

Order No. 111/24

**ORDER DENYING CENTRA GAS MANITOBA INC.'S
REQUEST TO REVOKE THE REQUIREMENT TO
FILE A GENERAL RATE APPLICATION
BY SEPTEMBER 30, 2024**

September 27, 2024

BEFORE: Marilyn Kapitany, B.Sc.(Hon), M.Sc., Panel Chair
Carol Bellringer, FCPA, FCA, Member
Shawn McCutcheon, Member
Susan Nemece, FCPA, FCA, Member
Kurt Simonsen, BSc., M.N.R.M., Member

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1.0 EXECUTIVE SUMMARY

Centra Gas Manitoba Inc. (“Centra”) has been experiencing net losses for four years. Despite those losses, Centra has not filed a general rate application with the Public Utilities Board (“Board”) in five years.

In Order 92/24, the Board directed Centra to file a one-year general rate application for the 2024/25 fiscal year by August 30, 2024. At its option, the utility could include one or two additional test years in its application. In its order, the Board expressed concern whether customer rates are still just and reasonable given the erosion in Centra’s net income and the changes to the cost of service methodology approved in Order 109/22.

In Order 96/24, the Board subsequently approved a one-month extension of the filing deadline, to September 30, 2024.

Following the release of the government’s Affordable Energy Plan on September 20, 2024, Centra filed an application with the Board to set aside the requirement to file a general rate application indefinitely, pending an application by Centra to fully integrate its finances with its parent company Manitoba Hydro. After the integration hearing, the electric and natural gas operations of Manitoba Hydro plan to file a joint general rate application.

In this order, the Board denies Centra’s application to set aside the requirement to file a general rate application. The Board has a statutory mandate to approve just and reasonable rates and concludes that it cannot abdicate this mandate. As held by the Manitoba Court of Appeal, the Board must balance the interests of ratepayers against the financial health of the utility when setting rates. It must also ensure that rates are fair among different customer classes. Natural gas continues to form a vital part of Manitoba’s energy mix, particularly for winter heating. Delaying inevitable rate increases may lead to a risk of rate shock, which can undermine affordability. The financial integration of Centra with Manitoba Hydro will not eliminate the need for a separate revenue requirement and cost of service methodology for the natural gas and electric business areas. Future joint

general rate applications can still be accommodated if Centra files a rate application for less than three years to align its test years with Manitoba Hydro.

To provide Centra with additional time to file its general rate application following its September 20, 2024 application, the Board is extending the filing deadline by one week, to October 7, 2024.

2.0 BACKGROUND

2.1 The PUB's Rate-Setting Framework

Centra is wholly owned by Manitoba Hydro and functionally and operationally integrated into that utility's operations. However, the regulatory frameworks governing both utilities are very different. Manitoba Hydro's electric operations are governed by *The Manitoba Hydro Act*, while Centra is regulated under *The Public Utilities Board Act*. While *The Manitoba Hydro Amendment and Public Utilities Board Amendment Act*, S.M. 2022, c. 42 (colloquially known as "Bill 36") creates the concept of a "natural gas subsidiary" to be regulated under *The Manitoba Hydro Act*, those provisions have not come into force. The provincial government is also on record as stating that it will repeal Bill 36 — this commitment forms Action 7.1 of Manitoba's Affordable Energy Plan that was released by the government on September 20, 2024.

In the absence of legislative amendments or directives, the Board has a statutory mandate under *The Public Utilities Board Act* to establish just and reasonable rates. Rates are not just and reasonable if they render a utility unable to recover its prudently incurred costs and require the utility to subsidize ratepayers by absorbing ongoing losses. As the Manitoba Court of Appeal described in *Consumers' Association of Canada (Man.) Inc. et al. v. Manitoba Hydro, Electric Board*, 2005 MBCA 55:

The PUB has two concerns when dealing with a rate application; the interests of the utility's ratepayers, and the financial health of the utility. Together, and in the broadest interpretation, these interests represent the general public interest.

The Court of Appeal's description is consistent with the simplified Bonbright criteria as described in Order 101/23:

Bonbright Criteria		Category
1.	Price signals that encourage efficient use and discourage inefficient use	Efficiency
2.	Fair apportionment of costs among customers	Fairness
3.	Avoid undue discrimination	
4.	Customer understanding and acceptance, practical and cost effective to implement	Practicality
5.	Freedom from controversies as to proper implementation	
6.	Recovery of the revenue requirement	Stability
7.	Revenue stability	
8.	Rate stability	

Bonbright's *Principles of Public Utility Rates* is the seminal text on public utility regulation and is widely accepted as authoritative by North American energy regulators. The stability criteria set out in the table reflect that a utility should be entitled to recover its revenue requirement while also avoiding rate shock for consumers. Delaying needed rate increases can directly undermine the objective of rate stability.

Rates should also not cause undue discrimination between different customer classes. Just as inadequate overall rates can lead to a utility having to subsidize ratepayers, undue discrimination between different classes of ratepayers results in one group subsidizing another. Neither situation is in the public interest.

The Board reminds Centra and other readers of this order of the principles the Board applies in discharging its mandate. It enunciated those principles in Order 101/23:

1. Protect the public interest by balancing the interests of ratepayers against the financial health of the regulated utility;
2. Protect and ensure the institutional integrity of the Board as an independent, quasi-judicial administrative tribunal that makes apolitical decisions based on sound judgment;
3. Promote transparency and accountability through the hearing process; and
4. Promote and facilitate public participation in the hearing process.

2.2 Order 92/24

Centra has not filed a general rate application since 2019. The Board's expectation (as described in Order 208/02) is that both Manitoba Hydro and Centra file general rate applications at least once every three years.

In Order 92/24, the Board expressed concern that Centra has not brought a general rate application in five years. Among the concerns raised by the Board were an erosion of Centra's net income and the many changes to Centra's cost of service methodology approved in Order 109/22. The Board further expressed concern over whether, in light of these issues, customer rates remain just and reasonable. In particular, the Board noted that, based on the utility's publicly available annual and quarterly reports, Centra's earnings have eroded such that the company has incurred confirmed losses for four consecutive years:

Fiscal Year	Net Income (\$ millions)	2019/20 GRA Appendix 3.1 Projected Net Incomes	Retained Earnings (\$ millions)	2019/20 GRA Appendix 3.1 Projected Retained Earnings
2017/18	7	N/A	76	N/A
2018/19	12	3	88	79
2019/20	2	2	90	81
2020/21	(3)	5	87	86
2021/22	(8)	7	79	93
2022/23	(18)	7	61	99
2023/24*	(44)	7	17**	106

*Per MH Q3 reported results for nine months ending December 1, 2023. 2024 Annual report not publicly released yet.

**Not reported in MH Q3 report but calculated based on the net income number and the previous year's retained earnings.

As a result, the Board issued the following directives to the utility:

1. Centra shall file its 2024/25 fiscal year General Rate Application with the Board on or before August 30, 2024.

2. At its option, Centra may include one or two subsequent test years in the General Rate Application required to be filed under Directive 1.

2.3 Order 96/24

On August 9, 2024, Centra filed a request to review and vary Directive 1 of Order 92/24 to extend the filing deadline from August 30, 2024 to September 30, 2024. Centra cited two principal reasons for its application:

- Firstly, the utility noted that Manitoba Hydro's new President & CEO only joined the utility on August 6, 2024 and needed to become acquainted with the organization, its staff, its oversight board, and the key issues involved in a rate filing.
- Secondly, the utility noted efforts by the provincial government to develop an energy policy that may have implications for Centra's general rate application. Centra stated that it expected the energy policy to be finalized in the near term but that, for now, its development required significant attention from the same Centra staff who were preparing the general rate application.

The Board accepted Centra's request for an extension and, in Order 96/24, extended the filing deadline to September 30, 2024.

2.4 Centra's Further Application to Review & Vary the Directive to File a General Rate Application

On September 25, 2024, Centra filed an application to further review and vary Orders 92/24 and 96/24 to indefinitely set aside the requirement for a general rate application.

In support of its application, Centra cites the government's objectives as set out in the Affordable Energy Plan released on September 20, 2024, including commitments to affordability, a shift away from natural gas, a desire for coordinated planning across government, Crown corporations and the Board, a shift towards net zero greenhouse gas emissions, and an alignment of mandates.

Centra submits that a stand-alone natural gas general rate application does not align with the stated principles and objectives of the Affordable Energy Plan, in particular the goal of affordability. Centra also raises the concern that ongoing electrification as part of the energy transition could result in stranded natural gas assets.

In Centra's view, aligning the financial and regulatory planning of Manitoba Hydro and Centra as soon as possible is necessary so that the impacts of the energy transition on both electricity and natural gas use can be managed in a streamlined and integrated fashion. Centra submits that such alignment would result in a single revenue requirement and retained earnings balance, thereby alleviating the near-term concerns around the erosion of Centra's retained earnings as described in Order 92/24.

Centra plans to dedicate resources towards a potential integration rather than expending significant resources on a stand-alone Centra general rate application. Concurrent with this work, Centra plans to engage with the Board and interveners about a joint Manitoba Hydro/Centra general rate application to be filed in 2025.

Centra states that the completion of the important work of reviewing the utility's cost of service methodology and integrated cost allocation methodology by Board-appointed independent expert consultants should continue if the requirement for a general rate application is set aside.

3.0 BOARD FINDINGS

The Board denies Centra's application for the reasons that follow, in accordance with subrule 36(5)(a)(ii) of the Board's *Rules of Practice and Procedure*. However, the Board extends the deadline for filing Centra's general rate application by one week, to Monday, October 7, 2024.

3.1 Centra's Financial Situation

As set out in section 2.1 of this order, the Board has a statutory mandate to fix just and reasonable rates for Centra — rates that balance the interests of ratepayers against the financial health of the utility and that broadly align with the well-established Bonbright ratemaking criteria. Centra's public financial statements indicate that the utility has been experiencing losses for four consecutive years. Ongoing losses will likely result in a complete erosion of Centra's retained earnings in the near future. In light of such information, it would be a dereliction of duty for the Board to ignore the issue.

The Board remains concerned about Centra's financial situation. The utility's 2023/24 fiscal year ended on March 31, 2024. In accordance with subsection 10(1) of *The Crown Corporations Governance and Accountability Act*, Centra was required to file its annual report with the government by July 31, 2024, almost two months ago. As of the issuance of this order, Centra's financial statements have still not been publicly released, nor have they been filed with the Board in confidence. There was also no mention of the utility's final 2023/24 results in Centra's application to set aside the Board's directive for Centra to file a general rate application.

3.2 Affordability Commitments in the Affordable Energy Plan

The Board finds that continuing to delay the filing of a general rate application hinders rather than furthers the affordability commitments set out in the Affordable Energy Plan. Natural gas continues to form a vital part of Manitoba's energy needs, particularly for winter heating. Continuing to provide natural gas service at a financial loss may result in short-term rate relief for consumers, but these temporary savings are overshadowed by the larger increases eventually required to reflect the utility's actual revenue requirement.

Over the past decade, the Board has consistently reiterated the need for rate stability and taken action to achieve this objective. After four years of consistent losses, and more than five years without a general rate application, there is an elevated risk of rate shock that is getting worse with any further rate hearing delays.

Centra's application appears to suggest that the Board should ignore the utility's increasing losses and potentially delay rate increases for an indefinite period. The Board finds that doing so, in the absence of evidence that the losses will reverse, would be negligent and contrary to the Board's mandate.

It is also necessary to address the relative rates paid by Centra's different customer classes. In Order 109/22, the Board approved significant changes to Centra's cost of service methodology, which had remained largely unchanged since 1996. The cost of service methodology determines how Centra's costs are to be allocated to, and recovered from, the utility's different customer classes. Centra is aware that the changes to its cost of service methodology affect the required rate design, as evidenced by the utility's application for interim rate relief for the Special Contract class. It has now been two years since the new methodology was approved, yet rates continue to be charged under the old methodology. The Board reminds Centra of the complaint filed by Koch Fertilizer Canada, ULC on July 27, 2024 about that customer continuing to operate under interim rates and potentially paying several hundred thousand dollars per year more than it would under revised permanent rates.

Centra's general rate application has been continually delayed since the fall of 2023. Had Centra filed its application as originally planned, the rate-setting process would have been completed several months ago.

3.3 Impact of the Energy Transition

Centra argues that the energy transition creates uncertainty and increases the risk of stranded assets (i.e., assets for which the costs can no longer be recovered through rates). The Board finds that those factors increase the need for a timely general rate

application rather than justify an adjournment. Evidence relating to the risk of stranded assets can best be explored in the context of a general rate application.

Any move away from natural gas towards other energy sources would increase the rate pressure for remaining natural gas consumers, as the utility's costs would have to be recovered over reduced gas volumes and possibly from a smaller number of customers. In the short term, this increases the need for timely general rate applications so that deficits do not exacerbate future ratepayer impacts.

3.4 The Prospect of Full Integration

The Board notes that Centra is at liberty to bring an application for full financial integration with Manitoba Hydro under clause 82(1)(h) of *The Public Utilities Board Act* at any time. However, it is clear to the Board that full integration cannot be accomplished without significant legislative amendments. As such, the Board doubts that full integration could be achieved in time for Manitoba Hydro to file a joint general rate application in 2025 that would limit ongoing losses to Centra.

Manitoba Hydro is currently subject to a different regulatory regime than Centra. Significant policy decisions that would have to be made and incorporated in legislation include the status of Manitoba Hydro's natural gas operations as a monopoly, the approval requirements for franchise expansions in municipalities, natural gas safety oversight and procedures, restrictions on residential disconnections, capital expenditure approvals, cost of service, and the resolution of the corporate allocation that currently forms part of Centra's revenue requirement.

The Board also notes that even an immediate full integration of the two utilities, with an elimination of separate retained earnings, would not change the fact that the natural gas business appears to operate in a continued loss position. Under its current mandate, the Board would not authorize electric ratepayers to absorb those losses. Sanctioning such cross-subsidization would be a unique approach in North America that contradicts the Bonbright principles.

Natural gas has been a cheaper energy source than electricity for decades. Currently, heating a home with natural gas is approximately 50% less expensive than heating with electricity. However, natural gas service is unavailable in many rural communities as well as in all of northern Manitoba. Requiring electric ratepayers to subsidize natural gas heating would reduce affordability for customers who already pay higher energy bills than natural gas ratepayers.

Centra acknowledges that the review of the utility's integrated cost allocation methodology and cost of service methodology should continue. This is an implicit acknowledgement that there will need to remain a separate revenue requirement and cost of service methodology to set natural gas rates.

Since integration is unlikely to be achieved for at least one additional test year and will not eliminate the need for natural gas rate increases, the Board is not prepared to delay a rate hearing pending an application by Centra for approval of a full integration of the two utilities.

3.5 Combined Hearings

The prospect of combined general rate applications for Manitoba Hydro and Centra Gas has been raised by the two utilities since 2013. In Order 85/13, the Board indicated that, should Centra want to proceed with a joint hearing, it should circulate a proposal for a combined process at least 12 months before the planned filing date. The issue of combined hearings was further canvassed in Manitoba Hydro's 2016/17 interim rate application. The Board has previously accepted that such a process is possible and does not see full integration as either a significant benefit nor an impediment to a joint hearing. However, as stated in Order 95/22, and as proposed by Manitoba Hydro, a combined hearing would have to take place in phases. Among other things, the cost allocation methodology, rate-setting processes, capital investments in natural gas infrastructure, gas procurement, and the transportation and storage portfolio will have to be evaluated separately from Manitoba Hydro. While the Board remains prepared to entertain a proposal for a joint rate hearing, it notes that Centra has not filed an actual proposal for such a hearing to date. The prospect of a combined hearing for future general rate

applications does not obviate the need for a Centra general rate application until the new process is in place.

3.6 There is No Requirement for a Three-Year Application

Lastly, the Board notes that Centra is under no obligation to file a rate application for a three-year period. Order 92/24 directs the utility to file for one year, with an option to include one or two additional years. If Centra wanted to align future rate hearings with Manitoba Hydro rather than file an application for three test years, the utility would be at liberty to file an application for a single test year to align the ratemaking calendars of the two utilities.

4.0 IT IS THEREFORE ORDERED THAT:

1. Centra's application to review and vary Order 92/24, as varied by Order 96/24, **BE AND HEREBY IS DENIED.**
2. Despite Directive 1, the deadline for Centra to file its general rate application is extended by one week, to Monday, October 7, 2024.

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.(Hon), M.Sc."
Panel Chair

"Rachel McMillin, B.Sc., MPA"
Associate Secretary

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