The Public Utilities Board

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280 Smith Street
Winnipeg, Manitoba
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MANITOBA	)	Order No. 118/99
	)	
THE PUBLIC UTILITIES BOARD ACT	)	June 29, 1999

BEFORE: G. D. Forrest, Chairman
D. L. Barrett-Hrominchuk, Member
J. A. MacDonald, Member

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN ORDER OF THE BOARD SEEKING APPROVAL OF:

1. INTERIM SALES RATES EFFECTIVE JULY 1, 1999

2. FINAL 1998 GAS COSTS AND 1998 GAS COST DEFERRAL ACCOUNTS

3. CONFIRMATION OF INTERIM EX-PARTE ORDER 165/98

4. INTERIM PROCESS FOR DISPOSAL OF ESTIMATED BALANCES IN THE 1999 PURCHASE GAS VARIANCE ACCOUNT

5. A SOLUTION RESPECTING THE IMPACT OF SYSTEM EXPANSION ON VARIOUS CUSTOMER CLASSES

6. IMPLEMENTATION OF CLASS WEIGHTED AVERAGE COSTS OF GAS FOR CALCULATION OF RECOVERY OF GAS COST DEFERRAL ACCOUNTS

EXECUTIVE SUMMARY

Background

Customers of Centra Gas Manitoba Inc ("Centra") are presently paying rates for natural gas approved by the Board to be effective from August 1, 1998 to December 31, 1998. The rates have continued since January 1, 1999 pending an Application by Centra for Board approval of 1999 rates.

Application

Centra's initial Application for 1999 rates proposed rate decreases for all customer classes except those in the Mainline class for whom modest rate increases were proposed. Through a series of amendments to its Application, the resulting rate increases to those customers in the High Volume Firm, Mainline and Interruptible classes became significant. Customers in the SGS class and the LGS class would still receive rate reductions.

The following table compares the rate impacts from existing billed rates between Centra's initial Application and Centra's revised Application on the assumption that Centra's 1999 gas costs would be recovered from all customer classes by the end of 1999.

Rate Impacts

Customer Classes	Based on Centra's February 15, 1999 Application for new rates effective June 1, 1999	Based on Centra's May 14, 1999 revised Application for new rates effective July 1, 1999
SGS (which includes most residential customers)	-8.9% to –10%	-5.9% to -6.6%
LGS	-9.8% to –13.5%	-7.2% to -10.0%
High Volume Firm	-0.4% to -0.5%	16.8% to 21.4%
Mainline	0.2% to 0.3%	15.0% to 18.4%
Interruptible	-14.6% to –16.4%	34.5% to 38.8%

To moderate the rate impacts that Centra's revised Application would have on High Volume Firm, Mainline and Interruptible classes, Centra proposed to delay, until January 1, 2000, the implementation of the rate riders that would recover the deferral account balances owing by these customer classes. The two primary factors that result in the significant differences in rate impacts to customers using high volumes of gas are the proposed use of Class Weighted Average Cost of Gas ("WACOG") for calculating class responsibility for deferral account balances and the increase in the forecast cost of natural gas due to market forces.

Board Decisions

In this Order, the Board approved the forecast cost of gas for 1999 and provided directions to Centra to recalculate rates based on the Board's directives.

The Board accepts the use of Class WACOG, as it is the correct methodology to be employed to calculate customer class responsibility for deferral account balances. However, to moderate the impacts that the conversion to Class WACOG has on high volume customers, rate riders to recover the balances owing to Centra, by these customers, are to be deferred and recovered between April 1, 2000 and December 31, 2001. This will allow the customers in these classes to budget and plan for the impacts that will result from the use of Class WACOG.

For rate setting purposes the Board also approves $2.74/Gj as the 1999 unit cost of Western Canadian supplied gas. Consumers need to be aware that market volatility has driven the forecast average annual cost of gas from $2.20/Gj in August 1998, to $2.54/Gj in February 1999; to $2.66/Gj in April 1999 and now to $2.74/Gj. This increase from $2.20/Gj to $2.74/Gj has resulted in an additional $28.3 million of gas costs to be recovered in 1999 rates. Consumers need also to be aware that current forecasts for annual average gas costs in the year 2000 are $3.04/Gj. Should this cost be sustained for 2000, residential customers will experience an annual increase in their year 2000 heating bills of approximately 4.5%.

This Order also resolves the long-standing issues that have existed between various customer classes over responsibility for certain costs of Centra's expansions to new areas. The

annual cost impact of such expansions will now be offset by an accelerated amortization of customer contributions in aid of construction so as to not adversely impact any customer class through the allocation of the costs of expansions. A residential class (SGS) deferral account that was created to hold the financial consequences of past expansions is also disposed of in this order, in a manner consistent with the principles adopted by the Board on this issue.

In this order, the Board also specifies the carrying costs that Centra is permitted to record on existing deferral accounts, and recover in rates from consumers.

Conclusion

As a result of the directives in this Order, Centra is required to re-calculate new rates and submit various revised schedules to the Board. These new schedules will include rates to be effective July 1, 1999 and rate impact tables for all customer classes. The Board will review Centra's filing of the requested information and the Board will then issue a further Order which will specify the rates to be charged for all customer classes effective July 1, 1999. The rate impacts resulting from this Order will not be known with certainty until Centra files its revised information. However, based on the latest information filed, residential customers, in the SGS class, may receive rate decreases of approximately 5% and customers in the LGS class may receive rate decreases of approximately 8%.

Customers in the higher volume rate classes, who purchase their gas from Centra, will experience rate increases that have been moderated by the delay, until April 1, 2000, of the rate rider portion of their billed rates. Effective July 1, 1999 customers in the High Volume Firm class may receive rate increases of approximately 1 ½ %, while the rate increase for customers in the Mainline class may be approximately 3%. The increase in rates to the Interruptible customer may be approximately 12%.

The Board cautions the reader that the final rates and the rate impacts will be set out in the Order the Board issues in response to the information Centra is now required to file. That subsequent Order is expected to be issued within two weeks.

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1.0 Appearances

R.F. Peters S. Berthaudin	Counsel for the Public Utilities Board ("the Board")
J. E. Foran, Q.C.	Counsel for Centra Gas Manitoba Inc. ("Centra")
G. Wood	Counsel for City of Brandon and the Cities of Portage la Prairie, Steinbach, Dauphin, Selkirk and the Towns of Morden and Winkler and Winnipeg School Division No. 1 ("Brandon et al")
D. M. Brown	Counsel for Coalition of Eastern Natural Gas Aggregators and Sellers ("CENGAS")
K. Melnychuk	Representing CENGAS
B. J. Meronek, Q.C.	Counsel for Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc. ("CAC/MSOS")
P. Scully	Representing ECNG Inc.
R. Gridley	Representing Gerdau MRM Steel Inc. ("MRM")
M. Hopkins	Counsel for Simplot Canada ("Simplot")
G. Collis	Representing Simplot
W. Olson, Q.C.	Counsel for Winnipeg Hospital Authority ("WHA") and Urban
K. Labossiere	Shared Services Corporation ("USSC")

2.0 Witnesses for Centra

I.D. Anderson	Vice-President, Marketing and Business Development
H.M. Kast	Vice-President, Finance and Gas Supply
H. Stephens	Senior Manager, Gas Supply Storage and Transportation
G.W. Meyer	Manager, Rates
G.W. Neufeld	Manager, Gas Forecasts and Gas Supply Administration
J. Little	Resource Management International (on issues of cost allocation)

3.0 Registered Intervenors

City of Brandon and the Cities of Portage la Prairie, Steinbach, Dauphin, Selkirk and the Towns of Morden and Winkler, and Winnipeg School Division No. 1 ("Brandon et al")

Coalition of Eastern Natural Gas Aggregators and Sellers ("CENGAS")

Consumers' Association of Canada (Manitoba) and the Manitoba Society of Seniors ("CAC/MSOS")

ECNG Inc. ("ECNG")

Gerdau MRM Steel Inc. ("MRM")

Simplot Canada ("Simplot")

Winnipeg Hospital Authority/Urban Shared Services Corporation ("WHA/USSC")

4.0 Presenters

Accucheck Consultants

Armstrong Cheese Company

Brandon Regional Health Centre

Canadian Inovatech Inc.

Correctional Service Canada

Globe Rental Agencies

Griffin Canada Inc.

Manitoba Government Services

5.0 Background

Centra last appeared before the Board on a General Rate Application in the spring of 1998, and Board Order 79/98 was issued as a result of that public hearing. As a result of Order 79/98, Centra calculated its approved revenue requirement and resulting rates which were approved in Order 104/98.

Order 104/98 approved the billed rates for all gas consumed on and after August 1, 1998. The approved billed rates had two components – a base rate and "rate riders". The base rate included $2.20/Gigajoule ("Gj") as the average 1998 annual Western Canadian cost of gas. The rate riders were to dispose of the balances of various gas cost and other deferral accounts. The rate riders were to expire on December 31, 1998.

However, on December 8, 1998, Centra requested the Board to approve the continuation of the existing billed rates beyond December 31, 1998. At that time Centra indicated that, while the existing rate riders were due to expire on December 31, 1998 the estimated 1999 commodity cost of gas sourced from Western Canadian had increased to $2.56/Gj. In essence, it was suggested that while a certain set of rate riders were due to expire, certain new rate riders were required, and the base rates would have to be increased because of the increase in the commodity cost of gas. Rather than have rate riders come off and new ones go on, and rather than adjusting the base rate, Centra proposed the billed rates in Order 104/98 continue until the Board held a full public review and set billed rates in 1999 and allow for a true-up of costs at that time.

In Order 165/98, the Board ordered that effective for all gas consumed on and after January 1, 1999 and until the public review of 1999 gas costs, the billed rates from Order 104/98 were to remain in effect.

In its initial Application, Centra requested that the issue involving the treatment of system expansions costs be deferred until the 1999/2000 General Rate Application which was

tentatively scheduled for the fall of 1999. Subsequently, the Board advised Centra to deal with this matter at this public hearing and Centra amended its Application to request a permanent solution.

Additionally, in a letter dated March 3, 1999 Centra informed the Board that, during the course of calculating proposed 1999 rate riders, Centra discovered that the use of Class Weighted Average Cost of Gas ("WACOG") rather than overall or System WACOG would significantly alter the previously calculated consumer rate impacts. Centra initially requested that this matter not be dealt with until the next GRA, but the Board directed that this matter also be dealt with at this public hearing.

Centra updated several aspects of its Application on April 14 and May 14, 1999 including the forecast average annual commodity cost of gas from Western Canadian supplies. The proposed Rate Impacts, by customer class as a result of the Application and the subsequent revisions are as follows:

Rate Impacts of Centra's Applications for Billed Rates (including Rate Riders) from July 1, 1999 to December 31, 1999 compared to Existing Billed Rates from Order 104/98 which embedded $2.20/Gj as the Western Canadian average commodity price			
	Based on Centra's Feb. 15/99 Application @ $2.54/Gj using System WACOG[2]	Based on Centra's Apr. 14/99 Revised Application @ $2.66/Gj using Class WACOG[2]	Based on Centra's May 14/99 Revised Application @ $2.74/Gj using Class WACOG[2]
SGS Class (which includes residential customers)	-8.9% to – 10%	-7.6% to –8.7%	-5.9% to –6.6%
LGS	-9.8% to –13.5%	-9.1% to –13.0%	-7.2% to – 10.
High Volume Firm	-0.4% to –0.5%	+14.3% to 18.0%[1]	+16.8% to +21.4%[1]
Mainline	+0.2% to +0.3%	+12.4% to +15.1%[1]	+15.0% to 18.4%[1]
Interruptible	-14.6% to –18.4	+30.7% to +33%[1]	+34.5% to +38.8%[1]

Notes:

1 To moderate the rate impact on the Interruptible Class, Mainline and High Volume Firm Classes, Centra proposed to implement the rate increase in two stages. Details of Centra's proposal are contained in this Order.

2 Centra's Application on February 15, 1999 sought new billed rates effective June 1, 1999. Subsequent amendments sought new billed rates effective July 1, 1999.

A public hearing was held in Winnipeg on April 19 and April 20, 1999 and from May 17 to May 20, 1999.

6.0 The Application

Based on the initial February 15, 1999 filing and the subsequent amendments, Centra's Application seeks Board approval of:

1. 1998 Gas Costs
2. 1998 Capacity Management revenues
3. 1998 Purchased Gas Variance Account (PGVA)
4. 1998 Price Management Activities not previously reviewed in Order 79/98
5. 1998 and Prior Deferral Account Residual Balances
6. Forecast 1999 Gas Costs and 1999 Capacity Management Revenues
7. The allocation of costs from rural expansions
8. The use of Class Weighted Average Cost of Gas for the calculation of the recovery of deferral account balances
9. 1999 Rates Including Billed Rates for SGS and LGS Customer Classes; and July 1 Base Rates for High Volume Firm, Mainline and Interruptible Customer Classes; and Deferring the impact of the use of Class WACOG for higher volume customers until January 1, 2000
10. An interim process for the disposition of the estimated balances in the 1999 PGVA
11. Interim ex-parte Order 65/98, on a final basis.

6.1 1998 Cost of Gas

Rates billed to consumers are initially based on forecast costs, including the forecast cost of gas. To the extent that the forecast costs of gas differ from actual costs of gas, an amount will accrue in the Purchased Gas Variance Account (PGVA). The PGVA balance is recovered or refunded, by way of a rate rider in subsequent billed rates.

The 1998 rates were based on a forecast cost of gas of $191.95 million whereas the actual cost of gas for 1998 was $177.35 million. Most of the difference in costs between the

forecast and the actual amounts is attributed to decreased supply costs as a result of reductions in both volume and price.

The components of the cost of gas, and the comparison between actual and forecast costs, are as follows:

Supply Component Costs	1998 Actual Costs ($ Million)	1998 Estimated ($ Million)
Fixed Pipeline/Storage Demand	47.40	46.72
Variable Transportation	5.07	6.81
Supply:		
Western Canadian	99.92	108.06
Oklahoma	0.76	3.18
Storage Withdrawals	22.76	25.76
Other Peaking	0.09	0.10
Other Miscellaneous Charges	1.35	1.30
Total	177.35	191.95

The variances are due to the following:

- Fixed pipeline and storage costs were greater than estimated due to an increase in U.S. exchange rates and a change in the tolling structure for GLGT Pipelines, partially offset by lower ANR fixed costs. Variable transportation costs were also influenced by the change in the GLGT tolling structure and lower compressor fuel costs;

- Supply costs were approximately $10.6 million less than forecast because of lower load requirements due to mild winter weather and a lower Western Canadian price The 1998 average unit price for Western Canadian supply was $2.164/Gj, compared to the forecast of $2.20/Gj;

- Supply from Oklahoma was used very little in 1998 because of relatively high U.S. prices and the mild Manitoba winter;

- Mild winter weather and lower prices also resulted in reduced costs of storage withdrawals and other peaking supply;

- Miscellaneous charges included approximately $1.5 million in TCPL balancing fees, compared to an estimated $1.3 million. This increase was offset by various adjustments made throughout 1998. Further negotiations are planned to investigate potential synergies in this matter, now that TCPL also has an ANR storage arrangement in place.

6.2 1998 Capacity Management Revenues

When Centra does not utilize its pipeline capacity and/or its supply contracts to provide gas to its ratepayers, Centra enters into profitable capacity management transactions, the proceeds of which are used to lower the gas costs for all ratepayers.

The August 1, 1998 billed rates contained a rate rider which was intended to refund to Centra's customers capacity management revenues forecast in the amount of $3,000,000, plus carrying costs. Actual total net 1998 capacity management revenues, including 1998 carrying costs was $2,834,363 including:.

- $2,062,348 for sales, primarily at Empress, Alberta when Alberta spot market prices were substantially above the price at which Centra purchased gas from TransCanada Gas Services under the long term contract. Centra was able to sell its supplies in excess of the Manitoba market requirements at a profit in the spot market;

- $403,563 from Centra's sale of pipeline capacity, and of the ANR capacity it has in the United States which it held, but did not need for its ratepayers; and

- $368,453 from exchanges Centra made throughout the winter months.

Centra submitted that although the total capacity management revenues were less than estimated, they were favourable when viewed in the context of the market that existed in 1998 and into 1999. The mild winter which resulted in large post season storage inventories and prospect of a La Nina summer all affected the natural gas market. Additionally, the Alberta market pricing relative to NYMEX was strong, with a corresponding reduction in the AECO/NYMEX Basis Differential, which had a marked effect on transactions that were profitable to Centra.

6.3 1998 Purchase Gas Variance Account ("PGVA")

The residual balance of the 1998 PGVA, owing to Centra, is $1,998,637 plus the 1998 carrying costs of $77,674. The total of $2,076,284 excludes any price management impacts which were recorded in a separate deferral account.

The inflows to the 1998 PGVA (excluding 1998 price management impacts) totalled $177,354,480, and were $14,593,528 less than the amount forecast and approved for the 1998 Test Year. Centra attributed the variance in the inflows to the following seven reasons:

1. TCPL Firm Service and Storage Transportation Service demand costs were $83,025 less than estimated due to an unanticipated toll reduction.

2. ANR Pipelines and GLGT Pipeline and storage demand costs were $761,056 higher because of a decrease of $1,139,239 related to the change in tolling structure from fixed to variable by ANR, offset by an increase for GLGT of $1,471,834, also related to a tolling structure change. Additionally, exchange rates were higher by $428,461.

3. TCPL variable transportation and backhaul charges decreased by $17,049 due to lower than estimated throughput on the system.

4. ANR and GLGT pipeline and storage variable costs were $1,921,514 less than forecast due to change in tolling structure, reduced backhaul volumes because of milder weather, and decreased compressor fuel use, offset partially by park and loan charges to balance daily receipts.

5. TCPL compressor fuel use was higher by an amount of $170,879 because of higher than forecast fuel ratios.

6. The most significant variance from the forecast gas costs was the cost of supply which was $8,138,548 less than forecast for Western Canadian supply. This was due to lower unit costs for gas and lower throughput volumes. Centra limited its use of Oklahoma supply because of mild weather, with a resulting variance of $2,421,898. For similar reasons, storage withdrawals were $3,003,968 less than forecast. Centra utilized Delivered Service in the shoulder months of April, May and October when storage was not available and market requirements exceeded TCPL firm capacity, resulting in additional costs of $195, 968.

7. Miscellaneous cost variances including TCPL balancing charges, imbalance estimates, some TCPL credits, and prior month adjustments resulted in actual costs being lower by $189,580 during the course of the year.

Outflows from the 1998 PGVA were $16,590,372 less than forecast, all due to the lower than estimated volume throughputs which was due to the milder than normal weather in Manitoba.

6.4 Price Management Activities not previously reviewed in Order 79/98

Centra categorized its 1998 price management activities as involving either passive hedging transactions or transactions to offset positions carried over from 1997 price management activities.

The passive hedging program established targets of $2.45/mmbtu for the upper band and $1.90/mmbtu for the lower band, based on the six-month market strip, for the first quarter of 1998. Two trigger points were set below the upper band, at $2.38/mmbtu and $2.33/mmbtu to allow Centra to scale into positions as necessary. During the first quarter the market was trading between the upper and the lower target and Centra allowed the price to float.

The passive hedging plan called for the purchase of price caps with a strike price of $0.20 above the target if the market for the six-month strip closed above each successive trigger point. The first price cap on the six-month strip would be purchased for 1/6 of the minimum year volumes. This approach allowed Centra to scale into position and would ultimately provide upper price protection for one half of the minimum year volumes if the price closed above each successive trigger point. This plan, approved by Centra's Gas Supply Committee on December 23, 1997, required that the targets be reviewed on a quarterly basis.

Price caps were purchased on three different occasions in the first quarter after several quotations were obtained. These caps effectively provided upward price insurance on one half of the minimum year volumes for the balance of the gas year and accounted for 5 of the 52 trades performed by Centra in 1998.

Centra reviewed the quarterly targets on April 1, 1998 and established a new upper hedge target of $2.33/mmbtu for the upper band and $1.95/mmbtu for the lower band. The six-month strip was then already trading above upper band hedge target. Because one half of the minimum year volumes had already been hedged and prices were expected to drop, the

Gas Supply Committee endorsed the proposal to monitor the market but to take no further action unless the lower hedge targets were triggered. The market remained relatively flat for the second quarter and Centra did not engage in any further passive hedging.

On receipt of Order 79/98 on June 19, 1998, Centra terminated its agreement with Engage Energy for the provision of price management activities and thereby effectively terminated its passive hedging. Centra decided it would only further react if a significant change in the market occurred, as Centra was satisfied that it had already sufficient protection for upward pricing volatility.

Centra decided to unwind the remaining 1997 positions that carried over into 1998, related to the Basis Hedge and the Dynamic program, and to "balance its book" of transactions. To do so required Centra to enter into further transactions to mitigate the potential negative consequences of all existing price management contracts to the extent reasonably practical. The nature, size and complexity of a particular transaction and the liquidity of the relevant market made some of these transactions difficult to achieve. The transactions were categorized as being either Basis positions, Collars, Puts, CGPR Swaps, or NYMEX Swaps. The process of offsetting these transactions was done in an orderly fashion, with those transactions carrying the greatest potential risk being offset first.

The 1998 price management results filed at the 1998 General Rate Application ("GRA") were based on actual results for 1997, and the actual results for the first three months of 1998 with the remainder being forecast for 1998.

The estimated 1998 price management activity impacts at the 1998 GRA was $28,464,094. The final actual price management impact for 1998 is $36,037.525. The difference of $7,573,431 was not explicitly reviewed and examined in the 1998 GRA. Although Centra is of the view that the entire incremental price management cost of $7,573,471 was prudently incurred, it is only requesting Board approval for the recovery of $4,101,428 to be included in

rates which Centra calculated in accordance with the Board's directives in Order 79/98 as follows:

Incremental 1998 Price Management Impacts	Incremental 1998 Price Management Amounts	Centra's Proposed Treatment	Amount sought by Centra to be included in 1999 Rates
Basis Hedging	$1,175,671	Disallow 100%	0
Dynamic Trading	$2,504,858	Disallow 50%	$1,252,429
Price Cap Premiums	$1,519,882	Allow 100%	$1,519,882
Sub-Total	$5,200,411		$2,772,311
Buy/Sell Impact/Adjustment	$2,373,020	Allow $1,329,117	$1,329,117
Total Incremental 1998 PM impact	$7,573,431		$4,101,428

Centra requested that it be allowed to record and recover, until the date of Board Order 79/98 June, 1998, carrying costs on all 1997 and 1998 price management losses disallowed by the Board, on the basis that Order 79/98 specifically disallowed the approximate amount of $27.25 Million, and did not specify any further disallowance for associated carryings costs.

Centra calculated its carrying cost for 1997 and 1998 at the allowed overall rate of return (8.893%) grossed up to account for tax impacts. Centra contended that, because it had to fund the deferral account balances by a combination of debt and equity, grossing up the overall rate of return was appropriate. The resulting carrying cost rate used by Centra is 12.061%.

Centra also submitted that, because the amounts of the deferral accounts are still above historical levels, the Board decision in 103/98 should also apply to this Application, as circumstances had not changed significantly and carrying costs should be at the grossed-up overall rate of return.

6.5 1998 and Prior Deferral Account Residual Balances

In Order 92/97, the Board authorized Centra's recovery of various 1997 gas cost deferral accounts through an interim rate rider, which was to be in place in 1998. This rate rider was replaced by a final rate rider, from Order 79/98, to recover the final 1997 year end balances of the 1997 PGVA (including the Board approved price management impacts for 1997) and various other 1997 gas cost deferral accounts over the remaining months of 1998.

The rate riders which were in effect during 1998 were volumetrically based, and due to the warm weather, were not fully recovered due to the lower than normal volume throughputs. The 1998 year end balance of these deferred accounts from previous years was calculated by Centra to be $2,716,177 owing to Centra.

1998 Heating Value Deferral Account

The 1998 Heating Value Deferral Account captured the volume impacts due to the variation in actual gas heating values from a base heat level that is embedded in approved rates. The net result for 1999 is a credit to customers of $67,751 (including carrying costs).

1998 Rate Change Deferred Account

The rate rider to capture the impact of the January 1, 1998 to August 1, 1998 delay in implementation of rates under recovered $569,626, an amount now owing to Centra, due to lower throughput volumes which are due to the warmer than normal weather.

The following summarizes the 1997 residual balances and 1998 balances of deferral accounts, including the 1998 PGVA (which for purposes of this table, includes allowed 1998 price management results and also requested incremental 1998 price management results).The carrying costs calculated by Centra are included for 1998 and 1999. The

forecast capacity management revenues are also included to arrive at the amount of $21,433,482 which Centra seeks to recover from its customers by way of rate riders.

	Balance to be Recovered	1999 Carrying Costs	Centra Proposed Recovery in 1999 Rates
1997 Residual Balances of Deferral Accounts	$2,716,177	$156,071	$2,872,248
1998 PGVA	$18,834,870	$195,551	$19,030,521
1998 Rate Change Deferral Account	$569,626	$32,731	$602,357
1998 Heating Value Deferral Account	($67,751)	($3,893)	($71,644)
Forecast 1999 Capacity Management Account	($1,000,000)	N/A	($1,000,000)
	$21,052,922	$380,560	$21,433,482

6.6 1999 Cost of Gas and 1999 Capacity Management Revenues

In this Application, Centra has included its latest forecast of the 1999 annual unit price for Western Canadian supplied gas. The following chart highlights the recent volatility in the cost of gas.

Date of Forecast by Centra	Average Annual Price of Western Canadian Sourced Gas $/Gj	Total Gas Costs (Millions)
Aug. 1/98 (embedded in Rate Order 104/98)	$2.20	$191.9
Jan. 25/99 forecast for 1999	$2.54	$208.5
Apr. 5/99 forecast for 1999	$2.66	$215.0
May 10/99 forecast for 1999	$2.74	$220.3
May 10/99 forecast for 2000	$3.04	N/A

Centra's most recent forecast for 1999 gas costs was based on forward price curves as of May 10, 1999, which projected an average annual unit price for Western Canadian supply of

$2.74/Gj. Centra's estimated 1999 gas costs reflected the TCGS supply contract, with the same terms and conditions as were in place on November 1, 1998. Other elements of Centra's proposed supply portfolio for 1999 remain unchanged from 1998. 1998 approved normalized test year volumes were used to estimate gas costs for 1999.

This new cost of gas is $28,348,100 more than is currently recovered in the base sales rates to consumers. To arrive at its most current forecast:

- Centra proposes to continue to utilize Western Canadian spot purchases as required during the winter months, and has assumed that Broker supply will be 50% of system supply from Western Canada.

- Oklahoma supply cost is based on NYMEX forward price curves, while storage withdrawals for January to March are based on the October 1997 inventory value of $2.24/Gj and $2.62/Gj for October and November withdrawals to recognize the higher cost of replacement volumes in the summer of 1999.

- Centra has again estimated a small amount of U.S based incremental peaking gas supply priced at NYMEX forward price curves and a $0.30 US/mmbtu Basis Differential.

- Pipeline demand levels and storage service charges in Canada and in the US are unchanged from TCPL tolls in effect on November 1, 1998 and are not expected to change significantly during 1999.

- TCPL balancing fees have been reduced from $1,500,000 in 1998 to $520,000 for 1999 to reflect the steps recently taken by Centra to mitigate the nomination/receipt imbalances.

- ANR costs are based on ANR's proposed tolling structure through to March 2000, and are estimated to cost $14.3 Million U.S., less than the agreed to price cap of $14.7 Million US. GLGT costs are based on tolls which became effective in November 1998.

- Centra has also included a $90,000 credit to the 1999 gas costs to reflect an anticipated credit from TCPL arising out of a National Energy Board ordered refund related to TCPL requested relocation costs.

- US exchange rates used to estimate 1999 gas costs have been estimated by the Westcoast Treasury Department at 1.5404 for the first quarter, then falling slightly to 1.5034 in the fourth quarter.

Centra has also included an estimated amount of $1,000,000 for 1999 capacity management revenues, and has reflected this amount in its calculation of 1999 required revenues.

6.7 Allocation of Costs from Rural Expansions

As directed by the Board, Centra included a proposed final resolution of the allocation of costs from rural expansion projects, to the various customer classes. In short, the issue is that customer classes, not included in new expansion areas, bear a portion of all expansion-related costs, in accordance with the approved cost allocation methodology. However, if only SGS and LGS customer classes are attached in these new expansion areas, all revenues are allocated only to these classes. This circumstance creates upward pressure on costs allocated to the other customer classes - Mainline, High Volume Firm and Special Contract - with higher rates resulting. For customer classes which are included in the expansion projects (i.e. SGS and LGS) there is downward rate pressure. However, on an overall basis for these expansion projects, the Board's feasibility test is satisfied because revenues and contributions to the construction of the project are sufficient to cover the costs of the project

as determined by the 30 year net present value (NPV) test, with revenues exceeding costs by the fifth year.

The primary factor contributing to the adverse impacts on the customer classes not included in the expansion is the asymmetry between the feasibility test and the cost allocation model. The feasibility test is a 30-year NPV calculation, whereas the cost allocation model encompasses only one year. As well, the cost allocation model compares both costs and revenues by customer class, while the feasibility test does not.
Centra engaged the services of cost allocation experts, Resource Management International, to propose a permanent solution to this problem. Centra also held meetings with interested parties over the course of the past year to attempt to reach a consensus. Based on these discussions, Centra is proposing to utilize a multi-step process with the first step being to determine a base level of revenue requirement for each customer class, excluding any expansion program. The second step is to perform a second cost allocation by customer class, which will include all revenues and costs from the expansion program. The difference in the two models will represent the impacts of expansion on each customer class. Centra then proposes to utilize additional amortization of customer contributions in aid of construction and to apportion this amount to each customer class such that the Revenue-to-Cost (R/C) ratio of each class is 1.00 for each of the first five years. The revenue sufficiency or deficiency of each class will total the required amount of the additional amortization of contributions in aid of construction. Once the R/C ratios reach 1.00 in the fifth year, the draw down will be discontinued and the reallocation will be held constant from that year forward until the contributions in aid of construction have been fully amortized.

To quantify the magnitude of the required additional amortization, Centra performed an analysis by determining the customer class impacts from its 1998 Southwest Manitoba rural expansion project and its proposed 1999 expansions in Ste. Anne, East Portage, Hanover, Tache and the Interlake. On a combined basis, the R/C ratios of these expansions will be less than 1.00 until the year 2001. In 2002 and beyond these projects will generate a net benefit to Centra's customers. The capital costs of these projects are approximately $40

million with some $39 million in contributions. The annual revenue requirement in 1998 is about $1.5 million for the Southwest projects and $1.2 million in 1999 for the other expansion programs.

Applying Centra's proposed solution would require an acceleration of the amortization of contributions in aid of construction by $461,606 in 1999, $75,000 in 2000 and $28,739 in 2001. This additional amortization would be allocated in a manner such that the R/C ratios for each year are 1.00 for each customer class as well as on an overall basis. The amount of amortization calculated for 2002 would continue until the contributions are fully amortized, perhaps by year 27 or 28 of the 30 year horizon. The average annual amortization without accelerations would have been approximately $1,000,000, which assists in demonstrating the proposal has little overall impact. Because of other factors, namely tax effect and return on rate base, an accelerated contribution of $461,000, for example, generates $828,410 in additional revenue. Centra testified that over the 30 years it would earn no more than the allowed rate of return, but because of the accelerated amortization, could earn more absolute dollars.

During the hearing, Simplot suggested, and Centra agreed to, a further step in the process in order to ensure that the impacts based on estimated costs and revenues were reviewed once the majority of a project had been completed. This review would require a recalculation of the required amortization draw down and class reallocation based on actual numbers. The suggestion was that this recalculation occurs only once, after the project has been substantially completed, which would normally be one or two years after construction of the expansion program.

During the hearing Centra also proposed to adopt the modification, as suggested by CAC/MSOS, related to the disposal of the SGS deferral account balance. This modification would result in Centra recovering a deferral account balance, as if the Class WACOG proposal had been adopted by the initial Board imposed deadline of August 31, 1998. The

remaining funds would be recovered by further accelerating and reallocating the customer contribution amortizations.

6.8 The Use of Class Weighted Average Cost of Gas/("WACOG") for the Calculation of the Recovery of Deferral Amount Balances

Prior to 1998 Centra used system WACOG for internal reporting purposes and to allocate the balances of the PGVA and other deferral accounts to the various customer classes.

At the 1998 GRA, Centra proposed to use class WACOG only for internal reporting matters. At that time Centra indicated that this change would have no impact on the calculation of the reference price, actual gas costs or rates. In Order 79/98, the Board directed Centra "...to explain in detail why the change does not impact the allocation of these costs and how the proposed rates properly recover the allocated costs."

Centra originally submitted this Application using system WACOG to calculate rate riders and the impact of billed rates on the various customer classes. While preparing its Application, Centra determined that the use of class WACOG would significantly affect the allocation of the PGVA and other deferral accounts and the calculation of rate riders. Centra immediately informed the Board of this situation. Although Centra had initially suggested this matter not be dealt with until the next GRA, the Board directed Centra to bring this matter and Centra's position on the issue forward for consideration at this hearing. The Board also directed Centra to notify all of the Intervenors of record, and all High Volume Firm, Mainline and Interruptible customers of Centra's proposal and to detail the impacts on the various customer classes which would result if Centra's proposal was to be approved. As a consequence, Centra amended its Application to request Board approval of the use of class WACOG. Centra also recalculated the customer rate impacts on the basis of using Class WACOGs.

The impact on the change from system WACOG to class WACOG, in billed rates to consumers, is significant, particularly to the High Volume Firm, Mainline and Interruptible Classes and is shown in the following table.

Rate Impacts of Centra's Applications using Class WACOG and System WACOG

	Using System WACOG	Using Class WACOG
SGS	-2.29% to –2.4%	-5.7% to –6.4%
LGS	-3.5% to –4.8%	-7.0% to –9.7%
HVF	+7.29% to +9.2%	+16.2% to +20.7%
Mainline	+7.7% to +9.5%	+13.9% to +17.1%
Interruptible	-4.2% to –4.9%	+32.6% to +36.7%

Note: These rate impacts assume a cost of gas of 2.74/Gj and a 7 month rate rider for all classes starting June 1, 1999. The rate impacts January 1, 2000 are excluded.

In explaining the detailed reasons for such impacts Centra reviewed the operation of the PGVA. The PGVA mechanism involves the determination of the gas cost inflows and the outflows. The inflows represent all the actual cost of gas consumed by Centra's customers in any given year, and include commodity costs and variable and fixed transportation costs. These costs are recorded in the PGVA as they occur. The outflows represent the aggregate amount removed from the PGVA as each unit of gas is consumed by customers.

Under the current system, Centra inputs the actual annual gas costs into its cost allocation model, once these costs are known. Centra also incorporates actual volumes, number of customers and revised allocation factors into the model. The model output shows what actual gas costs each customer class should have paid for the year. The actual gas costs which the customers, as a class, actually did pay for that year is calculated by multiplying actual volumes by the system WACOG. The difference between what was paid and what should have been paid is used to allocate the ending PGVA balance to each customer class. Currently, this results in either an overstatement or understatement of what the customer class actually paid as the calculation does not recognize the difference between class and system WACOG.

Centra's proposal is that as a customer consumes a unit of gas, the appropriate actual amount is recorded as a reduction in the PGVA and charged to the Cost of Gas on the financial statement. Actual gas costs will be different than the forecast, and this will leave a balance to be recovered from, or refunded to the customers in the future when the Board approves disposal of the PGVA balance. The amount the customer should have paid will be known, because actual gas costs will be recorded to the appropriate customer class. The amount the customer should have paid will be calculated by multiplying the actual volumes by the cost of gas embedded in their sales rates, which is the Class WACOG.

The following table compares the impacts of Centra's February 12, 1999 filing, using System WACOG, with the impacts of Centra's March 2, 1999 revision, using Class WACOG for the disposition of the deferral accounts.

Customer Class	System WACOG	Class WACOG	Difference
SGS	$ 13,776,257	$ 10,447,701	$ 3,328,556
LGS – Sales	7,980,816	6,306,382	1,674,434
LGS – Sales & T	492,469	73,949	418,820
HVF – Sales	385,937	1,186,627	(800,690)
HVF – Sales & T	12,232	6,650	5,582
Mainline – Sales	155,054	495,174	(340,120)
Mainline – Sales & T	7,947	11,291	(3,344)
Interruptible – Sales	(3,082,001)	1,208,859	(4,290,860)
Interruptible – Sales & T	8,675	2,194	6,481
Special Contract	31,481	30,339	1,142
SUB-TOTAL	$ 19,768,866	$ 19,768,866	$ 0.00
Correction of 1997 Deferral Account Tax Credit	$1,664,615	$1,664,615	
TOTAL	$21,433,482[1]	$21,433,482	

[1](Note: excluding SGS Deferral account related to allocation of rural expansion costs)

6.9 1999 Rates Including Billed Rates for SGS and LGS Customer Classes; July 1 Base Rates for High Volume Firm, Mainline and Interruptible Customer Classes; and Deferring the Impact of the use of Class WACOG for Higher Volume Customer until January 1, 2000 Rates

Centra has used its approved cost allocation model to determine the amount of required revenue for 1999 from each customer class, using the 1998 approved number of customers and normalized volumes. The existing rate structure remains unchanged for each customer class. Assuming normal weather, the proposed base rates will generate revenues of $220,296,100 which includes the most recent gas cost forecast for Western Canadian supply of $2.74/Gj, as well as the approved 1998 test year non-gas costs. The 1999 base rates will increase over the 1998 base rates due to the $28.3 million increase in gas costs. The base rates also incorporate Centra's proposed treatment of the amortization of contributions in aid of construction related to system expansion costs, as discussed in Section 6.7 of this Order.

Centra has allocated the balance of the PGVA and other gas cost related deferral accounts using class WACOG. The required unit class rate riders were determined by dividing the allocated deferral account balances, for each customer class, by the appropriate 1998 approved volumes for that class.

After considering various options for the introduction of the new rates requested, Centra proposes:

(a) For the SGS and LGS classes, which are not significantly impacted by the move to class WACOG, to implement the change to class WACOG in full on July 1, 1999 and recover the resulting rate riders over the remaining six months of 1999.

(b) For High Volume Firm, Mainline and Interruptible customer classes, to:

(i) implement the proposed 1999 base rates on July 1, 1999; and

(ii) defer the difference between base rates and the billed rates (using class WACOG), for recovery over the period of January 1, 2000 to December 31, 2000.

This splitting of the rate impact is an attempt to mitigate the impact and smooth the transition to the new billed rates. Compared to existing billed rates, the approximate impact of Centra's proposal on the various customer classes, is shown in the following tables.

Annual Rate Impact Proposed by Centra		
Customer Class	July 1, 1999	January 1, 2000
SGS	-8.6% to –9.7%	-0.2% to –0.2%
LGS	-10.1% to –14.0%	1.0% to 1.5%
HVF	-0.3% to –0.4%	6.1% to 7.8%
Mainline	0.7% to 0.9%	5.1% to 6.3%
Interruptible	9.2% to 10.4%	8.8% to 9.8%

The above rate impacts include the following assumptions:

(1) a cost of gas of $2.66/Gj for 1999 and 2000;

(2) use of class WACOG;

(3) SGS and LSG classes rate riders are recovered between July 1, 1999 and December 31, 1999; and

(4) HVF, Mainline, and Interruptible rate riders are recovered between January 1, 2000 and December 31, 2000.

6.10 Interim Disposition of the PGVA

The introduction of variable pricing by adopting the NYMEX index in the TransCanada Gas Services contract meant that the cost of gas changed monthly. The PGVA mechanism was introduced to achieve (amongst other things) price stability.

To address the major impact on customer's bills an annual rate rider may have, Centra proposed an interim solution. The interim solution for the period from June 1, 1999 to November 1, 1999, is for Centra to file for new rates in a format similar to that used in GRAs and cost of gas applications, once the projected year end PGVA balance is greater than

$5,000,000, whether owing to Centra or to Centra's customers. The year end balance would be forecast using actual gas costs and revenues for the most current month available with the remainder of the year's information being based on current forecasts. Centra proposed filing an ex-parte application seeking approval of new rates to be implemented on the first of the month following the application.

Centra is of the view that an interim solution is appropriate given that a number of other matters which are to be dealt with in the near future may have an impact on the PGVA disposal mechanism. These matters include the introduction of the Western Transportation Service scheduled to be implemented November 1, 1999, unbundled bill format, facilitation of price transparency, and optional billing and collection service.

Centra is researching methods to resolve several issues which may impact on the final method of the PGVA balance disposal. Centra intends to address this matter more fully at a future hearing, most likely the hearing involving the introduction of, and appropriate tariff for, the Western Transportation Service, scheduled to be implemented on November 1, 1999.

6.11 Confirmation of Interim Ex-Parte Order 165/98

In this Application, Centra seeks Board confirmation of interim ex-parte Order 165/98. In Order 165/98 the Board approved the continuation, on and after January 1, 1999, of the billed rates that were approved in Order 104/98. Board Order 165/98 was to remain in effect until confirmed or otherwise dealt with by further Order of the Board.

The billed rates continued by Order 165/98 included base rates that embedded $2.20/Gj as the unit cost of gas. As explained above, the latest forecast for the 1999 unit cost of gas has risen to $2.75/Gj.

Also included in the billed rates continued by Order 165/98 are rate riders to recover balances in various Board approved deferral accounts. The continuation of these rate riders

after January 1, 1999 has resulted in Centra recovering amounts that will be applied against the deferral account balances owing, by various customer classes, to Centra in 1999.

7.0 Intervenors' Positions

7.1 City of Brandon, Cities of Portage la Prairie, Steinbach, Dauphin, Selkirk and the Towns of Morden and Winkler and Winnipeg School Division No. 1 ("City of Brandon et al")

The City of Brandon et al supported Centra's proposal with respect to allocation of system rural expansion costs, as modified by Simplot. They also support the use of class WACOG, and its implementation over the two stages, as proposed by Centra. Counsel submitted that the claim of discrimination by the Mainline customers and other large users failed to recognize that the SGS and LGS classes may have been disadvantaged by as much as $2 million to $3 million per year since 1996.

The City of Brandon et al also supported the change suggested by CAC/MSOS related to the disposal of the SGS deferral account, and the position adopted by CAC/MSOS with respect to the disposal of the 1998 PGVA and 1999 cost of gas.

7.2 Coalition of Eastern Natural Gas Aggregators and Sellers ("CENGAS")

CENGAS remains of the view that Centra does not have any legal right under the Gas Purchase Agreements with the Brokers, to offset any overpayments to Brokers resulting from adverse price management activities. However, because Centra is not requesting the recovery of $3,472,004 of the total $7,573,431 1998 incremental price management impact from customers through sales rates, CENGAS takes no position regarding the recovery of the final 1998 price management results.

CENGAS expressed considerable frustration in the delay in implementing the Western Bundled T-Service, noting that the Board imposed deadlines of August 1, 1998 and then

November 1, 1998 had not been met by Centra. CENGAS was pleased that Centra committed to having the service in place by November 1, 1999, but requested the Board order Centra to apply for approval of the appropriate tariff and Terms and Conditions of service by June 1, 1999.

CENGAS supported a more frequent disposal of the PGVA balance so as to enhance price transparency. CENGAS supported Centra's interim proposal, but suggested that an open public process, such as Ontario's letter hearing process be instituted, rather than dealing with the issue on an interim ex-parte basis.

CENGAS did not support Centra's proposal to implement class WACOG, as this would cause severe rate shock to some classes, most notably the Interruptible class. CENGAS further suggested that the Board determine the value of the interruptible class to the entire system, and should also consider the impact on Centra and all other system customers if the interruptible customers were to switch to firm service.

7.3 Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc. ("CAC/MSOS")

Rural Expansion Costs and Revenues

According to CAC/MSOS, this matter had not been satisfactorily resolved by Centra's interim solution proposed during the 1998 GRA. As a result, in Order 79/98 the Board directed Centra to arrive a permanent solution and to file the proposal by August 31, 1998. CAC/MSOS submitted that the Board directive in Order 79/98 required that the proposed treatment must benefit all customer classes. In this Application, CAC/MSOS endorsed and recommended Centra's proposed solution as well as the suggested amendment advanced by Simplot.

CAC/MSOS urged the Board to recognize the collaborative efforts to arrive at a solution, and suggested the Board should also recognize this approach in resolving the issues related to the deferral account of $586,000 which SGS customers did not have to pay as part of the Interim Solution Centra advanced in the 1998 GRA. CAC/MSOS submitted that, had this matter been resolved in 1998 as directed by the Board, the SGS class would have had to pay approximately half of the amount in the deferral account with the balance being deferred over time and funded by an acceleration of the contributions in aid of construction. CAC/MSOS requested the Board to accept the $366,493 as being the amount of the deferral account to be recovered from the SGS class.

Class WACOG

CAC/MSOS argued that the use of system WACOG to calculate revenues generated by a class was inappropriate, as it did not credit each customer class with the actual amount that class had paid. The SGS class actually paid more than had been credited to it. Centra demonstrated in the evidence that the size of the balance in the PGVA was a relatively minor factor that contributed to determining class responsibility for PGVA balances. In light of that evidence, CAC/MSOS submitted that since 1996 the SGS class has probably overpaid $3 million a year. CAC/MSOS urged the Board not to delay implementing the use of class WACOG. CAC/MSOS submitted the argument of hardship raised by other classes is only related to a matter of timing, not to the principles of fair treatment and cost causation. CAC/MSOS urged the Board to adopt the use of the class WACOG, but to delay the implementation of the impact for all classes other than the SGS and LGS until January 1, 2000.

Price Management Results

CAC/MSOS submitted that Centra was and is only entitled to carrying costs on the Board allowed amounts of price management. CAC/MSOS also further submitted that there was no evidence that the size of the PGVA caused Centra to incur carrying costs in excess of the short-term borrowing rates. The line of credit is continually changing, an even though Centra borrowed $10 million from its parent in late 1998, the balance today is approaching zero. CAC/MSOS was opposed to the suggestion that the significant PGVA amount is justification for Centra to earn a grossed-up rate of return on the carrying costs associated with the PGVA. CAC/MSOS suggested that the proper borrowing rate is one which Centra is able to obtain from its parent company.

CAC/MSOS urged the Board to disallow the cost of the premiums incurred by purchasing price caps, except for the premiums associated with the March 31, 1998 transactions CAC/MSOS argued that if Centra had recognized both the NYMEX and the AECO/Empress indices in establishing its trigger points for purchase of price caps, all trades other than ones on March 31,1998 would not have been necessary. It was CAC/MSOS' submission that Centra ignored the AECO/Empress indices, and as a result, exposes its consumers to the premiums associated with unnecessary price cap purchases.

CAC/MSOS concurred with Centra's proposed treatment of incremental 1998 price management losses in a manner consistent with Board directives in Order 79/98.

However, CAC/MSOS suggested that some disallowance was warranted because Centra had failed to "balance its books", and did not reverse the 1997 positions on 100% of the volumes. CAC/MSOS suggested that the volumes were out of balance by 12%, and as Centra was unable to quantify the dollar impact, the Board should reduce its approval of the requested dynamic hedging losses amounts by 12%.

Capacity Management Status

CAC/MSOS also urged the Board to direct Centra to immediately proceed with its call for proposals for outsourcing the management of the capacity release program. CAC/MSOS noted that the Board had ordered Centra to file a report on this matter so that a decision could be made prior to November 1, 1998. While this had not occurred, Centra had submitted a timetable to deal with this matter, which contemplated proposals to be issued and reviewed so that a decision could be made in time for the 1999/2000 gas year commencing November 1, 1999. Notwithstanding the potential acquisition of Centra by Manitoba Hydro, CAC/MSOS submitted that the Board Order had not been followed and that the process should immediately continue. CAC/MSOS was concerned that Centra's capacity management revenues have been decreasing over the past several years and are now being estimated at $1 million for 1999.

Disposition of the PGVA Balances

CAC/MSOS agreed with Centra that while there were many issues related to the long-term solution for the disposal of the PGVA balances, the interim proposal was appropriate. CAC/MSOS suggested the amount to which the PGVA balance should be allowed to accumulate before disposition was required should be left to the discretion of the Board. This intervenor suggested that a resulting rate increase of 1% or 2% to be dealt with on an interim basis, might be reasonable. Similarly, any such interim orders would be subject to review and scrutiny at a subsequent cost of gas hearing. Any increase greater than 2% should be dealt with during a complete review and public hearing on gas cost issues.

7.4 ECNG Inc. ("ECNG")

ECNG submitted that the Board should order Centra to refile proposed rates to incorporate the use of system WACOG. ECNG contended that if the use of class WACOG were allowed the results would be unjust and unreasonable and would inhibit the continuing development

of the direct purchase market and further unbundling of services and competition. ECNG contended that system WACOG must be used for all classes, and that the use of class WACOG would result in Centra overcharging all customer classes who would be obliged to pay higher than system average gas cost and undercharging classes obliged to pay lower than system average costs.

ECNG also contended that because of Centra's operating circumstance, most notably lack of local storage and large winter needle peak, maximum use of interruptible customers is very desirable, and development of appropriate interruptible rate incentives keeps cost lower for everyone. The proposed use of class WACOG may result in rate increases of more than 30% for the interruptible class which according to ECNG constitutes rate shock. This is especially disturbing as Centra had indicated initially that this change would not impact rate making or rates, and could lead to interruptible customers switching to firm service to the disadvantage of all system customers.
ECNG also urged the Board to order the calculation of the PGVA be done on a system WACOG basis and that any deficiencies resulting from the change to class WACOG be treated as a cost to the shareholder, not recoverable from the customers. ECNG further stated that the amount of price management impact allowance should be at the Board's discretion.

7.5 Gerdau MRM Steel ("MRM")

MRM submitted that their cost of gas had increased approximately 22.9% between 1996 and 1998 while production increased by only 3.37%. MRM indicated that all suppliers to major steel mills had been asked to reduce their costs by 10% and wondered why Centra should be the exception. MRM requested that the Board deny Centra's proposal to use class WACOG or alternatively to spread the impact over as many years as possible. MRM is "... not convinced that class WACOG is an accurate system as gas rates are currently set at peak flows in the winter when interruptible customers are off-line." MRM expressed appreciation for Centra's recognition of the value of the interruptible customer to the system, but

suggested that the PGVA allocation system that could potentially pit one customer class against another was flawed.

7.6 Simplot

In a written submission, Simplot urged the Board to approve Centra's proposed solution with respect to the impact of system expansion on rates of various customer classes, as supplemented by Simplot's proposal. Simplot also requested the Board to approve Centra's proposal to dispose of the SGS deferral account in July 1, 1999 rates. Simplot noted that after one year's discussion the above points had the support of all interested parties. Simplot also requested the Board to reject the proposal for a variation to the disposal of the SGS deferral account sought by CAC/MSOS at the hearing. Simplot submitted that, although it had attempted to have its consultant assess the exact nature of the CAC/MSOS request and the impact on Simplot, it had not been able to obtain the necessary and requested information.

7.7 Winnipeg Hospital Authority/Urban Shared Services Corporation("WHA/USSC")

The WHA is Winnipeg's Regional Health Authority responsible for delivering and administering health services. The USSC is the collective body of the hospitals attempting to use purchasing power to deliver services in a uniform, centralized and more cost effective manner. WHA/USSC did not debate the merits of class versus system WACOG, but suggested the values of interruptible customers to the system should be reassessed at some future time, considering what is done in other Canadian jurisdictions.

WHA/USSC's position related to rate certainty and equity. In respect of certainty of rates, WHA/USSC outlined their budgeting process which requires knowledge of all budget elements, reasonable predictability of any changes, and any necessary cutbacks in services or capital costs required to fit within the available funding. WHA/USSC indicated that within a fiscal year unexpected cost increases of the magnitude sought in gas cost increases could

only be funded by borrowing from other health programs, special warrants or cutbacks in service.

WHA/USSC had initially been led to believe in 1998 that there would not be any significant gas cost change resulting from the use of Class WACOG and had budgeted accordingly for the current fiscal year. Each of the nine hospitals have budgeted and spent funds for dual fuel capability over the past several years, based on the assumption that natural gas costs would be relatively stable. WHA/USSC urged the Board to recognize that the proposed change to Class WACOG on short notice would cause significant hardship on the interruptible class. In their submission, WHA/USSC suggested that it would not be reasonable to expect the consumer, with funding limitations, to pay any increased cost of this magnitude. In the short term, according to WHA/USSC, the problem is how to fund the gas cost increases, and in the long term the issue becomes which fuel type or class of service to use, given the shrinking differential between firm and interruptible rates.

In respect of fairness, WHA/USSC expressed concern over the short length of time that was available to assess this complicated Application which has a significant impact on customers in the interruptible class. These intervenors suggested that the long-term solution to this matter might be better addressed in a more global approach and a special public hearing. WHA/USSC also commented that the publicly funded WHA has a different status in similar circumstances, recognized by factors such as forgiveness of real property taxes. Thus, governments who will ultimately recover the shortage from the taxpayers, who within Winnipeg are largely users of the natural gas system, will eventually fund any shortage. In closing, and in the alternative, WHA/USSC submitted the impact of this proposed change should be deferred until WHA's next fiscal period.

8.0 Presenters' Positions

8.1 Accucheck Consultants

Accucheck on behalf of one of its customers, the Winnipeg Airport Authority, outlined the Authority's opposition to Centra's application in respect of the use of class WCOG. The Authority suggested that the costs for approximately 220,000 Manitoba gas consumers would either remain the same or decrease slightly, while the burden of the additional costs would be placed on approximately 50 interruptible customers. Given that the interruptible customers have made considerable investment in alternate fuel facilities, the interruptible class should be preferred customers, and be exposed to the lowest costs.

Accucheck also expressed concern about the method Centra used to determine the demand for firm customers versus interruptible customers. There was an inequity because Centra calculated the demand for firm customers on an average daily use, while the interruptible demand was determined on the basis of an actual daily demand. Accucheck contended that because of this, it could not accurately assess future costs for its clients, and requested that all customer classes demand billings be determined on the same basis.

8.2 Armstrong Cheese Company ("Armstrong)

Armstrong's written submission detailed concerns it had with Centra's application. Armstrong suggested that Centra continue to use system WACOG, as it had over the last six years, and that the requested change to class WACOG be rejected. Armstrong is in a "lose-lose" situation because, for seven months of the year they will pay rates almost equal to the firm rate, and are unable to switch to firm supply because they can only do so if firm capacity is available. Armstrong requested in the alternative that, should the Board approve the move to class WACOG, that notification be made well in advance of the change, and the added cost be spread over the year 2000.

8.3 Brandon Regional Health Centre ("BRHC")

In a written submission, BRHC stated it is a subscriber of Centra's High Volume Interruptible service. BHRC understands that the switch to class WACOG recognizes a more equitable and fair allocation of total gas costs than system WACOG. BHRC contended, however, that there is no recognition of the value of the interruptible class to the system. Therefore the proposal does not reflect the "true" cost to the interruptible class, because of the need for this class to spend capital on dual fuel capability, and lower overall system costs because of the curtailment potential of interruptibles. BHRC recommended the Board properly investigate and develop a "true" class WACOG that recognizes value as well as cost. In an alternative submission and should the Board approve the change to class WACOG, BHRC requested the implementation be staged over an adequate period to mitigate against the large increase.

8.4 Canadian Inovatech Inc.

Canadian Inovatech Inc. made a written submission indicating that it owned and operated an egg processing plant in Winnipeg. The Winnipeg facility is estimating production increases of 35% in 1999 and another 35% in 2000, which will require an estimated 27.1% increase in gas consumption. It has estimated that the requested increase in this application would add 10% to the cost of production, and expressed concern that the amount of increase would have adverse impacts on its global competitiveness and could lead to loss of business.

8.5 Correctional Services Canada ("CSC")

CSC's written submission stated that it operates the Stony Mountain Institution near Winnipeg, and is an interruptible customer of Centra. CSC objected to the proposed 22% to 24.5% increase, as it would place an unacceptable hardship on the interruptible class. In the alternative and in the event the Board approves the requested rate changes, CSC suggested they be phased in over 3 to 5 years.

8.6 Globe Rental Agencies ("Globe")

In a written submission, Globe stated that while the Board could not control the commodity or futures market, it could control the process of the introduction of higher rates. With respect to this Application Globe stated that, being in the apartment rental business, its rates are regulated and annual increases have been set at 1% over the past several years. Any increase in gas costs should be spread over five years, and the value of an interruptible customer should be recognized and determined prior to any change being approved. Additionally, any "change in the rules in the middle of the game" should not be allowed, with any changes being deferred until the year following this review and determination.

8.7 Griffin Canada Inc. ("Griffin")

The presentation on behalf of Griffin focused on the impact Centra's proposed rates would have on its production costs. Griffin indicated that it had spent $15 to $20 million on new facilities and gas consumption was forecast to increase by 10 to 15%. Centra's rate proposal if approved would result in a significant increase in the cost of the products produced. Griffin's costs are projected on the basis of known energy charges, and any increase in this cost impacts the bottom line and the competitive position of the operation. Griffin suggested that class WACOG may be appropriate, if recognition is given to the fact that the industrial user requires only a pipeline to the meter, and does not cause the same type or amount of costs as does a residential consumer.

8.8 Manitoba Government Services ("MGS")

MGS pointed out that its position did not necessarily represent the view of the Manitoba government as a whole. MGS has seven sites on an interruptible rate, and had converted these sites to dual fuel capability based on the assumption interruptible rates would remain relatively stable. Centra's statement during the 1998 GRA hearing that the use of class WACOG would not impact rates gave MGS added comfort that rates would be stable and

that the switch to dual fuel capability was and would continue to be economic. The proposed change will, however, have a dramatic impact on interruptible rates, ranging from 22% to 25%, as opposed to the decreases of about 25% outlined in Centra's original proposal. Such an increase would invariably lead interruptible customers to reconsider the viability of remaining in this class, and any movement to the firm class would cause additional costs to the entire system.

MGS requested the Board to reject Centra's proposal to use class WACOG. In the alternative, should the Board approve the change, MGS requested that the deferral accounts be disposed of in the same fashion as costs are allocated to each class. He also requested the Board to be cognizant of the issue of rate shock and phase in the impact to mitigate rate shock, diminish the prospect of interruptible customers switching to firm service, and to allow adequate time to allow customers to determine which of Centra's service offering best suits their needs.

9.0 Board Findings

9.1 1998 Gas Cost and Capacity Management Revenues

At the 1998 GRA, Centra's forecast gas costs were $191.9 million. The actual gas costs for 1998 have been calculated at $177.3 million. The difference is primarily due to the milder than normal weather experienced in Manitoba in 1998. The actual degree days of 3,837.2 were 15% less than the 10 year normalized degree days of 4,541.8.

The other major factor which contributed to lower than forecast 1998 gas costs was a lower than forecast annual average commodity price for natural gas, primarily in Western Canada. Sales rates included $2.20/Gj as the annual average commodity supply price from Western Canada, while the actual price was $2.16/Gj.

Having reviewed the details of the 1998 cost of gas, the Board finds that $177.3 million is the actual gas cost in light of the circumstances in 1998.

The Board will also approve the actual 1998 capacity management revenues which are included as offsets to the 1998 cost of gas, and also form a portion of the inflows into the 1998 PGVA. The Board accepts the variance from the estimated amount of $3,000,000 included in current rates as being reasonable given the difficulty in estimating these revenues. Such estimates are highly dependent on weather, and profitable transactions were more difficult to achieve in 1998 because of the shrinking differential between the NYMEX and the AECO/Empress prices.

9.2 1998 PGVA

As included in Section 9.1, the Board will accept the inflows into the 1998 PGVA, consisting of all gas costs, including capacity management revenues, in the amount of $177,354,480. The Board also accepts that, where the PGVA inflows are reduced, primarily because of milder weather, the outflows will also be reduced. The Board notes that the inflows were approximately $14.6 million less than estimated, and the outflows $16.6 million less than forecast. The outflows are estimated based on projected revenues at normal year volumes. Given that the outflows preserve Centra's margin related to weather variance, and the mild winter of 1998, the Board considers the outflow variance of 8.8%, when contrasted to the inflow variance of 7.6%, to be reasonable. The Board will therefore approve the resulting balance in the 1998 PGVA in the amount of $1,996,844.

9.3 1998 and Prior Deferral Account Residual Balances

Similarly, the Board will approve the 1998 Rate Change Delay and Heating Value deferral accounts. The Board is satisfied that the residual balances of $2,716,177 in 1997 and prior years deferral accounts are reasonable as the volumes on which the recovery was to be

made are significantly less than normal year volumes used to estimate the appropriate unit rate riders. This revised amount is also to be included in the July 1, 1999 as billed rates.

9.4 Incremental 1998 Price Management Deferral Account and Related Matters

9.4.1 Trigger Points for Price Cap Purchases

The Board considers that the methodology employed by Centra in establishing its trigger points to determine its price cap transactions is appropriate. This methodology was also examined in the 1998 GRA. The Board is not convinced by the argument submitted on behalf of CAC/MSOS that the use of both the NYMEX and AECO/Empress indices would have resulted in more appropriate trigger points, and that such trigger points would have resulted in the first two price cap purchases being unnecessary. The Board is of the view that if both indices had been used, the trigger points would, no doubt, have been different. However, a logical extension of this is that the price, which would trigger the price cap purchases, would also have been different. The Board will not use hindsight to evaluate the trigger points selected by Centra. If it is open for CAC/MSOS to suggest that the indices in the long term gas contract should have been used to set trigger points, it is equally open for Centra to suggest the trigger points would have been different if the indices in the long term gas supply contract were used. On balance the Board is of the view that the transactions would have occurred in any event, and for substantially the same volumes. The Board encourages Centra to use all indices used under its supply contract with TCGS to set gas prices unless there is some compelling reason, administrative or technical, to do otherwise.

9.4.2 Premiums for Price Caps

Being of the view that Centra's price cap trigger points and subsequent transactions were prudent and reasonable in the circumstances that then existed, the Board will not consider any disallowance of costs pertaining to this area The Board will therefore approve the premiums associated with price cap purchases, as requested by Centra.

9.4.3 Incremental 1998 Price Management

The Board holds the view that Centra's attempts to unwind its 1997 positions for the Basis Differential and Dynamic Hedging transactions to be reasonable, given the circumstance in which Centra found itself in 1998. It is unreasonable to expect that a perfect "balancing of the books" is possible under the circumstances. The Board considers the recommended 12% disallowance advanced by CAC/MSOS to be overly simplistic and arbitrary. Centra's approach was to mitigate the existing positions by unwinding them, to the extent it was reasonably able to balance both volumes and transactions. Centra only attempted to offset existing positions, not to take a market view to attempt to achieve more favorable impacts. This would have been akin to offsetting dynamic positions using more dynamic trading when the Board had previously disallowed significant losses resulting from dynamic trading. Therefore, the Board allows the recovery in rates of the requested $4,101,428 of Incremental 1998 Price Management results, exclusive of carrying costs which are addressed separately, in this Order.

9.4.4 Carrying Costs

In this Order where the Board has allowed certain requests of Centra, it should not be taken that the Board has also approved Centra's requested carrying costs associated with an allowed amount. The issue of carrying costs requires clarification and further definition. As noted in Order 103/98:

> "... Normally, Centra is allowed to record carrying costs on deferral accounts at the short term debt rate. Recognizing the unique circumstances that have resulted in very large deferral account balances, and in the interest of fairness and financial integrity, the Board will allow Centra to record carrying costs on all deferral accounts in an amount equal to overall allowed rate of return. This decision is not to be precedent setting and is made purely in the

context of the current unique circumstances and substantial account balances. The question of an appropriate rate to use for carrying costs in future applications may be revisited by the Board once deferral accounts are restored to more traditional levels."

The overall allowed rate of return set by the Board in Order 79/98 is 8.893%. Centra's request to gross up this amount to 12.061% for the tax impact is contrary to Order 103/98 and will not be approved.

The Board agrees with the submission of CAC/MSOS, that carrying costs should, and will only, be recorded and allowed on that portion of price management results allowed by the Board. The reference to the disallowance in Order 79/98 of $27.25 million was made within the context of total losses of $45.5 million. Carrying costs did not form a portion of either amount. Carrying costs, at any rate, on disallowed price management results are not approved by the Board.

The unique circumstances that existed when Order 103/98 was issued included 1997 and previous years deferred accounts in excess of $26 million, together with allowed 1998 price management losses in excess of $11 million, all of which was to be financed by Centra. The rates that were in effect between August 1, 1999 and December 31, 1999 recovered all but approximately $2.7 million of the deferral account balance. The 1998 allowed price management results were not included in the August 1, 1999 to December 31, 1999 rates.

Since Order 103/98, rate riders initially designed to expire December 31, 1998 have remained as part of the billed rates to consumers, and have generated revenues that will be used in this Application to pay part of the balances of deferral accounts owing to Centra. Additionally, there has been no evidence that the financial integrity of Centra has been adversely affected in 1998.

The allowed 1998 price management results of approximately $11 million are to attract carrying costs, during 1999, at Centra's overall rate of return of 8.893%.

All other deferral account balances are considered to be at or near normal levels and are to attract carrying costs equal to Centra's short term debt rate, which Centra has forecast at 5.35% for 1999.

Centra is therefore required to submit new schedules which will clearly indicate the monthly allocation of the allowed 1997 and 1998 price management impacts together with the carrying costs as approved in this Order. Additionally, new schedules are to be filed containing the details of the various deferral accounts and the recalculation of the carrying costs as approved in this Order.

9.5 1999 Cost of Gas and Capacity Management Revenues

1999 Cost of Gas

Centra's 1999 gas cost forecast for Western Canadian Supply was calculated May 10, 1999 based on forward price curves. That calculation provides an average annual 1999 price for Western Canadian Supply of $2.74/Gj. Using the same methodology, the forecast annual revenue price of gas has risen from: $2.20/Gj (August 1998), to $2.54/Gj (June 1999), to $2.66/Gj (April 1999), to $2.74/Gj (May 1999).

The Board cautions Manitoba consumers that the natural gas commodity market continues to display considerable price volatility and the volatility is likely to continue, reflecting the numerous market forces at play. For example, the forward price curves until May, 2000 indicate an average Western Canadian unit price of $3.04/Gj. Should this price prevail for the entire year of 2000, the average residential consumer would see an annual gas cost increase of approximately 4.5% commencing January 1, 2000. Other customer classes would experience different rate changes, depending upon customer class and consumption levels.

Accepting a price of $2.74/Gj leads the Board to accept Centra's total 1999 cost of gas forecast of $220,296,128 for the purpose of establishing base sales rates for the balance of 1999. To the extent that actual 1999 gas costs differ from the forecast, consumers will receive a refund, if the actual costs are less. Conversely, if the actual costs are more, consumers will repay Centra by way of a future rate rider.

The 1999 cost of gas forecast contains no provision for the effects of price risk management as presently Centra has not entered into any price management transactions for any 1999 volumes. To the extent active steps are taken, there may be impacts which will affect the final 1999 cost of gas total.

Capacity Management

The Board accepts that it is difficult to predict annual capacity management revenues. The difficulty is due to the severity of the weather and the relative price differences between the U.S. and Canadian markets, including shifts in basis differentials, none of which can be accurately forecast.

Primarily because of the price differences (including basis differentials) between US and Canada supply basins, Centra has forecast $1,000,000 as the net revenues from its 1999 capacity management. There was no evidence that this amount would be higher based on Centra's assets which include the supply, transportation and storage contracts. Therefore, the Board will accept the $1,000,000 estimate by Centra and will require the amount to be credited to consumers in the rates that are calculated as a result of this hearing.

In Order 79/98 at page 80, the Board indicated:

> While Centra's management of its capacity release has been quite beneficial to the customers, it seems logical that to maximize the potential revenues a full knowledge of the North American demand for capacity on a daily basis is essential. The knowledge base of asset management firms, such as portrayed by Duke Energy at these proceedings, is considerable and likely broader than that of a relatively small player such as Centra. The Board accepts that the market place is changing and that Centra's role, as discussed in Order 15/98 will also change over time. Notwithstanding, the Board holds the view that market opportunities should be seized for the benefit of consumers and will therefore direct Centra to thoroughly assess whether firms such as Duke Energy are able to optimize Centra's total portfolio supply including the release and resale of excess capacity. The Board will expect this report to be filed in time for a decision to be made prior to the start of the next gas year, commencing November 1, 1998.

Since that Order, Centra wrote to the Board on October 30, 1998 requesting additional time to implement its plan to request and assess proposals from the industry's major providers of such services as total portfolio supply and release and resale of excess capacity.

From the evidence at the hearing, Centra is in a position to send out its Request for Proposals, but is reluctant to do so in light of the possible acquisition by Manitoba Hydro of Centra's shares. The Board does not see the possible sale of Centra's shares as justification for withholding the Request for Proposals. The Request for Proposals can be issued immediately, with an additional explanation of the possible share sale. The evaluation of the proposals and the development of recommendations should still be prepared by Centra and advanced to the Board by August 31/99 such that any Board approvals and/or directives can be implemented by November 1, 1999.

9.6 Allocation of Rural Expansion Costs

All issues involved in this matter, except the method of disposal of the SGS deferral account balance, have been resolved flowing from a series of meetings between Centra and certain stakeholders. The collaborative process was able to bring to the Board a resolution of an issue, such that all customer classes and Centra were in no way disadvantaged.

The Board will therefore accept the resolution whereby:

Step 1: The revenue requirement in the year of an expansion program is determined – excluding all effects of the expansion program - to determine a base level of revenue requirement for each customer class.

Step 2: A second cost allocation is to be performed which includes the impact of the expansion program (i.e. revenues, volumes, etc. from the various customers being attached, as well as the costs such as commodities rate base additions and operating costs.

Step 3: The difference between the two revenue requirements, by class, would represent the impact of the annual expansion projects on the individual classes.

Step 4: Because the overall impact of an expansion project in the first five years is usually a deficiency until the revenue to cost ratio reaches 1.0, such deficiency will be offset by additional amortization of the contributions in aid of construction. The intention is to apportion the amortization of contributions to each customer class so as to offset the revenue deficiency or sufficiency for that particular class for that year.

Step 5: Once the revenue to cost ratio of the expansion project reaches 1.0 by the fifth year, the additional amortization will be discontinued and the reallocation will be held constant from that year forward until the contributions have been fully amortized.

In addition to these five steps, the Board will also require Centra to file a single "true-up" application to compare the actual costs, revenues and contributions, after a significant portion of the capital costs have been spent. The Board appreciates that this will not occur within the same time frame for every project, or series of projects, but will expect the true up to be filed after all transmission costs and at least 80% of distribution costs are known. Under these parameters, the Board considers the true-up applications will normally occur two or three years after the start of projects. The Board will also expect Centra to prepare and file by the end of 2004 a summary report on all rural expansion costs, revenues, contributions and allocations using this proposed method, commencing with the 1998 test year. This report is to be based on actual results and indicate to what, if any, degree any of Centra's customer classes have been adversely or otherwise impacted by its expansion projects.

9.7 SGS Rural Expansion Cost Deferral Account

Except for the lengthy delay in finalizing the issues respecting the allocation of expansion costs, the Board was pleased with the manner in which various parties were included in the collaborative process which brought forth the resolution discussed in section 9.6 of this Order. Unfortunately, and for reasons that have not been made clear to the Board, all parties to the collaborative process were not parties to CAC/MSOS' and Centra's proposal in respect of disposal of the December 31, 1998 balance of the SGS Rural Expansion Deferral Account.

However, notwithstanding the Board's reluctance to accept an agreement achieved among only some of the stakeholders, the Board is advised that the proposed agreement does not negatively impact the other customer classes. That assurance, together with the likelihood that had Centra been able to comply with the Board's early directive of submitting this proposal by August 31, 1998, the treatment of the balance of the deferral account now suggested by CAC/MSOS may have occurred in any event.

The Board will therefore accept CAC/MSOS' amendment to the allocation of expansion costs by permitting the contribution in aid of construction to be drawn down by $214,744 to partially offset the total deferral account principle balance of $549,445, leaving $334,701 to be recovered in rates from the SGS class commencing July 1, 1999.

The carrying costs allowed on this deferral account are as previously set out in this Order. Treatment of the 1999 SGS deferral account relative to expansion costs should be consistent with the foregoing and detailed in the revised schedules to be filed by Centra.

9.8 Class WACOG

In addition to the positions advanced by Centra and intervenors, the Board has listened with great interest to the many presentations and interventions related to the proposal to the issue of replacing the use of System WACOG with Class WACOG. There still appears to be a great deal of confusion and misunderstanding amongst parties of this complicated issue. At the last GRA hearing, the Board was not convinced that all impacts and effects of the proposed change were fully known and, thus, in Order 79/98, had instructed Centra to further research and explain this matter to interested parties.

The Board considers this issue to be one of correctly determining the amount of revenue which Centra received from each of its customer classes. This is not an issue of improper cost allocation. The various cost allocation factors and cost allocation methodology, as approved by the Board, properly allocate actual gas costs to all customer classes. The use of System or Class WACOG will not alter this fact.

As pointed out by Centra, the application of the approved cost allocation methodology results in the determination of the correct revenue each customer class must generate to recover Centra's overall revenue requirement. This required class revenue is generated by either a two or three part rate, and each class's rate embeds a different average cost of gas (Class WACOG). The assumption that each customer class actually contributes an amount equal to actual volumes multiplied by the System WACOG completely ignores the actual amount of revenue each class had generated by virtue of the rate structure, which incorporates Class WACOG.

The Board also notes that it is primarily the methodology, not the size of the PGVA balance, that results in the inconsistency of class revenue determination. The Board agrees that consistency and fairness dictate that the actual funds generated by each class must be determined by using Class WACOG, and will therefore approve its use in calculation of class responsibility for deferral account balances.

The Board is, however, concerned about the impact of this change on HVF, Mainline and Interruptible Customer Classes, especially the Interruptible Class. The majority of customers in these classes are either commercial enterprises, industrial plants, government agencies, or institutional facilities. The Board recognizes that the impacts will cause a financial hardship for the commercial and industrial customers, as they were unaware of the large increase now being requested when they prepared budgets or estimated project costs. Similarly, the situation for government agencies and institutional facilities will also create significant difficulties, as pointed out by Intervenors and Presenters.

The Board will accept Centra's proposal to institute on July 1, 1999 the use of Class WACOG for the SGS and LGS customer classes, as these classes will see a cost decrease. The Board considers it to be proper and fair that these customers receive the benefits immediately, even if there is a potential for some cost increase on January 1, 2000 because of further gas price increases.

The Board will also require Centra to implement only the base rates for July 1, 1999, for the HVF, Mainline and Interruptible Classes. The Board will further direct Centra to delay the implementation of HVF, Mainline and Interruptible Classes Rate Riders, calculated using Class WACOG, until April 1, 2000. The rate riders for these customer classes are to recover their respective shares of the various deferral accounts over the 21 month period commencing April 1, 2000 and ending December 31, 2001. This will enable affected customers to better plan and budget for the impacts which will be moderated by use of a 21 month recovery period. Any carrying costs for these deferral accounts are to be recorded and recovered using Centra short-term borrowing rates for each of 1999, 2000 and 2001.

The Board also notes that, because of the different respective demand allocation factors Centra uses for its customer classes, the Interruptible Customer is in a "preferential" class. The Interruptible Class had relatively fewer demand costs allocated to it in recognition of the value of this class to Centra and to Centra's other customer classes. The Board will,

however, require Centra to fully investigate the current gas purchase environment, and the nature of its gas supply portfolio to determine if the Interruptible Class represents a greater value to Centra and the other customer classes than was determined in 1996, when the current cost allocation methodology was accepted by the Board. The Board will expect this issue to be discussed in a report to be filed at either the next GRA or in time so that any changes can be in place for the January 1, 2000 rates.

9.9 Other Matters

9.9.1 Interim Solution for Disposal of PGVA Balances

Rate stability is a principle that the Board considers when it is asked to change rates. To avoid continuous monthly rate changes the PGVA mechanism has been established. In recent years, and with variable indexed gas pricing, large balances have accumulated in this deferral account. This in turn has led to significant rate changes to recover or refund those balances. The Board has requested Centra examine options and make recommendations for the disposition of PGVA balances.

The Board appreciates Centra's attempt to resolve the matter of the PGVA disposition, which has concerned the Board for several years. The Board also recognizes that the permanent solution to this issue is dependent on several factors, including the Application for approval of a tariff for the Western Transportation Service offering which has been filed with the Board. Therefore, the proposed interim solution will, at best, only be applicable for three of four months. Centra's interim proposal advanced in this Application, is to file an interim ex-parte application for rate changes, when the projected year end balance in the PGVA is greater than $5 million. Any interim ex-parte orders issued by the Board would be further examined by any interested party at a subsequent gas cost hearing where Centra would seek to finalize such orders.

The Board will agree to the threshold of a PGVA balance of $5,000,000, but will not approve the request to deal with the matter on an interim ex-parte basis. Should the PGVA balance exceed the threshold amount, the Board will require Centra to file an application for disposition of the balance, and the Board will, at that time, determine the type of regulatory process to be followed in respect of that application.

The Board will also expect Centra to propose a permanent solution and to discuss this solution during the Western Transportation Services hearing expected to be held in the near future.

9.9.2 Demand Levels for Firm and Interruptible Customers

In response to the concerns by Accucheck, the Board will require Centra to prepare a report to address the different methods used for determining the demand levels for Firm and for Interruptible Customers. The Board will expect this report to deal with the rationale for the use of the two methods, any proposals to use a single method, including advantages and disadvantages, and the impact on rates and costs of the current system, and any proposed changes to the current system. The Board will direct this report to be filed by no later than August 31, 1999.

9.9.3 Final Approval of Order 165/98

Board Order 104/98 established rates following the GRA Order 79/98 and the follow up Order 103/98. The rates were to expire December 31, 1998, but pending a gas cost hearing which was filed in the form of this Application, Centra requested those rates continue. In Order 165/98, the Board approved on an interim ex-parte basis the continuation of the rates approved in Order 104/98. In this Application, Centra is requesting confirmation and finalization of Order 165/98.

Because the amount collected from various customer classes since January 1, 1999 will be taken into account in the calculation of the rates to be effective July 1, 1999, the Board will approve, on a final basis, Order 165/98.

10.0 IT IS THEREFORE ORDERED THAT:

1. The actual 1998 cost of gas including 1998 Capacity Management Revenue, as filed, BE AND IS HEREBY APPROVED.

2. The residual balance of 1997 Deferral Accounts, the balance of the 1998 PGVA, 1998 Heat Value Deferral Account and 1998 Rate Change Deferral Accounts, including carrying costs calculated in 1998, at Centra's overall rate of return of 8.893%, BE AND ARE HEREBY APPROVED.

3. The incremental 1998 Price Management losses as applied for by Centra to be recovered through consumer rates, together with carrying costs for 1998 and 1999, calculated at Centra's annual short term borrowing rate, BE AND ARE HEREBY APPROVED.

4. Until December 31, 1999 carrying costs, calculated at Centra's overall rate of return of 8.893%, on 1998 price management results that were previously approved by the Board in Order 79/98, BE AND ARE HEREBY APPROVED.

5. Carrying costs on all other deferral accounts for 1999 calculated at Centra's forecasted short term borrowing rate of 5.35%, BE AND ARE HEREBY APPROVED.

6. The estimated 1999 gas cost of $220,296,128, incorporating an average annual Western Canadian supply unit price of $2.74/Gj, BE AND IS HEREBY APPROVED.

7. The estimated 1999 Capacity Management Revenue of $1,000,000 to be incorporated into 1999 and 2000 rates, BE AND IS HEREBY APPROVED.

8. Centra's proposal for the additional amortization of contributions in aid of construction to offset revenue deficiencies/sufficiencies for individual classes of customers as a result of expansions, together with the requirement of a "true-up" report after an expansion project is substantially complete, BE AND IS HEREBY APPROVED.

9. The 1998 actual and the 1999 estimated SGS Rural Expansion Deferral Account balances including all carrying costs, calculated at Centra's forecast short term borrowing rate of 5.35%, to be recovered in accordance with the methodology contained in this Order, BE AND ARE HEREBY APPROVED.

10. Centra file a report respecting the impacts of the change in amortization of contributions in aid of construction by the end of the year 2004.

11. The use of Class WACOG for calculating deferral account balances, BE AND IS HEREBY APPROVED subject to phasing in the impact for High Volume Firm, Mainline and Interruptible customers as directed by the Board..

12. Centra revise and refile all applicable schedules, including the monthly allocation of 1997 and 1998 allowed price management results and carrying costs, rate impact tables and rate schedules to be effective July 1, 1999, to reflect the adjustments and directions of the Board as contained in this Order.

13. Centra's request to file an Application seeking disposition of the PGVA when the forecast balance exceeds $5 million BE AND IS HEREBY APPROVED.

14. Centra file a report dealing with the determination of demand levels for firm and for interruptible customers by no later than August 31, 1999.

15. Centra immediately request proposals for outsourcing its portfolio supply and release and resale of excess capacity and make a formal recommendation to the Board on this matter, by no later than August 31, 1999.

16. Order 165/98 BE AND IS HEREBY CONFIRMED AS FINAL.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of
Order No. 118/99 issued by
The Public Utilities Board

Acting Secretary