

Order No. 63/22

**Procedural Order in Respect of Centra Gas Manitoba Inc.'s and Manitoba Hydro's
Request to Review and Vary Board Order 85/13 for Purposes of Filing a Combined
2022 General Rate Application**

June 14, 2022

BEFORE: Robert Gabor, Q.C., Board Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., Board Vice-Chair
Hugh Grant, Ph.D., Member
Irene A. Hamilton, Q.C., Member
Shawn McCutcheon, Member
Susan Nemec, FCA, FCPA, Member
Larry Ring, Q.C., Member
Michael Watson, Member

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1.0 Executive Summary

On April 11, 2022, Manitoba Hydro and Centra Gas Manitoba Inc. (“Centra”) proposed a joint comprehensive rate application seeking to alter both electricity and natural gas rates to be filed in the fall of 2022. Manitoba Hydro and Centra say cost efficiencies will result from a combined General Rate Application. As part of this proposal, Centra requests the Public Utilities Board (“Board”) review and vary certain of its findings in Order 85/13, specifically a requirement that any proposal for a joint application for rates be filed at least 12 months in advance of the application filing date.

In order to fully consider Centra’s and Manitoba Hydro’s proposal, by this Order, Centra and Manitoba Hydro are directed to provide additional evidence to the Board in written responses to the Information Requests attached as Schedule “A”.

2.0 Overview

General

The April 11, 2022 letter from Manitoba Hydro and Centra contains a proposal to file in the fall of 2022 a joint comprehensive rate application seeking to alter both electricity and natural gas rates. To further consider combined General Rate Applications (“GRA”), the Board was requested to Review and Vary certain of its findings in Order 85/13 which provided (at page 67 of 74):

Centra was acquired by Manitoba Hydro on July 1, 1999. Since approximately 2002, Centra’s operations have been fully integrated into Manitoba Hydro’s operations. From a rate regulation perspective, each entity’s rates for service are approved by the Board and are subject to regulatory proceedings before the Board. Centra raised the issue of filing its next rate application based on a joint Centra and Manitoba Hydro General Rate Application, once the review of the Needs For and Alternatives To Manitoba Hydro’s Preferred Development Plan (“NFAT Review”) is completed. Centra stated there should be stakeholder meetings or workshops but did not believe it necessary for a generic hearing to consider how a combined rate application might unfold.

In the interim, Centra stated there might be a need for a paper process to deal with interim rate increases that may be required in 2014/15 for gas and electric operations. This would allow for a proper allocation of resources for the NFAT Review process.

CAC questioned Centra’s proposal to have an amalgamation of Centra and Manitoba Hydro from a regulatory process perspective. In prior rulings, the Board indicated that, in any amalgamation of the hearing process, there would be certain ground rules set out, including full details of the process proposal, a list of advantages and disadvantages from the perspective of all stakeholders, and a process which provided interveners and other parties with an opportunity to participate. CAC stated there may be some benefits to combining issues, but the extent of the commonality of issues, the mechanics, and the impact on both gas and electric ratepayers needs to be examined thoroughly in a generic sense before any final decision is made. Consequently, prior to any process that would integrate electric and gas hearings, CAC recommends vetting of the pros and cons of the proposed process...

Board Findings in Order 85/13 included:

The issue of a combined hearing for setting Manitoba Hydro and Centra rates was not canvassed at this hearing and did not form part of Centra’s Application. The Board expects Centra to file a formal proposal for a combined process with the Board. Such a

proposal should be circulated to all registered interveners of this proceeding and the prior Manitoba Hydro General Rate Application proceeding. The Board will require Centra to file any proposal at least 12 months before the proposed date of filing a joint application for new rates under the proposed process to allow for an assessment of the merits of such a process. (at page 69 of 74):

In the April 11, 2022 proposal, Manitoba Hydro and Centra submit that there could be efficiencies in reviewing common topics in a single process such that there could be an overall reduction in regulatory costs. Manitoba Hydro and Centra anticipate that the scope of a combined electricity and natural gas hearing process will be more involved than a single electricity GRA and a single natural gas GRA, such that it will require careful coordination and management of the overall in-scope issues.

In support of its April 11, 2022 submission that one combined hearing process to set both electricity and natural gas rates is less costly than two separate hearing processes, Centra and Manitoba Hydro produce a table that sets out costs for the 2017/18 Electric GRA and the 2019/20 Gas GRA - broken down into external costs, internal labour costs, and other costs. The table refers to both proceedings as the last electric and gas GRAs.

In the May 24, 2022 Reply comments by Centra and Manitoba Hydro, their plan is to divide the combined electricity and natural gas GRA into two phases. Phase 1 would be further divided into two separate filings on two separate filing dates: the first part for revenue requirements filed by mid-November 2022 and the second part for electricity rates and electric cost of service information filed approximately one month later.

Phase 2 materials on natural gas cost of service, rate design, gas supply, and non-commodity gas costs would be filed after the Board issues an Order in respect of the above Phase 1 issues.

As a result of Centra's and Manitoba Hydro's request for a combined electricity and natural gas GRA that would be filed in multiple phases and multiple parts, the Board was also asked to Review and Vary Directive 26 of Order 85/13, which states "*That Centra file future applications as complete applications and not provide a portion of the application*

at a later date”. The Board’s specific finding regarding this Directive was “*In the Board’s view, filing portions of the application in separate periods results in inefficiencies in the review of the application.*” (p. 69 of Order 85/13).

Intervener Positions

On the topic of possible cost efficiencies, the Consumers’ Association of Canada (Manitoba) Inc. (“CAC”) and the Consumers Coalition (“Coalition”) comment in their May 10, 2022 submission as follows:

Regulatory costs are a necessary and useful component of effective monopoly regulation

In its combined GRA proposal, Manitoba Hydro notes the cost of the 2017/18 Electric GRA (\$15.1 million) and the 2019/20 Gas GRA (\$4.4 million). The Coalition and CAC understands this reference by Hydro as providing support of its main theme that efficiency is lacking in the regulatory process and that these hearings represent an appropriate benchmark of the on-going costs of regulation, in the event that the PUB does not approve the combined GRA proposal.

Manitoba Hydro’s selection of the 2017/18 Electric GRA and 2019/20 Gas GRA as a benchmark for representative regulatory costs of separate GRA hearings is self-serving, flawed and hypocritical. The circumstances that led to the levels of costs in the referenced proceedings are a direct result of actions, or inaction, by Manitoba Hydro and Centra and are not representative of expected future hearing costs, assuming that the utility participates in regulatory processes in a cooperative manner.

Any objective review of these regulatory costs would conclude that the primary drivers of the cost of the 2018/19 Electric GRA was the radical approach taken by Manitoba Hydro to fundamentally change its financial plan and propose 7.9% annual rate increases for customers, as well as the Government OIC 92/2017 which assigned the PUB the review of Manitoba Hydro’s capital expenditures, including the major capital projects. On the Gas side, the cost of the 2019/20 GRA was attributable to Centra’s failure to file a Gas GRA for over six years.

While a review of regulatory costs is beyond the scope of this submission, using more comparable benchmarks of the cost of Manitoba Hydro and Centra GRAs (such as the 2014/15 & 2015/16 Electric GRA and the 2013/14 Gas GRA for example) and considering that the normal convention for routine GRAs is for a two-year test year (with the costs being amortized into customers rates over two years) would produce substantially lower “normalized annual” cost of Electric and Gas GRA’s.

The Manitoba Industrial Power Users Group (“MIPUG”) and Industrial Gas Users (“IGU”) also comment on the topic of regulatory costs in their May 10, 2022 submission, as follows:

It is clear that Hydro overstates the degree of regulatory costs involved in separate proceedings, by citing recent experience with some of the most contentious proceedings on record, driven by Hydro’s own actions (the 7.9% rate increase proposal in 2017 and the excessive avoidance of a Centra GRA for a lengthy period)

3.0 Board Findings

The Board finds that the evidence related to costs, including regulatory costs associated with prior Manitoba Hydro General Rate Applications and Centra General Rate Applications, is incomplete. Therefore, to assist the Board in its review of Manitoba Hydro's and Centra's requests, the Board attaches Schedule "A" to this Order which contains Information Requests requiring responses from Manitoba Hydro and Centra by no later than two weeks from the date of this Order. Further information is needed at this time because Centra's request to Review and Vary certain of the Board's findings in Order 85/13 does not facilitate the additional process, including stakeholder meetings and workshops, as was contemplated by Centra and Interveners in the proceeding leading to Order 85/13, in which the Board's 12-month assessment period to review any proposal of a combined natural gas and electricity GRA was established.

The Board notes that Order 59/18 explains that the 2017/18 Manitoba Hydro GRA, which Manitoba Hydro filed as the 2017/18 & 2018/19 GRA, included an interim rate application for 2017/18 which was subsequently confirmed, together with confirmation of the 2016/17 interim rates and also new rates for 2018/19. The 2017/18 & 2018/19 GRA also included an Order in Council that directed the Board to examine the capital expenditures of Manitoba Hydro. The last Manitoba Hydro GRA was for the 2019/20 test year resulting in Order 69/19.

As identified by CAC, the Coalition, IGU, and MIPUG, the costs of the 2017/18 & 2018/19 Electric GRA and the 2019/20 Gas GRA provided by Manitoba Hydro and Centra as justification for seeking efficiencies may not be representative of the normal or expected costs of future GRAs. The Information Requests in Schedule A, therefore, seek information on the costs of GRA proceedings and interim rate proceedings for the Centra 2013/14 Gas GRA, as well as Manitoba Hydro proceedings since the 2014/15 & 2015/16 Electric GRA.

The Board also understands that joint gas and electric rate filings are not common in Canada, but the Board also recognizes that there are few utilities that provide both gas and electric service. The Board seeks additional evidence of the practice in other jurisdictions in its attached Information Requests to Manitoba Hydro and Centra.

Additionally, the Board requires Manitoba Hydro and Centra to provide an indicative schedule for the combined GRA proceedings including indicative dates for the application filings, information requests, intervenor evidence, oral hearing, argument, Board decisions, and effective dates for rate changes.

Following receipt of Manitoba Hydro's and Centra's responses to the attached Information Requests, the Board will further review the April 11, 2022 request for a combined electricity and natural gas GRA and the associated need to Review and Vary certain findings from Order 85/13.

4.0 IT IS THEREFORE ORDERED THAT:

1. Manitoba Hydro and Centra Gas Manitoba Inc. provide written responses, by no later than two weeks from the date of this Order to the Board's Information Requests that are attached as Schedule "A" to this Order.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Robert Gabor, Q.C."

Chair

"Rachel McMillin, B.Sc."

Associate Secretary

Certified a true copy of Order No. 63/22
issued by The Public Utilities Board



Associate Secretary

Schedule A

PUB Information Requests

PUB/MH - 1 Reference: April 11, 2022 Letter p.5

Preamble: In its April 11, 2022 letter, Manitoba Hydro presented historical costs for prior electric and gas GRAs:

“The cost of last electric and gas GRA are shown in the table below. It is in the best interest of all parties involved to find efficiencies to lower the costs of the GRA processes.”

	2017/18 Electric GRA	2019/20 Gas GRA
External*	\$9,639,965	\$1,965,164
Internal Labour	\$4,419,048	\$1,963,094
Other**	\$1,088,685	\$474,296
Total	\$15,147,698	\$4,402,554

*(PUB Advisor, PUB Independent Expert Consultants and Intervener Costs)

** (Professional & consulting fees, meals, printing, advertising, etc.)

In its May 10, 2022 Submission, CAC/Consumers Coalition questioned Manitoba Hydro/Centra Gas’ selection of the 2017/18 Electric GRA and 2019/20 Gas GRA as inappropriate benchmarks of representative regulatory costs:

Any objective review of these regulatory costs would conclude that the primary drivers of the cost of the 2018/19 Electric GRA was the radical approach taken by Manitoba Hydro to fundamentally change its financial plan and propose 7.9% annual rate increases for customers, as well as the Government OIC 92/2017 which assigned the PUB the review of Manitoba Hydro’s capital expenditures, including the major capital projects. On the Gas side, the cost of the 2019/20 GRA was attributable to Centra’s failure to file a Gas GRA for over six years.

While a review of regulatory costs is beyond the scope of this submission, using more comparable benchmarks of the cost of Manitoba Hydro and Centra GRAs (such as the 2014/15 & 2015/16 Electric GRA and the 2013/14 Gas GRA for example) and considering

that the normal convention for routine GRAs is for a two-year test year (with the costs being amortized into customers rates over two years) would produce substantially lower “normalized annual” cost of Electric and Gas GRA’s.

Request:

- a) Please fill out the table below for electric general rate applications and interim rate applications:

Electric Proceedings	2014/15 Interim Confirmation & 2015/16 GRA	2016/17 Interim	2017/18 Interim & 2018/19 GRA	2019/20 GRA	2021/22 Interim
External (PUB Advisors, independent experts, Interveners)					
Internal Labour					
Other (Professional & Consulting Fees, meals, printing, etc.)					
Total					

- b) Please provide a breakdown of the Professional and Consulting Fees in the 2017/18 Interim & 2018/19 electric GRA.
- c) For the Professional & Consulting Fees in the 2017/18 Interim & 2018/19 electric GRA shown in the above table, please indicate the amounts that were incurred irrespective of whether Manitoba Hydro filed a GRA. For example, were any costs included in the Professional & Consulting Fees which were part of Manitoba Hydro’s internal review of its financial measures and targets by KPMG, or its internal review of its asset management processes by UMS?

d) Please fill out the table below for gas general rate applications:

Gas Proceedings	2013/14 GRA	2019/20 GRA
External (PUB Advisors, independent Interveners) experts,		
Internal Labour		
Other (Professional & Consulting Fees, meals, printing, etc.)		
Total		

e) For the internal labour costs in the 2017/18 Interim & 2018/19 electric GRA and 2019/20 gas GRA shown in the above tables, please indicate the amounts that were incurred irrespective of whether Manitoba Hydro filed those GRAs.

PUB/MH - 2 Reference: Order in Council 00092/17

Preamble: Order in Council 00092/17 states:

1. The Public Utilities Board (the "PUB") is assigned the duty of considering capital expenditures by The Manitoba Hydro-Electric Board ("Manitoba Hydro") as a factor in reaching a decision regarding rates for services under Part IV of The Crown Corporations Public Review and Accountability Act to support setting rates for services in a manner that balances the interests of ratepayers and the financial health of Manitoba Hydro.

2. For the purpose of the PUB's consideration of capital expenditures as a factor in the next review of Manitoba Hydro rates for services, Manitoba Hydro shall provide to the PUB the following information:

(a) Capital Expenditure: existing records related to planned capital expenditures, such as details on new, current committed, and proposed, planned or forecast major capital expenditures and base/sustaining capital expenditures, including copies of contracts, current and previous cost estimates, cost overrun justifications, schedule change justifications, current and future scheduled capital expenditure commitments and forecasts;

- (b) Explanatory: existing records related to project justification, such as capital project justification forms, cost-benefit analyses, business case and other supporting information related to Manitoba Hydro capital expenditures identified by the PUB, including Asset Condition Assessments for previous, current and proposed major capital expenditures and base/sustaining capital expenditures;*
- (c) Revenue and other: existing records related to revenues and income, such as any correspondence, agreements, term sheets, export contracts, externally commissioned or internally created reports, studies or analyses, including forecasts (capital, capital structure, financial, export, import, load and power resource).*

Request:

- a) Please provide the external costs incurred in the 2017/18 Interim & 2018/19 GRA to fulfill the PUB's mandate of Order in Council 00092/17 to consider capital expenditures. If Manitoba Hydro has not separately categorized these costs, please provide, in aggregate, the external costs related to the following PUB independent expert consultants and intervener expert consultants:
- MGF Project Services
 - Amplitude Consultants Pty Ltd
 - Klohn Crippen Berger
 - Daymark Energy Advisors (specific to the review of the Birtle Transmission Line and SaskPower Corporation energy sale)
 - Midgard Consulting Inc.
 - METSCO
- b) Please provide the professional (including legal) and consulting costs incurred by Manitoba Hydro in the 2017/18 Interim & 2018/19 GRA related to the fulfillment of the PUB's mandate of Order in Council 00092/17 to consider capital expenditures.

- c) Please provide an estimate of internal labour costs incurred by Manitoba Hydro in the 2017/18 Interim & 2018/19 GRA related to the fulfillment of the PUB's mandate of Order in Council 00092/17 to consider capital expenditures.

PUB/MH - 3 Reference: April 11, 2022 Letter p.5; 2019/20 Manitoba Hydro GRA PUB/MH I-10U; 2017/18 & 2018/19 GRA PUB/MH I-1; 2014/15 & 2015/16 GRA PUB/MH 1-27

Preamble: In the 2019/20 GRA, PUB/MH I-10U shows the additions to regulatory deferral accounts, with the 2017/18 actual additions to the Regulatory Costs deferral as \$10,136,000.

In the 2017/18 Interim & 2018/19 GRA, PUB/MH I-1 shows the additions to regulatory deferral accounts, with the 2014/15, 2015/16, and 2016/17 actual additions to the Regulatory Costs deferral as \$1,038,000, \$3,949,000, and \$3,664,000, respectively.

In the 2014/15 Interim & 2015/16 GRA, PUB/MH 1-27 shows MH deferred regulatory costs of \$2,622,000 in 2012/13 and \$2,572,000 in 2013/14.

Request:

- a) Please indicate how the external costs, internal labour costs, and other costs indicated in the table on page 5 of Manitoba Hydro's April 11, 2022 letter are recorded in the financial accounts of Manitoba Hydro and recovered in rates.
- b) Please confirm whether Manitoba Hydro defers and amortizes the cost of regulatory proceedings, separately indicating this for: SEP applications, CRP applications, cost of service study reviews, GRAs, and interim rate applications. For each of those proceedings which Manitoba Hydro defers and amortizes the regulatory costs, please indicate the amortization period.
- c) If Manitoba Hydro does not defer and amortize the internal labour for regulatory proceedings, please explain how such costs are recovered in rates.

- d) Please provide a continuity schedule of regulatory costs in a similar format to the table below showing the opening balance, additions by regulatory proceeding, amortization by regulatory proceeding, and closing balance of the Manitoba Hydro Regulatory Costs deferral account for the years 2014/15 to 2021/22.

Regulatory Costs Deferral Account								
Fiscal Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Opening Balance								
Additions								
:								
2014/15 Interim Confirmation & 2015/16 GRA								
2017/18 Interim & 2018/19 GRA								
2019/20 GRA								
Other PUB								
Other non-PUB Proceedings								
Total Additions								
Amortization								
2014/15 Interim Confirmation & 2015/16 GRA								
2017/18 Interim &								

2018/19 GRA								
209/20 GRA								
Other PUB								
Other non- PUB Proceedin gs								
Total Amortizat ion								
Ending Balance								

- e) Please confirm whether Manitoba Hydro defers and amortizes the external costs, internal labour costs, and other costs (professional and consulting, printing, meals, etc.) incurred for other regulatory proceedings such as the Clean Environment Commission, Canada Energy Regulator (formerly National Energy Board), MISO, and other regulators and whether these costs are included in the Regulatory Costs deferral account. If confirmed, explain how these costs are recorded in the financial accounts and recovered in rates (i.e. in the Regulatory Costs account, plant in service accounts, or other mechanisms).
- f) Please reconcile the \$10,136,000 addition to Regulatory Costs deferral account in 2017/18 with the GRA costs provided in the table on page 5 of Manitoba Hydro's April 11, 2022 letter.

PUB/MH - 4 Reference: 2019/20 Centra GRA Schedules 6.5.1 to 6.5.8

- a) Please indicate how the external costs, internal labour, and other costs indicated in the table on page 5 of Manitoba Hydro's April 11, 2022 letter are recorded in the financial accounts of Centra and recovered in rates.
- b) Please confirm whether Centra defers and amortizes the cost of regulatory proceedings, separately indicating this for: quarterly gas rate applications,

franchise applications, cost of gas applications, cost of service study reviews, GRAs, and interim rate applications. For each of those proceedings which Centra defers and amortizes the regulatory costs, please indicate the amortization period.

- c) If Centra does not defer and amortize the internal labour for regulatory proceedings, please explain why not.
- d) Please provide a continuity schedule showing the opening and closing balances, additions, and amortizations of the Centra Regulatory Costs deferral account for 2012/13 to 2021/22.
- e) Please confirm whether Centra defers and amortizes the external costs, internal labour costs, and other costs (professional and consulting, printing, meals, etc.) incurred for other regulatory proceedings such as the Clean Environment Commission and Canada Energy Regulator (formerly National Energy Board) and other regulators and whether these costs are included in the Regulatory Costs deferral account. If confirmed, explain how these costs are recorded in the financial accounts and recovered in rates (i.e. in the Regulatory Costs account, plant in service accounts, or other mechanisms).

PUB/MH - 5 Reference: 2017/18 Interim & 2018/19 Manitoba Hydro GRA PUB/MH I-15; 2019/20 Centra GRA Appendix 5.9 Figure 5.5

- a) Please provide the Manitoba Hydro O&A costs for Rate and Regulatory Affairs for each year from 2015/16 to 2021/22.
- b) Please provide the Centra O&A costs for Rate and Regulatory Affairs for each year from 2015/16 to 2021/22.

PUB/MH - 6 Reference: April 11, 2022 Letter p.1

Please identify which other utilities in Canada file joint rate applications for the gas and electric utilities and explain the nature of these applications.

PUB/MH - 7 Reference: April 11, 2022, Letter p.8

Preamble: “Resource constraints by all parties prohibit conducting concurrent individual proceedings.”

Request:

Please provide details of the consultations Manitoba Hydro has had with the other parties where the parties articulated that they could not conduct concurrent individual proceedings.

PUB/MH - 8 Reference: May 24, 2022 Letter pp.2,4

Preamble: On page 2, Manitoba Hydro states: “With endorsement from the PUB for a combined rate application, Manitoba Hydro would file its combined Electric & Gas Revenue Requirement by November 15, 2022...”

On page 4, Manitoba Hydro states: “Manitoba Hydro reiterates that it recognizes that the first time through any new process will present challenges and that the scope of a combined process, especially for the first attempt, will be more involved than a single electric and gas GRA.”

Request:

Provide an indicative schedule for the combined GRA proceeding as envisioned by Manitoba Hydro and Centra, including indicative dates for the application filings, information requests, intervener evidence, oral hearing, argument, PUB decisions, and effectivity dates for rate changes.