

CENTRA GAS MANITOBA INC.
RESPONSE TO PUB DIRECTIVE FROM ORDER 112/12

MERITS OF THIRD PARTY ASSET MANAGEMENT ARRANGEMENTS

EXECUTIVE SUMMARY

Centra Gas Manitoba Inc's ("Centra") mandate is to acquire, manage and distribute supplies of natural gas to meet the Manitoba market requirement in a safe, cost-effective, reliable and appropriate manner. The role of Centra's gas supply function is, first and foremost, to ensure the reliable and cost effective supply of natural gas to the Manitoba market under all conditions. While revenue opportunities may arise from time to time through the execution of Capacity Management ("CM") transactions, such potential opportunities are secondary to the primary responsibility for seasonal planning and daily operations in serving customers.

On August 23, 2012, the Public Utilities Board of Manitoba ("PUB") issued Order 112/12 with respect to Centra's Transportation & Storage Portfolio Application. In that Order, the PUB directed Centra to provide a report on the merits of third party asset management arrangements¹ ("AMAs"). Centra's response to this Directive is provided herein. The following topics are addressed within this report:

- The evolution of transportation capacity release rules in the United States ("U.S.") natural gas market, which govern AMAs;
- The experience and knowledge that Centra has gained with regard to AMA transactions;
- The various risks that Centra manages with respect to CM transactions, including AMAs;
- The benefits to ratepayers of Centra continuing to manage its storage and transportation assets; and
- Centra's conclusions on the merits, risks and appropriate utilization of AMAs.

Centra routinely evaluates market opportunities and enters into AMAs. In Centra's view, it is appropriate to continue to evaluate and execute AMAs for portions of Centra's asset portfolio and for shorter terms. However, given the critical importance of gas supply to the Manitoba market and the lack of local storage and/or peak shaving assets in Centra's gas supply portfolio, control of Centra's storage and related transportation contracts are best served in-house as they involve the balancing of risks that are different for a Local Distribution Company ("LDC") like Centra, than for a marketer.

¹ An AMA is a capacity release in which a shipper releases its contractual rights associated with pipeline capacity to a marketer in exchange for an equivalent delivery obligation and savings on pipeline charges and/or commodity discounts.

In March 2009, Centra filed a Capacity Management Business Plan with the PUB (attached as Appendix 1), which addressed the merits and risks of outsourcing the management of Centra's asset portfolio. As outlined in this Business Plan, specifically with regard to taking a large scale approach to asset management, Centra's position remains:

"It is unlikely that any significant benefit could be obtained from outsourcing Centra's gas supply, transportation, and storage functions for the purpose of increasing Capacity Management ("CM") revenue. As CM activities are entirely integrated with seasonal planning and daily operations, CM cannot be separated and managed in isolation. Outsourcing would tie Centra to a particular asset manager and profit arrangement which would be fraught with the risks and compromises identified in this section. Furthermore, a marketer's assets and strategies may change, adding uncertainty to any value that the marketer could bring to Centra. Centra's existing counterparty diversity mitigates these risks associated with a sole asset manager.²"

The material risks inherent in outsourcing the management of Centra's asset portfolio continue to inform Centra's position that placing its entire gas supply portfolio into the hands of a third party is not warranted. Doing so would be inconsistent with the risk tolerance of Centra and would not be prudent or practical for Centra and its ratepayers.

THE EVOLUTION OF CAPACITY RELEASE RULES³

Prior to 1992, the only way that a party could move gas on a U.S. pipeline was by contracting for a bundled supply and transportation service with a pipeline company. In the interest of fostering a more efficient use of the interstate natural gas transmission system, the Federal Energy Regulatory Commission ("FERC") issued Order No. 636 in 1992, related to Restructuring of Pipeline Services, which required interstate pipelines to unbundle their sales and transportation services. This was intended to allow "gas of other suppliers to enjoy the same quality of transportation services as the pipeline company's own gas sales."

The issuance of Order No. 636 enabled the creation of "a secondary market for shippers to release their capacity rights to replacement shippers". This Order began the process of a major restructuring of the natural gas industry in the U.S. and established the following basic rules:

- The shipper must have title to the gas being transported;
- No capacity brokering – private arrangements for the use of transportation capacity is prohibited;

² Page 15 of 25, Centra's March 2009 Capacity Management Business Plan

³ The information contained in this section of the report was obtained and summarized from "The AGA FERC Manual: A Guide for Local Distribution Companies", 2011 Edition, Prepared by Dewey & LeBoeuf LLP for The American Gas Association, pages 4-1, 4-2, 4-3, 4-17, and 4-18.

- No Buy/Sells, as this was seen as a way to evade the "shipper must have title" rule and would be inconsistent with the "no capacity brokering" rule;
- Rates for released capacity would be capped at the pipeline's maximum rates;
- No tying of transportation capacity to other consideration;
- All transactions must clear through the pipeline via a transparent and non-discriminatory bidding process; and
- The capacity must go to the shipper placing the highest value on it.

A link to FERC Order No. 636 is attached for reference:

<http://www.ferc.gov/legal/maj-ord-reg/land-docs/restruct.asp>

It was not until FERC issued Order No. 712 on June 19, 2008 that consideration was given to, and significant rules imposed upon, capacity releases as they relate to AMAs. Before Order No. 712, "AMAs frequently were inconsistent with FERC's original capacity release rules". Order No. 712 reconsidered some of the basic assumptions underlying the capacity release rules set out in Order No. 636. It "created a more flexible, although much more complicated program" in that it created distinct rules for different categories of capacity release transactions. AMA capacity releases were identified as those in which "the replacement shipper has an obligation to deliver gas to or buy gas from the releasing shipper and may have other management responsibilities".

Among other things, Order No. 712:

"... exempted capacity releases to implement qualified AMAs from the prohibitions on tying, from the requirement for bidding, from the prohibition on extending the term of releases of less than one year at rates greater than the maximum recourse rate into succeeding periods, and the prohibition against buy/sell transactions but only for volumes of gas delivered to the releasing shipper.⁴"

Or more specifically:

- "Payments or other consideration exchanged between the releasing and replacement shippers in a qualified release to an asset manager are not subject to the maximum rate restriction;
- A release to implement a qualified AMA may be rolled over without being re-posted for bidding; and
- The parties may agree on conditions to the AMA so long as the terms are "necessary to implement the AMA" and they do not eliminate or "vitate" the delivery or purchase obligation.⁵"

⁴ The AGA FERC Manual: A Guide for Local Distribution Companies, 2011 Edition, Prepared by Dewey & LeBoeuf LLP for The American Gas Association, page 4-18

⁵ The AGA FERC Manual: A Guide for Local Distribution Companies, 2011 Edition, Prepared by Dewey & LeBoeuf LLP for The American Gas Association, page 4-18

A link to FERC Order No. 712 is attached for reference:

<http://www.ferc.gov/whats-new/comm-meet/2008/061908/G-4.pdf>

FERC has the authority to enforce, investigate, audit and financially penalize any party who does not follow the procedures and rules set out in these Orders regarding AMA transactions.

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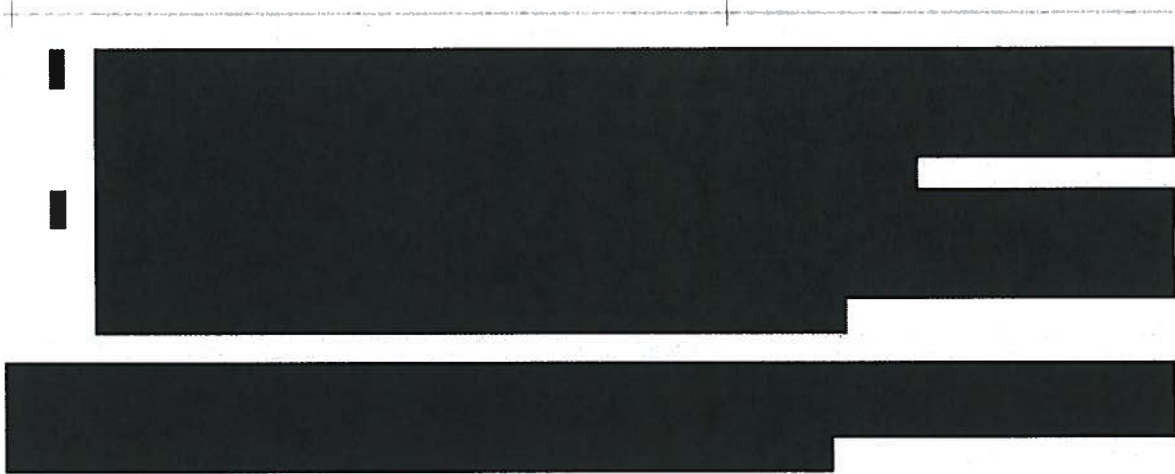
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AMA Experience of Other Canadian LDCs:

Centra's experience with AMAs is very similar to its Canadian LDC counterparts, as recently outlined by CAC's expert witness, Mr. Stauff:

"I have sort of anecdotal information from marketer types that I deal with. My understanding is that most of the – certainly, like Union and Enbridge and GMI, have at least small scale versions of this kind of thing. I do not – and I won't say and can't say that any Canadian distributors that I know of have entered into the kind of big scale thing that I just described where the whole portfolio get turned over. I think in – it's more typically particular pieces of transportation, or particular pieces of storage, and not necessarily for a long time either. It might be for just a winter or a summer.⁷"

RISKS MANAGED BY CENTRA

A discussion of the various risks associated with natural gas transactions is outlined in section 5 of the Capacity Management Business Plan. As noted in that document, these risks are amplified when the transactions may impede the ability of an LDC to serve its market requirement, particularly in an extreme and volatile climate such as experienced in Manitoba. An understanding of these risks is critical to assessing the potential merits of Centra's AMAs. Thus, Centra reiterates and expands upon the discussion of these risks below:

Credit Risk

Centra only physically transacts with counterparties with which it has executed a NAESB Base Contract for Sale and Purchase of Natural Gas. The NAESB contract is the standardized agreement recognized by the energy industry to enable transactions between buyers and sellers, which addresses credit provisions and other key provisions such as performance obligations,

⁷ Transcript Volume III, page 609, line 21 – page 610, line 7, Centra Transportation & Storage Portfolio proceeding

financial responsibility, dispute resolution, default and force majeure. The NAESB contract underpins each transaction into which Centra enters and outlines procedures to be followed in the event of delivery failure and credit-related risks with counterparties. Over the past few years, Centra has made a concerted effort to negotiate and execute NAESB contracts with more than twenty-five (25) new counterparties. These counterparties are active in both the Canadian and U.S. energy markets.

As part of this “enabling” process, Centra ensures that it obtains credit support from each counterparty relative to its published credit ratings. In most cases, either a parental guaranty, letter of credit or cash is secured. Centra’s Middle Office staff determines appropriate credit limits and the required form of credit support for each counterparty. Centra also transacts with numerous counterparties, thereby diversifying its credit risk exposure.

In the normal course, quotes from multiple NAESB-enabled counterparties are sought by way of an RFP for each third party arrangement into which Centra enters, including AMAs. This competitive bidding process is followed for the purposes of price discovery and to ensure that Centra is obtaining the best value for ratepayers.

Credit risk is also mitigated through counterparty diversification within Centra’s gas supply portfolio. One of the major drawbacks of a large scale AMA is that Centra would be concentrating prospective credit risk by entering such a large transaction with a single party. Similar to the practice of reducing investment risk by diversifying investment portfolios amongst many different securities, Centra makes a concerted effort to ensure that it has an appropriate breadth of counterparties with which to transact and that its transactions are diversified amongst multiple counterparties during a month or season.

Settlement Risk

This is the risk that a counterparty may fail to physically deliver on its respective obligations as agreed to in a transaction. This risk and the associated price risk associated with finding a replacement supply of gas are addressed by way of the NAESB contracts that Centra has in place with each of its counterparties.

In addition to obtaining appropriate credit support from a counterparty, Centra manages its settlement risk with a counterparty by giving additional weight to its experience with counterparties who have historically proven to be reliable and flexible in past transactions. Centra conducts these assessments prior to entering into all of its secondary market transactions, including AMAs. Although settlement risk is addressed in the NAESB contracts that Centra has with each of its counterparties, a large-scale AMA involving all or a significant portion of Centra’s transportation and storage assets, or for an extended contract term, would introduce a significant, additional degree of settlement risk. The greater the magnitude of the assets released and the longer the term of an AMA, the greater the risks.

Market Risk

This is the risk that Centra may be unable to earn a profit on a transaction. Centra generally executes CM transactions and AMAs that have a fixed price and whose returns are not contingent on movements in spot prices and/or market liquidity, thereby mitigating Centra's market risk.

Execution Risk

This risk considers the complexity of a transaction and the likelihood of being able to physically execute it with respect to pipeline scheduling, given the possibility of cuts to nominations. Centra only executes a transaction if these risks are well understood and an alternate plan is available. AMAs heighten Centra's execution risk given the potential need to call on the delivery obligation from the counterparty and the uncertainty around how the counterparty may fulfill this obligation.

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CENTRA'S CONCLUSIONS ON THE MERITS AND RISKS OF AMAs

- 1) AMAs transactions can have merit. AMAs are one of a number of ways to manage the costs of Centra's transportation and storage portfolio, the benefits of which flow to natural gas ratepayers in Manitoba. Centra's ratepayers have benefited from smaller scale, short to mid-term AMAs involving Centra's U.S. and Canadian transportation and storage assets.
- 2) AMAs, like other CM transactions, are executed when weather and market circumstances allow. Centra assesses factors such as changing prices and basis differentials in the various markets, along with counterparty interest in the transaction, in order to determine the potential value associated with any particular arrangement, as well as the various risks inherent in the transaction. The market value of capacity is dependent on the market value of natural gas delivered to a particular market area and as such, is subject to day-to-day and intra-day fluctuations.
- 3) [REDACTED]

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- 4) There are risks in AMAs, which must be dynamically managed on a transaction by transaction basis. The greater the capacity and the longer the term of the AMA, the greater the risks.
 - 5) There may be certain marketers whose risk tolerance and portfolio of related assets could enable them to optimize Centra's portfolio in order to generate revenue under a large scale AMA, but this value would be offset by the increased risks.
 - 6) Centra's gas supply staff must remain actively involved in managing Centra's gas supply portfolio to ensure that Centra is obtaining best value for natural gas ratepayers. The knowledge and expertise of Centra staff and their daily involvement in the natural gas market managing Centra's assets are instrumental in allowing Centra to intervene and be a voice for Manitoba's natural gas ratepayers before the NEB with respect to critical issues such as Mainline segmentation; services; tolls including unlimited pricing discretion; pipeline abandonment; and the Energy East project. Ceasing or limiting Centra's active, daily involvement in the natural gas marketplace by way of a large scale AMA would be detrimental to Manitoba natural gas ratepayers in the long run.

In conclusion, security of supply and transportation reliability are Centra's highest priorities and of utmost concern in serving the Manitoba load. The risk of any potential delivery failure must be carefully considered. In the case of a large scale AMA, Centra would cede control over the manner in which the Manitoba load was being served. The risks associated with ceding control of all or significant portions of Centra's portfolio of gas supply, transportation and storage assets to a third party marketer far outweigh the prospective benefits of potential increased revenues. Centra's balanced approach to AMAs adequately mitigates risk and captures the benefits of smaller scale, short to mid-term AMAs for the benefit of Manitoba ratepayers.

Capacity Management Business Plan

Centra Gas Manitoba Inc.

March 2009

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Executive Summary

Centra's mandate is to acquire, manage and distribute supplies of natural gas to meet Manitoba market requirements in a safe, cost-effective, reliable and environmentally appropriate manner. After ensuring Manitoba market requirements will be met, and under certain market conditions, Centra may be able to mitigate the costs of its transportation and storage assets by entering into transactions with other parties under its Capacity Management ("CM") program.

Centra employs a least cost approach to reliably serve its market, seeking to reduce overall costs to customers through the adjustment of the existing asset portfolio, and applying the revenues achieved from the CM program against transportation costs. Centra does not acquire transportation and storage assets for the purpose of earning CM revenue; rather, the purpose of CM activities is to mitigate the costs of Centra's existing, required assets.

For the 2007/08 fiscal year, the fixed costs of Centra's transportation and storage assets totaled \$42.0 million, while CM revenues totaled \$8.2 million, effectively reducing those costs by 20%. Annual costs of operating the CM program are \$0.4 million. The CM program delivers significant value and cost mitigation of assets with minimal cost and risk.

CM activities are not transacted in isolation; rather they are executed within the context of Centra's seasonal planning and daily operations. Under certain weather, load, operating, and market conditions, Centra is able to extract value from its portfolio by executing CM transactions with counterparties. These transactions must have regard for the operational requirements to serve the Manitoba market, and avoid supply uncertainty and shipping penalties which would be detrimental to Manitoba customers. Centra's experience in planning and operating its asset portfolio enables Centra to execute CM transactions such that neither operations nor the transactions themselves are at risk.

Centra operates its CM Program within the context of a regulated LDC charged with providing an essential service. Centra extracts value from its CM activities without incurring significant risk, taking speculative positions, or using financial instruments. Centra does not enter into CM transactions without understanding and mitigating all risks, while at all times maintaining operational flexibility.

Assets available for CM transactions are determined by the weather, the corresponding Manitoba load, and operational requirements. Asset availability may include transportation capacity available for temporary release, or a requirement to withdraw storage gas making Centra's storage facility available for exchange transactions. Centra's CM revenues are ultimately determined by the market value of those services that Centra may be able to provide. This value is determined by supply and demand fundamentals in various markets that are not within Centra's control. As weather is the main determinant of Centra's asset availability for CM transactions, Centra does not forecast CM revenues, but for regulatory purposes, provides a rolling five-year average of CM revenues.

Centra's network of industry contacts and approved counterparties in major Canadian and US regions relevant to Centra's assets, including large natural gas marketers and smaller niche marketers, gives Centra access to the various assets, markets, and customers of these marketers. Counterparties are aware that Centra has many options when transacting, and accordingly must provide very competitive quotes in order to win Centra's business on a daily basis. By diversifying transactions with numerous counterparties, Centra not only

mitigates risk, but ensures competition and price discovery, thus resulting in appropriate valuation of transactions.

By modeling the value of its available assets in the market and transacting with various marketer counterparties on a daily basis, Centra extracts appropriate value from its CM program. Nevertheless, the question of outsourcing is sometimes raised with respect to management of an LDC's asset portfolio. In Centra's case, this would require ceding control of all of Centra's gas supply, transportation, and storage assets, as Centra's seasonal planning, daily operations, and CM activities are integrated and cannot be managed separately. This would introduce additional risk elements and result in the loss of Centra's internal expertise, making Centra dependent upon and captive to a third-party asset manager. Centra has previously investigated outsourcing and concluded it was not appropriate for Centra's circumstances. Given the increased economic, market, credit, and counterparty risk today, internal control of Centra's critical functions continues to be the prudent approach.

Centra anticipates that it will typically have fewer CM transaction opportunities as a result of reducing its contracted firm transportation ("FT") capacity on the TCPL Mainline for the 2008/09 gas year. However, as Centra has no direct control over Manitoba load growth, pipeline tolls, weather, or market conditions, it is unable to make any predictions regarding future contract levels or CM revenues. Centra will continue to responsibly operate its CM program, extracting value from its available assets, while mitigating risks and ensuring its continued ability to serve the Manitoba market.

1. Objective of Centra's Capacity Management Program

Centra's mandate is to acquire, manage and distribute supplies of natural gas to meet Manitoba market requirements in a safe, cost-effective, reliable and environmentally appropriate manner. Centra holds a portfolio of transportation and storage assets to fulfill this mandate. In order to mitigate the costs of this portfolio, Centra enters into transactions with counterparties that earn revenue or avoid costs, while always maintaining the ability to serve the Manitoba market. These revenues or avoided costs benefit all of Centra's Sales Service customers through reduced transportation rates. These transactions are commonly referred to as Centra's Capacity Management ("CM") program.

Centra employs a least cost approach to reliably serve its market, seeking to reduce overall costs to customers through the adjustment of the existing asset portfolio, while further reducing transportation costs through CM transactions. Centra does not acquire transportation and storage assets for the purpose of earning CM revenue; rather, the purpose of CM activities is to mitigate the costs of Centra's existing, required assets. For the 2007/08 fiscal year, the fixed costs of Centra's transportation and storage assets totaled \$42.0 million, while CM revenues totaled \$8.2 million, effectively reducing these costs by 20%. Annual costs of operating the CM program are \$0.4 million. The CM program delivers significant value and cost mitigation of assets with minimal cost and risk.

2. Manitoba Weather and the Requirement for Operational Flexibility

Centra requires more operational flexibility to respond to changing load requirements due to weather than virtually any Local Distribution Company ("LDC") in North America. Manitoba weather is the single greatest factor impacting Centra's operations, particularly given a Manitoba load that is largely characterized by residential and commercial space heating requirements. Please see Appendix A for a detailed discussion of Manitoba weather, and Appendix B for an illustration of corresponding Manitoba load variability.

Centra's portfolio is designed to respond to Manitoba's extreme and volatile weather conditions. Centra may use CM transactions to increase flexibility while avoiding costs, such as through transactions to address peak day exposure. Generally, however, CM transactions are constrained by weather, which determines the Manitoba load, which in turn determines what assets Centra may have available for use in CM transactions. For example, under warm weather conditions, Centra may have excess pipeline capacity available to release in the secondary market for a fee. Under cold weather conditions, Centra may require gas from its storage facility in Michigan, which may provide an opportunity to physically exchange gas between Manitoba and Michigan with a counterparty for a fee.

3. Types of Capacity Management Transactions

The major CM transactions that Centra enters into can be broadly defined under the following two categories:

Capacity Release - This type of CM transaction is the temporary use of Centra's transport capacity by a counterparty. This can take place through an outright assignment of the capacity, or through a transaction where Centra agrees to transport another party's gas to a predetermined point for a fee. All revenues in excess of incremental costs of the sale of such capacity are attributed as recovering fixed transport costs, and booked as CM revenues.

Exchanges - The use of physical swaps or exchanges of gas are another type of CM transaction. These transactions provide for the delivery of Western Canadian gas to the Manitoba market by a counterparty, in exchange for the same volume delivered from Centra's storage in Michigan to the counterparty, for a fee. These exchanges are done in lieu of backhauling the equivalent volume from storage to the Manitoba market, and are limited to the amount that would normally be backhauled on a particular day. In some circumstances the volume delivered to the counterparty may be less than the volume received by Centra on a particular day, requiring repayment of the imbalance at some point in the future. This imbalance may allow Centra to avoid the cost of a traditional peaking service.

Centra's ability to enter into such transactions is dependent upon its seasonal planning and daily operational requirements, as discussed in the following section.

4. Integration of Operational Requirements and the Capacity Management Program

Centra has two distinct seasons to plan for: Summer (April to October), and Winter (November to March). Please see Appendix C for an illustration of Centra's seasonal operations.

Summer is Centra's storage injection season, during which Centra must refill storage in addition to serving the Manitoba market. The previous winter's storage withdrawals determine how much gas and corresponding transportation capacity is required in summer to fill storage. Any transportation assets that are not required to fill storage may be released by Centra on a seasonal or monthly basis, provided there is demand in the secondary market for such transportation. Such releases of transportation capacity mitigate the fixed costs of Centra's transportation portfolio, but the extent to which Centra can release capacity is determined by Centra's seasonal load and storage injection requirements.

In addition to releasing capacity based on summer storage injection requirements, Centra determines on a daily basis if additional TCPL capacity can be released in the secondary market based on the requirements of the Manitoba load. Such daily CM transactions typically take the form of a transportation agreement in which Centra agrees to transport a certain volume of gas to a point for a counterparty using a "diversion" or other discretionary service offered by TCPL, rather than an outright release of capacity that is typical of monthly or seasonal releases. Daily capacity releases are most typical during summer, although there can be a small number of days in the winter during warm weather in which Centra may have excess TCPL capacity to release.

Winter is Centra's storage withdrawal season, during which Centra manages its peak day and seasonal load requirements. For much of the winter, Centra's TCPL

capacity from Alberta is fully utilized, and withdrawals of gas from Centra's Michigan storage facility are required to meet the Manitoba market requirement, the volume of which can vary significantly from day to day. In order to extract additional value from its storage asset, Centra engages in exchanges with counterparties when there is demand for this service. Centra provides gas to the counterparty in Michigan in exchange for the same volume of gas delivered by the counterparty to Manitoba. This CM transaction enables Centra to effectively "sell" gas in Michigan when the price is higher than the cost of acquiring Alberta gas delivered to Manitoba, without Centra needing to acquire additional transportation capacity to Manitoba. As Centra engages in these exchanges on a daily basis whenever storage gas is required, rather than selling storage gas on a forward basis prior to winter, Centra maintains operational flexibility to respond to the significant variation in day-to-day storage gas volume requirements while minimizing risk.

The fundamental consideration of Centra's CM activities is that they are never transacted in isolation; they can only be executed within the context of Centra's seasonal planning and daily operations. Under certain weather, load, operating, and market conditions, Centra is able to extract value from its portfolio by executing CM transactions with counterparties. These transactions must have regard for the operational requirements to serve the Manitoba market, and avoid supply uncertainty and shipping penalties which would be detrimental to Manitoba customers.

If Centra were to release too much transportation capacity in order to earn CM revenue, it might be unable to transport enough gas to serve the Manitoba market without making other potentially costly arrangements, if such arrangements are available at all. Similarly, if Centra were to exchange more storage gas than it would otherwise require via storage backhaul, Centra could have too much gas delivered to Manitoba. In either case, Centra would be exposed to incurring TCPL balancing fees, which could quickly exceed the value of the CM transaction that led to the imbalance. The release of too much capacity in summer could also prevent Centra from filling storage by the end of October.

As the LDC in Manitoba, Centra has responsibility for balancing nominations (gas volumes scheduled to flow on a pipeline) with takes (consumption) in its delivery areas. This is complicated by the fact that a majority of CM transactions are agreed to with counterparties 24 hours in advance of the gas day. Given often conflicting weather forecasts and the volatile nature of Manitoba weather, there is an element of operational risk that either too much or too little gas will be scheduled to Centra's delivery areas.

If Centra were to find itself short or long gas as a result of a CM transaction, Centra could request to void the transaction with the counterparty; however, this is a last resort option that is considered a bad practice in the industry that would damage a market participant's reputation if exercised more than very rarely. Centra's experience in planning and operating its asset portfolio enables Centra to execute CM transactions such that neither operations nor the transactions themselves are at risk.

5. Risk

There are various risks associated with natural gas transactions. These risks are magnified when the transactions impact the ability of an LDC to serve its market's natural gas requirements in an extreme climate. Centra operates its CM Program in a manner consistent with the objectives of a regulated LDC charged with providing an essential service, incorporating prudent physical operations in determining the availability of assets for CM transactions.

Centra extracts value from its CM activities without incurring significant risk, taking speculative positions, or using financial instruments. Recent market events have demonstrated that even large, respected, and seemingly stable marketers can suffer significant losses related to their trading positions.

Centra manages the following risks associated with CM transactions:

Credit risk: Centra only physically transacts with counterparties with which it has executed a North American Energy Standards Board ("NAESB") Base Contract for Sale and Purchase of Natural Gas, which addresses credit. Centra also normally only transacts with investment grade counterparties. In the case of unrated subsidiaries, Centra requires a parental guaranty, letter of credit, or other credit support prior to transacting. Other credit support may include requiring a counterparty to provide cash in advance of transacting. Centra's Middle Office determines appropriate credit limits by counterparty. Centra also transacts with numerous counterparties, thus diversifying its credit risk exposure.

Settlement risk: This is the risk that a counterparty may fail to physically deliver as agreed on their side of a transaction. This risk and the associated price risk of finding a replacement are addressed in NAESB contracts that Centra has in place with all counterparties. Centra also addresses this risk by largely executing daily CM transactions such that settlement risk would not impact a protracted period.

Market risk: This is the risk that Centra may be unable to make a profit on a transaction. Centra generally executes CM transactions that have a fixed price and that do not hinge on movements in spot prices or market liquidity. These risks are incurred by the counterparty. The risk associated with forward price views is also eliminated by transacting in the daily spot market.

Execution risk: This risk considers the complexity of a transaction and likelihood of physically executing it with respect to pipeline scheduling and cuts to nominations. Centra only executes a transaction if these risks are understood and an alternate plan is available. Normally, Centra executes transactions such that the execution risk is borne by the counterparty downstream of the transaction with Centra.

Operational risk: This risk considers operational problems related to volatile weather and pipeline constraints, such that an imbalance could exist between nominated or available supply and load requirements. Centra mitigates this risk by executing some CM transactions "intra-day" in addition to a day ahead, such that updated weather forecasts for the current day are available, and through continuous monitoring of pipeline operational notices.

6. Counterparty Network

Centra's network of industry contacts and internally approved counterparties in major Canadian and US regions relevant to Centra's assets, including large natural gas marketers and smaller niche marketers, gives Centra access to the creativity of the market and to the various assets, markets, and customers of these marketers. Centra's experience is that some marketer counterparties have significant value to offer Centra on certain types of transactions, but less value to offer on other transactions. In addition, over the course of weeks or months, the same counterparty may become more or less competitive when bidding on the same type of transaction with Centra. It is for these reasons that Centra's access to many counterparties and their changing assets and customers enhances competitive bidding on CM transactions.

Counterparties are aware that Centra has many options when transacting, and accordingly must provide very competitive quotes in order to win Centra's business on a daily basis. This competitive process enables Centra to extract the majority of the value from a transaction, while still requiring the marketer to bear the majority of the risk of the transaction. Centra always knows what revenue it will earn on a transaction, while the marketer may be at risk to take a loss on a transaction. Centra has NAESB agreements in place with approximately 20 counterparties, and negotiates with new counterparties from time to time.

By diversifying transactions with numerous counterparties, Centra not only mitigates risk, but ensures competition and price discovery, thus resulting in appropriate valuation of transactions.

6.1 Counterparty Transaction Criteria

With numerous NAESB counterparties, Centra considers various factors prior to entering into a CM transaction with a particular counterparty, including:

Credit: The credit worthiness of a counterparty is considered with respect to the risk of a transaction. The counterparty must also be within its prescribed credit limit with Centra.

Activity: The counterparty's level of activity in a particular market and type of transaction.

Competitiveness: The counterparty's price on a given transaction.

Volume: The counterparty should be able to transact in the volumes required by Centra.

Reliability: Centra's prior experience with the counterparty, including the ability to physically execute as agreed, even under conditions of unexpected pipeline constraints, and the counterparty's history of addressing scheduling errors promptly.

Flexibility: The counterparty's ability to accommodate intra-day transactions, late-in-the-day transactions, deferred exchanges and inventory transfers.

Maintenance of valuable relationships: A counterparty should be consistently strong on all of the above factors, such that Centra will transact to maintain a close and active relationship. Some of Centra's counterparty relationships have been built over many years and provide for a cooperative environment, especially during difficult operational periods.

Centra may transact with more than one counterparty on a given day in order to keep several counterparties active, maintain relationships, and for the risk mitigation provided by diversity.

7. Determinants of Capacity Management Revenues

Assets available (both seasonally and daily) for CM transactions are determined by the weather, the corresponding Manitoba load, and operational requirements (e.g. storage fill requirements). Asset availability may include transportation capacity available for temporary release, or a requirement to withdraw storage gas making Centra's storage facility available for exchange transactions. Centra's CM revenues are ultimately determined by the market value of the services that Centra is able to provide with its available assets. This value is determined by many factors, including but not limited to weather, general economic conditions, the availability of similar services, pipeline constraints, and storage levels in various regions. In short, any factors that impact the fundamentals of supply and demand and the resulting basis differentials in various markets or regions impact the market value of Centra's available assets. None of these factors are within Centra's control.

As weather is the main determinant of Centra's asset availability for CM transactions, Centra does not forecast CM revenues, but prepares a rolling five-year average of CM revenues.

7.1 Valuation of Capacity Management Transactions

Centra uses real-time market information to calculate a point-in-time modeled value of its available assets and related services for CM transactions. This market information includes, but is not limited to, spot prices, forward prices, and basis differentials related to:

- AECO Next Day gas and Same Day gas;
- AECO-Empress transportation;
- CAD/USD foreign exchange;
- Trading points downstream of Manitoba;
- NYMEX;
- MichCon;
- Oklahoma gas; and
- Louisiana gas.

In addition to this market information, Centra also evaluates relevant pipeline tolls and fuel rates to model the value of a particular transaction.

For example, in order to model the value of a storage exchange for "next day" (i.e. tomorrow's gas day), Centra will consider real-time market data and current pipeline

tolls and fuel rates to model the cost of landing Alberta gas in Manitoba, versus the price gas can be sold for in the Michigan area less the cost of moving gas from storage to a liquid trading point. A favourable differential indicates that there is likely a market for such a transaction. Centra assumes a small margin for the counterparty, and proceeds to contact counterparties for real-time quotes for an exchange transaction. By modeling the value of the exchange, and obtaining multiple quotes from counterparties, Centra is able to ensure on a daily basis that appropriate value is obtained from its available assets under a particular CM transaction. Exchanges that exploit arbitrage opportunities between Alberta gas landed in Manitoba and Michigan storage gas sold at a liquid trading point are pursued and executed by Centra on a daily basis whenever economically and operationally feasible.

Centra similarly models the value of a TCPL capacity release in the form of a transaction where Centra agrees to transport another party's gas to a predetermined point for a fee. Centra will model the cost of gas at Empress versus what gas can be sold for downstream at a liquid trading point, again using real-time market data and relevant pipeline toll and fuel rate information. This differential is an indicator of the value of transportation between two points. If this differential is positive, Centra will assume a small margin for the counterparty and proceed to contact counterparties for real-time quotes for the capacity. By modeling the value of the capacity and obtaining multiple quotes from counterparties, Centra is able to ensure on a daily basis that appropriate value is obtained from its available assets under a particular CM transaction. Such capacity releases exploit arbitrage opportunities between different hubs and are pursued and executed by Centra on a daily basis whenever economically and operationally feasible.

Another example is modeling the value of a capacity release of a US asset such as ANR SE transportation capacity from the Louisiana basin to Michigan. To model the value of this capacity release for the prompt month, Centra will consider the NYMEX prompt month contract price and the corresponding basis differentials for ANR Louisiana and for MichCon. The cost of transporting Louisiana gas from the ANR SE headstation to the Michigan area based on the relevant ANR tolls and fuel rates is calculated to determine if there is positive value in buying Louisiana gas and transporting the gas for sale in Michigan. This exercise enables Centra to model an appropriate value to expect from the release of such capacity. The release would be executed by posting the available capacity on ANR's electronic bulletin board, thus enabling all ANR shippers to bid on the capacity and ensuring Centra obtains the best price.

7.2 Diversions and FT-RAM Credits

In the case of the TCPL capacity release discussed in section 7.1, Centra will transact using either TCPL diversions, or TCPL Firm Transportation Risk Alleviation Mechanism ("FT-RAM") credits to deliver gas to a particular point outside of the Manitoba Delivery Area ("MDA"), as the MDA is not a liquid trading point. Diversions are transactions available to holders of TCPL FT, in which the shipper can schedule or divert gas to a point outside its FT contract receipt and delivery points on a day in which the shipper has excess FT capacity. FT-RAM credits are earned on a shipper's unused FT capacity (and that was not used to execute a diversion), and

are awarded as transportation credits for interruptible transportation ("IT") on TCPL that must be used within the month they were earned.

There are varying tolls associated with use of both diversions and FT-RAM credits, and Centra evaluates these costs relative to the expected revenue to be earned when executing a particular CM transaction; in other words, the price to be earned impacts the overall revenue-to-cost equation of the transaction depending on whether a diversion or FT-RAM credits are used. The choice to use diversions or FT-RAM credits is also influenced by the transportation path required to deliver the gas to a particular point, as some paths are more constrained than others on the TCPL Mainline, and diversions that use FT have a higher scheduling priority than FT-RAM credits which use IT. Conversely, FT-RAM credits can be used at any time during the month in which they are earned, even if the shipper is already shipping at full capacity on its FT contract.

Centra makes full use of diversions and FT-RAM credits to achieve nearly 100% utilization of its TCPL FT contracts. This utilization is attributable to Centra's CM program, and is relative to a Manitoba sales load factor of 32% and a purchase load factor of 83% on a normal weather year basis.

8. Other Capacity Management Transactions

There are a number of other types of transactions that Centra may execute, which are largely variations of the two main types of transactions described in section 3.

Deferred exchanges - These exchanges are similar to the exchanges described in section 3 in which a counterparty delivers gas to Centra in Manitoba, with Centra delivering the same volume of gas to the counterparty from its Michigan storage although at a later date. In this case, the counterparty pays a premium to Centra over what would be paid for a simultaneous exchange, based on price differentials between months. A deferred exchange can also be used to avoid the cost of a traditional peaking service by enabling Centra to receive more gas from counterparties than it is obligated to pay back on the same day. Centra may formalize a deferred exchange agreement to meet its winter peaking requirements with one or more counterparties, effectively providing Centra with a physical call option that Centra gets paid to exercise. The peaking arrangement could alternatively specify that Centra will pay back the gas to the counterparty via storage inventory transfer on the same day that Centra receives the gas in Manitoba, as this does not impact Centra's deliverability from storage.

Summer storage exchanges - Centra may participate in exchange transactions in which a counterparty transfers gas into Centra's storage account in early summer, with Centra repaying the volume over a period of time later in the summer at a predetermined point for a fee. Such a transaction is integrated with Centra's summer storage injection plan. In addition to the fee received from the counterparty based on price spreads over the summer months, Centra may also realize savings related to transportation and storage injection costs.

Exchange diversions - Centra may participate in exchange diversions on TCPL, whereby the counterparty delivers gas to Manitoba and Centra delivers, for a fee, gas downstream to the counterparty using a diversion (discussed in 7.2).

8.1 High Risk Transactions

There are a number of high risk transactions that Centra does not enter into, primarily due to significant market and operational risks.

One example of a high risk transaction would be to sell Centra's Michigan storage gas on a forward basis prior to winter and buy Alberta gas delivered to Manitoba when there is a favourable forward price differential. This is a high risk transaction, as it is not possible to determine on a forward basis what volume of storage gas Centra will require to serve the Manitoba market in a particular month or winter season. Required volumes from storage are determined on a daily basis by Manitoba's highly volatile winter weather, and can range from zero to 208,591 GJ per day. As required storage volumes cannot be determined in advance, it is not possible to hedge matching gas volumes from Alberta that would be used to serve the Manitoba market in lieu of storage gas. Without hedging, Centra would be exposed to unacceptable price risk. It is also important to note that Centra's Michigan storage withdrawal points are not liquid trading points, therefore requiring pipeline tolls and fuel costs related to the transport of storage gas to a hub to be considered in any transaction involving the sale of Michigan storage gas. These additional costs have a material impact on the economics of such a transaction.

A realistic alternative to capture the value of a favourable basis differential between Alberta and Michigan is the storage exchange transaction that Centra executes on a daily basis whenever operationally and economically feasible, as described in sections 3 and 7.1.

9. Outsourcing

Centra effectively and efficiently manages its CM activities within the context of its seasonal planning and daily operational requirements, while managing risk and ensuring its ability to serve the Manitoba market. By modeling the value of its available assets in the market and transacting with various marketer counterparties on a daily basis, Centra extracts appropriate value from its CM program.

Outsourcing the management of Centra's asset portfolio would not be limited to having an asset manager execute CM transactions, but would require ceding control of all of Centra's gas supply, transportation, and storage assets, as Centra's seasonal planning, daily operations, and CM activities are integrated and cannot be managed separately.

The notional benefit of outsourcing relies on the assumption that a large marketer will be able to realize efficiencies and possess market reach and expertise unavailable to an LDC. These and other issues are addressed below.

Transaction efficiencies, flexibility, and expertise - Centra's experience with marketers is that larger marketers are not necessarily more efficient than other market participants with respect to CM transactions. Large marketers may in fact have more cumbersome internal systems, policies, and procedures that limit their flexibility and potential for efficiencies. For example, Centra has encountered circumstances with large marketers that operate both Canadian and US trading

offices, yet cannot accommodate cross-border transactions, such as exchanges between Alberta and Michigan. Some marketers are also limited in their ability to execute intra-day transactions (preferring next day) or deferred exchanges. In other words, it is not uncommon for Centra to propose a particular CM transaction that a marketer is unable to accommodate. This underscores the value of Centra's network of numerous marketing counterparties.

Market reach and competitiveness - A large marketer may hold significant assets and be able to reach markets beyond Centra's assets. However, Centra is able to benefit from the market reach of the many marketers its already transacts with, without being tied to one marketer's portfolio. Being tied to one marketer is detrimental in that a marketer may be disinclined to transact with other marketers that it deems to be competitors. Centra's experience has also been that a marketer's ability to be competitive on a particular type of transaction can change significantly over the course of weeks or even days. In addition, no single marketer is highly competitive in every type of transaction Centra may execute. Again, Centra's existing network of many counterparties enables Centra to transact with the marketers that are most competitive on a particular type of transaction at a particular point in time.

Cost - On a long-term outsourcing agreement, a single marketer is more likely to demand a greater share of revenue from CM transactions than would be demanded by marketers competing for Centra's business on a day-to-day basis. Centra operates the CM program at minimal cost, using resources and facilities it would have in place regardless. This internal cost attributable to the program is approximately \$400,000 per year. Outsourcing could be expected to increase costs by introducing a middleman into the equation that would demand a significant share of any revenue earned through CM activity.

Transparency, control, and risk - Under an outsourcing arrangement, Centra may not be able to determine how the asset manager is transacting and whether or not Centra is receiving appropriate value under the arrangement. In addition, Centra's assets are not insignificant, and ceding control of such assets to an outside party introduces risks related to the solvency of the counterparty and disclosure of confidential, business-critical information. Recent market events have revealed the speculative nature of some marketers' trading activities, resulting in significant losses for these entities while struggling to exit their speculative positions in an environment of declining market liquidity. In addition to these risks, an asset manager could execute transactions in violation of U.S. Federal Energy Regulatory Commission ("FERC") rules, introducing compliance risk. FERC can levy fines of \$1 million per day, per violation. Centra's internal costs related to CM could increase under an outsourcing arrangement as a result of increased monitoring and auditing requirements of CM activities.

Internal expertise and counterparty relationships - Under an outsourcing arrangement, Centra staff would no longer be directly involved in activities related to CM and many gas supply, transportation, and storage functions. Inevitably, internal expertise would be lost and Centra would become increasingly dependent upon and captive to an asset manager. Monitoring and auditing its activities would become increasingly difficult. Centra management would lose the ability to measure and report on the prudence of the risk and rewards of the CM program. In addition,

Appendix A

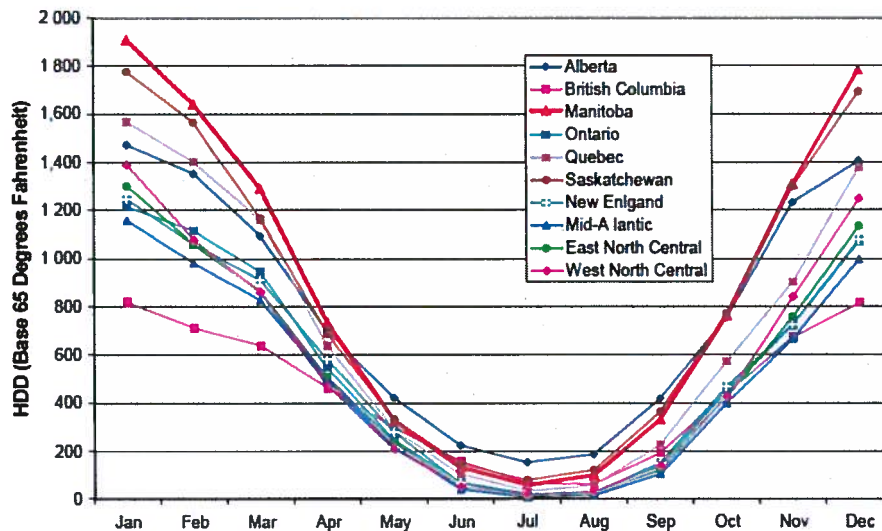
Impact of Manitoba Weather on Supply Planning

(excerpt from ICF International 2009 report "Assessment of Natural Gas Commodity Options for Centra Gas Manitoba", 3.1.3)

The majority of Centra's load is in the residential and commercial sector where daily and monthly load requirements are determined primarily by weather. As a result, weather plays the major role in determining annual, seasonal and day-to-day natural gas demand. Centra's supply planning process is complicated by the fact that weather in Manitoba is more uncertain and more volatile than the weather in any of the other major markets served by TransCanada or consuming WCSB natural gas.

Figure 1 illustrates ICF's estimation of the normal traditional heating degree days¹ in a variety of different regions served by natural gas supply produced in the WCSB. As shown in this figure, Manitoba has the highest degree of seasonal variation in heating requirements due to seasonal weather patterns of any of the regions considered.

Figure 1
Monthly Normal Traditional Heating Degree Days



¹ For all of ICF's analysis, the number of Heating Degree Days (HDD) is defined as the sum of the number of degrees Fahrenheit below 65 degrees Fahrenheit during each month or year. "Normal" is defined as the average HDDs for the 30 year period from 1971 through 2000.

Manitoba also experiences the greatest uncertainty in terms of weather, both on an annual as well as a daily basis.

Table 1 shows total annual heating degree days for Winnipeg and a variety of other market regions served by TransCanada for a normal year, as well as for the warmest year and the coldest year between 1995 and 2005. As shown on this table, Manitoba weather exhibits both the largest absolute amount of spread in traditional heating degree days (coldest year – warmest year) as well as the largest relative range in traditional heating degree days ((coldest year – warmest year)/normal year).

Table 1
Annual Heating Degree Days

	Normal Weather	Warmest Year	Coldest Year	Absolute Range	Relative Range
Manitoba	10,378	9,332	12,301	2,969	29%
Alberta	9,423	8,568	11,146	2,578	27%
Saskatchewan	10,003	9,633	12,370	2,737	27%
British Columbia	5,339	4,846	5,724	878	16%
Ontario	6,582	6,087	7,742	1,655	25%
Quebec	8,338	6,824	8,803	1,979	24%
New England	6,611	5,742	6,967	1,225	19%
Mid-Atlantic	5,911	4,923	6,276	1,353	23%
East North Central	6,497	5,317	7,004	1,687	26%
West North Central	6,750	5,725	7,431	1,706	25%

In terms of utility operations and supply planning requirements, day-to-day volatility in demand may be more important than annual uncertainty. Utility planning must account for changes in day-to-day weather to ensure that the proper volume of gas is available to meet demand so that the utility is not generating imbalance fees. The Manitoba service territory served by Centra also experiences the greatest volatility in day-to-day weather of any of the market centers considered. Table 2 provides a comparison of the standard deviation in the change in daily mean temperature from one day to the next for a variety of market centers served by TransCanada between November 1995 and September 2006

The volatility in Manitoba weather is reflected in Centra's historical natural gas demand data. Figure 2 shows the Centra load profile by day for the year 2007/08. This figure illustrates the day-to-day volatility in demand, as well as the broad seasonal differences in demand. Figure 3 shows the annual load factor for each year from 1996 through 2001 (a period with both very warm (2000) and

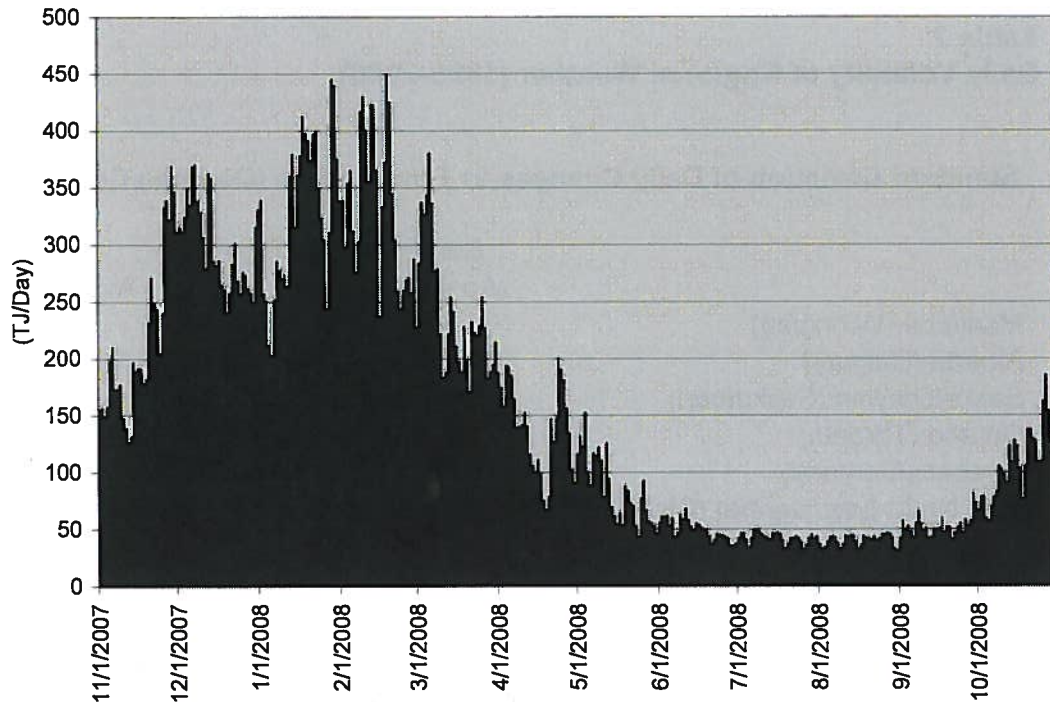
very cold (1996) years), where days have been sorted from highest demand to lowest demand.

Table 2
Daily Volatility of Regional Weather (1996-2006)

Standard Deviation of Daily Changes in Temperature (Degrees Celsius)

	Summer (April - Oct)	Winter (Nov - Mar)	Average
Manitoba (Winnipeg)	3.12	4.96	4.13
Alberta (Calgary)	3.03	4.81	4.01
Saskatchewan (Saskatoon)	3.04	2.93	3.93
Ontario (Toronto)	2.00	3.49	2.83
Quebec (Montreal)	2.70	4.50	3.69
U.S. North East Central (Chicago)	2.93	4.08	3.54
Rocky Mountains (Denver)	3.58	4.43	4.02
New England (Boston)	2.90	3.81	3.38

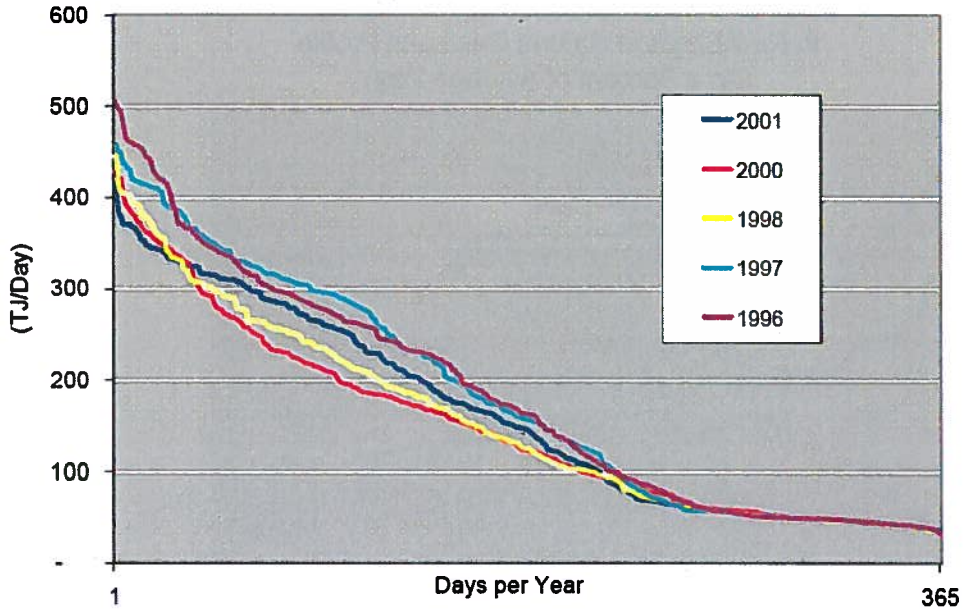
Figure 2
2007/08 Centra Demand (TJ/Day)



As we would expect, given the weather patterns in Manitoba and the preponderance of residential and commercial demand, a very high percentage of Centra's demand is weather sensitive. The high percentage of Centra's load that is weather sensitive, combined with the very cold winter weather in Manitoba results in a load profile that is amongst the most highly seasonal of any LDC in North America.² This comparison is illustrated in Figure 4, which compares the average 1996-2001 Centra load profile to the normal weather load profile for New England. This figure, which compares daily load to the average load for the year suggests that the Centra load profile is more than twice as seasonal as the natural gas load profile in New England.

² Enstar, in South Central Alaska, has a more seasonal load profile for residential and commercial load, however, there is also a large industrial load that stabilizes the average overall load profile.

Figure 3
Centra Load Profile 1996 - 2001



However, the Centra load profile is also somewhat less “peaky” than demand in other cold weather regions. Figure 5 shows the same load profile as Figure 4, but normalizes the data to the peak day, rather than to the annual average. This figure indicates that for the 35 days with the highest demand, the Centra load profile is somewhat less “peaky” than the New England load profile.

Figure 4
Comparison of Centra and New England Load Profiles

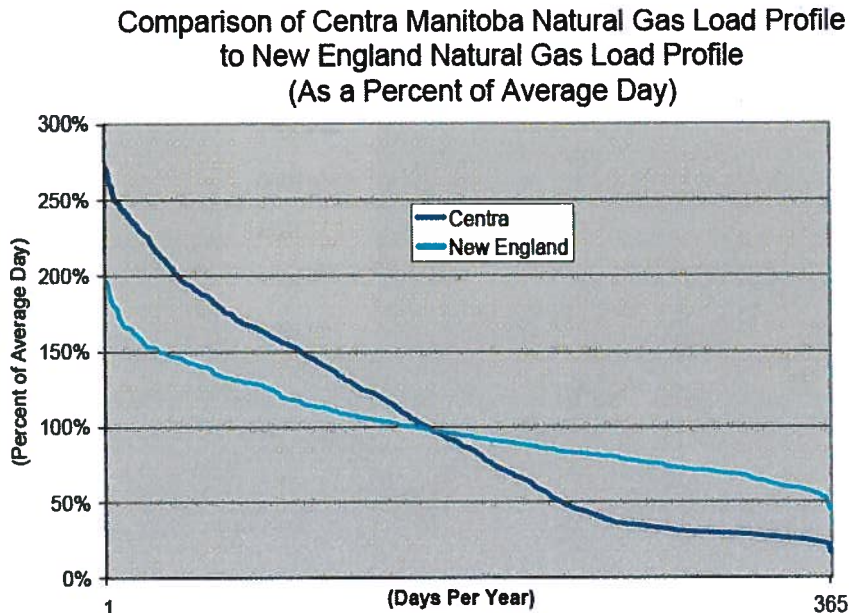
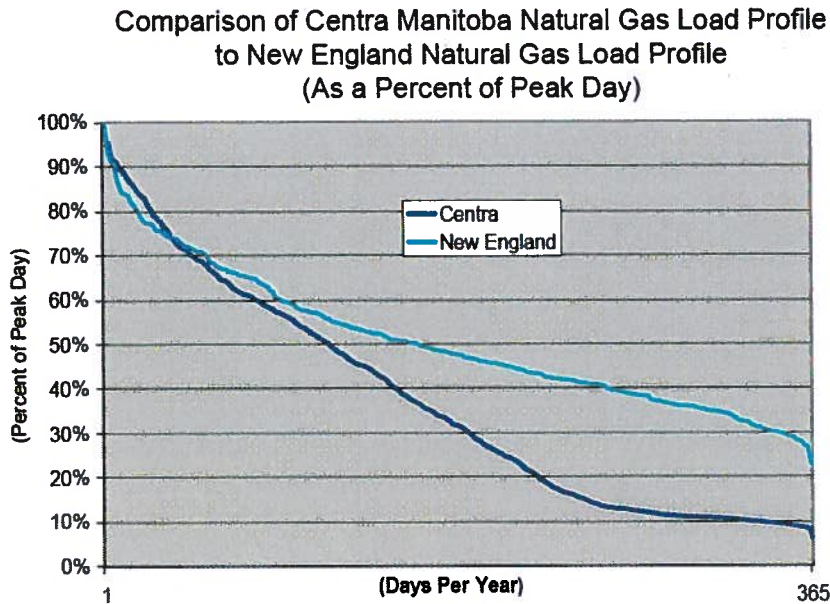


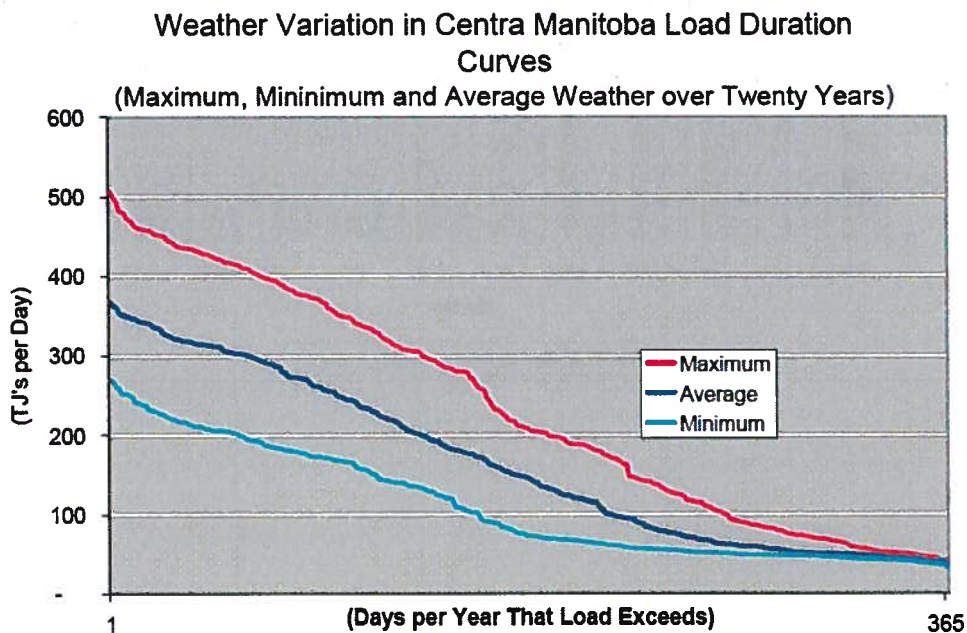
Figure 5
Comparison of Centra and New England Load Profiles



As a result, Centra requires more seasonal gas resources, and requires more flexibility in day-to-day gas supply requirements, but also requires a smaller share of "needle peak" gas resources than other cold weather markets.

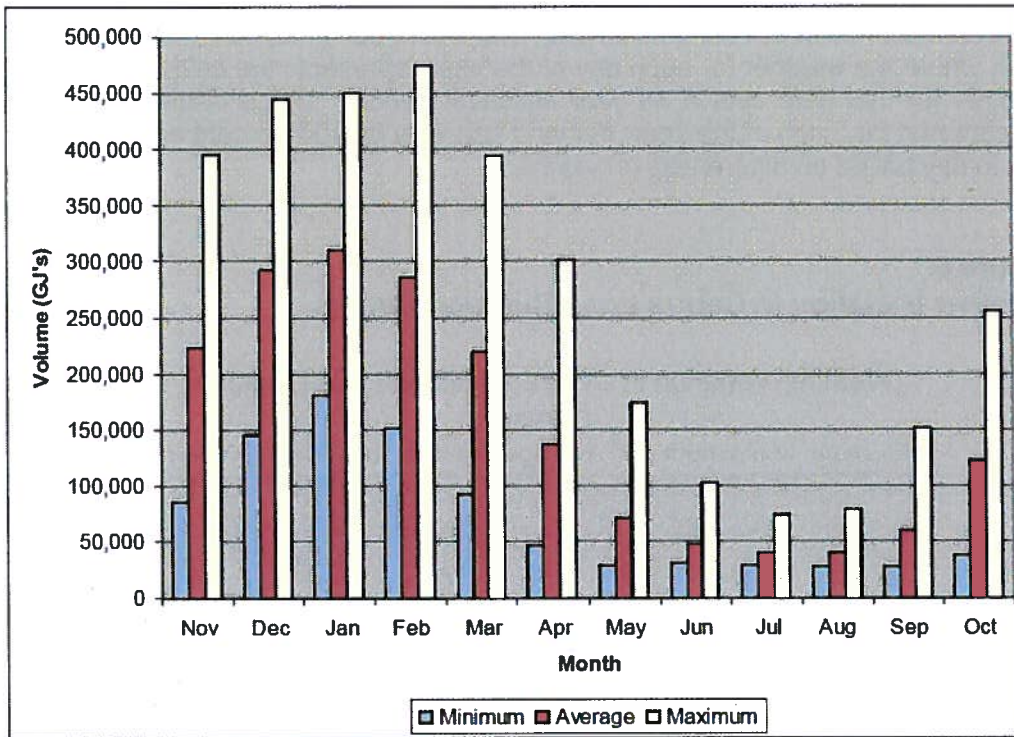
The volatility in the weather patterns in Manitoba, combined with the high degree of weather sensitive load, can substantially increase daily swings in demand in the province. Figure 6 illustrates the range of forecasted demand based on weather, as forecasted by Centra. This figure illustrates the demand curve for the theoretical coldest year (maximum), warmest year (minimum) and average year, where the weather for each day of the year represents the coldest/warmest weather for that date over a 30 year historical period. These demand profiles indicate that for much of the year, demand can vary by 100 percent or more from day to day based on differences in weather.

Figure 6
Weather Variation in Centra Load Duration Curves



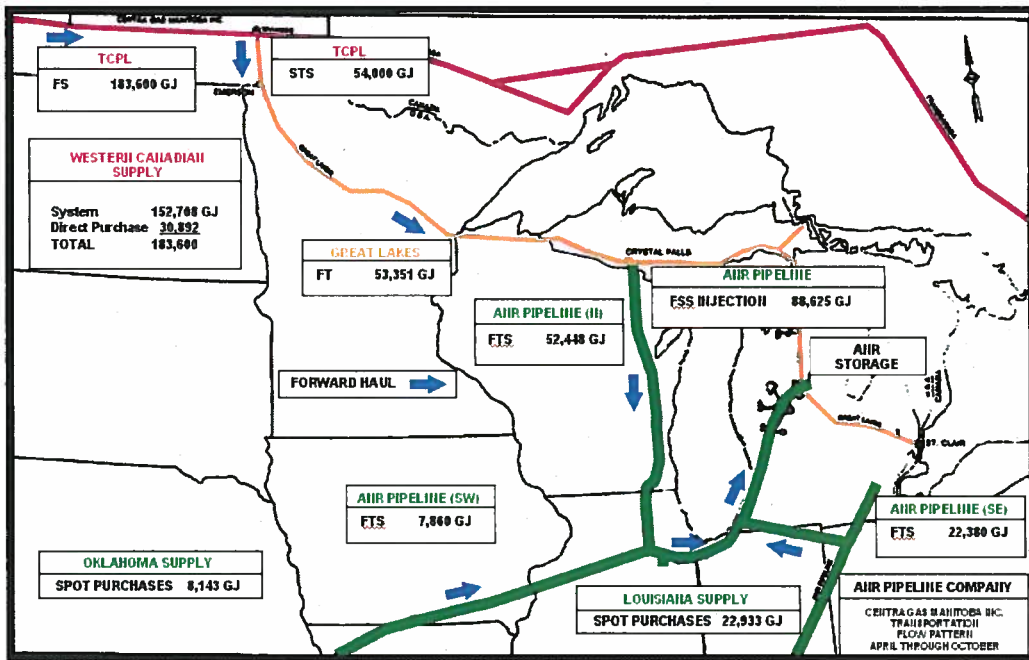
Appendix B

Manitoba Daily Sales Requirement by Month (excluding T-Service)

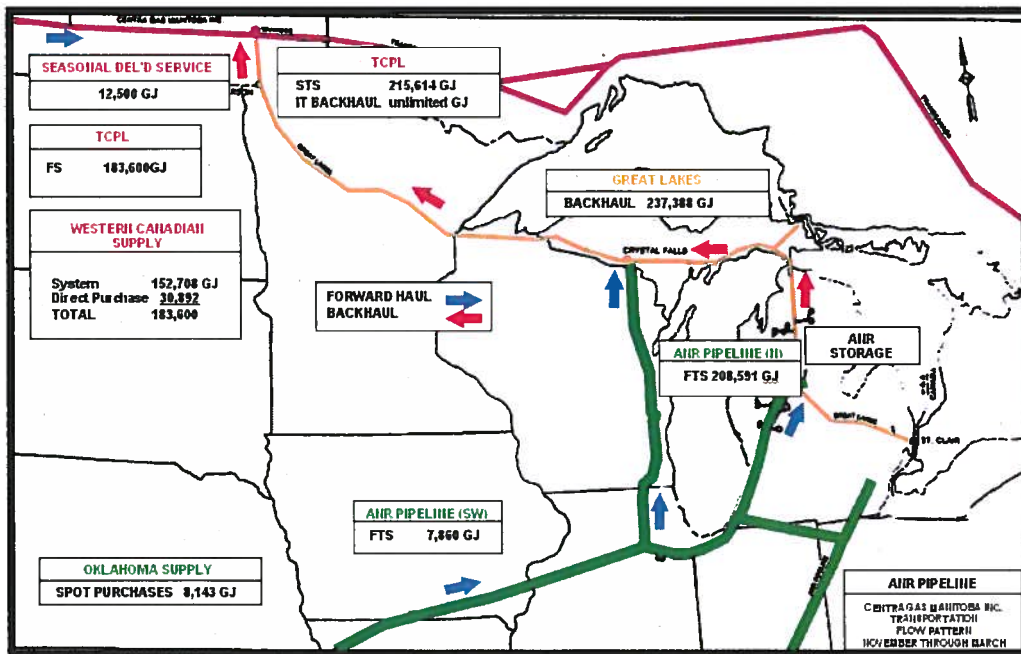


Appendix C

April - October 2009 Summer Operations



November 2008 - March 2009 Winter Operations



Centra would no longer interact with its network of counterparties, inevitably resulting in the erosion of these valuable relationships.

Manitoba operating experience and expertise - Centra has many years of experience managing the variability of the Manitoba load and scheduling gas to the Manitoba market in the midst of supply uncertainty and physical pipeline constraints. This experience includes seasonal and daily load forecasting under the extremes of Manitoba's climate and weather. As seasonal planning, daily operations, and CM activities are necessarily integrated, outsourcing these functions would result in lost expertise within Centra, and an absence of such experience and expertise within the asset manager.

LDC status and credit requirements - Centra's LDC status and ownership structure has advantages that would be lost under an outsourcing arrangement. Centra has been able to avoid providing credit assurances to counterparties for physical transactions. Centra is in fact able to demand cash pre-payments from counterparties prior to executing CM transactions when necessary. Counterparties are also generally motivated to maintain a good relationship with an LDC, knowing that the LDC represents significant future business opportunities. Accordingly, a counterparty may be willing to accept a smaller margin on a CM transaction than it would transacting with another marketer.

Goal incongruence - Fundamentally, Centra's mandate as an LDC is to reliably and cost-effectively serve its market, while an outside asset manager's goal would be to maximize profits. It is conceivable that the asset manager's goals, and the internal incentives for its staff, could result in portfolio arrangements that increase CM revenues at the expense of increasing overall portfolio costs. As an example, CM revenues could potentially be increased by adding firm transportation capacity and related fixed costs and then releasing the capacity in the secondary market, even if the release price is significantly less than the incremental fixed costs of contracting for the capacity. As previously noted, Centra could also be exposed to regulatory compliance risk through an asset manager.

Centra previously investigated outsourcing, and retained a consultant to issue an RFP related to the management of Centra's assets. Of the three short-listed proponents, two (Enron and TCGS) no longer exist, and the third was determined to be incapable of managing Centra's full portfolio. After thorough review, Centra concluded not to outsource the management of its assets. Given the increased economic, market, credit, and counterparty risk today, this approach continues to be prudent.

It is unlikely that any significant benefit could be obtained from outsourcing Centra's gas supply, transportation, and storage functions for the purpose of increasing CM revenue. As CM activities are entirely integrated with seasonal planning and daily operations, CM cannot be separated and managed in isolation. Outsourcing would tie Centra to a particular asset manager and profit arrangement which would be fraught with the risks and compromises identified in this section. Furthermore, a marketer's assets and strategies may change, adding uncertainty to any value that the marketer could bring to Centra. Centra's existing counterparty diversity mitigates these risks associated with a sole asset manager.

10. Capacity Management Program Outlook and Conclusion

Centra's primary business is to serve the Manitoba market. It is headquartered in Manitoba, and is accountable to the people of Manitoba. Centra operates a significant portfolio of assets. Centra will continue to operate for Manitoba ratepayers, and is well-suited to manage these assets on their behalf. It is not in the interest of Manitobans for Centra to cede control of these assets to a marketing company operating and headquartered in another region of North America that has a mandate very different than serving the Manitoba market, for doubtful benefit, increased costs, and significantly increased varieties and magnitudes of risk.

Centra anticipates that it will typically have fewer CM transaction opportunities as a result of reducing its contracted FT capacity on the TCPL Mainline for the 2008/09 gas year. This reduction will normally result in fewer capacity release opportunities, but enables Centra to reduce fixed transportation costs under a least cost approach to portfolio management. Centra expects to evaluate its TCPL FT contracting requirements on an annual basis and adjust contract levels as required. Factors such as Manitoba load growth, pipeline tolls, weather, and market conditions make it difficult to predict future contract levels or CM revenues. Centra will continue to responsibly operate its CM program, extracting value from its available assets, while mitigating risk and ensuring its continued ability to serve the Manitoba market.