Order No. 125/24

CENTRA GAS MANITOBA INC.

4.5% INTERIM GENERAL REVENUE INCREASE AND INTERIM QUARTERLY GAS COMMODITY RATE APPROVAL EFFECTIVE NOVEMBER 1, 2024

October 29, 2024

BEFORE: Marilyn Kapitany, B.Sc.(Hon), M.Sc., Panel Chair
Carol Bellringer, FCPA, FCA, Member
Jim Hrichishen, B.A. (Hon.), M.A, Member
Susan Nemec, FCPA, FCA, Member
Kurt Simonsen, BSc., M.N.R.M., Member

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1.0 EXECUTIVE SUMMARY

1.1 Overview

This order approves an interim 4.5% general revenue increase for Centra Gas Manitoba Inc. ("Centra") effective November 1, 2024. The approval reduces Centra's expected losses during the 2024/25 fiscal year, but it does not completely prevent losses in that year or subsequent fiscal years.

This order also approves a new November 1, 2024 Gas Commodity rate under the quarterly rate-setting methodology.

In addition, this order approves new delivery rates to reflect changes to upstream gas costs, and the overall refund of an aggregate balance of $5.1 million in previously incurred gas costs.

The reasons for the approvals are summarized in sections 1.2 and 1.3. The combined effect of the approvals sought by Centra is a bill decrease for most of Centra's ratepayers, as shown in Figure 1.1.

Customer Class	Bill Impact – General Rate Application Only	Bill Impact – Gas Commodity Rate Only	Combined Billed Rate Change Increase (Decrease)
Small General Service	3.5% - 4.2%	(4.7%) – (8.0%)	(0.3%) – (4.4%)
Large General Service	0.2% - 3.3%	(7.0%) – (10.3%)	(3.5%) – (10.1%)
High Volume Firm (Sales Service)	0.5% - 17.4%	(9.7%) – (13.8%)	9.0% – (13.3%)
High Volume Firm (Transportation Service)	22.5% - 26.1%	N/A	22.5% – 26.1%
Mainline (Sales Service)	23.7% – 25.1%	(12.4%) – (15.4%)	11.2% – 15.0%*
Mainline (Transportation Service)	(5.2%) – (9.0)%	N/A	(5.2%) – (9.0%)
Interruptible	15.0% - 28.0%	(12.4%) – (16.4%)	0.6% – 18.2%*

*Actual bill increase is less, due to extension of PGVA recovery period approved in this order

Figure 1.1 — Bill Impacts – By Application and Combined

For most ratepayer classes, the combined bill impacts reflected in Figure 1.1 represent the actual bill impacts resulting from the approvals granted in this order. The exception are the Mainline and Interruptible industrial customer classes, whose bill impacts will be lower because of the extension of the recovery period for the accrued Purchased Gas Variance Account balances, as discussed in section 1.2.

For a typical residential customer, the combined impact of the interim general revenue increase, changes to upstream gas costs, refund of prior gas cost deferral balances, and the decrease in the Gas Commodity rate results in an annual bill decrease of 2.1%, or \$12 per year (based on average annual consumption of 2,075 m^3 of gas). This means residential bills will remain among the lowest they have been in ten years, as illustrated in Figure 1.2.

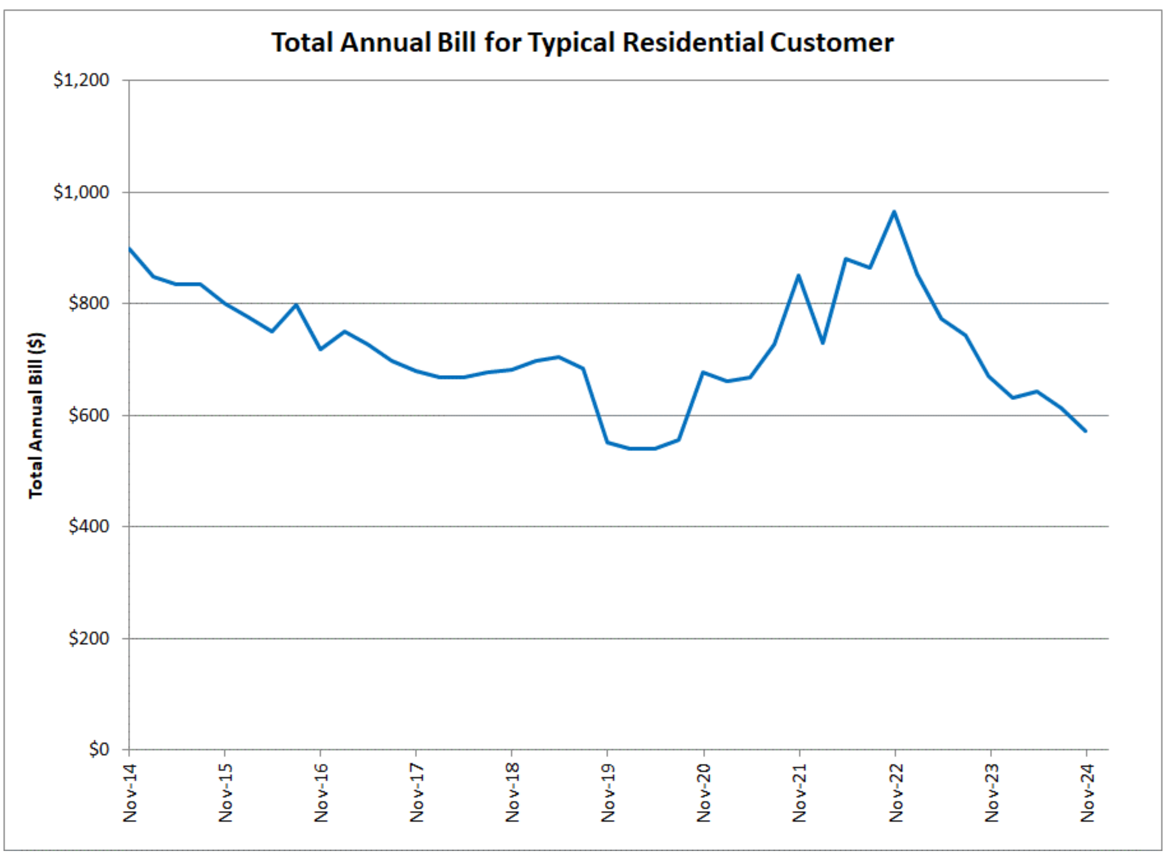

Figure 1.2 — Bill Changes for Residential Customers since 2014

1.2 Interim 4.5% General Revenue Increase and Revised Non-Commodity Rates

The Board approves Centra's requested 4.5% general revenue increase on an interim basis, effective November 1, 2024.

The Board finds that Centra urgently requires a general revenue increase as an initial step towards protecting the long-term financial health of the utility and to reduce the risk of future rate shock to its customers. Because Centra has been experiencing increasing losses for multiple years and had not filed a general rate application since 2019, on July 30, 2024, the Public Utilities Board ("Board") directed the utility to file a general rate application by August 30, 2024. Following two applications by Centra to review and vary the Board's directive, Centra filed a one-year general rate application for the 2024/25 test year on October 7, 2024. In that application, Centra seeks an interim 4.5% general revenue increase beginning on November 1, 2024. The date coincides with one of Centra's quarterly Gas Commodity rate adjustment periods. While Centra determined the percentage increase based on its overall revenues, the increase is to be recovered through the non-gas components of rates only.

On its face, Centra's general rate application suggests that the utility may require more revenue than applied for. Even with the applied-for November 1, 2024 general revenue increase, Centra expects to lose $20 million in the 2024/25 fiscal year, assuming normal winter weather.

In the course of hearing Centra's application, the Board will consider whether the 4.5% general revenue increase is appropriate, or whether it should be lower or higher. According to the utility's financial projections, a 14.1% increase would be required to return it to the previously approved level of $3 million in net income per year for the 2024/25 test year. This issue will be tested in the public hearing of Centra's general rate application. However, until that time, the Board considers it to be in the public interest to approve the requested general revenue increase on an urgent interim basis.

Without the approval granted in this order, Centra’s 2024/25 losses would likely be $11 million higher than projected. Since Centra’s 2019/20 General Rate Application, the utility’s costs have gone up 26% while the non-gas components of its rates that recover those costs have remained flat. Absent an immediate revenue increase, Centra projects that its retained earnings will be completely eroded by the end of the 2024/25 fiscal year. Even with the requested 4.5% increase, the utility expects to lose $20 million in 2024/25, despite reducing the corporate allocation it pays to Manitoba Hydro from $12 million to $4 million. This makes it unlikely that the Board’s interim approval will result in an over-collection of revenue during the test year.

The Board is approving the interim general revenue increase for a one-year period, until October 31, 2025. If the non-gas components of rates are not confirmed or varied in a subsequent Board order before that time, the approval will expire and the non-gas components of rates will revert back to the rates in effect before November 1, 2024.

The Board approves changes to Transportation and Distribution rates – collectively “non-commodity rates” – to reflect changes in the forecast of underlying costs. This will align the expected revenues from customers with the expected costs.

The Board also approves rate riders to refund to customers, in aggregate, $5.1 million of previously incurred gas costs related to pipeline and storage costs as well as the cost of unaccounted for gas.

The Board is authorizing Centra, on an interim basis, to allocate the approved revenue increase among the utility’s customer classes through the revised cost of service methodology approved in Order 109/22, with several additional amendments proposed by Centra in its application. Regardless of how costs are allocated, there is potential for the Board having to revise its rate order following the hearing of Centra’s general rate application. The Board finds that the public interest is best served if rates are established based on the new methodology approved in 2022 that formed the basis of Centra’s proposed cost of service study. This includes rates charged to the Special Contract class, which has been subject to interim rate relief paid by the Power Station class since Order 109/22. For the Special Contract and Power Station customer classes, the interim rates approved in this Order replace the interim rate measure initially approved in Directive 7 of Order 109/22, implemented in Order 114/22, and continued in Order 106/23. The Board will review the implementation of those changes in the hearing of Centra's general rate application before issuing a final directive.

As set out in section 1.1, the interim approval granted in this order increases the non-gas component of bills for most customer classes. However, the combined effect of the interim general revenue increase, revised transportation and distribution base rates, rate riders to refund the $5.1 million gas cost deferral balances, and the new quarterly gas commodity rate approval is a bill decrease for most customers, including residential consumers. The primary exceptions are industrial and institutional customers in the Mainline and Interruptible customer classes, as well as customers in the High Volume Firm customer class receiving transportation service ("T-Service").

The bill increases for the Mainline and Interruptible customer classes are partially caused by an accrued purchased gas variance account ("PGVA") balance that needs to be recovered from those classes. The Board is mitigating the bill impact to these classes by extending the rate riders to recover the PGVA balance to 24 months, rather than the 12 months proposed by Centra. For customers in the High Volume Firm class who utilize sales service, the Board maintains the recovery period at 12 months. The revised bill impact of the extension will be set out in a subsequent compliance filing by Centra.

High Volume Firm T-Service customers make their own commodity purchase and transportation arrangements, which means the changes in the non-gas components of the rates they pay to Centra are not attenuated by gas costs in the same manner as other customer classes.

1.3 Quarterly Gas Commodity Rate

Effective November 1, 2024, Centra's Gas Commodity rate will decrease from $0.0785/m³ to $0.0614/m³. The decrease results from a projected decrease in the market price of natural gas, which Centra procures and sells to customers at cost. Gas Commodity rates are predominantly determined by the market price of natural gas in Western Canada.

The Board finds that Centra's application for interim *ex parte* approval of new Gas Commodity rates properly reflects the Board-approved quarterly Gas Commodity Rate Setting Methodology. The Rate Setting Methodology is a mechanistic approach to determining the Gas Commodity rate that takes into consideration the forecast market price of gas as well as historical over- or under-collection of prior Gas Commodity costs. This ensures that customers pay Gas Commodity costs without mark-up or discount.

2.0 BACKGROUND

2.1 Introduction

Centra Gas Manitoba Inc. ("Centra") is Manitoba Hydro's wholly owned natural gas subsidiary and currently the only natural gas utility operating in Manitoba. It supplies approximately 297,000 customers. Although the utility is operationally integrated with Manitoba Hydro, it is regulated in a different manner than Manitoba Hydro. Rates for natural gas are approved under the Public Utilities Board's ("Board") general rate-setting mandate in *The Public Utilities Board Act*, not under the framework for Manitoba Hydro set out in *The Manitoba Hydro Act*.

The bills paid by Centra's customers consist of several components. Following the approval of a simplified rate structure in Orders 131/21 and 114/22, those components are as follows:

- <u>Gas Commodity:</u> This rate component reflects the cost of natural gas. Customers who purchase their natural gas from Centra pay a rate that is established by the Board on a quarterly basis. Customers who obtain their gas from independent gas marketers pay a fixed price based on their contract with the marketer.

- <u>Delivery:</u> This rate component reflects the cost of transporting natural gas to Manitoba, as well as the cost of delivering the gas to a customer's home or business in Manitoba. The costs embedded in the Delivery charge include transportation fees on pipelines not owned by Centra, the cost of gas storage facilities, the cost of facilities and pipelines owned by Centra, the operation and maintenance costs of Centra's pipeline system, as well as small cost components related to unaccounted-for gas and the differences between the cost of gas commodity acquired in Western Canada compared to other sources, such as the United States.

- <u>Basic Monthly Charge</u>: This is a fixed monthly charge that reflects a portion of the costs of being connected to the gas distribution system, as well as customer service and billing costs, and is not related to the volume of gas consumed.

This order deals with four separate interim approvals regarding the rate components described above. It approves:

- a 4.5% increase to Centra's general revenue, to be recovered through Delivery rates and the Basic Monthly Charge;
- changes to Delivery rates to reflect changes to the underlying costs of upstream transportation and storage costs as well as the cost of unaccounted for gas;
- rate riders to refund, in aggregate, $5.1 million in previously incurred gas costs; and
- a new quarterly Gas Commodity rate effective November 1, 2024.

2.2 Non-Gas Components of Rates

The non-gas components of Centra's rates are intended to pay for the cost of building, operating, and maintaining Centra's system of pipelines. They also recover costs related to providing customer service, billing, and administration.

Changes to non-gas components of rates are approved at general rate applications. The last time a rate change to those rate components occurred was in 2019, as Centra had not filed a new general rate application until the recent October 7, 2024 filing of its 2024/25 General Rate Application.

While Centra's gas costs are recovered from customers on a flow-through basis and the utility does not earn a profit on those sales, it is allowed to earn a return in addition to the recovery of its non-gas costs. This return is also approved through periodic general rate applications.

As a result of the delay in filing and overall cost increases that, on their face, amount to 26% above 2019 levels, Centra has been losing money for several years. As set out in section 3.0, the Board finds that an increase to Centra's general revenue in the amount of 4.5%, to be recovered through the non-gas components of rates, is urgently required on an interim basis to protect the financial integrity of Centra and reduce the potential for future rate shock.

2.3 Gas Commodity Rates

Centra's Gas Commodity rate is subject to quarterly amendment (February 1, May 1, August 1, and November 1). Pursuant to Orders 55/00, 99/01, 143/03, 69/04, 131/21, and 114/22, these regularly scheduled quarterly Gas Commodity rate reviews occur in accordance with the Board-approved Rate Setting Methodology, which is formula-driven and relies on established accounting and rate-setting conventions. Quarterly Gas Commodity rate setting does not involve a public hearing, reflecting the formulaic nature of the Rate Setting Methodology and furthering the objective of least-cost regulation. Public reviews of Gas Commodity rates are conducted at periodic cost of gas or general rate application hearings.

Order 91/24, dated July 25, 2024, is the most recent Order setting Centra's Gas Commodity rate. Before that order, the following orders approved changes to other components of Centra's rates:

- Order 161/19, which arose from Centra's 2019/20 General Rate Application, approved new Basic Monthly Charges, as well as new Supplemental Gas, Transportation, and Distribution rates.

- Order 128/20 approved new Supplemental Gas, Transportation, and Distribution rates following the removal of rate riders that were originally approved in Order 161/19. These rate riders were in place for 12 months, as intended at the 2019/20 General Rate Application.

- Order 131/21 replaced Centra's former Primary Gas and Supplemental Gas rates with a single Gas Commodity rate effective November 1, 2022. Similarly, Centra's former Transportation (to Centra) rate and the Distribution (to Customer) rate were replaced with a single Delivery rate for each class.

- Orders 114/22 and 106/23 approved an interim rate measure pursuant to Order 109/22, which resulted in revised Basic Monthly Charges for the Special Contract and Power Station customer classes effective November 1, 2022.

Gas costs are incurred for gas supplies, storage, and transportation, and are charged to customers without mark-up. To ensure that only the actual cost of gas (no more and no less) is passed on to customers, Centra maintains a number of Purchased Gas Variance Accounts, which record the differences between the forecast cost of gas embedded in sales rates and the actual cost of gas incurred by Centra. These differences are periodically refunded to or collected from customers by way of rate riders that either decrease (i.e., refund to customers) or increase (i.e., recover from customers) the base sales rates and form part of the billed rates that are charged to customers.

3.0 APPLICATION FOR AN INTERIM 4.5% GENERAL REVENUE INCREASE

3.1 Procedural History

The non-gas components of Centra's rates are approved at general rate applications. The utility's last general rate application took place in 2019. Based on that application, the Board approved new rates for the 2019/20 test year. At the time, the Board found that Centra was over-earning revenue and reduced rates from the rates that were previously in effect.

In 2022, the Board conducted a review of Centra's cost of service methodology, which is used to assign the utility's costs to its various customer classes. In Order 109/22, the Board approved several changes to the cost of service methodology. Based on those changes, the Board also approved interim rate relief for customers in the Special Contract class, to be paid for by customers in the Power Station class. Initially, the interim rate relief was to expire on October 31, 2023. However, in Order 106/23, the Board extended the relief until it would issue a final order in Centra's next general rate application.

At the time it issued Order 109/22, the Board expected Centra to file a general rate application in late 2023, following the general rate application of its parent company Manitoba Hydro. However, repeated delays by Centra subsequently pushed back the filing date.

By the spring of 2024, Centra communicated a planned filing date of June 21, 2024. However, on June 21, 2024, the utility advised that the filing had been paused, with no new filing date proposed or an explanation for the delay provided.

Over the last three years, the Board has become concerned about the effect of ongoing filing delays on Centra's deteriorating financial situation, which was publicly accessible through Centra's annual financial statements. On July 30, 2024, the Board issued Order 92/24, which directed Centra to file a general rate application by August 30, 2024.

In its order, the Board emphasized Centra's deteriorating financial situation, which involved several years of increasing losses. The Board also indicated that the changes to Centra's cost of service methodology needed to be addressed.

Centra subsequently applied to review and vary Order 92/24 to postpone the filing deadline by one month, to September 30, 2024. The utility pointed out that its new President & CEO had only recently joined the organization and needed to become acquainted with the issues. Centra also indicated that it expected the provincial government to finalize its energy policy in the near future. The Board approved the requested 30-day extension in Order 96/24.

The provincial energy policy, called the Affordable Energy Plan, was released on September 20, 2024. On September 25, 2024, Centra filed a further application to review and vary the Board's filing directive and requested that the Board set the directive aside indefinitely. It noted the provincial government's commitments set out in the Affordable Energy Plan, 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. In Centra's view at the time, a stand-alone Centra general rate application did not align with provincial policy objectives. Instead, the utility proposed to align the financial and regulatory planning of Manitoba Hydro and Centra as soon as possible and dedicate resources towards a potential integration of the two utilities, with a joint Manitoba Hydro / Centra general rate application to be filed in 2025.

In Order 111/24, issued on September 27, 2024, the Board denied Centra's application to set aside the filing directive. However, the Board provided a further extension to October 7, 2024 to allow the utility to prepare its application for filing. The Board noted that it has a statutory mandate to fix just and reasonable rates that balance the interests of ratepayers against the financial health of the utility. The Board emphasized that it remained concerned about Centra's financial situation and observed that ongoing losses would likely lead to a complete erosion of Centra's retained earnings in the near future.

As such, the Board found that it would be a dereliction of duty to ignore the issue and allow the indefinite delay requested by Centra.

Centra filed its general rate application on October 7, 2024, as required by Order 111/24.

3.2 The Board's Jurisdiction to Approve Interim Rates

Interim rate approvals are a tool used by the Board when it is just and reasonable to approve a rate change on an expedited basis and it is impractical to conduct a full hearing before doing so.

The Board's jurisdiction to issue interim orders is set out in section 47 of *The Public Utilities Board Act*. Interim orders can be made with the benefit of intervener submissions and an abbreviated hearing, or they can be made without a hearing. For natural gas rates, section 125 of *The Public Utilities Board Act* specifically allows the Board to issue interim orders without a hearing for a period of not more than one year.

In most cases, the purpose of an interim rate order is to address financial instability of a regulated utility. Interim rates can be varied by a final order of the Board, as well as a subsequent interim order. Importantly, interim rates remain 'at risk' until the regulator has issued a final rate order, as confirmed by the Supreme Court of Canada in *Bell Canada v. Canada (Canadian Radio-Television and Telecommunications Commission)*, [1989] 1 S.C.R. 1722. Interim rates that are subsequently found to be too high can be refunded through rate riders, in a similar manner as Centra's PGVA balances.

3.3 Centra's Current Financial Situation

Centra's financial situation has deteriorated over the course of several years. The utility has lost money every year since fiscal year 2020/21, as shown in Figure 3.1. Most recently, Centra experienced a $34 million loss during the 2023/24 fiscal year and is projected to lose $30 million in 2024/25 absent a general revenue increase.

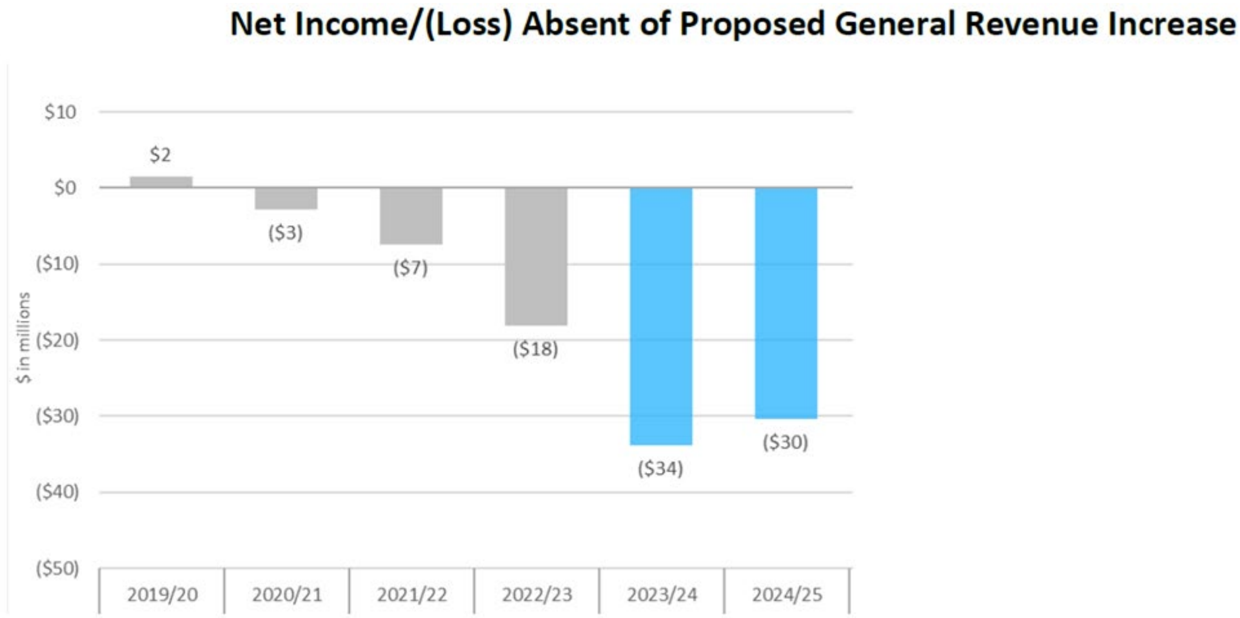

Figure 3.1 — Net Income / Loss Absent of Proposed General Revenue Increase (Figure 3.15 of Centra's Application)

As a result, Centra's retained earnings have been depleted by the four years of losses and are expected to continue to decline, as shown in Figure 3.2.

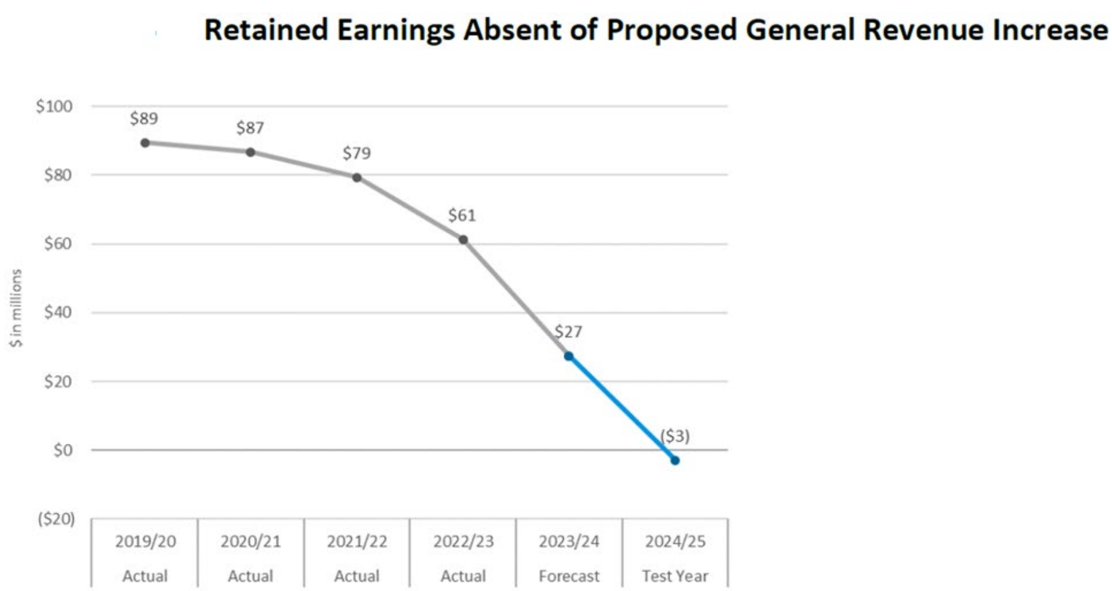

Figure 3.2 — Retained Earnings Absent of Proposed General Revenue Increase (Figure 3.16 of Centra's Application)

Centra's financial situation has been exacerbated by the history of delayed rate filings as detailed in section 3.1. In the 2019/20 general rate application, the utility had projected a 2.25% general revenue increase in 2020/21, followed by annual 1% general revenue increases in subsequent years. On a cumulative basis, this would have resulted in a 5.35% increase by 2024/25. In the absence of any general rate applications, none of these revenue increases happened.

3.4 Reasons for the Requested Increase

3.4.1 Overview

As part of the general rate application filed on October 7, 2024, Centra seeks approval, on an interim basis, of a general revenue increase of 4.5% effective November 1, 2024. The utility estimates this to recover an additional $11 million during the 2024/25 test year. Centra submits that a one-month delay to such an approval would reduce earnings during the 2024/25 fiscal year by $2 million.

While the 4.5% increase is calculated based on Centra's total revenue requirement, the additional revenues of approximately $11 million will be collected exclusively through increases to the non-gas portion of Centra's rates, which means that the non-gas portion of rates is increasing at a level higher than 4.5%. According to the Board's preliminary determination, applied to the $140 million of non-gas revenue obtained in 2023/24, the additional $11 million to be recovered over the remaining portion of Centra's fiscal year represents an increase of approximately 11% to non-gas costs on an annualized basis. The Board will test these numbers in the public hearing of Centra's application. However, as set out in section 2.1, non-gas rates constitute only a portion of a customer's bills. The bill implications of Centra's proposal are discussed in more detail in section 5.0.

In addition to the proposed general revenue increase, Centra proposes changes to non-commodity rates which recover costs incurred upstream of Centra's system to transport gas to Manitoba from Western Canada and to store and transport gas from Michigan, as well as the cost of unaccounted for gas. Unaccounted for gas is gas that Centra receives into its system, but for which it cannot bill customers. It is caused by measurement discrepancies, gas leaks, and accounting factors such as billing estimates. The changes to the non-commodity Transportation and Distribution rates will reduce the amount recovered by customers through those rates, in aggregate, by approximately $0.4 million.

While Centra seeks final approval of its actual gas costs for the past five years, those approvals do not form part of the request for an interim rate increase on November 1, 2024.

3.4.2 Proposed Revenue Requirement

The total amount that a regulated utility is allowed to earn through customer rates consists of the utility's approved expenses plus an amount for net income, which in total forms the revenue requirement to be recovered in rates. In a general rate application, a utility attempts to prospectively prove the prudent costs it expects to incur in an upcoming fiscal year, referred to as a 'test year'. In its 2024/25 general rate application, Centra notes that its approved non-gas revenue requirement has not increased since the 2019/20 fiscal year. During this time, the utility's gross margin has remained largely flat. However, expenses have increased 26% over the same time period, as illustrated in Figure 3.3. The utility notes that inflation during the same period has been 21%, which has contributed significantly to the overall 26% increase in expenses.

Operating and Administrative Expense ("O&A") has experienced the biggest increase. Approximately 60% of O&A Expense consists of labour costs. Centra notes that total labour hours have increased from a low point in 2020/21 caused by Manitoba Hydro's Voluntary Departure Program, the COVID-19 pandemic, and labour disruptions. Wage and salary levels have increased as well. According to Centra, the remaining O&A increases relate to a shift towards cloud-based computing services (which cannot be treated as a capital expense), higher inspection and meter reading costs, increased insurance premiums, and increased integrated support costs allocated from Manitoba Hydro.

Finance Expense has increased as a result of a rising net debt balance because of insufficient cash from operations to pay for capital expenditures.

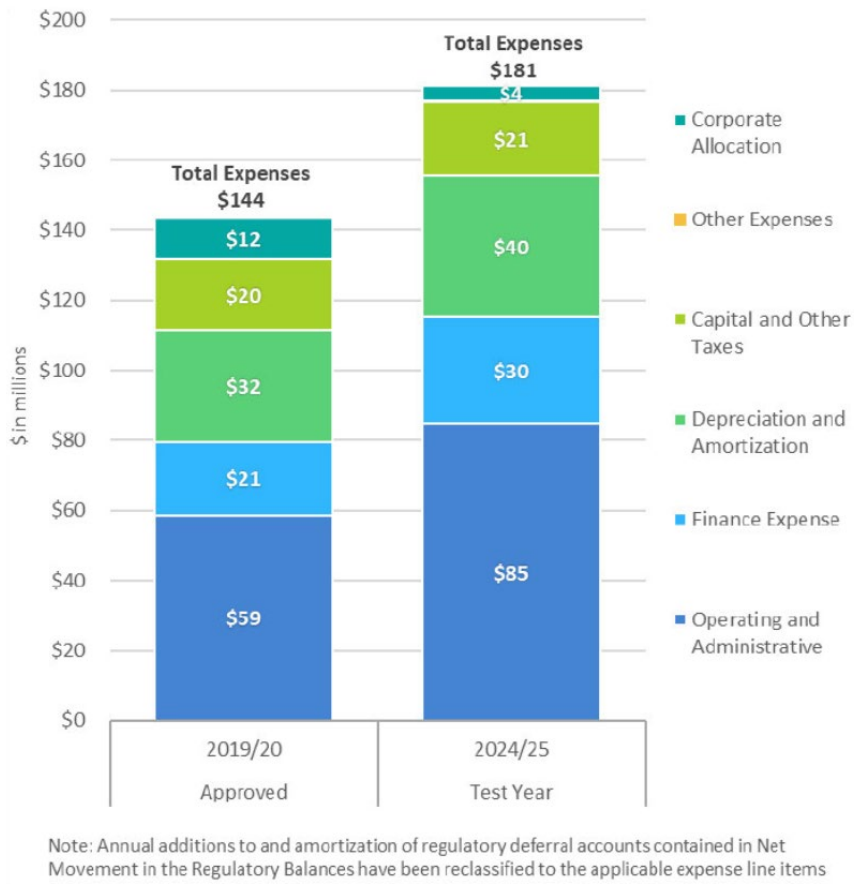

Figure 3.3 — Comparison of 2019/20 and 2024/25 Expenses (Figure 3.4 of Centra's Application)

Capital expenditures are depreciated or amortized over time and are not immediately reflected on Centra's operating statement. Centra expects increased capital spending in the test year as a result of upgrading or expanding natural gas infrastructure. Depreciation expense has been increasing as a result of new capital expenditures, as well as the full amortization to the credit of customers of a deferral account for meter exchange costs that was completed in the 2021/22 fiscal year.

The increase in Centra’s revenue requirement has been partially offset by a reduction in the utility’s proposed corporate allocation to Manitoba Hydro. The corporate allocation relates to the acquisition of Centra by Manitoba Hydro in 1999. Until 1999, Centra was privately owned by Westcoast Energy. In May of that year, Manitoba Hydro purchased the utility at an approximate cost of $250 million. In Centra’s 2007/08 & 2008/09 General Rate Application, Centra advised the Board that Manitoba Hydro was amortizing this expense at a rate of approximately $21.8 million per year. In Order 103/05, the Board accepted that Manitoba Hydro’s purchase of Centra resulted in synergies that benefitted natural gas ratepayers. Based on the estimated synergies, the Board has consistently approved an annual $12 million corporate allocation from Centra to Manitoba Hydro. The Board has also approved an annual net income for Centra of $3 million. Together with the corporate allocation, the net income results in an approved return to Centra of $15 million per year.

In the current application, Centra proposes to reduce the corporate allocation for the 2024/25 test year from $12 million to $4 million as a result of a $100 million sinking fund established with cash-on-hand from Manitoba Hydro International, an unregulated subsidiary of Manitoba Hydro that provides energy consulting services. Without the reduction in the corporate allocation, Centra’s projected loss in 2024/25 would be $8 million greater.

Despite the reduction in the corporate allocation, the utility notes that, since 2019/20, there has been a widening gap between Centra’s weather-normalized gross margin at approved rates and Centra’s actual expenses.

Centra’s cumulative losses since the 2020/21 fiscal year have amounted to $62 million, $34 million of which were accrued in 2023/24. On a weather-normalized basis (i.e., adjusted for weather that was colder or warmer than normal), the cumulative losses would still amount to $57 million.

As a result of the cumulative losses over the past four years, Centra's retained earnings have eroded from $89M in 2019/20 (the test year for Centra's last general rate application) to $27 million at the end of 2023/24. Centra forecasts that, even with the applied-for 4.5% revenue increase, the utility will lose $20 million during the 2024/25 test year (assuming normal weather), further reducing retained earnings to $8 million. This is illustrated in Figure 3.4.

Forecast with and without November 1, 2024 4.5% Interim Increase

$ in millions		2024/25
With 4.5% Interim Nov. 1/24	Net Income/(Loss)	($20)
	Retained Earnings	$8
Without 4.5% Interim Nov. 1/24	Net Income/(Loss)	($30)
	Retained Earnings	($3)

Figure 3.4 — Net Income and Retained Earnings With and Without a 4.5% Interim General Revenue Increase (Figure 3.2 of Centra's Application)

Centra states that the immediate increase to general revenues would have to be 14.1% to achieve the Board-approved net income of $3 million or 12.8% to break even during the 2024/25 test year.

3.5 Allocating the Increase Among Customer Classes

Centra seeks to recover the additional $11 million applied for on an interim basis through rates set based on its updated cost of service methodology. A cost of service methodology is used to determine how a utility's overall costs should be allocated among the utility's different customer classes based on cost causation principles.

In Order 109/22, the Board approved several amendments to Centra's cost of service methodology, which had remained largely unchanged since 1996. Most significantly, the Board approved a switch from the peak and average methodology to the coincident peak methodology for the allocation of most costs classified as 'Demand'. The Board also approved the direct assignment of costs to the Special Contract and Power Station customer classes.

As part of Order 109/22, the Board approved interim rate relief for the Special Contract class and reverted the non-gas portion of the rates for that class to the levels previously in effect before November 1, 2019, prior to the new rates approved in the 2019/20 GRA. The cost of doing so was absorbed by the Power Station class, whose rates increased accordingly. The interim rate relief currently remains in place under Order 106/23.

Centra proposes to establish interim November 1, 2024 rates based on the new cost of service methodology as approved in Order 109/22, with three additional changes:

- eliminate the franchise expansion adjustment for all classes;
- use winter volumes rather than annual volumes for the allocation of the working capital related to gas in storage costs; and
- use historic class participation rather than forecast class participation for the purpose of allocating demand-side management costs.

The ratio of revenue recovered from a class of customers to the costs allocated to those customers is known as the revenue-to-cost coverage (RCC) ratio. A ratio above 100% indicates that a class is paying more than the costs allocated to that class. Conversely, a ratio below 100% illustrates that the class is not paying all costs allocated to it. For Manitoba Hydro, the Board has established a zone of reasonableness ranging from 95% to 105%. For Centra, the utility is proposing to continue to set rates at 'unity' or 100%, meaning without a zone of reasonableness. In Centra's view, the ratemaking principles of gradualism and affordability were already given significant consideration when deciding on seeking only a 4.5% general revenue increase. The utility also points out that the Small General Service (SGS) class is responsible for a full two-thirds of non-gas costs, so any variation from unity for that class would have a disproportionate impact on the other classes.

Centra is not proposing changes to its rate design, other than for the Power Station class, which is to be transitioned to a two-part rate by eliminating the Demand rate and recovering the demand costs through the Basic Monthly Charge. For the Small General Service class (which includes residential consumers), Centra is proposing to increase the fixed Basic Monthly Charge from $14 to $14.75. Similarly, for the Large General Service Class, Centra is proposing to increase the Basic Monthly Charge from $77 to $85.

3.6 Other Approvals Sought

Over the past five years, Centra has maintained purchased gas variance accounts (PGVA) which track the difference between the forecast costs and actual costs. These variances accrue to PGVAs for future recovery from or refund to Centra's customers. This ensures that customers pay the actual gas costs incurred by Centra. Consistent with previous practice, Centra proposes to amortize the existing balances in these prior-period non-commodity PGVAs over a period of 12 months, beginning on November 1, 2024, by applying rate riders to its Delivery rates. While Centra's proposal would result in a refund of $5.1 million in PGVA balances to customers in aggregate, the actual refund to or recovery from customers depends on the customer class. As shown below in Figure 3.5, the Small General Service and Large General Service classes are owed a refund of these previously incurred gas costs, while the High Volume Firm, Mainline, and Interruptible classes owe additional amounts to Centra:

Total	SGS	LGS	HVF	ML	INT
($5.1M)	($2.39M)	($4.39M)	$1.17M	$1.08M	$0.38M

Note: Additional balances for the Special Contract and Power Station classes are omitted and affect the total $5.1 million balance. Amounts in parentheses represent a refund to customers.

Figure 3.5 — Prior Period and 2019-2023 Gas Cost Deferral Balances

In addition, Centra is proposing a new gas commodity overhead rate and a new fixed rate gas commodity service program cost rate. The gas commodity overhead rate is intended to allocate the non-gas related costs associated with procuring and managing Centra's gas supply. The fixed rate gas commodity service program cost rate relates to Centra's operation of a fixed-rate natural gas program in a similar manner to independent gas marketers. Centra is not proposing to change the program cost rate charged for fixed-rate natural gas at this time.

4.0 APPLICATION FOR INTERIM NOVEMBER 1, 2024 GAS COMMODITY RATES

Centra's quarterly Gas Commodity rate application was filed on October 11, 2024 in accordance with the revised Rate Setting Methodology approved in Board Orders 55/00, 99/01, 143/03, 69/04, 131/21, and 114/22. The Rate Setting Methodology determines a Gas Commodity rate based on the forecast of natural gas prices and includes several factors that reflect the costs Centra incurs in providing Gas Commodity to its customers. The Gas Commodity rate is reviewed and approved quarterly by the Board.

Centra's Gas Commodity rate is partly based on futures prices at AECO, a major gas trading hub in Alberta. Figure 4.1 reflects the 12 month AECO futures price strip[1] for natural gas taken by Centra on October 2, 2024 and used in the calculation of the proposed November 1, 2024 Gas Commodity rate. The futures strip prices for April 2024 and July 2024 from previous quarterly rate applications are also shown in Figure 4.1. As can be seen from the table, and compared to the July futures prices, the October AECO futures prices have decreased.

($/GJ)	Nov/24	Dec/24	Jan/25	Feb/25	Mar/25	Apr/25	May/25	Jun/25	Jul/25	Aug/25	Sep/25	Oct/25
Apr Strip	2.686	3.059	3.184	3.184	2.952	2.837						
Jul Strip	2.298	2.736	2.832	2.840	2.660	2.428	2.365	2.428	2.471			
Oct Strip	1.746	2.294	2.436	2.419	2.215	2.091	2.033	2.081	2.110	2.133	2.136	2.367

Figure 4.1 — AECO Futures Price (Cdn$/GJ)

[1] A price strip is a gas price forecast for a specific period or "strip" of time based on the market prices of gas as traded on an exchange.

Figure 4.2 summarizes Centra's application for the quarterly Gas Commodity rate effective November 1, 2024. The table in Figure 4.2 also shows historical calculations for previous Gas Commodity rates, which were calculated using the Board-approved Rate Setting Methodology.

	Component	Costs and Proposed Rates Nov 1/23	Costs and Proposed Rates Feb 1/24	Costs and Proposed Rates May 1/24	Costs and Proposed Rates Aug 1/24	Costs and Proposed Rates Nov 1/24
1	Date of Forward Price Strip	October 3, 2023	January 3, 2024	April 3, 2024	July 3, 2024	October 2, 2024
2	Gas Commodity Cost Outlook per Cubic Metre (mix of Gas Supply & Storage Gas costs divided by annual system supply sales)	\$0.1026	\$0.0897	\$0.0981	\$0.0889	\$0.0770
3	Base Gas Commodity Rate, adding the Gas Commodity Overhead cost component per cubic metre [1]	\$0.1036 [2]	\$0.0907 [2]	\$0.0991 [2]	\$0.0899 [2]	\$0.0779 [2]
4	Plus (Less) Gas Commodity Rate Rider per cubic metre	(\$0.0015)	(\$0.0050)	(\$0.0073)	(\$0.0114)	(\$0.0165)
5	Total Billed Rate (\$/m^3)	\$0.1021	\$0.0857	\$0.0918	\$0.0785	\$0.0614

Notes:
1. Since November 1, 2022, pursuant to Order 131/21, the compressor fuel costs incurred between the AECO and Empress market hubs are no longer included in Centra's Gas Commodity rate but are instead included in Centra's Delivery rate calculations.
2. For Centra's November 1, 2023 to August 1, 2024 quarterly commodity rate applications, the Gas Commodity overhead costs are \$0.00095/m^3 (reference Order 114/22). For its November 1, 2024 quarterly commodity application, Centra proposes to use a Gas Commodity overhead cost of \$0.00093/m^3 per its interim requests in its 2024/25 general rate application.

Figure 4.2 — Current and Historical Gas Commodity Rate Calculations

The AECO futures market prices, shown above in Figure 4.1, are used to determine the forecasted costs of volumes Centra expects to purchase over each of the next twelve months that flow both directly to Manitoba consumers as well as to gas storage in order to supplement gas supplies during periods of higher gas consumption[2]. While the forecast Gas Commodity costs include the costs of gas sourced from the AECO hub in Western Canada, they also include the costs of gas from non-AECO sources. However, in accordance with the Board-approved methodology, the Gas Commodity rate is based solely on the AECO-sourced gas costs. Therefore, an adjustment is also applied to account for the expected difference between AECO and non-AECO costs, which is tracked separately in the Commodity Cost Balancing Deferral account. The twelve-month forecast for Centra's Gas Commodity costs is then adjusted for Centra's estimate for unaccounted-for gas and costs related to the Fixed Rate Gas Commodity Service. The resulting Gas Commodity cost twelve-month outlook is then divided by Centra's annual system supply sales volume to obtain the Gas Commodity cost outlook per cubic meter as shown in row 2 of the table in Figure 4.2.

Centra incurs overhead costs in the procurement and administration of Gas Commodity supplies. These overhead costs are added to the Gas Commodity cost outlook rate to determine the Gas Commodity Base Rate, which is shown in row 3 of the table in Figure 4.2. Centra's Application also incorporated the latest proposed Gas Commodity Overhead Rate of $0.93/10^{3}m^3 per its October 7, 2024 general rate application for 2024/25.

Centra tracks differences between the previously approved Gas Commodity rate (and its underlying gas costs) and the actual cost of purchases it incurs. The previously approved Gas Commodity rate is based on a forecast of natural gas market prices, and the prices Centra actually pays usually differ from those forecasted. These differences are tracked in a Purchased Gas Variance Account (PGVA). When the actual cost of gas is greater than what was forecasted, a positive balance accrues in the PGVA, which is then collected from customers. When the actual cost of gas is less than what was forecasted,

[2] Due to significant seasonal and daily weather and resulting demand swings in Manitoba, Centra makes use of seasonal gas storage facilities in order to optimize its gas supply portfolio costs and reliability. This includes relying partially on storing gas in the summer months and retrieving it from storage during the winter months.

a negative balance accrues in the PGVA and this is refunded to customers. A Gas Commodity rate rider is used to collect from or refund to customers the PGVA balances.

A Gas Commodity rate rider recovers from or repays to customers the balance in the PGVA, with interest.[3] Utilization of the PGVA and rate rider ensures that customers' rates are adjusted so that customers are paying for the actual cost of gas with no mark-up or discount. The Gas Commodity rate rider is determined by dividing the accumulated balance in the PGVA by the volumes Centra forecasts to flow in the upcoming twelve months, and is shown in row 4 of the table in Figure 4.2. If the PGVA balance is not brought to zero with the rate rider, the remaining balance will be included in the calculation of future rate riders.

The Gas Commodity rate rider is combined with the Gas Commodity Base Rate to arrive at the Gas Commodity Billed Rate, as shown in row 5 of the table in Figure 4.2, and this is the rate that Centra uses to calculate the bills of its system supply customers.

The forecasted PGVA balance for October 31, 2024 will be refunded to customers by way of a rate rider of \$0.0165/m^3, resulting in a Gas Commodity Billed Rate of \$0.0614/m^3 as shown in row 5 of the table in Figure 4.2.

As mentioned above, Centra's forecast of total Gas Commodity costs includes the costs of gas sourced from the AECO hub in Western Canada, as well as the forecast costs of non-AECO-sourced gas supplies. Non-AECO supplies are procured from other sources than the Western Canadian Sedimentary Basin, although Centra considers the specific sources to be commercially sensitive and confidential.

As the cost of AECO-sourced gas and the cost of non-AECO sourced gas will differ, and since the Gas Commodity rate is based on Centra's AECO forward prices, the Commodity Cost Balancing Deferral (CCBD) account is used to track the differences between these two supply costs. This deferral account, which is similar to, but separate from, the Gas

[3] Interest is determined based on Centra's actual cost of borrowing, which reflects the carrying cost, to Centra, of the PGVA balance.

Commodity PGVA, allows for the determination of a rate rider that will ensure customers pay only the exact cost of gas commodity purchased by Centra. The CCBD rate rider is determined by dividing the accumulated balance in the CCBD account by the volumes Centra forecasts to flow in the upcoming twelve months. The resulting CCBD rate rider, which is shown in the table in Figure 4.3, is then added to Centra's approved Delivery volumetric rates for Sales Service customers[4]. The CCBD rate rider is added to Centra's Delivery volumetric rates, as opposed to the Gas Commodity rate, because Centra provides non-AECO supplies to all of its Sales Service customers. Applying the CCBD rate rider to the Delivery volumetric rates, instead of the Gas Commodity rate, also allows Centra to maintain fixed Gas Commodity rates for Western Transportation Service customers who have fixed rate contracts.

Component	Proposed Rate Nov 1/23	Proposed Rate Feb 1/24	Proposed Rate May 1/24	Proposed Rate Aug 1/24	Proposed Rate Nov 1/24
Commodity Cost Balancing Deferral Rate Rider ($/m^3)	$0.0045	$0.0037	$0.0023	$0.0023	$0.0021

Figure 4.3 — Current and Historical Commodity Cost Balancing Deferral Rate Rider

As shown in the table in Figure 4.3, the forecasted CCBD account balance for October 31, 2024 will be collected from customers by way of a CCBD rate rider of $0.0021/m^3. The CCBD rate rider will then be incorporated into Centra's Delivery rates for Sales Service customers per the Board-approved methodology.

As part of its application to the Board, Centra submitted that the public disclosure of parts of its Gas Commodity cost forecast, Gas Commodity PGVA balances, and CCBD account balances could result in undue financial loss to Centra and its ratepayers, and undermine Centra's negotiating position for commodity, transportation, and storage services. This is

[4] Sales Service customers are those for which Centra arranges for the delivery of gas to the customer. Such customers include system supply customers paying a variable Gas Commodity rate as well as Fixed Rate Gas Commodity Service or Western Transportation Service customers paying fixed Gas Commodity rates through either Centra or gas marketers and brokers. Sales Service differs from Transportation Service where customers arrange for their own supply and delivery of gas to Centra's system.

as a result of the unlimited discretion afforded to TransCanada Pipelines Limited in establishing short-term firm and interruptible transportation tolls on the Canadian Mainline. Consequently, Centra filed a motion with the Board, pursuant to Rule 13 of the Board's *Rules of Practice and Procedure*, to receive certain specific information in Centra's application in confidence.

Figure 4.4 graphically shows the Gas Commodity Billed Rate and former Primary Gas Billed Rate from November 1, 2014 up to and including the proposed November 1, 2024 rate.

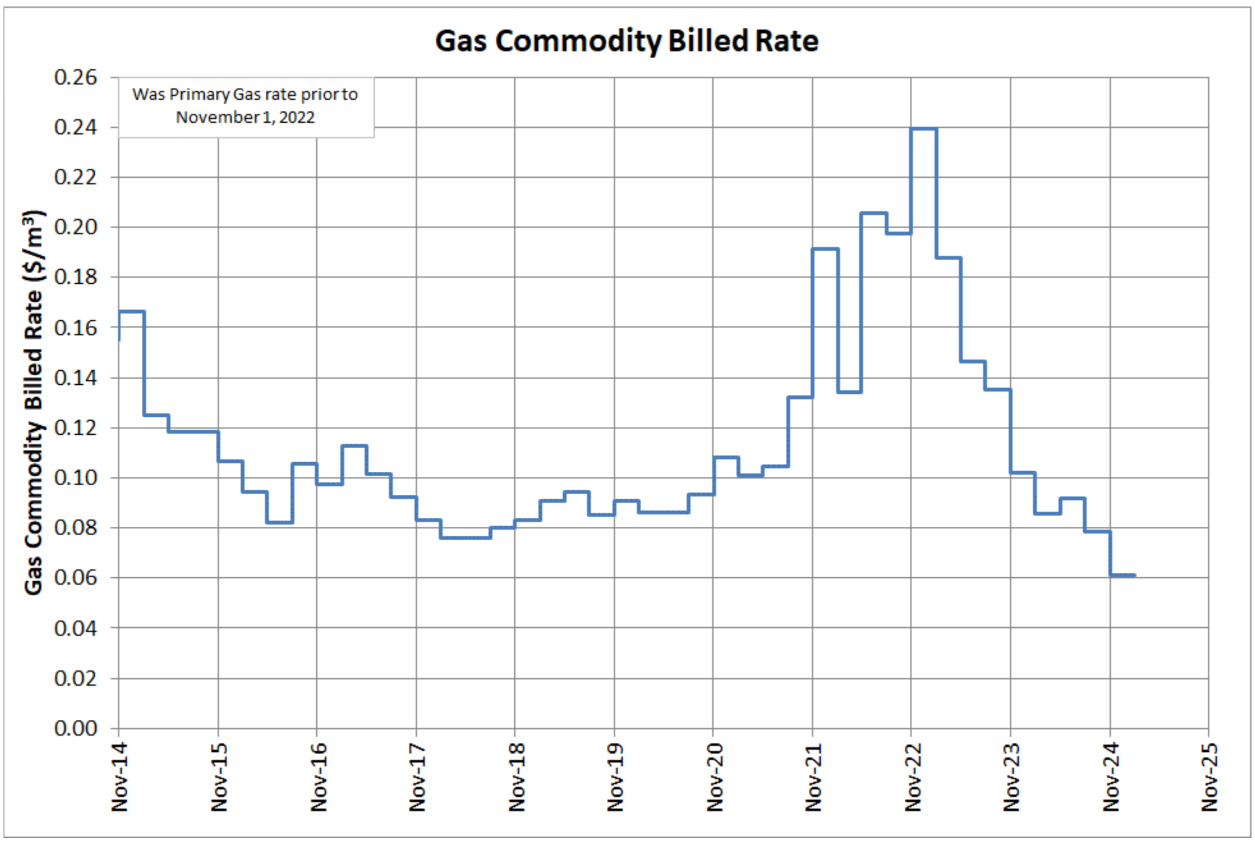

Figure 4.4 — Gas Commodity Billed Rate

5.0 BILL IMPACTS

5.1 Bill Impacts from the 4.5% Interim General Revenue Increase

The 4.5% increase to general revenue sought in Centra's application does not result in a corresponding overall bill increase for Centra's different customer classes, for several reasons:

- the increase does not apply to gas commodity rates, which the PUB approves on a quarterly basis;
- the components of Delivery rates that recover upstream gas costs are, in aggregate, decreasing;
- the increase is affected by the proposed amortization of the non-commodity PGVA balances; and
- the cost of service methodology approved in Order 109/22, coupled with the additional changes proposed in Centra's 2024/25 general rate application, results in different bill impacts for the different customer classes.

For a typical residential customer (Small General Service class), the proposed changes will result in a $24 annual bill increase or an average of $2 per month, excluding the impact from the Gas Commodity rate which is also changing November 1, 2024. For other Small General Service (SGS) and Large General Service (LGS) customers, the annual impact is less than 4.5%.

The most significant effect is on customers in the High Volume Firm, Mainline, and Interruptible classes who, depending on their consumption pattern and service type, are facing an increase to billed rates of over 25%. Centra notes that customers who utilize transportation service are disproportionately affected on a percentage basis because those customers do not pay Centra for gas commodity or transportation costs upstream of Centra's system. Therefore, their bills from Centra do not have a large commodity component unaffected by the general revenue increase which serves to attenuate the bill impact.

For customers in the Mainline class who utilize sales service, the expected bill increase relates primarily to the recovery of previously incurred gas costs that were not recovered in the approved rates and resulted in PGVA balances owing to Centra, as shown above in Figure 3.5 in section 3.6. Non-commodity rate riders to recover these deferred gas cost balances cause large, unfavourable bill impacts for these customers.

For the Interruptible class, a major portion of the increase is caused by the amended cost of service methodology which increases the costs allocated to the Interruptible class on account of its contribution to the peak design day. The Interruptible class is also negatively affected by the recovery of deferred gas cost balances, in a manner similar to the Mainline class.

5.2 Bill Impacts from the Quarterly Gas Commodity Rate Increase

For a typical residential customer, the isolated effect of the proposed decrease to the Gas Commodity rate and change to the Commodity Cost Balancing Deferral rate rider is an annual bill decrease of 6.1%, or $36 per year (based on average annual consumption of 2,075 m^3 of gas).

For customers in other classes who purchase system supply gas from Centra, the isolated effect of the decrease in the Gas Commodity rate is a bill decrease ranging from 7% to 16.4%.

5.3 Combined Bill Impacts

The combined impacts of the proposed Gas Commodity rate and Commodity Cost Balancing Deferral rate rider changes, together with the proposed interim changes to non-commodity rates as part of Centra's 2024/25 general rate application, result in a number of customer classes receiving annual bill decreases. This includes residential customers in the Small General Service class. In contrast, certain industrial and institutional customer classes will receive a bill increase.

The bill decreases applicable to residential and most commercial customers arise largely from two factors. The first factor is the decrease in the market price of natural gas. The second factor is the implementation of 12-month non-commodity rate riders. Those riders refund amounts paid by customers in excess of the actual costs of gas since the 2019/20 General Rate Application proceeding. The two factors are partially offset by the interim approval of increased non-gas costs forecast for fiscal year 2024/25. For customer classes experiencing bill increases, the changes are primarily the result of the interim approval of increased non-gas costs forecast for fiscal year 2024/25, changes in the allocation of costs to customer classes, and rate riders to recover the shortfall in amounts paid for gas since 2019/20. Figure 5.1 illustrates the bill impact of Centra's quarterly gas commodity rate application, its general rate application, and the combined impact of both applications. Figure 5.2 illustrates the historical annual bill changes for residential customers only, dating back to 2014.

Customer Class	Bill Impact – General Rate Application Increase Only	Bill Impact – Gas Commodity Rate Only	Combined Billed Rate Change Increase (Decrease)
Small General Service	3.5% - 4.2%	(4.7%) – (8.0%)	(0.3%) – (4.4%)
Large General Service	0.2% - 3.3%	(7.0%) – (10.3%)	(3.5%) – (10.1%)
High Volume Firm (Sales Service)	0.5% - 17.4%	(9.7%) – (13.8%)	9.0% – (13.3%)
High Volume Firm (Transportation Service)	22.5% - 26.1%	N/A	22.5% – 26.1%
Mainline (Sales Service)	23.7% – 25.1%	(12.4%) – (15.4%)	11.2% – 15.0%
Mainline (Transportation Service)	(5.2%) – (9.0)%	N/A	(5.2%) – (9.0%)
Interruptible	15.0% - 28.0%	(12.4%) – (16.4%)	0.6% – 18.2%

Figure 5.1 — Bill Impacts – By Application and Combined

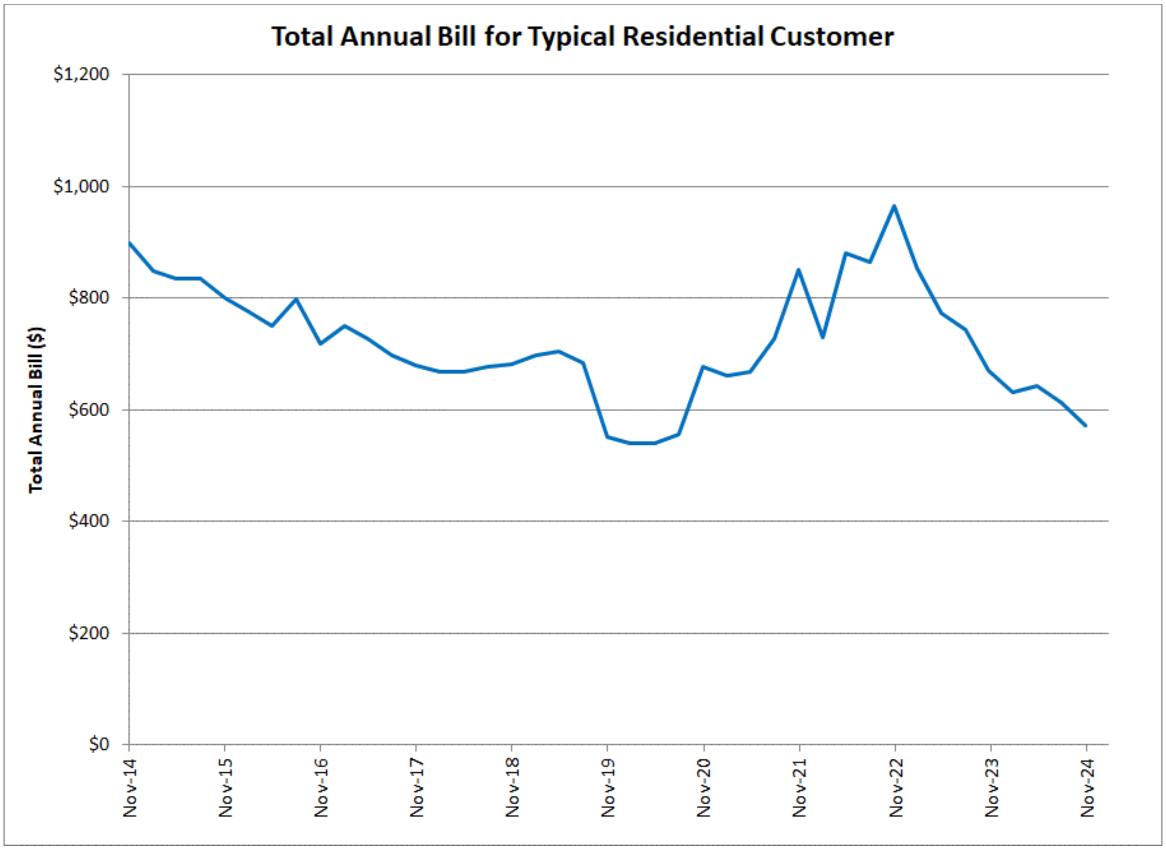

Figure 5.2 — Bill Changes for Typical Residential Customers since 2014[5]

[5] The lower annual bills shown between November 1, 2019 and November 1, 2020 were primarily affected by temporary rate riders implemented following the 2019/20 Centra General Rate Application. These temporary rate riders were applied to address some outstanding Purchased Gas Variance Account accruals, which were refundable to customers, as well as to refund surplus Furnace Replacement Program funds to customers in the Small General Service class. Reference Orders 161/19 and 128/20 for more information.

6.0 BOARD FINDINGS

The Board finds that Centra's requested 4.5% general revenue increase effective November 1, 2024 and the new proposed Gas Commodity rate are just and reasonable. As such, the Board is approving both applications on an interim basis.

The Board considers the information filed by Centra on October 11, 2024, and certified by Centra as accurate and correct, to be Centra's evidence in support of its interim *ex parte* Gas Commodity rate application. Centra's October 7, 2024 submissions in support of a general revenue increase will be further tested as part of the upcoming public review process for Centra's 2024/25 general rate application. Any approvals granted in this order may be varied or revoked if, following the hearing of Centra's application, the Board no longer considers them to be in the public interest.

6.1 General Revenue Increase of 4.5%

6.1.1 Interim Approval of Increase

In discharging its rate-setting mandate, the Board must have regard for the public interest. As stated by the Manitoba Court of Appeal in *Consumers' Association of Canada (Man.) Inc. et al. v. Manitoba Hydro, Electric Board*, 2005 MBCA 55, the public interest involves balancing the interests of ratepayers against the financial health of the utility. In the Board's view, Centra's current losses are not sustainable and require an expedited rate increase that will take effect at the beginning of the upcoming winter heating season.

On its face, Centra's general rate application suggests that the utility may require more revenue than applied for. The Board notes with concern that, even with the applied-for November 1, 2024 rate increase, Centra expects to lose $20 million in 2024/25. This loss would be an additional $8 million higher without the proposed adjustment to Centra's corporate allocation. The Board intends to review Centra's revenue requirement, and the appropriateness of the applied-for increase, in the course of the hearing of Centra's application.

The Board is mindful of the fact that Centra's evidence for its 2024/25 general rate application has not yet been tested and that neither its revenues nor its expenses projected during the test year have been proven. However, the general revenue increase being sought by the utility is seemingly less than one-third of the indicative revenue increase that would be required for Centra to achieve its previously-approved $3 million in weather-normalized net income during the test year. As such, the Board finds that it is unlikely that an interim general revenue increase would result in any over-collection by the utility during the 2024/25 test year. In contrast with the 14.1% revenue increase needed to achieve $3 million of net income, or the option of deferring the Board's decision until the end of a public review process in 2025, approving the rate increase effective November 1, 2024 has the potential to mitigate consumer rate shock and reduce further losses to the utility.

Unfortunately, Centra's failure to seek a revenue increase in the face of mounting losses over several years has created a situation in which an urgent revenue increase is now required to protect the financial health of the utility. The Board finds that the need for a general revenue increase is urgent because, absent a revenue increase, Centra's retained earnings will be fully eroded by the end of its 2024/25 fiscal year. In fact, even with the revenue increase, a warmer than normal winter may still fully erode Centra's retained earnings. In either case, the public interest requires an immediate intervention by the Board to protect the financial health of the utility. It is for this reason that, in Order 111/24, the Board rejected Centra's request to set aside the directive to file a general rate application.

In the Board's view, the situation justifies making an interim rate order without the benefit of intervener submissions or a hearing. In particular, the Board finds that it would not be in the public interest to delay an interim general revenue increase pending submissions from approved interveners to Centra's general rate application. Centra's losses are significant enough, and its applied-for interim general revenue increase is low enough, that the benefit of intervener submissions does not outweigh the additional $2 million loss that would result from a one-month delay to accommodate a meaningful submissions process. Similarly, the Board finds that it is impractical to test Centra's evidence in the public review process before approving an increase, as this could not be accommodated without requiring Centra to accrue further losses while the process takes place. However, it is the Board's intention to proceed with a public review process and, if necessary, adjust the interim rates approved in this order. This interim approval is not a replacement for a rate hearing.

The Board further finds that the overall increase in general revenue approved by this order does not undermine the interests of ratepayers as a whole. As set out in Centra's application, cumulative inflation in Manitoba for the period 2019/20 to 2024/25 has been over 20%, while the proposed revenue increase is less than one-quarter of this amount. The increase is also less than the 2020/21 to 2023/24 5.35% cumulative revenue increase projected by Centra at its 2019/20 general rate application.

While Gas Commodity rates fluctuate on a quarterly basis, increases to non-gas costs are largely foreseeable and can be managed through regular general rate applications and predictable, gradual increases. In this case, customers are fortunate that the Board's approved increase to Centra's general revenues coincides with a decrease in the Gas Commodity rate. However, had the Gas Commodity rate increased, it could have exacerbated the increase to bills and could have led to rate shock for consumers. The Board finds that it would not be in the interest of either customers or the utility itself for an increase to general revenue to be delayed. Such a delay would increase the risk of rate shock, as a larger increase would likely be required in the future. A delay would also further worsen Centra's financial situation.

Despite the Board's interim approval of Centra's requested increase, the Board notes that the manner in which the utility has requested the general revenue increase understates the impact on the non-gas components of rates. As described in section 3.4.1, while the $11 million of additional revenue requested by Centra represents a 4.5% increase to Centra's overall revenues (which include both gas and non-gas components), the utility proposes to recover that revenue through the non-gas components of rates only. Applied to the $140 million of non-gas revenue obtained in 2023/24, the additional $11 million represent an increase of approximately 11% on an annualized basis, not 4.5%. However, as set out in section 5.3, this does not translate into a similar overall bill impact.

6.1.2 Allocation Among Customer Classes

With respect to the issue of how Centra's revenue requirement should be recovered from customer classes, the Board finds that the public interest is best served if rates are set based on the revised cost of service methodology approved in Order 109/22. This includes the utility's existing revenue as well as the additional $11 million approved in this order. On an interim basis, the Board is also prepared to accept the additional methodology changes proposed by Centra.

In Order 6/24, the Board confirmed its retainer of an independent expert consultant to review the implementation of Centra's cost of service methodology. As of the issuance of this order, the report has not yet been tested. As such, it is possible that the hearing of Centra's general rate application will require adjustments to the allocation of costs and resulting rates. However, the Board finds that it would be impractical to apply the proposed revenue increase based on the former cost of service methodology, considering that the former methodology did not form the basis of Centra's 2024/25 application. Such an approach could also be unfair, considering that the Board has already approved a new methodology and found that methodology to be in the public interest.

In the Board's view, the most practical approach is to approve November 1, 2024 interim rates based on the cost of service results as set out in Centra's application and resolve any subsequent issues with those allocations through rate adjustments or rate riders, if needed.

6.1.3 Gas Commodity Overhead Cost and Fixed Rate Gas Commodity Service

The Board finds that it is also appropriate to approve a reduction in the Gas Commodity overhead cost from $0.00095/m^3 to $0.00093/m^3 on an interim basis as this value is calculated by the updated cost of service study.

The Board also approves Centra's request to maintain the Fixed Rate Gas Commodity Service program cost rate at $0.02484/m^3 pending the review in the upcoming general rate application proceeding. The Board accepts Centra's rationale for maintaining the program cost rate at its current level, which is that this is an appropriate balance of rate stability and considers the material impact to prospective Fixed Rate Gas Commodity Service customers of increasing the program cost rate and the immaterial impact to other customers by leaving the approved rate in place.

6.1.4 Expiry of the Approval on October 31, 2025

Although the Board is approving Centra's request for interim approval of a general revenue increase, it observes that such an approval could have been avoided through the timely filing of a general rate application. As set out in Order 92/24, in which the Board directed Centra to file a general rate application after Centra repeatedly delaying its previously planned submission, Centra has been experiencing financial losses since the 2020/21 fiscal year. It is unfortunate that the utility incurred losses for 4 ½ years before filing a general rate application, effectively forcing the Board to issue an interim rate order without a hearing. Centra only filed its last general rate application on November 30, 2018 following a contempt finding by the Board, and it took multiple Board orders for Centra to file the current application. The Board's statutory mandate is to fix just and reasonable rates. This requires balancing the interests of ratepayers against the financial health of the utility. However, it also requires all parties to the regulatory compact to act with due diligence.

In accordance with section 125 of *The Public Utilities Board Act*, which limits interim natural gas rate approvals granted without a hearing to one year, the interim approval of the non-gas components of rates in this order expires on October 31, 2025 unless the rates are confirmed as final before that time or the Board reviews and varies this order. If the interim non-commodity rate approvals are not confirmed or varied, on November 1, 2025, the non-gas components of Centra's rates are to revert back to the non-gas components in effect immediately before November 1, 2024 with corresponding changes in Centra's rates.

A significant factor in the Board approving the interim general revenue increase is that Centra has filed a full general rate application and is proceeding with the process laid out by the Board. This means that the evidence supporting the interim rate request for November 1, 2024 will be publicly reviewed and tested in the immediate future. It is the Board's expectation that Centra's general rate application will proceed in accordance with the timetable that will be established for the hearing and that a rate reversion on November 1, 2025 will not be necessary.

6.2 Gas Commodity Rate

The Board finds that Centra's Gas Commodity rate application and supporting evidence of October 11, 2024 properly reflect the Board-approved Rate Setting Methodology, as well as the interim approval for the $0.00093/m^3 Gas Commodity overhead cost approved as part of the general revenue increase approved in this order. The Board therefore approves Centra's application to amend the Gas Commodity rate and Commodity Cost Balancing Deferral rate rider. The Gas Commodity rate will decrease to $0.0614/m^3 while the Commodity Cost Balancing Deferral rate rider will decrease to $0.0021/m^3 (owing to Centra) effective November 1, 2024.

Gas Commodity rate changes affect only those customers receiving quarterly-priced Gas Commodity from Centra. Customers on fixed-price contracts with either gas marketers or Centra are not affected.

The next review of the Gas Commodity rate and Commodity Cost Balancing Deferral rate rider will be for Gas Commodity consumed on or after February 1, 2024.

6.3 Amortization of PGVA Balances

The Board finds that there is no impediment to approving the amortization of the accrued PGVA balances through rate riders beginning November 1, 2024. With an accrued overall refund balance of $5.1 million owing to customers in aggregate, amortizing these account balances partially mitigates the impact of the approved general rate increases for the Small General Service and Large General Service classes. These rate riders will be incorporated into the Delivery rates for each customer class for a period of 12 months, with the exceptions noted in section 6.4.

The refunding or collection of gas cost deferral balances follows the long-standing practice in Manitoba to dispose of Purchased Gas Variance Account and other gas cost deferral balances through general rate applications. Disposing of these balances ensures that customers pay no more and no less than Centra's actual costs incurred, with interest.

As explained in section 3.6, while the total of these balances is $5.1 million owing to customers, whether the deferral balance is owing to Centra or to customers depends on the customer class. Figure 3.5 in section 3.6 shows the accrued balances for each class.

6.4 Bill Mitigation

Based on the combined bill impacts of the general revenue increase, gas components of rates, rate riders, and the new quarterly commodity rate approved in this Order, the Board considers it to be just and reasonable to establish bill mitigation measures for the Mainline and Interruptible customer classes. The Board does so by extending the PGVA amortization for those classes to 24 months, rather than the 12 months as applied for by Centra.

As set out in Figure 5.2, natural gas bills for residential consumers are currently among the lowest they have been in ten years. In contrast, natural gas bills for some industrial and institutional customer classes will increase materially.

For the Mainline and Interruptible classes receiving sales service, a significant portion of the bill impact is caused by the proposed amortization of PGVA balances that need to be recovered from those classes, as shown in Figure 3.5. While the Board continues to see a 12-month amortization of PGVA balances as the default, it finds that a one-time extension to 24 months is justified for these classes to attenuate the expected bill impacts. The Board notes that Centra's carrying costs for PGVA balances are embedded in the accounts, which means that other customer classes are not affected by the extension.

Low load factor customers (i.e., customers with a low average consumption compared to their peak consumption) in the High Volume Firm class who receive sales service will also experience bill increases as a result of this order. However, the Board finds that those increases are low enough to maintain the default 12-month PGVA amortization for the class and notes that the majority of customers in the class will experience a bill decrease. For High Volume Firm customers who utilize transportation service (or T-service), the Board observes that the bill impacts are caused primarily by an increase in the non-gas costs allocated to those customers because of the overall increase to Centra's costs, as well as increases caused by the new cost of service methodology. The bill increases appear larger than for other customers because T-service customers procure their own gas supply. This means that the increases to the non-gas component of rates are not attenuated by Gas Commodity or other upstream costs, as they are for sales service customers.

In light of the urgency for an interim revenue increase, the Board needs to exercise judgment and discretion on how the increase is to be allocated, as the timing of this order does not allow Centra's cost of service evidence to be fully tested before the interim rate approval. Regardless of whether the increase is implemented as an across-the board increase, an increase based on the new cost of service methodology, or an increase based on the former cost of service methodology, there is potential for the Board having to revise the rates in a final rate order and having to address any differences in collected revenue in an appropriate manner.

6.5 Request For Confidentiality

After consideration of Centra’s Rule 13 motion for confidentiality of specific information in Centra’s Gas Commodity application, the Board finds that it is in the public interest to maintain that specific information in confidence. The Board is of the opinion that disclosure of the information could reasonably be expected to result in undue financial loss or gain to Centra and its customers who are directly or indirectly affected by the application, or would have a significant negative impact on Centra’s competitive position.

With respect to Centra’s Rule 13 Motion for confidentiality of specific information in the 2024/25 general rate application, the Board defers its decision to a future date and expects to make a ruling in a subsequent order.

7.0 IT IS THEREFORE ORDERED THAT:

1. Centra's request for approval of a general revenue increase of 4.5% effective November 1, 2024, sufficient to generate additional revenue of approximately $11 million in 2024/25, **BE AND HEREBY IS APPROVED** on an interim basis.

2. Directive 1 shall expire on October 31, 2025, unless confirmed or varied by the Board by that day. If the Directive expires, on November 1, 2025 the non-gas components of rates approved under Directive 1 shall revert back to the rates in effect immediately before November 1, 2024.

3. Centra's request for approval of a Gas Commodity Rate of $0.0614/m^3 and the Commodity Cost Balancing Deferral rate rider of $0.0021/m^3, effective November 1, 2024, **BE AND HEREBY IS APPROVED** on an interim basis.

4. Centra's request for approval of Transportation (to Centra), Distribution (to Customers) and corresponding Delivery Rates, the Gas Commodity Overhead rate, effective November 1, 2024, **BE AND HEREBY IS VARIED**. The Base Rates proposed by Centra **BE AND ARE HEREBY APPROVED** on an interim basis, while Billed Rates are to incorporate rate riders in accordance with Directive 6.

5. Centra's request to maintain the Fixed Rate Gas Commodity Program Cost Rate at $0.02484/m^3 **BE AND HEREBY IS APPROVED** on an interim basis.

6. Centra's request for approval to dispose of the balances in the October 31, 2019 Prior Period Gas Costs Deferral Account and the non-commodity Purchased Gas Variance Accounts from November 1, 2019 to October 31, 2023 through rate riders over the 12-month period commencing November 1, 2024, **BE AND HEREBY IS VARIED** as follows:

    a) the balances for the Mainline and Interruptible classes are to be disposed of through rate riders over a 24-month period beginning on November 1, 2024; and

    b) the balances for all other classes are to be disposed of through rate riders over a 12-month period beginning on November 1, 2024, as proposed by Centra in its application.

7. Centra's motions for confidentiality under Rule 13 of the Board's *Rules of Practice and Procedure* are disposed of as follows:

   a) Centra's application regarding specific information in its Gas Commodity Application **BE AND HEREBY IS APPROVED**; and

   b) Centra's application regarding specific information in its 2024/25 General Rate Application is deferred and will be dealt with in a subsequent order of the Board.

8. Centra shall file, within two weeks of the issuance of this Order, revised rate schedules that reflect the directives set out in 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

"Marilyn Kapitany, B.Sc.(Hon), M.Sc."
Panel Chair

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

Certified a true copy of Order No. 125/24
issued by The Public Utilities Board

R McMillin
Associate Secretary