 year amortization period.

f. Centra's regulatory deferral account balance for the annual impacts on Depreciation expense of the recognition of asset removal costs on terminal asset retirements and retirement gains and losses shall be amortized over a five-year period.

g. Centra's Finance Expense forecast for 2019/20 shall be reduced by $0.664 million.

h. Centra's Capital and Other Taxes forecast shall be reduced by $0.350 million, reflecting the denial of Centra's proposal to increase its estimate of property taxes.

i. Centra's net income embedded in rates shall be $3 million on a weather-normalized, annualized basis.

3. Centra shall prepare and file an Integrated Cost Allocation Methodology report as a Minimum Filing Requirement for the next General Rate Application including the information required in this Order.

4. Centra shall use the Average Service Life methodology without provision for asset retirement costs (that is, excluding net salvage) for calculating depreciation rates for rate-setting purposes. Centra shall also not amortize the difference between the Average Service Life and Equal Life Group depreciation methodologies for rate setting, at least until such time that an IFRS-compliant Average Service Life depreciation study has been filed.

5. Centra's Application for updated depreciation rates and new depreciation accounts for rate-setting purposes determined during and subsequent to the 2014 depreciation study **BE AND IS HEREBY APPROVED**.

6. Centra's Application to discontinue the accounting practice of recognizing a Demand Side Management Deferral Account, as originally directed in Order 85/13, and to write off the $8.2 million accrued balance **BE AND IS HEREBY APPROVED**.

7. Centra shall file a five-year asset management and capital expenditure plan as part of future General Rate Applications. Plans are not to include the costs of undetermined or undefined projects for the first three years of the plan. Furthermore, future plans are to be current such that the Board is able to review proposed capital expenditures before construction commences, where practical.

8. Centra shall file the Natural Gas Strategic Asset Management Plan when complete but no later than as a Minimum Filing Requirement at the next GRA, including the additional items identified in this Order.

9. Centra's Application to cease funding the Furnace Replacement Program through consumer rates effective November 1, 2019 **BE AND IS HEREBY APPROVED.**

10. Centra is to reduce the Furnace Replacement Program liability and establish a regulatory liability in the amount of the currently estimated excess funds in the Furnace Replacement Program account of $17.7 million. Centra shall begin to refund the regulatory liability on a volumetric basis calculated on the basis of a one-year period commencing November 1, 2019 to only the Small General Service customer class. Centra is to include the details of this regulatory liability in the monthly Purchased Gas Variance Account reporting that is currently provided to the Board pursuant to prior Board direction.

11. Centra's Application for final approval of actual gas costs from November 1, 2014 to October 31, 2015 of $236.0 million **BE AND IS HEREBY APPROVED AS FINAL**.

12. Centra's Application for final approval of actual gas costs from November 1, 2015 to October 31, 2016 of $165.3 million **BE AND IS HEREBY APPROVED AS FINAL**.

13. Centra's Application for final approval of actual gas costs from November 1, 2016 to October 31, 2017 of $189.8 million **BE AND IS HEREBY APPROVED AS FINAL**.

14. Centra's Application for final approval of actual gas costs from November 1, 2017 to October 31, 2018 of $187.0 million **BE AND IS HEREBY APPROVED AS FINAL**.

15. Centra's outlook forecast of gas costs for the 2018/19 gas year of $210.9 million **BE AND IS HEREBY APPROVED on an interim basis**.

16. Centra's proposed forecast of non-Primary Gas costs for the 2019/20 gas year **BE AND IS HEREBY APPROVED on an interim basis**.

17. The disposition, through 12-month rate riders commencing November 1, 2019, of the actual and outlook balances in the prior period non-Primary Gas cost deferral accounts (including the 2018/19 forecast balance), but not including the prior period and 2018/19 Heating Value Margin Deferral Account balances, **BE AND IS HEREBY APPROVED.**

18. The accumulated balance from prior period Heating Value Margin Deferral Accounts through to 2018/19 shall be disposed of on the basis of class non-gas volumetric revenue, except where this change in methodology would result in customer classes paying a greater refund than those classes would have under the current volume-based methodology. For those customer classes, the current methodology is to be maintained, with any remaining funds owing to Centra to be directly charged to retained earnings.

19. Centra's Heating Value Margin Deferral Account shall be eliminated for the 2019/20 gas year and subsequent gas years.

20. Centra's proposed change to the volume forecast methodology for the Power Station class, which is based upon the class's contribution to the peak day over the last ten years instead of the last three years, **BE AND IS HEREBY APPROVED**.

21. Centra's Alternate Service rates charged to Interruptible customers during periods of potential curtailment since the 2015/16 Cost of Gas proceeding and Order 108/15 **BE AND ARE HEREBY APPROVED AS FINAL**.

22. Centra shall participate in a technical conference hosted by an independent facilitator to examine the use of rule-based regulation for Centra and the appropriate level of retained earnings and use of financial metrics in the context of Centra's ownership structure, operations, and risks.

23. During future General Rate Application proceedings, Centra shall file, at the earliest opportunity, information regarding any post-filing events or changes that would have a material impact on rates if reflected in Centra's revenue requirement.

24. Centra shall file its reference heating value to be used in rate-setting as part of future Cost of Gas or General Rate Applications, along with five years of historical heating values.

25. Centra's proposed changes to the Schedule of Sales and Transportation Services and Rates **BE AND ARE HEREBY APPROVED, *except as varied below***. Centra shall file a revised Schedule of Sales and Transportation Services and Rates for Board approval with its compliance filing required by this Order;

    a. Centra's approved Transportation Service balancing fee structure, commencing November 1, 2019, shall be based on the existing TCPL Mainline tariff balancing fee structure and apply daily and cumulative balancing fees based on 50% of TCPL's balancing reference toll, as proposed by Centra. However, daily and cumulative balancing tolerances shall be set at twice the level proposed by Centra in this Application.

b. Centra shall more explicitly detail the approved Transportation Service balancing fee structure and associated daily and cumulative tolerances (as approved in this Order) in a schedule appended to the Schedule of Sales and Transportation Services and Rates.

c. Centra's proposal to increase the Transportation Service volumetric eligibility threshold is denied. The Transportation Service volume eligibility threshold shall remain at 200 GJ/day.

d. Centra's request for an increase to its late payment charge is denied. Centra's late payment charge shall remain at 1.25% per month.

26. Centra shall file by December 31, 2020 a report that details the results of the revised Transportation Service balancing fee structure on the balancing performance of Transportation Service customers. This report is to include the requirements set out in section 6.1.2 of this Order.

27. Centra shall amend its Customer Equipment Problem Program internal procedures to comply with the parts list in Order 49/95, unless Centra applies to the Board to vary Order 49/95, by November 30, 2019.

28. Centra shall file all contracts with Power Station customers, as well as feasibility tests and true-ups associated with the extension of service to the power stations. Centra shall include any information supporting the determination of the minimum margin guarantee as part of the Minimum Filing Requirements for a future review of Centra's cost of service study.

29. Centra shall file an application for a comprehensive review of its cost of service methodology by no later than May 1, 2020.

30. Centra shall file with the Board a proposed process for the review of the feasibility test methodology by no later than November 30, 2019.

31. Centra shall file a Centra-specific strategic plan, separate from the Manitoba Hydro plan, at the next General Rate Application. This strategic plan shall include details of Centra's management structure, strategic asset management plan, framework for assessing and evaluating risks and risk tolerance, major planned expenditures, change management arising from the Voluntary Departure Program, and financial metrics and targets.

32. Centra's Primary Gas, Supplemental Gas, Transportation (to Centra), Distribution (to Customers) sales rates, and Basic Monthly Charges, effective August 1, 2013, which were approved on an interim basis in Order 89/13 **BE AND ARE HEREBY APPROVED AS FINAL**.

33. Centra's Primary Gas, Transportation (to Centra) and Distribution (to Customers) sales rates, effective August 1, 2014, reflecting the removal of non-Primary Gas rate riders, which were approved on an interim basis in Order 85/14 **BE AND ARE HEREBY APPROVED AS FINAL**.

34. Centra's Primary Gas, Transportation (to Centra) and Distribution (to Customers) sales rates, effective November 1, 2014, reflecting the implementation of non-Primary Gas rate riders, which were approved on an interim basis in Order 123/14 and subsequently revised in Order 140/14, **BE AND ARE HEREBY APPROVED AS FINAL**.

35. Centra's Primary Gas and Distribution (to Customers) sales rates, effective February 1, 2015, which were approved on an interim basis in Order 12/15 to reflect the implementation of new non-Primary Gas rate riders that accelerated the recovery of the Supplemental Gas deferral account, **BE AND ARE HEREBY APPROVED AS FINAL**.

36. Centra's Primary Gas, Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) sales rates, effective November 1, 2015, which were approved on an interim basis in Order 108/15 **BE AND ARE HEREBY APPROVED AS FINAL**.

37. Centra's Primary Gas, Transportation (to Centra) and Distribution (to Customers) sales rates, effective November 1, 2016, reflecting the removal of non-Primary Gas rate riders, which were approved on an interim basis in Order 137/16 **BE AND ARE HEREBY APPROVED AS FINAL**.

38. Centra's Primary Gas, Supplemental Gas, Transportation (to Centra), Distribution (to Customers) sales rates, and Basic Monthly Charges, effective August 1, 2017, which were approved on an interim basis in Order 79/17 **BE AND ARE HEREBY APPROVED AS FINAL**.

39. Interim Orders 10/13, 40/13, 123/13, 6/14, 42/14, 43/15, 72/15, 4/16, 57/16, 98/16, 7/17, 44/17, 117/17, 16/18, 55/18, 93/18, 143/18, 16/19, 47/19, and 102/19 related to the approval of interim Primary Gas Sales Rates effective February 1, 2013, May 1, 2013, November 1, 2013, February 1, 2014, May 1, 2014, May 1, 2015, August 1, 2015, February 1, 2016, May 1, 2016, August 1, 2016, February 1, 2017, May 1, 2017, November 1, 2017, February 1, 2018, May 1, 2018, August 1, 2018, November 1, 2018, February 1, 2019, May 1, 2019, and August 1, 2019, respectively **BE AND ARE HEREBY APPROVED AS FINAL**;

40. Interim Orders 53/16, 55/17, 48/19, and 85/19 related to the approval of new franchise agreements and financial feasibility tests for the expansion of natural gas to the Rural Municipality ("RM") of Minto-Odanah, the Municipality of Grassland, the Municipality of Glenella-Lansdowne, and the Municipality of North Cypress-Langford, as well as Order 56/18 relating to the authorization of a new crossing agreement in the RM of St. Francois Xavier, respectively, **BE AND ARE HEREBY APPROVED AS FINAL**;

41. Centra's existing liability insurance amount **BE AND IS HEREBY APPROVED**.

42. Centra shall file the information required in this Order regarding its liability insurance coverage amount as part of future General Rate Applications.

43. Directive 2 of Order 118/03, Directive 11 of Order 128/09, Directive 5 of Order 112/12, and Directive 1d of Order 85/13 are set aside.

44. Centra shall file, within two weeks of the issuance of this Order, revised calculations and schedules for rate base, revenue requirement, rates, and customer class bill impacts that reflect all of the Directives of this Order, as well as the Primary Gas rate for November 1, 2019.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca

THE PUBLIC UTILITIES BOARD

"Larry Ring Q.C."________________
Panel Chair

"Rachel McMillin, BSc."__________
Assistant Associate Secretary

Certified a true copy of Order No. 152/19 issued by The Public Utilities Board

R McMillin
Assistant Associate Secretary

APPENDIX A: Appearances

PARTY	LEGAL COUNSEL
The Public Utilities Board	Bob Peters, Dayna Steinfeld
Centra Gas	Brent Czarnecki, Jessica Carvell, Helga Van Iderstine
Consumers’ Association of Canada (Manitoba)	Brian Meronek
Industrial Gas Users	Antoine Hacault
Koch Fertilizer Canada, ULC Fertilizer Canada, ULC	Lewis Manning

APPENDIX B: Parties of Record and Hearing Witnesses

PARTY	WITNESSES
Centra Gas	Sandy Bauerlein, Corporate Controller, Corporate Controller Division, Finance & Strategy, Manitoba Hydro;
	Paul Chard, Acting Director, Rates & Regulatory Affairs, Manitoba Hydro;
	Shannon Gregorashuk, Manager, Rates and Cost of Service, Rates & Regulatory Affairs, Manitoba Hydro
	Kenneth Korchak, Department Manager, Customer Services Operations Manager, Winnipeg East, Manitoba Hydro;
	Neil Kostick, Manager, Long-term Planning and Market Analysis, Gas Supply, Manitoba Hydro;
	Tim Starodub, Department Manager, Gas Engineering and Construction, Manitoba Hydro;
	Charles Steele, Director of Engineering and Construction, Manitoba Hydro;
	Lori Stewart, Manager Gas Supply, Manitoba Hydro
Consumers' Association of Canada (Manitoba)	Darren Rainkie, CPA, CA, CBV, Principal, Darren Rainkie Consulting
	Kelly Derksen, BSc, CPA, CMA, Principal, Kelly Derksen Consulting
	Alex Bakulev, PhD, METSCO
	Dmitry Balashov, MBA, MPA, METSCO
	Richard DeWolf, P. Eng

Industrial Gas Users	
	Troy Brown, BComm, Koch Fertilizer Canada, ULC Canada Energy Services, LP
	Gil Labonte, Dip.BA, France Financial Consulting
	Andrew McLaren, MNRM, BSc, InterGroup Consultants LTD
Koch Fertilizer Canada, ULC Fertilizer Canada, ULC	Brian Collins, BSc., MBA, Brubaker & Associates, Inc.