

MANITOBA | **Order No. 170/01**
THE PUBLIC UTILITIES BOARD ACT | **October 31, 2001**

BEFORE: G. D. Forrest, Chairman
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 NOVEMBER 1, 2001**

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1.0 Presenters

Consumer's Association of Canada (Manitoba)/Manitoba Society of Seniors
("CAC/MSOS) represented by Counsel, B. Meronek, Q.C.

D. Hardy, Citizen

2.0 Background

The Manitoba Public Utilities Board (“the Board”) initially approved the Rate Setting Methodology (“RSM”) in Order 55/00, dated April 17, 2000. The RSM originally stipulated that the Primary Gas component of Centra’s rate structure would be adjusted every gas quarter to reflect 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. The Board also approved the implementation of a rate rider, in addition to the Primary Gas Base Rate, to dispose of the estimated accumulated Primary Gas Purchase Gas Variance Account (“Primary Gas PGVA”) balance over the next 12 months of volume.

This quarterly Rate Setting Process approved by the Board also required 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 could conduct either a “paper hearing” or hold a public hearing in respect of the application, and was requested to approve the rates prior to the commencement of that gas quarter. The Board subsequently approved Primary Gas Sales rates on an interim basis using the RSM in Orders 15/01 and 18/01 on numerous occasions, the last of which became effective February 1, 2001. In Order 15/01, the Board indicated that it would review the RSM as set out in Order 55/00 to determine its continued appropriateness.

On March 23, 2001, Centra applied for a change in the Primary Gas Rate to become effective on June 1, 2001 rather than at the gas-year quarter of May 1, 2001, to coincide with the rate changes for 2001/02 non-Primary gas costs which the Board

had recently approved in Order 94/01. Centra proposed to continue with the RSM and process as outlined in Order 55/00.

In Order 99/01, dated June 15, 2001, the Board denied Centra's request for a June 1, 2001 Primary Gas rate change because of the relatively minor impact (a decrease of approximately 0.1%) on customers, and the desire to restrict the number of rate changes in a short time period. The Board also ordered a change in the rate setting methodology and treatment of the Primary Gas PGVA as follows:

1. Centra was to transfer the February 28, 2001 balance in the Primary Gas PGVA, net of revenues generated by the existing Primary Gas Rate Rider to May 31, 2001, into a separate account to be titled the Primary Gas Deferral Account ("PGDA"). The PGDA balance was to be recovered from all customers, except WTS customers as at April 30, 2001, over a 24-month period commencing August 1, 2001 by a Primary Gas Deferral Rider ("PGDR"). New customers and customers returning to Centra supply after April 30, 2001 would be exempt from payment of the PGDR.
2. The rate setting methodology was changed so that Primary Gas Base Rate would reflect 100% of the difference between the cost of gas embedded in current Primary Gas Base Rates and the current 12-month forward price strip.
3. In addition to the Primary Gas Base Rate, Centra was to determine a 12-month Primary Gas Rate Rider, to be effective August 1, 2001 to dispose of the accumulated balance in the Primary Gas PGVA from May 1, 2001 to July 31, 2001, net of revenues generated by the existing Primary Gas Rate Rider from June 1, 2001 to July 31, 2001.

In Order 119/01, dated July 27, 2001, the Board approved a base Primary Gas Rate and billed Primary Gas Rate based on the revised RSM to be effective for all gas consumed on and after August 1, 2001. The approved base rate was \$0.1786/m³. The approved billed rate which included a Primary Gas PGVA rider of -\$0.001/m³ was \$0.1776/m³, while the approved PGDR was \$0.0363/m³.

3.0 The Application

On September 24, 2001, Centra applied to the Board for approval of interim sales rates to be effective November 1, 2001 and to remain in effect until a further Order of the Board. An amendment related to customer impacts flowing from the proposed rate change was filed with the Board on September 28, 2001. Centra requested that, pursuant to Order 99/01, 100% 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 November 1, 2001 Primary Gas Rate.

Centra also requested the Board to approve a rate rider to dispose of the estimated October 31, 2001 Primary Gas PGVA over the next 12 months normalized volumes. This rate rider would apply to all estimated volumes to be supplied by Centra, including Buy/Sell volumes from November 1, 2001 to October 31, 2002.

There was no change proposed to the PGDR required to dispose of the July 31, 2001 PDGA balance over a 24-month period commencing August 1, 2001. The PGDR will continue to apply to all customers, with the exception of WTS customers

of record as at April 30, 2001, new customers after that date, and WTS customers who returned to system supply after April 30, 2001.

A public notice outlining this application was published between October 6 and October 12, 2001. The notice invited all interested parties to make comments respecting this application to the Board by October 19, 2001. Comments were received from CAC/MSOS, and from Mr. D. Hardy.

4.0 Impact on Rates

The dramatic increase in Centra's Primary Gas costs during 2000 was due to demand being greater than available supply because of a long period of constrained production and unusually high demand as a result of a strong North American economy. These factors, coupled with a colder than normal weather in November and December, resulted in a gas price in excess of \$13.00/GJ in January 2001. Following this peak, the price decreased abruptly because of the early end to the 2000/01-winter season. Prices continued to decline during this spring and early summer, and the trend has continued into the early fall. The reason for this trend is the market's expectation of an economic slowdown resulting in less demand, greater available supply, current high levels of storage gas inventory, and a switch to alternate fuels, in response to the past winter's unprecedented high natural gas prices.

The 12-month forward price for Centra's Western Canadian supplies as at August 31, 2001 for the 12-month period from November 1, 2001 to October 31, 2002 was \$4.083/GJ. This 12-month forward price strip reflects all aspects of Centra's renegotiated gas supply contractual arrangements with TransCanada Energy

Services ("TCE"). The unit cost for Primary storage gas of \$5.166/GJ is the forecast cost of storage for the 2001/02-withdrawal season.

Centra stated that Nova Gas Transmission intends to move compression capability from the AECO to Empress leg of its transmission system in response to the near zero market value for transportation (basis differential) between these two points. The operational effect will be to reduce deliverability between AECO and Empress resulting in an increased forecast market value of transportation between these two points. The transportation charge is forecast to be \$0.17/GJ from November 1, 2001 to March 31, 2002, and \$0.14/GJ from April 1, 2002 to October 31, 2002. The forecast AECO/Empress basis differential embedded in August 1, 2001 rates are \$0.005/GJ. The Nova AECO to Empress toll remains unchanged from the August level, at \$0.1612/GJ.

Additionally, on May 25, 2001, Centra placed price hedges in the form of caps for one third of minimum weather purchase volumes under the TCE Contract for Western Canadian supplies volume for each month from November 2001 to May 2002. The hedging costs for the November 1 2001 to May 30 2002 period are \$6,080,400 for system supply, and \$1,750,143 for Buy/Sell volumes for a total of \$7,830,543. This represents a cost of \$0.159/GJ for all Western Canadian supplies.

The proposed Primary Gas price, adjusted to incorporate hedging costs, is \$4.242/GJ, and when weighted for the historical cost of storage gas is \$4.392/GJ (\$0.1660/m³), which is \$0.2220/GJ lower than the \$4.614/GJ weighted primary gas price currently embedded in rates. After applying the 100% factor, as directed in Order 99/01, adding forecast fuel costs of \$0.0034/m³, and gas overhead costs of

$\$0.0005\text{m}^3$, the proposed Primary Gas Base Rate is $\$0.1699\text{m}^3$. The existing base Primary Gas Rate is $\$0.1786/\text{m}^3$.

Pursuant to Order 99/01, the Primary Gas PGVA balance at April 30, 2001 of $\$103,403,875$, net of carrying costs to July 31, 2001, was transferred to the PGDA. The PGDR of $\$0.0363/\text{m}^3$ to recover the estimated balance in the PGDA over a 24-month period, commencing August 1, 2001 remains unchanged.

In addition to the Primary Gas Base Rate decrease related to the cost of Western Canadian gas, Centra requested approval of the imposition of a rate rider to refund the Primary Gas PGVA balance at October 31, 2001 estimated to be $\$8,815,542$, owing to Centra's customers. Centra calculated the unit rate rider, based on the next 12 month Primary Gas normalized volumes estimated to be supplied by Centra and under Buy/Sell arrangements, to be $\$.0061/\text{m}^3$. Thus, the proposed November 1, 2001 billed Primary Gas Rate requested by Centra is $\$0.1638/\text{m}^3$, compared to the existing billed rate of $\$0.1776/\text{m}^3$. In addition the billed rate includes the PDGR of $\$0.0363/\text{m}^3$, unchanged from the August 1, 2001 PGDR, resulting in a final billed rate of $\$0.2001/\text{m}^3$, compared to the previous amount of $\$0.2139/\text{m}^3$.

The table below details the decreases to the annual natural gas bills of different customer classes.

ANNUALIZED AS BILLED RANGE OF CUSTOMER IMPACTS
ORIGINAL APPLICATION

	Low	High
SGS	-3.4%	-3.8%
LGS	-3.5%	-4.4%
HVF	-4.2%	-4.6%
Mainline	-4.7%	-5.1%
Interruptible	-4.4%	-4.7%

In Order 119/01 the Board extended the date by which Centra was to file a report detailing alternatives to the use of a 12-month forward strip to forecast gas costs to November 1, 2001. On October 23, 2001, Centra filed the report that recommended continuing the use of the 12-month forward price strip as the basis for the calculation of Primary Gas Rates at this time, until the impact of the recent move to the 100% adjustment factor can be further evaluated.

Pursuant to Board requirements, Centra filed an updated forward price strip with the Board on October 22, 2001 with supporting documentation and a Schedule of Rates to reflect the updated price strip. Centra also filed responses to a number of Board information requests to clarify certain aspects of the initial application. The updated price strip for the period from November 1, 2001 to October 31, 2002, based on closing prices at October 17, 2001 was \$3.703/GJ, compared to the \$4.083/GJ contained in the application. In addition, since its September 24, 2001 application, Centra placed price hedges in the form of caps for more purchase volumes under the TCE Contract for each month from November 1, 2001 to October 31, 2002. The

incremental hedging costs for these additional volumes are \$4,392,500 for system supply, and \$1,120,100 for Buy/Sell volumes for a total of \$5,512,600. Thus, the total transaction costs of hedges placed by Centra and requested to be recovered in the sales rates is \$13,393,386. This represents a cost of \$0.271/GJ for all Western Canadian supplies. Using the 100% inclusion rate, as well as fuel costs and overheads results in a Primary Gas cost embedded in the sales rate of \$4.1680/GJ, compared to the original request of \$4.392/GJ.

The unit rate riders for the PGVA and the PGDR remain unchanged from the September 24, 2001 application. Thus, the proposed November 1, 2001 billed Primary Gas Rate requested by Centra is \$0.1550/m³, compared to the originally requested billed rate of \$0.1638/m³. In addition the billed rate will include the PDGR rate rider of \$0.0363/m³, yielding a final billed rate of \$0.1913/m³.

Based on the revised strip, the following table details the decreases to the annual natural gas bills of different customer classes.

**ANNUALIZED AS BILLED RANGE OF CUSTOMER IMPACTS
REVISED APPLICATION**

	Low	High
SGS	-5.6%	-6.1%
LGS	-5.8%	-7.2%
HVF	-7.0%	-7.6%
Mainline	-7.8%	-8.4%
Interruptible	-7.3%	-7.8%

5.0 Presenters' Positions

5.0.1 CAC/MSOS

In a communication dated October 25, 2001, Counsel for CAC/MSOS stated that CAC/MSOS supported Centra's application with respect to November 1, 2001 Primary Gas Rate Application. CAC/MSOS also alerted the Board that the issue of the change in the NovaGas Transmission strategy related to the AECO/Empress basis differential and Centra's continued hedging strategy of using price caps exclusively would be pursued at the proceedings dealing with final 2001 gas costs. Additionally, CAC/MSOS indicated that comments respecting alternatives to the use of a 12-month forward average price strip to forecast gas costs would be made subsequent to receipt and review of Centra's report in this regard.

5.0.2 D. Hardy, Citizen

Mr. D. Hardy expressed his concern that when the price of gas was increasing by a significant amount, Centra requested and received huge increases. On the other hand, now that the price of gas is decreasing, the request is for a much smaller decrease.

6.0 Board Findings

After reviewing the comments received from CAC/MSOS and Mr. Hardy, the Board will deal with this interim application using the "paper hearing" process. Actual 2001/02 gas costs will be dealt with on a final basis at the annual cost of gas review, which is anticipated to involve full public participation.

The Board recognizes that Centra is required to pay the prevailing market price for natural gas as determined by commodity futures exchange indices, in accordance with its existing TCE Gas Supply Contract. The Board also continues to hold the view that the most recent market information should be utilized to establish rates. The use of current information will enhance price transparency, but may lead to greater bill volatility. In this regard, the Board again suggests that customers explore existing possibilities to mitigate this volatility, such as Centra's Budget Plan.

The Board acknowledges that CAC/MSOS supports Centra's application for the proposed November 1, 2001 Primary Gas Rates, and the issues that CAC/MSOS has indicated they will pursue during the review of the final 2000/01 gas costs.

The Board received Centra's report exploring alternatives to the use of the 12-month forward price strip for the determination of Centra's future Primary Gas cost on October 23, 2001. The Board wishes to grant all interested parties an opportunity to provide input in this regard, and will ask Centra to forward copies of the report to parties of record at the recent Cost of Gas Hearing as well as to all registered brokers. The Board will require comments from all parties to be received by December 31, 2001, so that a decision can be reached prior to the implementation of Primary Gas rates to become effective on February 1, 2002.

The Board wishes to comment on the matter raised by Mr. Hardy. The Board has reviewed the primary cost of gas which Centra is obligated to pay pursuant to its existing gas supply contract, and the impacts on the typical residential customer's annual heating bill based on those costs. The following table provides a summary of gas costs and customer impacts.

Date	Gas Cost 12 Month forward Price/GJ	% Change	Gas Cost Approved to Centra/GJ	% Change	Annual Customer Bill	% Change
Dec. '99	3.003	N/A	3.003	N/A	856	N/A
Aug 1/00	5.187	73	4.095	36	993	16.1
Nov 1/00	5.849	13	4.972	21	1,123	13.1
Feb. 1/01	9.251	58	6.818	37	1,381	23
Aug 1/01	4.614	(50)	4.614	(32)	1,233	(10.7)
Nov. 1/01	4.168	(10)	4.168	(10)	1,147	(6.9)

The Board understands Mr. Hardy's concern, but with the RSM in place only 50% of gas cost increases were passed on to the consumer until August 1, 2001. Since that time, in an effort to promote greater market responsiveness and price transparency sales rates reflect the market price, as determined by commodity exchange future prices. As well, collection or refunds of balances in the PGVA and DGRA result in customer bill impacts that do not reflect only commodity cost of gas changes. The result is that increase in annual bills are not as high as increases in gas costs and, conversely, decreases in annual bills are not as great as decrease in the commodity cost of gas, to allow for rate smoothing.

7.0 IT IS THEREFORE ORDERED THAT:

1. The Schedule of Rates attached to this Order as Appendix "A" BE AND IS HEREBY APPROVED.
2. Any parties wishing to comment on Centra's report dealing with alternatives to the use of the 12-month forward price strip for determining future Primary Gas cost do so by December 31, 2001.
3. This Interim Order shall be in effect until confirmed or otherwise dealt with by a future Order of the Board.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"

Chairman

"H. M. SINGH"

Acting Secretary

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170/01 issued by The Public Utilities
Board

Acting Secretary