M A N I T O B A	)	**Order No. 108/15**
	)	
THE PUBLIC UTILITIES BOARD ACT	)	**October 29, 2015**

BEFORE: Régis Gosselin, B ès Arts, MBA, CPA, CGA, Chair
Neil Duboff, BA (Hons), LLB, TEP, Member
Marilyn Kapitany, B.Sc. (Hon), M.Sc., Member

FINAL ORDER IN RESPECT OF CENTRA GAS MANITOBA INC.'S 2015/16 COST OF GAS APPLICATION

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1.0 Executive Summary

By this Order, the Public Utilities Board ("Board"):

- approves new Primary Gas, Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) Sales and Transportation rates for Centra Gas Manitoba Inc. (Centra) effective November 1, 2015, as applied for by Centra;

- approves the recovery of the balances in Centra's Purchased Gas Variance Accounts through rate riders commencing November 1, 2015 and ceasing October 31, 2016;

- approves the recovery of the remainder of the balance accrued in Centra's Supplemental Gas Purchased Gas Variance Account in relation to the 2013/14 gas year over a 12-month period based on the Board's finding that such costs were prudently incurred;

- approves as final Centra's gas costs for the 2012/13 and 2013/14 gas years (the gas year begins November 1 and ends October 31) on a final basis;

- finalizes a number of Centra's franchise applications previously approved on an interim ex parte basis;

- directs Centra to file a report on the potential benefits of sourcing Primary Gas from locations other than Western Canada;

- directs Centra to file a General Rate Application by no later than January 20, 2017; and

- subject to any further Order of the Board, directs the non-gas components embedded in Centra's rates to revert back to the levels approved as interim in Order 66/11 and subsequently finalized in Order 85/13, effective August 1, 2017.

This Cost of Gas Application follows the hearing of Centra's last General Rate Application in 2013 and addresses regulatory matters with respect to Centra's rates that have arisen since that time. In particular, in this Application the Board examined the prudence of Centra's Supplemental Gas costs incurred in the winter of 2013/14, at a time when the year-end balance in Centra's Supplemental Gas Purchased Gas Variance Accounts (PGVA) increased to approximately $46 million. Having completed a review of Centra's decision-making leading up to and during the winter of 2013/14, the Board concludes that Centra's costs were prudently incurred and that the balance of the 2013/14 PGVA balance not previously recovered may properly be recovered from customers by way of a rate rider.

Centra does not earn a profit on its gas costs, so the approved gas costs will be passed through to consumers at no mark-up.

In contrast, Centra does earn a return on its distribution assets. The Board notes that Centra's total net income over the past three years on a weather-normalized basis (meaning if the effects of weather are removed) has been approximately $9.5 million higher than what was approved by the Board in the last General Rate Application. As such, the Board is not finalizing the interim rates that Centra has been charging since that time and will review them in the context of Centra's cost structure at the next General Rate Application.

At the time of filing its Application, Centra advised the Board that as a result of the unlimited pricing discretion afforded to TransCanada Pipelines recently permitted for interruptible transportation services on the Mainline (which transports all Western Canadian gas to Manitoba), Centra's commercial interests could be harmed if TransCanada Pipelines had access to certain information filed as part of Centra's Application. The Board accepts that this poses a genuine risk of commercial harm and therefore accepted the filing of portions of Centra's evidence in confidence. The Board also tested this evidence during an *in camera* portion of the hearing. Appendix C to this

Order is a confidential Appendix that discusses the evidence received *in camera* and elaborates further on the Board's findings. The Consumers' Association of Canada, one of the two approved Interveners for this proceeding, applied for and received access to the confidential information, and participated in the *in camera* review.

Even though gas commodity costs for the coming winter are expected to be lower than in the past two years, Centra forecasts a slight bill increase for smaller volume customers. This is because the cost of transporting that commodity to Manitoba has increased, and because Centra is still recovering the costs from the 2013/14 winter from customers.

The annualized bill impacts effective November 1, 2015 for the various customer classes resulting from the change in the Primary Gas rate and the changes flowing from the 2015/16 Cost of Gas Application are as follows:

Customer Class	**Annualized Rate Increase (Decrease)**
Small General Service	0.6% - 0.9%
Large General Service	0.5% - 0.6%
High Volume Firm	(4.7%) - (6.5%)
Mainline	(1.5%) - (6.6%)
Interruptible	(0.9%) - 3.4%

For typical residential customers, this Order will lead to a rate increase of 0.7 %, or approximately $6/year in their annual bills. The increase in rates is the result of an increase in the cost of transporting gas to Manitoba, the recovery of the PGVA balances through rate riders, a decrease in the cost of primary gas and the termination of previous PGVA rate riders.

2.0 Procedural History

Centra's Application

On May 25, 2015, Centra Gas Manitoba Inc. ("Centra") filed its 2015/16 Cost of Gas Application entirely in confidence. On June 2, 2015, the Public Utilities Board ("Board") directed Centra to file a redacted version on the public record, which Central complied with on June 12, 2015.

The Board initiated a review of the redacted application provisions and requested certain additional information to be made public. On September 11, 2015, Centra filed a revised version of its Application with additional information disclosed. That version is the Application forming the basis of the public record in this proceeding.

A listing of the approvals sought by Centra in this Application is set out in Appendix A to this Order.

Receipt of Commercially Sensitive Information

Centra advised the Board that as a result of the unlimited pricing discretion afforded to TransCanada Pipelines by the National Energy Board in March 2013 for interruptible transportation services on the Mainline (which transports all Western Canadian gas to Manitoba), Centra's commercial interests could be harmed if TransCanada Pipelines had access to certain information filed as part of Centra's Application.

Rule 13 of the Board's Rules of Practice and Procedure permits the Board to receive information in confidence. The Board may receive this information on any terms it considers appropriate if disclosure of the information could reasonably be expected to result in undue financial loss or gain to a person directly or indirectly affected by the proceeding or to harm significantly that person's competitive position. The Board has reviewed the information for which Centra is claiming confidentiality (the Confidential Information) and is of the opinion that, if made public, it could cause commercial harm to

Centra and, by implication, its ratepayers. The Board therefore accepts that the Confidential Information is to be filed in confidence under Rule 13.

Interveners and Hearing Procedure

In Order 67/15, the Board approved the Consumers' Association of Canada (Manitoba) Inc. (CAC) and Just Energy Manitoba L.P. (Just Energy) as interveners for this proceeding. Of these parties, only CAC tested Centra's evidence and adduced its own evidence through its expert witness Mark Stauft. Just Energy did not actively participate in the proceeding.

CAC applied for and received, with Centra's consent, access to the information received by the Board in confidence.

Centra's and CAC's evidence was subject to a single round of Information Requests.

A three-day oral hearing took place on September 28, 29, and 30, 2015. Portions of the hearing were held *in camera* (i.e., with the public excluded) as they dealt with confidential information received by the Board in accordance with Rule 13.

3.0 Centra's Rates

Centra is a wholly-owned subsidiary of Manitoba Hydro, and is Manitoba's largest natural gas distributor. Centra's rates are subject to the approval of the Board pursuant to provisions of *The Public Utilities Board Act (the Act)*. The five components of natural gas rates billed to Centra's customers are:

- Primary Gas – gas that is sourced by Centra under its Western Canadian gas supply contract, which is priced quarterly by Centra, or gas purchased by consumers from either Centra or independent gas marketers and brokers under contracts, usually for a fixed rate and a fixed term;

- Supplemental Gas - gas that is required to meet the needs of Centra's customers during periods of peak load or other seasonal requirements. Supplemental Gas is applicable to the majority of customers, whether they purchase quarterly-priced Primary Gas from Centra or fixed-rate gas through contracts;

- Transportation (to Centra) - applicable to the majority of Centra's customers and is the cost of transporting natural gas to Manitoba, including charges for pipelines not owned by Centra and the cost of gas storage facilities;

- Distribution (to Customer) - applicable to all customers and is a recovery of the cost of delivering natural gas to a customer's home or business, including the cost of facilities and pipelines owned by Centra, as well as the operation and maintenance costs for the distribution system and a small cost component related to unaccounted-for gas; and

- Basic Monthly Charge - applicable to all customers and recovers of the costs related to customer service including meter reading and billing, as well as the cost of the service line and the meter.

Centra's Primary Gas rate is subject to amendment quarterly, on the first day of February, May, August, and November. These regularly scheduled quarterly Primary Gas rate reviews occur in accordance with the Board-approved Rate Setting Methodology (Rate Setting Methodology), which is formula-driven and relies on established accounting and rate setting conventions. Quarterly Primary Gas 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 Primary Gas rates are conducted at periodic Cost of Gas or General Rate Application hearings.

Non-Primary Gas components of Centra's rates, for all customers including those receiving natural gas through fixed-rate contracts, are also periodically reviewed and approved by the Board. These non-Primary Gas rate reviews occur either through periodic Cost of Gas hearings, which also provides for the finalization of past interim quarterly Primary Gas rate changes, or in the context of a General Rate Application.

Order 72/15, dated July 24, 2015, is the most recent Order setting Centra's Primary Gas rate. Order 89/13, dated August 2, 2013 and arising out of Centra's 2013/14 General Rate Application, approved the current non-Primary Gas Base rates (Basic Monthly Charge, Supplemental Gas, Transportation, and Distribution rates). In Orders 123/14 and 140/14, the Board approved new non-Primary Gas rate riders. In Order 12/15, the Board amended the Supplemental Gas rate riders. Order 12/15 is the most recent Order to adjust non-Primary Gas rates.

4.0 Centra's Application for Primary Gas Rate Effective November 1, 2015

On October 13, 2015 Centra also applied to the Board for approval of the Primary Gas rate effective November 1, 2015. The Application was filed in accordance with the Board-approved Rate Setting Methodology. The Rate Setting Methodology determines a Primary Gas rate based on the forecast of natural gas prices and includes several factors that reflect the costs Centra incurs in providing Primary Gas to its customers.

Centra's Primary Gas rate is based on futures prices at AECO, a major gas trading hub in Alberta. Table 1 reflects the 12 month futures price strip[1] for natural gas taken by Centra on October 1, 2015 and used in the calculation of the November 1, 2015 Primary Gas rate. The futures strip prices for April and July 2015 from previous quarterly rate applications are also shown in Table 1. As can be seen from the table, the October 2015 futures prices have decreased compared to the July futures prices.

Table 1: AECO Futures Price (Cdn$/GJ)

	Nov/15	Dec/15	Jan/16	Feb/16	Mar/16	Apr/16	May/16	Jun/16	Jul/16	Aug/16	Sep/16	Oct/16
Apr Strip	2.8299	2.9918	3.0737	3.0522	2.9723	2.7826	-	-	-	-	-	-
Jul Strip	2.789	2.8861	2.9658	2.9727	2.9128	2.7193	2.7043	2.7222	2.7251	-	-	-
Oct Strip	2.5202	2.5952	2.6595	2.678	2.6582	2.5297	2.5079	2.528	2.5507	2.5808	2.5773	2.631

[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..

Table 2 summarizes Centra's Application for quarterly Primary Gas rates. The table shows Primary Gas costs and rate calculations for the last year. In calculating Primary Gas rates, Centra used the Board-approved Rate Setting Methodology.

Table 2: Current and Historical Primary Gas Rate Calculations

	Component	Costs and Proposed Rates Nov 1/14	Costs and Proposed Rates Feb 1/15	Costs and Proposed Rates May 1/15	Costs and Proposed Rates Aug 1/15	Costs and Proposed Rates Nov 1/15
1	Date of Forward Price Strip	October 1, 2014	January 5, 2015	April 2, 2015	July 6, 2015	October 1, 2015
2	Weighted Primary Gas Cost (mix of Gas Supply & Storage Gas costs)	$3.946	$3.058	$3.178	$3.141	$2.764
3	Rate per cubic metre	$0.1491	$0.1156	$0.1201	$0.1187	$0.1045
4	[1]Base Primary Rate, adding Fuel and Overhead cost component per cubic metre	$0.1513	$0.1179	$0.12237	$0.1210	$0.1069
5	Plus (Less) Rate Rider per cubic metre	$0.0152	$0.0073	($0.0041)	($0.003)	($0.0005)
6	Total Billed Rate ($/m^3)	$0.1665	$0.1252	$0.1183	$0.1180	**$0.1064**

Notes:
1. Compressor fuel costs are $0.0015/m^3 and overhead costs are $0.00087/m^3.

AECO futures market prices, shown above in Table 1, are weighted according to the forecasted volumes Centra expects to purchase each month that flow directly to Manitoba consumers. This weighted price includes the costs to deliver the gas from the AECO hub to Centra's receipt point at Empress, Alberta. The 12 Month Forward Price is then weighted for the average cost of gas volumes that Centra withdraws from its storage facility, and is shown in row 2 of Table 2 as the Weighted Primary Gas Cost (mix of Gas Supply & Storage Gas costs). The Weighted Primary Gas Cost per gigajoule is then converted to units of dollars per cubic metre ($/m^3) and is shown in row 3 of Table 2.

Centra incurs compressor fuel costs, which relate to fuel used by pipeline compressors in order to transport gas from Alberta to Manitoba. Centra also incurs overhead costs in the procurement and administration of Primary Gas supplies. The compressor fuel costs and overhead costs are added to the Weighted Primary Gas Cost to determine the Primary Gas Base Rate, which is shown in row 4 of Table 2.

Centra tracks differences between the previously approved Primary Gas rate (and its underlying gas costs) and the actual cost of purchases it incurs. The previously approved Primary Gas rate is based on a forecast of natural gas market prices, and the actual prices Centra 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, a negative balance accrues in the PGVA and this is refunded to customers. A Primary Gas rate rider is used to account for these differences between forecasted and actual costs of Primary Gas.

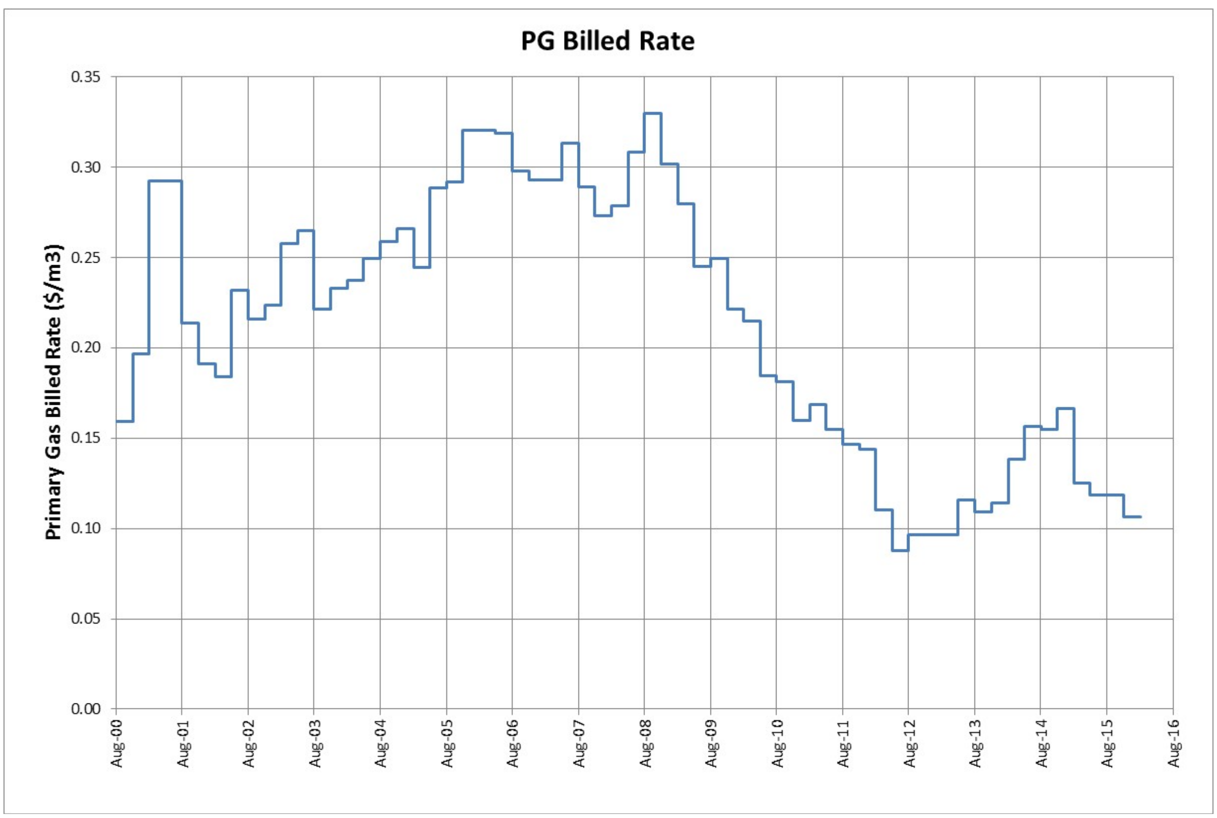
A Primary Gas rate rider recovers from or repays to customers the balance in the PGVA, with interest.[2] Utilization of the PGVA and rate rider ensures that customers' costs are adjusted with the rate riders so that customers are paying for the actual cost of gas with no mark-up or discount. The Primary Gas 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 5 of Table 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.

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

The Primary Gas rate rider is combined with the Primary Gas Base Rate to arrive at the Primary Gas Billed Rate, as shown in row 6 of Table 2, and this is the rate that Centra uses to calculate the bills of its Primary Gas customers.

The forecasted PGVA balance for October 31, 2015 is $0.6 million. The $0.6 million balance owed to customers will be refunded to customers by way of a rate rider of $0.0005/m^3. The rate rider decreases the Primary Gas Base Rate of $0.1069/m^3 resulting in a Primary Gas Billed Rate of $0.1064/m^3.

The following chart graphically shows the Primary Gas Billed Rate from August 1, 2000 up to and including the proposed November 1, 2015 rate.



Board Findings

As Centra's October 13, 2015 Primary Gas Rate Application properly reflects the Board-approved Rate Setting Methodology, the Board approves Centra's Application to amend the Primary Gas rate. The Primary Gas rate will decrease to $0.1064/m^3 effective November 1, 2015.

Primary Gas rate changes affect only those customers receiving quarterly-priced Primary Gas from Centra. Customers on fixed-rate contracts with either gas marketers or Centra are not affected. The next review of the Primary Gas rate will take place as of February 1, 2016.

5.0 Centra's Non-Primary Gas Costs

The Standard of Review

While the Board has historically approved Centra's gas costs on a flow-through basis, which means that consumers bear 100 percent of the gas cost risk, there is no automatic entitlement for Centra to recover historical gas costs. When Centra was still regulated based on rate-base rate of return under section 61 of *The Public Utilities Board Act*, the utility could only recover expenditures for projects "used, useful and prudently acquired," and the Board has disallowed imprudent costs in the past.

Since Centra's acquisition by Manitoba Hydro, the Board has broadened how it regulates the utility, having stated in Order 128/09 that:

> *The Cost of Service model is more congruent with the reality of an operation wholly-owned by a Crown corporation, a tax-exempt entity but with one ultimate shareholder, the Province, a shareholder that does not seek a return on its investment other than that required to allow the Crown corporation to repay the debts it incurred in the acquisition of the Utility. MH has indicated it has no intention to withdraw through dividends the retained earnings of Centra, retained earnings that allow for reduced borrowings and finance expenses, to the benefit of Centra's customers. Credit agencies look to the consolidated results of Manitoba Hydro, and Manitoba Hydro is the major creditor of Centra.*

The Board notes that in the recent Supreme Court of Canada decision in *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44, the court recognized that unless the statutory regime prescribes a prudence review (as section 61 of *The Public Utilities Board Act* does for the review of capital expenditures to set rates based on rate base rate of return), utility regulators have substantial discretion as to the test they apply, which may include tests other than prudence.

Centra submitted that requiring the utility to set off any portion of its incurred gas costs against retained earnings would amount to prohibited retroactive ratemaking, while CAC submitted that the Board could apply whatever methodologies it has at its disposal to determine whether Centra's gas costs were just and reasonable.

The Board does not agree with Centra's assertion that setting off a portion of gas costs against retained earnings would be prohibited retroactive ratemaking.

Firstly, retroactive ratemaking implies that the Board has previously approved rates as final. While the Board approved Centra's revenue requirement in Order 85/13 following the last General Rate Application, Order 89/13 approved Centra's rate schedules (and the underlying rates) on an interim basis only "*until confirmed or otherwise dealt with by a further Order of the Board*." Since that time, the rates have not been confirmed, which means they remain subject to adjustment.

Secondly, this Board and the Manitoba Court of Appeal have consistently held that in setting rates for the Crown corporations regulated by the Board, the public interest requires the Board to balance the interests of ratepayers with the financial health of the utility. The Board is of the view that instances may arise where a prudence review is not the proper test to determine whether cost recovery should be allowed or whether certain costs should be set off against the utility's retained earnings. In a situation in which the profits of a Board-regulated utility are significantly higher than approved by the Board and exceed what is, in the opinion of the Board, required to assure the financial health of the utility, allowing full cost recovery of an accrued variance account balance may well result in an imbalance between the interests of consumers versus the financial well being of Centra, even when there is no reason to disallow costs based on imprudence alone.

For purposes of this Cost of Gas Application, however, the Board is of the view that the interests of Centra and its customers are best protected by a no-hindsight prudence review that examines the reasonableness of Centra's gas purchase decisions based on what was known or ought to have been known to Centra at the time the decisions were made. This test was endorsed by the Supreme Court for the review of committed costs, which includes any historical costs that have already been incurred. It also accords with the Board's stated intention in Order 123/14.

It should be noted that the Board remains concerned that Centra may be over-earning income on a weather-normalized basis and Centra's total earnings may be in excess of what is required to assure the financial health of the utility. However, this issue can be addressed by keeping the rates previously approved on an interim basis in Order 89/13 as interim until the next General Rate Application, at which time Centra's revenue requirement can be thoroughly tested. As such, in the context of this Cost of Gas Application, the Board is of the view that a prudence review of Centra's gas costs is the appropriate analysis.

Final Approval of Prior Period Gas Costs

Centra applied for final approval of its total gas costs from November 1, 2012 to October 31, 2013 in the amount of $205.6 million and from November 1, 2013 to October 31, 2014 in the amount of $343.5 million. Of these, the only controversial amounts relate to the Supplemental Gas costs incurred by Centra during the winter of 2013/14, as further described below.

Approval of Rate Riders to Recover Non-Primary PGVA Balances

The Board approves Centra's rates on a forecast basis. To the extent that Centra's actual gas costs deviate from the gas costs approved in rates, the surpluses or deficits accumulate in Purchased Gas Variance Accounts (PGVAs) for future disposition and adjustment in rates by the Board.

The 2012/13 and 2013/14 PGVA balances, with the exception of the Supplemental Gas PGVAs, are expected to be mostly recovered or refunded by October 31, 2015 through the rate riders approved by the Board in Orders 123/14 and 140/14 on an interim basis. Approximately 50% of the 2012/13 and 2013/14 Supplemental Gas PGVA balance is also expected to be recovered by October 31, 2015 through the Supplemental Gas rate riders approved by the Board in Orders 123/14, 140/14, and 12/15. Centra sought approval to recover or refund the forecasted residual balances in these PGVAs and deferral accounts beginning November 1, 2015, including the remaining 50% of the Supplemental Gas PGVA balance.

Centra also sought approval of the recovery or refund of actual and forecasted PGVA balances accrued over the 2014/15 gas year. At the time of Centra's application and pre-hearing update on September 11, 2015, the PGVA balances were forecasted for the final four months of the gas year, which ends on October 31, 2015. The forecasted net PGVA balance at October 31, 2015 is $13.9 million owing to Centra, primarily as a result of additional pipeline transportation costs that exceeded the costs embedded in rates. Centra noted that over the months of July through October, customers are consuming relatively small volumes of gas and the risk of material changes in the PGVA balances compared to the forecasts is low. As such, in order to recover or refund these costs on a timely basis, Centra sought approval of rate riders in advance of the final actual balances being definitively known.

In addition to the Supplemental Gas PGVA balance discussed below, Centra is seeking approval to recover its remaining prior period PGVA balances over a 12-month period. This includes expected PGVA balances up to and including October 31, 2015 along with carrying costs (i.e., interest). Carrying costs are either recovered from customers (in the case of PGVA balances owing to Centra) or are refunded to customers (in the case of PGVA balances owing to customers). The following table shows the total Prior Period (2012/13 and 2013/14) and 2014/15 forecasted PGVA balances for which Centra sought recovery.

Projected October 31, 2015 Deferral Non-Primary Account Balances

Deferral Account	Projected Balance ($)
Prior Period Supplemental Gas Costs Deferral	$22,628,457
Prior Period Non-Supplemental Gas Costs Deferral	(421,041)
2014/15 Supplemental Purchased Gas Variance Account	563,931
2014/15 Transportation Purchased Gas Variance Account	12,896,825
2014/15 Distribution Purchased Gas Variance Account	(353,424)
2014/15 Heating Value Margin Deferral	774,051
Total non-Primary Gas Cost Deferral Balance	$36,088,799

Note: Parentheses around the balance denote amounts refundable to customers.

These amounts include actual data until June 30, 2015 and projections for the four-month period from July to October 2015.

The interveners did not take issue with the proposed recovery of Centra's projected deferral account balances over a 12-month period, aside from CAC's previously noted objection to Centra's full recovery of its Supplemental Gas PGVA.

2013/14 Supplemental Gas Costs and PGVA Balance

By the end of March 2014, Centra accrued a $62 million balance in its Supplemental Gas PGVA due to the high cost of Supplemental Gas purchases through the 2013/14 winter. The $62 million balance decreased to approximately $41.8 million by the end of the 2013/14 gas year as Centra recovered some of these costs from customers through the existing Supplemental Gas rate. On July 31, 2014, Centra filed an application with the Board for an interim Order allowing Centra to recover the accrued balance from customers over a 24-month period starting on November 1, 2014. The Board denied this application, but in Order 123/14 approved Centra to recover 50 percent of the balance over a 24-month period, with the remainder subject to review at the Cost of Gas Application. In Order 12/15, the Board further accelerated the recovery of the amount such that 50% of the original balance is expected to have been recovered by October 31, 2015. This leaves 50% of Centra's 2013/14 Supplemental Gas PGVA balance to be addressed in this Application. In Order 123/14 the Board stated that:

> *In the Board's view, the partial interim recovery established by this Order strikes the appropriate balance between early recovery, rate shock avoidance, and the need for a public review process with respect to the prudency of the expenditures.*

Centra's 2013/14 Supplemental Gas PGVA balance arose primarily due to a combination of two factors. Firstly, the National Energy Board's decision in the spring of 2013 to grant TransCanada Pipelines unlimited pricing discretion for short-term firm transportation (STFT) and interruptible transportation (IT) tolls, and secondly, the fact that the 2013/14 winter was one of the coldest winters on record across much of North America. The exceptionally cold winter weather drove North American gas storage inventories to record low levels and resulted in gas utilities across the northern portion of the continent purchasing large quantities of gas late in the winter. The increased demand for gas and reduction in storage inventories resulted in market prices for gas dramatically increasing. In the *in camera* portion of this proceeding, the Board examined Centra's decision-making in the context of these factors. The Board's findings are outlined later in this section. Confidential Appendix C sets out additional information with respect to the gas costs incurred in 2013/14.

TransCanada Pipelines firm transportation tolls approximately doubled between 2007 and 2011. As throughput on TransCanada Pipelines' Mainline decreased and fixed costs had to be recovered from ever-decreasing volumes, the National Energy Board approved increasingly higher tolls per cubic metre of gas. In hearing RH-003-2011 before the National Energy Board, TransCanada Pipelines applied to be able to set IT bid floors at up to 160% of TransCanada Pipelines' firm transportation toll and STFT bid floors between 140 and 160% of firm transportation tolls in order to provide incentive for shippers, like Centra, to contract for annual Firm Transportation (FT) instead of shorter term STFT or IT. Centra argued against this as an intervener in that proceeding, stating that the resulting tolls would not be just and reasonable. The National Energy Board ultimately went further than what TransCanada Pipelines had applied for, granting TransCanada Pipelines unlimited pricing discretion for IT and STFT tolls in a decision released in March 2013. The National Energy Board justified the decision by stating that:

> *We are of the view that it is just and reasonable for shippers who need guaranteed access to the Mainline throughout the year to pay for the full annual costs related to the capacity they need. Shippers that truly require Mainline service can cap their exposure to discretionary tolls by opting to contract for FT service. In this way, FT tolls act as a recourse rate to protect shippers from high tolls for discretionary services.*

At the time of Centra's last General Rate Application in the summer of 2013, the National Energy Board was about to hear another application from TransCanada Pipelines in which TransCanada Pipelines sought approval to limit out-of-path diversions as a capacity management tool. Out-of-path diversions allow a shipper with firm transportation on a portion of the Mainline to pay only the incremental additional FT toll to divert gas beyond the contracted delivery point, allowing shippers to sell gas into other markets further downstream if needed. The National Energy Board denied TransCanada Pipelines' application, but only advised of its decision in October 2013, shortly before the November 1 start of the gas year.

By the time the National Energy Board's second decision was released, Centra had already made most of its transportation and portfolio decisions for the 2013/14 gas year, relying on a combination of AECO, Empress, Emerson, Michigan and Chicago supply.

Centra advised that it structured its portfolio to be responsive to the significant seasonal and daily weather and resulting demand swings in Manitoba. This includes relying partially on storing gas in the summer months and retrieving it from storage during the winter months. Centra also started to purchase Supplemental Gas, which is sourced from locations other than Western Canada, on November 1.

CAC challenged one of the supply and transportation portfolio decisions made by Centra prior to the start of the 2013/14 gas year and submitted that the Board should disallow between $5 million and $8 million of the Supplemental Gas PGVA balance as a result of anticipated cost savings with an alternate strategy proposed by CAC's expert witness, Mr. Mark Stauft. In CAC's assessment, Centra did not see the risk of the deregulated IT and STFT pricing regime on Emerson and U.S. commodity prices and should have instead contracted for additional firm transportation capacity from Western Canada. CAC noted that commodity prices at Emerson, Chicago and Michigan were substantially in excess of AECO prices. CAC submitted that other shippers contracted for such additional firm transportation to insulate themselves from the discretionary pricing risk. Centra disagreed with that suggestion and submitted that a portfolio with more firm transportation from Western Canada would result in structurally higher fixed portfolio costs every year. Those increased portfolio costs would therefore have to be considered in assessing the potential savings Mr. Stauft identified in his alternate portfolio for any year, not just during exceptionally cold years like 2013/14. Centra also challenged the validity of CAC's assumptions that underpin the estimate of costs that should be disallowed.

A further description of Centra's strategy and CAC's challenge of that strategy is set out in confidential Appendix C.

Board Findings

The Board has examined Centra's decisions made prior to and during the 2013/14 gas year and is satisfied that Centra has discharged the onus of proving that its gas costs were prudently incurred. Prior to the 2013/14 gas year, Centra structured a diverse portfolio that could respond to a number of different demand and market price scenarios as well as meet significant seasonal and daily variability in demand, which is generally in the best interest of Manitoba rate payers.

Had Centra contracted for more firm transportation capacity and relied on additional Western Canadian gas supply, under the particular circumstances of the winter of 2013/14, Centra's gas costs would have been lower. However, without the benefit of hindsight, Centra could not reasonably have predicted the weather during that winter, which turned out to be one of the coldest winters on record. Contracting for additional firm transportation capacity from Western Canada to Manitoba would have increased fixed costs by several million dollars per year, with no certainty that sufficient capacity management revenue could be earned to offset the additional cost if that additional capacity was not needed. It is the opinion of the Board that under the circumstances that were known or ought to have been known at the time, Centra made a reasonable decision on how to structure its portfolio.

As for Centra's other 2012/13 and 2013/14 gas costs and PGVA balances, the Board heard no evidence that questioned the prudence of these gas costs or the interim rate riders previously approved to recover these costs. These PGVA balances are expected to be mostly recovered or refunded by October 31, 2015 through the rate riders approved by the Board in Orders 123/14 and 140/14 on an interim basis.

Since the Board finds that these amounts were prudently incurred, the Board approves Centra's 2012/13 and 2013/14 gas costs and PGVA balances as final.

While the recovery or refund of PGVA balances in advance of the final actual balances being definitively known for the 2014/15 gas year represents a deviation from Centra's past practice, the Board approves the recovery of the forecasted PGVA balances on an interim basis. The largest 2014/15 PGVA balance is the Transportation PGVA, which relates to fixed pipeline and storage tolls. Other than for Canadian-U.S. exchange rates, which affect the U.S. storage and pipeline transportation costs, these fixed costs are not expected to materially change over the remaining four months of the gas year.

Additional findings are provided in confidential Appendix C.

Late Notification of the Board

The Board remains concerned about Centra's late-filing of applications and responses to Directives or delaying when it brings matters to the Board's attention.

Directive 17 of Order 85/13 required Centra to file a Cost of Gas Application by no later than January 31, 2014. Centra did not abide by this directive and instead, on January 29, 2014, advised that it did not intend to file a Cost of Gas Application for the 2013/14 gas year (which starts on November 1 and ends on October 31). Centra justified that decision based on expecting only a net balance of $0.3 million in the non-Primary Gas PGVAs owing to Centra effective October 31, 2014, which it considered to be immaterial. It also cited the need to avoid additional resource and scheduling impacts on Centra and the Board during the Needs For and Alternatives To (NFAT) Review of Manitoba Hydro's Preferred Development Plan.

Until June 12, 2014, the Board did not receive updates from Centra despite the Supplemental Gas PGVA balance rapidly increasing throughout the months of February and March, culminating in an eventual $62 million balance by the end of March. Earlier notification would not have changed the circumstances giving rise to the gas costs and does not affect the prudence of Centra's substantive decisions at the time. However, by choosing to only advise the Board of the problem at the end of the heating season in June 2014, Centra unilaterally foreclosed the Board's ability to order interim relief during the 2013/14 gas year. Interim relief could have resulted in rate smoothing for customers. Had Centra filed a Cost of Gas Application on or before January 31, 2014, then in the course of Information Requests and the filing of a pre-hearing update, the Board would have become aware of the skyrocketing Supplemental Gas PGVA balance in the course of the Cost of Gas proceeding. Furthermore, given the unexpectedly high gas cost spikes and the rapidly accumulating PGVA account balance, the Board would have expected Centra to advise it of this significant change in circumstances by March 2014 even in the absence of an active Cost of Gas Application at the time. In order to address this concern in the future, Centra is currently filing monthly PGVA balance information with the Board, a practice that was instituted in January 2015 and is expected to be continued going forward.

The Board notes that Directive 26 of Order 128/09 requires Centra to advise the Board of "*any material change to its financial circumstances*." While it is not possible to provide firm criteria as to what constitutes materiality with respect to Centra's operations, factors to be considered are significant deviations in retained earnings, net income, current PGVA balances, and the expected magnitude of any PGVA balance by the end of the gas year. A PGVA balance significantly higher than in a normal year, or significantly higher than expected at the time the Board was last notified of the expected level, is an example of what the Board would generally consider material. Similarly, a significant deviation between Centra's weather-normal net income and the actual net income achieved in any given year would be considered material.

Following a Board review of the significant 2013/14 accrued Supplemental Gas PGVA Balance in Order 123/14, the Board ordered Centra to file a Cost of Gas Application by January 16, 2015. This deadline was also not met. Centra then attributed its inability or unwillingness to file a Cost of Gas Application to its regulatory staff being busy with Manitoba Hydro's General Rate Application earlier in the year. The Board notes that Centra filed its previous 2011/12 Cost of Gas Application while Manitoba Hydro's 2010/11 & 2011/12 General Rate Application was actively before the Board.

As a result the Board again issued a Directive in Order 12/15 requesting that Centra file a Cost of Gas Application by May 25, 2015, which Centra finally complied with.

Centra's recent inability or unwillingness to abide by the deadlines set in Directives established by the Board undermines the Board's overall ability to discharge its oversight duties and undermines the intended regulatory process.

While the September 28 through 30, 2015 hearing of Centra's current Cost of Gas Application did not lend itself to a thorough review of Centra's operational and managerial practices, the Board is concerned that changes to Centra's managerial structure may have contributed to the belated 2013/14 Supplemental Gas PGVA balance notification to the Board and the belated filing of the Cost of Gas Application.

Previously, Centra had a division manager of gas supply; a position that is currently vacant. Furthermore, while Centra's parent Manitoba Hydro has expanded the number of Vice-Presidents in recent years, responsibility for gas operations appears to have been combined with several other duties assigned to senior managers of Manitoba Hydro. The Board therefore recommends that Centra review its managerial structure to ensure that its operational decision-makers, which have thus far demonstrated a high degree of competence, have clear lines of responsibility to a senior manager. The Board expects to review Centra's management structure further at the next General Rate Application. At that hearing, the Board also expects to review Centra's strategic plan, including the utility's risk analysis and capital expenditure plan.

6.0 2015/16 Gas Cost Forecast

Centra's annual gas cost forecast is based on several factors, namely the projected volume of gas used, the forecasts of the prices paid for such gas, and the cost of transporting the gas to Manitoba. The 2015/16 gas cost forecast underpins the base rates Centra proposes to charge its customers.

The Board received further evidence in the *in camera* portion of the hearing as to Centra's supply, storage, and transportation arrangements.

Based on its September 11, 2015 pre-hearing update filing, Centra seeks approval of the following 2015/16 gas costs, calculated based on a July 31, 2015 forward "strip":

Gas Cost	**Total Amount**
Primary Gas	$130,409,732
Supplemental Gas	$17,457,312
Transportation	$60,981,569
Distribution	$2,343,950
Total 2015/16 Gas Cost Projection	**$211,192,563**

Centra forecasts $80.8 million of non-Primary Gas costs but identified that its current rates would only recover $68.6 million. The $12.1 million deficiency is driving the changes in the Supplemental Gas, Transportation, and Distribution base rates that are the subject of this Cost of Gas Application. Increased transportation costs are responsible for nearly the entirety of the deficiency and result in higher Transportation (to Centra) base rates.

Interveners did not make any submissions with respect to Centra's 2015/16 gas cost forecast.

Centra's forecast includes capacity management revenues of $5.1 million. Capacity management revenues reduce the total gas costs, consequently these revenues are a credit against Centra's gas costs. Centra forecasts its capacity management revenue based on a rolling five-year average of historical capacity management revenues.

Board Findings

The Board considers Centra's 2015/16 gas cost forecast to be reasonable and approves it on that basis, including the forecast capacity management revenues. Since Centra's gas cost forecast is based on normal weather and a forecast of market prices, the Board also expects actual gas costs to differ from the forecasted costs, with the result that PGVA balances will accrue. The Board will continue to be apprised of PGVA balances on a monthly basis.

7.0 New Primary Gas Supply Contract

Centra receives the majority of its Primary Gas under its Western Canadian supply contract. It does not seek the Board's approval to enter into Western Canadian supply contracts, but does request the Board to approve the gas costs resulting from such contracts.

Centra's last contract with ConocoPhillips expired on October 31, 2014. Since then, Centra has entered into a new contract with ConocoPhillips that will expire on October 31, 2016. Under the terms of the Contract, Centra takes delivery of a portion of its Primary Gas at Empress and a portion at the AECO hub. Centra followed a request for proposal (RFP) process that has been filed with the Board in confidence, together with a copy of the actual contract. The RFP process was limited to Western Canadian sources.

Centra submitted that despite challenging conditions at Empress in the winter of 2013/14, it was able to execute a two-year contract on favourable terms. Interveners did not take issue with the contract, although the details of the contract were not made available to Interveners.

Board Findings

The Board is satisfied that Centra followed reasonable procedures in securing the most favourable Western Canadian supply contract possible and is approving the Primary Gas costs that have resulted from that contract for the 2012/13 and 2013/14 gas years. The Board is also approving, by way of interim rates, the cost consequences of the new Western Canadian supply contract that took effect November 1, 2014.

However, in light of changing market conditions and what appears to be an increasing amount of shale natural gas being produced in the United States, the Board expects Centra to provide a report, by no later than December 15, 2015, as to the potential benefits or lack thereof of expanding the RFP for future supply contracts to include hubs other than Empress or AECO, such as Emerson or hubs in the United States from which Centra could obtain firm transportation. The Board will consider the report ahead of Centra issuing a RFP to renew its Western Canadian supply contract which the Board expects to occur in the latter part of winter or early spring in 2016.

8.0 Centra's Financial Position

Centra's overall financial health and revenue requirements were last examined in the 2013/14 General Rate Application and Centra's non-gas costs, on which it earns a rate of return, were last approved in Order 89/13 following that hearing.

In Order 85/13 the Board stated:

> *The Board is not convinced that Centra requires a higher Net Income than it has previously approved. The Board has ruled that the Corporate Allocation forms part of the return to Centra and that a return of $14 to $16 million represents a fair return to Manitoba Hydro. The Board will allow a Net Income of $3 million on an annualized basis. The Board understands that the Test Year Net Income will be reduced from the $3 million due to the implementation of the rate increase on August 1, 2013.*
>
> *The Board has previously stated that it considers a free-standing debt-to-equity ratio of 70:30 sufficient in light of the fact that Centra can avail itself of the Provincial Debt Guarantee. Centra pays 1% of its total debt to the Province or approximately $3 million per year.*
>
> *The Board remains of the view that it regulates Centra's income on a weather-normal basis, as stated in Order 128/09, and that year-to-year fluctuations in Net Income caused by weather should not affect the timing and magnitude of general rate applications.*

Centra's financial strength has improved materially over the last three years, which has seen a doubling of retained earnings from $34.3 million at March 31, 2012 to $72.1 million at March 31, 2015. This has improved the debt to equity ratio from 67:33 as indicated at the last GRA to 65:35.

A significant cause for the improved financial condition has been the impact of weather. The following table provides the contribution of weather to Centra's improved financial condition:

Impact of Weather on Retained Earnings

					($000's)
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	Actual	**Actual**	**Actual**	**Actual**	**Actual**
Opening Retained Earnings	33,443	40,052	34,301	42,111	61,904
Net Income (Loss)	6,609	(5751)	7,810	19793	10,207
Ending Retained Earnings	**40,052**	**34301**	**42,111**	**61,904**	**72,111**
Actual Net Income	6,609	(5,751)	7,810	19,793	10,207
Weather Normalized Net Income	6,552	7,166	3,738	5,314	9,379
Difference	**57**	**(12,917)**	**4,072**	**14,479**	**828**

Source: PUB/Centra 28a-e

Centra prepares its financial and load forecasts on a weather-normal basis. Centra estimates normal weather using historical heating degree days.

As can be seen in the table above, the impact of weather contributed to an improvement of net income of $19.4 million over the past three years.

Another contributing factor to Centra's improved financial condition relates to Centra's weather-normalized net income exceeding the Board's approved $3 million amount for several years. Net income excluding the impact of weather has contributed $18.4 million to improving Centra's financial position over the last three years, $9.4 million higher than what the approved $3 million annual amount would provide. This higher level of net income relates to changed operating circumstances since the 2013/14 General Rate Application. Specifically, subsequent to the issuance of Order 89/13, Centra experienced lower levels of depreciation expense, finance expense and operating, administrative and maintenance expense than previously projected.

The net income is a component of the non-gas costs that are recovered in distribution and transportation (to customers) rates, which are reviewed at General Rate Applications. The underlying causes for the changes in these circumstances were not the focus of this Cost of Gas Application, but generally relate to lower than forecast interest rates, lower depreciation allocated on common assets, operating expense cost containment, changes in the integrated cost allocation methodology, and the accounting treatment of rate regulated accounts.

Integrated Cost Allocation Methodology

In Order 85/13 the Board stated:

> *The Board notes that the integrated cost allocation methodology has not been reviewed since 2003 and that the review ordered by this Board in 2007 is long overdue. The cost allocation methodology was to be undertaken when IFRS was to be implemented in 2011. However since that time the IFRS implementation date has been delayed until 2015/16. The Board believes the process to review the integrated cost allocation methodology should commence once IFRS has been implemented.*
>
> *Centra has made the request to include a fair sharing of the cost of the new head office between Manitoba Hydro and Centra. Without a study of the integrated cost allocation methodology the Board is unable to determine a just and reasonable allocation of new head*

> *office costs and as result will not consider a change to the current practice of not allocating new head office incremental costs at this time.*

Centra has indicated that it will not be reviewing its integrated cost allocation methodology until after the implementation of International Financial Reporting Standards (IFRS) in June 2016 and will be addressing the issue of simplifying the integrated cost allocation methodology at that time.

Board Findings

The Board notes Centra's improved financial strength since the last General Rate Application, with a debt to equity ratio of 65:35 as of March 31, 2015. In past Orders, the level of net income was established at $3 million based on, in part, Centra's capital strength being above the Board-established debt to equity target of 70:30. Centra's improved financial position is due in part to colder than normal weather experienced during the last three years, as well as other financial factors that have not been reviewed since the 2013/14 General Rate Application. These changed financial circumstances have caused Centra to earn $9.5 million more than what is currently allowed by the Board on a weather-normalized basis.

The Board is of the view that the non-gas cost revenue requirement which gives rise to Centra's allowed net income needs to be reviewed in the context of a General Rate Application. Although the Board is approving Centra's gas costs as final in this Order, the Board is of the view that Centra's non-gas earnings must be reviewed, and therefore will not finalize interim rates until the non-gas portions of those rates have been examined. The Board will direct Centra to file a full General Rate Application on or before January 20, 2017 at which time Centra's earnings will be reviewed. Absent a further Order of the Board, Centra's interim rates approved in Order 89/13 will terminate on July 31, 2017, and as of August 1, 2017, the non-gas components embedded in Centra's rates will revert back to the levels last approved on an interim basis in Order

66/11 and subsequently approved as final in Order 85/13. To that extent, unless the Board subsequently orders otherwise, Centra is directed to file rate schedules that reflect the reversion of the non-gas rate components back to the levels approved in Order 66/11 as part of its August 1, 2017 Primary Gas rate application.

The Board will also direct Centra to file, on or before December 15, 2015, an updated financial forecast for 2015/16 and an analysis of the change in forecasts compared to the forecast provided in this application.

The Board has requested in past Orders a review of the Integrated Cost Allocation Methodology. There have been changes in Centra's operations and the allocation of costs since the Board first requested the study in 2007 and subsequently requested it again. The Board will expect to review an updated Integrated Cost Allocation Methodology at the next General Rate Application and will expect Centra to file with the Board, as previously directed in Order 128/09, the terms of reference for a study of Centra's Integrated Cost Allocation Methodology on or before June 30, 2016.

9.0 Load Forecast

Centra based its volumetric usage projections in its Cost of Gas Application on its 2014 Natural Gas Volume Forecast, a full version of which was filed with the Board in confidence under Rule 13 of the Board's Rules of Practice and Procedure and a redacted version of which was filed on the public record. While Centra predicted an increase in the number of customers for the first year of the forecast, Centra's total gas use projection for 2014/15 was lower than for the 2013/14 gas year.

For the 2015/16 gas year, Centra expects a year-over-year addition of 3,060 customers, but a further decrease in the overall gas use. According to Centra, residential use is forecast to decrease due to the conversion from standard and mid-efficiency furnaces to high efficiency units, the installation of high efficiency furnaces in new dwellings, improvements in insulation levels for both new and existing dwellings, and the decreasing market penetration of natural gas water heaters. In contrast, Centra does not predict any changes to the average usage for small and large commercial customers. While Centra shared its customer projections on the public record, actual volume projections were treated as commercially sensitive information in the hearing.

Since the release of the 2014 Natural Gas Volume Forecast, ten customers have migrated from interruptible[3] service to firm service, and one customer has changed from sales service, where Centra provides the upstream pipeline transportation and storage arrangements, to T-service, where the customer is responsible for arranging upstream transportation to Centra's city gates. Centra updated the customer numbers and volumes used to determine the unit rates to account for these migrations.

In Order 85/13, the Board directed Centra to file with the Board, prior to the next Cost of Gas Application or General Rate Application, a retrospective evaluation of its revised

[3] Interruptible class customers elect interruptible service in order to receive lower base rates in exchange for the possibility of having their delivery of natural gas curtailed during periods of peak demand or when Centra needs to preserve its gas storage inventory for firm service customers.

customer forecasting methodology to determine whether it was an improvement over the one that previously existed. Centra has since advised the Board that the differences in outcome between the two methodologies were relatively insignificant, although for small general service and large general service customers, the new methodology is simpler.

Board Findings

The Board finds Centra's adjustments to its Volume Forecast reasonable and accepts its use in the cost allocation study and rate setting process.

The Board is satisfied with Centra's response to the Board's Directive 18 in Order 85/13 and the retrospective testing of Centra's revised customer forecasting methodology and the level of accuracy achieved. However, the Board notes that the most significant variable in the actual gas volumes is not the number of customers, but rather the weather and the resulting demand for natural gas for space heating purposes.

10.0 Proposed Bill Impacts

The annualized bill impacts effective November 1, 2015 on the various customer classes resulting from the change in the Primary Gas rate and the changes flowing from the 2015/16 Cost of Gas Application are as follows:

Customer Class	Annualized Rate Increase (Decrease)
Small General Service	0.6% - 0.9%
Large General Service	0.5% - 0.6%
High Volume Firm	(4.7%) - (6.5%)
Mainline	(1.5%) - (6.6%)
Interruptible	(0.9%) - 3.4%

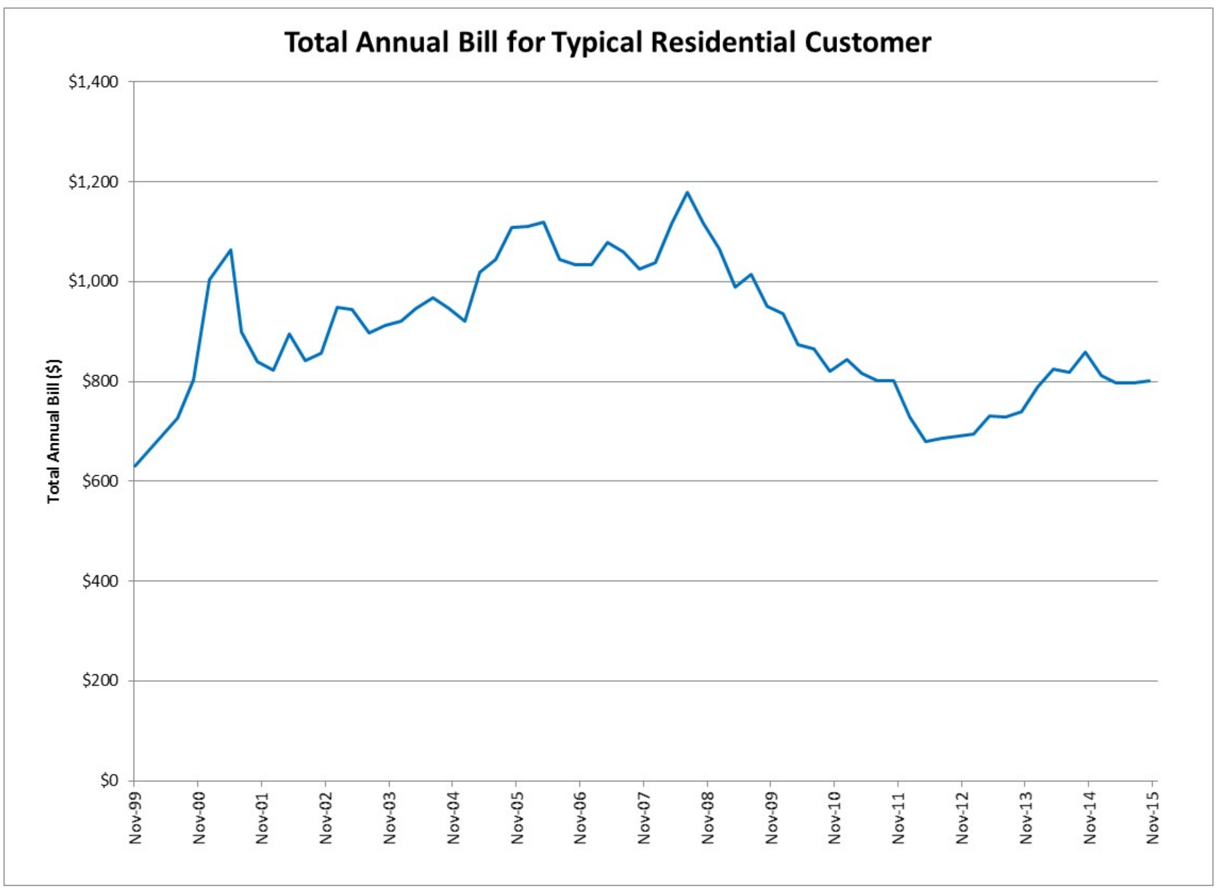
The small increase for Small General Service and Large General Service customers is primarily attributable to increases in the cost of transporting gas to Manitoba on TransCanada Pipelines' Mainline as well as the recovery of Purchased Gas Variance Account balances through rate riders. These increases are partially offset by a decrease in the Primary Gas rate and a decrease in the rate rider recovering the remainder of the Supplemental Gas Purchased Gas Variance Account balance accrued during the winter of 2013/14.

Even though gas commodity costs for the coming winter are expected to be lower than in the past two years, Centra forecasts a slight bill increase for smaller volume customers. This is because the cost of transporting that commodity to Manitoba has increased, and because Centra is still recovering the costs from the 2013/14 winter from customers.

High Volume Firm and Mainline customers experience a bill decrease because these customers are allocated proportionally fewer costs related to TransCanada Pipeline transportation than are allocated to Small General Service and Large General Service customers. This is because Small General Service and Large General Service customers have a proportionally greater contribution to peak demand, which is a primary driver for transportation costs.

The projected annualized bill impact for a typical residential customer, based on average annual consumption of 2,243 m^3 of gas, is an increase of $6/year or 0.7% from the August 1, 2015 rates.

A graph of the historical annual bill for typical residential customers as a result of these rate changes is shown below:



Small General Service and Large General Service customers receiving Primary Gas under a fixed rate contract, either from a gas marketer or from Centra, will experience a bill increase ranging from 3% to 5.4%, as they will not benefit from the decrease in the Primary Gas rate.

Firm and Interruptible Supplemental Gas Rate Riders

In periods of extremely cold weather or when Centra needs to preserve its storage gas volumes to ensure there is sufficient supply for Centra's Firm service customers, Centra curtails the gas supply to Interruptible customers. Because of the extreme weather experienced during the winter of 2013/14, Centra curtailed its Interruptible customers for an extended period of time. During this time, Interruptible customers either used back-up fuel supplies (such as heating oil) or Centra sourced Alternative Supplies of gas which Interruptible customers paid for directly. As a result, Interruptible customers did not contribute to the extraordinary balance in the Supplemental Gas PGVA. Accordingly, the Supplemental Gas rate rider for Interruptible customers is lower than it is for Firm customers, and the resulting bill impacts to Interruptible customers are lower than for Centra's other rate classes.

As previously mentioned, ten Interruptible customers migrated from interruptible service to firm service following the 2013/14 winter. Because these customers are now on firm service, they typically would pay the firm service rates applicable to their rate class, such as High Volume Firm. However, because these former Interruptible customers did not contribute to the extraordinary firm Supplemental Gas PGVA balance, Centra proposed that they continue to pay the Interruptible Supplemental Gas rate rider that is recovering the 2013/14 firm Supplemental Gas PGVA.

One Mainline customer changed from Sales Service to T-service since the winter of 2013/14. As a T-service customer, they would not be responsible for any of Centra's upstream transportation costs and therefore not responsible for paying the firm Supplemental Gas rate rider. However, since this customer helped contribute to the extraordinary Supplemental Gas PGVA balance in 2013/14, Centra is of the view that it is fair for this customer to pay the firm 2013/14 Supplemental Gas PGVA rate rider.

Board Findings

The Board agrees with the approach followed by Centra. The Board believes that it would be unfair to charge the former Interruptible customers for the Supplemental Gas costs that they did not incur on account of their being curtailed for much of the winter. As such, the Board approves the temporary rate rider treatment proposed by Centra such that Interruptible customers that migrated to firm service following the 2013/14 winter are to continue paying the 2013/14 Interruptible Supplemental Gas rate rider.

The Board also agrees that any customers that were on firm sales service that transfer to T-service following the winter of 2013/14 should continue to be responsible for the firm 2013/14 Supplemental Gas rate rider. In this way, these customers cannot avoid paying for gas costs that they incurred.

This temporary rate rider treatment for customers that migrated to firm service or to T-service after May 1, 2014 will expire when the proposed 2013/14 Supplemental Gas rate riders expire on October 31, 2016.

11.0 Finalization of Interim Orders

Franchise Extensions

Anytime a municipality is granting Centra a monopoly over the gas distribution system, the franchise does not take effect until approved by an Order of the Board. Franchise agreements are granted by the Board on an interim *ex parte* basis subject to the passing of a financial feasibility test, to be finalized at a hearing of the Board. The Board has not finalized any franchise agreements since the issuance of Board Order 85/13. Any interim *ex parte* orders issued since that time have been subject to review and were available for comments from the public and interveners. No party expressed any concern about the finalization of these interim orders.

The Board is satisfied that all interim *ex parte* orders with respect to municipal franchises are in order and is therefore finalizing Board Orders 80/13, 81/13, 82/13, 116/13, 117/13, 153/13, 73/14, 110/14, and 49/15.

Quarterly Primary Gas Orders

The Board has provided the opportunity for the public and interveners to review the previous *ex parte* Primary Gas rate orders that were approved on an interim basis. No issues, concerns, or objections were raised by the public or any interveners with respect to the finalization or Orders 10/13, 40/13, 89/13, 123/13, 6/14, 42/14, 85/14, 123/14, 140/14, 12/15, 43/15 and 72/15. The Board is therefore prepared to approve, on a final basis, the gas costs underpinning the rates set by those Orders.

However, the Board notes that the Orders approve the entirety of Centra's rate schedules, which include both gas costs and non-gas costs embedded in each of the rates. Since the Board has decided to keep the non-gas portion of rates interim until they can be reviewed at a General Rate Application, the Board is not finalizing the above-noted Orders at this time. Centra's non-gas costs will be reviewed at the next General Rate Application.

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.pub.gov.mb.ca.

12.0 IT IS ORDERED THAT:

1. Centra's application for approval of Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) Sales and Transportation Rates, effective November 1, 2015, **BE AND IS HEREBY APPROVED ON AN INTERIM BASIS**.

2. Centra's application for approval of the recovery through rate riders effective November 1, 2015 of a net outlook balance in the prior period non-Primary Gas deferral account of $36.1 million for the years 2012/13, 2013/14 and 2014/15 **BE AND IS HEREBY APPROVED ON AN INTERIM BASIS**.

3. Centra's application for approval of the continuation of the current temporary rate rider treatment for Interruptible customers that migrate to Firm Service and customers that migrate to or from Transportation Service on or after May 1, 2014 **BE AND IS HEREBY APPROVED**.

4. Centra's application for final approval of Primary Gas, Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) sales rates approved on an interim basis in Orders 89/13, 85/14, 123/14, 140/14 and 12/15, **BE AND IS HEREBY DENIED**, and such rates are to be kept interim until further order of the Public Utilities Board or July 31, 2017, whichever occurs earlier.

5. Absent a further Order of the Board with respect to the rates kept interim under Directive 4 of this Order, on July 31, 2017 any then-current interim rates shall terminate and the non-gas components embedded in any of Centra's rates shall revert back to levels approved on an interim basis in Order 66/11 and subsequently approved as final in Directive 14 of Order 85/13.

6. Centra's application for final approval of actual gas costs from November 1, 2012 to October 31, 2013 of $205.6 million **BE AND IS HEREBY APPROVED AS FINAL**.

7. Centra's application for final approval of actual gas costs from November 1, 2013 to October 31, 2014 of $343.5 million **BE AND IS HEREBY APPROVED AS FINAL**.

8. Centra's application for final approval of Orders 10/13, 40/13, 89/13, 123/13, 6/14, 42/14, 85/14, 123/14, 140/14, 12/15, 43/15 and 72/15 related to the approval of interim Primary Gas Sales Rates **BE AND IS HEREBY DENIED,** and such Orders are to be kept interim until further Order of the Board.

9. Orders 80/13, 81/13, 82/13, 116/13, 117/13, 153/13, 73/14, 110/14, and 49/15 related to the approval of franchise agreements and, where applicable, approval of the financial feasibility tests for the expansion of service to new customers, in the municipalities of Dufferin, Cornwallis, North Norfolk, Woodlands, City of Portage la Prairie, Elton, Langford, Shellmouth-Boulton, Stanley, North and South Cypress, Headingley, Piney, Rosser, Hamiota and Prairie View **BE AND ARE HEREBY APPROVED AS FINAL**.

10. Centra is directed to, by no later than December 15, 2015, file a report with the Board as to the possible benefits or lack thereof of expanding the request for proposals with respect to the replacement of Centra's current Western Canadian gas supply contract to include delivery at hubs other than AECO or Empress.

11. Centra is directed to, by no later than December 15, 2015, file an updated financial forecast for the 2015/16 fiscal year and an analysis of the changes in that forecast compared to the forecast provided in this Application.

12. Centra is directed to, by no later than January 20, 2017, file a General Rate Application.

13. Centra is directed to, concurrent with the filing of its August 1, 2017 Primary Gas rate application, file rate schedules that reflect the reversion of the non-gas components of Centra's rates back to the levels approved on an interim basis in Order 66/11 and subsequently approved as final in Order 85/13.

THE PUBLIC UTILITIES BOARD

"RÉGIS GOSSELIN, B ès Arts, MBA, CPA, CGA"
Chair

"KURT SIMONSEN"
Acting Secretary

Certified a true copy of Order No. 108/15 issued by The Public Utilities Board

Acting Secretary

APPENDIX A – APPROVALS SOUGHT BY CENTRA

Centra's Application seeks the following approvals from the Board:

(a) Approval of Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates, effective November 1, 2015;

(b) Approval of the recovery through rate riders effective November 1, 2015 of a net outlook balance in the prior period non-Primary Gas deferral accounts of $35.4 million, which includes the recovery of the remaining 50% balance in the Supplemental Gas deferral account as at October 31, 2014 (with current rate rider amortizations and carrying costs to October 31, 2015), $0.4 million owing to customers in the other prior period deferral accounts, as well as a net outlook balance of $13.5 million in the various non-Primary Gas deferral accounts for the 2014/15 Gas Year;

(c) Approval of the continuation of the current temporary rate rider treatment for Interruptible customers that migrate to Firm Service and customers that migrate to or from Transportation Service ("T-Service") on or after May 1, 2014;

(d) Final approval of Primary Gas, Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) sales rates effective August 1, 2013, which were approved on an interim basis in Order 89/13;

(e) Final approval of Transportation (to Centra) and Distribution (to Customers) sales rates effective August 1, 2014, reflecting the removal of non-Primary Gas rate riders expiring on July 31, 2014, which were approved on an interim basis in Order 85/14;

(f) Final approval of the Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates, reflecting the implementation of new non-Primary Gas Rate Riders on November 1, 2014, which were approved on an interim basis in Order 123/14;

(g) Final approval of Distribution (to Customers) Sales rates, reflecting the implementation of new non-Primary Gas Rate Riders on February 1, 2015, which were approved on an interim basis in Order 12/15;

(h) Final approval of actual gas costs from November 1, 2012 to October 31, 2013 of $205.6 million;

(i) Final approval of actual gas costs from November 1, 2013 to October 31, 2014 of $343.5 million;

(j) Final approval of Primary Gas Sales Rates and Franchise Application interim ex-parte orders as found in Appendix 7.1 of Tab 7 of the Application; and,

(k) Final approval of any other interim Orders issued by the PUB prior to the conclusion of the public review process for this Application.

APPENDIX B - APPEARANCES

Legal Counsel

Brent Czarnecki	Counsel for Centra Gas Manitoba Inc. (Centra)
Brian Meronek	Counsel for Consumers' Association of Canada (Manitoba) Inc.
Sven Hombach	Board Counsel

Witnesses for Centra

Darren Rainkie	Acting President & CEO
Greg Barnlund	Division Manager, Rates & Regulatory Affairs
Lori Stewart	Department Manager, Gas Supply, Transportation & Storage
Brent Sanderson	Department Manager, Gas Market Analysis & Administration
Neil Kostick	Project Leader, Gas Supply

Witness for Consumers' Association of Canada (Manitoba) Inc.

Mark Stauft

APPENDIX C – CONFIDENTIAL ADDITIONAL REASONS

(COMMERCIALLY SENSITIVE INFORMATION)

[PURPOSELY LEFT BLANK IN PUBLIC VERSION OF ORDER]