

**MANITOBA HYDRO**  
**2010 HIGH VOLUME NATURAL GAS CUSTOMER SURVEY**  
**“Options for Large Customers to Manage Natural Gas Costs”**  
**FINAL REPORT**

**May 2011**

**Prepared by:**  
**Power Smart Planning, Evaluation and Research**  
**Customer Care & Marketing**  
**Manitoba Hydro**





# EXECUTIVE SUMMARY

## Background

During October of 2010, Manitoba Hydro undertook a survey of its highest volume natural gas customers to determine their perceptions and preferences regarding various options for managing their Primary Gas costs including Primary Gas hedging, fixed rate contracts, and Equal Payment Plans.

The survey achieved a relatively modest survey response rate (40% of eligible customers responded), despite repeated efforts to encourage customer participation and feedback. This may be due to the recent decline in Primary Gas rates which may have led to less sense of urgency to have options available to manage natural gas costs.

## Findings

### Quarterly Rate Preferences

Respondents indicated a strong preference for a quarterly rate that includes hedging as a component of the rate. Nearly twice as many respondents said that they prefer the quarterly rate include hedging to stabilize Primary Gas rates (63%) rather than have the quarterly rate not include hedging and more closely reflects market prices (37%).

### Fixed Rate Preferences

Respondents reported mixed levels of interest in fixed rate products with 29% saying they would be interested in these types of products, and 41% responding they were not sure. The remaining 31% indicated they would not be interested.

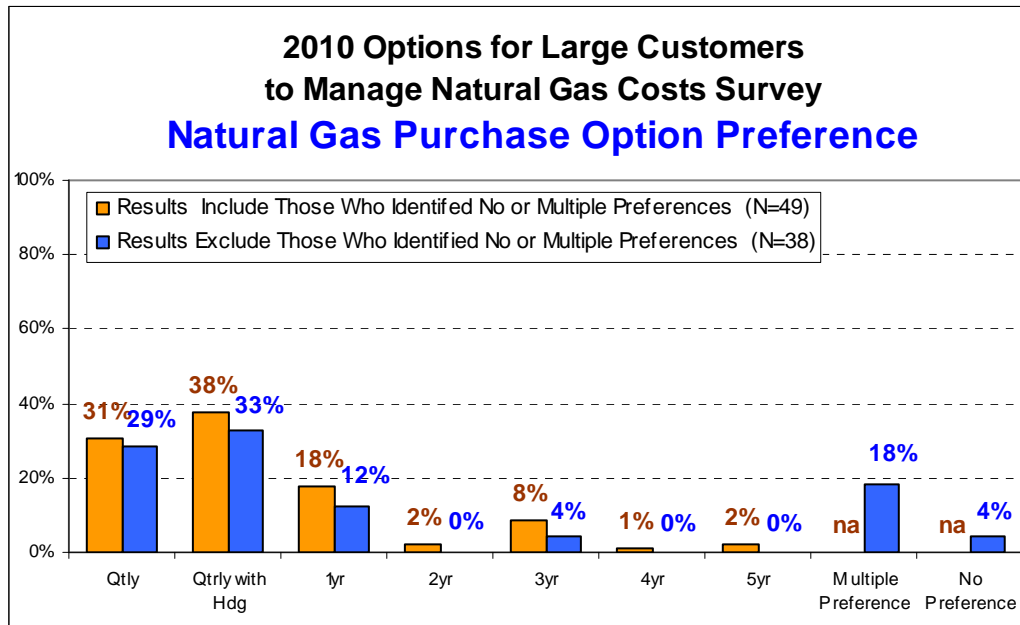
Those respondents who said they would be interested in fixed rate products or were not sure still reported the highest average appeal rating for the quarterly rate product that included hedging, followed closely by the 1-year fixed rate product. Respondents reported average appeal ratings at a significantly lower level for the remaining fixed rate products and quarterly rate without hedging product.

Just under half of the respondents who were interested in fixed rate contracts or were not sure of their interest said they would be willing to pay a premium for a 1-year (50%), 2-year (44%) or 3-year (44%) fixed rate product. The average premium these respondents were willing to pay fell within a fairly small range of 5-6% above Manitoba Hydro's current quarterly rate.

A significantly lower proportion (18%) of respondents expressing interest in fixed rate contracts or who were not sure said they would be willing to pay a premium for either a 4-year or 5-year fixed rate product. The average premium these respondents were willing to pay for these longer term fixed rate products was only marginally higher at 7-8% above Manitoba Hydro's current quarterly rate.

## Preferred Natural Gas Purchase Option

Respondents' preferred natural gas purchase options were inferred by cross-referencing their answers to questions about quarterly rates, fixed rate products, and the premiums they were willing to pay for fixed rate products. Respondents' inferred preferences were split between the quarterly rate that includes hedging (38%) and the quarterly rate without hedging (31%). The inferred preference of the remaining 31% of respondents was spread out over various fixed rate products with the 1-year Fixed Rate being the preferred fixed rate option (18%).



## Equal Payment Plan Preferences

Respondents reported much lower levels of interest in the Equal Payment Plan (EPP) with less than a quarter (22%) saying they would sign up for an EPP where any difference is billed or credited during the current billing year and 10% saying they would sign up for an EPP where any difference is amortized over the next billing year. The large majority (59%) of respondents said they were not interested in any EPP option.

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## **1.0 STUDY BACKGROUND**

Manitoba Hydro applied to the Manitoba Public Utilities Board (MPUB) in 2009 for permission to reduce primary natural gas hedging for the Quarterly Rate Service, from 100% to 75%, to allow customers to receive the benefits of lower natural gas prices while still being protected from price increases due market volatility. While the MPUB approved the request on December 21, 2009 in Order No. 170/09, it further directed Manitoba Hydro to phase-out its hedging program by August of 2011.

In preparation for the change to Manitoba Hydro's Quarterly Rate Service, Manitoba Hydro consulted with its higher volume customers and discussed potential products and services that may help them mitigate the impact of potential volatility in the natural gas market. As part of this consultation, Manitoba Hydro undertook a survey of its highest volume natural gas customers to determine their perceptions and preferences regarding various options for managing their Primary Gas costs including hedging, fixed rate contracts, and Equal Payment Plans.

## 2.0 METHODOLOGY

The *Options for Large Customers to Manage Natural Gas Costs Survey* was designed by staff in Manitoba Hydro's Strategic Marketing Initiatives Section and Major Accounts Department with significant input and feedback from various internal and external stakeholders including feedback received as a result of reviewing a draft of the survey at the June 22 Customer Advisory Group meeting. The survey included nineteen closed and open ended questions, asking about various options that may help large natural gas users manage their Primary Gas costs. These options included Primary Gas hedging, fixed rate contracts, and Equal Payment Plans.

Manitoba Hydro advised customers in the September and October Energy Market Comment newsletters that a survey would be emailed to high volume natural gas users asking them how Manitoba Hydro could help them manage their natural gas costs. Manitoba Hydro's Major Account Advisors also emailed their respective customers during the first week of October to provide background on the survey, confirm the contact each company preferred to have respond to the survey, and advise that the survey was being administered by an independent third party, NRG Research Group.

The *Options for Large Customers to Manage Natural Gas Costs Survey* was fielded as an online web survey. Invitations to participate with links to the survey web site were emailed by NRG Research Group on October 6, 2010, to 121 Manitoba Hydro, non T-Service, high volume natural gas customers. Recipients were asked to complete the survey during the following two weeks ending October 19. The invitation assured recipients that their individual responses would remain confidential and anonymous. Reminder emails were also sent by NRG Research Group on October 12 and October 18, prior to the return deadline to encourage those who had not yet responded to do so.

Due to a modest response by October 19 (of 121 potential participants, 43 had clicked the link to the survey including 22 who completed the survey and 4 who partially completed the survey, 6 were bad emails that were subsequently corrected, 4 recipients responded that they were not interested in completing the survey, and the remaining 68 participants had not even clicked on the link), the survey deadline was extended to October 29.

The Customer Advisory Group was of the opinion that low Primary Gas rates may have contributed to the low response rate (i.e. there may be less of a need to find solutions to manage natural gas costs when these costs are lower than they have been in recent years), and suggested Manitoba Hydro contact customers directly so that the message would come from a known source. As a result, Manitoba Hydro staff personally followed up with each potential participant by phone to encourage their participation.

By the first week of November, the survey achieved a response rate of 40% receiving completed surveys from 49 of the 121 Manitoba Hydro, non T-Service, high volume natural gas customer account contacts. Overall results are accurate  $\pm 11\%$ , 95% of the time: that is, results will be within 11% of the true value with 95% confidence assuming the survey is well worded (valid & reliable), the survey is random with all members of the target group having equal opportunity to participate, and respondents answer accurately without bias.

A comparison of respondent demographics to those of the entire Manitoba Hydro, non T-Service, high volume natural gas customer base, found the respondents were generally representative of customer base. The profile of respondents by industry sector and by the volume of their natural gas consumption is comparable to that for all of Manitoba Hydro's non T-Service, high volume natural gas customers targeted by the survey although, although customers with the highest consumption volume (over 2,000,000 M<sup>3</sup>) had a higher response rate to the survey (see the Respondent Demographic section of the report for further detail).

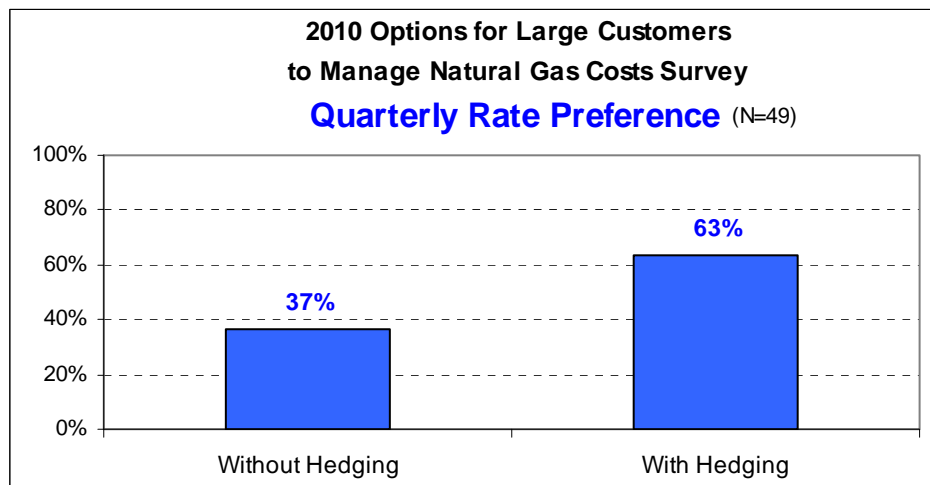


### 3.0 STUDY FINDINGS

#### 3.1 QUARTERLY RATE PREFERENCES (Q.1)

To introduce the topic of quarterly Primary Gas rates, respondents were informed that, “Currently, Manitoba Hydro uses hedging as a way to stabilize the quarterly rate for Primary Natural Gas. Hedging is like buying insurance to protect against short-term increases in natural gas market prices. The downside to hedging is that it doesn’t allow for taking advantage of short-term price decreases in the market. Similar to insurance products, there is a small cost to use hedging to stabilize the quarterly rate. Over the long-term (20 years) it is estimated that hedging may add 5% to your overall natural gas costs.”

Respondents indicated a strong preference for a quarterly rate that includes hedging. Nearly twice as many respondents said they preferred the quarterly rate include hedging to stabilize the Primary Gas costs (63% preferred that option) rather than a quarterly rate that excludes hedging and more closely reflects market prices (37% preferred that option).



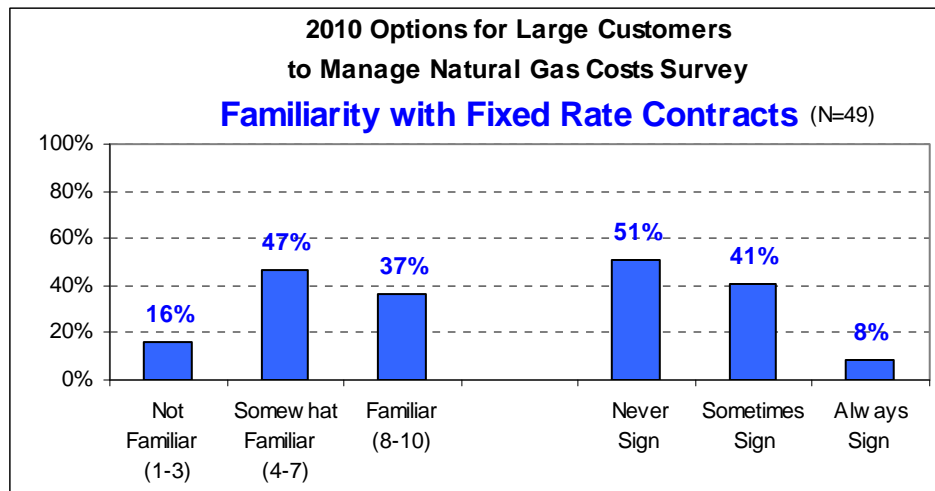
#### Significant Variances:

Interest in quarterly rates with or without hedging was consistent across industry type, annual gas consumption, and respondent position.

## 3.2 FIXED RATE PREFERENCES

### 3.2.1 Awareness Of Fixed Rate Options (Q. 2 & 3)

Respondents were segued to the topic of fixed rate contracts for Primary Gas, with a brief explanation that, “In Manitoba, you can choose to buy your Primary Natural Gas from Manitoba Hydro or from an independent natural gas marketer. There are also a variety of rate options to meet your needs.”



#### Awareness (Q.2)

Respondents indicated modest levels of familiarity with fixed rate contracts. While a third (37%) said they were very familiar with fixed rate contracts for Primary Gas and reported a 7 or higher on a 10-point familiarity scale (where 1 means “not at all familiar” and 10 means “very familiar”), almost half (47%) said they were only somewhat familiar with fixed rate contracts and reported familiarity levels of 4 to 7.

#### **Significant Variances:**

Awareness of fixed rate contracts was consistent across industry type and annual gas consumption, but higher among respondents who held Finance/Purchasing positions (80% reported a familiarity level of 8-10 versus 33% of those with Operational/Maintenance positions and 0% of respondents in Executive positions).

#### Past Experience (Q. 3)

When asked about their company’s past experience with fixed rate contracts for Primary Gas, half (51%) of all respondents said they had never signed a fixed rate contract, while 41% occasionally signed fixed rate contracts and 8% always signed fixed rate contracts.

Respondents’ comments describing their company’s past experience with fixed rate contracts followed a similar theme (of the 49 respondents, 32 provided a comment to explain their past use of fixed rate contracts). Of those who had tested or were currently using fixed rate

contracts, four respondents explained they had done so to manage budgets and/or product costs with confidence and one explained there was a “perceived financial benefit” in using fixed rate contracts. While several respondents had negative experiences with fixed rate contracts primarily due to the challenge of recognizing market conditions and knowing when to lock in or stay with variable market rates (5 respondents), others simply recognized there was a risk of misreading the natural gas market (4 respondents).

Many believe Manitoba Hydro’s quarterly rate is more competitive (7 respondents) and less costly in the long run (3 respondents). Two respondents indicated it was company policy to not purchase natural gas on fixed rate contracts. One respondent’s comment summarized their position as “at the time of deregulation, it was possible to purchase gas cheaper from some brokers than from Centra Gas, because Centra was locked into long term rates. I haven’t purchased from a broker since the time Centra became able to purchase competitively.”

**Significant Variances:**

Past use of fixed rate contracts for purchasing Primary Gas was consistent across industry type and respondent position. However, respondents with higher annual natural gas consumption (>2 million cu. metres) were more likely to have always or occasionally signed fixed rate contracts (65%) versus only 35% of smaller volume customers (< 2 million cu. meters).

As one would expect, there is a correlation between familiarity and past signing of fixed rate contracts. Three quarters (72%) of respondents who were very familiar with fixed rate contracts (reported a familiarity level of 8-10) said they had always (11%) or sometimes (61%) signed fixed rate contracts in the past. In comparison, only 44% of those who were somewhat familiar with fixed rate contracts (familiarity level of 4-7) said they had always (9%) or sometimes (35%) signed fixed rate contracts in the past, and 13%<sup>1</sup> of those not familiar with fixed rate contracts (familiarity level of 1-3) said that they had sometimes signed fixed rate contracts in the past.

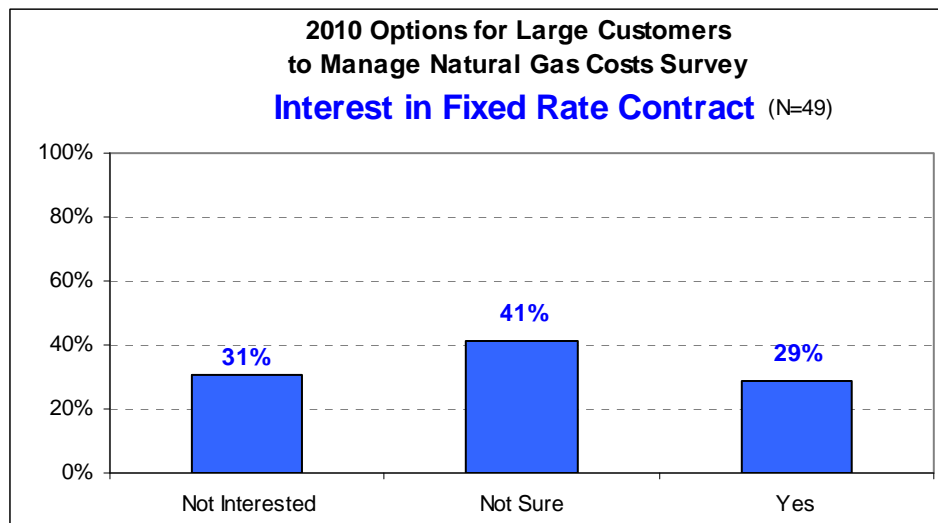
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<sup>1</sup> Of 8 respondents reporting familiarity levels of 3 or less with fixed rate contracts, one (13%) respondent who reported a familiarity level of 3, said their company had sometimes signed fixed rate contracts in the past.

### 3.2.2 Interest in Fixed Rate Contracts (Q.4)

When asked if their company would “be interested in a fixed rate contract for Primary Gas supply in the future?”, respondents reported mixed levels of interest with 29% saying they would be interested, 41% responding they were not sure, and 31% indicating they would not be interested.

The 70% of respondents who indicated they were interested in or not sure about fixed rate contracts were asked a series of follow-up questions regarding the fixed rate contracts they may prefer. Those results are reported in the remainder of Section 3.2.



#### Significant Variances:

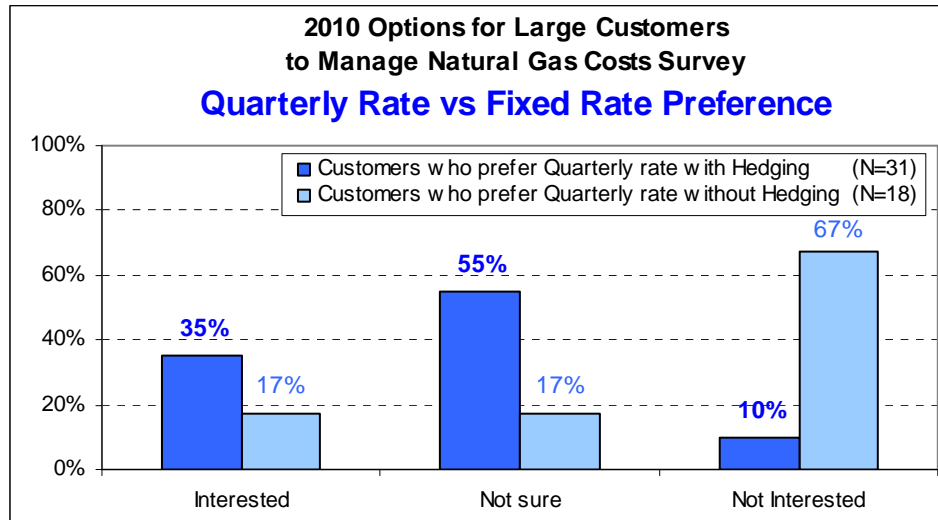
Interest in fixed rate contracts was consistent across industry type and respondent position.

However, respondents with higher annual natural gas consumptions (2 million cu. metres or more) expressed more potential interest in fixed rate contracts saying they would be interested (35%) or were not sure (52%). In comparison, respondents with annual volumes of 2 million cubic metres or less expressed less potential interest in fixed rate contracts saying they would be interested (23%) or were not sure (31%).

Familiarity with fixed rate contracts had a negligible affect on respondent’s interest in fixed rate contracts in the future. Those very familiar with fixed rate contracts (reported a familiarity level of 8-10) were split between the definitive poles of “yes” (44%) and “no” (39%) for interest in a fixed rate contract. In comparison, the majority (61%) of those somewhat familiar with fixed rate contracts (familiarity level of 4-7) said they were “not sure” if they would be interested, and half (50%) of those who were not familiar with fixed rate contracts said “No” they would not be interested.

Interest in fixed rate contracts was higher among respondents who always or sometimes signed fixed rate contracts (44% said “yes” or “not sure”) than those who had never signed a fixed rate contract (16% said yes or “not sure”).

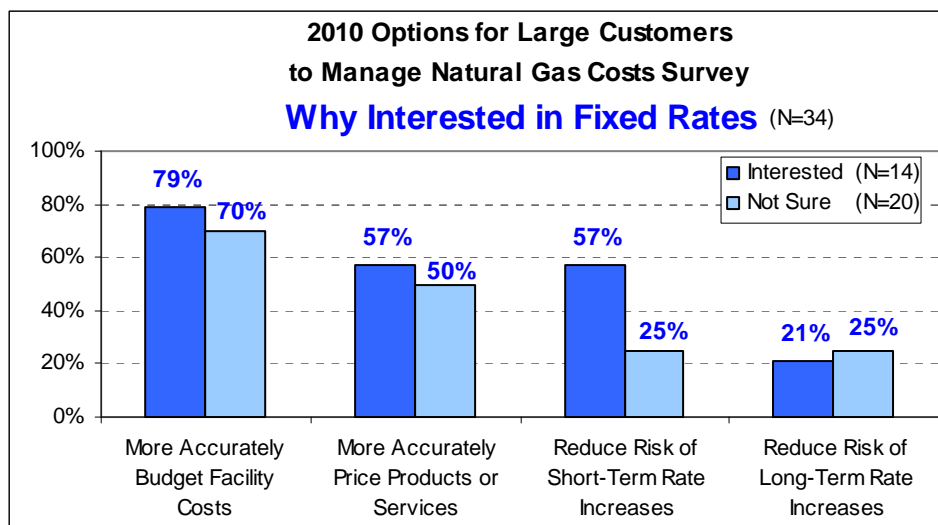
Respondents who preferred that the quarterly rate include hedging reported mixed interest in fixed rate contracts with a 35% indicating they would be interested in purchasing their Primary Gas through a fixed rate contract while another 55% were not sure. In comparison, two thirds (67%) of those who were not interested in a quarterly rate with hedging also said they would not be interested in purchasing their Primary Gas through a fixed rate contract.



### 3.2.3 Motivation for Interest in Fixed Rates (Q.5)

Respondents who said their company would be interested in a fixed rate contract for Primary Gas supply in the future or that they were not sure if they would be interested were then asked “Why is your company interested in fixing your Primary Gas rate?” Respondents could provide multiple answers.

Three quarters (74%) thought fixed rates would allow them to more accurately budget for monthly or annual facility costs such as heating. Half (53%) thought fixed rates would reduce the risk of short-term natural gas rate increases. A third (38%) thought fixed rates would help reduce the risk of long-term natural gas rate increases - this was a strong motivator among respondents who said “yes” they would be interested in signing fixed rate contracts in the future (57% cited it as a motivator) compared to 25% of those who answered “not sure”. Only a quarter were interested in purchasing Primary Gas on fixed rate contract to more accurately price products and/or services. One respondent, a company that requires natural gas in the manufacturing process, commented that they, “can manage a set rate - fluctuations of variable rates would have a direct reflection on our bottom line.”



#### Significant Variances:

Motivations were consistent across industry type, annual gas consumption, respondent position in the company as well as past experience with fixed rate contracts.

Respondents who were less familiar with fixed rate contracts were more likely (73%) to identify “reduc(ing) the risk of long-term natural gas rate increases” as a motivator for their possible future interest in fixed rate contracts (compared to 22% of other respondents).

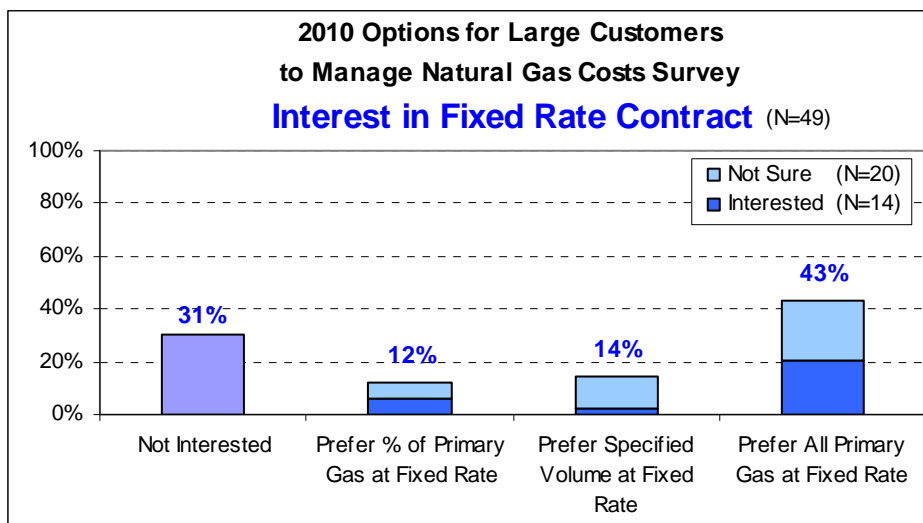
Motivations for interest in fixed rate contracts were consistent between respondents who said their company would be interested and those who said they were not sure if their company would be interested in fixed rate contracts in the future. However, those who thought their company would be interested in fixed rate contracts were more likely to identify reducing the risk of short-term rate increases as one of their motivators.

### 3.2.4 Volume to Acquire through Manitoba Hydro Fixed Rate Offerings (Q.6)

Respondents who said their company would be interested in fixed rate contracts for Primary Gas supply in the future or were not sure of their interest were informed that “currently, customers enrolling in a fixed rate contract with Manitoba Hydro must purchase all of their Primary Gas at a fixed rate. Would your company prefer to pay a fixed rate for all of the Primary Gas you use or only a portion? “

Of the 69% who said they would be interested in fixed rate contracts or were not sure, the majority (43%) said their company preferred to pay a fixed rate for all of the Primary Gas while the remainder were split between preferring to pay a fixed rate for a percent of the Primary Gas they use (12%) or to pay a fixed rate for a specified monthly volume (14%).

Respondents interested in paying a fixed rate for a percentage of Primary Gas used indicated they would be interested in contracting 20% to 80% of their annual volumes at a fixed rate, with 56% of volumes being the average. The majority (83%) of those respondents interested in paying a fixed rate for a percentage of Primary Gas used were customers with annual natural gas consumption over 2 million cubic metres.



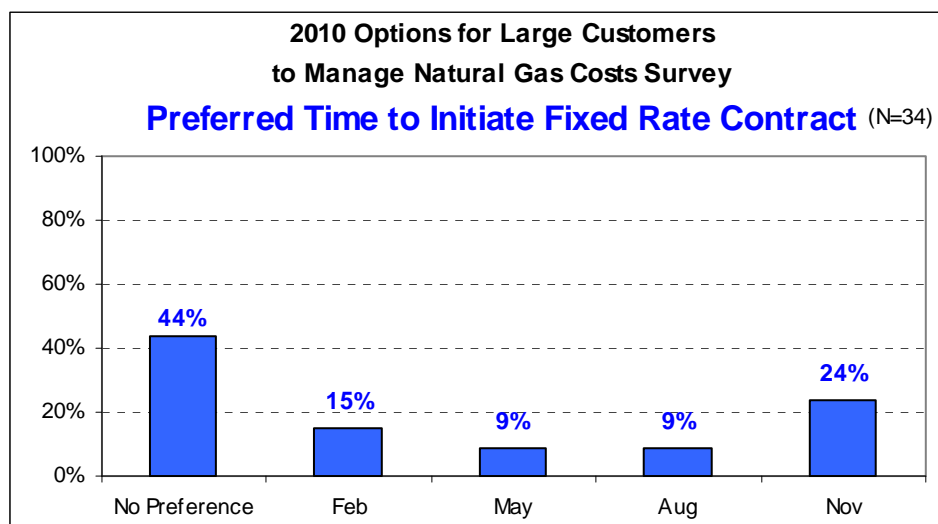
#### Significant Variances:

Preference for the volume of Primary Gas contracted at a fixed rate was consistent across industry type, annual gas consumption, respondent position in the company, as well as familiarity, past experience with, or degree of interest in fixed rate contracts.

### 3.2.5 Time of Year To Enroll in Fixed Rate Contract (Q.7)

Respondents who said their company would be interested in fixed rate contracts for Primary Gas supply in the future or were not sure of their interest were asked during “which month would your company prefer to start paying a fixed rate for Primary Gas?”.

Respondents did not indicate a strong preference for a particular month, with almost half (44%) saying they had no preference at all. Of the 56% who did have a preference, nearly half (24%) said they would prefer to start paying a fixed rate in November.



#### Significant Variances:

Preference for when to start paying fixed rates was consistent across annual gas consumption, respondent position within the company, as well as familiarity and past experience with fixed rate contracts.

Respondents who used natural gas for production and heating were more likely to say they had no preference of when to start paying a fixed rate (53%, compared to 23% of respondents using natural gas only for heating). Respondents using natural gas for heating only purposes preferred to start paying a fixed rate in November (38%).

Respondents who expressed interest in fixed rate contracts or were not sure if they would be interested reported fiscal years that started in January (50%), April (41%), July (3%), or October (6%). Respondents with fiscal years starting in January were more likely to say they had no preference of when to start paying a fixed rate (59%, compared to 29% of other respondents) with another quarter (24%) saying they would prefer start paying a fixed rate in February and 12% preferred to start in November. Respondents with fiscal years starting in April were more likely to prefer to start paying a fixed rate in November (43%), with a quarter (21%) saying they had no preference.



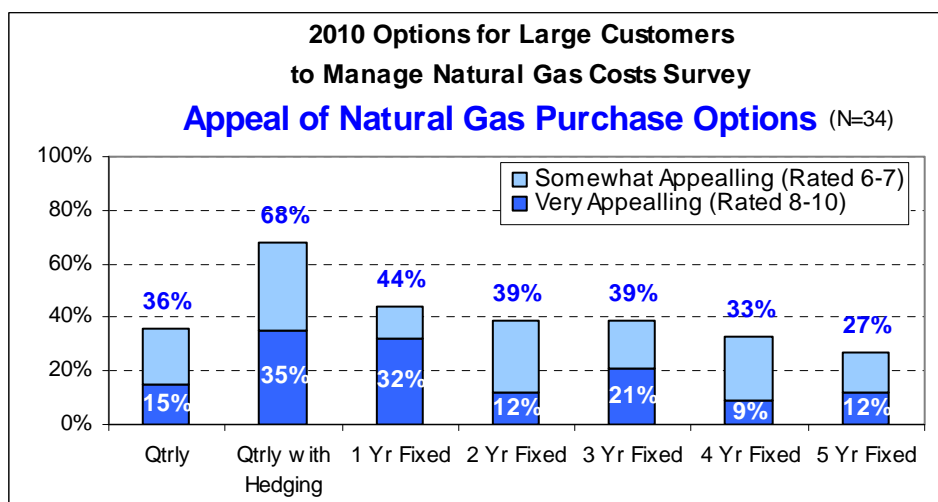
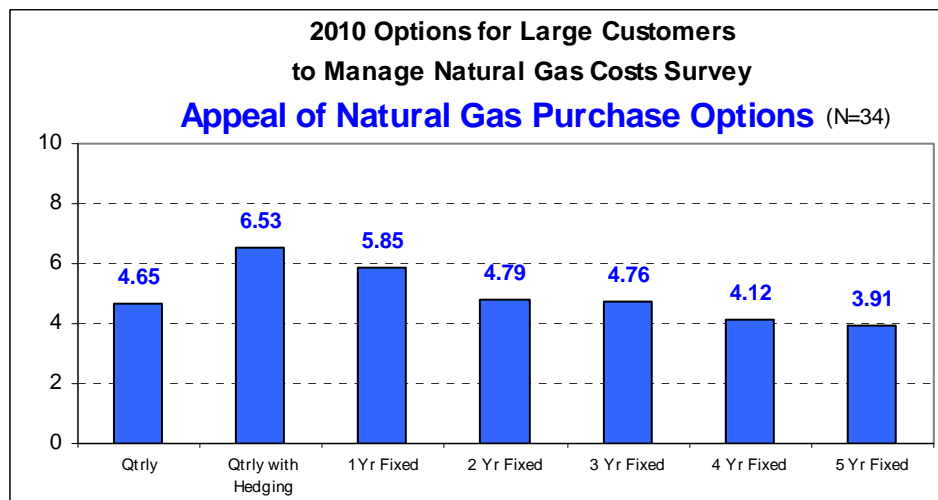
### 3.2.6 Duration of Fixed Rate Contract (Q. 8)

Respondents who said their company would be interested in fixed rate contracts for Primary Gas supply in the future or were not sure of their interest were asked to indicate how appealing or unappealing several different products were to their company on a 10-point scale where 1 meant the product was not at all appealing and 10 meant the option was extremely appealing.

These respondents still reported the highest average appeal rating of 6.53 for a quarterly rate product that included hedging with a third (35%) of respondents reporting a rating of 8 or higher.

The 1-year fixed rate product was the most appealing of the fixed rate products, with respondents reporting an average appeal rating of 5.85 with 32% reporting a rating of 8 or more.

Respondents reported average appeal ratings for the remaining fixed rate and quarterly rate without hedging products that were clustered together at a significantly lower level.



### Significant Variances:

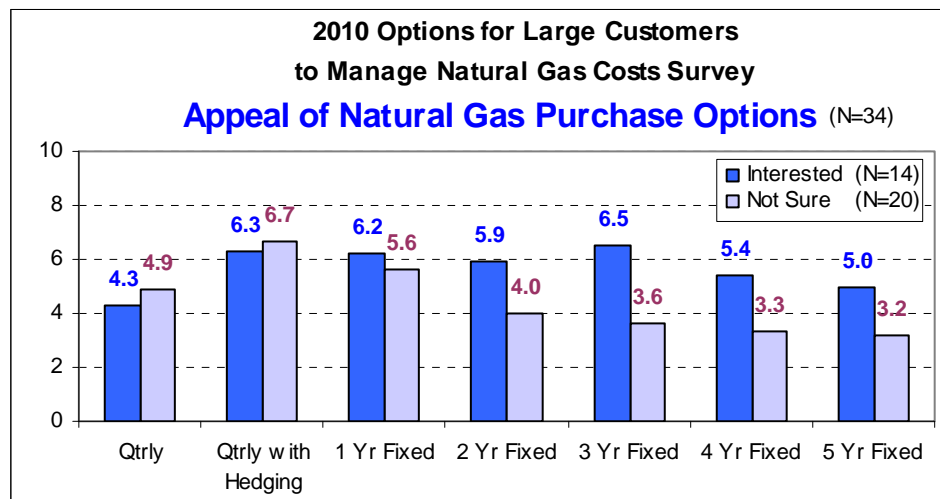
Preference for the various Primary Gas rate products was consistent across annual gas consumption and industry, although those using natural gas for heating only were less interested in a quarterly rate without hedging.

Respondents in Finance or Purchasing positions were slightly more disposed towards a quarterly rate without hedging (67% rated it an 8 or higher on the appeal scale) and towards fixed rates in general, particularly the 1 and 2-year fixed rate products (67% rated both an 8 or higher on the appeal scale).

Similarly, respondents who have used fixed rate contracts before (sometimes or always) were less interested in a quarterly rate with hedging (26% rated it an 8 or higher on the appeal scale versus 47% of those who never use fixed rate contracts).

Respondents who said they were very familiar with fixed rate contracts expressed stronger interest in shorter term fixed rate products (45% rated both the 1- and 3-year fixed rates with an 8 or higher on the appeal scale versus 26% and 9% respectively by those who never used fixed rate contracts).

Respondents who said “yes” their companies would be interested in fixed rate contracts for Primary Gas supply in the future gave substantially higher average appeal ratings to the 2-, 3-, 4-, and 5-year fixed rate products than respondents who said they were “not sure” if they were interested. However, the proportion of respondents providing a rating of 8 or higher to most of the quarterly and fixed rate product options did not vary significantly between respondents who said their company would be interested in fixed rate contracts and those who said they were not sure. The one exception was a substantially higher proportion of respondents who said they would be interested in fixed rate contracts reporting a rating of 8 or more for the 3 -year fixed rate (43% rated it 8 or higher on the appeal scale compared to 25% of respondents who were not sure if they were interested in fixed rate contracts).

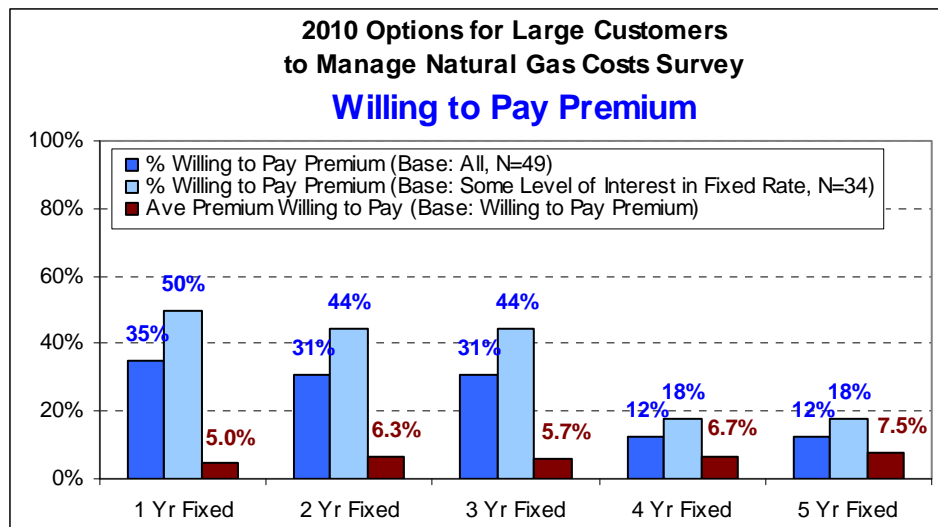


### 3.2.7 Maximum Premium Willing to Pay for Various Fixed Rate Durations (Q.9)

Respondents who said their company would be interested in fixed rate contracts for Primary Gas supply in the future or were not sure of their interest were then told “Much like a fixed rate mortgage versus a variable rate mortgage, offering fixed rates for Primary Gas usually involves higher costs which translates into higher rates than the Quarterly Rate” and asked “what is the highest premium (in 5 % increments beginning at 0%) your company would be willing to pay above Manitoba Hydro’s current Quarterly Rate for each of the following fixed rate terms?”

Just under half of these respondents said they would be willing to pay a premium for the 1-year (50%), 2-year (44%) or 3-year (44%) fixed rate products. The average premium these respondents were willing to pay fell within a fairly small range of 5-6% above Manitoba Hydro’s quarterly rate.

A significantly lower proportion (18%) of respondents expressing some interest in fixed rate contracts said they would be willing to pay a premium for either the 4-year or 5-year fixed rate products. The average premium these respondents were willing to pay for these longer term fixed rate options was only marginally higher at 7-8% above Manitoba Hydro’s quarterly rate.

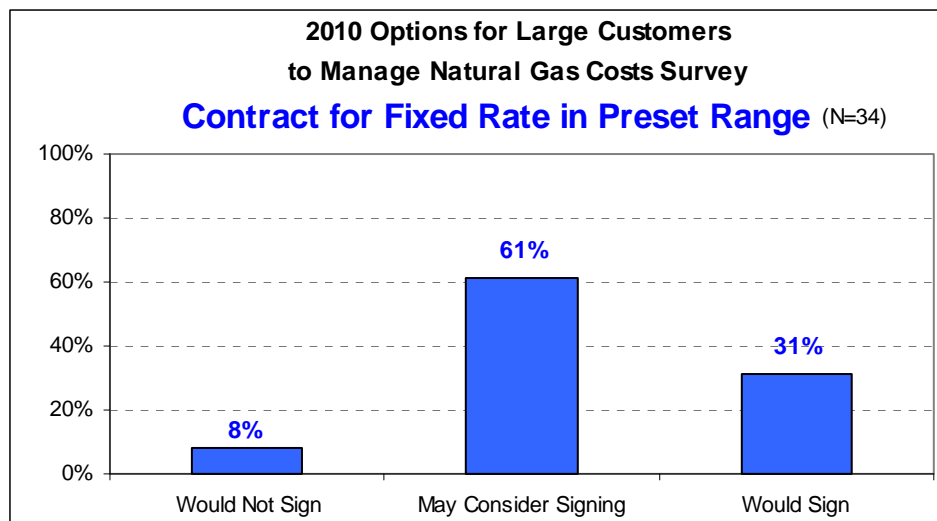


### 3.2.8 Fixed Rate Enrolment Process (Q.10)

Respondents who said their company would be interested in fixed rate contracts for Primary Gas supply in the future or were not sure of their interest were informed of Manitoba Hydro's current process for offering the Fixed Rate Service to small and mid sized natural gas users (customers in the SGS and LGS natural gas rate classes). Specifically, they were told that "Before offering these customers the opportunity to enroll in the Fixed Rate Service, Manitoba Hydro estimates customer demand and secures a supply of natural gas for different terms. This supply is then offered to customers through an enrolment period until either the supply is "sold out" or the enrolment period ends. If the Fixed Rate Service is extended to larger natural gas users, Manitoba Hydro would need to understand your company's interest in fixed rates to ensure that an adequate supply of natural gas can be secured for the length of term that works best for you."

Respondents were then asked, "One option is to provide you with an indication of the rates Manitoba Hydro expects to offer (within a range) for different fixed rate terms. If you were interested in purchasing gas for a fixed rate term at a price that fell within that range, Manitoba Hydro would require you to sign a contract. As long as Manitoba Hydro could secure a supply of natural gas for you at a rate at or below the range indicated on the contract, the contract would be binding. If you were interested in a fixed rate term at a rate that fell within the range indicated on the contract, would your company be willing to sign a contract so that Manitoba Hydro can secure an adequate supply of gas for you?"

Respondents were generally open to the notion of signing a contract for a Fixed Rate within a preset range that would be binding if Manitoba Hydro could secure a supply of natural gas at or below that range, with almost all (92%) respondents indicating their companies would either sign or consider signing such a contract. The two thirds (61%) who indicated they "may consider" signing a contract likely wanted to confirm the specific details of the contract.



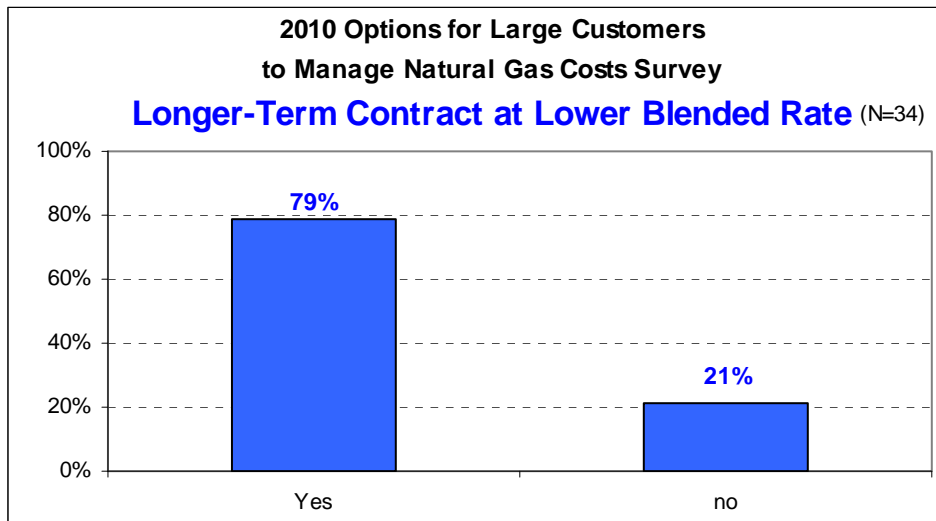
**Significant Variances:**

Willingness to sign a contract for a fixed rate within a preset range was consistent across annual gas consumption, respondent position within the company, as well as familiarity, past experience or degree of interest in with fixed rates contracts.

Respondents who use natural gas only for heating purposes were more willing to sign such a contract (54% said they would sign) while 31% said they may considering signing. In comparison, respondents who use natural gas for production & heating were more cautious with such a contract with 27% saying they would sign and 67% saying they may consider signing a contract.

### 3.2.9 Re-Signing At Lower Blended Fixed Rate (Q.11)

Three quarters (79%) of respondents said that if natural gas rates decreased during the term of their fixed rate contract, their company would sign a longer-term contract to receive a lower, blended rate. As might be expected, 21% qualified their “yes” answer, indicating that their decision would depend on contract durations, rates, and economic conditions.



#### Significant Variances:

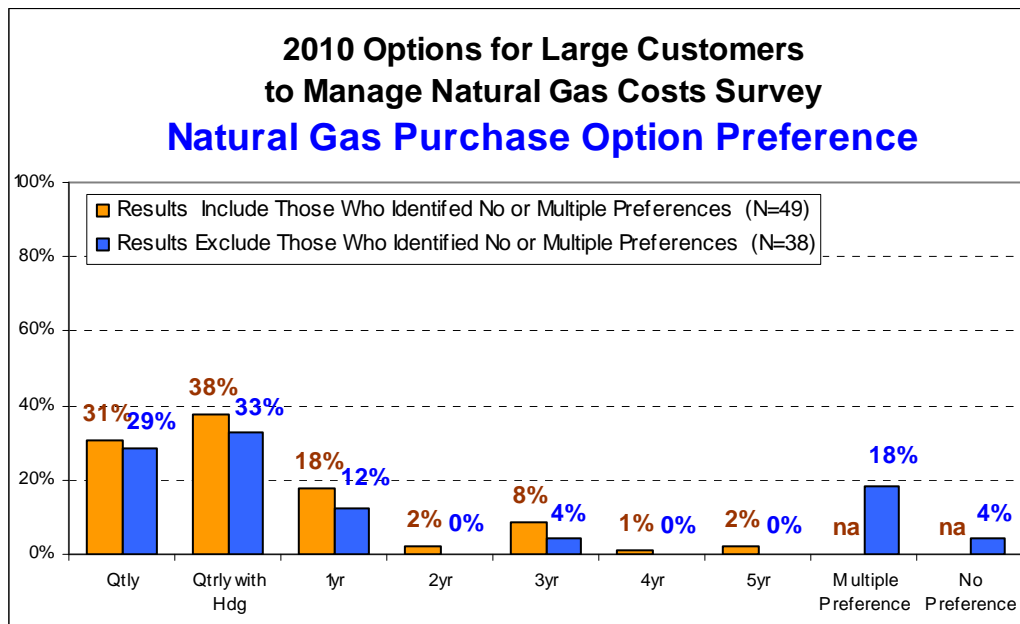
Interest in re-signing for lower, longer-term fixed rates was consistent across industry, annual gas consumption, respondent position within the company, as well as familiarity, past experience or degree of interest in with fixed rate contracts.

### 3.3 PREFERRED NATURAL GAS PURCHASE OPTIONS

Respondents' preferred natural gas purchase options were inferred by cross-referencing their answers to questions about quarterly rates (Q.1), fixed rate products (Q.4,Q.8) and the premiums they were willing to pay for fixed rate products (Q.9).

Respondents' inferred preferences were split between the quarterly rate that includes hedging (38%) and the quarterly rate without hedging (31%). The inferred preference of the remaining 31% of respondents was spread out over various fixed rate products with the 1-year Fixed Rate being the preferred fixed rate option (18%).

A strong correlation was observed between respondents who expressed interest in the quarterly rate with hedging and those who expressed some level of interest in fixed rate products. This resulted in many respondents who initially preferred the quarterly rate with hedging (63% - see Section 3.1) to have an inferred preference that was dispersed between the quarterly rate with hedging (38%) and a variety of fixed rate products (25%).



### 3.4 EQUAL PAYMENT PLAN PREFERENCES

#### 3.4.1 Interest in Variations of Equal Payment Plan (Q.12)

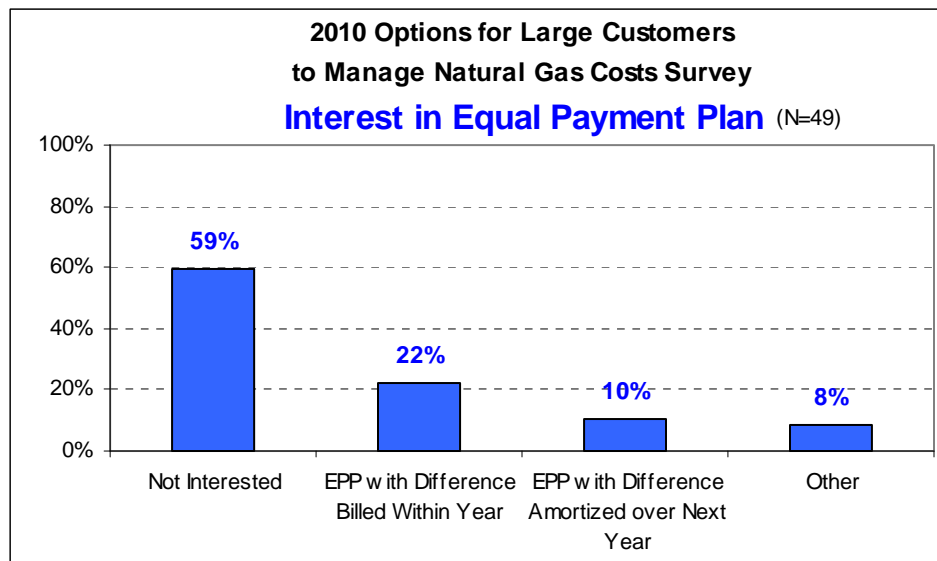
The survey transitioned to its third key topic, respondents preferences towards Equal Payment Plan (EPP) options with the following introduction, “Manitoba Hydro currently offers an EPP to small and medium-sized natural gas customers (SGS and LGS natural gas rate classes). The EPP projects a customer’s annual energy costs based on their consumption history and current rates. Projected annual energy costs are then divided evenly over 12 months.”

“Under the Current Equal Payment Plan, billed and actual consumption is monitored, and the difference is either credited or billed at least once a year. An option being considered is to take the difference between billed and actual consumption and amortize it over the next billing year. This would mean that you would have 12 equal monthly payments every year, and a potentially large bill or credit could be avoided at the end of the year.”

The majority (59%) of respondents said they were not interested in any EPP option, with many explaining they prefer to deal with actual energy costs to monitor consumption, calculate production costs, etc. (21%) or because their accounting system is set up to pay actual costs at time of occurrence (12%).

Only a quarter (22%) said they would sign up for an Equal Payment Plan where any difference is billed or credited at least once in the current billing year while 10% said they would sign up for an Equal Payment Plan where any difference is amortized over the next billing year.

The remaining 8% categorized as “Other” were not sure which, if any, variation of EPP would be beneficial to their company.

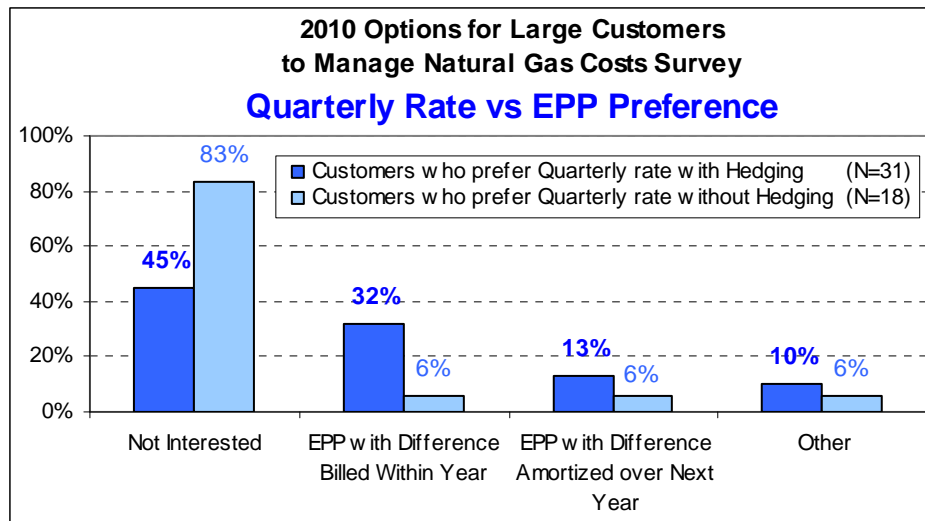


#### Significant Variances:

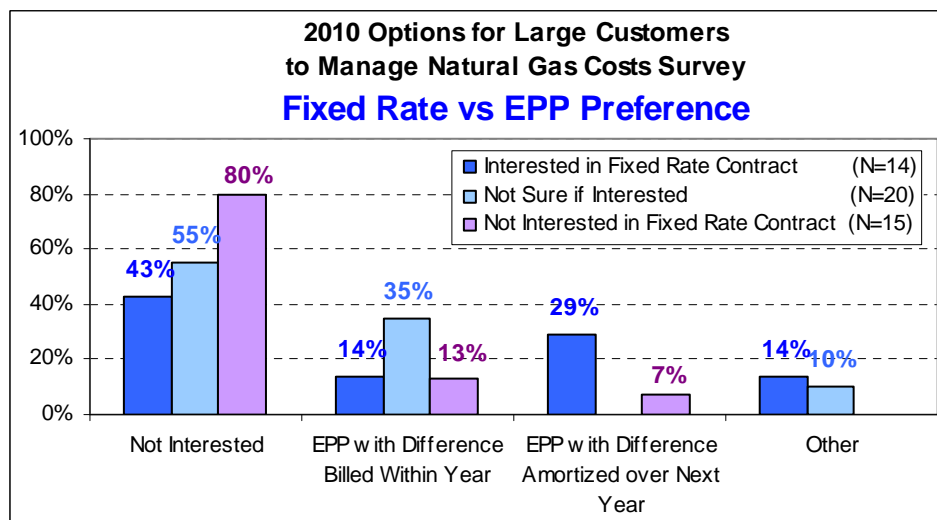
Interest in the EPP was consistent across industry type, annual gas consumption, and respondent position in the company.



Respondents who preferred that the quarterly rate include hedging expressed mixed interest in an EPP. Just over half (55%) of respondents who preferred the quarterly rate include hedging expressed interest in some version of EPP (32% in an EPP with the variance paid in the current year, 13% in an EPP where the difference is amortized over the following year, 10% in “other” variations of EPP). In comparison, 83% of respondents who preferred a quarterly rate without hedging expressed no interest in an EPP.



Respondents who said their company would be interested in fixed rate contracts for Primary Gas supply in the future or were not sure of their interest were also split regarding their interest in an EPP with only 50% expressing interest in some type of an EPP (26% in an EPP with the variance paid in the current year, 12% in an EPP where the difference is amortized over the following year, and 12% in “other” variations of EPP). In contrast, most (80%) respondents who said they would not be interested in fixed rate products were also not interested in an EPP.



### 3.4.2 Time of Year to Enroll in Equal Payment Plan (Q.13)

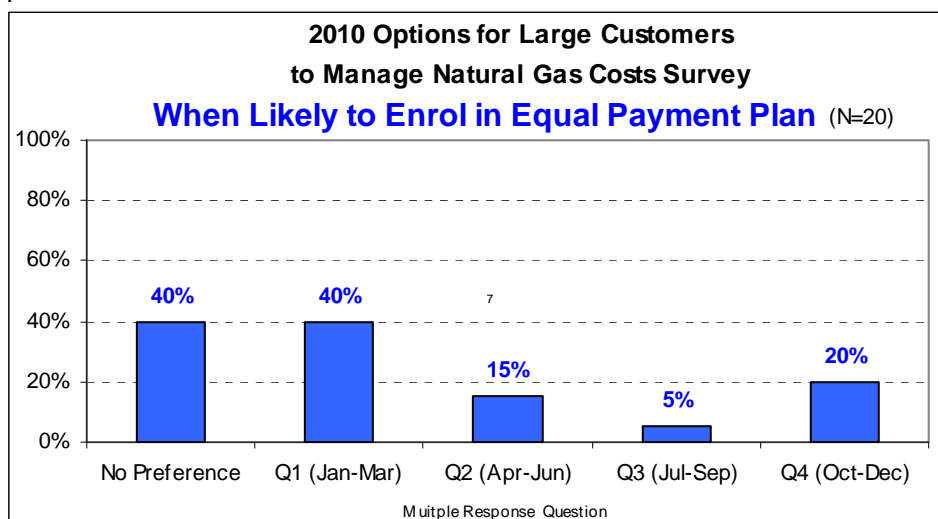
Respondents who expressed interest in some version of the EPP were asked which month(s) they would be most likely to enroll in the EPP. They could identify one or more months that they would prefer to enroll in the EPP.

Of those who expressed interest in some version of an EPP, 40% said they had no preference as to when they would be most likely to enroll.

Of the remaining respondents, 40% identified one or more months during the 1<sup>st</sup> quarter of the calendar year when they would most likely enroll in the EPP, with January being the preferred month (30%) followed by February (15%).

Only 15% and 5% of respondents identified one or more months during the 2<sup>nd</sup> (Apr-Jun) or 3<sup>rd</sup> (Jul-Sep) quarters respectively when they would most likely enroll in the EPP. April was the only month in either of these quarters that was identified by 15% or more of respondents interested in some variation of EPP.

Although 20% identified one or more months during the 4<sup>th</sup> quarter (Oct-Dec) when they would most likely enroll in the EPP, interest was evenly split over the three months with 10-15% expressing preference for each month.



#### Significant Variances:

Respondents interested in the current EPP were more likely to prefer signing up in the 1<sup>st</sup> quarter (55%) and in particular, during January (45%).

Those interested in an EPP with the difference amortized over the following year were marginally more likely to report no preference for when they enrolled (60% versus 27% of those interested in the current EPP) or to prefer enrolling in an EPP during the 4<sup>th</sup> quarter (40% versus 9% of those interested in the current EPP) with October being the preferred month (40%).

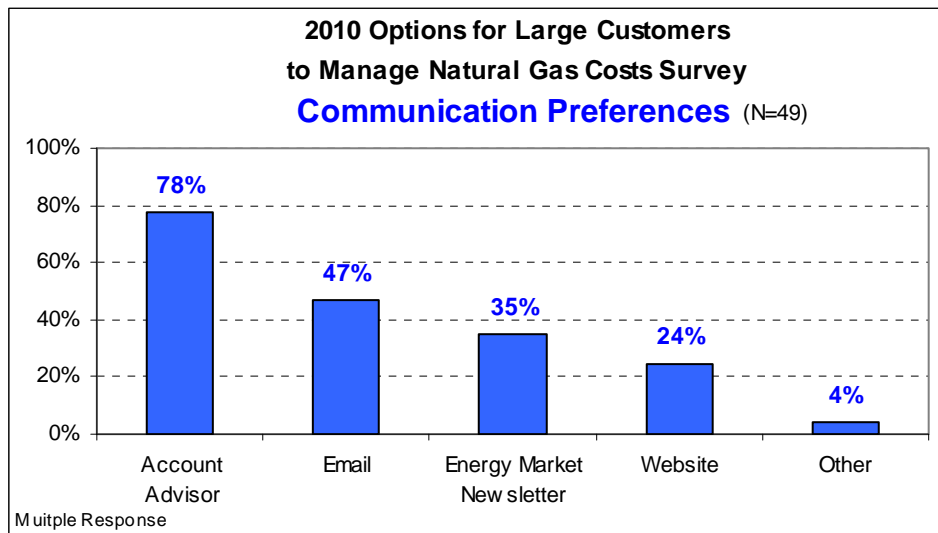
Respondents with annual natural gas consumption less than 1 million cubic metres more often expressed no preference for when they enrolled in an EPP (75% had no preference).

### 3.5 COMMUNICATION

When asked “how should Manitoba Hydro communicate information on Primary Gas rates and bill payment options to you?”, over three quarters of respondents (78%) reported they would like the information be communicated by Manitoba Hydro Account Advisors, while half (47%) said they would like to receive information by email (47%).

Manitoba Hydro’s *Energy Market Comment* Newsletter was identified as another preferred means of communication by 35% of respondents, while a quarter (24%) said they liked accessing the information from Manitoba Hydro’s website.

One respondent also mentioned Major Account meetings and/or Customer Advisory Group Meetings.



#### Significant Variances:

Order of communication preferences was consistent across industry type, annual gas consumption, and respondent position within the company.

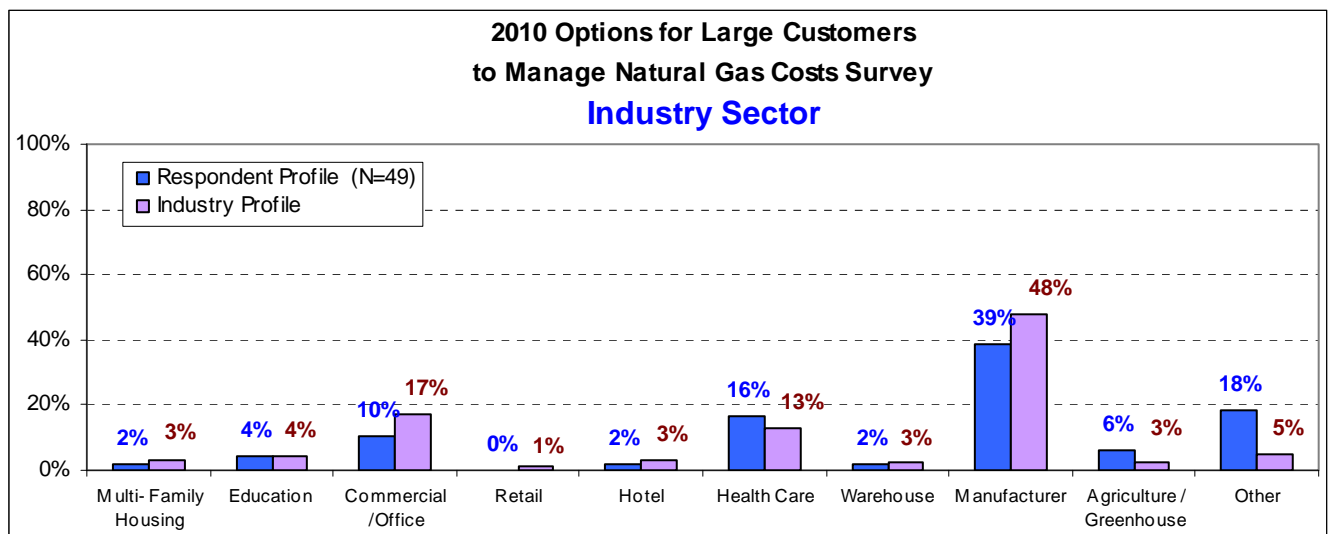
However, a higher percentage of respondents in Finance/Purchasing and Executive positions indicated a preference for communication via Manitoba Hydro Account Advisors (100% versus 72% of respondents in Operations/Maintenance positions) while a higher percentage of high volume customers (>1 million cubic metres) said Manitoba hydro should communicate this information through their newsletters (43% versus 14% of lower volume customers) and the website (31% versus 7% of lower volume).

### 3.6 RESPONDENT DEMOGRAPHICS

Respondents reported the following characteristics of their companies and themselves.

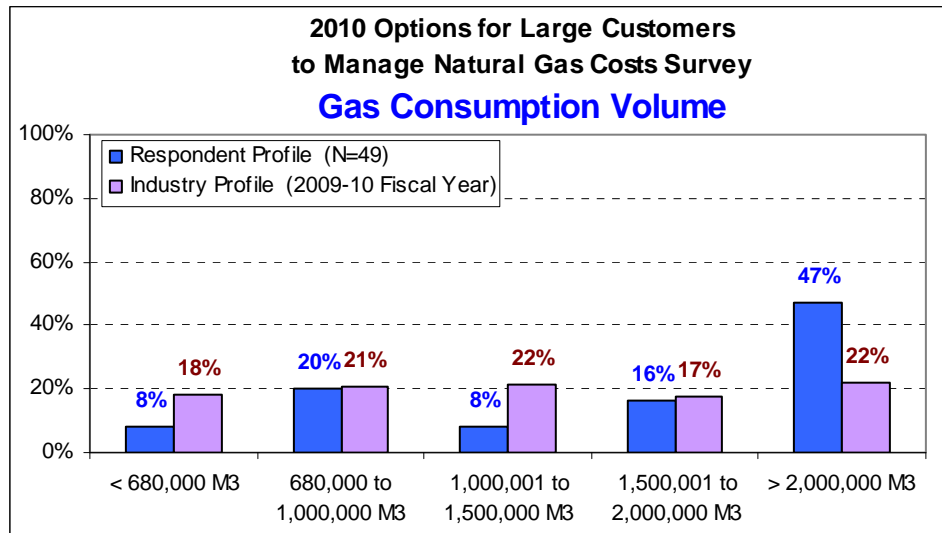
Just under half (45%) reported their company was in either the manufacturing or agriculture industries where they required natural gas for both heating and production. Another third (37%) said their company was in an industry where their primary use of natural gas was for heating purposes - this included the health care, commercial/office, education, multi-family housing, hotel and warehouse sectors. The remaining 18% identified “Other” industries.

This profile of respondents by industry sector is comparable to that for all of Manitoba Hydro’s non T-Service, high volume natural gas customers targeted by the survey.

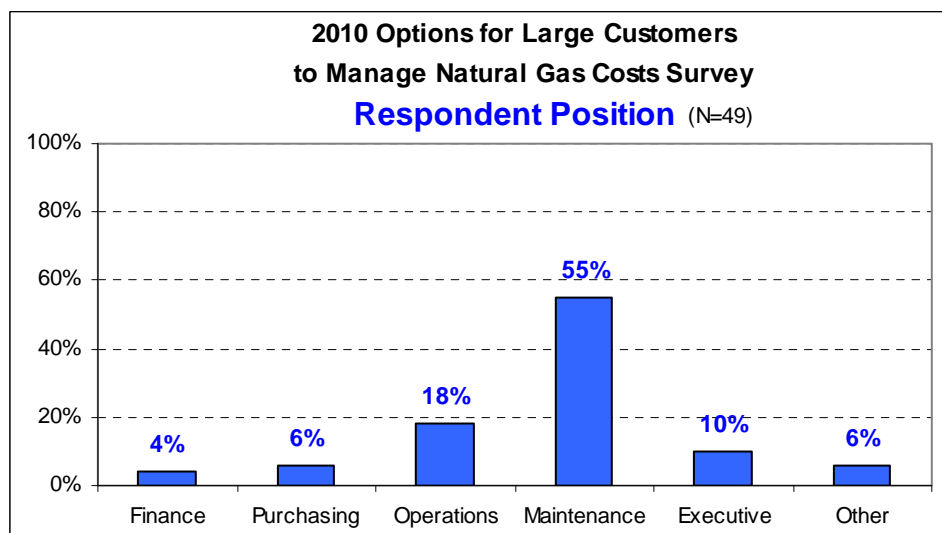


Respondents were asked approximately how much natural gas their company consumed during the last year (January - December, 2009). Over a quarter (29%) reported volumes of one million cubic metres or less, another quarter (24%) reported volumes of one to two million cubic metres, and the remaining half (47%) reported volumes over two million cubic metres during the 2009 calendar year.

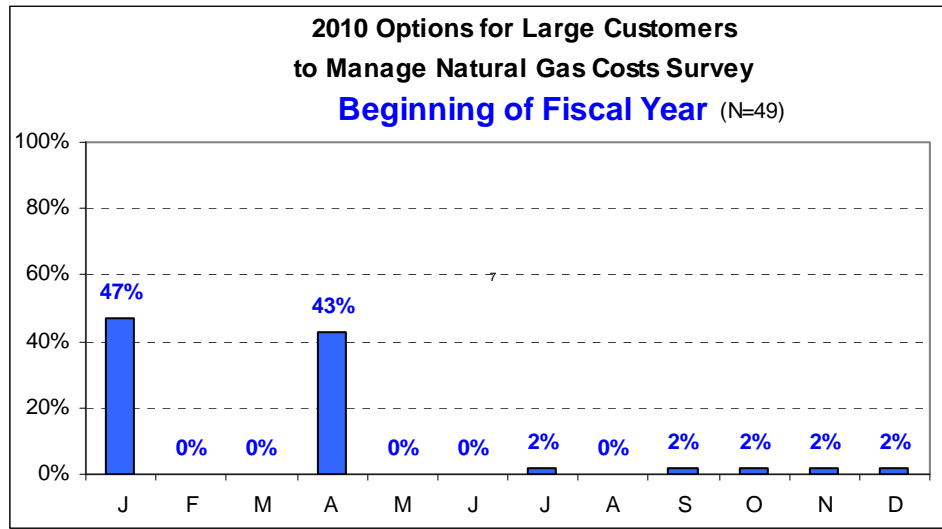
This profile of respondents by the volume of their natural gas consumption is somewhat comparable to that for all of Manitoba Hydro's non T-Service, high volume natural gas customers targeted by the survey, although customers with the higher consumption volumes (over 2,000,000 M<sup>3</sup>) had a higher response rate to the survey.



When asked what their role/ position was within their company, just over half (55%) said they held "facility & maintenance" positions, 18% held "operations" related positions, 10% were a company "executive", and a small portion held purchasing (6%), finance/accounting (4%) or other positions.

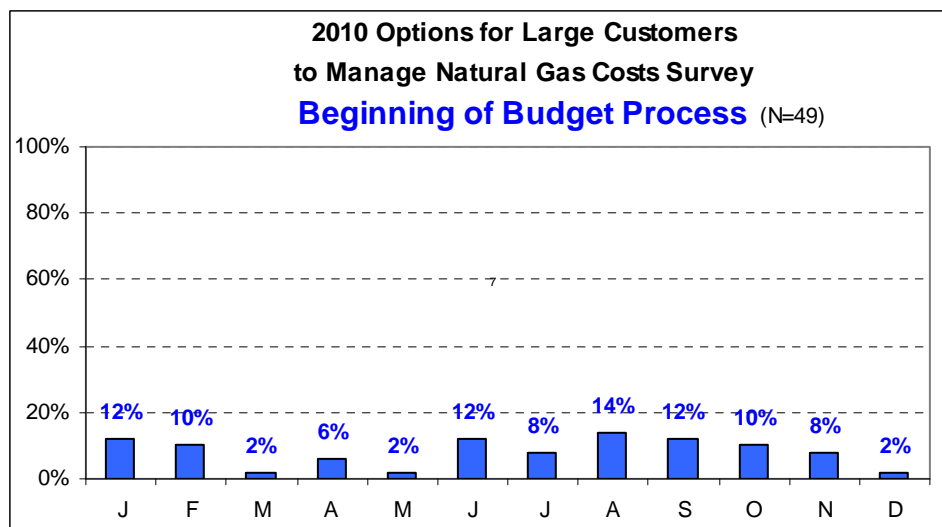


Almost all respondents reported that their fiscal year begins in January (47%) or April (43%).



Respondents reported they typically start the budgeting process for the next fiscal year during a variety of months, with eight months each being identified by 8-14% of respondents as the typical month they start budgeting.

On average, respondents started the budgeting process for the next fiscal year approximately 5.5 months before the beginning of the new fiscal year.



## **APPENDIX A**

### Survey Questionnaire

## Manitoba Hydro Options for Large Customers to Manage Natural Gas Costs Survey

Please print your PIN ID in the space provided (it can be found in the invitation email).

PIN ID: \_\_\_\_\_

Manitoba Hydro would like to know how they can better assist you with managing your natural gas costs. NRG is conducting this survey on behalf of Manitoba Hydro. Your participation is important. The survey will take approximately 10 minutes to complete, and responses will be anonymous and confidential. Only aggregate results will be reported. Please submit your response by **October 19, 2010.**

After you have completed this survey, please mail it to:

ATTN: Andrew Enns  
NRG Research Group  
Winnipeg, MB, Canada  
R3C 3Z3

Or send by Fax: (204) 947.2410

### Background:

The price of natural gas can be volatile. In an effort to mitigate the impact on customers, Manitoba Hydro offers, promotes and uses the following measures:

- 1) Energy Efficient Opportunities - using natural gas more efficiently reduces the overall cost of energy bills regardless of volatile prices;
- 2) Natural Gas Storage - by purchasing natural gas during the summer, Manitoba Hydro is able to reduce the volatility of natural gas prices experienced by customers throughout the year;
- 3) Natural Gas Hedges – by placing hedges on the price of natural gas, price volatility can be reduced;
- 4) Purchased Gas Variance Account – used to reconcile differences between the actual gas costs and the gas costs embedded in rates.

Manitoba Hydro is assessing additional options which may assist customers to better manage their natural gas costs. For example, Manitoba Hydro started offering fixed rate, fixed term contracts for Primary Gas to its smaller volume customers. These offerings are similar to products being offered by natural gas brokers.





Currently, the Quarterly Rate (Manitoba Hydro's default rate for Primary Gas) incorporates hedging as a form of insurance to reduce exposure to dramatic, short term spikes in natural gas market prices. In 2009, the Manitoba Public Utilities Board directed Manitoba Hydro to phase-out the use of hedging from its Quarterly Rate by August, 2011. That means that by August, 2011, apart from additional options that may be developed and offered by Manitoba Hydro,

- Customers wanting to lock in their Primary Gas rate have the option to do so by contracting with a natural gas marketer; or
- Customers preferring to pay the "market" price (tempered by the effect of storage gas and other elements) can remain on Manitoba Hydro's Quarterly Rate, where rates will be adjusted every 3 months to reflect the cost of providing this service.

Instructions: Please place a check mark or an x in the appropriate box or follow the instructions on individual questions.

**Your participation in this survey is important so that Manitoba Hydro can understand how we can help you manage your natural gas costs and develop additional options that may better meet your needs.**

Currently, Manitoba Hydro uses hedging as a way to stabilize the Quarterly Rate for Primary Natural Gas. Hedging is like buying insurance to protect against short-term increases in natural gas market prices. The downside to hedging is that it doesn't allow for taking advantage of short-term price decreases in the market. Similar to insurance products, there is a small cost to use hedging to stabilize the Quarterly Rate. Over the long-term (20 years) it is estimated that hedging may add 5% to your overall natural gas costs.

1. Does your company prefer that the Quarterly Rate...

- Not include hedging to more closely reflect market prices
- Include hedging to provide a more stable rate

In Manitoba, you can choose to buy your Primary Natural Gas from Manitoba Hydro or from an independent natural gas marketer. There are also a variety of rate options to meet your needs. The next few questions are about fixed rate options.

2. How familiar is your company with fixed rate contracts for Primary Gas supply?  
(Please circle the appropriate response)

Not at all Familiar Very Familiar

1   2   3   4   5   6   7   8   9   10



3. What is your company's past experience with fixed rate contracts?

Always sign fixed rate contracts. Why?

\_\_\_\_\_

Sometimes sign fixed rate contracts. Why?

\_\_\_\_\_

Never sign fixed rate contracts. Why not?

\_\_\_\_\_

4. Would your company be interested in a fixed rate contract for Primary Gas supply in the future?

Yes

Not sure

No. Why not? \_\_\_\_\_ **[GO TO Question 12]**

5. Why is your company interested in fixing your Primary Gas rate? Check all that apply.

To more accurately budget for monthly or annual facility costs such as heating

To more accurately price products and/or services

To reduce the risk of short-term natural gas rate increases

To reduce the risk of long-term natural gas rate increases

Other, please explain: \_\_\_\_\_

6. Currently, customers enrolling in a fixed rate contract with Manitoba Hydro must purchase all of their Primary Gas at a fixed rate. Would your company prefer to pay a fixed rate for all of the Primary Gas you use or only a portion?

We prefer to pay a fixed rate for all of the Primary Gas we use.

We prefer to pay a fixed rate for a **percentage** of the Primary Gas we use, with the balance paid at the Quarterly Rate. Approximately what percent of your volume would you like to pay a fixed rate for?  
\_\_\_\_\_%

We prefer to pay a fixed rate for a **specified monthly volume** of Primary Gas that we use, with the balance paid at the Quarterly Rate.



7. Of the months listed below, which month would your company prefer to start paying a fixed rate for Primary Gas?

- No preference  August  
 February  November  
 May

8. Below are several different ways natural gas can be purchased. On a scale of 1 to 10, please indicate how appealing or unappealing each option is to your company, where 1 means the option is not at all appealing and 10 means the option is extremely appealing.

	Not at All Appealing					Extremely Appealing				
Quarterly Rate- <u>without</u> Hedging	1	2	3	4	5	6	7	8	9	10
Quarterly Rate- <u>with</u> Hedging	1	2	3	4	5	6	7	8	9	10
1 year fixed term	1	2	3	4	5	6	7	8	9	10
2 year fixed term	1	2	3	4	5	6	7	8	9	10
3 year fixed term	1	2	3	4	5	6	7	8	9	10
4 year fixed term	1	2	3	4	5	6	7	8	9	10
5 year fixed term	1	2	3	4	5	6	7	8	9	10

Much like a fixed rate mortgage versus a variable rate mortgage, offering fixed rates for Primary Gas usually involves higher costs which translates into higher rates than the Quarterly Rate.

9. What is the highest premium your company would be willing to pay above Manitoba Hydro's current Quarterly Rate for each of the following fixed rate terms?

\*Please write your response in the appropriate box in 5% increments. If you are not interested, write 0% in the appropriate box.

Length of Term	% Premium above Quarterly Rate
1 Year Fixed Rate Term	
2 Year Fixed Rate Term	
3 Year Fixed Rate Term	
4 Year Fixed Rate Term	
5 Year Fixed Rate Term	

Manitoba Hydro's current Fixed Rate Service is offered to small and medium natural gas customers (SGS and LGS natural gas rate classes). Before offering these customers the opportunity to enroll in the Fixed Rate Service, Manitoba Hydro estimates customer demand and secures a supply of natural gas for different terms. This supply is then offered to customers through an enrolment period until either the supply is "sold out" or the enrolment period ends.

If the Fixed Rate Service is extended to larger natural gas users, Manitoba Hydro would need to understand your company's interest in fixed rates to ensure that an adequate supply of natural gas can be secured for the length of term that works best for you.

One option is to provide you with an indication of the rates Manitoba Hydro expects to offer (within a range) for different fixed rate terms. If you were interested in purchasing gas for a fixed rate term at a price that fell within that range, Manitoba Hydro would require you to sign a contract. As long as Manitoba Hydro could secure a supply of natural gas for you at a rate at or below the range indicated on the contract, the contract would be binding.

10. If you were interested in a fixed rate term at a rate that fell within the range indicated on the contract, would your company be willing to sign a contract so that Manitoba Hydro can secure an adequate supply of gas for you?

- Yes, my company would be willing to sign a contract  
 No, my company would not be willing to sign a contract

Why not?

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- My company **may** consider signing a contract.

Please explain:

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11. If natural gas rates decrease during the term of your fixed rate contract, would your company sign a longer-term contract to receive a lower, blended rate?

- Yes. Why?

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- No. Why not?

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Manitoba Hydro currently offers an Equal Payment Plan to small and medium natural gas customers (SGS and LGS natural gas rate classes). The Equal Payment Plan projects a customer's annual energy costs based on their consumption history and current rates. Projected annual energy costs are then divided evenly over 12 months.

Under the Current Equal Payment Plan, billed and actual consumption is monitored, and the difference is either credited or billed at least once a year.

An option being considered is to take the difference between billed and actual consumption and amortize it over the next billing year. This would mean that you would have 12 equal monthly payments every year, and a potentially large bill or credit could be avoided at the end of the year.

12. Which option would your company prefer?

Not interested in any Equal Payment Plan option. Please explain.

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Would sign up for an Equal Payment Plan where any difference is **billed or credited at least once in the current billing year**. Please explain.

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Would sign up for an Equal Payment Plan where any difference is **Amortized over the next billing year**. Please explain.

---

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Other. Please explain.

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13. During which month(s) would you be most likely to enroll in the Equal Payment Plan? Please select all that apply.

- |  |                                    |                                   |
|--|------------------------------------|-----------------------------------|
| <input type="checkbox"/> No preference | <input type="checkbox"/> May       | <input type="checkbox"/> October  |
| <input type="checkbox"/> January       | <input type="checkbox"/> June      | <input type="checkbox"/> November |
| <input type="checkbox"/> February      | <input type="checkbox"/> July      | <input type="checkbox"/> December |
| <input type="checkbox"/> March         | <input type="checkbox"/> August    |                                   |
| <input type="checkbox"/> April         | <input type="checkbox"/> September |                                   |

14. What is the first month of your company's fiscal year?

- |  |                                    |                                   |
|--|------------------------------------|-----------------------------------|
| <input type="checkbox"/> No preference | <input type="checkbox"/> May       | <input type="checkbox"/> October  |
| <input type="checkbox"/> January       | <input type="checkbox"/> June      | <input type="checkbox"/> November |
| <input type="checkbox"/> February      | <input type="checkbox"/> July      | <input type="checkbox"/> December |
| <input type="checkbox"/> March         | <input type="checkbox"/> August    |                                   |
| <input type="checkbox"/> April         | <input type="checkbox"/> September |                                   |

15. During which month does your company typically start the budgeting process for the next fiscal year?

- |  |                                    |                                   |
|--|------------------------------------|-----------------------------------|
| <input type="checkbox"/> No preference | <input type="checkbox"/> May       | <input type="checkbox"/> October  |
| <input type="checkbox"/> January       | <input type="checkbox"/> June      | <input type="checkbox"/> November |
| <input type="checkbox"/> February      | <input type="checkbox"/> July      | <input type="checkbox"/> December |
| <input type="checkbox"/> March         | <input type="checkbox"/> August    |                                   |
| <input type="checkbox"/> April         | <input type="checkbox"/> September |                                   |

16. What industry is your company in?

- |  |   |
|--|---|
| <input type="checkbox"/> Multi-Family Housing    | <input type="checkbox"/> Health Care            |
| <input type="checkbox"/> Educational Institution | <input type="checkbox"/> Warehouse              |
| <input type="checkbox"/> Commercial/Office       | <input type="checkbox"/> Manufacturing          |
| <input type="checkbox"/> Retail                  | <input type="checkbox"/> Agriculture/Greenhouse |
| <input type="checkbox"/> Hotel                   | <input type="checkbox"/> Other                  |



17. What is your role/position within your company?

- Finance / Accounting
- Purchasing
- Operations
- Facility & Maintenance
- Executive
- Other

18. Approximately how much natural gas did your company consume last year (January - December, 2009)?

- Below 680,000 cubic metres
- 680,000 to 1,000,000 cubic metres
- 1,000,001 to 1,500,000 cubic metres
- 1,500,001 to 2,000,000 cubic metres
- Over 2,000,000 cubic metres

19. How should Manitoba Hydro communicate information on Primary Gas rates and bill payment options to you? (Please select all that apply.)

- Manitoba Hydro Account Advisor
- Manitoba Hydro's website
- Email messages
- Energy Market Comment Newsletter
- Other - Please identify

20. Please add any other comments or suggestions about Manitoba Hydro's Primary Gas rate or billing options?

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- No Comments or Suggestions

**Thank you for completing the survey.**  
**Your participation in the survey is important in helping Manitoba Hydro better understand how they can help you manage your natural gas costs.**

