

Order No.6/24

**FIRST PROCEDURAL ORDER
IN CENTRA GAS MANITOBA INC.'S
2024/25 GENERAL RATE APPLICATION**

January 8, 2024

**BEFORE: Marilyn Kapitany, B.Sc., M.Sc., Vice Chair
Carol Bellringer, FCPA, FCA, Member
Shawn McCutcheon, Member
Susan Nemec, FCPA, FCA, Member
Hamath Sy, B.Sc., M.Sc., Member**

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1.0 Executive Summary

Centra Gas Manitoba Inc. (“Centra”) is a natural gas utility wholly owned by Manitoba Hydro. Centra expects to file a general rate application for 2024/25 rates in the spring of 2024. In anticipation of and in preparation for that filing, the Public Utilities Board (“Board”) is issuing this procedural order which does the following:

- Confirm that the Board has retained Elenchus Research Associates Inc. as an Independent Expert Consultant to review Centra’s cost of service model for compliance with Order 109/22;
- Direct Centra to
 - make an Excel version of its cost of service model available to those interveners at the general rate application who are entitled to receive commercially sensitive information, and
 - make a redacted proxy model available for other interveners;
- Confirm that the Board has retained Deloitte LLP as an Independent Expert Consultant to review Centra’s Integrated Cost Allocation Methodology; and
- Confirm that the Board agrees to receive a recent financial update filed by Centra in confidence.

2.0 Cost Of Service Model

2.1 Background

In Order 109/22, which approved the changes to Centra's cost of service methodology, the Board found that having an electronic cost of service model available for interveners to test had the potential to facilitate future general rate applications. The Board accordingly issued the following directive in that order:

11. Centra shall file with the Board, together with its next general rate application or by March 31, 2023, whichever is earlier, a proposal on how an electronic version of its cost of service model may be shared with interveners for the purposes of the next general rate application and what confidentiality protections should be put in place to enable the sharing of such a model.

The Board subsequently extended the deadline for Centra to file a response to Directive 11 until June 30, 2023 and directed Centra to consult with past interveners of record on the sharing of a cost of service model.

On May 12, 2023, Centra wrote to past interveners of record. In its letter, Centra sought information from interveners on how they would use commercially sensitive information and any cost of service model in the upcoming general rate application. Centra also sought the view of those interveners on the idea of retaining an independent expert consultant for the hearing. The position of Centra and the past interveners of record is discussed below.

2.2 Position of Centra and Past Interveners of Record

2.2.1 *Centra*

After its initial May 12, 2023 letter to interveners requesting their feedback, Centra wrote to the Board to set out its position on June 29, 2023.

Centra submits that because the Board has already ruled on the utility's cost of service methodology in Order 109/22, there is no longer a need to review and run different cost of service scenarios. As such, Centra does not consider the submissions made by interveners in the cost of service methodology review relevant to the current situation. It points out that in Manitoba Hydro's recent general rate application, no intervener requested access to that utility's electronic cost of service model.

To the extent that interveners in Centra's upcoming general rate application want access to the electronic model to confirm that it complies with the directives of Order 109/22, Centra submits that such a confirmation could most effectively be provided by an affirmation made by Centra. Alternatively, Centra suggests that the Board could retain an independent expert consultant to review the model, an approach similar to the one used in the recent Manitoba Hydro general rate application. Centra submits that Atrium Economics, who was retained by Centra during the cost of service methodology review completed in 2022, would be in the best position to confirm the directives from Order 109/22 have been implemented correctly.

In the alternative that the Board disagrees with Centra's submission that interveners do not need access to an electronic cost of service model, the utility proposes to make available an Excel model that demonstrates how costs move through the functionalization, classification, and allocation process. Intervenors would be able to view the formulas but would not be able to change them. Centra is prepared to give access to its electronic cost of service model to intervenors entitled to receive commercially sensitive information. For other parties, information in the electronic schedules of the model would be redacted but the formulas would remain intact.

2.2.2 Past Interveners of Record

Consumers' Association of Canada (Manitoba) Inc.

Legal counsel for the Consumers' Association of Canada (Manitoba) Inc. ("CAC Manitoba") wrote to Centra on June 14, 2023 and copied its correspondence to the Board. In its letter, CAC Manitoba questions why Manitoba Hydro seeks interveners to justify their need for access to commercially sensitive information on cost of service matters. It submits that the Board already found a need to share an electronic cost of service model and that the Board's direction in Order 109/22 was to determine how the model could be shared, not to determine why it was needed. CAC Manitoba indicates that only its legal counsel and experts would require access to commercially sensitive information, and states that none of them are commercial counterparties to Centra or have any commercial interest in the information.

CAC Manitoba points to other Canadian jurisdictions for guidance as to how commercially sensitive information can be protected. It cites Exhibits CAC-5, CAC-6, IGU-5, and IGU-6 from Centra's recent cost of service methodology review proceeding, which contain submissions on access to commercially sensitive information.

Industrial Gas Users and Koch Fertilizer Canada, ULC

Legal counsel for the Industrial Gas Users and Koch Fertilizer Canada, ULC wrote to the Board on June 30, 2023. These past interveners of record submit that the Board required Centra to propose how its electronic cost of service model can be shared with interveners. While these interveners indicate that an Excel model may be sufficient, they are also requesting a confidential in-person meeting with Centra to develop a better understanding of the model.

These interveners submit that Centra is an outlier in its resistance to disclosing commercially sensitive information with appropriate undertakings and point to British Columbia, Newfoundland, Alberta, and Ontario, all of which permit such access.

2.3 Board Findings

In the Board's view, there are two separate but interrelated issues regarding Centra's electronic cost of service model:

- reviewing the model to verify that the methodology changes approved in Order 109/22 have been appropriately implemented; and
- using the model to develop different scenarios for Centra's upcoming general rate application.

With respect to the first issue, the Board sees value in an independent verification of the model. Order 109/22 approved fundamental changes to the cost of service methodology that Centra had been using since 1996. The Board agrees with Centra's suggestion to have the revised model reviewed by an independent expert consultant for compliance with the various directives in Order 109/22. The Board's current intention is for this review to take place on a one-time basis. The review may lead to greater acceptance of the model by all parties to the general rate application. The Board has retained an independent expert consultant for this review, in consultation with Centra, and directs Centra to collaborate with the independent expert consultant in the review.

Centra recommended that Atrium Economics, who was retained by Centra to assist with the cost of service methodology review, be retained in this role. However, the Board subsequently confirmed with Centra that the utility retained Atrium to develop the new cost of service model. The Board finds that it would be inappropriate for Atrium to review its own model and has retained Elenchus Research Associates ("Elenchus") to conduct the review and to file a report as part of the upcoming Centra 2024/25 General Rate Application. The scope of work for Elenchus is set out in Appendix A to this order.

With respect to the second issue, the Board remains of the view it expressed in Order 109/22 that the availability of a model has the potential to facilitate the review of Centra's general rate application. The Board accepts Centra's proposal to make an Excel model available to interveners entitled to receive commercially sensitive information while

making a redacted proxy model available to other parties. For the commercially sensitive version of the model, the Board accepts that the formulas will be fixed but directs Centra to allow the data input fields to be changed for scenario modelling purposes.

In making the model available to interveners, the Board does not intend to re-open the review into Centra's cost of service methodology. As such, the Board currently does not plan to allow for submissions of alternate scenarios or methodologies at the general rate application. However, the full scope of that application will be established in a procedural order to be issued once Centra has filed the application.

3.0 Integrated Cost Allocation Methodology (ICAM) Review

3.1 Background

Centra is a wholly owned subsidiary of Manitoba Hydro and all employees performing work on behalf of Centra are employed by Manitoba Hydro. To allocate shared costs to Centra, the two utilities apply a cost allocation framework known as the Integrated Cost Allocation Methodology (ICAM). The last formal external review of the Integrated Cost Allocation Methodology took place in 2001 after Manitoba Hydro acquired Centra. In 2016, Centra held a technical conference on the methodology, and information regarding that conference was filed as part of Centra's last general rate application.

In Order 128/09, the Board directed Centra to file terms of reference for an independent ICAM review study. The utility never filed those terms of reference and the Board set aside that directive in Order 152/19. Instead, the Board directed, in Order 152/19, that:

3. Centra shall prepare and file an Integrated Cost Allocation Methodology report as a Minimum Filing Requirement for the next General Rate Application including the information required in this Order.

Centra has recently advised the Board that it has not prepared such a report but has raised the possibility of the Board retaining an Independent Expert Consultant to conduct an ICAM review as part of the upcoming 2024/25 General Rate Application.

3.2 Board Findings

The Board finds that there continues to be a benefit to reviewing Centra's Integrated Cost Allocation Methodology. While the Board in Order 152/19 directed Centra to prepare and file an internal ICAM review report, the Board understands that such a report will not be included in Centra's upcoming filing.

It has been four years since the Board issued Directive 3 of Order 152/19 and it has been over 20 years since the last external ICAM review. The Board finds that it would be beneficial and appropriate to include an ICAM review in Centra's general rate application.

In particular, the timing for such a review is fortuitous because the Board only recently deliberated and issued an order on a general rate application for Centra's parent utility Manitoba Hydro.

The Board confirms that it has retained Deloitte LLP ("Deloitte") as an Independent Expert Consultant to conduct the ICAM review and to file a report as part of Centra's 2024/25 General Rate Application. The scope of work for Deloitte's review is set out in Appendix B to this order.

4.0 Commercially Sensitive Information

4.1 Background

In Directive 26 of Order 128/09, the Board ruled that:

If and when Centra becomes aware of any material change in its financial circumstances, including but not limited to significant changes to accounting, gas supply, or operations, Centra must inform the Board of the change and the resulting impact or anticipated impact on Centra's financial position.

On June 23, 2023, Centra filed an update with the Board detailing changes to the utility's financial position. Centra filed the update in confidence and requested that the Board receive it as commercially sensitive information under Rule 13 of the Board's *Rules of Practice and Procedure*. The report contains financial results that were not yet publicly available at the time the update was filed.

4.2 Board Findings

The Board accepts Centra's request to file its June 23, 2023 update in confidence. The Board finds that the information qualifies for confidential treatment under clause 13(1)(b) of the Rules of Practice and Procedure, as the information is financial in nature and the interest in confidentiality outweighs the public interest in disclosure. While Centra's finalized financial results are included in Manitoba Hydro's annual report (which is publicly available), it is appropriate to maintain the timely material change updates filed with the Board in confidence. Centra's financial circumstances will be reviewed on the public record as part of the 2024/25 General Rate Application.

5.0 IT IS THEREFORE ORDERED THAT:

1. Centra is directed to make its electronic cost of service model available for review by Elenchus Research Associates Inc. and to collaborate with that firm in a review of the model in accordance with the scope of work outlined in Appendix A.
2. Centra is directed to make an Excel version of its cost of service model available to those interveners at the upcoming general rate application who are entitled to receive commercially sensitive information. Centra is further directed to make a redacted proxy model available to other interveners. The models may lock the embedded formulas but must allow for inputs to be changed.
3. Centra is directed to make its Integrated Cost Allocation Methodology (ICAM) available for review by Deloitte LLP and to collaborate with that firm in a review of the model in accordance with the scope of work outlined in Appendix B.
4. Centra's June 23, 2023 update filed with the Board is received in confidence under Rule 13 of the Board's Rules of Practice and Procedure.

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

"Marilyn Kapitany, B.Sc., M.Sc."

Vice Chair and Panel Chair

"Rachel McMillin, B.Sc., MPA"

Associate Secretary

Certified a true copy of Order No. 6/24
issued by The Public Utilities Board



Associate Secretary

Appendix A – Scope Of Work For Cost Of Service Model Review

Responsible Independent Expert Consultant: Elenchus Research Associates Inc.

1. Review and analyze Centra's cost of service study model
2. Comment on whether the model complies with the directives of the Board, as set out in Order 109/22.
3. If you find any instances in which the model does not comply with Order 109/22
 - a) describe how the model does not comply with Order 109/22; and
 - b) propose an approach to remedy the non-compliance
4. Provide a report to be placed on the public record in Centra's 2024/25 General Rate Application (the "Hearing") that sets out your findings, opinions, recommendations, and non-commercially sensitive supporting information.
5. If your findings include information the Board has deemed to be commercially sensitive, file a separate confidential report in camera in the Hearing.
6. Answer written information requests on your report(s) from parties to the Hearing.
7. If requested to do so by the Board, provide oral testimony on your report in the Hearing.
8. If required, respond to oral questioning from Centra, Interveners, and the Board's legal counsel during a public hearing of the general rate application.

Appendix B – Scope Of Work For ICAM Review

Responsible Independent Expert Consultant: Deloitte LLP

Overview

This Statement of Work outlines the scope, objectives, deliverables, and timeline for an Independent Expert Consultant (IEC) to conduct a thorough review of the existing integrated cost allocation methodology (ICAM) employed by Manitoba Hydro and its wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra). The primary focus of this review is to ensure the existing ICAM is fair and reasonable, ensuring no cross-subsidization between electric and gas operations. The study should address concerns raised in past Manitoba Public Utilities Board (MPUB) Orders and propose any recommended changes or improvements to enhance ICAM transparency, accuracy, and fairness in cost allocation.

Scope of Work

1. Obtain an understanding of the consolidated costs that are allocated to Centra through the Integrated Cost Allocation Methodology (ICAM) in compliance with MPUB directives. An understanding may be obtained through
 - a) a review of any of the following:
 - i. prior MPUB decisions and directives, including Order 146/99, Order 99/07, Order 128/09, Order 85/13, and Order 152/19,
 - ii. (prior cost allocation filings/submissions and responses to information requests by Manitoba Hydro or Centra (the MPUB's accounting advisor can assist with references),
 - iii. cost allocation guidelines and policy documentation,
 - iv. procurement policies and decision records,
 - v. inter-corporate service agreements between Manitoba Hydro and Centra Gas,

- vi. service level reviews,
 - vii. internal audit reviews and assessments,
- b) discussions with Centra; and
 - c) engagement with key stakeholders to gather input regarding any concerns or challenges.
2. Assess the appropriateness of the current methodology used for the inter-utility allocation of costs. This assessment is to be based on commonly accepted principles of cost allocation, accepted practice, prior regulatory decisions of the MPUB and other leading utility regulators, and emerging issues, if appropriate. The matters to be considered may include the following:
- a) confirmation that direct and indirect costs are charged directly where appropriate and that only allocable costs are included in the pool of costs shared amongst Manitoba Hydro affiliates;
 - b) confirmation that the service upon which the costs are based is required by Centra as an independent utility;
 - c) the level of service required by Centra.
 - d) confirmation that the costs of the service are allocated based on cost causality using appropriate cost drivers and result in a fair and reasonable allocation of costs;
 - e) an evaluation of the effectiveness of the current cost allocation methodology in achieving transparency, accuracy, and fairness;
 - f) benchmark industry best practices for cost allocation in similar utility settings, including emerging issues and alternative cost drivers;
 - g) the presence of any discrepancies or inefficiencies in the current cost allocation methodology.
3. Assess the appropriateness and reasonableness of the costs allocated to Centra. In doing so, consider the following issues, if appropriate:

- a) the shared services profile and service level, by cost category, for a utility of the size and complexity of Centra;
 - b) the reasonableness of the services received;
 - c) the integrity and accuracy of the assessed costs, based on the formula in use;
 - d) the variance of allocated costs from prior periods and reasons for such a variance.
4. Develop and propose any recommended changes or improvements to enhance the transparency, accuracy, or fairness of the ICAM for rate-setting purposes.
 5. Perform a high-level cost-benefit analysis of the proposed changes or improvements to assess the feasibility and potential benefits of those changes.
 6. Set out your findings in a report to be filed publicly in evidence in Centra's 2024/25 General Rate Application (the "Hearing").
 7. If your findings include information the Public Utilities Board has deemed to be commercially sensitive, file a separate confidential report in camera in the Hearing.
 8. Answer written information requests on your report(s) from parties to the Hearing.
 9. If requested to do so by the Board, provide oral testimony on your report in the Hearing.