CENTRA GAS MANITOBA INC.
2015/16 COST OF GAS APPLICATION

FINAL ARGUMENT

INDEX

1.0 Introduction 3
1.1. Centra's Mandate 3
1.2. Approvals sought in 2015/16 Application 4
2.0 Centra has a reliable, cost effective portfolio of assets to ensure security of supply and to provide diversity to manage risk on behalf of customers 5
2.1. Centra's Western Canadian Gas Supply Contract 5
2.2. Key gas portfolio activities 7
2.3. Challenges in serving the Manitoba Market 8
2.4. Portfolio & operational strategies 11
3.0 Centra's portfolio for the 2013/14 Gas Year was reliable and cost effective for customers 13
3.1. Centra made the appropriate considerations heading into the 2013/14 Winter 13
3.2. Centra was prepared for the 2013/14 Gas Year 13
3.3. The winter of 2013/14 was extraordinary and unprecedented 14
3.4. Centra successfully managed through the extraordinary winter of 2013/14 Gas Year .. 16
4.0 Gas Cost Deferral Balances & 2015/16 Forecast Gas Costs 18
4.1. Gas Cost Deferral Account Balances 18
4.2. 2015/16 Gas Costs Forecast 19
5.0 Recovery of Forecast Gas Costs for 2015/16 and Deferral Account Balances in Rates 20
5.1. Customer Bill Impacts for 2015/16 Cost of Gas Application 20
5.2. Combined Customer Bill Impacts for the 2015/16 Cost of Gas Application and November 1, 2015 Primary Gas Rate Application 23
5.3. Comparisons with other Jurisdictions 24
5.4. Centra effectively smoothes bill impacts for customers 25
6.0 Using Retained Earnings (Net income) to Offset Purchase Gas Costs is Inappropriate 27
7.0 CAC's recommendation for Centra to file a 2015/16 General Rate Application ("GRA") 34

8.0 Onus of proof 36
8.1. What is the appropriate test for determining reasonably incurred costs? 36
9.0 Response to Mark Stauft's evidence 41
9.1. Centra's Gas Supply staff are in the best position to design and execute the natural gas supply, transportation and storage asset portfolio used to serve Manitobans 41
9.2. Mr. Stauft's analyses are simplified and not intended to be an accurate representation of Centra's portfolio 42
9.3. Mr. Stauft does not acknowledge the significant operational limitations within which Centra operates 43
[redacted] [redacted] 44
[redacted] [redacted] 45
[redacted] Mr. Stauft's prospective analysis (Attachment 1) would result in structurally higher total gas portfolio costs for ratepayers, year in and year out, [redacted] 47
9.7. Mr. Stauft's conclusions are unfounded and without merit 48
10.0 CAC's position in Final Argument is based on perfect 20/20 hindsight 50
10.1. Centra's actions were timely and reasonable in all of the circumstances prior to and during the 2013/14 winter 50
10.2. CAC's argument is highly dependent upon the use of hindsight 52
10.3. Stauft's analyses are unrealistic and overstate savings and CAC's alternatives significantly add to annual gas costs 53
10.4. CAC's recommendation for a disallowance of any amount is entirely inappropriate in these circumstances 55
11.0 Conclusion 57

CENTRA GAS MANITOBA INC.
2015/16 COST OF GAS APPLICATION

FINAL ARGUMENT

1.0 INTRODUCTION

1.1. Centra's Mandate

Centra's mandate is to acquire, manage and distribute supplies of natural gas to serve Manitobans in a safe, reliable, cost effective and environmentally appropriate manner.

In his direct evidence found at page 57 of the transcript, Mr. Rainkie, Acting President and Chief Executive Officer, explained that "Centra takes all aspects of its mandate seriously, and by necessity needs to balance all of the objectives…..to provide value to customers."[1] As demonstrated by the complete evidentiary record of this proceeding and extensively canvassed throughout the oral hearing, Centra continues to successfully fulfill its mandate to Manitobans by providing:

- a reliable, cost-effective portfolio of assets to ensure security of supply, and to provide diversity to manage risks;

- very experienced gas supply procurement staff that have skillfully maintained reliable operations to serve the Manitoba market under extreme conditions. Centra's gas supply professionals have successfully designed a gas supply portfolio and executed operational strategies to meet the diverse challenges of the Manitoba market, and deliver on Centra's mandate every single day of each year; and

- Natural gas rates in Manitoba are based on a reasonable, flexible, consistent, and well established regulatory framework, which benefits Centra's customers. This

[1] 2015/16 COG Proceeding, Transcript page 57, lines 5-8.

framework is a proven approach that appropriately balances risk between Centra and its customers, and ensures rate stability and the lowest cost to customers over the long run. It has worked well for Manitoba natural gas ratepayers for decades, and has demonstrated the flexibility to appropriately deal with circumstances such as the extreme North American wide weather of 2013/14 in order to smooth rate impacts for customers.

1.2. Approvals sought in 2015/16 Application

Centra filed its 2015/16 Cost of Gas Application ("Application") on May 25 and June 12, 2015. As outlined in the Letter of Application filed as Tab 1 of Centra's Application and summarized by Centra's witness panel during the direct evidence presentation given on September 28, 2015, Centra is requesting the following approvals as part of this proceeding:

- Approval of Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates, effective November 1, 2015.

- Approval of the recovery through rate riders effective November 1, 2015 of a net outlook balance in the prior period non-Primary Gas deferral accounts of $36.1 million.

- Approval of the continuation of the current temporary rate rider treatment for Interruptible customers that migrate to Firm Service and customers that migrate to or from Transportation Service ("T-Service") on or after May 1, 2014.

- Final approval of Transportation (to Centra) and Distribution (to Customers) sales rates effective August 1, 2013, reflecting the implementation of new non-Primary Gas Rate Riders on August 1, 2013, which were approved on an interim basis in Order 89/13.

- Final approval of Transportation (to Centra) and Distribution (to Customers) sales rates effective August 1, 2014, reflecting the removal of non-Primary Gas rate riders expiring on July 31, 2014, which were approved on an interim basis in Order 85/14.

- Final approval of the Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates, reflecting the implementation of new non-Primary Gas Rate Riders on November 1, 2014, which were approved on an interim basis in Order 123/14.

- Final approval of Distribution (to Customers) Sales rates, reflecting the implementation of new non-Primary Gas Rate Riders on February 1, 2015, which were approved on an interim basis in Order 12/15.

- Final approval of actual gas costs from November 1, 2012 to October 31, 2013 of $205.6 million.

- Final approval of actual gas costs from November 1, 2013 to October 31, 2014 of $343.5 million.

- Final approval of Primary Gas Sales Rates and Franchise Application interim ex-parte orders as found in Appendix 7.1 of Tab 7.

- Final approval of any other interim Orders issued by the PUB prior to the conclusion of the public review process for this Application.

2.0 CENTRA HAS A RELIABLE, COST EFFECTIVE PORTFOLIO OF ASSETS TO ENSURE SECURITY OF SUPPLY AND TO PROVIDE DIVERSITY TO MANAGE RISK ON BEHALF OF CUSTOMERS

2.1. Centra's Western Canadian Gas Supply Contract

Centra purchases the majority of its Primary Gas at the AECO hub and at the Alberta border ("Empress") under a two-year gas supply contract with ConocoPhillips Canada Marketing and Trading ULC ("ConocoPhillips") for the period from November 1, 2014 to October 31, 2016. This contract was executed following a comprehensive Request for Proposal (RFP) process conducted during the February-April period of 2014. Under the previous two-year contract, Centra purchased its Primary Gas exclusively at Empress. [redacted]

[redacted]

[redacted]

The market experienced extremely challenging and constrained operating conditions at Empress during the 2013/14 winter, including sold-out firm transportation capacity to Empress, curtailments, and the freezing of shipper nominations. As a result of this experience, potential suppliers expressed concern to Centra in relation to:

[redacted]

[redacted]

[redacted]

[redacted]

Despite the extremely challenging conditions experienced by the market at Empress in the winter of 2013/14 and the corresponding adjustments that were required to Centra's Western Canadian supply contracting approach, Centra was able to execute a new two-year supply contract with favourable terms for Centra's ratepayers with ConocoPhillips.

[redacted]

2.2. Key gas portfolio activities

Centra's mandate is to acquire, manage and distribute supplies of natural gas to serve Manitobans in a safe, reliable, cost effective and environmentally appropriate manner. As part of the direct testimony of Ms. Stewart, and as outlined in Tab 3 of the Application, all of the activities within the Gas Supply Division at Centra are designed around this mandate to provide natural gas service to Manitobans, colloquially referred to as "serving the load".

The key gas portfolio activities Centra undertakes to ensure the provision of natural gas service to its customers include: a long-term approach to portfolio planning; contract negotiation and execution; daily, monthly and seasonal supply planning and operations; operating within contractual limitations; portfolio optimization (i.e., the Capacity Management Program), regulatory monitoring and intervention; and compliance (authorizations and reporting).

In pursuing these key portfolio activities, Centra appropriately takes a long-term perspective in order to cost effectively serve its market over a wide range of diverse conditions. Decisions by Centra are made on the basis of both analysis and the judgment that comes with years of experience, and in accordance with Centra's mandate of securing a reliable and cost-effective supply of natural gas for Manitobans.

2.3. Challenges in serving the Manitoba Market

The planning and operation of Centra's portfolio of gas supply, transportation and storage assets is dictated by the nature and characteristics of the end-use market that it serves. The characteristics of the Manitoba natural gas market, along with the geographic location of the Province, make it an inherently challenging market to serve.

Centra's customer base in Manitoba is largely comprised of residential and small commercial customers. These customers utilize natural gas predominantly to satisfy their space heating requirements. This large seasonal heating requirement is heavily influenced by the prevailing weather.

Manitoba has some of the most extreme and volatile weather in North America. In Ms. Stewart's testimony,[2] she described the weather in Manitoba as both extreme and variable, and more volatile than the weather in any of the other major markets served by TransCanada Pipelines Ltd. ("TCPL"). She explains, "*Manitoba has the highest degree of seasonal variation in heating requirements due to seasonal weather patterns. We also experience the greatest uncertainty in terms of weather, both on an annual as well as a daily basis.*"[3]

The figures below demonstrate the extreme volatility experienced in Manitoba.

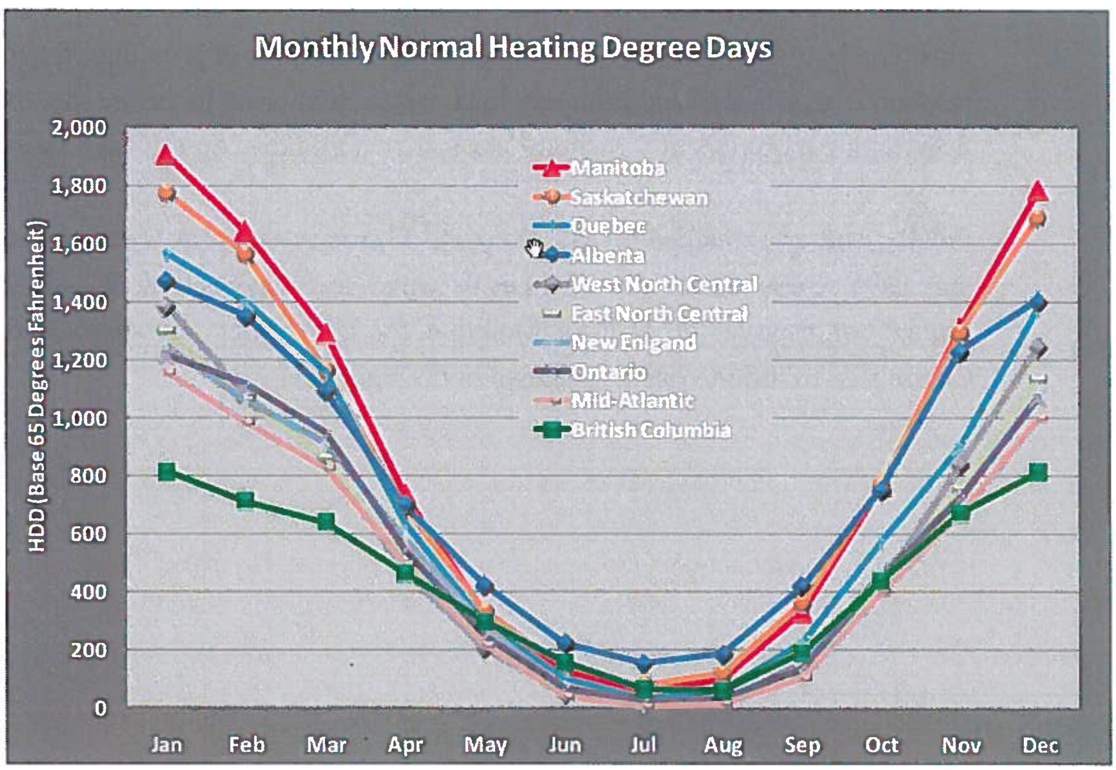
[2] 2015/16 COG Proceeding, Transcript page 68, lines 9-25 and page 69, lines 1-14.
[3] 2015/16 COG Proceeding, Transcript page 68, lines 18-22.

Figure 1

Annual Heating Degree Days

	Normal Weather	Warmest Year	Coldest Year	Absolute Range	Relative Range
Manitoba	10,378	9,332	12,301	2,969	29%
Alberta	9,423	8,568	11,146	2,578	27%
Saskatchewan	10,003	9,633	12,370	2,737	27%
British Columbia	5,339	4,846	5,724	878	16%
Ontario	6,582	6,087	7,742	1,655	25%
Quebec	8,338	6,824	8,803	1,979	24%
New England	6,611	5,742	6,967	1,225	19%
Mid-Atlantic	5,911	4,923	6,276	1,353	23%
East North Central	6,497	5,317	7,004	1,687	26%
West North Central	6,750	5,725	7,431	1,706	25%

Figure 2



An example of the wide seasonal range of weather that Centra can experience is evidenced by the contrast of the winter of 2011/12 (Centra's warmest winter on record) and, then two years later, the winter of 2013/14 (Centra's third coldest winter on record). Even more challenging is the significant day-to-day variability in the weather in Manitoba. Ms. Stewart noted in her testimony a recent actual experience of responding to significant weather variability. On May 16, 2015, customers consumed 50,000 GJ while the very next day, on May 17, 2015, customer consumption increased nearly three-fold to 140,000 GJ.[4]

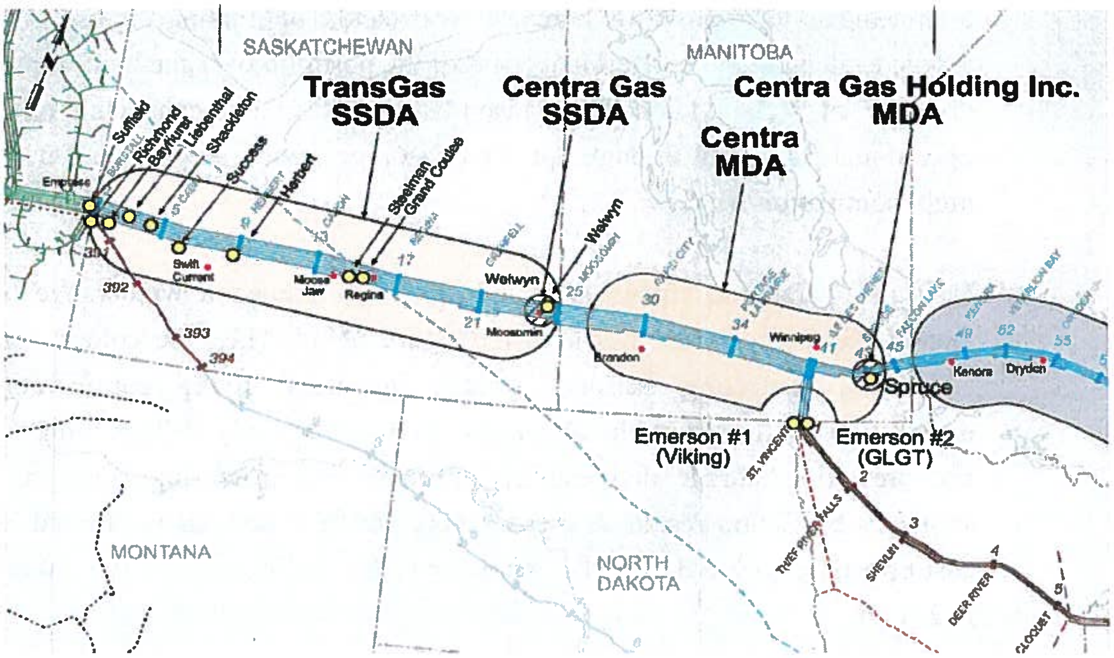
The high variability in local weather and the sensitivity of Centra's natural gas load to changes in temperature create significant challenges for the planning, forecasting, operation and optimization of a natural gas supply, transportation and storage portfolio. Due to this variability, not all of Centra's supply, transportation and storage portfolio can be utilized at a high load factor.

A major consideration in planning and operating Centra's natural gas supply, transportation and storage assets is the obligation to serve all of Centra's firm sales customers (both system-supplied and marketer-supplied customers) on the coldest day that could be experienced in a winter heating season. As such, Centra's arrangements must combine both reliability and operational flexibility in providing for the ability to respond to day-to-day and intra-day load variation in order to ensure that the Manitoba firm market requirement for natural gas is met at all times on each and every day.

Finally, and as explained by Ms. Stewart,[5] Centra is different from other utilities that may have access to multiple pipelines by which to bring gas to their market. Centra is limited, or captive, to TCPL's Mainline for all natural gas supplies delivered to Centra's distribution system as shown in the figure below.

[4] 2015/16 COG Proceeding, Transcript page 97, lines 16-21.
[5] 2015/16 COG Proceeding, Transcript page 111.

Figure 3



Centra's gas supply planning and operations are significantly influenced and affected by the current and future business environment of the Mainline, including being subjected to the market power of TCPL's unlimited pricing discretion with respect to Short Term Firm Transportation ("STFT") and Interruptible Transportation ("IT") pricing. These factors, combined with the fact that Centra does not have access to local storage, presents additional challenges for Centra in meeting its mandate to serve.

The design, operation and optimization of Centra's gas supply portfolio successfully addresses the challenges inherent in serving the Manitoba load, as demonstrated in Centra's written evidence and discussed extensively throughout the hearing. Despite the extreme and variable weather and market conditions that are unique to Manitoba, Centra's track-record of fulfilling its mandate to reliably serve Manitobans with natural gas is impeccable.

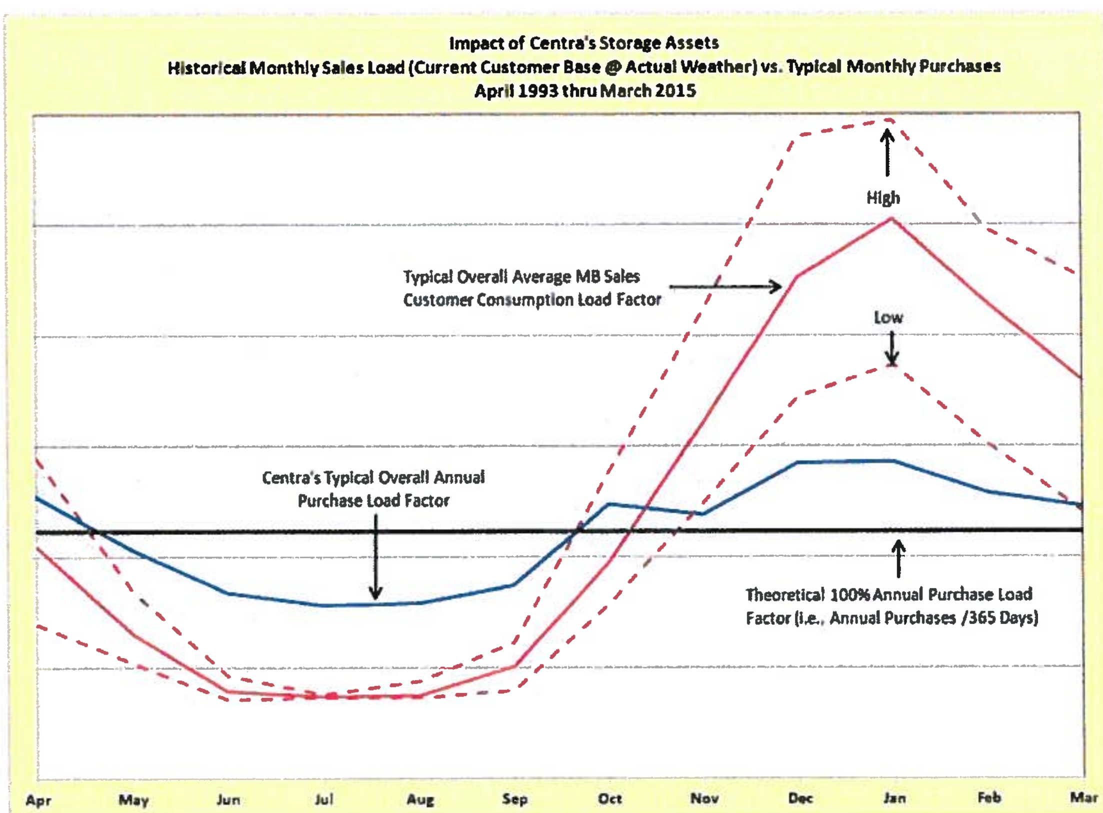
2.4. Portfolio & operational strategies

Centra uses a number of portfolio and operational strategies to ensure security of supply, reliability and operational flexibility in its gas supply arrangements.

Centra's portfolio strategies include the use of seasonal storage and transportation arrangements to improve its purchase load factor; optimizing the use of higher cost assets; evaluating the cost-effectiveness of the portfolio over the long-term; ensuring a diversity of supply hubs and transportation paths; and enhancing reliability *and* operational flexibility through the use of storage, swing supplies and use of the late night nomination window.

Centra's operational strategies include planning around a wide range of potential market requirements as shown in the figure below, (i.e., the coldest and warmest scenarios); protecting seasonal storage inventory giving consideration to the expectations of Interruptible customers; augmenting daily deliverability as required; and protecting storage deliverability for firm customers. Implementation of these strategies by Centra results in a gas supply portfolio that has performed reliably and cost-effectively, even during the extreme weather and extraordinary market conditions in 2013/14.

Figure 4



3.0 CENTRA'S PORTFOLIO FOR THE 2013/14 GAS YEAR WAS RELIABLE AND COST EFFECTIVE FOR CUSTOMERS

3.1. Centra made the appropriate considerations heading into the 2013/14 Winter

Centra's considerations heading into the 2013/14 winter were, at a high level, consistent with what it takes into account heading into every winter season: regulatory developments of the Mainline; updated volume forecast and usage coefficients; the range of potential market requirements it may be required to serve; market conditions; and discussions with counterparties.

In the spring and summer of 2013, Centra specifically considered the implications of the National Energy Board of Canada's ("NEB") RH-003-2011 Decision, issued in March 2013. Centra evaluated the impact on its operations of the deregulation of pricing for short-term transportation services on the Mainline, and TCPL's expressed intent to effectively withhold STFT from the market. Additionally, Centra gave due consideration to the uncertainties surrounding TCPL's June 2013 tariff amendment application, which sought to eliminate out-of-path diversions on the Mainline. This proposed tariff change had the potential to detrimentally impact Centra's ability to mitigate its Unutilized Demand Charges ("UDC").

3.2. Centra was prepared for the 2013/14 Gas Year

As outlined in Centra's response to PUB/Centra I-31 and page 4 of Centra's Rebuttal Evidence, Centra undertook a number of substantive and specific actions heading into the winter of 2013/14, namely:

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

3.3. The winter of 2013/14 was extraordinary and unprecedented

The winter of 2013/14 was an extraordinary and unprecedented and was one of the coldest in history in the form of heating degree days as shown in the chart below.

Figure 5

[redacted]

As outlined by Mr. Sanderson in regards to the coupling of the unknown extreme weather in 2013/14 with TransCanada's unlimited pricing discretion for STFT:

> *"...it's important to be mindful of the fact that all of these various factors that I talked about, the stars and planets lining up to amplify the market power wielded by TransCanada through pricing discretion, we didn't know, and no one knew going into the 13/14 winter in the fall of 2013, whether we would have a repeat of an 11/12 winter, or a 13/14 winter, or innumerable different combinations in between"*

It is also clear that the 2013/14 winter was extraordinary and unprecedented for all natural gas market participants in North America, including Centra. After hearing extensive evidence in the RH-001-2014 proceeding on the market impact that the NEB's RH-003-2011 Decision had during the 2013/14 winter, the National Energy Board found:

> *"The Board notes that pricing discretion has been described as unique and unprecedented by all parties, and that the degree of success of pricing discretion was not anticipated by anyone, including TransCanada and MAS (Market Area Shippers being Union, Enbridge and Gaz Metro)." (Page 32)*

> *"The NEB notes that the first year of pricing discretion coincided with one of the coldest winters in 35 years, when below average temperatures significantly increased demand and storage levels, particularly in Eastern Canada. This, combined with regional pipeline bottlenecks, resulted in higher natural gas commodity prices." (Page 32 and 33)*

3.4. Centra successfully managed through the extraordinary winter of 2013/14 Gas Year

As discussed previously, Centra is obligated to be positioned to serve the coldest forecast outlook as well as the warmest. The range of potential market requirements that Centra may be responsible to serve is captured in the following figure:

Figure 6

[redacted]

Recognizing that there are no reliable ways upon which to predict what the actual winter weather will be before the winter is actually experienced, Centra must deploy essential operational strategies as it is required to do each gas year to meet the range of potential market requirements caused by the extreme weather volatility in Manitoba. These strategies include: protect seasonal storage inventory; augment daily deliverability as required; and protect storage deliverability for firm customers.

The only difference in 2013/14 was that Centra triggered these strategies earlier and to a greater extent in the winter of 2013/14 than is often required, the details are fully explained at pages 4-8 in Centra's response to PUB/Centra 31.

[redacted]

[redacted]

[redacted]

In summary, like all other years, natural gas supplies were delivered to Manitobans during the 2013/14 gas year in a safe, reliable, cost-effective manner, meeting all firm requirements of Manitobans.

4.0 GAS COST DEFERRAL BALANCES & 2015/16 FORECAST GAS COSTS

In this Application, Centra is requesting approval of Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates, effective November 1, 2015. The rate adjustments in this Application reflect changes in base rates to include an updated forecast of non-Primary Gas costs for the period of November 1, 2015 to October 31, 2016, and adjustments in rate riders to recover amounts relating to prior periods, including gas costs that resulted from extreme weather and market circumstances experienced in the winter of 2013/14, as well as outlook deferral account balances for the 2014/15 Gas Year to October 31, 2015.

4.1. Gas Cost Deferral Account Balances

In this Application, Centra is requesting approval to recover, through rate riders effective November 1, 2015, a net outlook balance in its non-Primary Gas deferral

[6] 2015/16 COG Proceeding, Transcript page 322, lines 7-12.

accounts of approximately $36.1 million based on a July 31, 2015 forward price strip, as outlined in the following table

Figure 7

Summary of Oct 31, 2015 Non Primary Gas Cost Deferral Balances
(based on Pre-hearing Update)

October 31, 2014 Prior-period Supplemental Gas PGVA	$	22,628,457
October 31, 2014 Prior-period Non-Supplemental PGVA	$	(421,041)
2014/15 Gas Year Balances		
Supplemental PGVA	$	563,931
Transportation PGVA	$	12,896,825
Distribution PGVA	$	(353,424)
Heating Value Margin Deferral	$	774,051
Total 2014/15 Gas Year Balances	$	13,881,383
Total Oct 31, 2015 Non-Primary Gas Cost Deferral Balances	**$**	**36,088,799**

The remaining Supplemental Gas costs from the 2013/14 gas year represent approximately two-thirds of the total Non-Primary Gas deferral balances to be recovered from customers. Approximately one-third of the net cost to be recovered from customers is related to increased transportation costs which related to factors such as the inclusion of future abandonment costs in Mainline tolls.

4.2. 2015/16 Gas Costs Forecast

Centra is forecasting total annual gas costs for the 2015/16 Gas Year to be $211.2 million, of which $80.8 million is comprised of non-Primary Gas costs, as summarized in the table below:

Figure 8

2015/16 Gas Year Gas Cost Forecast (millions)		
Primary Gas	$	130.4
Supplemental Gas	$	17.5
Transportation	$	61.0
Distribution (Unaccounted for Gas)	$	2.3
Total	$	211.2
Non-Primary Gas Cost Total	$	80.8

As shown on Schedule 3.12.14 of Centra's Pre-hearing Update, which is provided below, the $80.8 million forecast non-Primary Gas costs reflects an increase of $12.1 million compared to the non-Primary Gas costs recoverable at existing base rates of $68.6 million. This cost increase is primarily due to increases in upstream gas transportation costs.

Figure 9

	Recoverable at Existing Base Rates	Forecast for 2015/16	Difference
Primary Gas [1]	$132,710,097	$130,409,732	($2,300,365)
Supplemental Gas	$18,215,301	$17,457,312	($757,989)
Transportation	$48,099,870	$60,981,569	$12,881,699
Distribution	$2,315,798	$2,343,950	$28,151
Totals	**$201,341,067**	**$211,192,563**	**$9,851,496**
Non-Primary Gas Cost Totals	**$68,630,970**	**$80,782,831**	**$12,151,861**

Note 1: Primary Gas cost recoverable at existing base rates is calculated using the approved August 1, 2015 Primary Gas billed rate.

5.0 RECOVERY OF FORECAST GAS COSTS FOR 2015/16 AND DEFERRAL ACCOUNT BALANCES IN RATES

5.1. Customer Bill Impacts for 2015/16 Cost of Gas Application

The following table summarizes the impacts to customers' annuals bill related to changes in base rates proposed in this Application compared with current base rates, which reflects changes in forecast non-Primary Gas costs for the period of November 1, 2015 to October 31, 2016 as discussed in Section 4.2 above.

Figure 10

2015/16 Cost of Gas			Annual Impacts Base Rates	
Customer Class	Consumption ($10^3 M^3$)	Load Factor	$ Impact	% Change
SGS	1.0		$10	2.3%
	2.2		$22	3.0%
	11.3		$113	3.6%
LGS	11.3		$97	3.0%
	679.9		$5,847	4.1%
HVF	850	25%	$8,849	4.7%
	12,600	75%	$52,965	2.5%
Mainline	11,000	40%	$63,939	3.7%
	11,000	75%	$135,285	6.8%
Interruptible	850	75%	$582	0.4%
	850	25%	$2,937	1.8%

The annualized impact for the typical residential customer as a result of changes in base rates is $22 per year or 3.0%. The annualized bill impact for the larger volume customers ranges from increases of 0.4% to increases of 6.8% depending on customer class and consumption levels.

The annualized bill impacts flowing from this Application are also driven by the inclusion of rate riders required to address the disposition of the various non-Primary Gas deferrals. As discussed in Section 4.1 above, the net outlook balance in Centra's non-Primary Gas deferral accounts is approximately $36.1 million as at October 31, 2015.

A summary of the annualized billed rate impacts is provided in the table below.

Figure 11

2015/16 Cost of Gas			Annual Impacts Billed Rates	
Customer Class	Consumption (10^3M^3)	Load Factor	$ Impact	% Change
SGS	1.0		$13	3.0%
	2.2		$30	3.8%
	11.3		$152	4.6%
LGS	11.3		$140	4.0%
	679.9		$8,396	5.4%
HVF	850	25%	($973)	-0.4%
	12,600	75%	($15,852)	-0.7%
Mainline	11,000	75%	($15,246)	-0.7%
	11,000	40%	$85,749	3.7%
Interruptible	850	75%	$7,350	5.1%
	850	25%	$14,114	8.8%

The proposed change in the non-Primary Gas billed rates for November 1, 2015 results in the typical residential customer's annual bill increasing by approximately by $30 or 3.8%. The annualized bill impact for the larger volume customers ranges from decreases of 0.7% to increases of 8.8% depending on customer class and consumption levels.

In Order 12/15, the PUB found it to be appropriate to accelerate the recovery of the first 50% of Supplemental Gas PGVA balances from the 2013/14 gas year, by shortening the remaining recovery period from 21 months to 9 months. With that rate rider expiring on October 31, 2015, the inclusion of the new rate rider to recover the remaining unrecovered portion of the Supplemental Gas PGVA balance results in very modest bill impact to customers, when all other cost and rate changes are taken into consideration for November 1, 2015.

The disposition of all non-Primary Gas deferral account balances by way of 12 month rate riders, as proposed in this application, is the most appropriate rate making treatment considering the relatively modest bill impact together with the period of time that has elapsed since the gas costs were incurred on behalf of customers.

5.2. Combined Customer Bill Impacts for the 2015/16 Cost of Gas Application and November 1, 2015 Primary Gas Rate Application

Centra's Primary Gas rates are adjusted quarterly using the Rate Setting Methodology approved by the PUB. Centra is filing its November 1, 2015 Quarterly Primary Gas Rate Application on or around October 13, 2015. The bill impact tables which follow, illustrate the combined bill impacts resulting from the Non-Primary Gas Rate adjustments proposed in this Application and the changes resulting from Centra's proposed Primary Gas rate change for November 1, 2015.

Figure 12

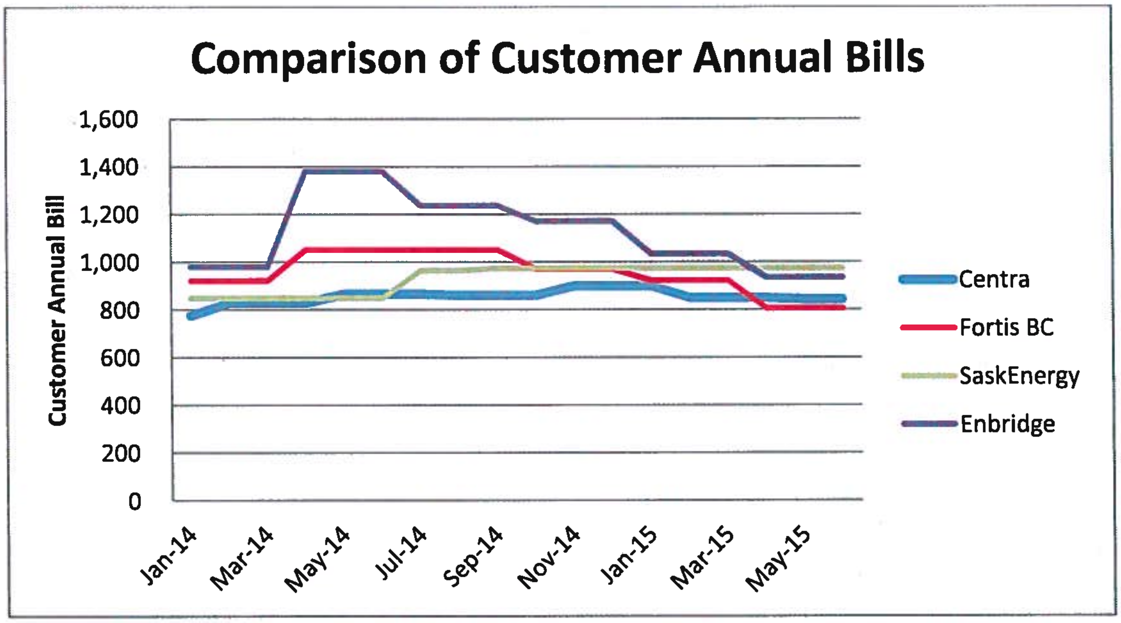
2015/16 Cost of Gas and November 1, 2015 Primary Gas			Annual Impacts Billed Rates	
Customer Class	Consumption (10^3M^3)	Load Factor	$ Impact	% Change
SGS	1.0		$3	0.6%
	2.2		$6	0.7%
	11.3		$29	0.9%
LGS	11.3		$16	0.5%
	679.9		$986	0.6%
HVF	850	25%	($10,238)	-4.7%
	12,600	75%	($153,192)	-6.5%
Mainline	2,500	40%	($7,762)	-1.5%
	11,000	75%	($135,146)	-6.6%
Interruptible	14,164	75%	($20,557)	-0.9%
	850	25%	$5,531	3.4%

It is important to note that the overall combined bill impacts arising from the rates proposed for November 1, 2015 are modest. The annual bill impact to the typical residential customer would be a slight increase of 0.7% or $6 per year. The annual bill impact to larger volume customers ranges from decreases of 6.6% to increases of 3.4% depending upon customer class and consumption.

5.3. Comparisons with other Jurisdictions

The effects of the extreme North American winter of 2013/14 were felt by local distribution companies from coast to coast in Canada. This is illustrated by the graph below:

Figure 13



When considering the challenging market conditions over this period of time, Centra's customers experienced reasonable stability in terms of their quarterly adjustments when compared to the rate changes and resulting bill impacts in some other jurisdictions.

Centra notes that the impacts arising from the extraordinary 2013/14 winter are well within the range of annual bill impacts that customers have historically experienced within Manitoba. Furthermore, Centra's customers experienced a relatively narrow range of annual bill impacts when compared to other jurisdictions that similarly experienced the extraordinary 2013/14 winter.

Mr. Barnlund summarized this during his Direct Evidence, "we've (Centra) guided the ship through some fairly turbulent seas over a period of time, and we've been able to do so without unduly creating bill impacts to customers."[7]

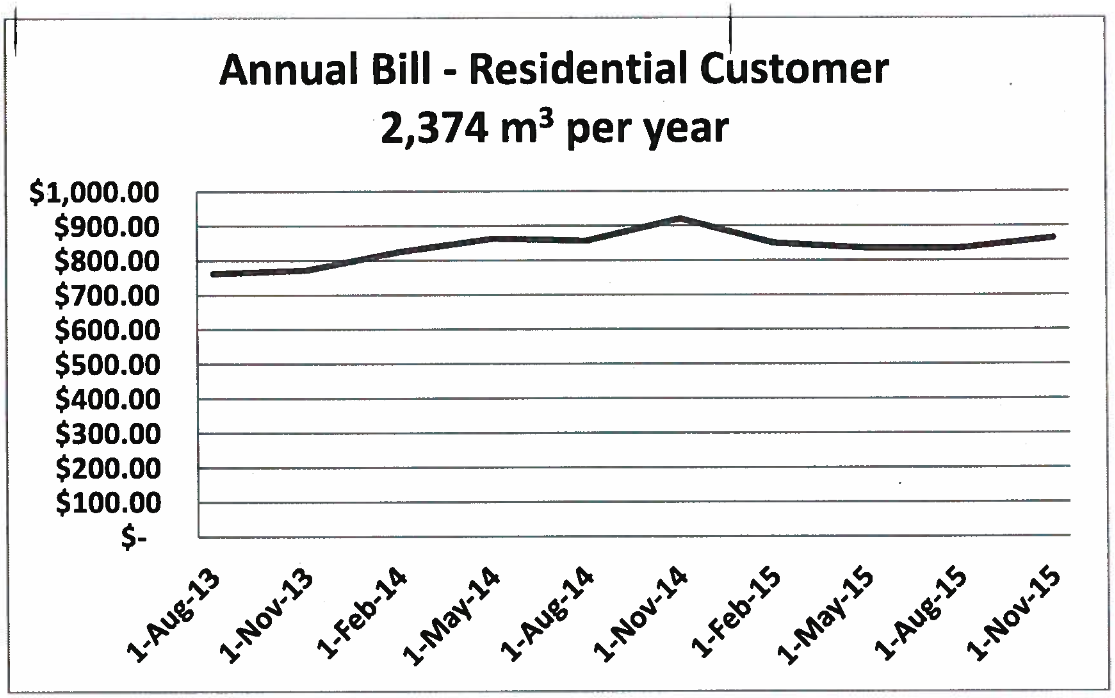
From Centra's perspective, this may explain the limited public participation and opposition to Centra's Application, with the exception of CAC.

5.4. Centra effectively smoothes bill impacts for customers

As shown in Figure 8 below, the annualized bill for the typical residential customer has remained relatively stable over the period from August 2013 to November 2015 (as proposed), ranging from a low of approximately $770 at August 1, 2013 to a high of approximately $900 at November 1, 2014.

[7] 2015/16 COG Proceeding, Transcript page 178, lines 5-9.

Figure 14



Centra is able to smooth rate impacts for its customers by utilizing different techniques to manage volatility in customers' bills such as recovering costs through rates over a reasonable period of time.

The Quarterly Rate Setting Mechanism employed provides a reasonable balance between price transparency and rate stability. Setting Primary Gas rates four times each year, serves to mitigate the potential for large rate impacts that could occur with less frequent rate changes. The rates set each quarter are annualized, which serves to mute the seasonality in natural gas pricing and reduces the variability that may otherwise be reflected in rates.

In addition, during the non-winter months, Centra purchases gas and places it in storage. This accomplishes two important objectives. First, this serves to smooth the pattern of gas commodity purchases and costs over the summer and winter months. Second, it more effectively utilizes Centra's firm transportation capacity arrangements and improves Centra's transportation load factor.

Another method to reduce the amount of volatility in customers' bill is the use of deferral accounts and rate riders. Deferral accounts capture the difference between the actual upstream costs (commodity, storage and transportation) that are incurred and the costs that are recovered in rates. The resulting difference (over or under recoveries) is refunded to or recovered from customers in a subsequent period, which smoothes these impacts to customers. This methodology also ensures that upstream costs are ultimately passed through to customers in rates over time, without any markup by, or profit for, Centra.

Finally, customers have the option of using the Equal Payment Plan ("EPP"), which allows customers to pay approximately the same amount on their bill each month of the year.

In summary, the diversity of Centra's overall approach ensures rate stability and a cost effective result for Manitoba customers over the long run. It has worked well for Manitoba natural gas ratepayers for decades, and has demonstrated the flexibility to appropriately deal with a wide range of circumstances, such as the extreme weather of 2013/14, in order to smooth rate impacts for customers.

6.0 USING RETAINED EARNINGS (NET INCOME) TO OFFSET PURCHASE GAS COSTS IS INAPPROPRIATE

In Order 12/15, the PUB stated:

> *In the upcoming Cost of Gas Application, the Board expects Centra to consider whether a portion of its retained earnings, which resulted from the cold weather, should be used to reduce the negative impact on customers from the further recovery of the Supplemental Gas PGVA.*[8]

Centra gave full consideration to this expectation, notwithstanding that the issue of Centra's retained earnings, did not in any way form part of Centra's Application. Centra's conclusion is that it would be inappropriate for the PUB to vary a final order by

---

[8] Public Utilities Board, Order No. 12/15 at 22.

offsetting a portion of Centra's retained earnings to reduce the bill impact on customers associated with the prescribed exact recovery of certain gas costs from the Supplemental Gas PGVA.

The portion of Centra's retained earnings that resulted from the cold winter weather in 2013/14 were generated in full accordance with Order 85/13, wherein after a full public review and hearing process for Centra's 2013/14 General Rate Application, the PUB ordered on a **final** basis that "Centra shall include in its revenue requirement a net income of $3 million on an annualized basis."

Centra filed revised rate schedules as part of its Compliance Filing in response to Order 85/13. In Order No. 89/13, the PUB approved Centra's compliance filing with respect to non-Primary natural gas rates effective August 1, 2013 on a final basis. These final distribution (to customer) rates remain in force and are accordingly charged to Centra's customers.

Centra retained Mr. Mark Drazen, of Drazen Consulting Group, to provide independent expert evidence to address the PUB's expectation as outlined in Order 12/15. His evidence, found at Appendix 2.2 of Centra's Application, was adopted by Centra and was not challenged or refuted in any way as part of this proceeding.

Mr. Drazen summarized his evidence as follows:

- Centra's PGVA was proposed and approved on the basis that it would recover exactly the cost incurred;
- Gas cost recovery mechanisms such as Centra's Purchased Gas Variance Account are used throughout Canada and the U.S. The magnitude and variability of purchased gas cost relative to earnings makes it desirable to insulate earnings from variations in gas supply cost;
- All other Canadian gas distributors have exact gas cost recovery mechanisms, that is, the distributor recovers exactly the cost that it pays;
- Likewise, virtually all U.S. distributors have an exact gas cost recovery mechanism;
- Although the extremely cold weather in 2013-14 resulted in a high level of income to Centra, in other years Centra has experienced losses;
- 2013-14 should not be viewed in isolation; and

- On a long-term basis, Centra's actual earnings have been only modestly higher than the expected level. In fact, excluding 2013-14, Centra has, on average, earned less than the expected net income.[9]

Mr. Drazen concluded at page 13 of his evidence that:

> The basis on which the PGVA was proposed and authorized is that it would recover the actual cost of gas, "no more or less". This is consistent with general practice in both Canada and the U.S.
>
> Earnings above the authorized level should not be used to reduce PGVA charges just as it would be improper to increase PGVA charges to offset shortfalls in earnings.
>
> In four of the last ten years, Centra's earnings have been negative. On average, the net income has been only a bit higher than the \$2.5-\$3.0 million authorized by the PUB.[10]

Mr. Rainkie concurred with Mr. Drazen's expert evidence:

> Centra and the Public Utilities Board use a gas cost pass-through rate-setting framework that is universally accepted by gas distribution utilities and regulatory bodies in North America. It's a proven approach that appropriately balances risk between Centra and its customers, and ensures rate stability and the lowest cost to customers over the long run. It has worked well for Manitoba natural gas ratepayers for decades, and has demonstrated the flexibility to appropriately deal with circumstances such as the extreme weather of 2013/'14 in order to smooth rate impacts for customers. The resulting customer bill impacts are modest and

---

[9] 2015/16 COG Proceeding, Centra Application, Appendix 2.2.
[10] 2015/16 COG Proceeding, Centra Application, Appendix 2.2 at 13.

> reasonable when considering the extreme weather conditions and unusual market circumstances that Centra faced in 2013/'14.[11]

In addition to Mr. Drazen's evidence, Mr. Rainkie explained why a gas cost pass through regulatory approach results in the lowest long-run cost for customers at page 183 of the transcript:

> So why does the cost -- gas cost pass through regulatory approach make sense and result in the lowest long-run cost for the customer? So without the gas cost pass through mechanism, distribution companies would face an extremely high level of risk, and would require customers to compensate for that -- for assuming that risk through a significantly higher return or net income The universal acceptance of gas costs pass through mechanisms is proof that North American regulatory bodies have all come to the same conclusion. It is more cost-effective for customers to assume the supply price risk over the long term than to pay much higher rates of return to the Utility to assume this risk. Stated differently, the insurance premium to the customers would be so high for the Utility to assume the supply price risk that the customer is better off over the long run to self-insure this risk.

When questioned by the PUB Chairman about Centra's regulatory construct, Centra's $3 million a year approved net income target and the cost impacts to Centra's ratepayers, Mr. Rainkie further clarified that:

> We're regulated based on a future test year, which means that we look at a forecast of our costs. We use our volume forecast to figure out what our volumes are going to be, and what our revenues are going to be. And, yes, the -- the PUB I would say has targeted a $3 million net income. We always calculate rates ahead

---

[11] 2015/16 COG Proceeding, Transcript page 59 lines 11-25, and page 60 lines 1-2.

> of time. But that's not the same thing as saying any variation from the 3 million would automatically be recovered or refunded.
>
> .....
>
> But, we don't have a deferral account around non-gas costs and net income. The principle there is the utility accepts those risks for which it gets a rate of return through net income. In some years factors like usage, weather, credit write-offs, whatever you might have, operating costs, will result in higher earnings than the normalized amount that's put into rates. And in some years they will result in smaller amounts. But unless there is a systematic bias in there, something that's wrong with the system, usually the utility keeps the increases and accepts the reductions.[12]

In its final argument, CAC concurred with Mr. Drazen and Mr. Rainkie's conclusion:

> CAC concedes that the cost of gas is a pass-through, whereby the utility earns no profit and incurs no losses. This is an appropriate and well-recognized regulatory principle......the Board Order (85/13) was final and cannot be countermanded unless by a review and variance of that application, which never took place. All of the above is to say that it would not be proper for the PUB to refund the customers of Centra part of the retained earnings as a result of the cost of gas.[13]

A change to the well-established regulatory principles and construct by the PUB at this time, for the reasons it asked Centra to consider, in Centra's respectful submission, amounts to retroactive rate making which is prohibited by Canadian jurisprudence.

The Alberta Court of Appeal ("ABCA") in *ATCO Gas, Re,* 2010 ABCA 132 expressed the following with respect to retroactive ratemaking:

---

[12] 2015/16 COG Proceeding, Transcript pages 241-242.
[13] 2015/16 COG Proceeding, CAC's Final Argument, paragraphs 75 and 76.

> Utility regulators cannot retroactively change rates (*Stores Block* at para. 71) because it creates a lack of certainty for utility consumers. If a regulator could retroactively change rates, consumers would never be assured of the finality of rates they paid for utility services… In summary, whether termed retrospective or retroactive ratemaking, imposing gas cost shortfalls or surpluses incurred by past consumers on future consumers is generally prohibited.[14]

The Supreme Court of Canada in *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4 [ATCO Gas & Pipelines] further states:

> … The Board was seeking to rectify what it perceived as a historic over-compensation to the utility by ratepayers. There is no power granted in the various statutes for the Board to execute such a refund in respect of an erroneous perception of past over-compensation. It is well established throughout the various provinces that utilities boards do not have the authority to retroactively change rates (*Northwestern* 1979, at p. 691; *Coseka Resources Ltd. v. Saratoga Processing Co. (1980)*, 126 D.L.R. (3d) 705 (Alta. C.A.), at p. 715, leave to appeal refused, [1981] 2 S.C.R. vii (S.C.C.); *Dow Chemical Canada Inc.*, at pp. 734-35). But more importantly, it cannot even be said that there was over-compensation: the rate-setting process is a speculative procedure in which both the ratepayers and the shareholders jointly carry their share of the risk related to the business of the utility (see MacAvoy and Sidak, at pp. 238-39).[15]

Lastly, as stated in *Northland Utilities (Yellowknife) Ltd. v. Northwest Territories Public Utilities Board*, 2010 NWTSC 92:

---

[14] *ATCO Gas, Re,* 2010 ABCA 132, at 47 and 51.
[15] *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4 at 71 [ATCO Gas & Pipelines].

> All parties also agree on another basic tenet of ratesetting by public utility boards, that being that, in the absence of specific legislative authority to do so, boards do not have the authority to retroactively change rates: see *ATCO Gas & Pipelines Ltd. (supra)*, at para. 71. Rates are raised or lowered to reflect current conditions. They are not designed to pay back past excessive profits or recoup past operating losses. The Board can take into account past experience in setting the current rates; but, it cannot design a future rate so as to enable the utility to recover a past loss or to rectify for customers some past over-compensation of the utility. In either case the Board would be engaged in retroactive or retrospective rate setting.[16]

Any Order by the PUB which varies Centra's revenue requirement and net income as established on a final basis in Order 85/13 to "off-set" 2013/14 gas costs would equate to an error in jurisdiction and law.

Centra acted in good faith in accordance with its mandate during the winter of 2013/14, and incurred gas cost on behalf of its customers during that difficult set of circumstances. Centra did so under the expectation that as long as its actions were reasonable, it would recover all of the gas costs incurred to serve its customers. It would not be fair or reasonable to alter these well established regulatory principles after the fact. Centra and the PUB have respected these regulatory principles for decades to the benefit of Manitoba natural gas consumers.

Centra believes that these rules have proven to be effective and low-cost for customers over the long-term. As Mr. Rainkie indicated on page 253 of the transcript, it would be a shame to now "throw the baby out with the bathwater."

---

[16] *Northland Utilities (Yellowknife) Ltd. v. Northwest Territories Public Utilities Board*, 2010 NWTSC 92 at 7.

7.0 CAC'S RECOMMENDATION FOR CENTRA TO FILE A 2015/16 GENERAL RATE APPLICATION ("GRA")

In its Final Argument, CAC recommended that Centra should file a 2015/16 General Rate Application. Centra urges the PUB to consider the evidence of Mr. Drazen and the testimony of Mr. Rainkie in evaluating the need to undertake an expensive regulatory process, the cost of which must be borne by customers, when Centra's retained earnings are at a fair and sufficient level.

Mr. Drazen, on page 11 of his evidence in Appendix 2.2, analyzed the actual net income earned by Centra over the 10 year period between 2004/05 and the end of 2013/14, as shown in the figure below.[17]

[17] 2015/16 COG Proceeding, Centra Application, Appendix 2.2 at 11.

Figure 15

Table 1
Centra Degree Days and Actual Net Income

Year	EDD (1)	Income/(Loss) ($000) (2)
2004-05	[redacted]	($1,626)
2005-06	[redacted]	(5,375)
2006-07	[redacted]	1,074
2007-08	[redacted]	5,898
2008-09	[redacted]	8,597
2009-10	[redacted]	(950)
2010-11	[redacted]	6,610
2011-12	[redacted]	(5,752)
2012-13	[redacted]	7,811
2013-14	[redacted]	$19,793
Average Yrs 1-9	[redacted]	$1,810
Average Yrs 1-10	[redacted]	$3,608
25-Yr Average	[redacted]	

Sources:
EDD yearly: Centra
Average: 2013/14 GRA filing, Appendix 8.1, page 4
Income/(Loss): Centra financial statements

For the first nine years of that period, Centra's annual net income averaged only $1.81 million, significantly less than the PUB target level of $3.0 million per year. The extreme cold experienced in 2013/14 contributed to an increase in net income for that year, however, it only served to compensate for the warmer years that were encountered previously, resulting in a 10 year average of $3.61 million on an annual basis.

The earnings variability experienced due to weather is a risk that is borne by Centra each and every year. Over the longer term, there is no evidence of any systemic or directional bias in the earnings of Centra. The current level of retained earnings will be taken into consideration in the development of Manitoba Hydro's next Integrated Financial Forecast and will inform the necessity for Centra to either seek or forego the need for general revenue increases in the upcoming year. Centra respectfully submits that the PUB should take these matters into full account before unnecessarily rushing to order an expensive and resource consuming regulatory process when one is not required in the current circumstances.

8.0 ONUS OF PROOF

In accordance with section 84(2) of *The Manitoba Public Utilities Board Act*, C.C.S.M. c. P280, the burden of proof rests with Centra to show that the changes sought to the natural gas rates in this Application are just and reasonable.

Centra has clearly met this burden of proof. It has filed approximately 2,000 pages of evidence. Centra responded fully to two round of Information Requests, and provided extensive rebuttal evidence.

In addition, Centra representatives provided comprehensive oral evidence that described in detail the reasons for the Application and the overall gas supply planning process employed by Centra. This testimony included the actions taken by Centra, and the reasons, timing and reasonableness of such actions in the context of supplying the entire Manitoba natural gas market in a safe, reliable, and cost effective manner in the context of the extraordinary circumstances during the 2013/14 gas year.

8.1. What is the appropriate test for determining reasonably incurred costs?

In assessing the prudence of the gas costs incurred by Centra on behalf of its customers as detailed in the Application, the appropriate lens is one of reasonableness as prescribed by the Supreme Court of Canada in *Dunsmuir v. New Brunswick*:

> Reasonableness is a deferential standard animated by the principle that underlies the development of the two previous standards of reasonableness: certain questions that come before administrative tribunals do not lend themselves to one specific, particular result.

> Instead, they may give rise to a number of possible, reasonable conclusions. Tribunals have a margin of appreciation within the range of acceptable and rational solutions.[18]

The question for the PUB in this Application is: Did the underlying decisions and actions taken by Centra in incurring the necessary gas costs prior to the 2013/14 winter, and otherwise, fall within the range of acceptable and reasonable outcomes given the extraordinary and unprecedented circumstances that it faced?

It is an important legal distinction that the gas costs at issue in this proceeding are committed costs, gas costs that have already been incurred, as opposed to forecasted costs, which represent gas costs that have not yet been incurred by Centra. The Supreme Court of Canada in *Ontario (Energy Board) v. Ontario Power Generation Inc.* [OPG] acknowledges as follows:

> [A] "no hind-sight" prudence review... has developed in the context of "committed" costs... Accordingly, where the regulator has discretion over its methodological approach, understanding whether the costs at issue are "forecast" or "committed" may be helpful in reviewing the reasonableness of a regulator's choice of methodology.[19]

As the Supreme Court of Canada has indicated in the above noted passage, the type of cost, committed or forecast, is instructive to the form of analysis that is deemed reasonable. Centra's Application, in particular for the 2013/14 gas year, seeks recovery of committed gas costs. In accordance with OPG, the PUB should uphold the no-hindsight prudence review in the context of "committed costs".

The OPG decision considers the prudence analysis in Enbridge Gas Distribution Inc. v. Ontario (Energy Board) (2006), 210 O.A.C. 4 (Ont CA), leave to appeal to S.C.C. refused, [2006] S.C.C.A. No. 208 (S.C.C.) as follows:

---

[18] *Dunsmuir v. New Brunswick*, 2008 SCC 9 at 47.
[19] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44 at 83.

In 2006, the Ontario Court of Appeal considered the meaning of the prudent investment test in *Enbridge*. This case is of particular interest for two reasons. First, the Ontario Court of Appeal endorsed in its reasons a specific formulation of the prudent investment test framework:

> – Decisions made by the utility's management should generally be presumed to be prudent unless challenged on reasonable grounds.
>
> – To be prudent, a decision must have been reasonable under the circumstances that were known or ought to have been known to the utility at the time the decision was made.
>
> – Hindsight should not be used in determining prudence, although consideration of the outcome of the decision may legitimately be used to overcome the presumption of prudence.
>
> – Prudence must be determined in a retrospective factual inquiry, in that the evidence must be concerned with the time the decision was made and must be based on facts about the elements that could or did enter into the decision at the time. [para. 10]

Second, the Court of Appeal in Enbridge made certain statements that suggest that the prudent investment test was a necessary approach to reviewing committed costs. Specifically, it noted that in deciding whether Enbridge's requested rate increase was just and reasonable,

> the [Board] was required to balance the competing interests of Enbridge and its consumers. That balancing process is achieved by the application of what is known in the utility rate regulation field as the "prudence" test. Enbridge was entitled to recover its costs by way of a rate increase only if those costs were "prudently" incurred. [para. 8][20]

---

[20] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44 at 99 & 100.

More importantly, in OPG, the Supreme Court of Canada summarizes the potential use of the prudence review test as follows:

> The prudent investment test, or prudence review, is a valid and widely accepted tool that regulators may use when assessing whether payments to a utility would be just and reasonable. While there exists different articulations of prudence review, *Enbridge* presents one express statement of how a regulatory board might structure its review to assess the prudence of utility expenditures at the time they were incurred or committed. A no-hindsight prudence review has most frequently been applied in the context of capital costs, but *Enbridge* and *Nova Scotia Power* (both *2005* and *2012*) provide examples of its application to decisions regarding operating costs as well. I see no reason in principle why a regulatory board should be barred from applying the prudence test to operating costs.
>
> However, I do not find support in the statutory scheme or the relevant jurisprudence for the notion that the Board should be *required* as a matter of law, under the *Ontario Energy Board Act, 1998*, to apply the prudence test as outlined in *Enbridge* such that the mere decision not to apply it when considering committed costs would render its decision on payment amounts unreasonable. Nor is the creation of such an obligation by this Court justified. As discussed above, where a statute requires only that the regulator set "just and reasonable" payments, as the *Ontario Energy Board Act, 1998* does in Ontario, the regulator may make use of a variety of analytical tools in assessing the justness and reasonableness of a utility's proposed payment amounts. This is particularly so where, as here, the regulator has been given express discretion over the methodology to be used in setting payment amounts: O. Reg. 53/05, s. 6(1).[21]

---

[21] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44 at 102 & 103.

Of utmost significance to this Application, the SCC concluded:

> To summarize, it is not necessarily unreasonable, in light of the particular regulatory structure established by the *Ontario Energy Board Act, 1998*, for the Board to evaluate committed costs using a method other than a no-hindsight prudence review. As noted above, applying a presumption of prudence would have conflicted with the burden of proof in the *Ontario Energy Board Act, 1998* and would therefore not have been reasonable. **The question of whether it was reasonable to assess a particular cost using hindsight should turn instead on the circumstances of that cost. I emphasize, however, that this decision should not be read to give regulators *carte blanche* to disallow a utility's committed costs at will. Prudence review of committed costs may in many cases be a sound way of ensuring that utilities are treated fairly and remain able to secure required levels of investment capital. As will be explained, particularly with regard to committed capital costs, prudence review will often provide a reasonable means of striking the balance of fairness between consumers and utilities. (emphasis added)**[22]

The excerpt emphasized above is directly relevant to the PUB when considering Centra's Application and any hindsight evidence of Mr. Stauft. While the Supreme Court of Canada has clarified in OPG that the use of hindsight is not necessarily unreasonable in all circumstances, the Court made clear that a prudence review, which is not based on hindsight, ought to be applied when considering committed costs. Furthermore, as emphasized by the Supreme Court of Canada, the OPG decision does not give regulators carte blanche to disallow a utility's committed costs at will.

As indicated by the relevant jurisprudence, the PUB must in this Application consider whether the actions taken by Centra fall within the range of reasonableness and such consideration ought to be based on a prudence review and not based on hindsight. A

[22] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44 at 104.

standard of correctness or any analysis using a test of perfection is inappropriate and unsupported by jurisprudence.

9.0 RESPONSE TO MARK STAUFT'S EVIDENCE

CAC's sole concern with respect to Centra's entire Application relates to the prudence of Centra's gas and gas transportation contracting practices prior to and during the winter of 2013/14, upon which they rely upon the written evidence of Mr. Mark Stauft.

In addition to the entirety of Centra's Rebuttal Evidence, Centra's further response to Mr. Stauft's evidence is provided below.

9.1. Centra's Gas Supply staff are in the best position to design and execute the natural gas supply, transportation and storage asset portfolio used to serve Manitobans

Centra's Gas Supply staff are in the best position to design and execute the natural gas supply, transportation and storage portfolio used to serve Manitobans. Centra's team of Gas Supply managers, traders, schedulers and analysts transact in the natural gas market on a daily basis and have real-time, hands-on experience with the multi-faceted and complex task of serving the Manitoba load.

In contrast, Mr. Stauft defines his professional experience as being in the arena of regulatory law, including utility and pipeline regulation.[23] By his own admission, Mr. Stauft has no operational experience, has not contracted for pipeline or storage capacity, nor has he bought or sold natural gas in real-time markets. He has never managed a suite of assets, nor been accountable for serving end-use customers.

Mr. Stauft conceded in response to questioning by the PUB Chairman about his expertise on transportation and storage arrangements that he is not in the same position as Centra's staff. His response was definitive, *"...that's fair enough, sir. ... that's*

[23] 2015/16 COG Proceeding, Transcript page 652, lines 5-6.

quite true."[24] He then stated, "*And you're correct that I am not in the same position as the people in Centra.*"[25] The PUB Chairman also asked whether Mr. Stauft would qualify himself as an expert on transportation and storage arrangements, to which Mr. Stauft responded, "*I don't know what that is exactly.*"[26]

The following are examples that demonstrate Mr. Stauft's limited understanding of the current natural gas market:

- Mr. Stauft has not recognized changes in physical pipeline flows; gas at Emerson does *not* only originate from Empress and may reach Emerson from U.S. sources;
- Mr. Stauft believes that a mechanistic pricing relationship exists between Empress and Emerson; however, Empress prices can be higher than Emerson and other downstream hubs, which occurred in March 2014; and,
- Mr. Stauft fails to recognize the importance of significantly diminished NGTL delivery capability; which directly impacts reliability and price volatility at Empress.

Mr. Stauft's evidence and testimony revealed that his understanding of natural gas market fundamentals is lacking.

9.2. Mr. Stauft's analyses are simplified and not intended to be an accurate representation of Centra's portfolio

Mr. Stauft describes his own analyses upon which he relies upon in alleging that Centra's actions were unreasonable prior to and during the 2013/14 winter, as follows:

- "*I am not in a position, based on this relatively simple analysis, to recommend specific changes to Centra's portfolio at this time, nor do I have the information necessary to make such recommendations.*"[27]

---

[24] 2015/16 COG Proceeding, Transcript page 658, lines 3-4.
[25] 2015/16 COG Proceeding, Transcript page 658, lines 11-12.
[26] 2015/16 COG Proceeding, Transcript page 659, lines 19-20.
[27] 2015/16 COG Proceeding, Written Evidence of Mark Stauft, page 32, lines 13-15.

- "*… a simplified and fairly highly aggregated approach.*"[28]
- "*… not intended to be an accurate representation of Centra's portfolio …*"[29]
- "*I understand completely that Centra's system is very complex. The way it operates, that system is very complex, that I am not familiar with that.*"[30]
- "*… it's sort of an integrated thing. And I mean, I totally appreciate that and was never attempting to suggest that I would be able to create a new portfolio for Centra at some kind of detailed level.*"[31]
- "*… I need to try to model it as best I can while acknowledging that, you know, of course it's not going to be the same as Centra, obviously.*"[32]
- "*In the attachments, the thought experiment that is being carried out is to swap basically that whole tranche for Empress FT.*"[33]
- "*… recognizing that back behind there there's a lot more complexity as Centra, you know, legitimately enough keeps telling us about it.*"[34]

Centra submits that the PUB should be cautious in drawing any conclusions as to the reasonableness of Centra's actions based upon Mr. Stauft's candid description limiting his own analyses.

9.3. Mr. Stauft does not acknowledge the significant operational limitations within which Centra operates

Mr. Stauft also fails to specifically acknowledge any of the relevant and significant operational limitations within which Centra must actually operate:[35]

---

[28] 2015/16 COG Proceeding, Transcript page 686, lines 7-8.
[29] 2015/16 COG Proceeding, Transcript page 686, lines 9-10.
[30] 2015/16 COG Proceeding, Transcript page 686, lines 24-25 and page 687, lines 1-2.
[31] 2015/16 COG Proceeding, Transcript page 687, lines 9-14.
[32] 2015/16 COG Proceeding, Transcript page 688, lines 16-19.
[33] 2015/16 COG Proceeding, Transcript page 689, lines 12-15.
[34] 2015/16 COG Proceeding, Transcript page 690, lines 13-16.
[35] 2015/16 COG Proceeding, IR PUB/CENTRA 38, page 2.

[redacted]

As a result of all of the reasons cited in Sections 9.1, 9.2 and 9.3, Centra urges the PUB to be mindful of Mr. Stauft's limited direct experience and expertise compared to Centra's representatives. Centra submits that little, if any, weight or reliance ought to be afforded to the entirety of his written evidence and oral testimony.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

---

[36] 2015/16 COG Proceeding, Transcript pages 407-423.

[37] 2015/16 COG Proceeding, Centra's Rebuttal Evidence, page 17, lines 26-32.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

---

[38] 2015/16 COG Proceeding, Centra's Rebuttal Evidence, page 9, lines 28-38 and page 10, lines 1-4.

[redacted]

[redacted]

[redacted] **Mr. Stauft's prospective analysis (Attachment 1) would result in structurally higher total gas portfolio costs for ratepayers, year in and year out,** [redacted]

[redacted]

---

[39] 2015/16 COG Proceeding, Centra's Rebuttal Evidence, page 9, lines 13-26.

[40] 2015/16 COG Proceeding, Centra's Rebuttal Evidence, page 18, line 29 - page 19, line 1, page 23, lines 12-26 and page 27, lines 24-27; Transcript page 419, lines 1-24; and Transcript page 415, lines 4-7.

[redacted]

[redacted]

> [redacted]

9.7. Mr. Stauft's conclusions are unfounded and without merit

Centra expressly inquired by way of an information request as to what Mr. Stauft was in fact recommending to the PUB, to which Mr. Stauft responded:

> *My understanding is the CAC is interested in the issue of whether Centra has responded appropriately to the changes that have taken place in the market since the RH-003-2011 Decision, as well as the prudence of the decisions that led to Centra accumulating a $45 million deficiency in its Non-Primary PGVA accounts for 2013/14. Whether Centra's actions and decisions were prudent is a matter for argument. My evidence sets out my analysis of the reasonableness of Centra's approach, describes an alternative approach that I believe Centra should reasonably have taken given the information it had, and analyzes the likely cost to customers of* ***Centra taking a different and less reasonable approach****. The analysis and*

[41] 2015/16 COG Proceeding, Transcript page 415, lines 17-25 and page 416, line 1.
[42] 2015/16 COG Proceeding, Transcript page 706, lines 18-24.

> *calculations that I have undertaken for those purposes are set out in my evidence and the Attachments.*[43] **(emphasis added)**

Mr. Stauft's written evidence, and in response to this IR, expressed *no opinion* that Centra's actions and decisions were either unreasonable or imprudent. The only conclusion he reached was that Centra's actions prior to and during the 2013/14 winter were less reasonable than his suggested path formulated with perfect hindsight. It was only during his oral evidence at the last day of a proceeding that spanned several months and included extensive pre-hearing discovery that he finally alleged that Centra's actions were *"unreasonable"* and that Centra *"made a mistake"*[44] despite his own words that:

> "*... in this business, there isn't necessarily even a correct decision.*"[45]

> "*I do not presume – I cannot presume to be, you know, sort of second guessing all these decisions that they make.*"[46]

> "*... I can't claim to be able to prove in any kind of mathematically rigorous way – or any other way, for that matter --- that Centra should have done exactly 'X', 'Y', or 'Z' with its portfolio. And as I say – and as I said before, I don't think anybody could, right? I mean, it's --- it --- I understand that the portfolio was very complex.*"[47]

[43] 2015/16 COG Proceeding, CAC response to Centra/CAC 1 a) and b).
[44] 2015/16 COG Proceeding, Transcript page 746, line 16.
[45] 2015/16 COG Proceeding, Transcript page 771, lines 2-4.
[46] 2015/16 COG Proceeding, Transcript page 687, lines 2-4.
[47] 2015/16 COG Proceeding, Transcript page 699, lines 9-16.

10.0 CAC'S POSITION IN FINAL ARGUMENT IS BASED ON PERFECT 20/20 HINDSIGHT

10.1. Centra's actions were timely and reasonable in all of the circumstances prior to and during the 2013/14 winter

CAC argues regarding high commodity prices during the winter of 2013/14 that Centra did, "*... not do anything about it ...*"[48] and, "*... should have acted earlier ...*"[49]

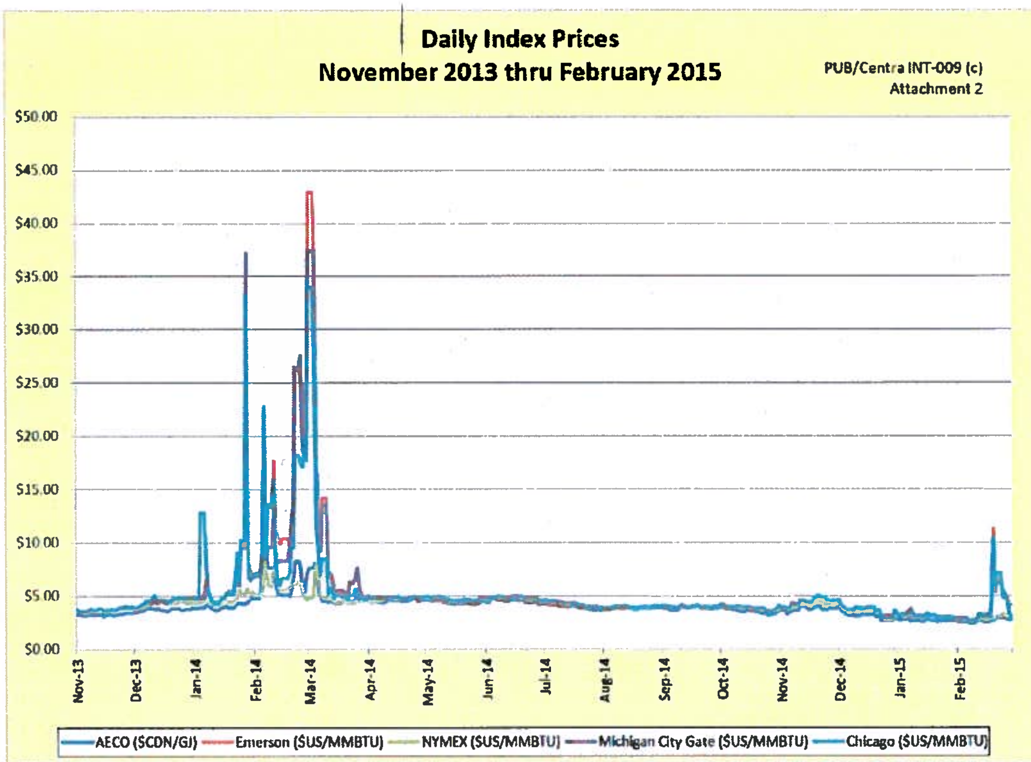
Ms. Stewart detailed in her direct evidence that Centra deployed a number of strategies throughout the winter of 2013/14, starting as early as November 1, 2013, <u>the very first day of the winter season</u>. [redacted]

With regard to the "outlier prices" that CAC references in paragraph 28 of its Final Argument, Centra's response to PUB/Centra 9b) and c) provided daily index prices at a number of supply hubs. The graph below clearly shows that prices had not in fact been "proliferating in a sustained manner" "over a substantial course of time" prior to Centra undertaking additional concerted actions in response to the volatile market conditions.

---

[48] 2015/16 COG Proceeding, CAC's Final Argument, paragraph 28.
[49] 2015/16 COG Proceeding, CAC's Final Argument, paragraph 29.

Figure 16



Ms. Stewart addressed the cause of the short-term price spike experienced in late January 2014 in her testimony, namely the physical pipeline rupture[50] on the Mainline near Otterburne, MB.

There was another day of outlier prices that occurred on February 6, 2014, but prices receded immediately thereafter.

The sustained period of outlier prices did not begin until the February 22-24, 2014 weekend (i.e., gas was trading on Friday, February 21 for the normal Saturday-Monday three-day weekend block). As gas continued to trade at these elevated price levels on February 24 for the February 25 gas day, [redacted]

[50] 2015/16 COG Proceeding, Transcript page 620, lines 4-15.

[redacted]

This timeline is evidence of timely and reasonable action by Centra.

10.2. CAC's argument is highly dependent upon the use of hindsight

[redacted]

Wihtout the benefit of hindsight, Centra has no way of predicting whether that incremental capacity would be or would not be necessary as it is impossible to predict the weather conditions for the upcoming winter season. [redacted]

It is only now, with the benefit of perfect 20/20 hindsight, that CAC is able to suggest a particular set of portfolio transactions that Centra could have taken in the fall of 2013 that might possibly have yielded lower overall gas costs for customers under the exact conditions experienced during the 2013/14 winter alone.

Mr. Kostick expressed the following caution of using hindsight inferences and assertions as follows:

> *... you know, hindsight can always find a lower-cost option in any circumstance. In any year, you could look at pricing that unfolded. Pick any point in time and say, If we had done something at this point instead of that point, you might have had a better outcome.*[52]

---

[51] 2015/16 COG Proceeding, CAC's Final Argument, paragraph 92.
[52] 2015/16 COG Proceeding, Transcript page 616, lines 17-22.

Ms. Stewart reiterated this point in her testimony when she stated,

> "... *there is no doubt that you will find in the record opportunities that would have resulted in lower costs. But you're cherry picking.*"[53] and "*We stepped into the market on February the 26th. That's a reasonable action for Centra to have taken. We've demonstrated that it's ultimately resulted in savings for ratepayers. Other than that, our portfolio was sound. It was reliable. It was cost-effective.*"[54]

10.3. Stauft's analyses are unrealistic and overstate savings and CAC's alternatives significantly add to annual gas costs

[redacted]

[redacted]

[redacted]

---

[53] 2015/16 COG Proceeding, Transcript page 619, lines 20-22.
[54] 2015/16 COG Proceeding, Transcript page 620, lines 19-24.
[55] 2015/16 COG Proceeding, Centra's Rebuttal Evidence, page 24, lines 19-22.
[56] 2015/16 COG Proceeding, CAC's Final Argument, paragraph 97.
[57] 2015/16 COG Proceeding, CAC's Final Argument, paragraphs 99 & 100.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

These very large net cost additions must be considered in relation to the comparatively small and speculative theoretical gains assumed by CAC in paragraphs 99 and 100.

[58] 2015/16 COG Proceeding, Centra's Rebuttal Evidence, page 24 lines 24-38, and page 25 lines 1-8.

Again, Centra reminds the PUB that CAC's calculations are unsupported and unsubstantiated, featuring a new and untested methodology, and should not accept its validity in any way.

As the PUB is well aware, Centra plans its gas supply, transportation, and storage portfolio on a long-term basis in order to balance the requirement to serve its firm customers under all weather conditions. It is unreasonable for CAC to focus on the gas costs associated with a 1 in 20 year weather event with the benefit of perfect hindsight, while ignoring the much higher long term costs to customers of employing this approach. This selective, perfect hindsight approach should be outright rejected by the PUB.

10.4. CAC's recommendation for a disallowance of any amount is entirely inappropriate in these circumstances

Based upon Mr. Stauft's allegation that Centra's actions were "unreasonable", CAC concludes in its final argument that the PUB should punish Centra by ordering a disallowance.

An order for a disallowance is rare and severe, indicating that Centra's actions not only fell outside of the range of reasonableness, but were so irresponsible that a signal in the form of a financial penalty must be sent to Centra. It is an infrequently used penalizing action.

Centra maintains that the comparison between Centra's results and that of other LDC's are relevant and pertinent to the determination of prudence. The extraordinary weather conditions were experienced across the country and therefore, other LDC's were forced to react to similar extreme conditions. Centra is not aware of, nor is there any evidence of, LDC's gas costs not being fully recovered as a result of the extraordinary 2013/14 winter. As such, any finding of imprudence by the PUB would result in Centra being a complete outlier in the Canadian utility industry.

In the OPG case, the Supreme Court of Canada acknowledged that the purpose of a disallowance is "'to send a clear signal that OPG must take responsibility for improving its performance' (Board Decision, at p. 86)."[59]

The Supreme Court of Canada ("SCC") in *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2015 SCC 45 at paragraphs 62 and 63, articulated that the purpose of a disallowance should not be to lessen rate impacts for consumers:

> … Regulators may not justify a disallowance of prudent costs solely because they would lead to higher rates for consumers. But that does not mean a regulator cannot give any consideration to the magnitude of a particular cost in considering whether the amount of that cost is prudent.
>
> Indeed, it seems axiomatic that any time a regulator disallows a cost, that decision will be based on a conclusion that the cost is greater than ought to be permitted, which leads to the inference that consumers would be paying too much if the cost were incorporated into rates. **But that is not the same as disallowing a cost solely because it would increase rates for consumers... [T]he Commission reasoned from the prudence of the costs themselves, not from a desire to keep rates down, to arrive at its conclusion to disallow costs. (emphasis added)**[60]

Therefore, it is clear that any disallowance shall only be made resulting from the prudence of the costs themselves.

All actions taken by Centra have been responsible and clearly fall within the range of reasonableness. Centra conducted its affairs with the appropriate gas supply plan, experienced traders, and adequate supervision. At no time during this proceeding have the experience, motivation, knowledge, or skill of Centra's employees been called into question. In short, a finding of imprudence or any form of cost disallowance is not

[59] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44 at 111.
[60] *ATCO Gas and Pipelines Ltd. v. Alberta (Utilities Commission)*, 2015 SCC 45 at 62 & 63.

justified or warranted when considering the entirety of the circumstances of this Application.

11.0 CONCLUSION

Centra's mandate is to acquire, manage and distribute supplies of natural gas to serve Manitobans in a safe, reliable, cost effective and environmentally appropriate manner.

The characteristics of the Manitoba natural gas market, along with the geographic location of the Province, make it an inherently challenging market to serve. Manitoba has some of the most extreme and volatile weather in North America and Centra's customer base is largely comprised of residential and small commercial customers with predominantly space heating requirements. These challenges also include Centra's captivity to TCPL's Mainline for all natural gas supplied delivered to Centra's distribution system without access to local storage.

The high variability in local weather and the sensitivity of Centra's natural gas load to changes in temperature create significant challenges for the planning, forecasting, operation and optimization of a natural gas supply, transportation and storage portfolio. Centra plans and designs its gas supply portfolio to meet a wide range of potential market requirements and these challenges, including being able to serve its firm load on the coldest day that can be expected based on historical weather data.

Centra made the appropriate considerations heading into the 2013/14 winter including addressing regulatory developments of the Mainline; updating volume forecast and usage coefficients; assessing the range of potential market requirements it may be required to serve; observing and monitoring market conditions; and engaging in discussions with counterparties. As detailed earlier in this Final Argument, Centra undertook a number of substantive and specific actions heading into the winter of 2013/14, which resulted in a gas supply portfolio that performed reliably and cost-effectively for customers.

Centra uses a number of portfolio and operational strategies to ensure security of supply, reliability and operational flexibility in its gas supply arrangements.

These portfolio strategies include the use of seasonal storage and transportation arrangements to improve its purchase load factor; optimizing the use of higher cost assets; evaluating the cost-effectiveness of the portfolio over the long-term; ensuring a diversity of supply hubs and transportation paths; and enhancing reliability and operational flexibility through the use of storage, swing supplies and use of the late night nomination window.

Centra's operational strategies include planning around a wide range of potential market requirements (i.e., the coldest and warmest scenarios); protecting seasonal storage inventory giving consideration to the expectations of Interruptible customers; augmenting daily deliverability as required; and protecting storage deliverability for firm customers

Centra made the appropriate considerations heading into the 2013/14 winter including addressing regulatory developments of the Mainline; updating volume forecast and usage coefficients; assessing the range of potential market requirements it may be required to serve; observing and monitoring market conditions; and engaging in discussions with counterparties. As detailed earlier in this Final Argument, Centra undertook a number of substantive and specific actions heading into the winter of 2013/14. This resulted in a gas supply portfolio that performed reliably and cost-effectively for customers, even during the extreme weather and extraordinary market conditions in 2013/14, that was not only experienced in Manitoba but across North America.

The customer bill impacts arising from the Application, including the extraordinary 2013/14 winter, are modest and fall within the range of bill impacts that natural gas customers have historically experienced within Manitoba. Furthermore, Centra's customers experienced a relatively narrow range of bill impacts when compared to other jurisdictions that similarly experienced the extraordinary 2013/14 winter.

Centra's gas supply personnel, as demonstrated throughout this entire hearing process, are extremely knowledgeable and dedicated, were successful in obtaining a reliable gas supply at the best value for Manitoba ratepayers, through a balanced, diversified, reliable, flexible portfolio that minimizes supply risk.

All of the decisions by Centra were made with sound and reasonable judgment with the sole motivation of securing a reliable and cost effective supply of natural gas in the best interests of Manitobans, directly in accordance with its mandate.

Centra acted in good faith in accordance with its mandate during the winter of 2013/14, and incurred gas cost on behalf of its customers during that difficult set of circumstances. Centra did so under the expectation that as long as its actions were reasonable, it would recover all of the gas costs incurred to serve its customers.

For all of the above-noted reasons, Centra submits that it has clearly met its onus of proof that the rates resulting from this Application are just and reasonable. As Mr. Rainkie concluded at page 61 of the transcript:

> Centra has fulfilled its mandate and continues to provide valuable service to customers, and as such it is appropriate that the PUB allow full recovery of the 2012/'13, 2013/'14, and 2014/'15 gas costs embedded in this rate application, and that we bring a close to these matters so that we can move forward and focus on the challenges that lie ahead in the 2015/'16 gas year and beyond.[61]

[61] 2015/16 COG Proceeding, Transcript page 60 lines 19-25 and 61.