The Public Utilities Board

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M A N I T O B A	)	Order No. 3/96
	)	
THE PUBLIC UTILITIES BOARD ACT	)	January 30, 1996

Before: G. D. Forrest, Chairman
Catherine Milner, Member
W. C. Pearson, Q.C., Member
Glenda Russell, Member

Centra Gas Manitoba Inc.
Application for an Order of the Board to:

1. Review and Finalize Various 1993 and 1994 Deferral Accounts
2. Approve, in principle, the continuation of Price Management Activities
3. Approve, as final, the Interim Rates established in Board Order No. 74/95
4. Approve 1995 Annual Base Rates flowing from Board Order No. 74/95
5. Approve revised Reporting Requirements to the Board for Monitoring Purposes
6. Review the status of various directives from Board Order No. 49/95
7. Approve 1996 Annual Base Rates to be effective January 1, 1997
8. Approve 1996 Interim Rate Riders to be effective January 1, 1996
9. Review and Approve Direct Purchase Services

The Public Utilities Board

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1.0 APPEARANCES

R. F. Peters K. L. Kalinowsky	Counsel for the Public Utilities Board of Manitoba (the "Board")
J. E. Foran, Q.C.	Counsel for Centra Gas Manitoba Inc. ("Centra")
B. J. Meronek, Q.C. R. J. Graham	Counsel for the Consumers' Association of Canada (Manitoba) and the Manitoba Society of Seniors ("CAC/MSOS")
J. T. Brett	Counsel for Direct Energy Marketing Ltd. ("Direct")
P. Scully	Counsel for ECNG Inc. ("ECNG")
P. Budd	Counsel for Enron Capital Resources ("Enron")
J. Carstairs	Counsel for Municipal Gas Company Ltd. ("Municipal")
G. J. Pratte	Counsel for Novagas Clearinghouse Core Ltd. ("Novagas")

2.0 WITNESSES FOR CENTRA

J. D. Brett	Vice-President, Gas Supply and Corporate Secretary
B. J. Klippenstein	Manager, Gas Supply
G. W. Meyer	Co-ordinator, Regulatory Affairs

3.0 REGISTERED INTERVENORS

CAC/MSOS	Represented by B. J. Meronek, Q.C. and R. J. Graham
Direct	Represented by J. T. Brett
ECNG	Represented by P. Scully
Enron	Represented by P. Budd
Municipal	Represented by J. Carstairs
Novagas	Represented by G. J. Pratte

Coast Pacific Management Inc.	
Communications, Energy & Paperworkers Union, Local 681	Represented by J. Hayden
Manitoba Energy & Mines	Represented by R. Floom
Mutual Gas Association	
Simplot Canada Limited	
TransCanada Gas Services	Represented by B. Bullen

4.0 BACKGROUND

Centra's last General Rate Application ("GRA") was based on a 1995 future test year and was the subject of Board Order No. 49/95, dated May 5, 1995. This Order directed Centra to file reports with the Board dealing with a number of issues and also to refile its cost allocation study, rate design and rate schedules to incorporate various Board approved adjustments to Centra's original GRA. Centra refiled the required information, and in Board Order 74/95, dated June 23, 1995, the Board approved interim rates, to be effective from July 1, 1995 to December 31, 1995.

The interim rates included rate riders related to the following deferral accounts: 1993 Purchase Gas Variance Account ("PGVA"); 1994 PGVA (including the impact of 1994 price management activities); 1994 Non-Traditional Revenues; 1994 Heat Value Margin Deferral Account; and revenue impacts resulting from a previously allowed volume adjustment for disconnected customers. These rate riders were implemented so that the various 1993 and 1994 deferral account balances would be eliminated by December 31, 1995, at which time the rate riders would be removed from the rates. The rates were approved on an interim basis and were to be confirmed or otherwise dealt with pending a review of the deferral account balances and the allocation of these balances to Centra's various customer classes.

5.0 APPLICATION

Centra filed an application, dated September 22, 1995 for an Order or Orders of the Board for the following:

1. To examine and approve the disposition of the balances of various 1993 and 1994 deferral accounts including the results of Centra's 1994 price management activities. The balances in these accounts were included in the interim rates approved in Board Order 74/95;

2. To approve in principle the continuation of price management activities following a review of Centra's price management policies, practices and procedures;

3. To confirm, as final, the interim rates established in Board Order 74/95;

4. To approve 1995 annual base rates to be effective on and after January 1, 1996 unless Centra makes a further application to the Board.

5. To establish the reporting requirements to the Board for purposes of monitoring the actual performance of Centra; and

6. To review the status of various directives that may be outstanding from previous Board Orders.

One of the issues at the 1995 GRA hearing was the method of calculating the broker reference price, (i.e. the price which Centra pays for the Western Canadian Basin gas that it purchases from Brokers). In Order 49/95, the Board directed Centra to resolve this matter by November 1, 1995 in consultation with the Broker community. Centra had convened a series of meetings with interested parties but had not resolved this matter at the time of its September 22, 1995 application.

Direct retained the services of Mr. R. D. Knecht to assist them in this hearing. Mr. Knecht provided pre-filed testimony related to the re-definition of a broker reference price, continuation of the PGVA, cost allocation and rate design matters and bill design. Counsel for Centra, in a letter dated October 27, 1995, requested that Mr. Knecht's evidence not be dealt with at the hearing as, in Centra's opinion, the evidence was outside the scope of the hearing and should be considered at some different time.

A public hearing commenced at the Holiday Inn Crowne Plaza in Winnipeg, Manitoba on October 31, 1995 to consider Centra's application, including Centra's motion to exclude Mr. Knecht's evidence. Parties expressed various opinions as to the relevance of Mr. Knecht's evidence, the relationship of the disposition of the balance in the 1994 PGVA to a redefined broker reference price, the issue of adequate notice, 1996 rates and other matters. A consensus was reached by all parties that the hearing be postponed to December 4, 1995. Centra indicated that in the interim it expected to make an application to the Board for approval of January 1, 1996 rates which would reflect 1996 forecast gas costs. Centra also undertook to convene a meeting with interested parties on November 15, 1995 in an attempt to resolve the issue of redefining the broker reference price.

On November 10, 1995 Centra applied to the Board for approval of:

1. New annual 1996 base rates. These rates would be based on 1996 forecast gas costs (as up-dated at the hearing) while all other cost of service components would remain as approved by the Board in Orders 49/95 and 74/95;

2. Interim rates, to become effective January 1, 1996, which include rate riders, for the disposition of the balance of the 1995 PGVA, the 1995 non-traditional revenue variance account and the 1995 heat value deferral account; and

3. A revised methodology for the calculation of the broker reference price.

In a letter dated November 27, 1995, the Board requested that Centra address the issue of an appropriate return on equity (ROE) for 1996 in light of current interest rates and Order 49/95. In letters dated December 1, 1995 and January 9, 1996, Centra responded to the Board's enquiries by requesting that 1996 rates not be impacted by any change in ROE.

A public hearing was reconvened at the Hotel Fort Garry, in Winnipeg, Manitoba from December 4 to December 7, 1995 to consider Centra's applications. Closing argument was held at the Board's Office on December 11, 1995.

On December 4, 1995, Counsel for Direct requested that the evidence of Mr. Knecht be withdrawn from the hearing. The Board accepted this request and ruled that the evidence would be retained as part of the record but would not be considered in the Board decision. Centra filed several undertakings arising from the hearing subsequent to closing argument. Included in the filing after the closing argument were documentation respecting the advertising of Centra's non-regulated equipment rental program (ERP), proposed further actions in respect of the ERP, Centra's Board of Director's Resolution dealing with its Price Management Policy and minutes of Centra's Hedging Committee Meetings. These minutes were filed with the Board on a confidential basis.

6.0 PRICE MANAGEMENT ACTIVITIES

The cost of gas is a pass through cost to the consumer with Centra arranging for the supply but not profiting from the sale of gas. Centra earns its profits from the distribution network which is apart from the supply function. With the gas year beginning in November, 1993, Centra, instead of negotiating a fixed price for its gas supply, negotiated the use of an indexed pricing mechanism reflecting the New York Mercantile Exchange ("NYMEX") price for natural gas with the attendant price fluctuations of the commodity market.

At the GRA hearing held in the fall of 1993, Centra stated that it had begun to investigate the principles and mechanics of a price management program to attempt to minimize risks associated with an indexed variable price arrangement, and expected to have a strategy in place by the end of January, 1994. In Board Order 8/94, dated January 28, 1994, the Board instructed Centra to file, when available, its philosophies and proposed strategies in respect of its approach to the management of the cost risks associated with the use of the NYMEX pricing mechanism. Centra was also instructed to advise the Board, on a monthly basis in conjunction with the PGVA reporting requirements,of all its activities with respect to price management activities for the previous month and future proposals. In response to this directive, Centra filed a letter dated June 23, 1994 which set out three price management transactions for June and July, 1994 volumes, and a subsequent letter dated February 21, 1995 summarizing the price management activities from August, 1994 to January, 1995. Centra subsequently advised that it did not enter into any additional transactions that affected 1994 or 1995 gas costs.

As part of the 1995 GRA, Centra requested some indication as to whether or not the Board was supportive of the general philosophy of price risk management, subject to Centra demonstrating that it acted prudently and reasonably in executing its price management plan. Although Centra had expected to file a price risk management plan with the Board in January, 1994, it did not do so until January, 1995 at which time a draft plan was filed with the Board in confidence. Centra undertook initial price management activities in early 1994. Thereafter, a consultant was retained to perform specific risk assessments and calculations relative to supply portfolios. A draft report was reviewed by Centra in May, 1994, but Centra implemented its price management program rather than wait for the final report and approval from Centra's Board of Directors confirming that price risk management was an appropriate strategy. During the 1995 GRA, Centra acknowledged that the price management program was in its infancy, and the rigorous checks and balances required to ensure the integrity of price risk management were not yet in place.

In Board Order 49/95 the Board stated that it was satisfied that a price risk management plan may be of benefit to consumers, but expressed concern with what the costs of an unsuccessful plan might be to the consumers. The Board also expressed concern that price management transactions had been executed prior to filing the strategy with the Board, and that certain internal controls were not yet in place. The Board directed that the demonstrated proficiency and prudence in carrying out such a plan must be examined before determining that it will be of benefit to Manitoba consumers. The Board directed Centra to file information on the price management activities in connection with this hearing relative to the approval of certain deferral accounts.

In the current application, Centra is seeking approval on a final basis of the results of its price management activities for 1994 gas costs and the results of its price management activities for 1995 gas costs on an interim basis. Centra is also requesting approval in principle of the continuation of its price management activities pursuant to the Board's review of its price management policies, practices, and procedures on a prospective basis.

Centra submitted that its 1994 and 1995 price management program had been "stellar" even though overall gas costs would have been lower by about $3.2 million for 1994 and $2.3 million lower for 1995 if no price management transactions had been undertaken. Centra contended that their overall gas costs compared favourably to gas costs for other Canadian LDCs and to gas costs flowing from fixed price contracts for that year.

Centra stated that, for 1994 the estimated fixed price would have been \$2.40/GJ, the "unhedged" price at \$2.025/GJ, while Centra's hedged price was \$2.095/GJ. The comparable 1995 numbers are \$1.90/GJ, \$1.41/GJ and \$1.46/GJ, respectively. Centra stated that a trade publication "Natural Gas Hedger" estimated that Centra Ontario's equivalent price for 1994 was \$2.289/GJ, Consumer's Gas for a 12 month period ending November 1994 was \$2.266/GJ and Union gas price for a 12 month period ending March 31, 1995 was \$2.24/GJ.

Centra engaged in price management activities in 1994 for June, July, October, November and December 1994 volumes and some 1995 volumes. The details of these 1995 activities will be reviewed upon application for final disposition of 1995 PGVA balance.

With respect to the 1994 price management activities, Centra suggested that the Board consider whether Centra had acted prudently, taking into account the prevailing market circumstances at the time any decisions were made. Centra stated that because the 1993/94 winter heating season was quite cold, storage throughout the industry had been significantly depleted. It was anticipated that there would be greater than normal demand for storage refill and that gas prices would increase in response to that demand. Centra hedged June and July volumes at a price which it considered would be at or near the lower end of the price spectrum. However, contrary to the expected trend, the market continued to fall, resulting in a market price lower than Centra's hedged prices for these two months.

Gas prices were at a relatively high level from January to mid July of 1994 for the October, November and December contracts. In July, the prices dropped by about \$0.60 U.S. per MMBtu. Centra undertook its August hedging activity as its market analysis indicated that the low prices would not hold. Subsequent to this transaction, prices stabilized for a short period of time but then continued to decrease. Similar circumstances resulted in Centra engaging in its September hedging activity. Centra submitted that as a result of its market analysis, price tracking and consultation, it had reason to believe that the market price would increase. However, the market price continued to decrease such that Centra's hedged price was greater than actual market prices.

Centra suggested the Board's statement in Order 49/95 that "Centra wants to be taken off the hook" misrepresented Centra's 1994 intention in requesting approval in principle of its price management program. Centra suggested that it would not be taken off the hook, as individual transactions would still be subject of scrutiny and the prudence of these transactions would be evaluated in terms of the program's adherence to Centra's adopted principles, policies and practices. In response to a Board information request, Centra filed a copy of its Price Management Policy which was formally adopted by Centra's Board of Directors on November 23, 1995. Centra indicated that while it was not seeking Board approval of the policy, it was seeking Board approval of the principles and procedures in the policy.

The Policy is composed of a description of the Overall Program and of the Control Structure. It includes a Credit and Policies Procedure intended to minimize credit risks associated with entering price management transactions with counterparties. The Policy also delineates systems and processes in place to control and report price management activities.

Centra's evidence is that the administrative costs of the 1994 price management program were approximately $70,000 for salaries, travel, consulting service and computer software. The 1995 costs are estimated to be about $85,000 and future costs, on an annualized basis would be in the range of $100,000 to $110,000.

6.1 INTERVENORS' POSITIONS

CEPU

CEPU recommended that the Board allow Centra to continue with its price management program, but that this program be closely monitored by the Board to ensure that it would be to the benefit of Centra's customers, as stated in the Policy.

CAC/MSOS

Counsel for CAC/MSOS expressed reservations about Centra's price management activities in four areas:

1. whether Centra had adequately shown that the price management program benefited rate payers and even if this were so;

2. if Centra's approach to price management was the appropriate one;

3. Risk Management generally focuses on reducing price uncertainty and that its justification is that customers are willing to pay more for the commodity in return for price stability. Risk Management translates into higher gas costs by an amount equal to the cost of the transaction. Counsel for CAC/MSOS contended that Centra was using an entirely different approach and that the program was entitled "Price Management" by design to signify this different approach.

4. Centra's price management objective was to "beat the market" and that this was tantamount to using ratepayer's money to speculate, without Centra having to assume any of the attendant risk. CAC/MSOS submitted that Centra had not demonstrated that the benefits of reduced price volatility justified the costs of the transactions.

CAC/MSOS also submitted that Centra engaged in these activities prematurely and that Centra had no right to put ratepayer funds at risk prior to Board approval of the program. Additionally, Centra did not follow Board directives respecting reporting of the results of price management activities in a timely fashion. The 1994 program was undertaken when Centra personnel, by their own admission, were not fully aware of how the program would function. CAC/MSOS contended that Centra had hedged based on insufficient market analysis and poor advice leading Centra to assume that prices would increase.

CAC/MSOS questioned Centra's view that a measure of the success of the program was the comparative fixed price of gas and the prices paid by other Canadian LDCs. In the opinion of CAC/MSOS, the fixed price comparison is only an indicator of how the market functioned and not of the success of Centra's program. The comparison to other LDC prices is limited in value in that they are estimated prices and have not been analyzed to determine if appropriate comparisons can be made.

CAC/MSOS submitted that in 1994, Centra personnel embarked on a learning experience in price management and that ratepayers alone should not bear the full costs as a result of this experience. CAC/MSOS recommended that the Board assess the amount to which Centra should share in its own "apprenticeship training". In respect of future price management activities, CAC/MSOS agreed that Centra is now developing performance measures, has a policy formally approved by its Board and is engaging in technical statistical analysis. Finally, CAC/MSOS urges that a sophisticated price management program should "be embarked on with sedulous caution".

DIRECT

Counsel for Direct suggested that it would be inappropriate to review Centra's transactions in hindsight, as it was unrealistic to remain neutral in such a circumstance. Direct stated that Centra did not appear to be ready to deploy price management techniques when it agreed to the indexed pricing mechanism. Direct also questioned the appropriateness of the performance measures employed by Centra in evaluating the effectiveness of their program and recommended that Centra file a more thorough price management plan with the Board. Direct supported Centra's request that the Board approve the continuation of its price management program.

MUNICIPAL

Municipal agreed with CAC/MSOS that, if the Board determined that Centra had acted imprudently in instituting its price management program, particularly in its first year of operation, when Centra had no formal procedures in place, nor had conducted any technical analysis, then the negative effects of price management should be borne by the shareholders of Centra and not the customers.

GENERAL

As discussed in Section 13 of this Order, all Intervenors representing Agents, Brokers and Marketers recommended that Broker supplied volumes not form part of the volumes eligible to be hedged by Centra.

6.2 BOARD FINDINGS

PRICE MANAGEMENT PROGRAM

The Board is of the view that a price management policy is an appropriate and prudent response to the change in gas purchasing arrangements from an annual fixed price to a monthly indexed pricing mechanism. Centra has confirmed that the purpose of the price management activities at all times is to manage the risk of exposure to price volatility, and not to speculate in the gas market. Centra has further confirmed that at all times the onus remains with Centra to demonstrate that the price management transactions have been executed in a reasonable and prudent manner. It is on this basis that the Board will approve in principle the use of price management techniques.

The Board expects that the price management activities for 1996 and beyond to include consideration of exposure to foreign exchange rates with respect United States sourced gas, storage costs and transportation arrangements. The Board further expects full and timely reports of price management activities, including any policies developed with respect to foreign exchange risk exposure, in conjunction with the reporting process discussed elsewhere in this Order.

The Board will conduct a detailed review of price management activities from time to time in a public forum to assess the program's performance and value, at all times considering the benefits to the consumers as a primary indicator of the measure of success of the program.

1994 AND 1995 TRANSACTIONS

The Board, in Order 8/94, directed Centra to file its proposed price management strategies with the Board, and further directed Centra to advise the Board, on a monthly basis, of its activities in respect of price management. Centra's response to this directive was less than timely, filing a letter dated June 23, 1994 providing limited information on price management activities in April, 1994 and a letter dated February 21, 1995 also providing limited information for the balance of the price management activities affecting the 1994 and 1995 gas costs. Most of the transactions set out in the February 21 letter were executed in

August through December, 1994. The draft price management policy was not filed with the Board until January, 1995, long after all of the transactions had been executed.

Centra has acknowledged that it is in its infancy in the area of price risk management and, at the time the trades were executed, the rigorous checks and balances needed to ensure the integrity of the transactions were not in place. In addition, Centra's Board of Directors did not formally approve the price management policy and program until late 1995.

The Board concurs with the arguments expressed by CAC/MSOS that Centra entered into price management activities which resulted in a significant increase in the 1994 and 1995 cost of gas at a time when there was no approved program in place, and personnel were inexperienced and on a learning curve. Quarterly plans did not exist, and there were limited controls such as trading limits, monitoring processes, approval processes and other controls in place together with the appropriate market analysis necessary to test the validity of individual transactions. In addition, Centra was not responsive on a timely basis to various Board directives.

As a consequence, the Board is unable to conclude that all of the price management transactions that affected the cost of gas for 1994 and 1995 were executed in a prudent and reasonable manner. In this circumstance, it is not appropriate for the consumers to fully fund the consequences of these transactions. The Board will therefore order that the PGVA accounts for 1994 and 1995 be recalculated to eliminate all carrying costs related to price management activities in 1994 and 1995, and that the amount of the carrying costs so determined be included as a reduction in determining the 1996 interim rates.

7.0 REVIEW AND FINALIZE 1993 AND 1994 DEFERRAL ACCOUNTS

Centra is seeking approval for final disposition of the balances of six 1993 and 1994 deferral accounts. These six deferral accounts are:

1 - 1993 PGVA
2 - 1994 PGVA
3 - 1994 Gas Volumes Transportation Sales/Swaps Deferral Account
4 - 1994 Capacity Release Program Deferral Account
5 - 1994 Heating Value Margin
6 - 1994 Disallowed Volumes due to Disallowed Customers

7.1 1993 PGVA

The function of the PGVA is to ensure that the rates charged to customers will recover all of the gas costs incurred by Centra, so that neither Centra nor its customers will gain or lose on the unit cost of gas purchased. The PGVA is charged every month with the actual cost of gas purchased or withdrawn from storage and is relieved each month by an amount equal to the monthly sales volumes multiplied by the unit cost as set by Board Order for rate-setting purposes. Any difference between the actual unit cost of gas and the cost of gas used for rate-setting purposes will produce a residual balance in the PGVA. The residual balance will either be an amount owing to Centra or an amount owing to customers.

The 1993 PGVA accumulated the differences between Centra's assumed weighted average cost of gas ("WACOG"), based 1993 forecast gas supply mix and estimated gas costs (outflows) and the actual as billed 1993 gas costs (inflows). 1993 was the first year in which Centra entered into a variable priced gas supply contract, indexed to the NYMEX futures market. Centra also entered into downstream storage and related transportation arrangements at that time. These changes occurred effective November 1, 1993. Prior to that date, Centra had a fixed price for its contract demand gas supply. As a result Centra utilized two WACOG values (each consisting of a gas cost component and an unaccounted- for-gas cost component) in 1993: one from January 1, 1993 to October 31, 1993 and the other for the balance of the calendar year. The inflows to the 1993 PGVA consist of actual as billed fixed, variable transportation, gas commodity, peaking supply and propane costs based on actual 1993 volumes. The outflows from the PGVA are a product of actual sales volumes and the approved WACOG.

The balance in the 1993 PGVA is $924,579 ($778,497 plus $ 146,082 for 1994 and 1995 carrying costs), owing to Centra. This amount was collected from Centra's various customer classes on an interim basis as one of the rate riders approved in Order 74/95.

Following is a summary of the 1993 PGVA balance, excluding carrying costs:

Component:	Dollar	Variances		
	Volumes	Rates/Tolls	Supply Mix	Total
Outflows:	$2,977,637	$0	$10,980,335	$13,957,972
Inflows:				
Demand Optimization	(2,182,453)	146,754	0	(2,035,699)
Storage Demand - Nov/Dec	4,423,872	0	0	4,423,872
STS Transportation	0	255,859	0	255,859
Transport. Credit - Nov/Dec	0	0	200,000	200,000
TCPL Transportation	0	195,610	0	195,610
Compressor Fuel	153,717	245,292	0	399,009
Storage Variable Charge	0	0	8,179,408	8,179,408
WGML Supply - Nov/Dec	0	0	8,389,238	8,389,238
From Storage - Nov/Dec	0	0	(4,256,508)	(4,256,508)
Oklahoma Supply	0	0	1,252,447	1,252,447
Coastal Gas Peaking	(335,235)	627,043	(2,581,140)	(2,289,332)
Supplemental Peaking	424,552	(93,972)	0	330,580
Propane	38,918	6,956	0	45,874
Other	0	0	0	(240,740)
U.S. Exchange	0	0	0	(113,149)
Total Inflows	$2,523,371	$1,383,542	$11,183,445	$14,736,469
Net 1993 PGVA:	($454,266)	$1,383,542	$203,110	$778,497

The interim allocation of the 1993 PGVA balance, including carrying charges, was done in a manner consistent with Centra's 1992 test year allocation methodology, using 1993 actual sales and transportation volumes. The required revenue from each of Centra's customer classes was determined by applying a rate rider on all volumes within each customer class, from July 1, 1995 to December 31, 1995.

7.2 1994 PGVA

During 1994, Centra's commodity costs of gas, other than spot gas purchases, were based on variable prices, using the NYMEX index, basis differential(s) and foreign exchange rates. The supply portfolio included Western Canadian gas from WGML and Brokers, spot market gas from Western Canada, U. S. based supply, downstream storage and related transportation, supplemental peaking supply and propane peak shaving supply. The results of Centra's price management activities affecting 1994 volumes are also included in the 1994 PGVA. The 1994 PGVA tracked and accumulated the difference between the WACOG and actual as billed gas costs on a monthly basis throughout 1994. The balance in the 1994 PGVA was $4,199,244 owing to

Centra ($3,720,113 plus 1994 and 1995 carrying costs of $479,131).

Following is a summary of the 1994 PGVA balance, excluding carrying costs:

Component:	Dollar Variances			
	Volumes	Rates/Tolls	Supply Mix	Total
Outflows:	($2,133,262)	$0	$0	($2,133,262)
Inflows - Fixed Costs:				
TCPL Demand Charge	0	309,079	9,619	318,698
U.S. Demand	0	5,130,901	0	5,130,901
U.S. Exchange	0	766,155	0	766,155
Union Supply	0	(258,000)	0	(258,000)
Sub-Total:	0	5,948,135	9,619	5,957,754
Inflows - Variable Costs				
TCPL Transportation	(40,406)	188,272	0	147,866
U.S. Transportation	142,809	(618,001)	0	(475,192)
TCPL Backhaul	(227,945)	0	0	(227,945)
Compressor Fuel	252,913	(94,401)	0	158,512
Storage Withdrawal	126,099	0	0	126,099
Sub-Total:	253,470	(524,130)	0	(270,660)
Supply Costs				
Supply Costs - Canadian	(7,195,779)	(3,100,055)	0	(10,295,834)
Supply Costs - Oklahoma	554,397	(113,581)	0	440,816
Supply Costs - Storage	5,391,608	(756,107)	0	4,635,501
Union Peaking	712,562	7,042	0	719,604
Delivered Service	0	0	365,873	365,873
Sub-Total:	(537,212)	(3,962,701)	365,873	(4,134,040)
Inflows - Propane Supply	(46,950)	0	0	(46,950)
Prior Period Adjustment	0	0	0	80,747
Total Inflows	($330,692)	$1,461,304	$375,492	$1,586,851
Net 1994 PGVA:	$1,802,570	$1,461,304	$375,492	$3,720,113

7.3 NON-TRADITIONAL REVENUES

Non-traditional revenues include transactions between Centra and non-franchise customers that take place outside of Centra's franchise areas and also includes the provision of non-traditional services to in-franchise customers. Transactions include the sale of excess inventory and the temporary release of transportation capacity for use by another party. The sale of excess inventory occurs after a certain point in the winter when it is possible to determine the extent to which maximum year winter conditions are no longer probable and the requirement for storage inventory decreases. During 1994 a substantial portion of the revenue generated was related to the sale of excess storage inventory.

Other types of non-traditional revenues for 1994 include short term loans of volumes from storage during winter. The use of coincident physical swaps and exchanges of gas between Manitoba and storage gas withdrawn and delivered into the Great Lakes system at various points is another non-traditional transaction. Finally, the provision of other services to in-franchise customers is a category of non-traditional revenues. An example of this is the B.C. Sugar delivered service which was approved by the Board in Order 115/95, dated November 27, 1995.

Another form of non-traditional revenues is the temporary release of transportation capacity for use by another party. This can take the form of an outright recovery of a portion of the transportation cost embedded in the purchase of Western Canadian supply and the subsequent sale of that supply downstream which recovers some transportation costs through the combination of the two transactions. The market for these transactions is such that at any given time there is likely only one party that is capable or willing to enter into such an arrangement. The transactions are arranged through discussions with the potential customer.

Centra is able to conduct such transactions because its supply load factor on the Trans-Canada PipeLine system and the location of its Michigan storage leaves a considerable amount of capacity available at certain times of the year.

Non-traditional revenues are accumulated in the 1994 Gas Volumes Transportation Sales/Swaps Deferral Account and the 1994 Capacity Release Program Deferral Account.

The following are the net revenues due to Centra's entering into non-traditional transactions in 1994:

Transaction Type	Total Cost ($)	Total Revenue ($)	Net Benefit ($)
Sale of inventory	3,752,175	5,592,982	1,840,807
TCPL capacity	1,140,480	1,683,371	542,891
TCPL buy/sell	6,865,898	7,105,432	239,534
U.S. buy/sell	2,612,100	2,710,735	98,635
B.C. Sugar	967,028	1,447,058	480,030
Loans	133,915	160,472	26,557
Swaps/exchang es	N/A	N/A	440,868
Total Net Benefit			$ 3,669,322

Centra explained that all costs charged against these transactions are incremental, as fixed costs are recovered through customer's rates. These transactions were considered to be risk free other than the credit risk of the other party with whom Centra is conducting the transaction. Centra had made a short-list of qualified buyers with an "A" credit rating with whom it would enter into such transactions.

Centra expects to increase the number of such transactions and anticipates that these transactions will become more complex. However, Centra expressed its intent to be conservative in entering into such transactions. Centra will also ensure that it can adequately meet the gas supply needs of its customers in Manitoba.

7.4 1994 HEATING VALUE MARGIN DEFERRAL ACCOUNT

The purpose of the Heating Value Margin Deferral Account is to capture the effect of variations in actual gas heating values from a base heat level embedded in the approved rates. This amount is calculated by multiplying the volume variation in throughput due to heating value times the approved retail rates and subtracting from this amount the heat value component already captured in the PGVA.

The approved rates for 1994 were based on a gas heating value of 38.0 $GJ/10^3$ M^3 whereas the actual heating values for 1994 were lower, ranging monthly from 37.63 to 37.85 $GJ/10^3$ M^3. The result was a revenue deferral total of $1,811,618 credit and an impact to the cost side of $1,286,518 which is captured in the 1994 PGVA. The net of the two entries is a 1994 heat value balance of $525,100 which along with carrying costs of $21,463 is owing by Centra to customers. The amount of $1,286,518 is being refunded through the PGVA.

7.5 DISALLOWED VOLUMES DUE TO DISCONNECTED CUSTOMERS

In Order 91/94, dated June 10, 1994, the Board allowed a volumetric adjustment of 3,279 10^3 M^3 to Centra's 1993 GRA related to disallowed volumes due to disconnected customers and allowed the impact of this change to be deferred. The deferred amount was calculated as the revised commodity component of gas cost and allocated in accordance with Centra's Cost Allocation Study to the revised overall costs and volumes applicable to each customer class. This resulted in the establishment of different sales rates which, when applied to revised 1993 test year volumes generated different revenues. The difference in revenues using former and revised rates was the amount deferred. This amount ($385,982 plus interest for a total of $422,309) was recovered by way of a rate rider to the July 1, 1995 interim rates.

7.6 INTERVENORS' POSITIONS

The Intervenors advanced positions in respect of the price management activities, future storage and related transportation arrangements and broker reference price retroactivity as these impact on 1993 and/or 1994 PGVA balances. These matters are discussed in Sections 6, 9 and 13 of this Order. None of the Intervenors addressed the matter of the disposition of the remainder of 1993 and 1994 deferral account balances.

7.7 BOARD FINDINGS

During the 1995 future test year GRA hearing, the methodology used for the allocation of the 1993 and 1994 deferral accounts was approved by the Board. Detailed cost allocation schedules were not provided at that time but were to be filed for the final review of those accounts. During this hearing, Centra stated that the cost allocation data for the balances in the 1993 and 1994 deferral accounts had been lost and that if the data could not be located, considerable effort would be required to reproduce that information. Subsequent to the hearing, Centra located and provided the Board with the 1993 PGVA allocation data. Centra also provided the Board with the actual number of customers and customer class volumes for 1994. Centra was, however, unable to locate and provide the detailed 1994 capacity related gas costs allocations to the various customer classes.

The Board has reviewed the information supplied by Centra at the last GRA hearing and will accept the calculation of the total balance in each of the 1993 and 1994 deferral accounts and the carrying costs. The Board also is satisfied that the commodity component of 1994 gas costs, allocated on the basis of actual annual consumption by class is correct. The Board notes that the commodity component of the cost of gas is approximately 78% of the total gas costs. The Board is satisfied that the allocation of the 22% of capacity related gas costs to the various customer classes is sufficiently accurate so as not to require Centra to undergo the added expense of recreating those capacity allocation factors. The allocation was initially done on the basis of 1993 test year volumes, with the interim disposition being based on 1994 actual volumes. A check of the allocation of actual 1994 gas costs indicates that no significant variation would result.

The Board will approve on a final basis the disposition of the balances of the following Deferral Accounts: 1993 PGVA, 1994 Heat Value Deferral Account, Disconnected Customer Volume Adjustment Deferral Account, and the 1994 Non-Traditional Revenue Deferral Account. Because of the Board's decision on price management, the balance and interim disposition of the 1994 PGVA will not be approved. Rather, the Board will require Centra to file new 1994 PGVA Schedules and to reflect any necessary adjustments arising from this decision in the rates to be effective February 1, 1996.

8.0 1995 INTERIM RATES & 1995 ANNUALIZED RATES

Board Order 74/95 approved 1995 rates to be effective July 1, 1995 on an interim basis. These rates included rate riders related to the 1993 and 1994 deferral accounts discussed in Section 7.0 of this Order. The Board gave interim approval only, pending a full review of the balances within these deferral accounts and the allocation of these balances to Centra's various customer classes.

The Board did not approve the annualized components of the interim July 1, 1995 rates in Order 74/95. Centra is requesting that the Board approve the annualized rates which, absent any other changes in Centra's cost of service, would have become effective on January 1, 1996. On November 23, 1995, Centra applied for different January 1, 1996 rates based on revised 1996 gas costs and interim disposition of 1995 deferral account balances. However, Centra still requested that the Board approve the annualized 1995 rates because the new 1996 rates were premised on the assumption that the annualized 1995 rates would have taken effect on January 1, 1996. The 1995 annualized rates are, in fact, the July 1, 1995 interim rates, with the full affects of all rate riders removed as of December 31, 1995.

8.1 INTERVENORS' POSITIONS

None of the Intervenors specifically commented on any aspect of Centra's request for Board final approval of 1995 Interim rates or the 1995 annualized rates.

8.2 BOARD FINDINGS

The Board recognizes that the 1995 annualized rates will not be implemented because Centra has filed a further application for new rates based on forecast change to 1996 gas costs. However, for Centra's administrative purposes the Board will approve, on a final basis the 1995 annualized base rates attached as Appendix "A" to this Order. As discussed in Section 7.7 of this Order, the Board will approve the 1995 interim rates from Order 74/95 as final, for administrative purposes but will require the February 1, 1996 rates to reflect, amongst other things, the Board's decision with respect to the 1994 PGVA.

9.0 1996 ANNUAL BASE RATES

Centra applied for Board approval of annualized base sales and transportation service rates for 1996. The rates were based on the 1995 test year period data as approved in Order 49/95 and forecast 1996 gas costs. These forecast gas costs resulted, for the most part, from a renegotiated gas supply contract between Centra and TransCanada Gas Services (TCGS). Other changes in gas costs resulted from different tolls, tolling structures and peaking supply arrangements anticipated for 1996. During the hearing, the issue of an appropriate return on equity and the resultant impact on 1996 revenue requirements and rates was also discussed.

9.1 TRANSCANADA GAS SERVICES CONTRACT

Centra and TCGS agreed to an amended gas supply contract, which had received TCGS producer support, to become effective on November 1, 1995. The contract does not require specific Board approval and Centra is only requesting Board approval of the 1996 rates based, in part, on gas costs flowing from this contract. The terms and conditions of the amended contract differ from the previous arrangement in four major areas: Indexing Mechanism, Basis Differential calculation, Term Factor and determination of the Daily Contract Quantity (DCQ).

The price of gas, under the previous agreement, was determined using the NYMEX indices for 100% of all volumes flowing under the TCGS contract. The amended indexing mechanism was structured so that the price payable to TCGS is calculated by using the NYMEX index for 85% of the volumes and an Empress based index, as reported in the Canadian Gas Price Reporter for 15% of the volumes. This indexing achieves market driven prices and the partial use of the Empress based index better represents the market price of Western Canadian Basin gas.

The method of determining the Basis Differential for 1996 was amended to reflect the mid-point of the bid/offer quotes from the three financial institutions, as opposed to the offer quotes from the financial institutions previously used. Additionally, the period for the determination was shortened to the last three trading days (from all days in the entire month previously used) when the September futures contract trades as the prompt month. Because of the delay in reaching an agreement for the 1995/96 gas year, the period used for the 1996 basis differential was the last three days when November was trading as the prompt month. Centra stated that the basis differential so determined was $0.768 U.S. per MMBtu, which was $0.258 greater than the 1995 differential of $0.51 U.S. per MMBtu. The basis differential is deducted from the NYMEX index, resulting in gas cost reductions.

The term factor was previously calculated as being 3.75% on 70% of the volumes flowing under the TCGS contract, effectively 2.625% of all the volumes under contract. The amendment stipulates a term factor of 2.65% on 100% of the contract volumes which translates into a small gas cost increase. Centra testified that for the Producers the term factor represents added value of the long term security of supply guaranteed under the contract; Centra's opinion is that it more properly reflects Centra's right to increase its daily DCQ by up to 5%. This daily variability right was valuable in that it enabled Centra to better manage its takes to improve the load factor. A take load factor less than 85% does, under the contract, trigger a supplemental charge (penalty) payable by Centra to TCGS.

Under the prior arrangements Centra was able to vary its DCQ once a year while under the amended agreement Centra will be able to vary its DCQ on a quarterly basis. This allows Centra greater flexibility to accommodate the net volume impact of those customers who either opt for direct purchase supply or who return to system supply. This, in turn, improves Centra's supply load factor and allows it greater opportunity to achieve the 85% load factor threshold.

Based on the current arrangements with TCGS, Centra provided the Board with the 1996 commodity cost of gas using the 20 days of NYMEX quotes ending November 28, 1996 of $1.343 Canadian per Gigajoule (GJ). Rather than representing Centra's forecast of 1996 gas costs, this is an arithmetic calculation based on those NYMEX quotes.

9.2 OTHER GAS SUPPLY COSTS

Most other elements of Centra's estimated 1996 gas costs have also changed to reflect increased demand charges and various transportation tolls of pursuant to National Energy Board approvals on the TransCanada PipeLine (TCPL) system. The Great Lakes Gas Transmission (GLGT) transportation tolls have been changed because of the Federal Energy Regulatory Commission (FERC) decision to re-instate the rolled-in tolling methodology, combined with the arrangement between Centra, ANR Pipeline and GLGT.

Centra is proposing to eliminate the use of its propane peak shaving capacity of 850 10^3 M^3 per day and the 850 10^3 M^3 per day of ANR incremental peaking arrangement of storage withdrawal capability. Centra was now satisfied that this peaking requirement could be met by purchasing spot supplies, given the state of the current gas supply markets. The elimination of the prior peaking arrangements reduced the fixed costs by $636,000 while the estimated cost of replacement

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arrangements was $108,000. The matter of the prudence of the disposition of the propane facility and the replacement of "needle" peaking requirements with other supply will be a matter to be dealt with at the next GRA.

The 1996 estimated gas costs of $135,664,100 represent a decrease of $19,407,000 (12.46%) over the gas costs embedded in Centra's current 1995 sales rates. The details of these costs are shown on the following table.

COST OF GAS

	UNITS	VOLUMES	1995 APPROVED	1996 PROPOSE	DIFFERENCE
Fixed Costs:					
TCPL CD Demand			$20,911,900	$21,866,600	$954,700
TCPL STS Demand			1,202,200	1,274,800	72,600
Storage Capacity			15,648,100	13,758,100	(1,890,000)
US Pipelines Demand			11,850,500	7,573,100	(4,277,400)
Other			198,400	234,400	36,000
Sub-Total			49,811,100	44,707,000	(5,104,100)
Variable Transportation:					
TCPL Transportation	10^3 M^3	1,267,745	373,800	373,700	(100)
US Pipelines Transportation	10^3 M^3	24,704	466,400	2,574,700	2,108,300
Storage Withdrawal	10^3 M^3	270,034	2,833,000	2,084,700	(748,300)
Other	10^3 M^3	0	0	0	0
Sub-Total	10^3 M^3	1,562,483	3,673,200	5,033,100	1,359,900
Transportation Receipts	10^3 M^3	276,567	0	0	0
Gas Available For Storage and Transportation	10^3 M^3	1,839,050	3,673,200	5,033,100	1,359,900
Commodity Costs:					
Western Canadian Supplies	GJ	48,174,316	77,120,000	64,695,200	(12,424,800)
Arkoma	GJ	938,745	1,844,100	2,039,300	195,200
Storage	GJ	10,220,835	22,506,500	19,081,300	(3,425,200)
Other	GJ	40,442	116,300	108,300	(8,000)
Sub-Total	GJ	59,374,338	101,586,900	85,924,100	(15,662,800)
Total Gas Available For Sale			$155,071,200	$135,664,200	($19,407,000)

9.3 RETURN ON EQUITY

In Centra's GRA based on a 1995 future test year, Centra proposed a formula approach for establishing return on equity (ROE). Centra suggested that the formula approach would reflect changes in the capital market, avoid use of time consuming and costly expert testimony, improve the efficiency of the hearing process by reducing hearing time devoted to ROE, determine an ROE that was fair to both shareholders and consumers, and be practical and readily understood by all parties. Centra suggested that the option to re-examine the formula be considered at least every three years, and further suggested that the formula be allowed to operate for the 1995 and 1996 future test years. The Board's approval of a formula approach for ROE is set out in Order 49/95.

Prior to the commencement of this hearing, the Board, by letter dated November 27, 1995, asked Centra to advise what the 1996 ROE would be based on the approved formula, and, if the ROE was different from that currently allowed by the Board, to provide the Board with comments regarding the implications of the revised ROE on rates to be effective January 1, 1996.

Centra responded by letter dated December 1, 1995. In that letter, Centra indicated that the 1996 revised ROE based on the formula was 11.28%, compared to the 1995 allowed ROE of 12.12%. Centra further submitted that the 1996 revenue deficiency using the revised ROE and reflecting 1996 forecast rate base, cost of service and volumes was in the range of $1 million. Centra is of the view that a general threshold of approximately $1 million deficiency or excess does not justify the filing of a GRA. Centra therefore concluded that it would not file a GRA because the cost of the hearing would approximately equal the revenue deficiency they would be seeking. Centra did however undertake to file a more comprehensive report before the end of December, 1995. In the December 1, 1995 letter, Centra also expressed the view that an ROE change would not automatically adjust rates, but that after consideration of all facts, Centra would seek the Board's approval to change or not change rates.

By letter dated January 9, 1996, Centra filed information with the Board indicating that the 1996 revenue deficiency using the approved formula for determining ROE applied to the 1996 forecast rate base and utilizing 1996 cost of service and volumes was $900,400. Centra also stated that, in their view, the objectives of the formula approach had been met, and that the 11.28% ROE generated by the formula was "fair relative to the forecast Long Canada rates and recent ROE rulings in other jurisdictions." Centra also stated that it was not their expectation that "rates would be adjusted automatically each January 1 to reflect increases or decreases as a result of the formula ROE being updated. As well, Order 49/95 does not specifically address the matter of an automatic rate adjustment due to a change in the formula ROE in the absence of a GRA."

9.4 ALLOCATION OF 1996 REVENUE REQUIREMENT

The revised 1996 gas costs are functionally classified and allocated to Centra's various customer classes in a manner using classification and allocation factors consistent with those used in the 1995 test year GRA. As well, numbers of customers and annual normalized volumes per customer class and all other data used to allocate 1996 gas costs are identical to those which were approved in Order 49/95 subsequent to the 1995 GRA hearing. The 1996 costs of gas and consequently the allocation of these costs reflect changes in unit gas costs and in the supply mix. The amounts and allocations of all other cost of service elements are identical to those approved in Order 49/95.

9.5 RATE DESIGN AND RATES

Centra is proposing to retain its existing classes of customers and rate structure for those customer classes. Because the proposed annualized rates reflect only gas cost changes, the Transportation Service Customers are largely unaffected, except for the unaccounted for gas cost component. Centra has retained 1995 test year revenue to cost (R/C) ratios for all of its customer classes, except for the Special Contract Class. The rates for this class remain at the same level pursuant to an agreement between Centra and this customer and consequently the R/C ratio is affected differently.

9.6 INTERVENORS' POSITIONS

CAC/MSOS

Counsel for CAC/MSOS cross examined Centra's witness on the matter of the gas supply portfolio, most specifically on the ANR Pipeline storage arrangements, the Louisiana Basin storage re-fill arrangements and the appropriate levels of Centra's Michigan storage. In closing argument, CAC/MSOS expressed concern about the " ... types of arrangements and the availability of arrangements out in the marketplace, given the evolution of the gas marketing business..." and welcomed Centra's pending review in respect of an optimal gas supply portfolio. CAC/MSOS also suggested that Centra's annual expenditures related to gas storage may not have been optimized and that storage levels should be as close to fully depleted as possible at the end of the winter season. Storage inventory represents a capital cost item for which rate payers pay a return on inventory to Centra.

In respect of the ROE issue, CAC/MSOS argued that Order 49/95 was silent as to what regulatory process might be followed in circumstances where the approved rate of return had been significantly reduced, pursuant to the formula approach adopted in that Order. CAC/MSOS agreed with Centra that return on rate base is but one component of overall revenue requirement and should be considered in the normal course of a GRA. CAC/MSOS expressed an opinion that a change in the ROE should not necessarily result in a rate change to ratepayers. CAC/MSOS expressed a further concern that the 1996 revenue deficiency of $1.0 million is not definitive, but could perhaps be a revenue surplus, after detailed scrutiny by the Board. CAC/MSOS suggested also that a review of the comprehensive report to be filed by Centra with the Board prior to the end of 1995 be conducted by all parties to satisfy themselves that a 1996 revenue deficiency exists.

In response to Centra's letter of January 9, 1996, CAC/MSOS wrote a letter to the Board dated January 22, 1996 wherein they expressed concern whether the 1996 revenue deficiency of $900,400 is acceptable. CAC/MSOS did not want to challenge Centra's letter at the present time. CAC/MSOS recommended that the 1996 rates, insofar as they relate to non-gas costs, be ordered on an interim and refundable basis. When the 1997 GRA hearing is held, 1996 costs can be reviewed and adjusted on a final basis, upwards or downwards depending on the results.

DIRECT

While counsel for Direct questioned Centra on the matter of the criteria which Centra used to establish the storage requirements, he did not advance any position on this matter.

9.7 BOARD FINDINGS

COST OF GAS

The Board notes that witnesses for Centra testified that the commodity costs of $1.343/GJ for Western Canadian gas used by Centra in this application do not represent Centra's commodity gas cost forecasts for 1996. The Board further notes, however, that Centra witnesses testified that except for the cost of the transactions the volumes which are priced at the $1.343/GJ could be hedged at about that level for all of 1996, at this time. The Board also notes Centra witnesses's statement that it would be fair for the Board to judge the prudence of the results of Centra's 1996 price management activities against the price of $1.343/GJ. Any differences between actual gas costs and gas costs embedded as the 1996 WACOG in rates will continue to be accumulated in the 1996 PGVA for disposition at a future time. The Board will accordingly order that the unit rate of $1.343/GJ be embedded in the 1996 annual base rates.

The Board will, however, direct Centra to provide the Board with its gas costs forecasts to be embedded in rates for the next and all subsequent rate change hearings. The Board will also consider the entire matter of the composition and use of the PGVA and the impact of the existence of the PGVA on Centra's apparent reluctance to forecast gas costs. In the future test year regulatory model, all other cost of service elements are forecast.

As discussed in Section 11.2 of this Order, the Board will require

Centra to file its estimate of annual gas costs based on the most recent information available as part of the quarterly reports to be filed with the Board.

RETURN ON EQUITY

It is the Board's view that in the absence of a GRA or any other evidence before the Board, there should be an automatic rate adjustment each January 1 to reflect the required rate increase or decrease, if any, as a result of the ROE formula. This approach clearly places the onus on Centra to consider all the factors and to seek the Board's approval either to change or not change rates. Centra must, however, provide the appropriate information to the Board on a timely basis that will enable the Board and other interested parties to review the information prior to January 1 of each year.

In the current application, the information was not received by the Board until January 9, 1996, over four weeks following the close of the hearing. As a consequence, the Board is once again placed in the difficult position of having to render an important decision without the benefit of having a reasonable opportunity to scrutinize the information. In addition, the Board is denied both the benefit of input from other intervenors and the opportunity to examine Centra witnesses in a public forum. This situation is further complicated by the fact that the calculation of the revenue deficiency set out in Centra's letter of January 9, 1996 includes several technical matters that are of interest to the Board, if for no other reason than the fact that they are different from the methodologies approved in the Order 49/95.

It is obvious that there is confusion regarding the application of the formula approach to ROE, and this is a matter that will require clarification at the next GRA. The Board is of the view that the application filed by Centra relative to 1996 interim and annual rates that is completely silent relative to the ROE is in no way responsive to the directives of the Board on this matter. In the absence of a GRA for the 1996 test year, the onus was clearly on Centra to present the 1996 operating results prior to the start of this hearing. It is unfortunate that the information was not received on a timely basis and not until requested by the Board.

The Board will approve no change in the requested interim and final rates relative to the ROE. The Board will accept the recommendation of CAC/MSOS that the 1996 rates, insofar as they relate to non-gas costs, be approved on an interim refundable basis. The 1996 operating results will be reviewed at a subsequent hearing, likely the 1997 test year GRA, measured against an 11.28% ROE in accordance with the formula, and a revenue deficiency of $900,400 as set out in the January 6, 1996 letter. In particular, the Board will review Centra's continuing initiatives to control costs and improve operating efficiencies, as well as other technical changes from the 1995 GRA. If, as a result of the review the Board is not satisfied that the 1996 interim refundable rates were appropriate, then the necessary adjustments will be made to revenue requirement at that time.

10.0 1996 INTERIM RATES

Centra's application includes a request for Board approval related to the disposition of estimated balances in three separate 1995 deferral accounts, which include interest: 1995 PGVA - $7,290,683; 1995 non-traditional revenues - $2,704,333; and the 1995 Heat Value Margin Deferral Account - $332,392. The balance of $10,327,408 in these accounts is calculated using 10 months of actual data, to the end of October, 1995 with the data for the remaining two months being estimated. The allocation of the balances to Centra's customer classes was done using the approved 1995 test year cost allocation methodology. The only change to this approach was the use of actual 1995 data, to the extent it is known at this time instead of the test year data. Because a detailed review of these accounts could not be conducted at this time, Centra is seeking approval on an interim basis. These accounts will be reviewed in detail at the time final disposition of the balances is requested.

10.1 INTERVENORS' POSITIONS

None of the Intervenors advanced any position with respect to the requested 1996 interim rates, except that CAC/MSOS indicated a detailed review upon final disposition of the account balances should be undertaken.

10.2 BOARD FINDINGS

The Board, in the normal course, would not consider the disposition of the balances in a deferral account until all aspects of that account were known. In this case, however, because of the significant amounts refundable to Centra's customers, the Board will approve the interim disposition of the balances, together with carrying charges,except for the carrying costs associated with the 1995 price management transactions, to commence on February 1, 1996. The Board will require Centra to refile its 1996 interim rate schedules in a manner such that those rates will accommodate the disposition of the appropriate balances in these accounts based on volumes from February 1, 1996 up to and including December 31, 1996.

The Board will order Centra to file an application for approval of final disposition of these balances in conjunction with the next GRA filing. The Board will also require Centra to utilize a heat value content of 37.8 GJ per 10^3 M^3 for 1996 and to further address the matter of an appropriate heat value content to be used for future rates in the next GRA.

11.0 REPORTING REQUIREMENTS FOR MONITORING PURPOSES

Centra currently provides the Board with numerous reports in the areas of Engineering, Gas Supply, Regulatory and General Accounting; and Credit and Collection. Centra submitted that the reports should satisfy one or more of the following criteria:

* keep the Board apprised of situations and activities relevant to the safe operation of the natural gas distribution system.

* assist the Board in monitoring the financial and operational performance of Centra so as to be aware of any significant variations from forecasts.

* assist the Board in monitoring matters relevant from a public interest perspective.

Centra proposed that the reporting requirements in respect of the Engineering function and within the area of Credit and Collections continue to be discussed with representatives of Centra, the Board and Board Advisors to improve the efficiency of the process. This review would eliminate reports or processes which do not add significant value to the interested parties, recognizing that the Board's responsibilities under *The Gas Pipe Line Act, R.S.M. 1987, c.G50* would require some continued reporting.

Centra requested Board approval to revise and consolidate the reporting procedures currently in place for the Regulatory and General Accounting and the Gas Supply functions. Centra proposed that the reports be filed on a quarterly basis and that they be segregated into five main areas: A general Management Discussion; Gas Supply Matters - commentary and schedules; Future Test Year Reports - commentary and variance schedules; Status of outstanding Board Directives or requests; Other relevant matters. Centra included a sample of the proposed reporting format.

In response to questioning by Board Counsel, Centra stated that should the procedure be approved, the initial report could be ready for the last quarter of 1995. Centra witnesses also indicated that the Board could expect the quarterly report to be filed approximately one month after the end of the quarter.

Centra further stated that if the Board were to order that a copy of the report to be filed publicly, rather than in confidence to the Board, some information would be deleted thus diminishing its value to the Board. Centra also agreed that the report format and content would likely change over time in order to keep abreast of changing circumstances within the industry and the regulatory environment.

11.1 INTERVENORS' POSITIONS

None of the Intervenors contested this matter during the hearing but CAC/MSOS requested that they receive copies of the reports filed with the Board.

11.2 BOARD FINDINGS

The Board agrees with Centra that the reports should only be prepared if they add value to the regulatory process. In respect of the Engineering and Credit and Collections reporting requirements, the Board has, on numerous occasions, requested Centra to submit its suggestions as to how best to achieve the desired efficiencies and values. The Board has not received any such information to date, especially in respect of the Engineering functions. The Board will direct Centra to meet with Board Staff and Advisors, as necessary, with a view to making recommendations respecting reporting requirements in these two areas by no later than July 1, 1996.

The Board will approve Centra's request in respect of reporting on the matters of Regulatory and General Accounting and Gas supply matters in the format as suggested by Centra. The Board will also require Centra to include its most recent gas cost forecast in the quarterly reports. The Board considers that the report format and content cannot remain static and expects changes in form, content and/or frequency from time to time to reflect prevailing circumstances. The filing of these reports with the Board, in and of themselves, will not in any way constitute Board approval of the activities or programs contained therein.

The Board notes Centra's statement that in the event the reports filed with the Board were to be available to the public, Centra would delete proprietary information. The Board wishes to have access to as much useful information as possible and will order that the reports be available to the public and that an addendum containing the proprietary information be included on a confidential basis for the Board. Additionally, the Board will require that Centra supply copies of its reports, without the addenda, to the public upon request.

In addition to the quarterly reports, the Board will require that Centra file the calculation of the broker reference price with the Board and all registered Brokers in Manitoba on a monthly basis. Additionally, the Board will require that the results of Centra's price management activities also be filed on a monthly basis. The monthly reports should also include addenda respecting any proprietary information.

12.0 STATUS OF VARIOUS BOARD DIRECTIVES

Centra's application included a report on the status of a number of Board directives contained in Order 49/95. In addition to the Buy/Sell reference price issue and reporting requirements for monitoring purposes, which are discussed in Section 11 and Section 13 of this Order, Centra reported on the following:

1. New Cost Allocation Study
2. Rate Design Review
3. Bill Redesign
4. Estimating Consumption for billing purposes
5. Performance Measures
6. Environmental Business Scan
7. Equipment Rental Program

Centra witnesses stated that the preparation of the cost allocation study and review of rate design were proceeding simultaneously. A draft report would be ready near the end of April, 1996 with a hearing into these matters being held in May or June of 1996. It was Centra's intention to utilize the new cost allocation study and rate design by January 1, 1997, at the earliest.

Centra witnesses submitted that the redesign of its bills was somewhat tied to the issue of unbundling of services, primarily the matter of separating gas costs from transportation costs. The bill redesign would be completed during the spring or summer of 1996, following the proposed hearing into the merchant function role of Centra, scheduled for April, 1996. Centra witnesses also stated that the review of Centra's methods for estimating consumption for billing purposes was proceeding and would also be completed in 1996.

In respect of measures to assist the Board in monitoring Centra's performance, Centra witnesses indicated that Centra was still assessing the extent to which it would embark on or participate in a formal benchmarking study. Centra witnesses stated that the study would be initiated in 1996 and that some measures could be in place to be included in Centra's next GRA.

Centra had submitted a report on the Environmental Business Scan to the Board in September of 1995 and included a copy of the report in this application.

In Order 49/95, the Board instructed Centra to remove from rate base and revenue requirement all expenditures related to the Equipment Rental Program (ERP) for 1995 and denied Centra's application to include associated rental rates in Centra's Schedule of Other Charges. The Board further instructed Centra to file its plans for this program within 60 days. Centra informed the Board that it was unable to meet the Board's 60 day requirement. On October 31, 1995, Centra submitted the requested report to the

Board. This report was filed as Centra Exhibit #17 at this hearing. The Board forwarded copies of this report to all parties of record requesting receipt of any comments by December 15, 1995.

Centra's plans are to implement the ERP on an unregulated basis. As such, Centra did not feel a discussion of these plans at this hearing was appropriate. Centra witnesses summarized the plan as follows: A new legal entity called Centra Energy Services Inc. would be established to operate the ERP. This new company would be a subsidiary of Centra Gas Inc., making it a sister company to Centra Gas Manitoba Inc. (the utility), rather than a subsidiary of the utility. The operations would be unregulated, separately staffed, perhaps housed in separate facilities and any services provided to it by the utility would be on a fully costed basis, with no cost subsidies provided by Centra Gas Manitoba Inc. Any assets which had been acquired by the utility would be transferred to Centra Gas Services Inc., which would become operational on January 1, 1996.

Centra witnesses stated that subsequent to the release of Order 49/95, Centra had not actively promoted the ERP. However, additional water heaters had been rented because Centra did not want to shut down the program during the transition period of the ERP to the unregulated company. Centra indicated that no new advertising or promotion had been initiated after Order 49/95 was issued. However, an advertising program previously agreed to ran in a Winnipeg newspaper from May 6 to June 30, 1995. Additionally one billboard erroneously displayed this program for some period of time in the fall of 1995. The error was made by the advertising agency and was removed once Centra had discovered the error.

In response to questioning by Board Counsel and the Chairman, Centra witnesses suggested that the directive in Order 49/95, coupled with Centra's report filed with the Board, constituted compliance with Section 82 of the Public Utilities Board Act, dealing with the sale of assets and that no further approvals were necessary.

Centra also conceded that the use of the name - "Centra" - for the new non-regulated company might give it some competitive advantage, but contended that this should be acceptable. In closing argument, Counsel for Centra stated that Centra recognized that a further process was required to effect the incorporation of an unregulated affiliate and would be filing a comprehensive reply addressing the related issues.

In a communication to the Board dated December 15, 1995, Centra stated that it understood the concerns of the Board about the ERP and undertook to delay the implementation of the program, subject to a public hearing being held in mid February of 1996 to consider the matter. Centra further proposed to continue providing the water heater rental option in response to customer's requests, but would not promote the service and would track all assets, costs and revenues separately from the regulated utility records.

12.1 INTERVENORS' POSITIONS

Aside from the issues of Buy/Sell reference price and reporting requirements, only one Intervenor, Municipal, advanced an opinion in respect of the Status of Board Directives. Municipal strongly objected to Centra's proposed plans for the operation of the ERP. Municipal submitted that Centra must make formal application to the Board under The Public Utilities Board Act to "disgorge" itself of the ERP. Municipal suggested that a hearing should be convened to investigate various issues, such as method of asset sale, name of the unregulated company and joint management of the regulated and unregulated companies.

12.2 BOARD FINDINGS

The Board has, once more, been frustrated by Centra's lack of timely response to the Board directive in respect of cost allocation and rate design. In Order 8/94 the Board instructed Centra to review the matter of rate design as soon as possible. In Order 49/95 the Board again referred to the matter of cost allocation and rate design, and ordered Centra to file the information before the next GRA, expecting a 1996 future test year application. This instruction was, in part, a reaction to the Interruptible transportation customers' views that the rates were not totally fair. The Board will order that the cost allocation study and rate design be filed with the Board for review and public hearing by March 31, 1996 so that the January 1, 1997 annualized rates will be based on the revised methods and rate structures.

The Board will review the matter of redesigning of customer bills subsequent to the forthcoming hearing investigating the merchant function role of Centra in Manitoba, scheduled for April, 1996. The Board will also order that the report on estimating bills be filed with the Board by September 1, 1996 so that new estimating procedures will be in place prior to the start of the 1996/97 heating season.

The Board will expect Centra to file a detailed report in conjunction with the next GRA filing on the Performance Measures Study and including all measures adopted.

The Board will accept without comment Centra's Environmental Business Scan report as information.

The Board is concerned with Centra's proposal to implement its ERP as an unregulated enterprise, without receiving Board approval as required under *The Public Utilities Board Act, R.S.M. 1987, cP280*. The Board is especially concerned that though Centra originally proposed to commence this operation on January 1, 1996 it did not notify the Board or other interested parties of this intent until December of 1995. The Board acknowledges that Centra has since changed its position in this regard. The Board will consider this matter at the generic hearing respecting the merchant function role of Centra in Manitoba scheduled for April 22, 1996.

13.0 DIRECT PURCHASE ACTIVITIES

Order 49/95 included a directive that Centra convene meetings with interested parties to resolve the matter of calculating the Buy/Sell reference price by November 1, 1995. At issue was the inclusion of the results of Centra's price management (or hedging) activities for commodity gas costs in the calculation of the Buy/Sell reference price. Centra's original position at the time of its September application was that the results of the price management activities not be included in the calculation of the price Centra would pay for gas supplied to it by Agents, Brokers or Marketers (ABMs). Centra had contended that the matter was a gas purchase transaction, not a transportation arrangement as submitted by the ABMs, and that the results of hedging activities through financial institutions did not change the commodity cost of gas payable by Centra to its primary supplier or for those volumes purchased on the spot market.

Subsequent to a further meeting on November 15, 1995, with interested parties, Centra changed its position and detailed this position in supplemental testimony. Centra now accepted the ABM's position: that a direct purchase transaction was a transportation arrangement to facilitate competition in gas supply. The agreed upon method of calculating the reference price would include the impacts of Centra's hedging activities and would not allow Centra to hedge ABM supplied volumes. In this methodology the buy price and the sell price would be equivalent and would not disadvantage either system customers or Broker customers.

Centra remained neutral on the issue of retroactive payments to ABMs. This issue arises because, though Centra commenced price management activities in April of 1994, the reference price which Centra paid for ABM gas did not include the impacts of price management. Centra submitted one calculation of retroactive payments which would result in a payment of $1,949,535 to ABMs. Centra also stated that it could not support the notion that any such payment distributed to the ABMs be at the expense of the shareholders and that, should the Board allow retroactivity, any funds paid out to the ABMs would have to be recovered from some or all of the other system customers.

In response to requests by several Intervenors during the hearing, Centra provided other methods of calculating potential retroactive payments, with results ranging from approximately $1,536,000 to $2,152,000. Centra suggested that the matter of retroactive payments was one of fairness to all customers and that the amount of retroactive payment to ABMs, if any, was discretionary. Centra also suggested that the manner in which the hedging activities had occurred during 1994 and 1995 might have been different had Centra anticipated the results were to be included in the reference price calculation.

13.1 INTERVENORS' POSITIONS

GENERAL

All of the ABMs present at the hearing, namely Direct, ECNG, Enron, Municipal and Novagas, requested the Board approve Centra's revised proposal for calculation of the future reference commodity price payable for Broker supplied gas. This price would be the weighted average cost of gas supplied to Centra under the TCGS contract and the cost of its Western Canadian spot gas purchases and would include the results of any price management activities. All Brokers also agreed with Centra that ABM supplied volumes would not be eligible for price management by Centra.

The ABMs urged the Board to allow retroactive payments to recognize the exclusion of results of previous price management activities. All ABMs contended that, if this was fair prospectively, it should be equally fair retroactively for 1994 and 1995. Retroactivity was proper because it would recognize that the matter was only a change in Centra's understanding of the nature of the ABM/customer relationship, not a change in market conditions. It would not be appropriate for ABM customers to incur the incremental costs of Centra's 1994 and 1995 hedging activities, through sales rates, without realizing the offsetting increase in the reference price.

The Board will attempt to avoid repetition in this Order, recognizing that many of the ABMs advanced similar positions and argument.

DIRECT

Direct submitted that when the original reference price was established Centra had not yet considered the principle of price management. Direct contended that under the evolution of gas supply and buy/sell arrangements in Manitoba, Centra decided on its own to re-calculate the reference price to exclude the results of hedging. This change was not dictated nor predetermined by any Order of the Board, and it was not until Centra's filing of its 1995 test year GRA, in October of 1994, that the ABM Community became aware of the change in Centra's calculations. Only volumes hedged by Centra in November and December of 1994 included ABM volumes, and even for those months 94.1% of volumes hedged were system supply. Direct, therefore, concluded that Centra would not have done anything different in respect of price management even if it had been instructed to include the results in the reference price in 1994.

Direct suggested that the retroactive payment to ABMs be made from the 1995 PGVA balance which balance is owing to Centra's customers. Direct suggested that the retroactive payment amount be established at approximately $1,886,000 and that the resultant increase in system gas costs be borne by all customers, including buy/sell customers.

ECNG

ECNG agreed with the position advanced by Direct that the Board order a retroactive payment to buy/sell customers or to those customers' agents. To do otherwise would result in buy/sell customers having paid unduly discriminatory rates during that past period. ECNG disputed Centra's contention that the change in its method of calculating the reference price was well understood by the industry and its customers. Counsel for ECNG indicated that only when the change was realized by the Broker Community, the ABMs caused a meeting to be held. He indicated that the " ... industry participants came away from that meeting confident that Centra would adjust the reference price so that hedging impacts were included from the start of the hedging program."

ECNG submitted that the request was, therefore, not really related to a retroactive adjustment but would rather serve to correct a problem caused by Centra having acted unilaterally in an unfair fashion without providing notice to the industry participants or to its own customers. Counsel for ECNG requested the Board order the recalculation of the reference price for the past period to include all the results of Centra's hedging activity and to pay this recalculated price plus interest to the end user or the end users' duly appointed agents, as specified in the relevant gas purchase agreement. Alternatively, these amounts could be credited to the end-user's sales rate bill and that this amount, through the operation of the PGVA, not be taken back from the direct purchase end-user.

ENRON

Enron also sought Board approval of the retroactive payment. Enron argued that Centra's changed position recognizing buy/sell as a transportation service confirms the historic and traditional principles which must apply to buy/sell pricing. Enron contended that just because this issue had not been resolved at the time when Centra commenced its hedging activity, it would be unfair now to depart from the equivalency principle. If there were no equivalency, then Buy/Sell customers would be subsidizing the system gas customers. To not allow retroactivity would be an inappropriate rate treatment, inter-generational inequities will occur to the detriment of the Buy/Sell customers and market signals will have been distorted. Enron mentioned that other jurisdictions, namely British Columbia Utilities Commission and the Ontario Energy Board, had allowed the principle of retroactivity.

Enron further contended that Centra's systems should be able to isolate and recognize those customers who had returned to system supply and to treat the refunds accordingly. Enron concluded by recommending that a retroactive payment of $1,152,042 be made as a lump sum from the PGVA so as to minimize implementation inequities and correct market distortions. Enron also suggested that, if the Board were to find that the PGVA contained insufficient funds, Centra shareholders make up the difference contending that Centra never had any authority to hedge the buy/sell customer's gas supply.

MUNICIPAL

Municipal requested the Board refund $1,886,000 to the ABMs related to the recalculation of the reference price on a retroactive basis for the time prior to November 1, 1995, as part of the clearing of the PGVA balances. Municipal further suggested that Centra may not have acted prudently in that it conducted its price management program without having any approved procedures in place or without carrying out any technical analysis. Municipal argued that, should the Board determine this to be the case, then the retroactive payment should be borne by Centra's shareholders.

NOVAGAS

Novagas also requested that retroactive payment be made to ABM customers. Novagas contended that the fundamental principles of a buy/sell arrangement previously adopted by the Board should not have been changed by Centra. The original method of calculating the reference price had not considered the impacts of hedging, as gas costs were fixed at that time and hedging was not a consideration. Therefore, Novagas argued that the contents of Order 8/94 detailing the reference price calculation could not be taken as authorization to mechanically calculate the reference price without regard to the effects of hedging. Centra did not notify its buy/sell customers of the change until the summer of 1994.

Novagas submitted that the Board did not finally decide the manner of treatment of price management activities in Order 49/95 nor did the Board direct disposition of the 1993 and 1994 PGVA balances on a final basis. He suggested, therefore, that the Board was free to direct Centra to recalculate its reference price to reflect the results of price management in 1993, 1994 and 1995. Novagas recommended that $2,150,000, representing the full impact of price management to these customers be the retroactive amount. He further recommended that the requisite adjustment be split as follows: $615,417 payable by Centra's shareholders with the balance of $1,536,625 being deducted from the PGVA balance with the total being paid pro rata to the buy/sell customers. The amount deducted from the PGVA would be borne by all sales customers.

TCGS

TCGS, while not present at the hearing, submitted written final argument. TCGS agreed with the proposed method of recalculating the reference price to include the results of price management. TCGS did not, however, support the ABM request for retroactive payment. TCGS submitted that each of the three methods of calculating such payments had merits, depending on one's perspective. TCGS contended that last year's method of calculation could therefore not be considered a mistake that should be retroactively corrected. TCGS further suggested that a ruling favouring retroactivity would be inappropriate in that market participants entered into arrangements either not knowing precisely how the results of risk management would be treated (prior to Order 49/95) or being fully aware that the results would be excluded from the broker reference price (subsequent to Order 49/95). In either case, TCGS contended that these parties could have taken whatever steps they considered prudent.

CAC/MSOS

Counsel for CAC/MSOS supported Centra's proposed method of calculating the reference price because it would be more consistent with the buy/sell concept, be fairer to buy/sell customers, have no impact on system customers, remove any justification for claims for compensation by buy/sell customers or agents and provide those buy/sell customers on percentage contracts with the benefits of hedging.

Counsel for CAC/MSOS also did not support the position of retroactive payments as submitted by the ABMs. CAC/MSOS submitted that, in Order 119/91, the Board directed Centra to file a generic form of gas purchase agreement between Centra and buy/sell customers or agents, which agreement contained a reference price calculation method. The calculation of the reference price was not opposed by ABMs and was subsequently approved in Order 8/94. This Order also directed Centra to supply its calculation of the monthly reference price to the Board and all Brokers registered in Manitoba. CAC/MSOS contended that it was only at the 1995 test year GRA public hearing that the ABMs first raised concerns as to the reference price calculations, but the Board specifically refused to order any change in the method of calculation.

CAC/MSOS submitted that the ABMs present at this hearing did not call any evidence on the issue of retroactivity nor did they file an application for any form of relief. Therefore, there is no information on how any retroactive refund would be distributed between the ABMs and their customers. CAC/MSOS argued that there is nothing in the current gas purchase agreement to suggest that the reference price should include the effect of price management activities. Furthermore it could not be reasonably concluded that ABMs did not know that Centra intended to conduct price management activities in 1994.

Order 49/95, in which the Board did not order a change in the reference price, was not appealed nor was the Board asked to review its decision. CAC/MSOS contended that the ABMs are now asking the Board to change a past decision and that such a process should only be granted in the most unusual circumstance.

CAC/MSOS also suggested that Centra might have conducted its price management activities differently if the reference price calculation had been different. CAC/MSOS suggested that Centra had acted reasonably in calculating the original reference price, in accordance with past Board Orders, had not changed that calculation and that a specific Order of the Board would be required to allow Centra to change the method of calculating the price.

Lastly, CAC/MSOS submitted that if the Board were of the view that Centra acted unreasonably or inconsistently with previous Board Orders or the gas purchase agreement, then any refund required to be paid to the ABMs' customers be at the expense of Centra's shareholders. CAC/MSOS requested that any retroactivity, should the Board grant it, be effective only to January 1, 1995, as no concern had formally been expressed to the Board prior to that time.

13.2 BOARD FINDINGS

The Board agrees with the consensus reached by all interested parties and advanced by Centra at this hearing calculating the reference price which Centra will pay for its ABM gas supplies. The Board considers the proposal to be fair -the buy price and the sell price should be equal. By not hedging ABM supplied volumes all volumes are effectively priced the same. Hedging results impact the cost of gas included in the sales rates through the PGVA mechanism. The Board will order Centra to calculate the reference price payable to ABMs as the weighted average cost of gas flowing under Centra's gas supply arrangements with TCGS and the volumes purchased by Centra from Western Canada on the spot market. The reference price will include the results of Centra's price management activities for volumes flowing under the TCGS supply contract but ABM supplied volumes will not be eligible for hedging by Centra. As has been the past practice, the Board will direct Centra to perform this calculation on a monthly basis and to forward, on a monthly basis, the results to the Board and all Brokers registered in Manitoba.

The Board will not allow any retroactive payments to ABMs' customers or ABMs acting on behalf of these customers. The Board considers that the reference price was calculated by Centra in accordance with the directive contained in Order 8/94, issued on January 28, 1994. The Board also instructed Centra to file its calculation supporting the reference price on a monthly basis to the Board and all Brokers registered to do business in Manitoba. It was not until the hearing into the 1995 test year GRA that the Board became aware of the existence of any problem concerning this matter. At that time the Board, based on the evidence presented by ABM representatives opposed to the calculation of the reference price, ordered that the manner of the calculation not be changed.

The Board further instructed that Centra and all other parties meet and arrive at a resolution to the problem by November 1, 1995. The Board recognizes that the gas industry is rapidly changing, as evidenced by forthcoming hearings into the merchant function role of Centra. The Board expects the entire matter of unbundling of all services will be ultimately reviewed. The Board considers the matter of the buy/sell reference price to be but one aspect of the evolution of gas supply and does not consider such matters should be dealt with retroactively.

Board Orders should not be changed, absent any request for review or appeal of a decision. Only in circumstances where a particular order could not be issued in a timely fashion has the Board allowed "retroactivity". In those cases, the retroactivity merely allowed the applicant to recover its allowed annual revenue requirement in a shorter period of time, by way of a "retroactive" rate rider impacting all Centra's customers in a similar manner.

14.0 OTHER MATTERS

During the hearing, Counsel for Municipal introduced a letter which appeared in Centra's publication for distribution to its Seniors customers, and which discussed the matter of security of ABM's gas supply and Centra's role as a supplier of last resort. Although the introduction of this document was objected to by Counsel for Centra, the Board accepted the filing. In essence, the letter suggested that a Broker's supply may not be as secure as that of Centra and that Centra would assume responsibility for providing gas to the customer in the event of ABM supply failure. In proposing to introduce this letter, Counsel for Municipal submitted that " ... it gives us an idea of the procedures Centra is maybe anticipating using."

In closing argument, Enron submitted that by suggesting that ABMs are riskier suppliers than the LDC, Centra was taking advantage of its unique historical position to cast doubt on the direct purchase marketplace. Enron considered Centra's actions to be inappropriate and suggested that it indicated that a level playing field in respect of competitive gas supply does not exist. Enron argued that this message underscores the need for the separation of the LDC's merchant and transportation functions. Enron further stated that the LDC as a monopoly transporter should not be in the business of gas supply in a competitive marketplace. Enron urged the Board to order Centra not to communicate with its customers in such a manner again.

14.1 BOARD FINDINGS

The Board deems the matter of a level playing field to be one which will be addressed at the generic hearing into the merchant function role of Centra to be convened in 1996. Until the conclusion of that hearing and the issue of an Order, the Board will expect neither Centra nor any other player to offer opinions as to the relative merits of any gas supplies or gas supplier.

15.0 IT IS THEREFORE ORDERED THAT:

1. the continuation of price management BE AND IS HEREBY APPROVED, IN PRINCIPLE.

2. the disposition of the balances of the 1993 PGVA, 1994 Heat Value Margin Deferral Account, Disconnected Customer Volume Adjustment Deferral Account and the 1994 Non-traditional Revenue Deferral Account BE AND IS HEREBY APPROVED on a final basis.

3. the annual 1995 rates attached as Appendix "A" to this Order BE AND ARE HEREBY APPROVED, on a final basis.

4. the 1995 interim rates as set out in Order 74/95 BE AND ARE HEREBY APPROVED, on a final basis.

5. the balances and disposition of the 1995 Non-traditional Revenue Deferral Account and the 1995 Heat Value Margin Deferral Account, as requested, BE AND ARE HEREBY APPROVED, on an interim basis.

6. the balance and final disposition of the 1994 PGVA BE AND ARE HEREBY APPROVED, subject to removing the carrying costs associated with the 1994 price management activities.

7. the balance and interim disposition of the 1995 PGVA BE AND ARE HEREBY APPROVED, on an interim basis, subject to removing the carrying costs associated with the 1995 price management activities.

8. Centra file revised 1996 interim rates, to come into effect on February 1, 1996 for all billings based on volumes consumed on and after January 1, to reflect all Board applicable Board decisions contained in this Order.

9. Centra refiled the 1996 annual rates to embed a commodity cost of gas for Western Canadian supply of $1.343/GJ and a heat value content of 37.8 GJ/10^3 M^3.

10. Centra file quarterly reports with the Board in the format proposed, together with an additional section to notify the Board of Centra's most recent annual overall gas cost forecast. Any confidential matters are to be contained in a separate appendix for the Board's information only.

11. Centra provide the Board with recommended reporting requirements in respect of Engineering matters and Credit and Collection matters by no later than July 1, 1996.

12. Centra file its cost allocation study and rate design with the Board by no later than April 30, 1996.

13. Centra use its forecast of annual gas costs for all future rate change hearings.

14. Centra provide to the Board and all registered Brokers in Manitoba with the calculation of the reference price payable for gas supplied by Agents, Brokers or Marketers on a monthly basis. The reference price payable for gas supplied to Centra by Agents, Brokers or Marketers will be the weighted average cost of gas flowing under the TransCanada Gas Services contract and the gas purchased by Centra from Western Canada on the spot market. The reference price will include the results of Centra's price management activities for eligible volumes, excluding those volumes supplied by Agents, Brokers and Marketers.

15. Centra address the matter of the appropriate heat value content to be used for setting rates in the next GRA filing.

17. the Performance Measures study be filed with the Board in conjunction with the next GRA filing.

18. a report dealing with estimating bills be filed with the Board by September 1, 1996.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 3/96 issued by The Public Utilities Board

Hollis Singh
Acting Secretary

APPENDIX "A"

CENTRA GAS MANITOBA INC.

Firm Sales and T-Service
Annual Rate Schedule

Territory: Entire natural gas service area of the Company, including all zones.

Availability: SGS - For gas supplied through one domestic sized meter on a firm basis.

LGS & T-Service - For gas delivered through one meter other than domestic sized meters on a firm basis.

Rate: Basic Monthly Charge:

SGS Sales	$10.00 per Month
LGS and T-Service	50.00 per Month

	SGS Sales ($/m^3$)	LGS Sales ($/m^3$)	T-Service
Categories:			
SGS Sales	$0.1760		
LGS Sales and T-Service			
Class 4 - 0 to 680,000 m^3 Annually		$0.1335	0.0327
Class 3 - 680,000 to 1,700,000 m^3 Annually		0.1315	0.0307
Class 2 - 1,700,000 to 3,400,000 m^3 Annually		0.1305	0.0297
Class 1 - Over 3,400,000 m^3 Annually		0.1300	0.0292
Special Contract Basic Monthly Charge			47,200.00
Special Contract Commodity Charge			0.0016

Minimum Monthly Bill: Equal to the Basic Monthly Charge as described above.

Late Payment Charge: A late payment charge of 1 1/2% per month shall be charged on the dollar amount owing after each billing due date. The due date will be at least 21 days after the mailing date of the bills.

Effective: Rates to be charged for all billings based on gas consumed on and after January 1, 1996.

APPENDIX "A"

CENTRA GAS MANITOBA INC.

Interruptible Sales and Interruptible T-Service
Annual Rate Schedule

Territory: Entire natural gas service area of the Company, including all zones.

Availability: For any customer at one location whose natural gas requirements equal or exceed an annual rate of 340,000 m³ and who contract for such service for a minimum of one year. Sales under this rate shall be limited to the extent that the Company considers it has available natural gas supplies.

Service: Shall be agreed upon by contract between customer and Company recognizing, among other factors, the size and characteristic of customer's requirements, amount of facilities required to be constructed by Company, minimum purchase obligations of customer, priority of delivery service, and term of contract. The contract shall be filed with The Public Utilities Board.

Rates:

Categories:	Sales Rates (/m³)	T-Service Rate (/m³)
Class 4 - 340,000 to 680,000 m³ Annually	$0.1042	$0.0238
Class 3 - 680,000 to 1,700,000 m³ Annually	0.1022	0.0218
Class 2 - 1,700,000 to 3,400,000 m³ Annually	0.1012	0.0208
Class 1 - Over 3,400,000 m³ Annually	0.1007	0.0203
Peaking Supply - Actual Cost of Peaking Gas Delivered Plus a Delivery Charge of	0.0208	N/A

Late Payment Charge: A late payment charge of 1 1/2% per month shall be charged on the dollar amount owing after each billing due date. The due date will be at least 21 days after the mailing date of the bills.

Effective: Rates to be charged for all billings based on gas consumed on and after January 1, 1996.