

**CENTRA GAS MANITOBA INC.
2013/14 GENERAL RATE APPLICATION**

VOLUME I

SUMMARY & REASONS FOR APPLICATION

1		INDEX	
2	2.0	Overview of Tab 2	1
3	2.1	Background	1
4	2.2	Cost of Gas Changes	3
5	2.3	Summary of Financial Position	3
6	2.4	Reasons for Application	5
7			

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VOLUME I

SUMMARY & REASONS FOR APPLICATION

1 **2.0 Overview of Tab 2**

2 The purpose of Tab 2 is to provide an overview of the projected revenue requirement for
3 the 2013/14 Test Year, as well as the reasons for the requested rate increase. Section
4 2.1 provides a background on Centra's last change to non-gas and non-Primary Gas
5 costs and rates, Section 2.2 discusses the cost of gas changes requested in this
6 Application, Section 2.3 provides a summary of Centra's current financial position and
7 projections for the 2013/14 Test Year, and Section 2.4 provides a summary of the
8 reasons for Centra's Application.

9

10 **2.1 Background**

11 Centra last requested a general revenue increase in the context of the 2009/10 &
12 2010/11 General Rate Application ("GRA") filed on January 20, 2009. The Public Utilities
13 Board ("PUB") issued Order 128/09 on September 16, 2009, which did not approve any
14 general revenue increase for fiscal 2009/10, and directed Centra to adjust base and
15 billed rates on May 1, 2010 for the Small General Service ("SGS") and Large General
16 Service ("LGS") classes by way of an increase to the level of the Basic Monthly Charge
17 ("BMC"). In that Order, the PUB further directed that rates for the higher volume
18 customer classes (High Volume Firm, Mainline, Interruptible, Power Station and Special
19 Contract customer classes) be adjusted on May 1, 2010 in accordance with the results
20 of Centra's previously approved Cost Allocation Study and Rate Design methodology.
21 The rate adjustments resulted in a general revenue increase of approximately 0.8% for

1 fiscal year 2010/11.

2

3 Centra filed its 2010/11 Cost of Gas Application with the PUB on December 18, 2009,
4 seeking approval of changes to non-Primary Gas rates effective May 1, 2010. That
5 Application reflected the changes to non-gas costs approved in Order 128/09 flowing
6 from the 2009/10 & 2010/11 GRA. On May 3, 2010, the PUB issued Order 46/10, which
7 approved non-Primary Gas rates on an interim basis, and the non-gas component of
8 rates on a final basis, effective May 1, 2010.

9

10 Centra did not apply for a general revenue increase for fiscal year 2011/12 as the
11 Integrated Financial Forecast for Gas Operations ("CGM10") projected that revenues
12 generated by Centra's rates would provide sufficient net income such that an increase in
13 the non-gas component of the rates was not required.

14

15 Centra did apply for a change in non-Primary Gas rates on January 21, 2011 in its
16 2011/12 Cost of Gas Application, and received interim approval of new rates effective
17 May 1, 2011 in Order 66/11. On April 13, 2012, Centra filed an Application with the PUB
18 requesting approval, on an interim ex-parte basis, of Transportation (to Centra) and
19 Distribution (to customers) rates reflecting the removal of existing non-Primary Gas rate
20 riders approved in Order 66/11 and set to expire on April 30, 2012. The PUB issued
21 Order 54/12 on April 27, 2012 approving that Application.

22

1 **2.2 Cost of Gas Changes**

2 In this Application, Centra is requesting a change in non-Primary Gas costs, to be
3 implemented on August 1, 2013, based on a Cost of Gas forecast which will be filed as
4 part of Volume II of the Application. The non-Primary Gas rate changes will include the
5 introduction of new rate riders to dispose of the final balances of the non-Primary Gas
6 PGVA accounts and other gas cost deferral accounts as at October 31, 2012, including
7 estimated carrying costs to July 31, 2013.

8
9 As part of the Integrated Financial Forecast process of calculating the 2013/14 revenue
10 requirement, Centra used a forecast of the Cost of Gas sold, discussed in Tab 5 of this
11 Application, that was developed in July 2012. This Cost of Gas forecast includes costs
12 for Primary Gas, Supplemental Gas, Transportation (to Centra), and the Unaccounted
13 for Gas component of Distribution (to Customers).

14

15 **2.3 Summary of Financial Position**

16 Centra incurred a net loss of \$6 million for the fiscal year ended March 31, 2012. The
17 loss was largely attributable to a decrease in natural gas consumption and the
18 corresponding reduction in gross margin caused by the milder winter weather
19 experienced during 2011/12. As a result of the loss, Centra's retained earnings were
20 reduced to \$34 million at March 31, 2012.

21
22 Centra notes that for the six month period ended September 30, 2012, it incurred a net
23 loss of \$25 million which is expected to be recovered during the winter months. The
24 Quarterly Report of the Manitoba Hydro-Electric Board for the 6 months ended

1 September 30, 2012 is provided in Appendix 5.5 of Tab 5 and includes segmented
2 information with respect to natural gas operations. Centra is projecting a net income of
3 \$2 million for 2012/13 and retained earnings of \$36 million at March 31, 2013.

4

5 Table 1 below compares the actual and forecast revenues, expenses and net income of
6 Centra for the six fiscal years ended March 31, 2009 to March 31, 2014. The revenue
7 and cost of gas presented for 2012/13 and 2013/14 in Table 1 are based on the 2012
8 natural gas volume and customer forecast that underpins the Integrated Financial
9 Forecast for Gas Operations (CGM12) with a cost of gas strip date of July 2, 2012.
10 CGM12 was prepared assuming a May 1, 2013 implementation date for the 2.0% rate
11 increase, resulting in a net income value of \$6 million in 2013/14. Centra is requesting
12 that the PUB approve a modest 2.0% general rate increase effective August 1, 2013.
13 Given the change in the implementation date of the rate increase, Table 1 has been
14 adjusted to reflect the revised forecast net income of \$5 million.

Table 1 - Net Income - Centra Gas

(in millions of \$)	Actual				Forecast	
	2009	2010	2011	2012	2013	2014
General Consumers Revenue						
- at approved rates	\$ 578	\$ 452	\$ 403	\$ 328	\$ 319	\$ 312
Cost of Gas Sold	431	316	261	197	176	168
<i>Gross Margin</i>	<i>147</i>	<i>136</i>	<i>142</i>	<i>131</i>	<i>143</i>	<i>144</i>
Other Revenue	2	2	1	1	2	2
	149	138	143	132	145	146
Expenses						
Operating & Administrative	60	61	61	62	67	69
Finance Expense	20	19	18	19	18	17
Depreciation & Amortization	25	24	25	26	28	30
Capital & Other Taxes	23	23	20	19	18	19
Corporate Allocation	12	12	12	12	12	12
	140	139	136	138	143	147
Net Income (loss) before proposed rate increases	\$ 9	\$ (1)	\$ 7	\$ (6)	\$ 2	\$ (1)
Proposed rate increases	n/a	n/a	n/a	n/a	-	6
Net Income (loss) after proposed rate increases	9	(1)	7	(6)	2	5
Retained Earnings before proposed rate increases	34	33	40	34	36	35
1 Retained Earnings after proposed rate increases	34	33	40	34	36	41

2

3 2.4 Reasons for Application

4 In the absence of the proposed general revenue increase of 2.0% effective August 1,
 5 2013, Centra is projected to experience a loss of \$1 million in 2013/14 which would
 6 reduce its retained earnings to \$35 million at March 31, 2014.

7

8 Centra has made modest requests for general revenue increases over the past four
 9 fiscal years. Centra's last GRA in 2009 resulted in a general revenue increase of
 10 approximately 0.8% in 2010/11 and Centra did not request a general revenue increase
 11 in 2011/12 and 2012/13. There are a number of factors that contribute to an increased
 12 revenue requirement since the last general revenue increase in 2010/11 including

1 increased investment in property plant and equipment, continuing conservation
2 measures by customers which serve to reduce sales volumes and revenues, as well as
3 normal cost escalation and accounting changes that reduce the amount of overhead
4 capitalized and increase expense.

5

6 Centra is forecasting that approximately \$77 million of its rate-regulated accounts will be
7 written-off to retained earnings in 2014/15 as a result of the implementation of
8 International Financial Reporting Standards ("IFRS"). The majority of the write-off relates
9 to Gas Power Smart program costs, which are currently deferred and amortized under
10 Canadian Generally Accepted Accounting Principles but are expected to be expensed
11 as incurred under IFRS. As a result of this write-off, Centra is projecting a retained
12 earnings deficit of \$27 million at the end of 2014/15.

13

14 In this Application, Centra is requesting that the PUB approve a modest 2.0% general
15 revenue increase effective August 1, 2013 to coincide with the August Primary Gas rate
16 filing. Considering the increased cost pressure noted above and the potential magnitude
17 of the retained earnings write-off associated with the implementation of IFRS in 2014/15,
18 the proposed rate increase is required to ensure that there are no further reductions to
19 retained earnings in 2014/15 and if approved, would allow Centra to achieve a projected
20 net income of \$5 million in 2013/14 and retained earnings of \$41 million by March 31,
21 2014.

22

23 The proposed general revenue increase, combined with the indicative general revenue
24 increases over the period of CGM12, should be sufficient to gradually reduce the

1 projected retained earnings deficit over a five year period to 2019/20 and return to a
2 small surplus position of \$13 million by the end of the 10 year forecast period in 2021/22.

3

4 Centra proposes this general revenue increase in order to maintain an adequate
5 financial structure, promote long-term rate stability for gas customers by reducing the
6 potential for higher rate increases in the future and balance the need for financial
7 integrity of the Corporation with customer sensitivity to rate increases.

8

9 **Organization of Filing**

10 Centra's GRA consists of two volumes:

11

12 **Volume I**

13 Tab 1 of Volume I provides the Letter of Application and Tab 2 provides the Summary
14 and Reasons for Application. Tab 4 provides more information regarding Centra's
15 current Integrated Financial Forecast (CGM12). Tab 5 provides more detailed
16 information with respect to Centra's revenues, expenses and net income for the 2008/09
17 to 2013/14 period. The remaining tabs in Volume I of the Application provide additional
18 supporting material, including discussions of Centra's profile, franchise areas, the
19 Corporate Strategic Plan, organizational structure and management control processes
20 (Tab 3), capital expenditures (Tab 6), and demand side management (Tab 7).

21

22 **Volume II**

23 Volume II of this Application will include materials on Centra's customer and volume
24 forecast, rate base & rate of return, gas supply & costs, cost allocation, proposed rates

1 and customer impacts, Fixed Rate Primary Gas Service, proposed changes to the
2 Terms & Conditions of Service, and responses to a number of PUB directives.

3

4 Consistent with past practice Centra has prepared its GRA with emphasis on the Cost of
5 Service approach, with Rate Base/Rate of Return information provided for comparison.

6 This approach has been endorsed by the PUB in the past, and appropriately reflects

7 Centra's current rate-making approach. Accordingly, Centra's proposed Revenue

8 Requirement for 2013/14 is based on a Cost of Service methodology, the details of

9 which are provided in Tab 5 of this Application. The Rate Base/Rate of Return

10 calculations will be provided in Volume II of this Application.

11

12