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VIA EMAIL & ORIGINAL TO FOLLOW

Public Utilities Board of Manitoba
400 - 330 Portage Avenue
Winnipeg, MB R3C 0C4

Attention: Ms. Rachel McMillin, Assistant Associate Secretary

Dear Ms McMillin:

Re: Centra Gas Manitoba Inc. (Centra)
2019/20 General Rate Application

By letter dated June 27, 2019, the Public Utilities Board ("PUB" or "Board") requested comments from parties on the schedule for the proceeding, including justification for whether certain topics require an oral hearing or could simply be argued based on the written record of the proceeding. This letter sets out the comments and positions of the Industrial Gas Users ("IGU").

Background

In Order No. 24/19 dated February 20, 2019, the Board approved an issue list (appendix A to the Order, numbering issues from 1 through 24) and a proceeding timeline (Appendix B to the Order). The proceeding timeline contemplated a public oral hearing beginning in mid-August with dates to be finalized at a pre-hearing conference scheduled for July 17, 2019. The Board also approved intervenor status for IGU.

IGU noted in its intervenor application that it would collaborate with other intervenors in areas of mutual concern to avoid duplication of effort. This approach has allowed IGU to focus its evidence on areas where industrial customers have unique concerns and interests including:

1. Centra's cost of service study methodology (issue 17)
2. Centra's proposed changes to terms and conditions of service related to Transportation Service ("T-Service") including its approach to calculating and charging balancing fees (issue 22)
3. The disposition of balances in the heating value deferral account (issue 16)

IGU has filed expert evidence in this proceeding on these topics and provides comments on the need for an oral hearing to address these and other topics in further detail below.

Cost of Service Study (Issue 17 in Order 24/19)

Centra is proposing to implement rate rebalancing based on the results of its cost of service study that result in substantive rate increases for High Volume Firm, Main Line and Special Contract customers.¹ Centra's cost of service methods have not been substantively changed in over a decade.² Since that time, a number of changes have taken place in Centra's operating environment and the broader regulatory context in Manitoba, including:

- The Board undertook an extensive review of the cost of service methods for Manitoba Hydro, resulting in a renewed emphasis on cost causation as the paramount principle for cost of service methodologies as summarized in Board Order 164/16. Centra's cost of service methods have not be reviewed since the time the Board issued Order 164/16.
- Centra notes the 'postage stamp' approach to ratemaking originated more than 30 years ago, during a period when the Board's focus appeared to be on consolidating rates between different gas companies and during a period when T-Service options were just being developed.³
- Centra has been undertaking substantive investment in transmission ratebase. This has shifted the allocation weighting of costs in the cost of service study. This also raises issues about how costs are functionalized in Centra's cost of service study and whether certain customers are bearing costs for assets that do not directly benefit them.
- A number of Centra's interruptible service customers have migrated to the High Volume Firm Class.⁴ This changes the make-up of Centra's customer classes and may have implications for the selection of allocation methods.
- Centra has not acted on a number of the recommendations it accepted in its 2012 response to the Christensen and Associates report.⁵ With respect to the appropriateness of using load factor as the basis to weight peak and average demand allocators, Centra notes it has not undertaken any additional analysis in this area.⁶

These are substantive issues with significant rate implications for industrial customers. Further, it does not appear the Board will have the evidence it needs on certain methods

¹ Refer to the attachment to IGU/CENTRA I-15 at row 13 that shows the dollar value increase in non-primary gas rates Centra is proposing to implement for these customer classes as part of rate rebalancing based on the outputs of its cost of service study.

² Centra states it has not made any changes in its cost allocation approach in the current application in IGU/CENTRA I-10 (a) to (c) and noted no substantive changes in the 2013/14 GRA on Tab 11, Page 1, lines 8 and 9 of that application.

³ IGU/CENTRA II-25 (a) and (b).

⁴ CAC/CENTRA I-24(b).

⁵ Pages 15 and 16 of Attachment 11 of the PUB Completeness Review.

⁶ IGU/CENTRA II-13(b).

including the reasonableness of continuing to weight the peak and average allocator using the system load factor.

IGU recommends the Board defer making any decisions on cost of service matters until it can convene a proceeding on Centra's cost of service methods similar to that undertaken for Manitoba Hydro's electric cost of service study that resulted in Order 164/16. It is a discrete issue which can be severed.

IGU believes such a proceeding should include the Board retaining its own expert for a role similar to that undertaken by Daymark Energy Advisors in the Manitoba Hydro Cost of Service hearing. This could help limit the need for intervenors to access commercially sensitive information. IGU has not conducted a full cost of service study which reflects current circumstances and the PUB's directives in its Order 164/16.

It is IGU's view that the record is not sufficiently robust to allow the PUB and the parties to conduct a fulsome review. We recommend that the PUB direct Centra to prepare an updated Cost of Service Study which takes into account the issues raised in this letter and any other issues it deems relevant.

IGU therefore recommends that the Board sever the cost of service issues from the 2019/20 GRA proceeding and not approve any rate adjustments based on Centra's cost of service analysis at this time.

Alternatively, if the PUB does not defer the cost of service issues to a future proceeding, IGU submits these matters will require oral hearing days. The issues to be resolved are numerous and represent a substantive portion of the proposed rate increases for IGU's members. The cost of service issues merit testing of evidence in an oral hearing. There are presently conflicting expert opinions. We expect the PUB will be required to weigh the expert evidence and make decisions as to which evidence it prefers. It is also expected that oral evidence will further assist the PUB in better understanding the issues and methods and how they need to be dealt with in the context of the principles established in its Order 164/16. It is IGU's view that the Cost of Service issues cannot be effectively and appropriately dealt with through evidence in writing.

Transportation Service Terms and Conditions and Balancing Fees (Issue 22 in Order 24/19)

Centra is proposing to implement changes to its terms and conditions of service for T-Service customers to restrict customer eligibility for this service option and to change its balancing fee structures. This is a substantial issue for industrial customers as evidenced by the number of parties engaged in this issue. At the pre-hearing conference on January 24, 2019, the Board heard from BP Canada, Bunge Canada, Koch Fertilizer, McCain Foods, Richardson International, Simplot Canada and IGU on this issue. IGU has filed specific evidence on this topic from two witnesses.

In IGU's view, the most efficient and cost effective way to proceed for this topic would be for the Board to direct Centra Gas to work with its T-Service customers to develop a more reasonable proposal that could be put before the Board at a future proceeding. Both Mr. Labonte

and Mr. Brown in their evidence provide examples of potential revisions to the proposal and additional tools that could help Centra Gas and its T-Service customers better manage their loads. This could be similar to the approach outlined in Directive 29 of Order 59/18 which directed Manitoba Hydro to prepare a time-of-use rate design proposal following consultation undertaken with General Service Large customers. This would avoid the need for an oral hearing on this issue as part of the current proceeding.

IGU submits that an oral hearing based on the current evidentiary record may also lead to partial solutions which have not been fully thought out and tested. The PUB may decide that the solution proposed by Centra requires modification. An oral hearing may be useful in identifying the problems with the solution proposed by Centra, however it would be ill-suited to be the forum to craft a made in Manitoba solution. A consultative process allows parties adequate time to consider existing contractual obligations, existing operational requirements, the ability to tools and procedures to coordinate and deal with balancing fees, craft appropriate thresholds, consider whether solutions in other jurisdictions can or should be implemented in Manitoba and finally test whether the proposed solutions align actual costs incurred by Centra with the amounts charged to customers. An oral hearing, which is to a large extent based on adversarial process (i.e. direct evidence, cross-examination and rebuttal), is not well suited for crafting a solution and drafting wording to implement a proposed solution and finally testing how well the proposed solution aligns actual costs with actual charges.

If the proposed changes to Centra's T-Service terms and conditions remain as part of the current proceeding, IGU believes it is a material, substantive issue that will require oral hearing days. IGU believes its witnesses should have the opportunity to appear before the Board to explain their experience and concerns with Centra's proposal. IGU believes an oral hearing would assist the Board in gaining a better understanding of the issues and the possible options to fair and just terms and conditions.

Disposition of Balances in the Heating Value Deferral Account (Issue 16 in Order 24/19)

On the issue of the disposition of balances in the heating value deferral account, the IGU believes the facts are straightforward. Centra needs only to implement changes in line with what it has already agreed are reasonable in its response to the 2012 Christensen Associates report. IGU believes this topic will not require oral hearing time and can be argued based on the written record of the proceeding.

Revenue Requirement Issues (Issues 3 through 12 of Order 24/19) and other issues

In order to facilitate an efficient hearing process and minimize costs, IGU has allowed the CAC to take the lead in revenue requirement matters as smaller consumer interests are reasonably well aligned with industrial customer interests. At present IGU has not had the opportunity to review the evidence of CAC's experts with respect to revenue requirement issues and other issues. However, given that it has been six years since Centra Gas filed a general rate application, IGU expects that revenue requirement topics will benefit from review at an oral hearing.

IGU submits that any issue on which there are differences in the underlying facts would be better dealt with in an oral hearing which allows for testing of evidence and the making of

factual determinations. In addition, it may be of assistance to the Board to have focused and time limited oral presentations to allow it to better understand the evidence being presented by the parties and to allow it to ask any questions of clarification it may have during direct evidence or following the cross-examination of expert witnesses.

Summary

IGU's recommendation is that the Board defer issue 17 (cost of service study) and issue 22 (as it relates to the proposed changes to T-Service) for the reasons noted above. If these issues are not deferred, IGU believes they will require oral hearing days and expects it will require a total of 2 to 3 hearing days for cross examination of Centra's witnesses and direct examination of its witnesses on these issues. This estimate assumes that Board Counsel will have had the opportunity to conduct their cross-examination of Centra witnesses.

With respect to revenue requirement issues (Issues 3 through 12), IGU expects it will require 1 hearing day for cross-examination of Centra's witnesses, focused on areas of specific interest to industrial customers not already canvassed by Board counsel or CAC's counsel or other intervenor counsel.

IGU believes that issue 16 can be argued based on the written record.

IGU only received the CAC evidence (both the public and partially redacted CSI versions) on Wednesday July 3rd and is therefore not able to provide specific reasons for keeping an oral hearing on other issues including revenue requirement issues. IGU notes that in Order 85/13, the vast majority of issues required the Board to make findings of fact or of fact and law. Unless the facts are agreed to by all parties, making findings on the basis of written evidence alone is inferior and does not allow for a robust hearing process with proper testing of evidence.

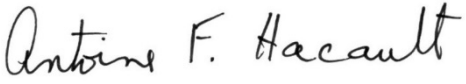
In Order 125/18, this Board imposed on Centra a daily administrative penalty for being in default of filing a General Rate Application as required by Order 108/15, Directive 12. If there had been regular General Rate Applications, it would be reasonable to expect that the current proceedings would not have as many issues which needed to be dealt with. The failure to file timely General Rate Applications and the failure to comply with a Board directive in that regard has likely contributed to the concern about the length and cost of current proceedings. However, the right of consumers to a full and proper hearing should not be truncated as a result of the failure by Centra to file regular General Rate Applications. Consumers should not be penalized for Centra inaction. The normal oral hearing process should not be truncated if consumers are of the view that an oral hearing process is required to fully protect them. This Board is the gatekeeper to ensuring rates charged by this monopoly are fair and reasonable and consistent with established regulatory principles. Ensuring that the interveners are giving full hearing rights is an important aspect of making sure that the public interest is heard and fully considered prior to making any regulatory decisions.

IGU recommends the Board allow both oral and written argument.

If there are any questions with respect to the IGU's submission, please feel free to contact the writer at your convenience.

Yours truly,

THOMPSON DORFMAN SWEATMAN LLP

Per: 

Antoine F. Hacault*

AFH

cc:

Bob Peters, Board Counsel

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All Intervenors of Record

*Services provided through A. F. Hacault Law Corporation