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**CENTRA GAS MANITOBA INC.
2019/20 GENERAL RATE APPLICATION**

PUBLIC UTILITIES BOARD DIRECTIVES AND OTHER MATTERS

INDEX

13.0 Overview 1
13.1 Confirmation of Interim Orders..... 1
13.2 Main Extensions Over 500m..... 1
13.3 Centra Liability Insurance 2
13.4 Directives From Order 129/18, 95/18 and 79/17..... 3
13.5 Directives from Order 53/16 4
13.6 Directives from Order 15/16 5
13.7 Directives from Order 29/14 5
13.8 Directives from Order 85/13 6
13.9 Directives from Order 112/12 9
13.10 Directives from Order 65/11 10
13.11 Directives from Order 128/09 12
13.13 Directives from Order 118/03 14

Appendices

13.1 Interim Orders
13.2 Main Extensions in Excess of 500m 2013-2017
13.3 Centra Liability Insurance
13.4 Ongoing Directives

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2
3
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13.3 CENTRA LIABILITY INSURANCE

Pursuant to Section 11 of The Gas Pipe Line Act the PUB must approve the amount of liability insurance held by the owner of a gas pipeline in Manitoba. The relevant section of the statute stipulates is as follows:

Liability insurance

11 Every owner shall be insured, by an insurance company licensed to do business in the province, against liability that it may incur to others by reason of negligence on its part, or on the part of its servants or agents, in the construction or operation of a gas pipe line or for any other reason; and the insurance shall be to such an amount as is approved by the board.

By letter dated May 4, 2016, the PUB approved Centra’s liability insurance amount and directed Centra to file the following information as part of its next GRA:

- Evidence as to Centra’s existing liability insurance coverage and any planned changes to such coverage;
- Evidence as to the cost of the liability insurance coverage;
- A summary of the rationale for the coverage limit, and, if external reports were obtained to arrive at the coverage limit, a copy of such reports; and
- A listing of all pending claims, if any, that together exceeds a threshold of \$20 million.

This information above can be found in Appendix 13.3 to this Tab.

1 **13.4 DIRECTIVES FROM ORDER 129/18, 95/18 AND 79/17**

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Penalty for Default of Order 108/15

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Order 125/18

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1. ***Directive 3 and the \$100 per day maximum administrative monetary penalty in Order 79/17 BE AND IS HEREBY VARIED such that Centra Gas Manitoba Inc. BE AND IS HEREBY ORDERED to pay an administrative monetary penalty of \$35 per day, calculated from July 20, 2018 until the day the Public Utilities Board receives Centra's General Rate Application.***

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Order 95/18

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1. ***Centra Gas Manitoba Inc. BE AND IS HEREBY in default of Order 108/15 Directive 12***

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Order 79/17

19

20

2. ***Centra Gas Manitoba Inc. file, by August 17, 2018, its detailed submissions relative to the penalty associated with its noncompliance with Order 108/15 Directive 12, including the effective date of the penalty.***

21

22

23

24

3. ***Centra is in default of Order 108/15 Directive 12 and it BE AND IS HEREBY ORDERED to pay a penalty of \$100 per day, the maximum permitted by The Public Utilities Board Act, calculated from January 21, 2017 until the day the Public Utilities Board receives Centra's General Rate Application that is prepared in accordance with applicable Board directives.***

25

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On August 25, 2017, Centra filed a letter requesting the PUB vary Order 79/17 by rescinding its finding that Centra is in default of Directive 12 of Order 108/15 and its order that Centra pay a penalty for non-compliance with Directive 12.

31

32

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On April 26, 2018, the PUB issued Order 58/18 granting Centra's application to vary

1 Order 79/17, subject to filing certain information within 30 days of that Order.

2
3 On May 24, 2018, Centra filed its response to Order 58/18 providing the information
4 requested.

5
6 On July 20, 2018, the PUB issued Order No. 95/18 requesting Centra to provide a
7 submission relative to the penalty associated with its cited non-compliance with
8 Order 108/15 Directive 12 by August 17, 2018.

9
10 On August 14, 2018, Centra filed its response to Order No. 95/18 providing the
11 information requested.

12
13 On September 18, 2018, the PUB issued Order 125/18 varying Directive 3 of Order
14 79/17 and reducing the \$100 per day maximum administrative monetary penalty
15 imposed therein to \$35 per day as of July 20, 2018 and to continue until the day the
16 PUB receives Centra's General Rate Application. With the filing of this Application,
17 the penalty is a total of \$4,690.

18
19 **13.5 DIRECTIVES FROM ORDER 53/16**

20
21 **Franchise Agreement for RM of Minto-Odanah**

22
23 ***1. The Franchise Agreement between Centra Gas Manitoba Inc. and the RM of***
24 ***Minto-Odanah, attached hereto as Appendix "A" to this Order, BE AND IS***
25 ***HEREBY APPROVED on an interim ex parte basis, subject to Centra and the RM***
26 ***of Minto-Odanah, prior to final reading of By-law No. 20/15:(a) amending the***
27 ***By-law and Schedule A to correct the area descriptions associated with both***
28 ***the existing agreements as well as the new franchise agreement;***

29
30 On September 29, 2016, Centra provided a copy of the amended Minto-Odanah
31 Franchise Agreement By-Law and Schedule A to the Associate Secretary of the PUB
32 for signing. On September 17, 2018 Centra resubmitted a copy of the signed
33 agreement and is seeking the PUB's confirmation that this directive has now been
34 satisfied.

1
2 **13.6 DIRECTIVES FROM ORDER 15/16**

3
4 **Field-Applied External Coatings for Steel Pipeline Systems**

- 5
6 **2. *A transition period to implement the requirements of CSA Z245.30 "Field-***
7 ***Applied External Coatings for Steel Pipeline Systems" shall extend to August 1,***
8 ***2016.***

9
10 On May 2, 2018 Centra filed information to demonstrate compliance with CSA
11 Z245.30 as the necessary revisions to procedures and processes were completed.
12 Centra considers this directive to be complete and is seeking the PUB's confirmation
13 that this directive has been satisfied.

14
15 **13.7 DIRECTIVES FROM ORDER 29/14**

16
17 **Swan Valley Gas Distribution System**

- 18
19 **3. *If Centra and Swan Valley Gas elect to proceed with the contemplated purchase***
20 ***and sale of the assets of Swan Valley Gas on the conditions set out in sections***
21 ***(1) and (2) above, Centra is to provide to the Board with a plan or strategy by***
22 ***September 30, 2014 that details how Centra will improve the financial viability***
23 ***and reduce or eliminate the ongoing revenue deficiency of the Swan Valley Gas***
24 ***distribution system.***

25
26 Centra filed a response to this Directive on October 22, 2014 and by letter dated
27 November 19, 2014, the PUB acknowledged receipt of this submission. Centra
28 considers this directive to be complete and is seeking the PUB's confirmation that
29 this directive has been satisfied.

30
31

1 **13.8 DIRECTIVES FROM ORDER 85/13**

2
3 **Demand Side Management Deferral Account**

- 4
5 **1. (d) *Centra's revenue requirement is determined based on the level of Demand-***
6 ***Side Management spending as set out in Manitoba Hydro's 2011 Power Smart***
7 ***Plan of \$19.3 million for 2013/14. To the extent Centra's spending on Demand-***
8 ***Side Management in the Test Year, including the Affordable Energy Fund and***
9 ***the Lower Income Energy Efficiency Program, falls below \$19.3 million, Centra***
10 ***shall establish a deferral account for the discrepancy, the disposition of which***
11 ***the Board will consider at the next General Rate Application.***

12
13 For 2013/14 through to 2016/17, Centra captured the difference between actual
14 and forecast DSM spending in the DSM deferral account. To date, \$8.2 million has
15 accrued to the deferral account.

16
17 DSM Deferral Accounts were also established for Manitoba Hydro for 2012/13 and
18 2013/14 in accordance with Order 43/13, and for subsequent years in accordance
19 with Order 73/15. More recently in Order 59/18, arising from Manitoba Hydro's
20 2017/18 & 2018/19 General Rate Application, the PUB directed Manitoba Hydro to
21 discontinue recognizing a DSM Deferral Account.

22
23 As discussed in Appendix 3.4 of the Application, Centra is seeking PUB endorsement
24 to discontinue the DSM Deferral debit and credit accounts and to write-off the \$8.2
25 million accrued balance effective March 31, 2019.

26
27 **International Financial Reporting Standards**

- 28
29 **3. *Centra file with the Board an International Financial Reporting Standards***
30 ***status update report prior to the next GRA that will provide the Board with***
31 ***options available for rate-setting purposes.***

32
33 Manitoba Hydro filed an IFRS Status Update Report with the PUB as [Appendix 5.4](#) of
34 its 2014/15 & 2015/16 Electric GRA.

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By letter dated March 10, 2016, Centra sought the PUB's confirmation of its proposed accounting treatment of certain matters for its natural gas operations related to the transition to IFRS, which were consistent with previous PUB findings for Manitoba Hydro's electric operations. On April 4, 2016, the PUB informed Centra that it intends to make a final ruling on the proposed accounting changes at the next Gas GRA.

Section 5.3 of Tab 5 and Appendix 3.4 provide an overview of Centra's transition to IFRS and the accounting changes, including new regulatory deferral accounts and amortization periods for these accounts, that Centra is seeking the PUB's endorsement of for rate-setting purposes as part of this Application. With the filing of the information contained in this Application with respect to the transition to IFRS and proposed accounting changes, Centra now considers this directive to be closed and seeks the PUB's confirmation that this directive has been satisfied.

Debt Concentration Policy

5. Centra further articulate its debt concentration policy including consideration of limiting the concentration of debt maturing in any particular 12-month period and report back to the board at the next GRA.

Please see Section 3.6 of Tab 3 for a discussion of Centra's debt portfolio and interest rate risk, including a discussion of the concentration of debt maturing in any 12-month period. Centra seeks the PUB's confirmation that this directive has been satisfied.

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Depreciation Rates

7. That Centra file with the Board any proposed changes to depreciation rates as part of or before the next General rate Application and seek the Board's approval of such changes.

On March 10, 2016, Centra filed a letter with the PUB requesting interim approval of 2014 CGAAP ASL depreciation rates. In addition, Centra proposed to set aside in a deferral account the difference between depreciation expense calculated for financial reporting purposes (based on the IFRS compliant ELG method) and depreciation expense calculated for rate setting purposes (based on the CGAAP ASL method excluding negative salvage). This is the same treatment used for Manitoba Hydro's electric operations, consistent with direction from the PUB in Orders 43/13, 73/15 and 59/18.

By letter dated April 4, 2016, the PUB indicated that these matters would be examined in Centra's next GRA.

Please see Appendix 3.4 and Appendix 5.11 of this Application for information on Centra's depreciation rates and associated regulatory deferral accounts Centra is seeking the PUB's approval of as part of this Application. With the filing of the information contained in this Application with respect to depreciation rates and related regulatory deferral accounts, Centra now considers this directive to be closed and seeks the PUB's confirmation that this directive has been satisfied.

Return on Equity

8. Centra propose an update to the return on equity that is reflective of an appropriate return on equity to be used in the feasibility test and for the return on rate base determination.

On August 16, 2013, Centra requested approval to continue to use the 2010 approved overall Rate of Return of 6.08% (which included a Return on Equity ("ROE") of 8.36%) until such time as Centra proposes an alternative ROE. On

1 September 25, 2013, the PUB accepted Centra's proposal for the purposes of the
2 feasibility test until an alternative ROE is proposed.

3

4 Please see Section 3.1.5 of Tab 3 of this Application for the updated ROE proposed
5 by Centra in this Application. Centra is seeking the PUB's confirmation that this
6 directive has now been satisfied.

7

8 **Cost Incurred in Administering the Western Transportation Service**

9

10 ***20. That Centra file a report with the Board, on or before December 31, 2013, on***
11 ***the costs it incurs in administering the Western Transportation Service,***
12 ***including the Agency, Billing, and Collection service and any bad debt expense***
13 ***related to the Primary Gas portion of Western Transportation Service***
14 ***customers.***

15

16 Centra responded to this Directive by letter to the PUB of December 24, 2013.
17 Centra considers this directive to be complete and is seeking the PUB's confirmation
18 that this directive has been satisfied.

19

20 **13.9 DIRECTIVES FROM ORDER 112/12**

21

22 **Stakeholder Consultation on Renewal of Centra's Transportation & Storage**
23 **Portfolio**

24

25 ***6. By no later than September 30, 2017, Centra is to file with the PUB, for***
26 ***comment and approval, a proposed stakeholder notification and consultation***
27 ***process with respect to a potential renewal or replacement of its***
28 ***Transportation & Storage Portfolio effective April 1, 2020***

29

30 By letter of September 28, 2017, Centra proposed to meet with PUB staff and
31 counsel in order to clarify the expectations of any stakeholder engagement process.
32 After meeting with PUB legal counsel and staff on October 26, 2017, Centra filed a
33 letter with the PUB advising that it would contact key stakeholders within Manitoba
34 to determine their interest level in participating in a stakeholder engagement

1 process. On December 6, 2017, Centra advised the PUB that it had contacted the
2 Consumers Association of Canada (Manitoba branch) (“CAC”), Transportation
3 Service customers, and Interruptible customers to canvas their interest in
4 participating in a stakeholder consultation on the renewal or replacement of
5 Centra’s transportation and storage portfolio, endeavoring to canvas a cross-section
6 of gas users including the residential, industrial, and institutional customer
7 segments. Centra advised that interest was expressed by a limited number of
8 stakeholders, and that Centra would schedule a stakeholder consultation conference
9 for Friday December 15, 2017. The Stakeholder Conference took place with
10 attendance from PUB staff, PUB advisors, CAC, and a few large volume gas
11 customers.

12
13 Please see Tab 9 of the Application for further information on the status of Centra’s
14 storage and transportation arrangements effective April 1, 2020.

15
16 Centra is seeking the PUB’s confirmation that this directive has been satisfied.

17
18 **13.10 DIRECTIVES FROM ORDER 65/11**

19
20 **Rate and Service Structure**

21
22 ***14. Centra to propose, by May 20, 2011, a process to review and obtain Board***
23 ***approval of Centra’s rate and service structure – including the distinction***
24 ***between Primary and Supplemental Gas.***

25
26 Centra’s current natural gas rate structure was established in 1999. At that time,
27 Centra’s commodity rates were unbundled into separate Primary and Supplemental
28 Gas rates. In addition, distinct upstream “Transportation to Centra” and
29 downstream “Distribution to Customer” rates were also created. This unbundled
30 rate structure was principally intended to facilitate increased retail market
31 competition for the sale of Primary Gas (i.e., gas sourced from Western Canada and
32 transported to Manitoba via the TCPL Mainline), which in addition to having the
33 option of purchasing this component of their commodity supply from Centra,
34 customers would also have the option of purchasing their Primary Gas supply from

1 gas marketers under the Western Transportation Service (WTS), which was
2 introduced in May 2000. Supplemental Gas, upstream Transportation and
3 downstream Distribution services continued to be provided to customers solely by
4 Centra. In addition to facilitating increased competition for the retail sale of Primary
5 Gas, the unbundling of Centra's rate structure was also intended to provide
6 customers with the ability to distinguish between those components of their bill
7 over which Centra has direct control, versus those that it does not. Along with the
8 foregoing, the unbundling of Centra's rates came with the tradeoff of increased rate
9 and bill complexity.

10

11 At time of the issuance of this Directive in Order 65/11, the PUB had expressed the
12 view that rather than having facilitated a greater understanding of the nature of the
13 various costs incurred by Centra on behalf of customers, Centra's unbundled rate
14 structure had instead resulted in increased customer confusion with respect to their
15 natural gas bills. More specifically, the PUB directed Centra to pay particular
16 attention to whether the current distinction between Primary and Supplemental Gas
17 could be eliminated as part of any rate re-bundling proposal that might be brought
18 forward for consideration in the future.

19

20 Accordingly, Centra intends to undertake a stakeholder consultation with interested
21 parties (i.e., registered natural gas marketers, customers and/or their designated
22 representatives, representatives of the PUB and their advisors) in early 2019 to
23 explore potential mechanisms by which Centra's current rate structure could be
24 simplified. In addition, Centra will be engaging in a customer research effort in order
25 to examine customers' attitudes and perceptions with respect to natural gas rate
26 and bill complexity. Any resulting proposal(s) to simplify Centra's rate structure will
27 be brought forward for review and approval by the PUB in a future regulatory
28 proceeding.

29

1 **13.11 DIRECTIVES FROM ORDER 128/09**

2
3 **Integrated Cost Allocation Methodology**

4
5 ***11. Centra to file on or before March 1, 2010 a terms of reference for a study to***
6 ***review the Integrated Cost Allocation Methodology. The study is to be***
7 ***completed in sufficient time to be incorporated within the corporation's next***
8 ***GRA.***

9
10 In Order 85/13 (page 63) the PUB indicated that it is prepared to delay compliance
11 with this Directive until there is certainty with respect to the adoption of IFRS. The
12 PUB found that concurrent with the implementation of IFRS, Centra should propose
13 a process to review and simplify the Integrated Cost Allocation Methodology
14 ("ICAM").

15
16 In Order 108/15 (page 35) the PUB indicated that it expects Centra to file the terms
17 of reference for a study of Centra's ICAM on or before June 30, 2016.

18
19 On June 30, 2016, Centra filed a letter with the PUB proposing to host a technical
20 conference to provide an overview of its ICAM to the PUB and Interveners in the fall
21 of 2016. On August 8, 2016, the PUB acknowledged Centra's proposal and
22 encouraged Centra to work with PUB staff and Interveners to develop an Agenda
23 and an understanding of the expected outcomes from the Technical Conference.
24 Centra filed a letter on November 7, 2016 with its proposed Agenda which included:

- 25
- 26 • Details of the ICAM cost components, including O&A expense, finance
27 expense, depreciation expense and taxes on common assets;
 - 28 • Illustrations of the timecard, overhead, procurement and system posting
29 processes used to allocate ICAM costs to the natural gas operations,
30 including 100% natural gas operations allocations and shared allocations
31 using cost drivers;
 - 32 • An overview of natural gas expense and O&A expense program reporting;
33 and
 - 34 • An overview of the internal controls and framework designed to provide
assurance that the ICAM objectives are being achieved.

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A technical conference was held at Manitoba Hydro's offices on November 30, 2016. Please see Appendix 5.9 of Tab 5 for additional information on the ICAM and Appendix 5.10 for a copy of the presentation delivered at the technical conference.

Centra is awaiting determination by the PUB as to whether an independent study of Centra's Integrated Cost Allocation Methodology is still required given the technical conference that was held on November 30th.

AMI Project

13. Centra to file a business plan with respect to the AMI project with the Board for its approval by January 15, 2010, and prior to proceeding beyond the pilot project expenditures. The business plan should include an assessment of the economic and noneconomic benefits of AMI, including safety-related matters, for both the meter reader and for Centra's customers.

A business plan will be filed with the PUB prior to proceeding with AMI implementation.

13.12 DIRECTIVES FROM ORDER 99/07

Incremental Costs of Manitoba Hydro's Head Office

24. Centra confirm to the Board that no incremental costs are to accrue to Centra's customers for MH's new head office.

Since the issuance of this directive, a credit has been applied to Centra in order to ensure no incremental costs of the corporate head office building are allocated to the natural gas operations. A review was conducted on the level of credit applied to Centra to ensure that no incremental costs are being allocated to the natural gas operations. As part of this review it was determined that the level of credit should be reduced, as consolidated administrative building costs have decreased, while the

1 credit applied to Centra remained static. The level of the credit for 2019/20 is \$1.7
2 million, compared to the \$2.2 million credit discussed in the 2013/14 General Rate
3 Application.

4

5 **13.13 DIRECTIVES FROM ORDER 118/03**

6

7 **Capital Investment Categories**

8

9 ***2. Centra assign priorities of Essential, Necessary and Justifiable to all capital***
10 ***projects and utilize a cost/benefit analyses for projects considered to be***
11 ***Justifiable, as the basis for justifying these projects.***

12

13 In the past, the PUB has required Centra to classify all of its capital projects into
14 three categories being Essential, Necessary and Justifiable, with specific criteria
15 applicable to each category. These categories have previously been used to classify
16 capital projects in Centra's GRAs.

17

18 As part of its capital budgeting process, Centra has now incorporated the use of
19 investment categories, which are commonly used within the industry to provide
20 stakeholders with a better understanding of the primary driver for the investments.
21 The primary investment categories are further broken down into sub-categories.
22 Please see Section 4.3 of Tab 4 of the Application and Appendix 4.2 for additional
23 information and the definitions of these investment categories.

24

25 Centra is of the view that these new investments categories provide better
26 information on the driver of its capital investments than those previously used its
27 regulatory filings of Essential, Necessary and Justifiable, and as such is requesting
28 that this directive be set aside by the PUB.