MANITOBA

THE PUBLIC UTILITIES BOARD ACT

Order No. 160/07

December 18, 2007

Before: Graham Lane, CA, Chairman
Leonard Evans, LLD, Member
Eric Jorgensen, Member

SALE OF NATURAL GAS – CENTRA GAS FRANCHISE AREAS

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Appendices

1. Executive Summary

By this Order, which results from a public hearing that concluded in late October 2007, the Public Utilities Board (Board) establishes new guidelines and directs action with respect to the underlying framework governing the sale of primary gas within Centra Gas Manitoba Inc.'s (Centra) franchised service territories. The objective is to enhance consumer choice from amongst a broad range of competitively priced options.

The market rules supporting customer choice are to change, and Centra is to file a detailed application to enter the fixed term and priced primary gas market in competition with the private brokers (retailers) now serving customers seeking longer-term price certainty. The Board will make no decision with respect to Centra entering the fixed price and term market segment until after it has reviewed Centra's application.

The Board is not satisfied with the options and pricing of options now available to consumers. Additional choice and better pricing is to be assisted by changes to the market framework.

Natural gas rates are not changed by this Order, nor is the methodology for setting Centra's quarterly variably priced primary gas rates. Centra's primary gas rates will remain as established as of November 1, 2007 until the next quarterly rate setting, that being February 1, 2008.

Deregulation, expectations -

The changes directed and/or provided for by this Order are relative to a market framework established almost ten years ago, that by Board Order 15/98. The then-deregulation of Centra's market was premised on the expectation that, by restricting Centra to the variably priced primary gas offering now priced on a quarterly basis, sufficient brokers/retailers would enter the Manitoba market to provide customers with a variety of options to lower natural gas costs for consumers.

Having reviewed the current natural gas landscape in Manitoba, the Board concludes that, post Order 15/98, a competitive marketplace developed for high volume customers (commercial, industrial and institutional) seeking price certainty, albeit not involving Centra, with a number of brokers offering higher volume consumers fixed price and term contracts. However, a truly competitive market offering a wide range of contract terms for small volume customers is lacking. As to deregulation resulting in lower prices for natural gas customers, this has not always proven to be the case, ostensibly due to both market forces and rules that have impaired pricing.

Presently, only two retailers (brokers serving residential and small commercial customers) offer fixed price and term primary gas contracts, and the durations of their contract offerings, to the date of the recent hearing, have not included one and two year offerings and been limited to terms of three to five-years. As well, the Board is not satisfied that the pricing of term contracts to-date has been sufficiently beneficial to consumers in general.

Facilitating Improved Retailer Offerings -

Accordingly, by this Order the Board supports and directs changes to market rules and design that, to-date, have restricted the range and pricing of fixed price and term contract offerings, with the corresponding expectation that new and better-priced competitive offerings will soon be made available, particularly to small volume consumers.

The Board expects that the two existing retailers, Direct Energy Marketing Limited and Energy Savings (Manitoba) L. P. (DEML/ESMLP, collectively known as the Retailers) will expand their contract offerings to include shorter duration fixed-term offerings and, concurrently, bring their prices down.

To-date, the Retailer product offerings have been restricted by requirements allowing only quarterly enrolments. Customers entering into a contract with a broker have had their new supply arrangements effected only on set quarterly dates, leading to delays of up to four months in implementing contract terms.

As well, to-date, Centra's minimum contract volume requirements have impaired broker ability to offer a particular price and term contract to a group of consumers, as significant aggregate volume thresholds had to be met before an offering could be effected.

Both of these rules change with this Order.

Monthly enrolment will replace quarterly enrolment, and previous minimum volume requirements for retailer contract offerings to consumers have been eliminated on a trial basis. More sales channels will be allowed; internet, telephone and direct mail marketing will be facilitated and join the current door-to-door sales approach favoured by the Retailers as means to secure customers. Finally, a review of Centra's load forecasting and daily nomination process – which affects the contract pricing of retailers, will take place through a technical conference to occur before May 1, 2008. Centra is encouraged to meet with the brokers prior to the conference, both to review current processes and consider whether revised procedures are feasible and will benefit consumers.

Before the new sales channels will be enabled, amendments will be made to the Board's Code of Conduct for retailers, this to best assure the approaches being taken will also result in adequate and accurate information for consumers will be in place. The Board anticipates that the effective use of additional sales channels will, in combination with the other changes, bring about a lowering of retailer price offerings. Door-to-door sales involve significant costs, costs incorporated in the pricing of the offerings of retailers.

With respect to internet sales, electronic signatures and marketing information placed on retailer websites are to be retained for subsequent review and audit by the Board. As well, retailers will be required to maintain recordings of voice signatures. Retailers will also be required to retain copies of contracts with customers, for audit and verification purposes, but no longer will be required to submit images of same to Centra. The provision of lists of new customers to Centra will be sufficient, with the Board to audit retailer contract records.

Along with these changes to facilitate cost-effective retailer marketing, other changes to bolster consumer protection are also to occur. The confirmation letter now sent by Centra to consumers entering into contracts with retailers to confirm arrangements will include a to-be-revised *Guide to the Direct Purchase of Natural Gas in Manitoba,* to better inform and educate consumers.

As well, the present "cooling off period" that provides an opportunity for consumers to change their mind following entering into a contract with a retailer will be amended by a change to the Code of Conduct. The 10-day reconsideration period will commence on the date Centra sends out the confirmation letter. (Retailers will continue to have 120 days prior to the end of a customer's contract to market renewal; automatic contract rollovers will continue to not be permitted.)

With consumer protection for a material transaction a paramount consideration, the Board will consider posting information on its website related to the terms and pricing of natural gas offerings in the market.

Centra – Fixed-Price and Fixed-Term Contracts -

A significant matter addressed in the proceeding was Centra's request to be allowed to offer fixed-price fixed-term contracts to consumers. Currently, Order 15/98 restricts Centra to one Primary Gas offering.

Centra advised the Board that consumers want the Utility to enter the fixed-price fixed-term market in competition with retailers, even if Centra's entry results in retailers exiting the market. Centra advised that its fixed term and priced contract offerings, if allowed by the Board, would be cost based, and that the pricing would be advantageous for consumers. Consumers Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors (CAC/MSOS), an intervener to the hearing, supported Centra's proposal, while brokers opposed the measure, claiming Centra has advantages over retailers making Centra's entry unfair.

Retailers suggested that if Centra were to compete directly with them through offering fixed term and price contracts to customers, they would likely exit the market, leaving consumers with no choice other than Centra. While the Board acknowledges that consumers apparently want more choices, not fewer, and are generally supportive of Centra competing with the brokers, the onus remains on Centra to convince the Board of any product offering proposal. Centra is to file no later than June 30, 2008 an application seeking Board approval to offer 1, 2, 3, 4, and 5 year fixed price contract durations to consumers.

Centra's application is to be supported by details as to its proposed sales approach and price-determining methodology, and contain a discussion of risk management issues and administrative support particulars. If Centra is allowed to compete with the brokers, it will be within the regulation model, allowing Centra to take advantage of operational synergies for the benefit of consumers.

In assessing Centra's application, the Board will, among other things, consider the degree of progress made by retailers towards broadening their product range and reducing the spread between their contract pricing and the price of the commodity for like durations.

Allocation of Costs -

During the proceeding, Centra proposed to commence recovering from retailers the costs incurred to facilitate retailer participation in the primary gas market in Manitoba, estimated to be in the range of $1 million annually. Retailers opposed the action, opining that, as all consumers are expected to benefit from competition and choice, the costs to facilitate such choice and competition should continue to be reflected in the rates charged to all consumers.

The Board rejects Centra's proposal. If or when Centra enters the fixed price and term market, a complete cost allocation of Centra costs against all fixed price and term customers and products will be considered.

Other Issues -

At the hearing, Centra's mechanistic hedging program and Equal Payment Plan (EPP) were also reviewed, and the Board concludes:

a) Centra's mechanistic hedging in support of its variable priced Primary Gas offering should continue (the Board will reassess the issue if or when Centra enters the fixed price and term market segment); and

b) Consumer participation in EPP will not be mandatory; positive elections for the option will continue to be required.

Several other matters were also addressed through the hearing, and the Board comments on these matters as well in the body of this Order.

2. Introduction

In Order 175/06, the Board noted there were a number of issues having a bearing on the Manitoba natural gas competitive landscape that required addressing, and directed Centra to undertake customer research to test consumer views with respect to the possibility of Centra offering fixed price and term primary gas contracts, in competition with retailers.

On January 23, 2007, the Board gave notice of its intention to hold a review of the competitive landscape, and requested that all stakeholders submit views. In Order 14/07 dated February 20, 2007, the Board directed that submissions be made by April 16, 2007, and, subsequently, convened a hearing to evaluate the current market structure towards a determination of the optimal way to serve customer needs. In that Order, the Board provided a list of issues to be canvassed:

a. the potential abandonment by Centra of hedging for its current system gas offering, with possible amendments to the Rate Setting Mechanism to mitigate the effect of leaving hedging on consumers;
b. the establishment of EPP as the default condition with respect to system gas customers – that is, should all consumers be enrolled in EPP unless they specifically opt out;
c. the potential for Centra entering the fixed-price fixed-term market in competition with the retailers;
d. amending Centra's supply arrangements to facilitate improved retailers' service;
e. the possible allocation of Centra's costs associated with the operations of retailers against retailers;
f. forecast implications of any changes to the competitive landscape in Manitoba;
g. the nature and extent of existing competition in the Primary Gas market;
h. the Terms and Conditions of current fixed-price contracts;
i. the marketing model and practices of retailers;

j. the rules and practices for enrolment, termination and switching of suppliers, for and by consumers; and
k. the Code of Conduct governing retailer marketing.

Centra, DEML/ESMLP, and CAC/MSOS actively participated in the hearing. Coral Energy Canada Inc. (subsequently re-named Shell Energy North America (Canada) Inc.) (Shell Energy) was also an intervener and provided a closing submission.

The issues brought forth included the above list, as well as other areas related to the provision of natural gas to Manitoba consumers.

3. Background

Prior to 1985, the price of natural gas, the commodity, was regulated by an agreement between the Governments of Canada and Alberta, and the move towards deregulation in the Canadian natural gas industry began in 1985 with a series of Federal/Provincial agreements.

Prior to deregulation, pipeline operators and their marketing subsidiaries purchased natural gas from producers and sold the commodity to natural gas distribution companies, including Centra (then owned by Westcoast Energy, a private firm).

In Order 119/87, the Board reviewed the impact of deregulation on natural gas distribution in Manitoba and approved Centra's City Gate Buy/Sell Service, which led to the development of a City Gate Transportation Service (T-Service). The two service offerings allowed large volume gas consumers to purchase natural gas either directly from producers or from other suppliers than Centra. Smaller volume gas customers were still required to purchase their gas service from Centra.

In 1991, through Order 119/91, the Board permitted brokers/retailers to purchase gas on behalf of residential customers through a Western Buy/Sell service, while continuing the City Gate Buy/Sell Service and T-Service for larger volume customers. This introduced residential consumer competition to Manitoba, and ended Centra's monopoly as to the sale of Primary Gas to its customers (though Centra retained the distribution monopoly).

From the introduction of the Western Buy/Sell arrangement, Centra's customers have had the choice of obtaining their primary gas supply through either Centra or a broker/retailer. In the case of Centra service, also called "system supply", the Utility arranges the purchase, transportation and storage of gas, and charges Board-regulated sales rates, set on a quarterly basis.

The Western Buy/Sell arrangement permitted small volume customers to acquire gas through a broker and "sell" the gas to Centra at Centra's weighted average cost of gas, providing an opportunity for consumers to realize a financial benefit if the broker/retailer acting on their behalf acquired gas at a lower price than Centra's cost.

In such a circumstance, the customer and the retailer shared the benefit, with the benefit to consumers being paid by the retailer by way of a rebate. Under this arrangement, consumers under contract with a retailer/broker did not pay more than Centra's price, as only rebates were possible, not additional cost. At that time, there were 24 brokers participating in the Manitoba market, of which 6 served small volume consumers.

The Board convened a hearing in June 1996 to review what, if any, changes should be made with respect to retail sale of natural gas. In Order 15/98, which dealt with Centra, then-owned by a private firm, and their role in the natural gas supply procurement, transportation and storage functions, the Board directed the phase-out of the current Buy/Sell mechanism as of October 31, 2000, establishment of the Western Transportation Service (WTS), and a tariff for an optional Agency Billing Collection (ABC) Service to facilitate new WTS-supported broker/retailer offerings to consumers.

The combination of WTS and ABC allows brokers/retailers to directly negotiate natural gas commodity supply and prices, enter into contracts with Manitoba consumers, and bill and collect through Centra. The new arrangement eliminated the rebate-type programs that were perceived as lacking adequate price transparency for consumers.

However, with the change, while price transparency was furthered consumers either gained or lost, no longer were only "gains" possible, so too were "losses".

At that time, Centra first proposed being allowed to offer more than one regulated gas supply option – that being the variably priced quarterly set product now offered - to its customers. It sought, as it again did through this recent proceeding, to be able to offer fixed price and term contracts to consumers, along with the variably priced option.

The Board then-rejected Centra's proposal, and determined that Centra should continue its role as a supplier of primary gas by way of a variably priced offering, just as is the case today. Other contract offerings, including fixed price and term contracts, were left to brokers/retailers, which were expected to offer a range of service offerings.

In making the changes, the Board considered the possible impact on the Manitoba market, noting *"… the specifics of future competitive natural gas markets still defy prediction, and the additional benefits to be gained from deregulation are as yet uncertain, particularly for the small volume customers*." (Order 15/98)

The Board then-considered the evidence of Dr. Hall, a witness on behalf of Centra, who articulated a three-fold test to evaluate the benefits of competition, a test generally supported by the other parties to the hearing.

The test consists of three questions:

a) whether supply will be increased;

b) whether prices will be decreased, and

c) whether the range of products and services (choice) will be improved.

If the answer was "yes" to each of the questions, then, according to Dr. Hall and the consensus of the time, the Board could assume that competition would be or was adequate. If an answer was no, then the Board could conclude there would be or was no consumer benefit arising through introducing competition.

Order 15/98 also articulated three objectives for competition, those being consistent with Dr. Hall's test:

a) provide the consumer with meaningful choice;

b) provide additional service offerings; and

c) result in economic benefits.

The view then-formed was that, ultimately, the consumer must benefit, and this remains the condition that provides the necessary rationale for change in the Manitoba natural gas landscape.

In Order 15/98, the Board decided that natural gas consumers would be allowed to choose the products and services from a broad range of offerings and competitors. In limiting Centra to a default service offer, the Board stated: "*The Board is of the belief that consumers may benefit with more, rather than fewer, competitive options*."

Potentially, competition would include Centra offering an alternative to the unregulated agents, brokers, and marketers. While the Board was then of the firm view that customers should have many natural gas supply options available as possible in a fully competitive market, the Board was also of the opinion that allowing a multiplicity of options within the regulated environment (i.e. allowing Centra to compete directly with the brokers/retailers) would be of limited benefit to the consumer.

The Board then-concluded that if Centra offered unregulated fixed price and term contracts, difficulties may arise related to the Purchased Gas Variance Accounts (PGVA), and confusion may arise respecting price transparency and price signals. At that time, Centra's pricing was amended only annually, with PGVA capturing the difference between the forecasted cost of gas embedded in rates and the actual cost, and the balance at the end of a quarter recovered or refunded (through rates) over the next twelve-month period.

In August of 2000, Centra began amending its regulated primary gas price on a quarterly basis, instead of on an annual basis as had been the practice. Following the deregulation of natural gas commodity prices, fluctuations in commodity prices had become more common, with the volatility quite pronounced during times of supply/demand imbalance.

The Board-approved quarterly rate setting mechanism (RSM) is designed to change primary gas rates every three months. The rates were initially adjusted to reflect 50% (subsequently amended to 100%) of the difference between the then-current 12-month forward price for Western Canadian supplies (weighted for the cost of gas in storage) and the cost of primary gas embedded in the then-current approved rates, including the disposal (charge or credit to consumers by means of riders) of the PGVA.

Developments have continued to unfold, and have included the collapse of several major energy marketers (including Enron), causing serious repercussions throughout the North American energy industry. Counterparty credit worthiness issues (hedging involves financial counterparties, which accept the risk of future adverse price developments) came to prominence. And, dramatic increases in natural gas commodity price volatility prevailed, along with a wave of corporate reorganizations and consolidations, reducing the number of energy marketing firms. Industry consolidation also occurred in Manitoba, with the number of brokers and retailers serving the market dropping from 21 in1998 (as many as 24 prior to 1998) to 12 by 2007, of which only 2 are currently offering service to residential consumers.

4. State of Natural Gas Competitive Market

4.1 High Volume Users

The high volume natural gas market has recently been comprised of 154 large commercial and industrial consumers, which are assigned to a number of discreet rate classes: High Volume Firm (HVF), Interruptible, Mainline, Power Station (PS), and Special Contract Class (SCC).

Customers in the HVF, Interruptible, and Mainline classes have the option of purchasing their gas either from Centra or from a broker/retailer using Centra's WTS program, or they may arrange their own acquisition and transportation of gas to Centra's distribution entry points. The latter arrangement is referred to as Transportation Service, or T-Service; PS and SCC customers have selected T-Service.

The following table discloses volumes that were supplied by Centra and retailers, by customer class and subclasses for 1995 and 2007.

Table 1: Volumes of High Volume Consumers

	1995 Volumes (10^3m^3)			**2006/07 Volumes [2] (10^3m^3)**		
Customer Class	**Centra**	**Retailers**	**Centra% [1]**	**Centra**	**Retailers**	**Centra%[1]**
Interruptible	59,500	113,000	34%	84,900	48,400	64%
HVF	n/a	n/a	n/a	85,000	63,500	57%
Mainline	n/a	n/a	n/a	1,400	98,800	1.4%
PS	n/a	n/a	n/a	0	24,100	0%
SCC	0	198,000	0%	0	438,900	0%
Total – High Volume	59,500	311,000	16%	171,300	673,600	20%

Notes: [1] "Centra%" refers to the percentage of customers on system supply. 1995 volumes are as reported in Order 15/98;
[2] 2006/07 volumes comprise 12 months of actual volumes from September 19, 2006 to September 18, 2007, as provided by Centra

According to participants in the recent hearing, adequate competition exists in the high volume market, as the result of informed and economically-sophisticated customers being served by a greater number of brokers providing a variety of contractual designs. Further enhancing the reportedly competitive characteristics of the high volume market is the fact that contract terms can be customized to meet each customer's needs.

Presently, just as is the case with residential and other small volume consumers, Centra offers only a variably priced Primary Gas supply arrangement to high-volume customer classes, and has not competed with brokers/retailers in providing fixed price and term contracts.

4.2 Small Volume Users

The small volume market in Manitoba consists of natural gas customers consuming less than 680,000 m^3 of gas per year (annual billings, up to approximately $240,000, with the average annual residential consumer being in the range of $1500).

Small volume residential, commercial and institutional natural gas customers are classified within the Small General Service (SGS) and Large General Service (LGS) classes. Customers in these classes can purchase Primary Gas from either Centra (system supply, variably priced), or from retailers, the latter denoted as “Direct Purchase”.

Direct Purchase is facilitated by Centra’s WTS program, whereby retailers deliver gas purchased from producers to TransCanada Pipeline’s Empress delivery point, which is located at the Alberta-Saskatchewan border. Centra takes custody of the gas at this location and transports it to its Manitoba distribution network, for delivery to retailer customers.

The following table reports volumes consumed by each customer class and subclass in 1995 and 2007:

Table 2: Volumes of Small Volume Consumers

	1995 Volumes (10^3m^3)			**2006/07 Volumes (10^3m^3) (2)**		
Customer Class	Centra	Retailers	Centra% (1)	Centra	Retailers	Centra% (1)
SGS - Residential	580,500	12,700	82%	501,500	118,400	77%
SGS - Commercial	51,000	25,500	67%	81,800	8,700	89%
LGS	232,000	411,000	36%	442,800	58,300	87%
Total – Small Vol.	863,500	449,200	66%	1,026,100	185,500	82%
Total Throughput	923,000	875,000	51%	1,197,400	859,100	58%

Notes: (1) “Centra%” refers to the percentage of customers on system supply. 1995 volumes are as reported in Order 15/98;
(2) 2006/07 volumes comprise 12 months of actual volumes from September 19, 2006 to September 18, 2007, as provided by Centra

A major issue associated with deregulation that was reviewed in the Board’s public proceedings of 1991 and 1996 was the security of gas supply, in particular, whether the gas supply offered by retailers was as secure for consumers as that provided by Centra. The conclusion was that it was, given “backstopping”.

Backstopping refers to Centra being the supplier of last resort, with an obligation to provide backup or emergency gas supplies to broker/retailer customers in the event that a retailer fails to provide gas to Centra at the specified delivery point sufficient to meet the contract commitment. (At the proceeding, Centra advised the Board that T-service customers, representing very high volume organizations, had “signed away” Centra’s obligation to backstop their supplies.)

That limitation to the contingent liability noted, Centra has an obligation on a “best efforts” basis to supply gas to all WTS consumers in the event the broker/retailer contracted to supply the gas cannot. Centra has indicated that its requirement to backstop has been realized infrequently, with the only experience to-date coming during the very early days of deregulation prior to the inception of the WTS, and involving a broker no longer operating in Manitoba.

In the event of Centra backstopping a retailer’s gas supply, the WTS agreement allows Centra to recover its incurred costs, with the first demand to be on the broker/retailer which failed to deliver, and, failing that, on the retailer’s customers.

Centra has advised that in a worst case scenario, its financial exposure related to the backstopping commitment would be in excess of $100 million. Centra monitors the ongoing creditworthiness of brokers/retailers, towards limiting its financial exposure.

4.2.1 Board Findings

As indicated, Centra’s responsibility for backstopping the WTS leaves it with significant financial exposure. Although broker/retailer volumes are currently in the range of 40% of Centra’s total throughput, Centra has no responsibility for backstopping the supply for T-service customers. Taking T-service into account, Centra's backstopping responsibility is with respect to approximately 20% of overall distribution throughput; nonetheless representing a significant contingent liability; the annual cost of the commodity exceeds $500 million.

The consequences of a retailer supply failure are briefly described in the Guide to Buying Natural Gas in Manitoba, a communication provided to consumers by the retailers.

While customer information issues are dealt with later in this Order, it is incumbent on retailers to ensure that all of its potential customers are provided the opportunity to understand the consequences of retailer supply failure. Consequences of retailer failure to deliver contracted gas supply include, as previously indicated, the potential for additional costs being levied on consumers. And, in the event of a retailer's failure to supply, the additional costs may accrue to the account of customers until such time as Centra is able to return the customers to system supply at system supply rates.

Although Centra would attempt to collect any additional costs incurred from its backstopping activities from the retailer involved, in the event that the cause of the supply interruption was the insolvency of the retailer, Centra's recourse would be to collect additional commodity price costs from the retailer's customers.

Accordingly, the Board reminds Centra of its obligation to remain diligent in its review the creditworthiness and financial stability of all retailers operating in the Province.

4.3 The Competitive Market

4.3.1 CAC/MSOS's Position

CAC/MSOS summarized its concerns regarding the competitive landscape by means of posing five questions:

1) Does the competitive market generate benefits for consumers?

2) Should Centra be allowed to compete on a regulated basis with retailers?

3) Should incentives or subsidies continue to retailers?

4) Should the marketing practices of retailers, specifically door-to-door sales, be modified?

5) Should Centra's variably priced Primary Gas rates contain a hedging component?

CAC/MSOS sought a market design that would provide "… consumers … the most choices available to them at fair prices". According to CAC/MSOS, the competitive market now in place does not represent that originally envisioned pursuant to Order 15/98, and steps should be taken by the Board to address the shortcomings.

Although a larger number of retailers initially participated in the Manitoba market after Order 15/98 was issued, only two retailers remain serving the small volume market in Manitoba. Mr. Stauft, a witness for CAC/MSOS, agreed that the lack of participants in the Manitoba market is not indicative of a failure to provide a competitive market, though he had expected a greater number of market participants than there is, and a greater number of product offerings, including offerings of shorter term and an offering to compete with Centra's variable rate product.

Mr. Stauft cautioned the Board against making economically artificial changes to promote competition, though noting that an expanding of retailer sales channels and the reduction of the lag time now in place to implement consumer contracts with retailers' gas would represent substantive changes.

Dr. Van Audenrode, who also appeared as a witness on behalf of CAC/MSOS, stated that there does not seem to be healthy competition in the Manitoba natural gas market, and opined that retailers appear to have been unable to compete with Centra in the short-term variably priced market. Dr. Van Audenrode questioned, given only two retailers operate in the market, both incapable of competing with Centra in the short-term market, whether consumers choosing long-term contracts are receiving competitive prices.

4.3.2 Centra's Position

Centra observed that retailers, CAC/MSOS and Centra were in agreement that a competitive market exists for the supply of natural gas to large-volume industrial users, and that the competition in the larger-volume market is workable. Yet, Centra opined that a competitive market has not developed to a meaningful level for small volume consumers, characterizing the small volume market as having only two participating retailers, limited product choices, and limited information to assist customers in decision-making.

Centra noted that there has not been a new entrant into the market in four years. Centra attributed the lack of competition to the small size of the Manitoba market and the high cost of acquiring customers, with marketing on a door-to-door basis. For Centra, the fact that there are currently only two retailers in the Manitoba market is a factor for the Board to consider when judging the competitiveness of the market.

Centra noted that, as has happened in other markets, consolidation of participants has occurred, but suggested that as long as enough competitors remain to provide viable choice and different product offerings, given they are able to compete against each other, the market will remain competitive. That said, Centra held that two retailers, the current situation, does not represent a sufficient number of competitors to generate effective competition.

4.3.3 DEML/ESMLP's Position

The retailers stated that although Order 15/98 contemplated a transition to a fully competitive market, it also accepted that achieving such a market would take some time and effort. The retailers agreed with CAC/MSOS's position that competition is not a goal in and of itself, and opined that Manitoba consumers have benefited from the presence of competition to Centra, though there are imperfections and room for improvement in the current competitive marketplace.

The retailers held that the fact that Centra sees itself as being in competition with them is a major reason for the lack of adequate competition. The retailers suggested that Centra's role in the market should be that of a neutral default supplier and a facilitator of competition, not that of a competitor. The retailers advised that they rely on Centra for essential elements supporting their business, and view Centra as being unduly protective of its market share of primary gas. In the retailers' opinion, Centra should be indifferent to its primary gas market share.

The retailers stated that the impediments to a competitive retail market in 1996 included Centra's long-term storage, transportation, and supply contracts, and that these factors continue to be impediments to the development of a fully competitive market. The retailers suggested barriers and impediments in the current market preventing the development of the market to the point visualized in 1996 and by Order 15/98, which prevent the continued development of the market.

The barriers cited included limitations on the flexibility of their offerings imposed by the terms and conditions of the WTS, high customer acquisition costs incurred by the retailers, and negative impacts on their operations from the actions of Centra.

Dr. Cyrenne, an economist called as a witness by the retailers, stated that the Board "got it right" with its Order 15/98, in structuring the competitive market and balancing the benefits of regulation with the benefits of competition (i.e. restricting Centra to a default supplier role and facilitating the entry and operations of retailers).

4.3.4 Shell Energy's Position

Shell Energy suggested that the competitive gas market in Manitoba is functioning adequately, although there would always be existing or emerging circumstances requiring Board action in order to maintain or improve the market for the benefit and protection of consumers. Shell further submitted that the status quo need not prevail, but can provide the foundation necessary to continue improving and evolving the competitive market.

4.3.5 Board Findings

Currently, Centra is not allowed to offer fixed price and term contract offerings to any customer class. If Centra is allowed to offer such contracts to small volume consumers, fairness suggests that large volumes customers should be provided the same breadth of choice and the Board will await Centra's application in this regard.

Notwithstanding possible concerns with respect to large volume consumers, the Board does not consider the current situation for small volume consumers to represent adequate competition. The Board notes that:

1. there are only two retailers offering products to the small volume market;
2. to the date of the hearing, neither of the retailers had offered a contract of less than three years in duration;
3. some fixed price and term offerings that were advanced failed to meet Centra's volumetric threshold, thus limiting the number of offerings; and
4. retailers have offered different terms, with overlap only with respect to 5-year fixed-price contracts.

The Board accepts there is some, albeit limited, competition in the small volume market, and agrees with CAC/MSOS that the level of competition is not as great as was envisioned with the release of Order 15/98. Seven years of experience with the WTS has identified both strengths and weaknesses with the existing situation, and changes are required for the public interest to be served.

Competition is not a goal in and of itself. The Board is interested in ensuring that Manitoba consumers are provided meaningful choices and real economic benefits. These were the objectives in 1996, when the Board began considering establishing a new framework for a competitive marketplace, and they remain the objectives today.

The retailers maintained that Centra's storage, transportation, and supply arrangements place restrictions on their operations and are effective impediments to the development of a competitive market. In the Board's view, these arrangements were prudently designed for the benefit of all Manitoba consumers. Centra's American storage and transportation arrangements expire in 2013; prior to that, Centra will be required to investigate, review, design, and solicit bids for new storage and transportation assets.

That will be the appropriate time to investigate possible changes to better serve the Manitoba market. Nevertheless, there are some changes that can be made now to benefit consumers, and these will be discussed in subsequent sections of this Order.

The Board accepts that Manitoba is a relatively small market and that there are and have been barriers to entry, these including two well-established retailers and Centra. Yet, more retailers in the market would lead to more choice.

The primary concern of the Board relates to the value and range of the product offerings now being provided to consumers, and whether these consumers are experiencing sufficient economic benefits, and as broad a range of choice as can reasonably brought about. The Board concludes no to both, and provides changes to the market framework through this Order to remedy the situation.

4.4 Costs of Providing Primary Gas Service

4.4.1 CAC/MSOS's Position

Dr. Van Audenrode stated that with effective competition prices would be driven down to cost plus a "normal return." He suggested that the retailers' current pricing may include a higher than normal profit margin, an assertion opposed by the retailers. As to costs, Mr. Stauft noted that Centra provides transportation, distribution, billing, and collection – collectively referred to as customer care – functions on an equal basis to both system supply and retailer customers. The remaining competitive arena was indicated to be the procurement of primary gas at the Alberta border. With respect to gas supply, Mr. Stauft opined that retailers are unable to purchase gas, on average and over the long run, at a price lower than the price at which Centra acquires its gas supply.

Mr. Stauft observed that there are additional costs that the retailers incur and account for in the pricing of retailer fixed price and term contract offerings that Centra does not incur, those primarily being customer acquisition costs (marketing and door-to-door sales effort), paying income taxes and earning a profit. For Mr. Stauft, the door-to-door marketing mechanism is the primary additional cost retailers bear compared with Centra.

As retailers are unable to procure natural gas at a lower cost than Centra, and as they incur costs that Centra does not bear, Mr. Stauft opined that competition in Manitoba cannot be effective at ensuring lower prices for consumers. Even if retailers could consistently procure gas at a price less than Centra's, Mr. Stauft held the benefits may not be passed on to their customers in the absence of effective competition. Dr. Van Audenrode confirmed that even if retailers owned producing fields, as DEML's parent apparently does, it would not ensure procurement of gas below market prices. And if, natural gas were to be acquired by the retailers at lower than market prices, such gains may be held as a shareholder benefit and not be reflected in savings for consumers.

4.4.2 Centra's Position

Centra suggested that the retailers focus on the 3 to 5-year duration fixed-price and term market segment so they can amortize customer acquisition costs over several years.

ESMLP's latest quarterly financial report reported average customer acquisition costs of approximately $180. Centra did not provide the Board an estimate of the costs they expected to incur to acquire fixed price and term contract customers (assuming they entered the market segment), but did not dispute CAC/MSOS's assertion that the Utility's customer acquisition costs would be less than that of the retailers.

Centra observed that retailers have the options of either purchasing a long-term physical supply of gas or employing financial derivatives to secure a long-term price. Centra confirmed that the price it pays for gas would likely be the same as what retailers could expect to achieve, assuming each party is buying gas with the same delivery time terms.

4.4.3 DEML/ESMLP's Position

The retailers disagreed with CAC/MSOS's and Centra's assertions that that they cannot purchase gas at a lower price than Centra, noting that they are purchasing natural gas on different terms than are Centra. The retailers noted that Centra purchases gas priced on a monthly indexed basis, while the retailers purchase gas priced for longer term delivery. The retailers did accept the premise that if they were purchasing natural gas on the same time and delivery terms as Centra, their cost would be unlikely to be different that Centra's.

The Retailers conceded that they do have higher operating costs than Centra, but suggested Centra's requirements were partially to blame. The retailers specified a number of items that drive up their costs, suggesting that although individually each item may not appear to be significant, in aggregate the effect is to materially increase retailer costs, limit the number of product offerings they are able to offer, and cause prices to consumers to be higher.

The retailers advised that their cost to acquire customers (marketing and related costs) is, on average, 75% higher in Manitoba than in the other jurisdictions they operate in, citing the following items as having an impact:

1. volumetric threshold for individual price/term offerings;
2. a lack of transparency for Centra's process for making and changing daily nominations, affecting retailers negatively;
3. the variability of Centra's daily nominations; ;
4. Centra's requirement that the retailers obtain customer signatures to support new contracts, precluding lower cost marketing methods such as telemarketing and internet;

5. Centra's requirement that retailers forward to Centra an image of each signed contract;
6. the elimination of the renewal policy which provided for a 90 day extension beyond the contract expiry date; the limitation that was in place until November 1, 2007 that customers could only be enrolled in Direct Purchase (with a retailer) every quarter, rather than monthly; and
7. the characteristics of Centra's default product (variably priced pursuant to the Board's RSM), which obscures the market price of natural gas – involving hedging, and reliant on a PGVA, with the PGVA reflected in rates charged to consumers over a twelve month period.

Towards improving the situation, the retailers recommended:

1. eliminating or reducing the volumetric threshold for their offerings;
2. improving the transparency of the forecasting process, to assist the retailers in acquiring gas in a more optimal cost-effective way;
3. setting daily nominations of gas for a longer period of time, such as providing the retailers with a constant daily volume over an entire year, season or quarter;
4. eliminating the requirement to obtain a written signature on contracts;
5. eliminating the requirement to forward an image of each contract to Centra, implementing an audit process instead;
6. allowing customers to be enrolled on a monthly basis - Centra has now implemented this, beginning November 1, 2007;
7. allowing for the reinstatement for the automatic renewal provision; and
8. changing the RSM for Centra's variably priced contract, so that the default gas rate is changed every month and the PGVA is cleared the following month, while eliminating hedging.

4.4.4 Board Findings

The Board accepts that on average and over the long run brokers and retailers can expect to be able to purchase gas at the same price as Centra, given the same time and volume parameters.

While the Retailers asserted that they buy different products (term and volume) and therefore the price they pay is different than Centra's, they conceded that if they were to purchase the same product as Centra they would likely pay the same price.

Accordingly, the Board accepts Mr. Stauft's evidence that short and long-term market prices are available to both Centra and the retailers, and given the same terms of purchase, the cost of gas supply would be approximately the same for both Centra and brokers/retailers.

The Board notes that in addition to the costs identified by the retailers, the latter also bear many risks, these include:

1. their initial costs of entry into the Manitoba market presumably would be recovered through rates charged their customers;
2. costs to acquire customers, accepted as being higher than that of Centra, are likely amortized over the contract duration – the retailers cannot count on contract renewals;
3. "churn" risk - the probability that some customers will not renew, and that some others may prematurely cease their contracts through a move or other circumstances;
4. supply cost and volume risks mitigated in part by hedging, which itself brings the potential for additional costs;
5. supply cost risks associated with Centra's changes to daily nominations;
6. potential inadequate take-up of new offerings (until very recently, this risk included the reality of a volumetric threshold); and

7. regulatory interventions or changes in the gas landscape or Code of Conduct affecting the retailers' competitiveness and/or profitability.

Retailers advised that their costs to acquire customers are higher in Manitoba than in other Canadian jurisdictions, identified the causes, and requested that the Board make changes towards reducing their costs, so as to allow more competitive pricing of their offerings. The Board accepts that the structure of the WTS and the underlying framework may cause retailers to incur higher costs than in some other jurisdictions and, where possible, and being reasonable and in the public interest, the Board will act to facilitate lower consumer prices.

The specific items identified as causing additional costs and the measures to be taken to remedy the situation are dealt with later in this order.

4.5 Pricing Comparisons

4.5.1 CAC/MSOS's Position

Dr. Van Audenrode suggested that consumers should not expect to save money compared to Centra's variably priced product when entering into a multi-year Primary Gas contract with a retailer. He noted that North American gas markets are very liquid and actively traded, and that the price for a long-term supply of gas embeds the-then market expectation for the future. Thus, entering into a long-term contract is inherently different than "stocking up" on a product at the current price.

Dr. Van Audenrode suggested that this distinction may not be understood by many consumers, and thus is one explanation as to why so many consumers elect to contract with the retailers.

Dr. Van Audenrode also cautioned about comparing the price of Centra's variably priced default supply with the retailers' fixed-price products, opining that such a comparison is invalid as they are completely different products. He further cautioned that comparing the historical results to determine whether a consumer would have saved money, or paid more, if the customer had stayed with the default variably priced supply represents a meaningless comparison, particularly, if the intent is to establish whether the price provided the retailer was fair.

Mr. Stauft characterized retailer contract offerings as a “losing bet” for consumers. According to Mr. Stauft, with retailers having the same gas procurement costs as Centra, plus additional costs for customer acquisition and marketing, the result is that, on average and over the long term, customers would be better off with Centra’s system supply variably priced product.

4.5.2 Centra’s Position

For Centra, customers will invariably compare the price of its variable rate product with the retailers’ fixed-price offerings because they can be substituted for each other. Centra suggested that comparing the current variable rate with the current fixed rate offering of a retailer has a degree of validity, but it is not the only element that should be considered in making a decision to go with the retailer or stay with system supply.

Centra suggested that the three factors employed by customers to compare products are: 1) price, 2) rate volatility, and 3) the customer’s risk aversion. At the time that a customer signs up for a fixed-price product, Centra noted that the customer could not know whether his or her decision will result in savings.

Centra illustrated its view with historical evidence comparing the costs to consumers of various retailer offerings compared with Centra’s default offering over a period of time, based on the same consumption.

Centra’s comparison disclosed that depending on the price of the fixed-price contract, and the date that the customer contracted for supply from a retailer, the historical review showed that the customer either saved money or paid additional money over what would have been paid if the customer had stayed with system supply. Centra stated that it would not be able to design a fixed-price product that consistently produced savings compared with its default offering.

In reviewing the results of all of the settled and completed retailer offerings, it was demonstrated that contracts entered into after May 2002, except for the four year contract commencing May 2003, resulted in savings to consumers relative to Centra's variable rate. Although no trend was inferred by Centra, the Utility noted that the results were characteristic of periods when the commodity price of natural gas was increasing, thus causing Centra's variably priced Primary Gas to also increase.

4.5.3 DEML/ESMLP's Position

The retailers rejected the value of comparing Centra's variable rate offering to their fixed-price offerings, and noted that their fixed term product is different than Centra's, meaning the products cannot be usefully compared.

The retailers also articulated concerns about comparing DEML's price with ESMLP's price for the same fixed term offering, since each product could be supplied by gas that was acquired at different times and prices. And, the retailers cautioned about comparing offered prices in the Manitoba market to the Ontario market, since the costs to acquire customers and deliver gas in each market are different.

4.5.4 Board Findings

The Board agrees with the retailers that their fixed price and term products are distinctly different than Centra's variably priced supply, but disagrees that a meaningful comparison with respect to past results and projections of future results cannot be made. In the same manner that mortgage customers can compare rates with different durations with variable rate offerings, so consumers can compare natural gas supply options.

Since neither the retailers, Centra, nor the customer can know the future direction and volatility of the market price of gas, particularly over relatively short periods of time, what was offered, and representative of a fair price, may result in a customer spending much more than would have been the case if the customer had stayed on system supply. Conversely, a customer could sign a fixed-price contract with what some might consider an excessive margin (the difference between the price charged to the consumer and the price paid for the gas by the broker) for the retailer, but unforeseen market events that result in the market price of natural gas soaring could lead to the customer saving money over what would have been the case with system supply.

In the long term, the Board would expect the average cost of supply arising from a variably priced product and the average cost of supply from fixed term and price supply contract, assuming the cost factors are to be similar. And, if the fixed price charged to consumers is excessive relative to current gas supply costs, then the proportion of customers who pay more for gas will be larger than the proportion who save money, and the cumulative annual amounts being paid for the fixed price offering will be higher than the amounts being saved.

Accordingly, the Board seeks to provide a framework to restrain non-gas costs so as to, hopefully, influence consumer rates under both supply models.

During the hearing, the retailers advised that they were pricing their 3, 4, and 5 year offerings in a range of 34.9 cents per cubic meter to 38.9 cents, while Centra's variable rate was 28.9 cents, the latter being higher than the then-current market price for purchased gas due to hedging that added costs and increased the variable rate. The spread between the rates offered by the retailers and Centra would have been considerably wider if Centra had not hedged, as without hedging, Centra's then-current variable priced offering would then have been approximately 25 cents.

Centra produced evidence of the then-current market price of gas (AECO C price); for fixed-price supply contracts of 3, 4, and 5 years, prices then-fell between 25 and 26 cents per cubic metre.

The Board understands that these prices, which suggest a significant margin for the retailers' then-present offerings, are not directly comparable to the prices then offered by the retailers, since the brokers buy gas on fixed volume contracts while supplying variable volumes to small volume customers. In addition, retailers must be expected to seek recovery of their fixed costs, customer acquisition costs, and include provisions for income taxes and profit.

This said, the spread that then-existed appears to be too wide. The concern for the Board is two-fold:

1) the spread suggests the potential for excessive profit for the retailers; and

2) if excessive profit is present, fixed-price fixed-term products may not be yielding sufficient value to consumers.

Reducing retailer costs through regulatory changes which facilitate better pricing are addressed in subsequent sections of this order.

4.6 Economic Benefits

4.6.1 CAC/MSOS's Position

Dr. Van Audenrode attributed the fact that twenty percent of SGS consumers are enrolled with retailers, to market segmentation, even though those customers should not expect to save money over the long term; Centra has 100% of the short-term variable-price market while retailers have 100% of the long-term fixed-price market. The result is that retailers are able to successfully sell their products to those customers who are either risk averse - not wanting to bear any risk on gas price volatility – or are risk-takers, hoping to "beat the market."

Dr. Van Audenrode held that the door-to-door marketing approach creates substantial costs, required to be recovered from customers, and as Centra would not incur these costs if it were to offer fixed term and priced contracts, the Utility would be able to offer a more economical fixed-price contract to customers.

4.6.2 Centra's Position

Centra opined that the economic benefits of the competitive market have not materialized for consumers. Centra submitted evidence that showed that a slight majority of contracts offered by the retailers had not resulted in savings for consumers, compared with Centra's system supply offering. Centra acknowledged that although not all customers have saved money, all fixed term and price contract customers had avoided rate volatility.

Centra noted that to determine whether customers have economically benefited, it would be necessary to determine the extent to which they value savings in comparison to the achievement of rate volatility reduction.

4.6.3 DEML/ESMLP's Position

The retailers maintained that the primary benefit provided by their products is rate certainty for consumers. They also cited ancillary benefits, including the ability for consumers to more easily budget for their natural gas bills and the additional business and employment that retailers bring to Manitoba. The retailers stated that they do not promote their offering to customers as a way to save money, although some customers have in fact saved money.

Direct Energy's offering of a "green" product was cited as representing an additional benefit provided by retailers. Direct Energy has introduced "Carbon Neutral" product offerings. To offset the carbon emissions arising from a small volume natural gas user, Direct Energy will contract, either directly or indirectly, for carbon dioxide emission offsets in an equivalent amount to the emissions attributable to a customer selecting the product.

4.6.4 Board Findings

From the evidence placed before the Board, the Board is not convinced that there is an economic advantage with a long-term fixed-price contract. The evidence indicated some customers gained from long-term contracts, other didn't. As well, Centra's analysis suggests that on average, long-term contract holders ended up spending about 10% more than would have been the case if they had stayed with system supply/Centra.

From the evidence, the Board cannot discern a long-term trend, though it expects that the regulatory regime and Centra's requirements, now either being amended or recently changed, likely affected the pricing of retailer offerings deleteriously to the disadvantage of consumers.

Did some customers receive an economic benefit from signing up to a 3 to 5-year gas supply contract, contracts now matured? Yes. Did others lose? Again, the evidence is yes.

A less definite answer must be given to the question whether customers could have achieved greater economic benefits if certain regulatory and system changes had been in place and been reflected in different retailer products and/or pricing. The claim that fixed-price fixed-term offerings will save consumers money cannot, and should not, be made. A claim of this nature should not be based on the historical results, which are at best mixed. The determination of savings can only be done after the contract term has been completed.

Leaving aside the question of whether savings resulted, is price certainty a benefit in its own right? The transfer of risk from one party to another for a price or premium is a common transaction in financial markets. The Board accepts that, despite the indication in Centra's survey that customers generally are not in favour of paying any price for price certainty, there is a value to some customers in not having to worry about upward price movements. Of course, having signed a long term contract at a significant premium over Centra's current price and then noting that Centra's price had not increased much, may well cause anguish to the gas consumer who entered into the long term contract.

A retrospective look at the results of completed contracts offered insight; customers value price certainty, but not at any cost.

Of the 29 concluded contracts reviewed, it is important to note that the time period covered included a price spike caused by the two Gulf coast hurricanes in 2005. Of the 29 contracts, 15 resulted in customers paying more for their gas than if they were on Centra's variable-price default supply. Leaving aside the Enron-induced crisis of 2001, these two hurricanes caused unprecedented spikes in natural gas prices.

As to Direct Energy's "carbon neutral" offering, the Board agrees there is value to environmentally conscious consumers beyond the price itself, notwithstanding that the feature has been priced into all of its current offerings. The Board recognizes the innovative nature of this product, and commends Direct Energy for introducing it.

4.7 Customer Research

Centra undertook customer research as it proposed in the last Cost of Gas hearing. Pursuant to the Board's additional instruction in Order 175/06, Centra was to canvass customers for additional information relating to the EPP, hedging, Centra offering fixed-price contracts, and lump sum refunds. Centra filed a plan and schedule with the Board in January of 2007. Centra contracted eNRG Research Group to perform a customer research survey as well as focus group research.

A report on the customer research was completed on June 12, 2007, while the focus group research report was completed on July 7, 2007.

4.7.1 CAC/MSOS's Position

CAC/MSOS expressed concerns with the process followed in the conduct of the customer survey and focus group research. CAC/MSOS interpreted Order 175/06 to mean that the research consultant should have sought stakeholder input throughout the production of the survey and focus groups, and should have treated CAC/MSOS's input equally to that of Centra. CAC/MSOS stated that their input was not incorporated into either the survey questions or the focus group process.

In spite of the problems identified with the preparation of the survey and focus group research, CAC/MSOS gleaned that bill volatility was not a top-of-mind issue for respondents, and therefore concluded that respondents were unwilling to pay any amount to increase rate stability. The survey determined that the majority of respondents did not know about Centra's price management activities, and that virtually none of the respondents knew about Centra's hedging program. CAC/MSOS questioned the validity of Centra's assertion of the level of customer support for the hedging program. CAC/MSOS noted that respondents are not in a position to give valid feedback when they only learned about the hedging activities during the survey, and that the short description of the hedging program provided by the survey was not enough to properly inform respondents of the program's intricacies.

CAC/MSOS posited that the questions in the survey relating to hedging were flawed. For CAC/MSOS, if anything is to be drawn from these questions and the responses, it is that consumers do not want to pay any additional amount to reduce price volatility.

CAC/MSOS noted that while Centra stated that it hedges in order to reduce rate volatility, the customer research identified that bill volatility is not a top-of-mind concern of consumers. The evidence presented by Centra showed that reducing rate volatility did not reduce bill volatility, with weather and customer usage patterns also being factors. Therefore, from CAC/MSOS' perspective, Centra should not undertake a program that costs a reported $500,000 per year to reduce rate volatility when the end result is not a concern of consumers.

One finding from the customer survey that concerned CAC/MSOS was that half of the potential respondents called by eNRG that were retailer customers did not evidence that they knew they were a retailer's customer. That is, either they did not know that they had signed a long-term fixed-price contract, or that they had not signed it with Centra.

Nonetheless, CAC/MSOS acknowledged that the survey results indicated that a strong majority of retailer customers were satisfied with their arrangements with their retailer.

CAC/MSOS conjectured that respondents were not in a position to properly evaluate their satisfaction as they have not determined, or were unable to determine, whether or not they saved money.

4.7.2 Centra's Position

Andrew Enns, a Vice President of eNRG Research Group, the author of the reports testified on behalf of Centra. Mr. Enns qualified the margin of error of the Manitoba Hydro customer research survey as 3.46% 19 times out of 20, while the retailer customer research had a margin of error of 4.9% 19 times out of twenty, which in his opinion represented reasonable confidence intervals.

The focus group research, because it involved only small groups of people, is not statistically representative of Centra's or the retailers' customers. Results from the focus group research can only be used to provide insight and qualitative understanding of the issues canvassed.

Half of retailer customers contacted did not know they were contracted with a retailer, and thus had been excluded from the survey by NRG.

Mr. Enns suggested that the customer research had identified significant findings, which, from a statistical sense, have a high probability of being true. Mr. Enns summarized the findings for the Board:

1. Customers are aware that there are competing choices for natural gas; that is, they can elect to receive gas from Centra with their variable rate, or they can lock in a fixed rate with a retailer. However, customers are not generally aware of the brand names of the retailers.

2. The majority feel that they benefit from competition, but they are not interested in paying the additional costs of competition. Customers preferred longer duration

fixed-price plans. They supported Centra offering more than one product, including fixed-rate plans, even if it meant that the Retailers may exit the market.

3. Customers are generally unaware of Centra's price management activities, a similar result to that of the previous survey undertaken in 2004. When asked about the price management activities, most customers responded with identification of the Equal Payment Plan and conservation programs. When the price management program was explained to them, including Centra's hedging activities, most customers responded that it had worked well, and that Centra should continue with it.

4. Customers would prefer for the EPP to remain optional and to be elected by a positive action on behalf of the customer.

5. Retailer customers, by a large majority, indicated that they were satisfied with their experience with their retailer. Approximately half of their customers stated that they signed with a retailer in order to save money. The second most popular reason for signing with a retailer was to smooth out price fluctuations.

6. Questions were asked of the respondents about their experience with door-to-door marketing. A majority of residential respondents approached at their doors by a retailer's agent indicated satisfaction with the experience. Most respondents preferred other methods of signing up other than door-to-door. The most popular choice was by mail, other popular methods were internet and telephone signups.

The primary purpose of conducting the focus group research was to test and evaluate potential communication material that Centra may, in the future, show to consumers. The communication material included the Guide to Buying Natural Gas in Manitoba, outdated in some respects, as well as advertising materials. Other goals of the focus group research included evaluating customers' understanding of the various components of the bill.

The focus group identified perceptions of small groups of customers, but the results cannot be extrapolated over the larger population of Centra and retailer customers. With that qualification, the perception of the focus group participants was that prices have been fairly stable, although they are trending upwards. When asked to comment on the bill, most indicated that they do not look further than the total price, or perhaps the split between the amounts owing for electrical and gas service. Many are confused by the supplemental gas charge. Retailer customers were unsure where to find a reference to their retailer on the bill.

When asked to review and comment on the Guide to Buying Natural Gas in Manitoba, participants found it instructive. They generally did not recall receiving it in the mail or as a bill insert. It was suggested that the Guide be distributed when natural gas prices are in the news. Some participants suggested that there was a subtle sense that it favourably highlighted Manitoba Hydro.

The participants were presented with two Centra advertisements depicting their variable rate product and the fixed rate products of the Retailers. One advertisement showed the price of each, while the other did not have reference to pricing. The participants had a mixed reaction to the advertisements. They appreciated the one with the prices, although they realized that it was not a fair comparison since the products were different. They suggested that historical information would be helpful and would put the prices in context.

4.7.3 DEML/ESMLP's Position

Retailers held that the customer research had been conducted in a biased fashion, and they were not satisfied with the amount of input that Centra elicited from them. The Retailers also stated the process was highly flawed, and that Centra had deliberately manipulated and influenced the reports produced by NRG.

The Retailers noted that there is subjectivity in interpreting the results of the customer survey, notwithstanding that the numerical results are themselves objective. However, if the questions are not fair, balanced, and unbiased, then the results are questionable. Retailers asserted that this was the case in the customer survey, and therefore the results should not be given credibility by the Board.

Retailers expressed similar concerns as CAC/MSOS did with the lack of input that they had in developing the survey questions and reviewing the draft reports of the survey and focus group research. Retailers were only offered the opportunity to comment on the third draft of the customer survey report. They were concerned that none of their input was incorporated in the development of the survey itself.

The Retailers stated that the research does not fairly state the level of satisfaction that customer have with door-to-door sales. For the retailers, the questions asked of customer relating to retailers reflected a bias against retailers. Despite this bias, the results indicated that the majority of customers are very satisfied with the door to door sales channel and with their retailer. Retailers maintained that the satisfaction numbers would have been higher if the bias in the questions had been absent.

4.7.4 Board Findings

Board Order 175/06 directed Centra to engage in a consumer survey to elicit the views of Centra and retailer natural gas consumers, and Centra was to consult with retailers and CAC/MSOS in undertaking the project.

Following the research, Centra indicated that it is interested in providing alternative primary gas offerings to its customers, in competition with the retailers. The Board notes NRG’s survey results indicates that both retailer and Centra customers advised wanting Centra to enter the fixed-price fixed-term market.

The Board is satisfied that the customer research conducted by eNRG was conducted in a professional and unbiased fashion. That said, the retailers had reasonable cause to question the process and the results. Nonetheless, after considering the evidence, the

Board does not find anything inherently biased about the methodology of either the customer survey or the focus group research.

NRG and Centra should have expended more time and effort to involve the retailers, and CAC/MSOS, in the design of the survey and focus groups. Despite this, and despite eNRG "listening to" comments of Centra with respect to the questions posed during the drafting process, the Board is satisfied that eNRG conducted the survey in a professional manner, did not mislead the survey participants, and appropriately reported the results of the survey.

While different and/or additional questions could have delved into areas suggested by the retailers, surveys are limited in part due to projections of acceptability as to length. And, the fact that other areas that could have been surveyed were omitted and that changes suggested by the retailers were not made does not mean the report was biased.

That said, the Board is disappointed that Centra and eNRG did collaborate more fully with interveners. If the customer survey and focus group research had been conducted with the full input of the interveners, the filing of evidence and cross-examination of witnesses would have been easier and conducted in a much less a contentious fashion. The result would have been a more expedient and cost-effective proceeding. The Board encourages Centra to be mindful of this the next time it undertakes customer research.

5. Activities of Market Participants

5.1 Volumes and Nominations

5.1.1 CAC/MSOS's Position

Retailers requested that Centra change its process for forecasting gas volumes. Retailers wanted Centra to nominate 1/365th of a customer's yearly consumption for each day throughout the year. CAC/MSOS did not agree that Centra should make this change. To make such a change to the nominations, Centra's system supply customers would have access to a smaller share of Centra's storage assets. This would result in their gas costs increasing, as Centra would nominate more of the more expensive swing service gas to meet customer demand. Mr. Stauft recommended that retailers accept the cost consequences arising from Centra's storage and transportation arrangements as the cost of doing business in Manitoba.

5.1.2 Centra's Position

Centra did not agree to make any changes to the forecasting and nomination process, as was proposed by the retailers. Centra was open to increasing the transparency of the process and providing additional information regarding Centra's procedures for forecasting and changing daily nominations of gas volumes. Centra invited retailers to witness the process first-hand. While open to disclosing the process, Centra was opposed to making any changes to the nomination process to accommodate retailers' additional requests. Centra stated that any changes would give retailer supply a distinct advantage over system supply.

Currently, retailers must aggregate in excess of 100, and possibly as high as 160, customers when offering a new product or a new rate. This presents a barrier to offering multiple products, as retailers may not be able to flow gas to customers that have signed up for a new offering if they cannot aggregate enough customers. The current volumetric threshold is an artefact of TransCanada Pipelines' minimum nomination of 1,000 m^3 per day, which was in effect prior to 1998. The current TransCanada threshold, which was established in 1998, is 1 GJ/day. This amount of gas represents a group of only four or five customers.

After the completion of the hearing process, Centra advised that it would waive the volumetric threshold on a trial basis for the 2007/08 gas year. By Centra eliminating the threshold entirely, retailers can flow gas to a single customer at a specific contract price and term. Centra did not seek to amend its terms and conditions of service, at least until it has been able to assess the administrative impacts and costs of the change. Centra advised that it will still require of each retailer a minimum of 310,000 m^3 per year, for all of their customers in aggregate.

5.1.3 DEML/ESMLP's Position

Retailers stated that, while they had asked for a lower volumetric threshold when developing the WTS, they had compromised at that time. The number of offerings could be increased if the volumetric threshold was lowered, since they would not need to aggregate as many customers on a specific rate at a specific time in order to begin flowing gas to them. They stated that they had to cancel some offerings because of insufficient take-up among potential customers, and acknowledged that Centra has suspended the volumetric threshold following the Board's approval of the change on October 22, 2007.

Retailers explained that as a result of the variability in Centra's nominations, and the fact that they cannot determine the reasons for this variability, they are exposed to increased risk of mismatching their purchases of gas with sales to customers. As a consequence of the variability in Centra's nominations, retailers are often required to sell excess inventory in summer months at a lower price, or sometimes purchase additional supplies in the winter at a higher price. Retailers submitted that if they are to bear the risk of forecasting errors, they should have a greater role in forecasting the deliveries and the nomination components. Retailers requested, as a first step, that Centra clarify the demand forecasting process and underlying assumptions, to increase the transparency and predictability of the process and allow retailers to better forecast the volumes for their customers.

Improvements in the forecasting process would allow the Retailers to mitigate risk or costs. Retailers indicated that they would accept Centra's offer to demonstrate the procedures for forecasting and nominating gas volumes.

Retailers further requested that Centra make changes to the nomination procedure so that they are more in line with the nomination procedures in other jurisdictions. Retailers requested that the daily nomination for each customer be constant throughout the year, or alternatively, that the nominations change only once every season, once every quarter, or monthly. Retailers incur daily balancing premiums as a result of Centra's nomination and forecasting process, and this increases the selling price of their products.

Retailers indicated that setting the daily nominations constant throughout the year is the case in both Ontario and British Columbia. While Ontario has local gas storage that facilitates flat nominations, British Columbia does not.

In British Columbia, the Transportation charge applied to all customers has a component accounting for upstream storage costs, and upstream storage flattens the daily nominations to 1/365th of the yearly volume. Retailers asserted that such a Transportation charge and the use of upstream storage is a benefit to all consumers, and, as is the case in British Columbia, this charge should be allocated to all consumers.

Retailers suggested that the Board direct a technical conference be held wherein the issues of forecasting and nominations would be discussed and addressed in a more suitable environment than a public hearing.

5.1.4 Shell Energy's Position

Shell Energy noted the significance of the change and that the effect it would have on the competitive market would be difficult to predict. Shell Energy suggested that the Board not assess the impact of this change on a retroactive basis, but instead allow the recommendations and improvements to be evaluated in practice.

5.1.5 Board Findings

The Board supports Centra's recent attention to the issue of volumetric thresholds. The change, although being made on a pilot project basis, will provide retailers an opportunity to offer a greater variety of products, without being required to pre-enrol a large number of customers.

The Board is of the understanding that the change is relatively easy to implement, suggesting that the volumetric threshold remained higher than it could have been for several years, to the detriment of retailers and, potentially, their customers. Given this, the Board is concerned that retailers and Centra may not be communicating effectively with each other, at least not sufficiently well to ensure consumer value. Better communication between the two parties is necessary if all natural gas customers are to be best served.

The Board heard evidence regarding the forecasting and daily nominating of gas volumes. The process for forecasting and nominating is a complex operational process, the details beyond the scope of the proceeding. The Board heard from retailers that Centra should set the daily contract quantity such as to provide a constant volume for the entire year. While the Board understands this would simplify the acquisition of gas supplies for retailers, and reduce their cost of operation, potentially to the benefit of their customers, it also notes that gas consumption in Manitoba is extremely weather-dependent.

Colder weather results in increased consumption, warm weather to the opposite result, and both affect Centra's nominations. Centra contracts for storage and transportation assets in the United States, so that it can flow a more constant supply of gas to Manitoba, notwithstanding weather-driven consumption fluctuations. These assets raise Centra's load factor from approximately 35% to 80%, and Centra now uses its storage and transportation assets proportionally for its system supply and Direct Purchase customers, so that all customers benefit equally from them.

Retailers provided evidence that Ontario and British Columbia have constant daily nominations throughout the year. The Board notes that there is significant downstream storage in Ontario and this allows for a constant gas supply into storage, while the output from storage follows weather-driven demand. As to British Columbia, the Board understands the distribution company lacks downstream storage and Terasen charges all customers a Transportation Rate that includes a charge for upstream storage. There is no significant difference between Terasen's Transportation Rate and Centra's Transportation Rate, since both account for midstream assets and apply to all consumers.

In Centra's case, its storage and transportation assets are not sufficient to level the gas supply to a constant daily volume. To do so would require large additional investments in storage and transportation assets, and, while this has been considered in past proceedings and may arise as an issue again in the future, making such investments would increase one rate component.

At the time that Centra entered into its storage and transportation contracts, the approach was considered a balanced and economical solution, and the approach continues to serve Manitoba consumers well today. These arrangements expire in 2013, ahead of which Centra will be required to extend these arrangements or make new ones.

Centra will undertake an extensive review of options ahead of the required decision, in order to allow for the optimal combination of storage and transportation assets, towards serving Centra customers.

All this said, the Board is open to the retailers' suggestion that a technical conference would be an appropriate forum to discuss forecasting and nominations, rather than dealing with the issue as part of the annual Cost of Gas hearing or at a General Rate Application.

Accordingly, the Board will direct Centra to hold a technical conference to discuss issues involving nominations, forecasting, and other operational concerns, and to hold that conference prior to May 1, 2008. The Board is to be notified and kept abreast of any details of the conference, and may elect to participate, at least as an observer.

While retailers now incur additional costs because Centra's storage and transportation assets do not permit constant daily nominations, the Board will not direct any changes to the WTS at this time. To do so would result in one group of customers benefiting at the expense of another group. The WTS was structured to accommodate both Direct Purchase and system supply customers, taking into account Centra's existing long-term supply and transportation arrangements. These arrangements expire in six years, and Centra is to consult with retailers and the other interveners when investigating options for extending or replacing the arrangements.

5.2 Rules for Enrolment, Termination, and Switching Suppliers

5.2.1 CAC/MSOS's Position

CAC/MSOS opposed the use of voice signatures for contracting with retailers, but found acceptable the use of e-signatures and internet sign-ups as long as appropriate safeguards were put in place.

However, Mr. Stauft noted a risk in that the issues now existing as to a lack of information for customers to make informed decisions, now inherent in door-to-door marketing, will be carried over to these new marketing channels. His concern with door-to-door sales was related to what he construed as a lack of information, or possibly misinformation, now being provided to customers. He cited the customer research, where half of customers stated they signed a Direct Purchase contract to save money, an objective Mr. Stauft reasonably opined should be dismissed.

Mr. Stauft's suggested that, as neither Centra, the Board nor CAC/MSOS had suggested to consumers that signing a retailer contract would save money, customers must have received the idea that contracting for longer-term supply would save money from retailers.

5.2.2 Centra's Position

Centra voiced concerns about voice and electronic signatures, and wished to maintain the current contracting practice that requires a written contract as well as the forwarding of images of signed contracts to Centra. Centra held that the level of customer education and understanding relating to the sale of Primary Gas was far too low, and that customers are sometimes misinformed or confused about what exactly they are signing up for.

Centra cited 2004 customer research that disclosed that 41% of retailer customers thought that Centra was their primary gas supplier, and noted that this number had increased to almost 50% in the 2007 customer research. Since there is a low level of customer understanding as to what obligations they have under the current sign-up rules, Centra believes that customer understanding would further decrease if alternative methods for signing up are employed.

Centra also opposed developing an Electronic Business Transaction system (EBT) to streamline the enrolment process. Retailers proposed an EBT system, suggesting it would speed the enrolment process and reduce the costs of both Centra and retailers. Centra noted that the costs of these systems for Union Gas and Enbridge in Ontario had been $18 million and $39 million, respectively. Centra opined that such a large expenditure would never be economical for the number of customers in the Manitoba market, and Centra was unwilling to undertake a feasibility study for the implementation of an EBT system unless it was funded by the retailers.

5.2.3 DEML/ESMLP's Position

Retailers requested the Board allow them to contract with customers over the phone and by way of the internet, with voice confirmation and electronic signatures, as is the practice in other Canadian jurisdictions.

Retailers indicated that they would record phone conversations in their entirety and make the tapes available for auditing. Centra's current practice of requiring a written signature on a contract precludes such practices, as Centra requires retailers to forward an image of all contracts to confirm that the customer has signed up.

According to retailers, this requirement is unduly burdensome and adds cost to the process. Retailers suggested that if voice and electronic signatures were to be accepted in

Manitoba, their cost of acquiring customers would be reduced and this may lead to lower prices for their offerings.

Retailers proposed an EBT system but, in light of the expected costs of developing such a system, they conceded that such a system may be too expensive for the Manitoba market, a much smaller market than Ontario's; however, this should not stop Centra and the retailers from exploring other ways to streamline the enrolment process and improve communications between retailers and Centra.

5.2.4 Board Findings

CAC/MSOS and Centra were concerned that consumers contracting with retailers may not have sufficient information to make an educated decision with door-to-door sales.

While the Board is apprised of the risks and has concerns with both an ongoing level of complaints from consumers related to door-to-door sales and the general perception of a lack of adequate information, and is also concerned with evidence of a general lack of market awareness by consumers (including that approximately half of retailer customers surveyed were unaware they were contracted with a retailer), the Board remains of the view that as door-to-door marketing is an acceptable sales channel in Manitoba and will allow the practice to continue.

This, for a number of reasons:

1. Door-to-door sales are not illegal;
2. Door-to-door sales are practiced in other industries; and
3. Deficiencies in customer information can be addressed.

The Board's Code of Conduct governs retailer transactions, and was last revised in Order 81/04. The Code is designed to protect consumers' interests, and will be amended by the Board to address identified deficiencies in customer understanding of retailer contracts.

The Board notes that the currently approved Code of Conduct does not preclude retailers from marketing and selling to consumers using the telephone or internet, though under the current rules if the retailers "make a sale" over the phone or internet, it has to be followed up with either a mailed contract or a visit by a sales agent to obtain the customer's signature.

Retailers suggested that allowing telephone and internet sales, along with dispensing with the current requirement for a written contract, would help lower their costs to acquire customer and facilitate broader contract offerings and better pricing. The Board notes that telesales and internet sales are increasingly popular amongst consumers, and is prepared to allow retailers to utilize these additional sales channels on a pilot project/trial basis. While the Board recognizes that allowing new sales channels, for what might prove a limited time, may lead to retailers being reluctant to invest in the infrastructure needed to support phone/internet sales, it hopes that the "green light" to experiment will allow retailers to invest in the other approaches.

The Board notes Centra's objections to the use of voice or electronic signatures. Centra's reasons for objecting included concern that:

a) customers may be confused and not understand the nature of the contracts being entered into; and

b) it may be difficult to verify the identity of the party entering the contract.

The Board will amend the Code of Conduct to provide specific confirmation for contracts to be entered or renewed with voice or electronic signatures, in addition to the current written signature. The Board believes Centra's objections and the Board's concerns can be addressed through the proper design of the Code of Conduct. Prior to opening up the new sales channels, the Board will consult with Centra, the retailers and CAC/MSOS before amending the Code of Conduct to account for and regulate the new channels.

That said, there are many complex details to be addressed prior to allowing telesales and internet sign-ups of customers, even on a trial basis. The Board will direct retailers to prepare a comprehensive proposal, following consultation with Centra and CAC/MSOS.

The proposal is to set out guidelines and ground rules for telesales and internet sales, and the onus will be on the retailers to develop a good system, and meet the cost of its development. As the Board understands the positions of Centra and the retailers are not aligned regarding the use of alternative marketing channels, the Board will oversee the development process.

Therefore, following the Board's approval, if granted, of the comprehensive proposal to be brought forward by the retailers, the Board will specify the following requirements:

1. Written contracts will no longer be required for telesales or internet sales (door-to-door and direct mail sales will still require a signed contract).
2. Retailers will no longer be required to forward an image of each contract to Centra, but must retain all signed contracts, recorded phone conversations, and electronic signature documentation, and make them available for audit by the Board or its designate. The cost of the audits will be borne by the party being audited.
3. The cooling off period for all sales will be changed such that, the 10-day cooling off period will begin when Centra posts the confirmation letter; the Board understands that this new requirement is different from the minimum standard established by the Consumer Protection Act. During the ten days, the customer will be able to cancel their contract without penalty.
4. CRTC rules respecting telemarketing, as may be amended by the Board, are to be followed.
5. Provincial laws regarding electronic commerce and electronic signature verification will apply, including the Consumer Protection Act.

6. Phone conversations are to be recorded in their entirety, and retailer marketing approaches shall correspond to a script to be approved by the Board. A list of frequently asked questions will be developed, and the "answers" are also to be approved by the Board.

7. Internet contract drafts and related information are to be reviewed and approved by the Board before being employed.

8. Centra will provide a confirmation letter, within two business days upon notification of enrolment, to each new Direct Purchase customer detailing the contract price and term, the current system supply Primary Gas rate, detailed consumer rights with respect to cancellation terms and details of the cooling-off period, historical pricing of Centra's system supply rate, a copy of the *Guide to Purchasing Natural Gas in Manitoba*, a description of the Equal Payment Program, reasonably current information related to the 12 month forward AECO strip, and historical pricing.

9. The salesperson must request to speak with the person in charge of paying the natural gas bill, and all contracts are to be with the person or party responsible for the payment of the natural gas bill at that residence (this precludes minors, tenants, roommates, etc., tenants if the landlord is responsible).

10. Telesales with persons who appear to be suffering from a mental impairment, language barrier or other limitation, conditions that which may result in them not comprehending the nature of the commitment being undertaken, will not be permitted.

11. If either during the audit process or through other means it comes to the Board's attention that these requirements are breached, consumers with disputes will be returned to system supply – the Board will consider the potential adoption of a schedule of fines and penalties for breaches of Board requirements.

While Centra suggested that a written contract be forwarded to the customer after voice confirmation, with the customer obliged to return the signed contract without further solicitation from the retailer, the Board will not require this, as it would defeat the purpose of obtaining a voice signature and increase the marketing costs of the retailers, costs that would be reflected in consumer prices.

Further, the Board will require retailers to provide a list of new customer sign-ups on a monthly basis to the Board. The Board will implement a process to sample from the list on a test basis, and may follow-up directly with customers to gauge the customer understanding of contract commitment. This process will test whether the Code of Conduct was followed, in accordance with Board direction.

If the Board finds a deficiency, it will follow up with the retailer, and consider mitigating measures. Measures may include assessing fines and/or abrogating the signed contract, to suspending licences.

In arriving at the conclusion that telesales and internet facilitated contracting should be allowed, the Board considered the argument that telesales or internet sales may not be in the best interests of consumers. The financial consequences of signing a long-term contract may be difficult to convey to a customer in an encounter at the door, and the Board is concerned that a telephone call may be even less likely to convey the potential financial magnitude of the decision or provide the customer the required time to sufficiently evaluate their options. Customers may not think that they are able to commit to a financial deal worth thousands of dollars over the phone.

Given these concerns, the Board will monitor results very carefully.

The Board was advised that customers are made aware of the market and their options through door-to-door encounters with retailer agents, assisted by the provision of the *Guide to Buying Natural Gas in Manitoba*.

However, in the case of a telesales, a customer may not receive the Guide until after they had agreed to the contract. Even though the cooling off period will be adjusted to give the customer sufficient time to review the Guide and other information, the Board will seek assurance that customers will be provided sufficient information to allow for informed decision-making.

5.3 Consumer Information

5.3.1 CAC/MSOS's Position

In Mr. Stauft's opinion, the door-to-door marketing model does not promote effective competition for two reasons. The first is that the added cost of door-to-door marketing adds cost to the natural gas product pricing. These are costs that Centra would not face if it were to offer alternative products and refrained from door-to-door sales. For Mr. Stauft, the second problem is that customers are not given enough information to make a rational decision about whether the long-term product is a "good deal". Even if customers were given enough information, Mr. Stauft suggested that only a small fraction of the population would be able to properly do the analysis to determine whether it is a good deal to sign up with a retailer. He stopped short of advocating a ban on door-to-door marketing, even though his apprehension of certain problems would be eliminated if the practice were banned.

Dr. Van Audenrode opined that a decision to sign up for fixed-price gas represents a purely financial decision, one not related to the need for natural gas. This, because the customer will receive gas distributed by Centra regardless of whether they sign with a retailer or not. The dollar amount of the financial decision was cited as being significant, ranging up to $10,000 over five years, although $5000 would be more typical. Dr. Van Audenrode further elaborated that unlike gas marketing, in the financial services industry, there are stringent rules for advising customers - the product must be suitable for the customer and the advisor must "know the customer". Dr. Van Audenrode stated that this may not be the case for agents selling fixed-price contracts door-to-door.

5.3.2 Centra's Position

Centra held that customers are not given enough information to make educated choices with respect to their primary gas supplier, and that this is a major problem with the competitive market in Manitoba. Centra pointed to the fact, learned from the customer research survey, that almost half of the retailers' customer base did not know that they were being supplied gas by a retailer. Centra observed that this "confusion" has increased since the 2004 survey, when 40% of retailer customers did not know they had contracted with a retailer.

Centra suggested a centralized website listing the price, products, and terms and conditions offered by retailers and Centra, and volunteered the Manitoba Hydro corporate website for this purpose.

Further hindering Centra's attempts to inform customers, according to Centra, is the current process for obtaining stakeholder approval of advertising and educational materials. Centra asserted that this process, which involves consultation and Board involvement, is lengthy and time consuming, with the result being that little meaningful information reaches customers.

Centra suggested that educational efforts should take priority, and the delays now experienced with bringing forward educational advances should be addressed. Centra indicated that some educational and marketing efforts, such as providing customers with timely information on products and prices being offered, should be pursued without having to undertake the current lengthy process.

Centra posited that if customers were provided accurate and timely information in an accessible fashion, they would be better informed and lead to better decisions. This in turn would, according to Centra, increase customer satisfaction and decrease the number of complaints; customers choosing fixed-price fixed-term contracts will fully understand their choice and not be surprised by contract details and their consequences.

Centra further stated that the Guide to the Purchase of Natural Gas in Manitoba should be updated to replace the 2000 earlier version, which is currently used by retailers in accordance with the Code of Conduct.

Centra noted that the process, undertaken to produce a 2006 updated guide to purchase of natural gas, was cumbersome and consensus was not achieved.

5.3.3 DEML/ESMLP's Position

Retailers held that the current level of customer information is satisfactory, and indicated that their door-to-door representatives are uniformed, have identification badges, and leave behind printed materials including the Guide to Buying Natural Gas in Manitoba (the guide explains customer options for purchasing Primary Gas, and was developed jointly by the Board, Centra, CAC, MSOS, and retailers).

Retailers undertook to demonstrate that they do not receive many complaints from their customers. ESMLP maintained it has experienced a complaint rate that is less than 1% of the number of customers under contract, and DEML advised that they only had consolidated records of written correspondence from customers, and that that correspondence is not categorized such as to identify complaints. DEML advised that its data discloses on average approximately 100 written concerns, complaints, or inquiries per year.

Retailers opposed the creation of a central website to list all the natural gas products available to Manitobans. However, if such a website were to be created, the retailers argued it be hosted by a neutral third party and not be a part of Manitoba Hydro's website. Retailers noted that a third-party website, www.energyshop.com, lists the retailer offerings and prices along with the price for Centra's default offering, obviating the need for the creation of another website.

Retailers questioned the amount of additional customer protection that Centra and CAC/MSOS stated was necessary for purchasing natural gas, noting that customers will purchase gas anyway from either themselves or Centra, and the amount may be approximately $1500 per year; assuming retailer pricing was 20% higher than system supply, a retailer customer would pay approximately $1800 per year for natural gas, an additional cost per year of only $300, or $1500 over five years. Retailers suggested that the level of consumer protection required for such an amount should be less than needed for the $10,000 purchase Dr. Van Audenrode advocated as requiring comprehensive consumer information. Retailers did not oppose consumer protection, but found it hard to justify why natural gas supply purchases should require a different standard or approach than transactions involving larger financial obligations.

5.3.4 Board Findings

The Board's concern is with the public interest. The public interest will be served if choice is available and prices are fair, and, before making their choice, customers receive sufficient information to allow them to make a rational choice. Clear, concise information on available options is vital if customers are to be able to make an informed decision, one appropriate for their unique circumstances.

The Board heard evidence that there are imperfections with the current door-to-door marketing practices, those largely related to the quality and quantity of information that is provided to customers. The Board agrees with Centra that customers are not receiving enough information, and considers this a major concern. The Board heard that half of the retailers' customers responding to the eNRG survey did not know that they were customers of the retailers. The Board finds this alarming.

Compounded with a lack of information is the magnitude of the decision, which, as Dr. Van Audenrode pointed out, could be up to $10,000 over the life of a 5-year contract. Particularly, with 30% of Centra's customer base being low-income, customers need to be properly informed in order to make such crucial decisions.

The Board heard suggestions that a website should be created that describes the products available from retailers and Centra, along with pricing. Retailers disagreed with the necessity of creating such a website, since an independent website already exists. The Board notes that this independent website is not promoted through either of the retailer websites, nor through Centra's website, yet consumers are increasingly relying on the internet for information on products.

The Board feels that an easily accessible, independent website containing necessary information for consumers is essential. The Board will investigate the possibility that it host such a website. The Board will consult with Centra and interveners towards establishing the form and content of such a website, as well as to the details of the operation, to ensure that information posted on it is accurate and changes in offerings and pricing are reflected in a timely manner.

Providing information on the internet will benefit consumers, but the Board recognizes that some consumers either do not have internet access or are not inclined to use the internet to research purchasing decisions. For these consumers, the primary method of education may well be the *Guide to Buying Natural Gas in Manitoba* and Centra bill inserts. A concern with the present Guide, as identified in the focus group sessions, is its length. The Guide should represent an appropriate balance between having too much information, so much that few customers read it, and too little information, also lessening effectiveness.

The Board heard evidence that the Guide is out of date, being factually incorrect in part. Further, the Guide was developed based on the experience of the Buy/Sell mechanism, prior to the current experience with the WTS. As well, a finding from the focus group research was that customers are interested in viewing historical pricing trends. Accordingly, the Board will arrange for an update of the Guide, and will consult with interveners and Centra; all aspects of the Guide will be open for revision.

The Board heard evidence of potentially misleading promotion by retailer agents engaged in door-to-door selling. Inadequate or incorrect advertising may lead customers to believe that they will save money if they sign up for a fixed-price fixed-term contract with a retailer; such an assertion would be wrong.

The Board will direct that all advertising materials, hand-outs, information sheets, and/or other customer educational material on the natural gas market be submitted to the Board for approval prior to being distributed to customers, whether distribution is to occur at the door, through direct mail campaigns, or by way of the internet. The Board will not require a consensus be first developed between Centra and retailers with respect to such materials; either party may bring forward material and/or concepts related to customer education to the Board.

5.4. Changes to the Code of Conduct for Direct Purchase Transactions

5.4.1 CAC/MSOS's Position

CAC/MSOS recommended that the Board adopt changes to the Code of Conduct as proposed by Centra.

CAC/MSOS was opposed to a provision allowing other forms of evidence of contracting other than the current requirement for a "wet-signature". An actual signature on a written contract ensures as much as possible that the customer has read all the terms and conditions of the contract, and understands that he/she is entering into a legally binding agreement.

For CAC/MSOS a proper level of understanding may not be present during a telesale, and therefore voice signatures should not be acceptable.

5.4.2 Centra's Position

Centra proposed that the Code of Conduct be amended to permit penalties to be imposed on retailers violating provisions of the Code. Currently, in the event of a dispute or possible violation of the Code, the Board is limited to two courses of action – return the customer to system supply, and/ or suspend the licence of the retailer.

For Centra, the Code should provide for financial penalties for infractions meriting punishment, beyond simply returning a customer to system supply.

5.4.3 DEML/ESMLP's Position

Retailers did not believe that intermediate penalties for inappropriate marketing conduct are warranted by the conduct of the Retailers, nor that Centra has provided sufficient evidence that penalties need to be considered.

Retailers stated that introducing penalties would create additional regulatory burden, and that, if penalties were included in the Code, a standard of proof would be required similar to the criminal standard, that is, beyond a reasonable doubt, given the legal nature of a "penalty".

Retailers proposed the Code of Conduct be amended to eliminate the requirement to have a customer's written permission authorizing the broker to supply gas. They further wanted to eliminate the requirement for brokers to supply evidence to Centra of written permission.

5.4.4 Board Findings

The Board heard Centra's request that penalties be applied for breaches of the Code of Conduct. The Board agrees that there can be breaches of the Code that are such that simply returning a customer to system supply would not represent a sufficient penalty.

There can be serious breaches that are not sufficient to warrant suspension or cancellation of a retailer licence, and a penalty provision would adequately provide for a transition between an admonishment and a suspension.

The Board will consider the merits of incorporating a process to adjudicate and levy monetary penalties for breaches of the Code of Conduct. The Board will look to practices in other jurisdictions to determine whether it can create a fair process and schedule of fines or penalties, and upon consultation with Interveners and Centra will consider whether amendments should be made to the Code of Conduct.,.

With respect to providing unbiased market information to consumers, the Board intends to develop and provide orientation presentations to recently engaged broker agents on a quarterly schedule. The Code of Conduct will be amended to require all existing agents to attend the presentation within six months from the initiation of the program, while new agents will be required to attend within the first three months of their employment. The presentation will review the competitive marketplace, the Code of Conduct, and other matters pertaining to customer and retailer education and ethical sales practices.

If a new agent, including telesales and door-to-door, misses the presentation, he or she will not be allowed to market Primary Gas contracts until attendance has occurred. The Board accepts that experience may show that more frequent presentations will be required than quarterly.

The Code of Conduct, which was last amended by Order 81/04, will be further amended to, among other changes, eliminate the requirement for written evidence of contracts; retailers will not be required to forward evidence of customer contractual agreement to Centra.

5.5 Terms and Conditions of Fixed-Price Contracts

Initially, one of the Terms and Conditions of fixed-price contracts was a provision that allowed retailers to extend the term of a Direct Purchase contract by 90 days at their latest rate for the same duration in the event a customer did not take positive steps to inform the retailer of their intent to return to system supply. This provision was included as a clause in Direct Purchase contracts prior to June 1, 2004. By Order 81/04, this renewal provision was eliminated from all contracts entered into after June 1, 2004, and it continues to be disallowed.

5.5.1 CAC/MSOS's Position

CAC/MSOS remained opposed to a 90-day rollover provision for expired contracts, and held that such a rollover provision represented negative option marketing committing customers to significant obligations. For CAC/MSOS, the present 120-day renewal period, which precedes the end date of all contracts, is a sufficient period of time for retailers to convince their customers to renew their contracts.

5.5.2 Centra's Position

Centra requested that current terms and conditions for fixed-price contracts be maintained, including:

1) customers under contract with a retailer are not permitted to sign with another retailer until their existing contract has expired;

2) customers are required to execute a hard copy of the contract, and an image of this contract must be forwarded to Centra,

3) the 10-day cooling-off period be maintained,

4) the contract is terminated if the customer moves; and

5) customers who do not act to renew their contract prior to the expiry date be returned to system supply, thus precluding automatic or evergreen renewals.

Centra requested that retailers provide customers full and complete information ahead of customer sign-up, so as to better ensure informed decisions in the contracting for Primary Gas. Centra sought that the information package include contract price and term, the current system supply Primary Gas rate, detailed consumer rights with respect to cancellation terms and details of the cooling-off period, the 12 month forward AECO strip, and historical pricing.

5.5.3 DEML/ESMLP's Position

Retailers requested that provision for a 90-day rollover of expired contracts be reinstated, to allow for the continuation of a contract at the retailer's offered rate at the time of contract expiry. Retailers held that this would allow time to confirm whether a customer intends to sign a new contract or return to system supply, and retailers noted that such renewal provisions are currently allowed in Alberta, Ontario, and British Columbia.

Retailers were in favour of maintaining the existing 10-day cooling off period, which commences when the contract is signed.

5.5.4 Board Findings

Order 81/04 established the present contract renewal requirements and the Board has no intention of amending these requirements.

In that Order, the Board stated:

“The Board is of the position that it is in the interest of all parties that the terms and conditions of the agreement be comprehensive and transparent. The Board accepts that evergreen provisions can be part of a contract, but is of the opinion that this is not suitable in these circumstances.”

The Board continues its position on this matter.

As to the cooling-off period, a limited period of time wherein a customer who has signed a Direct Purchase contract with a retailer can cancel the contract without penalty, the Board notes that it is designed to protect customers and is mandated by the Consumer Protection Act.

Regarding possible amendment to the cooling off period, the Board heard evidence of the position of the British Columbia Utilities Commission (BCUC), and agrees with several of the provisions of BCUC decision re: Terasen of August 14, 2006.

Accordingly, the Board will amend the cooling-off period in order to give consumers sufficient time to grasp the significance of their decision to enrol in a Direct Purchase contract with a retailer. And, the confirmation letter now required to be sent by Centra to confirm the sign-up will also be required to be sent to customers who initially sign up, as well as for contract renewals.

Upon the Code of Conduct being amended, the 10-day cooling period will commence on the day that Centra mails the confirmation letter to the customer. Centra must send out confirmation letters within 2 business days of being informed by a retailer of a customer sign-up or renewal.

The confirmation letter will contain the contract price and term the current system supply price, detailed consumer rights with respect to cancellation terms, details of the cooling-off period, historical pricing information, and be supplemented by a copy of the Guide to Purchasing Natural Gas in Manitoba (the Guide is to be amended), a description of the Equal Payment Program and reasonably current information related to the 12 month forward AECO strip. The confirmation letter and accompanying materials are to be approved by the Board.

Retailers will also no longer be required to forward an image of each contract to Centra, but must retain all signed contracts and make them available for audit by the Board or its designate. Retailers will bear the costs of the periodic audits.

5.6 *Allocation of Centra's Costs Related to the WTS*

Currently, Centra charges retailers an Agency, Billing, and Collection fee of $0.025 per bill for each customer. In addition to this amount, Centra identified three costs that it incurs to facilitate the WTS.

The first WTS-related cost segment is to administer enrolments in Direct Purchase, estimated to be approximately $750,000 annually and representing the direct costs of a department that devotes its time solely to maintaining the WTS Service.

Services provided include processing of Direct Purchase contracts and enrolments, establishing maximum daily quantities for broker supply, the nomination of deliveries, and administration of storage loans and storage gas.

The second WTS-related cost is an amount to recover incremental debt relating to Direct Purchase customers, estimated to be $50,000 per year and be the difference in commodity costs between Direct Purchase and system supply for customers in arrears.

The third WTS-related cost is a $0.005/GJ charge that is added to all base volumes of gas purchased by Centra from Nexen. This additional charge, estimated to be $ 150,000-160,000 per year, was negotiated between Centra and Nexen in the new gas supply contract that took effect November 1, 2007. The new contract gives Centra the flexibility to make monthly adjustments to its base Daily Contract Quantity, which facilitates the enrolment of customers into Direct Purchase on a monthly basis.

5.6.1 CAC/MSOS's Position

CAC/MSOS recommended that the Board assign the costs to facilitate the WTS to retailers. According to its witness, Mr. Stauft, costs should be allocated to the customers on whose behalf they are incurred, consistent with the principles of fairness and economic efficiency as advanced by Mr. Stauft.

Mr. Stauft, supported by Dr. Van Audenrode, maintained that there should be no subsidies sustaining the competitive market.

Mr. Stauft acknowledged that an alternative, the present approach, is to allocate costs to all customers based on the reasoning that all customers benefit from the choice that is available to them. However, according to Mr. Stauft, customers do not benefit under the current competitive market, and therefore it is not correct to assign them costs for a non-existent benefit.

5.6.2 Centra's Position

Centra sought to recover from retailers its costs for administering the WTS, its incremental bad debt expense through the ABC service, and the additional costs of the Nexen supply contract related directly to WTS amendments to benefit retailers.

Currently, the costs to administer the WTS and bad debts are recovered from all customers through the Distribution rate, on a class-by-class basis. The original rationale, as expressed in Order 15/98, was that competitive choices were a benefit for all consumers, regardless of whether they elect to enrol in Direct Purchase. Accordingly, distributing these costs to all consumers would encourage the development of the competitive market.

Centra opined that while the competitive market has been in existence for 15 years, and the current market structure for seven years, the Direct Purchase market share (retailer contracts) has apparently levelled off at approximately 20%, suggesting that many if not most consumers will never enrol in Direct Purchase. Under this reasoning, 80% of small volume consumers are now paying for a benefit that they have and likely will not use.

Centra stated that sufficient time has passed since the implementation of WTS to support retailer offerings, and that the cost causation principle – that those who cause the costs should pay for those costs – should be instituted. Centra's position was that costs now incurred for the benefit of retailers should be allocated to retailers.

Centra negotiated a new gas supply contract with Nexen that has increased flexibility in setting the base volume Daily Contract Quantity (DCQ). The DCQ may now be set on a monthly, instead of quarterly, basis, reducing the lead-time to flow gas to customers who sign up for Direct Purchase.

5.6.3 DEML/ESMLP's Position

Although their market share may have levelled off, retailers stated that it may not be the same customers who consistently make up their market share. Some customers may sign-up for a contract term, then on expiry, return to system supply. Therefore, retailers disagreed with Centra's position that the majority of customers will never avail themselves of Direct Purchase.

Retailers recommended that the WTS, the ABC service, and the new Primary Gas contract flexibility benefit all customers, and the costs incurred in providing these services should continue to be recovered in the Distribution rate, rather than being allocated to retailers. Spread over all SGS customers, the WTS administration fee approximates $3 per year per customer. Retailers argued that the majority of customers surveyed, including both Centra and retailer customers, were willing to pay this level of expense for continued choice of supply in Manitoba.

Retailers questioned Centra's determination of the $750,000 administrative costs, suggested as representing primarily the costs of the four individuals involved in administering WTS. Retailers noted that the activity rate used in the calculation took into account overhead, and held that the application of an additional 29% overhead charge beyond the activity rate was not appropriate. Retailers submitted that it would be unfair and punitive to require them to pay such an arbitrarily and artificially determined amount.

Retailers further stated that Centra has not provided any evidence to support an additional charge of $50,000 relating to bad debts, sought by Centra from the retailers through higher ABC fees.

Retailers acknowledged and appreciated Centra's efforts at renegotiating the Nexen gas supply contract, to allow monthly sign-ups of customers in Direct Purchase. However, they stated that they were never consulted about the premium Centra had contracted to pay and now sought from them ($ 150,000-160,000 annually).

Retailers disagreed that they should pay it, arguing that enrolment flexibility is a benefit for system supply customers. Since current Direct Purchase customers have had to wait until the gas quarter to enrol, retailers argued that the new flexibility offers them no benefit, and thus they should not pay the premium.

Further, for the retailers, Centra obtains a benefit by being able to adjust its base load volume requirements on a monthly instead of a quarterly basis, since it only needs to forecast one month in advance instead of three months. Retailers suggested that the new levy on Centra be recovered from all customers through the Distribution rate.

5.6.4 Board Findings

The costs incurred to facilitate customer choice provide benefits to all customers. The increased flexibility in the Nexen gas supply contract will ensure that customers who choose either retailer or Centra options will receive their chosen offering in a timely fashion. Accordingly, there is an adequate argument supporting the cost of such increased flexibility being shared by all customers.

In a similar fashion, the costs to administer the WTS provide a benefit to all consumers, regardless of whether or not they elect to enrol with a retailer. Centra stated that the market has matured and that the majority of consumers will likely never avail themselves of fixed price and term retailer contracts. Yet, this situation may change markedly if Centra offers fixed-price fixed-term contracts in the future.

As to bad debts, the Board remains of the view that, similar to WTS and additional Nexen contract costs, these costs should continue to be socialized, i.e., spread across all small volume consumers and recovered through the Distribution rate.

All this said, the Board accepts the reasonableness of the view there should be no cross-subsidization of costs, and that cost causation principles should be followed when allocating costs as long as doing so represents fairness and allows for choice.

The Board supports Centra’s success in obtaining additional flexibility in its gas supply contract with Nexen. Flexibility was sought and Centra achieved it at a relatively small cost. While the Board understands Centra's rationale in requesting retailers pay the additional cost, since it is to the retailers' benefit that customers enrolling in Direct Purchase have gas flowed sooner, yielding a direct cash flow benefit to the retailers, the Board will not allocate the additional cost to retailers in advance of the possibility of Centra entering the fixed price and term contract market segment.

In conclusion, until such time as Centra applies and, if approved by the Board, enters into the fixed price and term gas supply market, the Board is reluctant to end the subsidization of fixed term and priced contracts. And, the Board notes that it would be unfair to allocate costs to the retailers with respect to contracts already in place, for which such costs would not have been taken into account in the pricing.

The Board will reconsider the issue of cross-subsidization and the potential for increased allocation of costs with respect to fixed term and price contracts when reviewing Centra's application to enter that market segment.

6. Centra's Offerings

6.1 Default Offering, Hedging, & Rate Volatility

6.1.1 CAC/MSOS's Position

CAC/MSOS stated that Centra should discontinue its current hedging practices.

Dr. Van Audenrode stated that hedging is a risky financial activity best left to the private sector, where there are financial consequences to a private company for poor results. In the case of a public company like Centra, if it makes a mistake the financial consequences may well still be passed on to customers – there being no private owner to absorb the charge.

Mr. Stauft also recommended that Centra cease hedging, holding that the practice creates risk. He noted that if the market price is considered the no-risk price, then Centra's hedging activities may cause deviations from the market price, and thus create risk.

According to Mr. Stauft, hedging cannot be defended by the claim of reduced volatility, as the volatility in a customer's bill far exceeds the volatility that is introduced because of fluctuating rates. Further, for Mr. Stauft, rate volatility affects one number in a complex calculation that customers likely do not understand, the main concern of customers being the amount they have to pay.

Mr. Stauft suggested that in the long term, hedging does not affect gas costs; other than a small increase due to the operating and administration expenses to administer the program, and the fees associated with the execution of the hedges. Mr. Stauft held that it would be worthwhile to eliminate hedging because there are essentially "free" methods to accomplish similar volatility reduction for consumers. Mr. Stauft advised that these other methods include the EPP and changes to the RSM.

Although Dr. Van Audenrode advocated that hedging be left for private sector companies, he stated that hedging would be required for Centra's alternative offerings if it were to enter the fixed price and term market segment. He held that the fundamental difference between the current variably priced offering and fixed price and term products, is that hedging the supply for a fixed-price contract amounts to closing of a position, while hedging for the default gas rate means opening a position. For him, the closing of the position for the fixed-price contract reduces risk, while the opening of the position for the default supply increases risk.

In the customer survey report, eNRG reported that bill volatility was not a top of mind issue for consumers. CAC/MSOS interpreted the customer research such that Centra customers did not want to pay any premium to eliminate the ups and downs of their gas bill. Survey results contradicting this interpretation were arrived at, according to CAC/MSOS, with biased, improperly worded questions.

Evidence was presented that fixing the primary gas rate can actually increase bill volatility, that is if the fixed rate is higher than the variable rate. CAC/MSOS stated that hedging, which fixes the primary gas rate within a narrow band but at an increased cost, will have the same effect and will tend to increase bill volatility.

Dr. Van Audenrode stated that rate volatility can contribute to bill volatility, but rate volatility can also reduce bill volatility, and that bill volatility could be less with a variable rate than with a fixed rate since the bill amount is the product of the consumption and the rate. He advised that if the rate varies inversely to consumption, then the bill volatility will decrease; therefore, it would not be correct to assume that a fixed rate will reduce bill volatility.

Given the additional administrative and execution costs of the hedging program, in the order of $500,000 per year, and that as the customer research found customers did not want to pay any premium to fix their rates, CAC/MSOS advocated that Centra abandon its hedging program.

Mr. Stauft further stated that the EPP is the simplest and cheapest method for reducing bill volatility, suggesting that if it is assumed that customers dislike volatility, then making the EPP the default will address this concern. For Mr. Stauft, since the EPP does not impose additional costs on a customer, it should not be considered "negative option marketing". Further, since customers can always choose to opt out of the EPP at no cost to them, they will always be held whole.

CAC/MSOS was not opposed to a monthly setting of primary gas rates, if concurrently Centra offered one- and two-year fixed-price contracts. CAC/MSOS opined that monthly setting of gas rates will increase volatility in the rates, but that customers could elect to reduce their rate volatility by contracting for a fixed price from Centra.

6.1.2 Centra's Position

Centra wanted to maintain the current RSM, as approved by the Board. Centra noted that it had invested considerable time and effort developing a rate setting mechanism that is a "one-size-fits-all". Centra stated that the single most important factor affecting the volatility of customers' bills is the weather, and that currently the PGVA captures differences in the price paid for the gas and the price of gas embedded in rates. While it is possible for large swings, both positive and negative, to occur in the PGVA, resultant account balances must be recovered through future rates.

Centra submitted that in the case of the Alberta market, where rates are set each month, PGVA balances are recovered the next month causing an increase in the volatility of the rates beyond that of the underlying commodity. Centra noted that if there was a significant difference in the price paid and the price embedded in rates, and if the following month was expected to flow less volumes, then the PGVA balance would have to be recovered over a smaller volume; this would result in the corresponding rate diverging even further from the underlying gas price. Centra noted that under the RSM, it recovers PGVA balances over twelve months, minimizing this effect.

Centra submitted that its system supply product should continue to be a hedged product, as the hedging is working as intended and reducing rate volatility. Centra indicated that the gas cost additions resulting from its hedging program, over the long run, may be expected to add approximately 1/10 of 1% to gas costs, or $400,000 per year, and that the administration of the hedging program itself adds little to gas costs. Centra estimated the administration costs of hedging to be approximately $100,000, annually.

Centra stated:

"This Board, just as the OEB noted, is charged with a consumer protection mandate and should not expose system gas customers to avoidable volatility purchased at a modest cost, particularly where the market price of gas will be paid within a reasonable time horizon."

Centra indicated that although the vast majority of customers may not know about Centra's hedging activities, once they learn about the hedging program, customers are supportive of it, citing the strong customer support for hedging/price management indicated in the eNRG consumer survey.

Centra reported that the settled results from hedging for the current year, 2007/08 commencing April 1, 2007, have been an addition to gas costs of $14.7 million, bringing mark-to-market exposure of the outstanding hedges along with settled results for the current year to an addition to gas costs of approximately $45 million. Starting in January of 2007, Centra began placing hedges with a widened bandwidth, as directed by the Board in Order 175/06.

In the hypothetical case where the default rate, Centra's variably priced offering, was not being hedged, and, therefore, customer rates were more volatile, Centra advised that the EPP may not be as effective. If rates were volatile and customers' outstanding balances fluctuated widely, Centra suggested more frequent changes to EPP bill amounts would be required and the EPP would no longer be an "equal monthly payment plan." Centra was further concerned that if hedging of the default supply was eliminated, large PGVA balances would likely ensue, and customers would find the rates that would then develop objectionable.

Retailers suggested that the primary gas rate should include the upstream transportation costs, and Centra opposed the suggestion. Centra takes custody of retailer gas at Empress, Alberta and transports the gas to the Manitoba Delivery Area. Centra employs its transportation and storage assets, using the same assets to perform the same function for system supplied gas as with retailer gas. Since the same assets are used to accomplish the same purpose, Centra charges the same rate to both Direct Purchase and system supply customers for transportation. This rate, termed the Transportation Rate, is unbundled on Centra's bill, and is clearly identified.

Centra suggested that customers' bills were possibly unbundled to a larger extent than necessary, as many customers apparently do not understand all the unbundled rates broken out and identified on their monthly bill. Centra reported that a re-bundling of the bill, to a certain extent, is a possibility that Centra has considered, though the Utility did not recommend reducing the detail on the bills at this time.

EPP is a program offered by Centra that averages out a customer's annual bill over the year so that each month's bill, with the exception of the true-up month, is the same. The true-up provides the correction to any over- or under-collection that may have occurred throughout the year. Centra described EPP as a program mitigating bill volatility.

Centra did not advocate EPP as the default option for consumers, a possibility suggested in the Board's list of issues for the hearing. EPP is available for both system supply and Direct Purchase customers, and can be elected by customers not in default contacting Centra. In addition, customers are asked when they subscribe for gas service whether they want to enrol in EPP; currently approximately 40% of Centra's SGS customers are enrolled in EPP.

Customers in arrears more than sixty days are not eligible for the EPP, however, Centra advised that it contacts delinquent customers to arrange customer-specific payment terms. Centra advised that it has found it better to tailor the repayment of arrears to the customer's specific circumstances, and that this makes it more appropriate to have such customers on EPP.

Centra reported that it had uncovered an internal billing problem shortly before the hearing. A group of customers discovered that the bill for the true-up month was larger than would normally be expected; in some cases bills represented increases in excess of 100% of the previous month's billing.

Centra reported that customers with variances in EPP accounts between 11% and 40% receive automatic adjustments in EPP monthly payments through Centra's software. However, customers with account variances exceeding 40% were to have their equal billing amount adjusted manually. These adjustments normally happen in March of each year. However, in the past year, responsibility for performing the manual adjustments was transferred from one department to another, and the new department erroneously assumed that the software had automatically updated all the payment amounts.

Centra reported that approximately 10,500 customers received a true-up month bill that was 100% or greater than the plan amount. In other words, their bill was twice or more the previous month's bill. The majority of these customers were retailer customers. The variance for these customers arose because they had renewed their contracts after the EPP monthly payments were established, and the payments calculated used the rate from their previous contract. The renewal rate charge per cubic metre, was much higher, and so variances in the customers' accounts developed.

Centra has taken steps to contact affected customers, and reported offering flexible repayment terms. Centra advised it was not charging interest on the amount, and that the balance outstanding did not preclude those customers from continuing on EPP.

6.1.3 DEML/ESMLP's Position

Retailers advocated that Centra adopt monthly pricing for the default supply, along with PGVA balances reflected in billings the following month. In addition, they espoused that Centra cease its hedging activities and posited that un-hedged, monthly-priced rates maximize price transparency, since under that approach the price paid by system supply customers would more closely reflect the underlying market price for the gas.

Recovery or refund of PGVA balances would occur in the following month minimizing intergenerational inequities pursuant to the retailers' proposal. Intergenerational inequities may arise if new customers subscribe to gas service, if customers sign up for Direct Purchase, or if customers return to system supply. Retailers noted the Alberta model for default supply, which provides for transparent prices assisting customers in making informed decisions regarding conservation, and assisting customers in deciding whether they wish to avoid rate volatility through fixed price and term contracts.

Dr. Cyrenne also opposed hedging and the other risk management strategies of Centra. In his opinion, such activities belong in the private sector, for two reasons. The first was that, since both retailers and Centra hedge, consumers are not given a choice about whether they wish to receive a hedged product. The second was that in a private firm, losses from hedging are absorbed by shareholders while in the case of Centra, consumers bear the consequences of any losses, whether they want to hedge or not.

Retailers stated that they do not advertise EPP when selling their products door-to-door, since EPP is a Centra mechanism. Retailers were not opposed to EPP; they simply choose not to promote Centra's product design.

6.1.4 Shell Energy's Position

Shell Energy supports the continuation of Centra's hedging program for its default system supply. Shell Energy stated that the mechanistic approach was suitable for reducing short-term volatility in the supply price.

6.1.5 Board Findings

Centra demonstrated through evidence the success of its Price Management program in achieving volatility reduction. Accordingly, the Board recognizes that Centra's hedging program does reduce rate volatility. However, the hedging program also reduces price transparency, since the price paid by consumers at any point in time may be markedly different than the market price for gas.

The Board agrees with the findings of the Ontario Energy Board (OEB) in its decision EB-2005-520, the OEB's view being:

"*The key factor in any conservation scheme is the price of the commodity to be conserved. Risk management does not protect consumers from the price of natural gas on the market. It merely protects consumers from the extremes of the price peaks and valleys of the gas marketplace. All consumers, including those enrolled in the equal billing program, are subject to the day of reckoning. High prices will find their way to the* *consumer, sooner or later, and in the absence of an immediate time-of-use price signal, which is not currently achievable with this commodity, conservation decisions will not, and cannot, be driven by real time price experience.*"

The Board expects that increasing price transparency can have a motivational effect on consumers to conserve gas and more actively participate in Centra's DSM programs. That said, in Manitoba, weather-driven consumption, DSM initiatives, and consumer actions are as important as rates in determining the natural gas bills of consumers. More has to be done to bring about reduced consumption, for both environmental and economic reasons.

The Board seeks to balance the conflicting objectives of mitigating price volatility and promoting transparent pricing by arriving at a suitable compromise. In previous orders, the Board accepted volatility reduction as a reasonable objective, but also suggested that reducing customer bills was more important and was in consumers' best interests.

The Board heard evidence that the administrative costs and dealer margins incurred by Centra to operate its hedging program are approximately $500,000 per annum. In relation to Centra's total gas costs, this is a small premium to pay for volatility reduction.

Centra provided the Board with a retrospective view of primary gas rates and PGVA balances from 2001, and compared them to hypothetical rates and balances absent hedging. The retrospective analysis disclosed that while PGVA balances ranged from $7,151,056 due from customers to $31,137,554 owing to customers, the range would have been $17,754,445 due to customers to $61,374,528 owing from customers if hedges had not been placed.

PGVA balances of such magnitudes can create large intergenerational inequities as such balances are difficult to amortize in customer bills over only one calendar year, without resorting to large rate changes.

A graphical comparison of hedged and un-hedged primary gas rates presented by Centra was illustrative in showing the volatility reduction attributable to hedging. Centra included the effect of the Board-imposed cap of November 1, 2005 on the primary gas rate in the wake of hurricanes Katrina and Rita in only the hedged price trend, which slightly distorted the comparison. However, the highs and lows of Centra's default rate were clearly subdued by the hedging program.

The widening of the costless collars that has taken place on Board direction has led to increased exposure of gas costs to gains and losses and increased the price transparency. This has achieved the desired balance of consumer protection through rate volatility mitigation and price transparency, since the price of gas can now float in a larger range before triggering the hedge floor or ceiling.

The structure of the default supply offering was a recurring subject in this hearing.

Retailers proposed a vision of default supply mirroring the Alberta model. Centra's vision of the default supply is the current arrangement. And, CAC/MSOS strongly advocated that Centra cease its hedging program.

The Board is left to determine what is in the consumers' best interests.

Another recurring subject at this hearing was a perceived lack of information for customers making a decision with respect to their supply of natural gas. If consumers have difficulty with some of the simpler matters, such as which firm supplies their gas, then it is reasonable that Centra take a "paternalistic" approach to the design of its default supply product, and provide a middle-of-the-road product that has elements of volatility protection and price transparency.

Centra's hedging program delivers meaningful rate volatility reduction at minimal cost. It provides a balanced level of protection and price transparency, appropriate for a default supply option. For these reasons, the Board will allow Centra to maintain its mechanistic hedging program.

The Board recognizes that, currently, consumers do not have a choice of an un-hedged, variably priced gas supply, such a product could be offered by retailers, or eventually by Centra, if customer demand is sufficient.

RSM

Retailers expressed a desire to have Centra move to a monthly price setting methodology, similar to that employed in Alberta by Direct Energy, which in Alberta provides the default Primary Gas distributor role. In Alberta, the PGVA is collected or refunded to customers in the following month. Centra noted that the methodology introduces greater rate volatility than the price volatility of the underlying commodity, natural gas. The effect on Alberta customers of the market sensitive pricing program is muted by a provincial program that reportedly rebates amounts above $5.50 GJ to consumers.

The difference in approach and its effect may be illustrated by modelling a price spike occurring in a particular month, say February. The difference between the actual cost of gas and the cost embedded in rates, which would have been set the previous month ahead of the price spike, would be quite large and would be captured in the PGVA. As gas consumption in March is generally less than in February, when the PGVA balance developed during a price spike in February was then billed to customers in March, as under the Alberta model it would have to be recovered over fewer gas volumes which would require a large rate adjustment and could represent rate shock. f However, an advantage of a more rapid clearing of PGVA balances is that it reduces intergenerational inequities, since over- or under-collection of the PGVA is more immediately addressed. And, the Board notes that there is a risk of unfairness developing through the operation of the PGVA as customers change to or from retailer supply.

The Board notes the choice between the reduced volatility and reduced risk of rate shock associated with the current approach in Manitoba, spreading PGVA disposal over the current twelve-month period, and Alberta's approach and the advantage associated with it, though with the disadvantage of increased volatility and risk of rate shock.

In the case of the PGVA being disposed over a 12 month period, and if there was a large PGVA balance concurrent with many customers leaving system supply and signing contracts with retailers, the PGVA recovery would be against a group of consumers different from the group that developed the PGVA, bringing an element of unfairness. If the Board changed to the Alberta model, the effect would be compounded if the Utility were to cease hedging, thus incurring the likelihood of larger PGVA balances developing.

Accordingly, the Board will maintain the existing quarterly rate setting window, as it does not want to introduce additional regulatory costs and increase rate volatility by re-setting rates on a monthly basis. The Board concurs with the British Columbia Utilities Commission in their letter L-5-01, which stated:

"*However, a monthly process could lead to overly frequent rate changes and rate oscillations that impede, rather than improve, the price signal to customers, and would involve a great deal of administrative effort by both BC Gas and the Commission. The Commission also believes that while more frequent processes should generally reduce the size of required rate changes, even monthly adjustments would not prevent very large rate increases if gas costs change rapidly as they have over the last two years. The Commission finds that a quarterly process for adjusting gas cost rates would provide a good price signal to customers, would help to reduce the size of the required rate changes, would help to keep the GCRA to manageable levels, and would be less onerous administratively.*"

EPP

The Board notes that consumers have indicated a strong desire to retain the status quo related to EPP. The Board is convinced as to the financial planning advantages to consumers of EPP, though it is not convinced the approach is congruent with energy conservation and DSM objectives. At this time, the Board will not propose any changes to the current practice, which requires positive selection by customers for enrolment.

A significant problem with EPP arose in August and September of 2007. Centra failed to make a mid-year adjustment to the EPP monthly charge for retailer customers renewing their contracts at a higher price and system customers whose EPP was not reflective of then-current rate experience and consumption patterns. As a result, up to 10,500 customers received bills for August 2007 consumption that were 100% or greater than the regular EPP payment.

The Board accepts Centra's position that its failure to adjust the EPP for those customers was inadvertent, though the Board suggests Centra communicate to the customers involved that the error was Centra's mistake and not the retailers'. The Board notes that the retailers' relationship with their customers may have been damaged by Centra's oversight and secondary failure to immediately accept responsibility for the oversight.

To prevent this problem from recurring, the Board will direct Centra to adjust the EPP monthly payment upon enrolment, renewal, or expiry of a fixed-price fixed-term contract. In each of these cases, Centra is to adjust the primary gas rate for customers, with the rate change having a potential to be significant. While the Board understands that this review may have to be, at least initially, accomplished manually, the Board expects Centra to incorporate this procedural change into its system with minimal disruption.

6.2 Alternative Offerings by Centra

6.2.1 CAC/MSOS's Position

CAC/MSOS stated that the natural gas competitive market has not changed significantly in the past seven years, noting a limited number of retailers and choices between products. CAC/MSOS cited the failure of a truly competitive market to develop with diverse product offerings as the main reason Centra should offer fixed-price contracts.

The original objective of deregulating the market was to create choices for customers at competitive prices. Since, in Mr. Stauft's opinion, the original objective has not been met, for CAC/MSOS it would be reasonable to allow Centra to offer fixed-price contracts in order to meet the objective.

CAC/MSOS recognized that the offering of fixed price and term gas supply through the regulated utility would be a departure from the existing practices in Manitoba and elsewhere, but held there was little to lose from such an approach, with consumers standing to benefit. Dr. Van Audenrode stated that it is theoretically preferable to meet the desire for more diverse product offerings through the unregulated market, but if that fails to happen, the next best alternative would be to have Centra fill the role, rather than to not meet the objective at all.

CAC/MSOS noted that customer research indicated that a significant number of customers would approve of Centra offering fixed-price offerings, even if that meant a reduction in competition. CAC/MSOS also noted that the customer research indicated a significant number of customers would value a one or two year fixed-price contract, not now available in the market. Mr. Stauft stated that Centra should fill the void and offer these products.

Dr. Van Audenrode stated that Centra should be allowed to offer long-term contracts as a regulated product in order to provide a benchmark for retailer offerings. He was also of the view that Centra's offering of fixed-price contracts would introduce competitive discipline, allowing consumers to judge retailer prices against Centra prices.

Retailers opined that Centra had unfair competitive advantages, to retailers' detriment. One expressed concern was that Centra, being a monopoly, could exert undue market power. Contrarily, Dr. Van Audenrode held that Centra is not a monopoly when it comes to the supply of primary gas, therefore it would not be exercising monopoly power if it offered alternative products, i.e. fixed term and priced Primary Gas contracts in competition with the retailers.

Dr. Van Audenrode stated that as long as there is no cross-subsidization of Centra's alternative offerings by the Utility's default offering, other gas operations, or electric operations, then competition between Centra and retailers would be fair. Dr. Van Audenrode suggested that the risk of cross-subsidization between the electric and gas operations is minimal because there are few economies of scope, but that the risk of cross-subsidization between the default supply (Centra's variably priced offering) and any alternative fixed price and term offerings by the Utility would be significant.

He cautioned the Board to be vigilant about ensuring adequate cost allocations to the alternative offerings, assuming Centra were allowed to offer fixed price and term contracts.

Dr. Van Audenrode did not believe Centra should charge back or allocate costs to its alternative offerings to recognize the name recognition or goodwill that it has developed while being funded by all consumers. He opined that Centra's name recognition is not a barrier to entry for potential market participants, even though it makes the task of acquiring customers more difficult.

On the prospect that Centra's entry into the competitive market could drive retailers out, Dr. Van Audenrode stated that such a departure would have negative impacts. Among the negative impacts would be the potential for the Utility to exercise market power and provide less choice for consumers. However, Dr. Van Audenrode noted that since the Utility is regulated, it should not be able to use its dominant position to exercise market power.

In Mr. Stauft's evidence, he stated that the exit of retailers from the market as a result of Centra's entry into the market would be an "acceptable" outcome, because customers will have been better served by Centra's (assumed) lower-priced offerings.

Dr. Van Audenrode stated that although Centra could offer alternative products through an affiliate, it would not guarantee a competitive outcome or the lowest possible price for long-term contracts. And, for the professor, three participants would be more likely to generate competitive pricing than two participants, but that even three participants may not be enough.

CAC/MSOS noted that Centra had not put forward any specific proposal about what services Centra would offer or how such offerings would be designed or priced. The intervener stated that if the Board provided approval from a conceptual basis, it would expect Centra to make an application as part of a future proceeding for approval of specific products at that time.

6.2.2 Centra's Position

Centra articulated that its desire to offer alternative products stemmed from the customer research it had undertaken, and that the research indicated that customers desired the opportunity to purchase a variety of products from Centra. Centra noted that two-thirds of Manitoba Hydro's residential customers and three-quarters of retailers' residential customers indicated they would like to see Manitoba Hydro offer more than one natural gas plan to consumers.

Centra submitted that, by permitting it to offer a regulated alternative product, the Board would create a benchmark against which customers could compare unregulated products. Centra opined that improvements in the market may materialize even before Centra introduces an alternative product, if the restriction limiting Centra to one product offering is lifted. Centra noted that Dr. Van Audenrode stated that the threat of offering a product can work as effectively as offering the product in bringing about market improvements.

Centra advised its intention to employ the assets of Manitoba Hydro to market and provide alternative offerings, although the Utility advised it would appropriately allocate costs to the products. The use of Manitoba Hydro's assets would include the use of existing marketing channels, including the Manitoba Hydro website and bill inserts.

Yet, Centra does not believe it has monopoly power, though it acknowledged that it has considerable goodwill, both as a result of its operations as well as its affiliation with Manitoba Hydro.

Centra stated that it does not intend to cross-subsidize its alternative offerings, which could give them a competitive advantage. Centra's Integrated Cost Allocation Methodology, explored in detail at each General Rate Application before the Board, was cited as ensuring that there was no cross-subsidization between electric and gas operations.

Further, Centra advised that it would not subsidize its alternative offerings by allocating their costs to the default offering, or to the Distribution function. By offering alternative products from within the regulated utility, Centra advised it would be able to avoid incurring additional costs associated with creating, operating and maintaining an unregulated affiliate.

Centra indicated that if it were to be required to offer alternative products through an unregulated affiliate, then the additional costs would make its alternative products less competitive, and thus offer a lesser benefit to consumers.

Centra also noted that creating an unregulated affiliate would not necessarily eliminate all concerns with cross-subsidization, since there would still need to be cost allocations, auditing and monitoring of the relationship. Centra suggested that the creation, implementation, and ongoing review of the standards and code of conduct would add regulatory burden and cost, which would not be in consumers' best interests.

Centra asked the Board not to be dissuaded by the regulatory ruling in British Columbia, where BCUC directed the B.C. Utility to discontinue its "Stable Rate Option," which was a one-year fixed-price contract. Centra noted that the competitive market in British Columbia is in the early stages of development, so that competitive interests of the new market entrants required promotion, this contrasting with a more mature market in Manitoba, where a level playing field needs to be promoted.

In addressing concerns related to whether there will be a level playing field, Centra stated its goal to be ensuring customer's interests are well served. Centra submitted that it should not be precluded from using the strength of its reputation for customer service and the benefits of being a Crown corporation to bring reasonably priced products to consumers.

Centra noted that it should be recognized that the playing field in which the retailers operate is different than that for Manitoba Hydro. Centra submitted these are not unfair advantages, but simply commercial realities, to be embraced with a view to bring the best alternatives available to Manitoba Gas consumers.

Centra did not identify the alternative products, i.e. duration terms and prices, it would offer if the Board allowed it to offer such products. Centra indicated that it intends to be guided in the types of products it would offer by customer research and feedback. It stated that it would require some time to investigate and develop a product, and would likely initially target an alternative offering to fill the current void in fixed-price fixed-term contracts, which is with one and two year term offerings.

6.2.3 DEML/ESMLP's Position

Retailers maintained that Centra had not demonstrated a need for it to offer fixed-price contracts, and suggested that if changes are made to the competitive landscape, as proposed by the retailers, the costs to offer fixed-price contracts will be reduced, more products could be offered, barriers to entry for other retailers would be reduced, and an even more competitive market would flourish. Thus, for the retailers, a need for Centra's entry into the market was not present.

Retailers expressed concern that if Centra were to enter the fixed-price market, the competitive market would be damaged, not enhanced. The retailers cited examples in other Canadian jurisdictions where regulatory authorities had prevented the utility from entering the fixed price and term market, because of the presumed expected deleterious effect on competition.

The retailers contested Centra's assertion that it wishes to offer alternative products at the request of its customers, noting that that particular question was not canvassed in the 2004 customer research survey, and that Centra had made its intentions known with respect to offering alternative products prior to obtaining the results from the 2007 customer survey and focus group research.

Dr. Cyrenne stated that in order for competition to be effective for the retail function, the competitors must be on a level playing field by bearing their own costs of operation.

If Centra were to offer alternative products within its regulated business, the retailers opined that it would have unfair competitive advantages making it difficult if not impossible for the retailers to compete in the market. For the retailers, Centra's advantages include: brand recognition and trust, no profit margin, use of the Manitoba tax base to backstop risk, access to preferential marketing channels including the Manitoba Hydro website and bill inserts, access to customer information, access to the competition's contracts because they submit scanned images of all contracts, access to the Retailer customers' starting and ending dates of their contracts, access to the Retailers' prices, and finally the fact that Centra controls the nominations on behalf of the Retailers, so they have advance knowledge of changes in the nominations.

If Centra were to offer fixed-price offerings from within the regulated utility, the retailers suggested that there would be significant regulatory oversight required to prevent cross-subsidization of these offerings by the default variable rate offering. Such cross-subsidization would give Centra an unfair competitive advantage, since if the full costs of offering a fixed-price contract were not allocated, Centra could price their offerings below their true cost.

Dr. Cyrenne highlighted the problems that cross-subsidization of Centra's alternative offerings causes. One of the problems with cross-subsidization between two products is it results in allocative inefficiencies, which drive up the price for one product but result in the other product being sold below cost. Dr. Cyrenne commented that when using fully distributed costing, there is a risk of cross-subsidization because there are degrees of freedom in some of the allocations, and these can have significant effects on the competitive landscape. He did not provide any evidence that such cross-subsidization exists in the Manitoba market, but his point was that, by introducing another regulated product into the Manitoba market, the risk of cross-subsidization between the products would be increased.

Another problem identified by retailers was that Centra has access to information regarding the identity of retailer customers, such as the price, term, consumption patterns, and other information that it could use to target those customers when their contracts with their retailers expire. If allowed to use regulated assets and cross-subsidize its alternative offering, the retailers claimed it would give Centra an astonishing advantage to the detriment of the competitive market.

Retailers did not object to Centra being able to offer alternative products through an unregulated affiliate, provided that affiliate does not make use of regulated assets, the

Centra or Manitoba Hydro name, and that it charges a profit. For the retailers, requiring Centra to offer alternate products through an independent affiliate would eliminate Centra's unfair competitive advantages.

A concern was expressed in the proceeding that the retailers were making excessive profits, and Dr. Cyrenne responded that one sign that market participants are making excessive profits is the entry of other participants. This sign is tempered if there are barriers to entry such as start-up costs. In Manitoba, this has not been the case, with only two participants in the market. He suggested that the other way to determine the profits of the retailers, at least in aggregate, is to review their financial statements and the taxes that they pay.

Dr. Cyrenne stated that the Competition Bureau had no issue with Manitoba Hydro acquiring Centra because both firms were regulated. However, regulation is not perfect, and can add considerable cost. He suggested that regulation should only be undertaken if there is strong evidence of a market failure, as for Dr. Cyrenne, regulation can add uncertainty; a regulator can make changes to the competitive landscape at any proceeding.

Dr. Cyrenne was of the opinion that the approach taken by the Board in Order 15/98 was the correct approach in balancing the benefits of competition and regulation, and this approach should not be varied.

Dr. Cyrenne elaborated on the benefits of competition. Two benefits that arise out of competition are static efficiencies and dynamic efficiencies. Static efficiencies result from a large number of firms competing and is manifested in the form of lower prices and more diverse product offerings. Dynamic efficiencies arise from competitors developing and inventing new products and new ways to deliver them. He further stated that a dominant firm, in the absence of competition, may experience excessive costs because it would not have competitive pressure sufficient to minimize or properly allocate its costs.

Regarding economies of scope, Dr. Cyrenne quoted a study of combination electric and gas utilities and found that their prices were higher compared with single product firms. Dr. Cyrenne was not aware of any evidence that purported that Manitoba Hydro's and Centra's costs were higher as a result of being a combined utility.

Shell Energy's Position

Shell Energy opposed Centra competing against unregulated competitors with a regulated product. Shell Energy opined that separation between regulated and competitive activities was a fundamental necessity in fostering any competitive framework, as well as in protecting the interests of consumers.

Shell Energy further submitted that:

"*There must be a 'level playing field', without direct or indirect advantage to any party, if competition is to survive.*"

Shell Energy raised the issues of cross-subsidization and risk assumption as reasons Centra should not offer fixed-price contracts. Competitive retailers assume the risk on behalf of customers; Shell Energy stated that customers should not be exposed to this risk through retroactive application of costs.

6.2.5 Board Findings

The current competitive market, as established by Order 15/98, prevented Centra from offering any products other than its variable priced default supply from within the regulated utility. Order 15/98 allowed Centra to establish an unregulated arms-length affiliate and then offer alternative products, a choice it never pursued.

The market has evolved since then, and now there are now only two retailers serving the small volume market. In spite of the intentions of the Board back in 1998, and notwithstanding the future market envisioned by the participants of that proceeding, the market has not flourished, and retailers have only captured approximately 20% of the small volume market, with Centra remaining the dominant entity in that market segment with its variably priced default offering.

The natural gas market in Manitoba can best be described as mature with little growth. While natural gas customers have increased from 248,000 to 258,000 since 2000/01, an increase of 4%, aggregate volumes have fallen by 5%.

While volumes have decreased, and will decrease further with new low-income energy efficiency measures expected, natural gas commodity prices have tripled since 2000, while electricity rates have risen by less than the rate of inflation. The result is that electricity as a space heating option is much more competitive than in 1999, when Manitoba Hydro bought Centra.

The Board notes from evidence of the last Centra GRA that using electricity for space heat is less expensive than using natural gas in a conventional efficiency furnace. The Board is mindful that any changes to the competitive market for natural gas cannot be made without due consideration of the influence of the competitive option of using electricity for space heat.

The deregulating of the retail sale of natural gas provided an opportunity for retailers, but the Board notes that retailers are not essential for the provision of service to Manitoba customers. Centra is responsible for the distribution infrastructure, maintenance, safety, customer service and billing, and providing the backstop infrastructure supporting retailers.

Centra is therefore essential, and the primary competitive question faced by the Board is whether the retailers bring sufficient value to Manitoba consumers to justify the costs involved in ensuring their participation.

The Board accepts the customer survey’s indication that the majority of natural gas consumers prefer fixed-price fixed-term primary gas supply arrangements, rather than

Centra's current variably priced product, and is willing to consider the entry of Centra into the fixed price and term market segment so as to provide consumers a broader range of fixed-price fixed-term contracts for their consideration.

In deliberating and concluding on the current situation and Centra's proposals for a lifting of the current restriction on its marketing of fixed-price fixed-term contracts in the regulated environment, the Board's focus was not on the implications for either Centra or the retailers, but on the value of the present arrangement for consumers. Order 15/98's design of the natural gas landscape was not predicated on fashioning a market for retailers or assuring Centra's market and financial position, but on a desire for producing both choice and potential savings for consumers.

The Board concludes that the objectives of Order 15/98 have not been achieved, and the situation cannot be remedied without changes to the gas landscape framework established by that Order. That said, and agreeing with CAC/MSOS, the Board is not prepared to lift the restrictions placed on Centra by way of Order 15/98 without having received concrete details of Centra's planned entry into that market segment and having approved the plan.

Since Centra has not developed any plans, it did not provide any details during the recently concluded proceeding, and suggested that its initial foray into fixed-price fixed-term contract offerings may be limited to an offering of a one-year contract to consumers. For the Board to lift the current restrictions on Centra and risk the withdrawal of retailers from the market without an assurance that Centra's entry would be sufficient to provide for consumer choice and good value would not be in the best interests of consumers. If Centra were then to proceed as it suggested it might, with a one-year fixed-price offering, consumers would initially lose access to longer-term three to five year contracts, and consumer choice would be reduced rather than enhanced.

Thus, while the Board will direct Centra to file an application to offer a full range of fixed term and price offerings in competition with retailers, given that the Board does not want to drive retailers out of the retail small volume market, it will direct that the barriers to effective price competition be reduced, as previously articulated in this Order.

The Board provides the following direction:

1. The restrictions on Centra related to the offering of fixed-price fixed-term primary gas supply products are to continue, at least ahead of Centra filing an application with the Board to enter the market segment with a product range representing true customer choice, and the Board's approval of that application following a review that will provide an opportunity for retailers and CAC/MSOS to comment.

2. Centra is to bring forward an application to enter the retail small volume fixed-price fixed-term primary gas market no later than June 30, 2008. Centra's application is to include, at a minimum, 1, 2, 3, 4 and 5 year fixed-price fixed-term contracts for small volume consumers (while this Order is focused on small volume residential consumers, there is no reason such contracts should not be designed to be offered to all customer classes).

3. Centra's application should be based on Centra administering and delivering the products. An affiliate arrangement will not be required.

4. Centra's application is to include a business plan for the new offerings, indicating design, marketing, primary gas supply (physical supply, hedging, self-insurance), risk management, administration, and pricing. Proposed amendments, if any, are also to be included with respect to the existing retailer Code of Conduct to encompass Centra's participation in the fixed-price fixed-term market.

5. Centra's application is to estimate and segregate direct costs related to the new product offerings. Any shared costs between the new product offerings and the default offering are to be fairly allocated between these offerings.

6. Centra's application is to assume that any direct mail marketing by Centra of fixed term and price primary gas contracts will not involve the use of monthly

customer bills or bill inserts, unless Centra is prepared to allow retailers to also make us of the billing process to forward bill inserts to prospective customers.

Upon receiving the application, the Board will review the application drawing on the evidence of the proceedings just concluded. A paper review process will be provided, by which retailers and brokers and CAC/MSOS will be invited to test the proposed framework through interrogatories and comment. The Board sees no need or public value in holding another public oral hearing to review the application, given the extensive proceeding dealing with the matter and other landscape issues having just concluded and having involved substantial costs.

As to the nature of the application, the Board disagrees with the retailers' assertion that, if Centra is allowed to offer fixed price and term offerings, Centra should only offer alternative products through an unregulated affiliate, with no use of regulated assets, or the Centra or Manitoba Hydro name. Such an approach would not provide a benefit to consumers, but would increase costs to the detriment of consumers. Centra requested that, if allowed to offer alternative products, it be able to do so through the regulated Utility. If the Board were to approve a specific application by Centra, this approach would minimize costs and thus contribute to consumer benefit.

As suggested by CAC/MSOS' witness Dr. Van Audenrode, the Board expects that if Centra is allowed to offer fixed term and priced alternative offerings, they will provide a benchmark price for consumers who will then be able to compare against retailer offerings. As Centra will not seek a margin over costs other than as a risk premium for such fixed price and term offerings it may be allowed to offer, the Board expects that the pricing of such offerings would represent reduced margins over commodity cost, compared to those now offered by retailers. That said, the Board also expects that retailers will be able to reduce their costs to acquire customers and offer a broader range of products through the effecting of this Order.

Regardless of whether Centra's price is higher or lower than retailers' prices, consumers would be advantaged by the increase in information provided by the benchmark, assuming the Board approves Centra entering the market segment.

The Board heard from the retailers that if Centra is allowed to enter into competition with them, Centra should be subject to the same Code of Conduct that applies to retailers. Centra's position was that since it is already regulated, the need for a code of conduct is eliminated. CAC/MSOS, noting an absence of compelling reasons why a code should not apply to Centra, held that a code of conduct should apply to Centra.

Yet, the Code of Conduct that governs retailer marketing contains provisions that are unique to unregulated but licensed retailers in Manitoba, being currently based on door-to-door marketing of retailer offerings. If Centra is allowed into the fixed price and term market, the Board may establish a separate Code of Conduct to govern Centra's offering of alternative products. The Board views the creation of a Code as being potentially beneficial, both with respect to the interests of consumer protection and as to the establishment of a level playing field for the competitive retailing of gas in Manitoba.

The Board heard from the Retailers of their concerns of Centra offering alternative products in direct competition with their offerings. Deregulation was once cited as the solution to ensuring the best prices for consumers for natural gas supply. However, in this proceeding, the Retailers accepted that the distribution of natural gas was a "natural" monopoly, and that competition for consumers should be left to the supply of primary gas. The retailers argued against direct competition in that area from Centra, preferring to have Centra confined to a variable priced short-term default supply.

In the absence of effective competition, regulation assures consumers that Centra's costs and prices are reasonable. The Competition Bureau did not challenge the acquisition of Centra by Manitoba Hydro because continued regulation by the Board ensures that Centra's prices remain reasonable. Since the Board concludes that competition in

Manitoba for primary gas supply to small volume consumers has not been adequate or effective, the Board's oversight responsibilities are clearly warranted.

The Board recognizes that if Centra is allowed to enter the fixed price and term market, it would have certain advantages over the retailers. The Centra brand name has a certain amount of goodwill associated with it, particularly through the association with Manitoba Hydro. This brand advantage is not something that is unique to Centra though. The retailers have developed their own brand names, which may be as well known as the Centra name. The Board notes that many consumers were able to identify Municipal Gas in the customer survey conducted by NRG.

The Board agrees with Dr. Van Audenrode that the brand name advantage of Centra is not a barrier to entry for retailers; it simply means that the retailers would have to expend more effort in building up their brand names. It should be noted that if the Board allows Centra into the fixed price and term market, the Board would place restrictions on Centra's marketing efforts. For example, Centra would be required to provide information on all Primary Gas offerings in responding to enquiries from customers, including those of the retailers.

Not needing to include a profit margin in the price of its offerings is a major advantage that Centra has over retailer offerings. The Board notes that this is partially offset by regulatory costs that would be priced into their offerings. Another advantage that Centra may have over the retailers, at least with respect to the Manitoba market, is the large size of its operation and the economies of scale that arise. That said, the Board notes that Direct Energy, particularly when including its parent company, Centrica, is a much larger corporate entity than Centra or its parent, Manitoba Hydro.

The Board has heard from Centra that it plans to include in its pricing all the costs incurred in developing and offering its alternative products. This may satisfy the concerns of Dr. Van Audenrode and Dr. Cyrenne, who both stated cross-subsidization of the alternative products by the default products or by Manitoba Hydro's electric operations would be economically inefficient and not lead to competitive outcomes.

Dr. Cyrenne suggested that the Competition Bureau would be concerned with the near-monopoly of Centra and Manitoba Hydro, if the two firms were not regulated. The Competition Bureau's concern with such a merger would likely be with the potential for either or both firms to increase prices in the absence of competition. Leaving aside the reality that both Manitoba Hydro and Centra are regulated by the Board, with their rates established on a cost of service basis, the Board notes that Centra's alternative offerings, if approved by the Board, would bring the possibility of reduced margins over commodity prices to consumers.

The Board is concerned that Centra could act in a way to undermine the competitiveness of the retailers. The retailers expressed valid concern that, because they are now required to send copies of customer contracts to Centra, Centra has the advantage of knowing the price, the term, and the expiry date of these contracts. Thus, there is the risk that Centra could make use of such information to promote their own fixed price and term contract.

Accordingly, the Board will expect that forthwith Centra is not to make use of the information provided by retailers to selectively market to consumers whose contracts are nearing expiry. The Board does not, at this time, envision a mechanism to ensure that this activity does not occur, and it looks to Centra for suggestions. Centra should include in the presentation of its initial offerings a procedure or methodology to ensure that sensitive retailer information is kept separate from the marketing group of Centra; this procedure will become part of the framework that the Board envisions will govern all of Centra's alternative offerings.

6.3 Structure of Alternative Offerings

6.3.1 CAC/MSOS's Position

Mr. Stauft stated that Centra should offer one and two-year fixed-price contracts, and fill the void left by retailers' offerings. According to Mr. Stauft, Centra should not be required to offer alternative products through an affiliate. Through an affiliate, Centra's cost to supply gas might be higher in a fully competitive market by way of a return to compensate them for the risks that they would take. The risks would arise in procuring the gas and matching it with gas sales.

Centra should allocate costs incurred in offering alternative products to those alternative products, so that the customers who elect to take those offerings pay the full cost. Dr. Van Audenrode singled out cross-subsidization of the fixed term fixed-price products with the variable products as the most important factor to be concerned about when developing the pricing of the alternative products.

6.3.2 Centra's Position

Centra has asked the Board for a "green light" to develop alternative product offerings that will be offered from within the regulated utility. At this point, Centra has not determined the structure of these products. That is, they have not decided what duration they will be, although it is anticipated that they will be fixed-price contracts, and likely will begin with a single offering with a one or two year duration.

Centra indicated that its gas supply contract with Nexen contemplates the possibility that Centra will offer fixed prices for a fixed term to its customers. In that respect, Centra is able to offer fixed-price contracts to its customers without displacing volumes of Nexen-supplied gas. Centra will undertake negotiations with Nexen to determine the details of these arrangements. Centra proposed that they could be in position to offer an alternative product early in 2008, subject to any required regulatory review.

Centra advised an intention to allocate all costs associated with any new alternative offerings. to those products. Currently, the Manitoba Hydro Integrated Cost Allocation Methodology ensures that costs are properly allocated from Manitoba Hydro to Centra, so that there is no cross-subsidization of gas operations by electric operations or vice versa. The costs for developing alternative offerings will be fully contained within the gas utility, and so there will not be any need for the Board to be concerned with allocations from Manitoba Hydro's electric operations to Centra. Centra will develop a methodology to segregate and allocate costs for the alternative offerings. Centra anticipates that the cost allocations to its offerings will be subject to regulatory scrutiny.

6.3.3 DEML/ESMLP's Position

Retailers did not believe that Centra can adequately segregate the costs of providing alternative products if they are offered within the regulated utility. They maintained that the best way to ensure the costs are segregated is to only allow Centra to offer alternative products through an unregulated affiliate. The affiliate would not be allowed to use the Centra or Manitoba Hydro name, since there is brand recognition and goodwill that has been developed and paid for by ratepayers.

In Alberta, the retailer is Direct Energy and the default supplier Direct Energy Regulated Services (affiliated companies with code of conduct information barriers designed to separate prohibit the sharing of competitive information)

Retailers asserted that there must be a strict code of conduct that governs the interactions between the utility and the affiliate. The sharing of resources and the exchange of customer information is strictly controlled by the code of conduct. Retailers suggest that the Alberta code of conduct governing the relationship between the regulated default supplier and its competitive affiliate should be used as a basis for developing a similar code for the relationship between Centra and an unregulated affiliate.

6.3.4 Board Findings

The Board agrees with CAC/MSOS that any alternative offerings must be priced according to the full cost of providing them. In its filing of an application to offer fixed price and term offerings, Centra is to strictly adhere to the principle of allocating cost based on cost causation with no cross subsidization . Therefore, any and all costs forecast to be incurred as a result of designing, administering, marketing, supplying, and financing alternative offerings to consumers are to be reflected in the modelled pricing.

Therefore, the Board expects Centra to propose revisions to its cost allocation model to for their to-be-proposed alternative offerings. The Board will expect to review this model as part of any proposed service offerings.

Centra's system supply customers and existing retailer customers are to be held harmless with regards to any costs or risks incurred through any proposed alternative offerings.

The Board is of the view that where costs can be identified and segregated, they should be allocated to the customers that cause the costs to be incurred. Balancing this view however is the Board's desire to ensure a level playing field, so that all customers benefit from the choices offered to them in the marketplace.

As articulated in Order 15/98, certain costs should be borne by all customers in order to establish an effective competitive market. Therefore, costs that are clearly incurred specifically for the provision of alternative offerings are to be allocated to those offerings.

The Board accepts the premise advanced by Centra that Centra's alternative offerings, if approved and made, are to be perceived as a customer service initiative, with success not to be measured solely in net results (customer sign-ups or market share). Centra entering the competitive market, if approved, would be as a useful mechanism to provide increased competition, with fixed-price fixed-term products clearly desired by a segment of consumers.

If the Board agrees to Centra entering the fixed price and term market segment, the Board prefers to establish a framework for Centra's entry into the fixed-price and term market segment, rather than requiring Centra to apply with respect to each offering it determines to make. To require Centra to apply with respect to each offering would involve undue regulatory costs and delays, which would not be in the public interest. The framework would best provide Centra with governance and guidance for developing its offerings. If and upon the Board approving the framework, Centra would be able to expediently create offerings to react to customer demand and market conditions.

7. Hearing Costs and Future Implications

7.1 Implications to the Competitive Market

The sixth issue in the Board's list of issues published in the Pre-Hearing Notice was the forecast implications of changes to the competitive gas landscape in Manitoba.

7.1.1 CAC/MSOS's Position

CAC/MSOS took the position that the biggest improvement in the competitive market would result from Centra entering the fixed-price fixed-term market. Centra's offerings would act as a benchmark that consumers could use to judge the offerings of the Retailers. CAC/MSOS expects lower prices for fixed-price fixed-term contracts and additional offerings to become available. If retailers are no longer able to compete and they exit the market, this is an acceptable outcome. Consumers will still obtain the benefits of lower cost fixed-price fixed-term contracts.

7.1.2 Centra's Position

Centra expects the level of competition in the Manitoba market to improve if it is allowed to offer alternative products. By increasing the level of competition, Centra expects prices to decrease for consumers.

If the Board orders Centra to cease hedging, it expects that its default supply offering will have unacceptable levels of rate volatility, which will not be desired by their customers.

7.1.3 DEML/ESMLP's Position

Eliminating restrictions on telesales and internet signups and the requirement for a signed paper contract will reduce retailers' customer acquisition costs, which in turn will reduce the prices of their fixed-price fixed-term contracts. Eliminating constraints on their offerings, such as the volumetric threshold and the variability of nominations will allow them to increase the number of offerings and again lower the costs.

If Centra is allowed to offer fixed-price fixed-term contracts through the regulated utility, retailers stated that they may be forced out of the Manitoba market if they cannot remain competitive. Retailers are committed to offering choice to the gas consumers of Manitoba, and desire to continue their product offerings.

7.1.4 Board Findings

The Board heard forecasts as to the implications of change to the natural gas landscape in Manitoba. Considering the implications of change, the Board considers it worthwhile to enunciate its objectives for making changes; so that future results can be measured against the objectives.

To reiterate, the objectives of establishing a competitive marketplace for gas in Manitoba are to provide the consumer with:

1) meaningful customer choices;

2) a broad range of product offerings; and

3) economic benefits – the opportunity to secure pricing representing fairness and/or cost effective certainty.

For the Board, the gas landscape must, ultimately, provide benefits to consumers. In short, providing and ensuring a competitive landscape, with retailers and brokers joining Centra in providing choices to consumers, is less important than providing consumers with a broad array of gas supply options, all priced effectively off market commodity price levels.

For the Board to approve the entry of Centra into the competitive retail market, Centra's product offerings would have to provide an increase in meaningful customer choice. Customers are currently only served by two retailers, and their products are only long-term. The only contract terms retailers now have in common are a four and a five-year fixed-price contract offering. Although these contracts are not identical in their terms and conditions, currently, this is the only contract term that a consumer can directly compare between the two retailers offerings.

Centra's entry, if it were to be approved, would have to result in meaningful alternatives to the terms now offered by retailers. Centra's suggestion that it may begin an entry into the fixed price and term market with one or one and two year offerings is not satisfactory; such an approach would broaden the term offerings available to consumers but not provide direct competition on term lengths. Centra's entry into the fixed price and term market, if it is to occur, has to include term offerings that would compete directly with term offerings now offered by the retailers to provide customers meaningful choice.

Ahead of Centra's application, and subsequent to changes in gas landscape's design parameters provided by or confirmed by this Order, the Board expects the number of service offerings from retailers to both increase and be more cost effective (given an anticipated reduction in the cost to acquire customers). To facilitate the retailers being able to increase their offerings and reduce the cost of the offering, Centra has temporarily suspended its volumetric threshold. This will allow retailers to sign up much smaller groups of customers without having to reach a high target number of customers. Retailers stated that this had hindered their efforts at developing new products.

This Order also removes many barriers and impediments for retailers. Limitations on marketing and sign-up methods have been reduced or eliminated, and these and the other changes directed and/or intended flowing out of this proceeding will also provide retailers the opportunity to reduce costs and broaden product range; these changes are expected to provide benefits to consumers and make the Board's decision with respect to whether to allow Centra to enter the fixed price and term market segment more difficult, when Centra brings forward the application herein directed to be filed.

Retailers have developed a customer base that, according to the customer survey, is satisfied with the level of service being provided. The level of satisfaction should increase with changes introduced by retailers in response to this Order and steps flowing from it.

Customers should benefit from the changes proposed in this Order; the expectation from this Order could not be anything less, as bringing about beneficial change for the benefit of consumers was the objective for this proceeding.

During the proceeding, it became evident that the working relationship between retailers and Centra had degenerated, perhaps as a result of inadvertent communication problems between the parties. The Board suggests the parties re-establish a positive working relationship for the benefit of the consumers they both serve. Retailers and their customers depend upon Centra, and Centra has an overall responsibility for ensuring a good working relationship with the retailers.

7.2 Costs of the Proceedings

The Board expects Centra to allocate its costs for the eNRG survey against the SGS class, since that was the class surveyed – SGS rates should reflect costs that include the cost of the survey. The cost for this proceeding should be recovered from all small volume customers, since the decisions will affect both the SGS and LGS classes.

To date, the Board has not assessed retailers any share of the costs incurred from Board hearings on natural gas matters. However, retailers are licensed by the Board, they participate in the hearings for commercial purposes, they have secured a significant market share, and they have been fully engaged in previous Board proceedings to further their commercial interests.

That said, the Board will not assess costs against the retailers, as Centra is able to recover its regulatory costs from all customers. Accordingly, retailers and their customers should not be obliged to both meet direct retailer costs and a portion of costs that will otherwise be absorbed by Centra and distributed against all customers.

The proceeding was unduly lengthened and its cost increased by Centra's avoidable actions. First, Centra did not sufficiently involve the retailers and CAC/MSOS throughout the customer survey and focus group research. This resulted in extensive cross-examination of the eNRG witness by retailers' counsel, cross-examination and preparatory time that could have been reduced if retailers and CAC/MSOS had been involved throughout the process.

Secondly, the late filing of the customer survey and focus group reports with the Board, and Centra's initial refusal to respond to certain Information Requests related to this research, led to the filing of a motion by retailers, which also involved considerable costs.

Thirdly, even after agreeing to respond to the majority of the Information Requests, Centra was late in filing the background information requested by retailers until one business day before the hearing commenced. The late filing of this material caused counsel for the retailers and CAC/MSOS to be less prepared than they otherwise would have been. This also contributed to an overly lengthy cross-examination, driving up the overall cost of the proceeding.

The Board expects all parties to future proceedings to keep in mind the effect late filings have on regulatory time and costs.

8. BOARD DIRECTIVES:

BE IT ORDERED THAT:

1. Centra Gas Manitoba Inc. file with the Public Utilities Board on or before June 30, 2008 a comprehensive proposal to enter the fixed price and term Primary Gas contract market, the proposal to include detailed plans to offer 1, 2, 3, 4 and 5-year fixed price and term contracts to all customer classes

2. Centra Gas Manitoba Inc. convene a technical conference to review Centra Gas Manitoba Inc.'s forecasting and daily nomination process, on or before May 1, 2008.

3. Retailers prepare and submit to the Public Utilities Board a comprehensive proposal, following consultation with Centra Gas Manitoba Inc. and Consumers Association of Canada/Manitoba Society of Seniors, towards providing for telesales and internet sign-ups of customers.

4. Upon the Public Utilities Board amending the Code of Conduct with respect to facilitating retailer offerings by means of providing for telesales and internet, and other adjustments that may be deemed necessary by the Board, the retailers may offer contracts by way of internet or telephone as well as door to door.

5. All advertising materials, hand-outs, information sheets, and other customer educational material on the natural gas market be submitted to the Board for approval prior to being distributed to customers, whether distribution is to occur at the door, through direct mail campaigns, or by way of the internet.

6. The monthly billing pursuant to the Equal Monthly Payment Plan be amended upon enrolment, renewal, or expiry of a fixed-price fixed-term contract.

7. Centra Gas Manitoba Inc. include in a future bill, on the direction of the Public Utilities Board, an insert to be prepared and provided by the Board, to announce the changes in the competitive landscape in Manitoba expected to develop as a result of this Order,

The Public Utilities Board

"GRAHAM F. J. LANE, CA"
Chairman

"G. GAUDREAU, CMA"
Secretary

Certified a true copy of
Order No. 160/07 issued by
The Public Utilities Board

Secretary

Appendix A

Appearances

Robert Peters	Counsel for The Manitoba Public Utilities Board
Marla Murphy Brent Czarnecki	Counsel for Centra Gas Manitoba Inc.
Kris Saxburg Ivan Holloway	Counsel for the Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
Eric Hoaken	Counsel for Direct Energy Marketing Limited and Energy Savings (Manitoba) L.P.

Appendix B

Witnesses

Nola Ruzycki	Director of Regulatory Affairs- Energy Savings (Manitoba) L.P.
Karen Melnychuk	General Manager for Manitoba and British Columbia- Direct Energy Marketing Limited
Clinton Roeder	Senior Vice-President of Energy Services for Canada- Direct Energy Marketing Limited
Gary Newcombe	Vice-President of Government and Regulatory Affairs- Direct Energy Marketing Limited
Philippe Cyrenne	Professor of economics at the University of Winnipeg- On behalf of Direct Energy Marketing Limited and Energy Savings (Manitoba) L.P.
Marc Stauft	Expert in gas markets and gas supply- for the Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
Marc Van Audenrode	Expert in economics and economic theory- for the Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
Andrew Enns	Senior vice-president of the eNRG Research Group-on behalf of Centra Gas Manitoba Inc.
Vince Warden,	Vice-President in Finance Administration and Chief Financial Officer-Centra Gas Manitoba Inc.
Howard Stephens	Division Manager of Gas Supply-Centra Gas Manitoba Inc.
Robin Wiens	Division Manager of Rates and Regulatory Affairs- Centra Gas Manitoba Inc.
Greg Barnlund	Manager of Rates and Regulatory Affairs Customer Policy-Centra Gas Manitoba Inc.
Lloyd Kuczek	Division Manager of Consumer Marketing and Sales- Centra Gas Manitoba Inc.

Appendix C

Interveners

Direct Energy Marketing Limited and Energy Savings (Manitoba) L.P.

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

Communications, Energy and Paperworkers Union of Canada Local 681

Coral Energy Canada Inc.

Koch Fertilizer Canada Ltd.

Simplot Canada (II) Limited