

MANITOBA | **Order No. 129/04**
THE PUBLIC UTILITIES BOARD ACT | **October 28, 2004**

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

**AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN
INTERIM EX-PARTE ORDER APPROVING PRIMARY GAS SALES
RATES EFFECTIVE FOR ALL GAS CONSUMED ON AND AFTER
NOVEMBER 1, 2004**

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1.0 Background

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

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

This Board Order concerns only Primary Gas Rates to be effective November 1, 2004, pursuant to the Board’s approved Rate Setting Methodology (“RSM”) which provides for Primary Gas Base Rates to be set quarterly on February 1, May 1, August 1 and November 1 of each year.

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

The current RSM process requires Centra to:

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

Additional information supporting Centra's Application includes:

- (a) For rates effective August 1, 2004, the approved Primary Gas base rate was \$0.25868 per cubic metre (based on the July 2, 2004 forward price strip);
- (b) The approved August 1, 2004 Primary Gas billed rate (ending October 31, 2004) did not include a rate rider as the estimated Primary Gas PGVA balance was only \$38,000 (\$0.00003 per cubic metre) owing to Centra; and
- (c) The billed Primary Gas rate for August 1, 2004 was \$0.2587 per cubic metre.

Supplemental Gas, Transportation (to Centra) and Distribution (to Customer) rates will also change effective November 1, 2004, as a result of a separate application. The combined customer bill impacts, as a result of the changes in primary and non-primary gas rates effective November 1, 2004, will be set out in the Board Order approving those rates.

2.0 The Application

On October 7, 2004, Centra applied for ex-parte interim approval of Primary Gas Rates and a Rate Rider to be effective as of November 1, 2004. The Rate Rider would distribute the estimated balance in the PGVA as of July 31, 2004, in accordance with the approved RSM process.

The requested rates were determined using the October 1, 2004 forward price strip, and, with the Board's approval, would remain in effect until the next quarterly rate change.

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

3.0 Primary Gas Base Rates and Billed Rates

Centra's proposed total billed rate from November 1, 2004 is \$0.2661/m³ (previous quarter, \$0.2587/m³). The following table summarizes the cost components determining Centra's proposed Rates for the quarter commencing November 1, 2004, as compared to the last quarter.

| Component | Existing Rates August 1, 2004 | Requested Rates November 1, 2004 |
|-----------------------------------|----------------------------------|-------------------------------------|
| Date of Forward Price Strip | July 2, 2004 | October 1, 2004 |
| 12 Month Forward Price | \$7.1780/GJ | \$7.6550/GJ |
| Estimated Price Management Impact | (0.3840/GJ) | (0.5040/GJ) |
| Western Supply Price | 6.7940/GJ | 7.1510/GJ |
| Storage Gas Price | 6.1730/GJ | 6.4650/GJ |
| Weighed Gas Cost | 6.6830/GJ | 7.0320/GJ |
| Rate per cubic metre | 0.2526/m ³ | 0.2658/m ³ |
| Base Primary Rate with fuel, O/H | 0.25868/m ³ | 0.2721/m ³ |
| PGVA Rider (\$/m ³) | 0.0000/m ³ | (0.0060/m ³) |
| Total Billed Rate | \$0.2587/m ³ | 0.2661/m ³ |

The factors impacting on the Primary Gas Rates include:

- (a) The western supply price (\$7.6550/GJ), which reflects Centra's new gas supply contract with Nexen Marketing, which is effective November 1, 2004;
- (b) The estimated positive mark-to-market price management results of \$0.3840/GJ (\$21.1 million), as a result of Centra's placement of cashless collars with \$0.50 out of the money upper strike prices on volumes of approximately 33.1 million GJ. In the absence of these transactions, which are carried out to mitigate price volatility, the cost of gas to Manitoba Consumers would be an estimated \$21.1 million more than will be the case;

- (c) The cost of gas in storage, projected at \$6.4650/GJ, which reflects the estimated average cost for the 2003/04 gas withdrawal from storage. The withdrawal commenced on November 1, 2003, and the cost was the same as that utilized for the February 1 and May 1, 2004, rates; and
- (d) The estimated October 31, 2004 Primary Gas PGVA balance owing to customers of \$7,852,404, resulting in a positive unit rate rider of \$0.0060 per cubic metre, expressed on the basis of unit of annual throughput. Thus, the November 1, 2004 Primary Gas unit billed rate is \$0.0060 less than the unit base rate.

The following table projects the increase to the annual average natural gas bill associated with the proposed new Primary Gas rates only:

| Customer Class | Increase |
|-----------------------|-----------------|
| SGS | 1.7% to 1.9% |
| LGS | 1.8% to 2.2% |
| HVF | 2.1% to 2.3% |
| Co-op | 2.2% to 2.3% |
| Mainline | 2.3% to 2.5% |
| Interruptible | 2.3% to 2.5% |

The average residential consumer will, with the approval of this Application, incur an increase in annualized heating bills of approximately \$23. The increase is entirely related to the November 1, 2004 Primary Gas Rate change.

4.0 Board Findings

The Board finds that Centra's proposal for a Primary Gas rate change properly reflects the current commodity market price and circumstances, and is consistent with the Board

approved RSM. Accordingly, the Board will approve the requested change in Primary Gas Base Rates and Billed Rates as applied for by Centra, to be effective November 1, 2004.

The cost of storage gas, impacts of price management transactions, and the disposition of deferral account balances will be reviewed by the Board at the next annual cost of gas hearing, this anticipated to proceed in 2005.

The following table illustrates the volatility of natural gas prices over the past five years, from the perspective of Centra's average residential customer.

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 has been mitigated.

| Date | Commodity Cost | Average Annual Bill | % change in Cost | % Change in Bill |
|------------------|-----------------------|----------------------------|-------------------------|-------------------------|
| December, 1999 | \$3.003/Gj | \$ 840 | Base | Base |
| August 1, 2000 | 5.187/Gj | 975 | 72.7% | 16.1% |
| November 1, 2000 | 5.894/Gj | 1,098 | 13.6% | 12.6 % |
| February 1, 2001 | 9.251/Gj | 1,350 | 57.0% | 23.0% |
| August 1, 2001 | 4.614/Gj | 1,204 | (50.1%) | (10.7 %) |
| November 1, 2001 | 4.168/Gj | 1,121 | (9.7%) | (6.9 %) |
| February 1, 2002 | 4.028/Gj | 1,099 | (3.4%) | (2.0 %) |
| May 1, 2002 | 5.094/Gj | 1,209 | 26.5% | 10.0% |
| August 1, 2002 | 4.759/Gj | 1,120 | (6.6%) | (7.4 %) |
| November 1, 2002 | 5.024/Gj | 1,167 | 5.6% | 4.2% |
| February 1, 2003 | 5.860/Gj | 1,273 | 16.6% | 9.1% |
| May 1, 2003 | 5.928/Gj | 1,295 | 1.2% | 1.7% |
| August 1, 2003 | 5.857/Gj | 1,213 | (1.2%) | (6.3%) |
| November 1, 2003 | 6.003/Gj | 1,250 | 2.5% | 3.0% |
| February 1, 2004 | 6.148/Gj | 1,263 | 2.4% | 1.0% |
| May 1, 2004 | 6.413/Gj | 1,299 | 4.3% | 2.9% |
| August 1, 2004 | 6.683/Gj | 1,329 | 4.2% | 2.3% |
| November 1, 2004 | 7.032/GJ | 1,353 | 5.2% | 1.8% |

5.0 IT IS THEREFORE ORDERED THAT:

1. The Primary Gas Base Rate of $\$0.2721/\text{m}^3$ and the Primary Gas Billed Rate of $\$0.2661/\text{m}^3$ to be effective for all gas consumed on and after November 1, 2004, BE AND IS HEREBY APPROVED, on an interim ex-parte basis.
2. This Interim Ex-Parte Order shall be in full force and effect until confirmed or otherwise dealt with by a future Order of the Board.

The Public Utilities Board

Chairman

Associate Secretary

THE PUBLIC UTILITIES BOARD

“Graham F. J. Lane, C.A.”

Chairman

“H. M. Singh”

Associate Secretary

Certified a true copy of
Board Order 129/04 issued by
The Public Utilities Board

Associate Secretary