

Order No. 72/22

**Order Varying Directive #22 in Board Order 152/19 Respecting Centra Gas
Manitoba Inc.'s Financial Targets and Reserves**

July 11, 2022

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

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1.0 Executive Summary

By this Order, the Public Utilities Board (“Board”) varies Directive #22 in Board Order 152/19 by canceling a technical conference to consider Centra Gas Manitoba Inc.’s (“Centra”) financial targets and reserves. Rather than a technical conference, Centra is to include, in its next General Rate Application, Centra’s proposed financial targets together with all underlying assumptions, including financial metrics, net incomes, retained earnings, and indicative rate increases in each of the long-term financial scenarios presented.

2.0 Overview

Background

In Order 152/19 pertaining to Centra’s Net Income and Retained Earnings, the Board noted:

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.

Also in Order 152/19, the Board indicated:

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.

In Order 152/19 the Board issued Directive #22 related to Centra's financial targets and reserves.

Directive #22 in Order 152/19

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.

Manitoba Hydro's Request

In its May 13, 2022 communication, Centra requests that Directive 22 in Board Order 152/19 be set aside, as Bill 36 includes debt-to-capitalization targets to be used for rate-setting, and indicates that other financial targets and the framework for regulating natural gas rates will be established by regulation.

Board May Vary Directive #22 in Order 152/19

Pursuant to subsection 44(3) of *The Public Utilities Board Act*:

44(3) The board may review, rescind, change, alter, or vary any decision or order made by it.

The Board and past Interveners have been advised that Centra intends to file a General Rate Application for new natural gas rates. Centra plans to file its General Rate Application either in combination with Manitoba Hydro's no later than November 15, 2022, or alternatively, if the Board does not accept a combined rate application this fall, then Centra's General Rate Application will be filed in 2023, as soon as possible following the conclusion of the electric rate application.

Bill 36 does not change the existing law in Manitoba until it is passed and the provisions are either proclaimed or receive royal assent. If enacted, the proposed transition provisions in section 65 of Bill 36 would not apply to the determination of rates for the retail supply of electrical power for any period ending before April 1, 2025. The Board expects the same would apply for the determination of natural gas rates.

The Board further expects current legislation in *The Public Utilities Board Act* to continue to apply to the determination of natural gas rates for periods before April 1, 2025.

3.0 Board Findings

The Board finds that the technical conference approach envisioned in Order 152/19 may no longer be achievable due to the Utility's time constraints related to the Manitoba Hydro General Rate Application to be filed by November 15, 2022.

The Board, therefore, does not set aside Directive #22 in Board Order 152/19 but varies it to direct Centra to include, in its next General Rate Application, Centra's proposed financial targets together with all underlying assumptions, including financial metrics, net incomes, retained earnings, and indicative rate increases, in each of the long-term financial scenarios presented.

The Board and Interveners, as part of the minimum filing requirements and information request process, may request limited additional long-term financial scenarios based on different assumptions. These additional long-term financial scenarios are to be provided either directly by Centra or through an electronic model provided by Centra.

4.0 IT IS THEREFORE ORDERED THAT:

1. Directive #22 in Order 152/19 BE AND IS HEREBY VARIED as the Board now directs Centra to include, in its next General Rate Application, Centra's proposed financial targets together with all underlying assumptions, including financial metrics, net incomes, retained earnings, and indicative rate increases in each of the long-term financial scenarios presented.

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

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issued by The Public Utilities Board



Associate Secretary