

MANITOBA) **Order No. 115/08**
)
THE PUBLIC UTILITIES BOARD ACT) **July 29, 2008**

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

**CENTRA GAS MANITOBA INC.: PRIMARY
GAS RATES, EFFECTIVE AUGUST 1, 2008**

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1.0 Summary

By this Order, the Public Utilities Board (Board) approves a revised *ex parte* application by Centra Gas Manitoba Inc.'s (Centra) and authorizes, on an interim basis, increases to natural gas rates as of August 1, 2008.

The "typical" residential customer receiving primary gas from Centra may expect to experience an overall annual increase in their natural gas bill of \$73, or 5.8 %. Larger volume customers provided primary gas by Centra may expect their annual natural gas bills to increase in the range of 4.7% to 7.4%.

Centra's Primary Gas rates will increase by 6.9% (from \$0.3084m³ to \$0.3297m³), the increase to affect only customers receiving primary gas from Centra. (As Board Order 101/07 provided for an August 1, 2007 Primary Gas rate of \$0.2873m³ - the August 1, 2008 rate represents a 14.76% increase over a period of a year.)

Customers purchasing primary gas from brokers are not affected by changes to Centra's Primary Gas rates, as the primary gas component of their bills are established by their contract.

This order also approves new Supplemental, Transportation and Distribution rates resulting from the removal of non-Primary Gas rate riders, which have expired. The overall effect of these other changes, which is small, disclosed in the schedule to this Order, is incorporated in the estimated annualized residential bill increase of \$73.

Factors Driving Rates

Natural gas commodity prices were, to early July 2008, increasing sharply, primarily driven by a virtual doubling of oil prices over the past year to new historic high levels. Historically, natural gas commodity prices follow oil's lead, though the increase in natural gas prices has not, yet, resulted in the price of oil (per barrel) being 6 – 9 times the price of a GJ of natural gas, which has been the historic relationship. Since early July, both oil and natural gas prices have fallen sharply, and this has allowed for the increases provided for herein to be considerably more modest than they would have been if July 2 natural gas prices were reflected, rather than July 17 prices. (Centra does not mark-up its primary gas commodity costs, which are reflected in rates at cost.)

Furthermore, the Primary Gas rates set herein are approximately 8.5% lower than would have been the case if the rates were reflective only of “current” (July 17) market prices. Rate restraint for Centra-supplied primary gas customers has been provided by:

- a) Centra’s natural gas storage facilities – gas in storage was purchased at prices lower than current market prices;
- b) Hedges (market derivatives) placed up to one year ago, which has and is expected to reduce Centra’s commodity costs; and
- c) The Board-approved Rate Setting Methodology (RSM), an agreed upon process (agreed to by interveners representing customer groups and Centra/Manitoba Hydro, and approved by the Board) that includes purchased gas variance accounts (PGVA) which capture variances between the projected and actual cost of natural gas, for reflection in the next quarterly rate setting, and furthers the objective of least-cost regulation through the deferral of a public review of quarterly amendments to the Board’s annual Cost of Gas hearing.

Advice for Consumers

With these rate increases, only natural gas customers with high efficiency furnaces can expect their annual space heating bills to be approximately at par to what would have been expected if their homes were heated by electricity, even with the recently approved electricity rate increase of 5%, which took effect on July 1, 2008.

With no assurance of anything other than continuing volatility of natural gas commodity prices, driven by world market and following oil’s direction particularly, Centra space-heating customers now relying on conventional or mid-efficiency furnaces are, once again, urged to consider upgrading their furnaces and ensuring the heat retention of their residence is adequate. And, with electricity prices largely based on Manitoba Hydro’s (MH) costs, subsidized by export sales and subject to uniform and regulated grid-service rates, compared to the market-driven price of natural gas, new home construction should consider electricity for space and water heating.

MH offers incentives to all residential customers with special programs for low-income households, including a furnace replacement initiative. These initiatives are funded by rates, federal incentives

administered by MH, and the Affordability Energy Fund (AEF) (the latter established on a one-time basis out of MH's export revenues).

Variation of Practice

This Order reflects the RSM, notwithstanding the Board's selection of another futures price strip than the one submitted by Centra.

In reviewing Centra's application for August 1 rates, filed on July 15, the Board noted that natural gas prices had significantly declined from the prices reflected in the July 2 futures price strip used to develop the proposed rates. Accordingly, and after considerable reflection, the Board asked Centra to provide an updated Application, one employing July 17 futures prices, July 17 being the then most current outlook available, and advised interested parties (interveners in past Board hearings of Centra's applications) of its direction to Centra. Centra met the Board's direction and refiled the application using July 17 futures prices.

Subsequently, the Board considered objections from Direct Energy and Energy Savings Manitoba LLP (ESML) to the Board relying on July 17 rather than July 2 futures pricing in the development of August 1 rates for Centra's customers. The objectors held that Centra's initial application, which employed July 2 futures pricing, should, being compliant with the RSM, be accepted.

However, as acceptance of Centra's initial application and the use of July 2nd futures pricing would have resulted in the "typical" residential customer receiving primary gas from Centra experiencing

- a) an overall annual increase in their natural gas bill of \$155, or 12.3%, rather than \$73, or 5.8%; and
- b) an increase in Primary Gas rates of 17.2% (from \$0.3084m³ to \$0.3613m³) rather than an increase of 6.9% (from \$0.3084m³ to \$0.3297m³),

the Board, noting the dramatic fall in actual futures prices between July 2 and July 17, and after carefully following market developments through to the issuance of this order, and not noting any material change in the opposite direction through to July 25, concluded that it would be in the public interest to use the July 17 strip for the calculation of the August 1 rates.

The July 2 futures pricing coincided with the end of a major run-up in both oil and natural gas prices, the price of oil rising to unprecedented levels, and with levels of volatility rarely seen in times of apparently adequate supply to meet demand. Given increasing evidence of economic slowing and in the absence of knowledge of any immediate risk that oil and natural gas prices would, within this upcoming next quarter, rise materially, the Board was not sufficiently convinced that using the July 2 prices reflected in Centra's initial filing for August 1 rates would be reasonable.

(In its July 24, 2008 *Natural Gas Weekly Update*, the Energy Information Administration reported "crude oil prices are now \$21.58 per barrel below the record level of \$145.31 per barrel established on July 3", and "at the New York Mercantile Exchange (NYMEX), the futures contract for August delivery at the Henry Hub settled yesterday at \$9.788 ... declining \$1.61 or about 14 percent since Wednesday July 16." The Board has also monitored AECO, Canadian market activity.

While the volatility that has so marked the price movements of oil and natural gas over the past several years, driven not only by demand and supply but also by weather, political risks and speculation, cannot be assumed to discontinue, the Board also notes the lower volume space heating consumption typical of the August through October period, and the availability of the next scheduled rate setting, November 1, to make such further adjustments as may or may not prove necessary.

Further Advice and Other Comments

While residential Primary Gas rates will increase 6.9% as of August 1, and this will represent a 14.76% increase over the period of year, the increase is much less than would have occurred if not for the significant commodity price decline of July 2008 through to July 25. This decline, noted and acted on by the Board, will provide all of Centra's primary gas customers some cost relief, though prices and costs are still up sharply from a year ago, and a further opportunity to upgrade their heating plants and building heat retention capability ahead of the coming winter and the ongoing risk of a further cost and rate increases that may lie in the future.

The Board notes that the RSM, particularly the gas storage and hedging elements, has held costs and smoothed rate movements, and recommends that natural gas consumers (residential, business and other) work with Centra/Manitoba Hydro to reduce consumption. Towards that end, the Board reiterates a number of recommendations previously made:

1. Consumers of natural gas should inform themselves of assistance programs available from Manitoba Hydro (Centra's parent company and the operator of Centra) and take action where warranted;
2. Centra Gas should give further consideration and act on the advice of Board Order 99/07 with respect to:
 - a) Operating a fully integrated natural gas and electricity DSM program (funds expended on natural gas DSM, whether generated through MH's electricity or natural gas operations or externally sourced) reduce the risk of conversion of households to electrical heat, which, as it occurs, reduces export potential and increases global emissions;
 - b) Moving more quickly ahead with a furnace replacement program to target low-income households, inclusive of social housing and rental housing. With respect to social housing, the Board suggests MH review its understanding of:
 - i. the provisions governing the AEF and, with government, consider a re-allocation of the funds to be made available more towards the particular needs of low-income households, also ensuring that social housing may also be a beneficiary of a portion of the funding; and
 - ii. the Board's concept of an effective furnace replacement program, which involved MH's management and financing, from initial inspection to installation and final inspection of weatherization and the new furnace, and with repayment to allow for deferral, with interest, to the sale of the residence).

MH should review the testimony of Mr. Dunsky, given at the recent Manitoba Hydro GRA hearing, that suggested consideration be given to the leasing of high-efficiency replacement furnaces to low-income households, an option that may be of comparable value to Order 99/07's suggested approach of financing low-income household upgrades with an option of payment deferral until sale.

And, MH should move more aggressively to employ resources available through the AEF – a fund that would best be supplemented by annual interest credits annually on the balance of funds remaining in the fund. The Board disagrees with Centra/MH’s interpretation of the AEF legislation and, beyond the matter of interest, also contends that social housing should not be excluded from benefiting from the program, the funding to be integrated with that available from federal programs and rate-based funding, so as to more aggressively address the barriers faced by low-income households in implementing energy efficiency measures.

The Board also recommends that Manitoba Hydro and the government pursue building code changes to better ensure only high efficiency natural gas furnaces are installed when natural gas is chosen as the space heating choice, and that the building envelope and heating plant of rental properties are adequate to provide for effective heating and heat retention.

The Board notes significant differences between the effects of high-energy costs on business and institutions as compared to the impact on households, particularly low-income households. Business and institutions may recover all or a large portion of GST paid on energy; and business may deduct against taxable income expenses paid for energy. As well, business, and some institutions may reflect in the pricing of their goods and services increases in the cost of energy. Residential consumers pay the entire energy bill without either tax relief or assurance of increases in disposable income to reflect energy bill increases.

Recently, and by other Board orders, the Board:

- a) By Order 14/08, approved a revised disconnection policy for Manitoba Hydro/Centra that allows for the installation of electricity load limiters on residences heated by natural gas when accounts are in delinquency, this to avoid disconnection. Heat in the winter is a necessity in Manitoba, a health and welfare issue as well as a financial one. As a result of the implementation of the new approach, the Board and Manitoba Hydro anticipate a dramatic reduction in natural gas disconnections this summer;
- b) By Order 109/08, established new guidelines to govern the marketing of primary gas to residential natural gas consumers, which are intended to provide consumers with increased choices and better pricing with respect to fixed term and fixed price contracts; and

- c) Pursuant to Board direction to Centra by way of Order 160/07, received an application from Centra seeking approval of MH's entry into to the fixed-term fixed-price Primary Gas market, indicating an intention to, with the Board's approval if received by October 31, 2008, proceed with a test pilot focused at the residential and small commercial market.

Additional Direction and Recommendations:

Finally, the Board:

- a) Directs Centra to develop and file as soon as possible a bill assistance program targeted at low-income households without the means to meet natural gas space heating bills. The program should outline the processes to identify qualifying households and the approach to providing relief, with implications with respect to costs and rates. The Board, as it reminds Centra of a similar recommendation with respect to furnace replacements and weatherization of low-income residences, advises of no objection to a proposal to provide Centra with the opportunity to recover assistance through a charge on the title of residences; and
- b) Recommends government consider:
- i) recommending to the federal government that GST not be charged on residential space-heating bills, whether natural gas or electricity (while GST is refundable to business and rebates are available to public institutions, residential customers are currently assessed GST on what represents a necessity in a northern climate);
 - ii) reviewing the current imposition of City and Provincial taxes on residential natural gas bills and consider redirecting the proceeds to further development of the AEF to be used for low-income DSM - the Board notes that the relatively modest levies were put in place when natural gas prices were one-sixth of their current level; and
 - iii) establishing a new agency, related to and largely to-be-funded by MH, to focus exclusively on DSM and low-income issues.

In accordance with the Board's regular practice, applications to the Board by Centra to establish new programs or amend current programs will be shared with interested parties (including

interveners to past Board hearings of Centra applications) and a process will be established to consider such applications.

2.0 Introduction

Centra is a subsidiary of MH and is Manitoba's largest natural gas distributor. Centra's rates are subject to the approval of the Board pursuant to provisions of *The Public Utilities Board Act*.

The five components of natural gas billings to Centra's customers are:

- Primary Gas Rates (system gas from Centra – the subject of this Order, or purchased gas from brokers);
- Supplemental Gas Rates (applying to all Centra's customers, whether provided primary gas by Centra or through brokers);
- Transportation (to Centra) Rates (applicable in varying degrees to all customers);
- Distribution (to Customer) Rates (applicable to all customers); and
- Basic Monthly Charge (BMC) (applicable to all customers).

Centra's primary gas rates are subject to amendment quarterly, on February 1, May 1, August 1, and November 1 of each year. These regularly scheduled quarterly primary gas rate reviews occur in accordance with the Board-approved RSM, which is formula-driven and relies on established accounting and rate setting conventions.

Non-primary gas components of Centra's rates, for all customers including those receiving natural gas from brokers, are also periodically reviewed and approved by the Board. These non-primary gas reviews occur either through the annual Cost of Gas hearing, which also finalizes interim quarterly primary gas rate changes, or in the context of a General Rate Application (GRA).

Non-primary gas rate riders of \$9 Million owing to customers were refunded over the period August 2007 to July 2008. The removal of these non-primary gas rate riders will be reflected in new Supplemental, Transportation and Distribution rates.

Natural gas prices continue to be at high levels, following an upswing that started in the spring of 2008. Colder than normal winter weather in North America and increased demand caused an

unusually large draw from natural gas storage. At this time, storage is below previous years levels. More importantly, oil prices surged higher through to early July, affecting natural gas prices, which are influenced by oil prices; the prices for both commodities set on the market. Currently, further natural gas commodity price increases are possible even though prices have recently fallen and are still at high levels relative to past experience. If this occurs, primary gas rates will rise further as well.

Centra regularly undertakes commodity price hedging activities, pursuant to Board-approved policy implemented to reduce rate volatility. In 2007, a wider price band was established for Centra's hedging approach, and is expected to reduce the magnitude of both hedging gains and losses while still providing customers protection from severe price spikes. In the last ten years, there have been three periods of significant price spikes: the Enron-induced price spike of the early 2000s, the record price spike that followed hurricanes Katrina and Rita in the summer of 2005, and, most recently, a rise in natural gas prices through to early July 2008 that coincided with then-rapidly rising oil prices.

With the upswing in price, even taking into account the decline experienced since early July, Centra may realize an additional primary gas cost avoidance due to hedging of approximately \$18.26 million over the next twelve months (if the current forecast holds); actual results are expected to vary.

Natural gas commodity costs (primary gas) represent approximately 70% of a system gas customer's bill, i.e. customers receiving primary natural gas from Centra rather than from a broker. The following table illustrates changes in natural gas commodity prices and prospective overall bills for the average residential customer purchasing primary gas from Centra, over the nine years since MH acquired Centra:

Date	Primary Gas Commodity Cost	% change in Primary Gas Cost	Projected Average Annual Bill, including Primary Gas Costs	% Change in the Total Projected Annual Bill
December 1, 1999	\$3.003/GJ	Base	\$ 758	Base
August 1, 2000	5.187/GJ	72.7%	821	15.6%
November 1, 2000	5.894/GJ	13.6%	910	10.9%
February 1, 2001	9.251/GJ	57.0%	1141	25.4%
June 1, 2001	6.429/GJ	(30.5%)	1210	6.0%
August 1, 2001	4.614/GJ	(28.2%)	1021	-15.6%
November 1, 2001	4.168/GJ	(9.7%)	952	-6.8%
February 1, 2002	4.028/GJ	(3.4%)	932	-2.0%
May 1, 2002	5.094/GJ	26.5%	1015	8.8%
August 1, 2002	4.759/GJ	(6.6%)	954	-6.0%
November 1, 2002	5.024/GJ	5.6%	971	1.8%
February 1, 2003	5.860/GJ	16.6%	1077	10.8%
May 1, 2003	5.928/GJ	1.2%	1071	-0.5%
August 1, 2003	5.857/GJ	(1.2%)	1018	-5.0%
November 1, 2003	6.003/GJ	2.5%	1035	1.7%
February 1, 2004	6.148/GJ	2.4%	1045	1.0%
May 1, 2004	6.413/GJ	4.3%	1075	2.8%
August 1, 2004	6.683/GJ	4.2%	1099	2.2%
November 1, 2004	7.032/GJ	5.2%	1074	-2.3%
February 1, 2005	6.637/GJ	(5.6%)	1045	-2.7%
May 1, 2005	7.855/GJ	18.4%	1158	10.8%
August 1, 2005	7.957/GJ	1.3%	1189	2.6%
November 1, 2005	9.314/GJ	17.1%	1262	6.2%
February 1, 2006	9.162/GJ	(1.6%)	1265	0.2%
May 1, 2006	9.205/GJ	0.5%	1275	0.7%
August 1, 2006	8.818/GJ	(4.2%)	1188	-6.8%
November 1, 2006	7.941/GJ	(9.9%)	1175	-1.1%
February 1, 2007	7.661/GJ	(3.5%)	1175	0.0%
May 1, 2007	8.040/GJ	4.9%	1227	4.5%
August 1, 2007	7.457/GJ	(7.3%)	1205	-1.8%
November 1, 2007	7.070/GJ	(5.2%)	1163	-3.5%
February 1, 2008	7.314/GJ	3.4%	1177	1.2%
May 1, 2008	8.308/GJ	13.6%	1264	7.4%
August 1, 2008	8.665	4.3%	1337	5.8%

- Note 1: The average annual bill above is based on the estimated annual consumption of a typical customer of 2,590 cubic metres. On May 1, 2005 annual consumption, previously estimated at 3,201 cubic metres, was reduced to 2,802 and further reduced to 2,590 as of August 1, 2007 to reflect the effects from customer conservation efforts.
- Note 2: November 1, 2005 and February 1, 2006 rates were affected by the deferral of one-half of an otherwise sharp rate increase pursuant to the RSM. In February 2006, when commodity prices had fallen, the RSM was restored.
- Note 3: Residential customers receiving primary gas from brokers rather than from Centra would not have the same cost and bill experience as Centra's customers. Primary gas costs of broker customers are in accordance with the contract with the broker, generally fixed for three to five years at rates different than those charged by Centra.
- Note 4: The above table incorporates changes approved by the Board for both non-Primary Gas and Primary Gas from 1999 through to August 1, 2008.
- Note 5: The Board's RSM considers factors other than natural gas commodity prices, these including the cost of gas in storage and hedging results. Accordingly, the volatility in primary gas rates experienced by Centra's primary gas customers is reduced as overall rates also take into account operating, amortization, administrative and financial costs.

3.0 Primary Gas Rates

BACKGROUND, PRIMARY GAS BASE AND BILLED RATES

The following table reports the composite elements of recent primary gas rate amendments:

Component	Costs and Rates August 1/07	Costs and Rates November 1/07	Costs and Rates February 1, 2008	Costs and Proposed Rates May 1, 2008	Costs and Proposed Rates August 1, 2008	Costs and Proposed Rates August 1, 2008
Date of Forward Price Strip	July 2,2007	October 1, 2007	January 2, 2008	April 1, 2008	July 2, 2008	July 17, 2008
¹ 12 Month Forward Price	\$7.182/GJ	\$6.491/GJ	\$7.221/GJ	\$8.999/GJ	\$11.748/GJ	\$9.593/GJ
² Costs (gains) resulting from Hedging	\$0.412/GJ	\$0.707/GJ	\$0.278/GJ	(\$0.321/GJ)	(\$1.688/GJ)	(\$0.492/GJ)
⁴ Forecast Gas Supply Price	\$7.594	\$7.198	\$7.499	\$8.678/GJ	\$10.060/GJ	\$9.101/GJ
³ Cost of Gas drawn from Storage	\$6.722/GJ	\$6.380/GJ	\$6.319/GJ	\$6.319/GJ	\$6.319/GJ	\$6.319/GJ
Weighted Gas, Cost (mix of Gas Supply & Storage Gas costs)	\$7.457/GJ	\$7.070/GJ	\$7.314/GJ	\$8.308/GJ	\$9.473/GJ	\$8.665/GJ
Rate per Cubic Metre	\$0.2819	\$0.2672	\$0.2765	\$0.3140	\$0.3581	\$0.3275
⁵ Base Primary Rate, adding Fuel and Overhead cost component per cubic metre	\$0.28723	\$0.2722	\$0.2819	\$0.3204	\$0.3659	\$0.3342
Plus (Less) PGVA Rider per cubic metre	\$0.0018	\$0.0009	(\$0.0034)	(\$0.0120)	(\$0.0046)	\$0.0045
Total Billed Rate	\$0.2891/m ³	\$0.2731/m ³	\$0.2785/m ³	\$0.3084/ m ³	\$0.3613/ m ³	\$0.3297

Notes:

1. Primary gas rate increase factors in 100% of the increase between the current 12-month forward price for Western Canadian natural gas commodity supplies for the period August 1, 2008 to July 2009 from the price as of July 17, 2008.
2. Forecast on hedges placed for the next twelve months are accounted for with the projected gains or losses from hedging.
3. The cost of gas drawn from storage for supply to primary gas customers is accounted for, reflecting the actual cost of gas in storage withdrawn (withdrawals commence November 1), and blended in on a weighted basis to arrive at a weighted gas cost.
4. Forecasted volumes of primary gas represented by the costs are used to determine the cost/1,000 m³, which is then increased to account for other costs. Rate changes by means of rate riders are established to adjust for Primary Gas PGVA balances accumulated and, projected to, July 31, over a 12-month period beginning August 1.
5. At August 1, 2008, fuel costs of \$0.005 per m³ and overhead costs components of \$0.0016 per m³.

Rate riders either recover or repay, from or to customers, balances developing through differences that arise between billed rates and actual rates, with interest. The total accumulation of differences forecast for the Primary Gas Purchase Gas Variance Account (PGVA) to July 1, 2008 is \$5.1 million owing to customers, and will be refunded to customers through a rider over the next twelve months.

Primary Gas Rates also reflect the cost of gas withdrawn from storage, that gas having a cost of \$6.319/GJ, which was the average cost of gas in storage as at October 31, 2007 together with fuel and gas overhead costs. When natural gas withdrawn from storage has an average cost below that of current purchase costs, Centra's customers benefit through lower than current market rates.

Through the combination of factors as set out above, including the Board's decision to employ July 17 futures prices rather than the prices of July 2, Centra's revised calculations derived August 1, 2008 primary gas billed rates of \$0.3297/m³ for all customers. A comparison of the results from the July 2 futures strip with that of the July 17 strip is shown in the previous table and in the following calculations.

Primary gas rates will now be higher through to November 1, 2008. There are no indications of an imminent further material fall in prices, and, as the futures market currently suggests, a consumer may now expect pricing of primary gas close to the new level of August 1 through the coming winter season.

The combined annualized bill impacts effective August 1, 2008 of the change in the Primary Gas rates arising out of this Application, and the removal of non-primary gas rate riders on the various customer classes, are as follows:

Customer Class	Rate Impact using July 2 strip	Combined Impact using July 17 strip prices
SGS	10.2% - 13.5%	4.8% - 6.4%
LGS	13.2% - 15.70%	6.2% - 7.4%
High Volume Firm	12.7% -16.2%	4.7% - 7.2%
Mainline	14.7% - 15.8%	6.1% - 6.6%
Interruptible	14.0% -16.6%	5.4% - 7.1%

The projected annualized net bill impact for a typical residential customer, based on average annual consumption of 2,590 m³ would have been approximately \$155 (or 12.3%) using July 2 prices, and will be \$73 (5.8%) using the July 17 prices - the Board has opted for the employ of July 17 futures pricing.

4.0 Outstanding Positions, Hedging

As previously indicated, Centra enters into financial future contracts, “hedges”, for the purpose of reducing primary gas rate volatility. Other factors reducing bill volatility include the equal monthly payment plan, heating efficiency improvements, living style adjustments (adjusting the thermostat), and the Board’s RSM.

Centra’s hedging activities from 2001 until natural gas commodity prices plunged in 2006, the falloff in prices followed the price spike that developed subsequent to summer 2005 hurricanes Katrina and Rita, resulted in overall reductions to both gas costs and customer rates. Since then, however, and except for the most recent quarter ending June 30, 2008, when commodity prices rose sharply once again (before falling through to recent days), the results of hedging have increased overall gas costs. In Centra latest application, hedging activities have once again been projected to result in overall reductions to both gas costs and customer rates.

The overall cost for Western Canadian natural gas reflected in Centra’s rates for those customers receiving primary gas from Centra is impacted by the terms of Centra’s gas purchase contract

with its commodity supplier, Nexen, Centra's hedging, future prices and the cost of gas in storage.

Hedging is undertaken independent of actual gas purchases, those always at then-current market prices. Actual results are dependent upon commodity market price changes and/or any special actions undertaken to unwind or build on current positions, though no such actions are expected.

The current situation with respect to hedges now outstanding is:

- On October 16 & October 23, 2007, two tranches of price hedges of 50% of eligible volumes each were placed covering the months August 2008 through October 2008. The upper strike prices on the instruments purchased range between \$7.205/GJ and \$7.595/GJ, with the corresponding lower strike prices ranging between \$5.560/GJ and \$5.930/GJ.
- On January 8 & 30, 2008, two tranches of price hedges of 50% of eligible volumes each were placed covering the months November 2008 through January 2009. The upper strike prices on the instruments purchased range from \$8.455/GJ to \$9.000/GJ, with the lower strike prices ranging from \$6.620/GJ to \$7.210/GJ.
- On April 16 & 25, 2008, two tranches of price hedges of 50% of eligible volumes each were placed covering the months February 2009 through April 2009. The upper strike prices on the instruments purchased range from \$9.125/GJ to \$12.175/GJ, with the lower strike prices ranging from \$7.140/GJ to \$9.690/GJ.
- On July 2, 2008, one tranche of price hedges of 50% of eligible volumes each were placed covering the months May 2009 through July 2009. The upper strike prices on the instruments purchased range from \$11.775/GJ to \$11.880/GJ, with the lower strike prices ranging from \$9.050/GJ to \$9.259/GJ.
- Centra's updated filing of July 22, 2008 indicated a second tranche of hedges placed subsequent to its July 15 filing covering the months May 2009 through July 2009. The upper

strike prices on the instruments purchased range from \$10.965/GJ to \$11.11/GJ, with the lower strike prices ranging from \$8.550/GJ to \$8.690/GJ.

5.0 Board Findings

Approval

Centra's July 15, 2008 Application to increase interim rates properly reflected the Board-approved RSM. However, the Board, noting a dramatic shift downward in prices into the fourth week of July, determined that it would be in the public interest to utilize a more recent price strip, that being that of July 17.

Accordingly, and despite the objections of brokers, having pecuniary interests through their offerings of fixed term and price primary gas contracts to consumers, the Board will vary Centra's initial proposal to increase interim primary natural gas rates for customers receiving primary gas from Centra and approve the Corporation's amended filing, which employed July 17 futures pricing.

And, as previously indicated, primary gas rate changes affect only those customers receiving system gas (primary gas) from Centra.

The next review of primary gas rates will take place as of November 1, 2008.

Notification

Centra is to advise primary gas customers of the change in primary gas rates through its newsletter, *Energy Matters*.

Commentary

Natural gas commodity prices have increased dramatically since MH acquired Centra in 1999.

In December 1999, the natural gas commodity price was \$3.00/GJ (approximately 11 cents per cubic metre). Since then, prices rose more or less steadily through to early July 2008, with

spikes followed by price fall-offs associated with both the Enron-induced market panic of 2001, the hurricanes of 2005 and the oil-induced price rise of 2007/08. The price increase since 1999, now roughly four-fold, would have been much worse if the Canadian dollar had remained at 67 cents U.S., its average value in 1999.

The peak price was reached in December 2005, at about \$15/GJ, a price tempered as to customer rates by Centra's hedging program, the RSM and a Board Order amending on a temporary basis the RSM and deferring a portion of increased commodity costs to a subsequent date (the latter for residential customers), the deferral on the basis of an apprehended price bubble. Following the 2005 peak, natural gas prices plummeted to a low approaching that of 1999 prices in the summer of 2006, only then to rise to over \$11/GJ and then fall back to the current market price level of \$9.59/GJ as of July 17, 2008.

This Order reflects Centra's current commodity cost of \$8.665/GJ (32.97 cents/m³), up from \$8.30/GJ (30.8 cents/m³) in the May 1 rate setting order. This is a cost tempered by the results of hedging and the drawing down of gas storage at lower costs and a Canadian dollar now near parity with the U.S. dollar. As well, customers will benefit from a rider that continues in place refunding past over-collections from customers.

Absent hedging, Centra's commodity cost would be \$9.59/GJ, the expected market price out 12 months, suggesting further rate increases to come.

Given Manitoba's cold winter weather, space-heating costs are of great significance to consumers. And, with this Order, as of August 1, 2008 the typical residential customer with a high efficiency furnace may anticipate annual space heating costs to further narrow the gap of the expected cost of space heat by electricity in spite of the recently allowed 5% increase in electricity rates. For those customers, the "savings" from space heating by natural gas rather than electricity will be the narrowest ever. That said, for customers heating by way of a conventional low-efficiency furnace, or even a mid-efficiency furnace, with the recent natural gas rate increases the expected annual costs for these customers will be more than it would have been if their residences were heated by electricity. And, as to water heating, this gas rate increase will make heating water with gas even more expensive than by electricity.

The majority of customers do not have a high efficiency gas furnace, and some still have furnaces that have been converted from oil to gas, these converted furnaces have efficiency rating to below 50%. Customers with mid efficiency or conventional natural gas furnaces, and, in particular converted oil furnaces, should consider investing in a high-efficiency one. Builders of new homes should consider space heating by electricity.

Natural gas prices are market driven, with price increases and decreases increasingly following oil prices, which recently hit an all-time high in excess of \$145/barrel, before falling back to around \$125. In contrast, electricity rates are based on MH's costs and are subsidized by electricity exports and regulated by the Public Utilities Board. Natural gas commodity prices are expected to fluctuate, sometimes widely, while electricity rates have historically been adjusted less frequently and with lower rates of increase.

Since 1999, while natural gas commodity prices have risen four-fold, electricity rates have increased by approximately 15%. While there can be no assurance as to future price and rate differentials between electricity and gas, electricity prices can be expected to be more controlled and far less volatile.

Recommendations

The Board reiterates a number of recommendations previously made:

1. Consumers of natural gas should inform themselves of assistance programs available from Manitoba Hydro and take action where warranted to upgrade their heating and adequately weatherize their residences;
2. Centra Gas should act on the previous advice of the Board with respect to:
 - a) operating a fully integrated natural gas and electricity DSM ; and
 - b) moving more quickly with a furnace replacement program to target low-income households, inclusive of social housing and rental based funding, so as to more

aggressively address the barriers faced by low-income households in considering and implementing energy efficiency measures.

The Board also recommends that Manitoba Hydro, and the government, pursue building code changes to better ensure only high efficiency natural gas furnaces are installed when natural gas is chosen as the space heating choice, and that the building envelope and heating plant of rental properties are adequate to provide for effective heating and heat retention.

And, the Board recommends government consider:

- i) suggesting to the federal government that GST not be charged on residential space-heating bills;
- ii) reviewing the current imposition of City and Provincial taxes on residential natural gas bills and consider redirecting the proceeds to further development of the AEF to be used for low-income DSM; and
- iii) establishing a new agency, related to and largely to-be-funded by MH, to focus exclusively on DSM and low-income issues.

6.0 It Is Therefore Ordered That:

1. The Schedules of Rates attached to this Order as Appendix “A”, effective for all gas consumed on and after August 1, 2008, BE AND ARE HEREBY APPROVED on an interim basis.
2. This Interim Order shall be in effect until confirmed or otherwise dealt with, by a further Order of the Board.
3. Centra Gas Manitoba Inc. file with the Public Utilities Board, as soon as possible, a bill assistance program targeted at low-income households.

THE PUBLIC UTILITIES BOARD

“GRAHAM LANE, CA”
Chairman

“H. M. SINGH”
Acting Secretary

Certified a true copy of Order No. 115/08
issued by The Public Utilities Board

Acting Secretary

CENTRA GAS MANITOBA INC.
FIRM SALES AND DELIVERY SERVICES
RATES SCHEDULES (BASE RATES ONLY - NO RIDERS)

1	Territory:	Entire natural gas service area of Company, including all zones					
2							
3	Availability:						
4	SGC:	For gas supplied through one domestic-sized meter.					
5	LGC:	For gas delivered through one meter at annual volumes less than 680,000 m ³					
6	HVF:	For gas delivered through one meter at annual volumes greater than 680,000 m ³					
7	CO-OP:	For gas delivered to natural gas distribution cooperatives					
8	MLC:	For gas delivered through one meter to customers served from the Transmission system					
9	Special Contract:	For gas delivered under the terms of a Special Contract with the Company					
10	Power Station:	For gas delivered under the terms of a Special Contract with the Company					
11							
12	Rates:	Distribution to Customers					
		Transportation to Centra	Sales Service		T-Service	Primary Gas Supply	Supplemental Gas Supply¹
13							
14	Basic Monthly Charge: (\$/month)						
15	Small General Class (SGC)	N/A	\$13.00	N/A	N/A	N/A	N/A
16	Large General Class (LGC)	N/A	\$70.00	\$70.00	N/A	N/A	N/A
17	High Volume Firm Class (HVF)	N/A	\$1,040.53	\$1,040.53	N/A	N/A	N/A
18	Cooperative (Co-op)	N/A	\$300.23	\$300.23	N/A	N/A	N/A
19	Main Line Class (MLC)	N/A	\$1,495.21	\$1,495.21	N/A	N/A	N/A
20	Special Contract	N/A	N/A	\$129,231.70	N/A	N/A	N/A
21	Power Station	N/A	N/A	\$12,683.06	N/A	N/A	N/A
22							
23	Monthly Demand Charge (\$/m³/month)						
24	High Volume Firm Class (HVF)	\$0.1915	\$0.1531	\$0.1531	N/A	N/A	N/A
25	Cooperative (Co-op)	\$0.3039	\$0.1316	\$0.1316	N/A	N/A	N/A
26	Main Line Class (MLC)	\$0.3667	\$0.1742	\$0.1742	N/A	N/A	N/A
27	Special Contract	N/A	N/A	N/A	N/A	N/A	N/A
28	Power Stations	N/A	N/A	\$0.0153	N/A	N/A	N/A
29							
30	Volumetric Charge: (\$/m³)						
31	Small General Class (SGC)	\$0.0379	\$0.0885	N/A	\$0.3342	\$0.2686	\$0.2686
32	Large General Class (LGC)	\$0.0374	\$0.0379	\$0.0379	\$0.3342	\$0.2686	\$0.2686
33	High Volume Firm Class (HVF)	\$0.0169	\$0.0094	\$0.0094	\$0.3342	\$0.2686	\$0.2686
34	Cooperative (Co-op)	\$0.0082	\$0.0001	\$0.0001	\$0.3342	\$0.2686	\$0.2686
35	Main Line Class (MLC)	\$0.0084	\$0.0030	\$0.0030	\$0.3342	\$0.2686	\$0.2686
36	Special Contract	N/A	N/A	\$0.0004	N/A	N/A	N/A
37	Power Station	N/A	N/A	\$0.0527	N/A	N/A	N/A
38							
39	¹ Supplemental Gas is mandatory for all Sales and Western T-Service Customers.						
40							
41	Minimum Monthly Bill:	Equal to the Basic Monthly Charge as described above, plus Demand Charge as appropriate.					
42							
43	Effective:	Rates to be charged for all billings based on gas consumed on and after August 1, 2008.					

CENTRA GAS MANITOBA INC.
INTERRUPTIBLE SALES AND DELIVERY SERVICES
RATE SCHEDULES (BASE RATES ONLY - NO RIDERS)

1	Territory:	Entire natural gas service area of Company, including all zones.				
2						
3	Availability:	For any Consumer at one location whose annual natural gas requirements equal or exceed 680,000m ³ and who contracts for such service for a minimum of one year, or who received Interruptible Service continuously since December 31, 1996. Service under this rate shall be limited to the extent that the Company considers it has available natural gas supplies and/or capacity to provide delivery service.				
4						
5	Rates:					
6		Distribution to Customers				
		Transportation to			Primary Gas Supply	Supplemental Gas Supply¹
		Centra	Sales Service	T-Service		
7						
8	Basic Monthly Charge: (\$/month)					
9	Interruptible Service	N/A	\$1,028.85	\$1,028.85	N/A	N/A
10	Mainline Interruptible (with firm delivery)	N/A	\$1,495.21	\$1,495.21	N/A	N/A
11						
12	Monthly Demand Charge (\$/m³/month)					
13	Interruptible Service	\$0.0984	\$0.0861	\$0.0861	N/A	N/A
14	Mainline Interruptible (with firm delivery)	\$0.1514	\$0.1742	\$0.1742	N/A	N/A
15						
16	Commodity Volumetric Charge: (\$/m³)					
17	Interruptible Service	\$0.0127	\$0.0071	\$0.0071	\$0.3342	\$0.2686
18	Mainline Interruptible (with firm delivery)	\$0.0090	\$0.0030	\$0.0030	\$0.3342	\$0.2686
19						
20	Alternate Supply Service:			Negotiated		
21	Gas Supply (Interruptible Sales and Mainline Interruptible)			Cost of Gas		
22	Delivery Service - Interruptible Class			\$0.0099		
23	Delivery Service - Mainline Interruptible Class			\$0.0087		
24						
25	¹ Supplemental Gas is mandatory for all Sales and Western T-Service Customers.					
26						
27	Minimum Monthly Bill:	Equal to the Basic Monthly Charge as described above, plus Demand Charge as appropriate.				
28						
29	Effective:	Rates to be charged for all billings based on gas consumed on and after August 1, 2008.				

CENTRA GAS MANITOBA INC.
FIRM SALES AND DELIVERY SERVICES
RATE SCHEDULES (BASE RATES PLUS RIDERS)

1	Territory:	Entire natural gas service area of Company, including all zones.				
2						
3	Availability:					
4	SGC:	For gas supplied through one domestic-sized meter.				
5	LGC:	For gas delivered through one meter at annual volumes less than 680,000 m ³ .				
6	HVF:	For gas delivered through one meter at annual volumes greater than 680,000 m ³ .				
7	Co-op:	For gas delivered to natural gas distribution cooperatives.				
8	MLC:	For gas delivered through one meter to consumers served from the Transmission system.				
9	Special Contract:	For gas delivered under the terms of a Special Contract with the Company.				
10	Power Station:	For gas delivered under the terms of a Special Contract with the Company.				
11						
12	Rates:	Distribution to Customers				
		Transportation to Centra	Sales Service T-Service		Primary Gas Supply	Supplemental Gas Supply¹
13						
14						
15	Basic Monthly Charge: (\$/month)					
16	Small General Class (SGC)	N/A	\$13.00	N/A	N/A	N/A
17	Large General Class (LGC)	N/A	\$70.00	\$70.00	N/A	N/A
18	High Volume Firm Class (HVF)	N/A	\$1,040.53	\$1,040.53	N/A	N/A
19	Cooperative (Co-op)	N/A	\$300.23	\$300.23	N/A	N/A
20	Main Line Class (MLC)	N/A	\$1,495.21	\$1,495.21	N/A	N/A
21	Special Contract	N/A	N/A	\$129,231.70	N/A	N/A
22	Power Station	N/A	N/A	\$12,683.06	N/A	N/A
23						
24	Monthly Demand Charge (\$/m³/month)					
25	High Volume Firm Class (HVF)	\$0.1915	\$0.1531	\$0.1531	N/A	N/A
26	Cooperative (Co-op)	\$0.3039	\$0.1316	\$0.1316	N/A	N/A
27	Main Line Class (MLC) (Firm)	\$0.3667	\$0.1742	\$0.1742	N/A	N/A
28	Special Contract	N/A	N/A	N/A	N/A	N/A
29	Power Station	N/A	N/A	\$0.0153	N/A	N/A
30						
31	Commodity Volumetric Charge: (\$/m³)					
32	Small General Class (SGC)	\$0.0379	\$0.0885	N/A	\$0.3297	\$0.2686
33	Large General Class (LGC)	\$0.0374	\$0.0379	\$0.0379	\$0.3297	\$0.2686
34	High Volume Firm Class (HVF)	\$0.0169	\$0.0094	\$0.0094	\$0.3297	\$0.2686
35	Cooperative (Co-op)	\$0.0082	\$0.0001	\$0.0001	\$0.3297	\$0.2686
36	Main Line Class (MLC) (Firm)	\$0.0084	\$0.0030	\$0.0030	\$0.3297	\$0.2686
37	Special Contract	N/A	N/A	\$0.0004	N/A	N/A
38	Power Station	N/A	N/A	\$0.0527	N/A	N/A
39						
40	¹ Supplemental Gas is mandatory for all Sales and Western T-Service Customers.					
41						
42	Minimum Monthly Bill:	Equal to the Basic Monthly Charge as described above, plus Demand Charge as appropriate.				
43						
44	Effective:	Rates to be charged for all billings based on gas consumed on and after August 1, 2008.				

**CENTRA GAS MANITOBA INC.
INTERRUPTIBLE SALES AND DELIVERY SERVICES
RATE SCHEDULES (BASE RATES PLUS RIDERS)**

1	Territory:	Entire natural gas service area of Company, including all zones.				
2						
3	Availability:	For any Consumer at one location whose annual natural gas requirements equal or exceed 680,000m ³ and who contracts for such service for a minimum of one year, or who received Interruptible Service continuously since December 31, 1996. Service under this rate shall be limited to the extent that the Company considers it has available natural gas supplies and/or capacity to provide delivery service.				
4						
5	Rates:					
6		Transportation	Distribution to Customers		Primary	Supplemental
		to			Gas	Gas
		Centra	Sales Service	T-Service	Supply	Supply¹
7		<hr/>				
8	Basic Monthly Charge: (\$/month)					
9	Interruptible Service	N/A	\$1,028.85	\$1,028.85	N/A	N/A
10	Mainline Interruptible (with firm delivery)	N/A	\$1,495.21	\$1,495.21	N/A	N/A
11						
12	Monthly Demand Charge (\$/m³/month)					
13	Interruptible Service	\$0.0984	\$0.0861	\$0.0861	N/A	N/A
14	Mainline Interruptible (with firm delivery)	\$0.1514	\$0.1742	\$0.1742	N/A	N/A
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17	Interruptible Service	\$0.0127	\$0.0071	\$0.0071	\$0.3297	\$0.2686
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20	Alternate Supply Service:			Negotiated		
21	Gas Supply (Interruptible Sales and Mainline Interruptible)			Cost of Gas		
22	Delivery Service - Interruptible Class			\$0.0099		
23	Delivery Service - Mainline Interruptible Class			\$0.0087		
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