

MANITOBA) Order No. 14/01
)
THE PUBLIC UTILITIES BOARD ACT) January 24, 2001

BEFORE: G. D. Forrest, Chairman
M. Girouard, Member
M. Santos, Member

**PROCEDURAL ORDER FOR A PUBLIC HEARING
REGARDING THE APPLICATION OF CENTRA GAS
MANITOBA INC. FOR APPROVAL OF THE 2001/02
DISTRIBUTION RATES**

The Public Utilities Board of Manitoba (the "Board") held a Pre-Hearing Conference ("PHC") at its offices in Winnipeg, Manitoba on Tuesday, January 16, 2001 at 10:00 a.m. to consider applications for intervenor status, the scope of the hearing and a timetable for the orderly exchange of information leading to the public hearing of the application of Centra Gas Manitoba Inc. ("Centra") for approval of changes to distribution rates (the "Application").

This PHC also dealt with matters related to an application by Centra for supplemental gas and transportation

(to Centra) rates. The procedural matters related to this application will be dealt with in a separate Order.

A Notice of Public Hearing and PHC dated January 4, 2001, was issued by the Board and filed at the PHC as PUB Exhibit #1. This Notice was published by Centra in daily and weekly newspapers and served on interested parties of past record.

Centra was represented by Mr. V. Warden, Vice-President of Finance, Manitoba Hydro, Ms. C. E. Wray, Division Manager, Business Analysis and Regulatory Affairs, Manitoba Hydro, Mr. D. Rainkie, Manager of Regulatory Affairs for Centra Gas, Ms. P. Ramage and Ms. M. Murphy, both Counsel.

APPLICATIONS FOR INTERVENOR STATUS

Parties wishing to obtain intervenor status were requested to address their respective applications in detail providing the reasons for requesting intervenor status, the areas of the Application they wished to examine and their intention with respect to intervenor costs.

The following applications for Intervenor status were considered at the Pre-Hearing Conference:

1. Municipal Gas represented by Ms. Karen Melnychuk and its Counsel, Mr. David Brown (present for part of the PHC by TeleConference

only) (Intervenor Request Form submitted and received on January 9, 2001).

As set out in its application Municipal Gas indicated that it was interested in all issues relating to the Application, that they intend to appear throughout the hearing, to participate in the production and testing of evidence and to present final argument. Municipal was not certain if it would call any witnesses and it will not be applying for costs.

2. Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS) represented by its Counsel, Mr. Brian Meronek and Mr. Kris Saxberg (Intervenor Request Form submitted and received on January 15, 2001).

As set out in its application CAC/MSOS indicated that it was interested in full intervention on all issues of the Application, that they intend to appear throughout the hearing, to participate in the production and testing of evidence and to present final argument. CAC/MSOS will be calling witnesses and will be applying for costs. Notice of such witnesses will be provided at a later date.

3. Communications, Energy and Paperworkers Union of Canada, Local 681 (CEPU) represented by Mr. J. Hayden and Mr. S. Boyd. (Intervenor Request Form submitted and received on January 16, 2001).

As set out in its application CEPU, Local 681 indicated that it was interested in the proceedings to gather information and in testing the evidence all to ensure the level of customer service is maintained. They further wished to assist the Board. CEPU indicated that they intend to appear throughout the hearing and to present final argument. CEPU will not be applying for costs.

4. Griffin Canada Inc. (Griffin) was unable to attend the PHC but did submit a letter signed by Mr. D. W. Weland asking for registration for intervenor status. (Intervenor Request Form submitted and received on January 17, 2001).

As set out in its application Griffin indicated that it was interested in matters relating to cost increases, increase in expense under merger with Manitoba Hydro and the basis for service interruptions. Griffin intends to appear throughout the hearing, participate in the production and testing of evidence and to

present final argument. Griffin will not be applying for costs.

5. Gerdau MRM Steel Inc. (Gerdau) was unable to attend the PHC but did submit a letter signed by Mr. Ross Gridley asking for registration as an intervenor (Intervenor Request Form submitted and received on January 16, 2001).

As set out in its application Gerdau indicated that it was interested in the matter of distribution rates, overall revenue increase as a result of changes in ownership and the report on the value of the interruptible class. Gerdau's level of participation is to be determined at a later date.

6. McCain Foods (Canada) was unable to attend the PHC but did submit a letter signed by Mr. Allan Walker asking for registration as an intervenor (Intervenor Request Form to be submitted).

The application of McCain Foods detailing the nature of its intervention was not received at this time.

7. The Manitoba Industrial Power Users Group (MIPUG) represented by Mr. J. Osler of InterGroup Consultants. (Intervenor request

form submitted and received on January 15, 2001).

As set out in its application MIPUG indicated that it wished to participate in the review of the status of various directives from the Board, including issues resulting from Centra's change of ownership. MIPUG intends to appear throughout the hearing and participate in the testing of evidence. It was unknown at the time if they intend to call witnesses. MIPUG indicated that they would be applying for costs.

8. The City of Winnipeg and Winnipeg Hydro (the City) represented by Mr. Bob Bamburak and its Counsel, Mr. Doug Buhr (Intervenor Request form submitted at the PHC).

As set out in its application the City of Winnipeg/Winnipeg Hydro indicated that it is interested in issues directly relative to them and in particular those dealing with cost allocation. The City intends to appear throughout the hearing, participate in the testing of evidence and the presentation of final argument. At the time of the PHC the City did not intend on calling a witness. The City will not be applying for costs.

9. Provincial Council of Women (PCW) represented by Ms. Elizabeth Fleming (Intervenor Request Form submitted and received on January 18, 2001).

As set out in its application the PCW indicated that it was interested in issues similar as the City of Winnipeg/Winnipeg Hydro and MIPUG related to the change in ownership of Centra and more specifically issues related to cost allocation, intercompany transactions and business development issues. PCW indicated that they intend to appear throughout the hearing and present final argument. They do not intend to call a witness or apply for costs.

10. Manitobans Concerned About High Energy Prices Coalition (Concerned Citizens) represented by Mr. Costas Nicolaou (Intervenor Request Form to be submitted). Mr. Nicolaou indicated that he was in the process of organizing the coalition.

Concerned Citizens indicated that it was interested in change of ownership issues and its impact on the financial affairs of Centra. Concerned Citizens intend to appear throughout the hearing, participate in the production and testing of evidence and to present final

argument. Concerned Citizens will be applying for costs.

Intervenor Request Forms received to date were forwarded to Centra.

BOARD FINDINGS

The Board considered these applications for intervenor status and is prepared to approve such requests noting intervenors have a substantial interest in the outcome of the proceeding. However, the Board will defer its decision on granting intervenor status to Manitobans Concerned About High Energy Prices Coalition until it is in receipt of relevant information concerning its membership, terms of reference, and a completed Intervenor Request Form. This information is required by the Board within thirty days of this Order.

In so doing, the Board encourages those parties with common interest to co-ordinate, to achieve regulatory efficiencies, minimize costs and to avoid duplication. The Board encourages the City, MIPUG, PCW and CAC/MSOS to co-ordinate, or perhaps even combine their information requests on the issues of common interests such as integration and cost and savings allocation issues between Centra and Manitoba Hydro. Similarly, Griffin Canada, McCain Foods and Gerdau may have similar interests which may warrant a collaborative approach. The Board encourages these intervenors to meet to determine if such is the case.

Further, those parties providing evidence are requested to advise the Board of their intentions at the earliest opportunity and certainly in compliance with the timetable attached.

In considering the applications for intervenor status Centra requested that the Board require those intervenors applying for costs to provide a budget for the cost of their intervention for the Board's consideration pursuant to Rule 43 of the Board's Draft Rules of Practice and Procedure.

In the past the Board, pursuant to Rule 3(2) has varied Rule 43 in its practice. In doing so, the Board has noted that the intervenor accepts all the risks related to an award of costs and thereby must conduct itself prudently or risk the disallowance of part or all of its costs. In the Board's opinion there is no need to deviate from this practice at this time. However, should an intervenor wish to file its budget, the Board will accept same for its consideration.

ADEQUACY OF FILING

The Board noted the list of the scope of the items to be discussed at this hearing as outlined by Board Counsel at the Pre-hearing Conference:

- rate base/capital expenditures
- return on equity
- overall financing costs

- revenue requirement
- income and other taxes
- staffing and labour issues
- bad debt expenses
- information technology issues, including Enlogix contract
- integration issues
- cost allocation between Centra and Manitoba Hydro
- synergies
- compliance with Board Order 146/99
- rural expansion and franchise expansions
- operating and maintenance costs
- system integrity
- other income and other expenses
- terms and conditions of service
- interim tariff for brokers for ABC service.

At the Pre-Hearing Conference, CAC/MSOS stated the filing of Centra was inadequate to permit an appropriate regulatory review, citing a number of deficiencies, and noted that the Application as filed, reflected a different form of regulation. CAC/MSOS further questioned whether the Application was in compliance with statutory requirements. Since the legislation mandates a certain method of regulation, namely rate base, rate of return, and absent legislative amendment, the existing method of regulation still prevails. Accordingly, additional information need be filed. Centra's application was in breach of legislation because it was not in accordance with the legislated methodology of regulation.

Others agreed with the position of CAC/MSOS that the filing was inadequate.

Centra stated its filing would satisfy statutory requirements and the Board would be able to discharge its statutory duties. Centra stated its filing is not based on a rate base rate of return methodology since that was no longer relevant to its goals. As a Crown Corporation it is no longer seeking a full rate of return, as times have changed. Due to the integration of Centra and Manitoba Hydro, the budgeting process and the new format of information supplied by Manitoba Hydro's accounting system, much of the detailed information that was provided by Centra in past General Rate Applications is simply not available nor meaningful any longer. To require a rate base rate of return filing would require Centra to prepare a second set of accounting records solely for regulatory purposes - which Centra considered to be inefficient and costly. According to Centra, to satisfy its statutory mandate that rates are just and reasonable, the Board could use the same information and criteria used by senior management and Board of Directors when requesting approval of these rates and to test the accuracy of that information and underlying assumptions.

BOARD FINDINGS

The Board is concerned that the information in the current Application does not permit the Board to discharge its statutory obligations under sections 127(1) and 61 of The Public Utilities Board Act. To remedy this deficiency through

the Information Request process would be a cumbersome, inefficient process that would entail much longer time periods than currently envisioned, lead to substantial duplication of Information Requests, and be cost-ineffective. Furthermore, the responsibility and onus rests with Centra to create an adequate filing that is in compliance with the legislation. That responsibility does not rest with the intervenors or the Board.

In this regard, the Board would like to reiterate part of Order 146/99:

"The Board finds that the proposed transaction does not impact on any of the Board's current jurisdiction over Hydro or over Centra. Simply put, the transaction is to facilitate a sharing of common services and functions between the two utilities, with costs being properly allocated. The transaction will not change any existing statutory requirements which include:

- a) Centra being regulated on a rate base, rate of return basis; ...
- d) Hydro and Centra remaining separate entities for the purposes of regulation;
- e) All existing Board Orders, directives, requirements and practices continuing to apply to Centra unless and until Hydro obtains Board approval to vary them."

Accordingly, the Board will require Centra to submit Additional Minimum Filing Information to fully satisfy the statutory requirements that Centra is regulated on a rate base rate of return methodology. Since that regulatory methodology is included in the legislation, only the legislature may change the regulatory methodology. If and until that occurs, Centra, the Board and Intervenors are bound by the rate base rate of return methodology. Therefore, any filing by Centra must conform to the legislation, as must the Board's decision on that filing.

The list of Additional Minimum Filing Requirements attached as Schedule "A" represents what is outstanding from the filing for a rate base rate of return application and what is required by the Board in accordance with the legislation. The Board will order that these Additional Minimum Filing Requirements be filed with the Board and Intervenors by March 1, 2001. Though not comprehensive, this should assist all parties in determining the appropriate scope of the hearing.

TIMETABLE

To permit Centra to comply with these Additional Minimum Filing Requirements, the timetable originally considered at the Pre-Hearing Conference has been modified. The new timetable is attached as Schedule "B".

IT IS THEREFORE ORDERED THAT:

1. The Additional Minimum Filing Requirements attached as Schedule "A" be filed by Centra with the Board and registered intervenors no later than March 1, 2001.
2. Intervenor status be awarded to:
 - a) Municipal Gas;
 - b) Consumers' Association of Canada (Manitoba)/Manitoba Society of Seniors Inc.;
 - c) Communication, Energy & Paperworkers' Union, Local 681;
 - d) Griffin Canada Inc.;
 - e) Gerdau MRM Steel Inc.;
 - f) McCain Foods (Canada) subject to a satisfactory filing of intervenor request material;
 - g) City of Winnipeg/Winnipeg Hydro;
 - h) Manitoba Industrial Power Users' Group;
 - i) Provincial Council of Women

3. The timetable attached as Schedule "B" shall be the timetable for the orderly exchange of information by all participating parties.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order
No. 14/01 issued by The Public
Utilities Board

Acting

Secretary

SCHEDULE "A"

Centra Gas Manitoba Inc. 2001/2002 Distribution Rates Application Additional Minimum Filing Information Requirements

I. Rate Base

- a) Request for approval of specific rate base amount
- b) Continuity schedule of accumulated depreciation for each year from 1998-2002
- c) Continuity schedules on all plant categories for each year from 1998-2002
- d) Categorization of capital projects based on Board approved criteria: Essential, Justifiable, Necessary
- e) In-service dates for each capital project undertaken and forecast from 1998-2002
- f) Detailed descriptions of all major capital projects together with a breakdown of their costs and associated business cases, economic analyses and cost/benefit analyses
- g) Construction Work-In-Progress continuity schedule for each project for each year 1998-2002 that separately shows overhead allocations, interest capitalization and additions to rate base
- h) Discussion and calculation of overheads capitalized together with the amounts and percentages for each year 1998-2002
- i) Discussion and analysis of cash working capital for each year 1998-2002
- j) Analysis of all inventories for each year 1998-2002
- k) True-ups for rural expansion projects, cost, and rate impacts
- l) Feasibility studies for main extension in excess of 500 metres
- m) Status of special contracts (ie. IPL and Ste. Agathe)
- n) New expansion plans (rural, new franchises, pipelines to Selkirk and Brandon Generation Stations)

- o) System integrity - prior years expenditures. Planned expenditures and assessment of plant safety

II. Rate of Return on Rate Base

- a) Request for approval of specific rate of return
- b) Schedule of embedded cost of debt for each year 1998-2002 and analysis of year over year changes
- c) Schedule of new debt issues, rates, terms etc. for each year 1998-2002, including all matters related to acquisition debt
- d) Calculations of achieved returns on equity for each year 1998-2002

III. Revenue Requirement

- a) Request for approval of specific revenue requirement amount
- b) Detailed tax calculations

IV. Operations and Maintenance Costs

- a) Detailed analysis of Centra's cost of operations by function for 1998-2002 (details for each line item in Table 5.4.1 in 2001/02 filing)
- b) Discussion of Key Performance Indicators for operations
- c) Total salaries and wages including benefits, by function
- d) Number of employees in total and by department/function for each year 1998 -2002
- e) Analysis of changes in number and nature of positions and vacancies for each year 1998-2002
- f) Analysis of professional fees and contract labour for each year 1998-2002
- g) Analysis of pension costs for each year 1998-2002

V. Information Technology

- a) Information Technology strategic plan

- b) I/T Report on all I/T issues and developments since 1998, including DFIS, Enlogix, SCADA SAP, decommissioning the mainframe, etc., including a continuity schedule
- c) Full discussion of the Enlogix project, including its current status, future plans, the capital and operating costs incurred, the in-service date, detailed description of the use made of the project.

VI. Business Development

- a) Updates on all rural expansion projects, including expenditures, sign-ups, deliveries and comparisons to applications for these projects
- b) Corporate strategy related to business development and marketing of natural gas distribution system (areas of business that Centra intends to grow)
- c) Corporate strategy on competitive issues relating to natural gas vs. electricity

VII. Acquisition of Centra by Manitoba Hydro and Integration Issues

- a) Requirements in accordance with Order 146/99
- b) Full discussion and breakdown of amounts of *acquisition costs* together with a description of accounting treatment
- c) Full discussion and breakdown of amounts for activities and costs related to the integration together with a description of the accounting treatment for all the associated costs, including inter-company allocations and charges, together with filing service agreements
- d) Cost allocation methodology between utilities, including cost drivers
- e) Detailed schedules of synergistic savings, including descriptions as to how synergies were quantified, and comparison with those outlined at the acquisition hearing
- f) Copies of reports from any studies to determine the appropriate cost drivers and allocation method
- g) Complete schedule of shared costs allocated for each year 1998-2002, including list of shared services
- h) Status integration reports July 31, 2000

VIII. Non-Gas Deferral Accounts

- a) Continuity schedule for each non-gas deferral account for each year 1998-2002
- b) Interest rate associated with each non-gas deferral account for each year 1998-2002

IX. Other

- a) Report on Western Transportation Service progress
- b) Organization chart of positions within Centra
- c) Cost per customer as key indicator
- d) Treatment of transmission costs in rural expansion areas
- e) Key performance indicators

X. Board Directives

- a) Comprehensive report on each directive

SCHEDULE "B"

**CENTRA GAS MANITOBA INC.
2001/2002 Distribution Rates Application
TIMETABLE**

<u>ITEM</u>	<u>DATE (all dates 2001)</u>
1. Centra to File Application	January 4
2. Centra to Publish Notice	
· Dailies	January 8
· Weeklies	Week of January 8
3. Municipal Gas to file Application	January 8
4. Centra to publish Notice	
· Dailies	February 12
· Weeklies	Week of February 12
5. Centra to file Additional Minimum Filing Information	March 1
6. Intervenors to file First Round Information Requests to Centra	March 15
7. Centra to file responses to First Round Information Requests	April 5
8. Intervenors to file Second Round Information Requests to Centra	April 19
9. Centra to file responses to Second Round Information Requests	May 3
10. All parties to be in receipt of Intervenor Evidence	May 10
11. All parties to file Information Requests of Intervenor Evidence	May 15
12. Intervenors to file responses to Information Requests	May 18
13. Centra to file Rebuttal Evidence	May 23
14. Hearing	May 29 (commencement date and continuing as necessary)