

**MANITOBA** | **Order No. 15/01**  
**THE PUBLIC UTILITIES BOARD ACT** | **February 1, 2001**

Before: G. D. Forrest, Chair  
M. Girouard, Member  
M. Santos, 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 FEBRUARY 1, 2001**

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## **Executive Summary**

### **Application Summary**

On January 4, 2001 Centra applied to The Public Utilities Board (“the Board”) for rate increases pursuant to the Rate Setting Methodology (“RSM”) previously approved by the Board to address changing market prices for natural gas. Unlike prior applications, Centra applied to the Board to flow-through 75% of the difference between the current market price as of the date of the Application rather 50% and also, applied to settle the Primary Gas Purchase Gas Variance Account (“PGVA”) to January 31, 2001 rather than the date of December 31, 2000 consistent with the prior practice. Centra proposed rate increases of 32% to 46% depending on customer class.

### **Public Hearing**

The RSM provided for Notice of Centra’s Application to be published with an invitation for the public to write the Board with their comments by January 22, 2001. Further, the RSM provides for the Board to consider the Application and the responses together and to determine whether an oral hearing is required.

The Board wishes to acknowledge the receipt of over 400 submissions from individuals, businesses and organizations who are concerned about the financial hardship caused by increasing natural gas rates. The Board is satisfied that the paper hearing process has adequately served its purpose and determined that an oral hearing would not be required at this time. However, the Board noted that its decision is “interim” and a full oral public hearing to consider this decision and other interim Orders dealing with the cost of gas and other matters will be held on March 14, 2001.

It is also the intention of the Board to review the RSM and all other cost of gas related matters to including all opportunities to curb the impact of these high market prices

### **Market Prices**

Centra does not produce its own gas, but buys its Primary Gas which is priced to the energy commodity futures market, from Alberta producers. The requested increase in

sales rates is based on the average price of gas as forecast for the next 12 months in the energy commodity futures markets as at December 13, 2000. As required by the Board, Centra updated its filing using the current forward price of gas as at January 16, 2001. In the brief time of one month, with the exception of one day where the prices decreased slightly, the forecast annual average price of gas rose from \$7.847/Gigajoule (“GJ”) to \$9.251/GJ.

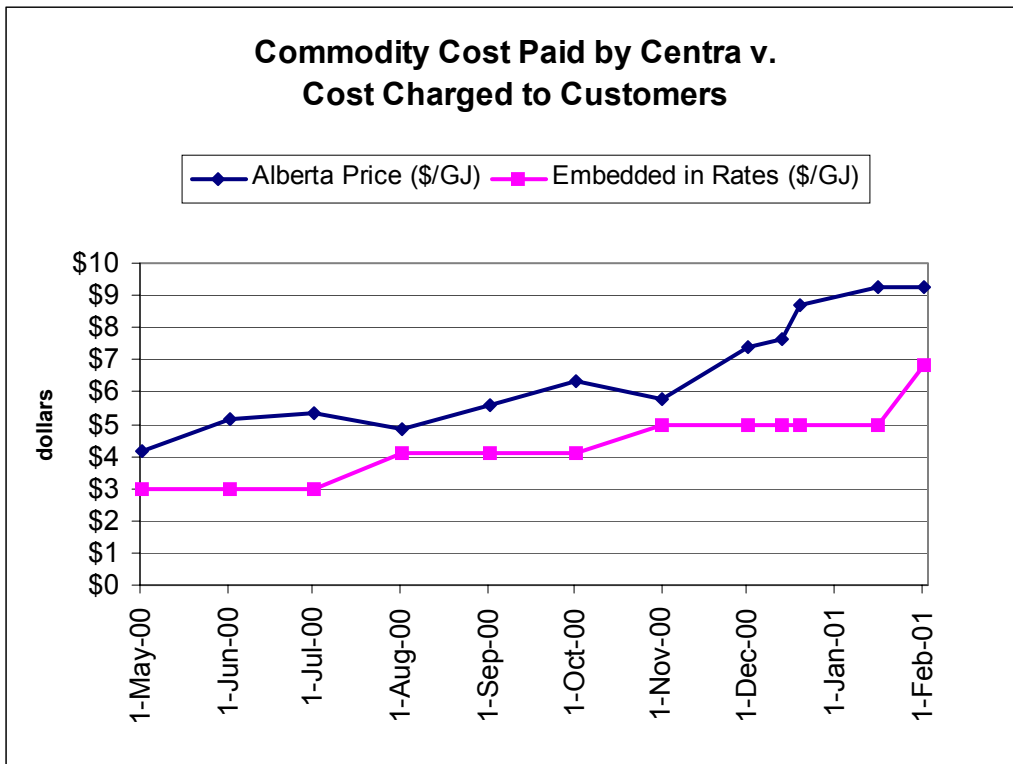
In reviewing the application, the Board noted that one year ago the commodity cost of natural gas fluctuated in the range of \$2/GJ to \$4/GJ, a range that had held for several years. However, in the past year the commodity cost of gas has almost tripled. This unprecedented increase in the commodity cost is attributable to various factors, including the high demand for natural gas in North America relative to supply and colder than average temperatures in December.

In this North American market, Centra must compete with companies north and south of the Canada/U.S. border for Western Canadian natural gas supplies. Manitoba is not alone in this market place. Recently, consumers in British Columbia and Alberta have been subject to rate increases in excess of 50%.

### **Rate Decision**

The Board approved sales rates which reflect the current market information at January 16, 2001 which indicate a forward price of \$9.251/GJ. The Board did not approve Centra’s application to settle the PGVA as of January 31, 2001 but rather chose December 31, 2000 consistent with prior practice. Using a 50% inclusion rate and not the 75% requested by Centra and weighting for the cost of gas in storage the resulting cost for primary gas embedded in sales rates is estimated to be \$6.818/GJ. Using this embedded cost together with the change in settlement date will increase rates by approximately 26% for residential customers and in the range of 33% to 45% for certain larger industrial customers. The Board estimates the new rate will be \$0.292 per cubic metre. Assuming normal weather, the impact on the typical residential customer will be \$286 greater than his/her current bill of \$1,100. Because only 50% of the increase in the market price is being approved for inclusion in rates the Board wishes to emphasize that

the actual cost of gas being paid by Centra continues to be considerably higher than the cost embedded in sales rates as shown in the graph below.



As the RSM requires rates to be set at a point in time whereas the market price continues to fluctuate, the difference between the cost of primary gas embedded in sales rates and the true cost of primary gas paid by Centra is captured in the Primary Gas PGVA. Accordingly, even with the rate increases approved by the Board, ratepayers will still have an obligation to Centra which is expected to grow to \$115 million by May 1, 2001. The Board has also included in the approved rates a recovery of an estimated amount of \$50 million in the PGVA. The payment of this \$50 million obligation will be spread over the next 12 months, but will also be added to over time so that all of the outstanding obligation to Centra is ultimately paid by its customers.

The Board wishes to emphasize that Centra is not allowed to earn a profit on gas purchases. Gas costs are passed through to the customer with no mark up. Subject to a determination by the Board that gas costs have been prudently incurred, all system consumers will have to pay these costs including the PGVA obligation, through future rate increases. Otherwise, Centra would have to incur an enormous financial loss and could not maintain its financial well being. As a result, a circumstance may exist where even though the market price for natural gas may decrease, Primary Gas Rates may not because customers will still have the obligation to repay the existing PGVA debt to Centra. Absent any changes to the RSM flowing from the March 14, 2001 public hearing, the RSM provides for consideration of further changes in market prices and the outstanding balance in the PGVA effective May 1, 2001.

In approving a rate less than that requested by Centra and less than the market cost of gas, the Board is adhering to the RSM which provides a smoothing of rates and an adjustment period for consumers. While there is no certainty as to whether prices will continue to rise or fall, this decision provides some opportunity for residential and commercial customers to consider efforts to mitigate rate impacts, such as:

- Customers may immediately enroll in the Equal Payment Plan Program which spreads the payment for high winter usage over the summer months;
- Customers on the Equal Payment Plan Program will have the opportunity to extend their reconciliation month beyond July to October 2001;
- Manitoba Hydro, as owner of Centra, has announced an energy conservation loan available to customers who install energy efficient equipment in their homes and businesses to reduce consumption; and
- Investigate other competitive suppliers of gas.

This decision has been made on an interim basis, and will be subject to full public review at a Cost of Gas hearing scheduled for March 14, 2001.

## **1.0 Background**

In Order 55/00 dated April 17, 2000, The Public Utilities Board (the “Board”) approved a Rate Setting Methodology where the Primary Gas component of Centra Gas Manitoba Inc. (“Centra’s”) rate structure would be adjusted every gas quarter to reflect:

- (a) 50% of the difference between the updated 12-month forward price for natural gas, weighted for the cost of gas in storage, and the Primary Gas Rate set in the previous quarter; and
- (b) a rate rider to dispose of the estimated accumulated Primary Gas Purchase Gas Variance Account (“PGVA”) over the next 12 months of forecast volume.

The Rate Setting Methodology Process approved by the Board requires Centra to 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) and to provide public notice during the second week of the month. The Board may conduct either a “paper hearing” or an oral public hearing in respect of the application, and is requested to approve the rates prior to the commencement of that gas quarter. The Board has approved two Primary Gas Rate changes effective August 1, 2000 and November 1, 2000 pursuant to the Rate Setting Methodology.

Natural gas is a commodity subject to market fluctuations and 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.

## **2.0 The Application**

On January 4, 2001, Centra applied to the Board for approval of interim sales rates to be effective February 1, 2001 and to remain in effect until a further Order of the Board. Centra requested that 75%, rather than 50%, of the difference between the updated 12-month forward price for natural gas, weighted for the cost of gas in storage, and the Primary Gas Rate set in the previous quarter be used to establish the February 1, 2001 Primary Gas Rate.

Centra also requested the Board to approve a rate rider for disposal of the estimated January 31, 2001 PGVA balance over the next 12 months normalized volumes. In the previous two Primary Gas Rate Applications, Centra had requested, and the Board approved, a rate rider based on the accumulated PGVA balance one month prior to the beginning of the gas quarter, whereas this application is based on the PGVA balance immediately prior to the beginning of the gas quarter.

A public notice outlining this application was published in daily and weekly newspapers. The notice invited all interested parties to make comments respecting this application to the Board by January 22, 2001.

## **3.0 Impact on Rates**

Centra's Primary Gas costs continue to increase dramatically and remain volatile. Centra's forecast price for Western Canadian supply and cost of storage gas was derived using the same approach as was used in Centra's previous applications. The Application reflects the current 12-month forward price for Centra's Western Canadian supply as at December 13, 2000 of \$7.847/GJ, and Centra's new gas supply contract arrangements



with TransCanada Energy Services. The actual cost for primary gas in storage at October 31, 2000 is \$5.116/GJ. At the time of this application, Centra had not placed any forward hedges for volumes related to Western Canadian supply from February 1, 2001 to January 31, 2002. Therefore, the proposed Primary Gas price, when weighted for storage gas, is \$7.460/GJ, which is \$2.488/GJ higher than the \$4.972/GJ cost currently embedded in rates. After applying the 75% factor, the proposed Primary Gas Base Rate is \$6.838/GJ, or \$0.2590 per cubic metre.

In addition to the Primary Gas Rate increase related to the cost of Western Canadian gas, Centra requested approval to impose a rate rider to recover the estimated PGVA balance at January 31, 2001, estimated to be \$81 million owing to Centra, over the next 12 months estimated volumes. Centra calculated the unit rate rider, based on the next 12 month Primary Gas normalized volumes of 1,492,188 thousand cubic metres, to be \$0.0542 per cubic metre. The proposed February 1, 2001 billed Primary Gas Rate including the rate rider requested by Centra is \$0.3132 per cubic metre. The current Primary Gas billed rate including rate rider is \$0.1964 per cubic metre.

Centra stated that the use of the 75% differential as opposed to the traditional 50% rate would prevent a further build up in the PGVA. Centra estimated the PGVA balance at August 1, 2001 would be approximately \$92 million using the 75% and the January 31, 2001 PGVA balance to determine rates, compared to approximately \$115 million using the 50% differential and the December 31, 2000 PGVA balance. Additionally, Centra's estimated carrying cost would be reduced by \$1 million if the requested change was approved. Centra added that the requested change would bring the proposed February 1, 2001 Primary Gas Rate closer to the current market price of natural gas.

Centra calculated customer impacts based on 50% and 75% of the difference between the 12 month forecast and the existing rate as well as the impact of the use of the PGVA balance at December 31, 2000 and January 31, 2001 to determine the appropriate rate

rider. 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.

**Annualized Percentage Increase in Customer Bills**

Inclusion Rate	50%		75%		50%		75%	
	<u>December 31</u>		<u>December 31</u>		<u>January 31</u>		<u>January 31</u>	
PGVA Balance	19.6	21.5	25.9	28.5	25.0	27.5	31.3	34.4
SGS	20.6	26.5	27.3	35.0	26.3	33.8	33.0	42.3
LGS	25.6	27.7	33.8	36.6	32.6	35.3	40.9	44.2
HVF	26.9	30.0	35.6	39.7	34.3	38.3	43.0	47.9
Mainline	26.5	28.7	35.0	38.0	33.8	36.7	42.3	45.9
Interruptible								

To assist phasing in the large increase in annual heating bills, Centra proposed to offer its residential customers two mitigative measures. Firstly, Centra proposed to offer immediate enrolment to the Equal Payment Plan Program. As well, Centra offered the opportunity to spread the payment for high winter usage over three additional summer months by extending the reconciliation month to adjust for any unpaid usage from July to October 2001.

On January 16, 2001, pursuant to Order 115/00, Centra filed an updated forward price strip with the Board. The updated strip price for the period of February 1, 2001 to January 31, 2002 based on the closing prices at January 13, 2001 was \$9.251/GJ compared to \$7.847/GJ used in this application. Using the 75% inclusion rate, and this updated forward price, the Primary Gas cost embedded in rates would be \$7.741/GJ, compared with Centra's request of \$6.838. The table below details the approximate increases to the annual natural gas bills by customer classes, based on the January 13,

2001 forward price, the 75% inclusion rate and the use of the January 31, 2001 PGVA balance to determine rates, rather than December 31, 2000.

<b>Customer Classes</b>	<b>Annualized Percentage Rate Increase</b>	
	<b>Low</b>	<b>High</b>
SGS	40.4	44.5
LGS	42.6	54.7
HVF	52.8	57.1
MainLine	55.5	61.9
Interruptible	54.6	59.3

#### **4.0 Presenters' Positions**

The Board heard from over 400 individuals, businesses, organizations and institutions who were opposed to the requested rate increases. The Board was also presented with several petitions with varying numbers of signatories, all opposing the proposed rate increases. Of concern to most was the issue of affordability, especially for those individuals on limited or fixed incomes such as pensioners or low income families. Furthermore, many questioned why Centra gas prices were increasing after Centra had been purchased by Manitoba Hydro, since many believed a Crown Corporation should not have such huge increases, but rather should be managing its costs and not making a profit. Finally, many commercial customers noted it was unlikely that they could pass on their increased cost of gas to their customers and therefore they might have to lay-off staff, cut production or close their businesses. Customers urged the Board not to approve the requested rate increases.

#### **4.1 Consumers' Association of Canada (Manitoba)/Manitoba Society of Seniors ("CAC/MSOS")**

Notwithstanding that the unprecedented rate increase were a compelling argument for having an oral hearing, CAC/MSOS concluded that the matters should be dealt with prior to February 1 to permit the implementation of new rates for the remainder of this heating season and to deal with the increasing PGVA balance. CAC/MSOS noted that the Board scheduled a Cost of Gas hearing for March and these matters would be dealt with at this time.

To assist the residential consumer in paying for the increased gas costs, CAC/MSOS recommended that the increase in the Primary Gas rates should be based upon 50% of the cost change based on the December 13, 2000 forecast price and to utilize the December 31 PGVA balance to determine the necessary rate rider. These selections would change the increase for residential customers to 19.9%, from the 31.3% impact requested in the application. It was also noted Centra was in a better position to carry the interest costs of the PGVA than the average residential consumer.

Finally, CAC/MSOS urged the Board to review the effectiveness of the Rate Setting Methodology at the upcoming Cost of Gas hearing scheduled for March.

#### **5.0 Board Findings**

After reviewing the comments of the public, the Board is of the opinion that this interim application will be dealt with using a "paper hearing" process. In arriving at this decision, the Board notes that an oral public hearing is scheduled to commence March 14, 2001 at which time the Board will conduct a detailed review of this application, and the public will have an opportunity to participate.

Under the terms of its supply contract, Centra is required to pay the prevailing market price for natural gas as determined by commodity futures exchange indices. This market price has risen to unprecedented levels and still continues to increase. As these increases are beyond the control of Centra, except for any mitigating effects of price management, which will be canvassed during the Cost of Gas hearing in March 2001, the Board continues to be of the view that gas cost increases must be passed on to customers.

The Board has considered the suggestion put forward by CAC/MSOS that the Primary Gas Rate be established by passing through 50% of the price increase, rather than the 75% as requested by Centra. The Board agrees with CAC/MSOS that given the severe increase in natural gas prices over a very short period of time coupled with a very cold winter, Centra is in a better position to finance the PGVA balance than Centra's customers at this time. Therefore, the Board is of the view that passing through 50% of the cost increase represents a reasonable approach to balance market responsive pricing with rate stability. In keeping with the Rate Setting Methodology previously approved, the Board will calculate the PGVA rate rider based on the December 31, 2000 PGVA balance.

Although Centra has based this application on the December 13, 2000 strip price of \$7.848/GJ, the Board is of the view that the most recent market information should be utilized given the upward trend in the commodity cost for natural gas. Therefore, the Board will require Centra to incorporate the January 16, 2001 forward strip price of \$9.251/GJ in its rates. Together with the PGVA balance, the rate is estimated at \$0.292 per cubic metre.

In making its decision, the Board is aware the PGVA balance will likely continue to rise. Eventually, a PGVA balance with prudently incurred costs including carrying costs must be paid to Centra by all consumers. Otherwise, Centra would incur enormous financial losses that would not allow Centra to sustain its financial health.

The Board wishes to alert consumers that a circumstance may result where, even though the forward strip price may decrease, increases in sales rates may be required to allow for the repayment to Centra of the Primary Gas PGVA balance.

In approving sales rates lower than that requested by Centra and lower than the current market indicators, the Board is attempting to smooth the rate impact to allow customers time to mitigate the rate impacts. The Board encourages customers to explore possibilities that exist to further mitigate their financial hardship including:

- Customers may enroll immediately in the Equal Payment Plan Program and may spread the payment for high winter usage over the summer months;
- Customers on the Equal Payment Plan Program will have the opportunity to extend their reconciliation month beyond July to October, 2001;
- Manitoba Hydro, as owner of Centra, has announced that energy conservation loans will be available for customers to install energy efficient equipment in their homes and to reduce consumption and, for commercial customers, undertake energy audits; and
- To investigate other competitive sources of gas.

Rates will be approved on an interim basis. At the Cost of Gas hearing in March 2001, the Board will review the interim rates including issues related to Centra's Price Risk Management program. The Board will also review the Rate Setting Methodology to determine whether it continues to be appropriate. Absent any changes to the RSM flowing from the March 14, 2001 public hearing, the RSM provides for consideration of further changes in market prices on the outstanding balance in the PGVA effective May 1, 2001.

**6.0 It Is Therefore Ordered That:**

1. Centra file for Board approval a rate schedule reflecting:
  - (a) a 50% inclusion rate;
  - (b) recovery of the December 31, 2000 PGVA balance over 12 months; and
  - (c) the updated strip price of \$9.251/GJ.

THE PUBLIC UTILITIES BOARD

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Chairman

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Secretary



THE PUBLIC UTILITIES BOARD

“G. D. Forrest”

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