

MANITOBA) Order No. 65/04
)
THE PUBLIC UTILITIES BOARD ACT) April 22, 2004

BEFORE: Graham F. J. Lane, C.A., Chairman
Monica Girouard, C.G.A., Member
Mario J. Santos, LLB, Member

**ORDER FOR A PUBLIC HEARING PROCESS REGARDING
THE APPLICATION BY CENTRA GAS MANITOBA INC.
IN RESPECT OF APPROVAL OF RATES FOR
SUPPLEMENTAL GAS, TRANSPORTATION (TO CENTRA)
AND DISTRIBUTION (TO CUSTOMERS) TO BE
EFFECTIVE NOVEMBER 1, 2004**

The Public Utilities Board of Manitoba (the "Board") held a Pre-Hearing Conference ("PHC") at its offices in Winnipeg, Manitoba on Wednesday, April 7, 2004. The PHC considered applications for intervenor status and a timetable for the orderly exchange of information related to the upcoming public hearing to deal with an application (the "Application") of Centra Gas Manitoba Inc. ("Centra") scheduled to commence September 8, 2004. The Application is in respect of approval of rates for Supplemental Gas, Transportation (to Centra) and Distribution (to customers) to be effective November 1, 2004.

Present at the PHC were representatives from Centra and applicants for intervenor status, represented in person or by other communication. Organizations seeking intervenor status were Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS), Direct Energy (Direct), Simplot Canada Limited (Simplot) and MacDon Industries Ltd. (MacDon)

The interests and views of MacDon and Simplot were available to those present at the PHC only in written form, as both parties were unable to attend.

At the PHC, the following documents were filed:

- a) Exhibit #1, Public Notice dated March 17, 2004;
- b) Exhibit #2, a draft timetable dated March 24, 2004; and
- c) Exhibit #3, a proposed alternate timetable prepared and filed by CAC/MSOS.

Centra provided an Affidavit confirming that Exhibit #1 was served on:

- a) all franchise granting municipalities;
- b) all registered brokers of natural gas;
- c) all registered intervenors to Centra's last General Rate Application hearing;
- d) Special Contract customers; and
- e) all Interruptible, Mainline and High Volume Firm (HVF) customers.

Also considered was whether "A Review of Centra Gas: Supply, Storage and Transportation Portfolio", commonly referred

to as the Blank Page Analysis (BPA), included in Tab 4 of Centra's Application, would be reviewed during this proceeding.

In addition, the Board sought a response from intervenor applicants:

- a) as to their intentions with respect to the planned discussion of demand charge issues related to the HVF class of customers, pursuant to Order No. 45/04 dated March 25, 2004; and
- b) their initial views with respect to two issues the Board raised at the PHC (PUB's regulatory approach to Centra, and the natural gas competitive landscape in Manitoba).

Scope of the Cost of Gas Hearing

A. Supply, Storage and Transportation Portfolio Review

Background

Centra's Supply, Storage and Transportation Portfolio include Centra's arrangements for:

- a) natural gas supplies obtained from Western Canada and the United States;
- b) storage arrangements in Michigan, U.S.A; and
- c) natural gas supply related transportation arrangements from Western Canada and the U.S.A. to Manitoba.

Centra's cost of gas component of its revenue requirement is considerable, and has been the subject of previous hearings.

In Section 8.5.2 of Board Order No. 118/03, the Board observed that Centra had commissioned International Gas Consulting (IGC) to perform the BPA ordered by the Board in 1995. Centra received IGC's report in May of 2003. IGC is an international consulting engineering firm, with an extensive Canadian client list. IGC represents its expertise to include underground storage, energy industry due diligence, management and economic consulting, reservoir engineering and simulation, pipeline compression and optimization, LNG consulting and EOR gas storage. IGC Utilities and Greater Winnipeg Gas, predecessor companies to Centra, are listed as former clients of IGC.

Centra filed the IGC report along with its response thereon. Centra concurred with many of the recommendations in the IGC report, but stated that "it would be prudent to explore other options, including the possibilities of further opportunities to work more closely with TCPL..." Centra recommended that the public review of the BPA be conducted in conjunction with the annual Cost of Gas review, then anticipated to be held in the spring of 2004.

In the current Application, Centra stated that:

- a) its supply contracts were to expire on October 31, 2004;
- b) the TCPL transportation contracts were to expire on October 31, 2004; and
- c) Centra's storage and related transportation contracts were to continue until 2011.

Centra opined that as IGC had concluded that Centra's existing gas supply portfolio had served its customers well and at reasonable cost, there was no urgency to pursue portfolio changes at this time since there continued to be surplus TCPL capacity. Centra advised that it would continue to monitor market developments closely, and observed that it was not requesting any approvals from the Board related to the BPA at this time. Nonetheless, Centra indicated that the BPA should be discussed within these proceedings, though suggesting that the review be contained within "reasonable and responsible parameters."

Centra committed to apprise the Board upon forming intentions to act with respect to decisions related to the BPA. Centra advised that it would not make any long-term commitments with suppliers or transporters related to or arising out of the BPA prior to placing its plans before the Board.

CAC/MSOS provided its view that the significant costs related to portfolio arrangements provided significant merit to reviewing the BPA in depth, at this time. CAC/MSOS noted that as it may take years to reorganize supply contracts, it would be best if Centra's future portfolio actions plans would be informed by this proceeding. MSOS/CAC finds retroactive reviews to be unacceptable. Accordingly, CAC/MSOS recommended that a comprehensive review of the BPA be conducted within these proceedings.

Direct submitted that the BPA raises significant policy issues germane to the matters before the Board, and that its major issue for these proceedings would be Centra's primary gas supply. Direct observed that issues of flexibility and diversity of gas supply arrangements are policy considerations with implications for system supply and reliability, and these issues directly affected Centra's ability to accommodate direct purchase transactions. Direct joined CAC/MSOS in urging the Board to address the BPA fully in these proceedings.

Board Comments and Findings

All parties present at the PHC were agreeable to a review of the BPA at this time, the issue remaining being the extent of the review in advance of Centra forming definitive conclusions with respect to the BPA.

The Board concludes that the BPA should be reviewed at the upcoming hearing. Centra's supply, storage and transportation arrangements represent substantial costs and risks for ratepayers. A timely review of the BPA within this proceeding, taking into account that Centra has neither reached definite long term conclusions nor made long term commitments, may assist in Centra's ongoing consideration of the issues.

In coming to a decision with respect to the issue of the extent of review to be conducted into the BPA, the Board notes that:

- a) Centra represents its current positions with respect to supply, storage and transportation arrangements to be in the best interest of ratepayers;
- b) In the BPA, IGC opined that Centra's gas supply portfolio has served Centra's customers reliably and at a reasonable cost for a decade;
- c) ICG's expertise in the field of gas portfolio issues may assist Centra in reaching conclusions conducive to the interests of ratepayers;

- d) The costs associated with the BPA represents a significant expenditure; and
- e) Centra has committed not to implement changes to its current approach related to its portfolio without prior notification to the Board, such notification to provide an opportunity for a further review, potentially at a subsequent Board hearing.

The Board values the input of intervenors, but questions the value of coming to definitive conclusions with respect to longer term portfolio arrangements until such time that Centra has formulated more specific plans. While there is merit in allowing for a reasonable examination of the BPA in these proceedings, the Board prefers to defer the possible utilization of other expert, non-IGC, witnesses until Centra's specific longer term plans are known.

Accordingly, the Board will expect a serious but general review of the BPA by all interested parties during these proceedings, through information requests and cross-examination.

The Board expects Centra to abide by its commitment to return to the Board with its conclusions prior to entering into any longer term commitments related to the BPA.

The Board will carefully consider and evaluate the results of these proceedings with respect to the BPA, including the evidence that will arise through the information request, cross-examination and submissions in final argument, and may determine at the conclusion of these proceedings that a separate

hearing on the BPA is required prior to Centra reaching definitive conclusions thereto.

At such a subsequent hearing, the Board may look more favourably on the prospects of a more comprehensive review of the BPA, including the potential for testimony from an expert other than IGC.

In the Board's perspective, this approach is reasonable, and expects no party's interests will be compromised. Once Centra has come to definitive views with respect to the longer term issues raised within the BPA, and has so advised the Board, the Board may reconsider its position.

With respect to the BPA, another concern of the Board relates to the potential for matters of confidentiality to arise with respect to Centra's negotiating position vis a vis its suppliers and vendors during discussions related to the BPA. The Board will remain vigilant with respect to this possibility, and, if necessary, hear matters it deems to be confidential relative to the public interest in closed session.

B. High Volume Firm (HVF) Rates

The Public Notice identified Centra's intention in its application to include approval to implement the billing of demand related costs for High Volume Firm customers using actual peak day rather than average peak month demand.

Centra advised the Board that it is compiling additional information including a determination of forecast individual customer cost impacts for the period November 1, 2003 to February 29, 2004, and intends to review these impacts with the HVF customers prior to the hearing. Centra suggests that time should be set aside at the hearing for a review of this matter.

CAC/MSOS and Direct Energy advised they do not anticipate participating in the review of this matter.

Board Comments and Findings

This issue is of significance for customers in the HVF classification. The Board accepts Centra's undertaking to contact HVF customers, to advise them of the forecast impact on their gas costs and that the matter is before the Board. The Board expects such contact to be made in sufficient time to allow HVF customers to participate in the proceeding should they so choose.

The Board will set aside a specific time during the proceeding for a review of this matter.

Applications for Intervenor Status

Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors

CAC/MSOS indicated it seeks full intervenor status on all issues pertaining to Centra's Application and during the

Pre-Hearing Conference identified more specifically the following issues:

1. Capacity management transactions;
2. Derivative hedging program and related customer surveys;
3. TCPL tolls impact;
4. Expenditure forecasts;
5. Unaccounted for gas;
6. Feasibility Study criteria.

CAC/MSOS intend to appear throughout the hearing, test the evidence and make final argument. CAC/MSOS was unsure if it would call a witness, but if it did, the witness would be related to the BPA.

CAC/MSOS will be applying for costs but advised its budget could only be prepared once the scope of the proceeding had been determined by the Board.

Centra did not object to the granting of intervenor status to CAC/MSOS. However, Centra would like the opportunity to comment on CAC/MSOS's proposed budget.

Direct Energy

The Board notes that the major issue for Direct Energy is Centra's natural gas supply, and anticipates that their intervention will be focused in this direction.

Direct intends to intervene with respect to the BPA, and would monitor other aspects of Centra's Application. Direct will not file evidence or apply for costs.

Centra had no objection to the granting of intervenor status to Direct Energy.

Simplot Canada Limited (Simplot)

Simplot was not present at the PHC but did file the Intervenor Request Form with the Board on April 6, 2004 (via e-mail). Simplot reserved the right to be heard on all aspects related to its interests and to address evidence on specific matters before the Board.

Simplot intends to appear throughout the hearing, participate in the testing of evidence and would present final argument. Simplot plans to call a witness on the issue of unaccounted for gas. Simplot indicated an interest in applying for costs and its budget was to follow.

Centra did not object to Simplot's application for intervenor status but objected to its interest in a cost award, opining that Simplot does not meet the financial needs requirements as set out in the Board's draft Rules of Practice and Procedure.

MacDon Industries Ltd. (MacDon)

MacDon filed its Intervenor Request Form with the Board by e-mail on April 6, 2004. This Intervenor Request Form was circulated to Centra on April 7, 2004 and reviewed at the PHC. MacDon was not present at the PHC.

MacDon intends to appear throughout the hearing, to participate in the testing of evidence and to present final argument. It was unclear as MacDon's intentions with respect to calling a witness or producing evidence.

MacDon intends to address the rates and rate setting methodology for HVF customers, of which it is a member. MacDon will not be applying for costs.

Centra suggested that MacDon could be a presenter rather than an intervenor.

Board Comment and Findings

The Board will grant intervenor status to CAC/MSOS, Direct, Simplot and MacDon.

With respect to CAC/MSOS the granting of intervenor status is subject to CAC/MSOS filing a detailed budget. The Board will provide Centra an opportunity to comment on this budget, and may provide its own views.

With respect to Simplot, the Board notes Centra's objection to a cost award.

Concerning MacDon, the Board believes that MacDon's intention is to assume an active role in the Board's consideration of the rates for the HVF classification, and that intervenor status is best suited for this purpose.

On matters of regulatory costs in general and intervenors costs specifically, the Board noted that its Order No. 43/04 - a procedural Order dealing with a Manitoba Hydro GRA had attracted the attention of intervenors. Intervenor applicants are referred to this Order, for information on the Board's perspective on the issue of cost awards and other matters. The criteria for an award of costs are set out in the Board's draft Rules of Practice and Procedure and were summarized for the parties by Board Counsel in his opening remarks at the PHC.

All parties to these proceedings should be prudent in their actions. The purpose of intervention is to assist the Board in meeting its mandate. Regulatory efficiencies are enhanced through focused proceedings, and the parties co-operating with others. Where necessary, intervenors should engage legal, consulting and other expertise at reasonable rates and managing these resources effectively.

Having made a decision with respect to the scope of the hearing and the BPA issue, the Board will develop first

round information requests with respect to BPA matters and will file same with Centra and the intervenors in as timely a fashion as possible.

Intervenors with an interest in the BPA and planning to prepare information requests with respect thereto may wish to consult with Board staff and advisors and/or defer preparing information requests on the BPA until following receipt of the Board's information requests.

Timetable

A draft timetable was circulated for discussion at the PHC. The timetable is to facilitate the exchange of information leading up to the public hearing to be held commencing on September 8, 2004.

Because the scope for these proceedings with respect to the BPA had not been determined by the Board prior to the PHC, and because Counsel for CAC/MSOS would not be available in the early stages of the hearing process, CAC/MSOS expressed difficulty committing to a timetable that required a filing of first round information requests on April 16, 2004. Consequently, an amended timetable was filed for consideration.

The Board considered all positions with respect to the timetable and approved an amended timetable, attached as Schedule "A".

Future Agenda

The Board requested the preliminary views of Centra and the intervenors with respect to two other matters not set out in Centra's Application, potentially for a future hearing.

One is the question of the competitive landscape, the rules and rights, the parties within it, and the implications for the public interest. As well, the Board may revisit the appropriateness of regulation based on rate base and allowable rate of return, as we are dealing with non-taxable Crown corporation with integrated energy operations in both electricity and gas, now filing rate applications based on differing methodologies.

There appeared to be a consensus that a separate proceeding for the consideration of these issues would be preferred. Centra indicated a preference to address these additional issues in a separate forum, and indicated that some additional expert evidence may be required. CAC/MSOS indicated an opportunity to participate in such a forum, as did Direct.

Parties were invited to consider these other matters further, and asked to provide a more considered opinion of these matters to the Board at their convenience. The Board advised that unless agreed to otherwise in advance, the Board is able to receive information in confidence, material submitted to the Board could be shared with the parties to a hearing.

Intervenors, particularly if seeking cost awards, may consult with Board staff for information, guidance and/or suggestions.

SCHEDULE "A"

TIMETABLE
2004/2005 COST OF GAS HEARING

<u>ITEM</u>	<u>DATE</u>
Pre-Hearing Conference	April 7, 2004
Receipt of 1 st Round Information	May 10, 2004
File Responses to 1 st Round Information Requests	May 31, 2004
Receipt of 2 nd Round Information	June 14, 2004
File Responses to 2 nd Round Information Requests	July 5, 2004
All Parties to be in Receipt of Intervenor Evidence	July 30, 2004
All Parties to File Information Requests of Intervenor Evidence	August 8, 2004
Intervenors to File Responses to Information Requests	August 15, 2004
Cost of Gas Update	August 10, 2004
Public Reminder Notice	August 21 - 27, 2004
File Rebuttal Evidence	August 30, 2004
Hearing Commences	September 8, 2004

Note: All dates are by no later than dates.