

MANITOBA

THE PUBLIC UTILITIES BOARD ACT

Order No. 77/02

May 3, 2002

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

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN INTERIM ORDER APPROVING:

- 1. PRIMARY GAS SALES RATES TO BE EFFECTIVE FOR ALL GAS CONSUMED ON AND AFTER MAY 1, 2002.**
- 2. THE REMOVAL OF EXISTING RATE RIDERS IMPOSED ON JUNE 1, 2001 PURSUANT TO BOARD ORDERS 91/01 AND 94/01 FOR SUPPLEMENTAL GAS, TRANSPORTATION TO CENTRA AND DISTRIBUTION TO CUSTOMER RATES**

Executive Summary

Centra Gas Manitoba Inc. (“Centra”) applied to the Public Utilities Board (“the Board”) on March 26, 2002 for approval of increased Primary Gas sales rates to be effective May 1, 2002. The application was made pursuant to the current Rate Setting Methodology approved by the Board in the year 2000 by which Primary Gas sales rates are adjusted at the end of each quarter, based on the updated 12-month forward price for natural gas and the estimated Primary Gas Purchase Gas Variance Account (“PGVA”) balance at the end of the quarter.

Consistent with previous applications, Centra filed updated forward price information as at April 17, 2002, which information reflected a continuing increase in primary gas costs.

Centra also requested the termination of certain non-primary gas rate riders approved by the Board in Orders 91/01 and 94/01. The balance in these non-primary gas cost deferral accounts at March 31, 2002 is estimated to be approximately \$16.2 million owing to customers. Centra had proposed to deal with the disposition of the balances in these accounts in a separate cost of gas application currently before the Board with rate changes to be effective August 1, 2002.

The current Primary Gas rate, which became effective on February 1, 2002, embeds a primary cost of gas of \$3.556 per Gj, based on the forward market strip at January 17, 2002 close. Centra’s March 26 application contained a primary cost of gas of \$4.178/Gj, based on the forward market strip at March 1, 2002, while the updated information showed a forecast gas cost of \$5.209 per Gj, based on a forward market strip close on April 17, 2002. Thus, the market has shown increases in forecast gas cost of over 45% since January 17, 2002. The impact of the increases in the May 1, 2002 rates relative to the current rates will be less, due to the removal of the three non-primary gas rate riders and the implementation of three new non-primary gas rate riders effective May 1, 2002, the lesser priced cost of storage gas, and impacts of price management.

The Board notes that the Consumers’ Association of Canada (Manitoba) Inc./Manitoba Society of Seniors and Municipal Gas urged the Board to continue to utilize the most current available information in setting rates. While conceding that this could result in greater rate instability, both parties suggested that the continued use of this principle would enhance price transparency and better reflect market conditions.

In its decision the Board ordered the immediate disposition of the Primary Gas PGVA estimated to be \$2.27 million and the non primary gas cost deferral accounts estimated to be approximately \$16.2 million owing to consumers.

In this decision, the Board has directed Centra to file, for Board approval, revised rate schedules and customer impact information to be effective May1, 2002 to reflect:

- a) The most current forward price as of April 17, 2002
- b) Refund of the revised Primary Gas PGVA balance at April 30, 2002 of approximately \$2.27 million and refund of the balance in the non-primary gas costs accounts at April 30, 2002 of approximately \$16.2 million.
- c) Termination of the existing rate riders for non-primary gas costs pursuant to Orders 91/01 and 94/01.

Taking into account current market prices and absent the introduction of the non primary gas rate rider to refund the \$16.2 million would have resulted in a rate increase for the Small General Service (“SGS”) class in the amount of 11.5% to 12.7%. While the impact of the adjustments will only be known with certainty upon the filing of the required information by Centra, it is approximated that the rate increase for the SGS class will be less than 10%.

The Board noted that this decision may impact on the August 1, 2002 rate changes reflecting market price changes at the next quarterly adjustment period and the full impact of both matters will be reflected in a reminder notice of public hearing scheduled for June 17, 2002.

Table of Contents

| | Page |
|--|------|
| 1.0 Background | 1 |
| 2.0 The Application | 3 |
| 3.0 Impact on Rates | 4 |
| 3.1 Primary Gas Costs | 4 |
| 3.2 Removal of Rate Riders | 7 |
| 4.0 Updated Information | 8 |
| 5.0 Presenters' Positions | 10 |
| 5.1 Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors | 10 |
| 5.2 Municipal Gas | 11 |
| 6.0 Board Findings | 11 |
| 7.0 IT IS THEREFORE ORDERED THAT: | 14 |

1.0 Background

The current approved Rate Setting Methodology (“RSM”) and treatment of the Primary Gas Purchased Gas Variance Account (“Primary Gas PGVA”) to be utilized by Centra is as follows:

1. Primary Gas Base Rates are adjusted quarterly on February 1, May 1, August 1 and November 1 to reflect 100% of the difference between the updated 12-month forward price for natural gas (weighted for the cost of gas in storage) and the Primary Gas Rate set in the prior quarter.
2. In addition a Primary Gas Rate Rider, is to be effective on the date of the Primary Gas Rate change to dispose of the estimated Primary Gas PGVA balance at the end of the quarter over the next 12 months normalized volumes.

The approved quarterly Rate Setting Process requires Centra to file its application during the first week of the month prior to the commencement of each gas quarter and to provide public notice during the second week of the month. The Board may conduct either a “paper hearing” or hold an oral hearing in respect of the application, and is requested to approve the rates prior to the commencement of each gas quarter.

The Board last approved interim Primary Gas Sales rates using the revised RSM to be effective February 1, 2002 in Order 15/02, dated January 30, 2002. The approved Primary base rate was \$0.1558 per cubic metre. The approved Primary billed rate which included a Primary Gas Purchase Gas Variance Account (“Primary Gas PGVA”) rider of -\$0.081 per cubic metre was \$0.1477 per cubic metre. The Primary Gas Deferral Account (“PGDA”) rate rider of \$0.0363 per cubic metre, implemented pursuant to Order 99/01, dated June 15, 2001 was continued. The

PGDA rate rider became effective on August 1, 2001 and was to remain in effect for 24 months. Including the PGDA rate rider the total billed rate effective February 1, 2002 was \$0.1840 per cubic metre.

2.0 The Application

On March 26, 2002, Centra applied to the Board for interim approval of Primary Gas sales rates to be effective May 1, 2002. Centra requested that, pursuant to Order 99/01, 100% of the difference between the updated 12-month forward price for natural gas (weighted for the cost of gas in storage) and the Primary Gas Sales Rate set in the previous quarter (February 1, 2002) be used to establish the May 1, 2002 Primary Gas Sales Rate.

Centra also requested the Board to approve a rate rider to dispose of the estimated April 30, 2002 Primary Gas PGVA balance over the next 12 months based on estimated normalized volumes.

In Orders 91/01 and 94/01 the Board approved the imposition of rate riders to recover previous non-primary gas deferral account balances owing to Centra over an 11-month period ending April 30, 2002. These rate riders were applied to the Supplemental Gas, Transportation to Centra ("Transportation") and Distribution to Customer ("Distribution") Rates. Consistent with the directives in Orders 91/01 and 94/01, Centra's current application requests new Supplemental Gas, Transportation and Distribution Rates to be effective May 1, 2002 reflecting the removal of these rate riders.

There is no change proposed to the PGDA Rider to dispose of the July 31, 2001 PGDA balance over a 24-month period commencing August 1, 2001.

A public notice outlining this application was published during April 2002. The notice invited any interested parties to make comments respecting this application to the Board by April 24, 2002. Comments were received from The Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors (“CAC/MSOS”), and from Municipal Gas.

As required by the RSM Centra filed on April 22, 2002 updated information and customer impacts flowing from an updated forward price strip as of April 17, 2002 and a PGVA balance of \$2,274,768 million. Centra did not amend its March 26, 2002 Application.

3.0 Impact on Rates

3.1 Primary Gas Costs

Primary Gas costs reached unprecedented levels in the late fall of 2000 and early winter of 2001 due to a demand and supply imbalance, unusually high demand as a result of a strong North American economy, and colder than normal weather in November and December 2000. Prices peaked at about \$13.00 per GJ in January 2001 after which the price decreased abruptly because of the early end to the 2000/01-winter season. Prices continued to decline throughout 2001 and stabilized somewhat in the fall of 2001 and early winter of 2002. One reason for this trend was the market’s expectation of an economic slowdown resulting in less demand, greater available supply, high levels of storage gas inventory, and a switch to alternate fuels, in response to unprecedented high natural gas prices in 2000/01. However, the market price for natural gas again began to increase in mid-January 2002 and the upward trend continues into the spring.

The 12-month forward price for Centra's Western Canadian supply as at March 1, 2002 for the 12-month period from May 1, 2002 to April 30, 2003 was \$4.178/Gj. This 12-month forward price strip reflects all aspects of current gas supply contractual arrangements with TransCanada Energy Services ("TCE/Mirant").

The forecast Nova AECO to Empress toll in the Centra's February updated application was forecast to be \$0.1545/Gj. The current application reflects the most recent forecast Toll of \$0.1555/Gj. The AECO/Empress basis differential also reflect the most recent forecasts which are \$0.1500/Gj for May through to October, 2002 and April 2003, and \$0.1700 for November 2002 through to March 2003, which are the same as estimated in the updated February application, for the relevant months. Also included in this price is the cost of swing gas supply from Western Canada.

Centra placed price hedges on four different occasions since May 2001. The first three of these transactions were discussed in the February Application. The May 25, 2001 transactions were in the form of \$0.50 out-of-the-money price caps for one third of minimum weather purchase volumes under the TCE/Mirant Contract for Western Canadian supply volume for each month from July 2001 to May 2002. On October 4, 2001, Centra placed additional price hedges in the price caps in the same form to bring price protection to 50% of the eligible TCE/Mirant contract volumes for November 2001 to October 2002.

On November 14, 2001, Centra placed further derivatives in the form of costless collars with a \$0.50 out-of-the-money price upper strike price for an additional 40% of the purchases under the TCE/Mirant Contract for December 2001 to October 2002 volumes.

On January 23, 2002, Centra placed price hedges in the form of costless collars with a \$0.50 out-of-the-money price upper strike price on 50% of the November 2002 to January 2003 eligible volumes.

Centra submitted that the purpose of the hedges was to provide some measure of protection to consumers against a resumption of price increases. Centra stated that, with the exception of the May to October 2002 volumes, where the expected AECO price has breached the floor of the collar, hedge impacts on system supply volumes consist entirely of transaction costs, as all other collar hedges are currently below the ceiling prices. The cost of the hedging transactions to January 23, 2002 for this 12-month period is forecast to be \$6,178,076, including impacts on Buy/Sell volumes. Buy/Sell volume impacts are calculated based on estimated monthly ratios of system supplied volumes to Buy/Sell volumes. This impact of price hedges increases the unit cost of western Canadian supplies by approximately \$0.1250/Gj.

After applying the impacts of price management activities on relevant volumes, the price for Western Canadian Supply is \$4.303/Gj. The unit cost for Primary storage gas that reflects the cost of storage for the 2001/02 withdrawal season beginning November 1, 2001 remains at \$5.143/Gj. Thus, the weighted average cost of Primary Gas is approximately \$4.440/Gj (\$0.1678 per cubic metre), which is \$0.412/GJ (10.2%) higher than the \$4.028/Gj weighted primary gas price currently embedded in rates. After applying the 100% factor, as directed in Order 99/01, adding forecast fuel costs of \$0.0035 per cubic metre, and gas overhead costs of \$0.0005 per cubic metre, the proposed Primary Gas Base Rate is \$0.1718 per cubic metre. The existing base Primary Gas Rate is \$0.1558 per cubic metre.

In addition to the Primary Gas Base Rate change related to the cost of Western Canadian gas, Centra requested approval of the imposition of a rate rider to refund the Primary Gas PGVA balance at April 30, 2002 estimated to be \$10,180,626 owing to Centra's customers. Centra calculated the unit rate rider to be \$0.0079 per cubic metre, based on estimated normalized volumes for system and Buy/Sell supply. Thus, the proposed May 1, 2002 billed Primary Gas Rate requested by Centra is \$0.1639 per cubic metre, compared to the existing billed rate of \$0.1477 per cubic metre. In addition, the billed rates include the PDGR of \$0.0363 per Gj, unchanged from the August 1, 2001 PGDR, resulting in a final billed rate of \$0.2002 per cubic metre, compared to the previous rate of \$0.1840 per cubic metre.

3.2 Removal of Rate Riders

The rate riders added on to the Supplemental Gas, Transportation and Distribution base rates were related to the estimated March 31, 2001 balances of non-primary gas related deferral accounts, except for forecast net capacity management revenues for 2001/02, estimated to be \$19,939,989. The rate riders were calculated to recover the estimated balances, plus carrying costs commencing June 1, 2001 and ending April 30, 2002, pursuant to Order 91/01. However, there is a balance remaining in these accounts at March 31, 2002 of approximately \$16.2 million owing to consumers, which Centra proposes to deal with effective August 1 in conjunction with the Cost of Gas Application currently before the Board. The range of annual customer class bill changes because of the removal of these rate riders, together with the applied for changes in Primary Gas rates discussed above, are shown in the following table.

**ESTIMATE OF TOTAL ANNUALIZED AS BILLED CUSTOMER IMPACTS -
ORIGINAL APPLICATION**

| Customer Class | Primary Gas Rates | Rate Rider removal | Total Change |
|-----------------------|--------------------------|---------------------------|-------------------------|
| SGS | 4.4% to 4.8% | (1.4%) to (1.5%) | 3.0% to 3.3% |
| LGS | 4.5% to 5.6% | (2.5%) to (3.2%) | 2.0% to 2.5% |
| HVF | 5.6% to 6.2% | (5.5%) to (4.3%) | 0.1% to 1.9% |
| Mainline | 6.2% to 6.7% | (3.1%) to (1.0%) | 3.1% to 5.7% |
| Interruptible | 5.8% to 6.2% | (7.5%) to (8.3%) | (1.7%) to (2.1%) |

4.0 Updated Information

Pursuant to Board requirements, Centra filed an updated forward price strip with the Board on April 22, 2002 with supporting documentation and a Schedule of Rates to reflect the updates. The price strip for the period from May 1, 2002 to April 30, 2003, based on closing prices at April 17, 2002, without incorporating revised hedging impacts, is \$5.209/Gj compared to the \$4.178/Gj contained in the March 26, 2002 application. Nova Tolls remained unchanged from the March 26, application, while the AECO/Empress differentials for the months of June to October 2002 were changed from \$0.1500/Gj to \$0.1400/Gj to reflect revised actual and forecast unit prices.

Additionally, Centra has revised the gas costs from those reported in the initial application as a result of hedging transactions placed on October 4, 2001, November 14, 2001, and January 23, 2002. The revised forecast prices impacted the cap hedges placed on October 4, 2002 for May 2002 to October 2002 volumes

because the price was in excess of the cap ceiling, leading to a positive mark-to-market result. As well, the forecast prices breached the ceiling of the costless collar hedges placed on November 14 for May to October 2002 volumes, and for the costless collar hedges placed on January 23, 2002 for November 2002 to January 2003 volumes. Total estimated impacts for system and Buy/Sell volumes are now a positive \$6,178,357 compared to a negative \$6,178,076 contained in the original application, a swing of \$12,356,433. In terms of unit costs the impacts of all hedging transaction revisions decrease from a negative \$0.1250 per Gj in the original application to a positive \$0.1250 per Gj. The revised Primary gas cost weighted for storage gas and hedging activities is \$5.094/Gj, compared to the original \$4.440/Gj.

Using the 100% inclusion rate, and fuel, overhead and storage gas costs would result in a Primary Gas cost embedded in the base sales rate of \$0.1974 per cubic metre, compared to the original request of \$0.1718 per cubic metre.

The unit rate rider for the PGDR remains unchanged from the previous application. However, in the update of April 25, 2002, Centra's Primary Gas PGVA April 30 balance was revised from \$10,180,000 to \$2,274,768 (both owing to customers), due to the higher April gas prices than forecast, and the much colder than normal March weather. This would result in a Primary Gas PGVA rider of \$0.0018 per cubic metre. Thus, the May 1, 2002 billed Primary Gas Rate compared to the originally requested \$0.2002 per cubic metre using the updated information including the \$0.0363 PGDA rate rider would be \$0.2319 per cubic metre.

Based on the revised strip and other changes, the following table details the changes to the annual natural gas bills of different customer classes that would result reflecting the April 17, 2002 forward price curves, the revised April 30, 2002

PGVA balance, and the removal of the Supplemental Gas, Transportation and Distribution rate riders.

**ESTIMATED RANGE OF TOTAL ANNUALIZED AS BILLED CUSTOMER
IMPACTS - REVISED APPLICATION**

| Customer Class | Primary Gas Rates | Rate Rider removal | Total Change |
|-----------------------|--------------------------|---------------------------|-----------------------|
| SGS | 11.3% to 12.4% | 0.2% to (0.3%) | 11.5% to 12.7% |
| LGS | 11.6% to 14.8% | (0.8%) to (1.1%) | 10.8% to 13.7% |
| HVF | 14.5% to 15.9% | (3.4%) to (2.0%) | 11.1% to 13.9% |
| Mainline | 16.0% to 17.4% | (1.7%) to (1.1%) | 17.7% to 16.3% |
| Interruptible | 14.9% to 16.0% | (5.7%) to (5.8%) | 9.2% to 10.2% |

Centra did not file an amendment to the requested March 26, 2002 rates citing a regard for customer sensitivities, current market volatility, and consideration of Centra's recent application to reduce non-Primary Gas rates on August 1, 2002. Therefore, In Centra's view, it would be appropriate to postpone any further increase in Primary Gas rates until August 1, 2002.

5.0 Presenters' Positions

5.1 CAC/MSOS

By letter dated April 29, 2002 CAC/MSOS expressed some concerns with respect to the deferral rider reconciliation and the current PGVA balance, some perceived inconsistencies in reporting of hedging costs, the calculation of the cost of Primary Gas in storage and the cost of Supplemental gas supply.

CAC/MSOS contended that there was no compelling reason to change the rate setting process currently in place, which is strongly supported by CAC/MSOS, only because the cost of gas has reversed the previous recent trend of cost decreases. CAC/MSOS urged the Board to approve rates based on the most current information available based on the April 17, 2002 forward price strip, as this would send accurate price signals to the consumer. CAC/MSOS also stated that the ultimate impact of a rate increase on May 1, 2002 would not be that significant, given the anticipated downward adjustment of non-primary gas costs in August, and that the intervening period would encompass low gas consumption months.

5.2 Municipal Gas

By letter to the Board dated April 24, 2002, Municipal Gas requested the Board to order Centra to amend its March 26, 2002 application for Primary Gas Rates to reflect the most recent forward price strip to be consistent with the rate setting methodology outlined in Order 115/00 dated July 31, 2000. In support of this position, Municipal Gas stated that Order 115/00 required Centra to file the most recent forward price strip 10 days prior to the beginning of each gas quarter to as to better reflect the market responsiveness and enhance price transparency. Further, Order 15/02 dated January 30, 2002 stated that The Board continues to hold the view that the most recent market information should be utilized to establish rates. The use of current information will enhance price transparency, but may lead to greater bill volatility.

6.0 Board Findings

The Board will render its decision on this application using the “paper hearing” process to establish interim May 1, 2002 Primary Gas, Supplemental Gas,

Transportation and Distribution rates. The Board notes that a public hearing to review Centra's annual non-primary gas costs, as well as to review previous interim orders related to Primary Gas for the last year, is scheduled to commence on June 17, 2002. All elements of gas costs, including those matters raised by CAC/MSOS in its letter of April 29, 2002, will be considered during that hearing.

The Board notes that CAC/MSOS and Municipal Gas continue to support the concepts and principles established in Order 115/00 and 15/02 with respect to setting rates using the most recent information available, in this case the April 17, 2002 forward price strip forecast of gas commodity costs. The Board concurs with these positions, and will require Centra to establish May 1, 2002 base rates using this data. Additionally, the Board notes that, in response to a Board request, the revised forecast of the April 30, 2002 Primary Gas PGVA balance due to customers has been significantly revised to \$2,274,768 from the \$10,180,626. Following the same principle of utilizing the most current information the Board will require Centra to use the most recent estimate in calculating the Primary Gas PGVA rate rider over the next 12 months normalized volumes.

The Board remains of the view that the most recent market information should be used to determine Primary Gas rates as determined in Board Order 15/02. This approach will enhance price transparency, although sacrificing some degree of rate stability. As previously stated, there are other methods to obtain stability, such as Centra's Budget Plan, and the Board encourages Centra to explain its importance.

The Board recognizes that utilizing the most recent information will result in an increase to consumers annual gas bill related to the Primary Gas and Primary Gas PGVA greater than that applied for by Centra. However, the removal of the existing

rate riders for Supplemental Gas, Transportation and Distribution rates will reduce the rate impact somewhat. The Board also notes that the March 31, 2002 balances in the non-Primary Gas PGVAs as reported by Centra on April 25 are: Supplemental Gas - \$10,455,093 owing to customers, Transportation - \$398,121 owing to Centra, and \$6,187,557 owing to Customers. The Board notes that Centra, in its annual cost of non-primary gas application requested that these PGVA balances be refunded by rate riders commencing August 1, 2002. As this amount is now known, except for perhaps some minor adjustments, the Board will also require Centra to implement rate riders for these non-Primary Gas PGVAs, including carrying costs, effective May 1, 2002.

The Board will require Centra to file all relevant schedules, rates and customer impacts to incorporate the directives contained in this Order. The Board is confident that an increase as a result of these directives represents a reasonable balance between market responsiveness, price transparency and rate volatility.

7.0 IT IS THEREFORE ORDERED THAT:

1. Centra Gas Manitoba Inc. file, for Board approval, revised Rate Schedules and customer impact calculations to be effective May 1, 2002 that reflect:
 - a). Forward price strip at April 17, 2002 close,
 - b). Disposition of revised April 30, 2002 estimated Primary Gas PGVA balance over 12 months,
 - c). Removal of existing rate riders from Supplemental Gas, Transportation and Distribution rates pursuant to Board Ordered 91/01 and 94/01, and
 - d). Implementation of Supplemental Gas, Transportation and Distribution Rate Riders to reflect a refund to customers of the March 31, 2002 balances in these deferral accounts over 12 months, together with interest.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"

Chairman

"H. M. SINGH"

Acting Secretary

Certified a true copy of Order No. 77/02 issued by
The Public Utilities Board

Acting Secretary