

Order No. 36/22

**SECOND PROCEDURAL ORDER IN RESPECT OF CENTRA GAS MANITOBA
INC.'S COST OF SERVICE STUDY METHODOLOGY REVIEW APPLICATION**

April 7, 2022

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

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1.0 Executive Summary

This is the second Procedural Order in respect of the Public Utilities Board's ("Board") review of the Cost of Service Study Methodology Review Application (the "Application") by Centra Gas Manitoba Inc. ("Centra" or the "Utility").

Centra's Cost of Service Study ("COSS") is used to allocate costs among the utility's different customer classes. The COSS methodology is intended to identify the costs of serving the different customer classes based on the nature of the costs that are incurred and the services provided. The output of the COSS may then be used as a tool in determining the rate design and the specific rates for each of the different customer classes.

Following the Board's acceptance of Centra's filing of its Cost of Service Study Methodology Review Application as being complete, the Board requested written Pre-Hearing Conference submissions from Centra and approved Interveners. The purposes of the Pre- Hearing Conference submissions were to:

- a. identify issues regarding the qualifications or independence of Atrium Economics LLC.;
- b. identify the need for any additional evidence beyond what is on the record in Centra's 2019/20 General Rate Application;
- c. identify the issues that are included in the scope of the hearing; and
- d. identify the procedural steps and timetable needed to facilitate the orderly exchange of evidence on contested issues before the Board.

The Board received written Pre-Hearing Conference submissions from Consumers' Association of Canada (Manitoba) Inc., Industrial Gas Users, and Koch Fertilizer Canada, ULC¹.

¹ The Pre-Hearing Conference Submissions received from Industrial Gas Users and Koch Fertilizer Canada, ULC, were filed together.

By this Order, Board approves the issues as enumerated in the list attached to this Order as Appendix “A” as being in scope for the hearing of Centra’s Cost of Service Study Methodology Review Application.

A timetable for the process steps is also approved and attached to this Order as Appendix “B”.

2.0 Procedural History

Following Centra's last General Rate Application before the Board, and in Order 152/19, the Board found that a COSS methodology review should be held prior to the next Centra General Rate Application, with the deadline for filing initially set as May 1, 2020. For reasons detailed in Orders 49/20, 130/20, and 51/21 following applications by Centra to vary the deadline, the filing date for Centra's COSS Methodology Review Application was revised by the Board to June 15, 2021.

In addition, in Order 135/20, the Board required a post-filing workshop, to be held after Centra's filing of its COSS Methodology Review Application, to review Centra's Application and its consultant's report.

On June 15, 2021 Centra filed with the Board both a public version of the Application and also a version containing proposed redactions of information that Centra requests the Board accept as confidential. Contained within Centra's Application was a report from Atrium Economics LLC, which reviewed Centra's existing COSS methodology and included recommendations for Centra.

In the Board's First Procedural Order 80/21, dated July 26, 2021, Centra was provided direction to notify the public and invited applications for intervener status from prior Interveners of record, registered Natural Gas Marketers, and customers of Centra. In the same Order, the Board also granted Centra's motion for certain information within the COSS Application to be received in confidence pursuant to the Board's Rules of Practice and Procedure. Furthermore, the Board decided that subject to further information and direction provided by the Board, the Pre-Hearing Conference for Centra's COSS Methodology Review Application would be based on written submissions.

In July and August 2021, the Board received applications seeking intervener status in this proceeding from the following parties:

- i. Consumers' Association of Canada (Manitoba) Inc.
- ii. Industrial Gas Users
- iii. Koch Fertilizer Canada, ULC

By way of a letter on February 18, 2022, the Board found Centra's COSS Methodology Review Application to be complete but requested that Centra file amendments to its Application as a result of the Board's Rate Re-bundling Decisions in Order 131/21.

On February 28, 2022, the Board received Centra's Application amendments as well as Centra's submissions on the scope and proposed process to facilitate an expeditious review of Centra's COSS Methodology Review Application.

By way of a letter dated March 7, 2022, the Board approved Intervener status for Consumers' Association of Canada (Manitoba) Inc., Industrial Gas Users, and Koch Fertilizer Canada, ULC. Furthermore, the Board invited written Pre-Hearing Conference submissions from these parties, as well as from Centra, regarding Centra's COSS Methodology Review Application. The purposes of the Pre- Hearing Conference submissions were to:

- a. identify issues regarding the qualifications or independence of Atrium Economics LLC.;
- b. identify the need for any additional evidence beyond what is on the record in Centra's 2019/20 General Rate Application;
- c. identify the issues that are included in the scope of the hearing; and
- d. identify the procedural steps and timetable needed to facilitate the orderly exchange of evidence on contested issues before the Board.

3.0 Submissions Regarding Intervener Participation, Hearing Process, and Scope of Review

Consumers' Association of Canada (Manitoba) Inc. ("CAC Manitoba")

CAC Manitoba sets out in its Intervener Application Form that it is a volunteer, non-profit, independent organization working to inform and empower consumers, and to represent the consumer interest in Manitoba. CAC Manitoba submits that it represents the interests of consumers across Manitoba in a number of areas including environmental sustainability, and regulatory review of utilities delivering services and products to consumers. Furthermore, CAC Manitoba has been a long-standing intervener in natural gas regulatory proceedings in Manitoba and has indicated that it intends to pursue a comprehensive intervention focussed on issues of importance to Centra's residential natural gas customers.

In its written Pre-Hearing Conference submission of March 14, 2022, CAC Manitoba submits that given the quarter century since the last generic COSS review and the significant impacts on the Small General Service class of Centra's proposals, a robust evidentiary record is needed for the Board to make important COSS and Rate Design decisions that need to be adaptable to industry changes and sustainable for many years into the future. CAC Manitoba further submits that additional Intervener evidence is needed in this proceeding as the report of Atrium Economics LLC ("Atrium"), filed as part of Centra's COSS Methodology Review Application, does not adequately address all of the COSS and Rate Design issues raised at the 2019/20 Centra General Rate Application. As well, CAC Manitoba submits that Atrium's review of the advantages and disadvantages of each alternate COSS method is quite limited. CAC Manitoba also maintains that the record from the 2019/20 Centra General Rate Application in regards to COSS and Rate Design issues is insufficient since that evidence was scope-limited and did not anticipate Centra making proposals that would fundamentally change the COSS methodology that's been in place in Manitoba since at least the 1980s.

CAC Manitoba further submits that it views all of Centra's COSS Methodology Review proposals as contested issues due to their significant impact on a number of customer classes, including the Small General Service class. Moreover, CAC Manitoba submits that COSS and Rate Design issues are inextricably linked and are not theoretical exercises that can be examined in a principled vacuum without the consideration of real-world consequences to customers. As a result, CAC Manitoba proposes that, in addition to the issues of the allocation methodology for demand-related costs, transmission plant costs assigned to the Special Contract and Power Station customer classes, upstream capacity resource costs, and demand-side management costs, the following issues should also be found to be in-scope in this proceeding:

- Postage Stamp Ratemaking;
- Introduction of a Zone of Reasonableness;
- Power Station Cost Allocation & Rate Design;
- Amendments to the COSS methodology for Rate Re-bundling Impacts; and
- Customer Class Rate Impacts.

While CAC Manitoba indicates that it does not plan to challenge the qualifications or independence of Atrium, it proposes to test Atrium's and Centra's conclusions through two recommended rounds of Information Requests to Centra and Atrium, followed by the filing of Intervener expert evidence (with one subsequent round of Information Requests to Interveners), then Centra's rebuttal evidence in advance of the hearing and closing submission phases of the COSS Methodology Review proceeding. Moreover, CAC Manitoba submits that the post-filing workshop of Order 135/20 is not necessary as its proposed experts already understand the contested issues and the existing COSS methodology. Moreover, CAC Manitoba states that Centra's request to have all Information Requests pre-approved by the Board is not necessary and that it is premature for the Board to decide whether the hearing and closing submissions will be heard through oral or written submissions (or a mix of the two). Rather, CAC Manitoba recommends that this determination be deferred until after the evidence has been filed,

similar to the process followed by the Board at the 2019/20 Centra General Rate Application.

Industrial Gas Users (“IGU”) and Koch Fertilizer Canada, ULC

IGU sets out in its Intervener Application Form that it is an informal association of industrial companies that are high volume natural gas users in Manitoba. At present, IGU membership includes:

- Gerdau Long Steel North America – Manitoba Mill;
- Koch Fertilizer Canada, ULC;
- Maple Leaf Foods;
- Simplot Canada (II) Ltd.; and
- Roquette Canada Ltd.

IGU participated as an Intervener at the Centra 2019/20 General Rate Application and has indicated that it intends to pursue a comprehensive intervention focussed on the allocation of costs, impacts to rates and riders charged to industrial gas users, predominantly related to High Volume Sales Service, T-Service and Special Contract rate classes.

Koch Fertilizer Canada, ULC, in its Intervener Application Form indicates it is a large consumer of natural gas in Manitoba and is interested in the outcome of this COSS proceeding due to the material impacts that the proposed changes may have on the cost allocations made to the Special Contract Class. Although Koch Fertilizer Canada, ULC will collaborate with IGU and other interveners on areas of mutual interest, it has indicated that it intends to represent itself in this proceeding, as it did at Centra’s 2019/20 General Rate Application.

On March 14, 2022, IGU and Koch Fertilizer Canada, ULC filed a joint Pre-Heating Conference written submission with the Board. In that submission, both parties submit that additional Intervener evidence is needed at this proceeding as the review of COSS

methodologies was explicitly excluded from the 2019/20 General Rate Application, and as such, comprehensive positions and testing from the intervening parties were not developed.

IGU and Koch Fertilizer Canada, ULC propose that, in addition to the issues of the allocation methodology for demand-related costs, transmission plant costs assigned to the Special Contract and Power Station customer classes, upstream capacity resource costs, and demand-side management costs, the following issues should also be found to be in-scope in this proceeding:

- Near-term revisions to Special Contract and Power Station rates (as included in Centra's Application);
- Matters of Rate Design, including Cost Coverage Ratios; and
- Zone of Reasonableness proposals.

While IGU and Koch Fertilizer Canada, ULC indicate that they do not currently intend to challenge the qualifications or independence of Atrium, both parties plan to test Atrium's analysis, recommendations, and opinions through a post-filing workshop as well as two rounds of Information Requests to Centra and Atrium. Following this discovery process, IGU and Koch Fertilizer Canada, ULC state that they will determine the necessity of submitting further evidence from its proposed experts. Moreover, IGU and Koch Fertilizer Canada, ULC submit that two rounds of Information Requests are needed due to past experience of low quality or sufficiently incomplete Centra responses to first-round questions. As well, both parties argue that Centra's request to have all Information Requests pre-approved by the Board is not necessary and that it is premature for the Board to decide whether the hearing and closing submissions will be heard through oral or written submissions (or a mix of the two). Rather, IGU and Koch Fertilizer Canada, ULC recommend that this determination be deferred until after the filing of Intervener evidence.

Centra Gas Manitoba Inc.

Centra's Pre-Hearing Conference submission was filed on February 28, 2022. Centra also filed its reply to the above Intervener submissions on March 21, 2022.

Overall, Centra submits that this proceeding should focus upon the contentious issues identified by the Board and that Intervener submissions should build upon the submissions and evidence adduced at the 2019/20 Centra General Rate Application. Additionally, Centra states that Atrium conducted an objective and comprehensive review of Centra's COSS methodology. While Centra acknowledges that some new issues have arisen as a result of the Atrium review and report, the most contentious issues of direct assignment and allocation methodology for demand-related costs were extensively canvassed during the 2019/20 General Rate Application proceeding (including COSS evidence filed at that time by CAC Manitoba, IGU, and Koch Fertilizer Canada, ULC). Given this, according to Centra, there is now no need for additional comprehensive reviews of the COSS methodology (or model) and for evaluating Atrium's report for completeness. Instead, Centra states that the Interveners should focus their submissions on the appropriateness of Atrium's and Centra's COSS recommendations or provide alternative methodologies appropriate for Centra's specific circumstances in Manitoba, without the need to duplicate the extensive review already conducted by Atrium or expert evidence previously filed at the 2019/20 General Rate Application.

Based on the Intervener submissions filed at its 2019/20 General Rate Application, Centra submits that the following topics should be the primary issues in scope in this proceeding:

- Allocation methodology for demand-related costs;
- Allocation methodology for the transmission plant assigned to the Special Contract and Power Station customer classes; and
- Allocation methodology for upstream capacity resources.

Centra also clarified that it deems the issue of Postage Stamp Ratemaking, which was identified as a COSS Methodology Review issue by CAC Manitoba, as being encompassed by the issue of direct assignments of transmission plant assigned to the Special Contract and Power Station customer classes.

Additionally, Centra states that its COSS methodology should be evaluated on its own merits, and as such, the rate impacts of the allocation methods should not be a focus of this review or influence any Party's position. Centra maintained that the COSS Methodology Review proceeding should focus on resolving the level of cost responsibility by class and that matters of Rate Design, including class Revenue-to-Cost Ratios and the Zone of Reasonableness, as well as the issue of the Power Stations minimum margin guarantee, are most appropriately reviewed in the context of a General Rate Application, once the COSS methodology has been determined. Furthermore, Centra submits that including Rate Design in the scope of this review is premature and will only serve to complicate what should be a principle-based review of cost allocations.

In terms of the possible review process for Centra's Application, Centra proposes that, given the Interveners' COSS submissions and experience from the 2019/20 General Rate Application, there is no need for a post-filing COSS workshop as envisioned in Order 135/20. As such, Centra proposes a process to review its COSS Methodology Review Application that includes:

- One round of Information Requests to Atrium/Centra;
- Interveners written expert evidence;
- One round of Information Requests on Intervener evidence;
- Centra's written rebuttal evidence; and
- Written final submissions

Centra further recommends that the Board review and approve all proposed Intervener Information Requests.

4.0 Board Findings

Scope of the Hearing

The Board has considered the positions of the approved Interveners and Centra on which issues are within the scope of this hearing. Given these submissions and the Board's own review of Centra's COSS Methodology Review Application, the Board finds that in-scope topics for this proceeding include:

1. Allocation of Transmission and Distribution Plant;
2. Determination of Downstream Demand Allocation Factors;
3. Direct Assignment of High-Pressure Transmission Plant to Customers Classes including Postage Stamp Ratemaking;
4. Classification and Allocation of Distribution Plant including the indexing of the service line study to current costs;
5. Allocation of Upstream Capacity Resources;
6. Allocation of demand-side management costs;
7. Amendments to the COSS methodology for Rate Re-bundling impacts;
8. Elimination of the Co-op class;
9. Allocation of operation & maintenance, customer service, and administrative expenses; and
10. Near-term rate impact measure for the Special Contract Class and Power Station Class.

The Board further finds that the following topics are not in-scope for Centra's COSS Methodology Review Application:

- Minimum margin guarantee for the Power Stations class;
- Matters of Rate Design & introduction of a Zone of Reasonableness; and
- Customer Class Rate Impacts.

The above in-scope and out-of-scope issues are further summarized in Appendix “A” of this Order.

The Board finds that matters of rate design and customer class impacts (except for consideration of Centra’s near-term measures affecting only the Special Contract Customer Class and the Power Station Customer Class) would most effectively be reviewed in the context of a General Rate Application, where updated test year revenue requirement information is available. Currently, only outdated revenue requirement information from the 2019/20 General Rate Application is available and would lead only to indicative allocation results and class bill impacts. As a result, the Board expects Centra to address rate design matters, including the issue of a Zone of Reasonableness and other possible rate impact mitigation measures, stemming from the Board’s decisions in this proceeding, to be addressed at Centra’s next General Rate Application. Similarly, the Board currently intends to include the issue of the Power Station minimum margin guarantee as an in-scope item to be reviewed at Centra’s next General Rate Application.

Post-Filing Workshop

Upon review of the positions of the approved Interveners and Centra regarding the post-filing COSS Methodology Review Application workshop, and given the perceived experience of the Parties’ counsel and proposed experts regarding Centra’s COSS matters, the Board finds that a post-filing workshop is not required. As a result, the Board rescinds Directive 2 of Order 135/20.

Hearing Process and Timetable

The approved Interveners and Centra were given the opportunity to provide submissions on the appropriate hearing process and timetable for the review of Centra’s COSS Methodology Review Application. The Board finds that Interveners can participate in the testing of Centra’s and Atrium’s evidence and in presenting evidence on the issues within the scope of this proceeding.

Based on the Parties' submissions, the Board finds that there is no need for Interveners' additional comprehensive reviews of the existing COSS methodology (or model) and for evaluating Atrium's report for completeness. Instead, Interveners are to focus their submissions on the appropriateness of Atrium's and Centra's COSS recommendations or provide alternative methodologies appropriate for Centra's specific circumstances in Manitoba, without the need to duplicate the extensive review already conducted by Atrium. If relied on in this proceeding, Interveners are to re-file (and not duplicate) their expert evidence, on the in-scope issues, previously filed in Centra's last General Rate Application.

The participation of Interveners in evidentiary steps in the public hearing process will also assist the Board, as this participation contributes to a robust, transparent, and evidence-based decision-making process.

With the expectation of focused Information Requests and thorough written Responses by Centra, the Board finds that one round of concurrent Information Requests separately to Centra and to Atrium will be appropriate. The Board's Rules of Practice and Procedure outline remedies available to the Parties should they consider Centra's responses to Information Requests inadequate. However, the Board encourages all Parties to work together informally to resolve issues arising from Information Requests and Responses to Information Requests, before bringing matters formally before the Board for resolution.

The Board also finds that pre-approval of Intervener Information Requests posed to Atrium and separately to Centra is not required. Parties are aware that Information Requests are limited to the in-scope issues and seek to clarify matters that will assist the Board in its understanding of the issues, avoid duplication, and focus on the best practices for Centra's circumstances in Manitoba.

In addition, Parties need to be aware that when asking or answering any Information Requests that may contain confidential information, those questions and answers should initially only be provided to Centra and the Board to allow the Utility to determine whether

any of the included information is to be treated as confidential and to seek a ruling from the Board.

At this time, the Board establishes the timetable contained in Appendix “B” for Centra’s COSS Methodology Review Application. The Board will provide additional information regarding the specific timing of the hearing and closing submission phases of this proceeding as part of future communications with the Parties.

Interveners who intend to seek cost awards for their participation in Centra’s COSS Methodology Review are now required, within 10 days of the issuance of this Order, to prepare and file their revised intervention cost estimates (including consultants and expert witnesses) with the Board for review and comment by Board staff, pursuant to the process set out in the Board’s Intervener Cost Policy as viewed on the Board’s website at www.pubmanitoba.ca. Cost estimates that are incomplete or prepared improperly will be returned to the Intervener.

The filing of Intervener cost estimates does not guarantee or disqualify an Intervener from eligibility for a cost award. All cost awards are in the sole discretion of the Board and all applications for cost awards will be considered by the Board in accordance with the criteria set out in Section 3.0 of the Intervener Costs Policy.

Should any approved Intervener seeking an award of costs determine that its scope of participation in the proceeding or its final cost application will deviate or differ materially from its cost estimate, the Intervener is to notify the Board staff forthwith. Such deviations will be considered by the Board after the hearing when it evaluates the contributions made by Interveners.

As outlined in the Board’s letter on March 7, 2022, all Parties are reminded that Interveners are to actively participate in the hearing process, introduce information that adds to the Board’s understanding of the issues, and avoid duplication. Failure to add value to the process, or to avoid duplication, will have consequences when the Board adjudicates potential cost awards. For Interveners that are not seeking an award of costs

for their proposed interventions, they too are required to avoid duplication with other Interveners on matters of evidence and the testing of issues they have in common with other Interveners.

5.0 IT IS THEREFORE ORDERED THAT:

1. The issues that are considered within the scope of the Centra Cost of Service Study Methodology Review Application BE AND ARE APPROVED as identified in Appendix “A” to this Order;
2. The Timetable for the orderly review of the Centra Cost of Service Study Methodology Review Application BE AND IS HEREBY APPROVED as attached to this Order as Appendix “B”.
3. Directive 2 of Order 135/20, in respect of a post-filing workshop, BE AND IS HEREBY RESCINDED.

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, B.Sc.”

Associate Secretary

Certified a true copy of Order No. 36/22
issued by The Public Utilities Board



Associate Secretary

Appendix A

Issues List

The following issues are considered to be within the scope of Centra's COSS Methodology Review Application:

1. Allocation of Transmission and Distribution Plant;
2. Determination of Downstream Demand Allocation Factors;
3. Direct Assignment of High-Pressure Transmission Plant to Customers Where Appropriate;
 - Including, Postage Stamp Ratemaking
4. Classification and Allocation of Distribution Plant;
 - Including the indexing of the service line study to current costs
5. Allocation of Upstream Capacity Resources;
6. Allocation of demand-side management costs;
7. Amendments to the COSS methodology for Rate Re-bundling impacts;
8. Elimination of the Co-op class;
9. Allocation of operation & maintenance, customer service, and administrative expenses; and
10. Near-term rate impact measure for the Special Contract Class and Power Station Class.

The Board further finds that the following topics are not in-scope for Centra's COSS Methodology Review Application:

- Minimum margin guarantee for the Power Stations class;
- Matters of Rate Design & introduction of a Zone of Reasonableness; and
- Customer Class Rate Impacts (except for the near-term rate measures related to Special Contract Customer and Power Station Customer Classes).

Appendix B**Centra Gas Manitoba Inc.****Cost of Service Study Methodology Review Application****Timetable**

Item	Date (by no later than)
PUB First Round Information Requests to Centra and Atrium	April 18, 2022
Intervener First Round Information Requests to Centra and Atrium	April 22, 2022
Centra and Atrium Responses to First Round Information Requests	May 16, 2022
Interveners to File Pre-Filed Evidence	May 25, 2022
Information Requests on Intervener Evidence	June 1, 2022
Intervener Information Request Responses	June 8, 2022
Centra Rebuttal Evidence	June 13, 2022
Comments from Centra and Interveners – Need & Scope for Oral Hearing and Written Submissions	June 17, 2022
Procedural Order Issued – Oral and/or Written Issues	TBD
Public Hearing Commences	August 2022 with specific dates TBD