MANITOBA	Order No. 99/07
THE PUBLIC UTILITIES BOARD ACT	July 27, 2007

Before: Graham Lane, CA, Chairman
Len Evans, LL.D., Member
Eric Jorgensen, Member

CENTRA GAS MANITOBA INC. 2007/08 AND 2008/09 GENERAL RATE APPLICATION AND OTHER MATTERS

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6.0 IT IS THEREFORE ORDERED THAT: 139

Executive Summary

By this Order, the Public Utilities Board (Board) approves amendments to Centra Gas Manitoba Inc's (Centra) rates, comprising:

a) non-gas rate increases, including a rate rider, that, when implemented, are expected to increase the overall annualized bills for customers supplied primary gas by Centra by approximately 2% and 1%, as of May 1, 2007 and May 1, 2008, respectively, the impact on customers supplied primary gas by brokers will vary, depending on their contracts; and

b) primary gas rate reductions as of August 1, 2007 pursuant to the regular quarterly primary rate setting, with projected annual bill decreases of 4.4% to 7.4%, for those customers receiving primary gas from Centra.

The Board has asked Centra to develop detailed rate schedules and annualized bill impacts for each customer class, and file these with the Board for approval prior to implementing the August 1, 2007 revised rates.

The non-gas rate amendments follow a June 2007 public hearing of Centra's General Rate Application (GRA), and will affect all customers, both those receiving primary gas through Centra and those purchasing primary from brokers. The amended primary gas rates were set in accordance with the Board-approved Rate Setting Methodology (RSM), an agreed upon ex parte process furthering the objective of least-cost regulation. Revised primary gas rates will remain in effect until November 1, 2007, when the next scheduled quarterly primary gas rate amendments are to take place.

As well, in the Board Findings section of this Order, the Board provides other directions as well as commentary, and, to a limited degree, the directions contained herein arising out of the GRA proceeding will beneficially affect Centra's system gas customers by reducing primary gas rates as of August 1, 2007.

A subsequent Order, to be issued prior to August 1, 2007, will provide detailed bill impacts for each customer class.

The most significant aspect of this Order is the directions and recommendations related to Centra's low-income customers, a group comprising approximately 30% of Centra's residential customer base. For these customers, for whom utility bills for space heat represent a major economic burden, bringing about payment delinquency, bad debts, service disconnection and general economic pressure, forecasts of future increases bode only continued problems. Unfortunately, most of these households have been unable to undertake the heating and property upgrades necessary to lower their natural gas consumption and bills for a lack of funds to undertake the work.

And, to this point, none of the programs put in place or planned by Centra have addressed the central fact that low-efficiency furnaces are the biggest factor in the high heating bills of low-income natural gas customers. While the Board applauds efforts of the provincial government, Manitoba Hydro (MH) and Centra to extend help to low-income residential space heating customers, more is required. Low-income households have been assessed rates that include funding for general energy efficiency programs which they have been unable to fully participate in due to the cost barriers.

The Board notes with favour plans to allot $19 million of the new Affordable Energy Fund (AEF) – a $35 million fund established by legislation from MH's electricity export revenues -- to upgrade the energy efficiency of low-income households, whether heated by electricity or natural gas (of approximately 500,000 properties in Manitoba, natural gas heats about half). The

Board also supports Centra's plans for increasing rate-based spending on low-income DSM and leveraging further those funds with Federal money, but finds that the funds available, though greatly increased, are not sufficient to meet the task at hand.

If the heating bills of low-income families and greenhouse gas(GHG) emissions are to be reduced in accordance with social and Sustainable Development Act (SDA) objectives, conventional natural gas furnaces, with efficiency ratios in the order of 60% or lower, need to be replaced with high efficiency furnaces, with efficiency ratios greater than 90%. As well, weatherization, including insulation and caulking, needs to be brought about in low-income residences.

The Board approves Centra's developing and implementing of a loan program targeted to low-income customers and qualified seniors on fixed incomes to assist in the replacement of low efficiency furnaces with high efficiency furnaces, and the weatherization of their homes to improve heat retention. The Board directs that furnace replacement and weatherization for and of low-income residences be proceeded with through amendments to the Power Smart loan program, levering the Federal Government ecoRetrofit program funding and drawing on the AEF.

Accordingly, the Board herein directs the establishment of a Furnace Replacement Program. With the reduction in the annual heating costs of low-income residences, the Board anticipates that Centra's collection and bad debt costs will be lower than they would otherwise be, and this will, in part, offset the cost of the program.

The replacement of low efficiency furnaces with high efficiency furnaces from the Furnace Replacement Program has the potential to save hundreds of thousands of tonnes of GHG emissions, along with the conservation of up to a third of the natural gas now consumed. The Board notes that if 29,000 low efficiency furnaces were replaced with high efficiency furnaces, GHG emissions could be expected to be reduced by in the order of 60,000 tonnes per year.

It is expected that rates will generate approximately $2.3 million on an annualized basis in 2007/08 and $3.8 million in 2008/09 and future years to join the pool of money now and planned to be set aside for energy efficiency measures.

By this Order, the Board also provides directions and recommendations on a wide range of other matters.

1.0 Introduction

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

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

Centra's General Rate Application (GRA) hearing for the 2007/08 and 2008/09 "Test Years" (non-gas rates are set through a process that is supported by forecasts of expenses and revenues for the two immediately future years) included matters generally attended to at annual Cost of Gas proceedings. The hearing, which was preceded by a pre-hearing conference and the exchange of information began on June 5, 2007 and concluded with closing submission on June 15 (interveners and Board Counsel), and June 20, 2007 (Centra). The GRA addressed numerous and complex issues related to every rate within Centra's rate schedule.

However, one major area, Manitoba's natural gas landscape, which includes the operations of Centra and private natural gas brokers, both selling primary gas within Centra's franchise areas, will be reviewed in September 2007 by means of a public hearing proceeding expected to involve the GRA interveners. The gas landscape proceeding may lead to further non-gas commodity price amendments and other changes, which, if realized, would likely take effect November 1, 2007.

As to this Order, it will be followed by a subsequent Order, to be issued on or before August 1, 2007 to incorporate all rate impacts arising from this Order. The Board intends that the Rate

Order, which will take effect August 1, 2007, will provide an integrated and comprehensive understanding of rates for customers.

The last final determination by the Board of the non-gas components of Centra's rates occurred by way of Orders 103/05 and 135/05 and 64/06, with respect to the 2005/06 and 2006/07 test years. The last determination by the Board of the gas costs included in Centra's Supplemental Gas, Transportation (to Centra), and the UFG component of Distribution (to Customer) rates occurred by way of Orders 116/06, 132/04, later confirmed by Order 175/06.

There are many factors and events that result in rate amendments, these include:

a) gas supply contract amendments;
b) natural gas commodity market price changes;
c) weather-related factors;
d) general price inflation;
e) changes in operations and costs with respect to O&A costs;
f) increased cost of servicing and other changes related to customers (location, expansion and new connections etc.);
g) hedging experience;
h) pipeline safety matters;
i) distribution-related maintenance and capital expenditures;
j) capital and other tax changes;
k) interest rate changes;
l) increases in corporate debt to finance expansions and system enhancement;
m) variation in bad debt provisions;
n) policy and practice changes;
o) amendments to accounting policies;

p) Demand Side Management initiatives; and
q) service amendments.

Pursuant to the longstanding ratemaking process, Centra sought approval of 2007/08 and 2008/09 revenue requirement sufficient to meet utility costs and provide reasonable annual net income, the latter to contribute to the growth in retained earnings and progress to or maintenance of an adequate debt: equity ratio.

Centra sought approval of total gas costs for 2006/07 of approximately $419.2 million. Throughout each year, Centra tracks its actual cost of natural gas and compares it to the forecasted cost of gas that had been used to set rates; differences accrue in a Purchased Gas Variance Account (PGVA). Centra also sought approval for the refund to customers of approximately $8.9 million that had developed in the various PGVAs. Also by its application, Centra forecasted 2007/08 and 2008/09 gas costs, and incorporated those forecasts in its rate proposal.

Centra sought approval for increased rates to meet its projections of overall 2007/08 and 2008/09 costs, and to provide for Net Income of $5.277 million and $6.791 million, for 2007/08 and 2008/09, respectively. These levels of Net Income provided for a projected increase in Centra's retained earnings, from an estimated balance of $19 million as of March 31, 2007 to $32 million as of March 31, 2009.

Retained earnings serve as a buffer against untoward future events. In the absence of retained earnings, an unexpected and untoward event could result in a major loss that potentially could result in a rate shock, required to avoid undue borrowing and ensure a financially viable utility. Rate shock has been defined as a sudden one-time increase in rates of 10% or more, and event that has been avoided to-date

The revenue requirements established through a GRA proceeding are distributed amongst, and recovered in rates charged to, Centra's customer classes on the basis of a Board-approved cost allocation methodology. There are two generally accepted methodologies for determining a regulated utility's annual revenue requirement. One approach is the Rate Base/Rate of Return approach, which has been in use with respect to Centra and its predecessors for decades. The other approach is denoted as the Cost of Service approach, a methodology preferred by MH, Centra, and the Board for regulating public sector utility monopolies.

In Order 135/05 the Board directed Centra to file its future GRA using the Cost of Service and Rate Base Rate of Return, the former to be used as a test of the maximum revenue requirement. A discussion of the two rate-determining regulatory models, and the setting of annual revenue requirement, is contained within this Order.

With respect to Centra's requested allowances for annual net income, actual net income in any year generally does not match the weather normalized net income forecast relied on in establishing the revenue requirement for that year. Actual weather can be expected to vary from the rolling ten-year degree-day forecast employed by Centra, and accepted by the Board, in its forecasts, and other factors as well result in differences between projected and actual net income in any one year.

Centra's costs include both gas related costs and non-gas related costs; the latter includes Operating and Administrative expenses (O&A), depreciation and amortization, financing costs, capital and other taxes, allowable net income, and, since 2002/03, a Corporate Allocation.

The Corporate Allocation is an annual $12 million charge by MH, accepted by the Board to allow MH to recover on-going costs related to its 1999 acquisition of Centra. Prior to the acquisition, Centra produced average annual after tax profits of between $14-16 million for Westcoast Energy Inc., its then private owner. With savings from operational synergies and Centra's exemption from income taxes with Crown Corporation status, the concept was that

Centra could pay a Corporate Allocation to MH that would, in aggregate, allow MH to cover its acquisition related costs without negative rate implications for either Centra or MH customers. This concept was designated as the "no harm" principle.

While Centra's net income or loss for any year forms a component of MH's consolidated net income or loss, and is reported in MH's audited financial statements, MH has neither taken any dividends from Centra since acquisition, nor indicated an intention to do so in the future. Thus, the annual $12 million Corporate Allocation is the only transfer from Centra to MH now in place and allowed by the Board that provides MH a cash return on its investment.

Coincident with MH's acquisition of Centra in 1999, a financial reorganization of Centra took place. Among other things, Centra's then-existing retained earnings were capitalized to join share capital, and Centra under MH ownership began operations with no retained earnings.

From that date to the end of fiscal 2006/07, almost eight years of MH-directed operations have taken place. While Centra's audited financial statements for the year-ended March 31, 2007 were not available at the time of the GRA, Centra forecasts a modest profit. Accordingly, Centra's projected balance sheet as of March 31, 2007 included an estimate for retained earnings of $19 million. While that suggests Centra has accumulated net income aggregating $19 million from the date of MH's acquisition, there are two other factors that should be taken into account:

a) weather conditions vary, and Centra's actual financial results are impacted by colder or warmer than normal – i.e. ten-year rolling average – temperatures: Colder than normal average temperature usually results in actual Net Income that is higher than forecasted, while warmer than normal average temperatures result in lower than forecasted Net Income; and

b) no Corporate Allocation charge was made by MH on Centra for the period from the commencement of MH's ownership in 1999 through to March 31, 2001 (this resulted in $32 million of charges against retained earnings not being made).

Taking into account notional adjustments to reflect Corporate Allocations not charged and assuming "normal" weather from the date of acquisition through to the end of fiscal 2006/07, Centra's retained earnings would fall to negative $1.5 million; this is $20 million less than currently forecasted for March 31, 2007.

Gas commodity costs represent by far the largest cost component for Centra's revenue requirement, and include Primary Gas and Non-Primary Gas. Primary Gas commodity rates apply to customers purchasing gas directly from Centra, and are approved by the Board generally through annual Cost of Gas hearings (in the case of 2006/07 gas costs, the proceeding giving rise to this Order served as the annual Cost of Gas hearing).

Transportation (to Centra) and Distribution (to Customer) rates are usually established following either the annual Cost of Gas hearing or a GRA at which the annual Cost of Gas hearing is included (the case for this GRA and rate setting.) The last standalone Cost of Gas hearing was held in 2006.

Natural gas brokers sell primary gas to Centra's residential, commercial and industrial customers, and have captured varied market shares, in "competition" with Centra. As Centra does not mark-up its gas supply and transportation costs, this "competition" has no effect on Centra's financial results. Centra financial results do not depend on the market share of the brokers or the volumes of primary gas sold to customers by the brokers rather than Centra.

Centra's intra-Manitoba natural gas distribution network delivers both the gas supplied by brokers (purchased from their own sources) and that provided by Centra to Centra's customers. Accordingly, charges for Supplemental Gas, (which is occasionally required to supply gas above levels normally contracted from Nexen), apply to both Centra's system gas and broker customers. As well, Transportation and Distribution rates affect all customers served by Centra's distribution system, except for Transportation Service customers that are only impacted by Distribution costs.

Besides the variations of weather, there is another factor that negatively impacts on Centra's financial results, reduced consumption. While reduced consumption does not impact on its results with respect to costs incurred to purchase gas, as no mark-up is involved, it does reduce the overall revenue recovered to meet its non-gas costs and its allowed Net Income.

Projected volumes for 2007/08 are lower than were experienced by Centra the year before MH's acquisition, ten years ago. And, residential customer growth has averaged below 1% per year and there has been no commercial customer number growth.

The reasons for the restricted growth in customers and falling volumes include:

a) on the volume side – the growth of the brokers' combined primary gas market share;

b) on the volume side – the effect of continuing enhanced energy efficiency measures (high efficiency furnaces, caulking, enhanced insulation, self-regulating thermostats, etc.); and

c) as to customer growth - fewer and smaller distribution expansions; with the exception of the Waverley West housing development in Winnipeg, no major expansions of Centra's gas distribution network is foreseen for the forecast period out to 2017.

While commodity and non-commodity rates and average customer bills have increased significantly for Centra since MH's acquisition, particularly natural gas commodity prices and rates, cost-based electricity prices and bills have not risen at the same pace. And, MH's electricity customers located outside of Winnipeg have enjoyed rate reductions brought about by the legislated uniform rate program, while all electricity customers now enjoy lower rates than otherwise would be the case due to MH's electricity export profits.

Centra opined that market-driven natural gas commodity prices are likely to continue to increase at rates higher than the annual rate of general price inflation, while MH has forecasted electricity price increases through to 2017 in the range of 2.5% per annum.

As a result, space heating by gas, assuming a high-efficiency furnace, is not considerably cheaper than space heating by electricity. If the space heat is provided by a mid or low efficiency furnace, the gap is narrower to negative.

Other factors are also at work towards driving the cost of space heat by natural gas higher than electricity, a major factor being the prospects of ever-higher non-commodity gas rates as DSM initiatives for natural gas customers are broadened and implemented. These initiatives are expected to further reduce the average consumption of natural gas, suggesting that non-gas rates will continue to increase as non-commodity costs and normal provisions for annual Net Income will be recovered from customers through charges on reduced volumes.

In short, the economic advantages for consumer space heating by gas have decreased substantially, particularly outside of Winnipeg. If these events and trends are realized and continue, and the market price of natural gas continues to rise faster than electricity rates, eventually electricity for space heating will become more affordable than natural gas for all of Centra's residential customers, and the risk of conversions to electricity space heating from gas will increase.

A more immediate test comes with new housing. A question that has arisen through preliminary consideration of this matter is: should the feasibility test for new gas distribution developments be subject to consideration of not serving an area and relying on electricity? The Board will comment further on this matter in Board Findings.

Other factors that affect rates are the continuing upgrading and repair of ageing gas distribution infrastructure, the testing of the implementation of smart meters, new initiatives to assist low-income customers and prospective accounting changes.

While volumes of natural gas consumed by Centra's customers have decreased, necessary repairs and enhancements to the distribution network continue to add $20 to $30 million each year to Centra's fixed assets, which result in increased amortization and financing costs.

With respect to accounting changes, while DSM expenditures are currently deferred for amortization over a subsequent fifteen-year period, proposed changes to Generally Accepted Accounting Principles (GAAP) would require Centra to expense DSM expenses in the year incurred.

As well, in considering the broader background issues that surround the provision of natural gas to Manitobans, the environment comes into focus. Unlike electricity, natural gas is neither renewable nor "clean" (though cleaner than coal). The production and distribution of natural gas is associated with, at minimum, the emission of GHG.

Resource Conservation Manitoba and Time to Respect Earth's Ecosystems (RCM/TREE) advocated at both the 2005 and 2007 Centra GRA hearings and the 2006 Cost of Gas hearing, that the rate schedule should be revised to price higher volumes of natural gas at higher prices to discourage consumption and promote conservation.

Yet, RCM/TREE discourages "fuel switching", i.e. customers converting from natural gas space heating to space heating by electricity, because electricity is a renewable energy source with virtually no GHG emissions from MH's hydro-based electricity generation. And, if Manitobans switch to electricity from gas, then MH would not be able to export as much electricity to the United States as it does now; in MH's American trading area, electricity is generated mainly by burning non-renewable resources, coal and natural gas.

With respect to Centra's low-income customers, evidence at this hearing suggested that up to 30% of Centra's residential customer base is low-income and in need of assistance with respect

to DSM initiatives. Low-income customers lack the funds to invest in major DSM programs, such as weather proofing their properties and installing high-efficiency furnaces.

Unless funds are found to assist these customers in upgrading the heating efficiency of their homes, large quantities of natural gas will continue to be wasted each year, and bills of low-income customers will be unnecessarily high, with many going unpaid and involving high collection costs and, too often, service disconnection. All of this results in driving up rates for others while causing economic, social and, in some cases, health issues for low-income households.

2.0 Centra's Rates

Centra's rates consist of five components: Primary Gas (supplied by Centra to "system gas" customers, other customers are supplied by brokers), Supplemental Gas (although no volumes of supplementary gas are forecast to be required through to March 31, 2009), Transportation (to Centra), Distribution (to Customers), and a Basic Monthly Charge (BMC).

The Primary Gas component of Centra's rates recovers the cost of the natural gas supply received from Western Canadian sources. For 2007/08 and 2008/09, with normal weather, Primary Gas supply would represent nearly 100% of Centra's overall gas supply. Supplemental Gas rates are established to primarily recover the cost of gas purchases from U.S. sources, as these sources are required to meet cold Manitoba winter weather conditions.

Primary Gas rates are set on a quarterly basis in accordance with an established Rate Setting Methodology and process approved by the Board.

At this hearing, Centra sought final approval of all gas costs for 2006/07, inclusive of costs approved through interim Primary Gas Orders since the 2005/06 Cost of Gas Order. Centra also

sought approval of new Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) rates Transportation (to Centra) is the component of rates that recovers costs associated with transporting gas supplies from western Canada to Manitoba, injecting storage gas from Western Canada during the summer months for delivery to Manitoba in the high-use winter period, and for transportation of American supplied gas to Centra's storage facility in Michigan.

The Distribution (to Customer) component of rates recovers the costs associated with operating Centra as well as the cost related to Unaccounted for Gas (UFG). A portion of operating costs, such as for meter reading and customer billing, are recovered in the BMC. Presently, the BMC for the SGS class recovers only a portion of Centra's fixed costs. Centra proposed in its application to continue with a BMC for residential customers that would substantially under-recover fixed costs.

The Basic Monthly Charge (BMC) is a component of Centra's unbundled bill designed to recover a portion of the costs that Centra incurs in providing gas service to a customer regardless of the customer's consumption. Examples of these costs include the installation and maintenance of service lines and meter sets, reading meters, billing, and customer service.

Centra's BMC has been $10 per month since 1990. The BMCs of other Canadian jurisdictions range from $8.21 to $15.25, but, as is the case for Centra, in each of these jurisdictions the level of customer related fixed costs would justify a much higher BMC. Centra provided information that the customer related costs in other jurisdictions are similar in magnitude to Centra's costs, and would represent in the range of $25.50 per month and higher.

The billed rates charged to Centra's customers are made up of two components: base rates and rate riders. Each of the Primary Gas, Supplemental Gas, Transportation (to Centra) and Distribution (to Customer) rates has both a base rate and a rate rider component. Base rates reflect an estimate of future gas costs and non-gas costs, and rate riders adjust for differences that

arose between gas cost estimates and actual gas costs incurred. Rate riders retroactively recover the differences between estimated and actual gas costs.

The annual cost of gas is by far the most significant component of the factors that drive rates to "system gas" customers, and represent of 75% of Centra's proposed revenue requirement for 2007/08. The ratio of overall revenue requirement represented by gas supply would be higher if not for broker-supplied gas, not included in Centra's revenue requirement. As previously indicated, Centra passes on to its system gas customers its cost of gas without any mark-up or profit.

To ensure the exact cost of gas is passed on to system gas customers, Centra maintains PGVA balances. These accounts record the difference between the cost of gas embedded in sales rates and Centra's actual incurred cost. The balances in the PGVA accounts, i.e. the differences between forecasted and actual cost, are periodically either refunded to, or collected from, customers by way of temporary rate riders. The rate riders either decrease (refund) or add to (collect) the base sales rates, and form a separate and identified part of the billed rates to customers. The Primary Gas rate rider is set quarterly as part of the Board-approved Quarterly Rate Setting Methodology.

In this Application, Centra sought the disposition of the non-Primary PGVA and other gas cost deferral accounts to customers based on the balances as at March 31, 2007, plus carrying costs to July 31, 2007. Rate riders established by prior Orders expire on July 31, 2007, and this will also affect the August 1, 2007 billed rates to customers.

Again, the regular Primary Gas Quarterly rate setting for August 1, 2007 will combine and incorporate all of the effects of this Order, including rates and rate riders, with the August 1, 2007 Primary Gas Rate.

3.0 Application

Overview

Centra filed its 2007/2008 and 2008/09 General Rate Application on January 19, 2007, and subsequently updated its application on May 15, 2007. The amendments reduced Centra's forecast of Cost of Gas from an initially forecasted $451.938 million to $407.275 million, for 2007/08; and from $412.490 million to $407.142 million for 2008/09, reflecting decreases in the actual and projected commodity price of natural gas.

Centra sought approval of:

a) A 2% increase in overall revenue requirement, effective May 1st, 2007, sufficient to generate additional revenue of approximately $10.7 million for 2007/08; and
b) A further increase of 1% of overall revenue requirement, effective May 2008, sufficient to generate additional revenue of approximately $5.4 million for 2008/09

The proposed rate increases were supported by a projection of non-gas cost and Net Income based revenue requirement of $137.7 million (for 2007/08) and $143 million (2008/09). The non-gas cost and $3 million Net Income projected revenue requirement approved by the Board (Order 103/05) for the 2006/07 test year was $131.2 million.

Proposed 2007/08 rate increases reflected a projected revenue requirement for 2007/08 that was $10.7 million higher than the estimated actual result for fiscal 2006/07. The increase in revenue requirement was comprised of non-gas costs and projected Net Income increases aggregating to $6.5 million combined with forecast gas consumption volume reductions of $4.2 million. A major factor in the non-gas cost increase was an increase in depreciation costs, that arising out of a revised depreciation schedule rates

The additional non-gas revenue requirement for 2008/09, in addition to the $10.7 increase sought for 2007/08 to continue for 2008/09, consisted of projected non-gas cost and projected Net Income increases aggregating a further $5.3 million, together with a forecast of additional volume reductions of approximately $.1 million. Towards assisting its financial sustainability,

Centra's proposed increases in revenue requirement included provision for Net Income of $5.277 million (2007/08) and $6.791 million (2008/09), amounts represented by Centra as "modest."

Centra forecasted that, with the rate changes requested, the estimated balance in retained earnings as of March 31, 2009 would be approximately $32 million, an increase over the estimated March 31, 2007 balance of $19 million.

Centra suggested rejection of its application for rate increases would jeopardise the financial integrity of the utility, to the detriment of its customers. Centra observed that retained earnings are required to provide a buffer against the risk of a possible and future sharp rate increase, one that could be necessitated through the combination of a loss year and a low opening retained earnings balance.

Centra projected that, in the absence of any rate increases, losses of $5 million and $9 million for 2007/08 and 2008/09, respectively, could be expected, reducing its retained earnings balance to a projected $6 million as at March 31, 2009. Centra opined that such a retained earnings level would be "imprudent". With respect to MH's intentions, MH's Chief Financial Officer advised the hearing that MH continues to have no intention of declaring a dividend and withdrawing any portion of Centra's retained earnings, at any time. This assertion was consistent with the position taken by MH at the 2005 GRA hearing.

Centra suggested that the Board assess the reasonableness of the proposed rate increases including the use of criteria: being safety, reliability, cost effectiveness, financial integrity, the "no harm" principle, and the environment.

In addition to the rate increases, Centra sought:

a) Final approval of fiscal 2006/07's gas costs of approximately $419.2 million;
b) Final approval of balances and disposition to customers of approximately $8.9 million of non-primary gas PGVA and other gas cost deferral accounts, as at March 31st, 2007 with carrying costs to July 31st, 2007;
c) Approval of an increase in non-primary gas costs of $1.2 million for the 2007/2008 fiscal year;
d) Approval of Interim Orders 5/07 and 60/07, related to the February 1st, 2007 and May 1st, 2007 primary gas applications, respectively;
e) Approval of changes to Centra's terms and conditions of service including company labour rates, the calculation of the gas loan mechanism, and the calculation of the short-term debt rate; and
f) Approval of the transportation service contract renewal for the special contract customer.

A review of major issues addressed in the proceeding, follows.

Demand Side Management

The 2006 Power Smart Plan is an integrated Demand Side Management (DSM) plan targeting economic energy efficient opportunities for both natural gas and electricity. The plan is an update and a refinement to the Corporation's 2004 Power Smart Plan and the 2005 Natural Gas DSM Program.

The Natural Gas DSM Program focuses on both residential and commercial customer classes and was designed to assist Centra's customers in reducing their natural gas consumption in order to achieve GHG emissions reductions and lower annual heating costs. Incorporated in the 2006

Natural Gas DSM plan is a program targeting low-income customers, though the details of the program were not finalized.

Low-Income Programs

Centra reported that it and its parent company, MH were developing a province-wide low-income program intended to integrate new programs with existing Power Smart programs, and to be known as the "Hard to Reach" Program.

Centra's program was reported to be a multifaceted approach promoting low-income customer participation, either independently or through community infrastructure. Energy saving measures are to range from low-cost/no-cost measures up to more extensive insulation measures. The current focus of the program was reported to be single occupancy owned units, and not tenants in multi-tenant dwellings.

The Hard to Reach Program would build on experience being obtained through Centra's involvement in several ongoing community-based pilot projects. The current community-based initiatives involve retrofitting 120 homes in Winnipeg's Centennial neighbourhood, and 101 homes in the Island Lake communities of Wasagamack, Red Sucker, Garden Hill and St. Teresa Point. As well, a new community-based initiative is being developed to retrofit 120 homes in Brandon. Centra advised of an intention to also pursue other community-based low-income projects, though such plans are yet to be finalized.

Centra indicated that the qualification criteria for the planned Hard to Reach program required refinement, and that upon approval by Centra's Executive Committee, the program would be launched in the fall. Centra initially estimated there were 51,000 low-income households in Manitoba:

Home Type	Centra's Estimated Number of Low Income Customers in Manitoba*
Single	28 723
Multiplex	4 053
Townhouse	2 122
Mobile	311
Apartment	15 647
Total	50 856

**Based on Manitoba Hydro Residential Study, 2003 where*

Low Income has been determined by customers indicating they have an annual household income of less than $30 000.

During the hearing, Centra subsequently revised its estimate of low-income households, estimating approximately 65,000 low- income households.

Centra acknowledged that low-income customers contribute to the funding of overall DSM expenditures while not benefiting to the same degree as other customers due to a lack of an ability to invest in DSM. Centra advised that it does not monitor participation in DSM programming by income level.

Centra advised of one staff position (MH employs all staff for both Centra's natural gas and MH's electricity operations, approximately 6,000 overall) dedicated to administering low-income programs. Centra forecast expenditures of $690,000, $729,000 and $771,000 on low-

income targeted incentives, for 2007/08, 2008/09 and 2009/10, respectively. Centra forecasted aggregate low-income targeted spending to 2017 of $4.2 million, but advised that the estimate would likely be exceeded in practice, as formal budgeting for the program had not been finalized beyond 2010.

Centra advised that its Hard-to-Reach DSM budget represented approximately 14% of projected total Residential DSM expenditures, a level Centra compared favourably to similar provisions designated for low-income programs in Ontario and Quebec. Centra did not agree with CAC/MSOS's proposal that a minimum DSM budget for the Hard to Reach program be set, with the minimum to be a percentage of the overall residential DSM budget. Centra stated a preference to vary the DSM budget annually based on customer participation, and capitalize on other sources of funding when and if available.

The Hard to Reach Program was indicated to plan for leveraging funding from both the Affordable Energy Fund and the recently announced Federal ecoEnergy Retrofit program.

The Affordable Energy Fund (AEF)

In 2006, the Provincial Government introduced The Winter Heating Cost Control Act, which, among other provisions, established the AEF. The Act required MH to contribute a percentage of its 2006/07 gross export revenues to the AEF, and Centra reported that the percentage set was 5.5%, representing a fund of $35 million to target various initiatives.

Centra indicated that $19 million of the AEF's $35 million had been earmarked for Province-wide low-income initiatives, with $8 million for community energy development, $0.25 million to expand the eligibility of Power Smart programs in Manitoba to include residential homes heated with energy other than natural gas or electricity, $0.75 million for rural and northern support and outreach, and $1 million for special projects yet to be defined.

Centra indicated that the $19 million reserved for low-income programs would largely benefit electricity and natural gas space-heated homes, and would provide for programs that would not otherwise be funded from MH/Centra's rate-based DSM programs, including the Hard to Reach Program. As well, Centra indicated there was no provision for interest on AEF balances.

Furnace Replacement Program

Centra stated that its Residential Power Smart Loan Program finances furnace replacements to reduce customers' heating bills and GHG emissions, and, as well, contribute to the conservation of natural gas, a non-renewable resource. Replacement of a conventional low efficiency furnace with a high efficiency furnace by a residential customer was forecast to reduce that household's natural gas consumption by a third, representing approximately $500 per year at today's primary gas rates.

Centra's current Furnace Replacement Program offers customers a $245 incentive to install a high efficiency natural gas furnace. Based on permits issued, Centra anticipated potential annual replacements of 6,800 conventional and mid-efficiency natural gas furnaces with high efficiency furnaces. Centra advised that the cost of installing a high efficiency furnace ranges from $3,500 to $5,500 and above, depending on the contractor and the installation issues. Centra noted that the furnace installation industry is a competitive industry, and suggested that customers should "shop around", as installers may be found at both the lower and higher end of the cost range.

Centra indicated that, while it was not aware of widespread overcharging for installations of high efficiency furnaces, over-charging was possible. Centra opined that it is not its role to regulate the furnace installation industry, and that to attempt to do so might damage its working relationship with the industry, which could lead to difficulties being experienced with gaining industry cooperation with Centra's efforts to implement DSM programs.

While Centra is in the development stages of its low-income programs, a furnace replacement program specifically for low-income customers was not presently under consideration. However, Centra indicated it would consider the concept of a small levy on customers' bills for the specific purpose of assisting low-income customers with the installation of high-efficiency furnaces and properly installed insulation and weather stripping. Such assistance could either be in the form of low interest loans with potentially deferred payment plans, or by way of direct incentives.

DSM Costs and Program Administration

Centra's current DSM program was reported to have a natural gas volume consumption saving target of 86 million cubic metres, expected to reduce GHG emissions by 164,000 tonnes by 2017/18. To this point in time, Centra advised having expended approximately $18 million on natural gas DSM, while forecasting future spending of approximately $10 million annually in 2007/08 and 2008/09.

Overall, Centra forecast it would expend $125 million in natural gas DSM from the inception of its DSM program to the end of fiscal 2017/18. Centra advised that annual DSM expenditures are not expensed in the year incurred, but deferred and amortized over a fifteen-year period.

Participation in Centra's DSM programs is facilitated by MH's Power Smart Loan program. The program offers SGS and LGS class customers loans to undertake energy efficiency and weatherization measures. Centra indicated the Power Smart loan program had recently been revised, and that the borrowing limit had been increased to $7,500 from $5,000. In the case of loans for geothermal heating installations, Centra advised loans were available to up to $20,000, with a reduced interest rate and an extended term of up to 15 years (the term for natural gas furnace installations is five years and the interest rate provided is greater than the rate provided for geothermal installations).

Centra advised that further changes to the Power Smart Loan program, such as extending the terms of the payback of the loan beyond the current five-year term and/or reducing the interest rate for the loans, were being considered, as part of the yet-to-be finalized low-income program.

Centra noted that its DSM programs are formally evaluated with respect to net program savings and costs against targets and with respect to cost-effectiveness. Centra advised that the results from program evaluations are considered within annual Power Smart reviews, which assess the success of the overall Power Smart portfolio and are filed with the Board.

With respect to the development of its DSM plans, and in response to suggestions from interveners, Centra opposed forming a conservation advisory group to assist it in planning, designing and implementing efficiency programs. Centra opined that a single advisory group would not be an effective way of gaining input from external parties. Centra reported its approach, which it found to achieve optimum success in capturing energy efficiency opportunities, involved consultation with industry and market segment-specific external stakeholders with respect to specific DSM program design. Centra suggested that its present targeted approach best recognizes the specific attributes of each targeted market.

Centra noted that its DSM plans and results are regularly reviewed through the Board's public hearing proceedings, and opined that adding a generic advisory group to further review its DSM efforts would add little value, unless that process was to replace current regulatory review.

Centra also opposed contracting with an external party for a thorough evaluation and review of the effectiveness and cohesiveness of Centra's DSM programs, with a view to ensuring best practices. Centra noted that it obtains external input by direct contact with utilities delivering programs throughout North America.

Centra reported that it intends to continue to require a home energy audit as long as the Federal ecoEnergy Retrofit Program exists, as that program requires audits be undertaken in order to be

eligible for the Federal grants. Centra questioned the need for comprehensive pre- and post-retrofit audits for its retrofit programs. Centra noted that it and a "growing" number of energy efficiency entities recognize that home audits are very expensive and not always the most efficient or effective use of funds.

Cost of Service/Rate Base, Rate of Return

There are two generally accepted methodologies for determining a regulated utility's annual revenue requirement. One approach is the Rate Base/Rate of Return approach, which has been in use with respect to Centra for decades. The other approach is denoted as the Cost of Service approach, a methodology preferred by MH, Centra, and the Board for regulating public sector utility monopolies.

Under the Rate Base/Rate of Return regulatory model, the major determinants of revenue requirement and rates are Rate Base (basically, allowable investment in plant net of accumulated depreciation and working capital allowance), depreciation and amortization, debt, shareholders' equity and allowable costs. The regulator determines the allowable Rate Base (assets can be disallowed), allowable costs (costs can be disallowed) and determines an overall allowed Rate of Return on Rate Base. The allowed Return on Rate Base is comprised of four factors: debt, and shareholder equity, interest rate on debt, and the allowable rate of return on shareholder equity.

Generally, for a privately owned utility the Capital Structure consists of approximately 60% debt, with the other 40% funded by shareholder equity. The rate of return allowed by the regulator on shareholder equity is higher than the interest rate on debt, as a risk premium is provided for shareholder equity. As at March 31, 2007, Centra's projected debt: equity ratio, on a stand-alone basis (i.e. considering only Centra's balance sheet, not the price paid for Centra by MH)) was no higher than 70:30 as formulated by Centra (and that excludes contributions by

customers to capital expenditures from the equity component – such contributions are included as equity in MH's debt: equity formulations).

The Cost of Service regulatory model for determining revenue requirement and rates is different than the Rate Base/Rate of Return model in several areas, though the Board's ability to declare certain costs not to be allowable remains unchanged.

The focus under a Cost of Service model is allowed costs and a targeted level of retained earnings to form the annual revenue requirement, which is then used to determine rates. With respect to allowable net income, the regulatory test on a Cost of Service basis is not the based on an acceptable Rate of Return on Rate Base and shareholder equity but that required to both avoid future rate shock and ensure the utility's financial health.

Operating and Administrative Expenses (O&A)

Centra projected O&A costs of $56.6 million and $58 million for the 2007/2008 and 2008/09 test years, respectively. Centra advised that these projections, which represented annual increases of 2.5% for each test year, were both reasonable and appropriate given the substantial cost pressures being faced.

Centra incorporated a contingency provision in its operating budget, in support of its application. Centra indicated the contingency of $1.7 million represented costs and program changes not yet incorporated into detailed budgets, when incorporated to amend compensation, commodity costs (fuel, materials and odorant); and contracted services. With respect to compensation, Centra specifically indicated an unbudgeted trainee program to cost in excess of $1 million annually. Centra advised that the operating cost budget included in its application was based on detailed and integrated budgets prepared a year ago, and opined that the contingency was required to represent fairly the operating cost outlook.

Centra reported that O&A costs were under particular pressure from present and expected labour shortages, driven by demographics and a booming economy in western Canada, and lead to higher labour costs. Centra further supported its O&A forecasts by referring to actual and forecasted O&A costs per customer. Centra noted that the O&A cost per customer for 1998 was $209, while the forecast for 2008/09 was $220, representing an increase of approximately 5 percent over ten years. Centra reported that following MH's acquisition, and towards assessing O&A cost growth under integrated MH management, Order 118/03 approved a cost of operations amount of $49.3 million plus a synergy benefit transfer of $3 million, arriving at a total O&A of $52.3 million for 2003/04. The actual O&A incurred for 2003/04 was $52.8 million, only slightly different than the projection of the Order. Centra noted that Order 118/03 stated:

"The total operating costs of Centra approved in this Order, including the synergy benefit transfer, is reasonable when compared to the cost of operations approved by the Board in 1998 after adjusting for inflation."

Centra suggested that on a constant dollar basis (i.e. adjusting to remove general inflation), its forecasted cost per customer indicates a substantial decline, from $257 in 1998 to a forecasted $220 ten years later. Centra advised the decline was despite upward pressure on operating costs arising from the implementation of the western transportation service (WTS), the replacement of Centra's mainframe and mainframe-based billing system, fuel, and commodity cost increases, and program expansion.

Centra opined that the trend was positive, and further supported its claim of productivity savings since MH's acquisition by suggesting that cost pressures have been largely offset by efficiencies and synergy savings brought about from the integration of MH and Centra. Centra advised that productivity related cost reductions of 1% to 2% per annum were embedded into its O&A cost projections. Centra noted that labour costs comprise the majority of O&A costs, and that Centra's ability to restrain the overall increase in O&A costs below the level of annual labour

rate increases demonstrated both productivity savings and the incorporation of productivity savings into overall operating cost levels.

Centra reported labour rates as increasing 4 to 5% annually, including negotiated cost of living adjustments, merit and progression increases, while O&A cost projections have been held to 2.5%. Centra advised that it had realized substantially all of the synergies associated with its integration with MH, and that the main operating cost issue for the future was dealing with labour shortages and expected attendant cost increases that would likely be above the level of general inflation.

Integrated Cost Allocation Methodology

MH has fully integrated its gas and electric operations. All operating and administrative (O&A) costs are incurred by MH and allocated between Centra and MH. MH's integrated cost allocation methodology was reviewed extensively during the 2002 Status Update Hearing, and at that hearing the Board reviewed a report on MH's cost allocation methodology prepared by KPMG, which was re-filed at this hearing.

Centra reported that while the operations of MH's electric utility and Centra are totally integrated, each has many discrete functions. Centra advised that work performed on its behalf by MH employees is, for the most part, directly charged, and that substantial portions of Centra-related functions are performed by MH's gas-dedicated employees.

Centra noted that the activity rates used to charge Centra for work performed by MH staff are calculated using a standard methodology that allows for the covering of the cost of operating departments performing work on behalf of the gas operations. Centra reported that where, due to volume or cost variances, the activity rate either over or under absorb a department's costs, the residuals are allocated proportionately to Centra through the corporate allocations and

adjustment section of the O&A cost statement.

Centra advised the Board that through this process assurance is provided that gas (Centra) and electric (MH) operations are allocated correct proportions of MH's consolidated and overall costs.

With respect to integrated operations, such as support for the customer information system, Centra advised that costs are segregated between MH and Centra, with the accumulation of such costs then allocated to MH and Centra using appropriate cost drivers.

Centra stated that the integrated O&A cost allocation methodology continues to be appropriate as it is based in part on directly charging MH departments responsible for gas operations and provides a high degree of transparency with respect to the costs of operating the natural gas utility.

Centra further noted that the processes used and costs reported have appropriate system, process, and reporting controls in place, which are reviewed annually by the external auditor. Centra held that a global review of all MH costs for this proceeding was unnecessary and inappropriate, and would result in substantial extra time and cost with little or no benefit to the hearing.

Depreciation Expense

In support of revised depreciation rates and increased depreciation cost forecasts, Centra filed a new depreciation study prepared by an external consultant. The study recommended updated and, overall, increased depreciation rates. Centra prepares and files a depreciation study every five years.

The new rates, which were approved by Centra's Executive Committee in October 2006, reflect updated information on the service life and the salvage costs of Centra's assets. The most

significant change to Centra's depreciation rates was to its distribution plant assets, particularly mains and services with indicated reduced service lives.

The net result of the updated depreciation rates was an increase in annual depreciation expense of approximately $2.1 million for 2007/08. In addition, net plant additions added to the increase, representing an increase in depreciation expense of a further $.3 million. Overall depreciation expense was forecast to increase from $14 million to $16.4 million in 2007/08 and $17.0 million in 2008/09.

Corporate Allocation

MH acquired Centra in 1999 for $253.8 million, including goodwill, asset write-ups, and acquisition and integration costs. In Order 118/03, the Board discussed the source of funds available to MH from Centra to fund the acquisition, and stated:

> *"The Board believes the no-harm principle is paramount, and that both Centra and MH ratepayers should, to the extent possible, be held harmless as a result of the decision by MH to acquire Centra. The Board also recognizes that since MH initiated the transaction, it should bear some risk relative to the transaction, particularly since MH's size relative to Centra makes it better able to manage any negative cost implications resulting from the acquisition."*

As articulated in that Order, which was released prior to MH's acquisition, under the former private ownership Centra produced average annual after tax profits of between $14-$16 million.

The concept was, and remains that after taking into account the same level of return allowed the former private owner and the expected savings to arise out of operational synergies, MH would acquire Centra without any negative rate implications for either the customers of Centra or MH.

In the 2002/03 fiscal year, MH and Centra began to utilize an annual Corporate Allocation charge by MH to Centra, initially set at $15.1 million. The Corporate Allocation was then to be the mechanism by which Centra would make its "required" contribution to the costs arising from MH's acquisition of Centra.

At the 2005 GRA, when it was reported that the Corporate Allocation had been retroactively reduced to $12 million, Centra confirmed that approximately $19 million was required annually to amortize MH's costs arising out of the acquisition, and that Centra's share of those costs was to be $12 million, the other $7 million to be borne by MH.

The Corporate Allocation was to be reflected in non-gas rates as long as the Board was assured that Centra's customers had not been "harmed" by the charge, i.e. that Centra's rates were not in excess of what they would have been absent the acquisition.

At the 2005 GRA, in support of the Corporate Allocation, a detailed assessment of whether Centra's customers were harmed was undertaken. In part, this included an assessment of the savings reported to have resulted to Centra as a result of operating synergies with MH. The analysis and discussion also involved considering current O&A expenses and other revenue requirement items and comparing these results and forecasts with the levels prior to the date of acquisition.

Estimates of avoided cost and synergy savings were extensively examined and tested. Centra provided specific examples of savings arising out of the acquisition and later integration of Centra operating functions and staff into MH, citing in particular reductions in executive costs, steps to make construction initiatives more productive and income tax savings (Centra is now income tax exempt).

By Order 103/05, the Board agreed with the contention that synergies had been realized and approved both an annual Corporate Allocation of $12 million and an allowance to be reflected in rates of Centra annual Net Income of $3 million, together with the Corporate Allocation to arrive at an overall annual return to MH of $15 million, the level consistent with, the net income range allowed Centra's former private owner, as contemplated by Board Order 118/03.
At this hearing, Centra again confirmed its understanding that MH's acquisition of Centra is not to result in higher rates for Centra customers than would otherwise have been the case under Centra's management by its former private owner.

No Harm Principle

The "no harm" principle has the objective that neither customers of MH's electricity operations nor Centra's should be disadvantaged from a rate perspective as a result of MH's acquisition of Centra. Centra noted that the Board, in Order 135/05, concluded that the acquisition had benefited Centra's customers and, advised that future hearings would not be required to revisit the issue of whether "harm" had occurred.

As established in law and by Orders 103/05 and 135/05, testing of Centra's allowable Net Income involves not only the employment of a Cost of Service methodology, but also the application of the "private sector" Rate of Return, Rate Base methodology.

The "no harm" principle tests Centra's forecast returns to its shareholder, MH, against what is assumed would have been the experience if Centra were still owned by its former private owner, Westcoast Energy Inc. To determine what would have been the case if Westcoast still owned Centra, pro forma income statements indicating what would have been the return to the private shareholder for the test years given similar operating conditions are and were developed.

Centra's hypothetical model of expenses and Net Income under private ownership included

projections for operating costs, depreciation, and finance expense. Centra claimed operating and administration (O&A) costs and income taxes were lower under MH ownership than would have been the case under private ownership, because of synergies and Centra's tax-exempt status. Centra suggested that the Corporate Allocation was the *quid pro quo* for receiving those synergies and should be included as an expense in the Rate Base Rate of Return calculation, separate from and in addition to the reflection of an allowed Net Income level consistent with that which had been provided the former private owner of Centra.

Centra opined that under private ownership it would not have been able to achieve the operating synergies it has achieved under MH ownership. In that view, Centra disputed CAC/MSOS witness' assertion that a private owner would have been able to generate more synergies than MH. Centra noted that no evidence had been submitted to support such a claim, and suggested that a regulated utility would not be able to achieve a higher rate of return by reducing operating costs because any cost reductions would be passed on to customers in accordance with well-established regulatory practices.

With respect to the level of depreciation expense, Centra assumed that whether under private or MH ownership, depreciation rates would be established based on best practice and the annual expense level would be the same. While many underlying assumptions were required to come to that conclusion, Centra disputed CAC/MSOS witness' claim that deprecation would be lower under private ownership.

With respect to finance expense, Centra noted that its comparison of projected expense levels with hypothetical expense levels under private ownership incorporates the provincial guarantee fee and the replacement of existing debt at the date of acquisition with new debt at lower interest rates. Centra noted that the outstanding debt issues had been approved by Board Orders 135/02 and 118/03, and that its calculation of long-term debt costs were based on the historic and embedded cost of debt. Centra refuted CAC/MSOS witness' representation of likely finance

costs under private ownership, noting that the witness had failed to include interest on common assets and inventory.

Centra compared its simulated returns for a private owner against Centra's annual payment of a Corporate Allocation and projected Net Income, and suggested that Centra's Net Income requests for 2007/08 and 2008/09, excluding the Corporate Allocation, represented a return on equity of 3.7% and 4.55%, respectively. To conclude, Centra compared those pro forma potential returns with its calculation of what would be allowed on a Rate Base Rate of Return basis, opined that to be 8.21%, or $11 million and $14 million for the two test years, respectively.

Centra supported the Board's use of its discretion to determine an acceptable method of cost recovery. Centra argued that substantial synergies and other benefits have resulted from the acquisition for Centra, and that those overall benefits (primarily lower income taxes and O&A expenses than, according to Centra, would otherwise have been expended) exceed the Corporate Allocation.

Based on its analysis, the simulation and comparison, Centra opined that the rate increases and Net Income levels projected for the test years 2007/08 and 2008/09 did not breach the "no-harm" principle established by the Board. Centra opined that the Net Income projected for 2007/08 and 2008/09 should not be considered an excessive request.

Centra opined that "… fairness (is) a basic overriding regulatory principle, (and) dictates that (MH's) recovery of (a) share of the cost of the acquisition … is reasonable regardless of the methodology used to set rates", and concluded that the Public Utilities Board Act provides the Board broad discretion to consider any number of factors in setting gas rates.

Noting the level of attention paid to the "no harm" principle in this and recent past proceedings, Centra suggested no further future tests of the principle. Centra reminded the Board that at the 2005 GRA hearing, it had advocated an end to hypothetical tests of private ownership results to

be compared to actual results under MH ownership, observing that such tests became increasingly difficult as time elapses. Centra also reminded the Board that in Orders 103/05 and 135/05, the Board found the acquisition of Centra by MH to be a benefit to ratepayers.

Centra encouraged the Board to give specific direction within this Order that future tests of non-gas commodity costs against hypothetical costs under private ownership will not be required, and that allegations of harm arising from the purchase transaction should not be made in future proceedings, the issue having successfully been tested.

Debt: Equity Ratio

In setting rates, a critical criterion has been the actual and projected debt: equity ratio of Centra. A longstanding test of the financial integrity of a utility involves considering the ratio of debt to equity. It has been generally accepted that a private utility, i.e. not a Crown Corporation, requires a debt: equity ratio of no higher than 60:40 (60% debt, 40% shareholder equity) to be able to attract capital at reasonable terms.

Too high a level of debt relative to equity means less "cushion" to absorb unexpected losses that could risk a utility's financial position and credit worthiness. Such a situation could also lead to a dramatic rate increase, one well above the rate of inflation, as suggested earlier in this Order. Accordingly, MH, this Board, and interveners in MH electricity rate hearings have accepted a debt: equity target of 75:25 for its electricity operations.

Centra continued to advance the view that Centra's debt: equity ratio should be calculated from the perspective of MH. As it did at the 2005 GRA hearing, Centra defended its use of MH's consolidated perspective of Centra's debt: equity ratio, opining that an important element in calculating a debt: equity ratio is consistent methodology, and that consistency suggested that the target established for the consolidated MH should be same as for the subsidiary.

Centra further supported its way of calculating debt: equity ratio by noting the integrated nature of Centra's operations within the consolidated operations of MH. Centra is managed and operated by MH, through MH's employees and agents. Centra's Board of Directors has the same membership as MH's. As well, Centra's debt is payable to MH, and, increasingly, common and shared assets support both electricity and natural gas operations.

Centra also suggested that from a Cost of Service perspective, it would be more appropriate to exclude Centra's share capital from the equity component of the debt: equity ratio in recognition of the reality that MH purchased Centra with debt and that unlike retained earnings, share capital cannot be drawn down to offset operational losses.

That said, Centra accepted that employing the "standalone" methodology accepted by the Board in Orders 103/05 and 135/05, which arose out of the 2005 GRA hearing, that is calculating Centra's debt: equity ratio employing Centra's balance sheet would involve including Centra's $121 million of share capital as a segment of its equity, resulting in a debt: equity ratio of 70:30.

While Centra accepted the standalone methodology would have Centra's debt: equity ratio at a level beyond MH's target range, Centra suggested that if the standalone methodology was to be employed, then the proper target should be a standalone debt: equity ratio target of 60:40.

Centra provided a revised ten-year forecast based on a stand-alone debt: equity target of 60:40. The forecast included Net Income projected at $6 million and $7 million for 2007/08 and 2008/09, respectively. Centra reported that including its proposal for 2% and 1% rate increases for 2007/08 and 2008/09 with further increases to 2017 would provide an accumulated rate increase of 6.9% over the forecast ten-year time frame, with a stand-alone debt:equity target of 60:40 being the base principle. Centra contrasted that projected rate increase outlook with an alternative forecast based on MH's debt:equity methodology and a 75:25 debt: equity target, and advised under that regime the accumulated rate increase would be 6.1% over the same time frame.

Centra suggested such forecasts represented a fair and customer-sensitive approach to attaining Centra's long term financial target, regardless of the debt:equity methodology determining the target.

With respect to applying Centra’s preferred approach, the application of MH’s approach, Centra forecasted that approval of the rates sought would allow for the ratio to decline to 85:15 by March 31, 2009 and the attainment of $85 million in retained earnings and a debt: equity ratio of 76:24 by 2016/17.

Capital Expenditures

Centra reported that its capital expenditures on plant and equipment were comprised of:

1) system betterment expenditures – including integrity management, capacity and pressure upgrades, replacing expired pipe, meters and other equipment, additional capacity and redundancy; and
2) system load growth - expanding the system to serve new customers.

Centra advised that its aggregate capital expenditures were forecasted at $41.3 million and $35.1 million for the two test years, 2007/08 and 2008/09, respectively, and that the amounts include increased DSM efforts, plant removals, and deferred charges, net of customer contributions.

Centra reported capital spending forecasts of $30.8M and $25.2M, for 2007/08 and 2008/09, respectively. In each test year, Centra forecasts expenditures of $9.5 million on system load growth, with annual offsetting contributions in aid of construction of $400,000. The remainder of the forecasted expenditures relate to system betterment. With system load growth, system betterment expenditures may also be required.

System load growth specifically refers to the installation of services and distribution mains within existing service territories. However, when the maximum capacity of transmission and distribution mains to new developments is reached, higher capacity transmission lines may be required. The forecasted cost of all types of capacity upgrades was $4.6 million. Although caused by System Load Growth, these costs were not included in the $9.5 million attributed directly to System Load Growth.

Advanced Metering Infrastructure

Centra advised of its intention to proceed with a pilot Advanced Metering Infrastructure (AMI) project, to include installation of 1,000 AMI units. Centra reported that the pilot project would target existing meter reading routes with continuous problems gaining access to read the natural gas meters. Centra included $277,000 and $4.231 million for AMI related expenditures within its forecasts for 2007/08 and 2008/09, respectively.

Centra suggested AMI would relieve safety concerns associated with meter readers entering dangerous premises, and that, as part of the pilot project, Centra will consider the economic and physical feasibility of leak, tilt, cathodic and icing detection devices that could provide additional safety benefits. Centra suggested the advantages would include real-time data on meter leaks, strained risers and icing problems. Centra noted that under current conventional meter reading, such data is available, at best, only every two months, and, in the cases of meters that are difficult to access, rarely.

Centra advised it had included the implementation costs of the project in its forecast for 2007/08 and 2008/09, and in Rate Base, on the assumption the pilot project would prove successful. Centra opined that the ultimate impact on revenue requirement using this approach would be lower than would occur through deferring and then amortizing over five years.

In Centra's view, proceeding with the pilot project is essential to allow it to inform itself as to the

capabilities of new technologies, while better enabling the preparation of a comprehensive business case.

Centra has yet to either file with the Board an AMI business case or commence the pilot project. Centra filed a report with the Board in January 2006 on AMI, though the report did not address how safety concerns will be alleviated once the AMI meters are introduced. At this year's hearing, Centra advised that the advantages of AMI included improving safety for meter readers, who would not have to confront access issues.

Corporate Head Office

As a condition of the purchase agreement entered into when Winnipeg Hydro was acquired, MH agreed to build a new Corporate head office in downtown Winnipeg; the building, to accommodate 2,100 employees, is expected to be placed into service on May 1, 2008 at a projected revised cost of $278 million.

While the new building will develop substantial amortization, financing and other costs, Centra opined that there would be no impact on its revenue requirement for either 2007/08 or 2008/09, and that the impact on revenue requirement for 2009/10 and beyond would be "minimal."

Centra estimated that based on a service life of 60 years and including financing charges, the overall cost impact of the new head office would be $21 million per annum, to be offset by lease payment savings of $5 million (related to 275,000 square feet of non-renewed leases) and annual productivity savings projected to be in the range of $20 million annually. Centra confirmed that while the productivity savings forecast represented the equivalent of 10% of MH's overall payroll for employees to relocate in the head office, no forced reduction of positions will be required, though reduced complement may develop through attrition and retirements.

Centra further noted that presently, and from its time under private ownership, Centra's head office functions are and were located in leased premises at 444 St. Mary Avenue. Centra reported that the number of Centra head office personnel had not increased under MH ownership, and that Centra's gas volume throughput was trending down.

Four Party Trench

In December 2006, the Board heard Centra's application to continue to use the four party trenching method of installing gas mains and services in residential subdivisions. The Board had noted that construction costs for installations using four party trenching remained considerably higher than estimated, and higher than an installation using the conventional method.

Centra developed an optimization plan to lower the cost of four party trenching, so to be equal or slightly less than conventional installations. Centra advised that it expects the plan to be implemented by early 2008, and an intention to monitor the results over the 2008 construction season.

In Order 177/06, Centra was ordered to file a report with the Board by June 30, 2009 indicating the results of the optimization plan.

System Safety and Integrity

Pursuant to legislation and past practice, Centra must justify all proposed future plant expenditures to the Board's satisfaction prior to installing any plant. In this regard, the regulation of Centra, which is established in statute, will continue to differ from that of MH.

At the time of MH's acquisition of Centra, MH stated that it would not compromise safe and reliable service. Interveners involved in that process sought a continued high level of supervision by the Board. Centra has substantial responsibilities pursuant to the Gas Pipe Line Act, not diminished as a result of the acquisition.

Notwithstanding the Board's oversight responsibilities pursuant to the Gas Pipe Line Act, which continue, Centra continues to bear, and accept, the prime responsibility for the installation, maintenance and operation of its plant in a manner so as to ensure public safety.

Cost of Gas

The most significant cost incurred by Centra relates to the acquisition of natural gas. Centra acquires the majority of its gas supply from Western Canada sources through a contract with Nexen Marketing, and smaller volumes of gas (supplemental gas) from the United States.

Centra contracts natural gas storage facilities in Michigan. After injecting gas into storage in the summer, Centra withdraws the gas during the winter months. Centra's pipeline transportation contracts with TransCanada Pipelines, Great Lakes Gas Transmission, and ANR, facilitate the movement of gas to the Manitoba load and Centra's storage facilities.

Centra reported the actual cost of gas in 2006/07 at $419.2 million, and sought approval of the expenditure. The expenditure reflects a reduction in overall gas costs as a result of Centra's capacity management revenues of $7.9 million, and gas costs of $73 million as a result of Centra's hedging activities.

A major contribution to Centra's 2006/07 Cost of Gas was the results of Centra's hedging activities. If Centra had not hedged its supply costs for gas acquired in 2006/07, gas supply costs would have been lower by $73 million. Centra uses "cashless collars" which effectively lock the price of volumes of gas into a narrow band, a band that was often breached during the past

volatile commodity price year. Hedging activities are undertaken towards the objective of reducing rate volatility for system gas customers.

Centra has advised that since it began hedging using "cashless collars", that the overall result of its hedging activities has been basically neutral, with recent hedging costs offsetting past hedging gains. Recently, acting on a Board direction arising out of the 2006 Cost of Gas hearing, Centra widened the band of its "cashless collars", and this is expected to reduce the level of costs either paid to or received from counter-parties.

Centra recently extended its Primary Gas supply contract with Nexen Marketing, which now concludes unless further extended October 31, 2009; the extension was within the parameters established by the Board (Order 175/06). The major change in the new contract is with respect to the frequency of changes to the contract volumes that Centra makes (nominates).

Under the current contract, Centra can make quarterly changes to the base volumes. Therefore, customers who wish to switch from Centra-supplied gas to Broker-supplied gas could wait up to three and a half months before they receive gas from a Broker. Under the new contract, Centra can make monthly changes to the base volumes, resulting in customers being able to switch to Broker gas on a monthly basis. This increased flexibility has a cost that is estimated to be $160,000 per year. Ahead of November 1, 2007, the beginning of the contract extension and the change to the nomination process, Centra has deferred addressing how to fund the additional costs, and expects a decision on this matter to be made in the September 2007 Competitive Landscape hearing.

Centra has not amended its transportation or storage arrangements since the last GRA, though its contracted transportation with TCPL expires in October 2007 and March 2008; Centra advised plans to renew. The American transportation and storage arrangements do not expire until March 31, 2013.

Centra sought approval to refund of $8,972,635 to customers by way of rate riders, the balance to be refunded accumulated in the various non-primary PGVAs. Centra proposed to refund this amount to customers through rate riders to be in effect from August 1, 2007 to July 31, 2008.

Western Transportation Service

Any Manitoba natural gas consumer (including residential, commercial and industrial customers) may purchase their Primary Gas directly from a broker independent of Centra. The service provided by Centra to facilitate the transportation of Direct Purchase supplies is known as Western Transportation Service (WTS), in which the consumer arranges, through a broker, a source of gas in Western Canada and Centra transports the gas from its Western Canada supplier to the consumer.

Centra estimated its annual internal costs to administer WTS to be in the range $750,000, and has suggested it will request the Board's approval, in the upcoming Competitive Landscape hearing, to recover these costs from brokers and/or their customers. Centra indicated that if the Board were to agree in principle to such an approach, then it would track these costs and propose a specific recovery and rate at Centra's next General Rate Application.

Primary Gas Overhead Rate

Centra requested Board approval of new Primary Gas Overhead Rates, to be charged only to its system supply customers as part of the Primary Gas Rate. Currently, the Primary Gas Overhead Rate is $\$1.71/10^3m^3$ of natural gas. Centra sought approval to revise the rate to $\$1.64/10^3m^3$ effective May 1, 2007, and then to $\$1.68/10^3m^3$ effective May 1, 2008.

The Primary Gas Overhead Rate reflects overhead costs incurred by Centra to provide primary gas service to its system supply customers. Centra incur administrative costs in acquiring and nominating daily volumes of primary gas, aggregating to approximately $1.86 million and $1.9 million for 2007/08 and 2008/09, respectively.

Centra's application projected the reflection of these costs in the primary gas rate. The overheads did not include Centra's projected costs to administer WTS, nor with respect to the daily nominations of WTS volumes.

Centra explained its rationale for assigning primary gas overhead costs only to System Supply purchases, as follows:

> *"…a primary gas rate for a system supply that was consistent or more of an apples to apples comparison with what a Broker would be offering to its customers."*

The underlying premise is that private brokers incur their own costs to acquire and manage primary gas supplies, and price their contract offerings to their customer base to include both the cost of gas and the O&A to manage these supplies. Similarly, Centra's Primary Gas Rate, including overheads, is composed of the cost of the gas plus the overhead costs necessary to acquire and manage it.

Centra indicated that Order 15/98 could be interpreted to direct that such costs be recovered from all customers through the distribution rate. However, Centra interpreted the Board's direction to mean that overheads of this nature should be allocated to system gas customers, to reflect a level "playing field" with broker offerings.

Primary Gas Rates for August 1, 2007

Introduction

Natural gas commodity costs represent approximately 65% of a "system gas" customer's annual bill. Primary gas rates are subject to amendment quarterly, on the first day of February, May, August, and November of each year.

These regularly scheduled quarterly primary gas rate reviews occur in accordance with a Board-approved RSM, which is formula-driven and relies on established accounting and rate setting conventions. The procedure was put in place to restrain regulatory costs, and has been supported by interveners.

Non-primary gas components of Centra's rates, which affect all customers including those purchasing natural gas from brokers, are also periodically reviewed and approved by the Board. Non-primary gas cost reviews occur through annual Cost of Gas hearings, which also finalize interim quarterly primary gas rate changes, and Cost of Gas hearings occur either independent of or as a segment of a General Rate Application (GRA) proceeding.

Natural gas commodity market prices are largely determined by North American supply and demand circumstances. Significant market price volatility associated with weather variations and events affect futures contract prices in the open natural gas market. In recent months, natural gas market prices have declined significantly. The major market price declines for natural gas that followed the record peak experienced in December 2005, following hurricanes Katrina and Rita, have not resulted in significant primary gas rate decreases for Centra's system gas customers because of Centra's hedging activities (undertaken pursuant to policy implemented for the purpose of reducing rate volatility rather than commodity costs and rates).

Current futures prices suggest Centra may incur additional primary gas costs of approximately $15 million arising out of its hedging for the period May 2007 to April 2008. Actual results are

expected to vary from these projections. Hedging, which may develop either additional costs or cost offsets, are considered elsewhere in this order.

The following table illustrates the changes in natural gas prices that have occurred over the past eight years, since MH acquired Centra, from the perspective of a residential customer purchasing primary gas from Centra.

Primary Gas Base and Billed Rates

Date	Primary Gas Commodity Cost	% change in Primary Gas Cost	Average Annual Bill, including primary gas Costs	% Change in the Total Annual Bill
December 1, 1999	$3.003/GJ	Base	$ 758	Base
August 1, 2000	5.187/GJ	72.7%	878	15.8%
November 1, 2000	5.894/GJ	13.6%	975	11.1%
February 1, 2001	9.251/GJ	57.0%	1,225	25.6%
June 1, 2001	6.429/GJ	(30.5%)	1,299	6.1%
August 1, 2001	4.614/GJ	(28.2%)	1,095	(15.7%)
November 1, 2001	4.168/GJ	(9.7%)	1,020	(6.9%)
February 1, 2002	4.028/GJ	(3.4%)	999	(2.0%)
May 1, 2002	5.094/GJ	26.5%	1,088	8.9%
August 1, 2002	4.759/GJ	(6.6%)	1,022	(6.0 %)
November 1, 2002	5.024/GJ	5.6%	1,041	1.8%
February 1, 2003	5.860/GJ	16.6%	1,155	11.0%
May 1, 2003	5.928/GJ	1.2%	1,149	(0.5%)
August 1, 2003	5.857/GJ	(1.2%)	1,091	(5.1%)
November 1, 2003	6.003/GJ	2.5%	1,110	1.8%
February 1, 2004	6.148/GJ	2.4%	1,121	1.0%
May 1, 2004	6.413/GJ	4.3%	1,153	2.8%
August 1, 2004	6.683/GJ	4.2%	1,179	2.3%
November 1, 2004	7.032/GJ	5.2%	1,152	(2.3%)
February 1, 2005	6.637/GJ	(5.6%)	1,121	(2.7%)
May 1, 2005	7.855/GJ	18.4%	1,243	10.9%
August 1, 2005	7.957/GJ	1.3%	1,276	2.7%
November 1, 2005	9.314/GJ	17.1%	1,356	6.3%
February 1, 2006	9.162/GJ	(1.6%)	1,359	0.2%
May 1, 2006	9.205/GJ	0.5%	1,369	0.7%
August 1, 2006	8.818/GJ	(4.2%)	1,273	(7.0%)
November 1, 2006	7.941/GJ	(9.9%)	1,261	(1.1%)
February 1, 2007	7.661/GJ	(3.5%)	1,261	0%
May 1, 2007	8.040/GJ	4.9%	1,318	4.5%
August 1, 2007	7.457/GJ	(7.3%)	1,255	(5.1%)

Notes:
1. Primary gas rate increase factors in 100% of the increase between the current 12-month forward price for Western Canadian natural gas commodity supplies for the period May 1, 2007 to April 30, 2008 from the price as of April 20, 2007;
2. Forecast losses on hedges placed for the next twelve months are accounted for with the projected loss for hedging of $15.366 Million. The August 1, 2007 to July 31, 2008 hedging impact is an estimated $15.366 Million addition to gas costs;
3. The cost of gas drawn from storage for supply to primary gas customers is accounted for, reflecting the actual cost of gas in storage

withdrawn in 2006/07 (withdrawals commence November 1, 2006), and blended in on a weighted basis to arrive at a weighted gas cost, which is forecast to be lower for the November 1, 2006 to October 31, 2007 gas year;
4. Forecasted volumes of primary gas represented by the costs are used to determine the cost/ 1,000 m_3, which is then increased to account for other costs. Rate changes by means of rate riders are established to adjust for Primary Gas PGVA balances accumulated and, projected to, July 31, 2007, over a 12-month period beginning August 1, 2007 of $2.1 million.
5. November 1, 2005 commodity costs and primary gas rates were restrained by exceptional action by the Board, which deferred 50% of the then cost and price indicated following the effects of Hurricanes Katrina and Rita; spot prices reached $15 GJ at the peak.

Rate riders account for PGVA balances to be refunded or recovered through rates to or from customers. The projected PGVA balance as of July 31, 2007 is $2.1 million, to be recovered from customers. The rider to recover that sum from customers is added to the primary gas base rate to result in a final price of $0.2891/m^3 for system gas customers.

Component	Costs and Rates, November 1, 2006	Costs and Rates, February 1, 2007	Costs and Rates, May 1, 2007	Costs and Proposed Rates, August 1, 2007
Date of Forward Price Strip	October 2, 2006	January 2, 2007	April 20, 2007	July 2, 2007
12 Month Forward Price	$6.907/GJ	$7.095/GJ	$8.243/GJ	$7.182/GJ +
Costs resulting from Hedging	$1.303/GJ	$0.768/GJ	$0.080/GJ	$0.412/GJ =
Forecast Gas Supply Price	$8.210/GJ	$7.863/GJ	$8.323	$7.594/GJ
Cost of Gas drawn from Storage	$6.690/GJ	$6.722/GJ	$6.722/GJ	$6.722/GJ
Weighted Gas, Cost (mix of Gas Supply & Storage Gas costs)	$7.941/GJ	$7.661/GJ	$8.040/GJ$	$7.457/GJ
Rate per Cubic Metre	$0.2992	$0.2896	$0.3039	$0.2819/m^3
Base Primary Rate, adding Fuel and Overhead cost component less	$0.3065	$0.2961	$0.3111	$0.28723/m^3
PGVA Rider	($0.0133/m^3) Residential, and ($0.0275m^3) Other	($0.003/m^3) Residential, and ($0.016m^3) Other	$0.0023	$0.0018
Total Billed Rate	$0.2932/m^3 Residential, and $0.2790m^3 Other	$0.2932/m^3 Residential, and $0.2790m^3 Other	$0.3134/m^3 all customers	$0.2891/m^3 all customers

Notes:
1. Primary gas rate increase factors in 100% of the increase between the current 12-month forward price for Western Canadian natural gas commodity supplies for the period August 1, 2007 to July 31, 2008 from the price as of July 2, 2007;
2. Forecasted losses on hedges placed for the next twelve months are accounted for with the projected loss for hedging of $15.366 Million. The August 1, 2007 to July 31, 2008 hedging impact is an estimated $15.366 Million addition to gas costs;
3. The cost of gas drawn from storage for supply to primary gas customers is accounted for, reflecting the actual cost of gas in storage withdrawn in 2006/07 (withdrawals commence November 1, 2006), and blended in on a weighted basis to arrive at a weighted gas cost, which is forecasted to be lower for the November 1, 2006 to October 31, 2007 gas year; Forecasted volumes of primary gas represented by the costs are used to determine the cost/ 1,000 m^3, which is then increased to account for other costs. Rate changes by means of rate riders are established to adjust for Primary Gas PGVA balances accumulated and, projected to, July 31, 2007, over a 12-month period beginning August 1, 2007 of $2.1 million.
4. The Base Primary Rate, adding Fuel and Overhead cost components, includes the updated Primary Gas Overhead Rate of $1.64/1000m^3.

Through the combination of factors set out above, Centra's August 1, 2007 primary gas billed rate will be $0.2891/m^3 for both residential and non-residential customers, a decrease from the current rate, set as of May 1, 2007, of $0.3134/m^3.

Previous riders put in place to recover or refund past PGVA balances for residential and non residential customers will conclude as of July 31, 2007, allowing for a return to a single rate for all system gas customers.

Weather conditions, changes made by owners to property heating efficiency, or one or more of a number of other factors (such as turning down the thermostat during the fall, winter or spring, lengthy holidays by residents, shower lengths for gas water heated residences, etc.) will result in increased or decreased monthly bills, notwithstanding the rate change.

Outstanding Positions, Hedging

As previously indicated, Centra enters into financial future contracts (hedges) for the purpose of reducing primary gas rate volatility for system gas customers. Other factors reducing cost and rate volatility include the equal monthly payment plan, heating efficiency improvements, living-style adjustments (such as adjusting the thermostat), the Board's RSM and, occasional, Board intervention in conditions of extreme commodity price volatility.

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

a) the terms of Centra's gas purchase contract with its commodity supplier, Nexen;
b) withdrawals of primary gas from storage; and
c) hedging.

Hedging is undertaken independent of actual gas purchases, those being at then-current market prices. As indicated, hedging results have added to the cost of gas rather than reduced it. Projections of hedging results from August 2007 through to July 2008 suggest, as previously indicated, a total addition to primary gas costs of approximately $15.366 million. Actual results associated with outstanding hedges will not be known until the contracts mature in the future, and are dependent upon future commodity market price changes and Centra actions with respect to outstanding positions.

Hedges outstanding for the months of August 2007 to July 2008 are:

- On October 11 and 25, 2006, two price hedge tranches of 50% of eligible volumes each were placed, covering the months of August through October 2007. These derivative instruments were +$0.50 out-of-the-money (OTM) cashless collars (this occasion being the last use of the narrow price band). The collars' upper strike prices ranged from $7.98/GJ to $8.28/GJ; lower strike prices ranged from $7.17 to $7.48/GJ.
- On January 17 and 23, 2007, two tranches of price hedges of 50% of eligible volumes each were placed covering the months of November 2007 through January 2008. In response to Order 175/06, Centra adjusted the OTM upper band range to 15% of the average of the discrete $1/GJ range within which the futures market price for each given month falls. The upper strike prices on the instruments purchased ranged between $8.53/GJ and $9.995/GJ; lower strike prices ranged between $6.78 and $7.99/GJ.
- On April 18 and 25, 2007, two tranches of price hedges of 50% of eligible volumes each were placed covering the months of February through April 2008. Central utilized OTM upper strike price bandwidths that equated to 15% of the average of the discrete $1/GJ range within which the futures market price resided during the hedge session for the respective months of February 2008, March 2008 and April 2008. The upper strike

prices on the instruments purchased range between $8.855 and $10.435/GJ; corresponding lower strike prices ranged between $6.895 and $8.150/GJ.

Capacity Management

Capacity management revenue arises from Centra's ability to sell excess transportation capacity on its pipeline assets as well as exchanges of gas with counter-parties. Centra employs a five-year rolling average of actual experience in forecasting Capacity Management revenue for future test years.

Centra reported revenues of $7.9 million in 2006/07 from its capacity management actions, and forecast earnings of $5.1 million for both 2007/08 and 2008/09. Since weather is the single biggest factor in determining the amount of excess storage and transportation capacity Centra maintains, the potential for capacity management revenues varies widely, in support of the use of a rolling average to forecast these revenues.

Exchange Rate

Centra's forecasted gas costs for 2007/08 assumed a US-Can exchange rate of 1.16. Exchange rate changes affect the portion of gas costs that are comprised of American gas supply, transportation and storage assets. At the time of the hearing, the exchange rate was 1.06. Centra advised that for every 100 basis point change (1 cent) in the exchange rate, the gas cost outlook changes by $176,000.

As the exchange rate differential vis a vis the American dollar has fallen by 10 or more cents, the potential impact on the gas cost forecast is in the order of a potential saving of $1.8 million.

Centra confirmed that forecast-actual differentials will be either refunded or recovered from customers through the PGVA mechanism.

Externalities and Inverted Rates

Externalities, in the framework of natural gas consumption, are costs or consequences associated with the production, transportation, distribution, and use of natural gas that are not directly incurred by the utility or consumer. Examples of externalities include greenhouse gas emissions, land impacts, resource depletion, and avoided cost of future transmission and distribution improvements.

Environmentalists hold the view that natural gas rates should be derived pursuant to "full cost accounting", a principle enunciated in the Sustainable Development Act. Full cost accounting would include not only costs incurred financially by Centra in acquiring, transporting and distributing natural gas in its franchise areas, but also imputed costs related to externalities and environmental damage caused by the exploration, production, transportation and distribution of natural gas. Centra accepts the principle to some degree, by accounting for some non-financial environmental costs in performing feasibility tests of expansion proposals. Centra accounts for this additional factor by including an additional charge onto each unit of gas projected to be sold.

Centra has consistently held that negative environmental implications arising out of externalities should not be included in the pricing of natural gas charged to its ratepayers. Pricing externalities into Centra's rates would result in an adder or additional charge onto each unit of gas sold. If Centra's rates were structured in this way, Centra would collect more revenue than it requires, as externalities are notional costs; Centra does not have expenditures corresponding to the externalities.

An inverted rate is a mechanism through which a lower rate is charged on the initial block of usage of natural gas, and a higher rate, which can include externalities, is charged on all

subsequent consumption of gas. The purpose of inverted rates is to encourage conservation by sending a strong price signal for the marginal consumption of gas. The initial and marginal usage blocks can be priced so that the inverted rate recovers the same aggregate revenue from customers, and thus Centra will not over-collect revenue.

Centra opposed inverted rates for the following reasons:

1) The marginal cost for the supply of natural gas is equivalent to the average embedded cost of natural gas, therefore, there is no economic justification;
2) Centra sees no need for such an approach: there is a 5¢/m^3 charge that recovers fixed customer-related costs volumetrically, and this acts as an adder and thus a price signal to consumers to conserve gas;
3) Inverted rates would "punish" larger volume users of gas to the benefit of smaller volume consumers;
4) The use of inverted rates may require a negative distribution rate in order to maintain revenue neutrality; and
5) Inverted rates amount to a carbon tax on home heating.

Centra stated:

> *"To include further consideration of this factor by incorporating an adder in rates would be equivalent to applying a carbon tax to natural gas home heating, which accounts for only about 4 percent of Manitoba's GHG output, while all other contributions would not be subject to such a tax. Centra believes that further consideration of any carbon tax on natural gas usage within the province is more appropriate within the context of a more comprehensive Canadian policy dealing with carbon emissions from all sources."*

Decoupling

Centra opposed amending its rate setting methodology to incorporate decoupling. Decoupling is a rate setting mechanism that acts to eliminate the effect of changes in consumption due to weather. As explained by CAC/MSOS' witness Mr. Weiss:

> *"The utility's costs to be recovered per customer are determined, as now, in a general rate case, based on expected normal weather and expected use. In addition, a rate "tracker" is implemented that adjusts rates slightly up or down after a given period (monthly is best) depending upon actual usage. If per-customer use is higher, the rate is decreased in order to avoid over-collection, and vice versa."*

Centra opined that the cost of service rate setting methodology now in place satisfactorily addresses any financial impact on consumers that results from deviations of actual volumes from forecast gas volumes arising out of weather changes and conservation. Centra submitted that with the current approach of setting rates based on a weather-normalized basis, the impact of weather on revenues may be expected to balance out over time.

Basic Monthly Charge

Centra incurs customer-related costs that do not vary regardless of volume, and these costs are related to installing and maintaining gas services and meters, reading meters, issuing bills, and providing other services to a residence.

Centra estimated that these fixed costs per customer amount to $306 per year, though it now collects only $10 per month or $120 per year through the BMC.

Centra reported that, in addition, there are other fixed capacity costs incurred to provide service to customers. These costs relate to the capacity of the pipes, meters, and regulators, as well as costs incurred upstream of the distribution system. These other customer and capacity costs are

also not presently collected through the BMC, but through the volumetric rate included within each customer's distribution rate billing.

Currently, approximately 5¢/m^3 of the volumetrically recovered distribution rate reflects customer and capacity charges not recovered through the BMC, the BMC itself only represents a recovery of 39% of the fixed customer-related costs based on Centra's application.

Centra provided evidence indicating significant numbers of SGS customers that consume less than 1000 m^3 of gas each year, and that the average house draws approximately 2.5 times that level. Centra indicated implicit in the rate design structure a low BMC that there are some cross subsidy issues which occur (small-volume customers are being subsidized by larger-volume consumers who contribute more than the true cost of providing service because of the additional revenue being recovered volumetrically, rather than through the BMC).

Residential Class

In Order 135/05, the Board directed Centra to investigate the creation of a residential class. Subsequently Centra filed a report reflecting a split of the SGS class into SGS residential and SGS commercial, and opined:

> *"It is important to structure customer classes in a manner that balances the need to group similarly situated customers with the need to minimize the number of customer classes."*

It is long-established that to consider rates as being fair, the cost to serve is to be reflected in rates.

> *"Centra gathers customers with similar cost characteristics into customer class structures and then allocates the revenue requirement to those classes."*

Balancing the cost to serve in the design of classes is a desire to maintain simplicity in the class structures, to enable customers to understand billings.

Centra considered the creation of a residential class in 1996, and decided against it, citing the following reasons:

1) a lack of distinction between residential and commercial customers;
2) the residential criteria may be difficult to establish (i.e., landlord as opposed to homeowner);
3) there may limitations of identifiers in the billing system; and
4) possible confusion and complaints that may arise relating to eligibility, following a split.

Centra evaluated the costs and revenues of each SGS subclass, and found that the revenue to cost ratios were 0.995 and 1.035 for the residential and commercial subclasses, respectively; the target is a revenue to cost ratio of unity (i.e. 1:1).

Lump Sum Refunds

In Order 175/06, the Board directed Centra to study the implementation of lump sum refunds for the largest volume customers. Currently, only the Special Contract Class (one customer) receives a lump sum refund or payment if the previous year's billings differ from Centra's actual costs incurred to be recovered from that class.

Centra cited the advantages of lump sum refunds to be:

a) preferred by customers;
b) reduces intergenerational inequities – the current approach allows new customers to benefit from reduced future rates related to past events without having paid the past costs; and

c) reduces inequities that may result due to customer consumption changes - *"If a customer used little natural gas during the period in which the refund accumulated, that customer may be provided a greater refund than would otherwise be received if that customer's consumption increases during the refund period."*

Centra listed the disadvantages, as follows:

a) if only material credit balances were refunded, some customers would receive a lump sum refund while others would be refunded through a rate rider, resulting in different rates within each customer class;
b) Different refunds to customers in the same class may hinder the ability of customers to understand their bills;
c) Rate riders are a well-established method of refunding credit balances;
d) Rates are set on a forecast basis, but refunds would be based on actual consumption;
e) Rate riders smooth rate changes;
f) refunds may create confusion on the bill; and
g) delays in refunds could occur since Centra must calculate over 150 refunds, then submit them for Board approval. These refunds might then be subsequently revised as gas costs or PGVA balances change.

Centra concluded that rate riders are "easy" and inexpensive to administer, and that the administrative complexities associated with lump sum refunds are generally not justified by the benefits.

Terms and Conditions

Centra applied for several changes to the terms and conditions of service. Centra proposed changes to the Gas Loan Determination, in order to calculate the gas loan balance in aggregate for each broker, and not for each individual WTS contract, and changes to the way the financial value of the Gas Loan is determined.

Centra would have the valuation of gas loan balances valued at Centra's average unit cost of primary gas in underground storage. Centra also proposed changes to its Broker credit policies, to reflect past practice.

To ensure Broker supplied gas is available for Broker customers in the event of unforeseen market events, Centra may need to designate an alternate receipt point other than the Alberta border, and Centra thus proposed changing the wording of the Terms and Conditions for WTS to permit this. Centra also proposed other "housekeeping"-type changes to the Terms and Conditions.

Regarding changes to the Agency, Billing, and Collection service Terms and Conditions, Centra proposed:

a) changes to its credit policies to more accurately reflect current practice;
b) eliminating weekly reporting of primary gas billings in favour of monthly reports. Centra states that it takes considerable extra effort to create the weekly reports; and
c) "housekeeping" and wording changes

Centra also proposed changes to Special Terms and Conditions: T-service, to address the recovery of Limited Balancing Agreement fees, which Centra recovers from T-service customers if their load balancing activities create costs for Centra.

Centra proposed updating its Company Labour Rates, i.e. the hourly activity rates for chargeable services. Further, Centra proposed updating its Gas Pipeline Operational Services charges, which are specifically for a third party pipeline owner within Manitoba that uses Centra to perform certain operational services.

Centra also requested Board approval of a new Transportation Service Contract between Centra and Koch Fertilizer Canada Limited (Koch). Centra proposed to determine the refund for Contributions in Aid of Construction after five years, not within five years as currently is the case. And, Shoal Lake would be added to Territory Served in the Schedule of Sales and Transportation Services and Rates.

Contract Tendering Practices

Pursuant to a directive in Order 103/05, Centra filed a report on its Contract Tendering Practices. Because there are only two Manitoba companies capable of constructing natural gas pipelines, Centra advertises its tenders in other provinces. However, due to the increase in petroleum industry work across Canada, there are fewer contractors interested in bidding on Centra's projects.

Centra also tenders all defined scope projects, and indicates it has been able to attract bidders from other provinces. Centra's base business contracts are designed to provide enough benefits to justify a permanent work base in Manitoba.

In summary, Centra reported employing a variety of tendering practices in order to achieve the greatest value

Natural Gas/Electricity Interface

Centra reported that nearly 100% of new homes are installing electric water heaters, whereas natural gas furnaces represent 96% of new home installations (a percentage of those new homes installing new gas furnaces are choosing mid rather than high efficiency furnaces). Centra advised that within its franchise area gas lines and gas service are provided as long as Centra's

feasibility test establishes expansions meet its economic threshold test.

Centra noted that since its acquisition by MH, natural gas commodity prices and consumer rates have increased substantially, considerably reducing the economic advantage previously held by natural gas for space heating. Centra advised that at current rates, space heating using a conventional gas furnace is more expensive than using electric heat, and is on par with space heating using a mid-efficiency furnace. A 20% increase from existing consumer primary gas rates would result in space heating by electricity also being less expensive than heating with a high efficiency gas furnace. Furthermore, Centra advised of its long-term forecast for natural gas commodity prices, that being of prospects for future higher natural gas commodity prices.

Centra did not propose to provide consumers with recommendations with respect to choosing between space heating by natural gas or electricity. Centra advised that its role is to assist customers in making proper choices among available energies, but not to make specific recommendations.

While Centra did agree that pricing and appropriate DSM programming can assist customers in making appropriate choices, Centra held that “the market” should continue to determine these choices. Centra further suggested that employing pricing and DSM programming to offset market situations could distort proper decision making by consumers

4.0 Intervener Positions

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

The Board employs a fourfold criteria to determine if a cost award for an intervener should be provided.

Interveners providing closing submissions in the GRA proceedings were:

Consumers Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors Inc. (CAC/MSOS);
Communications Energy and Paperworkers Local 681 (CEP);
Direct Energy Marketing Limited (Direct);
Energy Savings (Manitoba) L.P. (ES);
Koch Fertilizer Canada Ltd. (Koch); and
Resource Conservation Manitoba and Time to Respect Earth's Ecosystems (RCM/TREE).

Two Interveners engaged witnesses. CAC/MSOS engaged and presented Mr. Greg Matwichuk, C. A., Dr. Roger Higgin and Mr. Mark Stauft, while RCM/TREE enlisted the services of Mr. Steven Weiss. The witnesses provided evidence that was the subject of cross-examination by the Board, other Interveners, and Centra.

A brief summary follows of the positions and interests of interveners with respect to the matters dealt with during the proceeding.

CAC/MSOS

CAC/MSOS reminded the Board that:

> *"the onus resides on Centra to justify and prove, beyond a balance of probabilities, that its rate request, if approved, would create just and reasonable rates."*

CAC/MSOS submitted that Centra had not met its burden of proof to establish that the revenue requirement sought for 2007/08 and 2008/09, and the overall rate increases related thereto, were necessary and would result in just and reasonable rates.

CAC/MSOS proposed that Centra's non-gas revenue requirement and rates proposals be rejected and that no non-gas rate increases be provided for 2007/08 and, if any, only a minor increase be granted for 2008/09.

CAC/MSOS characterized Centra's current application as being "in some ways" misleading, in that while the sought increases are of 2% and 1%, they represented considerably higher projected increases in non-gas costs (being, in CAC/MSOS' perspective, increases of 5% and 9% over projected actual 2006/07 non-gas costs, for the test years 2007/08 and 2008/09, respectively).

Accordingly, CAC/MSOS agreed with Mr. Matwichuk's recommendation that non-gas increases be expressed as a percentage of itself and not as a percentage of unrelated gas costs.

CAC/MSOS opined that Centra failed to provide adequate evidentiary support for several elements of its case for rate increases, those elements being:

a) that a labour skills deficit lies ahead, projected to lead to further increases in O&A costs;
b) MH's new head office (with the relocation of approximately 2,100 MH employees to it) will result in annual productivity savings of $20 million, to offset costs associated with the new head office;
c) the contingency provision of $1.7 million included in Centra's 2007/08 O&A forecast is based on "real information and quantified information"; and
d) O&A costs for the 2008/09 test year will increase by 2.5% "… without any offsetting productivity improvements."

CAC/MSOS adopted Mr. Matwichuk's testimony that Centra's O&A costs are entirely made up of an allocation from the larger parent, MH, and that the inner-workings of the allocation methodology remain "somewhat of a mystery or black box".

CAC/MSOS contended that allocation by way of activity rates and allocation drivers are subjective, established at the discretion of management, and that there is no process that formally and properly supports these inputs and factors before the Board within the GRA filing. Mr. Matwichuk stated that to properly evaluate the allocation methodology, it was essential to review the input data, consisting of MH's consolidated costs, along with the methodology description, mechanics, and ultimate results.

Mr. Matwichuk suggested that an independent collaborative process should be established to evaluate the integrated cost allocation methodology, and that stakeholders should be involved to establish the terms of reference of the analysis.

Mr. Matwichuk prepared a baseline analysis reviewing the reasonableness of O&A expenses. The baseline analysis indicated projected O&A was overstated to some degree. CAC/MSOS did not propose any adjustment be made related to the baseline analysis but suggested the Board review the analysis in assessing the overall reasonableness of the O&A expenses.

CAC/MSOS advanced the perspective that O&A forecast for 2008/09 should include a productivity factor rather than just inflating those costs by 2.5%.

CAC/MSOS also took exception with the inclusion of a $1.7 million contingency provision in O&A expense for the 2007/08 and 2008/09 test years. Mr. Matwichuk stated the inclusion of a contingency in the forecast was not an acceptable regulatory practice and Centra was adequately compensated for forecasting risk in its return on equity. CAC/MSOS requested the Board reduce O&A expense by removing the $1.7 million contingency from the test years.

CAC/MSOS suggested that the Board should "… continue to clearly outline the principles upon which it regulates Centra … (and) must define those principles and then continue to rigorously and consistently apply them to (Centra's applications)." CAC/MSOS suggested the principles include:

1. The "no harm" principle – where the customers of an acquired utility should be "no worse off" with respect to rates or services with the change in ownership;
2. "Standalone" principle – where the cost of capital incurred by customers of the acquired utility should be equivalent to that of a utility raising capital on the strength of its own creditworthiness rather than that of its parent;
3. "Historic cost" principle – where costs reflected in just and reasonable rates must be based on historic costs – the original cost of the assets to the utility; and
4. Just and reasonable rates – with rates fair to both customers and the utility.

CAC/MSOS quoted both the Supreme Court of Canada and the American Supreme Court in providing its definition of what would constitute a fair return (arising out of fair and reasonable rates) for the utility:

> *"By a fair return, is meant that the company will be allowed as large a return on the capital invested in its enterprise, which will be net to the company, as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability, and certainty equal to that of company's enterprise."* (Supreme Court of Canada)

> *"A public utility is entitled to such rates as it will permit it to earn a return on the value of its property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings, which are attended by corresponding risks and uncertainties.*" (Supreme Court, United States)

CAC/MSOS submitted that the Board's formula for determining the return to be allowed Centra was set in Orders 103/05 and 135/05.

That said, CAC/MSOS claimed that not only should the "no harm" principle be adhered to, but as well, the return to be allowed to the utility should not be excessive so as to violate the principle of just and reasonable rates.

CAC/MSOS quoted Order 135/05, as follows:

> *"… the allowable return on rate base determined by the rate base rate of return methodology represents the absolute limit for return to Centra's parent company. That limit applies whether the return be by way of net income and potentially subsequent dividend, or by corporate allocation."*

In short, CAC/MSOS rejected Centra's approach to applying the Board's Rate Base Rate of Return methodology to its test year revenue requirement, because Centra's return was considerably higher than the combination of Corporate Allocation and Net Income included in the application's revenue requirements.

CAC/MSOS also noted that Centra's use of the Board's Rate Base Rate of Return methodology included forecasts of O&A and other costs that differed materially from both projected actual and forecasts for the test years of 2007/08 and 2008/09. While Centra suggested that if MH had not acquired Centra, Centra's O&A costs could be considerably higher than now forecast; CAC/MSOS rejected and countered that argument by suggesting under continued private ownership both O&A and other forecast costs could have been considerably lower than that modeled by Centra.

With respect to testimony and discussion on synergies achieved by Centra as a result of its 1999 acquisition, CAC/MSOS noted the Board's stated desire to "move on" and Centra's 2005 GRA rebuttal, which indicated:

> *"As the time since the acquisition passes and changes and the business environment (changes) (it) becomes increasingly more difficult to perform a no-harm calculation with any degree of precision, it is appropriate and necessary at this time to conclude on a permanent and transparent mechanism that*

embodies the application of the no-harm principle to both electric and gas ratepayers."

CAC/MSOS suggested that since the time when Centra took that position, more time has passed and the precision of synergy calculations has become increasingly murky, and unable to be verified:

CAC/MSOS also rejected Centra's preference for utilizing MH's debt: equity ratio and target in considering Centra's situation and circumstances. Noting the standalone principle, CAC/MSOS reminded the Board of its conclusion in Order 135/05, that being:

> *"Future rate applications (should) be prepared with Centra's debt: equity calculation based on a standalone methodology."*

In summary, CAC/MSOS argued that Centra's application overstated revenue requirement both on an estimated and an allowable basis, and that, accordingly, the rate increases sought by Centra should be significantly reduced if not rejected.

With respect to other issues, CAC/MSOS took positions on DSM and assistance for low-income customers, inverted rates, capacity management revenue forecasts, and the impact of foreign exchange rates on forecast gas costs:

a) DSM – CAC/MSOS accepted the direction of Centra's overall DSM efforts, and supported the recommendations of Dr Higgin;
   CAC/MSOS noted that Centra has yet to file the low-income oriented DSM plan sought by the Board, but recommended that a floor be established for DSM-related support for low-income customers. CAC/MSOS supported Centra's use of the Affordable Energy Fund to "ramp up" the weatherizing of homes but noted that the $19 million allocated to low-income support would address only a fraction of the need, and suggesting more funds were required;

b) Inverted Rates – CAC/MSOS recommended deferral of consideration of this concept until such time as Centra's DSM programs are more established so as not to adversely affect low-income customers.

Dr. Higgin expressed opposition to an inverted rate schedule until such time as appropriate low-income DSM programs are available and MH has implemented the approach with respect to electricity pricing:

"I'm not really an advocate of fiddling with (rates) as a tool to deal with this problem, partly because you always end up advantaging or hurting one group of customers. For example, if you went to inverted rates, then the assumption you hope you're making is that low-income customers and seniors, low consumers of gas -- in this case gas -- and that they will be helped by that. But, in fact, many of them live in the worst type of housing; that has standard efficiency furnaces, that has leaky -- no insulation. So basically, you can -- you may not assist those people. In fact, you may hurt them, unless you do other things in parallel."

Dr. Higgin also accepted that if a low-income household consumes a greater than average amount of gas, such customer would be negatively affected by the inverted rate. That while such a customer would enjoy an initial discounted block, the larger block of consumption would come at a higher cost leading to increased heating bills. Dr. Higgin suggested one alternative would be to provide a separate discounted low-income inverted rate, though this would result in different rates within the same class, based on ability-to-pay.

c) Capacity Management – CAC/MSOS supported Mr. Stauft's suggestion that forecasts of capacity management revenue be based on a "forward-looking approach" using all relevant information then available, rather than a simple 5 year average of past capacity management results. Alternatively, CAC/MSOS supported including 2006/07's actual capacity management results in calculating a five-year rolling average to increase the forecast capacity management revenue to $5.7 million. CAC/MSOS also recommended Centra provide the Board with the business plan (directed to be filed by the Board following the 2006 Cost of Gas hearing), and suggested the business plan consider Mr.

Stauft's recommendation that a third-party manager be engaged to conduct capacity management trading.

d) Foreign exchange rate impact on forecast gas costs – CAC/MSOS noted the recent increased value of the Canadian dollar and suggested that the improvement in the exchange rate was expected to reduce the gas cost outlook by approximately $1.8 million; CAC/MSOS suggested that the improvement could be forecast and the revised forecast should benefit ratepayers.

e) Cross-subsidization between classes – Rate-based cross-subsidization between classes was not generally supported by CAC/MSOS, though CAC/MSOS did: express concern with respect to low-income customers; reiterated a desire to see a low-income DSM plan; and supported leveraging of non-rate based funding to support low-income DSM, including furnace replacement.

CAC/MSOS witness Mr. Stauft suggested that Centra prepare capacity management revenue forecasts based on forward market prices instead of relying on a five-year rolling average, positing that it would take little additional effort to prepare such a forecast that would be based on reasonable assumptions. Mr. Stauft accepted that weather will affect capacity management activities; nonetheless, he asserted that a forecast that incorporates the forward pricing is a more accurate representation of expected capacity management revenues.

With respect to actual capacity management activities, Mr. Stauft opined that Centra is too conservative with the management of its storage and American transportation assets. He illustrated the potential to profit off the sale of Centra's storage gas to the Michigan or other nearby markets, while purchasing replacement supply for Manitoba delivery from the Western Canadian Sedimentary Basin.

The potential profitability of such transactions arises because of the fluctuating basis differential between Empress and the Michcon or Dawn hubs. At times when the differential is such that gas

for delivery to the Michcon is valued much higher than gas for delivery at Empress, for Mr. Stauft, Centra could capitalize on what he described as an arbitrage opportunity.

Mr. Stauft estimated that $5 million of revenue could have been generated on this type of transaction alone in the 2006/07 year, rather than the $1.3 million Centra that did generate. Mr. Stauft suggested that Centra should be willing to accept more risk in exchange for the potential for increased revenue. Towards accomplishing more revenue, Mr. Stauft also suggested that Centra outsource its capacity management activities, or gas supply function, to a third party. The Board's understanding is that such an arrangement would involve contracting with a gas marketer to manage Centra's storage, transportation and supply arrangements.

Centra's role would be to establish (nominate) its requirements, and the marketer would be responsible for supplying the gas at Centra's city gates. For Mr. Stauft, a profit-sharing structure would be put in place to ensure both parties would profit. CAC/MSOS adopted the evidence of its witness, Dr. Higgin, as it related to low-income programs. Dr. Higgin proposed Centra implement targeted DSM programs for low-income customers, to achieve a fairer matching of costs and benefits among customers, and to ensure that all customers have equal potential to access the programs.

Dr. Higgin stated that equal opportunity to participate in DSM programs is crucial since all residential ratepayers are paying the costs of such programs in rates. Dr. Higgin noted that a barrier to low-income participation in DSM programs is the financial investment required of low-income households, and that until that barrier is addressed, low-income customers will be unable to afford to participate in DSM measures, but have been, and will continue, to cross-subsidize other customers who are able to, and do, participate.

Dr. Higgin suggested that the critical success factors that Centra should employ in considering low-income DSM programs should include:

- The presence of dedicated budgets - such as a fixed minimum “floor” percentage of the total residential DSM budgets;
- Offering Higher Financial Incentives;
- Increasing Education and Promotion of programs;
- Utilizing Special Delivery Channels and Agents, such as Non-Governmental Organizations, that deal with the sector on a regular basis;
- Comprehensive Energy Audits, to prioritize investment opportunities, and post retrofit audits to verify bill savings;
- Direct installation (as opposed to simply providing materials and leaving it up to the homeowner to install);
- Addressing landlord/tenant cost/benefit issues, by disclosing potential and resulting savings to tenants directly;
- Inclusion of a Participant Cost Test, to ensure positive benefit to cost for participants in addition to a Utility Cost, Total Resource Cost and Rate Impact Measures; and
- Monitoring and reporting actual low-income and senior participation rates on a regular and consistent basis.

Dr. Higgin stated Centra should outline how it will identify qualified low-income customers, indicating that identification is a challenge for all targeted programs. He recommended Centra undertake demographic studies to clarify the size of the low-income group. Dr. Higgin opined that eligibility for the program should be based on 125% of the Low Income Cut-off (LICO) Test, which is based on Statistics Canada data, and now is used as a criterion in Quebec and Ontario.

Dr. Higgin recommended the Board make its approval of Centra's low-income programs conditional on Centra bringing forward more details for Board approval, after Centra has consulted with groups representing low-income natural gas customers and seniors, and completed demographic studies and analysis.

Dr. Higgin further recommended that, to avoid delays, low-income programs be started as pilot projects, building on the Centennial Pilot Program. Dr. Higgin also suggested that a targeted program towards the social housing market should be developed, preferably through a well-designed program developed in concert with the Manitoba Housing and Renewal Corporation. For Dr. Higgin, the social housing program should also involve social agencies and co-operatives, which may not have the resources to undertake energy efficiency improvements on their own.

Dr. Higgin suggested the funding of programs for the social housing market, like programs targeted to the residential market, should have a minimum budget that is set as a percentage of the overall DSM program funding. He suggested that Centra should look to the Federal ecoEnergy Retrofit Program as well as the AEF to help fund the programs.

Dr. Higgin estimated the cost to retrofit a home at approximately $3,000, excluding replacement of the furnace. Dr. Higgin noted that furnace replacement (with a high efficiency unit) may provide greater savings than other weatherization improvements and should be considered for Centra's low-income customers. He cited an Enbridge program, for low-income customers, which sought the replacement of 400 furnaces annually.

Dr. Higgin estimated that the $19 million set aside within the AEF for low-income programs would provide for the weatherization of approximately 6,000 homes at $3,000 per home, but that would exclude the replacement of low efficiency furnaces. Dr. Higgin stated that building the capacity to assure reasonable levels of annual retrofits was a challenge for Centra to address through its program design.

CEP

CEP did not support Centra's request to include, in Rate Base, the expenditures related to AMI in advance of the pilot project proceeding and the Board's approval of a business case.

CEP submitted that as well as reading meters, meter readers report gas leaks, excessive piping strain around meter sets, some code violations, and iced over regulators. CEP observed that this evidence was placed on the record at the 2005/06 GRA and that Order 135/05 directed Centra to consider alternative means to address its problem of accessing meters for reading, and that Centra had yet to address the safety issue surrounding the matter.

CEP noted that one of the reasons advanced by Centra in support of AMI was the "hard-to-read" situations, and countered that the Riser Rehab and the Below Entry Piping Programs, whereby inside meters are moved outside, had decreased the number of "hard-to read" meters.

CEP suggested that once it has completed the pilot, and if Centra still wants to proceed with AMI, the matter should be examined through a Board proceeding, wherein parties would be able to examine and test Centra's findings and proposals.

ES and Direct

Direct adopted and supported the submissions by ES in which it expressed concern as to Centra's proposed change to the Gas Loan Determination provision of the Terms & Conditions of Service. ES noted that under Centra's proposal references to the determination and tracking of gas loan amounts, at the level of individual WTS agreements, would be changed to reflect the calculation of such amounts at the aggregate level of the individual broker.

ES advised that such a change would have negative implications for it. ES advised that its business model requires customer consumption estimates both in the near and medium term to determine supply requirements, and that Centra currently meets ES's requirement to associate

customer demand to associated delivery requirement by providing two reports, denoted as "The Contract Detail" and the "Pre-MDQ" report.

ES noted that "The Contract Detail Report" is provided whenever delivery requirements are refreshed, and provides a direct link between customers estimated consumption and delivery requirements, by listing each customer with their estimated consumption.

ES advised that the "Pre-MDQ" report is provided at the time of enrolment, and lists consumption and rate class information by each customer. ES indicated that the report is required by ES to allow it to estimate customer consumption prior to "flow."

ES advised it would support Centra's proposed changes if the two reports continued to be provided in the current format. ES advised that if the Board were to approve Centra's proposed change without requiring the continuation of the two reports, ES would have to implement significant system changes, and would incur risks and associated costs related to any resulting differences between customer consumption and utility mandated delivery requirements.

KOCH

Koch is the only customer in the Special Contract Class. Koch submitted that customer classes expected to benefit from DSM programs should fund such programs. Since residential and commercial classes are the beneficiaries of Centra's DSM programs, those should be the only classes expected to fund DSM expenses. Koch noted that high volume customers incur their own conservation and environmental-oriented costs which are not funded by other customers or classes of customers.

Koch disagreed with Centra's proposed increase in Special Contract Class rates related to increased transmission costs, for the following reasons:

a) Though the section of pipeline serving Koch also provides natural gas to other

customers, expenditures on that section of the pipeline are easily definable and could be easily and more fairly allocated to Koch; and

b) Koch consumes a sufficient quantity of gas and Centra transports it over such a short distance (less than 20 kilometres) that a bypass pipeline could be constructed and funded by Koch at less cost to Koch than will be required if the proposed rates are approved.

Koch further noted that the other major customer using this section of pipe is part of the Power Station class, and this class will experience a decrease in their allocation of transmission and distribution costs.

RCM/TREE

Citing RCM/TREE's commitment to the advancement of a more sustainable society, (i.e. recognizing that the earth's resources and environment are finite and subject to degradation and depletion,) RCM/TREE confirmed that its purpose in intervening was to promote eco-efficiency.

RCM/TREE noted that its objectives included improving the ratio of social benefits to environmental harms, and slowing the pace of resource depletion. RCM/TREE reported that its objectives for this hearing included the implementation of measures to make the production and use of energy in Manitoba more sustainable and just.

RCM/TREE suggested that its notion of justice had several dimensions, including.

a) revenues proportional to cost responsibility;
b) intergenerational equity; and
c) energy as a basic need, recognizing that a just society addresses the basic needs of its citizens.

RCM/TREE opined that the policy considerations that Centra and the Board should take into account include:

a) principles and guidelines of sustainable development (the Sustainable Development Act);
b) the Province's commitment to the reduction of greenhouse gas emissions;
c) providing basic energy requirements to residents;
d) conservation; and
e) social justice.

In advancing its proposals, RCM/TREE reminded the Board of its responsibilities pursuant to The Sustainable Development Act (SDA), The Public Utilities Board Act, and Crown Corporation's Public Review and Accountability Act (CCAA). RCM/TREE suggested that the SDA is binding on Centra, and that the CCAA and The Public Utilities Board Act provide the Board broad discretion to address Centra's proposals and related issues. Furthermore, RCM/TREE cited national and international sources providing guidance to Centra and Board deliberations.

With respect to full cost accounting, RCM/TREE provided the definition from the SDA:

> *"Accounting for the economic, environmental, land use, human health, social and heritage costs and benefits of a particular decision or action to ensure no costs associated with the decision or action including externalised costs are left unaccounted for."*

RCM/TREE advised that full cost accounting requires a timeline to include the impact on future generations. In costing externalities, RCM/TREE opined that greenhouse gas emissions were the most important externality for natural gas, due to the implications for global warming.

Section 78(1) (a) of the *Public Utilities Board Act*:

> *"The Board may … require every owner of a public utility… to comply with the laws … and to conform to the duties imposed thereby or by the provisions of its*

own charter or by any agreement with any municipality or other owner."

Section 26(4) of the CCAA:

> *" ... with respect to factors to be considered ... the Public Utilities Board may take into consideration ... any compelling policy considerations that the Board considers relevant ... and any other matters that the Board considers relevant to the matter."*

The evidence from RCM/TREE included statements from:

Prime Minister Harper (Recent G8 Summit):

> *"We are... committed to taking strong and early action to tackle climate change in order to stabilize greenhouse gas concentrations (to) ... prevent dangerous anthropogenic interference with the climate system... In setting a global goal for emissions reductions... we have agreed to ... at least a halving of global emissions by 2050."*

National Roundtable on the Environment and the Economy:

> *"The chief difficulty in significantly reducing greenhouse gas emissions is not the lack of relevant technologies (but)... the lack of a long term (price) signal... (that is) needed to help the private sector make shorter term investment decisions that take greenhouse gas reductions into consideration."*

RCM/TREE recommended that the Board:

1. direct Centra to establish programs to meet or exceed provincial, national, and international government policy commitments with respect to the environment and the reduction of greenhouse gas emissions;
2. comment on homebuilders selecting less than optimal design and construction methods, and recommend changes to the building code to further the objective of energy efficiency and conservation;
3. direct Centra to form standing advisory groups to assist with issues regarding DSM programs and low-income programs;

4. direct Centra to contract an external consultant to review its DSM programs;
5. direct Centra to tender the delivery of its conservation programs;
6. direct Centra to consider CAC/MSOS's witness Dr. Higgin's suggestions for low-income energy assistance programs;
7. direct Centra to establish pilot projects involving more aggressive programs to assist low-income Manitobans, such as programs providing bill payment assistance and targeted conservation;
8. direct Centra to design incentives with respect to water and space heat, towards reducing or removing the risk of customers switching to electricity. For RCM/TREE, fuel switching in Manitoba from natural gas to electricity is an undesirable development as it would lead to reduced exports to the United States and attendant reduced offsets of greenhouse gas emissions from U.S. coal-fired electricity;
9. direct Centra to adopt full cost accounting to assist planning and evaluation of DSM programs, and for consideration in rate making;
10. guide Centra by interpreting the implications of public policy and the public interest, and subsequently review the results of initiatives undertaken;
11. direct Centra to allocate DSM costs on a volumetric basis to all customers, including Transportation customers, as DSM provides a general societal benefit;
12. direct Centra to adopt a weather decoupling rate design for residential and small commercial customers; and
13. investigate amending the regulatory process by considering the adoption of a phase in the rate setting proceeding to encourage and facilitate settlements between the parties, and involving the Public Utilities Board staff.

RCM/TREE also recommended the Board direct that for the next GRA hearing, Centra:

1. provide full cost accounting inclusive of environmental impacts to the Board, in order to

assist the Board in both rate making and evaluating DSM programs;

2. file supplemental information by customer class, including approximate revenue to cost ratios related to the inclusion of marginal cost information and the allocation of notional environmental emissions costs; and
3. design an inverted rate structure in conjunction with MH for its residential and small commercial customers.

RCM/TREE advised that it was in everyone's best interest that proper incentives are in place to ensure consumers make choices consistent with the objectives of reducing greenhouse gas emissions and furthering conservation. RCM/TREE suggested that a system should be in place to require significantly greater hook-up fees for less efficient energy choices with discounts or rebates for “better” choices with respect to the efficient use of energy.

RCM/TREE recommended that the first block of an inverted rate design be priced at or below the breakeven point for the Utility, so as to encourage customers to reduce their energy demands in order to take full advantage of the low cost energy. RCM/TREE held that an inverted rate design would permit the recapture of externalities in a more efficient system while still permitting the basic energy needs of Manitobans to be met.

With respect to inverted rates, RCM/TREE suggested three reasons justifying the introduction of an inverted rate design:

a) energy is a basic human need, and a just society addresses the basic needs of its citizens;
b) inverted rate design sends the proper price signal to consumers with respect to conservation; and
c) as the true costs of energy are not always reflected in rates charged because of externalities that are not included, inverted rates compensate for this deficiency.

RCM/TREE also held that the SDA requires the calculation of externalities, and that an inverted rate design would permit Centra to comply with the SDA. That said, RCM/TREE recognized that

an inverted rate design for natural gas should not be implemented independent of a similar approach for MH's electricity rates. RCM/TREE advised that to do so would send improper price signals to consumers and may lead to fuel switching.

With respect to RCM/TREE's recommendation for standing committees to advise Centra on low-income and DSM programs, RCM/TREE opined that the approach would ensure that the perspectives of low-income Manitobans, seniors, conservationists, "green" builders, efficiency experts and others would be considered. RCM/TREE also proposed that workshops be held and interested parties invited, to discuss Centra's policy initiatives while in the planning stage.

RCM/TREE reiterated Mr. Weiss' position that Centra should engage an outside consultant to review DSM and low-income bill assistance programs; the purpose of such review is to assist in the synchronization of programs (relating to the delivery, outreach, and evaluation). RCM/TREE submitted it would not be appropriate for the Board to design DSM or rate programs for Centra as this would be the role of the Advisory Committees.

RCM/TREE adopted the evidence of its witness Mr. Weiss, as it related to low-income program initiatives. RCM/TREE stated that central to its review of Centra's operation is its recognition that affordable energy is not equivalent to low rates, because:

i. Customers pay bills; not rates - the efficiency of usage or amount of conservation is the primary determinant of the size of the customer's bill, and if a home heating system is inefficient, low rates will not translate into affordable energy; and
ii. Affordable energy is relative to income, and an energy bill that is affordable to the wealthy is not likely affordable for the poor. Evidence placed before the Board suggested that a condition of energy poverty arises whenever energy costs account for more than 9 or 10% of household income.

In terms of affordability and social justice, to make energy more affordable, RCM/TREE suggested Centra ought to focus on conservation, and, in particular, find ways to focus programs

and relief on low-income customers.

Further, RCM/TREE noted that the Government of Manitoba recently provided very clear signals of commitment to the special energy concerns of low-income Manitobans by establishing the Affordable Energy Fund. RCM/TREE noted that $19 million of the $35 million fund was earmarked for low-income DSM, and opined that such low-income matters were within the jurisdiction of the Board and should be addressed in the Board's Order.

RCM/TREE's witness Mr. Weiss reported on the beneficial effects of bill payment assistance programs on both low-income customers and utility administrative, collection costs in American jurisdictions, and suggested that Centra develop such a plan for its low-income customers. RCM/TREE suggested that Centra evaluate three different models for bringing rate relief to low-income customers:

1. Mr. Weiss' proposal to provide a lower priced first block of energy to low-income customers. Mr. Weiss suggested offering low-income customers an inverted rate, consisting of a small block at a lower rate and a second block set at the average price.
2. The California CARE model, consisting of discounted, tiered rates for qualified low-income customers, as illustrated by Pacific Gas and Electric's rate schedule; and
3. The Percentage of Income Payment Plan (PIPP) model; adopted by Clark County and introduced in parts of Ohio.

RCM/TREE recommended that each model be reviewed to determine the best approach for Centra to implement.

RCM/TREE defended its concept that DSM costs are allocated to all customer classes on a volumetric basis against the charge that to do so would result in a cross-subsidization of

customer classes. RCM/TREE noted Dr. Higgin's testimony that the current method of allocating DSM costs results in a cross-subsidization. Low-income customers, unable to invest in DSM, subsidize DSM programs taken up by more affluent customers who can afford to participate in the programs.

RCM/TREE noted that low-income customers are less able to take advantage of programs requiring an up-front investment of personal capital, yet such customers are those most in need of energy efficiency and furnace replacement programs.

RCM/TREE reported that allocating DSM costs on a volumetric basis would involve some cross-subsidization, and would:

a) reflect, in part, the cost contribution of gas consumption to environmental damage resulting from the greenhouse gas emissions; and
b) would contribute to the mitigation of that damage by greenhouse gas reduction through DSM.

RCM/TREE also advanced the view that industrial DSM programs should also be funded proposing, in addition to Utility driven programs, a self-directed investment program whereby individual customers would have the option to draw on their DSM allocation to fund qualifying efficiency investments.

With respect to its decoupling proposal, RCM/TREE advised that for residential and small commercial customers, much of Centra's relatively fixed costs for those customers are collected through volumetrically determined rates, and changes in usage can cause dramatic swings in the financial margins. RCM/TREE noted that Manitoba has the highest degree of weather volatility in Canada, and, as such, Centra is subject to greater swings in annual revenues. Mr. Weiss recommended that Centra implement a decoupling mechanism.

> *"Because much of Centra's relatively fixed costs are collected from customers volumetrically, changes in usage impacts Centra's margin. Since weather is very unpredictable and conservation penetration and customer growth is subject to forecast error, Centra can experience significant year-to year variation in its net margin."*

Mr. Weiss claimed that implementing a decoupling mechanism would counter such variations.

With respect to RCM/TREE's regulatory process amendment proposal for the inclusion of a phase to encourage and facilitate settlements between the parties, RCM/TREE adopted Mr. Weiss' recommendation that the proceeding schedule explicitly provide a couple of days for face to face settlement discussions amongst all parties before testimony begins. Under the proposal, the details of such a process would be up to the Board, though RCM/TREE indicated a willingness to engage in discussions to develop a process.

RCM/TREE also advanced a variant of its "negotiated settlement" suggestion, being the establishment of a rule-making process conducted under Board direction with the assistance of a consultant.

5.0 Board Findings

Directions and Findings

By this Order, the Board:

a) varies Centra's two year General Rate Application as filed, and approves:

i) Overall annualized revenue requirement increases of 2% for 2007/08, with recovery to begin as of August 1, 2007, and a further 1% for 2008/09, with recovery to begin as of May 1, 2008;

ii) Centra's proposal to implement a rate delay rider as of August 1, 2007, to recover the revenue requirement increase for the period May 1, 2007 to July 31, 2007;

iii) Allowable Net Income not to exceed $3 million on an annualized basis in each of the two test years;

iv) The amount of the reduction in annualized net income of approximately $2.3 million in the first test year and $3.8 million in the second test year is to be recovered in rates from the SGS class. These amounts will contribute in funding DSM projects for qualifying low-income households and qualifying fixed income seniors, including a program targeting replacement of low efficiency furnaces with high efficiency furnaces for qualified low-income customers. Social housing and rented accommodation situations are to be taken into consideration in Centra's planning. The funding provided for 2007/08 and 2008/09 is estimated to be equal to the disallowed Net Income, so that the overall increases to annualized revenue requirement will be as Centra requested (i.e. 2% for 2007/08 and 1% from May 1, 2008);

v) Not including the new furnace program which will be recovered in volumetric distribution rates from the SGS class, the additional revenue requirement

increases are to be recovered from the various customer classes as determined by Centra's approved cost allocation methodology with:

(a) the Basic Monthly Charge for the SGS class increasing from the current $10 per month to $12 per month on August 1, 2007, and further increasing to $13 per month beginning May 1, 2008. The distribution rate is to be adjusted such that only the approved amount of the revenue requirement increase that is allocated to the SGS is recovered; and

(b) Other class increases reflective of annualized increases to revenue requirement to be recovered through increases in rates as determined by the cost allocation study.

vi) Rate Base that excludes any amount for the implementation of the AMI project;

vii) Forecast cost of gas revised to reflect a foreign exchange rate of $1.06 USD, together with a forecast Capacity Management revenue that reflects the actual 2006/07 results in the rolling five year average;

b) Approves new primary gas overhead rates for 2007/08 and 2008/09 in accordance with Centra's proposed approach to be recalculated based on the amended approved Revenue Requirement – the new rates are to be filed with the Board ahead of the August 1, 2007 rate setting;

c) Approves balances and disposition of the various non-Primary Gas Purchased Gas Variance Accounts (PGVA) and other gas cost deferral accounts as of March 31, 2007 with carrying costs to July 31, 2007, as requested by Centra;

d) Approves rates resulting from an extended and revised Nexen contract;

e) Approves revised depreciation (amortization) rates, effective April 1, 2007, as requested by Centra;
f) Approves finalization of interim Board Orders 05/07 and 60/07 related to Primary Gas rates for February 1, 2007 and May 1, 2007, respectively;
g) Approves changes to various Terms and Conditions of Service, including labour rates and gas loan mechanism as proposed by Centra, excepting that the reports currently prepared to assist brokers are to be continued; and
h) Approves new Primary Gas rates effective August 1, 2007;
i) Approves amendments to Centra's hedging operating principles and procedures, as implemented in response to a prior Board directive (Order 175/06).

And, by this Order, the Board:

j) Directs Centra to amend its loan program, to provide for furnace replacement loans to qualifying low-income customers, loans bearing interest rates no higher than now offered to qualifying geothermal installations and with payment schedules not requiring any payment of principal (and, depending upon the circumstances of the borrower) and interest until the sale of the subject property;
k) Directs Centra to undertake a demographic study to understand the economic parameters of low-income household status, and to establish targeted groups for various low-income program measures (including consideration of social housing and rented accommodations), and to file the study by February 28, 2008;
l) Directs Centra to establish an accredited contractor list to govern participation in Centra's Power Smart programs, including the to-be-established low-income Furnace Replacement Program - once an accredited list has been developed, limit participation in the Power Smart Loan Program for all residential furnace replacements to those employing accredited contractors (the accreditation program is to be in the spirit of the accredited autobody shops

established by MPI, allowing for acceptable price ranges for installations and other matters, to be developed by Centra over time);

m) Directs Centra to do pre and post audit assessments of the implementation of low-income and targeted DSM programs, and to file with the Board a plan related thereto by November 30, 2007;

n) Directs Centra to finalize details of the low-income DSM Program, now to be expanded, and file the plan with the Board by November 30, 2007;

o) Directs Centra to hold a technical conference prior to January 31, 2008, to involve interveners, the Board and other groups representative of the interests of low-income customers to review and discuss low-income DSM programming, following which Centra is to establish a standing Advisory Group on the topic;

p) Suggests that Centra consider seeking out partners offering carbon offset opportunities for Canadian individual and businesses, to develop additional revenue to assist in the upgrading of the heat efficiency and heat retention of low-income homes now heated by low-efficiency natural gas furnaces;

q) Directs that transfers from the AEF and funds allotted for the new Furnace Replacement Program established by this Order be segregated in special accounts, to earn interest at Centra's short-term borrowing rate;

r) Directs Centra to file with the Board on an annual basis an analysis of the sources and applications of funds for the AEF, with respect to funds transferred to Centra or reserved for Centra's employment by MH within its accounts;

s) Provides other recommendations and commentary with respect to DSM expenditures and accounting, low-income DSM, the AEF, and other matters;

t) as the Board disapproves in principle retroactive rate increases, directs that future GRAs be filed by Centra sufficiently ahead of the desired rate change implementation date so as to avoid future retroactive rate increases which the Board will not allow in practice for future rate applications;

u) Rejects a proposal from Koch Fertilizer Canada Ltd. (Koch) to receive an exemption from Centra's allocation of Transmission costs;

v) Rejects expanding the practice of issuing lump sum refunds beyond the Special Contract Class and directs Centra to continue with its current practice of administering refunds and payments of PGVA credits and debits using rate riders;

w) Confirms prior direction that depreciation rates be reviewed every five years;

x) Directs that Board approval of a filed business plan with respect to the Advanced Metering Infrastructure project (AMI) is required prior to Centra proceeding beyond the projected pilot expenditures for fiscal 2007/08;

y) Directs Centra to, as was required by the Board by prior direction, prepare and file a comprehensive business plan with options on the Capacity Management program, and to update the five-year rolling average of Capacity Management revenue to include the estimated results for 2006/07, and amend the forecast to be used in establishing primary gas rates as of August 1, 2007, while commenting on capacity management activities and assumptions;

z) Directs Centra to update its cost of gas forecast for 2007/08 to reflect an appreciated Canadian dollar, to benefit gas customers as of August 1, 2007;

aa) Rejects the allocation of any incremental costs to Centra pertaining to MH's new head office, now under construction;

bb) Comments on the allocation options related to the amendments made to Centra's Nexen contract, allowing monthly nominations by brokers at a projected annual cost of $160,000 from November 1, 2007;

cc) Gives notice of an intention to review O&A cost development and allocation, to test approaches put into place last reviewed in 2002;

dd) Defers for future consideration the implementation of inverted rates and a decoupling mechanism; and directs Centra to file for Board approval, prior to implementing as of August 1, 2007, rates reflecting the Board's determinations, together with rate impacts for

all customer classes, as such arise out of the implementation of this Order, and both on a billed rate and base rate basis.

Overall Impact on Revenue Requirement

The Board's directions vary Centra's application while approving Centra's proposed additional annual revenue requirements for 2007/08 and 2008/09. While the Board reduces the Net Income to be reflected in rates from the levels sought by Centra, the Board replaces the decreases in revenue requirement for the two test years by directing the establishment of a new Furnace Replacement Program.

Reducing the allowable Net Income to be factored into revenue requirement and rates for 2007/08 and 2008/09 reflects the combination of the reiteration of Board Orders 103/05 and 135/05, which held Centra to an annual return comprised of Net Income of $3 million and a Corporate Allocation of $12 million, and the introduction of a new Furnace Replacement Program to assist low-income customers and qualified seniors on fixed incomes, with the latter to be funded by $2.3 million and $3.8 million in the two test years, respectively. The Board approves a retroactive rate rider effective August 1, 2007 to collect the additional revenue requirement as if the rates were in effect May 1, 2007.

The Board will direct that future GRAs be filed by Centra sufficiently ahead of the desired rate change implementation date so as to avoid future retroactive rate increases which the Board will not allow in practice for future rate applications.

Cross-Subsidies

The Board finds that low-income customers have been cross-subsidizing DSM program expenditures for other SGS customers. This has occurred because low-income customers

generally have not had the financial means to participate in the programs, which have been well received by and participated in by other SGS customers.

The new Furnace Replacement Program will allow for the expansion of Centra's low-income DSM programs to include the replacement of low-efficiency furnaces with high efficiency furnaces. Although this will result in some degree of the cross-subsidization of low-income SGS customers by other SGS customers, the modest degree of cross-subsidization to result is warranted by:

a) an inability of low-income customers to finance furnace replacement; and
b) increased societal concern with conservation, global warming and climate change; and
c) the assumption that low-income consumers largely have not participated in DSM programs to date, while having funded DSM expenditures then incurred to the benefit of other SGS customers.

The Board anticipates that providing direct assistance to low-income customers, by means of loans with repayment tied to the sale of the property, will bring down delinquency, bad debts and service disconnections. Currently, Centra expends considerable sums related to bad debts and collection efforts, the level of these efforts may be reduced over the long-term with lower bills for low-income customers arising out of the conversion to high efficiency furnaces and installation of effective weatherization.

Cross-subsidization within the SGS customer class is also present with the BMC, which is significantly lower than it should be if it were set to reflect the fixed customer-related costs of Centra. In particular, until the amendments to BMC directed herein, non-gas space heating customers have been heavily subsidized by Centra's space-heating customers, space-heating involving considerably higher levels of annual consumption.

Centra filed "Report on the Appropriate Level of the Basic Monthly Charge" in support of its 2006/07 Cost of Gas Application, and opposed increasing the BMC, despite the fact that fixed customer and capacity costs are only partially recovered through the BMC.

The Board raised the issue of the adequacy of the BMC, in Order 131/04:

> *"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."*

Centra projected customer related costs for the SGS class would increase from $23.46 in 2006 to $25.50 per month for the 2007/08 test year, while the Canadian natural gas distributor BMC average was reported to be $11.78. Thus, in the 2007/08 test year, even with the increases to the BMC established herein, only 50% of fixed customer costs are projected to be recovered by the BMC.

Centra expressed concern that a higher BMC would affect customer attachments in expansion areas, noting that projected annual space heating costs for a mid-efficiency gas furnace and electric heat are now more or less equal. In 2003 by Board Order 162/03, the BMC for Swan Valley Gas Corporation was decreased from $26 to $15, as the BMC was perceived as an impediment to obtaining additional customer attachments.

Centra maintained that the 5¢/m^3 of customer-related costs recovered volumetrically and not by the BMC now provide a price signal similar to that proposed by RCM/TREE's witness Mr. Weiss. However, increasing the BMC to recover the full SGS revenue requirement increases for 2007/08 and 2008/09 should not negatively affect this price signal, and given that at most only 50% of Centra's fixed distribution costs will be recovered with the changes directed herein, rate fairness should be advanced not reduced.

The BMC is controversial, and Centra is concerned with a possible strong negative reaction to any increase, even given adequate customer education. With respect to this issue, the Board thus considered three options:

1) increasing the BMC to recover the SGS portion of the allowed increase in revenue requirement;
2) increasing the BMC for both the LGS and SGS classes; and
3) directing Centra to investigate the creation of a MGS class (Medium General Service).

Centra was opposed to a BMC increase, and recommended keeping the BMC at $10/month even though it would continue some cross subsidization between small and large SGS consumers. Cross-subsidization invariably exists within a class, but the reduction in these inequities, where possible, is justified by the preference to adhere to cost-causation principles when setting rates.

The Board considers an increase in the SGS BMC to be long overdue. The Board varies Centra's application, and directs Centra to incorporate the approved rate increase for the SGS class in the BMC. The Board sets the monthly BMC as of August 1, 2007 at $12, increasing to $13 on May 1, 2008. Centra is to separately collect funds for the low-income furnace program through the distribution rate.

While CAC/MSOS and RCM/TREE joined Centra in supporting no change to the BMC, the Board, considering the BMC has not changed for 17 years and after reviewing the distribution of volumes within the SGS class, concludes that the low BMC has a negative impact on low-income space heating customers and this needs to be addressed.

Notwithstanding Centra's assertion that the 5¢/m^3 of capacity- and customer-related costs is a price signal to conserve gas and thus assist Centra in compliance with the Sustainable Development Act, the Board is of the view that the BMC has remained at its current level far too long and concludes the BMC for the SGS class should be increased.

The Board is aware of Centra's concern over negative customer reaction to increases in the BMC, and suggests Centra make a special effort at educating SGS customers about the BMC increase and the reasons behind it. Customers are likely to understand that an increase in the BMC is warranted after 17 years.

Even with the increases to the BMC to $13 per month as of May 1, 2008, the BMC will be insufficient to recover Centra's fixed customer costs in providing service to SGS customers. The BMC now in place for the SGS class, $10 per month, recovers only between 39% of fixed customer costs and only and 26% of fixed customer and capacity costs. With the change, the percentage of fixed customer costs recovered will rise to approximately 50%, and the percentage of fixed customer and capacity costs will increase to approximately 35%. The BMC remains dramatically lower than full recovery with the gap increasing with every rate increase

An additional benefit of the increased BMC will be a reduced risk of weather induced over- or under-collection of revenue.

Low-Income Programming

The Board commends Centra, its parent MH, and the government for their efforts to establish a comprehensive province wide low-income energy efficiency strategy. While the details of the low-income programs have not been finalized, the Board is encouraged that programming will be assisted by the AEF and leveraged Federal funding.

The Board agrees with CAC/MSOS and RCM/TREE that cost is a barrier to low-income participation in DSM programs. Until that barrier is effectively addressed there is a very limited ability for low-income individuals to participate, and low-income customers will continue to cross-subsidize DSM, benefiting other customers who have the means to participate.

The Board also agrees with Centra that targeted approaches to low-income program development should build on the experience of pilot projects and, where relevant, the experiences of other jurisdictions. As well, discussions with affected groups can be expected to generate useful advice as well support for low-income programs. The contributions of witnesses to this hearing are also available for consideration, as will be the views of the Advisory Committee, to involve participants from the general community.

The Board recommends that Centra should strongly consider the engagement of experts to assist in the development and delivery of the Hard to Reach Program for low-income customers. Particular problems may be encountered in considering how to assist social housing and rental situations.

The Board notes that Centra reports having one staff position to administer the program. The Board is of the view that engaging external experts in the delivery of the programs will better ensure that the program is designed and delivered appropriately, and subsequently meets its goals.

As well, Centra should continue to reach out to, and consult with, Non-Government Organizations who are familiar with low- income program delivery and can provide advice and guidance.

The Board heard evidence that the size of the target group who would qualify for low-income programs likely ranges from between 51,000 and 65,000 households. This group represents up to 30% of Centra's residential customers. The Board agrees with CAC/MSOS that it would be beneficial to prepare a demographic study to understand the parameters of low-income household status. Such a study would assist in program development and should form part of the program design. The Board, however, is also aware that any delay to a currently planned program would come at consequence to those who would benefit. Accordingly the Board urges Centra to implement low-income programming as soon as possible.

The Board if of the view that establishing program participation criteria is of the utmost importance to the successful implementation of comprehensive low-income programs. The Board agrees with Dr. Higgin that the eligibility criteria should be based on 125% of LICO. The use of LICO is an accepted and objective measurement in other jurisdictions for the determination of program eligibility, and the Board recommends that Centra consider such a criterion in finalizing its Hard to Reach program design.

The Board also notes that qualification criteria for low-income programming is yet to be finalized and approved by MH's Executive Committee, and the Board wants to be made aware of that decision soon after it is taken.

Centra should develop and provide additional information on its plans and results from current and to-be-developed low-income programs. The Board, interveners to this proceeding, and other interested communities groups, as well as Centra, will benefit from a technical conference, whereby Centra's programs and program plans can be fully explained and discussed.

The Board agrees with CAC/MSOS' witness that pre and post audit assessments of the implementation of low-income and targeted DSM programs would be beneficial. The Board however is aware that such a regime, if implemented at 100% of the installations, may be cost prohibitive. Therefore the Board recommends Centra establish a pre and post audit assessment process, requiring written verifications and certifications from contractors, and utilizing statistically representative samples to evaluate the compliance with the program for retrofits.

Such an approach should provide additional control on the effectiveness of the programs.

Furnace Replacement Program

The Board is of the view that low-income programming should be extended to include the replacement of conventional low efficiency furnaces with high efficiency furnaces and the installation of improved home weatherization for qualified low-income customers and qualified seniors on fixed income. These measures have been identified as having the greatest potential for achieving bill savings concurrent with the largest consumption reductions, to further the goals of the conservation of a limited non-renewable resource and reductions in GHG emissions.

Until these measures are undertaken, natural gas will be wasted through inefficient furnaces and the poor insulation and heat retention associated with many low-income homes. In undertaking this consideration, the Board also anticipates Centra will give strong consideration for similar assistance to residences occupied by social housing recipients and tenants of apartment buildings.

The Board notes that according to Centra's analysis of low-income households, there were approximately 29,000 single-family residences qualifying as low-income. And, this excludes social housing and rental situations involving multiple unit accommodations. It is unclear at this time of the condition of these residences and their gas furnaces; however there is likely a need for better weatherization and more efficient furnaces. In the Board's view there is a great need for a Furnace Replacement Program and that the scope of the program should not be limited to the funding provided in this Order.

With respect to Centra's current incentive-based program for the installation of high efficiency furnaces, the Board considered several options before reaching its conclusions that much more is required to be done.

The Board's options included:

i. Accepting the status quo, with the realization that low-income households are largely unable to convert from low to high efficiency furnaces without up-front financial assistance, which would be much greater than Centra's current incentive program provides; and

ii. Directing Centra to develop a certified installers program (involving not only technical issues but Centra's review of installation quotes and pricing), implement a pre- and post-installation audit program, and require participants in the Power Smart Loan program to use the certified installers and be subject to the audits; and

iii. Encouraging Centra to recommend to provincial and municipal governments that the Manitoba Building Code for new construction should mandate high efficiency furnaces for natural gas serviced new homes; the replacement of conventional furnaces with mid-efficiency furnaces would not be permitted; and

iv. Direct Centra to develop a program to install high efficiency furnaces in qualified low-income and seniors on fixed income households, and provide Centra with suggestions and assistance towards facilitating such a program.

The Board concludes that each and all of these measures are warranted. Otherwise, natural gas will continue to be wasted through the use of conventional and mid-efficiency furnaces, and low-income householders will continue to be largely unable to participate in programs designed to incent the conversion to high-efficiency furnaces and weatherization.

The Board's decision to direct the establishment of a Furnace Replacement Program was encouraged in part by Centra's commitment at the hearing to investigate the concept of a volumetric levy on customers' bills for the specific purpose of assisting low-income customers with DSM measures. At the hearing, the Board placed before Centra the possibility of Centra

paying particular attention to funding, by way of loans, the installation of high efficiency furnaces and weatherization in low-income households, in return for binding obligations to repay when the real property is sold.

Unlike the current loan program, which includes the binding obligation to repay when the property is sold, the low-income program envisioned by the Board, and to which Centra indicated interest, no pre-sale repayment would be required for low-income customers. The concept includes the charging of interest, it to either attach to the property and be repaid on sale or be met through the monthly billings. The Board will expect the program to have flexible repayment terms and preferential interest rates. The Board will also expect Centra to design eligibility criteria - a means test - for those who would qualify for the program. The Board also believes that the Furnace Replacement Program should in no way displace other proposed initiatives; the Board notes the potential availability of AEF to address situations involving low-income households where home ownership is not present.

The Board recommends that Centra explore with suppliers of carbon-offset programs the possibility of Centra's replacement of low-efficiency natural gas furnaces with high-efficiency furnaces being one of the offset provider's programs. This would provide an opportunity for individuals and businesses to contribute to the reduction of GHG emissions while also helping low-income families reduce heating bills.

Centra now has the opportunity to design DSM programs for low-income consumers, with the funding available from the AEF, the ecoRetrofit Program and consumer rates as approved in this Order. Centra's programs should provide low-income consumers with multiple measures to meaningfully reduce their home heating bills with a resultant increase in disposable income and lead to an increase in economic activity in the Manitoba economy.

Probable ancillary benefits would include enabling low-income consumer and fixed income seniors to remain in their homes longer and live in an environment that is heated to the appropriate temperature to reduce illness and promote wellness.

Weatherization and replacing inefficient furnaces will also benefit the environment by reducing GHG emissions and conserving a finite resource. The upgrade to a high efficiency furnace from a low efficiency furnace, which is typically 60% efficient, results in a decrease in gas consumption of approximately 30%. This is a tremendous savings in cost as well as a significant reduction in greenhouse gas emissions. Further, replacing older furnaces that may have cracked heat exchangers or other operability concerns will lead to safer households.

The Board understands that although the typical 25-year old furnace is about 60% efficient, there are in fact older and less efficient furnaces still in operation. Centra continues to rent conversion burners to customers. These conversion burners were used to convert oil-fired furnaces to natural gas. The Board further understands that these furnaces are even lower efficiency than the 60% efficient conventional furnace. This gives further weight to the problem of retiring old, inefficient, and possibly unsafe furnaces. In addition to the low income furnace program, Centra should consider targeted replacements of conversion burner furnaces with high efficiency furnaces in its new DSM program.

While other jurisdictions have wrestled with whether the regulator has the jurisdiction to establish rates based on rate affordability for low-income customers that issue does not arise in this Order. The rates now and to be charged to all residential customers, regardless of income level, are the same. The Board considers the rates resulting from this Order to be just and reasonable and in the public interest.

The Board is aware that the utility regulators for both Nova Scotia and Ontario have issued recent discussions on "lifeline rates" and the creation of a new customer class based on income level. While this issue does not arise in this Order, it may in the future. As noted, other Canadian jurisdictions have recently considered whether the Provincial regulator has the legal jurisdiction to order special rates for low-income consumers. Because the various regulators obtain their jurisdiction from statutes, either expressly or implicitly, by necessary implication, such statutes need to be examined and considered in the determination of jurisdiction to enact special rates for low-income customers. The Public Utilities Act of Nova Scotia requires that:

> *"All tolls, rates and charges shall always, under substantially similar circumstances and conditions in respect of service of the same description, be charged equally to all persons and at the same rate, and the Board may by regulation declare what shall constitute substantially similar circumstances and conditions"* (emphasis added).

Based on its interpretation of the legislation, the Nova Scotia Utility and Review Board (NSUARB) determined it did not have jurisdiction to order low-income affordability programs. That decision and the interpretation of Nova Scotia legislation was upheld by the Nova Scotia Court of Appeal.

In Ontario, where the legislation is considerably different from Nova Scotia, the Ontario Energy Board (OEB), in decision EB-2006-0034, recently considered the issue of whether residential rate schedules should include a rate affordability assistance program for low-income consumers. In that case, the majority of the OEB concluded that Ontario provincial legislation does not provide the OEB with the authority, either expressly or implicitly, to approve rates using income level as a criterion. The decision of the OEB is of interest to Manitobans and this Board as there are similarities in the legislation that provides jurisdiction to the respective Provincial regulators

Because both jurisdictions have a mandate to approve "just and reasonable rates" that are in the public interest, this Board is drawn to the decision and reasoning in the dissenting decision by the OEB Vice-Chair in the previously referenced OEB decision

In that dissenting decision, the Vice-Chair acknowledged that most energy regulators in Canada agree that the cost of serving customers is a major determinant of rates. But he went further to conclude cost of service is not the only determinant. Based on Manitoba legislation, this Board would agree with the conclusion and much of the reasoning for the dissenting decision by the OEB.

Also, the Manitoba Court of Appeal refused to grant Interveners leave to appeal a prior Manitoba Hydro Rate Order that the Board granted in which that utility's cost of service study was in a state of flux and under review. While there is no request or issue in Centra's application with respect to seeking special rates for low-income consumers, such rates are not seen to be beyond the jurisdiction of this Board.

The Board is mindful of RCM/TREE's submission that low rates do not necessarily represent into affordable energy (i.e. low energy bills) for low-income consumers, where their homes are poorly insulated and poorly weatherized and low efficiency furnaces are in place.

Rather than explore special rates for low-income natural gas customers, this Order enables Centra to design and implement a weatherization and Furnace Replacement Program that will translate into lower energy bills for all of Centra's residential customers, including those with low-income.

As part of the Residential Loan Program, Centra/MH now offers homeowners loans of up to $7,500 to perform home retrofits, including furnace replacements, and up to $20,000 for geothermal installations. The first program involves payment terms of up to five years with

interest of 6.5% a year, the latter terms of up to fifteen years initially at 4.9% interest (fixed during the first five years).

Through the administration of the Power Smart loan program, Centra receives and processes invoices charged to customers for high efficiency furnace installations. The Board heard testimony that while the cost of purchasing a high efficiency furnace is approximately $1,000, bought in bulk by a heating contractor, the typical cost to consumers of installing a high efficiency furnace with venting and labour falls in the $3,500 to $5,500 range, with some billings exceeding the range. The Board also understands that currently Centra neither vets the installer nor the charges, and that some installations do not involve a contractor.

In the absence of a program accrediting heating contractors on the basis of technical capability and business practices, the Board is concerned that some homeowners may pay far more than necessary when installing a high efficiency furnace and safety may be compromised. Centra advised that it currently underwrites installations with its loan program without questioning or verifying the reasonableness of prices. The Board wants Centra to assure itself of the reasonableness of furnace installation costs in an effort to protect customers. In the Board's view, Centra is in the best position to undertake this task.

As well, Centra advised that it does not reject loan and incentive applications when the furnace installation was carried out by a non-licensed party, whether a homeowner or another party. The Board, noting the dangers associated with natural gas, prefers that only licensed, properly trained and Centra-accredited technicians install natural gas furnaces in Centra's franchise areas.

Accordingly, the Board directs Centra to develop an accredited installer program. Customers using a Power Smart loan to install a high efficiency furnace are required to use an accredited furnace installer. Further, the new Furnace Replacement program incentive will only be paid to customers using an accredited installed.

Centra may wish to consult with Manitoba Public Insurance, an agency that has for some time accredited body shops to good results. As well, as its experience with contractor-involvement increases, the Board recommends that Centra begin providing customer information on the average costs of high efficiency furnace installations. Centra could also obtain feedback from loan program participants regarding quotes received, and the charging practices of the industry.

Affordable Energy Fund

As suggested previously, the Board commends MH and Centra for targeting $19 million of the AEF to low-income initiatives. Yet, the Board notes Centra has indicated that the AEF is not slated to be credited interest on unused balances. Centra should impute interest income on AEF funds transferred to it, the proceeds to be utilized to underwrite additional or expanded low-income programs. Such an approach would also allow the funds available within the AEF to represent some measure of an endowment (the problem with the AEF is that it has been funded with a “one-time” transfer, while the work of upgrading heating efficiency and retention is likely to require more than a decade and cost more than the initial allotment of $19 million – which must address both electricity and natural gas low-income households).

The Board also heard evidence that the Fund will be used to pay administrative costs incurred by Centra. The Board assumes that the costs to administer existing programs are currently recovered in rates and should not be offset against the fund. The Fund should underwrite new or expanded programs, not existing budgeted programs. The Board will expect a full accounting of the use of the AEF, detailing the extent to which it was used to fund programs, and the nature of the expenditures allocated against the fund.

Demand Side Management

As seen in Centra's prior GRA and this GRA, energy efficiency DSM programs specifically for natural gas customers are in various stages of development. The Board commends Centra and MH for presenting an integrated DSM plan. The initiatives, with planned additional investments in natural gas DSM programs of over $116 million, will result in significant natural gas savings and GHG reductions.

The Board remains concerned with how Centra is accounting for the DSM expenditures. In the Board's view the fifteen-year time frame over which expenditures are now being amortized will result intergenerational inequity. The Board further notes that the accounting practices of other regulated utilities contemplate a shorter time frame for recognizing DSM expenses. The Board recommend Centra consider changes to the amortization time frame, consistent with the practices followed by other Canadian utilities. That said, the Board is mindful of the potential rate implications for consumers, particularly low-income consumers, and will consider differences between audited statement and regulatory accounts if conditions warrant.

The Board agrees with Centra that the allocation of DSM costs volumetrically would result in a departure from cost causation principles. It would have the effect of charging customers for programs from which they could obtain no benefit.

The Board urges Centra to consider developing targeted Industrial DSM programs, as proposed by RCM/TREE, including consideration of a self- administered and funded plans to promote conservation and the reduction of GHG emissions.

The Board has considered RCM/TREE's recommendation that Centra engage an independent expert to review and evaluate its DSM programs and plans, towards best ensuring best practices and the meeting of the objectives as established in part by this Order.

The Board believes there is merit for Centra to commission a study to evaluate the natural gas DSM plan to ensure that the spending is effective and the pace of the program is appropriate, and as the Board sees merit in assessing the incentive values in the program, the Board encourages Centra to engage external expertise and develop a study that not only deals with DSM but also considers incentives to avoid, where reasonable and advisable, fuel switching.

However, the Board is of the view that such a study, including the time required to carry out the work and issue a report, may unduly delay the launch of some programs. The Board is of the view that Centra is well-qualified to use information and sources already available to it to begin addressing high priority areas, while fine-tuning, assisted by outside expertise and consultations, as time and experience progresses. In conclusion, the Board will look to Centra to exercise judgement and act, not in haste, but with such information as it deems necessary, filing reports and holding sessions and consulting as directed herein.

Cost of Service/Rate Base, Rate of Return

There are two accepted mechanisms by which revenue requirement for a utility may be determined. One is from the use of the Rate Base/Rate of Return model; the other is the employ of a Cost of Service model. Centra and its owner MH have indicated a desire to be regulated on the basis of the Cost of Service methodology, and the Board has indicated its preference for the approach.

By Orders 103/05 and 135/05, arising out of the 2005 GRA proceeding, the Board accepted and agreed with CAC/MSOS's objection to the provision of a Corporate Allocation to MH at the same time as revenue requirement was proposed to include a net income provision based on the allowable rate of return and costs, including the Corporate Allocation. CAC/MSOS suggested that the combination of both Corporate Allocation and an allowable return on rate that ignored the Corporate Allocation would represent a "double count" and provide for a return based on rates in excess of what would arise from the continued use of the Rate Base/Rate of Return model. The Board agreed with CAC/MSOS and continues in agreement on that point.

With the reductions from applied-for revenue requirement increases provided for herein, and the reiteration of the Board's previous direction that the return to MH cannot exceed the aggregate of the $12 million annual Corporate Allocation plus net income in the range of $3 million, the Board concludes the test required by existing legislation with respect to Rate Base, Rate of Return has been met. The Board also notes, as it did in Order 135/05 and Order 131/04, that the legislation also permits other forms of regulation of the gas utility.

The Board was of the view, in Order 131/04, that a dual filing would enable the Board to reach its determination taking into account revenue requirement, Cost of Service and compare such approach with the Rate Base, Rate of Return methodology. And, while Centra and CAC/MSOS may continue to have differing views on the preferred and/or applicable regulatory methodology, both should agree that the Board is to fix just and reasonable rates that are in the public interest.

The Board is mindful of Centra's request to only recover its approved costs and expenses plus a reasonable amount that provides a contribution to retained earnings.

Based on all of this information, the Board has assessed Centra's costs and found them acceptable to be reflected in rates, those rates being just and reasonable.

Allocation of MH Costs to Centra

The Board understands that with Centra having no staff complement, with MH employing all staff to operate both MH and Centra, MH incurs all O&A costs, for both MH and Centra, and that costs deemed incurred by Centra are allocated to it.

As CAC/MSOS represented, the integrated cost allocation methodology, while accepted as fair for the purposes of this Order, does not provide an adequate level of transparency for the purposes of a GRA.

Although the integrated cost allocation methodology does not provide the transparency requested by CAC/MSOS, the Board accepts the methodology as an appropriate method to allocate costs. The Board is satisfied with Centra's assertions, backed by the independent review undertaken in 2002 and subsequent "clear" audit opinions, that the methodology remains sound. The Board further notes both MH and Centra are not only audited by the same independent external auditor, but are also subject to the overview of the Auditor General of Manitoba. With no qualification indicated in the auditors' reports and with the testimony of Centra's witnesses evidencing that the system in place and reviewed in 2002 has not been altered, the Board, particularly given overall O&A trends in Centra since 2002, accepts that the allocation of costs to Centra has been fairly done to-date.

In coming to this conclusion, the Board notes that Centra's O&A costs have increased at a much lower annual rate than have MH's over the past five years. Based on the evidence available, the Board is satisfied that Centra has been allocated an appropriate share of MH's costs, and that those costs directly assigned to Centra (with respect to financing, tax and allowable Net Income) are reasonable.

That said, with the organizational integration and operational changes that have taken place since 2002, the Board finds it now to be appropriate to review the integrated cost allocation

methodology, to ensure it remains appropriate. The Board intends on either undertaking or directing an independent cost allocation methodology review, the form to be determined at a future date.

The Board holds it to be important to achieve acceptance of the current allocation methodology by all parties. An independent review, outside of the GRA process, should accomplish the goal of gaining intervener acceptance of the validity of the approach, and this is in the public interest.

Until that review has been undertaken, the Board is satisfied that MH is taking the necessary care to ensure its allocation of O&A costs to Centra is fair and reasonable. The Board finds that Centra customers are not being held responsible through rates for charges/expenses that should be met by electricity customers.

In addition, with respect to the review of cost development and the allocation methodology the Board intends to undertake prior to the next GRA proceeding, the Board will involve both MH/Centra and registered interveners in developing the terms of reference for the review.

Such a review was last conducted in 2002, and there have been many changes in MH and Centra operations since then, this justifies the undertaking of a new review.

Depreciation Expense

The Board approves Centra's new depreciation expense, consisting of $2.1 million due to the new depreciation rates and $0.3 million due to net plant additions. The Board is satisfied that the depreciation study was undertaken consistent with Centra's past practice.

The Board expects and directs Centra to continue updating its depreciation rates every five years.

Debt: Equity Ratio

Centra indicated that with respect to net income and the development of sufficient retained earnings from natural gas distribution operations to provide for a prudent foundation, MH sought only to gradually bring Centra's debt: equity ratio, now calculated in accordance with MH's perspective at 86:14, to 75:25.

Firstly, the Board again rejects the premise that Centra's debt: equity ratio for regulatory purposes be calculated ignoring its share capital. The Board continues to agree with CAC/MSOS that Centra's debt: equity ratio is to be considered on a standalone basis.

The Board agrees with Centra that there are alternate and perhaps acceptable ways of calculating debt: equity ratios, however the Board continues to find that calculating Centra's debt: equity ratio on a standalone basis is the most appropriate approach for rate setting. In short, the Board does not accept that a different target other than one based on a standalone view of Centra's balance sheet should be utilized.

As to the debt:equity ratio to be selected as the target on the standalone basis, the Board accepts Mr. Matwichuk's advice and finds that given Centra's borrowings are guaranteed by the Province, with the fee for the guarantee allowed in costs for rate setting, a 70:30 ratio is adequate, rather than the 60:40 model that would be acceptable if there were no provincial guarantee.

The Board notes that Centra's debt: equity ratio already exceeds the 70:30 standalone test, and that this reinforces the Board's determination to hold Centra's allowable annual Net Income to $3 million, given the Corporate Allocation remains at $12 million. The Board also notes that contributions from customers, unlike the case with MH, is not included as equity in Centra's calculation of the standalone debt:equity ratio. If it were, Centra would be well in excess of the target.

Corporate Allocation

The Board notes that Centra again confirmed its understanding that MH's acquisition of Centra is not to result in higher rates for Centra customers than would otherwise have been the case under Centra's management by its former private owner. From the date of acquisition in 1999, the only cost to Centra arising out of its acquisition by MH has been the Corporate Allocation. MH has not taken any dividends out of Centra's retained earnings and in this hearing MH's Chief Financial Officer reiterated that MH had no intention to withdraw funds from Centra by way of dividend.

In the Board's view, an ability to offset the annual Corporate Allocation with "savings" would facilitate the assurance that the "no harm" pledge is being kept. At this hearing, Centra confirmed that annual savings from synergies and avoided costs, the latter being costs previously incurred under private ownership that are no longer incurred, were sufficient to ensure the continuation of the $12 million Corporate Allocation charge.

This is before considering:

1. the potential for further synergy savings (single-bill initiative, four party trench, etc.);
2. non-monetary advantages to Centra customers arising from MH's ownership; and
3. further tax savings once the one-time tax liability resulting from the acquisition is fully amortized.

The Board considers that on-going general price inflation, decreased average volume of gas usage per residence, a significant and sustained growth in MH's consolidated O&A, additions and improvements to Centra services to customers, and growth in the customer base including expansion outside of Winnipeg all would have been expected to increase O&A costs per customer by more than has been the case.

Centra and CAC/MSOS provided the Board with alternative analysis of what the costs would be for Centra absent it being acquired in 1999. The Board finds both analyses plausible and equally unable to be proven or disproven.

As stated in Order 135/05

> *"...the Board believes that there is no merit in pursuing the elusive issue of estimating realized synergistic benefits and projecting what would have been Centra's operating costs if the former private ownership had continued in future applications.*
>
> *The passage of time and the continuing full integration of the gas and electric operations make it increasingly difficult if not impossible to track and isolate synergistic benefits from normal productivity gains and other factors."*

The Board does not find such retrospective analysis to be helpful and will not require them to be presented at future applications.

When considering the question as to whether Centra's customers are better off, or at least have not been harmed by the acquisition, the Board accepts that benefits not easily measured in quantifiable terms should be considered. Non-monetary benefits arising out of the acquisition and integration, as reported by Centra at the 2005 GRA hearing, included:

a) reduced duplication of functions with respect to such matters as line locating
b) enhanced system integrity and reliability (formalized evaluation of "at risk" facilities and networks, increased pipeline assessment activities to evaluate coating and corrosion issues)
c) energy bills for electricity and natural gas within one envelope; soon one bill
d) web information and electronic newsletter services provide electricity and natural gas customers a single site for a range of useful information with respect to heating efficiency measures and energy source selection
e) automated customer notification system for interruptible customers
f) the availability of internet banking and e-business resources now available to gas customers provide greater access to alternative technologies for payment and service transactions

g) an integrated voice response system to shorten wait time for customer telephone inquiries

h) expanded hours of operation and increased staffing in the customer service area

i) increasingly integrated Power Smart programs

j) environmental stewardship has been enhanced by the integration

k) extension of professional services

l) enhanced staff and service depth

There may be other "non-monetary" benefits that have arisen from the acquisition and integration, and these include:

1. decision-making centered in Manitoba, with senior officials located in Manitoba;
2. increased attention being paid to public interest issues – no longer driven by financial objectives (approach to low-income customers, demand side management, etc.); and
3. improved borrowing power.

Allowable Returns to MH

With respect to MH's perspective, the Board has long accepted that the costs to be recovered from Centra by MH should include a share of the costs associated with the acquisition. The Board reminds MH and Centra that this sharing will be satisfactory and fair only as long as those costs do not exceed the lesser of what is required for MH's full recovery of acquisition costs or $12 million per year. As well, the final test to be applied is that any combination of net income and charges to Centra by MH do not result in higher rates for Centra customers than would have been the case under private ownership.

The Board understands MH's rationale for the Corporate Allocations. That said, the Board notes that the first priority is the position of Centra customers, and any risk of under recovery must fall

to MH's customers, regardless of the fact that all of Centra's customers are included within MH's customer list for electricity.

The "no harm" principle is of a paramount importance with respect to the dealings between Centra and its parent, MH. For the principle of "no harm" to be honoured, Centra and MH will have to be/continue to be successful in the efforts to achieve and maintain synergy savings and higher productivity. The Board anticipates that ensuring "no harm" to electricity and natural gas customers will be less difficult in time, particularly upon the eventual full amortization of the one-time income tax payment and integration costs.

The Board concurs with MH's decision not to take dividends from Centra. As long as dividends are not declared and taken from Centra's retained earnings, and the annual Corporate Allocation remains at the current level, the Board will have a level of assurance that Centra's customers have not been "harmed" by MH's acquisition of Centra. The other major issue to be considered in this regard is net income, which is discussed subsequently.

The Board established in Orders 103/05 and 135/05 that the Corporate Allocation combined with Board allowed net income is not to exceed the return previously provided to Centra's private owner prior to MH's acquisition which ranged from $14 to $16 million, and allowed the Corporate Allocation of $12 million and annual Net Income of $3 million.

The Board had also stated in Order 103/05 the return to MH as determined under *Rate Base Rate of Return* is to be the absolute limit for shareholder returns. That return may take the form of an annual Corporate Allocation by MH against Centra and/or Centra's annual net income result. The Board further clarifies its position relative to testing the reasonableness of the net income limit. In assessing the reasonableness the Board also considers the no harm principle to be paramount and that a total return of $14-16 million contemplated at the time of MH's

acquisition of Centra currently remains appropriate to ensure neither Centra nor MH customers are negatively impacted from the transaction.

The Board continues to accept the annual Corporate Allocation of $12 million, the premise that synergies have been sufficient to uphold the "no harm" principle, and that, as now to be reviewed, an annual Net Income of $3 million does not represent an unwarranted return on investment for MH.

Capital Expenditures

With the exception of the AMI implementation expenditures, (Centra has yet filed the business plan for AMI as directed by the Board in a prior Order), Centra's capital expenditures on plant and equipment are approved for inclusion in Rate Base.

Centra should be ever mindful of the decreasing load that has occurred and may lie ahead before undertaking expenditures related to capacity increases. Gas usage in Manitoba has fallen and is expected to further decrease, so it is incumbent on Centra to ensure that the forecasts of load growth and system capacity are reconciled, and that expenditures on capacity increases are prudently undertaken.

A trend of reducing average consumption per customer is well established, and as DSM programs ramp up, the trend of reduced gas usage should accelerate. Centra may eventually experience significant load (consumption) reductions, and this may result in materially increased unused capacity in its existing transmission and distribution network, and higher non-gas rates.

On another front, Centra has expended approximately $220 million on capital expenditures since its acquisition by MH in 1999, yet the Board continues to hold Centra to an allowable aggregate return of $15 million ($3 million for Net Income, and $12 million representing the annual

Corporate Allocation payment to MH, its parent). There is an argument for increasing the $3 million to reflect an increasing Rate Base brought about by increased capital assets, net of amortization. However, the Board notes that all of the capital asset growth has been financed by debt, and the finance charges on that debt have been accepted as allowable expenses and reflected in rates.

AMI Project

At the 2005 GRA proceeding, Centra proposed a $400,000 pilot project to establish a business case for a comprehensive AMI program. Centra indicated the benefits of AMI would include accurate meter readings, countering difficulties obtaining meter readings where access to the meter has proven difficult, and providing improved accuracy in readings during off-cycle reads and customer move-ins or outs. As well, Centra advised AMI would assist with Centra's load forecasts and load management activities.

Centra then-reported that many years and millions of dollars would be required to complete the full implementation, and indicated that a business case would form the basis for Centra's choice of technology, the scope of the program and, ultimately, project costs.

Centra committed to file the business case with the Board, and assured the Board that there would not be any further significant expenditures on the project until the business case was accepted by the Board, and forecast the project to be viable.

CEP has observed that meter readers do more than read meters:

> *"They report gas leaks, excessive piping strain around meter sets, some code violations and iced over regulators, to mention a few."*

Yet, to-date Centra has responded only by reference to the safety of meter readers, rather than the public. The Board accepts, as it did in Order 103/05 and 135/05, that meter reader activities go

beyond reading of the meters, and include visual inspections of the meter, calling in gas leaks and iced over regulators, and reporting excessive pipe strain.

The Board remains concerned that important safety steps may be lost if AMI is implemented, without other steps being taken to address all of the safety concerns, both with respect to the public and staff. The Board also agrees with CEP that Centra's business case must factor these matters into account, especially when considering what Centra may deem to be non-economic benefits of the project.

The Board considered a number of options, including directing Centra:

a) To complete the pilot project, and prepare and file a business case with the Board; and/or
b) Remove the AMI pilot project costs from Rate Base for the 2007/08 test year, and AMI implementation costs from the 2008/09 Rate Base.

Upon submission of the business case, the Board will most likely choose to seek the views of registered interveners before concluding on the future of the AMI program. And, in such a case, and if the Board were satisfied with the program, it would allow implementation expenditures into Rate Base. If the Board were not satisfied, it would then direct Centra to cease implementation and keep the implementation costs out of Rate Base.

The Board notes Centra view that it needs to conduct the pilot project in order to prepare the business case. While the Board holds that a draft plan could be developed and filed prior to a pilot project being carried out, considering the implications of waiting for such a plan and delaying the pilot project, the Board concludes $277,000 for the pilot project will be allowed into Rate Base for the first test year.

However, no AMI implementation expenditures are allowed into Rate Base for the second test year, pending Board approval of the business case. The Board shares CEP's opinion that public

safety concerns are paramount, and will expect Centra to address these concerns within its business plan.

New Corporate Head Office

The Board considered several questions related to the potential implications for Centra ratepayers arising out of the new MH corporate head office, including:

a) Should Centra customers be allocated any incremental costs with respect to the new head office?
b) If not, how can it be assured that no incremental costs accrue to the Centra customers related to the new head office?
c) Should the costs related to the new head office be tracked and compared to the present level of costs related to Centra's office space and related costs?; and
d) Should the efficiency savings projected be identified and quantified, by category?

The Board notes and accepts Centra's confirmation that there is no impact on rates in this GRA related to construction of MH's new corporate head office. The Board also notes that Centra reports an expectation of only minimal impact to Centra's revenue requirement, and thus rates, to accompany future rate applications with respect to the new Corporate head office.

It is the Board's understanding that the new corporate head office was a requirement in the purchase of Winnipeg Hydro, and Centra confirmed this to be the case while also reporting at this proceeding that the new building was not required to meet Centra's needs. The Board heard no evidence that Centra's existing properties were unsuitable, or that there was an increase in the equivalent full time head office positions of Centra requiring more office space.

In support of this latter situation, evidence presented at the hearing indicted that the number of full-time equivalent employees (EFTs) assigned to gas operations has declined since the acquisition.

Overall, it is the Board's view that Centra did not require a new corporate head office, and that its current premises are and would sufficient for Centra's needs. Currently, Centra's customers are, through rates, meeting costs related to Centra's office space. The pending relocation to the new head office would, if Centra's productivity gain forecast is not realized, represent additional costs to Centra's ratepayers, and be reflected in rates.

In the Board's view, any incremental costs associated with the new Corporate headquarters would not have been incurred as required for Centra's operations, and, thus should not be borne by Centra's ratepayers. Accordingly, the Board will direct Centra to hold gas ratepayers harmless for any incremental costs that may result from the pending relocation of gas operations to the new corporate head office.

In its future applications, Centra must either clearly demonstrate that the savings from leases, payments, improved productivity, and any other cost savings that may be realized, are equivalent to or greater than the costs included in its revenue requirement related to the new building, or provide evidence that no incremental costs are associated with or have been allocated to Centra related to the new headquarters. If Centra takes the latter approach, it will not be necessary for purposes of GRA proceedings to quantify the costs and benefits of the relocation into the new corporate head office.

If Centra prefers to provide evidence that the new headquarters, though costs are then allocated to Centra related thereto, do not, on a net basis, represent additional costs to be borne through rates by Centra customers, then a cost baseline will have to be established, for review at the next GRA.

If this is the selected approach, then the Board will, by separate instruction, direct Centra to provide a baseline of current amount of head office expenditures from its existing operations as now discreetly included in O&A expense. This will form the basis of a comparison with the costs related to the new corporate head office, and will represent the absolute limit to which such

costs can be recovered from Centra ratepayers. The Board would expect the analysis to be provided at the next GRA.

Or, as suggested above and as directed herein, Centra could simply provide the Board assurance that no incremental costs will be allocated or accrue to Centra related to MH's new head office. With that assurance and evidence thereof, the costs and related synergy savings to result from the new corporate head office would rest with MH and its electricity customers, and this would be consistent with the reality that the new head office is a requirement of the Winnipeg Hydro purchase agreement.

Four Party Trench

In this hearing, Centra stated that it is on track for the development and implementation of its optimization plan. The Board is content to let Centra continue with the development and optimization, and as iterated in Order 177/06, will expect Centra to continue reporting on a quarterly basis, and at any time that its projections or experience with four party trenching changes materially from its current plans and projections.

System Safety and Integrity

The Board notes that although Centra has confirmed that safety has not been compromised since its acquisition by MH, Centra has noted that continued attention will be necessary in the future to address system integrity concerns with aging infrastructure being in place. The Board is encouraged that Centra takes this view and continues to take initiatives to address this issue.

With respect to damage prevention, the Board takes a zero tolerance view when it comes to adherence to Manitoba Regulation 140/92 and the safety requirements of the Gas Pipe Line Act. The Board continues to hold the firm view that safety is of paramount importance, and that system integrity and safety expenditures, both capital and operating, must be Centra's top priority at all times.

Cost of Gas and Hedging

The Board is satisfied that Centra's cost of gas for fiscal 2006/07 was incurred for the benefit of its customers, and that those costs were passed on to the customers through rates without mark-up; accordingly, the Board will approve the cost of gas as requested by Centra.

The Board finds that Centra renewed its primary gas supply contract with Nexen according to the directions set forth in Order 175/06. These directions specified that the contract was to be extended by no more than 2 years to October 31, 2009. Further, the Board commends the inclusion of the flexibility in volumes to allow monthly enrolments of customers with Direct Purchase supply from brokers. A decision on the allocation of the additional cost of this flexibility will be deferred to the Competitive Landscape hearing in September 2007.

The Board expects that Centra, as indicated in the application, will renew the transportation arrangements with TCPL on a timely basis. As for the US supply, transportation, and storage arrangements that expire in 2013, it is the Board's understanding that Centra is investigating its options. Those options include, but are not limited to, extending the ANR transportation and storage arrangements, alternate US transportation and storage arrangements, as well as investigating storage opportunities including in Saskatchewan and Manitoba. The Board encourages Centra to be creative and to review a wide range of options when determining the optimum supply, transportation, and storage arrangements for Manitoba ratepayers.

Recent hedging activities were executed in accordance with the amended operating principles and procedures establishing a wider band for cashless collar derivatives. Past hedges were also completed with a mechanistic approach, though with narrower bands, and, while resulting in $73.2 million of additional gas costs for 2006/07, were in accordance with approved policy and did reduce rate volatility.

The Board, which remains of mixed view as to the wisdom of hedging within a one-year horizon, will comment further on Centra's hedging strategy following the Natural Gas Landscape Hearing, to take place in September 2007.

The Board approved Centra's new deferral rate riders will return an aggregate $8.972 million of PGVA gas deferral balances to customers over the twelve months beginning August 2007. The new riders replace an existing rate rider expiring July 2007 ($13.2 million).

Quarterly Primary Gas Interim Orders

The Board is satisfied that the quarterly primary gas interim rate changes, previously provided by way of interim ex-parte Orders, were properly calculated and will give final approval to Orders 5/07 and 60/07.

Primary Gas Overhead Rates

The Board finds Centra's proposal for Primary Gas Overhead Rates to be reasonable and consistent with prior methodology, and approves of the reflection of Centra's estimates in amended rates, subject to any required adjustment to approved Revenue Requirement.

By approving these rates now, the Board defers to the Natural Gas Landscape Hearing the issue of whether a comparable charge should be developed and levied on brokers or their customers to account for Centra's costs to administer WTS. In that proceeding, the Board will review all issues related to the potential recovery of Centra's overhead costs.

Centra is to recalculate the Primary Gas Overhead Rates, based on the new revenue requirement, and resubmit them to the Board for approval, together with all other revised rates.

Primary Gas August 1, 2007

The Board will approve Centra's proposal for an decrease to interim primary natural gas rates for system gas customers. The next review will take place as of November 1, 2007 on an ex parte basis. Centra's proposal for August 1, 2007 primary gas rates for system gas customers properly reflects the Board-approved RSM. Given this, the August 1 interim rate application has been processed by the Board through an ex parte process which does not involve the public or interveners to Centra's past hearing proceedings. As previously indicated, primary gas rates affect only those customers receiving system gas (primary gas) from Centra. The total billed rate for primary gas supply to system gas customers for the three months ending October 31, 2007 will be $0.2891/m3 for all customers.

Capacity Management

The Board had several options with respect to this issue:

i. Accept the continuation of the existing rolling average forecast approach;
ii. Direct Centra to recalculate the capacity management forecast (and resulting gas cost forecast) by including 2006/07 actual capacity management revenue into the 5 year rolling average forecast;
iii. Direct Centra to more assertively forecast their Capacity Management revenues using a similar procedure to that proposed by Mr. Stauft; and/or
iv. Direct or encourage Centra to more actively enter into exchange or buy/sell transactions with storage gas; and/or;
v. Direct Centra to reconsider outsourcing its capacity management activities (which could effectively mean outsourcing transportation and storage asset management).

Although the forecasting methodology proposed by Mr. Stauft may not prove overly taxing for Centra, the Board notes that weather is likely the most significant factor in determining capacity management revenues. So, after a thorough review of the evidence and consideration of the implications of a change to Centra's practices, the Board is not convinced a more accurate forecast of capacity management revenues would arise with the amendment of the procedure as suggested by Mr. Stauft.

The present 5- year rolling average approach provides a satisfactory estimate of future capacity management revenues. Because any differences between forecast and actual experience are collected in a PGVA, the impact on ratepayers of a change in the forecasting method would likely be minor. Accordingly, the Board will direct Centra to continue forecasting capacity management revenues using a five-year rolling average.

However, the Board agrees with CAC/MSOS and Mr. Stauft that the estimate for the test years should be updated to include estimated capacity management revenue for fiscal 2006/07, the results of this past fiscal year, though not available in audited form to this hearing, would forecast to within a narrow range by Centra and primary gas customers should receive the small benefit that will accrue by an updating of that forecast for purposes of rate setting as of August 1, 2007.

As Centra will be directed to recalculate its gas cost forecast to account for changes in the strength of the Canadian dollar relative to the American dollar, the Board directs Centra to also update the capacity management revenue forecast to include the 2006/07 actual revenues in its five-year rolling average.

With respect to Mr. Stauft's recommendation that Centra outsource its capacity management activities, the Board notes that Centra has previously investigated outsourcing. Order 91/01, arising from the 1999/2000 Cost of Gas Hearing, stated:

> *"In response to Orders 79/98 and 19/00, Centra prepared a report related to outsourcing the management of its Gas Supply Assets, including the release and resale of excess capacity."*

Further, Centra then-engaged a consultant to obtain proposals from a number of energy service providers, before concluding that none of the consultants offered a substantial incentive sufficient to justify the outsourcing of the capacity management program.

The Board has reviewed the evidence, from this and the prior hearing, and finds Centra's supply, transportation, and storage assets essentially unchanged. And, the Board agrees with Centra that outsourcing capacity management may pose significant risks, including though not limited to, the potential loss of expertise within Centra.

Centra is to produce and file a capacity management business plan for the Board's review, and has indicated plans to file it this summer. In the report, the Board expects Centra to consider and report on the following:

1. The pros and cons of the outsourcing of capacity management;
2. A review of the proposed exchanges of Centra's storage gas with Alberta supply, as suggested by Mr. Stauft;
3. An assessment of relative risks and rewards of the varying strategies proposed by Mr. Stauft; and
4. Centra's plans for continued capacity management activities.

Exchange Rate

The Board heard evidence of the effect of changes to the Canada-United States dollar exchange rate on forecasted gas costs. The magnitude of the changes, a move from the forecast 1.16 to a hearing-dated 1.06, is of sufficient effect on the forecast cost of gas that the Board considered two options, those being:

a. Require Centra to re-file an updated cost of gas using an "up-to-date" exchange rate -- in considering this option, the Board took into account that Centra will be required to recalculate rates in any case to reflect an updating of the capacity management revenue forecast, as the Board herein amends the revenue requirements for 2007/08 and 2008/09; or

b. Accept the existing gas cost forecast based on the exchange rate of 1.16, with the knowledge that exchange rate fluctuations are continual and that the deferral account will capture the difference between forecast and actual.

The Board concludes that the recent rapid change and mid-term trend in the U.S.-Canadian exchange rate relationship, coincident with the filing and hearing of Centra's GRA, was an unusual occurrence. While the Board understands why Centra did not update its gas cost forecast, given that a deferral account will capture any variances that arise, and given the materiality of the change that has occurred, the Board will have Centra update its cost of gas forecast to reflect the more recent exchange rate, i.e. $1.06.

With this amendment, the Board anticipates a reduction of approximately $1.8 million in the forecasted gas costs to be reflected in rates as of August 1, 2007.

Externalities and Inverted Rates

The Board has given considerable thought to the concept of full cost accounting and inverted rates, and in doing so has considered both a revenue neutral adoption of the concepts and that of the placement of an additional charge on natural gas customers through the second tier rate.

The Board notes that if an additional charge were to be placed on higher volumes, additional revenue would arise that could be expended on new DSM or environmental projects. Alternatively, inverted rates could be introduced on a revenue neutral basis, with an initial volume or block of gas is sold at a discounted rate. The size of the initial block would be open to

debate, as would be the spread between the discounted rate and the "regular" rate. Such an approach would result in different rates within the same class, with the distinction being based on ability-to-pay.

These considerations would require and involve complex discussions, and bring a risk of discriminatory and damaging results for some users.

The Board recalls Dr. Higgin's suggested that inverted rates not be implemented until expanded and appropriate low-income DSM programs have been implemented and MH had adopted inverted rates for electricity:

> *"I'm not really an advocate of fiddling with (rates) as a tool to deal with this problem, partly because you always end up advantaging or hurting one group of customers. For example, if you went to inverted rates, then the assumption you hope you're making is that low-income customers and seniors, low consumers of gas -- in this case gas -- and that they will be helped by that. But, in fact, many of them live in the worst type of housing; that has standard efficiency furnaces, that has leaky -- no insulation. So basically, you can -- you may not assist those people. In fact, you may hurt them, unless you do other things in parallel."*

The Board is quite concerned with the implications for low-income households with homes that lack a high-efficiency furnace and proper weatherization. If a low-income household consumes a greater than average amount of gas, the household would be negatively affected by an inverted rate schedule. While the initial block could be discounted, a larger block at the higher rate would lead to an overall increase in the bill.

The Board's options included directing:

a) Centra to develop a proposal for an inverted rate structure but, at this stage, not set out any specifics as to the block sizes or adder - the Board would then conclude on whether the inverted rate structure should be revenue neutral or be designed to collect a small added amount to be used to supplement DSM initiatives; or
b) MH and Centra to develop an inverted rate structure, in order for the gas and electric inverted rate structures to be introduced concurrently; or

c) The Board could direct Centra not to take any action at this time, concluding inverted rates for gas customers would be inadvisable at this time.

The Board has heard evidence of the benefits and drawbacks of inverted rate structures. A major benefit is the enhanced price signal provided to consumers to incent them to conserve natural gas. Customers who do conserve would be rewarded with measurable savings on their natural gas bills. However, there are several drawbacks, including:

a. Intra-class cross subsidization would be amplified as larger volume users would experience bill increases while smaller volume users would note bill decreases. These changes would occur without any change in current consumption patterns, and would represent an especially negative outcome for low-income households living in poorly insulated homes with older furnaces. Reaching this conclusion would be difficult as no concrete evidence was presented at the hearing stating that low-income households were also low volume consumers of gas, thus, the Board may well conclude low-income consumers would be significantly disadvantaged by an inverted rate;
b. Centra's position that an inverted rate amounts to a carbon tax on home heating appears reasonable, as is its observation that such a tax is not justified to be levied on "a necessity of life" when other sources of carbon are not to be likewise burdened with a carbon tax – the Board understands that GHG emissions arising from natural gas consumption in Manitoba represents only 4% of overall carbon emissions, with other larger emitters being transportation, industry and agriculture;
c. Centra's SGS class rate structure already has a 5¢/m^3 volumetric charge that relates to fixed, customer-related costs, this is an effective adder or price signal;
d. a negative distribution rate may be required to maintain revenue neutrality of inverted rates, and a negative rate will cause confusion amongst customers,

particularly customers that carefully scrutinize their bills. Such customers may wonder why they are being rewarded for increasing their gas usage;

e. the argument that based on purely economic principles, an inverted rate schedule is not justified if marginal costs are not decidedly different than average embedded cost of gas -- the evidence adduced from this hearing indicates that such a difference does not exist; and
f. as RCM/TREE's witness noted, a natural gas inverted rate would risk fuel-switching to electric heating and appliances.

In short, the Board is not prepared to direct inverted rates be established ahead of broader public recognition and understanding of environmental issues and the implementation of a coherent overall approach to reduce environmental damage and enhance conservation.

In the interim, the Board anticipates that aggressive low-income DSM has the prospect of developing large overall reductions in GHG emissions while conserving natural gas and bringing down the bills of low-income households – a potential win/win/win result.

Decoupling

The Board considered two options given the disparate opinions of Centra and RCM/TREE with respect to potentially amending rate setting to include weather decoupling:

i) Direct Centra to create a decoupling mechanism to adjust distribution rates to result in more stable, weather-independent revenue from customers; or
ii) Accept the status quo, no weather decoupling mechanism

The Board finds merit in the decoupling principle proposed by RCM/TREE's witness Mr. Weiss, in that it reduces the risk that Centra would over or under collect its revenue requirement over a period of time. A non-gas deferral account could be established to function in a similar fashion to the gas cost deferral accounts currently in use. The magnitude of over- or under collections

due to weather fluctuation was indicated to range from an under collection of $7.5 million to an over collection of $12 million in any one year.

Centra's position was that its Cost of Service methodology for determining revenue requirement adequately addresses over- and under collections, in that "weather-induced fluctuations in revenue will be recovered over time" and short-term reductions in retained earnings due to weather are not a sufficient cause to bring a rate application.

Yet, the recent experience of 2005/06 when Centra experienced an operating loss of $5 million when it had forecast a weather-normalized Net Income of $2.5 million, a negative swing of $7.5 million equivalent to 2 and ½ years of allowable Net Income could easily be repeated. The risk of experiencing such scenarios in back-to-back years, which is a distinct possibility, is of some concern to the Board.

However, the Board is wary of adding additional regulatory burden, and the monthly rate amendments required for decoupling would be onerous and possibly confusing to customers. With over 50% of Centra's customers enrolled in the equal monthly payment plan, the benefits for the consumer appear less than stellar for the extra costs and confusion that would result.

By the testimony of its witnesses, Centra indicated that there are several methods for employing a decoupling mechanism, all of which it viewed as being onerous. Accordingly, the Board will not direct the implementation of a rate decoupling mechanism. Centra is to maintain the status quo and continue with the prescribed methodology for setting its revenue requirement, and, ultimately, rates.

Residential Class

Centra evaluated its costs to serve SGS residential and commercial customers, and found the revenue to cost ratio to be very close to 1 for both residential and commercial subclasses, i.e. revenue raised was considered to be basically the same as "costs" to be recovered, those being expenses and allowable net income.

The established target revenue to cost ratio is unity, and Centra advised that its residential customers were in receipt of a small subsidy from commercial customers, but with revenue to cost ratios of 0.995 and 1.035, respectively, the amount of the subsidy is now sufficiently small to be acceptable.

Given the results of the review as reported by Centra, the Board accepts that the current class definition is fair and simple, while noting that it has been accepted by Manitoba consumers for over 10 years. Accordingly, the Board will not direct the creation of a separate Residential rate class at this time.

Lump Sum Refunds

The Board has considered the evidence with respect to the possibility of issuing lump sum refunds to high volume consumers. Currently, the only customer class receiving lump sum refunds is the Special Contract Class (a class composed of one customer).

The Board agrees with Centra that the disadvantages of extending the practice of issuing lump sum refunds beyond the Special Contract Class outweigh the advantages.

Increased complexity in the setting of rates is generally undesirable, and implementation of lump sum refunds beyond the Special Contract Class would represent an unnecessary complexity at this time and given present circumstances.

The Board is satisfied that lump sum refunds are more difficult to administer, while rate riders are relatively easy and inexpensive to administer. There has not been an application by any customer or intervener seeking to adopt lump sum refunds as a general practice. Accordingly, Centra is to continue with its current practice of administering refunds and payments of PGVA credits and debits using rate riders.

Terms and Conditions

The Board finds Centra's proposed changes to the Terms and Conditions of Service to be reasonable, and hereby approves them. The Board is mindful of the reliance by the brokers on the Contract Detail report and the Pre-MDQ report, and directs Centra to continue to provide these reports at the current frequency.

The Board approves the rates that will flow from the new Transportation Services Contract between Centra and Koch Fertilizer Canada Limited. It is not the Board's mandate to approve the contract itself.

The Board has reviewed the wording of the Terms and Conditions, and has a desire to make changes to better reflect the Board's intentions of how Centra operates its business. Such changes will be initiated by the Board, and will be addressed in a future proceeding.

Contract Tendering Practices

The Board finds that Centra's current tendering practices are sufficient, but recommends Centra continue to work at optimizing its practices to obtain the best value for its construction projects.

Natural Gas or Electricity

The Board heard evidence during the proceeding that at the current price of natural gas, the approximate cost to heat a typical home equipped with either a mid-efficiency gas furnace or an electric furnace is more or less equal. As natural gas rates increase, as will result from this Order, then electric heating becomes more economical relative to mid-fficiency gas heating.

Electric space heating is already more affordable than heating through a conventional, low efficiency, natural gas furnace. While electricity prices have risen by less than the rate of general price inflation since 1999, natural gas rates have risen by a factor of 2; evidence at the hearing and in Board proceedings related to MH suggest that the future rate increases of natural gas and electricity service for SGS customers may continue to digress, with electricity prices restrained and set on a "at cost" basis, by public policy, while natural gas prices are linked directly to North American and world market prices and subject to the risk of extreme volatility (as was the case following Hurricanes Katrina and Rita in 2005).

While evidencing concern for rising natural gas commodity prices in the future, the Board acknowledges recent declines that have been attributed to several factors:

a) high inventory levels due to weather variations;

b) relatively modest consumption in the United States related to current weather conditions;

c) recent significant increases in LNG imports into the US market; and

d) closing of futures positions by speculators, as prices fell.

However, drilling activities in the Alberta/British Columbia regions have fallen that will affect production volumes in future periods, European LNG prices are expected to rise in the near term, and colder weather approaches. Centra's natural gas price outlook was reported to be one of steady natural gas price increases once recent depressed price levels are retraced.

This suggests that the new home construction industry and MH/Centra should carefully evaluate the choice of space heating for new developments, and that where natural gas is currently the heat source for a home, high efficiency furnaces should replace both wasteful conventional low-efficiency furnaces and mid-efficiency furnaces.

Presently, economic analysis suggests that conversions from conventional natural gas furnaces to high efficiency natural gas furnaces represent economically viable decisions for home owners, whereas conversion from mid-efficiency to high-efficiency ahead of the end the of the service life of the mid-efficiency furnace is less justifiable from a solely economic basis (one that does not take into account GHG emissions and conservation objectives).

The Board also heard evidence that in new homes the Manitoba Building Code requires a furnace efficiency of at least 82%, which corresponds to a mid-efficiency furnace. Although changes to the Building Code are not the responsibility of Centra, the Board encourages Centra to lobby for changes to the Code to prevent the installation of any natural gas furnace other than a high efficiency furnace. Success in this effort would facilitate consumers experiencing maximum home heating savings, continuing to enjoy savings with lower consumption even as

natural gas prices increase, and being able to contribute to lower GHG emissions by consuming natural gas more efficiently, thus also conserving a non-renewable resource.

Whether new homes should be heated by natural gas or electricity is a major question. The Board notes with concern the diverging experience and trends of natural gas and electricity price changes, and suggests that if current trends continue, electricity will become the low cost option in the near to mid-future. Conversions from natural gas heating to electricity may produce annual heating savings for consumers, though would come with high conversion costs that may not, with the current outlook, warrant for some a conversion on economic grounds.

Widespread conversions from natural gas heating to electricity would be accompanied by significant implications for consumers, Centra and MH. Declining natural gas consumption, while reducing gas commodity and transportation to Manitoba costs, will increase non-gas rates, with less volume divided into increasing non-gas costs over time. The expanding Manitoba electricity load that would result from significant numbers of existing properties converting from gas heat to electric heat would impact on MH's electricity export opportunities and could affect generation and transmission capital expenditure plans.

These are very big issues, ones not confronted directly at this proceeding.

One of MH's motivations for purchasing Centra was to be able to provide comprehensive and considered electricity and nature gas energy solutions to Manitobans. To date, it appears that MH and Centra have been passive in their approach, essentially providing information when asked but not taking a definitive position or making definitive recommendations to consumers, builders or code formulators.

To a large extent it appears that Centra and MH leave energy decisions to developers in areas of residential expansion. With the convergence of typical residential annual heating costs, whether the energy source is electricity or natural gas, together with other considerations as to generation,

transmission and distribution and environmental impact issues of the energy sources, the Board questions whether it is now time MH and Centra develop a more comprehensive strategy for directing or matching available energy sources for consumers. The utilities are well positioned with expertise in the issues to be considered. The Board will therefore direct Centra (and MH) to prepare an file with the Board a discussion paper advising when and whether the Utility should direct or mandate a specific energy source be made available to consumers. Such a discussion paper should consider the legal, socio-economic and environmental issues from a macro and as well as a micro level.

Implications for Centra

The Board's directions have significant implications for Centra.

To begin with, though by no means the most important matter addressed, the Board varies Centra's requested allowable net income to be reflected in rates, reducing it to $3 million in each of the two test years (2007/08 and 2008/09). This results in reductions of $2.3 million and $3.8 million to the applied for net income, for 2007/08 2008/09, respectively (reductions of $6.1 million in aggregate).

If the Board had approved Centra's requested net income levels to be reflected in rates for the two test years, Centra's returns for the two years would have breached the established "no harm" criterion, in that its net income for the two years at issue would have exceeded the levels considered just and reasonable.

As well, if the Board had accepted Centra's proposed net incomes for the two test years, Centra's projected retained earnings as of March 31, 2009 would be expected to be $32 million, as opposed to the projection of $26 million with the Board's amendments. The Board's adjustments produce a projected debt: equity ratio of almost 70:30, which is acceptable given the provincial debt guarantee.

The Board remains of the view that the annual allowable Net Income levels provided for in this Order, to be reflected in rates, will provide Centra with reasonable and consistent increases in its financial strength while maintaining the "no harm" principle established upon MH's acquiring Centra.

The Board anticipates that the additional Power Smart loans, and transactions related thereto (interest revenue and expense, etc.) to arise from the implementation of the new low-income Furnace Replacement Program will be recorded in Centra's accounts, including Centra's balance sheet. . This Order also requires Centra to sequester within its accounts and impute interest on funds collected for low-income DSM and transferred from MH's AEF to Centra or held by MH (AEF being one-time money).

The introduction of the new Furnace Replacement Program, assisted in part by the additional funding provided by this Order, will allow for expanded DSM measures and provide Centra with more tools to improve access by low-income households and seniors on fixed income to high efficiency furnaces. Centra is provided broad direction to design an effective program. Amongst other actions, Centra will be required to develop program qualification criteria; including establishing a means test to ensure the new program targets those with the greatest need for support, first.

The results of a successful program should involve ancillary benefits, such as reduced collection costs, bad debts, delinquency and disconnections – this to benefit Centra's financial results and all of its customers. The primary beneficiaries of the program are expected to be the households of low-income and qualifying seniors on fixed income, and the environment.

Bringing about a truly successful program will tax the current staff assignments of Centra dedicated to issues related to low-income customers. Administering expanded low-income programs will most likely require increased staff assigned to the area of interest, and funding to allow for this has been provided by this Order, if not available from other sources.

The Board also directs Centra to implement an accredited contractor program, with only customers of those accredited firms eligible for Power Smart loans under the new Furnace Replacement Program and incentives related thereto. The Board anticipates that developing the program will require significant consultation with industry, and envisions that the program, when fully implemented, will improve customer protection and better ensure safe and economical installation of high efficiency furnaces.

The Furnace Replacement Program, when fully operational is expected to result in thousands of additional high-efficiency furnace installations each year, expanding the economic base of the industry and providing HVAC contractors sufficient motivation to be willing participants in the development of a sound accreditation program. As well, the Board expects that Centra will give consideration to social and rented housing accommodations, and, perhaps drawing on non-rate based funding, develop programs to address these situations as well.

This Order also requires Centra to develop and host a technical conference on its developing low-income and qualifying seniors DSM program. The Order enables the creation of an Advisory committee to review Centra's plans, and both measures provide Centra an opportunity to focus its efforts and draw upon a broad range of expertise to the betterment of its customers.

The Board anticipates that considerable time will be required for Centra to develop, implement and "fine tune" its expanded DSM programs, and accepts that the importance of upgrading the heating plants of low-income and qualifying senior residences may mean that adjustments will be required after programs have commenced.

At the hearing, Centra advised the Board that it did not provide its customers direct advice with respect to the selection of energy source for space and water heating; in short, Centra was passive with respect to advising customers and property developers on whether to install/convert to electricity or natural gas. Centra also advised that as long as its feasibility test suggests the expansion of natural gas service to an area is economical, it will, on request, provide that

expansion. The Board, while understanding Centra's reluctance to provide advice in these matters, is of the view that Centra and its parent company, MH, as the pre-eminent monopoly supplier of both electricity and natural gas service in Manitoba has responsibilities in these areas to inform, advise and determine, taking into account, along with other factors, the effects on "electricity" when natural gas is supplied or contemplated to be supplied.

The other implications for Centra arising out of this Order are adequately outlined elsewhere in this Order.

6.0 IT IS THEREFORE ORDERED THAT:

1. Net plant additions to Rate Base for 2007/08 and 2008/09, as requested by Centra, BE AND ARE HEREBY APPROVED subject to the following:

    - Incremental costs totalling $277,000 related to the Advanced Metering Infrastructure (AMI) pilot project for 2007/08 to be included in Rate Base; and

    - Any incremental costs related to the implementation of the AMI project, beyond the pilot project, in 2007/08 and 2008/09 be removed from Rate Base until such time that the Board receives and approves a business case for this project.

2. Overall annualized revenue requirement increases of 2% for 2007/08 effective May 1,2007 with recovery to begin as of August 1, 2007, and a further 1% for 2008/09, with recovery to begin as of May 1, 2008 BE AND ARE HEREBY APPROVED, subject to the following;

    a. Allowable Net Income not to exceed $3 million on an annualized basis in each of the two test years, 2007/08 and 2008/09;

    b. The amount of the reduction in annualized net income of approximately $2.3 million in 2007/08 and $3.8 million in 2008/09 to be recovered in the volumetric Distribution rate from the SGS class, to contribute in funding DSM projects for qualifying low-income households and qualifying fixed-income seniors, including a program targeting replacement of low efficiency furnaces with high efficiency furnaces;

    c. Not including the new furnace program, which is to be recovered in the volumetric Distribution rate from the SGS class, the additional revenue

requirement increases are to be recovered from the various customer classes as determined by Centra's approved cost allocation methodology with:

(i) the Basic Monthly Charge for the SGS class increasing from the current $10 per month to $12 per month on August 1, 2007, and further increasing to $13 per month beginning May 1, 2008. The Distribution rate is to be adjusted such that only the approved amount of the revenue requirement increase that is allocated to the SGS is recovered; and

(ii) Other class increases to revenue requirement to be recovered through increases in rates as determined by the cost allocation study.

d. The impact on revenue requirement related to the removal from Rate Base of amounts related to the AMI project, as set out in Directive 1 of this Order;

e. The forecast cost of gas be revised to reflect a revised foreign exchange rate of $1.06; and

f. The forecast of Capacity Management revenue be adjusted to reflect actual 2006/07 results in the rolling five year average;

3. New primary gas overhead rates for 2007/08 and 2008/09 be established in accordance with Centra's proposed approach, to be recalculated based on the amended approved Revenue Requirement, BE AND ARE HEREBY APPROVED;

4. Rate riders with respect to non-primary gas Purchased Gas Variance Accounts (PGVA) and other deferral accounts as of March 31, 2007 with carrying costs to July 31, 2007, BE AND ARE HEREBY APPROVED;

5. A rate delay rider to recover forgone revenue from the implementation of rates August 1, 2007 rather than May 1, 2007, BE AND IS HEREBY APPROVED;

6. Gas cost consequences resulting from an extended and revised Nexen contract BE AND ARE HEREBY APPROVED;

7. Centra's revised depreciation rates, to be effective April 1, 2007 BE AND ARE HEREBY APPROVED.

8. Interim Orders 05/07 and 60/07 BE AND ARE HEREBY CONFIRMED AS FINAL;

9. Changes in the Terms and Conditions of Service, including labour rates and the gas loan mechanism to brokers, BE AND ARE HEREBY APPROVED with a requirement for Centra to continue to provide existing reports to brokers;

10. New Primary Gas rates as requested by Centra, effective August 1, 2007, BE AND ARE HEREBY APPROVED;

11. Amendments to the hedging operating principles and procedures, BE AND ARE HEREBY APPROVED;

12. Centra amend its loan program to create a Furnace Replacement and Weatherization Program for qualified low-income customers and qualified fixed income seniors - with Centra to file details of the program, incorporating features described in this Order, with the Board no later than November 30, 2007;

13. Centra undertake a demographic study to further understand the economic parameters of low-income household status, and establish targeted groups for various low-income program measures, and file the study with the Board no later than February 28, 2008;

14. Centra to establish an accredited contractor list and program relating to all furnace installations funded by Centra's Power Smart programs;

15. Centra limit participation in the Power Smart Loan Program for all residential furnace replacements to those employing accredited contractors from the accredited contractor list;

16. Centra develop an audit program, involving test audits if deemed advisable, to undertake pre and post audit assessments of the implementation of low-income and targeted DSM programs, and file with the Board details of the program no later than November 30, 2007;

17. Centra file details of the low-income DSM Program, for homeowners, renters and tenants of social housing, incorporating the directions set out in this Order and following consideration of the comments and suggestions provided herein, with the Board no later than November 30, 2007;

18. Centra present their low-income DSM Programs at a technical conference to involve Interveners, the Board and other groups representative of the interests of low-income customers, prior to January 31, 2008, for the purpose of reviewing, discussing and revising Centra's low-income DSM programming;

19. Centra present its plans for the establishment of an standing Advisory Group on Low-Income Programs at the technical conference set out in directive 18;

20. Centra segregate funds transferred to it from the Affordable Energy Fund (AEF) and funds accumulated for the new Furnace Replacement Program, with such funds to earn interest at Centra's short-term borrowing rate;

21. Centra file with the Board, on an annual basis, an analysis of the sources and applications of funds for the AEF, and the Furnace Replacement Program;

22. Centra file future rate applications sufficiently in advance of the requested rate change implementation date so as to avoid future retroactive rate increases;

23. Centra file a business plan with respect to the AMI project, with the Board for its approval prior to proceeding beyond the pilot project expenditures for fiscal 2007/08;

24. Centra confirm to the Board that no incremental costs are to accrue to Centra's customers for MH's new head office;

25. Centra propose to the Board terms of reference for a review of cost development and allocation between MH and Centra, on or before March 1, 2008;

26. Centra immediately file revised calculations and schedules for Rate Base, Revenue Requirement, rates and customer class bill impacts that reflect all of the Directives of this Order, and which combine the GRA and the August 1, 2007 quarterly Primary Gas rates, so that new rates may be approved by the Board to be effective May 1, 2007 for all gas consumed on and after August 1, 2007 and for rates effective May 1, 2008; and

27. Centra provide all customers with bill inserts explaining the effects of this Order, the bill inserts to be pre-approved by The Public Utilities Board prior to being distributed, and Centra reference the Board's Order and website in Centra's press release and web postings related to this Order.

The Public Utilities Board

____
Chairman

____
Acting Secretary

THE PUBLIC UTILITIES BOARD

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

"H. M. Singh"
Acting Secretary

Certified a true copy of
Board Order 99/07 issued by
The Public Utilities Board

Acting Secretary

Appendix A

Appearances

R. Peters	Counsel for The Public Utilities Board (Board)
M. Murphy	Co-Counsel for Centra Gas Manitoba Inc. (Centra)
B. Czarnecki	Co-Counsel for Centra
S. Boyd	Representing Communications, Energy and Paperworkers Local 681 (CEP)
K. Saxberg	Counsel for the Consumers' Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors (CAC/MSOS)
E. Hoaken K. Melnychuk	Counsel for Direct Energy Marketing Limited (Direct)
N. Gretner	Counsel for J.R. Simplot Company/ Simplot Canada II Limited (Simplot)
N. Ruzycki	Representing Energy Savings (Manitoba) L.P. (ES)
D. Hill	Counsel for Koch Fertilizer Canada Ltd. (Koch)
W. Gange	Counsel for Resource Conservation Manitoba/Time to Respect Earth's Ecosystems (RCM/TREE)

Appendix B

Witnesses for Centra

D. Kroeker	Manager, Underground Construction and Services
K. Derksen	Manager, Gas Rates and Regulatory
W. Derksen	Manager, Corporate Accounting
L. Kuczek	Divisions Manager, Consumer Marketing
D. Rainkie	Corporate Treasurer
B. Sanderson	Manager, Gas Market Analysis and Administration
H. Stephens	Division Manager, Gas Supply
L. Stewart	Manager, Gas Supply, Transportation and Storage
V. Warden	Vice-President, Finance & Administration, and Chief Financial Officer
R. Wiens	Division Manager, Rates and Regulatory Affairs

Witnesses for Interveners

M. G. Matwichuk	Partner, Steven Johnson, Chartered Accountants
R. Higgin	Econalysis Consulting Services
S. Weiss	Senior Policy Analyst, NW Energy Coalition
M. Stauft	Consultant

Appendix C

Interveners

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

Direct Energy Marketing Limited (Direct)

Communications Energy and Paperworkers Local 681 (CEP)

Energy Savings (Manitoba) L. P. (ES)

Koch Fertilizer Canada Ltd. (Koch)

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

Coral Energy Canada Inc. (Coral)

J.R. Simplot Company/ Simplot Canada II Limited (Simplot)