	Order No. 135/02
THE PUBLIC UTILITIES BOARD ACT	**July 31, 2002**

Before: G. D. Forrest, Chairman
M. Girouard, Member
M. Santos, Member

AN APPLICATION BY CENTRA GAS MANITOBA INC. REGARDING:

1. **FINAL APPROVAL OF VARIOUS GAS COSTS**
2. **APPROVAL OF SALES RATES TO BE EFFECTIVE AUGUST 1, 2002 BASED ON FORECAST 2002/03 NON-PRIMARY GAS COSTS**
3. **APPROVAL OF DISPOSITION OF VARIOUS GAS COST DEFERRAL ACCOUNT BALANCES**
4. **APPROVAL OF INTER-COMPANY DEBT**
5. **FINAL APPROVAL OF VARIOUS EX-PARTE ORDERS**
6. **RESPONSES TO PREVIOUS BOARD DIRECTIVES**

Executive Summary

Natural gas is a commodity subject to market fluctuations. Natural gas prices respond to supply and demand forces in the unregulated market. Natural gas prices in Canada and the United States appear to have stabilized over the past year. In March 2001, the spot price for natural gas was approximately $7.60/Gj, the forward price at April 22, 2002, used in Centra's 2002/03 forecast was $4.57/Gj.

The Public Utilities Board ("the Board") is satisfied that the 2000/01 and 2001/02 final gas costs are reasonable and appropriate. The Board also finds the Purchase Gas Variance Accounts ("PGVA") and other gas cost deferral accounts properly reflect differences between amounts included in sales rates and actual gas costs with the exception of the capital tax deferral accounts.

The Board finds that capital taxes are a revenue requirement issue and should not be considered a Cost of Gas issue. Therefore, the Board expects any further examination of Centra's capital taxes should occur at Centra's next General Rate Application, expected to be in the fall of 2002.

In this order, the Board finds Centra's estimates for 2002/03 gas costs to be reasonable, and approved forecast non-Primary Gas costs of $80,012,875, recognizing that any variance between estimated costs and actual costs will be captured in the PGVA's.

Consumers should be aware of the potential impact on transportation and other tolls that may arise from a pending National Energy Board ("NEB") decision in respect of TransCanada Pipelines Ltd. toll application. The Board directed Centra to seek new Transportation Rates, if required as a result of the NEB decision.

In addition to the matters above, the Board approved a number of interim orders relating to Primary Gas, and rural expansion. The Board approved the financing of inter-company debt and a number of changes to Centra's Terms and Conditions of Service.

The following table illustrates the annualized impacts of this Order on customer's bills, relative to May 1, 2002 rates.

Customer Class	**Annualized Rate Impact**
SGC	-2.0 to -2.2%
LGC	-2.4 to -3.0%
High Volume Firm	-2.0 to -2.4%
Mainline	-2.4 to -31%
Interruptible	-3.0 to -3.4%

In addition to this Application, the Board is considering a separate application by Centra for changes to sales rates relating to Primary Gas, pursuant to the quarterly Rate Setting Methodology approved by the Board in Order 55/00 and amended in Order 99/01. Please see Order 136/02 for the combined impacts of this Order and the new August 1, 2002 Primary Gas rates which will apply to all natural gas consumer on and after August 1, 2002. The combined impact for a typical residential customer will be a reduction of approximately 6.1%, which equates to $75/year.

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1.0 Appearances

R. Peters	Counsel for The Public Utilities Board of Manitoba ("the Board")
M. Murphy J. Foran, Q.C. L. Gilroy (articling student-at-law)	Counsel for Centra Gas Manitoba Inc ("Centra")
B. Meronek, Q.C. K. Saxberg	Counsel for Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc. ("CAC/MSOS")
D. Eidick R. Oliver	Gladstone-Austin Natural Gas Co-op ("Co-op") and North Cypress Energy Co-op
K. Melnychuk	Municipal Gas ("Municipal")

2.0 Witnesses for Centra

K. Derksen	Senior Analyst of Gas Rates, Centra
M. Kast	Division Manager, Centra
G. Meyer	Manager, Special Projects, Centra
B. Sanderson	Senior Gas Cost Analyst, Centra
H. Stephens	Manager, Gas Supply, Transportation and Storage Department, Centra
V. Warden	Vice-President, Finance & Administration, and Chief Financial Officer, Manitoba Hydro ("Hydro") and Centra

3.0 Intervenors of Record

Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors

Gladstone-Austin Natural Gas Co-op and North Cypress Energy Co-op

Municipal Gas

4.0 Witness for CAC/MSOS

A. Pringle	President, GSC Energy

5.0 Application

Centra Gas Manitoba Inc. ("Centra") filed its Application with The Public Utilities Board ("the Board") on March 14, 2002, and revised the Application on May 22, 2002. The revised Application requested the following:

1. Approval of Supplemental Gas, Transportation (to Centra), and Distribution (to customers) rates to be charged by Centra for the sale of gas and the provision of transportation and distribution services to its customers, in the franchise areas served by Centra, to be effective with respect to all gas consumed on and after August 1, 2002. The only component of Centra's Distribution rate addressed in the Application was the portion related to Unaccounted For Gas ("UFG").

2. Final approval of January 1 to December 31, 2000, and January 1 to March 31, 2001 gas costs, and the various Purchase Gas Variance Accounts ("PGVA's") (excluding Primary Gas PGVA) and gas cost deferral account balances as at March 31, 2001.

3. Final approval of April 1, 2001 to March 31, 2002 gas costs, and gas cost deferral account balances as at March 31, 2002.

4. Approval of the disposition of the non-primary PGVA's and gas cost deferral account balances accumulated to March 31, 2002, plus carrying costs to July 31, 2002.

5. Approval of the establishment of two deferral accounts related to the capital tax impact of the gas cost deferral accounts for the fiscal years ended March 31, 2001 and 2002 including carrying costs, as well as the establishment of a deferral account to capture the capital tax impacts in future years, commencing April 1, 2002.

6. Final approval of the interim tariff approved by the Board in Order 58/00 to be charged to all Agents, Brokers and Marketers for the provision of the Agency, Billing and Collection Service.

7. Final approval of interim ex-parte Order 154/00 amending the Terms and Conditions of Service related to payment due dates and late payment charges.

8. Final approval of interim ex-parte Orders 181/99, 109/00, 123/00, 140/00, 154/01, 164/01, and 172/01 related to the approval of new or amended franchise agreements,

feasibility tests and a connection fee schedule within various Rural Municipalities in Manitoba.

9. Final approval of interim ex-parte Orders 18/01, 119/01, 170/01 and 15/02 related to the approval of interim quarterly Primary Gas rates commencing February 1, 2001 and ending February 1, 2002.

10. Final approval of interim ex-parte Order 14/02 to amend the Terms and Conditions of service related to Western Transportation Service and Agency, Billing and Collection Service.

11. Approval of a rate to be charged by Centra for reconnections of service performed outside of normal work hours, to be effective August 1, 2002.

12. Approval of the removal of the Service Abandonment Fee from the Schedule of Miscellaneous Charges for Service as part of the Terms and Conditions of Service, and a redefinition of "Service Relocations" as included in the Schedule of Miscellaneous Charges.

13. Approval of the collection of the Basic Monthly Charge from all customers, including those whose services are temporarily disconnected, inactive, or vacant, effective August 1, 2002, as currently included in the Terms and Conditions of Service.

Based on the updated Application, Centra has forecast the 2002/03 fiscal year non-primary gas costs to be approximately $12.8 million lower than the revenues generated by current rates. Additionally, Centra has forecast the March 31, 2002 PGVA and other gas cost deferral account balances (except for the Primary Gas PGVA) plus carrying costs to July 31, 2002, net of the revenues collected by existing rate riders, to be approximately $17 million owing to customers.

In addition to the above, Centra provided responses to previous Board directives respecting Centra's Inter-Utility Rate Study, the Derivative Hedging Policy and the Derivative Hedging Training Program, the Report on the status of Centra's "Blank Page" Gas Supply Portfolio Analysis, and a Report on the Value of Interruptible Customers.

6.0 Gas Costs

6.1 Background

Centra's sales rates have five major components being Primary Gas, Supplemental Gas, Transportation (to Centra), Distribution (to Customer), and Basic Monthly Charge. The Board has approved a Rate Setting Methodology ("RSM") where the Primary Gas component of Centra's sales rate is adjusted every gas quarter to reflect 100% of the difference between the updated 12-month forward price for natural gas, weighted for the cost of gas in storage, and the Primary Gas Rate set in the previous quarter; and a rate rider to dispose of the estimated accumulated Primary Gas Purchase Gas Variance Account ("PGVA") over the next 12 months of forecast volume.

Because of increases in the commodity cost of gas and the methodology then used to set quarterly Primary Gas rates, the PGVA balance owing to Centra by customers at February 28, 2001 was in excess of $100 million. In Order 99/01, the Board approved Centra's request to create a Primary Gas Deferral Account ("PGDA") comprised of the Primary Gas PGVA balance at April 30, 2001, net of any collections from the existing rate rider to May 31, 2001. The PGDA is being collected through a Primary Gas Deferral Rate Rider over a 24-month period.

In Order 91/01 the Board approved the actual 1999 gas costs, the actual 2000 gas costs, excluding Primary Gas, and the disposition of all PGVA and gas cost deferral account balances as at March 31, 2001, excluding the post May 1, 2000 Primary Gas PGVA account, by way of a rate rider over the 11-month period from June 1, 2001 to April 30, 2002. In addition, the Board directed Centra to file revised sales rates for Supplemental Gas, Transportation (to Centra) and Distribution (to customer) to include the forecast increase in non-primary gas costs for 2001/02, based on the 12-month forward price strip at March 1, 2001, for all gas consumed on or after June 1, 2001 which rates were subsequently approved in Order 94/01.

In the May 1, 2002 Primary Gas Rate Application, Centra requested approval for the removal of the existing non-primary gas rate riders established as a result of Order 99/01 that were implemented on June 1, 2001, and expired on April 30, 2002. Centra indicated that at March 31, 2002 there was approximately $16.4 million owing Centra's customers related to non-primary gas costs. Order 77/02 approved May 1, 2002 Primary Gas rates and directed Centra to establish rate riders to begin refunding the estimated PGVA balances of $16.4 million for Supplemental Gas, Transportation and Distribution. In this Application, Centra filed updated information which indicated that the estimated balance of $16.4 million was actually closer to $17 million and requested that the rate rider be updated.

6.2 January 1, 2000 to March 31, 2001 Gas Costs

6.2.1 Gas Costs

Centra requested final approval of the non-primary gas costs of $73 million and Primary Gas costs of $287 million for the year ended December 31, 2000. Because Centra's fiscal year end was changed to March 31 commencing in 2001, Centra was also seeking final approval of non-primary gas costs of $30 million, and Primary Gas costs of $206 million for the period from January 1 to March 31, 2001.

6.2.2 PGVA Balances

Differences between gas costs embedded in sales rates and actual gas costs are accumulated in PGVAs and subsequently disposed of through rate riders. Rate riders are designed to either recover or refund PGVA balances over specified periods of time based on normalized volumes. Because actual volumes differ from normalized volumes, there will invariably be a residual balance from prior periods to be carried over into subsequent balances to be disposed of by a new series of rate riders.

In this Application, the PGVA residual balances related to gas costs to March 31, 2001 totalled $3.4 million, owing from customers including actual capacity management results for 2001/02 and excluding carrying costs. Centra submitted that this balance was due to several factors, including greater utilization of lower-priced supplemental storage gas in February and March of 2001, lower March 2001 throughput volumes because of warmer weather, lower than forecast commodity costs impacting UFG values, lower than approved heating value, and greater than forecast capacity management revenues.

Centra has requested that the combined PGVA balances including carrying costs be rolled into the March 31, 2002 PGVA's and resulting rate riders.

6.3 April 1, 2001 to March 31, 2002 Gas Costs and Deferral Accounts

6.3.1 Gas Costs

Order 91/01 gave interim approval to estimated 2001/02 total gas costs of $569 million. The estimate was based on a March 1, 2001 forward price strip of $7.720/Gj and a US exchange rate of 1.47. Centra's May 22, 2002 Application indicated gas costs for 2001/02 using a commodity cost of $4.572/Gj, a US exchange rate of 1.58, were $292 million.

The following table shows the major components of the 2001/02 gas costs.

Cost Element	**May 22, 2002 Application (in thousands)**
Fixed costs	$ 54,810
Variable transportation	4,429
Supply costs – other	223,827
Other costs	521
Subtotal	283,587
Hedging impact	8,826
Total Cost	$292,413

6.3.2 PGVA Balances

For the 2001/02 gas year, the deferral accounts included prior year's residual balances, 2001/02 balances at March 31, 2002, Capital Tax Deferral balances and forecast Capacity Management revenues for 2002/03. As previously discussed, the Board required Centra to implement a rate rider refunding PGVA balances owing to customers for Supplemental Gas, Transportation and Distribution costs effective May 1, 2002. The updated balances reflect carrying costs and the rate rider refund to July 31, 2002. The following table summarizes these balances:

Cost Element (to July 31, 2002)	**May 22, 2002 Application (in thousands)**
Residual balances	$ 3,363
Supplemental gas	(10,455)
Transportation	398
Distribution	(6,188)
Heat value	(776)
Capacity management	(3,000)
Sub-total	(16,658)
Capital tax deferral – 2000/01	610
Capital tax deferral – 2001/02	223
Sub total – March 31, 2002	(15,825)
April 2002 rider amortization	(626)
May 2002 rider amortization	464
Carrying costs to July 31, 2002	(232)
Total at July 31, 2002	$(16,219)

Centra stated that the variances were due primarily to warmer than normal winter weather, lower carrying costs than forecast, lower pricing for UFG, adjustments of supplemental gas billing percentage in February to balance the years requirements, and lower winter fuel heating values.

6.4 April 1, 2002 to March 31, 2003 Forecast Costs

6.4.1 Gas Costs

Consistent with prior applications, Centra's volume requirements are estimated using approved average annual customer consumptions for the residential and smaller commercial classes, and specific information to larger consumers' volumes. To determine UFG, Centra used a five-year average, which yields an expected UFG rate of 1.83% of sales volumes. The UFG volumes are added to the estimated sales volumes to determine the required purchase volumes.

Additionally, hedging impacts currently known and forecast are included in these estimated costs. The following table shows the components of the estimated costs for the period of April 1, 2002 to March 31, 2003 and compares them to the revenues that would be generated by the existing rates.

Component	**2002/03 Forecast Gas Costs (in thousands)**	**Forecast Revenue Based on Existing Rates (in thousands)**	**Over Collection (in thousands)**
Supplemental Gas	$15,461	$21,742	$(6,281)
Transportation	60,975	63,959	(2,984)
Distribution	3,577	7,069	(3,492)
Total	$80,013	$92,770	($12,757)

Centra indicated its forecast of gas costs from April 1, 2002 to March 31, 2002 excluding Primary Gas used the April 25, 2002 close forward price strip and a US exchange rate of 1.58 and were approximately $13 million less than costs currently embedded in sales rates.

Transportation tolls and storage charges included in these costs at rates are those currently approved by the NEB or FERC and do not reflect any potential changes as a result of pending National Energy Board ("NEB") decisions.

6.5 Board Findings

The Board has previously reviewed all aspects of gas costs from January 1, 2000 to March 31, 2001. Therefore, the Board will grant final approval for all gas costs from January 1, 2000 to March 31, 2001, and the March 31, 2001 PGVA and other gas cost deferral account balances. The Board is also satisfied that the final 2001/02 gas costs are reasonable, and with the exception of the capital tax deferral accounts which are discussed in Section 8.0, the PGVA and other gas cost deferral accounts properly reflect differences between amounts included in sales rates and actual gas costs. The Board will therefore approve the 2001/02 gas costs PGVA balances on a final basis, recognizing that there will be a residual balance from these accounts, which will be dealt with at a later date.

The Board considers Centra's estimates for 2002/03 volumes to be reasonable, and will approve Centra's forecast non-primary gas costs of $80 million, recognizing that any variance between estimated costs and actual costs will be captured in the PGVAs. The March 31, 2003 balances in these PGVA's will be dealt with a subsequent cost of gas proceeding. The Board notes that the largest component of gas costs is Primary Gas, currently forecast to be $257.4 million for 2002/03, which will be dealt with on a quarterly basis using the RSM.

The Board has concerns with the potential impact on gas costs flowing from the forthcoming NEB decision regarding the TransCanada Piplelines Ltd. ("TCPL") tolls application. The Board will expect to be informed by Centra of the decision as soon as it is issued. If an application seeking new sales rates is required as a result of the TCPL decision, the Board's desire is to have such rates changed on a timely basis, coincident with the Primary Gas quarterly adjustments, rather than creating a build up in the related deferral account.

7.0 Capacity Management

Centra's objective for its capacity management program is to optimize the use of the various gas supply, storage and transportation assets to minimize costs while ensuring Centra's ability to meet the requirements of its customers in Manitoba. Centra contended that the objective is not to maximize capacity management revenues, as to do so has the potential to compromise security of gas supply. Centra submitted that in order for capacity management transaction to occur, four criteria must be present:

1. An asset must be temporarily not needed to serve the Manitoba market;
2. There must be an alternative market that requires that asset;
3. The price that a party is willing to pay must generate a profit for Centra; and
4. There must be transportation capacity available to access the market.

Capacity management transactions can be in the form of sales, capacity release, loans and exchanges, and can be entered into with many parties, including local distribution companies ("LDCs") and marketing companies. Certain transactions are variations of the four major forms, and other transactions can involve combinations of these forms.

Centra contended that the weather in Manitoba and in potential market areas considerably impacts Centra's capacity management results. Centra stated that measuring the impact of variables such as weather, and market demand on capacity management results is difficult to track and measure. As a consequence, Centra is having considerable difficulty in developing measures to evaluate the success of this program. However, Centra does recognize the importance of such an analyses, and is continuing in its attempts to develop performance measures.

Centra's capacity management revenues have varied widely from a 1996 high of approximately $6 million to a low in 1999 of $0.6 million. Centra uses a five-year capacity management revenue average to estimate the ensuing year's revenues, and that amount is included, as a credit, in the PGVA for the current year.

Capacity management revenues for fiscal 2001/02, including carrying costs are approximately $4 million. These revenues exceed the budgeted amount of $1.5 million by $2.5 million.

It is expected that the annual total net capacity management revenues will be $3 million owing to customers for 2002/03. This amount has been estimated using a five-year average of past results.

7.1 Intervenors' Position

CAC/MSOS commended Centra on it ability to achieve a purchase load factor of almost 100% with respect to the use of the TCPL System. CAC/MSOS is of the view, however, that there was insufficient evidence to determine if the revenues resulting from TCPL capacity release were optimal.

CAC/MSOS also expressed concern that there is no third-party critique of Centra's program or transactions within the program. CAC/MSOS stated that, in prior years there had been considerable potential revenue not realized by Centra in conducting the program, and that the situation was similar this year. CAC/MSOS suggested that, based on information supplied by Centra, unutilized demand charges in the past year represented approximately 18.6% of the $54 million in fixed gas supply costs. They also expressed concern that there were no capacity management revenues from release of US storage capacity.

CAC/MSOS was concerned for the lack of benchmarking to measure performance, and suggested comparison to other utility's performance as a potential in this area. CAC/MSOS suggested that the use of the five-year average had evolved into the benchmark and if revenues were beyond that, the program was considered to have performed well.

CAC/MSOS recommended that Centra hire additional staff to be solely dedicated to the capacity management program to develop long-term, seasonal and monthly plans, and to conduct daily transactions. CAC/MSOS was of the view that Centra should be able to do better than it had in the past, and that if it could not, then Centra should provide documentation to justify that the reasons were beyond management's control.

7.2 Board Findings

The Board remains of the view that security of supply for the Manitoba market is critical, and that maximizing capacity management revenues by sacrificing supply security is unacceptable. However, the Board considers that in the evolving natural gas marketplace, security of supply risks are not as high as in past years. Supply can normally be assured, but likely at an additional cost compared to that available under long term contracts. As discussed under Section 17.0 of this Order, Centra's blank page analysis will review the entire mix of assets with a view to optimizing Centra' supply portfolio. Once the blank page analysis is completed, the Board will expect Centra to submit an assessment of the risks inherent in different portfolio mixes, identify any third-party interest in managing Centra's assets, and evaluate the merits of both outsourcing its capacity management program or by acquiring additional dedicated staff.

The Board is pleased that Centra exceeded its 2001/02 estimated capacity management results. The Board agrees with Centra that the development of capacity management performance measures is important, and encourages Centra to develop these performance measures and refine its tools to estimate future results.

8.0 Capital Tax

Centra requested approval of the establishment of two deferral accounts to accumulate the capital tax impact of the gas cost deferral accounts for the fiscal years ended March 31, 2001 and 2002. The estimated total for the capital taxes related to gas cost PGVA accounts is approximately $847,680 including carrying costs to July 31, 2002. This balance was to be added to the PGDA and collected through the PGDR. Centra also requested the establishment of an ongoing deferral account as of April 1, 2002 to capture the impact of gas cost deferral accounts on capital taxes for future years, and recovery of this amount through a rate rider to be effective August 1, 2002. Centra proposed that in future years, the impact that gas cost deferrals have on capital taxes would be tracked in a deferral account and subsequently recovered or refunded from customers, subject to Board approval. Centra calculated these balances by applying a general capital tax rate of 0.5% to March 31 PGVA balances.

Centra advised that during the budgeting process, the assumption is made that deferred gas cost balances are zero at the end of the budget year, because there is too much uncertainty about gas prices, weather and consumption patterns to allow any reasonable estimates to be made. If gas deferral balances are not zero, they affect debt levels, and the resulting capital taxes impacts cannot be budgeted or included in sales rates. Centra added that it does not regard the request for recovery of the 2001 and 2002 capital tax resulting from the PGVA to be retroactive.

Centra stated that when deferred gas cost balances are recorded, there is an equal and opposite effect on the amount of debt held by Centra, which impacts the capital tax paid by Centra. Centra views the establishment of a capital tax PGVA to be the most appropriate treatment given the inability to make reasonable estimates of the gas cost deferral balances in the context of a future test year revenue calculation used in a General Rate Application (“GRA”).

Centra is of the view that impact of the gas cost deferral accounts on capital taxes should be recovered from customers. If Centra continues to treat these additional capital taxes as it has in the past, these costs will not be passed on to customers and will have to be absorbed by the Company.

In years prior to 2000/01 the effect of gas deferral balances on capital taxes was not significant. Due to the dramatic increase in gas prices during the 2000/01 winter, the net of all gas cost deferral balances totalled approximately $120 million owing to Centra, resulting in additional capital taxes paid by Centra. In response to a question from the Board, Centra stated that it would not oppose treating the 2001 and 2002 capital taxes as a special circumstance and include any future non-significant amounts of PGVA related capital tax as part of a GRA.

8.1 Intervenors' Position

CAC/MSOS was of the view that given the changes to the Rate Setting Methodology inclusion factor of 100%, the PGVA balances should no longer build to large levels. Therefore, Centra's request for a permanent capital tax deferral account should be denied. CAC/MSOS added that these request for the deferral accounts represented rate retroactivity.

CAC/MSOS stated that this matter should have been considered in Centra's 2001 GRA, which the company chose to withdraw. CAC/MSOS requested the Board be mindful that the Provincial Government granted Centra some relief, which Centra estimated to amount to approximately $4 million in additional revenue, on a year-to-year basis to avoid the 2001 GRA which would have allowed Centra to recover these taxes.

CAC/MSOS was of the view that it was not appropriate to consider discreet items of capital taxes at different hearings. CAC/MSOS was also concerned that Centra could have mitigated the impact of the tax liability by claiming an investment tax allowance deduction. The type of informal discussion conducted by Centra with CCRA did not go far enough to determine whether there was the possibility of a refund and an Advance Tax Ruling should be sought.

CAC/MSOS added that carrying costs should not be charged on the balances given that the balances has already been paid or were not due until September 30 of the corresponding year.

8.2 Capital Tax PGVA – Board Findings

The Board is of the view that the use of a 100% inclusion rate under the recently revised RSM will help ensure that the Primary Gas PGVA balances will be maintained at reasonable levels in the future, and will not have any significant impact on future capital taxes. Therefore, there is no need for the establishment of a permanent capital tax PGVA.

The Board is of the view that prudent expenditures should be recovered from customers through rates. However, the Board believes that capital taxes are a revenue requirement issue and should not be considered as a Cost of Gas issue. Therefore, the Board believes that any examination of Centra's capital tax issues should occur at Centra's next GRA, expected to be in the fall of 2002.

The Board will deny Centra's request to establish two deferral accounts to recover the capital tax impact of gas cost deferral accounts for the fiscal years ended March 31, 2001 and 2002 as well as the establishment of an ongoing deferral account to capture these impacts in future years commencing April 1, 2002.

9.0 Cost Allocation

Centra's cost allocation methodology functionalizes, classifies and ultimately allocates all gas costs, including unaccounted for gas, to the appropriate customer classes. Centra stated that the cost allocation methodology remains unchanged from that used in last year's application and is consistent with previous Board decisions.

9.1 Intervenors' Position

No Intervenor took a position regarding this matter.

9.2 Board Findings

The Board notes that there has been no change in the cost allocation methodology employed by Centra for this Application. Volumes and customer numbers have been updated to reflect estimated 2002/03 numbers used to calculate August 1, 2002 rates. The Board also notes that PGVA balances are allocated in the same fashion, as are projected gas costs.

10.0 Derivative Hedging Activities

10.1 Derivative Hedging Background

In Order 79/98, the Board expressed the view that, "in a marketplace of indexed pricing for natural gas, where such prices may be extremely volatile, a well executed price management program will serve the interests of the ratepayers. To do otherwise would expose the ratepayers to the vagaries of the marketplace."

In Order 91/01, the PUB expressed the view that Centra should more clearly define the circumstances under which derivatives would be placed in its Derivative Hedging Policy. In addition, it directed Centra to file a formalized Derivative Hedging Training Program with the Board.

10.2 Derivative Hedging Policy

Centra reviewed its Derivatives Hedging Policy ("the Policy") in light of the extreme gas price volatility in 2001 and Order 99/01 which required Centra to use 100% of the difference between the 12-month forward strip and the cost of gas embedded in rates. On October 25, 2001 Centra's Board of Directors approved the Policy which states:

> "Centra will strive to minimize gas price increases to customers through the judicious use of derivative products restricted to price swaps, call options and collars. At a minimum, Centra will have hedges in place for 50% of all hedgeable volumes for the future 9 months. Prior to the end of each quarter, Centra will put into place hedges on minimum of 50% of hedgeable volumes for the fourth quarter forward, being months 10, 11, 12. Centra may in addition, hedge up to 100% of hedgeable gas volumes depending upon the circumstances of the market and the degree of risk that, in the judgement of management, may be encountered."

Centra stated its revised Policy provides some protection to its customers from extreme spikes in Primary Gas supply prices while allowing management some flexibility to take advantage of opportunities to minimize gas price increases through the judicious use of derivatives products. While the Policy states that Centra will strive to minimize gas price increases, Centra stated during the hearing that its focus was to reduce bill volatility.

Centra also filed its Derivative Hedging Operating Principles and Procedures for Primary Gas ("Operating Procedures"). This document states, "Derivative positions put into place on a quarterly basis, pursuant to the Policy, will be based on $0.50 out-of-the-money coverage." Centra added that, the $0.50 is related to the directional guide of $60/year determined from its customer research, and will not vary with changes in the unit cost of gas, or differing market conditions. In addition, the document states "all derivative transactions beyond 50% coverage and/or transactions with coverage other than $0.50 out-of-the money will be approved by the Executive Committee."

Centra was of the view that when the cost of a cap is inordinately high, Centra would contemplate the use of a collar. Centra defined "inordinately high" to be so expensive that the derivative hedge did not dampen volatility but contribute to it. However, this definition was not contained in Centra's Policy or Operating Procedures.

Centra stated that it would like to be in a position to offer customers whatever mix of products meets their particular energy requirements. Customers have different energy needs and different risk tolerances. Accordingly, Centra believes that as an alternative to having one derivative hedging strategy and one-price option for customers, there is merit to it being allowed to offer various pricing alternatives to customers.

10.2.1 Intervenors' Position

CAC/MSOS is of the view that a derivative hedging program that is executed in a consistent, reasonable and prudent fashion should have a nominal cost over the long term. They further added that a derivative hedging program should be used to mitigate volatility and not reduce the price of gas. There is a very real and tangible benefit to having insurance in place which reduces volatility. CAC/MSOS added that it is incorrect to consider derivatives a failure if the price of primary gas does not exceed the cap.

CAC/MSOS stated that Centra had not complied with the Board directives of Order 91/01, as Centra had added nothing to the Policy to make it easier for the Board to review transactions. CAC/MSOS was of the view that strategies, objectives and circumstances under which the discretion would be exercised for 50% of eligible volumes were not set out in the Policy, and greater detail was needed. For example, CAC/MSOS stated that the Policy did not provide any detail as to how a cap price is determined to be "too high."

CAC/MSOS stated that competition in the residential market is essentially between Centra and Municipal Gas. Paradoxically, each has a monopoly with respect to the type of pricing option it provides. Therefore, in the view of CAC/MSOS, allowing Centra to offer alternative pricing structures would reduce rather than increase the regulatory burden and be beneficial to residential customers. CAC/MSOS recommended that the Board encourage Centra to come forward with a proposal for alternative price offerings.

10.2.2 Evidence of Ashmead Pringle

Mr. Pringle concluded that the current approach to derivative hedging had not worked well for any stakeholder, and it was not likely to do so in the future. For market signals to have an effect, demand must be elastic and it is not for most SGS customers. Customers use gas for heating and their demand is largely weather-driven.

Mr. Pringle stated that the combination of market-based rates and a deferral mechanism was a reasonable compromise between the conflicting objectives of market sensitivity and low bill volatility. He added that the budget-billing plan was a tried and true method of smoothing a customer's gas cost across the year. With the abandonment of the smoothing mechanism, consumers become much more dependent on Centra's hedging activities to protect them from the volatile gas market. Given the history of Centra's non-use of derivatives and the lack of meaningful incentives for it to hedge, Mr. Pringle was not confident that consumers can rely on Centra. Nor was he convinced that consumers' choices should be limited to relying on Centra's hedging or to switching to a reseller that can offer price protection.

Mr. Pringle stated that regulated LDC's have tended to have no direct price risk because they have passed through their commodity costs to the end user. Their risk has been limited to disallowance of costs upon periodic review by the regulatory entity. Many jurisdictions are moving away from this model to one of four basic alternatives.

1. The LDC exits the merchant function and only transports gas.
2. The LDC offers pricing choices to the end user, such as fixed or capped prices, and hedges the resultant risks.
3. The LDC operates under an incentive mechanism for gas purchases, and shares the gains and losses with the end user is possibly reviewed for prudence.
4. The LDC is encouraged to hedge on behalf of the user, and its hedging is possibly reviewed for prudency.

Mr. Pringle was of the view that since its hedging inaction last year was excused, Centra had learned that sins of omission may be forgiven, while sins of commission may not. Many criticisms Mr. Pringle had of Centra were merely symptoms of the difficult structure under which Centra operates. In Mr. Pringle's view, these symptoms include:

- Centra's Policy is vague and very general.
- The Gas Supply Committee was not meeting regularly. No meetings apparently occurred during the winter of 2001-2002.
- Minutes of meetings of the Gas Supply Management Committee and the Executive Committee are minimal in detail, and not informative.
- The derivatives training program seems limited because only one training session took place and the training was long overdue.
- Reliance on Centra's staff experience is misplaced. He was not convinced that the necessary expertise has been developed within Centra to make sound hedge decisions.
- Centra was still not preparing an effective position report that showed the effect of any hedge position on its minimum and maximum forecast gas cost, and the resultant impact on bills. Centra's lumping together of caps, collars, and swaps as hedge percentages was too simplistic.

Mr. Pringle concluded that Centra should offer pricing alternatives to its individual customers, just as competing brokers can. It would then hedge the resultant price risk, the hedge costs and outcomes would be for its own account, and as a result, it would not be necessary to review derivative transactions. In his view, the consumer would better know his exposure, Centra would have a smaller compliance cost, and the Board would have a lesser regulatory burden.

10.2.3 Board Findings

As stated in previous orders, the Board considers a well-executed Derivatives Hedging Program to be in the interest of the ratepayers by reducing exposure to the vagaries of the marketplace. Customers may choose to use the Budget Billing Plan to manage bill volatility. However, the customers will ultimately carry the actual risk of volatility in the marketplace.

The Board remains of the view that Centra should clearly set out the circumstances under which derivatives will be placed in its Operating Procedures. The circumstances should be specific in order to create clear goals, define when discretion will be required and by whom, and permit the decisions to enter or not enter a transaction to be scrutinized and justified at a later date.

The Board is of the view that the circumstances where derivatives will be used are not sufficiently specific in Centra's Policy or Operating Procedures. The Board is of the view that an appropriate Derivative Hedging Policy should not be formulaic, but rather set out the factors and decision rules used to determine whether derivatives should be used, what type of derivatives should be used, and when derivatives will be used. In addition, an integral part of a sound derivatives hedging policy is discussion and review of derivative transactions at appropriate levels within the organization. The revisions to the Policy appear to have decreased this discussion and review. Accordingly, the Board will direct Centra to refile, by no later than December 31, 2002, the Policy and Operating Procedures to include the factors considered and decision rules used in the placement of derivatives.

The Board recognizes Centra's and CAC/MSOS' statements regarding alternate service offerings. In Order 91/01, the Board encouraged Centra to examine alternate ways to meet customer tolerance levels. The Board will consider the matter further, if an application is filed by Centra.

10.3 Derivative Hedging Transactions

Centra submitted that the Board should evaluate the Derivative Hedging transactions for fiscal year 2001-2002 with reference to Centra's Policy. Centra added that its Derivative Hedging Program is simple, utilizes straightforward derivative instruments, and requires a mechanical approach to the placing of those instruments.

Centra explained that to place derivatives, staff contact approved counter-parties by telephone. The details as to which forward months are to be hedged, the volumes to be hedged, the types of instruments to be used, the instruments' out-of-the money upper strike prices and the transaction protocol are reviewed in detail with each counter-party. Following these discussions, Centra's traders obtain quotes from each counter-party as to their current forward market price, or at the money price, for each of the forward months being hedged. The lowest quotes obtained for each month is chosen as the basis for the setting of prices on the hedging instruments. The volumes to be hedged are reviewed, the out-of-the money upper spread is confirmed, and the upper strike price is set and reviewed with each counter party. Each counter-party quotes Centra's staff a price on the instrument for each month. Each counter party's quote for that month is reviewed by Centra's traders and the instrument is then purchased from the counter party offering the lowest quote. The details of that month's transactions are reviewed and confirmed orally with the lowest bidding counter-party. At the conclusion of transacting, the details of the bidding and transaction process are summarized and forwarded to the back office which confirms the transactions with the counter-parties.

10.3.1 Transactions for 2001/02

On May 25th, 2001, Centra purchased $0.50/gigajoule ("Gj") out-of-the money price caps on approximately 33% of its eligible volumes for the months of July 2001 through May 2002. The premium cost for this transaction was $6.2 million for July 2001 to March 2002. The premium for the months of April and May 2002 was $1.3 million.

On October 4, 2001, Centra purchased sufficient price caps to bring the hedge coverage to approximately 50% of eligible volumes for the months of November 2001 through October 2002, in accordance with Centra's updated Policy. The transaction carried a premium of $3.7 million.

On November 14, 2001, cashless price collars with $0.50/Gj out-of-the money upper strike prices were purchased on 40% of eligible volumes for the months of December 2001 through October 2002. The lower strike prices on these cashless collars ranged between $0.12/Gj out-of-the and $0.38/Gj out-of-the money. By the virtue of placement of these collars, Centra stated it had hedged 90% of its eligible volumes for the eleven months of the 2001/02 gas year.

On January 23, 2002, Centra placed cashless collars with $0.50/Gj out-of-the money upper strike prices on 50% of its eligible volumes for the period of November 2002 to January 2003. The lower strike prices on these instruments ranged between $0.25/Gj and $0.31/Gj, out-of-the-money.

The overall combined mark-to-market results for all transactions for the 2001/02 fiscal year on both system and buy/sell volumes is an addition to gas costs of approximately $9 million.

The Gas Supply Management Committee met on May 17, 2001, September 7, 2001, October 3, 2001 and February 28, 2001 to discuss derivative hedging issues, and the Executive Committee met on May 22, 2001, October 11, 2001, October 23, 2001 and November 14, 2001 regarding Derivative Hedging issues. According to Centra's Policy, the Gas Supply Management Committee is not obligated to approve any of the derivate transactions and the Executive Committee must only approve derivative transactions over and above 50% of eligible volumes.

10.3.2 Transactions for 2002/03

On April 18, 2002, Centra placed cashless price collars with $0.50/Gj out-of-the-money upper strike prices on 50% of its eligible volumes for the period February 2003 to April 2003. The lower strike prices on these instruments ranged between $0.30/Gj and $0.33/Gj out-of-the-money.

On May 29, 2002, Centra placed cashless price collars with $0.50/Gj out-of-the-money upper strike prices on 40% of its eligible volumes for the months of November 2002 to April 2003. The lower strike prices on these instruments ranged between $0.16/Gj and $0.23/Gj, out-of-the-money. By virtue of the placement of these latter derivative instruments, Centra also hedged 90% of its eligible volumes from November 2002 to April 2003. Centra stated that it expected to continue to place hedges on 90 % of eligible volumes for the remainder of the 2002/03 gas year unless circumstances changed.

The overall combined market-to-market results for all hedge instruments currently in place for the 2002/03 fiscal year on both system and Buy/Sell volumes was estimated to be an addition to gas costs of approximately $1 million.

10.3.3 Intervenors' Position

CAC/MSOS was of the view that the documentation filed by Centra to support the derivative hedging transactions was inadequate. CAC/MSOS requested that the Board direct Centra to file all recommendations, briefs and documents relied upon by Centra in exercising its discretion.

10.3.4 Board Findings

The Board is of the view that the Policy should provide the guidelines upon which the Board will evaluate Centra's derivative transactions. However, the Board is concerned that the current Policy does not set out the factors and decision rules that should be used to evaluate these transactions. The Board remains concerned about the process used by Centra to approve transactions, and wishes to reiterate that an absolute dollar cost or mark-to-market results should not be used in isolation to determine whether or not a hedge should be placed.

The Board does not take issue with any specific derivative transaction. It appears as though the derivative hedging transactions placed by Centra have provided some assurance that bill volatility will be managed. However, the Board remains concerned that the Policy does not set out how derivative transactions will be evaluated.

As previously stated, the Board considers the use of the $60 annual threshold, which equals approximately $0.50/Gj, to be a reasonable test for the placement of derivative transactions. However, the mechanical use of this test without the ability to make adjustments based on changing circumstances is of concern to the Board.

In Order 91/01, the Board clearly stated that in a situation where the management of Centra has used its judgement, Centra should be charged with the responsibility of providing the appropriate documentation to justify its actions or inactions. The Board is concerned that Centra is not keeping an appropriate record of the information used and discussions that occurred regarding its derivative transactions. The Board recognizes that Centra cannot capture all the information available in the market regarding derivative transactions. However, in future, the Board will expect Centra to provide more detail regarding the market information used, the options considered, and the reasons supporting all decisions to place or not place derivative transactions.

10.4 Derivative Hedging Training Program

In Order 91/01, Centra was directed to file with the Board a formalized training program for derivative hedging activities "that will enhance the skills of the Gas Supply Management Committee and the expertise of those employees charged with placing and reviewing derivative transactions by no later than October 31, 2001." Centra conducted a training needs assessment as well as a skills gap analysis, and concluded that employees involved in the Derivative

Hedging Program have the requisite knowledge and skills to carry out their respective duties. The assessment was filed on November 16, 2001 with the Board.

The training needs assessment consisted of a four-step process.

1. Identify roles and responsibilities of the groups associated with the derivative hedging program.

2. Identify the knowledge and skills requirements to carry out the roles and responsibilities.

3. Identify the skills and expertise acquired to date.

4. Assess the adequacy of the skills and expertise acquired to date, versus the requirements and determine any further training requirements.

Centra provided examples of the types of derivative training conducted since the 2001/02 Cost of Gas hearing including the following:

- The senior gas cost analysts of the Gas Supply Price and Administration Department attended a statistical training course on probability and confidence levels in November 2001.

- The Enterprise Risk Manager and the Risk Management Officer, each of who are members of the Gas Supply Management Committee, attended an enterprise wide risk management course in December 2001.

- An onsite workshop was conducted in June 2001, by Risk Advisory, covering fundamental elements of a Risk Management Program.

- An onsite course was held in September 2001, by the Treasury Management Association of Canada, which provided an overview of risk management fundamentals, including strategies in using derivatives, pricing and valuation methods, derivative risks and controls.

- An onsite update meeting was held with Surf Energy held in November 2001, which provided their insight on various natural gas developments across North America, including market supplies, pricing and pipelines.

Centra explained that for fiscal 2002, the equivalent of 1.15 full time staff were dedicated to derivative hedging transactions. This time was allocated among 10 different people throughout the organization in the front office, back office, middle office, and credit and legal department. Fiscal 2003 was projected to have 1.4 full time staff allocated to the function. During fiscal 2002, $10,400 was spent on training related to derivative hedging and $13,400 was projected to be spent during the following year.

10.4.1 Intervenors' Position

CAC/MSOS stated that best efforts is not a proper discharge of the burden of proof for Centra. CAC/MSOS expressed disappointment that there was no third party evaluation performed in the assessment of derivative training. They added that Centra had repeatedly come to Board hearings saying that it has the requisite skills and knowledge, and the Board concluded otherwise. Therefore, a self-assessment was inappropriate.

CAC/MSOS was of the view that the amount of money allocated to derivative hedging training was too low, given the dollars at risk. Of more concern is the matter of training of the Executive Committee, given their actions of last year. The Executive Committee makes the ultimate decision to place derivative from a judgemental perspective. However, the Executive had not received any training or skill upgrades regarding derivatives since the last Board Order and they were not submitted to the self-assessment.

CAC/MSOS also expressed concern with the departure of senior personnel from the day-to-day management of the derivative hedging function and the impact on Centra's knowledge base in this area.

10.4.2 Board Findings

The Board remains concerned about the skills, knowledge and workload of the various personnel charged with placing and reviewing derivative transactions. The Board is concerned about the amount of time devoted to derivative hedging efforts as well as the amount of money invested in training. The Board agrees with CAC/MSOS that the dollars involved with the derivative hedging program and the importance of reducing bill volatility for customers are significant and staff allocation and training dollars should reflect the importance of the program.

In Order 91/01, Centra was directed to file with the Board a formalized training program for derivative hedging activities "that will enhance the skills of the Gas Supply Management Committee and the expertise of those employees charged with placing and reviewing derivative transactions by no later than October 31, 2001." The Board is of the view that this directive has not been complied with. It is the view of the Board that a self-assessment is one component of an appropriate analysis of the skills, knowledge and workload of derivative hedging staff. However, an appropriate evaluation should be independent and assess all levels of staff involved in derivate hedging activities, including those who approve the transactions. Therefore, the Board will direct Centra to have an independent assessment completed on the skills, knowledge and workload of all staff involved in derivative hedging activities, and file the results of that assessment with the Board by no later than December 31, 2002, along with Centra's responses to the independent assessment.

In today's natural gas industry, the Board is of the view that it is critical to have accurate and timely information to make effective decisions. The Board is concerned that Centra has not met a number of filing deadlines set out in previous Orders. Centra has had sound business reasons in some cases. However, the Board wishes to emphasize that filing deadlines are included in these Orders to ensure that the Board has timely information, and will expect Centra to adhere to these deadlines in the future.

11.0 Rate Impacts and Rate Riders

Centra requested that non-Primary Gas rates be effective August 1, 2002, and incorporate the 2002/03 forecast cost of gas from April 1, 2002 to March 31, 2003, as well as the July 31, 2002 deferral account balances. The following table illustrates the annualized impacts on customer's bills, relative to May 1, 2002 rates.

Customer Class	Annualized Rate Impact
SGC	-2.0 to -2.2%
LGC	-2.4 to -3.0%
High Volume Firm	-2.0 to -2.4%
Mainline	-2.4 to -31%
Interruptible	-3.0 to -3.4%

Centra requested that March 30, 2002 non-primary gas PGVA accounts and gas cost deferral accounts totalling approximately $17 million at July 31, 2002 be refunded over the period of August 1, 2002 to July 31, 2003. Centra stated that a 12-month rider was more appropriate than an 8-month rider given that July 31, 2003 will align with Centra's quarterly rate adjustment; a full year will reduce seasonality issues related to volumes; an 8-month rider would create a negative rate component for interruptible customers; and the difference between the two options does not have a material difference on rate impacts.

11.1 Board Findings

The Board notes that the combined impacts of this Application and the August 1, 2002 application for Primary Gas rates will result in an approximate 6.1% reduction for the typical residential consumer's annual gas bill. The approved rate schedules reflect the combined impact of these applications and have been included as an attachment to the August 1, 2002 Primary Gas Order 136/02.

12.0 Confirmation of Interim Orders

12.1 Quarterly Primary Gas Sales Rate Adjustments

As previously discussed, Centra's Primary Gas sales rates are adjusted each gas quarter, in accordance with the RSM and approved by the Board on an interim basis. This process allows a full public review of the rate adjustments on an annual basis. Centra has applied for final approval of Interim Primary Gas Rate Orders 18/01, 119/01, 170/01, and 15/02.

12.1.1 Intervenors' Position

No Intervenor took a position on this matter.

12.1.2 Board Findings

Estimated hedging impacts are included in the Primary Gas rates set on a quarterly basis and actual hedging results included in these Orders have been reviewed by the Board. Derivative hedging activities are discussed in detail in Section 10.0 of this Order.

The Board notes that the Interim Primary Gas rates approved on an interim basis are calculated in accordance with the Board approved RSM, which was subject to full public hearings in 2000 and 2001. The Board will approve as final Interim Orders 18/01, 119/01, 170/01, and 15/02.

12.2 Rural Expansion Interim Ex-Parte Orders

Centra is seeking final Board approval of interim ex-parte Orders related to system expansions that required amendments to Centra's existing franchise agreements with various rural municipalities, and one that required a new Franchise Agreement. The amendments to existing Franchise Agreements included three for the Rural Municipality ("RM") of Grey, and one for each of RM of Rosser, RM of Rockwood and the RM of Bifrost. The new Franchise Agreement was with the RM of Minto. All expansion applications were supported by Board approved feasibility test that requires customer contributions if the revenue to cost ratio is less than 1.0 by the fifth year of the expansion. Centra's investment is limited so that existing customers do not unduly subsidize the new customers.

12.2.1 Intervenors' Position

No Intervenor took a position on this matter.

12.2.2 Board Findings

The Board has previously reviewed all of these applications for expansion and accompanying feasibility tests and is satisfied that the capital and operating costs, projected revenues and resulting third party contributions are reasonable. The Board notes that all customer contributions have been received by Centra, and that natural gas is flowing to customers in all cases, albeit not to all customers as originally projected in the feasibility tests. The Board further notes that there have been no complaints received from any of the Municipalities, customers receiving gas, or from other residents in any of the RM's who may wish to have natural gas service provided. Therefore, the Board will confirm interim ex-parte Orders 181/99, 109/00, 123/00, 140/00, 154/01, 164/01, and 172/01.

13.0 Inter-Company Debt

Following the acquisition of Centra, by Hydro, Centra replaced short-term advances from Hydro with long-term advances. As a result, Centra is requesting approval by the Board of this change under Section 82(1)(f) of *The Public Utilities Board Act*, which states that, "No owner of a public utility shall issue any evidence of indebtedness payable in more than one year unless it has first obtained authority from the Board for the proposed issue."

Hydro stated Centra had received advances from Hydro at rates reflective of Hydro's cost of borrowing. The long-term advances from Hydro to Centra aggregate a total principal amount of $157 million. This amount included $15 million of redemption premium paid on the original Centra debt of $142 million. In addition to these debt issues, Hydro has provided Centra with a long-term inter-company loan of $75 million to finance the cost of the acquisition tax and other capital requirements of Centra.

The decision to refinance Centra's debt through inter-company loans reflected favourable yield differentials between the rates of the inter-company loans and the rates for third-party debt. As a result of this transaction, Centra will realize net present value savings of approximately $2.5 million. The refinancing had the added benefit of eliminating the covenants that were part of Centra's long-term debt obligations.

Hydro stated that it did not consider refinancing the Centra debentures with third parties. However, Hydro added that its cost to issue debt in the capital markets without a provincial guarantee is significantly higher than third party financing. In the Canadian capital market, BBB rated regulated Canadian corporate utilities with 60:40 capital structures can presently issue ten-year debt at a spread of approximately 120 basis points over Government of Canada bonds. Since Hydro's capital structure is considerably weaker than these corporations, it is likely that the spread would be in excess of 150 basis points. The Province of Manitoba can currently issue ten-year debt at a spread of 35 basis points over Government of Canada bonds.

13.1 Inter-Company Debt – Intervenors' Position

No Intervenor took a position with regard to this matter.

13.2 Inter-Company Debt - Board Findings

The Board accepts Hydro's net present value analysis of the debt refinancing. The transfer of the debt facilities should reduce financing charges recorded in Centra and ultimately paid for by the Manitoba gas consumer in the approximate amount of $2.5 million. The Board notes that no Intervenors or presenters opposed the refinancing. Therefore, the Board will approve the refinancing of Centra's debt in the amount of $142 million with a redemption premium of $15 million.

14.0 Terms and Conditions of Service

14.1 Agency Billing and Collection ("ABC") Tariff

In Order 19/00, the Board ordered Centra to prepare and file a tariff for the provision of Agency Billing and Collection service to recover all incremental costs generated by provision of the service. Centra responded and stated that the incremental costs were minor, but in view of the Board's directive, suggested that a nominal tariff of $0.25 per customer per month be implemented. Centra cautioned that the fee should not be considered a cost-based tariff.

In Order 55/00, dated April 17, 2000, the Board approved the $0.25 tariff on an interim basis. Because the tariff was not cost based, the Board required further review at a public hearing. In this Application, Centra submitted that a cost based tariff could not be developed, as it was not cost-effective to isolate the information to the necessary degree to calculate costs. Centra estimated that the annual revenue generated by this tariff to be $140,000. Centra indicated that only one Broker has opted not to utilize Centra's ABC Service, and Centra had received no complaints related to this matter.

14.1.1 Intervenors' Position

No Intervenor took a position on this matter.

14.1.2 Board Findings

While committed to the concept of cost based rates and tariffs, the Board acknowledges that it is currently not practical and would likely be cost prohibitive to implement systems to isolate costs to allow for a cost based ABC tariff. The Board has concerns that a nominal fee will result in most, if not all, Brokers utilizing Centra's service, and this may impose a barrier to competition because of the remote relationship between the Broker and its customers. However, given the practicalities of the current circumstances and the amount of revenue involved, the Board will confirm as final the $0.25 ABC tariff.

14.2 Western Transportation Service ("WTS") and ABC Service Charges

In Order 14/02, the Board granted interim ex-parte approval of Centra's request for a change in its Terms and Conditions of Service related to the provision of WTS/ABC Service. The changes included an extension to the WTS processing period; those required to bring consistency to invoice; statement and remittance guidelines and terms; revisions to Broker credit requirements and optional ABC Service; changes to Buy/Sell provisions and a general review and "clean-up" of the language.

In Order 14/02, because of some opposition to Centra's proposal to extend the period for processing WTS enrolment request from 30 to 45 days, the Board did not approve Centra's request. The Board suggested that further discussions be held with stakeholders to attempt to reach a consensus. At the hearing, Centra stated that, upon further review and discussion, it had determined that the 30-day period was workable, and was withdrawing a request for approval of the change in processing period. Centra stated that there had been no objections in this regard, save for the processing period, in the initial instance.

14.2.1 Intervenors' Position

No Intervenor took a position on this matter.

14.2.2 Board Findings

Given the withdrawal of Centra's request related to the processing period, and not having received any complaints, the Board will confirm interim ex-parte Order 14/02 as final.

14.3 Late Payment Due Date and Interest Charges

In Order 154/00 the Board granted interim approval for Centra's request to change the due date for bills from 21 to 14 days, and to change the interest rate on overdue accounts from 1.5% to 1.25%. Additionally, the date that interest would start accumulating would be the date of the ensuing bill, rather than the due date of the current bill, in order to conform to the requirements of the Criminal Code of Canada. Centra requested confirmation of Order 154/00.

14.3.1 Intervenors' Position

No Intervenor took a position on this matter.

14.3.2 Board Findings

The Board will confirm interim ex-parte Order 154/00 as final.

14.4 After Hours Reconnection Charge

Currently Centra offers a 24-hour reconnection service, but only in the Winnipeg Service areas, where Centra's operations are staffed on a 24-hour per day basis. This service is offered only during normal working hours outside the Winnipeg Service area, where there is no 24-hour staffing. Centra is proposing that this service be made available to all areas of the Province, which would harmonize the terms and conditions of this service with that being offered by Hydro. Centra is further proposing that the fee for this service during regular hours be $50 and outside regular working hours be $65 throughout the Province, regardless of whether or not staff is available on a 24-hour basis. Centra had originally proposed that the fee be $50 in the Winnipeg Service area where staff was available at all hours, but revised the request at the hearing.

14.4.1 Intervenors' Position

CAC/MSOS submitted that the real purpose of Centra's request is to harmonize the service and the tariff with that of Hydro. CAC/MSOS further contended that there was insufficient evidence to support the level of the charges proposed by Centra, and consequently the Board did not have enough evidence to approve the tariff.

14.4.2 Board Findings

The Board is of the view that this service and the tariff for this service should be based on two general principles: the same service should be available to all consumers within Manitoba, and that the tariff, when based on cost causation, should be applied on a "postage-stamp" approach, like Centra sales rates. The Board considers that harmonizing the offering with that of Hydro to be less important than cost-based tariffs.

While the Board has heard little evidence that supports either the regular or after-hours proposed tariffs of $50 and $65 respectively, the Board considers it reasonable that where staff is not available on a 24-hour basis, the costs for this service will be higher outside of normal working hours. The Board will approve the tariffs on an interim basis. The $50 tariff will be used in all areas where 24-hour staffing is available, regardless of when the reconnection is done. In areas where such staffing is not currently available, the regular tariff of $50 and the after hour tariff of $65 will be used. If, and when other service areas in the Province are staffed on a 24-hour basis, the regular tariff of $50 shall apply to those areas. The Board will require Centra to provide a report, by December 31, 2002, which details the actual costs of providing this service. The Board will further review this matter upon receipt of Centra's report.

14.5 Service Abandonment Charge

Centra's Terms and Conditions of Service currently provide for a charge of between $400 and $750 for abandoning a service, plus the depreciated value of the plant. The charge applies to circumstances where service is no longer required and Centra either removes or caps the service as per code requirements. Centra also charges a fee in a circumstance where the service is relocated at the customer's request. After receiving a number of complaints from customers about having to pay for removal of plant that is no longer required by them and does not belong to them, the Board requested Centra to review this policy and hold all charges in abeyance pending a Board finding of the policy review.

Centra indicated that after considering Hydro's policy of not charging for an electrical service abandonment, customer's concerns, and the distinction between gas service abandonment and gas service relocation, Centra requested that the service abandonment fee be discontinued. Centra stated that a charge will be applied if the customer requests that service to be activated within one year after the abandonment. However, Hydro's policy is to charge a reconnection fee if a customer requests the service to be reactivated within five years of abandonment. Centra estimated that the foregone revenue as a result of this change would be $110,000 per year that would have to be recovered from the remaining customers.

Centra also requested that the Terms and Conditions redefine "Service Relocation" requested by a customer, and that the customer pay the actual cost of the relocation. Centra stated that where a customer takes some action that renders the existing gas plant on the property to be in violation of a code, Centra will take necessary actions to rectify the code violation, at the customer's expense, as is currently the case.

14.5.1 Intervenors' Position

CAC/MSOS supported Centra's request in this matter.

14.5.2 Board Findings

The Board considers the request for discontinuing the fee for service abandonment to be reasonable and equitable to customers and will approve the request, effective August 1, 2002. The Board will also approve Centra's proposals for the redefinition and the charge for a customer initiated service relocation. The Board considers it appropriate that Centra charge a customer for necessary modifications to Centra's plant where, by virtue of some action by a customer, a code violation results. The Board encourages Centra and Hydro to review the time frame within which it would be most appropriate to charge for a reconnection of a service abandonment, and to report the results of the review to the Board in a timely fashion.

14.6 Basic Monthly Charge

The current Terms and Conditions of Service contain the provisions which permit Centra to impose the Basic Monthly Charge ("BMC") where a service(s) has been:

1. Temporarily disconnected at a customer's request,
2. Disconnected by Centra due to a customer's action or inaction, such as non-payment of an account.
3. Installed as requested by a customer but consumption has not started within six months of installation.

Centra requested the Board to remove the current prohibition to Centra implementing the BMC, stating that the BMC is required to pay for a portion of the associated fixed costs which are incurred even if no gas is consumed. Centra stated that the revenue lost by not imposing the BMC is approximately $700,000, of which approximately $475,000 is from the LGC.

Centra suggested that, while the rate design principle of public acceptability is a consideration, the more important factor is the recovery of costs from those customers that cause Centra to incur those costs. Centra indicated that the fixed cost for the SGC would require a BMC of $35, compared to the $10 BMC currently charged. Similarly, the BMC for the LGC should be $75 compared to the $70 currently charged.

14.6.1 Intervenors' Position

CAC/MSOS supported Centra's request to impose the BMC in those circumstances where a service has been temporarily discontinued at the request of the customer, and where a service had been installed but gas had not been consumed within six months of the installation. CAC/MSOS did not support Centra's request for the imposition of the BMC where a customer had been disconnected for non-payment, citing the issues of fairness and equity, and contract law.

CAC/MSOS submitted that Centra can only shut off a customer's supply, if that customer is in breach of Centra's Terms and Conditions of Service. In that situation, CAC/MSOS contended that Centra had numerous remedies that impose significant financial burdens on such customers, and that the imposition of the BMC is neither fair nor necessary.

CAC/MSOS stated that it is inherently unfair to charge someone for a service that you are not providing. CAC/MSOS also submitted that Centra is requesting the discontinuance of the service abandonment fee because of customers' concerns that they should not have to pay for the removal of pipe they no longer use and have never owned. CAC/MSOS submitted that this is a reasonable and fair approach, the same degree of fairness dictates that the BMC should not be charge to customers locked off for non-payment. CAC/MSOS also pointed out that the amount of revenue that could potentially be lost for not imposition the BMC in this one circumstance would be approximately $180,000, out of the total of more than $700,000.

14.6.2 Board Findings

The Board considers it fair to impose the BMC in circumstances that are as a result of a choice by the customer. The Board will therefore, allow Centra's request to implement the BMC when a discontinuance is requested by the customer or gas is not consumed six months after requesting service, effective August 1, 2002.

However, the Board will not approve Centra's request to impose the BMC for customers who have been disconnected, by Centra, due to a customer's non-payment of an account. The Board agrees with the position of CAC/MSOS that there are numerous avenues already open to Centra to deal with such circumstances. The Board considers the charge would burden those least able to afford it. In the Board's view this would contravene the principle of public acceptability of rates, tariffs and rate designs.

The Board notes that the BMC does not currently recover the full costs of providing service to the SGC and LGC customers. One of the major factors for not establishing a BMC to recover actual costs is the lack of acceptability by the public. However, the Board is not convinced of Centra's argument that this is a matter of social policy going beyond the cost of service concept.

15.0 Value of the Interruptible Customer Report

In response to a complaint from interruptible customers that interruptible rates did not fairly represent the value of the customer class to other system customers, the Board in Order 118/99 directed Centra to review this matter and file a report. Centra complied with the request and filed its report, which the Board considered at the annual cost of gas hearing in 2001. The report estimated that the annual incremental cost to provide firm service to the existing interruptible customers would be approximately $1.4 million. The report concluded that because the interruptible rate represented an annual discount of approximately $1.6 million relative to the firm rate, the interruptible rate reasonably reflected the value that these customers brought to the system.

In Order 91/01, the Board ordered Centra to conduct an additional analysis "... including a summary of the nature of the costs and revenues attributable to the customer class, and the impact on gas costs as a result of Centra's ability to curtail interruptible customers and to report to the Board by no later than November 1, 2001. Centra filed the report on December 12, 2001.

The revised report, prepared by Navigant Consulting Inc., analyzed the overall impact on the system and its customers, including gas supply considerations under the assumptions that:

(a) The existing Interruptible Customers would receive firm service, and

(b) The Interruptible Customers would abandon service altogether.

The revised report utilized 2002/03 forecast gas cost and Centra's current cost allocation methodology for its analysis. Under the scenario where existing interruptible customers would receive firm service, the analyses stated that, considering increased plant requirements as well as gas supply costs, the existing firm customers would receive a benefit of $1 million. While the additional cost to the system for this alternative would be $1.9 million, the existing interruptible customers would be required to assume more costs than would be added to the system. The extra burden would be approximately $2.9 million for those existing interruptible customers who would now be required to pay the higher firm rate.

In the scenario where all existing interruptible customers abandoned the system totally, the remaining firm customers would be burdened with additional costs of approximately $3.8 million on an annual basis, in the short term. This would result because the fixed costs would then have to be assumed buy a smaller number of consumers and the system is not designed to serve the interruptible class during peak load conditions. However, the $3.8 million burden would decrease over time as incremental demand from firm customers grows into the capacity previously paid for by the interruptible customers.

The revised report concluded that:

1. Centra's rates for interruptible service reasonably reflect the value that interruptible customers bring to firm customer, and

2. There is effectively no subsidy (in either direction) between firm and interruptible customers based on the current cost allocation approach.

15.1 Intervenors' Position

While this issue was first raised by customers in the Interruptible Class, no such customers intervened in this hearing. No Intervenor took a position regarding this matter.

15.2 Board Findings

The Board is satisfied the updated report addresses all of the concerns previously expressed by the Board in Orders 118/99 and 91/01. The Board considers the cost estimates, options explored and cost allocation studies performed to be reasonable. The Board notes that no interruptible customers challenged the report or the conclusion as articulated by Centra's consultant. The Board accepts the report recommendations and will require no further action to be taken by Centra in this regard.

16.0 Inter-Utility Rate Study

Several parties have and continue to express interest in forming non-profit co-ops to distribute natural gas to certain areas within the Province. One of these, the North Cypress Energy Co-op ("NCEC"), has been evaluating the feasibility of utilizing Centra's existing system to extend service to its members. The Board requested Centra to consider the appropriateness of developing an Inter-Utility Rate to apply to these entities, initially to be applicable to the NCEC. Currently, Centra would provide all required services to NCEC and Centra offered to include NCEC in the Large General Class ("LGC").

Centra retained the services of Stone & Webster to address the matters raised by the Board. The scope of work for the study included a review of Hydro's and Centra's practices, industry and regulatory practices regarding Inter Utility Rates, Centra's rate policies, regulatory activities, and cost allocation methodologies. The Stone & Webster Report concluded that potential NCEC customers and Centra's existing Mainline Customer Class used Centra's transmission and distribution systems in a similar fashion, and recommended that the existing Mainline commodity and demand rate be applied to the NCEC. Based on the cost allocation methodology, the balance of the costs were to be recovered by a basic monthly charge of $768.09, compared to the Mainline monthly charge of $1,233.71, but recommended that the level of this charge be reviewed in greater detail at the next GRA.

Stone & Webster also recommended that the following terms and conditions apply for this rate class:

1. Service must be taken directly from readily identifiable medium pressure gas transmission or dedicated high-pressure distribution mains (60 psi or greater).

2. Service must be taken from one meter.

3. Minimum annual volumes of service must be 300,000 m^3.

4. Minimum service contract must be at least one year in duration.

5. The rate must be solely for use by natural gas distribution providers that will serve as the distributor of natural gas to end customers.

Centra submitted this report to the Board and other interested parties prior to the hearing for further discussion, and did not request approval of the report's recommendations.

At the hearing, Centra stated that after further discussions with NCEC, Centra was not prepared to adopt the recommendations of Stone & Webster, but rather suggested that a new customer class – "Mainline-Small", be created within which NCEC and future similar customers would be included. Additionally, the rate would be offered to any of Centra's customers that met the proposed terms and conditions for the new customer class.

The proposed Mainline-Small class rate structure would consist of a basic monthly charge, the demand charge and a commodity charge. Load characteristic and consumptions of customers within that class would be used in the allocation of the demand charges. Centra proposed to treat an appropriate portion of the facilities as being on-site, with the balance being considered as being a part of the distribution function, for cost allocation purposes. The basic monthly charge would be adjusted to reflect the costs incurred by the customers. Under Centra's proposal the rates would generate revenues 20% lower than the revenues generated by the current LGC rate. Costs used to calculate the rates are those last approved by the Board for non-gas costs in 1998 GRA.

Centra recommended that the following terms and conditions apply for this rate class:

1. Service must be taken directly from readily identifiable medium pressure gas transmission or dedicated high-pressure distribution mains (60 psi or greater).

2. Service must be taken from one meter.

3. Maximum annual volumes of service would be 680,000 cubic metres.

4. Minimum service contract duration would be for one year.

Centra did not request Board approval of the revised terms and conditions or the rate. Approval of the rate and terms and conditions would be a matter dealt with at the fall 2002 GRA, subsequent to approval by Centra's Board.

16.1 Intervenors' Position

NCEC discussed the questions of a non-postage stamp rate, the issue of a co-op supplying its own metering and regulating equipment, parallel distribution systems and multiple metering. In the final submission NCEC requested the Board set this matter aside to allow for further discussions between Centra and interested parties.

16.2 Board Findings

The Board notes that this matter has been at issue since 1996. The Board has had numerous inquiries from parties requesting that an Inter-Utility Rate be developed by Centra to allow non-profit Co-ops to utilize Centra's facilities to distribute gas within various parts of the province. The Board considers that a rate, specific to other entities serving customers through their systems, by tapping into Centra's existing facilities to be of some importance. The Board will expect Centra to file a new Inter-Utility rate proposal with its GRA expected in the fall of 2002 and no later than December 1, 2002.

The Board is of the view that any rate proposal must be specific for the Inter Utility concept, and based on the preliminary evidence, considers the rate structure proposed by Centra to be appropriate, but should apply to NCEC and future Co-ops like NCEC. Similarly terms and conditions should specifically address and reflect the Co-ops' operations. The Board's view remains that cost causation must be the main driver for rate design, in accordance with Centra's currently approved cost allocation methodology.

If Centra is of the view that some of its current customers are improperly classified, and load characteristics and consumptions warrant a separate class, such as a Mainline-Small Class, the Board would encourage Centra to make an application to create another class, together with appropriate justification, cost allocation and rate designs. The Board is pleased that Centra is discussing this matter with NCEC, and encourages Centra to continue discussions with NCEC and any other interested parties.

17.0 Blank Page Analysis

The matter of the Blank Page Analysis has been the subject of much discussion and debate for a number of years. Matters previously debated were related to the ability of Centra to effectively deliver service on a peak day in a peak year, the optimal mix of assets given existing contractual constraints, security of supply issues, maximizing capacity management revenues and outsourcing the management of Centra's gas supply portfolio. In Order 91/01, the Board directed Centra to prepare and file by October 31, 2001, a "Blank Page Analysis" that was to consider these issues.

Centra informed the Board that the study could not be ready by October 31, 2001 as the request for proposals to conduct the study had been sent to interested parties on August 19, 2001. Centra stated that it awarded the contract for the Blank Page Analysis to International Gas Consulting Inc. ("IGCI"), a consulting firm from Houston, Texas. Centra stated that, in its view, IGCI was the most qualified for conduct the required work and represented the best value.

The scope of the work was to be carried out in two phases. Phase I was to involve data research, gathering and assembly of all storage, transportation and supply contracts, purchasing practices, capacity management practices, and forecasted demand and load profiles. Phase II was to consist of the analyses of data, consideration of various alternatives and recommendation respecting optimal supply portfolio and transition issues.

Centra stated that the expected outputs from the study would be:

1. A comprehensive analysis of Centra's Gas Supply requirements and options required to serve those requirements now and in the future.

2. A cost/benefit analysis which would take into account a number of issues including financial cost, flexibility to react to both structural market changes and fluctuating market

conditions, operating and commercial risk, regulatory mandates and constraints, and security of supply.

3. A defined path from the existing portfolio to the optimized portfolio.

On January 16, 2001, Centra informed the Board that the report would not be available for review at this hearing due to the delay in the National Energy Board's ("NEB") decision respecting TCPL's application with respect to service offerings and revised tolls and tariffs.

17.1 TCPL's Tolls and Tariffs Application and the Impact on the Blank Page Analysis

The TCPL Tolls Task Force ("TTF"), consisting of interested stakeholders, was formed in 1999 to negotiate tolls that had been set for the period between January 1, 2000 and December 31, 2000. Since January 1, 2001 the NEB has approved tolls on an interim basis. Pursuant to negotiations, TCPL and the majority of the stakeholders reached a Services and Pricing Settlement Agreement ("Agreement") for two years commencing January 1, 2001. Centra could not support the Agreement because it failed to meet any of Centra's objectives, related to length of agreement, tariff structure, flexibility of service offerings, risk allocation methodology and resolution of TCPL's competitive situation, including capital structure and cost of equity.

TCPL applied for NEB approval of 2001 and 2002 Tolls on June 8, 2001 based on the TTF Agreement. The NEB ruled that the Agreement was not in accordance with the guidelines because of opposition by some stakeholders, but TCPL still requested that the hearing of its application proceed. The NEB decided to proceed with the hearing, but determined that it would hear TCPL's Fair Return Application separately. Centra intervened at this hearing to voice its opposition to the Agreement, but on November 15, 2001, the NEB approved the settlement based on the Agreement as filed. The decision stipulated that the interim tolls would remain in effect until the decision related to the Fair Return Application was rendered, and recommended that a review of the settlement guidelines be commenced in the near future. The decision required TCPL to file a comprehensive tolls and tariffs application by September 1, 2002. The Fair Rate Application hearing commenced on February 27, 2002 and any decisions regarding tolls could be retroactive to January 1, 2001. Centra intervened in that process, as the potential financial impacts could be significantly adverse to Manitoba consumers.

Centra presented a comprehensive five-year proposal to TCPL respecting transportation rates and services so as to enhance TCPL's competitiveness, while lowering cost and increasing flexibility for its customers. Several meetings were held with stakeholders, and working groups were established to address the issue in more detail. Following this, TCPL is to develop a final proposal and file it with the NEB. TCPL also plans to file its 2003 tolls and tariffs application by September 1, 2002, and Centra will again intervene in those proceedings.

In Centra's view, requiring the consultant to complete the report prior to the NEB rendering its decisions would result in sub-optimal decisions respecting Centra's supply portfolio. Any significant change in TCPL's tolls and service offerings will impact Centra's various supply options, and it would be inappropriate for the report to be now completed until there is more certainty with respect to TCPL's business model, services and toll structure. Additionally, the report would have to be reworked once a decision was known, which would increase the cost to prepare the report.

17.2 Intervenors' Position

CAC/MSOS expressed concern that while Centra has agreed that a Blank Page analysis is critical, Centra has taken far too much time to prepare the report, far beyond the Board imposed deadline of November 1, 2001. CAC/MSOS submitted that Centra was in contempt because it had failed to comply with an Order of the Board, and had not requested a variance or amendment to that Order.

CAC/MSOS stated that the only unknown information was that related to the NEB/TCPL situation. CAC/MSOS expressed the view that delaying completion of the report, because it might result in additional costs, was unacceptable. CAC/MSOS suggested that the report could be completed by assuming several different outcomes in respect of TCPL's service offerings and tariffs related now, as the scope of work contemplated addressing alternative options, in any event. Additionally, CAC/MSOS suggested that the report could address all aspects of the portfolio, except for TCPL matters, which could be addressed later. CAC/MSOS urged the Board to order Centra to have the report completed immediately, using certain built-in assumptions, so as not to lose any further opportunities for incremental revenues, and to minimize gas supply costs.

17.3 Board Findings

The Board considers the Blank Page Analysis to be crucial to the assessment of Centra's gas supply operation, and is disappointed that the report has not yet been completed. The Board does consider that in order to be of any value, the report must address all issues, in a full and comprehensive manner. The Board's view is that such a comprehensive report cannot be properly prepared by considering only a portion of the portfolio assets.

The Board believes that the there are many unknowns with respect to TCPL, not only costs, but tariff structure, tariff stability, tariff escalation over time, and the menu of potential service offerings. Thus, any assumptions made would require a combination of many variables, and the iterations necessary to assess the optimal asset supply mix would likely be numerous, and, in the end, would have to be re-evaluated and reworked. The matter of added costs, in the Board's view, is not a primary driver in this circumstance given the importance of the study. It is the thoroughness and completeness of the analyses that are key.

The Board notes Centra's position that it will take between three and six months to complete the report once the NEB decision respecting TCPL tolls has been issued. Even if the report were to be completed at this time, it is unlikely any change would be possible for the 2002/03 gas year. Therefore, at this time, the Board reluctantly will agree to Centra's position that the report completion be delayed until either the NEB decision is known, or is reasonably predictable. In any event, the Board will expect the report to be completed, filed and reviewed by all interested parties so that the results and recommendations can be considered for the 2003/04 gas year.

18.0 TCE/Mirant Supply Contract

Centra has negotiated long-term gas supply contracts with TransCanada Energy Services ("TCE") for a four-year period commencing November 1, 2001. This contract outlines the terms and conditions for the supply and pricing of Western Canadian gas supply. On October 31, 2001 Mirant Canada ("Mirant") purchased TCE, and requested that Centra consent to the assignment of contracts between Centra and TCE. Centra reviewed Mirant's financial and commercial information and subsequently agreed to the assignment, after Centra requested and Mirant agree to two conditions: (1) Mirant post a $10 million contract performance guarantee from an affiliate entity (Mirant Americas LP), and (2) Centra be relieved of the obligation to purchase pricing structures from Mirant, but was still allowed to purchase these at Centra's sole discretion. All other contract terms and pricing mechanisms remained unchanged.

Centra submitted that assignment had to be made unless reasonable grounds existed for consent to be withheld. Centra determined consent should not be withheld.

Centra and Mirant also entered into a master close-out agreement that allowed Centra to liquidate all transactions under the long term contract if Mirant failed to perform its obligations to Centra within three business days of a demand for performance.

Centra stated that there were no adverse impacts on gas costs flowing from these changes.

18.1 Intervenors' Position

No Intervenor took a position on this matter.

18.2 Board Findings

The Board, as a matter of procedure, has approved only gas cost consequences flowing from any gas purchased contract entered into by Centra. The Board reviewed the renegotiated TCE/Centra contracts and approved the gas cost consequences pursuant to these arrangements in Order 91/01. The Board notes that Centra does not pay Mirant for gas until the 25th of the month following the purchase and thus can hold back funds from Mirant in the event of a default by Mirant. The Board is reasonably satisfied that Centra has maintained safeguards with respect to pricing structures and supply arrangements and that there will be no gas cost consequences as a result of the changes to the contract.

19.0 It Is Therefore Ordered That:

1. Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) sales rates to be charged by Centra Gas Manitoba Inc. ("Centra") for the sale of gas and the provision of transportation and distribution services to its customers, in the franchise areas served by Centra, to be effective with respect to all gas consumed on and after August 1, 2002, as filed by Centra with the Board on May 22, 2002, BE AND ARE HEREBY APPROVED on an interim basis.

2. January 1 to December 31, 2000, and January 1 to March 31, 2001 total gas costs of $596 million, and the various PGVA (excluding the Primary Gas PGVA) and gas cost deferral account balances as at March 31, 2001, BE AND ARE HEREBY APPROVED AS FINAL.

3. April 1, 2001 to March 31, 2002 total gas costs of approximately $292 million, and the various PGVA (excluding the Primary Gas PGVA) and gas cost deferral account balances as at March 31, 2002 totalling $35 million including carrying costs to July 31, 2002, BE AND ARE HEREBY APPROVED AS FINAL.

4. The disposition of the various PGVA (excluding the Primary Gas PGVA) and gas cost deferral account balances accumulated to March 31, 2002, with carrying costs to July 31, 2002, BE AND IS HEREBY APPROVED AS FINAL.

5. The request to establish two deferral accounts to accumulate the capital tax impact of the gas cost deferral accounts for the fiscal years ended March 31, 2001 and 2002, and the request to establish an ongoing deferral account as of April 1, 2002 to capture the impact of gas cost deferral accounts on capital taxes for future hears, BE AND IS HEREBY DENIED.

6. The interim tariff approved by The Public Utilities Board in Order 58/00 to be charged to all Agents, Brokers and Marketers for the provision of the Agency, Billing and Collection Service, BE AND IS HEREBY APPROVED AS FINAL.

7. Interim ex-parte Order 154/00 amending the Terms and Conditions of Service to change the due date for payments to 14 days and to reduce the Late Payment Charge to 1.25%, BE AND IS HEREBY APPROVED AS FINAL.

8. Interim ex-parte Orders 181/99, 109/00, 123/00, 140/00, 154/01, 164/01, and 172/01 related to the approval of new or amended franchise agreements, feasibility tests and

connection fee schedules related to the extension of gas service to the Rural Municipalities of Minto, Rosser, Grey, Rockwood, Bifrost and Woodlands, BE AND ARE HEREBY APPROVED AS FINAL.

9. Interim ex-parte Orders 18/01, 119/01, 170/01, and 15/02 related to the approval of interim Primary Gas sales rates effective February 1, 2001, August 1, 2001, November 1, 2001, and February 1, 2002, respectively, BE AND ARE HEREBY APPROVED AS FINAL.

10. Interim ex-parte Order 14/02 to amend the Terms and Conditions of Service related to the Western Transportation Service and Agency, Billing and Collection Service, BE AND IS HEREBY APPROVED AS FINAL.

11. A \$50 tariff to be charged by Centra where 24-hour staffing is available, a \$50 tariff to be charged by Centra during normal hours where 24-hour staffing is not available, and a \$65 tariff to be charged by Centra after hours where 24-hour staffing is not available, for the reconnecting service, to be effective August 1, 2002, BE AND ARE HEREBY APPROVED on an interim basis.

12. The request to authorize and approve the removal of the Service Abandonment Fee from the Schedule of Miscellaneous Charges for Service, a part of Centra's Terms and Conditions of Service, and a further request to amend the definition of "Service Relocations" and the associated fee as included in the Schedule of Miscellaneous Charges; BE AND IS HEREBY APPROVED.

13. The request to authorize Centra to resume collection of the Basic Monthly Charge from customers where service has been temporarily disconnected at the customer's request, or where service has been installed by a customer but no gas is consumed within six months, as currently included in Centra's Terms and Conditions of Service, BE AND ARE HEREBY APPROVED effective August 1, 2002.

14. The request to collect the Basic Monthly Charge from customers whose services are temporarily disconnected, by Centra, due to a customer's non-payment of an account BE AND IS HEREBY DENIED.

15. The refinancing of Centra's debt in the amount of \$142 million with a redemption premium of \$15 million, BE AND IS HEREBY APPROVED.

16. Centra file the "Blank Page Analysis" with the Board as soon as possible after the NEB decision regarding TCPL tolls is known or with Centra's 2003/04 Cost of Gas Application, whichever is earlier.

17. Centra file with the Board, by no later than December 31, 2002, its Derivative Hedging Policy and Operating Principles and Procedures for Primary Gas to clearly set out the circumstances under which derivatives will be placed. The circumstances should be specific in order to create clear goals, define when discretion will be required and by whom. Centra is to set out the factors and the decision rules used in consideration of the placement of derivatives so as to permit the decisions to enter or not enter a transaction to be scrutinized and justified at a later date.

18. Centra file with the Board, by no later than December 31, 2002, an independent assessment on the skills, knowledge, and workload of all staff involved in derivative hedging activities, along with Centra's responses to the independent assessment.

19. Centra file with the Board an Inter-Utility Rate proposal with its General Rate Application expected to be filed in the fall of 2002 and by no later than December 1, 2002.

20. Centra is to refile with the Board, revised Terms and Conditions of Service to reflect the decisions contained in this Order.

The Public Utilities Board

Chairman

Acting Secretary

THE PUBLIC UTILITIES BOARD

"G. D. Forrest"
Chairman

"Hollis Singh"
Acting Secretary

Certified a true copy of
Board Order 135/02 issued by
The Public Utilities Board

Acting Secretary