CENTRA GAS MANITOBA INC.

INTERIM APPLICATION FOR NON-PRIMARY GAS RATE RIDERS EFFECTIVE NOVEMBER 1, 2014

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1.0 Summary of Application

Centra Gas Manitoba Inc. ("Centra") is applying to the Public Utilities Board of Manitoba ("PUB") for an interim Order pursuant to section 47(2) of *The Public Utilities Board Act* approving changes to the rates charged for service to its natural gas customers. In this Application, Centra is seeking interim approval of changes to its Transportation (to Centra) and Distribution (to Customers) rates effective November 1, 2014 to reflect the implementation of new rate riders to recover the forecast net balance in the non-Primary Gas Purchased Gas Variance Accounts ("PGVA") and other gas cost deferral accounts to October 31, 2014. The projected net balance of all non-Primary Gas cost deferral accounts as at October 31, 2014, including carrying costs, is $45.7 million owing to Centra.

As part of this Application, Centra is proposing to recover the net balance of $46.7 million (owing to Centra) in the Supplemental Gas PGVAs, as at October 31, 2014, over a 24-month period beginning November 1, 2014 in order to mitigate the resulting impacts to customers' bills. Centra proposes to dispose of the net balance of $1.0 million (owing to customers) in the other non-Primary Gas cost deferral accounts over the traditional 12-month period.

The billed rates that Centra charges its customers are made up of two components, base rates and rate riders. Rate riders are temporary rate changes designed to either recover or refund the balances of Centra's various PGVAs and other gas cost deferral accounts. This Application deals with non-Primary Gas rate riders only. Consistent with past practice, Centra will seek adjustments to base rates for the 2014/15 gas year after the conclusion of the current gas year and as part of its next regulatory proceeding. Centra will also seek final approval of any interim Orders flowing from this Application at that time.

The background to Centra's interim Application is outlined in Section 2. Section 3 includes a description and summary of the balance in Centra's various non-Primary Gas cost deferral accounts to October 31, 2014. Section 4 provides a brief overview of cost allocation, proposed rate riders and rate schedules for implementation on November 1, 2014 and the customer bill impacts of the proposed rate changes.

2.0 Background

Centra last requested the implementation of new non-Primary Gas rate riders as part of its 2013/14 General Rate Application filed on January 25, 2013. On July 26, 2013, the PUB issued

Order 85/13 which approved the recovery by Centra of the net balance of approximately $14,000 in forecast non-Primary Gas cost deferral balances through rate riders effective from August 1, 2013 to July 31, 2014. On August 2, 2013, the PUB issued Order 89/13 approving rate schedules effective August 1, 2013 that reflected, among others, the implementation of the new rate riders. On July 24, 2014, the PUB issued Order 85/14 approving Transportation (to Centra) and Distribution (to Customers) rates that reflect the removal of these rate riders.

On January 29, 2014, Centra advised the PUB that the forecast net balance in the non-Primary Gas PGVA and other gas cost deferral accounts as at October 31, 2014, based on a November 1, 2013 strip date, was approximately $0.3 million owing to Centra. In the context of its overall gas costs, Centra did not consider the $0.3 million balance owing to it to be material and as such Centra advised that it did not intend to file a Cost of Gas application for the 2013/14 gas year.

During the 2014 winter heating season, Centra faced extreme weather conditions and unusual market circumstances which resulted in a significantly higher forecast net balance owing to Centra, compared to Centra's previous forecast. On June 12, 2014, Centra advised the PUB that it was forecasting that the net balance in the non-Primary Gas cost deferral accounts at October 31, 2014 would be approximately $45.7 million owing to Centra. Given the significant balance accumulated in the non-Primary Gas deferral accounts, Centra is now requesting interim approval to implement new rate riders effective November 1, 2014.

3.0 2012/13 & 2013/14 Non-Primary Gas Cost Deferrals

The projected balance of all non-Primary Gas cost deferral accounts, including carrying costs, for the 24-month period from November 1, 2012 to October 31, 2014 is $45.7 million owing to Centra. This balance is based on actual results up to April 30, 2014 and outlook results for the months of May 2014 through October 2014, based on a May 14, 2014 futures market strip.

The forecast net balance owing to Centra is largely the result of extreme weather conditions and unusual market circumstances experienced during the 2014 winter heating season. The extremely cold 2013/14 winter weather and the resulting high demand for natural gas resulted in Centra's outlook of its total 2013/14 gas year supply requirement increasing to approximately 55.5 million GJ, relative to the weather-normalized forecast of 47.9 million GJ. These weather conditions and their effects on the demand for natural gas were not isolated to Manitoba and were experienced in major natural gas consuming markets across North America.

In addition, during the time period from late January through February and March 2014, natural gas prices increased significantly and were highly volatile at hubs served either directly or indirectly off of the TransCanada Pipelines Ltd. ("TCPL") Mainline. These pricing events were the result of a combination of extremely cold weather and declining storage inventories across North America, combined with extraordinarily high TCPL discretionary transportation services tolls. The National Energy Board, in its RH-003-2011 Decision, granted unfettered discretion to TCPL to set prices for short-term discretionary transportation services on the Mainline. Throughout February and March 2014, TCPL set bid floors to transport gas on a discretionary basis as high as 55 times the daily equivalent Firm Transportation toll. This had the resulting effect of driving commodity prices to unprecedented levels in markets inter-connected with the Mainline.

Centra's exposure to these price increases was primarily related to Supplemental Gas supplies that were required to preserve storage inventory and reliability for Firm customers through to the end of the winter. The vast majority of the net forecast October 31, 2014 non-Primary Gas cost deferral balance of $45.7 million recoverable from customers is attributable to the 2013/14 Supplemental Gas PGVA.

Below is a brief description of Centra’s various non-Primary Gas cost deferral accounts and the balances accumulated in each account over the two gas years from November 1, 2012 to October 31, 2013 and from November 1, 2013 to April 30, 2014 with an outlook to October 31, 2014. As part of this Application, Centra has also included details of its actual purchased gas costs during the 2012/13 gas year compared to the forecast approved in Order 85/13, which can be found in Schedule 3.0.0, and details of Centra’s current outlook of purchased gas costs for the 2013/14 gas year compared to the initial forecast submitted to the PUB on January 29, 2014, which can be found in Schedule 3.2.0.

<u>Supplemental Gas PGVAs</u>

Supplemental Gas is natural gas provided from sources other than Primary Gas, including, but not limited to U.S. supplies, as well as Supplemental Gas withdrawn from storage and Peaking Delivered Services. Supplemental Gas is required to serve the Manitoba market peak day and seasonal requirements when such requirements exceed the combined deliverability of Centra’s sources of Primary Gas.

The $3.2 million balance owing to Centra in the 2012/13 Supplemental Gas PGVA (Schedule 3.5.0) was largely driven by higher than forecast Supplemental Gas purchases made during October 2013 as a result of colder than normal weather. Schedule 3.1.1 provides details of this account by month.

The majority of the 2013/14 Supplemental Gas PGVA outlook balance of $42.3 million owing to Centra (Schedule 3.5.0) is attributable to significantly higher than forecast costs for Supplemental Gas purchases during the months of January, February and March of 2014. During these months, approximately 10.9 million GJs of Supplemental Gas, excluding Alternate Service Supplies for curtailed Interruptible customers, were utilized to serve customer requirements. The average unit cost of these supplies was $8.04/GJ, as compared to the Weighted Average Cost of Gas ("WACOG") embedded in the currently approved Supplemental Gas base rate of $4.21/GJ for Firm customers. Schedule 3.3.1 provides details of this account by month.

<u>Transportation PGVAs</u>

The Transportation PGVA includes the costs associated with the various Canadian and U.S. pipeline systems and the costs of leasing U.S. storage capacity. While most of these costs are fixed charges independent of the volume transported, this PGVA also includes variable transportation costs, along with Centra's inventoried variable costs of storage transportation, as well as Primary Gas Delivered Service and Supplemental Gas Peaking Delivered Service imputed transportation costs.

The net 2012/13 and 2013/14 Capacity Management deferral account balances, as detailed in Schedules 3.1.4 and 3.3.4 respectively, are transferred into the Transportation PGVA at the conclusion of each gas year.

The 2012/13 Transportation PGVA balance of $4.5 million owing to customers (Schedule 3.5.0) results primarily from higher than forecast WACOG outflows due to colder than normal weather and the timing of the implementation of lower Transportation base rates on August 1, 2013, offset by Capacity Management revenues that were lower than forecast. Schedule 3.1.2 shows monthly Transportation PGVA inflows and outflows for the period.

The 2013/14 Transportation PGVA forecast balance of $5.9 million owing to Centra (Schedule 3.5.0) results primarily from imputed transportation costs on Supplemental Gas Peaking

Delivered Service supplies purchased during extremely cold weather conditions in order to preserve storage inventories and reliability for Firm customers, through to the end of the winter, and incremental Firm transportation capacity contracted by Centra on the TCPL Mainline in response to the pricing experienced at hubs interconnected with the Mainline. The majority of the remaining balance recoverable from customers is associated with Capacity Management revenues that were lower than the amount embedded in currently approved Transportation base rates. At the same time, colder than normal weather resulted in higher Transportation WACOG outflows serving to reduce the amounts owing to Centra. Schedule 3.3.2 provides details of this account by month.

<u>Distribution PGVAs</u>

The Distribution PGVA captures the cost of Unaccounted for Gas ("UFG") on Centra's distribution system. UFG volume losses are allocated between Primary Gas and Supplemental Gas and are accounted for monthly on the basis of the monthly average purchase cost of Primary supply and Supplemental supply delivered to Manitoba. The Distribution PGVA also includes charges on the Minell pipeline as an inflow to this account.

The 2012/13 Distribution PGVA balance of $1.6 million owing to customers (Schedule 3.5.0) results from lower than forecast UFG, and higher than forecast WACOG outflows due to colder than normal weather. Schedule 3.1.3 provides details of this account by month.

The 2013/14 Distribution PGVA outlook balance of $1.4 million owing to Centra (Schedule 3.5.0) is mainly attributable to higher natural gas commodity prices compared to the WACOG embedded in the currently approved Distribution base rate. Schedule 3.3.3 provides details of this account by month.

<u>Heating Value Margin Deferral Accounts</u>

Centra's approved rates assume a gas heating value of 37.8 $GJ/10^3m^3$. When actual heating values are less than 37.8 $GJ/10^3m^3$, customers consume greater volumes of natural gas than they otherwise would have in order to achieve the same level of energy. As customers' consumption is metered on the basis of volume rather than energy, Centra's gross margin is positively impacted as a result. In cases where actual heating values are greater than the 37.8 $GJ/10^3m^3$ embedded in rates, the opposite is true. As a result, Centra sets aside these positive and negative gross margin impacts in the Heating Value Margin Deferral Account for refunding to, or recovery from, customers in future periods.

The heating values for the 2012/13 gas year averaged below those reflected in current rates, and the heating values for the 2013/14 gas year are also expected to average below those reflected in current rates, resulting in a net residual of approximately $0.7 million owing to customers (Schedules 3.1.5 and 3.3.5).

<u>July 31, 2013 Prior-Period Gas Deferrals Account</u>

In accordance with Order 89/13, rate riders were implemented on August 1, 2013 to dispose of a net amount of approximately $14,000 owing to Centra associated with non-Primary Gas cost deferral balances accumulated in prior periods. Schedule 3.4.0 provides the details of these balances, as well as the actual and forecast amortizations. As a result of much colder than normal weather and higher than forecast rate rider amortizations, it is projected that a residual balance of $250,000 including carrying costs will be owed back to customers by October 31, 2014.

<u>Summary of All Non-Primary Deferral Balances to October 31, 2014</u>

The total of all non-Primary Gas cost deferral balances as at October 31, 2014, incorporating actual results up to and including April 2014 and outlook results for May 2014 through October 2014 (based on a May 14, 2014 futures market strip), is a net balance of $45.7 million owing to Centra including carrying costs. These amounts are detailed on Schedule 3.5.0.

4.0 Cost Allocation, Rate Design and Bill Impacts

Below is a description of the allocation of the various balances in the non-Primary Gas cost deferral accounts to the various customer classes, the calculation of rate riders, and the resulting bill impacts to the various customer classes.

<u>Allocation of Non-Primary Gas Deferral Accounts</u>

The balances in the various PGVAs arise as a result of the differences between the gas cost inflows and the offsetting WACOG outflows for each of the two gas years. In addition, the PGVA balances include actual carrying costs up to April 30, 2014 and forecast carrying costs for the months of May 2014 through October 2014. The process of allocating the resulting balances among the rate classes is accomplished by first allocating the cost inflows to each rate class (i.e. the cost responsibility of each rate class), and then identifying what portion of the WACOG outflows was (or is projected to be) “paid for” by each rate class over the two gas years. The allocation of the non-Primary Gas deferral accounts is consistent with past methodology.

The cost accumulation of $46.7 million in the Supplemental Gas PGVA accumulated primarily during the months of January, February and March 2014 when market prices for natural gas increased significantly due to the near record cold temperatures experienced throughout most of North America. The total $46.7 million accumulation includes the balances flowing from the 2012/13 and 2013/14 gas year Supplemental Gas PGVAs, the Supplemental Gas Prior Period Residual and carrying costs. Centra is proposing to recover the $46.7 million balance over a 24-month period in order to mitigate the resulting impacts to customers' bills.

This balance has been almost entirely driven by the energy consumption of Firm service customers. Interruptible customers experienced periods of curtailment and either availed themselves of Alternate Supply Service or relied on their stand-by fuel source throughout the period of the cost run-up. Consequently, only $0.8 million of the Supplemental Gas PGVA is attributed to Interruptible customers.

The results of the allocation of the various non-Primary Gas deferral accounts are provided in Schedules 4.1.0(a) to 4.1.0(c). The table below summarizes the allocation by customer class, including each customer class' anticipated contribution towards the recovery of the Supplemental PGVA in each of the two years:

2012/13 & 2013/14 Gas Year Total Deferral Balances (000$)	Total	SGS	LGS	HVF	Mainline	Interr.	SC	PS
Year 1	22,347.9	11,259.8	8,134.8	2,723.0	318.3	48.4	(73.3)	(63.0)
Year 2	23,344.0	11,763.0	8,676.7	2,268.6	252.3	383.3	-	-
Total Deferral Balances	45,691.9	23,022.8	16,811.6	4,991.6	570.6	431.8	(73.3)	(63.0)

Rate Design

Centra is proposing to recover the $46.7 million balance in the Supplemental Gas PGVA over a 24-month period beginning November 1, 2014 and ending October 31, 2016. Centra recognizes the unusual circumstances that gave rise to the sizeable accumulation in this PGVA and intends to recover the balance over a period longer than the traditional 12-month period to moderate the impacts on customers' bills. Proposed rate riders to refund other non-Primary Gas deferral account balances, which total approximately $1.0 million owing to customers, reflect a 12-month disposition period to expire on October 31, 2015. Schedule 4.1.1 provides the calculation of the proposed unitized rate riders. Centra has applied the Supplemental rate rider to the Distribution (to Customers) rate for all customer classes consistent with past practice.

Centra has adjusted the volume and demand forecast for rate rider determination purposes in order to reflect the migration of eight former Interruptible customers to Firm service as of November 1, 2013. This adjustment has been made in order to appropriately calculate the rate riders, as these customers contributed to the accumulation of the Firm Supplemental PGVA balances and will be responsible for their share of those costs through the respective sales rates for HVF and LGS classes.

Centra has also considered the impacts of Supplemental Gas rate rider recoveries on Interruptible customers that have switched to Firm service since the end of the 2013/14 winter and those that are currently considering the move to Firm service. Interruptible customers experienced periods of curtailment through the February and March 2014 period. Those Interruptible customers that availed themselves of Alternate Supply Service from Centra directly paid the actual gas costs incurred by their individual facilities throughout this period. As such, these customers generally did not contribute to the accumulation of cost in the Supplemental PGVA.

Centra proposes that those Interruptible customers that migrate to Firm service on or after May 1, 2014 be charged the Interruptible Supplemental Gas rate rider beginning on November 1, 2014, instead of paying the Firm Supplemental Gas rate rider for the proposed recovery period. This treatment is proposed to expire coincident with the expiry of the proposed rate riders at October 31, 2016.

Centra is proposing this temporary rate rider treatment in order to ensure that Interruptible customers that switch to Firm service would not be subjected to the recovery of the Supplemental Gas costs to which they did not contribute. Given the large consumption associated with these customers, the impact on individual customers could be significant if this temporary treatment is not implemented. In Centra’s view, this approach fairly treats Firm and Interruptible customers recognizing their different circumstances with respect to the accumulation of the Supplemental Gas costs over the last winter heating season.

For the Special Contract class, a total residual of $73,349 is to be refunded as shown in Schedule 4.1.0(c). This is primarily driven by an over collection related to UFG and a refund related to Heating Value Deferrals. Consistent with past practice, Centra will refund this residual as a lump sum payment in November 2014, assuming PUB approval of the rate riders flowing from this Application. Similarly, Centra will provide a lump sum refund of $63,023 to the Power Stations class, which is primarily driven by an over collection related to UFG.

<u>Bill Impacts</u>

Schedule 4.2.0 provides the annualized bill impacts of the proposed sales rates to be implemented November 1, 2014 for the various customer classes. As summarized in the table below, the annualized bill increase for the typical residential customer is approximately $39 per year or 4.6% compared to August 1, 2014 billed rates. For other SGS and larger volume customers, the annualized bill increases range from 0.1% to 11.9% depending on customer class, load factor and usage.

Nov 1/14 Interim Rates Application			Annual Impacts Billed Rates	
Customer Class	Consumption (10^3M^3)	Load Factor	$ Impact	% Change
SGS	11.3		$188	5.5%
	2.4		$39	4.6%
	1.0		$17	3.6%
LGS	679.9		$11,071	6.8%
	11.3		$185	5.1%
HVF	850	25%	$25,496	11.9%
	12,600	75%	$179,068	6.5%
Mainline	41,000	75%	$871,132	11.2%
	2,833	40%	$65,103	10.6%
Interruptible	850	25%	$989	0.5%
	14,164	75%	$2,314	0.1%

Schedules 4.3.0 and 4.3.1 provide the currently approved August 1, 2014 rates, as well as the November 1, 2014 proposed billed rates that reflect the new rate riders. For those Interruptible customers who migrate to Firm service as noted above, Centra has prepared a Distribution (to Customers) rate for the LGS and HVF customer classes. These Distribution (to Customers) rates reflect the Interruptible Supplemental rate rider and will be applicable only to those Interruptible customers who meet the criteria discussed above.

5.0 Conclusion

Centra is hereby requesting approval from the PUB, on an interim basis, of Transportation to (Centra) and Distribution (to Customers) rates effective November 1, 2014 that reflect the implementation of rate riders to recover the forecast net balance in the non-Primary Gas PGVAs and other gas cost deferral accounts to October 31, 2014. Centra is proposing to recover the net balance in the Supplemental Gas PGVA over a 24-month period in order to mitigate the potential bill impacts on customers of recovering this amount over the traditional 12-month period. Consistent with past practice, Centra is proposing to dispose of the balance in the other non-Primary Gas cost deferral accounts over a 12-month period. Centra will seek final approval of the rate changes flowing from this Application as part of its next regulatory proceeding.