

MANITOBA

Order No. 125/08

THE PUBLIC UTILITIES BOARD ACT

August 29, 2008

Before: Graham Lane, CA, Chairman
 Leonard Evans, LLD, Member
 Monica Girouard, CGA, Member

**PROCEDURAL MATTERS IN RESPECT OF CENTRA GAS MANITOBA INC.'S
FIXED-RATE PRIMARY GAS SERVICE APPLICATION**

1. Introduction

This Order addresses procedural issues raised by four Interveners (Consumers Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS); Direct Energy Marketing Limited; Energy Savings (Manitoba) L.P.) in respect of Centra Gas Manitoba Inc.'s (Centra) recent Application to The Public Utilities Board (Board) seeking approval to offer fixed-rate Primary Gas service to consumers.

2. Background

By way of background, currently Centra is restricted to one Primary Gas offering, which is a variable priced offering adjusted every three months. There are also two Retailers, Direct Energy Marketing Ltd. and Energy Savings (Manitoba) Ltd., serving the small volume (including residential) market, offering fixed term contracts.

In the public hearing proceeding that resulted in Board Order 160/07 one of the issues that was examined was:

“the potential for Centra entering the fixed-price fixed-term market in competition with the retailers.”

In its deliberations, 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. As indicated in Order 160/07, 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 these choices consumers receive sufficient information to allow for a rational choice.

The Board's focus was consistent with the design of the natural gas landscape from Order 15/98, wherein 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.

In Order 160/07, the Board concluded that:

“Competition is not a goal in and of itself. The Board is interested in assuring that Manitoba consumers are provided meaningful choices and real economic benefits.”

“The objective is to enhance customer choice from amongst a broad range of competitive priced options.”

Having reviewed the current natural gas landscape, the Board concluded that post Order 15/98 a truly competitive market offering a wide range of contract terms for small volume customers was lacking.

Accordingly, through Order 160/07, the Board supported and directed changes to market rules and design that Retailers maintained have restricted the range of

pricing of their fixed price and term contract offerings, with a corresponding expectation that new and better priced competitive offerings will soon be made available, particularly to small volume consumers.

Additionally, in Order 160/07, the Board directed Centra to file its application seeking approval to enter the fixed price and term market segment.

On July 11, 2008, Centra filed its Application seeking, among other things, Board approval for the Utility to offer various fixed-rate Primary Gas services to all customer classes.

3. Intervener Positions

3.1 CAC/MSOS's Position

On July 31, 2008 the Consumer's Association of Canada (Manitoba) Ltd/Manitoba Society of Seniors (CAC/MSOS) advanced a formal written motion to the Board, seeking an Order compelling Centra to file additional information in support of its Application. The grounds for CAC/MSOS's motion relate the "bare bones" approach that Interveners submit Centra employed with respect to its Application.

3.2 DEML

On August 1, 2008, Direct Energy Marking Limited (DEML) requested the Board decline to review Centra's fixed rate primary gas service application at this time because:

- (i) the application does not meet the minimum requirements or level of specification outlined in Board Order 160/07; and
- (ii) the market conditions envisioned in Order 160/07 have not yet developed – as the new sales channels and revised Code of Conduct for Retailers have yet to be utilized.

3.3 ESMLP

Energy Savings (Manitoba) L.P. (ESMLP) filed its support of both CAC/MSOS' and DEML's positions on August 1, 2008.

4. Centra's Position

In its August 6, 2008 response to all three of the above referenced submissions, Centra maintained its Application fully addressed the filing requirements of Order 160/07, and, therefore, its Application ought to proceed in accordance with the Board's schedule.

Centra notes that the additional information requested by the Interveners ought to properly be requested through the 'Information Request' phase of the proceeding, as

it is in the normal course of any application before the Board. Centra also suggested that, if necessary, a second round of information requests could be permitted.

Centra disagreed with DEML's and ESMLP's requests that the Application not be considered until certain expected market conditions of Order 160/07 had developed. Centra submitted that the expected market conditions are very close to being established and should be available by September 1, 2008. Therefore, Centra urged that the Application be considered concurrently with the finalization of the market conditions, and, if the market conditions have not materialized to the satisfaction of the Board at the time any Order is granted, the Board can delay the effective implementation date of its Order.

5. Response by DEML

DEML's August 11, 2008 response to Centra's August 6, 2008 submission maintains Centra has failed to adequately address the issues raised by Interveners and that the Application should be augmented and re-filed at specified future date.

6. Board Findings

Perhaps not dissimilar to the views of the Interveners, and on the face of Centra's Application, the Board finds that there are many issues and questions that arise with the Application.

However, since Order 160/07 the Board has maintained a watching brief with respect to Primary Gas commodity prices and Retailer offerings, and has also, compared the pricing of current Retailer offerings with the Board's understanding of the pricing that would arise with Centra's intended market entry. Through this hearing process, the Board needs to better understand whether Centra's proposal will further develop the marketplace by providing additional choices at prices that are fair.

Accordingly, rather than send Centra back to attempt to re-vamp its entire Application, the Board will direct Centra to provide as much information as is available to respond to the four requests by CAC/MSOS and the four requests by DEML for additional information.

Specifically and by Friday, September 5, 2008, Centra is to provide to all parties and the Board:

- (1) a further narrative description and supporting documentation of the analysis it performed (as referred to in Tab 4, Page 4 of its Application) that results in

proposed Volumetric Risk Premiums ranging from 3% to 14% of hedged prices;

- (2) particulars of the methodologies considered and used in Centra's studies - with an explanation as to why alternative methodologies were not selected;
- (3) particulars of the statutory and legal framework supporting Centra's proposed methodology for rate setting;
- (4) particulars of the operating costs to support the new rate offerings that Centra forecasts will be incremental to the costs already imbedded in its distribution rate;
- (5) further explanation as to why Centra will not be offering fixed price contracts to large volume customers until some time in the future – together with further explanation as to why two and four year fixed price products are not included in Centra's current Application;
- (6) further details of Centra's business plan for the new offerings – including design, marketing, primary gas supply (physical supply, hedging, self insurance) risk management, administration and pricing;
- (7) further details on Centra's assessment and management of other risks – including inter-month price and weather volatility, forecast methodology, consumer attrition risk, counter party default risk, settlement risk and bad debt risk; and

(8) further details as to the particulars or methodology that is to ensure sensitive Retailer information is kept separate from Centra's employees involved in fixed price offerings by Centra.

The more information Centra provides in response to this Order, and the Interveners' stated concerns, the fewer information requests from all parties should result.

However, and to ensure Interveners are afforded sufficient opportunity to obtain information that will enable them to provide meaningful submissions to the Board, there will be two rounds of information requests permitted. First round information requests on behalf of the Board are to be filed and circulated to all parties as soon as possible. Interveners will have additional time to file their first round of information requests after reviewing Centra's additional information, and after reviewing the information requests filed on behalf of the Board.

The second round of information requests will allow Interveners and the Board the opportunity to seek clarifications for additional detail.

While no Intervener has requested the opportunity to file evidence, the Board will welcome detailed written submissions from all parties after information requests have been answered.

The Board will not postpone consideration of Centra's Application until after Retailers have new authorized sales channels fully operational. Rather, Retailers can include in their final submissions information to the Board as to the results and timing of any innovative and lower-cost product offerings. The Board will consider what impact, if any, evolving market conditions should have on the effective date of any resulting Board directives and Orders flowing from Centra's Application.

Furthermore, the Board expects and will require Centra to file a General Rate Application, even if there are no proposed distribution rate changes, for consideration in the spring of 2009. This will provide both Interveners and the Board with a further opportunity to monitor the impacts of both the new sales channels and the results of the market conditions envisioned in Order 160/07.

Finally, DEML's indication that Centra has yet to respond to questions flowing from the 'Forecasting and Nominating Technical Conference' needs to be addressed.

In addition to the information that this Order directs Centra to provide, there should also be an indication from Centra as to when DEML's questions will be answered. It will be for DEML to determine whether such questions (and any resulting answers) are publicly filed through the information request process.

IT IS THEREFORE ORDERED THAT:

1. Centra provide further information as herein directed;
2. The hearing process for Centra's Application be revised to include two rounds of information requests, in accordance with the revised timetable attached to this Order.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, C.A."

Chairman

"G. A. GAUDREAU, C.M.A."

Secretary

**Certified a true copy of Order No.
125/08 issued by THE PUBLIC
UTILITIES BOARD**

Secretary

**REVISED TIMETABLE FOR
CENTRA'S FIXED-PRICE PRIMARY GAS SERVICE APPLICATION**

ON OR BEFORE 3:00 P.M.

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| 1. Centra to provide additional information as directed in this Order. | September 5, 2008 |
| 2. First round of information requests by CAC/MSOS, DEML, and ESMLP to be submitted to Centra. | September 12, 2008 |
| 3. Centra's responses to first round information requests. | October 3, 2008 |
| 4. Second round information requests by all parties to be submitted to Centra. | October 10, 2008 |
| 5. Centra's response to second round information requests. | October 24, 2008 |
| 6. Written submissions by Interveners to be filed with the Board and all Parties. | November 5, 2008 |
| 7. Centra's written reply submissions to be filed with the Board and all Parties. | November 14, 2008 |