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December 18, 2020

Dr. D. Christle
Secretary and Executive Director
Public Utilities Board
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

Dear Dr. Christle:

**RE: CENTRA GAS MANITOBA INC. ("Centra")
DIRECTIVE 26 OF ORDER 152/19 – REPORT ON THE PERFORMANCE OF THE REVISED
TRANSPORTATION SERVICE BALANCE FEE STRUCTURE**

On October 11, 2019, the Public Utilities Board of Manitoba ("PUB") issued Order 152/19 concerning Centra's 2019/20 General Rate Application. In the Order, the PUB approved the implementation of balancing fees for Transportation Service ("T-Service") customers effective November 1, 2019. Directive 26 of Order 152/19 directed Centra to file a report that detailed the results of the revised T-Service balancing fee structure on the balancing performance of T-service customers following the 2019/20 gas year. Enclosed please find Centra's report on the performance of the revised T-Service balance fee structure.

Should you have any questions with respect to this submission, please contact the writer at 204-360-3257 or Darryl Martin at (204) 360-4487.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES DIVISION

Per: 

 **BRENT A. CZARNECKI**
Barrister & Solicitor

Att.

**CENTRA GAS MANITOBA INC.
RESPONSE TO DIRECTIVE 26 OF ORDER 152/19
OF THE PUBLIC UTILITIES BOARD OF MANITOBA**

PERFORMANCE OF THE REVISED TRANSPORTATION SERVICE BALANCE FEE STRUCTURE

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DECEMBER 18, 2020

EXECUTIVE SUMMARY

On October 11, 2019, the Public Utilities Board of Manitoba (“PUB”) issued Order 152/19 in response to Centra’s 2019/20 General Rate Application (“GRA”). In that order, the PUB approved the implementation of balancing fees for Transportation Service (“T-Service”) customers effective November 1, 2019. The PUB also directed Centra to file by December 31, 2020, a report detailing the results of the revised T-Service balancing fee structure on the balancing performance of T-Service customers, and some further information.¹

Balancing fees have proved to be effective at incenting improvement in the balancing performance of most T-Service customers and nominating agents. 12 of 15 T-Service customers improved their balancing performance in 2019/20 relative to 2018/19.

The balancing fees incurred by T-Service customers in aggregate in 2019/20 were greater than the fees incurred by Centra from TCPL. This is an expected outcome given that T-Service customers prioritize the mitigation of imbalances differently than Centra, which has an obligation as a local distribution company to balance the overall system. The balancing fees incurred by T-Service customers in aggregate in 2019/20 were considerably less than the pro forma balancing fees modelled by Centra in the 2019/20 GRA.

T-Service balancing fees are appropriate and are working as intended. They incented improved balancing performance in 2019/20, resulting in greater customer compliance with the contractual obligations of T-Service. They also mitigated the cross-subsidy that had existed for years in favour of T-Service customers.

BACKGROUND

In the 2019/20 GRA, Centra sought approval to implement balancing fees for T-Service customers, modelled after the TCPL Mainline’s balancing fee structure, but with two modifications that would ease the financial burden on T-Service customers. Centra proposed to:

- 1) Calculate balancing fees based on 50% of the TCPL Mainline balancing fees.
- 2) Afford T-Service customers a daily tolerance of 7% on average, while the daily tolerance afforded to Centra by TCPL is only 2%.

To balance its delivery areas (i.e. by aligning supply nominations with market consumption as closely as possible), Centra employs its upstream transportation and storage contract flexibility, paid for by Sales Service customers in their rates. Centra’s delivery area imbalances include T-

¹ Directive 26 and Section 6.1.2 of Order 152/19

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Service imbalances, meaning Centra uses its contract flexibility to counteract T-Service imbalances. To reduce the long-standing cross-subsidization of T-Service customers by Sales Service customers, Centra sought approval of T-Service balancing fees to financially incentivize improved T-Service balancing and customer compliance with the Special Terms & Conditions of Transportation Service.

In Order 152/19, the PUB acknowledged the need for a more meaningful incentive for T-Service customers to continuously balance their nominations (i.e., deliveries) with their consumption and to help address issues of cross-subsidization by Sales Service customers.² The PUB approved the structure of Centra’s balancing fee proposal, but to further mitigate the financial effects on T-Service customers, the PUB increased the tolerances sought by Centra, affording T-Service customers with daily tolerances of 14% on average.

2019/20 BALANCING FEES

Balancing fees incurred by Centra and T-Service customers over the course of recent years including 2019/20 are provided in the following table:

		Gas Year			
		2016/17	2017/18	2018/19	2019/20
Balancing Fees Incurred by Centra for MDA & SSDA		\$ 243,856	\$ 273,504	\$ 205,897	\$ 159,680
Balancing Fees Incurred by T-Service Customers	Customer A				\$ 10,273
	Customer B				\$ 5,417
	Customer C				\$ 26,861
	Customer D				\$ 3,891
	Customer E	\$ 705	\$ 446	\$ 7,944	\$ 73,299
	Customer F	\$ 172	\$ 1,471	\$ 1,642	\$ 7,649
	Customer G				\$ 9,371
	Customer H				\$ 19,806
	Customer I	\$ 86,816	\$ 73,292	\$ 60,878	\$ 103,507
	Customer J				\$ 29,485
	Customer K				\$ 18,941
	Customer L				\$ 3,237
	Customer M				\$ 19,984
	Customer N				\$ 5,250
	Customer O				\$ 24,743
Total Balancing Fees Incurred by T-Service Customers		\$ 87,693	\$ 75,209	\$ 70,464	\$ 361,712
Net Balancing Fees		\$ 156,163	\$ 198,295	\$ 135,433	\$ (202,032)

Centra incurred balancing fees from TCPL for the MDA and SSDA totalling \$159,680 in 2019/20. The balancing fees incurred by T-Service customers in aggregate totalled \$361,712 in 2019/20

² Order 152/19, page 109 of 143

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(approximately half of this total was incurred by two large T-Service customers). This is an expected outcome given that Centra has overall responsibility for balancing its delivery areas and contracts for a variety of tools to enable it to mitigate imbalances. Conversely, T-Service customers generally have neither the same upstream transportation and storage contract flexibility as Centra nor do they bear the associated costs of that flexibility.

The balancing fees incurred by T-Service customers in 2019/20 are considerably less than the pro forma fees modelled by Centra in the 2019/20 GRA.³ The pro forma results ranged from \$760,000 to \$920,000 annually as compared to the 2019/20 actual balancing fees of \$361,712. Centra attributes this to a combination of improved balancing performance by T-Service customers and the greater tolerances approved by the PUB (14% on average as compared with Centra's proposed 7% on average). The modelled pro forma fees were indicative of the level of fees that T-Service customers could have incurred had they made no attempt to improve their balancing performance. As Centra assumed, the financial incentive of balancing fees resulted in T-Service customers and nominating agents making greater efforts to balance their accounts. The larger tolerances afforded to T-Service customers by the PUB grew the extent to which T-Service customers could be out of balance while still avoiding financial consequences, thereby reducing actual fees relative to pro forma modelled results.

T-SERVICE CUSTOMER COUNT

There was no change to the number of T-Service customers (15) on Centra's system in 2019/20.

2019/20 BALANCING PERFORMANCE

In Section 6.1.2 of the Order, the PUB said it "*expects that Transportation Service customers will respond to the revised balancing fee structure and improve their balancing performance*".⁴ In general, balancing efforts and performance by T-Service customers and nominating agents have improved since the implementation of balancing fees. Individual customer performance in each of the 2017/18, 2018/19, and 2019/20 gas years is provided in the table below:

³ PUB/Centra I-147 b)

⁴ Order 152/19, page 111 of 143

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T-Service Customer	T-Service Balancing Performance*		
	2017/18	2018/19	2019/20
Customer A	13%	15%	8%
Customer B	11%	12%	5%
Customer C	14%	17%	13%
Customer D	4%	3%	4%
Customer E	17%	40%	36%
Customer F	10%	43%	12%
Customer G	20%	21%	14%
Customer H	22%	22%	17%
Customer I	2%	3%	2%
Customer J	13%	17%	14%
Customer K	13%	18%	15%
Customer L	17%	16%	19%
Customer M	23%	23%	16%
Customer N	8%	9%	8%
Customer O	11%	11%	13%

*Average Absolute Daily Imbalance as % of Average Daily Available

Twelve of fifteen T-Service customers (A, B, C, E, F, G, H, I, J, K, M, N) improved their balancing performance in 2019/20 relative to 2018/19. Other relevant information about 2019/20 balancing performance includes:

- 2 of 15 T-Service customers (D, I) historically demonstrated strong balancing performance. As anticipated by Centra, there was no material change in their performance following the implementation of balancing fees.
- 2 of 15 T-Service customers (E, F) have unique usage profiles relative to other T-Service customers in Manitoba.
- After considering the specific characteristics of the aforementioned T-Service customers (D, E, F, I), only 2 customers (L, O) did not improve their balancing performance in 2019/20 but they remained at approximately the same performance level.

CENTRA'S ONGOING COSTS & EFFORTS TO ASSIST T-SERVICE CUSTOMERS

Despite improved balancing performance by many T-service Customers, there is continued uncertainty surrounding weather and the degree to which T-Service customers will balance their accounts. T-Service balancing outcomes remain well in excess of Centra's absolute daily tolerance of 2% or 2,111 GJ. Accordingly, T-Service customers directionally contribute to opportunity costs for Sales Service customers in the form of foregone transportation cost reductions and increased commodity costs given the delay of transactions to later nomination windows at which there is diminished liquidity. However, Centra cannot parse the degree to which weather, T-Service

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imbalances and market conditions each result in opportunity costs. The specific impact of T-Service imbalances cannot be quantified with precision given the inability to value hypothetical transactions that were not executed.

Centra has been providing ongoing support to T-Service customers since the implementation of balancing fees.⁵ Centra has worked extensively with nominating agents to ensure a thorough understanding of the impacts of actions and inactions on their customers' balancing fees, including the creation of a revised T-Service notification form. The form was provided to all T-Service customers and nominating agents to ensure consistency and clarity of instruction to Centra and was accompanied by numerous conference calls to confirm understanding. Generally, Centra has observed reduced errors and more effective nominations that mitigate account imbalances and result in lower fees for customers.

Centra also waived balancing fees when appropriate. T-Service customer consumption is available to Centra through meters that rely on power and telecommunication capability. If either of those are interrupted, all parties (Centra, T-Service customers, and their nominating agents where applicable) are temporarily operating at an information disadvantage. During such meter disruptions, Centra works closely with the impacted customer and/or nominating agent to ensure that nominations continue to match forecast consumption but that "make-up" nominations (i.e. gas provided to clear a draft, or gas taken to clear a pack) are temporarily suspended. While the lack of "make-up" nominations drives out both daily and cumulative imbalances, Centra waives any associated balancing fees for the period of disruption. This happened on several occasions in 2019/20 and Centra's T-Service customers expressed appreciation for Centra's efforts in this regard.

In the past, T-Service customers and nominating agents requested to receive different reports at different times throughout the day. Centra implemented programming that would bring consistency and improved timing to the reports (i.e., at least 2 hours before each intra-day nomination window) such that nomination changes could be made to bring accounts into balance in a timelier fashion. Centra also invested significant time in documenting for customers and nominating agents the rationale for the changes to report timing and the explanation on how to best utilize the reports to mitigate account imbalances. This has generally contributed to improved performance, but Centra continues to see less frequent and effective account adjustments on weekends relative to weekdays.

⁵ Ibid, page 111 of 143.

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Centra also invested in programming to revise the format of position reports provided multiple times daily. Rather than providing the report as a PDF attachment, Centra now produces the information directly in the body of an email, providing faster and easier reference by customers and nominating agents. Feedback from nominating agents is that this change was beneficial.

Centra also undertook a review of T-Service customers' annual average consumption to ensure T-Service customers are afforded the tolerances intended by the PUB. The absolute daily tolerances approved by the PUB are based on customer consumption and include 5 different ranges of average customer consumption. Only one customer's average consumption changed enough to warrant an adjustment to the tolerances that would otherwise be afforded for the 2020/21 gas year. In this case, the customer's average consumption declined and as such, this customer's tolerances were reduced for the 2020/21 gas year. Centra agreed to monitor this account and if this customer's consumption increases sufficiently for 3 months, Centra will make the related change to this customer's tolerances.

Additionally, Centra accommodated an ad hoc request from one T-Service customer to increase its absolute tolerance based on an anticipated facility expansion in early 2020. Based on demonstrated higher consumption for 3 months, Centra increased the tolerances afforded this customer effective February 1, 2020.

CONCLUSIONS

Experience with the first year of balancing fees has demonstrated that they have been effective at incenting improvement in the balancing performance of most T-Service customers and nominating agents. 12 of 15 T-Service customers improved their balancing performance in 2019/20 relative to 2018/19.

T-Service balancing fees are appropriate and beneficial. In 2019/20, they:

- Incented improved balancing performance;
- Resulted in greater customer compliance with the contractual obligations of T-Service; and
- Mitigated the cross-subsidy that had existed for years in favour of T-Service customers.