

MANITOBA | **Order No. 142/00**
THE PUBLIC UTILITIES BOARD ACT | **October 30, 2000**

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

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

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Executive Summary

As a commodity subject to market fluctuations, natural gas prices respond to supply and demand forces in the unregulated market. The recent increases in natural gas prices results from today's market conditions. These increases in natural gas prices are a North-American phenomenon in part caused by an upturn in North American demand.

Centra Gas Manitoba Inc. ("Centra") passes the price it pays for natural gas directly to their customers with no mark-up. Centra does not profit from gas cost increases. The commodity cost of Primary Gas, the subject of this Application, represents only a portion of the customer's bill. Other components of the bill include costs related to supplemental gas, transportation to Centra, distribution to the customer, alternate gas service, if applicable, and a basic monthly charge, all of which are not changing as a result of this Application.

In Order 55/00 dated April 17, 2000 the Public Utilities Board ("the Board") approved a Rate Setting Methodology and Process whereby the Primary Gas rate would be adjusted at the beginning of each gas year quarter 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 Purchased Gas Variance Account over the volumes to be consumed in the next 12 months.

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, such as the current market, passing the full commodity cost of natural gas directly to consumers may cause undue hardship. In the Board's view, the Rate

Setting Methodology approved on a trial basis in Order 55/00 seeks to balance the objectives of managing gas price volatility and maintaining market responsive pricing.

On September 26, 2000, in accordance with the Rate Setting Methodology and Process approved in Order 55/00, Centra filed an application on an interim basis for a change in its Primary Gas rate. In the application, Centra advised that the 12-month forward price for Alberta supply is now \$5.978/GJ, and that after weighting for Primary Gas in storage, the 12-month forward price is \$5.849/GJ, which is \$1.754/GJ higher than the cost that is embedded in current rates. As a result of this increase in gas costs, the rates requested in the application would result in an annualized increase for a typical residential customer of approximately 11.2%, and an annualized increase for the LGS customers and the higher volume customers ranging from 11.7% to 18.0%.

Recognizing that natural gas prices may remain at a high level for sometime and that the Rate Setting Methodology only allows for one-half of the increase to be passed through at a time, the Consumers' Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors ("CAC/MSOS") supported an increase in rates based upon a 75% difference between the updated price curve and the current rate to avoid further accumulations in the PGVA and the need for substantial rate changes at a later date.

By letter dated October 23, 2000, pursuant to the requirement set out in Order 115/00, Centra advised that based on the closing prices as at October 20, 2000, the 12-month forward price is \$6.451/GJ compared to the \$5.978/GJ included in the application. Centra did not seek to amend their application. The Board is also aware that as of the date of this Order, volatile market prices are lower than they were on October 20, 2000.

The Board, having considered the Application and the reasons therefore and the written submissions of all parties determined that the written public hearing process as

contemplated by the Rate Setting Methodology and Process approved in Order 55/00 is sufficient for the Board to deal with this Application.

Further, the Board, being satisfied that the Application is consistent with market conditions and the Rate Setting Methodology, approved Centra's Application as filed on an interim basis. This interim Order and all other outstanding interim Cost of Gas orders will be further dealt with at an annual Cost of Gas oral public hearing, expected to occur in early 2001.

1.0 Background

On April 17, 2000, the Board issued Order 55/00 in response to an application by Centra Gas Manitoba Inc. (“Centra”) which approved a Rate Setting Methodology for Primary Gas where the Primary Gas component of Centra’s sales rate would be adjusted each gas quarter to reflect:

- 50% of the difference between the updated 12-month forward price for Western Canadian natural gas supply (weighted for the cost of gas in storage) and the cost of Primary Gas embedded in the current approved sales rates; and
- the disposition of the balance in the Primary Gas Purchased Gas Variance Account over the next 12 month period.

In Order 55/00, the Board also 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 the rates prior to the commencement of the next gas year quarter. Centra’s initial application for a Primary Gas Sales Rate adjustment using this Rate Setting Methodology and Process was for rates that became effective on August 1, 2000, which rates were approved in Order 115/00, dated July 31, 2000.

2.0 The Application

On September 26, 2000, Centra applied to the Board for approval of Primary Gas sales rates to be effective November 1, 2000. This Application was filed on an interim basis in accordance with the Rate Setting Methodology and Process approved in Order 55/00.

A public notice outlining this Application was published in daily newspapers and a copy of the notices and the application was served on all franchise granting municipalities, all registered brokers of natural gas, all parties of record of the last general rate application, special contract customers, and all interruptible, mainline and high volume customers. The notice invited all interested parties to provide their comments respecting this Application to the Board by October 20, 2000. After reviewing the comments received, and considering the costs to the consumer of conducting an oral public hearing process, the Board decided that this interim application should be dealt with using a “paper hearing” process. A detailed review of this Application and all other gas costs matters will be dealt with at an annual Cost of Gas oral public hearing, expected to occur in early 2001.

This Application deals only with an increase in Centra’s Primary Gas cost, in accordance with the Rate Setting Methodology and Process that was approved in Orders 55/00.

3.0 Impact on Rates

This Application reflects the 12-month forward price for Centra's Western Canadian supply as at September 1, 2000 of \$5.978/GJ. This Application also reflects higher priced storage gas. Storage gas had been totally depleted by March 31, 2000. The storage injection period is from April 1 through to October 31, and the cost of gas in storage, based on actual volumes and costs for July and August and estimates for September and October, is \$5.067/GJ. This is \$2.364/GJ higher than the previous year's weighted storage gas cost of \$2.703/GJ. As at the application date, Centra had not placed any forward hedges for volumes related to Western Canadian supply for the November 1 to January 31 period.

The Primary Gas price, when weighted for storage gas, is \$5.849/GJ, which is \$1.754/GJ higher than the \$4.095/GJ Primary Gas price currently embedded in rates. The increased Primary Gas cost results in a Primary Gas rate of \$4.972/GJ.

Centra's application requests an increase in the Primary Gas rate of 50% of the difference between the 12-month forecast and the existing rate. Centra also calculated the customer impacts if 25%, 75% and 100% of this difference were to be used to set the Primary Gas rate. The table below summarizes the increases to the annual natural gas bills of different customer classes taking these varying portions of the change in the commodity cost of Primary Gas into rates.

Customer Class	Annualized Rate Increase (%)							
	@ 25%		@ 50%		@ 75%		@ 100%	
	Low	High	Low	High	Low	High	Low	High
SGS	6.1	6.8	11.1	12.3	16.8	17.8	21.0	23.4
LGS	6.5	18.6	11.7	15.6	17.0	22.6	22.3	29.6
HVF	8.3	9.0	14.9	16.3	21.6	23.7	28.4	31.1
Mainline	8.8	9.9	15.8	18.0	23.0	26.1	30.1	34.2
Interruptible	8.7	9.6	15.8	17.3	22.9	25.1	30.9	33.0

On October 23, 2000, Centra filed an updated forward price curve with the Board, as required pursuant to Order 115/00. The updated price strip for the period of November 1, 2000 to October 31, 2001, based on the closing prices at October 20, 2000, is \$6.451/GJ compared to \$5.978/GJ as filed in the application. However, Centra did not request any change to Primary Gas rates from those requested in the September 26, 2000 application.

By letter dated October 25, 2000, Centra filed updated information based on the October 20, 2000 closing price of \$6.451/GJ and the resulting Primary Gas rate of \$5.175/GJ. The table below details the approximate increases to the annual natural gas bills of different customer classes, based on the October 20, 2000 pricing information, and applying the 50% increase methodology.

Customer Classes	Annualized Rate Increase (%)	
	Low	High
SGS	13.4	14.9
LGS	14.2	18.8
HVF	18.0	19.8
Mainline	19.1	21.7
Interruptible	19.1	21.0

The Board is aware that as of the date of this Order, natural gas market prices are considerably lower than they were at October 20, 2000.

5.0 Primary Gas Purchased Gas Variance Account (“PGVA”)

Centra estimated the Primary Gas PGVA to be \$11.98 million owing to Centra as at September 30, 2000. This estimate includes the residual balance of \$6.54 million owing Centra as at June 30, 2000 with the remaining \$5.44 million representing accumulations from July through to the end of September. The required rate rider to recover this amount over the next 12-month volumes of \$0.008 per cubic metre is included in the requested Primary Gas rate of \$4.972/GJ. The Primary Gas PGVA rate rider embedded in existing rates is \$0.0042 per cubic metre.

6.0 Presenters' Positions

The public notice invited all interested parties to provide their comments respecting this Application to the Board by October 20, 2000. The Board received written submissions from interested parties as follows:

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

CAC/MSOS' written submission stated that the October 23, 2000 forward price strip, as required to be used by Centra was \$6.04/GJ, at AECO. CAC/MSOS also expressed concern that the contract between Centra and TransCanada Gas Services for Alberta supply has been executed before any input was received by the Board and any other Intervenors.

CAC/MSOS put everyone on notice that they would be vocal and assertive in the review of that contract before the Board at the first opportunity and would ask for Board intervention should they feel it necessary, notwithstanding an executed contract and ostensible approval by the producers.

CAC/MSOS also expressed concern about the capacity management credit of approximately \$2 million owing to Centra's customers. They also submitted that in the era of unprecedented high gas prices, Centra's hedging program was either inadequate or inadequately applied. CAC/MSOS stated that they would be pursuing this issue at the hearing dealing with final disposition of the Primary Gas rate. CAC/MSOS is not in agreement with Centra's expressed intention to adjust its 12-month cycle for the disposition of the non-Primary Gas PGVA balances to coincide with Hydro's fiscal period. In the view of CAC/MSOS the period should be consistent with the November 1 gas year, or alternatively a 12-month calendar year commencing January 1.

CAC/MSOS submitted that, while Centra's treatment of the averaging of the next quarters gas costs was consistent with Order 115/00, they were concerned about the Primary Gas PGVA balance, estimated to be \$39.8 million at December 31, 2000, which would have to be rolled into the February 1, 2000 Primary Gas rate. CAC/MSOS suggested that all indications were that natural gas prices would continue to remain high into the new year, and because of this CAC/MSOS submitted that approving rates based on factoring in 75% of the difference between the existing rate and forecast gas prices would be a more prudent approach than the use of the 50% factor, at this time. CAC/MSOS supported this position stating that if the 50% factor were to be applied and if prices continue to rise, the rate shock in February would be much more predominant; if prices remained the same, rates would still have to be increased to recover the Primary Gas PGVA balance; and if prices were to drop, there would still be significant other PGVA balances to ameliorate against any potential refund for overpayment through rates.

6.2 Rural Municipality of Miniota

The Rural Municipality of Miniota forwarded the Board a copy of its October 10, 2000 Council resolution objecting to Centra's requested rate increase.

6.3 Town of Rivers

The Town of Rivers was in opposition to Centra's requested rate increase, stating that the most severely affected people would be senior citizens and low wage earners.

6.4 R. Ptashnik, Amsco Cast Products (Canada) Inc.

Mr. Ptashnik submitted that the company could not absorb the increased gas costs, and that customers would not accept the pass-through of the proposed rate increases. He suggested that Centra "grandfather" existing customers at the old rate and charge a premium to reflect

increased costs for consumptions only above the traditional levels, similar to Manitoba Hydro's Industrial Service Rates.

6.5 A. Pozzoboni

Mr. Pozzoboni objected to the proposed increases, stating that such increases could well destroy middle-income homeowners. He suggested that Centra look closer at a number of cost saving measures to pass on to customers. He also suggested that Centra determine in which areas of the City or Province rate increases could be justified.

6.6 P. And J. Santucci

P. and J. Santucci objected to the requested rate increase, stating that the people of Manitoba cannot afford more gas increases especially in cold weather.

6.7 K. Tucnik

Mr. Tucnik requested that the Board investigate the need of a large rate of return, now that Centra was a Crown Corporation, and that a reduced rate of return would result in lower rates. He requested that this review take place, if not for this requested increase, then at the time when there is a request for another increase.

6.8 Brandon Seniors for Seniors Co-op Inc.

The members opposed the requested increase noting that in percentage terms, the increase in the commodity cost of gas is considerably more than the cost of living adjustment for Old Age Security.

7.0 Board Findings

As a commodity subject to market fluctuations, natural gas prices respond to supply and demand forces in the unregulated market. The current rise in natural gas prices results from today's market conditions. These increases in natural gas prices are a North-American phenomenon in part caused by an upturn in North American demand.

Centra passes the price they pay for natural gas directly to their customers with no mark-up. As a consequence, Centra does not profit from gas cost increases. The commodity cost of Primary Gas represents only a portion of the customer's bill. Other components of the bill include costs related to supplemental gas, transportation to Centra, distribution to the customer, alternate gas service, if applicable, and a basic monthly charge. This Application deals only with the Primary Gas cost component of the sales rate, and is consistent with the Rate Setting Methodology and Process set out in Order 55/00.

The Board considered the suggestion put forward by CAC/MSOS that the Primary Gas rate be established by passing through 75% of the price increase, rather than the 50% as requested by Centra. In Order 55/00, which approved Centra's Rate Setting Methodology, the Board indicated that the rate setting process would be implemented on a trial basis. While the Board appreciates the concerns expressed by CAC/MSOS, the Board is of the view that passing through 50% of the cost increase is a reasonable approach to balance market responsive pricing with rate stability, consistent with the methodology and process approved in Order 55/00. The Board is reluctant to change its approved methodology at this time because of current market conditions. Rather, the Board would prefer to test the methodology over a reasonable period of time. The Board does recognize that this may result in a circumstance where, even though gas prices may decrease in the future, Primary Gas rates may not because of the requirement to dispose of the Primary Gas PGVA balance on a quarterly basis.

After considering all the evidence, the Board will approve Centra's application as filed. Therefore, the Board will approve the schedule of rates attached as Appendix A to this Order, to become effective November 1, 2000.

As previously stated, a detailed review of this Application and all other gas cost matters will be dealt with at an annual Cost of Gas oral public hearing, expected to occur in early 2001.

8.0 IT IS THEREFORE ORDERED THAT:

1. The Schedule of Rates attached to this Order as Appendix A, BE AND IS HEREBY APPROVED.
2. This interim Order will be in full effect and force until confirmed or otherwise by a further order of the Board.

The Public Utilities Board

Chairman

Acting Secretary

THE PUBLIC UTILITIES BOARD

“G. D. Forrest”

Chairman

“H. Singh”

Acting Secretary

Certified a true copy of
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The Public Utilities Board

Acting Secretary