M A N I T O B A	Order No. 85/13
THE PUBLIC UTILITIES BOARD ACT	July 26, 2013

Before: Régis Gosselin, C.G.A.., M.B.A., Chair
Marilyn Kapitany, B.Sc. Hon., M.Sc., Member,
Larry Soldier, Member

CENTRA GAS MANITOBA INC.
2013/14 GENERAL RATE APPLICATION
AND OTHER MATTERS

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1.0.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board of Manitoba ("Board") approves a general revenue increase of approximately 1% to Centra Gas Manitoba Inc. ("Centra"), sufficient to earn $3 million of annualized Net Income. This is approximately $2.6 million less than the revenue increase sought by Centra. In the Board's view, the approved increase will result in rates that are fair, just, and reasonable.

Further, the Board directs Centra to make the following changes:

- Modify its 2013 interest rate forecast, to address the issue of upward bias, by removing the highest forecast interest rate in each quarter.
- Reduce finance expense for 2013/14 to reflect adjustments to interest rates applied to two debt issues.
- Maintain its Demand-Side Management spending at the level forecasted in the 2011 Power Smart Plan, and record any unspent funds in a deferral account. The Board will consider the use of the funds in this account at the next General Rate Application.

International Financial Reporting Standards are financial reporting standards issued by the International Accounting Standards Board, an independent, international standard setting organization. The international standards provide a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. International Financial Reporting Standards were adopted in Canada in 2011 for Publicly Accountable Enterprises and Government Business Enterprises. The implementation of the new standard has been delayed for Centra and other Canadian rate regulated utilities until 2015 due to continued uncertainty related to accounting for rate-regulated assets and liabilities.

The current International Financial Reporting Standard does not recognize rate-regulated assets and liabilities and would require Centra to write off its regulatory assets. This issues is being studied by the International Accounting Standards Board.

Centra's request for a higher Net Income of $4.8 million in the 2013/14 ("Test Year") or $5.7 million annualized was based, in part, on the expectation that International Financial Reporting Standards would require the write-off of $77 million of its rate-regulated assets when Centra adopts the new standard, placing Centra's retained earnings in a deficit position. With the International Accounting Standards Board studying the issue, it remains unclear whether Centra will be required to write-off its rate regulated assets.

Centra must provide a status update on this matter prior to the next General Rate Application.

The Board also requests Centra update its interest rate forecasts prior to hearings of future General Rate Applications, as well as clarify its debt concentration policy.

The Board is of the view that participation rates in the Lower Income Energy Efficiency Program and the Furnace Replacement Program must increase. The Board directs a decrease in the co-payment required of customers to access the Furnace Replacement Program from $19 per month to $9.50 per month. In addition, the Board directs Centra to develop, by September 30, 2013, terms of reference for an external review of the Lower Income Energy Efficiency Program.

The Board approves a change to the rate setting formula for Centra's Fixed Rate Primary Gas Service to self-insure the volumetric and market price risk for each offering.

The Board approves the cost consequences of Centra's new Primary Gas supply contract with ConocoPhillips. The National Energy Board has approved new, lower tolls for firm annual capacity on TransCanada Pipelines' Mainline. Centra utilizes the Mainline to transport gas to Manitoba. Despite the lower firm transportation tolls which will reduce the cost of gas, there is increased uncertainty regarding short-term tolls and mechanisms to mitigate charges for unutilized capacity. Because of the uncertainty, the Board approves Centra's gas cost forecast as filed and directs that Centra update the Board at the next Cost of Gas or General Rate Application proceeding regarding the evolution of short-term tolls and their cost mitigation efforts. The Board urges the National Energy Board to consider the impact on Manitoba ratepayers of its decisions in the upcoming hearing in respect of TransCanada Pipelines tariff matters.

In this Order, the Board also finalizes several interim orders with respect to Centra issued by the Board since the last General Rate Application. These orders relate to interim Primary Gas rate orders, franchise territory approvals, and crossing agreements with municipalities.

Finally, the Board approves an amendment to Centra's Customer Equipment Problems Program. Unless there are gas safety concerns, Centra will stop servicing non-essential gas burning appliances, such as, fireplaces, barbeques, and pool heaters. Centra will continue to provide service to primary space and hot water heating appliances, such as furnaces, hot water tanks, gas-fired stoves, and ranges.

The specific details of Centra's Application are set out in Appendix A to this Order.

In addition to calculating new consumer rates, to be effective August 1, 2013 to reflect the Board's decisions in this Order, Centra will also be required to calculate new Primary Gas rates, also to be effective August 1, 2013. The Board will issue a further Order that quantifies and addresses the rate impacts on consumers for both of these matters.

2.0.0 IT IS ORDERED:

1. That Centra's Application for an increase in general revenues effective August 1, 2013 **BE AND IS HEREBY APPROVED as varied by the following Directives:**

    (a) Centra shall include in its revenue requirement a net income of $3 million on an annualized basis as opposed to the $5.6 million applied for.

    (b) Centra shall adjust its 2013 interest rate forecast by removing the highest forecast interest rate in each quarter used in the determination of the interest rates for 2013/14 and incorporate this change in the revenue requirement.

    (c) Centra shall adjust its Finance Expense forecast for 2013/14 to reflect downward adjustments to interest rates applied to CG-10, of 20 basis points and downward adjustments to interest rates applied to CG-15 of 38 basis points.

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

2. Centra to reduce the co-payment required of lower income customers for the Furnace Replacement Program to $9.50 for five years, and increase the grant provided to lower income customers for replacement of standard efficiency boilers to $3000.

3. That Centra file with the Board an International Financial Reporting Standards status update report prior to the next General Rate Application that will provide the Board with options available for rate-setting purposes.

4. That Centra file an update to its interest rate forecast for the Board's consideration when Centra files its rebuttal evidence during any future General Rate Application.

5. That 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 General Rate Application.

6. That Depreciation rates effective April 1, 2011 **BE AND ARE HEREBY APPROVED** as applied for.

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.

8. That 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.

9. That Centra file with the Board by September 30, 2013 the terms of reference for an external review of its Lower Income Energy Efficiency and Furnace Replacement Programs.

10. That Centra file with the Board quarterly status reports regarding the Furnace Replacement Program;

11. That Centra's proposed forecast of non-Primary Gas costs for the 2012/13 gas year **BE AND IS HEREBY APPROVED**.

12. That Centra's gas costs for the period of November 1, 2010 to October 31, 2012 **BE AND ARE HEREBY APPROVED AS FINAL**.

13. That the disposition through rate riders of the various non-Primary Gas Purchased Gas Variance Accounts, and other gas cost deferral account balances as at October 31, 2012 along with carrying costs to August 1, 2013 **BE AND IS HEREBY APPROVED AS FINAL**.

14. That Centra's Primary Gas, Supplemental Gas, Transportation (to Centra), Distribution (to Customers) sales rates, and Basic Monthly Charges, effective May 1, 2011, which were approved on an interim basis in Order 66/11 **BE AND ARE HEREBY APPROVED AS FINAL**.

15. That Centra's Primary Gas, Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) sales rates, effective May 1, 2012, reflecting the removal of non-Primary Gas rate riders, which were approved on an interim basis in Order 54/12 **BE AND ARE HEREBY APPROVED AS FINAL**.

16. That Centra provide an update to the Board of the cost consequences of the September 2013 National Energy Board Hearing on TransCanada Pipeline tariff matters once Centra has had time to assess the National Energy Board's order and estimate its impact on Centra's ratepayers.

17. That Centra file an application to amend its Cost of Gas no later than January 31, 2014.

18. That Centra file with the Board, at or before the next Cost of Gas or General Rate Application, a retrospective evaluation of its revised customer number forecasting methodology to determine whether the revised customer number forecasting methodology is an improvement over the existing one.

19. That a change to the rate setting formula for Fixed Rate Primary Gas Service to self-insure the volumetric and market price risk for each subsequent offering **BE AND IS HEREBY APPROVED**;

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

21. That a variance to Directive 8 of Order 95/00, eliminating the requirement for Centra to submit a feasibility test to the Board for approval prior to commencement and construction of future expansions greater than 500 metres in the Rural Municipalities of Woodlands and Bifrost, **BE AND IS HEREBY APPROVED**;

22. That interim Orders 106/10, 20/11, 96/11, 150/11, 7/12, 89/12, and 137/12 related to the approval of interim Primary Gas Sales Rates effective November 1, 2010, 23 February 1, 2011, August 1, 2011, November 1, 2011, February 1, 2012, August 1, 2012, and November 1, 2012, respectively **BE AND ARE HEREBY APPROVED AS FINAL**;

23. That interim Orders 80/11, 89/11, 101/11, 132/11, 51/12, 61/12, 67/12, 70/12, 85/12, 94/12, and 131/12 related to the approval of new franchise agreements and financial feasibility tests for the expansion of natural gas to the Rural Municipality ("RM") of Thompson & the RM of Roland, the RM of Portage Ia Prairie, the RM of Rockwood, the RM of Ste. Anne, the RM of Rosedale, the RM of Whitewater, the RM of Portage Ia Prairie, the RMs of South Norfolk & Grey, the RM of Ste. Anne, the RMs of Bifrost and Woodlands, and the RM of

Woodworth, respectively, as well as Orders 32/13 and 33/13 relating to the authorization of new crossing agreements in the RMs of Rosser and St. Francois Xavier, respectively, **BE AND ARE HEREBY APPROVED AS FINAL**;

24. That the changes to Centra's Terms and Conditions applied for by Centra **BE AND ARE HEREBY APPROVED,** except that Centra is to continue to service stoves and ranges under the Customer Equipment Problems Program as indicated in this Order. Centra is to file Revised Terms and Conditions for Board approval, in both a black-lined and a clean version of the document;

25. That the proposed changes to the Cost Allocation Study in order to recover Demand-Side Management costs from customers by the volumetric Distribution rate instead of the Basic Monthly Charge **BE AND ARE HEREBY APPROVED**;

26. That Centra file future applications as complete applications and not provide a portion of the application at a later date;

27. That Centra file revised calculations and schedules for Rate Base, Revenue Requirement, rates, and customer class bill impacts that reflect all of the Directives of this Order, as well as the Primary Gas rates, on or before July 31, 2013.

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 (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca

3.0.0 IT IS RECOMMENDED

1. That Centra consider implementing a maximum percentage of long-term debt that can mature in any 12-month timeframe.

2. That Centra increase its efforts to encourage energy savings by increasing the education and advertising of its Power Smart programs and re-assessing the cost-effectiveness tests and hurdles in order to make more energy saving measures available to consumers.

3. That Centra undertake targeted advertising of the merits of different heating fuels, including targeting gas-available areas outside of Winnipeg where the penetration of gas space heating is less than 50% of new homes.

4.0.0 CENTRA'S RATE APPLICATION

4.1.0 Centra's Rate Structure and Customer Classes

Centra's rates have five components:

- Primary Gas
- Supplemental Gas
- Transportation (to Centra)
- Distribution (to Customers)
- Basic Monthly Charge (BMC)

The **Primary Gas** component of Centra's rates recovers the cost of the natural gas supply received by Centra from Western Canadian sources. For the current year, and given normal weather, Primary Gas supply will comprise 90% of Centra's overall gas supply for its firm service customers and 88% of overall supply for its interruptible service customers.

Supplemental Gas rates primarily recover Centra's cost of gas purchases from U.S. sources, if and when such supplementary sources are required to meet Manitoba's cold winter weather conditions. Supplemental Gas is expected to make up 10% of the overall supply for Centra's firm service customers, and 12% of the overall supply for interruptible service customers.

Transportation (to Centra) rates recover the costs of transporting gas supplies from Western Canada to Manitoba, injecting storage gas during summer months for subsequent withdrawal and delivery to consumers in the high-use winter period, and transporting American-supplied gas to and from Centra's storage facility located in Michigan.

The **Distribution (to Customer)** component of rates recovers the costs associated with operating Centra, which include Centra's transmission and distribution pipeline network within Manitoba and the costs related to Unaccounted for Gas, a small amount of gas that is lost during the transmission and delivery process.

The **Basic Monthly Charge** recovers a portion of operating costs for items such as service lines, meters, meter reading, and customer billing.

Centra's non-gas costs are recovered from customers primarily through the Distribution rates and Basic Monthly Charge. Primary Gas, Supplemental Gas, and Transportation rates recover Centra's gas costs from customers.

Centra does not mark up its gas costs and earns no profit on the sale of gas. To ensure that the exact cost is passed on to customers, Centra maintains deferral accounts. The accounts record differences between the gas costs embedded in rates and Centra's actual costs.

Balances in deferral accounts (i.e. the differences between forecasted and actual cost) are periodically either refunded to, or collected from, customers by way of temporary rate riders. The rate riders either decrease (refund) or add to (collect) the base sales rates, and form a separate part of the billed rates to customers.

Each of the Primary Gas, Transportation (to Centra), and Distribution (to Customer) rates has both a base rate and a rate rider component. Base rates reflect an estimate of future gas costs and non-gas costs, and rate riders adjust for differences that arse between previous gas cost estimates and actual gas costs incurred. Rate riders are not used to recover variances between actual and forecasted non-gas costs.

Centra has several classes of customers that are determined by their consumption or usage characteristics. The customers with the lowest consumption are in the Small General Service class, and this class includes residential customers. Customer classes that use greater quantities of gas than the Small General Service class include the Large General Service, High Volume Firm, Mainline, Interruptible, Power Station, and Special Contract classes.

4.2.0 Current Application

On January 25, 2013, Centra filed an application with the Manitoba Public Utilities Board ("Board") with respect to Centra's 2013/14 rates. This constitutes Centra's first General Rate Application since 2009. The specific relief sought by Centra is set out in Appendix A to this Order.

The Application was heard from June 13, 2013 to June 25, 2013, with closing arguments taking place on July 5 and 9, 2013. In the hearing, the Board was ably assisted by the following interveners and their counsel, of which only CAC filed evidence and participated in the oral hearing:

- Consumer's Association of Canada (Manitoba) Inc. ("CAC");

- Just Energy Manitoba L.P.;
- Shell North America (Canada) Inc.; and
- Communications Energy and Paperworkers Union of Canada – Local 681.

The evidence considered by the Board consists of documentary filings by Centra and the interveners, as well as oral evidence submitted during the hearing process. The documentary evidence is available on the Board's website www.pub.gov.mb.ca for public review.

5.0.0 CENTRA'S REVENUE REQUIREMENT

5.1.0 Operations, Maintenance & Administrative Expense

Centra incurs operations, maintenance, and administrative expenses for customer service, meter reading, gas procurement, accounting, billing, safety, and system maintenance.

5.1.1 Overall Growth

From 2006/07 through 2011/12, operating, maintenance and administrative expenses have grown from $53.5 million to $62.1 million at a growth rate of 3% annually. Centra is forecasting operating, maintenance and administrative expenses to grow to $68.8 million in 2013/14, an annual growth of 5.2% over the two years, while inflation during this period was below 2%. Centra attributed the majority of the increase to changes in accounting policies, primarily a decision to expense certain previously capitalized costs. Absent accounting changes, operating and administrative expenses increased by 1.7%, which is more in line with inflation.

5.1.2 Accounting Policy Changes

Centra is owned by Manitoba Hydro. Since 2010/11, Centra has made accounting policy changes to move away from 'full cost' accounting and provide consistency with other Canadian utilities, including Manitoba Hydro. Principally, this means that Centra has expensed approximately $5 million of overhead costs since 2010/11 that, previously, would have been capitalized.

The change to overhead capitalization is consistent with International Financial Reporting Standards ("IFRS"), which does not allow the capitalization of advertising and promotional activities, administrative and other general overhead expenditures, property and business taxes, interest on common assets, and motor vehicle expenses. Centra will not undertake a retrospective restatement, but will expense a further $2 million in capitalized overhead when it implements IFRS in 2015/16.

Centra currently expenses labour costs related to meter exchanges, which is inconsistent with Manitoba Hydro's policy to capitalize such costs. Manitoba Hydro's policy is to capitalize direct labour. Under IFRS, it is a requirement for subsidiaries to have accounting policies consistent with those of a parent corporation. There is currently no barrier under Canadian Generally Accepted Accounting Principles (CGAAP) to the adoption of consistent accounting policies with Manitoba Hydro. Centra proposes making the change in accounting policy when it adopts IFRS in 2015/16.

Centra has indicated that it is avoiding making accounting policy changes in advance of IFRS that would require retroactive restatement to take advantage of the exemption that will allow first-time adopters of IFRS to carry forward historical net book value balances of their assets on transition to IFRS. A change in such an accounting policy would reduce annual operating and administrative expenses by approximately $5 million and would require a retroactive restatement of financial results. CAC recommended that the Board require Centra to capitalize the meter exchanges to be consistent with its policy with respect to first-time meter installations and to be consistent with Manitoba Hydro.

5.1.3 Integrated Cost Allocation Methodology

All operating and administrative expenses are allocated between Manitoba Hydro and Centra through an integrated cost allocation methodology. The integrated cost allocation methodology was last reviewed during the 2002 Status Update Hearing. In Order 99/07 the Board directed Centra to submit the terms of reference for a cost allocation methodology study in 2008. At Centra's request, the Board subsequently deferred the issue due to uncertainty related to the implementation of International Financial Reporting Standards. Centra has indicated that undertaking this study would best be accomplished once it has implemented International Financial Reporting Standards, now slated for 2015/16. Centra preferred a collaborative process to review the methodology rather than an external study.

Centra has made changes to the cost allocation methodology, reallocating information technology and departmental support costs previously included in activity rates to the common overhead rate or as a direct allocation to gas operations. Administrative building and information technology costs were also removed from the common overhead rate and directly allocated to gas operations. The reallocation of costs between activity rates, overhead rates, and corporate allocations will simplify the transition to IFRS and assist with comparative year reporting. Centra stated that it would prefer to delay the review of the integrated cost allocation methodology until it has implemented IFRS.

CAC stated that any review of the integrated cost allocation methodology can take place outside the General Rate Application process, and that while the process may not require external consultants, an offline process must be initiated now. Any changes related to IFRS can be accommodated later. CAC requested that the Board direct the immediate filing of terms of reference with a process to be developed to engage all stakeholders in a review, with a deadline for completion in advance of the next General Rate Application.

5.1.4 Board Findings

The Board understands that Centra has been making changes to its accounting practices to be consistent with International Financial Reporting Standards. These changes reflect a consistent approach with its parent Manitoba Hydro to address capitalization policies. In the Board's view, Centra's proposed accounting changes are appropriate for the test year. The Board will direct Centra to file an International Financial Reporting Standards status update at the next General Rate Application. Until such time, the Board expects Centra not to make any further accounting changes for rate-setting purposes. With respect to meter exchange costs, the Board will not direct a change in the accounting policy at this time. The Board will expect Centra to put forward a proposal on harmonizing this accounting policy with Manitoba Hydro in its IFRS status update report directed in this Order.

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.

5.2.0 Finance Expense

Centra incurs Finance Expense, i.e., interest payments on debt, in order to fund its investments in plant-in-service, which is comprised of its pipelines, stations, regulators, meters, and general equipment. The largest component of Finance Expense is gross interest on short- and long-term debt, as well as the Provincial Debt Guarantee Fee.

5.2.1 Projected Costs

Finance Expense is forecasted to be $17.9 million for 2012/13 and $17.3 million for 2013/14 based on the 2012 economic outlook. Finance Expense has declined from $22.1 million in 2006/07 due to reductions in both short-term and long-term interest rates. Centra submits its interest rate forecasting methodology is a sound and reasonable basis for determining the appropriate level of Finance Expense.

Centra filed an update of interest rates based on economic outlook 2013 that reported Finance Expense would be $200,000 less for 2013/14. Centra stated the difference was immaterial and did not recommend updating the application to reflect this update.

5.2.2 Debt Management

Manitoba Hydro manages Centra's debt financing needs. Long-term debt is forecast to be $325 million in 2013/14. Centra stated that ratepayers have benefited from Centra's debt management since the last General Rate Application and that through refinancing transactions the actual weighted average interest rate has declined from almost 6.75% in 2007/08 to approximately 5% in the test year, representing a total reduction of nearly 1.75%.

Manitoba Hydro refinanced $62.67 million of debt in 2012/13 that had a weighted average yield rate of 5.98%. The debt was re-financed with three $20 million tranches with terms of 10, 21, and 30 years. The three issues have a combined yield rate of 3.291%, substantially lower than the existing yield rate.

Mr. McCormick, who appeared on behalf of CAC, stated that interest rates assigned to debt issues CG-10 and CG-15 were not reasonable. He noted the 48.14 basis spread assigned to CG-10 - a $35 million advance with a 5 year term - was higher than observed spreads on Manitoba floating rate debt which had spreads ranging from 18 to 23 basis points. Centra's use of the higher spread resulted in excess interest costs of $88,900 to $106,400 per year.

Mr. McCormick also questioned the interest rate applied to CG-15, which is a $20 million September 2012 issue with a 3.178% yield and a ten-year term. He noted a Manitoba debt issue with a 9 year term had a 2.65% yield. Adjusting for the shorter term of the issue and adding transaction costs, Mr. McCormick determined a yield of 2.80% would be more appropriate for the CG-15 debt issue. Mr. McCormick determined that annual interest costs related to the CG-15 series were overstated by $76,000.

CAC requested the Board to order a 20 to 30 basis point reduction to the annual interest cost in respect of the outstanding $35 million principal of series CG-10 and a 38 basis point reduction to the interest cost in respect of the outstanding $20 million principal of series CG-15.

Centra did not agree with CAC's recommendation and stated that its issuance of CG-10 and CG-15 were part of a portfolio refinancing and that the interest rate assigned for these types of re-financings would be based on the effective interest rate method on a portfolio basis. Centra stated that refinancing related to the CG-10 and CG-15 debt issues reduced the concentration of interest rate refinance risk by subdividing the retired debt issues into smaller maturity segments with different maturity dates which resulted in a reduction of interest rates by 45 basis point and 20 basis points, respectively.

Currently, a large portion of Centra's debt that is to be refinanced in the future will mature within a relatively short timeframe. Mr. McCormick has indicated that Centra has $80 million in debt or 24.6% of its portfolio maturing in 2037 and $60 million or 18.5% of its debt maturing in 2034-2035. The use of longer term debt provides interest rate stability but at a higher cost than short or medium term debt. Furthermore, the high concentration of debt maturities exposes future Centra ratepayers to refinancing risk.

Centra has adopted a policy to have no more than 15% of the long-term debt portfolio maturing within a fiscal year to address refinancing risk. Mr. McCormick indicated that the policy could be improved by implementing shorter term and staggered debt maturities financing, as well as sequential five-year financings as an alternative to the 10 year fixed rate financing preferred by Centra. Centra ratepayers would benefit from the lower rates for shorter term debt.

In addition to establishing a policy to setting a limit on maturities, in a 12-month period, Centra should also place a concentration limit on some longer period of 4 to 6 years. CAC recommended that the Board require Centra bring forward a broader debt concentration policy at the next General Rate Application. Centra believes this proposed strategy to seek near-term cost savings by maintaining a higher weighting of short-term debt in the capital structure is both risky and ill-timed given the expectation of rising interest rates.

5.2.3 Interest Rate Forecast Methodology

In Order 128/09, which is the order arising out of Centra's last General Rate Application, the Board directed changes to Centra's interest rate forecasting methodology to better reflect a robust methodology. The Board stated:

> *"The revised methodology for rate setting purposes should include:*
>
> - *The use of all forecasts based on comparable average period data basis;*
> - *The use and alignment of current date forecasts, excluding stale dated and superseded forecasts;*

- *Utilization of forecasted long term interest rates which align with the period in which Centra intends on issuing new or refinancing existing long term debt;*
- *A process to retrospectively test the accuracy of forecasters to assess their inclusion in future forecasts;*
- *The use of only statistically independent forecasts; and*
- *A proposed process to update the forecast in advance of the hearing if warranted. "*

The Board will also expect Centra to propose a methodology to be used for rate setting purposes to update the interest rate forecast during the hearing process. The Board understands that an update is already required for the cost of gas, and that an updated interest rate forecast should also be provided. Centra may choose to update its interest rate forecast coincident with its cost of gas update."

Centra did not implement a process to retrospectively test interest rate forecasters as directed by the Board, citing among other reasons that forecaster modeling algorithms have been evolving since the financial crisis and that sufficient time has not transpired to appropriately test the accuracy of these algorithms. Centra also believes that a retrospective testing process with the aim of pruning or weighting forecaster opinions could potentially weaken or bias the Corporation's viewpoints in terms of understanding the spectrum of possibilities and mitigating the risk.

Mr. McCormick stated that a process to retrospectively test the accuracy of the interest rate forecasts is timely, beneficial and central to the function of determining fair and reasonable rates. Mr. McCormick also suggested that Centra should use interest rates forecasted in known quarters where Centra will be refinancing or issuing debt rather than a forecast for the entire year, unless there is uncertainty on when financing will be undertaken. CAC recommended the Board order Centra to have retrospective testing performed by an outside consultant for the next General Rate Application so that the Board can establish some parameters around what type of routine testing should be implemented going forward.

5.2.4 Interest Rate Forecast Update

Centra filed its current application based on its 2012 economic outlook, utilizing forecasts prepared in September and October 2012. The forecasts utilized were from select financial institutions that provide near-term publicly available forecasts and macro-economic forecasters which provide both near and longer term forecasts. Centra provided an update to both short and long term interest rates based on the 2013 economic outlook, which indicates a $200,000 reduction in forecast Finance Expense for the test year. Centra has not updated its Application to reflect the changed interest rate forecast. Mr. McCormick suggested updated forecasts should be utilized in establishing revenue requirements in the normal course and that an update to interest rate forecast need not be tied to the economic outlook. CAC recommended that an update to the interest rate forecast should be provided during the hearing so the Board and interveners can assess whether or not an update to the Application is warranted.

CAC requested that the Board adjust the forecast of long-term and short-term rates to a more representative number that is less than forecast by Centra, and no greater than forecast by Mr. McCormick.

5.2.5 Board Findings

The Board is of the view that Finance Expense has declined to the benefit of ratepayers. The forecasting of interest rates in this changing environment has been a challenge and the Board believes that, in general, a consensus-based approach using forecasters is appropriate. The Board also believes that the most current information should be utilized; accordingly Centra should update the interest rate forecast based on its 2013 Economic Outlook and reflect the direction provided by the Board in this Order. While Centra’s evidence suggested such an interest rate forecast update would yield approximately $200,000 of reduced finance expense, such an amount is material and needs to be reflected in revised rates.

The Board agrees with Mr. McCormick that there is an upward bias demonstrated in the growth forecasts projected by the forecasters used by Manitoba Hydro. The Board further believes that it is reasonable to correct an upward bias by removing the highest forecaster for both long and short-term rates for setting the interest rates used in the test year. Accordingly, the Board will direct Centra to re-file its 2013 interest rate forecast removing the highest forecast interest rates used in the determination of interest rates for 2013/14 and incorporate this change in the revenue requirement.

The Board also agrees with Mr. McCormick that interest rates assigned to debt issues should be based on similar debt terms as those prevailing in the market at the time of issue. The Board accordingly will require the interest rates applied to CG-10 to be adjusted down by 20 basis points and those applied to CG-15 to be adjusted down by 38 basis points.

The Board requires current financial information in setting rates and will expect Centra to file an update to its interest rate forecast for the Board's consideration when Centra files its rebuttal evidence during any future General Rate Application. The Board can then be in a position to assess whether interest rates should be adjusted and reflected in an update to Finance Expense.

Given the recent volatility in the interest rate environment, the Board will not require Centra to undertake retrospective testing at this time. Notwithstanding this change to the Board's prior direction, the Board is concerned with Centra not responding adequately to Board directives. The Board will address this matter later in the Order. The Board may require retrospective testing of interest rate forecasters in the future. The Board expects Centra to comply with this and any directive in a timely manner.

The Board notes that Centra's policy of not having more than 15% of its debt maturing within a fiscal year does not address the concentration of debt maturing in a narrow time frame that straddles fiscal years. The Board believes Centra must amend the debt concentration policy after considering the recommendations of CAC to limit concentration in any 12-month period. The Board will require Centra to report its debt concentration policy at the next General Rate Application.

5.3.0 Depreciation and Amortization

Centra depreciates its investments in plant-in-service over the expected life of the plant, using a straight-line remaining life basis, and recovers the annual depreciation amounts from customers. The amortization of non-refundable customer contributions, regulated assets and intangible assets are also included. Periodically, Centra commissions depreciation studies to assess the proper rates of depreciation for different asset classes.

5.3.1 Depreciation Study

Centra filed a March 31, 2010 depreciation study prepared by Gannett Fleming. In this most recent study Gannett Fleming recommended extensions of assumed service lives for distribution plant, services, regulators, and measuring and regulatory equipment.

In addition, Gannett Fleming recommended the creation of new asset groupings for regulatory station electronic equipment in recognition of the increasing use of electronic equipment in regulating stations. Electronic equipment has a significantly shorter life and will require earlier replacement than mechanical equipment. Gannet Fleming established new plant groups for the computer hardware and system development accounts for the new gas Supervisory Control and Data Acquisition system.

Centra updated the depreciation rates based on new service life estimates effective April 1, 2011. The change reduced depreciation expense by $1.2 million in 2013/14. CAC did not oppose the change in the depreciation rates in 2013/14.

Centra plans to implement IFRS-compliant depreciation rates effective April 1, 2015, which will include a change in the depreciation methodology from the Average Service Life methodology to the Equal Life Group methodology. Both are permitted by International Financial Reporting Standards (IFRS). In addition, Centra will remove asset retirement costs from depreciation rates, as the practice is not permitted under IFRS. Due to the uncertainty related to an interim standard on rate-regulated accounting under IFRS, Centra has not requested the Board's approval for these proposed changes. Centra will notify the Board of its plans with respect to an application for approval to implement new depreciation rates at the appropriate time.

CAC stated that, if IFRS determines that the net salvage value is to be removed and the Board subscribes to that proposition, the Board should order the removal of net salvage to serve as a buffer to offset against any increase in cost which may occur as the result of the implementation of IFRS.

5.3.2 Board Findings

The Board will approve the change in depreciation rates which took effect April 1, 2011. As for future depreciation changes set out in Gannett Fleming's depreciation study, the Board expects Centra to indicate its planned course of action, including whether it intends to switch to Equal Life Group and remove Net Salvage from the calculation of depreciation rates. The rate implications of such changes have not been reviewed and Centra has not yet requested approval of such changes. Centra is not to make any accounting changes related to depreciation for rate setting until it has received Board approval. The implications of such changes must be considered in the broader context of the impacts of IFRS for rate-setting purposes.

5.4.0 Payments to Government

Centra pays capital and payroll taxes to the Provincial government and municipal taxes to the municipalities in which its plant-in-service is located. As a Crown corporation, Centra no longer pays income taxes.

Capital and Other Taxes Expense is forecasted to be $18 million in 2012/13 and $19 million in 2013/14. Capital and other taxes since the last General Rate Application include the following:

Capital & Other Taxes ($000)	**2009/10 Actual**	**2010/11 Actual**	**2011/12 Actual**	**2012/13 Forecast**	**2013/14 Forecast**
Corporation Capital Tax	2,377	2,398	2,323	2,304	2,516
Municipal Taxes	14,836	10,844	11,561	10,861	11,187
Payroll Tax	788	802	800	793	807
Taxes on Common Assets	380	421	221	160	170
Deferred Income Taxes	4,654	4,508	4,369	4,216	4,070
City of Winnipeg Audit Settlement	316	1,517			
Total Taxes	**23,351**	**20,490**	**19,274**	**18,334**	**18,750**

Centra remits taxes to municipalities where Centra maintains buildings and structures throughout the Province. At the last General Rate Application, Centra had forecasted paying $15.6 million in municipal taxes in 2010/11. However, due to a Provincial re-assessment, the value of building and structures was adjusted and taxes were reduced to $10.8 million. The reduction to Capital & Other taxes for that year was offset by a City of Winnipeg audit settlement, which increased costs by $1.5 million. Overall, actual Capital and Other Taxes were $3.4 million lower than what was approved in rates for 2010/11. This contributed to Centra's decision to not seek a rate increase in 2011/12 and 2012/13.

The deferred income taxes relate to a rate-regulated asset from the acquisition of Centra by Manitoba Hydro in 1999. Upon acquisition, Centra was no longer subject to either federal or provincial income taxes. Under the Income Tax Act of Canada, the conversion of Centra to a non-taxable entity resulted in a deemed disposition of all assets. This deemed disposition resulted in a one-time income tax liability of $58.25 million. In Order 208/02 the Board approved the amortization of the liability over a 30 year period consistent with other acquisition costs.

5.4.1 Board Findings

The Board notes that Centra makes a contribution to the Province through its payments to governments. The reason for not seeking a rate increase for this expense component since 2010/11 relates to a reduction in the property taxes due to a provincial reassessment. The level of property taxes excludes the impact of the new Corporate Head Office. The deferred income tax liability is a rate-regulated asset and the status of the amortization of this asset will be addressed at the next General Rate Application when the accounting treatment of rate-regulated accounting under IFRS may be more certain.

5.5.0 Corporate Allocation & Net Income

5.5.1 History of Rate Increases

Centra has not sought a general revenue increase for the 2011/12 and 2012/13 fiscal years. Only gas rates have been adjusted since that time. During the past decade, Centra’s cumulative rate increases have been at approximately half the rate of inflation. However, the period coincided with a significant drop in natural gas prices. If natural gas costs, which are passed on with no mark-up, are factored out, Centra’s non-gas costs have increased a cumulative 25.3%, outpacing the increase in Manitoba’s Consumer Price Index of 21.9% since 2003/04. Non-gas costs are forecasted to increase by 5.3% in 2013/14 while inflation is forecasted to be 1.8% for the Test Year.

5.5.2 Allowed Return

Manitoba Hydro acquired Centra in 1999 for $253.8 million, including goodwill, asset write-ups, and acquisition and integration costs. At the 2005 General Rate Application, Centra confirmed that approximately $19 million was required annually to amortize Manitoba Hydro’s costs relating to the acquisition, of which Centra was allocated $12 million and Manitoba Hydro $7 million. The allocation represented the benefits achieved at each utility. In Order 103/05 the Board agreed that synergies had been realized and approved both an annual Corporate Allocation of $12 million and a net income of $3 million to arrive at an overall return to Manitoba Hydro of $15 million.

In Order 99/07 the Board stated:

> *“The Board established in Orders 103/05 and 135/05 that the Corporate Allocation combined with Board allowed net income is not to exceed the return previously provided to Centra’s private owner prior to MH’s acquisition which ranged from $14 to $16*

million, and allowed the Corporate Allocation of $12 million and annual Net Income of $3 million.

The Board had also stated in Order 103/05 the return to MH as determined under Rate Base Rate of Return is to be the absolute limit for shareholder returns. That return may take the form of an annual Corporate Allocation by MH against Centra and/or Centra's annual net income result. The Board further clarifies its position relative to testing the reasonableness of the net income limit. In assessing the reasonableness the Board also considers the no harm principle to be paramount and that a total return of $14-16 million contemplated at the time of MH's acquisition of Centra currently remains appropriate to ensure neither Centra nor MH customers are negatively impacted from the transaction. " [Order 99/07 pages 113-114]

In establishing the $3 million net income, 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. The Board regulates Centra's income on a weather-normal basis, and has stated, in Order 128/09, that year-to-year fluctuations in Net Income caused by weather should not affect the timing and magnitude of general rate applications."

Centra applied for a Net Income of $4.8 million in the shortened Test Year or $5.6 million on an annualized basis. Centra had requested the increase in part due to the potential write-off of its rate-regulated assets. Such a write-off would have resulted in a deficit in retained earnings. The International Accounting Standards Board issued an exposure draft in May 2013 that, if adopted, will allow Centra to retain its current accounting policies related to rate-regulated assets.

Centra also requested the higher net income because retained earnings have remained flat over the past decade despite plant-in-service growing from $503 million to $637 million. Centra stated the current level of net income provides for a "threadbare net income" and often results in a loss and a reduction in retained earnings or only marginal retained earnings growth. The balance of retained earnings serves as a buffer against adverse financial effects, and serves to protect customers against rate shock.

With Centra's improved operating results in 2012/13, where net income was approximately $8 million versus a forecast of $1.5 million, Centra's current retained earnings balance is now forecasted to be over $42 million. Centra's current forecast 2013/14 debt-to-equity ratio on a stand-alone basis is 67:33, which is a stronger capital structure than the previously set 70:30 Board target.

Centra provided additional reasons for the requested increase in Net Income. Centra's last general rate increase was 0.8% in 2010/11. This is the only general rate increase in Centra's rates in the past four years. In addition, Centra stated it needs additional Net Income to address risks it is facing, including pressure on operating costs to maintain safe and reliable service. Centra also stated it is facing lower revenues because of declining sales volumes resulting from energy efficiency and other conservation measures.

Centra stated it does not consider the Corporate Allocation as a return but as a recovery of costs related to the acquisition, as the Corporate Allocation is an investment made by Manitoba Hydro to achieve substantial savings on behalf of both gas and electric customers.

Centra has also stated that if it had a notional capital structure with a 40% equity component and used an updated return on equity of 9%, then its return would be $18 million. This higher return, when considered in conjunction with the $12 million Corporate Allocation, supports a Net Income of $6 million.

5.5.3 Board Findings

The Board is not convinced that Centra requires a higher Net Income than has previously been approved, meaning $3 million per year. 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, for which Centra pays 1% of its total debt to the Province, which amounts to approximately $3 million per year. Centra's debt-to-equity ratio is stronger than the target ratio of 75:25 for Manitoba Hydro. Centra's current capital structure has improved from its target to 67:33.

It appears that Centra's $5.8 million loss during the 2011/12 year was primarily due to warmer-than-expected weather, as Centra had initially forecasted a $3.8 million Net

Income for the year on a weather-normal basis. The results for 2012/13 were higher than the forecasted net income of $1.5 million, as Centra realized approximately $8 million in total. 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.

As for Centra's other reasons for requesting Net Income greater than the $3 million previously approved by the Board, the write-off of Centra's rate-regulated assets upon implementation of International Financial Reporting Standards is no longer imminent. Operating costs to maintain safe and reliable service may exert upward pressure on Centra's revenue requirement, but do not necessarily impact the Net Income. Conservation efforts resulting in declining sales volumes may exert upward pressure on rates, but do not impact the revenue requirement nor require additional Net Income.

5.6.0 International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") replaced Canadian Generally Accepted Accounting Principles in 2011. Centra and other utilities have been granted successive deferrals by the Canadian Accounting Standards Board in implementing IFRS due to outstanding issues related to the accounting for rate-regulated assets and liabilities. The current IFRS Conceptual Framework does not recognize rate-regulated assets and liabilities. Centra has elected to take the exemption and plans to implement IFRS in 2015/16.

5.6.1 Rate-Regulated Assets and Liabilities

Under International Financial Reporting Standards ("IFRS"), rate-regulated assets and liabilities are currently not recognized as assets and liabilities. Centra's General Rate Application reflects a write off of $77 million of retained earnings when it implemented IFRS, resulting in a deficit in retained earnings of $27 million in 2014/15. Centra chose to reflect the write-off of rate-regulated assets in the Integrated Financial Forecast filed with the Application. Any future spending that was previously deferred and amortized as rate-regulated assets would be expensed annually as incurred.

In May 2013, the International Accounting Standards Boards ("IASB") issued an exposure draft titled "Regulatory Deferral Accounts." The new interim standard allows for the continuation of Centra's current accounting practices until the completion of the comprehensive rate-regulated activities project. Centra indicated that the IASB may issue an interim standard before the end of 2013. If the interim standard is adopted, Centra may avoid writing off the rate-regulated assets in 2015/16 but there remains uncertainty on the status of the rate-regulated accounts until the IASB completes it rate-regulate activities project, which is not expected until at least 2016.

5.6.2 Board Findings

The Board notes that given the direction in the Regulatory Deferral Accounts exposure draft, Centra may not have to write off its rate-regulated assets. The Board will expect Centra to keep the Board apprised on developments on this issue as they evolve and the implications on ratepayers. The Board understands the underpinning for accounting policy changes related to rate-regulated assets and depreciation rates depend on the outcome of this issue. Centra is not to make any further accounting changes related to International Financial Reporting Standards without seeking the Board's approval. Centra should provide an update on regulatory treatment of rate-regulated assets and liabilities in other Canadian jurisdictions as part of its review of this issue.

6.0.0 <u>RATE BASE RATE OF RETURN</u>

6.1.0 Capital Expenditures

Centra makes capital expenditures to extend its distribution system to new customers, to maintain the integrity of its existing distribution system, and to upgrade its distribution system to meet the needs of its existing customers. Centra's investments in Demand-Side Management and energy efficiency measures are also capital expenditures.

Centra provided details of its historical capital expenditures from 2008/09 through 2011/12, as well as forecasted expenditures for 2012/13 and 2013/14. Centra is forecasting capital expenditures for 2013/14 of $36.2 million which includes $8.8 million in Demand-Side Management expenditures. This amount includes a downward Target Adjustment of $3.7 million, which Centra has imposed to reduce the level of capital expenditure to the level expended in recent years.

Centra's largest capital expenditures in the test year are being made to support system load growth, and include the extension of mains and attachment of new customers, Demand-Side Management, and replacement of meters.

CAC did not object to any of Centra's capital expenditures or the quantum of expenditures, which it noted has historically been in the range of $20 million to $30 million.

6.2.0 Rate Base

Rate Base is the sum of Centra's investment in its plant-in-service, less accumulated depreciation, plus a reasonable amount of working capital, less any contributions made by customers towards the construction of Centra's plant. Plant-in-service refers to the mains, services, stations, meters, and other capital assets of Centra.

The Public Utilities Board Act at Section 127(1) requires the Board to approve a public utility's Rate Base and the rate of return on shareholder equity. Centra filed information supporting its Rate Base, including its historical and forecasted capital expenditures, the working capital required to operate the utility, the accumulated and forecasted depreciation, and the contributions that customers have made towards the construction of Centra's mains, services, meters, and stations.

The Rate Base forecasted for both 2012/13 and the test year is shown in the following table:

Rate Base Components ($000)	**2012/13**	**2013/14**
Gas Plant in Service	$658,683	$681,747
Accumulated Depreciation	($232,935)	($241,999)
Net Plant in Service	$425,747	$439,749
Contributions in Aid of Construction	($51,931)	($53,062)
Working Capital	$105,031	$102,605
Rate Base	$478,847	$489,292

6.3.0 Return on Rate Base

According to *The Public Utilities Board Act*, the Board must determine Centra's rates by approving both a rate base and the rate of return on shareholders' equity using a Rate Base Rate of Return methodology. The Board has indicated in Order 128/09 that it will continue to review the return on rate base as long as the legislative provision remains as a consideration in establishing rates on a cost of service basis.

Centra is capitalized by a combination of long-term debt and short-term debt. The overall rate of return is calculated by multiplying the cost of the various types of capital with their corresponding capital structure weighting. The overall rate of return includes both the cost of debt financing and the required return on equity return on equity. This overall return is to compensate Centra for the components of finance expense, corporate allocation, and net income on the Cost of Service rate setting basis. Based on the forecasted capital structure and the relative costs for each component discussed below, Centra has determined an overall rate of return of 6.3% and a return of $30.7 million.

6.4.0 Capital Structure

The capital structure for rate-setting purposes is as follows:

Capital Structure ($000's)	2012/13 Forecast		2013/14 Test Year	
	$	%	$	%
Long Term Debt	296,244	63.9%	295,000	61.3%
Short Term Debt	11,177	2.4%	27,103	5.6%
Total Debt	307,421	66.3%	322,103	66.9%
Equity	156,332	33.7%	159,524	33.1%
Total	463,753	100%	481,627	100%

6.5.0 Cost of Capital

The cost of long-term debt is 5.25% for 2013/14, representing a 13-month average embedded cost of debt. The cost of short-term debt, based on the 2012 economic outlook, is 2.30%.

The return on equity was determined to be 6.89% based on the return on equity formula approved by the Board in Order 49/95. The Board established parameters for the use of the return on equity formula subject to the forecast Long Canada Bond yield falling within a range of plus or minus 2% of the 1994 forecast yield of 8%. The current forecast yield on Long Canada bonds for 2013/14 is 2.55%, well below the parameters established for the formula.

The Board also approved and reserved the right to require a full return on equity hearing as a result of unusual or significant changes in the economy, the capital markets or Centra's underlying business or financial risk.

The Return on Equity test for regulated utilities was subject to recent reviews by the British Columbia Utilities Commission, the Alberta Utilities Commission, the Ontario Energy Board, and the National Energy Board. The studies indicated that return on equity adjustment formulas tied to a single variable, the yield on long-term Government of Canada bonds, were no longer appropriate and specifically resulted in returns on equity which were below a fair return.

In light of the findings in other jurisdictions, Centra stated that its existing return on equity formula does not provide appropriate results in the current economic environment. Instead of undertaking a formal review to update the return on equity, Centra indicated it would look to the work undertaken in other jurisdictions. The table below provides the most recently approved return on equity for each jurisdiction.

Regulator	Approved Return on Equity (ROE)
Ontario Energy Board	8.98% ROE for May 1, 2013 rate changes
British Columbia Utility Commission	9.5% Benchmark ROE effective January 1, 2013 interim
Alberta Utilities Commission	8.75% Generic ROE for 2012
National Energy Board	7.58% ROE for 2012 based on formula discontinued in 2009*

*The National Energy Board continues to publish the results of the return on equity formula until 2014.

6.6.0 Feasibility Test

Centra will extend its distribution service to new customers without any upfront charges to the customers as long as the extension passes the Board-approved feasibility test. To determine whether a contribution is required, Centra prepares a feasibility test.

If the cost to extend the distribution is higher than the offsetting revenues, resulting in cross-subsidization, Centra requires the new customers to pay an upfront contribution prior to extending the distribution system.

6.7.0 Board Findings

The Board has reviewed Centra's historical capital expenditures from 2009/10 to 2012/13 and the forecast of capital expenditures in 2013/14. The Board approves these expenditures to enter Rate Base. The Board approves Centra's forecasted Rate Base for 2013/14 of $489,292,000 as filed.

The Board notes that the current return on equity, based on the existing approved formula, is not providing a fair return on equity. The Board had previously established parameters for the formula including a range of 6% to 10% for the Government of Canada bonds yields. Current yields are well below that level. The Board requests Centra to propose an update to the return on equity that is reflective of an appropriate return in the current economic climate. The Board would like to ensure that an appropriate rate be used in the feasibility test and for the return on rate base determination.

7.0.0 LOAD FORECASTING

7.1.0 Load Forecasting Methodology

Centra prepares a load forecast to estimate the numbers of customers and their corresponding gas consumption for any given year. The load forecast is used to ensure that Centra contracts for enough gas to meet customer needs, as well as to set its rates. Centra's load, when the effects of weather are removed, has been declining for a number of years as increases in the number of customers are offset by increases in energy efficiency.

Centra made changes to its methods for estimating the numbers of residential and commercial customers in the Small General Service and Large General Service classes. Centra now links the number of residential customers to the number of new customers estimated by the Manitoba Hydro electric load forecast. The numbers of commercial Small General Service and Large General Service customers are now estimated by a simple straight line trend.

7.2.0 Board Findings

The Board supports Centra's efforts to continuously improve the load forecasting methodology, and accordingly supports the changes made by Centra. The forecasting methodology for the numbers of residential customers has been modified so that it aligns with the methodology used by Manitoba Hydro, while the methodology for commercial Small General Service and Large General Service customers has been simplified to a simple linear trend line. During the hearing, Centra indicated that it could undertake a retrospective evaluation to determine whether the revised customer number forecasting methodology would have been an improvement compared to the previous methodology. The Board accepts this undertaking but will require Centra to respond when Centra files its next Cost of Gas Application or General Rate Application.

8.0.0 COST OF GAS

8.1.0 Gas Costs

The cost of gas is the most significant cost that Centra incurs, representing over 50% of the revenue requirement. The cost of gas includes the supply of gas molecules as well as the pipeline transportation and storage arrangements necessary to bring the gas molecules to Manitoba.

Centra does not mark up or earn a profit on the sale of gas commodity or on the storage or transportation revenues. In order to ensure that the gas costs are provided to customers at Centra's cost, Centra tracks the differences between its actual gas costs and the gas revenues achieved through approved rates. These differences accrue in deferral accounts. At the end of the year, the balances in the deferral accounts are either amounts owing to Centra's customers or amounts to be collected from Centra's customers owing to Centra.

Centra requested final approval of its historical gas costs of $251.3 million for the 2010/11 gas year and $160.1 million for the 2011/12 gas year. The gas year runs from November 1, to October 31. Centra's application provided details and further explanation of the supply, storage, and transportation costs.

Centra also requested approval of its forecast gas costs of $199.8 million for the 2013/14 gas year. This total includes the forecasted revenues from capacity management activities, which reduce the total cost of gas. Centra undertakes capacity management activities to earn revenue from surplus pipeline and storage capacity.

The net balance, with carrying costs, of these deferral accounts is $13,744 owing to Centra. Centra is requesting approval to collect this amount from customers beginning August 1, 2013 through the addition of rate riders to the rates Centra charges. The rate riders are proposed to be in place for 12 months. Compared to historical deferral account balances, some of which have been tens of millions of dollars, $13,744 is an almost insignificant balance.

8.1.1 New Primary Gas Supply Contract

Centra's single largest expense is for the supply of gas commodity from Western Canada, which Centra calls Primary Gas. Centra has historically procured its Primary Gas from a single supplier through a contract tender. Centra's previous three-year Primary Gas supply contract with ConocoPhillips expired on October 31, 2012.

In 2012, Centra issued a Request For Proposals to potential gas suppliers. Centra received six proposals that were compliant with its Request For Proposals and evaluated these proposals based on the following criteria:

- Provides reliable supply to customers;
- Minimizes total cost of gas supply;
- Credit rating and credit requirements placed upon Centra;
- Customer service and proven performance;
- Consistency with Centra's sustainable development goals;
- Meets the requirements to modify the contract volumes on a monthly basis; and
- Allows Centra to change its daily nominations of gas volumes using all of the industry standard nomination "windows", or timelines.

ConocoPhillips was the successful proponent and is now contracted by Centra as the Primary Gas supplier for two years ending October 31, 2014. ConocoPhillips ranked highest in its ability to provide reliable supply, to minimize total gas costs, and consistency with Centra's sustainable development goals.

The gas price in the contract is set according to the market prices at publicly traded Alberta Energy Company (AECO) hub in Alberta, plus an additional premium to transport the gas from the AECO hub to Empress, Alberta. The exact pricing details of the transportation component, as was the case with the previous contract with ConocoPhillips, have not been publicly disclosed, although Centra has provided the pricing details to the Board in confidence.

As was the case during the previous proposal evaluation in 2009, ConocoPhillips was forecasted to be the least-cost supplier. However, Centra provided evidence that indicated a different supplier, referred to as Party B, would possibly have been a lower cost supplier based on the actual market prices over the past three years, at least on a theoretical basis. Centra explained that this theoretical comparison has limitations because it does not reflect the flexibility provided by the previous ConocoPhillips contract that allowed Centra to reduce its gas costs in other ways. Centra was able to confirm that it adjusted its most recent Request For Proposals in order to capture the benefit that theoretically would have been provided by Party B's pricing proposal.

CAC supported Centra's selection of ConocoPhillips as the Primary Gas supplier. CAC was satisfied that Centra's purchase price at Empress under the new ConocoPhillips contract more accurately reflects the market price at Empress than Centra's previous contract, as the current one recognizes the value of natural gas liquid by-products included in the transported gas.

8.1.2 National Energy Board's TransCanada Pipelines Tolls Decision

Centra's single largest pipeline capacity expense is for Centra's firm capacity on the TransCanada Pipelines Mainline, which brings gas from Empress on the Alberta – Saskatchewan border to Manitoba. Since 2006, the tolls charged by TransCanada Pipelines have been escalating as TransCanada sought to recover its fixed costs to operate the pipeline from decreasing volumes of gas shipped through the Mainline. The decreasing volumes caused the unit tolls to increase. As the unit tolls increased, shippers on the Mainline further reduced their firm contracted capacity, further decreasing the volumes transported and increasing the unit tolls even more. The result was a 140% increase in the firm capacity toll between 2006 and 2012.

TransCanada Pipelines applied to the National Energy Board in 2011 to restructure its Mainline business and services and amend its Mainline tolls. The National Energy Board issued its Reasons For Decision on this matter on March 27, 2013. The principal decisions that impact Centra are:

- the reduction in the representative firm toll from $1.89/GJ to $1.42/GJ for a period of five years;
- the elimination of the Firm Transportation – Risk Alleviation Mechanism; and
- TransCanada Pipelines' ability to set the bid floors for Interruptible Transportation and Short Term Firm Transportation, where previously the bid floors were established at fixed premiums to the Firm Transportation toll;

The reduction in the Firm Transportation toll will lower Centra's fixed transportation costs effective July 1, 2013. Centra quantified the reduction in tolls paid to TransCanada Pipelines at $1.5 million for the remaining four months of the 2012/13 gas year (to October 31, 2013), and the full year toll reduction at $3 million.

The Firm Transportation – Risk Alleviation Mechanism was an attribute of the Firm Transportation contracts held by Centra. The elimination of the Risk Alleviation

Mechanism is expected to reduce the potential for earning Capacity Management revenues that offset Centra's gas costs.

Centra's other option to mitigate unutilized demand charges related to its TransCanada Pipelines firm capacity is through the Diversions mechanism. TransCanada Pipelines has proposed amendments to its tariffs that will restrict the utility of Diversions in reducing Centra's unutilized demand charges. The National Energy Board will hold a hearing into the tariff amendments in September 2013.

Centra was not able to estimate the magnitude of any expected additional costs resulting from the ability of TransCanada Pipelines to set the minimum bid floor for Interruptible Transportation or Short Term Firm Transportation. Centra expects that TransCanada will set the Short Term Firm Transportation bid floors at a level high enough to instead force Centra to use annual Firm Transportation resulting in higher gas costs.

Even though Centra is expecting a reduction in its Firm Transportation tolls, there is still uncertainty related to the Short Term Firm Transportation tolls starting in October of this gas year, the elimination of the Risk Alleviation Mechanism, and the potential restriction of diversions which could negatively impact the capacity management revenues earned by Centra to offset its total gas costs. Accordingly, Centra does not propose to update its gas cost forecast for the 2012/13 gas year. CAC supported Centra's decision, stating that it did not make sense to reduce the forecast and corresponding rates this year only to raise them next year. CAC recommended that the differences between the forecasted costs and actual costs be tracked in a Purchased Gas Variance Account which will be refunded to or collected from customers in a future period.

8.2.0 Board Findings

The Board has reviewed Centra's gas costs for the 2010/11 and 2011/12 gas years and finds them reasonable. The Board approves the 2010/11 gas costs of $251.3 million and the 2011/12 gas costs of $160.1 million.

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, so the Board approves the following Orders on a final basis: 106/10, 20/11, 96/11, 150/11, 7/12, 89/12, 137/12, and 10/13. Order 40/13 related to the May 1, 2013 Primary Gas rate was released subsequent to the discovery phase of this proceeding and thus the public and interveners have not been afforded an opportunity to test the application and supporting data. Consequently, the Board will not provide final approval for this interim Order at this time.

The Board is satisfied with the Request For Proposal process undertaken by Centra to replace its Primary Gas supply contract last year. The Board finds that Centra selected the best proposal from those submitted, based on the scoring of the proposals according to criteria such as reliability, cost, creditworthiness, consistency with Centra's sustainable development goals, and meeting Centra's operational requirements. The scoring criteria were the same criteria used to select Centra's previous Primary Gas supply contract in 2009. The Board approves the gas cost consequences of the new Primary Gas supply contract with ConocoPhillips for the period November 1, 2012 to October 31, 2014.

On the surface, the National Energy Board's decision to fix and reduce the Firm Transportation tolls on the TransCanada Pipeline is positive for Centra and its Manitoba consumers. Centra's estimate of a $1.5 million net reduction in firm tolls in the remaining four months of the 2012/13 gas year, along with a $3 million reduction in annual firm tolls, is good news.

The Board is concerned however with the other aspects of the National Energy Board's decision that directly impact Centra. Elimination of the Risk Alleviation Mechanism and the proposed amendments to the Diversions mechanism will have a direct, negative financial impact on Centra and its ratepayers, as Centra's ability to mitigate its unutilized demand charges will be detrimentally affected.

The Board wishes to be apprised of the results and expected cost consequences of the National Energy Board's September hearing into TransCanada Pipelines' tariff matters and specifically any impacts on Capacity Management revenues. The Board requests that Centra provide an update to the Board once Centra has had time to assess the National Energy Board's order and estimate its impact on Centra's ratepayers. In order to reflect the impact in Centra's rates, the Board requires Centra to file an application to amend its Cost of Gas no later than January 31, 2014. Because of the uncertainty related to the Short Term Firm Transportation tolls in October of this gas year, the elimination of the Risk Alleviation Mechanism, and the potential restriction of Diversions, the Board will not require Centra to amend its forecast cost of gas for 2012/13. Any variances between Centra's current forecast and the actual costs will accrue and be tracked by Purchased Gas Variance Accounts. The variances will be refunded to or collected from customers following a subsequent Cost of Gas proceeding which the Board anticipates will occur next year.

In its upcoming deliberations of TransCanada's proposed tariff amendments, this Board asks the National Energy Board to consider the impacts on Manitoba consumers of potentially forcing Centra to contract for excess Firm Transportation capacity while eliminating the tools used by Centra to mitigate its unutilized demand charges associated with this excess capacity. The Board encourages Centra to intervene in these proceedings to represent the interests of Manitoba ratepayers.

8.3.0 Primary Gas Rate Application For August 1, 2013

Primary Gas rates are set on a quarterly basis in accordance with the Board-established Rate Setting Methodology. Quarterly approvals are provided on an interim basis and are finalized through either a General Rate Application or Cost of Gas Application proceeding.

Subsequent to the completion of the General Rate Application hearing, Centra filed an application for a revised Primary Gas rate to be effective August 1, 2013. The Board-approved 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 rates are based on futures prices at the Alberta Energy Company ("AECO") trading hub in Alberta. Table 1 reflects the 12 month futures price strip for natural gas on July 2, 2013 and used in the calculation of the August 1, 2013 Primary Gas rate. The futures strip prices from January 2013 and April 2013 from previous quarterly rate applications are shown in Table 2. As can be seen when comparing the Tables, the August 2013 futures prices have decreased compared to the futures prices as of April 2013.

Table 1 - Alberta Energy Company (AECO) Futures Price (Cdn$/GJ)

	Aug/13	Sep/13	Oct/13	Nov/13	Dec/13	Jan/14	Feb/14	Mar/14	Apr/14	May/14	Jun/14	Jul/14
Jan Strip	3.1275	3.2950	3.3600	3.1275	3.2950	3.3600	-	-	-	-	-	-
Apr Strip	3.4075	3.415	3.4725	3.610	3.725	3.745	3.7425	3.720	3.460	-	-	-
Jul Strip	2.906	2.958	3.038	3.283	3.393	3.378	3.383	3.365	3.278	3.283	3.293	3.313

Table 2 summarizes Centra's Application for quarterly Primary Gas rates effective August 1, 2013. The table shows Primary Gas costs and rate calculations for the last year.

Table 2 - Costs and Proposed Rates

Cost Component	Aug 1 2012	Nov 1 2012	Feb 1 2013	May 1 2013	Aug 1 2013
Date of Forward Price Strip	July 2, 2012	Oct. 1, 2012	Jan.2, 2013	April 2, 2013	July 2, 2013
12 Month Forward Price per GJ	$2.981	$3.185	$2.960	$3.564	$3.277
Cost of Gas drawn from Storage[1]	$3.675	$2.788	$2.813	$2.813	$2.813
Weighted Primary Gas Cost (mix of Gas Supply & Storage Gas costs)	$3.114	$3.107	$2.929	$3.407	$3.180
Rate per Cubic Metre	$0.1177	$0.1174	$0.1107	$0.1288	$0.1202
Base Primary Rate, adding Fuel and Overhead cost component per cubic metre[2]	$0.1198	$0.1197	$0.1129	$0.13114	$0.12178
Plus (Less) Rate Rider per cubic metre	($0.0231)	($0.0228)	($0.0154)	($0.0154)	($.0126)
Total Billed Rate ($/m^3)	$0.0967	$0.0969	$0.0975	$0.1157	$0.1092

Notes:

1. The cost of gas drawn from storage reflects the actual cost of gas in storage as of October 31, 2012 following the April to October 2012 injection season.

2. Compressor fuel costs are $0.0007/m3 and overhead costs are $0.00164/m^3. As of August 1, 2013, the overhead costs are $0.00088/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 will flow directly to the Manitoba load. This weighted price is the 12 Month Forward Price per Gigajoule shown in row 2 of Table 2 which also 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 of volumes that Centra withdraws from its storage facility, and is shown in row 4 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 5 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 6 of Table 2.

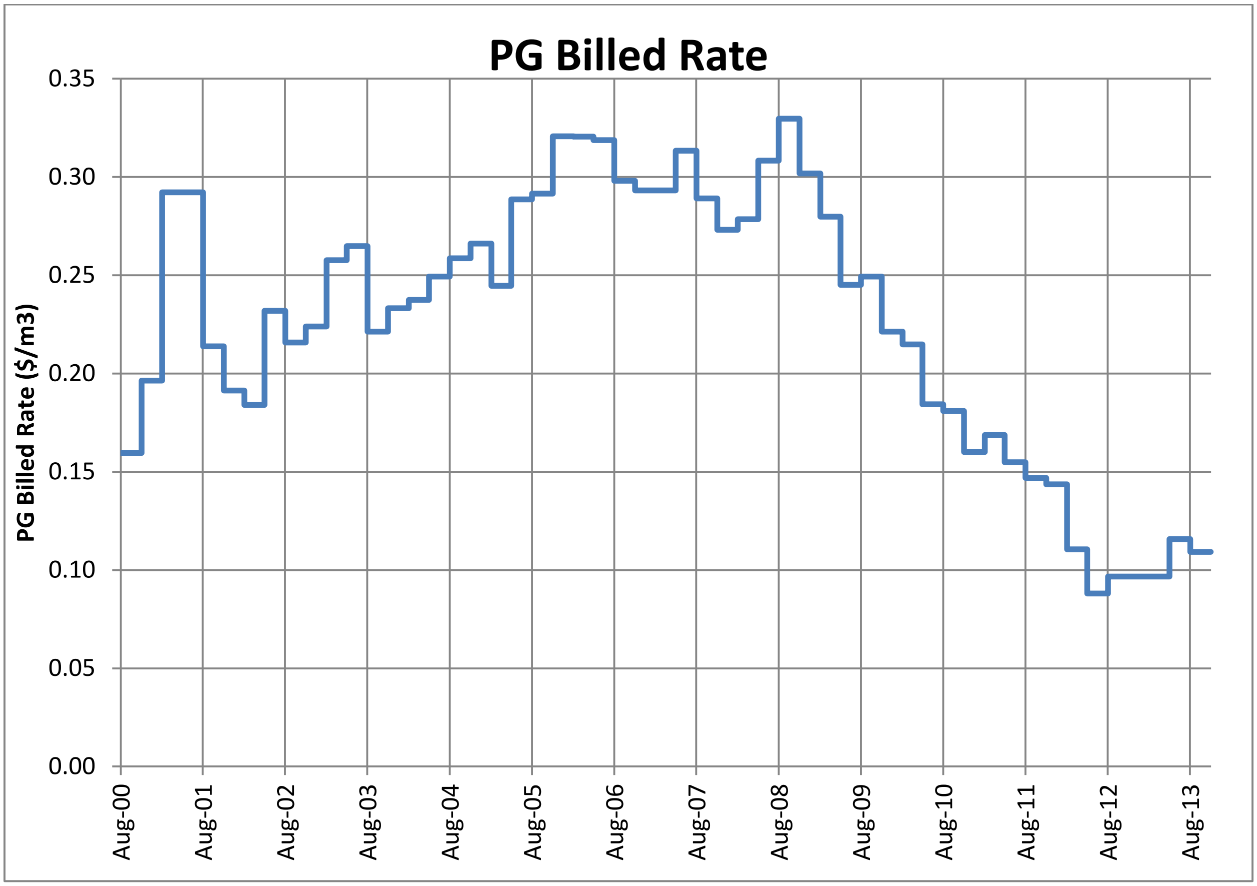
Centra tracks differences between the previously approved Primary Gas rate (and its underlying gas costs) and the actual cost of purchases it incurs. The previously approved Primary Gas rate is based on a forecast of natural gas market prices, and the prices Centra actually pays usually differ from that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

Rate riders recover from or repay to customers these balances in the Purchased Gas Variance Account, with interest. Utilization of the Purchased Gas Variance Account and rate riders ensures that the cost of gas is charged to customers with no mark-up or discount. The Primary Gas rate rider is determined by dividing the accumulated balance in the Purchased Gas Variance Account by the volumes Centra forecasts to flow in the upcoming twelve months, and is shown in row 7 of Table 2. If the Purchased Gas Variance Account balance is not brought to zero with the rate riders, the remaining balance will be included in the calculation of future rate riders.

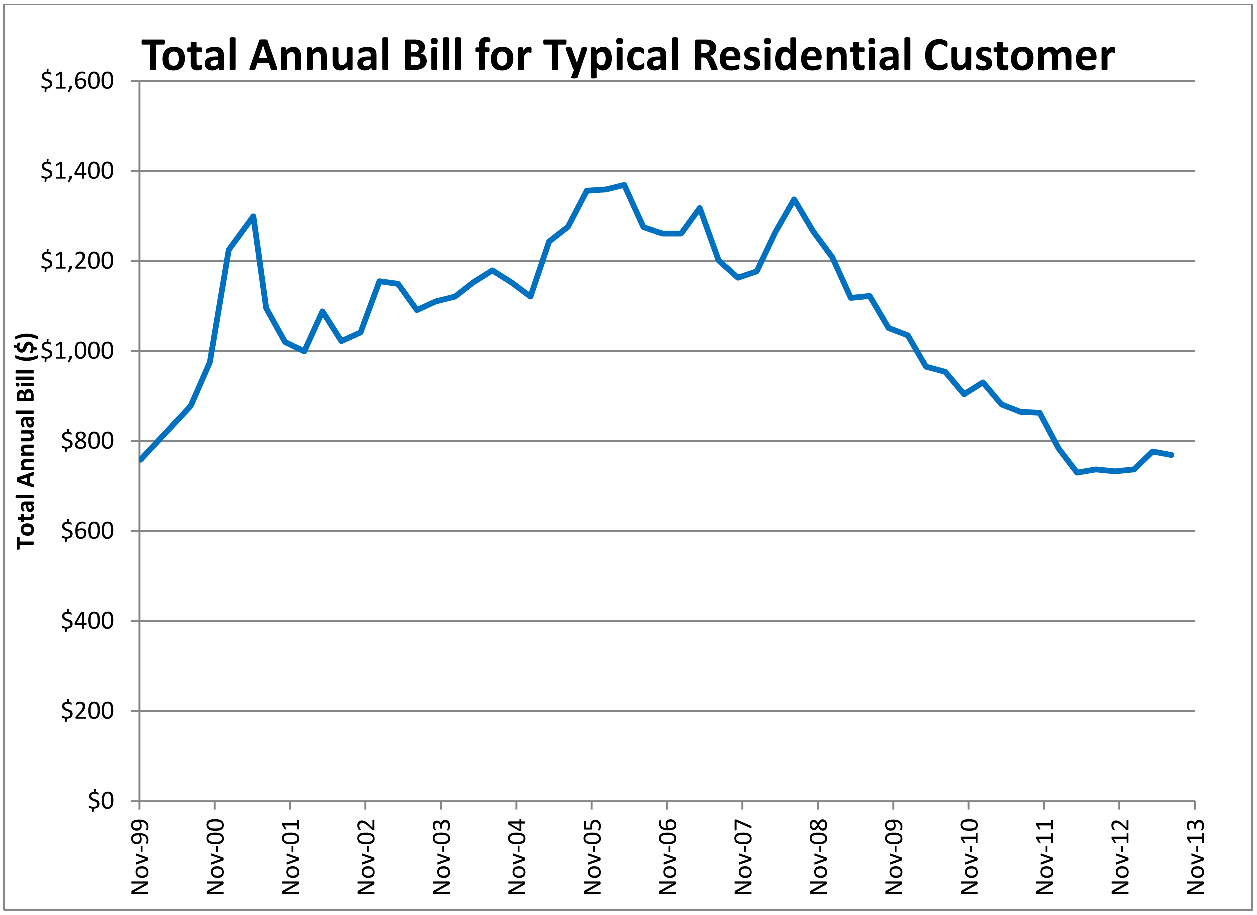
The Primary Gas rate rider is combined with the Primary Gas Base Rate to arrive at the Primary Gas Billed Rate, as shown in row 8 of Table 2, and this is the rate that Centra uses to calculate the bills of its Primary Gas customers.

The forecasted Purchased Gas Variance Account balance for July 31, 2013 is $13.9 million. The $13.9 million balance will be refunded to customers by way of a rate rider of $\$0.0126/m^3$. The rate rider reduces the Primary Gas Base Rate of $\$0.1218/m^3$ resulting in a Primary Gas Billed Rate of $\$0.1092\ /m^3$.

The following chart graphically shows the Primary Gas Billed Rate from August 1, 2000 up to and including the proposed August 1, 2013 rate.



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



8.4.0 Board Findings

Centra's July 10, 2013 Primary Gas Rate Application properly reflects the Board-approved Rate Setting Methodology. The Board will approve Centra's Application to amend the Primary Gas rate upon confirmation of the Primary Gas Overhead Rate, which the Board expects may change because of the other pronouncements made in this Order. Centra is to file a revised schedule showing the calculation of the Primary Gas rate with the revised Primary Gas Overhead Rate in response to this Order.

Primary Gas rate changes affect only those customers receiving quarterly-priced Primary Gas from Centra. Customers on fixed-price contracts with either gas marketers or Centra are not affected. The next review of the Primary Gas rate will take place as of November 1, 2013.

9.0.0 COST ALLOCATION AND RATE DESIGN

9.1.0 Centra's Cost Allocation Study

Centra establishes rates for each customer class. These rates are based on the cost to serve each class. The different customer classes are:

- Small General Service, including residential and small commercial customers;
- Large General Service, including larger commercial customers;
- High Volume Firm; including commercial, institutional, and industrial customers;
- Mainline; customers served directly from Centra's high pressure transmission system;
- Interruptible, customers that have a back-up fuel supply and can have their natural gas supply curtailed;
- Power Station, which are Manitoba Hydro's two thermal power plants; and
- Special Contract, a single customer that consumes very high volumes of gas.

Centra seeks to establish rates that are fair, equitable, and not unduly discriminatory. Centra calculates rates for each customer class by assigning portions of its total cost of service, which is also known as Centra's revenue requirement, to each class based on the costs Centra incurs to provide gas service each customer class. Thus, Centra's rates are based on the principle of cost causation.

9.2.0 Changes to the Cost Allocation Study

Centra proposed a change to the Cost Allocation Study. Previously, costs related to Centra's Demand-Side Management and Power Smart programs were functionalized as "Onsite", meaning the program costs were related to the gas facilities at each customers' premises. Furthermore, these costs were classified based on the numbers of customers, meaning customers within each class shared the Demand-Side Management costs equally. Centra proposed to change the Study so that costs would be allocated according to the Transmission function and the volumetric consumption.

By making this change to the Cost Allocation Study, Demand-Side Management costs are now recovered through the volumetric Distribution rate instead of the Basic Monthly

Charge. This avoids a large increase to the Basic Monthly Charge for Mainline customers. Because Centra's Distribution rate revenue is proportional to consumption, customers within each class that consume more gas will pay more towards the costs of Demand-Side Management programs. Centra stated that this basis of allocation is fair because customers that consume more gas typically have greater opportunities to manage their gas consumption or the implementation costs of the Demand-Side Management programs may be greater. There is no change in the total costs allocated to each customer class, only a change in recovery of Demand-Side Management costs within each class.

9.3.0 Overhead Rates

The Cost Allocation Study allocates costs related to the operation and administration of Primary Gas purchases as well as the Fixed Rate Primary Gas Service program. The Primary Gas Overhead Rate reflects the non-gas costs of Centra procuring Primary Gas supplies and administering the contract with ConocoPhillips. The Program Cost Rate reflects the costs of operating and administrating Centra's Fixed Rate Primary Gas Service, and includes costs related to marketing and promotion, gas supply, call centre costs, and overhead. Centra applied for a Primary Gas Overhead Rate of $0.0088/m^3 and a Program Cost Rate of $0.03141/m^3.

9.4.0 Rate Design

In 2000, Centra unbundled its customer bill into five components: Primary Gas, Supplemental Gas, Transportation, Distribution, and Basic Monthly Charge. The unbundling was undertaken to permit independent retail marketers to sell gas directly to consumers using the Western Transportation Service, as well as to provide additional information and clarity on the components of Centra's service.

In Order 65/11 Directive 14, the Board directed Centra to undertake a review of its rate structure, including the definitions of Primary Gas and Supplemental Gas, with a view to combining these rate components and potentially moving to a three-part rate structure. In the current Application, Centra proposed to engage in a stakeholder consultation after the conclusion of the current proceedings.

9.5.0 Board Findings

The Board approves Centra's proposed changes to the Cost Allocation Study in order to recover Demand-Side Management costs from customers by the volumetric Distribution rate instead of the Basic Monthly Charge. The Board believes that it is fair that customers that consume more gas, and likely have more opportunities to implement Demand-Side Management measures or undertake more expensive measures, will pay more for these measures. The Board notes that this change does not affect the Small General Service or Large General Service customers, including residential customers, because their Basic Monthly Charges are fixed at $14 and $77, respectively.

The Board anticipates that the Primary Gas Overhead Rate and the Fixed Rate Primary Gas Service Program Cost Rate will change with other pronouncements made in this Order. Accordingly, the Board will review any revisions to these Rates before approving them.

The Board agrees with Centra's proposal to review the rate structure and the distinction between Primary and Supplemental Gas in a proceeding to follow this General Rate Application. At the present time, the Board is of the view that this review can occur through a paper process with the involvement of interveners of record in the current proceeding.

10.0.0 DEMAND-SIDE MANAGEMENT

10.1.0 The Manitoba Hydro / Centra Power Smart Plan

Manitoba Hydro and Centra, in consultation with the Province, have developed a joint 2013-2016 Power Smart Plan which consists of Demand-Side Management energy conservation measures and load management activities to lower the consumption and demand for both electricity and natural gas in Manitoba. Key aspects of Centra's Demand-Side Management program are the Lower Income Energy Efficiency Program, the Water and Energy Saver Program, and the Home and Commercial Insulation Programs.

Centra's projected Demand-Side Management spending for the 2013/14 fiscal year decreased from approximately $19.3 million projected in the 2011 Power Smart Plan to $15.3 million. Centra forecasted a reduction in spending on Demand-Side Management, stating that the programs are designed to achieve economic energy savings. The reduction reflects market penetration to a point where there are fewer of the larger energy efficiency projects forecasted. In addition, the continuation of certain programs is no longer economic.

10.2.0 The Lower Income Energy Efficiency Program

Centra makes its Power Smart energy efficiency measures available to lower income customers through its Lower Income Energy Efficiency Program. The Lower Income Energy Efficiency Program includes a variety of low cost energy efficiency measures such as low flow showerheads and weatherization of homes, upgrades to the home's insulation, and upgrades from standard efficiency furnaces to high efficiency furnaces. The low cost measures and insulation upgrades are provided free of charge to eligible lower income customers.

A significant aspect of the Lower Income Energy Efficiency Program is Centra's Furnace Replacement Program, which is funded by $3.8 million per year from the Small General Service class to assist qualifying lower income homeowners with the installation of high-efficiency furnaces. Annual furnace replacements under the program have increased, from 280 installations in 2008/09 to 660 in 2012/13, but annual spending under the program has been far less than the annual funding provided. Since the Furnace Replacement Program was commenced in 2007, the unspent monetary balance in the Furnace Replacement Program increased to $16.1 million. Actual Furnace Replacement Program spending in 2011/12 was only $1.6 million. 2,555 furnaces and 57 boilers have been replaced as of March 31, 2013. Centra estimates that approximately 11,576 standard efficiency furnaces remain in lower income owner occupied households, compared to the original estimate of 16,034 eligible furnaces.

Centra predicted that all of the eligible standard efficiency furnaces in lower income homes will be replaced by 2019, with approximately $8.6 million remaining in the Furnace Replacement Program fund.

CAC adopted the recommendation of its witness, Mr. Jerrold Oppenheim, who suggested that, as a consequence of five years of under-spending by Centra and lack of participation in the Furnace Replacement Program, the Board should require Centra to contract, by way of a Request For Proposals, with a separate, community-based agency that would implement the Lower Income Energy Efficiency Program and Furnace Replacement Program. This community-based organization should report to the Board and be in charge of all facets of the program, including marketing. As an example of what such an agency should look like, Mr. Oppenheim cited the Low-Income Affordability Network in Massachusetts.

Mr. Oppenheim was critical of the slow pace of the Furnace Replacement Program. CAC recommended that Centra increase the annual funding of the program by $300,000, to $4.1 million annually for the next eight years, in order to achieve the original goal of replacing all eligible furnaces in that timeframe. If the Board does not order Centra to contract with an external, community-based agency to deliver the Furnace Replacement Program, then CAC recommends that the Board cease funding to the Program in the test year. If and when Centra demonstrates increased participation rates, the Board should re-establish funding. If there are funds remaining in the Furnace Replacement Program after all furnaces have been replaced, these funds should be returned to Centra's ratepayers and not used for other purposes.

Mr. Oppenheim suggested that the current requirement of lower income homeowners to make a co-payment on furnace replacements acts as a disincentive to participation in the program, in part because the co-payment is greater than the monthly bill savings. CAC recommended cutting the co-payment by 50% in order that lower income households obtain an immediate benefit to upgrading their furnace. Centra did not support a reduction in the customer co-payment as there has been no evidence presented that decreasing the co-payment would meaningfully increase participation in the Furnace Replacement Program. Centra stated that the decreased co-payment also ignores any consideration of the cost-effectiveness of the change, especially considering the already high levelized utility cost of the conserved energy through the Furnace Replacement Program. Centra did not support further increasing the levelized costs of the Furnace Replacement Program by decreasing the co-payment.

CAC and Mr. Oppenheim recommended that the Board order Centra to contract for an independent engineering contractor to conduct a physical survey of the present condition of lower income household insulation in order to more accurately establish the number of lower income homes that require insulation.

Mr. Oppenheim further recommended that Centra should work to expand the Furnace Replacement Program to renters, noting that almost ten percent of Centra's lower income customers live in rental housing. CAC recommends that the Board direct Centra to extend the Lower Income Energy Efficiency Program and the Furnace Replacement Program to rental homes by way of a specific program that addresses the particular challenges of accessing this market. The program should also be overseen by the community-based agency.

Mr. Oppenheim further suggested that Centra had not independently and effectively evaluated its Lower Income Energy Efficiency Program to date. CAC recommended independent process and impact evaluations should be undertaken to evaluate the effectiveness of the program design in achieving program goals. After public review and comment, Centra's lower-income Demand-Side Management programs should be adjusted based on the outcome of the evaluations.

Mr. Oppenheim recommended bill assistance to lower income customers should be increased, with consideration of a discounted rate for lower income customers. CAC recommended that the Board direct Centra to further investigate and report to the Board about the implications of increased bill assistance to lower income customers.

10.3.0 Fuel Switching

Many of Manitoba Hydro's and Centra's customers have the option to use either natural gas or electricity for their space and water heating needs. In Order 128/09 Directive 21, the Board directed Centra to determine whether it should mandate that a specific energy source be made available to consumers, and whether Centra and Manitoba Hydro should publish recommendations to consumers regarding the most economic and environmental fuel source.

Centra responded to this directive with its report: "Economic, Load, and Environmental Impacts of Fuel Switching in Manitoba". In that report, Centra concluded that there were economic and environmental benefits to Manitoba consumers and Manitoba Hydro if consumers used natural gas instead of electricity for space and hot water heating.

Centra also provided a "Home Heating Cost Comparison" which is available on the Manitoba Hydro website. This document shows the costs of home and hot water heating with various fuel sources, including geothermal, natural gas, and electricity. The cost to heat a home with a high efficiency natural gas furnace is approximately half the cost of heating a home with electricity at the present time.

The Board heard that over 90% of the new homes constructed in Winnipeg have gas heat installed, while less than 50% of new homes outside of Winnipeg in gas-available areas have gas heat installed.

Manitoba Hydro and Centra seek to provide their customers with the necessary information to make informed choices about their energy use including which fuels to use for home and hot water heating. Manitoba Hydro and Centra have not directly made recommendations to customers about the best fuel to use. Manitoba Hydro states that it aggressively tries to educate home builders in the gas-available areas of Manitoba about the benefits of installing gas heat, as Manitoba Hydro does not want new homes to be built with electric heat if gas heat is available. Manitoba Hydro is considering implementing disincentives to installing electric heat in areas where gas is available.

10.4.0 Board Findings

10.4.1 Demand-Side Management

In its recent Order 43/13 in respect of Manitoba Hydro's General Rate Application, the Board stated that it believes that it is fundamental that Manitoba Hydro enhances Demand-Side Management efforts from those reflected in the 2011 Power Smart Plan. The Board holds the same view for Centra. The Board has consistently advocated that customers implement Demand-Side Management and energy efficiency measures as the best defence against volatile natural gas prices. The Board remains of the view that Manitoba Hydro and Centra should be providing ratepayers with the tools to mitigate their exposure to volatile gas prices through Demand-Side Management measures.

While Centra confirmed that its forecast for Demand-Side Management spending in the 2013-2016 Power Smart Plan has decreased compared to the 2011 Power Smart Plan, it also stated that it would not deny funding for Demand-Side Management measures if the budgeted spending was exceeded.

The Board urges Centra to increase its efforts to encourage energy savings by increasing the education and advertising of its Power Smart programs and re-assessing the cost-effectiveness tests and hurdles in order to make more energy saving measures available to consumers.

While Centra continues to encourage energy savings amongst its customers, the Board expects Centra to establish a deferral account similar to the one ordered by the Board in Order 43/13. Demand-Side Management spending will be established at a minimum of $19.3 million for 2013/14, consistent with the 2011 Power Smart Plan. If monies are not spent on the Demand-Side Management programs to meet the minimum threshold, any difference in spending from the set levels will be accumulated in a deferral account.

In Order 43/13, the Board directed Manitoba Hydro to apply the Rate Impact Measure only at the portfolio level and not on individual measures. The Board expects Centra to apply the same economic measure, recognizing that the Rate Impact Measure hurdle for gas Demand-Side Management programs is already lower than for electric programs. In reviewing the cost effectiveness of current and potential gas Demand-Side Management programs, the Board is of the view that Centra may have to relax or reduce the test thresholds in order to promulgate a greater variety of energy efficiency measures.

10.4.2 Lower Income Energy Efficiency Program

The Board has previously commented that energy poverty in Manitoba represents a genuine concern, especially in light of Manitoba's exceptionally cold winters and the fact that many lower income residents live in older, poorly insulated housing stock. The Lower Income Energy Efficiency Program is intended to ameliorate the impact of high energy costs on lower income households in Manitoba.

In Order 43/13, the Board noted that Manitoba Hydro has made modest progress in implementing the Lower Income Energy Efficiency Program and understands the difficulty in reaching the target market. That said, the lack of participation in the Furnace Replacement Program speaks to the fact that the message about this program is not getting to the target audience. The Board heard that approximately half of the furnaces replaced in Low Income Cut Off plus twenty-five percent ("LICO-125") homes since the program's inception were not funded by the Furnace Replacement Program.

The Board accepts CAC's recommendation to reduce the co-payment required of customers for the Furnace Replacement Program. The current co-payment of $19 per month for five years is hereby reduced to $9.50 per month effective August 1, 2013 for any new customers signing up for the program. Low efficiency boilers are also eligible for a rebate under the Furnace Replacement Program; the current rebate is $2500. The rebate is to increase with the decrease in the furnace co-payment and is hereby increased to $3000. The reduced co-payment and increased boiler rebate is to continue until further order of the Board. Centra may consider reducing the co-payment for all

Furnace Replacement Program customers going forward, including those that have already participated.

The Board accepts CAC's recommendation that Centra should undertake an external review of its Lower Income Energy Efficiency and Furnace Replacement Programs. The external review is to focus on the program processes, specifically marketing and promotion, the cost effectiveness of the measures, the co-payment of the Furnace Replacement Program, bill assistance, accessing rental properties, and any elements of the Program design that could be improved to increase the participation, including consideration of additional or alternative delivery channels. The external review should recommend best practices for various program components. The Board requests Centra to file the terms of reference of this review with the Board by September 30, 2013. The Board will give further direction to Centra after it has reviewed the terms of reference. The study should also address economic evaluation criteria including the merits of using the risk free rate of the cost of capital used in lower income Demand-Side Management program evaluation.

At this time, the Board will not direct Centra to outsource its Lower Income Energy Efficiency Program to an external agency, nor to undertake a survey of the insulation characteristics of lower income households. The Board encourages Centra to explore additional channels to deliver the Program, including finding partners that will help identify lower income households and promote the Program to them. The Board encourages Centra to expand its advertising efforts and improve the reach of its advertising by exploring new advertising channels.

Centra ceased providing reports on its Lower Income Energy Efficiency Program and Furnace Replacement Program to the Board in 2011, although it provided a number of these reports in the General Rate Application to "catch up". The Board requests Centra resume providing these reports in their current format in accordance with Order 55/10 Directive 6. The Board notes that Directive 5 from Order 128/09 requests semi-annual reports on the Furnace Replacement Program, but Centra has typically provided them on a quarterly basis. The Board updates Directive 5 to require these reports on a quarterly basis, as has been Centra's practice.

10.4.3 Fuel Switching

The Board supports Centra's efforts at educating customers about the relative costs of heating their homes with electricity or natural gas. The Board would like to see additional educational efforts undertaken by Centra. Centra should maintain a link to the Typical Space & Water Heating Costs document on its home page where it is easy for customers to locate. Centra should include this document, or a simplified version of it, in its bill stuffers from time-to-time. The Board encourages Centra to undertake targeted advertising of the merits of different heating fuels, including targeting gas-available areas outside of Winnipeg where the penetration of gas space heating is less than 50% of new homes. That said, the Board agrees with Centra that these educational efforts need not provide a direct recommendation to customers about what is the “best” fuel for them to use for space and hot water heating.

11.0.0 FIXED-RATE PRIMARY GAS PROGRAM

11.1.0 Program Results

In addition to the quarterly-priced Primary Gas offered by Centra, Centra also offers Fixed Rate Primary Gas Service in competition with fixed rate Primary Gas offerings from independent retail gas marketers, and is available to customers in the Small General Service and Large General Service customer classes. Centra offers a fixed rate for one, three, and five-year terms.

Centra purchases the gas for its Fixed Rate Primary Gas Service customers through its existing Primary Gas contract. In order to protect itself from fluctuations in the gas price for its fixed-term offerings, Centra placed hedges on the gas it expected to purchase for Fixed Rate Primary Gas Service customers. By locking in the price on some of the expected volumes, Centra reduced its risk of escalating gas prices. However, the gas market price has been generally declining since 2008, and as a result Centra has incurred settled hedging losses of $1.5 million. The unsettled mark-to-market result of the remaining hedges is an additional loss of $336,000.

The declining market prices have also contributed to Centra not attracting its forecasted numbers of customers to the Fixed Rate Primary Gas Service. Because of this, Centra ended up with excess volumes of hedged gas which has contributed to the hedge losses.

Another effect of the lower than anticipated customer participation is that the actual program costs are not being fully recovered through volumetric rates. The Board established a Program Cost Rate in order to recover the program administrative and start-up costs through a small unit rate on each volume of gas sold of $0.0262/m^3$. With fewer Fixed Rate Primary Gas Service volumes sold than forecasted, the Program Cost Rate has not recovered the forecasted amounts of program costs. This contributed to an additional loss to the Fixed Rate Primary Gas Service program of $816,000 to March 31, 2012.

Centra reported total program losses from its Fixed Rate Primary Gas Service to March 31, 2012 at $2.2 million. These losses accrue to Centra’s retained earnings.

11.2.0 New Rate Setting Methodology

Fixed Rate Primary Gas Service was previously priced by obtaining derivatives quotes from counterparties for futures market gas prices and adding a Volumetric Risk Premium and a Program Cost Rate. Since August 2011, Centra has been unable to place derivatives hedges on Fixed Rate Primary Gas Service because of a lack of interest from counterparties. Beginning with the November 1, 2011 Fixed Rate Primary Gas Service offerings, Centra has not hedged its Fixed Rate Primary Gas Service, and it has calculated a proxy for the derivatives quotes in order to set the Fixed Rate Primary Gas Service rate.

Centra proposes a new Rate Setting Methodology for Fixed Rate Primary Gas Service, whereby Centra will self-insure its Fixed Rate Primary Gas Service, exposing Centra to the risk of escalations in the market price of gas. Centra proposed several ways to mitigate this risk.

Centra proposes a Self-Insurance Risk Premium of 8% be added to the forecasted gas costs along with the Program Cost Rate to set the Fixed Rate Primary Gas Service rates. The gas costs will be calculated from the Alberta Energy Company ("AECO") futures market prices and will include the forecasted costs of Centra's gas in storage and the cost to transport the gas from the AECO hub to Manitoba.

To determine the 8% Self-Insurance Risk Premium, Centra conducted randomized market simulations using gas prices over the period 2000 to 2011. Centra is of the view that the gas market prices were exceptionally volatile over this period and thus represent a robust test for developing the appropriate risk premium.

An additional measure to mitigate Centra's risk is the establishment of thresholds that trigger a review of the Fixed Rate Primary Gas Service program. Centra proposes to initiate a review of its Fixed Rate Primary Gas Service, and bring the review to the Board's attention, in the event that any of the following four thresholds are exceeded:

- When net customer migration to the Fixed Rate Primary Gas Service in any one gas quarter reaches 0.5% of overall annual sales volumes;

- When volumes associated with active Fixed Rate Primary Gas Service customers under contract reach 2.5% of Centra's overall annual sales volumes;

- When cumulative settled risk margin losses (calculated from the inception of Self-insurance) exceed $1 million; and

- When unsettled forward mark-to-market risk margin losses (again calculated from the inception of self-insurance) exceed $1 million.

No intervener expressed concerns with Centra's proposed changes to the Fixed Rate Primary Gas Service. In CAC's view, the Fixed Rate Primary Gas Service was a valuable innovation by Centra that did not work out as intended in that participation was lower than expected and that it imposed a financial drain on Centra. CAC stated that even though the program may not seem justifiable on an economic basis, some competition is better than no competition with respect to fixed rate offerings available to Centra's customers.

11.3.0 Board Findings

The Board approves the amendments Centra proposed to the rate-setting methodology for its Fixed Rate Primary Gas Service. The Board recognizes that Centra will be accepting some market price risk since Centra has been unable to execute derivatives hedges. The Board approves the Self-insurance Risk Premium of 8% and the four program review thresholds proposed by Centra.

Following the conclusion of each Fixed Rate Primary Gas Service offering, which the Board understands occurs quarterly, Centra is to provide the Board with a brief report outlining the numbers of customers that signed up in that recently concluded offering. Centra is also to provide its current position relative to the four program review thresholds.

11.4.0 Western Transportation Service Matters

Centra's Western Transportation Service permits retail marketers to sell Primary Gas directly to customers. In 2007, the Board reviewed the Primary Gas retail market competitive landscape. Order 160/07 flowed from that proceeding and determined, among other things, that the costs incurred by Centra in administering the Western Transportation Service were to be collected from all of Centra's customers, including those that did not participate in the Western Transportation Service.

The Board also noted that it was not prepared to end the subsidization of Western Transportation Service customers by non-participating customers until Centra offers fixed rate and fixed term Primary Gas contracts. Centra now offers its Fixed Rate Primary Gas Service. Accordingly, the Board will review this matter at an upcoming proceeding. In the interim, the Board requests a report from Centra on the costs it incurs in administering the Western Transportation Service, including the Agency, Billing, and Collection service and any bad debt expense related to the Primary Gas portion of Western Transportation Service customers. The Board requests this report by December 31, 2013.

12.0.0 TERMS AND CONDITIONS OF SERVICE

Centra provides service to its customers under Terms and Conditions that are approved by the Board and are available to its customers upon request to Centra. As part of its General Rate Application, Centra proposed several updates to the Terms and Conditions, as set out below.

12.1.0 New Activity Rates for Third Party Damages

Under the existing Terms and Conditions, contractors who damage Centra's plant are charged for the cost of materials, the cost of gas lost, and the labour cost involved in repairing the damage. To recover additional costs borne by Centra but currently not charged, Centra has proposed two new activity rates for (1) investigation and documentation of the incident, and (2) performing appliance relights. Appliance relights are required after gas service has been restored. To date, Centra has not tracked such costs.

12.2.0 Modifications to Customer Equipment Problems Program

The Customer Equipment Problems Program has historically been referred to as "Burner-tip Service". Under the existing Terms and Conditions, Centra is responsible to perform safety inspections, safety-related adjustments and repairs to the gas-burning portion of all customer-owned residential appliances and commercial appliances with a capacity of less than 400,000 Btu/h. Centra proposes to amend the Terms and Conditions to limit this obligation to primary space heating and water heating appliances, thus eliminating Centra's obligation to service natural gas fireplaces, stoves, clothes dryers, pool heaters, barbecues, or other non-essential appliances. Centra will continue to address all safety concerns, regardless of the appliance involved.

12.3.0 New Activity Rate for the Supply of "As-Built" Plans to a Municipality

In Order 159/11, the Board approved a new Negotiated Schedule under *The Greater Winnipeg Gas Distribution Act* ("*The GWGDA*") and a new Generic Franchise Agreement for municipalities not subject to *The GWGDA*. One of the changes to the agreements was that municipalities would be limited to obtaining free as-built drawings of Centra's plant a maximum of two times in any 12-month period, and would be charged for additional requests. Centra is proposing an activity rate of $134.00/hr or $187.00/hr for overtime to supply "as built" plans.

12.4.0 Removal of Finance Equipment Interest Rate

Centra proposes to remove the 12.9% Finance Equipment Rate from the Terms and Conditions of Service as all financing options provided to Centra's customers are now provided by Manitoba Hydro.

12.5.0 Updated Company Labour Rates

Centra is proposing to consolidate the rate for third-party damage repairs into a single rate and to increase all rates to account for increases in the activity rates related to general cost escalation. Centra proposes the following new rates:

Service Type	Location	Regular Hourly Rate	Overtime Hourly Rate
Service Line Alterations	All Areas	$121.00	$169.00
Damage Repairs	All Areas	$121.00	$169.00
Damage Investigation	All Areas	$131.00	$184.00
Appliance Relights	All Areas	$121.00	$169.00
Metering Services	All Areas	$136.00	$191.00
Gas Pipeline Operational Services	EastMan	$131.00	$184.00
"As Built" Plans	All Areas	$134.00	$187.00

12.6.0 Board Findings

Regarding the new activity rates for third-party damages, the Board accepts that such costs are legitimately attributable to damage caused to Centra's plant and approves the amendment.

Regarding the modifications to the Customer Equipment Problems Program, in the Board's view, a legitimate distinction can be drawn between primary space heating and water heating on the one hand, which are essential appliances (i.e. furnaces, hot water tanks and stoves/ranges) vital to personal health and safety, and "optional" appliances (i.e. fireplaces, dryers and pool heaters) which may not need to be repaired with the same urgency. Moreover, repairs to optional appliances are a small component of Centra's overall service calls. In the 2012/13 year, Centra received 12,655 service calls for space heating, 2,201 service calls for water heating, and only 1,132 calls in the "other" category. Centra estimates that the cumulative work performed on "other" service calls in that year represents approximately 0.6 Equivalent Full-Time positions. The Board has not been presented with evidence that there is a shortage of licensed private natural gas contractors that can handle such repairs and believes it is unlikely that the relatively small volume of work cannot be handled by private industry. As such, the Board approves the amendment sought except in respect of ranges and stoves. When Centra notifies its customers of this amendment, it should clearly state that Centra will continue to respond to emergency calls and safety-related requests for all types of appliances, even those that are no longer covered by the Customer Equipment Problems Program.

Regarding the new activity rate to supply "as-built" plans, the Board accepts that Centra's proposed rate is reasonable.

Regarding the proposed removal of the 12.9% Finance Equipment Rate, the Board accepts that the rate is no longer necessary and approves the amendment.

Regarding the updated company labour rates, the Board accepts these rates as just and reasonable, noting that this is the first increase since 2009.

13.0.0 OUTSTANDING DIRECTIVES FROM PRIOR ORDERS

A number of directives remain outstanding from prior Board Orders. These are enumerated below. The Board is cognizant that Centra has not met the deadlines set by the Board for some of these directives. In some instances, Centra asked for an extension of the deadline. In other instances, Centra has been silent. The Board is also aware that Centra failed to comply with Directive 9 from Order 128/09 in respect of Centra's interest rate forecasting methodology.

The Board reminds Centra that, by *The Public Utilities Board Act*, the Board has broad supervisory authority over Centra. The Board expects its Directives to be responded to within the timeframe allotted. If Centra is unable to complete a Directive by the deadline, Centra is to request an extension from the Board, and such request will not be unreasonably withheld. If Centra disagrees with any of the Board's Directives, Centra's remedy is to apply to the Board to review and vary the Directives according to the Board's Rules of Practice and Procedure.

For all future rate applications, excepting quarterly Primary Gas rate applications, Centra is to provide a comprehensive listing of past Board Directives and their status. Centra provided a listing of past Directives in the current application, but this listing was not comprehensive. The Board will pronounce whether the Directives in this list are complete to the Board's satisfaction, upon which they may be removed from future listings. For Centra' next rate application, this comprehensive listing should include all the Directives from Order 128/09 onwards.

13.1.0 Review of Integrated Cost Allocation Methodology (Order 128/09, Directive 11)

In Order 128/09 (Directive 11), the Board required Centra to file, on or before March 1, 2010, terms of reference for a study to review its Integrated Cost Allocation Methodology. On September 30, 2010, Centra advised the Board that due to the continued uncertainty and delays regarding the implementation of International Financial Reporting Standards ("IFRS"), Centra would delay compliance with this directive until International Financial Reporting Standards had been implemented.

During the hearing, Centra proposed that the integrated cost allocation methodology, which allocates Operations, Maintenance, and Administrative expenses from Manitoba Hydro to Centra, may be simplified following implementation of IFRS. Accordingly, Centra proposes that it implement IFRS first, simplify the integrated cost allocation methodology second, and finally review the Methodology in a forum outside of a

General Rate Application such as a workshop or other collaborative approach involving Centra, Board staff, and interveners. The collaborative approach may obviate the need for an external review of the Methodology. CAC supports such a collaborative process, but that the review should commence immediately.

13.1.1 Board Findings

Directive 11 arose out of the fact that previous Directive 25 from Order 99/07 had been delayed by Centra's perceived need to wait until International Financial Reporting Standards ("IFRS") had been implemented. When Directive 11 was issued in 2009, the Board expected that, within one year, there would be sufficient certainty. It has now become apparent that the International Accounting Standards Board is still making changes to the new accounting requirements, and implementation by Centra will be pushed back another year to 2015/16.

The Board is frustrated with the inability to commence the review, but recognizes the problems that would arise if the review was undertaken while Centra is still in the process of making decisions regarding IFRS. As such, the Board is prepared to delay compliance with the Directive until there is certainty with respect to the adoption of International Financial Reporting Standards. Concurrent with the implementation of IFRS, Centra should therefore propose a process to review and simplify the cost allocation methodology.

13.2.0 Head Office Costs (Order 99/07, Directive 24)

The Board previously rejected the allocation of any costs related to Manitoba Hydro's new head office to Centra in excess of what Centra was, or would be, paying for its office space. In Order 99/07, the Board stated:

> *In the Board's view, any incremental costs associated with the new Corporate headquarters would not have been incurred as required for Centra's operations, and, thus should not be borne by Centra's ratepayers. Accordingly, the Board will direct Centra to hold gas ratepayers harmless for any incremental costs that may result from the pending relocation of gas operations to the new corporate head office.*
>
> *In its future applications, Centra must either clearly demonstrate that the savings from leases, payments, improved productivity, and any other cost savings that may be realized, are equivalent to or greater than the costs included in its revenue requirement related to the new building, or provide evidence that no incremental costs are*

> *associated with or have been allocated to Centra related to the new headquarters.*

In Order 128/09, the Board further clarified:

> *However, the Board recognizes that there are likely to be some synergy savings that will develop over time as a result of the consolidation of MH's administrative operation in one location, and, at future GRAs will reconsider its position based on evidence of costs and savings presented at that time. PUB recognizes that MH purchased Centra ten years ago, and provisionally accepts that there will come a time at which it would be unreasonable not to allow the cost of the new building into Centra's O&A cost allocation consideration.*

In its current Application, Centra complied with the Board's Directives by crediting an amount to Centra equivalent to holding its office space costs at the level Centra paid in 2009. However, Centra requested that the Board reconsider its previous directives and allow Manitoba Hydro to allocate the space costs related to the new head office building at 360 Portage Avenue to Centra.

13.2.1 Board Findings

The Board's directive stated that only the incremental costs related to the new head office would not be permitted to be allocated to Centra, and not that Centra's space costs were to be maintained at 2009 levels. Manitoba Hydro may provide the Board with an analysis that shows the estimated increased costs Centra would have incurred renting commercial space if it was not co-located with Manitoba Hydro in the new head office building.

The Board will consider Centra's request to allow the full incremental costs of the new head office to be allocated to Centra, in conjunction with the overall review of the Integrated Cost Allocation Methodology specified in Order 128/09 Directive 11.

13.3.0 Revised Feasibility Test for the RM of Norfolk (Order 70/12, Directive 5)

In Order 70/12 (Directive 5), the Board required Centra to canvass potential customers in a franchise expansion area of the Rural Municipality of Norfolk and provide the Board with a report by December 31, 2012, including a revised feasibility test that accounts for potential revenues from additional customers accommodated with a NPS 4 pipe. While

Centra indicated, in its General Rate Application Filing, that it expected the report to be provided by March 4, 2013, it remains outstanding to date.

13.3.1 Board Findings

The Board requires Centra to respond to its Directives within the timeframe specified. If Centra is unable to comply with a Directive within the specified timeframe, Centra is to request and obtain approval from the Board to vary the Directive.

13.4.0 Capacity Management Revenues (Order 112/12, Directive 5)

In Order 112/12 (Directive 5), the Board required Centra to provide the monthly totals of its Capacity Management revenues from the Transportation & Storage Portfolio broken down into type and component of the Portfolio, and to show monthly revenues by component as a percentage of the costs incurred by Centra to operate that component. Centra provided schedules showing the monthly breakdown of Capacity Management revenues attributable to each component of Centra's portfolio.

13.4.1 Board Findings

The Board is satisfied with the detail provided in Centra's response and considers the Directive satisfied. The Board may have additional comments and further direction to give in the future regarding Centra's response.

13.5.0 Pre-approval of Feasibility Tests (Order 95/00, Directive 8)

Order 95/00 Directive 8 directed Centra to submit feasibility tests to the Board for approval of the tests prior to construction of any pipeline expansions greater than 500 metres in length in the Rural Municipalities of Woodlands and Bifrost.

13.5.1 Board Findings

The Board does not require feasibility tests to be submitted prior to construction in any of its other franchised service territories. Centra provides a summary of the feasibility test results for main extensions greater than 500 metres after the fact in its General Rate Application filings, and the Board may request to see the feasibility tests at any time. The Board varies Directive 8 so that Centra is not required to submit feasibility tests for approval prior to construction in the Rural Municipalities of Woodlands and Bifrost.

13.5.2 Finalization of Orders Affecting Municipalities

Since the last General Rate Application, the Board has approved several municipal franchises on an interim basis.

13.5.3 Board Findings

Since the Board received no evidence that would suggest these orders cannot be finalized, the Board is finalizing Orders 80/11, 89/11, 101/11, 132/11, 51/12, 61/12, 67/12, 70/12, 85/12, 94/12, and 131/12 relating to municipal franchises.

The Board is also finalizing Orders 32/13 and 33/13, which, on an interim *ex parte* basis, approved new crossing agreements with the Rural Municipalities of Rosser and St. Francois Xavier.

14.0.0 FUTURE REGULATORY PROCESS

14.1.0 Amalgamated Manitoba Hydro and Centra Hearing

Centra was acquired by Manitoba Hydro on July 1, 1999. Since approximately 2002, Centra's operations have been fully integrated into Manitoba Hydro's operations. From a rate regulation perspective, each entity's rates for service are approved by the Board and are subject to regulatory proceedings before the Board. Centra raised the issue of filing its next rate application based on a joint Centra and Manitoba Hydro General Rate Application, once the review of the Needs For and Alternatives To Manitoba Hydro's Preferred Development Plan ("NFAT Review") is completed. Centra stated there should be stakeholder meetings or workshops but did not believe it necessary for a generic hearing to consider how a combined rate application might unfold.

In the interim, Centra stated there might be a need for a paper process to deal with interim rate increases that may be required in 2014/15 for gas and electric operations. This would allow for a proper allocation of resources for the NFAT Review process.

CAC questioned Centra's proposal to have an amalgamation of Centra and Manitoba Hydro from a regulatory process perspective. In prior rulings, the Board indicated that, in any amalgamation of the hearing process, there would be certain ground rules set out, including full details of the process proposal, a list of advantages and disadvantages from the perspective of all stakeholders, and a process which provided interveners and other parties with an opportunity to participate. CAC stated there may be some benefits to combining issues, but the extent of the commonality of issues, the mechanics, and the impact on both gas and electric ratepayers needs to be examined thoroughly in a generic sense before any final decision is made. Consequently, prior to any process that would integrate electric and gas hearings, CAC recommends vetting of the pros and cons of the proposed process. CAC also opposed a paper process for setting 2014/15 rates, stating that General Rate Applications should be held in the normal course of events as required for appropriate regulatory ratemaking, without regard for the fact that there is a NFAT Review pending before the Board.

14.2.0 Regulatory Efficiency

Centra filed its General Rate Application in two volumes, the first on January 25, 2013 and the second on February 22, 2013. Order 21/13, in respect of the Pre-Hearing Conference, provided instruction to Centra and the interveners concerning the scope of the issues that the Board was prepared to consider in its review of Centra's Application.

Based on the Board's Order, Centra declined to answer a number of information requests submitted by the Board and CAC.

14.3.0 Strategic Vision For Centra

Centra stated its mandate is to acquire, manage, and distribute supplies of natural gas to meet Manitoba market requirements in a safe, cost-effective, reliable, and environmentally appropriate manner. Centra provided some goals and targets in its Corporate Strategic Plan filed with its Application. Centra also articulated a number of new or continuing challenges it faces in fulfilling its mandate, such as:

- A change in gas supply moisture content, resulting from new supplies of gas to Manitoba from the United States, which will potentially cause Centra to install equipment at its pressure regulating stations to address operational issues caused by the higher moisture content;

- Maintaining pipeline integrity of its aging infrastructure, some of which has been in service for 60 years;

- Maintaining system reliability in the event of a disruption of a major feeder pipeline. Centra is evaluating its system and may determine that new or additional feeder pipelines and interconnections are necessary to mitigate the loss of gas service in the event of failure of a feeder pipeline;

- Expanding its distribution system to address growth in the numbers of customers and ensure the capacity of its existing pipelines is sufficient to supply these new customers;

- Addressing the encroachment of new developments on existing pipelines, which may result in modifications or relocations of these pipelines; and

- Changes to operational work practices aimed at improving employee and public safety, some of which result in additional operations and maintenance costs.

Centra's goal is for its customers to continue to enjoy a safe and reliable supply of natural gas to their homes and businesses, and to take this level of service and reliability for granted. Centra's requested rate increase will allow Customers to continue to be confident that a highly trained technical team is constructing and maintaining the gas distribution system so that service is not compromised.

14.4.0 Board Findings

The issue of a combined hearing for setting Manitoba Hydro and Centra rates was not canvassed at this hearing and did not form part of Centra's Application. The Board expects Centra to file a formal proposal for a combined process with the Board. Such a proposal should be circulated to all registered interveners of this proceeding and the prior Manitoba Hydro General Rate Application proceeding. The Board will require Centra to file any proposal at least 12 months before the proposed date of filing a joint application for new rates under the proposed process to allow for an assessment of the merits of such a process.

The Board will assess Manitoba Hydro's or Centra's next rate applications at the time they are made with due consideration to any request by Manitoba Hydro or Centra to have a paper-based process without an oral hearing. The Board will consider the issues before it and make a determination at that time. For future applications, the Board directs Centra to file complete applications from the start and, consequently, not providing a portion of the application at a later date. In the Board's view, filing portions of the application in separate periods results in inefficiencies in the review of the application.

Centra declined to answer certain information requests that the Board stated were out of scope. The Board notes that Centra also declined to answer information requests that it considered were not relevant or had been decided at a previous proceeding before the Board. The Board directs Centra to file responses to information requests on a timely basis in future proceedings. The Board will continue to provide direction as to the scope of issues that it will consider at future Pre-Hearing Conferences.

The Board is interested in knowing the Centra's strategic direction, including where Centra will be investing ratepayer dollars in the coming years, and also what Centra's customers can expect of Centra in terms of continued and improved service levels. Colloquially, the question is: "What does the customer get that is new and better in the coming years?" While Centra articulated its response by addressing some specific reliability issues, the Board finds Centra's overall strategic vision lacking. The Corporate Strategic Plan provides targets and goals at a high level, but does not answer the Board's question of the corporate direction Centra is headed, and what additional value Centra's customers may expect in return for the increase in rates that Centra has requested. The Board requests that Centra consider these questions and provide the Board with a more articulated vision in its next rate application.

THE PUBLIC UTILITIES BOARD

“RÉGIS GOSSELIN, CA, MBA”
Chair

“HOLLIS SINGH”
Secretary

Certified a true copy of Order No. 85/13 issued by The Public Utilities Board

Secretary

APPENDIX A – APPROVALS SOUGHT BY CENTRA

Centra requested the following:

1. Approval of an approximate 2.0% general revenue increase effective August 1, 2013 sufficient to generate additional revenue of $6 million and projected net income of $5 million in 2013/14;

2. Approval of adjustments to rates to reflect changes in forecast non-Primary Gas costs, to be effective August 1, 2013;

3. Approval of Supplemental Gas, Transportation (to Centra), Distribution (to Customers) Sales and Transportation rates, Basic Monthly Charges, the Primary Gas Overhead rate and the Fixed Rate Primary Gas Service ("FRPGS") Program Cost Rate, effective 16 August 1, 2013;

4. Final approval of gas costs for the period of November 1, 2010 to October 31, 2012;

5. Final approval of the disposition through rate riders of the various non-Primary Gas Purchased Gas Variance Accounts ("PGVA"), and other gas cost deferral account balances as at October31, 2012;

6. Final approval of Primary Gas, Supplemental Gas, Transportation (to Centra), Distribution (to Customers) sales rates, and Basic Monthly Charges, effective May 1, 2011, which were approved on an interim basis in Order 66/11;

7. Final approval of Primary Gas, Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) sales rates, effective May 1, 2012, reflecting the removal of non-Primary Gas rate riders, which were approved on an interim basis in Order 54/12;

8. Approval to change the rate selling formula for FRPGS to self-insure the volumetric and market price risk for each subsequent offering;

9. Approval to vary Directive 8 of Order 95/00, eliminating the requirement for Centra to submit a feasibility test to the Board for approval prior to commencement and construction of future expansions greater than 500 metres in the Rural Municipalities of Woodlands and Bifrost;

10. Final approval of interim Orders 106/10, 20/11, 96/11, 150/11, 7/12, 89/12, and 137/12 related to the approval of interim Primary Gas Sales Rates effective

November 1, 2010, 23 February 1, 2011, August 1, 2011, November 1, 2011, February 1, 2012, August 1, 2012, and November 1, 2012, respectively. Centra is also requesting final approval of 25 any further interim ex-parte Orders related to the approval of Primary Gas Rates issued by the PUB prior to the conclusion of the hearing of this Application;

11. Final approval of interim Orders 80/11, 89/11, 101/11, 132/11, 51/12, 61/12, 67/12, 70/12, 85/12, 94/12, and 131/12 related to the approval of new franchise agreements and financial feasibility tests for the expansion of natural gas to the Rural Municipality ("RM") of Thompson & the RM of Roland, the RM of Portage Ia Prairie, the RM of Rockwood, the RM of Ste. Anne, the RM of Rosedale, the RM of Whitewater, the RM of 6 Portage Ia Prairie, the RMs of South Norfolk & Grey, the RM of Ste. Anne, the RMs of Bifrost and Woodlands, and the RM of Woodworth, respectively. Centra is also requesting final approval of any further interim ex-parte Orders related to franchise applications issued by the PUB prior to the conclusion of the hearing of this Application;

12. Approval of changes to the Terms & Conditions of Service, as will be discussed in Volume II of the Application, including updated Activity Rates for chargeable services, changes to Centra's Customer Equipment Problem Program for Small General Service customers, and the introduction of new charges to recover costs related to third party damages to utility plant, to take effect upon Order of the Board; and,

13. Final approval of any interim rate Orders issued by the PUB subsequent to the filing of the Application and prior to conclusion of this proceeding.

APPENDIX B – APPEARANCES

Appearances

R. Peters S. Hombach	Counsel for The Manitoba Public Utilities Board (Board)
M. Boyd B. Czarnecki	Counsel for Centra Gas Manitoba Inc. (Centra)
B. Meronek	Counsel for Consumers' Association of Canada (Manitoba) Inc.

Witnesses for Centra

Lloyd Kuczek	Vice-President, Customer Care & Energy Efficiency
Lois Morrison	Division Manager, Consumer Marketing & Sales
Greg Barnlund	Division Manager, Rates & Regulatory Affairs
Brent Sanderson	Dept. Manager, Gas Market Analysis & Administration
Lori Stewart	Dept. Manager, Gas Supply, Transportation & Storage
Darren Rainkie	Vice-President, Finance & Regulatory
Hanri Jacob	Corporate Controller
Manny Schulz	Corporate Treasurer
Mark Prydun	Division Manager, Business Support & Capital Asset Management
Kelly Derksen	Dept. Manager, Cost of Service

Witnesses for the Consumers' Association of Canada (Manitoba) Inc.

J.R. McCormick J. Oppenheim	Witnesses for Consumers' Association of Canada (Manitoba) Inc.

APPENDIX C – UNITS OF MEASUREMENT

Gas Volume represents the quantity of gas supplied and consumed by customers and is expressed in:

- Cubic metres (m^3)

Energy represents the amount of heat provided and is measured in:

- Kilojoules (kJ) – international standard of measurement
- Gigajoules (GJ) – 1,000,000 kJ
- British thermal unit –imperial standard of measurement, equal to 1.06 kJ

One cubic metre of gas contains approximately 0.0378 GJ of energy.