

MANITOBA

THE PUBLIC UTILITIES BOARD ACT

Order No. 119/03

July 29, 2003

Before: G. D. Forrest, Chairman
L. Evans, Member
M. Girouard, Member
Mario J. 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 AUGUST 1, 2003**

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1.0 Background

The Rate Setting Methodology ("RSM") to determine Primary Gas rates, as approved by the Board, 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 to the Primary Gas Base Rate, a Primary Gas Rate Rider to be effective on the date of the Primary Gas Rate change, is to dispose of the estimated Primary Gas Purchase Gas Variance Account ("PGVA") balance at the end of the quarter over the next 12 months normalized volumes.

The approved quarterly RSM 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 May 1, 2003 in Order 73/03, dated May 1, 2003. The approved Primary Gas base rate was \$0.2290 per cubic metre, based on the April 9, 2003 forward price strip. The approved Primary Gas billed rate which included a Primary Gas PGVA rate rider of (\$0.0005) per cubic metre was \$0.2285 per cubic metre. A 24-month Primary Gas Deferral Account ("PGDA") rate rider of \$0.0363 per cubic metre, implemented pursuant to Order 99/01, dated June 15, 2001 became effective

on August 1, 2001 and will expire July 31, 2003. Thus the total billed Primary Gas Rate effective February 1, 2003 was \$0.2648 per cubic metre.

On December 9, 2002, Centra submitted a general rate application requesting non-Primary Gas Sales Rates to be effective August 1, 2003, based on a 2003/04 future test year period. The Board held a public hearing to review this application and heard final submissions of the interested parties on June 10 and 11, 2003. The Board's decision in this regard was issued in Order 118/03, dated July 29, 2003. However, these decisions impact Centra's requested non-Primary Sales rates and will require that Centra refile new rate schedules. Therefore, this application will deal only with the Primary Gas Rates, Primary Gas PGVA and elimination of the PDGA rate rider. The annual billed rate impacts reflecting the changes in these three components, together with the impacts calculated relative to August 1, 2003 non-Primary gas costs will be addressed in a subsequent Order of the Board.

2.0 The Application

On June 25, 2003, Centra applied to the Board for approval of interim Primary Gas sales rates and a rate rider to dispose of the estimated July 31, 2003 Primary Gas PGVA to be effective August 1, 2003, pursuant to Order 99/01. These rates are to remain in effect until a further Order of the Board. The requested rates were determined using the June 9, 2003 forward price strip. The previously approved PGDA rate rider of \$0.0363 per cubic metre was to be discontinued effective August 1, 2003. Centra forecasts that the residual balance of the PGDA at July 31, 2003 will be \$1,920,854 and this balance will form part of the Primary Gas PGVA at August 1, 2003.

In the GRA, Centra applied for approval of the establishment of a Capital Tax Deferral Account related to the PGDA balance of \$878,008 for 2001/02 and 2002/03. Centra also requested that the balance, net of the transfer to the Distribution PGVA, of \$874,139, be included as part of the Primary Gas PGVA.

A public notice outlining this application, published in various newspapers commencing on July 5, 2003, invited interested parties to make comments respecting this application to the Board July 25, 2003. The Board received comments from Mr. John Woloski from Brandon, Manitoba.

Pursuant to Board requirements, Centra filed an update to its initial application on July 23, 2003, utilizing the July 16, 2003 forward price strip.

3.0 Primary Gas Base and Billed Rates

The requested rates reflect all cost of gas aspects of current gas supply contractual arrangements with Nexen Marketing ("Nexen"). The Term Factor, pursuant to the Nexen Contract is 0.5% from November 1, 2002 to October 31, 2003, and is to be eliminated effective November 1, 2003. The Nova AECO to Empress toll reflects the most recent forecast for this 12-month period from August 1, 2003 to July 31, 2004. The AECO/Empress basis differential is that approved by the National Energy Board to become effective January 31, 2003. The Primary Gas Rate Rider is calculated on forecast 12-month system and Buy/Sell volumes up to October 31, 2003. The July 23 revision included minor changes to the AECO/Empress basis differential to reflect current tolls.

As well, commencing on October 16, 2002, Centra placed price hedges on three separate occasions in the form of cashless collars on volumes of approximately 24.78 million Gj. Centra's purpose for conducting hedge transactions continues to be to provide some measure of natural gas commodity price volatility protection to consumers. Buy/Sell volume impacts are calculated based on estimated monthly ratios of system supplied volumes to Buy/Sell volumes. Effective October 31, 2003, Buy/Sell arrangements are to be eliminated, and thus there are no hedging impacts on Buy/Sell volumes after that date. Subsequent to the June 25 application, Centra conducted hedging transactions on July 8 and July 9, 2003. The details of these two transactions, as well as the most recent results of the previous transactions were included in Centra's July 25 update.

The mark-to-market results as forecast in the June 25 application and as updated on July 23, are shown below.

June 25 Application

Date	Oct.16, 2002	Jan.15, 2003	April 16, 2003
Type	Collar	Collar	Collar
Months	Aug. 03-Oct. 03	Nov. 03-Jan. 04	Feb. 04-April 04
Volumes	7,570,000	8,700,00	8,510,000
Transaction Cost	\$0	\$0	\$0
System Hedge	(\$11,529,825)	(\$5,932,000)	(\$388,625)
Buy/Sell Hedge	(\$436,636)	\$0	\$0
Total Impacts	(\$11,966,461)	(\$5,932,000)	(\$388,625)
Cumulative Impact	(\$11,966,461)	(\$17,898,461)	(\$18,287,086)

July 22 Update

Date	Oct. 16, 2002	Jan.15, 2003	April 16, 2003	July 8, 2003	July 9, 2003
Type	Collar	Collar	Collar	Collar	Collar
Months	Aug. 03-Oct. 03	Nov. 03-Jan. 04	Feb. 04-April 04	Mar. 04 – July 04	Mar. 04 – July 04
Volumes	7,570,000	8,700,00	8,510,000	3,770,000	3,770,000
Transaction Cost	\$0	\$0	\$0	\$0	\$0
System Hedge	(\$104,218)	\$1,345,225	\$3,627,800	\$396,813	\$490,113
Buy/Sell Hedge	(\$3,418)	\$0	\$0	\$0	\$0
Total Impacts	(\$107,636)	\$1,345,225	\$3,627,800	\$396,813	\$490,113
Cumulative Impact	(\$107,636)	\$1,237,589	\$4,865,389	\$5,262,202	\$5,752,315

The following table summarizes the various cost components used by Centra to determine Primary Gas Base Rates and Primary Gas billed Rates relative to the June 25, 2003 application and the July 23, 2003 application update, and compares the forecast to the costs used to determine the May 1, 2003 Primary Gas Base and Billed Rates.

Component	May 1, 2003	June 25 Application	July 23 Update
Date of strip	April 9, 2003	June 9, 2003	July 16, 2003
12 Month Price	\$ 6.617/Gj	\$7.337/Gj	\$6.092
Hedge Impacts	(\$ 15,055,147)	(\$18,287,248)	\$5,752,315
Unit Hedge Impact	(\$0.3380/Gj)	(\$0.4540/Gj)	\$0.1430/Gj
Western Supply Price	\$6.279/Gj	\$6.883/Gj	\$6.235/Gj
Storage Gas Price	\$4.127/Gj	\$4.127/Gj	\$4.127/Gj
Weighed Gas Cost	\$5.928/Gj	\$6.389/Gj	\$5.857/Gj
Weighted Gas Cost	\$0.2241/cm	\$0.2415/cm	\$0.2214/cm
Base Primary Rate	\$0.2290/cm	\$0.2478/cm	\$0.2268/cm
PGVA Amount	(\$706,577)	(\$7,059,777)	(\$7,059,777)
PGVA Rider	\$0.0005/cm	(\$0.0055/cm)	(\$0.0055/cm)
PDGA Rider	\$0.0360/cm	\$0.0000	\$0.0000
Total Billed Rate	\$0.2658/cm	\$0.2423/cm	\$0.2213/cm

4.0 Presenter's Position

Mr. Woloski raised a number of concerns and questions respecting Centra's gas purchasing procedures and subsequent build-up of the PDGA balance, and suggested that the public notice indicating a rate decrease is misleading. He was critical of Centra for not publicizing the full rate impacts that will occur on August 1, 2003, and expressed his views on other matters related to Centra's general operations.

5.0 Board Findings

5.1 The Application

The Board will render its decision on this application using the “paper hearing” process to establish interim August 1, 2003 Primary Gas rates, using the most recent market information which is the July 16, 2003 forward price strip. In the view of the Board this approach will strike a reasonable balance between market responsiveness, price transparency and rate volatility.

The Board appreciates the views expressed by Mr. Woloski, and will respond to his concerns and questions in a separate communication.

The Board accepts that a residual balance in the PGDA balance at July 31, 2003 is unavoidable, as the 24 month rate rider to collect the original balance of more than \$100 million was calculated using normalized rather than actual volumes. The Board recognizes that the customers who remain responsible for the PGDA residual balance are not, in all cases, those who are responsible for the Primary Gas PGVA balance. However, the Board is of the view that the unit amount of inequity is relatively minor, possibly being less than the added unit cost for the administration that would be necessary to identify and allocate the costs. The Board will therefore allow the treatment of the PGDA as requested by Centra.

The Board will also allow Centra’s request with respect to the Capital Tax Deferral Account and the collection of the balance in this account through the Primary Gas

PGVA mechanism. The Board's rationale in this matter is discussed in the Order relative to Centra's recent GRA.

The Board is of the view that the request by Centra properly reflects the current commodity market price and market circumstances and the RSM previously approved by the Board. The impacts flowing from price management transactions and the disposition of deferral account balances will be reviewed at a future hearing when the Board considers annual gas costs, normally in the fall of the year. The Board will therefore approve Centra's August 1, 2003 Primary Gas Sales Rate as determined using the July 16 forward price strip.

5.2 Historical Record of Cost and Impacts

Although the annual natural gas bills for all different customer classes would decrease because of the August 1, 2003 Primary Gas Billed Sales Rate, and the removal of the PGDA Rate Rider, the Board expects that the August 1, 2003 rates for Supplemental Gas, Transportation and Distribution will increase. The amount of this increase is not yet known, as the revenue requirement underlying these will change, pursuant to the Board decisions contained in Order 118/03, issued concurrent with this Order. Subsequent to the Board review of Centra's refiled non-Primary Gas Rates, the Board will address the overall impacts on customer classes, in the future Order approving all rates for August 1, 2003.

The following table will illustrate the volatility of the market place, and the impact on resulting rates. Because the RSM considers factors other than commodity prices such as the cost of gas in storage and price-hedging impacts, the volatility in rates is somewhat dampened.

Date	Commodity Cost	Average annual bill	% change in bill
December, 1999	\$3.003/Gj	\$ 840	Base
August 1, 2000	\$5.187/Gj	\$ 975	16.1%
November 1, 2000	\$5.894/Gj	\$ 1,098	12.6 %
February 1, 2001	\$9.251/Gj	\$ 1,350	23.0%
August 1, 2001	\$4.614/Gj	\$ 1,204	(10.7 %)
November 1, 2001	\$4.168/Gj	\$ 1,121	(6.9 %)
February 1, 2002	\$ 4.028/Gj	\$ 1,099	(2.0 %)
May 1, 2002	\$ 5.094/Gj	\$ 1,209	10.0%
August 1, 2002	\$ 4.759/Gj	\$ 1,120	(7.4 %)
November 1, 2002	\$ 5.024/Gj	\$ 1,167	4.2%
February 1, 2003	\$ 5.860/Gj	\$1,273	9.1%
May 1, 2003	\$ 5.928/Gj	\$1,295	1.7%
August 1, 2003*	\$ 5.857/Gj		

*The August 1, 2003 average annual bill and percent change in the bill will be shown in a future Order of the Board.

6.0 IT IS THEREFORE ORDERED THAT:

1. The Primary Gas Sales Rate as applied for by Centra Gas Manitoba Inc., to be effective for all gas consumed on and after August 1, 2003, based on the July 16, 2003 forward price strip, BE AND IS HEREBY APPROVED.
2. This Interim Order shall be in effect until confirmed or otherwise dealt with by a future Order of the Board.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 119/03
issued by The Public Utilities Board

Acting Secretary