

MANITOBA
THE PUBLIC UTILITIES BOARD ACT

Board Order 99/01

June 15, 2001

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

**AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN
INTERIM ORDER APPROVING PRIMARY GAS SALES RATES
TO BE EFFECTIVE FOR ALL GAS CONSUMED ON AND
AFTER JUNE 1, 2001**

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Executive Summary

Natural gas is a commodity subject to market fluctuations as a result of supply and demand forces in an unregulated market. The dramatic increase in natural gas prices in Manitoba over the last year, as a result of market conditions, is consistent with the dramatic increases in natural gas prices being experienced throughout North America, caused in part by an upturn in North American demand.

Centra recovers the price paid for natural gas from their customers with no mark-up, and realizes no profit from gas cost increases. This Order addresses changes in the commodity cost of Primary Gas, which represents only a portion of the customer's total monthly bill. Other components of the bill include costs related to supplemental gas, transportation to Centra, distribution to the customers, alternate gas service, if applicable, and a basic monthly charge.

Centra utilizes a Primary Gas Purchased Gas Variance Account ("PGVA") to track the difference between the gas cost recovered from customers and the actual gas costs paid by Centra for Primary Gas. The balance in this account is discharged by way of a Primary Gas rate rider that is added to the Primary Gas base rate. The total of the two amounts is the Primary Gas sales rate that appears on a customer's bill.

Because of recent increases in the cost of gas, the PGVA balance owing to Centra by customers at February 28, 2001 was in excess of \$100 million. In this Order, the Board has approved Centra's request to create a Primary Gas Deferred Gas Recovery Account, but directed Centra to use the term Primary Gas Deferral Account. The account will be comprised of the Primary Gas PGVA balance at April 30, 2001, net of any collections from the existing rate rider to May 31, 2001.

The Primary Gas Deferral Account will be collected through a Primary Gas Deferral Rate Rider over a 24-month period. Based on a principle that all customers who created the balance should pay their fair share, the Primary Gas Deferral Account Rate Rider will be collected from all System and Buy/Sell customers of record at April 30, 2001. This rate

rider will be shown as a separate line on the customer's bill. In the interest of equity and fairness, any gas customers who signed an agreement with an Aggregator, Broker or Marketer ("ABM") prior to April 30, 2001 but had not been converted, will be subject to this rate rider.

The Board directed Centra to modify the existing Rate Setting Methodology to incorporate 100% of the change between the 12-month forward price for Western Canadian supplies, weighted for the cost of gas in storage, and the existing Primary Gas sales rate. With the move to a 100% inclusion rate, changes in the commodity price of natural gas will be passed through to Centra's rates on a more timely basis, and Primary Gas sales rates will be more reflective of current market rates. Centra's customers can achieve some degree of bill stability through the use of Centra's existing Budget Billing Plan.

The Board has denied Centra's request for any change in Primary Gas sales rates to be effective June 1, 2001. Any changes in Primary Gas sales rates as a result of this Order will be included in Centra's application for sales rates to be effective for all gas consumed on and after August 1, 2001.

Sommaire

Le gaz naturel est un produit sensible aux fluctuations du marché qu'entraînent les forces de l'offre et de la demande dans un marché non réglementé. Au Manitoba, la hausse phénoménale des prix du gaz naturel au cours de la dernière année, découlant des conditions du marché, va de pair avec les hausses tout aussi importantes des prix du gaz naturel enregistrées en Amérique du Nord et causées, en partie du moins, par l'augmentation de la demande en Amérique du Nord.

Centra récupère le prix payé par leurs clients pour le gaz naturel sans majoration et ne réalise aucun bénéfice provenant des hausses du coût du gaz. Ce décret vise les changements apportés au coût des services publics de gaz primaire, qui ne représentent qu'une partie de la facture mensuelle totale pour le client. D'autres éléments s'ajoutant à cette facture comprennent les coûts du gaz d'appoint, les frais de transport chez Centra, les frais de distribution chez les clients, le service du gaz de remplacement, le cas échéant, et un tarif mensuel de base.

Centra utilise un compte d'écarts Gaz primaire acheté (« PGVA ») afin de comptabiliser l'écart entre le coût du gaz récupéré des clients et les coûts réels du gaz payés par Centra pour le gaz primaire. La différence de cette comptabilisation est acquittée par un supplément de tarif qui est ajouté au tarif de base du gaz primaire. La somme des deux montants représente le prix de vente du gaz primaire apparaissant sur la facture d'un client.

En raison des récentes hausses des coûts du gaz, le solde du compte PGVA dû par les clients à Centra, en date du 28 février 2001, excédait 100 millions de dollars. Par ce décret, la Régie a approuvé la demande de Centra visant à créer un Compte de reprise différée Gaz primaire, en lui indiquant toutefois d'utiliser le terme Compte de gaz primaire reporté. Le compte comportera le solde PGVA du gaz primaire au 30 avril 2001, exempt de tout recouvrement provenant d'un supplément de tarif existant jusqu'au 31 mai 2001.

Le recouvrement du Compte de gaz primaire reporté sera effectué par le biais d'un supplément de tarif échelonné sur une période de 24 mois. En partant du principe que tous les clients qui ont participé à la création de ce solde devraient payer leur juste part, le recouvrement du supplément de tarif du Compte de gaz primaire reporté sera effectué auprès de tous les clients Systèmes et Achat/Vente au dossier en date du 30 avril 2001. Ce supplément de tarif sera indiqué sur une ligne distincte sur la facture du client. Dans un souci d'équité et de justice, ce supplément de tarif visera tous les clients qui auront conclu une entente non convertie avec un revendeur, un courtier ou un distributeur avant le 30 avril 2001.

La Régie a exigé que Centra modifie la méthodologie actuelle d'établissement des tarifs afin d'y inclure 100 % des fluctuations entre le prix à terme de 12 mois pour les approvisionnements de l'Ouest canadien, pondéré par le coût du gaz entreposé, et les tarifs actuels du gaz primaire. Avec un taux d'inclusion de 100%, les fluctuations du prix à la consommation du gaz naturel se répercuteront sur les tarifs de Centra sur une base plus opportune, et les tarifs du gaz primaire à la consommation reflèteront plus précisément les tarifs actuels du marché. La clientèle de Centra pourra bénéficier d'une certaine stabilité de sa facturation par l'utilisation du régime de versements égaux existant de Centra.

La Régie a rejeté la demande de Centra concernant toute modification du prix à la consommation du gaz primaire entrant en vigueur le 1^{er} juin 2001. Toute modification apportée au prix à la consommation du gaz primaire en raison de ce décret sera incluse dans la demande de Centra pour les prix à la consommation en vigueur pour tout le gaz consommé le et après le 1^{er} 2001.

1.0 Appearances

R. Peters S. Berthaudin	Counsel for The Manitoba Public Utilities Board ("the Board")
M. Murphy B. Zarnicki	Counsel for Centra Gas Manitoba Inc. ("Centra")
B. Meronek, Q.C. K. Saxberg	Counsel for Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors Inc. ("CAC/MSOS")
D. Brown	Municipal Gas, a division of Direct Energy Marketing Limited ("Municipal Gas")

2.0 Witnesses for Centra

G. Neufeld	Consultant, Former Manager, Gas Forecasts Department, Centra
G. Meyer	Manager, Rates Department, Centra
M. Kast	Manager, Gas Supply Services, Centra
V. Warden	Chief Financial Officer, Vice President, Finance & Administration, Manitoba Hydro
R. Feingold	Consultant, Navigant Consultants Inc.

3.0 Intervenors of Record

Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors Inc.
("CAC/MSOS")

Municipal Gas, a division of Direct Energy Marketing Limited

Communications, Energy and Paperworkers Union, Local 681 ("CEPU")

G. Finkle

4.0 Witnesses for CAC/MSOS

G. Forget Consultant

J. Todd President, Econalysis Consulting Services Inc.

5.0 Witnesses for Municipal Gas

C. MacMillan Senior Vice President Market Operations,
Direct Energy Marketing Limited

B. Soutiere Senior Vice President Canadian Marketing,
Direct Energy Marketing Limited

K. Melnychuk Manager, Manitoba Region, Municipal Gas,
a division of Direct Energy Marketing Limited

6.0 Presenters

A. Cerilli President, The Manitoba Federation of Union Retirees

T. Ducharme People in Equal Participation Inc.

S. Horyski Citizen

T. Nicholson Project Coordinator, West Centra Gas Committee

K. Silvera Citizen

7.0 Background

Natural gas is a commodity subject to market fluctuations as a result of supply and demand forces in an unregulated market. The dramatic increase in natural gas prices over the last year results from current market conditions, and is a North American phenomenon, in part caused by an upturn in North American demand.

Centra recovers the price paid for natural gas from their customers with no mark-up, and realizes no profit from gas cost increases. The commodity cost of Primary Gas represents only a portion of the customer's monthly bill. Other components of the bill include costs related to supplemental gas, transportation to Centra, distribution to the customer, alternate gas service, if applicable, and a basic monthly charge.

In Order 55/00 dated April 17, 2000, The Public Utilities Board (the "Board") implemented a mechanism to respond to frequent changes in the cost of Primary Gas by approving a Rate Setting Methodology ("RSM") whereby the sales rate of Centra Gas Manitoba Inc. ("Centra") for Primary Gas would be adjusted at the beginning of each gas quarter to reflect:

1. 50% of the difference between the updated 12-month forward price for Western Canadian supplies of natural gas, weighted for the cost of gas in storage, and the Primary Gas Sales Rate set in the previous quarter; and
2. A rate rider to dispose of the estimated accumulated Primary Gas Purchased Gas Variance Account ("PGVA") over the next 12 months of forecast volume.

The Rate Setting Process approved by the Board requires Centra to file its application during the first week of the month prior to the commencement of each gas quarter

(February 1, May 1, August 1, and November 1) and to provide public notice during the second week of the month. The Board may conduct either a “paper hearing” or an oral hearing in respect of the Application, and is requested to approve the sales rates prior to the commencement of that gas quarter.

The Board has approved three interim Primary Gas rate changes effective August 1, 2000, November 1, 2000, and February 1, 2001 pursuant to the RSM.

8.0 The Application

This application deals only with the Primary Gas cost component of the sales rate on the customer's bill. Centra filed a separate application for a change in Non-Primary gas costs to be effective for all gas consumed on and after June 1, 2001. The Board's decisions on that application are set out in Order 91/01 dated June 6, 2001.

On March 23, 2001, Centra applied to the Board for approval of interim sales rates to be effective June 1, 2001 and to remain in effect until a further Order of the Board. Because the Primary Gas PGVA balance was in excess of \$100 million, Centra modified its application from the RSM to deal with the recovery of this unexpectedly large balance.

Because of Centra's requested modification to the RSM, the Board decided that a public hearing was necessary to allow for the appropriate public input. To accommodate the public hearing process, Centra revised their standard application to reflect an implementation date of June 1, 2001 instead of May 1, 2001. Specifically, Centra requested approval of the following:

1. A Primary Gas Base Rate that reflects 50% of the difference between the current 12-month forward price for Western Canadian supplies as of May 8, 2001, weighted for the cost of gas in storage, and the cost of Primary Gas embedded in the current approved sales rates, calculated in accordance with the RSM approved in Board Order 55/00;
2. To transfer the balance of the PGVA as at February 28, 2001 into a separate deferral account, to be called the Deferred Gas Recovery Account ("DGRA");

3. To apply the revenue from the existing Primary Gas Rate Rider for the period March 1, 2001 to May 31, 2001 to the DGRA;
4. A Primary Gas Rate Rider to dispose of the balance of the Primary Gas PGVA that accumulated between March 1 and April 30, 2001 over a 12-month period. This rate rider would only apply to Centra's system customers and Buy/Sell supply customers; and
5. A Deferred Gas Recovery Rider ("DGRR") to dispose of the net balance of the DGRA as at May 31, 2001, over a 24-month period commencing June 1, 2001. This rate rider would apply to all customers, with the exception of the WTS customers of record at February 28, 2001.

A public hearing was held May 14 - 18, 2001 and final argument was heard on May 24, 2001.

9.0 Primary Gas Billed Rate Components

The components of the existing Primary Gas billed rate compared to the components of the proposed June 1, 2001 billed rate, based on the 12-month forward price strip at May 8, 2001, are as follows:

Primary Gas Billing Components	February 1, 2001 Approved Rate (\$/cubic metre)	June 1, 2001 Proposed Rate with Deferred Gas Recovery Rider (\$/cubic metre)
Primary Gas Base Rate	0.2577	0.2493
Gas Overhead	0.0005	0.0005
TCPL Fuel Component		0.0056
Primary Gas PGVA Rate Rider	0.0340	0.0052
	0.2922	0.2606
Primary Gas DGRR		0.0325
Primary Gas Billed Rate	0.2922	0.2931

9.1 Primary Gas Base Rate

Centra's application for a change in Primary Gas base rate is based on 50% of the change in gas cost, consistent with the RSM, and includes no change to the inclusion rate used in previous filings. Centra stated that modifying the RSM to a 100% inclusion rate and/or monthly updates was market responsive but did not address the magnitude, frequency or oscillation of rate changes, nor was rate volatility necessarily reduced. Centra added that no empirical evidence or research has been provided by any intervenors to support the

view that consumers are prepared to accept the volatility associated with monthly rate adjustments.

The current approved Primary Gas Base Rate is \$0.2577 per cubic metre. The Application reflects 50% of the change between that amount and the current 12-month forward price for Centra's Western Canadian supplies as at May 8, 2001 of \$6.617/Gigajoule ("Gj"), adjusted for Centra's new gas supply contract arrangements with TransCanada Energy Ltd. ("TCE").

At the time of this application, Centra had not placed any forward hedges for volumes related to Western Canadian supplies from May 1, 2001 to April 30, 2002. Centra added that while no transactions have yet been placed for the current gas year, Centra may place transactions in the future. Therefore, the proposed Primary Gas rate, when weighted for storage gas, was \$6.595/Gj (\$0.2493 per cubic metre) which was \$0.223/Gj lower than the \$6.818/Gj cost currently embedded in sales rates.

9.2 TCPL Fuel Component

An additional cost component of \$0.0056 per cubic metre has been added to the Primary Gas Base Rate commencing June 1, 2001 to reflect fuel costs from Alberta to Manitoba. This component was previously included in the Transportation rate. This component is a reclassification and does not result in any overall rate change for System or Buy/Sell customers.

9.3 Primary Gas Rate Rider

Centra requested approval to implement a rate rider to recover the PGVA balance at May 31, 2001, estimated to be \$11.3 million owing to Centra, over the next 12 months

Primary Gas normalized volumes of 1,563,611 thousand cubic metres. Centra calculated the required rate rider to be \$0.0052 per cubic metre.

To ensure that the Primary Gas PGVA did not exceed acceptable levels in the future, Centra proposed to monitor the Primary Gas PGVA balance on a monthly basis, and if the balance in the PGVA was expected to exceed \$25 million, Centra would advise the Board immediately and suggest an appropriate course of action.

9.4 Primary Gas Deferred Gas Recovery Account (“DGRA”)

During proceedings resulting in Order 55/00, Centra provided evidence that the RSM was effective under normal market conditions. However, over the last several months, the natural gas markets have not been normal, and have experienced large increases in the commodity cost of gas. As a result of these market increases, the Primary Gas PGVA has grown to \$104.6 million at February 28, 2001.

Centra was of the view that in recovering this unexpectedly large balance, customers that caused the costs in building up the PGVA balance should be responsible for paying those costs. Therefore, recovering the DGRR from all customers was, in Centra’s view, the most fair and equitable way to collect the balance. Centra noted that most WTS customers at February 28, 2001 had converted to WTS service prior to November 2000, and that the largest build-up in the PGVA occurred after that time.

Centra therefore requested that the DGRR be based on the transfer of \$104.6 million as at February 28, 2001 from the Primary Gas PGVA to the DGRA, and be recovered from all system customers as of that date. Centra also proposed that this balance be reduced by applying the revenue from the existing Primary Gas PGVA rider for the period March 1, 2001 through May 31, 2001. The net balance, adjusted for the inclusion of carrying costs, is estimated at \$94.4 million as at May 31, 2001.

The DGRR has been calculated at \$0.0325 per cubic metre to amortize the \$94.4 million balance over 24 months starting June 1, 2001. Centra proposed that the DGRR will be applied to all customers, with the exception of WTS customers of record as at February 28, 2001. Any system customer who switches to WTS subsequent to March 1, 2001 will be subject to the rider. As well, any WTS customers who subsequently return to Centra's system supply over the course of the 24-month recovery period will be subject to the rider, from the date of their return forward. Centra added that the extension of the rate rider to a 36-month period would decrease rates by only 1.1%. Centra believes that a 3 or 6 month recovery period would also be inappropriate as rate volatility would increase, rate comparisons would not be possible, and seasonal variations in consumption would result in an element of unfairness to customers.

Centra stated that there were approximately 6,200 customers waiting to convert to WTS service as of April 1, and approximately 4,000 customers enrolled between April 1, 2001 and April 30, 2001. In its evidence, Centra provided a number of scenarios to determine the bill impact to remaining system customers if new WTS customers were permitted to leave system supply with no obligation to pay the DGRA. Centra estimated the average residential customer's annual bill would increase by approximately \$32 if 71,300 SGS

and LGS customers and 40% of the HVF and Interruptible customers, based on volume, were to convert to WTS without responsibility for the DGRA.

Centra proposes to recover the DGRA on a volumetric basis. Centra noted that Primary Gas costs are incurred and recovered strictly on a volumetric basis and supplied to all customer classes on the same unit cost basis. In addition, a significant portion of the Primary Gas PGVA was accumulated in December 2000 and January 2001, at a time when SGC consumption is greater than during summer months. Therefore, allocation of the DGRA by customer class would not be appropriate because it would unfairly increase the amount paid by SGC customers. Centra also stated that billing the DGRR based on average monthly volumes presented a number of administrative difficulties. Centra also pointed out that equal monthly payments were available through the existing Budget Billing Plan.

In considering options to recover the DGRA, Centra did contemplate the use of exit fees. However, Centra rejected this alternative because it was difficult to determine the appropriate fee to be paid by specific customers or customer classes, taking into account factors such as consumption, length of time on the system, and when the balance was accumulated. In addition, customers would be required to make a lump sum payment on exiting the system, which could be onerous for some customers, and could be interpreted as a penalty which might impede the development of WTS.

Centra also considered the use of a recovery rider which would dispose of the deferred balances each quarter to be recovered from all customers except those WTS customers of record at the start of that quarter. This procedure could result in four separate rate riders at any given time. In Centra's view, this procedure would be difficult to understand, and be administratively complex.

Centra acknowledged that there is no guarantee that unusual market circumstances, such as the dramatic market increases witnessed over the last several months, would not occur again. However, a large build-up in the PGVA balance in the future could be prevented if it were closely monitored.

9.5 Evidence of Russell Feingold

Mr. Feingold stated that the RSM is intended to moderate the impact of changes in the cost of Primary Gas and is working as intended. The RSM results in Primary Gas prices that are lower than the market when prices are rising, and higher than the market when prices are falling. Mr. Feingold stated that there is no demonstrated reason to change the fundamental structure of the RSM, and it should be allowed to perform its intended function. He expressed the view that the significant balance in the PGVA at February 28, 2001 is a result of highly unusual and dramatic increases in market prices of gas, and is not the result of any failure of the RSM.

Mr. Feingold stated that the PGVA balance should be recovered from the customers that cause the costs, and customer impacts should be considered when rates are changed. Large PGVA balances are not beneficial to Centra or to its customers. Therefore, the approved Rate Setting Process should include special rules, including the opportunity for a one-time rate adjustment in each quarter if the PGVA balance shows evidence of growing beyond an acceptable limit. The process should allow short lead times to adapt to rapidly changing market conditions. Any such change would be considered at the subsequent quarter to allow for public input and Board review.

10.0 Impact on Rates

Centra calculated customer rate impacts based on the recovery of the PGVA over 12 months, as approved in Order 55/00, as well as the impact of the proposed application which recovers the DGRA over 24 months. The table below summarizes the increases to the annual natural gas bills of different customer classes for each approach.

Annualized Percentage Increase in Customer Bills

	RSM Methodology Approved in 55/00	Proposed Methodology including DGRR
SGS	6.3 to 6.8	0.2 to 0.2
LGS	6.6 to 8.0	0.2 to 0.2
HVF	7.8 to 8.3	0.2 to 0.2
Mainline	8.1 to 8.8	0.2 to 0.3
Interruptible	8.0 to 8.5	0.2 to 0.3

Centra stated that price transparency would be maintained as the DGRR would be a separate line item on the bill and the amount would be clearly visible to both the system and the direct purchase customers. A shorter recovery time would increase market responsiveness. However, due to the unprecedented rise in natural gas prices, which contributed to the extraordinary large PGVA, a longer recovery period will balance the need for market responsiveness with customer sensitivity to rate volatility.

Centra stated that the recovery method was equitable and did not anticipate that brokers' marketing or competition would be adversely impacted by the existence of the DGRR. All customers who caused the balance are affected equally regardless of who supplies their Primary Gas. Customer growth and decline over the proposed two-year recovery

period is expected to be minimal. Therefore, potential inter-generational issues would be minimal.

Centra submitted, in response to evidence filed by CAC/MSOS, that the inclusion of the forward price curve on the customers bill would be of questionable value because it would not reflect the impact of hedging, the billing cycle will prevent current market information, and the information on one customer's bill may differ from another depending on the billing cycle. Centra is reviewing the possibility of a quarterly bill insert containing market information to help inform customers.

11.0 Intervenor's Positions

11.1 CAC/MSOS

CAC/MSOS stated that consumers appreciate anything that can be done to minimize the burden associated with the recovery of the PGVA. Therefore, Centra's request to dispose of the DGRA over a two-year period had the full endorsement of CAC/MSOS.

CAC/MSOS recommended that the Board order Centra to recover the DGRA on a customer specific basis. CAC/MSOS submitted that customer specific recovery eliminates virtually all of the inequities identified during this proceeding. CAC/MSOS asked the Board to consider whether the cost of implementing customer specific recovery, estimated to be in the range of \$2-2.5 million, provides value if it solves the numerous inequities that result in the current system.

CAC/MSOS' general position is that those who incurred the costs should pay those costs. However, CAC/MSOS submitted that it is clear that the current regulatory scheme did not hold WTS customers accountable for the PGVA balance. Therefore, in the interest of

fairness, CAC/MSOS recommended that all customers that had gas flowing under WTS Service as of the date of the Order should be exempt from the DGRR. Customers that do not have gas flowing under WTS Service but have signed contracts should be advised as to the change in rules and given the option to remain with system gas or convert to WTS.

CAC/MSOS strongly disagrees with Centra's contention that the RSM is working and should be retained. In the view of CAC/MSOS, the RSM has been a complete failure. In order to encourage and promote competition for the sale of gas, it is essential that Centra's rate be market responsive. The best mechanism is the one that does not need to be adjusted if the market does not perform as anticipated or expected. Therefore, CAC/MSOS recommended amending the RSM to use a 100% adjustment of the difference between the gas cost included in the existing sales rate, and the current market price, on a monthly basis. CAC/MSOS suggested that a separate hearing be conducted to determine the process for the setting of rates on a monthly basis.

11.1.1 Evidence of John Todd

Mr. Todd provided evidence on behalf of CAC/MSOS, and made the following recommendations:

1. The frequency of updating the Primary Gas rate should be increased from quarterly to monthly.
2. The change in the cost of gas embedded in Primary Gas rates should be increased from 50% to 100% of the difference between the updated 12-month forward price curve (adjusted for the cost of gas in storage) and the sales rate set in the previous quarter.

3. The PGVA balance should normally be cleared over 12 months, with the caveat that the period can be extended to 24, or even 36 months, if the balance is large enough that the rate rider will compromise the market responsiveness of Primary Gas rate. Centra's proposal to recover the DGRA through a 24-month DGRR would be consistent with this policy.
4. Customers that switch to WTS should be required to pay the DGRR, as proposed by Centra.
5. Consideration should be given to implementation of an on-going DGRA/DGRR mechanism if the current RSM is not amended as proposed in the preceding recommendations. However, an on-going DGRA/DGRR is unlikely to be necessary if the frequency of updating the Primary Gas rate and the rate rider is increased to monthly and the Primary Gas rate is adjusted fully to reflect current forecast costs.
6. Rate riders should be billed to customers on the basis of their average monthly volume over the year.
7. Centra should amend its bill format to distinguish between the two Primary Gas lines on the bill by including the dates during which each rate applies.
8. Centra should amend its bill format by showing, in large typeface, the most current forecast of the cost of gas (the updated 12-month forward price curve, weighted for the cost of gas in storage).

Mr. Todd added that recovering the balance of the PGVA/DGRA from only system and Buy/Sell customers would not result in a level competitive playing field. Competitors

would have an artificial advantage in that customers could avoid their share of the deferred gas costs by switching to WTS.

Mr. Todd suggested an alternative whereby a DGRR would be calculated each quarter to ensure that customers pay their fair share. However, this alternative would be administratively complex given that more than one rate rider would need to be calculated.

11.1.2 Evidence of Gerard Forget

Mr. Forget provided evidence on behalf of CAC/MSOS, and recommended that the rate rider should be allocated by customer class based on historical volumes. The rate rider should be calculated based on expected future normalized volumes. Each customer class would be responsible for the collection of the PGVA balance allocated to that group. Any customer leaving the system will have to pay an exit fee. Balances in the PGVA related to bankrupt customers would be allocated to all customers under his proposal.

Mr. Forget recommended that 100% of the price changes be included in rates and the adjustment be made once a month, only if the new price reflects an increase or decrease of more than 5%.

11.2 Municipal Gas' Position

Municipal Gas suggested that the Board consider market responsiveness as the first principle in its decision process; the second principle should be price transparency; the third principle should be a need for regulatory stability; and the fourth principle should be the implementation of fair transitional rules to any new RSM for the Primary Gas.

Municipal Gas submitted that the RSM is not accomplishing these principles as established in Order 55/00 and should be amended as follows:

1. Primary Gas rates should be adjusted monthly and incorporate 100% of the cost differential between the current rate and the forecast twelve-month (12) price strip.
2. Any differences between the actual cost and the recovered cost of Primary Gas should be tracked and dealt with in a "Primary Gas Deferral Account." Any deferral account for Primary Gas costs should not be called by a new name such as the DGRA, but should be labelled Primary Gas Deferral Account.

Looking forward, the Primary Gas Deferral Account should be recovered over a shorter time period, say six (6) months, in order to avoid inter-generational inequities and the incurrence of large carrying costs.

In the future, the Primary Gas PGVA should be recovered from customers in one of two ways:

1. From only system customers on the basis that over the long term, migrations to and from system gas and direct purchase would balance each other out and the PGVA balance would be small; or

2. From both system customers and migrating customers who were system customers as of the date of disposition of the PGVA, on the basis that the customers who caused the costs should pay for the costs.

Any new mechanism, special adjustment or rate rider for the Primary Gas PGVA should be avoided. The RSM should be designed to minimize the risk of the accumulation of a large PGVA balance and the need for periodic ad hoc adjustments.

Municipal Gas proposed that any customer who has filed an application with the utility through a broker to migrate to WTS prior to one (1) month following the Board's release of its Order in this proceeding should not be responsible for the DGRR. Municipal Gas submitted that this one (1) month period would allow time to notify consumers of the change, would allow brokers to make any necessary changes to their marketing materials to reflect the Board's decision, and would be fair in that those customers who have filed WTS applications over the last few weeks are not unfairly penalized due to the utility's administrative rule.

Municipal Gas cautioned the Board that if the PGVA reaches a significant level, then the customers' proportionate share of the PGVA could reach punitive levels. A responsibility on departure rule might then be a prohibitive barrier to customers that wish to change their supplier of choice.

Municipal Gas submitted that after May 1, 2000, any customer who left system supply was not held responsible for any amount in Centra's Primary Gas PGVA. While the Board did not specifically write down such a regulatory rule, Municipal Gas was of the

opinion that it has been clear from the Application of Order 55/00 that the responsibility for any Primary Gas PGVA balance remained with system gas customers.

Municipal Gas added that in its opinion, the PGVA does not represent a legal debt owed to the utility by departing customers. However, the Board has statutory power to make this balance a legal debt of departing customers.

11.2.1 Evidence of Colin MacMillan, Brian Soutiere, and Karen Melnychuk

Colin MacMillan, Brian Soutiere and Karen Melnychuk provided evidence on behalf of Municipal Gas, and strongly opposed the Application for the following reasons:

1. The creation of the DGRA would represent a major step back from the principles of price transparency advocated by the Board in Order 19/00 and would significantly obscure the transparency of Primary Gas costs;
2. Creating a DGRA would confuse natural gas customers by using a new label to describe costs incurred in the purchase of Primary Gas; and
3. By splitting Primary Gas cost into three categories, competition in the sale of natural gas will be hindered because consumers will not be able to easily make “apples to apple” comparisons between offerings of Centra compared to offerings of licensed ABMs.

The witnesses strongly objected to Centra’s proposal to recover the DGRA over a 24-month period from all natural gas customers except WTS customers of record as at

February 28, 2001. The witnesses argued that Centra seeks to overturn the Board's decision in Order 19/00 and apply rate-making principles retroactively.

The witnesses believe that the concerns Centra has voiced about large Primary Gas PGVA balances should be addressed through periodic rate changes which pass on a larger portion of increased gas costs, through more frequent reductions in the Primary Gas PGVA, or through the creation, prospectively, of exit fees which fairly reflect a departing customer's pro rata share of any accumulated amounts in the Primary Gas PGVA.

The witnesses expressed concern about the timing of Centra's application which appears to coincide with marketing campaigns by Municipal Gas to sign up additional WTS customers.

12.0 Presenters' Positions

12.1 A. Cerilli

Mr. Cerilli reminded the Board of the hardships faced by seniors, families, health care organizations, educational organizations and the business community as a result of the increases in heating fuels. Mr. Cerilli was surprised that Centra is before the Board applying for yet another rate increase. He requested that the Board provide some relief to the consumers of natural gas by disallowing Centra's request for a rate increase. He requested that Hydro, Centra and the Board do all they can to find solutions on a national and international basis to manage rising energy prices.

12.2 T. Ducharme

Ms. Ducharme cited the benefits of natural gas and stated that the consumers of Manitoba depend on this fuel. However, the repeated gas rate increases are creating hardships and increasing the stress levels of consumers. By allowing the PGVA to build to its current balance, Centra has added to the problem. She stated that a solution will only be found when all interested parties work together.

12.3 S. Horyski

Ms. Horyski opposed Centra's Application to increase rates. She stated that Manitobans are struggling to pay current gas prices. Consumers have to make choices between purchasing food and medicine, and paying their heating bills. She added that businesses in Manitoba are filing for bankruptcy as a result of the increases in natural gas. She asked that Centra consider all sources of natural gas, not just Alberta sources. She requested that the Board protect the consumer within the scope of its jurisdiction.

12.4 T. Nicholson

The West Central Natural Gas Committee stated that it had been informed that Centra had requested that new customers be included in paying off the deficit incurred in the deferral account when natural gas prices increased during the winter of 2000/01. He stated that this treatment is not fair because new customers did not contribute to the balance. Being part of a group trying to promote the expansion of natural gas into his region, he was are concerned that this additional cost will make his job more difficult when trying to sign up customers, especially when rates are already considerably higher than they were a year ago. He requested the Board rule against Centra's request.

12.5 K. Silvera

Ms. Silvera was outraged by the recent price increases of natural gas. She stated that many Manitobans will lose their homes and businesses. She urged the Board to take quick action to deal with this issue.

13.0 Board Findings

General

In arriving at its decisions in Order 55/00, the Board accepted Centra's assessment of Rate Setting Methodology ("RSM") alternatives, and agreed with Centra that the proposed RSM was best suited at that time to meet the needs of Centra's customers and the marketplace. It was expected that customers would be exposed to normal market conditions and rate changes, both upward and downward. Nobody expected the severe increases in the market price of natural gas that were experienced during the winter of 2000/2001.

The Board remains of the view that the ability of the customer to see the rate paid for Primary Gas on the bill is a precondition for a competitive market. Price transparency must be a significant consideration of any RSM. The Board also considered market responsiveness to be a primary consideration followed by concern for the frequency and oscillation of rate changes, the magnitude of those rate changes, and finally, simplicity of implementation.

Deferred Gas Recovery Account ("DGRA")

The existing RSM cannot effectively dispose of the large PGVA balance without undue hardship to customers, and additional steps must be taken. As such, the Board will approve Centra's request to establish the DGRA. This account will be comprised of the balance in the PGVA at April 30, 2001, net of any collections from the existing Primary Gas rate rider to May 31, 2001.

The Board accepts the view expressed by Centra, CAC/MSOS and their witnesses that customers who have created the balance in the DGRA should pay a fair share of the balance. As such, the Board will direct Centra to collect the DGRA from all System and Buy/Sell customers as at April 30, 2001, through the implementation of a Deferred Gas Rate Rider ("DGRR"). Only WTS customers of record as of April 30, 2001 will be excluded from the rate rider. A substantial number of these WTS customers were WTS customers prior to the commencement of the heating season, and as a consequence, did not contribute to the build-up of the DGRA balance. As new and returning customers to system supply after April 30, 2001 also did not create the existing DGRA balance, the Board will direct Centra to also exempt these customers from payment of the DGRR.

The Board understands that there were System customers at April 30, 2001 that had signed agreements prior to that date with ABMs to change their supplier for Primary Gas. As these customers contributed to the balance of the DGRA, they should be held responsible for their fair share of the balance to maintain equity and fairness. Municipal Gas gave evidence that these customers will be provided with updated information and given the option to reconsider their decision to change supplier. The Board supports this initiative.

The Board was not convinced that allocating the DGRA balance by customer class would be beneficial to the consumers of Manitoba. The Board remains of the view that the current methodology of recovering amounts from customers based on volumes is most appropriate for the collection of both the DGRA and the PGVA.

The Board is aware of the difficulties Manitobans have faced over the past winter in dealing with rising natural gas prices. The Board is of the view that a 24-month collection period proposed by Centra will help ease the burden of this additional rate

rider. The Board will therefore approve collection of the DGRR over a 24-month period, beginning on August 1, 2001 and terminating once the balance is collected, no later than July 31, 2003.

During the hearing, the Board heard evidence that the use of the term “Deferred Gas Recovery Rider” would not allow customers to identify this item as a Primary Gas component. The Board believes the term “Primary Gas Deferral Account” will help reduce the confusion of customers. Therefore, the Board will direct Centra to use this term on customer bills, and all other communications. The Board also encourages Centra to use bill inserts to explain this new item on the customer’s bill. The information given should provide the reasons for the implementation of the Primary Gas Deferral Account and explain how it will be collected.

Information regarding market pricing is helpful to customers in making informed choices about their natural gas purchases. The Board recommends that Centra, using bill inserts and other means of communication, provide regular updates to customers regarding the natural gas markets.

Rate Setting Methodology (“RSM”)

Because of the dramatic increase in gas prices over the past several months, the use of the 50% inclusion rate was a key factor in the resulting large PGVA balance. Moreover, in rapidly rising or falling markets, the 50% inclusion rate obscures price transparency and market responsiveness, which ultimately has a negative impact on competition in Manitoba. Therefore, the Board will direct Centra to use a 100% inclusion rate in the determination of the August 1, 2001 Primary Gas rate and thereafter.

The use of the 100% inclusion rate should help to prevent future large accumulations in the PGVA. However, the Board wishes to remind Centra that it must monitor this balance closely to prevent large future balances. The Board will monitor the results each quarter in the context of the marketplace.

Under the assumption that the PGVA balance will be small in the future and the inflows and outflows of customers to and from System supply will offset, the Board will direct Centra to collect future PGVA balances from System and Buy/Sell customers.

In order to increase the level of market responsiveness, the Board is of the view that the RSM should include the estimated PGVA balance to the end of the gas quarter going forward. Therefore, the required PGVA rider, to be effective August 1, 2001, should be calculated using the estimated PGVA balance to July 31, 2001.

Monthly updates would increase the market responsiveness of Centra's rates. However, the Board is of the view that this would result in an administratively complex process. Therefore, the Board regards the existing quarterly process as most appropriate at this time.

The Board is of the view that the PGVA balance and market conditions should be monitored on a monthly basis to determine if special action is required. Therefore, the Board will direct Centra to file a report with the Board on a monthly basis indicating the current PGVA balance.

The Board is concerned that the 12-month forward strip may not best indicator of the average cost that will be paid by Centra for the subsequent gas quarter. Therefore, the Board will direct Centra to examine alternatives to this indicator and provide a report

detailing these alternatives along with Centra's proposed recommendation to the Board with its next quarterly filing.

Derivative Hedging

As stated in Order 91/01, the Board is concerned that Centra has become dependent on the RSM to manage volatility. The Board encourages Centra to consider derivative hedging transactions to manage volatility as contemplated in its Derivative Hedging Policy.

The Board is of the view that Derivative Hedging transactions do not have to correspond to the gas year. Therefore, the Board encourages Centra to evaluate its hedging options on an ongoing basis.

Bill Stability

The natural gas market can be subject to large fluctuations in the commodity price. With a move to a 100% inclusion rate, these price fluctuations will be passed through to Centra's sales rates, and customers might experience more volatility in their monthly gas bills. However, customers can achieve a degree of bill stability through the use of Centra's Budget Billing Plan.

The Board encourages Centra to continue to promote the use of the Budget Billing Plan to customers. The Board sees bill inserts as the best medium to communicate this option, but cautions Centra that these inserts must be generic, factual and not impede competition in the Manitoba Primary Gas market.

14.0 It Is Therefore Ordered That:

1. The Application by Centra for an interim order approving Primary Gas sales rates to be effective for all gas consumed on and after June 1, 2001 BE AND IS HEREBY DENIED.
2. Existing Primary Gas sales rates shall remain in effect until August 1, 2001.
3. Centra shall transfer the balance of the Purchased Gas Variance Account (“PGVA”) as at April 30, 2001 into a separate account, to be called the Primary Gas Deferral Account, net of collections from the existing Primary Gas Rate Rider to May 31, 2001;
4. Centra shall determine a Primary Gas Deferral Account Rate Rider to dispose of the net balance of the Primary Gas Deferral Account over a 24-month period commencing August 1, 2001. This rate rider will apply to all customers, with the exception of WTS customers at April 30, 2001;
5. Centra shall determine Primary Gas base rates to be effective August 1, 2001 to reflect 100% of the difference between the current 12-month forward price for Western Canadian supplies, weighted for the cost of gas in storage, and the cost of Primary Gas embedded in the current approved Primary Gas sales rates;
6. Centra shall determine the Primary Gas Rate Rider to be effective August 1, 2001 to dispose of the estimated balance in the Primary Gas PGVA that accumulated between May 1, 2001 and July 31, 2001, net of collections from the existing Primary Gas Rate

Rider from June 1, 2001 to July 31, 2001, over a 12-month period. This rate rider will apply to Centra's system customers and Buy/Sell supply customers;

7. Centra shall file a report on a monthly basis indicating the current Primary Gas Purchased Gas Variance Account balance and the current Primary Gas Deferral Account balance.
8. At the next quarterly rate application, Centra shall file a report with the Board that details alternatives to the use of the 12-month forward price for Western Canadian supplies, including a proposed recommendation.

THE PUBLIC UTILITIES BOARD

“G. D. Forrest”

Chairman

“G. O. Barron”

Secretary

Certified a true copy of
Order No. 99/01 issued by
The Public Utilities Board

Secretary