

ANNUAL REPORT

FISCAL YEAR 2004/05

ENDING MARCH 31, 2005

THE PUBLIC UTILITIES BOARD

April 29, 2005

The Honourable Gregory F. Selinger
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister Selinger:

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 our 2004/05 annual report for the period ending March 31, 2005. Previous reports were filed on a calendar year basis, which failed to coincide with either the government's fiscal year or the fiscal years of the major utilities regulated by the Board. This report provides the transition between the old calendar year basis and the new fiscal year approach.

The Board's jurisdiction includes the major Crown and municipal utilities of Manitoba, with the exception of the City of Winnipeg's water and sewer utility operations. Either upon application by a regulated utility or on Board direction, the Board sets consumer rates following a review of a utility's financial and general operations. The Board may approve, vary or deny applications of utilities.

The Board's mandate extends to privately owned cemeteries and crematoriums, pre-arranged funeral plans, perpetual care trust accounts, and natural gas brokers. As well, the Board hears appeals of decisions by Manitoba Hydro with respect to natural gas service disconnection, and the Highway Traffic Board with respect to highway accesses. The Board also oversees natural gas pipeline safety.

The Board acts from a public interest perspective, paying close attention not only to the immediate interests of consumers but also the financial health of regulated utilities.

During the period under review, the Board held major public hearings with respect to Manitoba Hydro, Centra Gas and Manitoba Public Insurance. The Board conducted public hearings and paper reviews of applications by regulated water and sewer utilities, and heard appeals of Highway Traffic Board access decisions. The Board was also very active with respect to supervising natural gas pipeline safety and natural gas service disconnections.

I have the responsibility and privilege of being the full-time Chairman of the Board; there are also eight part-time members. The Board has a full-time staff of five and a roster of professional Board Advisors (legal, accounting, actuarial and engineering); all connected with the Board's operations and dedicated to its goals.

Sincerely,

Graham F.J. Lane, C.A.
Chairman

Chairman's Report

Review of Board Proceedings

From January 1, 2004 to March 31, 2005 Fiscal Year

Introduction

The Public Utilities Board ("the Board") represents the public interest, which has been defined to include fairly treated consumers and financially stable and appropriately funded utilities. More recently, the public interest in energy efficiency, conservation and clean energy has also been identified. The Board is comprised of a government-appointed full-time Chairman and eight part-time members, and is ably assisted by staff and Board Advisors. The Board's mandate is met through public hearings, paper reviews, direct intervention and consultation. The Board is a quasi-judicial administrative tribunal, and functions independent of government direction and in accordance with enabling legislation.

The regulation of electricity, natural gas and propane pricing are major responsibilities of the Board. Natural gas pipeline safety is an important and related responsibility, which involves the Board not only here in Manitoba but as a member of the Canadian Standards Association. The Board establishes vehicle insurance rates and driver license fees through its regulation of Manitoba Public Insurance. As well, the Board regulates provincial municipal water and sewer utilities in the Province, excepting the City of Winnipeg; oversees privately owned cemeteries and crematoriums; and monitors the trust accounts of funeral directors holding monies under *The Prearranged Funeral Services Act*. All natural gas brokers operating in Manitoba are licensed by the Board, for purposes of both ensuring security of supply and fair customer relationships. The Board hears appeals from Highway Traffic Board decisions, pursuant to *The Highways Protection Act*, from consumers with respect to the disconnection of natural gas service, and with respect to contract disputes with natural gas brokers. Occasionally, the Board serves the public interest in other ways. By way of example, in 2004, the Board arbitrated a dispute between two utilities. The Board continues to be a member of the Canadian Association of Members of Public Utilities Tribunals ("CAMPUT"), where Canadian regulatory practices are discussed and compared.

During the period April 1, 2004 to March 31, 2005, the Board issued 160 Orders and 161 licenses, as well as attending to a host of other matters. Another 47 Orders were issued between January 1, 2004 and March 31, 2004. During the fiscal year ending March 31, 2005, the Board expended \$1.041 million in direct costs (2003/04, \$1.076 million), with almost one-third being spent to ensure natural gas pipeline safety. As well, the Board directed regulated utilities to pay a further \$1.971 million for advisors and intervenor costs related to Board hearing processes (2003/04, \$2.849 million).

The Board met its direct costs through levies on regulated utilities. Regulated utilities also bore their direct costs of participating in the regulatory process.

Taking into account all costs incurred by all parties to Board processes, overall regulatory costs for the fiscal year ended March 31, 2005 approximated \$4 million (\$2003/04, \$5 million). On the other hand, the two hundred plus utilities regulated by the Board have annual revenues in excess of \$3 billion, thus regulatory costs only represent approximately 1/10th of 1% of revenue. Regulated utilities are generally monopolies that serve virtually every Manitoba resident, business and organization.

Overview of Board Processes

Regulated utilities make application to the Board when seeking a rate change.

For the larger utilities, or when the proposed rate increase is judged by the Board to either be exceptionally large in percentage and absolute terms, or potentially controversial, the Board hears the application through a public hearing.

For public hearings related to Manitoba Hydro, Centra Gas Manitoba and Manitoba Public Insurance, intervenors attend, and, together with the Board, pose questions and set out positions. In addition, at all public hearings of the Board, presenters from the general public are invited to address the Board, and often do. Intervenors and the Board may retain expert witnesses, who together with witnesses put forth by the applying utility, provide testimony at the hearings, such testimony developed to support, criticize or propose options with respect to the application before the Board. Intervenors and presenters often assist the Board in reaching its ultimate decision by presenting views which are reflective of the public interest.

Prior to such hearings, public notices are issued advising of the upcoming hearing, and informing the public of the availability of cost awards to support effective interventions. Transcripts are made and posted on the Board's website, which was developed in 2004 and otherwise made available to interested parties. The Board may accept, decline or vary an application of a utility, and copies of Board decisions are issued to all those involved in the hearing, the media and, on request, the public. As well, Board decisions are posted on its website. The Board's rules of order guide public hearings. The rules are available to all participating parties in advance of a hearing and are also posted on the Board's website. The Board's decisions may be appealed, either by Motion to Vary addressed to the Board, or to the Manitoba Court of Appeal.

In some cases, where special circumstances are present, the Board may grant interim rate changes through hearings not attended by intervenors and the general public. Such a process is denoted as an *ex parte* hearing. Decisions and the reasons therefore arising out of *ex parte* hearings are circulated to the parties involved, intervenors, the media, and, on request, the public. Interim *ex parte* decisions are subject to confirmation, repeal or variance through a subsequent public hearing, where the utility, intervenors, and the public are present. As well, these decisions may be appealed, either to the Board in a motion to vary or to the Manitoba Court of Appeal.

For smaller utilities, such as many of the water and sewer utilities, the Board, in an effort to reduce the cost of regulation, will often reach its decisions on applications by way of a paper review. Under this process, the Board enquires as to the utility's situation and prospects, using a process of interrogation by written information requests. (Some water and sewer applications, particularly in the case of proposals involving large rate increases, are heard by way of public hearing.)

As part of its general process, the Board assesses the financial statements of the utility in question, and considers the various options available to respond to the utility's application pursuant to the Board's perspective as to what constitutes the public interest. Concurrent with this process, the Board requires the applicant utility to advertise its application to the Board, and the utility is obliged to share with the Board any objections it might receive from the public. In the case of objections, the Board may hold a public hearing.

The Board process requires members to declare any conflict of interest prior to the hearing or decision process, as the decisions of the Board must be independently reached and unbiased. Generally speaking, the Board sits in panels of two to four members for each application before the Board. And, as indicated previously, Board decisions are made on the basis of the Board's perspective on what constitutes the public interest with respect to all matters placed before it.

Energy: Electricity, Natural Gas and Propane

Upon applications from the utilities, the Board establishes consumer rates for Manitoba Hydro, Centra Gas Manitoba Inc. (a subsidiary of Manitoba Hydro), Stittco Utilities Manitoba Ltd. (a propane distribution company serving Flin Flon, Swan Lake and Thompson), and Swan Valley Gas Corporation (a subsidiary of SaskEnergy serving the Swan River area).

The gas and propane utilities purchase their commodity supply through the continental energy market, where the price is determined by supply and demand. Centra Gas amends its billings for commodity costs on a quarterly basis, reflecting on-going market fluctuations; Swan Valley Gas and Stittco generally amend their rates on an annual basis. Gas and propane utilities recover their costs through levies on their customers, and the levies recover supply and operating costs and provide a reasonable mark-up to allow either for a reasonable return (privately-owned utilities) or adequate financial reserves (Crown corporations).

Licensed natural gas brokers offer consumers a fixed-price alternative to Centra Gas' quarterly cost-based commodity billings. The Board licenses all brokers, and their prices are unregulated. The Board supervises the sales activities of the brokers through a Code of Conduct, and has the authority to rule on the continuance of a retail contract in the case of a dispute between a customer and a broker. The brokers market their service through direct consumer contact, and provide the commodity supply to approximately one-sixth of Centra's residential customers.

The most contentious matters dealt with often relate to rate matters with respect to Manitoba Hydro, Centra and MPI. Intervenor to the public hearing proceedings support public and commercial interests in these matters.

Manitoba Hydro

Manitoba Hydro's 2004 electricity rate application was heard by the Board in a public hearing held in the summer of 2004. Manitoba Hydro experienced a severe drought from late 2002 through to the winter of 2003/04, and this drought lowered water levels and depressed hydroelectric generation and export sales.

Concurrently, reduced generation resulted in large electric energy purchases from the United States, and these purchases took place at higher prices than expected. In the end, the utility lost \$428 million on electricity operations during its 2003/04 fiscal year, the largest loss ever experienced by Manitoba Hydro, and a result that severely reduced its retained earnings and increased its debt:equity ratio beyond levels acceptable to the Board.

The Board responded by granting a 5% across-the-board increase effective August 1, 2004, the first increase in many years. At the same time, the Board provided Manitoba Hydro with two 2.25% conditional rate increases for 2005, to be implemented only upon the Board's confirmation after further review. The August 1, 2004 and the first conditional rate increase, granted in 2005, were provided on an across-the-board basis, because the Board does not accept the methodology that has been used by Manitoba Hydro to allocate its revenues and costs to the various customer classes. The methodology will be reviewed in a public hearing in 2005.

Since August 2004, the financial results and outlook for Manitoba Hydro's electricity operations have improved. However, the utility's financial strength as measured by the debt:equity ratio remains inadequate. Accordingly, in March 2005 the Board confirmed the first of the two 2.25% conditional rate increases, the first one effective April 1, 2005. The potential implementation of the second conditional rate increase awaits new information and Board consideration in the fall of 2005.

In granting the increases, the Board considered the ten-year forecasts provided by Manitoba Hydro, which project neither changes to water rental, debt guarantee or capital tax tariffs, nor dividends to the Province. The Board recommends no changes or dividends occur until the utility reaches the 75:25 debt:equity ratio established by the Board. The Board remains focused on finding a proper balance between the financial health of Manitoba Hydro and the understandable desire of consumers for low rates. It is important to note that Manitoba Hydro's net income forecasts through to and including 2013/14, depend upon annual rate increases.

If the second conditional rate increase is warranted and granted, the rate increases of 2004 and 2005 will generate revenues equivalent to the forecast cost of the Wuskwatim project, i.e. approximately \$1 billion, over the next ten years.

Without the rate increases, and projections of an annual rate increase in every year going-forward, MH would be forecasting an annual net loss.

Manitoba Hydro's electricity rate schedule, the lowest in North America, is not based on the market value of electricity, or the rates charged in other North American jurisdictions, but on cost. A major factor in Manitoba Hydro's low rates is that the utility's generation and transmission plants were constructed some time ago. Thus, depreciation and financing charges on these assets are lower than would be the case if the plant had been constructed more recently. Contrary to the historical cost-based pricing approach followed by Manitoba Hydro with respect to electricity, oil, diesel, natural gas, propane and coal prices are established by demand and supply on a continental basis. Costs of these other energy sources have soared since 1999; with the sole exception of propane, which has increased approximately 100%, the costs of these other energy sources have risen by 200% or more.

Manitoba Hydro has filed with the Board a new ten-year financial forecast, and its 2005 Power Smart Plan, both of considerable interest to the Board. The new Power Smart plan provides attention to both electricity and natural gas demand side management. Improving energy efficiency is in everyone's interest, and the expenditures to achieve these gains are expected to be cost-effective for the utility and its customers.

The Board's electricity rate decision of 2004 drew marked criticism from two intervenors (CAC/MSOS and MIPUG); these intervenors filed Motions Seeking Leave to Appeal with the Court of Appeal, while the motions have been heard by the Court decisions have yet to be rendered.

The Board-granted fixed and conditional rate increases added in aggregate 9.5% to Manitoba Hydro's average rate over a fifteen month period, and an estimated \$1 billion to the Corporation's revenue over a ten-year period. Even with the improvement in net income prospects arising from vastly improved water flow conditions, and the fixed and conditional rate increases along with forecast future annual increases of 2.5%, the Corporation forecasts that it will not achieve a 75:25 debt:equity ratio for at least ten years. The addition of new generating or transmission assets beyond the plans included in Manitoba Hydro's latest long-term financial forecast, which includes plans for major new investments in Hydroelectric generation, transmission, wind and demand side management projects would likely further delay the achievement of the 75:25 debt:equity target. Generally, private utilities cannot raise funds through bond issues with a debt:equity ratio of greater than 60:40; Manitoba Hydro's ratio currently exceeds 80:20, and this is before considering the effect of further major future investments in plant and equipment.

In granting rate increases for Manitoba Hydro, the Board considered the operating and financial risks faced by the Corporation, with future droughts being only one of the risks. Other risks include physical risks to transmission and other plant, interest rates, Canadian currency levels, and the sustaining of adequate export pricing and markets.

Until new generating capacity comes on stream, the next major addition forecast included in the utility's long-term financial forecasts is the Wuskwatim Generating Station project, with an in-service date of 2012, export volume potential will fall as domestic load increases. Potential other generation projects, Gull and Conawapa, are under consideration but are not reflected in the current long-term financial plans.

The Board will continue to monitor Manitoba Hydro's risks, and its assessment of the risks in the context of Manitoba Hydro's operating and financial situation and plans will be a major determinant of future rate direction.

With respect to improving the efficiency of the use of electric and gas energy in Manitoba, the fledging Efficiency Manitoba agency has indicated an interest in involving the Board. And, the national energy regulators of the United States, NERC and FERC, are looking for Canadian regulators to provide assurance as to the reliability of electrical utilities in Canada, the electric grid crossing borders makes this goal understandable.

Centra Gas

Manitoba Hydro's natural gas operation, conducted through Centra Gas, has not resulted in net income since Centra was acquired in 1999.

While natural gas prices have risen almost four-fold, only modest increases have taken place with respect to non-commodity costs. Centra does not add a mark-up to its commodity costs, these costs are passed through to consumers on a 1:1 basis. An application for a 2.5% increase related to non-commodity costs came before the Board in early 2005, and the Board dealt with this matter without a public hearing on an interim basis. A full-scale public hearing into this and other matters will be held in May 2005.

Annually, there is a public hearing into the natural gas commodity costs of Centra Gas, and at the 2004 Cost of Gas hearing the parties present also considered matters such as the allocation of unaccounted for gas costs and the supply and transportation arrangements of Centra Gas. Natural gas supplies are purchased from western Canadian and American producers, and transported to Manitoba through pipelines owned by external parties. Centra has natural gas storage facilities in Michigan and consideration is being given to developing additional storage in Saskatchewan; no decisions have been made and a watching brief is carried on by the Board.

At the Cost of Gas hearing, the present division of marketing approaches was briefly reviewed. Presently, Centra offers natural gas on a variable price basis, wherein prices vary as supply costs change. The private natural gas brokers offer fixed price contracts. The Board considered a special hearing to enquire into the appropriateness of allowing Centra the same degree of flexibility provided to the brokers, i.e. providing Centra the option of offering fixed-price commodity contracts.

One issue that would have to be resolved if Centra was to be provided the opportunity to offer fixed price contracts would be the disposition of any gains or losses that might develop. The matter of Centra's possible entry into fixed price commodity supply contracts will be taken up again in 2005.

Steep increases in natural gas commodity prices have led to many of Centra's low-income customers having increasing difficulty managing the bills within their household budgets. Delinquencies and service disconnections are rising, and the Board has recommended a multi-agency review of the issues. Part of the solution lies with improved insulation and furnaces, but landlord attention to these matters and other approaches may require enhancement. If a recession were to occur, what is currently a significant and growing problem could, particularly if a natural gas price spike coincided, become very serious for low-income families.

Manitoba Public Insurance

Manitoba Public Insurance rates for mandatory auto insurance and drivers' license premiums have been reviewed and set on an annual basis by the Board since 1988. The Board reviews the application to ensure rates are actuarially sound and statistically driven. It examines the sustainability of the Corporation, the adequacy of the rate stabilization account, the efficiency of the Corporation and any major risks it faces in order to ensure the continuation of affordable insurance for all Manitobans.

In 2004, Manitoba Public Insurance acquired the operation of DDVL, and the operating and financial implications related to this acquisition will need to be considered in future hearings. At the 2004 MPI General Rate Application hearing, the Board determined that two particular areas of concern should receive special attention in advance of the 2006 rate hearing to be held in the fall of 2005. One of these issues relates to auto theft, accident prevention and driver education, the other matter concerns loss transfer.

A hearing on the issue of loss transfer is scheduled for May 2005. It will hopefully provide an opportunity to address a matter that has concerned the Board, MPI and various intervenors for the past ten years, essentially since the advent of the total no fault system. The controversy surrounds the claims cost allocation methodology used by MPI. Costs

incurred by a motorist are allocated to their specific vehicle class regardless of fault. Claims costs are said to be allocated on a first-party basis.

Although the issue has largely been spearheaded by motorcyclists, the allocation method has broader application.

The second area of concern for which the Board sought to hold a special hearing involved vehicle theft and improvements in accident prevention and driver training. This has the potential to bring together various levels of government and agencies interested in promoting safety and a reduction in vehicle theft. This latter hearing has been deferred for the time being in order to allow MPI to take the lead in addressing these issues, in consultation with other stakeholders.

In its Order on insurance rates for 2005, the Board recommended to MPI that it negotiate the terms of the transfer of DDVL with the Province so as to ensure adequate compensation for costs in administering DDVL. In the interim, MPI was ordered to reduce rates for the year ending February 28, 2006 as applied to all Major classes to reflect the deletion of a cost share recovery of \$5.7 million, previously obtained from the Province and related to DDVL. The Board also recommended the commission cost sharing arrangement with the Province be reinstated and that MPI seek recovery of amounts that would have been paid under the former agreement. If these recommendations are not implemented, the Board will likely be faced with this same issue in the 2006 GRA. The Board also recommended that MPI reconsider its decision to include DDVL operations within the Extension division and consider allocating it to its Basic division. The effect of this would be to bring DDVL operations within the Board's jurisdiction and purview.

Finally, the Board observed in its Order that given MPI now allocates deemed excess earnings from Extension and SRE business to its Basic line of business, the Board recommended that MPI seek a formal indication from the Province that it accepts MPI's decision to allocate excess future earnings in Extension and SRE to the Basic division. The next public hearing with respect to MPI rates and operations will be held in the fall of 2005.

Water and Sewer Utilities

The Board has noted hyperinflation with respect to the water and sewer utility rates of some municipalities. These rate increases were required to fund the repair and enhance the safety and adequacy of municipal water and sewer systems. Infrastructure is often old, and the populations of some communities are stable or declining, with the average age of residents increasing. The Board has a limited mandate, but in 2004 it sought to involve the other water-related government agencies in cooperative sharing of information. This effort will continue in 2005.

As indicated previously, the Board regulates municipal water and sewer utilities excepting for the City of Winnipeg. While issues of safe drinking water and safe handling of wastewater are the primary responsibility of other provincial agencies, the Board is responsible for the adequacy and fairness of rates. And, while the municipalities are responsible for the management of the municipal utilities, the Board has concerns with respect to adequacy and reliability of aging infrastructure.

Cost, rate and safety risks may become present if there is insufficient attention given to renewal programs.

The particular problems facing communities dealing with declining population include fewer customers sharing increasing costs. Many of these customers are seniors on fixed incomes, who are also dealing with rising natural gas, electricity and oil prices. The Board assists municipal water and sewer utilities in assessing the adequacy of their rates and infrastructure, and brings problems it identifies to the attention of other provincial agencies, as required.

Cemeteries and Related Matters

Legislation related to “death” is long overdue for an update, many provisions and some Acts go back one hundred years. There are problems associated with overseeing the industry, the maintenance of cemeteries and the trusteeship related to perpetual care accounts. The Board and the Provincial Department of Finance, Consumer and Corporate Affairs Division, are working cooperatively towards developing possible legislative amendments. To undertake this work properly, resources are being assembled; outside bodies interested in the field will be involved.

As indicated previously, the Board regulates privately owned cemeteries and crematoriums, and monitors the trust accounts of funeral directors holding monies under *The Prearranged Funeral Services Act*. There has been an increasing trend for pre-arranged funeral plans based on underlying insurance contracts, and such arrangements are not covered by *The Prearranged Funeral Services Act*.

While the use of insurance is lawful and the prerogative of funeral directors and consumers, the Board suggests that Manitobans make themselves aware of the options towards ensuring the plans they establish are adequate to meet their needs and within their financial capability.

The proceeds from the sale of cemetery services sold on a pre-need basis are not placed into a trust account. The services and goods purchased are provided upon the need arising (for example, the provision of a plot and marker). However, for-profit private cemeteries must set money aside a portion of funds received in a perpetual care fund, and the transactions within the fund are audited by the Board on a periodic basis. The Board also notes a significant shift towards cremation

from burial, and that the shift is North American wide and impacts on cemetery care.

The Board notes that many of the perpetual care trust accounts are inadequate with respect to providing for the required future services. The proper care of private cemeteries currently depends upon the commitment of current operating funds raised from sources other than perpetual care investments.

The Board also hears appeals of customers of funeral homes, cemeteries and crematoriums. These appeals may relate to the sale of pre-arranged funerals or the costs of a cemetery plot with a perpetual care component.

With the known changes in practices and deficiencies, and given the age of the present legislation, the Board is considering undertaking a review of legislation, assisted by other provincial agencies.

Highway Traffic Board

As previously indicated, the Board hears appeals of decisions of The Highway Traffic Board pursuant to The Highways Protection Act. Appeals generally deal with access to provincial highways by driveways and the placement of signs adjacent to highways. Appellants include local landowners and the Highways Department. Generally, in determining these matters the Board visits the site and holds a hearing in the area.

Internal Board Matters

In March 2004, I took up the post of Chairman, succeeding Gerry Forrest who had exercised the responsibility of the position for twelve years prior to his retirement. Mr. Forrest had a long public service career, extending back thirty years to before his time with the Board. He was involved as well with the Canadian Association of Public Utilities Tribunals (CAMPUT), an association of administrative bodies exercising similar responsibilities to that of the Manitoba Public Utilities Board.

During the fiscal year ending March 31, 2005, several changes took place related to Board matters, these including:

- a) reduced external advice and services budgets, saving approximately \$700,000. By increasing reliance on internal advice and services, the savings reduced the cost of regulation for Manitoba Hydro and Centra Gas;
- b) amendments to the process for quarterly natural gas rate changes, saving Centra Gas in excess of \$150,000 annually without reducing the effectiveness of the process;

- c) conditional rate increases were provided to Manitoba Hydro. While logical given the uncertainties related to water flows, generation and net export revenue, and the inadequate debt:equity ratio, a collateral benefit was the elimination of the potential for another General Rate Application in 2005, with the costs attendant to that process;
- d) managing intervenor hearing budgets more effectively, reducing overlaps of interest and work amongst the Board and the intervenors so as to avoid excessive advisor billings;
- e) increasing application and annual renewal fees for natural gas brokers, and introducing a fee with respect to appeal hearings to motivate cost effective behaviour (since this change was introduced, all broker disputes over marketing practices have been resolved without an appeal hearing);
- f) the Board began issuing a monthly newsletter to Board members, covering Board-related matters and upcoming issues, and re-instituted full Board meetings bringing all Board members together to discuss issues before the Board;
- g) a Board website was developed, allowing the public to peruse Board Orders and other documents more easily.

In 2005/06, the Board will continue to explore ways and means to improve regulatory cost effectiveness, public awareness and consumer involvement.

Looking Forward, Major Issues for 2005/06

Prior to October 1, 2005, the Board will decide whether to implement the second of two conditional rate increases of 2.25% provided to Manitoba Hydro by Board Order 101/04 . As well, the Board will consider amending the Cost of Service methodology (COSS) for Manitoba Hydro, the COSS is a determinant in rate setting between customer classes. The second matter will be dealt with through a public hearing in the fall.

With respect to Manitoba Hydro's electricity operations, the Board will also review the interim rate schedule established for diesel zone customers (four northern First Nations' communities). The interim schedule was approved by the Board in support of a tentative settlement related to responsibility between Manitoba Hydro, INAC and First Nations. Manitoba Hydro will apply for final rates upon the settlement being finalized, that process will also involve a public hearing.

In 2005/06, the Board will learn the outcome of Motions for Leave to Appeal made to Queen's Court Bench in 2004, put forward by two intervenors to the Manitoba Hydro General Rate Application of 2004. A hearing was held before Justice Monnin in February 2005, but the decision remains forthcoming.

If the court grants one or both of the petitions, the intervenor(s) will be able to seek either changes or the suspension of the Board's directions arising out of the 2004 Manitoba Hydro General Rate Application. As well, the Board awaits the decision of the Court of Appeal to an application by an intervenor to set aside the Board's decision to provide an interim

rate increase for non-commodity costs to Centra Gas, and require a full public hearing on the matter. The Board is of the view that its Orders were appropriate, and thus does not expect either appeal to proceed.

Centra Gas was granted a 2.5% interim general rate increase related to its non-commodity related costs, to take effect with the quarterly primary gas adjustment scheduled for February 1, 2005. This increase along with a host of other issues will be subject of a public hearing in May, which will review Centra's General Rate Application with respect to gas system operations. At that hearing, Centra will seek an additional 2.5% for non-commodity costs, as of April 1, 2006. Centra and its ratepayers continue to deal with the high cost of natural gas, which has risen substantially following price increases for oil.

The Board also continues to work with Manitoba Hydro to assess:

- a) the efficacy of increasing the responsibility placed on Manitoba Hydro (Centra Gas) for providing and maintaining reliable and safe natural gas supply (currently, the Board engages an engineering advisor firm to oversee Centra Gas safety measures and activities, unlike the situation vis a vis electricity, where the safety mandate lies with Manitoba Hydro);
- b) the potential for a limited public hearing related to the private gas broker industry in Manitoba, and Centra's interest in offering fixed-term fixed-price natural gas contracts to customers to compliment its current variable-price offering; and
- c) the Board has recommended the potential for a multi-agency review of the effects related to natural gas price increases and the other causes of disconnection of gas service. Oil prices rose sharply through March 31, 2005, and natural gas prices follow oil price development. With natural gas commodity prices now approaching three-times the levels of 1999, increasing numbers of natural gas consumers are experiencing difficulty meeting their bills.

The Board supervises the disconnection activity of natural gas distributors, and because of the moratorium on disconnection from October 1 to May 14 each year there is a substantial number of accounts eligible for disconnection each spring. In 2004, 6,000 accounts were disconnected in Winnipeg and Brandon. Throughout the summer, the disconnected accounts are reviewed, and during each fall a determination is made as to whether the properties should remain disconnected into the next heating season. In doing so, the Board and the utilities are very cognizant of risks faced by customers, especially the elderly, sick and children (given the cold winter conditions and the need for an assumed reliable source of heat.) The Board has a sense that the cost of home heating is at risk of becoming unaffordable for many low-income families, particularly those living in rental properties.

To the extent that an expanded energy conservation program would assist both homeowners and landlords, this option requires active consideration. The Board is reviewing the overall issue of low-income customers and high natural gas bills in consultation with Manitoba Hydro/Centra Gas, and recognizes that a full and complete resolution to this problem will require multi-stakeholder consultations.

In 2004, both the Board and the Clean Environment Commission recommended to government that the Board be provided an oversight mandate with respect to Manitoba Hydro's electricity capital expenditures. As matters now stand, and contrary to the approach in place with respect to natural gas utilities, the Board has no jurisdiction over capital expenditure decisions though such decisions directly affect rates and costs. To be able to manage the addition of such a responsibility, the Board's personnel and Advisor resources would have to be enhanced, and this would have material cost implications.

In May, the Board will hold a public hearing with respect to Manitoba Public Insurance's approach to allocating claims costs and its impact on motorcyclists. Motorcycle groups hold that when a motorcyclist is not at fault in an accident involving a vehicle other than a motorcycle, the accident costs should be transferred to the at fault driver's vehicle classification. This issue has been outstanding for ten years, and has been addressed at every annual MPI rate hearing since 1995. The Board hopes to resolve this issue in 2005.

In 2005/06, the Board intends to continue to work cooperatively with government departments charged with responsibility with respect to water and sewer safety. The Board will also attempt to resolve a debate over whether the costs of water and sewer capital costs should best be charged against municipal tax rolls, or recovered through water and sewer user rates.

A legislative amendment project related to the "death" industry (cemeteries, crematoriums, funeral homes, perpetual care accounts, etc.) is planned in conjunction with CCA, and will be underway in late spring.

Conclusion and Acknowledgements

I am pleased to report that The Public Utilities Board now has its own website at www.pub.gov.mb.ca Through the website the public can monitor the Board's activities and obtain on a 24 hour basis decisions of the Board and Notices of the more significant issues before the Board.

The Board is reviewing the desirability for Electronic Regulatory Filings. Both of these initiatives have significant cost savings related to them. In 2005, the Board will be reviewing its Rules of Practice and Procedure and will be seeking input

from known interested parties regarding their adequacy. They have been unchanged since their introduction in April 1992.

The Board's jurisdiction is not contained only within *The Public Utilities Board Act*, provisions of *The Crown Corporations and Public Review and Accountability Act* and *The Manitoba Hydro Act* also relate to the Board. At some point, it may be worthwhile to consolidate the Board's mandate within one Act, to assist with the public's understanding of the Board's mandate. With respect to that mandate, the utilities that the Board has oversight over are also governed or overseen, in whole or in part, by other agencies. These agencies include the Legislature, Ministers Responsible, the boards of directors for the agencies, Crown Corporations Council, Clean Environment Commission, the Auditor General, Water Stewardship Board, Conservation Manitoba, etc. While the role of these other bodies is significant, it does not reduce the statutory mandates provided to the Public Utilities Board, though the Board is cognizant of the roles played by the other parties.

The Board's fiscal year 2004/05 proved a busy time. The regulatory calendar was and remains full, and the issues before the Board were are both interesting and challenging. I want to thank the other Members of the Board, Board Advisors, and Board Staff for their dedication to the work of The Public Utilities Board and its public interest mandate.

I have learned of the public's reliance on the Board for thorough and careful thought related to the matters that come before it; a fair hearing process remains important. The Board has a long history of fulfilling these objectives, and they remain the goals of the Board into the future.

Respectfully submitted,

Graham F.J. Lane, CA

April 30, 2005

STATUTORY RESPONSIBILITIES

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

During the fiscal year under review, the Board was responsible for the regulation of public utilities as defined under the Act; namely:

Centra Gas Manitoba Inc. (a wholly owned subsidiary of Manitoba Hydro), Stittco Utilities Man Ltd., Swan Valley Gas Corporation, and municipal water and sewer utilities in the Province, with the exception of the City of Winnipeg’s utility.

Pursuant to *The Crown Corporations and Public Review and Accountability Act*, the Board regulates the premiums charged by Manitoba Public Insurance for compulsory auto insurance, related premiums charged on drivers’ licences and other fees, as well as Manitoba Hydro’s electricity rates. While the Board reviews the financial performance and forecasts of Manitoba Hydro, it does not have authority over the utility’s capital expenditure decisions.

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 Board is also responsible for the administration of *The Gas Pipe Line Act*, and, pursuant to that legislation, authorizes construction and operation of all gas pipe lines in Manitoba. The Board’s primary concern in exercising these responsibilities is public safety.

The utilities regulated by the Board have annual revenues exceeding \$3 billion, and serve and affect virtually every Manitoba resident and business.

BOARD MEMBERS AND STAFF

Members of the Board:

Graham F. J. Lane, C.A., Chairman
Robert A. Mayer, Q.C., Vice-Chair
Denyse T. Côté
The Honourable Dr. Leonard Evans
Monica Girouard, C.G.A.
Eric Jorgensen
Dr. Kathi Avery Kinew
Susan Proven, P.H.Ec.
Mario J. Santos, LL.B.

Staff Members:

Officers:

Gerald O. Barron, F.C.G.A, Executive Director and Secretary
Hollis Singh, Associate Secretary

Administrative Staff:

Jo-Donna Williamson, Office Manager
Debra Feuer, Secretary to the Chairman
Brenda Bresch, Administrative Secretary

The Chairman is a full-time appointment of the Lieutenant Governor in Council; the other Board members are part-time appointments. Public hearings of the Board are advertised, and applications made by sewer and water utilities where public hearings are not heard are made known to those affected, and Board decisions are communicated to the public. Decisions arising out of ex parte hearings are shared with the affected utilities and intervenors, and posted on the Board's website. All Board decisions are available to the public, and are posted on the Board's website. Board members comprise the membership of panels that 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, to ensure those appearing before the Board receive unbiased and independent judgements. Board decisions may be appealed to the courts, and applications may be made to the Board requesting that the Board reconsider a decision. The Board has adopted Draft Rules of Practice and Procedure, which are made known and are available to consumers, utilities and other interested parties.

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

Accounting:	PricewaterhouseCoopers LLP
Actuarial Science	Eckler Partners LLP
Engineering	Energy Consultants International Ltd. and Dillon Engineering
Law	Fillmore Riley and Pitblado

SUMMARY OF BOARD ACTIVITIES

	<u>ORDERS ISSUED</u>			
	<u>Fiscal 2004/05</u>		<u>First Quarter/04</u>	<u>2003</u>
Regulated Industry Orders:				
Water and Sewer Utilities				
Applications for amended rates	28			
Applications to address deficits	41			
General matters, late payment fees		<u>1</u>	70	15
				63
Manitoba Hydro				
Electricity operations	65		18	65
Centra Gas Manitoba	<u>11</u>	76	6	20
Natural Gas and Propane Utilities and Pipelines				
Swan Valley Gas (consumer rates)	1			1
Stittco Utilities Man Ltd.				1
Gladstone , Austin Natural Gas Co-Op			3	1
TransCanada Caliberations (safety audit)	<u>1</u>	2	1	1
Other Natural Gas				
Service Disconnection*	1		-	7
General matters, Code of Conduct (brokers)	<u>1</u>	2	1	11
Manitoba Public Insurance Corporation		6	2	6
Highways Protection Act		3	-	8
The Cemeteries Act		<u>1</u>	<u>1</u>	<u>5</u>
Total number of Orders issued		<u>160</u>	<u>47</u>	<u>189</u>

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 intervenors to the Board's process. * Approximately 6,000 natural gas service disconnections occurred in Winnipeg and Brandon during the fiscal year under review, 99% of these properties were reconnected subsequent to payment arrangements having been made. The Board works co-operatively with Manitoba Hydro/Centra Gas to ensure that health and safety concerns are addressed and remain the highest priority in these matters. Only in one case was a Board Order required to direct a reconnection.

SUMMARY OF BOARD ACTIVITIES

LICENCES ISSUED

Direct Purchase of Natural Gas

Brokers	12
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The Cemeteries Act 126

Cemeteries, renewal	11
Initial licensing	1
Columbariums	17
Mausoleums	5
Crematories	16
Agents	73
Agent Transfer	3

The Prearranged Funeral Services Act 23

Renewal	22
Initial licensing	1

Total licenses issues, year ended March 31, 2005 **161**

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

FINANCIAL INFORMATION
Fiscal Year Ended March 31, 2004

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 utilities regulated by the Board. The Board incurs costs to its own account, and recovers these costs through statutory levies against Manitoba Hydro, Centra Gas and Manitoba Public Insurance, and fees charged to other regulated utilities. The Board directs the utilities to pay the costs of Board advisors and, upon a Board Order awarding costs, all or a portion of the costs incurred by intervenors to its hearings.

	<u>Fiscal 2004/05</u>	<u>Fiscal 2003/04</u>	
		(000,\$)	
Levies, Direct and Indirect (\$000)			
General Board Levies on Manitoba Hydro with respect to:			
a) electricity; and	\$ 318	\$ 347	
b) gas operations	688	<u>782</u>	
	\$1,006		\$1,129
Costs of Board Advisors, paid by Manitoba Hydro:			
a) electricity; and	438	1,006	
b) gas operations	<u>721</u>	<u>727</u>	
	1,159		1,733
Costs of Interveners, paid by Manitoba Hydro:			
a) electricity; and	115	245	
b) gas operations	<u>88</u>	<u>370</u>	
	<u>203</u>		<u>615</u>
Aggregate Board levies on Manitoba Hydro consolidated	2,368		3,477
Levies on Manitoba Public Insurance Corporation (MPI), with respect to:			
General Board Levies on MPI	311	337	
Costs of Board Advisors, paid by MPI	495	433	
Costs of Interveners, paid by MPI	<u>103</u>	<u>54</u>	
Aggregate Board levies on MPI	909		824
Levies on:			
Stittco Utilities Man Ltd.	11	11	
Swan Valley Gas Corporation	0	3	
Fees related to cemetery and funeral related activities	19	25	
Other fees	<u>9</u>	<u>1</u>	<u>40</u>
	<u>\$3,316</u>		<u>\$4,348</u>
Board Expenditures, Direct and Indirect (\$000)			
Direct costs of the Board:			
Rate regulation and safety related costs	\$ 307	\$ 356	
Salaries and Per Diems	479	463	
General overheads (rent, technology, utilities, etc.)	<u>255</u>	<u>257</u>	\$1,076
	\$1,041		
Board Advisor Costs, billed to regulated utilities	1,665	2,180	
Intervenor costs billed to regulated utilities	<u>306</u>	<u>669</u>	<u>2,849</u>
Aggregate costs related to Board operations and directions	<u>\$3,012</u>		<u>\$3,926</u>

The above reporting of costs and revenues does not include costs incurred by the regulated utilities with respect to their own direct costs associated with regulatory processes. Such costs include salaries and benefits, notice expenditures, consultants and overheads.