

MANITOBA) Order No. 162/03
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THE PUBLIC UTILITIES BOARD ACT) October 31, 2003

BEFORE: G. D. Forrest, Chair
L. Evans, Member
M. Girouard, Member
Mario J. Santos, Member

**AN APPLICATION BY SWAN VALLEY GAS CORPORATION FOR A
FINAL EX PARTE ORDER OF THE BOARD APPROVING A
DECREASE IN THE BASIC MONTHLY CHARGE AND A
CORRESPONDING INCREASE IN THE DELIVERY CHARGE FOR
THE RESIDENTIAL CUSTOMER CLASS**

1.0 Background

The Manitoba Public Utilities Board (“the Board”) approved franchise agreements and other matters related to the distribution and sale of natural gas for Swan Valley Gas Corporation (“SVGC”) in Order 93/00, dated July 4, 2000. In the Franchise Application, SVGC committed to a 5-year delivery rate structure in tandem with the 5-year agreement it had with its largest consumer.

In Order 17/01, dated January 1, 2001, The Board approved initial sales rate schedules to be effective for all SVGC’s customer classes on and after February 1, 2001. The approved rate schedule for the Residential Customer class contained a Basic Monthly Charge (“BMC”) of \$26.69 and a Delivery Charge of \$0.031 per cubic metre that was designed to recover the costs of providing service within Manitoba.

In Order 90/03, dated May 30, 2003, the Board approved a change in SVGC’s gas pricing methodology allowing sales rates to reflect prevailing market gas prices. The result was that, effective June 1, 2003, the gas commodity charge was increased by \$0.041 per cubic meter to reflect increased gas prices, and to commence the recovery of the outstanding balance of the Purchased Gas Variance Account (“PGVA”).

2.0 The Application

On September 29, 2003, SVGC applied to the Board for a final ex parte Order approving a reduction in the BMC from \$26.69 to \$15.00, and an increase in the Delivery Charge from \$0.031 per cubic metre to \$0.078 per cubic metre. The Commodity Charge approved in Order 90/03 would not change.

In Order 93/00, the Board approved a Connection Fee of \$877.40, including GST, for residential customers. Residential customers were entitled to receive a \$300 incentive rebate if they converted to or installed natural gas space heat or a natural gas water heater within 12 months of service availability. Currently, 336 residential customers who had committed and paid for the service installation have chosen not to have a meter installed and thus have forfeited the \$300 incentive rebate.

This significant short fall in customer attachments combined with a lower than estimated usage per customer attachment than that projected at the time of the franchise application has led to a greatly reduced annual throughput volume. At the time of the franchise application, the annual throughput volume was estimated to be 509,000 GJ for 2002, the actual consumption was 333,000Gj, most of which was consumed by one large industrial customer.

SVGC suggests that the advantage natural gas had enjoyed over electricity in the year 2000 has been largely eroded because of large increases in gas costs combined with the fact that electricity rates in Manitoba have been frozen for the last six years.

Following door-to-door contact with those customers that opted to forfeit the incentive rebate, and at other information meetings convened by SVGC and local officials, the \$26.69 BMC has been identified as a barrier to service for residential

consumers. In the view of SVGC, customers are reluctant to hook up only one gas-burning appliance when the residential annual bill would be over \$320, plus taxes.

SVGC has continued with its marketing efforts to attract more customers, and considers that the reduced BMC would send a strong positive price signal to potential customers, especially those who have forfeited their rebate. Marketing activities include town hall meetings, trade show displays, meetings with local businesses, notices in local publications, and incentive coupon packages in conjunction with local plumbing and heating contractors. The opinion of SVGC is that the revised pricing structure for only the Residential class will be sufficient, although conceding that there is a risk that commercial customers may request similar treatment. Additionally, SVGC realizes that there is an increased risk respecting intra-class cross-subsidization and a potential greater weather related financial risk.

SVGC requested that customers be notified of the proposed changes by direct mail out, given the relatively small number of customers served.

3.0 Rates and Customer Impacts

SVGC is seeking changes only to the BMC and the Delivery Charge for the Residential Customer Class. The Residential Class commodity Charge would not change. The residential rate structure approved in Order 17/01 was designed to recover all customer related fixed costs, resulting in the \$26.69 per month BMC.

SVGC concedes that this request is not in accordance with cost allocation used in the initial application, but rather is more marketing directed. Residential pricing and the rate structure were based on an average annual consumption of 111

Gigajoules (“Gjs”), the equivalent of 2,985 cubic metres. SVGC submits that the requested \$15.00 BMC still would be the highest of all Canadian utilities.

The proposed BMC represents a decrease of 44% from that currently approved, and the minimum annual residential bill would be reduced from \$320.00 to \$190.00. Based on the average residential annual consumption, the Delivery charge would have to more than double from \$0.032 to \$0.078 per cubic metre. While the Residential Customer Class would be saved harmless as a whole, annual bill impacts on individual customers within the class would vary, depending on annual consumption, as shown below:

Consumption	Existing Bill	Proposed Bill	\$ Change
2,985 –BMC	\$ 320.28	\$ 180.00	(\$ 140.28)
2,985 – Delivery	\$ 92.54	\$ 232.83	\$ 140.28
2,985 – Commodity	\$ 931.32	\$ 931.32	\$ 0.00
Total	\$1,344.14	\$1,1344.14	\$ 0.00
2,000 – BMC	\$ 320.28	\$ 180.00	(\$ 140.28)
2,000 – Delivery	\$ 62.00	\$ 156.00	\$ 94.00
2,000 – Commodity	\$ 624.00	\$ 624.00	\$ 0.00
Total	\$1,006.28	\$ 960.00	(\$ 46.28)
4,000 – BMC	\$ 320.28	\$ 180.00	(\$140.28)
4,000 – Delivery	\$ 124.00	\$ 312.00	\$ 188.00
4,000 – Commodity	\$1,248.00	\$1,248.00	\$ 0.00
Total	\$1,692.28	\$1.740.00	\$ 37.71

143 existing residential customers will be affected by this change in pricing structure. SVGC indicates that 122 would receive decreases from \$2.00 to over \$5.00 per month, while 21 would receive similar increases, depending on consumption. The largest decreases would be for those customers consuming the least amount of gas, while the largest consumption consumers would receive the largest increases.

7.0 Other Matters

SVGC recognizes the importance of continued marketing efforts, business development assistance and rates and business policies to encourage additional customer attachments. Details of marketing efforts have been provided for the information of the Board in this submission.

SVGC stated that forward prices for natural gas have dropped since the commodity rate was increased on June 1, 2003 and as a consequence the balance of the PGVA related to the commodity portion owing to SVGC is now decreasing. SVGC intends to address issues surrounding the PGVA status with the Board in the near future.

8.0 Board Findings

The proposed information notice sent to SVGC customers requested any comments be made in writing and be forwarded to the Board by no later than October 23, 2003. The notice was previously reviewed and approved by the Board. The Board notes that only one customer provided an opinion on this application, by telephone. That individual stated that her annual bill would increase because of the proposed rate restructuring. She was also of the view that the reduction in the BMC would not attract many additional customers.

The Board is aware of the continuing difficulties facing SVGC due to fewer customers consuming less natural gas than originally anticipated. This has resulted in much lower than estimated throughput volumes. Thus fewer customers must pay the fixed costs that are necessarily incurred by SVGC. Absent any rate changes to reflect the increased costs per customer, the balance in the PGVA for non-gas related costs will escalate and, in the view of the Board, will reach unmanageable levels in the very near future.

The Board believes that rates should reflect cost causation and that fixed costs should theoretically be fully recovered by a fixed charge. However, the Board also considers that other factors do influence rates. Among these is the financial viability of a utility and history of the development of rate structures.

The Board is of the view that without added customers, SVGC cannot sustain a viable operation because required rates would increase to such an extent that natural gas would not be economical for the typical residential consumer. The Board notes that other natural gas utilities in Manitoba do not recover all of the fixed costs by way of the BMC. As an example, Manitoba's largest gas utility has a \$10.00 BMC that has remained unchanged for many years. The most recent information is, that this BMC would have to be about \$29.50 to recover all fixed costs. Customers have traditionally been opposed to increases of the BMC, failing to understand why a significant payment is required when very little or no gas is consumed.

The Board notes that with this proposal, the residential customer class as a whole will still be required to pay for the costs the class imposes on the system, within the context and parameters of cost allocation. While the Board recognizes that some greater degree of intra class inequity may result from this revised rate structure, the alternative would likely create an impossible position for all customers and the utility. The Board will therefore approve the request to change the BMC charge to \$15.00 and the Delivery Charge to \$0.078 per cubic metre.

The Board notes the comment that the portion of the PGVA balance related to the commodity cost of gas is now decreasing. However, the Board understands that the issue surrounding transportation and storage components of the PGVA remains unresolved. The Board expects that, as indicated by SVGC in this submission, further dialogue will occur during October 2003 to discuss and resolve this outstanding matter.

