MANITOBA		**Order No. 41/10**
THE PUBLIC UTILITIES BOARD ACT		**April 27, 2010**

Before: Graham Lane, CA, Chairman
Len Evans, LL.D., Member
Monica Girouard, CGA, Member

CENTRA GAS MANITOBA INC. (2010/11 COST OF GAS APPLICATION AND OTHER MATTERS IMPACTING MAY 1, 2010 RATES)

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Executive Summary

On December 18, 2009 Centra Gas Manitoba Inc. (Centra) filed an Application with the Public Utilities Board of Manitoba (Board) to amend its Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates, collectively called non-Primary gas rates, effective May 1, 2010. In addition to these proposed rate changes, Centra also sought to implement the Board's direction set out in Order 128/09, which was in response to Centra's 2009/10 and 2010/11 General Rate Application (GRA) in respect of non-gas rates. Lastly, Centra sought to implement new Primary gas rates, also on May 1, 2010.

By this Order, and following a public hearing held in April 2010, the Board:

a) directs an amendment to Centra's forecast for non-Primary gas costs for the 2009/10 Gas Year, this to revise the forecast Canadian dollar-US dollar (CAD/USD) exchange rate (the revision incorporates the actual exchange rate experienced this year-to-date and implement a forecast of $1.02 Canadian dollars to the US dollar to October 31, 2010;

b) approves Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates effective August 1, 2009 that were previously approved on an interim basis in Order 116/09;

c) revises Centra's interpretation of direction set out in Order 128/09 related to Centra's non-gas Revenue Requirement and resulting rates, and directs Centra to revise Finance Expense forecasts for its 2009/10 and 2010/11 fiscal years by incorporating the short and long term interest rate forecasts prescribed by the Board into the determination of forecast interest on common assets and inventory. (The Board expects that this will decrease the forecasted Finance Expense by $320,000 on an overall basis.); and

d) recalculate the 2010/11 rates for the higher volume classes by incorporating a Net Income of $2.4 million, instead of $3 million in the Cost Allocation Model (the Board anticipates that this will cause only a minor reduction in the bills of the higher volume customer classes compared to the bill impacts proposed by Centra in its February 19, 2010 compliance filing).

Centra's Primary gas rate is adjusted each quarter using the Board-approved Rate Setting Methodology. While not expressly part of Centra's Cost of Gas application, the Primary gas rate change will concurrently occur on May 1, 2010. The Board, in this Order, approves a Primary gas billed rate of $0.1844/$m^3$ on an interim basis, this in accordance with Centra's April 9, 2010 Application.

On a preliminary basis, based on the rate adjustments to flow from this Order, the typical residential consumer (consuming 2530 m^3 of natural gas per year) may expect an annual bill reduction of approximately $63 or 6.1%. Other customers will also experience annual bill decreases ranging from 5.7% to 17.5% depending on their customer class and the volume of natural gas consumed.

A final calculation of customer bill impacts will be included in the Board's next order, to be issued later this week, after Centra files revised calculations in accordance with the directions in this Order. As well, the Board intends to address a number of other issues that arose during the Cost of Gas proceeding in a subsequent Order.

1.0 Introduction

Centra is Manitoba's largest natural gas distributor, and was acquired by Manitoba Hydro (MH) in 1999. The prices charged (rates) for sales of natural gas and the general operations of Centra are subject to the review and approval of the Public Utilities Board, pursuant to the provisions of The Public Utilities Board Act.

Centra's mandate is to acquire, manage, and distribute supplies of natural gas to meet the requirements of Manitoba in a safe, cost-effective, reliable, and environmentally appropriate manner.

A major purpose of the hearing of Centra's recent Cost of Gas Application (COG) for the 2010/11 fiscal year (and the 2009/10 Gas Year) was to approve non-Primary gas costs incurred for the Utility's 2008/09 gas year and to set rates on May 1, 2010, based on forecast non-Primary gas costs. In addition, the COG proceeding included matters generally attended to at bi-annual General Rate Application (GRA) proceedings.

The hearing, which was preceded by a pre-hearing conference, began on April 13, 2010 and concluded with closing submissions on April 20 by Interveners, Board Counsel, and Centra.

And, as indicated above, and while not specifically addressed through the COG process, there is to be a coincident change in Primary gas rates on May 1, 2010, this the result of the application of the quarterly Rate Setting Mechanism. These rate changes will come concurrent with a change in non-gas rates to occur on May 1, 2010, resulting from Centra's 2009/10 and 2010/11 GRA.

2.0 Centra's Rates

Centra's rates consist of five components: (i) Primary Gas (supplied by Centra to "system gas" customers, other customers are supplied by marketers or Centra's newly introduced fixed rate supply), (ii) Supplemental Gas, (iii) Transportation (to Centra), (iv) Distribution (to Customers), and (v) a Basic Monthly Charge (BMC).

Centra rates differ by rate class. The rates charged to each class are based on the cost to serve that class. The different rate classes are Small General Service (SGS, which includes the residential customers), Large General Service (LGS), High Volume Firm (HVF), Mainline (ML), Interruptible (IT), Power Station (PS), and Special Contract (SC).

The COG proceeding dealt with changes to the Supplemental Gas, Transportation (to Centra), and a small component of the Distribution (to Customers) rates (this small component relates to Unaccounted For Gas and Minell Pipeline costs). The Primary Gas component of Centra's rates recovers the cost of the natural gas supply received from Western Canadian sources.

For 2010/11, with normal weather, Primary Gas supply is expected to represent 95% of Centra's overall gas supply for firm service customers and 67% of overall supply for interruptible service customers.

Supplemental Gas rates are established to primarily recover the cost of gas purchases from U.S. sources, as these sources are regularly required to meet cold Manitoba winter weather conditions. Supplemental gas is expected to make up 5% of the overall supply for firm service customers and 33% of the overall supply for interruptible service customers.

Transportation (to Centra) is the rate component that recovers costs associated with transporting gas supplies from Western Canada to Manitoba, injecting storage gas from Western Canada during the summer months for delivery to Manitoba in the high-use winter period, and recovering the cost of transporting American supplied gas to Centra's storage facility in Michigan.

The Distribution (to Customer) component of rates recovers the costs associated with operating Centra, including the transportation and distribution pipeline network within Manitoba, as well as the cost related to Unaccounted for Gas (UFG). The portion of Distribution rate related to UFG is the portion that is addressed in the COG proceeding.

A portion of Centra's general operating costs, such as for meter reading and customer billing, are recovered in the BMC. Presently, the BMC for the SGS and LGS classes has been set so as to recover only a portion of Centra's fixed costs incurred in serving those customers. The BMC for all rate classes will change on May 1, 2010; increasing to $14 and $77 per month for the SGS and LGS classes respectively, as directed by Order 128/09 (which resulted from Centra's 2009/10 and 2010/11 GRA proceeding).

Primary Gas rates are set on a quarterly basis in accordance with the well-established Rate Setting Methodology (RSM), approved by the Board and accepted by Interveners to Centra hearings. The approvals are given on an interim basis until such time as they are reviewed in either a GRA or a COG Application proceeding, at which time these interim rates are finalized Board direction.

Centra passes on to its customers its cost of gas without any mark-up or profit. To ensure the exact cost of gas is passed on to customers, Centra maintains deferral accounts denoted as Purchased Gas Variance Accounts (PGVA). These accounts record the difference between the cost of gas embedded in sales rates and Centra's actual incurred cost. The balances in the

PGVAs, 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 (reimburse Centra) to the base sales rates, and form a separate and identified 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 arose between previous gas cost estimates and actual gas costs incurred.

Rate riders retroactively recover the balances in the PGVAs, which contain the accumulated differences between estimated and actual gas costs. Rate riders are not used to recover variances between actual and forecasted non-gas costs. New rate riders for non-Primary Gas rates are approved resulting from the COG proceeding. The Primary Gas rate rider is set quarterly as part of the Board-approved Quarterly Rate Setting Methodology.

Rate riders established by prior Order 116/09 were not expected to expire until July 31, 2010. However, in this COG Application Centra sought to combine the remaining balances in the prior period PGVAs with the balances that have accrued in the 2008/09 PGVAs, and set new rate riders to recover these combined balances beginning May 1, 2010. These new rate riders are proposed by Centra to continue for 12 months and expire on April 30, 2011.

3.0 Application

Overview

Centra sought approval of new non-Primary gas rates to reflect its revised forecast for non-Primary gas costs for the Utility’s 2009/10 “gas year”. Centra also sought approval of the gas costs it incurred over the 2008/09 gas year, including the balances that accrued in its PGVA. In addition, Centra sought approval of the disposition of those PGVA balances.

Concurrently, Centra applied to the Board for interim *ex parte* approval of new Primary gas rates effective May 1, 2010.

Coincident with these rate changes sought for May 1, 2010 are non-gas related rate changes that stem from Order 128/09 related to Centra's 2009/10 and 2010/11 GRA proceeding (held in the summer of 2009). Centra sought approval of the rate schedules filed in response to Order 128/09, these to be implemented May 1, 2010 as well.

Centra also sought final approval of Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates approved by Order 116/09 on an interim basis.

As well, Centra responded to a number of prior Board directives by filing responses in this proceeding. The Board will provide its commentary and direction on these and a number of other matters in a subsequent Order.

Cost of Gas

The most significant cost incurred by Centra is the cost of purchasing natural gas.

Centra acquires the majority of its gas supply from Western Canadian sources through a contract with ConocoPhillips Canada Marketing & Trading ULC (ConocoPhillips) – this contract was entered into late last year, replacing a contract with another supplier. Centra also acquires smaller volumes of gas, called Supplemental gas, from other sources, the majority of those suppliers being in the United States.

Centra contracts gas storage facilities located in Michigan, and, after injecting gas into storage in the summer, withdraws the gas during the winter months. Centra's pipeline transportation contracts with TCPL, Great Lakes Gas Transmission and ANR move the gas to both Manitoba and Centra's storage facilities.

Centra reported an actual cost of gas for the 2008/09 gas year of $437 million, and sought approval of the expenditure. The actual cost of gas was greater than the forecast of $395.9 million that was projected by Centra at the 2009/10 and 2010/11 GRA proceeding. The $437 million expenditure includes a $5.2 million reduction in overall gas costs as the result of Centra's capacity management activities and, also, gas cost additions of $97.1 million as a result of

Centra's hedging activities. Centra's hedging activities are discussed in a subsequent section of this Order.

Centra refunds or collects balances that accrue in its PGVAs through rate riders that are applied "on top of" approved base rates. For the 2008/09 gas year, Centra under-collected its actual non-Primary gas costs, such that customers owed Centra $9.4 million including carrying costs. The Board approved rate riders to recover this balance from customers in Order 116/09, and these rate riders have been in place since August 1, 2009 and are forecasted to have recovered $8.9 million of the $9.4 million owing to Centra by April 30, 2010.

Centra proposed that the remaining balance of $500,000 in this prior period PGVA be added to the $2.3 million non-Primary PGVA balances that have accumulated throughout the 2009/10 gas year, and sought approval of these non-Primary PGVA balances, which total $2.8 million in aggregate, owing to Centra, and approval of the disposition of these balances through non-Primary gas rate riders beginning May 1, 2010 and expiring April 30, 2011. Centra determined the magnitude of these rate riders by allocating these balances to its various customer rate classes using the approved cost allocation and rate design model.

Including Primary gas, Centra's forecast gas costs for the 2009/10 gas year are $300.6 million, of which $69.1 million are non-Primary Gas costs. Centra is forecasting non-Primary gas costs to increase by $12.1 million compared to the amount currently embedded in the last approved non-Primary gas rates, the increase largely attributable to pipeline transportation toll increases, those approved by the National Energy Board and outside of Centra's control.

Included in gas costs are U.S. gas purchases and U.S. transportation and storage charges, paid in U.S. dollars, which were based on an exchange rate assumption of $1.11 CAD/USD for the period November 1, 2009 to March 31, 2010, and a rate of $1.07 CAD/USD for the period April 1, 2010 to October 31, 2010. The Canadian-US exchange rate forecasts were prepared by Centra in October 2009, and differ materially from more recent experience. Any differences between actual and forecast exchange rates are recovered in a Transportation PGVA and disposed of as determined by the Board through a subsequent Cost of Gas Application.

Centra indicated that if the gas cost forecast was updated to reflect the actual CAD/USD exchange rates incurred from November 1, 2009 to February 28, 2010 and forecast at CAD/USD parity from March 1, 2010 until October 31, 2010, this would result in a gas cost forecast of $298.8 million, representing a decrease in forecast gas costs of approximately $1.84 million.

During the recent proceeding, Centra presented projected bill impacts based on its proposed non-Primary gas rates. The proposed bill impacts, if Centra's Application had been approved by the Board as submitted, are shown in the table below:

Proposed Bill Impacts – Non-Primary Gas Billed Rate Changes Only

Class	Annual Increase (Decrease)	Percentage Increase (Decrease)
SGS (including Residential)	($1 - $8)	(0.1% – 0.2%)
LGS	$7 - $417	0.2%
High Volume Firm	$6,913 - $103,384	2.7% - 3.1%
Mainline	$21,275 - $307,916	2.7% - 2.9%
Interruptible	($20,583 - $357,381)	(8.7% - 9.1%)

May 1, 2010 Primary Gas Rate

Centra applied to the Board to reduce its quarterly-set Primary Gas rate by 14%, from $0.2148/m³ to $0.1844/m³. While this Primary Gas Application was not directly related to the non-Primary Cost of Application, as the proposed implementation date for the change was May 1, 2010, coincident with the implementation date of the proposed non-Primary gas rates, the Board dealt with the proposal concurrent with the non-Primary gas rate proposal.

As previously indicated, Centra's Primary gas rates are determined by the Board-approved Rate Setting Methodology (RSM), and are approved on an interim *ex parte* basis until such time as they are reviewed in a public process and given final approval or otherwise adjusted.

If the revised Primary gas rates for May 1, 2010 were to remain in place for a year, and weather and other non-rate factors (such as household heating settings and the efficiency of furnaces and insulation levels) remained as before, the "typical" residential customer receiving Primary gas from Centra would expect to experience an overall annual decrease in their natural gas bills of $73, or 7.1%.

Larger volume customers that also receive Primary gas from Centra would expect a decrease in the range of 6.8% to 11.5%. It is important to note that customers purchasing primary gas on fixed price contracts (from either private marketers or from Centra) are not affected by changes to Centra's Primary gas rates.

The Primary gas rates established by this Order reflect, in part, the futures price strip of April 1, 2010.

AECO Price$/GJ (Canadian)

May/10	Jun/10	Jul/10	Aug/10	Sep/10	Oct/10	Nov/10	Dec/10	Jan/11	Feb/11	Mar/11	Apr/11
$3.5235	$3.67	$3.72	$3.795	$3.855	$3.99	$4.42	$4.7275	$4.8125	$4.7975	$4.725	$4.5475

May 1, 2010 Primary gas rates, as established herein, have been influenced by:

a) Gas purchased at prices lower than current market prices and stored within Centra's natural gas storage facilities, to be drawn down through the winter months (driving rates down);

b) Hedges placed from July 2009 to January 2010 that have resulted in additions to gas costs and thus hold the Primary gas rate higher than it otherwise would be;

c) A Primary gas rate rider that charges or refunds to consumers past differences between actual natural gas costs and forecasted costs reflected in prior rates; and

d) The Board-approved RSM, a process agreed to by Interveners representing customer groups and Centra, and approved by the Board, that involves a PGVA recording variances between the projected and actual cost of natural gas, for reflection in the next quarterly rate setting.

The following table illustrates changes in natural gas commodity prices and prospective overall bills since August 1, 2006, from the perspective of the average residential customer purchasing Primary gas from Centra by way of quarterly Primary gas rates:

Historical Primary Gas Costs and Bill Impacts

Date	Primary Gas Commodity Cost	% Change in Primary Gas Cost	Annual Bill Adjusted to Current Typical Residential Volume	% Change in Total Projected Annual Bill at Current Volumes
1-Aug-06	8.818/GJ	-4%	$1163	(6.8%)
1-Nov-06	7.941/GJ	-10%	$1150	(1.1%)
1-Feb-07	7.661/GJ	-4%	$1150	0.0%
1-May-07	8.040/GJ	5%	$1202	4.5%
1-Aug-07	7.457/GJ	-7%	$1180	(1.8%)
1-Nov-07	7.070/GJ	-5%	$1139	(3.5%)
1-Feb-08	7.314/GJ	3%	$1153	1.2%
1-May-08	8.308/GJ	14%	$1238	7.4%
1-Aug-08	9.473/GJ	14%	$1309	5.8%
1-Nov-08	7.945/GJ	-16%	$1239	(5.4%)
1-Feb-09	7.852/GJ	-1%	$1183	(4.5%)
1-May-09	7.041/GJ	-10%	$1095	(7.5%)
1-Aug-09	6.628/GJ	-6%	$1122	2.5%
1-Nov-09	5.566/GJ	-16.0%	$1051	(6.3%)
1-Feb-10	5.500/GJ	1.2%	$1035	(1.6%)
1-May-10	4.864/GJ	-12%	$ 965	(6.1%)

Notes

1. The average annual bill above is based on the estimated annual consumption of a typical customer of 2,530 cubic metres. On August 1, 2009 typical annual consumption, previously estimated at 2,590 cubic metres, was reduced to 2,530 cubic metres to reflect the effects of customer conservation efforts.
2. Residential customers receiving Primary gas from marketers or Centra's Fixed Rate Primary Gas Service with a contract-specified rate rather than Centra's default "system supply" would not have the same cost and bill experience. Primary gas costs of customers on contracts are in accordance with the contract with the supplier, generally fixed for one to five years at rates different than those charged by Centra as per the above default quarterly rates.
3. The above table incorporates changes approved by the Board for Primary Gas from August 1, 2006 through to May 1, 2010 and proposed non-Primary gas rates for May 1, 2010.
4. The Board's RSM considers factors other than natural gas commodity prices, these including the cost of gas in storage and hedging results. Accordingly, the volatility in Primary gas rates experienced by Centra's Primary gas customers is reduced as overall rates also take into account operating, amortization, administrative and

financial costs.

5. Quarter-to-quarter % change in total bill may not reconcile with tabulated numbers dues to changes in average annual consumption, changes in Primary gas billing percentage, and rounding.

The following table reflects the composite elements of recent Primary gas rate amendments:

Historical Primary Gas Costs and Rate Calculations

Component	**Costs and Proposed Rates May 1/09**	**Costs and Proposed Rates Aug 1/09**	**Costs and Proposed Rates Nov 1/09**	**Costs and Proposed Rates February 1/10**	**Costs and Proposed Rates May 1/10**
Date of Forward Price Strip	April 15, 2009	July 2, 2009	October 15, 2009	January 4, 2010	April 1, 2010
[1]12 Month Forward Price	$5.173/GJ	$5.105/GJ	$5.456/GJ	$5.830/GJ	$4.61/GJ
[2]Costs (gains) resulting from Hedging	$1.628/GJ	$1.098/GJ	$0.465/GJ	$0.000/GJ	$0.415/GJ
Forecast Gas Supply Price	$6.801/GJ	$6.203/GJ	$5.921/GJ	$5.830/GJ	$5.025/GJ
[3]Cost of Gas drawn from Storage	$8.333/GJ	$8.333/GJ	$4.142/GJ	$4.177/GJ	$4.177/GJ
Weighted Gas, Cost (mix of Gas Supply & Storage Gas costs)	$7.041/GJ	$6.628/GJ	$5.566/GJ	$5.500/GJ	$4.864/GJ
Rate per Cubic Metre	$0.2662	$0.2505	$0.2104	$0.2079	$0.1838
[4]Base Primary Rate, adding Fuel and Overhead cost component per cubic metre	$0.2705	$0.2539	$0.2139	$0.2115	$0.1869
[5]Plus (Less) PGVA Rider per cubic metre	($0.0254)	($0.0045)	$0.0074	$0.0033	$0.0025
Total Billed Rate	$0.2451	$0.2494	$0.2213	$0.2148	$0.1844

Notes:

1. Primary gas rate increase factors in 100% of the increase between the current 12-month forward price for Western Canadian natural gas commodity supplies for the period May 1, 2010 to April 30, 2011 from the price as of April 1, 2010.
2. Forecasts on hedges placed for the next twelve months are accounted for with the projected gains or losses from hedging.
3. The cost of gas drawn from storage for supply to Primary gas customers is accounted for, reflecting the actual cost of gas in storage (withdrawals commence November 1), and blended in on a weighted basis to arrive at a weighted gas cost.
4. At May 1, 2010, compressor fuel costs are $0.002 per m^3 and overhead cost components are $0.00164 per m^3.
5. Rate changes by means of rate riders are established to collect or refund from customers any accumulated

Primary Gas PGVA balances over the next 12-month period.

A Primary gas rate rider of $0.0025/m^3 (reflecting an estimated balance, to April 30, 2010, of $2.8 million owing to customers), will be applied to the Primary gas base rate. This rate rider, if left in place over the period May 1, 2010 to April 30, 2011, and with normal volumes of gas being consumed, will refund the $2.8 million to customers. Any under-refunded or over-refunded balances will be included in the calculation of future rate riders.

Primary gas rates also reflect the cost of gas withdrawn from storage. Lower prices for natural gas placed in storage resulted in a cost of $4.177/GJ for the 2009/10 “withdrawal” season, which began November 1, 2009. This is a decrease from $8.33/GJ, that being the average cost of gas in storage during the 2008/09 withdrawal season. With much lower cost gas in storage, natural gas withdrawn from storage this winter will come at a cost below that of previously forecasted market prices.

Outstanding Positions, Hedging

Centra enters into financial future contracts, “hedges”, for the purpose of reducing Primary gas rate volatility. Bill volatility is reduced by other factors such as equal monthly payment plans, heating efficiency improvements, living style adjustments (adjusting the thermostat), and the Board’s RSM.

The overall cost for Western Canadian natural gas reflected in Centra’s rates for those customers receiving primary gas from Centra is impacted by the terms of Centra’s gas purchase contract with its commodity supplier (ConocoPhillips as of November 1, 2009), Centra’s hedging, future prices and the cost of gas in storage.

Hedging is undertaken independent of actual gas purchases, those always at then-current market prices. Actual results of the hedges are dependent upon commodity market price changes and/or any special actions undertaken to unwind or build on current positions, though no such actions are expected. Centra’s hedging activities have previously resulted in increases or decreases to overall gas costs. In Centra's current application, hedging activities are projected to result in increases to both gas costs and customer rates.

The current situation with respect to hedges now outstanding is:

- On each of July 7 and 21, 2009, price hedges were executed for 37.5% of eligible volumes for the months of May 2010 through July 2010. The upper strike prices on the instruments purchased ranged between $5.8400/GJ and $6.3050/GJ. Corresponding lower strike prices ranged between $4.4150/GJ and $4.9000/GJ. At the conclusion of these sessions, 75% of the eligible volumes for the May 2010 through July 2010 period were hedged.

- On each of October 2 and 27, 2009, price hedges were executed for 37.5% of eligible volumes for the months of August 2010 to October 2010. The upper strike price on the instruments purchased ranged from $6.3050/GJ to $6.7050/GJ. Corresponding lower strike prices ranged between $4.87/GJ and $5.3400/GJ. At the conclusion of these sessions, 75% of the eligible volumes for the August 2010 to October 2010 period were hedged.

- On each of January 8 and 13, 2010, price hedges were executed for 37.5% of eligible volumes for the months of November 2010 to January 2011. The upper strike price on the instruments purchased ranged from $6.60/GJ to $7.225/GJ. Corresponding lower strike prices ranged between $5.21/GJ and $5.56/GJ. At the conclusion of these sessions, 75% of the eligible volumes for the November 2010 to January 2011 period were hedged.

The mark-to-market forecast for these hedges is an increase in Primary gas costs of $14.5 million, which is a 9% addition to gas costs.

In Order 170/09, the Board allowed Centra to hedge the volumes for November and December 2010 and January 2011 to a maximum of 75% of eligible volumes -- Centra complied with this direction. Thereafter, the hedges for the following three months (i.e. February, March and April 2011) are not to exceed 50% of eligible volumes. And, for the next three months thereafter (i.e. May, June and July 2011), hedges are not to exceed 25% of eligible volumes. Commencing with the gas month of August 2011 and following, there is to be no hedging for the quarterly set

Primary Gas sold to system customers. In short, the Board has directed Centra to phase-out the hedging of Primary gas, that is excepting for Primary gas to be purchased to support Centra's fixed price and term gas contracts. The Board's direction is based on the assumption that Centra would enter and continue to offer fixed price and term Primary gas contracts to consumers, in "competition" with a private marketer.

Customer Impact

As of May 1, 2010 Primary gas rates for Centra's customers will be the lowest they have been since 1999.

The annualized bill impacts effective May 1, 2010 related solely to the change in Primary gas rates are as follows:

Proposed Bill Impacts – Primary Gas Billed Rate Change Only

Class	Annualized Decrease
SGS (including Residential)	5.8% - 8.1%
LGS	7.9% - 9.9%
High Volume Firm	9.4% - 11.4%
Mainline	10.4% – 11.5%
Interruptible	6.8% - 7.7%

The projected annualized net bill impact for a typical residential customer, based on average annual consumption of 2,530 m^3, is a decrease of $73 (7.1%) from February 1, 2010 rates.

Non-Gas Rate Changes Resulting from Order 128/09

Centra complied with the directives in Order 128/09 by filing a revised Revenue Requirement, results of its Cost Allocation Model, and Rate Schedules on February 19, 2010. These schedules reflected the Board's direction as follows:

- A change to the forecast of short term and long term interest rates, resulting in a reduction to forecast Finance Expense of $1.1 million in the 2009/10 test year and $1.8 million in the 2010/11 test year;
- An increase to Revenue Requirement in each test year of $3.8 million to reflect the restoration of the Furnace Replacement Program;
- A reduction in the Depreciation and Amortization expense of $3.5 million in 2009/10 and $4.9 million in 2010/11 to reflect a 10 year amortization period on DSM expenditures; and
- The elimination of the $5 million provision for International Financial Reporting Standards (IFRS) and other risks facing Centra.

Further, the Board directed that the collection of additional revenue sought by Centra was to be implemented through increases to the Basic Monthly Charge (of $1 per month for the SGS Class, which includes residential customers, and $7 per month for the LGS class). The remaining classes were to have rates designed according to the approved Cost Allocation Model and Rate Design Methodology, using the revisions to the Revenue Requirement stated above.

Finance Expense

As a result of the adjustment to interest rate forecasts for 2009/10 and 2010/11, Centra reduced its forecast Finance Expense by $1.1 million and $1.8 million in the respective test years to reflect adjustments in forecast short term and long term interest rates directed in Order 128/09 Directive 3(a).

Included in Finance Expense is Interest on Common Assets & Inventory. In accordance with MH's Cost Allocation Methodology, Centra is charged interest by MH on common assets and inventory that are financed by MH based on the MH's embedded cost of debt.

During the recent proceeding, Centra advised that it had not adjusted the interest rates charged on Common Assets or Inventory (as directed in Order 128/09). Centra calculated the impact of fully complying with the direction of Order 128/09 to be further reductions in forecast interest costs of:

	2009/10	2010/11
Current Interest on Common Assets	2,677	2,839
Revised Interest on Common Assets	2,510	2,688
Change to Finance Expense	(167)	(151)
Current Interest on Inventory	25	27
Revised Interest on Inventory	23	26
Change to Finance Expense	(2)	(1)
Total Change to Finance Expense	(168)	(152)

Thus, when applying the Board-directed reductions to interest rates, interest charges to Centra would be, and as directed herein, reduced by $168,000 in 2009/10 and $152,000 in 2010/11.

Amortization of Demand Side Management Expenditures

Centra forecast Demand Side Management (DSM) amortization expense to be $3.5 million in 2009/10 and $4.9 million in 2010/11, based on a ten-year amortization period. Centra determined the forecasted amounts based on amortizing the gross investment in DSM expenditures over a ten-year period, not recognizing that the 2007/08 and prior DSM investments had been amortized on a five-year basis in fiscal 2007/08 and 2008/09.

Centra indicated that if a ten-year amortization period had been applied to prior years, DSM amortization expense would have been $1.2 million in 2007/08 and $2.2 million in 2008/09, versus the actual expenditures (based on five year amortization period) of $2.3 million and $4.3 million, respectively. The difference between actual amortization expense recorded in the financial statements of Centra and that of an amortization period of ten years was $3.3 million.

Cost Allocation and Rate Design

Centra reported in its February 19, 2010 compliance filing that the projected Net Income for 2010/11 is $2.4 million, a decrease from Board-directed Net Income of $3 million on a weather-normal basis in prior years.

According to Centra, one of the outcomes of directing that the additional revenue sought from the SGS and LGS customer classes was to be collected by way of specific changes to the BMC is that the revenue recovered from these classes will not necessarily equal the costs that Centra incurs to serve these classes.

The ratio of the revenue from each class to the cost to serve each class is called the Revenue to Cost Coverage, or RCC. In Centra's approved Cost Allocation Model and Rate Design Methodology, the RCC is set to unity such that each customer class recovers the cost to serve, at least on a forecast basis.

With the Board-directed change to the BMC only for the SGS and LGS classes, the RCC for these classes is no longer unity. For the SGS class, revenues are less than the costs. For the LGS class, revenues exceed costs. Since the approved Cost Allocation Model and Rate Design Methodology is still used for the other rate classes, the RCC for these classes remains at unity.

Centra calculated rate schedules reflecting the revised Revenue Requirement and included these with its February 19, 2010 filing. The rates for the SGS and LGS classes reflect the Board's direction that the only rate changes for these classes are to the BMC. Centra stated that to calculate rates for the higher volume customer classes it must allocate the revised Revenue Requirement including the full $3 million of Net Income.

Centra also presented bill impact schedules in its February 19, 2010 filing, and these are summarized below:

Proposed Bill Impacts – Non- Gas Rate Changes Only Per Order 128/09

Class	Annual Increase (Decrease)	Percentage Increase (Decrease)
SGS (including residential)	$12	0.3% - 2.4%
LGS	$84	0.0% - 2.0%
High Volume Firm	($172 - $3,588)	(0.1% - 0.5%)
Mainline	$2,862 – ($95,952)	0.4% - (1.2%)
Interruptible	($1,467 - $33,058)	(0.7% - 0.9%)
Special Contract	$103,010	6.0%
Power Station	$106,139	14.7%

At the request of the Board, Centra undertook to calculate alternative rates for the higher volume customer classes by allocating the revised Revenue Requirement that included a Net Income of $2.4 million instead of $3 million. Centra filed these rate schedules and bill impacts as an undertaking at the oral hearing for the COG Application.

By allocating only $2.4 million of Net Income through the Cost Allocation Model, the rates for the higher volume customer classes are reduced. Because the Board directed that only the BMC change for the SGS and LGS classes, the rates for those classes are not affected.

Centra also filed a schedule as part of the undertaking that showed the revised BMC of $77 per month over-collects from the LGS class by over $500,000. Thus, if a Net Income of $2.4 million is allocated to all the customer classes instead of $3 million, then the amount of over-collection from the LGS class increases, and its RCC diverges even further from unity.

Conversely, Centra expects to under-collect from the SGS class. Because it is under-collecting from this class, reducing the allocated amount of Net Income will move the RCC closer to unity for the SGS class.

Regardless of whether $2.4 million or $3 million of Net Income is allocated, the forecasted Net Income earned by Centra will be approximately the same, since the rates were established by Order 128/09 for the SGS and LGS classes. These two classes recover the majority of Net

Income, as the amount of Net Income that is collected from all the other rate classes combined is less than $400,000.

Combined Bill Impacts

Centra provided a schedule showing the combined impacts of the Primary gas rate change, non-Primary gas rate changes and the non-gas rate changes proposed for May 1, 2010.

Proposed Bill Impacts – All Rate Changes Proposed for May 1, 2010

Class	Annual Increase (Decrease)	Percentage Increase (Decrease)
SGS (includes residential)	($18 - $323)	(3.5% - 8%)
LGS	($236 - $19,123)	(5.7% - 9.6%)
High Volume Firm	($17,672 - $275,974)	(6.8% - 8.5%)
Mainline	($56,145 - $952,952)	(7.4% - 9.3%)
Interruptible	($39,199 - $675,815)	(16.5% - 17.5%)

4.0 Intervener Positions

Interveners assist the Board in its assessment of the issues in the public interest, and are involved in all stages of the Board's public hearing process, including the filing of written questions, cross-examination of witnesses, and final argument. The Board often assists non-profit organizations that are granted Intervener status by approving funding, in whole or in part, for the costs of their involvement. Interveners with commercial interests are required to meet their own costs.

Interveners that participated in the recent COG proceeding were:

- Consumers Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors Inc. (CAC/MSOS); and
- Just Energy (Manitoba) Limited Partnership (JEMLP).

CAC/MSOS

CAC/MSOS noted that Order 99/07 directed Centra to update its cost of gas forecast to reflect the more recent CAD/USD exchange rate estimate, to result in a $1.8 million reduction in forecast gas costs. CAC/MSOS noted that in this proceeding, when the forecast CAD/USD exchange rate was changed to reflect the actual exchange rate to date, and parity on a forecast basis, it would result in a $1.84 million reduction to the forecast gas costs.

Following precedent, CAC/MSOS recommended the Board adjust the CAD/USD exchange rates used in the gas cost forecast.

With respect to Centra's February 19, 2010 compliance filing, and adjustments to Centra's Revenue Requirement directed in Order 128/09, CAC/MSOS noted that interest on common assets and inventory financed by Manitoba Hydro (MH) had not been adjusted to reflect the long term and short term interest rate forecasts directed in Order 128/09.

CAC/MSOS noted that if rates were adjusted in compliance with the Order, Finance Expense would be reduced by $168,000 in 2009/10 and $152,000 in 2010/11. CAC/MSOS recommended the Board direct Centra to adjust interest rates charged on common assets and inventory to be on a consistent basis with that directed in Order 128/09.

CAC/MSOS provided extensive closing comments on a range of topics that will be addressed in a subsequent Order of the Board.

JEMLP

Although JEMLP attended and participated in the hearing, it did not provide evidence nor did it make a closing submission.

5.0 Board Findings

Cost of Gas

The Board gives final approval to the Primary Gas, Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates effective August 1, 2009 that were approved on an interim basis in Order 116/09.

The Board approves Centra's actual Cost of Gas as incurred for the 2008/09 Gas Year of $437 million, including $97.1 million in addition to the gas cost that resulted from Centra's hedging program.

The Board concurs with Centra's approach to aggregate the remaining unamortized balance from the Prior Period PGVA with the balances that have accrued in the 2008/09 PGVAs. The combined balance of $2.8 million as of April 30, 2010 including carrying costs is hereby approved. Accordingly, the Board approves the rate riders that reimburse Centra this combined balance of $2.8 million beginning May 1, 2010 over a period of 12 months.

The Board notes that Centra sought approval of a forecast of gas costs for the 2009/10 Gas Year of $300.6 million, including $69.1 million of non-Primary gas costs. The Board requires amendments to this forecast to reflect actual and updated Canadian dollar to US dollar exchange rates.

The Board notes that there has been a significant and sustained strengthening of the Canadian dollar relative to the U.S. dollar where the exchange rate CAD/USD has recently approached and occasionally reached parity. The current forecasts based on a November 2009 view do not reflect this reality. Accordingly, the Board directs Centra to amend its forecast Cost of Gas for the 2009/10 Gas Year by adjusting the CAD/USD exchange rates to use actual exchange rates to date and a forecast of $1.02 CAD/USD to October 31, 2010.

The Board understands that any differences between the forecast and actual gas costs incurred as a result of exchange rate fluctuations are captured in the Transportation PGVA. Nevertheless, it is important to generate customer rates based on current and reasonable forecasts, this being consistent with past practices of the Board.

The Board requests Centra re-calculate non-Primary gas rates to reflect the Board's direction on foreign exchange rates, and file such new rates with the Board for approval.

May 1, 2010 Primary Gas Rates

Centra's April 9, 2010 Application to decrease Primary gas rates properly reflects the Board-approved RSM. Accordingly, the Board will approve Centra's proposal for reduced Primary gas rates on an interim basis.

Again, Primary gas rate changes affect only customers receiving system gas (Primary gas) from Centra and do not affect customers on fixed price contracts (with either gas marketers or Centra). Centra is to advise its Primary gas customers of the change in Primary gas rates.

The next review of Primary gas rates will take place as of August 1, 2010.

The Board will address Centra's request for final approval of Primary gas rates in interim Orders 147/09, 170/09, and 4/10 in a subsequent Order.

Non-Gas Rate Changes Resulting from Order 128/09

The Board has reviewed the adjustments to Finance Expense provided by Centra in its February 19, 2010 compliance filing and is satisfied that Centra has properly incorporated adjustments to Finance Expense, reflecting both short and long-term interest rates, that is except in the case of interest rates applied to common assets and inventory.

The Board notes that Centra has not adjusted short and long term interest rates applied to determine interest on common assets and inventory, and this represents an inconsistent application of the Board-directed changes in forecasted short and long term interest rates in Order 128/09. The Board further notes that, as a result, interest expense on common assets and inventory forecast for 2009/10 and 2010/11 is currently overstated and directs Centra to adjust for interest charged on common assets and inventory utilizing rates consistent with Order 128/09.

While Centra correctly amended its amortization period to ten years from five (formerly fifteen), the approach taken resulted in forecasts of future amortization that appear to be “too high” for the forecast period. In the Board’s view, Centra could have determined the ten-year amortization expense for 2009/10 and 2010/11 recognizing that the DSM investments had been subject to a higher actual amortization in 2007/08 and 2008/09 totalling $3.3 million, based on a five-year amortization period. Taking this into account would result in a lower Amortization Expense in the order of approximately $400,000 annually in 2009/10 and 2010/11.

Notwithstanding this difference, as there remains uncertainty as to the impact the adoption of upcoming new accounting standards (International Financial Reporting Standards, IFRS) will have on the amortization of natural gas DSM expenditures, the Board will not require an adjustment to the DSM Amortization Expense at this time. The Board may revisit this issue at the next GRA when the impact of IFRS is more fully known.

When the Board directed changes to Centra’s 2009/10 and 2010/11 GRA, and specifically advised that the additional revenue sought from the SGS and LGS customer classes was to be collected only by way of changes to the BMC, the Board recognized and understood that Centra would no longer earn a projected Net Income of $3 million as the Board had approved in the past.

Beginning on page 15 of Order 128/09, the Board stated:

> *While the revisions adopted by PUB to Centra’s non-Primary gas rate application may negatively affect Centra’s aggregate projected Net Income for the two fiscal years ending March 31, 2011, the Board anticipates that any overall net negative impact will be modest and be ‘easily’ accommodated by the ‘excess’ returns (actual Net Income results exceeded projected Net Income as established by PUB) enjoyed by Centra in 2007/08 and 2008/09, those largely due to colder weather than normal experienced during the winter months of both fiscal years.*

The Board’s understanding at that time was that Net Income may be reduced, such that the forecasted amount on a weather-normal basis would be less than $3 million, and that if Net Income was reduced it would not significantly and negatively affect Centra. The $2.4 million of projected Net Income resulting from the collection of additional revenue from the SGS and LGS classes solely through the BMC is in line with the Board's expectations.

However, the Board's intention was that any reduction in Net Income would be spread over all rate classes. The reduction in Net Income anticipated by the Board is tolerable because of the high levels of Net Income earned by Centra in fiscal years 2007/08 and 2008/09 – that largely due to colder than normal weather, and because the Net Income in each of these years would have been even higher had Centra not increased its Depreciation and Amortization Expense related to the amortization of DSM expenditures.

The Board therefore directs Centra to recalculate the 2010/11 rates for the higher volume classes by incorporating a Net Income of $2.4 million, instead of $3 million, in the Cost Allocation Model. The Board anticipates that this will cause only a minor reduction in the bills of the higher volume customer classes compared to the bill impacts proposed by Centra in its February 19, 2010 compliance filing.

The Board will provide further guidance related to the approved Cost Allocation Model and Rate Design Methodology in a subsequent Order.

Combined Bill Impacts

The Board has directed changes to Centra's Revenue Requirement and the forecast of non-Primary gas costs. As such, the non-Primary gas rates and non-gas rates are expected to change.

Accordingly, the Board expects Centra to file a revised schedule showing the combined bill impacts when it files revisions to its rate schedules.

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.

6.0 IT IS THEREFORE ORDERED THAT:

1. The Primary Gas, Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) Sales and Transportation rates effective August 1, 2009, that were approved on an interim basis in Order 116/09, BE AND ARE HEREBY APPROVED on a final basis;

2. Centra's Cost of Gas for the 2008/09 gas year of $437 million, including $97.1 million in addition to the gas cost resulting from the derivative hedging program BE AND IS HEREBY APPROVED;

3. Balances and disposition of the various non-Primary Gas Purchased Gas Variance Accounts and gas cost deferral account balances accumulated to October 31, 2009 (with carrying costs to April 30, 2010) of approximately $2.8 million BE AND ARE HEREBY APPROVED on a final basis;

4. Primary Gas Rates effective May 1, 2010, BE AND ARE HEREBY APPROVED on an interim basis and shall be in effect until confirmed or otherwise dealt with by a further Order of the Board;

5. Centra's non-gas rate changes flowing from Order 128/09 effective May 1, 2010, BE AND ARE HEREBY APPROVED , subject to the following revisions:

    a. Centra to adjust interest charged on common assets and inventory for 2009/10 and 2010/11 utilizing forecasted interest rates consistent with those directed in Order 128/09;

b. Centra to recalculate the 2010/11 sales and transportation rates for all customer classes other than the SGS and LGS classes by incorporating a Net Income of $2.4 million, instead of $3 million, in the Cost Allocation Model;

6. Centra's non-Primary gas rate changes proposed for May 1, 2010, BE AND ARE HEREBY APPROVED , subject to the following revision:
   Centra is to amend its forecast Cost of Gas for the 2009/10 Gas Year by adjusting the CAD/USD exchange rates to use actual exchange rates to as current as possible and thereafter a forecast of $1.02 CAD per USD to October 31, 2010; and

7. Centra to file, for Board approval, revised schedules for its Revenue Requirement, forecast gas costs, cost allocation, Sales and Transportation rates, and customer class bill impacts that reflect the Directives in this Order.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, C.A."
Chairman

"H. SINGH"
Acting Secretary

Certified a true copy of Order No. 41/10 issued by The Public Utilities Board

Acting Secretary