

MANITOBA

) Order No. 91/94  
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THE PUBLIC UTILITIES BOARD ACT

) June 10, 1994

BEFORE: G. D. Forrest, Chairman  
Catherine Milner, Member  
W. C. Pearson, Q.C., Member

AN APPLICATION PURSUANT TO SECTION 44 OF  
THE PUBLIC UTILITIES BOARD ACT  
BY CENTRA GAS MANITOBA INC. TO REVIEW  
AND VARY CERTAIN PORTIONS OF ORDER NO. 8/94,  
DATED JANUARY 28, 1994

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**1.0 PARTICIPANTS**

**1.1 Board Counsel**

W. C. Gardner, Q.C.

R. F. Peters

K. L. Kalinowsky

**1.2 Board Staff**

G. O. Barron, Executive Director

B. Ball, Acting Board Secretary

**1.3 Board Advisors**

M. T. Kostelnyk, P.Eng.

B. J. McLean, F.C.A.

**1.4 Centra Gas Manitoba Inc. Counsel**

J. E. Foran, Q.C.

**1.5 Centra Gas Manitoba Inc. Witnesses**

J. D. Brett            Vice-President, Gas Supply and Corporate Secretary

H. M. Kast            Vice-President, Finance

G. B. Whitehill        Controller

**1.6 Intervenors**

B. J. Meronek	Counsel
J. D. Todd	Witness, for the Consumers' Association of Canada (Manitoba Chapter) and Manitoba Society of Seniors ("CAC/MSOS")
J. Carstairs	Counsel for Municipal Gas Company ("Municipal")
J. Hayden	Communication, Energy & Paper Workers
G. Wilcox	Union ("CEPWU")
R. Floom	Manitoba Energy and Mines

## **2.0 BACKGROUND**

On August 9, 1994, Centra Gas Manitoba Inc. (the Company) applied to the Public Utilities Board of Manitoba (the Board) for approval of rates for the sale of natural gas and transportation services based on a 1993 Test Year.

Subsequent to a public hearing, the Board issued its decision in Board Order 8/94, dated January 28, 1994. In requesting the Company to refile its proposed rates, the Board ordered the Company to make several revisions to its 1993 application with respect to normalized sales volumes and certain other expenditures. These revisions included disallowances of proposed volume reductions both for the Company's customers disconnected for non-payment and for the lower average consumption because of the greater use of higher efficiency furnaces. The Board also ordered that computer expenditures related to an Executive Office Pilot Study, the Meter Management Project and to Underground Service Records be removed from Rate Base. These expenditures were to be placed in work in progress until the Company was able to demonstrate through updated cost/benefit analysis that they met the test of used, useful and prudently acquired.

The Company complied with the requirements of Order 8/94, and the Board approved revised rates in Order 11/94, dated February 4, 1994. The approved rates reflected the disallowed normalized sales volumes and the computer development expenditures.

On February 4, 1994, the Company applied to the Board to review and vary three of its decisions in Order 8/94:

- 1) the disallowed disconnect volume reductions
- 2) the disallowed higher efficiency furnace volume reductions
- 3) a reduction of expenses for the Meter Management Project

A public hearing was held to review this application on March 23, 1994, at the Norwood Hotel, Winnipeg, Manitoba.

### **3.0 THE APPLICATION**

#### **3.1 Volumetric Adjustments**

In requesting the Board to review its decision on the volumetric adjustments for disconnected customers and the greater use of higher efficiency furnaces, the Company submitted that the Board had not properly interpreted the Company's evidence from the 1993 General Rate Application (GRA).

##### **3.1.1 Disconnected Customers**

The Company had requested a similar adjustment for disconnected customer volumes in its 1992 GRA. In Order 8/94, the Board declined to approve the adjustment on the basis that "...the disconnected volumes could not be measured with accuracy and that none of the volumes were truly known and measurable." The Company's position is that the estimates for the requested 1993 adjustment were more accurate than those filed in the previous year because the Company had more than a full year of experience with the lock-off program in its up-dated figures of November 5, 1993, compared to only a few months for the 1992 figures.

To calculate the disconnected customer adjustment, the initial step was to determine the base year normalized volumes (in this case 1992 volumes) for each customer class by using a regression methodology. This methodology used monthly active customers and therefore included reduced volumes for disconnected customers. The next step was to add back the year end disconnected volumes, based on total customer counts (annualized) and average normalized use per customer, for each customer class. The final step was to deduct the 1993 disconnected volumes (based on actual disconnect statistics to September of 1993 and estimates for the balance of the year) from the 1992 base volumes to arrive at the 1993 normalized volumes.

The Company contended that the Board considered the 1993 volumetric adjustments as being a known and measurable adjustment, which traditionally has referred to post test-year adjustments. It was also the Company's contention that this position is in error, as the adjustment was applied to forecast test-year volumes. The effect of the Board's decision was to include the addition of 1992 disconnect volumes and to exclude a corresponding downward adjustment for 1993 normalized volumes. The Company also submitted that the Board had inadvertently approved other revenues of \$202,000 related to reconnect fees which approval was, in the Company's opinion, inconsistent with the disallowance of disconnected volumes.

The Company's evidence is that the November 5, 1993 updates presented at the 1993 GRA hearing, indicated that the normalized 1993 volumes should have been adjusted downwards by  $3,279 \text{ } 10^3 \text{ m}^3$ , with a resultant estimated increase in revenue deficiency of \$310,100.

### **3.1.2 Higher Efficiency Furnaces**

The Company witnesses submitted that the 1992 GRA had requested two volumetric adjustments for increased use of higher efficiency furnaces: one for test year (1992) volumes and another one for a known and measurable adjustment for post test-year (1993) volumes. The Company conceded that the 1992 known and measurable adjustment request was beyond that accepted by the Board but submitted that the 1993 test year adjustment originally requested was appropriate and that no known and measurable adjustments had been requested in the 1993 GRA. The Company witnesses testified that an adjustment to 1992 Base Year volumes was required because these volumes were based on the overall system average and did not accurately reflect the lower average use for those mid and high efficiency furnaces installed by new customers or by existing customers who had replaced furnaces during 1993.

The Company's position was that the Board had historically accepted incremental volumes to accommodate customer additions within a test-year. The Company submitted that replacement of existing furnaces and installation of new furnaces by higher efficiency units was as factual as customer additions and therefore should also be accepted. The Company requested the Board to reduce the 1993 normalized volumes by  $3,164 \text{ } 10^3 \text{ m}^3$  and to increase the estimated revenue deficiency by \$248,500 in recognition of the greater use of energy efficient furnaces.

### **3.1.3 Summary**

The Company submitted that disallowance of the two requested volume adjustments resulted in overstated 1993 normalized volumes and, therefore, the unit sales rates would not recover the estimated \$558,600 in non-gas costs. The Company further requested that existing sales rates remain unchanged at this time. The Company suggested that if the Board were to approve the Company's request, new rates be calculated which would include the additional revenue deficiency and that this difference be tracked and be disposed of at a later date.

### **3.2 Meter Management Project**

The Company requested a review of the Meter Management Project because the Board, on page 25 of Order 8/94, required the Company to:

"...remove the total cumulative expenditures related to the Executive Office Pilot study, Meter Management, and Underground Service Records from rate base and place them in work-in-progress until such time as the Company can demonstrate that the expenditures meet the test of used, useful and prudently acquired through updated cost/benefit analysis. ...."

The Company submitted that its operating expenses were \$100,000 lower than they would have been without the Meter Management Project. This \$100,000 benefit is the result of the Company testing and resealing its own meters, rather than its previous practice of paying Consumer and Corporate Affairs Canada (CCAC) for this service. Disallowing the Meter Management Project development expenditures from Rate Base while accepting the resulting benefits was unfair, in the Company's opinion. The Company requested the Board to remove the benefit, thereby increasing the revenue deficiency by \$100,000.

During the hearing, the Board requested, and the Company undertook, to file supplementary information which would support the Company's position. The Company filed this undertaking on April 7, 1994. The information summarized the evolution of the meter shop and the Company's accreditation process.

#### **4.0 THE INTERVENORS' POSITIONS**

CAC/MSOS did not oppose the Company's right to a further Board review of its earlier decision. CAC/MSOS accepted as reasonable the Company's position with respect to the number of 1993 annualized disconnected customers and the greater use of higher efficiency furnaces as these impacted on normalized volumes. However, CAC/MSOS deferred to the Board's judgment the matter of the accuracy of forecasting these volumes.

CAC/MSOS did not accept the Company's position related to the Meter Management Project benefits arguing instead that such benefits may have accrued notwithstanding the project development expenditures.

No other intervenors offered a definite position, although counsel for Municipal Gas Company suggested that the Board wait to get the results of certain research before allowing any adjustments.

## **5.0 BOARD FINDINGS**

### **5.1 Volumetric Adjustments**

#### **5.1.1 Disconnected Customers**

The Board has reviewed both the Company's evidence presented at this hearing and the evidence and transcripts from the 1993 GRA. The Board had understood that the 1992 Base Year volumes had already included the adjustment for 1992 disconnected customers and that the requested 1993 volume reductions would, in effect, amount to a "double counting".

In view of the further explanations provided by the Company, the Board is now satisfied that the requested downward adjustment for disconnected volumes is appropriate and does not represent a "double counting". This adjustment is based on nine months actual numbers and 3 months forecast numbers, as was the rest of the 1993 GRA. The Board will, therefore, allow the Company's request to reduce 1993 annualized volumes by  $3,279 \times 10^3 \text{ m}^3$ , which will result in an increase in the revenue deficiency estimated to be \$310,100.

#### **5.1.2 Higher Efficiency Furnaces**

The Board accepts that the use of higher efficiency furnaces will cause a decrease in average annual consumption. However, the Board had allowed a downward conservation adjustment for the Small General Service customer class, where these furnace replacements would occur. Additionally, the Company has not clearly demonstrated that this decreased consumption for new customers will not be offset by increased consumption caused by other factors. In this regard, the Company witnesses stated:

"We've done some spot checking of what new customers come in at and surprisingly enough they come in at, apart from the furnace efficiency adjustment, reasonably close to the system average. More work needs to be done in that area and we do have plans to do some more work in that area."

(TRANSCRIPT - Page 48)

The Board is not fully satisfied that a comprehensive data base, which considers all significant relevant factors, exists to allow for accurate estimates for the requested downward adjustment. Accordingly, the Board will not allow this request. Should the Company wish to further pursue this matter, the Board will require more detailed and accurate information, with sufficient sample sizes, at future GRA's. Such data should include the total number of existing furnaces replaced and the number of mid and high efficiency units added, on an annual basis for the greatest number of years that such information is available. Additionally, data should, for specific dwellings, compare previous years' normalized consumptions to consumptions subsequent to furnace replacements occurring. Annual normalized consumptions for those dwellings with furnace replacements and for new customers should also be documented and compared to system average consumptions.

## **5.2 Meter Management Project**

In respect of the \$100,000 benefit which the Company attributed to the elimination of an annual fee previously payable to CCAC, the Board has reviewed the material and transcripts from the 1993 GRA and the information provided by the Company on April 7, 1994. The Company has not satisfied the Board that the reduction in 1993 operating expenses of \$100,000 is directly related to the development of the Meter Management Project. The Company did not actually spend the \$100,000 in 1993 and will not spend it in 1994. The Board will therefore not change its decision as detailed in Order 8/94 for this item.

