M A N I T O B A	**Order No. 128/09**
THE PUBLIC UTILITIES BOARD ACT	**September 16, 2009**

BEFORE: Graham Lane, CA, Chairman
Len Evans, LL.D., Member
Monica Girouard, Member

CENTRA GAS MANITOBA INC. 2009/10 AND 2010/11 GENERAL RATE APPLICATION AND OTHER MATTERS

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Executive Summary

This Order is the second Public Utilities Board (Board or PUB) Order to arise out of Centra Gas Manitoba Inc.'s (Centra) General Rate Application (GRA) the first Order (116/09) was issued July 27, 2009.

Rates

There will be no further revisions to Centra's Supplementary Gas, Transportation (to Manitoba) or Distribution rates, or to the Basic Monthly Charge for the remainder of 2009. These rates, collectively referred to as non-Primary gas rates, account for approximately 32% of the average residential consumers' annual bill.

As well, PUB anticipates that Primary gas rate changes to take effect November 1, 2009, pursuant to the normal quarterly review, will provide for modest overall annualized savings for 'system gas' customers (system gas is natural gas purchased from and priced quarterly by Centra rather than natural gas purchased from either Centra or a private marketer by way of a contract that fixed the price for a term of from 1 to 5 years).

And, as to 2010, the only change to non-Primary gas rates for Centra's SGS and LGS customer classes (the former include most residential and commercial customers, the latter primarily commercial, institutional and industrial customers) to arise out of the recent GRA hearing is to occur on May 1, 2010, when the basic monthly charges (BMC) for these classes are to increase.

In fact, PUB currently anticipates that natural gas commodity prices will (in the absence of an unexpected restriction on supply) remain relatively low through to at least May 1, 2010 and, as a result, the annual bill impact on SGS and LGS class customers from the increases in BMCs to take place on May 1, 2010, with a small increase with respect to the Primary gas overhead rate for system gas customers, may be offset by decreases in overall Primary gas rates.

Rates for customers in higher volume classes (High Volume Firm, Mainline, Interruptible, Power Station and Special Contract classes) will, likewise, only change on May 1, 2010, and with those changes being in accordance with the results of Centra's previously approved cost allocation model and rate design methodology.

In addition, Centra offers fixed term and rate Primary gas contracts to consumers, in competition with a private marketer. Included in the costs that are represented in Centra's fixed rate contracts is a Program Cost Rate, which accounts for the Utility's overhead and administrative costs. PUB now directs a small reduction to the Program Cost Rate to $0.0262/m^3, from $0.0277/m^3, representing a small component of the overall costs reflected in Centra's fixed rate contracts.

Non-rate Matters

The GRA hearing addressed numerous and complex issues, including and beyond rate setting, one of which was Centra's Lower-Income Energy Efficiency Program (LIEEP) and a component of that program, the Furnace Replacement Program (FRP). By this Order, PUB continues the funding of LIEEP and FRP on an ongoing basis, through rates, and urges the Utility to be more aggressive in marketing the FRP to lower-income households.

And, with respect to Centra's new Fixed Rate Offerings, while the Board commends Centra for the commencement of this service, the Board seeks a more aggressive approach so as to provide increased fixed price and term Primary gas contract choices to natural gas consumers.

To-date, Centra has made only two offerings: an initial offering in February 2009 and a second one more recently in August 2009. PUB envisions Centra's fixed term and price offerings being released on no less than a bi-monthly basis, such that natural gas consumers have another option to Centra's ongoing "system gas" offering (with rates set quarterly) and the fixed rate contracts of the private marketer.

Until Centra regularly offers 1, 3 and 5 year fixed price Primary gas contracts to its customers, PUB will not direct an end to Centra's hedging for the Utility's "system gas" offering. Recently, Centra's hedging has added significant costs to the overall cost and rates of "system" Primary gas, leading to Centra reducing its hedging to 50%, rather than 100%, of eligible volumes (a move PUB supports, despite it representing a "market view").

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

1.0 Introduction

Centra's components of its rate schedule that are not related to the purchase and transportation of natural gas to Manitoba (non-gas rates) are established through a PUB public hearing process supported by Centra's forecasts of its expenses and revenues for the two years in the immediate future (denoted as test years).

Centra filed its application on January 20, 2009, and the public hearing that followed also included matters that more usually are addressed at a separate and annual Cost of Gas proceeding (the Cost of Gas proceeding deals with Centra's cost of purchasing and transporting Primary and Supplemental supplies of natural gas to Manitoba, as well as the implications for costs and rates of Centra's hedging program).

The GRA heard by PUB was preceded by a pre-hearing conference in February 2009. The hearing itself began on June 2, 2009 and concluded on June 26, 2009. This is the second PUB Order to arise out of that proceeding; the first was issued July 27, 2009 as Board Order 116/09.

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

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

And, as previously indicated, the GRA proceeding addressed numerous and complex issues related to every rate within Centra's rate schedule, and its result includes both Board Order 116/09 and this Order.

2.0 Centra's Rates

Centra's rates consist of five components: Primary Gas (supplied by Centra to "system gas" customers, other customers are supplied by marketers or Centra's newly introduced fixed rate supply), Supplemental Gas, Transportation (to Centra), Distribution (to Customers), and a Basic Monthly Charge (BMC).

Centra sets (with PUB approval) different rates for the various customer classes. The rates charged are based on the cost to serve that class. The different rate classes are Small General Service (SGS), Large General Service (LGS), High Volume Firm (HVF), Mainline (ML), Interruptible (IT), Power Station (PS), and Special Contract (SC).

Centra has approximately 265,000 customers, with 99.9% being in the SGS and LGS classes; only approximately 150 customers are in the remaining and (much) higher volume classes.

The Primary Gas component of Centra's rates seeks to recover the cost of the Centra's natural gas supply that is received from Western Canadian sources. For 2009/10 and 2010/11, with normal weather, Primary Gas supply is expected to represent 98% of Centra's overall natural gas supply for its firm-service customers, and 70% of the overall supply for interruptible service customers (the latter being few in number).

Supplemental Gas rates recover Centra's cost of natural gas purchases from American sources, and these supplementary sources are occasionally required to meet particularly cold Manitoba winter weather conditions. Supplemental gas is generally expected to make up only 2% of the overall natural gas supply for Centra's firm-service customers, but 30% of the overall supply for its interruptible service customers.

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

The Distribution (to Customer) component of rates recovers the costs associated with operating Centra, and these costs include the costs associated with the transportation and distribution pipeline network within Manitoba, and, as well, the cost related to Unaccounted for Gas (UFG) – that being related to leaks and meter errors. A portion of operating costs, including meter reading and customer billing, are recovered in the BMC. Presently, the BMC for the SGS and LGS classes recovers only a portion of Centra's fixed costs incurred in serving those customers.

Primary Gas rates are set on a quarterly basis in accordance with an established Rate Setting Methodology approved by PUB. The approvals are given on an interim basis until such time as they are reviewed in a GRA or a Cost of Gas proceeding, at which time PUB finalizes them.

At the recent hearing, Centra sought final approval of all of its natural gas costs for 2007/08 and also for a 'stub' period of April 1 to October 31, 2008, inclusive of costs approved through interim Primary Gas Orders since the 2007/08 and 2008/09 GRA proceeding. Centra also sought approval of revised Supplemental Gas, Transportation (to Centra), and Distribution (to Customers) rates.

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

Previously, and over the past two years, Centra's BMC for the SGS class was increased to $13 per month (Order 99/07), and while Centra did not propose any further changes to BMC levels in its recent GRA, by this Order PUB varies the Utility's application and establishes further increases to BMC levels, the increases to take effect May 1, 2010.

Billed rates charged to Centra's customers are made up of two components: base rates and rate riders. Each of the Primary Gas, Transportation (to Centra), and Distribution (to Customer) rates has both a base rate and a rate rider component. Base rates reflect an estimate of future gas costs and non-gas costs, and rate riders adjust for differences that arose between previous gas cost estimates and actual gas costs incurred. Rate riders retroactively recover the differences between estimated and actual gas costs.

The annual cost of gas (commodity, transportation to Manitoba and hedging) is by far the most significant component of rates to "system gas" customers, and is expected to represent approximately 68% of Centra's revenue requirement for 2009/10. The 'cost recovery' approach now in place involves Centra passing on to its system gas customers its cost of gas, without any mark-up or profit. As to Centra's new fixed price and term contract offerings, these offerings are also intended to result in no more than Centra's costs being recovered (although a 5% 'margin" is built in to protect against the risk of Centra experiencing losses on these offerings).

To ensure that no more than the exact cost of gas is passed on to system gas customers, Centra maintains deferral accounts (Purchased Gas Variance Accounts, PGVA. These accounts record the difference between the cost of gas embedded in sales rates and Centra's actual incurred cost.

The balances in the PGVAs, i.e. the differences between forecasted and actual cost, are periodically either refunded to, or collected from, customers by way of temporary rate riders. The rate riders either decrease (refund) or add to (collect) the base sales rates, and form a separate and identified part of the billed rates to customers. The Primary Gas rate rider is set quarterly as part of the Board-approved Quarterly Rate Setting Methodology (RSM).

Rate riders established by prior Orders had previously expired on July 31, 2008, and so non-Primary base rates were equal to non-Primary billed rates. In its application, Centra sought the disposition of the balances in its non-Primary PGVAs based on the balances at October 31, 2008, plus carrying costs (interest) to July 31, 2009.

3.0 Application

Overview

Centra filed its 2009/2010 and 2010/11 General Rate Application on January 20, 2009, and subsequently updated its application on several occasions.

In its first update, filed May 5, 2009, Centra reduced its forecast of Cost of Gas from its initial forecast of $451 million to $318.8 million for 2009/10; and from $463.7 million to $331.4 million for 2010/11, reflecting decreases in the projected commodity price of natural gas.

Centra later filed additional revisions, on May 29, June 1, and June 9. These updates amended the applied-for Depreciation & Amortization expense, the Capital and Other Taxes expense, the Finance Expense and the Net Income. These amendments resulted in a newly sought Revenue Requirement for each test year ($464 million and $487 million, for 2009/10 and 2010/11 respectively, of which non-gas costs and net income totalled $145.2 million and $155.4 million, respectively).

Centra originally sought approval of:

- A 1% increase in overall revenue requirement, effective May 1st, 2009, sufficient to generate additional revenue of approximately $6.5 million for 2009/10; and
- A further increase of 1% of overall revenue requirement, effective May 1, 2010, sufficient to generate additional revenue of approximately $5.9 million for 2010/11.

The initially sought increases were subsequently amended to reflect the Utility's projected reduced revenue requirements. As a result of the amendments, the additional revenue sought in 2009/10 dropped, first to $5.5 million (with the May 5 update), and then to $1.69 million (with the May 29 update).

Centra's revised application sought to recover the additional revenue required for 2009/10 over two months in its 2009/10 fiscal year (February and March 2010), by its proposed implementation of a 1% rate increase.

For 2010/11, Centra reduced its projected additional revenue requirement to $5.7 million with the May 29 update - the additional revenue to be recovered by implementing an approximate 1% rate increase beginning May 1, 2010 (on top of the 1% increase from February 1, 2010).

The revised additional revenue sought for 2009/10 of $1.69 million was comprised of non-gas costs and projected Net Income increases aggregating $2.21 million, offset by a load forecast change expected to generate an additional $0.5 million of revenue at existing rates. A major factor in the non-gas cost increase was a projected increase in amortization expense, this arising out of Centra's change in the amortization period for DSM expenditures (from 15 years to 5 years).

For 2010/11, Centra indicated additional non-gas costs of $12.2 million, offset by an expected $0.5 million in additional revenue from increased customer consumption, resulting in Centra seeking additional revenue (compared to the revenue generated by existing rates) of $11.8 million for 2010/11. Of the $11.8 million, $6.1 million would have been incorporated into rates as of 2009/10, requiring new rates in 2010/11 to recover an additional $5.7 million.

Centra's proposed increases in revenue requirement included provision for net incomes of $2.9 million in 2009/10 and $2.8 million in 2010/11, close to the $3.0 million level of annual Net Income approved by the Board in the two previous GRA proceedings.

Centra forecast that, assuming the requested rate changes were implemented, the estimated balance in its retained earnings as of March 31, 2011 would be approximately $42.2 million (compared to the estimated March 31, 2009 balance of $36.5 million).

In addition to the rate increases, Centra sought:

a) Final approval of gas costs for 2007/08 of approximately $400.6 million;

b) Final approval of gas costs for a stub period in 2008 from April to October of approximately $123.7 million;

c) Final approval of balances and collection from customers of approximately $9.4 million of non-primary gas PGVA and other gas cost deferral accounts, as at October 31st, 2008 with carrying costs to July 31st, 2009;

d) Approval of a decrease in non-Primary gas costs of $6.2 million for the 2008/2009 gas year;

e) Approval of Interim Orders 101/07, 140/07, 06/08, 50/08, 115/08, 147/08, 07/09, and 49/09, related to the August 1st, 2007 through May 1, 2009 quarterly Primary gas applications, respectively;

f) Approval of changes to Centra's Terms and Conditions of Service including company labour rates for chargeable services, modifications to the gas loan mechanism, new requirements for Interruptible Service class customers, and new requirements for natural gas marketers for submission of new customer sign-up lists;

g) Approval of interim orders 174/07, 175/07, 176/07, and 52/08 relating to franchise agreement and crossing agreement renewals for the City of Brandon, the Village of St. Claude, the Rural Municipality of Grey, and the Rural Municipality of Russell; and

h) Approval of changes to the Terms and Conditions of Service and final approval of interim Order 102/08 relating to Service Disconnection and Reconnection Policies and Procedures.

In Order 116/09, PUB approved Centra’s application for actual gas costs for 2007/08 and for the 2008 stub period. In that Order, the Board also approved:

a) a decrease in Centra's forecast for gas costs for the 2008/09 gas year,

b) the disposition of the balances in Centra's gas cost deferral accounts,

c) an adjustment to the carrying costs on the deferral balances, and

d) final approval for the rates established by previous interim Primary gas orders.

Order 116/09 also approved revised Primary gas rates that took effect August 1, 2009, pursuant to the Board's quarterly RSM.

The Board's major findings and a review of major issues addressed in the proceeding, follows.

Board Findings – Overview

Rate Direction

No revisions to Centra's natural gas rates are to occur for the remainder of 2009/10, other than those pursuant to the quarterly Primary gas rate reviews as of November 1, 2009 and February 1, 2010 (which will reflect only costs related to natural gas purchase and transportation costs, including any impact on gas costs as a result of Centra's hedging program and allocations to the Primary gas overhead rate), as well as to the Program Cost Rate for Centra's Fixed Rate Offerings.

And in 2010/11, the only change to non-Primary gas rates for small volume consumers, other than a change pursuant to a previous Board Order, is to occur on May 1, 2010, when the Basic Monthly Charge (BMC) for the SGS and LGS classes are to increase. For larger volume consumers, non-Primary gas rates will change on May 1, 2010 according to the allocation of revenue to the larger volume rate classes and the resulting rate design.

While the revisions adopted by PUB to Centra's non-Primary gas rate application may negatively affect Centra's aggregate projected Net Income for the two fiscal years ending March 31, 2011, the Board anticipates that any overall net negative impact will be modest and be 'easily' accommodated by the 'excess' returns (actual Net Income results exceeded projected Net

Income as established by PUB) enjoyed by Centra in 2007/08 and 2008/09, those largely due to colder weather than normal experienced during the winter months of both fiscal years.

PUB notes that in the Utility's updates to its original application, Centra sought to benefit its customers by delaying non-Primary gas rate increases from their originally sought August 1, 2009 and May 1, 2010 dates to February 1 and May 1, 2010. This Order reflects and expands on that general desire, modestly increasing the level of relief sought, which PUB deems to be desirable during this period of general economic difficulty.

Amended Revenue Requirement

The following revisions are to be incorporated within Centra's projected revenue requirement and cost projections for 2009/10 and 2010/11:

a) Finance Expense is adjusted by utilizing short-term interest rate forecasts of 0.5% in 2009/10 and 1.0% in 2010/11, and long-term interest rate forecasts of 4.0% in 2009/10 and 2010/11;

b) $3.8 million is to be included in the revenue requirement for continuing the Furnace Replacement Program for low-income customers, and is to be funded by the Small General Service class;

c) The $5 million accounting provision for the forecast implications of the approaching adoption of International Financial Reporting Standards (IFRS) and other risks in the second test year is denied;

d) Amortization of DSM expenditures is to be over a ten-year timeframe (consistent with the approach adopted by Centra's parent company, MH, on a prospective basis; and

e) Recovery of the majority of the revenue deficiency allocated to the SGS and LGS classes is to be by way of increases to the Basic Monthly Charge assessed customers within those classes, which is to be set at $14 and $77 per month as of May 2010, for the SGS and LGS classes, respectively.

PUB directs Centra to revise its forecast for both short and long-term interest rates for the two test years to bring them more in line with the market forecasts provided by the Consumers' Association of Canada (Manitoba) and Manitoba Society of Seniors (CAC/MSOS), which intervened in the proceeding.

PUB disallows the Utility's $5 million accounting provision for the second test year (that related to the possible implications of the approaching adoption of International Financial Reporting Standards, IFRS, and other 'financial' risks). While PUB expects IFRS and other financial risks may well materialize and depress Centra's net income, the Board is not prepared to increase consumer rates other than for 'known' factors during difficult economic times.

Basic Monthly Charge

Centra did not apply to change the BMC for its SGS and LGS class customers. In Order 99/07, the Board ordered increases to the BMC for the SGS class (from $10 to $12 in the first test year and to $13 in the second test year). For the 2009/10 and 2010/11 test years, Centra projected that the BMC for the SGS and LGS classes, at then-allowed levels, only collects 47% of the fixed customer-related costs, such as meter reading and billing.

The Board's mandate is to set equitable, fair, and non-discriminatory rates. One of the tests of whether rates are equitable and fair is whether the rates recover the costs incurred in providing the service. The BMC for the SGS and LGS classes does not recover all of the fixed customer costs incurred by Centra in providing service to the customers in those classes, and the remainder of the costs not recovered through the BMC is recovered volumetrically (through the distribution rates charged to customers).

As a result, consumers that consume more gas than the class average subsidize those consumers that consume less than the class average. Stated a different way, the revenues earned from the larger consumers are greater than the costs incurred to serve them, while revenues earned from small consumers are less than the cost incurred to serve them.

With a greater percentage of the necessary revenue recovered by way of the BMC, Centra should experience smaller swings in its revenue as a result of deviations from normal weather, and this would lessen the large weather-induced swings in its Net Income that Centra has experienced over the past number of years.

As well, as Centra continues to expand its DSM efforts concurrent with consumers and commercial customers implementing measures to improve their energy efficiency, average demand is affected, making the BMC of increasing importance to the fair recovery of Centra's costs.

When the Board last increased the BMC, one of the reasons was to reduce this unfair subsidization of those consumers that use gas as a luxury only, such as for fireplaces, swimming pools and barbecues, by those customers who rely on gas for heating, the latter a necessity of life in Manitoba. In this proceeding, Centra confirmed that 3,700 residential customers do not use gas for heating.

As well, PUB heard evidence that Centra did not experience widespread negative customer reaction to the increases in the BMC arising from the 2007/08 & 2008/09 GRA. In fact, Centra's witnesses stated that Centra had not received any negative feedback to the increases to the BMC.

Accordingly, considering demand and fairness criteria to be of particular importance, PUB will meet Centra's additional revenue requirements through March 31, 2011 by way of increases to the BMC for the SGS and LGS customer classes, rather than through increases to volumetric-based rates.

In doing so, PUB acknowledges that higher BMC levels do not further customer motivation to reduce consumption, and that increases to volumetric charges rather than BMC is more effective from an "environmental" perspective. Yet, a balance has to be sought, and PUB concludes that at this particular time and circumstances increases to the BMC are the appropriate means to recover required additional revenue for the Utility.

This may not be the case at the next GRA proceeding.

Demand Side Management (Energy Efficiency) and Assistance to Lower-Income Households

While PUB remains encouraged by Centra's commitment to DSM and recognizes that the proportion of revenue that Centra spends on DSM is higher than other Canadian gas utilities, and both acknowledges and congratulates the utility for its actions, which seek to reduce natural gas consumption, annual bills and greenhouse gas (GHG) emissions, the Board disagrees with Centra's proposal to cease funding the FRP as of Centra's 2010/11 fiscal year. Accordingly, PUB will direct the continuation of an annual provision of revenue through rates and the expenditure of those funds, with accrued interest on unspent balances, on the FRP for lower-income households.

PUB holds that continued rate support for LIEEP (Lower-Income Energy Efficiency Program) and FRP is vital, as these programs provide for the accomplishment of energy efficiency for lower-income households through the replacement of standard efficiency furnaces with high efficiency furnaces, insulation upgrades and other measures. Lower-income consumers require a dedicated rate-supported program for implementing energy efficiency measures -- otherwise they generally lack the financial means to implement measures Centra offers and supports for other customers through its parent's (Manitoba Hydro) *Power Smart* programming.

PUB directed the implementation of the FRP component of LIEEP by Order 99/07, and provided through rates funding of approximately $6.1 million for Centra's 2007/08 and 2008/09 fiscal years. According to Centra, the $6.1 million is sufficient to replace at least 1,900 standard efficiency furnaces and boilers with high-efficiency units. Unfortunately, there are between 8,000 and 12,000 standard efficiency furnaces in lower-income dwellings that, though eligible for FRP, and with the current program and pace of delivery the "lion's share" of these households will not be assisted by the funding provided to the end of fiscal 2008/09, that is unless funding of the program is continued, which is assured by this Order.

If the heating bills of lower-income households and GHG emissions are to be reduced, objectives of the Province, MH, and PUB, conventional natural gas furnaces (with efficiency ratios in the order of 60% or lower) need to be replaced with high efficiency furnaces (with efficiency ratios greater than 90%). Many if not most of these conventional furnaces are well past their expected service lives and, as of January 1, 2010, may, by provincial law, be only replaced by high-efficiency furnaces. As well, other weatherization measures often need to be implemented in lower-income residences, and MH has programs towards that end.

In short, to-date Centra has spent only a fraction of the $6.1 million provided through rates to the end of 2008/09 for the FRP. Accordingly, and given evident continuing need, PUB will direct Centra to continue to fund, through SGS rates, the FRP in the amount of $3.8 million per year.

As well, Centra should more actively market the FRP, so that consumer awareness and interest are increased, so as to increase the pace of the deployment of the program. With the current increased federal incentives for the installation of high efficiency furnaces expected to end March 1, 2010, and Centra's Power Smart incentive ending November 1, 2009, it is imperative that Centra move more quickly.

Wide scale and much more intense advertising and marketing, direct to Manitoba households, are required, and time is clearly of the essence.

The Board is of the view that if Centra finds itself, due to other priorities, to be unable to more actively market the FRP and LIEEP, then an outside agency should be established and dedicated to this endeavour. Such a separate energy efficiency agency would have within its mandate the marketing and delivery of Centra's lower-income energy efficiency programs.

The Board requests Centra's comments on this proposal.

Fixed Rate Offerings (Primary gas) and Hedging

With respect to Centra's new Fixed Rate Offerings, while the Board commends Centra for its initial program offering and more recent subsequent second offering, the Board is convinced that a more or less continuous stream of 1 to 5 year offerings for customers is required, and that Centra's attention to this matter should be more 'robust'.

In short, PUB is not satisfied with the pace of the implementation of the program. In Order 156/08, the Board directed Centra to offer contracts with terms of 1 through 5 years to ensure customers have adequate choices. Other than Centra, only one retailer remains offering residential fixed price and term Primary gas contracts.

And, until Centra is offering 1 to 5 year fixed price and term Primary gas contracts to its customers (residential, institutional, commercial and industrial), PUB will not direct an end to Centra's hedging program for its quarterly set 'system gas' offering.

Centra's hedging, which has generally been done (at least until recently) on a "mechanistic" basis (both with respect to the volumes hedged and the manner and timing of the placement of hedges) has recently significantly added to the overall cost of gas and resulted in much higher Primary gas rates for system gas customers than otherwise would have and would be the case. (Recently, Centra has reduced the level of its hedging to 50% of eligible volumes, and while this represents the 'taking of a market view' previously generally shunned by Centra, the Board supports the measure given market conditions and Centra's new fixed price and term Primary gas contract offerings.)

At a special hearing previously held by PUB with respect to fixed price and term Primary gas offerings, the Board reviewed a customer survey conducted on behalf of Centra that indicated in excess of half of Centra's residential customers preferred longer-term price certainty than that now provided through the quarterly system gas offering.

This desire for longer-term price certainty supports the continuation of Centra's hedging program for the quarterly 'system gas' offering until such time as customers are assured of the ability to enter into a fixed price and term contract for Primary gas with Centra.

The Board directs Centra to prepare and release follow-up offerings as soon as possible, and to continually update and offer new programs to ensure consumers have fixed price Primary gas supply options.

Allocation of Costs

With respect to Centra's projections for Operating and Administration (O&A) expenses for the two test years, PUB finds the Utility's projections to be reasonable.

That said, the Board issued a directive in Order 99/07 for Centra to prepare terms of reference for a study to review the methodology that MH employs to allocate its indirect costs to Centra. At the recent hearing, Centra requested that this directive be deferred until such time as the implications of IFRS are known. While the Board accepts Centra's request, it will direct that the terms of reference for this study be prepared and filed with PUB by March 31, 2010.

In doing so, PUB also accepts that there is continued uncertainty related to the financial impact of IFRS, and that the implications for Centra will likely not be known until February 2010. Accordingly, PUB plans to review the financial implications of IFRS for Centra and its customers shortly thereafter.

Also with respect to accounting and allocation matters, the Board notes that MH recently finished the major components of the construction of a new corporate head office, at a cost including furnishings of approximately $300 million. Centra has relocated its administrative offices from 444 St. Mary Avenue to 360 Portage Avenue. The higher per square foot cost of the new building, $44 per square foot as compared to Centra's former leased space costs, estimated at $29 per square foot, have not been passed on to Centra or reflected in Centra's rates – this in accordance with PUB's prior direction in Order 99/07.

Construction of MH's new head office building was a condition of the Utility's purchase of Winnipeg Hydro, which was unrelated to the operations of Centra. A condition of PUB's approval of MH's acquisition of Centra was that Centra's customers would not be negatively impacted by the change in ownership.

That said, PUB recognizes that much has changed since the acquisition ten years ago, and that operating and financial synergies have benefited Centra ratepayers, and is prepared to review its position on the matter at the next GRA proceeding.

Amortization of DSM

Since the last GRA, Centra shortened the period over which it amortizes its DSM expenditures from 15 years to 5 years. While PUB appreciates that Centra shortened its amortization period at the urging of PUB, given the implications for rates (higher as the amortization period falls) and MH's adoption of a ten-year DSM amortization period for electricity DSM, the Board directs Centra to use a 10-year period for amortizing its DSM expenditures (with the exception of the costs related to the FRP, which are to continue to be expensed in the year incurred against the funding provided for that purpose).

Capital Structure

The financial strength of Centra's balance sheet improved significantly in 2007/08 and 2008/09, largely, as indicated previously, because of colder than normal weather. Centra's Net Income in each of the past two years was considerably in excess of its projected weather-normalized Net Income (by an aggregate of approximately $9 million), and the excess flowed into its retained earnings, allowing the Utility's debt to equity ratio to improve to 69:31 (69% debt, 31% equity) from 70:30 (the latter ratio being in place at the time of the last GRA).

That said, the implications arising from IFRS could materially affect Centra's retained earnings and its capital structure, and the Board will monitor and review this at the next GRA.

Cost of Gas

Centra applied for approval of its Cost of Gas at the recent proceeding: for 2007/08, $400.6 million, and, for a stub period of April 1, 2008 to October 31, 2008, $127.7 million. Centra also applied for approval of the disposition of the balances including carrying costs in its gas cost deferral accounts, and approval for its forecast of gas costs for the 2008/09 gas year. PUB approved these requests in Order 116/09.

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

CAC/MSOS' Motion

During the interrogatory phase of the GRA proceeding, CAC/MSOS brought forward a motion to compel Centra to 'fully' respond to certain information requests CAC/MSOS had put to it. CAC/MSOS charged that Centra had breached Rule 15(1) (a) of The Public Utilities Board Rules of Practice and Procedure in that it had not provided a full and adequate response.

Centra refuted the position that it was unresponsive to CAC/MSOS' information requests, and requested that the motion be dismissed, stating that the second round of information requests was the appropriate venue to seek additional information and that Centra had already clarified its position that it would not provide historical information prior to 2003/04.

The Board adjudicated on the merits of CAC/MSOS' motion, and, in Order 74/09 PUB dismissed the motion.

Demand Side Management

DSM refers to actions intended to reduce the quantity of energy consumed by end users, and/or amend the patterns of use.

In the case of Centra, its DSM program, integrated within its parent company's Power Smart programming, is designed to reduce the use of natural gas through both the education of its customers and by incentives to those customers to both use technology and make efficiency improvements. Reductions in natural gas use coincide with reductions in the emission of greenhouse gases (GHG) and reduced annual bills to customers.

Centra's 2008 Power Smart plan (Plan) is an integrated DSM plan targeting economic energy efficient opportunities for both natural gas and electricity. The Plan is an update and a refinement to Centra's 2007 Power Smart Plan, and targets the achievement of natural gas volume reductions of 154 million cubic metres by 2023/24 (representative of global greenhouse gas emission reductions of 294,000 tonnes). The projected cumulative cost (from 2008/09 to 2023/24) to achieve these reductions is $138 million.

Previously, Centra's DSM program focused exclusively on residential and commercial customers, but commencing in 2007/08, the Power Smart program broadened its focus to include investments in programs for industrial customers -- industrial programs approximate 1% of DSM program spending.

Centra advised that while it seeks to implement economic energy efficiency opportunities for both residential and commercial customers, there are more economically beneficial energy efficiency opportunities with commercial customers, and that this explains why the Utility offers more commercial DSM programs than residential programs.

Compared with the 2006 Power Smart Plan, reviewed by the Board at Centra's 2007/08 & 2008/09 GRA proceeding, the 2008 Power Smart Plan calls for increased spending so as to achieve larger reductions in natural gas use and GHG emissions.

The 2006 Power Smart Plan targeted reductions in gas use to 2017/18, while the 2008 Power Smart Plan targets reductions to 2023/24. For the period 2001/02 through to 2017/18, the 2008 Power Smart Plan has targeted increased reductions in natural gas use of 48.59 million cubic metres. Extended to 2023/24, the revised plan targets an additional 85.47 million cubic metres of gas savings.

Centra employs three tests determining which DSM activities it will invest in. The total resource cost (TRC) test compares the sum of the benefits expected of a particular activity or program against the total expected costs of the program. Centra typically requires a TRC ratio of greater than 1 before proceeding, and Centra advised that the overall TRC for its current natural gas DSM programs is 1.8.

The rate impact measure (RIM) test measures the impact each DSM program is expected to have on consumer rates. To have no impact on rates, the RIM of a project must be higher than 1; Centra advised that its natural gas DSM programs have RIM values of less than 1, with an overall average of 0.8 with respect to the programs of the 2008 Power Smart Plan.

Centra also projects the 'levelized' utility cost of each program, which is the total cost to Centra divided by the projected gas savings, to reflect the total cost to Centra for achieving the energy savings. Centra advised that the projected overall levelized utility cost of its natural gas DSM programs is 7.9¢ per cubic metre. While Centra does not have a specific target for levelized utility cost, it advised that less expensive programs are prioritized and the levelized cost of projects that are proceeded with are expected to be less than the cost of the gas being saved.

Centra reported its levels of DSM funding in relation to its total revenues, and compared its experience with other Canadian gas utilities. In 2007/08, Centra's DSM expenditures were 1.9% of its revenue, while other Canadian gas utilities expended 0.2% to 1% of total revenue on DSM.

Centra also expends a greater percentage of its DSM budget on lower-income programs compared to other Canadian gas utilities. Including spending drawn from the Affordable Energy Fund (AEF), Centra spent 9% of its DSM budget on lower-income measures and expects this to increase to 38% and 40% in the test years.

Not including the AEF, Centra reported spending 5% of its DSM budget on lower-income measures, with this ratio expected to increase to 22% and 24% in the test years. PUB understands that other Canadian utilities plan to spend less than 8% of their DSM budget on lower-income measures.

Board Finding - DSM

Centra's DSM programs, administered through MH's integrated Power Smart program, provide benefits to customers and the environment, and the Board is encouraged that the Power Smart program is now available to Centra's industrial classes.

The Board supports Centra's commitment to DSM, even though, as a gas utility, Centra does not realize any financial benefit from DSM (which serve to reduce customer bills and GHG emissions), other than reducing bad debt losses and delinquencies in the case of lower-income customers (who, in the absence of energy efficiency, may not have been able to pay their full bills).

The Board recognizes that the proportion of revenue that Centra spends on DSM is higher than other Canadian gas utilities. From a customer's perspective, Centra's DSM spending is "paid for" through rates, which means that customers' rates are higher than if Centra did not fund any

DSM programs. Counteracting this is that energy efficiency gains reduce consumption, which drives average bills lower, notwithstanding higher rates (customers pay bills, not rates).

The Board recommends that Centra continue to be cognizant of the costs for DSM that are built into rates for the various rate classes, and ensure that the incentives for Power Smart programs are properly allocated to the appropriate customer classes.

Lower-Income DSM Programs

Centra introduced its Lower Income Energy Efficiency Program (LIEEP) in December 2007, and, following PUB direction and suggestions, made a change to the furnace replacement component in November 2008. Centra also responded to Order 99/07's recommendation, and established the eligibility for LIEEP at 125% of the Statistics Canada Low Income Cut-Off (LICO).

Centra's LIEEP program benefited from the experience gained through the Centennial Neighbourhood and Brandon pilot projects (implemented in 2007). Centra advised that MH is currently targeting 5,650 lower-income homes for energy efficiency improvements, of which 3,334 are heated with natural gas, and that over 900 applicants have been accepted into LIEEP to date.

Centra reported having performed pre-audits at over 800 homes, with over 600 homes earmarked for installation of new high-efficiency furnaces (with 400 installations having already occurred). Over 600 homes have also been identified for insulation upgrades. Once the identified beneficial measures have been installed, a post-audit is to occur (Centra reported having completed 72).

While Centra opined that that there are no "bottlenecks" in its program, excepting that not enough customers are requesting Centra's assistance, Centra has not implemented mass media advertising for LIEEP.; instead, the Utility has been relying on its relationship with community and social housing groups and internal staff (such as Energy Service Advisors, district office personnel, and credit and collections personnel).

Centra also reports advertising in local and church newspapers, working with social assistance agencies including the Workers Compensation Board and Employment and Income Assistance, and participating in a lower-income technical advisory group.

Yet, Centra has not completed a demographic study to gain additional data and determine with increased precision the specific geographic locations of lower-income customers. The Board's Directive 13 from Order 99/07 stated:

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

At a Lower-Income Technical Conference hosted by MH in January 2008, it was MH's understanding that the consensus among conference participants was that sufficient demographic data exist, and that additional studies are not required. Accordingly, Centra requested that the Board consider this directive fulfilled.

Program Design

LIEEP has three categories, and the first involves a pre-audit of the home and the installation of simple energy efficiency measures at no cost to the homeowner/tenant. These measures include low flow shower heads, faucet aerators, compact fluorescent light bulbs, hot water tank pipe wrap, and caulking around windows and doors. The audits are required in order to obtain federal ecoEnergy funding and satisfy Directive 16 of PUB Order 99/07:

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

The pre-audit determines whether the next categories of the program are required. If required, insulation and other envelope upgrades will be performed. Insulation can be added to walls, attics, basements, and crawlspaces, and more elaborate weather sealing measures can be installed. These measures are provided at no cost to the occupant.

Finally, if the dwelling is homeowner-occupied with a standard or conventional efficiency furnace, the furnace can be upgraded to a high efficiency furnace. Centra contracted with six furnace contactors to install new furnaces for a set price, relieving the homeowner from the requirement to make the arrangement. And, the homeowner is expected to pay only a portion of the cost of the furnace upgrade ($19 per month for 5 years, or $1,140). The expected savings to the household over the 5 years of the payment schedule are expected to exceed the $1140 cost to the homeowner, making the program a "no-brainer" in Centra's view. And, the new furnace will have an expected service life well beyond the five years for which payments will be required. The furnace replacement portion of LIEEP is funded through the Furnace Replacement Program (FRP), for which PUB set aside $6.1 million through rates during 2007/08 and 2008/09.

Centra also reported developing a program to address the installation of improved insulation and high efficiency furnaces in rental properties, which will require the involvement of the landlord. Centra advised that it hopes to have a program in place by the end of summer 2009.

Lower-income Advisory Group

In response to Directive 19 of Order 99/07, Centra created a lower-income advisory group, which engages stakeholders regarding issues surrounding Centra's lower-income customers. Centra reported that this group had met three times in 2008, and would next meet in June 2009. At the meetings, Centra reported providing status updates of its lower-income programs at these meetings, obtaining feedback from the stakeholders, and discussing issues related to Centra's lower-income programs.

Rebuttal of CAC/MSOS Witness Oppenheim

Centra rejected the advice of CAC/MSOS' witness Mr. Oppenheim, who advised that Centra should work towards the replacement of all standard efficiency furnaces within five years. According to Centra, it is unreasonable to expect the replacement of all such furnaces within five years because the Utility lacks the necessary information (Centra advises that it does not know which of its customers operate which type of furnace, nor whether such customers want to replace their furnaces). Further, Centra advised of difficulties associated with replacing furnaces in rental dwellings, particularly with ensuring that the benefits flow to the lower-income tenant.

Centra also rejected Mr. Oppenheim's proposition to increase FRP funding for the replacement of standard efficiency boilers, and to hold the required customer contribution to the same $19 per month required for furnace replacements. Currently, Centra's boiler incentive is $2,500, which reduces the customer's required payment schedule to $634 per year for 15 years.

Centra contended that it is not cost effective to increase the incentive level for boiler replacement, as the current utility levelized cost for the FRP is $0.95/m^3, and that increasing the incentive will further increase the levelized cost. Instead, Centra advocated setting the incentive level such that the incentive generates the same value per unit of gas saved.

Centra did not agree that it should modify its TRC to include non-economic or non-energy benefits. Quantifying the benefit in dollars for such benefits as reduced arrears, disconnection and reconnection costs, and health and safety improvements is, according to Centra, a time consuming and costly process that is unnecessary since many lower-income DSM programs are proceeding without passing the TRC test.

Finally, Centra did support Mr. Oppenheim's proposal to develop an effective review of Centra's DSM programs, and Centra stated that it was in the process of finalizing an evaluation plan for the LIEEP including the FRP portion.

Board Finding – Lower-income Energy Efficiency Program

The Board is satisfied with the design of the LIEEP and FRP, but dissatisfied with the pace of actions undertaken. As well, the Board agrees with Centra that a program to assist lower-income households living in rented quarters needs to be developed and implemented (a significant proportion of lower-income households live in rented quarters).

The Board understands that in many rented premises inefficient furnaces and inadequate insulation are present, with the cost of excess energy consumption falling to the householders not the landlords.

Centra must do better in identifying its target market and reaching those that could and should benefit from the LIEEP and FRP. As CAC/MSOS stated, the LIEEP, and particularly the FRP, is "an amazing program" for lower income consumers.

Centra's DSM incentives and expenditures for residential customers have, in prior years, been funded by rates charged to all residential customers, including lower-income residential customers. The Board has accepted that even though low-income residential customers have contributed to funding the DSM programs, these same customers have not been able to take advantage of the programs due to the monetary contributions required to participate. The LIEEP and the FRP are now structured such that lower-income residential customers will be able to afford the DSM initiatives, which are expected to reduce their energy bills while also assisting with the reduction of GHGs.

The Board concludes that lower-income consumers are not now clamouring to take advantage of the FRP because they do not know about it, and that this situation strongly suggests that Centra's efforts to promote the program are inadequate and require bolstering. Therefore, the Board will direct Centra to develop a revised marketing and promotional plan for the LIEEP and FRP, designed to encourage lower-income consumers to participate.

In Order 99/07, the Board directed Centra to develop an audit program that would not necessarily require 100% pre- and post-audits. As the federal government requires the audits in order to receive funding under the ecoEnergy program, Centra has been performing these audits and using the audit as an opportunity to install basic energy efficiency improvements. The Board is satisfied that this approach is effective, and allows for lower-income occupants to become engaged in energy efficiency improvements for their homes.

If the federal ecoEnergy incentives are eliminated and audits are no longer required to gain federal benefits, Centra should rethink its current process of auditing 100% of the homes, now both before and after the retrofits, and, instead consider test audits based on strong criteria towards moving more quickly with energy efficiency improvements in these homes.

The installation of insulation in lower income homes is another DSM measure that is growing. Centra has shown that improving the energy efficiency of the building envelope has a relatively high score on the TRC test, and thus this is a cost effective energy efficiency upgrade for many homes.

Centra confirmed that they have engaged six contractors in Winnipeg and Brandon to install the insulation and make building envelope upgrades, removing a significant burden for lower-income homeowners and, thus, eliminating a barrier for participation. Since the program fully funds the cost of both the insulation and the installation, the Board expects that there would be considerable interest in this measure among lower-income homeowners, if those households were made aware of the offering.

Centra has stated that it does not know which customers are lower-income and which of those have standard efficiency furnaces. The Board holds that this information is important and can and should be obtained, being exactly the type of demographic data that the Board wanted Centra to gather with the demographic study ordered by the Board in the Order that followed the last GRA. Centra stated that their estimate of the numbers of each furnace type was based on a 2003 survey.

As such, the Board rejects Centra's request to consider this directive satisfied, and reiterates the directive that Centra undertake a demographic study to assist the Utility in replacing standard furnaces with high-efficiency furnaces in the homes of lower-income households. The demographic study should attempt to determine or identify the following:

- The number of lower income consumers;
- The numbers of standard, mid-efficiency, and high efficiency furnaces and boilers among lower income consumers;
- The type of housing for lower income consumers (single, multi-unit, townhouse, mobile, owned, rented);
- The neighbourhoods where lower income consumers reside in order that targeted mailings and other marketing activities can be directed where they will be best received; and
- Any relationship between consumption and income levels.

The Board sets a deadline of December 31, 2009 to undertake and file the demographic study. The short time frame is necessary due to the expected expiry of certain federal assistance programs.

While PUB congratulates Centra and the community groups for mobilizing and participating in the Lower-Income Advisory Group, much more is required and Centra should ‘reach out’ to individual consumers through more direct measures.

The Board has reviewed the input from the community groups (through the minutes provided by Centra), and while recognizing the contributions made also recognizes the limitations of relying on the community groups to advance the LIEEP and FRP to all lower-income households.

This is but another reason why Centra should take additional ownership of the LIEEP and FRP, and improve the marketing and reach of these programs. As previously indicated and suggested, PUB is of the view that Centra should strongly consider delegating or outsourcing the marketing and delivery of the LIEEP and FRP programs to an external agency.

Furnace Replacement Program

Of the $6.1 million that the Board set aside at the last GRA for the Furnace Replacement Program (FRP), Centra has spent only $0.5 million to date, and forecasts to spend only $2.4 million in each of the fiscal years 2009/10 and 2010/11, which would leave $1.4 million remaining at March 31, 2011 to either serve as a contingency fund or to continue the program; unused funds accrue interest as per a previous PUB directive..

Federal ecoEnergy program incentives are set to expire March 31, 2010. The current incentive for the highest efficiency furnaces is $790 from the ecoEnergy program, in addition to $245 from the Power Smart program. Centra collects the incentives instead of the lower-income homeowner, and this helps the Utility offset the cost of the furnace installations.

Centra’s Power Smart incentive of $245 is set to expire this fall. As well, Centra did not know if the ecoEnergy incentives of up to $790 would continue past January 1, 2010, because at that date only high efficiency furnaces may be sold in Canada. Since this incentive was based on the incremental cost of purchasing a high efficiency furnace over a mid-efficiency furnace, the basis for offering the incentive will disappear as of January 1, 2010.

Centra stated that there is no economic justification for replacing a mid-efficiency furnace with a high-efficiency furnace in advance of the end of the mid-efficiency furnace's service life, which is one of the reasons why the FRP only applies to standard efficiency furnaces.

Centra is not in favour of DSM programs that have a levelized cost that exceeds the cost of gas to the consumer. If the levelized cost is too high, it is more economical for Centra and its ratepayers to simply pay the anticipated savings on the participating consumer's gas bill that would arise if a more efficient unit was installed than it is to fund the DSM measure and install the efficient unit.

For example, Centra stated that the utility levelized cost for the FRP is 94.8 cents per cubic metre, which is far in excess of the price of gas to residential consumers. Thus, it is less expensive for Centra and its ratepayers to simply pay a portion of the customer's bill equivalent to the expected savings from converting a standard efficiency to a high efficiency furnace.

Board Finding – Furnace Replacement Program

Centra proposed discontinuing funding of the FRP in the test years. In effect, funding built into rates for the FRP would be redirected to meet other costs. The Board disagrees, and will direct that the approved rate adjustment that funded the FRP through to March 31, 2009 continue, and that the revenue raised remain devoted to the FRP.

While the Board provided $6.1 million to Centra for the FRP in its July 2007 GRA Order, Centra announced its LIEEP with a substandard FRP in December 2007.

The initial version of the FRP did not provide a sufficient incentive for lower-income consumers to upgrade their standard efficiency furnaces. In fact, it required lower-income consumers to take on a large debt, with interest to accrue, and ‘hope’ to be able to pay it back with subsequent bill savings. As a result, the penetration rate of the FRP was quite disappointing, with only 241 furnaces upgraded and only $0.5 million of the $6.1 million spent up to March 2009.

However, Centra revamped the FRP in November 2008, and the Board not only finds the new program parameters satisfactory as to design but also anticipates more lower-income households will participate, if appropriately informed and assisted. While the revamped program is well designed and should elicit significant interest, the marketing of the program has been less than adequate. In short, the Board is very dissatisfied with the promotion and delivery of the program, to-date.

Centra updated its reported FRP penetration rate at the hearing, and stated that 400 high efficiency furnaces have been installed, nearly twice the number reported as of the end of March 2009. Although the $6.1 million should be sufficient to install nearly 2,200 furnaces, the FRP requires far more application and installations for the funds already set aside to be disbursed.

Centra advised that there are between 8,000 and 12,000 standard efficiency furnaces in lower-income dwellings that are eligible for the FRP; the 400 furnace upgrades completed to date is but ‘scratching the surface’ as to meeting the need.

The Board’s sense of urgency in this matter is two-fold:

a) lower-income households are continuing to incur large utility bills, waste natural gas, and generate excessive GHG, ahead of applying for the FRP and having a high-efficiency furnace installed; and

b) the federal ecoEnergy incentive, which can be as high as $790 per furnace installation, is scheduled to conclude by March 2011, with the Power Smart incentive scheduled to expire in the fall of 2009. And, the ecoEnergy incentive may disappear even sooner, since beginning January 1, 2010 all furnaces sold in Canada are required to be high efficiency, obviating the need for an incentive to convince people to choose a high efficiency furnace over a mid-efficiency furnace.

As well, the federal government currently has a tax credit program in place, which is scheduled to expire February 1, 2010, and that provides a tax credit of 15% for household improvements to a maximum credit of $1,350 (the first $1,000 of qualifying expenditures do not generate a tax credit).

Centra must do a better job identifying the target market for the FRP, and make a greater effort to reach households that would benefit from the program.

In concert with developing a revised marketing and promotional plan for the LIEEP, Centra is to enhance the promotional plan for the FRP.

Notwithstanding that Centra has spent only a fraction of the funds allocated to the FRP, the Board will direct that Centra continue to fund, through SGS customer class rates, the FRP in the amount of $3.8 million per year. This amount is to be funded as an expense item, and not as a deduction from Centra's revenue requirement. The $3.8 million to be raised annually is to accrue to the FRP account, regardless of Centra's net income results (which can be significantly impacted by changes in the weather).

The FRP is to continue at this level of funding beyond the test years, and until such time as Centra receives alternative direction from the Board. Any unspent funds at the end of a fiscal year are to accrue interest at Centra's actual short-term interest rate.

Centra's goal shall be replacing all standard efficiency furnaces in qualifying lower-income homes. And, given the Board's direction to continue funding the FRP with $3.8 million per year, an additional 1,400 furnaces can be upgraded each year (assuming the federal ecoEnergy funds are still available). If federal funds for the program become no longer available, the number of furnaces that can be replaced with the funding in hand will fall, but remain material.

Centra's pace in replacing conventional furnaces with high-efficiency furnaces for qualifying low-income homes is insufficient, an increased pace should aim at upgrading all the eligible furnaces within ten years.

The Board recognizes that it will take a significant investment to replace all of these furnaces; it is for this reason the FRP is to continue to be funded into the future, and Centra's efforts at "picking up the pace" of replacement furnaces will be the subject of Board review at the next GRA.

As well, the Board will seek a semi-annual status update report on the furnace replacement program, to begin with a report as of December 31, 2009.

The benefits that arise out of the FRP effort are numerous, and represent the potential for a real economic stimulus at a time when the economy is in need of it; in fact, at a time when governments are attempting to stimulate the economy through infrastructure projects.

In addition to the immediate benefits available to FRP participants, that being reduced energy bills, there are societal benefits, which include:

- Reduced GHG emissions;
- Increased jobs as community groups and MH require additional home energy auditors and furnace contractors require additional installers;

- Training of the additional home energy auditors and furnace installers;
- Improvement of the housing stock in Manitoba, increasing property values;
- Improvement to the health and safety of FRP beneficiaries – replacement of old furnaces that could be leaking carbon monoxide, homeowners able to set their thermostats at a comfortable temperature; and
- Take maximum advantage of available federal ecoEnergy funds and the pending federal 15% Home Renovation Tax Credit program.

Regarding Mr. Oppenheim's evidence, the Board agrees that there are societal and non-energy benefits to lower-income DSM programs, but the Board is not prepared at this point to require Centra to estimate these benefits for incorporation in the TRC and RIM tests. The Board notes that Centra has already developed LIEEP, even though that program does not pass the TRC test.

With the Board's direction and support, Centra can take action on future lower-income programs absent demonstrating successful TRC and RIM scores for those programs.

The Board considered CAC/MSOS' witness Mr. Oppenheim's recommendations for expanding the FRP to allow participants to replace their standard efficiency boilers with the same $19 per month co-payment requirement.

Although Mr. Oppenheim's recommendation would certainly encourage replacement of standard efficiency boilers, the cost to obtain these gas savings and GHG reductions is too high relative to the benefits. Centra's levelized cost for a boiler replacement exceeds that for a furnace replacement, which is already high at $\$0.95/m^3$.

Likewise, the cost to Centra's ratepayers to subsidize the replacement of all standard efficiency furnaces and boilers would be too high, and so the Board rejects Mr. Oppenheim's recommendations in this regard.

The Affordable Energy Fund (AEF)

In 2006, the Provincial Government introduced *The Winter Heating Cost Control Act*, which, among other provisions, established the AEF. The Act required MH to contribute a percentage of its 2006/07 gross export revenue into the AEF.

Centra indicated that $19 million of the AEF's $35 million had been earmarked for Province-wide low-income initiatives, with $8 million for community energy development, $0.25 million to expand the eligibility of Power Smart programs in Manitoba to include residential homes heated with energy other than natural gas or electricity, $0.75 million for rural and northern support and outreach, $0.5 million to assist with the cost of energy audits for rural and remote communities, $0.3 million for solar water heating projects, and $0.2 million for replacement of oil and propane furnaces with higher efficiency units.

Centra indicated that the $19 million reserved for low-income programs would largely benefit electricity and natural gas space-heated homes, and would provide for programs that would not otherwise be funded from MH/Centra's rate-based DSM programs, including the LIEEP. Centra indicated unused funds in the AEF are now accruing interest.

Board Findings - AEF

The Board is encouraged that Centra (and MH) have plans for the appropriate disbursement of the balance of the Affordable Energy Fund, expected to be fully depleted within five years.

The $19 million earmarked for lower-income initiatives will, hopefully, begin to make a difference in improving the energy efficiency of lower-income households. As well, PUB recommends that Centra favour expenditures to be funded by the AEF that are directed at or at least prioritized towards non-government owned properties. Since the government receives a financial benefit from making improvements to its own properties, it has less need of the AEF.

Bill Assistance Program

Centra filed a report on its bill assistance program in response to a directive in Order 116/08, an Order with respect to the electric operations of MH. The bill assistance report reviewed general aspects of bill assistance programs, provided details of MH’s bill assistance programs, identified areas where MH’s programs could be expanded, and briefly described the next steps MH intends to take.

MH summarized recommendations for bill assistance programs gleaned from research into other jurisdictions, and identified programs addressing the recommendations (in the following table):

	Recommendation		**Program In Effect**
1.	Payment arrangements	✓	Payment arrangements and renegotiation based on customer’s ability to pay
2.	Reconnection fees reduced or waived	✓	Reconnection fees deferred (individual basis)
3.	Equal Payment Plan	✓	Equal Payment Plan
4.	Limits on disconnections	✓	Benefit of heat (load limiters used during the heating season on gas and combined gas/electric services), and voluntary weather moratorium for electrically-heated houses and Townhouses.
5.	Security deposits waived	✓	Security deposits waived (individual basis)
6.	Late payment charges waived	✓	Late payment charges waived (individual basis)
7.	Alternative billing methods	✓	Not yet due loans
8.	Crisis intervention	✓	Crisis intervention
9.	Modified rate design	✓	Inverted rates
10.	Demand Side Management and customer rebates	✓	Delivery of energy efficiency services (Power Smart, etc); rebates and funding for furnaces and boilers
11.	Rate discounts, waivers, and cash subsidies		Under review

MH performs Centra's billing and customer care functions, and all of MH's bill assistance programs apply to Centra with the exception of inverted rates.

MH advised that it offers flexible repayment arrangements designed to prevent customers from falling further behind in their bills yet still fit their ability to pay. Arrangements may take into account unique family and economic circumstances, and reconnection fees may be deferred and/or applied to the customer's bill.

The Equal Payment Plan is a budgeting tool designed to smooth a customer's annual bill over the course of a year. And, during the winter season, customers cannot have their natural gas service disconnected as a result of a delinquent account. Instead, a load limiter will be placed on the electric service, and this will allow the furnace to operate, providing the benefit of heat.

Security deposits are only required from residential tenants, and may be waived if the customer provides complete customer information and a credit guarantee alternative. Deposits are refunded after 12-months of good payment history, along with interest. Late payment charges may be reduced or waived. MH may hold outstanding arrears in a separate "Not Yet Due" account, such that the accounts do not accumulate late payment charges.

In the event of a family crisis, MH's Neighbours Helping Neighbours program will provide emergency bill assistance in the form of a one-time payment of up to $300. This program can and has prevented service disconnection/load limiter installation, while directing the occupant to a social assistance agency, community support group, counselling, or job training.

Neighbours Helping Neighbours is administered by the Salvation Army, which provides staffing while MH provides the funding for the administration of the program. Neighbours Helping Neighbours is funded by private and corporate donations, with 100% of donations being applied to paying participants' energy bills.

MH funds program financial shortfalls, so that customers are not denied assistance if they apply and meet the eligibility requirements. In addition to providing emergency funding, MH also helps to identify vulnerable persons, such as seniors or those with a mental or physical disability, and direct them to sources of additional help.

MH's DSM program targeted to assist lower-income customers is the LIEEP. The LIEEP leverages several funding sources to provide energy efficiency improvements to lower-income customers (who would otherwise not participate in MH's Power Smart programs).

Areas where MH has identified its bill assistance program could be expanded include:

a) reviewing current eligibility, which is now based on income level;
b) subsequent mandatory enrolment in certain energy efficiency programs;
c) determining bill assistance program costs;
d) quantifying program benefits, such as reduced account write-offs and collections expense;
e) determining funding sources, such as rate payer funds, donations, or government support;
f) allocating costs;
g) gauging customer feedback which could be negative from those who do not benefit from the program;
h) determining who will administer the program; and
i) program evaluation.

MH has stated that it will review its bill assistance programs, and consider an expansion of the Neighbours Helping Neighbours program, but cautioned that there may be difficulties associated with additional enhancements to the program.

Board Finding - Bill Assistance Program

While the Board appreciates Centra's (and MH's) existing bill assistance programs, and realizes that they go further than the vast majority of other Canadian utilities, is still not assured they go far enough in assisting lower-income consumers.

Manitoba is a cold place in winter, the average income is below the Canadian average, and there still is a high percentage of households that can be fairly considered lower-income. This situation requires special attention, and while the Board agrees that bill assistance may take many forms, and accepts that Centra has implemented several tools to help its customers meet their energy bills, more needs to be done.

Centra cited the Neighbours Helping Neighbours program, where Centra matches private donations, and indicated that all customers eligible for assistance and applying for it are and will not be denied assistance. However, Centra also reported that only between 274 and 470 customers have annually been helped by Neighbours Helping Neighbours (in each of the last three years).

While the assistance now provided is helpful to those receiving it, the Board notes that assisting 274 to 470 customers annually pales in significance when compared to the number of accounts in arrears, that being approximately 20,000 – almost 10% of Centra's customer base. The Board also notes that before the implementation of the load limiter program service disconnections ranged to as high as 9,000 in a single year.

In short, there are many more customers that could make use of the Neighbours Helping Neighbours program. The program needs more promotion, and, perhaps, the eligibility criteria is too restrictive. As well, the provision of one-time assistance is of little lasting value for certain households, where the economic problems are continuing in nature.

It is unclear from MH's Bill Assistance Report whether Centra or MH refer customers with delinquent accounts to the Neighbours Helping Neighbours program as a matter of course, or whether such referrals occur at all. MH explained that messages related to delinquency are printed on the customer's bill when their account is past due, but that there is no mention of the Neighbours Helping Neighbours program.

Bill assistance programs should not be viewed as benefiting only a limited number of lower-income households. The Board has heard through several past proceedings and at this most recent hearing of societal benefits that accrue when lower-income households are able to pay their energy bills, maintain a healthy temperature in their homes, and are able to avoid disconnections and the installation of load limiters.

Centra incurs considerable costs whenever it disconnects or reconnects a gas or electric service to a home. Installing load-limiting devices, which ensure that homes retain the benefit of heat in cold Manitoba winters, also involve significant Centra expenditures. When Centra incurs costs, be they collection, bad debt or other costs related to delinquency, these costs are ultimately borne by all ratepayers, and reflected in rates.

Centra incurs bad debt expenses of over $2 million each year, and expends considerable time and effort in its collection activities (spending over $5 million annually administering the collection of past due natural gas accounts, costs which are paid by ratepayers). Centra must print disconnection notices and notification letters, contact customers by phone to make payment arrangements, and disconnect and reconnect services. A bill assistance program will reduce the need for these activities, leading to lower costs.

As well, there are societal benefits with bill assistance programs that that do not directly affect Centra's financial bottom line. Bill assistance programs allow lower-income households to maintain a warmer temperature in the home, which can help minimize health problems (and medical and hospital costs) and reduce lost work days due to sickness.

Bill assistance programs in the form of DSM measures have additional benefits. Not only do the DSM measures serve to reduce customers' bills by reducing gas consumption, they also reduce GHG emissions, with resulting benefits to the environment.

Fixed Rate Offerings

Order 160/07 directed Centra to apply to the Board for approval to offer fixed rate and fixed term Primary gas supply contracts to all of its customers. Centra initially applied for approval to offer fixed rate offerings to its smaller volume customers in the SGS and LGS classes. With Order 156/08, the Board approved Centra's Application to offer contracts with terms of 1, 3, and 5 years.

In its Application, Centra outlined the methodology used to price its offerings, including its plan for allocating direct and indirect O&A costs. Centra prices its offerings by hedging a fixed volume of gas at a fixed price, adding a Volumetric Risk Premium of 5%, and adding a Program Cost Rate to account for the operational and administrative costs of the program.

To-date, Centra has issued only two offerings to its SGS and LGS customers. The initial offering was available from February 9 to March 12, 2009, and consisted of terms of 1, 3, and 5 years. The subsequent offering became available August 15, 2009 (following the GRA proceeding), and also consisted of terms of 1, 3, and 5 years. Each offering was available to a limited number of customers on a first-come basis. Centra hedges the price for a limited volume of gas and matches the volumes of hedged gas with the corresponding volumes that customers are expected to consume.

With the initial offering, only 98 customers contracted for Primary gas at a fixed rate, with 42 of that number opting for a 1 year term, 18 for a 3 year term, and 38 for a 5 year term. The one-year offering had more customers express interest than Centra was able to accommodate, while the three and five year offerings did not receive sufficient interest to subscribe all the hedged volumes. As a result, only half of the number of customers Centra anticipated subscribed to the offerings.

Board Finding - Fixed Rate Offerings

The Board is dissatisfied with the pace of the implementation of the Fixed Rate Offering (FRO) program. To date, only two offerings have been made, one beginning in February 2009 and the other in August 2009, and in both cases the low volumes provided for restricted the ability of consumers to participate.

As the Board stated in Order 156/08:

> *Caution is advisable as long as it is not paralysis, and should allow Centra to learn from experience.*

With five months having elapsed between Centra's initial and subsequent offerings, the Board finds that Centra's caution is leaning too far towards paralysis. The risk of the exit of marketers from the Manitoba market was a consideration when the Board ordered Centra to enter the fixed rate market, and one of those marketers, Direct Energy, has since ceased marketing efforts in Manitoba exacerbating the problem of limited choice for consumers.

The Board directed Centra to offer contracts with terms of 1 through 5 years to mitigate the risk that consumers would be left with reduced choice if one or both of the residential-focused marketers left. Until such time as Centra continuously releases offerings, many if not most residential consumers will have only one other option for locking in their Primary gas rate, and that is with Just Energy Manitoba L.P. (formerly known as Energy Savings Manitoba L.P.).

As the present situation is exactly the one Board wanted to avoid, the Board will direct Centra to prepare and release follow-up offerings in a consistent fashion, with the offers to be backed with adequate volumes.

As stated in Order 156/08, the Board is confident that the 5% Volumetric Risk Premium (VRP) will be sufficient to protect Centra's other customers from losses incurred in the FRO program, and that current losses are not to be recovered through future offerings by increasing the price of future offerings.

Put another way, the losses that Centra may incur on the initial offering are not to be recovered in future offerings by amending the pricing formula approved by the Board in 156/08, which is a competitively determined hedged price for gas plus a 5% VRP and the approved Program Cost Rate.

The Board leans towards ending Centra's hedging program with respect to the quarterly-set 'system gas' offering, but is not prepared to act until Centra's fixed price and term Primary gas contract offerings are established (for 1 through 5 years terms) and are regularly offered to its full customer base.

Based on previous surveys, consumers seek more certainty in natural gas rates and bills, and with the hedging program now adding to gas costs rather than deducting from them, Centra needs to move must more quickly and more comprehensively on a full range of fixed price and term contract offerings.

Finance Expense

Changes in Finance Expense

Centra's finance expense (interest and the provincial guarantee fee) was $22.1 million in 2006/07 and $21.7 million in 2007/08, representing over 17% of non-gas costs. Finance expense was originally forecast to increase to $22.2 million in 2008/09, with additional increases in 2009/10, to $24.6 million, and to $25.2 million in 2010/11. Those forecasts were based on interest rate assumptions from MH's 2008 Economic Outlook.

On May 29, 2009, Centra revised its application, lowering its finance expense forecasts, the revision was based on interest rate assumptions from MH's 2009 Economic Outlook. Centra noted an unprecedented drop in short-term interest and borrowing costs for the most credit worthy of borrowers.

While Centra had originally forecasted that the cost of short-term borrowing for 2008/09 would be 4.5%, including the debt guarantee fee, actual rates for 2008/09 were approximately 2.9%. Centra updated its forecast of short and long-term interest rates for the two test years as follows:

Interest Rate Forecasts Updated Application vs. Original Forecast

Interest Rate	May 29 Update Based on 2009 Economic Outlook	Application Based on 2008 Economic Outlook	Basis Point Change
Short Term Rate			
2009/10	**.90**	4.05	(315)
2010/11	**2.00**	4.60	(260)
2011/12	**3.90**	4.60	(70)
Long Term Rate			
2009/10	**4.75**	5.30	(55)
2010/11	**4.95**	5.85	(90)
2011/12	**5.55**	5.95	(40)

As a result of the update, a significant reduction in forecast Finance Expense occurred, this due to updated interest rate assumptions representative of expected reduced short and long term interest rates.

The change in forecast Finance Expense for 2008/09 through 2001/11 follows:

Finance Expense: Update vs. Application ($000's)

	2008/09	**2009/10**	**2010/11**	**2011/12**
June 2009 Update	$20,200	$20,992	$21,017	$23,375
Original Application	$22,225	$24,656	$25,237	$26,338
Difference	($2,025)	($3,664)	($4,220)	($2,963)

Centra indicated that its revision of its initial interest rate forecasts was due to extraordinary circumstances, and that the Utility expects that in the ordinary course of vents future rate filings will be again based on the Economic Outlook approved in conjunction with MH's annual Integrated Financial Forecast, which would continue to be filed with the rate application.

Forecasting Methodology

Centra utilized a wide variety of forecasters independent from MH, and held that the use of a consensus approach is consistent with the process used by governments in determining projections of economic variables.

In the determination of the short-term interest rates, Centra utilized a methodology to arrive at a forecast three month banker's acceptance rate. Initially, Centra determines a calendar year finance cost forecast utilizing twelve forecasts of the 90-day Government of Canada T-bill rate. A similar methodology was undertaken to determine a long term interest rate reflecting a Canada bond yield 10 year + forecast. The Canadian long-term forecast rate is set by initially considering forecast data for the Canadian government long-term bond rate (10 year +) from independent forecasters as well as from major Canadian chartered banks.

In its original application, Centra's forecasting methodology utilized forecasts derived from MH's 2008 Economic Outlook, which incorporated forecasts that were of varying dates but reflected an outlook at March 2008 as well as older 2007 forecasts from some sources undertaken in October, November and December of that year.

Centra noted that, given the current unusual state of the financial markets, its updated Economic Outlook considered only forecasts dated March 2009 (for forecasting rates for calendar years 2009 and 2010). For 2011, all forecasters were considered in the survey. The following represents the forecast utilized in the determination of short term and long-term interest rates:

Table of Short and Long Term Interest Rate Forecasts

Canada 90 Day T-Bill Rate (%)		2009	2010	2011
BMO Nesbitt Burns	Mar-09	**0.40**	**1.00**	
CIBC	Mar-09	**0.40**	**0.60**	
Federal Finance	Nov-08	1.90	2.70	**4.20**
National Bank	Mar-09	**1.30**	**3.10**	
Province of British Columbia	Feb-09	0.90	1.70	**2.90**
Royal Bank	Mar-09	**1.10**	**2.00**	
Scotiabank	Mar-09	**0.30**	**0.60**	
TD Bank	Mar-09	**0.40**	**1.00**	
Conference Board	Dec-08	2.20	3.90	**4.50**
IHS Global Insight	Mar-09	**0.40**	**0.70**	**2.40**
Informetrica	Feb-09	2.40	3.30	**3.80**
Spatial Economics	Nov-08	2.60	3.10	**4.00**
Average of Highlighted Forecasters		**0.61**	**1.29**	**3.64**
Economic Outlook 2009		**0.60**	**1.30**	**3.65**

Canada Bond Yield 10 Year + (%)		2009	2010	2011
BMO Nesbitt Burns	Mar-09	**2.90**	**3.10**	
CIBC	Mar-09	**3.30**	**3.55**	
Federal Finance	Nov-08	3.70	4.20	**5.00**
National Bank	Mar-09	**3.60**	**4.50**	
Province of British Columbia	Feb-09	2.90	3.40	**4.00**
Royal Bank	Mar-09	**2.60**	**3.40**	
Scotiabank	Mar-09	**2.50**	**3.30**	
TD Bank	Mar-09	**2.80**	**3.10**	
Consensus	Oct-08	3.80	4.50	**4.90**
Conference Board	Dec-08	3.80	4.60	**5.20**
IHS Global Insight	Mar-09	**3.50**	**3.50**	**4.40**
Informetrica	Feb-09	4.00	4.30	**4.70**
Spatial Economics	Nov-08	4.20	4.20	**5.50**
Average of Highlighted Forecasters		**3.03**	**3.49**	**4.81**
Economic Outlook 2009		**3.05**	**3.45**	**4.80**

Three of the forecasting sources utilized by Centra, including those from the Federal Government, the BC Government, and Consensus forecasts, represent a composite view of other forecasts.

Short-Term Interest Rates

The interest rate forecast average is based on a calendar year basis and then converted to a fiscal year basis for Centra's forecasting purposes. To determine the forecast year rate, Centra takes the weighted average rate of three quarters of one calendar year and one quarter of the following calendar year to determine the forecast on a fiscal year basis. A credit spread is then added to reflect the differential between the 90 day T-Bill Rate and the three month Bloomberg banker's acceptance rate. On a fiscal year basis the forecast for short term interest rates is as follows:

	Calendar Year 90 Day Cdn T-Bill Rate	Fiscal Year	Fiscal Year 90 Day Cdn T-Bill Rate	Spread	Short Term Cdn Debt Rate
2009	0.60	2009/10	0.80	0.10	0.90
2010	1.30	2010/11	1.90	0.10	2.00
2011	3.65	2011/12	3.80	0.10	3.90

To arrive at its projected interest rate exposure, Centra adds the 1% Provincial debt guarantee fee to the above forecast rates to arrive at the forecast finance expense rate.

Long Term Interest Rates

As with the short term interest rate, Centra converts the calendar year forecasts to its fiscal year forecast rate and then adds a credit spread that reflects the difference in risk between the Government of Canada bond rate and a Province of Manitoba bond rate. Based on the May 29 update, the forecast on a fiscal year basis is as follows:

	Calendar Year Govt of Canada 10 Yr+ Rate	Fiscal Year	Fiscal Year Govt of Canada 10 Yr+ Rate	Spread	Long Term Cdn Debt Rate
2009	3.05	2009/10	3.15	1.60	4.75
2010	3.45	2010/11	3.80	1.10	4.90
2011	4.80	2011/12	4.95	0.60	5.55

Credit Spread

In its original Application, Centra determined the long term credit spread based on the average credit spread for the three years ended March 31, 2007 through 2009, which equated to 60 basis points. In its updated Application, Centra revised the methodology used to determine the credit spread on its long-term Canadian debt for fiscal 2009/10 by taking the average of the 10 year and 30 year credit spreads based on a March 31, 2009 forecast provided from a single financial institution. On this basis Centra determined the credit spread to be 160 basis points.

The credit spread for 2010/11 was based on the average 2009/10 credit spread of 160 basis points and the previously determined historical 60 basis point average. On this basis, Centra calculated the credit spread for the second test year to be 110 basis points. And, for fiscal 2011/12 Centra assumed the credit spread would revert to the long-term average of 60 basis points.

In adopting the higher credit spreads, Centra noted that the credit spreads had recently tightened, however the benchmark rates of borrowing have increased such that the all-in cost to MH has remained relatively constant.

Debt Issues

Centra is forecasting to issue $155 million in long term debt issues between March 2009 and February 2010 as follows:

New Debt Issues	Principal Amounts ($000's)	Projected Maturity Date
New Debt - Mar 2009	30,000	Mar-2029
New Debt - Feb 2010	75,000	Feb-2030
New Debt - Mar 2010	30,000	Mar-2030
New Debt - Mar 2010 (Refinance CG4)	20,000	Mar-2030
	155,000	

Centra indicated $125 million of the new debt is proposed to-be-issued in 2009/10 with maturities in 2030. Centra noted that the above forecasted debt issues are for forecasting purposes only and that when the decision is made to issue new debt it will be made based on the most advantageous rate at that time.

Centra indicated there is significant downside risk associated with not locking in long-term rates which Centra described as being at historical lows. Centra acknowledged that the current yield on medium term debt is less expensive than long-term debt, however one must also consider refinancing risk.

Short-Term Advances from MH

Centra's financial requirements are addressed by MH, which has the authority to issue short-term debt of up to $500 million. Centra advised that MH uses its short-term debt capacity to fund Centra's seasonal working capital requirements and bridge the timing between long-term debt issues.

Centra also indicated that MH's operating practice has been to issue long-term debt to repay the short-term debt line once short-term debt outstanding reaches between $200 and $300 million. Centra indicated that exceeding that range would limit the Corporation's flexibility in terms of timing of going to market for debt financing, given the $500 million short-term debt ceiling.

The cash required to fund Centra's operations and capital programs are advanced from MH to Centra as needed. Centra is allocated interest by MH on the basis of Bloomberg's one month banker's acceptance rate. Centra stated the financing arrangement has been in place since Centra was acquired by MH, in 1999.

Centra noted that MH may, periodically, be able to secure short-term financing at a lower rate than the one month banker's acceptance rate. The difference between the cost incurred by MH for short term advances and that paid by Centra to MH in 2007 and 2008 is reflected as follows:

CENTRA GAS MANITOBA INC.
2009/10 and 2010/11 General Rate Application Floating Rate Debt by Quarter

Manitoba Hydro Data (in $ Millions)	Quarter Ended 31-Mar-07	Quarter Ended 30-Jun-07	Quarter Ended 30-Sep-07	Quarter Ended 31-Dec-07	Quarter Ended 31-Mar-08	Quarter Ended 30-Jun-08	Quarter Ended 30-Sep-08	Quarter Ended 31-Dec-08
Short Term Debt CAD	148	177	155	15		21	165	100
Short Term Debt USD	-	-	-	-	-	-	-	-
Total of Notional $CAD and $USD	148	177	155	15	-	21	165	100
Weighted Average Interest Rate on Outstanding Short Term Notes CAD$ Short Term Notes	4.21%	4.39%	4.24%	3.90%		2.57%	2.36%	1.41%
USD$ Short Term Notes								
Average 1 Month BA Rate Source: Bloomberg	4.34%	4.37%	4.77%	4.70%	3.97%	3.26%	3.16%	2.40%
Difference Between Weighted Average Rate of CAD Short Term Debt Outstanding at Quarter End and the Average 1 Month BA Rate for the Quarter	-0.13%	0.01%	-0.53%	-0.80%		-0.69%	-0.80%	-0.99%

Centra attributed the difference to several factors including different terms to maturity, different short-term debt balances, and different capital financing requirements.

With respect to different terms of maturity, Centra stated MH’s cash requirements differ from Centra’s, where MH usually issues short-term debt with terms between one and three months but also for terms as short as one day. Centra indicated that where MH’s level of short-term debt is lower than that of Centra’s, the short-term funding from MH to Centra would be from MH’s residual long-term debt proceeds or from MH’s internally generated funds, both of which would attract interest rates higher than the one month banker’s acceptance rate.

Centra further noted that during the period 2005/06 to December 2008 Centra’s cash flow from operations was not sufficient to fund its capital program. In effect, Centra utilized its short-term revolving line of credit in order to finance a portion of its long-term capital program which, if long-term debt was utilized, would be at higher rates.

Centra's Rebuttal of Evidence of Mr. McCormick

Centra rejected Mr. McCormick's recommendations that Centra perform historical testing of forecasters' results to determine whether a forecaster's forecasts were perennially low or high to determine whether a forecaster should be included in future forecasts.

Centra stated that it did not view the variation typically experienced in interest rates as sufficient to warrant creation of a new process for a hindsight review of interest rate forecasts or updating of the GRA filing. Given the planning cycle of the corporation, and the timing of rate applications, Centra did not support Mr. McCormick's recommendation for the introduction of a regular forecast updating process as part of the GRA proceeding.

With respect to Mr. McCormick's observations that the interest rate charged to Centra on short-term advances, which is based on the average one-month banker's acceptance rate at a cost greater than that incurred by MH, Centra stated MH has no intention to profit from its financing agreement with Centra. Centra further stated that the short-term interest rate charged by MH fairly represents MH's associated cost of financing Centra's short-term debt.

Centra countered Mr. McCormick's assertion that Centra's plan to issue $125 million in new long-term debt financing maturing in February and March 2030 exposes customers to long-term refinancing risk with the high concentration of debt maturing at that time. Centra noted that the actual financing recommendation will consider the dollar value of the issue depending on cash requirements, the term dependent on the current maturities schedule, mitigation of refinancing risk, market appetite, and interest rate expectations.

Centra stated it supports the general concept of spreading debt maturities to avoid a concentration of refinancing and new borrowings in a particular year, however taking long term debt of shorter maturities increases refinancing risk as it will lead to a greater number of points in time in which the debt will be exposed to future interest rate volatility.

Centra further stated it was an appropriate corporate financing practice to fund long term assets with long-term debt, noting that Centra's capital assets portfolio has service lives exceeding 30 years and that utilizing short or medium term financing exposes ratepayers to the risk of incurring higher interest rates upon refinancing.

Centra questioned Mr. McCormick's long-term interest rate forecast recommendation of 3%, suggesting that more current June 2009 forecasts indicated long-term interest rates higher than from the 3.0% proposed Mr. McCormick (to 3.49%). Centra further indicated that recognition of a credit spread, as at June 1, of 103 basis points would bring the long-term forecast rate to 4.49% (versus the 3.7% proposed by Mr. McCormick).

Centra further stated that the current forecasting methodology for interest rates is fair and reasonable and therefore there is no need for a "reduction factor" deferral account or true-up mechanism.

Board Findings - Finance Expense

The Board recognizes that Centra's application was filed during an extraordinary time for the global and Canadian financial market, and that the market has experienced marked declines in interest rates for the most credit-worthy borrowers.

Centra's forecast, one that was based on MH's 2009 Economic Outlook, does not fully reflect the interest rates Centra is likely to be subject to during the test years. Centra's update of May 29, although representing an improvement with respect to the interest rate assumptions from those of the original application, still did not fully reflect the rates Centra is most likely to face for both short-term and long-term debt.

Accordingly, the Board will direct Centra to adopt the interest rate forecasts that are more in line with the recommendations put forward by CAC/MSOS' witness, Mr. McCormick. The Board will direct Centra to utilize a short-term interest rate for forecasting purposes of 0.5% for 2009/10 and 1.0% for 2010/11 (excluding the 1% provincial guarantee fee).

While actual rates are very likely to vary from these forecast rates, nonetheless, as the evidence presented by Mr. McCormick was found to be more suitable than the projections of Centra, Mr. McCormick's rate forecasts should be utilized for forecasting purposes (amended, of course, to reflect the 1% Provincial debt guarantee fee).

With respect to long-term interest rates, the Board believes that the 3% rate determined by Mr. McCormick to be appropriate. To this amount the Board believes a reasonable credit spread should be added representing the difference between Government of Canada and Province of Manitoba bonds. The Board does not agree with the credit spread determined by Centra, that being 160 basis points, as it represented a high point and does not represent longer-term trends.

The Board further notes that the more current information presented at the hearing showed a credit spread of between 105 and 111 basis points, with momentum moving towards a lower value more consistent with longer historical normal credit spreads. Again, given the uncertainty with forecasting such matters and acknowledging the uncertain times within the credit markets, the Board will direct Centra to incorporate a credit spread of 100 basis points, to produce a forecast long-term interest rate of 4% for the two test years.

Further, the Board agrees with Mr. McCormick that there is, in a sense, a "sale" on shorter-term debt for credit worthy borrowers, and urges Centra to take advantage of these low rates for the benefit of its ratepayers. Long-term rates have not declined to the extent as short-term rates, and with global central banks continuing to pursue constraints on inflation, long-term rates are not expected to change as materially as short-term rates over the short to mid-term.

Centra’s current financing cost forecast requires improvement. The Board believes that with improved forecasting, which the Board will direct occur in this Order, such adjustments are less likely to be required in future GRAs.

The Board agrees with Mr. McCormick that the interest rate forecast should reflect a robust methodology reflecting the most current information, using consistent data and reflecting forecasts that have been subject to retrospective quality control analysis. Accordingly, the Board will direct Centra to adopt the suggested methodology changes for a more robust, precise forecasting methodology as recommended by Mr. McCormick, and file for the Board’s approval a revised interest rate forecasting methodology ahead of its next GRA.

The revised methodology for rate setting purposes should include:

- The use of all forecasts based on comparable average period data basis;
- The use and alignment of current date forecasts, excluding stale dated and superseded forecasts;
- Utilization of forecasted long term interest rates which align with the period in which Centra intends on issuing new or refinancing existing long term debt;
- A process to retrospectively test the accuracy of forecasters to assess their inclusion in future forecasts;
- The use of only statistically independent forecasts; and
- A proposed process to update the forecast in advance of the hearing if warranted.

Centra acknowledged that its forecasting process can be enhanced and the Board commends Centra's willingness to improve its forecasting methodology.

The methodology should change to allow for the adjusting of future forecasts to incorporate consistent average period forecasts as recommended by Mr. McCormick.

The Board understands that Centra utilizes forecasts from many sources and that a consensus approach is appropriate for determining interest rate forecasts. However, the Board believes that the use of stale-dated forecasts, subsequently superseded with more updated information, is not appropriate.

Accordingly, the Board will expect the new methodology to ensure that only current forecasts are utilized for interest rate forecasting purposes for future GRAs. While the Board understands that all forecasts are not prepared as of the same date, it will expect Centra to incorporate a methodology utilizing the most current information for the determination of interest rates (and will expect Centra to align the dates and forecasts used to meet this objective).

Three of the forecasting sources utilized by Centra (the Federal Government, the BC Government, and Consensus) are not independent forecasts but rather a composite view of other forecasts. The Board agrees with Mr. McCormick's assessment that only independent forecasts should be utilized, and that it is inappropriate to incorporate forecasts from the Federal government, the British Columbia government, and the Consensus forecast for forecasting interest rates for rate setting purposes (as those forecasts are not statistically independent sources of information).

The Board will also expect Centra to propose a methodology to be used for rate setting purposes to update the interest rate forecast during the hearing process. The Board understands that an update is already required for the cost of gas, and that an updated interest rate forecast should also be provided. Centra may choose to update its interest rate forecast coincident with its cost of gas update.

The Board further supports continuous improvement, and believes Mr. McCormick's suggestion that the adoption of historical back testing of forecasts results to assess the quality of forecasters represents an improvement to the forecasting a methodology, and should lead to better forecasts. The Board will expect Centra to propose a process to retrospectively test the forecasts it utilizes in its methodology and provide parameters to exclude a forecaster from the methodology if it is found that the forecasts from that source represent an outlier.

With respect to advances from MH to Centra, the Board believes that MH should act in Centra's individual best interest when it comes to Centra's borrowing decisions, and that Centra's needs should "trump" consolidated perspectives. The Board will recommend that MH ensure that Centra is provided sufficient short-term debt to meet its seasonal operational needs. The Board understands the administrative simplicity of charging the one-month Bloomberg banker's acceptance rate, however the Board believes that any short-term debt advances should be provided on a cost recovery basis.

For administrative purposes, the Board accepts that it will remain appropriate for MH to charge Centra the one month banker's acceptance rate, as it is a readily available number. However, the Board will expect a true-up and adjustment on a quarterly basis to ensure there has been no over- or under-recovery of short-term finance costs charged to Centra.

That said, the Board does not agree with CAC/MSOS on the need for a deferral account for Finance Expense. The Board believes that the update provided for in this Order and the methodology changes proposed for future applications should adequately ensure that an appropriate interest rate is determined for rate setting purposes.

Operating & Administrative Expenses

Centra's Operating & Administrative (O&A) expenses were $53.5 million for 2006/07, and $56.3 million for 2007/08. As well, Centra forecast O&A expenses to grow to $58 million for 2008/09, $59.2 million for 2009/10 and $60.3 million for 2010/11. The projected O&A expenses represent a 2% annual increase for each of the two test years, and are net of the 1% productivity improvements embedded in Centra's forecast of its operating costs.

Centra reported experiencing cost pressures in many areas including wage settlements, repairs and replacement of aging infrastructure, contractor tenders, commodity costs and general cost increases significantly higher than the Manitoba CPI. Centra further indicated that it has been able to manage these cost increases within its operating targets through cost control, active pursuing of synergy opportunities and productivity enhancements.

Centra also advised of further future cost pressures, including the escalating costs of maintaining aging infrastructure and externality-driven costs (such as pension costs, which recently have been negatively impacted by the economic environment, reduced interest rates and equity values). As well, the potential implications for Centra's O&A expense levels related to the approaching implementation of International Financial Reporting Standards (IFRS) remain unknown.

Centra supported its O&A forecasts by referring to actual and forecasted O&A costs per customer which, since 2003, have indicated an average growth rate in the order of 1%, approximately half the increase in Manitoba CPI.

Centra noted that O&A cost per customer for 2003/04 was $208, while, for 2007/08, it had risen to only $215, representing a compounded annual growth rate of less than 1% over the five years. With respect to the forecast for 2008/09, Centra forecast an increase to $221, to be followed by further growth to $223 per customer in 2009/10 and $226 per customer in 2010/11, representing compound annual growth rates of 1.2%.

Centra indicated that on a constant dollar basis (i.e. adjusting to remove general inflation), its forecasted cost per customer indicates a substantial decline, from $241 in 2003/04 to a forecasted $228(2009/10) and $226 (2010/11). Consistent with its concern with respect to cost pressures, Centra advised of upward pressure due to a need to fill vacant positions and incur related training costs.

As indicated above, Centra attributed its ‘cost control’ to synergies realized by its parent company’s amalgamating the gas and electric utilities, including the implementation of a common billing system and efficiencies realized through joint meter reading and line locating (through Manitoba Hydro Utility Services, MHUS).

Centra noted that labour costs comprise approximately 75% of its O&A costs, and that labour rates have been increasing by approximately 3½% annually, including negotiated cost of living adjustments, merit and progression increases, leaving gains from synergies and productivity gains to hold overall O&A cost projections at 2% annual increase levels for the forecasted test years.

Integrated Cost Allocation Methodology

MH has fully integrated its gas and electric operations. All O&A expenses are allocated between Centra and MH based on an integrated cost allocation methodology. MH’s integrated cost allocation methodology was last reviewed during the Board’s 2002 Status Update Hearing, at which time MH submitted a cost allocation methodology study prepared by KPMG.

In Order 99/07, the Board noted that there had been integration and operational changes since the integration in 2002, and that the changes warranted a review of the integrated cost allocation methodology to ensure the methodology remains appropriate. The Board then-directed Centra to submit the terms of reference for a cost allocation methodology study by March 1, 2008.

Centra requested and received permission from the Board to delay the preparation and filing of the study, as Centra had noted a number of uncertainties related to IFRS (which needed to be worked through before embarking on the study).

Centra suggested that the study be completed after the full implementation of IFRS, in fiscal 2011/12. Centra contends that in the interim the corporation is confident that its current cost allocation methodology is sound and continues to produce reasonable and accurate cost allocations (such that the costs for each utility are appropriate, understandable, and reflect moderate and reasonable increases in costs under today’s circumstances).

Centra reported that while the operations of MH’s electric utility and Centra are totally integrated, each corporation has many discrete functions. Centra advised that the cost of work performed on solely gas business matters is directly assigned to Centra, i.e. gas operations. While all work related to both natural gas and electricity functions is undertaken by MH employees and agents, substantial portions of Centra-related functions and work are met by MH’s gas-dedicated employees.

Centra noted that the activity rates used to charge Centra for work performed by MH staff are calculated using a standard methodology where departmental costs are divided by the total number of output hours for that department. This approach ensures that all department costs are effectively allocated for work performed on behalf of gas operations. Centra reported that where, due to volume or cost variances, the activity rates either over or under absorb a department's costs, the residuals are allocated proportionately to Centra at the departmental level based on the proportion of how activity charges have been allocated between electric and gas operations. Centra indicated by way of example if the department has a split of activity charges of 60% electric and 40% gas, this proportion is then used to allocate any residual balance.

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

With respect to integrated operations, such as joint billing initiatives, costs are segregated between MH and Centra, with the accumulation of such costs then allocated to MH and Centra using appropriate cost drivers. None of the main cost drivers used to allocate integrated activities has changed.

Centra further noted that the integrated cost allocation methodology is subject to both periodic internal audit reviews as well as annual testing from the external auditor to ensure the cost allocation methodology can be relied on for financial reporting purposes.

Board Findings - O&A and Integrated Cost Allocation Methodology

The level of O&A expenses forecast for the two test years are reasonable, given that the majority of O&A expenses are compensation based, with Manitoba Hydro's compensation rates increasing by approximately 3.5% per annum.

PUB accepts Centra's contention that although current Manitoba CPI is below 1% that does not mean that Centra's costs are rising at the same pace. With 75% of Centra's costs related to compensation, largely determined by MH collective contracts entered into prior to the current global recession, Centra's forecast O&A increases through to and included 2010/11 are reasonable.

The Board also takes comfort that the level of O&A expenses, based on cost allocations, are subject to an annual Audit by Centra's external auditor, and that the auditor has provided a "clean" audit opinion in past years. Given the historical growth (lower) trend in O&A, relative to inflation and the cost pressure, alluded to by Centra, the Board accepts that Centra has been allocated a fair portion of MH's overall costs.

However, the Board remains keenly interested in the outstanding studies on the cost allocation methodology and benchmarking, and will await IFRS guidance, to be provided to the Board in February 2010, before requiring the reviews be completed. That said, the Board takes note that activity hours and EFTs have fallen significantly since 2002/03, while the cost per activity hour has risen by rates higher than the CPI, and that these studies are required to test the reasonableness of this data.

The Board agrees that for efficiency purposes the study should be undertaken when the new IFRS accounting rules are known and potential operational changes are anticipated. However the Board believes that, to ensure the transparency of O&A expenses, the Board will require the study to be filed at or before the next GRA. In advance of the GRA, the Board will expect the corporation to provide an outline for the study, once IFRS implications and options are known.

Accordingly, the Board will direct the corporation to file on or before March 1, 2010 the terms of reference for a study of the Integrated Cost Allocation Methodology to be completed in sufficient time to be incorporated within Centra's next GRA.

International Financial Reporting Standards (IFRS)

IFRS will become Canadian Generally Accepted Accounting Principles (GAAP) and will be implemented effective January 1, 2011 for all "publicly accountable enterprises" -- Centra is considered to be a publicly accountable enterprise, and will be affected by IFRS.

The full adoption of IFRS will impact financial reporting of Centra for the fiscal 2011/12 year as well as require a restatement of fiscal 2010/11 for comparative purposes.

Centra indicated that the full implications of IFRS are still uncertain as the treatment of several key elements, in particular rate regulated assets, has yet to be determined. The International Accounting Standard Board (IASB) has launched a project to develop accounting standards for rate regulated utilities, and will clarify the approach to be taken for such utilities.

Future Financial Implications of Adoption of IFRS

Centra and its parent MH have retained external expertise to study the impact and implications of the adoption of IFRS. Implementation rules call for a retrospective adjustment to retained earnings, representing the cumulative difference in reported income between Canadian GAAP net income and net income calculated pursuant to IFRS.

Centra indicated the major implications related to the adoption of IFRS relate to: internal costs eligible for capitalization, reduced net income forecasts as more stringent criteria are applied on what can be capitalized and what should be charged to operations in a given year, depreciation accounting, pension accounting, and the recognition of regulatory assets and liabilities.

Centra indicated that certain components of general and administrative overheads are ineligible for capitalization. Centra noted that it capitalizes approximately $16 million of internal labour and overhead costs annually and is currently in the process of assessing which of these costs will continue to be eligible for capitalization. Centra estimated that such expenses - in the range of $4 to $6 million annually - may be ineligible for capitalization.

Centra also indicated that its accounting for plant in service and related depreciation will likely be impacted by IFRS. Under the draft new standards, there is a requirement for componentization and the setting of separate depreciation rates based on components.

In addition, Centra's current accounting for plant retirements and negative salvage value considerations may not be consistent with IFRS. Centra estimates that the adoption of IFRS may give rise to an increase in annual depreciation expense in the order of $1 million retroactively for fiscal 2010/11.

With respect to pension accounting, investment returns on pension fund assets have been negatively impacted by the downturn in financial markets and depressed interest rates have increased benefit liabilities. Under current Canadian GAAP, gains or losses related to fund performance are introduced into pension cost calculations over the subsequent five years. Under IFRS, gains and losses on the fund performance are introduced immediately into the following year's expense calculations. Centra indicated that the impact of this change may involve an increase in expense of approximately $2 million annually.

Centra reported its unfunded pension liability on its discontinued defined benefit pension plan had grown to $24 million at March 31, 2009 from $9 million the previous year. In addition, Centra also shares a portion of the unfunded pension liability of MH's component of the Civil Service Superannuation Board plan, which currently has a deficit in excess of $200 million. Centra confirmed that its share of that liability approximates 11%.

Centra indicated that an option available upon transition to IFRS is to elect to take the aggregate cost to arise and deduct it from retained earnings, or, alternatively, amortize the aggregate cost over a 10-year period.

On an overall basis, Centra suggested that the annual impact on operating costs related to IFRS may be in the range of $5 to $10 million increase.

Changes in Rate Regulated Accounting Standards

Canadian GAAP standards have changed for rate-regulated operations in advance of the adoption of IFRS. Specifically, section 1100 General Accounting of the CICA Handbook will apply to the "recognition and measurement of assets and liabilities subject to rate-regulation" for fiscal years beginning on or after January 1, 2009.

Centra opined that these interim changes to GAAP will not have an impact on its 2010 financial statements, and took the position that it would continue to be allowed its current accounting practices for rate regulated assets (by adopting a secondary source of GAAP found in US accounting standards related to accounting for regulated operations).

The assets and liabilities subject to rate regulation, which include the PGVAs, the one time income tax payment, rate case hearing costs, DSM costs, and site remediation costs, amounted to $69 million at March 31, 2008.

Currently, IFRS does not provide for the concept of regulatory assets. All regulatory assets (assets that have no "market" value, and include such items as deferred costs) may not be allowed under IFRS, and costs now treated as deferred assets may have to be written off, with all future non-capital expenditures taken into income in the year incurred. Centra could not provide the financial implications related to the Regulatory Assets and Liabilities, pending the outcome of the IASB's study of the issue.

Centra confirmed that it will be reporting to the Board in February 2010 and will provide an update on IFRS and its implications, at which time there will likely be less uncertainty related to rate regulated accounting and other matters.

The adoption of IFRS will require Centra to make several transitional elections, which may have implications on the timing of recovery of expenditures from ratepayers. Centra has indicated it will seek appropriate input from the Board as to its options for transitional elections in the regulatory arena.

Board Findings - IFRS

There is uncertainty as to the impact of IFRS on Centra, and the Utility will not be in a position to provide the Board with the implications until February 2010. The Board accepts there is particular uncertainty related to certain assets (and liabilities such as pension obligations) that remain to be resolved by the IASB.

Centra will also be providing the Board insight into transitional elections that may have implications for ratepayers. The Board expects to be apprised of all options available to Centra for financial statement and rate setting purposes, and will expect an analysis of the financial and operational implications of each available election.

Addressing the pension shortfalls identified by Centra would increase Centra’s liabilities and could increase its revenue requirement and rates. In the intervening period between March 31, 2009, at which time the unfunded pension deficit in the curtailed Centra plans was $24 million (leaving aside approximately $22 million with respect to the current shared plan), and the implementation of any changes resulting from IFRS, the pension deficit is expected to change – with continued volatility in financial markets.

Regardless of the resulting pension deficit at the time of IFRS implementation, the Board will allow Centra to continue to employ rate regulated accounting and will not require Centra to reflect the entire pension deficit impact on retained earnings in immediate rate increases. Centra may continue bringing pension gains and losses according to current Canadian GAAP rules, which include a delay of one year and an amortization rate of 20% per year for five years.

While there may be reluctance on the part of Centra to consider regulatory financial statements that may depart from IFRS statements, the Board's concern is the affordability for Centra's ratepayers and the public interest. The Board will assess whether differences between IFRS accounting and regulatory accounts will be required, and will expect Centra to report an update on its position on this matter in February 2010, when the implications of IFRS are likely to be known.

Provision for Accounting Changes & Other Risks

In light of the potential impact of IFRS, Centra incorporated a $5 million provision for IFRS accounting changes and other risks to the utility, with Centra indicating the provision represents its minimum estimate of the impact of IFRS on the 2010/11 test year.

In supporting this provision, Centra cited other potential risks than IFRS, including the rebounding of interest rates from historical lows, cost pressures related to aging infrastructure, and additional training requirements related to employee demographics.

Centra further confirmed that the inclusion of this provision, given the other changes in the updated application, preserved the 1% rate increase initially sought for the second test year in its rate application. Centra further indicated that the provision was a prudent measure expected to mitigate against the risk of more substantial rate increases potentially being required as result of the implementation of IFRS and other related cost pressures.

Board Findings - Provision for Accounting Changes

Centra did not adequately support the need for the accounting provision, and PUB notes that the provision was introduced only after a substantial downward revision to Finance Expense (in the May 29 update) had taken place.

The Board holds that the purpose of the provision was to preserve the 1% rate increase sought by Centra for the second test year, and will not allow the $5 million allowance for accounting changes for the second test year -- it is to be removed from revenue requirement.

The purpose of retained earnings is to cushion Centra against the risk of a required large rate increase in any one year. Given Centra's equity position has improved significantly in the past two years (largely due to winter weather having been colder than normal, driving up revenues beyond those required to meet the forecasts of the previous GRA), the Corporation's debt to equity position of 69:31 for 2008/09 provides for the potential impact of IFRS as currently quantified.

Further, the Board has previously noted that there is currently a significant level of uncertainty as to the impact of IFRS, which will be clarified in February 2010.

New Corporate Head Office

MH agreed to build a new Corporate head office in downtown Winnipeg as a condition of the purchase agreement it entered into when acquiring Winnipeg Hydro. The new corporate head office is nearing completion and is now projected to cost $300 million including furnishings ($283 million base) and accommodate up to 2,100 employees. Centra's former head office functions were located in leased premises at 444 St. Mary Avenue.

In Order 99/07 the Board rejected allocation of any incremental costs to Centra pertaining to the new head office. The Board directed Centra to hold gas rate payers harmless for any incremental costs related to the new corporate head office.

Centra provided a comparison of the 2010 occupancy cost for Centra's head office at 444 St. Mary Avenue with the new corporate head office located at 360 Portage Avenue. Centra's lease at 444 St. Mary Avenue expired in January 2009, and would have been renewed at higher rates than the former lease. On that basis, the analysis indicates a cost per square foot at 444 St Mary Avenue of $29 versus $44 per square foot at the new head office. The comparison provided was as follows:

444 St. Mary Projected Costs	
Rent @ $12 / sq ft	$850,000
Common Area Maintenance @ $12 / sq ft	850,000
Parking	300,000
Electric Utility	50,000
Other Operating & Maintenance	50,000
Projected Annual Cost for 2010	**$2,100,000**
Square footage	72,688
Cost per square foot	**$29**

360 Portage Projected Costs	
Operating & Maintenance	$3,950,000
Property & Business Tax	6,700,000
Principal & Interest	20,000,000
Projected Annual Cost (annualized)	**$30,650,000**
Square footage	697,609
Cost per square foot	**$44**

Centra confirmed that none of the costs related to the new corporate head office has been included in the cost allocation or overhead costs allocated to Centra operations. Centra stated that the current approach should not be sustained over the long term as Centra and MH operate as an integrated utility that allocates shared costs fairly through its cost allocation methodology.

Board Findings - New Corporate Head Office:

As stated in Order 99/07:

> *In the Board's view, any incremental costs associated with the new Corporate headquarters would not have been incurred as required for Centra's operations, and, thus should not be borne by Centra's ratepayers. Accordingly, the Board will direct Centra to hold gas ratepayers harmless for any incremental costs that may result from the pending relocation of gas operations to the new corporate head office.*
>
> *In its future applications, Centra must either clearly demonstrate that the savings from leases, payments, improved productivity, and any other cost savings that may be realized, are equivalent to or greater than the costs included in its revenue requirement related to the new building, or provide evidence that no incremental costs are associated with or have been allocated to Centra related to the new headquarters. [Order 99/07 Page 118]*

The Board continues to hold this view, and Centra has confirmed that no incremental costs related to the new corporate head office have been allocated to Centra or reflected in its revenue requirement or proposed non-Primary gas rates.

The Board further notes that the lease cost comparison provided by way of undertaking by Centra has not been fully tested; however it does show a significant difference in the lease costs incurred by Centra and its previous corporate headquarters at 444 St Mary Avenue. If such costs were allocated to Centra ratepayers, given the new cost structure, Centra's customers would likely incur higher rates.

The difference in cost between the accommodation costs of Centra at 444 St. Mary Avenue and 360 Portage Avenue is material, and the Board will not reconsider its position at this time.

However, the Board recognizes that there are likely to be some synergy savings that will develop over time as a result of the consolidation of MH's administrative operation in one location, and, at future GRAs will reconsider its position based on evidence of costs and savings presented at that time. PUB recognizes that MH purchased Centra ten years ago, and provisionally accepts that there will come a time at which it would be unreasonable not to allow the cost of the new building into Centra's O&A cost allocation consideration.

Depreciation & Amortization

Depreciation and Amortization expense was $18.3 million in 2006/07 and $23.3 million in 2007/08, the increase driven by Centra's change to the amortization period for DSM expenses.

Depreciation and Amortization expense was forecast to be $25.2 million for 2008/09, although the approved level of Depreciation and Amortization for 2008/09, from the last GRA proceeding, was only $23.1 million. And, Centra forecasts Depreciation and Amortization expense of $28.5 million in 2009/10 and $32.3 million in 2010/11.

As previously, indicated, the significant growth in Depreciation and Amortization expense since 2007, representing the largest non-gas cost increase sought in this Application, is primarily attributable to the shortening of the amortization period for DSM spending from 15 years to 5 years, a change that took effect in the fiscal 2007/08 year.

The impact of the shortening of the amortization period on retained earnings and the revenue requirement since implementation and through 2010/11 is as follows:

Change in DSM amortization expense
resulting from the change in amortization period ($000's)

	2007/2008	2008/2009	2009/2010	2010/2011
5 years	$ 2,294	$ 4,305	$ 6,997	$ 9,836
15 years	765	1,436	2,334	3,280
Increase in Amortization Expense	$ 1,529	$ 2,869	$ 4,664	$ 6,556

As a result of the change, actual net income for 2007/08 and 2008/09 was lower by $1.5 million and $2.9 million, respectively. On an overall basis, retained earnings were $4.4 million lower at the end of 2008/09 than would have been the case if the DSM amortization period had not been shortened. DSM amortization expense is forecasted to be $4.6 million higher in 2009/10 and $6.5 million greater in 2010/11 than it would otherwise be as a result of the change.

Centra stated that the shorter amortization period reflects the corporation's view of the estimated useful life of its natural gas DSM measures, and that the change was implemented in part in response to comments made by the Board in Order 99/07, which urged a shorter amortization period.

In Order 99/07 the Board stated:

> *The Board remains concerned with how Centra is accounting for the DSM expenditures. In the Board's view the fifteen-year time frame over which expenditures are now being amortized will result [in] intergenerational inequity. The Board further notes that the accounting practices of other regulated utilities contemplate a shorter time frame for recognizing DSM expenses. The Board recommends Centra consider changes to the amortization time frame, consistent with the practices followed by other Canadian utilities. That said, the Board is*

> *mindful of the potential rate implications for consumers, particularly low-income consumers, and will consider differences between audited statement and regulatory accounts if conditions warrant.*

Centra's five-year amortisation period for natural gas DSM expenditures differs from the period used for amortizing electric DSM initiatives, that was recently reduced to 10 years from 15 years. Centra indicated that the longer amortisation period for electric DSM expenditures was warranted given the potential for increased export opportunities.

Centra noted that the accounting requirements related to DSM expenditures under IFRS are currently unknown, pending the outcome of the IASB project to review the issue of rate regulated accounting. In the absence of further guidance, Centra noted that its current approach of deferring DSM costs and amortizing them over a five year period represents an appropriate approach to accounting for DSM expenditures on an interim basis, and is more consistent with the practices of other utilities.

Centra views the current amortisation period as reasonable, having regard for the nature of expenses incurred and the potential impact IFRS may have on accounting for such expenses. Given the potential impact of the IASB conclusion on regulated entities, Centra did not favour extending the amortization period of DSM expenditures as recommended by Mr. Oppenheim, the witness for CAC/MSOS.

Centra also indicated that if the current IFRS accounting requirements do not change, it would be an acceptable accounting treatment to expense the DSM expenditures on an annual basis. If such an eventuality were to come about it would result in increased pressure on rates and perhaps rate shock. To mitigate against such rate shock, an option available to the Corporation is to have special purpose financial statements for rate setting purposes which depart from GAAP.

Centra indicated that such an option was a possibility, but one that would best be avoided as it would result in increased administrative efforts and costs and could lead to confusion to lenders and other analysts who review MH's financial statements.

Board findings - Depreciation & Amortization

The Board understands that IFRS-based accounting for regulated entities' rate regulated assets and liabilities are not yet 'set in stone'. Although IFRS may call for certain of Centra's current assets to be written-off and certain of its liabilities to increase, the Board currently holds the view that some deferral of the implications of such changes for rates may be warranted.

Centra does not gain "financially" by DSM, as DSM reduces natural gas consumption which is the basis for its income stream. Centra's situation is not the same as MH's, where electricity conserved by DSM may be sold into export markets, allowing for a revenue-neutral or even positive income change. Nonetheless, DSM for natural gas is in the public interest, as it leads to reduced bills for consumers and reduced GHG emissions for the environment. (And, as previously indicated, PUB notes that Centra has very extensive DSM programs compared to other utilities in Canada.)

PUB does not agree with the position put forward by CAC/MSOS witness Mr. Oppenheim: a return to a 15-year amortization period for DSM expenditures would be contrary to the Board's view on what represents a more appropriate time frame for amortization of DSM spending.

That said, the Board notes that the shortened amortization period of five years adopted for accounting for DSM expenditures by Centra in 2008 would have an impact on customer rates and was a major driver for the rate increase sought in Centra's application.

On balance, the Board favours an amortization period of 10 years, an approach consistent with the accounting treatment of electric DSM, and will direct Centra to revise the amortization period prospectively to 10 years (excepting for Centra's costs with respect to the FRP, which are to be expensed in the year of incurrence, as funding through rates has been provided).

The Board will consider further adjustments to the amortization period at future rate proceedings, though, currently it is satisfied with a ten-year amortization period. Centra should have indicated to the Board of its intentions in advance of the change and provided an outline of the expected implications for rates.

Capital and Other Taxes

Capital and Other Taxes expense were $22.2 million in 2006/07, was forecast to increase to $23.3 million in 2008/09 $23.7 million in 2009/10 and $23.9 million in 2010/11. The detail of Capital and Other Taxes from 2006/07 through 2010/11 is as follows:

Capital and Other Taxes ($000's)

	2006/07 Actual	2007/08 Actual	2008/09 Forecast	2009/10 Test Year	2010/11 Test Year
	[1]	[2]	[3]	[4]	[5]
Municipal Taxes	14,223	15,024	15,355	15,357	15,665
Payroll Tax	616	653	716	770	781
Taxes on Common Assets	-97	-79	-1	209	218
Corporation Capital Tax	2,414	2,477	2,453	2,711	2,762
Capital & Other Taxes	17,156	18,075	18,523	19,047	19,426
Income Taxes(1)	5,092	4,946	4,800	4,654	4,508
Total Taxes	22,248	23,021	23,323	23,701	23,934

(1) Calculation of Income Taxes

Opening Balance	41,497	39,693	37,888	36,084	34,280
Ending Balance	39,693	37,888	36,084	34,280	32,476
Average Balance	40,595	38,791	36,986	35,182	33,378
Amortization	1,804	1,804	1,804	1,804	1,804
Carrying Costs on Average Balance	3,288	3,142	2,996	2,850	2,704
Income Taxes	5,092	4,946	4,800	4,654	4,508

Centra remits Grants in Lieu of Taxes (GILT) to municipalities on buildings and structures throughout the Province. As indicated above, in 2006/07 and 2007/08 Centra made $14.2 and $15 million in GILT payments, respectively. These payments are forecast to increase to $15.3 million in 2008/09 and $15.7 million in 2010/11.

Centra also pays 7% provincial sales tax and 5% GST on goods and services. In addition, GST paid by consumers is also remitted to the federal government.

As well, Centra confirmed that increased property taxes related to the new corporate head office, currently forecast at $6.7 million in 2009/10, have not been allocated to Centra in compliance with the directives in Order 99/07.

MH is assessed payroll tax (a flat percentage on gross payroll). As Centra has no employees, all staff being employees of MH, Centra is allocated a portion of the payroll tax based on the relative percentage of activity charges to gas programs.

As indicated in the above table, Centra is also assessed a portion of the property taxes on MH’s common assets. Centra operations utilize portions of real property owned by MH, as well MH utilizes space in property owned or leased by Centra. In order to compensate for this cross-utilization, an allocation of property taxes is made between the two companies.

As a Crown Corporation, Centra does not pay income tax (yet, included in the Capital and Other Taxes are income taxes, as Centra is amortizing over a 30-year period the one-time income tax liability that resulted from the purchase of Centra by MH; the one-time tax liability has been designated a regulatory liability, and the status of accounting for this liability upon transition to IFRS in 2011/12 currently remains uncertain). Centra does, however, pay the Provincial Corporations Capital Tax, similar to other privately held corporations employing capital in the Province -- Centra pays Corporate Capital Tax to the Province based on Centra’s invested capital.

Board Findings - Capital & Other Taxes

In the Board's view, Centra's forecasts for Capital and Other Taxes are consistent with its ongoing operational growth.

The Board understands that the increase in business and other taxes related to the new head office has appropriately not been included in the costs assigned to Centra, consistent with the Board's view that none of the costs related to the new head office should be allocated to Centra. As previously indicated, PUB will revisit this decision at the next GRA.

Payments to Governments

In addition to the payroll and capital taxes indicated above, the Province of Manitoba levies a Provincial Debt Guarantee Fee of 1.0 % on the sum of the balance of Centra's short and long term debt. This fee was increased from 0.95% to 1.0% effective 2006/07 and is projected to remain unchanged for the 2009/10 and 2010/11 test years. The debt guarantee fee was forecast to be $2.7 million in e ach of the test years.

With the credit crisis and subsequent global recession, the spread between government bond rtes and corporate bonds expanded considerably, and the value of the provincial guarantee was evident as Centra's financing costs fell rather than increased.

In addition, as mentioned above, Centra also pays grants in lieu of taxes to municipalities, with respect to buildings and structures the Utility owns throughout the Province.

Board Findings - Payments to Government

The Board recognizes that Centra makes a significant contribution to municipal governments through its annual payments of approximately $15 million.

As well, the taxes and fees it pays to the Province also assist the general operations of the Province in the interest of residents.

Cost of Service - Rate Base Rate of Return

There are two generally accepted methodologies for determining a regulated utility's annual revenue requirement. One approach is the Rate Base Rate of Return approach, which has been in use with respect to Centra for decades (and of particular importance when Centra was privately owned). The other approach is denoted as the Cost of Service approach, the methodology preferred by MH, Centra, and PUB for regulating public sector utility monopolies (Crown corporations, exempt from income tax.).

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

The Cost of Service regulatory model for determining revenue requirement and rates is different than the Rate Base Rate of Return model in several areas, though the Board's ability to disallow certain costs from the revenue requirement remains unchanged.

The focus under a Cost of Service model is the determination of allowed costs and a targeted level of net income to form the annual revenue requirement, which is then used to determine rates.

Centra indicated that one of the benefits of a Cost of Service methodology over Rate Base Rate of Return is that any variance arising in actual results from the operating forecast flows to retained earnings. Such a regulatory approach negates the need for deferral accounts, other than for the cost of gas deferral accounts, as the Corporation looks to the level of retained earnings in assessing the need for rate increases.

Board Findings – Cost of Service - Rate Base Rate of Return

There are two accepted mechanisms by which revenue requirement is determined for setting Centra's rates -- one method is the use of the 'Rate Base Rate of Return' model, the other is the employment of a 'Cost of Service' model.

As in past GRA proceedings, Centra indicated a desire to be regulated on the basis of the Cost of Service methodology; likewise, PUB has a continued preference for this approach, employed for corporations owned, directly or indirectly, by the Crown.

The Cost of Service model is more congruent with the reality of an operation wholly-owned by a Crown corporation, a tax-exempt entity but with one ultimate shareholder, the Province, a shareholder that does not seek a return on its investment other than that required to allow the Crown corporation to repay the debts it incurred in the acquisition of the Utility.

MH has indicated it has no intention to withdraw through dividends the retained earnings of Centra, retained earnings that allow for reduced borrowings and finance expenses, to the benefit of Centra's customers. Credit agencies look to the consolidated results of Manitoba Hydro, and Manitoba Hydro is the major creditor of Centra.

That said, by legislative requirement, the Board must determine Centra's rates approving both a rate base and the rate of return on shareholders' equity using a Rate Base Rate of Return methodology. The Board will continue to review that return as long as the legislative provision remains; it will do so in the context of the circumstances of the time, on a weather-normalized basis, and in taking into account more than one year's experience.

The upper limit for annual weather-normalized net income for Centra remains the result of the Rate Base Rate of Return calculation. While, as a result of the global recession/credit crisis/flight to quality lending, the upper limit appears to have been exceeded for 2009/10 and 2010/11, the Board discounts this finding because of the extraordinary circumstances. In normal economic times, the Board assumes that ten-year Canada bonds would yield higher than is currently the case (to address the credit crisis, the Bank of Canada lowered its short-term rate to banks to an unprecedented 0.25% and advised it would hold to that level until July 2010), and the spread between Canada bonds and other bonds, particularly corporate bonds, would be much lower.

And, PUB has varied Centra's Application, with the result that the forecast net income for the two year period ending March 31, 2011 may be reduced. In short, the Board relies on the Cost of Service model for this GRA, but will continue to review both approaches in future GRA hearings, unless the legislation is amended to delete the Rate Base Rate of Return model for Centra.

Debt:Equity Ratio

In setting rates, particularly with respect to a Cost of Service rate-setting model, one criterion is the actual and projected debt:equity ratio of Centra.

A longstanding test of the financial integrity of a utility involves considering the ratio of debt to equity. It has been generally accepted that a private utility, i.e. not a Crown Corporation, requires a debt:equity ratio of no higher than 60:40 (60% debt, 40% shareholder equity) to be able to attract capital at reasonable terms. Too high a level of debt relative to equity means less "cushion" to absorb unexpected losses that could risk a utility's financial position and credit worthiness.

The following table shows the corporate capital structure of Centra (on a stand-alone basis, i.e. according to the Utility's actual and projected balance sheets):

Capital Structure ($000's)	**2008/09 Forecast**		**2009/10 Test Year**		**2010/11 Test Year**	
	$	%	$	%	$	%
Long Term Debt	$238,083	48.7%	$265,835	51.9%	$297,671	55.7%
Short-Term Debt	$ 97,271	19.9%	$ 87,490	17.1%	$ 94,869	14.0%
Total Debt	$335,354	68.6%	$353,325	69.0%	$392,540	69.7%
Equity	$153,166	31.4%	$159,133	31.1%	$161,975	30.3%
Total	$488,520	100%	$512,458	100%	$548,406	100%

Centra derived the capital structure weightings shown above by using Board-approved methodology, as follows:

1. total capitalization is calculated by averaging forecast year-end balances of the various types of capital;
2. equity is calculated based on the average of the forecast year-end equity balances, and excludes contributed capital;
3. long-term debt is calculated based on the 13-month average of Centra's debt issues; and
4. short-term debt is calculated by subtracting equity and long term debt from total capitalization.

Centra's debt, as a subsidiary of MH, is guaranteed by the Province of Manitoba; the guarantee, which comes with a cost of 1% levied by the Province, provides the primary borrower, MH, preferential access to borrowing rates that are supported by the credit quality of the Province.

In Order 99/07 the Board stated that:

> *…given Centra's borrowings are guaranteed by the Province, with the fee for the guarantee allowed in costs for rate setting, a 70:30 ratio is adequate, rather than the 60:40 model that would be acceptable if there were no provincial guarantee.*

Currently, Centra's debt to equity ratio in 2008/09 is 69:31, however it is forecast to decline from that level in future forecast years. Centra's capital structure has been aided over the past two fiscal years by weather-induced higher tax-free net income than "allowed" for in a normal weather year by PUB (Centra's "excess" net income over the two year period approximates $9 million, an excess that could be reversed with one or two years of warmer than normal winter weather, situations that have occurred repeatedly in the past).

Centra indicated that while a 75:25 debt to equity ratio target is MH's overall corporate target, it is not relevant in the context of Centra as a stand-alone utility, and that there is no reason for Centra having any particular debt to equity ratio as long as the Utility has a sufficient level of retained earnings to meet its operational and financial risks.

Centra indicated that although it had experienced greater than forecast net income during the past two years, which contribute to lower future rate increases as less borrowing is required, Centra's actual level of retained earnings remains inadequate to meet its risks.

The largest current risk is not operational in nature but is an accounting risk: Centra's balance sheet may be negatively impacted by the approaching adoption of IFRS, which, potentially, would result in a $61 million reduction in retained earnings, plunging the utility into an accumulated deficit position.

Centra acknowledged that it has not undertaken a specific risk analysis to determine what would represent an appropriate level of retained earnings for Centra, noting that it was premature to undertake such a study until the financial implications of IFRS are known.

Board Findings - Debt to Equity Ratio

In Centra's prior GRA, the subject of Order 99/07, the Board concluded that a debt to equity ratio of 70:30 for the Utility was sufficient given Centra's subsidiary status (MH being the parent, with its consolidated debt guaranteed by the Province).

Centra's specific debt to equity ratio is not a material issue as long as Centra's financial position does not represent a risk to MH's overall capital position and borrowing ability.

The 'excess' net income results of the last two fiscal periods due to weather have improved Centra's financial position, and with a debt to equity ratio of 69:31 Centra does not pose a drag on either MH's capital position or borrowing opportunities.

While the approaching adoption of IFRS will possibly have negative implications for Centra's audited balance sheet, any changes to asset or liability balances brought about by IFRS, unless reflected in the setting of rates which provide the necessary cash flow for the Utility, will not impact on its operational situation.

PUB will continue to set Centra's rates, and intends to ensure that rates are adequate to generate the required cash flow the Utility needs to operate effectively. While PUB will review the debt to equity position and level of retained earnings of Centra post-adoption of IFRS, changes wrought by IFRS may or may not affect rate setting.

Considering current accounting standards and practices employed by Centra and recognized by PUB, Centra's capital structure is adequate to meet known risks. If circumstances arose that challenged Centra's ability to fund its ongoing operations, PUB would act to improve Centra's situation. Centra is a monopoly, and regulated by a regulator that considers the public interest to include both the well-being of the utility's customers and the financial condition of the utility itself.

At the last GRA, based on the Board's direction in Order 99/07 limiting normal weather annual Net Income to $3 million, retained earnings were forecasted to reach approximately $26 million by 2008/09. Centra's actual Net Income for 2008/09 was estimated to be $9.1 million, $6.1 million higher than would have been expected given normal weather. And, in the previous year, Centra earned $5.9 million in Net Income, again more than the $3 million provided for in rates from the previous GRA, and the excess again primarily the result of colder than normal weather.

Centra forecasts $36.4 million in retained earnings as of March 31, 2009, $10 million more than was forecast at the previous GRA proceeding. Centra forecasts $42.2 million in retained earnings as of March 31, 2011, well above the $32 million if operations had and were carried on in normal weather conditions from April 1, 2007.

The Board regulates Net Income on a weather-normal basis and is not concerned that Centra exceeded its approved Net Income in 2007/08 and 2008/09. Centra's Net Income has been negative in previous years due to the weather, and the Board accepts this scenario. Year-to-year fluctuations in Net Income caused by weather should not affect the timing and magnitude of GRAs.

Regardless of PUB's intention to set rates in accordance with accounting policies that may or may not be in accordance with IFRS, the Board will, as it does at each GRA proceeding, review the adequacy of Centra's retained earnings at the next GRA.

At that time, PUB will expect Centra to provide an opinion on the sufficiency of its then-level of retained earnings, presumably a time in which the implications of IFRS will be known.

Corporate Allocation & Net Income

MH acquired Centra in 1999 for $253.8 million, funding the acquisition by debt, purchasing Centra's business and assets, assuming its liabilities, and recognizing goodwill, asset write-ups, and acquisition and integration costs. In Order 118/03, the Board discussed the source of funds available to MH from Centra to fund the acquisition, and stated:

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

As articulated in that Order, prior to MH's acquisition, and during the period under the former private ownership, Centra produced average annual after tax profits of between $14 and $16 million. At that time, it was expected, and expectation supported by subsequent PUB Orders, that after taking into account the same level of return allowed to the former private owner and the expected savings to arise out of operational synergies, MH would acquire Centra without any negative rate implications for either the customers of Centra or MH.

At the 2005 GRA, Centra confirmed that approximately $19 million was required annually to amortize MH's 'costs' arising out of the acquisition, and that Centra's share of those costs was to be $12 million, with the other $7 million to be borne by MH.

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

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

By Order 103/05, the Board agreed with the contention that synergies had been realized, and approved both an annual Corporate Allocation of $12 million, to be paid by Centra annually to MH, and allowed annual Net Income of $3 million to be also reflected in rates. Considering the allowable annual Net Income of $3 million, though not to be actually paid out as a dividend to MH, and the approved Corporate Allocation of $12 million, to be paid to MH, the Board concluded that MH's ownership would be allowed to realize $15 million each year from Centra's operations, although only $12 million would be paid to MH.

This $15 million of overall return to MH is consistent with the annual net income range allowed to Centra's former private owner, just as contemplated by Board Order 118/03.

At the past GRA the Board reaffirmed that position in Order 99/07 stating:

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

> *that a total return of $14-16 million contemplated at the time of MH's acquisition of Centra currently remains appropriate to ensure neither Centra nor MH customers are negatively impacted from the transaction.*
>
> *The Board continues to accept the annual Corporate Allocation of $12 million, the premise that synergies have been sufficient to uphold the "no harm" principle and that, as now to be reviewed, an annual Net Income of $3 million does not represent an unwarranted return on investment for MH.*

Centra sought a Corporate Allocation of $12 million and a net income of $3 million for each test year (fiscal years 2007/08 and 2008/09). In the recent proceeding, Centra sought the allowance in rates of the continuing annual Corporate Allowance of $12 million, but revised its allowable Net Income to $2.9 million for 2009/10 and $2.8 million in 2010/11 (both weather normalized, and slightly below what PUB has allowed to be reflected in rates).

Board Findings - Corporate Allocation & Net Income

CAC/MSOS proposes that the allowed return to MH be limited by the employment of the Rate Base Rate of Return model, holding that under that model the calculated allowable return on equity would be between $10.5 million and $13.5 million (for the period 2003/04 to 2008/09), rather than the overall $15 million, weather normalized, allowed to be reflected in prospective rates by PUB.

CAC/MSOS' calculation of the allowable annual maximum return to MH has been significantly affected by the much lower interest rates that have prevailed since the 1999 acquisition by MH. The Board also notes that the formula for establishing the rate of return ignores the much larger spreads between Government of Canada bonds and privately issued bonds that have also developed over the period, and observes that a major national debate is now underway as to the appropriateness of the extant NEB formula.

All that said, PUB concludes that after ten years and the total integration of Centra's operations into that of its parent, MH, 'the eggs cannot now be unscrambled', and the Cost of Service model for determining rates is now the only model that is practical with respect to Centra.

PUB accepts that the Rate Base Rate of Return model may currently indicate that MH has realized a higher return than that provided the former private owner, but that this is due to two factors: the global credit crisis which has driven down the rate of return, calculated by a formula which has remain unchanged since implemented in 1995, and a change in capital structure with a reduction in equity since the acquisition by MH in 1999.

The Board does not currently believe it appropriate to change the return "yardstick" at this time, which the Board had established as the $14 to $16 million return contemplated at the time of the acquisition of Centra by MH. Such a return has and continues to ensure that neither gas nor electric ratepayers are harmed from the acquisition. The Board notes that MH has not withdrawn any of Centra's retained earnings, which has provided Centra's ratepayers a new benefit in that if dividends were being paid, borrowings and interest costs would be higher.

Consistent with the position of the Board presented in prior Orders, the Board will continue to restrict MH's return from Centra to $15 million, on a weather-normalized basis, with $12 million of that being paid to MH annually in the form of a Corporate Allocation and the other approximately $3 million being in the form of annual Net Income to be retained within Centra.

In the case of the current Application, Centra is seeking Net Income that is marginally below the upper limit established in prior Orders and reaffirmed in this Order. The Board believes that this is consistent with the intent of the original transaction and holds both electric and gas ratepayers harmless as a result of MH acquiring Centra.

To adopt CAC/MSOS' perspective, electric ratepayers would be disadvantaged relative to gas ratepayers, and, in many cases, ratepayers receive both electric and natural gas service.

Capital Expenditures

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

a) system betterment expenditures – including integrity management, capacity and pressure upgrades, replacing expired pipe, meters and other equipment, additional capacity and redundancy; and

b) system load growth - expanding the system to serve new customers.

Centra advised that its aggregate capital expenditures were forecasted at $37.9 million and $37.6 million for the two test years, 2009/10 and 2010/11, respectively, and that the amounts include increased DSM efforts, plant removals, and deferred charges, net of customer contributions.

The largest single construction project that Centra has proposed for the test years is the upgrade to the Brandon unodourized pipeline that serves the Special Contract customer, the Power Station customer, as well as residential and commercial customers in south-western Manitoba. The forecast construction cost of this upgrade is $5.5 million, and it will be fully funded by a contribution from MH.

The upgrade to the pipeline is necessary because Centra had been experiencing reduced pressure in the TransCanada mainline. This reduced pressure could prevent Centra from delivering gas to the Special Contract customer at the contract pressure if the Power Station customer was also consuming gas.

MH has always known that in instances of low TCPL mainline pressure its supply pressure to the Special Contract customer could fall below the minimum contract pressure if the Power Station was operational. MH mitigated this concern by agreeing to voluntarily curtail operation of the Power Station in times of low supply pressure. MH has changed its position with this voluntary curtailment, and has told Centra that it will now no longer voluntarily curtail if the power plant is needed for operational reasons.

The forecast result of Centra's capital spending program is a projected increase in Net Plant in Service of $24.9 million in 2009/10 and $20.3 million in 2010/11.

Board Finding - Capital Expenditures

The Board supports Centra obtaining a customer contribution for the upgrade to the Brandon unodourized pipeline.

The Board understands that when MH constructed the gas turbine generating station in Brandon, the unodourized pipeline that served the Special Contract customer was partially upgraded and was then used to supply the power station. MH agreed to curtail its operation in the event of reduced supply pressure from the TransCanada pipeline (in order that Centra could maintain the contract supply pressure with the Special Contract customer).

Had MH not agreed to this constraint at the time it was constructed, then the unodourized pipeline would have been built or improved so that it would be sufficiently sized to accommodate both the Power Station customer and the Special Contract customer, and a customer contribution for this improvement would have been required at that time.

Therefore, as it appears that the impetus for improving the pipeline at this time is from the Power Station customer, it is appropriate that this customer provide the necessary contribution. The

Board also understands that a ‘true-up’ (i.e. a cost-benefit analysis) will be conducted in ten year’s time, and that test will determine if an additional contribution or if a refund of any part of the contribution is necessary.

This circumstance is peculiar in that the customer – MH – is Centra’s owner. The result of Centra’s decision to require a customer contribution shifts the cost of the plant from Centra ratepayers to MH ratepayers, and the Board finds this appropriate as the operation of the power station is to the benefit of MH’s electric customers.

That said, PUB reminds Centra and MH that the financial benefits that accrue from Centra to MH are to be limited annually to the $12 million Corporate Allocation, approximately $3 million of Net Income, and any synergy benefits resulting from the acquisition of Centra that benefit MH at no cost to Centra.

At the proceeding, Centra reported that it had inadvertently shut off the gas supply to the town of Morden while tying in a new transmission pipeline, and that over 2,000 customers were affected. Centra also advised that it has incurred $204,000 of costs correcting this mistake. PUB commends Centra for its transparency in this matter, which was an experience that should remind all parties of the importance of a well-financed and operated Utility, and, as well, to the importance of following safe practices involving documented procedures at all times.

The Board approves of the remainder of Centra’s capital expenditures related to Plant in Service.

Advanced Metering Infrastructure

Centra advised of its intention to proceed with a pilot Advanced Metering Infrastructure (AMI) project, to include installation of 1,000 AMI units. AMI is a technology that allows meters to be read remotely, which would address safety concerns associated with meter readers entering dangerous premises or other difficult to access meters. Centra reported that the pilot project would target existing meter reading routes with continuous problems gaining access to read the natural gas meters.

At the last GRA, the Board directed Centra to file its business case justifying AMI, and that no costs related to implementing AMI were to be included in Rate Base until such time as the Board approved the business case. Centra amended its Application such that it is no long applying to implement AMI beyond the pilot phase within the two test years due to technical reasons. The resulting financial impact of this amendment on Centra's ratepayers is a reduction in Depreciation Expense of $150,000 in 2010/11, and a reduction in financing costs of $50,000 in 2009/10 and $300,000 in 2010/11.

Board Finding - Advanced Metering Infrastructure

The Board reiterates its Directive from Order 99/07:

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

The Board requests that the business plan include an assessment of the non-economic benefits of AMI, including safety-related matters, for both the meter reader and for Centra's customers.

In respect of CEP's submission that implementation of AMI for electric meters without inclusion of advanced gas meters will have implications on gas meter reading costs, the Board concurs that this is a concern. Currently, meter reading costs are shared between Centra and MH (electric) operations, as there is always an electric meter at the same address as a gas meter. If a meter reader visits an address to read only the gas meter because the electric meter is read remotely through AMI, then the cost of that meter read is applied completely to gas operations. This, in effect, doubles the cost of gas meter reads.

The Board seeks to be presented with a choice between either implementing AMI for gas meters, or accept higher gas meter reading costs due to the implementation of electric-only AMI, or maintain the *status quo*. The Board requests that it be given the opportunity to review the business case for AMI, even if MH decides to proceed with electric-only AMI meters.

The Board further requests that Centra bring the business case before the Board for its approval by January 15, 2010.

PUB concludes that metering costs should not rise for Centra, potentially affecting rates for its customers, as a result of a measure independently undertaken by MH with respect to its electric operations.

Four Party Trenching

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

Centra developed an optimization plan to lower the cost of four party trenching to be in the order of equal or slightly less than conventional installations, and advised that it had completed the optimization in mid-2008. In Order 177/06, PUB directed Centra to file a report with the Board by June 30, 2009, indicating the results of the optimization plan. Centra requested an extension of the deadline to July 10, 2009, and filed its report on that date.

Board Findings – Four Party Trenching

Due to time constraints, PUB has not had an opportunity to provide a thorough review of Centra's latest report in time to assess developments for comment in this Order.

PUB expects that there may be a need to seek clarification with respect to certain matters and will proceed with its review subsequent to the issuance of this Order. The Board will review Centra's report on Four Party Trenching, seek comments from registered Interveners, and respond to Centra in a forum outside of this GRA-related Order.

Primary Gas Overhead Rate

Centra requested Board approval of new Primary Gas Overhead Rates, to be charged only to its system supply customers as part of the Primary gas rate.

The Primary Gas Overhead Rate reflects overhead costs incurred by Centra to provide Primary gas service to its system supply customers. Annually, Centra incurs administrative costs, currently approximating $1.8 million to acquire and nominate daily volumes of Primary gas.

The overheads neither include Centra's projected costs to administer the WTS, nor its cost for the daily nominations of WTS volumes. Currently, the Primary Gas Overhead Rate is $1.63 per thousand cubic metres of natural gas, and Centra sought approval to revise the rate to $\$1.67/10^3m^3$ effective February 1, 2010, and then, downward, to $\$1.65/10^3m^3$ effective May 1, 2010.

Board Finding – Primary Gas Overhead Rate

Taking into account the estimated effect on revenue requirement of the Board's various findings and directives, and seeking to restrict rate changes to as few as possible PUB will establish a Primary Gas Overhead Rate change to $1.64/10^3m^3$ effective May 1, 2010.

Capacity Management

Capacity management revenue arises from Centra's ability to sell excess transportation capacity on its pipeline assets as well as exchanges of gas with counterparties.

Centra utilizes a five-year rolling average when forecasting Capacity Management revenues, and maintains that since weather is the single biggest factor in determining the amount of excess storage and transportation capacity, the potential for capacity management revenues varies widely (which supports the use of a rolling average to forecast these revenues).

Centra earned $8.2 million in 2007/08 and $6.3 million in the 2008 stub period from its capacity management actions, and forecasted earnings of $6.8 million for the 2008/09 gas year.

Centra prepared a report for the Board regarding its capacity management activities. This report explained the objectives of Centra's capacity management program, the types of transactions Centra undertakes, the relation of the capacity management program to the operational requirements of the utility, risks, and the possibility of outsourcing the management of its activities to a third party.

In summary, Centra enters capacity management transactions only when it is assured first of meeting all operational requirements for serving the Manitoba load, and second of making a profit. The two main types of transactions are capacity release, where Centra sells temporarily unused pipeline capacity, and exchanges, where Centra exchanges gas from its Michigan storage with gas delivered to Manitoba. Capacity release transactions are only available when Centra has extra capacity on its transportation assets, and exchanges are available only when the weather is cold enough that Centra must withdraw gas from storage, and if there is a favourable price differential, or basis, between Manitoba and Michigan.

Centra rejected CAC/MSOS' proposal for Centra to engage in discussions with counterparties with the aim of outsourcing its storage and transportation assets for the winter period. Centra stated that such an arrangement is fraught with risk, including ceding control of over $100 million of gas in storage, and the expected reward is minimal.

According to Centra, it is not practical to describe a potential arrangement in a letter and use it as the starting point for a discussion with counterparties. The level of complexity of such an arrangement precludes using a simple letter to describe all the conditions and scenarios that would be necessary to protect Centra and its customers. Furthermore, Centra stated that it had previously had discussions on this topic with third parties who had approached Centra with this type of arrangement in mind. Centra stated that the third parties ceased being interested once they heard the details of Centra's operational characteristics.

Board Finding - Capacity Management

Centra presented the recent results of its Capacity Management program in its application, as well as a forecast of capacity management revenues for the upcoming year.

CAC/MSOS' witness Mr. Stauft reviewed Centra's results for the past three years, and estimated that it was only earning half of the potential that it could from its capacity management activities. Mr. Stauft advocated Centra contact third party asset managers who may be interested in managing Centra's supply, storage, and transportation assets and who could generate additional revenue on behalf of Centra.

Centra responded that it has had preliminary discussions in the past with these types of managers, and they were not fruitful, in that Centra's load factor is difficult to work with and an opportunity for generating increased revenue was lacking. Centra also questioned the wisdom of incurring large risks in turning control of over $100 million in assets to a third party.

The Board is concerned with any additional risk that Centra may take on, and must balance any increased risk with a reward that justifies the risk. The Board has witnessed the failure of large, seemingly well-run companies such as Enron and Amaranth, and CAC/MSOS and Mr. Stauft agreed that a contract will not protect Centra from insolvency on the part of a counterparty.

The Board requests more detailed information from Centra, in confidence if necessary, on the specific contacts that Centra has had with counterparties interested in managing Centra's assets.

In the meantime, the Board will not require Centra to either solicit interest from third party asset managers or prepare a Request for Proposal for their services.

WTS Issues

Centra applied for changes in the Special Terms and Conditions for Western Transportation Service. The first change sought clarifies wording related to the Gas Loan Mechanism, although no change to the implementation of the Gas Loan Mechanism was proposed.

With Order 160/07, and confirmed with Order 109/08, the natural gas marketers are no longer required to submit to Centra images of the agency agreements that the marketer enters into with each customer. Instead, the marketers need only supply a list of new customer sign-ups to Centra.

The second change Centra is requesting is that the marketers include a date field in their list so that in the event that the same customer signs up with two or more marketers, Centra will be able to determine which marketer secured the customer first.

In November 2007, Centra waived the minimum annual volume for each WTS contract, which previously had been 310,000 m^3 per year, as long as each marketer maintained annual volumes in aggregate of 310,000 m^3. This change allowed each marketer to sign up a single customer for a WTS contract, instead of aggregating upwards of one hundred customers. This has caused an increase in the workload for Centra's Direct Purchase department, as they have been processing many more requests than before this change. To alleviate the increased workload for the Direct Purchase department, the third change Centra has requested is that it be allowed to aggregate the marketer submissions and process the batch no less frequently than once per week.

Centra experienced the insolvency of a gas marketer operating in the Manitoba market. SCEC/AES marketed Primary gas supply contracts to residential, commercial, and industrial customers in Manitoba. On July 24, 2008, Centra was informed by SCEC that it would not be able to fulfill its supply obligations. Centra immediately provided backstopping service so that SCEC/AES' customers did not experience any interruption in service. Centra calculated the final settlement of funds between itself and SCEC/AES taking into account the gas loan mechanism and the Agency, Billing, and Collection service, and determined that the existing security deposits held by Centra were sufficient to ensure there were no financial damages to Centra.

Board Finding - WTS Issues

The Board did not hear any evidence or argument from any interveners expressing any objection to the changes to the Terms and Conditions of Service related to the gas loan mechanism.

The Board understands that the treatment of the gas loan mechanism is not being changed, but only the wording in the Terms and Conditions of Service. On this basis, PUB will approve Centra's proposed changes.

Likewise, no interveners objected to Centra's proposed changes intended to alleviate the increased workload for the Direct Purchase department, and the Board approves Centra's request that it be allowed to aggregate the marketer submissions and process the batch no less frequently than once per week, in addition to requiring marketers to include a date field in their new customer list submissions.

The Board will audit this date field in the future as required to ensure that it agrees with the contracts signed by the marketer's customers.

Lastly, although Centra has not requested approval to change the status of the trial period that eliminates the minimum volumetric threshold for each WTS contract, the Board finds that with the changes proposed by Centra to manage the workload of the Direct Purchase department, the elimination of the minimum volumetric threshold may now be considered permanent and incorporated into the Special Terms and Conditions: Western Transportation Service.

The Board commends Centra and its credit policies pertaining to the Western Transportation Service, as they have prevented Centra from experiencing any financial damages resulting from the insolvency of other parties and the risk of an accompanying failure to meet obligations of SCEC/AES.

Interruptible Customer Requirements and Penalties

Centra requested changes to the Terms and Conditions of Service pertaining to Interruptible Sales service and Interruptible Delivery service customers. Interruptible service customers receive a lower priority of service than Firm service customers. As a result, Interruptible service customers pay a reduced rate compared to Firm service customers, but they are also contractually required to curtail their service when Centra determines that it must use its gas supply and delivery capacity solely for Firm service customers.

In most cases of curtailment, Centra is able to secure and offer Alternate Service at a specific price to curtailed customers, who may then elect to either receive the Alternate Service or curtail their load. In the event of a curtailment where Alternate Service is not secured, a customer has "over-run" if it continues to consume gas. Centra has proposed increased penalties for unauthorized over-runs, since these over-runs can jeopardize the operation of Centra's gas supply and distribution and negatively impact Firm service customers.

Centra has proposed increasing the penalties for unauthorized over-runs from the current $0.5295/$m^3$ which was last approved with Order 86/97, to the greater of:

a) 1.5 times the maximum settled daily NGX AB-NIT Same Day Index price,

b) 1.5 times the equivalent maximum daily terminal unbranded rack price for Furnace Fuel Oil in Winnipeg, or

c) The cost to Centra for obtaining replacement gas along with any additional costs or surcharges for which Centra is liable.

Centra also proposes changes to the Terms and Conditions of Service that will require each Interruptible service customer to maintain an alternate, stand-by fuel source and sufficient fuel supply.

Board Findings - Interruptible Customer Requirements and Penalties

The Board's mandate is to set equitable, fair, and non-discriminatory rates for all customer classes.

While the penalties or additional charges that Centra proposes represent sizeable increases, the Board agrees with Centra that there must be a suitable deterrent to Interruptible customers to prevent them from consuming gas when their load is curtailed. Unauthorized over-runs jeopardize the secure and reliable delivery of gas to firm customers, who in the case of residential customers rely on this supply for personal health and safety.

Accordingly, the Board will approve Centra's proposed changes to the Terms and Conditions of Service, including the proposed additional charges for unauthorized over-runs and the requirement for Interruptible customers to maintain a functioning stand-by fuel source.

Cost Allocation and Rate Design

Centra functionalizes, classifies and allocates its revenue requirement to each of its rate classes. In this proceeding, Centra advised of one major change to its cost allocation model, that being the incorporation of Fixed Rate Offerings.

As well, two rate design issues were reviewed in this proceeding: the originally proposed rate delay rider and the Basic Monthly Charge.

Board Finding - Cost Allocation and Rate Design

The Board has reviewed Centra's functionalization, classification, and allocation of costs, and finds the results of the Cost Allocation Model acceptable.

Fixed Rate Offerings

Centra directly assigns costs to the fixed rate offering that it has incurred and expects to incur in the development, operation, and administration of the program. In addition, Centra made changes to its cost allocation model in order to allocate its indirect costs to the fixed rate offering program.

The indirect costs include amounts related to Finance Expense, corporate allocation, and net income. The direct and indirect costs that are allocated are then divided by the expected volumes that will flow to fixed rate offering customers over the course of the year to obtain a Program Cost Rate.

Centra applied for a change in its Program Cost Rate from \$0.0277/m^3, approved in Order 156/08, to \$0.0275/m^3.

Board Finding - Fixed Rate Offerings

The Board, in Order 156/08, approved Centra's Fixed Rate Offerings including a methodology to allocate O&A and indirect costs to the offerings using Centra's Cost Allocation Model. The allocated costs are priced into the offerings through the Program Cost Rate.

The Board is satisfied that Centra has established a reasonable approach to incorporate all of its costs that are expected to be incurred in offering this program, with the result the Program Cost Rate (which satisfies the Board's direction in Order 160/07 that all costs incurred in developing and operating the program should be borne by the consumers who avail themselves of the offerings).

Taking into account the various findings and directions of the Board in this Order, the Board will direct a revised Program Cost Rate of \$0.0262/m^3 to take effect with the next fixed rate offering.

Rate Delay Rider

In Centra's original application of January 20, 2009, Centra applied for a revenue increase beginning May 1, 2009, but with rates to take effect August 1, 2009. Centra planned to forgo additional revenue for the month of April, but it applied for a rate delay rider which would have recovered the additional revenue from May through July. The rate delay rider would have been in place for 12 months beginning August 1.

Since Centra's rate application process is linked to MH's budget planning and forecasting process in the fall of each year, Centra stated that it had only two options for recovering the additional revenue for the months of May through July. The first is the rate delay rider. The second is through an interim refundable rate. Centra would seek approval from the Board for the interim rate, and if any changes were made to it, Centra would be required to make adjustments to the rates implemented in August. Centra stated that this would lead to additional complexity.

When Centra amended its Application on May 29, it deferred its requested revenue increase to February 1, 2010, obviating the need for a rate delay rider.

Board Finding - Rate Delay Rider

In Order 99/07, the Board directed that Centra apply for any proposed future rate increase with sufficient lead time that a rate delay rider would not be required. Centra responded that because of the fixed budgeting and forecasting schedules of MH, it would be impossible to apply for rates and proceed with a public hearing in time for May 2009 implementation.

Centra presented two solutions: a rate delay rider, or apply an interim refundable rate. The interim rate would introduce complexity if the final approved rate was not the same as the interim rate, as a reconciliation of any differences would be required. Centra's preferred approach is the rate delay rider.

Centra originally applied for a rate delay rider to recover revenue from May 1, 2009 through July 31, 2009. Centra originally proposed that its rate increase be implemented on August 1, 2009, that, absent a rate delay rider, would mean that revenue from May through July would not be recovered.

The Board reaffirms its position that rate delay riders are not to be used to retroactively recover revenue that is not directly related to the cost of gas. As such, Centra must apply for a revenue requirement that is recoverable within the time frame for which its rates will be in force.

In the case of the first test year of the current Application, Centra amended its Application such that its revenue deficiency, or additional revenue sought, will be recovered in the months of February and March 2010. This was facilitated by the small revenue deficiency of the first test year.

The Board anticipates in normal years that Centra will apply for a rate increase to recover its revenue deficiency from August to March, although this timeframe could be amended to suit any changes to Centra's circumstances. The Board realizes that this may result in a larger rate increase in the first year followed by a reduced rate increase or no rate increase at all in the second test year.

Basic Monthly Charge

As previously mentioned in the Overview section of this Order, Centra did not apply to change the Basic Monthly Charge (BMC) for the SGS or LGS class customers.

In Order 99/07, the Board ordered an increase to the BMC for the SGS class from $10 to $12 in the first test year and to $13 in the second test year.

For the 2009/10 and 2010/11 test years, Centra gave evidence that showed that the BMC for the SGS and LGS classes only collects 47% of the fixed customer-related costs, such as meter reading and billing.

Board Finding - Basic Monthly Charge

The Board's mandate is to set equitable, fair, and non-discriminatory rates. One of the tests of whether rates are equitable and fair is whether the rates recover the costs incurred in providing the service. The Board heard evidence that the Basic Monthly Charge, or BMC, for the SGS and LGS classes does not recover all the fixed customer costs incurred by Centra in providing service to the customers in those classes. The remainder of the costs is recovered volumetrically through the distribution rates charged to customers.

As a result, consumers that consume more gas than the class average subsidize those consumers that consume less than the class average. If a greater percentage of the Utility's revenue is recovered by the BMC, then Centra would experience smaller swings in its revenue caused by deviations from normal weather, reducing the large weather-induced swings in its Net Income. Reductions in average use caused by DSM initiatives will also affect Centra less.

The Board also heard that Centra did not experience widespread negative customer reaction to the increases in the BMC arising from the 2007/08 & 2008/09 GRA.

Consequently, the Board directs Centra to increase the BMC for the SGS and LGS classes to $14 and to $77 monthly, respectively, on May 1, 2010. This will increase the percentage of customer-related costs recovered by the BMC. The higher volume rate classes have BMCs that already reflect 100% of the customer-related costs. The Board is satisfied with this rate design at this time.

Natural Gas versus Electricity

Manitoba is a unique jurisdiction in that its electricity, produced primarily from hydroelectric generating stations, is closer in price to natural gas than in other jurisdictions, and comparisons undertaken by consumers must include an assessment of the energy efficiency of any appliance before a determination of the most cost effective fuel can be made.

Centra stated that at the current price of electricity for residential consumers, it is less expensive to heat a home with electricity than with standard or conventional efficiency furnaces, which are found in 16% of gas-heated homes in Manitoba. However, currently, it is less expensive to heat a home with a natural gas mid-efficiency or high efficiency furnace.

Centra calculated the break-even price of gas for space heating with a high efficiency gas furnace compared to an electric furnace based on the originally applied-for rates for August 1, 2009. If a residential consumer were to continue to pay the Basic Monthly Charge in order to fuel other non-furnace natural gas appliances, then the break-even price for Primary gas would be $0.4812/m^3 (93% higher than the Primary gas price for August 1). If the consumer were to no longer receive any gas service, and thus no longer pay the BMC, the break-even comparison price would be $0.3861/m^3 (55% higher than the August 1 price).

To put this rate into historical context, the highest price for Centra’s system supplied gas approved by the Board for residential customers was $0.3297/m^3 for August 1, 2008. Had the Board not adjusted the standard RSM to protect residential consumers from the price spike caused by hurricanes Katrina and Rita, the billed Primary gas rate would have been $0.3507/m^3 in 2005. Thus, even in these instances of extremely high gas prices customers were still better off financially heating with natural gas in a high efficiency furnace than if they were to use electricity at then-current prices.

Centra stated that most new homes are constructed with electric hot water tanks, even if they also have natural gas service. Centra calculated that if all single detached homes constructed in the next five years were to instead use natural gas hot water tanks, the GHG savings would amount to 24,000 tonnes CO_2 equivalent per year by the fifth year. This would amount to 2% of all residential GHG emissions, based on data supplied by Centra from Environment Canada.

This is because using electricity in Manitoba results in less electricity that MH can export. The exported electricity in turn displaces electricity generated from fossil fuels, resulting in a net decrease in GHG. MH is currently preparing a report in response to a Board Directive on the net economic and environmental benefits to MH and to its ratepayers resulting from using gas instead of electricity, and exporting the excess electricity.

Board Finding - Natural Gas versus Electricity

The Board is looking forward to reviewing MH's report in response to Directive 17 from Order 116/08 on the net economic and environmental benefits to MH and to its ratepayers resulting from using gas instead of electricity, and exporting the excess electricity.

Centra has stated that it does not have a fuel switching, or perhaps more illustratively, a fuel selection policy. According to Centra, it will provide information to consumers so that the consumer is able to make an intelligent choice about which fuel – gas or electricity – to use for home heating and other uses.

The Board is of the opinion that if there are clearly benefits to taxpayers or ratepayers for consumers to select gas over electricity, or vice versa, then MH and Centra should go beyond simply providing customers information; they should make that recommendation to consumers.

Still, the Board is not in favour of forcing such a recommendation on consumers. The Board recognizes that the decision to use either electricity or natural gas for space and water heating in one's home can be a complex one that transcends consideration of a simple present day cost comparison.

The Board further notes that residential home developers may make these decisions for customers based on the designs of new developments. New regulations permitting the sale of only high efficiency furnaces after January 1, 2010 will also assist consumers in maximizing the energy efficiency and minimizing the GHG emissions of their homes.

At the last GRA, natural gas prices had just declined from previous highs, but were expected to increase in the near future. In that context, the Board issued the following directive:

> *…the Board questions whether it is now time MH and Centra develop a more comprehensive strategy for directing or matching available energy sources for consumers. The utilities are well positioned with expertise in the issues to be considered. The Board will therefore direct Centra (and MH) to prepare and file with the Board a discussion paper advising when and whether the Utility should direct or mandate a specific energy source be made available to consumers. Such a discussion paper should consider the legal, socio-economic, and environmental issues from a macro and as well as a micro level. [Order 99/07]*

Currently, the situation with natural gas prices is not markedly different than at the last GRA: natural gas commodity prices have fallen from highs in July 2008 to unexpected lows, based in part on technical advancements that have produced unexpectedly high yields of gas from shale gas deposits, and, as well, on demand reductions due to the current economic downturn. Gas prices are expected to increase in the future, but when and by how much remains unknown.

The Board therefore repeats the directive from Order 99/07, requesting that Centra prepare and file with the Board a discussion paper advising when and whether Centra should direct or mandate a specific energy source, such as natural gas, be made available to consumers, and whether Centra and MH should publish recommendations for the most economic and environmental fuel source. Such a discussion paper should consider the legal, socio-economic, and environmental issues from a macro and as well as a micro level. Included in this discussion paper should be a review of the policies of other Canadian jurisdictions. Centra is to file this paper by December 1, 2009.

4.0 Intervener Positions

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

Interveners providing closing submissions in the GRA were:

- Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors Inc. (CAC/MSOS); and
- Communications Energy and Paperworkers Local 681 (CEP);

CAC/MSOS engaged three witnesses who provided written evidence. Only Mr. John McCormick appeared before the Board, and his evidence was the subject of cross-examination by the Board and Centra. CEP did not engage or present any witnesses. Maple Leaf Foods Inc. did not register as an intervener, but it did present a letter to the Board to be considered in this proceeding.

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

CAC/MSOS

CAC/MSOS retained three witnesses to review Centra's Application and provide commentary and recommendations. Mr. John McCormick was retained to review Centra's Finance Expense and debt rate forecasting. Mr. Mark Stauft was retained to review Centra's use of its gas supply, storage, and transportation assets and its capacity management activities. Mr. Jerrold Oppenheim was retained to review Centra's lower income DSM programs.

In its closing submission, CAC/MSOS took the position that a rate increase is not required, and that the Board should dismiss Centra's General Rate Application. The reasons for this position are that, with the May and June updates to the Application:

1) the forecasted Finance Expense has been reduced and could be reduced even further if Centra implements the recommendations of CAC/MSOS' witness John McCormick;
2) the $9.1 million of net income had considerably increased the retained earnings and as a result the Board can reduce Centra's Net Income from the applied-for $5.7 million over both test years; and
3) the introduction of the $5 million provision to account for impacts resulting from IFRS and other risks was simply as a placeholder to maintain the previously applied-for rate increase.

As a result of these three factors, Centra was forecasting that the non-gas cost of service was to increase by 5% in the first test year and then 4% in the second test year for a combination of a 9% overall increase. CAC/MSOS questioned the characterization of the rate increase as a 1% increase in overall revenue requirement, noting that it was not an appropriate measure of the rate increase, since the largest part of revenue requirement is the cost of gas which is primarily a pass through expenditure.

CAC/MSOS noted that with the update to the application on May 29, two of the main factors in support of the rate increases sought in the application had changed materially. CAC/MSOS noted the marked reduction in Finance Expense in the two tests years as a result of updating the interest rate forecast, as well as the financial results for 2008/09 which came in at $9.1 million compared to the $3 million forecast. CAC/MSOS indicated that the financial results for the past couple years have been better than expected with the net income for 2007/08 coming in at $5.9 million versus the $3 million forecast.

CAC/MSOS also:

- Questioned Centra's use of a $5 million accounting provision to preserve the 1% increase in the second test year, stating that a forecast that uses stale dated data and that relies heavily on place holders that are only to preserve an earlier rate increase, does not rise to the level of satisfying the onus of proof for the application sought.
- Recommended the Board eliminate or drastically reduce the provision for net income in each test year and eliminate the $5 million accounting provision for IFRS from the second test year. CAC/MSOS adopted the recommendation of its witness Mr. McCormick on finance matters who took issue with the forecasting methodology utilized to determine the short-term and long-term interest rates (discussed below) and recommended that the Board direct Centra to develop a new model for forecasting long and short term interest rates;
- Recommended that Centra establish an interest rate deferral account;
- Recommended that Centra adopt Mr. McCormick's interest rate forecast for the application;
- Recommended that the Board direct MH to charge Centra only MH's actual cost for short term debt;
- Recommended that MH maintain enough short term debt to meet Centra's seasonal requirements;
- Recommended that the Board direct Centra to distribute or renew some of its long-term debt in the 5 to 10 year range;

- Recommended that Centra amortize DSM expenditures over 15 years and furnace replacement costs over 10 years;
- Recommended that Centra make access to the FRP universal;
- Recommended that Centra enhance the FRP by increasing incentives for the replacement of boilers;
- Recommended that Centra eliminate its derivative hedging program; and
- Recommended that Centra make inquiries about outsourcing the management of Centra's storage and transportation assets.

CAC/MSOS questioned whether the return applied for by Centra was excessive, and noted that the issue of Centra's allowable annual net income had been addressed by the Board in several previous Board Orders. Based on prior decisions of the Board, a combination of the $12 million corporate allocation and net income in the range of $3 million is allowable. CAC/MSOS, based on prior Board decisions, cited three principles to be followed.

The first is the recognition that the Public Utilities Board Act requires that the return to Centra be calculated using the Rate Base Rate of Return methodology, and that the Rate Base Rate of Return test is an absolute limit for a return to Centra.

The second principle is that the $12 million Corporate Allocation applied for by Centra is one form of return, with net income the other form of return.

The third principle to be followed is that the test for determining if Centra's net income is excessive is to compare the combined net income and the corporate allocation against what would be allowed under the Rate Base Rate of Return methodology. In applying the above principles CAC/MSOS noted that the return on equity using the Rate Base Rate of Return method from 2003/04 through 2008/09 has been in the range of between $10.5 million and $13.5

million, a range considerably lower than the $14 million to $16 million set in 1999 that the Board has used in past as the proxy for establishing the reasonable range of return to Centra. CAC/MSOS recommended the Board adjust the range to $10.5 million to $13.5 million, and that on that basis a $12 million corporate allocation, leaves very little room for a net income.

Evidence of Mr. John McCormick

The Board heard expert evidence from CAC/MSOS witness Mr. McCormick on finance matters. Mr. McCormick raised issues on the appropriateness of Centra's forecasting methodology which used stale dated forecasts in its determination of the short-term and long-term interest rates. He noted that the original Application filed in January 2009 contained forecasts of short-term and long-term interest rates based on outdated forecasts. The financial forecasts for interest rates were based, in part, on data derived from documents dated as early as October 2007 and stated that no financial forecasts subsequent to March 2008 have been utilized in the determination of the interest rates.

Mr. McCormick noted the short term interest rate forecasts of 4.05% for the one month banker's acceptance in 2009/10 and a 4.60% one month banker's acceptance rate in 2010/11 were substantially higher in the context of market rates at the time of filing the Application.

Mr. McCormick further stated that the May 29 update, which was based on the 2009 Economic Outlook, was an improvement from the original forecast in the timeliness of data but could not comment on whether there had been any improvement in the methodology which he found to have internal conflicts and data misuse.

Forecasting Methodology

Mr. McCormick recommended that Centra should adopt a more robust methodology for forecasting Financing Expense. To improve the forecasting methodology three principal elements would be required:

1. The use of the most current data available at the point in time that the forecast is prepared;

2. The use of consistent data whereby end of period data used by some forecasters should be averaged or converted to period average data; and

3. There should be historical testing of the forecast inputs used to assess how accurate the forecasts were, which will assist in determining whether that forecast should be utilized in the methodology.

With respect to the first principle element - timeliness of data - Mr. McCormick indicated that the 2008 forecast on which the original January application was based and the 2009 forecasts, which Centra based its May 2009 forecast, included forecasts that were stale dated and had been subsequently superseded. Mr. McCormick recommended that Centra's forecast should be based on current data and that Centra should provide a timely update to its interest rate forecast in advance of the oral portion of the hearing.

With respect to the second principle element, the use of consistent data, Mr. McCormick indicated that the current methodology used both period average data points and end period data points. Mr. McCormick stated end of period interest rate data is quite commonly, but not exclusively, presented in forecasts by Canadian Banks. He suggested that forecast data should be presented on a consistent basis reflecting average period data as the goal is to determine a forecasted average interest cost for debt to be issued during the forecast time period.

With respect to the third principle element, historical testing of forecast inputs, Mr. McCormick recommended that testing of forecasts against actual rates should be implemented. If testing indicated that a forecast was consistently above or below historical results it should excluded from the forecasting methodology with a goal to improving the precision of the forecasts.

Mr. McCormick also stated that the forecasting methodology should exclude forecasts from the Federal Government and British Columbia Governments, as well as the Consensus forecasts, noting that the forecasts incorporated had been superseded and do not represent independent forecasts.

To facilitate the Board's need for quality financial information, Mr. McCormick recommended that the Board direct Centra prepare a review of its interest rate forecasting methodology, to demonstrate the efficacy of its procedures as they relate to the range of dates of forecasts included, the selection of the forecasters, and the consistency of data employed. Centra should submit for Board approval a methodology which could easily be updated at the same time as the cost of gas update during the regular GRA filing process, or failing that create a deferral account for interest rate variances.

Interest Rate Forecasts

Mr. McCormick provided a forecast for Short and Long Term interest rates based on analysis he had undertaken.

For short term interest rates Mr. McCormick calculated average short term rates based on the average forecast prepared by the Bank of Montreal (assuming that the average forecast was the best forecast), he recommended the forecasted short term interest rate for 2009/10 be revised to 0.27% as follows:

2009/10 Short Term Forecast		2009 2Q	2009 3Q	2009 4Q	2010 1Q	Avg.
BMO Capital	3 Mo. T bills	0.24	0.20	0.20	0.20	0.21
BMO Capital	90 day BA	0.35	0.30	0.30	0.30	0.32
Assumed Spread difference						- 0.05
	30 day BA					0.27

The table above shows BMO average quarterly forecasts for T-bill and banker's acceptance (BA) rates, an assumed spread difference derived from the difference of 1 and 3 month BA rates for the past two years using Bank of Canada data, and the resulting forecast 30 day BA rate.

The recommended short-term interest rate forecast for 2009/10 of 0.27% contrasts with Centra's forecast of 0.90%, representing a reduction of 63 basis points. Both forecasts exclude the effect of the 1% provincial guarantee fee.

Mr McCormick utilized the same methodology from the BMO forecast and calculated the short-term interest rate for 2010/11 to be 0.81% as follows:

2010/11 Short Term Forecast		2010 2Q	2010 3Q	2010 4Q	2011 1Q	Avg.
BMO Capital	3 Mo. T bills	0.28	0.76	1.24	1.72	0.76
BMO Capital	90 day BA	0.38	0.86	1.34	1.82	0.86
Assumed Spread Difference						- 0.05
	30 day BA					0.81

The above table shows an assumed spread difference derived from the difference of 1 and 3 month BA rates for the past two years using Bank of Canada data, and the resulting forecast 30 day BA rate for 2010/11.

Mr. McCormick stated that he had not tested the averages of the six major banks in the development of the rate recommendation.

Mr. McCormick further recommended that the Long term interest rate for 2009/10 to be 3.7%. The forecast was based on the period (February and March 2010) for when Centra is currently planning on issuing debt. In support of his recommendation, he determined an average period forecast for long-term 10 year Canadian rates for the first quarter of 2010 from the following sources:

10-Year Canada Rate	Date	2010 1Q
BMO Capital Markets	May-08-09	3.11
CIBC World Markets	April-28-09	3.00
National Bank	May-09	3.43
Royal Bank	May-08-09	2.63
Scotia Bank	May-01-09	2.95
TD Economics	March-12-09	2.88
	Average	3.00

The above analysis indicated an average rate of 3% for the first Quarter of 2010.

Mr. McCormick took issue with the 160 basis point credit spread determined by Centra for 2009/10, noting that the rate had been established when the spread was at a high point and that the trend for the credit spread was downward. He indicated that the credit spread had dropped from 160 basis points to approximately 105 to 110 basis points, in three months, and that if the downward trend continued it would drop in the order of 50 basis points in the next 2 to 3 months to approximately 70 basis points. Mr. McCormick recommended that 70 basis points be utilized for forecasting purposes for 2009/10.

Based on Mr. McCormick's analysis, forecast 2009/10 long-term interest rates should be adjusted to 3.7% (versus the 4.75% forecast by Centra), a reduction of 95 basis points.

Distribution of Long Term Debt

Mr. McCormick also questioned Centra's current forecast to issue $125 million in long term debt with a twenty year term, noting that short term debt was "on sale" and that Centra should take advantage of the lower shorter term rates. Mr. McCormick indicated that consideration should be given to differing long-term debt issues to the preference of shorter-term debt to take advantage of the low rates.

He also questioned the concentration of projected debt maturities related to the new issues and that 52% of Centra's long term debt is to mature in 2029 and 2030 during a 13-month period which exposes ratepayers, at that time, to refinancing risk. Mr. McCormick demonstrated that by issuing debt with a combination of different shorter-term maturities it would result in lower finance costs to ratepayers and would avoid the risk of refinancing a high concentration of Centra's debt in the 13 month period.

Short Term Advances From MH

Mr. McCormick also raised issues relative to the amounts charged on advances by MH whereby Centra is being charged more for its short-term debt than the cost for such debt incurred by MH. Mr. McCormick noted that the quarterly variance in funding rates available to MH were substantially different to the one month BA rate charged to Centra which has recently ranged from a 53 basis point difference in the September 2007 quarter to 99 basis points in the

December 2008 quarter. Mr. McCormick indicated that Centra was paying a premium for short term debt that is readily available. Mr McCormick indicated that Centra should be entitled to short term rates that are available on a pass through basis, or close to the associated cost of financing.

Mr. McCormick further stated that MH has a capacity to borrow up to $500 million and suggested that instead of converting short-term debt to long-term debt when a balance of short-term debt reaches trigger limit such as $200 to $300 million, MH should expand the trigger limit range (for example) by $75 million from $275 to $375 million. This would make more short term debt available to meet Centra's short term financing needs, which can approach $200 million in a quarter.

Evidence of Mr. Mark Stauft

CAC/MSOS' witness Mark Stauft reviewed Centra's gas supply, storage, and transportation arrangements, including its capacity management activities. In general, Mr. Stauft found the changes that Centra made to its supply, storage, and transportation arrangements to be in the interests of rate payers by pursuing a least-cost approach to acquiring these arrangements. Mr. Stauft commented that the reduction in firm transportation capacity has resulted in increased use of Supplemental gas. He did not consider this to be problematic, although the more Supplemental gas that is consumed the less Primary gas is consumed, which would affect the sales by third party gas marketers and retailers.

Mr. Stauft quantified the effectiveness of Centra's capacity management program by calculating a theoretical value for the gas Centra extracts from storage, based on the basis differential between the value of gas in the Michigan market compared to the Manitoba market. On any given day in the winter season when Centra is withdrawing gas from storage, the value of gas in Michigan may exceed that of gas delivered to Manitoba. In these circumstances, Centra can choose to exchange the gas in Michigan for an equal volume of gas in Manitoba and collect a premium for the transaction. In the instances when the differential is reversed, Centra instead will notionally backhaul the gas from its Michigan storage to Manitoba. This is accomplished by intercepting gas on the TransCanada mainline in Manitoba and injecting an equal amount of gas further downstream. By analyzing the monthly prices in the Michigan and Manitoba markets and using Centra's data for storage volume withdrawals, Mr. Stauft was able to estimate a theoretical value for what Centra could have earned through exchange transactions. Mr. Stauft concluded that Centra's historical earnings over the past three seasons were relatively similar and recovered about half of the theoretical value. He did not find that these results were unreasonable or that they indicated Centra did not operate its program appropriately.

Mr. Stauft used this conclusion to support his recommendation that Centra should investigate outsourcing its capacity management activities. Outsourcing these activities involves contracting with a third party for management of all of Centra's assets downstream of the Manitoba market. Mr. Stauft advocated that Centra contact various asset managers that are in the market and determine if there is interest in managing Centra's assets; if there is interest, Centra should develop a request for proposals and elicit proposals from these asset managers. Centra will then be in a position to evaluate whether there is significant value to be obtained from outsourcing the management of these assets. The expectation that a third party asset manager could extract more value from Centra's storage and transportation assets is based on the premise that the asset manager has greater access to different assets and transactions, has economies of scope and scale, would be more efficient, and has additional flexibility by not requiring that every transaction result in a guaranteed positive result.

Mr. Stauft proposed a specific asset management model, whereby Centra would contract with a third party asset manager to manage its downstream assets for the winter storage withdrawal period. The asset manager would pay Centra an amount based on the basis differential between Manitoba and Michigan and the amount of gas Centra withdraws from storage. Centra would maintain responsibility for nominating the volumes it requires from storage in order to serve the Manitoba load based on the weather conditions.

Evidence of Mr. Jerrold Oppenheim

CAC/MSOS' witness Jerrold Oppenheim advocated changes to the Furnace Replacement Program, including:

1. Replace all standard efficiency furnaces in lower income dwellings, including rental dwellings;
2. Replace all standard efficiency boilers in lower income dwellings, including rental dwellings, and increase the rebate such that the homeowner or tenant co-payment is the same as it is for replacing a standard efficiency furnace;
3. Replace all other standard efficiency furnaces in non-lower income dwellings under the terms of the existing program;
4. For non-lower income dwellings with standard efficiency boilers, scale the rebate for replacement of the boiler by a factor corresponding to the difference between the replacement cost of a boiler compared to a furnace;
5. Set an objective to replace all standard efficiency furnaces boilers within five years, after which time consideration can be given to replacing medium efficiency furnaces and boilers;
6. Amortize DSM expenditures over 15 years, except for furnace expenditures which should be amortized over 10 years; and
7. Adjust terms and financing of the program such that rates do not increase by more than was proposed in the original Application.

Mr. Oppenheim posited that the incentives for boilers could be increased and additional furnaces could be replaced without increasing rates beyond Centra's original Application, if Centra reverted to a 15 year amortization period for its DSM program and used a 10 year amortization period for furnace and boiler replacements. Justification for increasing the amortization period includes:

1. Long life assets are typically depreciated or amortized over many years since their benefits are enjoyed for many years; furnace replacements are no different since they provide a benefit to customers for many years. These benefits include lower bills and reduced arrears;
2. Implementation of IFRS does not preclude the recognition of regulatory assets, according to a study commissioned by MH/Centra; and
3. It reduces the short term rate impact of long-lived assets.

Non-Energy Benefits (Lower-income DSM)

Using the standard DSM benefit/cost tests, lower income DSM frequently does not pass the TRC or RIM tests. Mr. Oppenheim advocates quantifying and including non-energy benefits in these tests. These non-energy benefits include reduced arrears, reduced disconnections and reconnections, reduced account write-offs, reduced customer service, credit, and collection expenses, improved health and safety of occupants as they maintain their homes at a comfortable temperature, among many other benefits.

Although most observers would agree that these are in fact benefits, quantifying these benefits with a dollar amount is more complicated and varies from jurisdiction to jurisdiction. Mr. Oppenheim quantified the value of a number of these benefits in his evidence based on the experience and practice of several utilities in the United States.

Evaluating DSM Effectiveness

Lastly, Mr. Oppenheim advocated that Centra should develop a more thorough program for evaluating the effectiveness of its DSM programs. DSM programs should be adjusted to allow for the necessary data collection in order to properly evaluate the effectiveness of DSM programs. Evaluating the effectiveness includes determining whether the gas savings from each measure are as predicted, and will allow determination of whether each DSM program is actually meeting the Total Resource Cost and Rate Impact Measure tests. In the cases where the tests are not passed, Centra should modify the programs.

CEP Local 681

CEP was represented at the hearing by the president of Local 681, Mr. Sandy Boyd. Mr. Boyd presented a closing submission advocating that neither Centra nor MH should proceed with the AMI project until such time as the Board has had an opportunity to review the business cases for both the electric and gas versions of AMI.

Centra stated that MH was preparing the business case for AMI for its electric meters, and would be presenting this to the Executive Committee imminently. According to CEP, this means that MH could implement AMI for electric meters this year and spend millions of dollars, and the Board would not have an opportunity to review the cost impacts to Centra for two more years.

CEP stated that Centra's and MH's meter readers read the gas meters for $7.06 per meter per year, which is a small price to pay for the ancillary benefits of having a Centra or MH employee view each customer's meter set six times each year. These ancillary benefits include reporting of gas leaks, excessive piping strain around meter sets, code violations, and iced-over regulators.

CEP expressed its desire to have the opportunity to review and test the business case for the implementation of either the electric or gas AMI programs.

KOCH

By contract, Centra must supply gas to Koch at 651 psig. Because of instances of reduced supply pressure on the TransCanada mainline, Centra is planning on expanding the pipeline from the TransCanada take-off point to the Brandon Generating Station and Koch's plant. Koch disagreed with the need for this expansion, as the firm advised it had not noted any instances of reduced pressure.

In respect of the proposed rate increases, as the firm advocated at the last GRA, Koch expressed concern that it would experience a disproportionately large percentage rate increase compared with Centra's Mainline Firm customer class, which is the class with the most similar consumption characteristics to Koch.

Maple Leaf Foods

Maple Leaf Foods submitted a letter to the Board stating its opposition to the rate increases proposed by Centra.

Maple Leaf Foods calculated the bill impacts that it would experience as a result of Centra's original application of January 20, 2009 being implemented, and determined that the cumulative impact for their three facilities would be an increase to their annual natural gas bill of $480,000.

Maple Leaf Foods stressed the competitiveness of the pork processing industry, and such a bill impact would detrimentally affect its business in Manitoba.

Centra responded to Maple Leaf Foods and advised the firm that it had amended its application to correct an error, and that when the corrected rates were applied, the bill impact to Maple Leaf Foods of the implementation of Centra's initial proposal would be an increase in the order of $100,000, not $480,000. This projected annual increase has been further decreased by the amendments to Centra's application of May 29 and early June.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website, www.pub.gov.mb.ca.

5.0 IT IS THEREFORE RECOMMENDED THAT:

1. Centra continue to be cognizant of the costs for DSM that are built into rates for the various rate classes, and ensure that the incentives for Power Smart programs are properly allocated to the customer classes that are receiving them;
2. Centra favour expenditures from the AEF that are directed or at least prioritized towards non-government owned properties;
3. Centra prepare and release more Fixed Rate Offerings, with adequate volumes so as to disappoint as low a number of prospective customers as possible, as soon as possible to provide choice for consumers when purchasing Primary gas, and that Centra aggressively advertise the availability of its offerings;
4. MH review its current operational practices to ensure that Centra is provided sufficient short-term debt to meet its seasonal operational needs; and
5. Regarding discussions Centra has had with counterparties who expressed interest in managing Centra's supply, storage, and transportation assets, Centra provide detailed information, in confidence if necessary, on the specific contacts that Centra has had with any of these counterparties over the past five years.
6. Centra improve the marketing and reach of its FRP, but failing any demonstrable improvement in the take-up and participation in the FRP, Centra and MH should consider the formation of a separate energy efficiency agency that would be dedicated to the delivery of Centra's DSM and LIEEP programming.

6.0 IT IS THEREFORE ORDERED THAT:

1. Net Plant Additions to Rate Base for 2009/10 and 2010/11, as requested by Centra, BE AND ARE HEREBY APPROVED subject to the impact of Directives set out in this Order;

2. DSM expenditures included in Rate Base as a component of working capital allowance, BE AND ARE HEREBY APPROVED;

3. Centra's Application as filed and subsequently revised BE AND IS HEREBY APPROVED subject to the following:

   a. Finance Expense is adjusted by utilizing short term interest rate forecasts of 0.5% in 2009/10 and 1.0% in 2010/11, and long term interest rate forecasts of 4.0% in 2009/10 and 2010/11;

   b. $3.8 million is included in the revenue requirement for continuing the Furnace Replacement Program (FRP), and is to be funded by the Small General Service class;

   c. The $5 million accounting provision for IFRS and other risks to Centra in the second test year is denied;

   d. Amortization of DSM expenditures (with the exception of the expenditures related to the Furnace Replacement Program, which are to be expenses as incurred) is to be over a 10-year timeframe, consistent with the approach of Manitoba Hydro, on a prospective basis;

   e. Recovery of the majority of the revenue deficiency allocated to the SGS and LGS classes is to be by way of May 1, 2010 increases to the monthly BMC to $14 and $77, per month, respectively;

   f. The Primary Gas Overhead Rate, currently $1.63 per thousand cubic metres of natural gas, is to increase to $\$1.64/10^3m^3$ effective May 1, 2010;

4. The Board directs that Centra continue to fund the FRP in the amount of $3.8 million per year through rates to the SGS class. $3.8 million is to accrue to the FRP account regardless of the weather impact on revenues. The FRP is to continue at this level of funding beyond the test years until such time as Centra receives alternative direction from the Board, and any unspent funds are to accrue interest at Centra's actual short term interest rate;

5. The Board directs Centra to file a semi-annual status update report on the FRP, to begin with a report by December 31, 2009;

6. Centra to develop and file with the Board a revised marketing and promotional plan for the LIEEP and FRP, designed to educate and encourage lower income consumers to participate;

7. Centra is to undertake and file with the Board by December 31, 2009 a demographic study that will assist it in reaching the target demographic for its lower income programs.

8. The Board confirms that Centra is to continue pricing its Fixed Rate Offerings according to the pricing formula approved in Order 156/08, excepting that the Program Cost Rate for all new offerings from this date shall be $0.0262/m^3;

9. Centra to file for the Board's approval, by its next GRA, a revised interest rate forecasting methodology for rate setting purposes incorporating changes recommended by CAC/MSOS' witness Mr. McCormick, as follows:

   a. The use of all forecasts based on comparable average period data basis;

   b. The use and alignment of current date forecasts, excluding stale dated and superseded forecasts;

c. Utilization of forecasted long term interest rates which align with the period in which Centra intends on issuing new or refinancing existing long term debt;

d. A process to retrospectively test the accuracy of forecasters to assess their inclusion in future forecasts;

e. The use of only statistically independent forecasts; and

f. A proposed process to update the forecast in advance of the hearing if warranted.

10. Centra to perform a true-up and adjustment on a quarterly basis to ensure there has been no over- or under-recovery of short-term finance costs charged to Centra from MH;

11. Centra to file on or before March 1, 2010 a terms of reference for a study to review the Integrated Cost Allocation Methodology. The study is to be completed in sufficient time to be incorporated within the corporation’s next MH or Centra GRA;

12. Centra to calculate its DSM amortization for 2009/10 and thereafter based on a 10-year amortization period, and record its depreciation and amortization expense for rate setting purposes accordingly;

13. Centra to file a business plan with respect to the AMI project with the Board for its approval by January 15, 2010, and prior to proceeding beyond the pilot project expenditures. The business plan should include an assessment of the economic and non-economic benefits of AMI, including safety-related matters, for both the meter reader and for Centra’s customers;

14. Changes to Centra's Terms and Conditions of Service regarding company labour rates for chargeable services BE AND ARE HEREBY APPROVED;

15. Changes to Centra's Terms and Conditions of Service relating to new requirements for Interruptible Service class customers BE AND ARE HEREBY APPROVED;

16. Centra's proposed changes to the Terms and Conditions of Service, including the proposed additional charges for unauthorized over-runs and the requirement for Interruptible customers to maintain a functioning stand-by fuel source BE AND ARE HEREBY APPROVED;
17. Changes to Centra's Terms and Conditions of Service relating to the Western Transportation Service, specifically the gas loan mechanism and new requirements for natural gas marketers for submission of new customer sign-up lists BE AND ARE HEREBY APPROVED;
18. The elimination of the volumetric threshold on individual WTS contracts on a final basis BE AND IS HEREBY APPROVED;
19. Centra's request that it be allowed to aggregate the marketer submissions and process the batch no less frequently than once per week, in addition to requiring marketers to include a date field in their new customer list submissions BE AND IS HEREBY APPROVED;
20. The Board reaffirms its position that rate delay riders are not to be used to retroactively recover revenue that is not directly related to the cost of gas. The Board directs Centra to apply for a revenue requirement that is recoverable within the time frame for which its rates will be in force;
21. Centra is to prepare and file with the Board a discussion paper by December 1, 2010 advising whether Centra or MH should direct or mandate a specific energy source, such as natural gas, be made available to consumers, and whether Centra and MH should publish recommendations for the most economic and environmental fuel source;
22. Interim orders 174/07, 175/07, 176/07, and 52/08 relating to franchise agreement and crossing agreement renewals for the City of Brandon, the Village of St. Claude, the Rural Municipality of Grey, and the Rural Municipality of Russell BE AND ARE HEREBY APPROVED;

23. Changes to the Terms and Conditions of Service and final approval of interim order 102/08 relating to Service Disconnection and Reconnection Policies and Procedures BE AND IS HEREBY APPROVED;

24. Centra file revised calculations and schedules for Rate Base, Revenue Requirement, rates, and customer class bill impacts that reflect all of the Directives of this Order;

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

26. If and when Centra becomes aware of any material change in its financial circumstances, including but not limited to significant changes to accounting, gas supply, or operations, Centra must inform the Board of the change and the resulting impact or anticipated impact on Centra's financial position.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"GERRY GAUDREAU, CMA"
Secretary

Certified a true copy of Order No. 128/09 issued by the Public Utilities Board

Secretary