

Order No. 95/22

**Order in Respect of Centra Gas Manitoba Inc.'s and Manitoba Hydro's Request to
Review and Vary Board Order 85/13 for Purposes of Filing a Combined 2022
General Rate Application**

August 15, 2022

BEFORE: Robert Gabor, Q.C., Board Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., Board Vice-Chair
Hugh Grant, Ph.D., Member
Irene A. Hamilton, Q.C., Member
Shawn McCutcheon, Member
Susan Nemec, FCA, FCPA, Member
Michael Watson, Member

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1.0 Executive Summary

In this Order, the Board finds that granting Manitoba Hydro's Review and Vary requests to allow for a combined Manitoba Hydro and Centra General Rate Application to be filed in the fall of 2022 is premature and that the prior Board decisions should neither be reviewed nor varied at this time.

Therefore, pursuant to Rule 36 of the Board's Rules of Practice and Procedure, the Board denies both Manitoba Hydro's request to review and vary Order 85/13 to permit consideration of a combined rate application being advanced in less than the 12-month notice period specified in Order 85/13, as well as Manitoba Hydro's request to set aside Directive 26 of Order 85/13 requiring the complete filing of applications.

2.0 Background

Prior Requests for a Combined Hearing for Setting Electricity and Natural Gas Rates

Centra Gas Manitoba Inc. (“Centra”) was acquired by Manitoba Hydro from Westcoast Energy Inc. on July 1, 1999. From a rate regulation perspective, each of Centra’s and Manitoba Hydro’s rates for services to their respective customers are approved by the Board and are subject to regulatory proceedings before the Board. Historically, Manitoba Hydro has filed applications with the Board regarding its electricity rates separately from applications for matters relating to Centra’s natural gas rates.

At the 2013/14 Centra General Rate Application (“GRA”), Centra raised the issue of filing its next rate application based on a joint Centra and Manitoba Hydro GRA, once the review of the Needs For and Alternatives To Manitoba Hydro’s Preferred Development Plan (“NFAT Review”) was completed in 2014. Centra delayed its proposal for a combined electricity and natural gas GRA as, in its view, this would have allowed for a proper allocation of resources for the NFAT Review process.

In Order 85/13 (page 69 of 74), relating to Centra’s 2013/14 GRA, the Board stated:

“The issue of a combined hearing for setting Manitoba Hydro and Centra rates was not canvassed at this hearing and did not form part of Centra’s Application. The Board expects Centra to file a formal proposal for a combined process with the Board. Such a proposal should be circulated to all registered interveners of this proceeding and the prior Manitoba Hydro General Rate Application proceeding. The Board will require Centra to file any proposal at least 12 months before the proposed date of filing a joint application for new rates under the proposed process to allow for an assessment of the merits of such a process.”

The issue of a combined electricity and natural gas rate application was also raised as part of the Board's review of Manitoba Hydro's 2016/17 interim electric rate application. In Order 59/16 (pages 5 and 13 of 43), the Board stated:

"As there are different Intervener representatives and Board Panels involved in electricity regulatory matters as compared to natural gas regulatory matters, the Board does not intend to conduct any joint reviews at this time. As Manitoba Hydro is aware, the Board is considering the efficiency of changes in the regulatory hearing process, (including in the Manitoba Hydro Cost of Service Study Methodology Review Hearing), involving the use of workshops, technical conferences, and concurrent evidence sessions. The assessment of the results of these efficiency initiatives will allow the Board to consider whether combining electricity and natural gas regulatory processes should be further considered."

"This Board previously commented that Manitoba Hydro is involved in a process of unprecedented capital expansion, approximately doubling its asset base when all of the currently planned projects have been completed. As such, the Board remains of the view that Manitoba Hydro should be subject to regular and timely General Rate Application reviews that address no more than two fiscal years at a time. [...] Manitoba Hydro is therefore directed to file [...] a General Rate Application [...] restricted to Manitoba Hydro's electric utility and not, at this time, include matters related to Centra Gas Manitoba Inc.'s natural gas operations."

Board Requirement for Centra to File Complete Applications

In 2013, Centra filed its 2013/14 GRA with the Board in two volumes. The first volume of Centra's application was filed on January 25, 2013 and contained materials relating to Centra's organizational structure and Corporate Strategic Plan, its Integrated Financial Forecast, historical and forecast revenues and expenses, capital expenditures, and demand side management activities. The second volume of Centra's 2013/14 GRA was filed on February 22, 2013, and contained Centra's volume forecast, rate base

information, gas supply costs, as well as updated cost allocation results, proposed rates, and associated customer impacts.

Following its review of Centra's 2013/14 GRA submissions, the Board stated "*In the Board's view, filing portions of the application in separate periods results in inefficiencies in the review of the application*" (Order 85/13, page 69 of 74). As a result, the Board directed:

Directive 26 (Order 85/13): "*That Centra file future applications as complete applications and not provide a portion of the application at a later date;*"

Review and Vary Requests by Centra and Manitoba Hydro

To consider a combined GRA for Centra and Manitoba Hydro, to be filed November 15, 2022, the Board has been requested to review and vary the above-noted prior Board directives.

Board Rules of Practice and Procedure for Reviewing Prior Decisions

Section 36 of the Board's Rules of Practice and Procedure for reviewing prior decisions and directives states the following:

Review

36. (1) *The Board may, on its own initiative or on application by a person, review, rescind, change, alter or vary any decision or order by it.*

(2) *An application for a review under subsection (1) must be in writing and contain the following:*

- a) a clear and concise statement of facts relevant to the application;*
- b) the grounds on which the application is made;*
- c) a brief explanation as to the nature of the prejudice or damage that has resulted or will result from the order, decision or direction;*
- d) a brief description of the remedy sought; and*

- e) the applicant's name, address in Manitoba, telephone number, fax number and, if available, e-mail address.
- (3) An application for a review must be filed and served on the parties to the proceeding for which the order or decision of the Board was made within 30 days of the date of the order or decision.
- (4) The Board shall determine, with or without a hearing, in respect of an application for review, the preliminary question of whether the matter should be reviewed and whether there is reason to believe the order or decision should be rescinded, changed, altered or varied.
- (5) After determining the preliminary question under subsection (4), the Board may:
- a) dismiss the application for review if,
 - i) in the case where the applicant has alleged an error of law or jurisdiction or an error in fact, the Board is of the opinion that the applicant has not raised a substantial doubt as to the correctness of the Board's order or decision; or
 - ii) in the case where the applicant has alleged new facts not available at the time of the Board's Hearing that resulted in the order or decision sought to be reviewed or a change of circumstances, the Board is of the opinion that the applicant has not raised a reasonable possibility that the new facts or the change in circumstances as the case may be, could lead the Board to materially vary or rescind the Board's order or decision; or
 - b) grant the application; or
 - c) order a hearing or proceeding be held.

3.0 Proposal for a Combined Electric & Gas Rate Application

On April 11, 2022, Manitoba Hydro filed with the Board a proposal for a combined electric and natural gas GRA in the fall of 2022. Specifically, Manitoba Hydro requests that the Board review and vary Order 85/13 to permit consideration of a combined rate application being advanced in less than the 12-month notice period specified in Order 85/13. In a subsequent submission on May 24, 2022, Manitoba Hydro also requests that the Board set aside Directive 26 of Order 85/13 to enable Centra to file its combined GRA submissions in two phases.

As part of its April 11, 2022 submission, Manitoba Hydro informs the Board that it has commenced preparation of an upcoming electric GRA to be filed in the fall of 2022. However, Manitoba Hydro indicates that Centra is forecasting a net income loss in 2022/23 and that there is, therefore, an immediate financial need to also adjust the non-gas components of Centra's natural gas rates as soon as possible. Furthermore, Manitoba Hydro submits that resource constraints on all parties prohibit conducting concurrent individual proceedings. As a result, Manitoba Hydro submits that a combined electricity and gas rate application in the fall of 2022 would achieve the following benefits:

- Efficiencies in reviewing common topics in a single proceeding;
- Reduced overall regulatory costs borne by customers;
- Improved rate predictability for customers; and
- Allow parties to establish, and work through, a combined process that will foster a common understanding and knowledge of both the electricity and natural gas segments and the related common issues in advance of the first combined multi-year GRA following the completion of Manitoba Hydro's Integrated Resource Plan.

Manitoba Hydro further submits that combining electric and natural gas GRAs will reduce duplication and the overlap in examining common matters that are routinely considered at both electric and natural gas GRAs. Manitoba Hydro further contends that the topics common to both Manitoba Hydro and Centra include:

- strategic and enterprise planning;
- enterprise risk management;
- consolidated enterprise performance;
- benchmarks and targets;
- asset management and capital planning;
- forecasts of economic indicators and interest rates;
- debt management; and
- accounting policies and practices.

Moreover, Manitoba Hydro states that Operating & Administrative (O&A) Expense is another topic with many commonalities such as the budgeting process, corporate services functions, operational functions, shared administrative assets, and organizational structure.

As examples of commonality between Centra and Manitoba Hydro, Manitoba Hydro points out that Centra's O&A expenses are flow-through allocations of the larger consolidated Manitoba Hydro operations and that both Centra and Manitoba Hydro use the same asset management framework for both the electric and gas segments.

In support of its arguments for a combined electric and gas rate proceeding and process efficiencies, Manitoba Hydro included the following table, indicating it contains the cost of the last electric and natural gas GRAs.

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

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

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

Due to the relative size of Centra's operations compared to those of Manitoba Hydro's, Manitoba Hydro acknowledges that electric rate increases have taken priority over the

gas operations for several years. The Utility's proposal for a combined Centra-Manitoba Hydro rate application would therefore address the immediate financial needs of both Manitoba Hydro and Centra, afford the corporation more time in preparing a more comprehensive joint application than may otherwise be possible in separate applications, and help establish a routine GRA filing schedule for future combined applications. Moreover, Manitoba Hydro believes that to manage effectively the scope of a combined proceeding and to directly lower its regulatory costs, the majority of issues could effectively be addressed through written evidence and submissions, without the need to be addressed in an oral hearing.

Manitoba Hydro submits that it appreciates that a combined Centra-Manitoba Hydro rate application is a transformation and departure from past practice, which will require coordination and input from all stakeholders. As such, Manitoba Hydro states that its proposal is intended as a general framework and that the Board's regulatory oversight over the electric and natural gas segments will continue to be guided by the prevailing legislation applicable to each. Furthermore, Manitoba Hydro states that it anticipates that the scope of a combined process, especially for the first attempt, will be more involved than a separate electric GRA and a separate natural gas GRA. As such, Manitoba Hydro argues that a combined rate application will require an effective and efficient regulatory process to carefully coordinate and manage the overall scope and costs, focusing on matters that are most relevant and significant to the decisions to be made by the Board.

To manage the scope of a combined GRA, Centra and Manitoba Hydro propose that the majority of issues could be effectively addressed through written evidence and submissions without the need for an oral hearing. Centra and Manitoba Hydro would reserve an oral hearing for only the most contentious matters or those requiring cross examination.

In the event that the Board determines that Centra's and Manitoba Hydro's GRAs should not be combined, Manitoba Hydro indicates that Centra would plan to file a separate gas

GRA as soon as possible, given its ongoing resource constraints, after the upcoming electric GRA review process concludes.

4.0 Submissions from Past Interveners of Record from Recent Centra and Manitoba Hydro Rate Proceedings

On April 26, 2022, the Board sent a copy of Centra's and Manitoba Hydro's proposal for a combined GRA to Interveners of Record for prior Centra and Manitoba Hydro rate proceedings. As part of the letter, the Board invited written submissions from these Interveners of Record regarding the advantages and disadvantages of a combined GRA, the process to be followed should a combined GRA be approved, and any alternative approaches that would lead to more efficient separate GRA processes should the Board deny the request for a combined GRA.

The Board received submissions from the following parties.

- Assembly of Manitoba Chiefs;
- Consumers Coalition and Consumers' Association of Canada (Manitoba) [joint submission];
- Manitoba Industrial Power Users Group and Industrial Gas Users Group [joint submission]; and
- Manitoba Keewatinowi Okimakanak.

The following subsections summarize the submissions received from the above parties as well as Manitoba Hydro's reply.

Assembly of Manitoba Chiefs

The Assembly of Manitoba Chiefs is the political, advocacy, and technical coordinating body representing 62 of the 63 First Nations in Manitoba. The Assembly of Manitoba Chiefs has previously participated as an intervener in Manitoba Hydro's electricity rate proceedings before the Board.

On May 11, 2022, the Assembly of Manitoba Chiefs responded to the Board's letter of April 26, 2022 to indicate that it will not be making submissions on the issue of a combined Centra-Manitoba Hydro GRA. However, the Assembly of Manitoba Chiefs states that it still wants to be involved in Manitoba Hydro's future rate proceedings.

Consumers Coalition and Consumers' Association of Canada (Manitoba)

The Consumers Coalition has previously intervened in Manitoba Hydro's electricity rate proceedings before the Board. The Consumers Coalition is comprised of the Consumers' Association of Canada (Manitoba), the Aboriginal Council of Winnipeg, and Harvest Manitoba. Similarly, the Consumers' Association of Canada (Manitoba) ("CAC Manitoba"), on its own, has previously intervened in Centra's natural gas rate proceedings before the Board.

On May 10, 2022, the Consumers Coalition and CAC Manitoba filed a joint submission regarding Centra's and Manitoba Hydro's proposal for a combined electricity and natural gas GRA. Both the Consumers Coalition and CAC Manitoba recommend that the Board reject Manitoba Hydro's proposal for a combined GRA and instead direct that Manitoba Hydro file a separate electric GRA in the fall of 2022, and that Centra subsequently file a separate natural gas GRA in the winter/spring of 2023.

Both the Consumers Coalition and CAC Manitoba submit that cleaning up the backlog of outstanding Board directives and dealing with current and emerging issues through separate GRA processes is in the public interest and is the most effective course of action under the current circumstances.

In the view of the Consumers Coalition and CAC Manitoba, the effectiveness of regulatory outcomes for the protection of captive monopoly customers is the dominant consideration for the next Manitoba Hydro and Centra GRAs. This effectiveness of regulatory outcomes should therefore not be sacrificed for the marginal and uncertain regulatory efficiencies of a combined proceeding as proposed by Manitoba Hydro. Furthermore, while the efficiency and costs of regulatory proceedings have been, and will continue to be,

important considerations to the planning and execution of regulatory proceedings, these should be secondary to the consideration of regulatory effectiveness for customers. The Consumers Coalition and CAC Manitoba add that the Board has taken significant measures to improve the efficiency of the regulatory process in Manitoba in the last half-decade or more, resulting in significant improvements in regulatory hearing efficiency in Manitoba.

In terms of the regulatory costs cited by Manitoba Hydro, the Consumers Coalition and CAC Manitoba state that Manitoba Hydro's selection of the 2017/18 & 2018/19 Electric GRA and the 2019/20 Gas GRA proceedings as benchmarks for representative regulatory costs of separate GRA hearings is self-serving, flawed, and hypocritical. The Consumers Coalition and CAC Manitoba explain that the circumstances that led to the levels of costs in the referenced proceedings are a direct result of actions, or inaction, by both Manitoba Hydro and Centra. In their view, these costs are not representative of expected future hearing costs, assuming that the Utility participates in regulatory processes in a cooperative manner, which is deemed to be a prerequisite for any consideration of a combined GRA in the future.

There were two major drivers of the cost of the 2017/18 & 2018/19 Electric GRA proceeding: the approach taken by Manitoba Hydro to fundamentally change its financial plan and propose 7.9% annual rate increases for customers; and the Government Order In Council 92/2017, which assigned to the Board the review of Manitoba Hydro's capital expenditures, including its major capital projects. On the natural gas side, the cost of the 2019/20 GRA was attributable to Centra's failure to file a GRA for over six years.

The Consumers Coalition and CAC Manitoba, therefore, conclude that when regulatory costs are placed in the proper context and on a normalized annual basis, regulatory costs would be in the order of 0.3% of an electric customer's annual bill and 0.7% of a gas customer's annual bill. Moreover, the Consumers Coalition and CAC Manitoba argue that while Manitoba Hydro and Centra fixate on reducing the regulatory costs that make up a very small portion of customers' energy bills, their own performance on cost containment,

in these Interveners' words, has been abysmal. More importantly, in the view of the Consumers Coalition and CAC Manitoba, it is the cost-benefit of the Board's review process to customers that is the appropriate metric to be considered when assessing regulatory costs, and the reductions in rate requests that have resulted from the Board's decisions clearly have present values that are many multiples in excess of the associated regulatory costs.

The Consumers Coalition and CAC Manitoba also submit that there is significant risk that a combined GRA would be overly complex and unwieldy. Embarking on a combined GRA process under the current circumstances would result in a compromised review where many issues would be sacrificed for expediency.

With respect to natural gas operations, CAC Manitoba is concerned that the gas revenue requirements would also receive inadequate review given the size and dominance of the electric side of the Utility's business.

Given that Manitoba Hydro's enterprise planning processes are expected to be in a state of flux for quite some time, the Consumers Coalition and CAC Manitoba also conclude that it is premature to obtain many of the claimed benefits of a combined GRA in the fall of 2022. In the interim, the Consumers Coalition and CAC Manitoba submit that certain aspects of Manitoba Hydro's asset and debt management strategies, as well as common issues such as the Integrated Cost Allocation Methodology, economic indicators, and accounting policies, could efficiently be reviewed at a separate electric GRA in the fall of 2022, with the results of that review applied to a separate gas GRA in the winter or spring of 2023. However, the specific application of asset and debt management policies and practices to Centra's operations and finances should remain issues for the separate gas GRA.

The Consumers Coalition and CAC Manitoba further claim that Manitoba Hydro's and Centra's approach to Board regulation since 2017 has been uncooperative and litigious, has driven increased regulatory costs, has made excessive use of review and vary

applications, and has constantly forced the Board and Interveners into expedited regulatory processes, an approach that continues with the current review and vary request for an expedited decision regarding a combined electric and gas GRA.

Manitoba Industrial Power Users Group and Industrial Gas Users Group

The Manitoba Industrial Power Users Group has previously intervened in Manitoba Hydro's electricity rate proceedings before the Board. Similarly, the Industrial Gas Users Group has previously intervened in Centra's natural gas rate proceedings before the Board. Both the Manitoba Industrial Power Users Group and Industrial Gas Users are associations of larger industrial companies operating in Manitoba that are substantial users of electricity (represented by the Manitoba Industrial Power Users Group) and natural gas (represented by Industrial Gas Users).

On May 10, 2022, the Manitoba Industrial Power Users Group and Industrial Gas Users filed a joint submission regarding Centra's and Manitoba Hydro's proposal for a combined electricity and natural gas GRA. In instances where outstanding issues are fully resolved and the utility is compliant with the prior Board directives, both the Manitoba Industrial Power Users Group and Industrial Gas Users see potential benefits to the suggestions raised by Manitoba Hydro. However, the Manitoba Industrial Power Users Group and Industrial Gas Users submit that this is not presently the case, leading to concerns over how a combined process may overlook serious matters specific to both electric and natural gas rates, as well as rate-setting practices. Further, it is the view of both the Manitoba Industrial Power Users Group and Industrial Gas Users that the abbreviated notice period requested by Manitoba Hydro will not provide sufficient time or process to address the outstanding Board directives or engage in the necessary consultation with stakeholders that the Board envisioned in Orders 85/13 and 59/16, ultimately resulting in a complex and ineffective regulatory process, if combined.

The Manitoba Industrial Power Users Group and Industrial Gas Users contend that there is an immediate need to separately address electric- and natural gas-specific matters

without the distraction of a combined rate proceeding, most notably the need to complete a comprehensive review of Manitoba Hydro's long-term financial projections, and in the case of natural gas, the first implementation of potentially material changes to Centra's cost of service methodology. In addition, the Manitoba Industrial Power Users Group and Industrial Gas Users argue that the continued resistance and litigious posture displayed by both Manitoba Hydro and Centra must be reversed.

The Manitoba Industrial Power Users Group and Industrial Gas Users submit that it does not appear logical to propose an expedited process for a combined GRA based on unsubstantiated and potentially over-stated benefits using abbreviated processes that have not functioned to the satisfaction of the Board and Interveners in recent proceedings.

The Manitoba Industrial Power Users Group and Industrial Gas Users point out that Manitoba Hydro overstates the regulatory costs involved in separate electricity and gas proceedings by citing the most contentious proceedings on record, driven by Manitoba Hydro's own actions to propose a 7.9% rate increase and the excessive avoidance of a Centra GRA for a lengthy period.

The Manitoba Industrial Power Users Group and Industrial Gas Users, therefore, conclude that it is premature to initiate a combined rate process without first addressing the extensive backlog of outstanding directives and establishing a clear and agreed baseline for determination of whether current rates are fair and reasonable. As a result, the Manitoba Industrial Power Users Group and Industrial Gas Users recommend that separate electricity and natural gas rate hearings should focus on addressing long outstanding directives and issues, setting a solid baseline for the short- and long-term financial trajectories, and assisting the Utilities to move to a more cooperative, transparent, and timely approach to regulation. After these matters have been resolved, the Manitoba Industrial Power Users Group and Industrial Gas Users maintain that it then becomes possible to move towards a combined hearing as a positive evolution to future regulatory processes.

Manitoba Keewatinowi Okimakanak

Manitoba Keewatinowi Okimakanak represents the citizens of 26 First Nations in northern Manitoba and has previously participated as an intervener in Manitoba Hydro's electricity rate proceedings before the Board.

On May 10, 2022, Manitoba Keewatinowi Okimakanak responded to the Board's letter of April 26, 2022 to state its opposition to a combined electricity and natural gas GRA.

From Manitoba Keewatinowi Okimakanak's perspective, there are no advantages to a combined electricity and natural gas GRA as the northern citizens that it represents are not natural gas customers and therefore have no interest in natural gas regulation. However, Manitoba Keewatinowi Okimakanak submits that the disadvantage to a combined GRA would be that such a proceeding would be longer in duration in terms of sitting days and the hearing time for natural gas issues would not be of interest to Manitoba Keewatinowi Okimakanak. As such, Manitoba Keewatinowi Okimakanak's representatives would spend significantly more time on a combined GRA than they would on an electricity-only GRA.

In the event that a combined GRA is approved by the Board, Manitoba Keewatinowi Okimakanak recommends separating and compartmentalizing, to the extent possible, the electricity and natural gas regulation portions of the combined GRA so that parties without an interest in electricity or natural gas could participate only in the portion that they are interested in.

Manitoba Hydro's Reply to the Submissions of Prior Interveners

On May 24, 2022, Manitoba Hydro filed its reply to submissions received from the Consumers Coalition and CAC Manitoba, from the Manitoba Industrial Power Users Group and Industrial Gas Users, as well as from Manitoba Keewatinowi Okimakanak.

Manitoba Hydro submits that the challenges identified by the parties are overstated and will either be directly addressed in its combined electricity and natural gas application or can be overcome through collective and constructive efforts from all parties. Manitoba Hydro further submits that it intends to respond to all open directives at the upcoming GRA. Further, a combined GRA represents an opportunity, rather than an impediment, to review how new or emerging issues such as Strategy 2040, enterprise planning and risk management, and organizational restructuring are impacting both the electric and natural gas segments. This would provide all parties with a more holistic view of the integrated nature of the corporation and will necessarily improve the Board's understanding of the financial health of the integrated utility, resulting in a more effective rate review process.

As part of its reply submission, Manitoba Hydro clarifies that its combined GRA would be filed in two main phases. In the first phase, Manitoba Hydro's submissions would focus on the electric and natural gas revenue requirement items (expected to be filed by November 15, 2022 in accordance with Order 9/22 Directive 1) as well as the electric cost of service and rate results (expected to be filed in mid-December 2022). For the second phase of the combined GRA, Manitoba Hydro proposes to file its gas cost of service, rate design, and gas cost information after the Board issues an Order with respect to the first phase of its combined GRA. As a result, Manitoba Hydro contends that its proposed phased approach to a combined GRA would help contain the overall scope of the combined process and would also provide Centra sufficient time to implement any approved changes to its cost of service methodology, as well as to assess possible Centra rate design changes.

5.0 Board Requests for Additional Evidence

In Order 63/22, dated June 14, 2022, and following an initial review of the submissions received from the parties, the Board found that the evidence related to costs, including regulatory costs associated with prior Manitoba Hydro General Rate Applications and Centra General Rate Applications, as well as the timing of the proposed combined proceeding, was incomplete. The Board, therefore, directed Centra and Manitoba Hydro to provide additional evidence to the Board in the form of written responses to Board Information Requests. With Order 67/22, dated June 23, 2022, the Board approved an extension of time for Manitoba Hydro and Centra to provide their responses to the Information Requests by July 8, 2022.

Manitoba Hydro's Responses to the Order 63/22 Information Requests

On July 8, 2022, Manitoba Hydro filed its joint electric and gas responses to the Information Requests included in Order 63/22.

Regarding the matter of historical costs of prior Manitoba Hydro and Centra GRA proceedings, Manitoba Hydro provided the following cost information:

Historical Costs of Manitoba Hydro and Centra General Rate Applications¹

Electric Proceedings (in \$000s)	2014/15 Interim & 2015/16 GRA	2016/17 Interim	2017/18 Interim & 2018/19 GRA ¹	2019/20 GRA	2021/22 Interim ²
PUB Advisors	1,352	492	7,472	540	382
Internal Advisors	1,351	481	2,813	540	381
Independent Expert Consultants	0	0	4,659	0	0
Other	2	11	0	0	0
Intervener Costs (legal and consultants)	536	45	2,166	363	124
MH Internal Costs	2,764	307	5,165	796	384
Internal Labour (Straight Time)	2,279	283	4,156	631	364
Internal Labour (Overtime)	230	24	263	69	204
Professional & Consulting	255	0	746	96	0
Other (misc. hearing expenses)	270	5	345	46	54
TOTAL	4,922	849	15,148	1,745	944

Note 1) Also includes the costs of the Order 59/18 Review & Vary Application.

Note 2) Reflects the costs as of Mar 31/22 (e.g. ongoing Review & Vary of Order 9/22). Also includes the costs for the Coalition's Status Update Application.

Gas Proceedings (in \$000s)¹	2013/14 GRA	2019/20 GRA
PUB Advisors	405	1,252
Internal Advisors	381	1,252
Independent Expert Consultants	0	0
Other	24	0
Intervener Costs (legal and consultants)	258	713
MH Internal Costs	1,229	2,178
Internal Labour (Straight Time)	1,182	1,844
Internal Labour (Overtime)	44	119
Professional & Consulting	3	215
Other (misc hearing expenses)	106	259
TOTAL	1,998	4,402

Note 1) This data table was corrected for apparent double counting in the totals presented for Intervener costs and Grand Totals of historical gas proceeding costs.

¹ Source: PUB/MH I-1a) and d)

Manitoba Hydro also submitted that the incremental costs of major regulatory applications, such as those included in the preceding tables, are deferred in Manitoba Hydro's and Centra's Regulatory Costs deferral accounts and amortized in respective electricity and gas rates over the test years included in the Application. However, the straight-time labour costs of each of the above rate proceedings are recovered through the Operation and Administration component of Manitoba Hydro's and Centra's respective revenue requirements.

With respect to the schedule for the combined proceeding, Manitoba Hydro indicated that it would file the Centra second phase of the application, including gas cost of service, gas rate design, and gas cost information in April or May 2023, following the discovery process but in advance of the oral hearing of the Manitoba Hydro and Centra revenue requirement issues, and in advance of the Board's Order with respect to the first phase of its combined GRA. Manitoba Hydro and Centra plan to update the second phase filing after receiving the Board's Order with respect to the first phase. This timing also means the second phase update occurs after the second phase discovery process.

The Board asked Manitoba Hydro to provide information on other Canadian jurisdictions where gas and electricity utilities file joint rate applications with their regulator. According to Manitoba Hydro, FortisBC Inc. and FortisBC Energy Inc. filed with the BC Utilities Commission in 2019, a combined application related to the performance-based regulation framework for separate utility rate applications. Manitoba Hydro also identified a proceeding before the BC Utilities Commission involving BC Hydro and FortisBC Energy Inc., although this is not a rate proceeding but a process for evaluating load forecasts and resource needs of each utility through consideration of future energy use scenarios.

6.0 Board Findings

Having reviewed the current and emerging issues related to the setting of electricity rates and natural gas rates, together with the submissions and information from the parties, the Board finds that it is in the public interest to proceed with separate General Rate Application processes for Manitoba Hydro in the fall of 2022, and for Centra in the spring of 2023.

The Board finds that a combined hearing process is premature because there has not been adequate time to consider, plan, and address the issues for a combined hearing to commence in the fall of 2022.

As acknowledged by Manitoba Hydro, the scope of any combined rate setting process, especially for the first attempt, will be more involved than a single electric and natural gas GRA. This concern is amplified by recognizing the current and emerging issues that face both Centra and Manitoba Hydro – including the finalization of Centra's cost of service methodology, finalization of interim electricity rates when considering long-term financial forecasts for Manitoba Hydro, consideration of new enterprise planning initiatives, and addressing prior Board Directives for both utilities.

The Board finds that the benefits of a combined electric and natural gas proceeding suggested by Manitoba Hydro would realistically not be achieved in the proposed proceeding for the fall of 2022. Rather, proceeding in the fall of 2022 with a combined rate setting process would likely result in an inefficient process due to insufficient process planning and a large number of outstanding, or still uncertain, issues on both the electricity and natural gas segments of Manitoba Hydro's operations. Not only are there specific and separate issues for each of the natural gas and electricity utilities, the public's involvement in these hearing processes is through different interveners. The customers represented by some interveners have no access to natural gas and therefore have no interest in a combined hearing.

The Board finds that evidence filed by Manitoba Hydro provides only a single jurisdiction where separate utilities conduct a combined rate application hearing, and that hearing did not result in final rates for consumers. The examples put forward by Manitoba Hydro relate to either process matters or to the establishment of a multi-year framework for the setting of consumer rates, not the setting of final rates.

The Board is open to exploring new processes for the filing of evidence related to issues that are common to both Centra and Manitoba Hydro. This current application highlights that adequate time is needed to work through the details of any combined proceeding – even on common issues. The Board finds that in filing the upcoming Manitoba Hydro GRA, the Utility should identify any specific evidence that relates to common issues for both Manitoba Hydro and Centra. This evidence should be consistent between Manitoba Hydro and Centra when considering that same issue for Centra’s next GRA. With all such evidence being written or, if orally provided, transcribed, there may be the opportunity to import such evidence without it being repeated by Utility witnesses.

As to the Board’s finding that Manitoba Hydro’s and Centra’s request for a combined general rate hearing is premature, the Board notes that the Utilities indicate the Province’s new Energy Policy will be foundational in the future. According to the Utilities, the Energy Policy is required before the Integrated Resource Plan and the Integrated Financial Forecast can be finalized. Additionally, the Utilities may need to revise Strategy 2040 and the Enterprise Plan after release of the Energy Policy.

Looking forward, the Board finds that once the Provincial Energy Policy is released and interpreted by Manitoba Hydro, together with the Utilities’ Integrated Resource Plan and Integrated Financial Forecasts, a combined hearing on the issues common to both Manitoba Hydro and Centra may ultimately generate some efficiencies.

As identified by Manitoba Hydro and some of the intervening parties in this proceeding, submissions may be required in order to allow a more complete discussion of how the evolving energy landscape could affect the supply and demand of electricity and natural

gas in Manitoba. For example, if decarbonization of Manitoba's energy systems and increased electrification are central issues in a GRA, following the completion of the Energy Policy and Integrated Resource Plan, then it may be beneficial to consider a combined hearing to assess the effect on both electricity and natural gas customer segments.

Manitoba Hydro and Centra provided a proposed timetable for a combined GRA proceeding. Based on the timetable, as laid out by Manitoba Hydro and Centra, the Board sees the proposed combined GRA as two sequential processes. In addition, the Board finds the indicative timetable Manitoba Hydro provided unsatisfactory as it appears compressed and may result in long-awaited or more complex issues either undergoing limited reviews or being deferred to yet another regulatory process. In order to meet this compressed timetable, Manitoba Hydro clarified that it would file the second phase prior to the oral hearing in the first phase. The Board finds that this would result in additional and duplicative effort as Centra would be required to update its second phase filing, potentially including refiling information request responses, with the direction provided by the Board's first phase Order.

The Board finds that the costs of Manitoba Hydro's 2017/18 & 2018/19 GRA and Centra's 2019/20 GRA are not representative of, and overstate, regulatory costs for typical separate electric and natural gas rate-setting hearings. The cited electric proceeding was unique in that Manitoba Hydro sought consecutive 7.9% annual rate increases, which was a departure from prior approved rate trajectory plans. This change in plan raised stakeholders' concerns resulting in a higher level of interest and engagement by Interveners and the production of additional expert evidence and analysis. In addition, the costs of this proceeding were higher than a regular rate proceeding because the Provincial Government assigned responsibility to the Board to review Manitoba Hydro's capital expenditures, including for the multi-billion dollar Keeyask Generating Station and Bipole III Transmission Line. Both factors added substantial costs to the Manitoba Hydro 2017/18 & 2018/19 GRA proceeding. In the case of the major capital project review, the evidence filed with the Board revealed significant areas in which Manitoba Hydro could

further manage its capital expenditures and contributed to improved and effective cost containment efforts for the \$8.7 billion Keeyask Generating Station construction project. Board Order 59/18 summarized this evidence and these recommendations.

Additionally, the cited Centra proceeding was the first in approximately six years requiring many issues that arose in the years since the 2013/14 GRA to be addressed. This infrequent regulatory review supports Manitoba Hydro's and Interveners' submissions that there is a need to establish a routine GRA filing schedule for both Manitoba Hydro and Centra. While there may be common issues relating to electricity rates and natural gas rates, each utility also faces unique issues and circumstances, many of which are anticipated to remain in a state of flux for the foreseeable future for reasons stated above.

The historical GRA cost information filed by Manitoba Hydro includes all of Manitoba Hydro's internal costs as well as the PUB and intervener costs. The total cost for electric rate applications, including interim rate applications, from 2015 to 2022 was \$23.6 million, an average cost of \$2.95 million per year. If the expenses attributed to the one-time major capital review at the 2017/18 & 2018/19 GRA are excluded, the average cost of a typical electric general rate application would be significantly lower than the above-noted average cost. The total cost for natural gas general rate applications from 2013 to 2022 was \$6.4 million, an average cost of \$640,000 per year. Those numbers are inclusive of PUB advisor costs, intervener costs, as well as Manitoba Hydro internal costs and miscellaneous hearing costs.

In addition, on the topic of costs, the Board notes that the total external costs of any Manitoba Hydro and Centra proceeding before this Board are amortized over the test years included in the application and, therefore, may not be representative of regulatory costs paid by ratepayers in any one year. According to Interveners, when regulatory costs are considered in context and on a normalized annual basis, those costs are in the order of 0.3% of an electric customer's annual bill and 0.7% of a natural gas customer's annual bill.

Regulatory costs are an expected operating cost for a monopoly utility. They are required to set just and reasonable rates for service in the absence of competition. While an unregulated utility operating in a competitive marketplace would not face such costs, an unregulated utility faces higher marketing and other costs required to acquire and retain market share. As such, regulatory costs may be seen as a proxy for customer acquisition and retention costs in the marketplace.

The Utility's internal labour costs are already included in the operating expenses of the Utility and do not form separate regulatory costs.

That said, and as noted by Interveners, the Board has sought and continues to seek ways to continually improve its processes and performance in order to minimize regulatory costs and maximize value for ratepayers. The Board utilizes transparent, evidence-based processes to not only protect captive ratepayers within a monopoly franchise area but also to ensure that utilities remain financially viable by setting just and reasonable rates. In some cases, this evidence is obtained from industry experts who bring additional insight and experience from within Manitoba or from other jurisdictions. This evidence can provide a clearer context and understanding of the issues and positions advanced by Manitoba Hydro and intervening parties.

In its submission, Manitoba Hydro agrees with the Board's previous finding in Order 69/19 of the importance of a regular regulatory schedule:

The Board notes the unusual nature of this proceeding and, while due to the ongoing review and planning process by the new MHEB, emphasizes the importance of a regular regulatory schedule and complete regulatory filings. While it will not be a directive of this Board in this Order, regular review and consideration of ratemaking principles should be part of routine utility planning, especially when the majority of a utility's revenues come from consumer rates set by the regulator.

However, the Board finds that a combined Manitoba Hydro and Centra GRA does not accomplish this objective any more than would sequential hearings, since the resulting rate changes are expected to be effective under similar timelines whether it is a combined proceeding or not. Despite all parties facing constrained resources or time limitations, ratepayers deserve regular rate reviews to ensure that rates remain just and reasonable. The Board therefore expects all parties to collaborate in establishing a regular schedule for regulatory proceedings in order to meet the legislated requirements of detailed and effective reviews of utility rate matters that affect utility customers in Manitoba, while at the same time minimizing regulatory costs.

Centra and Manitoba Hydro also made suggestions that the conduct of the combined GRA should primarily be by way of written evidence and submissions without the need for an oral hearing on most matters. The Board finds that it is premature to determine how the upcoming GRAs will be conducted. The Board will consider Centra's and Manitoba Hydro's submissions on these matters at the procedural stage of the GRAs when the Board will approve interventions and the scope of the hearing.

In summary, the Board finds that granting Manitoba Hydro's Review and Vary requests to allow for a combined Manitoba Hydro and Centra General Rate Application to be filed in the fall of 2022 is premature and that the prior Board decisions should not be reviewed or varied at this time.

Therefore, pursuant to Rule 36 of the Board's Rules of Practice and Procedure, the Board denies both Manitoba Hydro's request to review and vary Order 85/13 to permit consideration of a combined rate application being advanced in less than the 12-month notice period specified in Order 85/13, as well as Manitoba Hydro's request to set aside Directive 26 of Order 85/13 requiring the complete filing of applications.

7.0 IT IS THEREFORE ORDERED THAT:

1. Manitoba Hydro's Application to Review and Vary Order 85/13 to permit consideration of a combined rate application being advanced in less than the 12-month notice period specified in Order 85/13 **BE AND IS HEREBY DENIED.**
2. Manitoba Hydro's Application to set aside Directive 26 of Order 85/13 **BE AND IS HEREBY DENIED.**

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

"Robert Gabor, Q.C."

Chair

"Rachel McMillin, B.Sc."

Associate Secretary

Certified a true copy of Order No. 95/22
issued by The Public Utilities Board



Associate Secretary