MANITOBA	**Order No. 115/00**
THE PUBLIC UTILITIES BOARD ACT	**July 31, 2000**

Before: G. D. Forrest, Chair
R. Mayer, Vice-Chair
M. Girouard, Member

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN ORDER APPROVING INTERIM PRIMARY GAS SALES RATES TO BE EFFECTIVE FOR ALL GAS CONSUMED ON AND AFTER AUGUST 1, 2000

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Executive Summary

This Application by Centra Gas Manitoba Inc. ("Centra") seeks approval of the Public Utilities Board ("the "Board") to increase the sales rate Centra charges for primary gas. Primary gas is sourced in Western Canada and represents between 86% to 94% of the natural gas commodity that is used annually by consumers.

Consumers have a choice as to whether to purchase their primary gas through Centra or through a natural gas aggregator, broker or marketer ("ABM"). This Application by Centra affects only those consumers who purchase their primary gas from Centra. This Application does not impact the primary gas rates ABMs charge to their customers under a Western Transportation Service Arrangement. Under a Buy/Sell arrangement, where Centra's selling price equals their buying price, any cost impact would be a commercial matter between the customer and its ABM.

Since November 1993, Centra has purchased natural gas under a market indexed pricing formula which has resulted in significant volatility in gas costs because of market volatility. Presently, and since December 1, 1999, the primary gas rate charged by Centra is $3.003/GJ. However, since December of 1999 natural gas prices have escalated. Centra's 12-month forward forecast price for primary gas is $5.673/GJ. While this price is reduced to $5.187/GJ by taking into consideration the natural gas Centra has in storage and price management effects, the price is nearly $2.84/GJ higher than the cost of primary gas embedded in the current sales rates approved by the Board.

In this Application, Centra seeks to follow the Rate Setting Methodology established in Board Order 55/00 dated April 17, 2000. Under this methodology, the primary gas rate would be adjusted August 1, 2000 to reflect 50% of the difference between the updated 12-month forward price curve for natural gas (weighted for the cost of gas in storage) and the primary gas rate currently in sales rates. Additionally, a rate rider would be added to the primary gas rate to recover the estimated balance of the primary gas Purchase Gas Variance Account ("PGVA") over the volumes to be consumed in the next 12 months.

Centra's application to implement this Rate Setting Methodology resulted in an average annual bill increase of 16.1% or $137 per year for a typical residential customer, and an increase between 16.9% and 28.5% for commercial customers. The Board is aware that the commodity cost of gas has escalated significantly in the market. Rate increases for natural gas of 21% in Ontario and 33% in B.C., both effective June 1, 2000, have been implemented.

While the Board remains of the view that consumers should see the actual cost of their primary gas on their bills, the Board is also concerned that in periods of extreme price volatility, passing the full commodity cost of natural gas directly to consumers may cause undue hardship. Therefore, the Board has approved the primary gas rate requested by Centra even though it only reflects 50% of the difference between forecast prices and prices currently charged to consumers.

Centra has calculated, on a preliminary basis, a further primary gas rate adjustment that will be sought effective November 1, 2000. Based on current market information, a typical residential consumer faces a further 9.2% increase effective November 1, 2000. Centra's application for such a further rate increase is to be filed in September 2000 and will be examined at that time.

Centra has also advised the Board that the estimated cumulative balance in all of the PGVAs as at December 31, 2000 is forecasted to be $53 million. In this Order, the Board directs Centra to file an application with the Board by September 30, 2000 which deals with the disposal of all PGVA balances other than post May 1, 2000 primary gas PGVA balance which is being dealt with through the quarterly rate requirements sought by Centra.

1.0 Appearances

R. Peters	Counsel for The Public Utilities Board of Manitoba ("the Board")
M. Murphy	Counsel for Centra Gas Manitoba Inc ("Centra")
B. Meronek	Counsel for Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc.
K. Vokey	Gateway Industries Ltd.
K. Melnychuk	Municipal Gas, a division of Direct Energy Marketing Limited

2.0 Witnesses for Centra Gas Manitoba Inc.

R. Brennan	President, Manitoba Hydro ("Hydro")
G. Meyer	Manager, Rates, Centra
G. Neufeld	Manager, Gas Forecasts, Centra
H. Stephens	Senior Manager, Gas Supply Storage & Transportation, Centra
H. Kast	Manager, Corporate Services, Centra

3.0 Intervenors of Record

Municipal Gas, a division of Direct Energy Marketing Limited ("Municipal Gas")

Communications, Energy and Paperworkers Union of Canada ("CEPU")

Gateway Industries Ltd. ("Gateway")

Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors ("CAC/MSOS")

4.0 Presenters

C. Duhamel	Executive Director	The Manitoba Association of School Trustees
B. Edgeworth	Chief Administrative Officer	The Rural Municipality of Miniota
F. Liebzelt		Citizen
D. Weland	Director of Purchases	Griffin Canada Inc.

5.0 Background

In Board Order 55/00 dated on April 17, 2000, the Board approved a quarterly Rate Setting Process in which Centra would file its Application during the first week of the month prior to the commencement of each gas quarter (February 1, May 1, August 1, and November 1), provide public notice during the second week of the month, and the Board would be requested to approve a rate change prior to the commencement of the next gas quarter. The Board also approved a Rate Setting Methodology where the primary gas cost component of Centra's sales rate would be adjusted at the beginning of each gas quarter as follows:

- 50% of the difference between the updated 12-month forward price curve for natural gas (weighted for the cost of gas in storage) and the primary gas cost component set in the previous quarter; and
- A rate rider to dispose of the estimated accumulated primary gas Purchase Gas Variance Account ("PGVA") balance over the next 12 months.

This Application by Centra was filed pursuant to the Rate Setting Methodology established in Order 55/00.

6.0 The Application

Centra's primary gas costs have increased significantly since Centra's current sales rates were approved effective December 1, 1999. Centra's Application is derived using the Alberta Energy Company ("AECO") and Empress forward market strip as at June 16, 2000 from August 2000 to July 2001 based on TransCanada Gas Supply ("TCGS") contract terms.

Centra submitted that the components of the primary gas cost calculation for August 1, 2000 were the average annual price of $5.673/GJ, based on the forward price, and a positive price management impact which reduced this price to $5.594/GJ. Additionally, the cost of gas injected into storage in the summer of 1999 of $2.723/GJ was used to weight the overall primary gas cost. Gas supplied directly to load and that injected into storage were weighted at 85.82% and 14.18%, respectively.

The Application reflects Centra's current 12-month forward price for Alberta supply of $5.187/GJ, weighted for the cost of gas in storage and including the impacts of price management activities. This price is $2.184/GJ higher than the $3.003/GJ cost of gas currently embedded in sales rates. Fifty percent of the change between the primary gas cost embedded in the current sales rates and the primary gas cost component to be embedded in the requested sales rate is $4.095/GJ. Centra stated that the rate change is larger than would be expected in future quarterly adjustments, primarily because of the severe increase in gas supply prices since the last rate adjustment on December 1, 1999. Centra added that, assuming primary gas costs stabilize, customers still would be subject to rate increases over the next few gas quarters.

On June 21, 2000, Centra applied to the Board for approval of interim primary gas sales rates contained in Appendix A to be effective for all gas consumed on or after August 1, 2000 and to remain in effect until confirmed or otherwise by a further Order of the Board.

A public hearing to consider this Application was held at the Board offices in Winnipeg, Manitoba on June 13, 2000.

7.0 Impact on Sales Rates

The table below details what the approximate percentage increase in the annual weather-normalized natural gas bills of different customer classes would be assuming 25%, 50%, 75% and 100% of the difference between the cost of primary gas embedded in rates and the current commodity cost of primary gas are added to sales rates.

	Annualized Rate Increase (%)							
Customer	@ 25%		@ 50%		@ 75%		@ 100%	
Class	Low	High	Low	High	Low	High	Low	High
SGS	8.6	9.8	15.8	17.9	22.9	26.0	30.1	34.1
LGS	9.2	13.0	16.9	23.7	24.6	34.5	32.2	45.3
HVF	12.3	13.8	22.6	25.2	32.8	36.7	43.0	48.1
Mainline	13.3	15.6	24.3	28.5	35.2	41.3	46.3	54.3
Interruptible	13.2	14.9	24.2	27.2	35.1	39.5	46.1	51.9

Centra stated that rate increases of similar magnitude are occurring across North America. For example, Enbridge Consumers Gas, in Ontario, recently raised rates 20.5% effective June 1, 2000, while British Columbia Utilities Commission approved a 33% increase for B.C. Gas as of that date. Sempra Gas, in Los Angeles and San Diego, recently passed through a monthly rate increase of 18.7%.

At the hearing, Centra testified that the primary gas PGVA was estimated to be $31.8 million owing to Centra as at December 31, 2000, assuming primary gas costs equal the forward strip price used in the Application and an average cost of gas injected into storage in 2000 of $5.22/GJ. Centra added that in addition to the $31.8 million, there will be approximately $21.5 million owing to Centra as at December 31, 2000 as a result of the accumulation of other PGVA balances.

Centra stated that negotiations with TCGS for the 2000/2001 gas year supply contract were near completion. Centra expected that these negotiations could impact the method of determining the pricing of primary gas, and anticipated that the new method would likely be the basis of the Application for November 1, 2000 changes to primary gas rates.

8.0 Intervenors' Positions

8.1 CAC/MSOS

CAC/MSOS supported Centra's Application. CAC/MSOS was of the opinion that the Board had three options: approve the rate increase requested by Centra, approve something higher or approve something lower. Approving a lower rate increase would not be appropriate as there are a number of other PGVA balances that must be disposed of in the future. CAC/MSOS stated that approving a higher rate had some appeal, however, the public is not prepared, either financially or psychologically, for a larger increase. The Board must perform a balancing act between market responsiveness and rate shock. CAC/MSOS added that, theoretically, the most current forward strip should be used to set rates, but practically, the use of the updated strip would be of little consequence in the current Application.

CAC/MSOS reminded Centra that hedging is a valuable tool and urged the company to use that tool whenever possible to ameliorate the impact of the current market situation on residential customers.

CAC/MSOS urged the Board to call for a hearing that would deal with all the outstanding PGVA balances by November 2000. The impact of the TCGS contract changes on rates could also be dealt with at this time. CAC/MSOS added that a paper hearing process would not be appropriate considering the impact of these changes on the Rate Setting Methodology.

Rather, a hearing to deal with the new contract and rates for November 1 should be held in early fall.

8.2 Gateway

Gateway stated that natural gas costs represented approximately 35% of Gateway's finished goods cost. The Summer Interruptible Buy/Sell Option they currently utilize has been of great benefit and has allowed Gateway to offset some of the impact of the increase of the commodity cost of natural gas. Gateway requested that the Board allow Buy/Sell arrangements to be an on-going option. Gateway reminded all parties that the Board has not yet received the report regarding the value of interruptible customers to Centra which remains outstanding.

8.3 Municipal Gas

Municipal Gas reminded the Board that two criteria used to approve the methodology utilized were market responsiveness and price transparency. These would allow customers to compare natural gas prices and to make informed purchase decisions. Municipal stated that the implementation of Western Transportation Service ("WTS") offered customers options other than system supply. Greater price transparency would result in more brokers entering the Manitoba market and this would increase the number of customer choices.

9.0 Presenters' Positions

All of the presenters opposed the increase in sales rates. While some of the presenters questioned the appropriateness of Centra's primary gas cost and the timing of the suggested increase, no presenters objected to the use of Centra's Rate Setting Methodology for primary gas or the use of a 50% factor to include changes in the price of primary gas in rates.

The Manitoba Association of School Trustees ("MAST") submitted that MAST works through a broker to facilitate gas purchases on behalf of 31 school divisions and that a rate increase of the magnitude requested in this Application by Centra could potentially increase current year energy costs by up to $1 million.

10.0 Board Findings

Since 1993, Centra has been purchasing natural gas under a long-term supply contract with TCGS. A condition of that contract stipulates that Centra is required to pay the prevailing market price for natural gas as determined by commodity futures exchange indices. Centra has also carried out a price management strategy that utilizes financial instruments to reduce the volatility of its price for natural gas.

The principles of supply and demand establish natural gas prices that are beyond Centra's control. Recent natural gas prices have increased to unprecedented levels and current industry forecasts are for prices to remain at these levels. While Centra's price management activities have had some mitigating effects on these price increases, Centra's cost of gas has increased substantially. Other natural gas distribution companies in Canada and the U.S. have experienced similar price increases that reflect the current market circumstances prevalent across North America.

In view of these market circumstances, the Board is of the opinion that it is reasonable to allow such increases to flow through to the consumers. However, through the use of the Rate Setting Methodology previously approved by the Board, consumers will be insulated from some of the impact of these significant increases in natural gas prices.

The Board has considered other options with respect to passing through all or varying amounts of the price increases, but is of the view that, on balance, Centra's Application to pass through 50% of the increase represents the most reasonable approach at this time.

The Board concurs with the submission of CAC/MSOS that the most recent forward price information should be available to the Board. In order to facilitate prudent decision making, the Board requires the most current market information. Therefore, on an ongoing basis, the Board will direct Centra to file the most recent forward price strip ten days before the beginning of the gas quarter.

There are a number of outstanding PGVA balances that need to be examined and a plan implemented for the disposition of such accounts. Therefore, the Board will direct Centra to file an application by September 30, 2000 which details a recovery plan for all PGVA balances other than post May 1, 2000 the primary gas PGVA which will be dealt with through the Rate Setting Methodology on a quarterly basis.

The Board is aware that changes to the TGCS contract may impact the Rate Setting Methodology. Therefore, the Board will direct Centra to file the new TGCS contract once it is fully executed, together with an application to address the gas cost consequences of any changes to the contract.

The Board is aware of the concerns of Gateway. The Board suggests that Gateway prepare a formal request to the Board for the continuation of the Company's Summer Buy/Sell option including a discussion of the issues it requests the Board consider.

As a point of clarification, the Board wishes to indicate that customers using WTS will not be impacted by this Application. Thus, if MAST or other consumers have WTS arrangements with their ABM, they will not be impacted by this Application. Under a Buy/Sell arrangement, where Centra's selling price equals their buying price, any cost impact would be a commercial matter between the consumer and its ABM.

11.0 IT IS THEREFORE ORDERED THAT:

1. The rate schedule set out in Appendix A BE AND IS HEREBY APPROVED on an interim basis.
2. Centra shall in the future, as part of future primary gas applications, file with the Board the most current forward price strip ten days prior to the beginning of the gas year quarter.
3. Centra shall file the fully executed TCGS contract with the Board once completed.
4. Centra shall file an application with the Board, by no later than September 30, which includes a proposed disposition of all PGVA balances, other than post May 1, 2000 primary gas PGVA.
5. This Order will be in effect until confirmed or otherwise dealt with by a further Order of the Board.

The Public Utilities Board

Chairman

Secretary

THE PUBLIC UTILITIES BOARD

"G. D. Forrest"
Chairman

"G. O. Barron"
Secretary

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