M A N I T O B A	)	**Order No. 16/04**
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THE PUBLIC UTILITIES BOARD OF MANITOBA	)	**February 5, 2004**

Before: G. D. Forrest, Chair
M. Girouard, Member
Mario J. Santos, Member

AN APPLICATION BY MACDON INDUSTRIES LTD. TO VARY BOARD ORDERS 118/03, 119/03 AND 125/03 WITH RESPECT TO CENTRA GAS MANITOBA INC.'S DEMAND BILLING METHODOLOGY

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1.0 Background

On July 29, 2003 the Manitoba Public Utilities Board ("the Board") issued Order 118/03 pursuant to a General Rate Application ("GRA") filed by Centra Gas Manitoba Inc. ("Centra"), for rates to become effective August 1, 2003. The application was based on a 2003/04 future test year and Order 118/03 contained directives, including the matter of a change in the demand billing methodology for customers in the High Volume Firm ("HVF") customer class.

2.0 Request by MacDon Industries Ltd.

In a letter dated October 31, 2003, MacDon Industries Ltd. ("MacDon") requested the Board to review and vary Order 118/03 with respect to the changes to the natural gas demand billing methodology instituted by Centra. MacDon submitted that the impact of that change was significant and unexpected. After reviewing the hearing material to research this issue, MacDon suggested that the process was extremely complex, and that if the Board were truly interested in public participation, the Board must find ways to ensure the public and industry input.

MacDon contended that the public notice for Centra's GRA was deficient because it made no specific reference to demand billing as a matter to be considered at the hearing. The fact that the notice indicated that "sales rates" were to be determined was not clear enough to MacDon to suggest that demand billing would be considered, and industry could not be expected to intervene in the process when it lacked fundamental knowledge as to the matters under review. MacDon further suggested that a reasonable course of action would have been for Centra to notify the 89 HVF customers about the proposed change. MacDon stated that, lacking proper public notice, the Board had no jurisdiction to adjust the demand billing methodology, and that the matter should be set aside until a proper hearing could take place.

MacDon also contended that Centra had implemented the change prematurely, citing from Order 118/03 that "...The change cannot become effective until after the 2003/04 winter when peak daily demands for all customers have been established." Industry required time to adapt to new and previously unknown changes.

MacDon stated that the Notice indicated that the 89 HVF customers would experience changes in rates between –4% to +6%. MacDon understood this to be based on a modeled projection rather than on historic billing data, and suggested that this did not reflect reality. MacDon's billing determinants would increase significantly and result in an increase of over 10% to the demand component of the bill.

MacDon also took exception to the Board's decision approving the move to recover 65% rather than 50% of all demand related costs through the demand charge. Additionally MacDon objected to the Board's encouragement that Centra move to a position where all demand costs be fully recovered by demand charges. In MacDon's view this was a clear indication that the Board had a predisposition to increasing this cost to industry.

3.0 Centra's Request

In a November 13, 2003, letter to the Board, Centra stated that there appeared to be some confusion regarding the implementation of the change in demand billing and requested clarification from the Board. Centra interpreted Order 118/03 to have approved the use of the current peak day methodology until such time as a new daily peak was set during the 2003/04 winter season. Centra stated that it was billing based on the new methodology effective November 1, 2003. This change impacts the transportation and distribution demand rates, and if the change were not implemented, Centra would not recover the approved revenue requirement from the HVF Customer Class.

Centra met with MacDon representatives in an attempt to resolve the issue on December 10, 2003. Centra then submitted its position in writing to the Board on December 19, 2003.

4.0 Centra's Response

Centra's response by letter dated December 19, 2003 included an extensive narrative of the history and evolution of demand based rates, commencing with a revised cost allocation methodology and rate structure for its larger volume users that was approved by the Board in Order 8/97. That methodology contemplated using peak day demand during the winter season to define the demand billing determinant for all customer classes that would have a three part rate structure. Since the HVF customers did not have meters required to measure actual peak day consumption the use of the average winter peak month was approved. Once all necessary meters were in place the actual peak day was to be employed for all applicable customer classes. The Interruptible and Mainline Customer Classes have a three part rate structure and had the necessary equipment, so the actual peak day methodology was initially employed.

Centra had prepared a report on the matter of differing methods to establish peak determinants, and a public notice of this filing was published in February 2001 as part of a public hearing dealing with 1999 and 2000 gas costs. In Order 91/01, the Board directed Centra to move towards billing demand methods that were consistent for all cutomer classes, and that the matter be considered at the next GRA.

Centra filed a GRA in January 2003 for sales rates to be effective on August 1, 2003, and a public notice was published. Centra stated that it had notified all customers of the GRA, including detailed information with respect to the demand billing issue, in an edition of the ”Energy Market Comment” mailed to all HVF Customers during April 2003.

Centra’s position is that the plan to implement the change was submitted to the Board during direct testimony and again during final argument. Centra stated that the applied for August 1, 2003 rates embedded the proposed change in the methodology. Centra further stated that it had interpreted the Board comment that “any change cannot become effective until after the 2003/04 winter when peak daily demands for all customers have been established.” to refer to the fact that the actual impact for individual customers could not be determined until a new peak daily demand for the 2003/04 winter had been established. Therefore Centra implemented the change in the billing demand on the basis of actual peak experienced by HVF customers during the winter of 2003/04. Centra began to bill on this basis on November 1, 2003. Centra stated that it had communicated this understanding to its customers in August 2003 through another edition of Energy Market Comment.

Centra met with MacDon on December 10, 2003 to discuss MacDon’s concerns expressed in the October 31, 2003 letter. Centra’s view is that MacDon still expected the matter to be dealt with by the Board.

Centra stated that the expected increase for the HVF of between -5% and +5% was based on the impact related to total annual bills, while MacDon’s reference is to a 10% increase related only to the demand portion of the bill. Centra further stated that if the Board varied Order 118/03 to reflect MacDon’s request, it would not be able to recover approximately $500,000 of costs allocated to the HVF Class for 2003/04, and Centra would have to seek new rates to recover the deficiency. Centra submitted that the calculation of HVF rates on the basis of average demand would continue to negatively impact those customers who use the system more efficiently than the average use. Centra urged the Board not to vary Order 118/03, and Orders 119/03 and 125/03 related to rates flowing from Order 118/03.

5.0 MacDon's Response to Centra's Position.

After meeting with Centra on December 10, 2003, MacDon still had concerns and by letter dated January 14, 20034 requested the Board to delay implementation of the change in demand billing by varying the related aspects contained in Orders 118/03, 119/03 and 125/03. MacDon reiterated that there was insufficient notice provided, as specific mention of changes to billing demand was not included.

MacDon contended that although Centra was aware that a change was to be made since 1996, the 89 HVF customers were not notified until approximately 90 days before the GRA hearing in June 2003. MacDon suggested that the mass mail out of the Energy Market Comment was not sufficient notice, and Centra could not be sure if the appropriate personnel with the affected organizations received the document. MacDon stated that it was not reasonable to assume that the industry was aware that discussion respecting the change had been taking place over several years. Further, industry planning could be impacted by changes, and absent knowledge of such changes, incorrect decisions could be made. MacDon had recently expended tens of millions of dollars converting to a new natural gas fired process, and this decision may not have been made had MacDon been aware of the pending change in demand billing.

MacDon stated that Centra had misinterpreted the Board directive, and that any change could not occur until after the 2003/04 winter. Given the lengthy history surrounding this issue, MacDon suggested that it would have been reasonable to allow industry one heating season to perhaps alter plans, operating procedures and budgets. MacDon also suggested that Centra should look at internal cost control measures to compensate for the reported $500,000 revenue shortfall related to the change, rather than merely passing on costs to customers.

MacDon took exception to the implication in Centra's statement that MacDon fit into the category of operating less efficiently than average. This indicated that Centra did not understand the nature and operating practicalities of the industry and displayed insensitivity to its customer's needs. MacDon's cited specific examples to show that mitigation measures to offset changes, such as that proposed, cannot always be made given that MacDon's gas consumption is primarily related to production, not to space heat.

MacDon refuted Centra's bill impact estimate increases of +5% citing figures that indicated an estimated 7.5% increase for MacDon, on an annual bill basis. MacDon stated that the actual annual bill increase would be in excess of 10%, without any consideration of future increases in gas commodity costs. MacDon suggested that rate impacts should be determined using actual rather than estimated data.

In a letter a subsequent letter sent to the Board on January 26, 2004, Centra reiterated its initial position respecting public notice, notification of HVF customers, and the calculation of indicated rate increases. Additionally, Centra stated that any comments previously made by Centra were not intended to infer that MacDon was operating in an inefficient manner.

6.0 Board Findings

The Board wishes to clarify its intent related to the implementation of the demand billing methodology change. The Board did state that "...The changes cannot become effective until after the 2003/04 winter when peak daily demands for all customers have been established." (Emphasis added). The Board understands that the end of the 2003/04 winter occurs on March 31, 2004, the traditional end of the winter season in the natural gas industry. Changes in method were not to be made until after that date.

With respect to the matter of public notice, the Board considers that while the notice related to the 2003/04 GRA did not specifically mention billing demand, the information that the utility mailed in April did inform all interested parties of the matter. The issue has a long history, and the Board notes that several members of the industry made presentations to the Board during the 1996 hearing, when the matter was first considered. Although the matter first arose in 1996, the Board was not in a position to further deal with the issue until the 2003/04 GRA.

The Board notes that Centra had proposed to use the peak day methodology in 1996 and to implement a rate structure that would have recovered 100% of all demand related costs through the demand charge. In Order 8/97, the Board approved an exception to the use of the peak day method for the HVF Class due to the lack of adequate metering facilities, but indicated that when such metering was available, the change should occur. As well, the Board directed that only 50% of the demand costs be recovered through the demand charge for the HVF and Interruptible customer classes because of the significant increase that would be necessary if the change had been fully implemented at that time. The Mainline Customer Class demand charge recovered 100% of the demand costs allocated to that class, and the Board directed that a gradual move be made for the HVF so that, eventually, allocated demand costs for all classes would be recovered by demand charges.

An underlying principle adopted by the Board is that all customer classes that impose similar costs on the system be responsible for those costs in an equitable manner. It continues to be the Board's view that a three part rate structure for large volume customer is appropriate, and that the amount of peak load is an integral component of rate equity. Additionally, the Board considers that the method of determining the peak should be consistent across all customer classes that have a three part rates structure. Similarly, the method of recovering demand charges should be consistent in that all demand costs should ideally be recovered through the demand rate.

With respect to the issue of rate impacts, in Order 118/03, the Board had interpreted the evidence of Centra such that the HVF customer class could expect a range of rate changes between –4% and +6%, using historic data to calculate the impact of change in billing methodology. The Board had intended to delay the implementation of this change to phase in the impacts on the HVF customers. The Board further understood that the implementation of the move to recover a greater portion of demand costs through the demand rate could result in a further –5% to +5% bill impact.

The Board notes that the cost allocated to all customer classes, including the HVF Class, is not dependent on the method of determining peak days, or on the method of recovering demand allocated charges. In respect of the HVF Class, the revenue requirement approved for the HVF Class will not change. It is the method of recovering these costs from customers within the class that is at issue. As an example, if only 65% of the demand costs are recovered through the demand charges, then the additional 35% in demand costs must be recovered through the commodity rate within the class. If 100% of the demand costs were recovered through demand charges, the commodity rates would be lower in order to still recover the allocated class costs. Similarly, on an overall class basis, the total demand billing determinant is used to arrive at a unit rate to recover demand costs. Thus if the billing determinant is higher, the required rate to recover allocated costs is lower, on an overall class basis. It is the relative peak day consumptions of customers within the class that will change with a change in methodology.

The Board is of the view that such relative measures are appropriate, and that the use of an actual peak day is an appropriate measure for peak day responsibility. A system is designed and operated to meet firm peak day requirements. Therefore a greater peak demand will create more demand costs, and it is appropriate to allocate these costs in proportion to the relative peak demands of each customer class. Further, to ensure fairness and equity to customers within a customer class, the relative peak demands within a class must also be recognized, so that the customer that places a greater demand on the system pays a greater portion of that classes' demand costs than does the customer with lower demand requirements. By not adhering to this approach, low demand customers would subsidize high demand customers within a class.

The Board will require Centra to file appropriate rates for the HVF Class to reflect the Board's intent that the change in demand billing methodology not be implemented until after the 2003/04 season. Additionally the Board will require Centra to submit a report to the Board detailing the impacts on each of the 89 HVF customers and on Centra's revenue requirement as a result of the revised rates.

In order to ensure that all interested parties have an opportunity to gain a full understanding and potential impacts of the demand billing methodology, the Board will further expect Centra file reports and to be prepared to discuss all details related to the matter of demand billing and recovery of demand costs for the various customer classes at the forthcoming annual cost of gas hearing expected in the spring of 2004. The public notice of that hearing is to include specific reference to the demand billing methodology matter.

7.0 **IT IS THEREFORE ORDERED THAT:**

1. MacDon Industries Ltd. is correct in that Board Order 118/03 required the implementation of the change in the demand billing methodology for High Volume Firm customers occur after the 2003/04 winter season.

2. Centra Gas Manitoba Inc. revise its rate schedules to reflect Order 118/03 and file such corrected rate schedules and financial impact on the High Volume Firm customers and the revenue requirement of Centra Gas Manitoba Inc. with the Board.

3. Centra Gas Manitoba Inc. to file materials related to the issue of demand billing and demand rates at the 2004 Cost of Gas Hearing later this spring.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

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Acting Secretary