CENTRA GAS MANITOBA INC.
2019/20 GENERAL RATE APPLICATION

OVERVIEW OF THE APPLICATION

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OVERVIEW OF THE APPLICATION

2.0 OVERVIEW OF TAB

The purpose of Tab 2 is to provide Centra’s corporate overview and vision (Section 2.1) and an overview of the Application (Section 2.2), including a summary of the approvals requested and resulting customer bill impacts.

2.1 CORPORATE OVERVIEW AND VISION

2.1.1 Centra’s Profile
Centra is a wholly-owned subsidiary of Manitoba Hydro, and is the only distributor of natural gas in the Province of Manitoba. Centra serves approximately 280,000 in the residential, commercial, and industrial sectors through approximately 10,329 km of natural gas pipelines.

2.1.2 Centra’s Franchise Areas
Centra provides natural gas service to 132 Manitoba communities its service territory. Since the last Cost of Gas Application in 2015, new or amended franchise agreements or crossing agreements have been approved by the PUB for the following communities:
- 2016: RM of Minto-Odanah
- 2017: RM of Grassland
- 2018: RM of St. François Xavier

A map of Centra’s current franchise areas is included as Appendix 2.1 to this Tab.

2.1.3 Current Organization
Centra is integrated within the organizational structure of Manitoba Hydro. A description of each Corporate/Operating Group and the current organizational chart is included as Appendix 2.2 to this Tab.
2.1.4 Centra’s Vision and Mandate

Centra is integrated operationally within Manitoba Hydro. In 2016, the organization adopted a strategic framework made up of a mission statement, a set of foundational principles and strategic priorities to guide the organization as shown in Figure 2.1 below.

All of Centra’s activities are completed in support of the Corporation’s Mission: “We create value for Manitobans by meeting our customers’ expectations for the delivery of safe, reliable energy services at a fair price.”

These activities include asset management, integrity management, damage prevention, customer service initiatives and planning, contracting and operating the gas supply portfolio to meet the needs of the province of Manitoba. The following sections provide further detail on some of the activities that Centra undertakes to
deliver value and meet customer expectations and to prepare its business for emerging regulatory requirements.

As set out in The Crown Corporations Governance and Accountability Act, Manitoba Hydro is required to produce and submit annually an Annual Business Plan to the Minister of Crown Services. Manitoba Hydro’s Annual Business Plan for activities during the 2018/19 year is included as Appendix 2.3 to this Tab.

Centra is committed to the safety of people, the environment, and property in all of its operations with respect to Manitoba’s natural gas system. On a continuous basis, Centra tracks and benchmarks a variety of safety measures including damage prevention, odorization and equipment testing, leak surveys, and corrosion prevention through key performance indicators (KPIs). These gas safety KPIs are communicated to and reviewed by the PUB during ongoing Quarterly Communication Meetings.

Gas Supply
As the primary and default supplier of natural gas to Manitobans, and the supplier of transportation services to the vast majority of its customers, Centra must be positioned to supply the needs of Manitoba consumers regardless of weather or market conditions. Manitoba’s climate, as well as its customer mix, which is more predominantly residential than most other North American service territories, requires Centra to serve the daily and monthly demand of a market that is highly variable from day to day and year to year. Furthermore, the extreme winter climate in Manitoba also means Centra’s customers are truly dependent on Centra for supplying and delivering natural gas without fail. As a result, Centra focuses on planning and contracting a diverse portfolio of upstream commodity, transportation and storage contracts that are both highly reliable and flexible. Managing these functions responsibly creates value for customers by keeping their rates reasonable while ensuring reliable and flexible gas supply and mitigating a number of market risks.
Safety and Reliability

Installation of the current natural gas infrastructure in Manitoba started in 1955 which means that elements of the distribution system are now more than 60 years old. Centra is dedicating resources to ensure it has a comprehensive understanding of the condition of its system and all of its components so that any required mitigation, upgrade or replacement can be prioritized according to need. As discussed in Tab 4 of the Application, Centra has performed a natural gas system asset condition assessment to quantify assets within three categories: stations and control points, pipelines, and services. This assessment indicated that the current station renewal program for replacement and upgrading of pressure regulating stations is adequate. Gaps were identified in the available condition information for the pipeline and services classes and work has been initiated to obtain this information.

Centra prepares a multi-year natural gas asset management capital investment plan to define and schedule the programs and projects needed to maintain safe and reliable operation, maintain regulatory compliance and meet the needs of customers. Centra also maintains an extensive pipeline integrity program that consists of 24 pipeline integrity activities. These include cathodic protection system monitoring, depth of cover surveys, geotechnical monitoring of pipeline slopes, valve inspection and maintenance, and leak surveys, among others. The program also includes completion of remedial work when unacceptable conditions are found.

Centra continues to monitor the industry and engage with other utilities to seek new ways of extending the life and integrity of its natural gas distribution system. A recent enhancement to Centra’s pipeline integrity program is the addition of pipeline in-line inspections. This involves the insertion of an instrumentation package that can detect dents, measure wall thickness, and identify areas of corrosion and pipe wall loss. The volume and nature of the information being collected is giving Centra a more thorough and complete picture of the state of its aging distribution system than was previously available. While this program has identified issues requiring mitigation and maintenance work, it is also providing assurance that the life of many aging components of the distribution system can be safely extended, in some cases avoiding or delaying re-investment costs.
Centra’s system has proven to be highly reliable with customer outages being exceedingly rare and normally confined to a single customer or a small group of customers in a localized area. However, a major loss of supply from TransCanada PipeLines (“TCPL”) in January 2014 due to a ruptured pipeline on the Emerson lateral of the TCPL Mainline demonstrated that Centra needed to enhance its capability for responding to emergencies. This outage occurred during a period of below normal January temperatures and coincided with blizzard like conditions in Southwestern Manitoba and Southeastern Saskatchewan, which threatened the ability to bring in Compressed Natural Gas (CNG) from Saskatchewan and maintain regular refueling runs.

Centra has since developed its own, local, CNG compression facility with two CNG tube trailers and a pressure reducing decant system to permit the use of CNG to supply a limited number of customers during an outage. The facility has been integrated into Centra’s planning processes, travel time between a CNG compression facility and the outage location is a significant consideration in the load and the number of customers that can be supported. Having a central, Manitoba based, compression facility can make the difference between supplying a single critical load and supplying a full community.

**Customer Service**

Customer expectations are changing in all industries, and natural gas utilities are no exception. Customers expect to be able to complete transactions with their service providers smoothly, and not just during regular business hours. A large and growing number of customers prefer to transact business through self-service channels such as websites. When service providers need access to the customers home, customers often prefer for these appointments to happen on weekends, or during the evening, and if they have to happen during a workday, customers want a small service window so they can minimize the time that they may have to miss work. Centra recognizes this evolution and continues to undertake initiatives to meet these changing expectations and deliver an excellent customer experience.
Natural gas customers in Manitoba have long had the convenience of having all their energy utilities consolidated onto a single bill and online access to their bills and their accounts, through Manitoba Hydro's MyBill service. However, the range of transactions customers have been able to execute through MyBill has been fairly limited as the service was not designed for use on mobile devices. Manitoba Hydro is moving towards providing customers with greater access to information about their own accounts and providing them with control over more of that information as well. Through a customer portal, customers will be able to define their preferences for the different ways they want to receive information from Centra and Manitoba Hydro. For example, one customer may prefer to receive a notice that their bill is ready by email, get a payment reminder by way of text message and receive a phone call when they need to schedule a service appointment. Other customers will have their own preferences, but each customer should be able to choose the service options that best fit their needs.

Service appointments can be a multi-stage, multi-contact process for many customers. Some service appointments, such as meter exchanges, are mandated by Federal or Provincial regulations and need to be completed within a defined time frame. Through the customer portal, customers will be notified of the need for a service appointment. They will then be able to link directly to a scheduling calendar within the portal where they will be able to schedule an appointment, based on available appointment windows, at a time that is convenient to them.

2.2 OVERVIEW OF APPLICATION

2.2.1 Background

Centra last requested a general revenue increase in its 2013/14 General Rate Application ("GRA") filed on January 25, 2013. The Public Utilities Board of Manitoba ("PUB") issued Order 85/13 on July 26, 2013, which granted Centra a general revenue increase of approximately 1.0% and directed Centra to include in its revenue requirement a net income of $3 million on an annualized basis.

Centra filed its 2015/16 Cost of Gas Application with the PUB on May 25, 2015 seeking approval of changes to its Supplemental Gas, Transportation (to Centra) and
Distribution (to Customers) rates to be effective November 1, 2015. These changes reflected the forecast of gas costs for the 2015/16 Gas Year and the disposition of a variety of gas cost deferral account balances for the 2012/13, 2013/14 and 2014/15 Gas Years, some of which were final actual balances while others were based on outlooked figures, to the end of October 2015.

On October 29, 2015, the PUB issued Order 108/15, providing interim approval of changes to Supplemental Gas, Transportation (to Centra) and Distribution (to customer) Sales & Transportation rates that reflect the implementation of new base rates to include a forecast of non-Primary Gas costs for the period of November 1, 2015 to October 31, 2016, and rate riders to recover the net forecast balance in the prior period non-Primary Gas cost deferral accounts as of October 31, 2015.

Also in Order 108/15, the PUB directed that unless Centra filed its next GRA by January 20, 2017, the non-gas portion of Centra’s rates would revert back to levels approved in 2010 flowing from the 2009/10 & 2010/11 GRA. In November 2016 and January 2017, Centra informed the PUB that it was not in a position to file a Gas GRA by January 20, 2017 and on July 28, 2017, the PUB issued Order 79/17 approving the reversion of the non-gas portion of rates effective August 1, 2017 for all customer classes except the Special Contract and Power Station classes.

As discussed in Tab 3, Centra is not applying for a general revenue (i.e. non-gas costs) change in this Application. Centra is requesting approval to discontinue funding the Furnace Replacement Program (FRP) effective August 1, 2019 and to remove the associated costs from the rates, as the cumulative balance in the FRP fund is sufficient to replace all furnaces forecast under the program to 2027/28. By removing the FRP funding from rates, Centra will collect $3.2 million less revenue in 2019/20 (based on an August 1 implementation) and $3.8 million less in 2020/21 and beyond from the Small General Service (SGS) customer class.

Centra is requesting approval of changes to its Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) rates to be effective August 1, 2019 based on the Cost of Gas forecast for the 2018/19 Gas Year (November 1, 2018 to October 31, 2019) discussed in Tab 8 of the Application, as well as the disposition of balances
in the non-Primary Gas Purchased Gas Variance Accounts (“PGVAs”) and other gas
cost deferral accounts as at October 31, 2018, including estimated carrying costs to
July 31, 2019. Further information on the rate changes proposed in this GRA are
provided in the sections below.

Other approvals requested by Centra in this GRA include new depreciation rates and
other accounting related matters (Tab 3, Appendix 3.4), approval of proposed
transportation and storage services effective April 1, 2020 (as described in Tab 9),
changes to Centra’s Terms & Conditions of Service (“Ts & Cs”) (Tab 12) and final
approval of interim orders.

2.2.2 Adjustments to Base Rates for 2018/19 Gas Year Gas Costs

In this Application, Centra is requesting approval of changes to its Supplemental Gas,
Transportation (to Centra) and Distribution (to Customers) rates to be effective
August 1, 2019 based on the Cost of Gas forecast for the 2018/19 Gas Year
(November 1, 2018 to October 31, 2019). Non-Primary Gas costs recoverable at
existing base rates are $83.1 million (based on the 2017 Load Forecast and Weighted
Average Cost of Gas currently embedded in Centra’s non-Primary Gas base rates).
Centra’s forecast of its non-Primary Gas costs for the 2018/19 Gas Year totals $79.3
million, resulting in a $3.8 million net non-Primary Gas base rate reduction to be
implemented effective August 1, 2019.

The forecast non-Primary Gas costs for the 2018/19 Gas Year are discussed in more
detail in Section 8.9 of Tab 8 of the Application. Centra will provide an update to its
2018/19 gas cost forecast based on more current information prior to the
commencement of the oral hearing for this Application.

2.2.3 Disposition of Deferral Account Balances through Rate Riders

In this Application, Centra is requesting approval to implement new non-Primary Gas
rate riders effective August 1, 2019 to dispose of all prior period PGVA balances
accumulated through to the conclusion of the 2017/18 gas year over the 12-month
period August 1, 2019 to July 31, 2020. The cumulative net total of all Non-Primary
Gas PGVA balances for the period from November 1, 2014 to October 31, 2018 is a
refundable (to customers) amount of $6.4 million, including associated carrying costs to July 31, 2019.

Sections 8.5 through to 8.8 of Tab 8 provide the details of all gas costs and PGVA balances for the period from November 1, 2014 to October 31, 2018. Centra intends to provide an update to these amounts prior to the commencement of the oral hearing to review this Application.

2.2.4 Summary of Customer Bill Impacts

Figure 2.2 summarizes the bill impacts by customer class for both base and billed rates for Sales Service customers. The billed rates that Centra charges to its customers are made up of base rates and rate riders to dispose of prior period PGVA balances as discussed in Section 2.2.3 above.

**Figure 2.2 Bill Impacts for Sales Service Customers**

<table>
<thead>
<tr>
<th>2019/20 General Rate Application</th>
<th>Annual Impact Base Rates</th>
<th>Annual Impact Billed Rates*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Class</td>
<td>% Change</td>
<td>% Change</td>
</tr>
<tr>
<td>SGS</td>
<td>(3.6%) - (5.8%)</td>
<td>(4.7%) - (7.7%)</td>
</tr>
<tr>
<td>LGS</td>
<td>1.6% - 2.3%</td>
<td>0.5% - 0.8%</td>
</tr>
<tr>
<td>High Volume Firm (Sales Service)</td>
<td>(0.5%) - (2.2%)</td>
<td>0.5% - (13.8%)</td>
</tr>
<tr>
<td>Mainline (Sales Service)</td>
<td>(4.2%) - (7.6%)</td>
<td>(19.7%) - (13.2%)</td>
</tr>
<tr>
<td>Interruptible</td>
<td>(2.2%) - (4.5%)</td>
<td>(3.0%) - (14.3%)</td>
</tr>
</tbody>
</table>

*Rate riders proposed to be in effect August 1, 2019 to July 31, 2020.

A detailed explanation of the proposed rates and customer impacts for all classes is provided in Tab 11.

The change in the billed rates proposed for August 1, 2019 results in a decrease for typical residential customer of approximately 6.2% or $42 per year compared to the November 1, 2018 billed rates, based on an annual consumption of 2,246 m$^3$. 

There are more significant bill impacts for Transportation Service customers (HVF and Mainline), as detailed in Tab 11 of the Application, which is primarily the effect
of reversing the bill decrease that these classes experienced as a result of Directive 5 of Order 108/15 that directed the non-gas components of rates revert back to levels approved in 2010 effective August 1, 2017. The bill impact to the Special Contract customer is the result of a significant increase in non-gas costs allocated to this class driven by large transmission related investments since the last GRA, as discussed in Appendix 6.1 and Tab 10 of the Application.

Centra intends to provide updated proposed rates and customer impacts prior to the commencement of the oral hearing to review this Application.

### 2.2.5 Organization of Centra’s Application

- Tab 3 discusses the key inputs and assumptions underlying Centra’s 2018 Gas Operations Financial Forecast (CGM18) and Centra’s debt portfolio and interest rate risk. This Tab also addresses some of the outstanding concerns of the PUB regarding the appropriate return on equity and the extent of historical earnings of Centra, as well as a discussion on the financial parameters used by the PUB to assess the adequacy of earnings.

- Tab 4 provides a summary of the Capital Expenditure & Demand Side Management Forecast (CEF18) and a summary of Centra’s asset management framework and the resulting investments to maintain a safe and reliable natural gas system while considering economics and the environment.

- Tab 5 provides an overview of the actual and forecast revenues and expenses for Centra for 2011/12 to 2019/20 and details the adjustments resulting from the transition from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards.

- Tab 6 describes the components of revenue requirement using the rate base/rate of return methodology, and provides the calculations of rate base and the overall rate of return for the years 2011/12 to 2019/20.
- Tab 7 provides the forecast of gas sales volumes and customers for the years 2011/12 to 2019/20 and provides an overview of Centra’s Demand Side Management initiatives, including the Affordable Energy Program.

- Tab 8 discusses Centra’s gas supply, storage and transportation arrangements. Tab 8 also provides the details of all gas costs and PGVA balances for the period from November 1, 2014 to October 31, 2018, and details of the gas cost forecast for the 2018/19 Gas Year.

- Tab 9 discusses Centra’s proposed storage and transportation arrangements to be effective April 1, 2020.

- Tab 10 provides an explanation of the purpose of a Cost Allocation Study, the process used to allocate costs to customers, and the results of the 2019/20 Cost Allocation Study.

- Tab 11 provides the proposed rate schedules for which Centra is seeking approval to be implemented August 1, 2019. Tab 11 also provides an update on the status of Centra’s Fixed Rate Primary Gas Service Program.

- Tab 12 provides material in support of requested changes to Centra Schedule of Sales and Transportation Services and Rates (the “Ts & Cs”).

- Tab 13 outlines the interim Orders for which Centra is seeking final PUB approval, provides information of Centra’s main extensions over 500 metres for calendar years 2013 to 2017, and also provides a response to PUB filing requirements related to Centra’s liability insurance. Tab 13 also provides responses to, and the status of, open and completed PUB directives.