M A N I T O B A	**Order No. 55/10**
THE PUBLIC UTILITIES BOARD ACT	**May 26, 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

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Executive Summary

By this Order, the Public Utilities Board (Board) provides additional direction to Centra Gas Manitoba Inc. (Centra) arising out of Centra's recent Cost of Gas Application proceeding. This Order supplements the directions provided in Orders 41/10 and 46/10, issued on April 27, 2010 and May 3, 2010, respectively. The Board directs Centra to:

a) inform ConocoPhillips of the Board's intention to release Centra's Primary Gas supply contract to the Consumers' Association of Canada and Manitoba Society of Seniors (CAC/MSOS), interveners in the recent proceeding, including their external consultants; the Board will require CAC/MSOS and its external consultants to sign non-disclosure agreements to best ensure continued confidentiality;

b) prepare and file by November 1, 2010 a timeline of the process for replacing its American Storage and Transportation assets (the timeline is to include milestones);

c) file with the Board a discussion paper reviewing and addressing the issue of the possible future replacement of Centra's current American Storage and Transportation assets, prior to Centra holding a technical conference on the topic;

d) execute its Affordable Energy Program Marketing Plan (AEP), and report back to the Board by December 31, 2010 with an update on the Utility's marketing efforts;

e) file quarterly updates on its Lower Income Energy Efficiency Program (LIEEP) initiative;

f) continue to offer one, three, and five year Fixed Rate Primary Gas (FRPGS) offerings to residential and commercial consumers on a regular basis, and consider offering FRPGS offerings to its larger customers as well;

g) review its load forecasting methodology for all customer classes, and make any necessary changes;

h) provide an analysis comparing Centra's Primary gas and overall rate with other Canadian utilities, and explain reasons for differences; and

i) file its next General Rate Application on the basis of achieving a revenue to cost ratio of unity in its Cost Allocation Model (in other words, costs are to drive rates for each customer class).

For a more comprehensive understanding of the findings and directions of the Order, please refer to the Board's earlier 2010 and 2009 orders, which may be accessed on the Board's website, www.pub.gov.mb.ca.

1.0 Introduction

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

The purpose of the public hearing of Centra's most recent Cost of Gas Application (COG), that being for Centra's 2010/11 fiscal year, was, primarily, to review and approve non-Primary gas costs incurred by Centra for its 2008/09 Gas Year and, as well, to establish rates on forecast non-Primary gas costs to be charged to Centra's customers going-forward.

In addition, the COG proceeding included matters generally attended to at bi-annual General Rate Application proceedings. The hearing, which was preceded by a pre-hearing conference, began on April 13, 2010 and concluded with closing submissions by interveners, Board Counsel and Centra on April 20, 2010.

And, while not specifically addressed through the COG process, the outcome also involved a coincident change in Primary gas rates as of May 1, 2010, that the result of Centra's quarterly Rate Setting Mechanism (RSM), and, as well, changes in Centra's non-gas rates (approved by the Board and resulting from the Board's 2009 hearing of Centra's 2009/10 and 2010/11 General Rate Application).

2.0 Centra's Rates

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

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

The COG proceeding also dealt with changes to the Supplemental Gas, Transportation (to Centra), and a small component of Distribution (to Customers) rates. The cost of gas, commodity and transportation costs, is by far the most significant component of the overall rate charged "system gas" customers (i.e. customers receiving primary gas through Centra priced on a quarterly basis through the RSM), and currently represents approximately 60% of Centra's overall billings to a typical residential consumer.

The Primary Gas component of Centra's rates recovers the cost of the natural gas supply received from Western Canadian sources. For 2010/11, and given normal weather, Primary Gas supply will represent 95% of Centra's overall gas supply for its firm service customers and 67% of its overall supply to interruptible service customers.

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

Transportation (to Centra) is the component of rates 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 for transportation of American supplied gas to Centra's current 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 rates related to UFG is the portion addressed in COG proceedings. A portion of operating costs, such as for meter reading and customer billing, are recovered in the BMC. Presently, the BMC for the SGS and LGS classes recovers only a portion of Centra's fixed costs incurred in serving those customers. The BMC for all rate classes changed on May 1, 2010, that the result of direction provided Centra by Board Order 128/09 (which related to Centra's 2009/10 & 2010/11 GRA).

Primary Gas rates are set on a quarterly basis in accordance with the Board-established RSM, and these quarterly approvals are provided on an interim basis, until such time as they are reviewed and finalized either through a GRA or COG Application. In the recent proceeding, Centra sought final approval of interim Primary Gas Orders 116/09, 147/09 and 4/10, and final approval of interim Order 116/09 was provided in Order 41/10.

As previous indicated, the Board's orders may be accessed on the Board's website, www.pub.gov.mb.ca.

Centra passes on to its customers the Utility's cost of gas without either any mark-up or profit. To ensure the exact cost is passed on to customers, Centra maintains deferral accounts called Purchased Gas Variance Accounts (PGVA). These accounts record differences between the cost of gas that is embedded in Centra's sales rates and Centra's actual incurred costs. 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 to (collect) 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, while rate riders adjust for differences that arise between previous gas cost estimates and the actual gas costs incurred. (Rate riders retroactively recover the differences between estimated and actual gas costs and are not used to recover variances between actual and forecasted non-gas costs.) New rate riders for non-Primary Gas rates are approved through COG proceedings, and the Primary Gas rate rider is, as indicated previously, set quarterly through the RSM.

Rate riders established by prior Order 116/09 were, when approved by the Board, not expected to expire until July 31, 2010. However, in the recent proceeding Centra sought to combine the remaining balances in prior period PGVAs with balances accrued in 2008/09 PGVAs, and to establish new rate riders to refund these combined balances beginning May 1, 2010. These new rate riders, which were approved by the Board, are expected to continue for 12 months and expire on April 30, 2011.

3.0 Intervener Positions

Interveners assist the Board in its assessment of the issues in the public interest, and are, accordingly, involved in all stages of the Board's public hearing process (including the filing of written questions, cross-examination of witnesses, and the provision of final argument). The Board often assists non-profit organizations that are granted Intervener status by approving funding, in whole or in part, for their costs of involvement, while 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), who combined their intervention efforts; and

- Just Energy (Manitoba) Limited Partnership (JEMLP).

While JEMLP attended the hearing, it did not provide closing argument. In addition to the registered Interveners, a presentation was heard from Mr. Bill Carroll on behalf of his clients. (Presentations are not evidence, as presenters are neither sworn-in as witnesses nor subject to cross-examination.)

4.0 Application

Final Approvals

In the recent proceeding, Centra sought final approval of several Board orders that had been previously approved on an interim basis -- these include Orders 147/09 and 4/10, related to Primary gas rates, and 170/09, related to changes to Centra's hedging program.

Board Findings

Final approval of previous interim orders 147/09 and 4/10 (related to the adjustments to Primary gas rates on November 1, 2009 and February 1, 2010) will be addressed in a subsequent order, once the outcome of Centra's outstanding Primary gas supply and hedging contracts are known.

Cost of Gas

The most significant cost incurred by Centra is the acquisition of natural gas. Centra purchases the majority of its gas supply from the Western Canadian Sedimentary Basin (WCSB), with smaller volumes of gas, called Supplemental gas, coming from other sources (the majority of those other sources being in the United States).

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

By Order 41/10, the Board approved both Centra's actual cost of gas incurred in the 2008/09 Gas Year and its forecast cost of gas for the Utility's 2009/10 Gas Year.

New Primary Gas Supply Contract

Contract Details

Centra has entered into a new Primary gas supply contract (beginning November 1, 2009, to expire October 31, 2012) with ConocoPhillips Canada Marketing & Trading ULC (ConocoPhillips), the successful proponent of a Request for Proposal (RFP) issued earlier by Centra.

The new contract provides for "Baseload" volumes on a "take-or-pay" basis of 140,800 GJ/day and, as well, 120,000 GJ/day of Swing volumes. And, pursuant to the contract, ConocoPhillips is to accommodate annual adjustments to the volumes cited above. Under Centra's previous contract with Nexen Marketing, Baseload volumes were limited to 127,000 GJ/day from December to February, and to 110,000 GJ/day for the remainder of the year. Changes to those volumes under that previous contract were subject to negotiation.

The new contract provides Centra with greater operational flexibility, by limiting ConocoPhillips' supply exclusivity to Centra's requirements for firm transportation from Empress (a supply hub located in Alberta). The expired contract gave supply exclusivity to Nexen for all volumes at Empress.

Under the new contract, Centra cannot re-sell gas at Empress, except where it has excess supply. Under the expired contract, Centra could not re-sell gas at any delivery point. Also, where Centra experiences excess natural gas supply at Empress, ConocoPhillips does not have the right of first refusal on Centra's sale of the excess supply, a right that was afforded to Nexen under the expired contract.

RFP Process

Centra developed a RFP process to solicit proposals from natural gas industry participants, and, prior to the issuance of the RFP, Centra obtained input from its stakeholders (including CAC/MSOS and JEMLP) through a technical conference. The major interveners and representatives from the Board participated in the conference and provided input into Centra's RFP process, which was also reviewed at the 2009/10 and 2010/11 GRA proceeding.

In response to the RFP, six respondents provided proposals. Centra reviewed the proposals and selected the proponent that "scored" highest on an Evaluation Matrix it developed with the assistance from ICF International (ICF). The Evaluation Matrix weighted various criteria, which involved an assessment of a proponent's ability to provide reliable supply, price, its creditworthiness, the credit requirements of Centra, the customer service profile of the proponent, the volume nomination flexibility offered, and sustainability.

While two proponents scored considerably higher than the remaining four, ConocoPhillips scored highest in the price category and second highest in the reliable supply category. Together, those two factors comprised 70% of the weighted evaluation, with reliable supply weighted at 40%. ConocoPhillips ranked in the top two in each of the remaining scoring categories, and was the only proponent to do so.

For Centra, the most important factor in selecting a Primary gas supplier is its judgment of a proponent's ability to deliver reliable gas supply. Centra advised that ConocoPhillips' production affiliate produces more natural gas than the other five proponents combined. Thus, for Centra, the magnitude of ConocoPhillips' operations is such that Centra could be confident that the firm would be able to meet Centra's challenging, and very variable, gas supply requirements.

ConocoPhillips also assured Centra that it would be able to meet Centra's requirements for intraday nomination flexibility, and without reservation. Centra stated that some of the other proponents did not provide the same level of assurance.

Pricing

Centra advised that the details of the pricing formula employed by ConocoPhillips were not to be publicly released, at the request of the firm. To assist the Board's public evaluation of the new contract, which was conducted through the recent proceeding, Centra provided information it held sufficient to allow for a testing of its prudence in selecting ConocoPhillips.

Centra revealed its forecast of its projected cost of purchasing Primary Gas from each of the proponents, and noted that the costs expected to result from selecting ConocoPhillips were the lowest. Centra also provided information disclosing, on a forecast basis, the difference in cost between the AECO Monthly Index price and the average supply price at Empress pursuant to both the ConocoPhillips contract and the previous Nexen contract (for the period April 2007 to October 2010). The differences forecast included tolls and/or transportation costs associated with delivering gas from AECO to Centra's receipt point at Empress, as well as any premiums that were forecast to be paid to the supplier. The information provided by Centra suggested that the incremental cost of transportation and premiums would be in the range of $0.12 to $0.15 per GJ, similar to the level experienced with the previous contract with Nexen.

Centra also evaluated the proponents based on either the proponent's credit ratings or the credit ratings of the parent company (if a "parental" guarantee was to be provided). ConocoPhillips was provided a guarantee by its parent company, and, on a scale of credit ratings, ConocoPhillips ranked in the top two of credit rating scores among the proponents.

Confidentiality

Centra neither disclosed the names of the unsuccessful proponents, nor any details of their submissions. As well, Centra did not disclose the pricing details of the contract with ConocoPhillips. According to Centra, Gas supply contracts are neither usually filed with the regulator nor placed in the public domain in other Canadian jurisdictions. That said, it is the Board's understanding that in B.C. contracts are filed with the regulator and are made public, unless the regulator deems the maintaining of contract confidentiality to be in the public interest. In all other jurisdictions surveyed, the Board understands that such contracts are either not filed at all, or not made public.

In Centra's view, shared by ConocoPhillips, the new gas supply contract with ConocoPhillips contains commercially sensitive pricing information, and Centra holds that public disclosure of this information would, or could, jeopardize future dealings with the supplier. As previously indicated, ConocoPhillips has also indicated its position that its pricing formula is commercially sensitive information (and would be of interest to other industry participants); the firm specifically requested that Centra not disclose the details of the pricing formula.

The contract with ConocoPhillips is based on an industry standard contract (endorsed by the North American Energy Standards Board, NAESB). There is a confidentiality clause in the standard contract, and while a regulatory body (such as the Board) may order the disclosure of the contract, parties to such contracts may file a request to have the disclosure blocked, obliging the regulator to make a decision.

In Centra's view, if the pricing details of its new gas supply contract were to be placed in the public domain future suppliers may be reluctant to bid in future RFPs for future gas supply, or, alternatively, some bidders may not submit their best proposals (if they are aware that the details of their pricing would be publicly disclosed). Centra is concerned that publicly disclosing the pricing formula would, or may, affect the price levels of future proponent submissions to future RFPs, resulting in a reduced value for future competitive bidding processes. Because of an industry trend to shorter contracting periods, Centra is of the view that it will be soliciting RFPs more frequently in the future, and wants to ensure that future RFPs generate maximum interest and responses.

Centra has, publicly, disclosed a redacted version of the Evaluation Matrix it employed in selecting its supplier, which it opined was sufficient to allow participants in the proceeding to ascertain that it had selected the best proposal for Manitoba ratepayers. Centra has also advised, supported by a forecast of the cost of the proposal compared to forecast cost for supply from the other proponents, that the ConocoPhillips contract provides the lowest price of the six proponents.

While Centra did not disclose proposals of unsuccessful proponents the last time it solicited proposals for its gas supply contract (in 2004), it did disclose the details of the contract with Nexen, the successful proponent in that earlier process.

In short, Centra held that it had provided sufficient information to allow the Board and Interveners to ascertain whether or not Centra selected the best proposal, and allowed for the conclusion that the process it used to select the best proposal was sound. Centra's process included obtaining stakeholder input prior to issuing an RFP, using an external consultant to both develop the RFP and evaluate the bids, distributing the RFP to fifty industry participants and obtaining six proposals, and selecting a supplier based on criteria that include reliability, price, and creditworthiness.

While withheld from interveners, the pricing details of Centra's new contract with ConocoPhillips was provided to the Board, in confidence, and this allowed the Board to evaluate the ConocoPhillips contract and compare it to the other proposals of the other proponents, towards reaching the conclusion that Centra's selection of ConocoPhillips was appropriate.

Centra suggested that if the Board concurs that the overall process undertaken by Centra to select its Primary gas supplier was sound, then the outcome of selecting the successful supplier must also be sound. Nonetheless, a suggestion was made during the proceeding that CAC/MSOS (and its witness Mr. Stauft) could sign a non-disclosure agreement and, then, with that agreement in place, be safely provided access to the new contract. However, for Centra, that proposal is contrary to the confidentiality clause in its contract with ConocoPhillips.

Further, Centra stated its view that it would be difficult to establish the damage it experienced as a result of a breach of confidentiality, if a breach did occur, and that, further, it would have difficulty recovering damages from any parties that breached a non-disclosure agreement.

Centra also stated that even if CAC/MSOS and its consultant reviewed the pricing details in the contract and came to the conclusion that the awarding of the contract to the new supplier was not prudent, the scoring model used in the evaluation matrix was and still would be valid, and that Centra had obtained the best contract -- that view based on Centra having obtained reliable supply meeting Centra's needs at the best price available from the proponents.

CAC/MSOS' Position

New Supply Contract Confidentiality

CAC/MSOS submitted that while Centra is unable to control the market price of natural gas, it can control the net cost it pays to obtain and transport natural gas to Manitoba.

CAC/MSOS noted that the major issue "in play" was its ability to test whether Centra had arranged its affairs such as to obtain the natural gas it requires for its distribution system at the lowest cost possible, having regard to reliability of service. CAC/MSOS noted that there are many different ways in which Centra could purchase gas for its customers; however, it has chosen to purchase all of its Primary gas from one supplier, which, in CAC/MSOS' view, is unusual compared to its understanding of the purchasing practices of other Canadian natural gas distributors.

CAC/MSOS stated that it had attempted to test whether the new gas supply contract with ConocoPhillips was prudent and appropriate, but that its effort was made virtually impossible to achieve as a result of Centra refusing to produce the contractual terms of the contract.

CAC/MSOS cited Section 123 of the Act, which states that the burden of proof at any application before the Board is on the applicant. CAC/MSOS advised that Centra sought to meet its "burden of proof" without making its new gas supply contract available for examination. CAC/MSOS questioned the fairness of the hearing process given that the contract was not produced at the hearing, and held that the Board should consider whether the gas cost consequences flowing from the new contract was properly tested, and whether Centra was able to satisfy its burden of proof without producing the contract.

CAC/MSOS further stated that Section 126 of the Act requires that the Board, in reaching a decision, must take into account whether the rates charged are excessive or unjust. CAC/MSOS suggested that in the Board's effort to meet its mandate to consider the price consequences of the gas supply contract, it was questionable as to whether the Board could reach a positive determination if the contract was not produced for review, and was unavailable for cross-examination by stakeholders.

CAC/MSOS addressed three reasons provided by Centra for not disclosing the gas supply contract. First, CAC/MSOS noted Centra's view that disclosure of contract details to third parties would result in competitors of the "winning" proponent having direct knowledge of the winner's pricing strategy, information intrinsically commercial and competitive in nature, allowing competitors with whom ConocoPhillips might have commercial arrangements to have access to contract information that could reasonably be expected to result in commercial prejudice to ConocoPhillips.

CAC/MSOS questioned whether the disclosure of such terms would, in reality, negatively affect ConocoPhillips, in CAC/MSOS' view a "behemoth" marketer and production company, especially since the uniqueness of its contract with Centra and its pricing would not, necessarily, be applicable to any other pricing formula for services that ConocoPhillips provides to others.

CAC/MSOS also disputed the second argument raised by Centra, that being that future gas supply contract negotiations might be negatively impacted if the contract were publicly disclosed. CAC/MSOS stated that public disclosure of the details of previous contracts was made, and that Centra had not complained that its ability to negotiate a contract with ConocoPhillips was affected.

CAC/MSOS was not of the view that the reviewing of contract details in a public hearing would result in any commercial harm, particularly from a broad public perspective. CAC/MSOS suggested that, contrarily to Centra's position, if other potential suppliers were aware of Centra's existing pricing arrangement with the winning proponent then they were more likely to try to provide a better price, rather than an inferior price, in a subsequent RFP process.

The third reason provided by Centra was the confidentiality clause contained in NAESB's base contract. CAC/MSOS acknowledged that NAESB clause, 14(10) does not provide for a strict confidentiality obligation, and that its previous natural gas supply contracts were subject to the same provision but that did not serve as a barrier to having the details of the contract disclosed publicly in past regulatory proceedings. CAC/MSOS submitted that the Board should decide whether or not the ConocoPhillip's contract should be shared with interveners in accordance with the common law test relating to confidentiality orders, as pronounced by the Supreme Court of Canada. CAC/MSOS referred to the Supreme Court Case of Sierra Club of Canada v. Canada (Minister of Finance), [2002] 2.S.C.R.522. In its decision, the Supreme Court stated that a confidentiality order should only be granted in instances where there is a risk to a commercial interest that cannot be alleviated through alternative measures, and that confidentiality does not limit the right of civil litigants to a fair trial.

CAC/MSOS stated that there were alternative measures available, such as a limited in-camera release of the pricing terms of the contract, and that such an approach would allow for the proper testing of the prudence of Centra's new contract.

Gas Contract

CAC/MSOS noted that as a result of the non-disclosure of the contract, it had to base their entire intervention on “assumptions and inferences”, and that the non-production of the contract led CAC/MSOS to question whether the pricing formula within the agreement was sufficiently flexible to appropriately capture all of the possible market dynamics that might be faced by Centra during the term of the three-year contract.

CAC/MSOS adopted the evidence of its witness Mr. Stauft, who expressed concern that the new supply agreement may not have properly addressed market changes experienced in the past year with respect to the AECO/Empress-basis differential, where the differential has recently resulted in Empress market prices being lower than AECO prices.

Mr. Stauft explained the recent phenomena when he stated:

> *“As I have explained, the general expectation should be that Empress/AECO price differentials will reasonably reflect the prevailing NGTL delivery toll. And historically, that has generally been true.*
>
> *However, over time, the observed market price differentials have steadily decreased, and over the past year they have decreased dramatically, to the point where they have become a negative. In other words, in recent months AECO's prices have often actually been higher than Empress prices. The cause of this seemingly anomalous market behaviour appears to be an increase in the value of natural gas liquids extraction rights on the NGTL system."*

The pricing formula that is arrived at through Centra’s negotiation with its supplier(s) includes a cost associated with transporting the gas on the NOVA gas pipeline from AECO (the hub) to Empress. CAC/MSOS stated that the NOVA demand toll is one means of pricing the transportation from AECO to Empress. Alternatively, the AECO to Empress basis differential, which represents the difference in the price of gas trading at these two points, could be used instead. Mr. Stauft indicated, all else being equal, the AECO-Empress basis differential should be the same as the NOVA toll. CAC/MSOS stated that the differential is considerably less expensive, currently, than the NOVA toll.

CAC/MSOS noted that all of Centra's gas supply contracts from 2000 to the expiry of the most recent Nexen contract, with Nexen "giving way" to ConocoPhillips as a result of Centra's most recent RFP, included consideration of the AECO-Empress basis differential in the pricing terms. Previous contracts had a blended formula that weighted the AECO to Empress transportation component of Baseload volumes, at 70% of the NOVA toll and 30% of the AECO-Empress differential. The most recent Nexen contract priced transportation of Baseload volumes at 100% of the NOVA toll, while Swing volumes continued to be priced at 100% of the basis differential.

CAC/MSOS stated that its major concern is that the new gas supply contract may neither include an appropriate consideration of the basis differential nor have a lower weighting than prior contracts. If this were the case, it would result in a higher gas costs in the current market environment than the previous Nexen contract, which incorporated the basis differential in its pricing terms.

According to CAC/MSOS, if the ConocoPhillips contract does not take into account this price differential (CAC/MSOS being unable to be certain given the non-disclosure of contract details in the recent proceeding), Centra, and, by extension, consumers would likely be better off if it had elected to purchase its gas supply directly in the market, like other gas utilities.

Alternatively, Centra could purchase its gas supply at AECO, and ship, at its cost, the gas to Empress on the NOVA pipeline system. As a NOVA shipper, Centra would collect NGL (natural gas liquids) extraction fees.

CAC/MSOS advised that it was unable to gain assurance from Centra that the AECO-Empress basis differential was incorporated in the pricing formula of the new ConocoPhillips contract. CAC/MSOS, thus, claimed that the current levels of the basis differential, assuming the basis differential is not factored into the pricing formula, means consumers are, and would be, paying more for Primary gas than they would have if Centra contracted for natural gas in a manner similar to other gas utilities, as such an approach, one considered to be the conventional approach, would allow for flexibility in taking advantage of changes in the market.

CAC/MSOS noted that ICF, which assisted Centra through the RFP process, had indicated that there were several intra-Alberta services that could provide similar daily flexibility to that provided by ConocoPhillips, including provision for daily purchases on the day-ahead market. CAC/MSOS contended Centra could better meet its needs for purchasing gas with shorter-term contracts, and/ or with multiple parties, while at the same time meeting its intraday requirements.

With respect to Swing service, Centra acknowledged that it pays the supplier a premium to provide Swing service, which includes flexibility for intraday nominations. CAC/MSOS noted that the ICF report stated that *"… in an unconstrained market, swing service would be widely available at relatively modest premiums. In a constrained market, swing service will be expensive."*

CAC/MSOS suggested that the cost of swing service and the premium associated with the service would change as the market changes. And, in CAC/MSOS' view, under the terms of the ConocoPhillips contract Centra will be unable to take advantage of changes in the cost of Swing service in the currently unconstrained market environment (this, because Centra has contracted for supply from ConocoPhillips for a term of three years).

CAC/MSOS suggested that this was another example of the risks that manifest by virtue of the unique way Centra chose to contract for the purchase of natural gas.

Retrospective Review

Mr. Stauft stated that the "high-level" objective of Centra's long-term contracting practices is to generate purchase prices that reasonably reflect short-term Alberta market prices, plus a reasonable fee or premium to compensate the seller for its efforts in acquiring and managing the supply. Mr. Stauft stated a retrospective review of Centra's past Primary gas costs would ensure that a new Centra gas supply contract would meet that objective.

Mr. Stauft stated that the objective of a retrospective review is to compare Centra's prices for Primary Gas at Empress to reasonable estimates of the market prices at Empress based on AECO indices, and publicly available information about the AECO-Empress basis or transportation differentials.

Centra would need to provide the information required to conduct such a review, including total monthly Baseload and Swing gas costs, monthly Baseload volumes, daily Swing volumes, NOVA pipeline tolls, index values for AECO, and the AECO-Empress basis differential for each month and day.

CAC/MSOS noted that Centra opposed providing such information, as the pricing formula in its ConocoPhillips contract could be derived if the information was provided. CAC/MSOS stated that the confidentiality concerns of Centra and ConocoPhillips should be outweighed by the important public interest in determining whether the premiums (or overall cost of gas) paid by Centra customers for its gas are appropriate.

CAC/MSOS made four recommendations for the Board's consideration:

1. The Board should order Centra to disclose the ConocoPhillips contract to the Interveners on whatever terms the Board considers appropriate, or alternatively, to simply order that the ConocoPhillips contract be made public;

2. The Board should direct Centra to provide all of the information sought by Mr. Stauft, and to keep track of that information, this in order to allow for a retrospective review of gas cost consequences of the ConocoPhillips contract to be conducted at a future proceeding;

3. The Board should withhold approval of the gas cost consequences of the ConocoPhillips gas contract at this time, until the retrospective review is conducted in a future proceeding (Doing so would entail withholding final approval of interim Primary gas orders); and

4. The Board should order Centra to investigate further other gas supply contracting methodologies, seeking to avoid the constraints and risks identified by Mr. Stauft in his evidence.

Centra's Rebuttal to CAC/MSOS' Suggestion for Alternatives to Sole Source Supply

While CAC/MSOS suggested that, instead of Centra signing a sole-source supplier contract, Centra could manage and acquire its gas supplies on its own, this to be expected to increase the benefit for consumers, a claim Centra "vehemently" rebutted (noting that as Centra does not own or control any natural gas supplies, natural gas must be acquired through the market).

Centra stated that, reflecting the reality of its highly variable load (due to weather), and due to a lack of local storage, it must make intraday changes to the volumes of gas it acquires. And, while in some circumstances, it must acquire more natural gas, in others it has to dispose of surplus gas. Centra noted that while the acquisition of more gas or the sale of excess gas can be readily accomplished in a highly liquid market such as at the AECO hub, it can be difficult, or impossible, to acquire or dispose of gas when the markets are closed (such as on weekends and holidays). Centra observed that even if it was possible to acquire or dispose of gas during periods of illiquid trading, the price consequences for Centra and its customers could be prohibitive.

Further, Centra noted that if it were to acquire gas directly that it would need to contract firm transportation from AECO on the intra-Alberta Nova pipeline system, and that in order to ensure that it would be able to meet peak day load levels the firm transportation would have to be such as to accommodate the equivalent of Centra's Baseload and Swing maximum volumes.

Under the terms of the new gas supply contract, ConocoPhillips provides this firm transportation at its cost, costs that Centra would be obliged to bear if it sourced its supply on its own. Further, Centra advised that it would incur high fixed charges for pipeline capacity even at times when it was not fully utilizing it. Centra held that the effect of having its new flexible Swing service arrangement is the equivalent of it holding storage at Empress, but at an economical cost.

On the other hand, Centra could obtain a benefit from holding firm transportation from AECO to Empress, as the natural gas stream moving through this section of the Nova pipeline contains natural gas liquids (NGL) that are extracted at Empress. If Centra directly contracted firm transportation, it could sell the rights to extract the NGL; however, Centra would incur fixed demand charges whether it used the transportation or not, while it would only receive a benefit from NGL extraction on its actual gas flows.

Centra further noted that in the 2007/08 and 2008/09 GRA proceeding, Mr. Stauft provided comments related to Centra's "full requirements purchasing methodology" -- that is, Centra's engagement of a sole-source supplier for its Primary gas supply requirements. Mr. Stauft then-stated that the "full requirements" approach is administratively simpler for Centra, while providing both more predictability and pricing transparency. Mr. Stauft also stated at the earlier proceeding, at a time when the Nexen contract was still in force, that Centra should test the reasonableness of its sole source contract by way of a formal or informal RFP, which is what Centra has now done, arriving at the decision to engage ConocoPhillips.

Finally, Centra observed that in the previous proceeding Mr. Stauft stated that the-then Nexen contract limited Centra's supply flexibility by its exclusivity provisions and restriction on reselling supplies, whereas the new contract with ConocoPhillips provides some relief from the previous terms.

Board Findings

RFP Process

Centra followed Mr. Stauft's suggestion (made during the 2007/08 and 2008/09 GRA proceeding) and proceeding with a RFP for a new gas supply contract ahead of the expiry of the Nexen contract (which occurred October 31, 2009). Also, Centra obtained input into the RFP process from Interveners and other stakeholders, this by holding a technical conference. The Board finds that Centra acted prudently in soliciting input from Interveners and its other stakeholders.

With the assistance of its consultants, ICF, Centra developed its RFP, and that RFP was provided to Interveners within the 2009/10 and 2010/11 GRA proceeding - wherein they had an opportunity to comment. In that proceeding, CAC/MSOS' witness Mr. Stauft stated that he had no concerns with the concept of going to market via an RFP process, and opined that the then-proposed terms of Centra's RFP were reasonable.

The Board agrees, and is satisfied that Centra conducted the RFP process in a satisfactory manner. As well, the Board finds that Centra's selection of a three-year term for its new gas supply contract was satisfactory, because, as Centra described it, the three-year term "dovetails" with the expiration of other assets in Centra's gas supply, storage, and transportation portfolio (namely, the American storage and transportation contracts).

The new three-year term is not only in accordance with ICF's recommendation, but also allows for the amortization of the costs of the process over three years (if expensed in one year, while the benefit of the contract would apply to Centra's customers over a three-year period, the process cost and its reflection in rates would, potentially, have impacted only its customers during the first year of the contract).

The Board disagrees with CAC/MSOS's argument that, by locking in for three years, Centra has lost the advantage of market dynamics that would or could reduce the cost of its gas supply. In the Board's view, Centra has prudently entered into a three-year contract that has, in essence, reduced the risk of market dynamics negatively affecting its gas supply purchases over that period.

Selection of Supplier

As previously indicated, Centra submitted the proposals and the final contract with ConocoPhillips, arising out of its RFP, to the Board in confidence. The Board reviewed the submissions of the six proponents and compared them to the results tabulated in Centra's Evaluation Matrix.

The Board finds that Centra selected the best proposal from those submitted, the finding based on the Board's conclusion that reasonable aggregate scoring of the proposals was developed, as presented in Centra's Evaluation Matrix. In its evaluation, Centra gave the greatest weighting to the provision of reliable supply, and the Board also agrees with this approach.

In a cold weather climate, with considerable variability in supply requirements often the case, reliable supply is a critical factor to address. And, in that regard, ConocoPhillips ranked second amongst the proponents, that ranking was based on its extensive gas production in the WCSB (taking into account its affiliate).

The contract with ConocoPhillips also results in the lowest projected annual and three-year gas cost, as compared to the other submissions to the RFP and, as well, a lower projected cost, adjusted for projected volumes and AECO-index prices, than would have been achieved with the former Nexen contract.

Contract and Pricing Details

The Board reviewed with interest CAC/MSOS' witness Mr. Mark Stauft's review of recent "Alberta" natural gas market dynamics. The impact of NGL extraction revenue on AECO to Empress transportation net costs is, truly, an interesting dynamic that, as the Board understands, could serve to reduce the cost of gas for Manitoba consumers, all other factors being equal.

That said, as an evolving and complex market issue, the Board suspects that the non-successful proponents, and ConocoPhillips, involved in the RFP process are most likely to possess their own competitive intelligence and have views with respect to NGL extraction revenue potential. As well, the Board anticipates that if any of the other proponents had been successful and obtained Centra's contract, that supplier would also have sought to prevent disclosure of their pricing strategy.

In the RFP, Centra requested pricing to be based on the AECO monthly index for its Baseload volumes, and the AECO daily index for its Swing volumes, each with an adder to account for transportation of the gas from the AECO hub to Centra's receipt point at Empress, and to account for any discounts or premiums.

CAC/MSOS assumes that Centra did not obtain pricing in the contract related to the AECO to Empress basis differential, or, if it did, that the basis may comprise a smaller portion of the transportation to Empress than it could potentially have done. While this may or may not be true of the ConocoPhillips contract, the Board recognizes that Centra requested an adder for the transportation component, and that the proponents were free to structure the adder as they chose.

While some proponents may have used the basis differential, others may not have. Centra did not specify that this factor (the form or particulars of the transportation adder) should be singled out in its RFP, which was reviewed by stakeholders prior to its issuance. Presumably, the proponents structured their proposals with various configurations of transportation adders and premiums on the Baseload and Swing volumes.

CAC/MSOS argued that if the ConocoPhillips contract does not incorporate the AECO-Empress basis differential in arriving at its transportation adder, then, when all factors are taken into account, it may prove to have been a more expensive arrangement as to costs than the costs that would have arisen out of a continuation of the previous Nexen contract (in the current market). While this perspective is interesting, it is, in the end, irrelevant. The comparison at hand is not to the previous expired contract but to the other options Centra had to choose from, the proposals submitted by the non-successful responses to its RFP.

The Board recognizes that at any given point in time market dynamics may change, and, on a simulated basis, the costs of each proposal relative to each other could also change. Centra's evaluation method, which included an analysis of historical and forecast volumes and market prices, tested the different, and only, proposals it received under varying market scenarios.

Centra's evaluation of the proposals began in March 2009 (after they were received), and concluded prior to midsummer 2009 when Centra entered into the new contract. At that point in time, the AECO-Empress basis differential, although lower than the AECO-Empress toll, had not yet approached zero, let alone become negative (as it has been in recent months).

The Board accepts Centra view that the movement of the differential to "negative" was an unexpected market dynamic. Again, regardless of whether or how much of the AECO-Empress basis differential is included in the ConocoPhillips contract, or in any of the other proposals, Centra evaluated the proposals against the historical and forecast (from the six proponents) pricing it had available at the time.

With regards to the limited supply flexibility of the previous Nexen contract, that resulting from its exclusivity provisions and its restriction on reselling supplies, the Board notes that this concern has been addressed at least in part through the new ConocoPhillips contract. The exclusivity restriction has been "relaxed", such that Centra must only purchase from ConocoPhillips, exclusively, any gas supplies from Empress that are to be transported using Centra's firm TCPL capacity. Previously, Nexen provided all of the gas received by Centra from Empress. Now, with the new contract, Centra may resell excess volumes of gas at Empress without offering ConocoPhillips a right of first refusal, previously Nexen held the right of first refusal.

Alternatives to Sole-Source Contract

Mr. Stauft suggested that Centra could have chosen not to enter an exclusive supply contract with ConocoPhillips, and instead chosen to make monthly and daily purchases on its own (in various markets).

While CAC/MSOS posited that there is "no question" that Centra could undertake to purchase its gas under shorter-term contracts from multiple parties, the Board is not convinced. Other Canadian Local Distribution Companies (gas distribution utilities, LDSs) do purchase gas in this manner, but Centra, unlike some of the others, does not have the benefit of local storage to absorb surpluses and shortfalls (regularly resulting from the weather-induced variability in Centra's load).

Purchasing or selling additional volumes of gas in illiquid secondary markets introduces the considerable risk that there may be no sellers or buyers of these additional volumes, or if there are, the pricing may be highly "objectionable", and not to the benefit of Manitoba consumers. The Board agrees with Centra's position that, given the wide variations in supply requirements arising from Manitoba weather conditions, reliable supply is the most important consideration, and having firm supply sufficient to meet Centra's peak day needs, even when the markets may be closed, is a necessity, not a luxury.

Further, the Board agrees with Centra that if the Utility made its own daily and monthly purchases in the market that this would likely introduce additional costs, and Centra would need to hold firm transportation sufficient to transport its entire Swing gas requirement (in case it had to call on a portion of its supply). Contracting firm transportation could well result in significant and unutilized fixed charges, since Centra would have to pay for this transportation capacity whether it used it or not.

CAC/MSOS also suggested that if Centra did not contract its gas supply for three years, it would have flexibility to participate in evolving market dynamics (such as the recent negative AECO-Empress basis differential). While the Board appreciates CAC/MSOS' view, it also agrees with Centra that the market can "cut both ways". While the benefits of the recent negative basis differential were apparent in the months since the new contract was put in place, that left over two years remaining in the contract, during which market dynamics could yet shift in a different direction, and, perhaps, introduce unforeseen negative consequences if Centra had not contracted as it has with ConocoPhillips.

The Board notes Mr. Stauft's earlier comments (from the 2009/10 and 2010/11 GRA proceeding) that utilizing an exclusive supplier is administratively simpler for Centra, and provides more predictability and pricing transparency (since prices are based on published market indices of AECO monthly and daily indices). That said, the Board agrees that the benefit of transparency is mostly eliminated, at least for parties other than the Board, by Centra's non-disclosure of the pricing details.

The alternative to the exclusive supplier approach would also lack some transparency, according to Mr. Stauft, because the prices paid by Centra would not exactly reflect the average published market prices.

In summary, the Board agrees with Centra and its decision to contract for its Primary gas supply exclusively from ConocoPhillips, for a three-year term. That said, CAC/MSOS and Mr. Stauft raise many interesting points.

The absence of local storage was a major consideration in the structure of the new gas supply contract, and with the impending 2013 expiration of Centra's long-term American storage and transportation assets Centra will be able to undertake a thorough analysis of the benefits of developing local storage, and can weigh the benefits and costs of local storage against the costs of contracting for the Swing service that it currently uses in lieu of local storage.

The Board gives further direction on this upcoming analysis elsewhere in this Order.

Confidentiality

The Board's Rules of Practice (Section 13, Subsection 1) generally require public disclosure of documents filed with the Board, although Subsection 2 permits the Board to receive documents in confidence: "*if the Board is of the opinion that disclosure of the information could reasonably be expected) to result in undue financial loss or gain to a person directly or indirectly affected by the proceeding; or (ii) to harm significantly that person's competitive position.*"

Ultimately, it is up to the Board to determine whether public disclosure of the details of Centra's gas supply contract is in the public interest. Nonetheless, the Board sympathizes with CAC/MSOS, since the intervener's ability to test the prudence of the new gas supply contract was restricted -- CAC/MSOS was not allowed to view the detailed pricing terms of the new contract.

However, the Board respects Centra's assertion that disclosure of the pricing terms of its new gas supply contract is seen by it as being capable of, possibly, negatively affecting Centra's ability to attract bidders in future gas supply contract RFPs, and agrees that obliging Centra to disclose the terms would, ostensibly, breach clause 14.10 of the standard industry contract.

Notwithstanding Centra's concerns, shared by the Board, the Board is of the view that a very limited disclosure of the pricing terms is warranted. The Board attempts to be as transparent as possible in its proceedings, so the receipt of documents in confidence for review only by the Board erodes the normal transparency of the Board's processes and reduces the ability of interveners to understand the merits and demerits of contracts entered into, the choices made and not made.

So, while the Board agrees with Centra and its selection of ConocoPhillips, for three years, as the most suitable proponent arising out of a validated RFP process, it also agrees with CAC/MSOS that a comparison of the ConocoPhillips' contract terms to other purchasing methodologies should be tested.

Such a testing can only occur to the benefit of all parties to Centra proceedings if CAC/MSOS, as well as Centra and the Board, has knowledge of the pricing details of the contract. Finally, clause 14.10 of the NAESB base contract does contemplate release of confidential contractual information, in the case of the direction of a government or regulatory body.

CAC/MSOS has represented the interests of consumers for a considerable period of time, and has participated responsibly in Centra's Cost of Gas and GRA proceedings. Natural gas commodity costs are very significant in a "cold weather" Province such as Manitoba, and many consumers have had difficulty meeting the bills that arise from space heating. It is important for the public interest that Centra's actions with respect to its purchase of gas, the Utility's single largest annual cost, have the full support of consumers.

Accordingly, the Board is supportive of a suggestion made during the proceeding that CAC/MSOS, and, if CAC/MSOS wishes, its witness Mr. Stauft sign non-disclosure agreements and then, with those agreements in place, be provided limited access to the new contract.

However, given the importance of, in the end, placing Centra in a position to obtain the best supply arrangements possible, which is also in the public interest, if such an approach is to be implemented, then the Board will first require the perspective of ConocoPhillips, and, with that perspective in hand, also Centra's view.

Accordingly, the Board will direct Centra to inform ConocoPhillips of the Board's intention to release the full contract details of its arrangement with Centra to CAC/MSOS (the Board has no intention of releasing the contract details to JEMLP, as that firm is directly in the industry), including, if CAC/MSOS desires, their external consultant Mr. Stauft. A copy of the contract would be provided to CAC/MSOS counsel and, presumably, Mr. Stauft, at the Board's office, and while CAC/MSOS' counsel and Mr. Stauft would be allowed to take notes, no copy of the contract would be provided to take with them from the office. That said, the Board would also require CAC/MSOS, its counsel, and Mr. Stauft to sign non-disclosure agreements. And, assuming ConocoPhillips and Centra offer no objection to the Board's proposed plan to release the contract under the conditions as set out above, or, after a thorough consideration of any objection from ConocoPhillips or Centra the Board decides to proceed with the release in any case, and assuming CAC/MSOS and its counsel and consultant provide the non-disclosure agreements to be sought by the Board, the pricing details of the new gas supply contract will then be shared with CAC/MSOS' counsel and Mr. Stauft, to be evaluated by CAC/MSOS through an in-camera paper-based proceeding.

The Board will give future direction on the process and the terms, and the treatment of such evaluation as CAC/MSOS and Mr. Stauft may then develop, following receipt of comments from ConocoPhillips, Centra, CAC/MSOS, its counsel and Mr. Stauft.

As noted above, the Board will listen to any concerns from Centra and/or ConocoPhillips regarding this decision, and welcomes any suggestions made by the parties that will serve to protect their interests yet still meet the public interest, which is to allow the prudence of the new contract to be further tested through an evaluation of CAC/MSOS and its witness. Centra, ConocoPhillips and CAC/MSOS may choose to provide the Board with a proposed non-disclosure agreement for the Board's consideration.

As inferred above, the Board may change its position based on arguments that ConocoPhillips or Centra may put forth. That said, the onus will be on Centra and ConocoPhillips to demonstrate sufficient reason why the public interest would be better served by maintaining confidentiality of the contract.

To maximize the benefits of the disclosure of the ConocoPhillips pricing details, Centra is also to disclose the pricing details of the other proponents in a redacted form. The Board notes that without the pricing details of the other bids, albeit without the names of the respondents indicated, CAC/MSOS' understanding will be limited, as to the comparisons and evaluations of the ConocoPhillips pricing details.

The ConocoPhillips pricing details may be compared to the previous Nexen contract, or against CAC/MSOS' or Mr. Stauft's proposed supply methodology (wherein Centra would self-manage its own monthly and daily purchases). However, since neither of these options is now viable according to Centra, comparisons with these options, as the Board noted earlier, may be less relevant other than as a possible guide for future RFP processes.

Finally, it should be noted that the Board's review of the RFP document did not identify any confidentiality or non-disclosure clauses that would preclude disclosure of the unsuccessful proponents' pricing details.

TCPL Tolls

Centra advised that the tolls it pays to TCPL to deliver its Primary Gas from Empress, Alberta to Manitoba have increased sharply. The increase was lower than it was first indicated, this the result of opposition by gas distributors which led to TCPL deferring $85 million of its revenue requirement by choosing to amortize the balance over a 33 year period. The effect of this was to reduce the toll increase by $2.6 million, leaving a still significant $7.3 million net increase.

Centra and a number of other shippers on the TCPL Mainline have expressed concern to TCPL about the rising tolls over the past several years. The primary reason for the sizeable increase in tolls is reduced throughput on the TCPL Mainline, which drives the unit rate higher as TCPL, as a monopoly, is granted a return on its asset base and equity by the National Energy Board (NEB), that return factored into the firm's revenue requirement and rates.

TCPL, Centra, and a number of shippers that include local distribution companies from Eastern Canada have established a Tolls Task Force (TTF), the purpose being to resolve issues relating to tolls and other matters that impact shippers. One of the issues being considered by the TTF is the competitiveness of the TCPL Mainline due to the rising tolls. TCPL presented its views to the TTF in March 2010, and is to file changes to its tolls, services, and business model with the NEB by September 30, 2010.

Without breaching the confidentiality requirements of the TTF, Centra was still able to indicate that the tolls for 2011 are expected to fall back to the range of the 2009 tolls. If, as a result of implementing the "competitiveness" plan, this comes to pass, then Centra can anticipate that its TCPL tolls will drop by a similar amount as they have increased from 2009 to 2010, i.e. by approximately $7 million.

Board Findings

While the increase in tolls (to transport Primary Gas to Manitoba) of $7.3 million is alarming, particularly given that an even larger increase would have occurred in the absence of TCPL deciding to defer a large portion of the otherwise increased revenue requirement, the Board appreciates the efforts of Centra, through its participation in the TTF, to mitigate the impact of the toll increases.

It is encouraging that TCPL has prepared a competitiveness plan, and that the preliminary outlook, as provided by Centra, is that the plan may lead to a return of toll costs to 2009 levels. A return to tolls at the level of the 2009 tolls is welcomed, even if 2009 tolls are still higher than 2008 tolls.

US Storage and Transportation Assets

Centra has storage and transportation contract assets in the United States, with natural gas storage in Michigan used by Centra to assist in supplying its customers throughout the winter. Gas is injected into storage in the summer months and withdrawn from storage in the winter.

In order for Centra to use the gas it withdraws from storage, it withdraws gas from the TCPL Mainline for its use in Manitoba and injects a complementary amount of gas from its Michigan storage to a downstream point, a procedure called notional backhaul.

Centra contracts for storage from ANR and for pipeline capacity (to move its storage gas from ANR) with Great Lakes Gas Transmission (GLGT). Centra also contracts for pipeline capacity from ANR to transport gas from Oklahoma and Louisiana; the Louisiana capacity is only available in the summer and is used to re-fill storage, while the Oklahoma capacity is available year round and is used by Centra to meet the winter load as well as to re-fill storage.

In aggregate, these contracted storage and transportation assets are referred to as Centra's U.S. storage and transportation assets, and Centra's contracts with ANR and GLGT expire March 31, 2013.

Centra is investigating alternatives and options for replacing its storage capacity contracts and has engaged ICF to assist it in reviewing options and scenarios for storage and transportation, the impact these options would have on its gas supply options, and to help Centra optimize the arrangements to be selected.

Centra plans to develop a discussion paper on the various options it is considering and provide this paper to stakeholders in Centra's gas supply, storage, and transportation arrangements. Stakeholders in this process include the Board, Interveners in this and prior proceedings, as well as larger customers. Centra will consult with these stakeholders and obtain their input prior to developing its plan, and this and the resultant discussion paper are expected to occur by the summer of 2011.

CAC/MSOS' Position

CAC/MSOS noted that Centra will be undertaking a portfolio review of its supply and storage arrangements and will be circulating a discussion paper in 2011. CAC/MSOS stated it should be given the opportunity to retain a gas supply consultant to provide CAC/MSOS with an opinion about the findings and/or options developed in the discussion paper, so that it can contribute to the technical conference to review the discussion paper in a meaningful way.

CAC/MSOS urged the Board contemplate a procedure wherein CAC/MSOS could, on the basis of a budget, hire a gas supply consultant to assist it in the impending process, noting that, in the long run, regulatory costs are likely to be avoided by a cooperative approach.

Board Findings

The Board agrees with Centra's plan to use an outside consultant to assist it in reviewing its options for replacing its American storage and transportation assets. The consultant should be able to provide Centra with expert advice and have a broad perspective on the North American and world natural gas markets.

The Board approves of Centra's proposed concept of it developing a discussion paper and circulating it to stakeholders, to include the interveners in this proceeding as well as interveners that have participated in prior proceedings. In addition to expecting the discussion paper, the Board will direct Centra to prepare a timeline for the process that includes milestones. Centra is to file this timeline by no later than November 30, 2010.

As to CAC/MSOS' request for permission to hire a consultant to assist it in its review, and to provide the intervener with comments on Centra's intended approach, as may be indicated in the expected discussion paper, the Board is mindful that agreeing to this request will result in multiple consultants being engaged for this process, but the Board is also of the view that the review of storage and transportation represents a very significant matter that has not been fully addressed for close to twenty years, and that a variety of views and opinions may well assist Centra in considering all the options.

Stakeholders without a commercial interest may hire a consultant to review the discussion paper, subject to prior approval of the proposed consultant and a draft budget by the Board. Approval of an external consultant will be dependent on the stakeholder justifying to the Board that the consultant will add value to the process.

Hedging

The overall cost for Primary natural gas reflected in Centra's rates to customers receiving Primary gas from Centra is impacted by:

a) the terms of Centra's gas supply contract with its commodity supplier, ConocoPhillips;

b) withdrawals of Primary gas from storage;

c) hedging; and

d) changes in demand, including those driven by weather.

Hedging is one method that Centra uses to mitigate Primary gas rate volatility; other methods include injecting gas into storage in the summer for use in the winter, the Board's quarterly RSM and the ability for customers to reduce the volatility in their bills with other methods, such as the Equal Payment Plan, heating efficiency improvements, and Centra's Power Smart programs.

Hedging activities are undertaken with the objective of reducing rate volatility for system supply customers. As set out in Centra's Derivatives Hedging Policy, as approved by Manitoba Hydro's Executive Committee and accepted by the Board, Centra currently hedges up to 75% of eligible volumes. Eligible volumes are defined as the volumes of gas that Centra's system supply customers would consume in the warmest year on record.

Prior to December 2006, Centra used “costless collars” which constrained the price of gas into a narrow band comprised of a $0.50 cap over the forecasted gas price down to a competitively determined floor. This narrow band was often breached. As approved in Order 175/06 and beginning in 2007, a wider price band set the out-of-the-money (OTM) upper cap to approximately 15% of the futures market price for each month. The wider band reduced the magnitude of both hedging gains and losses while still providing customers protection from severe price spikes and higher volatility.

The impact on gas costs and the volatility reduction since 2002/03 were as follows:

Derivative Hedging Program Results- April 2002 to October 2009

Fiscal Period	Derivatives Hedging Gas Cost Addition / (Reduction)	Actual Volatility Reduction
2002/03	($15,314,342)	30%
2003/04	($4,645,960)	30%
2004/05	($10,023,711)	53%
2005/06	($47,496,261)	53%
2006/07	$73,210,473	51%
2007/08	$42,586,234	43%
2008/09	$23,297,643	52%
2009/10	$63,723,813	40%

Note: 2009/10 gas cost reduction/addition figures are actual settled results to October 31, 2009.

In the recent proceeding, Centra provided an update for the hedging results for 2009/10 year, that being instead of the $63.7 million reported as being an additional to gas costs in the above table to $84.2 million for the full fiscal year. On a cumulative basis since 2002, the hedging program has resulted in additions to gas costs of approximately $145.8 million, while annual Primary Gas price volatility reductions ranged from 30% to 53%.

Centra noted that, on the whole, the first four years depicted above involved a generally rising gas price market, which provided for hedging developing reductions in Primary Gas costs, while the second four year period (which saw increased gas costs) took place over, generally, a declining market (although within that latter period there were some dramatic spikes in prices, most notably the summer of 2008.

Centra undertook a review of its derivatives hedging program and filed a revised Derivatives Hedging Policy and Derivatives Hedging Operating Principles & Procedures on October 9, 2009 with the Board for its review and approval. After receiving input from CAC/MSOS, the Board issued Order 170/09, it directed the phase-out of the derivative hedging of Primary Gas.

The Board stated: *"Unless persuaded otherwise through an application to review and vary this Order, the Board will direct the phase-out to occur in three stages, commencing with this Order."*

The Board provided a timetable for the elimination of hedges on Primary gas. The Board allowed Centra to hedge Primary gas volumes for November and December 2010 and January 2011 to a maximum of 75% of eligible volumes. 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 (i.e. May, June, and July 2011) hedges are not to exceed 25% of eligible volumes. Commencing with the month of August 2011, the price of Primary Gas sold to system supply customers will no longer be hedged.

Centra noted that hedging has been very effective in constraining volatility in gas prices. While Centra has chosen not to apply to review and vary Order 170/09, in the recent proceeding Centra questioned whether the total elimination of hedging is the best course of action, and indicated that it was considering alternative rate volatility mitigation mechanisms to assist customers, and that it expects to apply to the Board for approval of such a mechanism or methodology.

Centra provided an update on the hedges currently in place, based on mark to market results as of April 1, 2010. Settled results indicate an increase in Primary Gas costs of $21.7 million with current unsettled positions expected to increase gas costs by an additional $14.5 million for a total impact of $36.2 million. The actual results associated with outstanding hedges will not be known until the derivatives contracts settle in the future, and are dependent upon future commodity market price changes.

Carroll and Associates

Mr. Bill Carroll of Carroll and Associates expressed concerns on behalf of MacDon Industries Limited, Standard Aero Limited, the Winnipeg Regional Health Authority, and the Winnipeg Airports Authority, while indicating that his views also reflected the views of other unnamed large consumers of natural gas.

Mr. Carroll asserted that Centra's large commercial, industrial and institutional users are in need of Primary gas rate certainty as, for many large users, utility costs represent a significant input cost into the goods and services produced.

He advised that rate certainty is needed by this group of users to assist in the establishment of the pricing for their products and services, as it is not feasible to revisit prices for products and services "after the fact" in a competitive environment.

Mr. Carroll also noted that institutional users may not be able to find new revenues to make up for budget shortfalls caused by higher than expected natural gas rates, and that such large users must "live with" the utility costs that they previously built into their pricing or budget structures. He opined that for large gas consumers, being exposed to the risk of huge fluctuations in gas costs, such as the market has experienced over the past few years, is an unacceptable business practice.

He noted that as a result of the phased elimination of the hedging program, as set out in Board Order 170/09, large volume gas consumers will soon be left with few options, to include accepting the risk of large rate fluctuations or entering into fixed price and term gas supply contracts with a marketer, as Centra has not, to this point, offered fixed price and term gas contracts to its larger customers.

Mr. Carroll stated the major consumers he represents do not want to be faced with exposure to uncontrolled price swings or retail marketer sourcing of their Primary gas supply. He asserted that major consumers prefer Centra's hedging program, even though they recognize that hedging can lead to higher than otherwise costs. He advised that the larger customers he represented preferred rate volatility protection.

According to Mr. Carroll, what is needed is some degree of short-term rate certainty for larger gas consumers, that to be obtained either through hedging or some other rate-smoothing technique. For those he represents, Centra's current hedging program and quarterly rate adjustments help ensure that large rate fluctuations are kept at manageable levels.

Board Findings

In reaching its decision to phase out hedging (Order 170/09), the Board opined: *"Centra needs to do more to assure consumers of their ability to enter fixed price and term contracts for Primary Gas from either Centra or a private broker, such that hedging may be entirely discontinued from the quarterly set prices for system gas."*

The Board acknowledges that Centra achieved significant rate volatility reductions through hedging, and this served to "temper" natural gas rate changes for "system gas" customers relying on rates set through the quarterly RSM. However, reduced volatility does not mean reduced costs or rates for system gas customers, and the volatility reduction gains came at a cost, an increase in natural gas commodity costs of approximately $145.8 million to the end of fiscal 2009/10, with indications of further increases in gas costs in this current year as the hedging program is phased out.

Current futures market prices for natural gas are trading at under $5/GJ, and the outlook is for continued "depressed" natural gas prices for some time to come. The change in direction in natural gas prices comes through a combination of events -- the discovery and development of shale gas, increased availability of LNG (liquid natural gas) on the world market, reduced demand for natural gas from electrical utilities and industry due to the recent recession, weather conditions, and, as a result, record storage inventory levels.

The currently depressed current and futures pricing of natural gas is incorporated in Centra's rates, which reflect not only the current price (for un-hedged natural gas purchases) but also current gas futures market sentiment. When the ultimate market price deviates from the current market view, Centra's remaining hedges may be triggered. And, over the past four years, actual market prices have been lower than the previously forecasted and hedged prices, resulting in increases in gas costs due to the triggering of Centra's hedges. That is, actual market prices have been below Centra's hedged floor prices.

CAC/MSOS has long advocated for an end to Centra hedging its quarterly-set system gas offering, citing the cost risks to consumers when natural gas prices drift downward and the availability of "rate certainty" for consumers through fixed price and term contracts, which, until last year, were only available from private gas marketers, both retail and wholesale.

Centra chose not to seek to vary the Board's decision of Order 170/09 to phase-out hedging "system gas", with rates set quarterly, setting in motion the ongoing phase-out. At the same time, the Board urged Centra to do more to encourage consumers (wanting to reduce the risk of large rate and cost increases) to consider contracting for their Primary Gas through fixed price and term contracts, now either from Centra or a private marketer.

The Board's decision to phase-out hedging of Primary Gas priced on a quarterly basis was, in fact, predicated on the expectation of the availability of regular and adequate fixed price and term contract offerings from Centra. It is important to note that the Board's approval of Centra's fixed price and term natural gas offerings to the SGS and LGS classes does not preclude Centra from extending its offers for fixed price and term natural gas offerings to larger commercial, institutional and industrial customers.

For system gas, with rates set quarterly, rates based on market prices send appropriate and current price signals to customers, and, particularly when natural gas prices rise, provide an economic incentive to customers to upgrade their gas furnaces and the heat retention or efficiency of the property or operations.

The Board will maintain the current hedging phase-out schedule, although that decision will remain subject to the potential immediate review and possible variance if Centra fails to maintain a regular and adequately designed flow of fixed price varied term primary gas contracts, at least for residential and small commercial customers. And, the Board does understand the concerns raised by large industrial and commercial customers through Mr. Carroll about the phase-out of hedging for system gas customers. Currently, Centra doesn't offer fixed term and rate Primary gas contracts to such customers.

Accordingly, the Board will direct Centra to consult with its higher volume customers and provide the Board with the results, and also provide an indication of actions taken, or to be taken, by Centra to alert higher volume customers to opportunities to lock-in gas supply prices (either through Centra or marketer fixed term contracts, or by self-directed futures contract acquisition).

Finally, the Board acknowledges the history of extreme volatility of market natural gas prices. Prices for the commodity began to rise steadily with the deregulation of natural gas in the 1990s and the development of additional pipeline capacity from western Canada to the United States, and have spiked on several occasions, most notably in 2001 and 2005, the first spike related to what some consider an Enron-assisted market "panic", the second following the hurricanes Katrina and Rita. With respect to the second spike, if prices had not fallen quickly consumers using natural gas for space heating would have faced bills much higher than they are now, and much higher than are associated with heating by electricity (which, currently, is considerably more expensive than heating by natural gas for those with high efficiency furnaces).

The reality is that the hedging of Centra's quarterly set Primary gas rate for system gas customers was, at best, a short-term mechanism that, in times of rapid natural gas price increases, would have provided rate and bill relief, but only for up to one year. The end of hedging for the quarterly set Primary gas product will mean an increase in risk for consumers, a risk that the Board considers reasonable given the history and the ability for consumers to avail themselves of fixed price and term contracts if they wish to lock-in their Primary gas rates for terms of one to five years. Of course, locking in rates often also comes at a price, with the quarterly set product now 30% or more less expensive than the one to five year price.

Lower Income DSM Programs

Centra introduced its Lower Income Energy Efficiency Program (LIEEP) in December 2007, and made a change to the furnace replacement component in November 2008. The LIEEP provides energy efficiency improvements to homeowners and tenants responsible for their own utility bills who qualify based on income thresholds. The energy efficiency improvements include low cost improvements such as weather stripping, hot water tank pipe wrap, faucet aerators, and compact fluorescent light bulbs, as well as more elaborate improvements such as improved insulation in attics and walls and replacement of low efficiency furnaces.

Replacement of furnaces is funded by a separate Furnace Replacement Program (FRP), and is discussed elsewhere in this Order.

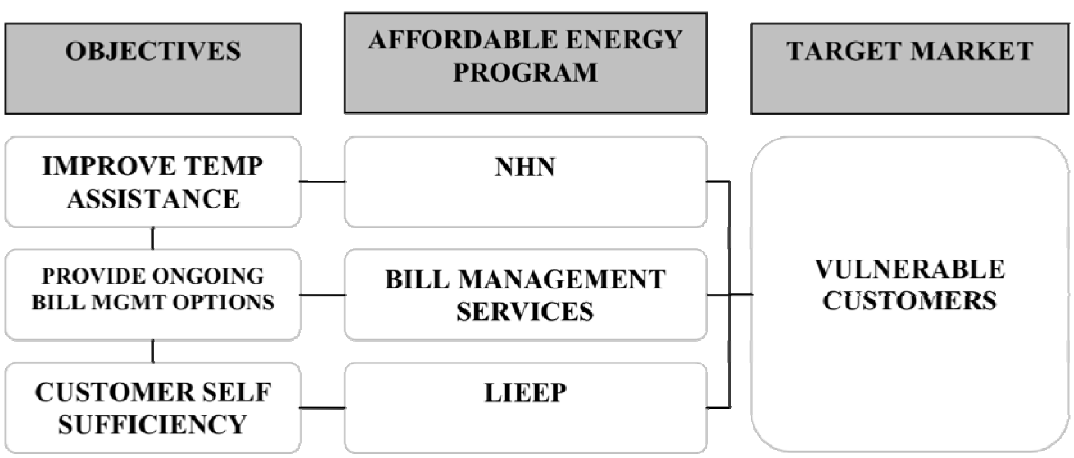
LIEEP has resulted in energy retrofits to almost a thousand homes, with, currently, an additional 600 homes in various stages of the retrofit process. Centra indicated that it is forecasting to retrofit 1,900 additional homes in 2010/11. With respect to potential insulation upgrades, Centra estimates that between 15,000 and 19,000 lower income homes require substantial insulation upgrades, depending on the eligibility criteria for low income. To accomplish these retrofits, Centra has engaged two contractors for the installation of insulation, and arranged for an external auditor to perform in-home energy evaluations.

In Order 128/09 the Board directed Centra *"to develop and file with the Board a revised marketing and promotional plan for the LIEEP and FRP, designed to educate and encourage lower income customers to participate."*

In response to that directive, Centra filed an Affordable Energy Program Marketing Plan (AEP Marketing Plan). The AEP Marketing Plan describes how MH has consolidated and enhanced its three main bill assistance program components under one umbrella program, that called the Affordable Energy Program (AEP).

The AEP brings together MH's three major programs that assist low-income customers. The first is the Neighbours Helping Neighbours program, which provides emergency one-time bill assistance, which may be required due to an unforeseen problem that hinders a customer's ability to pay their bills. The second program involves the myriad bill assistance and arrears management programs offered by MH and Centra that focus on assisting customers to better manage their energy bills, such as equal payment plans and "pick your payment date" options.

The third component is the LIEEP which endeavours to assist homeowners with energy efficiency improvements designed to lower their utility bills. Below is a table outlining the three components of AEP, and the program's objectives.



Through this consolidation, all program components that target lower income households are to work together to aid program participants in managing their bills and reducing their energy burdens.

The overall objective for the enhanced AEP is to improve the affordability of energy for lower income customers, while maintaining efficient operations of Manitoba Hydro (including Centra). To that end, an enhanced marketing plan has been developed to promote AEP, and ensure qualified customers are both aware and can easily participate in the program.

Centra stated that it has not considered implementation of a special and lower low-income rate. A low-income rate would provide a lower Primary gas and overall rate for customers that would meet certain eligibility criteria. For example, one criterion might be based on the Low Income Cut-off (LICO), as defined by Statistics Canada.

Centra advised of its plans to update its demographic information of its customer base, based on a 2009 residential survey. The current demographic information used by Centra is based on a 2003 survey. To determine eligibility for the LIEEP, Centra requires a lower household income than 125% of LICO.

In its AEP Marketing Plan, Centra adopted a two-pronged marketing approach focused on education and communication (to achieve the objective of increased awareness and participation in AEP). The education component is patterned after other successful energy efficiency programs and will not just educate the customer, but also educate the service providers and program partners. The communication strategy is to focus on a “layered” mass media approach for AEP, designed to reach the lower income market.

Centra advised it has spent approximately $48,000 in 2009/10, and intends on spending approximately $150,000 in 2010/11 to deliver the AEP marketing strategy.

CAC/MSOS’ Position

CAC/MSOS urged the Board to direct Centra to provide not only the Board but also CAC/MSOS the 2009 Residential Energy Use survey, when it is filed with the Board. With respect to the longer-term plans for the FRP, CAC/MSOS requested the Board direct Centra to also share the plans for the program with the intervener.

Board Findings – Lower Income DSM Programs

The Board congratulates Centra on the improvement to its marketing and consumer information efforts with respect to LIEEP, and the Board is further encouraged by the introduction of Centra's AEP Marketing Plan. The Board commends Centra (through MH) for its thorough marketing plan, which involves a three-pronged approach to addressing low-income customers' energy costs. AEP, coupled with updated demographic information from the 2009 Residential Survey, should assist Centra in better targeting its efforts and promoting higher participation in LIEEP.

The Board is also pleased for the external recognition MH has received for LIEEP. The level of Centra's spending on DSM directed to lower income customers has increased substantially, as is required to meet an evident and significant need.

The Board understands and accepts that a special and lower low-income Primary gas rate is not being contemplated by Centra (or MH) at this time. With Centra's new AEP, and the "end" of natural gas residential service disconnections brought about by the arrangement developed through the cooperative efforts of MH and the Board – the use of electricity load limiters when delinquency conditions exist and acceptable payment plans have yet to be developed, there are several mechanisms available for low-income consumers to reduce, manage, and receive assistance with their bills.

The Board notes that the "load limiter" program has reduced annual natural gas residential disconnections from a range of 5,000 to 9,000 to virtually nil, and has reportedly led to reduced administration, collection and bad debt costs for Centra (and MH), decreased service disconnection and reconnections costs for the Board with respect to its oversight of disconnections, an incentive to homeowners to work out acceptable payment plans with Centra (through MH), reduced costs for low-income households related to reduced delinquency charges and the saving of disconnection and reconnection charges, and the "comfort" of knowing that the elderly, children and parents will not suffer the stress associated with service disconnection.

With the improvements that have occurred and the current plans of the Utility, at this time, the Board will not direct the introduction of a lower low- income rate. In the next Centra GRA proceeding, the Board plans to review participation rates in Centra's AEP and evaluate whether low-income consumers are receiving sufficient assistance. Heat is a necessity in the cold weather climate of Manitoba, and a single day in hospital for an elderly fixed-income customer, or the costs of children being removed from low-income homes deprived of heat due to delinquency, are very high for society (in aggregate, likely far exceeding the costs being borne through rates by Centra's customer base to address low-income issues), and justify the actions being taken to ensure properly heated and insulated residences.

The Board awaits the filing of the full demographic information and directs Centra to share the results and the 2009 Residential Survey with Interveners. The Board will expect Centra to execute its AEP Marketing Plan and report back to the Board on or before December 31, 2010, with an update on both the marketing efforts and results.

The Board will expect quarterly filings by Centra providing updates on the participation and order book for these programs, as well changes in the number of contractors involved and marketing efforts undertaken. The Board also remains interested in Centra's efforts to bring about upgrades of rented housing, single or multiple, whether the resident or the owner pays the bills. These filings are to supplement the semi-annual FRP status update reports.

Furnace Replacement Program

The FRP is a low-income DSM program designed to assist low-income homeowners with the replacement of low efficiency gas furnaces with new high efficiency gas furnaces. Currently, the homeowner pays a set amount of $19 per month for five years, while Centra arranges for a contractor to install the new furnace and funds the remaining cost of the furnace. (Centra partially funds its program from outside sources, such as the Federal ecoEnergy program and provincial and MH energy efficiency incentive programs.)

Centra estimated that there are approximately 15,000 low-income residences (low-income defined as the households earning 100% of LIC0) with low efficiency furnaces with an efficiency rating of 60% or less, and 22,000 homes with such furnaces meeting the criterion of 125% or less of LICO. (The estimate was based on a recently completed Residential Energy Use Survey, undertaken in 2009.)

Centra updated the Board on the current funding levels of the FRP: $6.1 million was allocated to the FRP, through rates, as directed by Order 99/07. A further $3.8 million is to flow to the FRP for each of the 2009/10 and 2010/11 fiscal years, for total funding of $13.7 million to the end of fiscal 2010/11. Interest is also to continue to accrue on unspent funds.

From this available balance, Centra expends as it installs furnaces in lower income homes. As of September 30, 2009, Centra had spent $700,000 of the FRP funds to install 530 high efficiency furnaces and boilers in low-income residential properties. Centra updated the information as to the participation rate for the FRP. Approximately 800 energy efficient furnaces and 13 energy efficient boilers have been installed, with an additional 60 homes currently scheduled to have their furnaces replaced with energy efficient units. Centra is ramping up the program and anticipates approximately 1,100 additional homes will be retrofitted during 2010/11.

Centra advised that even if it meets its participation target of a further 1,100 furnace and boilers installations for 2010/11, there is more than sufficient funding to accomplish these installations.

Centra confirmed that it now has seven contractors installing furnaces and boilers in Winnipeg, Brandon, and Winkler. According to Centra, it has placed no capacity restrictions on the contractors with respect to the number of furnaces and boilers that are to be installed, and contractor availability is not a bottleneck.

Natural Resources Canada, the Federal government department that administers the ecoEnergy Retrofit Program, announced that as of March 31, 2010, no new applications for the ecoEnergy program will be accepted. For any customers that have begun the retrofit process by booking an in-home energy audit, this funding will still be available. With the cancellation of the ecoEnergy program, LIEEP and FRP will lose a significant funding source, increasing the cost for Centra for each installation. The ecoEnergy program had been contributing funding of up to $790 per furnace installation. And, with ecoEnergy funding, the customer was contributing $1,140 over a five-year period, ecoEnergy was contributing $790, prior to December 31, 2009 Centra's (MH's) Power Smart program contributed $245, and Centra contributed the remainder (that estimated at up to $1,400).

Centra has yet to decide how it will proceed with the funding arrangements for FRP, now that the ecoEnergy funds are no longer available. The majority of the forecast 1,100 installations expected for 2010/11 will not have ecoEnergy funding available. Centra is considering several options, these include extending the period of customer co-payment from five to six or seven years, increasing the customer co-payment from the current $19 per month, or increasing the funding from rates through the annual FRP budget allocation or other sources.

Centra advised that it has yet to undertake mass market advertising to promote FRP, noting that it is being cautious, since a successful advertising campaign may be "too successful" (i.e. demand for the FRP program could outstrip resources, as to both funding and contractor availability). Centra noted that there are many barriers to low-income household participation, including complacency on the part of the customer.

Centra indicated that if it were to aggressively market FRP and all of the identified low-income households (meeting the 125% of LICO threshold), i.e. 22,000 residences, were to participate, it would require approximately $50 million if Centra was to make up the difference in the now-cancelled Federal government ecoEnergy funding – the amount would have been $33 million if Federal government funding had remained in place.

CAC/MSOS' Position

CAC/MSOS noted the high number of low-income households with low-efficiency furnaces (22,000 based on 125% of LICO criteria, and 15,000 based on 100% of LICO).

CAC/MSOS noted Centra's progress and considers the results to-date and plans as being "good news".

Board Findings

The Board reiterates its position that the societal benefits of the FRP outweigh the costs, and seeks an expanded and extended FRP effort. In addition to the immediate benefits available to the FRP participant (of reduced energy bills, and improved space heating), there are societal benefits which include:

- Increased jobs as community groups and MH require additional home energy auditors and furnace contractors require additional installers;
- Training of the additional home energy auditors and furnace installers;
- Vastly reduced GHG emissions – a high efficiency furnaces operates at 90% or more efficiency compared to 60% or less for a conventional furnace;
- Improvement of the housing stock in Manitoba, increasing property values; and
- Improvement to the health and safety of FRP beneficiaries through the replacement of old furnaces that could be leaking carbon monoxide, and by homeowners then able to set their thermostats at a comfortable temperature.

The Board recognizes the validity of Centra's view that the current remaining stock of conventional furnaces are well-past their expected service life and that within ten years most of these furnaces will have to be replaced – the question is how will low-income households replace the furnaces in the absence of fiscal support.

The Board recognizes that it will take a significant investment to replace all of these furnaces; and, for this reason the FRP is to continue into the future and will be the subject of a Board review at future GRA proceedings.

It is unfortunate that the federal government has ceased its contributions to the upgrading of residential furnaces; the decision appears to be starkly contradictory to the societal objective of reducing emissions and assisting homeowners of low income.

As a result of the federal “withdrawal”, the amount of funding required of Centra will increase, and the Board understands that Centra may seek to amend its current program to recover more of the net furnace cost (aggregate cost less recoveries from various programs) from low-income households. The Board is not opposed to reasonable amendments, although the Board will require that Centra consult with stakeholders, including the Board, prior to amending its current FRP.

The Board’s current intention is to leave in place its direction that $3.8 million (annually) be reflected in overall rates for the SGS class towards funding the continuation of the FRP, i.e. Centra should not anticipate the funding allocation to the FRP to end with its 2011/12 year. There are, according to Centra’s estimate, up to 22,000 low-income households still with conventional furnaces. Even at the “picked-up” pace of 1,100 FRP installations a year, it would appear that it will take 20 years to meet the full need. The balance in the FRP fund, to be supplemented by the expectation of further annual contributions through rates of $3.8 million, plus interest on the unspent balances as at the end of each year, should be sufficient to allow the pace of the program to “pick up” substantially.

As Centra has suggested, the stock of conventional furnaces are now well past their expected service life, and there is no indication that the number of low-income households are falling.

Fixed Rate Offerings

Order 160/07 directed Centra to apply to the Board for approval to offer fixed rate and fixed term Primary gas supply contracts to all of its customers. Centra initially applied for approval to offer fixed rate offerings to its smaller volume customers in the SGS and LGS classes. With Order

156/08, the Board approved Centra's Application to offer contracts with terms of one, three, and five years.

To-date, Centra has made four offerings of its Fixed Rate Primary Gas Service (FRPGS) to its SGS and LGS customers. Centra estimates the number of SGS Residential, SGS Commercial, and LGS customers that will subscribe to its FRPGS, then places hedges on the volumes of gas that match the forecasted consumption for these customers, and prices its offering to reflect its expected cost and revenue requirement.

The level of interest in each of the four offerings has varied considerably. The first and third offerings achieved participation levels sufficient to subscribe approximately half of the hedged volumes, while the second offering fully subscribed all hedged volumes. The latest offering achieved only 2.5% subscription of hedged volumes, meaning that Centra overestimated the level of interest in the FRPGS.

Centra attributed the varying levels of consumer interest to the differences between the default quarterly rate (the so-called system gas rate for Primary gas supply, i.e. gas purchased from Centra on the basis of rate changes every three months) and the fixed rate: where the quarterly rate significantly undercuts the fixed rate, consumer interest is muted. Also, Centra noted that natural gas prices have fallen considerably, and that in such an environment (where price declines are prevalent) there is less incentive or inclination on a customer's part to sign up for a longer-term fixed price contract.

In its most recent offering Centra hedged 64,730 GJ of gas, but only had 1,648 GJ subscribed. Overall Centra has hedged gas volumes of 391,790 GJ for FRPGS, but have only subscribed 197,555 GJ, resulting in 194,235 GJ of gas that are hedged with no underlying contracts with customers.

Centra reported that the impact of its FRPGS offerings to-date on its retained earnings has been negative $1 million. This negative impact includes program administration costs that have not been recovered through the rates charged to participants, and settled hedges for gas volumes that do not have corresponding sales volumes.

Due to the low participation in the latest offering and the high costs associated with marketing its FRPGS, Centra advised it was not proceeding with a previously planned offering for an August 1, 2010 flow date, and that it would monitor market conditions and may reintroduce a FRPGS offering in the future.

CAC/MSOS' Position

CAC/MSOS noted that the Board directed Centra to expand its fixed-price offerings to ensure that customers had sufficient Primary gas purchasing options and choices available, including the option to obtain rate certainty, prior to the cessation of the hedging program. (Yet, consumer interest in the latest FPRGS offering was marginal with only ten customers subscribing to only 2.5% of the available volumes.)

CAC/MSOS cites two reasons for the low interest in the FRPGS program: Centra's quarterly rate for system supply Primary gas drastically undercuts its FRPGS offering rates; the second reason relates to gas prices being at a "ten year" low, and the perception that natural gas prices are still declining.

CAC/MSOS opined that Centra should offer further FRPGS offerings when the perception is that gas prices are rising and that price increases will continue. CAC/MSOS contended that Centra will have to determine when best to reintroduce the FRPGS offerings.

CAC/MSOS noted that even though Centra's program appears to be failing at this time, there is a tangible benefit to the program, in that customers have become more aware of the FRPGS offerings and options available.

CAC/MSOS supports Centra's decision not to offer further FRPGS offerings until the circumstances are such that consumer interest in such offerings has increased.

Board Finding - Fixed Rate Offerings

The Board is not surprised with the most recent lack of customer participation in Centra's FRPGS. When natural gas prices are falling and the difference between Centra's quarterly Primary gas rate and the higher fixed term price is large, there should be no surprise that informed consumers will not be amenable to selecting the higher cost fixed term contract option.

The Board predicated its decision to direct a phase-out of Centra's hedging for its default quarterly service on the availability of FRPGS, so that customers could choose the rate volatility mitigation that best suits their needs and risk appetite. As well, the introduction of Centra's FRPGS likely was a major contributor to the decision of a large retail marketer of fixed term gas contracts to withdraw from the market, leaving only Centra and one retail marketer in the field.

For the Board, the results of the latest offering provide clear evidence that when gas prices are low or falling, and the price at which they can lock in their rate is considerably higher than the default quarterly rate, consumers are not interested in locking in at the higher fixed rate.

The Board enabled Centra to enter the fixed rate and fixed term natural gas market so that consumer choice would be increased, not decreased. Centra's decision to temporarily suspend its offerings would, if continued, result in customers having only a single choice for fixing their Primary gas rate with certainty, and that is to contract with a marketer.

The Board holds that regardless of the level of demand, Centra should maintain a regular flow of FRPGS offerings, this so that consumers on system supply, or those exiting retail marketer contract obligations, have more than one option to lock in the Primary gas rate.

The Board will direct Centra to continue to offer one, three, and five year FRPGS offerings to residential and commercial consumers, and, furthermore, to strongly consider extending such offerings to its larger customers as well.

The Board accepts that Centra's costs for the latest FRPGS offering was excessive relative to the numbers of customers that enrolled. The Board notes that Centra could reduce its level of marketing and advertising expenditures when consumer interest is low. Instead, Centra could simply advertise its FRPGS offerings on its website or through other low-cost advertising alternatives. As well, there is no reason for Centra to leave open the volume of its open hedges for its fixed term contracts when contract volumes fall short of the original expectation, Centra may enter the market to close any excess position, as it deems advisable.

Centra's provision of FRPGS offerings have a beneficial effect for consumers, the offerings provide consumers more choice. Maintaining what may be a small-scale offering of fixed rate offerings provides the additional "benchmark" or "yardstick" that the Board advocated in Orders 160/07 and 156/08.

Centra should maintain a regular stream of FRPGS offers. Consumers should always be able to compare Centra's prices with those of marketers and, for customers that seek a fixed term for price certainty reasons but want to contract with Centra rather than a marketer, to allow them to make an informed decision with more than one option in front of them.

Centra should understand that the Board directed the phase-out of hedging for the quarterly set product on the premise that Centra would enter and remain in the fixed term and price market. In fact, the Board anticipated that Centra would gradually expand its offers to include its larger customers, and not target only residential and small commercial customers. If Centra does not provide regular offerings of a fixed term and price contract, the Board would have to revisit its decision on the phase-out of hedging with respect to the quarterly set rate product. The Board does not find either approach to be in the public interest – Centra's customers clearly indicated a desire for choice, not only with respect to the supplier but also as to the type of price certainty product available. Centra's customers also indicated they wanted Centra to offer fixed price and term contracts.

On a related matter, it is the Board's understanding that the agents of the one retail marketer remaining in the field have not been, at least as a matter of course, providing potential customers with Centra's quarterly default rate to compare to against the rate offered by the marketer. The Board will consider the implications of requiring retail marketers, as a condition of their license, to inform potential customers of Centra's current quarterly default Primary gas rate, this in order to ensure "informed consent". Such a consideration will include a review of the material filed in support of pricing comparisons and increased customer information at the 2007 Competitive Landscape hearing (which culminated in Order 160/07). In short, the Board will consider the requirements for door-to-door sales and may well revisit the Code of Conduct most recently approved in Order 109/08. Comments from JEMLP, Centra and any other interested party will be welcomed.

Load Forecasting

Centra prepares an annual load forecast, wherein it estimates the consumption expected of its various customer classes. The sum of all the volumes forecast is used by Centra to determine the unit rates it proposes to charge to each customer class.

Centra provided evidence demonstrating the accuracy of its load forecasts, which have been in a range from an underestimate of 3.9% to an overestimate of 2.1% over the past five years (once the effect of weather is removed).

Generally, Centra's forecasts of demand have been lower than the demand that was experienced, and this has resulted in the rates sought and obtained being higher than they would have been if the forecasts had been more accurate.

CAC/MSOS' Position

CAC/MSOS requested the Board comment on the systemic underestimates of forecast gas volumes, and seek to ensure that Centra's forecasting methodology does not contain a bias.

Board Findings

The Board does not expect Centra's load forecasting to be perfectly accurate, but it does expect that, over time, the frequency and amount of underestimation of the load will balance out with overestimations of load. While the data presented appears to reflect there has been a systemic bias underestimating consumption demand,, regardless of the clearly made efforts by Centra to forecast its load as accurately as possible, the Board accepts that there may be no bias and that the experience has simply been a "streak" of underestimation (by chance, so to speak).

The Board appreciates that load forecasting is a complicated process, and accepts that Centra makes a concerted effort in determining an accurate load forecast. However, the Board also recognizes that, like any process, load forecasting can be continuously improved. The Board notes that Centra has recently made changes to its Residential load forecasting methodology, although Centra's evidence is that these changes are expected to result in relatively modest changes to the forecasted consumption.

The Board expects Centra to continue to review, and adjust if necessary, its load forecasting methodology for all customer classes, towards ensuring no systemic bias is present that would be expected lead to either ongoing under- or over-estimating errors.

If, as a result of a review, Centra determines that further changes are required to its load forecasting approach, Centra is to make the changes and advise the Board.

Natural Gas Versus Electricity

Centra presented evidence that showed that the cost of space heating with natural gas is, currently, lower than space heating with electricity. On a unit energy cost basis, natural gas heating with a high efficiency furnace is considerably less expensive than heating with electricity. Even a low efficiency (conventional) furnace providing space heating is less expensive than space heating with electricity (at the natural gas rates approved in Order 46/10).

Centra provides comparisons of space heating by natural gas, electricity and propane on its website (web page is entitled "Home Heating Costs"); the comparison is updated whenever natural gas, electricity or propane rates are amended.

Centra provided evidence that there are, currently, approximately 75,000 low efficiency furnaces still in operation in Manitoba (approximately 35% of the overall total of natural gas furnaces). The annual energy savings from upgrading a low efficiency furnace to a high efficiency furnace, as currently estimated, approaches $300. The level of expected annual savings from an upgrade to a high efficiency furnace are affected by Primary gas rate changes and consumption volume differences (the latter driven not only by the characteristics of the property but also by the weather and other factors); the expected annual savings of upgrading will increase as or if Primary gas rates increase in the future. Over the longer-term, Primary gas rates are quite likely to increase.

The Federal government's Natural Resources Canada department announced the cessation of the ecoEnergy fund on March 31, 2010 for new applications, with existing and in-progress applications still funded up to the original ending date of March 31, 2011. There will thus be neither further rebates for installing high efficiency furnaces nor federally-funded incentives for upgrading insulation or taking other weatherization measures, for residential consumers. Centra's Power Smart program still offers incentives for a variety of programs, including insulation upgrades.

Board Findings

The experience of the past decade is one of sizeable fluctuations in residential Primary natural gas rates. Rates have varied from the current ten-year low of $\$0.1844/m^3$ to as high as $\$0.3297/m^3$ (the high having been reached in the summer of 2008).

Even when Primary gas rates peaked in the summer of 2008, it was still less expensive for Centra's customers to heat with a high efficiency natural gas furnace than with electricity. While Manitoba consumers are enjoying especially low natural gas rates at the moment, the possibility of future sizeable increases in gas rates remains real. The short-term impacts of weather patterns in North America, tropical storms and other natural disasters, drilling rig activity, the discovery of new production fields, shale gas developments, LNG developments, interest and inflation rates, currency changes, speculation in the futures market and gas storage levels all contribute to supply and demand dynamics that impact the market price for natural gas.

In previous Orders, the Board has prognosticated about the short and long-term direction of natural gas prices and considered the options consumers have when it comes to fuel sources.

The one steadfast recommendation that the Board has made and continues to make is that consumers are best protected from bill increases for energy by undertaking energy efficiency improvements. Centra's Power Smart programs provide ample incentive for customers to upgrade the insulation in their homes and businesses. And, if the fuel source being employed is natural gas, there are several reasons for upgrading to a high efficiency gas furnace from a conventional or low efficiency furnace are many:

- Annual savings, now currently estimated at nearly $300;
- Furnaces that are twenty or more years old have exceeded their expected service life and replacement by necessity is present;
- A furnace that fails in the winter time may be more expensive to replace than a replacement that comes ahead of failure and following research into price and other comparisons (leaving aside the costs associated with an emergency service call);
- New furnaces that use variable speed DC fan motors consume less electricity than constant speed AC fan motors; and
- Reduced GHG emissions.

While the Power Smart and ecoEnergy incentives for replacing a low efficiency furnace have now ceased, the Board still recommends consumers replace their furnaces for the reasons listed above. It is important for consumers to not become complacent with the current low natural gas rates and put off energy efficiency improvements to their homes and businesses.

Residential Rate Comparison

Centra provided a comparison of the commodity rate for natural gas for several major urban centres in Canada, and Winnipeg ranked last for 2009; that is, the commodity rate, which Centra calls its Primary gas rate, was more expensive in Winnipeg than in all other urban centres included in the survey for 2009.

Centra advised that comparisons were difficult to make, with the possible existence of a number of factors that could make one utility's rate appear to be more expensive than another but a bill comparison could provide a different view.

Board Findings

While the Board accepts that there are several factors in play that may unfairly portray Centra's natural gas rates as being high compared to other Canadian locations, the Board will expect Centra to document and analyse the factors and differences for discussion at the next GRA proceeding.

Such an analysis will assist in the Board's understanding, as it is important to benchmark towards understanding whether or not Centra is paying more for its gas commodity than other utilities, or if Centra's overall rate to its customers is higher than the overall rate of other gas utilities.

Centra will be expected to explain reasons for differences, whether they be from the effects of hedging, deferral accounts, the timing of rate setting or other factors.

Rate Design Matters

In Order 128/09, the Board ordered Centra to incorporate the approved revenue increase to the SGS and LGS classes through increases to the Basic Monthly Charges for these classes. By directing that the rate increase to these classes be implemented only through the BMC, the forecasted revenue to arise from these classes will not equal the forecasted costs that are allocated to these classes.

According to Centra, the forecasted revenue from the SGS class is less than the forecasted costs that are allocated to that class, while the forecasted revenue from the LGS class exceeds the forecasted costs that are allocated to that class. This is a departure from Centra's normal Cost Allocation and Rate Design Methodology, where each customer class has rates that are set to recover the costs that are allocated to that class. Centra's other customer classes maintain their revenue to cost ratios at unity; that is, forecasted revenues equal forecasted costs for these customer classes.

The Board ordered a slight adjustment to the allocation of costs to each customer class in Order 41/10, by directing that Centra's Net Income be aligned with the forecasted Net Income resulting from the increase to the BMC for the SGS and LGS classes.

Centra adjusted the allocation of Net Income to all customer classes, and the resulting rates were approved in Order 46/10.

Board Findings

The imposition of the revenue increase sought by Centra through the 2009/10 and 2010/11 GRA proceeding by way of an increase to the BMC for the SGS and LGS classes was done for the reasons specified in Order 128/09, namely:

- Reduction of intra-class subsidies from high consumption customers to low consumption customers;

- More predictable revenue that is less affected by weather due to reduced reliance on volumetric rates, since more revenue is recovered using fixed monthly charges; and

- Reduced impact on revenue from fluctuations in average customer consumption.

The Board desired an increase in the BMC for the SGS and LGS classes because their BMCs, prior to 2007, had not changed since the early 1990s. Even with the Board-mandated increase to the BMC resulting from Order 99/07, the BMC recovers less than 50% of the fixed customer costs of these classes. Centra's other customer classes have their BMC set each year based on 100% of the fixed customer costs.

The Board recognizes that by implementing a rate increase only to the BMC, the revenue to cost ratio will deviate from unity, and that this is a departure from Centra's preferred rate design. In addition, the forecasted Net Income is the independent variable when a prescribed rate design is imposed. The Board wishes to maintain more precise direction over the forecasted Net Income and will therefore permit Centra to return to its historical Cost Allocation and Rate Design Methodology. For future rate applications, the Board directs Centra to return to a revenue to cost ratio of unity.

Returning to a revenue to cost ratio of unity while increasing the BMC may result in a reduction to the volumetric Distribution rate. Centra may also choose to implement a non-integer increase to the BMC for these classes, as is the case in other Canadian jurisdictions. The Board will consider a target for the percentage of fixed customer costs to be recovered by the BMC at a future rate application.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

5.0 IT IS THEREFORE ORDERED THAT:

1. The Board directs Centra to inform ConocoPhillips of the Board's intention to release the Primary Gas supply contract to the Consumers' Association of Canada and Manitoba Society of Seniors (CAC/MSOS), interveners in the recent proceeding, including their counsel and external consultant. The disclosure would take place in the Board's office, and the Board will require the intervener and its counsel and advisor to sign non-disclosure agreements

2. Centra is to prepare and file by November 1, 2010 a timeline of the process for replacing its American Storage and Transportation assets, and that timeline is to include milestones;

3. Centra is to file with the Board a discussion paper reviewing and addressing the issue of the possible future replacement of Centra's current American Storage and Transportation assets, prior to Centra holding a technical conference on the topic;

4. Centra is to consult with its higher volume customers and alert them to opportunities to lock in gas supply prices, either through Centra or marketer fixed term contracts, or by self-directed futures contract acquisition, and provide the Board with the results of these consultations;

5. Centra is to execute its Affordable Energy Program Marketing Plan, and report back to the Board by December 31, 2010 with an update on the Utility's marketing efforts;

6. Centra is to file quarterly updates on the participation rate and the order book for the Lower Income Energy Efficiency Program (LIEEP) that specifically details the number of customers participating in each facet of the LIEEP – low-cost measures, insulation, and furnace replacements, with commentary. This information is to supplement the more detailed semi-annual Furnace Replacement Program Status report (directed to be filed with the Board by Order 128/09). If there are changes in the number of contractors used by Centra or with Centra's marketing efforts of LIEEP, these changes should be included

in this report to the Board;

7. Centra is to consult with stakeholders, including the Board, prior to amending its current Furnace Replacement Program;

8. Centra is to continue to offer one, three, and five year Fixed Rate Primary Gas Service (FRPGS) offerings to residential and commercial consumers on a regular basis, and consider offering FRPGS to its larger customers (that consideration is to include consultation with larger customers);

9. Centra is to review its load forecasting methodology for all customer classes and make any necessary changes it concludes is required to reduce or avoid any systemic bias that may now be contributing to either under- or over-estimating demand requirements prior to filing its next General Rate Application or Cost of Gas Application;

10. Centra is to provide an analysis comparing Centra's Primary gas or commodity rates with other Canadian utilities, and explain reasons for the differences. This comparison should be filed with the next General Rate Application or Cost of Gas Application; and

11. Centra is to file its next General Rate Application utilizing a revenue to cost ratio of unity in its Cost Allocation Model.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, C.A."
Chairman

"H. SINGH"
Acting Secretary

Certified a true copy of Order No. 55/10 issued by The Public Utilities Board

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Acting Secretary