March 31, 2013

The Honourable Jim Rondeau
Minister of Healthy Living, Seniors and Consumer Affairs
319 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister Rondeau:

Reference: 2012-13 Annual Report, The Public Utilities Board

Pursuant to the provisions of Section 109(1) of *The Public Utilities Board Act,* and on behalf of my fellow Board members and myself, I am pleased to convey to you the Public Utilities Board's (Board) Annual Report for the year ended March 31, 2013. The year under review was the Board's 100th year of service to Manitoba.

The part-time Board Members and full-time Chair were assisted by both a staff of seven and a roster of Board legal counsels and advisors. I am thankful for their knowledgeable and dedicated support; it enabled the Board to achieve the results outlined in this report.
I thank the regulated entities and the interveners who collaborated with the Board in its work.

During 2012-13, many long standing members left the Board, including Graham Lane, Bob Mayer, Len Evans, Dr. Kathy Avery Kinew and Monica Girouard. These departing members served the Board with dedication over an extended period of time.

Sincerely,

R. Gosselin

Régis Gosselin
Chair

Le 31 mars 2013

M. Jim Rondeau
Ministre de la Vie saine, des Aînés et de la Consommation
Palais législatif, bureau 319
Winnipeg (Manitoba)
R3C 0V8

Monsieur le Ministre,

Objet : Rapport annuel 2012-13, Régie des services publics

Conformément aux dispositions du paragraphe 109(1) de la *Loi sur la Régie des services publics*, j'ai le privilège de vous présenter, de la part des autres membres de la Régie et en mon nom propre, le rapport annuel de la Régie des services publics pour l'exercice qui s'est terminé le 31 mars 2013. L'exercice visé par le rapport constituait la 100e année de service de la Régie au Manitoba.

Les membres à temps partiel de la Régie et son président à temps plein ont été assistés par sept employés et une équipe composée d'avocats et de conseillers de la Régie. Je les remercie pour leur appui. Cet appui a fait en sorte que la Régie a accompli les résultats énumérés dans ce rapport.

Je remercie les fournisseurs et intervenants qui ont collaboré au travail de la Régie.

Au cours de 2012-13, Graham Lane, Bob Mayer, Len Evans, Dr. Kathy Avery Kinew and Monica Girouard, ont quitté la Régie. Ils ont été des membres dévoués pendant plusieurs années.

Je vous prie d'agréer, Monsieur le ministre, mes sincères salutations.

Le président,

Régis Gosselin

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## Highlights

During the reporting period, the Board successfully transitioned from a membership composed of mostly long-serving and, thus, very experienced members to one composed primarily of newly appointed, though very capable, members. In addition, the previous Chair, Graham Lane, retired on March 31, 2012 and was replaced by me. Finally, Bob Mayer, Vice Chair was replaced by Karen Botting. This orderly transition was achieved with the collaboration of the outgoing Chair and members, and the Board’s very dedicated permanent staff, as well as the Board’s advisors.

On November 15, 2012 the Minister of Innovation, Energy, and Mines announced that the provincial government had asked the Board to conduct the Need for and Alternatives To (NFAT) process for Keeyask and Conawapa generating stations, and planned transmission facilities using a sub-panel of PUB. (Note: The terms of reference for the NFAT were issued on April 17, 2013.)

During the year ended March 31, 2013, the Board held oral public hearings with respect to:

- Manitoba Hydro`s General Rate Application for the years 2012-13 and 2013-14 (the related order was issued after the end of the reporting period). The hearing of this rate application was preceded by Board approval of two interim rate increases (2.0% as of April 1, 2013 and 2.5% as of September 1, 2013).
- Centra Gas Inc. (approval of contract terms of its storage and transportation portfolio)
  - Approved the fixed costs associated with eight proposed contracts between Centra and Great Lakes Gas Transmission and ANR Pipeline. This allowed Centra to finalize a seven-year Transportation & Storage Portfolio effective April 1, 2013. The Portfolio will be used to transport and store western Canadian natural gas into eastern U.S. storage facilities during the summer months and draw on that gas for Manitoba customers during the winter months. Centra’s Transportation & Storage Portfolio was initiated in 1993 and expired on March 31, 2013. Approval of the Portfolio’s fixed costs allowed Centra to reduce the amount of firm transportation capacity Centra holds on the TransCanada Gas Pipelines Limited (TCPL) system providing cost savings to Centra and its customers of approximately $3 million per year compared to the previous Portfolio.
- Manitoba Public Insurance Corporation (MPIC):
  - Approved the application of MPI for no overall rate level change in compulsory motor vehicle premiums for the 2013/14 insurance year, effective March 1, 2013
  - Approved MPI’s request that there be no change in vehicle premium discounts, fleet rebates or surcharges, service and transaction fees, permit and certificate rates or the discount provided to customers with approved, installed anti-theft devices.
  - Approved, for rate making purposes, the adoption of a different cost allocation methodology as proposed by MPI, including the use of net claims incurred as a cost allocator and the use of four-year rolling averages for determining costs to address annual volatility.
- A number of municipal and privately-owned water and sewer utilities (RM of Rockwood-Gunton, RM of Riverside-Ninette, RM of Woodlands, RM of Woodlands-Warren, RM of Harrison-Newdale, LGD of Pinawa, Town of Lac du Bonnet, Ethelbert, RM of Mountain-LUD of Birch River, RM of Brokenhead-LUD no. 1, RM of Springfield).

The Board also heard oral public appeals of Highway Traffic Board decisions related to highway access and signage decisions.

*Ex- parte* paper reviews of rate applications by various entities were completed. For example, many water and sewer rates were approved using this abbreviated process, a cost saving measure.

In addition, the Board approved numerous rate applications that were based on Board approved formulas for calculating rates, for example, weekly Manitoba Hydro surplus energy rates and quarterly Centra Gas commodity rates.

In summary, the Board issued 168 Orders and 203 licences (2011-12 : 159 Orders and 209 licences).

The impact of the Board's decisions continues to be significant. The Manitoba Hydro rate application is seeking an approximate increase in base rates of 1.8% during for the period between April 1, 2011 to March 31, 2014. Centra Gas's application seeks a non-commodity revenue increase of 2%, this after a few years of stability in non-commodity rates.

The Board spent $1.177 million to support its operations. The total initial budget was $1.35 million. This result compares favourably with the total expenditures of $1.117 million in 2011-12.

The Board's aggregate operating costs (including operating, advisor costs) totaled $3.499 million compared to $4.408 million during 2011-12.

Prior to the start of the current reporting period, the Board was experiencing a significant backlog of water and sewer rate applications. This backlog was significantly reduced during 2012-13, in part because of increased resources. The Board took steps to revamp its application guidelines; the Board expects that once finalized and implemented, Board approvals of rate applications will be significantly improved.

The Board also addressed two outstanding court cases.

- An appeal launched by Manitoba Public Insurance in the Manitoba Court of Appeal in the matter of the Personal Injury Protection Plan (PIPP) insurance coverage offered to truckers was withdrawn after the Board withdrew its order that required such costs be allocated to a non-Basic line of business.
- An appeal was launched by Manitoba Hydro in the Manitoba Court of Appeal after the Board issued a subpoena seeking access to contracts signed by Hydro with US buyers; after negotiations leading to a negotiated agreement that ensured the Board would be able access to relevant documents, including the export contracts, as part of its Need For and Alternatives To review of Manitoba Hydro`s Preferred Development Plan, the Board withdrew its subpoena.

# Regulated Entities

## Manitoba Hydro (MH) - Electricity

Manitoba Hydro (MH) is Manitoba's largest Crown Corporation, with annual revenues in excess of $2 billion and a staff complement of approximately 6,600.

MH is very important to the Province, through the provision of required electricity and natural gas, by furthering economic and sustainable development, by building First Nations' relationships, and by its annual contributions to the Province's Consolidated Fund (water rentals, capital tax, payroll tax, debt guarantee levies, income taxes on employee and agent income, spin-off corporate and other taxes, and the inclusion of the Utility's annual net income within the Province's Summary Accounts). The net income of all Crown agencies (which include MH, Centra and MPI, but not municipal utilities) are consolidated within the Province's overall accounts in determining the Province's overall surplus or deficit each year.

**Rate Applications:**

On March 30, 2012, Manitoba Hydro filed an interim application seeking reinstatement of the 1% rollback accumulating in the deferral account balance, maintaining the base rates approved in Orders 30/10 and 40/11, and seeking an additional 3.5% rate increase effective April 1, 2012, all based on lower than forecast export revenues and a winter that was warmer than normal. In Order 32/12, the Board awarded a 2.0% inflation-based rate increase effective April 1, 2012 and denied a reinstatement of the 1.0% rollback.

On June 12 2012, Manitoba Hydro submitted a General Rate Application that included various matters for approval.

In Order 5/12, the Board had awarded a 1.9% rate increase effective April 1, 2010 and a 2.0% rate increase effective April 1, 2011. Since the April 1, 2010 final rate increase was lower than the interim rates approved and collected by Manitoba Hydro, the Board directed the Corporation to create a deferral account. Manitoba Hydro sought to Review and Vary Order 5/12, indicating a deteriorating financial condition as a result of a mild winter, below-normal precipitation and lower export revenues due to the U.S. economic downtown. In Order 19/12, the Board denied the Review and Vary request but indicated that the matter would be dealt with as part of the next General Rate Application. Total revenues accumulated in the deferral account totaled $36 million as of March 31, 2013, with another $14 million expected to accumulate by March 31, 2014.

Effective September 1, 2012, Manitoba Hydro requested a mid-year 2.5% rate increase based on lower than projected domestic and export revenues and a projection that 2012/13 total hydraulic generation would be approximately 1,000 GWh below the post-Wuskwatim average, resulting in a net export revenue reduction of $30-40 million. In Order 117/12, the request for an interim 2.5% rate increase was granted, based on the lower projected revenues. During the General Rate Application proceeding, it was determined that Manitoba Hydro's hydraulic generation and export projections presented as part of the Application for an interim September 1, 2012 rate increase (which were based exclusively on 1$^{st}$ quarter (Q1) data) were much better than expected.

Manitoba Hydro filed an application seeking various rate increases, in addition to the 2.5% across the board rate increase effective September 1, 2013 mentioned earlier:

- Approval of a further 3.5% increase in overall revenue effective April 1, 2013, sufficient to generate additional revenues of $48 million in 2013/14;
- Approval to maintain in base rates the rates approved by the Public Utilities Board in Orders 30/10 and 40/11, and include in current year revenues the revenues previously billed and collected, which have been accumulated in the deferral account pertaining to rates implemented April 1, 2010;
- Final approval of Orders 32/12 and 34/12 approving interim rates effective April 1, 2012, and final approval of any other interim rate Orders issued subsequent to the filing of the Application and prior to conclusion of this proceeding;
- Approval, on an interim basis, of rate schedules incorporating a 6.5% rate increase effective September 1, 2012 for the full-cost portion of the rate applicable to general service and government customers in four remote communities served by diesel generation, sufficient to generate additional revenue of $0.2 million in 2012/13;

Manitoba Hydro's application for a 3.5% April 1, 2013 overall revenue increase was based on its expressed need to lessen the projected deterioration of its financial ratios in future years and maintain its financial and credit rating integrity. Manitoba Hydro also indicated that rate increases were needed to compensate for reduced non-firm export prices and address increased costs to maintain its aging infrastructure. Furthermore, Manitoba Hydro's financial forecast indicated annual increases of 3.95% would be required over the next twenty years, compared to annual inflation forecasts of 2% per annum.

The Board has been concerned about the level of Manitoba Hydro's operating, maintenance and administration costs for some time. From 2009/10 to 2013/14 (forecast), Manitoba Hydro's total annual electric Operation, Maintenance & Administration cost has grown from $662 million to $802.4 million. When capitalized costs are factored out, Operation, Maintenance & Administration relating to electric operations increased from $377.6 million in 2009/10 to a forecast $470.6 million in 2013/14. The increase has been due to a growth in staffing levels and accounting policy changes.

Over 75% of Manitoba Hydro's Operation, Maintenance & Administration costs relate to labour costs, including employee benefits. Wages and salaries increased by an average of 4.5% per year, primarily as a result of contract settlements with bargaining units and an increase in total Equivalent Full-Time employees. The increase in Equivalent Full-Time employees has been attributed to growth in Manitoba Hydro's capital program, including new generation and transmission projects such as Bipole III, Keeyask Generating Station, Conawapa Generating Station, and Pointe du Bois Generating Station. To a lesser degree, Manitoba Hydro attributed the employee growth to operational support for various initiatives, including the commissioning of Wuskwatim Generating Station and the meter compliance program.

Manitoba Hydro's capitalization policies have also been of concern to the Board. Manitoba Hydro capitalized $321.8 million (44%) of Operation, Maintenance & Administration costs in 2011/12 and forecasted to capitalize $324.4 million (42%) in 2012/13 and $331.8 million (41%) in 2013/14. The vast majority of costs capitalized is labour and benefits. Capitalized Equivalent Full-Time employees have grown from 2,369 Equivalent Full-Time employees in 2007/08 to a forecast of 2,825 Equivalent Full-Time employees for the two test years.

The rate application reflected the impact of the implementation International Financial Reporting Standards.

Since 2007/08, Manitoba Hydro has made changes to its capitalization practice to move away from "full cost" accounting and provide consistency with other Canadian utilities. Manitoba Hydro capitalizes overhead costs directly attributable to capital initiatives and has identified certain previously capitalized costs that would exist regardless of whether or not Manitoba Hydro incurred capital spending. Since 2009/10, Manitoba Hydro has removed approximately $29 million from capitalized overhead, with a further $27 million forecast for 2012/13, for a total of $56 million in 2012/13 and $57.6 million in 2013/14. The change in capitalization practice is consistent with Canadian Generally Accepted Accounting Principles and is directionally consistent with International Financial Reporting Standards.

Manitoba Hydro has also identified an additional $36 million in overhead costs that it plans on expensing when Manitoba Hydro adopts International Financial Reporting Standards in 2015/16. In total, over $93 million in overhead costs will be expensed when International Financial Reporting Standards are implemented. The new standards do not allow the capitalization of advertising and promotional activities, administrative and other general overhead expenditures, property and business taxes and interest on common assets.

International Financial Reporting Standards do not currently recognize "rate-regulated accounting". To comply with International Financial Reporting Standards, Manitoba Hydro may be required to write off the accumulated balance of its rate-regulated assets against retained earnings and expense, as incurred, expenditures previously deferred due to rate regulation. A major annual rate-regulated expense for Manitoba Hydro is Demand-Side Management. Under its existing rate-regulated accounting practices, Manitoba Hydro capitalizes Demand-Side Management expenses and depreciates them over a period of ten years. Manitoba Hydro's rate regulated assets were $310 million as of March 31, 2012, of which $233 million relate to electric operations and $77 million to gas operations.

The Accounting Standards Board has granted deferrals for Canadian utilities with rate regulated assets and liabilities, which will delay Manitoba Hydro's implementation of International Financial Reporting Standards until 2015/16. The International Accounting Standards Board has indicated that it will be issuing an interim standard that may grandfather rate regulated accounting practices.
(Note to readers: An interim standard was issued after March 31, 2013.)

Depreciation expense is recognized on a straight-line basis over the estimated remaining service lives of assets, which lives are determined pursuant to periodic depreciation studies. Manitoba Hydro filed a March 31, 2010 depreciation study prepared by Gannett Fleming. Gannett Fleming recommended several extensions of assumed service lives and the creation of several new asset classes, most notably through the creation of a new “Dams, Dykes & Weirs” category with a 125-year service life, whereas previously all dams were depreciated over 100 years. The composite average service life of a generating station was thereby increased from 100 years to 104 years. Gannett Fleming also recommended an increase in the terminal life of most generating stations from 100 years to 140 years. Overall, the new depreciation rates resulting from updated account groupings and changed service lives resulted in a reduction of depreciation expense by $40 million in 2012/13 and $44 million in 2013/14. This also resulted in an accumulated depreciation surplus of $555 million, which will be refunded over the remaining service life of each asset account, consistent with Generally Accepted Accounting Principles.

Manitoba Hydro’s current depreciation rates include a provision for net salvage, representing the cost of decommissioning and disposal of an asset when taken out of service. The rationale for including net salvage in depreciation rates is to ensure that ratepayers benefitting from the use of the asset over time are shouldering the burden of paying for the eventual decommissioning costs. International Financial Reporting Standards will no longer permit the inclusion of net salvage in depreciation rates.

Finance expense to be recovered in electricity rates was forecast to be $452 million in 2012/13 and $444 million in 2013/14. Finance expense was forecast to be over $1.6 billion in 2028, an increase of almost $1.2 billion from 2013/14 levels.

Manitoba Hydro’s annual finance expense is set to grow substantially over the next two decades as Manitoba Hydro completes major capital projects. Manitoba Hydro’s long-term debt is expected to grow to $29 billion by 2027, which will lead to a finance expense exceeding $1.6 billion in 2028; three times the current level. Capital costs for the major capital projects may escalate further and interest rates may be higher than forecast. Manitoba Hydro’s risk analysis concluded that a 1.0% increase in the interest rate yield curve over the entire forecast would increase total interest costs by $700 million. This risk will be reviewed by the Board at an upcoming Needs For And Alternatives To (NFAT) hearing with respect to Manitoba Hydro’s Preferred Development Plan.

Manitoba Hydro capitalizes (and does not recover in current consumer’s rates) all interest on capital projects until the project is placed in service. Manitoba Hydro forecasted capitalizing interest costs of $141.5 million in 2012/13 and $161.4 million in 2013/14. Overall, Manitoba Hydro was forecasting to capitalize over $5.3 billion in interest costs relating to capital projects by 2032.

Manitoba Hydro has three self-imposed financial targets:

1. A minimum debt-to-equity ratio of 75:25;
2. A gross interest coverage ratio of greater than 1:20; and
3. A capital coverage ratio of greater than 1:20, to facilitate funding all new base capital construction requirements, excluding major new generation and transmission facilities, from internal sources.

Manitoba Hydro acknowledged that the targets will not be attained during years of major investments in the generation and transmission system.

Wuskwatim Generation came on-line in 2012/13 with a Board-calculated (all-in) incremental in-service cost of $160 million/yr (10.5¢/kWh). This was estimated by the Board to be about three times the then current average export revenue rate. Wuskwatim Generating Station in average flow years adds about 1,500 GWh/yr to the existing 29,500 GWh of energy, for a total Manitoba Hydro energy capability of 31,000 GWh.

In 2003, the Clean Environment Commission conducted a hearing examining the Need For and Alternatives To the Wuskwatim project. The projected cost of the project at the Clean Environment Commission hearing was $901 million for the generating station and transmission facilities. The final cost of the project is approximately $1.77 billion. Various reasons were provided by Manitoba Hydro to explain the cost increase. Manitoba Hydro advised that it has now added a Management Reserve to its estimates for remote northern Manitoba projects (Keeyask and Conawapa) to cope with cost escalations.

The Wuskwatim Power Limited Partnership Agreement provided for a first-ever First Nations ownership stake in a Manitoba Hydro generating facility. Nisichawayasihk Cree Nation was given the option of being a Limited Partner in the Wuskwatim Generating Station with an interest of up to 33%.

Revenues received by the Partnership from the sale of power to Manitoba Hydro were based on the actual output of Wuskwatim Generating Station and were to be priced in accordance with an agreed methodology which reflected Manitoba Hydro's actual selling prices for exports. The Partnership would pay Manitoba Hydro a percentage of gross revenues to contribute towards the marketing and transmission risks borne by Manitoba Hydro.

Because of low export prices, Manitoba Hydro is now forecasting losses for the first ten years of operations of Wuskwatim. At the time of the hearing, those losses were projected to total $341 million as Manitoba Hydro forecasts the project will not be profitable until 2023. The current agreement also requires the partners to invest more money to cover operating losses.

During the hearing, Manitoba Hydro indicated its intention to re-negotiate the Agreement with the Wuskwatim Power Limited Partnership.

Manitoba Hydro is currently proceeding with the new spillway and substantial improvements to the Pointe-du-Bois dam. The Board received submissions from Mr. Per Stokke, P. Eng., a retired Manitoba Hydro engineer, suggesting that this capacity was sufficient to allow the deferral of the spillway replacement until such time as the powerhouse is rebuilt. Mr. Stokke further questioned whether modifications to the river regime were seriously explored.

Manitoba Hydro's primary export market is the market operated by the Midwest Independent System Operator (MISO), which, over recent years, has seen reduced load-growth, an increase in subsidized wind power from U.S.-based wind farms, increased utilization of combined-cycle combustion turbine gas generation, imports into the Midwest Independent System Operator market from other U.S.-based utilities, and no increase in exports from Manitoba Hydro. Since 2008/09, spot market export prices have decreased from about 8.0¢/kWh to an average of 3.2¢/kWh.

Manitoba Hydro's Northern States Power, Minnesota Power and Wisconsin Public Service existing and pending export contracts provide assured revenues for capacity and energy. Manitoba Hydro's firm contract fixed-price long-term export commitments are about 2,000 GWh per year (prior to 2015/16), about 1,200 GWh a year from 2015/16 to 2019/20, about 3,200 GWh a year from 2020/21 to 2024/25 and about 1,500 GWh a year until 2035. However, in average flow years, this means firm contract prices will apply to no more than approximately 50% of the energy sold to 2024/25 and less than 20% thereafter.

Manitoba Hydro's Power Smart Plan consists of Demand-Side Management energy conservation and load management activities designed to lower the demand for both electricity and natural gas in Manitoba. Manitoba Hydro's 2011 Power Smart plan reflects spending of $34.4 million in 2012/13 and $34.7 million in 2013/14. However, in the course of the General Rate Application, Manitoba Hydro filed an update which lowered estimated spending to $28.5 million in 2012/13 and $28.0 million in 2013/14. The reductions were part of Manitoba Hydro's capital prioritization plan, reflecting a decreased availability of economically beneficial Demand-Side Management opportunities in the Manitoba marketplace.

The current 15-year Power Smart Plan targets 597 MW and 1,944 GWh of energy savings, representing 3.8% of the estimated electric load forecast for 2025/26. Cumulative energy and demand reduction achieved (including savings to date) is forecast to achieve 3,283 GWh/year of energy savings and 906 MW of winter demand by 2025/26. The cumulative savings are forecasted to reduce carbon dioxide ($CO_2$) equivalent emissions by 2.5 million tonnes.

Manitoba Hydro initially evaluates new Demand-Side Management programs based on a Marginal Resource Cost Screen, which compares the expected benefits to the incremental capital costs. If programs pass the initial screening, they are subjected to a more detailed analysis based on the Total Resource Cost and Rate Impact Measure tests.

Manitoba Hydro utilizes a marginal cost value of 8.5 ¢/kWh in its Demand-Side Management screening, which includes the expected value of electricity exports. However, consecutive Integrated Financial Forecasts since IFF09 have shown a material decline in the export revenues forecast. Manitoba Hydro has indicated that if incremental export revenues were to decline to a level where they no longer offered an offsetting value, the marginal benefits of Demand-Side Management would then shift from the export market value to a valuation of the benefit of deferring new generation facilities, recognizing that there is an economic benefit to achieving load savings in the Province.

The Board issued its decision related to the rate application on April 26, 2013 after the end of the fiscal year.

**Diesel Rate Application**

Four remote and northern communities remain “off grid” (not connected to the transmission grid and reliant on diesel generated electricity). Diesel generation results in very high service costs (involving significant subsidization by the federal and provincial governments and Manitoba Hydro’s grid customers), environmental issues and less than adequate electricity service to the residential and other customers of MH located in these communities.

On October 5, 2006, MH applied to the Board for *ex parte* approval of proposed amendments to interim Diesel Zone rates. The application was to increase rates to meet increased fuel and operating costs since 2004, as well as to provide for gradual recovery (through rates) of a deficit that has accrued while awaiting finalization of a Settlement Agreement involving the Federal Department of Indian and Northern Affairs (INAC). The Settlement Agreement includes provisions requiring federal contributions to MH operating and capital costs related to electricity service to First Nations communities served by diesel-generated electricity. The Board approved the application on an interim *ex parte* basis, effective January 1, 2007.

Since then, interim rates have been further adjusted, awaiting finalization of the Settlement Agreement. On November 16, 2009, the Board held a one-day hearing at which MH updated the Board and interveners on the progress of the agreement with INAC. While rates in the Diesel Zone continue to be insufficient, there was sufficient doubt as to the eventual terms of the INAC agreement to preclude the Board from further increasing the rates at that time. Accordingly, MH was once again directed to file an application to amend and finalize diesel community rates and all outstanding and interim Orders related to the Diesel Zone following finalization of the tentative Settlement Agreement with the federal government.

An extensive oral hearing was held during the September to December 2010 period, and involved as interveners INAC, Manitoba Keewatinowi Okimakanak Inc., and Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS ). The Board, concluding from the Hearing that the present service continued to be inadequate and excessively costly to the community, reduced the tail-block rate for residential and other small consumers and indicated an intention to further reduce the tail-block rate for those consumers to grid rate levels over time.

The Board made the following two major recommendations:

1. that, either through INAC and/or MH, and with the agreement and cooperation of the affected First Nations, each and all of the housing stock in the four communities be reviewed, and a comprehensive inventory of deficiencies be developed towards a goal of upgrading or replacing the housing stock so that Demand Side Management (DSM) measures to reduce electricity consumption and heating bills (from what they would otherwise be, or be expected to be), can be effectively employed; and

2. that the existing Electricity Service Limitations in the Diesel Zone be removed by way of connecting the communities to the transmission grid; and, concurrently, upgrading First Nations' housing stock.

The Board concluded that the establishment of just and reasonable rates would be best represented by grid rates for all Residential and non-government General Service consumption, with no restriction as to heating electrically. Rates were then, again on an interim basis, approved to be charged in the Diesel Zone communities of Barren Lands First Nation and Brochet, Northlands Denesuline First Nation (Lac Brochet); Sayisi Dene First Nation (Tadoule Lake); and Shamattawa First Nation (Shamattawa), to take effect for January 1, 2011 to December 31, 2011.

Subsequently, in 2011, the Board again reviewed the situation facing the four remote northern First Nation communities. Noting 'ever-increasing' diesel costs and environmental risks, on-going economic and social challenges, and a still not-finalized Settlement Agreement, the Board once again (on an interim) reduced the residential rates in the communities to the level charged to the rest of the Province.

In Order 116/12 the Board approved a 6.5% interim rate increase on the full-cost portion of the rate applicable to General Service and government customers in the diesel zone. This increase is projected to provide $200,000 in 2012/13 and $300,000 in 2013/14. In total, there are eight interim diesel orders identified in Manitoba Hydro's filing. Manitoba Hydro requested that if Manitoba Keewatinawi Okimakanak files the true copies of the settlement agreement prior to the issuance of the General Rate Application Order, the interim orders be approved as final. If the true copies are not filed, Manitoba Hydro requests the Board's final approval be granted conditional upon the filing of the true copies of the settlement agreement. (Note to readers: In its order issued after the end of the fiscal year, the Board decided not to finalize the interim orders until it received true copies of the settlement agreement.)

**Cost of Service:**

MH rates for Manitoba customers are primarily based on the cost of the service provided to various customer classes. In setting rates, the Board also considers environmental, general economic and other factors.

Industrial customers benefit from much lower electricity rates than residential customers, both in absolute terms and also relative to the "discount" from average Canadian electricity prices enjoyed by all customer classes, as the firms within the large industry rate class do not require the use of MH's distribution assets, being served directly off transmission lines.

The Board decided not to consider cost of service issues as part of its consideration of the General Rate Application.

**Curtailable Rate Program (CRP)**

Manitoba Hydro's Curtailable Rate Program allows the Utility to curtail a portion of a large industrial customer's peak load in exchange for reduced rates on that same portion of the load when not curtailed. The objective of the program is to be able to reduce electrical load at peak times when the system is near maximum capacity.

In its rate application, Manitoba Hydro proposed to reduce the maximum amount of Curtailable Rate Program capacity that Manitoba Hydro will contract for with General Service Large customers, but expects to achieve this with minimal impact to existing customers. Presently the Curtailable Rate Program cost is about $6 million/yr or about 10% of Manitoba Hydro's annual demand billing to General Service Large >100 customers. The apparent value of short-term capacity in the Midwest Independent System Operator Capacity market has dropped substantially due to lower load growth in the area and also due to the greater availability of quick response natural gas generation. Additionally, when Manitoba Hydro brings Keeyask Generating Station on-line, there will be surplus capacity in Manitoba Hydro's system. That, coupled with lower Midwest Independent System Operator reserve requirements, removes much of the benefit to Manitoba Hydro of the Curtailable Rate Program.

(Note to readers: In its Order issued after Match 31, 2013, the Board accepted Manitoba Hydro's rationale for reducing the Curtailable Rate Program offering in response to the current capacity market decline. However, recognizing the potential Demand-Side Management resource expansion proposals that may be put forward during the pending Needs For And Alternatives To process, the Board approved Manitoba Hydro's proposed Curtailable Rate Program cutback on an interim basis until a subsequent General Rate Application.)

**Weekly Surplus Energy Rate Settings (*Ex Parte* Process)**

Manitoba Hydro's Surplus Energy Program (SEP) provides large industrial customers the opportunity to purchase "excess" electricity (either generated or purchased by MH) at similar rates to those made available to export customers by way of MH's opportunity sales. Opportunity export sales prices have fallen significantly since the onset of the recession in 2008, driven in part by reduced growth in industrial demand, and also the advent of commercial production natural gas from shale deposits.

Through an *ex parte* process, the Board establishes weekly interim rates for MH's SEP; the rates are determined based on sales prices for export sales to the United States, and provide comparable rates for sales to Manitoba industry. Approximately 50% of MH's export sales are expected to be established by contract; the rest to be sold by way of opportunity sales, which are based on current electricity market wholesale prices and the level of excess generation and transmission available to MH.

Since the global credit crisis of 2008/09, the recession and the slow-down in the demand for electricity that followed, MH's SEP pricing has remained at very low levels, representative of much lower opportunity export revenue that has yet to recover, affecting MH's current profitability.

The SEP was first approved by the PUB in Order 90/00, dated June 30, 2000, as a replacement program for three other service programs, namely the Industrial Surplus Energy Program, the Dual Fuel Heating Program, and the Surplus Energy to Self Generators Program. Order 90/00 stipulated that the SEP would terminate on March 31, 2004. Since that time, the SEP has been extended on several occasions. The most recent extension was granted in Order 57/09, which set a March 31, 2013 expiry date.

Under the SEP, MH makes surplus energy (i.e., energy exceeding the utility's domestic and export requirements) available on an interruptible basis to its General Service (GS) customers, under three different program options:

- Industrial Load - Option 1
  Available to industrial loads whose total monthly demand is 1,000 kVA or greater. Under this option customers may only designate 25% of their total load as SEP load.

- Heating Load - Option 2
  Available to electrical loads of 200 kW or greater. The electricity is to be used for space and/or water heating only and must be separately metered from the customer's firm load. Customers must have an alternate back-up energy source capable of heating the entire load in the event of an interruption.

- Self-Generation Displacement - Option 3
  Available to industrial intermittent loads with total demand between 200 kW to 50,000 kW. Load would not be considered intermittent if the average monthly load factor exceeds 25%. The load must be separately metered from the customer's firm load and must be fully backed up by generating equipment which is leased or owned by the customer and is located on the premises of the SEP load.

All SEP customers are billed a monthly Basic Charge, Distribution Charge and an Energy Charge. The monthly Basic Charge is fixed and depends on the size of the connected load. The Distribution Charge per kWh ranges from $0.0006 to $0.0062 dependent on customer class. The Energy Charge per kWh, applicable to three pricing periods, varies based on expected market prices from week-to-week. The three pricing periods are peak, shoulder and off-peak, which vary depending on the season.

SEP energy prices are forecast by MH on a weekly basis for each of the peak, off-peak, and shoulder time slots and submitted to the PUB for approval. The PUB issues weekly interim *ex parte* SEP rate orders which generally are finalized as part of each GRA process.

The PUB expected to review the future of the SEP as part of the GRA hearing.

On August 3, 2012, the PUB issued a Procedural Order (Order 98/12) with respect to the hearing of the GRA. As set out in that Procedural Order, the hearing with respect to MH's Cost of Service was left for a later date, removing the matter from consideration during the hearing of the General Rate Application.

On April 10, 2012, MH filed a letter application to the PUB seeking an interim ex parte order extending the SEP to March 31, 2014, stating that this would provide the PUB and interveners with sufficient time to review the SEP during the GRA process and still provide SEP customers with assurance of reasonable notice if the result of the review is to end the program or significantly alter its terms and conditions.

Manitoba Hydro plans to make the Surplus Energy Program a permanent offering. This, along with some other changes, is intended to broaden the appeal of Surplus Energy Program to the General Service Medium and General Service Large <100 customer sub-classes which currently have enrolled in the Option 2 Surplus Energy Program. Manitoba Hydro is also looking for a final approval of a revised Option 1 which currently has no customers. The change would also allow some General Service Medium and General Service Large customers to nominate different levels of Surplus Energy Program energy purchases in peak periods (5x8 weekdays - day time), off-peak periods (7x8 weekdays - night time), and shoulder periods (other weekday or weekend periods). These changes would allow customers to tailor their optional Option 1 purchases to minimize costs and/or maximize purchase effectiveness. Manitoba Hydro has not set any overall limits on the size of the Surplus Energy Program purchases, but only on individual customers' proportion of load.

(Note to readers: In its order issued after the end of the fiscal year, the Board granted approval subject to the continuation of annual reports. It is the Board's view that allowing Option 1 to designate different reference levels based on time of use appears to have merit as an interim Surplus Energy Program amendment. However, permanent approval should await actual events with respect to load shifting.)

**Electrical Reliability**

On June 11, 2009, *The Manitoba Hydro Amendment and Public Utilities Board Amendment Act (Electricity Reliability)* S.M. 2009, c. 17 received Royal Assent. The Act established the legislative framework for the adoption of North American Electric Reliability Corporation (NERC) transmission reliability standards as mandatory, enforceable standards for Manitoba. It also contained measures respecting the enforcement of standards and to protect Manitoba's sovereignty in the context of the international reliability system.

New transmission reliability responsibilities were given to the PUB, including authority to:

- provide advice and recommendations to Government respecting fees payable to NERC;
- resolve disputes between Manitoba entities and the standards compliance authorities;
- review and remand a reliability standard on the application of a person required to comply with the standard; and
- rule on alleged incidents of non-compliance with a standard, as well as impose penalties for non-compliance.

The Act and Regulations came into force on April 1, 2012.

The adopted reliability standards will apply to owners, operators and users of the bulk power transmission system in Manitoba. Entities subject to the transmission standards include Manitoba Hydro, independent power producers (wind farms) and large industrial power users whose facilities are directly interconnected to the high voltage transmission grid and have a material impact on the bulk power system. Reliability standards do not apply to small end-users of electricity such as small businesses and residential customers.

**Manitoba Hydro (MH) and Planned Major Capital Expenditures**

On January 13, 2011, the Government of Manitoba notified Manitoba Hydro (MH) of its intention to carry out a public Needs For and Alternatives To (NFAT) review and assessment of the corporation's proposed development plan (Plan) for major new hydro-electric generation and Canada-USA interconnection facilities using an independent body.

On November 15, 2012 the Minister of Innovation, Energy, and Mines announced that the provincial government had asked the Manitoba Public Utilities Board (PUB) to conduct the NFAT for Keeyask and Conawapa generating stations and their associated transmission facilities using a sub-panel of PUB.

MH has significant new major capital expenditure plans, which include the building of an additional two new generation stations and a major new transmission line (Bipole III). The first of the three new generation stations, Wuskwatim Generation Station, began operations in MH's 2012/13 fiscal year. Manitoba Hydro has already advised that its preferred development plan will result in significantly higher electricity rates.

While projected by MH to enhance service reliability and profitability, the plans would also provide for increased exports (and potentially imports in the case of a drought), if implemented the plans will result in significantly increased MH borrowing and, hence, negatively affect the Utility's debt: equity ratio (increasing debt at least until such time a new plant is in service and profitable, sufficient to generate additional sales at pricing allowing for increased retained earnings - to allow the debt: equity ratio to return to the target 75:25 debt: equity ratio).

With ever-present risks (droughts, currency fluctuations, interest rate changes, updates to construction cost forecasts, the lingering effect of the recession and shale gas production affecting demand and export pricing) that could negatively impact on the Utility's future profitability, the Board has maintained its ongoing focus on the Utility's debt: equity ratio and rate adequacy.

Other major capital investments in new generating stations are also expected by MH and the Province, these being Keeyask and Conawapa. As well, enhancements of existing generating stations and new transmission capacity, including the planned Bipole III, are anticipated, bringing projected capital expenditures over the next ten or so years, and including "normal" capital expenditures, to $20 billion or more.

MH is also seeking to improve energy efficiency and heat retention in co-operation with its customers. Improvements in energy efficiency release generation capacity for export sales, and are anticipated to provide for reduced consumer bills and environmental gains through reduced energy consumption and carbon emissions.

The Province borrows on MH's behalf to meet MH's financial requirements, and MH debt represents approximately one-third of the provincial government's overall borrowings. MH's plans for future major new generation, transmission and other capital expenditures approximate $20 billion, and if those plans are implemented, substantial new borrowings will be required and guaranteed by the Province.

**Other Matters**

On July 4, 2011 in a General Rate Application (GRA) for test years 2010/11 and 2011/12, the Board issued a subpoena to Manitoba Hydro requiring MH to produce to the Board export agreements between MH and three U.S. counterparties. The Board subsequently issued Order 95/11, on consideration of a Review and Vary Application by MH, which upheld the subpoena. MH sought and was granted leave to appeal Order 95/11. The appeal was argued before the Court of Appeal. The subpoena was renewed by the Board on July 4, 2012.

On October 12, 2012, in the subsequent MH GRA for test years 2012/13 and 2013/14, the Board was provided with a sealed version of a confidential MH document, known as its Internal Power Resource Plan (Internal PRP), by counsel for The Consumers' Association of Canada (Manitoba) Inc. (CAC) so that the Board could consider use of the document in the ongoing GRA. The Board established a process and received submissions on the procedural issue respecting use and disclosure of the document.

On November 16, 2012 The Province of Manitoba announced that a Needs For and Alternatives To (NFAT) Review process for the proposed Keeyask Generating Station and Conawapa Generating Station and associated major capital projects known as MH's Preferred Development Plan would be assigned to the Board.

In January of 2013, the Chair of the Board and Scott Thomson, Chief Executive Officer of Manitoba Hydro entered into mediated negotiations to arrive at a settlement which addressed the Board's access to export contracts. After a successful resolution of the dispute and a signed agreement between the parties, the Board withdrew its subpoena after March 31, 2013.

(Note to readers: The Province of Manitoba later issued Terms of Reference for a public NFAT review of MH's Preferred Development Plan. This NFAT review will proceed before a PUB panel in accordance with the powers of the Board set out in *The Public Utilities Board Act* and subject to the specific provisions of the Terms of Reference, leading to a report from the panel to the Lieutenant Governor in Council of the Province of Manitoba.)

**Rates for Manitoba Industrial Customers**

At a public rate hearing held in late 2008 and early 2009, the Board considered an application by MH for a special rate to apply to a portion of future electricity demand by new and expanding large industrial electricity customers. MH expressed the concern, accepted by the Board, that a new industrial customer, or a significant expansion of an existing industrial customer, could drive up domestic electric demand and rates, as industrial rates are well below the marginal cost of new generation and transmission.

In an Order issued on July 10, 2009, the Board denied the application and provided parameters for a new Energy Intensive Industry Rate (EIIR) proposal to be developed by MH in consultation with its industrial stakeholders. While MH filed a revised application on February 12, 2010, and because the stakeholder consultation process was not yet complete, the application has been held in abeyance.

As reported earlier in this report, the Board's procedural order 98/12, the hearing of MH's cost of service, including industrial rates, was removed from consideration during the hearing of the General Rate Application and will be addressed at a later date.

### Organization of MISO States (OMS) Activities

The Board's involvement with OMS continues to be limited, largely due to Board resource limitations. For the Board, OMS has become an important source of independent information with respect to the MISO market, the principal market for MH export electricity. The issues addressed by OMS, because they overwhelmingly involve US issues, have not required extensive Board involvement.
OMS is "consensus" orientated, in place to bring forward the views of member American state jurisdictions and Manitoba on issues related to electricity generation and transmission across state/province and national boundaries, for joint presentation to the U.S. federal regulator.

## Centra Gas Manitoba Inc. (Centra)

Centra distributes natural gas to approximately 250,000 residential, commercial and industrial customers. Centra was purchased (from a private firm by MH in 1999) and has been integrated fully within MH's general operations. Centra has no employees of its own - operational costs are allocated to Centra subject to the Board's review.

Centra still primarily serves Winnipeg and southern Manitoba, as the costs of pipeline development and maintenance are very high and population density and industrial requirements are of particular importance with respect to the economics of natural gas distribution. Approximately half of MH's customers (primarily resident in Winnipeg) rely on natural gas for space heating, the other half depend on electricity (with most of these not having gas heat as an option), propane, fuel oil and wood.

Natural gas is purchased for distribution in Manitoba from continental energy markets, where price is determined by supply and demand, and is unregulated. Natural gas is purchased from Western Canadian (principally) and American producers and transported to Manitoba through pipelines owned by external parties, to be distributed within, primarily southern, Manitoba through Centra infrastructure. Centra's natural gas storage facilities that support gas usage during the high consumption winter months are located in Michigan.

Commodity costs were once significantly affected by hedging activities entered into by Centra, the hedging transacted for the purpose of reducing rate volatility. Hedging involves financial derivatives entered into with counter-parties, and gains and losses on hedging formed a significant component of Centra's overall natural gas costs passed through without mark-up to its customers.

In a 2009 Order, the Board directed Centra to phase out hedging primary gas purchases for the customers purchasing primary gas from Centra priced on a quarterly basis, and the phase-out was fully completed in the summer of 2011. The phase-out of hedging was concurrent with Centra offering (in competition with private brokers), on an ongoing basis, fixed price and term primary gas contracts to its customers, allowing customers to "lock-in" their primary gas requirements for one to five years.

As to its quarterly priced primary gas operations, Centra amends its primary gas rates for its commodity cost experience and forecasts on a quarterly basis, reflecting ongoing market fluctuations. Centra recovers its costs through levies on customers, and the levies recover not only commodity and related transportation to Manitoba costs (at no mark-up), but also Centra's operating and financial costs. The Utility also is provided, through Board-approved rates, sufficient additional revenue to offset MH's costs of acquiring Centra and to provide reasonable retained earnings to serve as a financial reserve.

Expansion of Centra's distribution system has been limited to small extensions since MH's acquisition. Though natural gas commodity prices have dropped in recent years (with additional supply coming on line from shale gas deposits concurrent with the onset of a serious recession that has depressed industrial demand), no major expansion of Centra's existing distribution system is currently planned.

Centra's annual net income is intended to be limited to the full recovery of operating costs incurred by MH, the amortization of MH's acquisition-related costs, and the development and/or maintenance of adequate surplus. Considerable attention is placed on reducing customer gas consumption through improved customer awareness and through insulation and furnace upgrades.

**Rate and Operational Reviews**

The Board holds public hearings (usually annually) into the natural gas commodity and transportation (to Manitoba) costs of Centra. The hearings also consider matters such as the allocation of unaccounted for gas costs (gas purchased by Centra but not billed to customers), matters related to the purchase, transportation and storage of natural gas, and Centra's hedging actions and policy.

Annual hearings are held to review Centra's Cost of Gas, with the Board issuing orders in relation to its findings, recommendations and directives. The annual reviews supplement and finalize quarterly cost of gas reviews which lead to interim rate decisions, and deal with matters and costs concerning gas supply, transportation and storage.

Generally, once every two years Centra files a General Rate Application to deal with rates and matters not directly dealing with gas supply, transportation and storage (in short, 'non-gas' operating and administrative costs and matters). In these hearings, the Board and the Utility, assisted by interveners, also address affordable energy initiatives, specifically for low-income households.

As indicated, quarterly, the Board establishes Centra's primary gas rates pursuant to a Rate Setting Methodology (RSM) accepted by Centra and all interveners. The RSM determines rates based on actual and projected commodity costs, as impacted by storage and hedging. From the fall of 2008, natural gas prices have fallen sharply, initially the aftermath of a credit crisis originating in the United States and then as a result of shale gas which has driven down gas costs.

Since the diversion of gas and oil commodity prices, the cost of heating by natural gas, particularly if a high-efficiency furnace is in place, has become sharply lower than space heating by electricity. At the peak of natural gas prices, space heating by electricity was less expensive than by natural gas, raising the risk that conversions from gas space heating to electric space heating would add more demand pressure on electric generation. That risk has abated.

Centra Gas filed a non-gas General Rate Application, concurrent with a review of gas supply, transportation and storage, on January 25, 2013.

**Franchise Agreements**

*The Public Utilities Board Act* provides that a franchise granted to any owner of a public utility by a municipality is subject to the approval of the Board. The authority to grant or refuse a franchise to sell gas, or to directly purchase gas, or revoke an existing franchise to sell gas, or to directly purchase gas within the Province, is within the mandate of the Board. Accordingly, Centra applies to the Board for approval, renewal or extension of franchise agreements.

Small extensions of Centra's service adjacent to current service areas continue to occur from time to time.

**Service Disconnection**

The Board has broad responsibilities with respect to the provision of natural gas in the Province, and as one of its mandates, the Board oversees Centra's service disconnections. Manitoba has a cold winter climate, and heat is critical to human health and welfare, particularly during the period from October through May. The Board concerns itself with ensuring that Centra's economic concerns (the Utility expects payment of its bills), valid as they may be, do not trump concern over the safety of adults and children living in properties heated by natural gas.

In February 2008, the Board and Centra concluded an effort to develop a process intended to reduce natural gas service disconnections as well as MH/Centra's bad debt and collection costs. The Board approved a new disconnection policy that allows MH to place an electricity load limiter (which restricts electrical service) in cases where customer bill delinquency exists. The new approach provides for the Board's oversight of disconnections of both electric and natural gas service when natural gas service is in place.

**Gas Safety**

As previously stated, the Board is charged with the responsibility for overseeing natural gas and propane pipeline safety in the Province under *The Gas Pipe Line Act*. The Board utilizes the services of an engineering advisor, Energy Consultants International Inc. (ECI), to assist in monitoring safety on the Board's behalf.

The Board relies on a safety program (quarterly reporting, annual audits and other measures) to ensure that natural gas safety matters are properly and timely managed by Centra. Board and Centra staff meet quarterly, to discuss the safety program, review events and consider emerging issues. As one result of the change, the Board's gas safety costs have fallen sharply, assisting the general public interest as no additional risk has been taken on through the change.

**Transportation and Storage Portfolio:**

There are three logistical components involved in providing natural gas from producers to end users:

- long-distance transportation through pipelines
- temporary storage to deal with demand fluctuations (both seasonal and day-to-day), and
- distribution to end users through local distribution companies (LDCs).

Centra Gas Manitoba Inc. (Centra) can either contract to meet its entire winter load through firm transportation capacity on the TransCanada Pipeline Limited (TCPL) system or it can arrange to store gas in the summer months when gas demand is weakest and prices usually lower for withdrawal and use in the winter months when demand is strongest and prices are usually higher. The latter arrangements by Centra are known as its "Transportation & Storage Portfolio".

Centra last entered into long-term contracts with respect to its Transportation & Storage Portfolio in 1993. At that time, arrangements were made for a period of 20 years. These arrangements were set to expire on March 31, 2013.

The PUB was advised during Centra's 2011/12 Cost of Gas Application that Centra had initiated an investigation of alternatives to its existing Transportation & Storage Portfolio.

In Order 65/11, the PUB directed that Centra seek PUB approval of any gas cost consequences of the new storage and transportation arrangements as a condition precedent to any contracts executed by Centra.

At the time of the hearing, Centra held transportation contracts on the TransCanada Pipelines Mainline System (TCPL), the Great Lakes Gas Transmission (GLGT) system, and ANR Pipeline (ANR) system. In addition, Centra contracts with ANR for gas storage in Michigan. Both the GLGT and ANR contracts expire on March 31, 2013.

Centra considered several western storage options (Alberta, Saskatchewan and Williston Basin), northern storage in Iowa, Manitoba storage, eastern storage in Michigan and Ontario and virtual storage offered by third-party asset managers. Interruptible transportation and short-term firm transportation (STFT) were discussed as further alternatives during the hearing.

Alberta and Saskatchewan storage were dismissed outright as alternatives, due to both exposure to TCPL for western storage options and a lack of supply diversity, with gas in both areas supplied primarily through the AECO Hub. With storage held upstream of the Manitoba delivery area, Centra would need to hold significant levels of upstream firm transportation capacity on TCPL's Mainline in order to ensure sufficient deliverability of the storage volumes during cold winter weather. Holding sufficient extra firm upstream capacity precludes the savings that are possible if downstream storage is utilized. Furthermore, holding this extra firm capacity on the TCPL Mainline exacerbates Centra's exposure to the currently high tolls and continuing toll uncertainty on the Mainline stemming from underutilization of the pipeline.

The Williston Basin option was discounted due to economic and operational challenges. Northern storage in Iowa was sold out at the time of Centra's negotiations, and therefore, could not be pursued as an option. CAC's expert witness agreed that none of these alternatives were feasible.

Centra considered options for storing gas within Manitoba, but advised that there currently is no feasible technical solution being offered in Manitoba, and that no commercial storage providers are operating in the province. Accordingly, Centra ruled out Manitoba storage as a potential solution early in the process.

Centra evaluated the proposed contract with ANR against three other proposals. Using total portfolio cost information along with an assessment of the reliability, security of supply, flexibility of sources of supply from different supply basins, and the liquidity of those supply basins, Centra arrived at the ANR proposal as its preferred option.

**TransCanada Pipeline Tolls**

Centra's single largest pipeline capacity expense is for Centra's firm capacity on the TransCanada Pipelines Mainline, which brings gas from Empress on the Alberta - Saskatchewan border to Manitoba. Since 2006, the tolls charged by TransCanada Pipelines have been escalating as TransCanada sought to recover its fixed costs to operate the pipeline from decreasing volumes of gas shipped through the Mainline.

The decreasing volumes caused the unit tolls to increase. As the unit tolls increased, shippers on the Mainline further reduced their firm contracted capacity, further decreasing the volumes transported and increasing the unit tolls even more. The result was a 140% increase in the firm capacity toll between 2006 and 2012. The interim approved Eastern Zone Toll for 2012 is also $2.24/GJ.

The reasons for the reduced throughput on the TCPL Mainline are related to the development of previously uneconomic gas resources closer to the eastern load centres which therefore do not require long haul transportation on the Mainline, as well as new competing pipelines, such as the Rockies Express in the United States, that bring alternative (to WCSB) supplies of gas to Eastern markets.

These alternatives to WCSB gas transported on the Mainline have resulted in reduced long haul contracting on the Mainline. As the long haul contracts have decreased, the tolls needed by TCPL to recover its fixed costs have increased. This has created an iterative dilemma, whereby increasing tolls reduces the long haul contracted volumes, which in turn increases tolls further to recover the same fixed costs.

At the time of the portfolio hearing, TCPL was proposing a restructuring to the National Energy Board (NEB), part of which includes a reduction to the tolls from current levels. Centra was intervening in that proceeding and advised that it was likely that tolls based on the restructuring would be at least 30% higher than the potential tolls absent any restructuring.

TransCanada Pipelines applied to the NEB in 2011 to restructure its Mainline business and services and amend its Mainline tolls. The NEB issued its Reasons For Decision on this matter on March 27, 2013. The principal decisions that impact Centra are:

- the reduction in the representative firm toll from $1.89/GJ to $1.42/GJ for a period of five years;
- the elimination of the Firm Transportation - Risk Alleviation Mechanism; and
- TransCanada Pipelines' ability to set the bid floors for Interruptible Transportation and Short Term Firm Transportation, where previously the bid floors were established at fixed premiums to the Firm Transportation toll;

The reduction in the Firm Transportation toll will lower Centra's fixed transportation costs effective July 1, 2013. In its General Rate Application filed early in 2013, Centra quantified the reduction in tolls paid to TransCanada Pipelines at $1.5 million for the remaining four months of the 2012/13 gas year (to October 31, 2013), and the full year toll reduction at $3 million.

The Firm Transportation - Risk Alleviation Mechanism was an attribute of the Firm Transportation contracts held by Centra. The elimination of the Risk Alleviation Mechanism is expected to reduce the potential for earning Capacity Management revenues that offset Centra's gas costs.

Centra's other option to mitigate unutilized demand charges related to its TransCanada Pipelines firm capacity is through the Diversions mechanism. TransCanada Pipelines has proposed amendments to its tariffs that will restrict the utility of Diversions in reducing Centra's unutilized demand charges. The National Energy Board will hold a hearing into the tariff amendments in September 2013.

Centra was not able to estimate the magnitude of any expected additional costs resulting from the ability of TransCanada Pipelines to set the minimum bid floor for Interruptible Transportation or Short Term Firm Transportation. Centra expects that TransCanada will set the Short Term Firm Transportation bid floors at a level high enough to instead force Centra to use annual Firm Transportation resulting in higher gas costs.

Even though Centra is expecting a reduction in its Firm Transportation tolls, there is still uncertainty related to the Short Term Firm Transportation tolls starting in October of this gas year, the elimination of the Risk Alleviation Mechanism, and the potential restriction of diversions which could negatively impact the capacity management revenues earned by Centra to offset its total gas costs.

In Order 112/12 issued on August 23 2012, the Board approved the fixed costs associated with eight proposed contracts between Centra and Great Lakes Gas Transmission and ANR Pipeline. Approval of the eight contracts allowed Centra to finalize a seven-year Transportation & Storage Portfolio effective April 1, 2013. The Portfolio will be used to transport and store western Canadian natural gas into eastern storage facilities during the summer months and draw on that gas for Manitoba customers during the winter months to replace Centra's existing Transportation & Storage Portfolio, which has been in place since 1993, and is slated to expire on March 31, 2013.

Approval of the Transportation & Storage Portfolio's fixed costs allow Centra to reduce the amount of firm transportation capacity Centra held on the TransCanada Gas Pipelines Limited (TCPL) system providing substantial cost savings to Centra and its customers. The new Transportation & Storage Portfolio is similar to the existing one, but at a cost of approximately $14 million per year, it represents savings of approximately $3 million per year compared to the pervious contracts.

The Order directed Centra to investigate and report to the PUB on the viability of storage options within or adjacent to Manitoba in time to consider such storage options before the expiry of the new Transportation & Storage Portfolio. This Order also directed Centra to provide the PUB with a report of its evaluation of the potential benefits, if any, of outsourcing all or part of Centra's Transportation & Storage Portfolio in the future to third-party asset managers.

## Stittco Utilities Man Ltd. (Stittco)

Since the early 1960s, Stittco has provided pipeline propane gas to customers (now less than 1,000) in Thompson, Snow Lake and Flin Flon.

Generally, Stittco applies annually for an increase in the Utility's non-commodity rates. Non-commodity costs include costs incurred by Stittco for the distribution of propane, and allowed costs are recovered in rates through a basic monthly charge and delivery charges based on customer consumption.

With lower projected propane consumption volumes, combined with the approved increases in non-commodity costs, there is a resulting ongoing annual increase in charges to customers separate from the costs of supply and transportation to Manitoba.

Propane gas costs continue to fluctuate, with the effects reflected in rates on a quarterly basis. The propane commodity price represents about 2/3$^{rds}$ of the price charged to customers. The effect of these fluctuations is mitigated somewhat for the consumer by the quarterly rate setting process.

Propane service, including the commodity, is much more expensive than heating by way of electricity. The problem for residential customers has been the cost of conversion.

## Swan Valley Gas Corporation (SVGC)

SVGC is a wholly-owned subsidiary of SaskEnergy Incorporated. SVGC acquired natural gas distribution franchise rights for the Swan Valley region of Manitoba on July 4, 2000. At that time, the Board directed that SVGC be regulated under a "least cost regulation" approach, a regulatory model involving less direct Board oversight based on paper-based hearing processes rather than oral hearings. This was intended to restrain regulatory costs that are passed on to customers through rates.

Similar to the approach taken with Centra and Stittco, SVGC does not "mark-up" its natural gas commodity and transportation costs, which are passed on to customers through rates at cost, upon Board approval. These costs include SVGC's actual natural gas commodity costs and, as well, costs related to the transport of gas to SVGC at the Many Islands Pipeline metering station located in Manitoba.

Using the paper review process, the Board regularly reviews SVGC's commodity and non-gas costs; while commodity costs have fallen, the departure of a major industrial customer from the use of gas has placed increased pressure on continuing residential, commercial and institutional customers.

## Natural Gas Brokers

Licensed natural gas brokers offer consumers a fixed-rate option as an alternative to Centra's regulated quarterly cost-based Primary Gas Rate. While the Board licenses brokers, broker contracts are unregulated and Primary Gas prices are market-driven. The Board supervises the sales activities of brokers through a Code of Conduct, and has the authority to cancel a retail contract. There is only one residential retail broker actively pursuing the residential market.

In addition to overseeing the terms under which Centra distributes primary gas for brokers to their customers, and establishing and monitoring the Code of Conduct that governs the brokers' marketing to consumers, the Board intervenes and investigates with respect to complaints from broker customers. Typically, the Board is able to facilitate a reasonable outcome through discussions between the broker and the customer; it does not have to hold a public hearing to address complaints.

The Board regularly reviews the policies and procedures employed by brokers. The sole remaining residential broker has 'competition' for the fixed price and term residential market, because Centra now offers fixed-price fixed-term primary gas contracts (the latter "in competition" with private brokers). Centra began offering fixed-price fixed-term contracts in February 2009.

A significant number of private brokers serve the commercial and industrial gas supply market; larger gas users are assumed to be more equipped to make informed choices as to either contracting for fixed terms or receiving Centra's quarterly gas supply product.

## Manitoba Public Insurance (MPI)

Manitoba Public Insurance (MPI) was established in 1971 as the monopoly provider of 'basic' motor vehicle insurance. As at February 28, 2013, the annual revenues of MPI, including investment income, were nearly $1 billion, and its investment portfolio exceeded $2.2 billion. MPI insures approximately 800,000 drivers and 1 million vehicles.

Under the Personal Injury Protection Plan (PIPP), which provides accident benefit coverage, all Manitobans have coverage in case of a vehicle accident, whether they are drivers or not, and whether the accident occurs in Manitoba or anywhere in Canada or the United States.

Over the past decade, the Board has directed MPI to rebate premiums in excess of $600 million to MPI's Basic premium ratepayers. During the same period, rates have remained stable, with decreases in recent years.

Unlike the situation of the Board's other regulated utilities, MPI's rates are in force only for a particular insurance year; an annual rate hearing is required.

The Public Utilities Board (Board or PUB) approved the application of Manitoba Public Insurance Corporation (MPI or the Corporation) for no overall rate level change in compulsory Motor Vehicle Premiums for the 2013/14 insurance year, effective March 1, 2013. The Board also approved MPI's request that there be no change in Vehicle Premium Discounts, Fleet Rebates or Surcharges, Service and Transaction Fees, Permit and Certificate rates or the discount provided to customers with approved, installed anti-theft devices

MPI's requested changes to the Driver's License Premiums on the Driver Safety Rating (DSR) scale, at demerit levels -1 to -20, to a maximum of $2,500, were approved.

With respect to operating and claims expenses, the Board ordered that the Corporation develop productivity factors to enable the assessment of the cost containment measures.

The Board believes that the Dynamic Capital Adequacy Testing (DCAT) methodology is an improved approach for determining the target for the Basic Rate Stabilization Reserve (RSR) over the current methodology. However, the Board determined that further analysis and discussion was needed, particularly in relation to the adverse scenarios used in the DCAT and the methodology construct, before such an approach could be utilized for rate-setting purposes. The Board ruled that, for 2013/14 the RSR target range would continue to be calculated on the basis of the Percentage of Premium approach, and the Board did not order any premium rebate even if reserve balance exceeded the upper limit of the Board's range as at February 28, 2012.

As a result of the Board order, MPI held a technical conference in early 2013 to discuss, the adverse scenarios and methodology construct utilized by the Corporation within the DCAT.

The Board further ordered that a Road Safety Research Technical Conference be held on or before March 31, 2013 to discuss Road Safety matters, involving interveners and community partners. The Board later amended this order and ruled that road safety matters would be considered during the Board's hearing process for the 2014/15 insurance year.

On December 8, 2010 the Public Utilities Board (Board) issued Order No. 122/10 (Order) with respect to Manitoba Public Insurance Corporation's (Corporation or MPI) General Rate Application (GRA) for rates and premiums for compulsory vehicle insurance, driver insurance premiums and vehicle premium discounts effective March 1, 2011.

On January 7, 2011, the Corporation filed an Application with the Board to review and vary two aspects of Order 122/10. One aspect of Order 122/10 that the Corporation sought to vary was the deletion of Item 9 of the Board Directives (in Section 5.0) which provided that: "*MPI shall allocate PIPP costs associated with claims by extra-provincial truckers and bus drivers to a non-Basic line of business*".

Following consideration of MPI's request, the Board issued Order 44/11, wherein the Corporation's request for a variance was denied in Item 1 of the Board Directives on page 13 of Order 44/11.

On June 1, 2011, the Corporation sought leave to appeal the aforementioned provisions of Orders 122/10 and 44/11 to the Manitoba Court of Appeal, for which leave was granted on November 9, 2011 (Appeal). The Appeal with respect to this issue was scheduled to be heard in the Manitoba Court of Appeal on Tuesday, May 22, 2012.

To allow the above issue to be reviewed further by the Board in the most cost-effective manner in conjunction with the upcoming MPI GRA, the Board rescinded Item 9 of the Board Directives of Order 122/10 as well as Item 1 of the Board Directives of Order 44/11. During the GRA, the issue of inter-provincial trucking costs was not raised as an issue.

## Water and Sewer Utilities

The Board has regulatory rate and financial responsibilities for Manitoba's water and/or sewer utilities. In 2007, the Board declared all water cooperatives and several privately owned water utilities to be public utilities (to be regulated by the Board). Information requests are sent to each utility as the Board becomes aware of them.

Many such utilities have very few customers, modest annual revenue requirements and minimal resources; the Board uses a "complaints based process" to constrain regulatory costs. Many utilities are able to introduce rate changes by simply notifying their customers and providing the Board with financial information in support of the rate changes.

At the end of the 2012/13 fiscal year, the Board had a regulatory caseload of approximately 210 active water and/or sewer utility files, including approximately 160 municipal utilities and 40 cooperative and privately owned water utilities.

Some applications seeking significant increases result in ratepayer opposition; in such cases, the PUB holds hearings in proximity to the applicable utility.

While water and sewer rates have increased substantially in recent years, upward rate pressure continues. Water quality and sewer treatment requirements are becoming more demanding. The hiring and retention of adequately trained staff is challenging and expensive. Infrastructure is aging and replacement costs are much higher than in the past. Some population centers are growing requiring expansion of facilities; the population of some towns and municipalities is declining, leading to higher rates paid by remaining users. Many utilities have inadequate reserves, resulting in higher rates as infrastructure needs are addressed.

The Board has previously recommended that the City of Winnipeg's water and sewer utilities be subject to PUB rate setting authority. This recommendation did not result in a change to the Board's mandate.

In June 2009, the Board issued a general Order setting out the requirements with respect to the Public Sector Accounting Board (PSAB) accounting standards, and to provide assistance to those preparing rate studies. Guidelines and forms to assist in developing utility rate applications are available on the PUB website. During the reported period, Board staff and advisors prepared amended guidelines. The Board initiated consultations with officials of the AMM and MMAA with a view to finalizing and using the guidelines in the future. It is expected that the implementation of the guidelines will occur in 2013-14.

In the ongoing spirit of cooperative consultation, the Board continues to collaborate with the Association of Manitoba Municipalities (AMM) and the Manitoba Municipal Administrators Association (MMAA) to update regulatory practices for water and sewer utilities.

## Cemeteries and Related Matters

Generally speaking, the Board attempts to meet its mandate with respect to the bereavement industry through paper reviews and consultation, though hearings involving complainants have occurred. The Board can also hear appeals related to the actions of funeral homes, cemeteries and crematoriums. There were no hearings held during the reporting period.

*A few years ago, the Board conducted an extensive consultation process with respect to two provincial "Acts" for which it was held responsible, The Cemeteries Act (CA) and The Prearranged Funeral Services Act (PFSA). A series of recommendations were made to the Minister for major revamping of both Acts. So far, the PFSA has been amended but not the Cemeteries Act.*

The Board's recommendation was taken under advisement and for further consultations with religious community who are responsible for a significant number of cemeteries.

## HIGHWAY TRAFFIC BOARD

Pursuant to *The Highways Protection Act*, Highway Traffic Board decisions can be appealed to the Board. These usually involve either driveway access to provincial highways or the placement of signs, especially electronic signs, beside Manitoba highways. Appellants have included local landowners, businesses and the Department of Manitoba Infrastructure and Transportation (MIT).
Generally, the Board visits the site and holds a public hearing in the area. The Board assesses the facts and hears the parties before making a decision. Decision criteria include fairness and road safety.
There were no such appeals in the reporting year.

## *THE EMERGENCY 911 PUBLIC SAFETY ANSWERING POINT ACT*

During 2005/06, *The Emergency 911 Safety Answering Point Act* was enacted; it assigns the appeals process set out in the statute the Board. Applicants for 911 service provision who are refused licensing are now able to appeal the denial to the Board. To date, no appeals have been filed.

## *CITY OF WINNIPEG CHARTER ACT* (Passenger Transport)

*The City of Winnipeg Charter Act* provides that, where the City signs an agreement with an operator to transport customers for a fixed fee within the City of Winnipeg, the agreement must be approved by the Board. The Board must also approve the operator, who then becomes subject to ongoing Board oversight. Few of these agreements have been considered by the Board; they have mostly been limited to transport services for children and the elderly.

No new passenger carrier agreements were signed by the City during 2012-13.

## *THE CONSUMER PROTECTION ACT*

In 2006, the provincial government enacted legislation authorizing the Board to set the maximum rates chargeable for payday loans and for cashing government cheques. After hearings in 2007 and 2008, the Board set the maximum fees for those services.

### Payday Loans

In 2009, the government introduced legislation that changed the Board's role in setting maximum rates for payday loans. The Board then commenced acting as an advisor to government, with the government setting maximum fees for the industry by regulation.
After a hearing conducted prior to the enactment of the legislative provisions, many of the Board's recommendations were adopted by the government in the regulations made after the adoption of the legislation.
The Board plans to review payday lending in the Province in 2013-14 and make recommendations to the government.

### Maximum Fees for Cashing Government Cheques

The rates are subject to review every three years, and the Board reviewed the rates in the spring of 2010 via a paper process, issuing an Order on May 12, 2010 reaffirming the rates approved in 2007.
The Board plans to undertake a further review during the 2013 calendar year.

# BOARD ADMINISTRATION

### Board's Rules of Practice and Procedure

The Board adheres to relevant legislation and its Rules of Practice and Procedure (Rules); members are subject to the Code of Conduct (Code). This framework provides assurance and guidance to regulated utilities, interveners, Members of the Legislative Assembly, government and other interested parties with respect to the manner by which the Board manages its processes.

The Rules, which were operative in draft form for over a decade, were formally adopted in June 2006.

Among other things, the Rules set out the Board's criteria for awarding costs to interveners. The Board has full discretion with respect to the award of costs, and exercises that authority to restrain regulatory costs while enabling public participation in Board hearing processes.

### Board Members

The Act makes provision for a minimum complement of three members including a full-time Chair.

The terms of Len Evans, Monica Girouard, Kathi Avery Kinew and Bob Mayer (Vice-Chairman) ended on July 23, 2012.

By Order in Council 314/2012 issued July 23, 2012, Karen Botting (Vice-Chairman), Anita Neville, Marilyn Kapitany, Larry Soldier and Robert Warren were appointed as members of the Board. Robert Warren resigned from the Board on December 10, 2012.

### Staffing and Staff Development

After the resignation of Associate Secretary Kristine Shields, Jennifer Dubois was appointed to fill the vacancy and commenced her employment on July 12, 2012.

### Operational Improvements

The timeliness of Board orders deteriorated following changes to Generally Accepted Accounting Principles for municipal government, and municipal water and sewer utilities. Because of increased staff, the Board was able to significantly improve the timeliness of Orders during 2012-13. The revised guidelines for water and sewer rate applications are expected to facilitate the preparation of water and sewer rate applications and are expected to further improve the timeliness of the Board's orders.

The Board continues to explore ways and means to improve regulatory cost effectiveness, public awareness and consumer involvement.

## CONCLUSION AND ACKNOWLEDGEMENTS

The Board's website is found at www.pub.gov.mb.ca. The website allows the public to monitor the Board's many activities.

Schedule 1 lists the relevant statutes that set out the Board's authority and mandate.

Other agencies oversee or govern, in whole or in part, the same utilities as the Board. The Board acknowledges the significant roles they play.

The substantial change in Board membership during the reporting period was effected without compromising the Board's effectiveness and efficiency. I extend my appreciation to the Board members, especially Mr. Graham Lane, staff and advisors in assisting my transition from serving as a regular member of the Board to serving as its Chairman.

Finally, thank you, Mr. Minister, for your support to the Board.

Respectfully submitted,

R. Gosselin

Régis Gosselin

## BOARD RESPONSIBILITIES

The Board is an independent quasi-judicial administrative tribunal operating pursuant to *The Public Utilities Board Act* (Act). The Act was enacted in 1959, though the Board has regulated entities and similar services pursuant to other legislation since 1912.

Other enactments assigning regulatory or adjudicative responsibilities to the Board are:

*The Greater Winnipeg Gas Distribution Act*
*The Gas Allocation Act*
*The Prearranged Funeral Services Act*
*The Cemeteries Act*
*The City of Winnipeg Act* (Passenger carrier agreements)
*The Manitoba Water Services Board Act* (Appeals)
*The Highways Protection Act* (Appeals)
*The Emergency 911 Public Safety Answering Point Act* (Appeals)
*The Consumer Protection Act*
*The Municipal Act*
*The Gas Pipeline Act*
*The Electrical Reliability Act*

In its decisions and recommendations, the Board determines the public interest, taking into account various factors. Rates set by the Board are based on prudent costs, and are intended to balance the fair treatment of consumers with the financial viability of the utilities.

The Board is comprised of a government-appointed full-time Chair and a roster of part-time members, assisted by staff and external legal counsels and other advisors. The Board is a quasi-judicial administrative tribunal; it makes decisions independent of government direction, in accordance with enabling legislation, regulation and/or transparently stated public policy.

The Board fulfils its mandate through a variety of processes, including oral public hearings and transparent paper reviews. As required, the Board's processes involve enquiry, research, consultation, careful deliberation and, as well, public dissemination of decisions and notices of upcoming processes.

The Board's regulatory jurisdiction covers three of the Province's major Crown Corporations, other natural gas and propane pipeline distributors, and, with the exception of the Manitoba Water Services Board (rates set by that body are subject to appeal to this Board), all municipal water and sewer utilities except for those of the City of Winnipeg. The Board also oversees the safety of pipeline distribution of natural gas and propane, oversees natural gas brokers, and has regulatory oversight, through licensing and review, of privately owned cemeteries and crematoriums. The Board is the appeal body for service disconnection decisions taken by Manitoba Hydro and Centra Gas, Swan Valley Gas Corporation and Stittco Utilities Man Ltd. The Board is also the appeal body for 911 service licence refusals and decisions by the Highway Traffic Board (pertaining to highway access and signage). Further, by virtue of *The City of Winnipeg Charter Act,* the Board is required to approve any non-City owned fixed-fare transportation operations.

The Board is a member of the Manitoba Council of Chairs of Administrative Tribunals (MCAT), the Association of Canada's Energy and Utility Regulators (CAMPUT), and the Canadian Automobile (insurance) Rate Regulators (CARR). The Board also participates within the Canadian Standards Association (CSA), wherein natural gas and propane safety standards are established, and is a member of the Organization of MISO States (OMS).

The Board assesses direct levies on major regulated entities to support the services provided by the PUB. The money from these levies flow to the Province of Manitoba's consolidated revenue fund. The Board then receives its funding from the Province. Most of the costs of the Board's advisors utilized in Board proceedings are paid by the utility involved in the relevant Board proceedings.

Board's decisions affect virtually every Manitoba resident. The three hundred plus entities regulated by the Board have annual revenues in excess of $4 billion (thus, identified regulatory costs account for 1/10$^{th}$ of 1% of revenue generated).

Most entities regulated by the Board are monopolies, though some of those monopolies also operate in competitive markets (examples being Stittco, private natural gas brokers and Centra Gas' fixed price and term gas contracts, and Manitoba Public Insurance Extension and Special Risk Extension Division).

Major Board responsibilities during the reporting period were:

1. Establishing fair, just and reasonable rates and terms for:
    a. Manitoba Hydro's province-wide electricity service;
    b. Natural gas and propane services provided by pipeline;
    c. Basic compulsory automobile insurance rates and fees (Manitoba Public Insurance); and
    d. water and sewer utilities (with the exception of the City of Winnipeg).
2. Natural gas and propane pipeline safety, capital expenditures and general operations.
3. Licensing and/or overseeing:
    a. Privately-owned cemeteries and crematoriums; including perpetual care trust funds (under *The Cemeteries Act);*
    b. Funeral Service Providers *(under The Prearranged Funeral Services Act*); and
    c. Natural gas brokers.
4. Hearing appeals of:
    a. Highway Traffic Board decisions, pursuant to *The Highways Protection Act;*
    b. applicants denied 911 emergency response centre licenses, pursuant to *The Emergency 911 Public Safety Answering Point Act;*
    c. municipal customers of the Manitoba Water Services Board objecting to rates established by that body;
    d. consumers disconnected from water and sewer utilities, natural gas or propane service, and customers disconnected from electrical service where their residence is heated by natural gas provided by Centra Gas Manitoba Inc.; and
    e. customers of private natural gas brokers.
5. Establishing and/or advising government with respect to maximum rates for:
    a. Payday loans (advising); and
    b. Cashing of government cheques (setting maximum rates).
6. Approving operators of fixed fare transportation services pursuant to agreements with the City of Winnipeg (pursuant to *The City of Winnipeg Charter Act*).

As previously noted, and in an effort to restrain regulatory costs, the Board often reaches its decisions by way of a public paper review. These processes generally occur in the case of relatively small utilities, such as Swan Valley Gas Corporation, Stittco Utilities Man Ltd., or smaller municipal, private and cooperatively owned water and sewer utilities.

Under the paper review process, the Board first reviews the application (a process that involves questions being asked of the applicant and responses considered) then, when initially satisfied that an oral hearing may not be required, directs the applicant to publish a notice of its application with an indication of matters to be addressed through the proceeding. If no substantive concerns arise through correspondence to the Board from ratepayers, the Board concludes its review process and issues an Order communicating its findings and directives.

In both the oral and paper hearing processes, the Board informs itself as to the particulars of each application through a written process involving the interrogation (by information requests) of the applicant and, in rare cases, registered interveners.

A significant number of water and sewer applications, particularly those involving large rate increases, are heard by way of public hearings, which have taken place throughout Manitoba. The Board has determined that such hearings are best held in the communities, so that people affected by the decisions have an opportunity to attend.

As part of its general process, the Board assesses the financial statements and revenue requirements of the utility, considering the particulars as well as broader issues to arrive at available options. Within those options, the Board determines the public interest. As previously indicated, the Board requires the applicant to advertise its application and share with the Board any objections or comments it may receive. In some cases, comments from the public result in the Board holding a public hearing, rather than proceeding by way of paper process.

As previously indicated, the Board operates pursuant to statute and formal Rules of Practice and Procedure, and, for larger proceedings affecting a material number of ratepayers, in a court-like manner. Accordingly, Board process requires Board members to declare conflicts of interest prior to a hearing or decision process - rarely are such declarations made.

Generally speaking, the Board sits in panels of three, particularly for applications heard by way of public oral hearing. However, with respect to the hearing of rate applications of smaller utilities, or appeals of decisions of the Highway Traffic Board, the Board usually proceeds with less than a three-person panel. Board members are assigned to at least one major area of responsibility - electricity, natural gas, automobile insurance, and water and sewer (although all members are made aware of matters being heard or having been heard by other members).

Board members also regularly meet as a committee of the whole, and discuss matters pertaining to important cases before the Board, Board operations, and to establish and/or amend general Board policies. The Board's Rules allow for electronic exchanges between members, and all Board members are kept up-to-date on regulatory developments through meetings and electronic communications.

## BOARD MEMBERS AND STAFF

**Members of the Board as of March 31 2013:**

Régis Gosselin, B ès Arts, MBA, CGA, Chair
Karen Botting, B.A., B.Ed., M.Ed.,Vice-Chair
Raymond Lafond, B.A., CMA, FCA
The Honourable Anita Neville, P.C., B.A (Hons)
Marilyn Kapitany, B.Sc Hons., M.Sc.
Susan Proven, P.H.Ec.
Larry Soldier, former Chief of Swan Lake First Nation

The Chairman and other members are appointed at pleasure by the Lieutenant Governor in Council; with the exception of the full-time Chair, Board members are part-time.

Board members hear and subsequently decide upon the rate applications and other matters brought before the Board. Board members, staff and advisors are governed by conflict of interest guidelines, this to ensure those appearing before the Board receive unbiased and independent judgements. Applications may be made to the Board requesting that the Board review and vary its decisions. Appeals of Board decisions may be made to the Manitoba Court of Appeal. The Board has adopted Rules of Practice and Procedure which can be found on the PUB's website.

Staff:

Hollis M. Singh, BA (Econ), Executive Director and Secretary

Kurt Simonsen, P.Eng, Associate Secretary

Jennifer Dubois, Assistant Associate Secretary

Anne Cloutier, Administrative Officer

Brenda Bresch, Office Manager

Debra Feuer, Secretary to the Chairman

Carolyn Burton, Administrative Secretary

The Board relies upon expert advisors from the fields of accounting, actuarial science, engineering and law; the roster of advisors includes:

| | |
|---|---|
| Accounting | Cathcart Advisors Inc. |
| Actuarial Science | Eckler Partners LLP |
| Engineering | Ryall Engineering Ltd.<br>LAB Consulting Ltd. |
| Law | Fillmore Riley LLP<br>Pitblado LLP |

**SUMMARY OF BOARD ACTIVITIES**

**ORDERS ISSUED**

| | 2012/13 | | 2011/12 | |
|---|---|---|---|---|
| | | | | |
| **Regulated Industry Orders:** | | | | |
| | | | | |
| Water and Sewer Utilities | | | | |
| Applications for amended rates | 45 | | 37 | |
| Applications to address deficits | 19 | | 15 | |
| Applications to address rates and deficits | 12 | | | |
| General matters, late payment fees[1] | 2 | 78 | 3 | 55 |
| [1]Includes City of Winnipeg | | | | |
| Manitoba Hydro | | | | |
| Electricity operations | 59 | | 65 | |
| Centra Gas Manitoba | 18 | 77 | 15 | 80 |
| | | | | |
| Natural Gas and Propane Utilities and Pipelines | | | | |
| Swan Valley Gas Corporation (consumer rates) | | | | |
| Stittco Utilities Man Ltd. | | 5 | | 5 |
| | | | | |
| Manitoba Public Insurance Corporation | | 5 | | 10 |
| *Highways Protection Act* | | 3 | | 4 |
| | | | | |
| *The Cemeteries Act* | | | | 4 |
| *The Prearranged Funeral Services Act* | | | | 1 |
| | | | | |
| Total number of Orders issued | | 168 | | 159 |

Note: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's office upon request, and are posted on the Board's website (www.pub.gov.mb.ca). The Orders indicated above include Orders related to applications for costs by interveners to the Board's process.

## LICENCES ISSUED

| | 2012/13 | | 2011/12 | |
|---|---|---|---|---|
| **Direct Purchase of Natural Gas** | | | | |
| Brokers | | **11** | | **10** |
| **The Cemeteries Act** | | | | |
| Cemeteries, renewal | 11 | | 11 | |
| Initial licensing | | | | |
| Conditional | | | 1 | |
| Columbariums | 21 | | 21 | |
| Initial licensing | | | | |
| Conditional | | | 1 | |
| Mausoleums | 5 | | 5 | |
| Crematories | 18 | | 19 | |
| Initial licensing | | | 1 | |
| Conditional | | | 1 | |
| Sales-Owners | 11 | | 11 | |
| Conditional | | | 1 | |
| Agents | 92 | | 90 | |
| Agent Transfer | 1 | **159** | 1 | **163** |
| **The Prearranged Funeral Services Act** | | | | |
| Renewal | 33 | | 33 | |
| Initial licensing | | | 1 | |
| Conditional | | **33** | 2 | **36** |
| **Total licenses issued** | | **203** | | **209** |

In addition, the Board receives notice of price changes from cemeteries, crematoriums and with respect to pre-arranged funeral services.

## FINANCIAL INFORMATION
## Fiscal Year Ended March 31, 2013

| | | ($000's) | | | |
|---|---|---|---|---|---|
| | | **2012/13** | | **2011/12** | |
| **Levies, Direct and Indirect** | | | | | |
| General Board levies on Manitoba Hydro with respect to: | | | | | |
| a) electricity; | 312 | | | 320 | |
| b) gas operations | 452 | 764 | | 446 | 766 |
| Costs of Board advisors, paid by Manitoba Hydro: | | | | | |
| a) electricity; | 1,592 | | | 1,559 | |
| b) gas operations | 311 | 1,903 | | 175 | 1,734 |
| Costs of interveners, paid by Manitoba Hydro: | | | | | |
| a) electricity; | | | | 846 | |
| b) gas operations | 106 | 106 | | 56 | 902 |
| Aggregate Board levies on Manitoba Hydro consolidated (Totals) | | 2,773 | | | 3,402 |
| Levies on Manitoba Public Insurance Corporation (MPI), with respect to: | | | | | |
| General Board levies on MPI | 312 | | | 314 | |
| Costs of Board advisors, paid by MPI | 287 | | | 363 | |
| Costs of interveners, paid by MPI | 26 | | | 173 | |
| Aggregate Board levies on MPI | | 625 | | | 850 |
| Levies on | | | | | |
| Stittco Utilities Man Ltd. | 5 | | | 2 | |
| Swan Valley Gas Corporation | 2 | | | 2 | |
| Water & Sewer Utilities - City of Winnipeg | | | | 63 | |
| Water & Sewer Utilities - All others | 62 | | | 53 | |
| Fees related to cemetery and funeral related activities | 25 | | | 31 | |
| Natural Gas Brokers | 7 | 101 | | 5 | 156 |
| | | **3,499** | | | **4,408** |
| **Board Expenditures, Direct and Indirect** | | | | | |
| **Direct costs of the Board** | | | | | |
| Salaries & per diems | | 749 | | 688 | |
| Rate regulation and safety related costs | | 64 | | 134 | |
| General overheads (rent, technology, utilities, etc) | | 364 | **1,177** | 295 | **1,117** |
| Board Advisor costs billed to regulated entities | | | 2190 | | 2,097 |
| Intervener costs billed to regulated entities | | | 132 | | 1,075 |
| **Aggregate costs related to Board operations** | | | **$3,499** | | **$4,289** |

Revenue and expenses related to Board operations and Board decisions are recorded in the accounts of the Consolidated Fund of the Province of Manitoba and the entities regulated by the Board. The Board incurs operating costs and its costs are recovered through statutory levies against Manitoba Hydro, Centra Gas Manitoba Inc., Manitoba Public Insurance, Stittco Utilities Man Ltd., and fees charged to other regulated utilities. The Board directs regulated entities to pay the costs of Board advisors and, upon a Board Order awarding costs, all or a portion of the costs incurred by interveners to its hearings.

Costs and revenues reported do not include costs incurred by the regulated utilities for their own direct costs associated with Board regulatory processes. Such costs include salaries and benefits, notice expenditures, consultants and overheads.

## Summary of Board Processes

Regulated entities apply to the Board either seeking amended rates or, in some cases, operational or structural changes. When large entities are involved (such as Manitoba Hydro, Centra Gas and Manitoba Public Insurance), or a proposed rate change is considered to be either exceptionally large or controversial, the Board hears the application through an oral public hearing process.

Board hearings may either be conducted in a court-like atmosphere, with sworn witnesses and testimony subject to cross-examination, or, as in the case of smaller utilities or issues judged to be of a less technical or sensitive nature, held in a less formal setting. In the interests of restraining regulatory costs, the Board employs less formal processes as long as those processes do not compromise the integrity of the Board's proceedings.

For public hearings related to Manitoba Hydro, Centra Gas, Manitoba Public Insurance, some municipal water and sewer proceedings, the review of maximum fees and charges for either the cashing of government cheques or the making of payday loans, and appeals of Highway Traffic Board decisions, interveners representing special or general interests often participate. Interveners pose questions, cross-examine witnesses and set out positions. In addition, at all public hearings of the Board, presenters from the general public are able to address the Board.

For major hearings, applicants, interveners and the Board usually retain counsel and often employ expert witnesses. Witnesses provide sworn testimony, while interveners assist the Board in understanding issues involved.

While it has been fairly rare for interveners to participate formally in water and sewer hearings, this has occurred recently due to ever-increasing rates, changed accounting standards affecting utility costs and rates, and the importance of water and sewer service delivery (with more stringent standards for water quality being imposed by government). Generally, the Board refrains from its own use of external counsel and advisors in the case of water and sewer utilities, this in the interest of cost constraint and taking into account the responsibilities of elected municipal councils and their professional staffs.

Prior to a Board hearing, with the exception of *ex parte* hearings which take place in camera, a public notice is issued. (Notices advise of upcoming hearings and inform consumers and other parties of the opportunity to participate, and also advise of the availability of cost awards in support of interventions.) Transcripts of major hearings are posted on the Board's website and made available on request to interested parties. In the interest of transparency, copies of Board decisions are posted on the Board's website, directly issued to those involved in the hearing, and on request, provided to the media and members of the public. As well, major Board decisions are accompanied by a news release.

The Board's Rules of Practice and Procedure (Rules) guide public hearings; the Rules are available to all participating parties in advance of a hearing and are posted on the Board's website. The Board has a Code of Conduct, formalizing its internal conflict of interest rules for its members, which remain in place after a member leaves the Board. Board decisions may be appealed to either the Board itself, by a motion to review and vary, or, in certain defined circumstances, to the Manitoba Court of Appeal. Very few Board decisions are appealed.

In some cases, where special circumstances exist, the Board issues interim orders. In rare occasions, the Board issues interim rates arising out of reviews not participated in by interveners or the general public - such a proceeding is denoted as an *ex parte* hearing. *Ex parte* decisions are later finalized through public processes. As with all of its decisions, reasons supporting *ex parte* decisions are made public.

Interim *ex parte* decisions are subject to confirmation, repeal or variance through a subsequent public or other Board proceeding. At such proceedings, the utility, registered interveners and the public are or may be present. *Ex parte* decisions may also be appealed, either to the Board through a motion to vary, or to the Court (although such appeals are rare, as the decisions are preliminary in nature, subject to review and finalization or amendment by the Board itself).

In 2008, the Supreme Court of Canada (SCC) altered the approach for judicial review challenges of decisions by administrative tribunals. In the past, there were three standards of review for the Court to consider with respect to an application to set aside a decision of an administrative tribunal, those being correctness, reasonableness, *simpliciter*, and patent unreasonableness. Now, there are only two grounds, with reasonableness *simpliciter* and patent unreasonableness merged into one. The stricter standard of correctness will apply to claims of errors of law and/or fact; the reasonableness standard will apply to the judgment calls of administrative tribunals.

This decision was later commented on in March 2010 in another decision by SCC, which supported the notion that the courts are to defer to an administrative tribunal with respect to applying the standard of reasonableness. The Board has a long history of providing full reasons for its decisions, following processes informed by legal advice as to jurisdiction and other matters requiring correctness.