

Section:		Page No.:	
Topic:	Fixed Rate Primary Gas Service (FPRGS)		
Subtopic:			
Issue:	FPRGS		

PREAMBLE TO IR (IF ANY):

QUESTION:

Please provide a table which shows the gains or shortfalls for the FRPGS program from inception to date.

RATIONALE FOR QUESTION:

Is the FPRGS program working as envisioned?

RESPONSE:

The information to March 31, 2015 can be found in the table below.

FINANCIAL RESULTS FOR FIXED RATE PRIMARY GAS PROGRAM OFFERINGS FROM INCEPTION TO MARCH 31, 2015

Results reported in 000's

	Fiscal Mar 31/2009	Fiscal Mar 31/2010	Fiscal Mar 31/2011	Fiscal Mar 31/2012	Fiscal Mar 31/2013	Fiscal Mar 31/2014	Fiscal Mar 31/2015	Total Results
Primary Gas Revenue	\$0	\$388	\$617	\$870	\$1,091	\$941	\$465	\$4,372
Less: Primary Cost of Gas Sold								
Cost of Gas ¹	\$0	(\$263)	(\$353)	(\$442)	(\$531)	(\$696)	(\$316)	(\$2,601)
Hedge Cost for Delivered Gas ²	\$0	(\$65)	(\$207)	(\$288)	(\$269)	(\$119)	(\$42)	(\$990)
Total Cost of Gas Sold		<u>(\$328)</u>	<u>(\$560)</u>	<u>(\$730)</u>	<u>(\$800)</u>	<u>(\$815)</u>	<u>(\$358)</u>	<u>(\$3,591)</u>
Gross Margin		<u>\$60</u>	<u>\$57</u>	<u>\$140</u>	<u>\$291</u>	<u>\$126</u>	<u>\$107</u>	<u>\$781</u>
Unsubscribed Hedge Impacts ³	\$0	(\$76)	(\$238)	(\$202)	(\$166)	(\$100)	(\$63)	(\$845)
Program Operating Expense	(\$66)	(\$354)	(\$219)	(\$109)	(\$42)	(\$29)	(\$28)	(\$847)
Net Program Income (loss)	<u>(\$66)</u>	<u>(\$370)</u>	<u>(\$400)</u>	<u>(\$171)</u>	<u>\$83</u>	<u>(\$3)</u>	<u>\$16</u>	<u>(\$911)</u>
Other Costs								
Amortization of Start Up Costs ⁴	\$0	(\$100)	(\$100)	(\$100)	(\$100)	(\$100)	0	(\$500)
Mark to Market of Unsettled Hedges ⁵	(\$77)	(\$451)	\$52	(\$420)	\$561	\$267	\$13	(\$55)
Net Income Statement Impact	<u>(\$143)</u>	<u>(\$921)</u>	<u>(\$448)</u>	<u>(\$691)</u>	<u>\$544</u>	<u>\$164</u>	<u>\$29</u>	<u>(\$1,466)</u>

Notes and explanations:

- The cost of gas for the actual period is derived by applying the Fixed Rate Primary Gas Service contract volumes to the actual average unit cost of physical Primary Gas supplied to the load.
- The hedge cost for delivered gas is the difference between the locked in cost of gas for each offering and the AECO monthly firm market index price for each period, multiplied by the contract volumes consumed by customers. It also includes hedge impacts on over/under consumed volumes.
- Under/Over subscribed hedge impacts are the amounts either paid to or received from counterparties associated with excess hedge instruments due to under-subscription of offerings, as well as unhedged market price exposure impacts on over-subscribed primary gas volumes that have been subscribed but not hedged.
- The amortization of start up costs represents 1 year of amortization of the deferred costs related to the introduction of the FRPGS program. These costs are amortized over a 5-year period with the annual amortization being recorded against the FRPGS offerings made in each year.
- The mark to market cost of unsettled hedges for fiscal March 31, 2015 are the amounts expensed in fiscal 2014/15 relative to FRPGS hedges. During the future periods, these hedges will settle and the mark to market cost will be reversed.

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PREAMBLE TO IR (IF ANY):**QUESTION:**

Please confirm that the gains or shortfalls associated with the FRPGS are reflected in Centra's annual Net Income. Please indicate the specifics of where the figures are reflected.

RATIONALE FOR QUESTION:

Is the FPRGS program working as envisioned?

RESPONSE:

Yes, the gains or shortfalls associated with the FRPGS are reflected in Centra's annual Net Income.

Please refer to the table below showing where each line item from the FRPGS financial results (Refer to JEMPLP/Centra-1-1 for the financial results) can be found on Centra's Statement of Income.

FRPGS Financial Results	Centra's Statement of Income
Primary Gas Revenue	Revenue-Commodity
Primary Cost of Gas Sold <ul style="list-style-type: none"> • Cost of Gas • Hedge Cost for Delivered Gas 	Cost of Gas Sold
Unsubscribed Hedge Impacts	Cost of Gas Sold
Program Operating Expenses	Operating and Administrative Expenses
Amortization of Start Up Costs	Depreciation and Amortization Expense
Mark to Market of Unsettled Hedges	Cost of Gas Sold

Section:		Page No.:	
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PREAMBLE TO IR (IF ANY):

QUESTION:

Does Centra believe that the FRPGS is working as envisioned? Please explain in detail.

RATIONALE FOR QUESTION:

Is the FPRGS program working as envisioned?

RESPONSE:

Centra believes its FRPGS is proceeding as envisioned in terms of effectively providing greater choice of Primary Gas rates and supplier options for consumers. Centra recognizes that subscription to the FRPGS is lower than forecast. The market conditions that occurred over the past several years affected program participation and contributed to past financial losses. However, the resulting customer uptake is consistent with the findings of the Manitoba Hydro Natural Gas Customer Research Report, filed on June 14, 2007, as it relates to the premium customers are willing to pay for a Fixed Rate offering.

As indicated in the above mentioned survey report, customer interest declines as the fixed rate premium, when compared to the quarterly rate, increases. When the FRPGS launched in 2008, the premium for fixed rate products respective to the quarterly rate ranged from -5% to 20% for one, three, and five year terms. Under the most current offerings, the premium for FRPGS products has risen to 25% to 39% for one, three, and five year terms. The price premium is calculated by dividing the FRPGS billed rate by the quarterly rate. The following chart outlines the detailed price premiums for the first and most recent enrolment periods.

	FRPGS Term	FRPGS Billed Rate	Differential Price Gap Compared to Quarterly Rate
Enrolment Period 1	1-year rate	\$0.2670	-5%
February 19 to March 12, 2009	3-year rate	\$0.3234	16%
May 1, 2009 Flow Date	5-year rate	\$0.3349	20%
	Quarterly Rate	\$0.2799	
<i>Program Cost Rate \$0.0277 (approved December 23, 2008)</i>			
Enrolment Period 24	1-year rate	\$0.1481	25%
May 11 to June 12, 2015	3-year rate	\$0.1571	33%
August 1, 2015 flow Date	5-year rate	\$0.1641	39%
	Quarterly Rate	\$0.1183	
<i>Program Cost Rate \$0.0314 (approved August 2, 2013)</i>			