

**MANITOBA** | **Order No. 12/05**  
**THE PUBLIC UTILITIES BOARD ACT** | **January 21, 2005**

Before: Graham F. J. Lane, C.A., Chairman  
Monica Girouard, C.G.A., Member  
Mario J. Santos, B.A., LL.B., Member

**AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN  
INTERIM EX-PARTE ORDER APPROVING PRIMARY GAS SALES  
RATES EFFECTIVE FOR ALL GAS CONSUMED ON AND AFTER  
FEBRUARY 1, 2005**

# Table of Contents

	<b>Page</b>
<b>1.0 BACKGROUND .....</b>	<b>1</b>
<b>2.0 THE APPLICATION .....</b>	<b>2</b>
<b>3.0 PRIMARY GAS BASE RATES AND BILLED RATES.....</b>	<b>3</b>
<b>4.0 BOARD FINDINGS.....</b>	<b>5</b>
<b>5.0 IT IS THEREFORE ORDERED THAT: .....</b>	<b>7</b>

## **1.0 Background**

The five components of a natural gas bill for a customer of Centra Gas Manitoba Inc. (“Centra”) are:

- Primary Gas Rates;
- Supplemental Gas Rates;
- Transportation (to Centra) Rates,
- Distribution (to Customer) Rates; and
- Basic Monthly Charges.

This Board Order concerns Primary Gas Rates to be effective February 1, 2005, pursuant to the Board’s approved Rate Setting Methodology (“RSM”). The RSM provides for Primary Gas Base Rates to be set quarterly on February 1, May 1, August 1 and November 1 of each year.

Adjustments are made to reflect the updated 12-month forward market price for natural gas, with the forward price being weighted to take into account the cost of gas in storage. In addition to the Primary Gas Base Rate, a Primary Gas Rate Rider is attached to the rate concurrent with the Primary Gas Rate change. The Rider distributes the projected Primary Gas Purchase Gas Variance Account (“PGVA”) balance as at the end of each quarter over customer bills for the next twelve months of normalized gas usage volumes.

The current RSM process requires Centra to:

- (a) Base its applications for Primary Gas Rate changes on a twelve-month forward price strip exercised during the first week of the month preceding the commencement of the following gas quarter;
- (b) File its Applications on a timely basis; and
- (c) Issue a press release, and send a “bill stuffer” to all customers, communicating the reason for changes approved by the Board

Additional background information related to Centra's Application includes:

- (a) For rates effective November 1, 2004, the approved Primary Gas base rate was \$0.2721 per cubic metre (based on the October 1, 2004 forward price strip);
- (b) The approved November 1, 2004 Primary Gas billed rate (effective until January 31, 2005) included a rate rider reducing the billed rate by \$0.006 per cubic metre to account for the estimated Primary Gas PGVA; and
- (c) The billed Primary Gas rate for November 1, 2004 was \$0.2661 per cubic metre.

In addition to the quarterly Primary Gas Application, Centra applied on December 9, 2004 for interim exparte approval of Supplemental Gas, Transportation (to Centra) and Distribution (to Customer) rates, effective February 1, 2005, to reflect an increase of approximately 2.5% in overall revenue requirement. The increase would generate approximately \$3 million in incremental revenue for Centra over the balance of the 2004/05 fiscal period and \$12 million on an annual basis for and from the 2005/06 fiscal year.

## **2.0 The Application**

On January 6, 2005, Centra applied for interim exparte approval of Primary Gas Rates, and a Rate Rider to be effective as of February 1, 2005. The Rate Rider would distribute the estimated PGVA balance as of January 31, 2005, in accordance with the approved RSM.

The requested rates were determined using the January 3, 2005 forward price strip, and, with the Board's approval, would remain in effect until the next quarterly rate change, that being slated for May 1, 2005.

Centra will advise its customers of the rate changes arising out of this Order through its newsletter, *Energy Matters*, and a Press Release.

### 3.0 Primary Gas Base Rates and Billed Rates

Centra's proposed total billed rate from February 1, 2005 is \$0.24465/m<sup>3</sup> (as compared to the total billed rate for the previous quarter, which was \$0.2661/m<sup>3</sup>).

The following table summarizes the cost components determining Centra's proposed Rates for the quarter commencing February 1, 2005, as compared to the previous quarter.

<b>Component</b>	<b>Existing Rates November 1, 2004</b>	<b>Requested Rates February 1, 2005</b>
Date of Forward Price Strip	October 1, 2004	January 1, 2005
12 Month Forward Price	\$7.655/GJ	\$6.207/GJ
Estimated Price Management Impact	(0.504/GJ)	0.454/GJ
Western Supply Price	7.151/GJ	\$6.661GJ
Storage Gas Price	6.465/GJ	6.521/GJ
Weighed Gas Cost	7.032/GJ	6.637/GJ
Rate per cubic metre	0.2658/m <sup>3</sup>	0.2509/m <sup>3</sup>
Base Primary Rate with fuel, O/H	2.721/m <sup>3</sup>	0.25625/m <sup>3</sup>
PGVA Rider (\$/m <sup>3</sup> )	(0.006/m <sup>3</sup> )	(0.0116/m <sup>3</sup> )
Total Billed Rate	\$0.2661/m <sup>3</sup>	0.24465/m <sup>3</sup>

Factors impacting on the Primary Gas Rates include:

- (a) The western supply price (\$6.207/GJ), which reflects Centra's current gas supply contract with Nexen Marketing;
- (b) An estimated AECO/Empress basis differential of \$0.15/GJ from February 2005 to January 2006;
- (c) Nova to AECO toll of \$0.1509/GJ effective January 1, 2005;
- (d) Estimated mark-to-market price management results of \$0.454/GJ (\$19 million), as a result of Centra's placement of cashless collars with \$0.50 out of the money upper

strike prices on volumes of approximately 25.5 million GJ. The impact of these transactions carried out to mitigate price volatility is that the cost of gas to Manitoba Consumers is estimated to be \$19 million more than otherwise be the case.;

- (e) The cost of gas in storage, projected at \$6.521/GJ, which reflects the actual cost for the 2004/05 gas withdrawal from storage. The projected withdrawal from storage covers the period commencing November 1, 2004, and ending on March 31, 2005; and
- (f) The estimated January 31, 2005 Primary Gas PGVA credit balance, owing to customers, is \$15,249,690. This results in a rate rider of \$0.01160 per cubic metre, a reduction from the total billed rate. Thus, with the Board's approval of Centra's Application, the February 1, 2005 Primary Gas unit billed rate will be \$0.0116 less than the unit base rate.

The following table projects the decrease to the annual average natural gas bills of the various customer classes which are associated only with the proposed new Primary Gas rates.

<b>Customer Class</b>	<b>Decrease</b>
SGS	(5.2%) to (5.6%)
LGS	(5.3%) to (6.5%)
HVF	(6.6%) to (7.1%)
Co-op	(5.8%) to (5.9%)
Mainline	(6.8%) to (7.3%)
Interruptible	(6.6%) to (7.0%)

The average residential consumer will, with the approval of this Application, incur a decrease in annualized heating bills of approximately 5.2%, or \$68. This decrease is entirely related to the February 1, 2005 Primary Gas Rate change.

#### **4.0 Board Findings**

The Board finds that Centra's proposal for a Primary Gas rate change properly reflects the current commodity market price and circumstances, and is consistent with the Board approved RSM. Accordingly, the Board will approve the requested change in Primary Gas Base Rates and Billed Rates as applied for by Centra, to be effective February 1, 2005.

The cost of storage gas, impacts of price management transactions, and the disposition of deferral account balances will be reviewed by the Board at Centra's General Rate Application ("GRA") hearing, which is anticipated to proceed in the spring of 2005.

As discussed in Order 13/05, issued simultaneously with this Order, the Board approved, on an interim ex-parte basis, Centra's requested changes to Supplemental Gas, Transportation (to Centra), and Distribution (to Customer) rates to be effective February 1, 2005.

The combined impact of Centra's two Applications, as approved by the Board, will result in the following annual bill reductions by customer class.

<b>Customer Class</b>	<b>Decrease</b>
SGS	(2.7%) to (2.9%)
LGS	(3.9%) to (4.8%)
HVF	(5.3%) to (6.4%)
Co-op	(3.8%) to (3.9%)
Mainline	(6.0%) to (6.9%)
Interruptible	(5.8%) to (6.5%)

On a combined basis, the typical residential consumer will, with the approval of this Application, note a decrease in annualized heating bills of approximately 2.8%, or \$36.

Because the RSM considers factors other than commodity prices, such as the cost of gas in storage and price-hedging impacts, volatility in rates has been mitigated.

The following table illustrates the volatility of natural gas prices over the past five years, from the perspective of Centra's average residential customer. The table also incorporates changes approved by the Board for non-Primary Gas, for applicable quarters. Most recently rates were approved by the Board to reflect changes in non-Primary gas costs, effective on November 1, 2004 and, with this Order, February 1, 2005.

<b>Date</b>	<b>Primary Gas Commodity Cost</b>	<b>Average Annual Bill</b>	<b>% change in Primary Commodity Cost</b>	<b>% Change in total Annual Bill</b>
December, 1999	\$3.003/GJ	\$ 840	Base	Base
August 1, 2000	5.187/GJ	975	72.7%	16.1%
November 1, 2000	5.894/GJ	1,098	13.6%	12.6 %
February 1, 2001	9.251/GJ	1,350	57.0%	23.0%
August 1, 2001	4.614/GJ	1,204	(50.1%)	(10.7 %)
November 1, 2001	4.168/GJ	1,121	(9.7%)	(6.9 %)
February 1, 2002	4.028/GJ	1,099	(3.4%)	(2.0 %)
May 1, 2002	5.094/GJ	1,209	26.5%	10.0%
August 1, 2002	4.759/GJ	1,120	(6.6%)	(7.4 %)
November 1, 2002	5.024/GJ	1,167	5.6%	4.2%
February 1, 2003	5.860/GJ	1,273	16.6%	9.1%
May 1, 2003	5.928/GJ	1,295	1.2%	1.7%
August 1, 2003	5.857/GJ	1,213	(1.2%)	(6.3%)
November 1, 2003	6.003/GJ	1,250	2.5%	3.0%
February 1, 2004	6.148/GJ	1,263	2.4%	1.0%
May 1, 2004	6.413/GJ	1,299	4.3%	2.9%
August 1, 2004	6.683/GJ	1,329	4.2%	2.3%
November 1, 2004	7.032/GJ	1,298	5.2%	(2.3%)
February 1, 2005	6.637/GJ	1,263	(5.6%)	(2.7%)



**5.0 IT IS THEREFORE ORDERED THAT:**

1. The Application for a Primary Gas Base Rate of \$0.2563/m<sup>3</sup> and a Primary Gas Billed Rate of \$0.2447/m<sup>3</sup> to be effective for all gas consumed on and after February 1, 2005, BE AND IS HEREBY APPROVED, on an interim ex-parte basis.
2. This Interim ex-parte Order shall be in full force and effect until confirmed or otherwise dealt with by a future Order of the Board.

The Public Utilities Board

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Chairman

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Acting Secretary

