MANITOBA	Board Order. 131/04
THE PUBLIC UTILITIES BOARD ACT	October 28, 2004

Before: Graham F. J. Lane, C.A., Chairman
Monica Girouard, C.G.A., Member
Mario J. Santos, B.A., LL.B., Member

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR APPROVAL OF SUPPLEMENTAL GAS, TRANSPORTATION (TO CENTRA), AND DISTRIBUTION (TO CUSTOMERS) RATES AND OTHER RELATED MATTERS

Table of Contents

Page

APPENDICES

1.0 Introduction

Centra Gas Manitoba Inc. ("Centra") is a wholly-owned subsidiary of Manitoba Hydro ("MH") a Manitoba Crown Corporation. Centra's rates are established by The Public Utilities Board ("the Board") following an application by Centra, which the Board may approve, decline or vary.

Centra was acquired by MH on May 14, 1999 and Centra's operations have been integrated with its parent. Centra provides natural gas to approximately 254,000 customers throughout its franchise areas in Manitoba. For the year ended March 31, 2004, Centra delivered 2.1 billion cubic meters of natural gas, including 577 million cubic meters for transportation customers. Centra's revenues exceeded $490 million and, for the period, Centra had a net loss of $8 million.

Centra's costs fall into three main categories being gas commodity, transportation, and the cost of unaccounted for gas ("UFG") and operating costs (distribution). Commodity rates are approved by the Board on a quarterly basis for Primary Gas and on an annual basis for Non-Primary Gas. Distribution rates are established upon a General Rate Application ("GRA") by Centra, filed on a periodic basis.

Commodity sales rates account for approximately 74% of Centra's annual billings. Commodity sales rates are set to recover commodity costs incurred, without mark-up. Primary Gas commodity rates affect only those users who purchase their natural gas directly from Centra. Supplemental Gas, Transportation and Distribution rates affect all customers that utilize Centra's distribution system. There are other users of natural gas in the Province that purchase their gas from Brokers but utilize components of Centra's pipeline network for delivery of the gas.

In this Order the Board:

(a) Authorizes Centra to refund $16.5 million of Non-Primary Gas PGVA and other non-gas deferral account balances as at March 31, 2004, including carrying costs to October 31, 2004, over nine months from November 1, 2004 to August 1, 2005;

(b) Refine the allocation of unaccounted for gas between the various customer classes;

(c) Amends Centra's Terms and Conditions of Service;

(d) Requires reports and information from Centra with respect to a number of commodity rate related matters, including Centra's plans with respect to future gas supply, storage and transportation matters, and plans with respect to amendments to Centra's DSM program;

(e) Requires Centra to file a report considering the advantages, if any, of Centra offering fixed price arrangements to gas consumers, including a discussion on how such alternative service offerings might be delivered; and

(f) Requires Centra to review alternatives to its commodity hedging program.

Centra is directed to file with the Board proposed rates for all customer classes reflective of the directions provided by this Order and Order 129/04, which provides for amendments to the Primary Gas rates as of November 1, 2004. Primary Gas rates are amended quarterly, reflective of market changes to commodity prices, under a Rate Setting Methodology ("RSM") previously approved by the Board.

Subsequent to Centra filing the proposed rates, the Board will issue an Order approving customer rates as of November 1, 2004. In this forthcoming Order, the Board will indicate the overall impact on customer rates from November 1, 2004 arising out of this Order and Order 129/04.

2.0 Background

Centra last applied for approval of Non-Primary Gas rates for the 2003/04 fiscal year in conjunction with its 2003/04 GRA. The rates arising out of the GRA were approved on an interim basis in Order 125/03, dated August 6, 2003 to be effective on August 1, 2003. The approved rates included rate riders. These riders were established to recover the Non-Primary Purchase Gas Variance Account (“PGVA”) balances as of March 31, 2003, together with related carrying costs. The riders were to be in effect for the 12 month period ending July 31, 2004.

In Order 118/03, the Board directed Centra to file its Derivative Hedging Policy along with a copy of the International Gas Consultant’s (“IGC”) report on the Review of Centra’s Supply, Storage and Transportation Portfolio (referred to as the Blank Page Analysis, (“BPA”).

Subsequent to the release of the related GRA Orders, a High Volume Firm (“HVF”) Customer applied to the Board to vary Orders 118/03 and 125/03. The customer contended that Centra had misinterpreted the Board’s intention with respect to the methodology to be employed for billing demand charges to customers in the HVF Class. In Order 16/04 dated February 16, 2004, the Board agreed with the interpretation of the HVF customer, and granted the request to vary Orders 118/03 and 125/03.

Centra was directed to re-file demand rates effective March 1, 2004 to reflect the previous methodology of determining demand levels. The Board approved Centra’s re-filed rates in Order 45/04 dated March 25, 2004, and directed Centra to file data projecting the impact on each HVF Customer resulting from the incorrect billings from November 1, 2003 to February 29, 2004. The Board also directed Centra to notify each HVF Customer of these developments, and, in this notification, indicate that the matter would be further reviewed in the proceeding to review Centra’s 2004/05 Non-Primary Gas costs.

Centra's sales rates were approved in Order 125/03, on an interim basis. The rates included rate riders to expire on July 31, 2004. Consequently, in Order 100/04 dated July 26, 2004, the Board allowed Centra to remove all existing rate riders from the sales rates effective August 1, 2004. Thus, current non-primary billed rates are the base rates that were approved in Order 125/03.

Centra's Primary Gas rates and Primary PGVA balances are adjusted every quarter on an interim basis. The current rates, which took effect on August 1, 2004, were also approved in Order 100/04. The next Primary Gas rate change will occur on November 1, 2004.

The Board issued interim Order 44/04 approving the addition of another Pressure Zone in Centra's Terms and Conditions of Service, as it was necessary to accommodate customers that Centra acquired when it purchased the assets of the Gladstone-Austin Natural Gas Co-op.

3.0 Application

On February 19, 2004, Centra applied to the Board for an Order pursuant to The Public Utilities Board Act, for the following: ("the Application").

(a) To authorize and approve 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 the Company. The rates would be effective with respect to all gas consumed on and after August 1, 2004. (The only component of Centra's Distribution rates addressed in the Application is the portion related to unaccounted for gas,);

(b) Final approval of April 1, 2003 to March 31, 2004 gas costs of approximately $373.1 million;

(c) Final approval of the various Non-Primary Gas Purchased Gas Variance Accounts ("PGVA") and gas cost deferral account balances as at March 31, 2004;

(d) Approval of the disposition of the various Non-Primary Gas PGVA and gas cost deferral account balances accumulated to March 31, 2004, with carrying costs to July 31, 2004;

(e) Final approval of the Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) sales rates effective August 1, 2003 that were approved on an interim basis in Order 125/03;

(f) Final approval of interim ex-parte Orders 119/03, 161/03 and 11/04 related to the approval of interim Primary Gas Sales Rates effective August 1, 2003, November 1, 2003 and February 1, 2004, respectively. Centra also requested final approval of any interim ex-parte Orders related to the approval of Primary Gas Rates issued by the Board prior to the conclusion of the hearing of this Application;

(g) Final approval of interim Order 143/03, in which the Board approved amendments to the Primary Gas Rate Setting Process and minimum filing requirements;

(h) Final approval of interim ex-parte Orders 120/03 and 121/03, which approved the amended franchise agreements and feasibility tests for the extension of gas service to certain customers in the RM of Rockwood and RM of Hamiota;

Centra is also requesting final approval of any interim ex-parte Orders related to the approval of new or amended franchise agreements and related feasibility tests, as issued by the Board prior to the conclusion of the hearing of this Application;

(i) Approval to refine the allocation of UFG to the various customer classes as part of the process of calculating sales rates;

(j) Approval to implement the billing of demand related costs for the HVF customer class using actual demand from the November 1, 2003 to March 31, 2004 period, commencing August 1, 2004;

(k) Approval to make miscellaneous adjustments to the Terms and Conditions of Service to ensure consistency with Centra's operations and previous decisions of the Board; and

(l) Approval to remove the income tax component from Centra's Feasibility Test, which is used to assess the financial feasibility of a proposed expansion to a new franchise area or a main extension in an existing franchise area, effective January 1, 2004.

In addition to the foregoing, Centra's supporting material to the Application provided responses to Board Directives from Order 118/03 that were related to Cost of Gas matters.

On June 23, 2004, Centra filed materials related to HVF demand billing methodology, and the required financial information, as an amendment to the initial Application.

On August 9, 2004, Centra updated gas costs, cost allocations, rates and customer impacts based on the future 12 month forward price strip as at the close of business on July 2, 2004. In the update, Centra also made several minor changes to correct errors in the initial application, updated transportation tolls and tariffs, hedging transaction results and Special Contract volumes, and made a minor change related to Terms and Conditions of Service. Centra also requested Board approval for a change in treatment of the rate rider related to the 2003/04 and prior year Supplemental Gas PGVA balances.

On August 25, 2004, Centra filed its new gas supply contract with Nexen Marketing, to be effective on November 1, 2004. Additionally, Centra filed a new Storage and Transportation contract with ANR Pipelines, and a new contract assigned to Centra by ANR Pipeline ("ANR") related to the Great Lakes Gas Transmission ("GLGT") transportation arrangements. Centra asked the Board to approve the gas cost consequences arising out of these new arrangements.

Based on the updated Application, Centra requested approval for 2003/04 fiscal year gas costs of approximately $368.4 million, as compared to the $373.1 million requested in the initial Application. Additionally, Centra provided updated PGVA and other gas cost deferral account balances as of March 31, 2004, plus carrying costs to October 31, 2004. These balances and carrying costs amounted to approximately $16.5 million owing to customers, compared to the initial forecast balance of $14.5 million which had included carrying cost only to July 31, 2004.

The July 2, 2004 forward price strip results in a forecast 2004/05 cost of Non-Primary Gas of $83.4 million; the November 14, 2003 price strip in the initial application yielded an estimated cost of $80.8 million. Centra stated that current Non-Primary Gas rates would generate $3.2 million more than the estimated gas cost of $83.4 million, and rates would therefore have to be adjusted. Total gas costs, including Primary gas for 2004/05 were estimated to be $420.5 million.

The details of Centra's Application, including amendments and updates of June 23, August 9, August 25, and September 2, 2004, are discussed in subsequent sections of this Order. All costs refer to the August 9, 2004 update, as filed by Centra and amended during the public hearing.

The Board held a Pre-Hearing conference ("PHC") on April 7, 2004 to consider applications for Intervenor status and a timetable for the orderly exchange of information. The Board issued Order 65/04 granting Intervenor status to the parties identified in Appendix D of this Order, and established a timetable.

In Order 65/04, the Board stated that the BPA report would be examined by way of a serious but general review utilizing information requests and cross examination. The Board stated that following the hearing of this Application, the Board might consider a separate future hearing for a more detailed review of the BPA report. The Board also requested that the parties at this hearing convey their views respecting a possible future hearing that would consider the natural gas competitive environment in Manitoba and the appropriateness of the continued use of a rate base rate of return regulatory model.

Public Hearings were held in Winnipeg on September 8th to 10th and September 15th to 17th, 2004. Final submissions were heard on September 12, 2004.

4.0 2003/04 Actual Results

4.1 Gas Supply Dispatch Rules

During its annual summer operation (April to October), Centra purchases Western Canadian supplies in conjunction with TCPL's Firm Transportation Services ("FTS") from Empress, Alberta to Saskatchewan and Manitoba delivery points. The Manitoba's daily market requirements are met first, and any capacity in excess of those requirements is used to refill storage or sell to third parties where feasible. The refill is accomplished by using TCPL FTS to Manitoba, TCPL Storage Transportation Service ("STS) to Emerson, Manitoba, Great Lakes Gas Transmission ("GLGT") FTS to the interconnect with ANR ("ANR") at Crystal Falls, Michigan, and ANR Pipeline FTS to the ANR storage facilities in Northern Michigan.

In addition, to assist in refilling storage in all but the mildest winter, Centra uses ANR FTS on ANR's southwest system, to transport Oklahoma supplies to storage, and ANR FTS on its southeast system to refill storage with Louisiana supplies.

During its annual winter operations (November to March), Centra uses Western Canadian supplies and TCPL FTS to the greatest extent possible to serve the Manitoba market each day. Over and above this capability, Oklahoma supplies and ANR Southwest FTS are used to supply the Manitoba market. Beyond this, storage volumes (Primary Gas and Supplemental Gas) are withdrawn to satisfy daily market demand. These storage volumes are forward-hauled on ANR FTS from the storage facilities to the GLGT interconnect, and backhauled on GLGT to Emerson and then to Winnipeg. (Backhaul refers to gas that is intended to be delivered downstream of Manitoba, in Michigan, but is taken from the pipeline in Manitoba. Then the equivalent amount of gas from Centra's Michigan storage is sent to the customer to replace the gas taken off the system in Manitoba by Centra.)

Any requirements in excess of these capabilities are usually met through the purchase of incremental supplies, either downstream of Manitoba and backhauled or delivered directly to Manitoba through a Delivered Service arrangement.

Supplemental Gas is natural gas provided from sources other than the Western Canadian Sedimentary Basin, including, but not limited to, U.S. supplies, and Delivered Service. Supplemental Gas is required to serve the Manitoba market peak day and seasonal requirements, when such requirements exceed the combined deliverability of Centra's sources of Primary Gas.

Centra acquires Supplemental Gas from various sources on daily, weekly, or monthly terms as required, including:

1. ANR South West ("SW") in Oklahoma;

2. ANR South East ("SE") in Louisiana. This supply is available to Centra only during the summer months, and is used for storage refill purposes;

3. Delivered Service, this to meet the balance of peak day requirements and involves the purchase of supplies either downstream of Manitoba or where the supply is delivered directly to Manitoba; and

4. Capacity Management Loan Transactions.

The following table depicts the source of supply that would be used to meet Centra's firm peak day requirements:

Sources of Supply to Meet Projected Firm Peak Day Requirements

	GJ/Day	Peak Day Requirements %
System Supply	174,032	35.3
Direct Purchase (WTS)	30,752	6.2
Total Under FS Transportation on TCPL	204,784	
Oklahoma Supply[1]	7,860	1.6
Storage Withdrawal	208,591	42.3
Delivered Services	71,795	14.6
Total Design Firm Peak Requirement	**493,000**	**100%**

At the beginning of the winter, under a normal weather assumption, gas is dispatched daily using Primary Gas, Oklahoma supply, Storage and then Delivered Service, as necessary to meet both the Firm and Interruptible requirements. This means that as the winter starts, gas from storage is used to meet the Interruptible customer requirements. As the winter progresses, Centra monitors the extent that the weather has been colder than normal, and monitors the level of storage withdrawals. Centra may curtail supply to customers in the interruptible class if supply concerns arise.

[1] As limited by Firm Transportation from Oklahoma on ANR South West leg (after fuel use).

Centra also will provide Alternate Supply Service to Interruptible customers in lieu of curtailment. Interruptible customers are offered the opportunity to accept Alternate Supply Service on a case-by-case basis, and at prices that reflect the cost of obtaining the Alternate Supply in each specific case. Alternate Supply Service, for all practical purposes, is also Delivered Service, although it is priced separately to the Interruptible customer.

4.2 2003/04 Actual Results

Centra seeks final approval of 2003/04 gas costs of $368.4 million. The following table compares the actual costs with costs forecast a year ago and embedded in current sales rates.

Supplemental Supply

	Actual	Approved	Actual vs. Approved
Oklahoma Supply	$ 0	$ 7,835,885	$(7,835,885)
Storage Gas – Supplemental Supply	4,518,394	13,322,570	(8,804,176)
Exchanges with CP's - Supplemental Supply	6,079,839	$ 0	6,079,839
Delivered Service	1,659,684	$ 723,325	936,359
Delivered Service - Alternate Service for Curtailed Interruptibles	1,204,329	0	1,204,329
LBA & T-Service Imbalances - Supplemental Supply	(6,743)	0	(6,743)
Miscellaneous - Supplemental	0	0	0
Total Inflows	**$13,455,503**	**$21,881,780**	**$(8,426,277)**

Transportation (to Centra)

Inflows			
Total Fixed Costs (excludes Minell Charges)	$51,977,096	$54,979,722	$(3,002,626)
Total Var. Transport Costs (less fuel to MDA)	3,697,063	2,645,950	1,051,113
Storage Gas Trans. & Del. Costs	1,586,082	5,382,405	(3,796,323)
Balancing Charges	258,291	520,000	(261,709)
Miscellaneous Charges	$ (10)	$ 0	$ (10)
Total Inflows	**$57,518,522**	**$63,528,077**	**$(6,009,555)**

Distribution (to Customers)

Inflows			
Minell Pipeline Charges	$ 198,444	$ 198,444	$ 0
Total Inflows	**$ 198,444**	**$ 198,444**	**$ 0**
Non-Primary Gas Costs	**$ 71,172,469**	**$85,608,301**	**$(14,435,832)**
Primary Gas Costs	$297,244,872	n/a	n/a
Total Gas Costs	$368,417,341		

4.3 March 31, 2004 Non-Primary Gas PGVA Results

Centra requests approval of the Non-Primary Gas PGVA and other deferral account balances as at March 31, 2004, together with carrying costs to October 31, 2004 as shown in the following table:

Deferral Balances at March 31, 2004	**Pre-Hearing Update**
March 31, 2003 and Earlier Balances	
July 31, 2003 Prior Period Gas Deferrals	$(1,734,736)
2003/2004 Balances	
Supplemental Gas PVGA	(11,127,725)
Transportation PGVA	(1,948,326)
Distribution PGVA	1,474,685
Heating Value Margin Deferral	(737,912)
2004/05 Balances	
Forecast Capacity Management	(3,250,000)
	$(17,324,014)
April 2004 Through July 2004 Rider Amortization of July 31, 2003 Prior Period Gas Deferrals	$ 1,047,280
April 2004 Through October 2004 Carrying Costs on All Prior Period Gas Cost Deferral Accounts	$ (276,455)
Total at October 31, 2004	$(16,553,189)

4.4 Intervenor Positions

Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc. ("CAC/MSOS") commented on Centra's Derivative Hedging Program, but expressed no particular opinion on Centra's requests related to the 2003/04 final gas cost or the March 31, 2004 Non-Primary Gas PGVA balances. The position of CAC/MSOS in regard to Centra's Derivative Hedging Program is further discussed in Section 5 of this Order.

4.5 Board Findings

Centra projects unit gas costs based on the natural gas futures market forward looking 12-month price strip, at a given point in time. Centra assumes normal weather in forecasting sales and purchase volumes. Both of these elements are subject to variation, and it is inevitable that actual results will vary from forecast results. And, except for fixed costs, these variances can be significant. The majority of fixed costs may vary because of changes in various tolls and tariffs approved by other regulators.

A major variance can be expected in the Supplemental Gas Supply and related transportation, again, because the forecast assumes normal weather. Thus, to the extent that weather is milder than normal, little supplemental supply is required. In a colder than normal year, a greater amount of supplemental gas is necessary to meet market requirements. The Board notes that approximately $16 million of the decrease in actual cost of Non-Primary Gas from that forecast, relates to under-utilization of U.S. supply and storage gas. The Board is satisfied that the actual 2003/04 gas costs are reasonable and will approve the cost of $368.4 million. The Board will comment on the Derivative Hedging Program in Section 5.

With respect to the PGVA balances, the Board notes that, in addition to the differences between actual and forecast gas costs, the variance between estimated and actual total revenue generated by sales rates ("outflows") also contributes to PGVA balances.

PGVA balances include the amount of any over or under collection of Non-Primary Gas PGVA and other gas cost deferral balances, as well as the difference between actual and forecast 2003/04 Capacity Management revenues.

The Board considers the PGVA balances to properly reflect the differences between actual and forecast costs and revenues, and will approve the $16.5 million in total PGVA balances to be refunded by Centra to customers. The calculation of the appropriate rate riders and refund period are discussed in Section 12.0 of this order.

5.0 Derivative Hedging

5.1 Hedging Policies and Controls

In Order 118/03 the Board approved Centra's revised Derivative Hedging Policy and related Operating Principles and Procedures Policy for primary gas which provided that:

1. The objective is to mitigate gas price volatility to customers; and

2. Centra will mitigate natural gas price volatility to customers through the use of derivative products restricted to price swaps, call options, and cashless collars. At minimum, Centra will have hedges in place for 90% of eligible (i.e., warmest year) volumes for the future nine (9) months. Prior to the end of each quarter, Centra will hedge a minimum of 90% of eligible volumes for the fourth quarter forward, that being months 10, 11, and 12.

The Operating Principles and Practices in the application of derivatives instruments are summarized as follows:

1. The derivative instruments are restricted to Over the Counter ("OTC") price swaps, call options, and cashless collars.

2. Once a derivative contract is in place, the contract will not be sold except in unusual circumstances.

3. Derivative positions will not be used for the purpose of speculation. There must be an underlying physical requirement for the gas that is being hedged.

4. Hedgeable price indices will be limited in underlying physical price indices.

5. Hedgeable (eligible) volumes will be restricted to warmest year Primary gas volumes.

6. The company does not believe that it has a competitive advantage with respect to forecasting future market prices.

Centra's objective is to mitigate price volatility by the use of cashless collars with the cap set at $0.50 out of the money ("OTM").

Centra obtains competitive market quotes from a minimum of three different counterparties to obtain the floor with the lowest strike price that can be achieved in combination with the $0.50 ceiling price. The counterparties are all financial institutions that are at least "A" credit rated and approved by the Minister of Finance.

5.2 Mechanistic Hedge Implementation Strategy

A mechanistic hedging approach involves an automatic implementation strategy that is not subject to any discretion associated with market views. The decisions around the timing of the hedge transaction, the magnitude of the hedge, and the type of instrument to be used are all automated. The eligible volumes for a quarter are hedged in two transaction sessions to address the liquidity in the market place. The strategy is not to be influenced by either current market price levels or directional market views. The mechanistic approach recognizes that most distribution companies, including Centra, cannot accurately predict market price movements; price volatility is attributable to a wide variety of factors.

5.3 Market Research

Centra indicated at the 2003/04 GRA that it would undertake new market research to assess customers' perceptions and preferences related to natural gas price volatility. Centra contracted Western Opinion Research ("WOR") to undertake the study. WOR interviewed four focus groups, and used the outputs to design a telephone survey which was conducted in January 2004. The research indicated that 53% of respondents preferred that the current level of hedging be maintained, while an additional 13% preferred an increase in hedging activities.

Aware of the results of the study, Centra concluded that its existing policy was adequate and, accordingly, did not propose any changes. Centra suggests that its current hedging program strikes an appropriate balance between market responsiveness and price volatility.

5.4 Hedging Results/Cost of Program

Centra stated all financial instruments purchased were in accordance with its derivatives hedging policy, operating principles and policy-defined procedures. All hedges purchased were $.50 OTM cashless collars on 90% of eligible volumes, and there were no associated prepaid premiums. Centra reported that its use of cashless collars rather than other instruments that require pre-paid premiums frees up capital within the Corporation.

Centra indicated that as a result of hedging activities the reduction in volatility achieved during the 2003/04 fiscal year was 20%, and is forecast at 33% for 2004/05. Since hedging is undertaken only on 90% of warmest-year gas volumes, only 55% of 2003/04 and 61% of forecast 2004/05 total purchased system volumes were hedged.

Centra's derivative hedging activities resulted in a reduction in gas costs of approximately $4.6 million, for the 2003/04 fiscal year. Based on the August, 9 update of 2004/05 forecast gas costs, and as related to a forward strip price as of July 2, 2004, Centra forecasts a reduction of $19.9 million in gas costs as a result of its hedging activities for the 2004/05 fiscal year. Actual market-to-market results will not be known until settlement prices are known for all hedged volumes.

5.5 Intervenor Positions

CAC/MSOS questioned whether all the transactions were in accordance with Centra's policy, citing one particular transaction that was at less than $0.50 OTM. CAC/MSOS also noted that Centra's interpretation of a mechanistic approach equates any exercise of judgement in the implementation of its hedging strategy with taking a market view.

CAC/MSOS does not support Centra taking a market view or using a judgmental hedging strategy. However, CAC/MSOS opined that judgement and common sense should not be completely eliminated from the implementation of a hedging program.

CAC/MSOS questioned whether Centra's reliance on cashless collars rather than price caps is in the best interest of consumers. CAC/MSOS submitted that consumers are not opposed to downward price movements. As collars have a floor price, by their use of collars Centra cannot realize lower gas costs falling below the floor of the collar.

CAC/MSOS stated that price caps should be the instrument of choice, though cashless collars may be an appropriate compromise when a premium associated with the cap is prohibitive.

CAC/MSOS questioned the reliability of the market survey undertaken by WOR, particularly whether the survey accurately reflects customers' views. CAC/MSOS urged a further market study be undertaken with CAC/MSOS involvement, this to obtain customers views on what they would be willing to pay in the short run for the current hedging program. CAC/MSOS urged the Board to critically analyze the program and assess the merits and value of Centra's Derivative Hedging Program.

CAC/MSOS suggested that the Board consider allowing Centra to offer different commodity cost pricing options, to give customers choice with respect to risk tolerances. CAC/MSOS suggested that, before moving in that direction, the Board should conduct a public hearing.

5.6 Board Findings

The Board is of the view that Centra has complied with its internal policies and procedures in placing derivative transactions. However, the Board notes that major unexpected events such as the recent hurricanes that affected southern gas production may challenge the efficacy of Centra's mechanistic approach to hedging.

In response to questioning by Board Counsel, Centra indicated it did not retrospectively measure its hedging activities against other alternative approaches, and the Board is of the view that periodic retrospective reviews may be of some benefit. Accordingly, the Board will direct

Centra to review alternatives to the mechanistic hedging approach, with respect to achieving and or maintaining reductions in volatility and cost.

Centra should refine its research efforts to test, on a retrospective basis, alternate approaches in the program execution such as the use of other instruments or different band widths, to assess whether alternative approaches would be appropriate. This further research should include consultation with consumer groups to further seek customer perspectives as to their objectives related to gas cost volatility. The Board expects Centra to file a report on possible alternatives in next year's Cost of Gas Application, or in any event by no later than August 1, 2005.

6.0 Capacity Management

6.1 Program Description

The objective of Centra's Capacity Management Program is to optimize the use of the various supply, storage, and transportation assets and arrangements that Centra holds, in order to minimize the costs while ensuring Centra's ability to meet its customers' requirements.

The Company enters into a variety of transactions with a number of different parties, including other local distribution companies, marketing companies and other participants to meet this objective. These transactions include sales, capacity release transaction loans, and exchanges.

Whether a Capacity Management transaction is executed depends on market availability for the gas, market pricing, and the party's knowledge, creativity and determination to be able to arrange the various components necessary to structure an arrangement. The market value of such capacity is dependent on the market value for delivered gas to a particular market area and, as such, is subject to fluctuations from week to week.

6.2 2003/04 Actual Results and 2004/05 Forecasts

In the 2003/04 GRA, Centra forecasted 2003/04 capacity management revenues to be $3,000,000, while actual revenues as reported by Centra in this Application were $6,266,688. Centra uses a five year historic average in its forecasting of these revenues. The components of the actual capacity management revenues for 2003/04 are as shown below:

Capacity Management Revenues by Transaction Type		Total
Sales Revenues	$3,811,834	
Sales Costs	3,538,525	$ 273,309
Capacity Release Revenues	5,179,865	
Capacity Release Costs	1,175,911	4,003,954
Exchange Revenues	2,136,185	
Exchange Costs	263,886	1,872,299
Sub-Total for the period ended Mar. 31, 2004		6,149,562
Carrying Costs		117,126
Actual March 31, 2004 Ending Balance		$6,266,688

Centra has forecast $3,250,000 in Capacity Management revenues for 2004/05, and this amount is included on a forecast basis in the March 31, 2004 PGVA balance.

6.3 Intervenor Positions

CAC/MSOS recommended that the Board require the use of a three year, rather than a five year average, to forecast capacity management revenues. In the view of CAC/MSOS, this would result in the inclusion of approximately $5 million in capacity management revenues, rather than the $3.25 million requested by Centra, for 2004/05 fiscal year.

6.4 Board Findings

The Board has strong reservations respecting Centra's practice of including estimated future credits in the PGVA. Actual capacity management revenues are highly dependent on factors beyond the control of Centra. In a volatile market, subject to rapidly changing prices, the inclusion of forecasted future credit in the PGVA may not be sound. Furthermore, the Board does not accept the use of a three year average as recommended by CAC/MSOS.

Notwithstanding its reservations, for this occasion, the Board will allow the inclusion of the $3,250,000 in the March 31, 2004 PGVA balance. However, the Board encourages Centra to review its practice of using forecast capacity management revenues as related to a PGVA that includes only historic data for all other account balances.

Centra is to report on this matter to the Board at the next Cost of Gas hearing, or in any event by no later than August 1, 2005.

7.0 Gas Supply, Storage and Transportation Portfolio Review

7.1 Background

In response to Order 118/03, Centra filed the IGC Report, together with Centra's Management Response to the Report, with the Board on August 28, 2003. Centra recommended the Report be publicly reviewed at the next annual gas hearing. As indicated in Order 65/04, issued following the pre-hearing conference dealing with this Application, Centra advised the Board that it would not make any long-term commitments for gas or transportation supplies related to, or arising out of, the IGC Report prior to placing Centra's plans before the Board. The Board indicated that a general review of the Report would be conducted at this hearing. The Board also indicated that after hearing the evidence and opinions of interested parties, the Board would decide what further actions, if any, would be required in this regard.

7.2 International Gas Consultant's Report

IGC conducted a review of Centra's operations, gas supply requirements and existing contracts and arrangements, at a cost of approximately $440,000. IGC developed various costing scenarios based on a combination of transportation and storage arrangements, appropriately ignoring any constraints imposed by existing contractual arrangements.

7.3 Report Recommendations and Centra Responses

IGC's major recommendations are summarized below:

A. Summary – Overall Portfolio

IGC stated that:

1. Centra's existing supply portfolio has served Centra's existing customers reliably and at a reasonable cost.

2. Centra migrate from its existing portfolio to a new portfolio mix to ensure that Centra holds sufficient firm capacity to serve its expected firm obligations.

3. The recommended portfolio includes the development of salt cavern storage, as well as the addition of more ANR storage capacity in Michigan.

4. There is no urgency to transition to the recommended portfolio. IGC acknowledged that the current availability of surplus TCPL capacity means that Centra has other options to serve its firm customers when demand exceeds Centra's total contracted capacity.

5. IGC, however, expects TCPL Surplus capacity to diminish over time and potentially disappear.

Centra agreed with IGC that there is no urgency to pursue salt cavern storage as long as surplus capacity exists on TCPL. Centra indicated it would continue to closely monitor this situation and would explore other options, including new opportunities with TCPL.

B. Storage Services

IGC considered several storage options in Alberta, Saskatchewan, Ontario and Michigan, and concluded that ANR storage contracts in Michigan continue to be the best choice for Centra, and that in the long-term this storage arrangement should be complemented by salt cavern storage near Moosomin, Saskatchewan.

Centra contended that it would be prudent to investigate other options, as well as firm up the financial feasibility of all options, before committing to the development of long-term salt cavern storage.

C. Liquefied Natural Gas ("LNG") and Compressed Natural Gas ("CNG")

IGC concluded that at the present time LNG and CNG facilities have associated costs and operational issues that outweigh potential benefits. Centra concurred.

D. Synergy between Centra and MH

IGC recommended that Centra not include firm gas supply requirements for MH's Brandon and Selkirk generating stations, as they currently perform only a backup role with respect to domestic electricity reliability. Centra accepted IGC's recommendation, but indicated it would further investigate potential synergies in the operation of both utilities.

E. Ownership of Gas Reserves

IGC dismissed ownership of gas reserves by Centra as a portfolio asset option because of its view that only a relatively small portion of Centra's total load could reasonably be met through this approach. ICG opined that any benefit that might be realized through downstream commodity ownership would be outweighed by the large initial capital expenditures that would be required, and by the inherent operating risks. Centra concurred with this assessment.

F. Evaluation Process

IGC evaluated four scenarios to determine the optimized portfolio, using the least cost configuration of being able to meet the forecasted daily demand peak under the coldest weather scenario in 2010, using 20 different demand profiles. The scenarios analyzed were:

1. Existing contract configuration
2. Fully contracted with salt cavern storage
3. Salt cavern storage developed by MH
4. Salt cavern storage, joint venture with Trans Gas (Saskatchewan)

Centra agreed in principle with the above evaluation process.

G. Transition Plan

IGC recommended a transition plan allowing existing contracts to come to term. If contracts were renewed, they should be diversified across more than a single supplier with varied contract terms and expiry dates.

Centra generally concurred with this recommendation adding that diversity would be addressed through the lowest cost option identified in future RFP process.

7.4 Centra's Internal Review

Centra informed the Board that it was conducting an internal review, to fully satisfy itself that the development of salt cavern storage was the best possible solution for Manitoba gas consumers from a security of supply and lowest net cost perspective. The development cost is currently estimated to be in the order of $50 million. Centra expects to have a recommendation for review by Centra's Senior Management and Centra's Board of Directors by the first quarter of 2005.

7.5 Intervenor Positions

CAC/MSOS suggested that the BPA had concluded Centra could save $2 million annually by moving to the optimized portfolio at this time. In addition, CAC/MSOS noted ICG's view that security of supply would be enhanced by eliminating the existing circumstance where nine summer days and nineteen winter days could be potentially under-served. CAC/MSOS also observed that one year ago Centra indicated that it did not want a thorough public review of the BPA, and that given the current internal economic review Centra's position remained unchanged.

CAC/MSOS is of the view that the new Nexen gas supply contracts for all of its Primary Gas requirements represent a long-term commitment, and is contrary to the IGC recommendation that no more than 25% to 40% of the supply be committed to one supplier.

CAC/MSOS stated that Centra had previously made a commitment to the Board that no long-term arrangements with suppliers and transporters arising out of BPA recommendations would be made prior to placing the matters before the Board. CAC/MSOS also noted that at this hearing, Centra had reaffirmed that it had provided this commitment.

CAC/MSOS noted the Board was not informed of the new supply arrangements in advance of Centra's signing the supply contracts.

CAC/MSOS contended that Centra should not gamble on surplus TCPL capacity being available into the future, and should go forward now with a transition plan because to not do so would result in money being "left on the table".

CAC/MSOS urged the Board to require Centra to complete its internal review and business case, and to file it with the Board as soon as possible. The Board could then decide whether a hearing was necessary prior to the execution of any agreement to begin construction.

7.6 Board Findings

The Board considers IGC's evaluation, recommendations and conclusions reasonable. However, the Board notes that the report was based on markets, costs and industry circumstances present when the evaluations were performed, in late 2002. The Board recognizes that the industry continues to evolve, and concludes that a more detailed future review of this IGC report should take into account any changed circumstances. Nonetheless, the Board considers that the general conclusions of the BPA remain valid for at least the immediate future planning period of Centra.

The Board will direct Centra to file a report of its current internal review of the IGC recommendations, including any conclusions and/or recommendations reached by Centra regarding Centra's future course of action. Given the importance of supply, storage and transportation issues, this report should be filed as soon as it is available, and, in any case, no later than August 1, 2005.

This report should include an assessment of the implications of any proposed changes to Centra's operations and/or plans that would affect Centra, its customers, Brokers and other stakeholders.

Centra will require Board approval before committing to any changes, or issuing any calls for proposals. The Board will determine whether a public hearing or some other process is necessary.

8.0 Gas Supply, Storage and Transportation Contracts

8.1 General

Centra's existing primary gas supply contract is due to expire on October 31, 2004. In addition, three of Centra's Transportation contracts with TCPL are also due to expire, two on December 31, 2004 and one on March 31, 2005.

8.2 Nexen Marketing Gas Supply

On January 9, 2004, in recognition of the forthcoming expiry of the Nexen supply contract, Centra issued a Request for Proposal (RFP) describing Centra's natural gas supply requirements to twenty major natural gas suppliers/marketers. Centra received nine responses, and utilized eight criteria to evaluate the vendors.

Although the proposals received were conceptually wide ranging, Centra submitted that other than the preferred supplier, Nexen, none of the other suppliers were able to match current pricing with the flexibility Centra required to serve the Manitoba market, while accommodating direct purchases required by the Western Transportation Service ("WTS").

Following a comprehensive review of each proposal, Centra determined that Nexen had the most attractive offer, and as such was the preferred supplier. From Centra's perspective, Nexen's proposal provided the most attractive pricing provisions and the flexibility to accommodate variations in Centra's daily load, and adjustments to accommodate Centra's WTS.

Centra considered ICG's recommendation that diversity of supply be developed by having more than a single supplier. However, Centra accepted Nexen's indication that its pricing proposal to Centra was dependent on Nexen receiving a contract for the full quantities, and that a premium would be added if the contract was for only a portion of Centra's requirements.

Centra submitted that Nexen had a commanding lead in the evaluation, (i.e. was the best bid by far), and as the contract being negotiated was for a three-year term, Centra considered a single supplier to be appropriate and the best supplier at this time.

Contract Terms

Centra stated the proposal submitted by Nexen provides flexibility very similar to that which Centra currently enjoys. Under the existing contract Centra has the ability to adjust its nominations for any given day, several times throughout the day to reflect changing weather conditions. Centra also has the flexibility to revise its system requirements each quarter to reflect any changes to quantities supplied by Brokers.

From a pricing perspective, Centra contended that Nexen was the most attractive of all proposals received.

The Nexen contract, now signed by Centra, is comprised of two components, a NAESB (North American Energy Standards Board) Base Contract, which sets out the underlying terms and conditions, as amended to meet Canadian requirements, and a Transaction Confirmation which gives effect to the contract terms and conditions.

The salient features of the Nexen contract are:

- A firm Base Load Supply component that does not have any price premium over the index.
- A three-year term, with an option to extend for an additional one or two-year term.
- A two-tiered Firm Swing Supply components providing Centra with the ability to make changes to the quantities nominated several times over the course of the day to account for changing weather conditions.
    - For the first 80,000 GJ/day nominated, AECO daily index plus $0.25 GJ;
    - For quantities from 80,000 GJ/day to 120,000 GJ/day, AECO daily index plus $.50/GJ; and

  - ◦ AECO to Empress TCPL transportation billed on an as-used basis. This component covers the cost of moving gas from the AECO Hub to the TCPL interconnect at Empress, near the Alberta border.
- A quarterly displacement option to accommodate WTS purchases remains unchanged from the existing option of 15 days notice prior to each quarter.
- Proven performance in dealing with Centra's highly variable load.
- All quantities purchased are restricted to use by customers of Centra in Centra's delivery area.

Centra estimated that the annual impact of the change in pricing provisions contained in the new contracts would add approximately $400,000 to annual gas costs. Additionally, Centra stated that the potential exists that capacity management revenues could be reduced by approximately $250,000 as a result of the restriction on sale of excess capacity contained in the new contract.

8.3 TransCanada Pipeline Transportation

Background

Centra's contractual arrangements with TransCanada Pipelines ("TCPL") for firm service ("FS") to the Manitoba Delivery Area ("MDA") and the Saskatchewan Delivery Area ("SSDA") terminate on December 31, 2004.

Contract Terms

On May 25, 2004 Centra advised TCPL of its intention to renew the two existing FTS contracts. The daily contract quantity of the MDA FTS contract was reduced from 200,952 GJ/day to 200,089 GJ/day, the difference representing an amount equivalent to the daily contract of the Firm Service contract that Centra took assignment of as part of the acquisition of the Gladstone, Austin Natural Gas Co-op. No changes were made to the SSDA FS transportation contract. Both contracts were renewed for 22 months, terminating on October 31, 2006, the minimum term required by TCPL. This would allow for a termination coincident with the end of the gas year. The short-term renewal provides Centra with the opportunity to alter its transportation portfolio should more attractive services become available from TCPL and also preserves Centra's right of first refusal for the contracted capacity when the renewed contracts expire.

The TCPL STS contract that expires on March 31, 2005 has also been renewed for an additional year with no changes in terms and conditions.

8.4 ANR Pipelines and GLGT Contracts

Following an extensive portfolio review in 1993, Centra entered into 20-year arrangements with ANR for a bundled package of storage and transportation services to meet Manitoba's gas supply requirements. Additionally ANR contracted on Centra's behalf for capacity on the GLGT system. Centra is of the view that this asset mix has served Manitoba customers reliably and economically for the past decade.

A number of contracts and letter agreements, in some cases dating back to 1990, set out the relevant terms and conditions of the services described above. Most notably the referenced services provided directly by ANR were subject to an annual revenue cap of $14,767,000 US for transportation and storage, excluding costs related to the GLGT arrangements.

The rates for the services ANR contracted with GLGT, on Centra's behalf, for both forward haul and backhaul were based on a declining cost of service methodology, amortized over 20 years, and the resultant costs were passed through to Centra with no mark up or discount by ANR.

ANR is now concerned that the contracts as previously structured may not meet the current contracting practices and requirements of the FERC. It was proposed that the "revenue cap" be revised and replaced with reservation charges fixed at levels which, going forward, would result in the lesser of the stated rates (which equate to the "revenue cap") or tariff rates.

Centra has now contracted directly with GLGT for both Centra's forward haul and backhaul requirements. The existing declining cost of service methodology related to the interruptible backhaul service has been replaced with a fixed reservation fee to be charged for the period November 1 to March 31 during the contract period. The previous backhaul, provided on an interruptible basis, has been replaced with a firm backhaul service coincident with the remaining term of storage arrangement. Changing the backhaul services from interruptible to firm will result in a cost increase of approximately $200,000 US per year relative to current pricing. Realignment of the contracts through March 31, 2013 will provide greater rate certainty for backhaul service by avoiding the potential exposure to paying undiscounted rates.

Originally GLGT backhaul service on an interruptible basis was viewed as comparable to a firm contract, as long as others shipped significant quantities under firm forward haul transportation contracts. There has since been significant decontracting on the GLGT system resulting in some risk that backhaul service may be no longer be viable. Centra's access to its storage inventory could then be jeopardized. Centra submitted that contracting for firm backhaul service at this point eliminates any concerns about potential rate changes arising from other parties decontracting or GLGT filing a new tolling application.

8.5 Intervenor Positions

CAC/MSOS stated that Centra issued its RFP for gas supply after IGC's BPA report had been adopted by Centra. The IGC report recommended that, on expiry of existing supply contracts, more than one supplier be selected to ensure diversity thus enhancing security of supply. CAC/MSOS contended that the stipulation that a supplier was to supply Centra's entire gas requirements, excluding WTS supply, was in contravention of the IGC recommendation. CAC/MSOS further contended that, but for this requirement, at least three of the nine companies that responded to the RFP would have been competitive with Nexen. CAC/MSOS suggested that if Centra, had negotiated with the other suppliers in addition to Nexen, each for a portion of the supply, a spirit of competition for future contract re-negotiation purposes would have resulted. CAC/MSOS submitted that the primary RFP requirement should have been to contract for a portion of Centra's total annual needs, with the alternative of supplying Centra's total requirements, exactly the opposite to the wording contained in the RFP.

With respect to the ANR and GLGT arrangements, CAC/MSOS addressed the increased cost of $200,000 US estimated by Centra, related to the replacement of existing interruptible backhaul service on the GLGT system with firm service. CAC/MSOS suggested that Centra's concern about the security of its existing interruptible backhaul arrangement with GLGT appears to be overstated, and that an independent opinion in this regard should have been obtained by Centra. CAC/MSOS also submitted that Centra had missed out on an opportunity to renegotiate some terms with ANR that are recommended in the BPA. CAC/MSOS indicated some optimism that future negotiations with ANR may improve Centra's position.

In summary, CAC/MSOS urged the Board to carefully consider the additional gas costs that CAC/MSOS estimated to be more than $1 million that arise from these new arrangements. CAC/MSOS did not, however, suggest any specific disallowance.

Direct Energy Marketing Limited ("Direct") spoke only to Centra's new supply contracts with Nexen, with respect to how Centra's Primary Gas supply contracts affect a consumer's ability to enter into direct purchase agreements. Direct submitted that the implementation of WTS service in Manitoba was the first offspring of good industry consultation between the utility and market participants. Direct stated that the Board had mandated such consultations, as it did prior to adopting a Broker Code of Conduct for Manitoba. In the opinion of Direct, no such consultation occurred with respect of Centra's process for its gas supply arrangements.

Direct cited the Board's directives from Order 118/03 issued in response to Centra's 2003/04 GRA "The Board urges Centra to involve all stakeholders in the upcoming review of all aspects of Centra's gas supply, including, commodity, storage and transportation arrangements. The Board encourages the development of a competitive gas supply market in Manitoba and all parties should consider this factor in their deliberations."

Direct contended that Centra had not complied with this directive, having received responses to the RFP for future gas supply on January 29, 2004, but not having met with marketers until March 3, 2004. Further, Direct submitted that Centra, as a monopoly, had the obligation to solicit opinions from marketers, not merely to ascertain, after the fact, if there were any difficulties with the selected proponent from the marketers' perspectives. Direct stated that a competitive market could not operate effectively in Manitoba unless there is open and meaningful communication with Centra on its supply and transportation arrangements.

Direct's primary concern with the scope of the RFP was that the existing requirement for the quarterly enrolment for direct purchase customers was to be maintained, and no effort was made to attempt monthly enrolment, as had previously been requested by Direct.

Direct suggested that the Board should not find that Centra acted prudently in entering into a three-year contract because Centra did not address the issues of maximum daily quantity, control of daily nominations, and reduction of nominations of direct purchase gas.

Direct requested the Board find that Centra did not comply with the Board's requirement to involve all stakeholders in the review of gas supply matters, and that Board supervised consultations be required to begin no later than November 1, 2006 in respect of the next gas supply contracts. Additionally, Direct asked the Board to require Centra to file a Report which addressed the benefits and costs of implementing the following changes to WTS:

1. Alternatives to Centra establishing the MDQ.
2. Alternatives to Centra controlling daily nominations.
3. Alternatives to Centra controlling the reduction of daily nominations of direct purchase gas.
4. Ability to move the enrollment of WTS customers to a more frequent basis than quarterly.

Simplot Canada Limited ("Simplot") did not express any opinion on these renewed and revised contracts.

8.6 Board Findings

With respect to the three TCPL Transportation contracts, the Board concurs that these were necessary. The two FS contracts were to expire on December 31, 2004, and the STS contract was to expire on March 31, 2004. The Board notes that no material changes were made to the terms and conditions of any of these contracts, no incremental costs resulted from these extensions, and the extensions have a co-terminus expiration date of March 31, 2006. Accordingly, the Board will approve the gas cost consequences arising out of the renewed TCPL contracts.

The Board also considers that the changes to the ANR Storage and Transportation arrangements are satisfactory, as they do not alter the "revenue cap" of some $14.7 million US although the rating structure is changed. The Board considers the other changes requested by Centra are primarily "housekeeping" in nature and necessary for ANR to be in compliance with their federal regulator. Accordingly, the Board will approve the gas cost consequences arising out of the renegotiated ANR Storage and Transportation Contracts.

With respect to the GLGT contract, the Board concurs with the assignment of the contract from ANR to Centra. The assignment did not result in any incremental supply cost. The Board notes Centra's evidence that the replacement of the interruptible backhaul service with firm backhaul service will result in annual incremental costs estimated to be $200,000 US. The Board accepts Centra's rationale that this change and cost are reasonable, so as to mitigate security of supply risks. The service is required at the most critical time of peak winter load for Manitoba consumers.

The Board notes the comment by CAC/MSOS that this risk may be overstated by Centra, but, on balance, the Board is of the view that the "premium" for this service is not significant given total annual gas supply costs are estimated to be in excess of $420 million. The Board finds that

Centra's actions in this regard are reasonable and, accordingly, will approve the gas cost consequences arising out of the GLGT Transportation Contract.

The Board has concerns with respect to the process related to the new gas supply contract with Nexen. Notwithstanding Centra's view that a renewed three-year contract does not represent a long-term arrangement, the Board finds that Centra did not comply with the intent or spirit of the Board's previous direction with respect to notifying the Board prior to amending its long-term gas supply, storage or transportation arrangements. For the Board's role in regulating Centra for in the interests of consumers to be effective, compliance is required by Centra to the Board's directions. This is particularly the case of matters concerning the supply of gas to Manitoba.

For future gas supply contracts and transportation negotiations, the Board agrees with the suggestions of Direct, particularly in respect of possible changes to WTS. A report on these matters should be filed with the Board in conjunction with the next Cost of Gas Application, and in any event, by no later than August 1, 2005. As well, the Board will direct Centra to consult with all stakeholders prior to issuing a new RFP for gas supply, or before entering into an extension of the existing agreement with Nexen. To assist and provide an external objective view, Centra should consider engaging the services of an outside consultant to assist in this matter. The Board will direct Centra to file the proposed RFP, as well as the results of the required consultations with stakeholders, with the Board for approval prior to issuing an RFP.

With respect to the three-year supply contract with Nexen, commencing November 1, 2004, the Board has further concerns. The Board agrees with CAC/MSOS that the RFP should have requested, as a starting point that suppliers were to quote prices and terms for supplying a portion of Centra's overall system supply requirements, with the option of quoting prices to supply all such requirements. Additionally, the RFP should have allowed for an opportunity for direct purchase customer enrolment on a more frequent basis than quarterly. Further, the Board notes that the evaluation criteria outlined in the RFP are not identical to the criteria actually used in the evaluation matrix. The Board is of the view that had it been provided with the proposed RFP prior to it being issued, these matters could have been resolved. The Board expects that these factors will be considered by Centra in the future.

The Board has reviewed all of the other eight responses to Centra's RFP, filed as confidential exhibits with the Board, and has clarified a number of matters with Centra. Although there are a number of potentially disputable points with the process and evaluation, the Board concurs with Centra's ranking of Nexen in the evaluation. The Board finds the Nexen bid to have been clearly superior to the other submissions, both on an overall basis and, in particular, in taking into account the considerations of security of supply and least cost.

The Board acknowledges the Centra estimate that the new arrangements with Nexen will add approximately $400,000 in direct costs, with a further potential to decrease capacity management revenues currently estimated at $200,000 per year.

Having reviewed the other submissions, the Board is of the view that, but for the diversity resulting from more than one supplier, the other proposals would be less beneficial to Manitoba consumers. Given the new contract has a term of three years, the Board will approve the gas cost consequences arising out of the Nexen Contract, but the Board expects that Centra's processes for future supply, as well as other arrangements, will fully address the Board's concerns expressed above.

9.0 Unaccounted for Gas

9.1 General

UFG is defined as the difference between the amount of gas delivered and the amount of gas sold. UFG has a financial cost as Centra must make an allowance so that it purchases adequate volumes to meet its delivery obligations. Centra submitted that its average UFG of approximately 1% of sales volumes is below the industry norm. Currently UFG is allocated to Centra's customer classes on the basis of weighted volumes. Under the present system, the SGS and LGS customer classes are weighted at twice their volumes while all other customer classes receive a weighting of one.

Simplot, the Special Contract Customer, had opposed Centra's allocation of UFG at the public hearing dealing with Centra's 2001/02 Cost of Gas Application. Given the best data available at that time, the Board approved Centra's UFG allocation, but encouraged Centra to explore alternatives to ensure that the Simplot's share of the UFG was accurately and fairly allocated. Centra subsequently initiated an internal review of the UFG allocation.

9.2 Centra's Internal Study

In its study, Centra identified three major causes of UFG, namely, measurement error, physical loss and accounting factors. Centra attempted to determine and allocate UFG volumes to the appropriate customer classes for each of the three main causes. In this fashion, Centra was able to account for approximately 55% of the UFG, based on an annual throughput of 22,000,000 10^3m^3.

With respect to measurement error, the sub factors contributing to UFG considered by Centra were meter accuracy, barometric pressure, base pressure and temperature, super compressibility, pressure factor correction and gas temperature effects. These are dependent on the type of meters used for the respective customer classes and thus not all customer classes are affected by all of the measurement factors.

Physical losses are attributable to emissions from the various components of the transmission and distribution plant, such as pipes, services, meters, and regulating stations. Additionally vented gas for various system operations and gas losses resulting from pipeline damages by third parties contribute to physical losses. Finally, physical loss results from utility use of gas related to line pack requirements for mains and services. Centra used its annual report on greenhouse gas emissions to the Voluntary Challenge and Registry Inc. to determine the total amount of emission and venting gas loss. Centra used various parameters, such as number of meters, regulating stations, length of transmission and distribution mains and number of reported leaks per year, to allocate these losses to its various customer classes.

UFG related to accounting practices is due to timing differences between gas purchases and gas sales because of cyclical billings for the LGS and SGS classes. UFG is also attributed to under recording meters and certain minor concessions to customer bills to recognize that actual billings in these cases can never be determined within expected meter accuracy.

The following table summarizes the results of Centra’s study, as well as indicating which of the various components of the three causes of UFG have been allocated to each of Centra’s customer classes.

	Centra - Unaccounted For Gas Summary								
	Volumes - X 1,000 CUBIC METRES								
	SGS	**LGS**	**HVF**	**CO-OP**	**MAINLINE**	**INTERR.**	**SP. CON.**	**P. STA.**	**TOTAL**
Metering									
Accuracy	2320	1970	960	2	860	960	840	720	8632
Barometric Press.	1200	690	-	-	-	-	-	-	1890
Base Press./Temp.	-300	-210	-60	0	-50	-60	-160	-40	-880
Super compressibility	-	40	50	-	40	240	-	-	370
Press. Factoring	110	220	-	-	-	-	-	-	330
Gas Temperature	400	-	-	-	-	-	-	-	400
Sub. Total Metering	3730	2710	950	2	850	1140	680	680	10742
Metering - %	**34.7%**	**25.2%**	**8.8%**	**0.0%**	**7.9%**	**10.6%**	**6.3%**	**6.3%**	**100.0%**
Physical Loss									
Transmission	80	50	15	-	60	10	30	10	255
Distribution	740	360	135	-	-	60	-	-	1295
Sub-Total - Physical Loss	820	410	150	0	60	70	30	10	1550
Physical Loss - %	**52.9%**	**26.5%**	**9.7%**	**0.0%**	**3.9%**	**4.5%**	**1.9%**	**0.6%**	**100.0%**
Sub-Total Accounting	40	160	-	-	-	-	-	-	200
Accounting - %	**20.0%**	**80.0%**	**0.0%**	**0.0%**	**0.0%**		**0.0%**	**0.0%**	**100.0%**
Total Identifiable	**4590**	**3280**	**1100**	**2**	**910**	**1210**	**710**	**690**	**12492**
Total - % Identifiable	**36.7%**	**26.3%**	**8.8%**	**0.0%**	**7.3%**	**9.7%**	**5.7%**	**5.5%**	**100.0%**

As indicated above, Centra identified approximately 12,492 10^3m^3 of UFG. Based on an annual throughput of 22,000,000 10^3m^3 and an average annual UFG of 1%, Centra identified 55% of UFG annual volumes, and applied the 55% to the remaining 45% of the unidentified UFG volumes to calculate the total volumes to be allocated to each customer class.

9.3 Intervenors

Simplot's Evidence and Position

Simplot provided testimony from two witnesses in respect of the UFG issue. Mr. D. Hawk, Director, Energy Natural Resources, J. R. Simplot Company, testified that in his view Simplot had historically paid much more than their fair share for UFG. He applauded Centra for the study, but suggested more work had to be done, and in this regard agreed with the testimony of Dr. Reading, another Simplot witness. Additionally, Mr. Riad, the Plant Manager of Simplot's Brandon Plant was a witness to address specific issues related to the Brandon Plant.

Mr. Hawk emphasized that Simplot wanted to pay its fair share, but suggested that the allocation of UFG to Simplot was not fair, as UFG was a function of the complexity of a gas delivery system. In his view, the system that served Simplot was quite simple relative to the total Centra system, was in near proximity to the TCPL supply pipeline, and had very accurate metering. This, he contended, indicated that the 5.7% proposed UFG allocation, though reduced from the current 12.8%, was still too high. He cited numbers related to assets required to serve Simplot and suggested that on that basis a more accurate UFG for Simplot would be 2.8% which was even greater than the average of the various other allocation criteria used by Dr. Reading.

Additionally, Simplot had installed a check meter in very close proximity to Centra's meter, and with the meter protocol in place, accurate measuring was assured. He further stated that about 69% of Centra's identified UFG is attributable to measurement. He submitted that the accuracy of the Simplot meter was within 0.1% rather than the 2% referred to in the Centra Tariff.
Mr. Hawk requested the Board to revise Simplot's portion of UFG from the proposed 5.7% to 2.8% and to require Centra to conduct further studies in conjunction with customers such as Simplot, to determine if the accuracy and fairness of UFG allocation could be improved.

Dr. Reading submitted that Simplot volumes represent approximately 20% of Centra's throughput and virtually all gas is used as feedstock, requiring un-odorized gas and resulting in a relatively high and consistent load factor. He described that portion of Centra's system that served Simplot, reiterating the relative simplicity and metering accuracy referred to by Mr. Hawk. He stated that the unique operations of Simplot were recognized by Centra by virtue of the fact that Simplot was the only customer included in the Special Customer Class.

Dr. Reading submitted five different measures that could be used for allocation of UFG. These consist of three physical measures and two financial measures. Dr. Reading put forward these measures and indicated the resultant UFG percentage that would be applicable to Simplot for each of the five measures.

1. Total Pipeline Kilometers	0.28%
2. Transmission Pipeline Kilometers	1.15%
3. Number of Meters	0.001%
4. Revenue requirement	0.34%
5. Rate Base	0.77%

Dr. Reading concluded that Simplot's responsibility for UFG is around 1% or less, but he did not advocate the Board's adoption of any of the measurement criteria he had discussed.

Dr. Reading discussed each of the three components that Centra used in the UFG study. Measurement was the most significant component, accounting for 85% of Simplot's UFG allocation. In this regard he repeated his view of meter accuracy at Simplot, and questioned the use of the "High" UFG Case and the "Base" UFG case, suggesting that the base case indicates that Simplot's loss factor would be 1% or less. He also questioned Centra's method for estimating Simplot's allocated physical loss volumes, again based on the simplicity of the system necessary to serve Simplot, suggesting that 1.35 10^3m^3, rather than the 30 10^3m^3 used by Centra, would be appropriate.

Dr. Reading also questioned a number of matters related to Centra's cost of service study and asked the Board to encourage a dialogue between Simplot and Centra on these issues to enable Simplot to better understand Centra's allocation methodology, prior to the next GRA.

Simplot reiterated the positions adopted by its witnesses in respect of relative meter accuracy and physical losses. Simplot contended that the five measures proposed by Dr. Reading were intended to measure the overall system complexity relative to that portion of the system necessary to serve Simplot, and were therefore a legitimate proxy for allocation.

Simplot also disputed Centra's claim that its UFG loss was the lowest in the industry. Simplot suggested that Centra's analysis was flawed and that where UFG was separated for transmission and distribution, the transmission UFG average was 0.29%, considerably lower than Centra's average UFG of 1%. Simplot considered that the proposal of 2.8% UFG represents a saw-off between the 1% allocation indicated by Dr. Reading's measurement factors and the 5.7% suggested by Centra.

Simplot argued that its approach does not violate "postage stamp" rate making, as Simplot is in a unique customer class, and postage stamp rates do not mean that all customer classes receive all the same rates.

Simplot also advocated that the Board direct Centra to provide Simplot, who are able to manage their own gas purchases, with the option of paying for UFG by providing gas in kind, consistent with the practices of most other pipeline systems in Canada. Simplot disputed Centra's position that that UFG resulting from measurement error is a transactional imbalance as opposed to a physical imbalance as being in conflict with Centra's own definition of UFG.

Simplot also urged the Board to ignore any positions that supported a UFG allocation based entirely on volume throughput, stating that the Centra study clearly indicated that such an approach was not appropriate.

CAC/MSOS

CAC/MSOS submitted that measuring UFG is not an exact science as indicated by the fact that Centra was only able to identify 55% of its UFG. CAC/MSOS supported Centra's proposed allocation, but only for the 55% identified portion. CAC/MSOS requested that the Board direct the remaining 45% UFG be allocated on a volumetric basis, noting this is the practice with a number of other Canadian gas distribution companies. This would result in an 11.5% UFG allocation to Simplot. CAC/MSOS agreed with Centra's position that the measures submitted by Simplot's witnesses were inappropriate, and would in fact contravene the principle of postage stamp rates.

MacDon Industries Limited ("MacDon")

MacDon disagreed with Centra's proposed change in UFG allocation submitting that it would add 0.5% to the cost of gas for MacDon, and the study could identify only 55% of the UFG. Nonetheless, the result would be to cause a shift in the HVF Class weighting from 4.3% to 8.8%. Additionally, approximately 70% of UFG is attributable to metering, and that with HVF meters now capable of measuring consumptions to establish peak day use, the trend should be reversed. MacDon stated that as approximately half the problem remains unresolved, a shift away from the current methodology is not reasonable.

9.4 Centra's Rebuttal Evidence

Centra submitted that the most Canadian gas distribution companies allocate UFG on a straight unweighted volumetric basis, and on this basis Simplot would be responsible for 18.0% of Centra's UFG. Centra also contended that Simplot's approach to UFG allocation constituted a move away from postage stamp rates, in favour of a distance based or incremental cost approach. This, in Centra's view, was not appropriate for a system that has a significant amount of common costs.

Centra used the high case UFG scenario because the available data referred to only one component of the overall metering system, the base meter itself, but suggested that other complexities needed to be addressed. The high UFG case was judgmental and was based of the role the other factors play in influencing meter accuracy.

Centra contended that neither the three physical or two financial measures suggested by Dr. Reading were appropriate as they bear no relation to the causes of UFG.

9.5 Board Findings

The Board agrees that the matter of UFG measurement is a complex issue, and commends Centra for its study to quantify and properly allocate the UFG. The Board found the study of considerable value. The Board recognizes that only 55% of the UFG was identified, and that even the allocation of the identified portion is subject to judgment. It may be unlikely the remainder can be better defined.

The Board also agrees that the predominant cause of identified UFG is meter error, accounting for approximately 70% of the identified UFG. The Board further notes that the measurement of Simplot's gas throughput is metered by the most sophisticated and accurate meters in Centra's possession.

The Board considers that Simplot is a single customer in a separate customer class and as such is entitled to a rate or rates based on cost causation by that class. This does not violate the principle of "postage stamp" rates.

The Board is of the view that the initial attempt in allocating costs to customer classes should be the direct assignment of costs that can be determined to be the sole responsibility of a particular customer class. If direct costs cannot be identified, then the Board agrees that an allocation of these costs should be properly shared by all customer classes.

On balance, the Board considers the position put forward by Simplot has merit and will require Centra to allocate 2.8% UFG to Simplot. The Board will direct that the dollar amount resulting from this reduced allocation to Simplot be recovered from the SGS and the LGS customer classes. These classes have the most meters of the lowest accuracy, and likely account for the majority of UFG measurement loss.

The Board encourages Centra to continue its review of UFG, and consult with other interested parties. The objectives should include the determination of further action to be undertaken to refine the allocation of the 55% UFG identified and to better define all or a portion of the 45% UFG unidentified in the recent study. Additionally that review should explore if any customer classes could pay for UFG by providing gas in kind, as suggested by Simplot.

10.0 High Volume Firm ("HVF") Demand Costs and Rates

10.1 General

In Order 16/04, the Board approved rates that reflected the continued use of the average day consumption in the peak winter month to determine the demand levels for the HVF Customer Class, to be effective April 1, 2004. Because Centra had implemented the new actual peak day methodology on November 1, 2003 the Board also directed Centra to file, on a customer specific basis, the cost implications of the billing resulting from the misinterpretation of the Board's intent in this matter. The Board indicated that the matter would be reviewed during this hearing. Centra complied with the Board's request and updated its filing on June 23, 2004, describing its intention and defining the cost implications.

10.2 Centra's Proposal

Centra is requesting the Board to approve the billing of HVF demand charges on the basis of actual peak day commencing November 1, 2004. Centra further proposes to implement the change to actual peak day (from average day during peak winter month) for HVF customers simultaneous with the customers next peak day change, which will be established annually during the winter months (November to March). Thus, each HVF customer would continue to be billed on the basis of average peak established during the 2003/04 winter until a new peak is established during the winter of 2004/05. If the actual peak for any specific customer(s) does not exceed the average peak of 2003/04, that average peak will continue to be used for that customer(s). Centra's requested November 1, 2004 rates are calculated using an estimated peak because the 2004/05 actual peak will not be known until after November 1, 2004.

Centra submits that the use of the actual peak rather than the average day in the peak winter month is important because it should encourage high load factor usage on Centra's system to the benefit of all and reflects the nature of Centra's costs necessary to provide service during peaks. Additionally, actual peak days are observable and controllable by the customer, will harmonize the demand billing across all customer classes having the three part rate, and will minimize the cross-subsidy that occurs between higher load factor and lower load factor customers on Centra's system.

Centra also stated that delaying the change in billing the demand charges until a new actual peak is established in the winter of 2004/05 will allow customers added time to make changes to their load profile if they wish to avoid the demand ratchet from the 2003/04 peak.

Centra also stated, on a normalized basis, the proposed change will have no revenue impact on Centra, nor will it impact on the costs allocated to the HVF Class as a whole. However, Customers within the HVF Class will see different annual costs as these will be effected by the difference between their average and actual peak demand relative to the difference in the demand rates that result. Generally, the low load factor customer's average unit cost will increase while the reverse will be true for the high load factor customer.

Centra calculated the impact on individual HVF customers related to the billing differences from August 1, 2003 to March 31, 2004. Centra explained that the initial period was stated as commencing on November 1, 2003, but a further review indicated that billing on the basis of average demand was to commence on August 1, 2003 rather than November 1, 2003.

The calculation indicates that the billing differences would result in a range of required refunds of as much as approximately $10,000 to required recoveries of just over $15,000.
Forty-eight customers would see either no change or refunds while 45 customers would experience increases.

It is Centra's position that the demand rate differential from August 1, 2003 to March 31, 2004 is for the most part offset by the further delay in the implementation of the demand billing (and associated rates) to November 1, 2004, and as such there is no need to revise the HVF billings for the earlier period.

10.3 Intervenor Positions

MacDon objected to the demand billing methodology change proposed by Centra, for eight reasons as follows:

1. The change will constrain MacDon's ability to run occasional extended winter shifts, traditionally their busiest production times, and interferes with their ability to work in an unfettered manner.
2. MacDon's gas use patterns that impact demand levels cannot readily be changed.
3. Majority of demand costs are not recovered from the majority of customers through demand charges, presumably because of understandability and metering capability.
4. The ability to measure a daily peak demand is insufficient justification to use as a charging mechanism.
5. The change has a greater impact on low load factor customers who are typically using the commodity for purposes of production rather than for space heating. No consideration is given for the fact that production fuel cannot be managed as easily as heating fuel.
6. Cost allocation is not an exact science and allowance should be made for factors such as end use of the gas
7. The current trend towards fine tuning the cost allocation ultimately takes all of the balance out of a system that is designed to serve the community, not just the individual customers within that community.
8. The impact on the industry is greater than that shown by Centra, and that the future removal of the proposed rate rider refunds represents a future real increase in gas cost to the industry.

10.4 Board Findings

The Board observes that the issue of a three part demand rate is not new, nor is the current proposal by Centra "fine tuning" of an allocation methodology. The Board first considered and approved a cost allocation methodology in 1997. At that time the Board deemed it appropriate that peak day use of Centra's system did, in fact, impose added cost to the system, and that those creating such costs should bear the responsibility for them. It was on this basis that the Board approved the three part rate structure for those customer classes that displayed a wide range in load factors and large consumptions. In the same proceeding, the Board approved the use of the peak and average method of allocating demand-related costs, as opposed to the use of the peak day only.

Prior to the revised cost allocation, the revenue to cost ratios for Centra's customer classes generally fell within a range of 97.5 to 102.5, with the large consumption customers traditionally subsidizing the residential and small commercial customer. The Board directed that, once all costs had been allocated in accordance with the new methodology, all revenue to cost ratios would be set at 1.0, eliminating any designed cross subsidization between customer classes.

The Board agreed that it would be desirable to recover all the allocated demand costs through the demand rates. However, in recognition of severe impacts for some customers within the HVF and Interruptible Customer Classes, the Board directed that only 50% of the demand costs would be recovered through demand rates with the remainder being recovered through the commodity rate. The Board encouraged Centra to periodically report on the prospect of gradually proceeding to a 100% recovery through demand rates for these two classes, as was the case for the Mainline Class.

The Board approved the implementation of the three part rate structure for the HVF, Mainline and Interruptible Classes. Actual peak day demand was used to determine the billing determinant for the Mainline and Interruptible Classes because metering capability was already available. As this was not the case for the HVF Class, the Board directed that the average use during the peak winter month be used as a proxy until metering was available for all customers within the HVF Class.

The Board still considers that cost causation to determine rates to be the proper approach. Customers with low load factors impose greater costs on the system than do high load factor customers. The cost allocation recognizes these costs, and allocates them to the appropriate customer classes in accordance with a Board approved methodology. The rate design within a particular customer class attempts to treat customers within that class as fairly as possible, within practical considerations. The Board is of the view that failing to recognize cost causation and basing rates on some other factors results in discriminatory, unfair and unjust rates.

The Board notes and affords attention to Centra's statements that some HVF customers have made adjustments in their operations in preparations for the proposed change in demand billing methodology. The Board acknowledges that it may be difficult or perhaps not possible to alter use patterns for some HVF customers. However, in the Board's view these are practical operating constraints that must remain the responsibility of the customer, not the utility.

The Board accepts Centra's proposal to delay the use of actual peak for billing until it is established in the winter of 2004/05, at it affords a further opportunity for HVF customers to review operations and attempt to mitigate their individual impacts.

The Board will therefore approve Centra's request in respect to use of the actual peak day for purposes of billing demand charges effective November 1, 2004. The Board understands that until a new peak is established during 2004/05 the average method will continue for purposes of billing for customers in the HVF Class. The Board further understands that the November 1, 2004 demand rates are calculated using forecast actual 2004/05 peaks.

The Board accepts Centra's position in regard to billing differentials and will not order any further action, either refund or collection, in this regard.

11.0 2004/05 Gas Cost Forecast

11.1 Customer Additions and Volumes

Centra's forecasting methodology for the SGS and LGS customer classes remains unchanged from that used last year. The methodology consists of a regression analysis prepared for each of the SGS Residential and SGS Commercial sub-classes and the LGS class that relates changes in customer estimates to the Real Gross Domestic Product. The regression equations were updated to include 2002/03 billing information and included a historical review to ensure data consistency. The result for the 2004/05 year is a forecast increase of 1,477 SGS Residential Customers to a total of 228,957, decrease of 350 SGS Commercial Customers to a total of 15,557, and a decrease of 90 LGS customers to a total of 8,561.

The average use per customer class was developed using historical regression analysis equations that relate monthly average use to monthly effective degree-days heating and is unchanged from that previously used. Normal effective degree-day heating and forecasted efficiency improvements were incorporated to forecast average use. Efficiency improvements were forecast to be 1.0% for the SGS Residential customers and 0.2% for the SGS Commercial and LGS customers. The resulting average use forecast is for 2,973 cubic metres for SGS Residential, 6,051 cubic metres for SGS Commercial and 63,109 for LGS customers. Annual volumes were determined by multiplying average monthly use by estimated monthly customers and summing the results for the year.

Annual volumes for the other larger volume customer classes, HVF, Mainline, and Interruptible, Power Station and Special Contract customer classes were determined on an individual account by account basis using historic consumption patterns. Centra's major and key accounts were estimated by direct contact with these account holders.

Once the sales volumes have been estimated, Centra applies a factor for UFG to determine the purchase volumes required. All sale and purchase volumes assume a normal year with respect to weather. For 2004/05 Centra has assumed a factor of 0.9% for UFG.

11.2 Estimated Gas Cost Components and Gas Costs.

Centra's commodity forecast for gas costs for 2004/05 is based on the 12-month forward price strip as published on July 2, 2004. Centra applies these monthly forecast prices to its estimated monthly normalized requirements to determine, firstly monthly, then annual commodity cost of gas. Centra takes no market view with respect to future prices.

The 2004/05 forecast gas costs incorporate existing TCPL tolls, ANR and GLGT tolls at the time of the August 9, 2004 update. Centra used a U.S. exchange rate of 1.3669 in its forecasts. Additionally, Centra has incorporated the forecast mark-to-market results with respect to the hedging program to reflect the most current hedging instruments and July 2, 2004 forward market prices.

The 2004/05 gas costs that Centra requests to be included in the sales rates are as follows:

Primary Gas		$337,148,704
Non-Primary Gas		
Supplemental Gas	$19,693,969	
Transportation	58,329,025	
Distribution	5,334,862	
		83,357,856
Total Cost of Gas		$420,506,560

With respect to fixed, variable, commodity, hedging impacts and other, the forecast cost of $420,506,560 is separated as follows:

Fixed Costs	$ 50,400,795
Variable Transportation	12,378,467
Commodity Costs	376,957,038
Other	718,444
Sub Total	440,454,745
Hedging Impacts	(19,948,175)
2004/05 Forecast Cost of Gas	$420,506,560

11.3 Intervenors Positions

CAC/MSOS encouraged the Board to use the most current information available to forecast 2004/05 gas costs and to require Centra to file an update to take into account actual gas costs incurred up to October 1, 2004.

11.4 Board Findings

The Board accepts Centra's forecast for 2004/05 gas costs. The forecasting parameters utilize the available information, as at July 2, 2004. The Board is of the view that requiring Centra to file and update to reflect actual results to October 1, 2004, as suggested by CAC/MSOS, would not be particularly useful in an environment of extreme price volatility. The 2004/05 forecast gas year commences on November 1, 2004, and the forecast price will vary as the market prices change up or down and from day to day.

Though forecasts and prices vary daily, any differences between forecast costs and actual results are accumulated in the various PGVA balances that the Board will review and deal with at the next annual cost of gas hearing. The Board also notes that the most significant portion of annual costs, Primary Gas, is updated quarterly and thus reflects most recent information. The Board will therefore approve the estimated $83,357,856 of Non-Primary Gas costs to be included in the Base Rates, to become effective November 1, 2004.

12.0 Cost Allocation

12.1 General

Centra's cost allocation methodology has remained unchanged from that used in the 2001/02 and 2002/03 cost of gas applications, with the exception of the method of allocating UFG, as discussed in this Order. The functionalization and classification systems and class allocation factors are unchanged, but reflect revised customer and volume estimates on a customer class basis.

12.2 Allocation of Non-Primary Gas Costs

Centra has supplied the details of its allocation for the Non-Primary Gas costs of $83.4 million that drive the Non-Primary Base Rates that are to become effective November 1, 2004. These are the Supplemental Gas Rates, Transportation (to Centra) Rates and the Distribution (to Customer) Rates. The Distribution (to Customer) rate reflects only the UFG component of gas costs. With the exception of the UFG allocation, the Board is satisfied that Centra's allocation is in accordance with currently approved methodology and will approve Centra's request respecting cost allocation to establish base rates. As discussed in this Order, the Board will require Centra to revise its allocation of UFG and refile resulting rates to reflect that decision.

12.3 PGVA Rate Riders and Supplemental Gas Rate Rider

As with the cost allocation for base rates, the Non-Primary Gas PGVA and other deferral account balances at October 31, 2004, estimated to be $16.5 million owing to consumers, are treated in the same fashion as are costs needed to establish base rates. The rate riders including the Supplemental Gas Rate rider are also calculated in the same manner, as was the case last year.

However, Centra has requested that the method of recovering the PGVA balance for Supplemental Gas, estimated at a net of approximately $9.2 million, be changed from that used in the past. Previously the balance was recovered by the Supplemental Gas rider, and Centra is proposing that this be changed to recover the Supplemental PGVA through the Distribution Rate Rider, for all customer classes except the Mainline Classes. Within the Mainline Class only four customers are affected, and Centra proposes to show a separate line on their bill indicating the amount that is being refunded.

Centra supports the request by suggesting the change will deal with the extreme volatility that Supplemental Gas displays, and will send proper price signals to the consumers with respect to the actual price of Supplemental Gas. Currently the billed rate for Supplemental Gas includes the PGVA balance. Because of the often large balances in the Supplemental PGVA relative to the Primary PGVA, there is an improper signal that Supplemental Gas prices are significantly different than Primary Gas prices, which is not the case.

12.4 Intervenor Positions

Other than the points raised by Simplot in respect of the UFG allocation and other GRA related cost allocation matters, and some general comments from MacDon, no specific issues were raised by Intervenors related to cost allocation.

12.5 Board Findings

The Board agrees that, because of the nature and use of Supplemental Gas, the possibility for large PGVA balances is greater relative to base costs than it is for Primary PGVA balances. Supplemental Gas is forecast, as are other gas costs, assuming a normal weather year. For Supplemental Gas, in a very warm year, little if any will be used, while in a maximum year considerably more will be required. Primary Gas is used to meet minimum and normal requirements, and even with extreme weather fluctuations the base load component of primary gas will normally be used. The main factor causing Supplemental PGVA balances is weather, while commodity cost variations chiefly impact Primary PGVA balances. The Board acknowledges Centra's statements that customers will not be impacted by the proposed change.

The Board will therefore approve Centra's request to recover the Supplemental PGVA through the Distribution Rate Rider, except for the Mainline Class which will be recovered by way of a separate line item on the bill.

13.0 Rate Design and Customer Impacts

13.1 General

Centra is not requesting any change in its the current Rate Structure, and continues to design rates to recover the allocated costs from each customer class, no more or no less. The rate structure for the SGS and LGS Customer Classes remain as a two-part rate, consisting of the Basic Monthly Charge ("BMC") and a unit commodity rate that does not change with consumption levels. The BMC is unchanged, at $10 for SGS customers and $70 for LGS customers. The commodity charge will reflect the forecast gas costs for Supplemental Gas and Transportation, while the Distribution rate will reflect the new UFG costs and allocation methodology.

The three-part rate for the applicable customer classes also will remain unchanged. The BMC remains the same. The commodity rate, as for the SGS and LGS Classes, is reflective of the 2004/05 forecast gas Supplemental, Transportation and Distribution costs. The only change is related to the methodology to determine the HVF billing determinants for demand charges, but the rate design does not change.

13.2 Basic Monthly Charge

A BMC is generally regarded as being the rate required to recover all of the utility's fixed costs, that consist of on site, or customer related costs, as well as the upstream fixed demand costs. The rationale is that these are the costs that must be recovered, even if no gas is consumed. The customer costs generally consist of physical plant installed for the individual customer, such as service line and meter and regulator set. Additionally, operating costs related to meter reading, billing and other costs not dependent on consumption are considered to be customer costs. Upstream demand costs are those that the utility must pay, regardless of the amount of gas consumed, and generally consist of d pipeline demand charges, and certain fixed costs related to storage arrangements.

In Centra's case, the rate design is such that the BMC does not recover the total fixed costs (customer plus upstream fixed) for any of its customer classes. The BMC does, however, recover 100% of the allocated fixed customer costs for the HVF, Mainline and Interruptible Customer Classes. The Power Station Class and the Special Contract Class have BMCs that are negotiated as part of a customer specific rate structure and are specified in contracts between the customer and the utility.

Centra stated that, if all fixed costs allocated to the SGS Customer Class were to be recovered by the BMC, the BMC would have to increase from $10 to approximately $40 per month, while the LGS BMC would have to increase from $70 to $383. In order to recover the customer related costs only, the required BMC would be $23 for the SGS customers and $105 for the LGS Class.

Centra has stated that it is reluctant to increase the BMC for the SGS Customers, because of customer acceptance and a failure to appreciate that in the summer months when no gas may be consumed, why a $10 charge should be necessary. Centra indicated that there is no intent to change the BMC for any of the customer classes at this time.

13.3 Demand Costs and Demand Rates

The current rate structure for the three sales customer classes having a three-part rate has a BMC that recovers the entire customer costs. All classes have a variable commodity rate that recovers the variable commodity associated costs for each of the three classes. Additionally, the Mainline Class rates are designed so that 100% of the allocated demand costs are recovered through the demand rate. The HVF and Interruptible Classes currently have a demand rate designed to recover only 65% of the allocated demand related costs. As discussed in this Order, this anomaly still exists because of the potential significant customer impacts that would have resulted had the same treatment been required for the Interruptible and HVF Classes as was accorded the Mainline Class in 1997. In the 2003/04 GRA, Centra requested that a move be made to recover 65% rather than the previous 50% of the demand related costs through the demand rates. The Board approved that request in Order 118/03. Centra has not requested any change the three-part rate structure for any of the effected customer classes. It is only the method of determining the billing demand levels that for which a change has been requested. As previously discussed, this change only impacts customers within the HVF Class.

13.4 Customer Impacts

The following table illustrates the range of impacts on the annualized bills for customers within each class, at proposed billed rates relative to existing August 1, 2004 rates.

Customer Class	**Annual Bill Impact Range**
SGS	(3.9)% to (4.2)%
LGS	(2.8)% to (3.4)%
HVF	((7.2)% to (8.5)%
Co-op	5.8% to 5.9%
Mainline	(6.2)% to (8.3)%
Special Contract	(19.3)%
Power Stations	13.2%
Interruptible	1.2% to 1.4%

The rate decreases result primarily from the rate riders that refund the October 31, 2004 Non-Primary Gas PGVA balances over a nine month period. The Interruptible increase is related to increased forecast supplemental gas for that class. Power Stations are a transportation service customer and as such are impacted only by the Transportation and Distribution rate changes which, in this case, results in an annualized bill increase.

As further discussed in Order 129/04, the Primary Gas Rate change to be effective November 1, 2004 has been approved by the Board. When the November 1, 2004 Primary Gas Rate and the Supplemental Gas Rate, Transportation (to Centra) Rate, and Distribution (to Customer) Rate changes are all considered, the annualized impacts of the November 1, 2004 billed rates on the various customer classes relative to August 1, 2004 rates are:

Customer Class	Annual Bill Impact Range
SGS	(2.4)% to (2.6)%
LGS	(1.3)% to (1.6)%
HVF	(5.3)% to (6.6)%
Co-op	9.8% to 10.0%
Mainline	(2.1)% to (4.3)%
Special Contract	(19.3)%
Power Stations	13.2%
Interruptible	3.4% to 3.7%

As a result of all rate changes, the typical residential customer's annual bill will decrease by approximately $32 per year.

13.5 Intervenor Positions

CAC/MSOS stated that they would object to any increase in the BMC charge. CAC/MSOS submitted that a low monthly BMC acts as an incentive to customers to reduce gas consumption, thus encouraging demand side management.

13.6 Board Findings

The Board is concerned with the adequacy of the BMC for the SGS and LGS Customer Classes. The current BMC recovers only approximately 44% of the allocated customer costs for the SGS Class, while the BMC for the LGS Class recovers 67% of the allocated customer costs.

While the Board will accept the BMC at this time, it is of the view that the differential between the revenues generated by the BMC and the customer costs is too great to justify the continuation of existing BMC levels. This is especially true for the SGS Class. The Board considers that a BMC that does not recover the appropriate customer costs results in intra-class cross subsidization, depending on customers' consumption levels. However, in taking this view, the Board is aware that appropriate technical ratemaking can be in conflict with the objective of maintaining customer support and acceptability. With respect to the BMC, these other issues are relevant with respect to low-income and fixed-income customers.

The Board will therefore direct Centra to review matters related to the adequacy of the BMC for all customer classes, and to provide a report to the Board by no later than August 1, 2005 along with recommended changes to the BMC, if any.

The Board accepts the other elements of Centra's rate structure as being appropriate, and will accept them as filed.

The Board notes that the customer impacts calculated by Centra will change, though not materially, because of the Board's decision with respect to the allocation of UFG.

14.0 Feasibility Test Changes

14.1 Background

Centra utilizes a 30 year net present value ("NPV") feasibility test approved by the Board in Order 109/94 and later amended in Order 89/97. The feasibility test estimate incremental costs and revenues for each expansion project or main extension to determine if a customer contribution is required to make the project or extension feasible. The approved test incorporated an income tax cost component in the revenue requirement calculation when Centra was subject to Federal and Provincial income tax. In addition, the discount rate which was used to calculate the NPV of the revenues and costs of the projected is calculated by adjusting Centra's overall rate of return by to a pre tax discount rate.

In July 1999, all of the outstanding shares of Centra were purchased by MH. As a result of that transaction, Centra became a wholly-owned subsidiary of MH. As a Crown Corporation exempt from Provincial and Federal income taxes, MH was required to pay a one time tax amount of $58 million in Federal income taxes. In Order 208/02 the Board directed Centra to apply the full amount then included in sales rates for income taxes to fully extinguish the debt and carrying costs.

Centra in its 2003/04 GRA requested the Board to vary Order 208/02 such that the onetime tax payment would be amortized over 30 years at an amount of $1.8 million per year plus carrying costs. In Order 118/03 the Board approved Centra's request. In that order the Board also noted that the feasibility test used by Centra for assessing the economic viability and justifying expansion projects contains parameters that may no longer be appropriate and encouraged Centra to review this matter and to propose require changes as soon as time allows.

14.2 Feasibility Test Changes

In response to the Board's request Centra proposed that, since it is no longer subject to income taxes, there is no incremental income tax cost for expansion projects or main extensions Centra submitted that it is appropriate to remove this component from the feasibility test. Accordingly Centra request the Board to revise the feasibility test as follows:

- Remove the income tax expense component from the feasibility test including the provision for capital cost allowance; and
- Use the approved overall rate of return as the discount rate, rather than a pre-tax discount rate.

Centra requested the changes be made effective January 1, 2004 and applied to all new expansion projects and main extensions after that date. In addition, Centra proposed that income taxes be removed from feasibility true-ups required under contract after January 1, 2004. For these contracts, income tax will be included in the feasibility test for all periods up to and including December 31, 2003 and removed for all periods commencing January 1, 2004.

As a result of this change, true-ups after January 1, 2004 were income tax was included in the feasibility study in determining the customer contribution, will result in a refund of a portion as it relates to income taxes.

14.3 Intervenor Positions

No Intervenor took a position on this matter.

14.4 Board Findings

The Board agrees that it is appropriate to remove income taxes from the feasibility test, for future expansion projects, main extensions and related true-ups. The corporation is the wholly owned subsidiary of a Crown Corporation and is not subject to income taxes. The Board will approve

Centra's request to remove the income tax component from the feasibility test and to utilize the overall rate of return as the discount rate, effective January 1, 2004.

15.0 Terms and Consitions of Service

15.1 Single Gas and Electric Bill

Centra is migrating to an integrated bill with MH, so as to achieve synergies in the billing of energy services which is expected to be complete by November 2005. MH is preparing to move all electricity customers onto the banner customer information system which will permit a single bill for customers who have both natural gas and energy electricity services.

In designing a single unified bill, Centra stated it would attempt to simplify the design while ensuring none of the current information would be eliminated. Centra indicated that it would undertake the focus group approach on the bill design and extended an invitation to CAC/MSOS to participate in the discussions. Centra further stated that it would provide a copy of the final bill to the Board for its review, but was not seeking the Board's approval of the final bill format.

15.2 Application of Partial Payments to Various Accounts

In order to accommodate the change to a unified bill, Centra is seeking Board approval to amend the Terms and Conditions of Service to address the appropriate allocation of payment between customer accounts for customers who do not pay their bills in full on or before the due date.

Centra requested approval of allocation rules which will apply in the absence of specific direction from the customer. The rule would allocate payments, first based on the vintage of the outstanding amount. Centra further proposed that payments be allocated to the oldest arrears first.

In the case where the arrears are of equal vintage, or if there are no arrears for current charges, Centra would apply the payments pro-rata among each of the MH finance and rental charges, gas and electric charges, and third party finance and rental charges based on the proportion each charge is of the total bill.

Centra noted that the Terms and Conditions of Service filed with the application currently does not reflect the proposed allocation of payments, but will file an updated version with the Board.

15.3 Use of Company Activity Rate

Centra requested to amend company labour rates by replacing the $55.00 per hour labour rate included in the terms and conditions of service to labour activity rates which will vary depending on the nature of the work performed. Centra stated this change was necessary as a result of moving to MH's integrated cost accounting methodology which is based on full absorption costing principles. Time charged to work in direct support of gas functions is costed on at an activity rate, calculated to recover all costs of carrying out that work.

Centra also sought approval to amend the $220 temporary service disconnection charge included in Section XI of the Miscellaneous Charges for Service. The cost to temporarily disconnect and then subsequently re-establish service to a customer can vary depending on the size of equipment reinstalled and Centra proposed replacing the $220 charge with the following "In situations where a premise is renovated, demolished or altered such that temporary removal of the company's equipment is required the company may charge a cost based fee to re establish the natural gas service."

15.4 WTS, Buy/Sell and ABC Services Changes

Centra also sought amendments to the WTS and the ABC special Terms and Conditions of Service to be consistent with the current operating practices of the corporation. Included in these changes were a tariff of $0.25 per customer per month to be paid by Brokers for the provision of billing services on behalf of the Broker. Centra stated that this was not a cost based tariff as the bill was being provided to a customer in any event and the cost of including a line item for the charge on the bill resulted in little incremental cost.

To ensure Centra receives copies of the Agency agreements from Brokers in a timely manner, Centra proposed inclusion of a condition which required the Agency agreement be provided in an electronic format, at the same time the customer enrolment applications are submitted to Centra by ABM.

Centra also proposed modifying the wording of the credit requirements for Broker participation in WTS to align the terms and conditions of service with the WTS and ABC legal agreements.

Centra also requested removal from the Terms and Conditions of Service references to the Buy/Sell Service and Broker Administration Fee which are no longer applicable given the termination of the Buy/Sell Service at November 1, 2003.

15.5 Other

Centra requested approval for changes to update service territories by district and elevation zone to be on a consistent basis as that used by MH. The former Centra districts of Brandon, Parkland, Portage, Steinback, Westman, Winkler and Winnipeg have been reclassified according to the current operating structure under the MH districts of the Eastman, Interlake, Westman, Parkland and Winnipeg East.

Centra requested approval to the standard pressure and temperature in the Terms and Conditions of Service. Gas meters must accurately gauge the volume of gas passing through the device and correctly compensate for the gas temperature and pressure. Gas measurement is made in reference to Centra's prescribed base temperature of 15°C and base pressure that describes the accepted standard conditions used to define a volume of natural gas. All volumes delivered off the system to customers are corrected to Centra base condition. An examination of the customer billing system revealed the base conditions are actually 101.560 kPa. pressure and 15.56°C. As a result, Centra requested to revise the standard pressure and temperature in the terms and conditions of service to accurately reflect the base conditions to 101.560 kPa. pressure and 15.56°C.

15.6 Intervenor Positions

CAC/MSOS

CAC/MSOS supported Centra's one bill initiative due to the related synergy savings that could be achieved from a single bill for gas and electric service. CAC/MSOS welcomed MH's invitation to participate in or observe the focus groups that will review the bill design and format.

CAC/MSOS stated it was encouraged by Centra's comments that it will attempt to simplify the bill while not eliminating any information that is currently contained on the bill.

15.7 Board Findings

The Board supports Centra's efforts to achieve synergies through migrating to one bill for the consumption of electricity and gas consumption. Such a change can be expected to benefit gas consumers through reduced costs. However, the Board urges Centra to consult with Brokers and CAC/MSOS in advance of the final determination of the bill amendments. The Board will require Centra to file a draft integrated bill along with a summary of the results of the meetings with Brokers and CAC/MSOS as well as draft inserts or other customer communication explaining the changes.

The Board will direct Centra to file a revised copy of the Terms and Conditions of Service for its review and approval reflecting proposed changes to the allocation of payments from customers. The Board accepts Centra's proposal to implement flexibility with respect to charges for temporary disconnections, reconnections and system adjustments. The Board agrees that Centra requires flexibility to assess charges reflective of its costs, to ensure fairness to all customer classes. However the Board must approve such charges, and accordingly will require Centra to file for approval a schedule of hourly rates for all service provided to customers on an interim quarterly basis in conjunction with the primary gas applications, if the existing rates are to be changed.

16.0 Interim Orders

16.1 Gas Sales Rates

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 applied for final approval of Interim Primary Gas Rate Orders 119/03, 161/03, 11/04, 69/04 and 100/04.

Centra also applied for final approval of Order 125/03 with respect to supplemental gas, transportation and distribution rates affected for all gas consumed on and after August 1, 2003.

16.2 Primary Gas Rate Setting Methodology and Minimum Filing Requirements

Centra applied for final approval of Order 143/03 and 69/04 which granted interim approval of amendments to the primary gas RSM and minimum filing requirements.

16.3 Rural Expansion

Centra applied for final approval of interim ex-parte Orders related to system expansions that required amendments to Centra's existing franchise agreements. The expansion applications were supported by The 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. Centra applied for:

- Final approval of Order 120/03 amending the existing franchise agreement with the RM of Rockwood; and
- Final approval of Order 121/03 amending the franchise agreement with the RM of Hamiota.

16.4 Intervenor Positons

No Intervenor took a position on this matter.

16.5 Board Findings

Gas Sales Rates

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 9.0 of this order. The Board notes that the 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 confirm as final Interim Orders 119/03,161/03, 11/04, 69/04 and 100/04.

The Board will also confirm as final Order 125/03 with respect to Supplemental Gas, Transportation (to Centra) and Distribution (to customers) rates effective for all gas consumed on and after August 1, 2003.

Primary Gas RSP and Minimum Filing Requirements

The Board is satisfied that the changes to the rate setting process and minimum filing requirements have improved the efficiency of the quarterly Primary Gas rate setting purpose and have resulted in cost savings of approximately $140,000 annually to Centra in advertising costs alone. The Board has not received any complaint related to the changes to the rate setting process or the minimum filing requirements. Therefore the Board will confirm as final Order 143/03.

Rural Expansion

The Board has previously reviewed these two 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 both customers. Therefore, the Board will confirm interim ex-parte Orders 120/03 and 121/03, as final.

17.0 Presentors

17.1 Time to Respect Earth's Ecosystems and Resource Conservation Manitoba ("TREE/RCM")

Professor Miller on behalf of TREE/RCM stated that there is an environmental and social mandate for energy conservation. Professor Miller urged the Board to direct Centra to initiate natural gas Demand Side Management ("DSM") programs and implement a system benefit charge of 2% on natural gas throughput to pay the costs of the gas specific DSM programs. The funds raised with such a charge could be used to create major investments in energy conservation in natural gas consumption.

Professor Miller further stated that given the current application proposes a decrease in rates and therefore; the 2% charge would partially offset the decrease, but not result in an increase at this time.

17.2 Centra's Position

Centra stated that it did not support TREE/RCM's proposal for a 2% system benefit charge to fund DSM programs and that the proper forum to address this issue is at a GRA. Centra further stated that it is inappropriate to co-mingle commodity costs with what is properly a charge against the distribution rates of the company. Centra stated that it currently offers low interest loans to customers who would like to make energy efficient renovations to their homes such as upgrading to a high efficiency natural gas furnace. Centra further stated that Centra are presently preparing to launch a gas DSM program.

17.3 Intervenor Positions

CAC/MSOS encouraged MH to continue to offer programs to assist low income customers and others to achieve greater cost efficiencies by allowing for affordable financing of high efficiency furnaces and programs to renovate homes to increase energy efficiency.

However, CAC/MSOS stated that program costs must be transparent and that there must be accountability with respect DSM program costs.

Direct stated TREE/RCM's submission came near the end of this lengthy process and without notice to other parties or customers. Direct further stated there was no evidence offered or tested that would support such a charge or the appropriate amount for such a charge. Direct further noted that Centra does not support this proposal.

Simplot disagreed with TREE/RCM's proposal that the Board take advantage of the reductions in rates offered by Centra in this application to impose charge to pay for DSM programs that Centra should be directed to undertake. Simplot stated that before the Board considers any such system benefit charge, there should be a concrete proposal put forward, accompanied by a cost/benefit study, to ensure that costs are recovered from the customer classes that will benefit from the DSM programs.

Simplot submitted that certain customer classes, such as Special Contract Class, that use natural gas as a feedstock, will not be able to take advantage of typical DSM programs and as such should not be responsible for any DSM costs. This would follow the principle that the costs of specific programs be charged to the specific customer classes getting the benefit of those programs, which is the approach taken on the electricity side of the business.

Simplot agreed with Centra that a future GRA would be the appropriate forum in which to explore natural gas DSM issues.

17.4 Board Comments

The Board is concerned with the discrepancy between the major DSM efforts in respect to electric operations with Centra's current approach to Gas DSM. The Board appreciates TREE/RCM's contribution to the hearing and the objectives of its recommendations to establish a system charge to provide resources to enable the development of gas DSM programs. Through its oversight of the disconnection process, the Board has become increasingly concerned with the effects of rising natural gas prices for low-income customers, particularly those that are renters. As well, the Board observes that significant gas supply wastage may be associated with poorly insulated and heated properties. While the costs arising out of these situations are billed to customers, the ramifications arising out of delinquency and bad debts are experienced by all customers through rates. The Board accepts Centra's and Intervenors views that these matters should be dealt with at an upcoming GRA. The Board further notes that Centra has indicated that it is currently implementing a Gas DSM program. The Board will direct Centra to file the details of such a program at the next GRA, to be filed later this year. The Board asks Centra to give further consideration to the concept of a system charge to provide funds to support more aggressive DSM measures, and to report its findings and recommendations at the GRA to be filed later this year.

18.0 Other Matters

18.1 Future Regulation

At the PHC the Board indicated that given Centra's current status as a subsidiary of MH, a Crown Corporation, the Board would initiate a discussion on the appropriateness of the current regulatory framework where regulation is based on rate base and allowable rate of return. The Board requested Centra and Intervenors to provide comments on what form future regulation should take whether it is the current rate-based rate of return regulation versus regulation based on a cost of service model.

Centra stated that gas rates should be based on the cost of service model as it is the best fits with the philosophy of a Crown-owned utility rather than the current rate base rate of return regulatory model. Centra further stated that, until appropriate legislative changes are made to permit the regulation of Centra under a cost of service methodology, that the Board has discretion to satisfy its current legislative requirements by considering the net income amounts determined, as contribution to retained earnings or overall return, under each of the two methodologies.

Centra further stated that it would include calculations for both rate-base rate of return and cost of service methodologies in its next GRA filing. This would allow the Board to satisfy its legislative requirements and permit the comparison of the two methodologies.

18.2 Manitoba's Competitive Environment

The Board also initiated a discussion on the competitive landscape and requested preliminary views from Centra and Interveners about the roles and rights of the concerned parties and the implications for the public interest. Centra stated that it would like to have the capability to offer multiple service offerings to customers; however it did not intend to pursue the matter at this time. Centra further stated the competitive market in Manitoba is continuing to evolve and until such time as the evolution is more mature or there is an indication that Centra's service is warranted, it is premature to consider what those offerings might entail or how they might best be put forward to customers. Centra stated that any additional rate offerings which the company may wish to advance should be considered in the context of a GRA.

18.3 Intervenor Positions

CAC/MSOS stated that until there is a legislative amendment, the Board is required to regulate Centra on a rate base rate of return methodology. CAC/MSOS noted in Order 146/99 the Board recommended to the Government of Manitoba that there should be certain amendments to the legislation as a result of MH's purchase of Centra.

CAC/MSOS welcomes the opportunity to review the differences in cost implications that may arise out of these two forms of regulation. While CAC/MSOS does not have a final position on what is the best methodology, there are several options which could be canvassed fully if the Board intends to make another recommendation to the Government of Manitoba. CAC/MSOS further added in the interim the Board should maintain its stringent oversight of Centra, notwithstanding the fact that it is now a subsidiary of a Crown corporation.

CAC/MSOS recommended the Board allow Centra to provide price options that give customers choice with respect to risk tolerances. Such alternate options should be subject to a full public hearing into the mechanics of how those price options would be delivered by Centra and/or a subsidiary company.

Direct urged the Board to consider how changes in the methods of regulating a utility impact on the larger market and specifically, on the competitive market in Manitoba.

Direct stated that Crown Corporation utilities have a very different risk profile than an investor owned company with different abilities to attract capital and financing, because of the credit worthiness of Provincial governments. The move from a private risk factor to a public risk factor scenario can have impacts on the larger competitive market if the utility wants to move beyond offering simply one regulated product to offering multiple products, some of which would be in competition to what investor-owned Brokers are offering.

Direct stated that a move to offer more than one service offering would result in many issues that would have to be addressed by the Board including,

- Potential cross-subsidization of a competitive service offering by its regulated service offering;
- Whether Centra should be offering more than one product, and if so, should the other products be in an affiliate; and
- Issues of an affiliate code of conduct, and how to prevent Centra sharing Broker-related customer information with an affiliate that would give it an unfair competitive advantage.

Direct questioned the appropriateness of the current advertising campaign of MH and whether it is an appropriate role for a utility charged with gas supply in the Province. Direct suggested the content and message went beyond trying to provide customer education and attempted to market Centra's service offering. Direct further questioned the accuracy of the ads and the use of forward prices in the advertising. Direct stated that MH should be subject to the same code of conduct as Broker to related to making accurate representations and the use of forward prices in marketing. Direct recommended the Board should:

- Reiterate that the proper role of the utility is to engage in customer education efforts which involve the publication of even handed information about gas supply issues and that it is not appropriate for Centra to advocate or promote the purchase of system supply gas over the purchase of gas under a WTS option;
- Confirm that in any of its customer education undertakings or campaigns, Centra must meet the same fair representation standards as are required of Brokers in the Code of Conduct for direct purchase transactions;
- Clarify and confirm that materials published by both the utility and the Broker can use forward price information, which complies with the representation standards in the Code of Conduct;

- Reiterate that Centra must provide Broker with a reasonable and adequate opportunity to comment, in advance, on customer education information related to Primary gas in advance of its publication; and
- Indicate that the cost of any public relations or advertising materials incurred by Centra, designed to promote the selection of primary gas supply over a WTS option should be charged only to primary gas costs.

18.4 Board Findings

The Board is aware that the current legislation allows the Board to review Centra's rates on a rate base, rate of return basis. However, the legislation may also permit other forms of regulation of the gas utility. The Board notes that Centra is of the view that for an income tax exempt wholly-owned subsidiary of a Crown Corporation, the appropriate methodology should be revenue requirement and cost of service, as is the case with MH. The Board encourages Centra to file its next GRA in a timely fashion and on the basis of both rate base rate of return and revenue requirement, cost of service with emphasis on the latter. This will enable to Board to reach its determination taking into account revenue requirement, cost of service, and comparing such approach with the current rate base, rate of return methodology.

The Board notes that Centra would like to have the capability to offer additional service packages to customers. However, the Board further notes Centra's view, as expressed at the hearing, that while Centra would prefer to have the ability to offer additional price packages to its customers, it views the current state of the competitive market place to be such that does not warrant such a service offering at this time. The Board is of the view that this matter would have broad implications on the competitive landscape, and should best be dealt with at a GRA where the issue could be fully explored. The Board directs Centra to file a report at the next GRA on the advantages and disadvantages of Centra offering fixed price arrangements to gas consumers, including a discussion on how such alternative service offerings would be delivered.

The Board supports Centra's efforts to provide customer education with respect to customer choice of gas supply options. Centra should have no financial interest in the gas supply choice made by consumers. The Board will direct Centra to consult with Brokers and CAC/MSOS, towards gaining an appreciation from both parties with respect to the content and focus of customer education. The Board will also direct Centra to provide an update of the result of these discussions, for the Board's review. With respect to the use of forward price information, given Centra's use of such information for educational purposes, the Board will direct Centra to amend the Code of Conduct to allow Brokers to use gas price information on a basis consistent with that used by Centra.

The Board will expect Centra to address the issue with respect of allocating public relations and advertising costs in the next GRA, scheduled to be filed later this year.

19.0 It Is Therefore Ordered That:

1. Interim Order 125/03 with respect to Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) sales rates effective for all gas consumed on and after August 1, 2003 BE AND IS HEREBY CONFIRMED AS FINAL.

2. The April 1, 2003 to March 31, 2004 total gas costs of $368.4 million, BE AND IS HEREBY APPROVED.

3. (a) The various Non-Primary Gas PGVA and other deferral account balances as at March 31, 2004, including carrying costs to October 31, 2004, of $16.5 million, BE AND ARE HEREBY APPROVED.

   (b) The refund of the $16.5 million in Non-Primary Gas PGVA and other deferral account balances over nine months from November 1, 2004 to August 1, 2005, BE AND IS HEREBY APPROVED.

4. The 2004/05 forecast cost of Non-Primary Gas of $83.4 million, based on the July 2, 2004 forward price strip BE AND IS HEREBY APPROVED on an interim basis.

5. Centra's Application for revised Supplemental Gas, Transportation (to Centra) and Distribution (to Customers) sales 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 November 1, 2004, as filed by Centra with the Board on August 9, 2004, BE AND IS HEREBY APPROVED, on an interim basis, subject to Centra allocating 2.8% UFG to the Special Contract Class, with the difference recovered from the SGS and the LGS customer classes.

6. Centra file a report on Centra's current internal review on the IGC recommendations including conclusions and recommendations regarding Centra's further course of action with the 2005/06 Cost of Gas Application, but in any event, no later than August 1, 2005.

7. Centra's proposal for the determination of the actual peak day, for purposes of billing demand charges for the HVF Class, effective November 1, 2004, BE AND IS HEREBY APPROVED.

8. In regards to future gas supply contacts:

   (a) Centra consult with stakeholders prior to issuing a new RFP for gas supply, or before entering into an extension of the existing agreement with Nexen.

(b) Centra file the proposed RFP as well as the results of stakeholder consultations, with the Board for approval prior to issuing the RFP.

(c) Centra file a report in respect of possible changes to WTS with the Board prior to the next Cost of Gas Application, and in any event, by no later than August 1, 2005.

9. Centra review matters related to the adequacy of the Basic Monthly Charge for all customer classes and provide a report to the Board with the 2005/06 Cost of Gas Application, and in any event, no later than August 1, 2005

10. Centra's request to remove the income tax component from the feasibility test and utilize the overall rate of return as the discount rate used in feasibility tests and true ups effective January 1, 2004, BE AND IS HEREBY APPROVED.

11. (a) Centra's request to revise the Terms and Conditions of Service for the following matters, BE AND IS HEREBY APPROVED:

(i) Update service territories and pressure zones.
(ii) Amend WTS and ABC Special Terms and Conditions of Service
(iii) Use cost based rates for various types of work, subject to Centra filing a schedule of hourly rates for all cost based rates for all services.
(iv) Amend the $220 temporary service disconnection fee with a cost based fee.
(v) Amend standard pressure and temperature to ensure consistency.
(vi) Amend service relocation and alterations.
(vii) Amend service re-installation policy.
(viii) Amend Buy/Sell Contracts and Broker Fees.

(b) Centra file for Board approval a schedule of hourly rates for all cost based services provided to customers.

(c) Centra file revised Terms and Conditions of Service, for Board approval, reflecting proposed changes to the allocation of partial payments from customers.

12. The following interim Orders, BE AND ARE HEREBY CONFIRMED AS FINAL.

(a) Interim ex-parte Orders 143/03 and 69/04 which granted interim approval of amendments to the Primary Gas Rates setting process and minimum filing requirements respectively.

(b) Interim ex-parte Orders 119/03, 161/03, 11/04, 69/04 and 100/04 related to the approval of interim Primary Gas sales rates effective August 1, 2003, November 1, 2003, February 1, 2004, May 1, 2004, and August 1, 2004, respectively.

(c) Interim ex-parte Order 44/04, with respect to the inclusion of an additional atmospheric pressure zones zone, as set forth in the Terms and Conditions of Service.

(d) Interim ex-parte Order 120/03 related to amending the existing franchise agreement with the RM of Rockwood, and interim ex-parte Order 121/03 amending the franchise agreement with the RM of Hamiota.

13. (a) Centra consult with Brokers and CAC/MSOS, with respect to the content and focus of customer education material related to gas purchase options, and provide an update of these consultations in the 2005/06 Cost of Gas Application, or in any event, by no later than August 1, 2005.

(b) Centra amend the Code of Conduct related to Brokers to allow Brokers to use forward gas price information on a basis consistent with that used by Centra, and file the proposed amendment with the Board for approval.

14. (a) Centra file details of the Natural Gas DSM program for the Board's review by no later than the next General Rate Application, along with Centra's considerations and recommendations regarding a system charge for DSM.

(b) Centra file with the Board a draft integrated electric/gas bill along with draft inserts and other customer communication explaining the changes, at the next General Rate Application.

(c) Centra review the practice of using forecast capacity management revenues for a PGVA that includes only historic data for all other account balances, and report on this matter to the Board with the 2005/06Cost of Gas Application or in any event, by no later than August 1, 2005.

(d) Centra file with the Board, at the next General Rate Application, a report on the advantages, if any, of Centra offering fixed price arrangements to gas consumers, including a discussion on how such alternative service offers would be delivered.

(e) Centra review alternatives to the mechanistic hedging approach with respect to achieving and or maintaining reductions in volatility and cost, refine its research efforts to test alternate approaches on a retrospective basis, and report findings to the Board in the 2005/06 Cost of Gas Application, or in any event, by no later than August 1, 2005.

(f) Centra file a report with the Board, by no later than August 1, 2005, on the adequacy of the Basic Monthly Charge for all customer classes, together with any recommendations.

17. Centra file for Board approval a revised schedule of rates to be effective for all gas consumed on and after November 1, 2004, including customer impacts, that reflect the decisions in this Board Order as well as the decisions of the Board in its Order with respect to November 1, 2004 Primary Gas Rates.

The Public Utilities Board

____
Chairman

____
Acting Secretary

THE PUBLIC UTILITIES BOARD

"Graham F. J. Lane, C.A."
Chairman

"Hollis Singh"
Acting Secretary

Certified a true copy of
Board Order 131/04 issued by
The Public Utilities Board

Acting Secretary

Appendix A

Appearances

R. Peters	Counsel for The Manitoba Public Utilities Board
M. Murphy B. Czarnecki	Counsel for Centra Gas Manitoba Inc.
K. Saxberg	Counsel for Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc.
D. Brown	Counsel for Direct Energy Marketing Limited, the parent company of Municipal Gas
K. Melnychuk	Representing Municipal Gas, a division of Direct Energy Marketing Limited
B. Carroll	Representing MacDon Industries Limited
N. Gretener	Counsel for Simplot Canada Limited

Appendix B

Witnesses for Centra Gas Manitoba Inc.

G. Barnlund	Senior Consultant, Gas Rates and Regulatory Services
K. Derksen	Senior Analyst of Gas Rates
D. Rainkie	Manager, Rates and Regulatory Services
B. Sanderson	Senior Gas Cost and Hedging Analyst
H. Stephens	Senior Manager, Gas Supply Storage & Transportation
L. Stewart	Manager, Gas Supply Pricing and Administration
V. Warden	Chief Financial Officer, Vice President, Finance and Administration, Manitoba Hydro and Centra

Appendix C

Witnesses for Simplot Canada Ltd.

D. Hawk	Director Energy Natural Resources, J. R. Simplot Company
D. Reading	Vice-President, Ben Johnson Associates
H. Raid	Plant Manager for Simplot Brandon Plant

Appendix D

Intervenors of Record

Direct Gas, a Division of Direct Energy Marketing Limited

Communications, Energy and Paperworkers Union of Canada

MacDon Industries Ltd.

Simplot Canada Ltd.

Consumers Association of Canada (Manitoba) and Manitoba Society of Seniors Inc.

Appendix E

Presenters

J. MacDonald	President, MacDon Industries Limited
P. Miller	Representing Time to Respect the Earth's Ecosystems and Resource Conservation Manitoba
M. Vergata	Citizen